

January 14-18, 2019

Bulls Hunt For Yields

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)	Nov '18	8.4%	8.3%
III. Prices			
A. PHP/\$ (PDS data)	2W Jan '19	52.130	52.525
B. 91-Day Rate (%)	2W Jan '19	5.418	5.85%
C. 10-Yr Rate (%)	2W Jan '19	6.48	6.94%
D. Inflation (%)	Dec '18	5.1	6.0
YTD (%)		5.2	5.2
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. Yields continued to drop amid strong demand that ate up the influx of fresh supply. Local investors are locking in and chasing yields at the possibility of further interest rate drops. In a BSP survey conducted recently, analysts and economists expect inflation to decelerate to 4.1%, lower than the previous estimate of 4.3% but higher than the BSP's downward-revised forecast of 3.18% (from 3.5%), and 3.8% in 2020, also higher than the BSP's 3.04% (from 3.3%) forecast but finally within the 2%-4% target band. Lower inflation expectation may help improve sentiment and appetite for fixed income. The BSP noted that the inflationary pressures are now broadly balanced, with the proposed increase in sin taxes of alcoholic beverages as the main upside risk to inflation while global growth uncertainty and geopolitical uncertainty on the downside.

We expect the market to take its cue from the T-bill and 20-yr T-bond auctions this week and the GDP figure to be released on Thursday. Market expectations for the 20-yr T-bond range between 6.625%-6.75%, while consensus expectation for the GDP is at 6.2%. Yields may go lower if the GDP figure disappoints and if the T-bond gets filled within the expected range, which is lower than last week's closing of 6.82% in the secondary market.

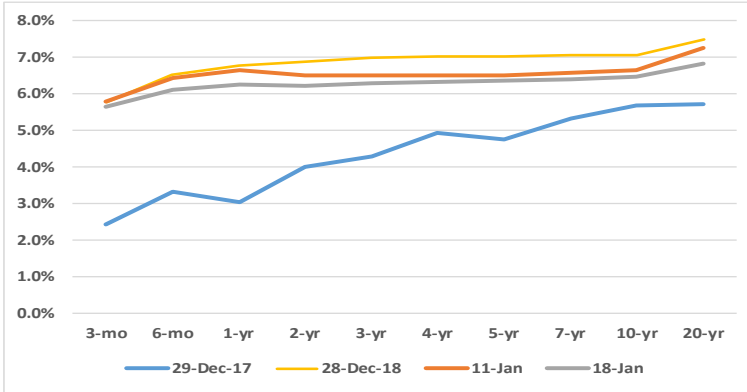
Market review. The local benchmark yield curve fell by 26bps on average week-on-week (WoW) amid strong pickup at the Treasury's auction. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 369bps from 392bps in the week prior as the former fell by 15bps to 6.48% while the latter rose by 8bps to 2.79%. Yields of ROPs fell by 4bps on average, bucking the movement in US Treasuries which rose by 4bps on average.

Average total daily traded volume down by 2% week-on-week (WoW) to Php24bn. The liquid yield curve fell by an average of 21bps WoW as the front-end (364-day T-bill) shed 37bps to 6.27%, the belly (FXTN 10-63: 9.5yrs) down by 15bps to 6.48%, while the tail (R25-01: 20.5yr) shed 43bps to 6.82%. Secondary trading average volume was flat at Php24bn as average T-bill volume fell by 16.5% to Php4.4bn but was offset by a slight 1.5% increase in T-bond volume to Php19.6bn. The latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was only partially awarded amid mixed reception. Only the 182-day and 364-day were fully-awarded at an average rate of 5.914% and 6.969%, 24bps and 29bps lower than the previous auction. On the other hand, the 91-day T-bill was only partially awarded and was capped at an average of 5.418%, 2 bps higher than the previous auction. Due to robust demand, just like the previous auction, a tap facility of Php8bn was opened for the 364-day T-bill, bringing the total award of the auction to Php24bn from the Php20bn initially offered.

Emerging Markets' (EM) 10-year down 8bps (WoW). Yields of EM bonds we follow were down by 8bps on average WoW on news that Turkish President Erdogan was granted emergency powers by parliament. Turkey (10-year yield -57bps), Argentina (-36bps), and India (-28bps) outperformed, while Indonesia (10-year yield +11bps), Colombia (+10bps), and Mexico (+10bps) underperformed.

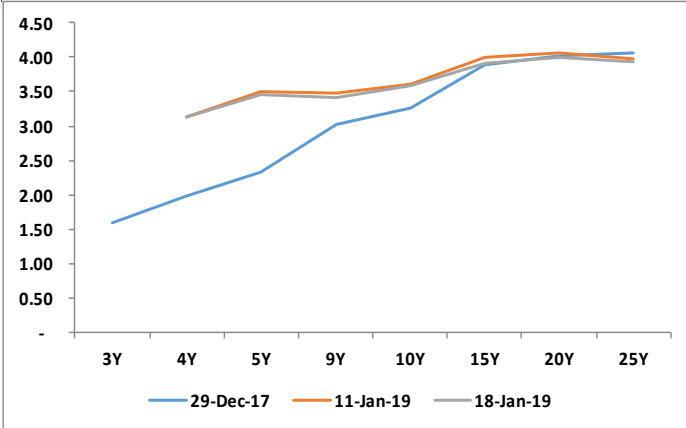
USTs up 4bps WoW. US Treasuries were up by 4bps WoW on average as the 10-yr UST likewise rose by 8bps to 2.79% on mixed economic data. US industrial production rose by 0.3% in December following a 0.4% gain in November, fueled by the biggest gain in 10 months of manufacturing production, which rose by 1.1%. However, the extended government shutdown and growing concerns over US economic growth took a toll on consumer confidence, as the index monitored by the University of Michigan fell to 90.7 versus 97 expected and December's 98.3. This was the lowest level since 2016.

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



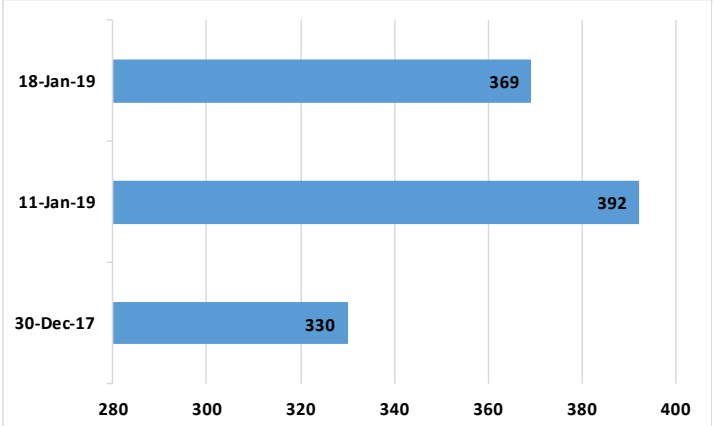
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg