OVERVIEW

MODULE 3

FINANCIAL MARKETS

FINANCIAL MARKET

- refers to a **marketplace** where buyers and sellers participate in the **trade**.

FINANCIAL MARKETS

Categories

By Nature of Claim

- Debt Market
- Equity Market

By Maturity of Claim

- Money Market
- Capital Market

FINANCIAL MARKETS

Categories

By Timing of Delivery

- Cash Market
- Futures Market

By Organizational Structure

- Exchange-Traded Market
- Over-the-Counter Market

FINANCIAL MARKETS

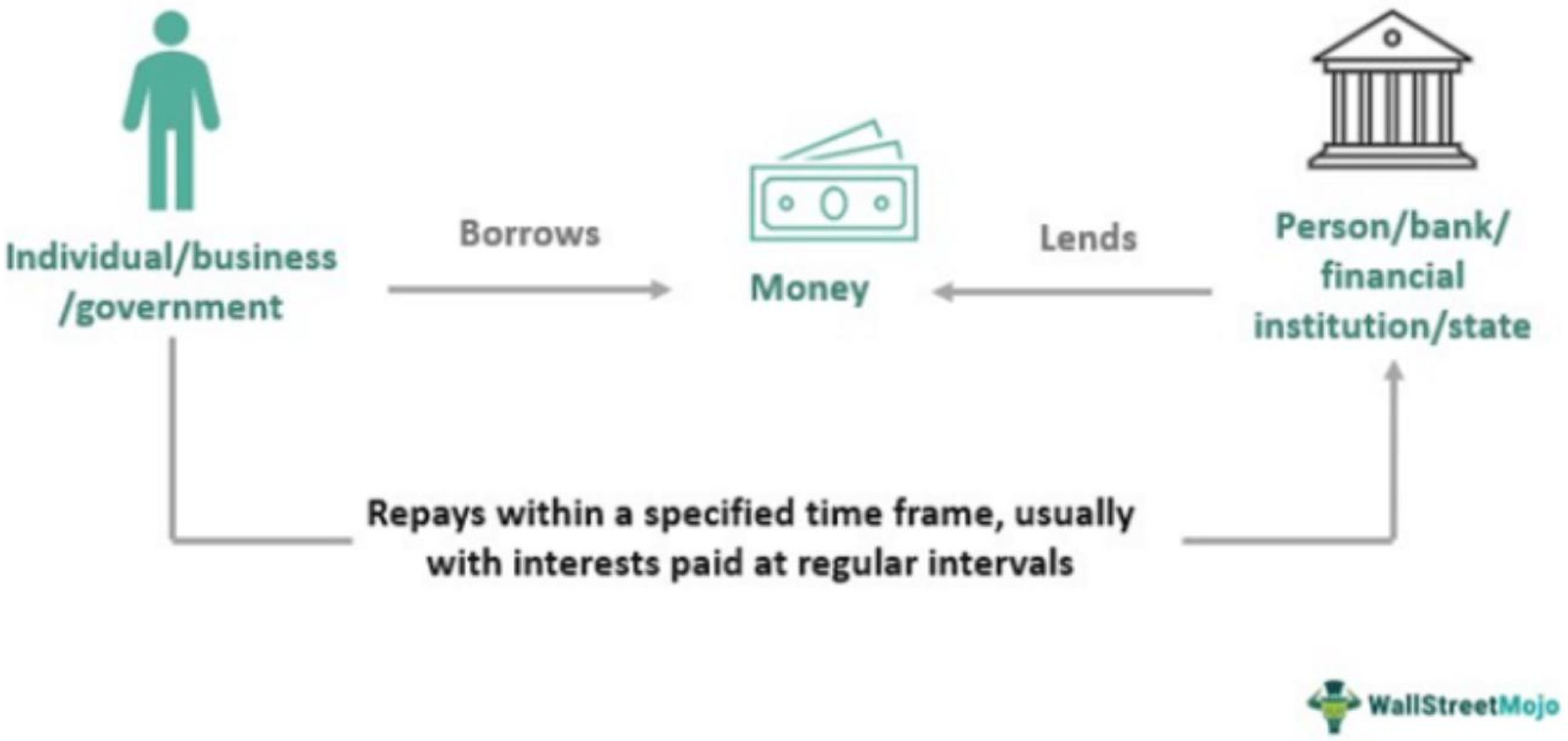
By Nature of Claim

- **Debt Market**

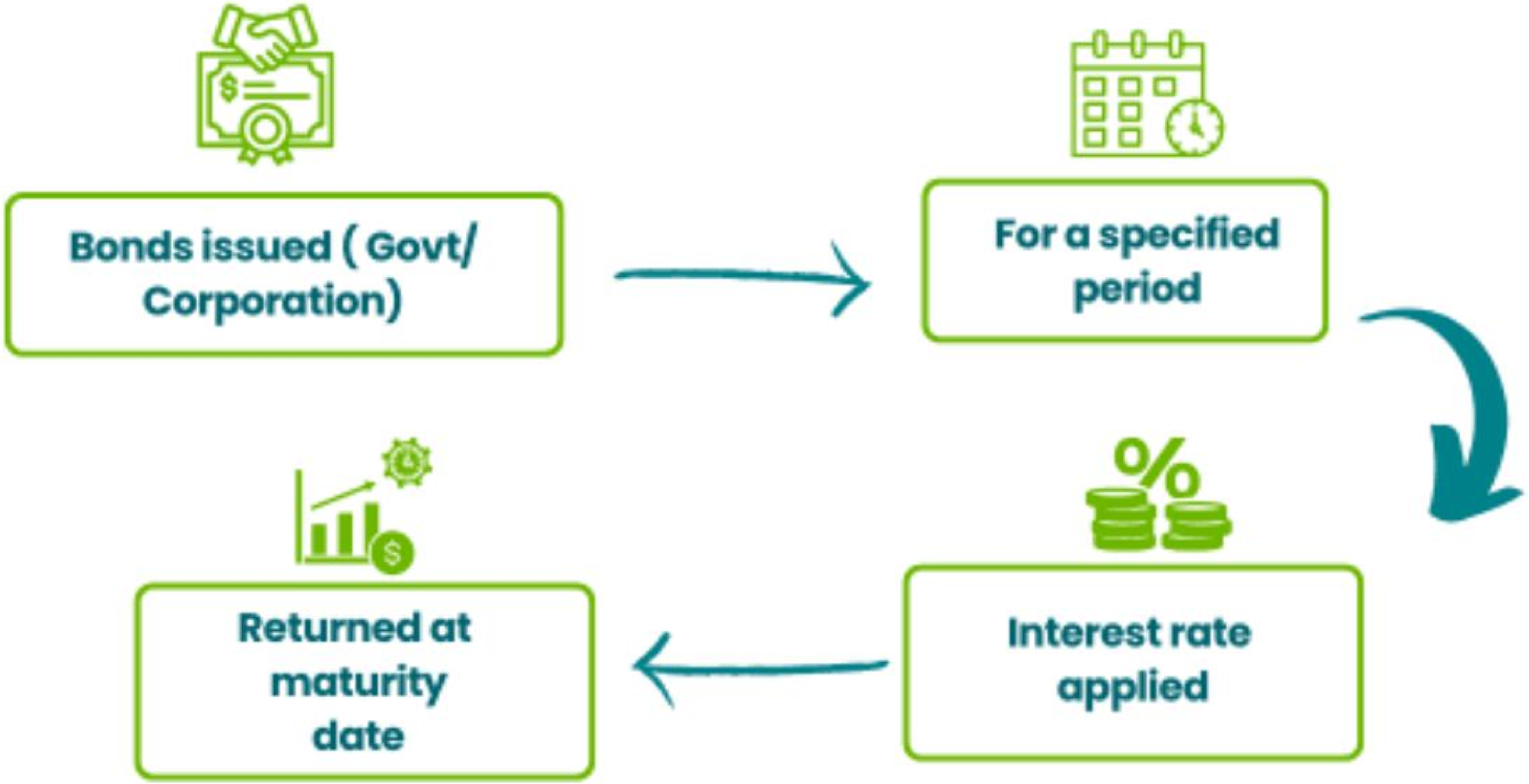
  A market where debt instruments such as **bonds** are *traded between investors*.

  Such instruments have fixed claims – their claim in the assets of the entity is **restricted to a certain amount**

What Is Debt?


Individual/business
/government
Borrows
Money
Lends
Person/bank/
financial
institution/state
Repays within a specified time frame, usually
with interests paid at regular intervals
WallStreetMojo

Debt Market


Bonds issued (Govt/ Corporation)
For a specified period
Interest rate applied
Returned at maturity date

FINANCIAL MARKETS

By Nature of Claim

- **Debt Market Instruments**

  Bonds
  Loans
  Mortgages
  Credit Cards and Lines of Credit

FINANCIAL MARKETS

By Nature of Claim

- **Debt Market Instruments**

  Bonds

  – Issued by governments (Treasury Bonds, Municipal Bonds) or corporations to raise large sums, promising regular interest (coupons) and principal repayment at maturity.

FINANCIAL MARKETS

By Nature of Claim

- **Debt Market Instruments**

  Loans

  \- Direct borrowing from a bank or lender, like business loans or personal loans, with set repayment schedules.

FINANCIAL MARKETS

By Nature of Claim

- **Debt Market Instruments**

  Mortgages

  - Loans specifically for buying property, secured by the property itself.

FINANCIAL MARKETS

By Nature of Claim

- **Debt Market Instruments**

  Credit Cards & Lines of Credit

  \- Revolving debt allowing borrowing up to a limit, with interest charged on the outstanding balance.

FINANCIAL MARKETS

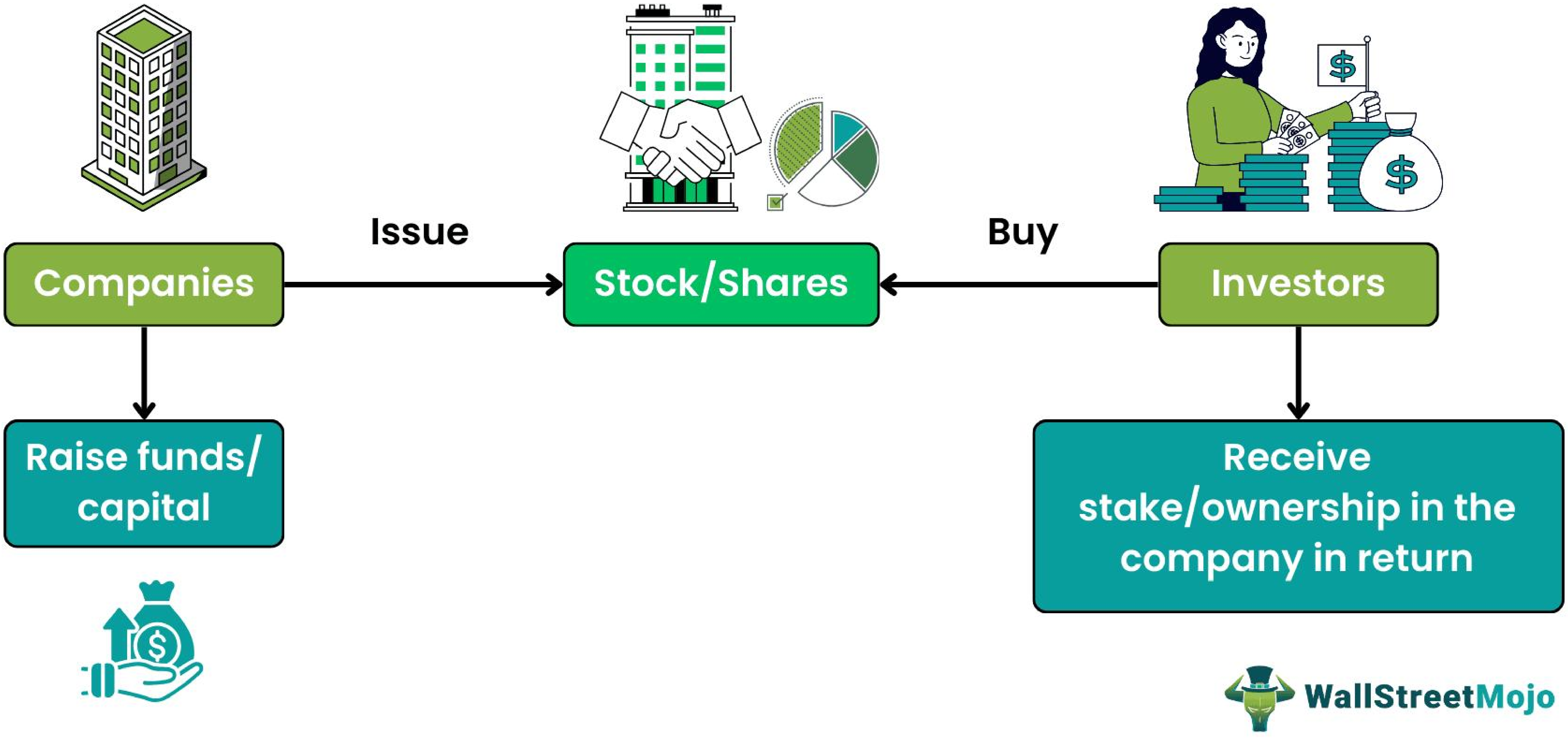
By Nature of Claim

- **Equity Market**

  Equity instruments are traded.

  As the name suggests, equity refers to the *owner's capital in the business* and thus has a residual claim.

What Is Equity Market?



FINANCIAL MARKETS

By Nature of Claim

- **Equity Market Instruments**

  Common Stocks (Ordinary Shares)
  Preferred Stock
  Equity Derivatives

FINANCIAL MARKETS

By Nature of Claim

- **Equity Market Instruments**

  Common Stock

  \- Represents **ownership** in a company, providing **voting rights** and potential for **capital appreciation/dividends**

FINANCIAL MARKETS

By Nature of Claim

- **Equity Market Instruments**

  Preferred Stock

  - A hybrid security with features of both equity and debt; it usually <u>does not have voting rights</u> but offers **higher dividend priority** and **liquidation claims** over common stock.

FINANCIAL MARKETS

By Nature of Claim

- **Equity Market Instruments**

  Equity Derivatives

  - Financial contracts deriving value from underlying stocks, including **options** (calls and puts) and **futures**.

  Stock Options, Equity Swaps

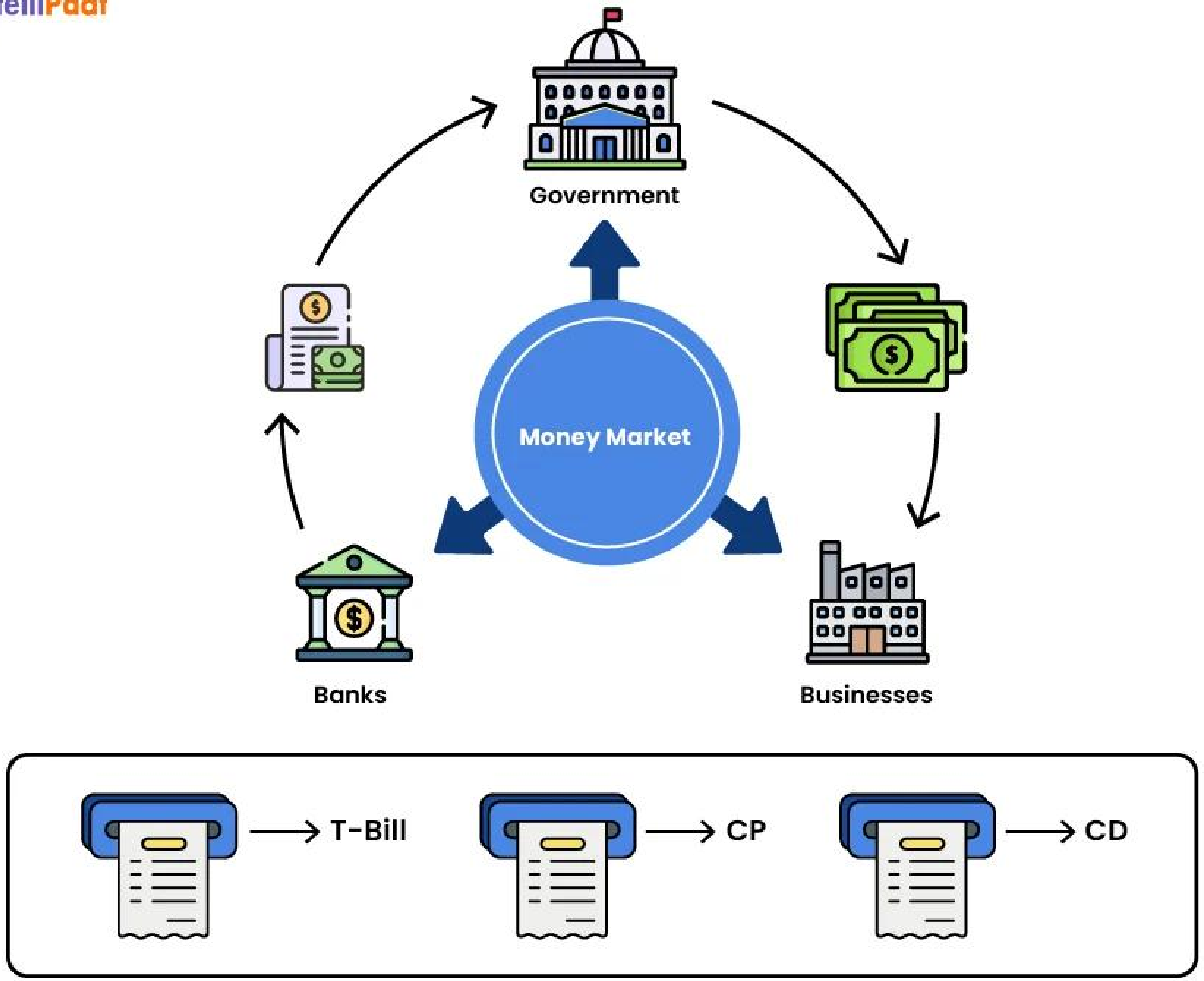
FINANCIAL MARKETS

By Maturity of Claim

- **Money Market**

  for **<u>short term funds</u>**, where the investors who intend to invest for **not longer than a year** enter into a transaction.

  Highly liquid


Government
Money Market
Banks
Businesses
T-Bill
CP
CD

FINANCIAL MARKETS

By Maturity of Claim

- **Money Market Instruments**
  - Treasury Bills (T-Bills)
  - Commercial Paper
  - Certificates of Deposit

FINANCIAL MARKETS

By Maturity of Claim

- **Money Market Instruments**

  Treasury Bills (T-Bills)

  - Short-term debt issued by governments, considered very safe.

FINANCIAL MARKETS

By Maturity of Claim

- **Money Market Instruments**

  Commercial Paper

  - Unsecured, short-term promissory notes issued by large corporations for working capital.

