Philippines central bank to pause in December?

Given the string of destructive typhoons in the Philippines, food prices will likely drag headline inflation to 2.7% This should convince the central bank to pause in December

Rice for sale at a market in the Philippines

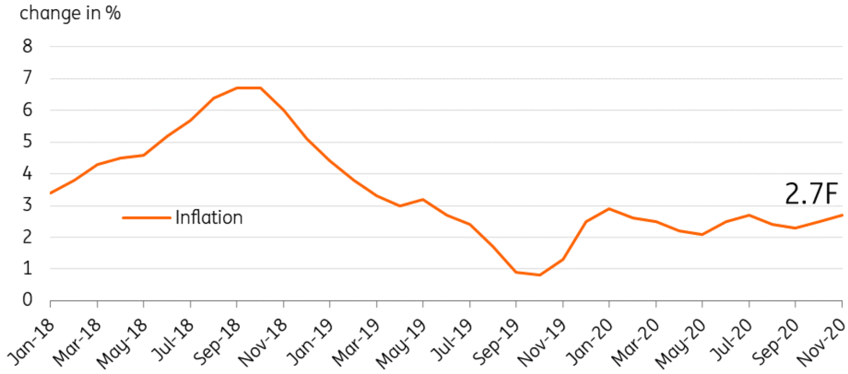
November inflation to pick up to 2.7%

The Philippines will release November inflation numbers tomorrow, with the index-heavy food component likely to push headline inflation to 2.7% from the 2.5% reading in October.

Several typhoons have caused substantial agricultural damage and are expected to push up the prices for some fruits and vegetables higher. Meanwhile, meat prices are also expected to inch up as the recent episode of African swine fever probably curtailed pork supply, forcing consumers to switch to substitutes.

Education, transport and other services are likely to lead to a pickup in inflation too as producers pass on additional costs associated with social distancing guidelines to consumers. The November inflation reading should leave year-to-date inflation at 2.7% - at the lower end of the central bank's 2-4% inflation target.

Philippines inflation



Source: PSA and ING estimates

Rise in inflation should convince the central bank to pause

The central bank surprised the market at the November meeting, with a policy rate cut to bring the overnight reverse repurchase rate to an all-time low of 2.0%.

Governor Diokno said the low inflation environment and the need to support the economy deep in recession as justifications for the unexpected easing. The slight uptick in prices in November may convince the central bank to pause at the December meeting as it monitors price trends with inflation likely to inch closer to the 3% level by early 2021.

A pause from the central bank would add more pressure to the currency to strengthen as 2020 ends - all the more with the government announcing late issuance of dollar-denominated bonds in December.