

March 7, 2018

LOCAL MARKETS

Local markets were mixed yesterday after February inflation surprised on the upside at 4.5% (CPI=2006). Equities were slightly lower, fixed income yields went up and the Philippine Peso remained flat as the markets feared that the data signaled an overheating economy.

Key Events

- ✓ **Meralco (PSE ticker: MER)** registered wholly-owned subsidiary eSakay Inc. with the Securities and Exchange Commission, which is formed to engage in the operations and management of transport services networks of charging stations, batteries and vehicles utilizing electric energy and other alternative sources.
- ✓ **Philippine inflation picked up 4.5% YoY (CPI=2006) or 3.9% (CPI=2012)**, primarily driven by food & non-alcoholic beverages, tobacco and transport prices. BSP noted that the elevated inflation in February was in line with their forecast for temporarily higher inflation, due to a spur of transitory factors. Moreover, the BSP is confident that they can employ all the tools available to bring inflation back to their target level by 2019.

Equities

- ✓ The **local equities market** slid following the release of the February CPI print, which showed inflation rose to 4.5% (based on the 2006 weights), causing jitters that monetary tightening will be more aggressive than planned. Further, the market continued to see net foreign outflows. The PSEi declined to 8,360.20 (-0.31% DoD).

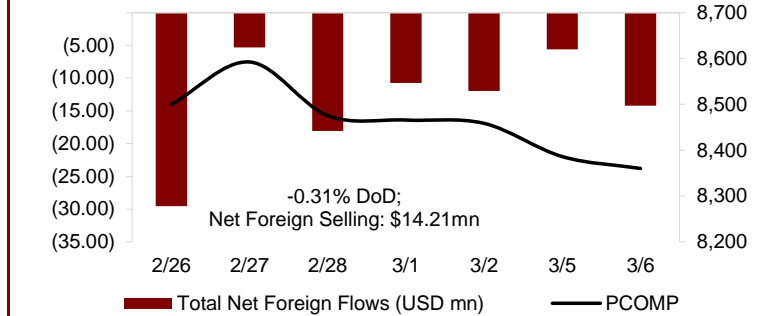
Bond Market Movement

Tenor	Change	Yield	Tenor	Change	Yield
1 month	+0.0078	3.4321	4 years	+0.1189	5.2500
3 months	-0.0029	3.4275	5 years	+0.0206	5.3166
6 months	-0.0983	3.5946	7 years	+0.2178	6.7482
1 year	+0.5553	3.5692	10 years	+0.1118	6.8704
2 years	+0.0477	4.2609	20 years	-0.2573	6.4638
3 years	+0.1162	4.4162			

Foreign Exchange

	Previous	Close		Previous	Close
PHP/USD	52.000	52.000	EUR/USD	1.2314	1.2346

PSEi Snapshot



Previous:	8,386.2	PSEi change:	-0.31%
High:	8,411.8	Best:	MER +2.77%
Low:	8,344.8	2nd best:	RRHI +2.54%
Close:	8,360.2	2nd worst:	URC -2.14%
Val. traded (mn):	4,514.9	Worst:	SCC -2.36%

Fixed Income

- ✓ The **local fixed income yields** rose on average after the release of the CPI data ensued panic on a looming policy rate hike in the March 22 meeting. However, this was later brushed off by BSP Governor Nestor Espenilla by saying that the high inflation was transitory. On average, the curve went up by 7.61 bps led by the short end which rose 11.55 bps.

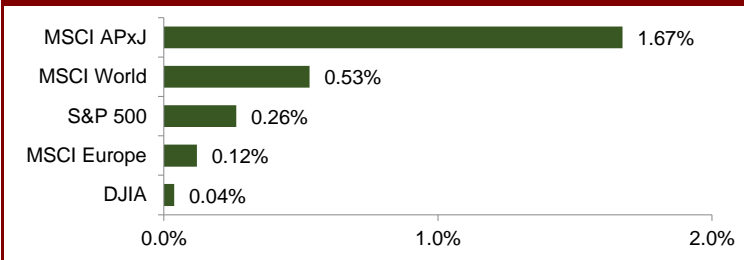
Philippine Peso

- ✓ The **Philippine Peso** remained steady as Espenilla calmed the markets following the release of the February CPI print. He stated that BSP is looking at the long-term trajectory of inflation and that they expect it to come down to their target of 2-4% by 2019. The USD/PHP pair was unchanged at 52.00.

OVERSEAS MARKETS

Most global equities climbed back, while US Treasury yields rose on growing opposition against Trump's announced tariffs, causing fears of a global trade war to somewhat decline. Moreover, the US Dollar declined owing to the recovery of Asian currencies amid the slight waning of global trade tensions.

Global Markets



US Treasuries

Tenor	Change	Yield	Tenor	Change	Yield
3 months	+0.0056	1.6621	5 years	+0.0085	2.6536
6 months	+0.0263	1.8650	10 years	+0.0055	2.8863
2 years	+0.0121	2.2499	30 years	-	3.1531

- ✓ **US equities** rose as President Trump's proposal to impose tariffs faces increasing opposition from key Republican figures such as House Speaker Paul Ryan. The DJIA closed at 24,884.12 (+0.04% DoD) while the S&P 500 ended at 2,728.12 (+0.26% DoD).
- ✓ **European equities** climbed as fears over a global trade war subside, in spite of the uncertainty following the Italian elections result. The MSCI Europe closed at 125.20 (+0.12% DoD).
- ✓ **Asian stocks** went up on signs of improving relations between the US and North Korea, with both Presidents willing to discuss the issues concerning nuclear weapons. The MSCI APxJ ended at 574.32 (+1.67% DoD).
- ✓ **US Treasury yields** continued to rise as President Trump refuses to budge on his announced tariffs on steel and aluminum despite senior Republicans advising against it. On average, yields advanced 0.97 bps, with the 10-year increasing 0.55 bps.
- ✓ The **US Dollar** declined as the looming global trade war receded in some measure, opening the door for its counterparts to stage a recovery rally. Most of Asia's export-driven economies had their currencies firm up against the dollar. The DXY closed at 89.495 (-0.65% DoD).

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