

FED POLICY

Unified push for higher rates

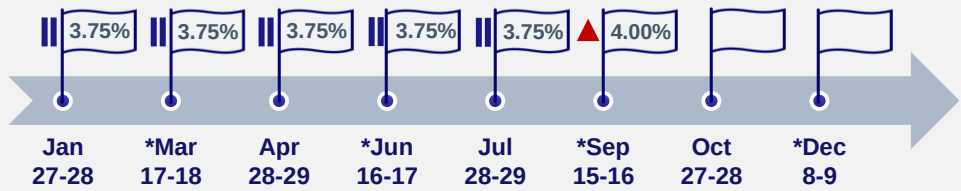
Fed Funds Target Rate (upper bound)
4.00%

Metrobank Year-end 2026 Forecast
4.25%

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

as of September 17, 2:00 AM, Philippine time

2026 Federal Open Market Committee Meetings



*Quarterly Summary of Economic Projections

The US Fed hiked interest rates

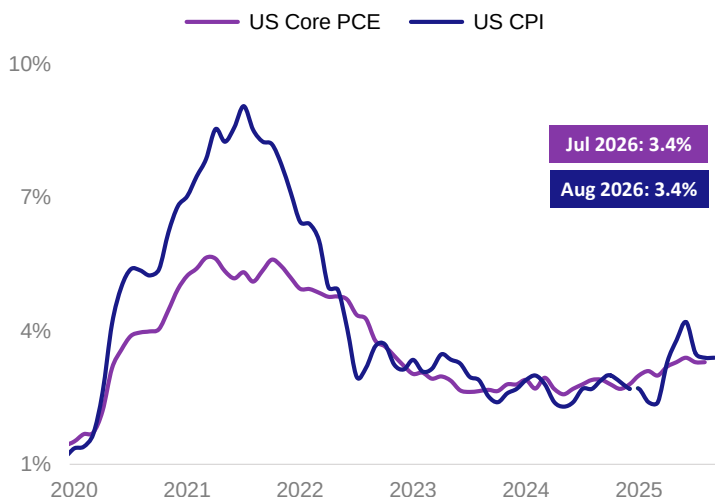
The US Federal Reserve (Fed) hiked interest rates by 25 basis points, bringing the Federal Funds Target Rate (FFR) to 3.75%-4.00% by a unanimous vote at its sixth Federal Open Market Committee (FOMC) meeting this year. This marks the first Fed hike since July 2023.

The FOMC report noted that economic activity in the US has been expanding at a solid pace, albeit with risks that remain elevated, in part due to ongoing geopolitical developments. Fed Chair Kevin Warsh echoed this, highlighting resilient domestic spending and strong productivity and capital investments.

With job gains keeping pace with the workforce and the unemployment rate remaining low, the Fed appears to have more leverage to focus on US inflation, which has exceeded its 2.0% target for more than five years. Warsh noted that inflation across many categories remains above 3.0%, signaling broad-based price pressures. In assessing inflation and the broader economic condition, he reiterated the importance of evaluating trends, rather than specific data prints. As global price shocks persist, he highlighted that the Fed's role is not to affect the price of any specific commodity but to manage the pass-through of cost pressures to second- and third-round effects.

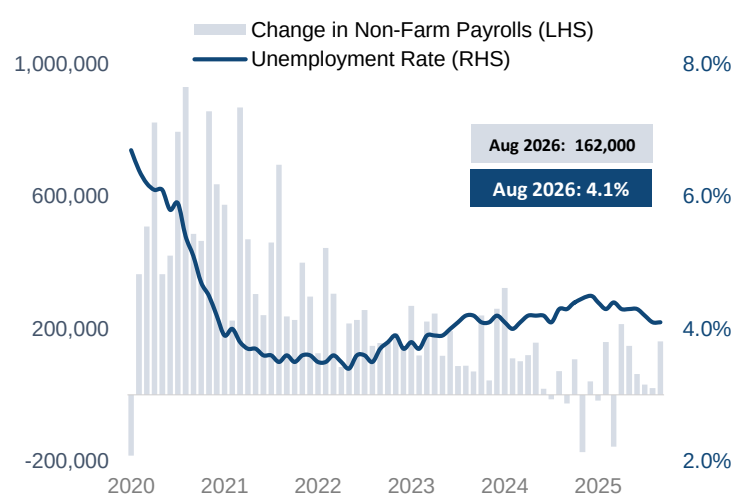
Given current US economic resilience amid global headwinds, Warsh said that the Fed "removed a dose of accommodation so that financial and credit conditions would be more consistent with our ultimate objectives." This suggests the Fed favors reducing monetary stimulus to support delivering its price stability mandate as the labor market remained in check.

