

# Equity markets positive on strong macro data releases

## 14 November 2022

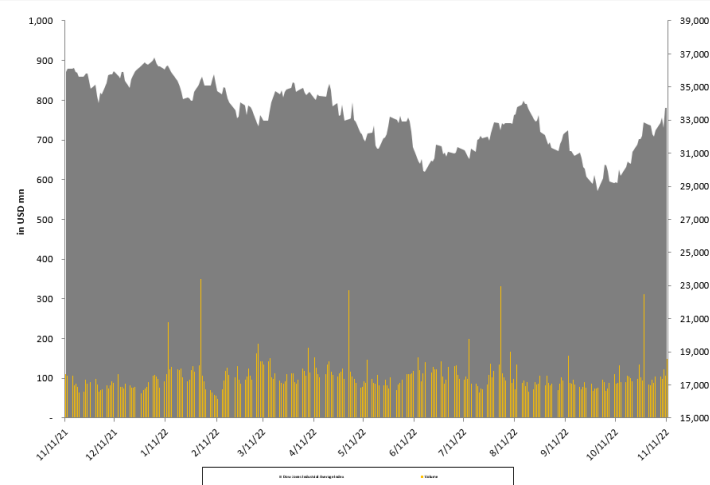
- Equities were positive on the US's behind-forecast inflation print; local markets were happy with strong PH GDP figures as well
- Global bond markets were positive due to positive macro signals while trading in the local markets remained lackluster
- Inflation rose less than expected, leading to an asset rally; Ukraine takes territory back from Russia

### US and EU equities more positive amid inflation data and interest rate expectations

- US equities had a strong week, as softer-than-expected inflation pushed bond yields lower and improved general sentiment. Despite some mid-week volatility due to the market's uncertainty about the midterm elections, the major indices ended the week in positive territory, with the Dow Jones, S&P 500, and the Nasdaq up 3.99%, 5.61%, and 7.67 week-on-week respectively.
- EU markets took cues from US data (midterms, inflation) and ended generally positive for the week. Underperforming other EU markets, the FTSE was down -0.23% for the week, after earlier gains were tempered by a stronger GBP which weighed on shares of index dollar-earners. The FTSE, STOXX 600, CAC and DAX were -0.23%, +3.85%, +3.37%, and +6.17% week-on-week.

Source: JP Morgan, WSJ

Chart 1 - Dow Jones Industrial Index



### US Inflation behind forecasts, Ukraine takes territory back from Russia

- US CPI rose less than expected in October, growing 0.4% MoM and 7.7% YoY. Core CPI increased 0.3% MoM and 6.3% YoY, rising less than expected as well. The lower-than-expected numbers were partly due to a -2.4% YoY decline in used vehicle prices; apparel prices and medical care declined too, lower -0.7% and -0.6%. Markets welcomed the news that inflation could be moderating, with US equities rallying and bond yields falling. Many strategists, however, warn against premature hope that the Fed will pivot away from its hawkish stance, as inflation figures still lie way above the 2% target. Though inflation figures are slowing for now, the report also indicated that shelter costs (1/3 of CPI) rose 0.8% MoM and 6.9% YoY while fuel prices jumped 19.8% MoM and 68.5% YoY.
- Ukraine's military says it has retaken territory in Kherson after Russia ordered the withdrawal of over 30,000 troops from parts of the southern region. Ukrainian president Zelensky expressed skepticism over Russia's retreat, warning that Russian troops could still be present. Russia's defense ministry said that its troops have been able to cross the western bank and said that there were no losses of personnel, weapons, or equipment. The retreat represents another setback for Putin, as they continue to lose territory in the region.

Source: Bloomberg

Interest rates				
USD	11-Nov-22	04-Nov-22	31-Dec-21	+/-
UST 2Y	4.33	4.66	0.73	(0.33)
UST 5Y	3.94	4.33	1.26	(0.39)
UST 10Y	3.81	4.16	1.51	(0.35)
UST 20Y	4.23	4.50	1.93	(0.27)
UST 30Y	4.02	4.25	1.90	(0.23)
ROP 3Y	5.47	5.52	0.91	(0.05)
ROP 4Y	5.22	5.44	0.98	(0.22)
ROP 9Y	5.36	5.44	2.02	(0.08)
ROP 10Y	5.39	5.42	2.00	(0.03)
ROP 24Y	5.80	5.85	2.94	(0.05)
PHP	11-Nov-22	04-Nov-22	31-Dec-21	+/-
2Y	5.76	5.50	3.09	0.25
3Y	5.65	5.53	2.59	0.13
4Y	6.72	6.56	4.04	0.16
5Y	7.52	7.51	4.71	0.01
7Y	6.86	6.95	4.49	(0.09)
10Y	7.36	7.53	4.69	(0.17)
11Y	7.52	7.51	4.71	0.01
20Y	7.70	7.56	5.07	0.15
20Y*	7.70	7.56	5.07	0.15
USDPHP	57.230	58.550	52.580	(1.32)

Source: Bloomberg

Source: JP Morgan, WSJ, CNBC

## Philippine Equities

- The PSEi was up 1.64% WoW and closed at 6,286.77. This marks the fifth consecutive week that the index rallied, with market sentiment buoyed by strong macro data and corporate releases. 3Q22 GDP figures were better-than-expected, growing 7.6% (vs expectations of 6.2%), while September's unemployment rate dipped. Beyond the local sentiment, optimistic global markets spurred by softening inflation data added on to positive sentiment.
- The DoH logged 1,227 new COVID-19 cases to end the week, bringing the nationwide tally to 4,015,266. This is the 3<sup>rd</sup> straight day that over 1,000 new COVID cases were logged in the PH. Active cases were at 17,188. Cases were concentrated in the NCR with 2,876, followed by Region IV-A with 1,654, Region VI with 1,293, Region III with 974, and Region XI with 911. Total recoveries increased to 3,933,723 while the death toll climbed to 64,355.
- PH GDP grew 7.6% in 3Q22, above the 7% in 3Q21 and the 7.5% growth figure reported in 2Q22. Prior to this, PH GDP suffered 5 consecutive quarters of decline. Behind the strong GDP numbers, all 3 major economic sectors showed growth – agriculture (2.2%) industrial (5.8%), and services (9.1%). Wholesale and retail trade businesses were among the main contributors alongside financial activities, and construction.

## USD fixed income

- Markets cheered the softer-than-expected US inflation print for October. Headline CPI came in at 7.7% YoY versus consensus expectation of 7.9% YoY, while core CPI was at 0.27% MoM versus consensus expectation of 0.5% MoM. The slowdown in inflation offered an encouraging signal to market players that inflation may have peaked already, prompting them to price in less tightening. As a result, US Treasuries and risk assets rallied sharply, while the dollar index fell below 110. The US Treasury yield curve bull steepened, with the 10Y and 30Y yield dropping by as much as 30 bps post-announcement.

## PHP fixed income

- Locally, the weakness of the US dollar has translated to a USD/PHP rate of 57.23, its lowest level since September. However, trading in the local bond market remained lackluster as market players prefer to stay defensive ahead of the auctions scheduled this month. BTr's preference to auction illiquid bonds and award at deep concessions, coupled with BSP's hawkish statements amidst surging local inflation have really dampened market appetite.

## Outlook for the week

### Stock market

- The index sustained its rally for the fifth consecutive week after moseying atop the 6.2k backed by strong macro and corporate releases. Better-than-expected 3Q GDP, let alone a dip in September's Unemployment rate have helped strongly with the improving sentiment. Meanwhile, US' inflation easing during the month of October was another kicker, as it opened up the view to a possible change in stance of the Fed. We expect corporate earnings releases to be the main catalyst for the PSEi in the next few days.

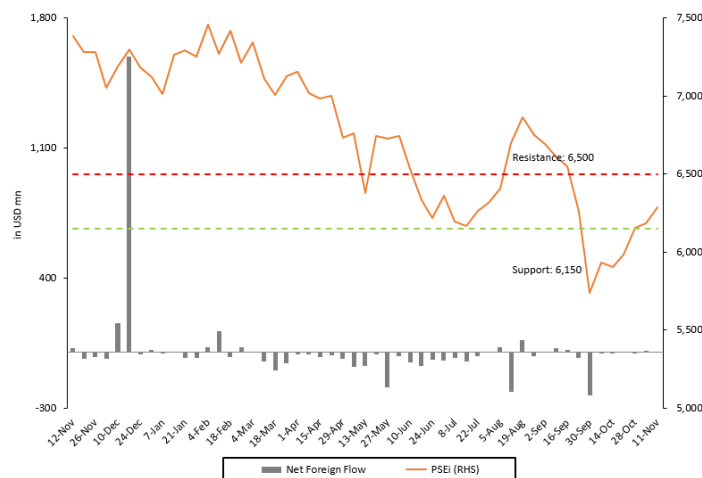
## USD fixed income

- We will likely see some correction following the exaggerated move post CPI release. However, breakdown of short-term uptrend opens possible target of 3.50% to 3.60% for the 10Y yield.

## PHP fixed income

- BSP is widely expected to raise benchmark rate by 75 bps in the Monetary Board meeting this week. With most of the negative news priced, bond yields will likely establish support at current levels. A strong 12Y auction tomorrow can help encourage market players to start taking on duration.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Property +6.88%, Industrials +1.81%, Financials +0.71%, Holding +0.21%, Services +0.71%, Mining & Oil -2.92%

**Leaders:** PGOLD +9.12%, SMPH +8.36%, AC +7.83%, ALI +6.11%, BDO +5.04%

**Laggards:** SCC -10.10%, MPI -7.63%, TEL -5.20%, BPI -3.20%, SMC -3.03%

Source: Bloomberg, The Philippine Stock Exchange