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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

Exports and OFW Remittances Big Gains to Keep Current Account Positive

- Exports, rising by 22.5% in January 2017 to an all-time high, adds fuel to domestic demand.
- Overseas Filipino Workers' (OFW) remittances gain by 8.5% also in January to $2.4 B.
- Balance of Trade (BOT) hit $2.3 B, but OFW remittances sufficient to keep Current Account positive.
- Manufacturing output continues to hum, expanding by 9.3% at dawn of 2017.
- National Government (NG) spending, excluding interest, up by 11.2%, despite high 2016 base.
- Headline inflation creeps to 3.4% in March from 3.3% a month ago.

Macroeconomy

Exports soared in January and added fuel to the domestic demand engine. Manufacturing and NG spending remained on track.

- Three major products boomed at three-digit pace, as exports to U.S. and China surge by 21.2% and 23.6%, respectively.
- Manufacturing's binge proved broad-based as 15 out of 21 industries expanded.
- Despite robust NG spending, tax revenues jacked up by 13.9% resulting in a tiny P2.2 B surplus in January.
- Capital goods imports fell by 11% in January, ending 16 months of double-digit growth.
- Inflation edged higher due to steep price hikes in Housing, Water, Electricity, Gas, & Other Fuels, and Alcoholic Beverages & Tobacco offsetting the fall in food prices.
- Monetary Board, unfazed by Fed hike and faster inflation, retained its 3% policy rate.
- ***Outlook: The Current Account's positive balance should hold with OFW remittances enough to cover BOT deficits. The economy should expand by 6.5% to 7% in Q1 with exports providing the new boost to robust domestic demand. Strong consumer spending and sustained manufacturing sector activity will continue to propel domestic demand, bolstered by OFW remittances. Inflation should stabilize at 3.5% up to Q3, thanks to easing food prices and crude oil prices, reeling from abundant supply and more oil from shale.***

Bonds Market

Rather than the Fed rate hike, higher domestic inflation and movement of funds to RTBs and corporate debt papers drove yield movements. Funds also exited from BSP's TDF & ODF as it excluded access by Trust accounts.

- NG auctioned off P70 B worth of Retail Treasury Bonds (RTBs) which gave a yield of 4.03% up by a massive 53.5 bps climb from February.
- 5-year T-bond auction had fair demand resuting in only a 10.2 bps yield rise.
- Trading volume rose both month-on-month (m-o-m) and year-on-year (y-o-y), but saw varying yield changes.
- Excluding the belly, 3-month and 10-year T-bonds yields surged by over 65 bps.
- ROP-19 and ROP-32 yields rose, but much less than U.S. Treasuries.
- ROP-37 fell by 6.2 bps in line with 20-year U.S. T-bond yield increase.
- ***Outlook: Success or failure of President Trump to obtain funds to splurge on infrastructure, the border wall, and tax cuts will likely dictate the direction of U.S. Treasury yields in Q2. This and local funds exiting from the Bangko Sentral ng Pilipinas (BSP), and movements in local inflation rate would provide a slight downward bias for local bond yields. As we expect inflation to stabilize at 3.5%, investors may feel comfortable to take more risks once again.***

Equities Market

Start of fund movement towards EMs push PSEi up by 6.9% in Q1 with all sectors posting gains.

- Despite basically moving sideways, PSEi still gained 1.4% in March and up 6.9% in Q1, 3rd best in the region.
- Weak demand, as seen in January auctions' tender-offer ratio, fell below 1 at 0.83.
- Telcos drove the Services sub-index to the top with a 19.1% surge for Q1.
- BPI and MBT propelled the Financial sector's index by 10%.
- Mining & Oil and Property share prices posted the slowest gains of 1% and 1.9%, respectively.
- Foreigners remained as net sellers in March, ending the quarter at negative P11.4 B.
- ***Outlook: Supported by reflow of investments into emerging markets (EMs), Q2 will test the market's vitality as key indicators emerge. These include (1) Q1 corporate earnings reports, (2) Q1 GDP and (3) semi-annual rebalancing of MSCI. In addition, the government's ability to roll out its infrastructure projects and big-ticket PPPs will become more evident. Consumer-oriented firms, banks, power, construction and well-diversified holding firms would be good for investors on market sell-offs.***

Economic Indicators (% change, latest month, unless otherwise stated)	Previous Month	Latest Month	Year-to-Date	2015 (year-end)	2016 (year-end)	2017 FMIC Forecast*
GDP Growth (y-o-y, quarterly)	6.6%	6.6%	6.8%	5.9%	6.9%	7-7.5%
Industrial Output (Feb)	23.0%	9.3%	12.4%	2.4%	9.0%	9.5%
Inflation Rate (Mar)	3.3%	3.4%	3.2%	1.4%	1.8%	2.8- 3.2%
Government Spending (Jan)	18.8%	6.7%	14.2%	12.6%	18.0%	15%
Gross International Reserves ($B) (Mar)	81.4	80.9	80.9	81.6	80.7	85
PHP/USD rate (Mar)	49.96	50.28	49.74	45.50	47.49	51
10-year T-bond yield (end-March YTD bps change)	4.51%	5.03%	42.7	4.10%	4.63%	4.8-5.1%
PSEi (end-March YTD % change)	7,212.1	7,311.7	6.9%	6,952.1	6,781.2	7,500

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

Robust Q1 Growth Despite Hiccups while Current Account for 2017 to Remain Positive

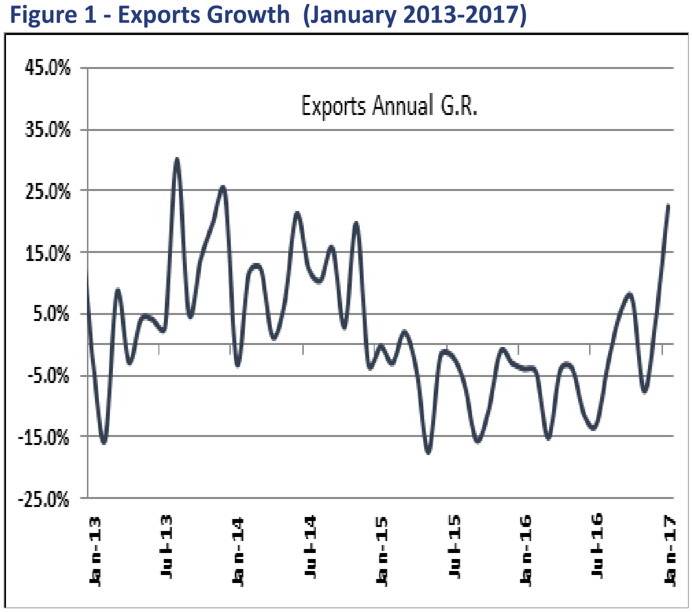
The Philippine economy appeared still on a roll as exports posted a 22.5% jump in January to reach an all-time high of $5.1 B, while manufacturing output rose by 9.3%. Overseas Filipino Workers (OFWs) remittances also bumped up by 8.5%. The average balance of trade deficit for the past five months ended lower than the first eight months of 2016, suggesting that OFW remittances will easily exceed the balance of trade (BOT) deficits and enable the country's current account balance for 2017 to remain positive. National Government (NG) expenditures excluding interest payments increased by a decent 11.2%. The flies in the ointment came from capital imports which took a hit (-11%) after 16 consecutive months of double-digit growth, as well as a slightly faster inflation rate of 3.4% in March from 3.3% in February. Monetary policy remained unchanged as inflation kept within the monetary authority's target range of 2% to 4%.

Outlook: We expect the economy to expand by 6.5% to 7% in Q1 with exports providing the additional booster to robust domestic demand. Supporting the latter would be strong consumer spending, as OFW remittances continued to increase (especially in peso terms) and manufacturing sector vitality remained intact. Inflation should stabilize at 3.5% in the next few months, bolstered by normalizing food prices and crude oil prices constantly threatened by abundant supply and oil awaiting to be tapped readily.

Export Growth Hits an All-Time High

After months of tepid growth, export sales kicked-off the new year with an all-time high valued at $5.1 B. This registered a 22.5% increase, the highest in 40 months. The favorable outcome arose from the higher demand from most export destination countries and significant increases in eight of the top 10 commodities for the month.

Figure 1 - Exports Growth (January 2013-2017)



Source of Basic Data: National Statistics Office (NSO)

The average monthly balance of trade deficit from September 2016, when exports started to post gains, until January 2017 stood at $2.2 B or 2.8% below the average for the first eight months of 2016. This suggests that the trade balance for 2017 will not worsen and in turn current account balance will likely remain positive in 2017.

The gains included hyper growth in articles of apparel and clothing accessories (+270.1%), coconut oil includes crude and refined (+229.6%), chemicals (+104.7%), metal components (+66.3%), electronic equipment and parts (+64.8%), other manufactures (+58.8%), and machinery and transport equipment (+27.9%).

Electronic Products retained its post as the country's top export with total receipts of $2.4 B, responsible for 46.1% of the total export revenues for the month of January 2017. It rose by 10.4% from $2.1 B registered in January 2016. Similarly, semiconductor shipments grew by 10.6% and continued to have the biggest share among electronic products at 31.8%. It earned $1.6 B in January 2017 from $1.5 B in the same period last year.

Articles of Apparel and Clothing Accessories although fourth (6.3% share), recorded shipment sales of $320.6 M in January 2017, a whopping 270.1% increase from $86.6 M a year ago. While it secured only the fifth place, *Strong growth in 14 out of 20 sectors sustained the expansion in the country's manufacturing output by 9.3% in January 2017.*

Coconut Oil exports, which includes crude and refined, skyrocketed by 229.6% and reached $199.6 M from $60.6 M in January of the previous year.

Other Manufactures gained only 58.8% but took the second highest rank in January 2017 with an export revenue of $430.3 M. Machinery and Transport Equipment followed in third, with 6.9% share to the total export receipts. It garnered an increase of 27.9% from last year's value of $275.6 M.

Japan remained the country's top export destination with shipments amounting to $887.7 M, contributing a 17.3% share of total exports for January 2017. However, this fell by 6.6% from $950.5 M a year ago. United States of America (USA) followed in second, responsible for 16.5% of total exports, with shipment receipts valued at $847.1 M. Lending credence to the U.S. economy's strength, exports to the country experienced a robust 21.2% increase from $698.9 M in December. Exports to Hong Kong rose by 20.7% to $529.6 M or 10.3% share to total exports, good enough for it to land in the third place. China (9.8% share) and Singapore (6.3% share) came in fourth and fifth, with exports receipts increasing by 23.6% and 16.8%, respectively.

Almost half of the total exports headed towards East Asian (EA) nations, valued at $2.3 B. Total exports to the EA region recovered by posting an 11.1% increase. Commodities shipments to the ASEAN countries (comprising 14.7%), likewise, climbed by 19.3%. ASEAN+East Asia ex-Japan accounted for 42.5% of total exports. Trade exports to the E.U. also posted hefty gains of 82.5% to $896.7 M.

Exports growth in January suggests improving global demand and we believe that this trend will continue in the coming months, which should add vigor to the economy.

External Debt Ratios Remain at Comfortable Levels

The PH external debt ratio (external debt as a percent to GNI), continued to improve in end-2016 to 20.4% from 21.9% in 2015 amidst the decline in external debt. External debt in end-2016 remained at comfortable levels, falling by 2.4% (or $1.9 B) to $74.8 B largely due to the downward forex revaluation of $1.8 B and the $611 M net repayments of the NG and the Power Sector Assets and Liabilities Management Corporation (PSALM).

The bulk of the country's external debt are medium-to long-term (MLT) accounts (80%) which makes repayments more manageable. The average maturity of MLT accounts stood at 16.9 years (22.9 years for public sector borrowings and 7.9 years for private sector). Meanwhile, the remaining 20% comprised the short-term (ST) liabilities (i.e. balance of debt stock and consisted of bank liabilities, trade credits and other non-bank liabilities).

The country's external debt remained largely denominated in U.S. Dollar (65.1%) and Japanese yen (12.0%). 12.8% of the loans from the World Bank and Asian Development Bank are U.S. dollar-denominated while the remaining 10.1% balance consisted of 17 other currencies.

Meanwhile, Gross International Reserves stood at $81.1 B which can cover 5.9 times the short-term (ST) debt under the original maturity concept. GIR slipped by $250 M from January 2017. The Debt-Service Ratio increased to 6.9%, but forex earnings remained adequate to meet maturing obligations.

Manufacturing Output Continues to Expand in January, Albeit Slower

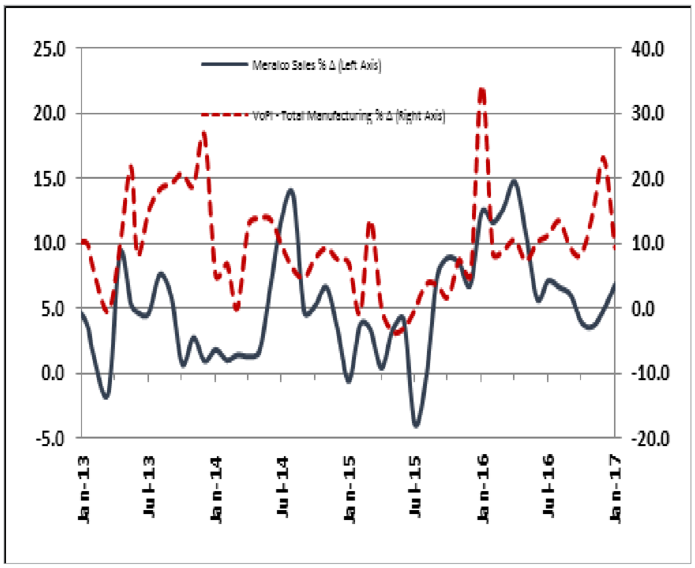
Strong growth in 14 out of 20 sectors, with nine posting double-digit gains, sustained the expansion in the country's manufacturing output (measured by Volume of Production Index) by 9.3% in January 2017, albeit slower than the 23% gain in December 2016.

The sectors rapidly expanding included Wood and Wood Products (+116.7%), Basic Metals (+59.2%), Footwear and Wearing Apparel (+50.1%), and Petroleum Products (+45.3%), among others.

The continued vibrant expansion of the manufacturing sector should help sustain the economy's growth momentum in 2017.

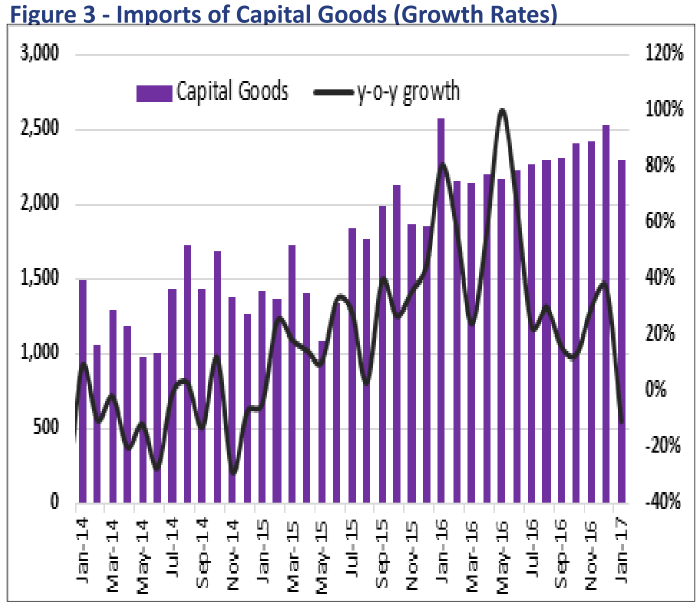
March inflation sped up to 3.4%, as the average of the first three months continues to approach the mid-target of the BSP.

Figure 2 -VoPI and Meralco Sales Growth Rate (January 2013-2017)



Sources of Basic Data: Meralco & Philippine Statistics Authority

Figure 3 - Imports of Capital Goods (Growth Rates)



Source of Basic Data: National Statistics Office (NSO)

Capital Goods Imports Robust Growth Put on Halt

Capital goods imports started the year in the red (down 11% to $2.3 B, reversing the past double-digit growth that ran for 16 consecutive months. Hefty declines in Aircraft, Ships and Boats (-61.5%), Telecommunication Equipment and Electrical Machinery (-18.7%), and Office and EDP Machines (-11.8%) outweighed the double-digit growth of imports in Photographic Equipment and Optical Goods (+34.4%) and Power Generating and Specialized Machines (+15.4%).

Meanwhile, imports of Raw Materials, Consumer Goods, Minerals Fuels, Lubricants, and Related Materials (which collectively comprised about 60% of total imports) registered significant gains, resulting to an overall expansion in imports (9.1%).

Despite the slowdown in imports, it still outpaced exports performance (in absolute terms) resulting in a trade deficit of $2.3 B in January. We think that the growth in the capital goods imports will recover in the following months and post double-digit gains for most of 2017.

Inflation Year-on-Year Growth Rates	Mar-2017	Feb-2017	YTD
All items	3.4%	3.3%	3.2%
Food and Non-Alcoholic Beverages	4.0%	4.1%	3.9%
Alcoholic Beverages and Tobacco	6.4%	6.0%	6.0%
Clothing and Footwear	2.9%	2.8%	2.8%
Housing, Water, Electricity, Gas, and Other Fuels	4.0%	2.9%	2.9%
Furnishing, Household Equipment and Routine Maintenance of the House	2.5%	2.3%	2.4%
Health	2.8%	2.6%	2.6%
Transport	2.6%	2.8%	2.6%
Restaurants and Miscellaneous Goods and Services	1.7%	2.1%	2.0%

Source of Basic Data: National Statistics Office (NSO)

Note: Green font - means higher rate (bad) vs. previous month
Red font – means lower rate (good) vs. previous month
Not included in details are the items whose growth rate remained the same as in December.

Inflation Climbs to 3.4% March

Higher prices were recorded for several heavily-weighted items (alcoholic beverages, tobacco, fuel, electricity) as last month's headline inflation was outpaced. March inflation sped up to 3.4%, as the average of the first three months continues to approach the mid-target of the BSP.

The National Government's expenditure (i.e., key infrastructure, security, defense projects, and other projects) continued to expand by 6.7% in January.

Six out of 11 commodities showed faster price increments led by Alcoholic Beverages and Tobacco and Housing, Water, Electricity, Gas and Other Fuels (HWEGOF) indices. Alcoholic Beverages and Tobacco index went up by 6.4% on ship fare hikes and price adjustments. The same was also observed for the prices of gasoline, diesel and LPG. Moreover, higher electricity rates were observed in all regions for the month of March and this led to a 1.1 percentage increase in the HWEGOF index. On the other hand, the Clothing and Footwear index inched up to 2.9% from 2.8% in February due to higher rates. Likewise, price gains in Furnishing, Household Equipment and Routine Maintenance of the House and Health contributed to higher price tags. Price deceleration in the Food and Non-alcoholic Beverages (FNAB), Transport, and Restaurants and Miscellaneous Goods and Services categories provided a little cushion to the uptick.

Meanwhile, Communication, Recreation and Culture, and Education categories posted the same percentage change as in February. We expect the headline inflation to continue to hover around the median range (3%) or slightly above the target in H1.

Domestic Liquidity Continues Mild Gain, MB Maintains Policy Rates

The country's domestic liquidity (M3) in February moved up mildly faster to 12.6% or 0.2 percentage points higher than the revised figure in the previous month, representing the 14th consecutive month of double-digit growth. Broad Money (M2), likewise, inched up to at 12.5% while Narrow Money (M1) still maintained December's pace.

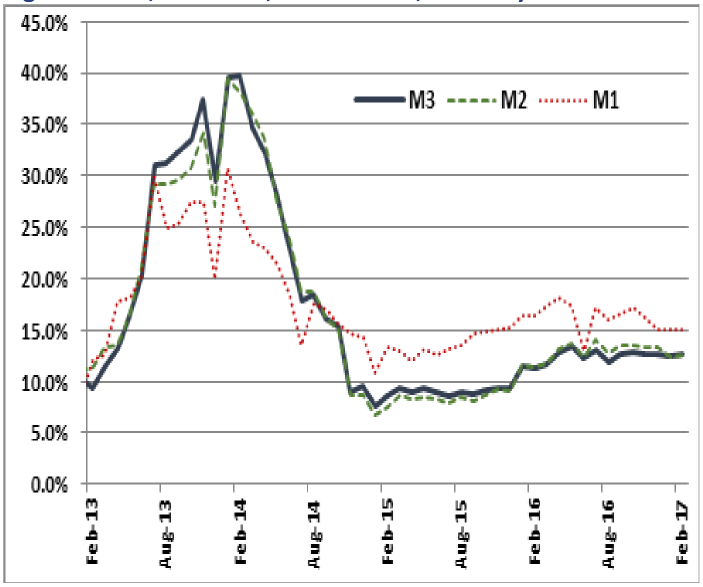
The continued expansion of money supply (although at a slower pace) drew support from the increase in loans for productive activities by 17.6% from 17.5% last month. Bulk of bank loans went to productive activities (i.e. Information and Communication (40%); Financial and Insurance Activities (28.4%); Real Estate Activities (17.1%); Electricity, Gas, Steam and Air-conditioning Supply (14.2%), among others.

Net Foreign Assets (NFA) of monetary authorities continued to expand by 4.3%, but slower than the 4.5% recorded in January sustained by the inflow of OFW remittances and earnings from BPOs.

Meanwhile, despite the uptick in inflation in the first two months of 2017, the Monetary Board (MB) on March 23 decided to maintain the policy rate— i.e. Overnight Reverse Repurchase (RRP) facility at 3%. The interest rates on the overnight lending, deposit facilities, and the reserve requirement ratios, likewise, remained unchanged.

We still maintain our view that money growth will continue to remain moderate at a low double-digit pace and we expect MB to keep policy rates steady until after the second Fed rate hike, expected in June.

Figure 4 - M1, M2 & M3, Year-on-Year, February 2013-2017



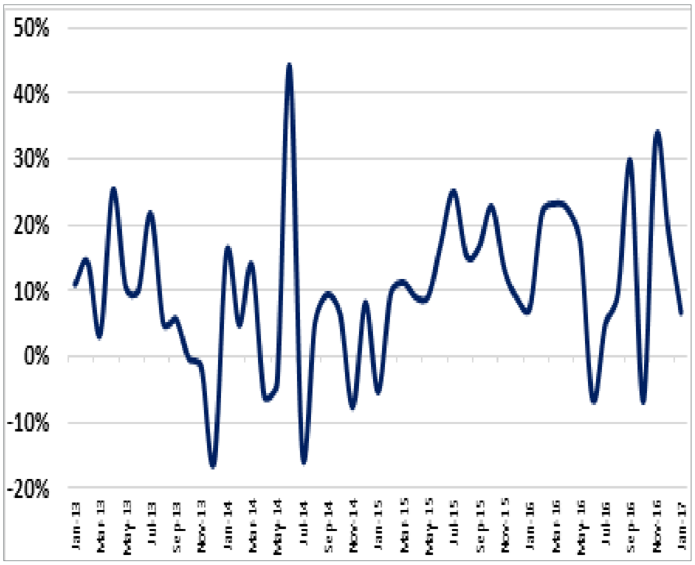
Source of Basic Data: National Statistics Office (NSO)

NG Records Budget Surplus in January

The NG's expenditure (i.e., key infrastructure, security, defense projects, and other projects) continued to expand by 6.7% in January, albeit slower than the 9.9% increase in the government's revenue take. Thus, the country incurred a budget surplus of P2.2 B in January.

Personal remittances from Overseas Filipinos Workers (OFWs) rose by 8.5 % y-o-y in January 2017 to reach $2.4 B.

Figure 5 - NG Expenditures and Growth, Year-on-Year, January 2014-2017



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

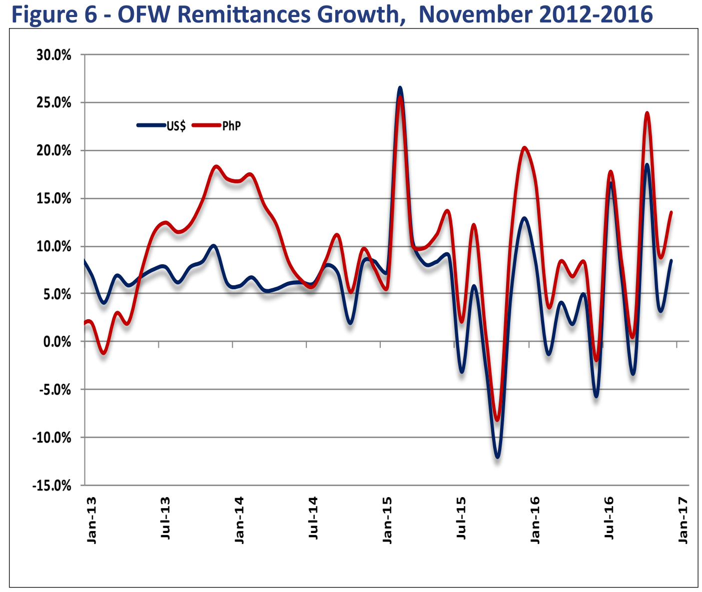
Despite the fall in non-tax collections (-21.5%), higher tax collections (+13.9%) and grants (+20%) managed to pull up total revenues. The Bureau of Internal Revenue (BIR) accounted for almost 80% of total tax collections, raking in a total of P147.4 B in January up by a hefty 13.7%. Collections of the Bureau of Customs (BoC) also jumped by 15.7% to P35.9 B due to higher imports especially of Mineral Fuels, Lubricants and Related Materials; Industrial Machinery and Equipment; and Iron and Steel.

NG expenditures, excluding interest payments, expanded by 11.2%, which should have incorporated substantial gains in infrastructure spending. Net primary surplus (surplus or deficit, excluding interest payments) for the month reached P44.6 B, a 5.8% improvement from a year ago level.

OFW Remittances Bumps Up by 8.5% in January

Personal remittances from Overseas Filipinos Workers (OFWs) rose by 8.5 % year-on-year (y-o-y) in January 2017 to reach $2.4 B. The robust gains in remittances drew its strength from the 13.5% increase in transfers from land-based workers with work contracts of one year or more and this more than offset the 8.3% decline in remittances from sea-based and land-based workers with work contracts of less than one year (at $400 M).

Figure 6 - OFW Remittances Growth, November 2012-2016



Source of Basic Data: National Statistics Office (NSO)

Of the $2.4 B sent, cash remittances (i.e. done through banks) reached $2.2 B in January. It rose also by 8.6%, with similar growth rates for cash remittances of land-based workers and sea-based workers.

Cash remittances classified by country source showed that the bulk came from the United States, Saudi Arabia, the United Arab Emirates, the United Kingdom, Japan, Singapore, Hong Kong, Qatar, Kuwait, Hong Kong and Australia. The combined remittances from these countries made up more than 79% of total cash remittances.

Remittances from the United States grew by 9.2%. Those from Singapore, Qatar and Japan rose significantly by 19.7%, 57.8%, and 16%, respectively. However, one should not take the figures of these inflows coming from the U.S. at face value, since remittance centers and money couriers have the usual practice of attributing the source as the U.S. if they pass through U.S. correspondent banks or money couriers.

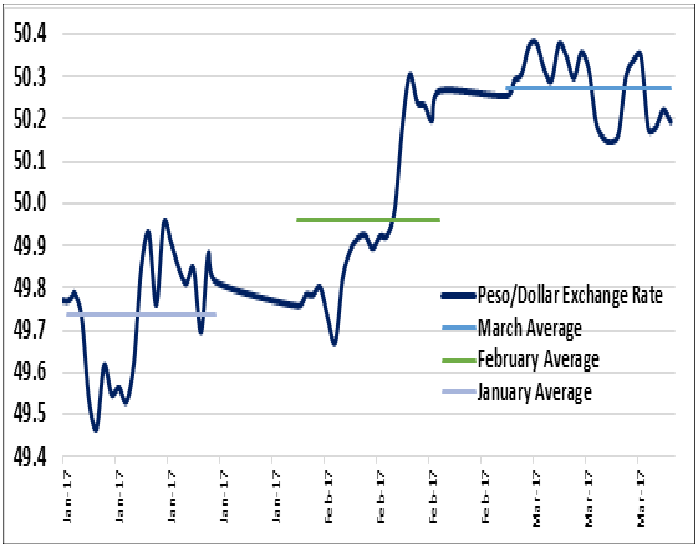
Peso Still on Depreciation Mode

Negative domestic political news appered to further dampen investors' confidence, resulting to continued pullout in global funds. This, together with the additional

Negative political news on the PH appeared to further dampen investors' confidence, resulting to continued pullout in global funds.

hikes in the U.S. (after the first one in March), had the PH peso reeling from another bout of weakness to average at P50.28/$, a 0.6% depreciation from February. The exchange rate in March hit a 10-year low, as it ranged between P50.38/$ and P50.15/$. Nonetheless, volatility measure declined to 0.08 from 0.20 in February.

Figure 7 - Daily Dollar-Peso Exchange Rate, January to March 2017

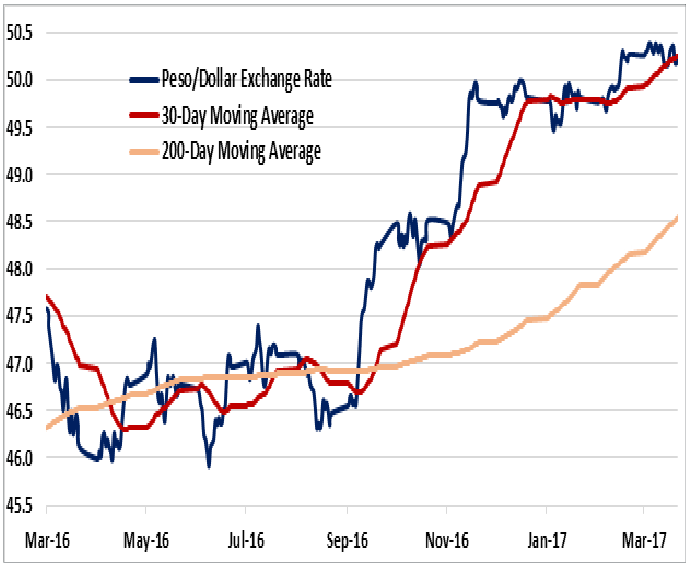


Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Apart from the PH Peso, the dollar's ascent likewise hit the Chinese yuan (CNY), which slumped by 0.4%. Year-to-date (YTD) average, however, pointed to an overall appreciation as the People's Bank of China (PBOC) committed to temper yuan's weakness in the first two months of the year. This leaves the PHP as hardest hit currency (at least in Q1).

Meanwhile, other emerging currencies managed to beat the greenback, with Koreas' won leading the pack (posting a 4.3% appreciation YTD). India's rupee (INR) also rallied amidst Uttar Pradesh's mandate to further strengthen the currency. The possible credit-rating upgrade of Indonesia helped preserve the rupiah's (IDR) strength and the ringgit (MYR) remained fairly stable given the positive reading of the country's economic fundamentals.

Figure 8 - Dollar-Peso Exchange Rates & Moving Average, March 2016-2017



Source of Basic Data: National Statistics Office (NSO)

The actual US/PHP rate still lodged way above the 200-day moving average (MA), suggesting further pressure on the peso in the long run. We maintain our view that exchange rate should remain above P50/$1 for the rest of the quarter and H1, pressured by the dollar's strength amidst greater likelihood of a further Fed rate hike by June.

Monthly U.S. Dollar Cross Rates of Selected Asia-Pacific Currencies	
	Mar-17
AUD	0.6%
CNY	0.4%
INR	-1.6%
IDR	0.0%
KRW	-0.6%
MYR	-0.1%
PHP	0.6%
SGD	-0.6%
THB	-0.3%

Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback
Source of Basic Data: x-rates.com

The manufacturing sector's vitality should likely provide sturdy support to the economy as more foreign direct investments fuel more output and employment in the sector.

Looking Ahead

With the global economy, led by the U.S., showing signs of greater vitality, this should spill over into the Philippine economy and given solid domestic demand, we expect GDP growth in Q1 should range between 6.5% and 7%, with a possible upside surprise.

- With the great start in exports in January, external demand should provide additional impetus to the reliably robust domestic demand. Growth in exports in Q1 could expand by double digits.

- The manufacturing sector's vitality should likely provide sturdy support to the economy as more foreign direct investments fuel more output and employment in the sector.

- NG should manage to raise government spending starting in Q1. We think infrastructure spending should be on track given the formidable team left by former Secretary Rogelio Singson and now continued by Secretary Mark Villar. In addition, a few big-ticket PPPs have broken ground, including among others, the Calax Expressway, the MRT-7, and the Cebu International Airport expansion. Note that PPPs are now included in Private Construction, and so will be in addition to NG's infrastructure and capital outlay budget.

- While headline inflation continues to accelerate, we see a cap reached at 3.5%, exclusive of the possible additional 0.4% that higher excise taxes on petroleum products may cause should the administration's Tax Reform bill pass with little modification.

- Given that the 4% inflation ceiling may not be breached even with the above, and that food prices are normalizing from the negative effects of excessive rains and flooding in key production areas, and that oil prices will likely remain below $55/barrel for the rest of the year, the Monetary Board will likely keep policy rates unchanged in H1. It may, however, raise it soon after the Fed decides to hike its policy rates for the 2nd time in 2017.

- The peso could experience some minor respite from its depreciation mode. However, it will remain under pressure for further slight weakening in Q2.

Forecasts			
Rates	April	May	June
Inflation (y-o-y %)	3.4	3.4	3.4
91-day T-Bill (%)	2.3	2.3	2.3
Peso-Dollar (P/$)	49.6	49.7	50
10-year T-Bond (%)	4.48	4.55	4.61

Source: Authors' Estimates

Higher Inflation Above 3%, Funds Moving to RTBs Pressure Yields Upwards

As domestic inflation rate hit 3.3% in February followed by 3.4% in March, local bond yields tended to move up except in the belly of the yield curve. U.S. 10-year Treasury bond yield movements (downwards after the Fed rate hike in March) had negligible effect on domestic bond yields, albeit providing some space for a slight easing. The failure of the Trump administration to repeal and replace Obamacare cast doubt on its ability to ramp up spending which impacted bond yields.

Outlook: The success or failure of President Trump to obtain the necessary funds to splurge on infrastructure spending, the border wall and tax cuts will likely determine the direction of U.S. Treasury yields in Q2. This and local funds exiting from BSP, and movements in local inflation rate would provide a slight downward bias for local bond yields, which however will depend more on further movements in the inflation rate. As we expect inflation to stabilize at 3.5%, the local players may feel comfortable to take more risks once again.

Primary Market: Risk Aversion Weighs Heavily on Demand in T-bond Auctions

The Bureau of the Treasury (BTr) cancelled the T-Bill auction scheduled on March 27, 2017, in view of the auction for Tranche 19 of Retail Treasury Bonds (RTB) held last March 28, 2017.

The auctioned 3-year Treasury Bond had a yield of 4.03%, up from 3.5% last February 2017, despite having a tender-offer ratio (TOR) of 1.23 which plunged from 2.27 last month. On the other hand, the 5-year Treasury Bond had a yield of 4.13% which is up from 4% last February 2017, with a TOR of 1.78 also down from 2.6 recorded in the previous month.

Secondary Market: 2017 Start Renews Risk Appetite

Total trading volume for March improved by 14.2% month-on-month (m-o-m) to P287.1 B from P251.5 B in the previous month. This also represents an uptick of 3.4% year-on-year (y-o-y) from P277.7 B recorded last March 2016.

Across tenors, yields saw mixed movements this month. The 3-month and 10-year bonds rose sharply by 65.4 bps and 68.8 bps, respectively. On the other hand, the 2-year and 20-year bond yields plummeted by 12 bps and 24.84 bps, respectively. 10-year to 2-year spread jumped from 52 bps to 189 bps, a spread change of +129 bps (See ASEAN +1 table).

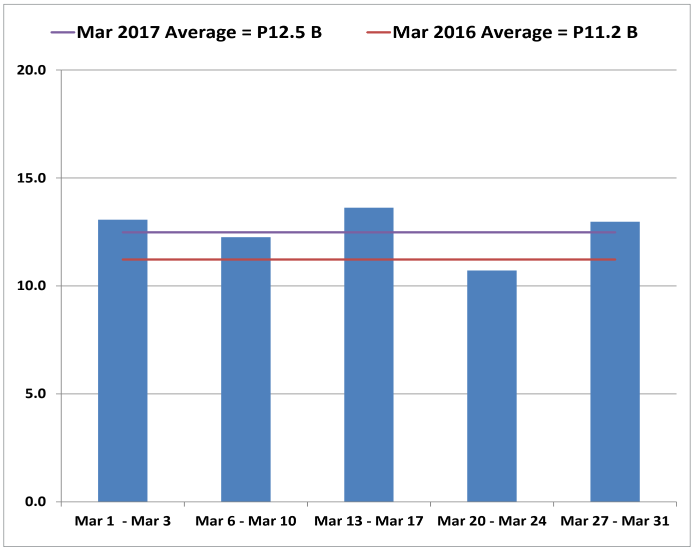
T-Bills and T-Bonds Auction Results

Date	T-Bill/T-Bond	Offer	Tendered	Awarded	Tendered/ Offered	Average Yield	Bps Change from Previous Auction
T-Bonds							
21-Mar	5-year	15.00	26.65	15.00	1.776	4.132	10.20
28-Mar	3-year	70.00	86.17	70.00	1.231	4.027	53.50
All Auctions	Total	85.00	112.82	85.00	1.33		

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

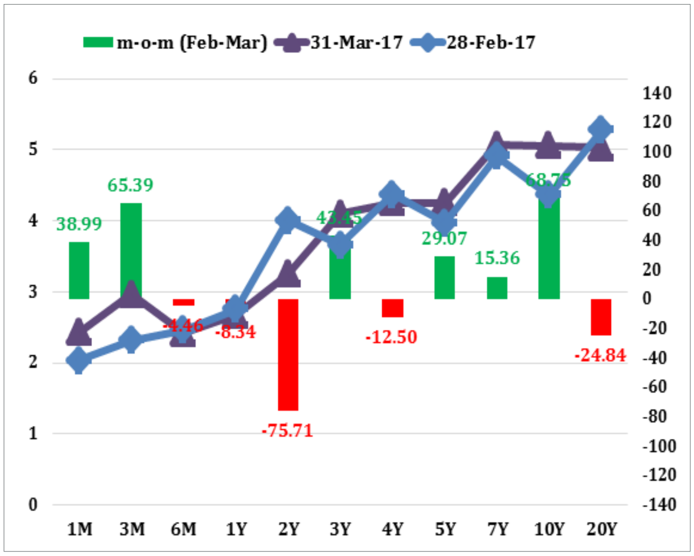
Secondary trading of corporate bonds surged by 130.6% in March 2017.

Figure 9 - Weekly Trading Volume (In Billion Pesos)



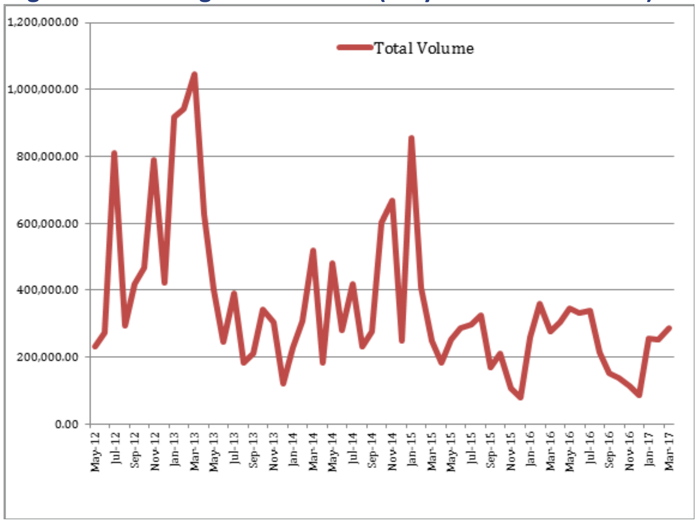
Source: Philippine Dealing Systems (PDS)

Figure 11 - PDST-R2 Yield Curves



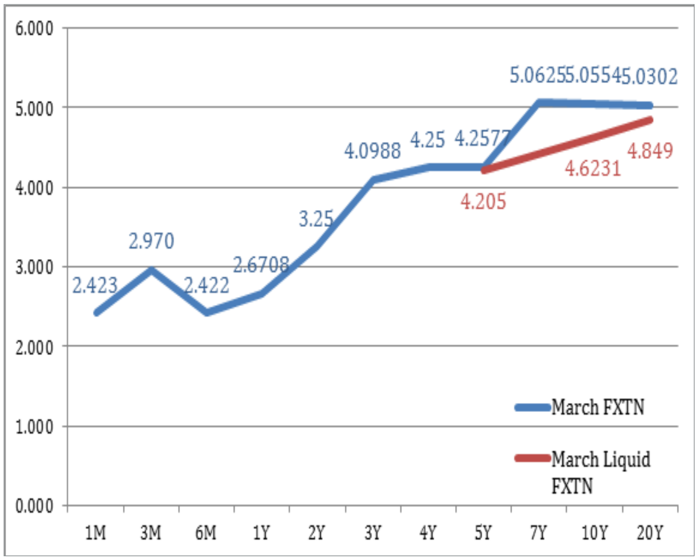
Source: Philippine Dealing Systems (PDS)

Figure 10 - Trading Volume Trend (May 2012 - March 2017)



Source: Philippine Dealing Systems (PDS)

Figure 12 - PDST-R2 vs. FXTN Yields (Month-end)



Source: Philippine Dealing Systems (PDS)

Liquid FXTN tenors continued to post lower yields than FXTN tenors under PDST-R2. Like the PDSTR-2 benchmark, 10-60 series yields rose by 21 bps, much less than 10-year PDST-R2 yield rise of 68 bps. Thus, the 10-60's yield of 4.62% remained slightly below its level of 4.65% in end-December. As for 20-17 series, it showed a 28 bps rise, in contrast with the 25 bps fall reflected in PDST-R2 benchmark.

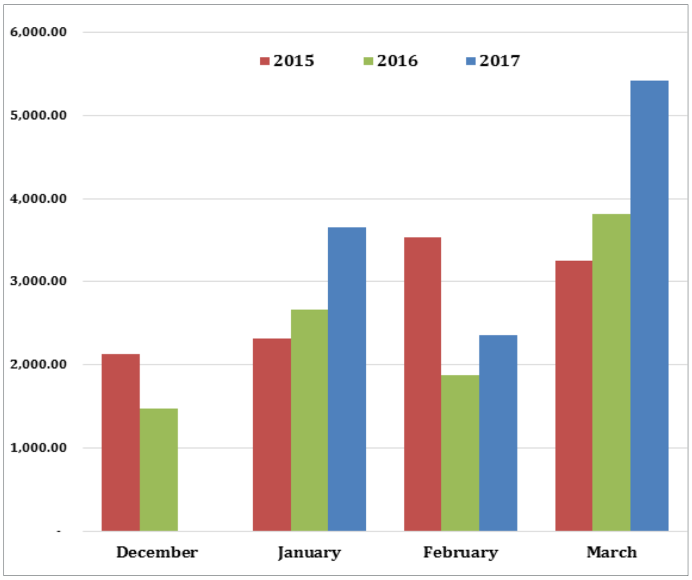
Corporate Bonds: Trading Spikes in March

Secondary trading of corporate bonds surged in March 2017. Total volume skyrocketed by 130.6% m-o-m to reach P5.4 B from P2.4 B in February. It also represented a jumped by 42.1% y-o-y from only P3.8 B last year. Year-to-date (YTD) trades showed a 36.8% climb in Q1.