US Inflation



Source: Bloomberg

US Labor Market



Source: Bloomberg

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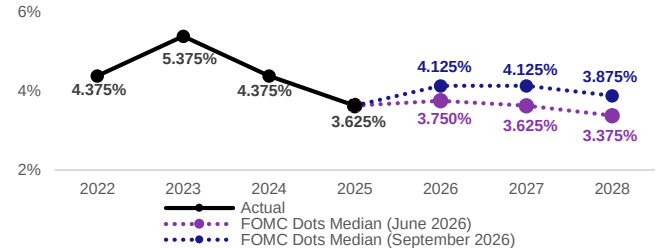
Quarterly Summary of Economic Projections

Summary of Economic Projections (SEP), September 2026

	As of June 2026				As of September 2026				
	2026	2027	2028	Longer run	2026	2027	2028	2029	Longer run
Real GDP	2.2	2.3	2.2	2.0	2.3	2.4	2.2	2.1	2.0
Unemployment Rate	4.3	4.3	4.2	4.2	4.1	4.1	4.1	4.1	4.2
PCE Inflation	3.6	2.3	2.0	2.0	3.7	2.3	2.1	2.0	2.0
Core PCE Inflation	3.3	2.5	2.1	-	3.4	2.5	2.2	2.0	-

Source: US Federal Reserve

Fed Dot Plot



Inflation expectations soar while growth projections retreat

The FOMC revised its Personal Consumption Expenditure (PCE) and Core PCE inflation projection slightly higher in 2026, as inflation risks persist. Meanwhile, the unemployment rate projection was adjusted downward and is expected to remain stable through 2029.

Dot plot leaning slightly hawkish

The latest dot plot leaned more hawkish, implying that Fed officials could support another rate hike this year as the Fed focuses on achieving its 2.0% inflation target. Unlike the previous dot plot released in June, officials appear united on their projection for higher interest rates this year.

METROBANK'S TAKE

US Fed's mandate tilted toward inflation

Expectations for oil prices remain tilted to the upside as Middle East tensions escalate and geopolitical risks remain heightened throughout the rest of the year. Although subdued global demand should temper sharp increases in prices, expectations of elevated inflation could keep the Fed hawkish in the near term.

Meanwhile, the labor market has signaled a gradual recovery in recent months. Overall, the US economy continues to show resilience despite global headwinds, as sustained business investments boosted by infrastructure related to artificial intelligence and sustained high-income household consumption support growth.

Given that risks to the Fed's dual mandate are now tilted toward inflation, Metrobank adjusted its forecast and projects another 25-basis-point (bp) Fed policy rate hike this year, bringing the target Fed Funds Rate (FFR) to 4.00-4.25% by year-end. However, as inflation is projected to gradually ease, the Fed could reverse its current trajectory and deliver a cumulative 50 bps of cuts next year, bringing the target FFR back to 3.50%-3.75% by end-2027.

More space for BSP hikes

On the domestic front, given expectations of elevated inflation and projections of further Fed tightening, Metrobank adjusted its forecast and now expects that the Bangko Sentral ng Pilipinas (BSP) would continue tightening monetary conditions and deliver two more 25 bps policy rate hikes before year-end. Meanwhile, easing inflation next year would give the BSP room to reverse its hiking cycle and deliver a cumulative 75 bps worth of cuts to support growth. These would bring the reverse repurchase (RRP) rate to 5.50% this year and 4.75% in 2027.

Recent Fed policy rate action narrowed the IRD to 100 bps and is expected to exert some pressure on the peso spot. A firm dollar, the projected seasonal increase in imports in September, and persistently weak investor sentiment are expected to keep the currency under pressure. With this, Metrobank raised its year-end USD/PHP forecast for this year and the next to 61.9 and 61.3, respectively.