Metrobank

Research and Market Strategy Department

POLICY RATE VIEWS

Uncertainty stalls cuts: Fed keeps policy rate steady for a third time

Fed maintains policy rate

The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 4.25%-4.50% at the Federal Open Market Committee (FOMC) meeting on May 6-7, as widely expected by financial markets. This is the third consecutive meeting that the Fed kept the FFR steady after lowering it by 100 basis points (bps) in 2024.

Similar to recent narratives, the FOMC highlighted the heightened uncertainty surrounding US policies and their effects. However, the committee, staying true to its dual mandate, now recognizes that the risks of higher unemployment and higher inflation have risen.

Fed Chair Jerome Powell maintained his stance on the economy remaining resilient, as job gains continue to manifest and the economy grows at a "solid pace," noting that the recent contraction in US GDP was skewed due to businesses front-loading imports ahead of the tariffs.

In response to a question on slowing growth, Powell highlighted that uncertainty about the path of the economy remains "extremely elevated." Moreover, although risks on unemployment and inflation have risen, they have yet to materialize. He said that the right thing for the Fed to do is to wait for clarity, adding that the current policy environment is "somewhat restrictive" but not highly restrictive after a 100-bp reduction from last year.

Powell also firmly maintained his stance that the committee will consider only economic data, outlook, and the balance of risks in determining whether cutting rates would be appropriate for the economy. He said that pressure from US President Donald Trump to lower rates does not affect the FOMC's decision.

Fed Funds Target Rate as of May 8, 2025

4.25% to 4.50%

Related article: [Fed Preview: String of rate cuts still brewing]

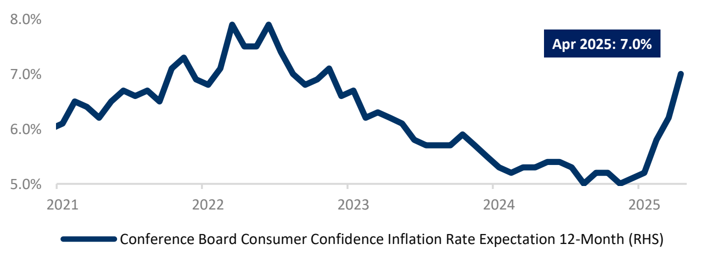
US economic data

The Fed's preferred inflation measure, the US Core Personal Consumption Expenditure (Core PCE) Price Index, remained stubborn in the first few months of 2025, with the latest print in March settling at 2.6% year-on-year (YoY). This is slightly slower than the 3.0% recorded in February as prices of goods across components saw slower price increases. Meanwhile, the headline Consumer Price Index (CPI) saw even greater relief as it cooled down to 2.4% in the month of March from 2.8% in February, driven by lower energy prices.

While US inflation continues to hover right above the Fed's target rate, consumers share an outlook for inflation could accelerate, as shown by the US conference board consumer inflation expectations, which rose sharply amid uncertain US trade policies. In April, consumer inflation expectations ballooned to 7.0% from 6.2% in the month prior. As the on-and-off tariff threats show no signs of slowing down, expectations have soured as uncertainty puts pressure on both businesses and consumers.

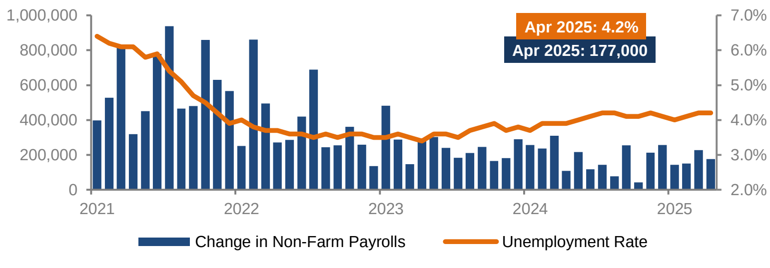
Meanwhile, the job market continued to show moderate improvements in 2025 so far, despite disruptions caused by job cuts in federal agencies. Non-Farm Payrolls increased by 177,000 month-on-month in April on the back of the education & health services industry, which consistently makes up the largest number of new jobs. Meanwhile, initial jobless claims saw a slight increase, rising to 241,000 in the final week of April from 223,000 in the preceding week. On the other hand, unemployment was steady at 4.2% in April from March, remaining at a low level which still supports the notion of a solid US labor market.

US Consumer Inflation Expectations



Source: Bloomberg

US Labor Market



Source: Bloomberg

METROBANK'S TAKE

The Fed's latest policy decision to maintain its target FFR is in line with Metrobank's expectations. Despite the contraction in the US economy in the first quarter, short-term inflation expectations remain the major risk to monetary easing this year, especially as the tariff war drags on. Given this, Metrobank forecasts a cumulative 50 bps worth of cuts in 2025, followed by another cumulative 50 bps in 2026. This will bring the target FFR range to 3.75%-4.00% by end-2025 and to 3.25%-3.50% by end-2026.

In the domestic space, the sustained lower-than-expected inflation in recent months now provides an even wider space for the Bangko Sentral ng Pilipinas (BSP) to lower rates to support the economy. This renewed urgency to spur economic activity comes amid expectations of slow growth due to the ongoing tariff war and the bleak global economic outlook. We forecast that the BSP will reduce its policy rate by a cumulative 100 bps this year, followed by a cumulative 50 bps in 2026. This will bring the BSP's target Reverse Repurchase (RRP) rate to 4.75% by end-2025 and to 4.25% by end-2026. This will also narrow the interest rate differential (IRD) to 75 bps.

Considering the narrower IRD, recent dollar weakness, and the anticipated renewed demand for the dollar come the peak import season in the third quarter, Metrobank forecasts that the USD/PHP will settle at 56.9 by end-2025 and at 57.7 by end-2026.