POLICY RATE UPDATES

Dovish BSP narrows IRD

Current Target Federal Funds Rate (FFR) **4.25% - 4.50%**	Current Reverse Repurchase Rate (RRP) **5.25%**
Interest Rate Differential (IRD): **75 bps**	

Powell's pause

The US Federal Reserve (Fed) kept the Federal Funds Target Rate (FFR) at 4.25%-4.50% at its fourth Federal Open Market Committee (FOMC) meeting this year on June 17-18, Eastern Time.

Return to sender: Fed focuses on inflation, again

Fed Chair Jerome Powell said that the FOMC remains data-driven and attentive to risks to achieving maximum employment and stable prices. He said inflation is still elevated and labor-market conditions are "broadly in balance and consistent with maximum employment."

Powell recognized that while GDP contracted in the first quarter, as imports were frontloaded ahead of potential tariffs, private domestic final purchases grew. The committee also views economic uncertainty as having "diminished but remains elevated," a shift from their previous meeting where they highlighted increased uncertainty.

Remolona stays dovish, cuts anew

The Bangko Sentral ng Pilipinas (BSP) reduced the Reverse Repurchase (RRP) rate by 25 bps to 5.25% at its third Monetary Board (MB) meeting this year on June 19.

Inflation in-check: Making room for growth

BSP Governor Eli Remolona maintained his dovish stance amid a moderation in inflation outlook and kept doors open for at most two more policy rate cuts for the rest of the year. He highlighted the need for a "more accommodative monetary stance" to support the local economy amid uncertainty in US economic policy and the ongoing geopolitical tensions in the Middle East.

On USD/PHP, he said that the BSP intervenes in the foreign-exchange market only for "regular liquidity reasons" or to manage the peso depreciation's passthrough to inflation. He highlighted that moderate depreciation does not affect inflation. Still, he said sustained depreciation over a few weeks might require intervention.

ECONOMIC DATA

It's all in the data for the Fed

The Fed's preferred inflation gauge, the US Core Personal Consumption Expenditure (Core PCE) price index, rose by 2.5% in April. This was slower than the 2.7% recorded in March. Meanwhile, the headline US Consumer Price Index (CPI) rose by 2.4% in May from 2.3% in April.

While US inflation remains close to the Fed's 2% target, inflation expectations for the next 12 months remain elevated at 6.5% in May—compared to 5% as of end 2024– amid the tariff war.

Meanwhile, the initial estimated increase in US non-farm payrolls was 139,000 in May, higher than the 126,000 Bloomberg consensus estimate for that month. However, we anticipate it to be revised lower and below market expectations, like in preceding months.

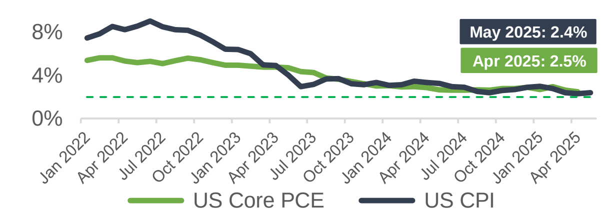
Keeping it low

Headline inflation was logged at 1.3% in May, the slowest since November 2019. This brings year-to-date inflation to 1.9%, below the government's 2%-4% full year target. Moderate inflation so far is due to downside pressure from negative rice inflation and a slowdown in food and oil inflation.

The BSP adjusted its inflation forecasts to 1.6% this year from 2.3% previously. They also revised their projection in 2026 and 2027 to 3.4% and 3.3%, respectively, from the previous 3.3% and 3.2%. The upward adjustments take into consideration higher oil prices, rice tariffs, and electricity rates which add inflationary pressure.

Uncertainty from US trade policies and intensifying geopolitical tensions in the Middle East were also acknowledged as emerging risks to inflation which require "closer monitoring."

US Inflation

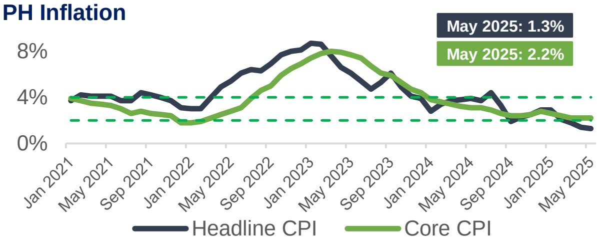


Source: Bloomberg

INFLATION FORECASTS		2025	2026	2027
METROBANK FORECAST	as of June 2025	2.2%	3.3%	3.0%
BSP'S INFLATION FORECAST	as of June 2025	1.6%	3.4%	3.3%
	as of Apr 2025	2.3%	3.3%	3.2%
	as of Feb 2025	3.5%	3.7%	-

Source: Bangko Sentral ng Pilipinas

PH Inflation



Source: Philippine Statistics Authority

POLICY RATE UPDATES

Dovish BSP narrows IRD

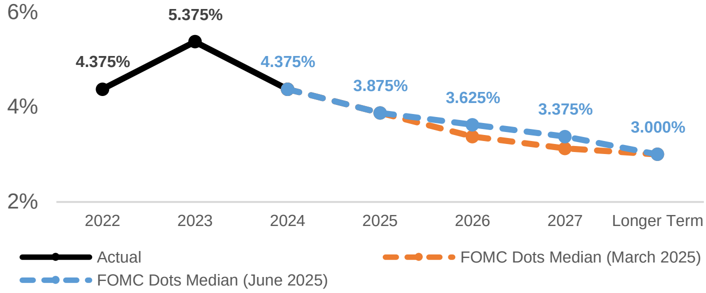
FED'S JUNE 2024 SUMMARY OF ECONOMIC PROJECTIONS

Summary of Economic Projections

	As of March 2025				As of June 2025			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Real GDP	1.7	1.8	1.8	1.8	1.4	1.6	1.8	1.8
Unemployment Rate	4.4	4.3	4.3	4.2	4.5	4.5	4.4	4.2
PCE Inflation	2.7	2.2	2.0	2.0	3.0	2.4	2.1	2.0
Core PCE Inflation	2.8	2.2	2.0		3.1	2.4	2.1	

Source: US Federal Reserve

Fed Dot Plot



Tariffs drive inflation expectations up

The Fed revised its median inflation expectations upward, as Trump's tariffs continue to weigh economic conditions. While inflation has eased in recent years, it remains above 2%. The latest Summary of Economic Projections (SEP) showed the median projection for PCE inflation of 3.0% for 2025, an increase from its March projection of 2.7%. Median PCE inflation projections for 2026 and 2027 also rose to 2.4% and 2.1%, respectively. On the labor market, the Fed's projection on unemployment rate for 2025 ticked up slightly to 4.5%. Overall, though the impact of tariffs reached their peak in April, the Fed maintains that their effect on prices and employment may persist for the rest of the year.

Fed still sees a pair of cuts in 2025 but outlook gets hazy thereafter

The Fed's dot plot inched higher in the latest SEP as Fed governors expect rates in the near term to remain at higher levels than what they projected in March. The median target FFR in 2025 remains at 3.875%, unchanged from the March dot plot. The projections for 2026 and 2027 rose to 3.625% and 3.375%, respectively, from 3.375% and 3.125%. This translates to only 50-bps worth of cuts in 2026 through 2027, instead of 75-bps as projected in March. Nonetheless, the terminal rate is still projected to settle at 3.00%.

METROBANK'S TAKE

Although the FOMC now recognizes diminishing risks in the economic outlook, revisions in the jobs data show an underperformance in the labor market relative to market expectations. This, coupled with the overall contraction in US GDP, signals the need for support from the Fed through monetary easing. However, US inflation has been sticky in recent months and remains above target, prompting the Fed to maintain policy rates. Upside risks have also intensified, as the escalating geopolitical tensions between Israel and Iran drive global oil prices higher. A sustained oil-price increase could exacerbate the already elevated inflation in the US and could necessitate a slower pace in the Fed's monetary easing.

Metrobank maintains its view that the Fed will reduce its target FFR by a cumulative 50 bps this year, in line with the Fed's dot plot. This will bring the target FFR to 3.75%-4.00% by year-end.

On the local front, easing inflation provides room for the BSP to further reduce its policy rate. However, headline inflation is anticipated to pick up later this year, given the projected reversal of rice inflation back to positive territory and the anticipated impact of the BSP's monetary easing on demand. Upside risks from oil have also re-emerged amid escalating tensions in the Middle East, especially as the Philippines remains a net-energy importer.

As upside risks from oil have yet to materialize, we forecast another cumulative 50 bps worth of cuts for the rest of the year, following today's 25-bp rate cut. This will bring the BSP's target Reverse Repurchase rate to 4.75% by year-end and maintain current interest rate differential (IRD) of 75 bps with the Fed.