October 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


| | | | | | |
|---|---|---|---|---|---|
| Macroeconomy | 3 | Fixed-Income Securities | 9 | Equity Markets | 15 |
| Recent Economic Indicators | 21 | Contributors | 23 | | |

## Executive Summary

***We see GDP growth accelerating to 6% in Q3 and faster in Q4, as domestic demand revs up further. With inflation holding below the 2% BSP floor in H2, and huge employment gains (supported by 2nd lowest self-rated poverty rate of 42% in Q3 as estimated by SWS), consumer spending shall show even more robust growth. Significantly lower interest rates from last year and NG catching up on infrastructure spending in H2 should drive investment spending higher. The two together and a neutral external account support our view. However, financial markets seemed unfriendly in September, although we see a likely rebound in the bond market in Q4, while the stock market outlook remains iffy.***

## Macroeconomy

***Positive economic data point to a rebound in H2, bolstering our view that full-year GDP expansion will hover between 6-6.5%. Lower interest and inflation rates should continue to drive investment and consumer demand. Besides, we see signs that NG can ramp-up infrastructure spending for the rest of the year, further boosting growth.***

- Inflation further eased to a 40-month low of 0.9% y-o-y in September from 1.7% in August.
- For the 5th straight month, exports rose in August, albeit minimally, amidst higher shipments to the US, Hong Kong, and China.
- NG spending accelerated to 8.8% (y-o-y) in August, which we expect to continue with NG's Catch-up Plan.
- Peso-dollar rate still succumbed to mild losses in September due to the US dollar strength and PH's large trade deficit.

## Bonds Market

***Long-term GS (10-year & up) have regained allure for re-entry by investors as their real yields went over 2 standard deviations their 10-year averages. The continued fall in inflation and the BSP policy rate and RRR cuts in September support this renewed attractiveness. However, this may not vanish if money supply growth remains tepid and the cuts don't improve bank liquidity significantly.***

- Demand in T-bill auctions strengthened as yields for 91-day and 182-day declined by 21.7 bps to 3.037% and 5.1 bps to 3.420%.
- Tender-offer ratio (TOR) for T-bonds plummeted to 1.32x from 3.05x in August.
- Volume turnover in GS secondary market plunged by 52% m-o-m to P319.5-B from P665.2-B in August.
- Yield curve steepened as 3-month papers shed 21.7 bps to 3.102%, while 10-year yields jumped by 34.2 bps to 4.801%.
- The spreads between long-term ROPs and equivalent US Treasuries showed only a minimal rise.

## Equities Market

***We think PSEi may climb past the 8,000 resistance before yearend if firms report good earnings for Q3 and the economy expands by around 6% also in Q3. We expect a slight outperformance of earnings in Q3 considering significant improvements in domestic demand anchored on huge employment gains in Q3 and a further slide in already low inflation (0.9% in September).***

- PSEi extended its losses, dropping by 3.4% in September, the most in ASEAN and East Asian bourses.
- Mining & Oil sector again defied the negative sentiment, while Property sector joined in on the green last September.
- BPI, SMPH, and ALI gained the most among PSEi stocks, but none exceeded 6% m-o-m, while AGI, MEG, and ICT took the biggest hits.
- PSE turnover plunged by 19.1% from +5.6% in August, with all sectors landing on the red except Mining & Oil.

| 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 (September) | 0.9% | 1.7% | 2.8% | 2.9% | 5.2% | 2.7-3.0% |
| Government Spending (August) | 8.8%% | 3.4% | 1.2% | 12.6% | 22.5% | 11.0% |
| Gross International Reserves ($B) (August) | 86.2 | 85.6 | 84.5 | 81.6 | 79.2 | 87.5 |
| PHP/USD rate (August) | 52.11 | 52.05 | 52.06 | 50.40 | 52.68 | 52.00-53.00 |
| 10-year T-bond yield (end-August YTD bps) | 4.70% | 4.46% | -3.73% | 4.93% | 7.05% | 4.625-4.875% |
| PSEi (end-August YTD % change) | 7,709 | 7,980 | -3.7% | 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*

# ULTRA LOW INFLATION AND ACCELERATED GOVERNMENT SPENDING TO SPUR H2 GROWTH



*With inflation down to a 40-month low of 0.9% in September and National Government (NG) spending accelerating in August, the outlook for H2 has improved. NG expenditures in August expanded by 8.8% compared to 3.4% in July. Exports, although slightly up in August, marked its 5th consecutive month of expansion. Volume of Production Index (VoPI, based on small survey) continue to show declines, although we find it not very useful nowadays for tracking Manufacturing sector output well (see Figure 4 which shows the its tendency to understate growth in Manufacturing).*

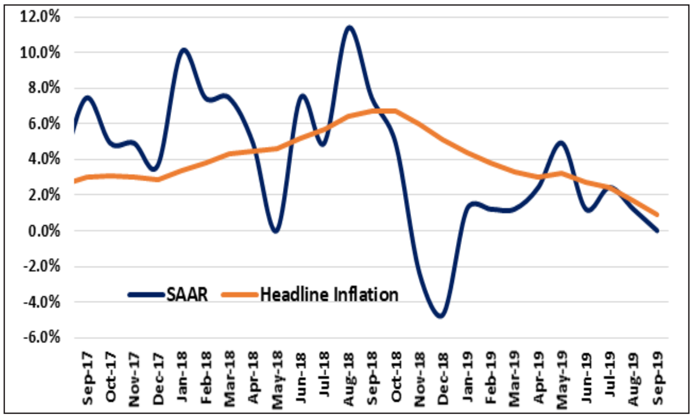
*Outlook: We expect a rebound in GDP starting Q3 as ever lower inflation and high employment rates combine to boost consumer spending, while NG continues to ramp up infrastructure expenditures in H2. Energy sales data (for entire PH) show a huge average monthly jump to 9% in Q2 from 3.3% in Q1. This and meager inflation should contribute to private investment spending and manufacturing in H2. We still think a 6% full-year GDP growth attainable.*

## September Inflation at 0.9% Down to a 40-month Low

The unrelenting fall of inflation brought it to 0.9% in September, a 40-month low. Slower upticks in heavily-weighted commodities (i.e., rice, food and non-alcoholic beverages and transportation), coupled with lower oil prices and downward adjustment in electricity rates resulted in below-1% price increase. Year-to-date (YTD) inflation of 2.8% remained below the median of Bangko Sentral ng Pilipinas' (BSP) target 2.0% to 4.0%. Core inflation also decelerated from 2.9% year-on-year (y-o-y) in August to 2.7% in September.

The outlook for mild inflation through 2020 gained further traction on the unabated decline of seasonally-adjusted annualized rate (SAAR) of inflation which fell to 0% (m-o-m) in September.

**Figure 1 - Inflation Rates, Year-on-Year**




*Source of Basic Data: Philippine Statistics Authority (PSA)*

The transportation index further decelerated due to a rollback in local gas prices. Note that international crude oil prices declined by 19% y-o-y in September, averaging to about $56/barrel for WTI vis-à-vis the $70/barrel recorded in the same period last year. Relative to the month-ago level, WTI prices showed a "small" 4% mark-up, tracking supply disruption caused by the attack on Saudi's oil producer.

Electricity costs in September also posted its 5th consecutive downward monthly adjustment to P9.04/kWh from P9.57/kWh in August. The five-month downtrend resulted in a total of P1.52 reduction per kWh since April. The decline in Wholesale Electricity Spot Market (WESM) prices and generation costs triggered the downtrend which resulted in slower growth in other nonfood index. The food and non-alcoholic (FNAB) index, moreover, showed significant price decrements (deflation) driven by lower prices of rice amidst higher supply of rice. The wholesale and retail price of rice were seen to decline by 6% to 8% (equivalent to about P3 per kilo) to the benefit of the consumers. Other food groups such as corn, cereals, sugar, jam, honey, fruits, and vegetables; among others also posted slower increases.

On the other hand, we observed faster increment in alcoholic beverages & tobacco index. The remaining two other commodity groups kept the past month's pace (i.e. furnishing, houshold equipment and routine maintenance of the house, and education).

*As previously anticipated, NG spending continued to ramp-up in August, showing an 8.8% jump following the 3.4% expansion posted in July.*



| Inflation Year-on-Year Growth Rates | Sep 2019 | Aug 2019 | YTD |
|---|---|---|---|
| All items | 0.9% | 1.7% | 2.8% |
| Food and Non-Alcoholic Beverages | -0.9% | 0.6% | 2.7% |
| Alcoholic Beverages and Tobacco | 14.3% | 10.1% | 11.2% |
| Clothing and Footwear | 2.7% | 2.8% | 2.5% |
| Housing, Water, Elec, Gas, & Other Fuels | 0.8% | 1.8% | 2.8% |
| Furnishing, Home Equip & Maintenance | 2.8% | 2.9% | 3.2% |
| Transport | -0.9% | -0.2% | 1.7% |
| Communication | 0.2% | 0.3% | 0.3% |
| Recreation and Culture | 1.4% | 1.8% | 2.8% |
| Restaurants and Miscellanous Goods and Services | 3.0% | 3.2% | 3.5% |

*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

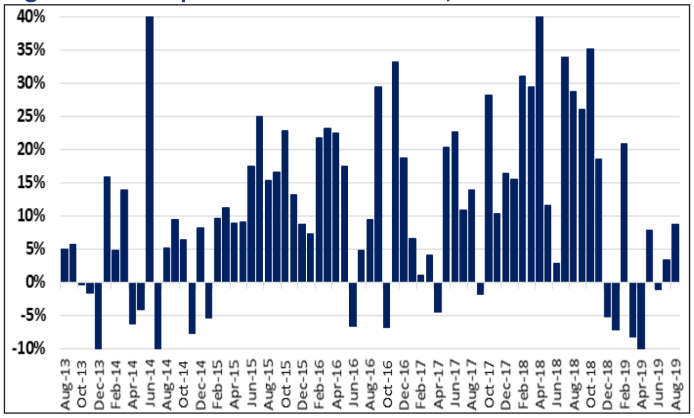
## NG Disbursements Speed Up by 8.8% in August

As previously anticipated, NG spending continued to ramp-up in August, showing an 8.8% jump following the 3.4% expansion posted in July. Removing interest payments (-30.7% y-o-y), actual spending showed a quicker acceleration of 13.6%.

As total revenues expanded by 8.9% y-o-y, August showed only a small deficit of P2.5-B, bringing the YTD deficit to P120.4-B. Nonetheless, the running amount only represents 19% of the P631.5-B target deficit for 2019, leaving enough fiscal space for the last four months of the year. Huge surpluses recorded in January and April 2019 offset the deficit recorded in the other months.

The 8.9% jump in total revenues relied on hefty gains in Bureau of Internal Revenue (BIR) collections. BIR tax revenues expanded by 11.1% y-o-y, suggesting upbeat labor data and a pickup in economic activity. The Bureau of Customs' (BOC) total tax take for the month also boosted NG funds as it increased by 3% (y-o-y) to reached P53.6-B, despite weak imports.

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



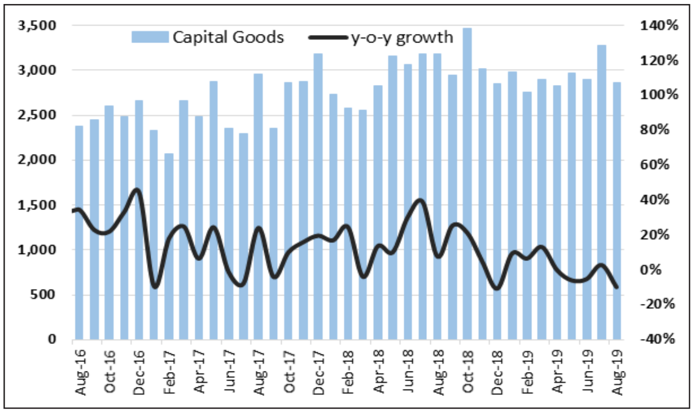

*Source of Basic Data: Bureau of the Treasury (BTR)*

We still expect NG spending to further accelerate 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). This follows our observation that infrastructure spending in July 2019 soared by 73.1% month-on-month (m-o-m) over June (when it was still falling), even though it came up 11% lower than July last year, still affected by the delay in budget approval. Thus, NG's catch-up plan will likely gain traction in H2.

## Capital Goods Imports Reverse in August

The imports of capital goods showed lower print, after it posted gains in the preceding month. Imports of the said category fell by 9.8% y-o-y in August pulled down by declines in most big-ticket capital good sub-products (i.e., power generating and specialized machines, aircrafts, ships, and boats; among others). Only imports of office and EDP machines showed positive expansion at 16.2%.

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




*Source of Basic Data: Philippine Statistics Authority (PSA)*

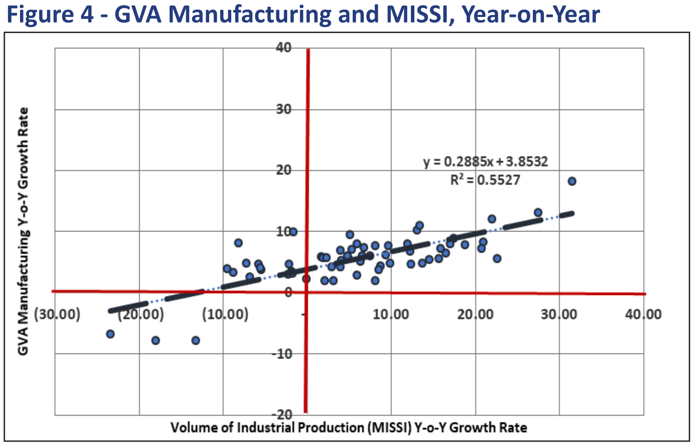
*Domestic liquidity (M3) growth decelerated in August, showing 6.2% y-o-y gains from the 6.7% expansion recorded in July.*



Raw materials & intermediate goods import still captured the largest share of total imports at 35.3%, albeit an 18.7% 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 crude oil prices, likewise, resulted in an 11.9% plunge in mineral fuels and related materials. Consumer goods imports also weakened by 0.6% due to lower imports of home appliances and other non-durable products.

The slowdown in almost all categories of imports brought total imports lower by 11.8% y-o-y to reach $8.7-B in August. While it remained higher than total exports (in absolute terms), the improvement in exports data resulted in a much lower balance of trade (BOT) deficit of $2.4-B in August, showing a hefty 29% (m-o-m) decline from $3.4-B in July 2019.

**Figure 4 - GVA Manufacturing and MISSI, Year-on-Year**




*Source of Basic Data: Philippine Statistics Authority (PSA)*

## Manufacturing Output Still Down in August

Volume of Production Index (VoPI) (as measured by the Monthly Integrated Survey of Selected Industries, or MISSI) for August remained weak, marking the 8th month streak of being in the red. Surveyed manufacturing output fell by 9.3% in August, showing further decline from the -8.9% in July. Lackluster output in seven out of the 20 major industry groups, with five recording double-digit declines, pulled down the index.

Figure 4, however, shows that MISSI gains can only account for 55% of the variations in the growth rate of Manufacturing gross value added (GVA) in the National Accounts of the Philippines (NAP) and tends to understate manufacturing performance.

Petroleum products plummeted by 59% followed by furniture and fixtures (-43.4%). The production of transport equipment, miscellaneous manufactures, and electrical machinery also posted decline. Meanwhile, printing led the expansion with a 61.1% jump, followed by tobacco products (+36.4%). Basic metal grew by 6.8%, joining the outperformers during the said period.

While past MISSI prints show unremarkable performance, we still think that improvements in manufacturing output may prove better in H2, anchored on higher infrastructure and construction spending. Stronger consumer and the upcoming Christmas season should, likewise, provide a further boost.

## All Money Supply Measures Slowed in August, BSP Cuts Policy Rates

Domestic liquidity (M3) growth decelerated in August, showing 6.2% y-o-y gains from the 6.7% expansion recorded in July. Broad money (M2), likewise, eased to 4.7% (y-o-y) from 5.3% a month ago. Narrow money (M1) posted quick-paced 9.1% y-o-y acceleration. The August data marked the 11th consecutive month of single-digit expansion in monetary aggregates, which explains the tightness in liquidity felt by banks.

As such, and as previously reported, the BSP slashed the interest rate on overnight reverse repurchase facility by 25 bps to 4% last September 27. Policy rates on overnight deposit and lending facilities were likewise down to 3.5% and 4.5%, respectively. Banks' reserve requirement also had been reduced by 100 bps, which will take effect on November 1, 2019.

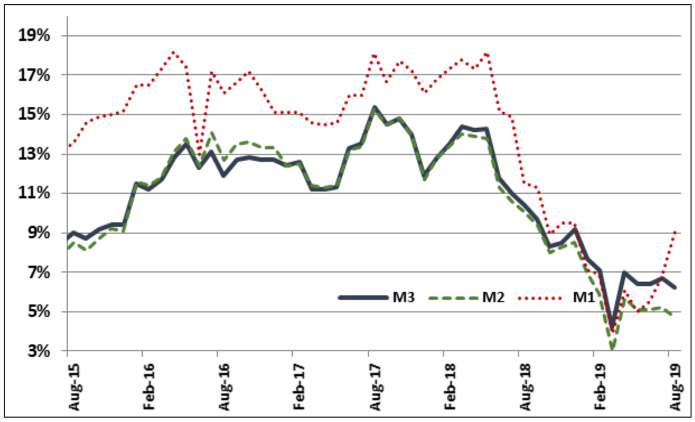
The reduction in reserve requirements will apply to the deposits and deposit substitute liabilities in local currency of banks as follows:

| | From | To |
|---|---|---|
| Universal/Commercial Banks | 16% | 15% |
| Thrift Banks | 6% | 5% |
| Rural Banks | 4% | 3% |

*The peso still lost against the greenback in September as investors remained optimistic towards the dollar in anticipation of a further rate cut by the Fed, despite some macroeconomic risks.*



**Figure 5 - M1, M2, M3 Growth Rates**




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

Outstanding commercial bank loans, which comprised 87.4% of banks' loan portfolio, also expanded at a slower pace at 9% vis-à-vis the 9.8% recorded in the preceding month. Bulk of these loans still went to construction; real estate; financial and insurance activities; and wholesale and retail trade, 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 remarkably increased to 7.9% from 6.5% y-o-y in July 2019.

The downtrend in domestic liquidity should provide justification for the Monetary Board (MB) to further ease both policy rates and reserve requirements, especially considering very low inflation domestically and interest rates abroad.

## Exports Continue to Expand in August, Mildly

Exports continued to lodge in the positive territory, expanding by 0.6% y-o-y and marking the 5th consecutive month gains, albeit slower than the 3.5% expansion posted in July. YTD rate recorded flat amidst lackluster performance in the first few months of the year, but an improvement from the negative 2.3% growth in January-August 2018. August total exports receipts amounted to $6.3-B driven by double-digit gains in three out of 10 top export commodities.

Electronic products still had the largest share, accounting for 58.5% of total exports. Outbound sales of these products grew by 6.6% y-o-y, supported by higher demand for semiconductors (+4.1% gains y-o-y) and the above-15% jump in electronic processing, telecommunication, automotive electronics, and office equipment. Shipments of miscellaneous manufactured articles (ranked 5th) also posted 12.2% gains to $332.6-M. The rest of top five export commodities posted declines.

**Figure 6 - Exports Growth Rates, Year-on-Year**


*Source of Basic Data: Philippine Statistics Authority (PSA)*

Demand from the top three export destinations showed positive expansion. Shipments to the US increased by 7% y-o-y to $992.7-M while sales to China (2nd) and Hong Kong (3rd) went up by 1.6% and 10% y-o-y, respectively. US remained as the top export destination in August, accounting for about 15.9% of total exports. Meanwhile, outbound shipments to Japan and Singapore showed declines.

Half of the total exports in August still headed towards East Asian (EA) nations, valued at $3.2-B (+3.3% y-o-y). Exports shipments to ASEAN and EU, on the other hand, registered declines. Outbound sales to ASEAN decelerated by 5.4% while shipments to EU reported a 3.2% decline.

We view that PH exports to top export destinations will benefit from the US-China trade war even in the short-term.

