

Some recovery seen in foreign equity markets

12 September 2022

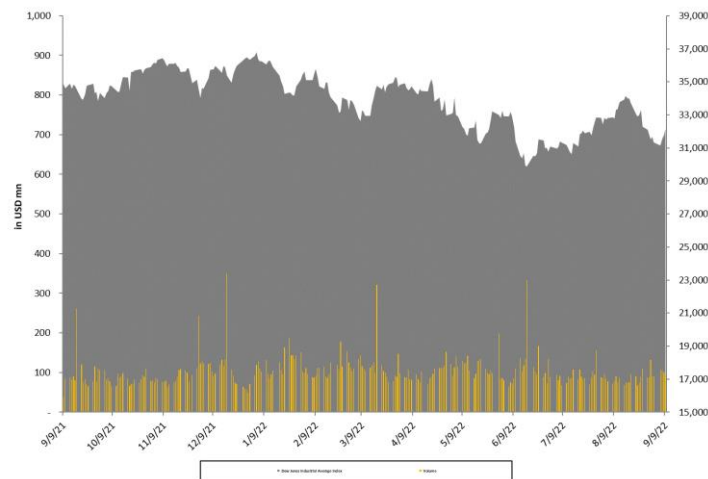
- Foreign equities recovered last week while the local market continues to be pressured by the weakening PHP
- Yields continue to trend higher off the back of US Fed hawkishness, local fixed income market also not helped by depreciating PHP
- Both US and EU in lock-step in terms of rate hike magnitude; UK mourns loss of queen while Ukraine makes significant gains

US equity market gains after three weeks of decline. EU follows suit after ECB raises rates.

- Wall Street shook-off the US Fed's statements over fighting inflation last week as it sought to recover from a three-week rout. Some of the biggest gains were in tech names, which were the most heavily battered in recent weeks. The Dow Jones, S&P and Nasdaq were +2.66% +3.65% +4.14%, week-on-week, respectively, while volatility was -10.52% for the week.
- EU equity markets joined in the recovery last Thursday as its central bank announced a rate increase to the same implied magnitude as the US'. Banking and financial services names led the gainers, while retail stocks corrected. The FTSE, STOXX 600, CAC and DAX were +0.96%, +1.06%, +0.73% +0.29% week-over-week last week, respectively.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

75bp rate hikes appear to be in fashion. UK crowns a new monarch, while Ukraine makes successful advance.

- US Fed Chairman Jerome Powell reiterated that it would deliver its third 75bps rate increase in order to curb inflation. He cited the US' strong labor market and added that the Fed would be aiming for a period of growth below trend when making his statements. Meanwhile, the ECB raised its benchmark rate by 75bps last week while stating that more increases will be on the way. Christine Lagarde said that the decision was unanimous and that officials are prepared to do the same next month if warranted.
- The United Kingdom lost its longest-reigning monarch last Friday as Queen Elizabeth II passed peacefully in her sleep. King Charles III was crowned King over the weekend while the Queen's burial is set for September 19. In other global news, Ukraine started to make rapid advances against Russia over the weekend in the northeastern region of its country. The fall of Izium in the Kharkiv province marked the worst defeat of Russia since it was forced back from Kyiv last March.

Source: JP Morgan

Interest rates				
USD	09-Sep-22	02-Sep-22	31-Dec-21	+/-
UST 2Y	3.56	3.39	0.73	0.17
UST 5Y	3.44	3.29	1.26	0.14
UST 10Y	3.31	3.19	1.51	0.12
UST 20Y	3.70	3.61	1.93	0.09
UST 30Y	3.45	3.34	1.90	0.10
ROP 3Y	3.88	3.85	0.91	0.03
ROP 4Y	3.86	3.76	0.98	0.10
ROP 9Y	4.22	4.12	2.02	0.10
ROP 10Y	4.13	4.08	2.00	0.05
ROP 24Y	4.86	4.88	2.94	(0.03)
PHP	09-Sep-22	02-Sep-22	31-Dec-21	+/-
2Y	4.87	4.58	2.59	0.29
3Y	4.87	4.58	2.59	0.29
4Y	5.27	5.25	3.82	0.02
5Y	6.16	6.06	4.71	0.09
7Y	6.20	5.84	4.49	0.36
10Y	6.56	6.17	4.69	0.39
11Y	6.16	6.06	4.71	0.09
20Y	6.96	6.62	5.07	0.34
20Y*	6.96	6.62	5.07	0.34
USDPHP	56.820	56.770	52.580	0.05

Source: Bloomberg

Philippine Equities

- The PSEi was down 1.29% week-over-week to 6,606.00 last week as the market continued to digest the US Fed's hawkish statements since the end of last month. The PHP has continued to depreciate as a result, touching an all-time low of PHP57.22 before recovering slightly at the end of the week. The BSP has signaled that is prepared to raise interest rates by another 75bps before the end of the year in order to combat inflation, and dependent on US Fed action.
- There has been a slight uptick in daily COVID-19 cases since last Wednesday, exceeding 2K per day. The overall downtrend since August 1 has been kept intact however, while the national government has made the wearing of face masks outdoors voluntary as of last week. The wearing of face masks indoors is still mandatory but may be revisited towards the end of this year.
- On the macro front, inflation for August was reported at 6.3%. This was a slight improvement vs the prior month's 6.4% and was also slightly below consensus expectations. The country's trade deficit for July was also reported last week at USD5.93bn, growing 69% and adding further pressure to the PHP. The value of imports continued to grow for the month while exports decreased for the first time in 15 months.

USD fixed income

- US Treasury yield curve shifted higher once again on the back of a series of positive economic data releases in the US and consistently hawkish messaging from the Fed. 10Y yield rose 12bps to 3.31% during the week.

PHP fixed income

- GS yield curve shifted higher as sentiment turned sour amid the sell-off in US Treasuries and strong dollar. In addition, local inflation expectations saw some upward adjustment after core CPI accelerated to 4.6% in August.

Outlook for the week

Stock market

- Expect index to continue to trade sideways. Earlier in the week, the PSEi may take cues from stronger overnights (EPHE +1.2%) and extend gains alongside regional peers however this may be tempered by passive fund flows and corporate action events later in the week as the FTSE rebal results in net outflows and on top of GLO's ex-date on the 16th. Support remains to be at the 6,500 level.

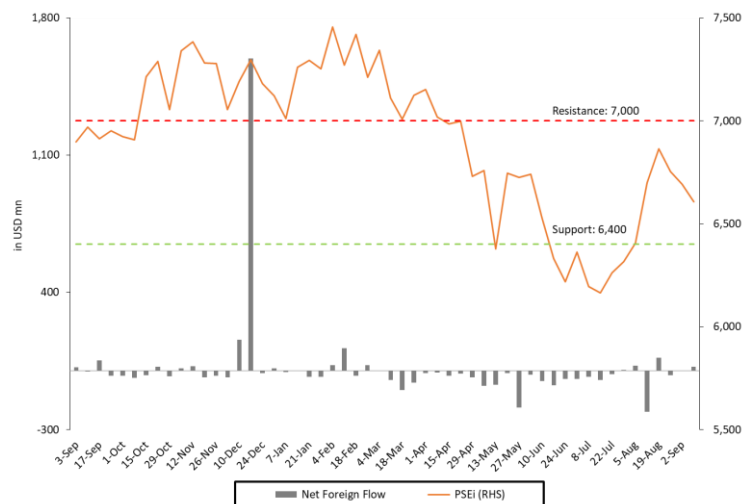
USD fixed income

- Key data for the week will be the August CPI which will be released tomorrow night. The bond market is already pricing in a 75bp rate hike for September, and it seems that only a substantially weaker than expected CPI print could change this.

PHP fixed income

- After the sharp sell-off over the last 3 weeks, we've seen market players start to pick-up bonds at current levels. Supply pressure will unlikely be a major concern in the near-term after the recent RTB issuance which raised PHP300 billion+. As such, bond yields will likely establish support within current levels until sentiment shifts.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining and Oil -0.19%, Financials -0.34%, Services -0.89%, Industrials -0.98%, Holding Firms -1.44%, Property -1.68%

Leaders: URC +2.54%, MPI +1.61%, MBT +1.15%, LTG +0.80%, ICT +0.71%

Laggards: ACEN -7.85%, JGS -7.48%, PGOLD -5.61%, MEG -4.84%, GLO -4.74%

Source: Bloomberg, The Philippine Stock Exchange