

Philippines: Inflation to bounce to 1.3%, convincing BSP to pause

Philippine inflation for November will likely bounce to 1.3% (from 0.8%) as base effects fade.



Rice for sale at a market in the Philippines

1.3%

ING forecast for November inflation

Bloomberg consensus at 1.2%

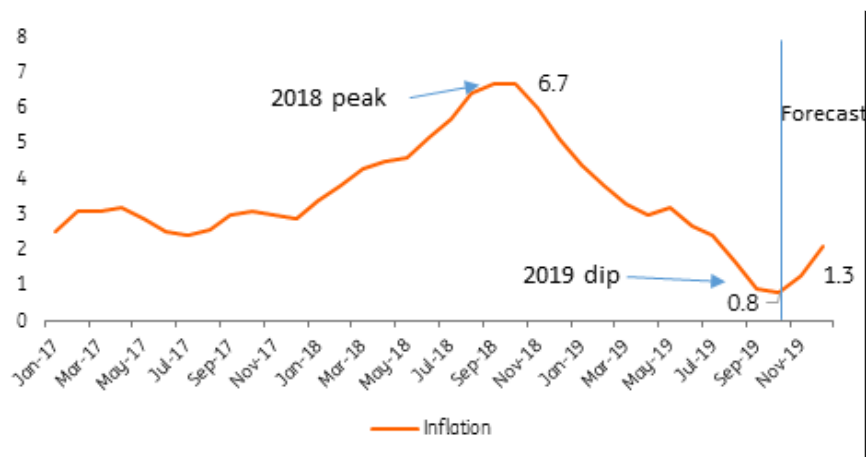
November inflation to rebound to 1.3%, stay within target in 2020

After falling to 0.8% in October, we expect Philippine inflation to bounce to 1.3% as base effects from last year's spike fade quickly out. With food supply stable thanks to better weather conditions and legislation that removed restrictions on rice imports, the most important sub-group of the CPI basket has fallen into "deflation".

We expect inflation to revert back to the midpoint of the BSP's 2-4% inflation target next year and to average 3.2% in 2020. Inflation for the most heavily weighted sub-group (food and beverages are 38% of the basket) will also stay subdued due to imports and better weather conditions. Meanwhile, with global growth forecast to sputter next year, we expect subdued

commodity prices to limit both energy and transport costs for the Philippines.

Philippine inflation and forecast



Source: PSA and ING estimates

Bounce to convince BSP to pause at 12 December meeting

Bangko Sentral ng Pilipinas (BSP) Governor Diokno kept the door open for a rate cut at the 12 December meeting, indicating that he will take his cue from inflation data to decide if further action is appropriate. Given that we predict inflation to rebound to 1.3% from 0.8%, BSP will likely pause at its last meeting of the year. After the projected BSP pause this month, we expect the central bank to resume its easing cycle early next year after data points to sub-target growth and well-behaved inflation in 2020. The Peso may benefit from a rebound in inflation and the possible BSP pause as the dovish Governor closes shop for the year.