Philippines: November inflation at 6.0%, shows clear deceleration trend

Easing price pressures increase the likelihood of a policy rate cut as early as 2Q19

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6.0% November inflation

Lower than expected

That humped-shape inflation curve

Price pressures eased in November with the CPI basket of heavily weighted food items weighing on the overall print. Food items, which account for roughly 38% of the headline, showed an 8.0% increase in prices, down from 9.4% in the previous month as supply conditions improved. Utilities and communication were the two other sub-sectors that posted slower increases in growth with utilities up 4.2% (from 4.8% in October) while communication prices increased 0.4% (from 0.5% in October). Apart from these three, all other subsectors showed faster inflation.

The 6.0% November print validates that inflation peaked in the 3Q and we can expect this downtrend to continue in the coming months, especially with the government making headway in November by passing the rice tarrification bill, securing up to 750,000 MT of rice imports and by rolling back public transport fare adjustments. With these developments, we reiterate our view that inflation will plunge to an average of 3.6% in 2019 from this year's 5.3%. This implies that inflation will drop to about 3.0% by 4Q19.

Moderating inflation opens door for rate cut as early as 2Q19

Although the central bank (BSP) has reiterated its desire to remain vigilant against any signs of second-round effects and anchor expectations, should inflation continue to show this kind of stark deceleration over the next few months, the BSP could reverse its stance as early as 2Q19. On top of BSP's widely projected 200 basis point cut to reserve requirements, the BSP may opt to slash borrowing costs as early as 2Q19 not only because of slowing inflation but also because Philippine economic growth is expected to slow in 4Q18 and 1H19. Further, the Fed could adopt a less aggressive rate hike stance, with market expectations now showing only two more Fed rate hikes until the end of 2019. If a confluence of decelerating inflation, slower GDP and a dovish Fed align, the chances for a BSP two-pronged easing increases significantly. In light of these developments, we are reviewing our forecast for BSP policy in 2019.