November 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

Vindicated for our view of a strong economic recovery starting H2, we see it at even a faster pace in Q4 and into 2020 than the 6.2% GDP growth recorded in Q3-2019. Lowest poverty rates (SWS) and low inflation should keep consumer spending at a quickened pace. Infrastructure spending will benefit not only from the 34.5% jump in NG budget for it but also from reactivation of Public-Private Partnership (PPP) into the Build, Build, Build (BBB) program of the administration. Resulting muscular domestic demand should offset external demand weakness, if any.

Macroeconomy

The PH economy has returned to the fast lane with the 6.2% GDP growth in Q3, and we expect this to accelerate to 6.5% and above by Q4, as consumer, government and investment spending get into higher gear moving forward. Low inflation, huge job gains, and low interest rates will drive more robust consumer spending, while National Government (NG) continues to ramp up infrastructure spending, and private sector propels PPP and capital goods investments. The exchange rate shall see renewed pressure as the BBB gains expand trade deficits again.

- NG spending accelerated to a 39% (y-o-y) growth pace in September, driven by the 53.9% surge in infrastructure outlays.
- Inflation slightly eased further to a 40-month low of 0.8% y-o-y in October from 0.9% in September, bringing the year-to-date (YTD) rate to 2.6%.
- Exports print recording a 2.5% decline in September, reversing five consecutive months of gains.
- Peso-dollar rate regained strength in October, propelled by large inflow of portfolio investments and some US dollar weakness.

Bonds Market

We see a slight downward bias in local bond yields, especially for short-dated GS. The latest 100 bps reduction in RRR, inflation averaging 1.5% in Q4, and low to negative interest rates in Japan and three EU major economies, provide the impetus for this. Although we do not see recession in the US in 2020, its mild slowdown will create downside for short-term yields in US and would discourage domestic bonds investors from asking higher yields for peso-denominated GS.

- Actual tenders surged by 281% (m-o-m) to P201.9-B in October auctions, tender-offer ratio (TOR) to 2.17x from 1.83x a month ago.
- Yields in auctions for 5-year and 7-year tenors dropped by 190.7 bps to 4.227% and by 18.1 bps to 4.322%, respectively.
- Secondary market GS yields slipped, except for 3-month and 20-year maturities, ranging from -8.6 bps to -22.2 bps.
- Trade for corporate bonds climbed by 25.81% month-on-month.
- Spreads widened by 5.5 bps and 11.1 bps for ROP-29 and ROP-40 compared to equivalent US Treasuries.

Equities Market

While the earnings outlook for Q4 may not be as remarkable as the Q3 reports given that bank earnings are unlikely to repeat in Q4 amidst fairly flat long-term bond yields, we still remain optimistic both for the rest of the year and 2020. To be sure, the MSCI rebalancing in November would have its negative impact, but this would provide entry opportunity for investors. Good earnings plus other positive factors—RRR cuts not yet fully felt, GDP back to above-6% growth--and our view that GDP would expand even faster in Q4 and that NG and infrastructure spending would accelerate further in Q4 and in 2020 boosts the case for PSEi setting a new high in 2020, while still allowing a possible year end close at around 8,400.

- PSEi rebounded by 3.5% in October, among the highest in ASEAN and East Asian bourses.
- All sectors moved into positive territory, except for continuing losses in Industrial and Services.
- MBT, MEG, and BDO led index gainers among constituent stocks, while MER, RRHI, and LTG led laggards.
- PSE turnover resurfaced rising by 3.8%, with an even split of winners and losers.
- Foreign investors turned into net buyers to the tune of P16.1-B from outflows of P5.2-B in September.

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 (Q3-2019)	6.2%	5.5%	5.8%	6.7%	6.2%	6.0-6.5%
Inflation Rate (October)	0.8%	0.9%	2.6%	2.9%	5.2%	2.5%
Government Spending (September)	39.0%	8.8%	5.4%	12.6%	22.5%	11.0%
Gross International Reserves ($B) (October)	85.7	86.2	84.6	81.6	79.2	87.5
PHP/USD rate (October)	51.50	52.11	52.00	50.40	52.68	51.00-51.50
10-year T-bond yield (end-October YTD bps)	4.63%	4.70%	5.50%	4.93%	7.05%	4.625-4.875%
PSEi (end-October YTD % change)	7,977	7,709	-0.4%	8,558	8,558	8,400-8,800

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

ECONOMY BACK ON ABOVE-6% GROWTH TRACK

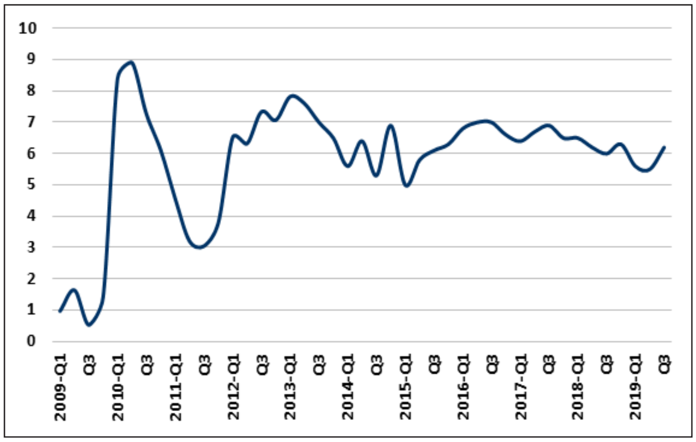
The Philippines' gross domestic product (GDP) growth in Q3 at 6.2% showed that the economy is back on track of above-6% growth, even as improved business and consumer confidence for Q4 got validated. Construction spending—both private and public—led sectoral growth with its 17.3% surge. Consumers got the boost from huge employment gains (TMC October 2019) and from headline inflation rate's plunge to a 40-month low of 0.8% in October. Money growth improved moderately as the initial impact of Bangko Sentral ng Pilipinas' (BSP) policy and reserve requirement (RRR) cuts started to gain traction.

Outlook: We see an acceleration of GDP growth to at least 6.5% in Q4, driven by sustained speedier gains in infrastructure and private construction spending and robust National Government (NG) and consumer spending. Private investments count on big ticket Public-Private Partnership (PPP) projects and strong demand in both residential and commercial construction, all of which find support in more upbeat business confidence towards Q4 (borne out by latest BSP survey). NG's ability to speed up spending resurfaced in Q3, especially in September which saw it soar by 39%.

Beating Expectations, Q3 PH GDP Expands by 6.2%, next only to Vietnam

As previously anticipated, PH economy managed to grow by 6.2% in Q3 despite global uncertainties and domestic political issues. Economic expansion accelerated from the 5.5% posted in Q2-2019 and the 6% in Q3-2018. A surge in NG spending (especially on infrastructure) and solid consumer expenditures provided the impetus as the latter benefitted from rapidly falling inflation (at 0.8% by October) and huge job gains in Q3 (see TMC October 2019). Thus, year-to-date (YTD) expansion accelerated to 5.8%, within shooting distance from the 6-7% target for 2019. PH GDP growth, likewise, outperformed those of neighboring countries, save for Vietnam which grew by 7.3%.

Figure 1 - Philippine Quarterly GDP, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

The domestic economy relied on hefty gains in government expenditures (+9.6% year-on-year from 7.3% in Q2) and robust consumption spending, up by 5.9% y-o-y and faster than 5.5% in Q2-2019. Capital formation (investment), on the other hand, posted a 2.6% decline with negative change in inventories and lackluster performance in durable equipment (-9.1%). Meanwhile, construction surged by 17.3%, following the 19.1% expansion in private construction (which includes PPP) and the rebound in public construction (+11%) as the government fast tracked the implementation of infrastructure projects.

Durable equipment extended its losses, unable to handle headwinds from air transport (-54.6%), mining and construction machinery (-44.9%), water transport (-40.2%), and agricultural machinery (-20.1%).

On the production side, the Services sector continued to drive expansion with its 6.9% uptick, the fastest growth among sectors. Financial intermediation led the growth rate with its double-digit gain of 10%, better than the 9.2% in Q2. Trade and repair of motor vehicles, motorcycles, personal and household goods remained as the top contributor as it climbed by 8.1%, albeit slightly slower than 8.4% a quarter ago.

Agriculture sector booked a surprising 3.1% uptick, a faster pace than 0.8% in Q2. The sector got a boost from corn output (+24.1%), poultry (+8.4%), among others. Fishing slowed to 1% from 3.4% in the previous quarter.

The Industry sector also accelerated to 5.6% from 3.7% in Q2, mainly driven by construction, which surged by 16.3% thanks to the twin-engine boost in private and public construction. Electricity, gas, and water supply also pulled the sector up with a 7.2% rise. The sector could have performed better but for decelerations in manufacturing and mining & quarrying outputs.

NG stepped heavily on the accelerator to post a hefty spending increase of 39% in September.

We still think that economy will grow by 6% for the full year 2019, as government expenditures continue its dizzying pace in Q4, while ultra-low inflation, more jobs, and remittances should propel consumer spending.

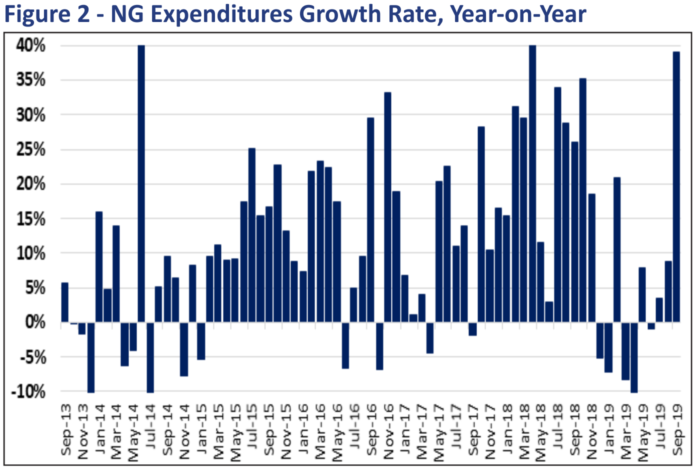
NG Spending Spikes Up by 39% in September, Fastest in 2019

NG stepped heavily on the accelerator to post a hefty spending increase of 39% in September. This came after a decent 8.8% expansion in the preceding month. This marked the fastest increase in disbursement, amounting to P415.1-B. Infrastructure and capital outlays surged by 53.9% y-o-y to total P100.3-B as the Department of Public Works and Highways rushed project completion, while the Department of National Defense purchased new military equipment.

Above-20% increase in allotments to LGUs, interest payment, and other disbursements contributed to this remarkable increase. Subsidies to government-owned and controlled corporations (GOCC) increased by 179.3% and maintenance and other operating expenses posted a 26.1% growth.

Thus, total NG spending outpaced the expansion of the total revenue collected, resulting in a large budget deficit of P178.6-B in September. This brought YTD deficit to P299-B, representing 47% of the P631.5-B target deficit for 2019, still leaving enough fiscal space for the last quarter of the year.

