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FX Flash

PHP - A Boost From S&P Credit Rating Upgrade

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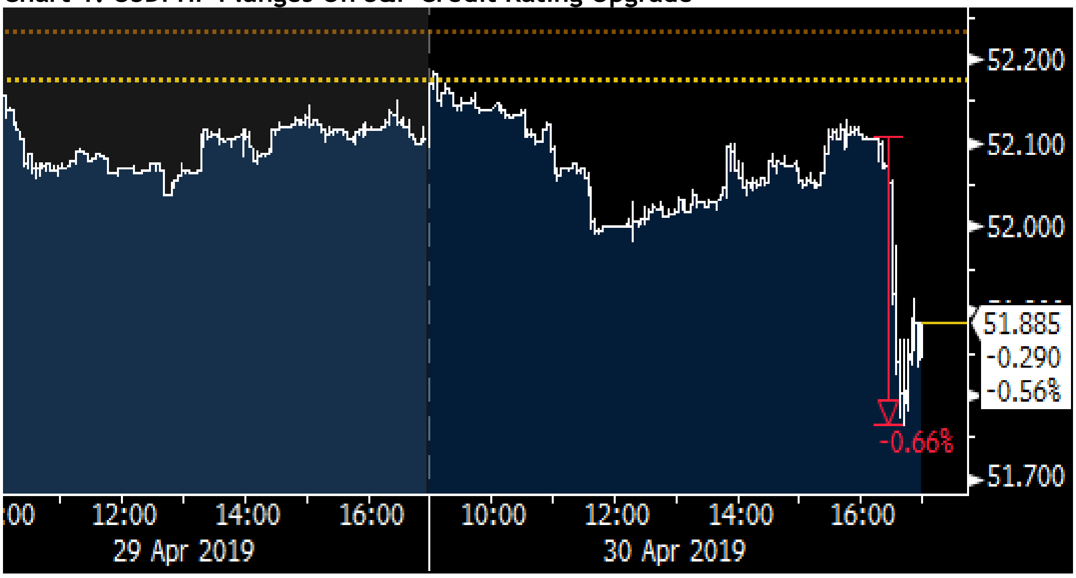
USDPHP Plunges

PHP regained the top spot among Asian FX in Apr. This follows S&P upgrade of the long-term sovereign credit rating of the Philippines to BBB+ with a stable outlook from BBB. The surprise move saw the USDPHP plunge nearly 0.7% to 51.766 in response, though it had since come off from those levels. The S&P cited strong economic growth trajectory, solid government fiscal accounts and sound external settings for its upgrade to the Philippines ratings. This should lift investor sentiments and spur inflows into Philippine assets, supportive of the PHP higher.

At the same time, the new BSP governor's affirmation of the central bank's policy stance in early Apr together with easing inflation lifted sentiments and spurred demand for Philippine assets, particularly equities. This has led to larger gains in equities than in the previous two months. Foreign investors have purchased +USD185.93mn in equities in Apr so far, sharply higher than the +USD88.28mn bought in Mar and a tad higher than Feb's +USD178.48mn. This inflow into Philippine equities in Apr has kept the PHP buoyant so far.

We do not entirely share S&P's optimism regarding the Philippines' economy. We believe that the risks to domestic economic growth in 2019 have risen though, especially from the delay in the passage of the FY2019 budget that are likely to see some key infrastructure spending delayed. This delay in fiscal support for the economy could see growth of 1-2 percentage points slashed from overall growth in 2019. These domestic growth concerns could weigh on sentiments, weighing on demand for equities, and put downward pressure on the PHP in May.

Chart 1: USDPHP Plunges On S&P Credit Rating Upgrade



Source: Bloomberg, Maybank FX Research & Strategy

Similarly, we expect constraints from its current account deficit could put upward pressure on the USDPHP. So far, the government's ambitious infrastructure building programme makes it unlikely that the current account deficit will dissipate anytime soon. In addition, trade disruption caused by the Sino-US trade war should weigh on external demand, worsening the trade deficits, while elevated oil prices on global supply constraints could add to the deficit woes. Further deterioration in the current account deficit should weigh on the PHP, and keep the pair supported ahead.

We continue to caution that the USDPHP could remain elevated in 2Q as some political uncertainties could manifest in the lead up to the general elections on 13 May 2019. This election will see 12 seats in the Senate and all seats in the House of Representatives as well as all regional, provincial, city and municipal positions up for grabs. Should the opposition win a majority of the seats in both Houses of Congress, they could effectively block the parliamentary agenda of President Duterte who would be mid-way through his one-term in office. The uncertainty in the lead-up to the elections could force investors to sit on the side-lines until clarity in the political environment emerges.

Anecdotal evidence suggests that approval ratings of the President will typically affect the ruling party. Former President Benigno Aquino's strong approval rating resulted in his ruling coalition coming out victorious with 9 out of 12 seats up for grabs in 2013, while former President Arroyo's weak ratings dragged her party down, resulting in the opposition gaining the most seats (8 out of 12 up for elections) in the Senate during the mid-term elections in 2007. Latest ratings show Duterte's approval, trust and satisfaction rating still high at 76%, 81% and 74% respectively in 4Q 2018 and could translate into his ruling coalition retaining its majority in the Senate. On average over the two mid-term elections (in 2007 and 2013), the PHP outlook has been mixed. A win by pro-Duterte parties in the mid-term elections might not necessarily translate into a stronger PHP, possibly on concerns over a lack of new policy initiatives to drive the economy further, given the President's term limits. Thus, the outlook for the PHP should remain cautious.

On the bright side, fading USD strength as a consequence of the Fed's pivot to a prolonged pause in rate hike should slow the USDPHP grind higher. Market expectations of no further rate hikes in 2019 and just one for 2020 could suggest that the Fed's tightening cycle is nearing its end. We could thus see the unwinding of stale long USD positions against its G10 peers and selected AXJs, providing the PHP with some support and keep the USDPHP from climbing higher too aggressively.

Taking into account the S&P credit rating upgrade, we have adjusted our USDPHP outlook but retained its trajectory over the forecast horizon. We now expect the USDPHP to end-2Q at 52.30 as political concerns are supportive. Pair should then retrace towards the 52-levels in 3Q. However, global growth concerns could re-emerge towards the end of the year could see USD re-emerge and push the pair higher to 52.50 and 52.80 in 4Q and 1Q 2020 respectively.

Maybank USDPHP Forecast

Forecast	2Q 2019	3Q 2019	4Q 2019	1Q 2020
USDPHP	52.30 (53.30)	52.00 (53.00)	52.50 (53.50)	52.80 (53.80)

Previous Forecast in Parenthesis

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