Philequity Corner (September 5, 2022)
By Wilson Sy

Peso drops to record low

The Philippine peso dropped to a record low against the US dollar a week after US Fed Chair Jerome Powell declared that "the Fed will maintain a restrictive policy stance for some time." This means that interest rates will be higher for longer. At the Jackson Hole symposium last August 25, he confirmed the Fed's commitment to restoring price stability and using all its tools to bring inflation back to its 2% goal. Global bonds tumbled into their first bear market in a generation. The US dollar jumped to a 20-year high.

The peso fell 1.05% for the week to close at 56.77 against the dollar after reaching 56.90 intraday last Friday. As seen from the chart below, this is the first time the peso-dollar rate has traded above 56.45 since setting the previous record in October 2004.

US dollar's relentless rally

The US dollar rally has been relentless, hitting multi-year highs against major currencies this year. The Japanese yen is trading above 140 for the first time since September 1998. The euro is back at parity. Meanwhile, the US dollar index closed at 109.61 last Friday, the strongest since June 2002.

The yen is the weakest among major currencies and is down 17.9% against the US dollar. This is closely followed by the British pound and the euro, with 14.9% and 12.5% declines. Other currencies with substantial decreases include the Norwegian krone and the New Zealand dollar, which fell 12.0% and 10.6% year-to-date.

	Year-to-date (%)	Year-on-year (%)
Dollar Index	14.6%	18.9%
Major currencies		
Canadian Dollar	-3.8%	-4.4%
Australian Dollar	-6.2%	-7.9%
Swiss Franc	-7.0%	-6.8%
New Zealand Dollar	-10.6%	-14.2%
Norwegian Krone	-12.0%	-13.7%
Euro	-12.5%	-16.2%
British Pound	-14.9%	-16.8%
Japanese Yen	-17.9%	-21.6%

Source: Bloomberg, Wealth Securities Research

Yen leading regional currencies lower

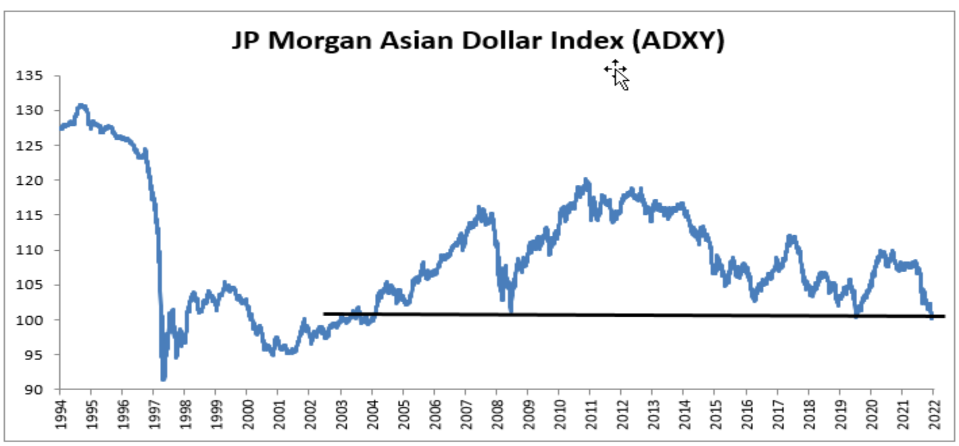
In the past, we have noted that the yen has been leading Asian currencies lower (see *Weak yen drags down peso*, June 13). A weaker yen is more likely to dampen economic growth in countries like South Korea, Taiwan, and China, where trade structures are competitive with Japan's. Following the yen's freefall, the South Korean won tumbled to its lowest level since May 2009, losing 12.7% against the US dollar year-to-date. The Taiwanese dollar and the Chinese yuan are not far behind, registering 9.5% and 7.9% declines. Also showing significant losses are the Philippine peso and the Thai baht, down 10.2% and 9.3% year-to-date, respectively.

Asian Currencies	Year-to-date (%)	Year-on-year (%)
Singaporean Dollar	-3.7%	-4.2%
Indonesian Rupiah	-4.2%	-4.2%
Indian Rupee	-6.8%	-8.4%
Malaysian Ringgit	-7.1%	-7.3%
Chinese Yuan	-7.9%	-6.5%
Thai Baht	-9.3%	-11.4%
Taiwanese Dollar	-9.5%	-9.5%
Philippine Peso	-10.2%	-12.2%
Korean Won	-12.7%	-14.8%
Japanese Yen	-17.9%	-21.6%

Source: Bloomberg, Wealth Securities Research

Asian currencies treading on thin ice

The yen's precipitous slide has led regional currencies into a precarious position. The Bloomberg-JP Morgan Asian Dollar Index (ADXY) has just broken below its two-decade-long support level at 100, which may lead to much bigger ramifications. The ADXY is a spot index of emerging Asia's most actively traded pairs valued against the US dollar. The top five currencies in the ADXY are the Chinese yuan, which holds the highest weight of 41.2%; the South Korean won with 12.9%; the Singapore dollar at 9.4%; the Indian rupee at 9.2%; and the Hong Kong dollar at 8.6%.



Source: Bloomberg, Wealth Securities Research

Be careful what you wish for

Actions of the hawkish Fed has far-reaching effects on all asset classes. Their very aggressive rate hikes and tight monetary policy may substantially affect global currencies. Central banks globally should be vigilant as said policies may trigger a full-blown currency crisis similar to what happened in the past. The Fed may have to be careful on what they wish for.

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