

Russia-Ukraine conflict stokes risk-off sentiment

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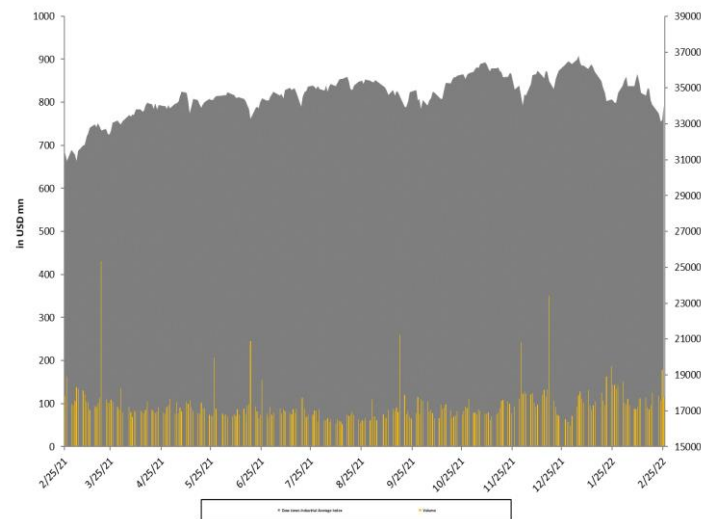
- US equities mixed, EU and PH stocks decline on increased uncertainties amidst the Russia-Ukraine conflict
- 10Y US Treasury yield swings within 1.85%-2% range on geopolitical tensions, PH yield curve bear flattens post-release of the weekly March auction schedule
- Western allies impose sanctions on Russia; Oil prices rise on expected supply disruptions

US stocks mixed, EU stocks fall on heightened geopolitical risk amidst the Russia-Ukraine conflict

- US equities were mixed last week as investors monitor developments related to the ongoing Russia-Ukraine conflict. Western allies are imposing sanctions on Russian entities and will remove select banks from the main international payments system SWIFT. The DJIA, S&P 500, and Nasdaq ended the week at -0.06% w-w, +0.82%, and +1.08% while the VIX dropped -0.58% w-w. Meanwhile, European stocks slumped on economic uncertainties brought about by the Russia-Ukraine conflict. Major benchmarks were down w-w with the FTSE 100 -0.32% w-w, DAX -3.16%, CAC 40 -2.56%, and Stoxx 600 -1.58%.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Western allies impose sanctions on Russia; Oil prices surge amidst fears of supply disruptions

- The US, UK, EU, and other allies have placed sanctions on Russia in response to the war in Ukraine. These sanctions include the freezing of assets of President Vladimir Putin, government officials, and oligarchs as well as other economic sanctions. Moreover, EU foreign ministers have recommended to ban all transactions with the Russian central bank. The US, UK, Canada, and EU said that select Russian banks will be removed from the SWIFT international payments system. The US, UK, and EU have also imposed sanctions on major Russian corporations.
- Oil prices rose on Sunday evening following the latest round of sanctions imposed by Western allies on select Russian banks. Brent crude and West Texas Intermediate crude futures hit a high of USD105 per barrel (+7%) and USD98 per barrel (+7%), respectively. Both contracts had corrected after initially breaching the USD100 level on Thursday but have since rebounded given expectations of ripple effects on Russia's oil and gas exports as a result of the banking sanctions.

Source: JP Morgan, Financial Times, CNBC

Interest rates				
USD	25-Feb-22	18-Feb-22	31-Dec-21	+/-
UST 2Y	1.57	1.47	0.73	0.10
UST 5Y	1.87	1.82	1.26	0.04
UST 10Y	1.96	1.93	1.51	0.03
UST 20Y	2.35	2.30	1.93	0.05
UST 30Y	2.27	2.24	1.90	0.03
ROP 3Y	2.24	2.06	0.91	0.18
ROP 4Y	1.99	1.90	0.98	0.10
ROP 9Y	3.00	2.93	2.02	0.07
ROP 10Y	3.00	2.90	2.00	0.10
ROP 24Y	3.79	3.65	2.94	0.14
PHP	25-Feb-22	18-Feb-22	31-Dec-21	+/-
2Y	3.09	2.58	2.59	0.51
3Y	3.09	2.58	2.59	0.51
4Y	4.53	4.27	3.82	0.27
5Y	5.27	5.44	4.71	(0.17)
7Y	5.33	5.00	4.49	0.33
10Y	5.23	5.23	4.69	(0.00)
11Y	5.27	5.44	4.71	(0.17)
20Y	5.74	5.48	5.07	0.26
20Y*	5.74	5.48	5.07	0.26
USDPHP	51.340	51.350	52.580	(0.01)

Source: Bloomberg

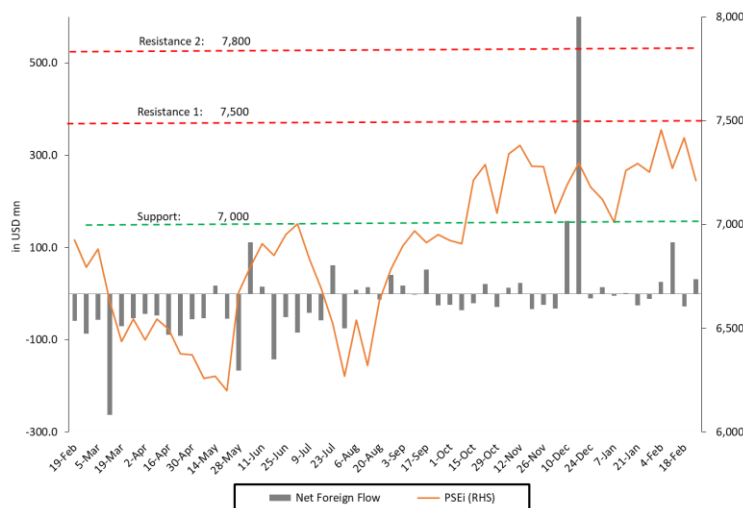
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Philippine Equities

- The PSEi fell 3.05% w-w to end the week at 7,212.23pts on risk-off investor sentiment given the ongoing conflict between Russia and Ukraine. Russia conducted military operations in Ukraine causing a spike in the price of oil and other commodities. Meanwhile, the US and its allies unveiled sanctions that could disrupt oil supplies and other exports of Russia. The deletion of index heavyweight SM Investments (SM) in the FTSE Large Cap Index sent investors reducing exposure on the name but bargain hunters were quick to take advantage of the dip as SM remains to be at the forefront of benefitting from the country's reopening. Presidential Adviser for Covid-19 response Vince Dizon said that the government aims to vaccinate 80% of the vulnerable population against Covid-19 before the country eases to Alert Level 1. Metro Manila mayors have recommended to de-escalate Metro Manila to the lowest pandemic alert level. Metro Manila is under Alert Level 2 until February 28. Developments in the Russia-Ukraine crisis will continue to drive volatility in the markets. Tension in the region could affect Fed policy especially on inflation. US Jan 2022 inflation is still elevated at 7.5% and may be exacerbated given the recent spikes in commodity prices. Philippine CPI print for the month of Feb is expected to come out Mar 4. Surveys are pointing at 3.3% from previous 3.0%. Earnings results are expected to come out next week for RRHI, MWC, ICT, BLOOM, and URC. The 4Q21 figures so far were positive given the increased mobility relative to 3Q21.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining & Oil +3.39%, Services -1.58%, Financials -2.53%, Property -2.88%, Holding Firms -2.89%, Industrial -4.08%

Leaders: WLCON +6.08%, JGS +0.64%, MER +0.28%, SMPH 0.00%, EMP -0.50%

Laggards: MONDE -10.30%, ACEN -8.78%, JFC -6.35%, AP -6.27%, SM -6.04%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- Geopolitical tensions between Russia and the G-7 intensified last week as the former began its attempt to invade Ukraine. Risk assets sold off while commodities rallied. 10Y US Treasury yield had a volatile week, swinging back and forth within the range of 1.85%-2%.

PHP fixed income

- In the local GS market, we saw the curve bear flatten as yields in the front-end and belly rose 10-25 bps after the release of the weekly March auction schedule.

Outlook for the week

Stock market

- The PSEi traded lower this week as geopolitical risks in Ukraine escalate. Year to date, global indices have retreated with S&P 500 already down by almost 10%. So far, Philippines is still returning a positive figure along with other ASEAN counterparts. The channel line remains intact with initial support around the psychological 7,000 level. The bias at this point is to the downside as more sanctions are imposed to Russia by the US and its allies.

USD fixed income

- Geopolitical risks remain elevated especially after Putin ordered his top generals to place their country's nuclear weapons under high alert. Risk assets will continue to be challenged in the near-term. We see range of 10Y yield at 1.85%-2.05%.

PHP fixed income

- Supply remains a key concern of the market. As such, BTr's awarding behavior for upcoming auctions this March will be crucial. USDPHP continues to trade in the 51-51.50 area.

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