FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Weekly Fixed Income Summary and Outlook

Easing Cycle in the Horizon

March 4-8, 2019

Primary Indicators

	Period	Latest Period	Preceeding 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)	1W Mar '19	52.590	51.710
B. 91-Day Rate (%)	1W Mar '19	5.716%	5.733%
C. 10-Yr Rate (%)	1W Mar '19	6.100%	6.256%
D. Inflation (%)	Feb '19	3.8	4.4
YTD (%)		4.1	4.4
E. RRP	Dec '18	4.750	4.500
F. 7-/14-/21-day TDF	1W Mar '19	5.0342%/5.1452%/5.1758%	
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. Former Budget secretary-turned Bangko Sentral (BSP) governor Benjamin Diokno signaled that monetary policy should be in sync with the Duterte administration's expansionary fiscal policy -- aside from economic data considerations -- and that there is room for easing given that: 1) local inflation is trending down and heading back towards the government's target band of 2%-4%; 2) Fed's dovish signals; and 3) weaker global growth outlook. Most recently, the OECD cut its global growth outlook this year to 3.3% from 3.5% and 2020 growth to 3.4% from 3.5%, while the IMF cut its forecast this year to 3.5% from 3.7%. Two monetary policy events are now clearer in the horizon: a rate cut hike and reserve requirement cut, now it's just a matter of timing. Consensus expectation is a 50-bp cut for the year -- one 25-bp cut for each semester -- and a 2%-3% cut in reserve requirement to 15%-16% which would release to Php160-270bn to the system. With respect to its effect on the peso, the BSP governor that that it is still within its target band of Php52-55 to the dollar this year. The peso is now almost flat year-to-date, up by just 0.5% to Php52.59 from a high of Php51.70 last February 28. We expect significant downward bias on the yield curve this week.

Meanwhile, the national budget for 2019 of Php3.7tn is still not signed into law by the president and presents risk to GDP growth this year of 1.6%-2.3% off forecasts according to Socioeconomic planning secretary Ernesto Pernia. Congress revised the ratified General Appropriations Bill (GAB) itemize some lump-sum items, but the Senate refuses to endorse the revised House version, saying that the Constitution prohibits making any changes to any bill after it has been ratified. The President said he will not sign an "illegal document". If it is not passed, the bill will have to be re-filed after the elections in July and push the passage of the bill to September.

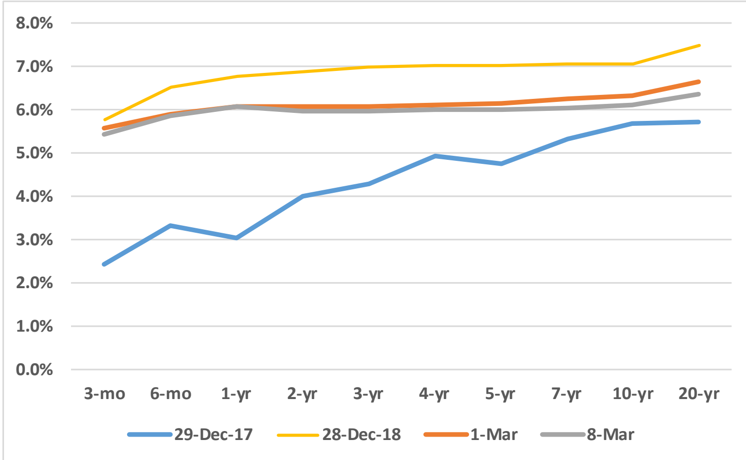
Market review. The local benchmark yield curve was down by 13bps on average week-on-week (WoW) following Diokno's indication of an expansionary monetary policy. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly narrowed to 348bps from 356bps in the week prior as the former fell by 22bps to 6.10% while the latter likewise shed 14bps to 2.62%. Year-to-date, the yield curve was down by an average of 88bps while the 10-yr was down by 96bps. Yields of ROPs were down by 1bp on average tracking US Treasuries which fell by 7bps on average.

Average total daily down by 121% week-on-week (WoW) to Php22bn. The liquid yield curve fell by an average of 13bps WoW as the front-end (364-day T-bill) rose by 2ps to 6.08%, the belly (FXTN 10-63: 9.5yrs) down by 21.5bps to 6.10%, while the tail (R25-01: 20.5yr) fell by 17bps to 6.57%. Secondary trading average volume rose by 121% to Php22bn drive by a 131% increase in T-bond trading to Php17.3bn. T-bill trading also rose by 91% to Php4.7bn. The latest Php20bn T-bill auction was fully awarded; average rates for the 91-day, 182-day, and 364-day T-bill were 5.716%, 5.936%, and 6.018%, respectively, all lower than the previous auction. The auction was 1.5x oversubscribed.

Emerging Markets' (EM) 10-year down 1bp (WoW). Yields of EM bonds we follow were flat, down by just 1bp on average WoW following the European Central Bank's decision to hold rates and its dovish tone and global growth concern. The Philippines (10-year yield -22bps), Poland (-10bps), and Chile (-10bps) have outperformed this week, while Hungary (10-year yield +43bps), Indonesia (+12bps), and Argentina (+12bps) underperformed.

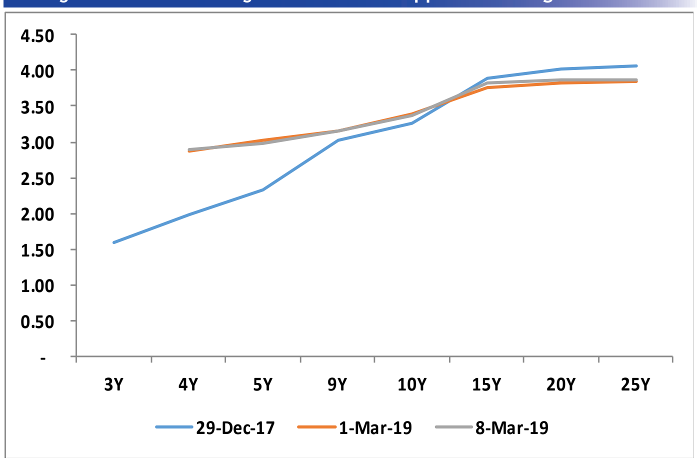
USTs down 7bps WoW. US Treasuries were down by 7bps WoW on average as the 10-yr UST likewise shed 14bps to 2.62% following the ECB's decision to hold rates steady through the end of 2019 and its decision to inject more liquidity into its system to spur economic activity. The ECB also cut its growth forecast for the region to 1.1% in 2019 from 1.7%, citing the effects of Brexit and global growth concerns. The bank also launched the Targeted Longer-Term Refinancing Operation (TLTRO III), 2-year loans that the ECB provides at cheap rates to banks in the euro area intended to help banks extend credit to customers in hopes of stimulating the economy. This is the third stimulus program from the bank since 2014.

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



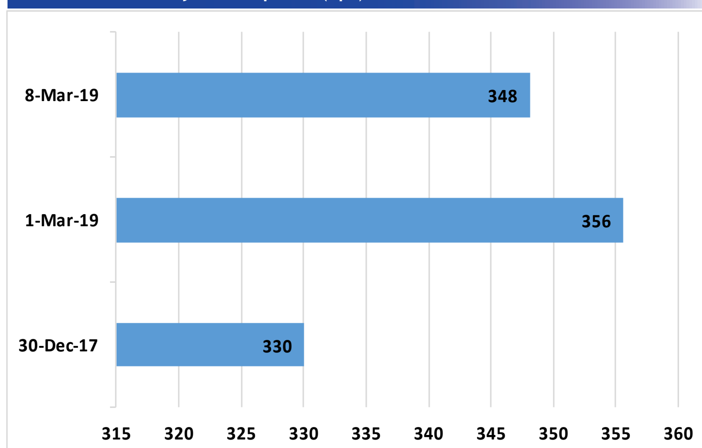
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg