Philippines: Inflation slows further in July

July inflation slowed to 4.7%, helped along by favourable base effects

4.7%

Lower than expected

YoY increase for July

The sixth month of decline

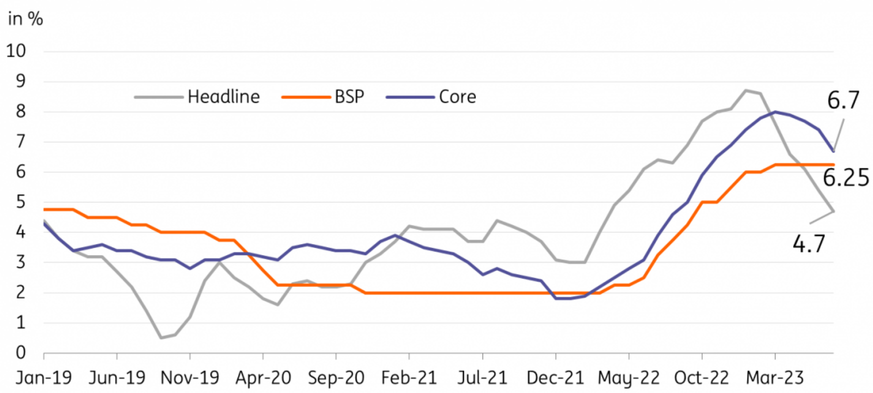
July inflation slips to 4.7%

Headline inflation slowed to 4.7% year-on-year in July, lower than the market consensus of a 4.9%YoY increase. Meanwhile, core inflation slowed to 6.7%YoY from 7.4% in June.

This was the sixth month of deceleration, with food (6.3%YoY vs 6.7% previous), utilities (4.5%YoY vs 5.6% previous) and transport (-4.7%YoY vs -3.1% previous) inflation helping push headline inflation lower. On the other hand, still robust economic activity tied to the reopening of the economy kept services inflation elevated with personal services registering a 5.6%YoY increase while restaurants and accommodation posted a 7.9%YoY gain.

Favourable base effects coupled with improved supply conditions point to inflation slipping within target as early as September.

Inflation slows for the sixth consecutive month



Source: Philippine Statistics Authority and BSP

Slowing inflation still unlikely to translate to BSP rate cuts for now

Despite the sixth consecutive month of deceleration, we do not expect Bangko Sentral ng Pilipinas (BSP) to begin its easing cycle just yet. BSP Governor Eli Remolona indicated that he would consider potential rate cuts should inflation settle "well within" the target band of 2-4%.

Furthermore, with the BSP rates currently holding on to a relatively narrow 75bp spread over Fed funds, we believe that any decision to reverse into an easing mode will still be tied to potential rate cuts by the Fed.

Thus, we project BSP to remain on hold in the near term while monitoring domestic price trends and global developments such as moves by major central banks like the Fed.

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