

Philequity Corner (Dec. 5, 2005)
By Ignacio B. Gimenez

Chart formation confirms continuing peso appreciation

In previous articles, we have presented the fundamental reasons why we expect continued strength in the peso. This time we are presenting the technical analysis of the peso to show you graphically how it behaved in the past and how the general trend is shaping up.

The term technical analysis (according to Edwards and Magee who wrote the classic book, *The Analysis of Stock Trends*) *“is the science of recording, usually in graphic form, the actual history of trading (price changes, volume of transactions, etc.) and then deducing from that pictured history (chart) the probable future trend.”*

The basic principles of technical analysis states that:

- 1) The market price reflects all the fundamental factors affecting a certain asset (stocks, bonds, currencies, commodities, etc.), including all the hopes and fears and guesses and moods, rational or irrational, of all the potential buyers and sellers of that particular asset.
- 2) Prices move in trends and this tends to continue until something happens to change the supply-demand balance.

In Philequity, we use technical analysis for the following purposes:

- 1) to identify the general trend in the markets
- 2) to confirm on the basis of price action our fundamental analysis on a certain stock issue (or in this case a currency, the peso)
- 3) to guide in the timing of purchases and sales of stocks

Peso hits major bottom

Since the 1997 Asian financial crisis, the peso has continuously depreciated against the US dollar. However, a different pattern has emerged this year. The peso now appears to have hit a major bottom against the US dollar and a clear upward trend has been established.

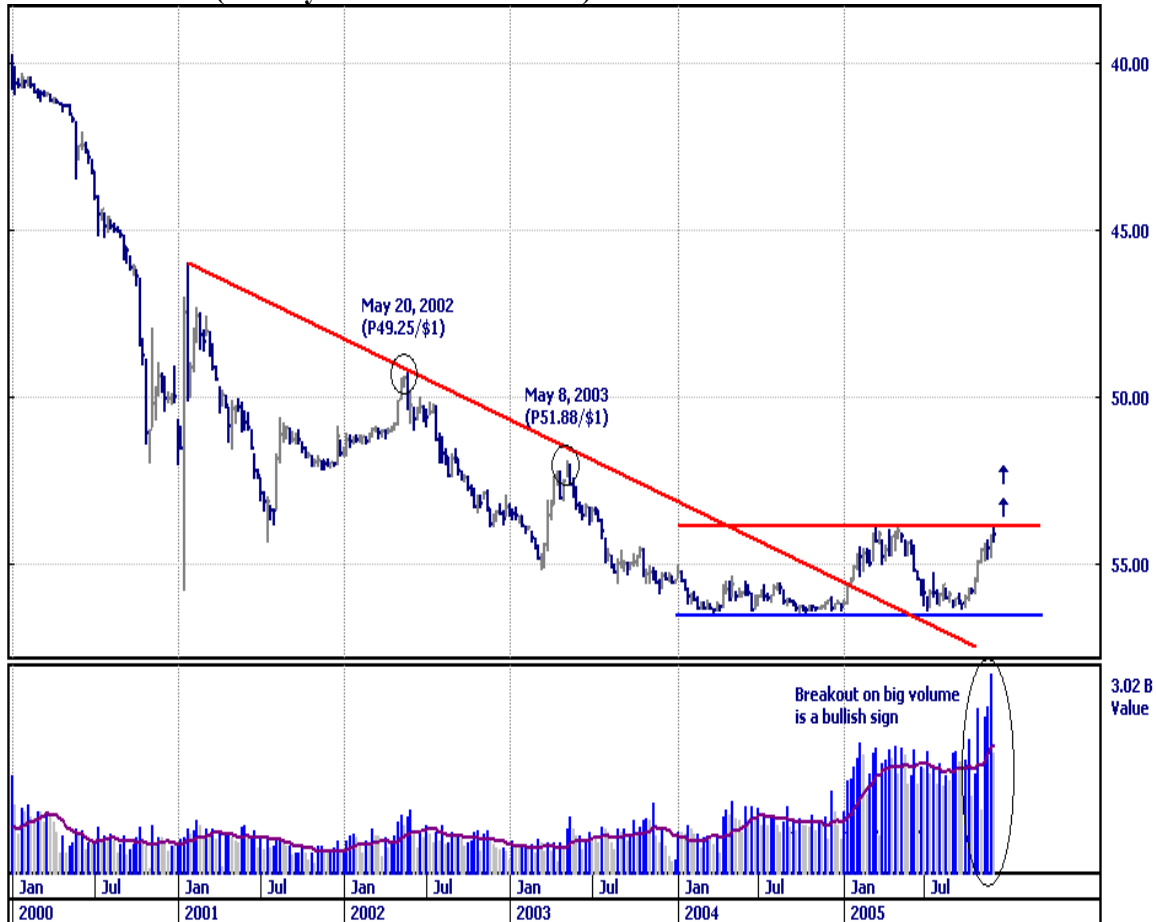
As you can see from the chart below, the peso flirted several times (during the past five years) but failed to break its all-time low of 56.50 against the US dollar.

From an exchange rate of P40/\$1 in January 2000, the peso aggressively weakened to nearly 56 in January 2001. The peso bounced back only after EDSA 2 when the previous administration was removed by people power.

In 2004, the peso retested 56.50 when country was declared to be in fiscal crisis. The peso, however, again withstood attempts to break that support level.

And early this year, despite the TRO on EVAT and attempts to unseat President Arroyo, the peso held its ground at 56.50.

US dollar - Peso (Weekly Chart - 2000 to 2005)



Source: Technistock

From a chartist's viewpoint, the peso chart shows a bullish formation. In technical analysis jargon, this formation is what is called a "double bottom" pattern.

The peso first bottomed against the US dollar in 2004. And early in this year, it broke out of its long-term down trend line (the line is shown above connecting the intermediate tops in 2001, 2002 and 2003). The peso then rallied as high as 53.83 in March and 53.91 in May but it temporarily stalled. It retested the major support at 56.50 in July to September – this time forming the second bottom of the "double bottom" pattern. Since then, the peso has rallied back towards the 54 level, reaching an intraday high of 53.88 in November 30 before pulling back to close at 54.155 last Friday.

Big volume signifies strength in current peso rally

Volume plays an important part in technical analysis. Notice how the rally from the second bottom shows an increase in turnover. This is a characteristic of a "double bottom" formation

where volume is expected to pick up significantly as the “valley” level or in the peso chart’s case, the 54 level is being attempted to be surpassed.

The big volume on this second attempt to surpass the 54 level shows the strength in the current peso rally. Note that during the last week of November turnover reached \$3.02 billion – more than 3 times the average weekly turnover in 2004. This shows you that a lot of people are scrambling to change their dollars into pesos lately ... and in big amounts.

What’s ahead after 54

Just as we predicted in October, the peso reached our first target at 54. At the pace the peso has appreciated, we won’t be surprised if there is only a short pause at this level. We also view these pullbacks or corrections as opportunities to buy the peso as we see it having a high probability of breaking the 54 resistance levels.

Once the resistance at the 54 level is decisively broken, we see the peso-dollar rate heading towards the 51.88 to 52 range which was last reached in May 8, 2003. After which, we expect the peso to ultimately test the psychological level of 50 which was last touched in May 20, 2002.

For comments and inquiries, you can email us at gime10000@yahoo.com or info@philequity.net
