

Philippines: PHP moves past the 50 level as the trade deficit misses expectations

The Philippine trade deficit widened more than expected, heaping more pressure on PHP to weaken amidst broad dollar strength



Source: Shutterstock

\$2.8bn May trade deficit

Worse than expected

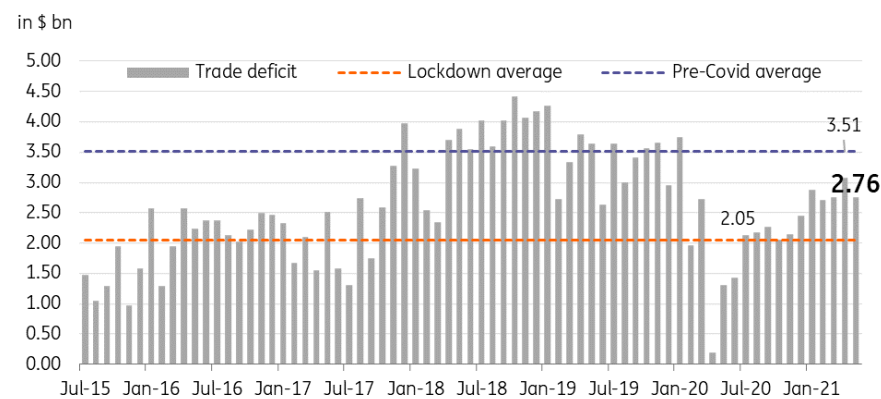
Trade deficit misses mark

Philippine trade data recorded substantial double-digit expansion for both exports and imports as base effects helped to bloat the growth numbers. Both exports and imports fell modestly below expectations but the trade deficit widened past the forecast to settle at \$2.8bn. Export growth was powered by the stalwart electronics sector, which grew by 25.4% while all other sectors also recorded double- or triple-digit expansion with base effects kicking in. Exports may have been hampered by the lack of shipment options as local exporting firms have complained about the

difficulty of fulfilling export orders due to bottlenecks in the shipping industry.

Meanwhile, imports per sector also saw base effect-induced gains while imports of fuel products surged by 301.6% given the increase in actual import volume coupled with the 87% increase in global crude oil prices. The trade deficit widened past expectations for a \$2.6bn shortfall to settle at -\$2.8bn, much higher than the \$2.1bn average during the 2020 lockdown year in the Philippines, although still lower than the \$3.5bn norm prior to the pandemic.

Philippine trade deficit widens but still lower than pre-Covid levels



Source: Philippine Statistics Authority

PHP moves past 50 handle

A strong dollar theme coupled with the wider-than-expected trade gap may have helped push PHP past the 50 psychological handle on Friday with the currency now down 1.94% thus far in July. Bangko Sentral ng Pilipinas (BSP) Governor Diokno appears unfazed by the recent PHP drop however, indicating that the currency continues to be driven by supply and demand conditions. This suggests that BSP will likely refrain from costly policy rate hikes to help stem the depreciation trend, however, we could see BSP changing its tune should the current weakness go on for a considerable period of time. In the near term, we expect BSP to stick to its accommodative stance given that the economic recovery is still in its nascent stages as import levels, although rising, are still below pre-Covid levels. Meanwhile, we expect continued pressure on PHP in the near term as import demand accelerates, especially if exports remain hampered by shipping bottlenecks.