

Global Rice Prices Could Surge on China Floods

Previous Week Summary

Markets correct for a second straight week driven by higher yields and China property scare

Global Markets took a dive after equities (MSCI ACWI: -1.07%) were spooked by bets that policy rates would remain tight despite a pause in rate hikes in September. Long term US yields, jumped as it weighed on risk sentiment after a lackluster bond auction last week. The S&P 500 lost (SPX: -1.08%) while the NASDAQ dropped (NDX: -1.82%). Large cap technology has pulled back in the last few weeks as technical indicators showed weakness and valuation metrics touched multi decade highs. On the other hand, European Markets continued to stabilize with the Euro STOXX 600 (SXXP: +1.21%) delivering positive returns for the week. European stocks has clawed back some of their underperformance in 2023 despite higher rates from the ECB and a very bland earnings season. In spite of the catch up, the valuation gap between the US and Europe remain quite extreme and higher than long-term averages. In Asia, AxJ (MXASJ: -1.07%) and China (CSI 300: -0.69%) slumped. China brokerage shares and property companies led the asian markets lower. Investors have become increasingly worried over a lack of meaningful stimulus and a slowing economic environment. This has caused a selloff as debt woes among the country's property developers remained jittery.

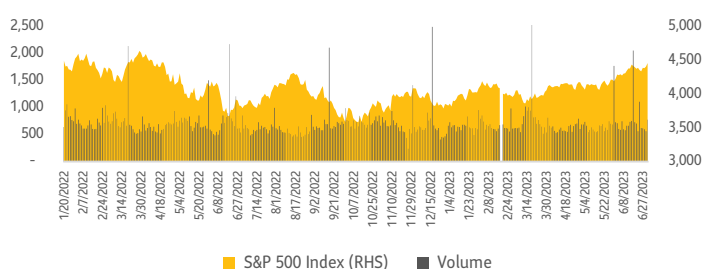
Yield curves bear steepened further on weak auction and inflation concerns

Long-end US Treasuries sold off after a weak 30Y auction, news of widening deficit, and release of hotter than expected PPI data. The 10Y yield ended the week 12 bps higher at 4.16%. In the Philippines, bond yields saw upward pressure as sentiment remained defensive after a weak 6Y auction and announcement of an upcoming 10Y Dutch auction.

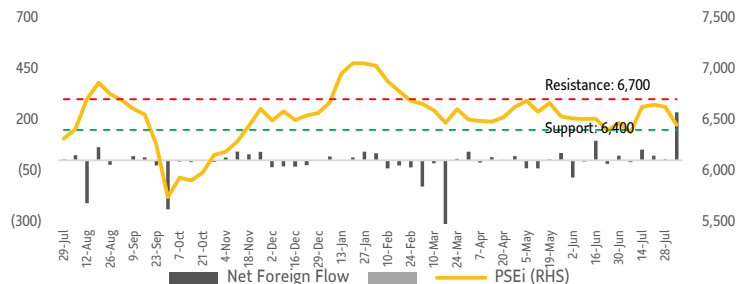
Local equities down slightly as index heavy weights drag market sentiment and GDP misses estimates

The PSEi gave up gains made earlier in the week to end -0.7% at 6,405.91 on the back of a miss on 2Q23 GDP numbers driven by lower government and household spending. Index heavyweights SM (-2.9%) and SMPH (-7.45) dragged the market as decent earnings reports were overlooked amid a reported government review of all outstanding reclamation projects in the Manila Bay area. Subsector indices were mixed for the week with Services (+1.48%) and Financials (+0.25%) up for the week while Mining & Oil (-2.59%), Property (3.09%), Holding Firms (-1.17%), and Industrials (-0.12%) were down for the week. Foreigners were net sellers for the week worth P 916 Million.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Global rice markets could come under further strain as the world's leading rice producer China grapples with heavy rain and flood risks. "Heavy rain in China's grain-producing north-eastern region that will reduce yields is likely to put upward pressure on already high global rice prices," Fitch Ratings said in a recent report. China is the world's largest producer of rice, and flood alert levels were raised for three provinces that account for 23% of the country's rice output: Inner Mongolia, Jilin and Heilongjiang, the report pointed out.

<https://www.cnbc.com/2023/08/14/global-rice-prices-could-rise-more-as-china-flood-risks-loom-fitch-ratings.html>

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Bright Ideas

Fixed Income

USD FIXED INCOME

For this week, market participants will await the release of the July FOMC minutes and jobless claims data. Our range for the US Treasury 10Y yield is 4% to 4.30%. SLIMTC will continue to look to trade the range in US Treasuries.

PHP FIXED INCOME

Market participants will watch out for the BSP Monetary Board meeting where a pause is likely. BSP's forward guidance will be closely followed in light of recent developments such as the weakening of the Philippine Peso, higher prices of rice and fuel, and weaker than expected 2Q GDP. In addition, the BTr will hold a Dutch auction for the FXTN 10-71 bond this week. SLIMTC prefers to stay on the sidelines and bid defensively during auctions.

Local Equities

PSEI looking to retest the 6,400 level. This has been a strong support as of late, however, sentiment is shaky after the GDP miss and Manila Bay reclamation suspensions. We may see a technical bounce next week as bottom fishers look to pick up battered names.

Global Funds

SLIMTC continues to gradually increase equity exposure as investors position for a continued recovery in markets. Investments have been calibrated to those names/funds that are positioned to benefit the most from the resilient U.S. economy as the probability of a recession continues to diminish. This includes companies with exposure to emerging structural themes (Tech/AI) and earnings resilience. The team remains constructive on Japan too as the macroeconomic recovery remains intact and provides a boost to earnings and multiples. However, exposure to Emerging Markets will be kept at neutral, with a preference towards Korea, Taiwan, and India as these countries remain beneficiaries of the prevailing themes that are driving the market.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
15-Aug-23	PH Remittance (June)	\$2492m	\$2804m
16-Aug-23	US Industrial Production (July)	-0.5% (MoM)	0.3% (MoM)
16-Aug-23	US Housing Starts (July)	1434k	1445k
17-Aug-23	PH BSP Monetary Board Meeting	6.25% (unchanged)	6.25% (unchanged)

Our House View

Economic Forecast (as of 14 Aug 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	5.80%	3.00%	7.00%
PH GDP	4.80%	3.00%	6.50%
USDPHP	54	53	55
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	3.98%	3.85%	4.10%
US Recession Probability 2023	High	-	-

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