

February 03, 2014

Global Financial Markets

Global equities posted a sharp decline for the week amid heightened fears over China's slowing growth and the sell-off in emerging market currencies. This prompted a risk-off sentiment among investors, which in turn pushed US Treasury yields lower. Meanwhile, the Japanese yen strengthened against regional peers as its relative safe-haven status proved attractive to market players, especially on growing fears of a contagion in emerging market currencies.

Global Equities

Global equities markets ended the week with substantial losses as market players reacted negatively to the substantial depreciation in emerging market currencies. Last week, the sharp depreciation of Turkey's lira and Argentina's peso took the limelight and added to concerns over China's weakening economy and looming credit crisis. The event prompted Turkey's central bank to raise its overnight loans from 7.75% to 12% and the rate on its overnight borrowings from 3.5% to 8%.

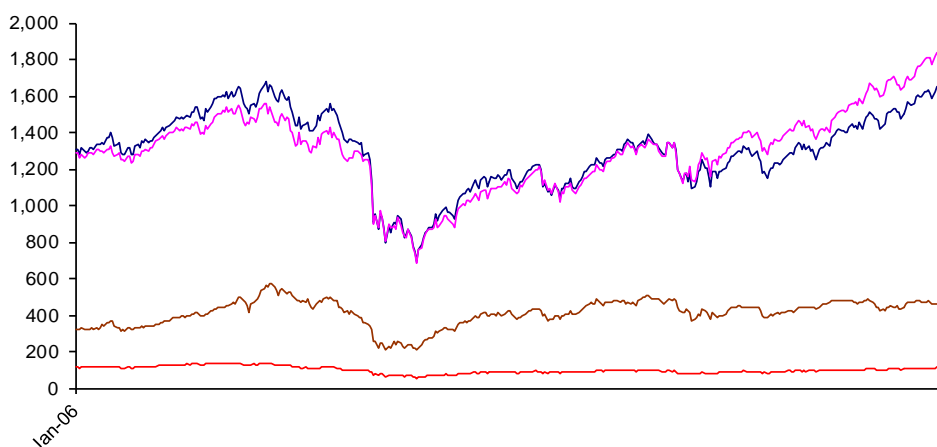
Earlier during the week, investors fretted over how safe China's unregulated shadow banking sector was after a struggling coal-mining company, Zengfu Energy Group, claimed that it wouldn't be able to pay the loan behind a 3 billion yuan (US\$496 Mn) high-yielding investment product that is scheduled to mature on January 31. A restructuring deal that would allow investors to get back their principal, but not the last 3 interest payments, did little to quell worries.

Investors likewise focused on the FOMC meeting concluded Wednesday night, though the committee's decision to cut bond purchases by another US\$10 billion was one largely expected by the market. Whilst all members had voted towards the scale-back, over-all assessment of the economic performance was still mixed. As always, the FOMC stressed that their strategy continues to rely on economic data.

Economic data releases for the week were scarce, with most investors focusing more on the emerging market currencies sell-off and the FOMC meeting results.

- For the month of December 2013, new home sales plunged 7%, much lower than the market estimate of a 1.9% drop, to a seasonally adjusted annual rate of 414,000. This compared to a market estimate of 455,000 and November's downwardly revised 445,000. Meanwhile, the median sales price for a new home spiked 4.6% year-on-year to US\$270,200.
- US durable goods orders dropped 4.3% month-on-month last December, much lower than the market estimate of a 1.8% increase and November's downwardly revised 2.6% increase. The drop, which was the worst since July, was due to a sharp decline in demand for civilian aircraft. Not including the volatile transportation sector, orders for durable goods fell by 1.6%, compared to the market estimate of a 0.5% increase. Orders for autos likewise plunged by 5.8%, while orders for computers and electronic products slumped 7.8%.
- Last November, US home prices continued to rise, with the S&P/Case-Shiller home price index—which covers 10 major US cities—rising 13.8% year-on-year. Similarly, the 20-city price index climbed 13.7% year-on-year, only slightly lower than the market estimate of a 13.8% increase. The indices indicated that price had returned to levels last seen

Global Equity Performance



	22-Jan-14	29-Jan-14	% Change
MSCI World	1,661.74	1,603.67	-3.49%
MSCI Europe	114.77	110.07	-4.10%
MSCI Asia-Pacific ex-Japan	459.88	446.28	-2.96%
Dow Jones Industrial Average	16,373.34	15,928.56	-2.72%
S&P 500	1,844.86	1,792.50	-2.84%

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in mid-2004. Unadjusted both the 10-city and 20-city indices inched slightly lower month-on-month. Seasonally adjusted however, both rose 0.9%.

- The Conference Board's index of consumer confidence rose to 80.7 last January, beating the market estimate of 78.0, following December's downwardly revised 77.5. It was also the highest reading since August. The present situation index, which is a gauge of consumers' assessment of current economic conditions, climbed to 79.1 from a downwardly revised 75.3 in December.
- For the month of January, business sentiment in Germany rose to a 2.5 year high. The Ifo institute's business confidence index climbed to 110.6, following December's 109.5. Companies surveyed by the institute indicated increased "optimism" for future business in January due to better expectations for exports. The positive report coincided with the German central bank's projection of an accelerated economic growth rate this quarter.

Global Bonds

US Treasury prices rose as weak Chinese manufacturing data, a sharp drop in US durable goods orders and fears over the emerging market currency sell-off sparked a risk-off sentiment among investors, causing demand for safe-havens to spike. The US Treasury Department's relatively well-received auctions of 2-year fixed rate notes on Tuesday and five- and seven-year notes on Wednesday, likewise served to push yields lower. Week-on-week, the 10-year benchmark yield fell 18.89 basis points to 2.677%.

US Treasury Yield Curve			
Tenor	22-Jan	29-Jan	+/- bps
3m	0.030	0.041	1.02
6m	0.056	0.061	0.51
2y	0.400	0.352	-4.85
5y	1.700	1.497	-20.38
10y	2.866	2.677	-18.89
30y	3.759	3.616	-14.31

Currencies

In the global currencies market, the Japanese yen posted the most significant gain for the week against its currency peers as market players flocked to the safe-haven on emerging market concerns. Fears of turmoil in emerging markets last week grew after the Argentine peso plunged by 14% in a span of just 2 days. This in turn gave rise to speculation that there may be a contagion in emerging market currencies. Week-on-week, the Japanese yen appreciated by 0.81% against the US dollar and 1.41% against the euro.

Currencies			
	23-Jan	30-Jan	% Change
USD/PHP	45.300	45.320	-0.04%
EUR/USD	1.3696	1.3616	-0.58%
GBP/USD	1.6637	1.6523	-0.69%
USD/JPY	103.26	102.43	0.81%
AUD/USD	0.8768	0.8734	-0.39%
USD/CHF	0.8973	0.8986	-0.14%
EUR/CHF	1.22899	1.22364	0.44%
EUR/JPY	141.44	139.47	1.41%

The week ahead (Feb 3 – Feb 07)

Trading in global financial markets this week was largely driven by concerns on emerging markets, as well as market players' speculation on and the reaction to the FOMC meeting concluded Wednesday night in the US. For the week ahead, we expect equities markets to recover on a technical bounce, especially after having posted two straight weeks of losses. Sentiment could continue to be negative though, as it appears that efforts of central banks in emerging markets to shield their currencies from further depreciation are met with difficulties. US Treasury yields may continue to decline as these fears cause investors to seek shelter in safe-havens, and the US dollar may appreciate following the Fed's announcement to further scale back its bond purchases by another US\$10 billion to US\$65 billion in February.

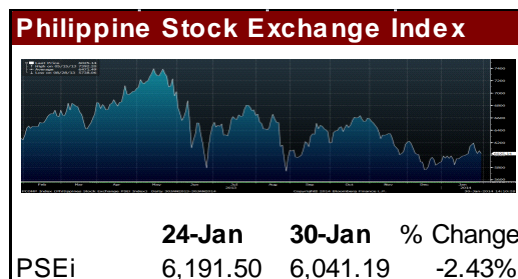
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Philippine Financial Markets

The local financial markets dropped this week as global fears highlighted by economic woes in emerging market economies triggered a general risk-off sentiment. Moreover, the outcome of the US FOMC meeting, which saw the Federal Reserve cut another US\$10 billion in its bond purchases, heightened preference for developed market assets. For the week, prices of local equities and fixed income markets fell, while the Philippine peso depreciated.

Local Equities

The local equities market fell this week as a result of stronger growth prospects coming from the developed markets, and overall bearish sentiment towards emerging markets. India and Turkey surprisingly raised interest rates to stem capital outflows. There were also continued concerns that China's economy is slowing. During the week, the Fed tapered its stimulus program by US\$10 billion, supporting the view that the US economy is gaining strength. The decline in equities was somewhat tempered by the country's GDP figure, which came out stronger-than-expected. Week-on-week, the index sank 150.31 points, or -2.43%, to close at 6,041.19. For the week, foreign investors were net sellers at Php3.85 billion. Meanwhile, for the month of January, foreign selling amounted to Php4.83 billion.



Utilities

- Maynilad Water Services has allotted roughly Php18 billion for capital expenditure (capex) this year. Broken down, around Php8.2 billion would go to wastewater management projects, roughly Php2.7 billion for the expansion of the service network, Php2.3 billion for the construction, rehabilitation and upgrade of boosters, pumping stations and reservoirs, Php2.2 billion for the reduction of its non-revenue water (NRW), another Php2.2 billion for water source development and finally around Php314 million for the modernization of the company's data management and information systems. Maynilad will fund its capital expenditures from bank loans and internally generated funds.

Properties

- Century Properties Group, Inc. registered Php24.6 billion in reservation sales for 2013, higher by 15% from the Php21.4 billion posted in 2012. This has breached the company's target of Php23 billion reservation sales, which is mainly attributed to a strong take-up from its multi-tower developments. Century Properties Chairman and CEO Jose E.B. Antonio expounded on the fact that the continuing expansion of the real estate industry and influx of remittances from overseas Filipino workers (OFW) contributed to the growth of the company.
- SM Prime Holdings (SMPH) is looking to spend around Php10 billion over the next two years for mall expansion. SM Prime plans to expand the SM Mall of Asia located in Pasay, SM City Bacolod, SM City Lipa, and SM City Iloilo. Aside from retail areas in shopping malls, the firm also plans to expand its call center space in SM Taytay and SM North Edsa.

Power

- Energy Development Corp. (EDC) is looking to begin the commercial operation of its 87-megawatt (MW) wind farm in Ilocos Norte in the fourth quarter. The power firm had already started the construction of its project last year in the municipality of Burgos. The firm also plans to expand the capacity of the plant to up to 150 MW. EDC President and Chief Operating Officer Richard Tantoco said that the progress of the project is already substantial and impressive.

Philippine Bond Market

On the local fixed income market, prices of government securities fell for another week on global fears arising from disappointing data from China, as well as developments over in Turkey, India and Argentina, which also caused some investors to cut risk and stay defensive. Yields across the curve climbed by an average of 14 basis points led by the short- and long-ends of the curve, which rose by 43.34 and 1.12 basis points, respectively. Meanwhile, the belly declined 1.12 basis points.

Philippine Peso

The Philippine peso displayed initial weakness against the greenback as investors awaited the conclusion of the US FOMC Meeting and the release of 4Q GDP figures from both the US and Philippines. Towards the middle of the week, the local currency appreciated, along with regional peers, following interest rate hikes of emerging markets, India and Turkey, in an attempt to combat capital outflows. On Thursday, the US Fed announced a continuation of its bond purchase tapering of another US\$10 billion, which further strengthened the US dollar. Week-on-week, the local currency surrendered 1 centavo to close at 45.320 on Friday.

