

February 6, 2018
LOCAL MARKETS

Local equities tracked the selloff in global markets due to fears of rising inflation. Meanwhile, fixed-income investors shifted from the belly to the long end of the curve, while the PHP weakened against the USD's recent strength.

Key Events

- ✓ **Bank of the Philippine Islands** (PSE ticker: BPI) reported net income of PHP 22.42B in 2017, up 1.7% YoY. Earnings growth was driven by improved net interest margins, which offset lower year-on-year non-interest income due to a lack of non-recurring trading gains. Loan growth was solid at 15.5%, albeit below the industry average of 19%.
- ✓ **January inflation** print came in at **+4.0% YoY** (+1.0% MoM), above consensus estimates of +3.5%. Inflation grew at its quickest since October 2014, and is at the high end of the BSP's inflation target of 2-4%. Despite the high inflation, however, market consensus is still that the BSP will keep its benchmark rate at 3% in its rate decision this week.

Equities

- ✓ **Philippine stocks** recorded their largest single-day drop in two years, tracking global markets, which fell on fears of inflation after the Fed revised its inflation outlook upward and US wage growth data came in higher than expected. The PSEi lost 2.21% DoD, closing at 8,616.0 pts.

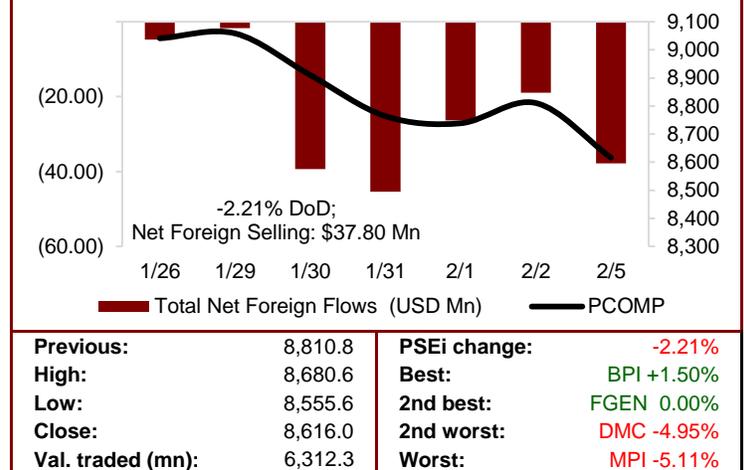
Bond Market Movement

Tenor	Change	Yield	Tenor	Change	Yield
1 month	+0.0161	2.6768	4 years	+0.4650	4.9286
3 months	+0.0514	2.4287	5 years	+0.0806	4.8472
6 months	+0.0250	3.1625	7 years	-0.0235	5.6911
1 year	+0.0130	2.9121	10 years	-0.0200	6.1893
2 years	+0.1479	3.9592	20 years	-0.4073	5.9677
3 years	+0.0545	4.2504			

Foreign Exchange

	Previous	Close	Previous	Close
PHP/USD	51.450	51.510	EUR/USD	1.2463

PSEi Snapshot



Fixed Income

- ✓ **Local fixed income** reversed their recent trend, with the long-end falling (-14.24 bps) as investors bought up bargains, and the belly rising (+14.49 bps) as they took profits. On average, yields rose 3.66 bps, in contrast to US fixed income.

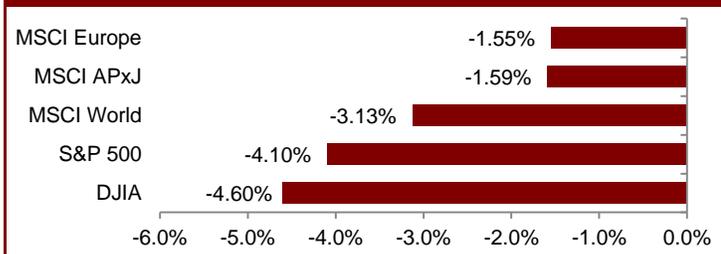
Philippine Peso

- ✓ The **Philippine peso** depreciated on continued net foreign selling in the equity market. USD strength based on economic data continues to suppress the PHP. The PHP/USD closed at 51.510 (+0.12% DoD).

OVERSEAS MARKETS

Global equities were down for the second straight day as the pressure from the global equities selloff continues. Meanwhile, US Treasuries and the US dollar strengthened as investors shifted to safe-haven assets amid concerns in the equities market.

Global Markets



US Treasuries

Tenor	Change	Yield	Tenor	Change	Yield
3 months	+0.0076	1.4804	5 years	-0.1514	2.4369
6 months	-0.0129	1.6145	10 years	-0.1355	2.7056
2 years	-0.1172	2.0241	30 years	-0.0808	3.0060

- ✓ **US equities** continued to be under fire amid a global selloff in equities. The Financial sector was hit the hardest, down 4.24%. The DJIA closed at 24,345.75 (-4.6% DoD) while the SPX was at 2,648.94 (-4.1% DoD).
- ✓ **European equities** finished lower as markets continued to track the global equities selloff brought about by rising inflation expectations and higher interest rates. The MSCI Europe index closed at 128.88 (-1.55% DoD).
- ✓ **Asian stocks** continued to decline amid the global equities selloff despite the fastest expansion in six years of China's services sector. The MSCI APxJ index closed at 588.77 (-1.59% DoD).
- ✓ **US Treasury yields** fell as investors flocked to haven assets amid the panic in global stock markets. The 10-year Treasury yield retreated from a 4-year high to close at 2.7056% (-13.55 bps). On average, yields fell 8.17 bps.
- ✓ The **US dollar** strengthened as the sharp rise in US Treasury yields halted. Moreover, the Institute of Supply Management's measure of non-manufacturing firms was at 59.9 in January, better than consensus expectations of 56.7. The DXY closed at 89.554, +0.40% DoD.