

Philippines

Yield Movements

Between 2 March and 15 May, yields for most tenors of Philippine local currency (LCY) bonds rose on speculation over the timing of a possible rate hike by the United States (US) Federal Reserve (**Figure 1**). Yields between the 3-month and 1-year tenors rose 121 basis points (bps)–137 bps. Yields for bonds with tenors of between 2 years and 10 years rose 14 bps–42 bps, with the exception of the 7-year tenor, which fell 16 bps. Meanwhile, the yield for the 20-year tenor fell 25 bps. These yield movements occurred despite low inflation that gave room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates. Market participants continue to monitor developments in the US economy that might indicate a shift in the Federal Reserve's monetary policy.

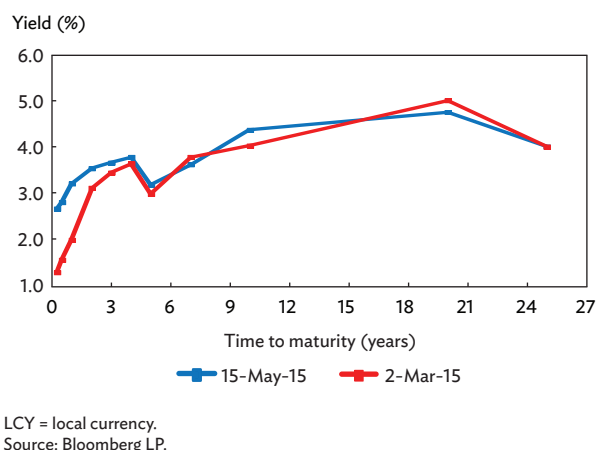
Inflation continued to slow in the first 4 months of the year, easing to 2.2% year-on-year (y-o-y) in April from a peak of 4.9% y-o-y in August 2014. This led the BSP to maintain its overnight borrowing rate at 4.0% and overnight lending rate at 6.0%. The BSP noted that inflationary pressures continued to moderate primarily due to the decline in international oil prices, and that risks to inflation remain broadly balanced, with upward pressure coming from pending adjustments in utility rates and downward pressure from slower global economic activity.

Meanwhile, the Philippines' economic growth slowed to 5.2% y-o-y in 1Q15 from 6.6% y-o-y in 4Q14. This was mainly due to a slowdown in government spending, with growth falling to 4.8% y-o-y from 9.4% y-o-y, and weak exports. Growth in 1Q15 was supported by sustained growth in public consumption, which increased 5.4% y-o-y, as well as a boost in capital formation, which rose 11.8% y-o-y. Exports increased only 1.0% y-o-y in 1Q15, while imports rose 4.6% y-o-y.

Size and Composition

The Philippine LCY bond market barely moved in 1Q15, expanding a mere 0.4% quarter-on-quarter (q-o-q) to PHP4,674 billion (US\$105 billion) at end-March (**Table 1**). Government securities accounted for the majority of bonds

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



outstanding, totaling PHP3,917 billion, while corporate bonds summed to PHP757 billion. On a y-o-y basis, the LCY bond market grew 5.5% as of end-March.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies increased 0.6% q-o-q and 4.5% y-o-y to close at PHP3,917 billion at end-March. Treasury bills decreased 1.2% q-o-q and 5.1% y-o-y to stand at PHP278 billion at end-March.

Treasury bonds increased 1.1% q-o-q and 6.2% y-o-y to PHP3,547 billion. Meanwhile, fixed-income instruments issued by government-controlled companies decreased 11.6% q-o-q and 21.1% y-o-y to PHP91 billion.

In terms of issuance, 1Q15 saw lower volume at PHP135 billion compared with PHP150 billion in 4Q14; the Bureau of the Treasury (BTr) rejected two out of six scheduled auctions of Treasury bills and bonds in 1Q15 as the market sought higher yields due to uncertainty in both the US and eurozone. The government has programmed LCY borrowing of PHP135 billion through its regular auction schedule in 2Q15: PHP60 billion of Treasury bills with 91-, 182-, and 364-day tenors; and PHP75 billion of Treasury bonds with 3-, 5-, and 10-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds decreased 0.4% q-o-q to PHP757 billion. Total corporate

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	PHP	US\$	PHP	US\$	PHP	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	4,429	99	4,655	104	4,674	105	0.4	10.5	0.4	5.5
Government	3,749	84	3,895	87	3,917	88	(1.9)	7.8	0.6	4.5
Treasury Bills	293	7	282	6	278	6	(8.7)	1.2	(1.2)	(5.1)
Treasury Bonds	3,340	75	3,510	78	3,547	79	(1.3)	8.7	1.1	6.2
Others	116	3	103	2	91	2	0.0	2.1	(11.6)	(21.1)
Corporate	680	15	760	17	757	17	15.0	27.9	(0.4)	11.3

() = 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 an LCY base and do not include currency effects.

4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.

5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-March 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6.3 billion of outstanding multi-currency Treasury bonds at end-March 2015.

Sources: Bloomberg LP and Bureau of the Treasury.

bond issuance in 1Q15 stood at PHP12 billion, down from PHP48 billion in 4Q14 and PHP66 billion in 3Q14. Corporate bond issuers opted to wait as speculation on the timing of a possible rate hike by the Federal Reserve caused an uptick in yields, making it costly to raise funds via the bond market. Only Robinsons Land issued bonds in 1Q15, raising PHP12 billion through the issuance of 7-year and 10-year bonds with coupon rates of 4.8% and 4.934%, respectively (**Table 2**).

Table 2: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Robinsons Land		
7-year bond	4.80	10.64
10-year bond	4.93	1.36

LCY = local currency.

Source: Bloomberg LP.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 88.8% of the total amount of LCY corporate bonds outstanding at end-March (**Table 3**). Out of the top 30 bond issuers, only eight companies were privately held corporations and the rest were publicly listed with the Philippine Stock Exchange. Ayala Land remained the largest corporate issuer in the country with PHP57.9 billion of outstanding bonds at end-March. Metrobank was the

next largest borrower with PHP46.8 billion of outstanding bonds, and SM Investments was in the third spot with PHP41.9 billion.

The diversity of LCY corporate bond issuers in 1Q15 was comparable with that in 1Q14 (**Figure 2**). Banks and other financial institutions, including investment houses, remained the leading issuers of debt in 1Q15 with 30.5% of the total, up from a share of 24.5% in 1Q14. Real estate companies were second with a share of 22.2% of the total, compared with an 18.0% share in 1Q14. Meanwhile, the share of holding companies declined to 18.9% in 1Q15 from 20.0% in 1Q14. Firms from industries as diverse as electricity generation and distribution, telecommunications, and thoroughfares and tollways continued to have single-digit shares of total corporate bonds outstanding.

Foreign Currency Bonds. In January, the Philippines issued US\$2 billion worth of 25-year global bonds. The issue consisted of US\$1.5 billion of exchange offers from existing bondholders, while the remaining US\$500 million comprised new issuance intended to fund the budget. This was, however, less than the US\$750 million government's offshore borrowing program as the BTr indicated it had a strong cash buffer. The bonds were priced at 3.95%, compared with initial pricing guidance of 4.2%.

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.	Ayala Land	57.9	1.3	No	Yes	Real Estate
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	SM Investments	41.9	0.9	No	Yes	Diversified Operations
4.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
5.	San Miguel Brewery	37.8	0.8	No	No	Brewery
6.	Philippine National Bank	34.6	0.8	No	Yes	Banking
7.	BDO Unibank	30.0	0.7	No	Yes	Banking
8.	JG Summit Holdings	30.0	0.7	No	Yes	Diversified Operations
9.	RCBC	27.1	0.6	No	Yes	Banking
10.	SM Prime	25.0	0.6	No	Yes	Real Estate
11.	Filinvest Land	24.0	0.5	No	Yes	Real Estate
12.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
15.	Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
16.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
17.	Maynilad Water Services	16.4	0.4	No	No	Water
18.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
19.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
20.	SM Development	14.3	0.3	No	Yes	Real Estate
21.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
22.	Manila North Tollways	13.0	0.3	No	No	Transport Services
23.	First Metro Investment	12.0	0.3	No	No	Investment Banking
24.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
25.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
26.	South Luzon Tollway	11.0	0.2	No	No	Transport Services
27.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
28.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
29.	East West Bank	9.3	0.2	No	Yes	Banking
30.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		671.9	15.0			
Total LCY Corporate Bonds		757.0	16.9			
Top 30 as % of Total LCY Corporate Bonds		88.8%	88.8%			

LCY = local currency.

Notes:

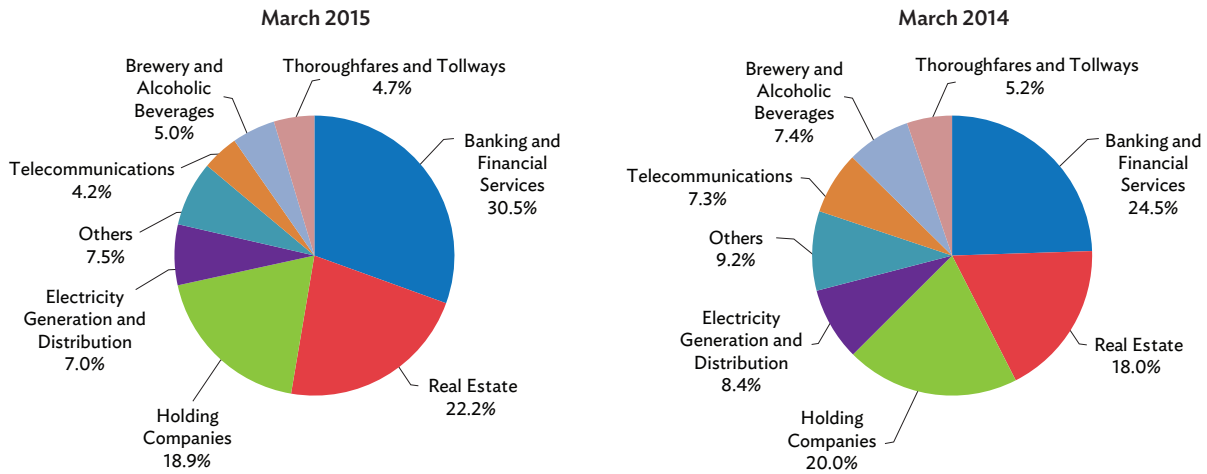
1. Data as of end-March 2015.

2. Petron has PHP20 billion of Global Peso Bonds outstanding that were 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.

Figure 2: LCY Corporate Bond Issuers by Industry



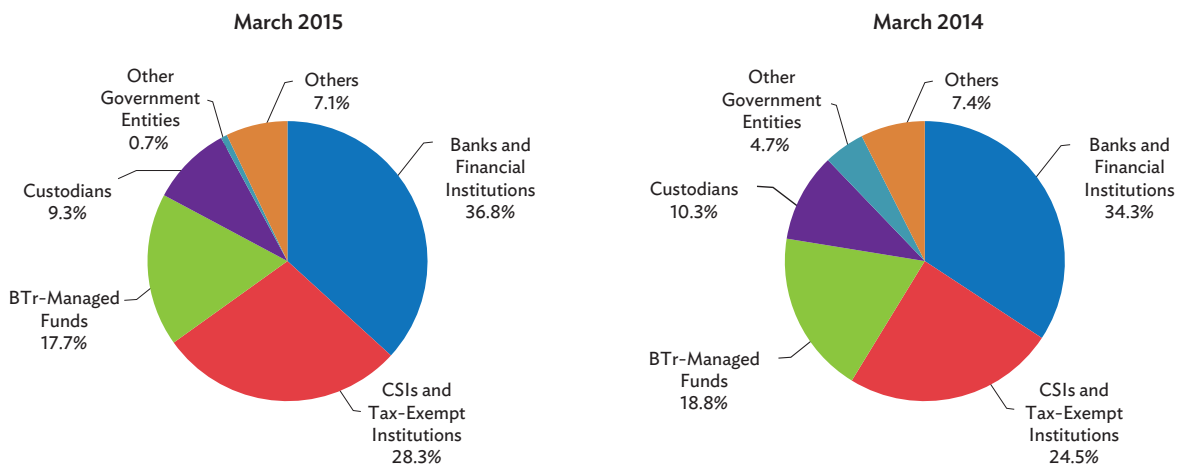
LCY = local currency.
Source: Bloomberg LP.

Investor Profile

The largest grouping of investors in government securities at end-1Q15 comprised banks and financial institutions with a 36.8% share of the total (Figure 3), this was up slightly from a 34.3% share at end-1Q14. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—

such as trusts and other tax-exempt entities—accounted for 28.3% of the total at end-1Q15, up from 24.5% at end-1Q14. The shares of funds being managed by BTr, including the Bond Sinking Funds, fell slightly to 17.7% from 18.8% at end-1Q14. The participation of custodians also decreased to 9.3% from 10.3%. The share of other government entities and other investors, which include individuals and private corporations, decreased to 7.8% at end-March from 12.1% at end-1Q14.

Figure 3: LCY Government Bonds Investor Profile



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

Ratings Update

In March, Fitch Ratings (Fitch) affirmed its BBB– long-term foreign currency issuer default ratings and BBB long-term LCY issuer default ratings for the Philippines. Both ratings were given a stable outlook. Fitch cited the Philippines’ strong macroeconomic performance as the reason for its ratings decision.

Policy, Institutional, and Regulatory Developments

BSP Announces Further Amendments to Foreign Exchange Regulations

In February, the BSP released further amendments to its Manual of Regulations on Foreign Exchange Transactions. These include the introduction of a policy that requires private sector, nonbank borrowers to maintain a long-term debt-to-equity ratio of at least 75–25 for the entire period of their foreign-currency-denominated loans. Other amendments include policies that could further

enable and monitor legitimate trade transactions, and expand the coverage of short-term interbank loans that do not require prior BSP approval.

BTr Implements NRT for LCY Government Bonds

On 4 May 2015, BTr implemented the nonrestricted trading and settlement environment (NRT) for LCY coupon-bearing government securities. BTr stated that the market is now able to facilitate these trades after various preparatory activities including market testing, establishing business continuity process and systems readiness protocols, and other international preparations conducted by market participants. The circular pertaining to this initiative was released on 22 September 2014. The circular provides guidance on the implementation of NRT across tax categories in the secondary market for Philippine LCY coupon-bearing government securities, with the intention of deepening liquidity in the bond market and providing additional investment avenues for tax-exempt institutions and individuals.