For the final quarter of 2013, the Philippine economy expanded by 6.5% year-on-year despite the damage caused by the Typhoon Yolanda during the latter part of the year. The 4Q2013 growth was higher than Bloomberg's consensus of 6.0%. The better-than-expected growth was supported by the service sector, specifically Trade and Real Estate, Renting & Business Activities as well as the robust growth of the manufacturing sector. Meanwhile, on the expenditure side, consumer spending and investments in Fixed Capital Formation, spurred growth. The country's GDP has now risen by an average of 7.2% for full-year 2013.

Data from the Department of Budget & Management (DBM) showed that Php1.912 trillion, or 95.31%, of the Php2.006 trillion 2013 national budget has been released as of November 30, 2013. The figure is 10.9% higher than the Php1.724 trillion released from January to November in 2012, which accounted for 94.93% of the Php1.816 trillion national budget for the year. Bulk of the budget released went to departments, amounting to a total of Php934.016 billion. Php205.104 billion was released for special purpose funds, while Php718.674 billion went to automatic appropriations and Php54.606 billion for continuing appropriations from the 2012 budget.

According to debt watcher, Moody's Investors Service, the country's leading indicators such as remittance inflows, the business confidence index, the manufacturing value of the production index, and imports of capital goods, pointed to improved asset quality for Philippine banks. Moody's explained that strong remittance inflows support domestic consumption, demand for consumer credit and the debt-servicing capability of the retail sector. Meanwhile, strong business confidence will result into good asset quality metrics for the corporate and SME (small and medium enterprise) sectors. Moody's stated that increased factory output signals an improved manufacturing outlook for exporters and domestically focused manufacturers. Lastly, the debt watcher explained that imports, which would likely remain strong, will boost business and the revenue of the corporate and SME sector.

Philippine Economic Zone Authority (PEZA) Director-General Lilia de Lima said that investment pledges registered with the agency rose by 17% to 673 in 2013, from 577 registered in 2012. She added that most projects were manufacturing and agri-industrial, and pointed out that these sectors are the key to making economic growth inclusive. However, PEZA-registered projects declined in terms of value, falling by 11.48% to Php276.13 billion in 2013 from Php311.95 in 2012. She explained that this was mainly attributed to the reduction in the number of sectors to which PEZA could grant incentives.

Peso Yield Curve (PDST-F Reference Rates)			
Tenor	24-Jan	30-Jan	Change
1m	1.03	1.69	66
3m	0.92	1.41	49
6m	1.84	2.19	34
1y	2.06	2.30	24
2y	3.23	3.06	-17
3y	3.45	3.44	-2
4y	3.96	3.99	3
5y	4.21	4.28	7
7y	4.25	4.22	-2
10y	4.31	4.28	-3
20y	5.34	5.36	3
25y	5.73	5.76	3
Average			14

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The week ahead (Feb 03 – Feb 07)

We expect the local equities market to trade lower next week on the back of continued foreign outflows in emerging markets. The decision of the Federal Reserve to slow its bond buying even further to US\$65 billion from US\$75 billion would cause another round of capital flight from emerging markets to developed markets. Next week, investors will be closely watching for the US 4Q13 GDP growth, expected to come out at 1.2%. Any positive surprise in this figure will be negative for EM assets like Philippine equities as it would support further tapering. We think the index will break its resistance at 6,000. Trading range will likely be from 5,800 to 6,000.

Meanwhile, movement on the local fixed income space will depend on the outcome of the upcoming Treasury bill auction. On the currency market, investors will turn their attention to key local economic events, with the country's inflation figure for the first month of 2014 set to come out on Wednesday and the Bangko Sentral ng Pilipinas (BSP) having its first monetary board meeting for the year on Thursday. Furthermore, occurrences in the US will be monitored, especially after the Fed decided to continue with the pace of its bond purchase tapering. Developments among countries in the region are also given importance as these can set the tone for the movement in the currency market.