Philequity Corner (April 30, 2018)
By Wilson Sy

From Stable to Positive

After a slew of negative news and downgrades of the Philippine equities market by prominent foreign banks such as JP Morgan and Morgan Stanley, the Philippines finally got a break. Last week, one of the world's top credit rating agencies, S&P, affirmed the Philippines' investment grade rating and upgraded their outlook from stable to positive.

Positive outlook

In its report released on April 26, S&P said that **"the positive outlook reflects our view that improvements to the Philippines' policymaking settings could support a track record of more sustainable public finances and balanced growth over the next 24 months."** While some economists highlighted the country's current account deficit as a negative, S&P said that **"given the Philippines' historically low levels of investment, we believe a modest current account deficit of this nature is characteristic of positive trends in the economy."**

Potential credit rating upgrade

S&P bolstered their bullish outlook by adding that **"they may raise the ratings if the government's fiscal reform program leads to further achievements over the course of the next 24 months."** This is a very important statement because this vote of confidence by one of the world's top credit rating agencies will make it easier to attract foreign investments and lead to lower borrowing costs for the Philippines. This could not come at a better time since the government is in the midst of issuing debt to fund the ambitious "Build, Build, Build' program.

Wisdom of Philippine growth plan

To justify its positive outlook, S&P noted that **"the Philippines has a strong external position, and improving policymaking in recent years has contributed to sustainable public finances, as well as solid economic growth."** Reacting to the S&P upgrade, DOF Secretary Sonny Dominguez said that **"credit watchers saw the wisdom of the Philippine growth plan"** and that this report is "an affirmation of the effectivity of the Duterte administration's economic agenda."

Welcome pat on the back

After being bombarded and harassed by bankers, economists and analysts, BSP Governor Nestor Espenilla was finally vindicated. S&P cited **"BSP's ability to support sustainable economic growth while attenuating economic or financial shocks"** as one of the reasons behind its outlook upgrade from stable to positive. In response to this, Espenilla said that **"favorable credit rating actions are a welcome pat on the back.**" He added that the BSP is "also keen on helping push the economy toward the next stage of development through financial sector reforms, which are vital for accelerating growth and making it more inclusive."

Immediate and appropriate

Espenilla also allayed fears that the BSP is not doing enough to combat inflation. He said that not only is the BSP "committed to its price and financial stability mandates", but he is ready to take **"immediate and appropriate"** measures to keep inflation in check. Moreover, Espenilla said that "economic growth remains solid enough to absorb some monetary policy tightening, if warranted." Note that this is the first time the BSP hinted at a potential rate hike. In fact, a rate hike may actually be forthcoming because the next monetary board meeting is on May 10, just over a week from now. Ironically, this is one time that the market actually welcomes a rate hike.

PSEi best performing market last Friday

After weeks of declines, the S&P report gave the Philippine stock market a much-awaited respite. This upgrade changed the sentiment for Philippine stocks. In fact, after the S&P report was released to the public last Friday, bulls roared into action, with the PSEi closing up 1.36% – the best performing Asian stock market that day.

Peso reverses course

Equities were not the only beneficiary of the S&P report. Last week, the peso stemmed its losses and managed to end the week at 51.90, stronger by 0.4% against the US dollar and below the crucial 52 level. Note that all these gains happened after the S&P upgrade. This is even more notable because every Asian currency depreciated against the US dollar last week. On the other hand, the Philippine peso bucked the trend of a stronger US dollar and strengthened against most major currencies like the euro and the yen. If the peso manages to hold below the 52 level, it may signal a pause in its downtrend this year.

Bouncing from support

With the PSEi falling through support level after support level, traders have become quite gun-shy. Thus, the timing of the S&P report was impeccable because it caused our market to bounce off the 7,500 support. The S&P upgrade could not have come at a better time as it may have provided a floor for our equities market and the Philippine peso.

Market steadying itself

With the deluge of foreign selling in the past months and the multitude of risks on the global front (see *The Return of Volatility*, 2 April 2018), the PSEi was buffeted by bouts of stinging volatility. Fortunately, this vote of confidence from S&P may be the catalyst that helps our market steady itself. Equities may remain volatile, but if the government is able to implement its economic and fiscal reform program effectively, then we may see more positive catalysts for our stock market in the future.

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