

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)	3W Apr '18	52.20	51.935
B. 91-Day Rate (%)	1W Apr '18	3.346	3.190
C. 10-Yr Rate (%)	3W Apr '18	6.240	6.050
D. Inflation (%)	Mar '18	4.3	4.5
YTD (%)		4.3	4.3
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. The local benchmark yield curve grew steeper last week from the prior week due to resurgent US Treasury (UST) yields amid a rally in oil and other commodity prices, fresh UST supply worth \$96bn this week, and renewed higher inflation expectation in the US. All these ahead of the release of US 1Q18 GDP number on Friday (Saturday, PH time). Easing geopolitical worries and a steady increase in commodity prices, especially oil prices that reached its highest level (Brent oil topped \$75/barrel last week) since 2014, boosted inflation expectations around the world. Locally, inflation expectations are already high, part of the unintended consequences of TRAIN, which raises questions about the steady BSP hand. The peso is already down by 4.76% year-to-date (YTD) to Php52.30 and the worst performing currency in the region, second year in a row that it was lower by 4%. Furthermore, the Development Budget Coordination Committee (DBCC) revised its peso-dollar forecast for this year from Php49-52 to Php50-53, which has inflationary implication and may force the hand of the BSP, widely perceived to be behind the curve.

Market review. The local benchmark yield curve was up by 2bps week-on-week (WoW) and 60bps year-to-date (YTD) as the 10-yr US Treasury (UST) tested the 3.0% mark. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) widened to 328bps from 323bps, as the former rose by 19bps to 6.24% and up by 54bps YTD, while the latter was also up by 14bps to 2.96%. Yields of ROPs rose by an average of 6bps, tracking the movement in USTs, up by 9bps.

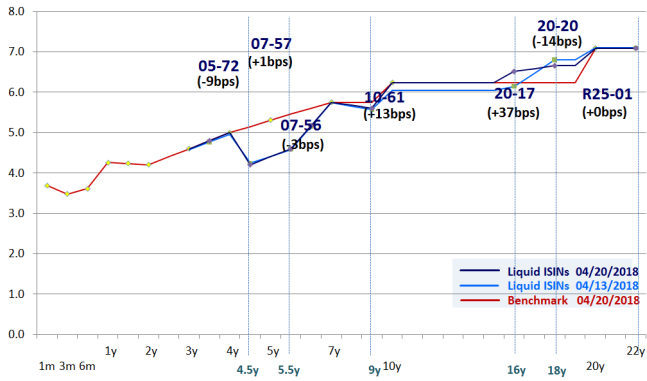
The Bureau of the Treasury (BTr) partially awarded its recent Php10bn auction of reissued 20-yr bond. The auction was 1.9x oversubscribed and fetched an average bid rate of 6.85. Accepted bid rates were capped at 6.95%.

Total daily traded volume down 22% week-on-week (WoW) to Php5.4bn. The liquid yield curve rose by an average of 2bps on thin trading as USTs rose and steepened last week. The front-end (FXTN 05-72: 1yr) fell by 9bps to 3.56%, the belly (FXTN 10-61: 9.7yrs) rose by 13bps to 6.08%, while the tail (R25-01: 20.5yr) was flat at 7.10%. Secondary trading volume decreased by 22% to Php5.4bn on market caution. T-bill trading reached Php3.1bn, up 64% week-on-week (WoW), while T-bond trading volume halved to Php2.3bn. Investors are still defensive, preferring short-tenored notes resulting in a steeper yield curve. The BTr fully awarded its Php5bn 91-day T-bill auction yesterday (April 23) while partially awarding the bids for both the 182-day and 364-day auction. Average bids for the 91-day bill was capped at 3.59%, 10bps higher than the previous auction's 3.49%. On the other hand, bid rates for the 182-day and 364-day T-bills were capped at 4.00% and 4.05%, respectively, while accepted rates for the two bills were 3.89% and 3.99%. The auction was 1.8x oversubscribed.

Emerging Markets' (EM) 10-year yields up 12bps week-on-week (WoW). Yields of EM bonds we follow were up by 12bps WoW on average as the 10-yr UST inched closer to 3.0%. However, analysts noted that it is not by itself a problem for EM bonds as long as the global and EM outlook looks favorable, but with how fast USTs moved to that level. Turkey (10-year yield -47bps), China (-19bps), and Brazil (-16bps) outperformed last week, while India (10-year yield +29bps), Indonesia (+23bps), and Hong Kong (+19bps) underperformed.

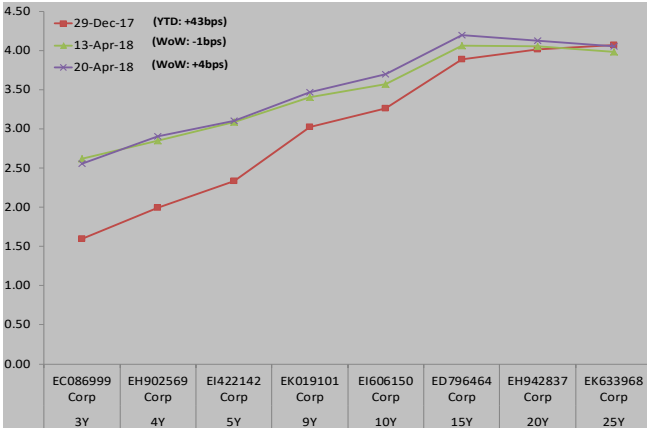
USTs up by 9bps WoW. US Treasuries rose by an average of 9bps WoW, while the 10-yr UST was up by 14bps WoW to 2.96%, on the brink of breaking through the 3.0% mark for the first time in four years. Easing geopolitical tensions jumpstarted the 10-yr UST to 2.99% at the start of last week, even hitting as high as 2.998%. Additionally, Brent oil prices moved above \$70/barrel, fanning optimism of higher inflation. Finally, strong retail sales (up 0.6% in March vs 0.3% expected) and housing starts data (up 1.1% in March from 3.1% in February) released last week further fueled inflation expectation. Note that the prospect of higher inflation dims the appeal of longer-term debt such as 10-year USTs given the threat of lower real yield: higher level of consumer prices index rise outstripping fixed bond returns. Meanwhile, the dollar rallied to its three-month high last week with the dollar index closing the week at 90.95. Markets will turn its attention to the US GDP report for the past quarter, which is expected to grow by 1.8%, below the government's 3.0% target for the year.

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



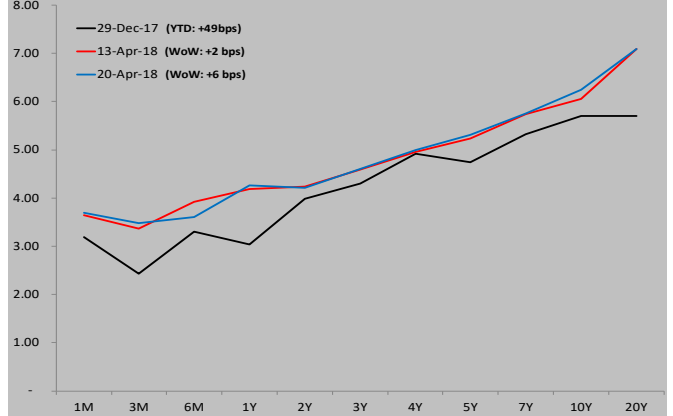
Source: PDS

Average YTD and WoW changes of the USD Philippine Sovereign Curve



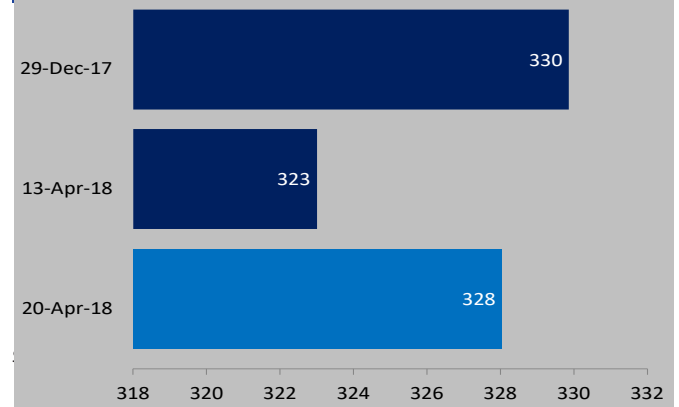
Source: Bloomberg

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