

# China 2Q GDP Weaker Than Expected

## Previous Week Summary

### Global markets rally amid cooling inflation data.

The rally in global markets was explosive last week with cooling inflation data reinforcing the view that the Fed is approaching the end of its interest-rate hike cycle. Global equities returned 3.17%, led by market cellar dwellers over the past few months. Asia ex Japan and Europe both gained (MSCI AxJ: 5.26%, Euro STOXX 600: 5.12%). US (NASDAQ: 3.13%) and China (CSI 300: 3.07%) also rose as rates volatility dissipated. Disinflation became the new buzzword as both PPI and CPI came in below consensus expectations. Japan lagged other developed markets (DM) benchmarks but still managed to deliver positive results (TOPIX: 1.83%). This week, markets would continue to digest macro news on the US consumer, housing and manufacturing front. Investors would also be watching carefully 2Q earnings results as strong profits and above consensus guidance could signal that the US continues to be on a path towards a soft landing.

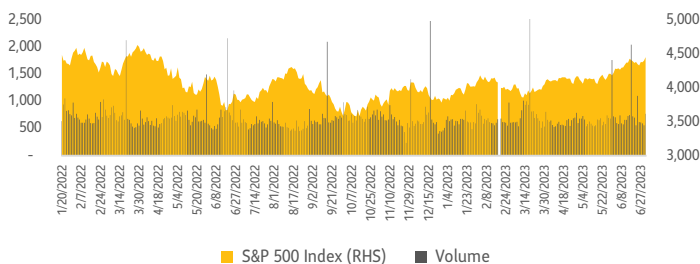
### Bonds rallied after US June CPI came out softer than expected.

US Treasuries rallied sharply across the curve after headline CPI printed 3% YoY (vs 3.1% expected), and core inflation rose less than expected. The back-end of the curve topped out above 4%, and the 10Y yield closed the week 17 bps richer at 3.84%. In the Philippines, the BTr awarded the FXTN 15-01 auction at 7%. Demand was decent at that level, but market sentiment shifted from defensive to bullish after the release of US CPI data. Overall, local bond yields ended the week lower by 15 to 30 bps across the curve.

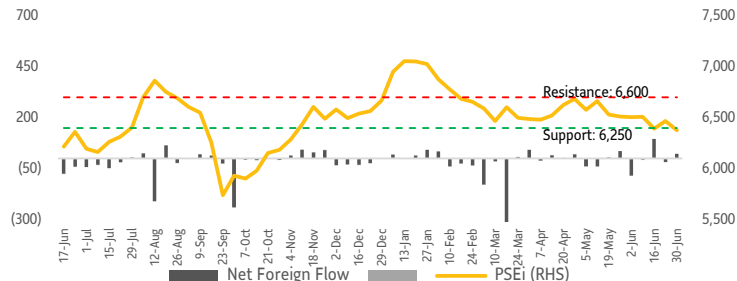
### Local equity market rallies on easing inflation concerns.

The PSEi rode the global risk-on narrative last week as US inflation came-in lower than expected, opening the door to the potential end of rate hikes. The main equity bourse gained 245.76pts, up 3.85% w-w, to end at 6,624.79. The performance was also helped by a ~2% w-w appreciation of PHP vs the USD and a positive outlook on 2Q23 earnings season, which should begin this week. All sectoral indices were also up for the week, with Financials far ahead of the pack and registering a +6.75% w-w gain. Foreigners were net buyers for the week at USD47mn, the largest weekly net inflow in half a year.

#### S&P 500 Index



#### Philippine Stock Exchange Index



## Economic News

China said Monday that second-quarter gross domestic product grew by 6.3% from a year ago, missing expectations. The unemployment rate among young people ages 16 to 24 was 21.3% in June, a new record. The 6.3% GDP print for the second quarter marked a 0.8% pace of growth from the first quarter, slower than the 2.2% quarter-on-quarter pace recorded in the first three months of the year. Analysts polled by Reuters had predicted a 7.3% increase in the second quarter GDP.

National Bureau of Statistics spokesperson Fu Linghui noted China faces a complex geopolitical and economic international environment. He also said China can still achieve its full-year growth target. Beijing in March set a goal of around 5% growth for 2023.

<https://www.cnn.com/2023/07/17/china-reports-q2-gdp-miss-another-record-high-in-youth-unemployment.html>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

US Treasuries will likely consolidate at current levels as market participants wait for the Fed's guidance in next week's FOMC. Our range for the 10Y yield is 3.70% to 4%.

#### PHP FIXED INCOME

In the absence of fresh catalysts in the local market, RPGBs will likely track the direction of US Treasuries over the week. SLIMTC will look to reduce duration on market rallies.

### Local Equities

Market momentum has turned positive with the PCOMP trading above 6,600 level and poised to test immediate resistance of 6,700. Foreign activity will continue to dictate market movements while investors await for second quarter earnings reports.

### 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
18-Jul-23	US Industrial Production (Jun)	-0.20%	0.00%
19-Jul-23	US Housing Starts (Jun)	1,631k units	1,475k units

## Our House View

### Economic Forecast (as of 17 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	Pause to cut	-1	0
BSP Policy Rate	-25 bps	-25	
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	0-2	0	2
Fed Policy Rate	0-50bps	0 bps	50 bps
US 10Y	3.25%	3.00%	3.50%
US Recession Probability 2023	High	-	-

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