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# PHILEQUITY CORNER

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## Defending the peso

The Bangko Sentral ng Pilipinas (BSP) has adopted a new approach to guide its foreign exchange interventions. In an interview with Bloomberg, Governor Eli Remolona said the central bank is “intervening more forcefully during periods of extended peso weakness as part of a new strategy, gradually moving away from day-to-day intervention.”

The BSP has “adopted a new formula that determines the magnitude of peso losses that require stronger intervention to curb price pressures,” he added.

## Types of currency intervention

The BSP's shift from day-to-day intervention to a formula-driven response shows different intervention philosophies used by central banks worldwide:

**Verbal intervention or jawboning**, relies on public statements and guidance to influence currency movements without actually entering the market. This is often used as a first step to temper speculation, depending entirely on central bank credibility and market perception of their willingness to act.

**Market-driven or smoothing intervention** uses smaller, intermittent trades to reduce volatility or guide the trend without fixing the rate. This approach allows currency movements to reflect underlying economic fundamentals with minimal central bank interference.

**Standing pat or line in the sand intervention** means the central bank commits to defending specific exchange rate levels. This essentially draws a line in the sand with no intention of giving an inch. This “no retreat, no surrender” approach is effective when reserves are ample and market participants are convinced the central bank has both the capacity and the resolve to defend that level.

**Forceful intervention** involves aggressive buying or selling of foreign currency to engineer a quick reversal. It requires quick, surprise action as central banks initiate decisive moves in their desired direction, often deploying substantial reserves to deliver immediate market impact.

## From standing pat to forceful intervention

For much of the past year, the BSP's strategy centered on standing pat, defending against USD/PHP rising above ₱59 per dollar. Each approach toward that level was met with heavy dollar selling from the BSP.



The past week brought a shift. After USD/PHP surged past the 57.75 resistance and briefly breached ₱58.50, the BSP deployed **forceful intervention** through substantial dollar selling that brought the pair down more than a peso within days.

By acting before the ₱59 line came into play, the BSP signaled it will no longer wait for the market to test its limits before responding. USD/PHP closed at ₱57.11 last Friday, well below last week's highs and showing the impact of the central bank's more aggressive posture.



### Peso performance trails regional peers

The BSP's approach has helped the peso maintain stability in a challenging environment. The Philippine currency has gained 1.34% against the dollar this year. The Taiwanese dollar leads Asian currencies with a 9.89% advance, followed by the Korean won at 6.25%, and the Singapore dollar at 5.82%. The Malaysian ringgit and the Thai baht also outperformed with gains of 5.34% and 5.13%, respectively.

The peso's modest gains become more striking when viewed against the broader dollar weakness. The US Dollar Index has declined 9.18% year-to-date. This means that the peso's gain looks weak compared to most major currencies and regional peers. Below are the year-to-date performances of Asian currencies vs. the US dollar:

Asia-Pacific Currencies	Year-to-date 2025
Taiwanese Dollar	9.89%
Korean Won	6.25%
Singaporean Dollar	5.82%
Malaysian Ringgit	5.34%
Thai Baht	5.13%
Chinese Yuan	1.66%
Philippine Peso	1.34%
Indonesian Rupiah	-0.35%
Indian Rupee	-2.42%
Vietnamese Dong	-2.93%
US Dollar Index (DXY)	-9.18%

Source: Bloomberg, Wealth Sec. Research



## **BSP balances rate cuts with targeted FX strategy**

The BSP's refined approach coincides with its accommodative monetary policy as inflation remains controlled and declining. The rate differential between Philippine and US benchmark rates has narrowed to 75 basis points, down from 100 basis points a year ago. Historically, the Philippines maintained a rate premium of 125 to 150 basis points over US rates, providing substantial carry trade appeal that supported the peso. The BSP has cut rates twice this year by 25 basis points each, bringing the benchmark to 5.25%, while the Federal Reserve has held rates steady at 4.5%.

## **See you in September**

Market expectations for a September Fed rate cut rose sharply after President Donald Trump nominated policy dove Stephen Miran to the central bank's Board of Governors. Combined with weak jobs data, Asia-Pacific Currencies Year-to-date 2025 Taiwanese Dollar 9.89% Korean Won 6.25% Singaporean Dollar 5.82% Malaysian Ringgit 5.34% Thai Baht 5.13% Chinese Yuan 1.66% Philippine Peso 1.34% Indonesian Rupiah -0.35% Indian Rupee -2.42% Vietnamese Dong -2.93% US Dollar Index (DXY) -9.18% Source: Bloomberg, Wealth Sec. Research Miran's nomination pushed fed funds futures to price in roughly a 90% probability of a September cut. A quicker U.S. easing cycle could weaken the dollar further – providing the Philippine peso a springboard to appreciate against the greenback.