

Yields Drop on GDP Shortfall

Primary Indicators

	Period	Latest Period	Preceding Period
I. Real Economy (Growth, %)			
A. GDP	3Q2018	6.3	6.2
B. Manufacturing (VoPi)	Feb '18	24.8	18.5
II. Monetary and Banking			
A. Outstanding Loans, net of RRP (Php Bn), UKBs	Feb '18	7,806	7,827
Y-O-Y Growth (%)	Feb '18	16.9%	18.3%
B. NPL to Total Loans	Feb '18	1.36	1.30
C. M3 Growth (Y-O-Y)	Sept '18	9.7%	10.4%
III. Prices			
A. PHP/\$ (PDS data)	2W Nov '18	53.090	53.535
B. 91-Day Rate (%)	2W Nov '18	5.172	5.077
C. 10-Yr Rate (%)	2W Nov '18	7.810	8.035
D. Inflation (%)	Oct '18	6.7	6.7
YTD (%)		5.1	5.0
E. RRP	Sept '18	4.500	4.000
F. 7-/14-/21-day TDF	Sept'18	4.727%/4.773%/4.855%	
IV. External Accounts			
A. Balance of Payments (\$ m)	June '18	-2,931	157
YTD (\$ m)		-3,087	-133
i. Current Account (\$ b)	1H18	-3,087	-133
% of GDP		-1.9%	-0.1%
ii. Capital Account (\$ m)	1H18	-1	24
% of GDP		-0.00%	0.02%
iii. Financial Account (\$ m)	1H18	-720	-252
% of GDP		-0.44%	-0.2%
B. Net Foreign Portfolio Inv (\$ m)	June '18	-225	1,093
YTD(\$ m)		-2,867	3,094
C. OFW Personal Remittances	July '18	2,401	2,357
YTD(\$ b)/YoY(%)		16.6/3.0%	14.2/2.7%
D. Gross Intl Reserves (\$ b)	Oct '18	77.8	77.8
YoY Growth		(7.0%)	(4.8%)
E. Import Cover (x)	Aug '18	7.5	7.4
F. ST External Debt cover (x)	Aug '18	619.9	611.1
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	-14.7%	-12.9%
V. NG Cash Operations			
A. Surplus (Deficit) (Php b)	June '17	(90.87)	(33.42)

Outlook. We expect bond yields to be rangebound this week as the market digests the economic data released last week and as it looks towards the Bangko Sentral's (BSP) monetary board for direction, who will meet this Thursday. GDP for the past quarter clocked in at 6.1%, slower than the upwardly-revised GDP figure of 6.2% in the second quarter and 7.2% growth in the same period last year. This also fell short of consensus expectation of 6.3% and brought year-to-date (YTD) growth to 6.3%, slightly below the government's revised target range of 6.5%-6.9% for the year. Also, October inflation clocked in at 6.7%, unchanged from September and higher than the Department of Finance's forecast of 6.5% but within the Bangko Sentral's forecast range of 6.2%-7.0%, bringing year-to-date (YTD) figure to 5.1% from 5.0%. The market's reaction seems to indicate that inflation may have peaked in September-October.

Other economic data released last week were: October GIR levels at \$74.8bn, a 7-yr low, and domestic liquidity measure (M3), which grew by 9.7% YoY last September from 10.4% in August.

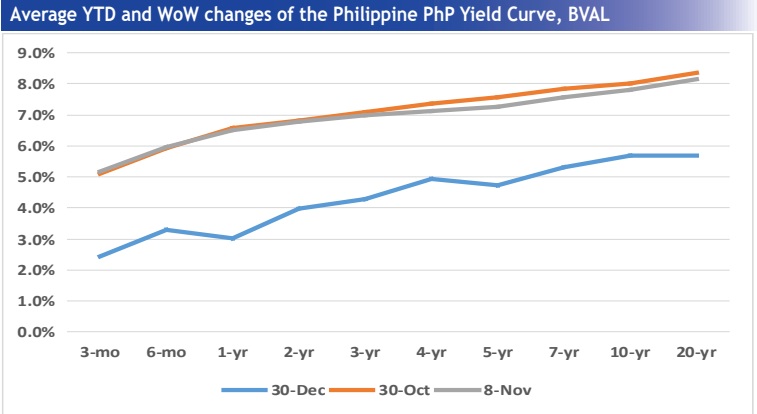
Market review. The local benchmark yield curve fell by 12bps on average week-on-week (WoW) on peaking inflation expectation this year and slower-than-expected GDP numbers. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 457bps from 479bps in the prior week as the former fell by 20bps to 7.81% (done) while the latter likewise rose by 2bps to 3.24%. Yields of ROPs rose by 3bps on average, tracking the movement in US treasuries which likewise rose by 3bps on average.

Average total daily up by 4% week-on-week (WoW) to Php8.3bn. The liquid yield curve fell by an average of 14bps WoW as the front-end (364-day T-bill) fell by 4bps 6.52%, the belly (FXTN 10-63: 9.5yrs) down by 20bps to 7.81%, while the tail (R25-01: 20.5yr) shed 20bps to 8.14%. Secondary trading average volume rose by 4% to Php8.3bn as average T-bond volume increased by 9% to Php3.6bn. On the other hand, T-bill volume was flat at Php4.7bn. The latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded with average rates of 5.172%, 6.245%, and 6.521% for the 91-day, 182-day and 364-day T-bill, respectively, all higher by 10bps, 1bp, and 2bps than the previous auction. The auction was 1.9x oversubscribed. Lastly, the Bureau of the Treasury (BTr) fully awarded its latest Php15bn auction of reissued 10-yr bonds (FXTN 10-63) at an average rate of 8.035%, higher than the secondary market rate. The auction was also 1.9x oversubscribed.

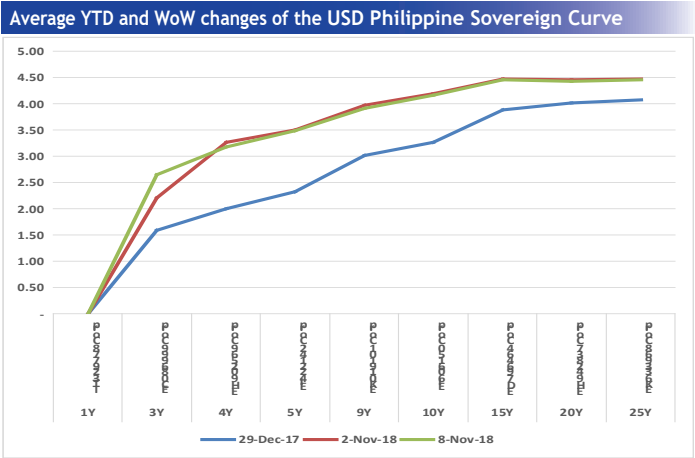
Emerging Markets' (EM) 10-year up 1bp (WoW). Yields of EM bonds we follow were 1bp higher on average WoW on a broad-based dollar recovery last week (+1.6% to 97.47) following the Fed meeting. Indonesia (10-year yield -10bps), Turkey (-7bps), and the Philippines (-4bps) outperformed, while Brazil (10-year yield +10bps), Colombia (+9bps), and Mexico (+8bps) underperformed.

USTs up 3bps WoW. US Treasuries were up by 3bps WoW on average as the 10-yr UST likewise increased by 2bps to 3.24% amid the US elections. Economic data were also mixed. Jobless claims totaled 214,000, in line with expectations and fell to a 45-year low. The US manufacturing index fell to 59 in October, its lowest level since August of last year, reflecting trade concerns, but the services index registered at 60.3, higher than the 59.3 expected. Perhaps the most concerning was the US producer price index which rose by 0.6% in October (2.9% through the past 12 months), higher than 0.2% in September and the highest in 6 years.

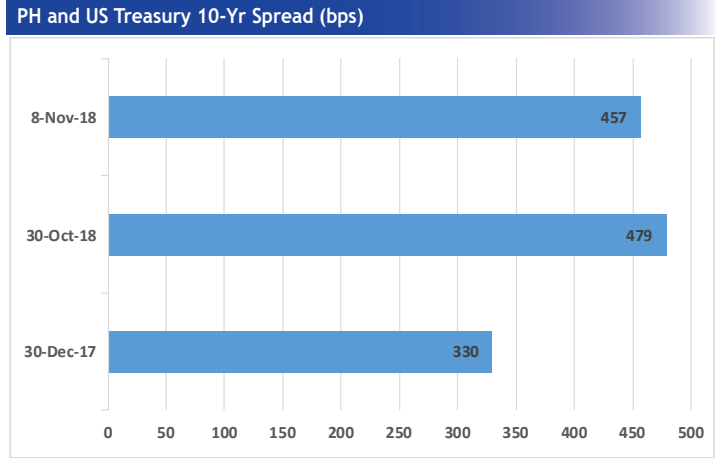
The FOMC met last week and kept rates steady as expected. There was not much to be extracted from the meeting, which the market took to mean that the Fed is still on course for another hike this December. Odds are at 76%.



Source: Bloomberg



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