

Trade War Fears Tapers

Primary Indicators

	Period	Latest Period	Preceding Period
I. Real Economy (Growth, %)			
A. GDP	4Q2017	6.7	6.9
B. Manufacturing (VoPi)	Nov '17	-8.1	15.1
II. Monetary and Banking			
A. Outstanding Loans, net of RRP (Php Bn), UKBs	Oct '17	7,363	7,436
Y-O-Y Growth (%)	Oct '17	17.0%	21.0%
B. NPL to Total Loans	Oct '17	1.46	1.42
C. M3 Growth (Y-O-Y)	Jan '18	12.8	11.9
III. Prices			
A. PHP/\$ (PDS data)	1W Mar '18	52.040	52.000
B. 91-Day Rate (%)	1W Mar '18	1.958	2.032
C. 10-Yr Rate (%)	1W Mar '18	5.987	6.759
D. Inflation (%)	Feb '18	4.5	4.0
YTD (%)		4.3	4.0
E. RRP	May '16	3.000	4.000
F. SDA Rate	Sept '14	2.500	2.250
IV. External Accounts			
A. Balance of Payments (\$ m)	Oct '17	-368	-678
YTD (\$ m)		-1,735	-1,384
i. Current Account (\$ b)	3Q17	0.55	-0.06
% of GDP		0.7%	-0.1%
ii. Capital Account (\$ m)	3Q17	36	37
% of GDP		0.05%	0.05%
iii. Financial Account (\$ m)	3Q17	135	823
% of GDP		0.1%	0.1%
B. Net Foreign Portfolio Inv (\$ m)	Oct '17	-563	112.6
YTD(\$ m)		-770	-206
C. OFW Personal Remittances	Nov '17	2,526	2,552
YTD(\$ b)/YoY(%)		28.2/5.1%	25.7/5.2%
D. Gross Intl Reserves (\$ b)	Feb '17	80.6	81.2
YoY Growth		(4.6%)	(4.6%)
E. Import Cover (x)	Oct '17	8.4	8.7
F. ST External Debt cover (x)	Oct '17	3.6	3.7
G. Exports Growth (% YoY)	June'17	0.8%	13.7%
YTD(\$ b)/YoY growth		31.0/13.6%	26.1/16.3%
H. Trade Surplus (Deficit) (\$ b)	July '17	(1.65)	(2.15)
V. NG Cash Operations			
A. Surplus (Deficit) (Php b)	June '17	(90.87)	(33.42)

Outlook. We expect bond trading to be sidelined this week ahead of the Bangko Sentral's (BSP) monetary board meeting next week (March 22). Expectations of a BSP hike this March continue to mount amid upward pressure on yields upon the release of rising inflation. BSP Governor Espenilla noted that the spike in inflation is transitory and that inflation remains manageable. However, a preemptive hike is not completely off the table.

In the US, three market drivers will come into play: 1) markets' reception of the trade war that Trump instigated last week. Despite the dark cloud that it cast on global trade, there can actually be exceptions with the increased steel and aluminum tariffs, like Mexico and Canada, given better NAFTA trade agreements; 2) the mixed bag of jobs data. New jobs (313,000 vs 200,000 expected) added outperformed, but average hourly earnings disappointed (2.6% vs the expected and January's 2.9%). Wage growth remains to be the missing puzzle piece to complete the US economy recovery picture; and 3) easing geopolitical tensions with North Korea.

Market review. The benchmark yield curve fell by an average of 6bps week-on-week (WoW) as the yield curve slightly flattened from sharp rises in the past few weeks. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly narrowed to 304bps from 393bps, as the former shed 85bps to 5.94% (interpolated) after weeks of staying at the bid rate range of 6.7-6.8% as investors remained defensive. There is still upward pressure on yields as the market prices in a hike this March, evident in the higher rates that bidders demand with recent BTr auctions. The latter rose by 4bps to 2.90% ahead of the anticipated Fed hike this month. Yields of ROPs fell by an average of 3bps, tracking movements in USTs.

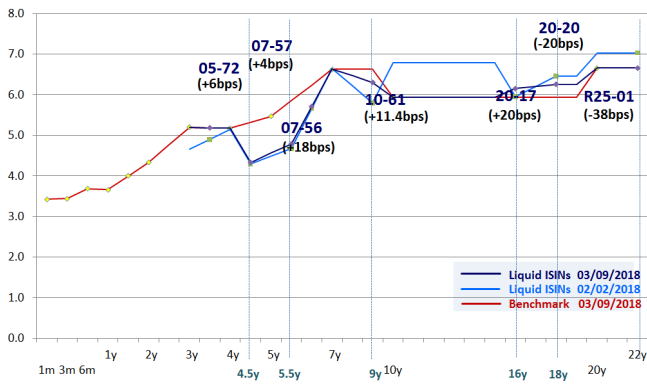
Defensive market. Total daily traded volume down 43% week-on-week (WoW) to Php5.2bn. The liquid yield curve rose by an average of 7bps as the short-end and the belly increased by 17bps on average while the tail fell by 19bps, ending the week with a flatter yield curve. The front-end (FXTN 05-72: 1yr) was up by 7bps to 3.08%, the belly (FXTN 10-61: 9.7yrs) up 11bps to 5.88%, while the tail (R25-01: 20.5yr) was down by 38bps to 6.66%. Secondary trading volume fell by 43% to Php5.2bn, dragged down by 35% lower T-bond trading volume of Php4.2bn and T-bill trading that failed to break the Php1bn mark at Php954mn, down 63% WoW. Meanwhile, the new 14-day TDF tenor has been well-received since its introduction, averaging a bid-to-cover ratio of 1.24x from its past four auctions that offered a total of Php140bn worth of the new tenor. The aforementioned new facility helped siphon off the fresh Php90bn released into the system by the recent reserve cut. Lastly, the BTr partially awarded its latest Php20bn T-bill. Average rates for the 91-day, 182-day, and 364-day T-bills were capped at 3.024%, 3.165%, and 3.311%, respectively, all in line with secondary market rates except for the 364-day T-bill. Bids totaled Php26.6bn (1.33x) with only Php13.2bn accepted.