FINANCIAL MARKETS

By Maturity of Claim

- **Capital Market**
  the market where instruments with **medium and long-term maturity** are traded.

  Primary Market *and* ***Secondary Market****.*

FINANCIAL MARKETS

By Maturity of Claim

- **Capital Market**

  Capital markets include both **equity** (stocks) and **debt** (bonds) markets.
  The equity market is only one part of the capital market.

Difference Between Money And Capital Market

Money Market	Capital Market
1. A market where financial instruments with short maturity period are traded	1. A market where financial instruments with long maturity period are traded
2. Related to short term debt	2. Related to long term borrowing
3. It is informal type of financial market	3. It is formal type of market
4. Helps to meet short term financial requirements	4. Helps to meet long term financial needs
5. It involves less risk	5. It involves higher risk
6. Generates less return	6. Generates more return

FINANCIAL MARKETS

By Timing of Delivery

- **Cash Market**

  Transactions are settled in **real time**, and the total investment amount must be paid by investors, either from their own funds or through borrowed capital.

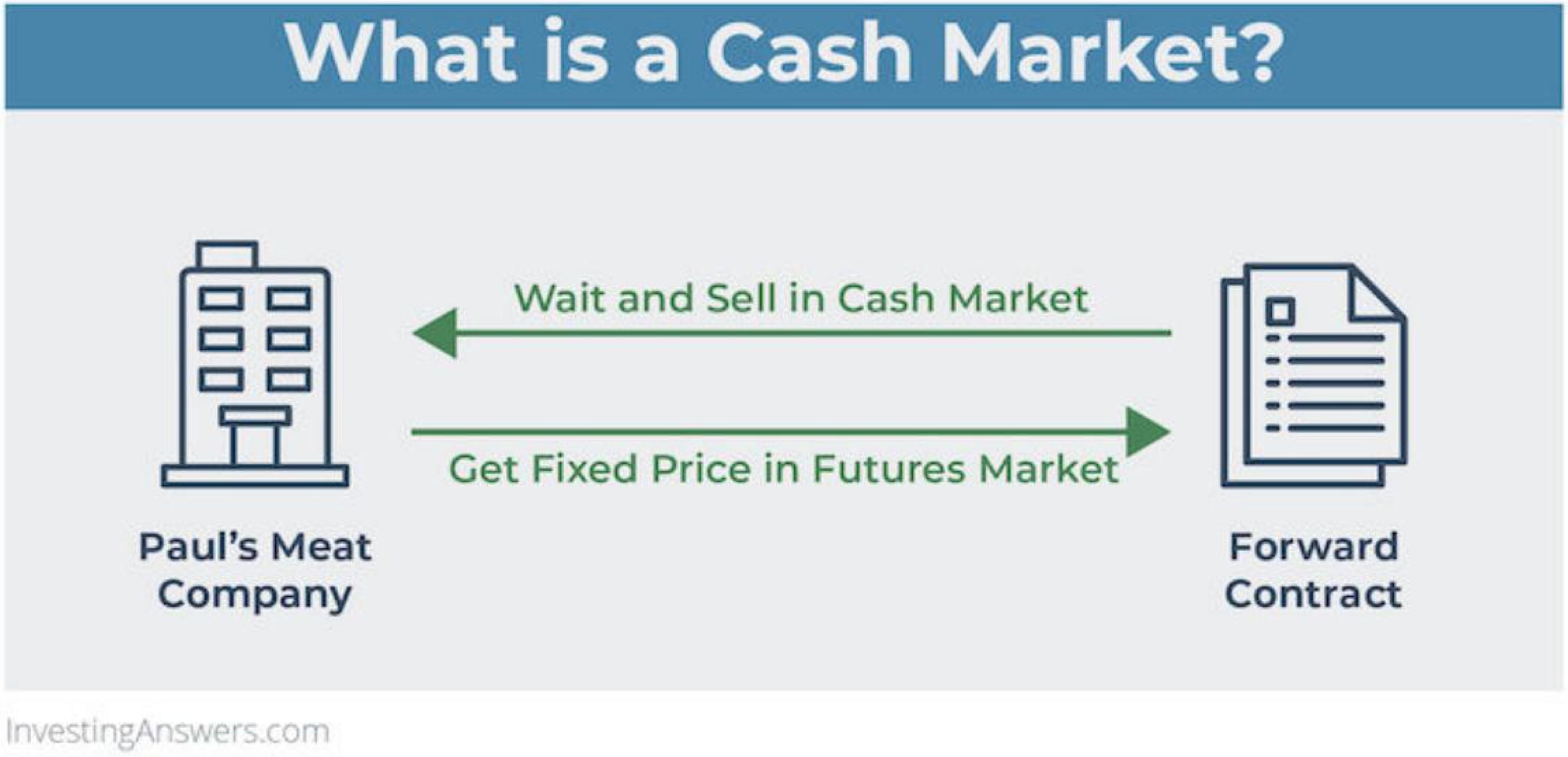
FINANCIAL MARKETS

By Timing of Delivery

- **Cash Market**

  Buyers pay for and receive actual assets almost instantly, typically within 0-3 business days.

  It ensures ***liquidity*** *and is* ***fundamental for trading stocks and bonds on exchanges***


What is a Cash Market?
Wait and Sell in Cash Market
Get Fixed Price in Futures Market
Paul's Meat Company
Forward Contract
InvestingAnswers.com

FINANCIAL MARKETS

By Timing of Delivery

- **Cash Market: Key Features**

  Immediate Settlement

  Real Ownership

  Price Determination

FINANCIAL MARKETS

By Timing of Delivery

- **Cash Market Instruments**

  Foreign Exchange (Forex) Spot Market

  Commodity Spot Markets

FINANCIAL MARKETS

By Timing of Delivery

- **Cash Market Instruments**

  Foreign Exchange (Forex) Spot Market

  - Buying currency, such as exchanging U.S. Dollars for Euros, at the current rate with immediate settlement.

FINANCIAL MARKETS

By Timing of Delivery

- **Cash Market Instruments**

  Commodity Spot Markets

  - A manufacturer purchasing raw materials, such as a meat company buying cattle on the spot market for immediate processing.

FINANCIAL MARKETS

By Timing of Delivery

- **Futures Market**

  The settlement or delivery of security or commodity takes place at a future date.

