September 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

We are bullish on the economic growth and inflation fronts. We expect Philippine growth to expand by 6.0% in Q3 and accelerate further to 6.5% in Q4 on the back of formidable new job creation by July 2019, inflation falling to 1.7% in August on track to go sub-1.5% by September and signs of resurgence in National Government (NG) spending to boost domestic demand starting Q3. We remain optimistic about the bond markets, but neutral on the equity market.

Macroeconomy

We maintain our view that full year GDP growth would hover between 6.0% - 6.5% backed by a strong rebound in H2. Positive prints from strong job growth (to a 3.5-year high), inflation averaging 1.8% for Q3 and Q4 and lower interest rates should boost consumer and investment spending. The latter will ride on expected BSP policy rate and RRR cuts. Besides, better-than-expected external demand would further stimulate economy as export growth has remained in positive territory since April 2019.

- New jobs surged in July 2019 from a year ago to reach 2.3 M, a 3.5-year high.
- Inflation further eased to a 3-year low of 1.7% y-o-y in August from 2.4% in July.
- For the 4th straight month, exports gained by 3.5% in July, with more shipments to US, EU, Japan, and China.
- NG spending reversed July's decline, expanding by 3.5% in July.
- Peso-dollar rate depreciated in August due to US dollar strength and high balance of trade deficit.

Bonds Market

We expect a renewed fall in 10-year T-bond yields and 91-day yields, due to favorable domestic and external factors. Externally, the downward pressure on yields may be seen not only in the US, but also in EU and Japan. Domestically, below-target inflation, BSP policy and RRR cuts, and lower-than-expected borrowings by the National Government should provide the impetus. Thus, a fall of 10-year T-bond yields below 4.0% may be possible as financial markets tend to "overshoot".

- With T-bills auctions reduced from four to two, TOR further increased to 4.43x from 4.16x in August.
- T-bonds' TOR also rose to 3.047x in August from 2.844x a month ago.
- GS secondary market trading slipped to 22.1% m-o-m but still 2nd highest in 2019.
- Yields fell across the board, but especially for short-term debt ranging from 54.5 to 62.0 bps .
- ROP-29 and ROP-40 yields slumped by -45.9 bps to 2.148% and -46.8 bps to 2.667%, but a bit less than US Treasuries.

Equities Market

PSEi should to continue trading in a narrow range of 7,750-8,050 until more positive economic and corporate developments emerge. Corporate earnings should fall mostly in line with expectations, but the pullout threat of POGO could dampen market sentiment, However, BSP cuts in policy rate and reserve requirement could provide the needed stimulus.

- After four months on the green, PSEi slipped by a minimal 0.8%, albeit the lowest among global equities.
- Amidst the negative environment, only Mining & Oil and Holdings sectors emerged with positive gains.
- AGI, MEG, and DMCI fell the most with double-digit losses while, SECB, JGS, and URC rallied best.
- PSE turnover rebounded by 5.6%, despite foreign investors exited by a net P12.1-B.

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 (Q2-2019)	5.5%	5.6%	5.5%	6.7%	6.2%	6.0-6.5%
Inflation Rate (August)	1.7%	2.4%	3.3%	2.9%	5.2%	2.7-3.0%
Government Spending (July)	3.4%	-1.0%	-0.5%	12.6%	22.5%	11.0%
Gross International Reserves ($B) (August)	85.6	85.2	84.0	81.6	79.2	87.5
PHP/USD rate (August)	52.05	51.14	51.99	50.40	52.68	52.00-53.00
10-year T-bond yield (end-August YTD bps)	4.46%	4.95%	5.87%	4.93%	7.05%	4.625-4.875%
PSEi (end-August YTD % change)	7,980	8,046	0.6%	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

HUGE EMPLOYMENT GAINS, INFLATION BELOW 2% SIGNAL ROBUST H2 GROWTH

Outsized gains in employment of 2.3 M in July (over a year ago) and inflation for August (at 1.7%) piercing through the 2% floor of the Bangko Sentral ng Pilipinas' (BSP) inflation target promise a robust rebound of the economy in H2. The growth in total new jobs comes as a 3.5-year high, second highest in history. National Government (NG) spending sprang back to life in July with a modest 3.5% increase. Exports notched its 4th consecutive month of positive growth in July. Capital goods imports for July also rebounded from its previous month's decline.

Outlook: The huge job gains, inflation expected to go below 1.5% by September, and the revival of NG spending augurs well for faster GDP growth in H2. Specifically, we expect it to expand by 6.0% in Q3 and accelerate further to 6.5% in Q4. Although exports appear to have turned the corner, the balance of trade deficits will remain elevated and together with a buildup in Gross International Reserves (GIR) amidst higher money growth due to BSP's expected policy rate and reserve requirement cuts in September and Q4, should continue to put pressure on the peso-dollar rate.

PH Generates 2.3 M Jobs in July 2018-19

The economy generated 2.3 million (M) jobs in the year ending July 2019 to bring total employment to a record high of 42.9 M Total employment also rose by 711,000 jobs from April to June 2019. Thus, unemployment rate remained at 5.4%, as more people entered the labor force. This suggests an improved labor situation, especially with underemployment rate falling significantly to 13.9% from 17.2% in the same month last year.

As in the previous quarters, the Services sector accounted for most of job gains, generating 1.5 M new jobs. This represents a 6.2% year-on-year (y-o-y) increase. Above 10% gains in wholesale & retail trade (+10.7%), accommodation and food services activities (+18%), real estate, renting, and business activities (+18%), among others; drove higher employment in the said sector. The Agriculture sector added 704,000 jobs amidst better employment data in the fishing sub-sector. Gains in the manufacturing and construction sub-sectors also propelled the additional 146,000 jobs in the Industry sector.

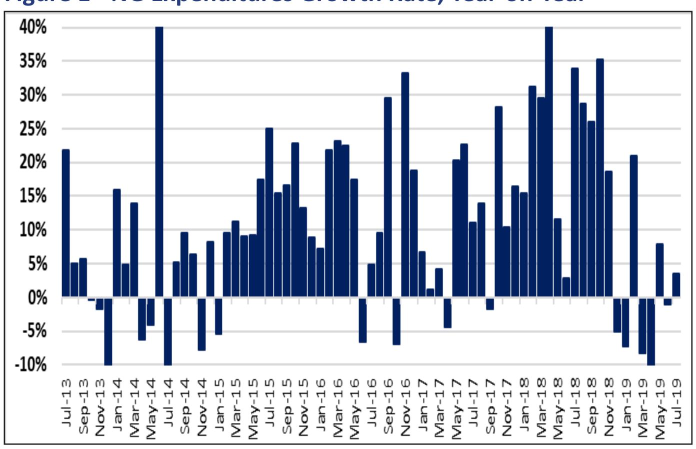
This positive development in the labor sector suggests higher total income, which should translate into higher demand for various goods and services. This, together with low inflation, will help boost domestic demand.

NG Spending Jumps by 3.4% in July

As previously anticipated, NG spending in July jumped by 3.4%, reversing the previous month's decline. It stood higher at P339.4-B due to hefty increase in the allotments to LGUs and interest payments. Other components (i.e., tax expenditures and subsidy) but have little weight, also posted remarkable gains.

Meanwhile, total revenues rose by 9% y-o-y, relying on hefty gains in the Bureau of Internal Revenue (BIR) collections. BIR tax revenues expanded by 10% y-o-y, supporting the latest upbeat labor data and a pickup in economic activity. The Bureau of Customs' (BOC) total tax take for the month also boosted NG coffers as it increased by 4.8% (y-o-y) to reached P54.6-B. Huge budget surpluses in January and July brought the year-to-date (YTD) deficit to P117.9-B, which only represents 18% of the P631.5-B target deficit for 2019.

Figure 1 - NG Expenditures Growth Rate, Year-on-Year



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

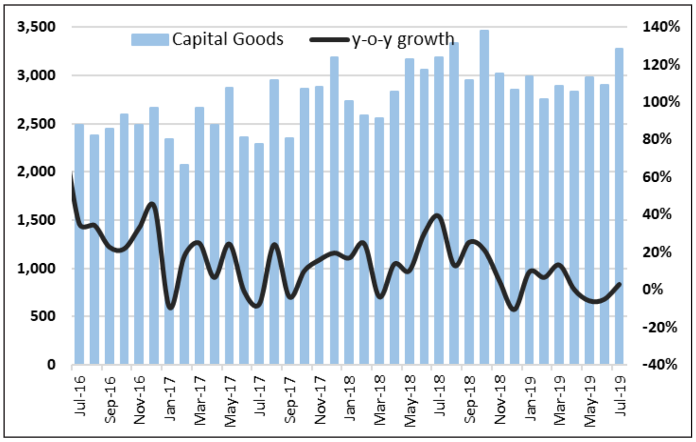
We still expect NG spending to pick-up the pace in the remaining months of the year, as we see huge spending on infrastructures and capital outlays during the 3rd and 4th quarters of 2019 (i.e., DPWH and Department of Transportation projects). Note that infrastructure spending as of July 2019 fell short by 11% (to P75.2 B) vis-à-vis July last year, still affected by the delay in budget approval. Nevertheless, we think that NG's catch-up plan will gain traction in H2.

Headline inflation in August, as previously expected, further slowed down to 1.7% y-o-y, marking the slowest pace in three years.

Capital Goods Imports Picks Up Growth in July

The imports of capital goods finally lodge in the positive territory, after two consecutive months of being in the red. Imports of the said category increased by 2.8% y-o-y in July propelled by gains in big-ticket capital good sub-products (i.e., power generating and specialized machines and office machines). This offset the decline recorded in aircrafts, ships, and boats (-27.9%) and photographic equipment and optical good (-4.3%).

Figure 2 - Imports of Capital Goods (in Million USD)



Source of Basic Data: Philippine Statistics Authority (PSA)

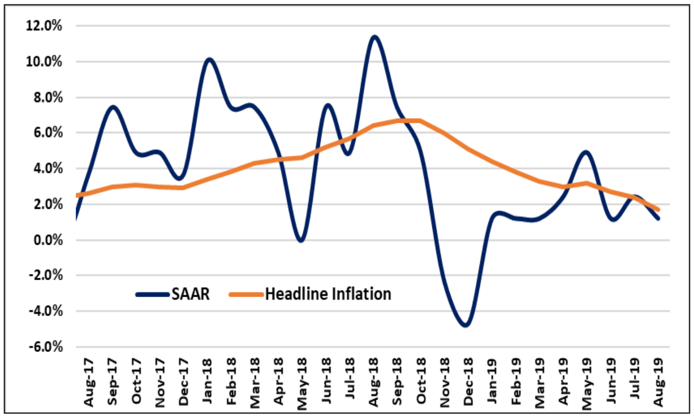
Raw materials & intermediate goods import still captured the largest share of total imports at 36%, albeit a 11.7% decline due to lower prices for unprocessed raw materials (i.e., crude, corn). Semi-processed raw materials (i.e., animal and vegetable oil, chemical) and manufactured goods (i.e., iron & steel and non-ferrous metal products) likewise showed weak import demand. Lower demand for coal and petroleum crude, likewise, resulted in a 14.5% plunge in mineral fuels and related materials. Meanwhile, consumer goods imports expanded by 7.6% y-o-y driven by higher imports of home appliances and miscellaneous manufactures, coupled with significant gain in the imports of non-durable goods (fish and fruits, among others).

The slowdown in about 50% of imports brought total imports lower by 4.2% y-o-y to reach $9.6-B in July. While it remained higher than total exports, the improvement in exports data resulted in lower balance of trade (BOT) deficit to $3.4-B in July, 15.5% lower than in the same month last year.

Headline Inflation Goes Below 2% in August

Slower upticks in heavily-weighted commodities (i.e., food and non-alcoholic beverages and transportation), coupled with lower oil prices and downward adjustment in electricity rates resulted in further price deceleration. Headline inflation in August, as previously expected, further slowed down to 1.7% y-o-y, marking the slowest pace in three years. YTD inflation remained well within the BSP's target at 3.1%, while core inflation also decelerated from 3.2% y-o-y in July to 2.9% in August.

Figure 3 - Inflation Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

The transportation index decelerated faster due to lower fuel prices and various rollback in fares. Note that international crude oil prices declined by 19.5% y-o-y in August, slightly below-$55/barrel for WTI on average. Electricity costs in August also posted its 4th consecutive downward monthly adjustment to P9.57/kWh from P9.99/kWh in July. The four-month downtrend resulted in a total of P1 reduction per kWh since May. The decline in Wholesale Electricity Spot Market (WESM) prices and generation costs triggered the downtrend which resulted in slower growth in other non-food index. The food and non-alcoholic (FNAB) index showed price decrements driven by lower prices of rice and corn. Other food groups such as cereals, sugar, jam, honey, fruits, and vegetables; among others also posted slower increases.

On the other hand, we observed faster increments in three categories--alcoholic beverages & tobacco, education, and clothing & footwear indices. The remaining two other commodity groups kept the past month's pace.

Broad money (M2) and narrow money (M1), likewise, accelerated with M1 posting a faster-pace expansion of 6.8% from 5.5% in the preceding month.

Inflation Year-on-Year Growth Rates	Aug 2019	Jul 2019	YTD
All items	1.7%	2.4%	3.1%
Food and Non-Alcoholic Beverages	0.6%	1.9%	3.2%
Alcoholic Beverages and Tobacco	10.1%	8.8%	10.8%
Clothing and Footwear	2.8%	2.6%	2.5%
Housing, Water, Elec, Gas, & Other Fuels	1.8%	2.2%	3.1%
Furnishing, Home Equip & Maintenance	2.9%	2.9%	3.3%
Health	3.1%	3.2%	3.7%
Transport	-0.2%	0.7%	2.0%
Communication	0.3%	0.3%	0.3%
Recreation and Culture	1.8%	3.2%	3.0%
Education	4.6%	4.2%	-1.9%
Restaurants and Miscellanous Goods and Services	3.2%	3.3%	3.6%

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 also decelerated to 1.2% in August from 2.4% in July, far below target inflation range. With little upward pressure from food and crude oil prices, we think that inflation will further slowdown to below 1.5% by September, counting also on a high base in H2-2018.

Manufacturing Output Still in the Red

Volume of Production Index (VoPI) remained weak, marking the 7th month streak of being in the red. Surveyed manufacturing output fell by 8.9% in July, albeit an improvement from the -10.5% in June. Lackluster output in six out of the 20 major industry groups, with two recording double-digit declines pulled down the index.

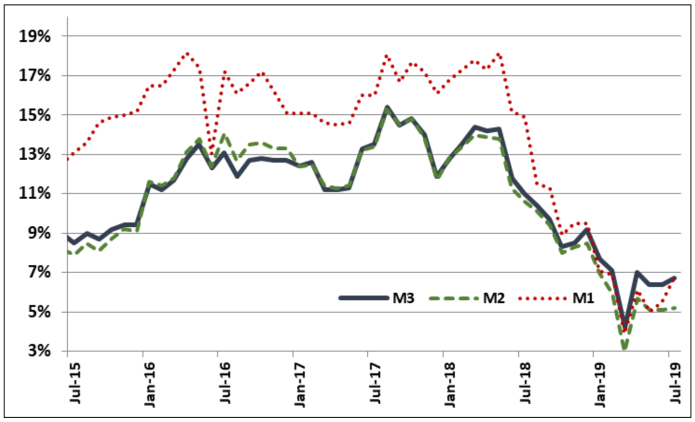
Petroleum products significantly fell by 75.8% followed by furniture and fixtures (-24.8%). The production of electrical machinery, non-metallic mineral products, miscellaneous manufactures, and basic metals also dropped. Meanwhile, wood and wood products led the expansion with a 53.9% jump, followed by printing (+36.4%). Five categories which include food manufacturing, tobacco products, machinery except electrical, transport equipment, and textiles joined the outperformers.

We maintain our view that an improvement in manufacturing data is to be expected in the coming months due to higher infrastructure and construction spending. Stronger consumer and investment spending, plus the upcoming Christmas season should, likewise, provide a further boost.

Domestic Liquidity Slightly at Faster Pace in July

Domestic liquidity (M3) growth slightly picked up pace by 6.7% (to P11.9 T) in July. Broad money (M2) and narrow money (M1), likewise, accelerated with M1 posting a faster-pace expansion of 6.8% from 5.5% in the preceding month. July data marked the 10th consecutive month of single-digit expansion in monetary aggregates, which explains the tightness in liquidity felt by banks.

Figure 4 - M1, M2, M3 Growth Rates



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

Outstanding commercial bank loans, which comprised 87.6% of banks' loan portfolio, meanwhile, maintained the past month's rate at 9.8%. Bulk of these loans went to construction; financial and insurance activities; real estate; electricity, gas, steam and air conditioning supply; wholesale and retail trade; repair of motor vehicles and motorcycles, among others. On the other hand, bank lending to community, social and personal activities and professional, scientific and technical activities still showed decreases exceeding 30%.

Growth in net foreign assets (NFA) of monetary authorities slightly increased to 6.5% from 6.4% y-o-y in June 2019. We think that this acceleration in the country's domestic liquidity will be anchored on softer inflation rate, as we expect a further easing of both policy rates and reserve requirements for the rest of the year.

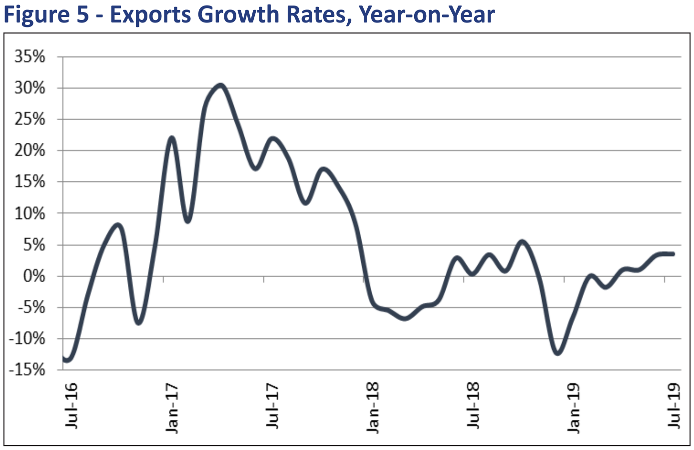
Personal remittances sent by Filipinos working abroad (OFWs) in June recorded a decline after 10 months, posting a negative 2.7% y-o-y to $2.5-B.

Exports Print in July Continues to Improve

Exports print in July continued to post gains, expanding by 3.5% y-o-y and marking the 4th consecutive month in positive territory after June's 3.3% expansion. This offset the decline in the first two months of 2019, resulting in a flat YTD rate, albeit an improvement from the negative 3.1% growth in Jan-July 2018. July total exports receipts amounted to $6.2-B powered by double-digit gains in eight out of 10 top export commodities.

Electronic products still had the largest share, accounting for 55.6% of total exports. Outbound sales of these products grew by 2.9% y-o-y, supported by higher demand for semiconductors (+2.4% gains y-o-y) and the 61% jump in both consumer and office equipment. Shipments of gold also posted hefty gains of 138.7% to $29.0-M. The rest of top five export commodities also rose.

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



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

Demand from the top three export destinations showed positive expansion. Shipments to the US increased by 8.9% y-o-y to $1.0-B while sales to Japan (2nd) and China (3rd) went up by 8.3% and 8.5% y-o-y, respectively. US remained to be the top export destination in July, accounting for about 16.9% of total sales. Meanwhile, outbound shipments to Hong Kong and Singapore showed declines.

Half of the total exports in July still headed towards East Asian (EA) nations, valued at $3.1-B (+6.5% y-o-y). Outbound sales from EU improved, reporting an 11.7% gain to $720.3-M. Exports shipments to ASEAN, on the other hand, fell by 9.2%.

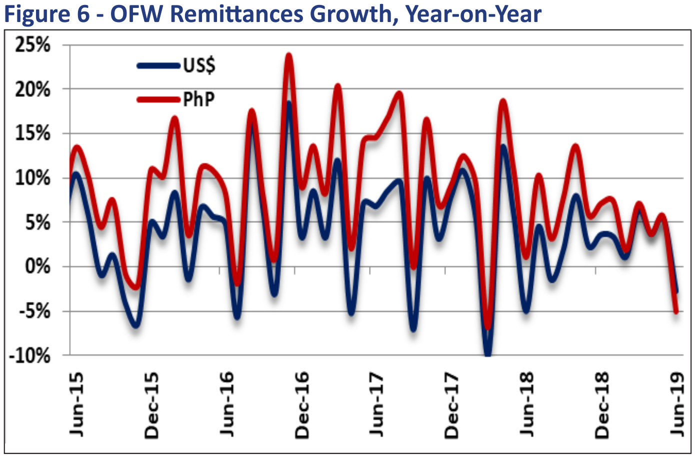
We maintain our view that higher export demand from PH top export destinations will continue to drive exports performance in the coming months.

OFW Remittances Decline in June But Up 2.9% in H1

Personal remittances sent by Filipinos working abroad (OFWs) in June recorded a decline after 10 months, posting a negative 2.7% y-o-y to $2.5-B. Nonetheless, positive expansion in the first five months resulted in YTD H1 total of $16.3-B, 2.9% higher than H1-2018.

Inflows coming from sea- and land-based workers with less than one-year contracts supported remittances flow (+8.8%), along with the 1.8% increase in remittances sent by those with contracts locked-in for at least one year. Cash remittances also increased by 3.2% (or$14.6-B) amidst strong transfers from the US, which accounted for about 36% of total cash remittances. Saudi Arabia, Singapore, United Arab Emirates, the UK, Japan, Canada, Hong Kong, Germany and Qatar, which collectively comprised another 41.6%, also contributed to the unrelenting increase of remittances.

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



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

Meanwhile, the peso equivalent of personal remittances in June fell by 5% due to lower dollar flow, coupled by the 2.7% y-o-y peso appreciation. We believe inflow of remittances will improve in the coming months as OFWs resume to pour in money in preparation for the Christmas holidays.

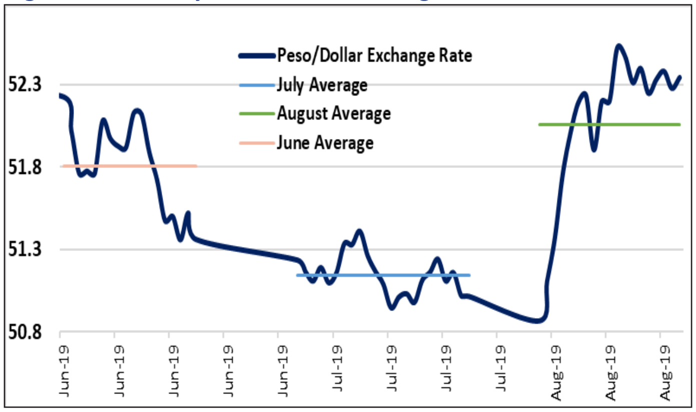
Most emerging market currencies sank (save for the Thai baht), tracking strong gains in the US dollar.

Dollar Rallies in August, Peso Posts 3rd Month of Depreciation

The Philippine peso succumbed to losses in August, marking the 3rd month of peso depreciation. The US dollar rallied to its 2-year high after the Fed cut rates by 25 bps, as expected. Strong labor data, likewise, added strength to the greenback. Meanwhile, large PH trade deficit and lackluster economic expansion in Q1 fueled weakness in the peso.

The peso averaged P52.05/$ from P51.80/$ a month ago, showing a 1.8% depreciation (m-o-m). The volatility measure widened to 0.47 from 0.12 in July, with a high of P52.51/$ and a low of P50.87/$.

Figure 7 - Monthly Dollar-Peso Exchange Rates



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

Most emerging market currencies sank (save for the Thai baht), tracking strong gains in the US dollar. The lingering US-China trade war also dampened prospects in the emerging markets. India rupee (INR) stumbled amidst weak economic data. Meanwhile, Chinese yuan took a breather despite the central bank's forex fixing. Large current account deficit sent the Indonesian rupiah (IDR) lower. On the other hand, lackluster investment and consumption data in Kore, along with depressing manufacturing prospects, due to the US-China and Japan-South Korea trade wars, continued to dampen the won (KRW).

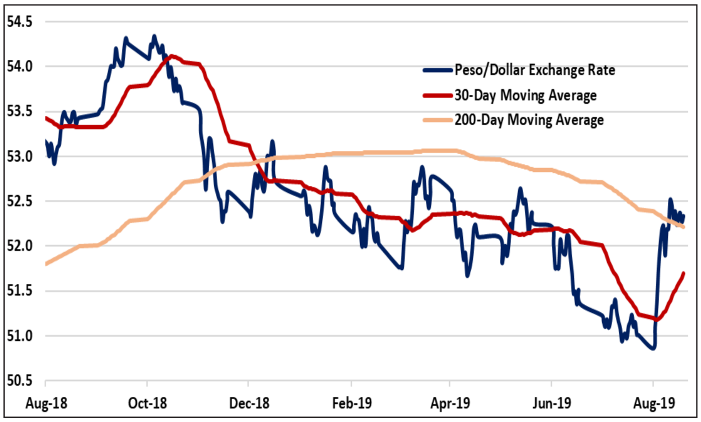
Exchange Rates vs USD for Selected Asian Countries

	Jul-19	Aug-19	YTD
AUD	-0.6%	3.2%	5.8%
CNY	-0.3%	2.5%	2.3%
INR	-1.0%	3.4%	0.5%
IDR	-1.4%	1.3%	-1.9%
KRW	0.2%	2.8%	7.6%
MYR	-0.9%	1.5%	0.3%
PHP	-1.3%	1.8%	-1.4%
SGD	-0.2%	1.8%	1.0%
THB	-1.0%	-0.2%	-6.0%

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

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

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 August landed above the 200-day and the 30-day moving averages (MAs), suggesting some peso weakness in the upcoming months. We maintain our view that the lingering trade deficit and the country's need to increase GIR will continue to put downward pressure on the peso and we expect it to hover within the P52.0-53.0 range in H2-2019.

Outlook:

Initial economic data for Q3 looked promising, especially the key items of a huge gain in employment and the unabated fall of inflation.

We still see a depreciation bias for the peso, considering the strength of the US, especially compared to its peers, and our lingering balance of trade deficits.

• The huge jump in employment, both on y-o-y and quarter-on-quarter (q-o-q) basis, albeit due partly to election spending, and the approval of NG budget on April 15, augurs well for a solid rebound of consumer spending starting Q3.

• The relentless fall of inflation to below 2% (y-o-y) in August, as we projected all along, and further to sub-1.5% by September, should provide support to consumer and investment spending in H2.

• National Government (NG) spending finally returned to the positive growth territory in July, albeit mildly. However, it suggests that the kinks introduced by the delayed budget approval are being fixed and we should start seeing double digit gains by August.

• Money (M3) growth remained at a tepid rate of 6.7% in July, only slightly faster than in June. This and inflation rate expected to go below 1.5% in September leads us to expect the Monetary Board to cut policy rates by another 25 bps in its September meeting, followed by lower reserve requirements by another 200 bps before the end of the year.

• We still see a depreciation bias for the peso, considering the strength of the US, especially compared to its peers, and our lingering balance of trade deficits. The latter has broken its upward trend but remains elevated. The need to build our dollar reserves remains an imperative considering that India lost some 20% of its large reserves after the outbreak of the World Financial Crisis.

ACTIVE BOND MARKETS MASK LAST MINUTE SPIKE IN YIELDS

While Philippine government bond yields slipped into a downward slope for most of August with a more pronounced inversion of US Treasury bond yield curve (less preferred steepness measure of 10-year yield less 3-month yield) and the further sinking of EU and Japan 10-year bond yields in negative territory, they rebounded sharply as the month ended and well into September. Mounting fears of recession in the US and marked slowdown of the German economy primarily explain the roller coaster ride of bond yields abroad. The domestic bond market, however, remained active with consistently robust trading volumes amidst less borrowings by the National Government (NG). ROP yields followed the descent of US Treasuries, albeit at a slightly slower pace resulting in a nudge in spreads over the latter.

Outlook: As we expect the Fed to cut its policy rates by at least 25 bps in September, the US Treasury bond yield curve steepness should remain in positive territory. We still expect local 10-year T-bond yields to tumble from the rebounded peak seen in the first two weeks of September due to inflation averaging 1.8% for Q3 and Q4, and to BSP cutting policy rates by 25 bps in September and the reserve requirements by 200 bps for the rest of the year. We foresee 10-year bond yields to go below 4% and 91-day T-bills to sub-3% between now and the end of the year.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
05-Aug	91-day	4.0	13.352	4.0	3.338	3.398	
	182-day	5.0	27.629	5.0	5.526	3.677	
	364-day	6.0	46.149	6.0	7.692	3.898	
19-Aug	91-day	4.0	10.760	4.0	2.690	3.254	-51.5
	182-day	5.0	14.110	5.0	2.822	3.471	-62.9
	364-day	6.0	20.885	6.0	3.481	3.636	-88.3
Subtotal		30.0	132.885	30.0	4.430		
13-Aug	10 year	**20.0**	**65.216**	**20.0**	**3.261**	**4.196**	-144.8
27-Aug	3 year	20.0	56.649	20.0	2.832	3.961	-84.2
Subtotal		40.0	121.865	40.0	3.047		
All Auctions		**70.0**	**254.750**	**70.0**	**3.639**		

Source: Philippine Dealing Systems (PDS)

Primary Auction: Yields Plummet for both Treasury Bills and Bonds

Despite a fall in total tenders, yields fell sharply in the auctions of Treasury bills (T-bills) and Treasury bonds (T-bonds) in August, as the Bureau of the Treasury (BTr) offered only P70.0-B down from P90-B a month ago. Tenders for government securities (GS) amounted to P254.8-B or a decrease of 13.8% from P295.5-B in July. When viewed in relative terms, demand for GS actually rose as the tender-offer ratio (TOR) went up to 3.63x from 3.28x in the previous month.

With auctions for T-bills reduced from four to two per month starting July, the TOR in August increased further to 4.43x from 4.16x in July. Reflecting strong demand for short term debt papers, yields for all tenors plummeted below 4%, for the first time since February 2018. 91-day T-bill yields plunged by 51.5 bps to 3.254% from 3.769%. 182-day T-bills crashed by 62.9 bps to 3.471% from 4.1% and the largest plunge occurred in the 364-day space where yields tumbled by 88.3 bps to 3.636% from 4.519% in July.

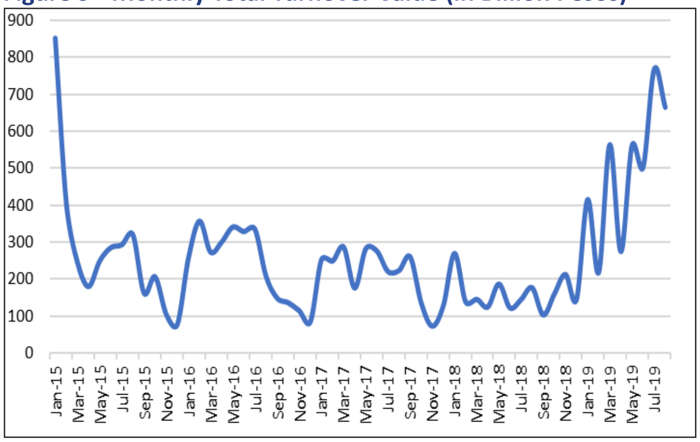
A similar pattern formed in the T-bond auctions. BTr offered only P40.0-B (of 10-year and 3-year) T-bonds compared to P60.0-B in July. And so, while total tenders fell to P121.9-B from P170.7-B a month ago, TOR were up by 2.84x to 3.05x. Thus, yields for both 3-year and 10-year T-bonds sank massively. 10-year T-bonds yields fell by a huge 144.8 bps to 4.196% from 5.644% on July 2, 2019 while 3-year yields dove by 84.2 bps to 3.961% from 4.803% on May 27, 2019.

GS Secondary Market: Demand Remains Elevated

Secondary GS market total volume turnover eased by 22.1% month-on-month (m-o-m) to P665.2-B compared to P767.7-B in the previous month. However, the volume for the month remained elevated as it reached the second highest level for the year of 2019. Year-on-year (y-o-y) turnover grew by 275.6%.

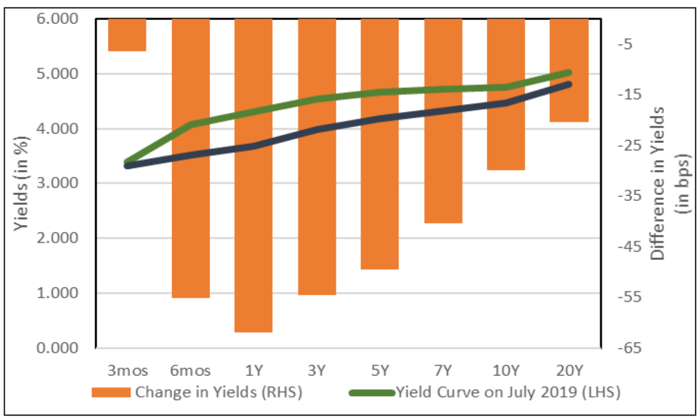
Yields at the belly of the curve (5-year and 7-year) also fell sharply as 5-year maturities slumped by 49.5 bps to 4.173% and 7-year yields got slashed by 40.4 bps to 4.322%.

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



Source: Philippine Dealing Systems (PDS)

Figure 10 - GS Benchmark Bonds Yield Curves

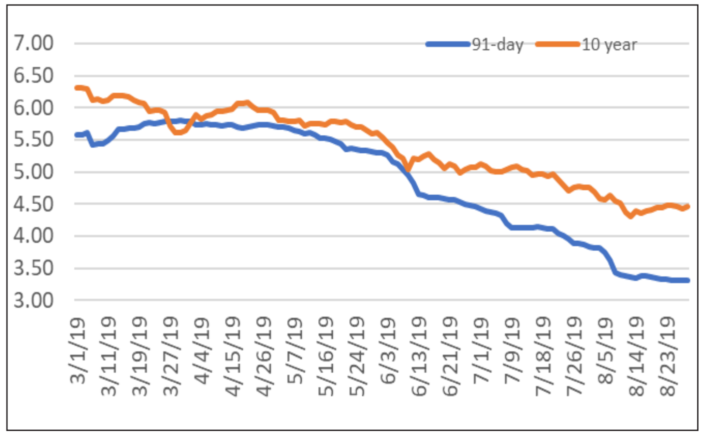


Source: Philippine Dealing Systems (PDS)

August saw an unabated fall in yields for all tenors and turned the yield curve into a more normal upward sloping curve. The 3-month tenor had the smallest slide of 51.9 bps to 3.319% from 3.838% in the previous month. However, other short-term tenors (6-months to 3-years) took a deeper dive with -55.1 bps to 3.518% for 6-months and -62 bps to 3.687% and -54.5 bps to 3.992% for 1-year and 3-year debt papers, respectively.

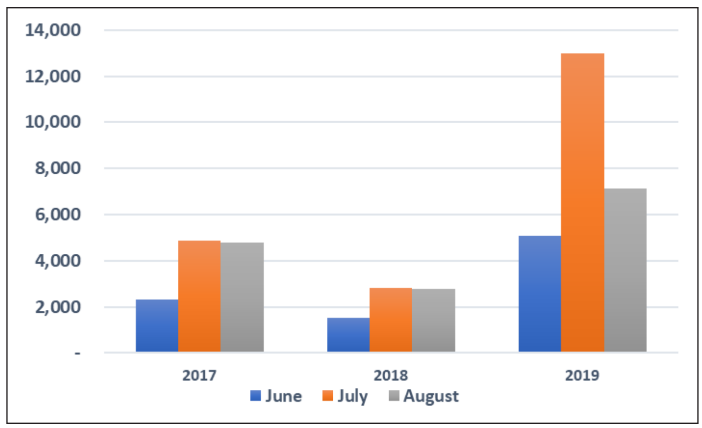
Yields at the belly of the curve (5-year and 7-year) also fell sharply as 5-year maturities slumped by 49.5 bps to 4.173% and 7-year yields got slashed by 40.4 bps to 4.322%. Smaller decrements occurred at the long end of the curve with 10-year yields down by 29.9 bps to 4.459%, 20-year T-bond yields dropped by 20.4 bps to 4.813%.

Figure 11 - 91-day T-bill and 10-year T-bond Daily Yields



Source: Philippine Dealing Systems (PDS)

Figure 12 - Total Corporate Trading Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Corporate Bond Trading: Trading Eases in August while Issuances Stable

After the boom of corporate bond trading in July, bond investors stepped back again in August with total trading volume dropping by 45.1% m-o-m to P7.1-B from P13.0-B a month ago. Trading remained brisk, however, as it still more than doubled y-o-y with a 154.7% gain.

Trading in the top five corporate issuers totaled P3.2-B or up 44.3% m-o-m, and 223.6% higher than a year ago. Ayala Land Inc. (ALI) took the top spot with P1.3-B trading hands, an increase of 134.9% m-o-m. Apart from ALI, the other top five corporate issuers include SM Prime Holdings (SMPH), JG Summit Holdings (JGS), SMC Global Power (SMCGC) and Ayala Corporation (AC).

Yields of Republic of the Philippines US dollar-denominated sovereign bonds (ROPs) continued its downward trend in tandem with US Treasuries.

SMPH trading declined by 36.2% m-o-m to P653.5-M, although it retained the 2nd spot. SMCGC slipped to 3rd place as turnover fell by 70.9% (m-o-m) to P472.5-M. Meanwhile, AC and JGS switched places for 4th and 5th slots as they generated trading volumes of P447.1-M (+173.7%) and P298.5-M (-5.4%), respectively.

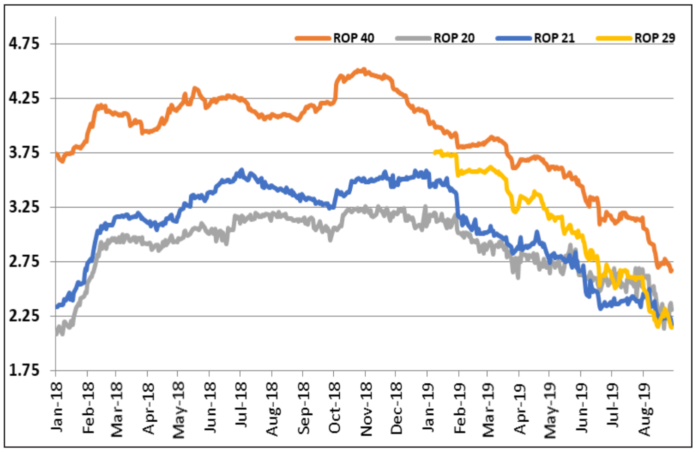
Corporate Issuances and Disclosures

• ABS-CBN exercised it early redemption option for its P6.0-B fixed rate 5.335% 7-year bonds due in 2021. The early redemption option date of August 10, 2019 was five years and 6 months from the issuance date of the bonds.

• Bank of the Philippine Islands (BPI) successfully priced a $300-M senior unsecured fixed rate 5-year ASEAN Green Bond via a drawdown under its $2.0-B Medium Term Note Program. The bonds priced at 99.641 with a re-offer yield of 2.577%. It will carry a coupon rate of 2.50% per annum payable semiannually and mature on September 10, 2024.

• Robinsons Bank (RBANK) listed a total of P5-B fixed rate bonds with coupon of 5.125% set to mature in 2021. This issue aims to sustain loan growth and boost long-term funding.

Figure 13 - ROPs Daily Yields

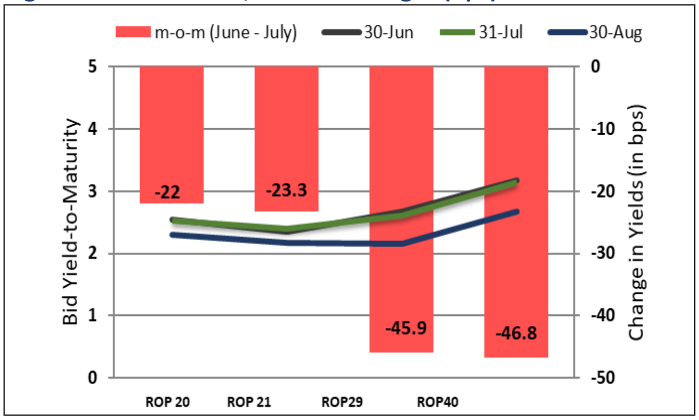


Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ROPs: Equivalent US Treasury Yields Fall Faster Creating a Wider Spread with ROPs

Yields of Republic of the Philippines US dollar-denominated sovereign bonds (ROPs) continued its downward trend in tandem with US Treasuries, as fears of a recession due to an inverted yield curve in the US pressured US longer term debt papers to fall sharply by mid-August. The drop in yields for the shorter tenors seemed more muted.

Figure 14 - ROPs Yield, M-O-M Changes (bps)



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Spreads between ROPs and US Treasuries

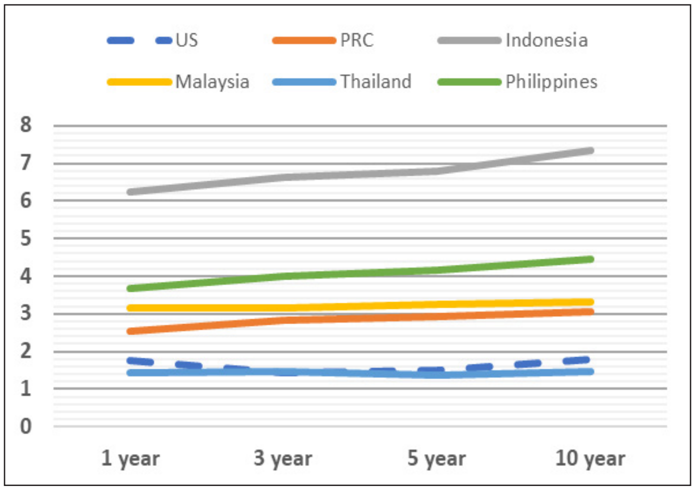
Date	1-year	2-year	10-year	20-year
28-Jun	61.7	60.4	67.6	87.2
31-Jul	52.6	51.4	58.7	82.5
30-Aug	54.6	67.1	64.8	88.7

Yields of shorter tenor ROPs (1-year and 2-year) dropped by 22 bps to 2.306% from 2.526% and 23.3 bps to 2.171% from 2.404% for ROP-20 and ROP-21, respectively. Meanwhile, longer dated ROP-29 and ROP-40 dove by -45.9 bps to 2.148% and -46.8 bps to 2.667%, respectively. In end-July, these issues had yields of 2.607% and 3.135%, respectively.

As US equivalent Treasury bond yields fell even more for all tenors, the spread between ROPs and equivalent US Treasuries mildly widened by between 2 bps and 5.9 bps (see above table). 1-year US T-bond yields slumped by 24 bps to 1.76% from 2% while 2-year yields gave up 39 bps to 1.5% from 1.89%. The longer dated tenors (10-year and 20-year) plunged even more drastically by 52 bps to 1.5% from 2.02% and 53 bps to 1.78% from 2.31%, respectively.

Negative sentiment started to build [in the US] from the beginning of August, despite robust job growth of 164,000 in July (released early August).

Figure 15- Comparative Yield Curve Between ASEAN per Tenor



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN + 5: Yield Curve Mostly Flatten in Region

US: Negative sentiment started to build from the beginning of August, despite robust job growth of 164,000 in July (released early August). Closer scrutiny revealed that Private sector job gains rose below expectations. In the second week, University of Michigan's Consumer Sentiment index for Aug fell sharply to 92.1 from 98.4 a month ago. This led to a deeper inverted yield curve (I e., less preferred steepness measure of 10yr less 3MO yields) as 10-year bond yields started its sharp descent to a 3-year low of 1.45%. Bond yields in EU, Japan became even more negative leading to deeper gloom. By August 27 the US yield curve (I.e., preferred measure of 10yr less 2yr yields) also inverted, although this lasted only for 3 days. Before August ended, the markets realized that the Q2 GDP growth downgrade by 0.1% to 2.0% didn't really signal a weak economy as consumer spending gains well exceeded expectations. The coup de grace came from Conference Board Consumer Confidence index which held at 135.1 vs. 130 consensus and 135.7 a month ago. 10yr bond yields rebounded by end-August. The job report for August still showed robust increase of 130,000 jobs, while wage growth edged up by 0 .4% s.a., m-o-m and drove 10 yr yields past 1.8%, and the yield curve steepness measure returned more securely positive territory even by mid-September.

China: Inflation rate rose to 2.8% (y-o-y) in July 2019 and 0.4% on m-o-m basis. This has been the highest rate since February 2018, due to the food price increase as pork prices surged with the outbreak of African swine fever at (+27%). Non-food inflation eased to 1.3% in July from 1.4% in June. The drop in producer prices by 0.3% in July y-o-y raised fears of sharper GDP growth slowdown. On the trade side, exports dropped by 1% y-o-y to USD 214.8-B in August, missing the market consensus of 2% growth. More US tariffs measure will take effect on October 1 and December 15 and should add fuel to the economic slowdown. Despite the decline in imports by 5.6% to US 179.9-B, resulting in a trade surplus USD26.9-B in August a $1.0-B decline from the previous month. Regarding the US-China trade war, both parties raised tariffs last Sept 1 and US plans to add more tariffs on Oct. 1 and both nations may increase again on Dec. 15. The European stocks and US equity futures jumped last September 5, tracking a rally in Asia. The IMF estimates that the upcoming tariffs will reduce about 0.8% of global gross domestic product growth in 2020 with its revised forecast of 3.5% expansion next year. The slope of the yield curve remained basically unchanged.

Thailand: CPI inflation decreased by 0.52% (y-o-y) in August from +0.98% in July. This has been the lowest inflation since January, as food prices hit a four-month low. In addition, prices declined for both transport and communication (-2.2%), apparel & footwear (-0.1%). The rise in prices recreation & education (0.8%) failed to offset the fall in heavier weighted categories. The government forecasts inflation between 0.8% to 0.9% for FY 2019. Bank of Thailand (BOT) projects the economy to grow by 2.7% - 3.2% in 2019, due to the lingering global trade tensions. However, even it fails achieve this, the government thinks that economy won't fall into a recession. It expects that private consumption, government spending, government investment and tourism industry would grow in Q3. Despite the recent 25 bps cut in the policy rate, the baht continued to appreciate, taking a toll on exports, tourism and foreign direct investment. The Federation of Thai Industries has proposed measures to counter the strong baht, including the imposition of withholding tax, outbound investment promotion and tapering the bond supply. Currently the baht appears 10% - 14% stronger than the Chinese yuan and South Korean won, respectively. Weak growth prospects have flattened the yield curve by 8 bps (10yr less 2yr yields) to only 11 bps.

Tracking the slide in US Treasury bond yields and reflecting the weakness in their economies, nominal bond yields in Japan and the large economies of EU

Indonesia: Last August 30, 2019, the House of Representative approved a target growth of 5.3% for 2020 which serves as the baseline for the 2020 state budget. In addition, other macroeconomic assumptions include: inflation rate at 3.1%, and foreign exchange rate of Rp13,900 – Rp 14,400 per US dollar and 5.4% 4-month T-bill rate. It also agreed to target 4.8 to 5.1% unemployment rate, 8.5-9.0% poverty rate, 0.375 – 0.380 Gini ratio and 72.51 Human development index. August inflation increased to 3.49% y-o-y from 3.32% in July. YTD the remained low at 2.48%, The August inflation rate came out fastest since December 2017. The higher inflation print originated mainly from higher costs of foodstuffs (5.81% from 4.85%) and clothing (5.18% vs 4.19%). In addition, education, recreation & sport and health costs accelerated. The slowdown of price gains in housing & utilities, transportation, communication & financial services failed to arrest the upward move of the key categories. Barely a month from its previous policy rate cut, Bank Indonesia reduced its 7-day reverse repo rate (policy rate) by 25 bps to 5.5% from 5.75% last July and the second time this year. The policy easing responds to the low inflation forecast and improved investment returns on domestic financial assets. The yield curve flattened a little or by 8 bps. The end-August spread between 10yr and 2yr yields thus slipped to 84 bps.

Malaysia: Malaysia's inflation rate eases to 1.4% y-o-y in July from 1.5% a month ago. The slowdown arose from the continued fall of transport costs (-19% from -2.1%) while clothing & footwear turned negative (-1.1% from 0.7%). Besides, prices for both housing, water, electricity, gas & other fuels and recreation services & culture exhibited milder gains. In addition, The Malaysia Nikkei Manufacturing Purchasing Managers' Index (PMI) continued to slow down to 47.4 in August 2019 from 47.6 last July, the eleventh straight month of contraction in the sector. On the trade side, exports increased by 1.7% y-o-y to RM88-B y-o-y while Imports dropped by 5.9% to RM73.7-B. The latter reflected the decrement in all broad categories--imports of capital goods, intermediate goods and consumption goods. Thus, July showed a trade surplus of MYR 14.3-B (~$3.3-B). In the financial sector, outstanding corporate bonds grew by 10.3% y-o-y from 10.6% a month ago while outstanding household loans rose slower by 4.7% from 4.9%. Reflecting expectations of weaker economic growth, the yield curve flattened by 18 bps to end up at 17 bps (10yr less 2yr yields).

Outlook

As domestic bond yields reacted more to the developments in bond markets abroad, especially the US, where steep declines in yields occurred in the middle of the month, but bounced back sharply starting the last days of August, we still believe that local developments will henceforth have a stronger effect on peso-denominated bond yields.

• The US yield curve that had been flattening (i.e., using the more widely used steepness measure of spread between 10-year and 2-year bond yields), finally inverted on August 27-29, but has since rebounded to positive territory seen earlier in August. These movements mainly reflected the changes in the 10-year US T-bond yields since 3-month papers have remained close to 2%, as the Fed had not touched its policy rate (Fed funds rate, or overnight). The yield curve should steepen a bit more as the Fed is expected to cut policy rates by 50 bps between September and yearend.

• Tracking the slide in US Treasury bond yields and reflecting the weakness in their economies, nominal bond yields in Japan and the large economies of EU (i.e., Germany, France, Netherlands) became even more negative in August. The uncertainties spawned by these falls in bond yields around the globe affected the local 10-year T-bond yields which reached a 26-month low of 4.303% on August 13, 2019. With the widely expect policy rate cut by the Fed on September 18th, bond investors should focus more on movements of key Philippine economic indicators.

• Inflation, the main driver of nominal bond yields, will continue to fall to average 1.8% in Q3 and Q4, despite recent crude oil price shock from the attack on a key Saudi Arabian oil development. Add to these the average real yield of 2%, then we can see that a sub-4% 10-year T-bond yield scenario is plausible especially as financial markets tend to "overshoot". Other OPEC countries and Russia will likely take advantage of the unexpected price spike to hike its crude oil output.

ROPs yield movements will likely track US Treasuries with minor changes in spreads.

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**
					Jul-19	**Aug-19**			
US	1.50	1.78	2.0	(0.22)	13	28	15	2.50	0.50
PRC	2.67	3.07	2.8	0.27	38	39	1	4.35	1.55
Indonesia	6.51	7.35	3.1	4.25	92	84	(8)	5.50	2.40
Malaysia	3.15	3.32	0.8	2.52	35	17	(18)	3.00	2.20
Thailand	1.38	1.48	1.2	0.28	18	11	(8)	1.75	0.55
Philippines	3.90	4.46	2.6	1.86	34	56	22	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*

• BSP's expected 25 bps policy rate cut in September and 200 bps reduction in reserve requirement before the end of 2019 would add the necessary liquidity to make the above happen and also drive down T-bill yields below 3%.

• We expect a barrage of corporate bond issuances in the last four months of the year as firms have entered the final stages of the issuance process and interest rates should touch 3-year lows.

• ROP yield movements will likely track US Treasuries with minor changes in spreads.

GLOBAL ECONOMIC SLOWDOWN AND RISING TENSIONS KEEP LID ON PSEi

The global economic slowdown, trade tensions, and the US yield curve inverting by the end of August coupled with the lower-than-expected Philippine GDP Q2 growth pushed investors back to a cautious mode and kept the PSEi within a narrow range of 7,780-8,050 in August. Nonetheless, PSEi had the least decline (-0.8%) in ASEAN and East Asia. The local equities market in early September in the doldrums as the US yield curve reverted to slightly positive slope, while domestic corporate earnings came slightly lower than market expectations.

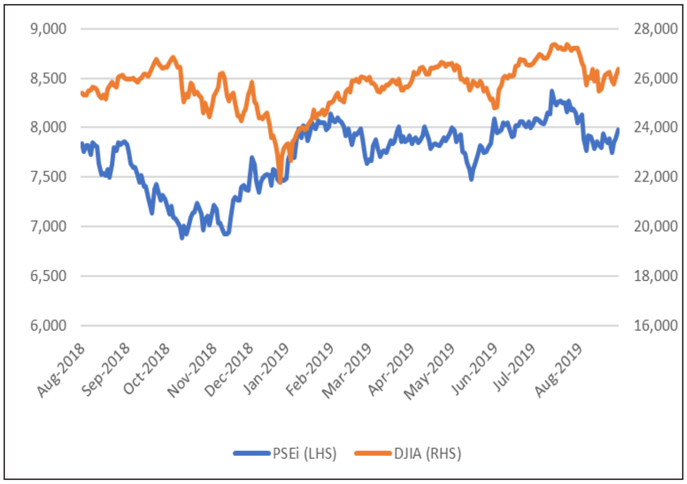
Outlook: Despite a hiatus in the US-China trade war, the external environment remains gloomy as interest rates appeared glued to negative territory in EU and Japan, leaving markets in terra incognita. Domestically, the threatened pullout of POGO and thirst for liquidity in the financial sector should keep the PSEi in its current trading range until more significant positive economic and corporate news emerge in Q4.

Global Equities Markets Performances				
Region	Country	Index	Aug M-o-M change	2019 change
Americas	US	DJIA	-1.7%	13.1%
Europe	Germany	DAX	-2.0%	12.8%
	London	FTSE 101	-5.0%	7.0%
East Asia	Hong Kong	HSI	-7.4%	2.4%
	Shanghai	SSEC	-1.6%	-0.8%
	Japan	NIKKEI	-3.8%	5.8%
	South Korea	KOSPI	-2.8%	-2.1%
Asia-Pacific	Australia	S&P/ASX 200	-3.1%	18.8%
Southeast Asia	Indonesia	JCI	-1.0%	2.4%
	Malaysia	KLSE	-1.4%	-3.4%
	Thailand	SET	-3.3%	5.7%
	Philippines	PSEi	-0.8%	6.5%
	Singapore	STRAITS	-5.9%	2.2%

Sources: Bloomberg and Yahoo Finance

Global equities suffered a bloodbath as investors sought other safe-havens due to a plethora of negative vibes in the air. These included (a) deepening global slowdown, (b) US Treasury's yield curve inverting further in August; (c) Fed Chair Powell dampening hopes for another rate cut; (d) Germany's negative Q2-2019 GDP print, and (e) China's weakest GDP growth in over a decade. However, these didn't result in double-digit declines as China tapered down trade fears with its statements to negotiate with rather than retaliate against the US. HSI, STRAITS, and FTSE 100 took the biggest hits, losing 7.4%, 5.9%, and 5% in value, respectively. British equities suffered most among advanced markets as uncertainties regarding Brexit weighed in as well. On the other hand, PSEi, JCI, and KLSE, proved to be the most resilient as the Philippine, Indonesian, and Malaysian bourses only booked minimal declines of 0.8%, 1%, and 1.4%, respectively.

Figure 16 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

DJIA and PSEi continued to move in similar paths, maintaining the high correlation of +0.7 in July. As evident, both bourses traded at lower levels last August with the closely watched yield spread (between 10-year and 2-year Treasury bonds) widening further, the lowest since 2007. DJIA fluctuated throughout the month due to rising trade tensions, weak US Q2-2019 GDP expansion, and increasing jobless claims. However, DJIA ended with an uptrend after trade worries started to ease and US corporate profits rebounded strongly.

Meanwhile, PSEi was also volatile in the previous month after the Philippines' 0.03% downweigh from the August MSCI rebalancing, lower-than-expected Philippine Q2-2019 GDP expansion, and negative sentiments over China's plans to ban online gambling in the country. Nonetheless, the local market was lifted by the end thanks to large holding companies, SM Investments Corporation and JG Summit Holdings, Inc., and industrials, Aboitiz Power Corporation, climbing steadily.

PSEi lost steam from its four-month winning streak, and slipped by a minimal 0.8%, albeit the lowest decrease among global equities.

Monthly Sectoral Performance				
	31-Jul-19		30-Aug-19	
Sector	Index	% Change	Index	% Change
PSEi	8,045.80	0.6%	7,979.66	-0.8%
Financial	1,842.49	7.1%	1,833.28	-0.5%
Industrial	11,252.52	-3.8%	11,126.30	-1.1%
Holdings	7,844.36	1.8%	7,922.86	1.0%
Property	4,234.33	-0.9%	3,998.00	-5.6%
Services	1,644.35	-3.9%	1,623.75	-1.3%
Mining and Oil	7,885.78	3.9%	8,250.52	4.6%

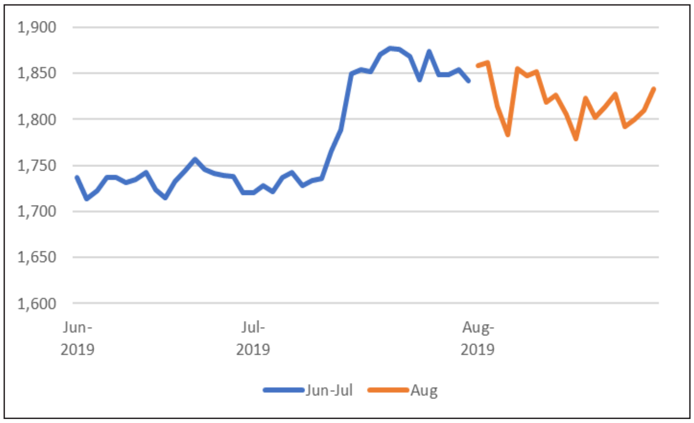
Source of Basic Data: PSE Quotation Reports

PSEi lost steam from its four-month winning streak, and slipped by a minimal 0.8%, albeit the lowest decrease among global equities. The local market failed to overcome headwinds arising from global uncertainties, Chinese embassy's statement to ban Philippine Offshore Gaming Operators (POGOs), and the country's underweighting in the MSCI rebalancing. Mining & Oil and Holdings sectors defied the gloomy environment, by registering increases of 4.6% and 1%, respectively. Property, Industrial, and Services sectors extended its losses, while Financial sector joined the red flag movement.

Company	Symbol	31/07/19 Close	30/08/19 Close	% Change
Metrobank	MBT	75.75	70.90	-6.4%
BDO Unibank, Inc.	BDO	147.00	149.00	1.4%
Bank of the Philippine Islands	BPI	90.00	87.95	-2.3%
Security Bank Corporation	SECB	182.50	204.00	11.8%

Source of Basic Data: PSE Quotation Reports

Figure 17 - Financial Sector Index (Jun 2019 - Aug 2019)



Source of Basic Data: PSE Quotation Reports

The Financial sector had a highly volatile August, but ultimately ended with an uptrend. The sector rallied in the last ten days of the month, but it proved insufficient to move out of negative territory, albeit by a minimal 0.5%. In an even fight, the sector still lost despite the double-digit surge of Security Bank Corporation (SECB).

SECB expanded the most as it rose by 11.8%, still on the back of the 32% y-o-y boost in net income to P2.6-B for Q2-2019 and its announced strategic partnership with Thailand's Bank of Ayudhya (commonly known as Krungsri). Krungsri plans to acquire a 50% stake in SB Finance Company, Inc., SECB's consumer finance subsidiary.

Moving on the opposite track, Metropolitan Bank and Trust Company (MBT) dropped by 6.4% despite the 22% y-o-y increase in net income to P6.3-B for Q2-2019 and the newly formed strategic partnership with South Korea's Shinhan Bank, the latter move aims to improve risk management, offer mutual liquidity support, and better other transaction and management activities.

Following the downtrend, Bank of the Philippine Islands' (BPI) share price decreased by 2.3%, despite BPI bagging a credit grade at par with the government's all-time investment grade rating of BBB+ from Standard & Poor's. On the financing side, BPI announced its return to the offshore debt market with an updated medium-term note (MTN) program worth up to $2.0-B or its equivalent in other currencies and has also recently raised P5.3-B from a Swiss franc-denominated green bond issue.

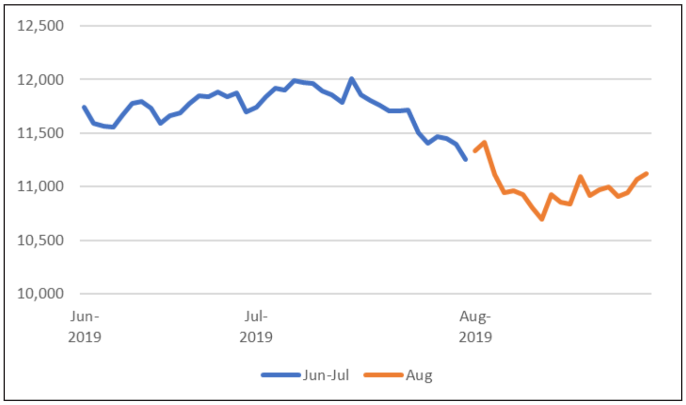
Conversely, BDO Unibank, Inc. (BDO) managed to eke out gains by a minor 1.4% thanks to the expanded collaboration with Western Union to improve their remittance services.

Company	Symbol	31/07/19 Close	30/08/19 Close	% Change
Meralco	MER	365.00	365.00	0.0%
Aboitiz Power	AP	35.40	38.00	7.3%
Jollibee Foods Corporation	JFC	259.00	237.80	-8.2%
First Gen Corporation	FGEN	26.60	26.40	-0.8%
Universal Robina Corporation	URC	159.60	173.00	8.4%
Petron Corporation	PCOR	5.54	5.09	-8.1%

Source of Basic Data: PSE Quotation Reports

Losers outnumbered gainers and pressured the Industrial sector to shed off 1.1% in value.

Figure 18 - Industrial Sector Index (Jun 2019 - Aug 2019)



Source of Basic Data: PSE Quotation Reports

Losers outnumbered gainers and pressured the Industrial sector to shed off 1.1% in value. The sector opened the month continuing the downward trend of July, managed to rebound by the second half of August, albeit unable to beat July's month close. Universal Robina Corporation (URC) rallied the most among constituent stocks as it surged by 8.4%. Meanwhile, Jollibee Foods Corporation (JFC) and Petron Corporation (PCOR) retreated the most, falling by 8.2% and 8.1%, respectively.

Momentum buyers kept URC at the top of sector gainers, still powered by the reported 14.2% y-o-y jump in earnings to P2.0-B for Q2-2019 as mentioned in the previous issue.

JFC remained as the sector's laggard, still being dragged by the 50.1% y-o-y plunge in core net income to P1.1-B in Q2-2019, pulled down by the uninspiring performances from its subsidiaries, Red Ribbon and Smashburger.

No longer a surprise, PCOR followed after JFC, as earnings plummeted by 50.1% y-o-y to P1.1-B in Q2-2019 after the profits shrank in its Malaysian subsidiary and the increased fuel taxes under the second tranche of the Tax Reform for the Acceleration and Inclusion (TRAIN) Law dampened demand.

Despite a 16.7% slash in core net income to P4.7-B in Q2-2019, Aboitiz Power Corporation (AP) managed to take 2nd spot among gainers in the sector, with a 7.3% uptick. This resulted from its signing a deal to buy Mekong Wind Pte. Ltd, a Vietnamese company with a 39.4-megawatt (MW) onshore wind power facility, for around $46.0-M which sets the tone for AP's expansion into the international market.

First Gen Corporation (FGEN) extended its losses, slightly dipping by 0.8%, despite the company recording net income of $156.0-M, up 36% y-o-y for H1-2019 fueled by robust electricity sales. In other news, FGEN's liquified natural gas import terminal project just got declared as nationally significant by Department of Energy (DoE) which will ease securing permits for FGEN. Moreover, the energy firm is currently developing a pumped-storage facility to increase the capacity of the Pantabangan-Masiway hydro plant by another 100 MW.

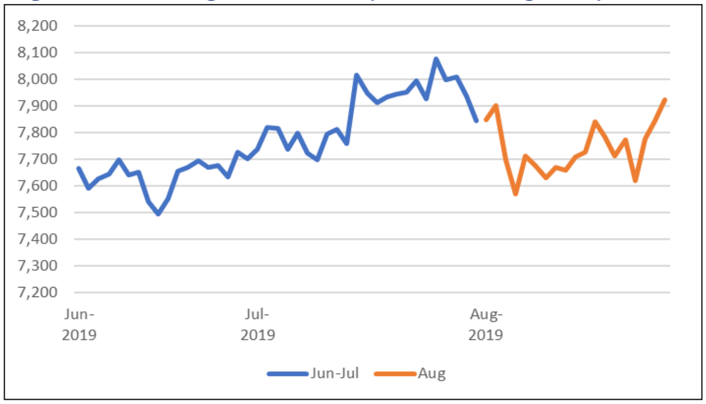
Manila Electric Company (MER) remained unchanged as its Q2-2019 earnings dropped by 4.2% to P6.7-B. The positive came from its P10.7-B in capital expenditure for H1-2019, up by 62% y-o-y for electric capital projects and other spending related to the Build, Build, Build (BBB) and Public-Private Partnership (PPP) infrastructure projects of

Company	Symbol	31/07/19 Close	30/08/19 Close	% Change
Ayala Corporation	AC	957.50	925.00	-3.4%
Metro Pacific Investments Corporation	MPI	4.80	4.95	3.1%
SM Investments Corporation	SM	999.50	1,026.00	2.7%
DMCI Holdings, Inc.	DMC	10.14	9.05	-10.7%
Aboitiz Equity Ventures	AEV	53.00	53.90	1.7%
GT Capital Holdings, Inc.	GTCAP	927.00	908.00	-2.0%
San Miguel Corporation	SMC	178.00	180.00	1.1%
Alliance Global Group, Inc.	AGI	15.58	12.70	-18.5%
LT Group Inc.	LTG	14.10	14.78	4.8%
JG Summit Holdings, Inc	JGS	65.25	71.95	10.3%

Source of Basic Data: PSE Quotation Reports

Despite two constituent stocks of the sectors performing the worst among the 30-stock components of the PSEi, the Holdings sector made it to positive territory, only the second sector to do so.

Figure 19 - Holding Sector Index (Jun 2019 - Aug 2019)



Source of Basic Data: PSE Quotation Reports

the government.

Despite two constituent stocks of the sectors performing the worst among the 30-stock components of the PSEi, the Holdings sector made it to positive territory, only the second sector to do so. As evident, the sector was off to a rough start, but still managed to shoot up in time to exceed the previous month's close. JG Summit Holdings, Inc.'s (JGS) 10.3% surge, stoked the sector's growth. Meanwhile, Alliance Global Inc. (AGI) and DMCI Holdings, Inc. (DMC) plunged by 18.5% and 10.7%, respectively.

JGS led index gainers on positive news that the JGS-Filinvest Development Corporation (FDC) consortium had received the DOTr's notice to proceed in the operations & maintenance (O&M) project of the Clark International Airport terminal expansion.

Conversely, AGI suffered a double-digit hit after the firm reported a 12% y-o-y fall in net income in Q2-2019, which fell below consensus estimates. Improvements in earnings of its property and liquor business failed to lift AGI to positive territory.

DMC was not far behind AGI in the red zone after its firm's net income slid by 20% y-o-y to P3.8-B for Q2-2019 due to weak contributions from its coal and power, construction, and mining businesses. DMC's H1 woes arose from lower average selling price of coal, higher replacement power costs, both reflected in its coal mining and power subsidiary, Semirara, provisions for project cost overruns (construction arm) and lower average price for lower grade nickel (DMCI Mining).

LT Group, Inc. also landed on the green, rising by 4.8%, despite a 9.7% slump in earnings for Q2-2019 (at P4.8-B) as gains from its tobacco business failed to offset weakness in its banking, property, and beverage segments.

Metro Pacific Investments Corporation (MPIC) rose by 3.1% after the firm booked a 1% y-o-y increase to P5.1-B on net income for Q2-2019 on the back of robust growth in its power, water, toll roads, and hospital businesses.

Also on the uptrend, SM Investments Corporation (SM) only rose by 2.7% even with the slight upweight (+0.95%) in the PSE rebalancing effective last August.

However, Ayala Corporation (AC) fell by 3.4%, as its Q2-2019 core earnings of P7.1-B lower by 15.5% y-o-y due to weak real estate (ALI) and telecommunications (GLO) business performances.

GT Capital suffered a minor setback of 2% despite sizeable gains in its real estate, auto unit, and net income of associates which drove net income earnings by 15.2% y-o-y to P3.9-B for Q2-2019.

Aboitiz Equity Ventures (AEV) registered a minimal growth of 1.7% as positive news overran the 12.5% decline in earnings in Q2-2019. Good news came from the inked deal of the joint venture of Aboitiz InfraCapital, Inc. and Frontier Tower Associations, Inc with Smart Communications, Inc. to provide common tower services, a deal which was earlier signed by Globe Telecom. Moreover, Aboitiz Construction, was tapped by Austal Philippines Pty Ltd, shipbuilding firm, to be its local contractor to build vessels for the Armed Forces of the Philippines.

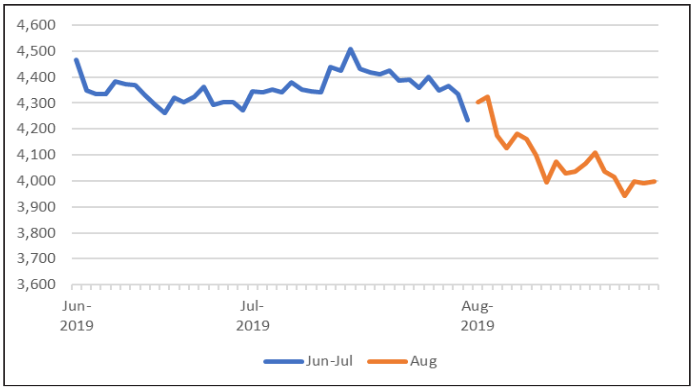
San Miguel Corporation (SMC) only managed to book a 1.1% uptick despite a huge 38.2% jump in net income in Q2-2019. In addition, the Securities and Exchange Commission (SEC) registered planned issue of P10-B in fixed-

MEG fared the worst after the Chinese embassy called on the Philippines to ban all online gambling involving its citizens.

Company	Symbol	31/07/19 Close	30/08/19 Close	% Change
Ayala Land, Inc.	ALI	49.80	47.30	-5.0%
SM Prime Holdings, Inc.	SMPH	36.50	35.30	-3.3%
Robinsons Land Corporation	RLC	27.35	25.00	-8.6%
Megaworld Corporation	MEG	6.12	5.13	-16.2%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Property Sector Index (Jun 2019 - Aug 2019)



Source of Basic Data: PSE Quotation Reports

rate bonds.

Property sector extended its losses with a decline of 5.6%, the worst sectoral performance in PSEi, as all stocks suffered a setback. Throughout the whole of August, the sector spiraled downwards, unable to sustain any attempt to rebound, and even left the 4,000 trading level by the end of the month.

MEG fared the worst after the Chinese embassy called on the Philippines to ban all online gambling involving its citizens. In other news, MEG plans to issue P10.4-B worth of additional shares to existing investors and $200.0-M senior perpetual notes. The latter signaled the return of MEG to the offshore bond market from its previous issuance in 2013.

Following MEG, Robinsons Land Corporation (RLC) slid by 8.6% despite the 22% y-o-y surge to P2.2-B in net profit for Q2-2019 driven by revenue in real estate and hotel operations and most especially after the opening of four new shopping malls.

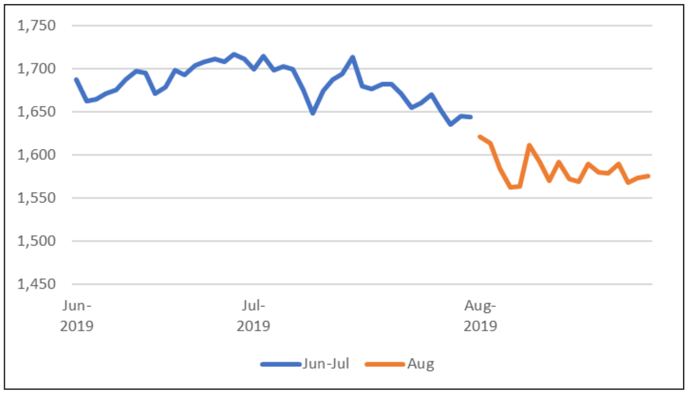
Ayala Land, Inc. (ALI) slipped by 5% due to the 1.8% y-o-y decrease in earnings to P7.8-B for Q2-2019, which fell below-consensus estimates as reported in the previous issue. However, ALI's plans to raise as much as $300.0-M from its maiden offering of real estate investment trust (REIT) shares gained more ground. Its REIT will be the first offering in this asset class in the Philippines. Moreover, ALI has almost completed a joint venture agreement to develop 28,000 hectares of land in Aurora and Quezon provinces within 2019 and has secured top rating for its fixed-rate bonds worth P5.0-B from Philippine Ratings Services Corporation.

SM Prime Holdings, Inc. (SMPH) retracted the least as it reported 16% y-o-y growth in net income to P10.5-B for Q2-2019 thanks to improved revenues from mall and residential operations finally take some solid ground.

Company	Symbol	31/07/19 Close	30/08/19 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,150.00	1,179.00	2.5%
Globe Telecom	GLO	2,148.00	2,030.00	-5.5%
Robinsons Retail Holdings, Inc.	RRHI	79.30	78.00	-1.6%
Puregold Price Club Inc.	PGOLD	45.50	43.90	-3.5%
International Container Terminal Services Inc.	ICT	135.00	135.80	0.6%

Source of Basic Data: PSE Quotation Reports

Figure 21- Services Sector Index (Jun 2019 - Aug 2019)



Source of Basic Data: PSE Quotation Reports

GLO retracted the most as it announced relatively flat growth of +0.5% y-o-y in core net income to P5.3-B for Q2-2019, much below-consensus estimates.

The Services sector remained on the red, trading at lower levels compared to July. The sector experienced a bumpy ride and ended with a minor uptick but fell far short of getting back into positive territory. Two of the constituent stocks managed to eke out gains while the other three faltered. Globe Telecom (GLO) took the place of Philippine Long Distance Telephone Company (TEL) as the sector's biggest loser in the previous month, shedding 5.6% in value.

GLO retracted the most as it announced relatively flat growth of +0.5% y-o-y in core net income to P5.3-B for Q2-2019, much below-consensus estimates. On a positive note, Globe myBusiness, the enterprise arm of GLO recently signed 17 new partnership deals with resellers across the country's main island groups and has strengthened partnership with United Laboratories, Inc. (Unilab) to bolster operations of Unilab.

