

May 07-11, 2018

Relief Rally on BSP Hike

Primary Indicators

	Period	Latest Period	Preceding Period
I. Real Economy (Growth, %)			
A. GDP	1Q2018	6.8	6.7
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)	2W May '18	52.212	52.300
B. 91-Day Rate (%)	1W Apr '18	3.346	3.190
C. 10-Yr Rate (%)	2W May '18	6.530	6.110
D. Inflation (%)	Apr '18	4.5	4.3
YTD (%)		4.4	4.3
E. RRP	May '18	3.250	3.000
F. SDA Rate	May '18	2.750	2.500
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. A relief rally, especially on the long-end, followed the Bangko Sentral ng Pilipinas' (BSP) first 25-bp rate hike in three years and the first since the shift to an interest rate corridor system last 2016. We expect a slight flattening of the yield curve as momentum spills over this week especially in the long-end while yields on the short-end rise in response to the hike. The hike was long overdue and the delay weighed heavily on investor confidence. A BSP widely perceived to be behind the curve has left the peso weak and the equities market plummeting to this year's lowest. Also on the same day, 1Q18 GDP growth was reported at 6.8%, within expectations, driven by growth in industry (+7.9%) and services (+7%) in the supply side and domestic demand growth (+8.3%) in the demand side. Private consumption slowed (+5.6% from 6.2% in 4Q17 and 5.9% in 1Q17), as expected from the onset of TRAIN.

The BSP also raised its 2018 average inflation estimate to 4.6% - well above the 2-4% target range which implies that inflation may average close to 5%. The 2019 inflation is estimated at 3.4%.

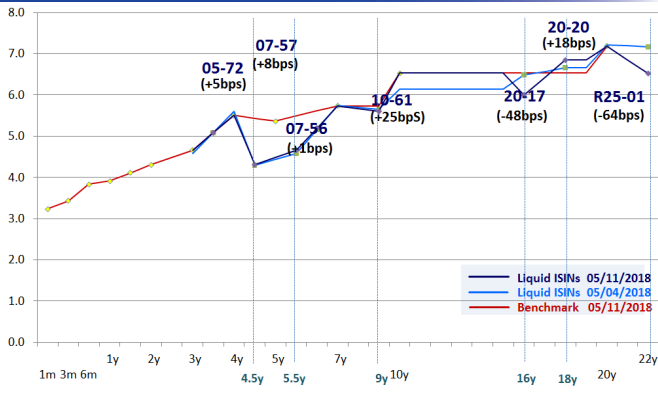
Market review. The local benchmark yield curve was down by 1bp week-on-week (WoW) on average and 64bps year-to-date (YTD) following the BSP hike. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 306bps from 319bps last week as the former fell by 1bps to 6.03% and up by 72bps YTD, while the latter was up by 2bps WoW to 2.97%. Yields of ROPs rose by an average of 7bps, tracking USTs which rose by 3 bps on average.

Total daily traded volume up 11% week-on-week (WoW) to Php9.1bn. The liquid yield curve fell by 19bps following the BSP rate hike. The front-end (FXTN 05-72: 1yr) rose by 5bps to 3.26%, the belly (FXTN 10-61: 9.7yrs) rose by 2bps to 6.03%, while the tail (R25-01: 20.5yr) shed 64bps to 6.52%. Secondary trading volume increased by 11% to Php9.1b, slightly picking up after weeks of sluggish trading. T-bill trading fell by 25% WoW to Php3.1bn, while T-bond trading volume recovered by 47% to Php6.1bn. In its first T-bill auction since the hike, the BTr fully awarded its 91-day and 182-day T-bills auction yesterday (May 15) while partially awarding the 364-day bill. Average bids for the 91-day and 182-day T-bills settled at 3.45% and 3.93%, respectively, 1bp higher and 3bps lower, respectively, than the previous auction and all higher than secondary market levels. The 364-day bill averaged an accepted rate of 4.27%. The auction was 1.9x oversubscribed and the BTr raised Php11.2bn of the Php15bn it intended.

Emerging Markets' (EM) 10-year yields up 2bps week-on-week (WoW). Yields of EM bonds we follow were up by 2bps WoW on average, but the weakness of the dollar help to shore up issues like Brazil (10-year yield -11bps), Colombia (-11bps), and the Philippines (-11bps) which outperformed last week, while Turkey (10-year yield +15bps), Mexico (0bps), and Peru (-5bps) relatively underperformed.

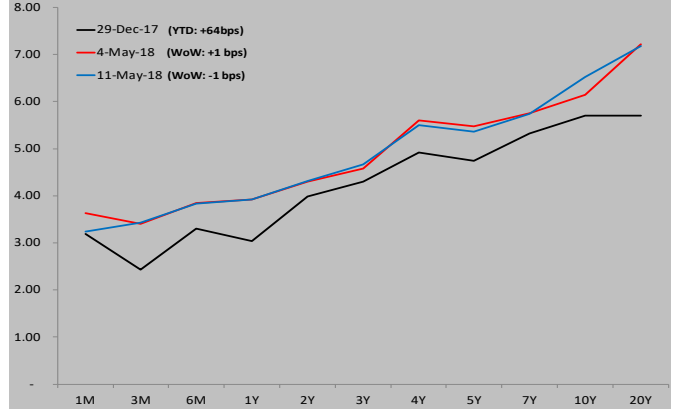
USTs up 3bps WoW. US Treasuries wrose by 3bps WoW on average, while the 10-yr UST ticked up 2bps to 2.97% after rising to as high as 3.09% within the week on solid retail sales data (April: +0.3% QoQ, +4.7% YoY, within expectations) and news of China's \$2.5bn UST sell-off last March amid China-US trade tension. The robust retail data was taken as an indication of April inflation, which is expected to rise to 2.97% from 2.75% in March, driven by the recent advance in oil prices. Furthermore, China, the largest foreign holder of US Treasuries, joined other countries in selling long-term US government debt with a maturity over one year, having been a net buyer in January and February. Japan, the second-largest holder, sold \$8bn, adding to sales in January and February of \$2.1bn and \$14bn, respectively.

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



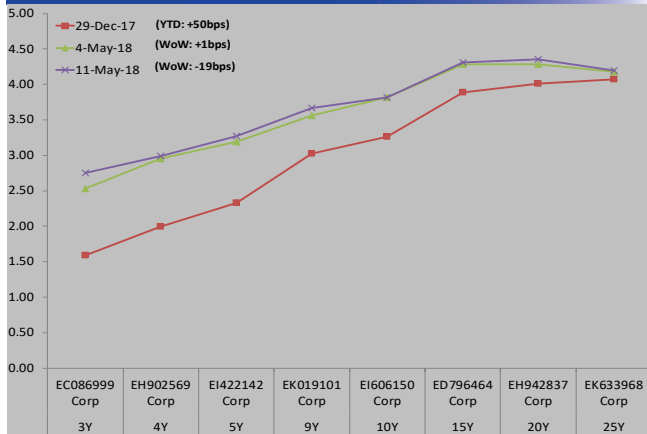
Source: PDS

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



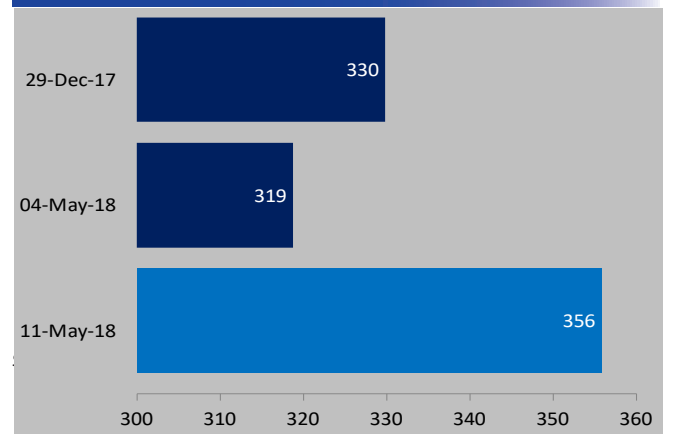
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg