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# PHILEQUITY CORNER

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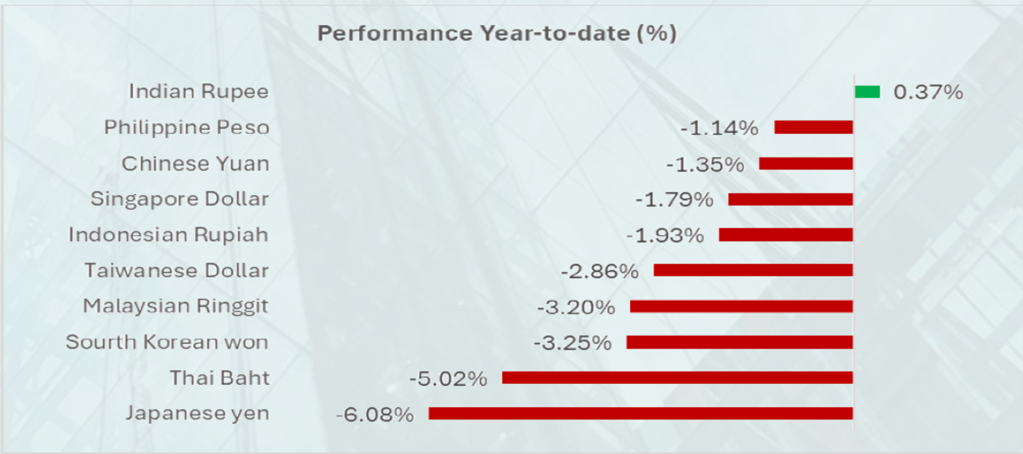
## USD strength, Asian challenges

Recent robust US economic data (nonfarm payrolls, January CPI figures) have dashed hopes for a March rate cut by the Fed. Our previous piece highlighted this (refer to *May, not March*, February 5). The stronger inflation print rules out March, and the anticipated Fed rate cut might not even materialize in May. The interest rate futures now position June as the probable timing for the first cut.

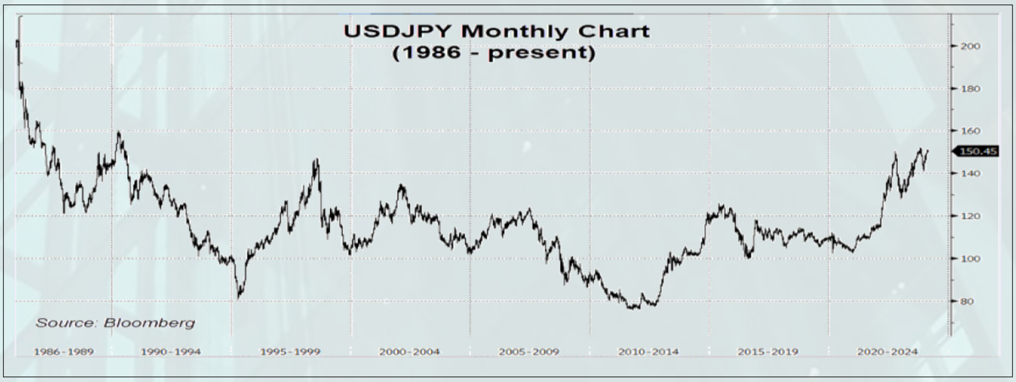
The US dollar has strengthened rapidly due to the repricing of the Fed rate cuts. This has led to an average year-to-date depreciation of Asian currencies amounting to 2.63%. This depreciation has partially offset the 3.95% surge witnessed in the final two months of 2023. The Japanese yen, Thai baht and Malaysian ringgit led the downturn. Amidst this trend, the Indian rupee stands as an exception, showing against the greenback with a year-to-date return of 0.37%.




*Source: Bloomberg*

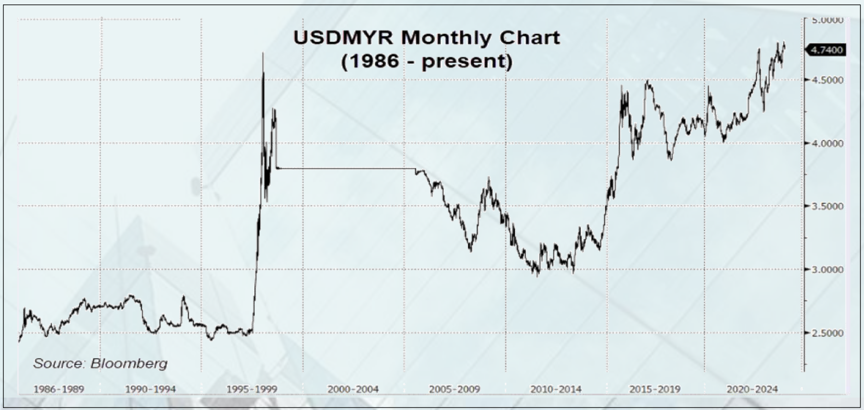
## Japanese yen resurges above 150

Over the past two months, the broader strength of the US dollar has propelled the yen back above the 150 level. The yen is down 6.08% year-to-date, just below the post-1990 high of 152. Japan's core inflation slowed to 2.0% from 2.3% in December, but it exceeded the estimates of 1.8%. This has raised expectations of a potential rate hike in April. Despite the heavy short positioning and oversold levels, the yen surprisingly failed to rally after the CPI release.



## Malaysian ringgit hits 26-year low

The Malaysian ringgit fell to a low of 4.80 against the US dollar two weeks ago. This is the weakest level in 26 years, approaching the all-time low of 4.885. The ringgit has experienced a decline of 3.2% this year. The economic slowdown in China, Malaysia's biggest trading partner, has substantially impacted the export-driven economy. Exports to China plunged by 12% yoy, dropping from $47.8 billion in 2022 to $42.1 billion in 2023. Malaysia posted a GDP growth of 3.0% in the 4th quarter of 2023, missing forecasts of 3.4%.




## Thai baht struggles with economic woes

Thailand has similar problems as Malaysia. GDP growth in the 4th quarter of 2023 came in at a mere 1.7% vs. estimates of 2.6%. Exports have remained stagnant in the low single digits, while tourism has yet to boost growth. This has prompted Thai Prime Minister Srettha Thavisin to call for an emergency rate cut from the Bank of Thailand (BOT) to lower borrowing costs by 25bp to 2.25%. But his demand was rejected by BOT Gov. Sethaput Suthiwartnarueput. The political pressure undermining the independence of the BOT has contributed to the Thai baht's underperformance, marking a notable decline of 5.02% year-to-date.

## Indian rupee is the only winner

Against a backdrop of global central bank cuts, high-yielding Indian rupee has demonstrated notable strength. It is the only Asian currency showing positive gains against the US dollar. The 10-year Indian government bond yield stands at 7.06%, providing a relatively appealing spread, especially compared to US 10-year yields at 4.18%.

## Philippine peso lost less

Except for the rupee, all other Asian currencies depreciated against the US dollar this year. The Philippine peso, however, demonstrated resilience by losing less with only a 1.14% decline year-to-date. Despite the relative stability, the peso faces persistent challenges as the US dollar continues to strengthen against most currencies.