



Vantage *point*

MARKET OUTLOOK: CAUTIOUS STRATEGY: DEFENSIVE STOCKS

Last week, there was news that US and China will resume trade talks by the end of August. This electrified markets, with US markets closing sharply higher. This goes to show how positive news on the trade front can affect markets, no matter how minor. This significantly improved market sentiment in the US last week.

Already suffering from twin deficits, the Turkish lira was already weakening. Trump's tweet on August 10 exacerbated this, pushing Turkey further into financial crisis. With some European banks exposed to Turkish assets, the euro broke its crucial 1.15 support level, sending the DXY above the 95 resistance level to a 1-year high.

Because Turkey is part of the emerging markets complex, there were fears that this could trigger an emerging market contagion similar to the 1997 Asian Financial Crisis. Thus, investors are now wary of deficit countries, such as Argentina, India and Indonesia. As a result, these currencies have broken down, aggravated by the breakout in the DXY.

Likewise, Turkey's financial crisis and fears of a full-blown trade war have weighed on emerging market equities, especially China which is in bear market territory and continues to fall.

However, the peso has managed to stave off a sharper depreciation than that experienced by its neighbors. This is because of the BSP's 50 bps rate hike, which couldn't have come at a better time. With the lira plunging and the dollar surging, this aggressive action spelled the difference between a correction and a crash. Hawkish language from Espenilla helped stabilize the peso.

Helping the BSP's cause is the pullback in commodity prices, such as oil and copper. Gold was also lower because of the strong dollar and lower expectations for both growth and inflation. The drop in crude oil price bodes well for our inflation, making now an opportune time to put a stop to rising inflation.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With positive news on the trade war offsetting fears of a Turkey-led contagion, the PSEi may find its footing near support of 7400-7500. However, the BSP has to remain vigilant and decisive in its actions in this current volatile environment.



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