

Philippines central bank keeps rates untouched but opens door for a cut

Bankgo Sentral ng Pilipinas (BSP) kept settings untouched but opened the door to potential easing by the third or fourth quarter



The central bank of the Philippines as seen from the CCP Grounds

3.8%

BSP's risk adjusted 2024 inflation forecast

4.0% previous

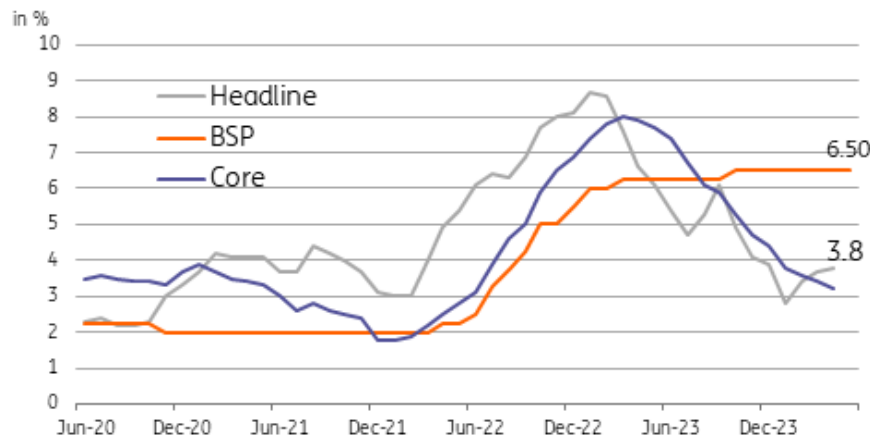
BSP extends pause but takes on "somewhat" less hawkish stance

The Bangko Sentral ng Pilipinas (BSP) left policy rates untouched at 6.5%, in line with market expectations. The BSP opted to keep monetary setting "sufficiently tight" as food inflation remains elevated. Governor Eli Remolona indicated CPI inflation could breach the 2-4% inflation target in July as rice prices stay high.

The BSP, however, lowered its risk-adjusted inflation forecast to 3.8% for 2024 (from 4.0%). The central bank also put some focus on their expectations for growth, sharing that indicators point to

a moderation of growth in the coming months. Meanwhile, Remolona ruled out reducing the reserve requirement ratio for the time being.

BSP lowers inflation forecast for the year after downside surprise



Source: PSA and BSP

Surprise surprise: Remolona takes on a dovish tilt

A day after Secretary of Finance Ralph Recto indicated that the BSP could begin rate cuts by the fourth quarter, Remolona took on a more dovish tilt. The governor shared that we could see possible rate cuts as early as August after CPI inflation surprised on the downside for April. Despite this recent shift in tone from the previously hawkish Remolona, we hold on to our previous expectation that the BSP can only cut policy rates ASAF – As Soon As the Fed (does).

Given ING's house call that the Federal Reserve will cut policy rates by September, we expect the BSP to begin its easing cycle at its October meeting should inflation continue to trend lower. The PHP held on to gains after the BSP kept rates at a 17-year high.