Philequity Corner (October 12, 2015)
By Valentino Sy

Contagion No More

Last week, the Indonesian rupiah which has collapsed to 1997 Asian Crisis levels and imploding to new lows suddenly reversed. The rupiah gained 7.8 percent against the dollar for the week and as much as 9.4 percent since hitting last month's lows of 14,753.20.

USD/IDR Daily Chart

Source: Investing.com

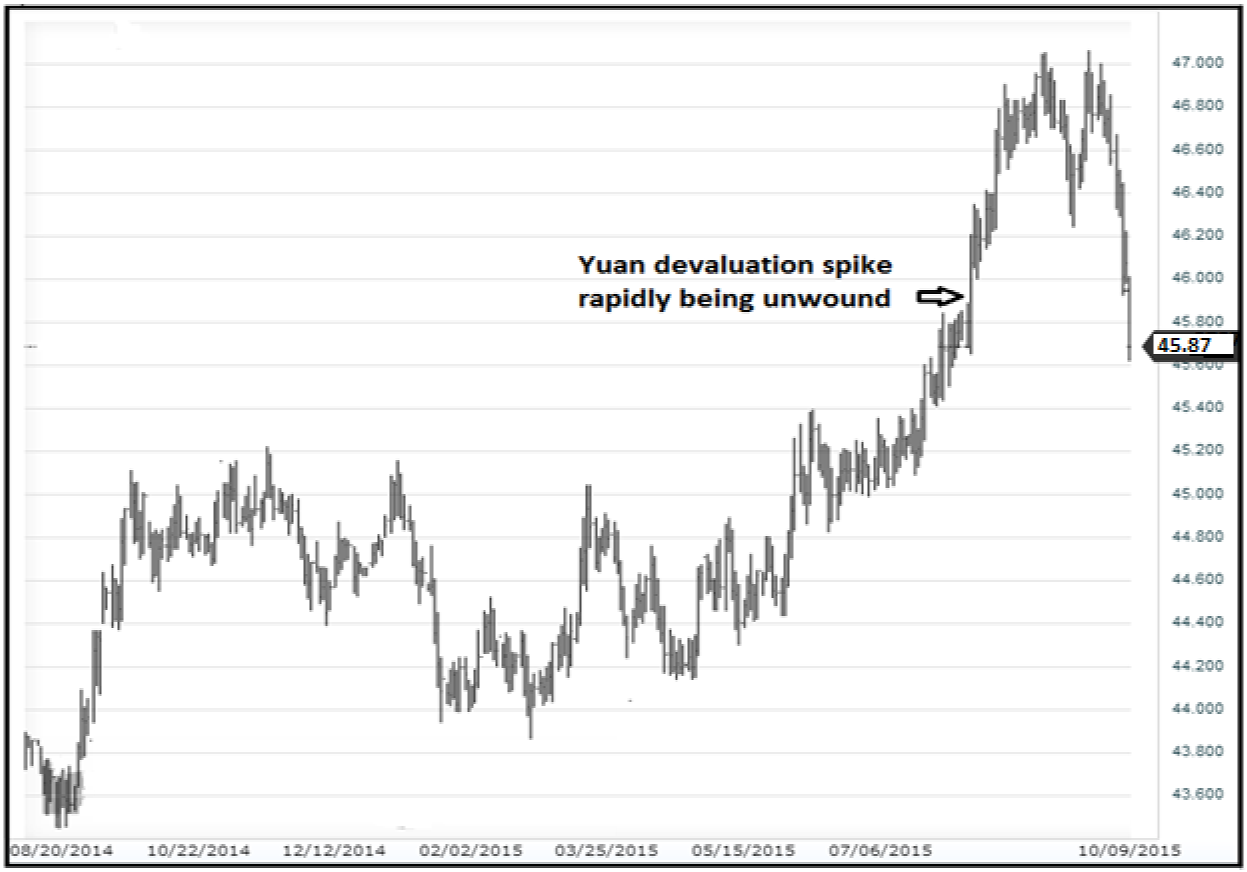
Dramatic reversal for EM currencies

Other emerging market currencies also made dramatic reversals similar to the rupiah's move. In fact, the Malaysian ringgit gained 7.7 percent while the Korean won was up 4.7 percent from their respective lows last September. Other EM currencies like the Brazilian real and South African rand appreciated 12.2 percent and 6.1 percent, respectively, from their lows last month.

Philippine peso strong again

The peso which was on the brink of breaking above 47.0 has reversed and is now back at 45.87 against the dollar. Like the rupiah, the peso has erased all the losses from the yuan devaluation spike two months ago.

USD/PHP Daily Chart



Source: Investing.com

Rate hike delayed

One of the reasons for the dramatic reversal of emerging currencies was the disappointing US jobs report number released last October 2. Non-farm payrolls came in at 142,000 in September, well below the expected 203,000, while the August and July figures were revised downwards. This strengthened the argument that the long-awaited interest rate hike may be delayed further into 2016.

Worst of commodity crunch may be over

Commodity market sentiment also appears to be bottoming out as the Commodity CRB Index rose more than 4 percent last week, its biggest weekly gain since June 2012. The move was led by crude oil which surged 8.4 percent week-on-week. Note that crude oil has rallied more than 30 percent since hitting multi-decade support levels at $40 per barrel last August 24.

The past two weeks also saw private equity funds and billionaires such as Carl Icahn and KKR buying huge stakes on beaten down copper stocks after it hit five year lows.

Equities markets rebound as EM currencies recover

Emerging markets gained 6.6 percent week-on-week as emerging market currencies rallied strongly against the dollar. The rally in EM equities was led by Indonesia, Malaysia and Singapore which posted double-digit returns in their respective equity ETFs.

Commodity-producers such as Australia and Canada led developed markets with gains of 7.6 percent and 6.7 percent for the week. Meanwhile, US equities rebounded on the back of the energy and materials sectors which increased 8 percent and 6.75 percent week-on-week, respectively.

US ETFs	Symbol	%wk-on-wk		Emerging Market ETFs	Symbol	%wk-on-wk
Energy	XLE	7.97		Indonesia	EIDO	22.95
Materials	XLB	6.75		Malaysia	EWM	11.57
S&P 500	SPY	3.25		Singapore	EWS	10.27
				Brazil	EWZ	9.69
Developed Market ETFs				Thailand	THD	8.36
Australia	EWA	7.62		South Korea	EWY	6.63
Canada	EWC	6.72		Emerging Market Index	EEM	6.21
Germany	EWG	5.63		Philippines	EPHE	5.21
France	EWQ	4.98		Taiwan	EWT	4.27
Japan	EWJ	3.86		India	EPI	3.33

Source: Bloomberg, Wealth Securities Research

Experts speak: the bottom is past

With the successful retest of the August lows two weeks ago, several prominent fund managers and well-respected analysts have declared that the bottom may be at hand.

"The fund is predominantly buying and there's a possibility that we will bottom out, maybe in the next couple of weeks." –Robert "Bernie" Vergara, GSIS President

"The bottom is past already. Foreign investors will come again." – Elvyn Masassya, president of Indonesian State Pension Fund BPJS Ketenagakerjaan

"Many emerging market currencies are now in many cases 15% - 30% undervalued. We saw specific valuations reach levels that are not only once-in-a-decade opportunity, but what we believe to be rare multi-decade opportunities to capture extraordinary longer-term investment potential." – Dr. Michael Hasenstab, Chief Investment Officer of Templeton Global Macro

"Maybe the worst is behind us. August was the primary low. This (last week) was the secondary low." – Bob Doll, Chief Equity Strategist of Nuveen Asset Management

Philequity Corner made a similar call three weeks ago, and we quote:

"Volatility has somewhat subsided since the ghost month ended. Barring any black swans or unexpected negative events, we may have seen the low of our stock market this year." – see The Ghost Vanishes, Philequity Corner, September 21, 2015

Are we out of the woods?

Nothing is certain in life, but what we know is that we have the central banks and the governments behind our back. What they want is to stabilize their economies and prevent deflation by stimulating economies world-wide. We also know that the Fed is making sure that their actions will be more data dependent and that they are careful not to hike interest rates prematurely. If the central banks and governments play their cards right and China stabilizes, it is highly likely that we have already seen a major low in global equities markets.

Philippine peso going back to 45

The sharp reversal in commodity prices, stock markets and emerging market currencies show that things have indeed stabilized. Moreover, the dramatic recoveries in the rupiah and the ringgit which were imploding to new lows just a couple of weeks ago indicate that the contagion has been arrested (see

Contagion, August 24, 2015). Hence, the 6,600 levels may have been the low for Philippine stocks. With regard to the peso, EM currency strength will bring it back to the 45 - 45.50 range.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.