

Weekly Fixed Income Summary:

PH Bonds Continue Rally

Elle Jamil
Analyst

Bonds Outlook. We expect bond yields to trade sideways as EM's remain a strong option for foreign investors to put their money in amid global concerns over Brexit. The Philippines remains attractive because of its minimal exposure to the United Kingdom and/or the European Union coupled with the new administration's bullish stance on government expenditures. Furthermore, the June core inflation rate rose to 1.9% from 1.6%, closer to the BSP's 2016 inflation target rate of 2%-4%. This is in line with the central bank's assessment that inflation will move towards the target over the policy horizon.

We expect the BSP to hold the policy rates steady for the rest of the year. BSP Governor Armando Tetangco, Jr., on the heels of July 7's auction, said that the TDF auctions have now reached sustainable levels compared to the first few auctions under the new IRC system that were way oversubscribed. The bid-to-cover ratio of the 7-day tenor decreased to 6.025% from 6.138% in June 29's auction, while the 28-day's ratio declined to 4.056% from 4.598%. Short-term deposit auctions' volumes for the third quarter increased to Php50bn from June's Php30bn, also consistent with the BSP's intent to move interest rates closer to the policy rate.

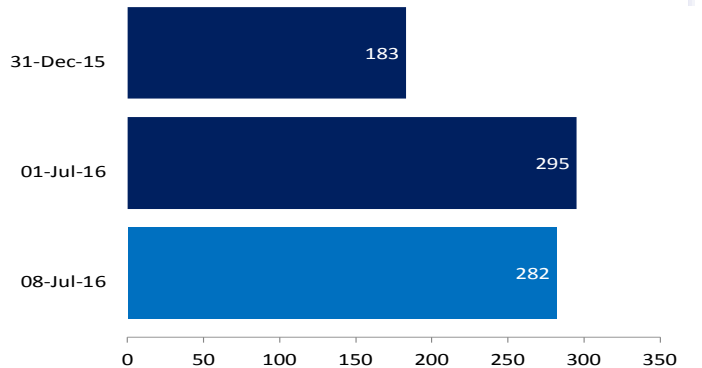
Total daily traded volume retreats by 36% to Php18.3bn. The liquid bond yields slipped further by an average of 11bps and 101bps, year-to-date, as Philippine bonds continued their rally after global economies found their footing when the dust settled post-Brexit. The front-end (FXTN 05-72: 2.3 years) was flat at 2.36%, while the belly (FXTN 10-60: 9.4 years) fell by 8bps to 3.17%. The long-end (FXTN 25-11: 24.6 years) had a bigger drop as its yield fell 20bps to 4.68%. T-bond trading fell sharply back to Php17.6bn, down 37% week-on-week (WoW), with total value traded at Php27.8bn, while T-bills value traded rose 12% WoW to Php641.50mn.

Emerging Markets' (EM) 10-year yields fall 11bps, WoW. The 10-year yields of EMs fell further by 11bps, WoW, led by the Philippines (10-year yield -22 bps), Singapore (-12 bps), and Brazil (-11 bps), while Russia (10-year yield +17), led the underperformers due to fundamental weakness such as retreat of oil prices to the mid-\$40's after hovering near \$50/bbl. EMs and other risk assets rallied on Friday after the strong US jobs data. It appears that markets are pricing in a benign backdrop for risk near-term; that is, the US economy is recovering but not enough to warrant a Fed rate hike for at least the next FOMC meeting in July 27. Post-Brexit, the odds of a Fed rate hike has gone down to 0% for July, while financial markets place a 24% chance at a December move. However, EM's usually weaken in the few days leading to FOMC meetings, so investors should be wary on taking too much risk.

China is expected to report a slew of economic data this week. The central banks of Korea, Malaysia, Chile, and Peru all meet this week, but none of them is expected to take any drastic action.

