MANILA — London-based think-tank Capital Economics Ltd. sees the peso strengthening to 39 to $1 by the end of next year as Asian currencies are expected to appreciate further against the greenback.

Capital Economics international economists Kevin Grice and Ashira Perera, in a study titled “The Philippines’ tightening cycle to begin soon,” said the peso would appreciate to 39 instead of the previous forecast of 41 by the end of 2011 as currencies in the Asia-Pacific region are expected to strengthen against the greenback until next year.

“Accordingly, we are emboldened to make our exchange rate forecast even more bullish. We now expect the peso to appreciate to 39 per U.S. dollar by the end of next year (41 previously), from 43.6 now,” Grice and Perera stated in the research note dated Nov. 18.

The economists pointed out that the weakening of the peso against the U.S. dollar over the past few weeks would only be temporary as it was caused by concerns over monetary policy tightening in China, increased prospect of capital account curbs, and the systemic dollar strength.

“The factors that have pulled the peso back will be around for a while but in the end, we still anticipate that growth in China will slow rather than crash and that Asian currencies will appreciate further against the U.S. dollar,” they added.

The peso strengthened to a 30-month high of 42.53 on Nov. 2, but weakened to 43.83 last Friday.

The peso has so far appreciated close to six percent year-to-date.

The Bangko Sentral ng Pilipinas (BSP) has eased its foreign exchange regulatory framework to help temper the strengthening of the peso against the greenback with minimal impact on domestic liquidity and inflation.

The Central Bank’s policy-setting body has doubled the present ceiling on the amount that residents may purchase from authorized agent banks for outward investments, including investments in Republic of the Philippines (ROP) bonds and other debt instruments issued by the Philippine Government, to $60 million from the previous $30 million.

The BSP lifted the registration requirement for outward investments in excess of $60 million limit and replace this with reporting to the BSP and, at the same time, extend the periods for inward remittance and conversion to pesos or reinvestment of proceeds and related earnings to 30 banking days from two and seven days.

Likewise, the limit on over-the-counter foreign exchange purchases by residents from banks without documentation for non-trade current account purposes was also doubled to $60,000 from $30,000 to encourage customers to course their transactions through the banking system instead of the unsupervised foreign exchange market.

On the other hand, the amount non-resident tourists or *balikbayans* could reconvert at airports and other ports of exit without need for proof of sale of foreign exchange for pesos was increased to $5,000 from the present ceiling of $200.

It also raised to $1 million from $100,000 the amount residents could purchase from banks to cover advance payment requirements for import transactions without prior BSP approval and, at the same time, allowed the private sector to prepay BSP-registered foreign loans to be funded with foreign exchange from banks without prior approval.

Capital Economics said the BSP would start tweaking its key policy rates starting the first quarter next year on the back of benign inflation outlook despite the stronger-than-expected economic rebound of the country.

“Accordingly, we expect the tightening cycle to start in the first quarter and that rates will be increased 25 basis points every quarter to five percent by year-end,” Grice and Perera stressed.

The BSP’s Monetary Board decided last Thursday to keep its key interest rates unchanged for the 12th straight policy setting meeting since July last year.

It slashed its key policy rates by 200 basis points between December 2008 to July 2009 to cushion the impact of the global economic meltdown on the domestic economy.

This brought the overnight borrowing rate at a record low of four percent and the overnight lending rate at six percent.

The think tank said inflation would stay below the five percent target ceiling next year.

The BSP has set an inflation target of 3.5-5.5 percent this year and 3-5 percent between 2011 and 2014.

However, it expects inflation to average 3.63 percent this year, 2.35 percent next year, and 2.83 percent in 2012.

Capital Economics also expected the country’s Gross Domestic Product (GDP) to expand 6.5 percent this year before slowing down to 5.5 percent next year.

The Cabinet-level Development Budget Coordination Committee (DBCC) sees the country’s GDP expanding by 5-6 percent this year and by 7-8 percent next year.

“We continue to forecast GDP growth of 6.5 percent and 5.5 percent for 2010 and 2011, respectively. Our 2011 view is more optimistic than the consensus but is lower than the official forecast which now aims for seven percent,” they said.