MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: CONSUMER NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A

LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES

TECHNICALS: SUPPORT AT 5700 FOLLOWED BY 5400, RESISTANCE AT 6000 FOLLOWED BY 6200

The PSEi continues to meander between 5800 and 6000 on very low trading volume. This may be a sign of increasing disinterest in trading Philippine stocks. We also note that selling pressure this past week seems to be coming from local

institutions instead of foreign funds.

Fortunately, we note that the peso seems to be stabilizing below the 59 handle despite dollar strength, a widening trade deficit and a narrowing interest rate differential. Direct intervention and moral suasion seemed to have played a role in preventing further depreciation. More importantly, hawkish language from BSP Governor Felipe Medalla was a welcome development. In a recent interview, he said "the argument for not responding point-by-point is that our inflation rate is lower, but the argument for doing something bolder is that the question of the currency also has to be addressed."

He also said that the next hike is likely 50 or 75 bps because "what the Fed does has a very significant effect on what we will do." These words will go a long way in helping our currency start to perform better against the dollar.

On Thursday night, we also saw a welcome development from the US stock market. Despite a hotter than expected inflation print, the S&P swung by 5% from its intraday low to its closing level of 3669. This is the 3rd largest intraday swing from the low in terms of points and the 5th largest in percentage terms. Rising on bad news is usually a positive sign. Still, we note that recession in the US has not even been officially declared. We will wait for more bottoming signals before changing our defensive stance.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Similar to last week, the 6000 level has proven to be a resistance yet again. We note that local institutions seem to be raising cash despite the dry trading volume. We remain cautious for now but we note that value is starting to emerge.

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