## Peso Still Shows Mild Weakness in September

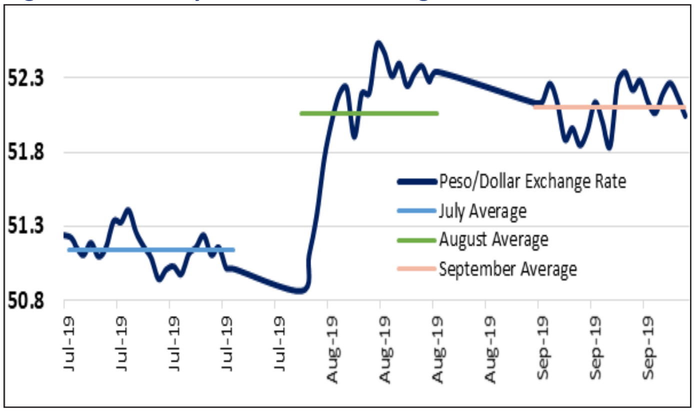
The peso still lost against the greenback in September as investors remained optimistic towards the dollar in anticipation of a further rate cut by the Fed, despite some macroeconomic risks. Forecast of further easing in inflation, meanwhile, sent the peso to move sideways. Large PH trade deficit also fueled weakness in the peso.

*The month-end actual USD/PHP rate in September landed above the 30-day moving average (MA) in most days, suggesting some peso weakness in the upcoming months.*



The peso averaged P52.11/$ in September from P52.05/$ a month ago, showing a slight 0.1% depreciation (m-o-m). The volatility measure narrowed to 0.15 from 0.47 in July, with a high of P52.34/$ and a low of P51.84/$.

**Figure 7 - Monthly Dollar-Peso Exchange Rates**




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

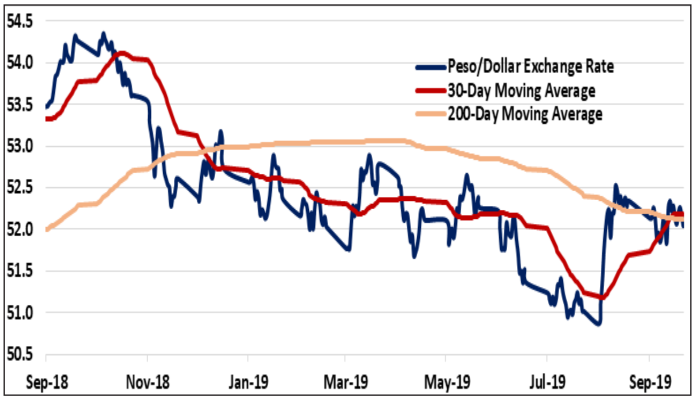
| Exchange Rates vs USD for Selected Asian Countries | | | |
|---|---|---|---|
| | Aug-19 | Sep-19 | YTD |
| AUD | 3.2% | -0.5% | 5.3% |
| CNY | 2.5% | 0.9% | 3.2% |
| INR | 3.4% | 0.4% | 0.9% |
| IDR | 1.3% | -0.9% | -2.8% |
| KRW | 2.8% | -1.2% | 6.4% |
| MYR | 1.5% | 0.0% | 0.2% |
| PHP | 1.8% | 0.1% | -1.3% |
| SGD | 1.8% | -0.3% | 0.6% |
| THB | -0.2% | -0.7% | -6.7% |

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

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

Other emerging market currencies, likewise, succumbed to losses led by the yuan (CNY) as trade tensions between China and US remained intractable. With other political issues arising in China (e.g., economic slowdown, HK protests, high private sector debt levels, etc.), the yuan may further weaken to reach 7.3 per dollar by the end of the year. Indian rupee (INR) stumbled amidst weak domestic equity data and large fund outflows. Meanwhile, Korean won (KRW) and Thai baht (THB) recorded gains due to current account surpluses and high foreign exchange reserves.

**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 September landed above the 30-day moving average (MA) in most days, suggesting some peso weakness in the upcoming months. We maintain our view that the lingering trade deficit and the country's need to increase foreign reserves will continue to put downward pressure on the peso.

## Outlook:

With inflation going much below BSP's target range and NG spending on the upswing, we remain more optimistic on the growth prospects for H2.

• Inflation should remain subdued as we expect a repeat 0.9% in October and Q4 to average 1.6%. Downward adjustments to full year inflation projections keep resurfacing, but we expect it not to exceed 2.5%. Rice inventory in August still ended up 40.3% higher than a year ago, with the September-November harvests still uncounted. Crude oil prices have little upside despite OPEC production cuts still intact as US shale oil and other cash-starved OPEC and non-OPEC countries seek to raise output in the midst of a global economic slowdown.

• NG's ability to ramp up spending may be seen in the 73.1% (m-o-m) increase in infrastructure spending in July compared to June. Total energy sales for Q2 grew by 9% compared to 3.3% in Q1, showing an acceleration in economic activity, which we expect to continue in H2.

*Broad Money (M2) has grown at a slower pace than GDP growth in H1 and this has likely continued in Q3.*



• Broad Money (M2) has grown at a slower pace than GDP growth in H1 and this has likely continued in Q3. With a current account deficit and real estate loans direct to users rising, banks have felt a liquidity squeeze. Thus, we still see a compelling need for a further policy rate cut of 25 bps in Q4.

• Export gains have managed to stay in the positive territory, while imports YTD have declined and so we expect the external account not to have a large negative effect on GDP growth in H2.

• We retain our view that the peso is overvalued up to now, and so will have a depreciation bias that will materialize every time external events cause uncertainties and/or the BSP finally decides to beef up its GIR in line with the region.

# BOND INVESTORS RETREAT IN SEPTEMBER



*Bond investing regained attractiveness for Q4 as real 10-year T-bond yields climbed to 3.8% in September, a 42-month high. Those rising yields contrasted with the continuing sharp decline in domestic inflation to 0.9% in September. Demand in both auctions and the secondary market took a pause as investors got more unnerved by global uncertainties, such as festering US-China trade war which has spilled on to EU, and the decline in manufacturing jobs in the US. While the Federal Reserve and the Bangko Sentral ng Pilipinas (BSP) cut policy rates by 25 bps in September, downward drift of local bond yields appeared limited to the short end of the curve.*

*Outlook: The real 10-year yield of 3.8% for GS has become attractive for re-entry by investors as this is more than 2 standard deviations from the 10-year average of 2%. Besides, we think inflation rates will continue to slide until November as to average 1.6% in Q4 from 1.7% in Q3 and provide additional basis for investors. These and the BSP policy rate and RRR cuts in September provide a strong argument for a renewed fall in 10-year T-bond yields. However, continued tightness of money supply (M2 averaging 5.2% in last six months until August) and bank illiquidity (due to current account deficits and elevated direct loans to real estate buyers) could put some headwinds to the downward thrust.*

| Date | T-Bond/ T-Bill | Offer (Php B) | Tendered (Php B) | Accepted (Php B) | Tendered ÷ Offered | Ave. Yield | Change bps |
|---|---|---|---|---|---|---|---|
| **02-Sep** | 91-day | 4.000 | 11.350 | 4.000 | 2.838 | 3.149 | |
| | 182-day | 5.000 | 14.260 | 5.000 | 2.852 | 3.429 | |
| | 364-day | 6.000 | 14.281 | 6.000 | 2.380 | 3.659 | |
| **16-Sep** | 91-day | 4.000 | 11.900 | 4.000 | 2.975 | 3.037 | -21.7 |
| | 182-day | 5.000 | 12.750 | 5.000 | 2.550 | 3.420 | -5.1 |
| | 364-day | 6.000 | 10.403 | 3.983 | 1.734 | 3.666 | 3.0 |
| **Subtotal** | | 30.000 | 74.944 | 27.983 | 2.498 | | |
| **10-Sep** | 7 year | **20.000** | **22.149** | **10.399** | **1.107** | **4.503** | -34.2 |
| **26-Sep** | 20 year | 20.000 | 30.720 | 0.000 | 1.536 | 0.000 | |
| **Subtotal** | | 40.000 | 52.869 | 10.399 | 1.322 | | |
| ***All Auctions*** | | **70.000** | **127.813** | **38.382** | **1.826** | | |

*Source: Philippine Dealing Systems (PDS)*

## Primary Auction: Demand for Short Term Debt Paper Remains Strong

While Bureau of the Treasury (BTr) offered only P70.0-B in September, same as last month, demand for government securities (GS) auctions crashed as the total tendered for September dove by 49.8% to P127.8-B from P254.8-B in the previous month. Tender-offer ratio (TOR) for both T-bills and T-bonds weakened to 2.50x from 4.43x and 1.32x versus 3.05x in August, respectively.

Though tenders for T-bills tumbled to P74.9-B from P132.9-B last month, demand for short term debt papers remained strong, pushing down yields for 91-day and 182-day by 21.7 bps to 3.037% from 3.257% and 5.1 bps to 3.420% from 3.471%. Meanwhile, 364-day yield edged up by 3 bps to 3.666% from 3.636%

On the other hand, tenders for T-bonds plunged by 56.6% or P52.9-B from P121.9-B last month for the 7-year and 20-year T-bond offerings. 7-year T-bond yield decreased by 34.2 bps to 4.503% compared to 4.845% offered last July 16, 2019. However, BTr rejected all bids for 20-year T-bond offered last September 24 as bid yields exceeded the recent secondary market yields benchmark and previous rates last reissuance.

In addition, BTr announced that the National Government (NG) debt reached P7.9-T by the end of August. Out of the total stock, 33.6% came from external markets while NG borrowed 66.4% domestically.

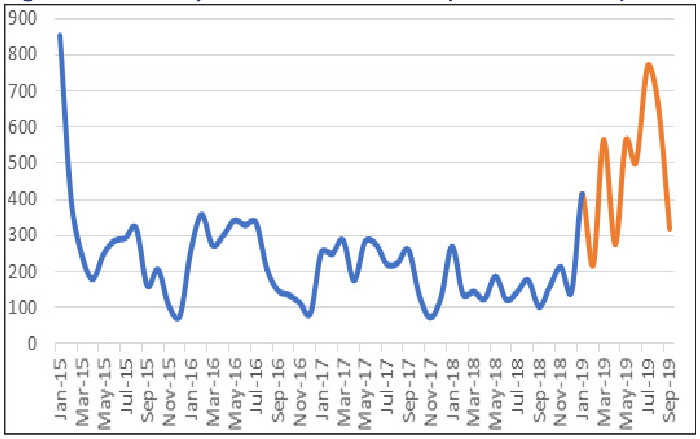
## GS Secondary Market: Yields Rise for Longer Tenors

Secondary GS market demand weakened due to different factors such as (a) yields fell too fast in the last two months, (b) banks still seem to need liquidity (e.g., bond issuances by PS Bank and Robinsons Bank after CBC, SECB and MBT in July) and (c) the exaggerated fall in US 10-year T-bonds in August, and its rebound in September. This resulted in a 52% month-on-month (m-o-m) decline in the total volume turnover to P319.5-B from P665.2-B in August. Nonetheless, it still expanded by 208.5% year-on-year (y-o-y).

*The yield curve steepened in September as short term debt paper yields continued to slide while long term debt papers moved up.*



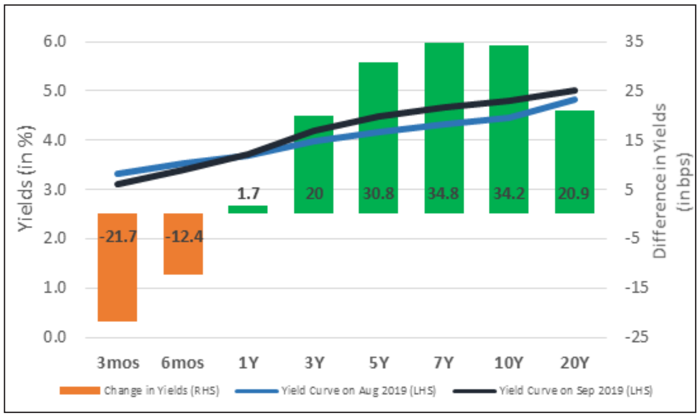
**Figure 9 - Monthly Total Turnover Value (in Billion Pesos)**




*Source: Philippine Dealing Systems (PDS)*

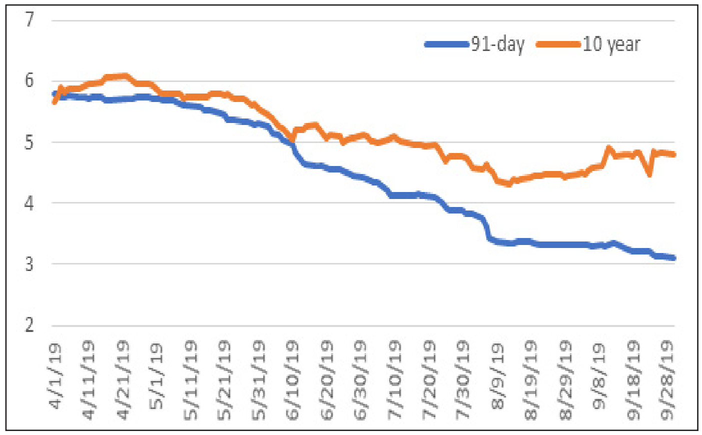
After the boom of corporate bond trading in July, bond investors stepped back again in August with total trading volume dropping by 45.1% m-o-m to P7.1-B from P13.0-B a month ago. Trading remained brisk, however, as it still more than doubled y-o-y with a 154.7% gain.

**Figure 10 - GS Benchmark Bonds Yield Curves**




*Source: Philippine Dealing Systems (PDS)*

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

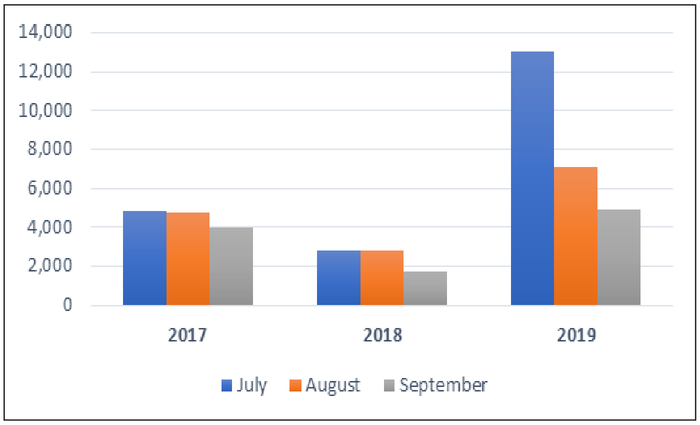



*Source: Philippine Dealing Systems (PDS)*

The yield curve steepened in September as short term debt paper yields continued to slide, while long term debt papers moved up. The 3-month and 6-month yields slumped by 21.7 bps to 3.102% from 3.319% and 12.4 bps to 3.394% from 3.518%, respectively. 1-year bond yields held relatively steady at 3.704%.

Mimicking US Treasuries longer dated tenors (7-year and 10-year) climbed by 34.8 bps to 4.67% from 4.322% and 34.2 bps to 4.801% from 4.459%, respectively. Furthermore, 20-year yields also rose by 20.9 bps to 5.022% from 4.813%. Thus, the spread between 10-year and 2-year bond yields (i.e., steepness measure) widened by 20 bps to 76 bps.

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




*Source: Philippine Dealing Systems (PDS)*

*Total corporate trading crashed by 30.6% m-o-m to P4.9-B from P7.1-B last month.*



## Corporate Trading: Total Trading Slid as Well as the Top 5 Corporate Issuers

Total corporate trading crashed by 30.6% m-o-m to P4.9-B from P7.1-B last month. The drop is much milder than the trading in GS. Meanwhile trading expanded to 191.3% y-o-y. The total trading for top five issuers reached P2.2-B or 45.4% of the total corporate trading. However, the trading drop by 28.8% m-o-m but an increase of 1.4% y-o-y.

SMC Global Power (SMCGC) led with trading value of P683.7-M or higher by 44.7% m-o-m. The other top five corporate issuers were SM Prime Holdings (SMPH), Ayala Land Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC) which gets back to the spot.

ALI trading dropped by 51.8% m-o-m to fall in 2nd spot with P621.2-M. SMPH slid to 3rd place as turnover eased by 15.4% (m-o-m) to P553.1-M. Moreover, AC retained its 4th spot with P216.7-M (-51.5%) and SMIC back to 5th spot with P174.6-M (+7.8%). Last year, the top five issuers were SMPH, SMB, ALI, AC and SMIC.

## Corporate Issuances and Disclosures

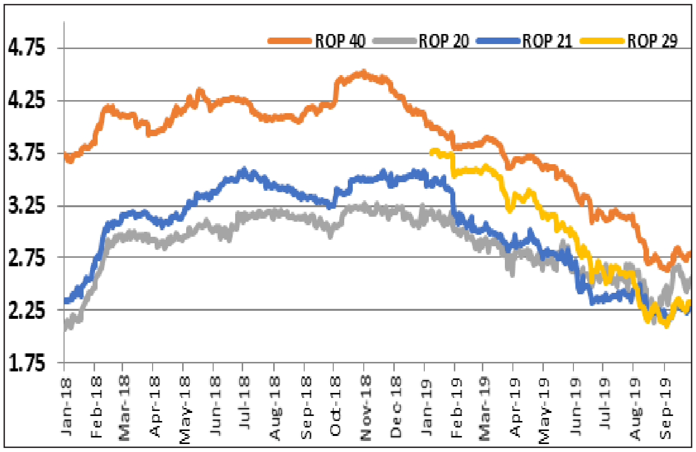
• Megaworld Corporation (MEG) preserved its PRS Aaa rating for the P12.0-B bonds it issued two years ago. The fixed rate bond priced at 5.3535% p.a. and mature in 2024. The company initially offered P8.0-B upon announcing the debt raising. However, due to the strong demand of investors it successfully issued another P4.0-B oversubscription option.

• San Miguel Corporation (SMC) disclosed that is had secured a SEC permit to sell P10.0-B worth of fixed rate bonds under the P60.0-B shelf registration. The fixed rate bond will be due in 2024 and with an interest rate of 5.55%.

• SL Agritech Corporation (SLAC) listed a total of P2.0-B worth of commercial paper across three short tenors. The first issue will be due on December 20, 2019 with 5.996% discount rate, second issue due on March 20, 2020 with 6.1% rate and last issue due on September 18, 2020 at 6.4% rate.

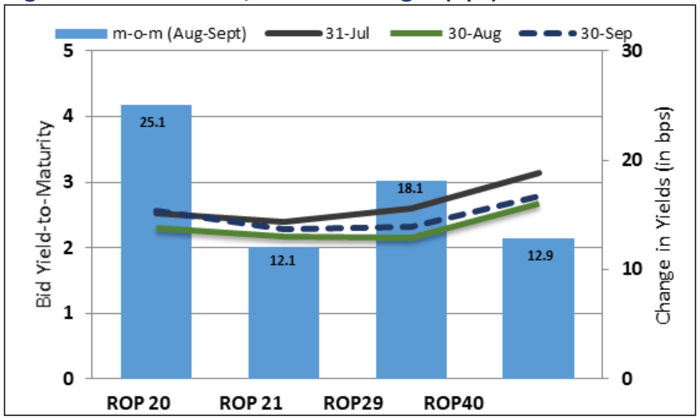
• Rizal Commercial Banking Corporation (RCBC) intends to offer a benchmarked sized US dollar Senior Unsecured Sustainability Notes via drawdown under the $2.0-B Medium Note Program. The notes will be issued under the sustainable finance framework of RCBC.

**Figure 13 - ROPs Daily Yields**




*Sources: Bloomberg & First Metro Investment Corporation (FMIC)*

**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 |
|---|---|---|---|---|
| 31-Jul | 52.6 | 51.4 | 58.7 | 82.5 |
| 31-Aug | 54.6 | 67.1 | 64.8 | 88.7 |
| 30-Sep | 80.7 | 66.2 | 64.9 | 85.6 |

## ROPs: Yields Largely Track US Treasury Movements, Spreads Fairly Stable

Yields of Republic of the Philippines dollar-denominated bonds mostly tracked US Treasury movements, except for the shortest tenor ROP-20. Thus, we saw minimal change in spreads, but for the 1-year tenor the spread widened.

ROP-20 and ROP-21 surged by 25.1 bps to 2.557% from 2.306% and 12.1 bps to 2.292% from 2.171%, respectively. Meanwhile, ROP-29 and ROP-41 climbed by 18.1 bps to

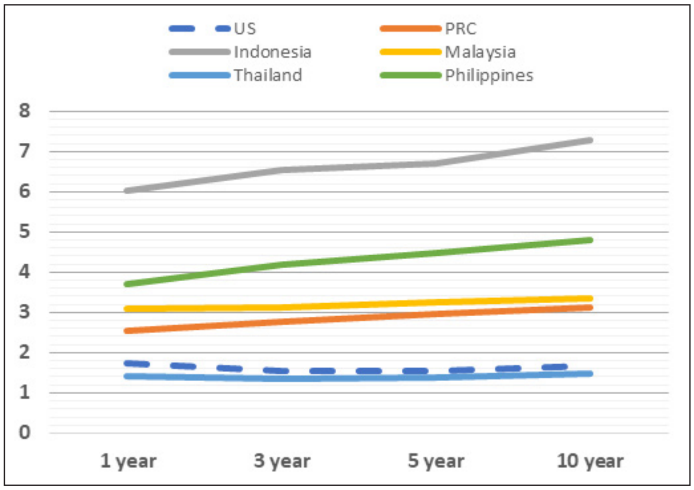
*China's economy appears to weaken as the downward pressure of the global economy increases.*



2.329% from 2.148% and 12.9 bps to 2.796% from 2.667% correspondingly.

On the other end, US equivalent 1-year Treasury bond yield minimally rose to 1.76%. However, we saw heftier gains in yields for 2-year, 10-year and 20-year T-bonds. 2-year yields climbed by 13 bps to 1.63% from 1.50%. Also, 10-year and 20-year yields increased by 18 bps to 1.68% from 1.5% and 16 bps to 1.94% from 1.78%, respectively.

**Figure 15 - Comparative Yield Curve Between ASEAN per**




*Sources: Bloomberg & First Metro Investment Corporation (FMIC)*

## ASEAN + 5: Yields Slightly Widen Across All Regions

**US:** The inverted curve mania in August died down by the beginning of September when job numbers didn't look that bad. The economy added 130,000 jobs, quite decent for this stage of economic expansion. Although private payroll gains fell short of consensus, average earnings climbed by 0.4% and the labor force participation rate (LFPR) also rose 0.2% to 63.2%.

Bond markets rebounded sharply toward 1.85% in mid-September as CPI slowed to 0.1% (m-o-m) in August from 0.3% in July, and the Fed cut policy rates by 25 bps on September 18 to 1.75% to 2% (Fed Funds). Yields again went south towards 1.6% by end-September, as consumer spending in Q2 got slightly downgraded by 0.1% to 4.6%. However, Q2 GDP growth estimate remained at 2% (SAAR). The second half of September ushered in more pessimism as the trade war with China spread to EU and seemed to have impacted the manufacturing sector. Besides, the Democrats moved towards impeaching President Trump on allegations of seeking personal favor from Ukraine, but the Congressional Budget Office's (CBO) analysis that the public debt growth appears unsustainable may have had a bigger effect. 10-year to 2-year bond yield spread fell sharply by 23 bps to end September at only 5 bps, albeit remaining positive throughout the month.

**China:** China's CPI in September rose by 2.8% y-o-y and 0.7% m-o-m. Food prices mainly drove inflation as it soared by 10%, primarily due to the increase in prices of livestock meat (+3.1%), and fresh fruits (+2.4%). Meanwhile, non-food prices went up by 1.1% y-o-y, consumer goods and services by 3.6% y-o-y and 1.6% y-o-y, respectively.

China's economy appears to weaken as the downward pressure of the global economy increases. Industrial output rose 4.4% y-o-y in August, which is the lowest since 2002, while retail sales came in below expectations. Fixed-asset investment slowed to 5.5% in the first eight months. National Bureau of Statistics lowered its GDP growth forecast to 6.2% from 6.3% in 2019 and 5.8% from 6% for 2020. In addition, slowdown in output cuts across the board with food processing and general equipment manufacturing unchanged from last year. Sales in consumer goods has dropped by 7.2% since April but unemployment rate decreased to 5.2% from 5.3% in July. The oil price surge due to the drone attack on major Saudi Arabian oilfield could pose additional worries as the added risk may further erode fragile business and consumer confidence amid the ongoing US-China dispute and slower global demand.

The yield curve steepened as the spread between 10-year and 2-year bond yields increased by 7 bps to 46 bps in September from 39 bps in August.

**Thailand:** Headline inflation eased further to 0.3% y-o-y from 0.5% in August, the slowest pace since January and still below Bank of Thailand's (BOT) 1% - 4% target range for the fourth straight month. Similarly, core inflation at 0.4% y-o-y in September means little cause for concern. BOT policy rate remained at 1.6%.

*Indonesia's GDP expanded by 5.05% in Q2, the slowest in two years.*



Thailand's GDP rose by 2.3% y-o-y in Q2, down from 2.8% in Q1, supported by the government's stimulus package and growth in tourism. Exports in US dollar terms fell by 4% and 4.2% in Q1 and Q2 y-o-y, respectively, caused by the economic slowdown in key export destinations. Despite slower growth, investors' confidence index jumped by 8.6% to 111.6 from 102.7 in September. This remains in neutral territory as geopolitical conflicts may bring down earnings of Stock Exchange of Thailand (SET)-listed companies through December. At the same time, foreign investors' confidence index registered at 125 lodged in bullish territory. Foreign portfolio investment registered net outflows over the past few months, in line with lower Thai government bond yields. Net outflows in debt securities reached $655.0-M and $829.0-M in July and August, respectively, bringing the year-to-date (YTD) level to $1.0-B.

Thailand's 10-year bond yield was at 1.53%, in line with the central bank's policy interest rate of 1.5% and closer to long-term US treasury yields. According to Reuters, Thai baht has gained 6.4% YTD, due to its high current account surplus (7% to 8% of GDP). Thailand yield curve hardly moved with a minimum uptick of 2 bps in the spread change between the 10-year and 2-year bond yields.

**Indonesia:** GDP expanded by 5.05% in Q2, the slowest in two years. World Bank (WB) has cut its growth forecast for the Indonesian economy to 5% in 2019. WB's revised outlook seems justified as retail sales declined by 2.1% in August following a 5.3% drop a month ago. Inflation (CPI) slightly eased to 3.39% y-o-y in September from 3.49% in August. Inflation remained within the target inflation of 2.5% - 4.5% this year. The slow economic growth since early this year has hurt the government tax revenue such that Indonesia's budget deficit swelled to Rp104.7-T ($12.9-B) or 1.4% of GDP last July.

For example, income tax receipts vaulted by 10.6% y-o-y, but slower than 16.4% last year. Import-related taxes only inched up by 0.6% y-o-y, while value-added tax (VAT) collections declined by 6.5% y-o-y.

Twenty-six (26) private companies issued bonds were valued at Rp26.1-T ($1.8-B) while state-owned enterprises issuances contracted to Rp19.9-T. In H1, the bond issuance accumulated to Rp80.0-T ($5.7-B). Most issuers came from banking sector (Rp15.9-T), financing sector (Rp14.37-T) and pulp and paper (Rp8.2-T). However, the challenge for bond investors arises from political risks. The yield curve steepened as the spread between 10-year and 2-year bond yield climbed by 23 bps from previous month to 107 bps, the steepest in the region.

**Malaysia:** Purchasing Managers' Index (PMI) improved to 47.9 in September, a four-month high, from 47.4 in August. The increase resulted from gains in new orders and output. External demand continued to be fragile, with orders in key exports dropping. Besides, we should note that the PMI remained much below 50, the threshold for growth indicator.

In August, headline inflation increased by 1.5% due to costlier food, jewelry, medical products and services which offset lower pump prices. However, the inflation rate for the first eight months averaged only 0.5% which gives room for lowering the overnight policy rate (OPR) by 25 bps that may happen late in Q4-2019 or Q1-2020. The low inflation rate between January to August was due to lower transport sub-indices (-3.6%). An OPR cut will support growth, given cautious tone and downside risks emanating from worsening US-China trade tensions. Previous cut was on May 2019 at 25 bps to 3% and central bank decided to maintain its level in September.

By the end of August 2019, gross international reserves amounted to $103.5-B. We saw a slight steepening of the yield curve as the spread between 10-year and 2-year climbed by 7 bps to 24 bps.

## Outlook

Except for T-bills and other GS maturing within the year, T-bond yields bounced back from August lows to the 4.6%-4.85% range in September, as US Treasuries rose sharply in the first half of the month, and lower inflation for August (+1.7%) and September (+0.9%) failed to bring down yields significantly for the rest of the month until early October.

• Financial markets now expect US interest rates to remain soft, especially after the 25-bp cut in policy rates by the Fed last September 18th. Due to the threat of a

*Corporate issuances will likely spike before the year ends as firms take advantage of the relatively low benchmark yields.*



| 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 |
| | | | | | Aug-19 | Sep-19 | | | |
| US | 1.63 | 1.68 | 2.0 | (0.32) | 28 | 5 | (23) | 4.00 | 2.00 |
| PRC | 2.68 | 3.14 | 2.8 | 0.34 | 39 | 46 | 7 | 4.35 | 1.55 |
| Indonesia | 6.22 | 7.29 | 3.1 | 4.19 | 84 | 107 | 23 | 5.25 | 2.15 |
| Malaysia | 3.11 | 3.35 | 0.8 | 2.55 | 17 | 24 | 7 | 3.00 | 2.20 |
| Thailand | 1.34 | 1.47 | 1.2 | 0.27 | 11 | 13 | 2 | 1.50 | 0.30 |
| Philippines | 4.04 | 4.80 | 2.5 | 2.30 | 56 | 76 | 20 | 4.00 | 1.50 |

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

recession looming especially with the US-China trade war seemingly at a stalemate, market players have upped the odds for another 25 bps cut in December.

• The negative yields on 10-year government bonds that started in Germany and Japan have spread and rekindled those in Switzerland (-0.76%), Netherlands (-0.4%) and France (-0.27%). This puts a further downward pressure on domestic interest rates.

• Real 10-year local T-bond yields have risen to 3.8% which greatly exceeds the 7-year average of 1.62%. This should attract more demand considering that average inflation for Q3 came in at 1.7% and will likely slow further to 1.6% in Q4. The announced further cuts in reserve requirement ratio (RRR) will provide some liquidity to banks.

• However, other forces weigh in that may not bring the 10-year bond yields to sub-4% as we earlier expected. These include (a) the overall tight money supply situation, with average M2 growth for the last six months at only 5.2%, (b) banks direct lending to real estate (long-term loans vs. short-term funding) has risen from 8.2% of total loans in December 2012 to 11.1% in June 2019, and said data exclude personal loans to cover partly down payment requirements, and the (c) continuing deficit in the current account, albeit lower than a year ago.

• Corporate issuances will likely spike before the year ends as firms take advantage of the relatively low benchmark yields.

• ROPs may not recover attractiveness unless the Philippine economy returns to a fast growth track.

