Fed raises key rate by half point

WASHINGTON — The Federal Reserve on Wednesday raised its benchmark overnight interest rate by half a percentage point, the biggest jump in 22 years, and the US central bank's chief made an appeal to Americans struggling with high inflation to be patient while officials take the hard measures to bring it under control.

In a widely expected move, the Fed set its target federal funds rate to a range between 0.75% and 1% in a unanimous decision, and Fed Chair Jerome Powell said policymakers were ready to approve half-percentage-point rate hikes at upcoming policy meetings in June and July.

The level of specificity — effectively announcing Fed rate hikes in advance — was unusual, but reflected Mr. Powell steering a course between high inflation that requires a strong Fed response, and trying to avoid the sort of overkill that might tip the economy into recession.

In a news conference after the release of the Fed's policy statement, Mr. Powell explicitly ruled out raising rates by three-quarters of a percentage point in a coming meeting, a comment that triggered a stock market rally.

But he also made clear the rate increases the Fed already has in mind were "not going to be pleasant" as they force Americans to pay more for home mortgages and auto loans, and possibly dent asset values.

The Fed also said it would start next month to reduce the roughly $9-trillion stash of assets accumulated during its efforts to fight the economic impact of the coronavirus pandemic as another lever to bring inflation under control.

"It's very unpleasant," Mr. Powell said of the impact on households of inflation, which is running about three times the Fed's 2% target. "If you're a normal economic person, then you probably don't have ... that much extra ... to spend and it's immediately hitting your spending on groceries ... on gasoline on energy and things like that. So, we understand the pain involved."

STABLE PRICES

Mr. Powell told reporters that he and his Fed colleagues were determined to restore price stability even if that meant steps that would lead to lower business investment and household spending, and slower economic growth. The implications of inflation getting out of hand, he said, were worse.

"In the end, everyone is better off... with stable prices," Mr. Powell said.

Still, Mr. Powell said he felt the US economy is performing well, and strong enough to withstand the coming rate increases without being driven into recession or even seeing a significant rise in unemployment.

Despite a drop in gross domestic product over the first three months of this year, "household spending and business fixed investment remain strong. Job gains have been robust," the central bank's Federal Open Market Committee said in its policy statement.

Officials sharpened their description of the risks for elevated inflation to persist, especially with factors that have arisen since the start of the year, including the war in Ukraine and new coronavirus lockdowns in China.

"The Committee is highly attentive to inflation risks," the Fed said in language analysts interpreted as a sign of the Fed's commitment to push interest rates as high as needed to get inflation, and the expectations surrounding its future path, back to the 2% target.

The statement said the Fed's balance sheet, which soared to about $9 trillion as the central bank tried to shelter the economy from the pandemic, would be allowed to decline by $47.5 billion per month in June, July and August and by up to $95 billion per month starting in September.

Policymakers did not issue fresh economic projections after this week's meeting, but data since their last gathering in March have given no definitive sense that inflation, wage growth, or a torrid pace of hiring had begun to slow.

US stock markets jumped following the announcement, extending gains after Mr. Powell poured cold water on the idea of hiking rates by three-quarters of a percentage point. The S&P 500 index closed about 3% higher, notching its biggest one-day percentage gain in nearly a year.

Yields on government bonds fell sharply in volatile trading while the dollar weakened against a basket of major trading partners' currencies.

"This one has been well communicated and well delivered," said Simona Mocuta, chief economist with State Street Global Advisors. "There is an awareness that they are tightening into a slowing economy and there are risks associated. For the magnitude of the move it has been very uneventful, and that is a good thing." — ***Reuters***

Financial institutions face at least $225B in losses from water-related risks

LONDON — Financial institutions face losses of at least $225 billion from risks related to water, with a third of them doing nothing to assess the potential impact, a report by leading environmental disclosure platform CDP and Planet Tracker estimates.

The U.N. has warned of a 40% shortfall in supply by 2030 if water consumption and production patterns do not change and so-called water risk, through flood, drought or pollution, is set to become a growing issue for companies over the next decade.

The most common impacts flagged to CDP, whose data is used to inform investment decisions by financial firms managing more than $130 trillion in assets, included reduced production, increased costs and lower revenues.

