

Philequity Corner (September 30, 2013)

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Flows Matter

The last few months have been a roller-coaster ride for the local stock market. In the last 4 months, the PSE Index reached an all-time high of 7,404, corrected to an intraday low of 5,678, rebounded to as high as 6,830, only to correct again and touch an intraday low of 5,562. As our country's fundamentals remain solid, it becomes apparent that the recent gyrations of our stock market have been affected by external factors.

In past articles and presentations, we have often discussed how global macro events affect the risk appetite of global investors. This is why we seriously monitor what is happening globally. These global events, in turn, drive foreign fund flows. Recently, the big inflows or outflows of foreign funds have caused the steep run-ups and sharp corrections of our stock market.

The Study of Flows

The study of flows mainly involves monitoring who the buyers and sellers are in the stock market. And there are different types of flows that one should look at. Flows may come from foreign or local institutions like mutual funds and UITFs. Flows may also come from retail investors or fixed income portfolios like the SDA that is migrating to the stock market. Among the different types of flows, the easiest to monitor would be foreign flows. Daily market reports from the PSE show the net foreign buying or selling of all the listed stocks in our market.

We monitor foreign fund flows because of their significance. Aside from driving stock market movements, they also affect the peso and the local bond market. Foreign fund flows can show the movements of big foreign funds or exchange traded funds (ETFs). Monitoring fund flows may therefore provide clues about the direction of certain stocks or the stock market in general.

Increasing Local Participation

In the past decade, the value traded in our stock market increased significantly while local participation was also steadily growing. Local funds started participating more in the stock market and local retail investors grew in size and number. As seen in the table below, local participation rose from 2003 to 2009 and remained high up to 2011.

Local and Foreign Participation in the Phil. Stock Market			
Year	Value Traded	Local	Foreign
2003	144.863	41%	59%
2004	206.508	48%	52%
2005	384.233	48%	52%
2006	571.557	45%	55%
2007	1,338.252	51%	49%
2008	763.901	53%	47%
2009	994.170	68%	32%
2010	1,207.384	62%	38%
2011	1,422.591	62%	38%
2012	1,771.711	55%	45%
2013	1,712.348	42%	58%

Amounts in billion pesos

Sources: Philippine Stock Exchange, Technistock

Foreign Flows Dominate in 2013

However, as seen in the table above, foreign participation jumped significantly in 2012 and 2013. The increasing foreign participation can be attributed to the improving fundamentals and increasing visibility of our country to international investors. Moreover, the mega placements and big-ticket offerings that were conducted in the past 2 years have allowed foreign investors to enter our stock market in a big way. The increasing participation of foreign investors makes our stock market bigger and deeper. However, it also makes our market more vulnerable to sudden swings in foreign fund flows, given the amount that foreign investors have to buy or sell within a short period of time.

The Taper Selldown

As our stock market was experiencing heavy foreign buying in the earlier part of 2013, foreign flows suddenly reversed in the latter part of May. Fed Chairman Ben Bernanke's speech about the possibility of quantitative easing (QE) tapering sparked this flow reversal (*The Tale of the Taper*, July 22, 2013). As we show in the table below, our market experienced net foreign selling which amounted to P14.4B from May 22 to June 25. Moreover, foreigners were net sellers in 21 out of the 24 trading days in that period. Note that we saw the index go down 23% during this time.

Net Foreign Buying (Selling) - May 22 to June 25			
5/22/2013	(0.383)	6/7/2013	(0.866)
5/23/2013	(0.108)	6/10/2013	(1.014)
5/24/2013	(1.000)	6/11/2013	(0.224)
5/27/2013	(1.408)	6/13/2013	(1.673)
5/28/2013	(1.572)	6/14/2013	0.001
5/29/2013	(1.409)	6/17/2013	(0.507)
5/30/2013	(0.876)	6/18/2013	0.577
5/31/2013	11.437	6/19/2013	(0.333)
6/3/2013	(3.603)	6/20/2013	(0.820)
6/4/2013	(2.292)	6/21/2013	(2.385)
6/5/2013	(1.287)	6/24/2013	(0.512)
6/6/2013	(2.060)	6/25/2013	(2.057)
Total			(14.373)

Amounts in billion pesos

Sources: Philippine Stock Exchange, Technistock

The Asian Selldown

Another global event that triggered heavy foreign outflows in our stock market was the selldown in Asian stock markets. Although our country does not share our neighbors' problems, our stock market was nonetheless affected because foreign investors look at the Asian region as a basket (*The Best House in a Bad Neighborhood*, September 2, 2013). As the table below shows, we experienced net foreign selling amounting to P18.5B in the last 6 days of August.

Net Foreign Buying (Selling)	
August 22 to August 30	
8/22/2013	(4.734)
8/23/2013	(2.037)
8/27/2013	(2.457)
8/28/2013	(5.739)
8/29/2013	(1.542)
8/30/2013	(1.949)
Total	(18.459)

Amounts in billion pesos

Sources: Philippine Stock Exchange, Technistock

Foreign Funds Return

Fears of an Asian crisis have subsided since the heavy selldown in the region. Growing evidence of the improvements in the US, European, Japanese and Chinese economies bode well for emerging economies like India and Indonesia. This is why Asian stock markets and currencies have since shown signs of strength (*The Bad Neighborhood Improves*, September 16, 2013). This consequently drove another reversal of flows from heavy selling to strong buying. This started in September 5 and has continued for the rest of month. So far, we have experienced net foreign buying amounting to P25.0B month-to-date for September. This has brought the index from a low of 5,562 to the current level of 6,380.

Follow the Flows

Aside from using fundamentals, technicals and global macro, we also monitor flows when we formulate our views on the stock market. A careful study of fund flows can give one a better understanding of the fluid changes in global investor sentiment. Monitoring flows has become more important considering the increasing participation of foreign funds in our stock market. As we saw in the selldowns that our market experienced in May and August, flows can dictate where our market goes. Bear in mind that foreign flows are big funds that can go in and out of our market in a short amount of time. Considering this, it would be wise to monitor the flows and act accordingly.

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