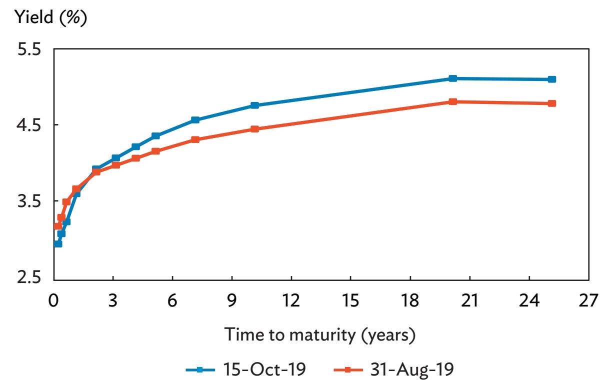
Philippines

Yield Movements

Between 31 August and 15 October, the Philippines' local currency (LCY) government bond yield curve steepened as yields at the shorter end of the curve declined and those at the longer end rose (**Figure 1**). Yields for securities with tenors of less than 1 year fell 23 basis points (bps) on average, while the yield for the 1-year tenor fell 6 bps. Yields for bonds with tenors of 2 years to 5 years rose an average of 12 bps. The rise in yields was most pronounced for tenors from 10 years to 25 years, which gained 31 bps on average. The spread between the 2-year and 10-year yields widened from 56 bps to 82 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Yields rose in early September, particularly among longer tenors, as the market tracked movements in United States (US) Treasury yields, which rose due to positive developments in the trade talks between the People's Republic of China and the US. Market participants also started to take profits following the rally in government bonds since the start of the year, which was brought about by the monetary easing conducted by the Bangko Sentral ng Pilipinas (BSP). Most participants had also priced in the BSP's policy rate cut from its 26 September meeting and expected a pause in monetary easing until 2020.

The rise in yields was tapered after the BSP announced on 27 September a new 100 bps cut in reserve requirement ratios effective on the first day of the first reserve week of November, which is expected to provide more liquidity in the market, and the release of September inflation data, which decelerated to 0.9% y-o-y. Meanwhile, yields at the shorter end of the curve fell due to continued demand for shorter-dated papers amid abundant liquidity and market uncertainties.

On 26 September, the BSP cut the interest rate on its overnight reverse repurchase facility by 25 bps to 4.00%. The interest rates for the overnight deposit and lending facilities were also reduced to 3.50% and 4.50%, respectively. This was the third cut by the central bank in 2019, bringing the reduction in key interest rates to a total of 75 bps. The BSP stated its decision to cut rates was due to easing inflation, with the baseline forecast expected to remain in the annual target range of 2.0%–4.0% in 2019 and 2020.

Inflation eased throughout the third quarter (Q3) of 2019 from 2.4% year-on-year (y-o-y) in July to 1.7% y-o-y in August and 0.9% y-o-y in September, the lowest level since June 2016. Year-to-date average inflation was 2.8% y-o-y at the end of September, which was at the lower end of the government's target range for full-year 2019.

The Philippines' real gross domestic product growth accelerated to 6.2% y-o-y in Q3 2019 from 5.5% y-o-y in the second quarter (Q2) of 2019. The faster growth was a result of increased government spending following the approval of the 2019 budget. The delay in the passage of the budget resulted in lower growth in the first half of the year. Government consumption posted growth of 9.6% y-o-y in Q3 2019, up from 7.3% y-o-y in the previous quarter. Private consumption also posted higher annual growth in Q3 2019, while export growth slowed. Investments continued to contract in Q3 2019, albeit at a slower pace of 2.1% y-o-y versus 8.5% y-o-y in the previous quarter.

The Philippine peso rebounded in late August following a sharp depreciation in the early part of the month. The Philippine peso then traded sideways between PHP51.6 and PHP52.3 per USD1.0 during the review period on both domestic and international economic developments, including trade talks between the People's Republic of China and the US and the monetary policy direction of the Federal Reserve. Meanwhile, easing inflation and the policy rate cut and reduction in reserve requirement ratios by the BSP provided support to the Philippine peso.

Size and Composition

LCY bonds outstanding in the Philippine market marginally declined 0.1% quarter-on-quarter (q-o-q) to PHP6.69 trillion (USD129.2 billion) at the end of September from PHP6.71 trillion at the end of June (**Table 1**). This was driven by a 0.7% q-o-q decline in government bonds outstanding to PHP5.3 trillion. Meanwhile, corporate bonds outstanding rose 2.1% q-o-q to PHP1.4 trillion at the end of September.

Government bonds. The size of the Philippine LCY government bond market contracted 0.7% q-o-q to PHP5.2 trillion, largely driven by the 15.3% q-o-q decline in the stock of Treasury bills. Treasury bonds rose marginally by 1.3% q-o-q in Q3 2019, while bonds issued by government-related entities fell 0.03% q-o-q.

Total issuance of government bonds fell to PHP273.4 billion in Q3 2019 from PHP312.4 billion in the previous quarter, primarily due to the lower planned auction schedule for the quarter by the Bureau of the Treasury (BTr). The BTr stated that the smaller borrowing program resulted from government underspending in the first half of 2019, given the delay in the passage of the 2019 budget. The government also had enough of a cash buffer from the large issuances conducted in the first half of 2019.

Corporate bonds. The Philippine LCY corporate bond market expanded 2.1% q-o-q in Q3 2019 to PHP1.4 trillion despite the lower issuance volume during the quarter. Banks, with aggregate bonds of PHP548.9 billion, continued to comprise the largest share of the Philippine corporate bond market with a 37.9% share, up from the 28.6% share at the end of Q3 2018 (**Figure 2**). Property firms remained the second-largest sector in the corporate bond market with PHP356.1 billion of bonds outstanding, but their share declined to 24.6% from 28.4% a year earlier. The share of holding firms also fell to 15.9% at the end of September from 21.5% in September 2018, while the share of utilities companies rose to 15.5% from 11.7% in the same period.

At the end of September 2019, only 56 companies in the Philippines were actively tapping the bond market. The top 30 bond issuers accounted for 89.4% of LCY corporate bonds outstanding at the end of Q3 2019 (**Table 2**). Of the top 30 companies, only four are private companies, while the rest are public companies listed on the Philippine Stock Exchange. Banks continued to account for one-third of the list, followed by property firms and holding companies. Metropolitan Bank, with total bonds outstanding of PHP114.6 billion at the end of Q3 2019, surpassed Ayala Land (PHP106.9 billion) and SM Prime Holdings (PHP103.7 billion) as the single-largest bond issuer.

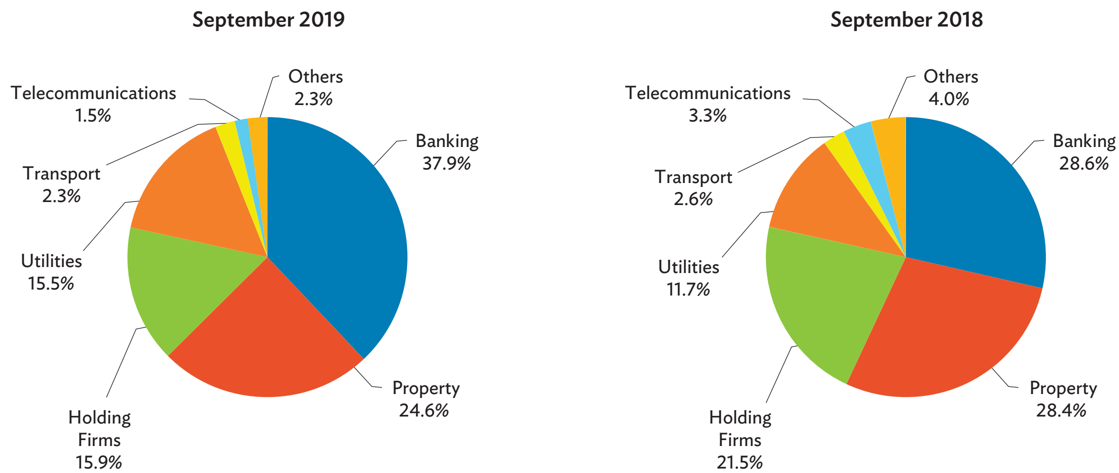
Corporate bond issuance fell to PHP74.7 billion in Q3 2019 from PHP126.5 billion in Q2 2019. The decline in issuance can be attributed to the tepid issuance in August with only one entity issuing bonds, as well as the rise in interest rates through September that made it costly to borrow. **Table 3** lists all corporate bond

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**5,792**	**107**	**6,707**	**131**	**6,699**	**129**	**0.9**	**11.2**	**(0.1)**	**15.7**
Government	4,593	85	5,290	103	5,253	101	0.04	9.0	(0.7)	14.4
Treasury Bills	439	8	652	13	553	11	15.3	29.2	(15.3)	25.9
Treasury Bonds	4,121	76	4,616	90	4,678	90	(1.2)	7.8	1.3	13.5
Others	34	1	22	0.4	22	0.4	(16.2)	(33.0)	(0.03)	(35.5)
Corporate	1,198	22	1,417	28	1,447	28	4.3	20.1	2.1	20.7

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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 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. This includes bonds issued by Power Sector Assets and Liabilities Management 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.

issuances in Q3 2019. Banks were the largest issuers of bonds during the quarter, led by China Bank with a PHP30 billion offer of 1.5-year bonds with a coupon rate of 5.70%. Other banks that issued bonds during the quarter were Metrobank, BDO, Philippine Savings Bank, and Robinsons Bank.

Investor Profile

Banks and investment houses remained the largest investor group in the Philippine LCY government bond market in Q3 2019, with an investment share slightly rising to 42.6% at the end of September from 41.9% a year earlier. Contractual savings institutions (including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies) and tax-exempt institution (such as trusts and other tax-exempt entities) were the second-largest holders of government bonds. However, their share fell to 23.9% from 27.2% during the same period. The share of brokers and custodians was almost at par at 11.5% during the review period, while that of funds managed by the BTr inched up to 10.0% from 9.4%.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Cuts Reserve Requirement Ratios by 200 bps

On 27 September, the BSP announced a 100 bps-reduction in the reserve requirement ratios of universal and commercial banks to 15%, thrift banks to 5%, and rural banks to 3%, effective on the first day of the first reserve week of November. On 24 October, the BSP cut anew the reserve requirement ratios another 100 bps for universal and commercial banks to 14%, nonbank financial institutions with quasi-banking functions to 14%, and thrift banks to 4%, effective on the first day of the first reserve week of December.

Bangko Sentral ng Pilipinas Launches the First Other Financial Corporations Survey

In October, the BSP launched the first Other Financial Corporations Survey (OFCS), a comprehensive measure of the assets and liabilities of other financial corporations. These include, among others, trust entities, private and public insurance companies, government financial institutions, and nonmoney market funds covering unit investment trust funds and investment companies. The OFCS aims to identify the concentration of vulnerabilities in the financial sector in relation to other

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.	Metropolitan Bank	114.6	2.2	No	Yes	Banking
2.	Ayala Land	106.9	2.1	No	Yes	Property
3.	SM Prime Holdings	103.7	2.0	No	Yes	Property
4.	BDO Unibank	96.3	1.9	No	Yes	Banking
5.	SMC Global Power	80.0	1.5	No	No	Electricity, Energy, and Power
6.	San Miguel	60.0	1.2	No	Yes	Holding Firms
7.	Philippine National Bank	56.2	1.1	No	Yes	Banking
8.	Security Bank	54.6	1.1	No	Yes	Banking
9.	SM Investments	48.4	0.9	No	Yes	Holding Firms
10.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
11.	China Bank	42.7	0.8	No	Yes	Banking
12.	Rizal Commercial Banking Corporation	41.2	0.8	No	Yes	Banking
13.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
14.	Vista Land	38.0	0.7	No	Yes	Property
15.	Bank of the Philippine Islands	37.2	0.7	No	Yes	Banking
16.	Aboitiz Equity Ventures	37.0	0.7	No	Yes	Holding Firms
17.	Maynilad	33.0	0.6	No	No	Water
18.	Union Bank of the Philippines	30.8	0.6	No	Yes	Banking
19.	East West Banking	28.8	0.6	No	Yes	Banking
20.	Aboitiz Power	23.2	0.4	No	Yes	Electricity, Energy, and Power
21.	Manila Electric Company	23.0	0.4	No	Yes	Electricity, Energy, and Power
22.	Filinvest Land	22.0	0.4	No	Yes	Property
23.	GT Capital	22.0	0.4	No	Yes	Holding Firms
24.	San Miguel Brewery	22.0	0.4	No	No	Brewery
25.	Philippine Savings Bank	20.8	0.4	No	Yes	Banking
26.	Doubledragon	15.0	0.3	No	Yes	Property
27.	PLDT	15.0	0.3	No	Yes	Telecommunications
28.	NLEX Corporation	13.9	0.3	No	No	Transport
29.	Megaworld	12.0	0.2	No	Yes	Property
30.	Robinsons Land	12.0	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**1,293.2**	**24.9**			
Total LCY Corporate Bonds		**1,446.7**	**27.9**			
Top 30 as % of Total LCY Corporate Bonds		**89.4%**	**89.4%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
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.

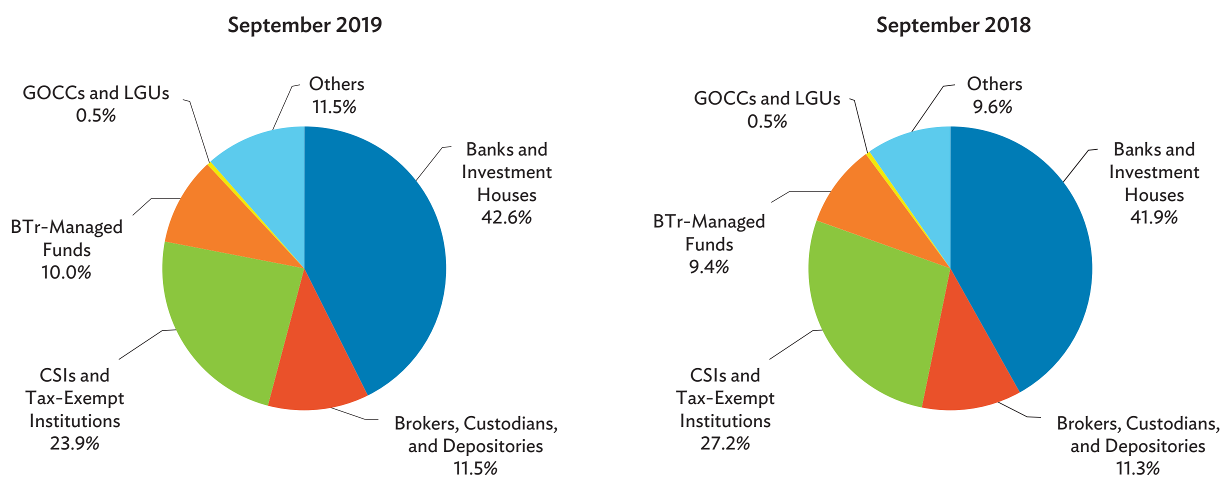
Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
China Bank		
1.5-year bond	5.70	30.00
Metrobank		
2-year bond	6.30	11.25
BDO Unibank		
5.5-year bond	4.00	6.50
Philippine Savings Bank		
2-year bond	5.60	6.30
Robinsons Bank		
2-year bond	5.13	5.00
Phoenix Petroleum		
1-year bond	0.00	3.50
Ayala Land		
5-year bond	4.76	3.00
SL Agritech		
0.25-year bond	0.00	0.20
0.50-year bond	0.00	0.20
1-year bond	0.00	1.60
Alsons Consolidated		
0.25-year bond	0.00	0.20
0.50-year bond	0.00	0.29
1-year bond	0.00	0.61

PHP = Philippine peso.
Source: Bloomberg LP.

sectors in the economy. The OFCS report will include sections on net foreign assets, domestic claims, and other liabilities of other financial corporations. It will also be publicly available to the public within 4 months after the end of each corresponding quarter.

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.