

Markets trying to find new footing

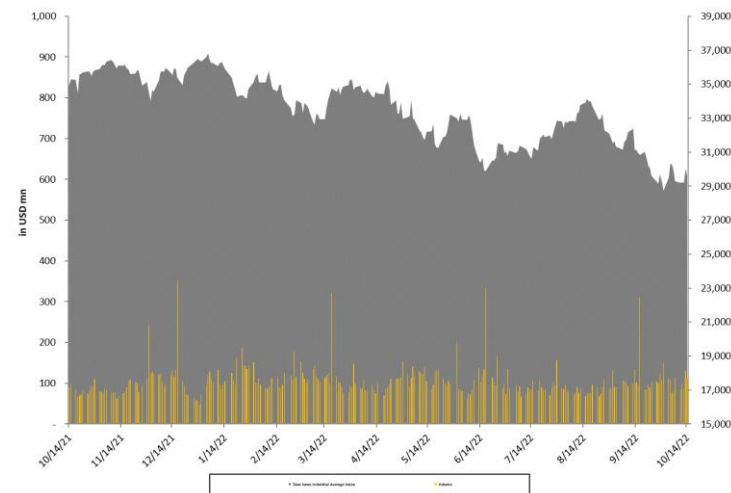
17 October 2022

- Volatile week for equities as earnings season is on the horizon, local market trading sideways while concerns spar with depressed valuations
- Rate
- US inflation continues to come in strong and points to continued hikes, China's 20th national congress ongoing

US market slump after surprise Thursday rally. Some respite in EU as the UK retreats from controversial fiscal policy plans.

- US equity markets fell last Friday after it rallied the day prior despite inflation prints coming-in hot. Tech names also fell out of favor as new semiconductor policies push for production outside of China. The Dow Jones, S&P and Nasdaq were +1.15%, -1.55%, -3.11% week-on-week, respectively, while volatility was +2.10% for the week.
- EU equity markets were volatile last week but posted some gains towards the end as the UK decided to step back from plans to cut taxes. The UK's finance minister was subsequently sacked following the debacle. Most sectors were up in the European region last Friday, save for energy and tech. The FTSE, STOXX 600, CAC and DAX were -1.89%, -0.09%, +1.11%, +1.34% week-over-week last week, respectively.

Chart 1 - Dow Jones Industrial Index



Source: JP Morgan

US inflation continues to increase m-m despite rate hikes. China national congress to decide path for next 5 years.

- US inflation for September rose 0.4% m-m and 8.2% y-y, higher than expectations. Core CPI also surprised on the upside with growth of 0.6% and 6.6% y-y. Food, shelter, and transport prices all registered material m-m increases as average hourly worker earnings declined 0.1% m-m and 3% y-y. The US Fed has raised benchmark rates 3ppts since March while markets are actively pricing-in another 75bps hike for its next meeting in November.
- China's 20th party congress kicked-off yesterday and is expected to last around a week as the Chinese Communist Party decides upon its nation's path for the succeeding 5 years. Over 2,300 delegates have made their way to Beijing to elect party leaders and decide on key policies. President Xi Jinping is widely expected to be re-elected to a third-straight term as constitutional term limits were scrapped back in 2018. So far President Xi has doubled-down on a zero-COVID strategy and hardline stance towards Taiwan. Notably Mr. Xi stated that Beijing would "never promise to renounce the use of force" in reference on reunification of Taiwan and China.

Source: Bloomberg

Interest rates				
USD	14-Oct-22	07-Oct-22	31-Dec-21	+/-
UST 2Y	4.50	4.31	0.73	0.19
UST 5Y	4.27	4.14	1.26	0.13
UST 10Y	4.02	3.88	1.51	0.14
UST 20Y	4.30	4.14	1.93	0.16
UST 30Y	3.99	3.84	1.90	0.15
ROP 3Y	5.44	5.15	0.91	0.28
ROP 4Y	5.22	4.97	0.98	0.26
ROP 9Y	5.35	5.08	2.02	0.28
ROP 10Y	5.31	5.07	2.00	0.23
ROP 24Y	5.83	5.60	2.94	0.23
PHP	14-Oct-22	07-Oct-22	31-Dec-21	+/-
2Y	4.72	4.71	3.09	0.01
3Y	5.26	5.28	2.59	(0.02)
4Y	6.22	6.02	4.04	0.20
5Y	7.12	6.94	4.71	0.19
7Y	6.77	6.69	4.49	0.07
10Y	7.17	7.02	4.69	0.15
11Y	7.12	6.94	4.71	0.19
20Y	7.31	7.40	5.07	(0.09)
20Y*	7.31	7.40	5.07	(0.09)
USDPHP	58.935	58.920	52.580	0.02

Source: Bloomberg

Source: JP Morgan

Philippine Equities

- The PSEi was sideways last week at -0.46% w-w to 5,904.75 as a sell-down last Monday was minimized throughout the rest of the week. Concerns over the local market remain the same, inflation, subsequent rate hikes, the country's twin deficits and how these all influence the PHP vs USD. Recent storms have also added pressure on local food production, heightening inflation concerns.
- The Philippines has continued to register more than 2,000 new daily COVID-19 cases since Thursday, with most being reported in the NCR. However, hospital bed occupancy remains below 30% nationwide with NCR also manageable at <35%. The DOH has stated that the new Omicron subvariant XBB is not a cause for concern currently but urged the public to continue exercising health protocols.
- On the macro front, the country's trade balance for August was not encouraging at a deficit of USD6.0bn – a new monthly record and higher by 81.3% y-y. The worsened deficit was fueled by a contraction in exports and a 26% increase in imports, above government expectations of 22% growth.

USD fixed income

- Inflation in the US continues to run hot, indicating that the Fed is unlikely to waver on its aggressive hikes. Market is now pricing in back-to-back 75bps rate hikes for the remainder of the year. The US Treasury yield curve bear steepened and the 10Y yield closed the week 13bps higher at 4.018%.

PHP fixed income

- GS yield curve bear steepened amidst muted trading activity throughout the week as market players stayed defensive ahead of the US CPI print and supply concerns in the long-end.

Outlook for the week

Stock market

- The PSEi remains weak with value traded for last week at only PHP3.2bn, lower than pre-pandemic volumes of around PHP10bn. The elevated inflation may push interest rates higher as it remains way above the US Fed's target of 2%. The foreign currency risk, especially for the Philippines, remains a key concern for investors. The immediate resistance is the 6,000 psychological level.

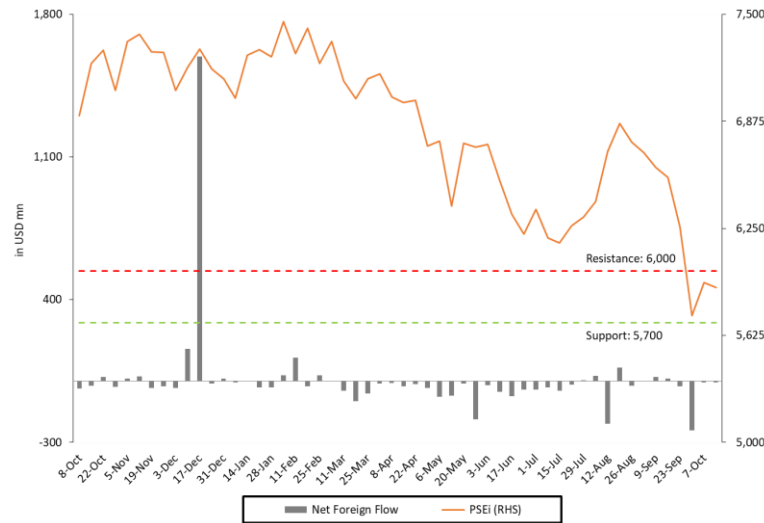
USD fixed income

- Market will watch out for fresh data on US economic activity coming out within the week. So far 10Y yield has been showing some support in the 4% area, but risk remains for yields to move higher given the macro backdrop.

PHP fixed income

- Market players will continue to stay defensive ahead of the Dutch auction for the new 10Y bond. Early market indications see bids settling at the 7.50% to 7.75% range.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials +1.44%, Property +0.45%, Industrials -0.85%, Holding Firms -1.15%, Mining and Oil -1.69%, Services -2.44%

Leaders: BDO +6.76%, RLC +5.00%, PGOLD +4.07%, AEV +2.30%, ACEN +2.08%

Laggards: MONDE -8.15%, JGS -6.49%, TEL -5.30%, ICT -4.39%, CNVRG -3.85%

Source: Bloomberg, The Philippine Stock Exchange