FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Weekly Fixed Income Summary and Outlook

Easing Ahead

June 17-21, 2019

Primary Indicators

	Period	Latest Period	Preceeding 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)	2W Jun '19	51.532	52.02
B. 91-Day Rate (%)	2W Jun '19	4.385%	4.640%
C. 10-Yr Rate (%)	2W Jun '19	5.130%	5.250%
D. Inflation (%)	May '19	3.2	3.0
YTD (%)		3.6	3.6
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. Lower inflation expectations make rate cuts more likely in the near future. Both the Fed and the Bangko Sentral ng Pilipinas (BSP) kept policy rates steady during their meetings last week, which was expected though the former sounded more dovish. The market expected the Fed to give strong signals towards monetary easing, which reflected on the rate cut odds next July: a 57% chance of a 25-bp cut and 43% for a 50-bp cut. The US consumer price index (CPI) only edged up higher by 0.1% in May from 0.3% last April, bringing the twelve-month gain to 1.8%, slowing from 1.9% in April and short of the 2% target. Core CPI rose by 2.0% from 2.1% in April. Lingering concerns of slower growth and the effects of the US-China trade war were points that the market expected to be addressed in the meeting and bolstered the likelihood of three cuts this year from at most two last month. The 2-yr US Treasury (UST), the proxy for policy rate expectation, ended the week 7bps lower week-on-week to 1.77%, while the 10-yr UST stayed below 2.10% at 2.07% last week.

On the other hand, the BSP cut its local inflation forecast this year to 2.7% from the 2.9% it set last month, while inflation forecast for 2020 was likewise lowered to 3.0% from 3.1%. The cuts were due to lower crude oil prices and a stronger peso outlook which the BSP forecasts to be around Php52.01 (to $1) in 2019 and Php51.50 in 2020, both lower than the previous assumptions of Php52.06 and Php51.78, respectively. We expect local bond yields to remain subdued and take its cue from the movement in USTs.

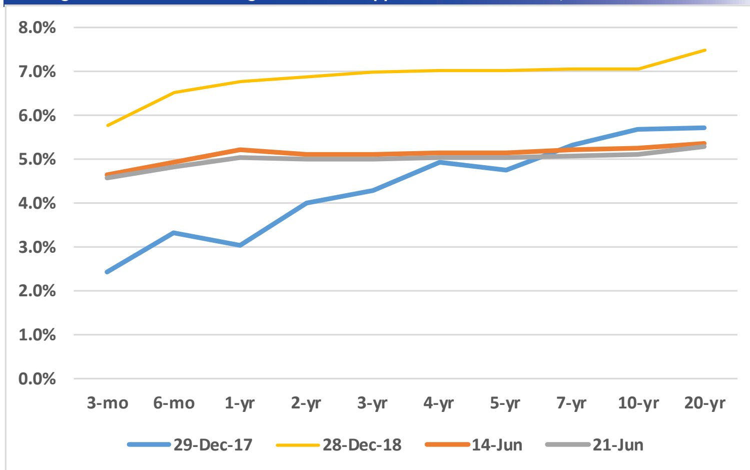
Market review. The local benchmark yield curve fell by 12.5bps on average week-on-week (WoW) as the local bond yield tracked the movement in USTs. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 306bps from 316bps in the week prior as the former shed 12bps WoW to 5.13% while the latter was likewise lower by 2bps to 2.07%. Year-to-date, the local yield curve was down by an average of 190bps while the 10-yr was down by 194bps. Yields of ROPs were down by 1bp on average, tracking the movement of US Treasuries which shed 5bps on average.

