

Philippines: Monetary policy tightening could be soon due to upside inflation surprise

Upside January inflation surprise of 4%, at the upper end of central bank's (BSP's) forecast of 3.5% to 4%, prompts at least a more hawkish tone at this Thursday's policy meeting



4%

January headline inflation

Upside surprise also with core inflation of 3.9%

Worse than expected

BSP would need to anchor inflation expectations while ensuring the inflation target is met

January's headline and core inflation rates delivered a major blow to inflation expectations. The government reported headline and core inflation rates of 4% and 3.9%, respectively. These

are worse than the consensus forecasts of 3.5% and 3.2%, respectively. The data is also at the upper end of the BSP's headline inflation forecast range of 3.5% to 4%. Price pressures are likely to persist for most of this year, which would see higher inflation forecasts. We now expect 2018 inflation to average at least 4%, which is the upper end of the BSP's inflation target range of 2% to 4%. These developments also change monetary policy expectations. We expect a more hawkish BSP at this Thursday's meeting to prepare the way for a rate hike in March from our previous forecast of a May rate hike. We also expect BSP to hike policy rates three times this year from our previous two-rate hike forecast. We believe that BSP needs to act in order to anchor inflation expectations and ensure the achievement of its inflation target.