FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Weekly Fixed Income Summary and Outlook

Policy Easing

April 26-May 2, 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)	4W Apr '19	51.825	52.110
B. 91-Day Rate (%)	4W Apr '19	5.438%	5.760%
C. 10-Yr Rate (%)	4W Apr '19	5.810%	5.970%
D. Inflation (%)	Apr '19	3.0	3.3
YTD (%)		3.6	3.8
E. RRP	Dec '18	4.750	4.500
F. 7-/14-/21-day TDF	1W Apr '19	4.8943%/4.9148%/5.0987%	
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. We expect bond yields to be rangebound after the rally last week as the market awaits the Bangko Sentral's (BSP) move this Thursday. Lower April inflation print bolsters view of faster easing but this may weaken the peso as a Fed cut this year grows more uncertain due to inflationary tariffs (25% from 10%) on $200bn worth of Chinese imports, which may soon include $357bn more.

Rating agency S&P Global upgraded the Philippines' credit rating last week from BBB to BBB+, two notches above investment grade, behind the country's strong growth trajectory, healthy external accounts, and sustainable public finances. This development could likely translate to lower external borrowing costs, apply downward pressure on the yield curve, and further increase the likelihood of monetary easing soon. S&P also had a stable outlook for the Philippines and expects the country to maintain the rating for the next six months to two years.

April inflation slowed to 3.0% from 3.3% in March. This was even slower than the forecasted 3.1% by the Bangko Sentral (BSP) and analysts. Adding to the downward pressure on rates will be weaker 1Q19 GDP numbers to be released this Thursday. Consensus estimates expect GDP growth of 6.1% versus 6.5% in the same period last year and 4Q18's 6.3% dragged by the budget delay which in turn depressed government expenditure during the period by 11% to Php778bn. BSP governor Diokno indicated that cuts in both policy rate and the reserve requirement rate (RRR) are inevitable, with a one percentage cut in the RRR for four quarters on the table. The monetary board will convene on May 9, Thursday.

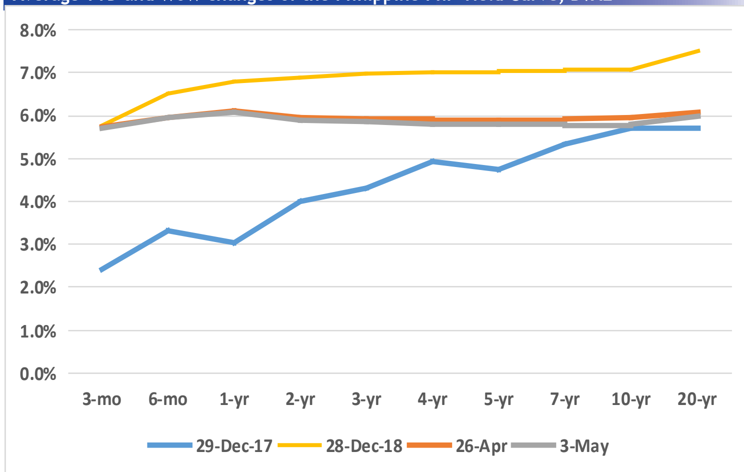
Market review. The local benchmark yield curve fell by 9bps on average week-on-week (WoW) following the credit rating upgrade and lower April inflation outlook. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 327bps from 346bps in the week prior as the former shed 16bps WoW to 5.81%, while the latter rose by 3bps to 2.54%. Year-to-date, the local yield curve was down by an average of 104bps while the 10-yr was down by 126bps. Yields of ROPs were flat on average while US Treasuries rose by 2bps on average.

Average total daily volume up 36% week-on-week (WoW) to Php28bn. The liquid yield curve rose an average of 8.7bps WoW as the front-end (364-day T-bill) shed 4bps to 6.1%, the belly (FXTN 10-63: 9.5yrs) down by 16bps 5.81%, while the tail (R25-01: 20.5yr) was down by 8.5bps to 6.1%. Secondary trading average volume rose by 36% to Php28bn as T-bill volume rose by 25% to Php6bn while T-bond trading rose by 39% to Php22bn. The Bureau of the Treasury's (BTr) fully awarded its latest Php20bn auction for the 91-day, 182-day, and 364-day T-bills with average rages of 5.438%, 5.825%, and 5.977%, respectively, lower than the previous auction. The auction as 3.4x oversubscribed.

Emerging Markets' (EM) 10-year down by 4bps (WoW). Yields of EM bonds we follow down by 4bps on average following the implementation of US tariffs on Chinese imports. The Philippines (10-year yield -12bps), Israel (-9bps), and Pakistan (-9bps) outperformed last week, while Turkey (10-year yield +21bps), Hungary (+20bps), and Indonesia (+11bps) underperformed.

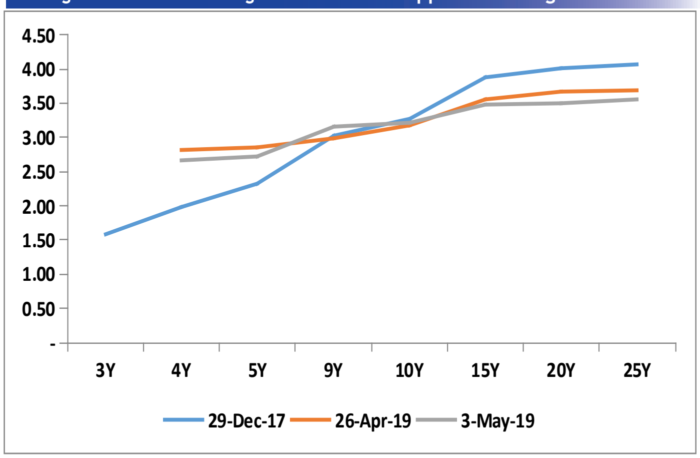
USTs up 2bps WoW. US Treasuries were up by 2bps WoW on average as the 10-yr UST likewise rose by 4bps to 2.54%, fuelled by positive economic data. The US labor market added 236,000 jobs last April, easily beating expectations of 190,000 as unemployment fell to 3.6%, a 50-yr low. Wages grew by 3.2% in April, the ninth consecutive month that it grew by at least 3%. However, the personal consumption expenditure (PCE) index -- the Fed's preferred inflation measure -- rose by 1.6% in the first quarter, falling way below the 2% target. The Fed met last week and kept rates steady, as expected, but Fed chair Powell said that lower inflation was just "transitory" and that the Fed is in no rush to adjust rates, perplexing analysts that have been expecting a rate cut sooner rather than later. Odds for a cut in December is still north of 50%.

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



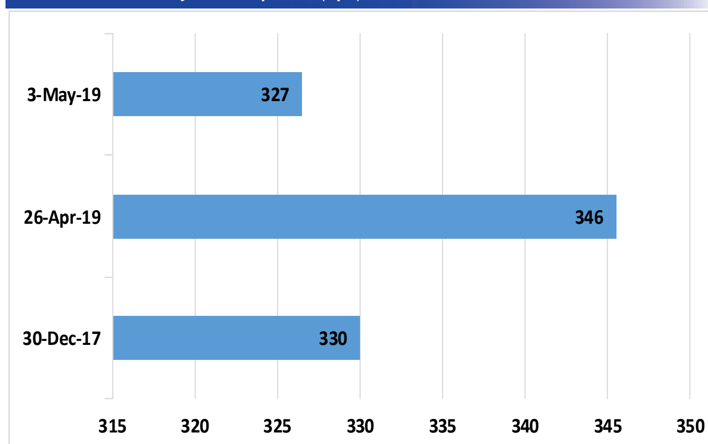
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg