



Philequity Corner (April 26, 2021)
By Wilson Sy

Philippine peso steady as EM currencies weaken

The Philippine peso is a standout among emerging market currencies (EM) this year. While many EM currencies weakened significantly against the US dollar on the back of rising US interest rates, the peso has been stable. Closing at 48.38 against the dollar last Friday, it is just 0.9 percent off its recent top of 47.93.

Asia-Pacific Currencies	Year-to-date	Decline from year-high
Singaporean Dollar	-0.4%	-0.7%
Philippine Peso	-0.7%	-0.9%
Chinese Yuan	0.6%	-1.0%
Taiwanese Dollar	0.0%	-1.1%
Malaysian Ringgit	-2.2%	-2.6%
Korean Won	-2.9%	-3.3%
Indian Rupee	-2.7%	-3.7%
Indonesian Rupiah	-3.4%	-4.5%
Thai Baht	-4.7%	-5.0%
Other EM currencies	Year-to-date	Decline from year-high
Russian Ruble	-1.1%	-2.8%
Brazilian Real	-5.4%	-5.4%
Turkish Lira	-13.3%	-21.7%

Source: Bloomberg, Wealth Securities Research

US rates rise on recovery hopes

In February, we pointed out that US interest rates have bottomed given the rising inflation expectations (see *Peso hits turning point at 48*, February 22). Better news on the pace of US vaccinations, plus the enormous fiscal stimulus from the Biden administration, raised hopes for a faster US recovery. The yield on the benchmark 10Y Treasury note exploded 246 percent from 0.504% in August 2020 to a high of 1.744% last month as investors bet the US Fed will raise rates to tame inflation.

Rotation from EM back to the US?

When US rates increase, it reduces the appeal of higher-yielding but riskier EM assets. Global investors began to scale back their allocation to EM this year as the US rate rise gathered pace. Flows to EM equity and debt portfolios slowed in March to their weakest in almost a year as rising US yields continue to weigh on EM.

Indian rupee & Brazilian real tumble on surging outbreak

The currencies of countries like India and Brazil, which are struggling to bring the coronavirus under control and dealing with new viral mutations, weakened considerably in the past month. India is the 2nd largest covid-infected nation in the world, with more than 16 million cases. It reported 345,147 new cases last Friday – the biggest daily spike since the pandemic began. Recently, the Indian rupee tumbled as much as 4.5 percent against the US dollar due to its surging outbreak.

On the third spot, Brazil is following the US and India, with more than 14 million covid-19 cases. The “Brazil variant” of the virus is more contagious and seems to be affecting younger people with no pre-existing comorbidities. The Brazilian real, which is down 5.4% year-to-date, lags against its Latin American counterparts due to its mounting covid concerns.

Turkish lira, the worst EM currency

Meanwhile, the Turkish lira looks to be the worst EM currency. With its higher level of political risk and concerns over its financial stability, the lira has lost 21.7% against the US dollar from its February high and is weaker 13.3% year-to-date.

Thai baht suffers from tourism’s wipeout

In Asia, the Thai baht is the worst performer so far this year. It fell 5% from its February high, given the bleak outlook of travel and tourism. Its rising coronavirus case count and the new outbreak of a highly contagious variant look set to delay plans to reopen its borders to much-needed tourism.

Philippine peso steady

Like many EM countries, the Philippines suffers from rising covid cases and delayed vaccine rollout. However, these negatives are offset by the narrowing trade shortfall, steady flow of overseas remittances, and healthy foreign exchange levels. The peso has traded steadily this year, slightly down by just 0.7% against the US dollar year-to-date.



Source: Tradingview.com

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