

US Debt Ceiling Negotiations Intensify

Previous Week Summary

Equity markets pullback on weaker US retail and IP data

There was a slight unease among investors last week as US retail sales and industrial production both fell more than expected. DM markets were lagging with the S&P 500 and Stoxx Europe 600 losing -0.45% and -0.37%. The Topix end flat (+0.10) despite starting the week in the red as traders trimmed their bets on more adjustments on the BOJ YCC. MSCI AxJ (+1.15%) and the CSI 300 (+0.90) took the lead with solid gains amidst reopening tailwinds brought about by China's zero COVID policy pivot.

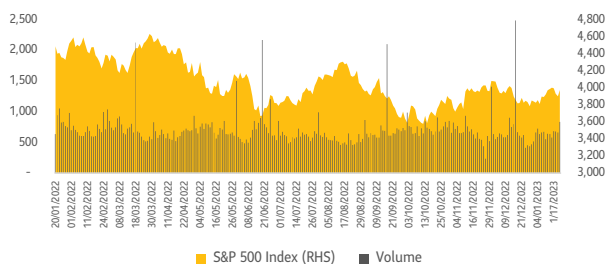
Profit-taking caps rally in US Treasuries, while aggressive buying of local bonds continue

US Treasuries curve continue to bull flatten, but yields are only 1 to 5 bps lower from last week's close as market participants took profits towards the end of the week ahead of the Fed blackout period and fresh supply next week. In the Philippines, aggressive buying in the auction and secondary market pushed yields lower by another 25 to 40 bps over the week. Market participants welcomed BSP Governor Medalla's statements that the tightening will likely end within the first quarter of 2023, and the key rate will peak at around 6%.

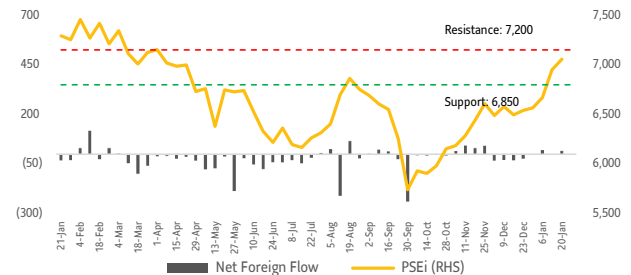
Philippine equities continue their advance on optimistic market expectations

The local equity bourse traded sideways with a slight upward bias last week, gaining 105.08 points (+1.51%) WoW to close at 7,056.62. The PSEi breached the 7,000 mark for the first time since last April and closed the week above it on sustained net foreign buying and on better-than-expected Nov OFW remittance growth and Dec BOP switching to surplus. All PSEi sectors closed the week in the green except Industrial, owing to drag from certain names like URC and MER.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Treasury Secretary Janet Yellen on Friday warned of the widespread global effects that could be felt if the federal government exhausts extraordinary measures and fails to raise the debt ceiling, telling CNN's Christiane Amanpour about the ways everyday Americans could face stark consequences.

Yellen's warning comes after the United States on Thursday hit its \$31.4 trillion debt limit set by Congress, forcing the Treasury Department to start taking extraordinary measures to keep the government paying its bills.

While those newly deployed extraordinary measures are largely behind-the-scenes accounting maneuvers, Yellen told Amanpour that "the actual date at which we would no longer be able to use these measures is quite uncertain, but it could conceivably come as early as June."

Speaking exclusively to CNN from Senegal, Yellen said that after the measures are exhausted, the US could experience at a minimum downgrading of its debt as a result of Congress failing to raise the debt ceiling. The effects of the federal government failing to make payments, she argued, could be as broad as a "global financial crisis."

Source: <https://edition.cnn.com/2023/01/20/politics/yellen-amanpour-debt-limit-cnntv/index.html>

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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. Direction of yields will be heavily influenced by the series of economic data (i.e., PMI, GDP, retail sales, etc.) due next week. With inflation trending lower, SLIMTC believes that sell-offs in US Treasuries offer good entry opportunities.

PHP FIXED INCOME

With clear guidance from the BSP on the policy outlook, demand for government securities will remain strong as market participants look to add duration. The upcoming 10Y auction and RTB issuance are good opportunities to get volume.

Local Equities

PCOMP may continue to trade above 7k especially if foreign inflows continue and as upbeat global equities buoy the local bourse. Investor sentiment may be impacted by the release of 4Q GDP next week. Next resistance is 7200.

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%
25-Jan-23	PH GDP 4Q and FY2023	3Q: 7.6%	4Q: 6.8%, FY2023: 7.2%
31-Jan-23	US Conf. Board Consumer Confidence (Jan)	108.30	

Our House View

Economic Forecast (as of 16 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	55	52	57
BSP Policy Moves	At Least 2	2	3
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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