Trade,
from S1/1

This brought the trade-in-goods deficit to $4.71 billion in November, wider than the $2.14-billion shortfall recorded in the same month last year, as well as the $4.11-billion gap in October.

This was the widest monthly trade gap on PSA's record dating back to 1991.

Year to date, the trade balance ballooned to a $37.92-billion deficit, from a $22.15-billion trade gap in 2020's comparable 11 months.

For the 11-month period, exports jumped by 15.2% year on year to $68.37 billion. This was below the revised 16% growth projected by the Development Budget Coordination Committee for 2021.

Imports, on the other hand, climbed by 30.4% to $106.30 billion, slightly above the government's revised 30% assumption.

Outbound shipment of manufactured goods grew by 5.9% to $5.30 billion in November. These goods accounted for 84.4% of total export sales that month.

Electronic products, which made up 70.2% of manufactured goods and more than half of the total exported goods, rose by 5.6% to $3.71 billion in November. Of these, semiconductors contributed $2.62 billion — up by 3.7% from November 2020.

Agro-based products increased by 36.1% to $491.22 million, while forest products went up by 6% to $34.25 million.

However, sales of mineral and petroleum products contracted by 8.9% to $359.27 million and 95.2% to $42,000, respectively.

All major import items posted significant annual growth in November.

Raw materials and intermediate goods, which accounted for 38.7% of import goods in November, grew by 39.2% to $4.25 billion.

Imports of capital and consumer goods were valued at $3.35 billion (up 18.8%) and $1.76 billion (up 22.7%) in November.

Purchases of mineral fuels, lubricant and related materials more than doubled to $1.55 billion in November from $642.87 million in the same month in 2020. These goods accounted for 14.1% of the country's total imports that month versus just 8% in the same month in 2020.

Asian Institute of Management (AIM) economist John Paolo R. Rivera said that improved trade performance was "expected" as the pandemic situation in the country improved from September until December.

"Because of increased demand locally due to a more active economy, imports were expected to gain steam. Exports, on the other hand, were also expected to perform given the varying pace of economic recovery by our trading partners," he said in an e-mail interview.

"The last quarter of 2021 was a good window for the economy to get moving until the Omicron variant threatens this recovery process momentum," Mr. Rivera said.

In a note to reporters, ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa said higher fuel imports was one of the factors for the widening trade gap.

"Costlier imported crude oil translated to overall fuel imports rising sharply, which in turn helped bloat the trade deficit to its current record high," he said. "With global crude oil prices staying elevated to open the year, the Philippines could continue to experience wider trade deficits in the near term."

OUTLOOK

The government's trade targets for 2021 were on track to be met, but the fresh surge in new coronavirus cases may hurt this year's trade growth assumptions.

The interagency DBCC expects exports and imports to grow by 6% and 10%, respectively, this year.

"The problem would be felt in the first quarter of 2022 due to Omicron. But for 2021, I think the government will meet its targets for exports and imports," Philippine Exporters Confederation, Inc. President Sergio R. Ortiz-Luis, Jr. said in a phone interview.

AIM's Mr. Rivera expects the 2021 targets to be met with "slim margin or slim shortfall."

"Given the economic conditions during the last quarter of 2021 and the performance in the previous quarters, the Delta variant surge was the most significant threat to meeting economic target performances," he said. "The threats were significant in altering the growth trajectories of trade figures even in the first quarter of 2022."

For ING's Mr. Mapa, the ballooning trade gap pushed the country's current account balance to a deficit in 2021. He expects this trend to continue this year.

The current account shows a country's transactions with the rest of the world. It includes trade in goods and services, remittances from migrant Filipino workers, profit from Philippine investments overseas, interest payments to foreign creditors, and gifts, grants, and donations to and from abroad.

"With the current account expected to remain in deficit territory, pressure on PHP (Philippine peso) to weaken should persist in 2022 although other factors such as the looming Fed rate hike will likely play a major role in the currency's trajectory this year," Mr. Mapa said.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said in a note sent to reporters that the recent surge in new coronavirus cases will be a drag on economic recovery prospects and on trade.

"Lingering concerns over the Omicron variant could also add to the disruptions in the global supply chains amid isolation and quarantine for increased number of infected workers for many businesses and industries worldwide," he added.

Mr. Ricafort said the trade deficit could be sustained at the $4-billion levels per month this year for as long as the global oil prices remained elevated as the pandemic-induced supply chain disruptions continue.

"For the coming months, further pickup in imports and exports could also be supported by still near-record-low short-term interest rates that could help spur greater demand for loans for new investments that entail the more importation and also more export production as well as more jobs and other business opportunities in the supply chain and for related businesses and industries," Mr. Ricafort said.

NPL,
from S1/1

In the same month, restructured loans more than doubled year on year to P344.896 billion from P139.614 billion. This brought its ratio to 3.11% of banks' gross loan portfolio, from 1.31%.

Lenders' loan loss reserves jumped by 19% year on year to P419.862 billion from P352.733 billion. These buffers are equivalent to 3.79% of the total loans.

NPL coverage ratio — which indicates banks' allowance for potential losses due to bad loans — was a tad lower at 87.13% from 87.16% a year ago.

The BSP earlier said the NPL ratio could reach 5-6% by end-2021 before peaking at 8.2% by 2022.

While banks' asset quality gradually improved due to the economy's reopening, Mr. Mapa said the ongoing Omicron wave may force another lockdown.

"Although the declining trend in NPL is a welcome sign, [it] may be too early to say this ratio has peaked as we enter another bout of alert levels with the current surge threatening to force authorities to tighten up further," Mr. Mapa said.

UnionBank of the Philippines, Inc. Chief Economist Ruben Carlo O. Asuncion said the Omicron surge is clouding the outlook for asset quality of banks, although he is optimistic this will have a "shorter impact" than previous waves.

"The improving outlook is being clouded by the Omicron effect. However, this may have a shorter impact compared to previous surges. We think that the Omicron surge may be higher but quicker to dissipate," Mr. Asuncion said in a Viber message.

The Philippines is experiencing a surge in coronavirus disease 2019 (COVID-19) infections, which experts said is likely due to more transmissible Omicron variant. New infections rose by 28,007 on Tuesday, with active cases now at 181,016.

PSEi seen to reach 8,100

By Keren Concepcion G. Valmonte *Reporter*

FIRST Metro Investment Corp. (FMIC) is expecting the benchmark Philippine Stock Exchange index (PSEi) to potentially hit an 8,100 high in 2022.

In a briefing on Tuesday, FMIC said it is expecting the 30-member PSEi to post a 13% to 15% growth this year, to close around 7,900 to 8,100 by yearend.

"The biggest event that is yet to be priced in by the PSEi is the fact that we are going to be returning to the pre-pandemic GDP (gross domestic product) by the end of this year," FMIC Vice-President and Research Head Cristina S. Ulang said.

FMIC is expecting the economy to go "back on track" this year with a GDP growth of 6% to 7%, on the back of sustained domestic demand, easing inflation, election-related spending, and the government's spending on the country's infrastructure projects.

However, some of the key risks for the stock market include new coronavirus disease 2019 (COVID-19) variants, high inflation, higher interest rates, the slowdown of global economic growth, and power supply shortage.

Ms. Ulang said there are "so many industries that are very promising and buoyant during election years." This includes durable equipment, construction, finance or insurance, information and communications technology (ICT), communication, restaurant and hotels, recreation and culture, electricity, and the wholesale or retail industries.

Election years also point to "possible" foreign buying. Some of the election spending stock beneficiaries FMIC named are Universal Robina Corp., Jollibee Foods Corp., Ginebra San Miguel, Inc., Bloomberry Resorts Corp., and GT Capital Holdings, Inc.

"[These] are all benefiting from the reopening of the economy," Ms. Ulang said.

FMIC expects corporate earnings growth to go up to 35% this year from 28% last year. This may be a catalyst to improved investor sentiment.

For more stock picks, Ms. Ulang said issues that give dividends "that are superior than the bench fixed income rate" are preferred such as Globe Telecom, Inc., PLDT, Inc., and Converge ICT Solutions, Inc.

Stocks in the energy sector were also emphasized like AC Energy Corp., Manila Electric Co., and Semirara Mining and Power Corp., or companies with renewable energy projects.

"Inflation aside, we like the mining issues because of the improved regulatory climate and strong demand for electric vehicles, for nickel, and basic metals. Of course, we like the banks," Ms. Ulang said.

These issues include Philex Mining Corp., Nickel Asia Corp., Semirara Mining, Metropolitan Bank & Trust Co., BDO Unibank, Inc., and the Bank of the Philippine Islands.

FMIC is also optimistic on stocks in the infrastructure and logistics sector as well as real estate investment trust issues such as Metro Pacific Investments Corp., Aboitiz Equity Ventures, Inc., DMCI Holdings, Inc., MREIT, Inc., and Filinvest REIT Corp.

Stocks that are "global trade beneficiaries" and issues riding on the growth of e-commerce are also recommended, like AyalaLand Logistics Holdings Corp. and International Container Terminal Services, Inc.

Access to new investors may spur dual listings

INTERNATIONAL advisory law firm Allen & Overy (A&O) is expecting qualified Philippine-listed companies to consider listing in other regional stock markets, such as the Singapore Exchange, for exposure to another set of investors.

"[It] enables the company to have exposure to another set of investors who invest in the Singapore Stock Exchange as not all investors invest in the Philippine Stock Exchange (PSE)," Giancarlo B. Sambalido, a registered foreign lawyer at A&O told *BusinessWorld* in a recent virtual call.

A&O has rendered its services to firms going public in the Philippines, such as Monde Nissin Corp. for its landmark initial public offering last year.

However, "the attractiveness of a dual listing" may not be for all Philippine companies.

"Only the bigger ones that have a regional, global profile will look to dual list because they want to gain access to these new investors, they want the more enhanced profile of a Singapore listing," Mr. Sambalido said.

Meanwhile, some of the "hot sectors" expected for the PSE this year are food and consumer, "new economy" or financial technology issues, real estate investment trusts (REIT), and companies in the energy space.

"Especially if it's a clean energy play," Mr. Sambalido said. "A lot of investors are looking to invest in clean energy platforms." — **Keren Concepcion G. Valmonte**

Rate hike,
from S1/1

The governor said the economy can grow within the government's 7%-9% forecast this year, with inflation set to slow to near the midpoint of the central bank's 2%-4% target.

If the economy needs more support, a cut to the benchmark rate is unlikely, Mr. Diokno said. Instead, policy makers can consider tweaks to banks' reserve requirement ratio (RRR), either in the form of direct cuts to the ratio or an easing of compliance rules, he said.

Policy makers are next scheduled to set the key rate on Feb. 17.

Mr. Diokno has said a potential RRR cut remains on the table, as the central bank reduced its direct budget support to the government and its bond buying in the secondary market. The monetary authority's loans to the government are likely to end this year, he said on Tuesday.

PESO RANGE

Foreign-exchange strategists see the peso under pressure as the central bank aims to keep monetary policy accommodative while the Fed turns hawkish. The local currency has lost about 0.5% against the greenback so far this year.

Mr. Diokno said he's "very comfortable" with the peso trading in a range of P48-53 per dollar, adding that the currency is unlikely to weaken beyond P53.

Going forward, Mr. Diokno said fiscal policy should be able to do the "heavy lifting" to support the economy through the pandemic, advice he said could apply to most countries.

"A governor should know the limits of monetary policy," Mr. Diokno said. "You may be good, but you're not superman. You can't solve all the problems." — ***Bloomberg***

Growth,
from S1/1

Economist Victor A. Abola of the University of Asia and the Pacific (UA&P) at a briefing listed some caveats, including the continued effect of COVID-19 on poverty levels and supply chain disruptions. UA&P is FMIC's partner in issuing its economic outlook.

Credible elections will be necessary to support FMIC's economic growth forecast, he added.

INFLATION ISSUE

Meanwhile, HSBC's Mr. Cheo said inflation in 2022 will still be "a little bit of an issue" as it could be at about 3.7%. Last year, inflation averaged 4.5%, above the 2-4% target of the Bangko Sentral ng Pilipinas (BSP).

For this year, Mr. Cheo said the central bank would likely keep its focus on supporting economic recovery.

"It's very likely that the central bank would still be on a wait-and-see mode because they would still want to maintain growth. So perhaps, if there is a hike in policy rates, the next move will probably be in the second half of this year with a 50-basis-point hike," Mr. Cheo said.

The BSP has kept the key policy rate at a record low of 2% all throughout 2021, after cutting rates by 200 basis points in 2020. Last week, BSP Governor Benjamin E. Diokno said they will ensure a careful exit strategy and will only raise interest rates "when prospects for the economy have materially improved."

CREDIT DOWNGRADE UNLIKELY

A credit downgrade this year will be unlikely, while the debt ratio would probably decline with faster economic growth, according UA&P's Mr. Abola.

"We have high gross international reserves and we have one of the lowest external debt-to-GDP," he said, comparing the Philippines to other countries in Asia. — **Luz Wendy T. Noble** *and* **Jenina P. Ibañez**

FULL STORY
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