

# Strong US Retail Sales Helps Keep Fed Hikes On

## Previous Week Summary

### Equity markets pull back on strong jobs report and Fed jitters

Global markets were lethargic last week as several Fed officials came out and make hawkish comments amidst a strong US economy. The S&P 500 lost -0.20%, cushioned by gains in consumer staples and utilities stocks. Nasdaq 100 managed to eke out a gain 0.4% in the five-day period. This unease reverberated in other markets with the TOPIX -1.82%, MSCI Asia ex Japan -2.13% and CSI 300 -2.55% all ending in the red. Bucking the trend is Europe with its regional benchmark up +1.55. The UK's FTSE closed at a record high, propelled by upbeat earnings especially of its banking and energy sectors. We look at a slew of releases this week such as US 4Q GDP results, S&P PMIs and FOMC minutes as possible market movers in the next week.

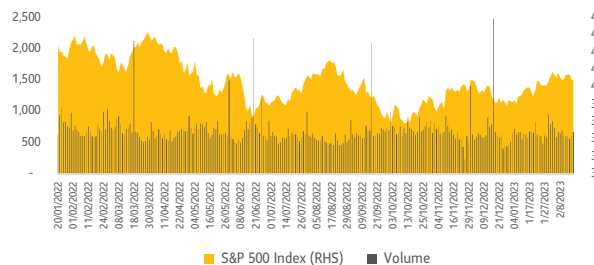
### Yield curves shift higher as recent economic data force a rethink of policy trajectory

A series of stronger than expected data on inflation and economic activity pushed US Treasury yields to their highest level this year. Market participants are now looking at the increased probability of a higher for longer scenario given the risk of inflation lingering above target. As such, peak Fed funds rate expectation has been calibrated to 5.30% from below 5% in the beginning of the month. In the Philippines, the surprise January CPI print led the Central Bank to deliver another 50 bp rate hike, bringing the key rate to 6%. Local bond yields rose 10 to 20 bps over the week following the move. Moreover, the BTr was able to raise a total of PHP 283 billion from RTB 5-17.

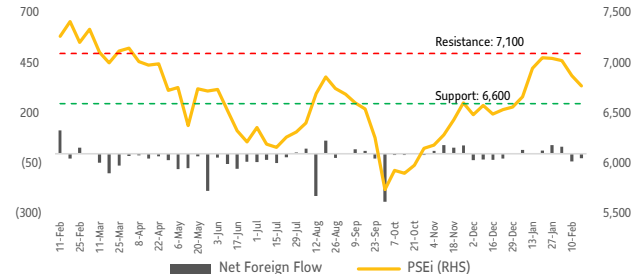
### Philippine Equities pressured by revised inflation and hiking outlook

The PSEi stayed around the 6,800 last week, with some renewed selling on Friday stemming from BSP forecast revisions and hawkishness. The main equity bourse lost 97.77pts, down 1.42% w-w, to end at 6,779.02. The week was peppered with macro and earnings releases, with the market fixating on the BSP's 6.1% inflation forecast for the year (up from 4.5%) by Friday. All sectoral indices were down, with Holding Firms leading losers at a -2.40% w-w loss. Foreigners were net sellers at USD22.27mn, vs USD32.86mn net outflow the week prior.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

US retail sales increased sharply in January, the latest in a series of hotter than expected economic data that may force the Federal Reserve to keep tightening monetary policy for longer to slow the American economy.

Retail sales, which include spending on food and fuel, rose 3 per cent last month over December's levels, the Census Bureau said on Wednesday. It was one of the biggest monthly increases of the past 20 years and surpassed economists' expectations for a 1.8 per cent increase.

The data, which included signs that American consumers have not pulled back spending on discretionary items despite high inflation, came a day after the labour department published inflation figures that showed price pressures were not easing as much as they were late last year.

It also follows a labour department report on non-farm payrolls, which showed that hiring nearly doubled in January, with the US economy adding more than a half million jobs in the month — up from 223,000 in December.

Source: <https://www.ft.com/content/80a4d9ae-5a3c-4fbe-a767-c88f014734d6>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

US Treasury yields are now trading at the upper end of SLIMTC's trading range. With market pricing in more rate hikes than the Fed's latest dot plot, current levels offer good entry opportunities already.

#### PHP FIXED INCOME

Upside risk to local bond yields remain as market continues to digest the recent hawkish rhetoric from the BSP. The BTr will resume its weekly bond auctions with the re-issue of FXTN 10-69 on Tuesday (Feb. 21). SLIMTC sees value in long-end bonds if market continues to sell-off.

### Local Equities

Corporate earnings releases of some of the big cap names will influence share price movements. Investors will watch out for 2023 earnings guidance that JFC, SMPH, ALI, MBT, WLCON, BDO may disclose. BSP's more hawkish tone during its recent meeting still clouds investor sentiment.

### Global Funds

SLIMTC keeps a cautious equities view but reallocates some exposure to DM - US/Europe as macro and policy environment improves while earnings remain in-line. We continue to remain invested in EM/AxJ markets as their earnings momentum and recovery stories still trade at more palatable valuations versus their DM peers. We retain Chinese exposure at slight overweight on optimism that reopening will accelerate and feed into stronger China economic performance.

## Economic Calendar

Date	Metric	Previous	Consensus Estimate
23-Feb-23	US GDP (4Q 2022, 1st revision)	2.90%	
24-Feb-23	US Core PCE (Jan)	0.30%	
28-Feb-23	PH Bank Loan Growth (Jan)	9.90%	

## Our House View

### Economic Forecast (as of 13 Feb 2023)

#### Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	6.00%	3.00%	9.00%
PH GDP	5.30%	4.30%	6.40%
USDPHP	55	52	57
BSP Policy Moves	At Least 2	2	3
BSP Policy Rate	50 bps/meeting	75 bps	100 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	25bps/meet	50 bps	75 bps
US 10Y	3.50%	3.30%	3.70%
US Recession Probability 2023	High	-	-

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