

Yellen Sees Need For Tighter Bank Lending

Previous Week Summary

Equity market edge higher despite more FED rate hike worries

US stocks edged higher while bond yields surged this week as banking sector worries abated and traders priced in one more interest rate hike from the Fed. The S&P 500 rose 0.8% despite a pullback in big tech names such as Microsoft and Apple. NASDAQ 100 eked out a gain as another Fed rate increase worried the market. There was more optimism in Europe as the STOXX 600 Europe index climbed 1.9%. The benchmark index has now gained for four straight weeks, its longest stretch since December 2022. Banks recovered while luxury brand and consumer products reached multi year highs. The Japanese market also enjoyed favorable tailwinds. The TOPIX delivered a 1.3% gain driven by more potential investments from Berkshire Hathaway and the BOJ holding monetary policy accommodative. For this week, we look at important data releases such as housing, claims and PMIs for clues on the possible trajectory of the US economy and its effects on monetary policy.

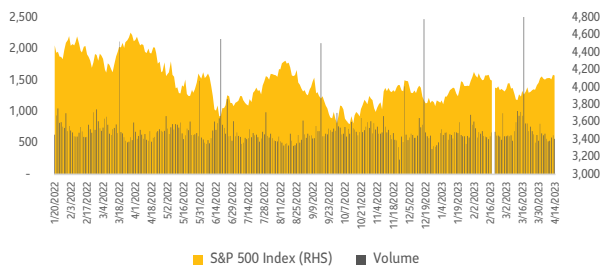
Bonds rallied during the shortened trading week

US CPI data for March came in within expectations. However, core inflation remains sticky and elevated. US Treasury curve shifted higher as market participants priced in higher odds of another 25 bps rate hike in the next FOMC. Locally, BSP Governor Medalla commented that the decision to pause or hike in May will be dependent on the April inflation data. Bond yields ended the week up to 5 bps higher across the curve on the back of some profit-taking, but demand for RPNBs keep levels supported.

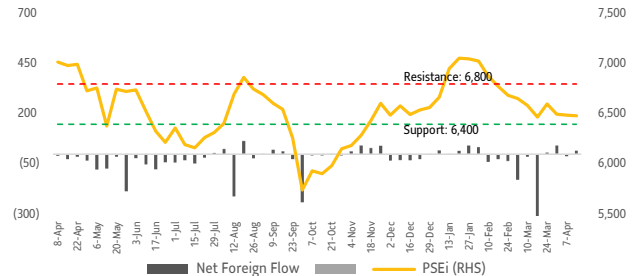
PSEI trades sideways last week as late rally offsets mounting losses amid dovish pivot

The local equity bourse closed last week on a flat note, sliding by a mere 6.6 points (-0.1%) week over week to close at 6,481.91 as mounting losses for most of the truncated work week were largely recouped by the weekend following dovish sentiment emerging over a likely BSP rate hike pause by May, if April MoM inflation continues to fall, and Fed pause after a last token hike by May.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

U.S. Treasury Secretary Janet Yellen said banks are likely to become more cautious and may tighten lending further in the wake of recent bank failures, possibly negating the need for further Federal Reserve interest rate hikes.

Yellen said in a CNN “Fareed Zakaria GPS” interview that policy actions to stem the systemic threat caused by last month’s failures of Silicon Valley Bank and Signature Bank had caused deposit outflows to stabilize, “and things have been calm,” according to a transcript released on Saturday.

“Banks are likely to become somewhat more cautious in this environment,” Yellen said in the interview, which is scheduled to air on Sunday. “We already saw some tightening of lending standards in the banking system prior to that episode, and there may be some more to come.”

She said that would lead to a restriction in credit in the economy that “could be a substitute for further interest rate hikes that the Fed needs to make.”

<https://www.cnbc.com/2023/04/15/yellen-says-us-banks-may-tighten-lending-and-negate-need-for-more-fed-rate-hikes.html>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Macroeconomic data and Fed speak will drive sentiment heading into the FOMC on May 2. The 10Y US Treasury yield continues to trade within the range of 3.30% to 3.60%. SLIMTC will look to add US Treasuries at the upper end of this range.

PHP FIXED INCOME

There will be a Dutch auction for the new 13Y bond, and indicative range is at 6.25% to 6.50%. SLIMTC believes that the auction offers good opportunity to enter at a better level after yields corrected higher last week.

Local Equities

Market sentiment still has low conviction given lack of fresh leads. We have seen foreign buying last week after weeks of outflow, but overall sentiment remains bearish as PSEi still trades below the major moving averages. The local bourse is base building around the 6400 level and may continue to trade within a tight range for now.

Global Funds

SLIMTC continues to be cautious as risk-reward towards global equities remains lackluster. The strategy is to limit exposure towards cyclical names such as banks due to potential contagion effects. As probability of recession increases, exposure to US will be limited. We remain constructive on Europe as earnings have surprised on the upside despite persistent inflation and the energy crunch. EM/AxJ exposure will be recalibrated as Chinese reopening momentum fail to excite investors. Strategy will be to stay weighted as longer term positives for these markets remain intact.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
17-Apr-23	PH OFW Remittance (Feb 2023)	\$3.071 bn	
18-Apr-23	US Housing Starts (Mar 2023)	1.45 mn	1.4 mn
19-Apr-23	PH Balance of Payments (1Q 2023)	\$568 mn	
20-Apr-23	US Weekly Jobless Claims (2nd week Apr)	239k	244k

Our House View

Economic Forecast (as of 17 April 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 pause	0	1
BSP Policy Rate	0 bps	0 bps	25 bps
Budget Deficit	-6.72%	-	-

US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 97/bbl	USD 88/bbl	USD 106/bbl
Fed Policy Moves	0-1	0	1
Fed Policy Rate	0-25bps	0 bps	25 bps
US 10Y	3.25%	3.00%	3.50%
US Recession Probability 2023	High	-	-

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