Philippines: Inflation surges anew as rice prices jump

Philippine inflation zooms past expectations to settle at 6.1% year-on-year

Bags of rice at a market in Manila, Philippines

17.9% PHL rice inflation for September (YoY)

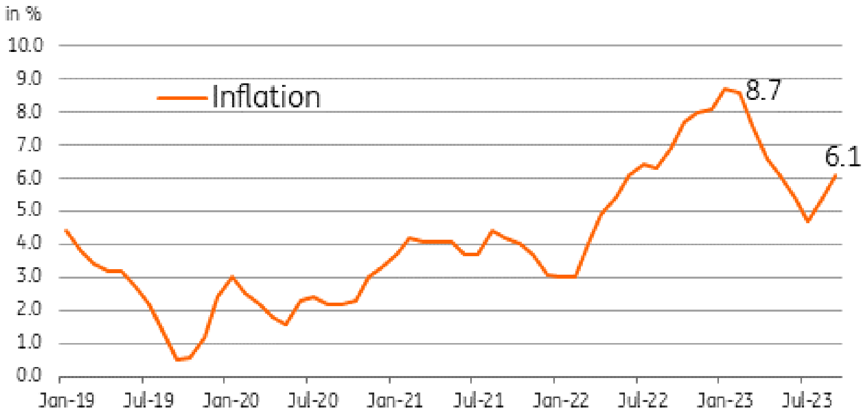
September inflation surges to 6.1% due to rice price spike

Philippine inflation moved well past expectations, jumping 6.1% YoY (from 5.3%) when market participants were looking for a 5.7% YoY gain. A price cap on rice implemented in September proved to be ineffective with prices for the all-important staple surging 17.9% YoY. This brought overall food and beverage inflation to 9.7% YoY, up sharply from the 8.1% in the previous month.

Meanwhile, inflation for items related to imported energy also moved higher with transport up 1.2% YoY (from 0.2%) while electricity and other utility prices also moved north as global energy prices jumped.

On a month-to-month basis, inflation was at 1.1%, the second straight 1.1% increase on a MoM basis, highlighting the sharp uptick in prices over such a short period of time.

PHL inflation back on the rise and rice has a lot to do with it



Source: Philippine Statistics Authority

BSP likely forced to hike, but how effective will it really be?

The Bangko Sentral ng Pilipinas (BSP) will likely be called into action to quell inflation pressure with a rate hike on the horizon. BSP Governor Eli Remolona has waxed hawkish of late, hinting at further tightening and the possibility of an off-cycle rate increase. We expect the BSP to closely monitor the actions of the Federal Reserve with a potential off-cycle rate hike carried out but only if the Fed hikes in early November.

If the Fed stands still, the BSP could consider further tightening should their own inflation forecasts point to inflation threatening the upper end of the 4% target next year.

The PHP will likely strengthen on prospects for a rate hike in the near term however we expect GDP growth to moderate further given the impact of surging prices on domestic household consumption.

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