

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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MARKET OUTLOOK: CAUTIOUS

STRATEGY: OVERWEIGHT SELECT BANKING STOCKS

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

Good news on the inflation front as September inflation came in at 0.9%. With oil dropping 17% from its high in September, we expect inflation to inch lower in the coming months. If global macro headwinds continue to drag economic growth, this should give the BSP more room to ease monetary policy.

Also of note is how the peso has remained relatively strong despite the BSP's dovish moves. This bodes well for all Philippine assets. If the peso can stay below the 52-level, it points to further strength.

Globally, everyone is waiting for the US-China meeting on October 10-11. News flow over the past few days shows that it can go either way. On one hand, Trump is saying a deal may come earlier than we expect while Chief Economic Advisor Larry Kudlow said that we shouldn't be surprised if there is a trade deal at the end of the week. On the other hand, sources say that Vice Premier Liu He is offering a narrower, interim trade deal that involves the narrowing of the trade deficit but with no changes to economic policies and government subsidies.

The risk is if Trump views the China offer as a "bad deal", he might not take it and let tariffs go into effect on October 15. That said, if a trade deal is reached, it may help equities regain their footing and move higher towards yearend. This may also calm fears of an impending recession. As it is, China's economic growth has hit a 27-year low while US PMI is at its lowest since March 2009.

As a result of this weak economic data, the chance of another Fed rate cut has risen to 80% this month and 93% before yearend. This should give room for the BSP to ease as well without causing significant peso weakness.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



News surrounding the US-China meeting this week will drive markets. Since it is difficult to predict the outcome, we remain on hold pending the result of their meeting at the end of the week.