

Further Easing Ahead

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	Apr '19	8,106	7,989
Y-O-Y Growth (%)	Apr '19	12.6	13.0
B. Net NPL to Total Loans	Mar '19	0.675	0.758
C. M3 Growth (Y-O-Y)	April '19	7.0	6.1
III. Prices			
A. PHP/\$ (PDS data)	4W May '19	52.170	52.300
B. 91-Day Rate (%)	4W May '19	4.992%	5.150%
C. 10-Yr Rate (%)	4W May '19	5.510%	5.670%
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. Bangko Sentral (BSP) governor Benjamin Diokno promised for more policy rate and reserve requirement (RRR) cuts in the future, but the timing will depend on economic data. Diokno expects inflation to ease below 2% on base effect as soon as this quarter, while he expects GDP will reach at least 6% again now that the budget has been passed. The BSP expects May inflation to have slowed to 2.8%-3.6% from 3.0% last April and 4.5% in the same period last year. Consensus estimates are at 2.9% and it would be the first time inflation dipped below 3% since December 2017. The 10-yr US Treasury (UST) dipped below 2.10% last week since 2017 as Trump's tariff threat against Mexico further rattled investors who were already on edge with China trade negotiations. We expect yields to continue its downward trajectory as liquidity return to the system through the recent RRR cuts, lower inflation outlook, and more importantly, expected further easing. The monetary board is set to meet again in June 20.

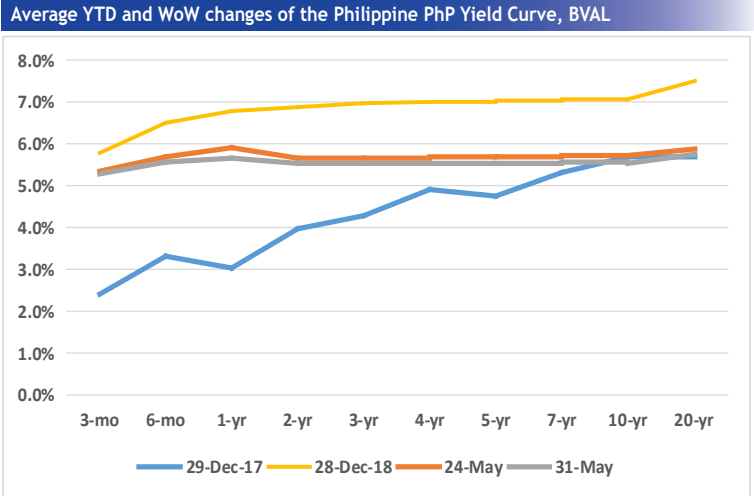
Credit rating agency Fitch kept the Philippines' credit rating at BBB, a notch above the investment grade with a stable outlook, citing the strong domestic demand, both from the private and public sectors, will insulate the country from external headwinds such as the US-China trade war. The rating agency also lauded the 175-bp rate hike last year and said that overheating risks have subsided. It forecasts that GDP will grow by 6.1% this year despite the slight slowdown in the first quarter. This forecast is in the low range of the government's target of 6%-7% and just a tick higher than the 6.2% growth last year.

Market review. The local benchmark yield curve fell by 14bps on average week-on-week (WoW) spurred by Diokno's easing promise. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) slightly widened to 341bps from 339bps in the week prior as the former shed 16bps WoW to 5.51%, while the latter likewise fell by 18bps to 2.14%. Year-to-date, the local yield curve was down by an average of 133bps while the 10-yr was down by 152bps. Yields of ROPs were flat on average while US Treasuries were down by 13bps on average.

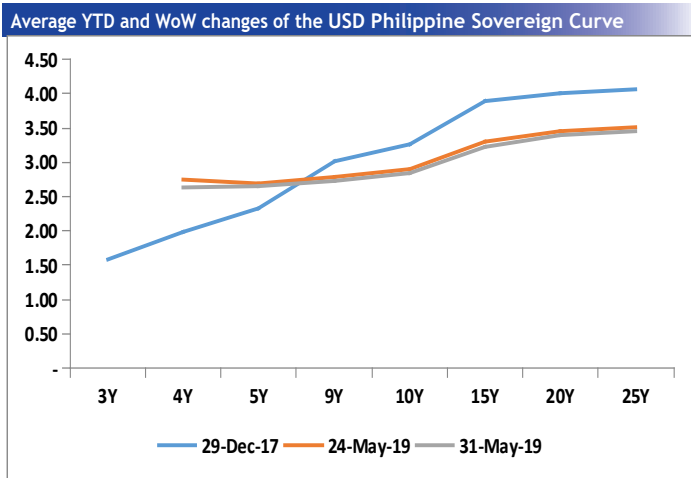
Average total daily volume up by 41% week-on-week (WoW) to Php32.7bn. The liquid yield curve fell by an average of 13.6bps WoW as the front-end (364-day T-bill) was down by 22.5bps to 5.67%, the belly (FXTN 10-63: 9.5yrs) down by 16.1bps to 5.55%, while the tail (R25-01: 20.5yr) shed 11.6bps to 5.75%. Secondary trading average volume rose by 41% to Php32.7bn as T-bond volume rose by 70% to Php28bn. T-bill volume, on the other hand, fell by 34% to Php4.3bn. 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 4.992%, 5.400%, and 5.498%, respectively, 15bps, 19bps, and 18bps lower than the previous auction. The auction was 3.30x oversubscribed.

Emerging Markets' (EM) 10-year down 13bps (WoW). Yields of EM bonds we follow were down by 13bps on average global trade tensions continued to heighten. Turkey (10-year yield -44bps), Brazil (-15bps), and Chile (-14bps) outperformed last week, while the Philippines (10-year yield -4bps) and Indonesia (-4bps) relatively underperformed.

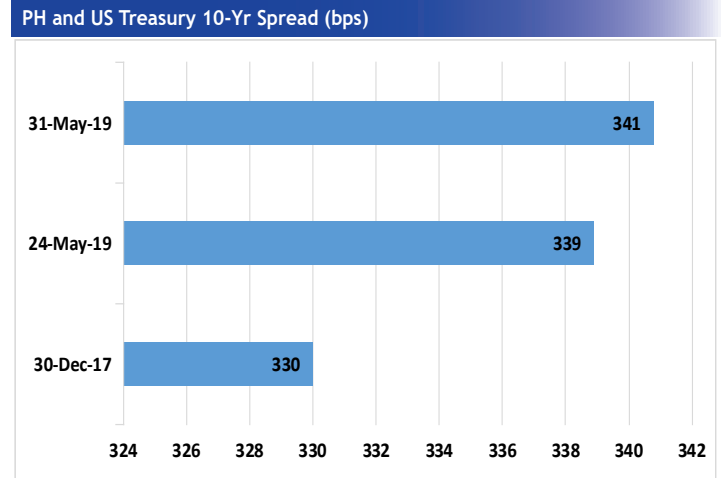
USTs down 13bps WoW. US Treasuries were down by 13bps WoW on average as the 10-yr UST likewise fell by 18bps to 2.14%, even falling below 2.10% within the week for the first time since 2017, as Trump dragged Mexico into the trade fray with a 5% tariff threat on Mexican goods unless it stops the flow of illegal immigrants across the border. Trump reiterated that they are nowhere near a deal with China while Pence said that the US could double down on Chinese tariffs if needed. On the other hand, China is constructing a "restricted entities" list in retaliation while restricting the export of rare earth metals to the US.



Source: Bloomberg



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