

Aug 28, 2024

## Three Take-Aways

1) US equities eked out gains and USTs outperformed peers on consumer confidence surprise, alongside consumers' expectations of lower inflation and tighter labour markets.

2) Oil fell after Libya's supply shock fades as demand concerns and supply risks seep back.

3) Philippines fiscal balance looks to be on track towards 5.6% deficit this year; but 2025 outlook presents risk to fiscal consolidation path.

## MACRO THEME: Mixed Wagers

- Further to disappointing manufacturing activity, bets on Fed rate cuts were bolstered by consumers' expectations of lower inflation and tighter labour markets. Fed Discount minutes also imparted confidence of imminent cuts, as it showed Fed Williams and Goolsbee in favour of lowering the discount lending rate in July, a possible signal that they were prepared to support an interest rate cut in July. Discount rate moves in conjunction with the central bank's policy rate and July FOMC minutes indicated "several" officials saw a plausible case for lowering rates.

- Meanwhile, more restraint was seen across the Atlantic with yields of Gilts and Bunds moving higher across the curve, even as comments by ECB speakers were mixed. ECB Knot said he was awaiting more information before deciding on whether to support an interest-rate cut next month, while ECB Centeno said direction of monetary policy seems "clear" given lower inflation and signs of slowing labour market.

- Brent Oil fell -2.3% and dipped below \$80/bbl (from >\$81/bbl), paring gains from the shock on Libya shutting down oil production and halting exports. The limited upside in this episode suggests continued demand concerns, amid a possible relaxation in OPEC+ output curbs.

**Yields (2Y: -3.6bps; 10Y: +0.6bps; 30Y: +0.8bps)**

- UST yield curve steepened. 2Y yields fell as Fed cut bets continued to pile on, while longer-end yields edged up higher.

**Equities (Nasdaq: +0.2%; S&P: +0.2%; Dow: +0.0%)**

- US equities eked out gains on better-than-expected consumer confidence.

**FX (DXY: -0.3%)**

- The USD weakened against G10 peers. EUR was buoyant above mid-1.11 levels, AUD oscillated above mid-67 cents and USD/JPY moved below the 144 handle. USD/SGD mostly traded below mid-1.30.

## China: Confidence Woes

- China equities remained in the red, dragged down by real estate, tech and industrials counters. This was despite industrial profits registering the seventh consecutive gain on a YTD basis. While the print was bolstered by low base effects, the dull mood was arguably a result of chronic confidence deficit which imparts little confidence on sustained growth, especially as corporate earnings hint at weak consumers.

## DATA/EVENTS

| Overnight                                  | Actual | Exp.   | Prior     |
|--|--------|--------|-----------|
| (CH) Industrial Profits YoY (Jul)          | 4.1%   | -      | 3.6%      |
| (US) Conf. Board Consumer Confidence (Aug) | 103.3  | 100.8  | 101.9     |
| (US) Richmond Fed Mfg Index (Aug)          | -19    | -14    | -17       |
| <b>Today</b>                               |        |        |           |
| (AU) CPI/Trimmed Mean YoY (Jul)            |        | 3.4%/- | 3.8%/4.1% |
| (PH) Budget Balance PHP (Jul)              |        | -      | -209.1b   |

- In particular, PDD's downbeat guidance from senior management could be emblematic of the Chinese consumers woes, insofar as it signals that even low prices (a strategy employed by PDD) appears to be failing to urge consumers to spend more.

## Philippines Fiscal: A Stock Take

- Philippines appear on track towards the 5.6% fiscal deficit for 2024. Expenditures YTD (as at end-June) stand at around ~48% of 2024 budget, which is aligned with past trends where government spending typically pick up in 2H. Meanwhile, revenues stand at around 50% of 2024's projections, in-line with past averages.

- However, the 2025 fiscal outlook does not look as promising. In July, the Department of Budget and Management (DBM) submitted to the House of Representatives the proposed 2025 budget. The Marcos administration is seeking a funding of PHP6.35tn for 2025, a 10.1% increase compared to the current year's PHP5.77tn and represents a greater budget increment from 2024's 9.5%. This also represents a 2.4% increase from the Development Budget Coordination Committee's (DBCC)^ initial budget estimate of PHP6.2tn in April 2024.

- The increase is predominantly driven by transportation, whose allocation increased by 144% on expected increase to railway projects. Budget Secretary Pangandaman also noted that more funds have been allocated to account for increase in teachers' allowance and allowance for personnel for next year's elections. The 2025 budget is expected to constitute 22.1% of GDP, compared to 21.7% in 2024.

- While the budget is still not finalised, this budget presents **material risk of fiscal slippages from the 5.3%\* deficit** set out in the medium term fiscal framework (MTFF) in June. Point being, the 5.3% estimate was derived from actual disbursement being lower than the budget. But approval of this budget means that the upper bound of fiscal deficit would be around 6.0% assuming full disbursement and revenue growth of 8.8% YoY which is in-line with MTFF projections.

- 2025 revenues are projected to stand at 16.1% of GDP based on the MTFF, and we think this projection is reasonable, given that actual revenues received in 2016-2019 period averaged 10.5% YoY growth while 2023 revenues increased by 7.9% YoY. Potential for upside remains limited, as while the passing of the Digital Services Tax bill\*\* could also help buffer coffers, it would not be much relative to the increase in budget, especially as developments on other tax reforms (e.g. Mining Fiscal regime) remain scant.

- All in, despite the larger fiscal impulse being a positive for growth in 2025, **downside fiscal risks amid an already slow-to-consolidate fiscal path would likely weigh on PHP**, especially amid BSP's dovish tendencies and signs of weaker household spending casting some pall on growth even as external sector holds up.

^ DBCC overlooks DBM, and three other member agencies.

\*Projections for fiscal deficit for 2025 was previously 5.2% in April 2024 and 5.1% in December 2023.

\*\*The bill imposes a 12% VAT on digital transactions involving non-resident digital service providers. It is estimated to generate ~0.1% of GDP (PHP 18bn) in its first implementation year.

## FX OUTLOOK

| FX     | Close (NY) | Open*  | Daily %Δ | Forecast        |
|--------|------------|--------|----------|-----------------|
| USDJPY | 143.96     | 143.97 | ▼0.39%   | 142.50 - 145.50 |
| EURUSD | 1.1184     | 1.1177 | +0.21%   | 1.1100 - 1.1250 |
| GBPUSD | 1.3261     | 1.3256 | +0.55%   | 1.3150 - 1.3350 |
| AUDUSD | 0.6793     | 0.6788 | +0.31%   | 0.6700 - 0.6850 |
| DXY    | 100.6      | --     | ▼0.30%   | 100.1 - 101.2   |
| USDCNY | 7.1238     | --     | +0.03%   | 7.1000 - 7.1500 |
| USDCNH | 7.1215     | 7.1218 | ▼0.02%   | 7.1000 - 7.1500 |
| USDHKD | 7.8017     | 7.8018 | +0.07%   | 7.7900 - 7.8100 |
| USDSGD | 1.3011     | 1.3014 | ▼0.23%   | 1.2970 - 1.3100 |
| USDKRW | 1330       | 1331   | +0.00%   | 1320 - 1340     |
| USDTWD | 31.93      | --     | +0.38%   | 31.70 - 32.10   |
| USDINR | 83.93      | --     | +0.03%   | 83.80 - 84.00   |
| USDIDR | 15495      | --     | +0.42%   | 15300 - 15600   |
| USDMYR | 4.348      | 4.343  | ▼0.02%   | 4.320 - 4.370   |
| USDPHP | 56.25      | --     | ▼0.15%   | 56.00 - 56.50   |
| USDTHB | 34.07      | 33.93  | +0.28%   | 33.80 - 34.30   |
| USDVND | 24832      | 24828  | ▼0.16%   | 24700 - 25000   |

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US)    | 3.901    | 3.823     | -3.6       | 0.6         |
| JGB (JP)    | 0.360    | 0.875     | 0.2        | -0.6        |
| Bunds (GE)  | 2.398    | 2.287     | 0.6        | 4.2         |
| Gilts (UK)  | 4.106    | 3.997     | 44.1       | 8.6         |
| AGB (AU)    | 3.624    | 3.910     | 5.6        | 5.6         |
| SGS (SG)    | 2.637    | 2.716     | 0.7        | 2.1         |
| CGB (CN)    | 1.552    | 2.177     | 1.6        | 2.0         |
| KGB (KR)    | 3.092    | 3.236     | 0.8        | -3.6        |
| SDL (IN)    | 6.861    | 6.760     | 0.2        | 0.2         |

| Cross FX         | Close (NY) | Open*   | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY          | 161.02     | 160.91  | ▼0.18%   |
| GBP/JPY          | 190.909    | 190.84  | +0.16%   |
| JPY/SGD (100yen) | 0.9038     | 0.904   | +0.18%   |
| JPY/HKD (100yen) | 5.4194     | 5.4192  | +0.47%   |
| CNH/JPY          | 20.219     | 20.209  | ▼0.36%   |
| CNH/HKD          | 1.0952     | 1.0952  | +0.04%   |
| EUR/GBP          | 0.84342    | 0.84317 | ▼0.34%   |
| AUD/NZD          | 1.0865     | 1.0873  | ▼0.47%   |
| EUR/CNH          | 7.9652     | 7.96    | +0.19%   |
| GBP/CNH          | 9.4432     | 9.4407  | +0.53%   |

