



Philequity Corner (November 6, 2017)

By Wilson Sy

Philippine peso - The Long and Short of It

The Philippine peso's underperformance vis-à-vis regional and major currencies during the past year has caused concern to many investors. Many fear that the peso's breach of the psychological level of 50 pesos to a dollar and the 11-year low it reached last month may endanger the economy and current bull market in Philippine stocks.

Peso – best performer last week

While the peso has underperformed the past year, it has been resilient in recent weeks. During the past week, the peso is up 1.4%, the best performer compared to major and ASEAN currencies. It was flat the past month while major currencies declined an average of 1.4% against the US dollar (see *US dollar and Philippine peso both recover*, October 2, 2017). Over a 3-month period, the peso is down 1.7% while the major currencies were down an average of 2%. ASEAN currencies were up an average 0.4% over the past month and 0.1% over the past three months.

Performance of major and ASEAN currencies against the US dollar

Major currencies	1wk	1mo	3mo
Euro	0.5%	-0.8%	-1.7%
Japanese yen	0.2%	-0.9%	-3.1%
Swiss franc	0.4%	-2.4%	-2.8%
British pound	0.1%	-1.0%	-0.2%
Australian dollar	0.5%	-1.8%	-3.3%
Canadian dollar	1.3%	-1.7%	-0.9%
ASEAN currencies			
Indonesian rupiah	1.0%	0.4%	-1.2%
Thai baht	0.5%	0.9%	0.4%
Malaysian ringgit	0.2%	0.1%	1.2%
Singapore dollar	0.7%	0.2%	0.0%
Philippine peso	1.4%	0.0%	-1.7%

Source: Wealth Securities, Inc.

1-year performance

Over a 1-year period, the Philippine peso has underperformed against other currencies. It is the worst performing ASEAN currency year-on-year depreciating by 5.4%. In our table below, the peso's decline is next only to the Japanese yen which weakened by 9.4 percent

Performance of major and ASEAN currencies against the US dollar

Major currencies	1yr	5yr	10yr
Euro	5.4%	-9.3%	-19.5%
Japanese yen	-9.4%	-29.3%	1.2%
Swiss franc	-2.3%	-5.9%	15.8%
British pound	5.1%	-18.2%	-37.1%
Australian dollar	0.2%	-26.1%	-16.8%
Canadian dollar	5.3%	-21.8%	-26.5%
ASEAN currencies			
Indonesian rupiah	-3.2%	-28.7%	-32.3%
Thai baht	5.6%	-7.2%	-4.1%
Malaysian ringgit	-1.1%	-27.9%	-21.1%
Singapore dollar	1.9%	-10.1%	6.5%
Philippine peso	-5.4%	-19.5%	-15.3%

Source: Wealth Securities, Inc.

Long-term performance

Longer-term, the Philippine peso's performance is back in parallel with the movement of other currencies. Over a 5-year period, the peso has depreciated 19.5% against the US dollar which is better than the performance of ASEAN currencies such as the Indonesian rupiah and the Malaysian ringgit. The peso likewise performed better than major currencies such as the Japanese yen, the Aussie dollar and the Canadian dollar over the same period.

Over a 10-year period, the peso has weakened 15.3% which is still better than both the rupiah and the ringgit. Compared to major currencies, the peso was ahead of the euro, the British pound, the Aussie dollar and the Canadian dollar in terms of performance over 10 years.

The long and short of it

The long and short of it, the peso may have been weak over a year or so, but over the longer term, it has just reverted back to the mean. People don't realize that despite its short-term weakness in the past 1 ½ years, the move was just a reversion to its long-term mean.

In addition, there appears to be a "paradigm shift" on how investors view the current weakening of the peso and the country's programmed fiscal deficit (see last week's article, *Paradigm Shift*, October 30, 2017). Previously seen as negative, many now realize the positive impact of a weak peso (see *Peso weakness – good or bad?*, July 17, 2017).

This is one of the reasons why the Philippine stock market has been surprisingly strong despite the currency weakness.

Milestones in Philippine & global stocks

The PSE index reached an intraday historic high of 8,605.2 last Friday before succumbing to profit taking at the close. Global stock markets have also been very strong reaching new milestones in the US, Germany and UK, and multi-year highs in Europe, Japan and other markets.

On November 8, Wednesday, Xavier School Batch '93 will be holding its first fundraising event. In support of Xavier School's charitable causes, I have agreed to give a talk and discuss the bull market in Philippine and global stocks: how it started, what are the reasons and the catalysts that propelled it, and why it continues to be one of the longest and strongest bull markets in history. I will discuss my investment strategies, my personal experiences and how investors can learn and profit from them.

The event will be held at UNO Seafood Restaurant on Annapolis Street, Greenhills and will start at 6pm. Tickets are pegged at P3,000 – dinner, wine and drinks included. Proceeds from the event will benefit the charities of the Alumni Association of Xavier School. For tickets, please contact: (+63) 917-555-2297 or (+632) 727-3329, aaxs.secretariat1@gmail.com or purchase online at <http://ushare.unionbankph.com/aaxs/>.

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