

A world with economic A and B nations

IT is obvious the world has become accustomed to globalization of production. But there is more to it than a globalized production line of goods.

During the past 30 years the monetary policy has also been globalized though that might reverse now which will disclose stress in some economies. This will challenge investors and actually also governments.

Around 1980, Chinese President Deng Xiaoping, in small steps, opened China's economy though these steps were enormous steps towards today's production globalization.

When the cold war ended in the early 1990's an additional and very significant increase in the global workforce and production capacity took place.

All former Eastern European countries suddenly joined the global production platform. In my view this was the second large step in the globalization, though the third step has been very different. Where the first two steps fundamentally focused on moving physical production lines and income, then the third step has been digital.

One development is a globalization of several services that can be handled digital.

Much more important is that globalization has become a reality for each individual person.

Everybody now has the option to have a personalized digital environment that works anywhere in the world. It includes communication, social media profiles, the music that one listens to, the movies to watch, etc.

The only thing that changes when moving around in the world is the physical environment – some like it and some not, though I find it fascinating.

But generating a globalized world for each individual also means that globalization cannot be

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stopped or reversed. The current trade dispute is in my view a discussion about an old fashioned part of the globalization, about where some production lines should be placed.

As mentioned there has been a monetary globalization taking place as well during the past decades, but that can in contrary be reversed.

In particular, in the 1990's, a development happened when global trade, as a part of the production globalization, took off.

The first step was simply to open up for more cross border capital flows though that alone requires some fiscal discipline for countries to avoid capital flight and / or currency crises.

The second big jump in monetary globalization was after the financial crisis, for almost 10 years ago, when the large central banks introduced "quantitative easing."

The financial crisis was simply an expression for an economic unhealthy situation.

The correct solution would have been to let bankruptcies correct the economies. It would, without any doubt, have generated a revamp and brought the production globalization into a new third stage. Further, many countries would

have been forced to introduce significant economic reforms.

This didn't happen (in particular in Europe) but was counteracted by the quantitative monetary policy as the next step in globalization.

But at least the American quantitative easing is coming to an end, i.e., the global monetary policy is starting to reverse. It can hurt many countries that didn't conduct the necessary economic reforms during the interim period with abundant liquidity.

In the future, I expect investors to be much more selective when choosing their preferred investments. The result is limited liquidity for a number of countries, which will disclose a weak position for these countries – the coming macroeconomic B countries.

Macroeconomic A countries are those who are fit in one or more ways, where I will pay attention to the following areas:

- Strong private sector growth and / or strong private domestic demand.
- A strong fiscal position.
- A monetary policy that isn't depended on cheap money from the global monetary quantitative easing.
- Surplus on external balances (like the trade balance)
- Well positioned in the global production and / or service competition.

A distinct development that I expect is even more focus on domestic economic growth in all countries, which will require some of the above mentioned macroeconomic strengths. Some growth initiatives could well be classical public investments in infrastructure which not necessarily is healthy.

Surely, increased public spending will be directed towards health care plus increased transfers of government money to retired people. This indicates that export will lose in importance and therefore are investors forced to invest into domestic growth – preferably in the A countries.

In my view an A country can be an old economy country or an Emerging Markets country, the decisive parameter is how fit the country is.

The biggest economy in the world, USA, I regard as an A

country though not particular strong, where I surely rate the Philippines as an A country and the same for Germany and Switzerland in Europe.

Despite the risk of a currency crisis one day, I surely rate the Philippines as an A country and the same for Germany and Switzerland in Europe. Some might be surprised that I see United Kingdom as a macroeconomic A country, but I do, and I trust they will do a heroic work to stay fit.

Macroeconomic B countries will also offer investment opportunities though the environment for finding investment opportunities in A countries is simply much better. Further, it will have an important impact for bond investors. How fast this development will be I see as a function of how fast, in particular, the US central bank (Fed) scales back their part of the global monetary policy – though it's not some day in the future as it already happens now.

FOREIGN EXCHANGE RATES			
Bangko Sentral ng Pilipinas			
July 6, 2018			
Country	Euro	Dollar	Peso
I. Convertible Currencies With Bangko Sentral:			
1 United States	0.855213	1.000000	53.4100
2 Japan	0.007732	0.009041	0.4829
3 United Kingdom	1.131361	1.322900	70.6561
4 Hongkong	0.108987	0.127439	6.8065
5 Switzerland	0.861241	1.007049	53.7865
6 Canada	0.651293	0.761557	40.6748
7 Singapore	0.626759	0.732869	39.1425
8 Australia	0.631660	0.738600	39.4486
9 Bahrain	2.255010	2.636783	140.8306
10 Kuwait	N/A	N/A	N/A
11 Saudi Arabia	0.228038	0.266645	14.2415
12 Brunei	0.624471	0.730194	38.9997
13 Indonesia	0.000060	0.000070	0.0037
14 Thailand	0.025736	0.030093	1.6073
15 UAE	0.232850	0.272272	14.5420
16 Euro	1.000000	1.169300	62.4523
17 Korea	0.000765	0.000894	0.0477
18 China	0.128853	0.150668	8.0472
II. Others (Not Convertible With Bsp)			
19 Argentina	0.030502	0.035666	1.9049
20 Brazil	0.217479	0.254298	13.5821
21 Denmark	0.134172	0.156887	8.3793
22 India	0.012418	0.014520	0.7755
23 Malaysia	0.211633	0.247463	13.2170
24 Mexico	0.044512	0.052048	2.7799
25 New Zealand	0.580091	0.678300	36.2280
26 Norway	0.106105	0.124069	6.6265
27 Pakistan	0.007042	0.008234	0.4398
28 South Africa	0.063203	0.073903	3.9472
29 Sweden	0.097572	0.114091	6.0936
30 Syria	0.001661	0.001942	0.1037
31 Taiwan	0.028018	0.032761	1.7498
32 Venezuela	0.000008	0.000009	0.0005

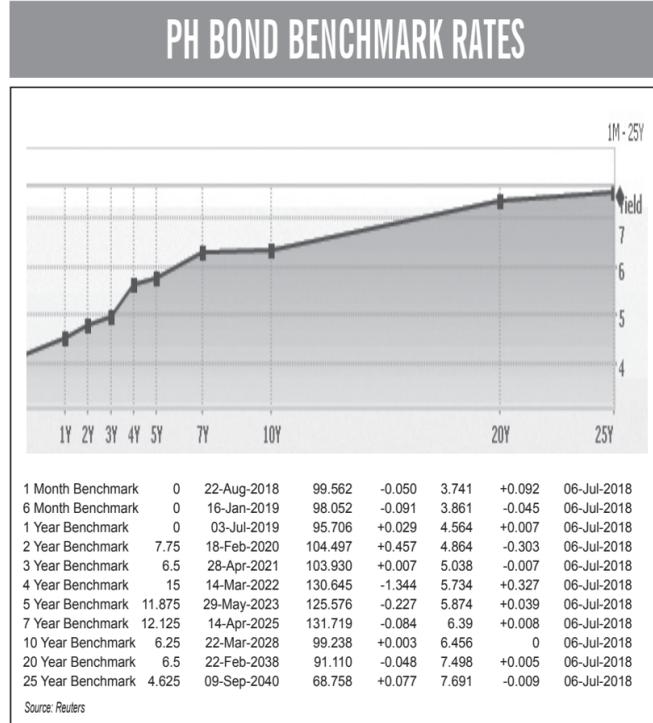
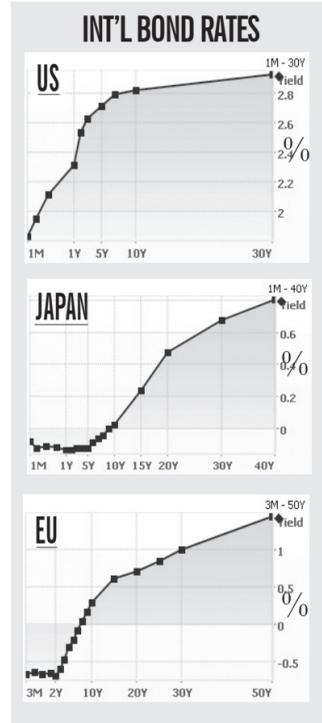
BSP Buying Rate (T/T): P53.150 GOLD BUYING: \$1,257.50
 BSP Selling Rate (T/T): P53.650 SILVER BUYING: \$16.05
 BSP Reference Rate: P53.400
 PDS Closing Rate (05-Jul-18): P53.420
 SDR Rate: \$ 1.40886/SDR

Source: REUTERS FOREX CLOSING PRICES as of NY Time-05-Jul-2018

* Various banks in Bahrain as quoted in Reuters' Screen.
 ** Asian Time Closing Rate as of 05-Jul-18
 *** Effective 01 Jan 2008 Venezuela's official exchange rate was changed to 2.15 bolivars per dollar from 2,150 per dollar

SOURCE: BSP

LENDING RATES		
July 6, 2018		
	HIGH %	LOW %
UNIVERSAL BANKS		
LOCAL BANKS		
Asia United Bank	7.5000	5.5000
Banco de Oro Unibank, Incorporation	8.9375	4.9375
Bank of the Philippine Islands	8.4000	4.7500
China Banking Corporation	8.5000	5.5000
Development Bank of the Philippines	7.2500	4.0000
East West Bank	6.5000	4.5000
Land Bank of the Philippines	7.2500	4.0000
Metropolitan Bank and Trust Company	7.0000	4.0000
Philippine National Bank	8.4000	5.7500
Philippine Trust Company	7.0000	4.5000
Rizal Commercial Banking Corporation	7.0000	4.2500
Security Bank Corporation	7.0000	5.2500
Union Bank of the Philippines	7.5000	5.0000
United Coconut Planters Bank	7.0000	5.0000
AVERAGE	7.5170	4.7813
BRANCHES OF FOREIGN BANKS		
Australia and New Zealand Banking Group	5.6000	3.9000
Deutsche Bank	6.7000	3.2000
Hongkong & Shanghai Banking Corporation	5.3500	3.4000
ING Bank	7.3000	3.7000
Mizuho Bank Ltd.	5.4900	3.4900
Standard Chartered Bank	5.1000	3.3000
AVERAGE	5.9233	3.4983
COMMERCIAL BANKS		
LOCAL BANKS		
Al-Amanah Islamic Investment Bank	7.7714	5.2714
Bank of Commerce	8.9375	4.9375
BDO Private Bank	8.5000	6.0000
Philippine Bank of Communications	6.9700	4.4700
Philippine Veterans Bank	8.0000	4.7500
Robinsons Bank Corporation	8.0000	4.7500
AVERAGE	8.0358	5.0888
BRANCHES OF FOREIGN BANKS		
Bangkok Bank	8.0000	5.0000
Bank of America	6.6770	6.6770
Bank of China	7.4643	3.4000
Bank of Tokyo-Mitsubishi	4.7500	3.7500
Cathay United Bank Co., Ltd.	3.5000	3.5000
Citibank, N.A.	4.7900	3.9900
First Commercial Bank, Ltd. Manila Branch	6.7802	4.0000
Hua Nan Commercial Bank, Ltd. Manila Branch	7.0000	4.0000
Industrial Bank of Korea Manila Branch	7.0000	4.0000
JPMorgan Chase Bank, N.A.	4.0900	4.0900
KEB Hana Bank	8.0000	4.5000
Pega Int'l. Commercial Bank Co. Ltd.	8.0000	4.0000
Shinhan Bank	7.5000	4.5000
Sumitomo Mitsui Banking Corporation	4.6000	3.5000
United Overseas Bank Limited Manila Branch	8.6910	3.5000
AVERAGE	6.5602	4.1719
SUBSIDIARIES OF FOREIGN BANKS		
Chinatrust Bank	7.5880	6.5880
Maybank	7.0000	6.0000
AVERAGE	7.2940	6.2940
GENERAL AVERAGE	7.0094	4.4964



WORLD INDICES					
Name	Last	Net Chng	Pct.Chng	Close	Yr.High
S&P 500 Index - CBOE	2,759.82	+23.21	+0.848130%	2,736.61	2,872.87
Dow Jones Industrial Average Index	24,456.48	+99.74	+0.41%	24,356.74	26,616.71
FTSE 100 Index	7,617.70	+14.48	+0.19%	7,603.22	7,903.50
FTSE 100 EOD IDX	7,617.70	+14.48	+0.19%	7,603.22	7,877.45
CAC 40 Index	5,375.770	+9.450	+0.18%	5,366.320	5,657.440
Deutsche Boerse DAX Index	12,496.17	+31.88	+0.26%	12,464.29	13,596.89
STOXX Europe 600 EUR Price Index	382.36	+0.77	+0.20%	381.59	403.72
IBEX 35 Index	9,905.0	+38.8	+0.39%	9,866.2	10,758.2
FTSE MIB Index	21,925.51	+11.22	+0.05%	21,914.29	24,544.26
STOXX Europe 50 EUR Price Index	3,072.55	+5.16	+0.17%	3,067.39	3,283.23
Swiss Market Index	8,697.42	+23.38	+0.27%	8,674.04	9,616.38
Swiss Leader PR INDEX	1,432.13	+3.65	+0.26%	1,428.48	1,579.97
Euronext 100 Index	1,053.740	+3.610	+0.34%	1,050.120	1,090.200
TSX-Toronto Stock Exchange 300 Composite Index	16,371.78	+105.17	+0.65%	16,266.61	16,489.46
Sao Paulo SE Bovespa Index	75,010.39	+457.3255	+0.61%	74,553.0644544	88,317.83
SSE New Comp Index	2,318.83150	+10.68121	+0.46%	2,308.15030	3,029.54700
FTSE Straits Times Index	3,191.82	-64.89	-1.99%	3,256.71	3,641.65
Hang Seng Index	28,315.62	+133.53	+0.47%	28,182.09	33,484.08
ASX All Ordinaries Index	6,355.700	+52.800	+0.84%	6,302.900	6,347.800
S&P BSE Sensex Index	35,657.86	+83.31	+0.23%	35,574.55	36,443.98
Johannesburg Stock Exchange Top 40 Tradeable Index	51,122.67	-71.31	-0.14%	51,193.98	54,777.00
Tadawul FF Index	8,177.61	-	-	8,177.61	8,461.00

ACTIVE SECURITIES														
Tenor	Inst Name	Coupon	Days	Maturity	Bid Yield	Offer Yield	Last Yield	Wtd. Ave. Yield	Last Traded Time	Total Volume	Open Yield	High Yield	Low Yield	Close Yield
<1M	TBILL 07.11.18	-	5	2018-07-11	-	3.1000	3.1000	3.1000	09:50:34 AM	2.800000	3.1000	3.1000	3.1000	3.1000
1M	TBILL 08.01.18	-	26	2018-08-01	3.4500	-	3.2750	3.5924	03:37:11 PM	378.167000	3.2000	3.6500	3.2000	3.2750
1M	TBILL 08.08.18	-	33	2018-08-08	-	-	3.1000	3.1750	02:14:14 PM	4.008000	3.2500	3.2500	3.1000	3.1000
2M	TBILL 08.22.18	-	47	2018-08-22	-	-	3.5000	3.5000	03:56:25 PM	4.525000	3.5000	3.5000	3.5000	3.5000
2M	TBILL 08.29.18	-	54	2018-08-29	3.2500	3.1750	3.1750	3.1750	11:04:53 AM	0.100000	3.1750	3.1750	3.1750	3.1750
2M	TBILL 09.12.18	-	68	2018-09-12	-	-	3.1500	3.1500	02:59:17 PM	8.000000	3.1500	3.1500	3.1500	3.1500
3M	TBILL 09.26.18	-	82	2018-09-26	3.5500	3.2000	3.2250	3.2250	12:08:39 PM	2.000000	3.2250	3.2250	3.2250	3.2250
3M	TBILL 10.03.18	-	89	2018-10-03	3.5000	3.2000	3.2000	3.2339	09:42:05 AM	188.365000	3.2000	3.3150	3.2000	3.2000
4M	TBILL 10.24.18	-	110	2018-10-24	-	3.2000	3.4000	3.3941	03:24:10 PM	87.307000	3.2000	3.5000	3.2000	3.4000
4M	TBILL 10.31.18	-	117	2018-10-31	3.7500	-	3.3750	3.3750	12:01:28 PM	1.008000	3.3750	3.3750	3.3750	3.3750
5M	TBILL 11.14.18	-	131	2018-11-14	-	-	3.5500	3.5500	11:34:32 AM	20.000000	3.5500	3.5500	3.5500	3.5500
5M	TBILL 11.28.18	-	145	2018-11-28	-	-	4.2000	3.5879	03:09:33 PM	150.100000	3.5750	4.2000	3.5750	4.2000