Philippines

Yield Movements

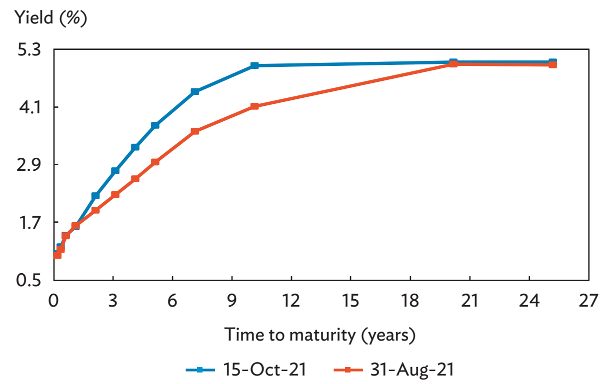
The yields of local currency (LCY) government bonds in the Philippines increased for all tenors between 31 August and 15 October except for 1-year bonds (**Figure 1**). Yields on the shorter end of the curve (1-month to 6-month tenors) climbed 4 basis points (bps) on average, while those at the longer end of the curve (20-year and 25-year tenors) increased an average of 5 bps. Much larger increases were seen for the yields of bonds with 2-year to 10-year maturities, which rose by 64 bps on average. The largest was for 10-year bonds with an 84-bps increase. In contrast, the yield fell 2 bps for 1-year bonds. The yield spread between the 2-year and 10-year tenors widened during the review period from 215 bps to 269 bps.

Inflation concerns and the impending winding down of the United States (US) Federal Reserve's monetary stimulus largely caused the upward movement of the yield curve.

Inflation remained elevated even as it slowed to 4.6% year-on-year (y-o-y) in October from 4.8% y-o-y in September and from a 32-month high of 4.9% y-o-y in August. The slower rate of consumer price inflation was primarily due to lower food prices. The October inflation reading and the resulting year-to-date average of 4.5% y-o-y were above the Bangko Sentral ng Pilipinas' (BSP) target of 2.0%–4.0% for 2021. Inflation has been above the BSP's annual target every month since January, except in July when it was at 4.0%. In November, the BSP lowered its 2021 inflation forecast to 4.3% from 4.4% in September. Its 2022 and 2023 forecasts were unchanged at 3.3% and 3.2%, respectively.

The increase in yields may have also been due to some uncertainty in the domestic economic recovery, resulting in investors requiring a premium for the associated risks. For example, persistently high inflation might temper the recovery by discouraging consumer spending on the back of a weak labor market. In addition, while its vaccination rate is improving, the Philippines remained among the lowest in the region in terms of the percentage of the population vaccinated, making it vulnerable to economic setbacks. Nonetheless, the Philippine economy grew 7.1% y-o-y in the third quarter (Q3) of 2021 despite the tighter restrictions on movements imposed in August.

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



Source: Based on data from Bloomberg LP.

To an extent, the growth was magnified by a base effect, owing to the economic contraction a year earlier. On the supply side, the industrial and services sectors posted expansions, while the primary sector contracted. On the demand side, all components posted positive y-o-y growth. Year-to-date through the end of September, gross domestic product grew 4.9% y-o-y, which was at the upper end of the government's growth target for full-year 2021 of 4.0%–5.0%.

Meanwhile, yield increases in short-tenor bonds were anchored by the BSP's dovish monetary policy signals. The central bank stated that there will be no policy setting adjustment until the end of the year, stressing that tightening monetary policy prematurely could harm the economy's recovery. The BSP maintained the policy rate at 2.00% in its 18 November policy meeting to allow the economic recovery to gain more ground, while also saying that elevated inflation is transitory in nature and remained manageable.

The Philippine peso traded at PHP50.7 per USD1.0 on 15 October, weakening by 1.9% from 31 August. The domestic currency's depreciation versus the US dollar was largely due to the shift in the Federal Reserve's monetary policy stance. In November, the Federal Reserve announced that it will start reducing its bond purchase program during the month. Soaring global oil prices and an improvement in the Philippines' import prospects as the economy reopened contributed to increased demand for US dollars.

