

May 6-10, 2019

## Easing Ensues

### Primary Indicators

	Period	Latest Period	Preceding Period
<b>I. Real Economy (Growth, %)</b>			
A. GDP	1Q2019	5.6	6.3
B. Manufacturing (VoPi)	Feb '18	24.8	18.5
<b>II. Monetary and Banking</b>			
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%
<b>III. Prices</b>			
A. PHP/\$ (PDS data)	1W May '19	52.210	51.825
B. 91-Day Rate (%)	1W May '19	5.389%	5.438%
C. 10-Yr Rate (%)	1W May '19	5.750%	5.810%
D. Inflation (%)	Apr '19	3.0	3.3
YTD (%)		3.6	3.8
E. RRP	May '19	4.500	4.750
F. 7-/14-/21-day TDF	1W Apr '19	4.8943%/4.9148%/5.0987%	
<b>IV. External Accounts</b>			
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%
<b>V. NG Cash Operations</b>			
A. Surplus (Deficit) (Php b)	June '17	(90.87)	(33.42)

**Outlook.** The Bangko Sentral ng Pilipinas (BSP) cut policy rates by 25bps to 4.50% last week but kept the reserve requirement ratio (RRR) at 18%, which disappointed the market that largely expected an RRR cut amid tight liquidity. The BSP indicated that it will discuss an RRR cut during its weekly meeting this Thursday.

First quarter GDP came in at 5.6%, disappointing consensus expectation of 6.1% and a four-year low, dragged down by the delay of the budget passage. All expenditure accounts slowed except for consumer spending which still grew by 6.3%. The BSP likewise lowered its inflation forecast this year to 2.9% from 3.0% while it raised its 2020 projection to 3.1% from 3.0%. The Philippines followed suit with its regional neighbours with Malaysia and New Zealand likewise cutting rates last week while India already cut rates twice this year, triggered by a full-blown trade war between the US and China. Last Friday, the US finally implemented its first batch of tariffs (25% from 10%) on \$200bn worth of Chinese imports, which may soon include \$357bn more.

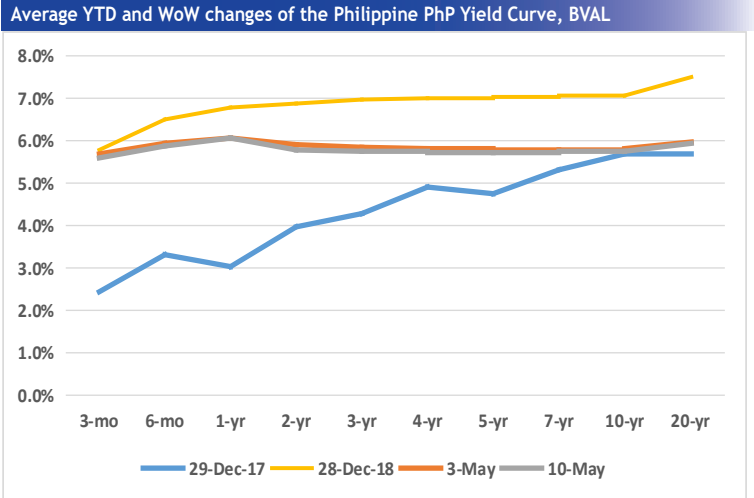
Meanwhile, the government raised \$842.3mn last Friday via an 8-year euro bond sale at a coupon of 0.875%, 70bps above the benchmark. The auction that was six times oversubscribed and eased the need to borrow from the local market. There is still significant downward pressure on yields as the market largely anticipates an RRR cut soon.

**Market review.** The local benchmark yield curve fell by 6bps on average week-on-week (WoW) following the BSP's cut. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly widened to 328bps from 327bps in the week prior as the former shed 6bps WoW to 5.75%, while the latter likewise shed 7bps to 2.47%. Year-to-date, the local yield curve was down by an average of 110bps while the 10-yr was down by 132bps. Yields of ROPs were flat on average while US Treasuries were down by 4bps on average.

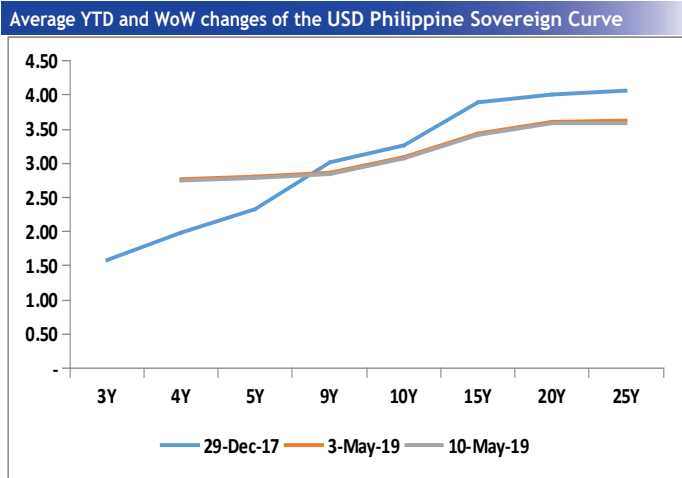
**Average total daily volume down by 16% week-on-week (WoW) to Php23.7bn.** The liquid yield curve fell by an average of 5.9bps WoW as the front-end (364-day T-bill) was flat at 6.1%, the belly (FXTN 10-63: 9.5yrs) down by 6bps to 5.75%, while the tail (R25-01: 20.5yr) shed by 3bps to 5.95%. Secondary trading average volume fell by 15.7% to Php23.7bn as T-bill volume shed 43% to Php3.5bn while T-bond fell by 8% to Php20bn. The Bureau of the Treasury's (BTr) fully awarded its latest Php20bn auction of reissued 7-year T-bonds at an average yield of 5.743%, 19bps lower than its initial issue last February. The auction was 2.5x oversubscribed. Lastly, the latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded at average rates of 5.389%, 5.768%, and 5.936%, respectively, 5bps, 6bps, and 4bps lower than the previous auction. The auction as 3.64x oversubscribed.

**Emerging Markets' (EM) 10-year up 7bps (WoW).** Yields of EM bonds we follow were up by 7bps on average amid risk-off sentiment following the implementation of US tariffs on Chinese imports last Friday. Brazil (10-year yield -5bps), Chile (-2bps), and the Philippines (-1bp) outperformed last week, while Turkey (10-year yield +53bps), Colombia (+20bps), and Indonesia (+4bps) underperformed.

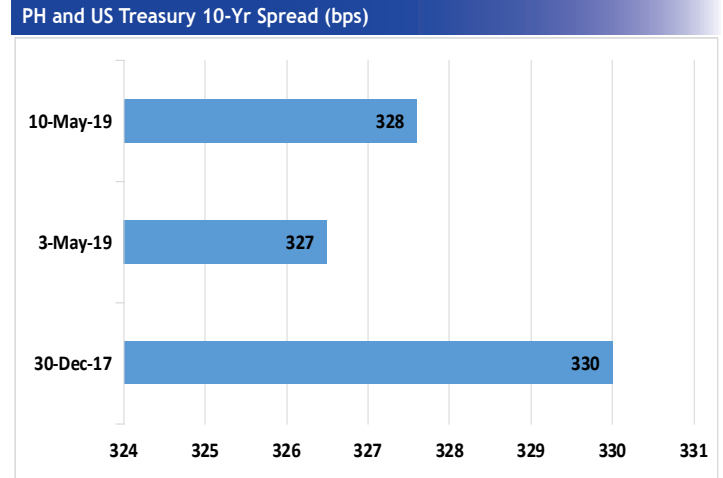
**USTs down 4bps WoW.** US Treasuries were down by 2bps WoW on average as the 10-yr UST likewise fell by 7bps to 2.47%, amid reduced risk appetite as trade tensions between the US and China heightened. Treasury Secretary Mnuchin calmed investors' fears and said that negotiations are still ongoing. Trump urged the Fed to match whatever expansionary policy China enacts and expects GDP to grow by 5% if easing follows. However, odds for a rate cut this year is steadily declining due to the inflationary effects of the tariffs and a strengthening US economy. Fed futures prices indicate that the market expects a cut in December at the earliest, much later than the September cut expected last March. 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%.



Source: Bloomberg



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