

Interest Rates and Sovereign Debt

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Agenda



Direction of Global Interest Rates



Direction of Interest Rates in the Philippines



Comparison of Sovereign Debt Profiles

Direction of Global Interest Rates

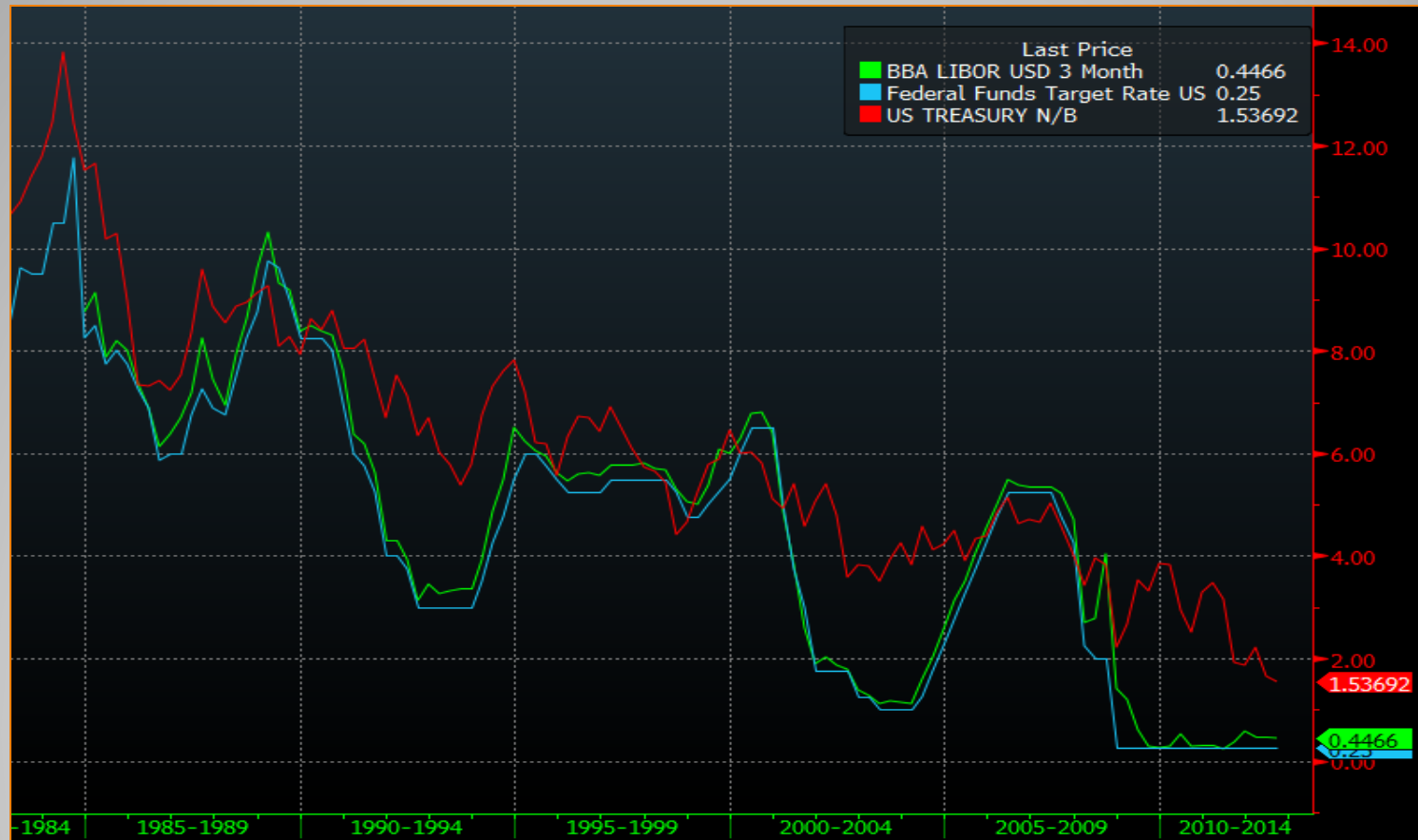
Safe Haven Bond Yields Near Record Lows

Driven by the European Sovereign Debt Crisis and Global Growth Concerns

Maturity 10 Year				09/30/08	-07/30/12	Custom						
Country	CMI	Security		Price	Chg	Yield	Chg	Yield	Low	Range	High	Hst Chg
1) Americas				<input checked="" type="checkbox"/> Include yesterday's change				◆ Avg ● Now				
10) United States		T 1 3/4 05/22		101-30	- 29	1.536	+9.8		1.387		4.077	-228.7
11) Canada		CAN2 3/4 06/22		109.082c	-0.935	1.741	+9.8		1.571		3.818	-201.0
12) Brazil (USD)		BRAZIL8 7/8 24		158.575c	+0.395	2.928	-3.1		2.895		9.963	-389.2
13) Colombia (USD)		COLOM 8 1/8 24		149.510c	-0.220	3.088	+1.7		2.982		10.792	-365.5
14) Mexico (USD)		MEX8 09/24/22		147.395c	+0.250	2.644	-2.3		2.644		9.678	-343.9
2) EMEA												
20) United Kingdom		UKT4 03/07/22		121.955c	-0.570	1.533	+5.5		1.456		4.738	-291.0
21) France		FRTR 3 04/22		106.900c	+0.015	2.204	-.2		2.049		4.344	-213.6
22) Germany		DBR1 3/4 07/22		103.250c	-0.730	1.396	+7.7		1.165		4.120	-261.5
23) Italy		BTPS 5 1/2 22		97.485c	+0.660	5.917	-9.2		3.714		7.227	+103.5
24) Spain		SPGB 5.85 22		94.400c	+1.125	6.657	-17.1		3.718		7.511	+207.3
25) Portugal		PGB4.95 10/23		62.475c	-0.245	10.893	+5.4		3.705		15.816	+619.5
26) Sweden		SGB3 1/2 06/22		119.143c	-0.778	1.402	+7.6		1.110		3.812	-241.0
27) Netherlands		NETHER2 1/4 22		104.355c	-0.295	1.769	+3.2		1.512		4.423	-256.3
28) Switzerland		SWISS 2 05/22		114.489c	-0.035	0.485	+.3		.444		3.032	-211.5
29) Greece		GGB2 02/24/23		17.975c	+0.530	25.839	-50.0		4.406		30.592	+2090.4
3) Asia/Pacific												
30) Japan		JGB 0.8 06/22		100.376	-0.204	0.759	+2.2		.717		1.573	-69.3
31) Australia		ACGB 5 1/2 23		121.791	-0.902	3.095	+8.8		2.765		5.845	-228.5
32) New Zealand		NZGB 5 1/2 23		118.253	-1.271	3.446	+12.8		3.200		6.125	-221.1
33) South Korea		NDFB 3 3/4 22		105.483	-0.210	3.160	+2.5		3.011		6.062	-289.2

