

DOF Economic Bulletin, Briefing on Asian Currencies

- Despite the volatilities in the global economy, made more uncertain by the spread of COVID-19, the collapse of global stock markets and trade restrictions imposed on each other by the world's top trading economies, the Philippine peso remained firm.
- As of 10 March 2020, the Philippine peso ranked fourth, year-to-date (YTD), among the top currencies in Southeast Asia that maintained their value against the US dollar. Year-to-date, the peso appreciated by 0.28% relative to the US\$, ranking fourth behind the Japanese yen, Hongkong dollar and Chinese renminbi which all appreciated against the US dollar. All the other currencies depreciated against the US\$.
- The peso-dollar exchange rate also remains stable throughout the period, its coefficient of variation at 0.27%, ranking 2nd behind the Vietnamese dong among 12 regional currencies and lower than the 1.19% Asian average. The Vietnamese dong was the beneficiary of export producers moving out from China.
- The main reasons for the peso's growing strength and stability are the country's strong balance-of-payments (BOP) position and rising Gross International Reserves (GIR). Strong foreign exchange inflows from exports of services, remittances, income from investments abroad, direct foreign investments and foreign borrowing all contributed to the strong BOP position. These in turn boosted the confidence in the Philippine peso.
- The exchange rate adjusted for the GDP price deflator is significantly correlated to the size of the BOP surplus relative to GDP and the size of the GIR relative to imports of goods and services (see Table 2 for regression results).
- The country had a BOP surplus of US\$7.844B in 2019, 2.2% of GDP, the highest since 2012.
- The GIR rose to US\$87.8B as of end-February, 5.9% higher than the same period last year and equivalent to 7.7 months of imports of goods and services. The GIR level was also 5.4 times the country's short-term external debt.

DOF View

Strong macroeconomic fundamentals support the country's financial position. Manageable budget deficits and prompt adjustment of monetary settings in response to current developments help maintain investor confidence.

Table 1. Asian Currency/ US\$	31-Dec-19	10 May 2020 10AM	2019 YTD Percent Change	2020 YTD Percent Change	VOLATILITY*/ 2019	VOLATILITY*/ 2020
China (CNY)	6.96	6.94	1.23%	-0.33%	2.27%	0.36%
Japan (JPY)	108.61	103.48	-0.98%	-4.72%	1.76%	2.39%
India (INR)	71.38	74.09	2.31%	3.79%	1.31%	1.57%
Philippines (PHP)	50.66	50.52	-3.62%	-0.28%	1.21%	0.27%
Singapore (SGD)	1.35	1.38	-1.25%	2.88%	0.94%	1.22%
Korea (KRW)	1,155.84	1,197.45	4.04%	3.60%	2.77%	1.49%
Thailand (THB)	29.71	31.38	-8.11%	5.63%	2.13%	2.15%
Vietnam (VND)	23,173.00	23,204.30	-0.01%	0.14%	0.23%	0.19%
Malaysia (MYR)	4.09	4.23	-1.03%	3.40%	1.17%	1.38%
Indonesia (IDR)	13,925.00	14,480.25	-3.23%	3.99%	0.84%	2.20%
Hong Kong (HKD)	7.91	7.77	1.05%	-1.82%	0.28%	0.71%
Taiwan (TWD)	29.99	30.02	-1.83%	0.11%	1.23%	0.34%
Average			-0.95%	1.37%	1.35%	1.19%
SOURCE: BLOOMBERG						
*/ Coefficient of variation						

Table Source: Bloomberg

Notes:

* Increase in exchange rate means depreciation or weakening of local currency vis-a-vis the US Dollar

** Coefficient of variation (CV); higher CV means higher volatility of the exchange rate

Table 2. Real Exchange Rate Determinants

Dependent variable – Real exchange rate deflated using GNP price deflator, 2000=100

Independent Variables	Coefficient	t-stat	Prob.*
BOP position as % of GDP	-0.089	-1.875	0.071
GIR as % of MGS	-1.093	-2.661	0.013
DXY, lagged by 2 quarters	0.017	1.597	0.100
Constant	28.390	15.303	0.000
R2 adj = 0.62 n=34			
• Level of significance			

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