

# Inflation & pending rate hikes continue to dictate markets

## 18 July 2022

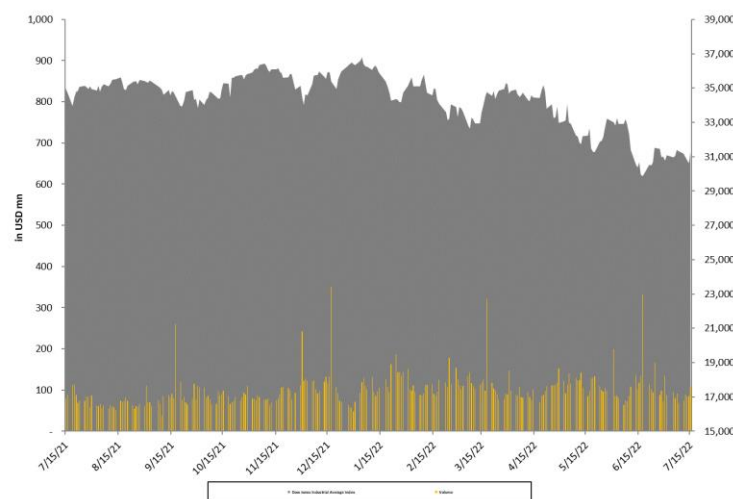
- Foreign markets digest US inflation data and earnings releases, weakened PHP capping recovery in local equity market
- Hot US inflation signals need for more tightening, BSP pulls trigger on surprise increase in benchmark rates
- US inflation continues to be elevated, commodity prices start to correct following increasing supply prospects

### Late-week rally after inflation-driven concerns and mixed earnings releases at the start of last week.

- US equity markets were fixated on the June inflation data release for much of the week, only posting recovery from the trend last Friday. Meanwhile Conagra Brands, Morgan Stanley, and Delta Airlines all missed earnings expectations, while UnitedHealth and Citigroup beat last week. The Dow Jones, S&P and Nasdaq were -0.16%, -0.93%, -1.57%, week-on-week, respectively, while volatility was -1.66% for the week.
- EU equity markets registered similar moves for last week. EU stocks recorded losses on Wednesday and Thursday after the Euro reached parity with the USD for the first time in 20 years. The region staged a rally however on Friday, with autos leading gains on the pan-European STOXX 600. The FTSE, STOXX 600, CAC and DAX were -0.52%, -0.80%, +0.05% - 1.16% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

### US inflation at highest level since 1981. Gas pipeline restart and increased oil supply push commodities lower.

- The US reported that inflation had hit a 9.1% y-y rise last June, its highest level since 1981. Following the report, several Fed members signaled that a 100bps rate increase could be justified in order to tame inflation. President Biden however downplayed the report given the recent decline in gas prices, though it should be noted that the pressure is on Democrats ahead of November's midterm elections.
- The European region is looking to this Thursday as a possible restart for the Nord Stream 1 gas pipeline. The pipeline is currently shutdown for annual maintenance, with some doubting whether it would come back online after the prescribed 10-day period. In related news, President Biden has finished meeting with Saudi Arabia over the last few days. Though no assurance on oil production was made, the Saudis reportedly shared the US' urgency to increase supply with steps to come over the coming weeks. Oil and metals continued their recent downtrend last week due to these and other developments, though still up from a y-y perspective.

Source: JPM

Interest rates				
USD	15-Jul-22	08-Jul-22	31-Dec-21	+/-
UST 2Y	3.12	3.10	0.73	0.02
UST 5Y	3.03	3.12	1.26	(0.09)
UST 10Y	2.92	3.08	1.51	(0.17)
UST 20Y	3.32	3.51	1.93	(0.19)
UST 30Y	3.08	3.24	1.90	(0.17)
ROP 2Y	3.46	3.49	0.91	(0.03)
ROP 3Y	3.55	3.65	0.98	(0.10)
ROP 8Y	4.39	4.36	2.02	0.04
ROP 9Y	4.34	4.25	2.00	0.09
ROP 23Y	4.95	4.79	2.94	0.16
PHP	15-Jul-22	08-Jul-22	31-Dec-21	+/-
2Y	4.26	4.11	2.59	0.15
3Y	4.26	4.11	2.59	0.15
4Y	5.78	5.74	3.82	0.04
5Y	6.70	6.82	4.71	(0.12)
7Y	6.48	6.43	4.49	0.05
10Y	6.74	6.86	4.69	(0.13)
11Y	6.70	6.82	4.71	(0.12)
20Y	6.81	6.78	5.07	0.03
20Y*	6.81	6.78	5.07	0.03
USDPHP	56.360	55.920	52.580	0.44

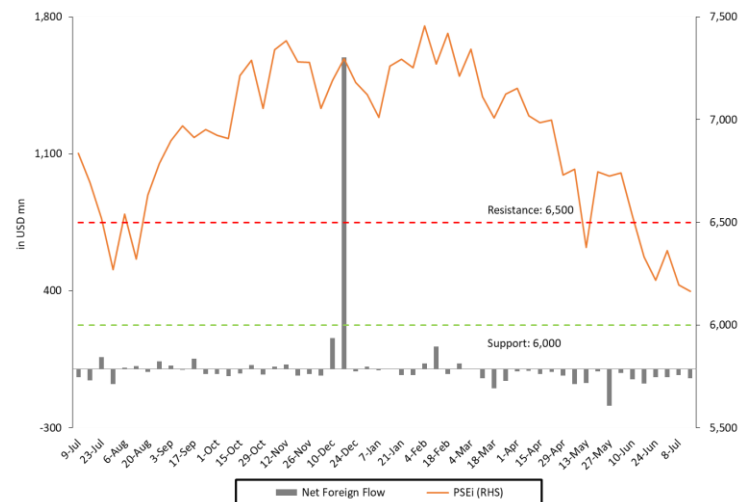
Source: Bloomberg

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### Philippine Equities

- The PSEi was down 2.62% week-over-week to 6,195.26 last week after the BSP increased benchmark rates by 75bps in a surprise off-cycle move. The reverse repo rate is now at 3.25% following the Thursday announcement. Cited in the BSP decision was sustained and broadening price pressures and June's 6.1% inflation print.
- There have been signs of increasing COVID-19 cases in recent days for the Philippines. Positivity rates have jumped from 8.9% to above 11% over the last week, and more than double the sub-5% a month ago. It should be noted though that the uptick in cases has not resulted in materially higher hospitalization rates as bed occupancy remains below 25%. The IATF is set to meet today over Alert Levels moving forwards, with the status quo being maintained until a decision has been made.
- On the macro front, the USDPHP pair is still trading at highs even after the surprise hike but pulled back intra-day levels of 56.45. All eyes are on the BSP's tightening moves moving forward given the US' still elevated inflation levels. Apart from this, the country is also set to release its Balance of Payments reports this week.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Industrial +0.64%, Financials +0.04%, Services -2.69%, Mining & Oil -2.95%, Property -4.29%, Holding Firms -4.73%

**Leaders:** MONDE +8.13%, EMI +6.48%, MER +3.71%, JGS +3.45%, AP +2.82%

**Laggards:** ALI -12.93%, PGOLD -10.63%, AC -10.50%, GTCAP -10.31%, RLC -7.87%

Source: Bloomberg, The Philippine Stock Exchange

### USD fixed income

- US Treasury yield curve bear flattened following another hot CPI print for the month of June. US headline CPI rose 1.3% m-m and 9.1% y-y. With inflation pressures broadening, at least a 75bp rate hike is priced in for July. However, recession concerns cap steepening in the long-end of the curve.

### PHP fixed income

- Local bond yields ended the week relatively unchanged. A strong 10-64 (7Y) auction led to a 5 to 20bp rally across the curve. In the latter half of the week, profit-taking and a surprise 75bp hike from the BSP reversed the rally.

### Outlook for the week

#### Stock market

- PSEi may continue to suffer from volatility this week as central banks around the globe tighten monetary policies to combat inflation.

#### USD fixed income

- We expect US Treasury yields to trade sideways this week as market players have already digested the latest CPI data, and Fed goes into a blackout period ahead of July FOMC. Range for 10Y yield is 2.85%-3.05%.

#### PHP fixed income

- Local bond yields seem to be supported at current levels. A strong 10Y auction can lead to a 10 to 20bp rally in the belly and long-end of the curve.