Issue Date: Sep 11, 2018

Vantage point

MARKET OUTLOOK: NEUTRAL
STRATEGY: DEFENSIVE STOCKS

While inflation was expected to remain elevated, the acceleration in food prices brought the August print to 6.4% YoY. This caught markets by surprise, hence the sharp sell-off in equities. It is crucial that the BSP shows that inflation can be put under control. That said, given that this is a supply-side issue, other government agencies have to do their part as well.

This led to PhP 3.5 billion in net foreign selling since inflation was announced. This contributed to the peso's weakness, which broke longstanding support of 53.50. Our currency is now perilously near the crucial 54 support level. If this is broken, technicals indicate that we are targeting 56. Keeping the peso strong is necessary to restoring confidence in Philippine assets. Moreover, continued peso weakness will weigh on the already weak stock market.

On the trade front, Trump announced potential tariffs on up to $267 billion worth of Chinese imports. This is separate from the $200 billion he already threatened. Trump also tweeted that Japan is the next target of his trade initiative. This will serve to dampen sentiment in equities until this issues is cleared up.

With some emerging markets going through crises at the same time, such as Turkey, Argentina, Brazil and South Africa, emerging markets as a group have corrected. Because the Philippines is part of EM, we were dragged down as well. With all these risks at present, we will remain light in the near term.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

Above forecast inflation and more bad news on the trade front has caused the PSEi to reverse sharply. We were able to liquidate a significant portion of the portfolio before the sell-off intensified. We will remain light for now.

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