July 2019

The

MARKET CALL

Capital Markets Research

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Executive Summary

June didn't bring in strong rains, but rather more positive signs of economic recovery. These included: the plunge of inflation to 2.7%, the rally in National Government (NG) spending in May (up 8.9%, excluding interest payments), exports growth remaining in the black for the second month in a row, and more leeway for the Bangko Sentral ng Pilipinas (BSP) to further cut policy rates and reserve requirements ratio (RRR) with M3 meekly rising by 6.4% in May. The peso appreciated by 0.9% as the balance of trade deficit narrowed. These and the prospect of continuing lower interests in the US, fueled more optimism that spilled into the bond and stock markets by early July.

Macroeconomy

Softer headline inflation and robust government spending is expected to boost Q2's economic expansion channeled through higher consumer and government spending. Lower interest rates and the slight improvement in the external trade data should, likewise, further drive growth on to a higher trajectory.

- Inflation tumbled to a 22-month low of 2.7% y-o-y in June from 3.2% in May.
- NG spending rebounded by 7.8% y-o-y in May, reversing a two-month hiatus.
- Liquidity growth remained tepid with 6.4% in May, a bit off from a month ago.
- Exports expanded slightly in May for the second straight month.

Outlook: PH economic growth should rebound by 6% (y-o-y) in Q2, and accelerate further for the rest of 2019 supported by the three domestic demand engines—consumer, government and investment spending—revving up to high gear. We expect a minimum 25 bps cut in US Fed's policy rate in July and additional trimming of BSP's policy rate by 50 bps and the RRR by 200 bps in H2 to add fuel to growth—in the real economy and financial markets.

Bonds Market

Philippine bond market remained bullish in both primary and secondary markets driving yields further down, with 10-year T-bond yield at 5.17% by end-June. This will likely go below 4.5% by Q3 with the unabated fall in inflation rate (to sub-2% by August), BSP rate and RRR cuts done and expected in H2 and low US interest rates. Lively bond investors kept the auction tender-offer ratio (TOR) elevated at 2.79x in June while driving GS secondary market trading above P500.0-B, the third occurence in 2019. ROPs-US Treasury yield spreads narrowed as well.

- T-bill auctions saw yields plunged by 69.6 bps to 89.7 bps, led by 91-day T-bills.
- Auction of 20-year T-bonds plummeted by 154.6 bps to 5.17% from 6.716% yield last January 2019.
- In the GS secondary market, all tenors drastically fell by 52.2 bps to 83.8 bps, for a parallel downward yield curve move.
- Corporate bonds volume cut into half from P10.9-B in May to P5.1-B in June, but still 237.7% higher than a year ago.
- Spread between ROP-29 and 10-year US T-bond yields tightened by 67.6 bps from 84.2 bps in May.

Outlook: With our projection that the headline inflation which will go below 2% (y-o-y) in Q3, 10-year T-bonds yields should drop to 4.5% in that quarter. This will be supported by US interest rates remaining low unless the next Fed policy rate move surprises. Besides, the June PH inflation of 2.7% translated into a huge decline on 91-day T-bill with 3.883% yield last July 8th auction. We will expect a slew of corporate bond issuances as lower interest rates seep into H2. ROPs should track US Treasuries with sideways movement since we don't see new incentives for it to break away from the spread range of the past three months.

Equities Market

With May and June upticks, PSEi set to resume bull run in H2 as foreign investors returned to the market in early July while local investors took on the slack when they stayed out, resulting in an uptick in June for the 2nd straight month. PSEi still managed to rise by 0.4% last June due to US Fed's expected monetary easing, PH's falling inflation, and liquidity infusion by the BSP.

- Financial and Property sectors remained at negative territory, while the other four sectors landed on the green last June.
- FGEN, GTCAP, and JGS rallied the most among PSEi stocks with gains of 16%, 8.9% and 7.7%, respectively.
- SMPH (-6.8%), SMC (-6.6%), and PCOR (-4.9%) took the biggest hits.
- Turnover dropped by 6.2% in June while PSEi stayed up implying base-building.
- Foreign investors took out net funds of P7.1-B, albeit lower than P14.2-B in May.

Outlook: With inflation at a 22-month low in June and expected to go below 2% by August, lower interest rates due to plunging inflation and more liquidity provided by BSP, a vigorous bouncing back of NG spending, and good corporate earnings, we find it likely that PSEi will resume bull run only in the latter half of H2 amidst the MSCI rebalancing set to happen in August. Corporate earnings should rebound with the strong acceleration of the economy starting Q2.

Economic Indicators (% change, latest month, unless otherwise stated)	Latest Period	Previous Period	Year-to-Date (2019)	2017 (year-end)	2018 (year-end)	2019 Forecasts
GDP Growth (Q1-2019)	5.6%	6.3%	5.6%	6.7%	6.2%	6.0-6.5%
Inflation Rate (June)	2.7%	3.2%	3.4%	2.9%	5.2%	2.7-3.0%
Government Spending (June)	-1.0%	-7.8%	-0.5%	12.6%	22.5%	11.0%
Gross International Reserves ($B) (June)	85.8	85.0	83.9	81.6	79.2	87.5
PHP/USD rate (June)	51.36	52.26	52.13	50.40	52.68	52.00-53.00
10-year T-bond yield (end-June YTD bps)	5.22%	5.80%	6.02%	4.93%	7.05%	4.625-4.875%
PSEi (end-May YTD % change)	7,999	7,970	0.4%	8,558	8,558	8,400-8,800

Sources: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Philippine Stock Exchange (PSE), Philippine Dealing System (PDS), and Authors' Calculations
Note: Revised Forecasts as of July 8, 2019

FALLING INFLATION TO SUB-2% BY AUGUST AND GOVERNMENT SPENDING REBOUND TO SPEED UP

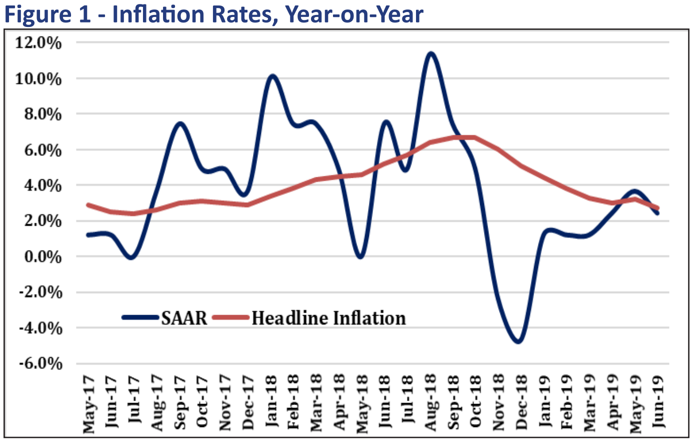
Headline inflation resumed its slide to 2.7% year-on-year (y-o-y) in June while National Government (NG) spending rebounded by 8.9% (excluding interest payments) in May, the first full month after the April 15 approval of the 2019 NG budget. Exports growth managed to remain in positive territory for the second consecutive month, albeit at a weak pace. The balance of trade deficit slowed to $3.3-B in May improving from $3.5-B in April, enabling the peso to appreciate. On the negative side, manufacturing output declined by 14% (y-o-y), based on the Volume of Production Index, which recently has been understating national income accounts data. Capital goods imports came in flat.

Outlook: The tri-star domestic demand engines of consumer spending, government and investment expenditures now look poised to speed up the Philippine economic machine starting Q2, boosted by plunging inflation—to below-2% by August—and the NG's Catch Up spending plan. Private investments look robust as well with major Public-Private Partnership (PPP) projects in full swing, and bond yields (and interest rates) moving down to 4.5% should renew residential construction and durable goods spending.

June Inflation Down to 2.7%, Lowest in 22 Months

As we anticipated, headline inflation resumed its fall to 2.7% y-o-y growth in June. This marked the slowest rate since September 2017 and below the 3% median of Bangko Sentral ng Pilipinas' (BSP) inflation target. Slower increments in heavily-weighted products (food, alcoholic, and non-alcoholic beverages), along with lower oil prices and downward adjustment in electricity rates, drove overall prices lower. Year-to-date (YTD) inflation remained at 3.4%, well within the BSP's target, while core inflation also decelerated from 3.5% y-o-y in May to 3.3% in June.

Figure 1 - Inflation Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

The food and non-alcoholic (FNAB) index showed price decrements driven by lower prices of rice and corn which fell by 1.7% and 4%, respectively. Other food groups, except for fruits, also posted slower increases. Lower fuel prices and fares also resulted in a huge decline in the transport index. Note that crude oil prices collapsed into bear market territory in early June (low-$50 for WTI), showing a 19% y-o-y decline. Electricity costs in June also posted downward adjustments to P10.1/kWh from P10.3/kWh in May. The decline in generation costs brought about by lower WESM charges resulted in slower growth in non-food index. On the other hand, we observed faster increments in Health and Recreation & Culture indices. The remaining two other commodity groups kept the past preceding month's pace.

Inflation Year-on-Year Growth Rates	Apr 2019	Mar 2019	YTD
All items	2.7%	3.2%	3.4%
Food and Non-Alcoholic Beverages	2.7%	3.4%	3.8%
Alcoholic Beverages and Tobacco	9.3%	9.5%	11.3%
Clothing and Footwear	2.4%	2.4%	2.4%
Housing, Water, Elec, Gas, & Other Fuels	3.0%	3.3%	3.4%
Furnishing, Home Equip & Maintenance	3.1%	3.2%	3.4%
Health	3.7%	3.6%	3.9%
Transport	1.6%	3.5%	2.6%
Communication	0.3%	0.4%	0.4%
Recreation and Culture	3.2%	3.1%	3.1%
Education	-4.5%	-3.8%	-3.9%
Restaurants and Misc. Goods and Services	3.3%	3.5%	3.8%

Source of Basic Data: Philippine Statistics Authority (PSA)

Note: Green font - means higher rate (bad) vs. previous month
Red font – means lower rate (good) vs. previous month

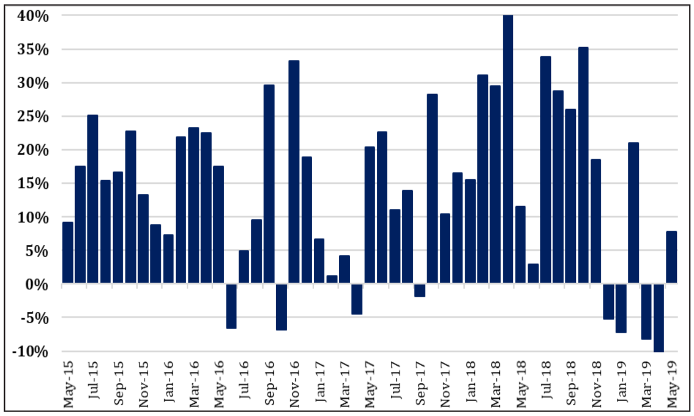
On a seasonally adjusted annualized rate basis (SAAR), the month-on-month (m-o-m) inflation further fell to 2.4% in June from 3.7% in May. We think that price increments will continue to be moderate in the next few months, partly due to higher base effect and the general downtrend in the prices of big-ticket items.

The Volume of Production Index (VoPI) further decelerated to a 14% decline in April, the slowest since July 2009.

Infrastructure Spending Fast Tracks in May

As previously anticipated, NG spending kicked-off in May after two consecutive months of declines (y-o-y). Recall that until mid-April, the NG operated under a reenacted budget resulting in slower implementation of new projects. Total NG disbursements in May stood at P314.7-B, 7.8% higher than May 2018 level. When we exclude interest payments, the spending jump reached 8.9%.

Figure 2 - NG Expenditures Growth Rate, Year-on-Year



Source of Basic Data: Bureau of the Treasury (BTR)

Despite the start of the spending spree, NG still posted a small surplus of P2.6-B as tax revenues soared. Total revenues showed a significant increase of 22.5% for May, relying on hefty gains in the Bureau of Customs (BOC) and Bureau of Internal Revenue (BIR) collections. BIR tax revenues expanded by 19.1% y-o-y, suggesting a pickup in economic activity. BOC's total tax take for the month reached P58.2-B, a 10.4% y-o-y growth due to higher imports of consumer goods and mineral fuels. Last month's budget surplus brought the YTD deficit to P809.0-M, which does not even represent 1% of the P631.5-B target deficit for 2019.

We maintain our view that NG spending will continue to ramp-up amidst more than enough fiscal space remaining starting June until the end of the year. The fact that NG expanded infrastructure spending by more than 20% for 13 consecutive months (Oct 2017 to Nov 2018) tells us that NG can accelerate spending especially with a well-defined Catch-up Plan it has laid out for the rest of 2019.

Manufacturing Output in April Weakens Anew

The Volume of Production Index (VoPI) further decelerated to a 14% decline in April, the slowest since July 2009. Lower manufacturing activities in 11 out of the 20 major industry groups pulled down the index. Tobacco, leather, petroleum products and food manufacturing, posted above-20% decrements, falling by 29.2%, 25.5%, 24.3%, and 20.6%, respectively. Transport equipment, beverages, and machinery (except electrical), originally in the positive list, now join the losers.

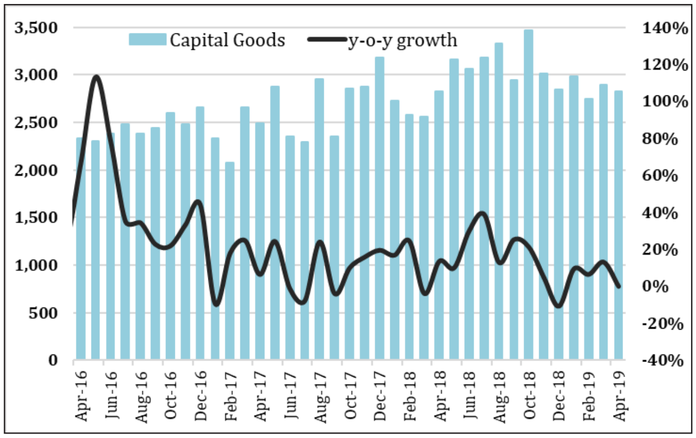
Meanwhile, fabricated metal products led the expansion with an 18% jump, followed by chemical products (+11.1%). Electrical machinery joined the outperformers showing a 2.9% increase.

While manufacturing output appears lethargic, we think that an improvement is to be expected in the coming months as infrastructure and construction spending kicks-up. Election-related spending should also help buoy factory production.

Capital Goods Imports Flattens in May

The imports of capital goods grew flat in May after a three-month streak of positive expansion, as double-digit declines in some capital good sub-products offset the gains in other categories. Demand for office machines, electrical machinery and power generating and specialized machines (accounting for about 81.9% of capital goods) remained positive. Huge decline in the imports of aircrafts, ships, and boats (-48.8%), land transportation equipment (-11.4%), and photographic equipment and optical good (-9%) dragged down overall capital goods growth.

Figure 3 - Imports of Capital Goods (in Million USD)



Source of Basic Data: Philippine Statistics Authority (PSA)

Domestic liquidity (M3) growth decelerated to 6.4% (to P11.7 T) in May, reversing the previous month's quick pick-up.

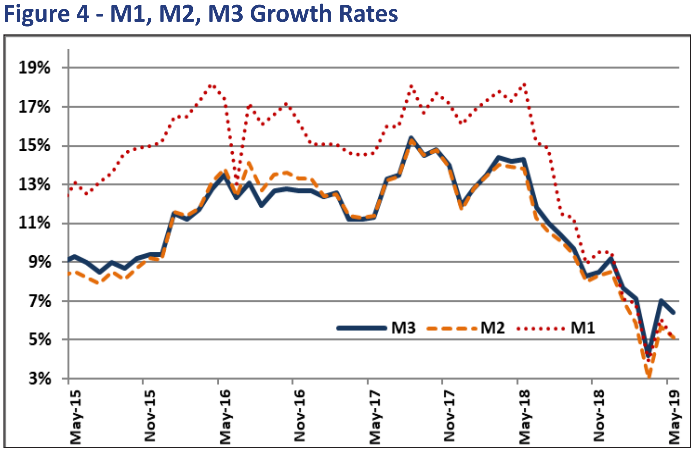
Raw materials & intermediate goods imports still captured the largest share of total imports at 40.1%, albeit registering a 10.3% decline due to lower prices for unprocessed raw materials (i.e., inedible crude materials, wheat, corn). Semi-processed raw materials (i.e., feeding stuff for animals, animal and vegetable oil) and manufactured goods (i.e., paper, textile yarn, iron and metal products) likewise showed weak import demand. On the other hand, hefty demand for rice (+859.2%) and other non-durable products, coupled with significant increase in the imports of miscellaneous manufactures resulted in a 5.9% y-o-y increase in consumer goods imports. Imports of mineral fuels, lubricants and related materials also recorded significant fall of 17.2% amidst large price and volume drop in imports of petroleum crude.

The slowdown in the raw materials drove total imports lower, falling 5.4% y-o-y to reach $9.4-B in May. It continues to outpace total exports, resulting in a $3.3-B trade deficit in May, higher than the $3.5-B deficit in the preceding month.

M3 Expansion Eases to 6.4% in May

Domestic liquidity (M3) growth decelerated to 6.4% (to P11.7 T) in May, reversing the previous month's quick pick-up. Broad money (M2) and narrow money (M1), likewise, showed slower growth to 5.1% and 5%, respectively.

Figure 4 - M1, M2, M3 Growth Rates



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Outstanding commercial bank loans, which comprised 88.2% of banks' loan portfolio also expanded at a slower pace to 11.5% y-o-y from 12.4% in April. Bulk of these loans went to construction, financial and insurance activities, real estate, wholesale and retail trade, repair of motor vehicles and motorcycles, manufacturing, and construction, among others. Growth in net foreign assets (NFA) of monetary authorities improved, showing a faster 7.3% y-o-y expansion from 6.3% in the preceding month.

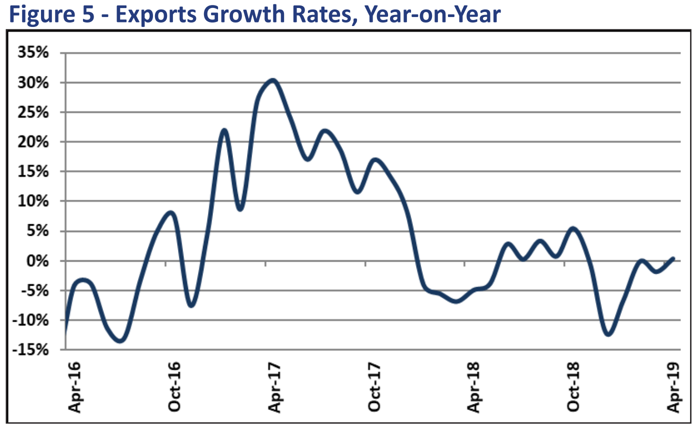
Tracking softer price upticks and slower growth in money aggregates, MB decided to maintain the interest rate on BSP's overnight reverse repurchase (RRP) facility at 4.5% and has kept key rates on overnight lending and deposit facilities steady.

PH Exports in May Mark 2nd Consecutive Month of Gains

Exports print in May posted a 1% gain, the 2nd consecutive month in positive territory after April's 1% expansion. These follow five consecutive months of being in the red. Total exports receipts amounted to $6.2-B powered by double-digit gains in six out of 10 top export commodities.

Electronic products still had the largest share, accounting for 56.1% of total exports. Outbound sales of these products grew by 6.2% y-o-y, supported by higher demand for semiconductors (+4.5% gains y-o-y) and the 33.6% jump in communication/radar electronics exports. Shipments of copper concentrates soared by 192.1% to $110.2-M, even though it stayed at the bottom of the top 10 exports list. Ignition wiring sets for transport equipment (No. 4), bananas (No. 5), and chemicals (No. 7) posted above-20% expansion of 31.7%, 28.6%, and 20.1%, respectively.

Figure 5 - Exports Growth Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Demand from the top two export destinations also improved. Shipments to the US increased by 23.1% y-o-y to $1.1-B while sales to China (2nd) went up by 11.5% y-o-y. US remained to be the top export destination in April,

Filipinos working abroad (OFWs) continued to pour in money, amounting to $2.7-B in personal remittances in April, 3.7% higher (y-o-y) than in the same period last year but slower than 7.1% a month ago.

accounting for about 17.6% of total sales. Meanwhile, outbound shipments to EU, Hong Kong, and Singapore showed declines.

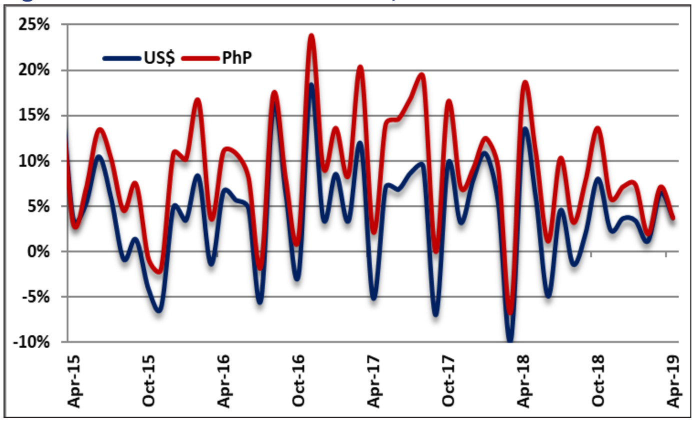
Almost half of the total exports in April still headed towards East Asian (EA) nations, valued at $2.9-B despite a minor 0.6% decline. The turnaround in export demand of Japan (+1.2%) failed to offset the 17.5% plunge in exports to the EU. Exports shipments to ASEAN, on the other hand, fell by 1.2% with receipts amounting to $0.9-B.

We think that exports will continue to improve, as we see better demand from top exports destinations as well as purchases of gold by BSP from small miners (tax-free) which in May reached $111.7-M.

OFW Remittances Remain Positive

Filipinos working abroad (OFWs) continued to pour in money, amounting to $2.7-B in personal remittances in April, 3.7% higher (y-o-y) than in the same period last year but slower than 7.1% a month ago. YTD level stood at $10.4-B, showing a 3.7% jump from last year's January to April figure. Inflows coming from sea- and land-based workers with less than one-year contracts supported remittances flow (+9.5%), along with the 1.2% increase in remittances sent by those with contracts locked-in for at least one year.

Figure 6 - OFW Remittances Growth, Year-on-Year



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Cash remittances increased by 4.1% (or P9.7-B) amidst strong transfers from the US, which accounted for about 35.9% of total cash remittances. Saudi Arabia, Singapore, UAE, the United Kingdom, UAE, Japan, Qatar, Germany, and Hong Kong, which collectively comprised another 64%, also contributed to the unrelenting increase of remittances. Similar to previous months, peso depreciation (0.01% y-o-y) slightly magnified the peso equivalent of personal remittances in April to post a 3.7% increase.

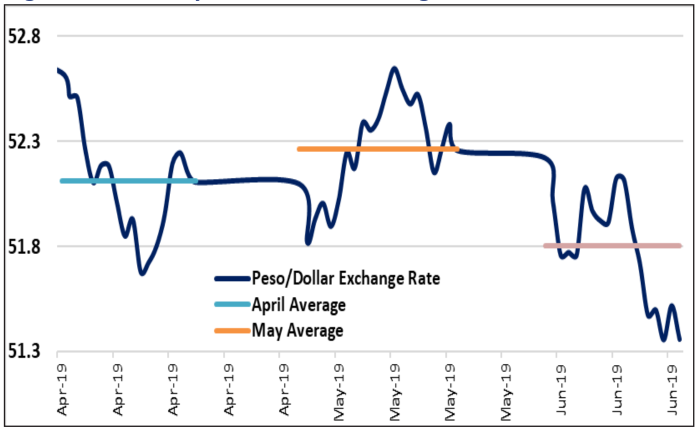
We expect sustained inflow of remittances in Q2 as OFWs would usually send more money to their relatives in the PH in preparation for the school days. The continued increase in remittances, especially its peso equivalent, is expected to fuel domestic demand.

Peso Rallies Against the Greenback in June

The Philippine peso managed to resist the greenback tracking softer inflation data in May and the BSP's move to cut RRR and lower key policy rates. Lower international prices of crude oil also triggered gains in PH currency. PH peso's mild appreciation could also possibly be traced to the sell-off of US Treasuries by China and Russia in favor of gold for their foreign exchange reserves. Thus, gold prices in June averaged 5.8% higher than in May 2019 and by 6% over June 2018.

The peso averaged P51.80/$ from P52.11/$ a month ago, showing a 0.9% appreciation (m-o-m). The volatility measure widened to 0.27 from 0.23 in May, with the peso reaching a high of P52.22/$ and a low of P51.36/$.

Figure 7 - Monthly Dollar-Peso Exchange Rates



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

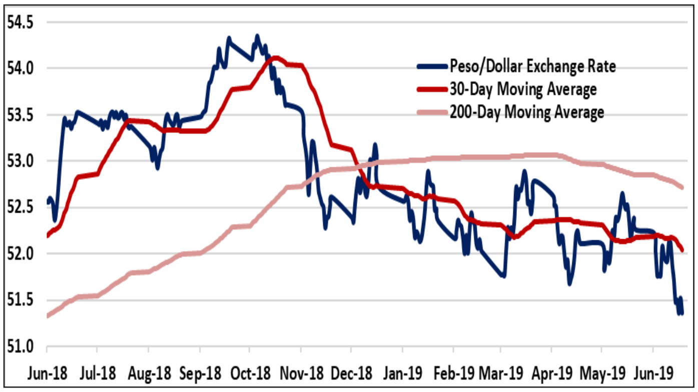
Most emerging market currencies also showed strength against the US dollar, led by Thailand's baht (THB). Large foreign inflows and the rebound in manufacturing data propelled 4.9% gain of THB. The rupee (INR) and rupiah (IDR) remained strong supported by strong capital inflows.

We, thus, see the current peso strength as temporary, as the fundamentals remain negative in H2 (BOT deficits rising; GIR need to increase further; US dollar weakness due to selling of US Treasuries by China and Russia for gold).

Better-than-expected trade data in April, likewise, boosted the ringgit (MYR). Meanwhile, yuan remained weak as trade tension with the US mounted, which also put downward pressure on Korea's won (KRW). Moreover, the global economic slowdown has dampened Korea's manufacturing prospects.

Exchange Rates vs USD for Selected Asian Countries			
	May-19	Jun-19	YTD
AUD	2.36%	0.05%	3.2%
CNY	1.94%	0.81%	0.1%
INR	0.52%	-0.44%	-1.8%
IDR	1.65%	-0.89%	-1.8%
KRW	3.48%	-0.64%	4.5%
MYR	1.23%	-0.19%	-0.4%
PHP	0.29%	-0.88%	-1.8%
SGD	1.03%	-0.49%	-0.6%
THB	-0.11%	-2.17%	-4.9%

Figure 8 - Dollar-Peso Exchange Rates & Moving Averages



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

The month-end actual USD/PHP rate in June landed below the 200-day and the 30-day moving averages (MAs), suggesting some peso strength, at least technically. However, we still think that the peso will mildly depreciate within the P52.0-53.0 range by Q4, due to the following fundamental reasons: (a) Russia and China will not be able to unload their US Treasuries holdings since there would be few alternatives for their GIR, given the strength of the US economy; (b) PH trade deficit will rise in H2 as the BBB resumes its fast pace; and (c) BSP will have to increase its GIR to be in step with import growth both past and future.

Outlook:

We think the weak 5.6% GDP growth in Q1 will prove to be a blip since it was mainly driven by the 8.6% decline in Public Construction due to the delay in 2019 NG budget approval. We think the economy will rebound in Q2 and continue to accelerate for the rest of the year.

• We expect a renewed sharp fall in headline inflation to below 2% by August (and even below 1.5%, especially due to base effects) due to lower rice and other food prices. As for oil prices, the current uptick looks transitory as the International Energy Agency (IEA) in its June report stated that despite the OPEC output cutback agreement extended to March 2020, "it does not change the fundamental outlook of an oversupplied market." All these, together with robust OFW remittances, and infrastructure spending should fuel rapid consumer expenditure growth.

• Government spending, especially on infrastructure, quickly resumed robust growth in May with an 8.9% gain (excluding interest payments). The 13 consecutive months of over-20% growth in infrastructure spending (from October 2017 to November 2018) should constitute sufficient evidence that the NG can ramp up spending for the rest of 2019. This should also take into consideration its development of a Catch-up Plan which intends to bring up infrastructure spending to 5.2% of GDP, despite the Q1 respite.

• Exports growth have moved back into positive territory for the last two months, and we see at least it remaining there even at a relatively low trajectory.

• We see further monetary easing in H2, with plunging inflation, with a further 50 bps policy rate cut, and at least another 200 bps cut in reserve requirement ratio. This will not only provide liquidity to banks, but also spur private lending and exports (via peso depreciation).

• We, thus, see the current peso strength as temporary, as the fundamentals remain negative in H2 (BOT deficits rising; GIR need to increase further; US dollar weakness due to selling of US Treasuries by China and Russia for gold).

PLUNGING INFLATION TO DRIVE 10-YEAR BOND YIELDS TO BELOW-4.5% IN Q3

Energized local bond investors drove bond yields down in June with 10-year T-bond yields shedding 47.6 basis points (bps) to 5.177% and should plunge further to below 4.5% in Q3 as inflation tumbles (see Macro section), while US bond yields remain low. For one, secondary bond trading remained elevated at above-P500.0-B level for the third time this year. For US bond yields, 10-year US Treasuries' yields spiraled downward in June as analysts projected a Fed rate cut of 50 bps in July. However, outsized job gains (+224,000) in US employment for June (reported July 5th) toned down the outlook on Fed rate cut and slowed down the fall in PH bond yields.

Outlook: We now expect local 10-year bond yields to continue to fall and breach 4.5% in Q3, as local headline inflation sinks further to below-2% in Q3 and would likely hit 1.3% in Q4. Besides the local inflation factor, Bangko Sentral ng Pilipinas' (BSP) 200 bps cut in reserve requirement ratio (RRR, fully effective by end-July), as well as our expectation that it would further trim policy rates by 50 bps and RRR by 200 bps or 2% in H2 further bolster our expectations. US bond yields should remain within a low trading range as the market has already priced in a 25-bp Fed rate cut in July and possibly a similar one in September or December.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
03-Jun	91-day	4.000	9.220	4.000	2.305	4.992	
	182-day	5.000	15.545	5.000	3.109	5.400	
	364-day	6.000	24.825	6.000	4.138	5.498	
10-Jun	91-day	4.000	7.800	4.000	1.950	4.555	
	182-day	5.000	20.123	5.000	4.025	4.923	
	364-day	6.000	25.655	6.000	4.276	5.069	
17-Jun	91-day	4.000	7.450	4.000	1.863	4.453	
	182-day	5.000	17.880	5.000	3.576	4.856	
	364-day	6.000	17.734	6.000	2.956	5.050	
25-Jun	91-day	**4.000**	11.140	4.000	2.785	4.385	-76.5
	182-day	5.000	16.850	5.000	3.370	4.723	-86.7
	364-day	6.000	22.016	6.000	3.669	4.986	-69.7
Subtotal		**60.000**	**196.238**	**60.000**	**3.271**		
11-Jun	20 year	20.000	27.292	20.000	1.365	5.170	-154.6
Subtotal		20.000	27.292	20.000	1.365		
All Auctions		**80.000**	**223.530**	**80.000**	**2.794**		

Source: Philippine Dealing Systems (PDS)

Primary Auction: Yields Continue to Fall Below 5%

Although actual inflation rate rose slightly to 3.2% in May from 3% a month ago, expectations that inflation would fall below 3% by June kept demand for Treasury bills (T-bills) and Treasury bonds (T-bonds) elevated and continued to pressure yields across-the-board to below 5% for the T-bills and below 6% for 20-year T-bonds. Total tenders for June amounted to P223.5-B or 38.3% lower than the P321.1-B tendered by bidders in May. The decrease in tenders arose from the cancellation of the 7-year T-bond for P20.0-B last June 26, and the lower demand for 91-day T-bills.

Total tender-offer ratio (TOR) fell to 2.79x from 3.21x last month. In T-bill auctions, the TOR eased to 3.27x from 3.40x and for the 20-year T-bonds TOR slumped to 1.36x from 2.93x in the previous month. Despite the deceptively lower TORs, yields for June plunged by 69.7 bps to 86.7 bps for T-bills, and by 76.2 bps for T-bonds.

Tenders for T-bill auctions slipped slightly to P196.2-B from P204.0-B last month or by 3.8% month-on-month (m-o-m). Yields for 91-day, 182- day and 364-day T-bill tenors, however, shrank rapidly. 91-day T-bill yields dropped by 76.5 bps to 4.385% from 5.150% in May while yields of 182-day T-bills and 364-day T-bills, which got a stronger demand, sank by 86.7 bps to 4.723% from 5.59% and 69.7 bps to 4.986% from 5.683% in May, respectively from the previous month.

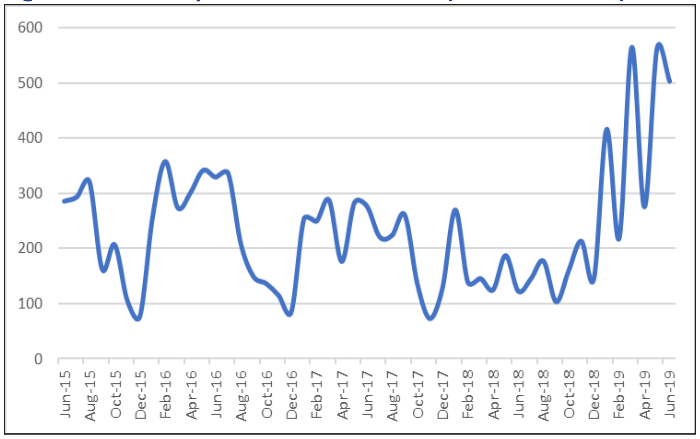
Despite low TOR of 1.36x, BTR successfully issued 20-year T-bonds with yields plunging by a whopping 154.6 bps to 5.17% compared to 6.716% yield last January 22, 2019. Total outstanding volume for the 20-year T-bond (FXTN 20-23) has reached P51.5-B.

GS Secondary Market: Robust Trading at Above-P500.0-B

Demand for the secondary GS market remained robust with total turnover still above P500.0-B. Total value amounted to P502.5-B, representing a 10.5% decline from P561.7-B in May. However, the June 2019 turnover still soared by 309.5% year-on-year (y-o-y). This achieved the second highest turnover for 2019, next only to the last months' auction.

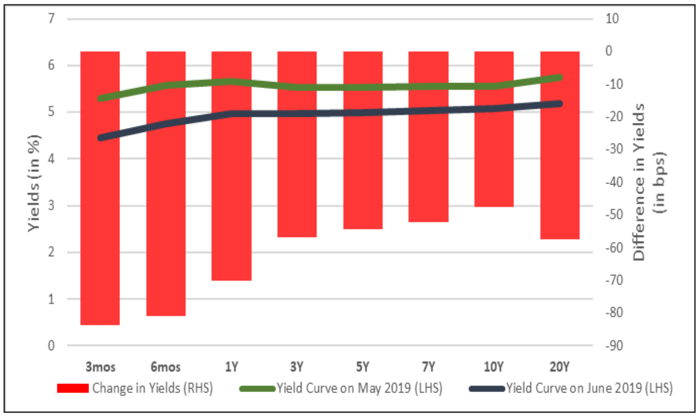
June 2019 corporate trading volume still surged by 237.7% y-o-y, from P1.5-B a year ago.

Figure 9 - Monthly Total Turnover Value (in Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 10 - GS Benchmark Bonds Yield Curves

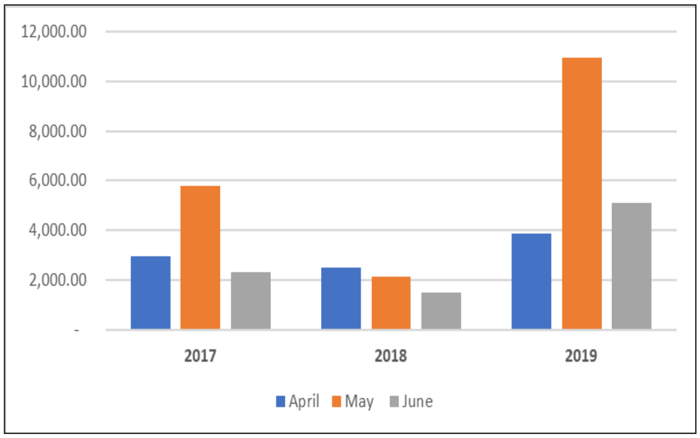


Source: Philippine Dealing Systems (PDS)

Bond yields for all tenors drastically fell by 52.2 bps to 83.8 bps, thus showing a parallel downward shift in the yield curve. 3-month and 6-month papers plunged by 83.8 bps to 4.46% and 80.9 bps to 4.76%, respectively.

Longer dated tenors (1-year to 20-year) showed a flatter yield curve. This resulted for larger drop in 1-year paper by 70.1 bps to 4.969%, compared to 10-year and 20-year papers giving up less at 47.6 bps to 5.072% and 57.4 bps to 5.177%, respectively.

Figure 11 - Total Corporate Trading Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Corporate Bond Trading: Down from May but Leaped from June 2018

After investors swamped on the corporate papers last May, total volume for corporate bond trading cut into half from P10.9-B in May to P5.1-B in June. However, June 2019 corporate trading volume still surged by 237.7% y-o-y, from P1.5-B a year ago.

Trading in the top five corporate issuers totaled P3.7-B or 73% of the total volume for the month of June. This witnessed a spectacular entry of SMC Global Power (SMCGC) which took the top spot with P1.9-B turnover. Ranking of other top five corporate issues changed a bit with SM Prime Holdings (SMPH), JG Summit Holdings (JGS), Ayala Land (ALI) and Ayala Corporation (AC) taking the 2nd to 5th places.

Although trading in ALI debt papers decreased by 16.2% m-o-m, ALI retained its 2nd spot with P593.6-M in traded volume. SMPH ranked 3rd, dislodged from its first spot in the previous month, with a P553.6-M turnover or a drop of 30.8% m-o-m. Tailing closely, next came JGS papers trading of which climbed by 120.4% m-o-m to P553.2-M. Lastly, AC slightly increased by 3.9% m-o-m with papers worth at P164.2-M.

Corporate Issuances and Disclosures

• ABS-CBN plans an early redemption of its 7-year bonds due on February 2021 with an early redemption price at 101%.

Republic of the Philippines US dollar-denominated bonds (ROPs) continued to trek downward across the board as ROP-21, ROP-29 and ROP-40's yields eased further.

• Metrobank (MBT) listed its issuance of P11.25-B fixed rate 2-year bonds (due 2021) with PDEx with a coupon of 5.5%.

• China Banking Corporation (China Bank) raised at least P5.0-B through its maiden fixed rate bond issue due January 2021 (18 months) carrying an annual rate of 5.7% which will be paid monthly.

• Aboitiz Equity Ventures, Inc. (AEV) finally listed P30.0-B fixed rate bonds with PDEx. The issue consists of two series – Series "A" due 2024 with a coupon rate of 6.0157% and Series B which matures in 2029 and carries a fixed interest rate of 6.321%.

• Security Bank (SECB) listed its first retail bond issuance with PDEx worth P18.0-B. SECB's fixed rate 2-year bonds (due 2021) carries a coupon of 5.875%

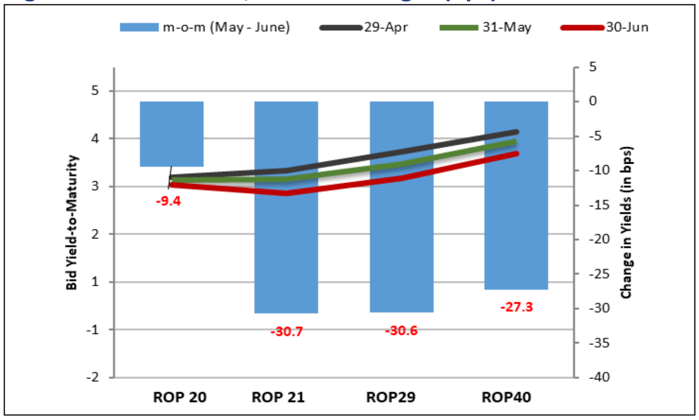
Figure 12 - ROPs Daily Yields

Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ROPs: Yields Drop Deja Vu

Republic of the Philippines US dollar-denominated bonds (ROPs) continued to trek downward across the board as ROP-21, ROP-29 and ROP-40's yields eased further. The movements mirrored the decline in equivalent US Treasury yields, which showed smaller falls. Thus, this resulted in a narrower spread once again between ROPs and US Treasuries.

Figure 13 - ROPs Yield, M-O-M Changes (bps)



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Spreads between ROPs and US Treasuries

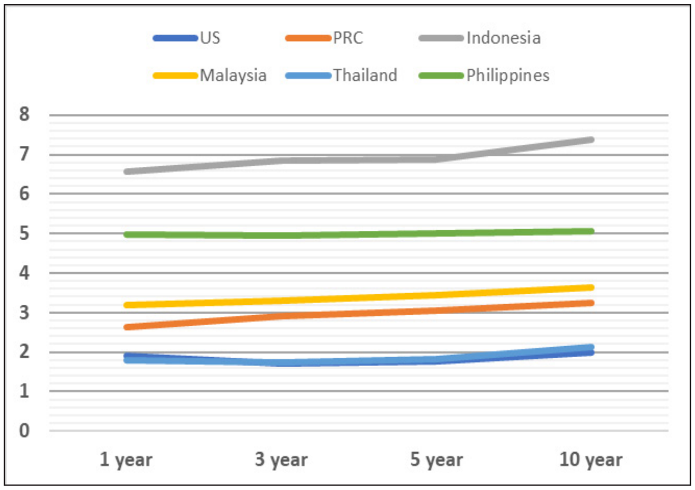
Date	1-year	2-year	10-year	20-year
30-Apr	28.1	53.1	68.9	86.7
29-May	42.1	71.1	84.2	106.5
28-Jun	61.7	60.4	67.6	87.2

ROP-21 shrank by 30.7 bps to 2.354 % in June from 2.661% in the previous month. Similarly, longer dated ROP-29 and ROP-40 yields dove by 30.6 bps to 2.676% and by 27.3 bps to 3.182%, respectively. Counterpart US Treasury yields also dropped for all tenors. 1-year US Treasury bill fell by 29 bps to 1.92% from 2.21% in May. In addition, 10-year US T-bond yields eased at a slower pace by 14 bps to 2% while 20-year US T-bonds only gave up 8 bps to 2.31%.

Spreads between two countries for all tenors for the month narrowed. In the 10-year space, the spread between ROP-29 and 10-year US T-bond yields slimmed to 67.6 bps from 84.2 bps in May while the ROP-40 to 20-year US T-bond yields spread tightened to 87.2 bps in June from 106.5 a month ago.

10-year T-bond yields plunged to below-2% in June after May employment data fell way below expectations and analysts got convinced the Fed would cut policy rates by 50 bps in July.

Figure 14- Comparative Yield Curve Between ASEAN per Tenor



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN + 5: Yield Curves Flatten

US: 10-year T-bond yields plunged to below-2% in June after May employment data fell way below expectations and analysts got convinced the Fed would cut policy rates by 50 bps in July. Support for that view strengthened as CPI slowed to 0.1% uptick for May coupled with weak wage rate gains. Consumer sentiment index went up to 100.0 in May from 98.2 a month ago.

The 10-year bond yield hit a low of 1.73% on June 24th but has since clawed back above 2% in early July as employment gain of 224,000 for June weakened the earlier expectations. The third estimate of GDP growth for Q1-2019 remained unchanged at 3.1%. The yield curve steepened as the spread between 10-year and 2-year T-bond yields widened to 25 bps from 20 bps a month ago, as short-term yields fell more than longer tenors. Note that since the spread hit a low of 11 bps on December 11, 2018, it has trended upward.

China: Inflation (CPI based) in May climbed to 2.7% y-o-y, boosted mainly by food prices, with those of fruits and pork surging 26.7% and 18.2% y-o-y, respectively. Crop prices will remain stable because of the summer crops. Hog prices continued to rise due to the African swine fever. National Development and Reform Commission expected inflation to peak in June and fall on the next months. In the end, it expects inflation to rise between 2%-4% y-o-y in 2019. The producer price index, which measures the price of goods at the factory level moved up by 0.3% in June m-o-m compared to 0.2% in May.

Meanwhile, Moody's retained China's credit rating of A1. The rating includes China's long-term issuer rating, senior unsecured rating and the A1 foreign currency senior unsecured shelf rating. Foreign exchange reserves increased to $3.119-T in June from $3.101-T in May according to People's Bank of China. The reserves went up due to the weaker dollar and higher international financial asset prices. Also, foreign investors bought $10.8-B of Chinese bonds last month. Together with the slide in US bond yields, Chinese 10-year government bonds trended downwards in June ending at 3.24% from 3.32% in May. Thus, its yield curve flattened as the spread between 10-year and 2-year bond yields dropped by 6 bps.

Thailand: CPI rose more mildly in June by 0.36% m-o-m from 0.48% in May. This is due to the increase in the indices for Food and Non-alcoholic Beverage at 3.12% and Recreation and Education at 0.81%. H1-2019 headline inflation rate averaged to 0.92%, with core inflation rate at 0.58%. On the other hand, consumer confidence index fell to 76.4 points from 77.7 points in May. This has been the lowest level in 21 months. Negative sentiment persisted over political instability, global uncertainty and low farm product prices.

Bank of Thailand (BoT) projects economic growth at 2.8% in H1-2019 and 3.8% in H2-2019, with full year expansion of 3.3%. The country's GDP grew by 2.1% y-o-y in Q1-2019, slower than 3.6% in Q4-2018. While in 2018, the economy grew 4.1%, highest rate in six years. The latest forecast relies much on the assumption of flat exports growth. Meanwhile, Thailand plans to sell up to 128-B baht of government bonds in Q3-2019 as part of debt restructuring. The baht-denominated bonds will have a maturity between 5–48 years. It compares to the 143-B baht government bonds issued in Q2-2019. Furthermore, BoT held its policy rate steady for a fourth meeting since December, despite cutting its GDP growth forecast to 3.3% from 3.8%. While the Monetary Policy Committee of BoT may have disappointed markets by not cutting rates, a central bank director, however, added that it does not close the door on policy easing for the economy.

Malaysia's Nikkei Manufacturing Purchasing Managers Index (PMI) slightly slipped to 47.8 this month compared to 48.8 a month ago.

BoT worries about the strengthening of the baht, which gained 6.6% against the dollar year-to-date (YTD), caused by robust foreign fund inflows. Slower GDP growth has translated into a narrower spread between 10-year and 2-year bond yields down by 15 bps from +14 bps last May.

Indonesia: GDP growth decelerated to 5.1% in Q1-2019 from 5.2% y-o-y in 2018. It maintained its stable economic growth with the range of 4.9–5.3% for the last 14 quarters, according to World Bank report. Inflation rate accelerated to 3.23% (y-o-y) in May from the 2.83% a month ago. Food inflation of 4.1% emerged as the main driver of inflation since it jumped from 2.29% in April. As growth appears to slow down due to the global economic weakness and the US-China trade war, Bank Indonesia (BI) cut its reserve requirement ratio by 50 bps to 6% on June 19, 2019. In addition, it said it had room to cut policy rates, with most analysts eyeing also a 50 bps cut from the current 6% in H2.

The country's trade deficit plunged to $0.2-B in May from $2.3-B in April (a six-year high) due to lower oil prices and weaker imports. In addition, tourist visitors decreased by 3.2% m-o-m in May but increased by 1.1% y-o-y. YTD, the number of foreign visits reached 6.4-M, up by 2.7% compared to 6.2-M for the same period in 2018. On the investment side, the government plans to raise infrastructure investments to $429.7-B during 2020-2024, 20% higher than in 2015-2019. It plans soon to bid out an $11.0-B toll road within the year.

In June, the government issued 10-year US dollar-denominated bonds with a coupon rate of 3.4% worth $750.0-M and 7-year Euro bonds totaling €750.0-M (~ $846.0-M) with a coupon of 1.45%. Both had a BBB rating from S&P and Fitch.

Despite the balance of trade improvement, BI reported a drop in foreign exchange reserves to $120.3-B in May from $123.8-B a month ago. The GIR can finance 7.1 months of imports or 6.8 months of imports and payment of government's external debt.

With lower inflation and policy rate cuts, the Indonesian yield curve flattened significantly as the spread between 10-year and 2-year bonds plummeted by 61 bps.

Malaysia: Malaysia's Nikkei Manufacturing Purchasing Managers Index (PMI) slightly slipped to 47.8 in the previous month to 48.8 last May. The current PMI data suggests a contraction meaning that the business operating environment is a challenge especially for exports. Despite the PMI, the overall economic growth should remain above 4% based on historical similarities. Additionally, World Bank lowered the GDP forecast to 4.6% for 2019, reflective of trade tensions, of expected slowdown in larger economies as well as market volatility, which reflects risks to growth in the near term.

In May 2019, CPI rose by 0.2% (y-o-y). The main groups contributing to the increase included Housing, Water, Electricity, Gas & Other Fuels (+1.8%); Alcoholic Beverages and Tobacco (+1.3%); Food & Non-Alcoholic Beverages (+1.2%); and Education (+1.2%). On the trade side, exports increased by 2.5% (y-o-y) to MYR 84.1-B (~$20.5-B) due to strong demand from India, US and the Philippines. Imports rose only by 1.4% y-o-y to MYR 75.1-B (~$18.2-B) due to lower crude oil and commodity prices, resulting in a $2.2-B trade surplus, albeit lower than $2.6-B in April.

In the financial sector, the outlook for Malaysian Government Securities (MGS) appears mildly bearish with 10-year MGS projected at 3.9% due to ample supply of debt papers. Bank Malaysia Negara (BMN) kept its policy rate unchanged at 3% in June after the defensive 25 bps rate cut in May. FTSE Russell said Malaysia is in its watch list until September for possible inclusion in its World Government Bond Index (WGBI).

With the expected economic slowdown, the yield curve flattened slightly by 5 bps on the spread between 10-year and 2-year MGS yields.

Outlook

The month of June saw a sharp decline in US Treasury yields after May employment data showed weak job creation and below-target inflation which led analysts to conclude that the US Fed would cut policy rates by 50 bps in July. However, the unexpected 224,000 jobs added in June (released early July) changed all that and so US 10-year T-bond yields moved back slightly above 2%.

- The US interest rates are not going too move much

With our view that headline inflation will go below 2% (y-o-y) by September at the latest and go as low as 1.5% in Q4, this should bring 10-year T-bond yields below 4.5% before the end of 2019, based on real yield historical data.

Spreads between 10-year and 2-year T-Bonds

Country	2-year Yields	10-year Yields	Projected Inflation Rates	Real 10-year yield	10-Year and 2-Year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					May-19	Jun-19			
US	1.75	2.00	2.2	(0.20)	16	25	9	2.50	0.30
PRC	2.81	3.24	2.9	0.34	49	43	(6)	4.35	1.45
Indonesia	6.74	7.37	3.1	4.27	124	63	(61)	6.00	2.90
Malaysia	3.27	3.64	0.6	3.04	42	37	(5)	3.25	2.65
Thailand	1.75	2.12	0.9	1.22	52	37	(15)	1.75	0.85
Philippines	4.95	5.07	2.7	2.07	2	12	10	4.50	1.80

Sources: Asian Development Bank (ADB), The Economist & UA&P
**1-yr yields are used for PH because 2-yr papers are illiquid*

unless there is a surprise in the next Fed policy rate move, which the market predominantly expects to be a 25 bps cut, and probably another similar one in September or December.

• While the PH inflation rate for May nudged up to 3.2% from 3% last May, the market quickly regarded the uptick as temporary and so bond yields trended downward during June. The June inflation print of 2.7% confirmed this and we saw further declines especially in the shorter-end of the curve, where the July 8th auction yielded 3.883% for 91-day T-bills.

• With our view that headline inflation will go below 2% (y-o-y) by August at the latest and go as low as 1.5% in Q4, this should bring 10-year T-bond yields below 4.5% before the end of 2019, based on real yield historical data. This becomes more likely as we expect BSP to cut policy rates by 50 bps in Q3 and the reserve requirement ratio by 200 bps or 2% not simultaneously this time. The liquidity will drive short-term yields further down so that we would have a more normal upward-sloping yield curve by Q4.

• We expect a slew of corporate bond issuances especially in the last four months of the year, as firms take advantage of the low interest rates.

• ROPs should track US Treasuries with little sideways movement of spreads between the two since we do not see new incentives to break away from the spread range of the past three months.

• ROPs may track movements of US treasuries but at a

PSEi EDGES UP IN JUNE, POISED TO RESUME BULL-RUN IN H2

With foreign investors back by early July and the willingness of local investors to fill in the slack when the former stayed out of Philippine equities has enabled the PSEi to approach 8,400 on July 15 raised the likelihood that PSEi will resume its bull-run in the latter half of H2. This should come about after PSEi traded in a narrow 150-point range (from 7,909 to 8,061) in June as it benefitted from the expected July easing of US Fed's monetary policy towards the end of June as to rise by 0.4%, albeit the slowest in the region. The resumption of falling inflation and of liquidity infusion by the Bangko Sentral ng Pilipinas (BSP) with its 25-bps policy rate cut in mid-May and the 200-bps reduction in reserve requirement ratio by end-July provides the turnaround to positive sentiment.

Outlook: The attractiveness of PSEi going forward got a boost from the fall of headline inflation in June to 2.7%, and its likely further plunge to below-2% y-o-y by August 2019, lower interest rates, and a quick recovery in National Government (NG) spending. The latter's 8.9% growth in May (excluding interest payments) a month after the April 15 NG 2019 budget approval and its record of over-20% expansion in infrastructure spending for a 13-month period in 2017-2018 provide evidence of NG's ability to ramp up spending for the rest of 2019. Corporate earnings look set to improve as well. Thus, once PSEi breaches definitely the resistance level of 8,200, coupled with large volume, its upward trend should resume only in the latter half of H2 amidst MSCI rebalancing in August.

