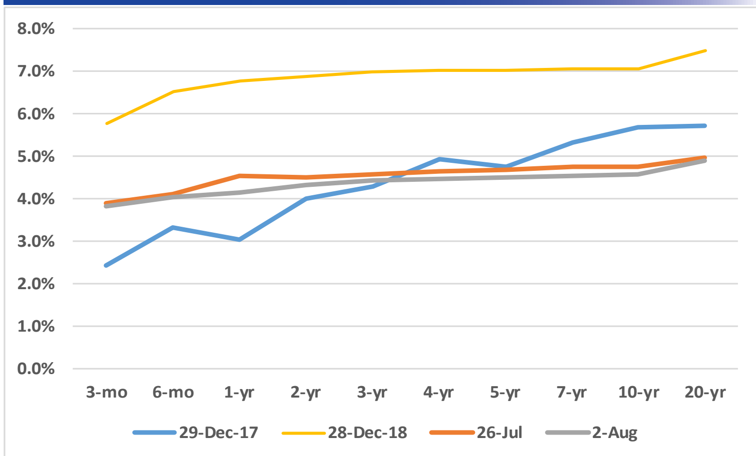
FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

Weekly Fixed Income Summary and Outlook

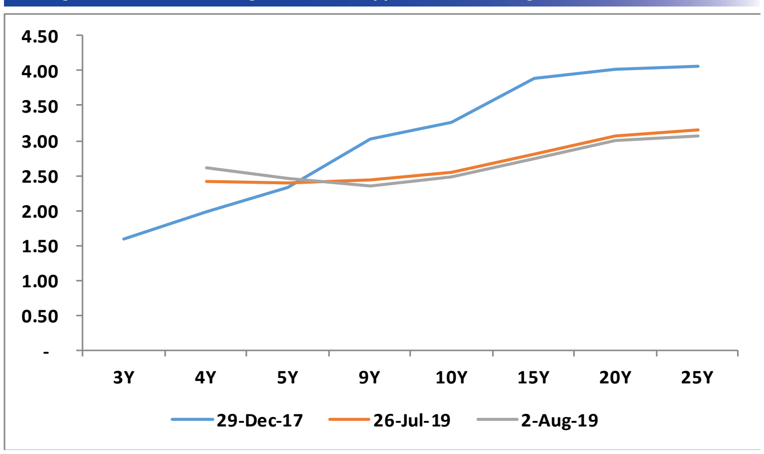
Easing

July 29-August 2, 2019

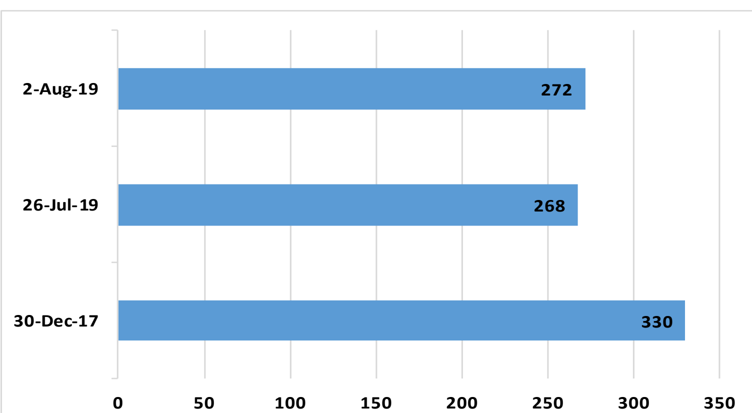
Average YTD and WoW changes of the Philippine PhP Yield Curve, BVAL



Average YTD and WoW changes of the Philippine PhP Sovereign Curve



PH and US Treasury 10-Yr Spread (bps)



Outlook. Local yields may further drop this week as the market prices in expectations of Monetary Board's (MB) 25-bp policy rate cut on August 8 due to sustained deceleration in July inflation of 2.4% released today and another sub-6% GDP growth in Q2-2019 (Quarter 2; 5.9% consensus) to be released on August 8. In addition, BSP Governor Benjamin Diokno announced today that the MB will cut policy rates by 50bps for the rest of the year, albeit timing remains data dependent. BSP's inflation forecasts were also trimmed to 2.6% from previous estimate of 2.7% for 2019 and 2.9% from 3% for 2020.

For yesterday's auction, average yields fell as bids of P87.1bn outpaced the offered volume of P15bn. The 91-day T-bills dropped to 3.398% from previous auction on July 22's 3.769%, the 182-day T-bill fell to 3.677% from 4.1% and the 364-day to 3.898% from 4.519%.

The Bureau of the Treasury (BTr) reported that the Philippines successfully returned to the Samurai bond market with a record of JPY 92bn (Php44.3bn) in four different tenors: 3-year bond (Php14.6bn), 5-year bond (Php10.1bn), 7-year bond (Php8.6bn), and 10-year bond (Php10.9bn). The Department of Finance (DOF) Secretary said that this bond float is in keeping with the Administration's strategy of diversifying its funding pool for the government's unprecedented public investments in infrastructure modernization and human capital development. BTr Treasurer Rosalia de Leon said that the Samurai bond will be the last sovereign offshore sale this year, and if spending picks up, government can opt to fund spending thru higher Q4 (Quarter 4) domestic borrowing.

Market review. The local benchmark yield curve and US Treasuries both fell 16bps and 14bps on average week-on-week (WoW), respectively. Year-to-date, the former was down by 250bps. The front-end (364-day T-bill) dropped 38bps to 4.15%, the belly (FXTN 10-63:9.5yrs) down 18bps to 4.58%, while the tail (R25-01:20.5yr) shed 7bps to 4.91%, all WoW.

The spread between the 10-year local benchmark and 10-year US Treasury slightly widened to 272bps from 268bps in the week prior. The former was down by 8bps to 4.58% due to rate cut hopes, while the latter was also down by 22bps to 1.86% after the Fed cut.

Secondary trading average volume was slightly up 1.0% to Php40.3bn, while T-bill volume rose 16.7% to Php5.1bn.

Liquidity indicators still tight. The BSP reported that domestic liquidity (M3) grew by 6.4% year-on-year (YoY) to Php11.8tn in June 2019, which remained unchanged from the rate of expansion of the previous month. June money supply (M2) was also similar from May 2019 at 5.1%. Moreover, outstanding loans of universal and commercial banks, net of reverse repurchase (RRP) placements, grew more slowly to 10.5% in June from 11.9%. Bank lending inclusive of RRPs declined to 10.5% in June from 10.6% from the previous month.

Time Deposit Rates for short-term and long-term decelerated to 4.403% and 4.588% in June, respectively. Interbank Call Loan Rates (IBCLR) also down to 4.937% in the same period from 5.043% in May. For the week July 22-26, 2019, IBCLR was at 4.7207%.

BTr reported in the Development Budget Coordination Committee meeting that the Philippines' gross borrowings are expected to peak at a record-high of P1.4tn in 2020 to finance the government's programmed wider budget-deficit cap equivalent to 3.2% of GDP. The Php1.4tn will be a combination of 75%-domestic and 25%-external borrowings.