Philippines

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Lower Inflation = More Rate Cuts

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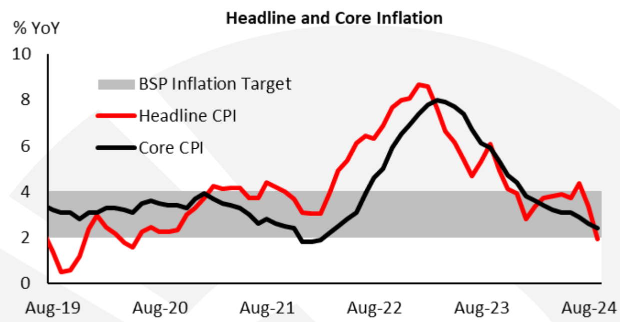
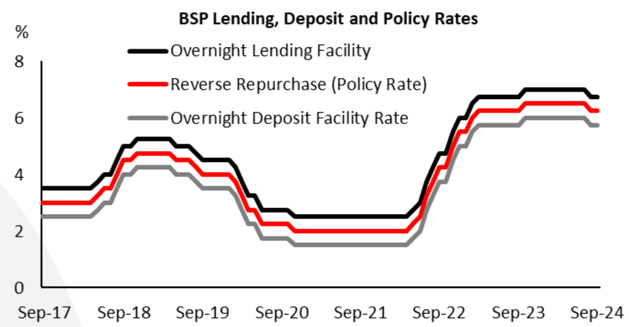
- Headline CPI eased by more than expected to 1.9% YoY in September versus 3.3% in August. Core inflation eased to a lesser extent (2.4% YoY versus 2.6%).
- We revise lower our 2024 average headline CPI forecast to 3.2% YoY from 3.5% previously, implying a modest uptick in inflation in the coming months.
- Bangko Sentral ng Pilipinas (BSP) has been more dovish than we had expected. We bring forward a cumulative 50bps in rate cuts to 4Q24. While our baseline remains for the policy rate to end 2025 to 5.00%, the risk is that it could be lower.

Headline CPI eased by more than expected to 1.9% YoY in September versus 3.3% in August (Consensus: 2.5%; OCBC: 2.4%). The decline was broad-based across all key categories, including food, transport, and utilities. Notably, rice inflation slowed to 5.7% YoY in September, compared to 14.7% in August. A combination of high base effects, lower global rice prices and effective policy responses will likely keep rice inflation in check in 4Q24. Meanwhile, core inflation eased to a lesser extent to 2.4% YoY versus 2.6% in August.

We revise lower our 2024 average headline CPI forecast to 3.2% YoY, given the lower-than-expected year-to-date average of 3.4% YoY and well contained inflationary pressures for 4Q24. This forecast falls within BSP's headline inflation target range of 2-4%.



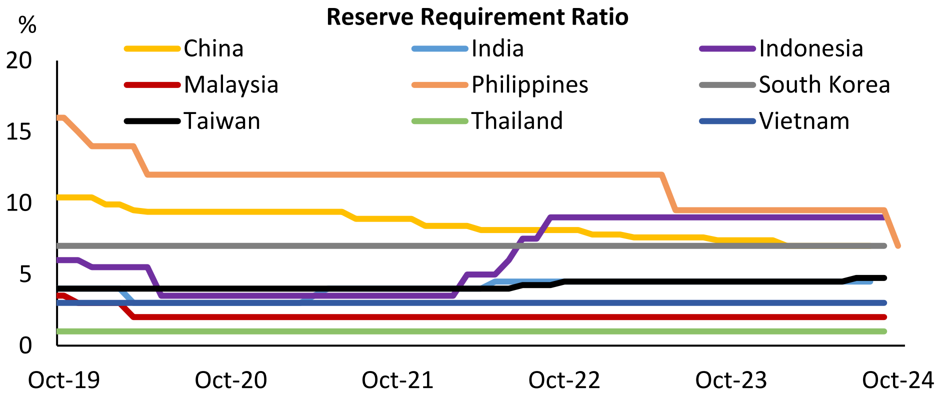
Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, OCBC



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC

Lower inflation has clear implications for monetary policy, particularly since the BSP has been more dovish than we had anticipated. We now expect the BSP to deliver one 25bp rate cut at each of its 16 October and 19 December meetings. Our baseline is for a cumulative 150bps in rate cuts for this cycle. This implies a cumulative 75bps in rate cuts for 2025, taking the policy rate to 5.00% by end-2025. The risk, however, is for the BSP to deliver more rate cuts in 2025, particularly if inflationary pressures remain well contained. BSP Governor Eli Remolona noted that he sees the policy rate declining from the current 6.25% to 4.50% by end-2025[1].

Separately, on 20 September, the BSP announced that it will reduce the Reserve Requirement Ratio (RRR) for universal and commercial banks from 9.5% to 7.0%, effective 25 October. Prior to this cut, RRR in the Philippines was among the highest in the region. Further reductions in the RRR remain on the cards, however, the timing is less clear. BSP Governor recently stated that there are discussions for a further reduction of the RRR to 5% or even lower[2]. Additionally, the BSP, along with the Bankers Association of the Philippines, are also taking further steps to improve the capital markets[3].



Source: CEIC, OCBC

[1] Inflation Surprise Backs Philippine Central Banker's Easing Plan, *Bloomberg*, 4 October 2024.
[2] Philippine Central Bank Chief Says Zero RRR Possible Within Term, *Bloomberg*, 30 September 2024.
[3] BSP, BAP Promote Capital Market Dev't by Enhancing Benchmarks, *Philippine News Agency*, 30 September 2024.

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