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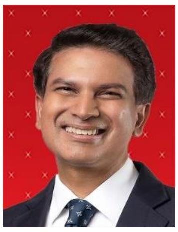
Notes from IMF meetings: Stark disconnect

April 20, 2026



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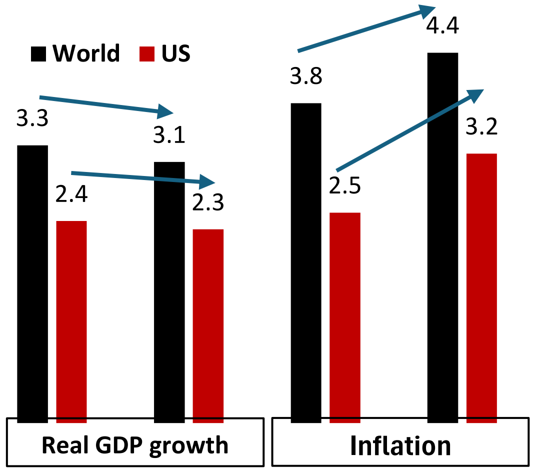
- *Markets focused on fading war risks, but official sector and analysts' warnings about public debt, energy security, future of the USD, and Fed leadership risks loomed over the meetings.*
- *Commodity price/supply shocks likely to be substantial; growth forecasts are at risk.*
- *Energy source diversification, reserves, infrastructure, and renewables under focus.*
- *China better positioned via stocks, suppliers, coal, and green energy progress.*
- *War worsens debt, deficits and balance-of-payments strains beyond combatants.*
- *USD faces trust/payment-system challenges; Fed transition uncertainty is rising.*

Chart of the Week: IMF's inflation alert

The IMF's April 2026 global economic forecast revisions reflect more concern about inflation than growth. Global inflation forecast for 2026 was revised up by 60bps compared with the forecasts made in January, while US inflation forecast was revised up by 70bps. 2026 real GDP growth is expected to slow marginally in the US, and by 20bps for the world. If the Iran war and associated disruptions cause lasting fuel and other commodity shortages, then the risk to growth in energy importing economies would be acute, in our view.

IMF forecast revisions for 2026



Source: IMF, DBS. Arrows show the direction of forecast change between January and April.

Commentary: Notes from IMF meetings

The week of the IMF meetings in Washington DC was characterised by a stark contrast. Market participants were encouraged by the constructive sentiments emanating from the ceasefire and negotiations between the US and Iran, with risk assets rallying steadily. Yet, concurrently, there was a sense of foreboding looming over the meetings, as official sector representatives and non-governmental organisations raised alarm over the commodity (price and quantity) shock.

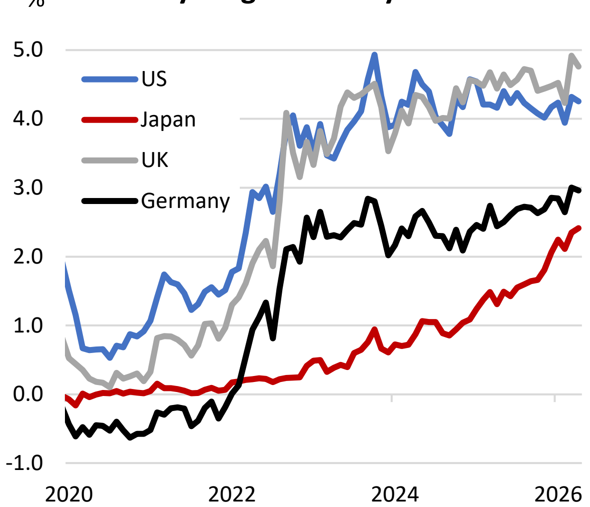
Whether an economy is consuming own-source or imported energy, the globally traded nature of most commodities causes price signals to transmit to all. But beyond the price shock, some commodity importers are also looking at delays, from modest to severe, of commodity delivery from May onward. This risk puts a number of developing economies on the path toward disruptions to industrial activities, agriculture, travel, tourism, and transportation. Given this, the IMF's modest downgrade of 2026 global GDP growth (by 0.2% from the January forecast release) looks a tad optimistic.

The war has brought energy security and public sector debt into focus. On the former, there is an odd alignment between the US, which has doubled down on fossil fuels over the past year, and the rest of the world, where renewables are seen in promising light. Both sides however would be pushing for a more diverse set of energy suppliers, greater fuel reserves coverage, more hedging, more investment in refining, and more redundancies and backup in their domestic energy production infrastructure. A key legacy of this war would be a push for increasing investment in energy generation, refining, transportation, and storage. Renewables, with ever more efficient technology and steadily declining costs, will be a major factor here, with or without the US.

China's relative insulation from the current shock is instructive. Five layers of resiliency characterise China. First, it has a reliable energy supplier in Russia; second, it has amassed a sizeable stock of fuel and food; third, it has ample coal and coal generation facilities to deal with intermittency and contingency issues; fourth, it has made seismic progress in building a world leading green energy network; and five, it has access to Iranian energy when and if available. The lack of panic in China through this war is a testament to its shock absorption capacity, built over years of prudence.

Wars cost money, both during and in the aftermath. In this instance, the cost goes beyond the budgets of the combating economies, as the energy shock hurts the importing economies' balance of payments, consumption, cost of production, and, if subsidised, the fiscal bill. Soaring public debt was already a concern leading into the meetings; the issue is likely to be compounded further this year as war costs mount.

