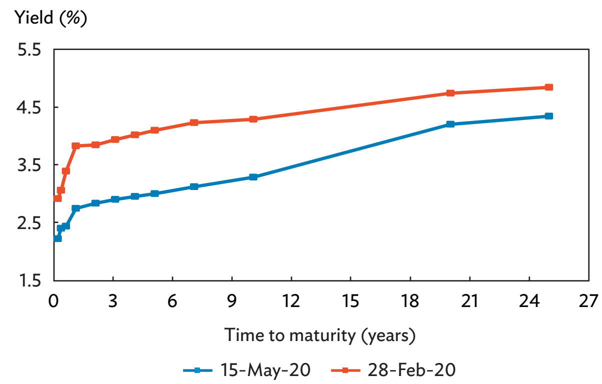
Philippines

Yield Movements

The yields of local currency (LCY) government securities in the Philippines fell across the board between 28 February and 15 May (**Figure 1**). Yields of bonds with maturities from 1 year to 10 years declined the most, averaging 106 basis points (bps). Smaller yield declines were observed at the shorter-end and longer-end of the curve. Securities with 6-month tenors or less shed an average of 77 bps from their yield, while longer-term debt paper (20- and 25-year tenors) dropped 52 bps on average. The change in the yield spread between the 2-year and 10-year tenors was minimal, widening only 1 bp during the review period from 45 bps to 46 bps.

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



Source: Based on data from Bloomberg LP.

Several developments influenced the downward movement of the yield curve. The first was the series of interest rate cuts from Bangko Sentral ng Pilipinas (BSP). The central bank cut the policy rate by 50 bps on 17 April during an off-cycle meeting, bringing the overnight reverse repurchase rate to 2.75%. The move came less than 1 month after the BSP cut the policy rate by 50 bps on 19 March. The unprecedented move sought to encourage lending in various sectors of the economy. The BSP has aggressively cut the key rate by 125 bps thus far in 2020 in an effort to keep the economy afloat during the pandemic. However, the BSP recently hinted at a pause in monetary policy easing to assess the impact of its actions.

The second factor has been investors resorting to safe-haven assets at a time of persistent uncertainty over the economic impact of the COVID-19 pandemic. In an environment clad with risks, investors have become cautious by parking their money in less risky assets such as government bonds. Increased demand from investors, as observed in the auctions, has led to higher bids and lower yields.

Weaker inflationary pressure was also a factor pushing yields downward. Consumer price inflation has moderated since the start of the year. In May, it slowed further to 2.1% year-on-year (y-o-y) from 2.2% y-o-y in April. The Consumer Price Index was weighed down largely by the continued negative price growth in the transport group where prices declined 5.6% y-o-y due to lower domestic petroleum prices. The lower inflation was also underpinned by the slower price adjustments for some food and nonfood commodities.

LCY bond yield declines were also driven by the dovish stance of the United States (US) Federal Reserve and other major central banks. The Federal Reserve cut its policy rate to almost zero in March to shield the domestic economy from the negative impact of the COVID-19 pandemic. This resulted in US Treasury yields tumbling, which Philippine bond yields often track to a degree.

The Philippines' gross domestic product fell 0.2% y-o-y in the first quarter (Q1) of 2020 after expanding 6.7% y-o-y in the fourth quarter (Q4) of 2019, ending the economy's growth streak since Q4 1998. The decline was the result of shocks to the economy, primarily coming from the imposition of enhanced community quarantine, which halted most economic activities, as a measure to control the COVID-19 pandemic. All major sectors showed weaker performance, led by declining output in manufacturing, transportation and storage, and accommodation and food service activities. On the expenditure side, only household and government consumption showed increases, albeit at slower paces than in Q4 2019 at 0.2% y-o-y and 7.1% y-o-y, respectively.

The Philippine peso was relatively stable from the beginning of the year through mid-May, characterized by modest strengthening against the US dollar. Despite the COVID-19 pandemic that has wreaked havoc on both the domestic and global economy, the peso-to-dollar exchange rate has managed to hover around PHP50–PHP51 to USD1. The peso's strength is backed by the economy's sufficient financial buffers that include gross international reserves at a secure level and a sound fiscal position. But the prospect of a weakening peso remains if the impact of the pandemic worsens.

Size and Composition

The Philippine LCY bond market expanded 6.9% quarter-on-quarter (q-o-q) in Q1 2020, registering total bonds outstanding of PHP7,106 billion (USD140.2 billion) at the end of March (**Table 1**). The quarterly growth rate in Q1 2020 rebounded strongly from a decline in the preceding quarter. On an annual basis, the bond market grew 7.9% y-o-y, which was slower compared with Q4 2019. The LCY bond market comprises 77.8% government bonds and 22.2% corporate bonds.

