Philequity Corner (November 26, 2018)
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If a picture paints a thousand words

After underperforming for most of the year, the PSEi has recently staged a dramatic recovery amid an ongoing global selloff. In this article, we show pictures that explain the PSEi's surprising resilience in the past two weeks.

Crude oil plunges

The sharp drop in crude oil prices is one of the major reasons behind the recent strength of the Philippine market. In the picture below, we show the vicious drop in crude oil. Last Friday, WTI crude plunged 7.7% in a single trading day. From their peaks, WTI crude has dropped 34% while Brent crude has fallen 32%. Lower oil prices will temper the high inflation readings that we have seen in the past months. Moreover, since the Philippines is a heavy oil importer, falling oil prices will result in an improvement in our current account balance.

WTI crude oil – One-year chart

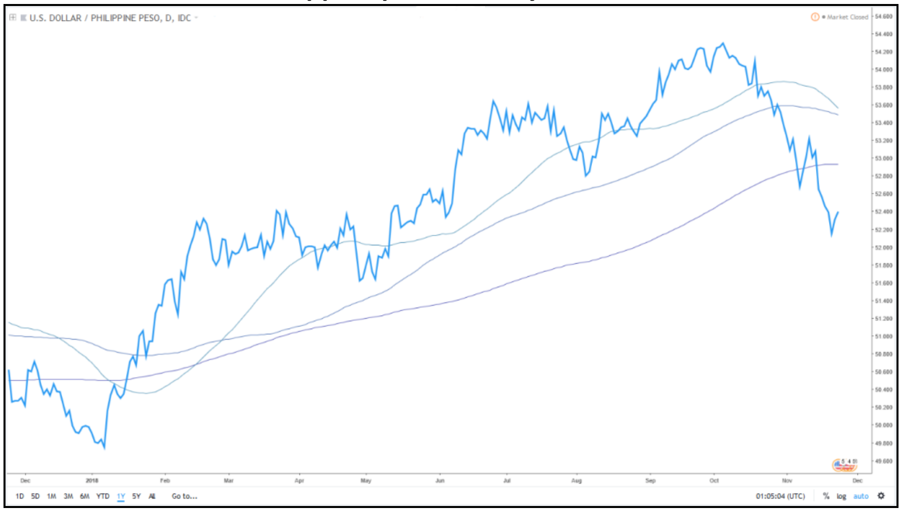
Source: Stockcharts.com

Philippine peso stages remarkable turnaround

Another reason behind the PSEi's recent strength is the turnaround of the Philippine peso. In the last two months, the peso has strengthened by 3.5%, its biggest advance for the year. Following a failed breakout of 54, the dollar-peso rate fell below key support levels of 52.80 and 52.50. The peso closed at 52.49 last Friday and is moving towards a potential retest of support levels at 52 and 51.50.

The recovery of the peso was driven by the central bank's policy rate hikes and foreign flows from the follow-on offering of San Miguel Food and Beverage, Inc (FB). In addition, the streak of consecutive net foreign selling in the stock market ended at 44 days, providing some respite to peso outflows.

Philippine peso – One-year chart



Source: Tradingview.com

A stronger peso makes Philippine stocks more attractive for foreigners who measure their returns in US dollar terms. Likewise, a stronger peso will result in cheaper imports and lower imported inflation.

BSP's impactful policy rate hikes

The Bangko Sentral ng Pilipinas (BSP) hiked its policy rates by a cumulative 175 bps in the last six months. These policy actions are the sharpest and fastest rate hikes in recent memory. These illustrate the central bank's determination in managing inflation while also causing the peso to strengthen.

What do these pictures paint?

By looking at the pictures/charts above, we can see why the PSEi has performed well in the last two weeks. Falling oil prices, a stronger peso and higher interest rates have been positives for our stock market as these indicate that inflation may have already peaked.

Good can be bad

On the other hand, a prolonged oil plunge amid rising global interest rates may signal a coming synchronized global slowdown. Higher domestic interest rates will translate to elevated borrowing costs which may crimp loan demand and stifle economic growth. There is also a concern that rising interest rates around the world will cause an economic slowdown both here and abroad.

This situation bears watching as a global slowdown may trigger a vicious drop in world markets and cloud the outlook for the Philippine economy. As the market continues to seek direction, we leave you with the starting lines of the song "If" composed by David Gates and sang by his band, Bread.

If a picture paints a thousand words,
Then why can't I paint you?
The words will never show
The you I've come to know.
If a face could launch a thousand ships,
Then where am I to go?

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