

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

MARKET OUTLOOK: NEUTRAL

SECTORS: OVERWEIGHT SELECT BANKING AND PROPERTY STOCKS

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

Fears of a sustained rise in oil prices have dissipated as the US-Iran conflict has started to die down. Iran is likewise on the defensive after it admitted shooting down a civilian passenger plane. Large scale evacuation of OFWs also seems less likely now. This should bode well for the Philippines which is reliant both on OFW remittances and oil imports.

Markets are also awaiting the signing of the Phase One trade deal on January 15. If it is signed and proves to be as extensive as what Treasury Secretary Steve Mnuchin is saying, it may give markets another leg up. However, we note that Trump is willing to delay discussing a Phase Two trade deal till after US elections in November.

Domestically though, we have been hit by a slew of bad news. After concerns over the contracts of water concessionaires, the market will now be monitoring property companies. President Duterte recently announced that the approval for reclamation projects in Manila Bay will "not happen in his time". This had an immediate impact on related stocks, such as SMPH. He also added that we want to limit the number of POGO licensees.

Over the weekend, Taal volcano suddenly erupted. As of this writing, Alert level 4 is still raised, meaning an eruption is possible in the coming days. Nearby provinces are heavily carpeted with ash, with the ash cloud affecting most of Metro Manila. It remains to be seen how long and how strong the eruption will be, but natural disasters tend to have a dampening effect on the broad market.

Emerging market currencies have also appreciated significantly, with the Chinese yuan leading the way. We note that the peso joined this trend after briefly depreciating during the US-Iran strikes. Unfortunately, this has not lent bullishness to the equity market.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Oil prices have erased all of their recent rally as it looks like there will be no supply disruption. The US-China Phase One deal is also set for signing this week. This has caused most major markets to rally, with US equity indices hitting new all-time highs. However, regulatory risk is now spreading to other sectors. The eruption of Taal volcano may likewise dampen sentiment. We are maintaining our neutral stance.