In its first such analysis, CDP and non-profit Planet Tracker analyzed submissions to a survey on water security from 1,112 companies, in which 69% flagged a risk of a "substantive" impact on their business.

Of the 377 listed financial institutions reporting to CDP, 33% said were not assessing their exposure to the connected risks, which can include fines and other liabilities, shareholder lawsuits or an inability to get insurance.

By underestimating the risk, banks, investors and insurers could be allocating too much capital to companies and projects that may ultimately prove uneconomic, leading to the assets becoming "stranded" and the investment or lending written off.

"Financial institutions need to understand how exposed they are to these risks and take immediate steps before it's too late," said Cate Lamb, CDP's global director of water security.

CDP analyzed the $225-billion value at risk from a sub-set of 499 of the largest corporates to have disclosed a financial projection of potential related costs. So the figure for all companies in the world would be higher.

The water crisis is already causing billions of dollars in losses, CDP said, pointing to related writedowns across the oil and gas, electric utilities, coal and metal and mining sectors.

CDP and Planet Tracker also identified the state and public institutions most closely linked to 42 of the world's most water-impacted companies, through shareholdings or lending. — ***Reuters***

Inflation,
from S1/1

The food-alone index also jumped by 4% in April from 2.8% the previous month. However, it slowed from 4.1% from a year ago.

Meanwhile, the April inflation rate for the bottom 30% of households, which still use the 2012-based prices, increased by 3.8% from 3.3% in March, but lower than the 4.9% in April 2021.

The PSA said the rebased 2018-based inflation for poor income households is scheduled to be released in December 2022.

"World commodity prices remain high as a consequence of the ongoing Russia-Ukraine war. The impact is felt domestically not just on food and basic goods but also on transport and utilities," Socioeconomic Planning Secretary Karl Kendrick T. Chua said in a statement.

Global oil and commodity prices have become more volatile after Russia invaded Ukraine in late February.

As of April 26, prices of gasoline and diesel have increased by P18.45 and P31.45 per liter since the start of the year. This has prompted labor groups to file petitions for wage hikes, and transport groups to seek fare increases.

Meanwhile, the central bank said the domestic economic activity improved as restrictions eased but geopolitical tensions and emergence of new COVID-19 variants have clouded the outlook for global economic growth.

"Inflation will remain elevated over the near term due to the continued volatility in global oil and non-oil prices, reflecting largely the continued impact of the conflict in Ukraine on global commodities market," BSP Governor Benjamin E. Diokno said in a Viber message to reporters.

Mr. Diokno said inflation could settle above the government's target range this year before decelerating back to the target in 2023.

"While there are signs that inflation expectation is higher for 2022, it remains broadly anchored to the target in 2023," he added.

University of Asia and the Pacific Senior Economist Cid L. Terosa, said the rising fuel and electricity prices exerted direct and indirect upward pressure on food prices.

"Also, the flurry of election-related activities added to the steep ascent of prices last month," he said in an e-mail interview.

Bank of the Philippine Islands Lead Economist Emilio S. Neri, Jr. said in a press release that oil prices may continue to rise in the coming months if the European Union decides to implement an oil embargo against Russia.

Economists said the inflation target will be difficult to achieve this year coupled with a likely robust first-quarter gross domestic product (GDP) in the first quarter could prod the BSP to hike record-low key rates in the next coming months.

"We think that the government's inflation target will be breached and that average 2022 inflation will settle at 4.7%," UnionBank of the Philippines Chief Economist Ruben Carlo O. Asuncion said.

"My thinking is that a better-than-expected first-quarter 2022 GDP growth may merit a May hike. Nevertheless, the BSP may be willing to hold until June," he said.

ING Bank N.V. Manila Branch Senior Economist Nicholas Antonio T. Mapa expects the central bank to raise the interest rates within the quarter as high inflation reading persists.

"However, with first-quarter GDP growth expected to be robust and confirming that growth momentum is intact, we expect BSP to finally move rates higher," Mr. Mapa said.

"A GDP growth rate of over 6% on top of the above-target inflation rate should be enough to prod BSP to hike rates as early as the 19 May policy meeting," he added.

Nomura maintained its average full-year inflation forecast at 4.6%, above the BSP's 2-4% target.

