

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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MARKET OUTLOOK: CAUTIOUS

STRATEGY: BANKING STOCKS

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

Last week proved to be a very eventful one. Markets started the week with oil prices spiking as much as 20% after a drone attack on Saudi Arabia's oil facilities, knocking out as much as 5.7M bpd of production. This amounts to more than 50% of Saudi's capacity and about 5% of global oil supply. Though oil prices have since settled, they are still 8% higher than pre-attack levels.

As a result, market expectations of a Fed rate cut later in the week went from 100% to 65%. Still, the Fed delivered as expected, cutting rates for the 2nd time this year. However, it is important to note that the Fed is now quite divided, with many members dissenting and voting to keep rates on hold. This may lead to a stronger dollar moving forward.

Finally, we had Trump saying that he is in no rush for a trade deal before 2020 elections. After this announcement, Chinese negotiators who visited the US cut their visit short, no longer visiting US farms. This does not bode well for the trade talks in the 1st week of October.

Taken together, these 3 may put a ceiling on markets. Higher oil prices may push up our inflation figure, especially if it is prolonged. This is something the BSP has to consider before cutting interest rates. The Fed's hawkish cut will strengthen the dollar to the detriment of other emerging market currencies, such as the Philippine peso. Finally, investors hoping for a trade deal may have to dial down their expectations as recent events show that the road to a deal is a long and winding one. In light of these, we remain on hold as we monitor events here and abroad.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Hopes for a trade deal dimmed last week as both sides are showing signs of disagreement once again. Combined with a hawkish cut from the Fed and the spike in oil prices after the Saudi attack, we expect markets to be directionless in the near term. We remain on hold.