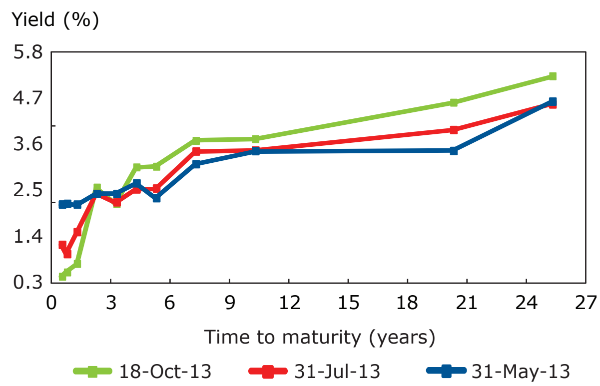
# Philippines

## Yield Movements

Between end-May and end-July, yields fell for most Philippine local currency (LCY) bonds **(Figure 1)**. Yields for tenors of 1 year and below plunged between 65 basis points (bps) and 119 bps, while yields for 3- and 4-year bonds fell 20 bps and 14 bps, respectively. The fall in yields was due to a correction in the market after the sell-off in late May caused by speculation over how and when the United States (US) Federal Reserve will start to taper its quantitative easing program. Yields also fell in the Philippines in July due to continued high levels of liquidity in the market, and as a result of the Bangko Sentral ng Pilipinas (BSP) lowering the Special Deposit Account rate to 2.0% during its 25 April meeting of the Monetary Board and limiting the access of banks to the facility.

Between end-July and 18 October, yield rose for most tenors. Yields for all tenors above 2 years, except the 3-year tenor, rose between 15 bps and 66 bps. Meanwhile, the yield for the 3-year tenor fell slightly by 4 bps. The rise in yields was evident prior to the US Federal Open Market Committee meeting on 18 September as market players continue to monitor the decision of the Federal Reserve on its quantitative easing program. Yields fell briefly after the Federal Reserve's decision to continue the program. However, yields started to rise again toward the end of September as BSP released amended rules on the valuation of government securities held by banks and non-bank financial institutions. Under BSP Circular 813, the weighted average of executed deals will now be used as the basis for the valuation. Anticipated negative mark-to-market valuations induced a sell-off at the longer-end of the yield curve in the latter part of September. Moody's upgrade of the Philippines to investment grade on 3 October provided good news for the market and resulted in a brief fall in yields, though market participants continue to monitor the fiscal issues of the US government. Meanwhile, yields for tenors of 1 year and below fell between 43 bps and 75 bps.

**Figure 1: Philippines' Benchmark Yield Curve—LCY Government Bonds**




LCY = local currency.
Source: Bloomberg LP.

Economic data in the Philippines continued to be positive in 3Q13. Inflation remained benign, enabling the pursuit of expansionary fiscal and monetary policy goals. Consumer price inflation increased slightly to 2.7% year-on-year (y-o-y) in September, bringing year-to-date inflation to 2.8%, which was still below BSP's 2013 target range of 3%–5%. This led BSP to hold its policy rates steady during its Monetary Board meeting on 12 September.

During the first half of 2013, the Philippine economy grew 7.6%, compared with 6.4% in the same period in 2012. The growth continues to be supported by strong business and consumer sentiment, as well as sustained government capital expenditure. The services sector continues to post strong performances, outweighing the negative contribution of exports.

## Size and Composition

The Philippine LCY bond market grew at a robust rate of 12.5% y-o-y as of end-September, led by both treasury bills and bonds. Total LCY bonds reached PHP4.3 trillion (US$98 billion) at end-September, up 3.6% from end-June's level of PHP4.1 trillion. Government securities accounted

**Table 1: Size and Composition of the LCY Bond Market in the Philippines**

| | **Outstanding Amount** (billion) | | | | | | **Growth Rate** (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **3Q12** | | **2Q13** | | **3Q13** | | **3Q12** | | **3Q13** | |
| | **PHP** | **US$** | **PHP** | **US$** | **PHP** | **US$** | **q-o-q** | **y-o-y** | **q-o-q** | **y-o-y** |
| **Total** | **3,801** | **91** | **4,128** | **96** | **4,276** | **98** | **4.2** | **16.1** | **3.6** | **12.5** |
| Government | 3,286 | 79 | 3,587 | 83 | 3,732 | 86 | 4.3 | 14.7 | 4.0 | 13.6 |
| Treasury Bills | 262 | 6 | 308 | 7 | 309 | 7 | 2.7 | (20.6) | 0.3 | 18.1 |
| Treasury Bonds | 2,900 | 69 | 3,165 | 73 | 3,309 | 76 | 4.6 | 19.8 | 4.6 | 14.1 |
| Others | 124 | 3 | 113 | 3 | 113 | 3 | 0.3 | 8.6 | 0.0 | (8.8) |
| Corporate | 514 | 12 | 541 | 13 | 544 | 13 | 3.9 | 26.1 | 0.6 | 5.8 |

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Data for government bonds as of end-August 2013.
5. "Others" comprises bonds issued by government agencies, instrumentalities, and corporations with which repayment was guaranteed by the central government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
6. Peso Global Bonds (PHP-denominated bonds payable in US$) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-August 2013, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6 billion of outstanding multi-currency treasury bonds as of end-August 2013.

Sources: Bureau of the Treasury and Bloomberg LP.

for the majority of bonds outstanding, totaling PHP3.7 trillion, while corporate bonds summed to PHP544.2 billion.

**Government Bonds.** Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 4.0% quarter-on-quarter (q-o-q) and 13.6% y-o-y to close at PHP3.7 trillion at end-August. Treasury bills advanced at 0.3% q-o-q and 18.1% y-o-y to stand at PHP309.3 billion at end-August. Treasury bonds expanded 4.6% q-o-q and 14.1% y-o-y to PHP3.3 trillion. Meanwhile, fixed-income instruments issued by government-controlled companies registered a decline of 8.8% y-o-y to PHP113.5 billion at the end of 3Q13.

In terms of issuance in 3Q13, PHP210 billion worth of treasury bonds were sold compared with PHP130 billion of treasury bills. The Bureau of the Treasury sold PHP100 billion worth of 10-year Retail Treasury Bonds in August. The government has programmed LCY borrowing of PHP120 billion through its regular auction schedule in 4Q13: PHP40 billion of treasury bills with 91-, 182-, and 364-day tenors; and PHP80 billion of treasury bonds with 5-, 7-, and 20-year tenors.

**Corporate Bonds.** As of end-September, total outstanding LCY corporate bonds grew 0.6% q-o-q and 5.8% y-o-y to reach PHP544.2 billion. Ayala Land, Inc. and Globe Telecom issued corporate bonds in amounts of PHP15 billion and PHP7 billion, respectively. Banco de Oro Unibank and Philippine National Bank were the next largest issuers in 3Q13, raising PHP5 billion worth of Tier 2 notes each **(Table 2)**.

Only 50 companies are actively tapping the capital market in the Philippines. The top 30 issuers accounted for 80.9% of the total amount of LCY corporate bonds outstanding (PHP544.2 billion) at end-September **(Table 3)**. Out of the top 30 bond issuers, only six companies

**Table 2: Notable LCY Corporate Bond Issuance in 2Q13**

| **Corporate Issuers** | **Coupon Rate** (%) | **Issued Amount** (PHP billion) |
|---|---|---|
| Ayala Land, Inc. | | |
| 10.5-year bond | 5.00 | 15 |
| BDO Unibank, Inc. | | |
| 7-year LTNCD | 3.50 | 5 |
| Globe Telecom | | |
| 7-year bond | 4.89 | 4 |
| 10-year bond | 5.28 | 3 |
| Philippine National Bank | | |
| 5.5-year LTNCD | 3.00 | 5 |
| Philippine National Bank | 3.00 | 5 |

LCY = local currency, LTNCD = long-term negotiable certificate of deposit.
Source: Bloomberg LP.

**Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines**

| Issuers | Outstanding Amount | | State-Owned | Listed Company | Type of Industry |
|---|---|---|---|---|---|
| | LCY Bonds (PHP billion) | LCY Bonds (US$ billion) | | | |
| 1. San Miguel Brewery Inc. | 45.2 | 1.0 | No | Yes | Brewery |
| 2. Ayala Land Inc. | 43.9 | 1.0 | No | Yes | Real Estate |
| 3. Ayala Corporation | 40.0 | 0.9 | No | Yes | Diversified Operations |
| 4. BDO Unibank Inc. | 21.5 | 0.5 | No | Yes | Banking |
| 5. SM Investments Corporation | 21.1 | 0.5 | No | Yes | Diversified Operations |
| 6. Philippine Long Distance Telephone Co. | 17.3 | 0.4 | No | Yes | Telecommunications |
| 7. Philippine National Bank | 17.3 | 0.4 | No | Yes | Banking |
| 8. Globe Telecom Inc. | 17.0 | 0.4 | No | Yes | Telecommunications |
| 9. Maynilad Water Services | 16.6 | 0.4 | No | Yes | Water |
| 10. Energy Development Corporation | 16.0 | 0.4 | No | Yes | Electricity Generation |
| 11. Manila Electric Company | 14.4 | 0.3 | No | Yes | Electricity Distribution |
| 12. SM Development Corporation | 14.3 | 0.3 | No | Yes | Real Estate |
| 13. Rizal Commercial Banking Corporation | 14.0 | 0.3 | No | Yes | Banking |
| 14. Petron Corporation | 13.6 | 0.3 | No | Yes | Oil Refining and Marketing |
| 15. First Metro Investment Corporation | 12.0 | 0.3 | No | No | Investment Banking |
| 16. Filinvest Land Inc. | 11.5 | 0.3 | No | Yes | Real Estate |
| 17. MTD Manila Expressway Corporation | 11.5 | 0.3 | No | No | Transport Services |
| 18. South Luzon Tollway Corporation | 11.0 | 0.3 | No | No | Transport Services |
| 19. GT Capital Holdings Inc. | 10.0 | 0.2 | No | Yes | Investment Companies |
| 20. Metropolitan Bank & Trust Co. | 10.0 | 0.2 | No | Yes | Banking |
| 21. Robinsons Land Corporation | 10.0 | 0.2 | No | Yes | Real Estate |
| 22. JG Summit Holdings Inc. | 9.0 | 0.2 | No | Yes | Diversified Operations |
| 23. Security Bank Corporation | 8.0 | 0.2 | No | Yes | Banking |
| 24. Manila North Tollways Corporation | 6.1 | 0.1 | No | No | Public Thoroughfares |
| 25. Bank of the Philippine Islands | 5.0 | 0.1 | No | Yes | Banking |
| 26. Megaworld Corporation | 5.0 | 0.1 | No | Yes | Real Estate |
| 27. SM Prime Holdings, Inc. | 5.0 | 0.1 | No | Yes | Real Estate |
| 28. United Coconut Planters Bank | 5.0 | 0.1 | No | No | Banking |
| 29. Eagle Cement Corporation | 4.5 | 0.1 | No | Yes | Industrial |
| 30. Philippine Phosphate Fertilizer Corp. | 4.5 | 0.1 | No | No | Industrial |
| **Total Top 30 LCY Corporate Issuers** | **440.2** | **10.1** | | | |
| **Total LCY Corporate Bonds** | **544.2** | **12.5** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | **80.9%** | **80.9%** | | | |

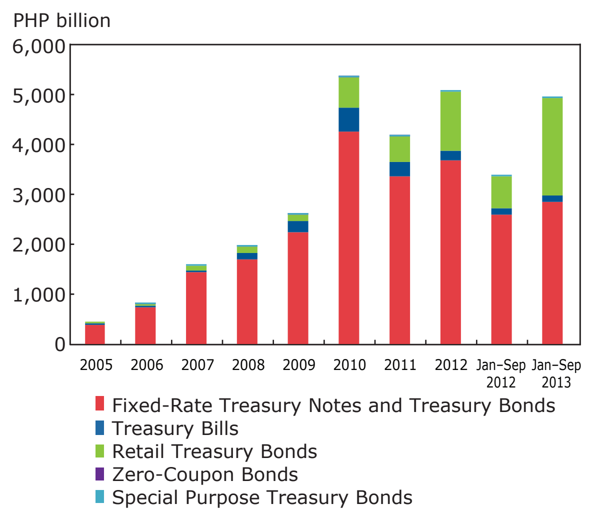
LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. Petron Corporation has PHP20 billion of Global Peso Bonds outstanding that are not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

are privately-held corporations and the rest are publicly listed with the Philippine Stock Exchange (PSE). San Miguel Brewery (SMB) remained the largest corporate issuer in the country with PHP45.2 billion of outstanding debt. Ayala Land, Inc. followed SMB as the next largest borrower with PHP43.9 billion outstanding. Ayala Corporation was in the third spot with PHP40 billion of outstanding bonds.

The diversity of LCY corporate bond issuers in 3Q13 was comparable with that in 2Q13 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 3Q13 with 27.2% of the total as BSP moved toward more stringent liquidity and capital requirements. The market share of most industries remained unchanged, except for real estate, which increased to 17.9% from 15.7%. Firms from industries as diverse as (i) electricity generation and distribution, (ii) telecommunications, and (iii) thoroughfares and tollways continued to have shares of total corporate bonds outstanding in the single-digit levels.

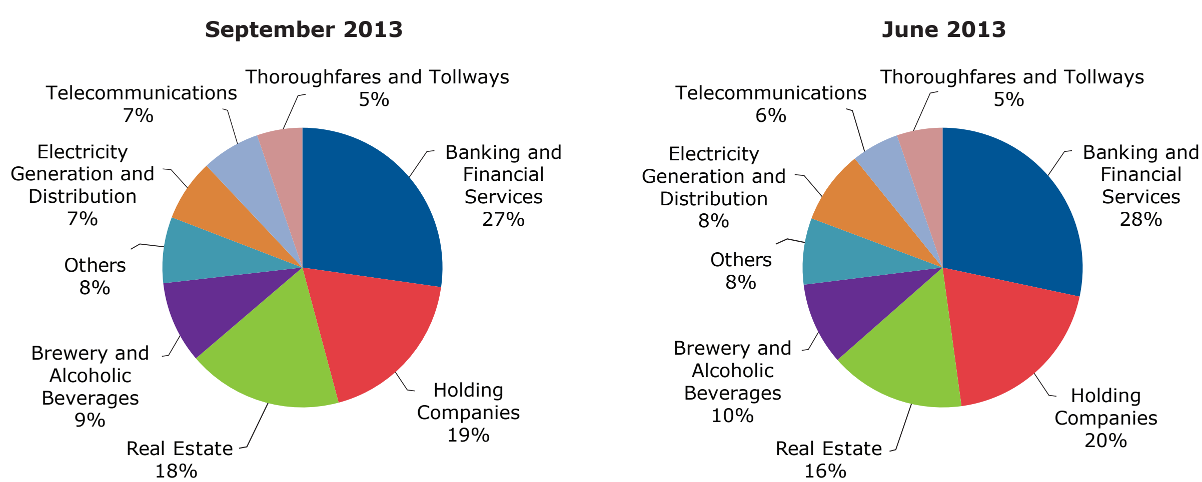
As the sole fixed-income exchange in the country, the Philippine Dealing and Exchange Corporation (PDEx) captures the secondary trading of listed fixed-income issues. The volume of secondary trading of government securities surged between 2005 and 2012 **(Figure 3)**. From an annual trading volume of PHP437.7 billion in 2005, trading volume increased to PHP5 trillion in 2012. The largest annual volume was recorded in 2010, when secondary trading reached PHP5.4 trillion.

**Figure 3: PDEx Trade Volume Trends—Government Securities**




Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

**Figure 2: LCY Corporate Bond Issuers by Industry**




LCY = local currency.
Source: Bloomberg LP.

Total trading volume in January–September increased 47.0% y-o-y to PHP4.9 trillion, which is equivalent to 97.8% of the total trading volume in 2012. Between January 2005 and September 2013, treasury bonds accounted for almost 76.7% of all trades in the secondary market as investors sought greater capital gains and interest income from these securities.

