

Attack on Israel Creating Turmoil in Oil Markets

Previous Week Summary

Global markets reverse despite poor market sentiment. Tensions in the Middle East intensifies.

US benchmarks led global equities higher last week despite pervasive negative sentiment in the markets as the yields sell off intensified. Before last Friday, all markets were still in the red driven by market concerns on further FED tightening, inflation above target and a possible government shutdown. Nonetheless, there was a favorable rebound last Friday with the S&P 500 advancing, ending the week 0.51%. The tech heavy Nasdaq also jumped and closed +0.95%, powered by megacap tech names such as Apple, Amazon and Nvidia. Likewise, European stocks reversed as the STOXX Europe 600 ended 0.72% higher for the week. Technology stocks were also the main driver as bond yields pulled back. Consumer staples continued to underperform for the second straight week. Asian markets lagged as both MSCI Asia ex Japan (-1.09%) and the TOPIX (-1.83%) both underperformed. For this week, the focus shifts to the US inflation print as a softer number would continue to support a possible soft landing scenario. SLIMTC also keeps in view developments in the middle east as the Israel-Palestine conflict intensified last weekend with both parties initiating military offensives against each other. A further escalation of this conflict could disrupt commodity prices and increase risk premia in the global markets.

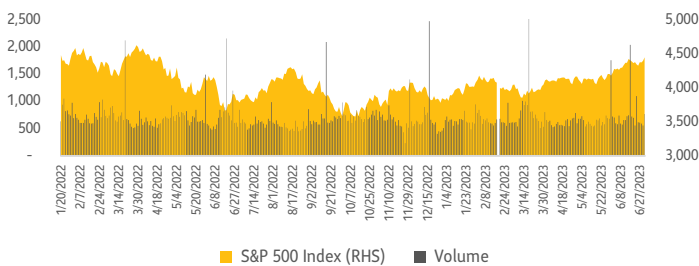
Bonds sell-off on the back of strong data in the US, upside risks to inflation in the Philippines

US Treasury yields moved another leg higher last week after a series of strong data prints supported the higher for longer outlook on rates. The 30Y US Treasury yield tested the 5% level multiple times, while the 10Y yield closed the week at 4.805%. In the Philippines, September inflation accelerated to 6.1% YoY due to higher food prices, particularly rice. This is way above consensus estimate of 5.4% and falls in the higher end of BSP's forecast. As such, market participants turned defensive and local government bond yields rose as much as 10 bps over the week.

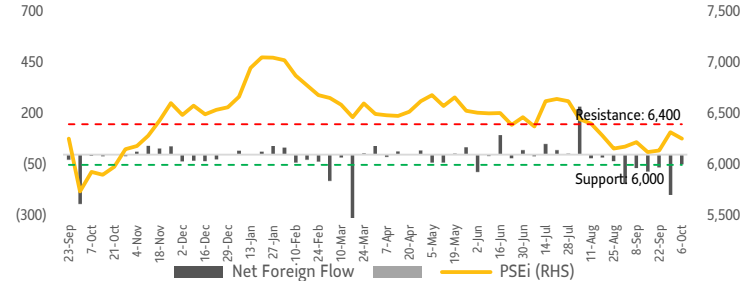
Higher-than-expected Philippine inflation pressures PSEi

The PSEi registered a weekly decline last week with selling pressure most evident on Thursday's reporting of September inflation figures. The main equity bourse lost 61.29pts, down 0.97% w-w, to end at 6,259.95. Headline inflation was reported at 6.1% for September, much higher than the consensus forecast of 5.3% and an acceleration vs August's 5.3%. Almost all sectoral indices were also down for the week, save for Mining & Oil at a +0.44% w-w gain while Financials led the losers at -2.00% w-w. Foreigners remained net sellers for the week at USD45.4mn.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

U.S. stock-index futures fell and oil prices jumped late Sunday, as investors were rattled by geopolitical uncertainty after Hamas launched a surprise weekend attack on Israel. Dow Jones Industrial Average futures fell about 200 points, or 0.7%, right out of the gate, while S&P 500 futures ES00 and Nasdaq-100 futures sank as well.

Meanwhile, oil futures surged late Sunday. Analysts said crude prices could rise in the short term due to possible knock-on effects on Iranian oil exports. "With the Middle East Powder Keg igniting again, oil prices will rise tangentially to heightened geopolitical risks," Stephen Innes, managing partner at SPI Asset Management, wrote in a note Sunday. "We should expect continued turbulence in crude oil prices as the rates-driven recession fears give way to the worrisome terrorist escalation in the Middle East."

<https://www.marketwatch.com/story/u-s-stock-futures-tumble-after-hamas-attack-on-israel-9ff2694f>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Safe haven demand due to the Israel conflict will likely keep US Treasuries supported. Nonetheless, focus may shift back to Fed policy quickly as September inflation data will be released this week. A stronger than expected print could see bond yields in the long-end test the 5% resistance.

PHP FIXED INCOME

The BTr will hold its first T-bond auction for the month this week. The auction will help gauge market appetite for duration and BTr's willingness to award supply at current yield levels. With the BSP turning more hawkish and given the upside risks to inflation, SLIMTC will stay on the sidelines and wait for improvement in market sentiment or better yield levels.

Local Equities

Market sentiment on PCOMP remains tentative amidst macro headwinds. PCOMP still in a downtrend with 6,000 support and 6,400 resistance levels holding for now.

Global Funds

SLIMTC continues to increase equity exposure as global investors continue to 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 resilient earnings. The team remains constructive on Japanese equities too as the macroeconomic recovery story remains intact. Meanwhile, exposure to Emerging Markets remains at neutral, with a preference towards Korea, Taiwan, and India as these countries are positioned to benefit from the emerging Tech/AI story.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
6-Oct-23	US Core CPI (Sep)	4.3% YoY	4.1% YoY
10-Oct-23	PH Imports (Aug)	-15.3% YoY	-14.5% YoY
10-Oct-23	PH Imports (Aug)	-15.3% YoY	-14.5% YoY
12-Oct-23	US CPI Inflation (Sep)	3.7% YoY	3.6% YoY

Our House View

Economic Forecast (as of 10 Oct 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	6.20%	6.00%	6.70%
PH GDP	4.80%	3.00%	6.50%
USDPHP	54	53	55
BSP Policy Moves	Possible hike	0	1
BSP Policy Rate	25 bps	0	25 bps
Budget Deficit	-6.19%	-	-

US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 82/bbl	USD 70/bbl	USD 93/bbl
Fed Policy Moves	0-1	0	1
Fed Policy Rate	0-25bps	0 bps	25 bps
US 10Y	5.13%	4.85%	5.53%
US Recession Probability 2023	High	-	-

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