

Philippines: Inflation rises but watch the peso's weakness

Inflation rose to 4.3% in March but a weaker peso could eventually nudge the central bank to turn hawkish



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4.3%

March headline inflation

Within the central bank's forecast range

Higher than expected

Tax reform, higher oil prices, supply issues and a weak peso push inflation higher

March inflation posted a five-year high at 4.3%, up from 3.8% in February and slightly above the consensus forecast of 4.2%. But this was within Bangko Sentral ng Pilipinas (BSP's) forecast range of 3.8% to 4.6%.

Price pressures were broad-based with seven of the 11 categories posting year-on-year increases. The BSP expects inflation to moderate in between the 2% to 4% target range over the policy

horizon which argues for steady policy rates. Base effects and government action would allow for this price moderation. Rice supply constraints continue to increase food inflation higher while higher oil prices and excise taxes sustain the pressure on transport, “sin” product prices.

The weak peso (PHP) also contributed to the uptick in inflation.

The government’s plan to import rice and tapering impact of tax-related price pressures would moderate inflation over the policy horizon. Saudi Arabia plans to cut its oil price for Asia next month as US oil makes inroads into Asia, but the sustained weakness of the peso is likely to increase its impact on overall inflation. The peso is 4.4% YoY weaker in April which would likely lead to a 0.25ppt impact on inflation.

We cannot brush aside the possibility of a significantly weaker peso. The PHP weakened by 7% to 9% in 2013, 2015 and 2016 due to the shifting US monetary policy and heightened local and global risks. A weak peso may eventually spur the central bank to turn hawkish.