FINANCIAL MARKETS

By Timing of Delivery

- **Futures Market**

  It protects investors and traders from losing money on a transaction even if the price of the commodity or financial instrument increases or decreases later.

FINANCIAL MARKETS

By Timing of Delivery

- **Futures Market: Key Features**

  Standardized Terms

  Leverage

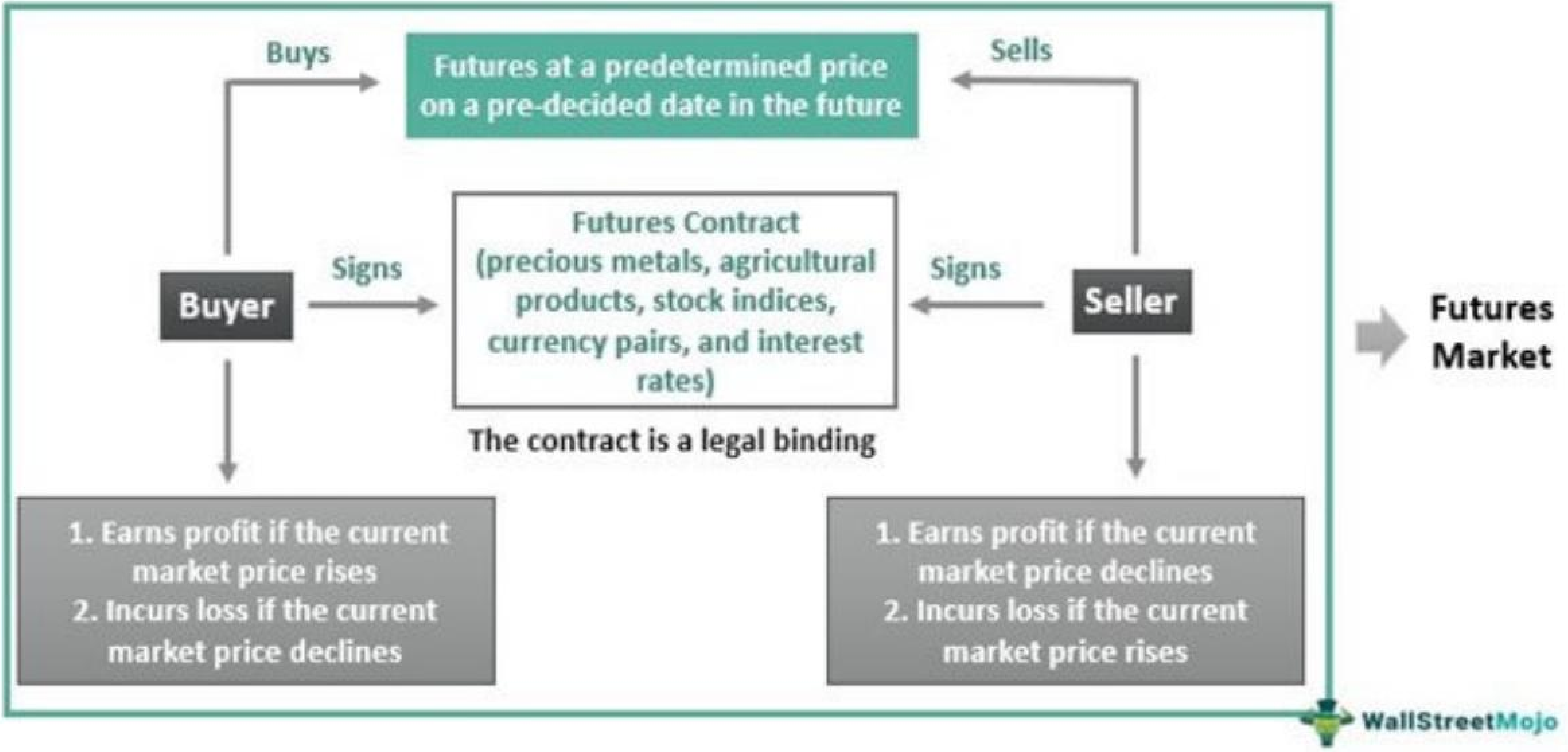
  Exchange Traded

FINANCIAL MARKETS

By Timing of Delivery

- **Futures Market: Purpose**
  - Speculating
  - Hedging

How Does A Futures Market Work?



FINANCIAL MARKETS

By organizational Structure

- **Exchange-Traded Market**

  centralized market, that works on **pre-established** and **standardized** procedures.

  The buyer and seller don't know each other.

FINANCIAL MARKETS

By organizational Structure

- **Exchange-Traded Market:** ***Characteristics***
  - *Centralized Regulation*
  - *No Counterparty Risk*
  - *Standardized Contracts*
  - *High Liquidity*

FINANCIAL MARKETS

By organizational Structure

- **Exchange-Traded Market Instruments**
  - Exchange-Traded Funds (ETFs)
  - Real Estate Investment Trusts (REITs)

FINANCIAL MARKETS

By Organizational Structure

- **Exchange-Traded Market Instruments**

  Exchange-Traded Funds (ETFs)

  - Open-ended investment companies that track a specific index (like the PSEi) and are traded like stocks throughout the day.

FIRST METRO PHILIPPINE EQUITY
EXCHANGE TRADED FUND, INC

FINANCIAL MARKETS

By Organizational Structure

- **Exchange-Traded Market Instruments**

  Real Estate Investment Trusts

  - Companies that own, operate, or finance income-generating real estate, allowing investors to buy shares and receive dividends.

  AREIT, Inc. (AREIT), DDMP REIT (DDMPR), MREIT, Inc. (MREIT).

M·REIT
A MEGAWORLD COMPANY

DDMP REIT, INC.