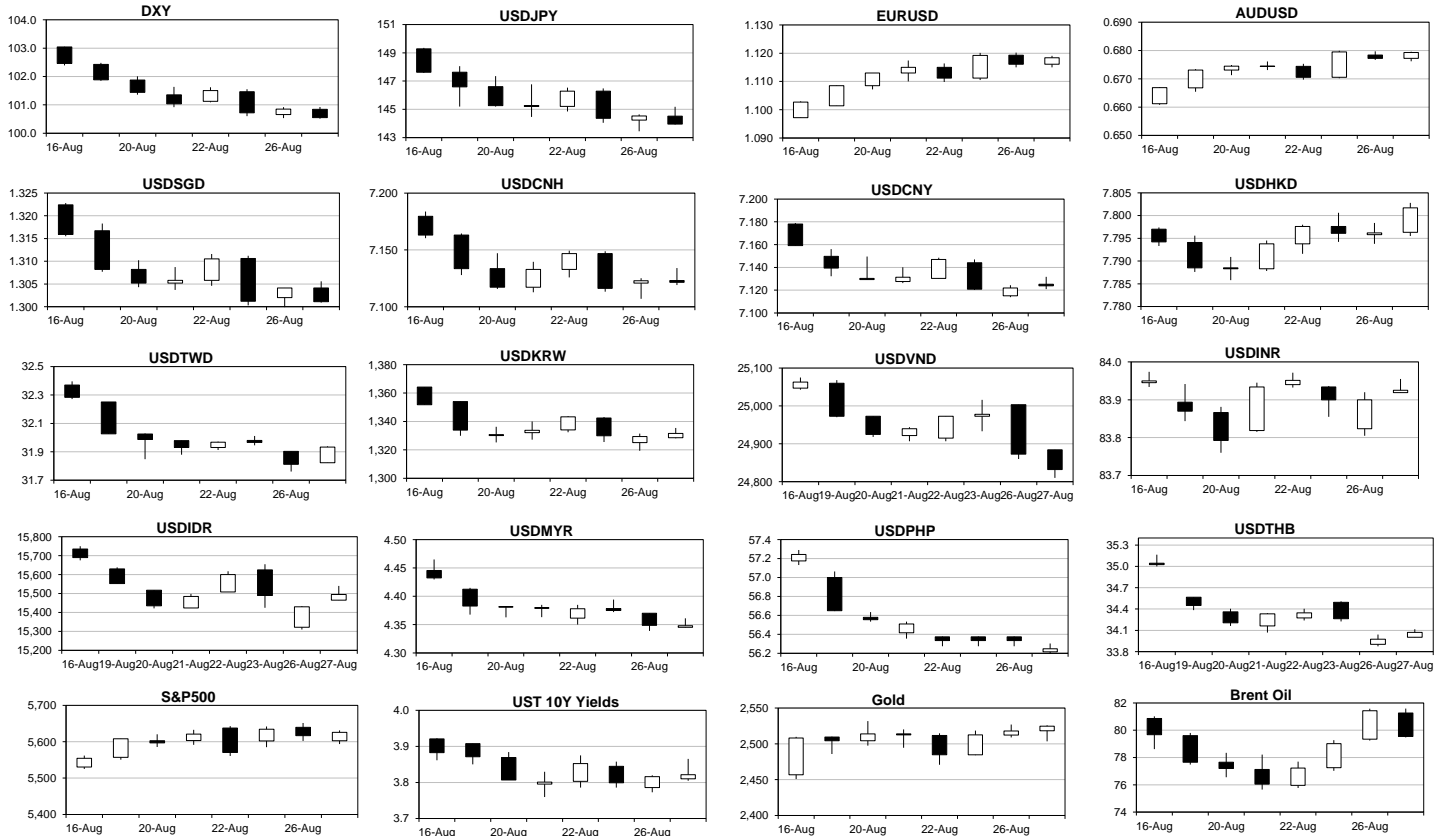
\*Open is as at 8am HKT/SGT.

| G3 Equities  | Close    | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US)  | 5625.8   | 8.96    | +0.16%   |
| Nasdaq (US)  | 17754.82 | 29.05   | +0.16%   |
| DJIA (US)    | 41250.5  | 9.98    | +0.02%   |
| N225 (JP)    | 38288.62 | 178.40  | +0.47%   |
| STOXX50 (EU) | 4898.78  | 2.09    | +0.04%   |

| Asia Equities | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU)      | 4564.68  | 7.44    | +0.16%   |
| STI (SG)      | 3398.47  | 2.44    | +0.07%   |
| SHCOMP (CN)   | 2848.731 | -6.79   | ▼0.24%   |
| SZCOMP (CN)   | 1493.43  | -19.06  | ▼1.26%   |
| HSI (HK)      | 17874.67 | 75.94   | +0.43%   |
| SENSEX (IN)   | 81711.76 | 13.65   | +0.02%   |
| JSE (ID)      | 7597.881 | -8.31   | ▼0.11%   |
| KLSE (MY)     | 1652.29  | 13.33   | +0.81%   |
| PSE (PH)      | 6973.41  | 11.45   | +0.16%   |
| SET (TH)      | 1364.31  | -0.50   | ▼0.04%   |
| VNINDEX (VN)  | 1280.56  | 0.00    | +0.04%   |

| Commodity     | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME)  | 9,326.52 | 153.14  | +1.67%   |
| IRON ORE (CN) | 98.83    | 1.65    | +0.23%   |
| GOLD          | 2,524.64 | 6.61    | +0.26%   |
| SILVER        | 29.98    | -0.05   | ▼2.66%   |
| OIL (BRENT)   | 79.55    | -1.88   | ▼2.31%   |
| OIL (WTI)     | 75.53    | -1.89   | ▼2.44%   |
| NATURAL GAS   | 1.90     | 0.07    | +0.24%   |

## CHARTS



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