

Macro Insights

Could the next Fed move be a hike?

May 4, 2026



Taimur Baig
Chief Economist
taimurbaig@dbs.com



Chua Han Teng
Senior Economist
hantengchua@dbs.com

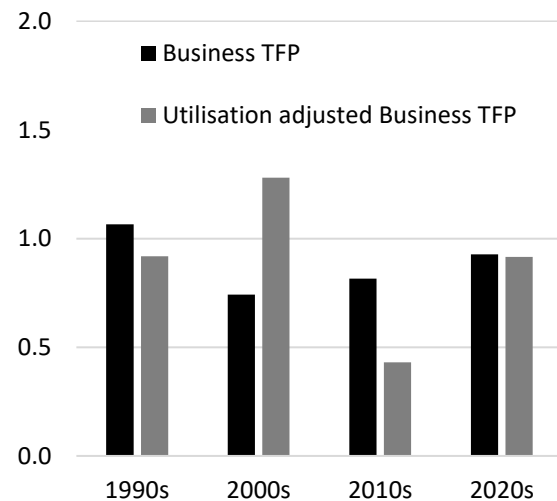
For Alliance Bank clients, please direct your enquiries to Malaysia Research +603 2604 3915 general@alliancedbs.com

- *Powell's last meeting as Fed Chair won't mark the end of tensions regarding US monetary policy direction. Dataflow and political pressure could push the FOMC in opposing directions.*
- *Powell leaves FOMC chair, stays Fed governor till Jan 2028; policy decision tensions likely.*
- *Data strong: ISM upbeat, 1Q retail double-digit, GDP tracking 3%+.*
- *Inflation risks up (energy/electronics); case to hold or even lean hawkish.*
- *Base case shifts: Fed to drop dovish bias, move toward neutral—not hikes yet.*
- *Forecast: we are removing the 2026 cuts; 2027 hikes possible if growth-inflation mix stays hot.*

Chart of the Week: AI and productivity

AI's promise is massive, but so far, the impact is largely on the revenues earned by chip manufacturers and service providers. Are companies and economies seeing a boost in productivity? It may be too early to tell, but the evidence is soft thus far. San Francisco Fed's [analysis](#) shows that current productivity trend is no different from previous decades. Particularly disappointing is the 0.2% growth during the past four quarters. Markets remain convinced and patient about AI's potential. The payoff needs to come soon.

US Total Factor Productivity Estimates



Source: San Francisco Fed, DBS

Commentary: Next Fed move a hike?

Last week's Federal Open Market Committee (FOMC) meeting to decide the course of US monetary policy was the last one under Chair Jerome Powell. He won't disappear from the scene entirely though, as he has expressed a desire to carry on as a member of the Fed Board of Governors through the expiration of his term at end-January 2028. With Powell legally allowed to be in the FOMC till then, and several other members in the 12-person FOMC aligned with his views, a contentious set of Fed meetings are ahead. This is especially likely with forthcoming Fed Chair Warsh and current Trump-appointee Miran expected to push hard for policy accommodation.

What sort of data will confront the next meeting deliberations? Consider the widely followed purchasing managers' survey released by the Institute of Supply Management. The April readings show an economy still very much on the march, with markers for production, new orders, inventories, and imports pointing to sustained demand growth. Labour market may be on the weaker side, inflation may be soaring, but economic activities are proceeding apace. Double digit retail sales growth in 1Q26 confirm this narrative. Atlanta Fed's Nowcast point to 2Q GDP tracking at 3%+.

Strong consumer spending, a flat housing market, a decent investment cycle (though concentrated in tech), booming energy exports, and substantial upside inflation risks, driven by energy and electronics prices, characterise the US economy presently. **These factors would point to keeping rates as they are, or could even justify moving into a hawkish stance in the coming months.**

We have long maintained that 2026 would be marked by at least two 25bps rate cuts, on account of incipient weakness in the labour market and likelihood of financial market correction. The latter expectation stemmed from the various stock market over-valuation estimates. Those risks remain, but are offset by the present inflationary environment and robust economic growth. **The Fed is not likely to move toward a hawkish direction soon, but removing its dovish bias and moving toward a neutral stance is on the cards, in our view.**

Short of a dramatic and concrete resolution to the ongoing US-Israel war on Iran, inflation risks are unlikely to recede in the coming months. It is conceivable that under Chair Warsh, the Fed will find a way to convince the markets that headline inflation risks should be looked through as long as core inflation markers are stable (which they are, through March). But even that shift to neutral will displease President Trump, while any talk of possible hikes could be met with major challenges to Fed independence by the president.

Once mid-term elections are over, there might be further clarity on the balance of power in Washington, which could then pave the way for more independent decision-making. While Mr. Warsh is going to be reluctant to lead the Fed to a path of rate hikes, the data may force him in that direction. Assuming growth remains strong and price pressures don't fade, 2027 could be marked by Fed rate hikes, in our view. **As for our forecasts, we will remove the rate cut calls for this year, but not yet venture into rate hike calls for next year.** Like the Fed, we would need more data for several more months before heading in that direction.

Taimur Baig

FX: Transition challenges at the Fed amid “off-ramp” hopes at the Trump-Xi summit

The month of May will likely extend the USD’s downward correction in April, which followed its two-month rise in February and March.

On monetary policy, Jerome Powell’s decision to remain as a Fed Governor after stepping down as Fed Chair on May 15 creates an awkward situation for his successor, Kevin Warsh. Chairing his first FOMC meeting in June, **Warsh must balance President Donald Trump’s demand for a rate cut with the Board of Governors’ dissent against a dovish pivot** amid expectations of a short-term rise in inflation.

Unlike the Fed, the **European Central Bank and the Bank of England continued to warn against second-round inflation effects**, which should provide a structural floor for the EUR and GBP against a struggling USD. The market continues to price in an extended Fed pause for the rest of 2026 despite rate hikes from other major central banks. On May 5, the **Reserve Bank of Australia is set to deliver its third consecutive rate hike** to 4.35%, extending AUD’s lead as the highest-yielding G10 currency and 2026’s best-performing currency.

The USD’s war-related haven appeal has waned. By utilizing the April ceasefire as a legal reset to bypass the 60-day War Powers Resolution deadline, the White House has uncoupled its strategy from immediate Congressional oversight. Treasury Secretary Scott Bessent’s **“Economic Fury” initiative also suggested a transition from a political war of attrition towards economic encirclement** as the primary theatre of engagement.

Additionally, the **UAE’s exit from OPEC** and the OPEC+ Alliance on May 1 **fundamentally weakened the cartel’s ability to enforce price floors**. Brent crude’s knee-jerk spike to a four-year high of \$126.41 per barrel on April 30 reversed quickly to \$108.17 on May 1. The diminishing risk of oil prices rising above \$120 should also help stabilize record-low currencies such as the INR, IDR, and PHP.

A softening USD provided the opening for the Japanese authorities to pull USD/JPY out of its two-month consolidation range of 158–160, driving it **down to 156.60** by the end of April. Amid unconfirmed FX interventions to rein in the JPY’s weakness, Finance Minister Satsuki Katayama warned traders to keep their smartphones with them over Japan’s Golden Week holiday (April 29 to May 6). The Bank of Japan also helped by maintaining the market’s momentum for a 25-bps rate hike to 1% at the June 16 meeting.

The **Trump-Xi Summit on May 14-15 in Beijing, China**, will be significant for global currencies. The CNY’s appreciation, driven by the US-China tariff truces, has helped to offset the JPY’s post-Liberation Day weakness, an important factor preventing a pan-Asian currency sell-off. China has made the reopening of the Strait of Hormuz and the preservation of the Iran ceasefire as urgent priorities of the summit. **President Trump launched “Project Freedom,”** which seeks to ease the US naval blockade by providing US escorts for neutral commercial vessels. **Global markets are monitoring the summit as a potential prelude to a diplomatic “off-ramp” involving China as mediator.**

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.

Chief Economist

Global

taimurbaig@dbs.com

Wei Liang CHANG

FX & Credit Strategist

Global

weiliangchang@dbs.com

Mo Ji, Ph.D.

Chief Economist

China/HK SAR

mojim@dbs.com

Tieying MA, CFA

Senior Economist

North Asia

matieying@dbs.com

Sherilyn Hui Min CHEW

Multi-asset strategist

Global

sherilync Chew@dbs.com

Byron LAM

Economist

China/HK SAR

byronlamfc@dbs.com

Radhika RAO

Senior Economist

Eurozone, India, Indonesia

radhikarao@dbs.com

Nathan CHOW

Senior Economist

China/HK SAR

nathanchow@dbs.com

Violet LEE

Associate

Publications

violetleeyh@dbs.com

Amanda SEAH

Credit Analyst

USD, SGD, AUD

amandaseah@dbs.com

Han Teng CHUA, CFA

Senior Economist

Asean

hantengchua@dbs.com

Tracy Li Jun LIM

Credit Analyst

USD, SGD

tracylimt@dbs.com

Daisy SHARMA

Analyst

Data Analytics

daisy@dbs.com

Ian Haan CHUI

Credit Analyst

USD

ianchui@dbs.com

Teng Chong LIM

Credit Analyst

USD, SGD, AUD

tengchonglim@dbs.com

Joel SIEW, CFA

Credit Analyst

USD, SGD, AUD

joelsiew@dbs.com

Dexter CHUN

Credit Analyst

USD

dexterchun@dbs.com

Eugene LEOW

Senior Rates Strategist

G3 & Asia

eugeneleow@dbs.com

Mervyn TEO

Credit Analyst

USD, SGD, AUD

mervynteo@dbs.com

Iris GAO

Credit Analyst

USD

irisgao@dbs.com

Lilian LV

Credit Analyst

USD

lilianlv@dbs.com

Samuel TSE

Rates Strategist

Asia

samueltse@dbs.com

Philip WEE

Senior FX Strategist

Global

philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates, Digital Assets or Commodities)¹

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited (each and/or collectively, The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited and distributed by AllianceDBS Research Sdn Bhd (ADBS), a subsidiary of Alliance Bank Malaysia Berhad (ABMB) (each and/or collectively, the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report. This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 23rd Floor, Menara Alliance Bank, 159 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.

Virtual currencies are highly speculative digital "virtual commodities", and are not currencies. It is not a financial product approved by the Taiwan Financial Supervisory Commission, and the safeguards of the existing investor protection regime does not apply. The prices of virtual currencies may fluctuate greatly, and the investment risk is high. Before engaging in such transactions, the investor should carefully assess the risks, and seek its own independent advice.