Philippines: Accelerating inflation to keep BSP hawkish

Price pressures stay elevated as second-round effects surface

Price pressures continue to mount in the Philippines as supply chain constraints disrupt food supplies

6.4%YoY

July headline inflation

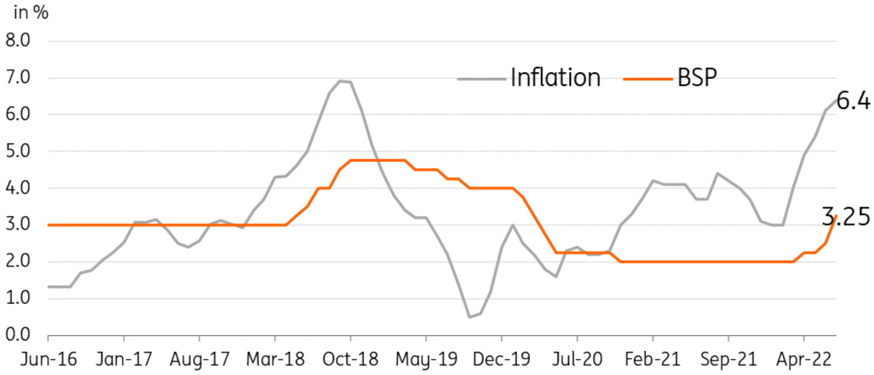
Higher than expected

July inflation at 6.4%, faster than expected

Price pressures stayed elevated in July, pushing headline inflation to 6.4%YoY. Expensive food (6.9%), transport (18.1%) and utilities (5.7%) continue to be the main drivers of the surge in inflation and we can expect inflation to head higher in the coming months. These three subsectors combined account for 68.2% of the overall CPI basket. All subsectors posted faster inflation in July except for health services where inflation slipped to 2.4% (2.6% in June).

Recent wage hikes and transport fare adjustments continue to feed through to the rest of the CPI basket. Bread manufacturers and retail outlets have announced price increases in the past month, indicating that inflation has hit more than just energy and imported food items. The emergence of these 2nd round effects suggests that price pressures are more pervasive.

Inflation running away from the BSP policy rate



Source: Philippine Statistics Authority and Bangko Sentral ng Pilipinas

Above target inflation to keep BSP hawkish

Inflation remains well above the Bangko Sentral ng Pilipinas' (BSP) upper bound target of 4%, which should keep BSP hawkish in the coming months. BSP Governor, Medalla signalled that rate hikes are in the pipeline and we continue to pencil in a 50bp rate increase at the 18 August policy meeting. Medalla remains optimistic that inflation is close to its peak but BSP will likely retain their hawkish slant until inflation heads closer to 4%.

We expect BSP to hike rates for the rest of the year with the policy rate reaching 4.5% by year-end. The PHP should gain some support from policy tightening, but the PHP remains vulnerable to depreciation while inflation runs high and also as the Philippines now runs a current account deficit.