Moving in the other direction, TEL gained the most at 2.5% after it reported a 13% y-o-y increase in earnings for Q2-2019 to P5.5-B, lifted by robust growth in its consumer wireless business. Furthermore, TEL inked a deal with Powercall Co., Ltd., South Korea's biggest online distributor of prepaid call cards, which allows the company to sell electronic load through the e-commerce platform.

Puregold Price Club, Inc. (PGOLD) followed GLO, after showing its earnings in Q2-2019 plummeted by 20.4% to P1.3-B. With stronger-than-expected same store sales growth of 6.2% for H1-2019, new outlet openings still had to build up its customer base.

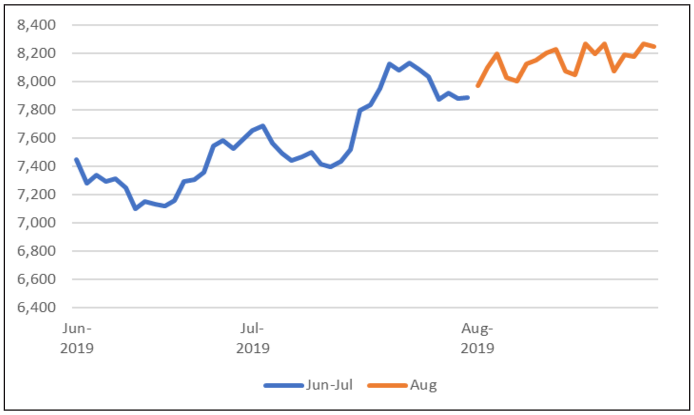
Robinsons Retail Holdings, Inc. (RRHI) also booked a 1.6% decline with the 14% y-o-y drop in net income to P2.3-B for Q2-2019 as the retail sector seemed surprisingly weak in Q2 despite the elections.

International Container Terminal Services, Inc. (ICT) was the only other firm that posted gains thanks to the reported 14% y-o-y jump to $56.1-M in net income for Q2-2019 on the back of better revenue generation from its port operations. Moreover, Contecon Manzanillo S.A. de C.V., the Mexican subsidiary of ICT, recently achieved its first year-to-date, four-millionth twenty-foot equivalent unit (TEU) milestone even as the company embarks on expansion works to increase capacity.

Company	Symbol	31/07/19 Close	30/08/19 Close	% Change
Semirara Mining and Power Corporation	SCC	23.00	23.20	0.9%

Source of Basic Data: PSE Quotation Reports

Figure 22 - Mining & Oil Sector Index (Jun 2019 - Aug 2019)



Source of Basic Data: PSE Quotation Reports

Mining & Oil extended its wins, rallying the most among the sectors. As evident, the sector reached its five-month high, beating the 8,100 level in end-July and hitting nearly the 8,300-level in August. Semirara Mining and Power Corporation (SCC) inched up by 0.9% after reporting a 3% y-o-y increase to P3.7-B in net income for Q2-2019 due to improved performance in its power (Unit 3 and 4) and coal segment.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	23,503.69	-9.1%	1,305.76	16.2%
Industrial	27,396.21	-8.6%	1,522.01	16.8%
Holdings	32,384.76	-5.0%	1,799.15	21.4%
Property	34,048.41	12.1%	1,891.58	43.3%
Services	20,065.93	-16.1%	1,114.77	7.2%
Mining and Oil	3,125.39	-16.2%	173.63	7.1%
Total	**156,248.57**	5.6%	**8,680.48**	35.0%
Foreign Buying	81,057.39	3.5%	4,503.19	32.2%
Foreign Selling	93,193.00	24.8%	5,177.39	59.5%
Net Buying (Selling)	(12,135.61)	-431.0%	(674.20)	-523.0%

Source of Basic Data: PSE Quotation Reports

PSE failed to keep foreign investors ashore, as evidenced by the huge net outflow of P12.1-B, showing a renewed weakness.

Surprisingly, PSE turnover rebounded in August, increasing by 5.6%, an improvement from July's -2.7% despite all sectors booking significant declines, except for the Property sector. The latter's turnover grew by 12.1% while prices fell suggesting a selloff by investors. The sectors that traded least included Mining & Oil and Services sector, which recorded double-digit drops of 16.2% and 16.1%, respectively.

PSE failed to keep foreign investors ashore, as evidenced by the huge net outflow of P12.1-B, showing a renewed weakness. They were net sellers for most of August, as investors remained cautious with the US bond yield curve dropping to its 12-year lows.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2017		2018		1st Quarter 2019			2nd 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%	185,572	-16.5%	0.8%	175,497	-5.4%	0.6%
Industry Sector	2,947,103	7.2%	3,148,000	6.8%	772,891	-10.8%	4.5%	828,910	7.2%	3.7%
Service Sector	4,979,575	6.8%	5,310,300	6.6%	1,299,086	-7.1%	6.8%	1,479,208	13.9%	7.1%
Expenditure										
Household Final Consumption	5,973,816	5.9%	6,306,064	5.6%	1,566,834	-12.6%	6.1%	1,646,010	5.1%	5.6%
Government Final Consumption	914,136	7.0%	1,031,487	12.8%	252,373	6.7%	7.4%	327,069	29.6%	6.9%
Capital Formation	2,504,502	9.4%	2,852,306	13.9%	752,245	1.0%	8.0%	623,666	-17.1%	-8.5%
Exports	4,930,584	19.5%	5,495,712	11.5%	1,377,595	10.4%	5.7%	1,508,885	9.5%	4.4%
Imports	5,657,331	18.1%	6,476,519	14.5%	1,713,777	10.6%	8.6%	1,635,616	-4.6%	0.0%
GDP	8,665,708	6.7%	9,203,113	6.2%	2,257,549	-9.2%	5.6%	2,483,615	10.0%	5.5%
NPI	1,729,139	5.9%	1,793,182	3.7%	477,352	8.0%	3.2%	456,350	-4.4%	3.1%
GNI	10,394,846	6.6%	10,996,296	5.8%	2,734,900	-6.6%	5.2%	2,939,965	7.5%	5.1%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2017		2018		Jun-2019			Jul-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%	233,886	-26.3%	4.3%	264,094	12.9%	9.2%
Tax	2,250,678	13.6%	2,565,812	14.0%	210,532	-20.7%	11.9%	236,890	12.5%	8.8%
BIR	1,772,321	13.1%	1,951,850	10.1%	157,829	-22.9%	15.4%	180,341	14.3%	10.0%
BoC	458,184	15.6%	593,111	29.4%	51,298	-11.8%	2.5%	54,644	6.5%	4.8%
Others	20,173	20%	20,851	3.4%	1,405	-42.6%	0.6%	1,905	35.6%	22.4%
Non-Tax	222,415	3.2%	284,321	27.8%	23,263	-55.1%	-35.3%	27,203	16.9%	13.1%
Expenditures	2,823,769	10.8%	3,408,443	20.7%	275,724	-12.4%	-1.0%	339,390	23.1%	3.4%
Allotment to LGUs	530,150	17.9%	575,650	8.6%	50,293	3.4%	8.3%	49,152	5.9%	6.0%
Interest Payments	310,541	2%	349,215	12.5%	29,096	47.9%	20.9%	50,965	75.2%	13.7%
Overall Surplus (or Deficit)	-350,637	-0.8%	-558,259	59.2%	-41,838	-1731.7%	-22.9%	-75,296	80.0%	-12.8%

Source: Bureau of the Treasury (BTr)

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

	2018		May-2019			Jun-2019		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	43,810.80	5%	4,053.00	4.0%	2.5%	4,282.20	9.2%	3.0%
Residential	13,549.70	3.7%	1,373.90	6.3%	5.4%	1,464.70	13.5%	5.6%
Commercial	17,211.30	4.8%	1,560.70	3.8%	1.5%	1,646.50	9.2%	2.2%
Industrial	12,610.30	5.9%	1,094.00	3.0%	1.3%	1,145.60	5.0%	1.8%

Source: Meralco

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

	2017		2018		1st Quarter 2019		2nd Quarter 2019	
	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%	-1,216	276.9%	-145	-95.5%
Balance of Goods	40,505	13.9%	50,202	23.9%	12,388	18.9%	11,291	-12.5%
Exports of Goods	51,865	21.4%	51,392	-0.9%	12,197	-2.4%	13,740	7.0%
Import of Goods	92,370	18.0%	101,594	10.0%	24,585	7.3%	25031	-2.8%
Balance of Services	-9,249	31.3%	-11,539	24.8%	-3,180	4.4%	-3,251	15.2%
Exports of Services	35,884	15.0%	38,510	7.3%	9,631	2.0%	9,521	1.0%
Import of Services	26,635	10.2%	26,971	1.3%	6,451	0.8%	6,270	-5.1%
Current Transfers & Others		-						
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	15	-73.0%	15	7.1%	18	-1417.5%
Financial Account	175	-92.4%	-7,795	192.6%	-4711	477.3%	-225	-85.1%
Direct Investments	-5,883	5803.4%	-5,834	-10.9%	-1,074	4.8%	-666	-75.4%
Portfolio Investments	1,480	-72.9%	1,548	-38.3%	-1,795	-211.4%	-1343	-204.3%
Financial Derivatives	-32	-673.4%	-53	5.5%	-40	-41.8%	-47	-392.6%
Other Investments	4,610	-249.8%	-3,455	-342.9%	-1,802	35.0%	1,831	-1729.2%
III. NET UNCLASSIFIED ITEMS	274	-136.6%	-1,245	-12.4%	287	-116.7%	893	-397.6%
OVERALL BOP POSITION	-1,038	-116.1%	-2,306	167.2%	3,797	-409.5%	991	-148.8%
Use of Fund Credits		-						
Short-Term		-						
Memo Items								
Change in Commercial Banks	1,421	-222.0%	-461	-212.5%	46	-96.6%	1,820	-644.0%
Net Foreign Assets	1,381	-229.7%	1,423	216.5%	66	-95.1%	1,825	-695.7%
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		May-2019		Jun-2019	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	3,035,680	8.5%	3,113,810	4.5%	2,989,584	2.8%
Sources:						
Net Foreign Asset of the BSP	4,514,943	1.5%	4,781,817	5.3%	4,736,834	5.8%
Net Domestic Asset of the BSP	11,218,175	15.4%	11,895,755	6.2%	12,003,405	5.7%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,708,624	13.9%	3,940,453	5.5%	3,982,717	6.8%
Money Supply-2	10,597,336	11.2%	11,152,970	5.1%	11,199,566	5.2%
Money Supply-3	11,063,517	11.5%	11,776,034	6.4%	11,860,825	6.7%
MONEY MULTIPLIER (M2/RM)	3.49		3.58		3.75	

Source: Bangko Sentral ng Pilipinas (BSP)

September 2019

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