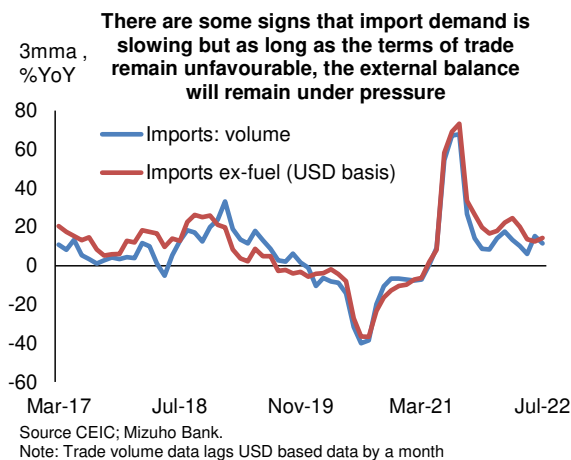


External Pressures Mount



- **The August trade deficit at USD6.0bn is the largest on record** and underscores the unfavourable mix of falling exports but higher imports.
- **Export growth fell for a second consecutive month** to -2.0% YoY from -4.1% in July **even as import growth picked up** to 26% YoY from 22.2% in July.
- While unfavourable terms of trade from elevated global oil prices had a big role in the worsening trade deficit, **the persistent fall in export volumes¹** cannot be neglected as bellwether for dwindling external demand.
- **Even import volumes have dropped in recent months** as has the underlying momentum for import growth excluding fuel; **this hints at a potential slowdown in domestic demand.**
- Admittedly, **the slowdown in domestic demand is being engineered by Bangko Sentral ng Pilipinas (BSP) with aggressive rate hikes** (225bp in cumulative hikes so far this year) to tame inflationary pressures and therefore will be welcomed.
- **Even so, the respite on the external front may not be obvious in the near-term.** Elevated commodity prices will continue to mount pressures for oil importing Philippines while *higher global rice prices could be a double whammy for the import bill.*
- In the interim, **pressure on the currency (PHP) will continue to mount.** While USD/PHP has been carefully managed below the 59 threshold, we suspect a breach is only a matter of time, especially if risk aversion takes a turn for the worse.
- **For BSP, a hike in its policy rate by 25bp at its 17 November meeting is foregone conclusion, but we do not rule out the possibility that BSP continues with a more emphatic 50bp hike.**

¹ Trade volume data lags USD reported trade data by a month.

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