10-year govt bond yields



Source: Bloomberg, DBS

If there was no war, the meetings would likely have delved more into (i) the AI wave, (ii) risks around the private capital space, both private equity and debt, and (iii) damage done by the trade war. There were two issues that received attention, nonetheless. One was the future of the US dollar, and the other was a likely crisis around Fed leadership in the summer.

Future of the USD

On the dollar, there were three major lines of argument. The **first** was of cyclical nature, that the USD had room to correct due its burgeoning trade and fiscal deficits and likely financial repression measures to keep rates low. **Second** was related to the steady erosion of institutional integrity, from the Fed to the judiciary, media to the election process, and checks and balances between the branches of the US government. As trust in US institutions decline, the aura around the dollar fades. **Third** was with respect to scale and infrastructure. The US's deep financial market, providing liquidity at scale, settlement, custody, and invoicing, have kept the USD on strong footing for many decades. But technological and market advancements have narrowed those gaps. Alternative payment rails with real time settlement are becoming available, especially with the euro and the Chinese yuan. With fears of the weaponisation of the dollar becoming more entrenched, the inclination to use alternative currencies and hold non-USD denominated assets is rising among public and private sectors around the world.

We came away from the meetings with greater appreciation for a fourth dimension of the USD debate. Beyond valuation and institutional factors and infrastructure, there has been a general decline in goodwill toward to the US. The US is seen as mired in a Thucydides Trap, seeing the rise of other nations as a loss for itself. This zero-sum approach to foreign policy, technology, and finance makes foes and friends alike suspicious of the US's motivations. Even if US assets have the potential to deliver superior returns, the faith and enthusiasm for the US narrative have weakened. Without asserting the de-dollarisation narrative, one can still argue for the "no warmth for the dollar" line of reasoning, in our view.

Fed leadership

We left Washington worried about a brewing leadership crisis at the US Federal Reserve. If President Trump does not conclude the investigation of current chair Jay Powell, the Senate is unlikely to approve Kevin Warsh in time for Chair Powell's end of term in less than four weeks. The latter has already stressed that he will not leave the Fed after his Chairmanship ends (his membership at the Board of Governors ends at end-January 2028), especially if the investigations are not completed. A scenario in which Trump pushes for someone like Stephen Miran to be a stop-gap Fed Chair while Powell remains in the Board of Governor would be cause for considerable confusion and discord in Fed deliberations. The markets would not like that, to say the least.

The week's stark disconnect between soaring stock markets and a host of worries among the analyst community and public sector officials left us uncomfortable. An Iran war deal may or may not transpire soon, but independent of that, there are plenty wrinkles in the global economic and financial landscape that warrant serious caution.

Taimur Baig

FX: A critical week for the Fed and the USD

The US Senate Banking Committee is scheduled to conduct a **confirmation hearing of the nomination of Kevin Warsh as Fed Chair on April 21** at 10:00 AM ET (or 10:00 PM SGT). The Trump administration is aggressively pushing for Warsh to take over by the end of Jerome Powell's term on May 15.

The primary obstacle to a clean transition remains Republican Senator Thom Tillis, who has vowed to block any Fed nominee until the Department of Justice's investigation into Powell's oversight of the Fed's USD2.5bn renovations is resolved. While the US Attorney's office conceded a lack of criminal evidence, federal investigators made an unannounced visit to the site on April 14, signalling that the probe remains an active political leverage point.

Understandably, **Powell has refused to resign under the cloud of the DOJ probe to prevent the Trump administration from characterising his departure as a quiet firing or an admission of guilt before vacating office**. On March 18, Powell publicly stated that the investigation was a pretext to undermine Fed independence. He invoked the holdover provision of the Federal Reserve Act to continue serving as Fed Chair until a successor is appointed, while vowing to serve his full term as Fed Governor until January 2028. Powell is effectively forcing the DOJ to either produce a smoking gun or publicly clear him before he steps down.

President **Trump has responded by threatening to fire Powell or designate an Acting Fed Chair** (potentially Stephen Miran) upon Powell's term expiry on May 15. The President's strategy is legally murky and could be challenged by the Board of Governors that backs Powell. **A "Two Popes" scenario**, in which Powell claims legal leadership while the other claims executive authority, **could emerge**. Senate Democrats and some Republicans have raised concerns about a shadow chair scenario if the transition is not handled cleanly.

Against the proxy war between Trump and Powell, **Warsh will face one of the most volatile confirmation sessions**. The eleven Democratic members, led by Senators Mark Warner and Elizabeth Warren, have signalled their intention to delay or disrupt the hearing. (1) Warren is expected to probe Warsh's USD100mn net worth and his suitability for a role centred on public trust amid cost-of-living concerns. (2) The Democrats will likely ask Warsh to denounce the DOJ's investigation as politically motivated. His refusal to do so will be framed as an abdication of Fed independence. (3) Senator Tillis may grill Warsh on whether he supports the weaponization of the DOJ. Warsh will lose Tillis' support if he sides with the administration or lose the President's favour if he defends Powell. (4) Lawmakers will likely ask about Warsh's willingness to serve alongside Powell on the Board. A commitment to cooperation would help stabilize the USD, and vice versa.

The endgame of this Fed transition is about the risk premium associated with a contested Fed leadership. Markets will likely treat any "Two Popes" scenario as a referendum on the Fed's independence, in which Warsh's alignment with the White House will come under heavy scrutiny. Crucially, the hearing has the potential to undermine the current USD's haven status just before the expiration of President Trump's 10-day ceasefire with Iran on April 22.

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