

## Trade War Worsens

### Primary Indicators

	Period	Latest Period	Preceding Period
<b>I. Real Economy (Growth, %)</b>			
A. GDP	3Q2018	6.3	6.2
B. Manufacturing (VoPi)	Feb '18	24.8	18.5
<b>II. Monetary and Banking</b>			
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%
<b>III. Prices</b>			
A. PHP/\$ (PDS data)	1W Dec '18	52.750	52.450
B. 91-Day Rate (%)	1W Dec '18	5.334	5.172
C. 10-Yr Rate (%)	1W Dec '18	7.020	7.040
D. Inflation (%)	Nov '18	6.0	6.7
YTD (%)		5.2	5.1
E. RRP	Nov '18	4.750	4.500
F. 7-/14-/21-day TDF	Sept'18	4.727%/4.773%/4.855%	
<b>IV. External Accounts</b>			
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%
<b>V. NG Cash Operations</b>			
A. Surplus (Deficit) (Php b)	June '17	(90.87)	(33.42)

**Outlook.** A total of Php53bn auctioned off via tap facility since November 22 amid robust demand for long-term bonds. Although this has been advantageous for the BTr instead of shorter-termed RTBs, a lot of new positions that were built under the impression that the government were through borrowing for the year in December were burned. Gross borrowing for next year is programmed at Php1.19tn, just about the same level as the YTD borrowing of Php1.1tn. With robust demand, influx of new supply, and tempered near-term inflation outlook, we expect bond yields, especially in the long-end, to decline.

November inflation clocked in at 6.0%, lower than consensus (6.3%) and October's 6.7%. This was also in the lower end of the Bangko Sentral's (BSP) forecast band of 5.8%-6.6% and brought year-to-date (YTD) average to 5.2% from 5.1% in October, just a bit below the BSP's forecast of 5.3% for the year. Although, core inflation rose to 5.1% from 4.9% in October, something that BSP governor Espenilla zeroed on in his last speech. The BSP in turn is not expected to hike in its next meeting this December 13 as price pressures from food and oil are finally dissipating. Rice prices are expected to continue to decline as rice supply conditions normalize. On the other hand, the second tranche of oil excise taxes, which will levy an additional Php2/liter on gasoline and diesel and Php1/liter on LPG and kerosene, is expected to push through next year. Furthermore, after a growing pessimism with the meeting's outcome following Qatar's exit, OPEC and non-OPEC nations announced a 1.2mn bpd cut, 2mn more than what was expected, with the former cutting by 800k bpd and the latter 400k. With the US sanctions on Iran, the total output cut could be as much as 1.5mn bpd, though OPEC just endorsed Iran's exemption from the deal. The agreement will be reviewed again in April. Despite the cuts, analysts are warning that the demand side might be a different story. Bulls are earmarking \$70/bbl as the new floor, but both OPEC and industry forecasters predict demand growth of no more than 1.4mn bpd amid trade war fears and slowing global growth outlook, making \$60/bbl a more realistic floor price at least for the next year.

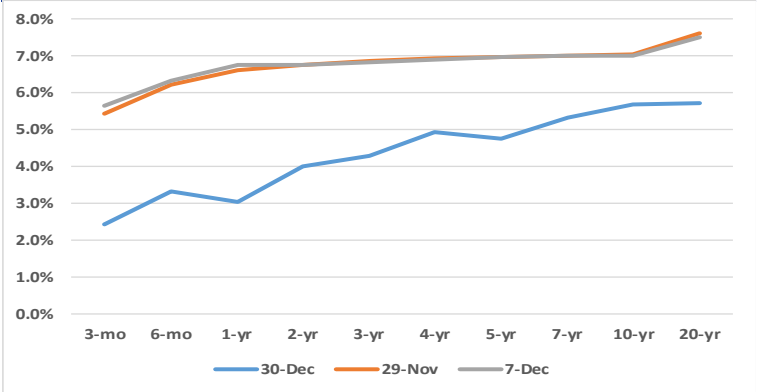
**Market review.** The local benchmark yield curve rose by 1bp on average week-on-week (WoW) as the yield curve continued to flatten. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) widened to 417bps from 402bps in the prior week as the former fell by 2bps to 7.02% while the latter fell by 16bps to 2.85%. Yields of ROPs fell by 14bps on average, tracking the movement in US Treasuries which likewise fell by 8bps on average.

**Average total daily down by 46% week-on-week (WoW) to Php9.2bn.** The liquid yield curve fell by an average of 1bp WoW as the front-end (364-day T-bill) rose by 14bps to 6.74%, the belly (FXTN 10-63: 9.5yrs) down by 1bp to 7.02%, while the tail (R25-01: 20.5yr) shed 11bps to 7.50%. Secondary trading average volume fell by 46% to Php9.2bn as average T-bond volume halved to Php6.7bn. On the other hand, T-bill volume was flat at Php2.5bn. The latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded with average bid rates of 5.350%, 6.344%, and 6.585%, respectively, all higher than the previous auction and secondary market rates. The auction was 1.5x oversubscribed. Lastly, the Bureau of the Treasury (BTr) fully awarded Php15bn worth of 7-yr T-bonds at an average rate of 7.09%, higher than the secondary market rate. The auction was 4.7x oversubscribed.

**Emerging Markets' (EM) 10-year down 10bps (WoW).** Yields of EM bonds we follow were down by 10bps on average WoW prior to the OPEC and non-OPEC output cut agreement. Recall that EMs are net importer of oil. Hungary (10-year yield -23bps), Argentina (-16bps), and Poland (-12bps) outperformed, while Brazil (10-year yield +11bps), Israel (+8bps), and Colombia (+6bps) underperformed.

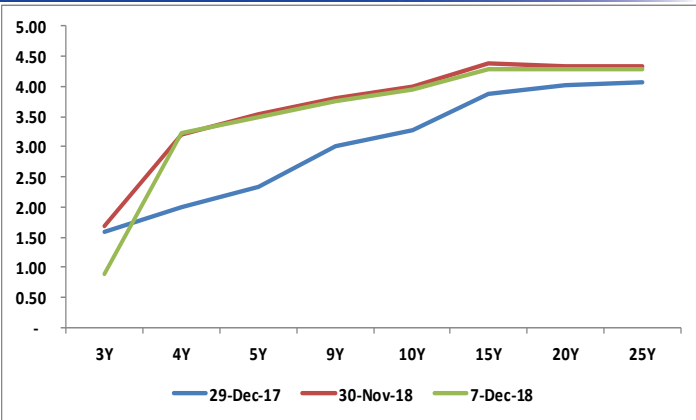
**USTs down 8bps WoW.** US Treasuries were down by 8bps WoW on average as the 10-yr UST fell by 16bps to 2.85% after the optimism with US-China trade relations evaporated on several factors. The arrest of Huawei's CFO on suspicion of violating Iranian sanctions made headlines. Recall that Huawei technology was previously treated by White House officials as a security threat. Trump also tweeted that he questions whether a real deal was possible with China. Finally, the appointment of Lighthizer as US Trade representative to oversee negotiations weighed on sentiment. Lighthizer is viewed as a trade hawk. Meanwhile, the Fed is still widely expected to hike odds in its December 19 meeting with odds of 77%, slightly down from 88%.

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



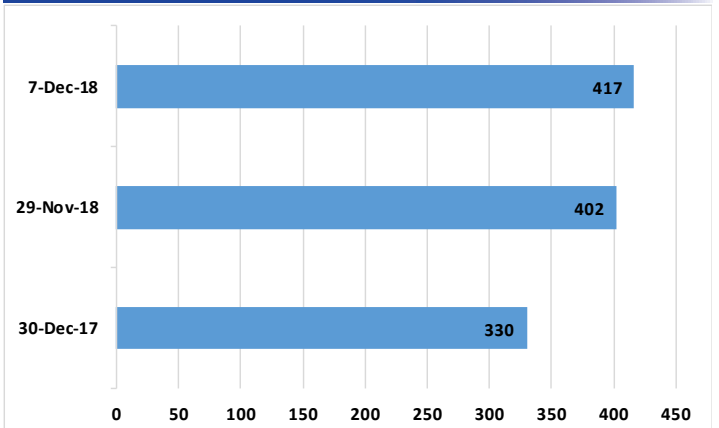
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg