

EM Alpha

Philippines – Pay PHP NDF Points

Pay PHP NDF points

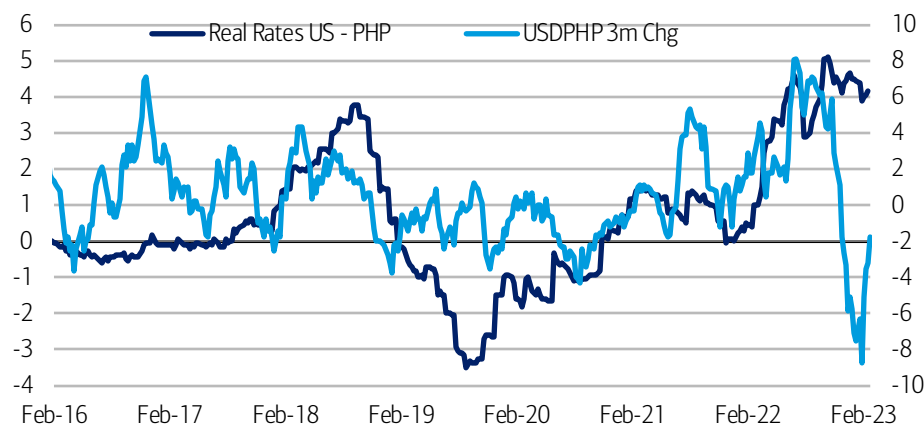
We recommend paying PHP NDF points in 3mx6m tenor (entry 12 pips, target 25 pips, stop 5 pips, carry/roll +2 pips/m). PHP NDF forward points offer little premium over onshore points which reflect the relative interest rate differentials. Current implied yields are around 6.3% on 1mx3m tenor. As the BSP has indicated a preference to maintain a 100bps positive interest rate spread to US rates, interest rate differentials are unlikely to compress much from current levels. That reduces the downside on points compression even if the market prices in more rate hikes from the Fed.

Real rates in Philippines remain -2.6% vs spot inflation and even more negative as a spread to US long-end real rates (See Exhibit 1). PHP has recently diverged from this spread after the Fed pivot in Nov'22. However, Philippines' external fundamentals remain challenging due to a) a still wide current account deficit driven by strong consumption recovery and dependence on oil imports, along with b) limited capital inflows. That would require the market to price in more premium in the forward space to make it more costly to go short PHP. We prefer longer tenor forwards to also gain from positive roll-up as we expect the pressure to last over the next few months.

Risk to the trade could arise from reversal of higher rate pricing in the US which could soften USDPHP and reduce pressure on the BSP to hike rates. The other risk could be PHP strength on remittance inflows towards end-March ahead of Easter.

Exhibit 1: PHP has diverged sharply from relative real rate spreads after Fed pivot in Nov'22

Real rate differentials US vs PH (%), lhs) and USDPHP 3m rolling return (%), rhs)



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

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For a complete list of our open trade recommendations, as well as our trade recommendations closed over the past 12 months, please see [Global Emerging Markets Weekly: Stay aboard but fasten the seatbelt 02 March 2023](#)

Glossary

BSP: Bangko Sentral Ng Pilipinas

PHP: Philippines Peso

NDF: Non-deliverable forward

US: The United States

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