



Philequity Corner (November 12, 2018)
By Wilson Sy

Peso registers a 6-month high against the US dollar

Last week, the Philippine peso hit a 6-month high against the US dollar, touching 52.48 before ending the week at 52.96. The peso has rebounded sharply in recent weeks, gaining as much as 3.4% just six weeks after hitting a 13-year low of 54.35 against the greenback last September 25.

Note that the peso's recent strength came despite dollar strength and weakness in most Asian currencies. Only the Indonesian rupiah showed similar strength, gaining 1.6% since Sept. 25. While the peso was among the worst performers in the Asian region earlier this year, the recent strong performance brought it in line with regional peers in terms of year-to-date performance.

Asian Currencies	year-to-date	since Sep 25
Thai Baht	-1.5%	-2.0%
Japanese Yen	-1.0%	-0.8%
Vietnamese Dong	-2.7%	0.2%
Malaysian Ringgit	-3.3%	-1.0%
Singaporean Dollar	-3.2%	-1.0%
Taiwanese Dollar	-3.5%	-0.3%
Korean Won	-5.7%	-0.8%
Philippine Peso	-6.2%	2.6%
Chinese Yuan	-6.9%	-1.3%
Indonesian Rupiah	-8.3%	1.6%
Australian Dollar	-8.0%	-0.3%
Indian Rupee	-13.5%	0.3%
Pakistani Rupee	-21.0%	-8.7%
Average	-6.5%	-0.9%

Source: Wealth Securities Inc. (as of Nov. 9, 2018)

Reasons for the current peso strength

Below are the reasons behind the peso's recent strength:

- 1) **San Miguel share offering boosts peso** - The recent follow-on offering by San Miguel Food and Beverage Inc. provided a big boost to the peso as an estimated 80% of the P39.2 billion share sale was taken up by foreign institutional investors. This figure translates to roughly USD 600 million worth of foreign inflows into the local market.
- 2) **Crude price plunge is helping the peso** - The sharp reversal in the crude oil prices has helped stabilize the peso. Just five weeks after hitting a four-year high, crude oil prices are now in bear market territory. US WTI crude fell to \$60.67 per barrel last Thursday, down 21% from its Oct. 3 peak of \$76.90. Meanwhile, Brent crude and Dubai crude are down 18% and 17%, respectively from their recent highs. Crude oil's decline on Friday was the 10th straight drop, the longest losing streak since 1984.
- 3) **Food inflation tamed** - Lower oil prices together with the government's measures to tame food inflation have helped put the brakes on rising consumer prices. While October inflation remained steady at 6.7%, notable is the decrease in month-on-month inflation, declining to only 0.3% from a high of 0.9% in August.
- 4) **BSP's proactive policies** - BSP's aggressive rate hikes and hawkish language have helped strengthen the peso. The non-deliverable forward hedging facility (Currency Risk Protection Program) the BSP put in place has also helped temper dollar demand in the spot market and boost the peso.

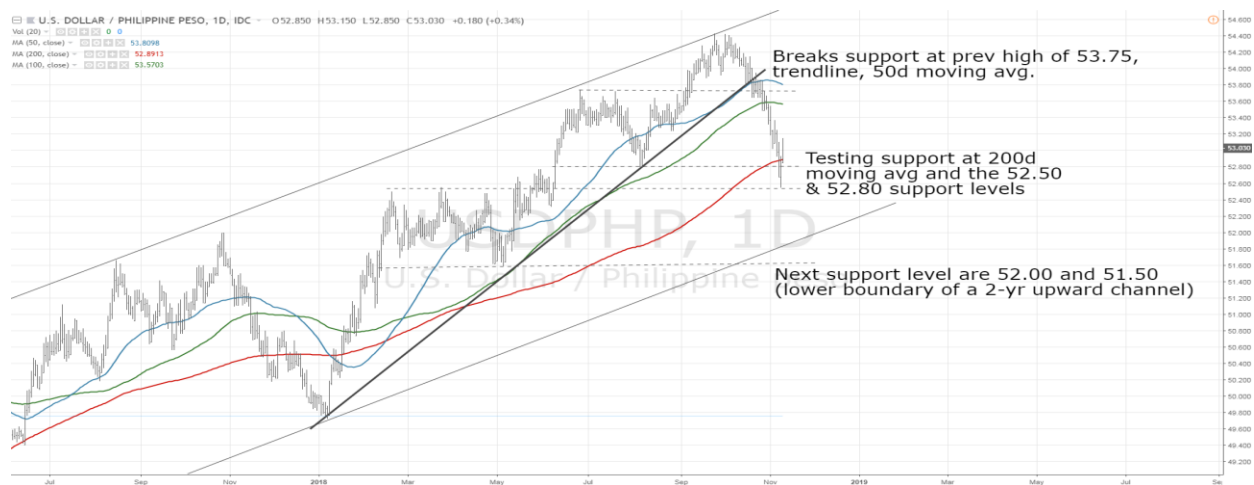
- 5) **A seasonally strong period** – The peso is entering a seasonally strong period due to the influx of remittances during the Christmas season.

Dollar-peso rate breaks 10-month upward trend line

In addition to the fundamental reasons we mentioned above, technical factors also indicate further peso strength.

The chart below shows the break down of the 10-month upward trend in the dollar-peso rate that started in January 2018. Following a failed breakout above the 54.0 level last September, the dollar-peso rate broke down below its 50-day and 100-day moving averages and is now sitting on top of its long-term 200-day moving average. Critical support levels for the dollar-peso rate are 52.80, followed by 52.50.

After the recent sharp drop, we expect the dollar-peso rate to consolidate in the short run. However, a break below 52.50 would bring the exchange rate down towards 51.50 or nearer the lower boundary of the two-year upward channel.



Source: Tradingview.com, Wealth Securities Research

Peso even stronger against the euro

The peso has shown even stronger performance against the euro. The chart below shows the breakdown of the lower boundary of a 10-month consolidation in the euro-peso rate. Note that the euro-peso rate is now trading significantly below its 50-day, 100-day, and 200-day moving averages. This suggests a possible top in the euro may be forming against the peso. A breakdown below the next major support at 59.20 would indicate a longer-term downtrend in the euro-peso rate.



Source: Tradingview.com, Wealth Securities Research

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