

Philippines: November inflation at 1.3%, BSP likely on hold.. for now

Philippine inflation edged higher in November to 1.3% which should convince the data-dependent BSP Governor to refrain from rate hikes..for now



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1.3%

November CPI inflation

ING forecast at 1.3%

Higher than expected

Philippine November inflation rises to 1.3%

After dipping to 0.8% in the previous month, inflation for November settled at 1.3% with price gains in the top three subsectors remaining subdued. This was slightly faster than the market expectation for a 1.2% increase and should be enough to persuade the central bank to pause at its next meeting.

Food inflation was flat on the back of improved supply conditions and ample rice supply thanks to legislation that removed quotas on rice imports. Relatively stable global crude oil prices also helped both utility (1.2%) and transport costs (-2.4%) to keep headline inflation below the lower-end of the Bangko Sentral ng Pilipinas' (BSP) 2-4% inflation target. Taken together, food, utilities and transport account for 68% of the CPI basket.

Bounce and settle: Inflation to trend higher from hereon

With base effects from last year's inflation spike fading quickly, we expect the acceleration in inflation to continue into 2020 and settle at around 3% throughout most of next year. For as long as supply conditions remain favourable, we can expect inflation to remain in-check, though we are unlikely to re-visit sub-2% inflation for at least the next 12 months.

November headline inflation to convince BSP to pause

Given the higher than expected inflation, we expect BSP Governor Diokno to refrain from reducing policy rates at the 12 December 2019 meeting, Diokno has indicated that his policy decisions remain data-dependent with inflation being the primary consideration for rate adjustments. Given his dovish leaning, Diokno could resume his rate cut cycle as early as 1Q 2020 to chase a higher growth target (6.5-7.5%). The Peso may receive some near-term support as faster inflation means that a BSP rate cut is off the table for now.