

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	Nov '18	4.750	4.500
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. The Bangko Sentral ng Pilipinas (BSP) hiked rates by another 25bps last week, a move that was widely expected and brought the policy rate (RRP) to 4.75% and the total hike to 175bps this year. Though inflation was believed to have peaked in the third quarter this year, the hike was deemed a proactive move to stomp inflation. Inflation expectations this year remain elevated as supply-side and possible wage pressures continue to drive prices upwards. The BSP revised its inflation forecast this year to 5.3% from 5.2%, 2019 revised downwards to 3.5% from 4.3%, and upwards to 3.3% from 3.2% in 2020. The significant reduction in 2019 inflation was attributed to the recent approval of the rice tariffication bill which is expected to be enacted soon. The bill is estimated to reduce inflation by 0.7% in 2019 and reduce rice prices by as much as Php7/kg. Meanwhile, the suspension of excise taxes on fuel next year further bolstered lower inflation outlook next year.

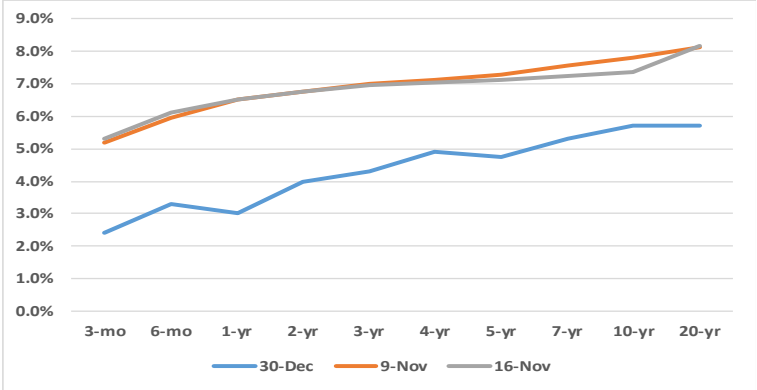
Market review. The local benchmark yield curve fell by 8.5bps on average week-on-week (WoW) following the BSP's hike and starkly lower inflation estimate next year and as the market bought the news of the fuel excise tax suspension. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 426bps from 462bps in the prior week as the former fell by 47bps to 7.34% while the latter likewise fell by 11bps to 3.08%. Yields of ROPs fell by 6bps on average, tracking the movement in US treasuries which likewise slid by 8bps on average.

Average total daily down by 21% week-on-week (WoW) to Php7.2bn. The liquid yield curve fell by an average of 9bps WoW as the front-end (364-day T-bill) was flat at 6.52%, the belly (FXTN 10-63: 9.5yrs) down by 47bps to 7.34%, while the tail (R25-01: 20.5yr) was flat at 8.14%. Secondary trading average volume fell by 21% to Php7.2bn as average T-bond volume shed 39% to Php4.2bn. On the other hand, T-bill volume rose by 29% to Php3.0bn. The latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded with average rates of 5.295%, 6.280%, and 6.530% for the 91-day, 182-day and 364-day T-bill, respectively, all higher by 12bps, 2bps, and 1bp than the previous auction. The auction was 2.0x 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 down 1bp (WoW). Yields of EM bonds we follow were down 1bp on average WoW on dovish Fed comments. Brazil (10-year yield -4bps), the Philippines (-2bps), and Peru (-0.3bps) outperformed, while Colombia (10-year yield +5bps), Indonesia (+5bps), and Turkey (+3bps) underperformed.

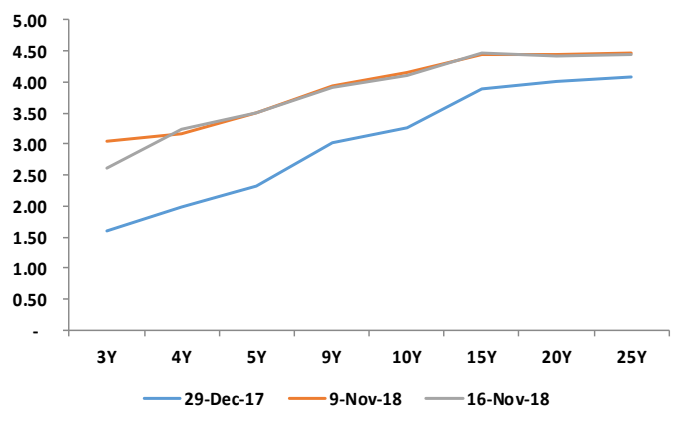
USTs down 8bps WoW. US Treasuries were down by 8bps WoW on average as the 10-yr UST likewise decreased by 11bps to 3.08% following Fed Chair Powell's comment that "there's a bit of a walk back in progress", a new dovish tone. He further noted that there's been a "gradual chipping away" in global growth. This was a sharp contrast from the Fed's contrast from its tone last October when the market expected the Fed to confidently continue its planned gradual hikes throughout 2019. Economic data were also mixed. US retail sales last October rebounded sharply by 0.8% from a 0.1% slippage in September. This outperformed expectations of a 0.5% increase and brought trailing twelve-month growth to 4.6%. Meanwhile, US inflation rose by 0.3% in the same period, the highest since January, and 2.5% through the past twelve months, meeting consensus estimates. On the other hand, 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.

Average YTD and WoW changes of the Philippine PhP Yield Curve, BVAL



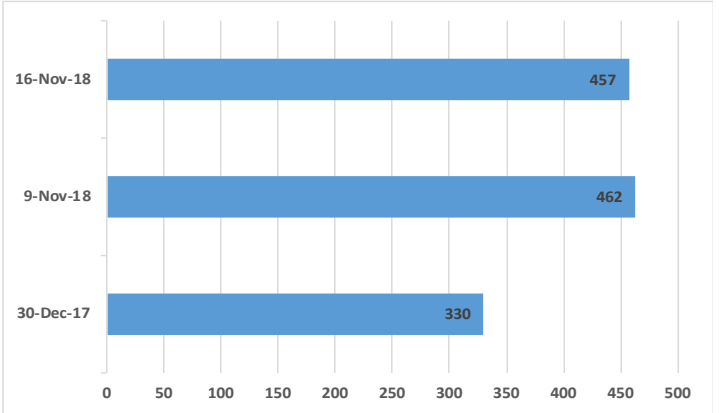
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg