

Philequity Corner by Valentino Sy
July 15, 2013

Peso is back where it should be

“We monitor it among a band of currencies and it is back where it should be,” said Secretary Purisima.

Secretary Purisima was quoted by Bloomberg News last week and he is referring to the peso going back to the 43 to 44 levels, a range which he deems acceptable. This also refers to the peso “sweet spot” that we have written in the past (see *Back to the Sweet Spot*, June 3, 2013).

USDPHP Rate Daily Chart



Source: Wealth Securities Research

Last week, the peso closed at 43.395 against the US dollar. It has lost 5.5 percent so far this year in consonance with the declines of regional and global currencies vis-à-vis the US dollar.

Keeping pace with the Indian rupee

Among Asian currencies, the Philippine peso is the 2nd weakest this year. The peso, however, is only keeping pace with the Indian rupee which weakened by 8.39 percent against the US dollar year-to-date. The peso’s depreciation therefore is appropriate and crucial to our country’s efforts of keeping our Business Process Outsourcing (BPO) companies competitive against their Indian counterparts.

Asian Currencies vs. US Dollar	Rate as of 12-Jul	% Change Year-to-date
Chinese Yuan	6.14	1.51
Thai Baht	31.14	-1.86
Indonesian Rupiah	9,991.00	-1.98
Taiwanese Dollar	29.91	-2.93
Singapore Dollar	1.26	-3.31
Malaysian Ringgit	3.18	-3.76
South Korean Won	1,124.47	-5.34
Philippine Peso	43.40	-5.51
Indian Rupee	59.63	-8.39

Source: Bloomberg, Wealth Securities Research

Unknown to most Filipinos, even many of those in the BPO industry, the peso has already gained almost 40 percent against the Indian rupee during the past three years. In fact, we have warned about this as early as last year (see *Strong Peso - Too much of a Good Thing*, July 9, 2012). If the peso does not keep up with the Indian rupee, our BPO industry will continue to lose pricing competitiveness.

USDINR Rate Daily Chart



Fundamentals remain sound and inflation well-anchored

Despite the slightly weaker peso, BSP Gov. Tetangco maintains that “inflation expectations continue to be well-anchored” and “underlying fundamentals remain sound.” Philippine inflation remains subdued at 2.8 percent in June. It has averaged 2.9 percent the past six months.

In contrast, emerging countries like India and Brazil, which also experienced sharp currency depreciations these past couple of months, are also suffering from high inflation. India’s inflation rate last June was at 9.9 percent, while Brazil’s inflation rate was at 6.7 percent.

Peso depreciation is beneficial

Currency depreciation puts more pressure on countries which have chronic current account deficits like India and Brazil.

India registered a current account deficit equivalent to 4.8 percent of GDP in 2012, while Brazil had a current account deficit equivalent to 2.4 percent of GDP over the same period. The Philippines, meanwhile, had a current account surplus equivalent to 2.8 percent of GDP in 2012.

So while the currency depreciation is bad for India and Brazil, it is actually beneficial to the Philippines because of the continued strength in BPO revenues and OFW remittances, which would eventually translate to higher domestic consumption.

Fed policy to remain highly accommodative in the foreseeable future

“Highly accommodative monetary policy for the foreseeable future is what is needed.” - Ben Bernanke

This is another important quote that happened last week which propelled stock markets worldwide and caused currencies to rally against the US dollar. US stocks ended at record levels as the S&P 500 index and the Dow Jones Industrial Average registered new all-time highs while the Nasdaq ended at its best close since 2012.

Emerging markets also rebounded with the iShares MSCI Emerging Markets Index (symbol: EEM) rallying 4.9 percent in Thursday’s trading. This reinforces our view that PSE Index has indeed made an intermediate bottom last June 25 when it hit an intraday low of 5,678 (see our article 5-6-7-8, July 1, 2013).

From a technical standpoint, the chart below shows a potential Head and Shoulders reversal formation in the PSE Index. If the 6,600 level is broken to the upside, this means that the PSE index will now go to the next resistance at 7,000 and potentially retest the all-time high of 7,403 registered last May.



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