Macro | FX Research and Strategy

Global

FX Flash

PHP - Weakness Could Persist

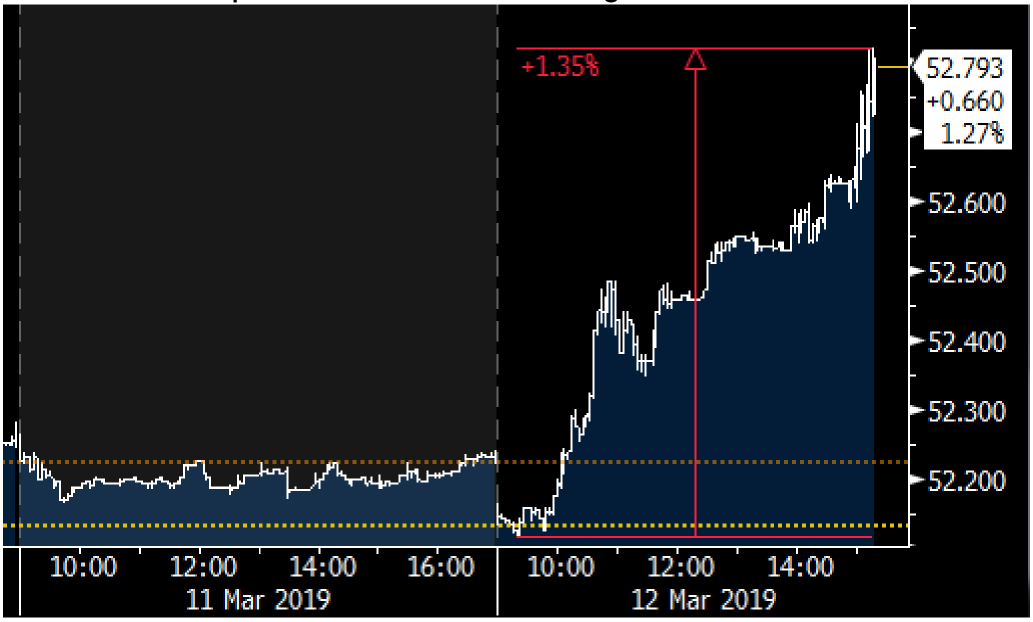
USDPHP Spikes

It is proving to be an eventful day for the USDPHP. The pair broke out of its recent familiar trading range to spike by nearly 1.4% to a one-and-a month high of 52.853 at the point of writing (chart 1). This was even though the USD was softer. We cannot rule out further moves higher by the USDPHP in the near term. Meanwhile, technical chart also suggests there is more room for the THBPHP to climb higher in the near term. We are bias to accumulate the THB vs. the PHP.

A confluence of factors is pressuring the pair higher. Kicking off the move higher was the release of Jan trade data this morning. Exports slipped by 1.7% y/y in Jan, beating market expectations of -4.3%. Imports though rose by a stronger +5.8% y/y compared to expectations of -0.4%. This resulted in a wider trade deficit of USD3.76bn (Dec: -USD3.75bn) in Jan vs. consensus expectations of -USD3.62bn. This deterioration in trade deficit weighed on the PHP, keeping the USDPHP supported above the 52-handle.

Not helping as well was the warning by President Duterte that the delay in the passage of the FY2019 budget by Congress could stall economic growth. By the estimates of Finance Secretary Carlos Dominguez, this delay would result in the government foregoing PHP46bn in spending in 1Q. This could remove as much as 2.3 percentage point from this year's growth. The warning by Duterte regarding economic growth may have weighed on risk sentiments, triggering an upward move by the USDPHP.

