June 2019

The

MARKET CALL

Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

Executive Summary

Key developments in May include the cut in Bangko Sentral ng Pilipinas (BSP) policy rate and in reserve requirement (100 bps) effective end of May, and commitment of the Finance Secretary to ramp up government spending with the April 15 approval of the 2019 National Government (NG) budget. NG has devised a catch up plan, especially for infrastructure spending to reach 5.2% of GDP for the year. The rise in inflation rate to 3.2% in May from 3.0% a month ago appears temporary and we expect it to fall below 3% by June and onward to below 2.0% by September.

Macroeconomy

While headline inflation rose to 3.2% in May, due partly to base effects, its impact on the real economy and financial markets proved short-lived. The market may have perceived this as a blip, as we do expect its slide to resume in June when it hits 2.8%, the lowest since August 2017. Softer inflation and the Monetary Board's (MB) timely decision to cut policy rates and reserve requirement ratio (RRR) should further boost consumer and investment spending, the latter being supported by robust capital goods imports.

- Capital goods imports rebounded by 13.2% in March.
- Inflation slightly picked-up pace to 3.2% (y-o-y) in May, bringing the YTD average to 3.5%.
- MB cut key policy rates and RRR amidst the past months' slow money growth and inflation.
- Exports declined by 2.5% in March vis-à-vis a 0.1% drop in the preceding month.

Outlook: Our expected slide in inflation to below-3.0% by June and below-2.0% by September should have an immediate impact on bond yields. But the positive sentiment it has spawned in the financial markets should spill over into the real economy in terms of more robust consumer spending and stronger investments. The expected reversal in infrastructure and other NG expenditures data, as well as positive development in inflation and money supply, supports our view of a likely rebound in Q2. Weak exports may be offset by higher gold exports (with small gold miners now exempted from taxes) and a competitive exchange rate would help counter its fragility.

Bonds Market

BSP's 100 bps cut in the reserve requirement ratio on May 31 (with another 100 bps spread over June and July) and the 25 bps policy rate cut made investors more aggressive, driving the bond markets to bull market. Tenders in the auctions for government securities (GS) soared by 57.5% m-o-m while volume in the secondary market for GS more than doubled. Thus, yields for all tenors in both primary secondary markets fell sharply. In addition, long-term ROP yields also sunk in tandem with US treasuries.

- Overall tender-offer ratio (TOR) reached 3.21x from 1.85x the previous month.
- Yields for T-bills and T-bonds dropped more than 40 bps and 31 bps, respectively.
- GS secondary volume surged to P561.7-B, up 104.1% (m-o-m), next to the March's 50-month high.
- Corporate bonds trading volume also peaked to an all-time high of P10.9-B.
- Spreads between ROPs and US treasuries widened, as the latter's yields fell more than ROPs.

Outlook: The global slowdown amidst the US-China trade war and the collapse of crude oil prices to bear market territory should push domestic inflation below 3.0% by June. 10-year T-bond yield should, thus, drop below 5.0% after June inflation gets reported and an additional 50 bps cut in RRR takes effect end-June. We expect sustained activity in auctions and the secondary market leading to decreasing yields across the curve. We also expect issuance of long-term corporate bonds in H2.

Equities Market

Equities markets around the world had a difficult time in May as most bourses landed on the red, with the exception of PSEi and two other East Asian countries which managed to eke out gains. Local equities benefitted from BSP's policy rate and reserve requirement ratio cuts which rescued the local bourse from rising tensions in the US-China trade war and continued Brexit uncertainties.

- PSEi extended its gains in May, with a slight uptick of 0.2%, albeit a deceleration from April's +0.4%.
- Only Industrials and Services sectors picked up while other sectors moved to negative territory.
- Property sector ended its four-month winning streak, easing by a minimal 0.1%.
- GLO, TEL, and URC led index gainers, while SCC, LTG, and RRHI led index laggards.
- Turnover rebounded by 33.1% in May but foreigners became net sellers (of P14.2-B), reversing four months of net buying.

Outlook: With positive and negative forces balancing out, the re-entry of foreign funds would help tilt the outcome of the local bourse. Main drivers come from the monetary easing of the BSP but headwinds included the lower-than-consensus Q1 core earnings and trimming of weight allocation in the MSCI for emerging markets.

Economic Indicators (% change, latest month, unless otherwise stated)	Latest Period	Previous Period	Year-to-Date (2019)	2017 (year-end)	2018 (year-end)
GDP Growth (Q1-2019)	5.6%	6.3%	5.6%	6.7%	6.2%
Inflation Rate (May)	3.2%	3.0%	3.6%	2.9%	5.2%
Government Spending (April)	-15.1%	-8.2%	-2.4%	12.6%	22.5%
Gross International Reserves ($B) (May)	85.0	83.9	83.6	81.6	79.2
PHP/USD rate (May)	52.26	52.11	52.29	50.40	52.68
10-year T-bond yield (end-May YTD bps)	5.55%	5.92%	6.18%	4.93%	7.05%
PSEi (end-May YTD % change)	7,970	7,953	0.2%	8,558	8,558

Sources: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Philippine Stock Exchange (PSE), Philippine Dealing System (PDS), and Authors' Calculations

CAPITAL GOODS IMPORTS RISE BY DOUBLE-DIGITS IN MARCH AMIDST NEGATIVE DATA RELEASES

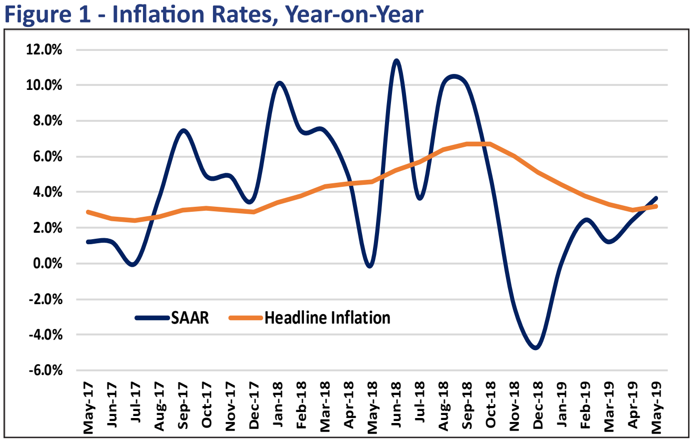
The Bangko Sentral ng Pilipinas (BSP) policy rate cut and the 100 bps reserve requirement slash effective May 31 (with further two 50 bps trims in end-June and end-July) appeared well-timed as infrastructure spending fell by 5.7% in April due to the delayed approval of National Government (NG) budget while capital goods imports growth jumped by 13.2% in March. Headline inflation did break its seven-month streak as it came in at 3.2% in May from 3.0% a month ago due to higher prices of some food items and electricity rates and base effects. Money (M3) growth rebounded to 7.0% in April from 6.1% in March and should continue to accelerate with the BSP moves.

Outlook: We still see GDP growth to accelerate to 6.0% in Q2 despite fairly weak numbers in April, as we see major Public-Private Partnership (PPP) projects and infrastructure spending bump up starting May, while inflation slowing back to below 3.0% in June and still lower thereafter should provide the impetus to robust consumer spending. Easing of liquidity and the resulting fall in interest rates have already boosted the bond and stock markets and the positive sentiment should also spill over into the real economy.

Headline Inflation Slightly Up to 3.2% in May

Faster price increments in some of major food commodities, coupled with upward adjustment in electricity rates resulted in a slight uptick in headline inflation to 3.2% (year-on-year) in May from 3.0% in April. Year-to-date (YTD) inflation remained at 3.5%, well within the BSP's target, while core inflation showed faster acceleration of 3.5% y-o-y. The lower base in May 2018 which was flat from the previous month also explains the higher headline rate.

Figure 1 - Inflation Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Vegetable products and fruits posted higher mark-ups, registering 12.5% and 4.6% increments. The El Niño phenomenon largely triggered the price increases, dampening supply of the said products. Prices of other cereals, flours, bread, and other baker products, as well as fish, also recoded gains. Meanwhile, the main source of higher non-food prices came from higher electricity costs in April to P10.6/kWh from P10.4/kWh in March due to higher generation costs.

On the other hand, we observed slower increments in alcoholic beverages and tobacco index. Lower fuel costs absorbed by the transport sector, which likewise showed a deceleration from 3.8% in April to 3.5% in May. Brent crude oil prices actually fell 7.3% to $71.32/barrel (bbl) in May from $76.98/bbl in the previous month. West Texas Intermediate (WTI), the US benchmark had a larger fall of 13.1% to $60.83/bbl. The health and restaurants and miscellaneous goods and services indices also registered downward adjustment in prices. The rest of the commodity groups kept the past preceding month's pace.

Inflation Year-on-Year Growth Rates	Apr 2019	Mar 2019	YTD
All items	3.2%	3.0%	3.5%
Food and Non-Alcoholic Beverages	3.4%	3.0%	4.0%
Alcoholic Beverages and Tobacco	9.5%	9.9%	11.7%
Clothing and Footwear	2.4%	2.4%	2.4%
Housing, Water, Elec, Gas, & Other Fuels	3.3%	3.2%	3.5%
Furnishing, Home Equip & Maintenance	3.2%	3.2%	3.5%
Health	3.6%	3.7%	3.9%
Transport	3.5%	3.8%	2.9%
Communication	0.4%	0.4%	0.4%
Recreation and Culture	3.1%	3.1%	3.1%
Education	-3.8%	-3.8%	-3.8%
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 rose to 3.7% in May from 2.4% in April. In short, the May jump still keeps even the seasonally adjusted inflation rate within BSP targets.

On a seasonally adjusted annualized rate basis (SAAR), the m-o-m inflation rose to 3.7% in May from 2.4% in April.

We think that price increments will continue to be moderate in the next few months and will go below 3.0% starting the month of June, partly due to higher base effect. Even more, the collapse in crude oil prices into bear market territory (low-$50 for WTI) support a more fundamental easing of the inflation rate for Q3.

PH Creates 433,000 Jobs in April

Employment print in April showed an additional 433,000 additional job generated over a one-year period, resulting in a lower unemployment level. Unemployment data, (and correspondingly employment rate) improved to 5.1% from 5.5% in the same month last year. The underemployment rate also showed a remarkable decline of 350 bps to 13.5% vis-à-vis last April 2018. Nonetheless, the new jobs created fell way short of the additional 1.2-M annual increase in the labor force.

The services sector still accounted for more than half of the total employed, accounting for about 24.0-M (+4.8% y-o-y). Broad-based increase in sub-sector employment supported the sector's job gains.

Job data in the agriculture and industry sectors, meanwhile, fell by 5.7% (to 9.0-M) and 1.5% (to 7.9-M), respectively. The lackluster performance in the agriculture, hunting and forestry sub-sector (8.0-M, showing an 8% decline) which employed 661,000 less workers than April 2018 offset the gains registered in the fishing sub-sector (+9%).

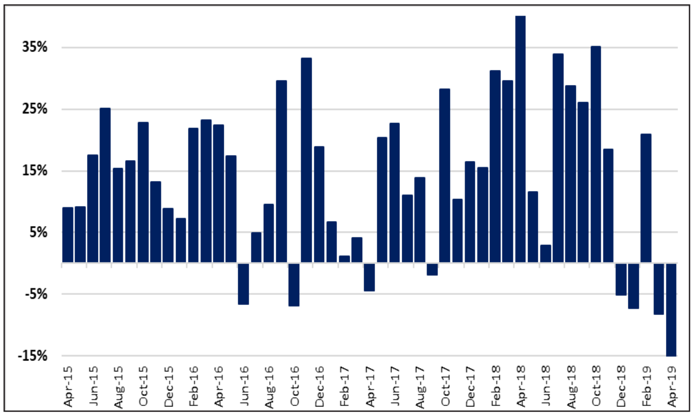
Despite the 114,000 additional workers (+2.8%) in the construction sub-sector, the industry sector's employment still stood lower than a year ago due to less jobs in manufacturing (less 182,000 jobs) and in mining and quarrying (less 51,000 jobs).

The relatively weak job creation, especially in manufacturing, should remind policy makers about the need for a competitive exchange rate, lest our ASEAN neighbors not only grab foreign investments but also jobs in the country.

Infrastructure Spending Down by 5.7% in April

The delay in budget approval clearly weighed on infrastructure spending as recent data showed a 5.7% y-o-y decline in disbursements, reaching P59.7-B in March. Note that NG operated under a reenacted budget (until mid-April) resulting in slower implementation of new projects. The Department of the Interior and Local Government (DILG) and Department of Education (DepEd), for instance, failed to implement new capital outlays (i.e., construction of police stations and repair and rehabilitation of school buildings, among others). The slowdown in infrastructure and capital outlay spending brought total disbursements to P221.8-B, 15.1% lower than April 2018 level.

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



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

Meanwhile, total revenues increased by 0.4% for the month, relying on hefty gains in the Bureau of Customs (BOC) collections. BOC's total tax take for the month stood at P51.7-B, posting a 10.4% y-o-y growth due to higher imports of capital goods and raw materials. Bureau of Internal Revenue (BIR) intake expanded by only 1.2% y-o-y. Gains in collections outpaced NG spending resulting in a budget surplus of P86.9-B (remarkably higher by 87.6% than in the same month last year). This brought the YTD deficit to P3.4-B, which represents a paltry of the P631.5-B target deficit for 2019.

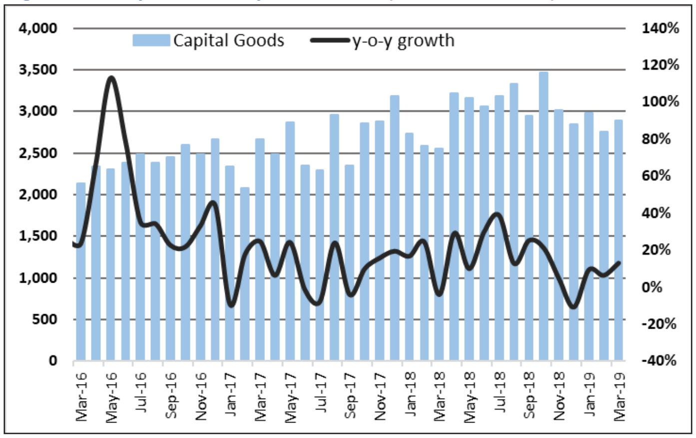
We maintain our view that NG spending will finally kick-off starting May with the signing of NG budget on April 15, which should provide a boost in economic activity starting Q2.

The imports of capital goods continued its three-month streak of positive expansion, with a double-digit gain of 13.2% in March.

Capital Goods Imports Record Double Digit Gains in March

The imports of capital goods continued its three-month streak of positive expansion, with a double-digit gain of 13.2% in March. Strong demand for telecommunication and electrical machinery and power generating and specialized machines (accounting for about 70.0% of capital goods) buoyed total capital goods imports growth. Above-20.0% growth in the imports of office and EDP machines, photographic equipment and optical good, and land transportation equipment provided the impetus for the robust expansion. Only imports of aircrafts, ships, and boats registered a decline (-8.8%).

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Raw materials & intermediate goods imports still captured the largest share of total imports at 38.5%. Import receipts increased by 5.5% y-o-y due to higher import demand 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 recovered from the previous month's decline. Hefty demand for rice (+668.0%) and other non-durable products, coupled with significant increase in the imports of home appliance and miscellaneous manufactures resulted in a 21.4% y-o-y increase in consumer goods imports. Meanwhile, mineral fuels, lubricants and related materials fell by 12.6% due to lower prices of petroleum crude, which offset the gain in coal and other related materials.

Gains in all categories save for mineral fuel drove total imports higher, showing a 7.8% y-o-y to reach $8.4-B in March. It continues to outpace total exports, resulting in a $3.1-B trade deficit in March, higher than the $2.8-B deficit in the preceding month. However, the average monthly deficit in Q1-2019 only reached $3.2-B, lower by 23.5% from $4.2-B in Q4-2018.

President Duterte Signs Law Exempting from Taxes Small Gold Miners Selling to BSP

President Rodrigo Duterte signed into law exempting from excise and income tax the sale of gold by small-scale miners to the BSP or to accredited traders for the eventual disposal to the central bank. The law, Republic Act (RA) No. 11256, signed last March 29 is An Act to Strengthen the Country's Gross International Reserves (GIR). The said law would allow the BSP to increase its gold purchase from domestic miners, thus help build up the country's GIR. Note that there was almost a 100% drop in BSP's domestic gold purchases because of those tax beginning July 2011. Gold purchases stood at only 10.0-T fine troy ounces (FTO) in 2019 from more than 900.0-T FTO in 2010.

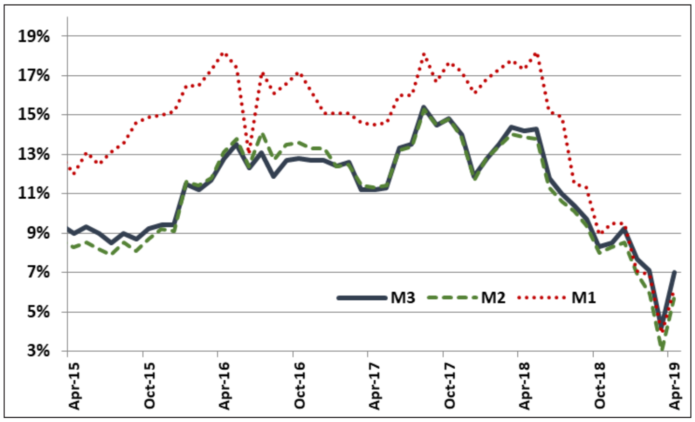
Higher GIR will help improve PH economic standing and will lower the NG and private sector's cost of doing business. This will also mitigate PH gold smuggling to other countries through the black market and will, likewise, increase domestic supply of gold for jewelry making, dental requirements and other industrial and commercial uses.

Domestic Liquidity Growth Picks Up Pace in April, MB Cuts RRR

Domestic liquidity (M3) growth picked-up pace to a 7.0% (y-o-y) growth in April, a large reversal from the 6.1% (revised upward) pace in March. Broad money (M2) and narrow money (M1) growth likewise accelerated to 5.7% and 6.1%, respectively.

Domestic liquidity (M3) growth picked-up pace to a 7.0% (y-o-y) growth in April, a large reversal from the 6.1% (revised upward) pace in March.

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, meanwhile, expanded at a slightly slower pace to 12.4% y-o-y from 12.8% in March. Bulk of these loans went to 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 6.3% y-o-y expansion from 4.7% in the preceding month.

As previously anticipated, the Monetary Board (MB) decided to reduce the interest rate on the BSP's overnight reverse repurchase (RRP) facility by 25 bps to 4.5%, effective May 10 due to slower growth in monetary aggregates, softer inflation, and tepid growth in Q1. The interest rates on the overnight lending and deposit facilities were likewise reduced accordingly.

Complementing the adjustments in RRR cut in universal and commercial banks, BSP also reduced reserve requirement for thrift banks (TBs) and non-bank financial institutions with quasi-banking functions (NBQBs) by 200 bps (phased), and 100 bps for demand deposits and NOW accounts of rural and cooperative banks effective on May 31. Time deposit issued by all banks and NBQBs will have reduced and uniform reserve requirement ratio of 4.0%.

Please see table below for the phased-reduction schedule (in bps) .

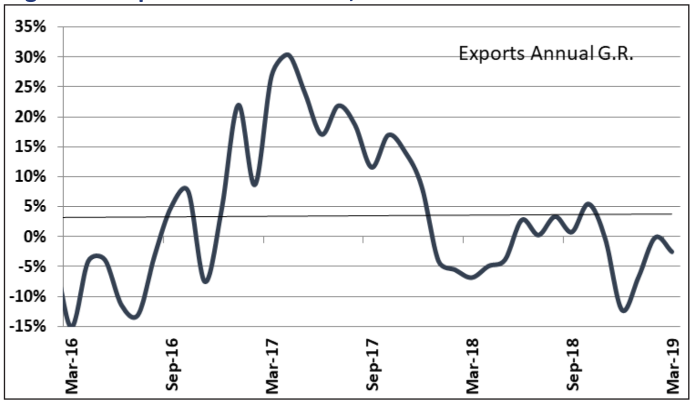
	31 May 2019	28 June 2019	26 July 2019
U/KBs	- 100	- 50	- 50
TBs/NBQBs	- 100	- 50	- 50
RBs	- 100	-	-

Note that the downward adjustment will only apply to reservable liabilities, which exclude bonds and mortgage/ chattel mortgage certificates.

Exports Performance Slides Anew

Exports print in March continued to be in the red, with total receipts amounting to $5.9-B. PH outbound shipments growth slid by 2.5%, after showing an improvement in the preceding month (exports growth in February only showed a revised minimal 0.1% drop). Significant declines in some top export commodities and weaker demand from top exports markets largely contributed to the downtrend.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Electronic products still took the lion's share, accounting for 55.0% of total exports although posting a 3.7% y-o-y decrement. Semiconductors, which had the biggest share among electronic products (at 39.5% of total exports), also slipped by 3.1% y-o-y to $2.3-B. Export sales of the next two top export products, likewise, fell. However, exports of ignition wiring set and other wiring (4th place) and fresh bananas (5th) reported gains of 20.3% and 81.5% y-o-y, respectively. Meanwhile, shipments of other manufacture goods in 2nd place, contracted by 8.1% y-o-y, raking a total of $329.3-M. Shipments of machinery & transport

Weak PH economic performance in Q1 amidst low infrastructure spending and lackluster exports performance weighed on the peso, ending in the red for the month of May.

equipment stood at $249.9-M, showing a 10.2% y-o-y decline.

Demand from the top five export destinations appeared lethargic. US remained to be the top export destination in March, accounting for about 15.4% of total sales. Shipments to the US, however, fell by 3.1% y-o-y to $906.3-M. Exports to Japan (2nd) and Hong Kong (3rd) also fell 1.2% and 6.0%, respectively. Similarly, exports demand from China (-2.2%) and Singapore (-11.6%), also registered declines.

Half of the total exports in March still headed towards East Asian (EA) nations, valued at $3.0-B. Weak demand in Korea, Japan, Hong Kong and China resulted in the 20.4% export decrement in the EA region. Exports shipments to ASEAN, on the other hand, increased by 2.7%, with receipts amounting to $966.1-M.

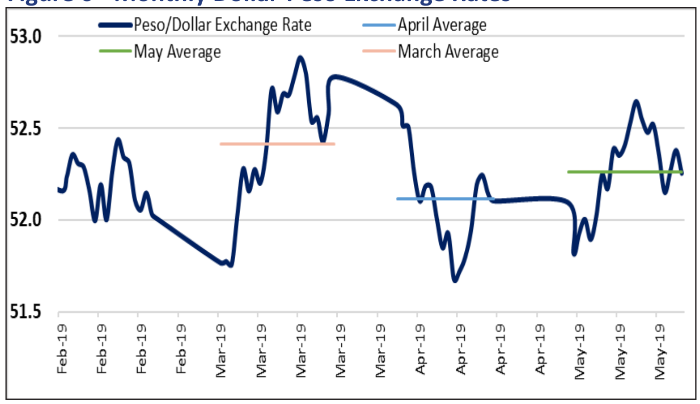
We may continue to see weak exports print in the next few months, but we believe that a rebound in Japan and China's economies, along with the unflagging growth in US economy, would help improve PH exports performance.

Peso Succumbs to Losses

Weak PH economic performance in Q1 amidst low infrastructure spending and lackluster exports performance weighed on the peso, ending in the red for the month of May. This marked the second month of depreciation in 2019. Recovery in the US economy also put downward pressure on the peso. US GDP data in Q1 came in better-than-expected, posting a 3.1% y-o-y expansion, driven by higher exports and personal consumption.

The peso averaged P52.20/$ from P52.11/$ a month ago, showing a 0.3% depreciation (m-o-m). The volatility measure narrowed to 0.23 from 0.27 in April, with the peso reaching a high of P52.65/$ and a low of P51.82/$.

Figure 6 - Monthly Dollar-Peso Exchange Rates



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

Exchange Rates vs USD for Selected Asian Countries			
	Apr-19	May-19	YTD
AUD	-0.44%	2.36%	3.1%
CNY	0.03%	1.94%	-0.7%
INR	-0.33%	0.52%	-1.4%
IDR	-0.35%	1.65%	-0.9%
KRW	0.80%	3.48%	5.1%
MYR	0.92%	1.23%	-0.2%
PHP	-0.57%	0.29%	-1.0%
SGD	0.01%	1.03%	-0.1%
THB	0.39%	-0.11%	-2.8%

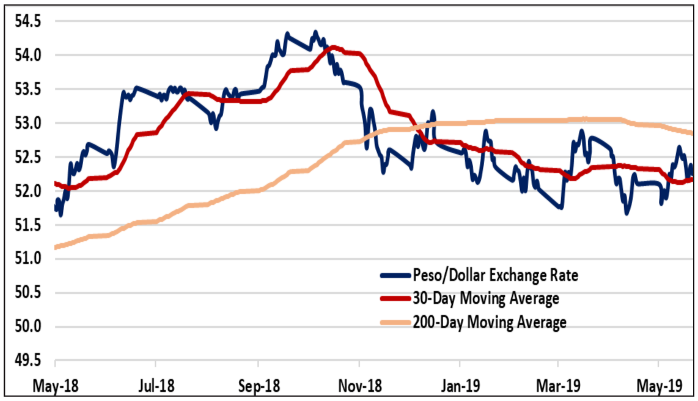
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback

Other emerging currencies also showed weakness, tracking US dollar rally. Slower Q1 GDP further put downward pressure on Korea's won (KRW). On the other hand, bearish manufacturing data, coupled with the long-running trade war between China and US dampened the yuan (CNY). This external pressure weighed on Indonesia's rupiah (IDR) and Malaysia's ringgit (MYR) as well, exacerbated by the large current account deficit (at least for the rupiah). Foreign fund outflows, likewise, weakened the rupee (INR). Baht managed to resist the greenback due to robust economic performance and surplus in its current account. Thailand recorded its fastest growth pace in five years, posting a 4.8% y-o-y growth, above market consensus.

Exports have been weaving in and out of positive territory but should move definitively into the latter as weak crude oil prices (now in bear market territory) boost spending in advanced and emerging economies.

Figure 7 - Dollar-Peso Exchange Rates & Moving Averages



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

The month-end actual USD/PHP rate in May landed below the 200-day and slightly off the 30-day moving averages (MAs), suggesting slight peso strengthening over the short-run. However, due to the reduction in RRR and/or the BSP's hope to rebuild its GIR, we still think that the peso will mildly depreciate within the P52.0-53.0 range in the latter half of Q2.

Outlook:

While May inflation may have blipped to 3.2% from 3.0% a month ago, and NG infrastructure spending fell in April, these should prove temporary and the economy would rebound starting Q2.

• Capital goods imports accelerated in March back to double-digit pace which will likely carry on for the rest of the year, with big-ticket PPP projects in full steam while infrastructure expenditures should renew their run after the approval of the NG budget by mid-April such as MRT7, Cavite-Laguna Expressway, NLEX-SLEX Connector, and LRT Train Extension to Bacoor, Cavite.

• Inflation should resume its downward slide with crude oil prices (Brent) down by 7.0% in May y-o-y and still falling in June. Looks fairly clear that headline inflation shall go below 3.0% by July at the latest.

• Money (M3) growth has seen its bottom especially with the BSP policy rate and reserve requirements cuts and should provide needed liquidity and lower interest rates (see Bonds) to recharge the economy.

• Exports have been weaving in and out of positive territory but should move definitively into the latter as weak crude oil prices (now in bear market territory) boost spending in advanced and emerging economies.

• The peso should remain under depreciation pressure within the P52.00 to P53.00 range as a result of the BSP cuts, which may be repeated in H2.

• Although we think the economy will recover in Q2, the high base a year ago and the weak numbers for April, the pace may hover around 6.0%, good enough to revive positive sentiment in all economic players.

BONDS ON A BULL MARKET RUN

The bond markets not only have emerged from the Intensive Care Unit six month ago, but have progressively moved into a bull run mode. Bids in the auctions of government securities (GS) reached P321.1-B in May, while the secondary government securities (GS) market trading volume posted the second highest level of P561.7-B, next only to the 50-month high in March. Even corporate bond trading hit a record high since they were listed in PDEx in 2007. These have reacted positively to continued fall in inflation and the further slide in US treasuries yields. ROP yields went nearly in step with them, but the spreads between ROPs and equivalent US treasuries widened.

Outlook: The plunge of crude oil prices into bear market territory, the global slowdown and the festering US-China trade spat enables domestic inflation rate to go below 3.0% by June, a month earlier than we earlier projected. These should add more downward pressure on long-term bond yields. With still another 100 bps cut in the reserve requirement ratio (RRR) by end-June to end-July, and likely less offers by the Bureau of the Treasury (BTR) of expensive 182-day and 364-day T-bills, even short-term bond yields should fall to more normal levels, i.e., slightly above inflation rates.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
06-May	91-day	4.000	15.724	4.000	3.931	5.438	
	182-day	5.000	14.893	5.000	2.979	5.825	
	364-day	6.000	20.565	6.000	3.428	5.977	
14-May	91-day	4.000	19.85	4.000	4.963	5.389	
	182-day	5.000	15.788	5.000	3.158	5.768	
	364-day	6.000	19.01	6.000	3.168	5.936	
20-May	91-day	4.000	16.160	4.000	4.040	5.258	
	182-day	5.000	17.938	5.000	3.588	5.700	
	364-day	6.000	16.170	6.000	2.695	5.869	
27-May	91-day	**4.000**	10.562	4.000	2.641	5.150	-41.3
	182-day	5.000	11.418	5.000	2.284	5.590	-38.8
	364-day	6.000	25.896	6.000	4.316	5.683	-40.2
Subtotal		**60.000**	**203.974**	**60.000**	**3.400**		
15-May	7 year	20.000	51.278	20.000	2.564	5.743	-34.4
27-May	10 year	20.000	65.840	20.000	3.292	5.644	-31.0
Subtotal		**40.000**	**117.118**	**40.000**	**2.928**		
All Auctions		**100.000**	**321.092**	**100.000**	**3.211**		

Source: Philippine Dealing Systems (PDS)

GS Primary Market: Large Jump in Bids

Investors swarmed the auctions for government securities (GS) as they tendered P321.1-B in May, 73.9% higher than P184.6-B in April especially after the Bangko Sentral ng Pilipinas' (BSP) announcement of cutting the policy rate and the reserve ratio requirement (RRR) in mid-May. Total tender-offer ratio (TOR), thus, surged by 57.5% month-on-month (m-o-m).

May tenders reached the highest volume for auctions this year and total TOR rose to 3.21x from 1.85x in the previous month. Both short-term treasury bills (T-bills) and long-term treasury bonds (T-bonds) tenors attracted a lot interest. T-bills increased its TOR from 1.73x to 3.40x last month and T-bonds' TOR climbed to 2.93x compared to 1.96x last April.

Total amount tendered for T-bills nearly doubled to P204.0-B from P106.4-B a month ago. Yields for all tenors fell rapidly amidst strong demand. 91-day T-bill yields continued to drop by 41.3 bps to 5.150% from 5.564% in April. Meanwhile, longer maturities, 182-day T-bills and 364-day T-bill yields slumped slightly less with 38.8 bps to 5.590% and 40.2 bps to 5.683%, respectively.

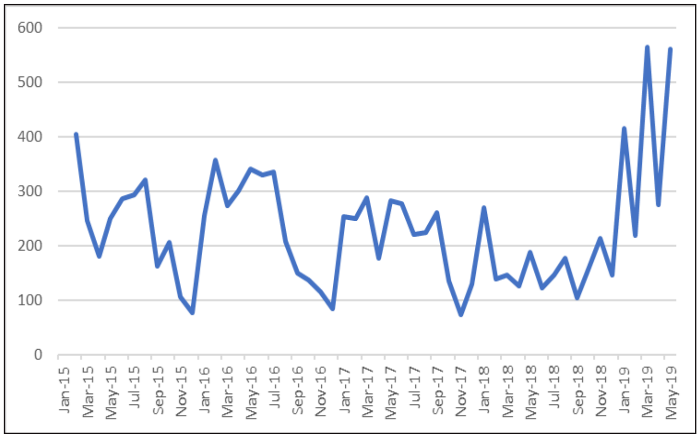
As for T-bonds, total tenors issued amounted to P117.1-B compared to P78.2-B in April. Bureau of the Treasury (BTR) issued 7-year and 10-year tenors and investors swamped onto both tenors pushing down yields. 7-year T-bonds shed 34.4 bps to 5.743% from 5.934% issued last March 26, 2019. Meanwhile, the 10-year tenor also slipped by 31.0 bps to 5.644% from 5.954% issued last April 10, 2019. In addition, BTR decided to accept all the bids for short-term dated T-bills and longer dated T-bonds as much as it offered.

GS Secondary Market: Volume Climbed Into Half by the End-of-May

Bond investors became more aggressive again in the secondary GS market as the volume of total turnover volume soared by 104.1% (m-o-m) to P561.7-B compared to P275.2-B in the previous month. On a year-on-year (y-o-y), it skyrocketed by 200.1%. The May trading came in as the second highest turnover for 2019, next only to March's 50-month high.

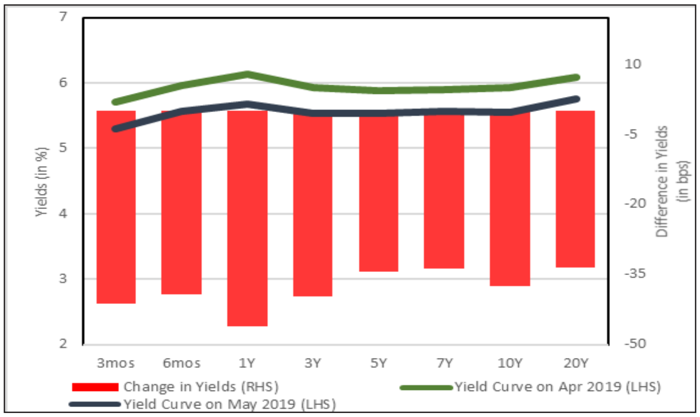
Investor appetite for GS spilled over into the secondary corporate bond market where total volume surged to an all-time high of P10.9-B in May.

Figure 8 - Monthly Total Turnover Value (in Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 9 - GS Benchmark Bonds Yield Curves



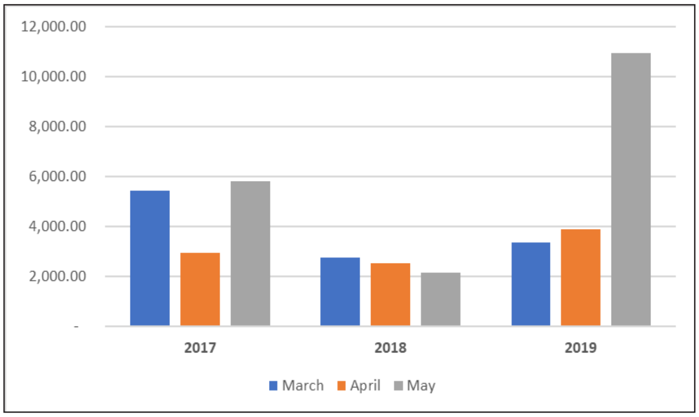
Source: Philippine Dealing Systems (PDS)

Yields across all tenors plummeted between 33.6 bps to 46.2 bps, implying a fairly parallel downward shift in the yield curve from April as readily seen in Figure 9.

Short term tenors such as 3-months and 1-year papers saw yields dive by 41.3 bps to 5.298% and 46.2 bps to 5.670%, respectively.

Meanwhile, longer dated tenors (from 3-year to 20-year) saw a relatively flat yield curve but which also moved down in parallel fashion. 3-year T-bond yields slid sharply by 39.8 bps to 5.527% while 5-year benchmark yields gave up 33.6 bps in its fall to 5.751%. Fairly liquid 10-year tenors' benchmark yields shed 37.4 bps to 5.548% and remained slightly lower than the 1-year yields.

Figure 10 - Total Corporate Trading Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Corporate Bonds: Trading Volume Rise to All-time Record

Investor appetite for GS spilled over into the secondary corporate bond market where total volume surged to an all-time high of P10.9-B in May. The record spanned the period from December 2007 to the present. Compared to April 2019, the trading volume vaulted by 181.6%, and even more than quadrupled from a year ago. BSP's easing of monetary policy and RRR provided a huge impulse for the market.

Trading volume of the top five corporate bond issuers mirrored this performance as their collective issues trading reached P2.1-B, an outsized 119.8% (m-o-m) jump from P932.2-M in April. Most traded corporate bonds came from SM Prime Holdings (SMPH) which snatched the first spot from SM Investments Corporations (SMIC), last month's pace setter. Other top corporate trading issuers included JG Summit Holdings, Inc. (JGS), Ayala Corporation (AC) and Ayala Land Inc. (ALI).

P800.5-M worth of SMPH papers exchanged hands in May, soaring by 428.0% (m-o-m). ALI followed suit and remained at the 2nd spot with a 197.8% (m-o-m) jump to P708.6-M. JGS, which landed 5th spot last month, climbed to 3rd place at P251.0-M, another whopping 460.6% jump. Lastly, AC and SMIC took the last two slots with trading of P158.0-M and P131.2-M, respectively. These represented major declines of 21.0% and 56.0% for the two firms, respectively.

The drops in ROP yields came after S&P upgraded ROPs to BBB+ at the end of April and US treasuries slipped to 20-month lows.

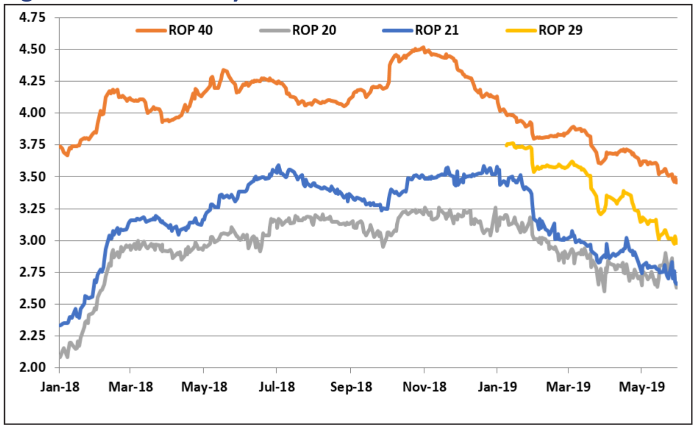
Corporate Issuances and Disclosure

• The Philippine Ratings Services Corporation (“PhilRatings”) assigned a credit rating of “PRS Aaa” for Aboitiz Equity Ventures’ planned issuance of P5.0-B fixed rate retail bonds. It has a base size of P3.0-B and oversubscription of up to P2.0-B. In addition, the Securities and Exchange Commission (SEC) approved the shelf registration of the company’s P30.0-B fixed rate bonds last May 30, 2019.

• The Board of Directors of East West Banking Corporation approved the issuance of P10.0-B bonds to be issued in one or two tranches.

• Union Bank of the Philippines successfully raised P5.8-B worth of 3-year bonds. Proceeds will be used for the purpose of funding base, support business expansion and other general corporate. An initial bond worth P3.0-B will be issued on June 3, 2019 with a coupon rate of 6.00%.

Figure 11 - ROPs Daily Yields



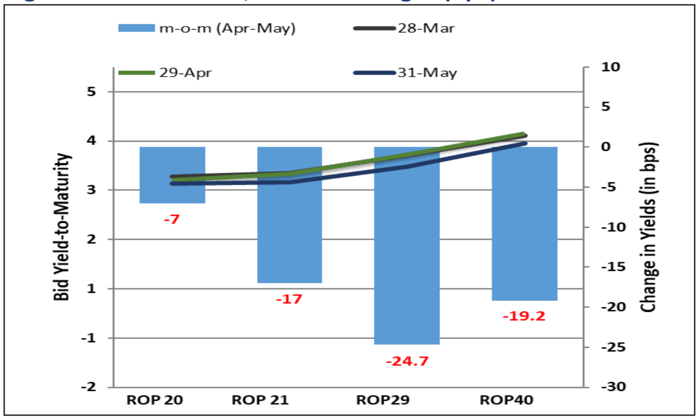
Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ROPs: Spread Widens Between ROPs and US Treasuries

Longer dated ROP-29 and ROP-40 yields continued to weaken but not as much as equivalent US treasuries. Thus, the spread between ROPs and US T-bonds widened. ROP-29 yields dove by 25.8 bps to 2.98%, the first time it fell below 3.0% since its issue last January. ROP-40 yields declined by 18.5 bps to 3.46%.

The drops in ROP yields came after S&P upgraded ROPs to BBB+ at the end of April and US treasuries slipped to 20-month lows. US treasury bonds yield curve took a larger parallel downward shift as 10-year T-bond yields slumped by 29.0 bps to 2.12% and 20-year yields sink by 29.0 bps to 2.46%. On the other hand, short-term ROP yields showed upward trend as it increased by 3.4 bps to 2.74%, while the equivalent US 1-year T-bond decreased by 10.0 bps to 2.29%

Figure 12 - ROPs Yield, M-O-M Changes (bps)



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Spreads between ROPs and US Treasuries

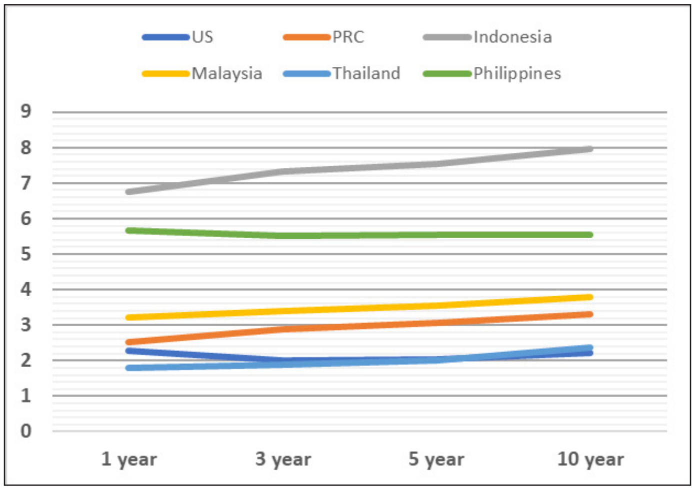
Date	1-year	2-year	10-year	20-year
31-Mar	37.90	58.50	79.80	97.60
30-Apr	28.10	53.10	68.90	86.70
31-May	42.10	71.10	84.20	106.50

From the table above, the spread between ROP and US treasuries widened for all tenors by the end of May. Spread widened following the escalation of the US-China trade spat and President Trump’s threat of tariff on Mexico over immigration issues. The spread for the 1-year and 2-year tenors rose by 14.0 bps and 18.0 bps to end up at 42.1 bps and 71.1 bps by end-May. For the long end, 10-year spreads increased by 15.3 bps to 84.2 bps, while for the 20-year tenor spreads rose by 19.8 bps to 106.5 bps.

In addition, last May 9, 2019, the Philippines issued Euro bonds with a coupon of 0.875% for EUR 750.0-M (approximately $840.0-M) which will mature in 2027. Philippines also successfully issued renminbi-denominated worth RMB2.4-B (approximately $363.0-M) priced at 3.58% with three-years tenor last May 15, 2019.

The International Monetary Fund has trimmed China's GDP growth to 6.2% for 2019 due to the trade frictions and policy concerning the US-China trade war.

Figure 13 - Comparative Yield Curve Between ASEAN per Tenor



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN + 5: Generally Flatter Yield Curves

US: Despite outsized employment gains of 263,000 in April (revised to 224,00 in early June) and Q1 GDP growth of 3.2% (later revised to 3.1%), 10-year T-bond yield briefly rose but trended downward for the rest of May amidst negative pressures to end at a 20-month low of 2.12%. For one, core CPI inflation rate edged up by only 0.1% (m-o-m, SAAR) while wage gains kept steady at 0.3% in April and 0.2% in May. S&P CoreLogic Case-Schiller Housing Price Index also showed muted increases, at the same time that President Trump threatened to impose tariffs on Mexican goods unless appropriate measures are taken by the Mexican government to curb illegal immigration into the US. But the coup de grace came with the escalation of US-China trade war and the resulting 15.2% fall in crude oil prices (West Texas Intermediate) to low-$50s in the last ten days of May. The wider impact of the trade war on EU growth showed up in 10-year German bonds which fell further from 0% to -0.20% by end-May. The Mexican trade-immigration issue got resolved, and University of Michigan's consumer sentiment index showed a 5.2-point jump to 102.4 in mid-May.

Meantime, the yield curve flattened a bit as the spread between 10-year and 2-year yields narrowed by 6.0 bps to 16.0 bps. It, however, still did not show an inverted yield curve, a supposed harbinger of a coming recession.

China: The International Monetary Fund has trimmed China's GDP growth to 6.2% from 6.3% for 2019 due to the trade frictions and policy concerning the US-China trade war. Also, President Trump has threatened 25% tariffs on additional $300.0-B worth of Chinese goods.

Meanwhile, the consumer price index (CPI) was up 2.5% in April from 2.3% from the previous month. The increase of the CPI was mainly attributed on prices of housing, water, electricity, gas and other fuels with 0.4% increase. Followed by the price on transport with an increase of 0.3%.

On the other hand, China will continue to expand its opening-up of the financial sector. People's Bank of China (PBC) said that it will adopt an approach of pre-establishment national treatment with a negative list and pursue coordinated progress in financial opening-up, exchange rate reform and process of advancing capital account convertibility. The pre-establishment of national treatment is to provide foreign capital during entry stage, which means that the importing country will provide foreign capital treatment no less than domestic capital in the pre-establishment stage. The PBC also noted that the opening-up of financial sector will create positive market response.

Thailand: Thailand's Q1-2019 GDP growth decelerated to 2.8%, its weakest since 2014. This is lower than the 3.0% seen in Reuters poll and 3.6% revised forecast last October – December 2018. The slow down of the economy was mainly caused by the rising global trade tensions and high political uncertainties according to Charnon Boonuch, Nomura economist in Singapore.

Export growth dropped to 3.6% y-o-y from 7.2% in Q1-2018. One factor of growth pace is the slowed gain in the tourism and high household debt. Additionally, private consumption and private investment were up by 4.6% and 4.4% y-o-y, respectively, while public investment fell by 0.1%. Thailand's manufacturing production index (MPI) also fell to its lowest level in 12 months in April to 95.91, higher by 2.0% y-o-y as the US-China trade tension intensified.

Malaysia GDP rose 4.5% in Q1-2019, lower than the 4.7% recorded on the same period last year.

Thailand baht is the best-performing currency in Asia, gaining 2.2% this year. Also, it appreciated by 0.3% in May, according to Bloomberg, making it a sole gainer among developing nation currencies last month. The baht reclaimed its top spot among emerging market currencies in May. Domestic equities was bought by the foreigners amounting to 12.5-B baht or $393.0-M last May 28, 2019, the biggest inflow for a day since 2012. International investors accounted for 79% of the total volume in the equities markets and bought $605.0-M (net) of the nation's debt papers last month.

Indonesia: Indonesia's Q1-2019 GDP expanded by 5.07% y-o-y based from the Statistics Indonesia (BPS). The largest contributor was household spending which expanded to 5.01% y-o-y in Q1-2019 compared to the 4.94% growth last Q1-2018. Second largest contributor to GDP was investment which grew by 5.03% in Q1-2019, albeit slower than the 7.94% in Q1-2018 due to the slowdown of sales of machinery and vehicles. Meanwhile, government expenditure grew by 5.21% y-o-y by Q1-2019, which was twice the 2.71% last Q1-2018. Exports of goods and services trimmed growth by 2.08% as commodity dropped and slowdown occurred in China.

CPI increased by 0.51% m-o-m, higher than the previous month's 0.44%, with y-o-y inflation at 3.14%. The increase in CPI was driven by food consumption at 4.14% and transportation, communication, and financial services at 3.58%.

Meanwhile, on the financial sector, Moody's Investors Service assigned Baa2 ratings to the proposed senior unsecured yen-denominated notes to be issued by the Government of Indonesia. The maturities range from three to 20 years. The notes to be issued under the samurai shelf program will constitute direct, unconditional and unsecured obligations of the Government of Indonesia (the issuer). The proceeds of the notes are intended to finance the budget deficit or for general financing purposes. The long-term issuer rating of Baa2 will bring a stable outlook.

In addition, Indonesian government and state-owned enterprises (SOEs) are eyeing to issue bonds in Q2 amounting to RP100-T or $7.0-B. Most of the amount is in government bonds while the six SOEs have reported the plan issuances in the Indonesia Stock Exchange amounting to RP13.0-T. A total gross of 50-60% government bonds will be issued throughout the H1-2019 that includes retail government bonds, foreign exchange government bond and regular government bond instruments. The Indonesian yield curve drastically rose to 43.0 bps in the previous month from -4.0 last April in the spread between 10 year and 2 year bond yield.

Malaysia: Malaysia's GDP rose by 4.5% in Q1-2019, lower than the 4.7% recorded in Q1-2018. Main contributor was private consumption which grew by 7.6% with higher consumption on food & non-alcoholic beverages, transport, restaurants and hotels. This was followed by the government consumption with 6.3%. On the contrary, exports declined by 0.7% y-o-y to RM236.0-B from RM237.6-B in Q1-2018, while imports rose by 1.1% due to higher imports of non-durables.

On the foreign exchange, trade on USD/MYR rose by 0.1% to 4.194 and reached 4.196 on May 23, the highest trade since November. This was connected to the US-China trade war and slowing growth sap demand for risk asset. Malaysia was also included on the US Treasury Department watchlist. The inclusion viewed that MYR is undervalued, even though the nation's trade surplus vs US is not large according to Vishnu Varathan of Mizuho Bank in Singapore.

The Overnight Policy Rate (OPR) cut to 3.0% from 3.25% made longer-term government bonds more attractive to the market. Bank Negara Malaysia is expecting to see higher bond prices and lower yields. CEO Nor Hanifah Hashim from Franklin Templeton GSC Asset Management said that once inflation rate goes down, bond yields are anticipated to decline and yield curves to flatten. 10-year and 2-year spread was up by 2 bps from 1 bp last April.

We see inflation resuming its slide in June, when we now expect headline rate to go below 3.0%, a month earlier than we earlier projected due to the sharp fall in crude oil prices.

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
					Apr-19	May-19			
US	2.06	2.22	2.2	0.02	24	16	(8)	2.50	0.30
PRC	2.81	3.3	2.5	0.80	49	49	(0)	4.35	1.85
Indonesia	6.72	7.96	3.1	4.86	81	124	43	6.00	2.90
Malaysia	3.38	3.80	0.8	3.00	40	42	2	3.00	2.20
Thailand	1.84	2.36	0.9	1.46	38	52	14	1.75	0.85
Philippines	5.53	5.55	2.9	2.55	6	2	(4)	4.50	1.50

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

Outlook

Despite the end of the 8-month streak of falling inflation rate in May, the bond markets continued to attract investors.

• The impact of the huge 263,000 US job increase in April proved short-lived as negative developments weighed in. Wage growth remained muted, and headline inflation as well as housing prices came in lower than expected, amidst escalation of the US-China trade war. The collapse in crude oil prices to bear market territory (low-$50s versus $10 more at the beginning of May) put the nail on the coffin as 10-year US T-bond yields plunged by 40.0 bps to end at a 20-month low of 2.12%. Fed funds future rates suggest a 25-bps Fed rate cut within two months.

• We see inflation resuming its slide in June, when we now expect headline rate to go below 3.0%, a month earlier than we earlier projected due to the sharp fall in crude oil prices. Together with the reserve requirement cuts, long-term bond yields should continue to decline. 10-year T-bond yields should breach 5.0% after the June inflation figures come out.

• The short-end of the yield curve should likewise ease up as we expect BTR to reduce offers for 182-day and 364-day T-bills starting July.

• Secondary market trading activity will remain buoyant with falling yields across the entire yield curve.

• We expect the curve for the issuance of long-term corporate bonds to lengthen in the coming months, although large issuers with shelf registrations may decide to fish at the bottom of yields later in H2.

• ROPs may track movements of US treasuries but at a slower pace since the latter may have gone too far ahead of expected Fed rate cuts.

BSP MONETARY EASING BRINGS BACK LIFE TO STOCK MARKET

Bangko Sentral ng Pilipinas' (BSP) 25 bps policy rate cut effective May 10 and the 100-bps reduction in reserve requirement ratio by end-May (with a further 50 bps cut by end-June and end-July) resuscitated PSEi back into positive territory by the end of May and became only one of the three Asian bourses that gained during the month. Stock markets in advanced economies led by Hong Kong and Japan mostly fell with the US-China trade war and Brexit looking more insoluble, at the same time that these economies showed clear signs of slowing down.

