

Philippines: Off-cycle is the new cycle, BSP surprises with hefty inter-meeting rate hike

Bangko Sentral ng Pilipinas hiked rates by 75bp in an off-cycle move to combat inflation



The central bank of the Philippines as seen from the CCP Grounds

3.25%

BSP policy rate

Off-cycle rate hike

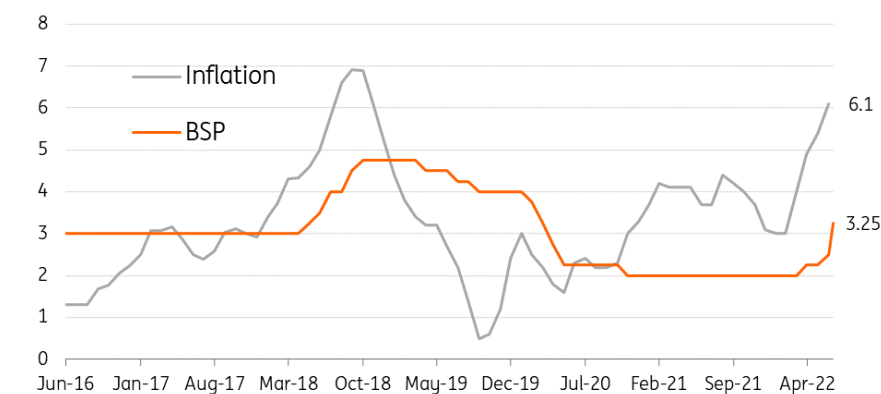
Higher than expected

BSP changes tune, hikes 75bp at off-cycle meeting

After months of staying dovish, the Bangko Sentral ng Pilipinas (BSP) carried out a surprise off-cycle rate hike today. With inflation surging well past target and the peso testing multi-year weakness, the BSP hiked policy rates by 75bp, taking the overnight reverse repurchase rate to 3.25%. The two surprises for today were that the rate hike was more forceful than previously projected (50bp) and that it was delivered a good five weeks ahead of schedule.

Previously, Governor Felipe Medalla had pointed to a likely 50bp rate hike at the 18 August meeting. After last night's US inflation report and decisive tightening from central banks in the region (Singapore and Korea) BSP may have felt that forceful action was needed immediately to re-anchor inflation expectations and to steady a battered currency.

Playing catchup: BSP hikes by 75bp to slow runaway inflation



Source: Philippine Statistics Authority and BSP

More where that came from

BSP had initially taken a more gradualist approach to its tightening cycle, raising rates by 25bp at two separate meetings before today's off-cycle hike. However, domestic inflation has accelerated well past target, fuelled by the tag-team of commodity price spikes and resurgent domestic demand. The stark depreciation of the PHP has only fanned additional price pressures given how dependent the Philippines is on imported energy and food items. The emergence of second-round effects (wage hikes and transport fare adjustments) suggests that inflation will continue to head higher in the near term.

With inflation expected to sustain its ascent, we believe BSP will be busy at the next few policy meetings as well. BSP Governor Medalla will need to sustain the recent hawkish rhetoric to re-anchor inflation expectations and establish the Bank's commitment to fighting inflation. We expect BSP to hike again at least one more time in 3Q with the possibility of further tightening should inflation continue to remain stubbornly high. PHP will get an immediate reprieve in the short term but chronic trade deficits could mean that any rally in the currency may be capped.