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PHILEQUITY CORNER

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Don’t Fight the BSP

In finance, there is a wise Wall Street mantra, “Don’t Fight the Fed,” which essentially advises investors to align their strategies with the Federal Reserve’s policy actions. For the Philippines, a similar wisdom emerges: “Don’t Fight the BSP.” This guidance became particularly pertinent when BSP Governor Eli Remolona signaled in September that the central bank would intervene to bolster the peso’s standing at the 57-level, thereby fending off further depreciation.

Guarding the 57-level

Gov. Remolona remained firm in his commitment to ensuring the stability of the peso and defending the critical 57-level. His astute insights into currency markets ring true – resistance levels often act as catalysts, triggering herd-like responses among traders when such thresholds are crossed. Without the BSP’s diligent intervention, the peso could have faced the imminent risk of depreciating towards 58, or worse yet, testing its historic low against the US dollar at 59.20. The central bank’s vigilant and proactive measures have been instrumental in averting such a scenario.

BSP’s resolute defense pays off

BSP’s proactive defense of the peso at the crucial 57-level and its hawkish statements signaling a more aggressive approach to managing inflation have kept the peso steady in the past weeks. However, a pivotal moment arrived when the BSP executed an off-cycle rate hike of 25 basis points. Coupled with a less-hawkish stance and statement from the Fed during the latest FOMC meeting, the Philippine peso exploded mightily.

The peso surged 1.29% last Friday, marking its biggest one-day move since November 2022. Notably, the peso breached its 10-week trading range, which had previously held steady between 56.50 and 57.00. It closed Friday’s session at a strong 56.10.

Source: Tradingview.com

Nearing the end of hiking cycle?

In a notable development, the US Federal Open Market Committee (FOMC) left interest rates unchanged for the second consecutive time. The fed funds target rate remained within the range of 5.25% to 5.5%. A shift in investor sentiment emerged through the FOMC statement and press briefing, suggesting that the Fed may be nearing the end of its current hiking cycle. While acknowledging the "strong" pace of economic expansion in the third quarter, the Fed noted that job gains have "moderated since earlier in the year."

Acknowledging tightening conditions

The Fed recognized the recent tightening in financial conditions, which is now weighing on the economy. Despite the Fed's pause on rate hikes, long-term rates have risen in recent months, contributing to overall tightening. This potentially reduces the likelihood of additional rate increases by the Fed rate.

US Treasury yields slump

Long-term US Treasury yields finished lower for the week, with the 10-year and 30-year rates moving farther from the psychologically significant 5% threshold. The 10-yr US Treasury yields retreated to 4.57% as of Friday, down from a recent high of 5.02%. The 30-yr US Treasury yield also slumped to 4.77% from 5.18%. This retreat in yields reflects a broader market recalibration, suggesting that the Fed may have concluded its unprecedented tightening cycle.

Everything rally

These developments triggered a resurgence in all risk assets. The Nasdaq Composite soared 6.6%, marking its biggest weekly gain since November 2022. The S&P 500 and the Dow Jones Industrial Average rebounded 5.85% and 5.06% for the week. Both managed to recover above their 200-day moving averages. Additionally, the iShares MSCI Emerging index fund (symbol: EEM) posted an impressive 5.3% over the week, while the iShares JP Morgan USD Emerging Markets Bond ETF (symbol: EMB) recorded a solid 3.1% increase during the same period.

BSP's prescient defense

The peso's remarkable recovery is a testament to the BSP's effective defense at the 57-level. As the peso moves further from this threshold, it becomes more resilient, significantly reducing the risk of sharp depreciation.

In the broader context, these developments also underscore the intricate dance between central banks and market dynamics. They highlight the need for policymakers to remain vigilant and adaptable, aligning their strategies with the ever-evolving economic landscape. Staying attuned to global and local factors is paramount to navigating the challenges successfully. This ensures economic stability and growth for the country.

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