FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Weekly Fixed Income Summary and Outlook

Market Braces for Easing

July 8-12, 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 Jul '19	50.910	51.193
B. 91-Day Rate (%)	2W Jul '19	3.88%	3.88%
C. 10-Yr Rate (%)	2W Jul '19	5.02%	5.00%
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 July '19	4.5466%/4.5931%/4.6407%	
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. The local 10-yr government bond rate is likely to be rangebound, from a low of 4.89% (today's lowest) and 5.1% (last week's high). The consolidation is on the back of the market having fully priced in all the pending rate cuts in the horizon, both that of the BSP (a 25bp cut as soon as August) and the Fed's. Another factor is the BSP's preemptively siphoning off liquidity from this week's government debt maturities worth Php40bn of FXTN 7-54 series on July 19, Php14.7bn worth of T-bills on July 17 and maturing corporate bond of SM worth Php4.64bn today (July 16) for a total of Php59.34bn released into the system. These maturities will be set against the BSP's higher TDF auction volume tomorrow (July 17) to Php80bn from Php60bn, just announced today. Recall that the BSP has moved to two days prior to auction date the announcement of the TDF volume from previously a week before auction to base liquidity management on current market conditions. BSP's move also comes ahead of the planned government's Samurai bond sale in the global market next month ($1bn-$1.5bn) which will bloat system liquidity. Expect local bond yields to take its cue from US Treasuries, which face downward pressure from an expected cut when the Fed meets again by the end of July. With easing local inflation outlook, local bond yields are expected to continue to trend down with reserve requirement and policy rate cut expectations. Short supply from government issuances will emphasize demand and reflect on oversubscribed auctions hunting for yields.

Catalysts for a further approachby ten year to 4.5% are as follows: (1) another inflation rate beat for the month of July; (2) a surprise cut from the Fed of above 25 bps; (3) certainty on when the next BSP's rate cut will be as BSP Governor Diokno has said there is no question about the BSP doing a next rate cut, but the timing is still undetermined.

Fed Chair Powell testified before Congress last week and pointed to a weaker global economy, rising trade tensions, and low inflation outlook as justifying a more accommodative policy stance, the first time it would do so in a decade since the 2008 Financial Crisis. Fed funds futures prices indicated a sure-fire cut in its next meeting in two weeks, which is expected to be the start of a series of cuts this year to spur economic expansion in the US. The latest Fed dot plot shows that FOMC members are evenly split between a median target policy rate of 2.375% and 1.875%. Powell also urged lawmakers to raise the federal debt limit ($22tn), which it hit last March, before it is estimated to be exceeded in late third quarter.

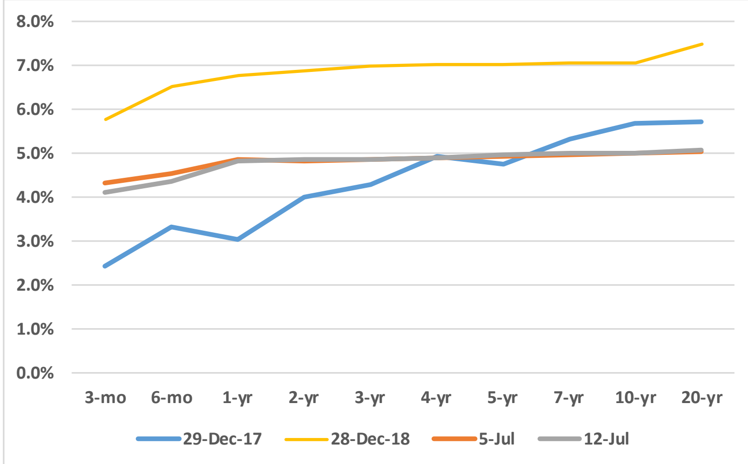
Market review. The local benchmark yield curve fell by 2bps on average week-on-week (WoW) as the local bond yield following Powell's testimony. The spread between the local 10-yr local benchmark and the 10-yr US Treasury (UST) narrowed to 290bps from 296bps in the week prior as the former was flat at 5.02% while the latter rose by 8bps to 2.12% following the release of stronger-than-expected US jobs and CPI report. Year-to-date, the local yield curve was down by an average of 209bps while the 10-yr was down by 205bps. 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, down by 14.4% week-on-week (WoW) to Php27bn. The liquid yield curve fell by an average of 2bps WoW as the front-end (364-day T-bill) was down by 4bps to 4.82%, the belly (FXTN 10-63: 9.5yrs) up slightly by 1.9bps to 5.02%, while the tail (R25-01: 20.5yr) also higher by 3.3bps to 5.09%. Secondary trading average volume fell by 14.4% WoW to Php27bn as T-bond volume shed 14% to Php24bn while T-bill volume fell even lower by 21.7% to Php2.8bn. The Bureau of the Treasury's (BTr) fully awarded its latest Php20bn auction of 7-year T-bonds at an average yield of 4.845%, 10bps 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 rages of 3.883%, 4.236%, and 4.736%, respectively, all lower than the previous auction and secondary market rates. The auction was 3.7x oversubscribed.

Emerging Markets' (EM) 10-year up 1bp (WoW). Yields of EM bonds we follow were up by 1bp on average as China's 2Q19 GDP rose by 6.2%, a 27-yr low but within analyst expectations. Brazil(10-year yield -11bps), Peru (-3bps), and Chile (-2bps) outperformed last week, while Indonesia (10-year yield +4bps) and the Philippines (+2bps) underperformed.

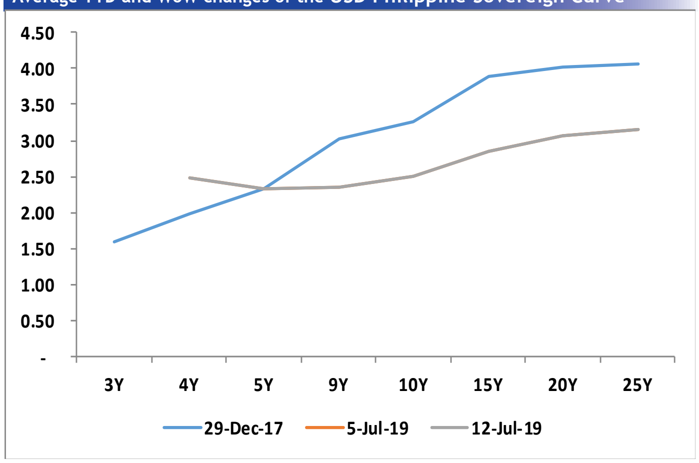
USTs flat WoW. US Treasuries were flat WoW on average as the 10-yr UST jumped by 8bps to 2.012% as the market responded to a slightly better-than-expected CPI report. US consumer price index (CPI) edged up higher by 0.1% in June, the same amount in May, versus a flat reading expected. This brought the twelve-month gain to 1.6% through June from 1.8% in the prior month, while Core CPI climbed 2.1% from 2.0% in May. Lingering concerns of slower global economy growth and the effects of the US-China trade war were points that Powell emphasized in his speech during his congressional testimony. A policy rate cut by the end of this month is almost a certainty, while odds of a 50-bp cut is growing, most recently at 30% from 8% last week. This, despite the better-than-expected CPI report and jobs report in the prior week, which implies that Powell's testimony weighed heavier on market sentiment than recent positive data.

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



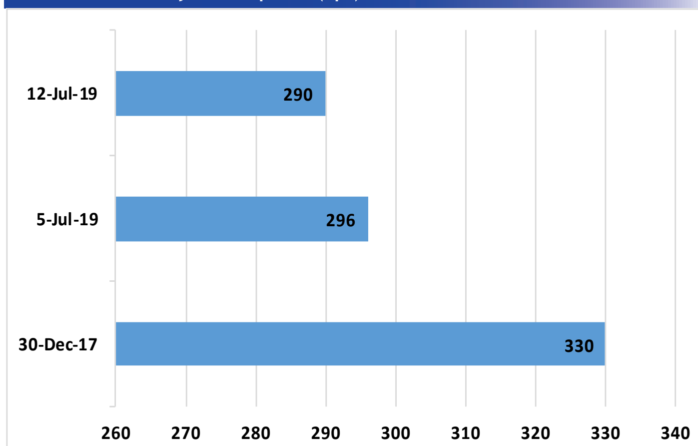
Source: Bloomberg

Average YTD and WoW changes of the USD Philippine Sovereign Curve



Source: Bloomberg

PH and US Treasury 10-Yr Spread (bps)



Source: Bloomberg