Philippines and Thailand central banks cut rates by 25bp

Bangko Sentral ng Pilipinas (BSP) cut the overnight borrowing rate by 25bp to 6.0%, the second rate cut in 2024 that was widely anticipated. What surprised the markets was the 25bp rate cut by the Bank of Thailand. We believe that both central banks are likely to adopt a more measured approach to future rate cuts

Bangko Sentral ng Pilipinas (the central bank of the Philippines)

25bp reduction from the BSP

The BSP cut the overnight borrowing rate by 25bp to 6% in line with our forecasts and consensus expectations. The policy statement and comments in the press briefing remained dovish, but the path to further rate cuts is likely to be more measured suggesting a 50bp rate cut is unlikely at the next meeting in December.

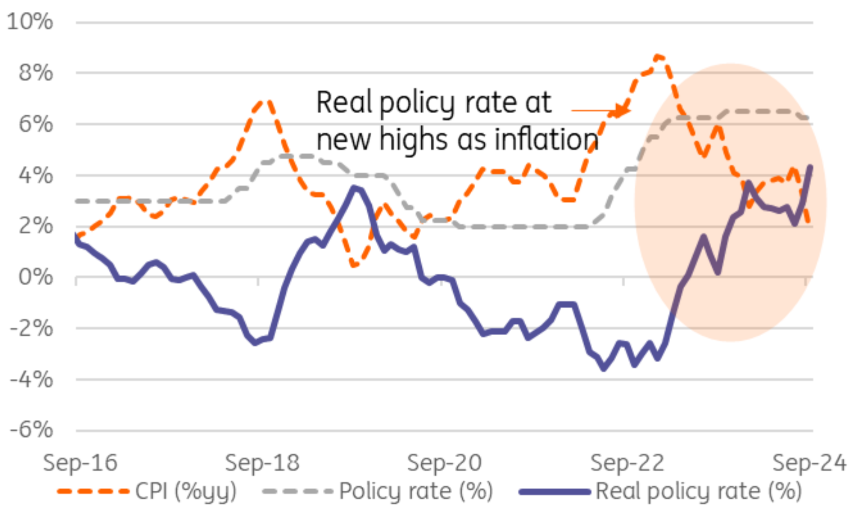
We expect the BSP to continue to cut policy rates by another 25bp in December for the following reasons:

1. September CPI inflation hit a four-year low of 1.9%, with year-to-date CPI inflation well

within the BSP target band of 2-4%. We expect CPI inflation to average 2.9%, well below the mid-point of the target band in 2024. The Philippines should benefit from improving global food supplies and lower rice prices following India's lifting of its export ban on rice.

2. The real policy rate at 4%+ has hit a fresh high at a time when GDP growth is expected to remain below the government's target of 6-7%. Overall, we see scope for real rates to fall by another 150bp by the end of 2026.

Real policy rates in the Philippines



Bank of Thailand also cuts by 25bp in surprise move

Thailand's central bank also cut rates by 25bp to 2.25% in a surprise, anti-consensus move. There has been an ongoing tussle between the government and central bank with the former pushing the latter to cut rates to support growth and weaken the Thai baht which has strengthened by 10% against the US dollar since July 2024.

The central bank guidance indicates reluctance to cut rates further as it remains committed to bolster financial stability given uncomfortably high household debt, and price stability highlighting steadily rising core inflation.

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