

US rallies on jobs data, EU market flat to mixed

5 July 2021

- US and PH stocks up on improved jobs generation, EU market recovers after quarter end on 30 June
- Fixed income sentiment dampened by the Delta variant ahead of the US' long Independence Day weekend
- US Congressional Budget Office raises GDP growth estimate, UK aims to introduce quarantine-free travel for the vaccinated

US markets react positively to jobs data. EU tourism stocks do well, dampened by tech and banking names.

- The US bourses rallied last week as job generation last month beat expectations. Inflation fears in the US look to also have dissipated somewhat given falling "breakeven" rates (spreads) between treasury yields and inflation-indexed bonds. Investors appear to be moving away from a view of structurally higher US inflation. The Dow Jones, S&P and Nasdaq were up +1.0%, +1.7%, +1.9%, week-on-week, respectively, while volatility was down -3.5% for the week.
- Meanwhile markets in Europe were flat to mixed last week as tourism-related stocks gained on the UK's plans to ease traveler headaches, offset by dips in tech and banking stocks. The EU market trend turned slightly positive in the latter part of the week after a quarter-end sell down. The FTSE, STOXX 600, CAC and DAX were -0.2%, -0.2%, -1.1%, +0.3% week-on-week last week, respectively.

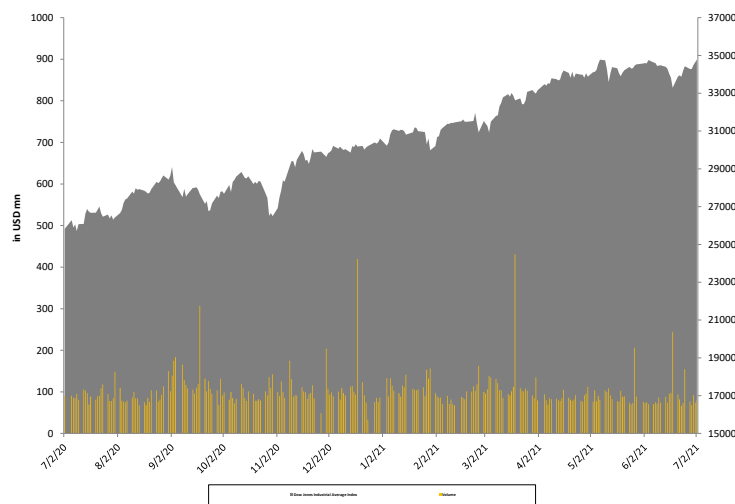
Source: CNBC

US job growth accelerated last month, CBO raises GDP forecast. UK looking to ease EU tourism disruptions.

- The US added 850K nonfarm payrolls last month, higher than expectations of 706K. The print marked the second month of acceleration vs last April's +278K. Staying with the US, the Congressional Budget Office (CBO) raised its GDP growth forecast to 7.4% this year before slowing to 3.1% in 2022. The CBO also expects the budget deficit to taper slightly to USD3tn this year due to strong economic growth and accompanying tax revenues.
- The UK bared plans to relax tourism requirements last week, looking to allow quarantine-free travel for tourists who have had both their vaccination shots. The change in protocol could happen as early as 26 July and the country is lobbying other EU countries to allow fully-vaccinated British citizens to travel quarantine-free. Britain also stated that it would accept a new EU digital certificate in order to support more travel.

Source: CNBC

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	02-Jul-21	25-Jun-21	29-Dec-20	+/-
UST 2Y	0.23	0.27	0.13	(0.03)
UST 5Y	0.86	0.92	0.38	(0.06)
UST 10Y	1.42	1.52	0.94	(0.10)
UST 20Y	1.97	2.08	1.47	(0.10)
UST 30Y	2.04	2.15	1.68	(0.11)
ROP 3Y	0.42	0.36	0.44	0.06
ROP 4Y	0.65	0.66	0.48	(0.02)
ROP 9Y	1.90	1.85	1.52	0.05
ROP 10Y	1.98	1.95	1.52	0.03
ROP 24Y	3.06	3.07	2.59	(0.00)
PHP	02-Jul-21	25-Jun-21	29-Dec-20	+/-
2Y	1.72	1.80	1.91	(0.08)
3Y	2.29	2.30	1.86	(0.02)
4Y	2.61	2.67	2.33	(0.06)
5Y	2.57	2.63	2.48	(0.05)
7Y	3.52	3.48	2.92	0.03
10Y	3.64	3.67	2.87	(0.03)
11Y	3.71	3.73	2.95	(0.02)
20Y	4.93	4.93	3.93	-
20Y*	4.74	4.73	3.94	0.00
USDPHP	49.200	48.481	52.580	0.719

Source: Bloomberg

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Philippine Equities

- The PSEi rose 0.7% week-on-week to 7,002.26 last Friday as the government reported an improvement in the unemployment rate. The unemployment rate improved to 7.7% in May 2021 (April 2021: 8.7%) as NCR+ granted looser community quarantine status in mid-April 2021. About 1.4mn jobs were created in May 2021 (vs 2.1mn job loss in April 2021), led to lower number of unemployed at 3.7mn (April 2021: 4.1mn). Labour force participation rate rose to 64.6% (April 2021: 63.2%).
- We also gained some clarity on quarantine measures for the coming week as President Duterte gave his preliminary approval of the new quarantine classifications recommended by the Inter-Agency Task Force (IATF). Metro Manila, Rizal and Bulacan will remain under the general community quarantine (GCQ) with some restrictions until 15 July, while Laguna and Cavite will be under the GCQ with heightened restrictions
- Last 1 July however, the Philippine Institute of Volcanology and Seismology (Phivolcs) raised the alert level of the Taal volcano from Level 2 (increasing unrest) to Level 3 (magmatic unrest). The volcano erupted early last year, and bears watching if it will do so again.

USD fixed income

- US Treasury yields ended the week ~10 bps lower across the curve with 30Y and 10Y yields at 2.04% and 1.42%, respectively. Mixed economic data prints and global spread of COVID-19 delta variant dampen sentiment ahead of Independence day long weekend. ROP spreads widened by 10-15 bps across the curve after the issuance of generously priced ROP3ON and 46.

PHP fixed income

- Absence of fresh catalysts in the local bond market sidelined most players leading to sideways action for most of the week. Buying interest remains on the front-end to belly where yields ended the week 3-7 bps lower. USDPHP printed fresh highs last week as it broke above the 49 mark on strong corporate month-end flows.

Outlook for the week

Stock market

- The local bourse, represented by the PSEi, has regained the 7,000 level at 7,002.26, its highest closing price since 16 February 2021. Given the continued downtrend in daily COVID-19 cases, the easing of quarantine restrictions, and the sustained roll-out in vaccines, the likelihood of staying above the 7,000 line next week is high, in our view. Likewise, we expect investors to position ahead of the PSEi rebalancing in August and the start of the 2Q21 earnings results roll-out by the third week of July.

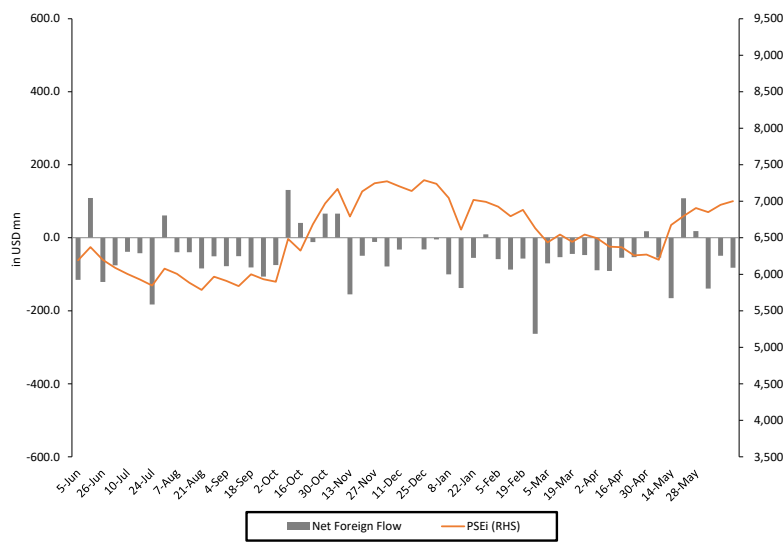
USD fixed income

- Treasury yields will likely bounce from key support areas - 1.4% for 10Y and 2% for 30Y. Bias for higher yields remains for the 2nd half of the year on the back of an improving economy, sustained inflation and tapering talks.

PHP fixed income

- Local GS yields are expected to move higher, particularly on the long-end, due to supply risk and possible UST direction. Key economic data release for the week is the June CPI print.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining and Oil +5.54%, Services +1.97%, Industrial +1.67%, Holding Firms +1.37%, Financials +1.21%, Property -1.18%

Leaders: EMP +7.2%, DMC +7.2%, RRHI +4.6%, SECB +4.1%, URC +3.5%

Laggards: FGEN -3.7%, BLOOM -2.6%, SMPH -2.1%, GTCAP -1.4%, JFC -1.4%

Source: Bloomberg, The Philippine Stock Exchange