Philippines: Inflation dips to 2.1% giving BSP elbow room to ease further

Inflation dipped to 2.1% during the lockdown, enabling BSP scope to cut policy rates in the near future

Rice for sale at a market in the Philippines

2.1% May inflation

Higher than expected

Headline inflation settles at 2.1%, could go lower

Prices rose 2.1% in May as slightly faster food inflation and utilities offset annual price declines in transport costs. Subdued demand due to the lockdowns has helped keep price gains in check for other items in the CPI basket. The May inflation reading brings the year-to-date average for inflation to 2.5% - at the lower end of the Bangko Sentral ng Pilipinas' (BSP) inflation target of 2.-4%. BSP's latest inflation forecast points to 2.2% average inflation for the year with Governor Diokno hinting that headline inflation may dip below 2% in the coming months on subdued demand and lower energy prices.

Low inflation sets up possible BSP rate cut in June

Decelerating inflation and the need to provide additional stimulus to an economy headed for a recession sets up a possible BSP rate cut at the 25 June meeting. BSP Governor Diokno continues to remind investors that he has “elbow room” to cut policy rates due to the benign inflation environment, although we believe that the central bank will carry out at most a 25 bps rate cut before pausing for the rest of the year to keep real policy rates positive.