

July 1-5, 2019

## Yields Fall on Short Supply

### Primary Indicators

	Period	Latest Period	Preceding Period
<b>I. Real Economy (Growth, %)</b>			
A. GDP	1Q19	5.6	6.3
B. Manufacturing (VoPi)	Mar '19	-9.2	-8.0
<b>II. Monetary and Banking</b>			
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)			
<b>III. Prices</b>			
A. PHP/\$ (PDS data)	1W Jul '19	51.193	51.296
B. 91-Day Rate (%)	1W Jul '19	3.88%	4.38%
C. 10-Yr Rate (%)	1W Jul '19	5.0%	5.07%
D. Inflation (%)	Jun '19	2.7	3.2
YTD (%)		3.45	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%	
<b>IV. External Accounts</b>			
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)
<b>V. NG Cash Operations</b>			
A. YTD Surplus (Deficit) (Php b)	Mar '19	-90.2	-31.8

**Outlook.** Expect local bond yields to remain subdued with appetite still mainly in the short-end, which fell last week by an average of 16bps against the long-end's 9-bp average decline. Buying interest in the short-end was reflected in the dramatic 50-bp drop of the 91-day bill rate to 3.88% and the slight correction in the long end from 4.9% to 5.10%. The recent government initiative to reduce the frequency of T-bill auction to twice a month from the previous weekly contributed to a scarcity effect that elicited lower short-term rate expectations among key banks. This view is reinforced by news of more foreign borrowing, part of the 30% offshore out of the total 2019 programmed borrowing worth Php1.19 trillion for the year. An estimated \$1bn - \$1.5bn worth of yen-denominated Samurai bond is slated next month. Accompanying this development was the BSP's announcement of shortened lead time of 2 days from one week for the Term Deposit Facility offer volume to make it more aligned with prevailing market liquidity conditions though it is seen as having little near-term impact on interest rates.

It was reported that government will have a lower third quarter borrowing worth Php230bn, 27% below the P315 billion domestic borrowing program set in the previous quarter, and 23.3% down from Php300bn in the third quarter of 2018. There was a significant reduction in T-bill volume (down 54% to Php90bn), which led to the 91-day T-bill getting awarded at 3.88%.

Furthermore, local inflation eased further in June to 2.7% from 3.2% in May, a 22-month low and a beat of the consensus expectation of 3.0%. Core inflation likewise slowed to 3.3% from 3.5% last May, likely paving the way for the Bangko Sentral to ease policy rates in the second half especially with the Fed's impending cuts.

Also, inflation is seen to dip below 2% in the second half, further bolstering the argument of policy rate and reserve requirement easing. Recall that the BSP cut its local inflation forecast this year to 2.7% from the 2.9% it set last May, while inflation forecast for 2020 was likewise lowered to 3.0% from 3.1% due to lower crude oil prices and a stronger peso outlook.

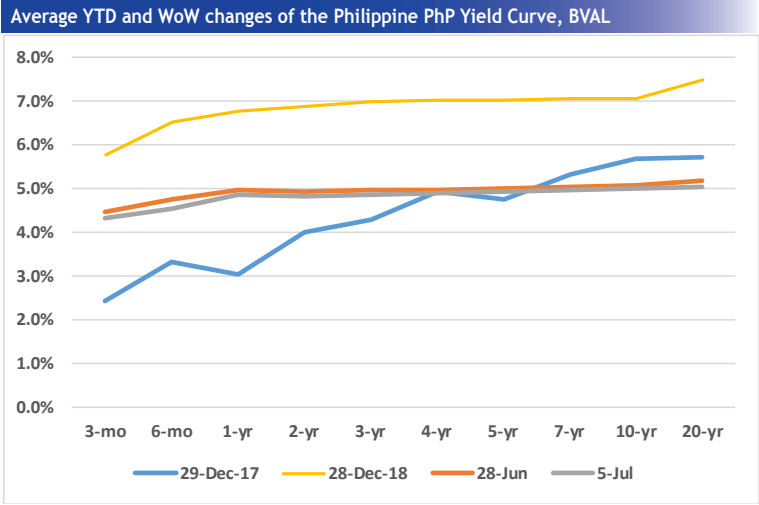
Meanwhile, the latest outperformance of US jobs data (224k versus 160k expected) did not dent the odds of a 25-bp cut during the Fed's next meeting in July 31 (PH time, August 1), which currently stands at 94%. Fed chair Powell will appear in a congressional meeting this week and is expected to give a hint on the Fed's market view and policy tack.

**Market review.** The local benchmark yield curve fell by 10.5bps on average week-on-week (WoW) as the local bond yield priced in lower inflation and Fed cut expectations. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 296bps from 307bps in the week prior as the former shed 7bps WoW to 5.00% while the latter rose by 4bps to 2.04%. Year-to-date, the local yield curve was down by an average of 207bps while the 10-yr was down by the same amount. Yields of ROPs were up by 1bp on average, tracking the movement of US Treasuries which likewise rose by 7bps on average.

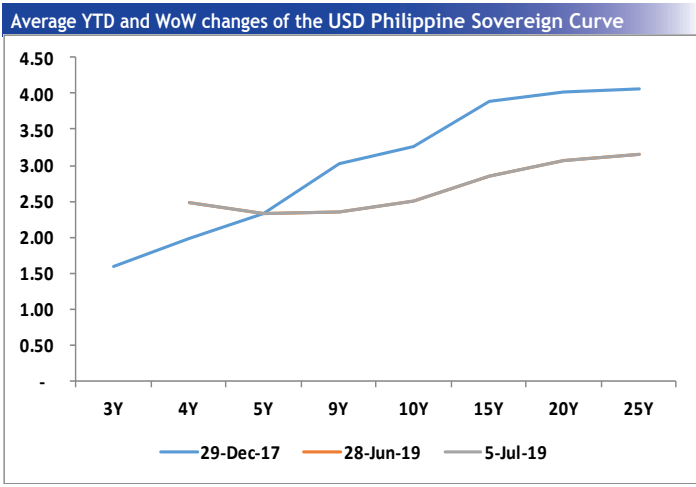
**Average total daily volume flattish, up by 13.3% week-on-week (WoW) to Php31.6bn.** The liquid yield curve fell by an average of 10.6bps WoW as the front-end (364-day T-bill) was down by 11.8bps to 4.85%, the belly (FXTN 10-63: 9.5yrs) down by 7.2bps to 5.00%, while the tail (R25-01: 20.5yr) shed 12bps to 5.06%. Secondary trading average volume rose by 13.3% WoW to Php31.6bn as T-bond volume rose by 15% to Php28bn while T-bill volume was flattish at Php3.5bn. The Bureau of the Treasury's (BTR) fully awarded its latest Php20bn auction of 3-year T-bonds at an average yield of 4.750%, 20bps lower than the prevailing secondary market rate. 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 3.883%, 4.236%, and 4.736%, respectively, all lower than the previous auction and secondary market rates. The auction was 3.37x oversubscribed.

**Emerging Markets' (EM) 10-year down 17bps (WoW).** Yields of EM bonds we follow were down by 5bps 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.

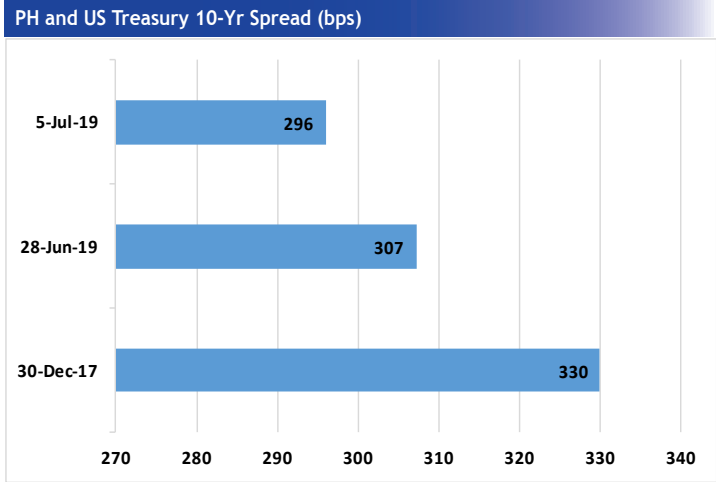
**USTs up by 7bps WoW.** US Treasuries were up by 7bps WoW on average as the 10-yr UST likewise rose by 4bps to 2.04% as the market responded to the better-than-expected US jobs reported. Odds for a cut this month, however, is still overwhelmingly large, albeit at a smaller 25-bp cut expectation while a 50-bp cut becoming more unlikely. Average hourly earnings, though, fell below expectations at 3.1% versus 3.2% expected, while unemployment slightly ticked up to 3.7% from 3.6%. Economists peg a wage growth closer to 3.5% a better indicator of full employment. Trade truce negotiated in the G-20 summit buoyed investor sentiment, but the market will now turn its attention towards Powell's congressional report on monetary policy and the state of the US economy this week.



Source: Bloomberg



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