Philequity Corner (04/25/2011)
By Valentino Sy

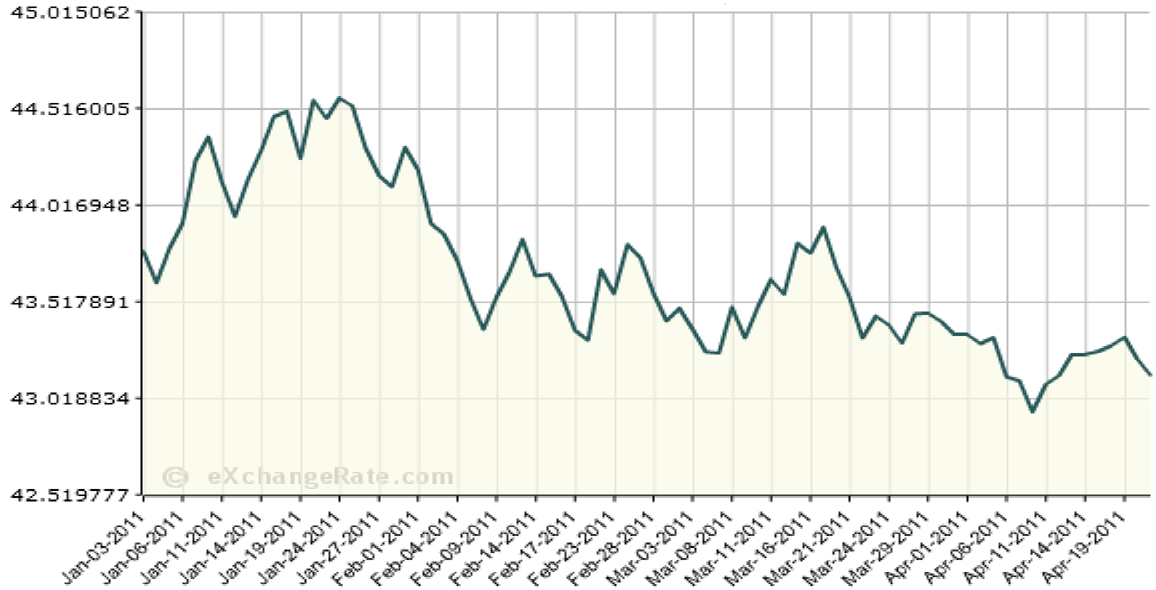
Peso Strength, Dollar Weakness

The Philippine peso has been steadily appreciating against the US dollar this year as the greenback registers all-time lows against the Chinese yuan, the Aussie dollar, Singapore dollar and gold. The peso has risen 1.5 percent year-to-date against the US dollar to close at 43.14 last week. If not for the Bangko Sentral's stabilization efforts, we think that the peso would have already breached the 43:$1 level a long time ago.

Cushioning the peso's appreciation

The BSP is clearly at the helm. Without doubt, it has bought US dollar every time the peso-dollar rate would move sharply higher. In early April, the peso could have convincingly broken below 43 if not for the BSP's intervention.

Peso-Dollar Chart



Source: www.eXchangeRate.com

Reserves hit record levels

BSP's active participation in the currency market is evident in the build-up of the country's gross international reserves (GIR). By the end of the 1st quarter 2011, GIR stood at a record $66 billion, 45 percent higher than the $45.6 billion as of the same period last year. This latest GIR figure is enough to cover 10.2 months of imports and is already bigger than the country's total foreign currency debts at about $60 billion. The BSP is expecting GIR to reach $70 billion by year-end, fueled by remittances, exports and other external inflows.

Peso rise, more managed

Thanks to the BSP's efforts, the peso's rise against the US dollar has been relatively steady. So far, it has been successful in balancing the peso's appreciation. On one hand, it takes into account the needs of exporters, OFWs and the BPO sector for a competitive peso. On the other hand, it considers the benefits of a stronger peso in addressing high oil prices and fight imported inflation. If not for the BSP's intervention, the peso would have risen faster.

Elsewhere in the region, the Korean won rose to a 32-month peak despite an estimated $2 billion intervention by monetary authorities. The won is the best performing Asian currency, gaining 4 percent year-to-date against the dollar. Meanwhile, the Singapore dollar hit a record high of 1.2346 against the greenback last week and the Indonesian rupiah hit a 7-year high of 8,662 on little sign of intervention by their central banks. The Malaysian ringgit strengthened to 3.0054 last week, the strongest since Sept. 1997.

