

Philippines: Below target inflation to prod BSP rate cut in September

With price pressures abating, inflation slid to 1.7%, below BSP's target of 2-4%



Rice for sale at a market in the Philippines

1.7%

CPI inflation

Below BSP's target

Lower than expected

Inflation slides below BSP's target

Price pressures abated considerably to push inflation below Bangko Sentral ng Pilipinas' (BSP) 2-4% inflation target as supply conditions improved in 2019. The trend for decelerating inflation remains intact with BSP indicating full-year inflation could settle at 2.7% and remain within target until 2021.

2018's bane is 2019's boon

Food inflation, the main culprit for the 2019 inflation pop, is the main reason for the sharp deceleration in price trends this year, thanks to new legislation allowing increased imports of the all-important staple of rice. The food basket accounts for nearly 32% of the entire CPI basket and

given its heft, has helped drag inflation below target. Meanwhile, utilities and transport costs have also seen softer price gains given the relatively benign crude oil environment.

BSP Governor to deliver on his promise

A few weeks back, BSP Governor Diokno pledged to cut policy rates by another 25 bps before the end of the year. With inflation careening below the BSP's own target, we expect the Governor to deliver on his pledge and cut policy rates by an additional 25 bps at the 26 September meeting. Monetary easing would also make sense given that 2Q GDP growth has slid to 5.5%, well below the government's 6-7% fighting target for the year. Meanwhile, we also expect the BSP to roll back its reserve requirement ratio (RRR) by 100 bps in the 4th quarter. Diokno has telegraphed his moves effectively and he indicates that the next RRR redux will be announced per quarter and we expect him to reduce RRR in 2 tranches of 50 bps, possibly at the end of October and end of November.

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