

Philippines: December inflation to settle at 2.1% but likely to edge higher in 2020

Inflation remained well-behaved at the close of 2019, but expect price pressures to return in 2020



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December inflation to settle at 2.1%

After slipping below the central bank's inflation target (2-4%) for four months, headline inflation for December 2019 is expected to settle at 2.1%, bringing full year inflation to 2.4%. With base effects from the 2018 inflation spike all but gone, we can expect the overall inflation number to edge higher in the coming months. And although inflation for the heavily-weighted food component remains in-check, price pressures appear to be building for transport costs as domestic gasoline prices are up 17.1% from last year.

Upside risks in 2020

We do expect inflation to trend higher in 2020 with reverse base effects kicking in at a time when oil prices are rising due to geopolitical developments in the Middle East. The escalation of tensions between the US and Iran threatens the inflation outlook with more expensive crude oil, which is expected to feed directly into higher transport costs in the Philippines. Meanwhile, the possible repatriation of Filipinos based in Iran and Iraq could threaten the flow of remittances,

which could force a spell of depreciation for the peso and push up overall costs for imports.

BSP downplays risks, may resume rate cuts in 1Q 2020

Despite the expected bounce in inflation and the looming upside risks tied to the Middle East conflict, Bangko Sentral ng Pilipinas (BSP) Governor Benjamin Diokno downplayed the recent development, indicating that the chances for an inflation breach to the upside remained “remote”. Given these comments, we expect BSP to keep the door open for further easing, with ING pencilling in a rate cut as early as the February policy meeting. Meanwhile, the peso remains under pressure as concerns about the Philippine current account deficit return with more expensive crude oil likely bloating the import bill.

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