

Flush Liquidity

Primary Indicators

	Period	Latest Period	Preceding Period
I. Real Economy (Growth, %)			
A. GDP	1Q19	5.6	6.3
B. Manufacturing (VoPi)	Mar '19	-9.2	-8.0
II. Monetary and Banking			
A. Outstanding Loans, net of RRP (Php Bn), UKBs	Mar '19	8,919	8,845
Y-O-Y Growth (%)	Mar '19	11.5	13.3
B. Net NPL to Total Loans	Mar '19	0.675	0.758
C. M3 Growth (Y-O-Y)			
III. Prices			
A. PHP/\$ (PDS data)	3W May '19	52.30	52.66
B. 91-Day Rate (%)	3W May '19	5.150%	5.258%
C. 10-Yr Rate (%)	3W May '19	5.710%	5.790%
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	2W May '19	4.5695%/4.6013%/4.6495%	
IV. External Accounts			
A. Balance of Payments (\$ m)	Apr '19	467	627
YTD (\$ b)	Apr '19	4.27	3.80
i. Current Account (\$ b)	FY18	-7.88	-2.14
% of GDP		-2.4	-0.7
ii. Capital Account (\$ m)	FY18	65	69
% of GDP			
iii. Financial Account (\$ b)	FY18	-7.83	-2.80
% of GDP			
B. Net Foreign Portfolio Inv (\$ m)	Mar '19	-739	340
YTD	3W Apr '19	223	415
C. OFW Personal Remittances	Mar '19	2.8	2.6
YTD(\$ b)/YoY(%)		8.1/6.4%	5.3/1.2%
D. Gross Intl Reserves (\$ b)	Apr '19	83.9	83.6
YoY Growth		5.4	3.9
E. Import Cover (x)	Apr '19	7.4	7.4
F. ST External Debt cover, residual maturity (x)	Apr '19	348.1	346.5
G. Exports Growth (% YoY)	Mar '19	5.9	
YTD(\$ b)/YoY growth		16.4/-3.1%	
H. Trade Surplus (Deficit) (\$ b)	1Q19	(9.8)	(6.7)
V. NG Cash Operations			
A. YTD Surplus (Deficit) (Php b)	Mar '19	-90.2	-31.8

Outlook. We expect yields to remain under pressure ahead of the staggered reserve requirement (RRR) cut this week, next month, and in July. Another factor is the Php112bn budget surplus of the national government and the recent euro and panda borrowings totalling \$1.2bn under competitive rates following the Philippines' recent credit rating upgrade to BBB+. Local yield curves tracked the downward movement in US Treasuries amid escalated trade tensions. Also, Fed minutes released last week showed a patient Fed that indicated no immediate movement in either direction. Thus, funds flowed to relatively safe assets on a risk-off move.

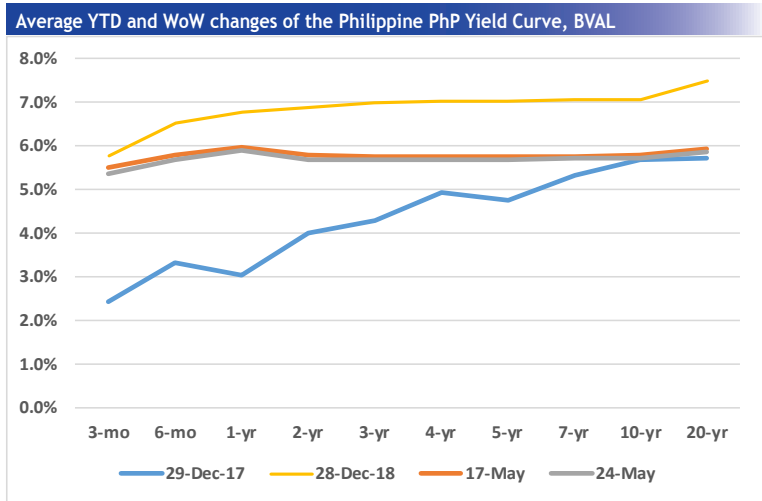
The Banko Sentral ng Pilipinas (BSP) announced last week that it will also cut the reserve requirement ratio (RRR) of thrift, rural, and cooperative banks. Thrift banks' RRR will be gradually slashed by 200 bps to 6% from 8% in three tranches: 100bps on May 31, 50bps on June 28, and 50bps on July 26. Reserves of rural and cooperative banks will be trimmed by 100bps to 4% from 5% effective May 31. A percentage point cut for smaller banks is estimated to release Php22bn to the system versus Php90-100bn for the big banks.