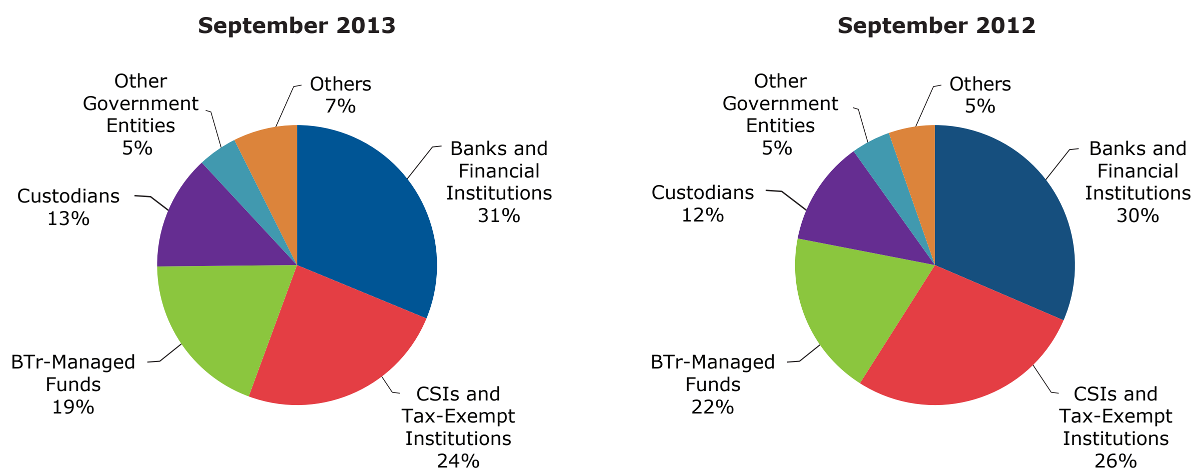
## Investor Profile

The largest grouping of investors in government securities in 3Q13 comprised banks and financial institutions with 31.2% of the total **(Figure 4)**. This was slightly higher than its share of 30.0% in 3Q12. Contractual savings institutions—including the Social Security System (SSS), Government Service Insurance System (GSIS), Pag-ibig, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 24.4% of the total in 3Q13, down from 26.4% in 3Q12. The share of funds being managed by the Bureau of the Treasury (BTr), which includes the Bond Sinking Fund, fell to 19.2% in 3Q13 from 21.9% in 3Q12. The participation of custodians increased to 13.2% from 12.2%. The share of other government entities and other investors, which include individuals and private corporations, increased to 11.9% in 3Q13 from 9.5% in 3Q12.

## Rating Changes

On 3 October, Moody's upgraded its sovereign foreign currency (FCY) and LCY long-term ratings for the Philippines to Baa3 from Ba1, with a positive outlook. Moody's said the factors that prompted the review for an upgrade announced in July 2013 remained intact. These include the country's robust economic performance, ongoing fiscal and debt consolidation, and political stability and improved governance. Moody's also mentioned the stability of the Philippines' funding conditions as an indicator of the country's lack of vulnerability to external financial shocks—the most recent of which resulted from the US Federal Reserve's announced tapering of its quantitative easing policy.

**Figure 4: LCY Government Bonds Investor Profile**




BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: Bloomberg LP.

## Policy, Institutional, and Regulatory Developments

### BSP Releases Amended Rules on Market Valuation of Government Securities

On 27 September, BSP released the amended rules on the market valuation of government securities. As stated in BSP Circular 813, the benchmark or reference prices to be used for the market valuation shall be based on the weighted average of completed or executed deals in a trading market registered with the Securities and Exchange Commission (SEC). Only in the absence of completed or executed deals, shall the following be applied: (i) the simple average of all firm bids per benchmark tenor shall be used for benchmark government securities, and (ii) the interpolated yields derived from the benchmark or reference rates shall be used for non-benchmark government securities. The circular took effect 15 calendar days following its publication.

### BSP Maintains Policy Rates

On 24 October, the Monetary Board of the BSP decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.50% and 5.50%, respectively. The reserve requirement ratios and the interest rate for BSP's Special Deposit Account facility were also kept steady. The decision to hold the policy rates at their current levels reflected the Monetary Board's assessment that the future inflation path continues to be broadly in line with BSP's target range for 2013–15. The Monetary Board noted that while global economic conditions are challenging, expectations for domestic activity remain robust. Moreover, BSP also noted that most lending in the system has been going to the productive sectors of the economy. This has, in turn, improved the economy's absorptive capacity for liquidity and helped moderate price pressures.