Emerging Markets' (EM) 10-year yields flat week-on-week (WoW). Yields of EM bonds we follow were flat WoW on average as upbeat US economic data (discussed later) further fueled expectations of a March Fed hike. South Africa (10-year yield -13bps), India (-7bps), and Mexico (-6bps) have outperformed last week, while Turkey (10-year yield +41bps), Indonesia (+25bps), and Hong Kong (+12bps) underperformed.

USTs up by 3bps WoW on upbeat jobs data. US Treasuries rose by an average of 3bps WoW, while the 10-yr UST rose by 4bps to 2.90% on the release of upbeat jobs data. US nonfarm payrolls data showed a hefty 313,000 rise in jobs last February, the most in 18 months and beating expectations of 200,000, but also revealed that annual growth in average hourly earnings had slowed to 2.6% after spiking to 2.9% in January. However, this is still below the Fed's target of at least 3.0% and the 3.5%-4.0% growth range that economists expect of a healthy economy. Unemployment stayed at the 17-yr low of 4.1%. Meanwhile, Trump's tariffs plan was still in focus after he formally signed proclamations on Thursday (March 9, PH time) to implement a 25% tariff on steel imports and a 10% charge on aluminum imports, amid mounting dissent from business groups and trading partners around the world. European and Asian nations did not proclaim any retaliatory measures over the weekend as many expected, while Trump tweeted that Mexico and Canada will be exempted if a new and fair NAFTA agreement were to be signed. There was relief when Trump's top economic advisor Gary Cohn assembled a group of executives, whose companies use imported metals, to argue against the tariffs, but was immediately disappointed when Cohn instead announced that he was leaving the White House.

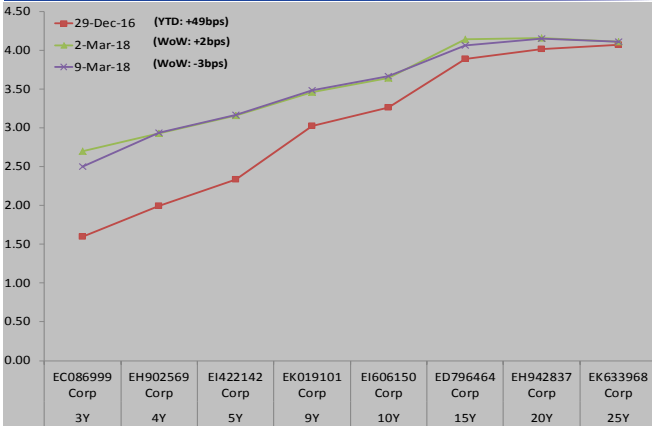
Odds of a Fed hike this month remained at 89%.

PDST-R2 Rates of Liquid Government Securities, week-on-week change



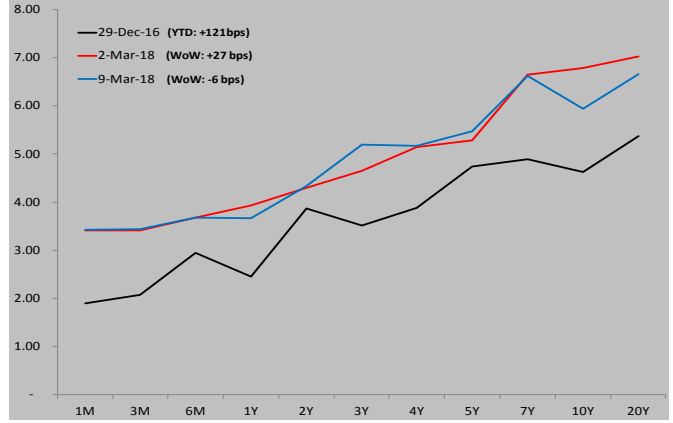
Source: PDS

Average YTD and WoW changes of the USD Philippine Sovereign Curve



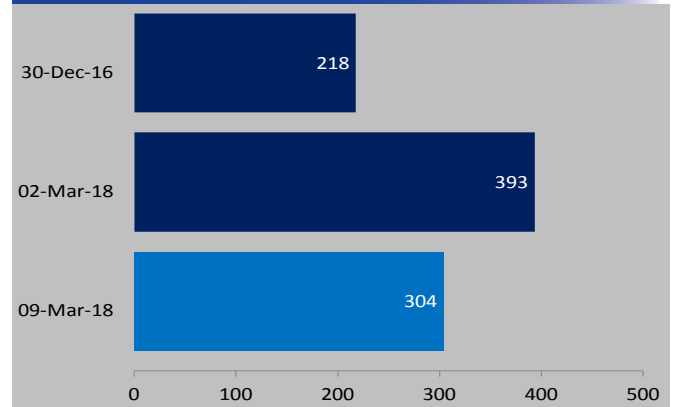
Source: Bloomberg

Average YTD and WoW changes of the Philippine PhP Yield Curve, PDST-R2



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg