

## The Bulls Are Back

### Primary Indicators

	Period	Latest Period	Preceding Period
<b>I. Real Economy (Growth, %)</b>			
A. GDP	4Q2018	6.3	6.3
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)	Nov '18	8.4%	8.3%
<b>III. Prices</b>			
A. PHP/\$ (PDS data)	1W Feb '19	52.230	52.540
B. 91-Day Rate (%)	1W Feb '19	5.484%	5.534%
C. 10-Yr Rate (%)	1W Feb '19	6.256%	6.470%
D. Inflation (%)	Dec '18	4.4	5.1
YTD (%)		4.4	5.2
E. RRP	Dec '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)	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%
<b>V. NG Cash Operations</b>			
A. Surplus (Deficit) (Php b)	June '17	(90.87)	(33.42)

**Outlook.** Dovish Fed amid risk-on sentiment and lower local inflation pushed local yields lower last week. The Fed met for the first time this year last week and kept rates steady, as expected, with a notably dovish stance. Though the monetary board do not see a recession any time soon, it noted that there is some economic slowing. The market took this to mean that the previously guided two to three hikes this year is now in question. Another thing to note is that Fed Chair Powell said that the reduction of its balance sheet will no longer go on 'autopilot', meaning that the economy and financial markets will be put into consideration when it shrinks its balance sheet. Recall that the Fed started shrinking its \$1.3tn balance sheet in 2017 under former chair Yellen. Odds for one hike this year is less than 20%.

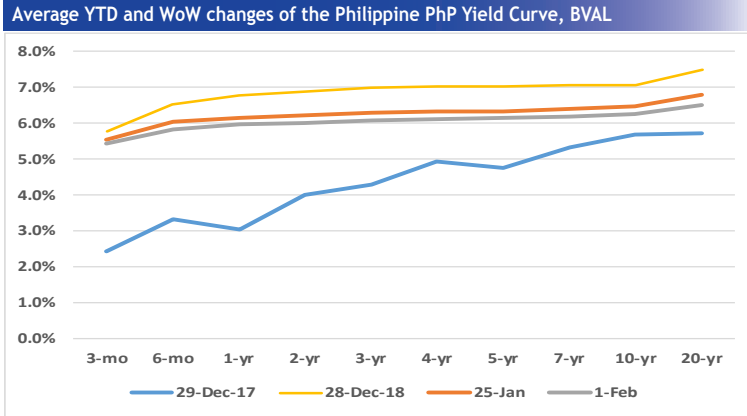
Local inflation last January clocked in at a 10-month low of 4.4% from December's 5.1% but still slightly above the target range of 2%-4%. Core inflation likewise slowed to 4.4% from 4.7% in December a trend that is expected to persist this year. The Bangko Sentral (BSP) meets this Thursday and is expected to keep rates steady. The central bank is instead expected to cut the reserve requirement by another 2% this year to 16%. Recall that the reserve requirement was cut by 2% last year to 18%. Governor Espenilla aims to cut the figure to single digits by the end of his term in 2023. Yields are expected to continue to trend lower especially in the long end as investors look for higher yields ahead of the expected cuts and further decrease in interest rates.

**Market review.** The local benchmark yield curve fell by 21bps on average week-on-week (WoW) as the market took its cue from the FOMC meeting. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 356bps from 371bps in the week prior as the former fell by 21bps to 6.26% while the latter shed 6bps to 2.70%. Yields of ROPs fell by 12bps on average, tracking the movement in US Treasuries which fell by 4bps on average.

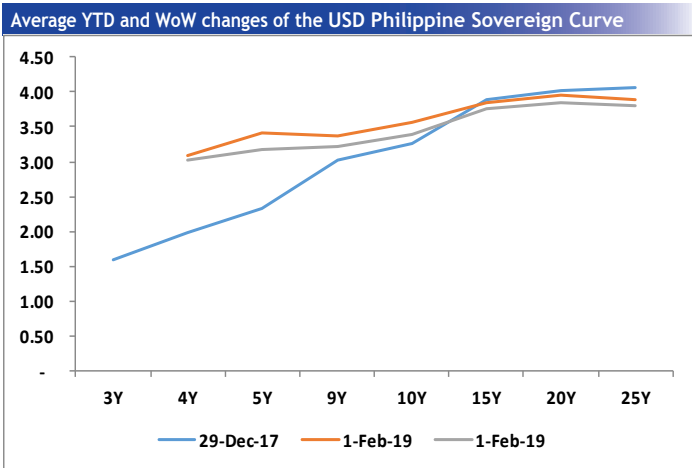
**Average total daily up by 30% week-on-week (WoW) to Php16.9bn.** The liquid yield curve fell by an average of 21bps WoW as the front-end (364-day T-bill) shed 18bps to 5.98%, the belly (FXTN 10-63: 9.5yrs) down by 21bps to 6.26%, while the tail (R25-01: 20.5yr) shed 27bps to 6.52%. Secondary trading average volume rose by 30% to Php16.9bn as T-bond trading rose by 32.5% to Php12bn while T-bill trading rose by 25.4% to Php4.8bn. The market favored the long-end in search of higher yields. The latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded amid strong market demand at average yields of 5.484%, 5.867%, and 5.924%, respectively, 5bps, 2bps, and 2bps lower than the previous auction. The auction was 1.6x oversubscribed.

**Emerging Markets' (EM) 10-year down 13bps (WoW).** Yields of EM bonds we follow were down by 13bps on average WoW despite the dovish Fed as China's factory activity contracted the most in almost three years (PMI at 49.5 from 49.4 in December but short of the 50 cut-off indicating expansion). The Philippines (10-year yield -18bps), Colombia (-17bps), and Indonesia (-16bps) outperformed, while Mexico (10-year yield -6bps), Chile (-9bps), and Turkey (-9bps) relatively underperformed.

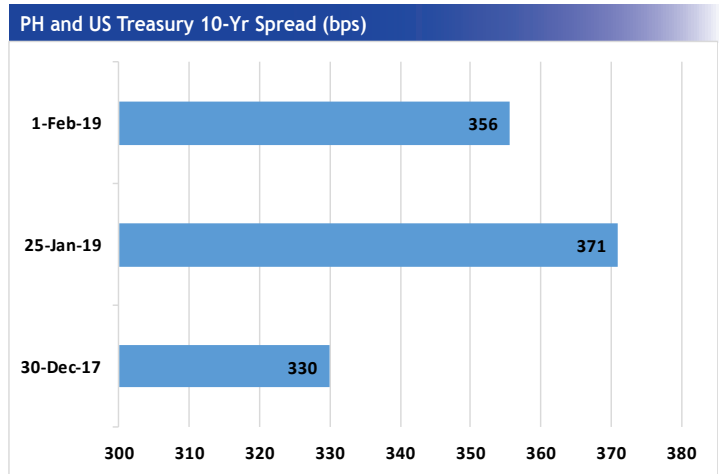
**USTs down 4bps WoW.** US Treasuries were down by 4bps WoW on average as the 10-yr UST likewise shed 6bps to 2.70% following the FOMC's meeting. The latest jobs report was also surprisingly strong, with 304,000 new jobs last January far outpacing the 180,000 rise expected and almost matched December's 312,000 increase. However, unemployment rose to 4.0% from 3.9% partly due to the US government shutdown, though this was already expected from the previous jobs report.



Source: Bloomberg



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