

Philippines—Update

Yield Movements

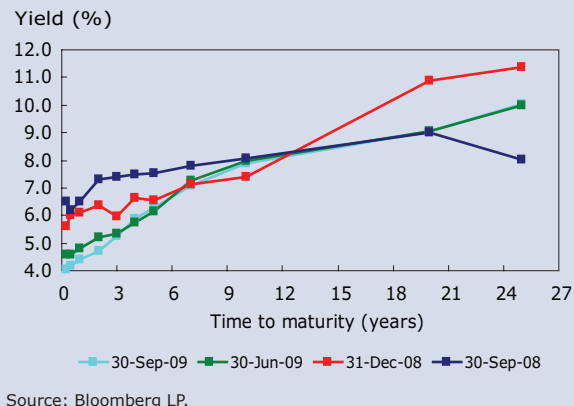
Philippine government bond yields declined across all tenors, except at the very long end of the curve, as of end-September 2009 relative to the same period last year. Yields on 2-year bonds have fallen by as much as 257.5 basis points, while yields on 10-year debt have dropped by 15 basis points. On a quarterly basis, 2- and 10-year yields dropped by 48.3 and 10 basis points, respectively, as strong demand for retail bonds issued in September pushed yields down, reflecting positive market sentiment. The yield spread between 2- and 10-year government bonds gradually widened to 317.5 basis points from 279.2 basis points as of end-June 2009 (**Figure 1**).

Bangko Sentral ng Pilipinas (BSP) has kept its key overnight borrowing rate at a record low of 4.0% since July 2009 to help sustain economic growth. BSP, however, has recently expressed its concern over rising food prices. September inflation increased to 0.7% year-on-year (y-o-y) from 0.1% in August due to price increases for specific food items. Also, the base effects that contributed to low inflation during the earlier part of the year have started to diminish. BSP predicted that the economy would likely grow faster in 3Q09 due to the continuing rise of remittances from overseas Filipino workers and an increase of foreign direct and portfolio investments. BSP expects 3Q09 gross domestic product (GDP) growth to exceed 1Q09 and 2Q09 GDP growth rates of 0.6% and 1.5%, respectively.

Size and Composition

As of September 2009, total government local currency (LCY) bonds stood at PHP2.5 trillion, of which 72% were Treasury bonds (PHP1.8 trillion) and 24% Treasury bills (PHP607 billion), while the remaining 4% were government-guaranteed bonds (PHP89 billion). The increase of 2.3% in the stock of total government bonds from end-June 2009 levels was brought about by a 7.1% increase

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



in Treasury bonds. However, Treasury bills fell by 10.6% quarter-on-quarter (q-o-q). The Bureau of the Treasury rejected numerous bids on short-term paper during August–October auctions after market players asked for higher rates. On a month-on-month (m-o-m) basis, total government stock grew 4.8% in September, with Treasury bonds posting the highest growth rates (**Table 1**).

On a quarterly basis, issuance by the national government soared 196.9% to PHP233 billion in 3Q09. The government successfully sold PHP25 billion worth of retail treasury bonds carrying 3-, 5- and 7-year tenors on 15 September. On 16 October, the Philippines sold USD1 billion of 25-year bonds—the third international global bond sale in 2009 and the first 25-year bond offer since January 2007. The government also plans to issue PHP50 billion of reconstruction bonds for typhoon-affected areas. In addition, the government is also considering a *samurai* debt sale this year to fund the deficit.

The Department of Finance (DOF) reported that the government's January–September fiscal deficit reached PHP237.5 billion, which was just below the annual deficit ceiling of PHP250 billion.

Table 1: Size and Composition of Philippine Local Currency Bond Market in the Philippines

