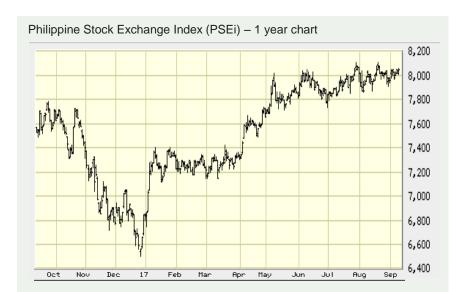


Despite tensions abroad, we note that the PSEi was able to end the week above 8000. Also interesting is despite the index being stuck in a consolidation, it has been carving out higher lows since July. For followers of technical analysis, this is a bullish sign.

Another bullish signal is the recent strength of the peso. It strengthens by 0.6% last week and is now trading below 51. This may be partly due to Japanese Tobacco's 2nd payment tranche for Mighty, amounting to PhP 12 billion. We also mentioned before that we could see as much as PhP 64 billion in foreign inflow when the EDC tender offer is completed at the end of the month. This bodes well for the peso as these significant inflows could counter its weakness in past months.

If the peso continues to strengthen, this could improve risk appetite for Philippine which suffered from stocks. weakness earlier in the year. If tax reform is then passed in full, we may see significant foreign inflows pushing up both the peso and the stock market, allowing the PSEi to retest its all-time high of 8137.



TRADING STRATEGY



With geopolitical noise quieting down the past week, markets got a welcome respite. Note also that recent peso strength has lent some bullishness to equity markets. However, we expect volatility to remain high. Thus, if dips occur, we will be using dips as an opportunity to buy.



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