WEEKLY REPORT

MANDARIN SECURITIES CORPORATION

March 17, 2024

## Market Commentary


➡ The PSEi fell by 119.89 points or 1.73% week-on-week and closed at 6,822.32. The local barometer fell sharply last Friday after the US PPI went above estimates, and as investors tweaked their portfolios after the FTSE rebalancing took effect. Services (+1.27%) was the lone sector in the green. Industrial (-3.22%) and Property (-3.17%) recorded the biggest contractions. In the PSEi, LTG (+4.23%) and TEL (+4.23%) had the best week, while WLCON (-9.52%) and EMI (-9.14%) were the main laggards. Net foreign selling amounted to ₱3.09 billion last week. The local currency slightly appreciated to ₱55.53 ₱55.57 against the US dollar. Meanwhile, some notable developments last week were:

- The non-performing loan (NPL) ratio of Philippine banks increased to 3.44% in January, reaching an eight-month high, according to preliminary data released by the Bangko Sentral ng Pilipinas (BSP). This marked a reversal of the two-month decline and was the highest since May 2023. The NPL ratio improved for four consecutive months, hitting a 6-month low of ₱3.40% in September 2023 but increased to ₱3.44% in October before easing to ₱3.41% in November. Banks increased their loan loss reserves by 7.3% to ₱462.12 billion in January from a year earlier, leading to an NPL coverage ratio of 100.29%.

- The government's debt service bill surged to a record ₱1.604 trillion in 2023, surpassing the annual program by 3%, as reported by the Bureau of the Treasury. This marked a 24% increase from the debt payments recorded in 2022. Interest payments for the year amounted to ₱628.33 billion, rising by 25%, with domes(c debt interest reaching ₱435.75 billion. Principal payments increased by 23.4% to ₱975.278 billion, surpassing the program for the year by 3.66%. In December alone, the government's debt repayments rose by 21.51% to ₱68.866 billion. Despite efforts to manage the fiscal position and reduce the debt pile, the outstanding debt for the country reached a record ₱14.79 trillion as of end-January.

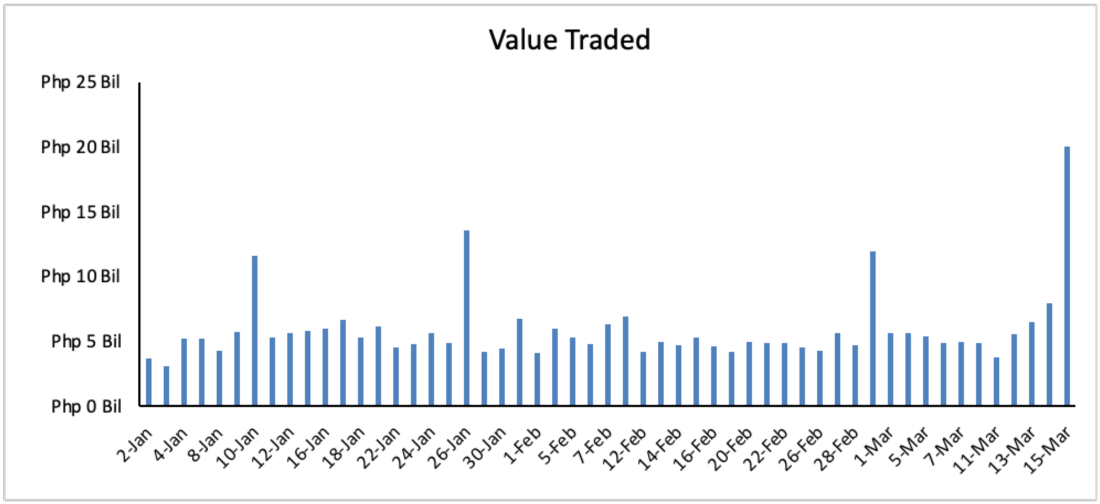
## INDICES

| Index | Prev | Last | % Chg |
|---|---|---|---|
| PSEi | 6,942.21 | 6,822.32 | -1.73% |
| All Shares | 3,602.81 | 3,560.46 | -1.18% |
| Financial | 2,020.18 | 1,984.87 | -1.75% |
| Industrial | 9,136.08 | 8,842.19 | -3.22% |
| Holding Firms | 6,603.99 | 6,543.54 | -0.92% |
| Property | 2,844.14 | 2,753.95 | -3.17% |
| Services | 1,809.66 | 1,832.73 | 1.27% |
| Mining & Oil | 8,410.52 | 8,197.18 | -2.54% |

