

Philequity Corner (April 12, 2010)

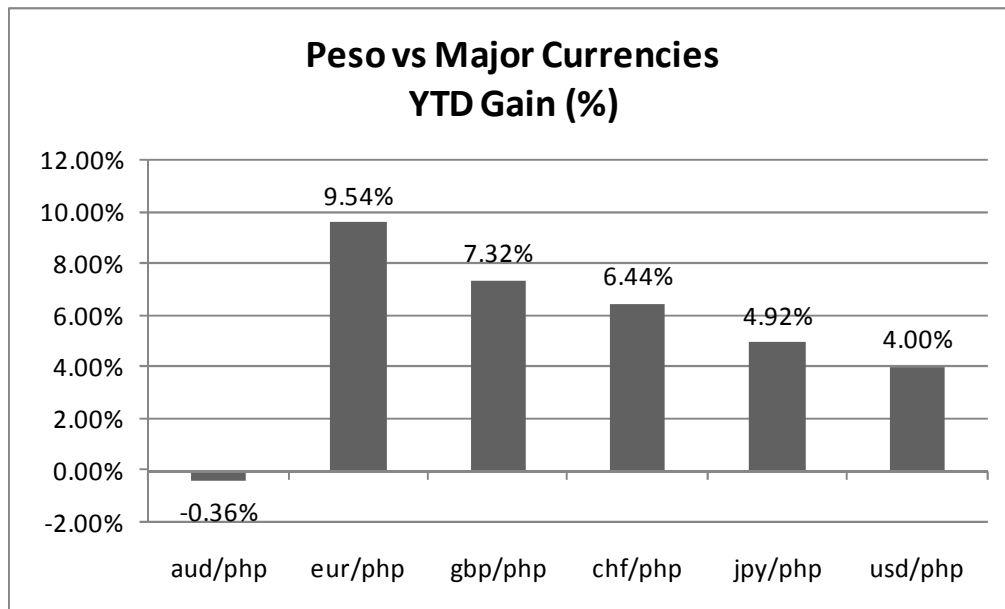
By Valentino Sy

Philippine Peso: Gaining strength against Major currencies

In the past when the Philippine peso appreciates against the US dollar, it is because the US dollar was weakening against most currencies. Today, the Philippine peso is trading at a 20-month high against the greenback despite the US dollar's strong out-performance versus the Euro, the British pound, the Swiss franc, other European currencies and the Japanese yen.

While the news on the peso's strength against the greenback is on the headlines of most newspapers, many may not be aware that the peso is likewise gaining against most major currencies.

The graph below shows that the peso appreciated against all major currencies except for the Australian dollar.



Strong Asian economies = Strong Asian currencies

The stability and resilience of the Asian economies throughout the financial crisis, the global recession and the recent Greek saga is helping boost the attractiveness of Asian currencies. Previously, there was a directly proportional movement among currencies against the US dollar. Today, Asian currencies (including the Philippine peso) are decoupling from that relationship.

In March, we said that the peso and other Asian currencies appear to be holding ground against the US dollar despite the weakness of the euro (see *The Stable Philippine Peso*, March 1, 2010). Back then, while the euro was down 4.85 percent against the US dollar year-to-date, most Asian currencies were relatively unchanged.

Today, despite further depreciation in the euro, Asian currencies have gained led by the Malaysian ringgit (+7.0 percent), the Indian rupee (+5.5 percent) and the Korean won (+4.1 percent). Our own Philippine peso (+4.0 percent) is not far behind.

	Current Price	YTD Chg (%)
Philippine Peso	44.67	4.0%
Major Currencies vs. US Dollar		
Australian Dollar	0.9332	4.5%
Canadian Dollar	1.026	2.2%
Japanese Yen	93.178	-1.0%
Swiss Franc	1.0656	-2.7%
British Pound	1.537	-3.5%
Euro	1.35	-5.8%
Asian Currencies vs. US Dollar		
Malaysian Ringgit	3.1898	7.0%
Indian Rupee	44.294	5.5%
Korean Won	1118.15	4.1%
Indonesian Rupiah	9032	4.1%
Philippine Peso	44.67	4.0%
Thai Baht	32.24	3.6%
Taiwanese Dollar	31.553	2.1%
Singaporean Dollar	1.3898	1.1%
Chinese Yuan	6.8236	0.1%

Source: Bloomberg

Speculation regarding a stronger yuan

Asian currencies are also benefiting from the speculation that the US and China have started talks on letting the yuan appreciate. US Treasury Secretary Timothy Geithner is in China this week for a surprise visit. Meanwhile, Chinese President Hu Jintao is expected to be in Washington next week, supposedly to discuss the possibility of changing China's foreign exchange policy. A likely yuan revaluation will lead to further appreciation of Asian currencies, including the Philippine peso.

Portfolio flows and rising equities leading Asian currencies higher

Portfolio funds have also been re-rating Asia as an investment destination and their flows have reinforced the uptrend in Asian currencies. With developed markets weighed down with debt and facing years of sluggish growth, fund managers are looking into Asia, citing the region's fast growth rates and strong corporate balance sheets.

Asia is set to continue being a strong destination of portfolio flows over the coming months. The high Asian equity correlation with local currencies will help fuel further gains in the Philippine peso and other Asian currencies.

Mixed blessings

Peso appreciation brings in mixed blessings. On one hand, every Filipino benefits from a strong peso because it partially offsets the higher prices of oil and agricultural commodities (such as rice, wheat and sugar) which we import. It also lessens the interest and principal payments on the country's external debt, making it cheaper for the government to service debt.

On the other hand, exporters will face a margin squeeze because of the appreciation of the peso, but this may be offset by cheaper imported intermediates. Meanwhile, OFWs, BPOs will be affected because if the peso continues to appreciate against the dollar, their earnings (in peso terms) will be reduced. In the case of the OFW, however, there are avenues such as Development Bank of the Philippines' OFW Hedging Program that will allow OFWs and their families lock-in the exchange rate for future conversion.

Election results are crucial

The results of the coming elections in May 10, 2010 are crucial to the performance of the Philippine peso and the stock market. If the results are widely accepted and does not significantly delineate from what the surveys are saying, then the peso and the stock market will rise further. In fact, it may even breach our peso target of 43.75 and PSEi target of 3,300 if the results of the elections are popularly accepted.

However, if the elections are tainted and marred by electoral fraud, or the presidential outcome is hotly contested and not accepted by the public, then both the peso and the stock market are expected to reverse course.

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