

# POLICY RATE VIEWS

## A guarded and divided US Fed

Fed Funds Target Rate (upper bound)

**3.75%**

Metrobank Year-end 2026 Forecast

**3.50%**

Current Target RRP Rate – Fed Funds Rate Differential

**75 bps**

### 2026 Federal Open Market Committee Meetings



\*Quarterly Summary of Economic Projections

## US Fed maintains policy rate

The US Federal Reserve (Fed) kept the Federal Funds Target Rate (FFR) unchanged at 3.50%–3.75% during its third Federal Open Market Committee (FOMC) meeting, following a divided vote.

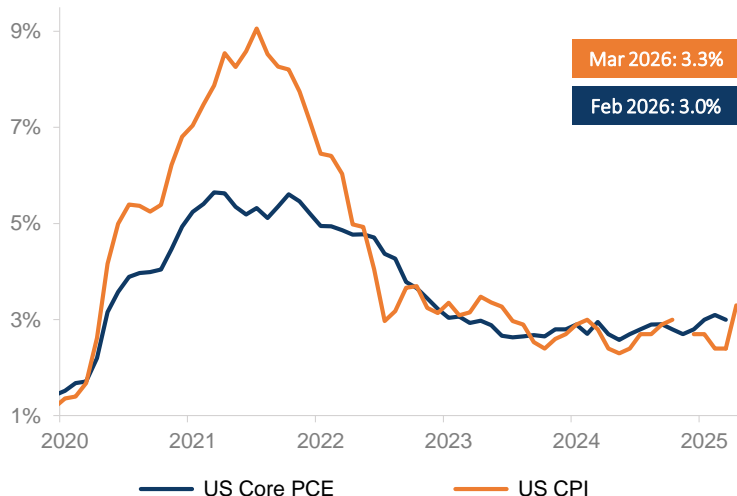
Fed Chair Jerome Powell highlighted the persistent uncertainty brought about by the conflict in the Middle East. Regardless, the Chair said the Fed remains well-positioned to adjust its policy rate as it monitors risks to its dual mandate.

Powell asserted that economic activity continues to expand at a “solid pace” as consumer spending and investment remain resilient amid the conflict. Meanwhile, he also pointed out persistently low job gains in the US labor market as growth in the labor force continues to stall. He added that the Fed’s near-term expectations for inflation rose this year due to higher oil prices and their second-round effects, while the effect of tariffs continue to prop up core PCE which stood at 3.0% in March.

The Fed was at its most divided since 1992 as four voting members dissented, including Fed Governor Stephen Miran who continued to vote in favor of a rate cut. Nonetheless, Powell said the Fed is “pretty close” to the neutral rate which, according to him, is likely within the 3% to 4% range.

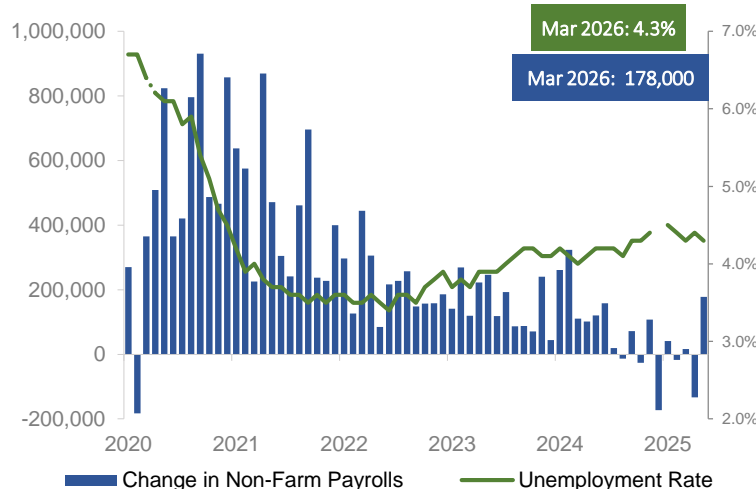
See related article: [Fed Preview: A complicated trade-off](#)

### US Inflation



Source: Bloomberg

### US Labor Market



Source: Bloomberg

## POLICY RATE VIEWS

A guarded and divided US Fed

### METROBANK'S TAKE

#### Warsh takes the chair's seat

The April 2026 FOMC meeting was Jerome Powell's final meeting as Fed Chair as he steps down in mid-May. He is expected to remain on the Board of Governors, retaining a vote throughout the rest of his term in January 2028.

Kevin Warsh, a former Fed governor known for being hawkish, but who recently signaled a more dovish tone, is assuming the chairmanship. With the new Fed Chair taking up a governor seat in the FOMC, Stephen Miran, whose term effectively expired in January 2026, is expected to exit the committee.

Under Warsh's chairmanship, we expect the Fed to remain broadly neutral, constrained by persistent inflation risks, labor-market uncertainty, and a still-divided committee.

#### Fed remains on guard

With global oil supply remaining constrained by Iran's disruption of the Strait of Hormuz, US inflation is still likely to be under pressure, as higher energy prices exacerbate the inflationary effects of elevated tariffs. High inflation, which is expected to remain above the Fed's 2% target for longer, is expected to continue weighing heavily on the Fed's policy decisions, particularly given that 25% of the FOMC's voting members dissented on the hawkish side at the April meeting, opposing any signal of near-term easing.

Despite energy-driven inflationary pressures, Metrobank expects the Fed to remain in an easing cycle, albeit pushed back later in the year, as labor market recovery remains stalled. We expect that the Fed will likely hold off on policy rate hikes, mindful of the risks of a restrictive monetary policy rate stance on labor market conditions, broader sentiment, and overall economic growth. At the same time, any premature policy rate cuts would likely undo progress on controlling inflationary pressure. As such, we expect the Fed to remain on hold for longer, as officials wait for greater clarity on the stability of economic conditions.

#### BSP to move independently

Amid the adverse impact of oil supply disruptions on the Philippine economy, the Bangko Sentral ng Pilipinas (BSP) is expected to move independently of the Federal Reserve, prioritizing domestic conditions and the inflationary effects of ongoing external shocks. We continue to expect the BSP to carry on with tightening to uphold its price-stability mandate.

Although a wider interest rate differential (IRD) should, in principle, support the peso, risk-off sentiment dominated currency dynamics. This was evident in the USD/PHP exchange rate breaching the 61-level despite recent policy rate adjustments. We continue to expect the peso to remain under pressure, with the currency likely to persist trading around the 61-handle.