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PHILEQUITY CORNER

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Some good news

In the past months, investors have been confronted with a spate of bad news that weighed on market performance. Locally, we saw the country's disappointing GDP growth in 2Q23 which came on the back of high inflation and the contraction in government spending. On the global front, we witnessed the wars in Israel and Ukraine which led to oil price spikes that fanned inflation. Central banks responded with rate hikes even as a global economic slowdown and a possible recession loomed. The US dollar strengthened as most currencies weakened. China's economy slowed as its cold war with the US continued. Amid all the negative developments, investors received a welcome respite with the slew of much-needed good news that lifted financial markets.

GDP growth recovers in 3Q23

One of the more important good news came with the release of the country's 3Q23 GDP report. GDP growth quickened to 5.9% in 3Q23 from 4.3% in 2Q23. This came above the consensus estimate of 4.7%. This was driven by the 6.7% growth in government spending which recovered from a 7.1% contraction in the previous quarter. This can be attributed to the call of the economic team on government agencies to implement catch-up plans in order to address underspending. Meanwhile, consumption growth remained strong at 5%.

Domestic inflation eases

Another important positive development is the easing of domestic inflation. Average inflation in 3Q23 settled at 5.4%, lower than 6% in 2Q23 and 6.5% in 3Q22. On a monthly basis, headline inflation dropped to 4.9% in October from 6.1% in September, falling below the central bank's monthly forecast range of 5.1-5.9%. This can be traced lower to food inflation at 7.1% in October from 10% in September. Though rice, sugar, and vegetable prices remained high, their inflation rates have moderated. In its policy statement, the Bangko Sentral ng Pilipinas (BSP) said that it stands ready to undertake further actions to prevent supply-side pressures from leading to second-round effects.

Peso – strongest currency in Asia

Despite the strength of the US dollar and the weakness of Asian currencies, the peso was able to hold the line at 57. As a result of the BSP's proactive policies, timely intervention in the currency market, and the astute statements of BSP Governor Eli Remolona, the USDPHP rate is now at 55.83 and the peso is the best performing Asian currency year-to-date.

Contained war results in lower oil prices

When the war between Israel and Hamas broke out, there were fears that it would escalate into a wider, regional conflict in the Middle East. There was also concern that Iran would join the battle and close the Strait of Hormuz. Fortunately, however, Iran has not yet been directly involved in the war. So far, the conflict has been confined within the borders of Israel with a more targeted ground attack on Gaza. These developments have caused global crude prices to retreat after an initial spike when Hamas attacked Israel. The pullback in oil prices provided a lift to markets as it quelled fears that inflation would surge anew and interest rates would have to rise even further.

Meeting between Biden and Xi

The latest good news came with the announcement that Joe Biden and Xi Jinping will meet in California this week. This is a welcome development considering the rivalry between the US and China across various domains including trade and technology. This also comes amid increasing US involvement in the conflict between China and Taiwan, and the territorial dispute in the South China Sea. An amicable and substantive meeting can repair strained relations in trade and technology as well ease tensions between the Philippines and China that arose because of sovereignty issues. A thawing of the cold war would improve market sentiment and boost the performance of financial assets in the US, China, and emerging markets.

Peak rates may be near

The most important positive development is the potential peak in interest rates. The regime of higher interest rates has weighed on the performance of risk assets. Thus, a peak in interest rates would be a key turning point for financial assets such as equities, bonds, and currencies. The 10-year US Treasury yield declined to 4.65% from a recent high of 5.02%, potentially signaling a near-term peak.

Powell the party pooper

Federal Reserve (Fed) Chair Jerome Powell acted as a party-pooper by halting the market rally with his hawkish statements. In his speech last week, Powell said that the Fed is “committed to achieving a stance of monetary policy that is sufficiently restrictive to bring down inflation to 2% over time; we are not confident that we have achieved such a stance.” Powell’s comments snapped the S&P 500’s eight-day winning streak and caused the market to decline on Thursday. However, the market resumed its upmove last Friday.

Breath of fresh air

Investors benefited from a streak of good news that lifted financial assets. There are signs that inflation has peaked or is about to peak, and this would consequently usher a peak in interest rates. Locally, we saw 3Q23 GDP recover amid efforts by the economic team to accelerate government spending. Inflation eased as the government intervened to address food supply issues. Though wars, oil price spikes, and high US interest rates are beyond our control, there are still many things that the country can do to cushion the impact of negative developments abroad on the economy. The good news on growth and inflation are the direct results of the astute management and proactive responses of the government and the central bank.