Market review. The local benchmark yield curve fell by 9bps on average week-on-week (WoW) on risk-off sentiment. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly narrowed to 339bps from 340bps in the week prior as the former shed 8bps WoW to 5.71%, while the latter shed 7bps to 2.32%. Year-to-date, the local yield curve was down by an average of 120bps while the 10-yr was down by 136bps. Yields of ROPs were flat on average while US Treasuries were down by 4bps on average.

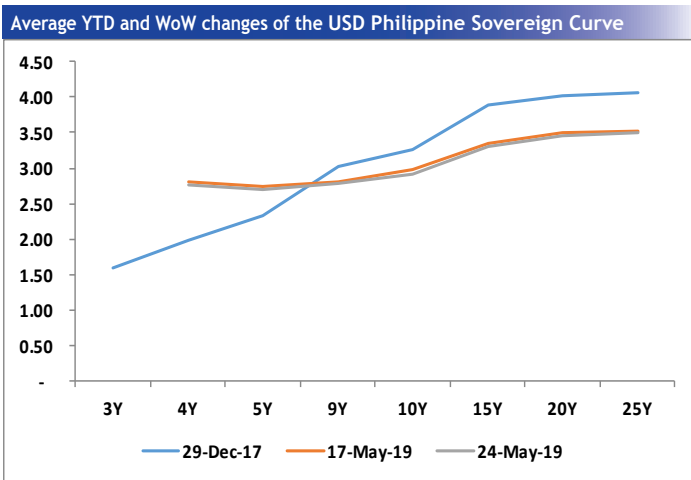
Average total daily volume flattish, down by just 4% week-on-week (WoW) to Php23.2bn. The liquid yield curve fell by an average of 7.9bps WoW as the front-end (364-day T-bill) was down by 7bps to 5.90%, the belly (FXTN 10-63: 9.5yrs) down by 7.9bps to 5.71%, while the tail (R25-01: 20.5yr) shed 8.4bps to 5.87%. Secondary trading average volume fell was flattish, down by just 4.3% to Php24.2bn as T-bill volume was down by 18% to Php6.4bn while T-bond was flat, up by just 2% to Php16.8bn. The Bureau of the Treasury's (BTr) fully awarded its latest Php20bn auction of reissued 10-year T-bonds at an average yield of 5.644%, 7bps lower than the prevailing secondary market rate and 31bps lower than the last time it was reissued last April. The auction was 3.3x oversubscribed. Lastly, the latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded at average rates of 5.150%, 5.590%, and 5.683%, respectively, 10bps, 11bps, and 18bps lower than the previous auction. The auction was 3.19x oversubscribed.

Emerging Markets' (EM) 10-year down 3bps (WoW). Yields of EM bonds we follow were down by 3bps on average as EM markets remained hostage by global trade tensions. Brazil (10-year yield -7bps), Chile (-4bps), and Peru (-4bps) outperformed last week, while Turkey (10-year yield +43bp) and Indonesia (+1bp) underperformed.

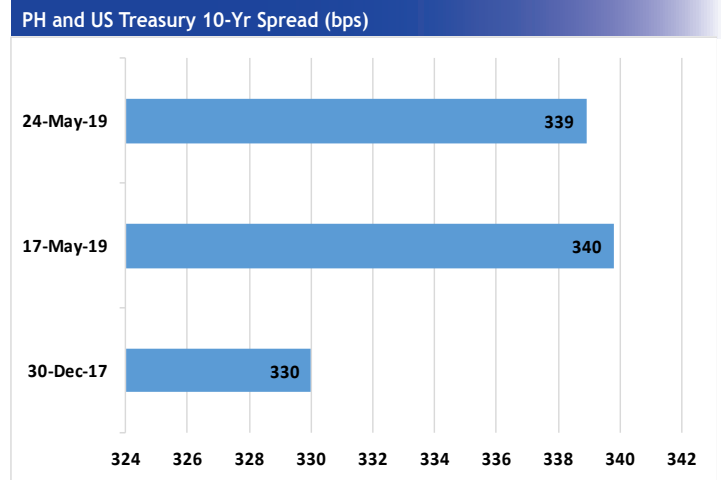
USTs down 4bps WoW. US Treasuries were down by 4bps WoW on average as the 10-yr UST likewise fell by 7bps to 2.32%, even falling to 2.31% within the week which was a 19-month low, as trade tensions with China escalate. U.S. technology companies halted sales to Chinese telco giant Huawei following a new set of export restrictions announced by the White House the previous week but was later granted temporary exemptions. The US also announced a \$16bn subsidy to farmers to offset the impact of Chinese tariffs, further suggesting that the increased tariffs might be here to stay. US economic data were also weak: existing home sales dropped by 0.4% in April versus an expectation of a 3% rise, while new home sales fell more than expected, down by 6.9% to 673,000 versus a 2% fall expected, from a one-year high last March of 723,000.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg