SEPTEMBER 11, 2023

# PHILEQUITY CORNER

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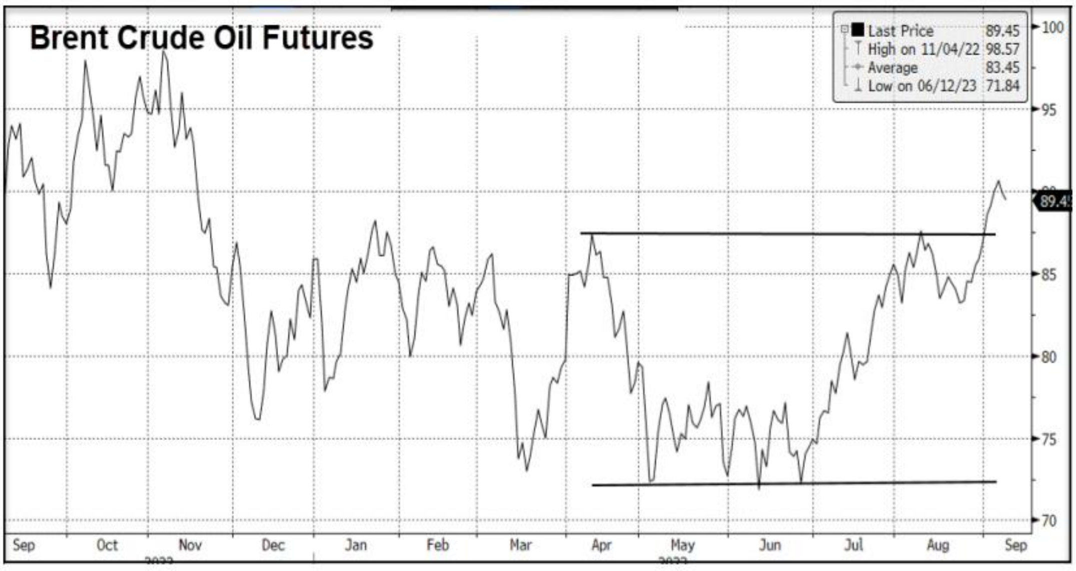
## Crude rally stokes Philippine inflation fears

The Philippines is grappling with mounting inflation concerns as crude oil prices rapidly soar over $90 per barrel. Already burdened by escalating costs of essential commodities like rice and sugar, the nation and its consumers face further pressure from rising energy prices.

## Brent Crude crosses $90 per barrel

Brent crude, the global benchmark for oil prices, climbed to $91.14 last week. This marks its highest level since October 2022. The surge in oil prices exacerbates inflation pressures in the Philippines which relies heavily on fuel imports. Escalating energy costs translate into elevated electricity and transportation prices. This creates a ripple effect felt across the economy.




*Source: Bloomberg*

## Saudi trims output by 1 million barrels per day

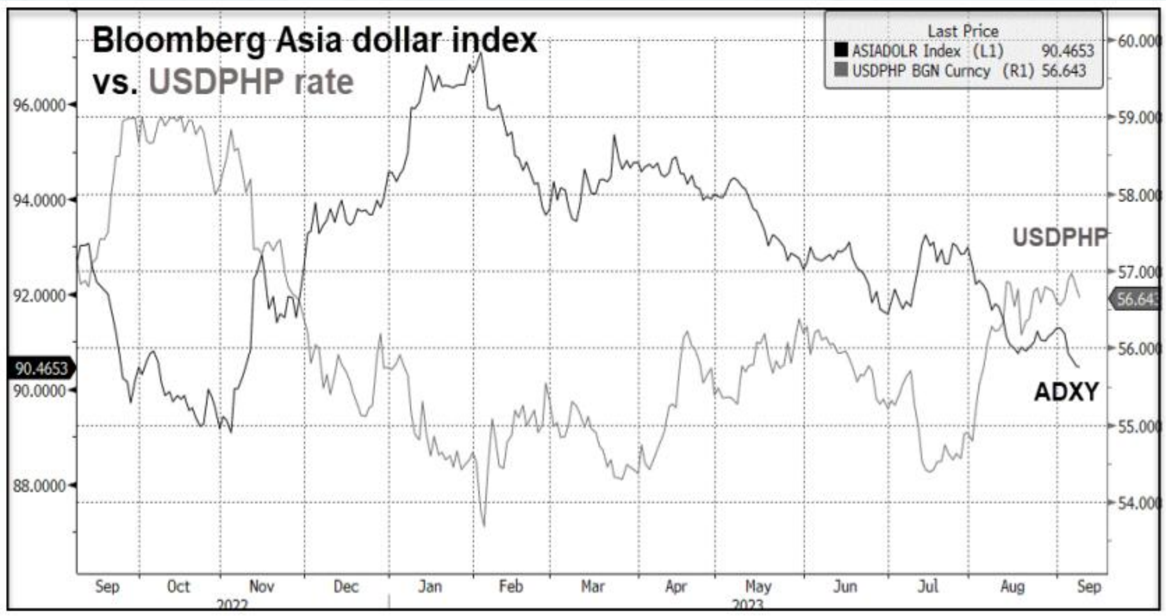
Key OPEC+ producers triggered this dramatic oil price surge. Saudi Arabia is extending its production cut of 1 million barrels per day until the end of the year. Russia, likewise, is reducing oil exports by 300,000 per day. Their coordinated effort to curtail output aims to prevent a slide in oil prices amid growing concerns about China's slowing economic growth. Despite ongoing uncertainties regarding Chinese demand, crude oil prices have surged by 20% since June. The oil production cuts have effectively offset weaker consumption trends.

## Persistent food inflation

Inflation remains a persistent concern In the Philippines. Despite six consecutive months of decline following its peak at 8.7% in January, inflation made a resurgence in August. This is primarily due to rising food costs, especially for staples like rice and sugar. In August, inflation rate climb to 5.3%, up from 4.7% in July. As discussed in our recent article, global rice and sugar prices have seen staggering increases of 40% and 50%, respectively, over the past year.

## US dollar strengthens, adds to inflation woes

The strengthening of the US dollar compounds inflationary challenges in the Philippines. Strong indications of resilience in the US economy have heightened expectations that the Federal Reserve will keep interest rates higher for longer. This has exerted significant pressure on Asian currencies. This is reflected in the decline of the Bloomberg Asia Dollar Index (ADXY) to its lowest point since November. The Philippine peso reached a 10-month low with the exchange rate touching 57.05 against the US dollar last week.




*Source: Bloomberg*

## Policymakers face a delicate balancing act

Philippine policymakers now have to contend with the spike in global energy and food prices, alongside the strengthening US dollar. The potential for further inflationary pressures may necessitate keeping interest rates high. This further complicates their delicate balancing act – trying to boost economic growth while keeping a watchful eye on the pressing need to minimize the effects of surging commodity prices worldwide.