



Philequity Corner (April 17, 2017)
By Wilson Sy

Peso bounces back strongly

In our article last week we discussed how technical analysis can be an important tool in an investor's arsenal alongside fundamental analysis, macroeconomics, psychology, history, politics and other fields of study. Using technical analysis, we showed that the technical picture for Philippine stocks has greatly improved after the PSE Index broke above the 7,400 level.

In a similar manner, the price chart of the Philippine peso now indicates that investor sentiment has turned positive after the peso broke below 50 and closed strongly at 49.43 last week.

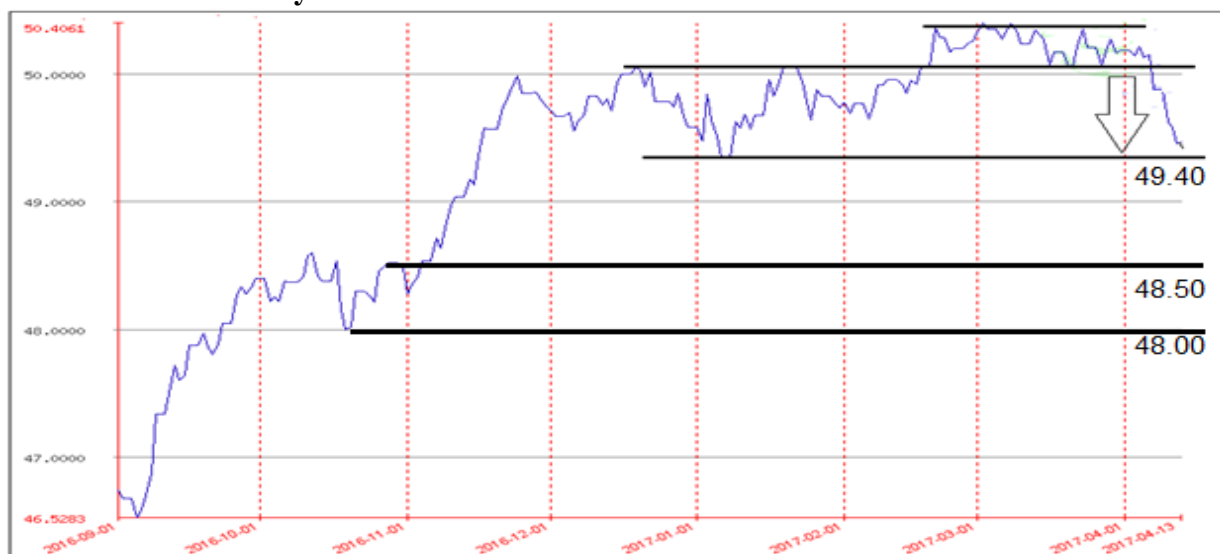
Peso breaks below 50, catching many by surprise

Despite forecasts by most analysts that the USD/PHP rate would reach 51.50 to 52 by year-end, the peso bounced back strongly against the greenback. This caught many investors - who were long the dollar - by surprise. Hence, the move below the 50 level led many market participants to pare down their dollar longs and drive the peso sharply higher.

Short-term bottom for the peso?

The chart below shows that a possible short-term bottom for the Philippine peso rate may be in place. Note that after breaching the 50 level last February, the USD/PHP rate failed to rise above 50.50 three times and has since rolled over. The break below 50 places an initial target of 49.40, and possibly 48.00 – 48.50 if the peso strengthens further.

USD/PHP Rate - Daily Chart



Source: *FXTOP.com*

Foreign fund buying is positive for the peso

As noted in last week's article, foreign funds are back buying into Philippine stocks. Despite the shortened schedule last week, net foreign buying already amounted to Php 9 billion for the first 8 trading days of April. This already equals half of the Php 17.5 billion net foreign selling during the first 3 months of 2017.

“Sell on news” on the dollar

In addition to the improved sentiment on Philippine stocks, the peso is also benefitting from the “sell on news” effect on the US dollar. In prior Philequity articles, we noted that the typical sell on news phenomenon occurred when many dollar bulls had to unwind their long US dollar positions following the US rate hike in March (see *Reversion to the mean*, March 20, 2017, and *When doves cry*, March 27, 2017). Though the rate hike was widely anticipated, the Fed surprised the markets when it came out with a more dovish statement than expected.

Peso catching up with regional peers

The peso's appreciation is also in consonance with regional currency strength. Note that since the start of the year, Asian currencies have strengthened against the US dollar led by the Japanese yen which is already up 6.78 percent year-to-date. ASEAN currencies such as the Thai baht and the Singapore dollar have strengthened by 4.05 percent and 3.37 percent, respectively. Meanwhile, the Chinese yuan is up 0.8 percent year-to-date vs. the US dollar.

Trying to catch up with regional peers is the Philippine peso, which has appreciated 0.24 percent year-to-date. For the month of April, however, the Philippine peso is the 2nd best performer in Asia after the Japanese yen with a 1.44 percent appreciation vs. the US dollar.

Asian Currencies vs. USD	Month-to-date % Change	Year-to-date % Change
Japanese Yen	2.40%	6.78%
Taiwanese Dollar	-0.04%	6.27%
South Korean Won	-1.28%	6.03%
Indian Rupee	0.74%	5.13%
Thai Baht	0.03%	4.05%
Singapore Dollar	0.07%	3.37%
Malaysian Ringgit	0.29%	1.64%
Indonesian Rupiah	0.46%	1.41%
Chinese Yuan	-0.01%	0.80%
Philippine Peso	1.44%	0.24%

Source: FXTOP.com, Wealth Securities Research

Dollar is “getting too strong” – Trump

President Trump said last week the US dollar is “getting too strong” and he would prefer that the Fed keep interest rates low. This comment sent the US dollar trading at a five-month low against the yen at 108.64.

In an interview with the Wall Street Journal, Trump said: “I think our dollar is getting too strong, and partially that's my fault because people have confidence in me. But that's hurting –

that will hurt ultimately.” “It is very hard to compete when you have a strong dollar and other countries are trying to devalue their currency,” he added.

Note that this is the second time that Trump expressed this concern. We quote what we wrote last January: *“The US dollar is too strong according to newly installed President Trump... Trump’s statements sent the US dollar index tumbling to a 7-week low. Investors took Trump’s statements to mean that the US may be backing off its long-standing mantra of a strong dollar policy.”* (see *Dollar is too strong – Trump*, January 23, 2017)

Peso to strengthen further?

The break below the 50 level has greatly stabilized the peso. And if Trump continues to talk down the dollar, regional currencies continue to rally, and net foreign buying of Philippine stocks is sustained, there is a strong chance that the peso will strengthen even further.

From a technical perspective, the break below 50 could even lead the USD/PHP rate back to 48 – 48.50 once minor support at 49.40 is taken out. This would mean a much longer consolidation for the peso which is what the BSP have always wanted to accomplish - a market-determined but stable currency.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit 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.