

Philippines: Hikes by 25bps as inflation heats up

The central bank did not disappoint and raised policy rates by 25bp and revised inflation forecast, but we're unlikely to see another one before the fourth quarter. Expect the peso to remain volatile



Source: Shutterstock

3.25%

Overnight reverse repo rate

25bps hike

As expected

More hikes will come if inflation remains elevated

Bangko Sentral ng Pilipinas raised its policy rates by 25bps to 3.25% as concerns about higher inflation spread. The central bank signals its readiness to act further to cap second-round effects as it raised its 2018 inflation forecast to 4.6% from 3.9% and to 3.4% from 3% in 2019. Further hikes are likely if upcoming data and developments indicate inflation remains elevated above the target range for an extended period of time

We expect another hike but only in the fourth quarter. The market has expected tightening since late last month which has insulated the peso from the recent weakness of emerging market currencies.

However, with another rate hike less likely in the very near term and with weak external payments fundamentals, the peso would be volatile with a weakening bias.