ASIAN CURRENCIES	Rate as of 12/31/2010	Rate as of 4/22/2011	% Change Year-to-date
Korean Won	1,126.0	1,080.8	4.0%
Singapore Dollar	1.2834	1.2346	3.8%
Indonesian Rupiah	8,996.0	8,662.5	3.7%
Malaysian Ringgit	3.0635	3.0054	1.9%
Philippine Peso	43.80	43.14	1.5%
Chinese Yuan	6.6070	6.5076	1.5%
Taiwan Dollar	29.30	28.90	1.4%
Indian Rupee	45.32	44.72	1.3%
Thai Baht	30.06	29.92	0.5%

Source: Bloomberg

Dollar collapses against major currencies

Against major currencies, the US dollar has been on a rout. It has fallen 9.9 percent against the euro, notwithstanding the ongoing debt issues of some Eurozone members. The dollar has also declined 6.7 percent against the British pound and 5.8 percent against the Swiss franc. Against commodity-linked currencies such as the Australian dollar and Canadian dollar, the greenback has weakened 5.7 percent and 4.5 percent, respectively.

It is only against the Japanese yen where the US dollar has performed better this year. And yet it is only up by 0.4 percent against the yen despite the catastrophe that recently hit Japan.

MAJOR CURRENCIES	Rate as of 12/31/2010	Rate as of 4/22/2011	% Change Year-to-date
Euro	1.3252	1.4561	9.9%
British Pound	1.5468	1.6509	6.7%
Swiss Franc	0.9405	0.8861	5.8%
Australian Dollar	1.0161	1.0738	5.7%
Canadian Dollar	0.9999	0.9545	4.5%
Japanese Yen	81.54	81.88	-0.4%

Source: Bloomberg

Ballooning fiscal deficit and loose monetary policies

The combination of ballooning fiscal deficit and loose monetary policies has caused investors to flee the dollar. This year the US federal government is projected to run a deficit of $1.645 trillion dollars, which is more than 11 percent of GDP. While most governments around the world have embarked on austerity programs, the US has not laid down any credible plan to reduce its fiscal deficit going forward. To add insult to injury, the US Congress will once again debate increasing the federal debt ceiling in mid-May.

Meanwhile, there is no clear sign yet that the US is going to raise interest rates despite QE2 supposedly ending by June. While others have already tightened such as the Bank of China and the ECB recently, the US Fed has not even signaled yet that tightening is imminent.

S&P: Negative outlook on US' AAA credit rating

The greenback's slide against major currencies accelerated last week after the Standard & Poor's slapped a negative outlook on the US' AAA credit rating. The agency said that a downgrade is possible if authorities cannot slash the massive US budget deficit in two years.

Weak dollar sends gold & silver to record highs

In our past article on gold (see ***Gold Sparkles***, December 13, 2010), we cited the major reasons why gold prices continue to appreciate, which are as follows:

1) Gold is now considered an asset class on its own.
2) Gold is a hedge against inflation and uncertainties.
3) Gold benefits from QE II.

The same arguments also apply to silver. But in addition to the reasons cited, gold and silver are also rising because of US dollar weakness. Demand for the precious metals increases as investors seek alternatives to hedge against the falling greenback. Moreover, increasing distrust over "fiat" currencies or paper money has led mainstream financial players towards investment in hard assets like gold and silver.

Since the start of the year, gold has appreciated 6 percent against the US dollar while silver has surged 51 percent. Gold settled at a record $1,504.6/oz. last week while silver hit a 31-year high of $46.57/oz.

Philippine mining sector outperforms

In the local market, investors can hedge against dollar depreciation and participate in the precious metals boom by investing in mining companies. This year, the mining sector has outperformed the PSE index by a wide margin. The mining companies listed below have gained an average of 38.1 percent year-to-date compared to the PSE index's 0.7 percent return over the same period.

In our article last December, we mentioned Lepanto and Manila Mining as the mining issues with the best long-term growth potential. Lepanto (A&B combined) is up 50 percent year-to-date, while Manila Mining (A&B) is up 65 percent.

Given the continued upward trajectory of precious metals, the downward trajectory of the US dollar, and the mergers and acquisitions (M&A) deals in the Philippine mining industry, the local mining companies will likely remain major beneficiaries.

Company	Price as of 12/30/2010	Price as of 4/20/2011	% Change Year-to-date
Manila Mining "A"	0.023	0.038	65.2%
Manila Mining "B"	0.023	0.038	65.2%
Lepanto "B"	0.46	0.72	58.2%
Lepanto "A"	0.46	0.65	41.3%
Nickel Asia	16.30	22.00	35.0%
Philex Mining	16.10	17.74	10.2%
Atlas Cons. Mining	17.48	15.96	-8.7%
		Average	**38.1%**
		PSE Index	**0.7%**

For further stock market research and to view our previous articles, please visit our online trading platform at www.wealthsec.com or call 634-5038. Our archived articles can also be viewed at www.philequity.net.