

# Markets up at the start of the year

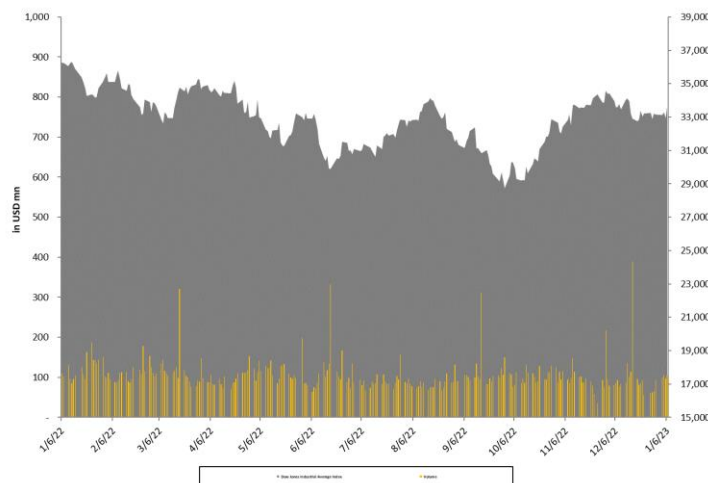
## 9 January 2023

- Global equity markets welcome the new year on a positive note, all major indices up w-w
- Fixed income instruments also rally, all eyes on US CPI release this week
- US jobs creation strong but wage increases decelerating, Eurozone inflation continue to show signs of easing

### US equity markets shake-off strong jobs creation. EU markets outperform as inflation lowers to single-digits.

- US equity markets were up for the first trading week of the year as investors latched onto slowing wage growth. There were initial concerns over strong jobs creation mid-week, but recovered sentiment was most apparent on Friday as all major US indices rose more than 2% d-d. The Dow Jones, S&P and Nasdaq were +1.46%, +1.45%, +0.98% week-on-week, respectively, while volatility was -2.49% for the week.
- The EU equity markets outperformed the US as the region's inflation dropped for a second consecutive month and broke into the single-digits. All major European indices marked recent highs, with the FTSE 100 reaching its highest level since August 2018. The FTSE, STOXX 600, CAC and DAX were +3.32%, +4.60%, +5.98%, +4.93% week-over-week last week, respectively.

Chart 1 - Dow Jones Industrial Index



Source: JP Morgan

### US jobs data and Eurozone print could point to easing inflation. US Fed messaging may be softening, ECB likely to stay on course.

- The US created 223K nonfarm jobs last December, exceeding expectations. However, average wage increase was at 0.3%, smaller than expected and a deceleration from the previous month's 0.4%. US services activity also contracted for the first time in 2.5 years last December, with non-manufacturing PMI reported at 49.6. In the Eurozone, inflation slid for the second consecutive month to 9.2% last December as energy costs dissipated. The print follows November's 10.1%, which itself was the first contraction since June 2021.
- US Fed messaging may be softening in the wake of the new data releases, with Fed Chair Powell acknowledging that "real wage growth is decelerating faster than expected". He also said that "this will also take the pressure off prices and may reduce the need for further significant, damaging interest rate rises later in the year". EU watchers however are latching onto ECB President Lagarde's statements last December that the region had "more ground to cover" in combating inflation. The region's easing inflation was primarily driven by energy prices, which have been volatile since the Russia-Ukraine conflict started.

Source: Bloomberg

Interest rates				
USD	06-Jan-23	30-Dec-22	30-Dec-22	+/-
UST 2Y	4.25	4.43	4.43	(0.18)
UST 5Y	3.70	4.00	4.00	(0.31)
UST 10Y	3.56	3.87	3.87	(0.32)
UST 20Y	3.85	4.14	4.14	(0.29)
UST 30Y	3.69	3.96	3.96	(0.28)
ROP 3Y	4.83	4.87	4.87	(0.04)
ROP 4Y	4.25	4.28	4.28	(0.03)
ROP 9Y	4.51	4.45	4.45	0.05
ROP 10Y	4.51	4.49	4.49	0.02
ROP 24Y	5.21	5.06	5.06	0.15
PHP	06-Jan-23	30-Dec-22	30-Dec-22	+/-
2Y	6.00	6.14	6.14	(0.14)
3Y	5.86	5.83	5.83	0.02
4Y	6.31	6.24	6.24	0.06
5Y	6.85	6.77	6.77	0.08
7Y	6.83	6.68	6.68	0.14
10Y	7.19	6.98	6.98	0.21
11Y	6.85	6.77	6.77	0.08
20Y	7.27	7.20	7.20	0.07
20Y*	7.27	7.20	7.20	0.07
USDPHP	55.640	55.755	55.755	(0.115)

Source: Bloomberg

Source: JP Morgan

### Philippine Equities

- The PSEi started the year on a positive note as it rose for most days last week, with some paring of gains last Friday. The main equity bourse gained 101.58pts, up 1.55% w-w, to end at 6,667.97. The showing outperformed most regional peers and was supported partly by slightly cooler than expected December 2022 inflation of 8.1%. All sectoral indices were also up for the week, with Mining & Oil leading the pack with a +4.43% w-w gain. Foreigners were net buyers for the week at USD19.68mn.
- President “Bongbong” Marcos Jr. has secured USD22.8bn in investment pledges from his two-day state visit to China. Most of the pledges are centered around the renewable energy sector, EVs and mineral processing, and agribusinesses. Apart from the dollar amount, the President expects thousands of jobs to be created from the endeavors.
- In other macro news, the December print brought full-year inflation to 5.8% - well above the 2%-4% target of the country and the 3.9% registered in 2021. Food inflation was the main driver of overall uptick last year, not helped by increasing demand pressures. Also reported last week was Philippine December PMI of 53.1, a six-month high.

### USD fixed income

- The US Treasuries kicked off the new year with a sharp rally across the curve, as market participants scaled back rate hike bets after data show softer CPI in Europe, cooling wage growth in the US, and weak services PMI print of 49.6. Overall, the 10Y yield dropped 21bps to 3.558%.

### PHP fixed income

- Market participants shy away from duration given elevated local inflation and concerns on supply. This led to the bear steepening of the curve.

### Outlook for the week

#### Stock market

- PCOMP may track the direction of US markets given lack of local catalysts. Foreign flows will also influence market’s performance in the short-term. Immediate resistance is 6,813 (December high) while support is the 200d MA of 6,523.

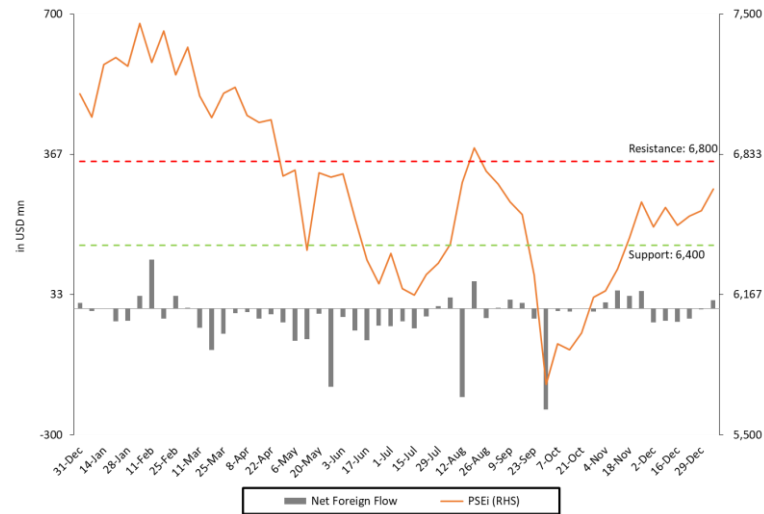
#### USD fixed income

- Market participants will watch out for the December CPI print due on Thursday (January 12). Consensus estimate for the headline print is at 6.5% y-y. The 10Y Treasury yield will likely continue to trade within the 3.50% to 4.00% range. As such, we see upside risks to yields at current levels.

#### PHP fixed income

- For this week, the BTr will re-issue PHP35bn of FXTN 25-7 (13 year tenor) on Tuesday (January 10). Early indicative range is at 7.35% to 7.55%. The rally in US Treasury yields can help lift sentiment in the local market, but supply concerns will likely cap rallies as market participants may choose to de-risk when given the chance.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Mining & Oil +4.43%, Financials +2.50%, Industrials +2.24%, Services +1.84%, Property +1.34%, Holding Firms +0.76%

**Leaders:** MONDE +11.55%, CNVRG +10.20%, JGS +6.86%, MBT +5.37%, JFC +5.22%

**Laggards:** AGI -4.20%, GLO -2.48%, ICT -2.00%, ALI -1.79%, ACEN -1.71%

Source: Bloomberg, The Philippine Stock Exchange