

PSEi Bottoms Out & the Peso Finds Support

When Argentina devalued its currency by 15% in late-January, spreading turmoil across the emerging world and spooking even the developed markets, we wrote about the incipient signs of recovery in the Philippine stock market and the resilience of the peso (see *EM Currency Contagion*, January 27, 2014).

A number of positive technical factors have been triggered since, each reinforcing the notion that the PSEi is already at the tail end of its bottoming out pattern. We now present the technical reasons why we think the PSEi is on the way up and why the peso is strengthening back towards 44 or even lower.

PSEi outperforms EM index

Since Bernanke’s “tapering speech” in May 2013 and the devastating effects of Typhoon Yolanda, the PSE index has underperformed emerging markets up until end-2013. However, a key development took place in January when the technical downtrend of the PSEi relative to the MSCI Emerging Market ETF was broken. This meant that the Philippines is finally being differentiated from problem EM countries such as Argentina, Turkey, Kazakhstan and Ukraine, and commodity-dependent countries like Brazil, South Africa and Russia.

Below is the chart showing the PSE index relative to the MSCI Emerging Market ETF (EEM). The PSEi has outperformed EEM by 15.5 percent year-to-date.



Source: Stockcharts.com, Wealth Securities Research

Foreign fund inflows are back

We also note the inflection point in foreign fund flows last month. After reaching a cumulative net selling of nearly Php8 billion from the period January 2 to February 6, foreign fund flows reversed and turned positive on February 7. As of end-February, cumulative net flows were already at positive Php 1.2 billion year-to-date. Big increases in foreign net inflows were seen when the PSEi breached key resistance levels at 6,200 and 6,400.

Philippine market, 2nd best in Asia

Foreign flows started to revert to positive last month when fund managers and analysts realized that the effects of Typhoon Yolanda were limited to Eastern Visayas. Despite Yolanda, the country registered 4Q13 GDP growth of 6.5 percent, the 2nd fastest expansion in Asia next only to China. Hence, the PSEi jumped sharply by 6.4% in

February, bringing year-to-date returns to 9.1 percent. This makes the Philippine stock market the 2nd best performing in Asia year-to-date after Vietnam. The PSEi also beat the indices of all developed markets.

Asian Markets	INDEX	2014 YTD (%)	Developed Markets	INDEX	2014 YTD (%)
Vietnam	HCMSI	17.1	Italy	FTSEMIB	7.1
Philippines	PSEi	9.1	Switzerland	SMI	3.3
Indonesia	JCI	7.5	Spain	IBEX	2.5
Thailand	SET	1.7	France	CAC40	2.3
Taiwan	TWSE	0.3	UK	FTSE 100	0.9
South Korea	KOSPI	(1.6)	US	S&P 500	0.6
Malaysia	TAIEX	(1.8)	Germany	DAX	0.4
Hong Kong	HANG SENG	(2.0)	US	DJIA	(1.5)
Singapore	STI	(2.3)	Japan	NIKKEI	(8.9)
China	SSE	(2.8)			
MSCI EM Index	EEM	(5.6)			

Source: Bloomberg, Wealth Securities Research

Peso stabilizes as support at 45.50 holds

In a previous article, we mentioned that while some foreign banks were saying that the peso will reach 48, the weekly chart shows that it was nearing strong support at the 45.50 to 46 range. In addition, we noted that the slope of the peso's decline is becoming less steep which indicates a slowing down of momentum and a possible turn (see *EM Currency Contagion*, January 27, 2014).

A week later, the peso indeed topped at 45.53 and has since appreciated towards 44.63. We see the peso consolidating further and potentially going back to 44. Moving forward, if the peso can break below 44, then we will see it back at its old sweet spot of 42 to 44.

The recovery and the stability of the peso is another bullish sign for the stock market. Below is the chart showing the peso topping at 40.55 on March 2013 and the strong support at the 45.50 to 46 range.



Source: Wealth Securities Research

PSEi targets 6,650 - 6,800

The PSEi has completed a base and broken its downtrend line in early-February. Short- and medium-term indicators have turned bullish while the long-term trend remains neutral. The index may be capped at 6,500 initially or the 50 percent retracement of the May 2013 peak to August 2013 low. Corrections may occur because of the steep run-up the past few weeks but we expect it to eventually retest the tougher resistances at 6,650 and 6,800.

Longer-term, a push above 6,800 would signal the resumption of the long-term bullish uptrend and a move towards new all-time highs. Below is the PSEi chart showing the basing formation and bottoming out at the 5,560 to 5,750 level.



Source: Stockcharts.com, Wealth Securities Research

Technical Analysis Explained

We are inviting clients of Philequity and Wealth Securities to our Investors Briefing on Saturday, March 8, 2014, 2:30PM at the Meralco Theater. Aside from our Philippine stock market outlook and investment strategies, we will discuss the technical analyses of the PSEi, the peso, global stock market indices and currencies.

We will discuss chart patterns and formations which will show why we remain bullish on the Philippine stock market and why we think it will reach new highs in the years to come. We will also explain why we believe the peso topped out at 40 and why it is finding strong support at 45.50 to 46.

This is also your opportunity to talk, discuss and direct your questions to our 5 fund managers and 9 research analysts.

For further stock market research and to view our previous articles, please visit our online trading platform at www.wealthsec.com or call 634-5038. Our archived articles can also be viewed at www.philequity.net.