

Philippines: Likely tightening as inflation accelerates in April

The central bank (BSP) is likely to hike policy rates at the 10 May meeting as April inflation rose to 4.5% from March's 4.3% and February's 3.8%



4.5%

April inflation rate

Rate hike at 10 May Policy rate meeting

As expected

BSP is likely to hike policy rates to assure markets and to moderate second-round effects

Inflation accelerated to 4.5% in April from the 1Q18 average inflation rate of 3.8%. The April figure was in line with the consensus forecast and near the upper end of the BSP's April inflation forecast of 3.9% to 4.7%. Eight of the 11 sub-index categories were higher YoY in April while food inflation remained elevated. We expect inflation to peak in May or June at around 4.8% to 4.9%.

The MoM inflation rates are slowing or are steadier. We also expect the government's rice imports to enter the market in late May or in June at lower than prevailing retail prices. Rice accounts for nine percent of the CPI. Although inflation may peak in the next two months, it is likely to remain elevated at above 4% - the upper end of BSP's inflation target range of 2% to 4% - for the remainder of this year. The high inflation environment feeds second-round effects with demands for higher minimum wages and transport fares. Firm oil prices and a relatively weak PHP also contribute to expectations of high inflation this year. Like BSP we expect inflation to return to within the target range in 2019, but if expectations are not contained, this could lead to firmer-than-expected inflation. We expect BSP to hike policy rates by 25bp at the 10 May meeting. This would also support PHP and help moderate inflation pressures. We expect another rate hike in 4Q while BSP keeps a hawkish tone in between rate hikes.