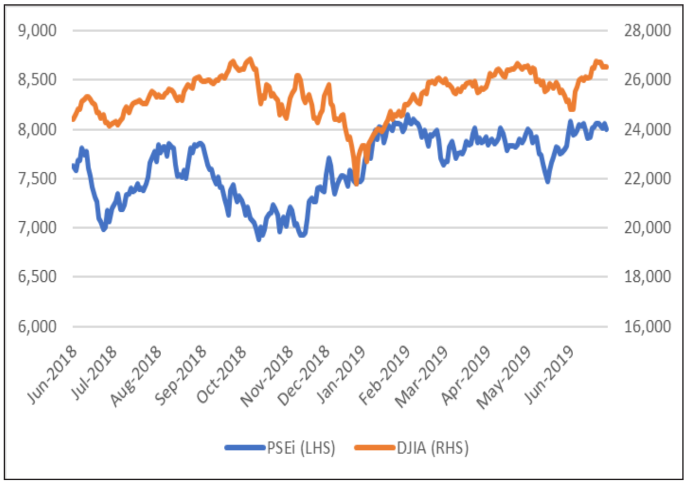
Global Equities Markets Performances

Region	Country	Index	June M-o-M change	2019 change
Americas	US	DJIA	7.0%	13.9%
Europe	Germany	DAX	5.7%	17.2%
	London	FTSE 101	3.7%	10.3%
East Asia	Hong Kong	HSI	6.1%	13.6%
	Shanghai	SSEC	2.8%	20.8%
	Japan	NIKKEI	3.3%	8.8%
	South Korea	KOSPI	4.4%	6.0%
Asia-Pacific	Australia	S&P/ASX 200	3.5%	19.1%
Southeast Asia	Indonesia	JCI	2.4%	2.9%
	Malaysia	KLSE	1.3%	0.2%
	Thailand	SET	6.8%	10.5%
	Philippines	PSEi	0.4%	6.8%
	Singapore	STRAITS	6.5%	9.3%

Sources: Bloomberg and Yahoo Finance

With markets swinging back to positive territory in June, global equities rebounded from what proved to be the most challenging month for most bourses around the world last May. The dovish tone from the US Federal Reserve (Fed) and the European Central Bank (ECB) lifted global equity markets from the doldrums. Positive signals on the trade talks between US and China provided an added boost. The bourses that rallied the most included DJIA, SET, and STRAITS, which surged by 7%, 6.8%, and 6.5%, respectively. However, Southeast Asian markets - JCI, KLSE, and PSEi, only managed to book minimal upticks of 2.4%, 1.3%, and 0.4%, respectively. Surprisingly, European indices registered growth rates above 3% month-on-month (m-o-m) despite Eurozone economic sentiment at a 34-month low.

Figure 15 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

The correlation of DJIA and PSEi remained at a moderate +0.2, although lower than May's +0.3. DJIA trekked upwards throughout the previous month with the pace of US economic growth at a strong 3.1% annual rate for Q1-2019, faster than the 2.2% rate last Q4-2018. However, DJIA slightly fell by the last week of June after US imposed new sanctions on Iran and as the number of Americans filing applications for new unemployment benefits rose, a possible sign of slowing global growth starting to take effect on its domestic economy. In early July, US job gains

From being one of the few bourses that managed to eke out gains last May to being one of the slowest growing markets in the previous month, PSEi only had a minimal uptick of 0.4%, as none of the sectors gained more than 3% m-o-m.

reached 224,000 for June, exceeding market expectations by a wide margin and reduced chances of a 50 bps policy rate cut in July.

On the other hand, PSEi tracked a narrow range last June, making no consistent trend due to a confluence of both positive and negative developments. Local investors may have turned more hopeful after the US Treasury Secretary made optimistic comments on the US-China G20 meeting, Bangko Sentral ng Pilipinas (BSP) kept policy rates steady with latest inflation forecasts revised downwards to 2.7%/3% for 2019/20 from 2.9%/3.1%. However, adding downward pressure to the local market would be Moody's cut in growth outlook for the Philippines coming on the heels of S&P's recent downgrade of Philippine growth outlook to 6.1% from 6.4%.

Monthly Sectoral Performance				
	31-May-19		28-Jun-19	
Sector	Index	% Change	Index	% Change
PSEi	7,970.02	0.2%	7,999.71	0.4%
Financial	1,728.59	-0.9%	1,720.08	-0.5%
Industrial	11,634.44	0.2%	11,701.75	0.6%
Holdings	7,577.31	-0.8%	7,703.01	1.7%
Property	4,325.82	-0.1%	4,273.77	-1.2%
Services	1,683.12	6.1%	1,711.29	1.7%
Mining and Oil	7,388.40	-4.3%	7,591.21	2.7%

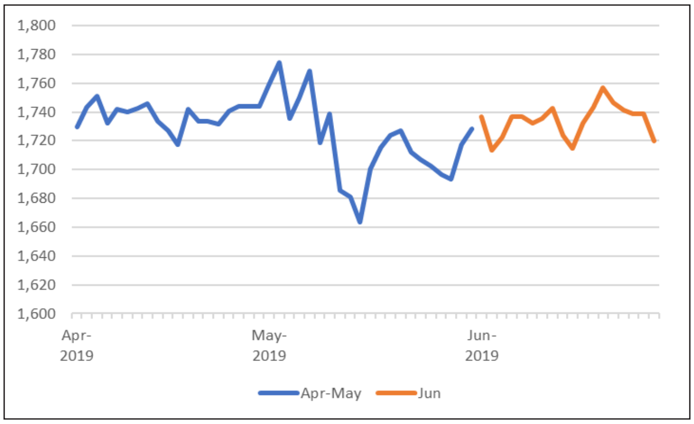
Source of Basic Data: PSE Quotation Reports

From being one of the few bourses that managed to eke out gains last May to being one of the slowest growing markets in the previous month, PSEi only had a minimal uptick of 0.4%, as none of the sectors gained more than 3% m-o-m. Mining and Oil, the fastest growing sector with an increase of 2.7%, ended a five-month losing streak. Meanwhile, Property sector dipped further in June by 1.2% from May's -0.1%. Financial sector also continued to fall in the previous month by 0.5%, albeit a deceleration from May's -0.9%.

Company	Symbol	30/04/19 Close	31/05/19 Close	% Change
Metrobank	MBT	74.25	71.75	-3.4%
BDO Unibank, Inc.	BDO	134.00	138.00	3.0%
Bank of the Philippine Islands	BPI	84.85	80.80	-4.8%
Security Bank Corporation	SECB	180.00	175.00	-2.8%

Source of Basic Data: PSE Quotation Reports

Figure 16 - Financial Sector Index (Apr 2019 - Jun 2019)



Source of Basic Data: PSE Quotation Reports

The Financial sector once again extended its decline, losing 0.5% in value. The sector experienced a lot of ups and downs in June but ended the month giving up whatever gains it had previously made. Almost all stocks weakened further from last May, with BDO Unibank, Inc. (BDO) still as the only outlier among its constituent stocks, as it rose by 3%.

BDO, the lone bright spot of the sector, drew more investors as a result of its outstanding performance in Q1. It also garnered the Best Retail Social Media Banking Experience Award during the Asset Triple A Digital Awards 2018, its fourth consecutive year to receive such award.

Security Bank Corporation (SECB) went on the opposite route, slumping by 2.9% despite SECB debuting in the local retail bond market with a warmly received P18.0-B issuance. This would help SECB expand its funding base and boost lending activities. Moreover, SECB obtained the approval of BSP to raise as much as P20.0-B from an offering of high-yield deposits.

Not far behind, Bank of the Philippine Islands (BPI) shed 2.8% in value despite the bank breaching the $18.8-B mark in assets under management and remained the largest global equity Unit Investment Trust Fund in the industry for Q1-2019.

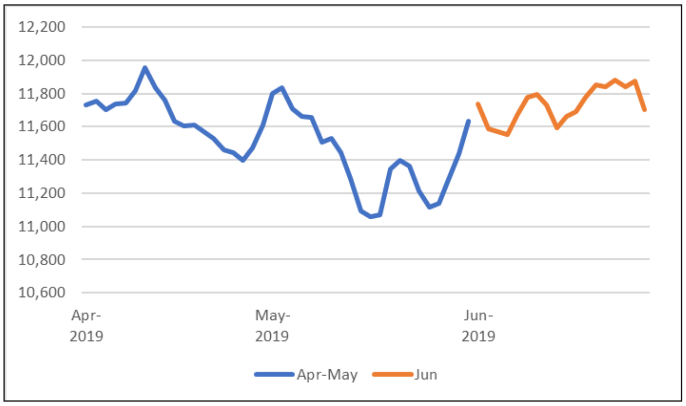
Less affected in the sector, Metropolitan Bank and Trust Company (MBT) dropped by 3.4% despite the bank raising P11.3-B from the fresh bond offering to retail investors.

Surprisingly, AP further decreased last June despite WalterMart's renewal of its power supply agreement (PSA) with AP for the third time to provide energy supply to its shopping malls in Luzon.

Company	Symbol	31/05/19 Close	28/06/19 Close	% Change
Meralco	MER	385.00	387.00	0.5%
Aboitiz Power	AP	36.50	34.80	-4.7%
Jollibee Foods Corporation	JFC	288.00	281.80	-2.2%
First Gen Corporation	FGEN	23.10	26.80	16.0%
Universal Robina Corporation	URC	167.00	166.00	-0.6%
Petron Corporation	PCOR	6.12	5.82	-4.9%

Source of Basic Data: PSE Quotation Reports

Figure 17 - Industrial Sector Index (Apr 2019 - Jun 2019)



Source of Basic Data: PSE Quotation Reports

The Industrial sector posted a minimal uptick of 0.6%, a slight improvement from May's +0.2%. In the first half of the previous month, the industrial sector experienced a bumpy ride but managed to drive upwards majority of the latter half of June, but unfortunately ended the ride in negative territory. First Gen Corporation (FGEN) rallied the most among constituent stocks, the only stock that booked a double-digit expansion of 16%. Meanwhile, Petron Corporation (PCOR) and Aboitiz Power (AP) sunk the most, losing 4.9% and 4.7% in value, respectively. However, despite losers beating gainers four to two, the sector still landed on the green.

FGEN continued its uptrend due to strong net foreign buying following the start of operations at the joint venture LNG project with Tokyo Gas.

Despite news that PCOR received the green light from the Securities and Exchange Commission (SEC) to offer perpetual preferred shares worth up to P20.0-B and as it trimmed its liquefied petroleum gas (LPG) prices by P6.25 per kilogram inclusive of value added tax, PCOR continued to plunge – now on its sixth consecutive month in the red.

Surprisingly, AP further decreased last June despite WalterMart's renewal of its power supply agreement (PSA) with AP for the third time to provide energy supply to its shopping malls in Luzon.

Meralco (MER), the only other stock that managed to eke out gains, had only a minor uptick of 0.5% due to a confluence of both positive and negative news. Positive drivers included news that MER will begin its competitive selection process (CSP) of its power requirements in compliance with the ruling of the Supreme Court and that the utility firm will increase investments on renewable energy capacity with installation rollout of 1,000 megawatts in the next 5-7 years. The firm had also set up a subsidiary, MGEN Renewable Energy, Inc. which will be under MER's power generation arm, Meralco PowerGen. On the other hand, the fifth reset of its electricity rate setting put a downward pressure on MER shares due to the uncertainties on its top line.

Jollibee Foods Corporation (JFC) failed to make the green mark, falling by 2.2% in the previous month still due to the worse-than-expected net income report for Q1-2019. In addition, JFC announced plans to put up five more stores in Guam in the next five years.

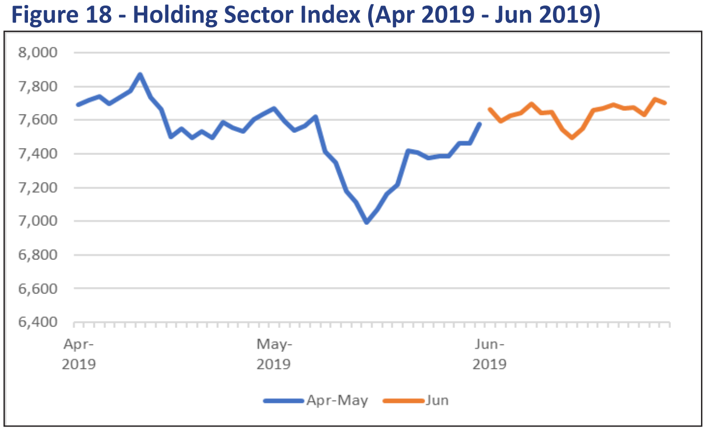
Unfortunately, positive developments reported by Universal Robina Corporation (URC) in May showing higher y-o-y Q1-2019 net income and a 7-9% revenue growth for 2019 did not have a lasting effect as URC recorded a minimal decrease of 0.6% in the previous month.

GTCAP stoked the sector's growth due to heavy net foreign buying on the back of the company's automotive unit, Toyota Motor Philippines Corporation's market share increasing to 41.4% in the first five months of 2019.

Company	Symbol	31/05/19 Close	28/06/19 Close	% Change
Ayala Corporation	AC	919.00	894.00	-2.7%
Metro Pacific Investments Corporation	MPI	4.50	4.80	6.7%
SM Investments Corporation	SM	942.00	969.00	2.9%
DMCI Holdings, Inc.	DMC	10.58	10.30	-2.6%
Aboitiz Equity Ventures	AEV	55.90	55.00	-1.6%
GT Capital Holdings, Inc.	GTCAP	863.00	940.00	8.9%
San Miguel Corporation	SMC	187.50	175.20	-6.6%
Alliance Global Group, Inc.	AGI	15.60	15.44	-1.0%
LT Group Inc.	LTG	14.94	15.20	1.7%
JG Summit Holdings, Inc	JGS	62.60	67.40	7.7%

Source of Basic Data: PSE Quotation Reports

Figure 18 - Holding Sector Index (Apr 2019 - Jun 2019)



Source of Basic Data: PSE Quotation Reports

In an even match of five to five between gainers and losers, the Industrial sector managed to book a 1.7% increase last June. The sector traded sideways except for the minor dip in the middle of June. GT Capital (GTCAP) and JG Summit Holdings, Inc. (JGS) gained the most in the sector, surging by 8.9% and 7.7%, respectively. On the other hand, San Miguel Corporation (SMC) dragged the sector down as it plummeted by 6.6%.

GTCAP stoked the sector's growth due to heavy net foreign buying on the back of the company's automotive unit, Toyota Motor Philippines Corporation's market share increasing to 41.4% in the first five months of 2019.

JGS followed GTCAP's significant uptrend as the 54% profit surge for Q1-2019 reported last May finally attracted more investor interest in June.

SMC dropped otherwise despite news that Department of Public Works and Highways (DPWH) approved the firm's planned extension of Metro Manila Skyway stage 3 to connect to NLEx. Furthermore, the conglomerate expects to operate the $14.0-B new international airport in Bulacan by 2024 and is currently building a good bank and community center in Tondo, Manila as part of efforts to ramp up its sustainability programs.

Metro Pacific Investments Corporation (MPI) rose by 6.7% after the company reported plans to sell a portion of its stake in Metro Pacific Hospital Holdings, Inc. (MPHHI), in line with the company's efforts to reduce its debt levels. In addition, the P0.51 toll rate adjustment approved by the Toll Regulatory Board (TRB) for the Subic Clark-Tarlac Expressway (SCTEX) effective last month provided a further boost.

SM Investments Corporation (SM) went up by 2.9% as net income growth of 26% to P10.7-B reported last May finally gained traction.

LT Group (LTG) rebounded last June, albeit only by a minor 1.7% uptick after the company announced plans to invest in a $1.5-B liquified natural gas (LNG) power plant in Batangas while also bidding for the sugar assets of Central Azucarera Don Pedro to integrate its rum distillery business. Moreover, the share price increased given the lower-than-expected increase in excise tax of tobacco.

Ayala Corporation (AC) slipped by 2.7%, even as its health care arm obtained approval of the Philippine Competition Commission (PCC) to increase its stake to 52.5% from 50% in the Generika group of companies. AC also officially launched Chinese auto brand Maxus in the Philippines, with the introduction of a multi-purpose vehicle (MPV) and van.

DMCI Holdings, Inc. (DMC) remained in the red in June despite DMCI Mining Corporation reported more than doubling nickel ore shipments to 338,000 wet metric tons (WMT) in Q1-2019 from 156,000 WMT during the same period last year. Additionally, DMCI Homes, its residential development arm, has boosted its land bank value by 71% to P10.2-B from P6.0-B last year as it continued to buy land to fuel its ongoing expansion. DMCI Project Developers, *MEG led index gainers as the property developer announced its commitment to spend P300.0-B over the next five years to expand its residential, office, retail, and hotel projects across the country.*

Inc. also said it was on track to complete the second building of its residential condo complex in Davao city by 2020.

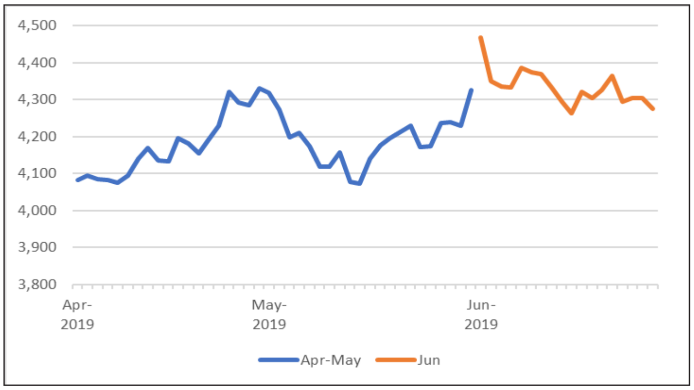
Also on the negative route, Aboitiz Equity Ventures (AEV) fell by 1.6% after it saw a 27% profit decline in Q1-2019, reported in May. However, on a more positive note, Aboitiz InfraCapital Inc., the infrastructure business unit of AEV, has signed a deal with Frontier Tower Associates Philippines, Inc. (FTAP) to establish a network of new telecommunication towers in the country.

Alliance Global Group, Inc. (AGI) retracted last June by 1% despite the firm's released plans to undertake a five-year Innovation and Digital Transformation Program and to double the capacity of its Manila gambling resorts.

Company	Symbol	31/05/19 Close	28/06/19 Close	% Change
Ayala Land, Inc.	ALI	49.50	50.80	2.6%
SM Prime Holdings, Inc.	SMPH	39.80	37.10	-6.8%
Robinsons Land Corporation	RLC	26.00	26.35	1.3%
Megaworld Corporation	MEG	5.90	6.10	3.4%

Source of Basic Data: PSE Quotation Reports

Figure 19 - Property Sector Index (Apr 2019 - Jun 2019)



Source of Basic Data: PSE Quotation Reports

After the Property sector nearly hit the 4,500-level at the start of June, the sector immediately took the downward path throughout the month, retracting the most among other sectors. SM Prime Holdings, Inc. (SMPH), the lone dark spot, plunged by 6.8%, while Megaworld Corporation (MEG) grew by 3.4%, the highest among constituent stocks.

SMPH continued to spiral down in May due to the weight downgrade it got during the MSCI semiannual rebalancing held last May. In other news, SMPH recently launched SM CDO Downtown Office in Cagayan de Oro (CDO) through its Business Unit SM Offices. Moreover, SM Development Corporation (SMDC) and Federal Land, Inc. have already sold about 40% of The Estate, an ultra-luxury residential project in Ayala Avenue, Makati, which offers units valued at around P600,000 per square meter.

MEG led index gainers as the property developer announced its commitment to spend P300.0-B over the next five years to expand its residential, office, retail, and hotel projects across the country. In addition, the firm plans to launch six more townships this year until 2020. Finally, the firm recently launched an P8.0-B third tower of Park McKinley West, one of the residential condominium clusters in its 34.5-hectare McKinley West development in Fort Bonifacio, in response to a spike in the demand for residential properties in the area.

Ayala Land, Inc. (ALI) gained by 2.6% as investors continued to respond to the higher earnings posted by the firm for Q1-2019, even as its subsidiary, Avida Land Corporation acquired a 264.5-M share of Ayala Land Holdings Corporation for land in Muntinlupa reported last May.

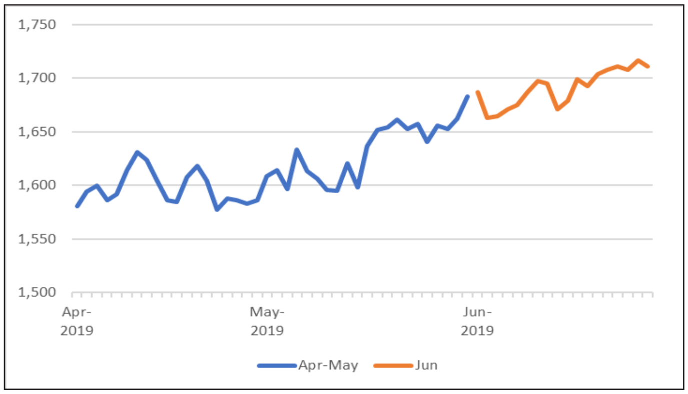
Robinsons Land Corporation (RLC) rose on the back of expected earnings to surge this 2019 as the firm begins to recognize sales in its residential project in China while continuing to expand its residential and recurring income portfolio in the Philippines.

Company	Symbol	31/05/19 Close	28/06/19 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,350.00	1,290.00	-4.4%
Globe Telecom	GLO	2,170.00	2,262.00	4.2%
Robinsons Retail Holdings, Inc.	RRHI	73.00	74.00	1.4%
Puregold Price Club Inc.	PGOLD	44.60	44.95	0.8%
International Container Terminal Services Inc.	ICT	136.00	146.40	7.6%

Source of Basic Data: PSE Quotation Reports

Mining and Oil recovered from a five-month losing streak, rallying the most among other sectors in June.

Figure 20 - Services Sector Index (Apr 2019 - Jun 2019)



Source of Basic Data: PSE Quotation Reports

The Services sector soared in the previous month, finally breaching the 1,700 mark, the highest level the sector has reached for 2019. International Container Terminal Services, Inc. (ICT), the sector's biggest gainer, surged by 7.6%. While, Philippine Long Distance Telephone Company (TEL), the lone loser in June, declined by 4.4%.

ICT led the sector's index gainers since its yard utilization for the Manila International Container Terminal (MICT) fell to 58% from 70% in April as a result of the crackdown on overstaying cargo. Lower utilization rate will enable ICT to take in more cargo and more inventory in MICT. Additionally, ICT experienced heavy net foreign buying after subsidiary Adriatic Gate Container Terminal (AGCT) announced its expansion plans in Croatia.

Conversely, TEL emerged as the sector's only laggard despite announcing plans to launch its 5G services for select home broadband and corporate customers by Q4-2019 – later than its rival, Globe Telecom (GLO). Furthermore, news that Mislatel consortium, composed of Udenna Corporation, Chelsea Logistics and Infrastructure Holdings Corporation, and China Telecom Corporation, completed a share purchase agreement that would enable it to operate by July 2019 seemed to have more negatively affected TEL than Globe Telecom (GLO).

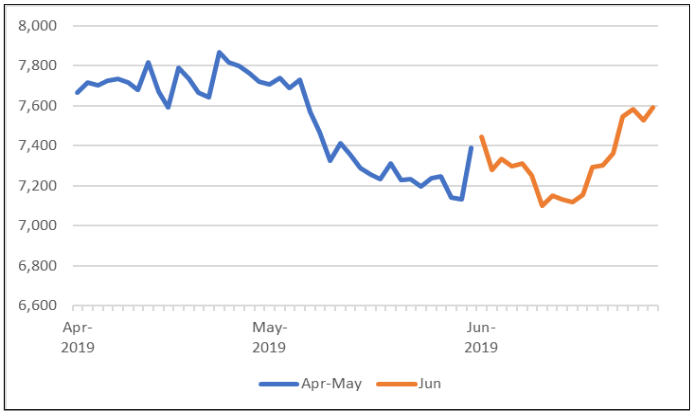
GLO rose by 4.2%, second to ICT, on account of its 5G service rollout last June backed by Huawei Technologies Co. Ltd equipment – the first commercial 5G network in Southeast Asia. The company had rolled out the next-generation mobile standard in parts of Metro Manila and nearby provinces for the home wireless internet segment. Moreover, GLO appeared to have a first mover advantage in the government-led telco tower-sharing initiative. For this, it had formed a partnership with Filipino company ISOC Infrastructure Inc. and Malaysian tower builder Edotco Group Sdn. Bhd., an independent tower group.

Robinsons Retail Holdings, Inc. (RRHI) booked a minor uptick of 1.4% as news last May to ramp up capital expenditure to P5.0-B for expansion purposes finally got more investor interest.

Company	Symbol	31/05/19 Close	28/06/19 Close	% Change
Semirara Mining and Power Corporation	SCC	22.00	23.15	5.2%

Source of Basic Data: PSE Quotation Reports

Figure 21 - Mining & Oil Sector Index (Apr 2019 - Jun 2019)



Source of Basic Data: PSE Quotation Reports

Mining and Oil recovered from a five-month losing streak, rallying the most among other sectors in June. During the earlier weeks of June, the sector was spiraling downwards, but by the latter half, it sustained an upward trek. Semirara Mining and Power Corporation (SCC) grew by 5.2%, a reversal from the 7.8% fall last May as news on SCC being included in the MSCI Philippines Emerging Markets small capital index finally got investor interest to turn positive.

Foreign investors' ambivalent attitude towards Philippine equities showed in the turnover decline of 6.2% in June, a major reversal from May's +33.1%.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	32,082.64	49.3%	1,782.37	74.2%
Industrial	31,991.12	0.4%	1,777.28	17.1%
Holdings	27,948.86	-34.9%	1,552.71	-24.0%
Property	30,751.48	-2.0%	1,708.42	14.3%
Services	27,404.80	-9.2%	1,522.49	5.9%
Mining and Oil	1,781.18	-57.7%	98.95	-50.6%
Total	**151,960.07**	-6.2%	**8,442.23**	9.4%
Foreign Buying	87,184.00	-5.6%	4,843.56	10.1%
Foreign Selling	94,288.95	-11.5%	5,238.27	3.3%
Net Buying (Selling)	(7,104.95)	-49.9%	(394.72)	-41.5%

Source of Basic Data: PSE Quotation Reports

Foreign investors' ambivalent attitude towards Philippine equities showed in the turnover decline of 6.2% in June, a major reversal from May's +33.1%. Only Financial and Industrial sectors booked positive gains as the Financial sector's turnover soared by 49.3% but the Industrial sector had a minimal uptick of 0.4%. Meanwhile, Mining & Oil and Holdings sector shifted from biggest gainers to biggest losers, losing 57.7% and 34.9% in trading value, respectively.

Heavy net foreign selling continued in June, with a net outflow of P7.1-B, albeit less than the net outflow of P14.2-B last May. Net foreign selling seemed to be the trend for the previous month as investors remained cautious ahead of the G20 Summit and because of the US' plan to impose new sanctions on Iran and more tariffs on Chinese goods.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2017		2018		4th Quarter 2018			1st Quarter 2019		
	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
Production										
Agri, Hunting, Forestry and Fishing	739,029	4.0%	744,814	0.8%	222,235	35.4%	1.7%	185,649	35.4%	0.8%
Industry Sector	2,947,103	7.2%	3,148,000	6.8%	866,361	17.0%	6.9%	769,667.9	17.0%	4.1%
Service Sector	4,979,575	6.8%	5,310,300	6.6%	1,397,922	6.3%	6.3%	1,301,690.6	6.3%	7.0%
Expenditure										
Household Final Consumption	5,973,816	5.9%	6,306,064	5.6%	1,791,824	21.0%	5.4%	1,568,670	21.0%	6.3%
Government Final Consumption	914,136	7.0%	1,031,487	12.8%	236,548	-5.4%	11.9%	252,373	-5.4%	7.4%
Capital Formation	2,504,502	9.4%	2,852,306	13.9%	744,773	4.7%	5.5%	743,785	4.7%	6.8%
Exports	4,930,584	19.5%	5,495,712	11.5%	1,247,357	-20.4%	13.2%	1,379,184	-20.4%	5.8%
Imports	5,657,331	18.1%	6,476,519	14.5%	1,550,159	-12.3%	11.8%	1,708,180	-12.3%	8.3%
GDP	8,665,708	6.7%	9,203,113	6.2%	2,486,518	12.0%	6.1%	2,257,007	12.0%	5.6%
NPI	1,729,139	5.9%	1,793,182	3.7%	441,817	-1.6%	0.9%	471,662	-1.6%	1.9%
GNI	10,394,846	6.6%	10,996,296	5.8%	2,928,335	9.7%	5.2%	2,728,669	9.7%	4.9%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2017		2018		May-2019			Jun-2019		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	2,473,132	12.6%	2,850,184	15.2%	317,236	2.8%	22.5%	233,886	-26.3%	4.3%
Tax	2,250,678	13.6%	2,565,812	14.0%	265,455	-8.1%	17.0%	210,532	-20.7%	11.9%
BIR	1,772,321	13.1%	1,951,850	10.1%	204,838	-13.0%	19.1%	157,829	-22.9%	15.4%
BoC	458,184	15.6%	593,111	29.4%	58,168	12.6%	10.3%	51,298	-11.8%	2.5%
Others	20,173	20%	20,851	3.4%	2,449	39.4%	16.2%	1,405	-42.6%	0.6%
Non-Tax	222,415	3.2%	284,321	27.8%	51,775	161.8%	61.3%	23,263	-55.1%	-35.3%
Expenditures	2,823,769	10.8%	3,408,443	20.7%	314,672	41.9%	7.8%	275,724	-12.4%	-1.0%
Allotment to LGUs	530,150	17.9%	575,650	8.6%	47,957	-18.5%	-1.4%	50,293	3.4%	8.3%
Interest Payments	310,541	2%	349,215	12.5%	19,669	-16.4%	-6.8%	29,096	47.9%	20.9%
Overall Surplus (or Deficit)	-350,637	-0.8%	-558,259	59.2%	2,564	-97.0%	-107.8%	-41,838	-1731.7%	-22.9%

Source: Bureau of the Treasury (BTr)

POWER SALES AND PRODUCTION INDICATORS
Manila Electric Company Sales (In Gigawatt-hours)

	2018		Jan-2019			Feb-2019		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	43,810.80	5%	3,353.30	3.1%	3.1%	3,498.50	1.6%	2.4%
Residential	13,549.70	3.7%	1,094.40	3.1%	3.1%	984.20	-0.4%	1.4%
Commercial	17,211.30	4.8%	1,467.00	3.2%	3.2%	1,377.40	1.2%	2.2%
Industrial	12,610.30	5.9%	944.20	4.3%	4.3%	1,096.90	5.7 %	5.0%

Source: Meralco

BALANCE OF PAYMENTS (In Million U.S. Dollar)

	2017		2018		4th Quarter 2018		1st Quarter 2018	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT								
Balance of Trade	-2,163	80.4%	-8,871	310.2%	-2,400	-23.3%	-1,216	276.9%
Balance of Goods	40,505	13.9%	50,202	23.9%	13,332	4.0%	12,388	18.9%
Exports of Goods	51,865	21.4%	51,392	-0.9%	12,579	-0.8%	12,197	-2.4%
Import of Goods	92,370	18.0%	101,594	10.0%	25,911	1.6%	24,585	7.3%
Balance of Services	-9,249	31.3%	-11,539	24.8%	-2,513	18.4%	-3,180	4.4%
Exports of Services	35,884	15.0%	38,510	7.3%	9,747	5.5%	9,631	2.0%
Import of Services	26,635	10.2%	26,971	1.3%	7,233	1.7%	6,451	0.8%
Current Transfers & Others		-						
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	15	-73.0%	20	43.0%	15	7.1%
Financial Account	175	-92.4%	-7,795	192.6%	-3,768	14.9%	-4711	477.3%
Direct Investments	-5,883	5803.4%	-5,834	-10.9%	-797	-67.6%	-1,074	4.8%
Portfolio Investments	1,480	-72.9%	1,548	-38.3%	-1,275	32.5%	-1,795	-211.4%
Financial Derivatives	-32	-673.4%	-53	5.5%	-34	-183.6%	-40	-41.8%
Other Investments	4,610	-249.8%	-3,455	-342.9%	-1,661	-1797.2%	-1,802	35.0%
III. NET UNCLASSIFIED ITEMS	274	-136.6%	-1,245	-12.4%	1,443	322.5%	287	-116.7%
OVERALL BOP POSITION	-1,038	-116.1%	-2,306	167.2%	2,830	461.0%	3,797	-409.5%
Use of Fund Credits		-						
Short-Term		-						
Memo Items								
Change in Commercial Banks	1,421	-222.0%	-461	-212.5%	-1,866	85.5%	46	-96.6%
Net Foreign Assets	1,381	-229.7%	1,423	216.5%	-22.1	-97.7%	66	-95.1%
Basic Balance	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (In Million Pesos)

	2018		Apr-2019		May-2019	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	3,035,680	8.5%	3,185,055	5.2%	3,226,641	8.3%
Sources:						
Net Foreign Asset of the BSP	4,514,943	1.5%	4,708,578	3.9%	4,806,965	4.4%
Net Domestic Asset of the BSP	11,218,175	15.4%	11,845,612	8.9%	11,834,304	6.8%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,708,624	13.9%	3,948,639	6.1%	3,940,952	5.0%
Money Supply-2	10,597,336	11.2%	11,051,400	5.6%	11,120,965	5.1%
Money Supply-3	11,063,517	11.5%	11,666,995	7.0%	11,741,648	6.4%
MONEY MULTIPLIER (M2/RM)	3.49		3.47		3.45	

Source: Bangko Sentral ng Pilipinas (BSP)

July 2019

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