

Global equities decline on hawkish Fed surprise

21 June 2021

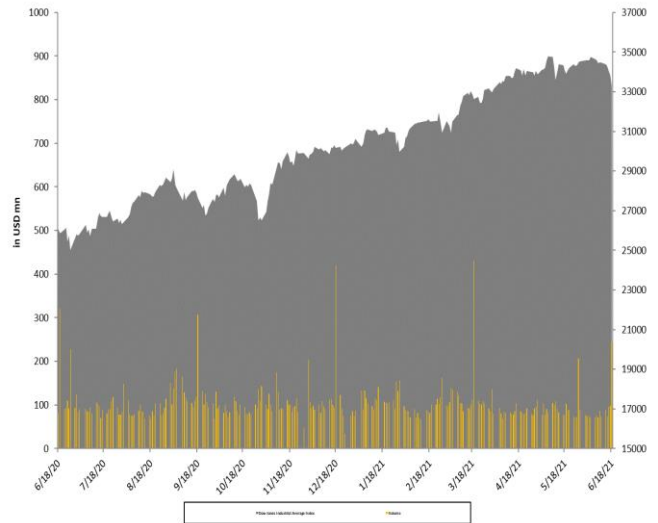
- US, EU, and PH equities sink on earlier than expected rate hikes by the Fed. EU investor sentiment exacerbated by vaccine delays.
- US yields trade lower, PH rates move sideways. Bids for 10Y auction by BTR reach 2x of total auction size.
- Fed revises upward inflation forecast, moves up timeline for rate hikes. Discussions start on tapering of bond purchases.

US equities drop on earlier than expected Fed tightening. EU market sentiment worsens on slower vaccine delivery.

US stocks fell last week as investors digested the Fed's higher inflation expectations for this year and accelerated timeline for interest rate hikes. Major US benchmarks ended in the red with DJIA down 3.4% w-w, S&P 500 -1.9% w-w, and NASDAQ -0.3% w-w. The VIX Index surged by 32.27%. Meanwhile, EU markets likewise slid due to US policy tightening fears as well as potential slowdown in vaccination program following news of the EU losing its bid for faster deliveries of AstraZeneca COVID-19 vaccines. The court ruled on Friday that AstraZeneca must ship 80.2mn doses by September 27 in contrast to the EU's bid for 300mn doses. Latest data shows the company has already delivered c.70mn doses. Recall that the drugmaker had previously committed to do its best to ship 300mn doses by end-June which was revised downward to 100mn due to production delays. According to the ruling, AstraZeneca remains bound to deliver 300mn doses but no deadline yet has been set, with another hearing in September to assess compliance with the contract. Major EU indices were all down with the FTSE 100 -1.63%, DAX -1.56%, CAC 40 -0.48%, and STOXX Europe 600 -1.19% for the week.

Source: JP Morgan, CNBC, Reuters

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Fed raises inflation expectations, with earlier timeline for rate hikes. Discussions start on tapering of bond purchases.

The Fed announced on Wednesday its higher inflation expectations of 3.4% for this year (+1ppt vs prior forecast) and indicated potential interest rate hikes in 2023 (vs no increases until 2024). The dot-plot showed 2 hikes in 2023. Meanwhile, the central bank did not provide a timeline on when it will start slowing down its bond-buying program, though Fed Chairman Jerome Powell acknowledged that the matter was discussed at the meeting. Mr. Powell noted faster than expected progress toward the Fed's dual employment and inflation goals. The central bank now expects GDP growth of 7% this year (from 6.5% previously), while unemployment estimate was maintained at 4.5%.

Source: JP Morgan, CNBC, Reuters

Interest rates				
USD	18-Jun-21	11-Jun-21	29-Dec-20	+/-
UST 2Y	0.25	0.15	0.13	0.11
UST 5Y	0.87	0.74	0.38	0.14
UST 10Y	1.44	1.45	0.94	(0.01)
UST 20Y	1.96	2.06	1.47	(0.10)
UST 30Y	2.01	2.14	1.68	(0.13)
PHP	18-Jun-21	11-Jun-21	29-Dec-20	+/-
2Y	1.84	1.89	1.91	(0.05)
3Y	2.32	2.30	1.86	0.02
4Y	2.66	2.79	2.33	(0.13)
5Y	2.66	2.66	2.48	0.00
7Y	3.46	3.45	2.92	0.01
10Y	3.67	3.76	2.87	(0.09)
11Y	3.69	3.68	2.95	0.01
20Y	4.93	4.97	3.93	(0.04)
20Y*	4.83	4.82	3.94	0.01
USDPHP	48.430	47.700	52.580	0.730

Source: Bloomberg

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Philippine Equities

- The PSEi posted a slight decline (-0.8% w-w) to 6,851.38 as investors locked in gains amid a risk-off selloff due to the Fed's hawkish stance as well as outflows related to the FTSE rebalancing. According to the BSP, OFW remittances surged +12.7% y-y in April 2021 on low base effect from April 2020's -16.2% y-y plunge. The latest print was behind Bloomberg consensus (+19.3% y-y) though YTD remittances of USD9.9bn (+4.8% y-y) are ahead of the BSP's FY21 target (+4%). On June 14, President Duterte approved the IATF recommendation to downgrade the quarantine classification in Metro Manila and Bulacan from GQC "with heightened restrictions" to a GQC with "some restrictions" on June 16 to 30. Meanwhile, the government is expecting a total of 11.7mn doses of COVID-19 vaccines to be delivered in July. We continue to monitor the rate of increase in new daily COVID-19 cases as well as the progress of the vaccine rollouts (6.9mn doses administered as of June 17). We will also watch out for net foreign activity as we have started to see signs of reversal from the USD1.3bn net outflow YTD. The level of foreign ownership in the market (in terms of shares out) has also dropped to 18.1%, the lowest since 2008. Market participants will also look out for policy rate announcements by the BSP during its Monetary Board meeting this Thursday, June 24.

USD fixed income

- The biggest surprise last week was the adjustment of the Federal Reserve's "dot plot" - a projection of where US policy rates would be in the futures. From showing 0 hikes in 2023, the new plot showed 2 hikes. This also signaled that tapering of asset purchases would likely start in 2022. 10Y US yields initially moved to 1.60% post-Fed, but closed 10bps lower WoW as 30Y yields closed 17bps lower on markets unwinding curve trades. ROP spreads grinded wider, but continue to trade tight versus historical levels.

PHP fixed income

- Local bonds met some resistance amidst falling US rates; despite USTs closing the week lower, local bonds closed the week sideways. 3Y, 5Y, and 7Y bonds saw some resistance at 2.375, 2.90, and 3.475, respectively. The BTR awarded 45bn in last week's 10Y auction at a 3.719 average; bids reached a healthy 2x of total auction size given it was a 10Y auction.

Outlook for the week

Stock market

- After a failed test of the 7,000 level last Wednesday, the PSEi may just consolidate in the near-term as investors await the BSP's Monetary Board meeting this Thursday. Market participants will look for cues regarding the direction of local interest rates amid the Fed's growing signal to start QE taper as early next year. The 6,800 level should still serve as the major support and we expect large buying interests to emerge as the index goes to this mark.

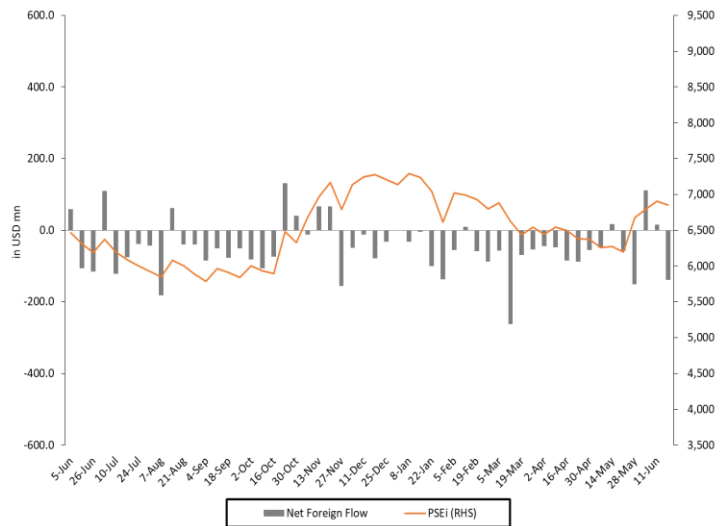
USD fixed income

- Looking at market momentum to push 10Y yields to test 1.30% levels; on a longer horizon we are biased towards higher yields given the pace of the US economy's improvement.

PHP fixed income

- Expecting local markets to track US yields to a degree, we may continue to see resistance at these levels given that USTs are at the bottom of the recent range.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials +1.58%, Services +1.04%, Industrials +0.66%, Conglomerates -0.33%, Mining and Oil -1.55%, Property -3.80%,
Leaders: ICT +6.0%, PGOLD +4.6%, JGS +4.6%, DMC +4.2%, AEV +3.7%

Laggards: BLOOM -6.3%, ALI -6.0%, SMC -4.5%, TEL -3.7%, URC -3.5%

Source: Bloomberg, The Philippine Stock Exchange