`Press Release

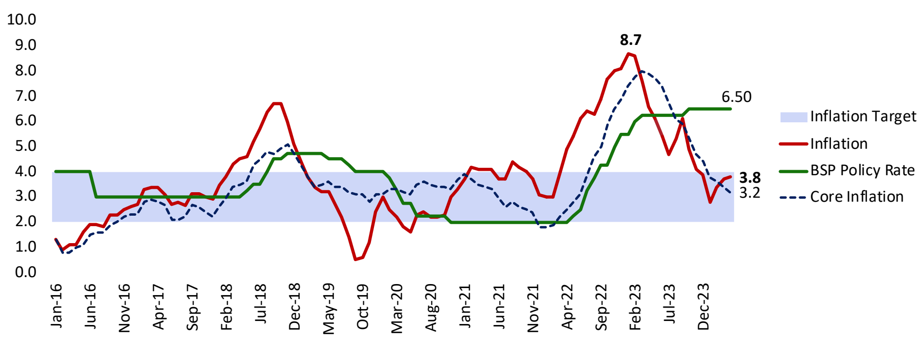
May 8, 2024

April Inflation Rose Moderately At 3.8%

FACTS

- PHL headline inflation rose 3.8% in April 2024, slightly higher than the 3.7% recorded the previous month but slower than the 4.1% increase expected by the market. Core inflation moderated further from 3.4% to 3.2%.

PH Inflation (2018=100), Inflation Target and BSP Policy Rate



Source: CEIC, BSP

- The following table shows the most recent inflation forecasts of the central bank for the next two years:

Inflation Forecast	February Meeting	April Meeting
2024	3.9	4.0
2025	3.5	3.5

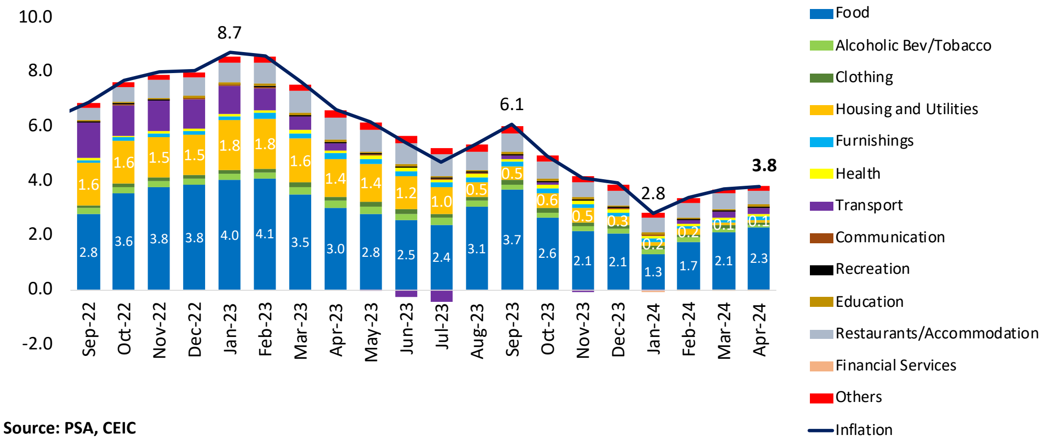
ANALYSIS

- Headline inflation accelerated for a third month in a row as favorable base effects have gradually faded. Nonetheless, the latest turnout was more contained than anticipated as m-o-m figure revealed overall prices have actually declined 0.1%, owing to a relatively more stable food prices and lower housing and utilities costs.

- Food inflation remains a major driver, accounting for 2.3% of the 3.8% headline print. While rice continues to be the biggest contributor to this as shown in the chart below, April data suggest rice prices have become more stable, rising only 0.3%

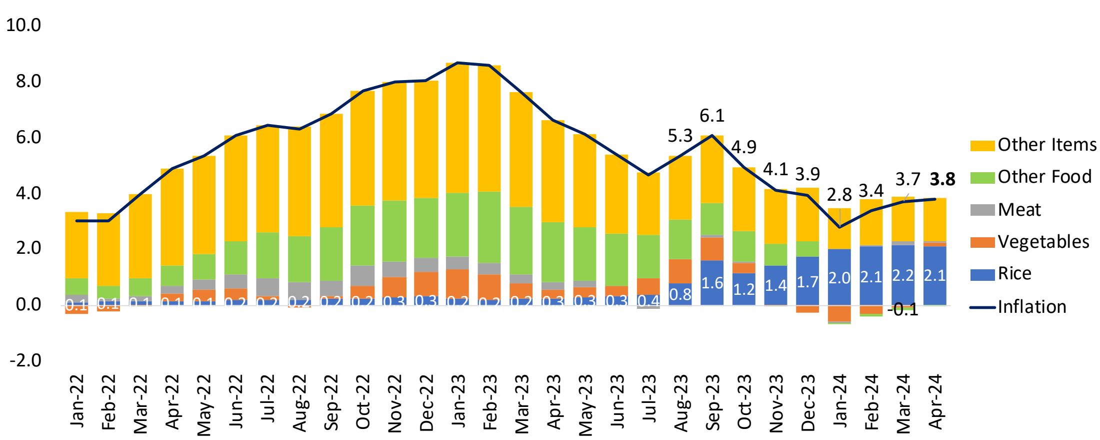
m-o-m vs. an average of 2.1% in the past five months. Harvest season has reportedly peaked during the period, while importation may have provided some relief as well amid declining global rice prices.

Inflation Component Breakdown



Source: PSA, CEIC

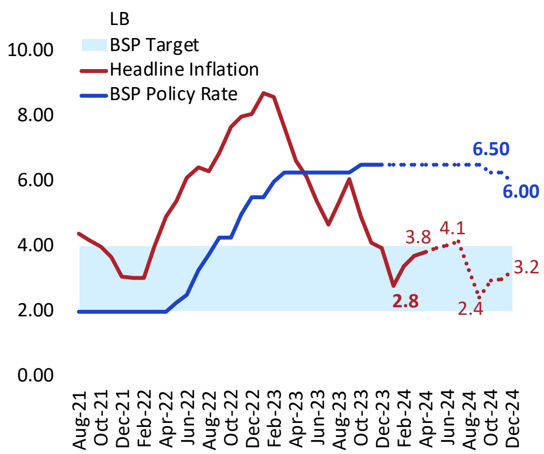
Inflation with Component Breakdown (%)



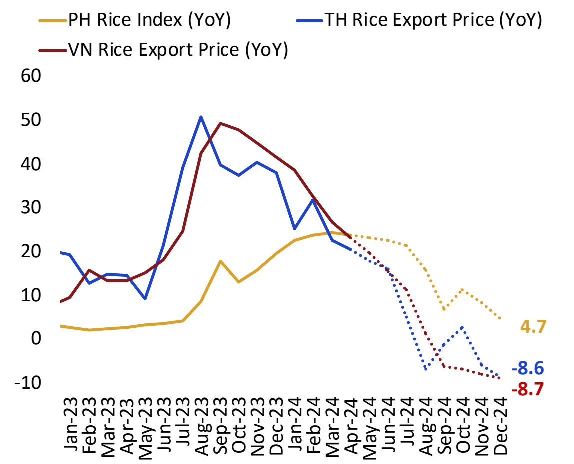
- Meanwhile, transport costs picked up as global oil prices rebounded, with the benchmark WTI hitting almost $90/bbl at one point given the escalating geopolitical tensions in the Middle East.

- Looking ahead, inflation may exceed 4% from May through July, considering the lasting impact of El Nino largely on food supply, weaker PHP and the adverse effects of elevated global oil prices. However, the breach in the inflation target may be temporary and may be more benign than originally expected, with inflation likely to ease in the 2nd half of the year. The slower outturn for April food inflation led us to revised our full year inflation forecast lower from 3.7% to 3.5%.

PH Headline Inflation (2018 Base), BSP Inflation Target & Policy Rate (%)



PH Rice Inflation, TH & VN Rice Export Prices (YoY%)



Source: CEIC, Bloomberg, BSP, BPI Global Markets Research Estimates

- The BSP will likely continue to embrace a cautious approach to monetary policy, by keeping key rates steady in the first half of the year as inflation risks linger. Rate cuts may only be considered once inflation stabilizes within the BSP's target range in the 3rd or 4th quarter. Easing its monetary policy may also be contingent on the Federal Reserve's future policy move. The US economy has shown surprising resilience over the past quarters, with progress on disinflation stalling. This has strengthened the case for higher for longer interest rates.

- If the BSP reduces its policy rate ahead of the Federal Reserve, a narrowed interest rate differential increases the risk of currency depreciation, which could outweigh recent deceleration in food prices. Moreover, the economy has been resilient despite the normalization of interest rates, with loan growth accelerating for the third straight month in February. We now expect a rate cut of around 50 bps this year, assuming the FOMC eases sometime in the second semester.

MARKET IMPLICATIONS

- The BSP may keep its rates steady in the first half of the year, taking into account a possible above 4.0% inflation in the second quarter. Rate cuts are possible in the 2nd half of the year once inflation is firmly within the target of the central bank. However, the timing of future rate cuts and their magnitude also depend on what the Federal Reserve will do. If local inflation conditions are right, the BSP will likely respond immediately with rate cuts once the Fed begins its easing cycle.

- The Peso may appreciate in the second half of 2024, contingent on what the Federal Reserve will do. It seems the Peso has the tendency to strengthen when the Fed eases its monetary policy. However, while a Fed cut might lead to Peso appreciation, its gains are likely to be smaller compared to other emerging market currencies given the substantial current account deficit of the country.

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