

Daily Matters

January 25, 2013

MARKET INDICATORS

As of January 24, 2013

Index/ Bond	Index Level/Yield	DoD Change	DoD % Change
PSEi	6,117.27	24.74	0.41%
Dow Jones	13,825.33	46.00	0.33%
S&P 500	1,494.82	0.01	0.00%
NASDAQ	3,130.38	-23.29	-0.74%
MSCI Asia ex-Japan	557.21	-2.82	-0.50%
MSCI Emerging Market	1,072.26	-4.27	-0.40%
5 Yr FXTN	3.68	10 bps	
10 Yr US Treasury	1.85	3 bps	
USD/PHP	40.64	0.01	0.02%

Source: Bloomberg

VIEW FROM THE FUND MANAGER ON THE SDA RATE:

UNSHACKLED

In yesterday's Monetary Board meeting, the Bangko Sentral kept its overnight policy rate unchanged at 3.5%, a move widely expected. It also announced however that it is LOWERING its SDA rate to 3.00% for all tenors. We've been saying for some time that BSP could possibly tweak SDA rates lower especially after its "test" last year of moving it down by a marginal 3 bps. The timing however was a bit sooner, and the adjustment was a bit more than we expected.

So what exactly did the BSP just do? Basically it has delinked the SDA rate from the overnight policy rate. In the past the SDA rate it paid was pegged to the overnight and was actually higher depending on the tenor. Now they have set it at an "arbitrary" level. I'd say arbitrary because they just set it a 3.00% instead of saying its -50 bps to overnight. I guess the central bank figured they shouldn't be giving investors too much of a free ride. Think about it. A one month time deposit with your favorite reputable bank pays you about 1 to 2%. The BSP was paying double that. Theoretically it should be lower, since after all, they are the Central bank.

The BSP does have the important role of managing liquidity in the system. In my view, the 3.00% rate is its best guess of up to how much it could lower the rate by, while persuading that money to still stay with them. At least for now. Because I'm sure most of us would still place money with them at 3.00%. But you have to start thinking, would you still place your funds in SDA if the rate was 2.00%? 1.00%? Remember, the 3 month t-bill is at 0.05%...

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NEWS IN THE PHILIPPINES

BSP Holds Key Interest Rates Steady, Cuts SDA Rate

- Bangko Sentral ng Pilipinas (BSP): The Monetary Board decided to keep record low interest rates of 3.5% for overnight borrowing rate and 5.5% for overnight lending rate to encourage consumer spending and business investments. The rates on all tenors of the Special Deposit Accounts (SDA) were slashed to 3% to further boost liquidity and support overall economic growth.

Local Bond Market

- The yields of bonds mostly fell yesterday with 6 issues falling, 2 rising, and 4 unchanged. Most short term bonds were flat while most medium to long term bonds fell.
- The yield of the benchmark 5-year bond gained 10 bps to close at 3.68%.

Philippine Stocks

- Philippine stocks snapped out of a 2 day slide, mirroring overnight gains in Wall St. The Philippine Stock Exchange index (PSEi) gained 0.41% or 24.74 points to close at 6,117.27. Market breadth was positive with gainers slightly outnumbering losers at 77 to 74 with 51 stocks unchanged.

Philippine Peso

- The peso was little unchanged as the BSP decided to hold its benchmark interest rates at a record low. The local currency closed 0.02% or 1 cents lower at 40.64.

NEWS AROUND THE WORLD

China Preliminary PMI Hits 2-Year High; US Lending Rises

- Hongkong and Shanghai Banking Corporation, Ltd. (HSBC): China's manufacturing inched higher to its fastest pace in 2 years as preliminary results of HSBC's monthly Purchasing Manager's Index (PMI) rose for a 5th consecutive month to 51.9 in January from 51.5 in December. Readings of above 50 signal an expansion.
- US Conference Board: The index of leading US indicators rose in December, the most in 3 months, hinting that stronger housing and job markets will help the world's largest economy expand in the first half of 2013. The outlook for the next 3 to 6 months increased 0.5% after no change in November.

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US Stock Market

- US markets ended mixed yesterday while investors focused on the latest corporate earnings of a tech giant that dragged down the NASDAQ. (Dow Jones 0.33% 13,825.33; NASDAQ - 0.74% 3,130.38; S&P 500 0.00% 1,494.82)

Asian Stocks

- Asian stocks fell from choppy trade as positive Chinese manufacturing data was offset by threats of a nuclear test by North Korea and corporate results from a US tech giant. The MSCI Asia ex-Japan Index lost 0.50% or 2.82 points to close at 557.21.

Emerging Markets

- Emerging-market stocks fell the most in more than a week on weaker sales growth from a US tech giant and disappointing earnings from automakers. The MSCI Emerging Markets Index slipped 0.40% or 4.27 points to close at 1,072.26.

Sources: Bloomberg, Briefing.com, Business World, CNN, Inquirer, PhilStar, Reuters, WSJ

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