

November 26-29, 2018

Yield Curve Downshift

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)	Oct '18	8.2%	9.7%
III. Prices			
A. PHP/\$ (PDS data)	4W Nov '18	52.650	52.450
B. 91-Day Rate (%)	4W Nov '18	5.394	5.295
C. 10-Yr Rate (%)	4W Nov '18	7.035	7.145
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) expects November inflation to settle within 5.8%-6.6%, starkly lower than October's 6.7% due to the sharp decline in global oil prices, normalization of rice supply conditions, and peso appreciation. Since its peak its peak last October, global oil prices have gone down by as much as 33% while local gasoline pump prices are now 40 cents cheaper than pre-TRAIN levels. The government quickly ordered a decrease in the fares of jeepneys in many parts of the country following the recent plunge in crude prices. The base fares were cut from P10.00 to P9.00 (or 10%). Duterte has now given the consent to push through with the second round of excise oil taxes which was previously suspended, citing lower oil price outlook in 2019 (Dubai Futures projects lower than \$60/bbl in 2019). The additional levy on gasoline and diesel is Php2/litre while LPG and kerosene will have another Php1/litre starting January 2019.

Meanwhile, rice prices continue to go down as the price cap in NCR (range between Php35-47/kg, depending on quality, enacted in the first week of November) took effect. Price caps in the provinces are also being studied.

On the local economic data front, domestic liquidity slowed down further last October, with M3 growing by 8.2% YoY to Php11.1tn from 9.7% in September. Government debt was up by 10% to Php7.17tn in October and 98% of the planned outstanding debt by end-2018, of which 64.5% were sourced domestically while the rest were from external lenders. Recall that government raised the share of foreign debt from 20% to 35% this year.

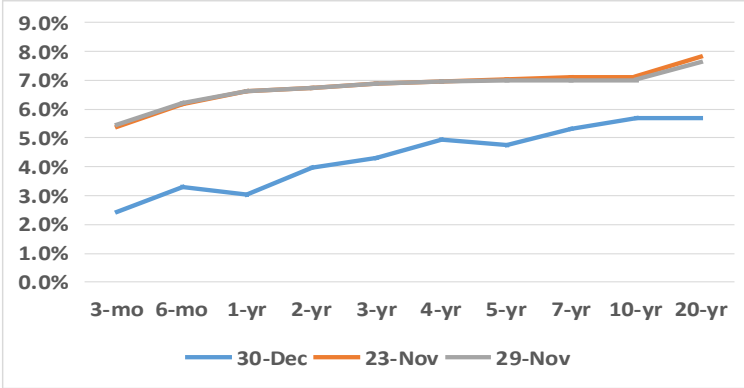
Market review. The local benchmark yield curve fell by 6bps on average week-on-week (WoW) on lower inflation outlook. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 402bps from 409bps in the prior week as the former fell by 11bps to 7.03% while the latter likewise fell by 4bps to 3.01%. Yields of ROPs fell by 9bps on average, tracking US Treasuries which were down by 1bp on average.

Average total daily volume up by 49% week-on-week (WoW) to Php17.0bn. The liquid yield curve fell by an average of 6bps WoW as the front-end (364-day T-bill) was flat at 6.60%, the belly (FXTN 10-63: 9.5yrs) down by 11bps to 7.03%, while the tail (R25-01: 20.5yr) shed 20bps to 7.61%. Secondary trading average volume rose by 49% WoW to Php17.0bn as average T-bond volume rose by 66% to Php14.5bn. On the other hand, T-bill volume dipped by 7% to Php2.5bn. The latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded with average bid rates of 5.394%, 6.305% and 6.507%, respectively, a bit lower than the previous auction. The auction was 2.3x oversubscribed. Lastly, the Bureau of the Treasury (BTr) fully awarded Php15bn worth of 10-yr T-bonds at an average rate of 6.975%, lower than the secondary market rate. The auction was 3.3x oversubscribed, prompting the Treasury to offer a tap facility window of another Php15bn of the bond.

Emerging Markets' (EM) 10-year down 9bps (WoW). Yields of EM bonds we follow were down by 9bps on average WoW as dollar outlook continue to weaken. Hungary (10-year yield -23bps), Argentina (-16bps), and Poland (-12bps) outperformed, while Brazil (10-year yield +11bps), Israel (+8bps), and Colombia (+6bps) underperformed.

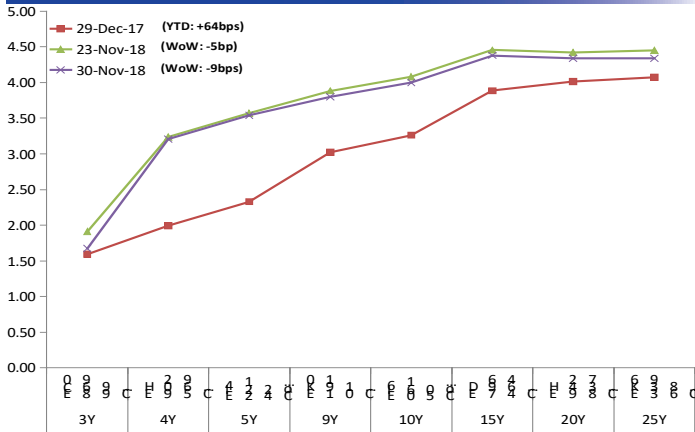
USTs down 1bp WoW. US Treasuries were down by 1bp on average WoW following another dovish remark by Fed chair Powell where he stated that the federal funds rate is "just below" a neutral level that would neither stimulate the economy nor rein in growth to curb inflation. This statement further dampened expectation of future rate hikes, though a 25-bp hike this month is still highly likely (odds at 85%). Economic data were mixed: jobless claims rose again by 10,000 to a 6-month high of 234,000, bucking forecasts of a fall to 220,000. New home sales dropped by nearly 9% in October to its lowest level in 2.5 years and bucked consensus expectations of a 3.7% increase. However, personal spending rose by 0.6% MoM last October, outpacing forecasts of a 0.4% rise. The October core personal consumption expenditure (PCE) index, the Fed's preferred measure of inflation, rose by 1.8% YoY, lower than 1.9% expected, the lowest reading since February and down from 1.9% in September.

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



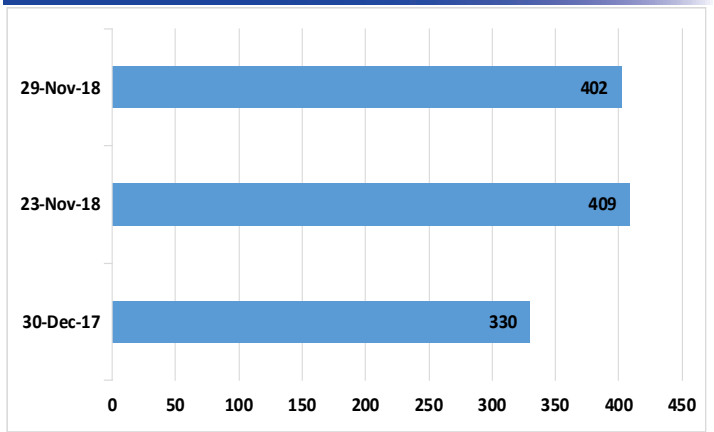
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg