

BSP Hike Imminent

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 May '18	52.300	52.200
B. 91-Day Rate (%)	1W Apr '18	3.346	3.190
C. 10-Yr Rate (%)	1W May '18	6.110	6.210
D. Inflation (%)	Apr '18	4.5	4.3
YTD (%)		4.4	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. We expect local bond yields to remain elevated ahead of the Bangko Sentral's monetary board meeting this Thursday, which the market bet will finally hike rates. The BSP's inaction has weighed heavily on sentiment and the currency. April inflation, reported last week, rose by 4.5% year-on-year from March's 4.3%, within analyst expectations but above the BSP's target band of 2%-4% even with the rebased index.

First quarter GDP will also be released on that day, which is expected to rise by 6.8% YoY versus 6.5% in 4Q17 (revised from 6.6%). March trade figures will also be released on Wednesday.

A US trade delegation led by Treasury Secretary Mnuchin traveled to Beijing last week to no avail as no breakthroughs regarding the brewing trade war emerged from the visit. It was widely reported that one of the American's demands was to cut the US trade deficit with China by \$200bn by the end of 2020 and halting Chinese subsidies for advance technology industries. The two countries will get a chance to hash things out again on Tuesday (PH time: Wednesday) in Geneva.

Finally, markets will hold their breath as they await Trump's decision on the Iran deal, also on Tuesday, which may cause imported inflation for the Philippine oil bill. Global stockpiles are expected to fall and reverse to a deficit, while OPEC compliance to its output cut agreement exceeded targets. The US could re-impose sanction on OPEC's third largest producer, Iran, and the impact of this decision could push oil prices higher by \$1-\$3/bbl.

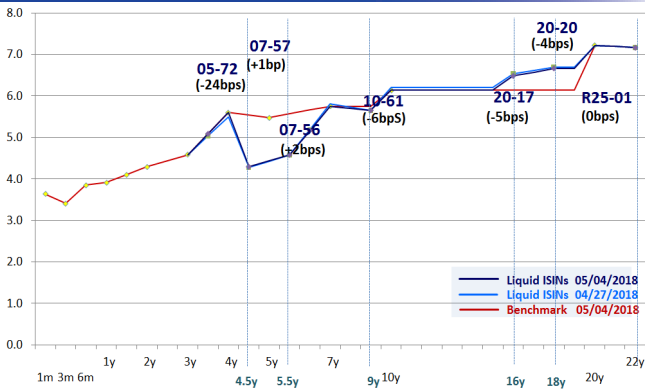
Market review. The local benchmark yield curve was almost unchanged, up by just 1bp week-on-week (WoW) on average and 66bps year-to-date (YTD) as USTs remained elevated last week. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly narrowed to 319bps from 325bps last week as the former fell by 10bps to 6.11% and up by 41bps YTD, while the latter was flat, down by just 1bp WoW to 2.95%. Yields of ROPs rose by an average of 1bps as USTs rose by the same amount on average.

Total daily traded volume up 9% week-on-week (WoW) to Php8.2bn. The liquid yield curve fell by 4bps on thin trading last week. The front-end (FXTN 05-72: 1yr) fell by 24bps to 3.21%, the belly (FXTN 10-61: 9.7yrs) shed 6bps to 6.01%, while the tail (R25-01: 20.5yr) was unchanged at 7.17%. Secondary trading volume increased by 9% to Php8.2bn, still on the low-end of trading volume. T-bill trading stayed high at Php4.2bn, up 59% week-on-week (WoW) and the highest level this year, while T-bond trading volume recovered by 13% to Php4.0bn. As has been the case for the past month, markets are still defensive with a plethora of potential market catalysts. The BTr fully awarded its 91-day and 182-day T-bills auction yesterday (May 7) while rejecting all bids for the 364-day. Average bids for the 91-day and 182-day T-bills settled at 3.44% and 3.96%, respectively, below the rates of the previous auction and secondary market levels. The auction was twice oversubscribed and the BTr raised Php9bn of the Php15bn it intended.

Emerging Markets' (EM) 10-year yields up 15bps week-on-week (WoW). Yields of EM bonds we follow were up by 15bps WoW on average on intense sell-off amid rising US bond yields. Philippines (10-year yield -6bps), India (-4bps), and Czech Republic (-2bps) outperformed last week, while Turkey (10-year yield +109bps), South Africa (+13bps), and Poland (+12bps) underperformed.

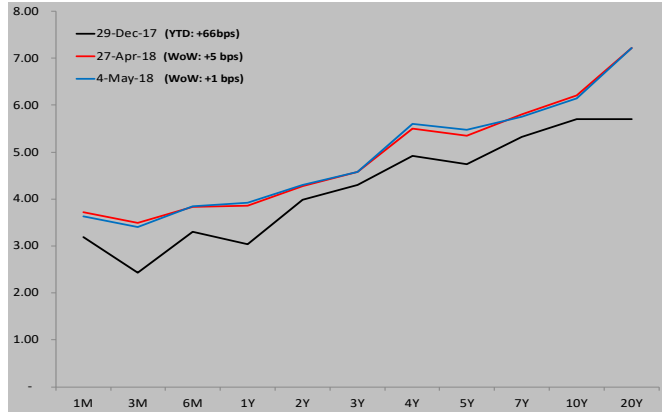
USTs up 1bp WoW. US Treasuries were almost unchanged, up just 1bp WoW, while the 10-yr UST also held steady at 2.95% as markets kept their eyes on the trade talks in China. Robust economic data abated he volatility brought about by geopolitical noise. April payroll data showed 164,000 new jobs, much higher than March's 102,000 but lower than the 195,000 expected. Unemployment rate dove even lower to 3.9% after staying at 4.1% for the past six months. However, wage growth still lagged the strength seen in the labor market, up just 2.6% in April and still below the target 3.0%. The FOMC left rates unchanged during its meeting last week, as expected, but odds for a rate hike this June currently stands at 100%. Notes from the meeting showed that the Fed wants to see inflation go over the 2% mark to see some 'symmetry' after months of undershooting the target.

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



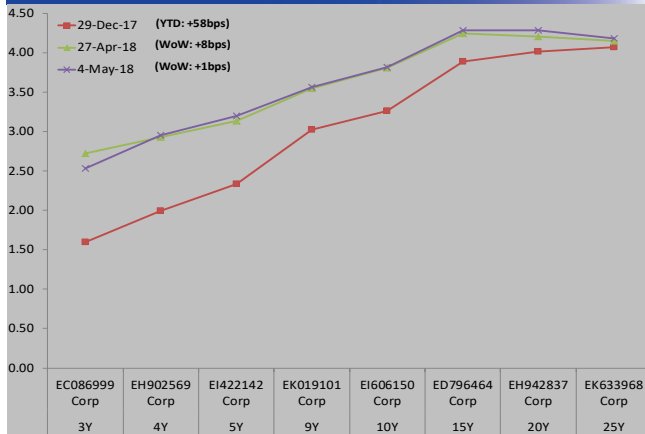
Source: PDS

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



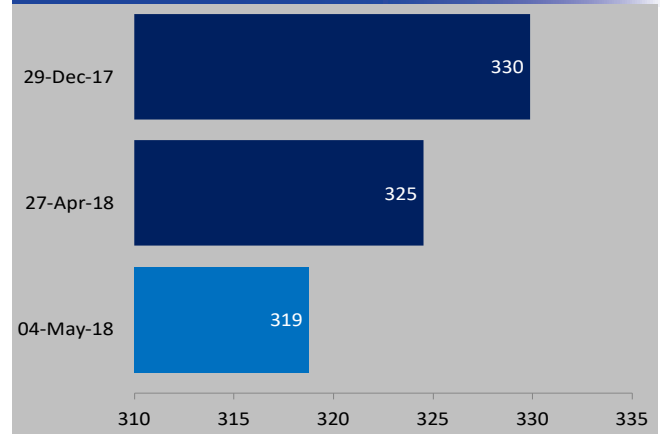
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg