

Fed Seen To Go For A Surprise Hike: FT Survey Results

Previous Week Summary

Tech pulls back as yields surge higher; ECB's dovish hike provides lifeline to the European markets

Stocks were listless for the week as investors got nervous of the impacts of a Detroit auto-strike and a headline CPI a tad above expectations. US markets pulled back for the week as both the S&P 500 (-0.79%) and the NASDAQ Composite fell (-1.49%). Retail sales came in better than expected prompting markets to think that the Federal Reserve might not have come far enough in its tightening cycle. Big tech were the top detractors as names like Nvidia and Meta were down over 3.5%. Other chipmakers were also in the red as news came that TSMC has ordered a delay in the shipment of their suppliers. European markets outshined everyone after the ECB signaled that this is likely to be the last hike in its cycle. They highlighted that this rate levers were already sufficiently restrictive and would make a substantial contribution in bringing inflation under control. The market cheered the dovish rhetoric with the STOXX Europe 600 jumping 1.26%. Other major European markets also came to life --- UK's FTSE (+2.87%), Germany's DAX (+0.59%), IBEX 35 (+1.21%) all rising healthily.

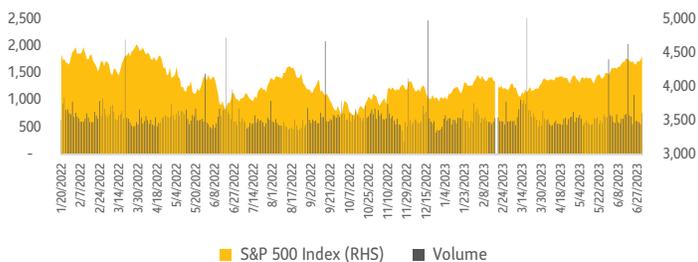
US Treasuries traded sideways on mixed headlines, while PH government bonds saw better demand for duration

US Treasury yields saw sideways action near cycle highs as supply and inflation concerns kept market participants on the sidelines. While recent data is supportive of a Fed skip in this week's FOMC, market is still pricing in a 30% likelihood of a rate hike in November. Moreover, only 75 bps of rate cuts is being priced in for 2024. In the Philippines, demand for duration picked up after the BTr partially awarded the 7Y auction within secondary market levels. Furthermore, BSP Governor Remolina's remarks that inflation is expected to fall within their target range by 4th quarter was well-received.

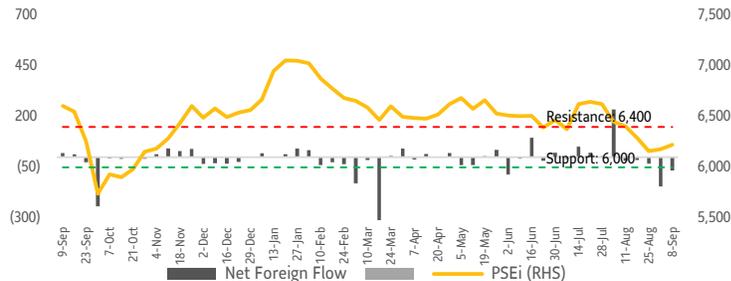
FTSE rebalancing drops PSEi to lowest point this year

The PSEi fell to its lowest point since the start of the year last Friday as FTSE index deletions and downgrades dominated foreign moves. The main equity bourse lost 96.60pts, down 1.55% w-w, to end at 6,126.34. The worst index performer was AP due to its FTSE index deletion while ACEN managed to still register a w-w gain even as it was demoted from FTSE's large-cap index to its mid-cap. Most sectoral indices were down for the week, with Mining & Oil the sole gainer at +4.04% w-w while Property led losers at -3.33% w-w. Foreigners were net sellers for the week at USD43.6mn, marking the 6th straight week of net weekly foreign outflow.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

The US Federal Reserve will defy investors' expectations and raise interest rates by at least another quarter-point, according to a majority of leading academic economists polled by the Financial Times. More than 40 per cent of those surveyed said they expected the Fed to raise rates twice or more from the current benchmark level of 5.25-5.5 per cent, a 22-year high.

This is in sharp contrast to the mood in financial markets, where traders in federal funds futures believe the US central bank's policy settings are restrictive enough to get inflation under control and so it can keep rates on hold well into 2024.

<https://www.ft.com/content/43f904eb-fb6a-4567-b8ee-a69cc16c7538>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Market participants will watch out for updated policy guidance from key central banks such as the Fed, ECB, and BoJ this week. SLIMTC will look to add duration as US Treasury yields trade near cycle highs. Our updated range for the 10Y yield is 3.10% to 3.40%.

PHP FIXED INCOME

This week's FXTN 10-71 (10Y) auction offers market participants a good opportunity to add duration. This is the only issuance in the long-end scheduled for the month of September. For this week's BSP Monetary Board meeting, SLIMTC expects the BSP to keep policy rates on hold, but maintain hawkish tone as inflation risks remain tilted to the upside.

Local Equities

Market sentiment on PCOMP remains weak as risk of higher inflation for 3Q remains. Foreign selling of big cap names was evident during the past few trading days, with PCOMP's next support at 6,000 level.

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
19-Sep-23	US Housing Starts (Aug)	1452k	1437k
21-Sep-23	US Federal Reserve Policy Meeting	5.25%	5.25%
21-Sep-23	PH BSP Monetary Board Meeting	6.25%	6.25%
22-Sep-23	PH Bank Loan Growth	7.90%	

Our House View

Economic Forecast (as of 11 Sept 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 82/bbl	USD 70/bbl	USD 93/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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