Market Watch

Investment Market Report

June 24, 2016

Brexit Vote

In the recently concluded European Union (EU) referendum, the U.K. opted to leave the free-trade zone with a majority vote of 52%, against the 48% who wanted to remain. Global markets buckled as Britain's vote on European Union membership infected every asset class. The Philippines was not spared from the negative reaction. On the equities front, the Phisix suffered an intraday low of 7,538.18 as the vote tally progressed, compared to its previous day closing price of 7,729.78. However, bottom fishing ensued and the market closed at 7,629.72—just 1.29% lower.

In the bond market, the knee-jerk reaction of "hiding" behind the safety of US Treasuries, sent the US 10 year bond yield from 1.75% to below 1.50%.

Even on currencies, the Philippine Peso weakened by 0.9%. It is currently trading at Php46.90-USD1 as of this writing.

Despite the immediate market impact of the Brexit vote described above, volatility is not expected to persist in the local market because of the following reasons:

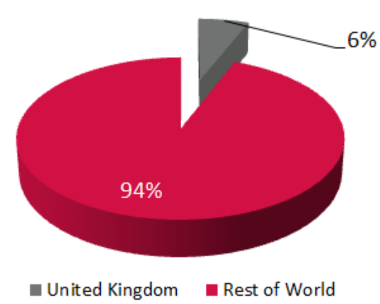
1. **Britain is not a major trading partner of the Philippines.** Philippine exports to Britain is only a paltry 0.8% of our total exports in 2015. Even on imports, Britain's contribution is even smaller, at 0.6% of the total.

2. **OFW remittances are material, but not significant.** While remittances from Britain are material, contributing US$1.5bn in 2015, it only accounts for 6% of the total. In addition, Filipino workers in Britain may not be significantly affected as most of our *kababayans* work in critical industries such as healthcare.

3. **The country has fiscal and monetary tools that it can use to defend the economy**. The Philippines has substantial forex reserves that the Central Bank can draw from should the foreign exchange volatility go beyond reasonable levels. Also, the government can spend on infrastructure, etc., to boost overall demand or GDP.

4. **Philippines' growth story is intact.** Our economy is driven primarily by domestic consumption and not overly reliant on exports. A global slowdown may actually help our BPO industry as multinationals will look for further ways to cut their cost and the Philippines stands to gain in the outsourcing space.

Chart 1: Percentage of OFW Remittances



What to do in these volatile times?

The Philippine growth story is intact, and continues to be poised to rise further. The Brexit vote and the events that will follow in the days and weeks ahead are worth watching. We will provide updates on market moving events as they unfold.