Chart 1: USDPHP Spiked To A Near Two-Month High



Source: Bloomberg, Maybank FX Research & Strategy

Analysts

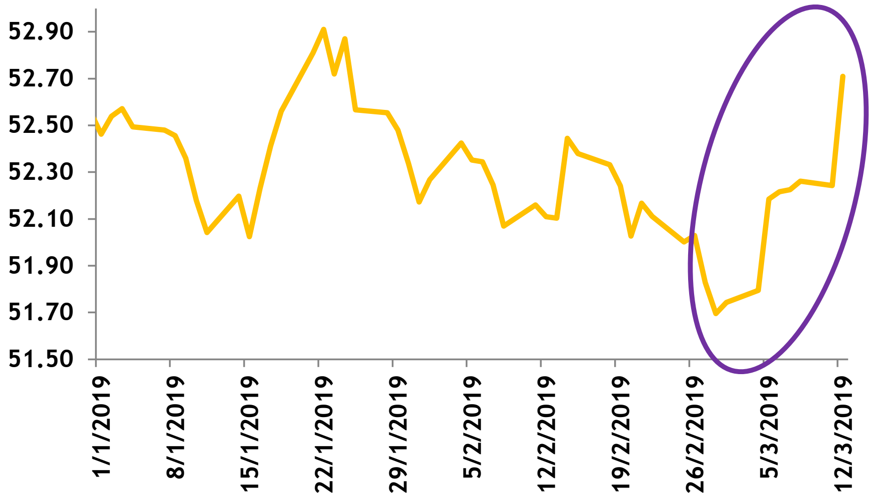
Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Chart 2: USDPHP Has Move Markedly Higher With The Dovish Rhetoric Of The New BSP Governor Benjamin Diokno



Source: Bloomberg, Maybank FX Research & Strategy

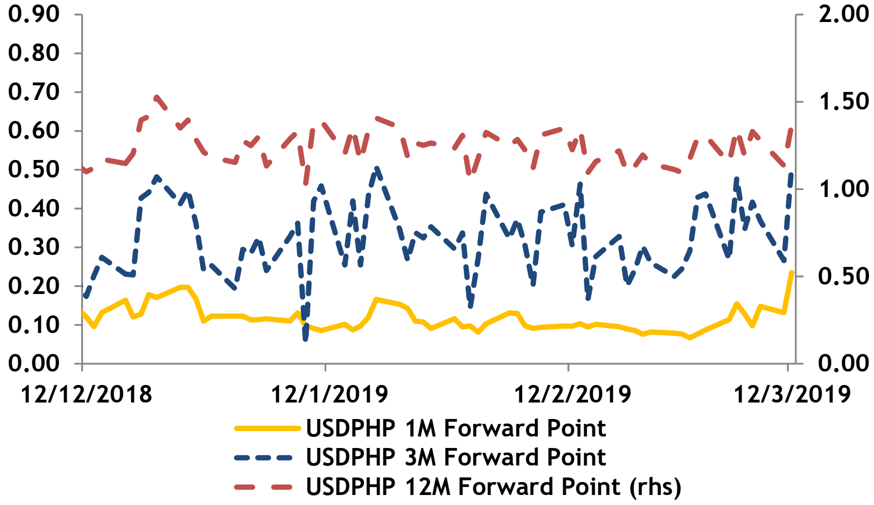
But the key driver of the upmove in the USDPHP today was dovish comments by the BSP governor regarding monetary policy and PHP levels. In a TV interview, BSP Governor Benjamin Diokno highlighted that the central bank had policy room to conduct monetary easing amid moderating inflation, stable oil prices and US Fed's dovish pivot. The caveat though was that any policy adjustment had to be evidence-based or data-dependent. Talks of a rate cut are PHP-negative.

At the same time, he reiterated that there is room for the BSP to cut the required reserve ratio (RRR) – a ratio of funds banks have to hold by law in reserves. He posited that it was possible to cut the RRR (currently at 18%) by 1 percentage point every quarter for the next four years. A cut in the RRR will allow more bank funds to be released into the domestic financial system. The increased liquidity conditions could weigh on funding costs and make borrowing even cheaper. This in turn could spur credit demand to fund infrastructure projects/business expansion plans. On the flip-side, looser financial conditions amid (potential) narrowing output gap could trigger inflationary pressures and unhinged inflation expectations. This could result in a foreign sell-off in Philippine assets on inflation fears and weigh on the PHP.

Most unfavourable to the PHP this morning was the governor's comments on the currency. He revealed the government's forecast range for the USDPHP at 52 to 55, and suggested that no intervention was necessary as the pair was trading within the band, albeit at the upper end. This suggested that the government could intervene to prevent the PHP from appreciating below 52 to the USD, and would be tolerant of any weakness in the PHP against the USD. Not surprisingly, market took this as a signal to unwind stale long-PHP bets vs. the USD. This puts upward pressure on the USDPHP intraday. This together with his previous comments following his appointment as governor has driven the USDPHP higher (Chart 2).

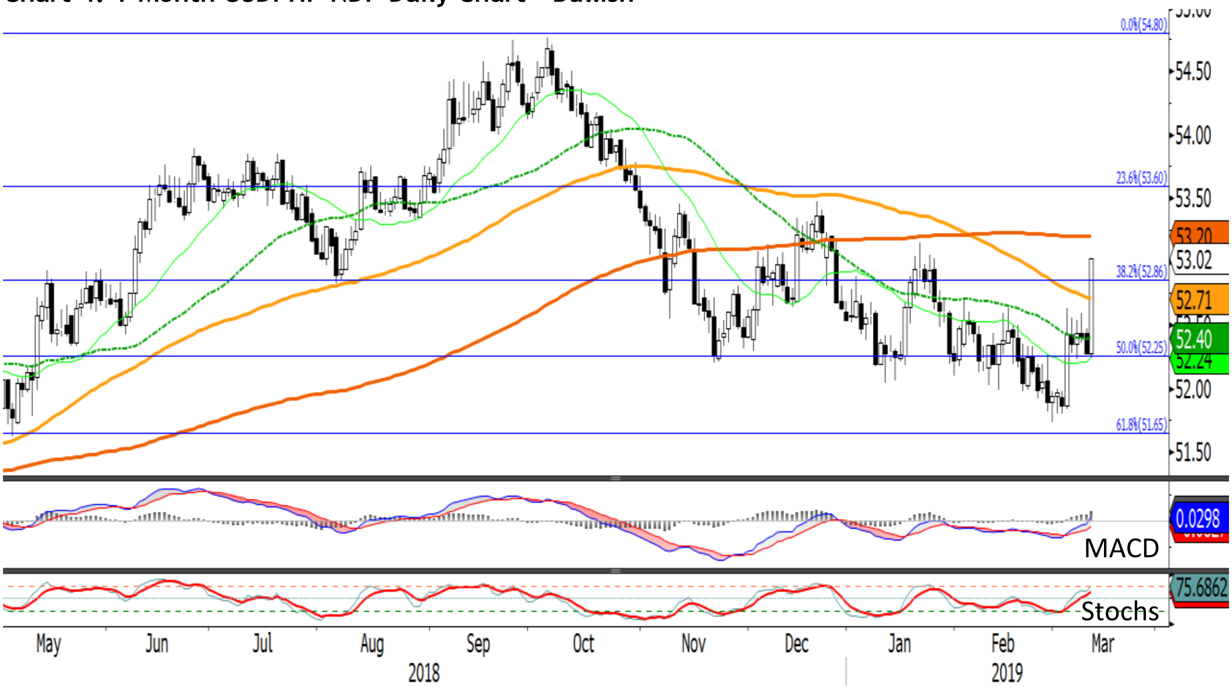
There appears to be room for the USDPHP to climb higher in the months ahead. Forward points suggest that the market positioning for further upside in the USDPHP (Chart 3). 1-month, 3-month and 12-month forward points are all pointing upwards.

Chart 3: USDPHP Forward Points Have Picked Up



Source: Bloomberg, Maybank FX Research & Strategy Estimates

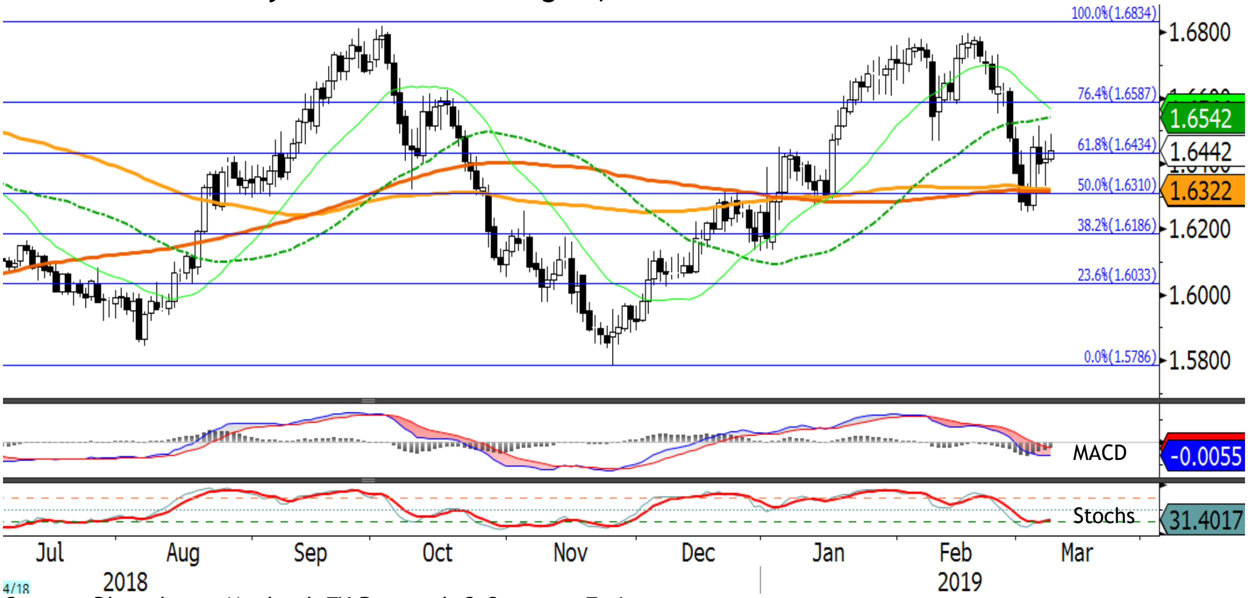
Chart 4: 1-Month USDPHP NDF Daily Chart - Bullish



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Last seen around 53.02-levels. Bullish bias on the daily chart remains intact, and stochastics is climbing toward overbought conditions. Weekly chart shows no directional bias and stochastics is turning higher from near oversold conditions. This suggests further upside risks cannot be ruled out. We seek opportunities to accumulate in the near term. 100DMA that has capped upside has been taken out and a revisit of the 53.20-levels and 53.60-levels (23.6% fibo retracement of the 2018 low to high) cannot be ruled out. Support at 51.75-levels (2019 low on 28 Feb).

Chart 5: THBPHP Daily Chart - Pressured Higher; Bias To Accumulate



Source: Bloomberg, Maybank FX Research & Strategy Estimates

This cross traded higher in line with our caution (Asia FX Fortnightly dated 8 Mar) for near term rebound risks. Last seen around 1.6665-levels, this cross has lost most of its bearish momentum on the daily chart, and stochastics is turning higher. There are potential risks of moves higher for this cross. We remain bias to accumulate this cross in the near term. Resistance is around 1.67-level, 1.68-levels (2019 high on 18 Feb). Support around 1.6435-levels (61.8% fibo retracement of the 2018 high to low), 1.63-levels (50% fibo).

DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank") and consequently no representation is made as to the accuracy or completeness of this report by Maybank and it should not be relied upon as such. Accordingly, no liability can be accepted for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those companies whose securities are mentioned in this report. Any information or opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the use of Maybank's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank. Maybank accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:

Maybank

Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat	Christopher Wong	Fiona Lim	Leslie Tang
Head, FX Research	Senior FX Strategist	Senior FX Strategist	Senior FX Strategist
saktiandi@maybank.com.sg	wongkl@maybank.com.sg	Fionalim@maybank.com.sg	leslietang@maybank.com.sg
(+65) 63201379	(+65) 63201347	(+65) 63201374	(+65) 63201378