

The past week proved to be a quiet one for the index, with the PSEi consolidating above the 7,800 level. However, this belies the sharp move in the peso, which ended the week at 50.18/\$. As of this writing, the peso still continues to weaken.

This peso weakness can be attributed to a number of things. First, the current account deficit, our first in 15 years. Second, some investment houses have downgraded their growth forecasts for the Philippine economy, with some expecting growth of 6%, below the government's target. Third, the BSP did not mirror the Fed's move to raise interest rates, causing the interest rate differential to narrow. Fourth, we saw OFW remittances drop by 6% in April hitting a 15-month low. This bears watching. Finally, there are reports that BPO investments in the first 5 months of 2017 have dropped 35%. No data yet on BPO revenues, but this may put a cap on growth moving forward. With all of these happening at the same time, our currency has been underperforming its peers. In fact, on a YTD basis, we are the 3rd worst performing EM currency, behind only Brazil and Argentina.

That said, as long as the tax reform package passes into law, the long term prospects of the Philippines remain intact. This can also pave the way for a credit rating upgrade next year. Until these materialize though, we expect the PSEi to consolidate in the near term.



Philippine Stock Exchange Index (PSEi) - 1 year chart





With no catalysts in the horizon, expect the PSEi we to consolidate in the near term. We are closely monitoring the peso as it weakened significantly in the past 2 weeks. We will be using dips as opportunities to buy.

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