

Weak Production Numbers From China Cause Concern

Previous Week Summary

Stocks lose momentum after job market deliver upside surprise.

US stocks lost momentum after a blowout jobs report left the market speculating that the Federal Reserve would pursue a more aggressive hiking path. The S&P 500 (-1.24%) and Nasdaq (-1.12%) both dropped as volatility ensued in the rates market. The yields on the two year treasury drifted as high as 5.2% before pulling back below the 5% mark as non-farm payrolls came in weaker than expected. European markets reflected the same cautious tone led by the Euro STOXX 600 (-2.35%) and DAX (-2.47%). The move was broad-based with chemical and material companies outperforming while media and health care stocks dropping the most. Asian investors were also pessimistic for the week as the MSCI Asia Pacific Index fell by 2.6%. North Asian markets such as Japan (-1.08%) and South Korea (2.1%) declined the least while HK (-4.02%) was battered closing in to bear market territory. This week, traders will be closely watching US consumer price print. Investors are expecting the headline number to fall to 3.1% though they don't see that stopping the Fed during the next FOMC meeting. Earnings season is also expected to kick off with banks such as JP Morgan and Citigroup delivering their profit figures for the 2Q of this year.

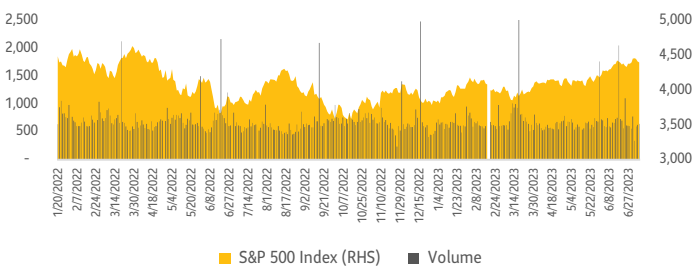
Tight US labor market and hawkish Fed pressure USTs, while local bonds continue to suffer from weak demand.

US Treasury yields hit fresh YTD highs after the release of June FOMC minutes and jobs data. Market participants are now seeing strong likelihood of 2 more rate hikes this year, and pushed back the timing of the first rate cut to mid-2024. In the Philippines, long-end bond yields continue to bear the brunt of the sell-off as market participants de-risked ahead of the auction for the new 15Y bond this week. The better-than-expected June headline CPI print of 5.4% y/y did little to improve market sentiment as risks to inflation remain heavily tilted to the upside.

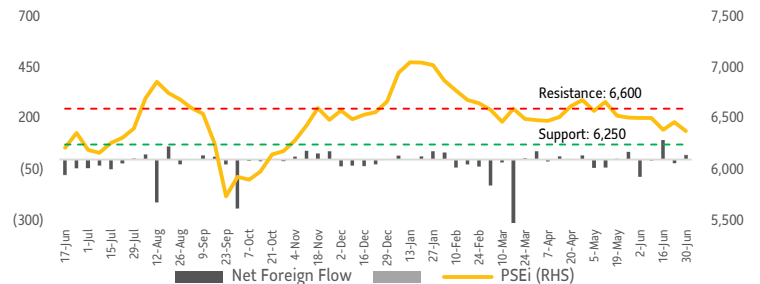
PSEi down last week on hawkish Fed minutes and El Nino concerns.

The local equity bourse fell markedly late last week, losing 89.04 points (-1.38%, week-on-week) to close at 6,379.03 on hawkish Fed minutes and El Nino concerns. The PSEi initially traded sideways around the 6,500 level in very low volume early in the week prior to tracking global risk assets lower following the hawkish Fed minutes. This was supported by robust US macro data which led chances of further Fed rate hikes in July and September to increase. Investors consequently discounted the better than expected June domestic inflation of 5.4% (vs. consensus of 5.5% and May's 6.1%) and more dovish BSP rhetoric from the new governor.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

China's annual producer deflation deepened in June while consumer prices were flat, official data showed Monday, underwhelming market expectations. The data underscores the depth of the challenges that beset the world's second-largest economy in reviving demand and revitalizing growth. Monday's data offers fresh evidence of slowing growth, suggesting easing monetary policy has been insufficient in reinvigorating and sustaining the country's recovery from its strict "zero-Covid" curbs late last year.

<https://www.cnbc.com/2023/07/10/chinas-june-inflation-data-disappoints-expectations.html>

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Bright Ideas

Fixed Income

USD FIXED INCOME

SLIMTC's updated range for the 10Y US Treasury yield is 3.90% to 4.20%. At current levels, we think it is already attractive to start adding duration. Key data for the week will be release of June inflation. This is a key data point that the Fed will take into account in this month's FOMC meeting.

PHP FIXED INCOME

Local bond yields have already corrected by ~100 bps from lows recorded last May. SLIMTC thinks the sell-off is overdone and will opportunistically add duration. For this week, the BTr will hold the auction for a new 15Y bond. Early indications are in the 7% to 7.25% range.

Local Equities

The local bourse breached the 6,400 level last Friday, creating a new support level of 6,250 and resistance of 6,600. The 6,400 support (since March 2023) was likely broken due to lack of a strong story for the Philippines and ASEAN as a whole. Preferred sector this year may still be technology to which our country has no exposure. It might be prudent to be more defensive at this point.

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 |
|-----------|---------------------|-----------|--------------------|
| 12-Jul-23 | US Core CPI (June) | 5.30% | 5.00% |
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| 14-Jul-23 | PH Remittance (May) | \$2.485bn | \$2.534bn |

Our House View

Economic Forecast (as of 10 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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