MARKET RECAP

30 August 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,853.16 (+0.28%)	118,560,844.40	(1,972,530.03)	26.27 (-0.49%) = 1,401.82	53.411

Market Recap

- Philippine share struggled to ride the wave of optimism that swept Wall Street to another record close in the hope that the current North American Free Trade Agreement (NAFTA) negotiations will lead to a further easing of global trade tensions.
- The bellwether PSEi rose 22.20 points or 0.28% to 7,853.16 at the closing bell. The broader All Shares added 10.04 points or 0.21% to 4,760.90.
- New York's indexes powered ahead as news that Canada and the United States were close to a fresh trade deal that would revive NAFTA coincided with better-than-expected US growth and a possible breakthrough in Brexit talks.
- The leaders of the United States and Canada expressed optimism on Wednesday that NAFTA negotiations would meet a Friday deadline for a deal.
- Canada rejoined the talks to modernize the 24-year-old NAFTA after Mexico and the United States announced a bilateral trade deal on Monday, which had helped global equities begin the week on the front foot.
- Recent NAFTA negotiations have helped clear some of the uncertainty the market had been feeling, leading to hopes US-China trade tensions will take a turn for the better.
- The White House has said it wants to settle NAFTA before negotiating with China.
- The deadline for public comment on US President Donald Trump's tariffs on another $200-bil of Chinese goods is on Sept. 5, with the new measures possibly taking effect next month.
- Also on Wednesday, the Commerce Department said the US economy expanded more than initially reported in Q2 thanks to a pick-up in business investment.
- More than 1.249-bil shares valued at P6.332-bil, changed hands. Market breadth was slightly positive, with advancers barely edging out decliners, 99 to 97, and 50 issues were unchanged.
- Gainers: MPI (+5.36%), GTCAP (+4.46%), DMC (+2.52%), AEV (+1.52%), AGI (+1.34%)
- Laggards: TEL (-1.06%), URC (-0.99%), AP (-0.96%), SMC (-0.88%), JFC (-0.49%)

Debt Repayment and Rising Interest Rates

- Costlier debt servicing due to rising interest rates and exchange rate volatility is the biggest concern faced by the economy, and financial authorities are now planning to introduce "interventions" to manage risks arising from credit.
- "What is clear is that interest rates are rising and emerging market currencies have been depreciating versus the United States dollar," the inter-agency Financial Stability Coordination Council (FSCC) said.
- "These must mean that debt servicing is now at a higher cost than in the past, separate from the issue of having more outstanding debt. This is our central financial stability issue," it added added.
- According to the FSCC, the change in market prices could trigger "negative outcomes" which, if not properly addressed, would amplify into "systemic consequences."
- While there is no definitive evidence of a looming crisis, it is also clear that shocks that have caused dislocations of crisis proportions have come as a surprise.
- What is not debatable is that repricing, refinancing and repayment risks are escalated versus last year and this could result in systemic risk if not properly addressed in a timely manner.
- In a bid to fight inflation and capital outflow, the central bank has raised its policy rates by a cumulative 100 basis points from May to August. Emerging-market central banks have come under pressure amid a stronger US dollar and tightening monetary policy in advanced economies.
- Meanwhile, the Duterte administration's ambitious infrastructure program has been adding pressure on the Philippine peso.
- To mitigate debt-related risks, the central bank is in discussion with the market to roll out three measures: Countercyclical Capital Buffer (CCyB), Debt-to-Earnings-of-Borrowers' Test (DEBT) and Borrowers Interconnectedness Index (BII).
- The CCyB seeks to ensure banks have enough capital buffers so they can continue lending money even during a financial crunch. The measure also aims to provide a means to curb credit growth if it is deemed as expanding at "too-strong" a pace.

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Debt Repayment and Rising Interest Rates (continued)

- DEBT is a stress test that evaluates the debt servicing capacity of bank borrowers under the hypothetical scenario of higher interest rates and/or a depreciation of the Philippine peso.
- The FSR takes a thematic assessment of the various risks that could pose a challenge to the continued growth of the Philippine economy and its financial system. The FSCC is a voluntary interagency body composed of the central bank, the Department of Finance, the Insurance Commission, the Philippine Deposit Insurance Corporation and the Securities and Exchange Commission.

BPI

- Ayala-led Bank of the Philippine Islands (BPI) has raised $600-mil from an offshore global bond debut, marking the biggest ever maiden overseas bond float by a local bank.
- BPI's five-year senior unsecured fixed rate bonds were priced to yield 4.25% a year. This is the first drawdown from BPI's existing $2-bil medium-term notes program.
- The offering was about three times oversubscribed, with the order book allocated predominantly to Asia and the rest to Europe.
- By investor type, more than half of the offer was taken up by asset and fund managers while around a third was allocated to banks and the rest to insurance, pension funds, private banks and other investors.
- The transaction is expected to be settled on Sept. 4.
- BPI's notes will be listed on the Singapore Stock Exchange and are expected to have an issue rating of Baa2 by credit watcher Moody's, making them subject to moderate credit risk.
- BPI Capital Corp. acted as the sole global coordinator and, jointly with Deutsche Bank, HSBC and J.P. Morgan, as joint lead managers and joint bookrunners for the drawdown.

MWC

- The government's non-approval of a P13-bil water treatment plant in Laguna Lake may result in water shortage in Metro Manila by 2021.
- Manila Water said the Metropolitan Waterworks and Sewerage System (MWSS) is not keen on approving the company's proposed Laguna Lake water supply system project because it is "expensive."
- Manila Water said consumers should brace for water interruptions because supply from the current water sources would no longer be enough to meet demand in the next three years.
- The MWSS argued that the Laguna Lake project, which will have a capacity of 250-mil liters per day (MLD), is way expensive than the government's flagship P12.2-bil Kaliwa Dam project that could treat 600 MLD.
- The Laguna Lake project aims to complement the nearly completed Rizal Province water supply improvement project in Cardona in Rizal which has a capacity of 100 MLD.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	**Unemployment Rate**	5.5% (April 2018)	**GIR**	US$76.892-B (July 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	**Exports Growth Rate**	(0.1%) (June 2018)	**BOP**	(US$1.177-B) (June 2018)
Inflation	5.7% (2012 BY) (July 2018)	**Imports Growth Rate**	24.2% (June 2018)	**O/N RP**	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.203 (as of August 20, 2018)	**Cash Remittances**	US$2.357-B (June 2018)	**O/N RRP**	4.00% (as of August 9, 2018)