FX

Global

15 Aug, 2024

Maybank

FX Flash

BSP Cut, PHP Steady

BSP Cuts, Little Reaction in PHP

- **BSP cut rates by 25bps from 6.50% to 6.25% in what appeared to be a close call with consensus overall titling to a cut.**
- **USDPHP moved marginally following the cut possibly because of the expectations for the move and also that the Fed is seen to probably follow suit soon.**
- **USDPHP may trade sideways near term although we expect it to rebound eventually.**
- **We revise our USDPHP forecasts downwards given UST yields are coming off more than we had expected amid US data coming out softer than estimates.**

In what was a close call, the BSP made the decision to cut rates by 25bps from 6.50% to 6.25%. Based on a Bloomberg survey, 13 economists had expected a cut whilst 10 saw there would be a hold. Prior to the meeting, signals had been mixed as Governor Remolona had noted that a rate cut was "a little less likely" as the Jul inflation reading turned out "slightly worse than expected". At the same time, the Governor has also been questioned by the senate to "consider bringing down the interest rate already".

Post the decision, Remolona would instead mention that they are "somewhat more confident in the inflation numbers coming down than in the GDP numbers going up" as to being a reason for the cut today. BSP overall sees the balance of risks to the inflation outlook leaning towards the downside for 2024 and 2025, but a modest tilt to the upside expected for 2026. On growth, BSP expects firm domestic demand prospects going forward and acknowledged that despite tight financial conditions, GDP growth for 2Q 2024 was solid and the unemployment rate has declined. The Monetary Board (MB) anticipates price pressures to ease further in coming months with the implementation of EO 62 as well as Administrative Order 20 (AO 20), which removed the non-tariff barriers on importation of agricultural products. With inflation on a target-consistent path, the current macroeconomic outlook supports a calibrated shift to a less restrictive monetary policy stance. The BSP is also expecting the Fed to cut by 50bps in Sep and overall cumulatively by 100bps by year end though Remolona specifically stated that Fed actions do not drive the BSP's monetary policy. The Governor noted that they may cut again by 25bps in Oct or Dec. **The BSP's move was the first cut in four years by them and also makes them the first central bank among BOT, BNM, BI and themselves to ease. As market expectations of a Fed cut has strengthened, we keep a close eye if other ASEAN central banks would cut soon too. Overall, our in-house economist is expecting that the BSP would cut by another 25bps this year and a 100bps in 2025.**

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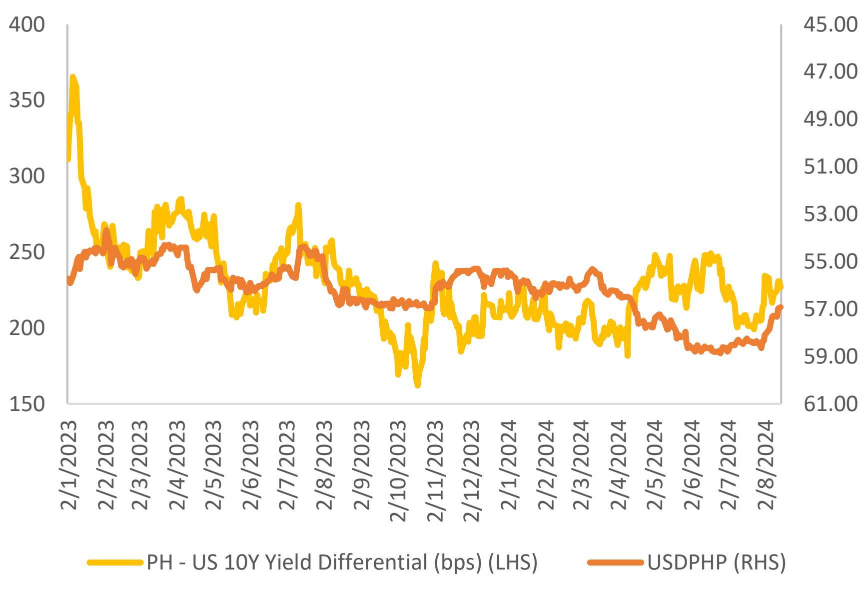
The PHP actually moved very little post the decision. The USDPHP had moved slightly up before coming back down again. There are a few reasons that could explain this which include that the Fed is widely expected by the market to start easing in Sep and therefore, rate differentials would not be as much of a concern. Additionally, the move is not exactly fully unexpected given that it was a close call among the economists. On our part, we had already called for limited reaction for the USDPHP if there was to be a cut and we expect that it could continue to trade sideways in the near term. We still see that the pair could eventually rebound given that momentum indicators are stretched on the downside and that a number of external risk events do actually lurk on the horizon. This includes that there could be greater concerns about the uncertainty related to the US elections. Also, whilst US data is softening, there is no straight line downwards and bouts of strength can cause quite some swing in expectations. This could guide the USD higher and USD-Asian pairs concurrently too. US CPI has been softening although more weakness in the labor market may be needed to keep supporting its move downwards. Markets at this point are seeing bout 100bps of cuts by year end and for at least a cut to happen in Sep.

Regarding our USDPHP forecasts, we are lowering it given that UST yields are coming off more than we had expected amid softer than expected US data. Even so, we do see the 3Q 2024 number being higher than current levels given our expectations of some rebound. We see the pair to eventually keep edging downward over the medium term as the Fed eases into next year, bringing down UST yields and making rate differentials supportive. Our in-house economist sees the Fed easing by a total of 50bps this year and 100bps next year. A US soft landing also remains our base case rather than a recession and that should avoid a negative factor for EM Asian FX. However, the pair may still be somewhat elevated given the relative less favourable fundamentals. This includes a wide trade balance deficit that tends to offset some of the portfolio inflows.

Table 1: USDPHP Forecasts

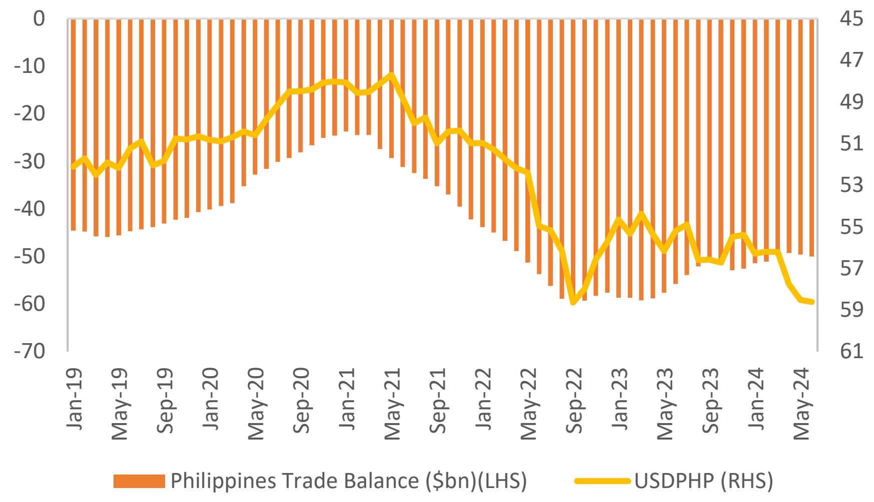
Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDPHP	57.50 (58.25)	56.00 (57.50)	55.00 (57.00)	54.00 (56.50)

Chart 1: Yield Differentials Despite the Cut are Less Concerning with Fed Expected to Cut Soon Too



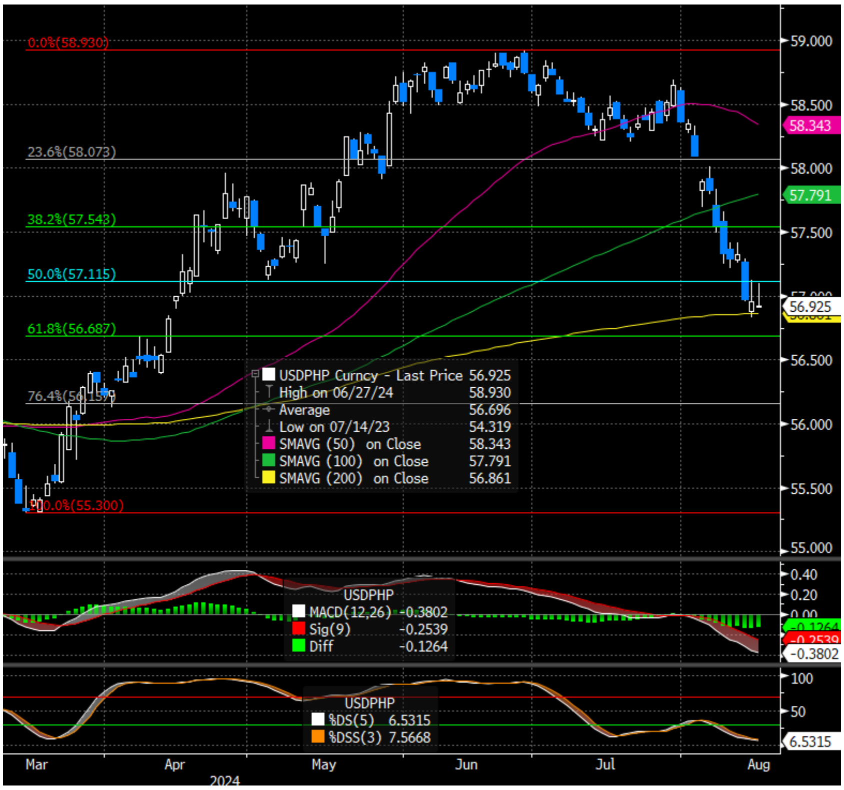
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Wide Trade Deficit to Remain a Negative on the PHP



Source: MacroBond, Maybank FX Research & Strategy

Chart 3: Support at the 200-dma of 56.86 Although Momentum Indicators are Stretched on the Downside and Rebounds Can Occur



Source: Bloomberg, Maybank FX Research & Strategy

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