

# Asia FI & FX Strategy Watch

## Philippines – Lowering defenses on PHP

### BSP guidance - PHP out of the equation

Over the last one year, BSP has come a long way from delivering a surprise 75bps rate hike in July'22 to defend against PHP weakness to now guiding the market towards rate-cut in 1Q24. In the recent comments, BSP continues to test the waters with increasingly dovish bias, indicating little concerns on FX weakness derailing the disinflation process.

While Fed hiking cycle is still ongoing, BSP has decoupled itself from earlier guidance towards maintaining an interest-rate spread over US rates. Recent comments from BSP governor merely mentioned keeping an eye on other central banks actions rather than following them. Rate cuts guidance has become more concrete with mention of Jan-Feb window on expectations of inflation falling back to target in 4Q. There is some uncertainty on the Governor's term extension, but it is hard to discount the guidance as government representative on MPB has given similar guidance.

Thus, it appears that BSP may not mind moderate FX weakness to ease financial conditions. PHP remains near the top of the historical range in real terms which is not conducive to achieve the adjustment on external accounts. Weaker FX thus becomes more tolerable to support growth prospects and reduce the drag from imports.

### Tilting risks towards depreciation

We believe this reflects BSP's increasing comfort on PHP stability this year. Then the key question is whether this dovish bias is backed by fundamental improvement or the recent PHP price action. We believe that this comfort may not last long as it is driven by the latter while fundamentals remain weak for PHP. As BSP's reserves buffer remain relatively low, risk of sharper depreciation would increase if BSP maintains a dovish bias.

BofA economist expects current account gap to narrow from 4.8% of GDP in 2022, but still wide at 3.4% despite the correction in commodity prices and recovering tourism (See [Emerging Insight: Philippines – Can the BSP maintain its long pause? 20 June 2023](#)). BoP deficit narrowed YTD to around USD 0.5Bn but that mainly supported by government debt funding flows (See Exhibit 2).

On the portfolio investments, excluding net government debt flows of USD 1Bn, private sector flows turn to small negative YTD. Usually government debt funding's impact on FX should be limited if it flows directly to BSP reserves but it may have been partly converted through the market. Banks' flows of USD 4.3 Bn in 1Q were also driven by government loan funding of USD 2.2 Bn and other short term bank deposit flows of USD 1.4 Bn. Overall private sector flows remain insufficient to fund the current account deficit which would keep the currency under pressure.

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GEM FI & FX Strategy  
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### Glossary

BSP: Bangko Sentral Ng Pilipinas

CA: Current account

MPB: Monetary policy board

PHP: Philippines Peso

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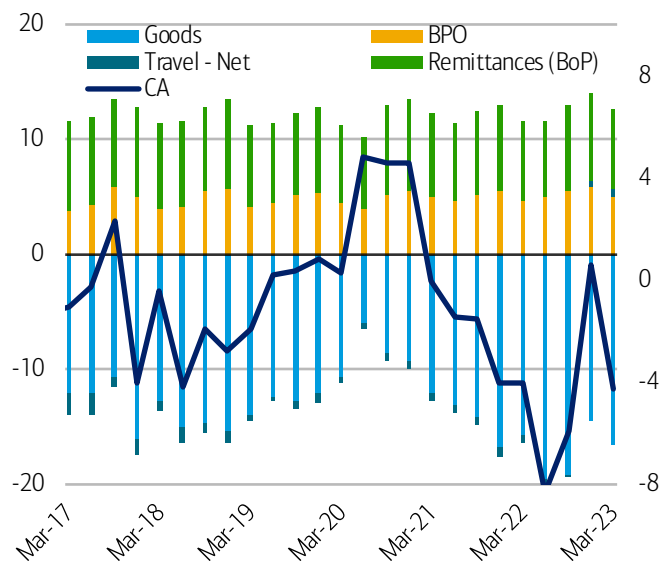
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**Exhibit 1: CA deficit likely to widen to 3.4% in 2023 on BofAe**

Philippines goods, BPO (business process outsourcing), travel exports and Remittances (% GDP, lhs) and CA (% Gdp, rhs)

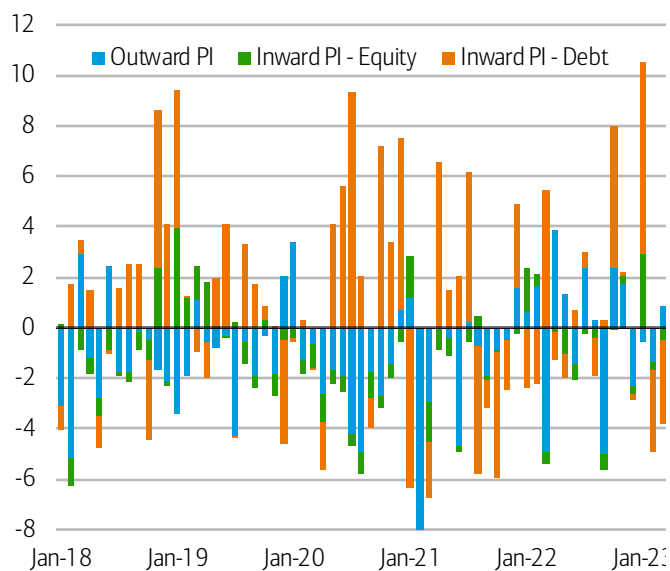


Source: BofA Global Research, Bloomberg

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**Exhibit 2: Inflows mostly from debt for government funding**

Portfolio investments (PI) broken into equity and debt (% of GDP)



Source: BofA Global Research, Bloomberg

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