



**Philequity Corner (May 7, 2018)**  
**By Wilson Sy**

**Peso strengthens across the board**

Last week we noted that the Philippine peso has started to strengthen following the S&P's upgrade of the country's credit outlook from stable to positive (see *From Stable to Positive*, April 30, 2018). Amidst recent dollar strength, the peso has recovered against the greenback and most other currencies.

The USD/PHP rate has broken below 52 and has managed to stay below that level for seven straight days, which is very constructive for the peso. The peso closed at 51.714 last Friday.

**S&P statement bolsters the peso**

In their statement, the S&P pointed out that improvements to the Philippines' policymaking setting could support more sustainable public finances and balanced growth over the next 24 months. The S&P also cited the country's effective fiscal policies and improvements to the quality of expenditures and still-limited fiscal deficits. This bolstered the peso as investor worries with regard to the country's fiscal and current account balances were allayed.

**Peso vs. US dollar**

The chart below shows the USD/PHP rate recently topping out near the 52.50 level. It has since broken below the support level at 52 which was the previous intermediate term high back in Oct. 2017. Additionally, it has broken below its 3-month consolidation range with the lower boundary at 51.80. The daily close below 51.80 confirms the breakdown with the possible chart pattern target of 51.10 levels.

**USD/PHP rate**



**Peso rallies against most major currencies**

It is important to note that despite most currencies weakening against the US dollar recently, the peso bucked this trend and managed to strengthen against practically all currencies. Hence, the peso's recovery against major currencies like the euro, Swiss franc, Aussie dollar, British pound, and the Japanese yen have been more significant.

**Peso vs. Euro**

The chart below shows the EUR/PHP rate broke below a 3-month pennant formation two weeks ago. This bullish peso trend continued last week, breaking the uptrend in EUR/PHP rate that has dominated

over the past 13 months. Similar patterns displaying impressive peso strength can be seen vis-à-vis other major currencies.

### EUR/PHP rate



### Across the board recovery

The table below shows the performance of the peso against major and Asian currencies. Note the sharp bounce of the peso from its year lows, erasing much of its losses since the start of the year. In fact, in some currencies such as the Aussie dollar and the Indian rupee, the peso is already showing year-to-date gains as of last Friday.

Peso vs. Major Currencies		Bounce from year low %	Ytd return %	Peso vs. Asian Currencies		Bounce from year low %	Ytd return %
CHF	Swiss Franc	8.9%	-1.3%	INR	Indian Rupee	5.3%	0.9%
AUD	Australian Dollar	6.8%	0.1%	IDR	Indonesian Rupiah	4.1%	-0.8%
GBP	British Pound	6.2%	-4.1%	TWD	Taiwanese Dollar	3.4%	-3.8%
EUR	Euro	5.5%	-3.7%	SGD	Singaporean Dollar	3.2%	-4.0%
JPY	Japanese Yen	5.2%	-6.9%	THB	Thai Baht	3.1%	-6.3%
CAD	Canadian Dollar	4.4%	-1.0%	MYR	Malaysian Ringgit	3.1%	-6.6%
USD	USD Dollar	1.4%	-3.7%	KRW	Korean Won	2.7%	-2.8%
				CNY	Chinese Yuan	2.5%	-6.1%

Source: Bloomberg

### Rate hike to impact positively on the peso

Another important factor that may weigh positively for the peso is the much anticipated interest rate hike by the BSP. Following last week's report that inflation rate hit 4.5% in April, which is at the top end of the BSP's target, it seems highly likely that policymakers would raise rates during their next meeting on May 10. In an interview last Friday, BSP Gov. Nestor Espenilla acknowledged that inflation pressures are building up. He said that given recent developments, the BSP is "looking more closely than before" at possibly tweaking its monetary policy. If this materializes, the peso could continue to recover.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email [ask@philequity.net](mailto:ask@philequity.net).*