Outlook: The monetary easing paves the way for a liquidity-driven rally. However, with Q1 core earnings of PSEi constituent stocks up by only 8.6% against consensus estimates of 14.0%, and the trimming of weight allocation in the MSCI for Emerging Markets could undercut the rally. Economic recovery starting Q2 and with improved earnings should be constructive for the PSEi. Negative factors would include hardening of positions in the US-China trade war, a more accentuated slowdown in the US and China, and continued Brexit uncertainties. The positive and negative forces appear to balance out and local sentiment and re-entry of foreign funds would tilt the outcome.

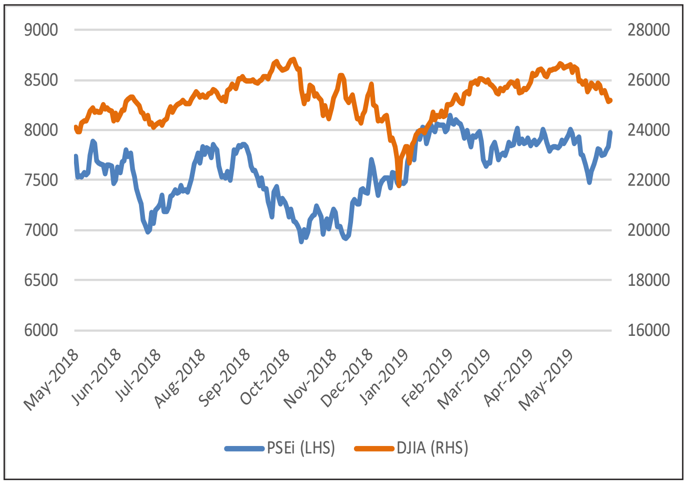
Global Equities Markets Performances

Region	Country	Index	May M-o-M change	2019 change
Americas	US	DJIA	-6.5%	6.5%
Europe	Germany	DAX	-5.0%	10.8%
	London	FTSE 101	-3.5%	6.3%
East Asia	Hong Kong	HSI	-9.4%	7.0%
	Shanghai	SSEC	-5.8%	17.6%
	Japan	NIKKEI	-7.4%	5.3%
	South Korea	KOSPI	-7.3%	1.6%
Asia-Pacific	Australia	S&P/ASX 200	1.1%	15.1%
Southeast Asia	Indonesia	JCI	-3.8%	0.5%
	Malaysia	KLSE	0.5%	-1.0%
	Thailand	SET	-3.2%	3.5%
	Philippines	PSEi	0.2%	6.4%
	Singapore	STRAITS	-8.3%	2.6%

Sources: Bloomberg & Yahoo Finance

May proved to be a challenging month for equities as most bourses around the world ended in the red mainly due to the MSCI rebalancing with China A shares inclusion and rising tensions between US and China's trade dispute, which could possibly lead to US Federal Reserve cut in policy rates to bolster the slowing economy. On the other hand, PSEi (+0.2%) joined the best performers among Asia-Pacific stocks such as S&P/ASX 200, and KLSE, although they only had slight upticks of 1.1% and 0.5%, respectively. The rest of Asian bourses landed in the red, with HSI, STRAITS, and NIKKEI suffering the biggest losses at 9.4%, 8.3%, and 7.4% month-on-month (m-o-m). Meanwhile, Western markets also failed to sustain earlier gains with Britain hurting from Brexit uncertainty in terms of investments and productivity.

Figure 14 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

DJIA and PSEi recorded a +0.3 correlation in May with PSEi trekking upwards, while DJIA slowly falling. In the first half of the month, PSEi tanked after the worse-than-expected Philippine GDP growth of 5.6% for Q1 surfaced (due to the budget impasse) and as the US-China trade war appearing to escalate. However, PSEi rebounded by the latter half of May due to eased restrictions of US on Huawei Technologies Company, bargain-hunting activities, and BSP's dovish statements and as the 100-bp cut in banks' reserve requirement ratio (RRR) became effective on May 31, 2019. Conversely, DJIA trended downward due to negative impact on key US companies of US-China trade conflict enduring as the countries seemed to harden on their positions. Thus, US 10-year treasury note yield falling to its lowest level since September 2017, pulling down some major banks' shares with it.

Amidst investors shying away from equities in other markets, the local bourse recorded a relatively flat growth of 0.2% in the previous month, albeit decelerating from April's +0.4.

Monthly Sectoral Performance				
	30-Apr-19		31-May-19	
Sector	Index	% Change	Index	% Change
PSEi	7,952.72	0.4%	7,970.02	0.2%
Financial	1,743.66	-1.1%	1,728.59	-0.9%
Industrial	11,608.92	-1.0%	11,634.44	0.2%
Holdings	7,638.20	-1.3%	7,577.31	-0.8%
Property	4,329.00	5.2%	4,325.82	-0.1%
Services	1,586.18	-1.4%	1,683.12	6.1%
Mining and Oil	7,720.61	-2.7%	7,388.40	-4.3%

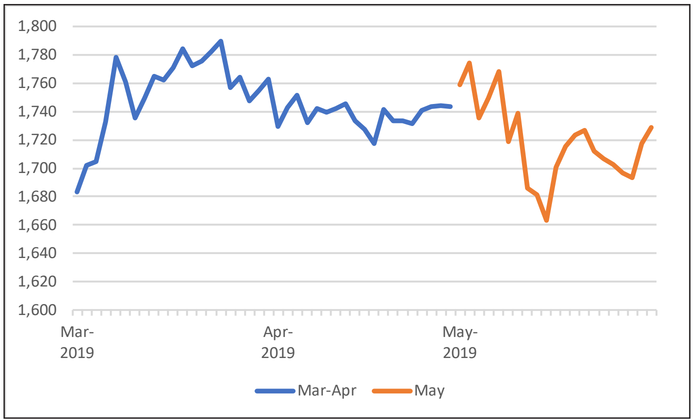
Source of Basic Data: PSE Quotation Reports

Amidst investors shying away from equities in other markets, the local bourse recorded a relatively flat growth of 0.2% in the previous month, albeit decelerating from April's +0.4. Property sector loses its four-month winning streak, falling moderately by 0.1% last May. However, Mining and Oil suffered the biggest loss of 4.3%. Financial and Holdings sectors also landed on the red, registering drops of 0.9% and 0.8%, respectively. Meanwhile, only Services and Industrial sectors managed to climb with Services soaring by 6.1% and Industrial edging up 0.2%.

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 15 - Financial Sector Index (Mar 2019 - May 2019)



Source of Basic Data: PSE Quotation Reports

The Financial sector extended its decline sliding by 0.9% in May (m-o-m), albeit lower than the 1.1% decrease last April. Financial sector fluctuated in the first half of the month, then took a nosedive early mid-month, and eventually managed to go up by the end of May. Despite the BSP cut in banks' reserve requirement ratio (RRR), all banks, except for BDO Unibank, took a blow.

BDO Unibank (BDO), the lone bright spot of the sector, rose by 3.0% as the strong Q1-2019 performance released last April finally takes ground and on announcements of sealed partnership with Singapore-based private equity firm, Archipelago Capital Partners Pte. Ltd. as a strategic investor for the bank's Davao-based rural bank subsidiary, One Network Bank, Inc.

On the opposite end, Bank of the Philippine Islands (BPI) suffered the biggest loss, with share prices down by 4.8% as it introduced increased charges for select online and mobile banking services effective July 1st.

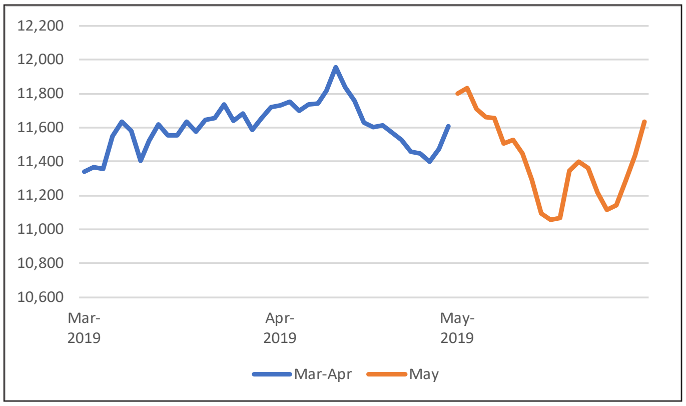
Metropolitan Bank and Trust Company (MBT) and Security Bank Corporation (SECB) shares landed in between the two extremes. Despite Q1-2019 net income rising by 15% year-on-year (y-o-y) to P6.8-B on the back of consistent loan growth and margin expansion, and higher fee-based earnings, MBT share prices shed 3.4%. SECB shares price understandably dropped by 2.8% as it posted only a 1.5% increase y-o-y to P2.4-B for Q1-2019 profits against consensus estimates of 7.0%.

Company	Symbol	30/04/19 Close	31/05/19 Close	% Change
Meralco	MER	385.00	385.00	0.0%
Aboitiz Power	AP	37.70	36.50	-3.2%
Jollibee Foods Corporation	JFC	304.60	288.00	-5.4%
First Gen Corporation	FGEN	22.10	23.10	4.5%
Universal Robina Corporation	URC	152.30	167.00	9.7%
Petron Corporation	PCOR	6.20	6.12	-1.3%

Source of Basic Data: PSE Quotation Reports

The Industrial sector grabbed one of the two slots that managed to eke out gains, posting a minor uptick of 0.2%.

Figure 16 - Industrial Sector Index (Mar 2019 - May 2019)



Source of Basic Data: PSE Quotation Reports

The Industrial sector grabbed one of the two slots that managed to eke out gains, posting a minor uptick of 0.2%. Industrial sector took a roller-coaster ride as it plummeted in the first half of the month, recovered for a week, which proved temporary, but which became more lasting by the last week of May. Universal Robina Corporation (URC) rallied the most among constituent stocks gaining 9.7% in value. Meanwhile, Jollibee Foods Corporation (JFC) shrank by 5.4%.

URC led index gainers due to the Q1-2019 earnings recovery and higher earnings guidance for 2019. Market expected a 12.0% decline in earnings. In addition, URC stoked the sector's growth on account of management's expectations of a higher revenue growth of 7.0-9.0% for 2019 due to the recovery of its coffee business and stronger contributions from its other products.

JFC continued its losses, this time, due to the 14.7% drop y-o-y in net income to P1.5-B for Q1-2019 attributable to the losses of its subsidiary, Smashburger in the US.

Also on the negative route, Aboitiz Power (AP) lost 3.2% in value as the firm posted a net income of P3.6-B, down by 9.0% y-o-y due to higher cost of purchased power reported last April which finally discouraged investors. However, AP signed another interim power supply agreement with More Electric and Power Corporation (More Power), which is poised to take over the power distribution in Iloilo City.

Petron Corporation (PCOR) recorded a 78.0% fall in net income to P5.8-B in Q1-2019 after revenues fell as a result of the Tax Reform for Acceleration and Inclusion Act (TRAIN-1) which raised the fuel excise tax (2nd tranche) alongside the rise in world oil prices.

Meanwhile, First Gen Corporation (FGEN) landed on the green as the construction of the liquefied natural gas (LNG) terminal in Batangas City finally broke ground in the previous month. FGEN plans to get it operational before the Malampaya gas field gets depleted in 2024. Its reported earnings for Q1 soared by 105.0% more than double market expectations.

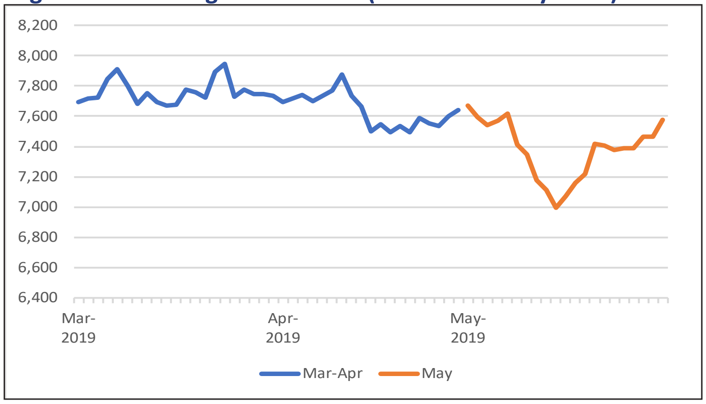
Manila Electric Company (MER) remained unchanged despite positive news on the lower energy rates by P0.2728 per kWh due to lower purchased power contract costs. Moreover, MER has used up over P12.0-B capex this year for network reinforcement and relocation of facilities being traversed by various infrastructure projects of the government.

Company	Symbol	30/04/19 Close	31/05/19 Close	% Change
Ayala Corporation	AC	904.00	919.00	1.7%
Metro Pacific Investments Corporation	MPI	4.57	4.50	-1.5%
SM Investments Corporation	SM	950.00	942.00	-0.8%
DMCI Holdings, Inc.	DMC	11.16	10.58	-5.2%
Aboitiz Equity Ventures	AEV	55.60	55.90	0.5%
GT Capital Holdings, Inc.	GTCAP	865.00	863.00	-0.2%
San Miguel Corporation	SMC	180.50	187.50	3.9%
Alliance Global Group, Inc.	AGI	14.96	15.60	4.3%
LT Group Inc.	LTG	16.04	14.94	-6.9%
JG Summit Holdings, Inc	JGS	66.00	62.60	-5.2%

Source of Basic Data: PSE Quotation Reports

LTG led index laggards on continued negative sentiment coming from the discussions on additional tobacco tax, which was certified as a priority bill by the President to be passed.

Figure 17 - Holding Sector Index (Mar 2019 - May 2019)



Source of Basic Data: PSE Quotation Reports

The Holdings sector dropped by 0.8% in the previous month, as losers beat gainers six to four. The sector took a nosedive, trading at even lower levels than in the previous months. However, the sector managed to recover by the latter half of May. Sector's biggest losers included LT Group, Inc. (LTG), JG Summit Holdings, Inc. (JGS), and DMCI Holdings, Inc. (DMC), which showed 6.9%, 5.2%, and 5.2% drops, respectively. Meanwhile, Alliance Global Group, Inc. (AGI) and San Miguel Corporation (SMC) grew most among constituent stocks, increasing by 4.3% and 3.9%, respectively.

LTG led index laggards on continued negative sentiment coming from the discussions on additional tobacco tax, which was certified as a priority bill by President Duterte to be passed. In other news, foreign brokerage firm, Morgan Stanley downgraded LTG from overweight to equal-weight and lowered its price target from P20.00 to P17.00.

JGS moved to negative territory despite the conglomerate seeing its attributable profit surge by 54.0% in Q1-2019, following the double-digit expansion of its airline and real estate businesses which had partially offset income decline in its petrochemicals business.

DMC continued to fall last May as profits fell by 25.6% y-o-y to P2.9-B, weighed down by lower earnings from Semirara Mining and Power Corporation. On the other hand, DMC is earmarking P2.0-B in capex for the next two years to support its railway construction activities under Phase 1 of the North-South Commuter Railway (NSCR) project.

On the positive route, AGI led index gainers after the firm recorded a robust 21.0% growth y-o-y to P4.3-B for Q1-2019, thanks to positive developments in its property, liquor, and quick service businesses.

SMC was also among those that pulled the sector up after the company won an auction to acquire the 85.7% stake in Holcim Philippines, Inc. (HLCM) for around $2.2-B. Additionally, SMC will submit an unsolicited proposal to the government to build an entirely new water source due to the recent supply shortage that hit residents of Metro Manila.

Ayala Corporation (AC) likewise landed on the green, growing by 1.7% due to the upgrade of its weight in the MSCI Emerging Markets (EM) index by +0.82% to 8.31% and the approval from Philippine Competition Commission (PCC) on Ayala Healthcare Holdings, Inc.'s (AHHI) acquisition of a majority stake in Negros Grace Pharmacy, Inc. Moreover, AC bought back 3.8-M shares from Mitsubishi Corporation at P838 per share, totalling P3.2-B, representing the final tranche of Mitsubishi Corporation's divestment. Meanwhile, its energy investment unit, AC Energy, will be doubling the capacity of its Sidrap wind farm development in South Sulawesi, Indonesia to 150 megawatts (MW) from currently at 75 MW.

Aboitiz Equity Ventures (AEV) rebounded last May posting a minimal uptick of 0.5% despite its core net income's plunge by 27.0% y-o-y to P3.9-B in Q1-2019 due to lower earnings coming across its subsidiaries.

Meanwhile, Metro Pacific Investments Corporation (MPI) still fell by 1.5% in May after the company reported a consolidated attributable net income down by 7.0% to P3.5-B in Q1-2019 due to refinancing and share issuance costs plus various project expenses. In other news, MPI and Maynilad Water Services, Inc. have committed to help the government clean up Manila Bay through the Adopt-an-Estero program.

SM Investments Corporation (SM) dipped by a minor 0.8% despite its consolidated net income growth up by 26.2% to P10.6-B in Q1-2019, arising from the consistent growth in rental income and higher residential sales.

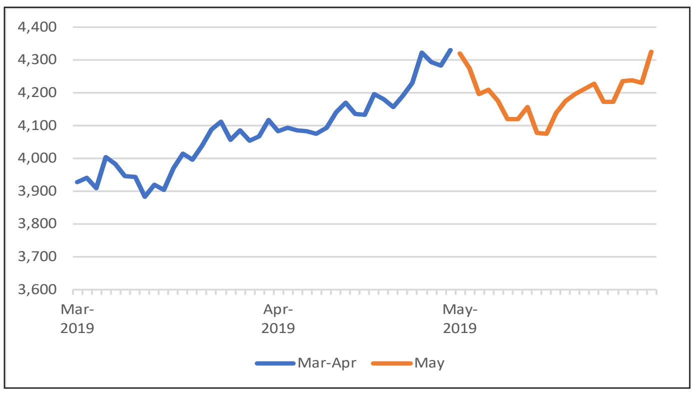
SMPH booked a significant decline after the property giant experienced a downweight of 0.17% during the MSCI's semi-annual index rebalancing (SAIR).

GT Capital (GTCAP) slipped by 0.2% when the firm booked a P3.4-B in income for the Q1-2019, lower compared to P3.8-B in the previous year.

Company	Symbol	30/04/19 Close	31/05/19 Close	% Change
Ayala Land, Inc.	ALI	48.95	49.50	1.1%
SM Prime Holdings, Inc.	SMPH	41.45	39.80	-4.0%
Robinsons Land Corporation	RLC	24.50	26.00	6.1%
Megaworld Corporation	MEG	5.60	5.90	5.4%

Source of Basic Data: PSE Quotation Reports

Figure 18 - Property Sector Index (Mar 2019 - May 2019)



Source of Basic Data: PSE Quotation Reports

Despite gainers beating losers three to one, the Property sector did not sustain its four-month winning streak and moved to negative territory. The sector spiralled down in the first half of the month, rebounded in the second half, but fell slightly short of April's end. SM Prime Holdings, Inc. (SMPH) ended as the lone dark spot, with its share price dipping by 4.0%. Meanwhile, Robinsons Land Corporation (RLC) stoked the sector's growth, with a 6.1% gain.

SMPH booked a significant decline after the property giant experienced a downweight of 0.17% during the MSCI's semi-annual index rebalancing (SAIR). SMPH failed to overcome the previous headwind despite the firm reporting earnings growth of 15.8% y-o-y to P8.8-B on higher earnings from rental portfolio and residential development and the expansions of its office portfolio with the opening of a new 13-storey office building in Iloilo City. Reported profits, however, fell short of expected gains of 20.1%

Conversely, RLC increased when the firm saw a 19.0% y-o-y increase to P1.8-B in net income driven by its shopping malls, office and hotel businesses. Furthermore, RLC gained on positive sentiment as the firm announced that it will soon be developing its 200 hectare land in Clark, Pampanga into a mixed-use estate called Montclair.

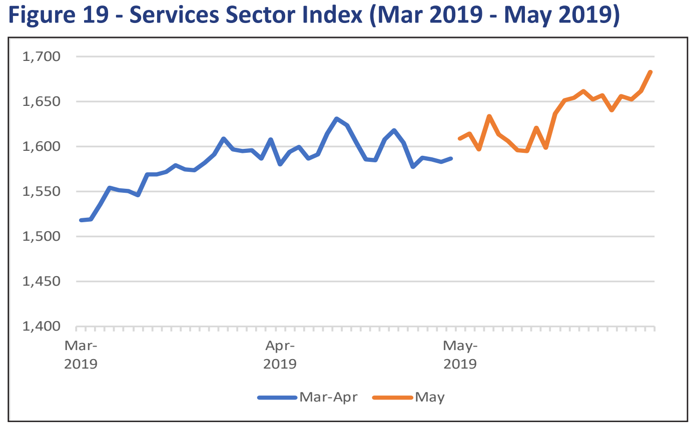
Not far behind, Megaworld (MEG) posted a 5.4% growth on account of the 16.0% rise y-o-y in the Q1-2019 profits, driven by the strong performance of its residential, leasing, and hotel businesses. In addition, MEG plans to invest P1.2-B to build a three-level lifestyle-oriented shopping mall in its Bacolod City township, the Upper East.

Ayala Land, Inc. (ALI) rose by 1.1% after the firm reported core net income rising by 31.6% y-o-y to P7.3-B backed by higher earnings from residential development and commercial leasing portfolios. However, investors had expected earnings rise of 53.9%. For those looking at the longer term, ALI's wholly owned subsidiary, Avida Land Corporation has acquired 264.5-M shares in AyalaLand Logistics Holdings Corporation (ALLHC), formerly called Prime Orion Philippines, Inc., in exchange for a parcel of land in Muntinlupa.

Company	Symbol	30/04/19 Close	31/05/19 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,230.00	1,350.00	9.8%
Globe Telecom	GLO	1,780.00	2,170.00	21.9%
Robinsons Retail Holdings, Inc.	RRHI	78.00	73.00	-6.4%
Puregold Price Club Inc.	PGOLD	41.90	44.60	6.4%
International Container Terminal Services Inc.	ICT	126.50	136.00	7.5%

Source of Basic Data: PSE Quotation Reports

Figure 19 - Services Sector Index (Mar 2019 - May 2019)



Source of Basic Data: PSE Quotation Reports

Once again, Mining & Oil faced the biggest losses as the sector traded at even lower levels than the previous month.

The Services sector rallied the most among constituent stocks, soaring by 6.1%. As evident, Services sector sustained the uptrend from the previous month and managed to trade at its highest level in the past months, nearly peaking at the 1,700-level. Globe Telecom (GLO) led index gainers, registering a double-digit growth of 21.9%. While, Robinsons Retail Holdings, Inc. (RRHI) took the back seat as it declined by 6.4%.

GLO grew the most after the telco giant reported Q1-2019 core net income growth of 40.0% y-o-y to P6.7-B, overwhelming market expectations of flat earnings. Strong profits arose from robust mobile data revenue together with controlled expenses.

On the other hand, the sector's outlier RRHI got a backlash after showing a 32.0% earnings drop y-o-y to P827.0-M in Q1-2019, a huge let down from market expectations of a 56.0% jump. RRHI attributed the profit fall to the unharvested gains from the problems of consolidating of Rustans Supercenters, Inc. (RSCI) to its core business. To combat this, RRHI plans to beef up capital expenditure (capex) to P5.0-B this year for the establishment of up to 150 new stores.

Philippine Long Distance Telephone Company (TEL) rose by 9.8% on account of the 6.0% y-o-y increase to P7.2-B in core income for Q1-2019 attributable to the firm's data and broadband services. In addition, the firm had announced that the Huawei devices will be able to function normally despite the US companies' plan to cut supply ties with Huawei Technologies Inc.

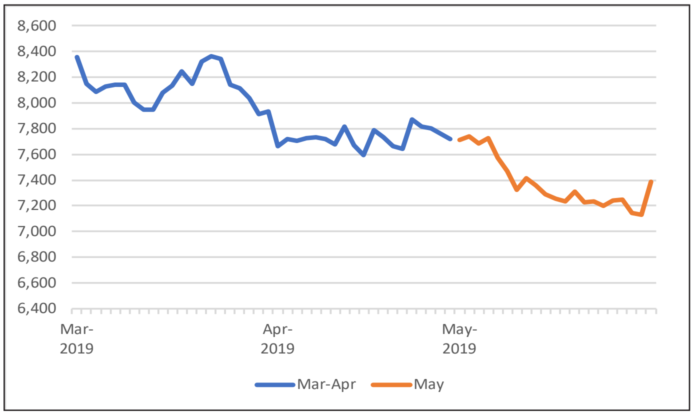
International Container Terminal Services, Inc. (ICT) gained 7.5% in value after reporting a 77.0% surge in net income to $72.4-M in Q1-2019. Its strong operational and financial performance with its terminal in Melbourne, Australia, lower financing charges, and a significant improvement in the operations of its joint venture terminal in Buenaventura, Colombia contributed significantly to the robust gain.

Puregold Price Club, Inc. (PGOLD) increased by 6.4% despite PGOLD exiting the convenience store business after four years of venturing in this space, with the sale of its entire 70.0% stake in the convenience store chain, Lawson.

Company	Symbol	30/04/19 Close	31/05/19 Close	% Change
Semirara Mining and Power Corporation	SCC	23.85	22.00	-7.8%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Mining & Oil Sector Index (Mar 2019 - May 2019)



Source of Basic Data: PSE Quotation Reports

Once again, Mining & Oil faced the biggest losses as the sector traded at even lower levels than the previous month. Semirara Mining and Power Corporation (SCC) fell by 7.8%, a reversal from April's +8.7% after SCC recorded a 49.0% drop in net income to P2.3-B in Q1-2019. SCC's power business suffered a net loss on account of its life extension programs and plant shut downs. Despite SCC being included in the MSCI Philippines Emerging Markets small cap index, with a weight allocation of 6.93%, this was not enough to sustain the uptrend of the stock.

Turnover in PSE recovered from April's slump of -12.4% and grew by 33.1% in May.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	21,490.99	49.7%	1,023.38	25.9%
Industrial	31,862.32	58.4%	1,517.25	22.6%
Holdings	42,920.32	65.8%	2,043.82	6.2%
Property	31,385.99	-19.7%	1,494.57	11.8%
Services	30,182.68	49.6%	1,437.27	19.4%
Mining and Oil	4,209.37	100.4%	200.45	101.6%
Total	**162,051.67**	33.1%	**7,716.75**	16.7%
Foreign Buying	92,355.17	22.8%	4,397.87	12.4%
Foreign Selling	106,533.33	63.7%	5,073.02	37.4%
Net Buying (Selling)	(14,178.17)	-240.5%	(675.15)	-403.6%

Source of Basic Data: PSE Quotation Reports

Turnover in PSE recovered from April's slump of -12.4% and grew by 33.1% in May. Only the Property sector came at the losing, with trading down by 19.7%. Meanwhile, biggest gainers included Mining and Oil, Holdings, and Industrial sectors, whose turnovers increased by 100.4%, 65.8%, and 58.4%, respectively.

After four straight months of net inflow, foreign sellers outweighed foreign buyers with net outflow of P14.2-B in May due to the semiannual index rebalancing which increased the weight of China A-shares in the MSCI indices but decreased the weight of Philippine equities in the MSCI Emerging markets index. Investors may have also remained cautious as they await further developments on the US-China trade conflict and Brexit deadline.

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		Mar-2019			Apr-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%	228,918	13.3%	13.1%	308,676	34.8%	0.4%
Tax	2,250,678	13.6%	2,565,812	14.0%	198,307	8.6%	11.6%	288,892	45.7%	2.8%
BIR	1,772,321	13.1%	1,951,850	10.1%	147,411	8.6%	12.7%	235,461	59.7%	1.2%
BoC	458,184	15.6%	593,111	29.4%	49,294	11.5%	8.9%	51,674	4.8%	10.4%
Others	20,173	20%	20,851	3.4%	1,602	-39.6%	-1.8%	1,757	9.7%	14.5%
Non-Tax	222,415	3.2%	284,321	27.8%	30,582	56.8%	24.1%	19,776	-35.3%	-25.7%
Expenditures	2,823,769	10.8%	3,408,443	20.7%	287,327	3.2%	-8.2%	221,804	-22.8%	-15.1%
Allotment to LGUs	530,150	17.9%	575,650	8.6%	52,173	-11.8%	12.8%	47,967	3.7%	-18.5%
Interest Payments	310,541	2%	349,215	12.5%	36,552	44.5%	32.7%	23,536	-35.6%	1.6%
Overall Surplus (or Deficit)	-350,637	-0.8%	-558,259	59.2%	-58,409	-23.5%	-47.2%	86,872	-248.7%	87.6%

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		3rd Quarter 2018		4th 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%	-2,907	-364.2%	-2,400	-23.3%
Balance of Goods	40,505	13.9%	50,202	23.9%	13,546	43.5%	13,332	4.0%
Exports of Goods	51,865	21.4%	51,392	-0.9%	13,474	0.2%	12,579	-0.8%
Import of Goods	92,370	18.0%	101,594	10.0%	27,020	18.1%	25,911	1.6%
Balance of Services	-9,249	31.3%	-11,539	24.8%	-3,158	-5.5%	-2,513	18.4%
Exports of Services	35,884	15.0%	38,510	7.3%	9,890	-0.4%	9,747	5.5%
Import of Services	26,635	10.2%	26,971	1.3%	6,732	2.3%	7,233	1.7%
Current Transfers & Others		-						
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	15	-73.0%	-3	-113.8%	20	43.0%
Financial Account	175	-92.4%	-7,795	192.6%	-1,975	-247.9%	-3,768	14.9%
Direct Investments	-5,883	5803.4%	-5,834	-10.9%	-1,300	39.8%	-797	-67.6%
Portfolio Investments	1,480	-72.9%	1,548	-38.3%	-447	-173.9%	-1,275	32.5%
Financial Derivatives	-32	-673.4%	-53	5.5%	33	-26.5%	-34	-183.6%
Other Investments	4,610	-249.8%	-3,455	-342.9%	-262	-116.2%	-1,661	-1797.2%
III. NET UNCLASSIFIED ITEMS	274	-136.6%	-1,245	-12.4%	-945	112.3%	1,443	322.5%
OVERALL BOP POSITION	-1,038	-116.1%	-2,306	167.2%	-1,879	184.0%	2,830	461.0%
Use of Fund Credits		-						
Short-Term		-						
Memo Items								
Change in Commercial Banks	1,421	-222.0%	-461	-212.5%	395	-71.5%	-1,866	85.5%
Net Foreign Assets	1,381	-229.7%	1,423	216.5%	353	-74.1%	-22.1	-97.7%
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		Mar-2019		Apr-2019	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	3,035,680	8.5%	3,227,042	6.0%	3,185,055	5.2%
Sources:						
Net Foreign Asset of the BSP	4,514,943	1.5%	4,718,581	2.1%	4,707,425	3.8%
Net Domestic Asset of the BSP	11,218,175	15.4%	11,853,622	9.8%	11,906,336	9.5%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,708,624	13.9%	3,889,431	6.1%	3,948,629	6.1%
Money Supply-2	10,597,336	11.2%	10,990,208	4.9%	11,064,501	5.7%
Money Supply-3	11,063,517	11.5%	11,585,208	6.1%	11,668,580	7.0%
MONEY MULTIPLIER (M2/RM)	3.49		3.41		3.47	

Source: Bangko Sentral ng Pilipinas (BSP)

June 2019

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FIRST METRO INVESTMENT CORPORATION Metrobank Group

UA&P UNIVERSITY OF ASIA AND THE PACIFIC