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



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

The 16.9% jump in total revenues relied on hefty gains in Bureau of Internal Revenue (BIR) and Bureau of Customs' (BOC) collections, as both showed 15% gains. Robust BIR tax revenues suggest upbeat labor data and a pickup in economic activity. Meanwhile, the Bureau of Customs' (BOC) total tax take amounting to P58.8-B got a boost from imports.

While we still expect NG spending to further accelerate for the rest of the year, as NG's catch-up plan firms up, we think the total budget deficit for 2019 may not hit P600-B.

Factory Output Posts Modest Growth in October While Manufacturing Print Still in the Red

The Philippines' manufacturing purchasing managers' index (PMI), which describes factory activity, showed slight improvement in October to a reading of 52.1 from 51.8 from the preceding month. PH PMI print in October bested the region's average (48.5) and ranked 2nd next to Myanmar (53). Higher factory output and new orders, which offset record-low business expectations, supported the modest increase.

Meanwhile, the Volume of Production Index (VoPI) for September remained sluggish, marking the 9th month streak of being in the red. Surveyed manufacturing output fell by 3% in September, albeit an improvement from the -9.3% plunge in August. Lackluster output in eight out of the 20 major industry groups, with two recording double-digit declines, pulled down the index.

Furniture and fixtures plummeted by 30.1% followed by leather products (-22.3%). The production of petroleum products, miscellaneous manufactures, and electrical machinery also posted declines. Meanwhile, printing led the expansion with a 79.9% jump, followed by tobacco products (+48.6%). Manufacture of beverage products grew by 13.9%, joining the outperformers during the said period.

Despite the unremarkable MISSI performance, we still think that improvements in manufacturing output may improve further in Q4 anchored on higher infrastructure and construction spending. Stronger consumer and the upcoming Christmas season should, likewise, provide a further boost. Besides, we've noted in the past report that changes in MISSI only account for 55% of the variations in the growth rate of manufacturing gross value added (GVA).

October Inflation Eases to 0.8%, a 40-month Low

The unrelenting fall of inflation brought it to 0.8% in October, a 40-month low. Slower upticks in fuel and transportation indices offset price increases in alcoholic beverages, *Exports print in September recorded a 2.5% decline after five consecutive months of being in the green.*

tobacco, and clothing. YTD inflation of 2.6% remained below the median of BSP's target 2% to 4%. Core inflation also decelerated from 2.7% y-o-y in September to 2.6% in October.

The transportation index further decelerated due to lower fuel prices. Note that international crude oil prices declined by 23% y-o-y in September, averaging to about $54/barrel for WTI vis-à-vis the $71/barrel recorded in the same month last year. Relative to the month-ago level, WTI prices also posted decline by about 5%, as inventories bulged. The significant decline in crude oil prices spilled over to other items, resulting in slower upticks in the housing, water, electricity, gas, and other fuels (HWEGOF) index despite the slight increase in electricity costs in October. Meralco rates increased by 5 cents to P9.09/kWh from a month ago due to higher generation costs.

On the other hand, we observed faster increment in alcoholic beverages & tobacco (ABT) and clothing and footwear indices. The remaining four other commodity groups kept the past month's pace.

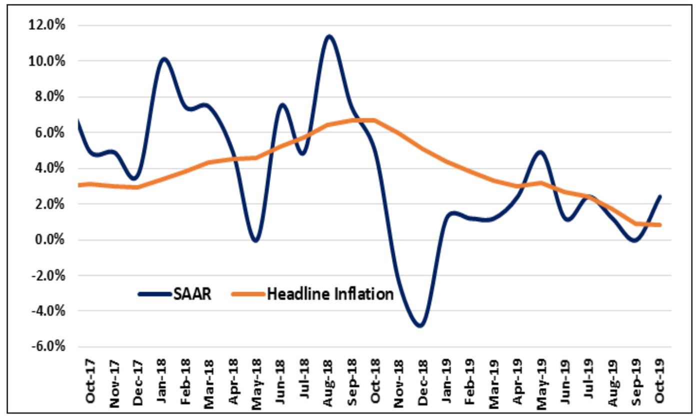
Inflation Year-on-Year Growth Rates	Oct 2019	Sep 2019	YTD
All items	0.8%	0.9%	2.6%
Food and Non-Alcoholic Beverages	-0.9%	-0.9%	2.4%
Alcoholic Beverages and Tobacco	16.5%	14.3%	11.7%
Clothing and Footwear	2.8%	2.7%	2.5%
Housing, Water, Elec, Gas, & Other Fuels	0.6%	0.8%	2.6%
Furnishing, Home Equip & Maintenance	2.7%	2.8%	3.2%
Health	2.9%	3.1%	3.6%
Transport	-1.6%	-0.9%	1.4%
Communication	0.2%	0.2%	0.3%
Recreation and Culture	1.4%	1.4%	2.7%
Education	4.6%	4.6%	-0.6%
Restaurants and Miscellanous Goods and Services	2.9%	3.0%	3.4%

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

The seasonally-adjusted annualized rate (SAAR) of inflation increased to 2.4% (m-o-m) in October from 0% in September or back to its pace in July. This does not raise concerns even though we may see a slight uptick in the run up to the December Christmas holidays.

Figure 3 - Inflation Rates, Year-on-Year



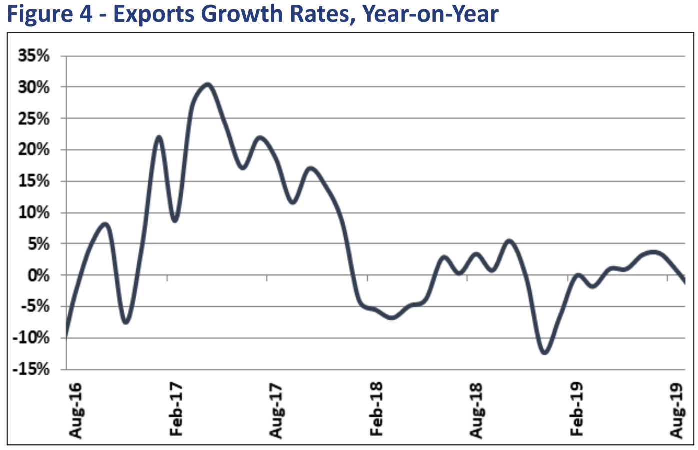
Source of Basic Data: Philippine Statistics Authority (PSA)

Exports Positive Streak Broken in September

Exports print in September recorded a 2.5% decline after five consecutive months of being in the green. This brought the YTD rate to negative 0.2%, although better than the -2% slide in January-September 2018. Outbound shipments in September totaled to $5.9-B but stood lower than the $6.1-B exports receipts collected in the same period last year due to lower demand in seven out of 10 top exports commodities.

Electronic products still had the largest share, accounting for 60.9% of total exports. Outbound sales of these products continued to increase by 3.8% y-o-y, supported by higher demand for semiconductors (+5.4% gains y-o-y) and the above-20% jump in office equipment and consumer electronics. Shipments of bananas (ranked 3rd) also posted hefty gains of 55.5% to $189.4-M. The rest of top five export commodities posted declines.

Figure 4 - Exports Growth Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Domestic liquidity (M3) growth accelerated to 7.7% (y-o-y) in September from 6.2% in August. Broad money (M2) and narrow money, likewise, picked up pace to 6.5% (y-o-y) and 10.3%, respectively, following various policy rate cuts.

Japan outranked US in September, recording total sales of $957-M (+19.1%). It accounted for about 16% of total exports. Shipments to the US, on the other hand, fell by 7.1% to $904.2-M. Sales to Hong Kong (3rd) and China (4th) went up by 5.3% and 0.9% y-o-y, respectively.

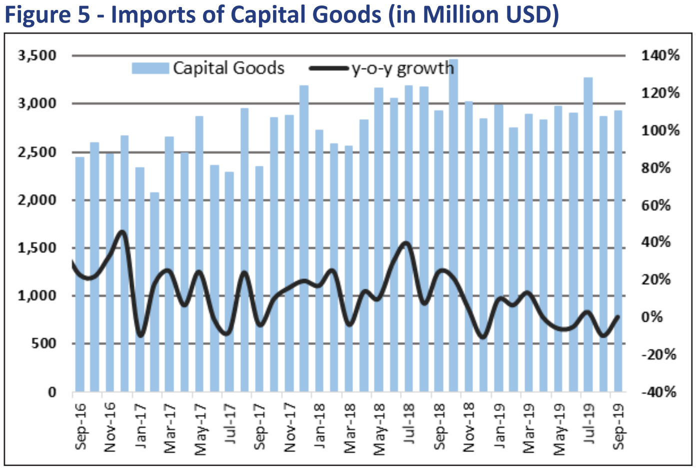
Half of the total exports in September still headed towards East Asian (EA) nations, valued at $3.1-B which showed remarkable increase of 10.8% amidst higher demand from Korea, China, and Hong Kong. Exports shipments to ASEAN and EU, on the other hand, registered declines. Outbound sales to ASEAN slumped by 17% while shipments to EU fell by 4.8%.

Capital Goods Picks Up Pace in September

The imports of capital goods inched up by 0.3% y-o-y in September after it dove by 10% in August. Gains in most big-ticket capital good sub-products (i.e., power generating and specialized machines, office machines, and telecommunication equipment; among others) powered the uptick. This offset the double-digit declines in the imports of aircraft, ships and boats (-41.4%) and photographic equipment (-21.5%).

Consumer goods imports also climbed 2.6% y-o-y driven by higher imports of home appliances, passenger cars and other non-durable products (i.e., dairy products, fruits, fish and fish preparation).

Figure 5 - Imports of Capital Goods (in Million USD)



Source of Basic Data: Philippine Statistics Authority (PSA)

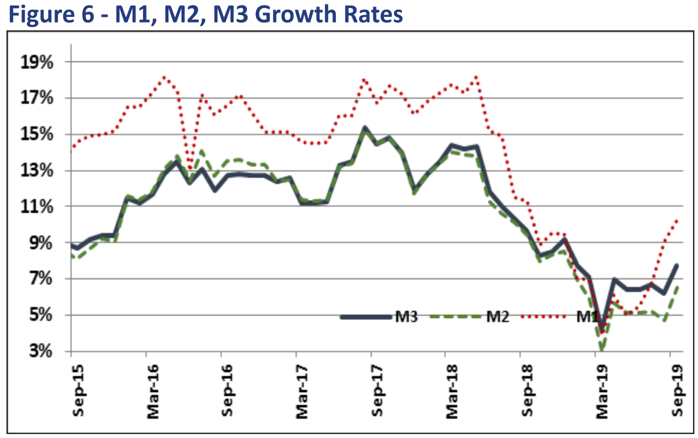
Raw materials & intermediate goods import still captured the largest share of total imports at 35.4%, but also still tanked by -23.1% due to lower imports for unprocessed raw materials (i.e., crude, wheat). Semi-processed raw materials (i.e., animal and vegetable oil, chemical) and manufactured goods (i.e., iron & steel and non-ferrous metal products) likewise showed weak import demand. Lower crude oil prices, likewise, resulted in a 14.5% plunge in mineral fuels and related materials.

The slowdown in most categories of imports brought total imports lower by 10.5% y-o-y to $9-B in September, still outpacing total exports (in absolute terms). Balance of trade (BOT) deficit in September stood at $3.1-B, showing back to a 16.4% (m-o-m) rise from $2.7-B in August.

Monetary Aggregates Rise Faster in September as BSP Slashes RRR Anew

Domestic liquidity (M3) growth accelerated to 7.7% (y-o-y) in September from 6.2% in August. Broad money (M2) and narrow money, likewise, picked up pace to 6.5% (y-o-y) and 10.3%, respectively, following various policy rate cuts.

Figure 6 - M1, M2, M3 Growth Rates



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

Note that the BSP further slashed the banks' reserve requirement by another 100 bps, which will take effect on the first day of the first reserve week of December 2019. The reduction in reserve requirements will apply to the deposits and deposit substitute liabilities in local currency of banks and NBQBs:

Personal remittances sent by Filipinos working abroad (OFWs) in August posted another 4.2% y-o-y increase to $2.9-B, albeit slower than 7.2% a month ago.

	Effectivity Date: December 2019
Universal/ Commercial Banks	14%
Non-Bank Financial Institutions with Quasi-Banking Functions	16%
Thrift Banks	4%

Outstanding commercial bank loans in September maintained the past month's rate at 9% vis-à-vis the 9.8% recorded in July. Bulk of these loans still went to construction; real estate; financial and insurance activities; and wholesale and retail trade, among others. Loans to households showed a 26.2% increase, faster than the 25.4% in August driven by stronger demand for motor vehicle, credit card, and salary-based general purpose consumption loans. 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 9.7% from 7.9% y-o-y in August 2019.

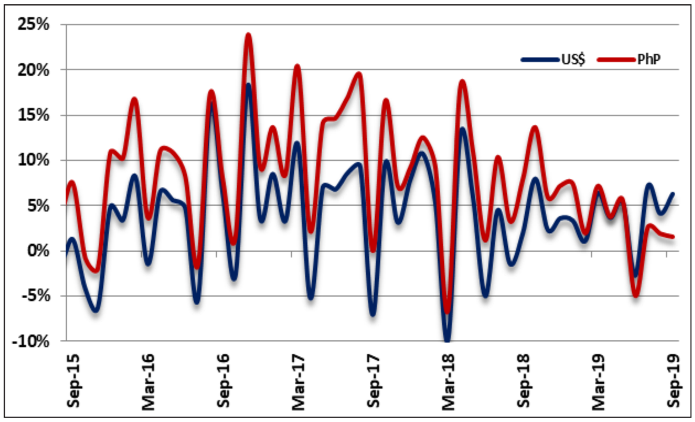
We may still see further easing in policy rates, especially considering very low inflation domestically and interest rates abroad, and the latest Fed policy rate cut of 25 bps.

OFW Remittances Further Accelerates in September

As previously anticipated, personal remittances sent by Filipinos working abroad (OFWs) in September posted another 6.3% y-o-y increase to $2.6-B, faster than the 4.2% a month ago. YTD levels for the first nine months of the year totaled to $24.6-B, 3.9% higher than in the same period last year. Inflows coming from sea- and land-based workers with less than one-year contracts supported remittances flow (+8.2%), along with the 3.3% increase in remittances sent by those with contracts locked-in for at least one year.

Cash remittances also increased by 4.2% (or $22.2-B) amidst strong transfers from the US, which accounted for about 37.5% of total cash remittances. Saudi Arabia, Singapore, United Arab Emirates, Japan, UK, Canada, Hong Kong, Germany and Kuwait, which collectively comprised another 40.8%, also contributed to the unrelenting increase of remittances.

Figure 7 - OFW Remittances Growth, Year-on-Year



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

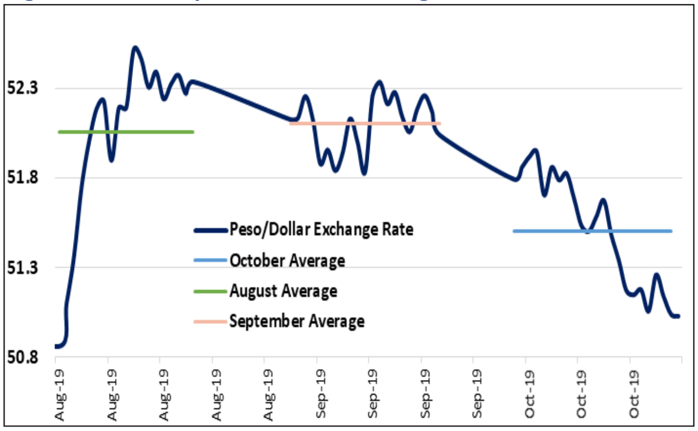
Meanwhile, the peso equivalent of personal remittances in September fell, albeit still positive, due to the 4.5% y-o-y peso appreciation. We believe that the inflow of remittances will continue to improve in the coming months as OFWs pour in money in time for the Christmas holidays.

Peso Strengthens in October

The peso showed strength against the greenback in October after two consecutive months of being in the red. Softer price upticks and sustained dollar inflows for the Chinese POGOs propelled gains in the currency.

The peso averaged P51.50/$ in October from P52.11/$ a month ago, a sharp 1.2% appreciation m-o-m. The volatility measure widened to 0.32 from 0.15 in September, with a high of P51.95/$ and a low of P51/$.

Figure 8 - Monthly Dollar-Peso Exchange Rates



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

September 2019 marked a breakout in inflation (to below 1%) and in infrastructure spending (+53.9%) resulting in GDP growth above 6% once again.

Other emerging market currencies also posted gains led by the Korean won (KRW) due to current account surpluses. This and higher foreign exchange reserves, likewise, boosted Thailand's baht (THB). In India, the fiscal stimulus revived the rupee (INR) while Chinese yuan (CNY) managed to resist the greenback despite the ongoing trade tension between China and US.

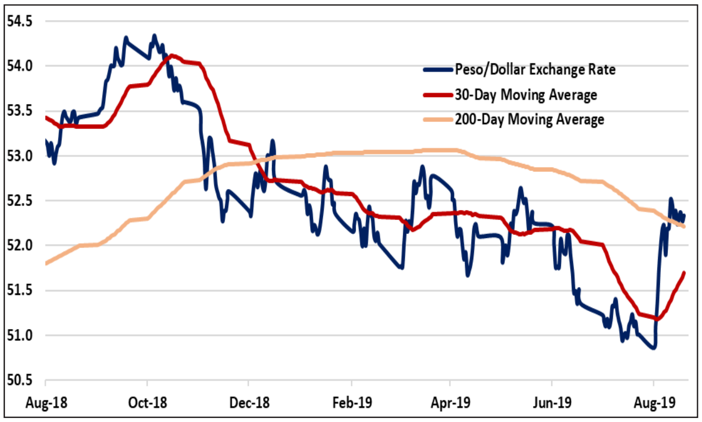
Exchange Rates vs USD for Selected Asian Countries

	Sep-19	Oct-19	YTD
AUD	-0.5%	0.2%	5.5%
CNY	0.9%	-0.2%	3.0%
INR	0.4%	-0.5%	0.4%
IDR	-0.9%	0.1%	-2.6%
KRW	-1.2%	-1.0%	5.3%
MYR	0.0%	0.1%	0.3%
PHP	0.1%	-1.2%	-2.4%
SGD	-0.3%	-0.7%	0.0%
THB	-0.7%	-0.6%	-7.2%

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

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

Figure 9 - Dollar-Peso Exchange Rates & Moving Averages



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

The month-end actual USD/PHP rate in October landed below both the 30-day moving average (MA) and 200-day MA, suggesting peso strength in the short term. Higher imports due to the rapid recovery of infrastructure spending may temper the expectation of more remittances inflows in December.

Outlook:

September 2019 marked a breakout in inflation (to below 1%) and in infrastructure spending (+53.9%) resulting in GDP growth above 6% once again. Thus, we see the economy regaining momentum.

• PMI's further rise to 52.1 level in October from 51.8 suggests renewed strength in manufacturing. This may be seasonal but given the improved Consumer Confidence Index and Business Confidence (as surveyed by BSP), we see a good recovery in Q4.

• Given that confidence, more jobs arising from even stronger infrastructure spending and private construction boost, we see consumption spending accelerating further in Q4 and, thus, ensuring above-6.5% GDP growth.

• Capital formation also should bounce back in Q4 as capital goods imports move up in tandem with public and private construction binge and business confidence towards Q4 supported by the 6.2% GDP expansion in Q3.

• Inflation (y-o-y) likely hit a bottom in October as the base effects impact CPI starting November. Nonetheless, we still expect the average inflation rate for Q4 to fall to 1.5% from 1.7% in Q3. Crude oil prices pose no real threat while rice inventories have hit highs in August and the harvest season has set in.

• We should also see faster money growth, although we don't expect a sharp rise despite the policy rate and RRR cuts. Lending to the consumer sector has dominated banking activity, but that has its limits, having achieved high-20% growth.

• Exports will likely remain flat, especially with the BSP allowing stronger peso recently, but OFW remittances should gain pace since US dollar remittances tend to rise when the peso strengthens as recipient families' peso needs remain constant.

• Despite the peso going on an appreciation trend since late September, the rise in trade deficit in that month suggests that faster GDP growth, especially investment spending, will push the deficit up significantly, and will likely offset OFW remittances. This, together with lower interest rates due to the policy and RRR cuts, would bring the peso back to a depreciation mode.

MILD MODERATION OF YIELDS AS DEMAND REMAINS ROBUST

Bond yields eased slightly in October in the face of inflation keeping below 1% while the US Fed cut its policy rates by 25 bps on October 30 as widely expected. Except for the 3-year T-bond auction, T-bill and T-bond auctions saw yields fall by 4.2 bps to 24.6 bps for the former and by as much as -190.7 bps for the 7-year paper. The secondary market also rebounded with yields easing for all tenors except for the 3-month and 20-year maturities. ROP yields moved up fairly in step with US Treasuries.

Outlook: We expect a downward bias on domestic bond yields, especially at the shorter end of the curve. This appears supported by low inflation, averaging 1.5% in Q4, the latest 100 bps reserve requirement ratio (RRR) cut by the BSP and little upward pressure from abroad. Despite still strong employment data in the US and no signs of recession in the near term, bond yields in the US appear to have a downward bias for the short-dated papers and stable for the longer maturities after the Fed's October policy rate cut and its reticence on further slashes in policy rates.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
07-Oct	91-day	8.000	14.650	8.000	1.831	2.995	-4.2
	182-day	6.000	12.750	6.000	2.125	3.171	
	364-day	6.000	14.276	6.000	2.379	3.577	
21-Oct	91-day	8.000	21.650	0.000	2.706	0.000	
	182-day	6.000	16.410	6.000	2.735	3.174	-24.6
	364-day	6.000	21.721	6.000	3.620	3.576	-9.0
Subtotal		**40.000**	**101.457**	**32.000**	**2.536**		
01-Oct	3 year	**20.000**	**50.751**	**20.000**	**2.538**	**3.996**	3.5
15-Oct	5 year	20.000	63.187	20.000	3.159	4.227	-190.7
15-Oct	5 year - TAP	20.000	29.279	10.000	1.464	0.000	
29-Oct	7 year	20.000	56.872	20.000	2.844	4.322	-18.1
29-Oct	7 year - TAP	20.000	1.774	0.000	0.089	0.000	
Subtotal		**100.000**	**201.863**	**70.000**	**2.019**		
All Auctions		**140.000**	**303.320**	**102.000**	**2.167**		

Source: Philippine Dealing Systems (PDS)

Primary Auction: Yields Slip Mildly

Bond investors flocked auctions of the Bureau of the Treasury (BTr) in October especially after BSP decided to cut RRR by 100 bps last October 24, effective December 2. Thus, total tendered amounted to P303.3-B or 137.3% higher compared to P127.8-B in September. This also resulted in an 18.7% rise of the total tender-offer ratio (TOR) to 2.17x from 1.83x in the previous month.

Yields for T-bills and T-bonds continued to fall as short-term debt paper TOR rose to 2.54x from 2.49x while long term debt paper TOR increased to 2.02x from 1.32x in the previous month. With the TOR for T-bills only slightly up, yields fell between 4.2 bps to 24.6 bps. The largest drop occurred in the 182-day space which saw yields sink by 24.6 bps to 3.174% while it slipped by 9 bps to 3.576% for 364-day T-bills. The 91-day yield slightly eased by 4.2 bps to 2.995%, even as BTr rejected all tenders for the last 91-day auction on October 21.

Meanwhile, 3-year, 5-year and 7-year T-bonds auctioned and offered two tap facilities for the month of October fetched P201.9-B in tenders, a huge 281% surge from P52.8-B a month ago. Yields of awarded 5-year T-bonds drastically dropped by 190.7 bps to 4.227% from 6.134% last February 26 as it attracted the strongest demand with TOR of 3.15x. Yield of 7-year papers declined by 18.1 bps to 4.322% from 4.503% on September 26. Yields for 3-year went the opposite way as it slightly climbed by 3.5 bps to 3.996% from 3.961% on August 27. In addition to the two tap facilities, BTr also accepted P10-B for 5-year T-bonds and rejected the minimal tenders for the 7-year tenor.

Secondary GS Trading: A Non-Phenomenal Rise in October

Although not phenomenal, total volume turnover for secondary GS market trading climbed once again to P382.7-B from P319.5-B in September or up 19.8% month-on-month (m-o-m) and by 138.8% year-on-year (y-o-y). Yields slipped across the board except for 3-month and 20-year paper maturities.

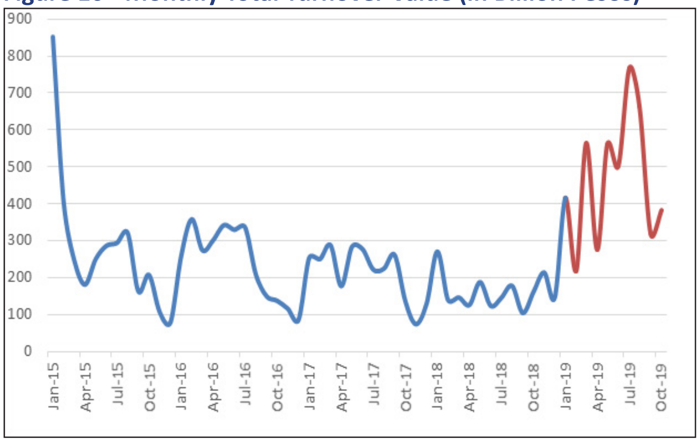
Long term dated paper (5-year and 7-year) sank by 22.2 bps to 4.259% from 4.481% and by 19.1 bps to 4.479% from 4.670%, respectively. The 10-year tenors also gave up 13.2 bps to end at 4.669%.

Moving north, yields of 3-month and 20-year paper rose by 7 bps to 3.172% from 3.102% and by 6 bps to 5.082% from 5.022%, respectively.

Secondary trading of corporate bonds soared in October by 25.8% m-o-m to P6.2-B from P4.9-B a month ago.

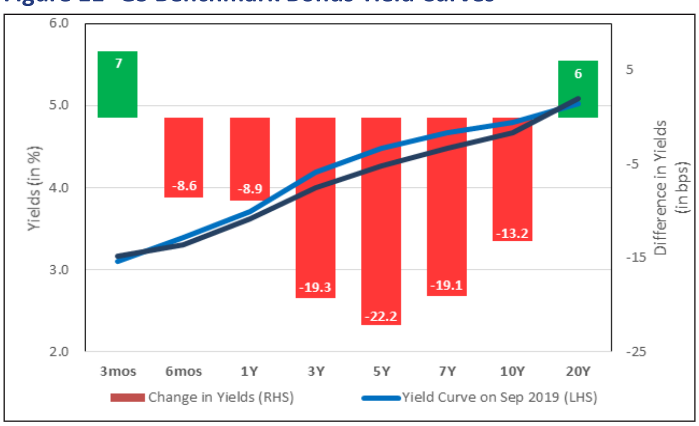
Lastly, the spread between 10-year and 2-year T-bond yields (i.e., a curve steepness measure) minutely widened by 2 bps to 78 bps by the end of October.

Figure 10 - Monthly Total Turnover Value (in Billion Pesos)



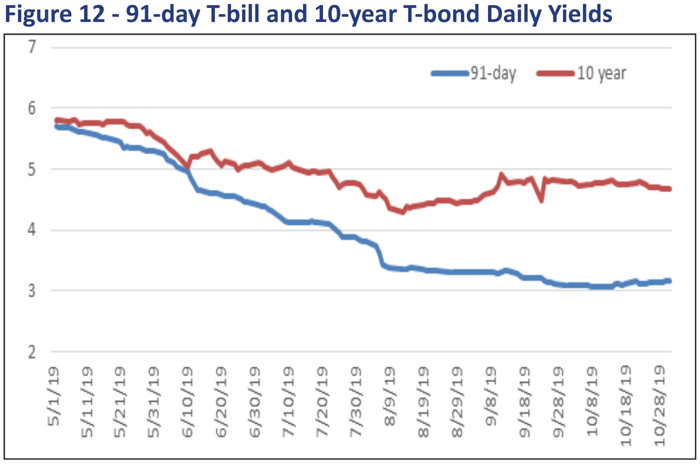
Source: Philippine Dealing Systems (PDS)

Figure 11- GS Benchmark Bonds Yield Curves



Source: Philippine Dealing Systems (PDS)

Figure 12 - 91-day T-bill and 10-year T-bond Daily Yields



Source: Philippine Dealing Systems (PDS)

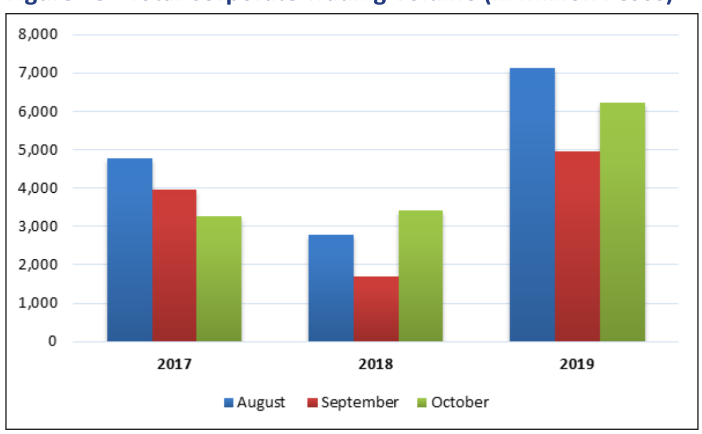
Corporate Trading: Still Going Strong, Up 25.8% in October

Secondary trading of corporate bonds soared in October by 25.8% m-o-m to P6.2-B from P4.9-B a month ago. It was more pronounced on y-o-y basis as it vaulted by 81.6%.

Total trading for the top five corporates issues moved up by 3.2% (m-o-m) to reach P2-B. SMC Global Power (SMCGC) remained the top performer with total volume of P690-M, up 1%. Other issues included: SM Prime Holdings (SMPH), Ayala Land Inc. (ALI), Ayala Corporation (AC) and JG Summit Corporation (JGS) which returned to the top five last month.

ALI retained its second spot with P337.9-M despite plummeting by 45.9%. Next came JGS with P414.6-M volume, as it soared by 1,584% and snatched the 3rd spot from SMIC. Moreover, SMPH and AC took the fourth and fifth spot, with P387.6-M (-29.9%) and 127.8-M (-41%), respectively.

Figure 13 - Total Corporate Trading Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Corporate Issuances and Disclosures

- Rizal Commercial Banking Corporation (RCBC) offered a 3-year fixed rate peso bond with an interest rate of 4.426% per annum. The issuance is the third drawdown off the Bank's P100-B Bond and Commercial Paper Program. The public offering commenced last October 28, 2019 and ran until November 6, 2019.

- Metropolitan Bank & Trust Company (MBT) successfully raised P13.75-B from 3.5-year peso bonds. It was listed in the Philippine Dealing Exchange (PDEx) on October 24, 2019. This represents the fifth time Metrobank tapped its Board-approved P100-B Bond and Commercial Paper Program.

Republic of the Philippines' sovereign US dollar-denominated bond yields basically tracked the rise in long-dated US Treasury bond yields in October.

• PDEx approved the third tranche of Aboitiz Power Corporation's (AP) P30-B debt securities amounting to P7.25-B (Series D Bonds). The Series "D" fixed rate 7-year bonds have a coupon rate of 5.2757% and matures in 2026.

• Vistaland & Lifescapes Inc. (VLL) applied for the Philippine peso-denominated fixed rate retail bonds with an aggregate amount of up to P30-B under its New Shelf Bonds. The bonds will be issued in tranches within a period of three years from the effective date of registration statement by the Securities and Exchange Commission (SEC).

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

Republic of the Philippines' sovereign US dollar-denominated bond yields basically tracked the rise in long-dated US Treasury bond yields in October. As ROPs yields moved up higher than equivalent US Treasuries, the spread between the two widened mildly.

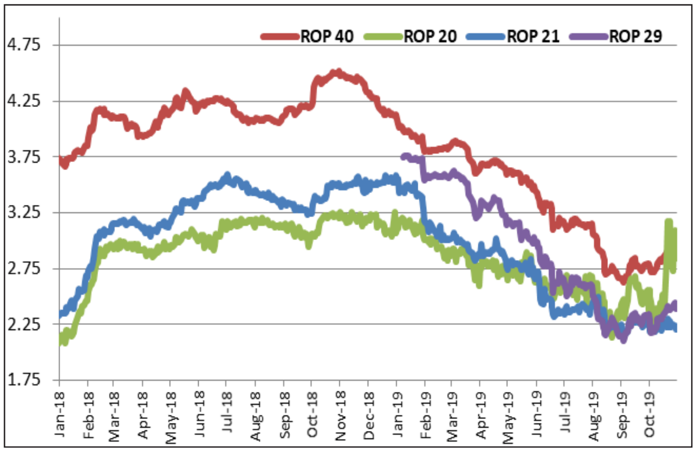
The slow growth of US economy in Q3 to 1.9% from Q2's 2% drew the wider gap between ROPs and its equivalent US Treasury as spread change for all tenors increased, e.g. 1-year tenor surged to 131.9 bps last October from September's 80.7 bps and 20-year tenor up by 96.7 bps last month from 85.6 bps in September (See table of Spreads between ROPs and US Treasuries).

While longer tenor (ROP40) climbed by 17.1 bps to 2.967% from 2.796% in September, the 10-year (ROP29) rose by only 6.5 bps to 2.394%. On the other hand, ROP-21 eased by 8.2 bps to 2.210% from 2.292%.

Meanwhile, in the US, yields for shorter tenors (1-year and 2-year bonds) fell as the market players expected the US Fed to cut policy rates by 25 bps on its October 30 meeting and the infusion of more short-term funds into the money and the mortgage bond securities (MBS) markets which were experiencing some tightness. Thus, 1-year US Treasury bond yields plunged by 22 bps to 1.53% from 1.75% while the 2-year yields shed 11 bps to 1.52% from 1.63%. Furthermore, longer tenors (10-year and 20-year) were up by 1 bp to 1.69% from 1.68% and by 6 bps to 2% from 1.94% respectively.

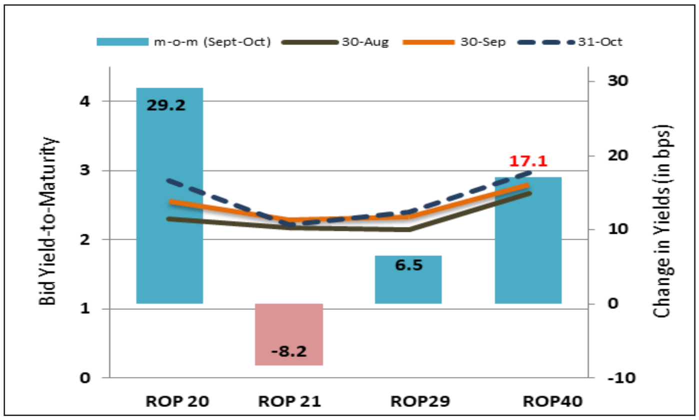
Since the uptick in ROPs at the long end exceeded those of equivalent US Treasuries, the spread between ROPs and US Treasuries (10 year and 20-year) climbed by 5.5 bps and 11.1 bps to reach 70.4 bps and 96.7 bps, respectively.

Figure 14 - ROPs Daily Yields



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Figure 15 - ROPs Yield, Month-on-Month Changes (bps)



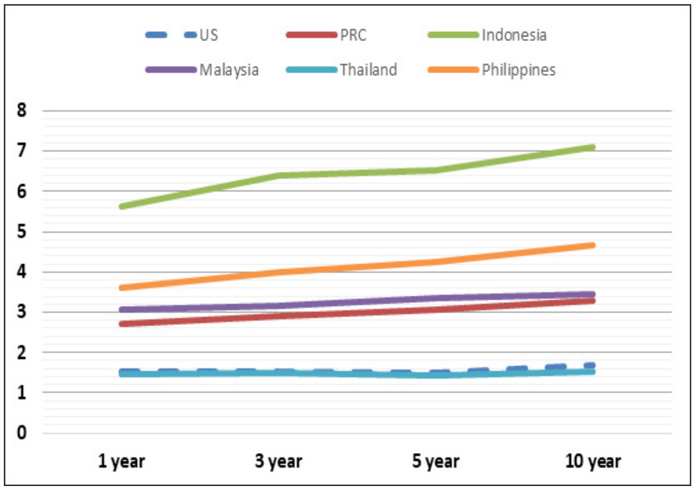
Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Spreads between ROPs and US Treasuries (in bps)

Date	1-year	2-year	10-year	20-year
31-Aug	54.6	67.1	64.8	88.7
30-Sep	80.7	66.2	64.9	85.6
31-Oct	131.9	69.0	70.4	96.7

China's GDP expanded by 6% y-o-y in Q3-2019, the slowest in 27 years, and a further deceleration from 6.2% in Q2 and 6.4% in Q1.

Figure 16- Comparative Yield Curve Between ASEAN per Tenor



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN + 5: Mild Steepening of Yield Curves

US: The Fed trimmed its policy rate (Fed funds) for the third time in 2019 by another 25 bps last October 30 and immediately 10-year T-bond yields fell sharply to end October at 1.69%. However, it jacked up again after the jobs report for October (released November 1st) showed a healthy labor market. Apart from significant upward revisions (net +95,000) in August and September, October added another decent 128,000 jobs, while keeping unemployment rate at 3.6%. Little pressure came from the modest 0.2% (s.a., m-o-m) hourly wage rise as more people entered the job market, which drove the labor participation rate up by 0.1% to 63.3%, a steady upward move from 62.9% a year ago. Headline inflation inched by 0.4% from 0.3% in September, although core inflation shed 0.1%, since food and energy prices drove the month's inflation rate. The trade war with China still seemed blurred. All told the spread between the 10-year and 2-year bond yields climbed by 12 bps to reach 17 bps by end-October, and higher still in November.

China: GDP expanded by 6% y-o-y in Q3-2019, the slowest in 27 years, and a further deceleration from 6.2% in Q2 and 6.4% in Q1. Producer prices dropped by 1.2% y-o-y, slowing down output growth amidst the trade war with the US. Meanwhile, inflation (CPI) rose 3% y-o-y in September driven by higher food prices (+11.2%), particularly the 69% surge in pork prices. The inflation rate bumped to a near 6-year high.

Balance of trade surplus came in at $39.7-B in September, a huge 25.2% jump from $31.7-B a year ago, as imports slumped by 7.9% while exports inched up by 1.2%. According to President Xi Jinping, China will give importance on imports by lowering its tariff and institutional transaction costs. This is line with China's commitment on the economic openness and global trading order, as the first phase of the US-China trade war set in.

China's Ministry of Finance issued €4-B bonds with 7-, 12- and 20-year maturities, with oversubscription of 5x. The yield curve's steepness remained fairly unchanged.

Thailand: Inflation rate eased to 0.11% y-o-y in October from 0.32% a month ago or -0.16% m-o-m. The faster decline in transport and communication (-3.4% vs -2.9%) and milder food prices (2.2% from 2.5% in September) mainly caused the slowdown even as core inflation rate remained at 0.44%.

Bank of Thailand's (BOT) Monetary Policy Committee projected GDP growth for 2019 at 2.8% and rising to 3.2% in 2020. In September, exports dropped by 1.5% y-o-y due to (1) economic slowdown of the trading partners, (2) downturn of electronic cycle, and (3) contraction of global crude oil prices. Meanwhile, imports dropped by 4.5% y-o-y due to weaker imports of electronic parts, lower crude oil prices, and a slump in imports of the capital goods. BOT cut the policy rate by 25 bps to a record low of 1.25% on November 5 to boost economic growth and support the target headline inflation. The baht's year-to-date (YTD) appreciation of 7.8% has put an additional drag to exports and growth in 2019. Interest rates remained relatively stable with the yield curve steepness unchanged.

Indonesia: GDP increased by 5.02% in Q3-2019, slightly slower than 5.05% in the previous quarter, due to weak global demand as trade and manufacturing have weakened slightly due to the global trade tension, mainly between US and China. October's purchasing managers index (PMI) fell to 47.7 from 49.1 in September. The manufacturing downturn sends a signal of slower growth for Q4. Inflation rate slowed to 3.13% in October from 3.39% a month ago as price upticks eased mildly for main items. These included housing & utilities (1.91% vs 2.25%

With the latest 100 bps cut in RRR playing out by December and inflation to average 1.5% in Q4, we should see a slight downward bias for the 10-year T-bond yields to 4.2% from 4.4% before year end.

in September); foodstuff (4.84% vs 5.42%); transportation, communication & financial services (1.51% vs 1.85%); and clothing (5.16% vs 5.65%). Meanwhile, price increments took a faster pace on education, recreation & sport (3.43% vs 3.41%), health (3.50% vs 3.25%) and prepared food, beverages, cigarettes and tobacco (3.85% vs flat reading).

While it posted a minimal trade surplus in September, Indonesia's current account deficit remained elevated at $7.8-B or close to 3% of GDP. YTD to September, foreign direct investments (FDI) totaled $22.4-B or 17.8% higher than the same period in 2018. Major destinations of FDIs included transportation, warehouse and telecommunication (19.3%); electricity, gas and water (19%); and construction (8.2%).

Bank Indonesia (BI) lowered its 7-day reverse repo rate (policy rate) by 25 bps to 5% this year thus, bringing YTD cuts to 100 bps. Deposit facility (DF) rates and lending facility (LF) rates similarly shed 25 bps to 4.25% and 5.75%, respectively. With the policy rate cut, short-term yields declined faster than longer-term papers, and so the spread between 10-year and 2-year yields climbed by 18 bps to 125 bps, the highest in the region, indicating a growth in the economy.

Malaysia: GDP growth slowed to 4.4% y-o-y in Q3 from 4.9% in Q2. However, purchasing manager's index (PMI) increased to 49.3 in October from 47.9 in September, its highest level in six months, suggesting an acceleration of growth in the coming quarters. Malaysia's inflation slipped to 1.1% in September from 1.5% a month ago, driven by the fall in housing and transport costs even though food prices rose. Balance of trade surplus also slipped to $34.2-B fom $35.2 in September as exports decreased 6.8% y-o-y to MYR 83.3-B ($18.9-B) due to low commodity prices. Imports, on other hand, expanded by 2.4% y-o-y to MYR 69.4-B ($16.9-B) due to stronger imports of consumer goods and capital goods.

On the financial side, Malaysia remained the main issuer ($13.9-B or 35.1%) of Islamic debt papers ("sukuk") in Q1-2019 besides countries in Gulf Cooperation Council (GCC) region. Bank Negara Malaysia's (BNM) sukuk issuances (mostly short-term T-bills) aim to primarily aid liquidity for Islamic financial institutions according to Fitch.

BNM retained the overnight policy rate of 3% during their November 5 meeting even after the US Fed reduced policy rates by 25 bps on October 30, since it thinks private consumption will remain strong amid benign inflation.

As 10-year bond yields rose by 5 bps while 2-year yields dropped, the spread between the two increased by 11 bps to reach 35 bps (still relatively flat).

Outlook

After cutting Fed policy rate for the third time in 2019 by another 25 bps last October 30, Fed Chairman Powell, practically dismissed any further cuts this year. For 2020, he appeared less inclined, although he said "…if developments emerge that cause a material reassessment of our outlook, we would respond accordingly."

• Significant upward revisions (net +95,000) in August and September employment gains in the US and October added another decent 128,000 jobs, while keeping unemployment rate at 3.6% even as the labor participation rate rose by 0.1% percentage point suggest a healthy employment and economic picture for the US. Besides, the spread between 10-year and 2-year T-bond yields continued to move upwards to average 15 bps in October from 4.9 bps a month ago, and higher still in early November support our view that a recession in the US may not happen any time soon, even though a weakening may be expected.

• The above view, thus, lead us to see a downside to short-term yields in the US and steady (or minor) movements in the longer tenors. This, plus the continuing negative interest rates in three EU countries (Germany, France, Netherlands), Switzerland and Japan, should discourage domestic bond investors from seeking higher yields for peso-denominated GS.

• With the latest 100 bps cut in RRR playing out by December and inflation to average 1.5% in Q4, we should see a slight downward bias for the 10-year T-bond yields. For 2020, with inflation expected to hover around 2.7%, long-term yields would stay fairly stable at below 5%.

ROPs have become attractive once again as US Treasury yields stabilize at the long-end while easing at the short end.

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
					Sep-19	Oct-19			
US	1.52	1.69	1.8	(0.11)	5	17	12	4.00	2.20
PRC	2.85	3.30	2.7	0.60	46	45	(1)	4.35	1.65
Indonesia	5.86	7.11	3.1	4.01	107	125	18	5.00	1.90
Malaysia	3.10	3.45	0.8	2.65	24	35	11	3.00	2.20
Thailand	1.41	1.54	0.9	0.64	13	13	0	1.50	0.60
Philippines	3.88	4.66	2.5	2.16	76	78	2	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*

• We expect more corporate bond issues until Q1-2020 as firms take advantage of low domestic interest rates.

• ROPs have become attractive once again as US Treasury yields stabilize at the long-end while easing at the short end.

GLOBAL ECONOMIC SLOWDOWN AND RISING TENSIONS KEEP LID ON PSEi

After ending October on a high note, PSEi continued its upward month-long climb to 8,216.68 on November 5th as foreigners turned into net buyers to the tune of P16.1-B in October. Turning expected improvements in earnings for Q3 into reality, the surprise 100 bps cut in reserve requirements by the Bangko Sentral ng Pilipinas (BSP) on October 30, and Q3 GDP growth back above 6% combined to restore optimism in the equities market. However, its failure to convincingly pierce through the 8,200 resistance level set the stage for profit--taking and brought PSEi back close to its end-October level of 7,977.12 by mid-November.

Outlook: Bank earnings, which accounted for 32.2% of total net income of constituent firms in Q3, would unlikely see a repeat in Q4 of the average 40.9% surge in Q3, as gains from bond holdings/transactions slow down in Q4 amidst fairly flat long-term bond yields. We still have the overhang of the MSCI rebalancing announced on November 8, but effective near end month. Nevertheless, the other positive factors mentioned above and our view that GDP would expand even faster in Q4 and that NG and infrastructure spending would accelerate further in Q4 boost the case for PSEi closing the

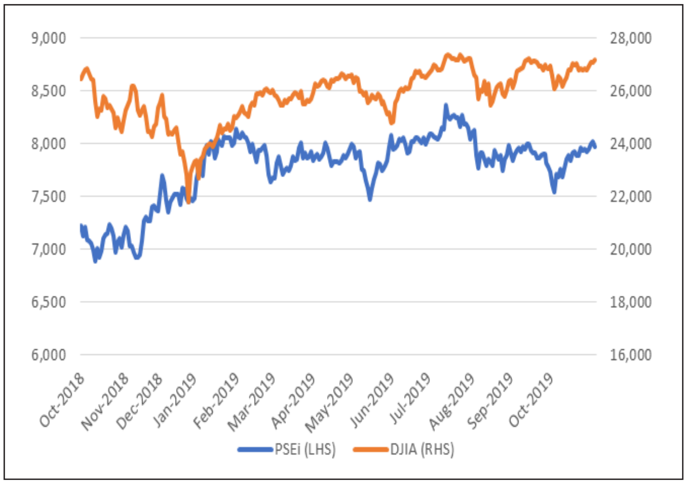
Global Equities Markets Performances

Region	Country	Index	Oct M-o-M change	2019 change
Americas	US	DJIA	0.6%	15.8%
Europe	Germany	DAX	3.5%	21.6%
	London	FTSE 101	-2.2%	7.6%
East Asia	Hong Kong	HSI	3.1%	7.1%
	Shanghai	SSEC	0.8%	0.7%
	Japan	NIKKEI	5.4%	17.2%
	South Korea	KOSPI	1.0%	3.7%
Asia-Pacific	Australia	S&P/ASX 200	-0.4%	19.9%
Southeast Asia	Indonesia	JCI	1.0%	0.8%
	Malaysia	KLSE	0.9%	-4.2%
	Thailand	SET	-2.2%	2.3%
	Philippines	PSEi	3.5%	6.5%
	Singapore	STRAITS	3.5%	6.3%

Sources: Bloomberg and Yahoo Finance

Southeast Asian (SEA) bourses rebounded from being the only market to experience a downfall last October, with SET as an exception. Meanwhile, the English market booked the highest decline, along with SET, after lawmakers voted to move Johnson's Brexit plan, signaling a resolution is still not in play. Surprisingly, however, NIKKEI stoked global markets' growth despite Japan's purchasing managers' index (PMI) falling to a 40-month low and higher-than-expected unemployment rate. Other bourses registered decent upticks, but none greater than 4% month-on-month (m-o-m) due to a confluence of positive and negative factors. Headwinds include uncertainties arising from US-China trade talks and Brexit resolution. While, tailwinds include higher-than-expected jobs growth in the US and upbeat Q3 corporate earnings.

Figure 17 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

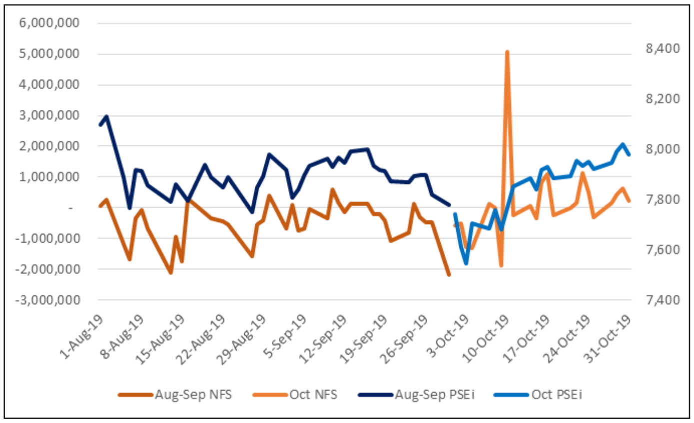
PSEi and DJIA treaded the same path in October, registering a high correlation of +0.8, with both bourses registering an uptick as compared to last September. Driving DJIA upwards were reports that the (a) US economy is growing at a healthy pace in the third quarter backed by strong consumer spending, (b) upbeat corporate earnings from several technology companies, and (c) higher-than-expected job growth in US, helped whet investors' appetite in DJIA. On the other hand, PSEi tracked the global markets' uptrend on positive sentiment from US, stronger than expected local banks' earnings, and foreign selling streak finally coming to an end by the last week of October, indicating a profit-taking opportunity for locals. However, both were unable to register significant upticks amid global uncertainties and investors having muted reactions toward the announcement of a third rate cut by the US Fed and another 100-bp slash in reserve requirement ratio (RRR) by the BSP.

Despite global uncertainties, foreign buying came in before the month's close, propping up the local bourse.

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

Figure 18 - Net Foreign Selling vs PSEi (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

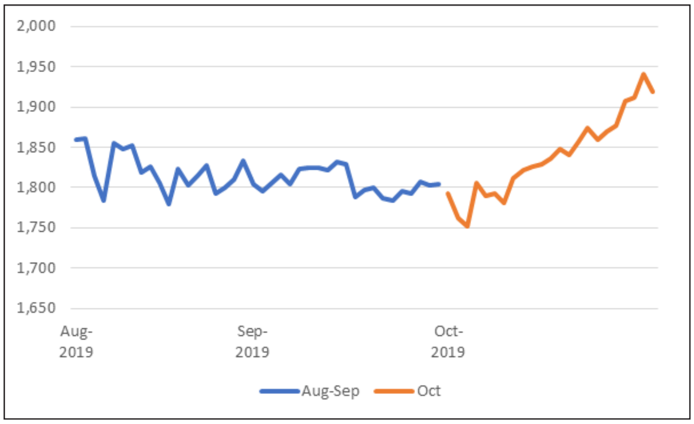
PSEi rebounded last October, recording one of the highest growths in SEA and East Asian markets. Net foreign selling (NFS in thousands Php) and PSEi continued to converged paths, albeit with a lower correlation of +0.3 in the previous month compared to September's +0.6. Despite global uncertainties, foreign buying came in before the month's close, propping up the local bourse.

Most sectors recovered from September's gloomy environment, with Industrial and Services sector as an exception, albeit only losing a minimal 0.9% in value. On the other hand, the Financial sector rallied the most among constituent stocks, surging by 6.3%. Other sectors also posted decent upticks.

Company	Symbol	30/09/19 Close	31/10/19 Close	% Change
Metrobank *(adjusted price due to 13% stock dividends)*	MBT	60.53	67.60	11.7%
BDO Unibank, Inc.	BDO	143.00	154.90	8.3%
Bank of the Philippine Islands	BPI	93.00	97.00	4.3%
Security Bank Corporation	SECB	197.00	199.20	1.1%

Source of Basic Data: PSE Quotation Reports

Figure 19 - Financial Sector Index (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

The Financial sector reaped the highest gains in October, driven by the reported higher-than-expected Q3 earnings from local banks and the surprise additional RRR cut by the BSP. Despite the uninspiring start for financials, the sector immediately rebounded and continued to trek upwards until the month's end, breaching a trading level of 1,900+, the highest for the year. All financial stocks landeded on the green with Metropolitan Bank & Trust Company (MBT) stocking the sector's growth.

MBT led index gainers posting a double-digit growth of 11.7% with net income up by 49% y-o-y to P8.5-B for Q3-2019 driven by higher interest earnings and treasury gains. Additionally, MBT declared a generous 13% stock dividend amounting to P10.4-B to its investors. The bank was also able to raise P13.8-B from its latest issuance of local bonds listed on the Philippine Dealing Exchange.

BDO led index gainers after the bank reported a net profit of P12-B, up by 43% year-on-year (y-o-y) for Q3-2019, driven by higher interest earnings and treasury gains.

After six months in the red, JFC finally resurfaced to positive territory and became the sector's index top gainer.

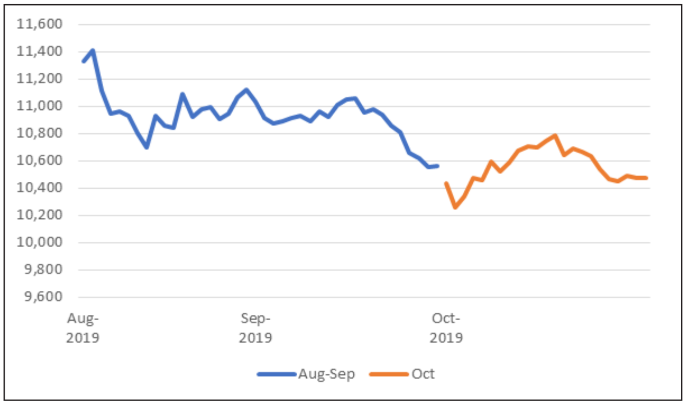
Bank of the Philippine Islands (BPI) also booked a significant increase of 4.3%, after the bank reported a net income of P8.3-B, up by 38.6% y-o-y for Q3-2019, driven by strong earnings from its lending, treasury, and fee-based businesses. In addition, BPI managed to raise P3-B from long-term negotiable certificates of time deposit (LTNCDs) offering.

Security Bank Corporation (SECB) also landed on the green, increasing by a minimal 1.1% due to the 20% y-o-y jump to P2.7-B in net income for Q3-2019 backed by robust income growth in its loans and deposits.

Company	Symbol	30/09/19 Close	31/10/19 Close	% Change
Meralco	MER	370.00	338.40	-8.5%
Aboitiz Power	AP	38.35	39.95	4.2%
Jollibee Foods Corporation	JFC	222.00	232.00	4.5%
First Gen Corporation	FGEN	24.60	24.80	0.8%
Universal Robina Corporation	URC	156.00	151.00	-3.2%
Petron Corporation	PCOR	5.00	5.01	0.2%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Industrial Sector Index (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

Despite gainers beating losers 4 to 2, the Industrial sector failed to recover last month, albeit it booked a lower decline of -0.9% compared to September's -5%. The sector experienced its ups and downs last October - opening the month with a slight dip, then climbed upward for most of the first half of the month, but slowly spiraling down towards month's end. Meralco dragged the sector down, as it plunged by 8.6%, while Jollibee Foods Corporation's (JFC) share price expanded the most, growing by 4.5%.

MER suffered substantial losses with the policy tug-of-war between Department of Energy (DOE) and Energy Regulatory Commission (ERC) getting in the way of timely deliberations and approval of its power supply deals. This made it difficult for MER and its counter-party generation companies in the recently signed power supply agreements to file their joint applications. Moreover, Meralco significantly lost market share from 63% in July 2013 to 32% by September 2018 since rules on retail competition and open access (RCOA) were implemented in 2013. In other news, MER booked a net income of P6.5-B, higher by 3% y-o-y for Q3-2019 powered by robust sales growth.

After six months in the red, JFC finally resurfaced to positive territory and became the sector's index top gainer. This came after JFC boosted its investment in Asia Pacific master franchise's private equity fund owner of Tim Ho Wan restaurants for $120-M Singaporean dollars, which will account for 60% of the fund from the initial 45%.

Aboitiz Power Corporation (AP) followed JFC, gaining 4.2% in value, after AP secured an approval from the Securities and Exchange Commission (SEC) to sell up to P12-B worth of peso-denominated bonds for October.

Petron Corporation recovered from its 9-month losing streak, gaining 0.2% in value backed by news that Petron Freeport Corporation, a subsidiary of PCOR, has booked a 20% growth in net income for H1-2019, on account of sales volume expansion.

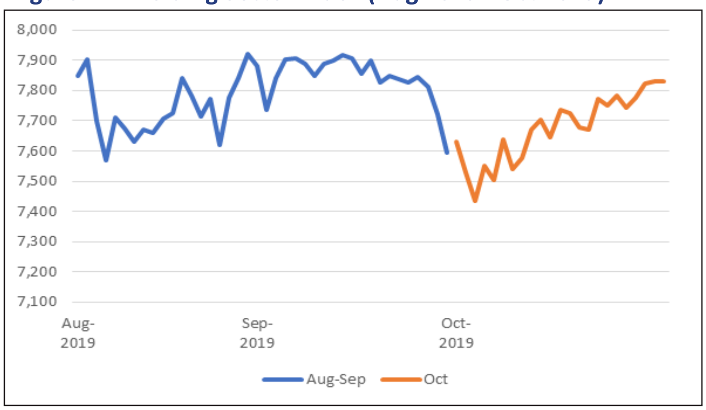
Universal Robina Corporation (URC), the other stock which registered a decline, dropped by 3.2% after its Q3-2019 net income fell by 6.2% y-o-y to P1.9-B, which was lower-than-expected, due to foreign exchange losses and higher selling and distribution costs.

GTCAP drove the sector's growth after its automobile unit remained the top seller in the Philippines with a 42.7% market share and a 4.3% y-o-y increase in vehicle sales to 114,117 for 9M-2019.

Company	Symbol	30/09/19 Close	31/10/19 Close	% Change
Ayala Corporation	AC	884.50	860.00	-2.8%
Metro Pacific Investments Corporation	MPI	4.98	4.80	-3.6%
SM Investments Corporation	SM	971.00	1,030.00	6.1%
DMCI Holdings, Inc.	DMC	8.31	8.21	-1.2%
Aboitiz Equity Ventures	AEV	53.05	55.95	5.5%
GT Capital Holdings, Inc.	GTCAP	842.00	894.00	6.2%
San Miguel Corporation	SMC	171.50	167.00	-2.6%
Alliance Global Group, Inc.	AGI	10.90	11.48	5.3%
LT Group Inc.	LTG	13.94	13.34	-4.3%
JG Summit Holdings, Inc	JGS	72.50	76.25	5.2%

Source of Basic Data: PSE Quotation Reports

Figure 21 - Holding Sector Index (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

Holdings sector followed after Financial sector with the biggest gains, increasing by 3.1% in October as gains of winners beat declines of losers. The sector experienced a bumpy ride with trading levels constantly moving up and down throughout the month but ultimately moving upwards altogether. GT Capital (GTCAP) and SM Investments Corporation (SM) surged by 6.2% and 6.1%, respectively, the most in holdings. Meanwhile, LT Group, Inc. (LTG) and Metro Pacific Investments Corporation (MPI) suffered the biggest loss, dropping by 4.3% and 3.6%, respectively.

GTCAP drove the sector's growth after its automobile unit remained the top seller in the Philippines with a 42.7% market share and a 4.3% y-o-y increase in vehicle sales to 114,117 for 9M-2019. Conversely, LTG continued its downtrend after the Senate Ways and Means Committee approved the increase in taxes on alcohol and cigarettes last month, which will significantly affect sales of the company.

MPI retreated after it cancelled the supposed biggest-ever Philippine initial public offering (IPO) of its hospital unit since Buhay (SG) Investments Pte. Ltd, a subsidiary of KKR & Co., agreed to subscribe 31.4-M common shares from the existing authorized and unissued capital stock of Metro Pacific Hospitals Holdings, Inc. In other news, its tollway unit has secured the toll regulatory board's approval for its proposed toll adjustment for the phase 1 of the R-1 Enhancement Project on Segment 1 of the Manila-Cavite Toll Expressway Project.

Surprisingly, Ayala Corporation (AC) also extended its losses despite disclosing that it had formed joint venture between AC Energy, Inc. and UPC Renewables to build more than 1,000 megawatts (MW) of capacity from renewable sources to expand their solar investments in three more countries – India, South Korea, and Taiwan. Moreover, AC Energy, Inc. also partnered with Myanmar company, Yoma Strategic Holdings Ltd., for a joint venture to develop 200 MW of renewable energy projects in Myanmar.

Alliance Global Group, Inc.'s (AGI) share price, on the other hand, jumped by a substantial 5.5% after the company forged a partnership with Macau gaming company, Fortune Noble Ltd. for the development of its $1.1-B entertainment city leisure complex in the Bay area (Manila).

San Miguel Corporation (SMC) fell due to risk-off sentiment from the possible risks of the African swine flu to its food business.

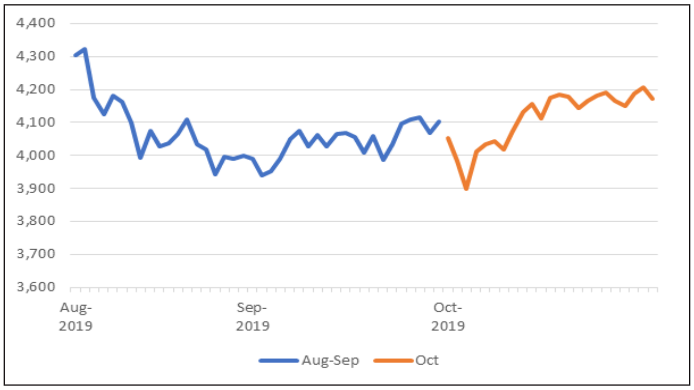
Also on the downtrend, DMCI Holdings, Inc. (DMC) lost 1.2% in value due to the rumored deletion of DMC in MSCI and its actual deletion when the rebalancing was announced on November 8. Furthermore, its residential development arm (DMCI Homes) completed its condominium project in Taguig City 10 months ahead of its target deadline of July 2020 and had begun construction of its P14.4-B residential

Company	Symbol	30/09/19 Close	31/10/19 Close	% Change
Ayala Land, Inc.	ALI	49.45	48.55	-1.8%
SM Prime Holdings, Inc.	SMPH	37.20	39.00	4.8%
Robinsons Land Corporation	RLC	24.50	25.45	3.9%
Megaworld Corporation	MEG	4.37	4.83	10.5%

Source of Basic Data: PSE Quotation Reports

ALI stood as the sector's outlier on the announcement that it may postpone its real estate investment trust (REIT) offering to next year instead, as it waits for the final REIT guidelines to be released by the Securities and Exchange Commission.

Figure 22 - Property Sector Index (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

condominium in Pasig City.

Property sector sustained its position in the green last October, albeit decelerating to 1.1% from 2.6% in September. The sector opened the previous month with a dip, but rebounded solidly, sustaining its momentum upward throughout October. All constituent stocks landed on the green with Ayala Land, Inc. (ALI) as the lone dark spot, shedding 1.8% in value.

ALI stood as the sector's outlier on the announcement that it may postpone its real estate investment trust (REIT) offering to next year instead, as it waits for the final REIT guidelines to be released by the Securities and Exchange Commission. However, ALI plans to raise P10-B from the issuance of fixed rate bonds in November to complete its funding requirements for the year.

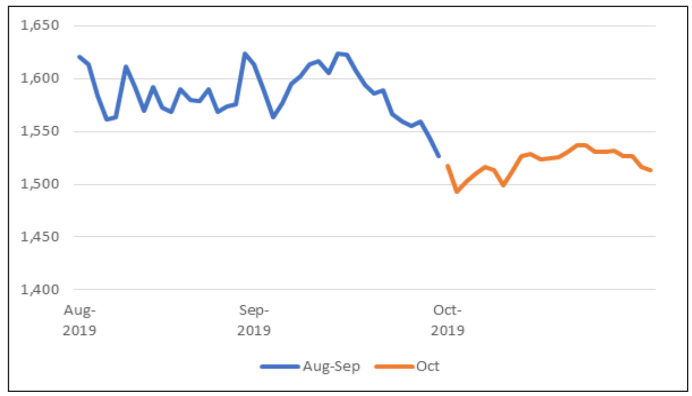
Megaworld Corporation (MEG) rallied the most among constituent stocks, a turnaround from leading index losers last September and now, stocking a double-digit growth of 10.5% after the release of all the real estate projects announced such as (a) the P1.8-B new mall project inside its Pampanga township Capital Town, (b) the opening of its 3rd Savoy Hotel in Mactan, Cebu, and (c) the P1.5-B beach mall in Mactan Newtown. SM Prime Holdings, Inc. (SMPH) continued its winning ways, surging by 4.8% after the company recorded a 22% y-o-y hike to P8.3-B in net income for Q3-2019 due to robust performances from its core businesses – malls and residential segments.

Robinsons Land Corporation (RLC) recovered its losses and made a decent uptick of 3.9% on news that RLC has the least exposure at 2.7% to Philippine Offshore Gaming Operations (POGOs) compared to other real estate firms, indicating that negative news on POGOs would have a min-

Company	Symbol	30/09/19 Close	31/10/19 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,132.00	1,100.00	-2.8%
Globe Telecom	GLO	1,830.00	1,824.00	-0.3%
Robinsons Retail Holdings, Inc.	RRHI	79.00	75.85	-4.0%
Puregold Price Club Inc.	PGOLD	39.05	40.85	4.6%
International Container Terminal Services Inc.	ICT	120.40	118.70	-1.4%

Source of Basic Data: PSE Quotation Reports

Figure 23- Services Sector Index (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

imal effect on RLC valuation.

Services sector still failed to recover in October, albeit only losing 0.9% in value, compared to September's -6%. The sector was fluctuating at the start of the month but then traded in rather narrow levels the rest of the month. All stocks joined the red flag movement with Puregold Price Club, Inc. (PGOLD) as the lone bright spot, surging by 4.6%.

PGOLD, the only stock that bagged gains, finally ended up north, due to a technical correction (i.e., oversold), after it had trended downward since late August.

Meanwhile, Robinsons Retail Holdings, Inc. (RRHI) led index losers after the company failed to break above its resistance level of P80.50. Moreover, RRHI partnered with Robinsons Bank to introduce its new Robinsons Cashback credit card to the market, allowing cardholders to earn up

Mining and Oil sustained its growth, but at a slower pace of 2.3% in October.

to 3% rebate from retail purchases.

Philippine Long Distance Telephone Company (TEL) extended its losses, dropping by 2.8% even though the company opened two converged stores in Davao City with its wireless unit, Smart Communications, to grow its customer base in the postpaid segment in the city. Besides, TEL has finalized its technical and management agreements with a consortium of international providers for its P7-B direct undersea fiber projects, which will link the telco with US and Japan via a trans-Pacific cable system called, "Jupiter".

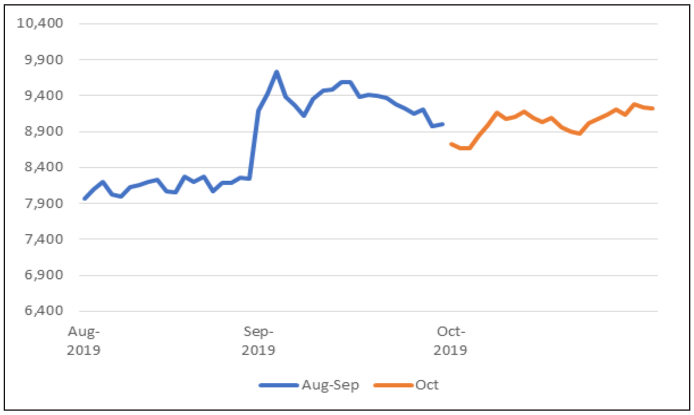
Meanwhile, Globe Telecom (GLO) also fell, albeit only taking a minor hit of 0.3% thanks to its fifth-generation (5G) fixed wireless broadband service, Globe At Home Fiber 5G, now commercially available to consumers in some areas of Rizal, Cavite, and Bulacan. The telco giant also managed to get a memorandum of agreement with the city government of Makati to provide free Wi-Fi to city residents and is acquiring a 77% equity interest in Electronic Commerce Payments, Inc. (ECPay) for P1.5-B.

International Container Terminal Services also went down by 1.4% despite plenty of catalysts as ICT such as (a) inauguration of two new berths, which marks the completion of ICT's overall $250-M investment program at its Basra Gateway Terminal, Iraq's main dry cargo port, (b) took delivery of equipment as part of its second phase capacity improvement program to expand its Mexican unit, Mexico's gateway of choice on the Pacific coast, and (c) its Subic Bay unit successfully handling the first Flat Rail oper-

Company	Symbol	30/09/19 Close	31/10/19 Close	% Change
Semirara Mining and Power Corporation	SCC	22.80	23.35	2.4%

Source of Basic Data: PSE Quotation Reports

Figure 24 - Mining & Oil Sector Index (Aug 2019 - Oct 2019)



Source of Basic Data: PSE Quotation Reports

Mining and Oil sustained its growth, but at a slower pace of 2.3% in October. The sector trekked upward at the start of the month, then slowly moved down come mid-month, to only spiral back upward in time to beat October's close. Semirara Mining and Power Corporation (SCC) gained 2.4% as the market expected significant improvement in its Q3 profit picture.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	21,701.57	19.8%	943.55	9.3%
Industrial	17,706.16	-3.7%	769.83	-12.1%
Holdings	32,045.35	22.6%	1,393.28	11.9%
Property	17,129.40	-27.6%	744.76	-33.9%
Services	28,054.30	40.4%	1,219.75	28.2%
Mining and Oil	2,346.57	-23.9%	102.02	-30.5%
Total	**131,339.85**	3.8%	**5,710.43**	-5.2%
Foreign Buying	76,104.61	0.1%	3,308.90	-8.6%
Foreign Selling	60,055.93	-28.0%	2,611.13	-34.3%
Net Buying (Selling)	16,048.68	403.4%	697.77	377.0%

Source of Basic Data: PSE Quotation Reports

PSEi spared its losses, with total turnover up by 3.8%, a major rebound from September's -19%.

PSEi spared its losses, with total turnover up by 3.8%, a major rebound from September's -19%. Evenly split between losers and gainers, Financial, Holdings, and Services came out as the winners, all booking double-digit growths. The losers included Property and Mining & Oil sectors which took double-digit hits.

Net foreign sellers turned into buyers by the end of October with net inflow of P16.1-B in October, a significant improvement from the P5.3-B outflow last September, finally ending the 2-month selling streak as more positive global news emerged amid global uncertainties.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2017		2018		2nd Quarter 2019			3rd 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%	175,497	-5.4%	0.6%	169,506.0	-3.4%	3.3%
Industry Sector	2,947,103	7.2%	3,148,000	6.8%	828,910	7.2%	3.7%	781,021.7	-5.8%	5.5%
Service Sector	4,979,575	6.8%	5,310,300	6.6%	1,479,208	13.9%	7.1%	1,406,838.8	-4.9%	7.0%
Expenditure										
Household Final Consumption	5,973,816	5.9%	6,306,064	5.6%	1,646,010	5.1%	5.6%	1,569,559.2	-4.6%	6.0%
Government Final Consumption	914,136	7.0%	1,031,487	12.8%	327,069	29.6%	6.9%	272,140	-16.8%	8.8%
Capital Formation	2,504,502	9.4%	2,852,306	13.9%	623,666	-17.1%	-8.5%	696,980	11.8%	-2.0%
Exports	4,930,584	19.5%	5,495,712	11.5%	1,508,885	9.5%	4.4%	1,589,174	5.3%	1.4%
Imports	5,657,331	18.1%	6,476,519	14.5%	1,635,616	-4.6%	0.0%	1,787,113	9.3%	1.1%
GDP	8,665,708	6.7%	9,203,113	6.2%	2,483,615	10.0%	5.5%	2,357,366	-5.1%	6.2%
NPI	1,729,139	5.9%	1,793,182	3.7%	456,350	-4.4%	3.1%	463,926	1.7%	3.4%
GNI	10,394,846	6.6%	10,996,296	5.8%	2,939,965	7.5%	5.1%	2,821,293	-4.0%	5.7%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2017		2018		Aug-2019			Sep-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%	279,745	5.9%	8.9%	236,528	-15.4%	16.9%
Tax	2,250,678	13.6%	2,565,812	14.0%	261,791	10.5%	9.3%	211,005	-19.4%	15.2%
BIR	1,772,321	13.1%	1,951,850	10.1%	205,587	14.0%	11.1%	150,475	-26.8%	15.2%
BoC	458,184	15.6%	593,111	29.4%	53,593	-1.9%	3.0%	58,802	9.7%	15.1%
Others	20,173	20%	20,851	3.4%	1,905	34.1%	-24.0%	1,728	-9.3%	9.3%
Non-Tax	222,415	3.2%	284,321	27.8%	17,954	-34.0%	4.0%	25,517	42.1%	33.4%
Expenditures	2,823,769	10.8%	3,408,443	20.7%	282,233	-16.8%	8.8%	415,085	47.1%	39.0%
Allotment to LGUs	530,150	17.9%	575,650	8.6%	53,670	15.8%	16.8%	59,812	30.2%	25.0%
Interest Payments	310,541	2%	349,215	12.5%	19,611	-61.5%	-30.7%	43,094	119.7%	31.9%
Overall Surplus (or Deficit)	-350,637	-0.8%	-558,259	59.2%	-2,488	-96.7%	-3.8%	-178,557	7076.7%	85.5%

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		Aug-2019		Sep-2019	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	3,035,680	8.5%	3,061,894	2.1%	3,090,821	2.4%
Sources:						
Net Foreign Asset of the BSP	4,514,943	1.5%	4,934,774	8.9%	4,831,112	8.3%
Net Domestic Asset of the BSP	11,218,175	15.4%	12,080,378	6.2%	12,406,372	7.5%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,708,624	13.9%	4,018,553	9.1%	4,097,284	10.3%
Money Supply-2	10,597,336	11.2%	11,198,689	4.7%	11,403,992	6.5%
Money Supply-3	11,063,517	11.5%	11,857,341	6.2%	12,037,377	7.7%
MONEY MULTIPLIER (M2/RM)	3.49		3.66		3.69	

Source: Bangko Sentral ng Pilipinas (BSP)

November 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