

## Bangko Sentral ng Pilipinas in Overdrive

In a nutshell: **BSP's surprise, off-cycle 75bp rate hike**, which was **aggressive not in just magnitude, but also forward guidance**, shows that BSP is far from done. The motivation behind the **timing of the move** – *inter-meeting, with few domestic data surprises* against a backdrop of continued (but not sharp) PHP depreciation – **seems to be namely from the upside surprise in US inflation**, which has in turn triggered expectations of sharper rate hikes from the Fed. **With global inflation remaining sticky** and (expected) **interest rate differentials** (vs. US) **widening**, the **BSP is likely to hike further in coming weeks and months**. Given BSP policy rate already at 3.25% after today's massive 75bp hike, we now pencil in **an additional 100bp in rate hikes from BSP for the rest of 2022**; taking the policy rate to 4.25% by year-end.

- **BSP hiked its policy rate by 75bp**, taking it to 3.25%. The move is BSP's largest move in terms of magnitude in over two decades, and comes as an inter-meeting move ahead of the next scheduled meeting on 18 August.
- **The motivation behind the timing of the move** - inter-meeting, with few domestic data surprises against a backdrop of continued (but not sharp) PHP depreciation – **seems to be mainly from the upside surprise in US inflation**, which touched 9.1% in June.
- Indeed, BSP's official policy statement following the rate hike clarified that *“policy action is intended to help manage spillovers from other countries that could potentially disanchor inflation expectations.”*
- **Although PHP depreciation following the US inflation print**, and concomitant aggressive Fed hike expectations (100bp rate hike at the July meeting), **was not abrupt or sharp** compared to regional peers, **macrostability risks from a volatile external risk environment remains a concern for BSP**.
- Further, with domestic inflation rising and remaining persistently above the upper bound of BSP's 2-4% target range for many months now, **BSP has sought “to anchor inflation expectations further and temper mounting risks to the inflation outlook” through its rate hike**.
- Importantly, **BSP has left room for further rate hikes**. The official policy statement noted a *“readiness to take further necessary actions to steer inflation towards a target-consistent path over the medium term in keeping with its price stability mandate.”*
- **This, to us, implies another 100bp in rate hikes in 2022**; 50bp at the scheduled meeting in August, followed by 25bp in September and 25bp in Q4, taking the policy rate to 4.25% by end-2022.

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