



**Philequity Corner (October 2, 2017)**  
**By Wilson Sy**

## **US dollar & Philippine peso both recover**

In normal circumstances, the Philippine peso's movement is counter to the US dollar. But last week, we saw both currencies recover. Not very common do we see both the US dollar and the Philippine peso move in tandem against other currencies.

### **US dollar recovers on record performance of US stocks and tax reform**

The US dollar arrested its downward decline last week as US stocks reach new record highs and President Trump unveiled the long-awaited fiscal reform package. Taking a beating throughout most of the year, the US currency staged its biggest weekly recovery since last December as Trump's tax reform agenda is starting to move. The US dollar closed at 1.1852 against the euro last week, its highest weekly close in six weeks.

### **US stocks break new records**

A number of records were broken last week as US markets surged to new highs. The S&P 500 Index reached 2,500 for the first time as it notched a new record high of 2,519.36. The Dow Jones Industrial Average closed at 22,405.09 also a record high. The Nasdaq Composite rose to 6,495.96 to post its 50<sup>th</sup> record close for this year. More importantly, the small-cap Russell 2000 Index also recorded new all-time highs which shows the expanding breadth and health of the rally.

The Dow, S&P 500 and Russell 2000 also posted their 8<sup>th</sup> straight quarterly gain - their longest quarterly positive streak in 20 years. Meanwhile, the Nasdaq Composite is up the last 5 quarters.

### **Once in a generation tax overhaul**

Dubbed by President Trump as a "once in a generation" opportunity to overhaul the tax code, the plan proposes sweeping reduction in corporate and personal taxes amounting to \$5.3 trillion. The major provisions of the tax overhaul include the following:

- 1) Reduce corporate taxes from 35% to 20% (\$1.8 trillion).
- 2) Reduce and consolidate the individual tax rates into three brackets; 12%, 25% and 35%, double the standard deduction, eliminate the personal exemption (\$1.3 trillion).
- 3) Reduce the tax on S corporations, partnerships and sole proprietorships to 25% (\$0.4 trillion).

According to US Secretary of Commerce Wilbur Ross the tax reform will boost US GDP by 1 percent. "It could add \$10 trillion to the US economy and translate to \$3 trillion more in government revenues over a decade if the government can get the tax reform right," he said.

### **US dollar repatriation**

The proposed US tax reform also incentivizes US companies to repatriate overseas earnings now estimated to be \$3 trillion. The proposal is for a reduction of tax rate on repatriated earnings from the current 25% which would be positive for the US dollar. Trump is leaving it to Congress to set the precise tax rates on those off-shore earnings.

### **US dollar arrests decline**

Coming from its lowest level since January 2015, the US dollar appears to have arrested its decline (refer to chart below). A possible short-term top in EUR-USD from what technical analysts call a head-and-shoulders reversal formation may be in place. This formation also coincided with a break below the 6-month upward channel of the EUR-USD rate which points to further US dollar appreciation ahead.



### Peso recovers in tandem with US dollar

As the US dollar recovered, the Philippine peso also gained traction in recent weeks. The peso stabilized against the dollar and bounced higher against the euro, the yen and most of its regional peers. Last week, EDC concluded its tender offer which brought in a hefty \$1.3 billion inflow to the market.

The peso has strengthened back below 51 last week, coming from a high of 51.66. Month-on-month, the peso recovered 0.3% against the greenback. It strengthened by 3.1% and 2.4% against the yen and the euro. The peso likewise appreciated by an average of 1.2% against Asian currencies, gaining the most against the Indian rupee and the Korean won.

Peso vs. Major Currencies	1 month	ytd
Japanese Yen	3.10%	-6.30%
Euro	2.40%	-15.60%
Aussie Dollar	1.90%	-11.30%
Swiss Franc	0.81%	-7.90%
USD Dollar	0.30%	-2.20%
Canadian Dollar	0.17%	-10.53%
<b>Average</b>	<b>1.45%</b>	<b>-8.97%</b>

Peso vs. Asian Currencies	1 month	ytd
Indian Rupee	2.3%	-6.5%
Korean Won	1.9%	-7.9%
Indonesian Rupiah	1.2%	-2.3%
Taiwanese Dollar	0.9%	-8.8%
Chinese Yuan	0.9%	-7.1%
Singaporean Dollar	0.7%	-9.1%
Thai Baht	0.7%	-10.1%
<b>Average</b>	<b>1.2%</b>	<b>-7.4%</b>

### Euro-peso breaks 6 month uptrend

In a previous article, we noted the weakening of the peso not only against the US dollar but more so against the euro (see *Peso-euro weakens 17% year-to-date*, September 4, 2017). Last week, the EUR/PHP rate broke below its 6-month upward trend, similar to the US dollar's movement against the euro. This should give a respite or even reverse the strength of the euro against the peso.

EUR/PHP - Euro Philippine Peso ▲ 60.134 +0.234 (+0.39%)



### Emerging markets on watch

With the US markets posting new record highs, will this trigger a shift from EM back to DM or will the rising US markets lift all boats?

The iShares MSCI Emerging Markets Index ETF (EEM) closed on a high note last Friday, up by 1.15%, after some profit taking the past two weeks as the US dollar started rallying. One thing to note is that unlike previous years when the US economy was the only one leading the recovery during the post-2008 crisis, synchronized global economic growth is evident this time around.

Emerging markets are also doing well from an economic growth perspective. Despite some short-term weakness, emerging equity markets should also do well longer term. EEM is just 1.15% away from a 6-year high recorded last month.

### Importance of Philippine Tax Reform

In the Philippines, it is also important that that our tax reform bill is passed without much dilution or as close as possible to the DOF proposal. Investors are closely watching its passage which the DOF is eyeing to be signed by President Duterte by mid-December.

It is crucial that this bill is passed for our government to continue with its own stimulus programs. The passage of the bill which is supported by most business organizations will ensure the sustainability of Philippine economic growth, support the stability of the peso and provide the catalyst to boost Philippine stocks higher.

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