



Philequity Corner (November 27, 2017)
By Wilson Sy

Philippine peso stabilizes

After closing at an 11-year low of 51.80 on October 26, the Philippine peso has recovered and has stabilized against the US dollar. The peso closed at 50.68 last Friday.

Peso recovers as US dollar pulls back

The recent recovery of the peso has coincided with a pullback in the US dollar. After the dollar index (DXY) bounced from its recent low of 91.01, it touched a high of 95.15 on November 7. However, instead of resuming its upmove, the dollar dropped 2.4% and closed at 92.76 last Friday.

Peso moves in consonance with other Asian currencies

Though the peso is down 2.2% year-to-date, it has posted a 1-month return of 1.9% and a 3-month return of 0.7%. As seen in the table below, the recent move of the peso has been in consonance with the movement of other Asian currencies.

Philippine peso vs. Asian currencies

	1 yr	6m	3m	1m	ytd return
Korean Won	8.1%	3.6%	3.8%	3.7%	10.0%
Thai Baht	8.4%	4.8%	1.9%	1.5%	8.8%
Malaysian Ringgit	7.7%	4.1%	3.8%	2.7%	8.2%
Taiwanese Dollar	6.1%	0.7%	1.0%	1.0%	7.3%
Singaporean Dollar	6.0%	2.8%	1.2%	1.2%	7.0%
Australian Dollar	2.7%	1.5%	-3.7%	-2.1%	5.5%
Chinese Yuan	4.6%	4.2%	0.9%	0.5%	4.9%
Indian Rupee	5.9%	0.0%	-1.0%	0.6%	4.7%
Japanese Yen	1.6%	0.0%	-1.8%	2.1%	4.6%
Vietnamese Dong	0.1%	-0.2%	0.1%	0.0%	0.2%
Indonesian Rupiah	0.4%	-1.4%	-1.2%	0.2%	-0.2%
Hong Kong Dollar	-0.7%	-0.2%	0.2%	0.0%	-0.7%
Pakistani Rupee	0.0%	-0.4%	0.2%	0.1%	-0.8%
Philippine Peso	-1.5%	-1.5%	0.7%	1.9%	-2.2%

Sources: Wealth Research, Bloomberg

Espenilla speaks

Last week, BSP Governor Nesting Espenilla made several important pronouncements. He stated that the depreciation of the peso has been healthy, manageable and orderly. He believes that concerns over the peso depreciation are overdone as the currency's movement is reflective of ongoing changes in our

economy. He also reiterated that the BSP is ready to deploy its full monetary toolkit if currency volatility becomes excessive.

Depreciation of peso mirrors changes in economy

Our economy grew 6.9% in 3Q17, faster than the consensus estimate of 6.6%. However, there was a notable deceleration in domestic consumption, the primary driver of our country's economic growth. On the other hand, this deceleration was compensated by stronger net exports and faster growth in the manufacturing sector. It is therefore possible that these are initial signs of our transformation into a more balanced economy from one that is primarily driven by domestic consumption. Nonetheless, we believe that this programmed shift must urgently be supported by faster capital formation and a pickup in construction activity. This highlights the importance of the government's tax reform package (TRAIN), its "Build, build, build!" program and initiatives to improve ease of doing business in the country.

Paradigm shift

In one of our recent articles, we noted that there has been a paradigm shift in how economic policies are understood. Moderate levels of inflation, trade deficit, fiscal deficit and currency weakness may be deemed acceptable if these support the economic growth of a country (*Paradigm Shift*, October 30, 2017). We believe that this is the phenomenon that our currency, stock market and economy are currently experiencing. The PSEi has performed well and economic growth has remained strong despite the depreciation of the peso.

Listen to the BSP

We carefully analyze Governor Espenilla's words and take his statements to heart. This should not surprise our readers as we have repeatedly espoused the importance of understanding the words and actions of central bankers. We wrote many articles about our investment strategy of following central bank statements and policies. We closely monitor the pronouncements of Bernanke, Yellen, Draghi and Kuroda, as these have caused major moves in financial markets. We also devoted an entire chapter in our book "Opportunity of a Lifetime" to explain how Bernanke's actions gave birth to the ongoing bull market in stocks (see Chapter 4 – Don't Fight the Fed). Just as we closely monitor the statements of global central bankers, we should also give weight to Governor Espenilla's statements. These will guide our investment decisions by helping us better understand what is currently happening to our economy, currency and stock market.

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