

Saudi Arabia Extends Oil Production Cuts Until December

Previous Week Summary

Investors enjoyed strongest rally of 2023 as soft landing gains traction and Fed becomes more dovish

Wall street cheered an explosive rally as investors enjoyed weak ISMs, labor market data, less than expected treasury supply and a more dovish Federal Reserve. These factors had emboldened investors to take on more risk as they expected more favorable financial conditions moving forward. Major equity indices scored its best gains of the year led by S&P 500(+4.7%), NASDAQ (+5.7%), TOPIX (+5.7%). The market's "fear gauge" — the VIX — saw its biggest five-day plunge in 21 months. 10Y Yields dropped down to 4.5% while the dollar weakened slightly. A raft of Fed officials — including Chair Jerome Powell — is slated to speak over the next few days. This week will also show data releases on consumer sentiment (University of Michigan), labor market (claims), credit (loan officer survey, consumer credit). A moderate weakening in the data would continue the soft landing narrative and support the current risk on rally. A more severe downturn could possibly derail the upward march of stocks.

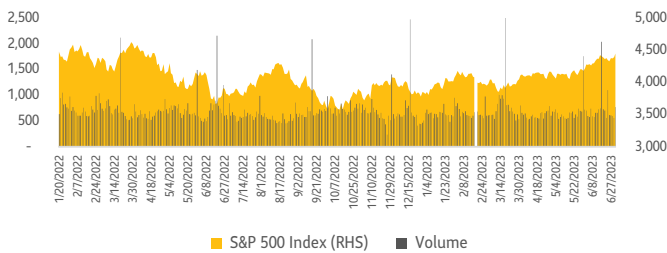
Bonds rally on dovish Fed pause, less US Treasury supply, and cooling labor market

US Treasury curve bull flattened last week as yields dropped sharply after the Fed delivered a pause in this month's FOMC. Powell's message was interpreted as dovish as the Fed looked to the end of their hiking cycle. Contributing to the bullish sentiment towards US Treasuries were the news of less-than-expected US Treasury supply for the fourth quarter and the most recent payrolls data which paint a picture of a cooling labor market. In the Philippines, the rally in US Treasuries translated to better appetite for duration. The 10Y local government bond was seen closing the week at 6.95%, after selling off up to 7.20%.

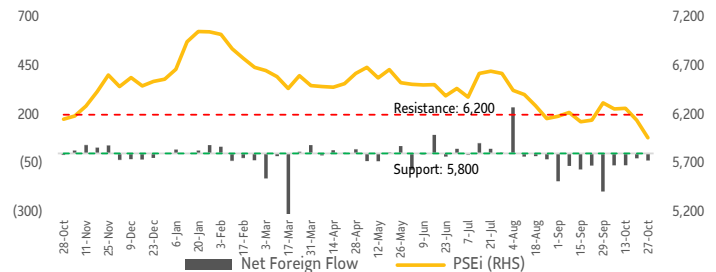
PSEi up through shortened week as macro sentiment improves

The PSEi was up +0.46% to end the two-day trading week amid holidays in the Philippines, closing the week at 5,989.27. Optimism on Friday lifted the market slightly as traders became more positive on dovish rhetoric from central banks and the potential for lower domestic inflation in October. Sectoral outperformers for the week were Services (+1.77%) and Property (+1.32%). Holding Companies (+0.09%) and Banks (-0.09%) were relatively flat while Industrials (-0.42%) and Mining & Oil (-0.40%) were clear underperformers. Net foreign selling for the week was - P922.5 Million.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Saudi Arabia on Sunday confirmed it would extend a production cut of 1 million barrels a day, which first took effect in July, through the end of December.

In a statement citing an Energy Ministry official, Saudi Arabia said it would extend the cut through next month, affirming a September announcement that had said it would keep the cut in place through the end of 2023. The statement said Saudi production would be approximately 9 million barrels a day in December.

<https://www.marketwatch.com/amp/story/saudi-arabia-to-extend-1-million-barrel-a-day-oil-production-cut-through-december-1df53796>

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Bright Ideas

Fixed Income

USD FIXED INCOME

After the sharp move last week, US Treasuries will likely see a consolidation this week. SLIMTC's updated range for the 10Y yield is 4.5% to 4.8%.

PHP FIXED INCOME

Key data for the week will be the October inflation figure. A stronger-than-expected print would help lift market sentiment and improve appetite for duration. SLIMTC still prefers to increase duration by participating in auctions.

Local Equities

Market sentiment remains fragile after the PSEi broke below 6k psychological support level. Next support is 5,700-5,800 levels.

Global Funds

SLIMTC is maintaining its equity exposure at slight overweight as global investors continue to position for sustained global growth in 2024. Investments have been calibrated to outlets that are positioned to benefit the most from the resilient U.S. economy and aided by lower expectations of a hard-landing. 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 and exit from deflation 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
7-Nov-23	PH CPI Inflation (Oct)	6.10%	5.60%
7-Nov-23	US Trade Balance (Oct)	\$ -58.3bn	\$ -60bn
9-Nov-23	PH GDP (3Q)	4.30%	4.70%
10-Nov-23	US U of Michigan Sentiment (Nov)	63.8	63.5

Our House View

Economic Forecast (as of 16 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	4.44%	4.03%	4.75%
US Recession Probability 2023	High	-	-

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