Government bonds. The size of the LCY government bond market grew 7.5% q-o-q in Q1 2020, following a q-o-q decline in Q4 2019 when a large volume of Treasury bonds and bills matured and resulted in a reduced bond stock. The increase in market size was due to Bureau of the Treasury's (BTr) enlarged borrowing plan from the local market in Q1 2020, which was upped by the issuance of Retail Treasury Bonds (RTBs). Treasury bills and Treasury bonds outstanding grew 14.5% q-o-q and 6.8% q-o-q, respectively, after recording declines in Q4 2019, while the amount of outstanding debt from government-related entities was mostly unchanged.

The government raised a substantial volume of debt in the domestic bond market in Q1 2020. The total issuance of PHP718.2 billion more than doubled issuance volume in Q4 2019 of PHP272.2 billion. The increased borrowing was programmed to take advantage of liquidity in the local market as a result of the reserve requirement ratio cuts in Q4 2019 by the BSP, as well as of lower interest rates. A large portion of government bond sales during the quarter comprised the issuance of 3-year RTBs amounting to PHP310.8 billion, the highest volume recorded for an RTB offering. In Q1 2020, issuance of Treasury bonds amounted to PHP 414.6 billion, and Treasury bill issuance amounted to PHP303.6 billion. Both amounts represented a significant increase from their respective issue volumes in the previous quarter. Proceeds from the government's aggressive Q1 2020 debt sales will be used for general budgetary purposes and for planned increased spending in 2020.

Despite the government's aggressive borrowing stance, it postponed the sale of CNY-denominated Panda bonds in the People's Republic of China that had been scheduled for March 2020. The BTr stated that it needs to evaluate

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**6,588**	**125**	**6,646**	**131**	**7,106**	**140**	**8.0**	**17.8**	**6.9**	**7.9**
Government	5,203	99	5,141	101	5,526	109	8.8	16.2	7.5	6.2
Treasury Bills	608	12	486	10	557	11	22.9	82.8	14.5	(8.4)
Treasury Bonds	4,562	87	4,615	91	4,930	97	7.2	11.1	6.8	8.1
Others	34	1	40	0.8	40	0.8	(0.02)	(16.2)	(0.02)	18.3
Corporate	1,385	26	1,505	30	1,579	31	5.4	24.4	5.0	14.0

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth 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 USD) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

developments in the market to decide on the timing of the sales amid the COVID-19 pandemic. Meanwhile, the government can take advantage of strong local demand for securities, especially for short-term tenors as liquidity onshore remains high.

The BTr may also adjust its borrowing program upward given the fiscal measures being taken to contain the impact of COVID-19 on the economy. The government must ensure that it has the resources to prop up the economy and support growth in the near-term.

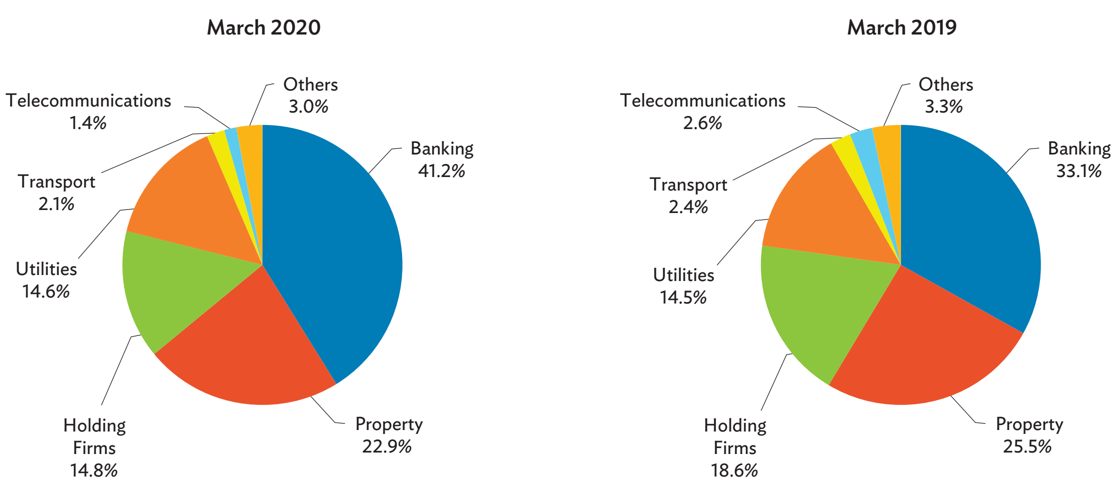
Corporate bonds. The LCY corporate bond market expanded 5.0% q-o-q in Q1 2020, which was slightly faster than the growth recorded in Q4 2019. LCY corporate bonds outstanding registered PHP1,579.3 billion at the end of Q1 2020, an amount that was lifted by a large volume of issuance during the quarter.

Outstanding debt from the banking sector comprised the largest share of the corporate bond market at the end of March at 41.2% (**Figure 2**). This share was up from 33.1% at the end of March 2019 as several local banks raised their funding levels over the past year. Property companies and holding firms remained in the second and third spot, respectively, comprising 22.9% and 14.8% of the market. In both cases, however, the shares were lower compared with Q1 2019.

The combined bonds outstanding of the top 30 issuers in the corporate market amounted to PHP1,388.3 billion, or 87.9% of the total debt stock in the corporate segment (**Table 2**). The top 30 issuers comprised 25 listed firms and 5 unlisted firms. Nearly half of the outstanding bonds were from the banking sector, totaling PHP609.2 million. Metropolitan Bank, BDO Unibank, Ayala Land, and SM Prime Holdings had the largest amount of bonds outstanding with over PHP100 billion each.

Bond issuances from the corporate segment in Q1 2020 sustained the momentum of the previous quarter with double-digit growth of 38.4% q-o-q. Corporate issuance amounted to PHP147.3 billion with the bulk of it coming from the banking sector. The issuance growth came on the back of strong economic prospects prior to the outbreak of COVID-19 as corporates sought to capitalize on investor optimism by tapping the bond market. The reserve requirement ratio cuts in Q4 2019, with expectations of further reductions, also unleashed liquidity that boosted demand in the market. Notable issuances during Q1 2020 included BDO Unibank's PHP40.1 billion 2.5-year bond in February, which was the single-largest bond issuance from the private sector in the Philippines to date. It was met by strong demand and fetched a coupon rate of 4.41%. Arthaland's maiden issuance of a 5-year PHP3.0 billion green bond with a 6.35% coupon rate was also noteworthy (**Table 3**).

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

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	128.3	2.5	No	Yes	Banking
2.	BDO Unibank	121.4	2.4	No	Yes	Banking
3.	Ayala Land	105.0	2.1	No	Yes	Property
4.	SM Prime Holdings	103.6	2.0	No	Yes	Property
5.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
6.	San Miguel	70.0	1.4	No	Yes	Holding Firms
7.	Bank of the Philippine Islands	64.6	1.3	No	Yes	Banking
8.	Security Bank	59.2	1.2	No	Yes	Banking
9.	Philippine National Bank	56.2	1.1	No	Yes	Banking
10.	SM Investments	52.8	1.0	No	Yes	Holding Firms
11.	Rizal Commercial Banking Corporation	48.7	1.0	No	Yes	Banking
12.	Vista Land	43.6	0.9	No	Yes	Property
13.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
14.	China Bank	42.7	0.8	No	Yes	Banking
15.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
16.	Aboitiz Equity Ventures	37.0	0.7	No	Yes	Holding Firms
17.	Maynilad	32.8	0.6	No	No	Water
18.	Aboitiz Power	30.5	0.6	No	Yes	Electricity, Energy, and Power
19.	Union Bank of the Philippines	26.6	0.5	No	Yes	Banking
20.	Philippine Savings Bank	25.4	0.5	No	Yes	Banking
21.	Manila Electric Company	23.0	0.5	No	Yes	Electricity, Energy, and Power
22.	Filinvest Land	22.0	0.4	No	Yes	Property
23.	San Miguel Brewery	22.0	0.4	No	No	Brewery
24.	East West Banking	20.2	0.4	No	Yes	Banking
25.	Robinsons Bank	16.0	0.3	No	No	Banking
26.	GT Capital	15.1	0.3	No	Yes	Holding Firms
27.	Doubledragon	15.0	0.3	No	Yes	Property
28.	PLDT	15.0	0.3	No	Yes	Telecommunications
29.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
30.	NLEX Corporation	13.9	0.3	No	No	Transport
Total Top 30 LCY Corporate Issuers		**1,388.3**	**27.4**			
Total LCY Corporate Bonds		**1,579.3**	**31.2**			
Top 30 as % of Total LCY Corporate Bonds		**87.9%**	**87.9%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
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 First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Bank of the Philippine Island		
1-year bond	4.05	33.90
2-year bond	4.24	15.33
BDO Unibank		
2.5-year bond	4.41	40.10
SM Prime Holdings		
5-year bond	4.86	11.37
7-year bond	5.06	3.63
San Miguel Food and Beverage		
5-year bond	5.05	8.00
7-year bond	5.25	7.00
Arthaland		
5-year bond	6.35	3.00

PHP = Philippine peso.
Source: Bloomberg LP.

Investor Profile

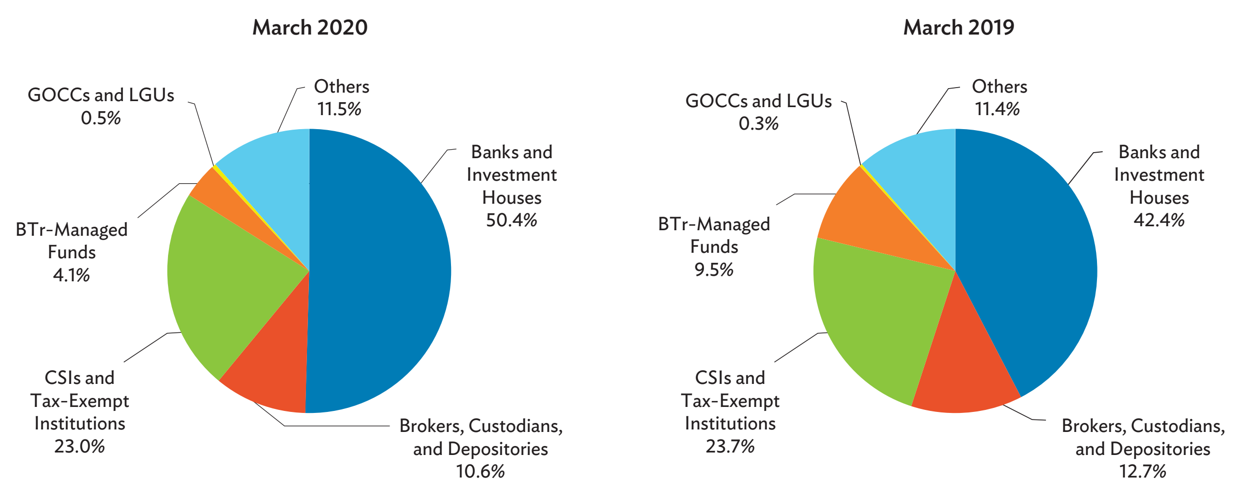
Banks and investment houses remained the largest investor in LCY government bonds at the end of March, with their combined market share among all investor groups rising to 50.4% from 42.4% from a year earlier (**Figure 3**). On the other hand, contractual savings and tax-exempt institutions; brokers, custodians, and depositories; and BTr-managed funds maintained their respective rankings but all saw declines in their respective market shares. The share of BTr-managed funds declined 5.4 percentage points from March 2019 to March 2020. The shares of the remaining investor groups were mostly unchanged.

Ratings Update

On 7 February, Rating and Investment Information Inc. (R&I) upgraded the Philippines' credit rating to BBB+ from BBB with a stable outlook. The upgrade from R&I was based on the Philippines' continued positive economic performance that is being sustained by the government's aggressive public investment, led by the accelerated infrastructure drive. R&I also noted that the government has maintained a sound fiscal position with the help of tax reforms.

On 7 May, Fitch Ratings revised its outlook for the Philippines downward to stable from positive as near-term macroeconomic and fiscal prospects deteriorated amid the global COVID-19 pandemic and the resulting domestic lockdown to control the spread of the virus. The revision came 3 months after the rating agency had upgraded its outlook to positive from stable on 11 February on the back of expectations of high growth accompanied by moderate inflation and sound fiscal conditions. Fitch Ratings affirmed the economy's BBB rating as fiscal and external buffers remained in place and medium-term growth prospects were still strong.

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 Cuts Reserve Requirement Ratio to Support the Economy amid COVID-19

The BSP announced a cut to the reserve requirement ratio (RRR) of universal and commercial banks by 200 bps on 24 March, effective on 3 April. According to the central bank, the RRR cut was intended to encourage banks to lend to the retail and corporate sectors, and to ensure that there is enough liquidity to support economic activities amid the COVID-19 pandemic. The Monetary Board has authorized the Governor of the BSP to reduce the RRR by as much as 400 bps in 2020. The BSP will assess the pandemic's ongoing impact on the domestic economy to determine the timing and extent of possible further reductions. The possibility of extending the RRR cut to other types of banks and non-bank financial institutions is being explored.

Bangko Sentral ng Pilipinas Announces Measures to Support Domestic Liquidity

On 10 April, the BSP announced measures to support domestic liquidity to ensure stability and the proper functioning of the financial market. Based on BSP's statement, the measures include (i) purchases of government securities in the secondary market, (ii) a reduction of overnight reverse repurchase volumes to encourage counterparties to lend in the interbank market or to rechannel their funds into other assets such as government securities or loans, and (iii) a repurchase agreement with the government where the BSP shall purchase government securities worth up to PHP300 billion from the BTr.