

Strong Government Borrowing Appetite

Primary Indicators

	Period	Latest Period	Preceding Period
I. Real Economy (Growth, %)			
A. GDP	4Q2018	6.3	6.3
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 Feb '19	52.070	52.230
B. 91-Day Rate (%)	2W Feb '19	5.550%	5.484%
C. 10-Yr Rate (%)	2W Feb '19	6.330%	6.256%
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%	
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. Last week, the market bought on better-than-expected inflation news but was wary on a rumored possible retail treasury bond (RTB) issuance. We expect the market to remain cautious of this, causing the yield curve to be rangebound on heightened risk aversion anew to long duration and a preference for the safety of the short but high yield portion of the curve up to the belly.

The Bangko Sentral's (BSP) monetary board met last week and kept the policy rate steady at 4.75% (the overnight reverse repurchase rate) as expected citing decelerating inflation. The central bank also revised its inflation forecast this year to 3.1% from 3.2% while maintaining its 3% forecast next year. Recall that January inflation settled at 4.4%, down from December's 5.1%, lower than consensus expectation of 4.5%, but still above the BSP's target baseline inflation range of 2%-4%. Inflation expectations have also declined further while domestic demand conditions have remained firm. The BSP noted that risks to inflation this year are now balanced while leaning towards the downside in 2020 amid uncertain global economic environment which they believe would limit upward pressures from commodity prices in the next few months.

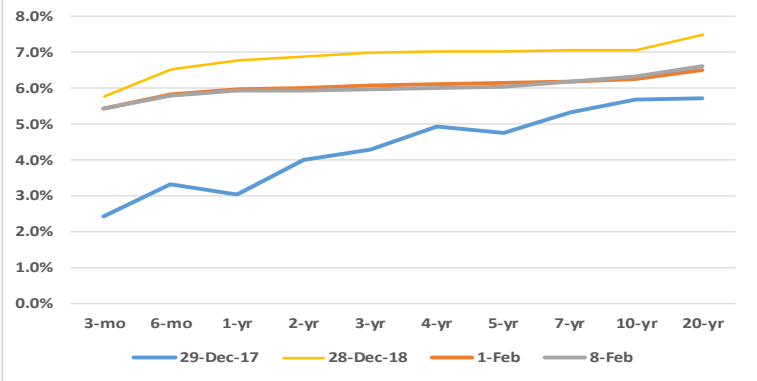
Market review. The local benchmark yield curve was flattish last week, down by just 2bp on average week-on-week (WoW) as the mid-week rally following the BSP's meeting was wiped off on Friday amid the aforementioned speculation of RTB issuance. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) widened to 370bps from 356bps in the week prior as the former rose by 7bps to 6.33% while the latter shed 7bps to 2.63%. Year-to-date, the yield curve is down by an average of 83bps while the 10-yr is down by 74bps. Yields of ROPs were flat on average while US Treasuries fell by 3bps on average.

Average total daily down by 4.7% week-on-week (WoW) to Php16.1bn. The liquid yield curve fell by an average of 2bps WoW as the front-end (364-day T-bill) shed 4bps to 5.94%, the belly (FXTN 10-60: 7.1yrs) flat at 6.19%, while the tail (R25-01: 20.5yr) rose by 7bps to 6.33%. Secondary trading average volume was flattish, down by just 4.7% to Php16.1bn as T-bond trading rose by 12.5% to Php13.6bn while T-bill trading haved to Php2.5bn. The market still favored the long-end in search for higher yields. The Bureau of the Treasury's (BTr) latest Php20bn auction of newly-issued 7-yr T-bonds was fully awarded amid strong demand (3.35x oversubscription). The coupon was set at 6.250%, almost a full percentage lower than the previous reissuance which fetched an average rate of 7.09%. Lastly, 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 5.550%, 5.933%, and 5.983%, respectively, 2bps, 7bps, and 6bps higher than the previous auction. The auction was 1.5x oversubscribed.

Emerging Markets' (EM) 10-year up 3bps (WoW). Yields of EM bonds we follow were up by 3bps on average WoW as EM assets remain hostage to US-China trade talks. Argentina (10-year yield -30bps), Pakistan (-15bps), and Mexico (-12bps) outperformed, while Brazil (10-year yield +30bps), Turkey (+21bps), and Czech Republic (+5bps) underperformed.

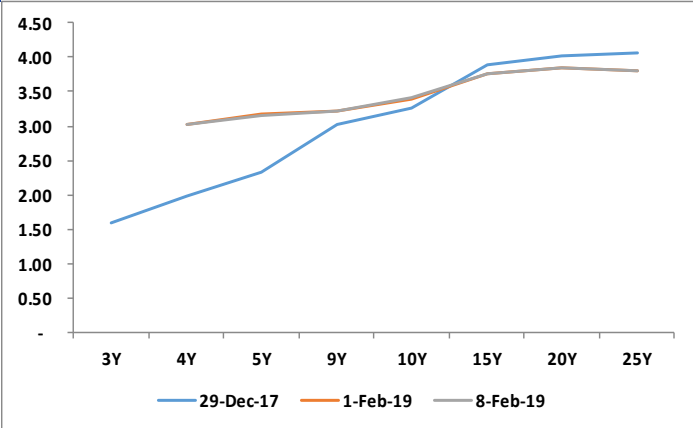
USTs down 3bps WoW. US Treasuries were down by 3bps WoW on average as the 10-yr UST likewise shed 7bps to 2.63% on reports that the US government may shut down again after temporarily opening for a couple of weeks. The US-China trade talks were thrust again into the spotlight ahead of the March 1 deadline -- the date when the 91-day tariff truce between the two countries expire, else tariff on Chinese imports be raised to 25% from 10% currently. The threat of a government shutdown in Washington also looms, with political tensions flaring again between Congress and the president. On the data front, weekly jobless claims fell more than expected by 19,000 to 234,000, bucking expectations of a rise to 220,000.

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



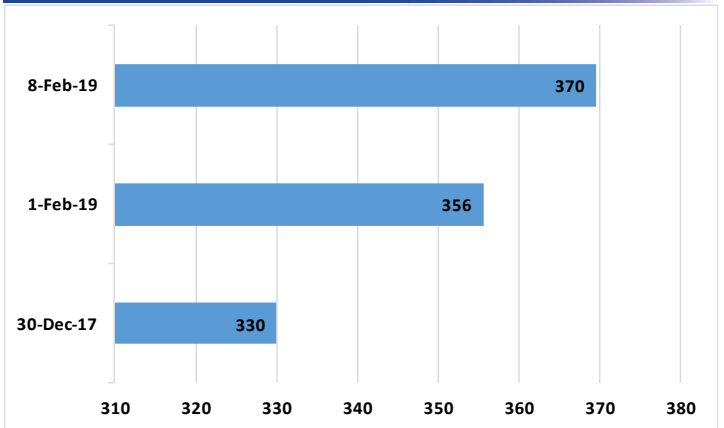
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg