



Vantage *point*

MARKET OUTLOOK: CAUTIOUS STRATEGY: OVERWEIGHT SELECT PROPERTY AND BANKING STOCKS

Though trade war concerns abated as Trump tweeted that negotiations with China have restarted after he talked with President Xi, uncertainty remains heightened. As the past few months have shown, the trade war can swing either way. Thus, central banks remain wary of the trade war's impact on global growth. Recently, the ECB said that "rate cuts are still part of its tools" and that "policy has to remain accommodative." This week, both the Fed and the BSP decided to keep interest rates unchanged as growth forecasts were downgraded because of the trade dispute. Most economists did expect the Fed to stand pat, but Powell's language continued to be very dovish, a positive for equities. By dropping the word "patient" from the monetary policy statement, markets took it to mean that the Fed is ready to cut interest rates if US economic growth shows signs of weakening. Fed Chairman Jerome Powell also repeated that the Fed "will act as appropriate to sustain the expansion".

Fed funds futures indicate that investors continue to price in one rate cut in July and another towards the end of the year. On the other hand, Fed voting members are forecasting one rate cut for 2019, with the next cut only happening in 2020.

While the Fed's actions were in line with expectations, the BSP's decision came as a surprise to most analysts. 16 of 24 economists polled by Bloomberg expected the BSP to cut interest rates in its meeting. Thus, when the BSP kept rates unchanged, the peso strengthened dramatically and is now at the 51.50 level. BSP Deputy Governor Gunigundo indicated that the BSP will be following the interest rate moves of the US. Since the Fed did not cut, the BSP would not lower rates either. Thus, despite the BSP's dovishness, the peso did not weaken as the interest rate differential continues to remain attractive. We have a positive view of the BSP's decision and language.

We also note that Gunigundo gave peso targets of 52 for 2019 and 51.50 for 2020. In our Philequity Corner column published Monday this week, we noted that Goldman Sachs has a 6-month target of 51.50 for the peso and a 12-month target of 51. This is a sharp contrast with their forecasts of many other banks and research firms which expect the peso to hit 54-55. A strong peso bodes well for all Philippine assets.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The BSP's decision to keep rates on hold caused the peso to appreciate sharply. Along with prospective rate cuts from the Fed, these are significant catalysts for Philippine stocks and the peso.



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