	Amount (billion)						Growth Rate (%)										
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09		Aug-09		Sep-09		
	PHP	USD	PHP	USD	PHP	USD	PHP	USD	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m
Total	2,753	57	2,742	57	2,707	55	2,817	59	8.2	2.1	(0.4)	7.5	2.3	(1.3)	7.5	2.3	4.1
Government	2,456	51	2,421	50	2,389	49	2,504	53	4.0	(0.2)	(1.4)	3.0	2.0	(1.3)	3.0	2.0	4.8
Treasury Bills	680	14	648	14	616	13	607	13	(8.3)	(11.5)	(4.6)	(20.5)	(10.6)	(4.9)	(20.5)	(10.6)	(1.4)
Treasury Bonds	1,687	35	1,684	35	1,684	35	1,807	38	9.6	4.8	(0.2)	14.2	7.1	0.0	14.2	7.1	7.3
Others	89	2	89	2	89	2	89	2	11.3	7.9	0.0	5.8	0.0	0.0	5.8	0.0	0.0
Corporate	297	6	321	7	318	7	313	7	62.4	25.6	8.1	65.8	5.4	(1.0)	65.8	5.4	(1.6)

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY-USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).

Source: Bureau of the Treasury and Bloomberg LP.

Corporate bonds outstanding as of end-September 2009 stood at PHP313 billion. Issues from Robinsons Land (PHP10 billion) contributed to the 5.4% q-o-q growth rate in corporate bonds. San Miguel Brewery remains the largest corporate issuer, with outstanding bonds totaling PHP38.8 billion, followed by Banco de Oro Universal Bank (PHP33 billion) and Metropolitan Bank and Trust Company (PHP18.5 billion). The amount of bonds outstanding among the top 20 corporate issuers comprised 85% of the total corporate bond market (**Table 2**).

Table 2: Top 20 LCY Corporate Bonds Outstanding by Issuers (as of 30 September)

Rank	Issuer	Amount Outstanding (PHP billion)
1	San Miguel Brewery Inc.	38.80
2	Banco de Oro Unibank Inc.	33.00
3	Metropolitan Bank & Trust Co.	18.50
4	Philippine National Bank	17.75
5	Manila Electric Company	17.00
6	Petron Corp.	16.30
7	Rizal Commercial Banking Corp.	16.00
8	Globe Telecom	15.80
9	Robinsons Land Corp.	15.00
10	SM Prime Holdings Inc.	11.50
11	Bank of Philippine Islands	10.00
12	SM Investment Corp.	9.40
13	Ayala Land Inc.	7.00
14	Aboitiz Power Corp.	6.89
15	Ayala Corporation	6.00
16	Security Bank Corp.	6.00
17	International Container Terminal Services	5.71
18	Manila North Tollways Co.	5.50
19	China Banking Corp.	5.00
20	First Gen Corp.	5.00
	Top 20 Total	266.15
	Total Corporate Bonds Outstanding	312.58
	Top 20/Total Corporate Bonds Outstanding	85%

Source: Bloomberg LP.

There were also series of USD-denominated issues in 3Q09 as companies took advantage of the low cost of borrowing in the international bond market. In September, for example, SM Investments issued a 5-year bond for USD500 million for general corporate purposes, which include refinancing some of its maturing obligations.

Policy, Institutional, and Regulatory Developments

Order-Taking Facility launched in June

In June, the Philippine Dealing System (PDS) launched an internet-based, order-taking system, the Fixed Income Broker Internet Order System (FI-BIOS). Brokers with access to FI-BIOS facilities are able to provide their client investors located in the Philippines' provinces with up-to-the-minute market information for investment decisions, while also allowing them to enter orders into the central trading system in real time.

BSP to Implement Retirement Account Law in 2010

BSP plans to implement the Personal Equity and Retirement Account (PERA) Law next year following the signing of a memorandum of agreement on 21 October with the Department of Finance, Bureau of Internal Revenue, Securities and Exchange Commission, and Insurance Commission. The PERA Law will create a savings investment vehicle of at least 5 years for those who are not covered by the Social Security System (SSS) and the Government Service Insurance System (GSIS), as well as Filipinos working abroad. It would also develop the domestic capital market by giving incentives to long-term investments and creating more institutional investors. Contributors could establish an account with a maximum annual contribution of PHP100,000, while overseas Filipino workers (OFWs) could contribute up to PHP200,000 per year and avail of a 5% tax credit. The funds would be managed by administrators and regulated by a number of government agencies. Savings could be placed in investment funds, mutual funds, annuity contracts, insurance pension products, pre-need pension plans, shares of stocks listed and traded on the local stock exchange, exchange-traded bonds, and other investment products. Each administrator managing a trust fund will be required to maintain a fund with a net worth of at least PHP100 million.