WEEKLY REPORT

MANDARIN SECURITIES CORPORATION

September 24, 2023

Market Commentary

INDICES

Index	Prev	Last	% Chg
PSEi	6,126.34	6,142.79	0.27%
All Shares	3,320.18	3,316.95	-0.10%
Financial	1,786.93	1,788.23	0.07%
Industrial	8,789.88	8,805.82	0.18%
Holding Firms	5,859.32	5,814.95	-0.76%
Property	2,502.59	2,552.97	2.01%
Services	1,494.56	1,488.54	-0.40%
Mining & Oil	10,485.61	10,387.46	-0.94%

➡ The PSEi gained 18.22 points or 0.27% and ended last week at 6,142.79. The local bourse inched up as the US Federal Reserve (Fed) and the Bangko Sentral ng Pilipinas (BSP) both opted to keep policy rates unchanged. The Philippine Peso appreciated to PHP56.795 from PHP56.815 against the US dollar. Net foreign selling amounted to PHP2.66 billion. Property (+2.01%) had the biggest movement while the rest had sub-1% changes. AB (+14.57%) and MONDE (+10.48%) led the stock gainers while LPC (-20.29%) and PLC (-13.85%) had the worst week.

- The Bangko Sentral ng Pilipinas (BSP) has decided to keep its key interest rates steady amid elevated inflation forecasts for 2023 and 2024 but has indicated the possibility of a rate hike in November. The central bank revised its average 2023 inflation forecast to 5.8% and its 2024 average inflation projection to 3.5%. Inflation has been driven by rising food and transport prices, spillovers from weather disturbances, higher global crude oil prices, and the depreciation of the peso.

- The Philippines' balance of payments (BoP) remained in deficit for the fiXh consecutive month in August but was considerably narrower than the same period last year, mainly due to the government's foreign debt payments, according to the Bangko Sentral ng Pilipinas (BSP). The August BoP deficit was $57 million, down 90% from $572 million in August 2022. On a month-on-month basis, it rose by 7.5% from a $53 million deficit in July. The BoP measures the country's transactions with the rest of the world, with a deficit indicating more funds leaving the economy than entering it, while a surplus reflects the opposite. The improved BoP for the first eight months of the year, swinging to a $2.15 billion surplus from a $5.49 billion deficit the previous year, was driven mainly by a better balance of trade and sustained net inflows from personal remittances, trade in services, and foreign borrowings by the national government, the BSP stated.

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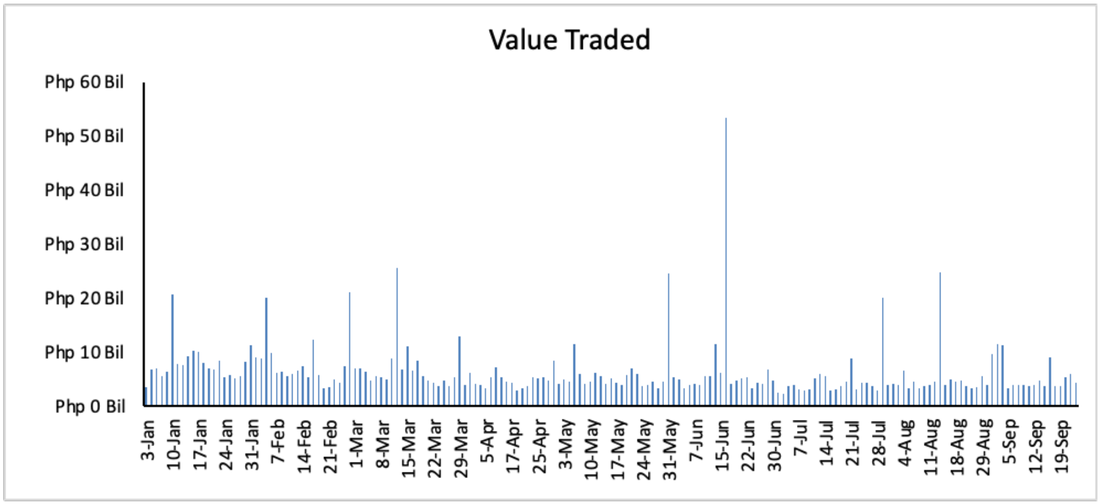
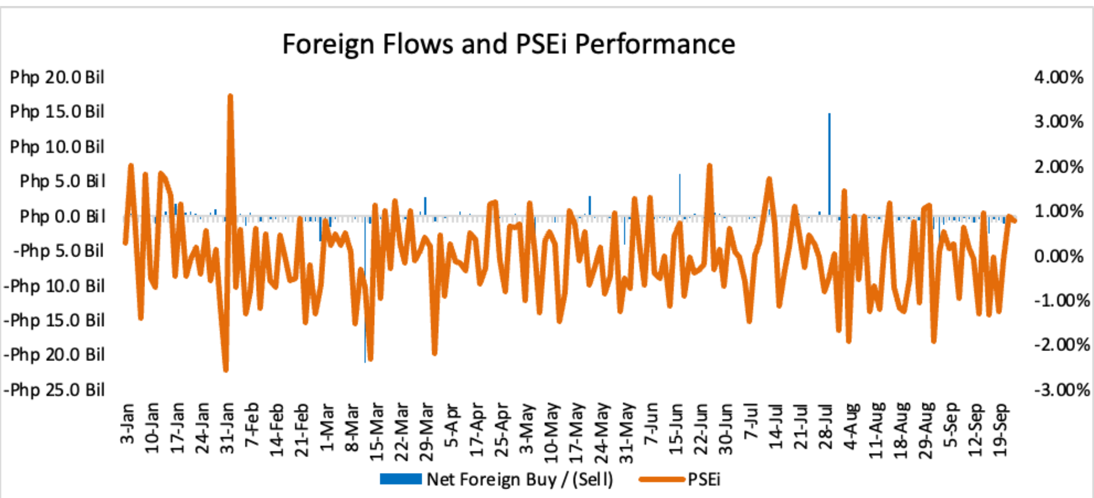
➡ Market turnover averaged PHP4.58 billion last week, lower than the PHP5.04 billion in the previous week. Activity picked up midweek ahead and during the Fed and BSP's respective policy meetings but eventually cooled down last Friday.



➡ Last week logged a net foreign selling of PHP2.66 billion, lower than the PHP4.39 billion in the previous week. Foreigners have a running net sell streak of 24 sessions.



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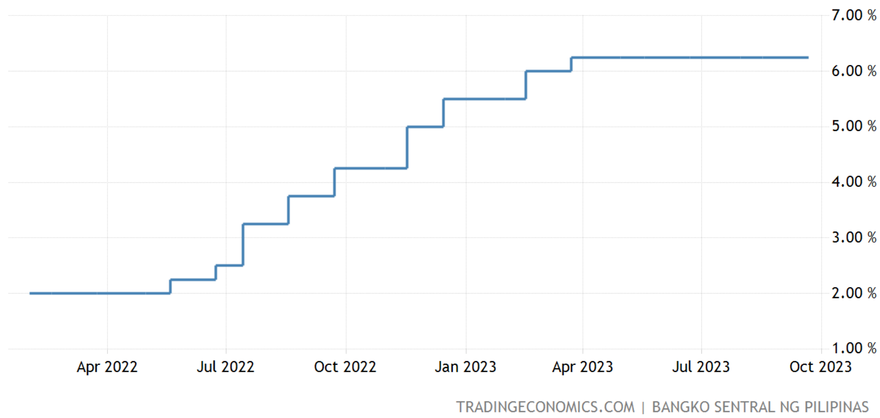
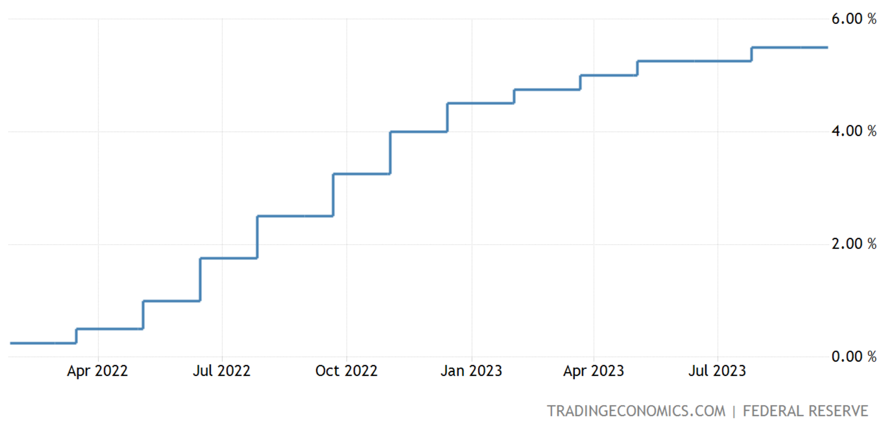
Key Economic Figures



➡ **<u>BSP benchmark rate.</u>** In August 2023, the Philippines experienced an unexpected rise in the annual inflation rate, reaching 5.3%, up from the previous month's 4.7%. This increase surpassed market expectations and was driven by a surge in food prices, the sharpest increase in five months. Additionally, transport costs rebounded after three months of decline, and prices went up for various goods and services, including alcoholic beverages, clothing, housing, and more. However, core consumer prices, which exclude food and fuels, saw the slowest growth in ten months at 6.1% year-on-year. On a monthly basis, consumer prices surged by 1.1%, the highest since January, exceeding consensus forecasts. *(BSP)*



➡ **<u>Fed benchmark rate.</u>** In its September 2023 meeting, the Federal Reserve decided to maintain the federal funds rate at its 22-year high of 5.25%-5.5%, aligning with market expectations. However, the central bank indicated the possibility of another rate hike later in the year. The dot-plot projections revealed an anticipated additional increase in rates for this year, followed by two rate cuts in 2024. PCE inflation saw a slight upward revision to 3.3% for 2023 (from 3.2%), while it remained at 2.5% for 2024. Core inflation is predicted to decrease in 2023 (3.7% versus 3.9%) and remain unchanged for 2024 (at 2.6%). Additionally, the unemployment rate is forecasted to be lower in 2023 (3.8% compared to 4.1%) and 2024 (4.1% versus 4.5%). *(US Federal Reserve)*

For the Week

TOP GAINERS		TOP LOSERS	
AB	14.57%	LPC	-20.29%
MONDE	10.48%	PLC	-13.85%
RFM	5.00%	ABS	-8.43%
SEVN	4.94%	ION	-7.76%
STR	3.40%	TECH	-7.69%
CNPF	2.94%	FGEN	-7.58%
SMPH	2.72%	GTPPB	-5.94%
ALI	2.58%	SSP	-5.93%
SGP	2.35%	APX	-5.86%
TEL	2.21%	ACEN	-5.81%
PRF3A	2.08%	GSMI	-5.81%
MER	1.64%	LR	-5.71%
SCC	1.59%	FNI	-5.67%
BDO	1.55%	SECB	-4.35%
RCB	1.51%	DD	-3.74%
EEI	1.51%	ROCK	-3.47%
GLO	1.48%	WLCON	-3.41%
FB	1.34%	GTCAP	-2.95%
UBP	1.16%	BLOOM	-2.75%
DDPR	0.97%	AP	-2.69%

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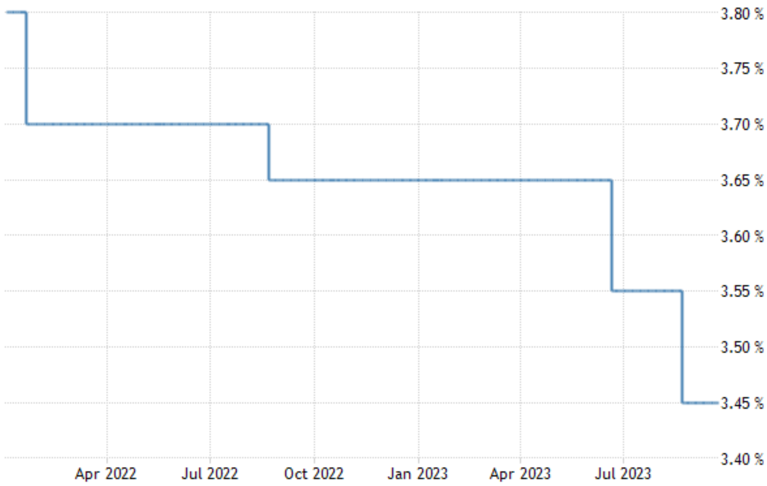
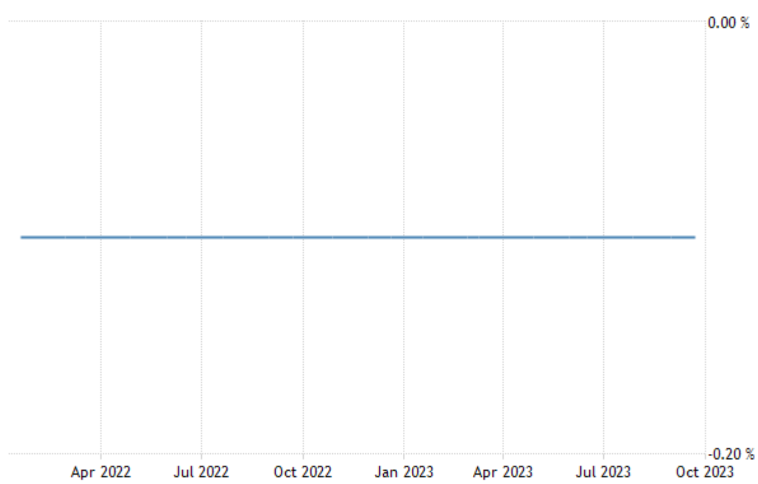
Key Economic Figures



➡ **<u>China loan prime rate.</u>** The People's Bank of China (PBoC) has opted to maintain lending rates in its September fixing, as it assesses the impact of prior easing measures. This includes an interest rate cut in August and a recent reduction in the reserve requirement ratio for banks. The one-year loan prime rate (LPR), used for both corporate and household loans, remains at a record low of 3.45%, while the five-year rate, a benchmark for mortgages, holds steady at 4.2% for the third consecutive month. The PBoC's decision aligns with market expectations and follows its maintenance of the medium-term policy rate last week. Although China's economy showed signs of improvement in August, such as in industrial production and retail sales, uncertainties persist due to weak overseas demand and a property market downturn. *(People's Bank of China)*



➡ **<u>BoJ benchmark rate.</u>** The Bank of Japan (BoJ) has decided to maintain its key short-term interest rate at -0.1% and keep the yield on 10-year bonds at approximately 0% in its September meeting, with unanimous approval. Additionally, the central bank has left unchanged the 50bps allowance band on either side of the yield target and the 1.0% cap established in July. The central bank aims to achieve a sustainable 2% price stability target along with wage increases and is prepared to take further easing actions if necessary. *(Bank of Japan)*

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Market Outlook

What You Need to Know

- ➡ The PSEi posted a slight gain last week coming from a 1.55% decline in the previous week. Market participation was relatively low until it picked up on Wednesday and Thursday as the US Federal Reserve (Fed) had its policy meeting and announced its decision. The BSP also chose to keep rates unchanged, in line with the Fed's decision.

- ➡ The number of coronavirus cases in the Philippines has reached 4,113,434 as of September 22, 2023. Active cases slightly rose to 2,914 from 2,709. There were 11 new deaths from COVID-19 and the total has gone up to 66,696. Number of recoveries rose to 4,043,824 from 4,042,899. As of September 15, the Department of Health stated that the newest Omicron subvariant of COVID-19, "Pirola" or "BA.2.86" has not yet been detected in the Philippines.

- ➡ Equities in emerging markets took a breather last week as the Fed signaled that it only has one more rate hike in store before finally reaching the peak of its monetary tightening cycle. However, developed markets were still bounded by fear last week of the effects of "higher for longer" interest rate environment. The local bourse's small rally towards the end of the week is a positive sign but headwinds against growth still remain. Russia's indefinite ban on diesel exports is expected to further disrupt the ongoing global supply shortages. With rising oil prices, costs of commodities are likely to follow suit, thereby raising inflationary pressures once again. In the midst of these uncertainties, Philippine companies continues to suffer from low valuations and stock prices despite strong earnings growth (with some even exceeding their pre-pandemic records). With negative sentiment on China, however, it may take some time for other emerging markets like the Philippines to recover as investors still exercise risk-off sentiments and prefer safe haven markets and currencies. The possible peak of interest rates is welcome news, but the longer these rates remain high, the longer and heavier the pressure it will have on the capacity of businesses to grow. The PSEi is currently down 6.45% year-to-date. The negative reaction of US and European markets to the Fed's decision could take the toll on the local bourse and keep it from breaking out of current levels between 6,000-6,200.