

Philippine inflation data dashes hopes for August cut

Philippine inflation data is likely to start falling soon, but the July figures make it hard for the Bangko Sentral ng Pilipinas (BSP) to front-run the Federal Reserve, and rate cuts may have to wait until the 17 October meeting. By then, the US Fed should already have moved, making BSP cuts easier



Bags of rice at a market in Manila, Philippines

4.4%

July inflation (year-on-year)

Up from 3.7%

Higher than expected

Governor Remolona signals less chance of a cut at next week's rates meeting

Following today's higher-than-expected inflation print for July, Bloomberg reports BSP Governor Remolona saying that it is "...a little bit less likely..." that BSP will lower policy rates at the 15 August meeting next week, adding that inflation was "...slightly worse than expected".

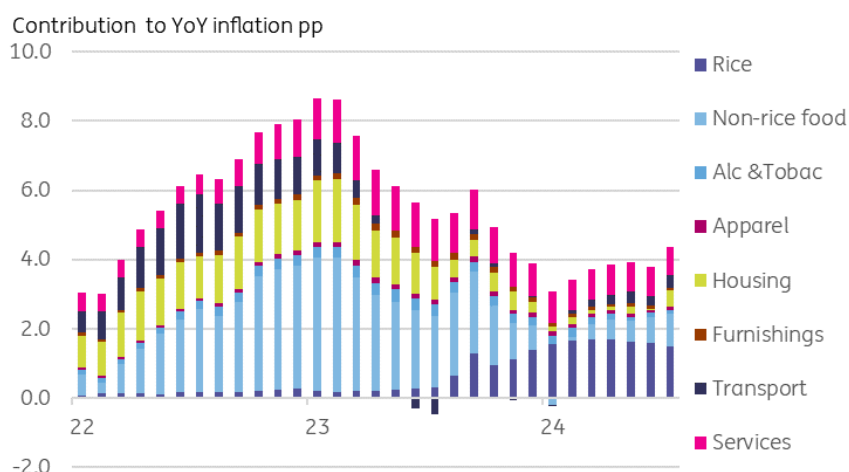
It would be extremely odd for BSP to cut rates next week after this, though we don't believe we will have to wait for too long before cuts are on their way. There is still a chance of an off-cycle cut before October if the data supports it, and before we rule out an August cut, if the upcoming 2Q24 GDP data on 8 August is really weak, then August may revert to being a live meeting, though the odds of a cut have clearly fallen.

Inflation should start to fall soon

Philippine inflation is still largely driven by rice, and there has been little evidence of any fall in retail prices following the cut in rice import tariffs early last month. We still expect some drop in rice prices following the tariff cut, though this could take a few months to filter through, and there is likely to be a substantial dilution of any price drop before the consumer sees any benefit.

In the meantime, other food prices this month may have been pushed up by crop destruction following Typhoon Carina, though the impacts of this should begin to diminish over the next few months.

Contribution to inflation (pp) by component



Source: ING and CEIC

Inflation should start to drop anyway

Even without any fall in rice prices in the coming months, all it will take for inflation in the Philippines to start declining in the coming months will be an absence of further rises in rice prices, or price shocks in other elements of the CPI basket.

With most of last year's pick-up in rice prices starting from August, we can expect the contribution to inflation from rice to fall rapidly from now on and turn negative by September. By the time of

the October meeting, published inflation should be substantially lower than it is now, enabling rates to be cut.

This month, the upside miss to the consensus expectation for 4.1% inflation came mainly from the housing component, which was pushed higher by utility prices, and we don't expect this to be repeated in August.

By October, rates will very likely have been cut in the US. And with the PHP likely benefiting from some support in that environment, there is even some chance for a greater than 25bp first cut from the BSP in this cycle.

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