FINANCIAL MARKETS

By organizational Structure

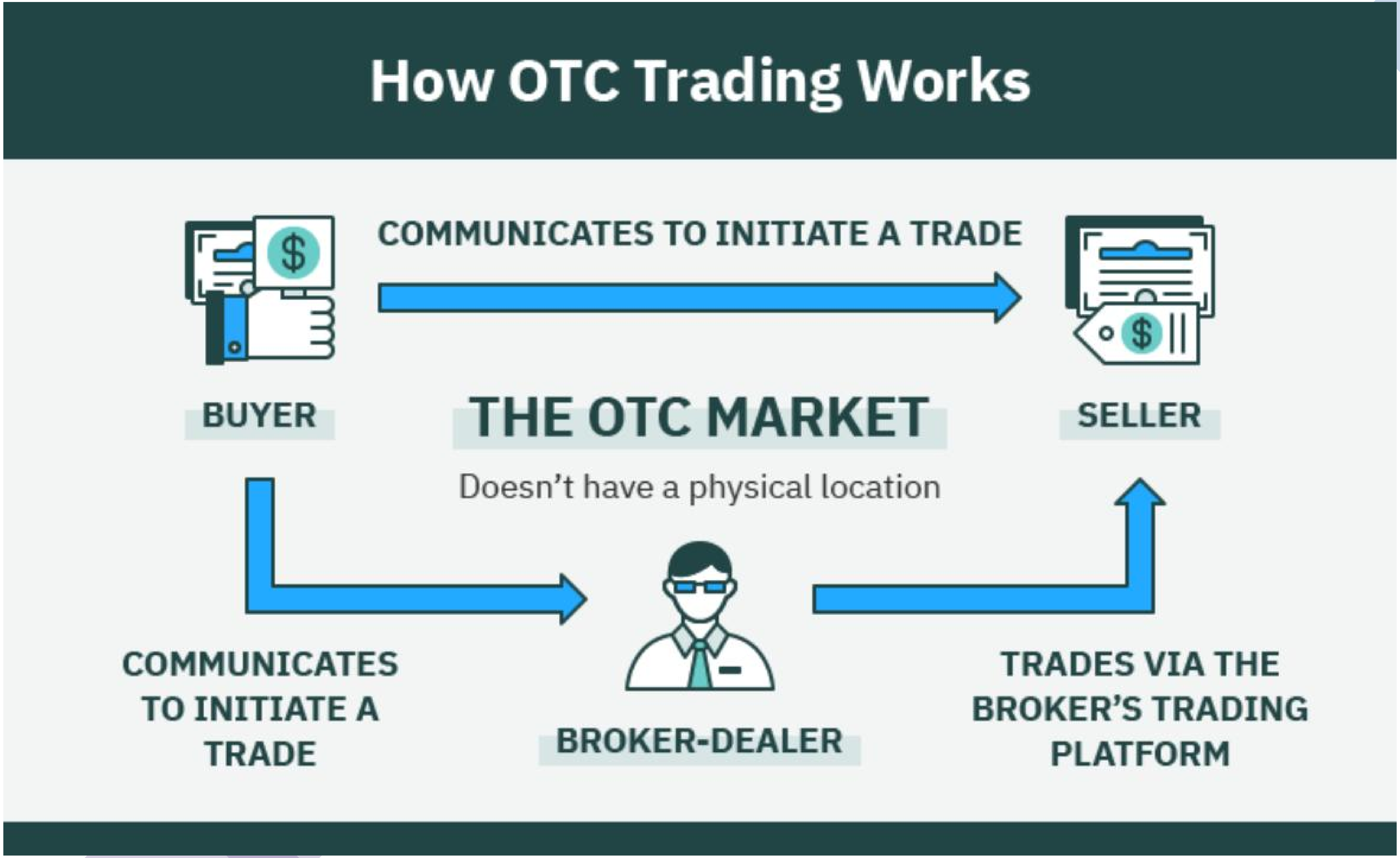
- **Over-the-Counter Market**

  This market is ***decentralized***, allowing customers to trade in customized products based on their requirements

FINANCIAL MARKETS

By organizational Structure

- **Over-the-Counter Market**
  - Decentralized Trading
  - Dealer Network


How OTC Trading Works
COMMUNICATES TO INITIATE A TRADE
BUYER
THE OTC MARKET
SELLER
Doesn't have a physical location
COMMUNICATES TO INITIATE A TRADE
BROKER-DEALER
TRADES VIA THE BROKER'S TRADING PLATFORM

EXCHANGE TRADED MARKETS

EXCHANGE TRADED MARKETS are marketplaces where all transactions pass through a central source.

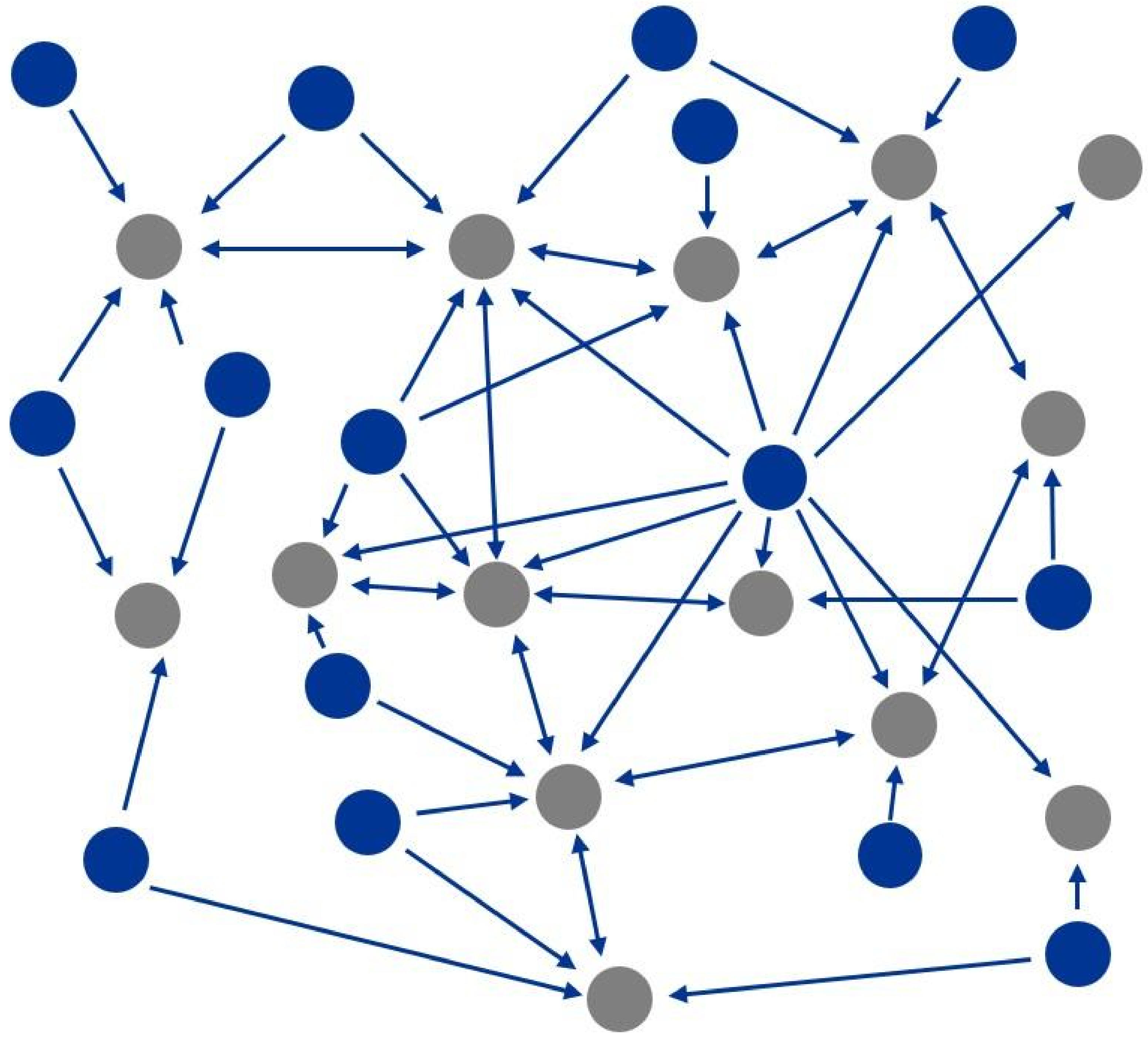
FEATURES

- Organized & centralized trading
- Counter party in all trades is exchange.
- Face heavy regulations
- Transaction cost is relatively higher
- Less competition among intermediaries
- Transparency is comparatively higher

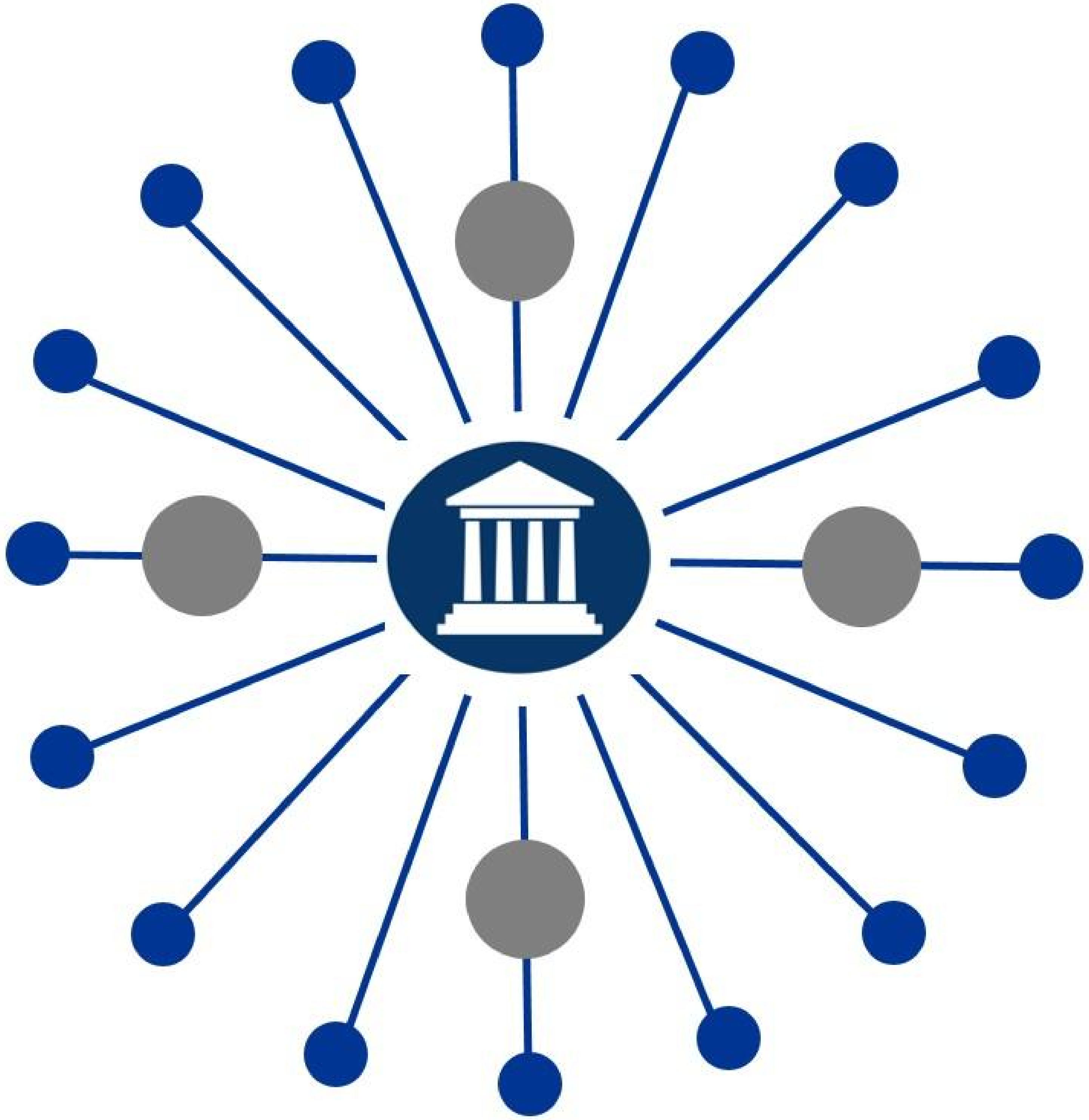
OVER THE COUNTER MARKETS

Over the counter market features multiple intermediaries who compete with each other over connecting buyers and sellers.

OTC MARKETS
(Fragmented Marketplace)



EXCHANGE MARKETS
(Centralized Marketplace)



Exchange Broker Investor

MARKET MAKER

- **A dealer** in securities or other assets that undertakes to buy or sell at specified prices at all times.

MARKET MAKER

- **A financial markets dealer** is an individual or financial institution that is willing to **buy a security** from a client at a quoted bid price or **sell a security** to a client at an ask (offer) price.

MARKET MAKER

Importance

- **Market Stability**

  They **reduce price volatility** by narrowing the bid-ask spread and providing consistent trading opportunities.

MARKET MAKER

Importance

- **Efficient Trading**

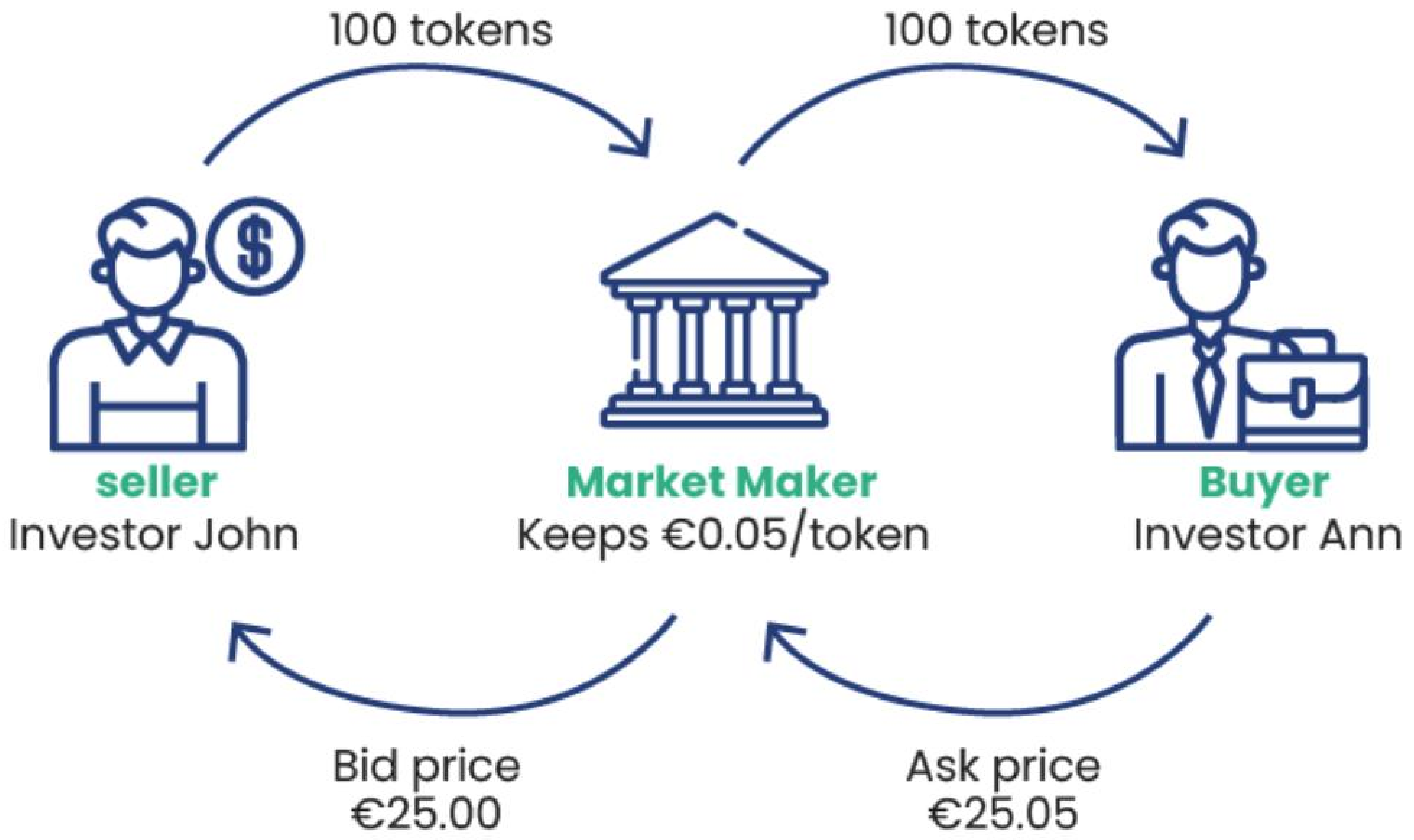
  They **facilitate quick transactions**, making markets more accessible and efficient.

MARKET MAKER

Importance

- **Orderly Markets**

  Exchanges often **designate market makers** for specific securities to guarantee continuous trading.


100 tokens
100 tokens
seller
Investor John
Market Maker
Keeps €0.05/token
Buyer
Investor Ann
Bid price
€25.00
Ask price
€25.05

MARKET MAKER

Government Securities Eligible Dealer (GSED)

SEC-licensed securities dealer belonging to a service industry **supervised or regulated by the Government** through its agencies:

SEC, BSP, or Insurance Commission.

GOVERNMENT SECURITIES ELIGIBLE DEALERS

As of 20 November 2024

1. Australia and New Zealand Banking Group Limited
2. Asia United Bank
3. BDO Capital and Investment Corporation
4. Banco De Oro Unibank, Inc.
5. BDO Private Bank, Inc.
6. Bank Of The Philippine Islands
7. BPI-Capital Corporation
8. JPMorgan Chase Bank
9. China Banking Corporation
10. Citibank N.A.
11. Philippine Bank of Communications
12. CTBC Bank (PHILIPPINES) Corporation
13. Development Bank Of The Philippines
14. Deutsche Bank AG
15. East West Banking Corporation
16. The Hongkong and Shanghai Banking Corporation Ltd.
17. ING Banking
18. Malayan Bank Savings and Mortgage
19. Maybank Philippines Inc.
20. Metropolitan Bank and Trust Company

What is the difference between BSP Securities and BTr-issued Securities?

Government Securities are issued by the National Government through the BTr to fund the government's spending requirements.

BSP Securities are issued by the Philippines' central bank as a tool for liquidity management in the financial system to support monetary policy transmission.

Issuance of BSP Securities are held in close coordination with BTr to ensure that issuances do not compete with the issuances of securities by the National Government in terms of tenors, timing of issuance, among others.

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BSP SECURITIES

What types of securities are being issued by BSP?

BSP Bills	**BSP Bonds**

BSP SECURITIES

What are the tenors of the BSP Securities?

BSP Bills

Short-term, usually 28-day or 56-day tenors, used for immediate liquidity management.

BSP Bonds

Longer-term, used for more persistent structural excess liquidity.

The tenors offered by BSP Securities are subject to market preferences and liquidity conditions.

BSP SECURITIES

How often is the BSP going to issue BSP Securities?

on a **weekly basis** or **as needed**, *depending on market appetite* and *current liquidity conditions*, as well as the *latest liquidity forecasts*

BSP SECURITIES

How does the BSP issue the BSP Securities?

via auction, wherein eligible counterparties have to *submit their bids (volume and interest rate)* on the securities being offered.

BSP SECURITIES

Who can participate in the auction?

via auction, wherein eligible counterparties have to *submit their bids (volume and interest rate)* on the securities being offered.