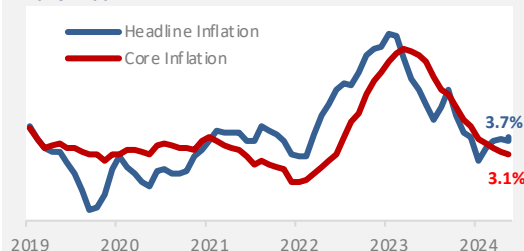


INFLATION UPDATE

LOWER JUNE INFLATION ALIGNS WITH THE BSP'S DOVISH SIGNALS

- The Philippines' headline inflation rose slower-than-expected to 3.7% year-on-year (YoY) in June (versus the Bloomberg consensus of 3.9% and Metrobank Research's forecast of 4.1%) from 3.9% in May. Year-to-June average inflation remained at 3.5%. Meanwhile, core inflation, which excludes selected food and energy items, remained flat at 3.1% YoY from May.
- On a month-on-month (MoM) basis, inflation was flat in June at 0.0% from 0.1% in May.
- The lower inflation print was driven by the slower-than-expected increase in prices of housing, water, electricity, gas, and other fuels. However, food and non-alcoholic beverages continued to rise (+6.1% YoY), led by corn, meat, and vegetables. Rice prices (8.9% of CPI) surged 22.5%, only slightly slower than May's 23.0% increase.
- Notably, only food and non-alcoholic beverages posted a faster annual increase, while seven (7) out of 13 commodity groups slowed from the previous month, suggesting sharper declines in headline inflation going forward before factoring in the impact of lower rice tariffs.

PH Inflation Rate (in %)
2018=100



Main Sources of Deceleration

1	HOUSING, WATER, ELECTRICITY, GAS, AND OTHER FUELS eased to 0.1% from 0.9% in May, with a 65.8% share to the downtrend, driven by a decrease in electricity rates.
2	TRANSPORT decelerated to 3.1% from 3.5%, with a 13.9% share to the downtrend due to a decrease in the prices of gasoline.
3	RESTAURANT AND ACCOMMODATION SERVICES was the third source of deceleration in June with a 7.4% share, attributable to lower prices of restaurants, cafés, and the like.

Major Contributors

1	FOOD & NON-ALCOHOLIC BEVERAGES remained the top and major contributor (61.9%) due to higher prices of meat and vegetables.
2	RESTAURANTS AND ACCOMMODATION SERVICES also remained the second major contributor (13.2%) to headline inflation despite lower prices of restaurants, cafés, and the like.
3	TRANSPORT was the third contributor to overall headline inflation with an 8.2% share, as diesel prices increased, while other passenger transport by road remained unchanged and gasoline eased.

FORECASTS AND OUTLOOK

- The June inflation print fell within the Bangko Sentral ng Pilipinas (BSP)'s forecast of 3.4%-4.2%, but well-below Metrobank's 4.1% forecast and consensus expectations of 3.9%. Year-to-June average inflation of 3.5% is within Metrobank Research's forecast range of 3.3%-3.6% for FY2024 and the BSP's target range of 2.0%-4.0%.
- Prices of housing, water, electricity, gas, and other fuels were the primary drivers of the lower-than-expected inflation print, particularly the decrease in electricity rates, which decelerated by 13.6%.
- The lower-than-expected print in June supports the BSP's recent shift to a more dovish tone, which in turn increases the possibility of a rate cut in the Monetary Board's policy rate setting meeting on August 15.
- Rice prices (8.9% of CPI basket), which rose 22.5% YoY in June, remained the main contributor, with a share of 2.0 percentage points out of the 3.7% headline inflation. Rice prices are expected to remain elevated until July due to low base effects. However, on a month-on-month basis, we expect rice prices to continue slowing (+0.1% in June vs -0.2% in May and +0.4% in April) driven by a sustained decline in global rice prices.
- Metrobank Research expects lower rice tariffs to substantially slow headline inflation going forward. The Philippine Statistics Authority (PSA) sees the proposed reduction in rice tariffs to be implemented by July, but we estimate that the full impact will be observable in August, reducing rice prices by around PHP 7-9 per kilogram. Thus, we retain our view that monthly year-on-year inflation will likely peak in July and will trend downwards thereafter.
- On the recently approved PHP 35 wage hike in the National Capital Region (NCR), the PSA expects to see lag effects on services beginning September, particularly in selected commodity groups such as personal care, as well as restaurant and accommodation services.
- With the Year-to-June average inflation at 3.5%, we maintain our forecast average inflation range of 3.3%-3.6% in FY2024, but now see an increased likelihood of settling towards the lower end of our range.
- Despite the lower inflation path, we continue to believe the BSP will hold off on cutting policy rates until its October 17 meeting with a 25-bp cut, followed by another 25-bp cut on December 19, to support the peso. We acknowledge the risk of earlier policy action in the August 15 MB meeting should the July inflation print continue to surprise on the downside coupled with clearer dovish signals from the US Federal Reserve on its own easing cycle.

BSP AVERAGE INFLATION FORECAST

As of April 2024 (Risk-adjusted)	As of May 2024 (Risk-adjusted)	As of June 2024 (Risk-adjusted)
2024: 4.0%	2024: 3.8%	2024: 3.1%
2025: 3.5%	2025: 3.7%	2025: 3.1%

METROBANK RESEARCH INFLATION FORECAST

2023 Actual	2024	2025
6.00%	3.30-3.60%	3.30-3.70%

METROBANK RESEARCH TARGET RRP RATE

2023 Actual	2024
6.50%	6.00%

INFLATION UPDATES

ANNEX

HEADLINE INFLATION OF MAIN COMMODITY ITEMS

All Items	3.7
Food and non-alcoholic beverages	6.1
Alcoholic beverages and tobacco	3.8
Clothing and footwear	3.2
Housing, water, electricity, gas, and other fuels	0.1
Furnishings, household equipment, and routine household maintenance	2.8
Health	2.9
Transport	3.1
Information and communication	0.5
Recreation, sport, and culture	3.5
Education services	3.8
Restaurants and accommodation services	5.1
Financial services	-0.6
Personal care, and miscellaneous goods and services	3.2

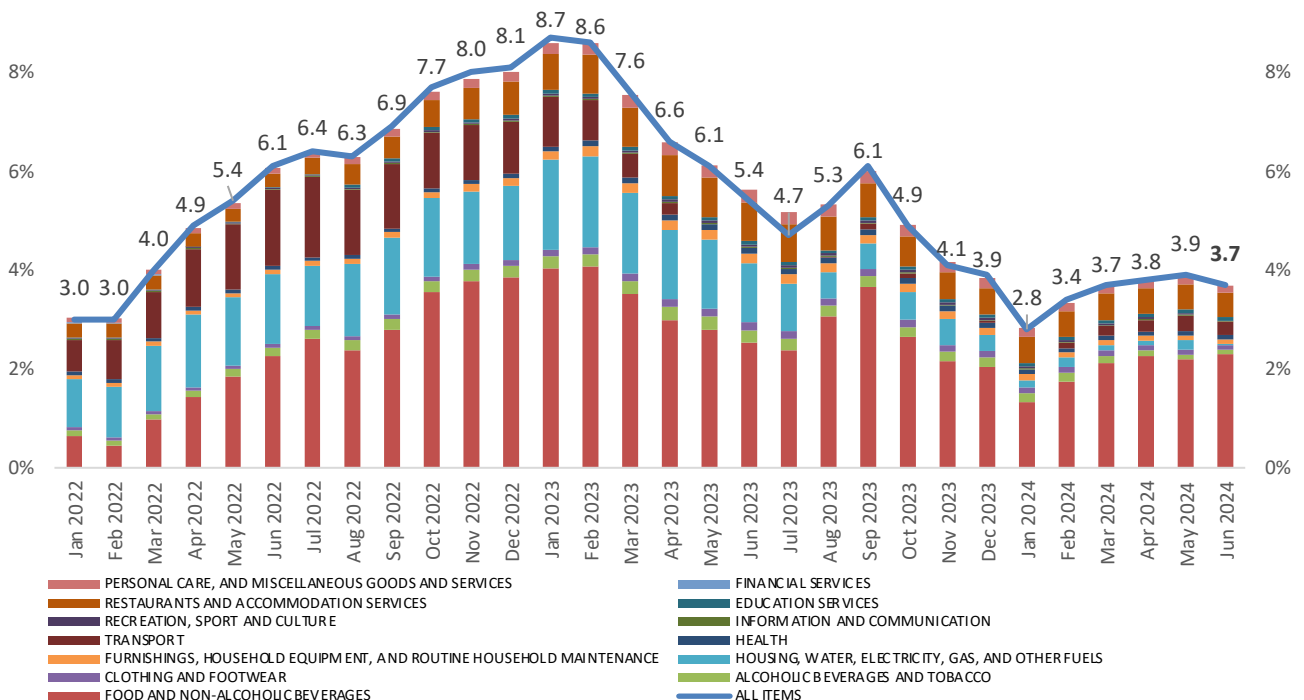
June 2024 (in %)

All Items	3.7
Food and non-alcoholic beverages	6.1
Alcoholic beverages and tobacco	3.8
Clothing and footwear	3.2
Housing, water, electricity, gas, and other fuels	0.1
Furnishings, household equipment, and routine household maintenance	2.8
Health	2.9
Transport	3.1
Information and communication	0.5
Recreation, sport, and culture	3.5
Education services	3.8
Restaurants and accommodation services	5.1
Financial services	-0.6
Personal care, and miscellaneous goods and services	3.2

Legend

Lower vs last month Higher vs last month

MAIN COMMODITY ITEMS' CONTRIBUTION TO HEADLINE INFLATION



*Based on weights in the commodity basket

Disclaimer: This report is circulated for general information only. The opinions expressed are solely those of the contributors and are based on prevailing market conditions and public sources that are believed to be reliable. Metrobank and the report contributors/support staff do not make any guarantees or representation as to the accuracy, completeness or suitability of this report. The report may contain confidential or legally privileged material and may not be copied, redistributed, or published without prior written consent. Opinions or strategies contained in this publication may change without prior notice and should not take the place of professional investment advice or sound judgment on the part of the reader.