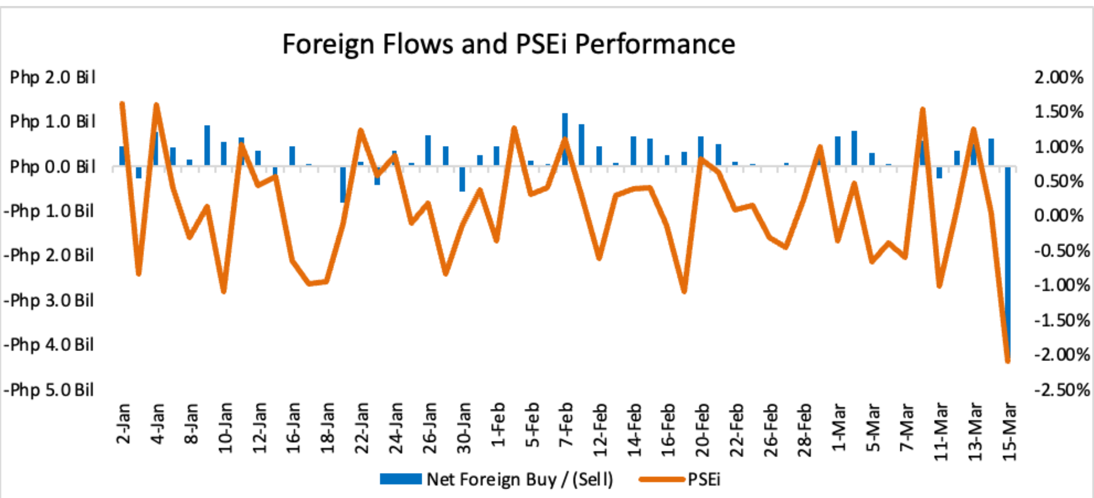
## PSEi

| TOP 10 | | BOTTOM 10 | |
|---|---|---|---|
| LTG | 8.54% | WLCON | -9.52% |
| TEL | 4.23% | EMI | -9.14% |
| MBT | 2.38% | ACEN | -7.35% |
| AGI | 2.24% | BDO | -5.73% |
| SMC | 1.94% | DMC | -5.69% |
| ICT | 1.68% | PGOLD | -5.09% |
| BLOOM | 1.40% | SMPH | -4.73% |
| MONDE | 0.50% | JGS | -4.40% |
| BPI | 0.25% | URC | -4.30% |
| SM | 0.15% | AC | -3.22% |

➡ The market's average turnover went up to ₱8.76 billion last week from ₱5.15 billion in the week of March 4-8. The spike was due to the surge in market activity last Friday, mainly driven by funds' adjustments with respect to the latest FTSE rebalancing.

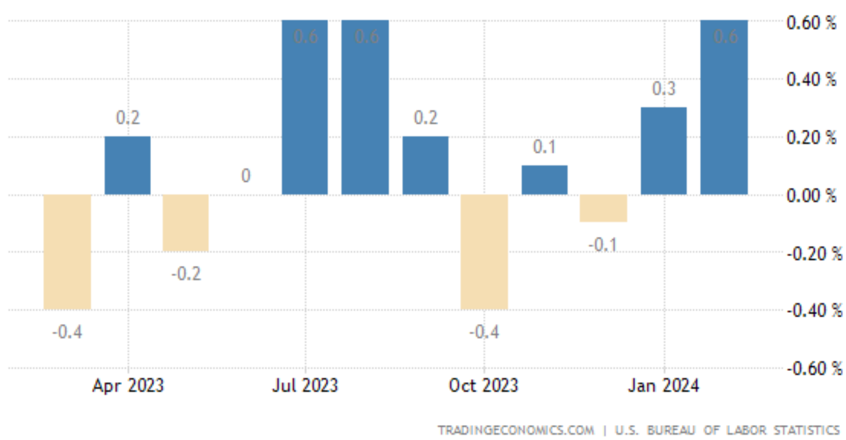



➡ Last week logged a net foreign selling of ₱3.09 billion, contrary to the net foreign buying of ₱1.73 billion in the previous week.



## Key Economic Figures


➡ **US CPI.** In February 2024, the annual inflation rate in the US unexpectedly rose to 3.2%, surpassing January's 3.1% and market forecasts of 3.1%. Notably, energy costs declined less than anticipated, with gasoline, utility gas service, and fuel oil seeing smaller drops compared to the previous month. Conversely, prices for food, shelter, new vehicles, and medical care increased at a softer pace, while apparel costs remained steady and used car prices continued to decline. Transportation costs, however, saw a continued sharp rise. The monthly inflation rate increased to 0.4%, mainly driven by higher prices for shelter and gasoline. Core inflation eased slightly to 3.8% from 3.9%, contrary to expectations of 3.7%, with the monthly rate remaining steady at 0.4%, rather than the anticipated 0.3%. *(US Bureau of Labor Statistics)*




➡ **US PPI.** In February 2024, the US producer price index (PPI) surged by 0.6% month-over-month, the largest increase since August, outpacing market expectations of a 0.3% rise. This uptick was primarily fueled by a 1.2% jump in goods prices, driven by a 4.4% surge in energy costs and a 1.0% uptick in food prices. Meanwhile, the cost of services also edged up by 0.3%, with transportation and warehousing services climbing by 0.9% and trade prices declining by 0.3%. The core PPI rate increased by 0.3%, slightly exceeding the consensus of 0.2%, although representing a slowdown from January's 0.5% advance. On an annual basis, producer price inflation accelerated to 1.6%, significantly surpassing forecasts of 1.1%. *(US Bureau of Labor Statistics)*

## For the Week

| TOP GAINERS | | TOP LOSERS | |
|---|---|---|---|
| PLC | 21.92% | AB | -15.14% |
| PLUS | 14.91% | SSP | -11.11% |
| SSI | 9.86% | WLCON | -9.52% |
| LTG | 8.54% | EMP | -9.14% |
| ION | 8.13% | TUGS | -9.09% |
| ROCK | 6.16% | LPC | -9.09% |
| IMI | 4.55% | ACEN | -7.35% |
| TEL | 4.23% | SGP | -7.19% |
| CHIB | 3.92% | DNL | -7.08% |
| GSMI | 3.86% | BDO | -5.73% |
| AP | 3.01% | DMC | -5.69% |
| RCB | 2.80% | CHP | -5.39% |
| LPZ | 2.59% | APX | -5.11% |
| MBT | 2.38% | PGOLD | -5.09% |
| RFM | 2.36% | SMPH | -4.73% |
| AGI | 2.24% | ABS | -4.55% |
| SMC | 1.94% | TECH | -4.49% |
| ICT | 1.68% | JGS | -4.40% |
| DD | 1.53% | URC | -4.30% |
| BLOOM | 1.40% | PNX4 | -4.18% |

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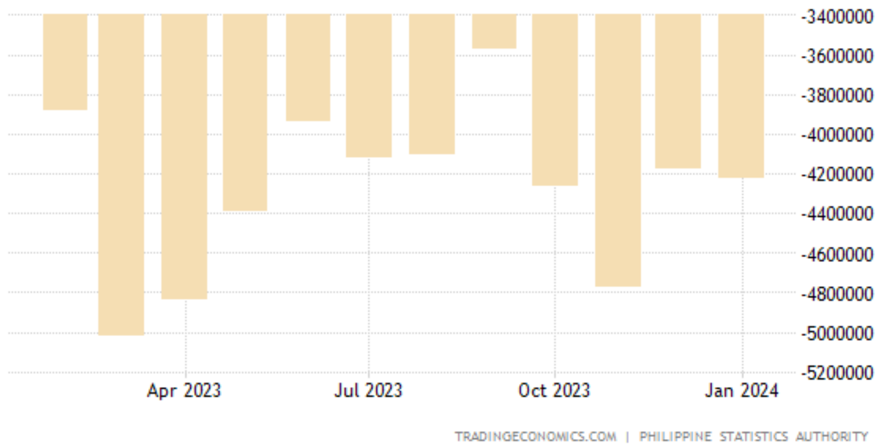
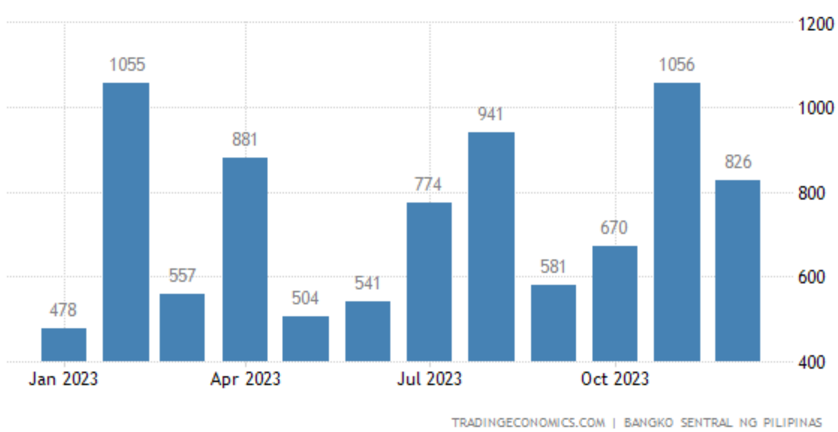
## Key Economic Figures




➡ **PH balance of trade.** In January 2024, the trade deficit in the Philippines contracted to $4.22 billion from $5.56 billion a year earlier, driven by a combination of rising exports and falling imports. Exports surged by 9.1% year-on-year to $5.94 billion, fueled by increased sales of electronic products, which saw a notable growth of 16.3%, and machinery and transport equipment, which rose by 20.3%. Among the country's major export destinations were the US, Japan, and Hong Kong. Meanwhile, imports declined by 7.6% to $10.16 billion, primarily due to decreased purchases of mineral fuels, lubricants, and related materials, which saw a significant drop of 35.4%, and electronic products, which fell by 10.4%. China remained the largest source of imports for the Philippines, followed by Japan and Indonesia. *(Philippine Statistics Authority)*




➡ **PH remittances.** In December 2023, net foreign direct investment (FDI) in the Philippines increased by 29.9% year-on-year to $0.83 billion. This growth was primarily driven by expansions in net inflows for net debt instruments, which rose by 86.2% to $0.53 billion, and reinvestment of earnings, up by 4.1% to $0.09 billion. However, net inflows decreased for equity capital by 21.7% to $0.21 billion. Most of the equity capital placements for the month originated from Japan, with investments primarily directed towards the manufacturing industry. Despite the monthly increase, FDI net inflows for the full year of 2023 amounted to $8.86 billion, marking a 6.6% decrease compared to the previous year. *(Bangko Sentral ng Pilipinas)*

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## Market Outlook

**What You Need to Know**

- The winning streak of the PSEi was halted at seven weeks as it experienced a sharp decline last Friday, pushing it back down to the 6,800-level. Market sentiment was dampened by hotter-than-expected February consumer price index (CPI) and producer price index (PPI) figures in the US, leading to concerns about more potential delays in the anticipated rate cuts, which is currently expected to begin in June. Additionally, the recent FTSE rebalancing, which took effect last Friday, had an impact on the local bourse. Furthermore, significant foreign selling contributed to the downward pressure on the PSEi, following several weeks of robust net buying.

- The US Federal Reserve (Fed) is anticipated to maintain interest rates at their current levels during the upcoming meeting this week, reflecting confidence in the robust labor market despite a gradual easing of inflationary pressures. Market participants will closely analyze the FOMC's economic forecasts and the 'dot plot' interest rate projections for insights into potential future rate adjustments, particularly following the higher-than-expected CPI and PPI figures released last week. March's purchasing managers' index (PMI) survey is expected to indicate a modest slowdown in both manufacturing and services sector growth. In the UK, the Bank of England is likely to keep rates steady with a potential rate cut anticipated later in the year. Eurozone's S&P Global PMIs are forecasted to show stabilization in private sector business activity, with manufacturing contracting less and services expanding. In Japan, the Bank of Japan is expected to consider ending its negative interest rate policy following encouraging labor data, while attention will also be on inflation figures, flash PMIs, exports, imports, and industrial production. Meanwhile, in China, the People's Bank of China is expected to maintain loan prime rates, while economic updates on industrial production, retail sales, and fixed asset investment will provide insights into the country's economic performance for the initial months of the year.

- Following the end of the PSEi's seven-week rally and its failure to surpass the 7,000 resistance level, the local stock market awaits fresh cues from the upcoming Fed meeting scheduled for this week (March 19-20, US time). The recent drop in the market presents potential opportunities for bargain hunting, although a strong rally may be challenging given the subdued expectations of an imminent rate cut by the Fed, particularly after the higher-than-anticipated US CPI and PPI data. Investor focus remains on the Federal Open Market Committee (FMOC) meeting for insights into the Fed's policy outlook, alongside continued monitoring of corporate results for the 4Q 2023 and FY 2023. While expectations lean towards the Fed maintaining rates, any comments hinting at the timing of easing could spur short-term speculation.. Despite the current market dynamics, the long-term outlook suggests a favorable spread between value and price, with the PSEi's forward P/E ratio still lagging its historical average and offering potential upside compared to regional composites.



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