

## Philequity Corner (June 1, 2009)

By Valentino Sy

### Peso to regain strength

In addition to risky assets such as equities, commodities, oil and gold, high-yielding currencies have performed strongly amid fresh signs that the worst of the global slump is behind us.

In contrast, safe-haven trades like the US dollar and US government bonds slumped. The move accelerated after Standard & Poor's decision two weeks ago to downgrade its medium-term outlook for the UK's AAA credit rating from "stable" to "negative." This raised concerns that the US may suffer a similar fate, leading to a further deterioration of the US dollar vis-à-vis other currencies, including the Philippine peso.

### Dollar losing its safe-haven appeal

Since the financial markets reversed course on March 6, 2009 and money flowed back to risky assets, the US dollar nosedived as the safe-haven trade unwound.

<b>US Dollar vs. Major Currencies</b>	<b>Price</b>	<b>%Chg YTD</b>	<b>%Chg since 3/6/9</b>
Australian Dollar	0.801	16.0%	24.6%
Canadian Dollar	1.0915	10.7%	14.8%
British Pound	1.619	11.8%	14.5%
Euro	1.4158	0.4%	12.5%
Japanese Yen	95.34	-5.5%	3.7%
<b>Average</b>		<b>6.7%</b>	<b>14.0%</b>

Source: Bloomberg

On the average, major currencies have gained 14 percent since March 6, 2009 (YTD +6.7 percent). Commodity-related currencies like the Australian dollar and the Canadian dollar were the strongest, surging 24.6 percent and 14.8 percent since March 6, 2009, respectively.

<b>US Dollar vs. Asian Currencies</b>	<b>Price</b>	<b>%Chg YTD</b>	<b>%Chg since 3/6/9</b>
Korean Won	1255.25	0.8%	19.9%
Indonesian Rupiah	10295	7.4%	15.5%
Indian Rupee	47.091	5.3%	9.2%
Singapore Dollar	1.442	0.0%	7.1%
Taiwanese Dollar	32.625	0.6%	6.7%
Malaysian Ringgit	3.4945	-0.2%	6.3%
Thai Baht	34.32	2.8%	5.2%
Philippine Peso	47.38	0.2%	2.8%
Chinese Yuan	6.8281	0.4%	0.3%
<b>Average</b>		<b>1.9%</b>	<b>8.1%</b>

Source: Bloomberg

Similarly, Asian currencies performed well against the US dollar, increasing 8.1 percent since March 6, 2009 (YTD +1.9 percent). The Korean won is the best performer, up 19.9 percent since March 6, 2009 on the back of a relentless streak of portfolio inflows since the market lows. Other big returns came from the Indonesia

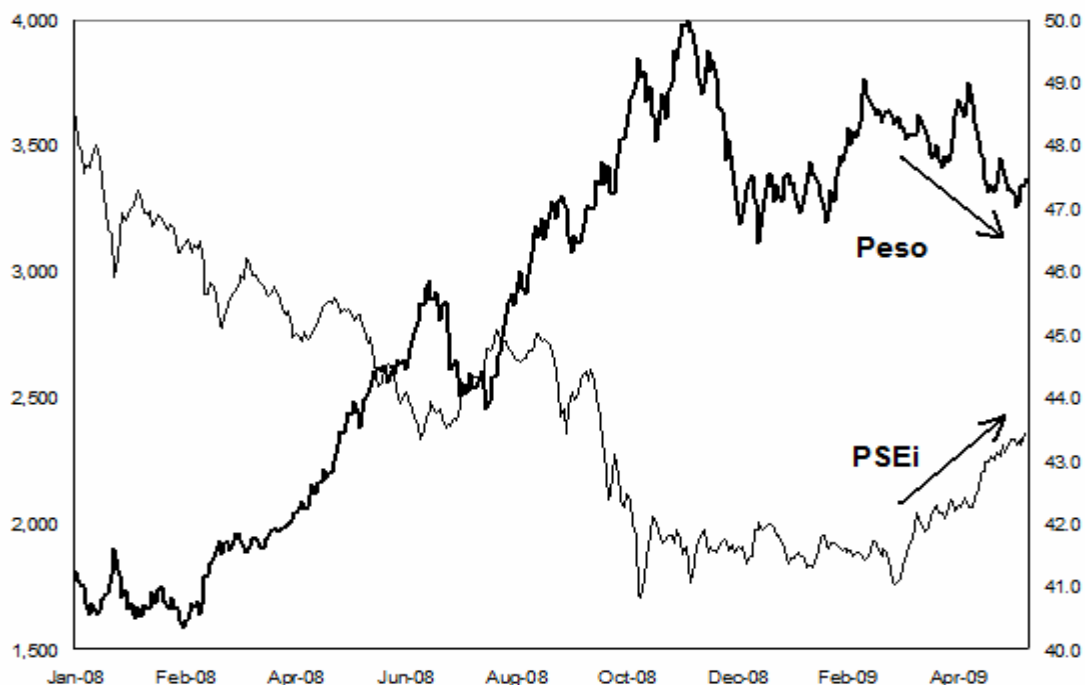
rupiah (+15.5 percent since March 6), the Indian rupee (+9.2 percent) and the Singapore dollar (+7.1 percent).

### **Peso moving hand-in-hand with the PSE index**

As global reflation gains further traction, we expect the peso to move hand-in-hand with the PSE Index. The peso hit a low of 50.17 against the US dollar in November 2008, following the low registered in Philippine stocks during the prior month. Since then, the peso has been forming a “bottoming-out” pattern similar to the movement of the PSE Index over the same period.

While the Philippine peso has gained only 2.8 percent since March 6, 2009, we expect it to perform better once portfolio inflows start improving significantly. So far, the appetite for local stocks has slowly been recovering which should be positive for the peso in the long run.

### **Peso vs. PSE Index**



Source: Technistock, Philequity Research

### **Peso should continue to improve**

Notwithstanding the recent rally in the peso, most foreign houses continue to be negative on the peso, sticking with their earlier 53 to 56 exchange target vis-à-vis the US dollar. They cite a potentially higher budget deficit and a flat growth in OFW remittances as the major hindrances to the peso.

Despite all the previous downgrades of foreign banks on the peso, we in Philequity agree with the BSP with their more credible and conservative target of 46 to 49. For one, the current account continues to be in surplus from sustained remittances and revenues from the BPO sector. Second, our healthy external position (a record GIR of \$39.5 billion as of April 2009) will continue to support the peso. Third, and most importantly, the peso is likely to follow the movement of other currencies in the region which are benefitting from a general weakness in the US dollar.

In fact, we would not be surprised if the peso overshoots the BSP's low-end exchange target of 46 and improves further. When the current consolidation or correction in the US market ends and our year-end target of 1,050 to 1,100 for the S&P 500 index is achieved, then stock markets worldwide would continue to go higher. In that case, the PSE Index should also follow and move towards 2,600 to 2,800. Consequently, the peso will continue to improve.

*For comments and inquiries, you can email us at [info@philequity.net](mailto:info@philequity.net). You can also view our archived articles at [www.philequity.net](http://www.philequity.net) or [www.yehey.com/finhance](http://www.yehey.com/finhance).*