

# Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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**MARKET OUTLOOK:** CAUTIOUS

**STRATEGY:** OVERWEIGHT SELECT PROPERTY AND BANKING STOCKS

**TECHNICALS:** SUPPORT AT 7500 FOLLOWED BY 7200, RESISTANCE AT 8200

One week after the Fed cut rates, it was the BSP's turn to do a rate cut. Most participants were expecting a 25 bps rate cut, although there were some who were calling for a more aggressive 50 bps reduction. Fortunately, the BSP decided to implement a smaller cut, allowing the peso to stabilize.

While it is important to be pro-growth, a larger rate cut may have caused the peso to weaken significantly, stoking inflation and capital outflows. Recently, New Zealand and India delivered surprise rate cuts. This caused their currencies to depreciate sharply, and in New Zealand's case, it even dragged neighboring Australia down with it. In fact, the Aussie dollar hit a 1-year low. If the BSP had delivered a larger rate cut, the peso may have dropped sharply instead of stabilizing.

It is also important to note that Asian currencies are still reeling from the yuan's move beyond 7 at the start of last week. This is a crucial event that bears watching because it can go either way. Further weakness in the yuan may trigger a wave of depreciation for all Asian currencies. This will drag down the Philippine peso and, consequently, Philippine stocks as well. Looking at the DXY, it may seem like that dollar has stabilized, but this is due to the euro's depreciation taking a pause. A more appropriate index may be the ADXY or JP Morgan's EM currency index. See their charts on the next page which shows the recent drop took these indices down 2% versus the US dollar. With the Chinese yuan still above 7, we are not yet out of the woods. This is something we have to monitor vigilantly.

Trade news flow also continues to be negative. After China halted agricultural purchases from the US, the US retaliated by holding off the granting of Huawei licenses that would have allowed US companies to purchase Huawei products. With markets being driven by unpredictable news out of the US and China, volatility has spiked. This makes it very difficult to time trades. Instead, we are using these swings to reduce exposure to stocks which are too expensive or have deteriorating

Philippine Stock Exchange Index (PSEi) – 1 year chart

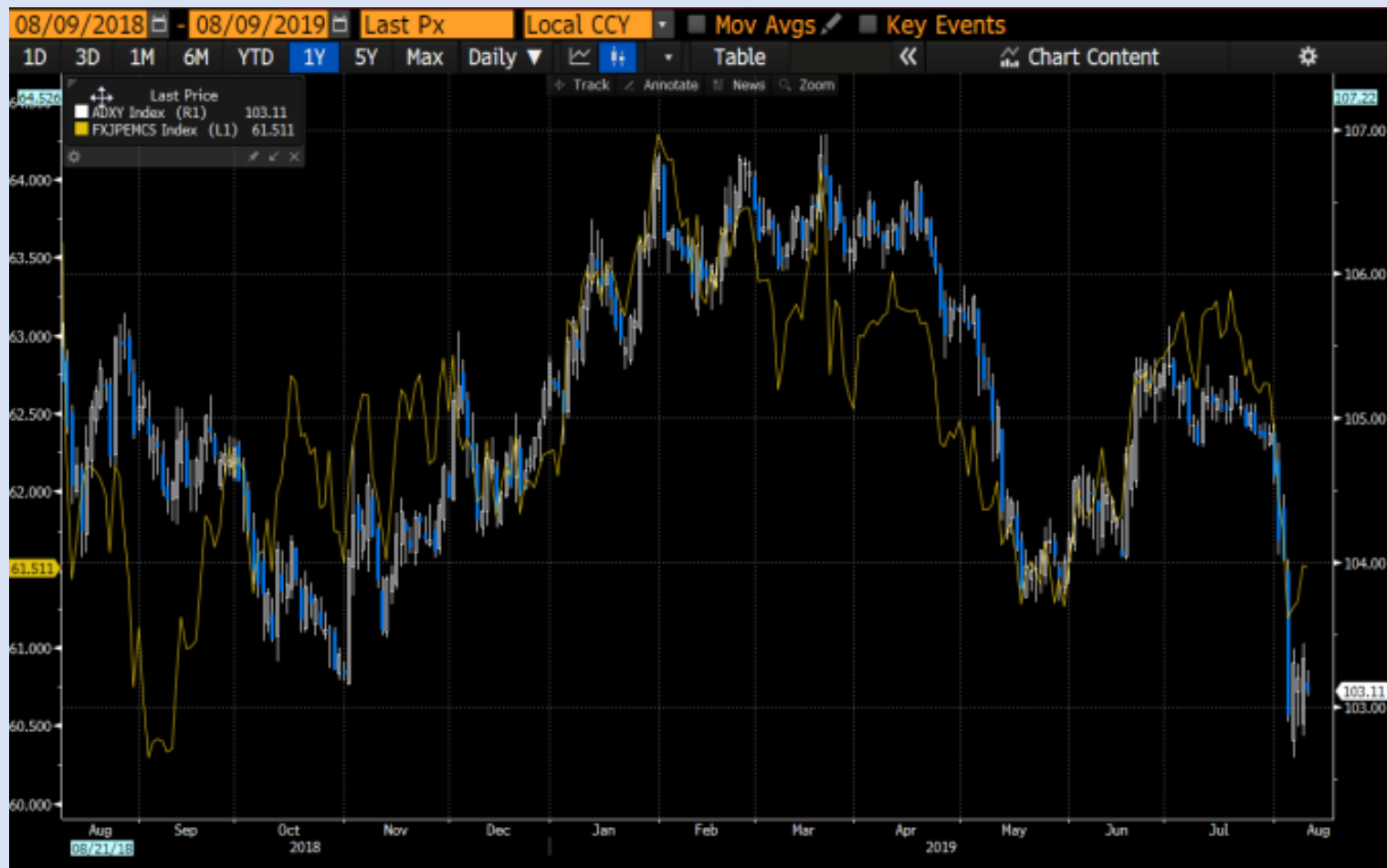


## TRADING STRATEGY



After a volatile start to the week, markets have since quieted down. The peso also stabilized as the BSP delivered a 25 bps cut instead of 50 bps. We are using these wild swings to recalibrate the portfolio.

earnings, and reallocating this freed up cash to stocks that beat earnings forecasts or have shown sequential recovery in quarterly earnings.



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