

Philequity Corner by Valentino Sy
August 12, 2013

Peso support at 44 holding ground

It appears that the peso's support at the 44 level will hold ground despite weakness in some regional currencies last week. Many were concerned that the peso might breach the upper level of its sweet spot (42 to 44) against the US dollar after the Indian rupee registered new record lows against the greenback while the Malaysian ringgit and the Indonesian rupiah reached new 3-year lows. But strong China data last Thursday spurred recoveries in emerging market currencies.

China showing early signs of recovery

The trade data released last week showed early signs that the slowdown in China was nearing an end after imports and exports rebounded in July. In addition, manufacturing companies reported increased expansion in Chinese factory activity last month. Copper and other metal prices surged following the news. Meanwhile, the so-called commodity currencies such as the Australian dollar, Canadian dollar, and the Brazilian real rose to their highest levels this month.

The Australian dollar found support at 0.885 against the US dollar after declining as much as 14.3 percent this year. It closed at 0.9206 last Friday.

AUD/USD 5-year chart



Source: finance.yahoo.com

Note that the Malaysian ringgit made a new 3-year high last week reaching 3.2575 against the US dollar. But this may prove to be a false breakout if China's economy continues to show signs of stabilizing. Like Australia, Malaysia is also heavily dependent on commodity exports with petroleum, palm oil and rubber being some of their top exports. Thus, a recovery in China will also be positive for the Malaysian ringgit.

MYR/USD 5-year chart



Source: *finance.yahoo.com*

Rupee weak due to structural problems

The Indian rupee, meanwhile, is unlikely to regain much ground against the US dollar due to structural problems in the Indian economy. India's twin fiscal and current account deficits and weak reserves continue to weigh on the currency.

From 2004 to 2008 (fiscal year ending March), the government budget deficit averaged 3.25 percent of GDP. But from 2009 to 2013, the deficit ballooned to an average of 6.1 percent of GDP. Meanwhile, the current account deficit to GDP averaged just 0.4 percent from 2004 to 2008. But from 2009 to 2013, it swelled to an average of 3.4 percent of GDP

The rupee reached an all-time low of 61.80 against the US dollar last Wednesday before closing the week at 60.86. Year-to-date, the rupee is the 2nd worst performing Asian currency (next to the yen) declining by 10.6 percent against the US dollar.

INR/USD 5-year chart



Source: *finance.yahoo.com*

44-level should hold

Compared to India, the Philippines appear to be ahead in terms of structural reforms (see *Secular Bull Market*, January 28, 2013). During the past two decades, a number of structural reforms were passed, such as the implementation of EVAT, oil deregulation, and the abolition of the Oil Price Stabilization Fund (OPSF), which eased the government's fiscal balances. On top of this, robust OFW remittances and BPO revenues have shored up the country's current account.

Our country's foreign exchange reserves now stands at \$82.9 billion or equivalent to one-year worth of imports. In comparison, India's \$280 billion of reserves covers just 7 months worth of imports. This gives the Bangko Sentral ng Pilipinas (BSP) more dry powder to curb foreign exchange volatility.

While the peso may not be immune to future volatility and further weakening of emerging market currencies when the US Fed starts to implement QE tapering, we believe the peso will show more stability.

Near-term, we expect the peso to strengthen due to the encouraging growth rebound in China and the subsequent rally in emerging market currencies. Unless emerging market currencies resume their sharp losses against the US dollar, we expect the 44 support level to hold

USD/PHP 5-year chart



Go Gilas! Puso!

Congratulations to Gilas Pilipinas for its historic win against South Korea last Saturday, earning a FIBA Asia finals berth against Iran and a spot at the 2014 FIBA World Cup in Spain. This is a big victory for the country which puts the Philippines back on the world basketball map.

The whole stadium shouting "Gilas" and "Puso" gave one goose bumps as Gilas Pilipinas won on pure heart especially when its naturalized center was not able to play in the 2nd half. The feeling is just like when Pacquiao fights or when the Philippine stock market is making new highs.

Cheers to the coaching staff led by Chot Reyes, Jong Uichico and Normal Black. And congratulations to MVP who sacrificed time, money and effort for Gilas Pilipinas team.

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