Size and Composition

The Philippine LCY bond market expanded 4.4% quarter-on-quarter (q-o-q) in Q3 2021 to reach a size of PHP9,761.7 billion (USD191.4 billion) at the end of September, which was faster than the growth of 2.5% q-o-q in the second quarter (Q2) of 2021 (**Table 1**). The quarterly growth was driven solely by the government segment as the corporate segment contracted during the quarter. On an annual basis, the size of the LCY bond market increased 20.0% y-o-y. Government bonds accounted for 85.3% of the total bond market at the end of September, while corporate bonds accounted for 14.7%.

Government bonds. Total LCY government bonds outstanding amounted to PHP8,322.0 billion at the end of Q3 2021, with growth accelerating to 6.2% q-o-q from 3.9% q-o-q in the previous quarter. The market expansion was driven by Treasury bonds and BSP bills.

Treasury bonds outstanding increased 8.3% q-o-q to PHP6,879.6 billion in Q3 2021, more than doubling the growth of 3.6% q-o-q in Q2 2021, on the back of higher bond offer volume and sales during the quarter. On the other hand, outstanding Treasury bills fell to PHP942.5 billion in Q3 2021 on an accelerated decline of 7.9% q-o-q, following a 2.5% q-o-q contraction in Q2 2021, due to a drop in short-term security issuance.

The BSP also added to the expansion in the government bond market's size with its outstanding securities increasing 10.0% q-o-q to PHP440.0 billion at the end of September. Outstanding debt from government-related entities barely changed during quarter.

Total government securities issuances increased 4.5% q-o-q to PHP2,099.8 billion in Q3 2021, following a decline of 3.5% q-o-q in Q2 2021. The increase was mainly propelled by Treasury bonds and supplemented by BSP securities. On the other hand, the drop in the sale of Treasury bills restrained issuance growth in the government segment.

Debt raised via Treasury bonds in Q3 2021 amounted to PHP487.8 billion, increasing 46.9% q-o-q. The Bureau of the Treasury (BTr) increased the offer volume for Treasury bonds during the quarter as it wanted to extend its debt maturity profile to take advantage of favorable interest rates. Despite having one auction with partial awards and one unsuccessful auction, the resulting total debt sales in Q3 2021 were still up significantly from the previous quarter as the BTr opened its tap facility on several occasions.

Issuance of Treasury bills declined by 36.4% q-o-q to PHP272.0 billion in Q3 2021 after posting an increase of 14.7% q-o-q in the previous quarter. Even though all

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2020		Q2 2021		Q3 2021		Q3 2020		Q3 2021	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,136**	**168**	**9,351**	**192**	**9,762**	**191**	**8.8**	**21.5**	**4.4**	**20.0**
Government	6,503	134	7,834	160	8,322	163	10.1	23.8	6.2	28.0
Treasury Bills	876	18	1,023	21	943	18	10.0	58.5	(7.9)	7.5
Treasury Bonds	5,537	114	6,351	130	6,880	135	9.3	18.4	8.3	24.3
Central Bank Securities	50	1	400	8	440	9	–	–	10.0	780.0
Others	40	0.8	60	1	60	1	(0.02)	83.3	(0.01)	50.2
Corporate	1,633	34	1,517	31	1,440	28	3.8	12.9	(5.1)	(11.9)

( ) = negative, – = not applicable, 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 USD) are not included.

Sources: Bloomberg LP and Bureau of the Treasury.

auctions for Treasury bills were successful, the BTr's move to adjust its borrowing program in favor of longer-term securities caused the quarterly decline.

Following the successful issuance of EUR- and JPY-denominated bonds in Q2 2021, the Philippines tapped again the international bond market with its two-tranche sale of USD-denominated bonds. In July, it raised USD3.0 billion comprising 10.5-year bonds amounting to USD750.0 million (1.95% coupon) and 25-year bonds amounting USD2,250.0 million (3.20% coupon). The international issuance reflected investor confidence in Philippine debt remaining intact despite the adverse effect of the coronavirus disease (COVID-19) pandemic to the economy.

The issuance of BSP bills climbed 7.2% q-o-q to PHP1,340.0 billion in Q3 2021, underpinned by higher volumes offered during the quarter. All issuances were met with strong demand, which was indicative of market liquidity remaining abundant. Meanwhile, there was no securities issuance from government-related entities during the quarter.

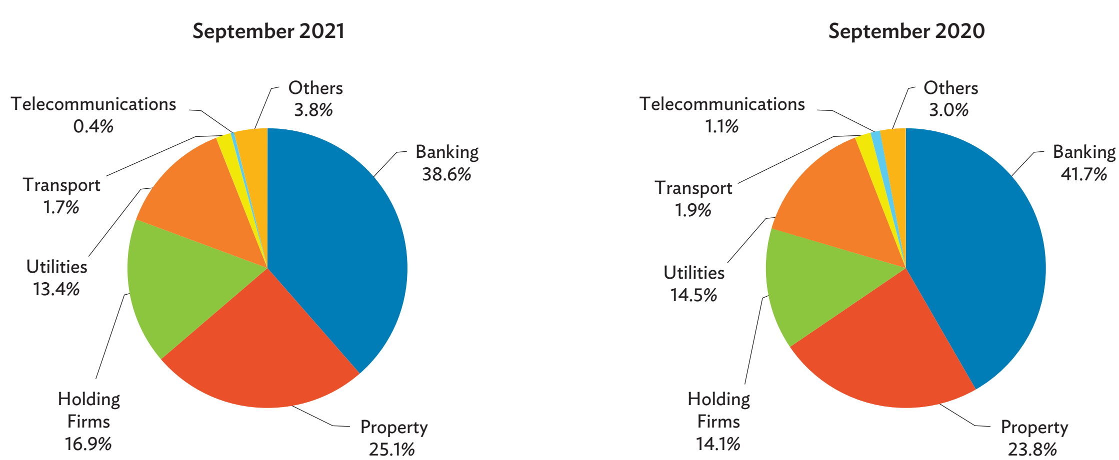
The government plans to borrow a total of PHP3.0 trillion in 2021 to fund its widening budget gap in response to COVID-19 relief measures and associated economic recovery plans.

Corporate bonds. Debt outstanding in the corporate sector registered a faster decline of 5.1% q-o-q in Q3 2021 compared with a 3.9% q-o-q dip in the previous quarter. The corporate bond market contracted to PHP1,439.7 billion on the back of the maturation of bonds amid low issuance volume during the quarter.

The banking sector remained the largest segment of the LCY corporate bond market with a share of 38.6% at the end of September, albeit this represented a decline from 41.7% from a year earlier (**Figure 2**). Property companies remained in the second spot with a share of 25.1%, up from 23.8% in September 2020. Holding firms came next in terms of corporate bonds outstanding with their market share rising to 16.9% at the end of September, overtaking utilities firms whose share dipped to 13.4%. Transport and telecommunications firms each saw lower market shares in September 2021 versus a year earlier, while the share of "others" went up.

The top 30 corporate issuers had aggregate debt outstanding of PHP1,278.3 billion at the end of September, which comprised 88.8% of the total corporate bond market (**Table 2**). The banking sector continued to have the largest share at 41.4% (PHP529.5 billion), followed by holdings firms with a share of 24.0% (PHP307.4 billion) and property firms with a share of 18.0% (PHP229.7 billion). BDO Unibank had the

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.	BDO Unibank	109.9	2.2	No	Yes	Banking
2.	Ayala Land	108.9	2.1	No	Yes	Property
3.	Metropolitan Bank	100.1	2.0	No	Yes	Banking
4.	SM Prime Holdings	93.3	1.8	No	Yes	Holding Firms
5.	San Miguel	90.0	1.8	No	Yes	Holding Firms
6.	SMC Global Power	73.8	1.4	No	No	Electricity, Energy, and Power
7.	China Bank	61.2	1.2	No	Yes	Banking
8.	Rizal Commercial Banking Corporation	55.1	1.1	No	Yes	Banking
9.	Bank of the Philippine Islands	52.2	1.0	No	Yes	Banking
10.	Security Bank	48.3	0.9	No	Yes	Banking
11.	SM Investments	43.3	0.8	No	Yes	Holding Firms
12.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
13.	Vista Land	42.8	0.8	No	Yes	Property
14.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
15.	Aboitiz Power	38.0	0.7	No	Yes	Electricity, Energy, and Power
16.	Philippine National Bank	31.8	0.6	No	Yes	Banking
17.	Aboitiz Equity Ventures	29.4	0.6	No	Yes	Holding Firms
18.	Filinvest Land	25.8	0.5	No	Yes	Property
19.	Robinsons Land	25.2	0.5	No	Yes	Property
20.	Union Bank of the Philippines	24.6	0.5	No	Yes	Banking
21.	Philippine Savings Bank	19.1	0.4	No	Yes	Banking
22.	Maynilad	18.5	0.4	No	No	Water
23.	East West Banking	16.2	0.3	No	Yes	Banking
24.	Doubledragon	15.0	0.3	No	Yes	Property
25.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
26.	Megaworld	12.0	0.2	No	Yes	Property
27.	Puregold	12.0	0.2	No	Yes	Whole and Retail Trading
28.	MTD Manila Expressway	11.5	0.2	No	No	Infrastructure
29.	Metro Pacific Investments	11.4	0.2	No	Yes	Holding Firms
30.	Robinsons Bank	11.0	0.2	No	No	Banking
Total Top 30 LCY Corporate Issuers		**1,278.3**	**25.1**			
Total LCY Corporate Bonds		**1,439.7**	**28.2**			
Top 30 as % of Total LCY Corporate Bonds		**88.8%**	**88.8%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
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.

most corporate bonds outstanding among all issuers, followed by Ayala Land and Metropolitan Bank. Each had outstanding debt of over PHP100 billion at the end of September.

Issuance activity in the corporate sector improved in Q3 2021 following three consecutive quarters of q-o-q declines. Debt sales from firms rose 5.1% q-o-q to PHP49.4 billion during the quarter. Proceeds will mainly be used for general corporate purposes, with its decision to tap the local bond market likely influenced by the optimism of the reopening of the economy. **Table 3** lists all issuances in Q3 2021. Notable debt sales included San Miguel Corporation's 6-year bond amounting to PHP30.0 billion, which will be used to redenominate existing USD-denominated obligations of the company. D&L Industries made its first bond issuance with a two-tranche sale comprising 3-year and 5-year bonds amounting to PHP3.0 billion and PHP2.0 billion, respectively.

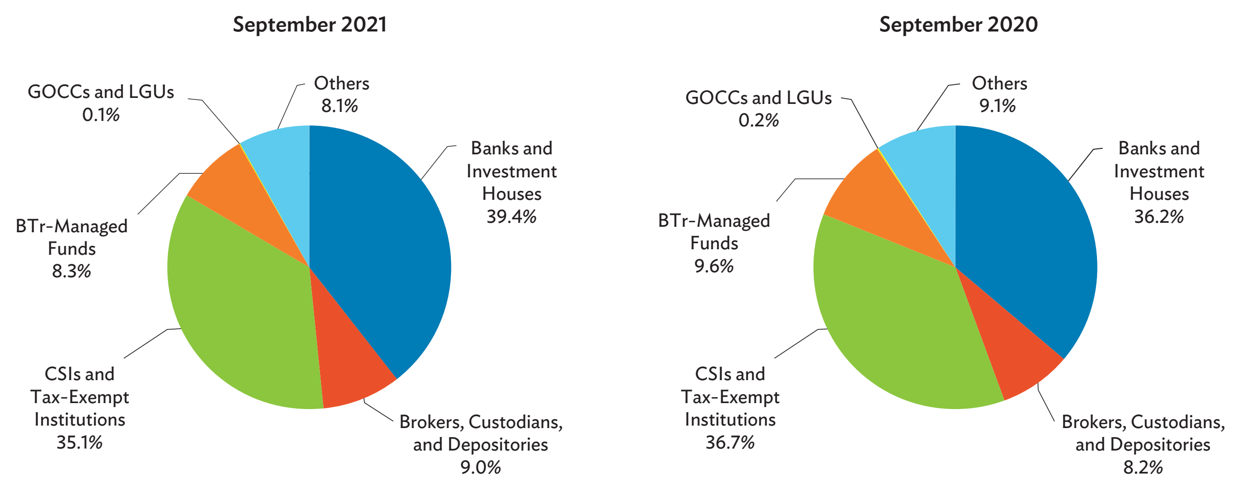
Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
San Miguel Corporation		
6-year bond	3.38	30.00
Aboitiz Equity Ventures		
4-year bond	3.30	5.00
7-year bond	4.10	5.00
D&L Industries		
3-year bond	2.79	3.00
5-year bond	3.60	2.00
PHINMA Corporation		
3-year bond	3.53	3.00
Alsons Consolidated Resources[a]		
1-year bond	zero coupon	1.14
1-year bond	zero coupon	0.27

PHP = Philippine peso.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

Two firms turned to the international debt market to generate funds in Q3 2021. In September, AYC Finance Limited issued a USD-denominated perpetual bond amounting to USD400.0 million with a coupon rate of 3.9%. Proceeds will be used to refinance its outstanding USD-denominated obligations. In the same month, ACEN Finance Limited raised USD400.0 million from its sale of a perpetual green bond that carried a 4.0% coupon. Funds raised will be used to finance or refinance ACEN's renewable energy projects.

Figure 3: Local Currency Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSI = contractual savings institution, GOCC = government-owned or -controlled corporation, LGU = local government unit.
Source: Bureau of the Treasury.

Investor Profile

Banks and investment houses were the largest investor group in LCY government bonds at the end of September, overtaking contractual savings and tax-exempt institutions (**Figure 3**). Banks and investment houses' market share climbed to 39.4% from 36.2% a year earlier, while that of contractual savings and tax-exempt institutions declined to 35.1% from 36.7%. Brokers, custodians, and depositories (9.0%) overtook BTr-managed funds (8.3%) in having the third-largest market share, with the former group posting an increase in their aggregate market share from September 2020 and the latter posting a decrease. The "others" investor group was the fifth largest by market share (8.1%), while government-owned or -controlled corporations and local government units remained the investor group with the smallest holdings of government bonds (0.1%).

Ratings Update

On 6 September, Japan Credit Rating Agency affirmed the Philippines sovereign credit rating of A– with a stable outlook. According to the ratings agency, the affirmation was due to the Philippines' high and sustainable economic growth performance backed by solid domestic demand, resilience to external shocks with its low external debt-to-gross domestic product ratio and ample foreign exchange reserves, solid fiscal position despite widening budget deficit, and sound banking sector. The stable outlook was further backed by strong remittance flows, which can help cushion the economy from external shocks.

Policy, Institutional, and Regulatory Developments

Bureau of the Treasury Sets Borrowing Program to PHP400 Billion in October and November

The BTr, which sets its borrowing plan on a monthly basis, planned to borrow PHP200 billion each in the months of October and November. The monthly amount is lower compared to the borrowing program in September, which was set at PHP250 billion. The planned monthly debt sale is composed of PHP60 billion of Treasury bills and PHP140 billion of Treasury bonds. It remained focused on longer-term debt as the BTr wanted to extend the debt maturity profile.

Bureau of the Treasury Issues Its First Onshore Retail Dollar Bonds

On 15 September, the BTr launched its maiden issuance of Retail Dollar Bonds (RDBs). The BTr stated that the RDB offer aimed to further advance financial inclusion in the Philippines by diversifying the investor portfolio. At the same time, the RDBs also diversified the government's funding types and sources. The RDB issuance comprised 5-year and 10-year tenors with coupon rates of 1.375% and 2.250%, respectively. The BTr issued a total of USD1.59 billion: USD1.11 billion of 5-year bonds and USD0.48 billion of 10-year bonds. The last time the BTr issued onshore USD-denominated bonds was in December 2012, when they were offered to institutional investors only.