

POLICY RATE VIEWS

Fed's cautious step towards neutral

Another Fed insurance cut

As markets expected, the US Federal Reserve (Fed) lowered the Federal Funds Target Rate (FFR) to 3.75%-4.00% at the Federal Open Market Committee (FOMC) meeting from October 28-29, with a divided vote as one official voted for a 50-basis-point cut and another voted to hold rates steady. This follows the 25-bp cut during the last meeting in September.

Despite delays in some US economic data due to the ongoing US government shutdown, Fed Chair Jerome Powell noted that the outlook on employment and inflation remains broadly unchanged from the previous meeting. He maintains that labor market conditions appear to be gradually cooling and inflation stays elevated. With both of the Fed's mandates equally at risk, the committee's risk management approach is to shift monetary conditions from moderately restrictive to roughly neutral.

Risks on the dual mandate add more uncertainty regarding future rate cuts. Powell emphasized that another cut in the December FOMC meeting is "not a foregone conclusion", citing strongly differing views within the committee. He reiterated that lower rates could stimulate demand and support hiring over time, but warned that inflation risks persist, leaving "no risk-free path" as prioritizing one mandate over the other could heighten risks on the other.

Powell also acknowledged that the government shutdown will weigh on economic activity, though its impact is expected to gradually reverse once resolved. Overall, the economy continues to grow at a moderate pace, reinforcing the need for a more accommodative policy stance.

Related article: [Fed Preview: Of rate cuts and shutdowns](#)

**Fed Funds Target Rate
as of
October 30, 2025**

**3.75% to
4.00%**

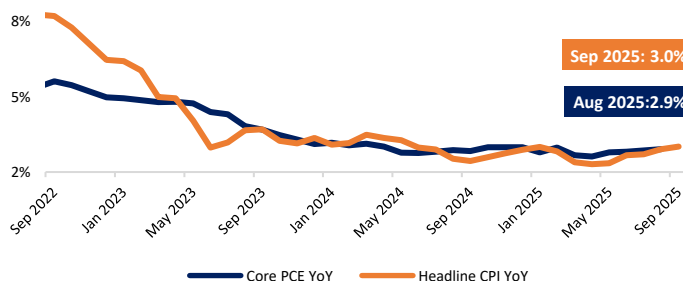
US Economic Data

The Fed's preferred inflation measure, the US Core Personal Consumption Expenditure (Core PCE) Price Index, settled at 2.9% year-on-year (YoY) in August, steady from the same rate recorded in July. Fed Chair Jerome Powell said the Fed currently estimates both PCE and Core PCE to have been at 2.8% in September. This inflation indicator continued to hover above the Fed's 2.0% long-run goal supported by wage growth and increased spending. This aligns as well with changes in the headline Consumer Price Index (CPI), which rose 3.0% YoY in September from 2.9% in August from increases in the prices of energy.

US consumer expectations of inflation inched up to 5.9% in October from 5.8% in September, implying that consumers expect prices to increase further in the next 12 months.

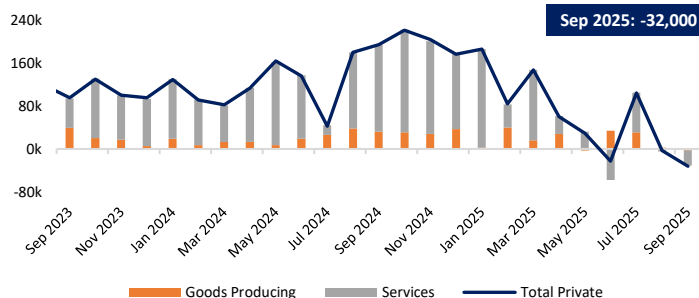
The US government shutdown has added another layer of uncertainty for the already-weak US labor market due to delays in the release of Nonfarm Payrolls (NFPs) figures. Nonetheless, the ADP employment change figures show that the US labor market has continued to weaken as private businesses cut 32,000 jobs in September after a loss of 3,000 jobs in August. The US unemployment rate in August rose to 4.3% and is the highest US unemployment rate since October 2021.

US Consumer Prices



Source: Bloomberg

US Labor Market



Source: Bloomberg

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METROBANK'S TAKE

Speculation amid a shutdown

The US Fed continues to find itself in a pinch amid sticky inflation and a weak labor market exacerbated by a lack of clarity as key data releases got delayed because of the US government shutdown. As today's rate cut may also be a risk management cut amid a lack of key labor figures, we believe that the release of pending data will only confirm our speculation of a soft labor market and still elevated inflation.

Although inflation remains elevated, weaker consumer demand will likely cap the upward pressure on prices due to tariffs. Meanwhile, labor figures post the government shutdown will likely show an even weaker labor market due to the loss of federal jobs resulting from the shutdown.

Roughly two months lie between today's rate cut and the December FOMC meeting, which means there is enough time for the US government to come back online before the Fed makes another decision. The longest government shutdown lasted 35 days, and given that the ongoing shutdown has already taken a toll on the US economy, the government will likely act fast before long-lasting damage sets in.

Back-to-back cuts

Despite a less dovish tone from Fed Chair Jerome Powell, Metrobank maintains its forecast for the Fed Funds Rate (FFR), expecting another 25-bp rate cut in December followed by a cumulative 100 bps worth of cuts next year. These will bring the target FFR to 3.50%-3.75% by year-end and 2.50%-2.75% by end 2026.

The Fed's recent 25-bp policy rate reduction widens the Bangko Sentral ng Pilipinas (BSP)'s interest rate differential (IRD) with the Fed. While this move was already largely priced in by markets, we still anticipate that the peso, which breached the 59 level this week, will benefit from a wider IRD. We also continue to expect another 25-bp rate cut from the BSP, allowing the IRD to remain at 75 bps by year-end.

However, Chair Powell's less dovish tone has strengthened the dollar index, which, along with current weak investor sentiment in the Philippines due to ongoing government issues, will cap expected seasonal peso appreciation from OFW remittances and BPO bonuses in November and December. Consequently, we revised our year-end 2025 USD/PHP forecast higher to 57.9 from the previous 55.9, and adjusted our YE 2026 and YE 2027 projections to 56.9 and 56.7 from previous the 54.5 and 54.1, respectively.