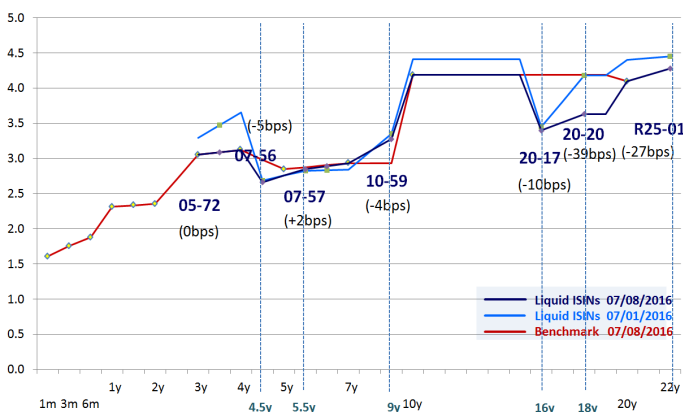
US Generic Yield Curve falls 3bps, WoW. The US treasury yield curve fell by an average of 3bps last week following last Friday's strong jobs report, which showed 287,000 new jobs in June after the disappointing turnout in May. However, the long-term outlook still sees a slowing job growth. With the second-quarter earnings reporting season on the horizon, analysts noted that the recent Brexit vote and a general desire to reduce risk dominated trade and investor sentiment. As a result, the US 10-yr treasury yield curve recovered slightly. However, analysts believe that it is still too early for the Fed to start mulling about raising interest rates despite the encouraging domestic backdrop, particularly in the wake of the Brexit vote. We expect the Fed to remain cautious and to keep rates steady in the short-term as markets figure out completely the effects of Brexit and amid global concerns. Lower US government bond yields, falling oil prices, and a continued move to perceived "safe havens," such as gold, further strengthens the belief that there would be no imminent Fed rate hike. ▲

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg

PDST-R2 Rates of Liquid Government Securities



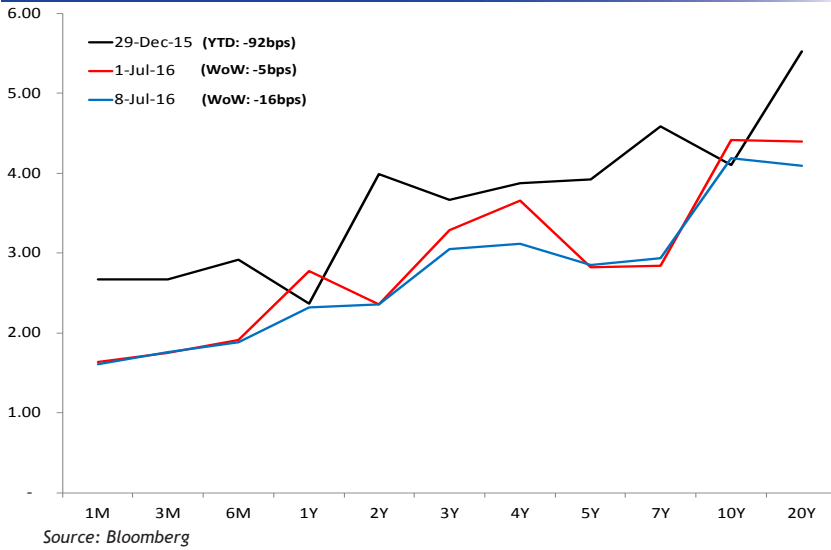
Source: PDS

High Yield and Emerging Markets 10-yr USD Yield

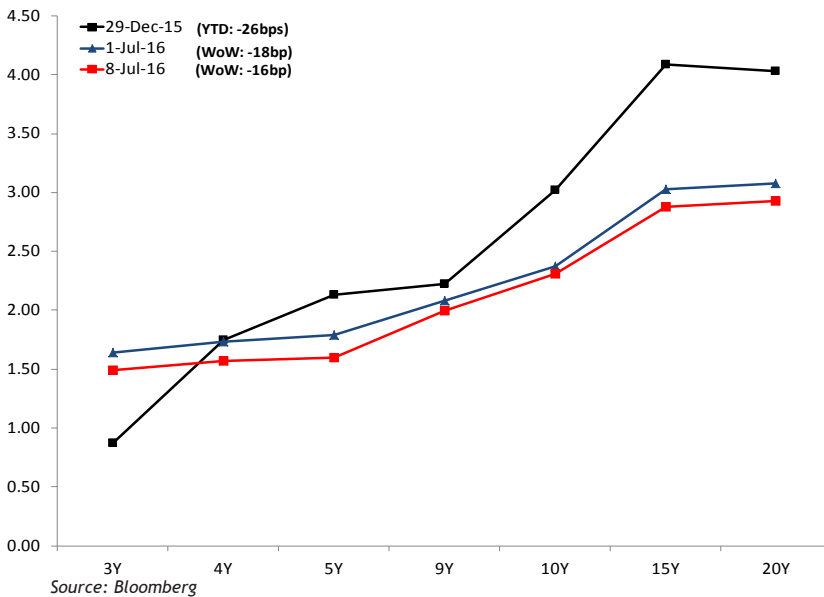
	1-Jul	8-Jul	Dec 2015	YTD Change
Chile	2.25	2.11	3.08	(96)
Philippines	2.05	1.96	2.98	(102)
Mexico	2.71	2.59	3.81	(122)
Peru	2.68	2.52	4.09	(157)
Colombia	3.20	3.08	4.67	(159)
Indonesia	3.51	3.42	4.70	(128)
Turkey	4.02	3.92	5.02	(110)
Brazil	4.40	4.36	7.15	(278)

Source: Bloomberg

Philippine Php Yield Curve, PDST-R2



USD Philippine Sovereign Curve



Primary Indicators

	Period	Latest Period	Preceding Period
I. Real Economy (Growth, %)			
A. GDP	1Q2016	6.9	6.3
B. Manufacturing (VoPi)	Apr '16	11.8	9.3
II. Monetary and Banking			
A. Outstanding Loans, net of RRP (Php Bn), UKBs	May'16	5,322	5,216
Y-O-Y Growth (%)	May'16	17.7	15.6
B. NPL to Total Loans	Apr'16	1.68	1.72
C. M3 Growth (Y-O-Y)	May'16	13.5	12.7
III. Prices			
A. PHP/USD (PDS data)	2W July '16	47.125	47.007
B. 91-Day Rate (%)	1W July '16	1.588	1.674
C. 10-Yr Rate (%)	2W July'16	4.190	4.411
D. Inflation (%)	June '16	1.9	1.6
E. RRP	May '16	3.000	4.000
F. SDA Rate	Sept '14	2.500	2.250
IV. External Accounts			
A. Balance of Payments (USD m)	May'16	241	184
YTD (USD b)		216	-25
B. Net Foreign Portfolio Inv (USD m)	May '16	73	-354.1
C. OFW Personal Remittances	Apr '16	2,443	2,606
Y-O-Y Growth		3.8%	1.4%
D. Gross Intl Reserves (USD b)	June '16	83.97	82.93
E. Import Cover (x)	June '16	10.3	10.4
F. ST External Debt Cover (x)	May '16	5.4	5.5
G. Exports Growth (YoY)	Apr '16	-4.1	-4.7
V. NG Cash Operations			
A. Surplus (Deficit) (Php bn)	Apr'16	55.0	(74.4)

US Treasury Yields (Constant Maturity)

	1-Jul	8-Jul	1 Week (bps)	YTD (bps)
3M	0.28	0.28	-	12
6M	0.37	0.36	(1)	(13)
1Y	0.45	0.48	3	(17)
2Y	0.59	0.61	2	(45)
3Y	0.71	0.71	-	(60)
5Y	1.00	0.95	(5)	(81)
10Y	1.46	1.37	(9)	(90)
20Y	1.81	1.69	(12)	(98)
30Y	2.24	2.11	(13)	(90)

Source: Bloomberg