

Markets react favorably to slowing outlook of rate hikes

28 November 2022

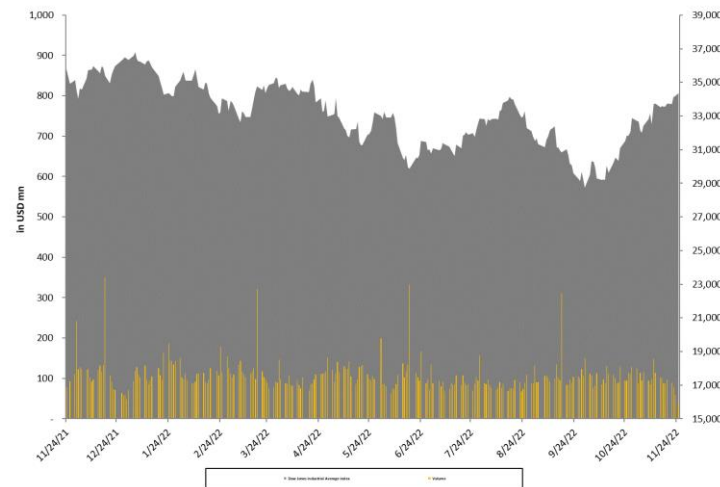
- Scope for slowing policy rate hike pace leads to higher levels for equity markets globally; parting shots from earnings season also playing a roll
- Fixed income markets also reacting to US Fed statements, US jobs data point release this Friday should guide further on future moves
- US Fed minutes show slowing pace of rate hikes moving forward, ECB's view and stance still firming-up

US and EU equity rise after the release of US Fed November minutes. Tail-end of earnings season also supported influenced.

- US equity markets were listless at the start of the week prior to the release, but started rising amid an outlook of slowing rate hikes moving forward. Some retailers also released earnings results last week, which pointed to the resilience of consumer demand. The Dow Jones, S&P and Nasdaq were +2.39%, +2.02%, +0.73% week-on-week, respectively, while volatility was -14.33% for the week.
- The EU equity markets also tracked the US' trend last week. However, the rally was not as clear-cut and pronounced as some of the region's retailers and beverage manufacturers signaled lower guidance and a normalization of performance. The FTSE, STOXX 600, CAC and DAX were +1.37%, +1.71%, +1.02%, +0.76% week-over-week last week, respectively.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

US Fed minutes point to a reduced pace of rate increases. ECB still debating on its view over inflation and rates.

- The US Fed's November minutes showed that a majority of its members deemed that "a slowing in the pace of increase would likely soon be appropriate". The statements could point to the US lowering its policy rate increases to 50bps vs its 75bps pace in the recent past. It should be noted though that several members also believe that the US' peak rate will be "somewhat higher" than previously expected. A slowing pace of increase should allow the Fed to gauge the progress of their goals as noted by some of its members.
- Conversely, the ECB's economic view and policy stance has yet to be established. Philip Lane and Isabel Schnabel, individuals leading the economic and policy debate, communicated contrasting views last week. Mr. Lane is of the view that inflation will start to subside next year and that 75bps hikes' necessity was dissipating, while Ms. Schnabel pushed-back on smaller hikes and is of the view that inflation should be killed outright. The ECB's decision on its next interest rate hike is expected in less than three weeks, with the current debate adding to investor uncertainties.

Source: JP Morgan

Interest rates				
USD	25-Nov-22	18-Nov-22	31-Dec-21	+/-
UST 2Y	4.45	4.53	0.73	(0.08)
UST 5Y	3.86	4.01	1.26	(0.15)
UST 10Y	3.68	3.83	1.51	(0.15)
UST 20Y	3.95	4.15	1.93	(0.20)
UST 30Y	3.73	3.93	1.90	(0.19)
ROP 3Y	4.88	4.96	0.91	(0.08)
ROP 4Y	4.65	4.88	0.98	(0.23)
ROP 9Y	4.67	4.88	2.02	(0.21)
ROP 10Y	4.65	4.84	2.00	(0.20)
ROP 24Y	4.99	5.31	2.94	(0.32)
PHP	25-Nov-22	18-Nov-22	31-Dec-21	+/-
2Y	6.14	5.83	3.09	0.31
3Y	5.78	5.66	2.59	0.12
4Y	6.43	6.57	4.04	(0.14)
5Y	7.03	7.37	4.71	(0.34)
7Y	6.71	6.93	4.49	(0.22)
10Y	7.16	7.22	4.69	(0.06)
11Y	7.03	7.37	4.71	(0.34)
20Y	7.82	7.88	5.07	(0.06)
20Y*	7.82	7.88	5.07	(0.06)
USDPHP	56.670	57.260	52.580	(0.59)