# EQUITIES MARKET STILL AWAITING MORE POSITIVE CATALYSTS



*The PSEi, as expected, traded in a narrow range of 7,750 to 8,000 in September in the absence of strong positive catalysts but with the support of local investors while foreigners continued to exit (see graph) in the face of growing global uncertainties. Like most ASEAN countries, the Philippines got dragged down by the negative impact of the US-China trade war, even though the country does not export heavily to China unlike her neighbors. Besides, the ripple effect of the below-expected GDP growth in Q2 lingered on.*

*Outlook: Initial informal feedback from consumer-related firms indicates a good rebound from Q2. Lower inflation and huge gains in employment provide support to our expectation of better earnings performance in Q3. We may expect PSEi to pierce the 8,000 resistance in Q4 as long as we see good net income outcomes in Q3 and/or GDP growth close to 6% or higher for the quarter. Bangko Sentral ng Pilipinas (BSP) policy and RRR cuts have so far minimal impact on the PSEi, but we do expect further cuts that should add to the cumulative effect of the previous 75 bps policy rate cut and 200 bps RRR reduction.*

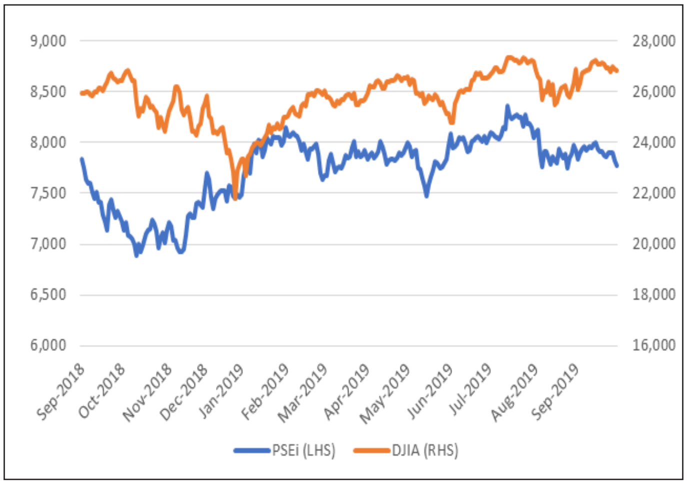
**Global Equities Markets Performances**

| Region | Country | Index | Aug M-o-M change | 2019 change |
|---|---|---|---|---|
| Americas | US | DJIA | 1.8% | 15.2% |
| Europe | Germany | DAX | 4.1% | 17.5% |
| | London | FTSE 101 | 2.8% | 10.0% |
| East Asia | Hong Kong | HSI | 1.4% | 3.8% |
| | Shanghai | SSEC | 0.7% | -0.1% |
| | Japan | NIKKEI | 5.1% | 11.2% |
| | South Korea | KOSPI | 4.8% | 2.6% |
| Asia-Pacific | Australia | S&P/ASX 200 | 1.3% | 20.3% |
| Southeast Asia | Indonesia | JCI | -2.5% | -0.2% |
| | Malaysia | KLSE | -1.8% | -5.0% |
| | Thailand | SET | -1.1% | 4.6% |
| | Philippines | PSEi | -3.4% | 2.9% |
| | Singapore | STRAITS | 0.4% | 2.7% |

*Sources: Bloomberg and Yahoo Finance*

Most global markets, with an exception of majority of Southeast Asian (SEA) bourses, recovered from the August bloodbath. SEA markets slipped with trade resolutions back in the air between US and China and rising oil prices due to the attack in a major oil facility in Saudi Arabia. Euro markets, on the other hand, stood their ground with the help of some positive macroeconomic movements - eurozone inflation falling to 1% in September, unemployment dropping to 11-year lows, and the European Central Bank (ECB) cutting its key rate to revive monetary easing. Meanwhile, DJIA booked a relatively feeble uptick of 1.8% as the US Congress launched an impeachment inquiry on President Trump and Federal Reserve members end up divided on the policy direction for the rest of the year.

**Figure 16 - PSEi and DJIA**




*Sources: Wall Street Journal, Bloomberg*

DJIA and PSEi slowly began to diverge after both exchanges registered a correlation of +0.4, lower than August's +0.7. Quarter-end window-dressing activities proved insufficient to propel PSEi upwards as global uncertainties loom over, local investors shifted their cash towards new equity deals, and foreign investors continued their selling streak (i.e., net buying only on five trading days). DJIA managed to beat last month's trading level as rumors of the US weighing restrictions on investments in China didn't gain traction and tech stocks back into the growth track by the end of the month. However, DJIA did not trade at significantly higher levels as US Congress launched an impeachment inquiry on President Trump and the Federal appeared split on the next course of action after its 25 bps rate cut on September 18.

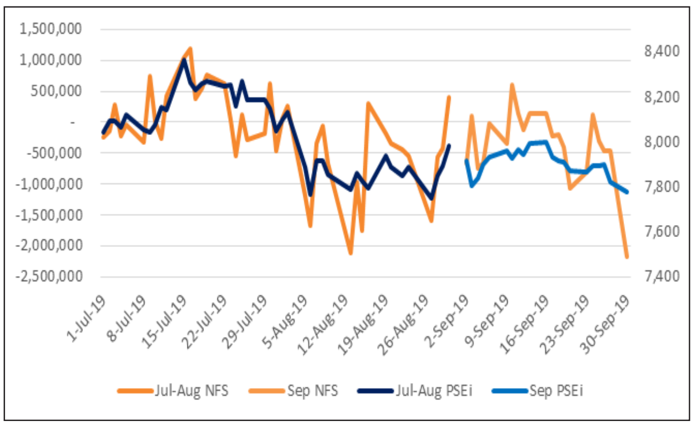
*As evident, heavy net foreign selling experienced by the local bourse served as downward pressure for PSEi.*



| Monthly Sectoral Performance | | | | |
|---|---|---|---|---|
| | 31-Jul-19 | | 30-Aug-19 | |
| Sector | Index | % Change | Index | % Change |
| PSEi | 7,979.66 | -0.8% | 7,709.07 | -3.4% |
| Financial | 1,833.28 | -0.5% | 1,804.77 | -1.6% |
| Industrial | 11,126.30 | -1.1% | 10,565.13 | -5.0% |
| Holdings | 7,922.86 | 1.0% | 7,595.33 | -4.1% |
| Property | 3,998.00 | -5.6% | 4,101.27 | 2.6% |
| Services | 1,623.75 | -1.3% | 1,526.50 | -6.0% |
| Mining and Oil | 8,250.52 | 4.6% | 9,010.69 | 9.2% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 17 - Net Foreign Selling against PSEi**




*Source of Basic Data: PSE Quotation Reports*

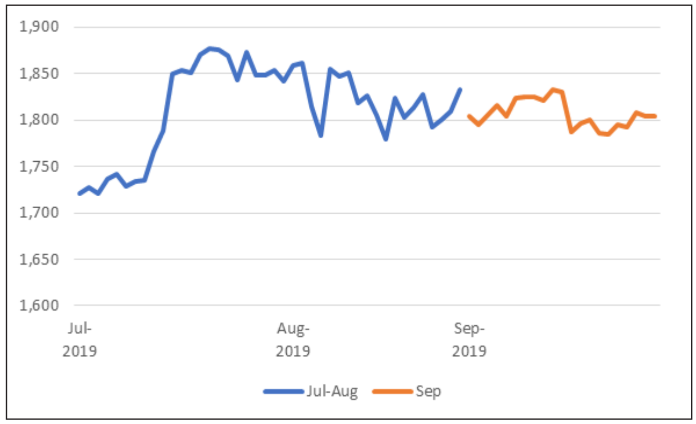
PSEi failed to rebound like other markets, dropping the most among ASEAN and East Asian markets. Net foreign selling (NFS in thousands Php) and PSEi converged paths with a high correlation of +0.62 in the previous month, albeit slightly lower than the +0.67 last August. As evident, heavy net foreign selling experienced by the local bourse served as downward pressure for PSEi.

Only the Property and Mining sectors managed to eke out gains supported by the positive developments in these sectors in September. Property sector rebounded, rising by 2.6%, while Mining and Oil surged further, gaining 9.2% in value. Lack of developments, together with the gloomy global environment, pushed remaining sectors to extend its losses.

| Company | Symbol | 30/08/19 Close | 30/09/19 Close | % Change |
|---|---|---|---|---|
| Metrobank | MBT | 70.90 | 68.40 | -3.5% |
| BDO Unibank, Inc. | BDO | 149.00 | 143.00 | -4.0% |
| Bank of the Philippine Islands | BPI | 87.95 | 93.00 | 5.7% |
| Security Bank Corporation | SECB | 204.00 | 197.00 | -3.4% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 18 - Financial Sector Index (Jul 2019 - Sep 2019)**




*Source of Basic Data: PSE Quotation Reports*

Despite Bangko Sentral ng Pilipinas' (BSP) monetary easing, with cuts in policy rates and reserve requirement ratio, financial sector failed to beat August's close. At the start of the month, the sector started to climb slowly but immediately dipped come mid-month, only slightly recovering by the end. Bank of the Philippine Islands (BPI) stood out as the only one standing while all other stocks held the red flag.

BSP approved a P3.00 increase on ATM fees of some banks. The approval of the fee hike is a positive development for the sector, especially for the bigger banks with larger networks.

BPI, the sector's outlier, gained 5.7% in value after it successfully priced a $300.0-M Senior Unsecured Fixed Rate ASEAN Green Bond via a drawdown under its $2.0-B Medium Term Note Programme. The bonds sold for 99.641 with a re-offer yield of 2.577% and coupon of 2.50% p.a., with maturity on September 10, 2024.

Moving in the opposite direction, BDO Unibank, Inc. (BDO) slipped by 4% despite handily raising P6.5-B from its issue

*Petron Corporation (PCOR) tipped on to a 9-month losing streak as it faced more troubles with the attack on a Saudi Arabia oil facility adversely affecting oil prices and production.*



of Long-Term Negotiable Certificates of Deposit (LTNCD) on September 20, 2019, which exceeded the original offer of P5.0-B, following solid demand from mostly retail investors.

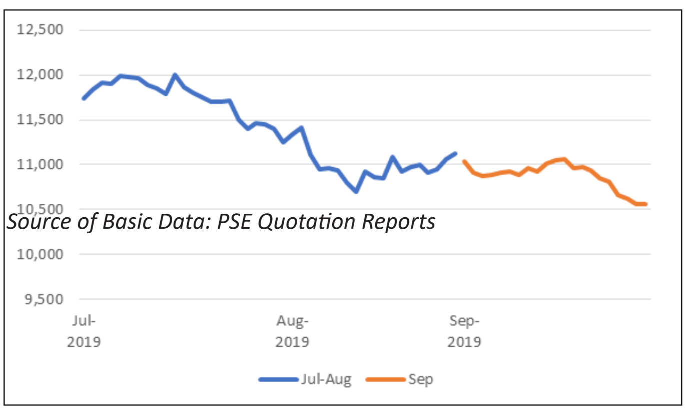
Metropolitan Bank & Trust Company (MBT) followed after BDO, decreasing by 3.5% despite the approved issuance of a Peso Bond, worth P5.0-B, which will be the fourth tranche under its P100.0-B Bond and Commercial Paper Program.

Even though Security Bank Corporation (SECB) raised P6.1-B in its offer of LTNCDs, the second time the bank has tapped the debt capital markets this 2019, the bank's share price still fell by 3.4%.

| Company | Symbol | 30/08/19 Close | 30/09/19 Close | % Change |
|---|---|---|---|---|
| Meralco | MER | 365.00 | 370.00 | 1.4% |
| Aboitiz Power | AP | 38.00 | 38.35 | 0.9% |
| Jollibee Foods Corporation | JFC | 237.80 | 222.00 | -6.6% |
| First Gen Corporation | FGEN | 26.40 | 24.60 | -6.8% |
| Universal Robina Corporation | URC | 173.00 | 156.00 | -9.8% |
| Petron Corporation | PCOR | 5.09 | 5.00 | -1.8% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 19 - Industrial Sector Index (Jul 2019 - Sep 2019)**




*Source of Basic Data: PSE Quotation Reports*

Industrial sector registered a decline of 5%, the second biggest loss after the services sector. Industrials traded relatively sideways during the first half of the month but eventually spiraled down by the latter half, unable to sustain the narrow range. Only Meralco (MER) and Aboitiz Power Corporation (AP) booked upticks, albeit very minimal, while the others landed in the red.

Despite First Gen Corporation (FGEN) finally selecting a company (JGC Corporation of Japan) as the tenderer for the engineering, procurement, and construction aspect of its Batangas LNG Terminal Project, FGEN extended its losses, shedding 6.8% in value, worse than the -0.8% last August.

Jollibee Foods Corporation (JFC) also continued to fall, decreasing by 6.6% after the company completed the 100% acquisition of The Coffee Bean & Tea Leaf, which did not seem to whet investors' appetite when the fast food giant first announced it.

Meralco (MER) increased by 1.4% after the company signed power supply deals with South Premier Power Corporation for 290 megawatts (MW); Phinma Energy Corporation for 110 MW; and First Gen Hydro Power Corporation for 100 MW. Furthermore, MER's board of directors approved the request of MGEN Renewable Energy, Inc., subsidiary of Meralco Powergen Corporation, for a P424.2-M equity funding for its solar projects with combined capacity of 210 MW.

Petron Corporation (PCOR) tipped on to a 9-month losing streak as it faced more troubles with the attack on a Saudi Arabia oil facility adversely affecting oil prices and production.

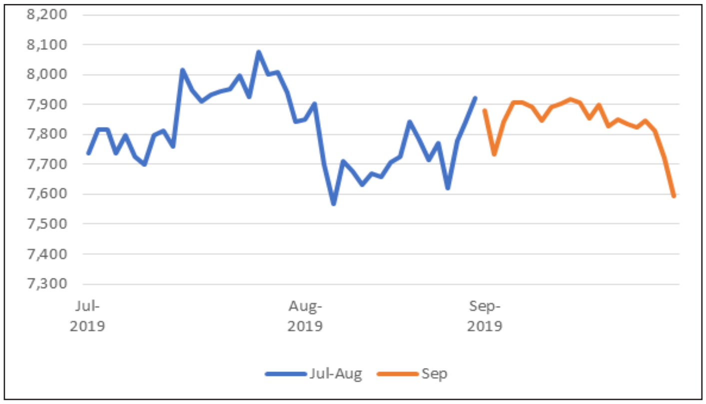
| Company | Symbol | 30/08/19 Close | 30/09/19 Close | % Change |
|---|---|---|---|---|
| Ayala Corporation | AC | 925.00 | 884.50 | -4.4% |
| Metro Pacific Investments Corporation | MPI | 4.95 | 4.98 | 0.6% |
| SM Investments Corporation | SM | 1,026.00 | 971.00 | -5.4% |
| DMCI Holdings, Inc. | DMC | 9.05 | 8.31 | -8.2% |
| Aboitiz Equity Ventures | AEV | 53.90 | 53.05 | -1.6% |
| GT Capital Holdings, Inc. | GTCAP | 908.00 | 842.00 | -7.3% |
| San Miguel Corporation | SMC | 180.00 | 171.50 | -4.7% |
| Alliance Global Group, Inc. | AGI | 12.70 | 10.90 | -14.2% |
| LT Group Inc. | LTG | 14.78 | 13.94 | -5.7% |
| JG Summit Holdings, Inc | JGS | 71.95 | 72.50 | 0.8% |

*Source of Basic Data: PSE Quotation Reports*

*Holdings sector reversed its 1% advance last August, retracting by 4.1% in September.*



**Figure 20 - Holding Sector Index (Jul 2019 - Sep 2019)**




*Source of Basic Data: PSE Quotation Reports*

Holdings sector reversed its 1% advance last August, retracting by 4.1% in September. The sector experienced a bumpy ride throughout the month, trying to hold its ground, but ended up plummeting by the last week of September. Only JG Summit Holdings, Inc. (JGS) and Metro Pacific Investments Corporation (MPI) emerged as winners, rising by 0.8% and 0.6%, respectively, while the rest moved into negative territory.

Once again, AGI stood out as the sector's biggest loser, pulled down by voluntary delisting of its gaming business, Travellers International Hotel Group, Inc. and the potential risk surrounding Megaworld Corporation (MEG) due a possible clamping down of the Philippine Offshore Gaming Operations (POGO).

DMC continued to experience setbacks despite the positive news that DMCI Homes' plans to embark on a P14.4-B project to develop a new residential condominium in Pasig.

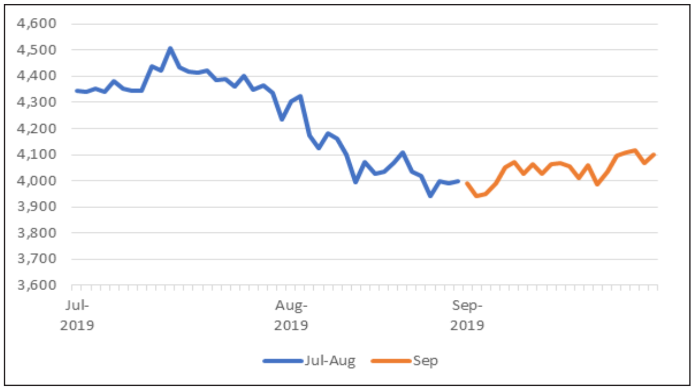
San Miguel Corporation (SMC) contracted by 4.7% as it seeks to submit an unsolicited proposal for the construction of the bridge that will connect Panay to Guimaras and pursue the P5.5-B Boracay bridge project despite Aklan governor's opposition.  Nonetheless, SMC obtained approval from the Securities and Exchange Commission (SEC) for a P10.0-B fixed-rate bond issue that forms part of its P60.0-B shelf registration.

Metro Pacific Investments Corporation (MPIC), one of the two stocks that gained in  the sector, got positive feedback on (a) its deal with the Dumaguete City Water District (DCWD) to rehabilitate and expand its existing facilities for P1.6-B, and (b)  its toll road unit acquiring 100% control of PT Margautama Nusantara (MUN), an Indonesian toll road developer and operator for P3.4-B.  These somehow overshadowed the company's plan to embark on an P83.3-B stock market debut for its hospital business segment, the largest equity to be executed through the local exchange should it push through.

| Company | Symbol | 30/08/19 Close | 30/09/19 Close | % Change |
|---|---|---|---|---|
| Ayala Land, Inc. | ALI | 47.30 | 49.45 | 4.5% |
| SM Prime Holdings, Inc. | SMPH | 35.30 | 37.20 | 5.4% |
| Robinsons Land Corporation | RLC | 25.00 | 24.50 | -2.0% |
| Megaworld Corporation | MEG | 5.13 | 4.37 | -14.8% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 21 - Property Sector Index (Jul 2019 - Sep 2019)**




*Source of Basic Data: PSE Quotation Reports*

In an even 2-on-2 fight, Property sector won the battle, and propelled upwards after statements from President Duterte that he will support POGO developments in the country rather than declaring it illegal as what the Chinese government had appealed for. The sector traded sideways for most of September but managed to stay up by month's close. Megaworld Corporation (MEG) booked double-digit decline of 14.8%, while SM Prime Holdings, Inc. (SMPH) rallied the most among its peers, as it gained 5.4%.

MEG led index losers as the Corporate Income Tax and Incentive Rationalization Act (CITIRA) Bill was approved by the House of Representatives and is now in the hands of

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



the Senate. The bill aims to rationalize fiscal incentives enjoyed by most business process outsourcing (BPO) firms. This would negatively affect the property giant as the firm has 76% exposure to BPO companies in terms of office gross leasable area.  Moreover, the Bureau of Internal Revenue (BIR) closed down all the offices of Great Empire Gaming and Amusement Corporation for failure to pay deficient taxed, to which MEG had leased around 30,000 square meters of office gross leasable area.

Conversely, SMPH led index gainers ahead of the news that the Pasay City government issued a notice to proceed in favor of SMPH for its 360-hectare Manila Bay Reclamation project.

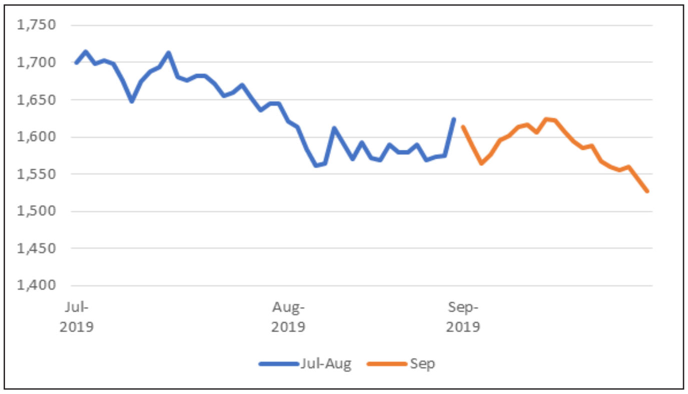
Surprisingly, Robinsons Land Corporation (RLC) went down by 2% despite its plan to list subsidiary, Altus Property Ventures, real estate company which owns and operates Robinsons Place Ilocos mall. In other news, the property developer committed to spend P27.0-B in 2019, ready to beef up its capital expenditure for H2-2019

Not far behind SMPH, Ayala Land, Inc. (ALI) recorded a 4.5% growth as its luxury developer, Ayala Land Premier has set to launch the second tower of its twin tower project in Parklinks estate. Additionally, ALI plans to raise P10.0-B from the issuance of fixed-rate bonds by November, as the company completes its funding requirements for the year.

| Company | Symbol | 30/08/19 Close | 30/09/19 Close | % Change |
|---|---|---|---|---|
| Philippine Long Distance Tel. Co. | TEL | 1,179.00 | 1,132.00 | -4.0% |
| Globe Telecom | GLO | 2,030.00 | 1,830.00 | -9.9% |
| Robinsons Retail Holdings, Inc. | RRHI | 78.00 | 79.00 | 1.3% |
| Puregold Price Club Inc. | PGOLD | 43.90 | 39.05 | -11.0% |
| International Container Terminal Services Inc. | ICT | 135.80 | 120.40 | -11.3% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 22 - Services Sector Index (Jul 2019 - Sep 2019)**




*Source of Basic Data: PSE Quotation Reports*

Already on its third consecutive month on the red, Services sector experienced the biggest decline, shedding 6% in value and trading at even lower levels. The sector started the month with a fall, rebounding nearing mid-month, but eventually spiraled down by the latter half. Robinsons Retail Holdings, Inc. (RRHI) took the prize for being the only firm to bag the green mark, while International Container Terminal Services, Inc. (ICT) and Puregold Price Club, Inc. (PGOLD) registered double-digit losses of 11.3% and 11%, respectively.

ICT became the sector's index laggard despite its Ecuadorian subsidiary launching its first transport insurance program which provides single global insurance coverage for the world's largest banana-exporting port from container handling, transport, and third-party damages.

Not far behind, PGOLD also recorded significant drops still on the aftermath of  the 23% y-o-y decrease in net income for Q2-2019.

Both telecommunication giants took significant hits after the NOW Telecom Company, Inc. was recently granted by the National Telecommunications Commission an extension of its authority to install, operate, and maintain a telecommunication network and to upgrade the system of the nationwide wireless communications network which will allow NOW to provide mobile telephony communications and multimedia transmission capability to all cities and municipalities).

*Mining & Oil recorded an astounding triple-digit growth of 254.5% due to higher nickel and gold prices, while remaining sectors booked double-digit declines.*



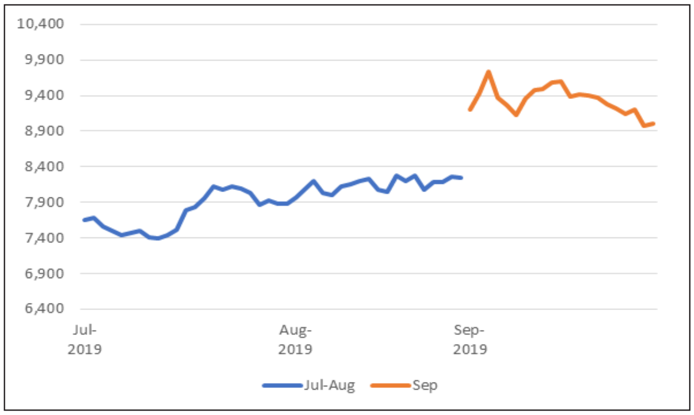
In other news, GLO has signed its third agreement for shareable telecommunications towers with a wholly owned subsidiary of global infrastructure firm American Tower Corporation (ATC) to build 150 cell sites in North Luzon. Furthermore, GLO approved the buyback of 51% stake in Yondu, Inc, an IT solution provided, from tech firm, Xurpas, Inc. for P501.0-M.

TEL, on the other hand, signed a memorandum of agreement with the Cauayan City (Isabela) government, which gives TEL the authority to upgrade the fixed and mobile network services of the city into a fully fiberize and Smart LTE-powered city.

| Company | Symbol | 30/08/19 Close | 30/09/19 Close | % Change |
|---|---|---|---|---|
| Semirara Mining and Power Corporation | SCC | 23.20 | 22.80 | -1.7% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 23 - Mining & Oil Sector Index (Jul 2019 - Sep 2019)**




*Source of Basic Data: PSE Quotation Reports*

Mining and Oil rallied the most among the sectors, hitting its highest trading level at 9,700 level for 2019. The sector led gainers after metallic mineral production rose by 9.4% for H1-2019 and that President Duterte will keep its territorial disputes over the West Philippine Sea in the sidelines in exchange for advancing oil exploration plans with China. Despite positive developments in the mining and oil sector, Semirara Mining and Power Corporation (SCC) declined by a minimal 1.7% still on the back of the negative growth in net income for Q2-2019.

## Total Turnover

| Monthly Turnover (in Million Pesos) | | | | |
|---|---|---|---|---|
| | Total Turnover | | Average Daily Turnover | |
| Sector | Value | % Change | Value | % Change |
| Financial | 18,120.88 | -22.9% | 862.90 | -33.9% |
| Industrial | 18,386.63 | -32.9% | 875.55 | -42.5% |
| Holdings | 26,148.26 | -19.3% | 1,245.16 | -30.8% |
| Property | 22,349.28 | -34.4% | 1,064.25 | -43.7% |
| Services | 13,204.43 | -34.2% | 628.78 | -43.6% |
| Mining and Oil | 11,079.27 | 254.5% | 527.58 | 203.9% |
| **Total** | **126,464.60** | -19.1% | **6,022.12** | -30.6% |
| Foreign Buying | 76,004.49 | -6.2% | 3,619.26 | -19.6% |
| Foreign Selling | 83,460.08 | -10.4% | 3,974.29 | -23.2% |
| Net Buying (Selling) | (5,289.52) | -56.4% | (251.88) | -62.6% |

*Source of Basic Data: PSE Quotation Reports*

PSE retracted once again, showing renewed weakness, as total turnover slumped by 19.1%. All sectors remained in the red, while Mining & Oil, as the lone bright spot, taking over the spot of the Property sector as the lone gainer in August. Mining & Oil recorded an astounding triple-digit growth of 254.5% due to higher nickel and gold prices, while remaining sectors booked double-digit declines.

Foreign investors continued to be net sellers with net outflow of P5.3-B in September, albeit less than the P12.1-B outflow last August. Foreign investors remain cautious amidst rising global uncertainties.

# 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 | | Jul-2019 | | | Aug-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% | 264,094 | 12.9% | 9.2% | 279,745 | 5.9% | 8.9% |
| Tax | 2,250,678 | 13.6% | 2,565,812 | 14.0% | 236,890 | 12.5% | 8.8% | 261,791 | 10.5% | 9.3% |
| BIR | 1,772,321 | 13.1% | 1,951,850 | 10.1% | 180,341 | 14.3% | 10.0% | 205,587 | 14.0% | 11.1% |
| BoC | 458,184 | 15.6% | 593,111 | 29.4% | 54,644 | 6.5% | 4.8% | 53,593 | -1.9% | 3.0% |
| Others | 20,173 | 20% | 20,851 | 3.4% | 1,905 | 35.6% | 22.4% | 1,905 | 34.1% | -24.0% |
| Non-Tax | 222,415 | 3.2% | 284,321 | 27.8% | 27,203 | 16.9% | 13.1% | 17,954 | -34.0% | 4.0% |
| Expenditures | 2,823,769 | 10.8% | 3,408,443 | 20.7% | 339,390 | 23.1% | 3.4% | 282,233 | -16.8% | 8.8% |
| Allotment to LGUs | 530,150 | 17.9% | 575,650 | 8.6% | 49,152 | 5.9% | 6.0% | 53,670 | 15.8% | 16.8% |
| Interest Payments | 310,541 | 2% | 349,215 | 12.5% | 50,965 | 75.2% | 13.7% | 19,611 | -61.5% | -30.7% |
| Overall Surplus (or Deficit) | -350,637 | -0.8% | -558,259 | 59.2% | -75,296 | 80.0% | -12.8% | -2,488 | -96.7% | -3.8% |

*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 | | Jul-2019 | | Aug-2019 | |
|---|---|---|---|---|---|---|
| | Average Levels | Annual G. R | Average Levels | Annual G.R. | Average Levels | Annual G.R. |
| RESERVE MONEY | 3,035,680 | 8.5% | 2,989,584 | 2.8% | 3,061,894 | 2.1% |
| Sources: | | | | | | |
| Net Foreign Asset of the BSP | 4,514,943 | 1.5% | 4,736,834 | 5.8% | 4,934,774 | 8.9% |
| Net Domestic Asset of the BSP | 11,218,175 | 15.4% | 12,003,405 | 5.7% | 12,080,378 | 6.2% |
| MONEY SUPPLY MEASURES AND COMPONENTS | | | | | | |
| Money Supply-1 | 3,708,624 | 13.9% | 3,982,717 | 6.8% | 4,018,553 | 9.1% |
| Money Supply-2 | 10,597,336 | 11.2% | 11,199,566 | 5.2% | 11,198,689 | 4.7% |
| Money Supply-3 | 11,063,517 | 11.5% | 11,860,825 | 6.7% | 11,857,341 | 6.2% |
| MONEY MULTIPLIER (M2/RM) | 3.49 | | 3.75 | | 3.66 | |

*Source: Bangko Sentral ng Pilipinas (BSP)*

**October 2019**


## CONTRIBUTORS

| | |
|---|---|
| Rabboni Francis B. Arjonillo | President, FMIC |
| Dr. Victor A. Abola | Senior Economist, UA&P |
| Viory Yvonne T. Janeo | Research Associate, UA&P |
| Leslie Marie B. Funcion | Research Assistant, UA&P |
| Isabel Maria G. del Rosario | Research Assistant, UA&P |




FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC