

# VANTAGE POINT

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

## EQUITY OUTLOOK

**MARKET OUTLOOK: NEUTRAL**

**SECTOR PICKS: CONSUMER, FINANCIAL NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES.**

**TECHNICALS: SUPPORT AT 6000 FOLLOWED BY 5700, RESISTANCE AT 6200 FOLLOWED BY 6500**

The PSEi's bounce proved to be short-lived as stocks succumbed to concerns over resurgent inflation. Certain commodities such as oil, sugar and coffee spiked recently due to reduced supply either due to El Nino or outright reduction in production. Hitting closer to home is the meteoric rise in rice prices due to weather disturbances, El Nino and protectionism by rice producers. This caused inflation to rise above forecast as this staple comprises a significant portion of the consumer basket.

Thus, it is likely that the weakness we saw in 2Q23 GDP may continue into 3Q23 as consumers continue to tighten their belts. Note that household savings are still quite depleted post-COVID. We can see evidence of this in the massive growth of credit card receivables as well - in the absence of savings, consumers are now tapping into credit.

Moreover, the lack of liquidity in the Philippine market exacerbates the effect of any foreign selling. Fortunately, some locals now have cash from selling their MPI shares recently, so this should provide some cushion from the selloff.

The lack of catalysts plus the reemergence of inflation risk makes for a very gloomy environment for risk assets. For buyers, there might be no need to rush.

**Philippine Stock Exchange Index (PSEi) 1-year chart**



### TRADING STRATEGY

Inflation fears intensified despite the implementation of the rice price ceiling this week. Amidst rising prices of select commodities, the BSP said inflation will only reach its target in 1Q24 instead of this year. Against this backdrop, we expect the market to remain weak



# BOND OUTLOOK

**MARKET OUTLOOK:  
NEUTRAL**

**TRADING STRATEGY**

Start of September is quite slow with most players still on the sidelines looking for fresh leads. Philippine August CPI data surprised to the upside, so this is also a concern that most dealers are wary of. Bids have stayed defensive, and should stay that way until we get confirmation that inflation has been tamed. But for now all signs are that inflation may be rising again. We look to remain neutral as well.



With CPI showing that inflation is rising again, especially rice and oil, BSP has come out lately with a hawkish tone, saying that they will be data dependent and do what is necessary to stem inflation.

Going into the end of the year, it does look like rate cuts are now off the table, and that we should expect the Fed to raise rates one more time, if not two.

That would cause local rates to rise a bit from where we are now as well, with the 10y possibly settling back around the 6.50 level, which is quite reasonable. For now though, we would like to remain on the defensive, and stay on the sidelines to await further leads.

**PHP BVAL Reference Rates – Benchmark Tenors**

| Tenor | BVAL Rate as of September 11, 2023 |
|-------|------------------------------------|
| 1M    | 5.5889                             |
| 3M    | 5.652                              |
| 6M    | 5.9816                             |
| 1Y    | 6.2687                             |
| 2Y    | 6.1943                             |
| 3Y    | 6.204                              |
| 4Y    | 6.2153                             |
| 5Y    | 6.2387                             |
| 7Y    | 6.3231                             |
| 10Y   | 6.4226                             |
| 20Y   | 6.605                              |
| 25Y   | 6.605                              |



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