"Our forecast pencils in a trajectory in which headline inflation rises further and averages above 5% over the next three months, still driven by similar factors (i.e., higher oil and food prices)," Nomura research analysts Euben Paracuelles and Rangga Cipta said in a note sent to reporters.

Asian Institute of Management economist John Paolo R. Rivera said combating high inflation can be addressed by appropriate fiscal and monetary policy.

"Together with the Monetary Board's interpretation of Fed moves and possible actions, the Monetary Board will decide whether to raise monetary policy rates earlier than expected," Mr. Terosa said via Viber.

The US Federal Reserve raised its key rates by 50 basis points to a range of 0.75% to 1% at the end of its May 3-4 meeting.

Last week, Mr. Diokno said the BSP was looking at raising interest rates two to three times to bring down inflation by next year, with the first hike to be considered in June.

The BSP has kept the key overnight reverse repurchase facility rate at a record low of 2% since November 2020 to help the economy weather the pandemic.

The PSA is scheduled to release the first-quarter GDP data on May 12, ahead of the Monetary Board meeting on May 19. — *with inputs from* **Luz Wendy T. Noble** *and* ***Reuters***

Debt,
from S1/1

Mr. Ricafort noted the debt level may reach new record highs in the coming months as the government needs to borrow funds to address the widening budget deficit.

In April, the government raised $559 million from a Samurai bond issuance, and tapped a 30-billion yen ($230-million) loan from Japan.

ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa said in an e-mail that the country might be vulnerable to credit rating actions as the total debt hit roughly 60.6% of gross domestic product (GDP) as of end-March.

"Fitch had previously expressed some concern about the ability of the Philippines to substantially lower this ratio over time," he added.

In 2021, the Philippines' debt-to-GDP ratio hit a 16-year high of 60.5%. This is higher than the 60% threshold considered manageable by multilateral lenders for developing economies.

The high level of debt leaves the incoming administration with "very limited options," Ateneo de Manila University Economics Professor Leonardo A. Lanzona said via Viber.

"Politicians who promise unrealistic programs such as lower rice prices should be avoided... The first item in the agenda of the next administration is to design an economic program that will produce enough growth to pay for our debt," he said.

"This can mean even larger debt, but the program should be credible enough to assure the financial agencies that we can eventually pay our debts."

For his part, Mr. Mapa said that the current administration inherited a fairly healthy fiscal position, a luxury the incoming president will not have.

The next president would have to be careful in their decisions in their first 100 days in office, as investors will be watching if fiscal consolidation is a top priority, he said.

"If spending and borrowing continue to bloat the debt levels in the near term, we believe the Philippines will receive a credit downgrade by the end of the year, forcing up our borrowing costs when the Philippines would need to source funding," Mr. Mapa said.

Fitch Ratings earlier in February maintained the Philippines' "BBB" credit rating, but with a "negative" outlook, meaning that Fitch could downgrade this rating within 12 to 18 months.

BSP,
from S1/1

"BSP may need to deliver a preemptive action, like an inter-meeting rate hike to avoid the consequences of getting more surprises from the US central bank," Mr. Neri said in a Viber message.

He said an outflow of funds combined with faster inflation will affect the peso's strength.

The local unit closed stronger by 11.5 centavos to P52.385 on Thursday from P52.50 on Wednesday, based on Bankers Association of the Philippines data. However, the peso weakened by 2.7% from its end-2020 finish of P50.999.

The Fed's tightening comes at a time of faster inflation in the Philippines, which should urge the central bank to prepare a monetary policy response, Security Bank Corp. Chief Economist Robert Dan J. Roces said.

Headline inflation quickened to a three-year high of 4.9% in April, as food, utility and transport costs continued to rise.

"With local inflation well-above target and poised to remain so, the buildup in price pressures will need a preemptive check from the monetary authorities," Mr. Roces said in a Viber message.

He expects the BSP to start increasing rates by around 25 bps in the second quarter, followed by three more 25-bp increases in the third and fourth quarter of 2022.

The BSP expects inflation to surpass the 2-4% target at 4.3% for 2022.

The Monetary Board has kept its key rate at a record low of 2% since November 2020 to support the economy's recovery.