

Treasury Secretary Yellen to Visit China

Previous Week Summary

Rally in tech megacaps gained traction last week as the NASDAQ 100 notched its best ever 1st Half of year

The leadership of tech stocks fed into the broader market with the S&P 500 (+2.82%) and STOXX Europe 600 (+2.14%) also posting healthy gains. Stocks were pushed higher by upside revisions to 1Q 2023 US GDP despite a slew of hawkish rhetoric from the Fed. Big banks also saw strong gains after passing the stress test of the Federal Reserve. JP Morgan, Morgan Stanley and Goldman Sachs all announced higher dividends following the test. In Asia, stocks were lackluster, dragged by the CSI 300 (+0.95%), MSCI Asia Pacific Index (+0.29%) and the TOPIX (+1.38%). Investors were disappointed as China stimulus hopes were dashed despite slowing growth momentum as shown by the factory data releases this week. Top Asian markets such as Korea and Japan also slowed as they suffered from foreign outflows. For the coming week, investors would be watching closely the FOMC minutes to be released and labor market data. This week also marks the start of 2Q earnings season in the US. Given the promising data releases, earnings are expected to be at least in-line with consensus estimates.

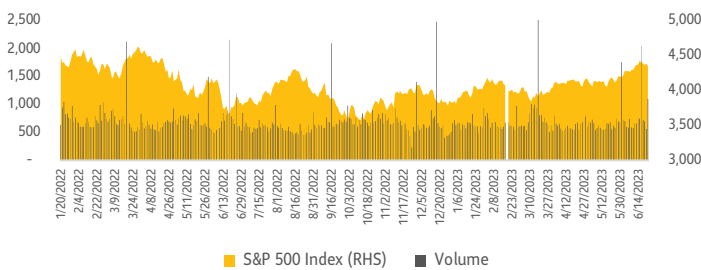
Bond yields continue to see upward pressure

US Treasury yields rose to 4-week highs as market priced in higher likelihood of more than 1 rate hike left this year following the upward revision in Q1 GDP numbers, and lower than expected jobless claims. The 10Y US Treasury yield closed the week 10 bps higher at 3.84%. In the Philippines, the Bureau of Treasury announced its auction schedule for July where weekly auction volume will be upsized to PHP 30 billion. In addition, the announcement of a PHP 40 increase in the NCR daily wage later in the week also pushed bond yields higher.

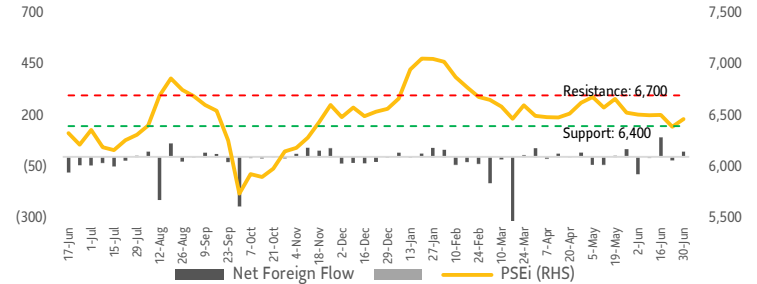
PHP and consumer sector recovery uplifts local equity market

The PSEi ended the week last Friday back up above 6,400 supported by PHP strength vs the USD and developments for the consumer sector. The main equity bourse gained 74.52pts, up 1.17% w-w, to end at 6,468.07. The Department of Finance clarified last week that the pursuit of a "junk food tax" does not include instant noodles, while the Regional Wage Board for Metro Manila approved a 7% increase in the minimum wage - which helped consumer names outperform. Most sectoral indices were up last week, with Industrials leading gainers at a +3.13% w-w gain while Property was the sole loser at -0.17% w-w.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Treasury Secretary Janet Yellen will travel to Beijing this week to meet with senior Chinese officials. The Treasury said Yellen is expected to discuss a number of macroeconomic and financial issues, as well as how the U.S. and China can "responsibly manage our relationship, communicate directly about areas of concern, and work together to address global challenges."

A senior administration official told reporters that the trip is intended to "to deepen and increase the frequency of communication between our countries moving forward and to stabilize the relationship, avoid miscommunication, and expand collaboration where we can."

<https://www.cnbc.com/2023/07/03/janet-yellen-to-meet-with-senior-officials-in-china-this-week.html>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Key data to be released this week will be the June payrolls data. SLIMTC maintains its range for the 10Y yield at 3.60% to 3.90%. The 10Y yield is currently trading at the upper end of the trading range, but risks remain tilted to the upside given Fed's guidance of 2 more rate hikes for the year.

PHP FIXED INCOME

The BTr will hold another FXTN 10-69 auction for the second week in a row. Market demand for auctions last June have been weaker, and we saw the BTr giving concessions to fill the auction volume. For this week, we expect market participants to remain on the sidelines unless there is a significant surprise to the downside in June inflation data.

Local Equities

The local bourse may remain range bound as investors await for June 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. Current negative sentiment on ASEAN continues to prevail, with global investors favoring US and other developed markets.

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 as they remain beneficiaries of prevailing themes driving the market.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
5-Jul-23	PH Inflation (June)	6.10%	5.50%
6-Jul-23	US ADP Payroll (June)	278k	240k
7-Jul-23	PH Unemployment Rate (May)	4.50%	
7-Jul-23	US Nonfarm Payroll (June)	339k	225k

Our House View

Economic Forecast (as of 3 July 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	0
BSP Policy Rate	0 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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