

Supply Cut Sinks Yields

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)	4W Mar '19	52.436	52.640
B. 91-Day Rate (%)	4W Mar '19	5.635%	5.785%
C. 10-Yr Rate (%)	4W Mar '19	5.610%	5.970%
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. The Bureau of the Treasury (BTr) said the government plans to borrow Php315bn domestically (Php195bn in T-bills and Php120bn in T-bonds) in the second quarter. This is Php45bn lower than the first quarter program with the cut coming from the T-bill volume. The reduced borrowing coupled with the budget delay will keep yields subdued.

Rate cut bets in major economies and lower local inflation expectation for March fueled a rally in the local bond market last week. Fed fund futures prices imply that the market expects a cut as early as September and a total of 50bps this year. Meanwhile, Japan's 10-yr yield fell to match the central bank's short-term policy rate at -0.1%, New Zealand 10-yr yield dropped to 1.74%, below the nation's official cash rate of 1.75% as the nation's central bank signalled that its next move may be a cut, and Australia's 3-yr rate fell to 1.355%, below the short-term policy rate of 1.5%. The US yield curve remained inverted (UST 1-mo: 2.43%, 3-mo: 2.40%, 6-mo: 2.44%, 1-yr: 2.40%, 2-yr: 2.27%, 3-yr: 2.21%, 5-yr: 2.23%, 10-yr: 2.41%, 20-yr: 2.20%) as growth concerns in the US persist.

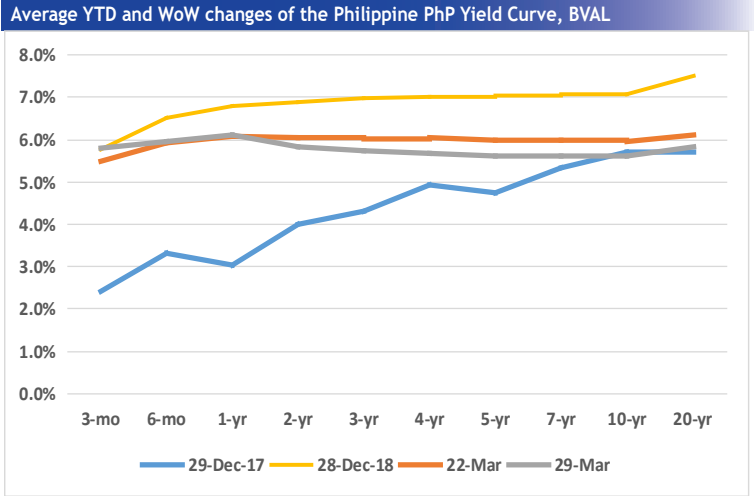
Meanwhile, March inflation to be reported this Friday is expected to be between 3.1%-3.9% from 3.8% in February and 4.4% in January. The World Bank downgraded its 2019 growth forecast for the country to 6.4% from 6.5% partly due to the delay of the budget approval. The government said that the delay prevented the spending of \$832mn (Php44bn) in January-February, which may have dampen GDP growth for the last quarter. Bets are reserve requirement will be cut then to provide stimulus. Expect yields to remain under pressure in the near term.

Market review. The local benchmark yield curve fell by 19bps on average week-on-week (WoW), mirroring movement of global bond yields. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 320bps from 352bps in the week prior as the former dipped to 5.61%, 36bps lower WoW, while the latter shed 3bps to 2.41%. Year-to-date, the local yield curve was down by an average of 112bps while the 10-yr was down by 146bps. Yields of ROPs were down by 10bps on average tracking US Treasuries which fell by 5bps on average.

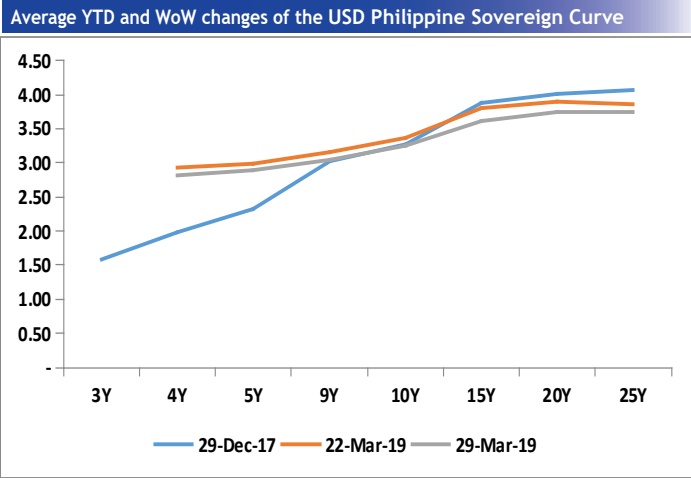
Average total daily volume up 4% week-on-week (WoW) to Php35bn. The liquid yield curve fell an average of 19bps WoW as the front-end (364-day T-bill) was flat at 6.10%, the belly (FXTN 10-63: 9.5yrs) down by 36bps to 5.61%, while the tail (R25-01: 20.5yr) shed 29bps to 5.82%. Secondary trading average volume was slightly up by 4% to Php35bn, the highest this year, as T-bond trading volume remained at Php31bn and T-bill trading volume up by 57% to Php4.3bn. The Bureau of the Treasury's (BTr) fully awarded its Php20bn auction of re-issued 7-yr T-bonds. The auction fetched an average rate of 5.934%, lower than the secondary market rate and was 3.7x oversubscribed. Lastly, the latest Php20bn T-bill auction was fully awarded at average rates of 5.635%, 5.958%, and 5.961%, respectively, 15bps, 3bps, and 8bps lower than the previous auction. The auction was 1.3x oversubscribed.

Emerging Markets' (EM) 10-year down 5bps (WoW). Yields of EM bonds we follow were down by 5bps on average as global growth concerns took over markets. Peru (10-year yield -20bps), Chile (-11bps), Colombia (-8bps), and the Philippines (-7bps) outperformed last week, while Turkey (+26bps), Indonesia (-4bps), and Mexico (-7bps) relatively underperformed.

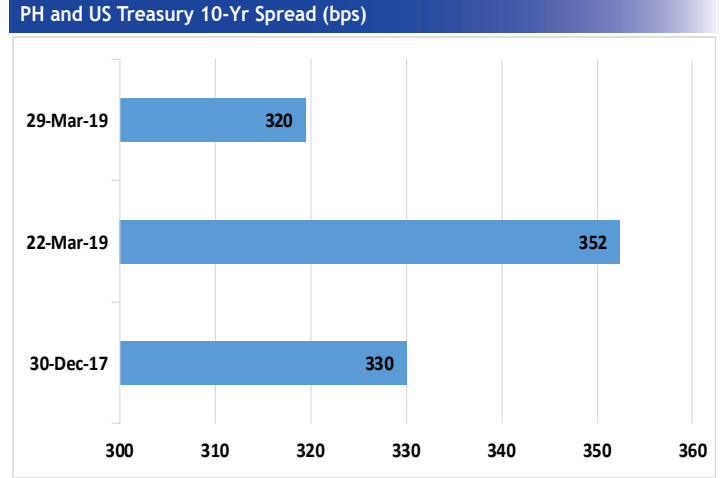
USTs down 5bps WoW. US Treasuries were down by 5bps WoW on average as the 10-yr UST likewise dipped by 3bps to 2.41% following the release of weak US economic data. Housing starts in February dropped by 9% but home sales rose to an 11-month high of 4.9%. Home prices rose by 4.3% in the same month, the slowest pace in 6 years. Meanwhile, personal income increased by 0.2% in February from a 0.1% drop January, while spending rose by 0.1% from a 0.6% decline in December. Both fell short of a 0.3% rise. The personal consumption expenditure (PCE) index, a closely-followed inflation gauge by the Fed, slowed to 1.4% in January from 1.8% in the prior month, while core PCE slowed to 1.8% from 2.0% in December and 1.9% expected.



Source: Bloomberg



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