

Philequity Corner (August 23, 2010)

By Valentino Sy

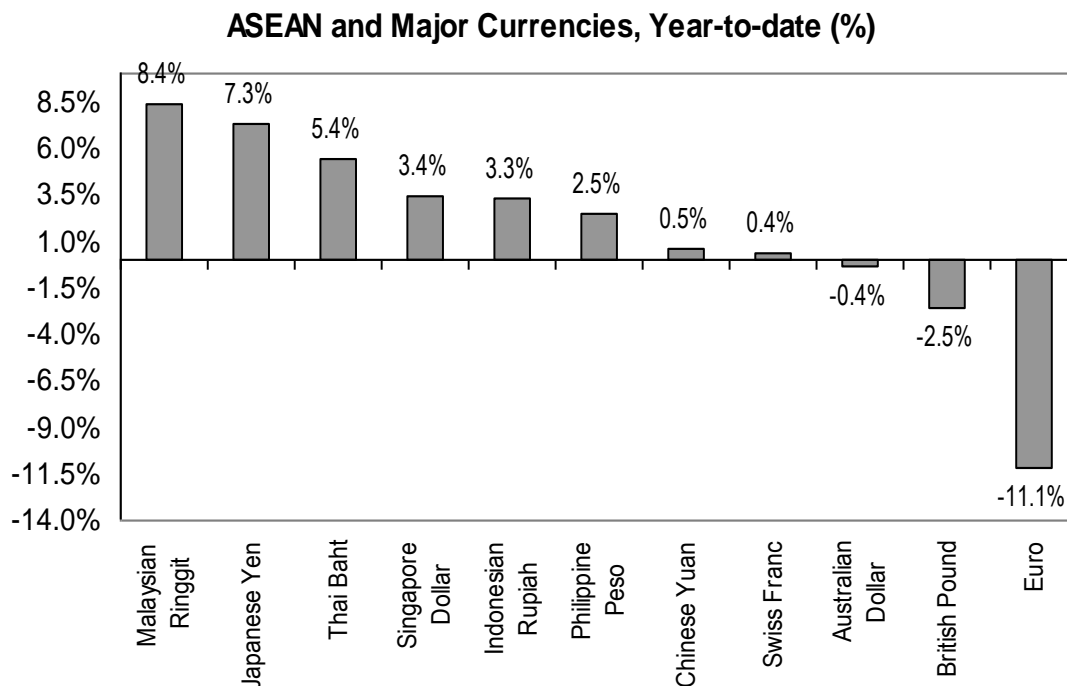
Peso Targets 40

In previous articles we have discussed why the peso has remained one of the most stable currencies in the world despite the Euro's weakness and the general recovery in the US dollar. Record OFW remittances, continued expansion of BPOs, increased portfolio inflows to the stock market, the resumption of export growth and the widely accepted election of P-Noy are just some of the reasons behind the peso's strength (see *The Stable Philippine Peso*, March 1, 2010).

The peso is not only appreciating against the US dollar but is also stronger against other major currencies. The stability and resilience of Asian economies throughout the global recession and during the recent European debt crisis is boosting the attractiveness of Asian currencies, especially ASEAN currencies (see *Philippine Peso – Gaining Strength Against Major Currencies*, April 12, 2010).

Portfolio funds have also been re-rating Asia, as a preferred investment destination, particularly the ASEAN region. Recent data on exchange-traded-funds (ETFs) show strong investment inflows going to ASEAN, including the Philippines. This further strengthens the ASEAN currencies, which in turn, bolsters the strength of the peso (see *Right Place, Right Time*, Sept. 9, 2010).

The table below shows that ASEAN currencies have outperformed most major currencies except for the Japanese yen. The Malaysian ringgit appreciated the most against the greenback with a gain of 8.4 percent year-to-date. The Philippine peso is up 2.5 percent against the US dollar over the same period. The euro, meanwhile, has weakened by -11.1 percent.



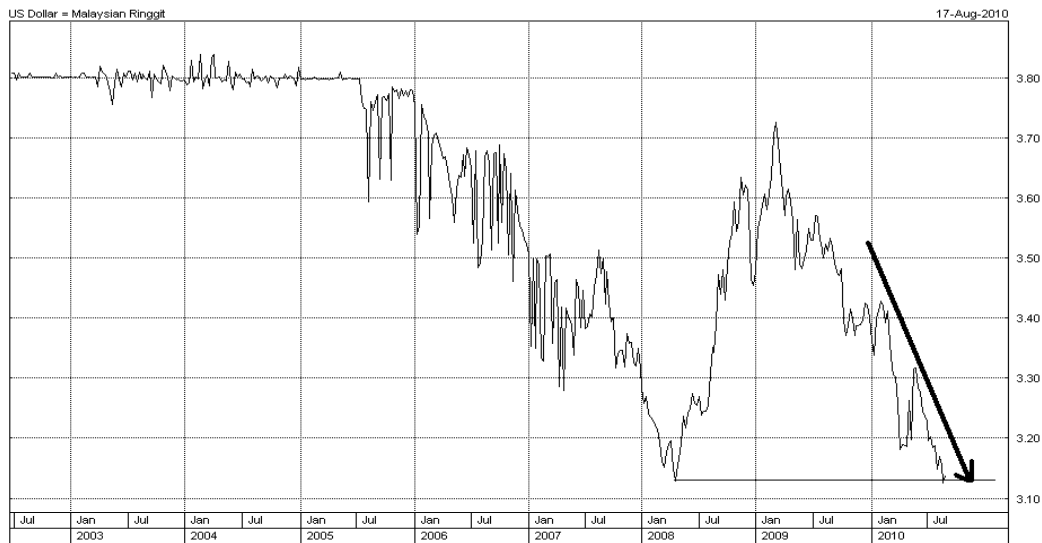
Source: Oanda.com., Philequity Research

ASEAN Currencies Reaching New Highs

Last Thursday, the Malaysian ringgit hit its highest level against the US dollar since the Asian crisis in the late 1990s. The ringgit reached a 13-year high of 3.126 after Bank Negara, Malaysia's central bank, liberalized rules of foreign exchange transactions. The ringgit was also supported by robust growth figures which showed that the Malaysian economy grew 8.9 percent in the 2nd quarter of 2010.

From a technical perspective, the ringgit is attempting to convincingly break the previous peak registered in 2008 (see chart below). While we expect the currency to consolidate in the short-term, we believe it is just a matter of time before the ringgit scales new highs.

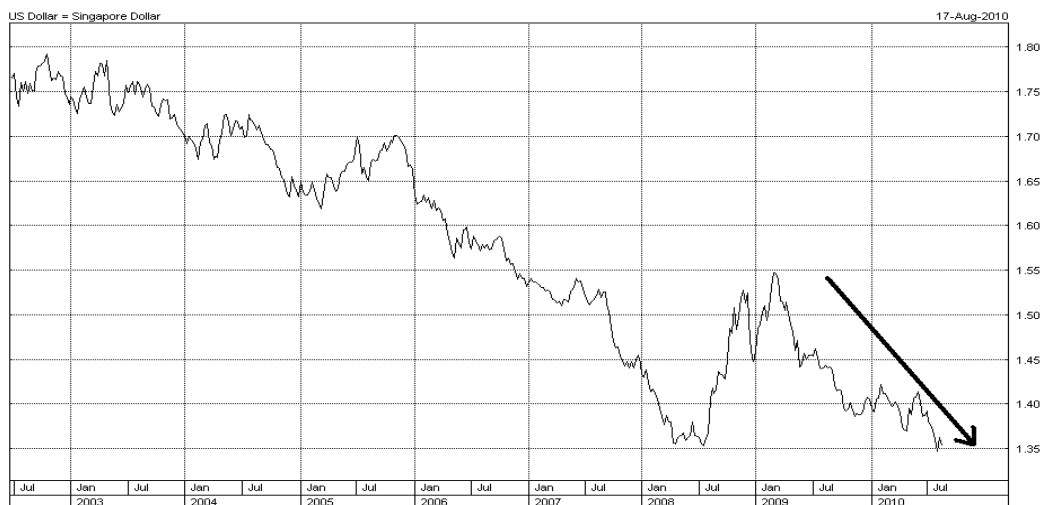
Malaysian Ringgit Weekly Chart (2003 – Present)



Source: Technistock

Another ASEAN currency making new highs is the Singaporean dollar after Singaporean authorities reported recently a GDP growth of 18.8 percent for 2nd quarter 2010. Looking at the chart below, you can see that prices are now testing major resistance at 29-year highs of 1.3443 against the US dollar. This level was last challenged just before the onset of the global credit crunch in 2008.

Singapore Dollar Weekly Chart (2003 – Present)



Source: Technistock

Positive News for the Peso

Similar to ASEAN peers, the Philippines has been reporting economic news that is positive for its currency. Exports in June, for example, grew 33 percent to \$4.55 billion which is the highest level in 32 months. The balance-of-payments (BOP) showed a surplus of \$3.3 billion for the first 7 months. The gross international reserves (GIR) reached a record \$48.6 billion, enough to cover 9 months worth of imports. Portfolio investments almost tripled to \$700 million for the January - July 2010 period. Meanwhile, business confidence hit an all-time high of 59.2 percent according to the latest Business Expectations Survey by the Bangko Sentral ng Pilipinas (BSP).

Peso Going Back to 40

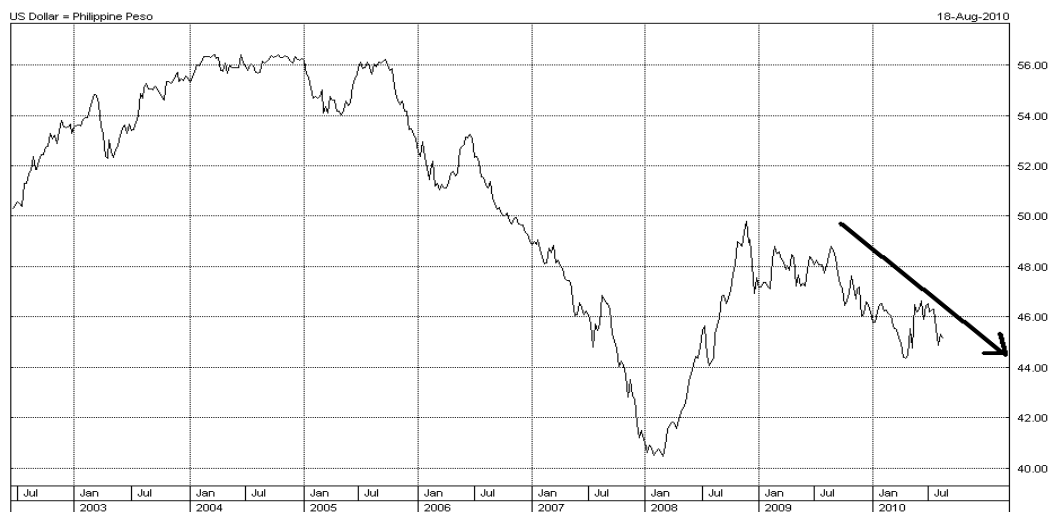
Like the Malaysian ringgit and the Singapore dollar, we expect the Thai Baht, Indonesian rupiah and the Philippine peso to appreciate further. With the current strength of our ASEAN neighbors, the Philippines will not be left behind.

Without the BSP led by Governor Amando Tetangco intervening and buying dollars to slowdown the strength of the peso, it would have breached the 44 level already.

We expect the peso to reach 44 by end-2010, 42 by end-2011 and 40 by end-2012 assuming the following set of conditions exists:

- 1) There is no double dip in the US or in Europe.
- 2) China succeeds in soft-landing its economy.
- 3) EU remains in control. No sovereign default is triggered in Europe.
- 4) Philippines remains on track to its fiscal deficit target of 3.9 percent of GDP in 2010 and 3.2 percent of GDP in 2011.
- 5) The economic policies of P-Noy remain and his competent economic managers led by Finance Secretary Cesar Purisima remain firmly at the helm.

Philippine Peso Weekly Chart (2003 – Present)



Source: Technistock

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