

US inflation at lowest in more than a year

Previous Week Summary

Equity markets rally as inflation eases and labor market data maintains strength

Equity markets were upbeat as US inflation came in within expectations. Majority of the equity indices delivered positive returns. The MSCI ACWI gained 1.68%. This rally was broad based with Japan leading it (+3.81%), followed by Europe (+2.10%) and the US (+1.65%). China, an outperformer the past two months, kept its winning streak alive. The CSI 300 ended the week (+0.75%) with investors positioning in anticipation of bottom in economic data as Beijing pivots on its zero covid policy.

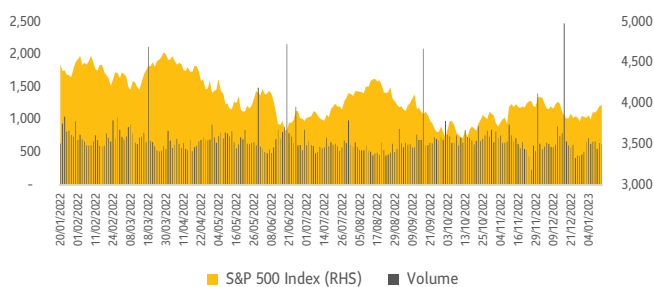
Cooling inflation in the US and less hawkish BSP support bond rally

US Treasuries bull flattened for the second consecutive week as market participants welcome the lowest inflation print in more than a year. December CPI came in within expectations with headline print at 6.5% YoY, and core inflation at 0.3% MoM. In the Philippines, local bond yields rallied 50 to 80 bps across the curve over as market participants bought bonds aggressively after BSP Gov. Medalla mentioned that they are approaching the end of the hiking cycle, and inflation is expected to normalize by 3rd quarter of 2023.

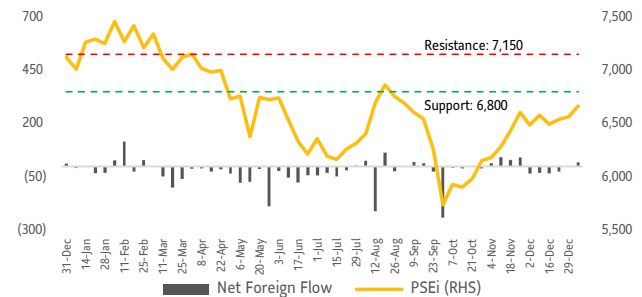
Philippine equities continue their advance on optimistic market expectations

The PSEi had its 5th weekly gain last week, closing up at 6,951.54 (+4.26% WoW) on Friday, as the market assessed the prospect of a lower reserve requirements for banks and a more dovish central bank. All sectors were positive last week with Financial companies (+6.24%) and Industrials (+4.32%) leading the pack. However, foreigners were net sellers worth \$0.88Mn last week.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Annual US inflation fell in December to its lowest level in more than a year, in a further sign that price pressures have peaked amid the Federal Reserve's historic campaign to tighten monetary policy.

The consumer price index, published by the Bureau of Labor Statistics on Thursday, declined for a sixth consecutive month, registering an annual increase of 6.5 per cent.

While still near a multi-decade high, this was the lowest level since October 2021 and represents a notable decline from the 9.1 per cent reached in June. Compared with the previous month, prices dropped 0.1 per cent.

The "core" measure, which strips out volatile food and energy prices and is regarded as the best indicator for inflation's trajectory, rose 0.3 per cent from the previous month, translating to a 5.7 per cent annual pace.

Fed officials are monitoring the latest inflation data as they decide how much more to squeeze the US economy. Having stepped down to a half-point rate rise last month — following four consecutive 0.75 percentage point increases — the central bank is considering whether it can revert to a more typical quarter-point speed at its next policy meeting.

Source: <https://www.ft.com/content/db2a72b2-879b-4dbc-a215-6acd6851ebf0>

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Bright Ideas

Fixed Income

USD FIXED INCOME

The 10Y Treasury yield will likely trade within the 3.40% to 3.80% range. SLIMTC continues to see upside risks to yields at current levels, where market is already pricing in 50 bps of rate cuts in the latter part of the year. Nonetheless, with inflation trending lower, sell-offs in US Treasuries offer good entry opportunities.

PHP FIXED INCOME

For this week, the BTr will re-issue PHP 35 billion of FXTN 20-25 (20 year tenor) on Tuesday (Jan 17). Early indicative range is at 6.75% to 7.00%. This is a good opportunity to add duration at an attractive level given scarce offers for this bond in the secondary market. However, with BTr's announcement of a retail bond issuance in February last Friday, SLIMTC expects to see some profit-taking and less aggressive buyers this week.

Local Equities

PLCOMP performance may remain bullish as global markets digest the slower inflation and less hawkish stance of the US Federal Reserve. The main resistance for now is the 7,000 psychological resistance, the peak last August 2022

Global Funds

SLIMTC lightens up on our least preferred sectors -- areas prone to multiple compression and earnings downgrades. SLIMTC also rotates towards those highly correlated to EM/AxJ indices as their earnings momentum and recovery stories should entice investors and deliver outperformance for the portfolios.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
14-Jan-23	PH Overseas Remittance (Nov)	\$2.91bn	
18-Jan-23	US Retail Sales (Dec)	-0.60%	-1.00%
28-Jan-23	PH Bank Lending (Dec)	13.70%	
31-Jan-23	US Conf. Board Consumer Confidence (Jan)	108.30	

Our House View

Economic Forecast (as of 9 Jan 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	4.50%	3.50%	5.50%
PH GDP	5.30%	4.30%	6.40%
USDPHP	58	54	60
BSP Policy Moves	At Least 2	2	2
BSP Policy Rate	At Least 50 bps	50 bps	75 bps
Budget Deficit	-5.41%		

US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 90/bbl	USD 80/bbl	USD 100/bbl
Fed Policy Moves	2 - 3	2	3
Fed Policy Rate	50-75 bps	50 bps	75 bps
US 10Y	3.63%	3.50%	3.75%
US Recession Probability 2023	High		

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