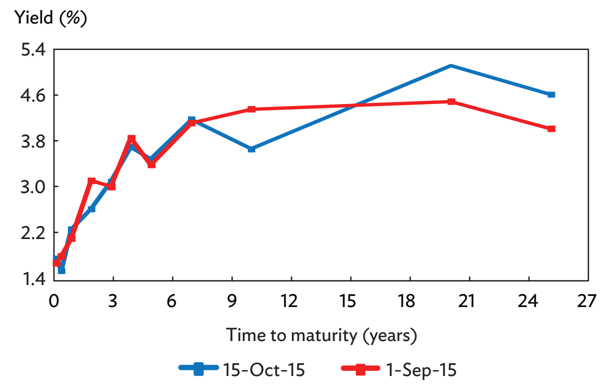
Philippines

Yield Movements

Between 1 September and 15 October, yield movements for Philippine local currency (LCY) government bond yields were mixed **(Figure 1)**. At the short-end of the curve, yields for the 3-month and 1-year tenors rose 8 basis points (bps) and 16 bps, respectively, while the yield for the 6-month tenor fell 25 bps. Yields mostly rose for maturities of between 3 years and 25 years, excluding the 4-year and 10-year tenors. The rise in yields was most evident at the long-end of the curve, with the 20-year and 25-year tenors rising 62 bps and 59 bps, respectively. This was reflective of investors' risk aversion due to uncertainties over the timing of an impending rate hike by the United States Federal Reserve.

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



LCY = local currency.
Source: Bloomberg LP.

Inflation decelerated in 3Q15 to 0.4% year-on-year (y-o-y) in September from 0.6% y-o-y in August and 0.8% y-o-y in July. A sufficient supply of food items, downward adjustments in utility rates, and lower fuel prices contributed to lower inflation, while also providing room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates.

At its 24 September monetary policy meeting, the BSP decided to keep its policy rates—the overnight borrowing rate and the overnight lending rate—unchanged at 4.0% and 6.0%, respectively. The BSP stated that inflation is expected to rise gradually in line with its targets for 2016 to 2017, while noting that upward price pressures remain due to pending adjustments in utilities rates and higher food prices resulting from El Niño.

The Philippines' economy grew 5.6% y-o-y in 2Q15, up from 5.0% y-o-y growth in 1Q15, supported by sustained growth in both private and public consumption, as well as a boost in capital formation.

Size and Composition

The Philippine LCY bond market grew 1.7% quarter-on-quarter (q-o-q) to PHP4,723 billion (US$101 billion) at end-September **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,939 billion, while corporate bonds summed to PHP784 billion. On a y-o-y basis, the LCY bond market grew 2.8% in 3Q15.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 1.1% q-o-q to PHP3,939 billion at end-September. The rise was most notable in the outstanding stock of Treasury bonds, primarily due to the new funds raised from the most recent bond swap conducted by the Bureau of the Treasury (BTr). In September, the BTr accepted total exchange offers of eligible bonds worth PHP237 billion and new subscription offers of PHP9.6 billion. As a result, the BTr raised PHP121 billion worth of new 10-year benchmark bonds and PHP142 billion worth of new 15-year benchmark bonds, which were priced at 3.625% and 4.625%, respectively.

As a result, government bond issuance rose significantly in 3Q15 to PHP406 billion from PHP90.4 billion in 2Q15. The government's bond auction results were also more successful in 3Q15 than in 2Q15, with the total volume awarded rising to PHP107 billion from PHP90.4 billion.

The government has programmed borrowing of PHP135 billion through its regular LCY bond auction schedule in 4Q15. The auction schedule comprises PHP60 billion of Treasury bills with 91-, 182-, and

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,594**	**102**	**4,645**	**103**	**4,723**	**101**	**2.2**	**6.7**	**1.7**	**2.8**
Government	3,846	86	3,896	86	3,939	84	0.7	2.2	1.1	2.4
Treasury Bills	285	6	275	6	282	6	(1.2)	(8.0)	2.6	(0.9)
Treasury Bonds	3,445	77	3,541	79	3,577	77	0.9	3.2	1.0	3.8
Others	116	3	80	2	80	2	–	2.1	–	(30.9)
Corporate	748	17	749	17	784	17	10.4	37.5	4.7	4.8

( ) = 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 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 multicurrency Retail Treasury Bonds (RTBs) are not included. As of end-September 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively.
Sources: Bloomberg LP and Bureau of the Treasury.

364-day tenors; and PHP75 billion of Treasury bonds with 3- and 5-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds rose 4.7% q-o-q to PHP784 billion at the end of September. Three companies tapped the domestic bond market in 3Q15. 8990 Holdings, a mass housing developer, raised PHP8.99 billion via a triple-tranche bond issuance comprising a PHP8.4 billion 5-year tranche, PHP220 million 7-year tranche, and PHP380 million 10-year tranche with coupon rates of 6.208%, 6.131%, and 6.867%, respectively. Aboitiz Equity Ventures also had a triple-tranche issue comprising 5-year, 7-year, and 12-year bonds with an aggregate issuance volume of PHP24 billion **(Table 2)**.

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Aboitiz Equity Ventures		
5-year bond	4.47	10.46
7-year bond	5.01	8.47
12-year bond	6.02	5.07
8990 Holdings		
5-year bond	6.21	8.40
7-year bond	6.13	0.38
10-year bond	6.87	0.22
Filinvest Land		
7-year bond	5.36	7.00
10-year bond	5.71	1.00

LCY = local currency.
Source: Bloomberg LP.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 89.9% of total LCY corporate bonds outstanding at end-September **(Table 3)**. The majority of the top 30 issuers are listed on the Philippine Stock Exchange, with eight firms having privately held shares. Ayala Land remained the largest corporate issuer in the Philippines with PHP64.9 billion of outstanding bonds at end-September. Metrobank was the next largest borrower with PHP46.8 billion of outstanding bonds. Ayala Corporation was in the third spot with PHP40 billion.

The diversity of LCY corporate bond issuers in 3Q15 was comparable with that in 3Q14 **(Figure 2)**. Banks and other financial institutions, including investment houses, remained the leading issuers of debt in 3Q15 with 30.4% of the total, up from a share of 26.6% in 3Q14. Real estate companies were second with a share of 22.8% of the total, compared with a 20.5% share in 3Q14. Meanwhile, the share of holding companies declined to 19.6% in 3Q15 from 21.2% in 3Q14. 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.

Investor Profile

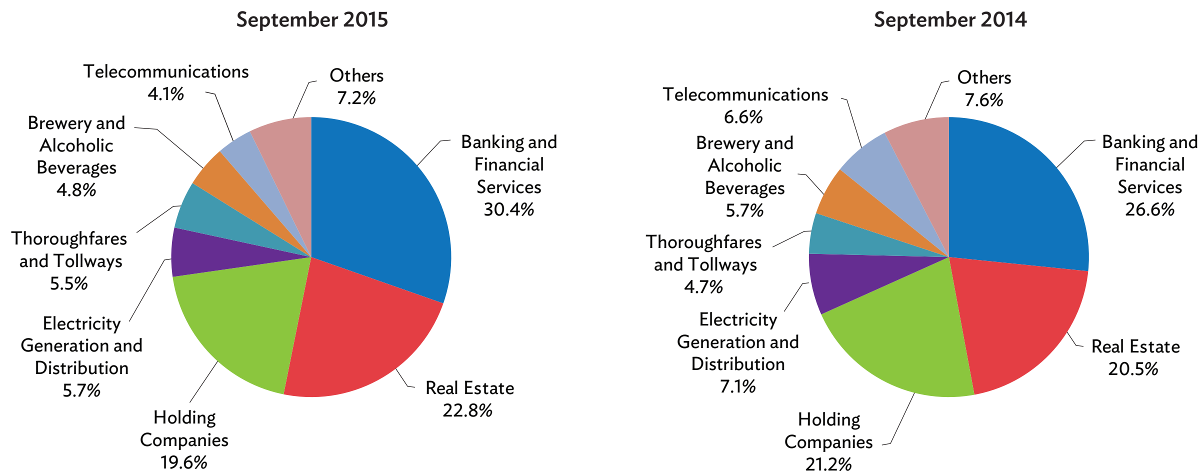
The largest grouping of investors in government securities at the end of September comprised banks and financial institutions with a 35.8% share of the total

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	64.9	1.4	No	Yes	Real Estate
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	San Miguel Brewery	37.8	0.8	No	No	Brewery
5.	BDO Unibank	37.5	0.8	No	Yes	Banking
6.	Philippine National Bank	34.6	0.7	No	Yes	Banking
7.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Diversified Operations
8.	Filinvest Land	32.0	0.7	No	Yes	Real Estate
9.	JG Summit Holdings	30.0	0.6	No	Yes	Diversified Operations
10.	SM Investments	28.3	0.6	No	Yes	Diversified Operations
11.	RCBC	27.1	0.6	No	Yes	Banking
12.	SM Prime	25.0	0.5	No	Yes	Real Estate
13.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
14.	Security Bank	23.0	0.5	No	Yes	Banking
15.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
16.	South Luzon Tollway	18.3	0.4	No	No	Transport Services
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	East West Bank	16.8	0.4	No	Yes	Banking
19.	Maynilad Water Services	16.4	0.4	No	No	Water
20.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
21.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
22.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
23.	Manila North Tollways	13.0	0.3	No	No	Transport Services
24.	First Metro Investment	12.0	0.3	No	No	Investment Banking
25.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
26.	MTD Manila Expressway	11.5	0.2	No	No	Transport Services
27.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
28.	Energy Development	10.5	0.2	No	Yes	Electricity Generation
29.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
30	8990 Holdings	9.0	0.2	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**704.9**	**15.1**			
Total LCY Corporate Bonds		**784.2**	**16.8**			
Top 30 as % of Total LCY Corporate Bonds		**89.9%**	**89.9%**			

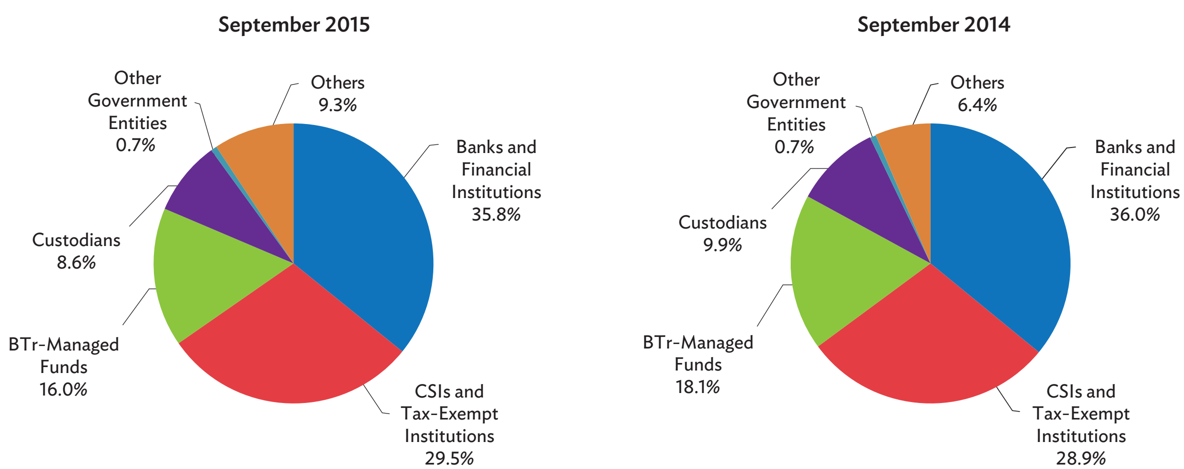
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Government Bonds Investor Profile



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

(Figure 3), down slightly from a 36.0% share a year earlier. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—including trusts and other tax-exempt entities—accounted for 29.5% of the total at the end of September, up from 28.9% a year earlier. Over the same period, the holdings of government securities among custodians fell to 8.6% from 9.9%, and funds managed by the BTr declined to 16.0% from 18.1%.

Ratings Update

In September, Fitch Ratings affirmed the Philippines' long-term foreign currency issuer default rating and long-term local currency issuer default rating at BBB– and BBB, respectively. The outlook on both ratings was revised to positive from stable. Fitch cited the Philippines' stable economic growth and strong external finances as reasons for its ratings decision.

Policy, Institutional, and Regulatory Developments

BSP to Implement Interest Rate Corridor System by 2Q16

In September, the BSP announced its plan to implement an interest rate corridor system by 2Q16. The system will include the implementation of a deposit facility and a lending facility that will form a corridor around the BSP's policy rate. These facilities shall be conducted via weekly auctions of term deposits. The interest rate corridor system is expected to support the development of the capital market by encouraging more active liquidity management and increased trading by financial institutions. The new system also aims to reduce reliance on the reserve requirement for the market's liquidity management.

BSP Releases New Regulations on Treasury Activities

In October, the BSP released new regulations on treasury activities conducted by BSP-supervised financial institutions, particularly the management of operational risk. The new regulations highlight the responsibility of firms' board of directors and senior management in establishing standards of good behavior and compliance with market conduct rules. The regulations also require BSP-supervised financial institutions to differentiate among the various functions of treasury units to separate possibly conflicting duties such as risk-taking and recording, and reconciliation and settlement. The BSP expects the control units of the financial institutions it supervises—risk management, compliance, and audit—to regularly monitor treasury activities.