

US data dampen foreign markets, PH gains despite Delta

9 September 2021

- US and EU equity markets were mixed as US August jobs data fell short of expectations, Philippines helped by foreign inflow
- US bond market steepens on jobs print, Philippine market participants waiting on the sidelines for new auctions
- US bares plan to prepare for future pandemics, 70% vaccination rate eyed for Metro Manila by end September

US and EU markets retreated last Friday after the release of weak August US jobs data. Techstocks outperformed.

- The Dow Jones and S&P fell last Friday as a COVID-19 resurgence fueled by Delta detracted from jobs creation in August. Moderna gained as it submitted data to the FDA over a potential COVID booster. Apple and Nvidia supported the market, while Match Group rallied following news that it would be included in the S&P. The Dow Jones, S&P and Nasdaq were -0.24%, +0.58%, +1.55%, week-on-week, respectively, while volatility was +0.12% for the week.
- Likewise, the European markets struggled after the release of US jobs data. Travel & leisure stocks faced selling pressure while commodities and mining stocks benefitted from supportive manufacturing data. Corporate releases drove the rest of the week with a few earnings releases, take-over bids, and bond issuances. The FTSE, STOXX 600, CAC and DAX were -0.14%, -0.09%, +0.12%, -0.45% week-on-week last week, respectively.

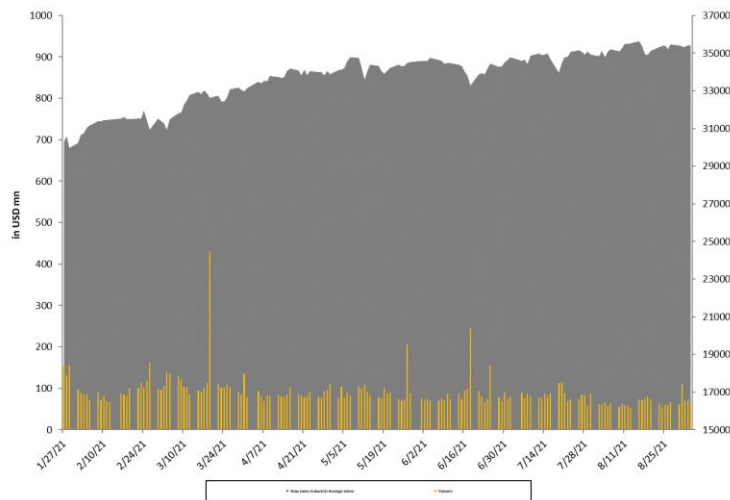
Source: JPM

US August jobs creation much lower than expected. EU business activity continues to grow despite Delta.

- US nonfarm payrolls increased 235K in August, much lower the 720K expected. The bad print comes as renewed health restrictions are placed in some states and cities affected by the Delta variant. However, unemployment continued to improve to 5.2% with wages growing for the month. President Biden unveiled a USD65bn plan to prepare for future pandemic threats while health officials are pushing for the use of booster shots pending vaccine data collection and review.
- Euro zone business activity remained in positive territory last August as the final HIS Markit composite PMI reading was at 59.0. Also reported last week was Euro-area inflation at 3% year-on-year, the highest reported in a decade, and testing policy makers' insistence that cost pressures will be temporary. Amid the continuing pandemic, Denmark is looking to widen eligibility for people to receive a third shot of the COVID-19 vaccine eyeing retirement facilities in particular.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	03-Sep-21	27-Aug-21	29-Dec-20	+/-
UST 2Y	0.21	0.22	0.13	(0.01)
UST 5Y	0.78	0.80	0.38	(0.02)
UST 10Y	1.32	1.31	0.94	0.02
UST 20Y	1.86	1.84	1.47	0.02
UST 30Y	1.94	1.92	1.68	0.03
ROP 3Y	0.63	0.61	0.44	0.02
ROP 4Y	0.77	0.74	0.48	0.03
ROP 9Y	1.78	1.80	1.52	(0.02)
ROP 10Y	1.85	1.83	1.52	0.01
ROP 24Y	2.89	2.87	2.59	0.02
PHP	03-Sep-21	27-Aug-21	29-Dec-20	+/-
2Y	1.94	1.92	1.96	0.02
3Y	2.10	2.10	1.86	-
4Y	2.46	2.48	2.48	(0.02)
5Y	2.46	2.48	2.48	(0.02)
7Y	3.73	3.75	2.92	(0.02)
10Y	3.85	3.82	2.87	0.03
11Y	4.15	4.09	2.95	0.06
20Y	4.91	4.94	3.94	(0.03)
20Y*	4.91	4.94	3.94	(0.03)
USDPHP	49.840	49.955	52.580	(0.115)

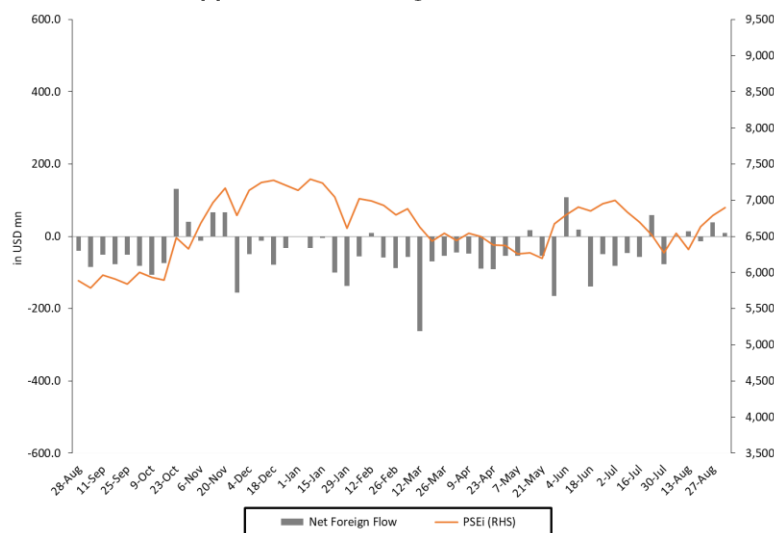
Source: Bloomberg

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Philippine Equities

- The PSEi rose 1.6% week-on-week to 6,897.13 last Friday as foreign buying continued for the second straight week. The market performance occurred even as the country reported a record-high 22,366 new COVID-19 cases last Monday. The trend continues to be unfavorable as the 7-day moving average was at 17,901 daily cases vs the 15,781 of the prior rate.
- August PMI print was released last week was also unsupportive at 46.4, marking a 15-month low due to the impact of tighter quarantine measures for the period. The BTr also reported that the National Government's outstanding debt grew a further 4% month-on-month and 27% year-over-year to PHP11.61tn at the end of July due to a fresh dollar bond issuance and further debt-raising from domestic sources.
- Progress against the pandemic has gained traction though with 45% of Metro Manila's eligible population already fully vaccinated. Metro Manila mayors expect to reach 50% in the coming days and are targeting a 70% vaccination rate by the end of September. The IATF has signed-off on the implementation of a granular lockdown system starting September 8, though pending approval by the president.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining & Oil +3.95%, Holding Firms +3.17%, Industrial +2.95%, Financials +0.92%, Services +0.64%, Property -0.58%

Leaders: FGEN +12.7%, AEV +11.4%, AP +11.1%, ACEN +8.5%, PGOLD +5.7%

Laggards: GLO -5.1%, MBT -3.2%, MEG -3.1%, RRHI -1.9%, ALI -1.2%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasuries bear steepened anew last week. 10Y yield ended the week at 1.33%, -3 bps higher week-over-week. Friday's NFP print was a huge miss but average hourly earnings rose. Market took the mixed data as a signal that the Fed will be less hawkish in this month's September FOMC.

PHP fixed income

- Local rates continued to move sideways closing the week +/- 2bps across the curve. Market players prefer to stay on the sidelines and wait for results of upcoming auctions this month.

Outlook for the week

Stock market

- PSEi is nearing the 7K resistance level despite rising COVID cases. It will be interesting to watch if foreign investors will continue to buy local shares. If this happens, we might see the 7K level in the near-term. Utilities/power sector were the best performers last week and may take a breather in the coming week. Immediate support is at the 6,600 level.

USD fixed income

- US 10Y yield will likely maintain the 1.20%-1.40% range in the near-term. Tapering remains on the table for the year, but timing remains unclear. ROP spreads will likely maintain its recent ranges.

PHP fixed income

- Local rates will likely maintain sideways action this week. Supply pressure on the 7/10Y bucket and well-telegraphed policy direction keep buyers hesitant to pick up duration.