

February 28, 2018

LOCAL MARKETS

The positive beat in global equities on Monday night helped drive up local equities, as net foreign selling slowed ahead of US Fed Chair Jerome Powell's first speech. The local yield curve flattened as the short-end rose in anticipation of the speech. The PHP, however, continued to depreciate on economic grounds.

Key Events

- ✓ **Ayala Corporation (PSE Ticker: AC)** wholly-owned subsidiary AC Industrial Technology Holdings Inc. completed its acquisition of a controlling stake in Merlin Solar Technologies, Inc. It will have a 78.2% ownership interest in Merlin.
- ✓ Senator Cynthia Villar, head of the **Senate Committee on Agriculture and Food**, urged the **National Food Authority (NFA)** to increase the agency's price of unmilled rice by one peso, from PHP17 to PHP18 per kilogram. This would help increase the stockpiles of the agency by increasing its buying power. Currently the NFA has only 1.7 days worth of rice held as buffer stock, raising fears over shortage. Previous efforts to increase the buying price were not successful.

Equities

- ✓ **Local equities** continued to rally after upbeat trading in global markets (during Monday evening in Philippine time) ahead of new Fed Chairman Jerome Powell's first public speech. Net foreign outflows subsided somewhat compared to the prior days. The PSEi gained 1.09% DoD, closing at 8,592.38.

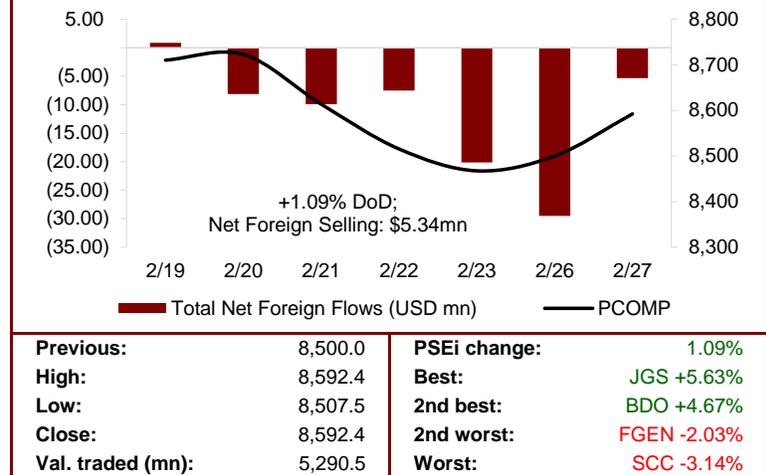
Bond Market Movement

Tenor	Change	Yield	Tenor	Change	Yield
1 month	-0.0025	3.4139	4 years	-0.2884	4.9802
3 months	+0.1054	3.0794	5 years	+0.0115	5.1570
6 months	+0.0011	3.0261	7 years	-0.0304	6.6000
1 year	+0.4318	3.9200	10 years	-0.0818	6.7611
2 years	-0.2143	4.2479	20 years	+0.0237	6.4481
3 years	+0.0104	4.2858			

Foreign Exchange

	Previous	Close	Previous	Close
PHP/USD	51.860	52.030	EUR/USD	1.2346

PSEi Snapshot



Fixed Income

- ✓ The **local fixed income yields** were unchanged on average but continued to flatten, with rising short-term yields (+13.40 bps) offset by a fall in the belly (-12.02 bps) and long end (-2.95 bps) of the curve. This is reflective of higher inflation and interest rate hike expectations just prior to Jerome Powell's first testimony. On average, yields fell 0.30 bps.

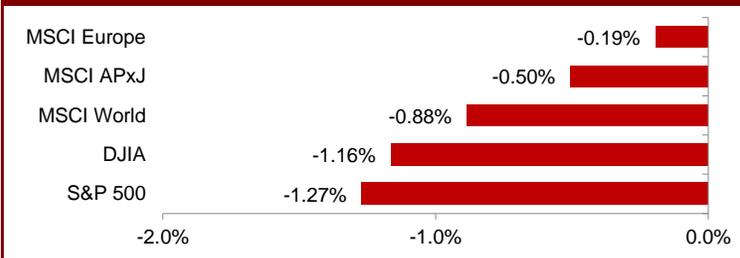
Philippine Peso

- ✓ The **Philippine peso** lost ground, ending its recent move upward after hitting its lowest level in 11 years last Monday, as focus remains on the Philippines' growing trade and current account deficits. The PHP/USD gained 0.33% DoD to 52.030.

OVERSEAS MARKETS

Global equities retreated as fears of higher inflation expectations crept back in after Fed Chairman Jerome Powell's hawkish testimony. Moreover, US Treasury yields and the dollar advanced mainly due to the increased possibility of more aggressive rate hikes.

Global Markets



US Treasuries

Tenor	Change	Yield	Tenor	Change	Yield
3 months	+0.0209	1.6596	5 years	+0.0504	2.6603
6 months	+0.0185	1.8598	10 years	+0.0311	2.8934
2 years	+0.0381	2.2600	30 years	+0.0058	3.1588

- ✓ **US equities** closed sharply lower after Fed Chairman Jerome Powell failed to quell fears of faster rate hikes. Chairman Powell's upbeat outlook on the economy was deemed hawkish by the market. The DJIA closed at 25,410.03 (-1.16% DoD), while the S&P 500 was at 2,744.28 (-1.27% DoD).
- ✓ **European equities** slipped, tracking losses of US counterparts, after Fed Chairman Powell's testimony in Congress underscored concerns of faster rate hikes. The MSCI Europe index closed at 128.92 (-0.19% DoD).
- ✓ **Asian stocks** declined as buying appetite for global stocks appeared to be waning near the end of a roller-coaster month. The Shanghai Composite and Hang Seng indices went down by 1.13% and 0.73% respectively. The MSCI APxJ index closed at 584.32 (-0.50% DoD).
- ✓ **US Treasury yields** increased across tenors as Fed Chairman Powell's testimony emphasized the strong economy, stoking fears over a more aggressive policy stance. Yields rose 2.75 bps on average, with 10YR yields up 3.11 bps to 2.893.
- ✓ The **US dollar** strengthened after Fed Chairman Powell's speech that emphasized his upbeat outlook on the economy and support for gradual monetary policy normalization. The DXY closed at 90.355 (+0.56% DoD).