

Saudi Decides To Cut Oil Production for 3rd Time

Previous Week Summary

Big tech powers rally and breaks 4,200 key resistance level.

Big tech continued its relentless rally as bets of a Federal Reserve pause, mixed jobs report put stocks on the verge of a bull market. Global equities returned 1.71%(MSCI ACWI), led by the S&P 500 rising by 1.87% and the tech-powered NASDAQ 1.74%. Megacaps tech giants headed towards its sixth straight week of gains - riding on the artificial intelligence narrative. European markets were buoyed by this optimism as the STOXX 600 Europe climbed 1.15%. Positive news was reported out of China that the government is working on a stimulus package to aid its ailing real estate sector. This filtered through Europe's major markets, CAC 40: 0.88%, DAX 0.89%, IBEX 1.63%, FTSE 100 1.23%, all enjoying solid weekly returns. This week, investors focus on the technicals of key markets after key resistances in the S&P 500 (4,200), ACWI (650) on decent volume. A close above these levels would serve as a confirmation of the breakout and may trigger positioning and short-covering to compensate for the current bearish bias of the street.

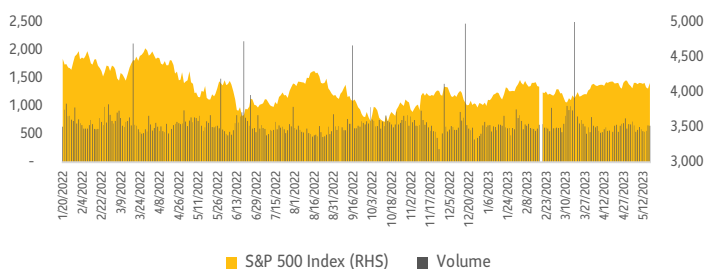
Bond yields ended the week lower as Fed members support pause, but jobs data remain strong

US Treasury curve bear flattened over the week as long-end led the rally after several Fed members affirmed their support for a pause ahead of the blackout period. However, a strong nonfarm payrolls report capped the rally and pushed yields higher. Overall, the 10Y yield was 10 bps lower at 3.70%. In the Philippines, a strong 10Y auction led to a 10 to 15 bps rally in the long-end. However, yields moved sideways thereafter as market participants chose to stay on the sidelines ahead of key risk events.

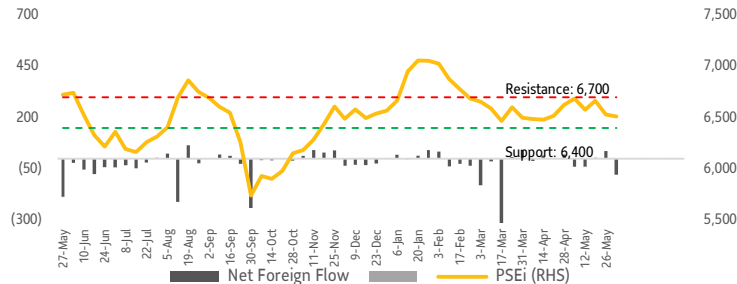
Philippine equity market flow dominated by MSCI rebalancing

The PSEi registered a weekly decline for the second-straight time last week as MSCI rebalancing drove selling for the period. The main equity bourse lost 18.19pts, down 0.28% w-w, to end at 6,512.01. Some of the week's major decliners were MSCI-removed, MONDE (-10.39% w-w) and downweighted SMPH (-3.38% w-w). Most sectoral indices were down for the week, with Property leading losers at -1.96% w-w while Services was at the other end of the spectrum at +1.62% w-w. Foreigners were net sellers for the week at USD77.38mn, breaking three-straight weeks of foreign net buying prior.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Saudi Arabia will voluntarily cut production by 1 million barrels a day in July, alongside an agreement by the Organization of the Petroleum Exporting Countries and its allies to stick to production targets on Sunday.

Describing the voluntary cut as a "Saudi lollipop," the country's energy minister, Prince Abdulaziz bin Salman, said the July reduction could be extended if needed.

OPEC+ — the group made up of OPEC and its Russia-led allies — concluded a contentious meeting in Vienna, with members agreeing to extend previously agreed production cuts through the end of 2024. OPEC+ agreed last October to cut output by 2 million barrels a day and followed that in April with the surprise announcement of 1.6 million barrels a day in additional cuts.

<https://www.marketwatch.com/amp/story/saudis-to-cut-oil-production-by-1-million-barrels-a-day-in-july-as-opec-extends-output-deal-8b7eac93>

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Bright Ideas

Fixed Income

USD FIXED INCOME

SLIMTC maintains its range for the 10Y yield at 3.60% to 3.90%. We will look to trade the range as yields will likely move sideways ahead of the May CPI print and FOMC next week.

PHP FIXED INCOME

Key data for the week will be the May CPI print. With increased likelihood of another rate hike in the US, we see upside risk to yields and will look to take profit on rallies.

Local Equities

The local bourse may remain range bound as investors await for May inflation data. Since March, the PSEi has been trading between 6400 and 6700. Weak sentiment remains as the index trades below the major moving averages. However, this may be countered by positive performance of S&P 500 which broke above the 4,200 resistance level after better-than-expected nonfarm payroll data.

Global Funds

SLIMTC increases equity exposure gradually as investors position for a recovery. Nonetheless, investments will be calibrated to those names/funds less affected by the banking turmoil in the US. As the probability of recession in the US diminishes, exposure to US will be calibrated to those with emerging structural themes (Tech/AI) and earnings resilience. We remain constructive on Japan as macro recovery remains intact providing boost to earnings and multiples. EM exposure will be kept neutral with preference to Korea/Taiwan/India over China as reopening momentum fail to excite investors.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
6-Jun-23	PH Headline Inflation (May)	6.60%	6.10%
7-Jun-23	US Trade Deficit (Apr)	-\$64.2 bn	-\$75.2 bn
8-Jun-23	US Jobless Claims (1st week June)	232k	236k
8-Jun-23	PH Industrial Production (Apr)	101.23	

Our House View

Economic Forecast (as of 05 June 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	5.00%	3.00%	7.00%
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 78/bbl	USD 65/bbl	USD 90/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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