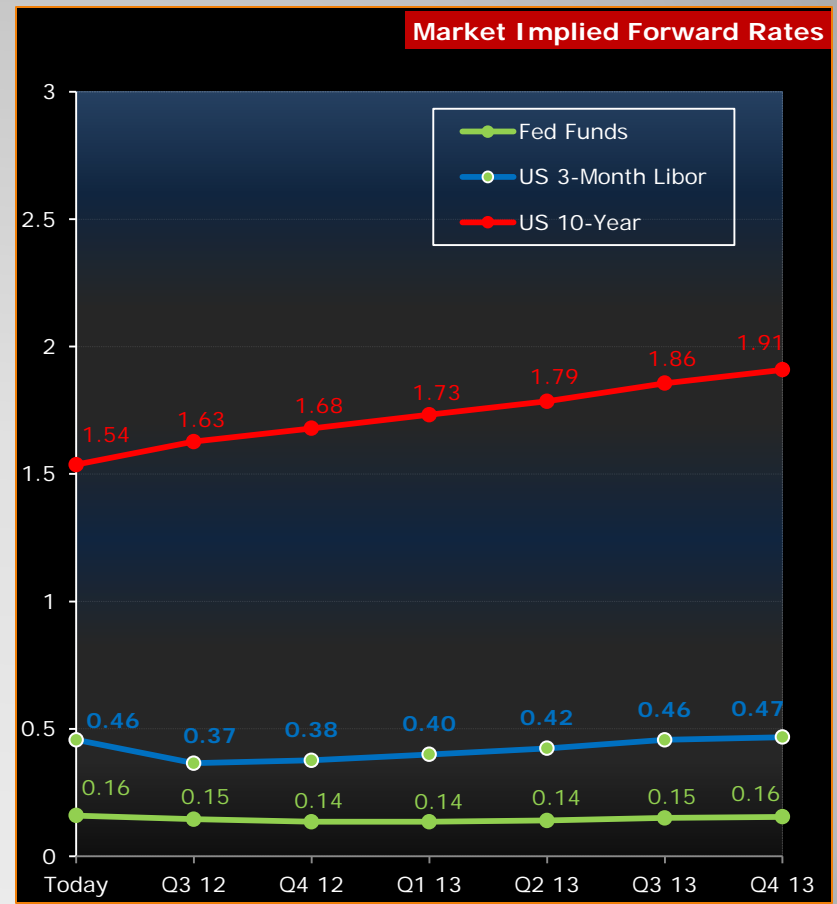
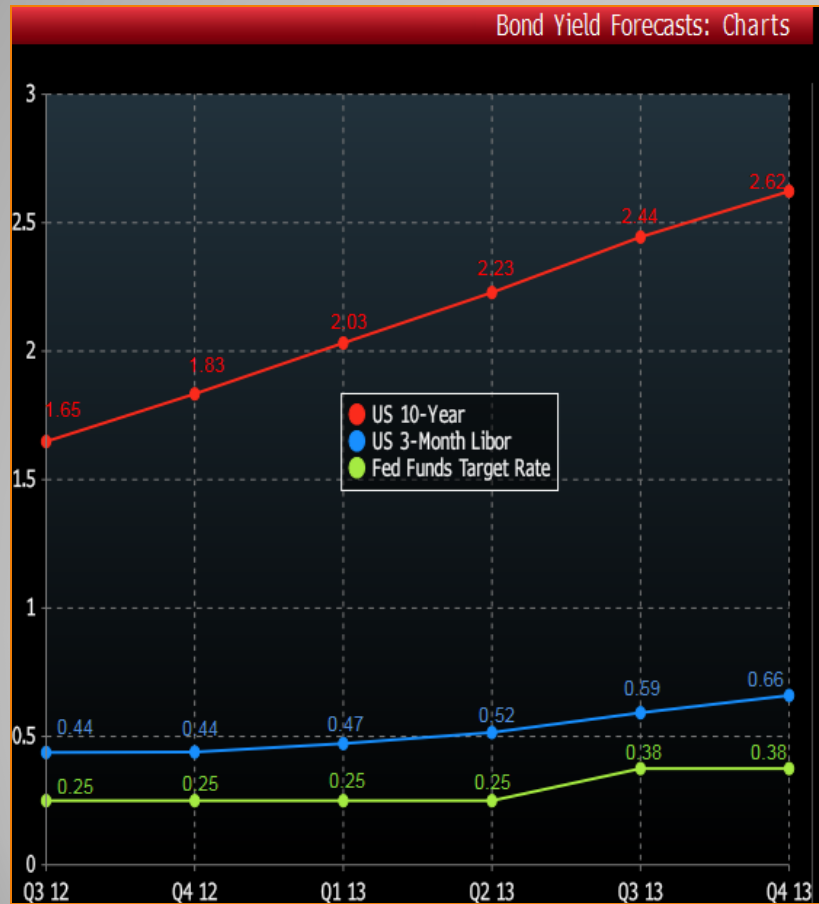
Where have US Rates Been?

Falling to all-time lows



Where to next for US Rates?

Analysts Forecasts versus Market Implied Forward Rates



US Interest Rate Swaps

Time to fix USD Interest Rates?

USD SemiAnnual 30/360 Swap Rates														
	Tenor	Bid	Ask	Mid	Change	Today	#SD	Δ/day	Low	Range	High	Avg	+/-BPS	#SD
1)	1 YR	0.408	0.414	0.411	0.002		0.0	0.400		0.773	0.544	-13.0	-1.6	
2)	2 YR	0.441	0.445	0.443	0.001		0.0	0.435		0.822	0.594	-14.9	-1.8	
3)	3 YR	0.512	0.517	0.515	-0.002		0.0	0.495		0.947	0.720	-20.3	-2.1	
4)	4 YR	0.656	0.661	0.659	-0.004		0.0	0.613		1.350	0.937	-27.6	-2.2	
5)	5 YR	0.845	0.850	0.848	-0.006		0.0	0.782		1.761	1.185	-33.5	-2.1	
6)	6 YR	1.043	1.048	1.046	-0.004		0.0	0.958		2.127	1.430	-38.2	-2.0	
7)	7 YR	1.230	1.234	1.232	-0.004		0.0	1.126		2.436	1.645	-41.0	-1.9	
8)	8 YR	1.394	1.399	1.397	-0.002		0.0	1.278		2.679	1.824	-42.5	-1.9	
9)	9 YR	1.537	1.542	1.540	-0.001		0.0	1.412		2.885	1.976	-43.4	-1.8	
10)	10 YR	1.663	1.668	1.666	-0.002		0.0	1.532		3.055	2.105	-43.7	-1.8	
11)	15 YR	2.080	2.086	2.083	-0.002		0.0	1.943		3.579	2.521	-43.5	-1.7	
12)	20 YR	2.251	2.256	2.254	-0.001		0.0	2.110		3.774	2.678	-42.2	-1.6	
13)	25 YR	2.336	2.342	2.339	-0.004		0.0	2.192		3.872	2.759	-41.7	-1.5	
14)	30 YR	2.389	2.394	2.392	-0.005		0.0	2.247		3.929	2.802	-40.8	-1.5	

Hedging a variable rate USD loan

Using a Fixed/Float USD Interest Rate Swap

Loan Details:

Size: USD 10mio

Margin: 180bps

Benchmark: 3month USD Libor

Interest Frequency:

Quarterly

Loan Maturity: 01 Aug 2017

Current Loan Rate (Including Margin):

2.247%

Equivalent Fixed Rate (including Margin):

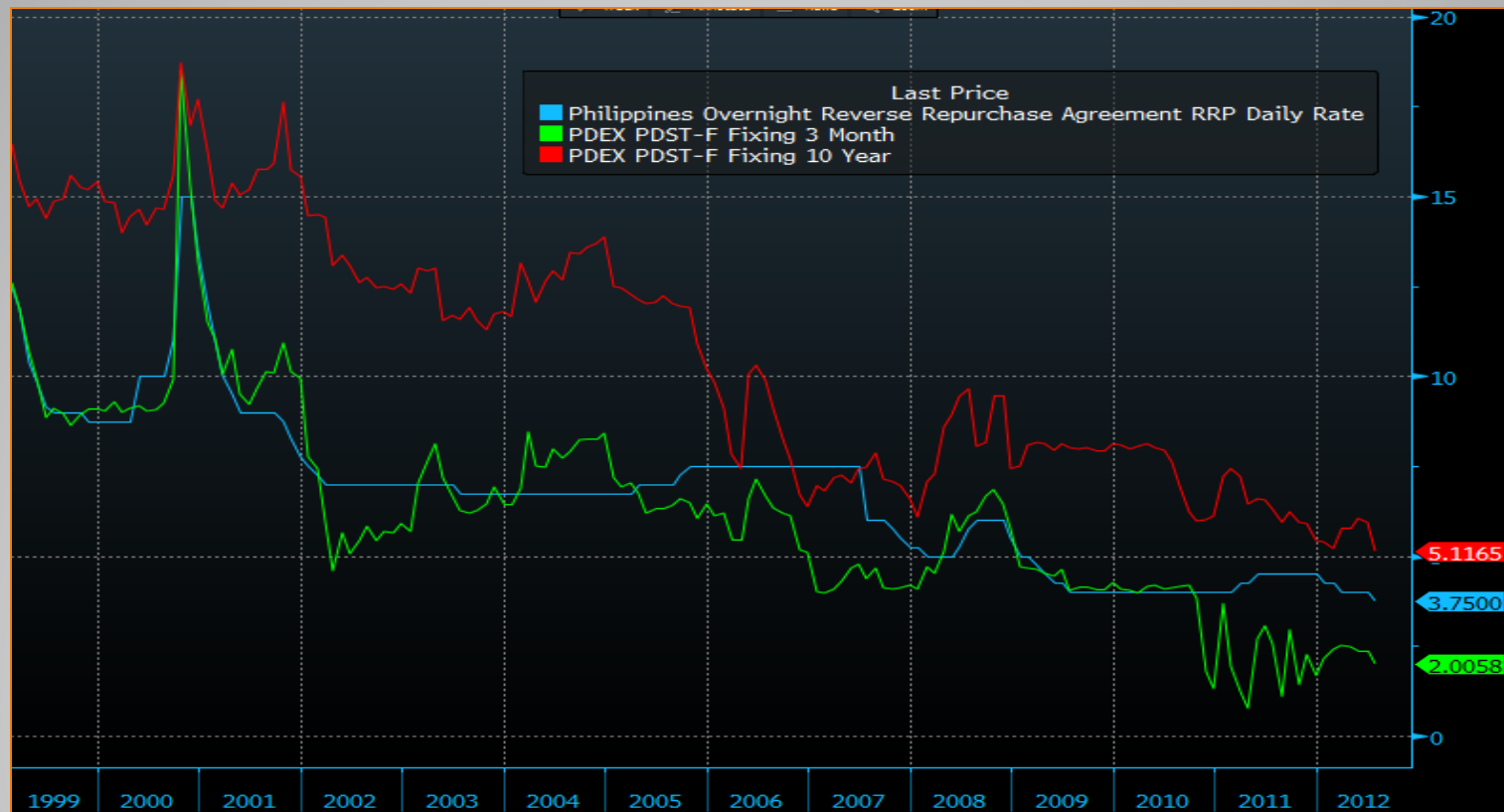
2.675%

Leg 1 - Pay Fixed				Leg 2 - Receive Float			
Notional	10MM	Leg ID		Notional	10MM	Leg ID	
Currency	USD	Coupon	2.674632 %	Currency	USD	Index	USD003M
Effective	08/01/2012	Calc Basis	Money Mkt	Effective	08/01/2012	Latest Index	0.44660
Maturity	08/01/2017	Day Count	301/360	Maturity	08/01/2017	Tenor	3 Month
Pay Freq	Quarterly	Unwind Cpn	0.847000 %	Reset Freq	Quarterly	Leverage	1.00000
				Pay Freq	Quarterly	Spread	180.00 bp
						Day Count	ACT/360
@Detail				@Detail			
MV	-10,901,276.13	Accrued	0.00	MV	10,901,276.13	Accrued	0.00
Premium	-109.01	DV01	-5,410.75	Premium	109.01	DV01	499.39
Market				OIS DC Stripping OFF			
Dsnt Curve	23 Bid	USD Bloomberg Curve	()	Dsnt Curve	23 Bid	USD Bloomberg Curve	()
				Fwd Curve	23 Ask	USD Bloomberg Curve	()
Curve Date	07/30/2012	Valuation	08/01/2012				
Valuation							
Par Cpn	2.674632	Calculate	Premium				
Principal	0.00	Unwind Annuity	1.827632	PV01		4,922.16	
Accrued	0.00	Unwind PV	-899,589.70	DV01		-4,911.36	
Market Value	0.00	Premium	0.00000	Gamma (1bp)		-2.79	

Direction of Interest Rates in the Philippines

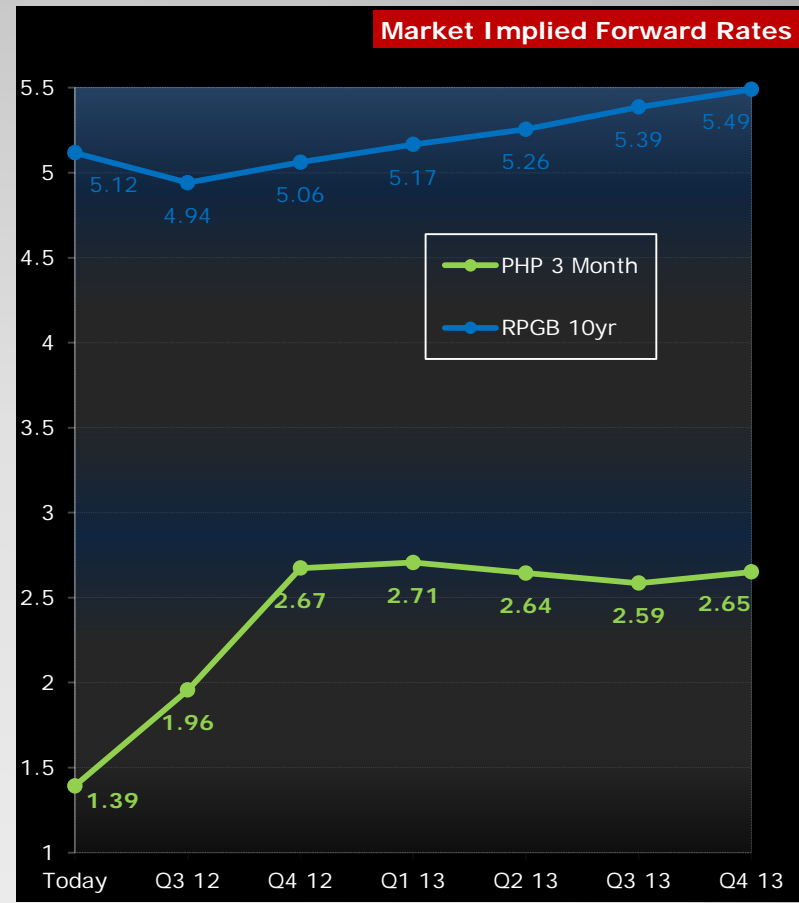
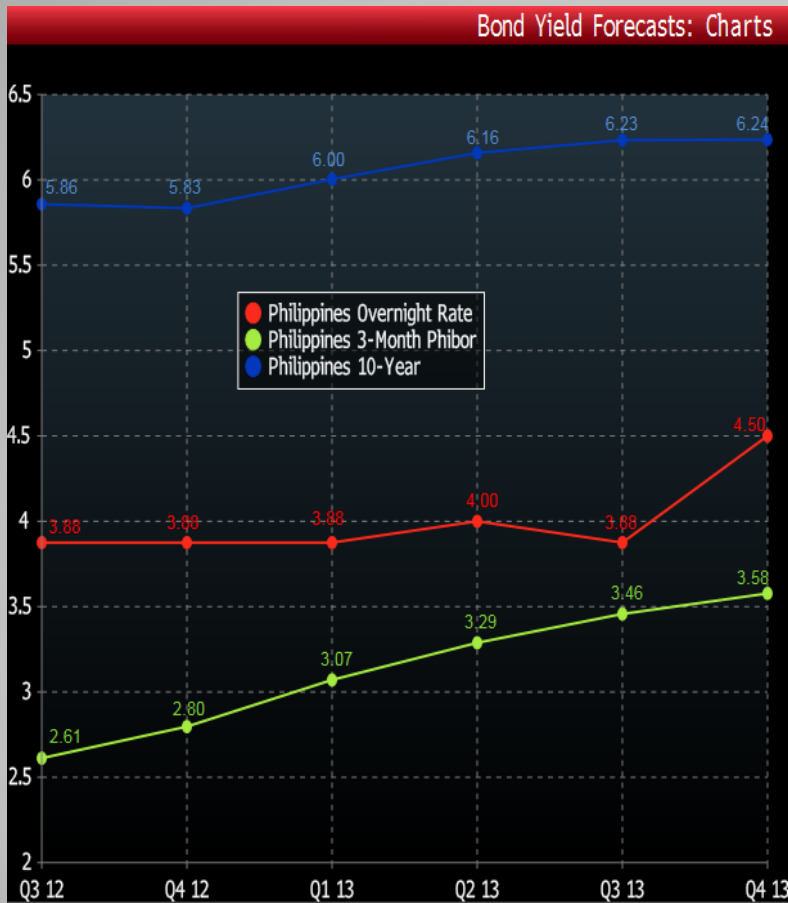
Historical direction of interest rates in the Philippines

Policy rate at record low following the surprise rate cut last week.



Expectations for future PHP Rates?

Analyst Forecasts versus Market Implied Forward Rates:



PHP Onshore Interest Rate Swaps

Time to fix PHP Interest Rates?

PHP Onshore Swap Rates ● Now ◆ Avg

Tenor	Bid	Ask	Mid	Change	Today	#SD	Δ/day	Low	Range	High	Avg	+/-BPS	#SD
1) 1 YR	2.050	2.625	2.338	-0.575		■	-1.6	2.000		3.750	2.847	-22.2	-0.6
2) 2 YR	2.200	2.750	2.475	-0.438		■	-1.9	2.375		3.700	2.946	-19.6	-0.8
3) 3 YR	2.300	2.750	2.525	-0.387		■	-1.7	2.525		3.850	3.030	-28.0	-1.2
4) 4 YR	2.400	2.750	2.575	-0.388		■	-1.5	2.575		4.150	3.124	-37.4	-1.5
5) 5 YR	2.625	2.900	2.775	-0.012			0.0	2.763		4.500	3.418	-51.8	-1.6
6) 7 YR	3.050	4.400	3.725	0.000			0.0	3.450		6.500	5.382	-98.2	-2.0
7) 10 YR	3.250	5.500	4.375	0.000			0.0	4.375		8.000	6.832	-133.2	-3.2

Hedging a variable rate PHP Loan

Using a fixed/float PHP Interest Rate Swap

Loan Details:

Size: PHP 10mio

Margin: 180bps

Benchmark: 3 month PHP PHIREF

Interest Frequency:
Quarterly

Loan Maturity: 01 Aug 2017

Current Loan Rate (Including Margin):
3.2015%

Equivalent Fixed Rate (including Margin):
4.7025%

Leg 1 - Pay Fixed				Leg 2 - Receive Float			
Notional	10MM	Leg ID	Fixed Rate	Notional	10MM	Leg ID	
Currency	PHP	Coupon	4.702450 %	Currency	PHP	Index	PREF3MO
Effective	08/01/2012	Calc Basis	Money Mkt	Effective	08/01/2012	Latest Index	1.40147
Maturity	08/01/2017	Day Count	ACT/360	Maturity	08/01/2017	Tenor	3 Month
Pay Freq	Quarterly	Unwind Cpn	2.762500 %	Reset Freq	Quarterly	Leverage	1.00000
				Pay Freq	Quarterly	Spread	180.00 bp
						Day Count	ACT/360
Detail				Detail			
MV	-849,298.33	Accrued	0.00	MV	849,298.33	Accrued	0.00
Premium	-8.49	DV01	-5,213.00	Premium	8.49	DV01	239.85
Market							
Dsnt Curve	81	Ask	Test PREF (ICVS Default)	Dsnt Curve	81	Ask	Test PREF (ICVS Default)
				Fwd Curve	81	Ask	Test PREF (ICVS Default)
Curve Date	07/30/2012	Valuation	07/31/2012				
Valuation							
Par Cpn	4.702450	Calculate	Premium				
Principal	0.00	Unwind Annuity	1.939950	PV01	4,718.32		
Accrued	0.00	Unwind PV	-915,331.39	DV01	-4,973.15		
Market Value	0.00	Premium	0.00000	Gamma (1bp)	-2.68		

Comparison of Sovereign Debt Profiles

Developed Markets Sovereign Debt

Significant Levels of Debt as a % GDP

Country	Debt (MM)	5 Yr	Time	%Chg	S&P	Moody's	Fitch	Price	Time	%Chg	Rate	Debt%GDP ¹
1) Japan	11,545,981	91.58	7/27	-5.18	AA-u	--	A+	78.39	14:28	-.08	.33	208.20
2) Greece	353,931	17325.00	7/27	-1.45	CCC	C	CCC	1.2292	14:28	-.25	.35	165.40
3) Iceland	18,985	272.03	7/27	-2.42	BBB-	Baa3	BBB-	121.4900	14:28	+1.18	5.25	130.10
4) Italy	1,958,870	496.44	7/27	-5.38	BBB+u	Baa2	A-	1.2292	14:28	-.25	.35	120.10
5) Singapore	135,051				AAAu	--	AAA	1.2471	14:28	-.02	.38	118.20
6) Ireland	169,069	525.00	7/27	-4.70	BBB+	Ba1	BBB+	1.2292	14:28	-.25	.35	107.00
7) Portugal	212,887	820.50	7/27	-3.51	BB	Ba3	WD	1.2292	14:28	-.25	.35	103.30
8) Belgium	413,662	185.57	7/27	-4.35	AAu	Aa3	AA	1.2292	14:28	-.25	.35	99.70
9) France	1,686,487	165.04	7/27	-4.65	AA+u	Aaa	AAA	1.2292	14:28	-.25	.35	85.50
10) Canada	847,141				AAA	Aaa	AAA	1.0043	14:28	+1.10	1.30	83.50
11) Germany	1,347,001	74.39	7/27	-3.63	AAAu	Aaa	AAA	1.2292	14:28	-.25	.35	81.50
12) United Kingdom	1,889,199	57.96	7/27	-1.76	AAAu	Aaa	AAA	1.5713	14:28	-.22	.75	79.50
13) Austria	247,990	124.13	7/27	-5.17	AA+	Aaa	AAA	1.2292	14:28	-.25	.35	72.10
14) United States	10,582,985	45.11	7/27	-7.05	AA+u	--	AAA	1.000	N.A.	+0.00	.45	69.40
15) Spain	900,033	551.00	7/27	-6.64	BBB+	Baa3 *-	BBB	1.2292	14:28	-.25	.35	68.20
16) Netherlands	383,928	86.58	7/27	-4.75	AAAu	Aaa	AAA	1.2292	14:28	-.25	.35	64.40
17) Switzerland	97,377	43.16	7/27	-3.59	AAAu	--	AAA	.9771	14:28	+2.25	.06	52.40
18) Finland	106,300	56.86	7/27	-1.02	AAA	Aaa	AAA	1.2292	14:28	-.25	.35	49.00
19) Norway	63,997	31.31	7/27	-2.16	AAA	Aaa	AAA	6.0606	14:28	+2.26	2.18	48.40
20) Denmark	135,225	91.01	7/27	-3.60	AAA	Aaa	AAA	6.0518	14:28	+2.21	.35	46.50
21) Sweden	141,523	49.01	7/27	-4.30	AAA	Aaa	AAA	6.8788	14:28	+1.19	2.10	36.80
22) New Zealand	57,298	84.16	7/27	-3.45	AA	Aaa	AA	.8085	14:28	-.15	2.67	33.70
23) Australia	246,133	64.46	7/27	-9.75	AAAu	Aaa	AAA	1.0471	14:28	-.11	3.99	30.30
24) Hong Kong	98,682	69.12	7/27	-1.26	AAA	Aa1	AA+	7.7557	14:28	-.02	.40	10.10

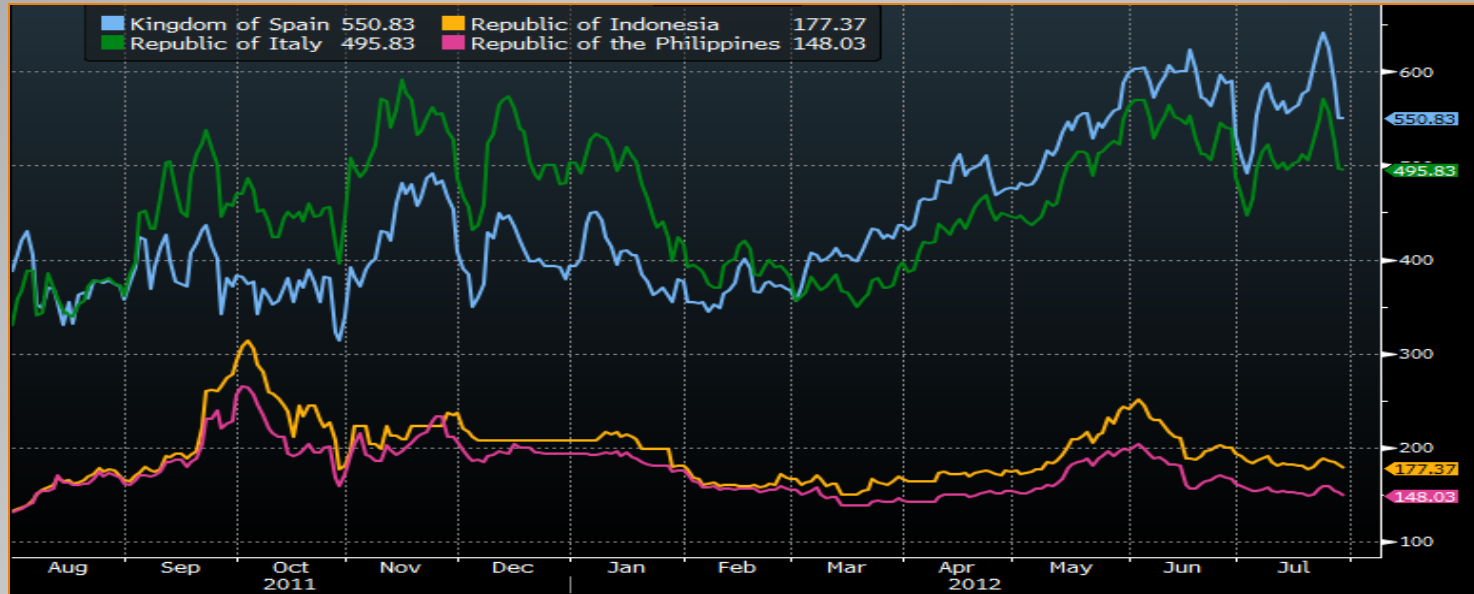
Emerging Markets Sovereign Debt

Lower Levels of Debt as a % GDP

Country	Debt (MM)	5 Yr	Time	%Chg	S&P	Moody's	Fitch	Price	Time	%Chg	Rate	Debt%GDP ¹
1) Asia												
2) Malaysia	141,825	120.33	7/27	-1.48	A-	A3	A-	3.1508	14:30	-.34	3.20	53.50
3) Philippines	100,963	146.05	7/27	-3.19	BB+	Ba2	BB+	41.920	14:26	+1.11	2.01	49.40
4) China	1,229,362	111.81	7/27	-5.98	AA-	Aa3	A+	6.3778	14:30	-.06	3.13	43.50
5) Thailand	102,513	142.50	7/27	-2.01	BBB+	Baa1	BBB	31.57	14:30	+1.16	3.14	40.50
6) Taiwan	161,736				AA-u	--	A+	30.0460	14:26	-.18	.80	34.90
7) South Korea	377,385	120.28	7/27	-4.39	A	A1	A+	1137.60	14:30	+0.00	3.20	33.30
8) Indonesia	148,754	175.70	7/27	-2.46	BB+	Baa3	BBB-	9479	14:26	+1.11	4.78	24.50
9) Eastern Europe												
10) Hungary	1,072	483.39	7/27	-1.65	BB+	Ba1	BB+	228.81	14:30	+3.34	7.18	82.60
11) Turkey	280,120	194.51	7/27	-4.99	BB	Ba1	BB+	1.8136	14:30	+0.08	8.08	42.40
12) Czech Republic	82,776	123.33	7/27	-4.18	AA-	A1	A+	20.6030	14:30	+3.30	.69	40.70
13) Russia	142,249	187.50	7/27	-2.33	BBB	Baa1	BBB	32.1768	14:30	+5.50	7.28	8.70
14) Latin America												
15) Brazil	520,994	134.83	7/27	-5.37	BBB	Baa2	BBB	2.0222	14:00	-.13	7.65	54.40
16) Argentina	167,181	1112.50	7/27	-5.05	Bu	B3	B	4.5744	14:30	+0.00	15.25	42.90
17) Mexico	466,786	113.66	7/27	-5.28	BBB	Baa1	BBB	13.2755	14:30	+2.29	4.79	37.50
18) Chile	57,623	105.50	7/27	-2.31	A+	Aa3	A+	483.00	13:51	+0.00	6.60	9.40
19) Middle-East/Africa												
20) Israel	147,963	155.00	7/27	-.96	A+	A1	A	4.0525	14:30	+2.20	2.09	74.00
21) South Africa	142,407	142.00	7/27	-3.40	BBB+	A3	BBB+	8.1718	14:30	+1.18	5.07	35.60
22) Saudi Arabia	36,464	106.00	7/27	+2.20	AA-	--	AA-	3.7503	14:30	+0.00	.95	9.40

Sovereign CDS Market

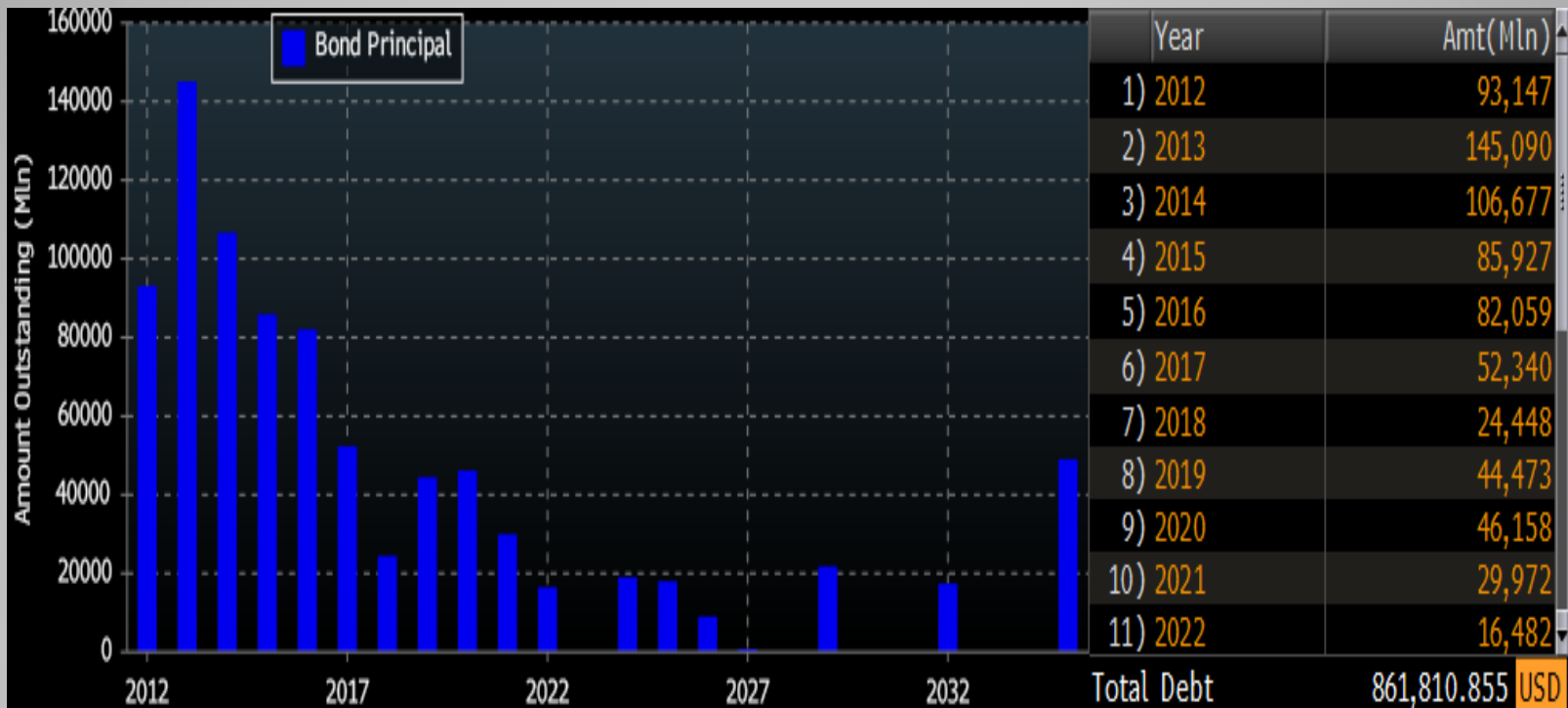
Implied Probability of Default from 5YR CDS Spreads



Sovereign	S&P	Moody's	5Yr CDS Spread	5Yr Default Probability
Spain	BBB+	Baa3 *-	551	38%
Italy	BBB+	Baa2	496	35%
Indonesia	BB+	Baa3	177	14%
Philippines	BB+	Ba2	148	12%

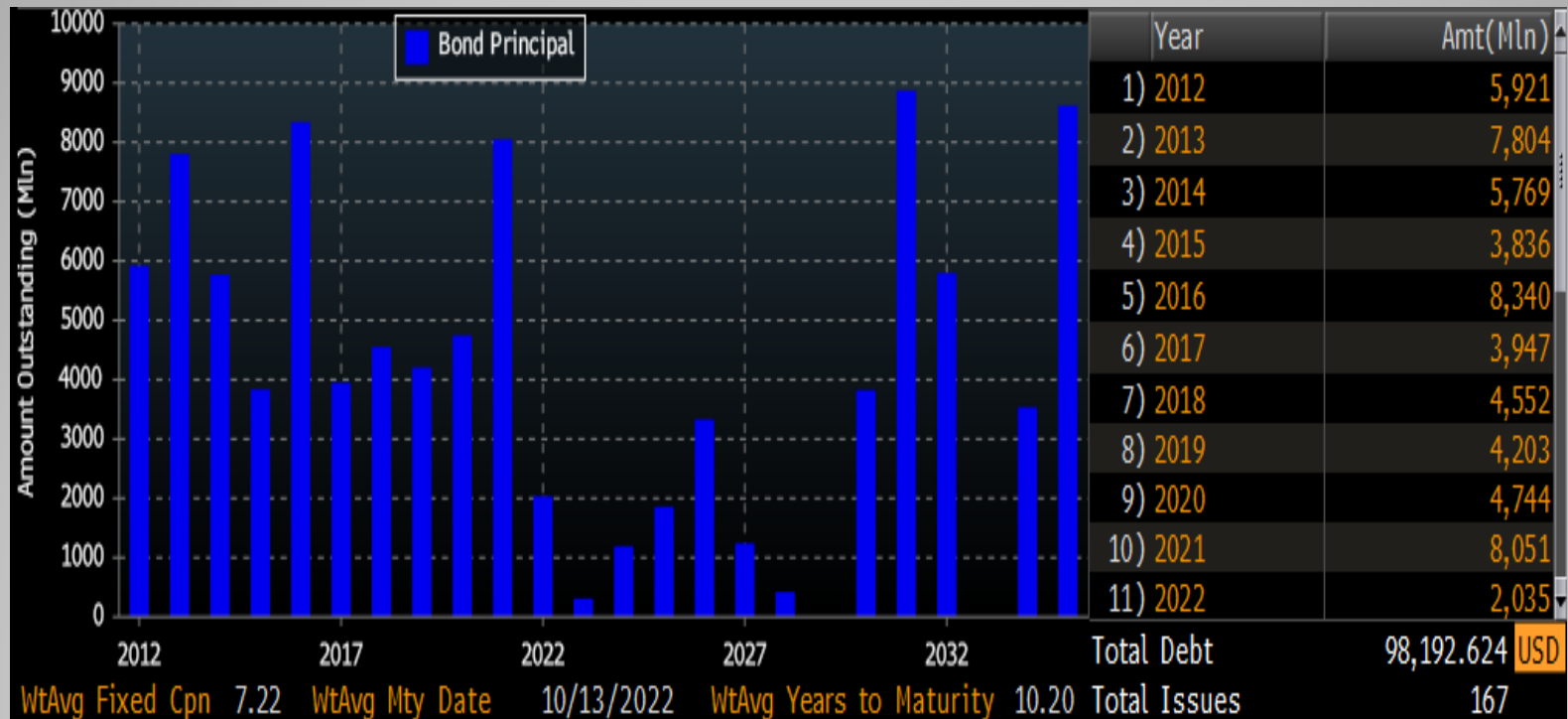
Spanish Debt Distribution

Significant Short Term Funding Requirements.



Philippines Debt Distribution

A More Balanced Debt Profile



Conclusions

1 

Interest Rates for safe haven countries are still near record lows and not expected to rise significantly in the near future.

2 

Interest Rates in the Philippines are also expected to remain low due to global growth concerns and a strong Peso.

3 

The Sovereign debt profile of the Philippines compares favorably to that of a significant number of developed market countries.