Emerging Market Trade Idea

10:03 CET
09 October 2026

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Short PHP against G3 basket

- **The PHP continues to face multiple external headwinds. Higher oil prices and easing overseas remittances should widen the current account deficit.**
- **While the BSP is hiking rates, the economy is weakening leaving little room for further hikes.**
- **We recommend going short the PHP vs a G3 basket (equally weighted). We target a gain of 3% on this trade, while we will close if the loss hits 1.5%.**



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Underweight the PHP

The PHP has been one of Asia's worst performers in 2026, falling over 6% YTD. The Philippines has been among the economies most negatively impacted by the US-Iran conflict – the rise in oil prices in particular has been a drag on the Philippines' external balance given its heavy reliance on imported fuels. Therefore, while export growth has held up relatively well, the surge in energy imports has worsened the terms of trade. The trade balance deficit worsened in the period from January to August to USD41.6bn, compared to a deficit of USD32.9bn during the same period in 2025, due to higher prices of energy, food and intermediate tech goods. We take the view that the conflict is unlikely to be resolved quickly and has the potential to escalate after the US midterm elections. Taken together with the structural problems around oil (declining strategic reserves and reduced refining capacity), this should keep an upside bias to oil prices dragging on the PHP.

We also expect the traditional Q4 remittance boost to the PHP to be more muted this year, with the US-Iran conflict acting as a direct structural drag on Overseas Filipino Worker (OFW) deployments in the Middle East. Conflict-related insecurity has curtailed new placements in the region, with the share of land-based OFWs in the Middle East falling from nearly 50% in 2025 to 43% as of August 2026 – and total land-based OFW deployments overseas falling by 24.7% YoY in August. This is already showing up in the remittance data: total remittance growth has slowed sharply to 1-2% YoY from 3-4% YoY earlier this year. With the conflict showing no signs of near-term resolution, we expect this weakness to persist through Q4, limiting one of the PHP's traditional seasonal supports. Combined with the deteriorating trade picture, we forecast the current account deficit to widen materially to 5.3% of GDP in 2026 from 2.3% in 2025.

The Philippine economy is showing more signs of stagflation, which reinforces our Underweight short-term FX view on the PHP. In H126, Philippines GDP growth was weaker than expected with delayed government spending related to infrastructure investment fraud, as well as weak domestic spending owing to political uncertainties, higher energy and food prices. We think softer growth will continue due to higher oil prices, likely higher food prices driven by El Niño-related drought, and BSP rate hikes. We recently revised our Philippines GDP forecast down to 2.8% and 4.1% for 2026 and 2027 from 4.7% and 6.0% respectively. Meanwhile, the Philippines has the highest inflation in Asia with the headline CPI print at 7.2% in September. Core inflation is at 3.75% YoY, its highest since 2023, with further pressures from food supply disruptions and transport inflation.

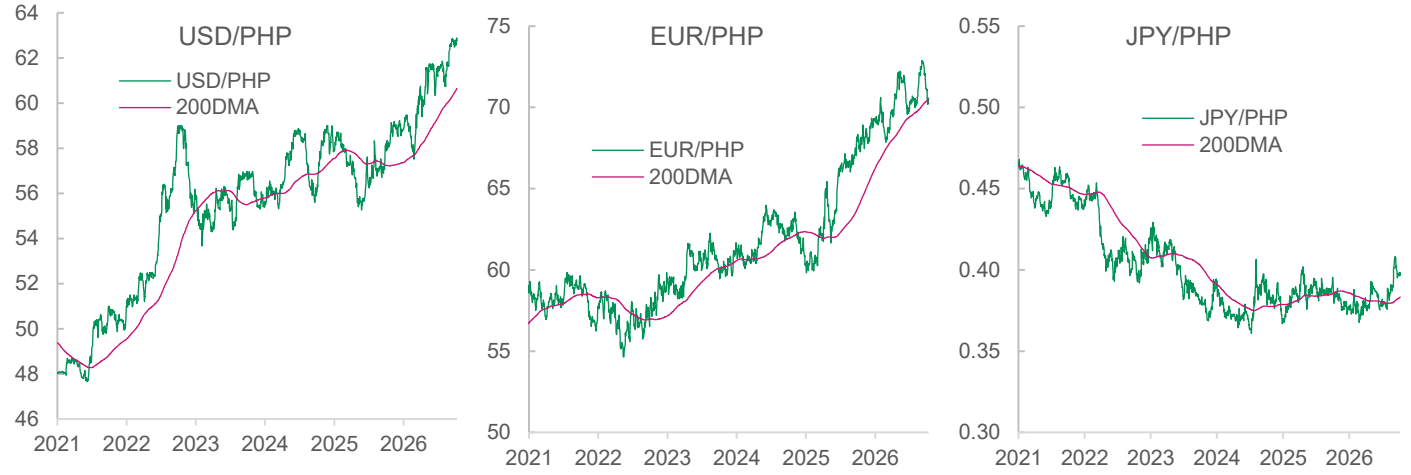
Given inflation concerns, the BSP has already hiked rates three times this year with another hike likely at its October meeting. The impact of the rate hikes on the PHP is likely to be limited as the market has already priced this in. At the same time, the room for further tightening is not large given the 75bp of moves already in 2026 and the weak growth outlook.

The risks to this trade are an easing in oil prices. On oil, US President Donald Trump's comments about not attacking Iran until after the US midterms could

provide some short-term relief for oil. However, the downside to oil is still likely to be limited as the conflict is unlikely to end in the near term and the structural problems in the oil market remain unresolved.

We recommend going short the PHP vs a G3 basket (equally weighted). We issue the recommendation at the following levels (USD/PHP 3M NDF at 63.17; EUR/PHP 3M NDF at 71.18, JPY/PHP 3M NDF at 0.4019). We are targeting a gain of 3% on this trade, while we will close if the loss hits 1.5%.

Short PHP vs G3



Source: Bloomberg, Crédit Agricole CIB

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