

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)	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%	
IV. External Accounts			
A. Balance of Payments (\$ m)	Sept '18	-1,879	-2,931
YTD (\$ m)		-5,136	-3,087
i. Current Account (\$ b)	9M18	-2,907	-3,087
% of GDP		-3.7%	-1.9%
ii. Capital Account (\$ m)	9M18	-3	-1
% of GDP		-0.00%	-0.00%
iii. Financial Account (\$ m)	9M18	-1,975	-720
% of GDP		-1.2%	-0.44%
B. Net Foreign Portfolio Inv (\$ m)	Nov '18	832	-67.8
YTD(\$ m)		925.9	93.9
C. OFW Personal Remittances	Oct '18	2,474	2,237
YTD(\$ b)/YoY(%)		23.8/3.1%	21.3/2.5%
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 (BSP) kept policy rates steady last week as expected amid moderating inflation expectations. BSP likewise cut its inflation outlook for 2018 to 5.2% (from 5.3%), 3.18% in 2019 (from 3.5%), and 3.04% in 2020 (from 3.3%). Year-to-date, inflation averaged at 5.2%, way above the BSP's target range of 2%-4%. As the year ends, we expect yields to be rangebound as the market also remains cautious of fresh supply. Recall that a total of Php55.5bn has been auctioned off via tap facility since November 22 amid robust demand for long-term bonds, bringing YTD borrowing to about Php1.1tn. Gross borrowing for next year is programmed at Php1.19tn.

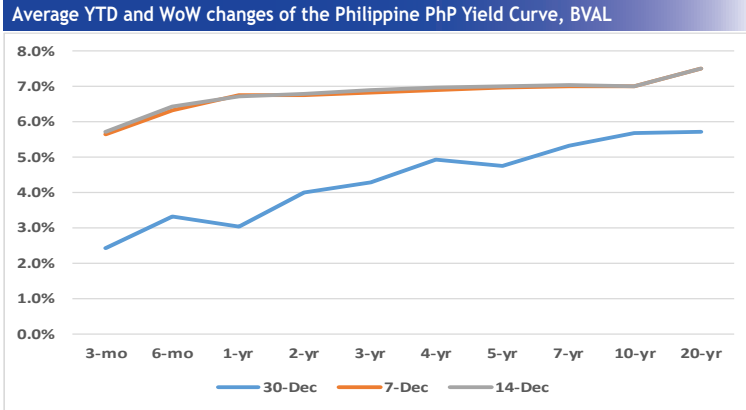
More concerning were the economic data that were released last week. Current account(CA) deficit in 3Q18 was at \$2.9bn (3.7% of GDP) from a \$1.1bn surplus in the same period last year, while prior quarters were revised upward to \$3.24bn in 2Q (from \$2.93bn) and \$323mn in 1Q (from \$156mn). Year-to-date, CA deficit amounted to \$6.47bn (2.7% of GDP) from a surplus of \$968mn last year, more than twice the full-year projection of \$3.1bn (0.9% of GDP). The trade deficit widened by 33% to \$36.9bn. The balance of payments (BoP) deficit for the first nine months widened to \$5.1bn from \$1.4bn last year and way past the projected \$1.5bn in May (\$5.6bn in October). As a result, the BSP revised its CA deficit projection this year to \$4.6bn (1.9% of GDP) and \$8.4bn (2.3% of GDP) next year. Meanwhile, the projected BoP this year was revised to \$5.5bn (1.6% of GDP) and \$3.5bn (1.0% of GDP) next year. All this is expected to push the peso all the way up to Php55 to the dollar by end-2019 from Php53.07 (-6.3% YTD), which puts further rate increases next year firmly on the table.

Market review. The local benchmark yield curve rose by 4bps on average week-on-week (WoW) following the BSP meeting. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 413bps from 417bps in the prior week as the former was flat at 7.02% while the latter rose by 4bps to 2.89%. Yields of ROPs rose by 15bps on average, tracking the movement in US Treasuries which likewise rose by 2bps on average.

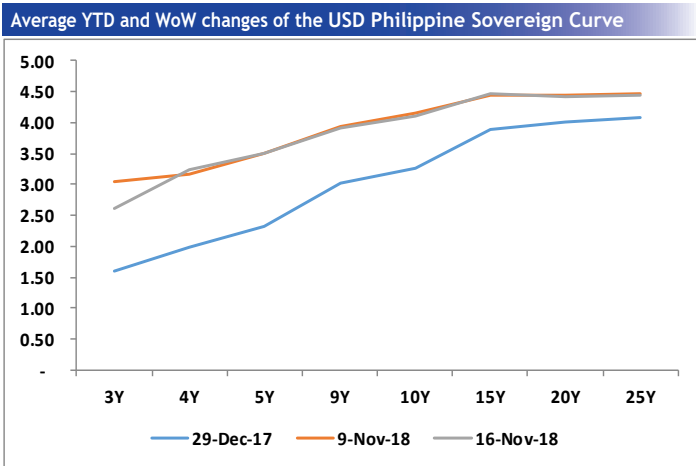
Average total daily down by 46% week-on-week (WoW) to Php9.2bn. The liquid yield curve rose by an average of 3bps WoW as the front-end (364-day T-bill) shed 3bps to 6.71%, the belly (FXTN 10-63: 9.5yrs) flat at 7.02%, while the tail (R25-01: 20.5yr) shed 1bp to 7.49%. Secondary trading average volume 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 only partially awarded amid mixed reception. Only the 91-day was fully-awarded at an average rate of 5.323%, 3bps lower than the previous auction, while the rest was fully rejected. The auction was 1.3x 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, and another Php2.5bn was awarded via tap facility. The auction was 4.7x oversubscribed.

Emerging Markets' (EM) 10-year down 12bps (WoW). Yields of EM bonds we follow were down by 12bps on average WoW after China's November exports showed a much slower 5.4% YoY growth from 10% expected. Import growth was also just 3%, the slowest since 2016, and much lower than the expected 14.5%. Brazil (10-year yield -24bps), Poland (-12bps), and Argentina (-11bps) outperformed, while Turkey (10-year yield +68bps), South Africa (+16bps), and Hungary (+14bps) underperformed.

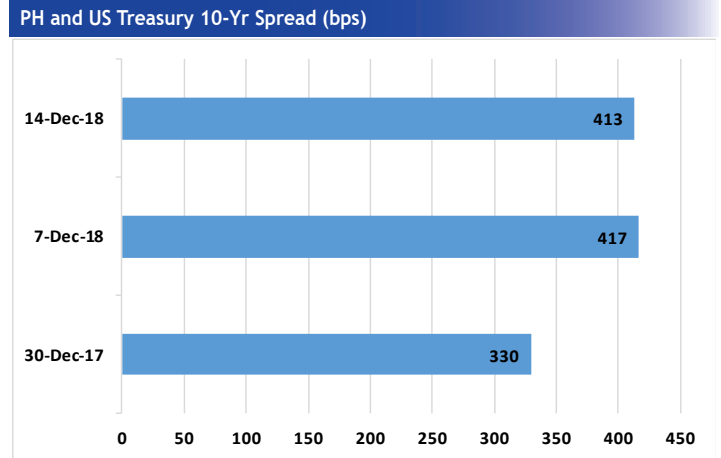
USTs up 2bps WoW. US Treasuries were up by 2bps WoW on average as the 10-yr UST likewise rose by 4bps to 2.89% as global economic fears weigh on sentiment. Two Canadian citizens were detained in China in an apparent retaliation of Huawei CFO's arrest. However, sentiment was slightly lifted as the US Department of Agriculture confirmed that China was once again buying US soybeans, which it stopped doing several months ago as retaliation to US tariffs. China also confirmed that it will lift retaliatory tariffs on US auto imports for three months starting January 1. In the data front, after weeks of rising, US jobless claims fell by 27,000 to 206,000, a 49-year low and further than the 225,000 estimated. US retail sales in November also rose by 0.2% boosted by holiday spending and brought YTD growth to 5.3%. The Fed will meet this Tue-Wed (Wed-Thu, PH time), and is expected to raise rates by 25bps, the fourth and last for this year.



Source: Bloomberg



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