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INDONESIA PHILIPPINES

Iran peace deal not enough to halt tightening in the Philippines and Indonesia

The BSP's cautious 25bp rate hike underscores a steady tightening bias, with policymakers focused on second-round inflation risks even as oil prices ease. We expect further hikes from BSP, while FX gains may be used to rebuild reserves. Bank Indonesia's hike aims to stabilise the rupiah, but persistent policy uncertainty may limit its effectiveness.



Both Indonesia and the Philippines have raised interest rates by 25bp

BSP's measured tightening bias amid persistent oil uncertainty

The Bangko Sentral ng Pilipinas delivered a 25bp rate hike, in line with expectations, reinforcing its preference for steady, incremental tightening to anchor inflation expectations without unduly disrupting markets. The tone remains cautious rather than alarmist. Policymakers are clearly not complacent about oil prices, viewing the recent oil price shock as potentially more persistent given ongoing uncertainty around supply normalisation even amid a ceasefire. That argues for maintaining a tightening bias, with small, same-direction moves preferred to preserve policy credibility while limiting volatility.

Second-round effects in focus; food and core inflation key

While we do expect headline inflation to fall if the peace deal holds and oil prices are sustained at lower levels, the BSP's focus is firmly on second-round effects rather than the initial supply shock. How food prices, and by extension core inflation, evolve will be key in assessing whether inflation pressures become more entrenched.

In our view, global oil flows are expected to resume only gradually, and the need to rebuild

depleted stockpiles could keep upward pressure on demand, leaving uncertainty around the durability of any price correction. We expect Brent to average around USD 87/bbl in 3Q, still roughly 30% above pre-war levels. This could give some room for governments such as the Philippines, which did not heavily subsidise fuel, to roll back part of the earlier hikes. Gasoline prices in the Philippines have risen by around 40% since the start of the conflict; a 10% rollback could lower CPI by about 50bp, bringing our 3Q inflation forecast to 6.5%, still well above the 4% upper target. As such, a more sustained and deeper decline in oil prices would be needed for the BSP to reconsider rate hikes.

Maintain view of more hikes in the Philippines; PHP could continue to recover

On the FX side, the BSP appears to recognise the asymmetry: while large depreciations can fuel inflation, currency appreciation offers only limited respite. The Philippine peso has already staged a relief rally following the peace deal, appreciating by around 1.8% over the past month. Should lower oil prices persist and support an improvement in the current account, the PHP could strengthen further towards sub-60/USD levels. At that point, we would expect the currency to shift towards rebuilding FX reserves.

Bottom line – the message is that while the situation is not a cause for panic, it is also far from resolved. In our view, the BSP is not losing sleep over this, but neither can it confidently say the worst is over, keeping policy firmly in watch-and-act mode. We maintain our forecast of another 50bp rate hike this year.

Bank Indonesia hikes to defend IDR, but structural concerns persist

Separately, Bank Indonesia lifted its policy rate by 25bp to 5.75%, bringing cumulative tightening over the past month to 100bp. While the move was widely anticipated, we had expected BI to remain on hold. The decision underscores a clear policy priority: stabilising the Indonesian rupiah. Despite a modest c.1% rebound this week, the currency remains the worst-performing in Asia year-to-date. In principle, higher rates alongside softer oil prices should provide some support, particularly as Indonesia is a net oil importer, but investor concerns around the recent policy direction continue to cap the upside, suggesting the IDR may lag regional peers. With this move, we expect BI to remain on hold for the rest of the year.

More broadly, Indonesia's relatively attractive real yields have yet to translate into sustained foreign inflows. External headwinds, including elevated US Treasury yields and the resulting portfolio reallocation, are keeping investors cautious. At the same time, domestic factors remain the binding constraint. Limited visibility on the policy mix – including the fiscal strategy, the sovereign rating trajectory, and the broader growth agenda – continues to weigh on sentiment. Heightened policy uncertainty, alongside signs of increasing centralisation in

decision-making, is further dampening investor confidence, blunting the effectiveness of BI's rate hikes.

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