

# Sharp reaction from markets driven by central banks

## 19 December 2022

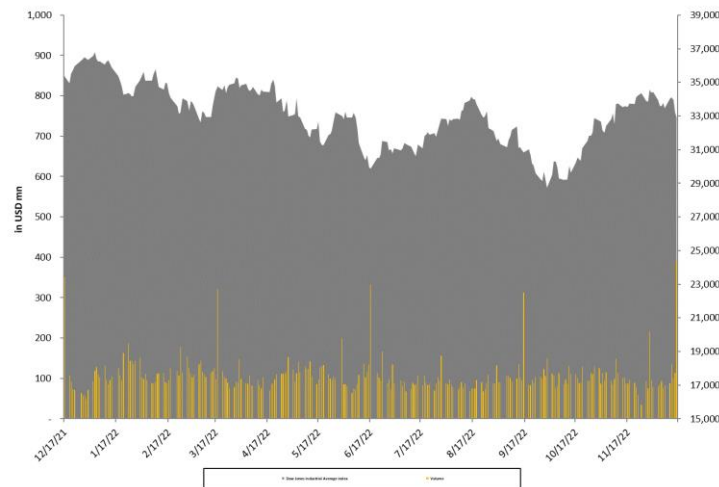
- Global equity markets markedly down after major central banks raise rates and signals more to come.
- Yields rise for fixed income as markets start pricing-in renewed hawkishness of central banks.
- US Fed, ECB, Bank of England, and BSP all raise rates and continues to focus on fighting inflation. Ukraine suffers from Russian missiles.

### Foreign equity markets battered by higher funding costs, and worrying corporate guidance.

- US equity markets were down Thursday onwards following the US Fed's decision and outlook on rates. Adding fuel to the fire was some concerning guidance on future demand by the likes of Netflix, Warner Bros. Discovery, and JetBlue among others. The Dow Jones, S&P and Nasdaq were -1.66%, -2.08%, -2.72% week-on-week, respectively, while volatility was -0.92% for the week.
- The EU equity markets followed lock-step vs the US last week. The decline in Europe was the steepest seen since early May and continues to be driven by rate hike and recession outlooks. Weak UK retail sales data added to the fears of a possible recession. The FTSE, STOXX 600, CAC and DAX were -1.93%, -3.28%, -3.37%, -3.32% week-over-week last week, respectively.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



### Numerous central banks follow moves of US Fed. Russian missile strikes on Ukraine continues.

- The US Fed raised rates by 50bps last Wednesday to a range of 4.25% to 4.5% - the highest level in 15 years. Subsequently, the ECB, Bank of England and Swiss National Bank all raised their benchmark rates by the same magnitude. Fed Chairman Powell believes that services inflation will remain stubborn and that continued rate hikes will be necessary. ECB President Lagarde stated that the central bank has "longer to go" in fighting inflation and that the 50bps pace will have to be maintained "for a period of time". Notably, Eurozone inflation continues to register in the double-digits, though it did come down to 10% in November from 10.6% the month prior.
- Russia continued to fire missiles at Ukraine all throughout last week resulting in widespread power and water shortages for the country. Last Friday alone, more than 70 missiles were launched, with 60 intercepted. More than half of the missiles were aimed at Kyiv. Analysts suspect that the attacks on power and water infrastructure is an attempt to "freeze" the country during winter. Following these attacks, the US agreed to give Ukraine a Patriot missile battery to help buffer its defenses.

Source: JP Morgan

Source: Bloomberg

Interest rates				
USD	09-Dec-22	02-Dec-22	31-Dec-21	+/-
UST 2Y	4.34	4.27	0.73	0.07
UST 5Y	3.77	3.65	1.26	0.12
UST 10Y	3.58	3.49	1.51	0.09
UST 20Y	3.81	3.76	1.93	0.04
UST 30Y	3.56	3.55	1.90	0.01
ROP 3Y	4.84	4.69	0.91	0.15
ROP 4Y	4.43	4.44	0.98	(0.01)
ROP 9Y	4.42	4.40	2.02	0.02
ROP 10Y	4.39	4.34	2.00	0.05
ROP 24Y	4.80	4.73	2.94	0.07
PHP	09-Dec-22	02-Dec-22	31-Dec-21	+/-
2Y	5.90	5.92	3.09	(0.02)
3Y	5.68	5.66	2.59	0.02
4Y	6.33	6.42	4.04	(0.09)
5Y	6.72	6.97	4.71	(0.25)
7Y	6.60	6.65	4.49	(0.05)
10Y	6.99	7.03	4.69	(0.03)
11Y	6.72	6.97	4.71	(0.25)
20Y	7.25	7.68	5.07	(0.43)
20Y*	7.25	7.68	5.07	(0.43)
USDPHP	55.370	55.740	52.580	(0.37)

Source: Bloomberg

## Philippine Equities

- The PSEi was down 1.27% w-w last week to 6,496.50 as the BSP raised rates and signaled the need for more in the future. The BSP increased its benchmark rate by 50bps last Thursday afternoon to 5.50%, meeting consensus expectations. BSP Governor Medalla communicated that reigning-in inflation continues to be the priority and that last week's rate hike would most likely not be the last.
- It was a busy week for PLDT Inc (TEL PM) as it disclosed two developments last week. It first reported its new tower sale of 650 towers for PHP9.2bn, bringing the total thus far to over 6,500 towers and PHP86bn. It later disclosed on Friday that it has uncovered PHP48bn in "budget overrun" over the last four years tied to its capex. Internal investigations are ongoing, and the company is undertaking a management reorganization in connection to this development. The company stated that it has yet to see any evidence of fraud.
- In other macro news, the BSP also revised its inflation forecast last week for next year to 4.5% from 4.3% previously but lowered its 2024 forecast to 2.8% from 3.1%. The BSP raised its 2023 forecast primarily due to a faster-than-expected November print and higher water rates next year, with peak inflation seen this December.

## USD fixed income

- The US Treasury curve bear flattened over the week as Fed's hawkish stance sparked recession fears which pushed long-end yields lower. Currently, market is pricing in peak policy rate below 5% and rate cuts by 2H23. This is in contrast to the stance of Fed officials who see the need to push rates above 5% and hold at that level (i.e., no cuts) for a while.

## PHP fixed income

- BSP delivered another 50bp rate hike, bringing the key rate to 5.50%. The central bank maintained its inflation forecast for 2022 at 5.80%, while raising 2023 forecast to 4.50%. As the move has been anticipated by the markets, aside from the belly which saw healthy flows, rest of the curve moved sideways.

## Outlook for the week

### Stock market

- The PSEi may correct in the near-term after the run-up to 6,800 earlier this month. The immediate support is around the 100-day moving average of 6,380. Towards the end of the year, the market may succumb to year-end window dressing in preparation for the new year.

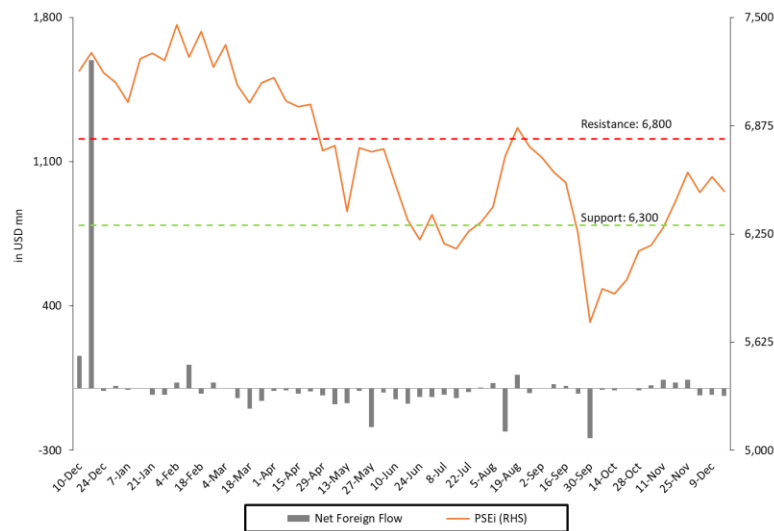
### USD fixed income

- For the rest of the year, 10Y yield will likely continue to trade within the 3.40% to 3.60%. Upside risks to yields remain as the market has not fully priced in Fed hikes for 2023.

### PHP fixed income

- For the remainder of the year, we expect local bond yields to track movements in US Treasuries. The BTr's auction schedule for January is also something to watch out for.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Financials +0.31%, Industrials -0.08%, Holding Firms -0.23%, Property -2.39%, Mining and Oil -3.88%, Services -4.35%

**Leaders:** AGI +7.00%, PGOLD +6.09%, JGS +5.38%, MER +4.86%, ACEN +2.07%

**Laggards:** TEL -14.57%, CNVRG -14.13%, MEG -6.19%, WLCON -6.13%, GTCAP -5.94%

Source: Bloomberg, The Philippine Stock Exchange