Source: Bloomberg

Philippine Equities

- The PSEi was up for the sixth consecutive week last week by 2.63% to 6,606.94 as net foreign inflows continued to be pronounced. The positive sentiment has primarily been driven by the outlook of slower policy rate increases moving forward, with a peak next year. Locally, this view has also supported the PHP's recovery vs the USD and has prompted sustained foreign net buying since the start of the month.
- The Philippines registered its first case of Omicron subvariant BQ.1 over the week, with 14 total cases and counting. The new subvariant is reportedly more transmissible than the baseline Omicron, more easily evades immunity, but with less severe symptoms vs Delta and its parent strain. Positivity rate for the country has trended higher in recent days, but importantly the mortality rate has continued on a downtrend.
- The October budget balance was the sole local macro datapoint released last week. The budget deficit for October was at PHP99.1bn, lower than September's PHP179.8bn, but 54% higher y-y. Year-to-date, the budget deficit has reached PHP1.11tn and is lower y-y due to an uptick in revenues tied to economic reopening and improved tax collections.

USD fixed income

- US Treasury curve bear flattened sharply after the release of the Fed minutes was deemed by markets as dovish, with several Fed officials supportive of downsizing rate hikes in future meetings. The fresh round of lockdowns in China also encouraged safe haven demand.

PHP fixed income

- Government securities resumed bullish momentum on the back of a strong 20-25 auction and rally in US Treasuries. USD/PHP closed the week at 56.67 on continued dollar weakness and relatively weak corporate demand.

Outlook for the week

Stock market

- Expect some profit taking to ensue in the short term as market nears the 6,700 key resistance level. MSCI outflows may also weigh on GTCAP and CNVRG which are trading at overbought territory. 6,400 support level likely to hold should foreign buying continues amidst peso stability and lower bond yields.

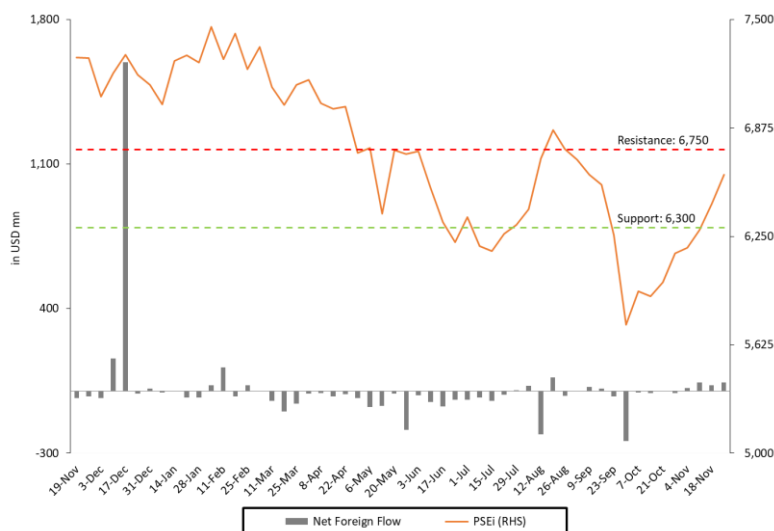
USD fixed income

- US Treasuries will likely see a volatile week ahead as Powell is scheduled to make a statement, and November jobs data will be due on Friday. Range for 10Y yield is 3.50% to 3.80%.

PHP fixed income

- An improving macro backdrop will likely encourage strong participation in the remaining auctions for the year. This in turn will support bond yields in the secondary market.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials +4.07%, Holding Firms +3.37%, Property +2.63%, Services +1.78%, Industrials +0.36%, Mining and Oil +0.05%

Leaders: MBT +8.71%, CNVRG +8.67%, SM +5.94%, GTCAP +5.77%, SMPH +5.74%

Laggards: MER -7.05%, JGS -2.00%, SMC -1.22%, ICT -1.17%, EMI -1.15%

Source: Bloomberg, The Philippine Stock Exchange