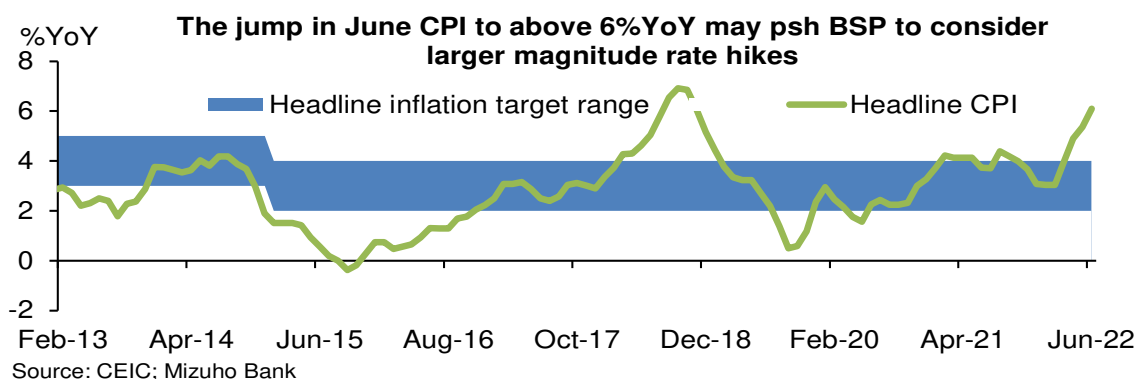


## Jump in June CPI Puts the Spotlight On BSP

**In a nutshell:** The jump in June CPI to 6.1% YoY has put the spotlight squarely on Bangko Sentral ng Pilipinas, whose Governor last week stated that it would consider larger magnitude of rate hikes. With headline inflation well above the BSP's 2-4% target range, BSP may be fast approaching a point where larger rate hikes are warranted. While our base case is for BSP to hike by another 75bp this year (50bp in Q3 and 25bp in Q4), the risk is skewed towards additional hikes, particularly if inflationary pressures fail to abate.

- **June headline inflation jumped to 6.1% from 5.4% in May**, taking the Q2 average to 5.5% from 3.4% in Q1. The monthly prints of headline inflation have been consistently above BSP's 2-4% target for three consecutive months, prior to which it intermittently breached the target.



- **The details of the June print suggest that price pressures are broad based and spreading.** Transportation, utilities and food inflation were the main drivers of the June print; but even inflation for other drivers such as tobacco, health and services remained elevated.
- **This to say that building inflationary pressures remain a challenge for BSP.** Although it has hiked its policy rate by a cumulative 50bp in Q2, more rate hikes are clearly in the pipeline. The incoming BSP Governor Medalla indicated that rate hikes of larger magnitudes (i.e. greater than 25bp) are on the cards.
- **Although Medalla's statement was directed towards stemming pressures on the currency**, it can and probably more appropriately could, be extrapolated to BSP inclinations in terms of containing inflationary pressures, the primary mandate of the central bank.
- To be fair, **BSP did indicate after its previous meeting on 23 June that it is "just starting" the**

**normalisation cycle and it remains focused on inflation containment.**

- **To that end, we expect that BSP will hike its policy rate by another 75bp this year,** taking the end-2022 policy rate to 3.25%. However, the risks are clearly skewed towards more rate hikes, especially if inflationary pressures do not abate into Q4.
- **Furthermore, with the US Fed still sticking to its guns on inflation containment, PHP depreciation brought on by widening interest rate differentials will remain a key point of consideration for BSP.**

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