Average total daily volume flattish, down by 1.6% week-on-week (WoW) to Php24.6bn. The liquid yield curve fell by an average of 7.9bps WoW as the front-end (364-day T-bill) was down by 18bps to 5.03%, the belly (FXTN 10-63: 9.5yrs) down by 12bps to 5.13%, while the tail (R25-01: 20.5yr) shed 10bps to 5.28%. Secondary trading average volume fell was flattish, down by 1.6% WoW to Php24.6bn as T-bill volume was down by 8.6% to Php3.6bn while T-bond was flat at Php21bn. The Bureau of the Treasury's (BTr) fully awarded its latest Php20bn auction of reissued 20-year T-bonds at an average yield of 5.170%, 155bps lower than the previous auction rate and around 10bps lower than the prevailing secondary market rate. The auction was 2.6x oversubscribed. Lastly, the latest Php15bn auction of 91-day, 182-day, and 364-day T-bills was fully awarded at average rages of 4.385%, 4.723%, and 4.986%, respectively, all lower than the previous auction and secondary market rates. The auction was 3.3x oversubscribed.

Emerging Markets' (EM) 10-year down 17bps (WoW). Yields of EM bonds we follow were down by 17bps on average on risk-on sentiment. Turkey (10-year yield -36bps), Indonesia (-19bps), and Brazil (-18bps) outperformed last week, while Peru (10-year yield -10bps) and Mexico (-12bps) underperformed.

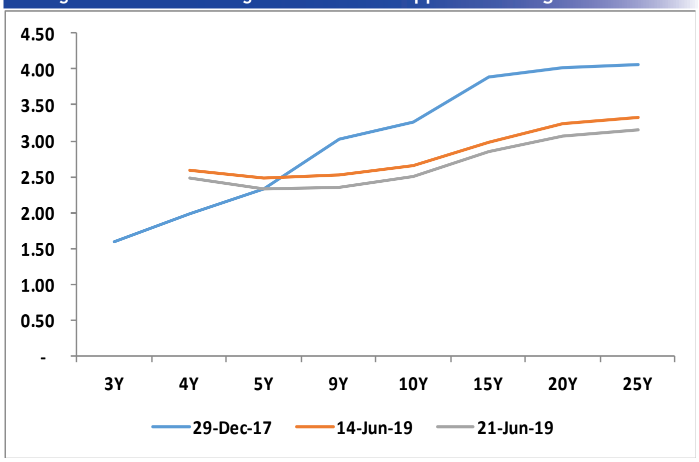
USTs down 5bps WoW. US Treasuries were down by 5bps WoW on average as the 10-yr UST likewise fell by 2bps to 2.07%, after the Fed reinforced beliefs of a cut sooner this year. Noticeably, the word "patient" has been removed in the post-meeting statement and instead emphasized that appropriate action will be made to sustain economic expansion. Geopolitical tensions were also renewed after Trump called off a retaliatory air strike to Iran at the last minute. Iran previously shot down a US drone, which prompted said action. Lastly, the G-20 will meet this week (June 28-29) in Japan where Trump and Xi Jinping will reportedly have an extended meeting. The market hopes that the event will renew trade negotiations and help avoid additional tariffs.

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



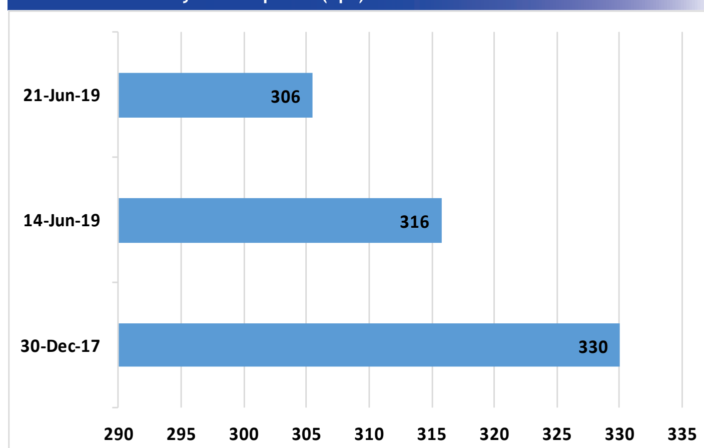
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg