

Global markets mixed on Russia-Ukraine crisis and inflation

21 March 2022

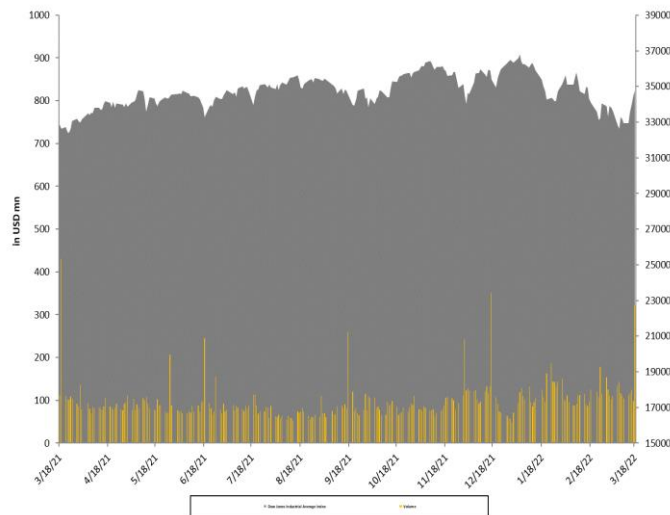
- US and EU equities rally on reported progress with Russia-Ukraine talks, PH stocks end lower on risk-off sentiment
- US Treasuries and PH GS curves bear flatten on Fed rate hike and higher inflation expectations, partial award of 4Y auction above secondary, respectively
- Shenzhen lifts lockdown, HK may review restrictions, China hit by COVID resurgence; China’s central bank keeps rates unchanged, expected to resume monetary easing

US and EU stocks close higher on progress with Russia-Ukraine talks

- US equities were up last week as Moscow and Kyiv were reported to be close to reaching an agreement on critical issues as per Turkey’s foreign minister. Meanwhile, NATO member countries held an emergency summit on the Russia-Ukraine crisis last Thursday and Friday. The UN said 10mn people have fled Ukraine. The DJIA, S&P 500, and Nasdaq ended the week at +5.50% w-w, +6.16%, and +8.18% while the VIX dropped -22.37% w-w. European stocks likewise closed in the green on news reports that Russia transferred US dollars to settle coupon payments on two Eurobonds, which assuaged default fears. Major benchmarks were up w-w with the FTSE 100 +3.48% w-w, DAX +5.76%, CAC 40 +5.75%, and Stoxx 600 +5.43%.

Source: JP Morgan, Reuters, Bloomberg

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Shenzhen lifts lockdown, HK may review restrictions, China hit by COVID resurgence; China’s central bank keeps rates unchanged, expected to resume monetary easing

- Shenzhen has lifted its week-long lockdown while keeping some restrictions as the local government reported COVID cases are under control. Public transport, companies, and the government will be allowed to resume normal operations. Meanwhile, Hong Kong may review quarantine controls given the improving COVID situation as per Chief Executive Carrie Lam. China has reported its first deaths since Jan 2021 and Shanghai is hit by a record surge in cases.
- The People’s Bank of China (PBOC) maintained benchmark rates in line with consensus. Markets are expecting the PBOC to resume monetary easing soon as the country’s leaders vowed to boost the economy. Last week, Chinese Vice Premier Liu He urged all government departments to introduce market-friendly policies. Looming risks to economic growth include a domestic COVID-19 resurgence, weaker credit growth, and a slowing property market.

Source: JP Morgan, Bloomberg, Reuters

Interest rates				
USD	18-Mar-22	11-Mar-22	31-Dec-21	+/-
UST 2Y	1.94	1.75	0.73	0.19
UST 5Y	2.14	1.95	1.26	0.20
UST 10Y	2.15	1.99	1.51	0.16
UST 20Y	2.54	2.44	1.93	0.10
UST 30Y	2.42	2.35	1.90	0.07
ROP 3Y	2.57	2.54	0.91	0.04
ROP 4Y	2.44	2.25	0.98	0.20
ROP 9Y	3.09	3.11	2.02	(0.02)
ROP 10Y	3.03	3.09	2.00	(0.06)
ROP 24Y	3.77	3.90	2.94	(0.13)
PHP	18-Mar-22	11-Mar-22	31-Dec-21	+/-
2Y	3.08	2.95	2.59	0.12
3Y	3.08	2.95	2.59	0.12
4Y	4.60	4.32	3.82	0.29
5Y	5.41	5.36	4.71	0.05
7Y	5.32	5.08	4.49	0.25
10Y	5.39	5.58	4.69	(0.18)
11Y	5.41	5.36	4.71	0.05
20Y	5.53	5.39	5.07	0.14
20Y*	5.53	5.39	5.07	0.14
USDPHP	52.335	52.290	52.580	0.05

Source: Bloomberg

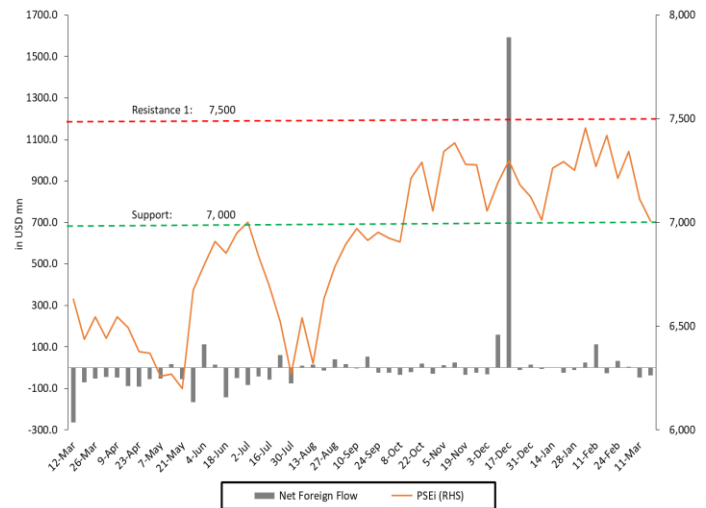
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Philippine Equities

- It was quite a volatile week for the PSEi as the week started with a 4.15% sell-off to a YTD intra-day low of 6,638. The market did recover from the lows, but ended the week on a lower note, closing at 7,007.63, -1.47% lower than last week's close. Trading volume last week rose substantially due to the FTSE rebalancing activities on Friday where ACEN and CNVRG were upgraded to the main index and SM was deleted. On the macro front, data showed that overseas remittances in January rose +2.5% YoY, below +3.8% forecast and +3.3% in December. Unemployment in the same period meanwhile slightly improved to 6.4%, a new post-pandemic low, from 6.6% in the previous month. PH COVID-19 cases remain below 1k per day, with Metro Manila mayors voicing their sentiment to ease mobility restrictions further to Alert Level 0 come April. Moreover, the Philippines will reopen its borders to all foreign tourists, including from visa countries, starting April 1. Developments in the Russia-Ukraine crisis will continue to drive volatility in the global equity markets. Movement in crude oil prices will impact sentiment. The Monetary Board is set to meet on March 24th and decide on the key policy rate for the country. Market consensus is that rates will be kept at the 2.00% level following Diokno's statement that the BSP does not have to raise policy rates just because the US Federal Reserve did. Corporate earnings results will continue to be released this week including CEB and MONDE.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Property -0.41%, Financials -0.59%, Holding Firms -1.42%, Industrial -1.51%, Mining & Oil -2.07%, Services -3.37%

Leaders: SMC +5.05%, MPI +4.72%, URC +3.99%, CNVRG +3.49%, MEG +2.61%

Laggards: GLO -10.48%, TEL -7.87%, AEV -6.97%, JFC -6.09%, MBT -4.86%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasuries bear flattened last week as the Fed delivered a 25 bp rate hike and revised inflation expectations higher. The dot plot shows FOMC members now anticipate a median of 7 rate hikes for 2022. 10Y yield closed the week at 2.15%, or 15 bps higher WoW.

PHP fixed income

- Local GS curve bear flattened after the 4Y auction was partially awarded at -30 bps above secondary. USDPHP ended the week at 52.35 after pushing close to the 52.50 level at the start of the week.

Outlook for the week

Stock market

- For this week, we expect the index to consolidate as it tries to find a base before attempting to rally further. The index may encounter its first level of resistance at around 7,250 which is where the 50D and 100D MA are located and at the same time, the upper end of the short term downward channel. Meanwhile, stronger resistance is still seen at 7,500 which was the high last November and February.

USD fixed income

- The U.S. Treasury market has already priced in the hawkish stance of the Fed. As such, yields may find support in their current levels in the near-term. We see the 10Y range at 2% to 2.2%.

PHP fixed income

- GS market may be challenged in the near term with supply pressures, negative outlook on inflation, and depreciating peso. Any relief rally can be used as an opportunity to lighten positions.

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