

Yields up on RTB Sale

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)	3W Feb '19	52.111	52.433
B. 91-Day Rate (%)	3W Feb '19	5.733%	5.733%
C. 10-Yr Rate (%)	3W Feb '19	6.280%	6.310%
D. Inflation (%)	Jan '19	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	Dec' 18	3,157	2,586
YTD(\$ b)/YoY(%)		32.2/3.0%	29.0/2.9%
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 market braced for the Php30bn 5-yr retail treasury bond (RTB) auction which was priced yesterday (February 26) and will settle on March 12. The Bureau of the Treasury (BTr) instead raised Php113.8 bn, a bit over four times its intended offering amid strong demand with tenders totaling Php121.8bn. We expect significant upward bias on the yield curve as the paper is expected to sell within the range of 6.125%-6.25%, at least 150bps higher than the last auction in November 2017. The 5-yr benchmark closed at 6.127% last week.

Also adding to the upwards bias was the wider budget deficit data for 2018 at 3.2% of GDP which exceeded the target of 3% amid increased government spending especially on infrastructure, somewhat hawkish signals from the Bangko Sentral ng Pilipinas (BSP) on possible cut in policy rates if inflation remains above the 2%-4% target, and higher global oil prices (WTI: +22% YTD), which are currently hovering at its highest levels in about three months which may lead to some upward adjustments in local fuel pump prices

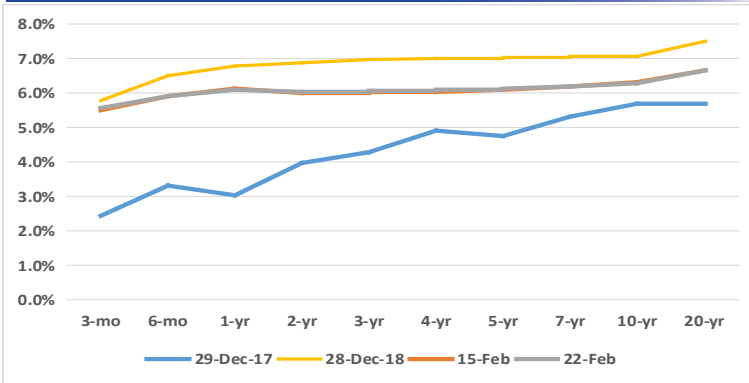
Market review. The local benchmark yield curve rose by 3bps on average week-on-week (WoW) ahead of the RTB issuance. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly narrowed to 363bps from 365bps in the week prior as the former fell by 3bps to 6.28% while the latter was flat at 2.65%. Year-to-date, the yield curve was down by an average of 75bps while the 10-yr was down by 79bps. Yields of ROPs were down by 2bps on average as US Treasuries were flat.

Average total daily down by 16.8% week-on-week (WoW) to Php9.9bn. The liquid yield curve rose by an average of 2bps WoW as the front-end (364-day T-bill) fell by 2bps to 6.10%, the belly (FXTN 10-63: 9.5yrs) down by 3.1bps to 6.28%, while the tail (R25-01: 20.5yr) rose by 9bps to 6.80%. Secondary trading average volume fell by 17% to Php9.9bn as T-bond trading shed 21% to Php6.2bn while T-bill trading fell by 10% to Php3.5bn as the market anticipated the RTB issuance. Results of the latest Php15bn were mixed; the 91-day and 364-day T-bills were partially awarded at 5.733% and 6.052%, respectively, 18bps and 2bps higher than the previous auction, while the 182-day was fully awarded at 5.978%, 4 bps higher than the previous auction. The auction was almost 1.5x oversubscribed but raised only Php15.6bn of the Php20bn offered.

Emerging Markets' (EM) 10-year down 1bp (WoW). Yields of EM bonds we follow were flat, just down by 1bp on average WoW on rising US-China trade optimism. Pakistan (10-year yield -16bps), South Africa (-15bps), and Indonesia (-10bps) outperformed, while Turkey (10-year yield +37bps), Brazil (+21bps), and Poland (+8bps) underperformed.

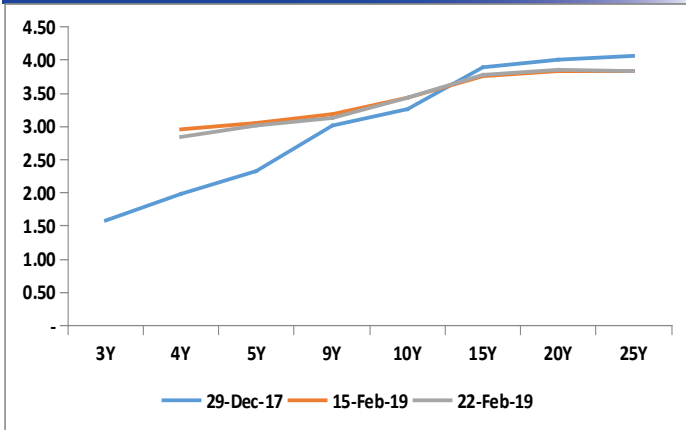
USTs flat WoW. The US Treasury market looks convinced that the US economy is tilted to the downside and oblivious to new supply. US Treasuries were flat WoW on average as the 10-yr UST likewise was just down by 1bp ahead of a fresh supply of \$32bn 7-yr UST and ahead of Fed Chair Powell's testimony about the economy before a Senate panel. There is also optimism on the trade front that an agreement is close and that Trump will extend the March 1 deadline for negotiations with China. Economic data were mixed; durable goods orders rose by 1.2% in December, a bit short of the 1.5% growth expected but higher than November's upwardly revised 1.0%. However, core (excluding defense capital goods) fell by 0.7% after a 1% drop in the month prior, a troubling sign that business investment sentiment is losing momentum. Existing home sales in January dropped by 1.2% in January to 4.94mn, its lowest level in over three years. On the positive side, weekly jobless claims fell by 23,000 to 216,000 from 227,000 expected.

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



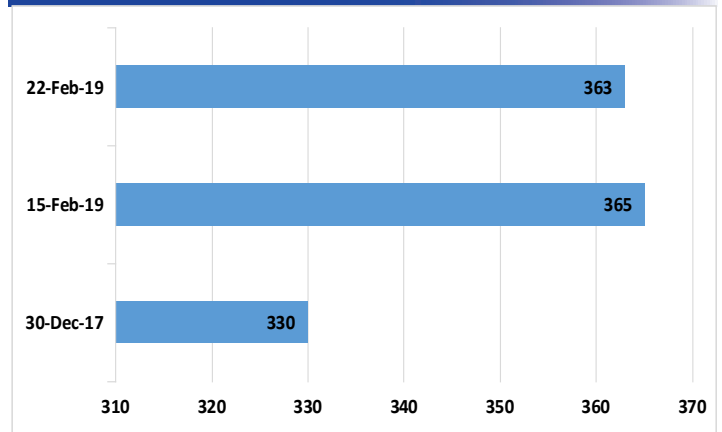
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg