

VOLATILITY IS NEW NORM AS PESO EXCHANGES, SAYS BANGKO SENTRAL

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Periodic bouts of volatility in the peso-dollar exchange rate—more than what financial markets have been accustomed to in recent years—is expected to be the new norm under the laissez faire regulatory framework of Bangko Sentral ng Pilipinas (BSP) Governor Nestor Espenilla Jr.

The BSP chief, however, said the local currency was not expected to experience a “melt-

down” because “the underlying economic fundamentals of the economy are healthy.”

Espenilla made these comments as the peso continued its slide deeper into the 51:1 level on Friday after having started 2018 at 49.95:1.

“There will be volatility, runs and corrections, and the public should plan accordingly and factor in exchange risk in their decisions,” he said, explaining the central bank’s new scheme that allowed the ex-

change rate to seek its own level, intervening only to smoothen out sudden upward or downward spikes.

Espenilla’s philosophy contrasts with those of previous central bank governors he worked under, all of whom kept tight reins on the peso-dollar rate, both through direct market intervention as well as so-called “moral suasion” by influencing market players to moderate their market activities.

“The peso is just fine,” he

said, adding that the exchange rate merely demonstrates the “flexibility reflecting day-to-day market conditions.”

Bankers pointed out that the peso’s weakness in recent weeks had been due, in part, to the country’s large balance of payments deficit caused by the outflow of dollars from the local economy.

Espenilla stressed that the BOP deficit remained “manageable and is but a reflection of an economy that’s growing rapidly

in a way that is sustainable.”

“We are very far from any foreign exchange crisis given our large [dollar reserves] buffer and secondary buffers, as well as investment grade-rating that guarantees ready market access for any official and commercial financing requirement,” he said.

On Friday, the peso ended the trading session at 51.45 to the US dollar, higher than the previous day’s 51.58, but not before touching a low of 51.76 in morning trading. The local cur-

rency opened at 51.63 and recovered in late trading. Total value traded rose to \$1.12 billion from Thursday’s \$878.1 million.

At the end of 2017, the country had \$81.5 billion worth of foreign currency reserves serving as a buffer against the \$863-million balance of payments deficit during the same period.

The central bank expects the BOP deficit to hit \$1 billion this year, and the peso-dollar exchange rate to range between P49-P52 from 2018 to 2019. INQ

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