

Philippines

Yield Movements

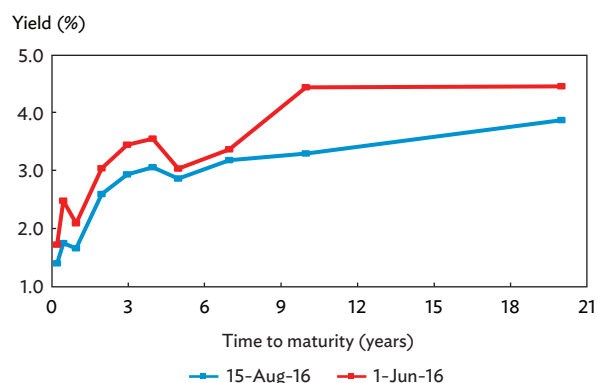
Local currency (LCY) government bond yields fell for all maturities between 1 June and 15 August. The yield drop ranged from 17 basis points (bps) for the 5-year tenor to 114 bps for the 10-year tenor (**Figure 1**). The drop in yields during this period was driven by strong demand for LCY government securities—especially the Treasury bills that were auctioned in July—as well as the United States Federal Reserve’s delay in raising interest rates and the United Kingdom’s vote to exit from the European Union. Meanwhile, the yield spread between the 2-year and 10-year tenors narrowed 69 bps during the review period.

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) decided during its meetings on 23 June and 11 August to keep the interest rate on the overnight reverse repurchase facility at 3.0%. Interest rates on the overnight lending and deposit facilities were also left unchanged. The BSP noted that inflation in the Philippines continued to be “manageable.”

The headline inflation rate, based on the Consumer Price Index, stood at 1.9% year-on-year (y-o-y) in July, unchanged from the previous month. In the second quarter (Q2) of 2016, consumer price inflation averaged 1.5% y-o-y, up from 1.1% y-o-y in the previous quarter. In the first half of 2016, the headline inflation rate averaged 1.3% y-o-y. Consumer price inflation has continued to remain below the Government of the Philippines’ 2016–2018 inflation target range of 3.0%±1.0 percentage point.

Real gross domestic product growth was robust at 6.9% y-o-y in the first half of 2016, buoyed by relatively strong growth in household expenditure, government spending, and domestic investment on the demand side; and in the industrial and services sectors on the supply side. On a quarterly basis, real gross domestic product growth accelerated to 7.0% y-o-y in Q2 2016 from 6.8% y-o-y in the previous quarter on the back of faster growth in household spending, government expenditure, and domestic investment; as well as an expansion in the services sector.

Figure 1: Philippines’ Benchmark Yield Curve—Local Currency Government Bonds



Source: Based on data from Bloomberg LP.

Size and Composition

The LCY bond market exhibited mixed trends in Q2 2016, falling 0.4% q-o-q but rising 0.9% y-o-y to reach PHP4,688 billion (USD99 billion) at the end of June (**Table 1**). The q-o-q decline was induced by a quarterly contraction in Treasury bonds and corporate bonds, while the y-o-y growth stemmed from annual increases in Treasury bills and corporate bonds. At the end of June, government bonds accounted for more than 80% of total bonds outstanding.

Banks remained the largest issuer group in the LCY corporate bond market, with the value of their issued bonds comprising 28.3% of the total LCY corporate bond market at the end of June, followed by property firms with a 24.4% share (**Figure 2**). Compared to June of the previous year, the share of banks registered the biggest drop among all issuer groups, while property firms posted the largest increase.

The top 30 corporate bond issuers accounted for a combined PHP722.9 billion worth of outstanding LCY bonds at the end of June, representing 89.5% of the LCY corporate bond market (**Table 2**).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2015		Q1 2016		Q2 2016		Q2 2015		Q2 2016	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	4,645	103	4,706	102	4,688	99	(0.8)	3.3	(0.4)	0.9
Government	3,896	86	3,893	85	3,880	82	(0.5)	2.0	(0.3)	(0.4)
Treasury Bills	275	6	279	6	288	6	(1.1)	(4.6)	3.2	4.6
Treasury Bonds	3,541	79	3,539	77	3,517	75	(0.2)	3.7	(0.6)	(0.7)
Others	80	2	76	2	76	2	(12.4)	(30.9)	0.0	(5.6)
Corporate	749	17	813	18	808	17	(2.0)	10.5	(0.6)	7.9

(-) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.

2. Bloomberg end-of-period local currency-USD rates are used.

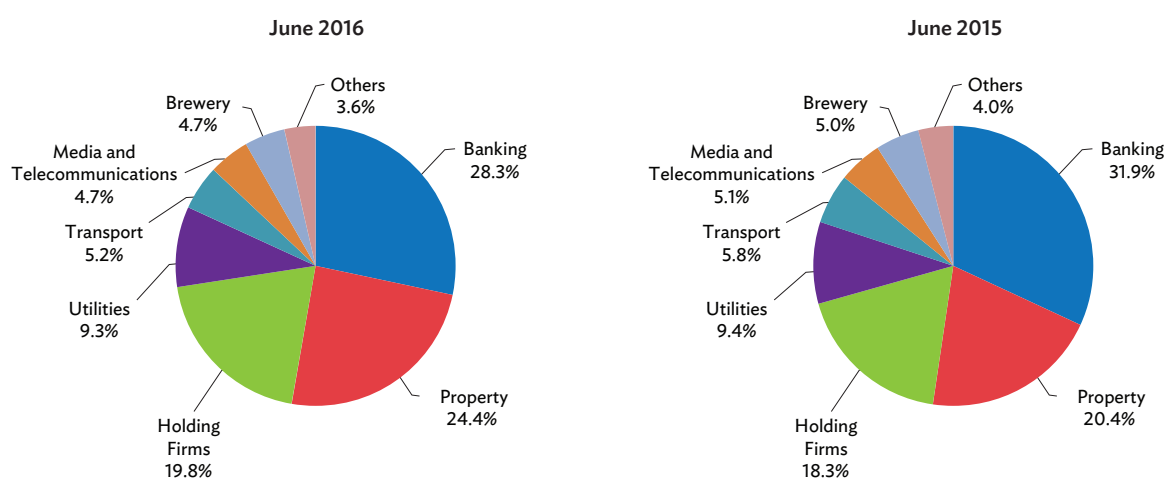
3. Growth rates are calculated from a local currency base and do not include currency effects.

4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. These include 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) are not included.

Sources: Bloomberg LP and Bureau of the Treasury.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

LCY bond issuance in Q2 2016 stood at PHP182.2 billion, down 4.0% q-o-q but up 62.3% y-o-y. Government bond issues, comprising mainly Treasury bills and bonds, were valued at PHP175.2 billion, were down 1.1% q-o-q but up 93.8% y-o-y. Only one corporate bond was sold in Q2 2016—Ayala Land's 9.5-year bond worth PHP7 billion and carrying a 4.75% fixed interest rate—resulting in total corporate bond issuance declining 44.0% q-o-q and 67.9% y-o-y.

Investor Profile

The largest investor group in the LCY government bond market comprises banks and investment houses, which had holdings equivalent to 36.4% of the total LCY government bond market at the end of June (**Figure 3**). This share of the market was down from a year earlier. The shares of all other investor groups declined as well on a y-o-y basis except for contractual savings and tax exempt institutions, as well as brokers, custodians, and depositories.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Ayala Land	71.2	1.5	No	Yes	Property
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	SM Prime	45.0	1.0	No	Yes	Property
4.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
5.	San Miguel Brewery	37.8	0.8	No	No	Brewing
6.	BDO Unibank	37.5	0.8	No	Yes	Banking
7.	Philippine National Bank	34.6	0.7	No	Yes	Banking
8.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Holding Firms
9.	Filinvest Land	32.0	0.7	No	Yes	Property
10.	JG Summit	30.0	0.6	No	Yes	Holding Firms
11.	SM Investments	27.3	0.6	No	Yes	Holding Firms
12.	Meralco	23.5	0.5	No	Yes	Electricity, Energy, and Power
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	Rizal Commercial Banking Corporation	22.1	0.5	No	Yes	Banking
15.	GT Capital	22.0	0.5	No	Yes	Holding Firms
16.	South Luzon Tollway	18.3	0.4	No	No	Transport
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	16.3	0.3	No	No	Water and Wastewater Services
20.	MCE Leisure (Philippines)	15.0	0.3	No	No	Casinos and Gaming
21.	Philippine Long Distance Telephone Company	15.0	0.3	No	Yes	Telecommunications
22.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
23.	First Metro Investment Corporation	12.0	0.3	No	No	Banking
24.	Robinsons Land	12.0	0.3	No	Yes	Property
25.	Manila North Tollways	11.9	0.3	No	No	Transport
26.	MTD Manila Expressway	11.5	0.2	No	No	Transport
27.	Energy Development Corporation	10.5	0.2	No	Yes	Electricity, Energy, and Power
28.	Aboitiz Power	10.0	0.2	No	Yes	Electricity, Energy, and Power
29.	8990 Holdings	9.0	0.2	No	Yes	Property
30.	Filinvest Development	8.8	0.2	No	Yes	Holding Firms
Total Top 30 LCY Corporate Issuers		722.9	15.3			
Total LCY Corporate Bonds		807.9	17.1			
Top 30 as % of Total LCY Corporate Bonds		89.5%	89.5%			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.

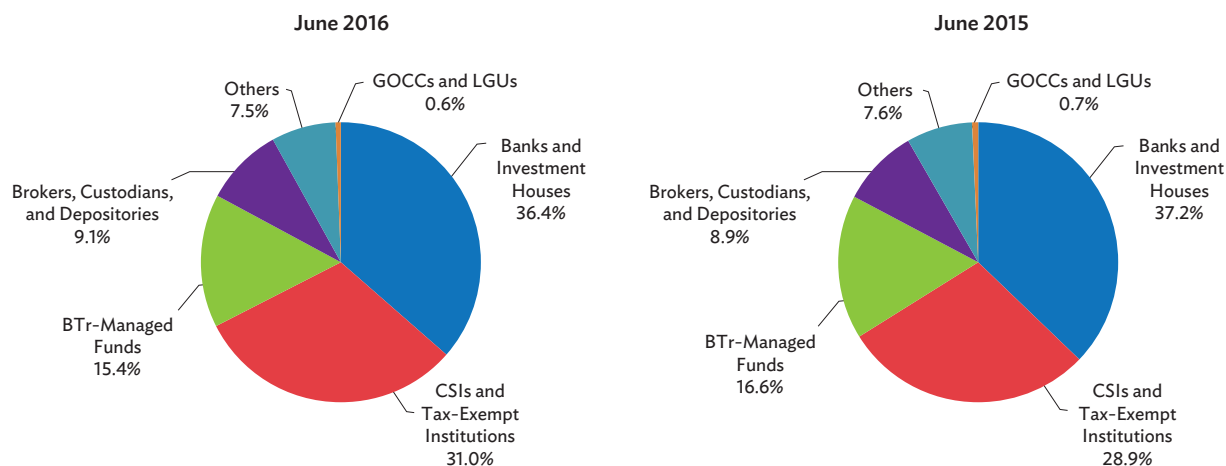
Notes:

1. Data as of end-June 2016.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 3: Local Currency Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned or -controlled corporations, LGUs = local government units.
Source: Bureau of the Treasury.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Further Liberalizes Foreign Exchange Rules

The BSP announced in August that its Monetary Board approved further liberalization of its foreign exchange rules and regulations in line with the Philippine economy's increasing integration with the global economy. The new measures include, among others, increasing the amount of foreign exchange that local residents, both individuals and corporations, can purchase from the banking system, as well as allowing the sale of foreign exchange by banks and their foreign exchange entities for resident-to-resident transactions.