FED POLICY

Data-dependent hawkish hold

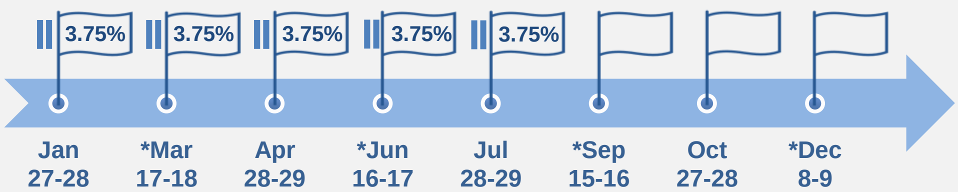
Fed Funds Target Rate (upper bound)
3.75%

Metrobank Year-end 2026 Forecast
3.75%

Current Interest Rate Differential (IRD):
BSP Target RRP Rate – Fed Funds Rate
100 bps

as of July 30, 2:00 AM, Philippine time

2026 Federal Open Market Committee Meetings



**Quarterly Summary of Economic Projections*

The Fed kept rates steady despite elevated inflation

The US Federal Reserve (Fed) kept the Federal Funds Target Rate (FFR) unchanged at 3.50%-3.75% by a 9-3 vote during its fifth Federal Open Market Committee (FOMC) meeting this year. Cleveland Fed President Beth Hammack, Minneapolis Fed President Neel Kashkari and Dallas Fed President Lorie Logan dissented in favor of a 25-basis point policy rate hike. This has been the most divided FOMC decision since September 2016, when three officials also dissented.

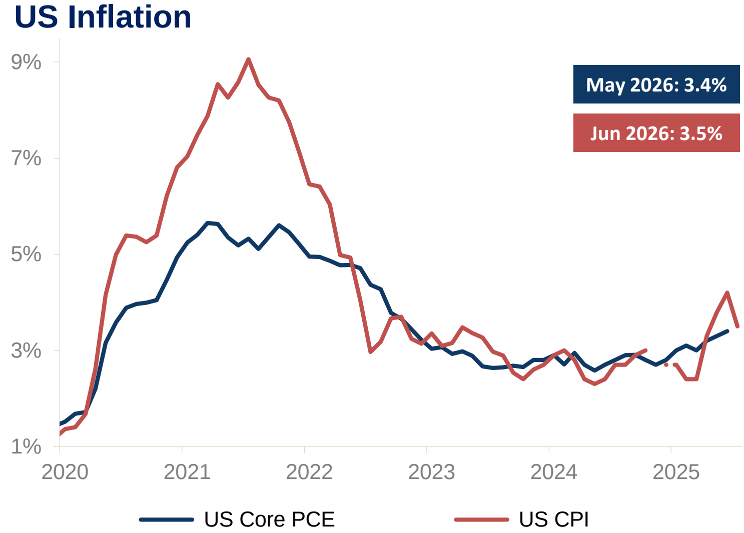
According to Fed Chair Kevin Warsh, the US economy has been showing "impressive resilience even with recent shocks." He highlighted strong capital investment driven by the tech sector. Although inflation remained elevated, labor market indicators remained stable.

While remaining committed to the Fed's dual mandate, Fed Chair Kevin Warsh said the 2.0% inflation target is the current priority. He reiterated the committee's commitment to achieving the 2% target for inflation and not any other "soft" or "implicit" inflation rate above 2%. Warsh said that five years' worth of elevated inflation could not be cured in a nine-week period from the last FOMC meeting or by a single month's worth of price decreases. This signals that the timeline for inflation to move back to the 2% target is expected to be lengthy.

Warsh said that policy decisions will be guided by underlying data trends rather than individual data points, noting that a task force is currently assessing the data sources that factor into the Fed's decision making.

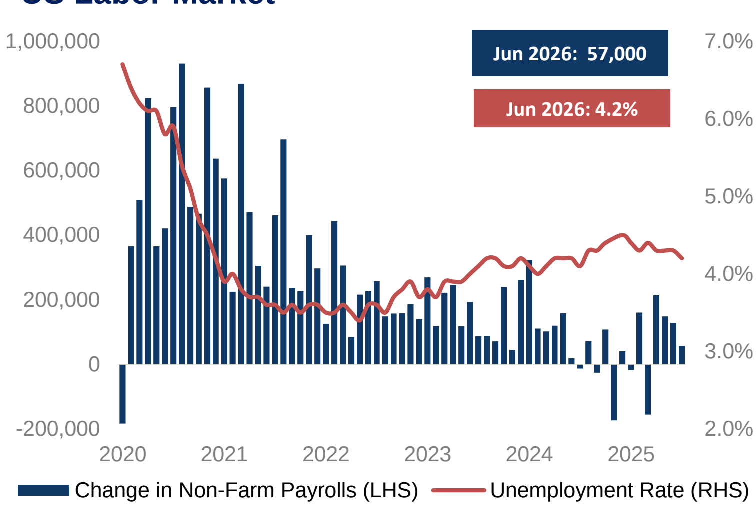
See related article: Fed Preview: Insulated underlying inflation supports Fed pause

US Inflation



Source: Bloomberg

US Labor Market



Source: Bloomberg

FED POLICY

Data-dependent hawkish hold

METROBANK'S TAKE

Fed's dilemma

The impact of high global oil prices due to geopolitical tensions peaked in May. While higher energy costs pushed headline Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) above 4% in May, core figures suggest they have yet to trickle down to costs of other goods. However, inflation of other items outside the energy commodity basket remains sticky, driven in part by high tariffs implemented under the Trump 2.0 administration, have yet to ease.

Although the latest softer-than-expected CPI reading in June signals that the inflationary impact of higher global oil prices may be transitory, it would take more than a month of inflation reading to see a consistent disinflationary trend toward the 2.0% target.

Turning to the other side of the Fed's dual mandate, recent nonfarm payrolls data indicate continued job creation, but downward revisions to preceding months suggest some fragility in the labor market recovery. Although the current jobs market conditions do not warrant an immediate concern for the Fed, an unwarranted rate hike could have an unintended consequence to sustaining the labor market recovery momentum.

As uncertainties on both sides of the Fed's dual mandate remain, keeping rates unchanged for longer may be the best course of action.

Hawkish pause

Metrobank's current assessment of the current FOMC voting composition's bias remain neutral to hawkish. Although current conditions have not yet warranted some policy rate adjustments, Fed official's outlook of the US economy may easily shift, depending on the developments on the geopolitical space and the impact of evolving trade dynamics following newly imposed higher tariffs by the US. Nonetheless, Metrobank maintains its expectation that the Fed will keep rates steady for the rest of the year.

No turning back for the BSP

On the domestic front, rising inflationary pressure from higher global oil prices has begun to seep through to the broader inflation basket. This strengthens the case for the Bangko Sentral ng Pilipinas (BSP) to keep its hawkish bias in the near-term despite a challenging growth outlook. Metrobank continues to expect a 25-bp policy rate hike by the BSP during its next meeting in August.

The Philippine peso may remain under pressure following the Fed's most recent policy rate meeting. Although the Fed kept rates on hold for now, market players' expectations for a potential rate hike later in the year remain firm. Together with risk-off sentiment due to ongoing geopolitical tensions in the Middle East, these factors are expected to support the US dollar and sustain downward pressure on the peso.