

Consumers

Asset Impact

Positive

From Shelves to Carts: Consumer Incumbents' Path to Recovery Now in Sight

The local economy has continued to experience more reprieve, marked by a sharp decline in inflation and less pessimism among consumers. This leaves the central bank with more salvo to further reduce its policy rates this year. These developments are creating a more favorable backdrop for most consumer incumbents, which should help increase their attractiveness for sector rotation. However, potential headwinds remain. Among others, geopolitical tensions in the Middle East could drive oil prices higher and push markets to seek safe haven in the U.S. dollar. Nevertheless, renewed optimism in the peso—buoyed by anticipated remittance surges leading up to midterm elections—should help the consumer sector cover more ground. Zooming in on staples, CNPF seems to continue gaining momentum on the back of its 90 million liter supply agreement with market leader Vita Coco amid a shift in global consumer behavior in favor of healthier beverages. Also, MONDE, with its strong position in noodles and snacks, stands to gain from steady demand for affordable food options as the lag effect of the recent hiking cycle weighs on household spending. Meanwhile, PGOLD is likely to see increased foot traffic and higher spending as inflation eases, emerging as a beneficiary of this environment. URC, as a laggard play, may see some uptick in volume sales, but current guidance suggests it may need to stay patient until discretionary spending picks up and key commodity prices improve. Recall that coffee prices have continued to soar, resulting in an overhang for the stock. In light of these developments, consumer staples remain in-favor and are expected to register slightly better earnings than the previous quarter. Barring external risks, this positive momentum could extend into Q4. As such, the rating for the sector is retained at slight overweight on the back of a still cautiously optimistic view for sector at large.

Figure 1: Consumer sentiment inched up as inflation plummets on lower rice and transportation costs

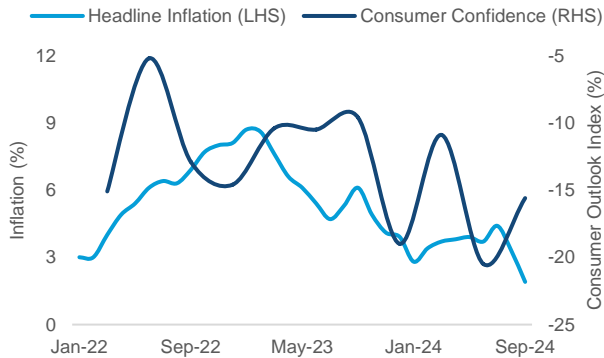


Figure 2: Interest rate gap between BSP and Fed fuels peso's stabilization against US dollars

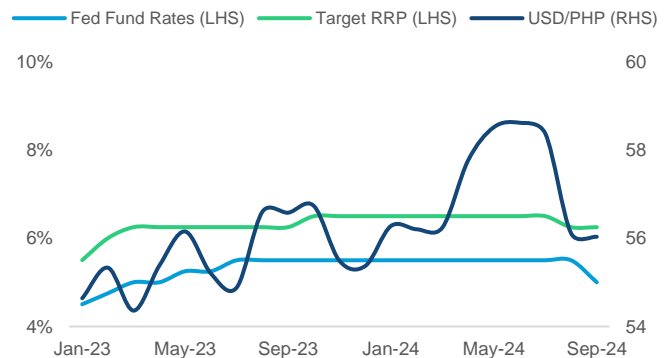


Figure 3: Tuna and wheat prices remain stable; palm oil edged higher; coffee prices continue to rise

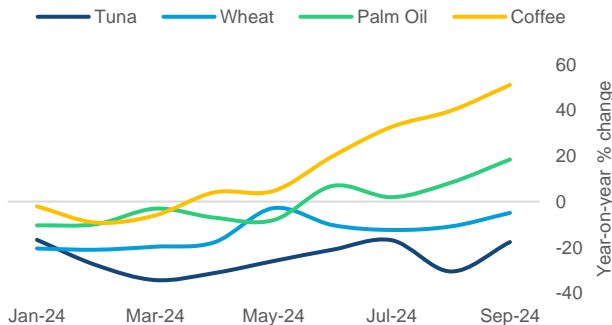
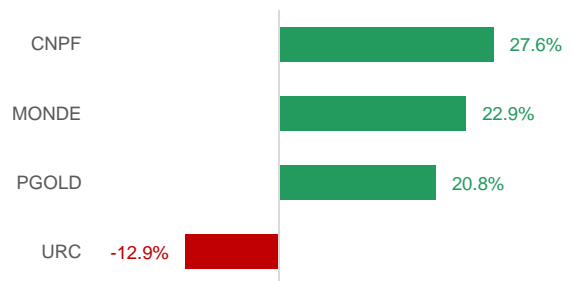


Figure 4: Year-to-date returns highlight investors' preference for staples over discretionary



Sources: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, U.S. Federal Reserve, Bloomberg

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