Metrobank

Research and Market Strategy Department

POLICY RATE VIEWS

Keep rates and carry on

Fed action: Sustained pause amid uncertainty

The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 4.25% to 4.50% at the Federal Open Market Committee (FOMC) meeting on March 18-19. Fed Chairman Jerome Powell said given "unusually elevated" uncertainty, the monetary authority was not in a hurry to cut rates, adding that it remains in a good position to wait on more clarity.

Fed's pressing concern

In the March FOMC meeting, Powell highlighted the current conditions of the US labor market. He said the labor market remains in balance, citing healthy job creation amid low volume of hiring and low volume of layoffs.

However, uncertainty surrounding the impact of US President Donald Trump's tariffs took center stage and appeared to be the Fed's pressing concern. The Fed assumes full retaliation on Trump's tariffs in their projections, leading to an outlook that factors in their impact. According to Powell, progress on inflation reaching the Fed's target of 2% may be delayed due to the implementation of higher tariffs. He noted the difficulty in accurately assessing how much these will fuel inflation, adding to the uncertainty that prompted the Fed's caution.

Still, Powell said the current view is that rising prices due to tariffs will likely be "transitory" and that the US economy remains healthy despite worsening sentiment.

Fed Funds Target Rate as of March 20, 2025

4.25% to 4.50%

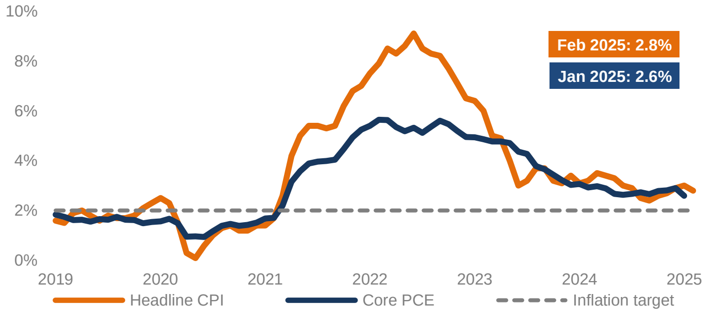
US economic data

US Core Personal Expenditure (PCE) Price Index – the Fed's preferred inflation measure – slowed to 2.6% year-on-year in January, a level last seen in May 2024. Services inflation remains the main contributor of core PCE with a 2.1-percentage-point (ppt) share of the total. On a month-on-month (MoM) basis, core PCE increased by 0.3%, slightly faster than the 0.2% in the preceding month.

Meanwhile, headline Consumer Price Index (CPI) decelerated to 2.8% YoY in February from 3.0% in January, bringing the year-to-date (YTD) average to 2.9%. Shelter prices remained sticky and continued to drive inflation, accounting for 1.5 ppts out of the total. Prices increased 0.2% MoM, slower than the 0.5% MoM rise in January.

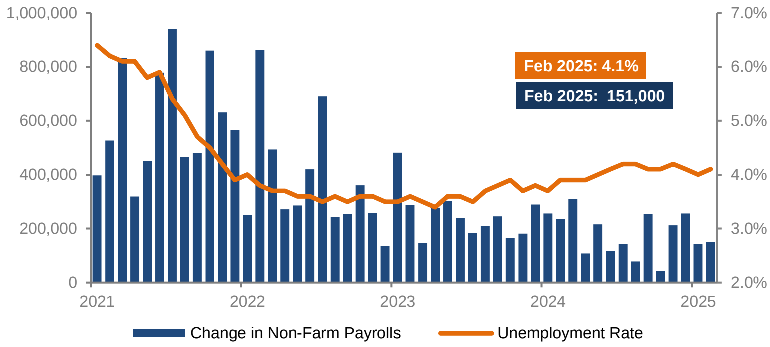
The job market remains strong despite the moderation of job gains. Non-Farm Payrolls increased by 151,000 in February 2025, falling short only slightly of the consensus estimate of 160,000 for the month in a Bloomberg survey. The US unemployment rate inched up to 4.1% in February from 4.0% in January.

US Inflation
2017=100



Source: Bloomberg

US Labor Market



Source: Bloomberg

METROBANK'S TAKE

We maintain our base case forecast for the Fed Funds Rate (FFR) of a cumulative 50 bps worth of Fed cuts for FY 2025, albeit on a moderate pace. The current elevated risk of stagflation in the US could also allow the possibility for an additional 25-bp cut toward the end of the year. This should bring the target FFR range to at most 3.75-4.00% by year-end. The major risk to monetary easing in the US is the higher short-term inflation expectations, with the impact of tariffs playing a major role.

For the Philippines, Metrobank maintains its view that the Bangko Sentral ng Pilipinas (BSP) will deliver a 25-bp cut at next month's Monetary Board (MB) meeting to support economic growth amid target-consistent inflation. Both BSP Governor Eli Remolona and Finance Secretary Ralph Recto signaled a rate cut in the next meeting. Likewise, we keep our base case forecast that the BSP will reduce the reverse repurchase (RRP) rate by a total of 50 bps this year, with another potential 25-bp cut toward the end of the year to further support economic growth. This would bring the RRP rate to 5.25% or 5.00% by year-end.

Should the BSP reduce policy rates as anticipated, a narrower interest-rate differential (IRD) could exert some pressure on the exchange rate. However, the recent 57-level of the USD/PHP and normalization of the dollar index – which has fallen to 103.4 on March 19 from this year's peak of 110.0 – indicate that the market could absorb a potential slight depreciation of the peso given a narrower IRD.

On USD/PHP, Metrobank maintains its forecast of 57.9 by year-end with fluctuations throughout the year expected from a wider trade deficit and the influx of overseas Filipino remittances toward the end of the year.

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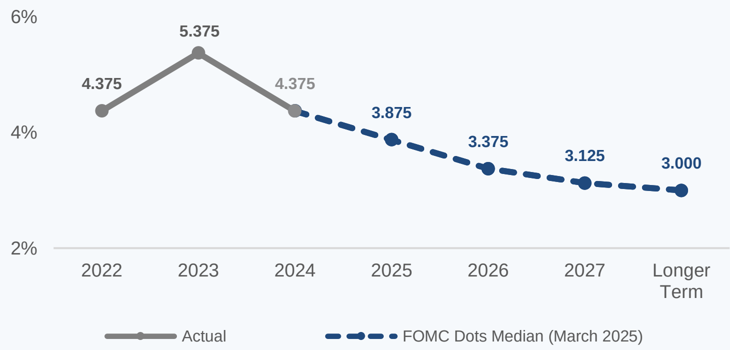
Federal Reserve's Summary of Economic Projections

Fed's Economic Projections (in %)	as of December 2024				as of March 2025			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in Real GDP	2.1	2.0	1.9	1.8	1.7	1.8	1.8	1.8
Unemployment Rate	4.3	4.3	4.3	4.2	4.4	4.3	4.3	4.2
PCE Inflation	2.5	2.1	2.0	2.0	2.7	2.2	2.0	2.0
Core PCE Inflation	2.5	2.2	2.0		2.8	2.2	2.0	

Fed Dot Plot



Source: US Federal Reserve

Stagflation risks

Recent changes in the Fed's Summary of Economic Projections (SEP) point to a higher risk of stagflation in the US. Fed officials are now expecting slower economic growth in the US with real GDP projected at 1.7% this year and 1.8% in the succeeding years. They raised their projections on inflation and unemployment for this year. Both PCE and Core PCE are forecast to settle higher at 2.7% and 2.8% this year, respectively, before both easing at 2.2% next year and 2.0% in the succeeding years. The impact of anticipated tariffs largely influenced faster inflation expectations by the Fed this year. Meanwhile, unemployment is projected to settle higher this year at 4.4% before settling at 4.3% in the next two years.

Although Powell said he believes the US economy grew at a "solid pace" in the last quarter, "uncertainty surrounding the economic outlook has increased." Consumer and business sentiments indicated heightened worries amid economic uncertainties, as the new Trump administration continues to introduce tariffs and downsize the government's workforce through the Department of Government Efficiency.

No plot twist

The Fed's March dot plot, a tool used as forward guidance by the US central bank, was unchanged across the entire forecast period from December's projections. The latest SEP shows that the median target FFR is still at 3.875% this year and the terminal rate is still projected at 3.00%. This translates to a cumulative 50-bp cut this year.

Anticipated slowdown in the economy has offset the expectations of higher unemployment and faster inflation. This has prompted officials to expect the same pace of easing this year compared to last projections in December.