Dollar-denominated PH government bonds (ROPs) showed increases in yield among the three more active tenors.

Bond trading volume of the five leading corporate issues – Power Sector Assets and Liabilities Management (PSALM), San Miguel Brewery (SMB), Ayala Land, Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC) – saw mixed movements with SMB, AC, and SMIC following a positive trend, while trading activity declined for PSALM and ALI.

Figure 13 - Total Corporate Trade Volume (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

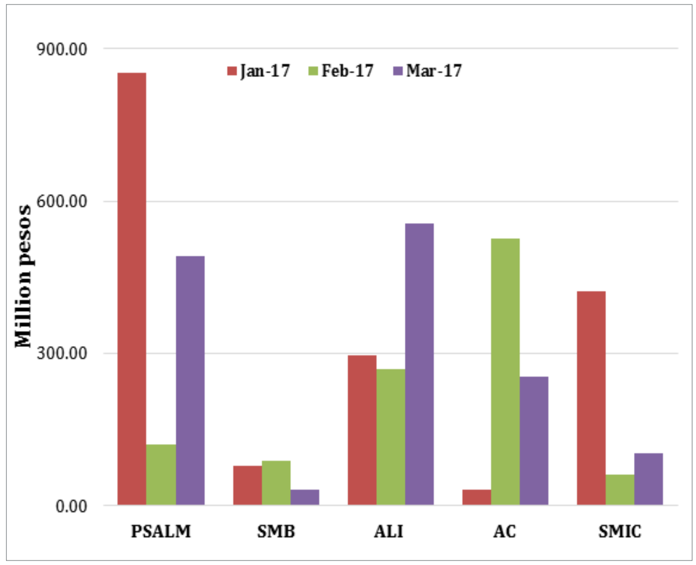
The market liked ALI papers the most, as trading of this paper zoomed up by 105.8% to P555.8 M from February. PSALM came in second as its trades reached P491.4 M, a huge 305.2% jump. While the SMIC took only the 4th spot, trading in its debt papers bulged by 68.2% to reach P103.1 M. AC and SMB took the rear positions, trading P254.4 M and P31.5 M, respectively. This represented sharp falls of 51.7% and 64% decline, respectively.

Corporate Issuances & Disclosures

- SM Prime Holdings applied for a permit to issue fixed-rate retail bonds amounting to P15 B comprised of 7-year Series "G" bonds due 2024 with an oversubscription option of up to P5 B.

- Philippine Rating Services Corporation (PhilRatings) maintained a PRS Aaa/Outlook: Stable rating for the total outstanding P22 B bonds of GT Capital Holdings,

Figure 14 - Corporate Trading (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

Inc. (GT Capital). PRS Aaa is the highest rating assigned by PhilRatings, while a "Stable Outlook" indicates that the rating is likely to remain unchanged in the next 12 months.

- San Miguel Corporation received the approval for its offer of up to P15 B worth of Fixed Rate Bonds under the P60 B shelf registration of San Miguel Corporation. The bonds will be issued on April 7, 2017 and will include Series D Bonds due 2022 with a fixed interest rate equivalent to 5.1923% per annum. The offer period commenced on March 21, 2017 and ended on March 27, 2017.

ROPs: Yields Rise Across Curve, but Less than U.S. Treasuries

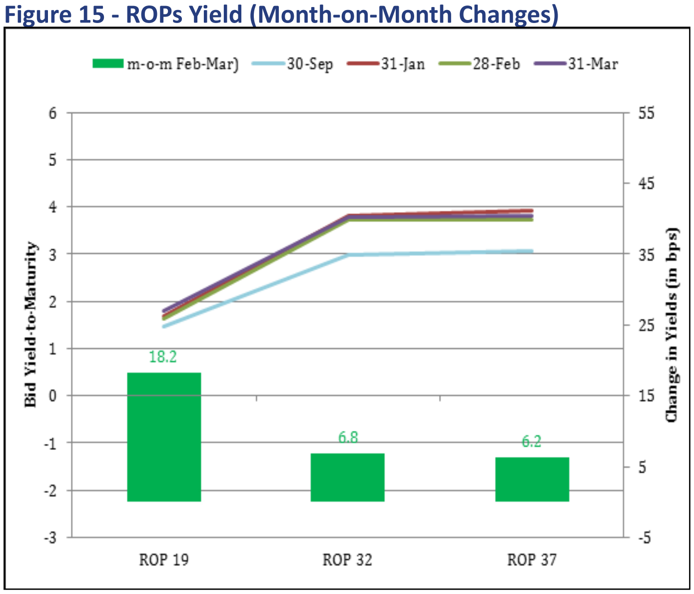
Dollar-denominated PH government bonds (ROPs) showed increases in yield among the three more active tenors. ROP-19, with two years remaining to maturity, rose by 18.2 bps from 1.624% to 1.806%. ROP-32, 15 years from maturity, went up by 6.8 bps from 3.727% to 3.795%. ROP-37, 20 years from maturity, similarly fell by 6.2 bps from 3.737% to 3.799%.

In general, ROPs tracked the positive movement of their U.S. Treasury counterparts.

Actually, ROPs fared better than comparable U.S. Treasuries. 15-year U.S. T-bond yields went up by 31.5 bps to 2.8%, while the 20-year bond rose by 49 bps to 3%. In contrast, ROPs of similar tenor rose by 18.2 bps at most.

In general, ROPs tracked the positive movement of their U.S. Treasury counterparts. ROP-19 went up as it followed the rise in the U.S. 2-year Treasury bill, while ROP-32 mimicked the uptick of 15-year US T-bonds.

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

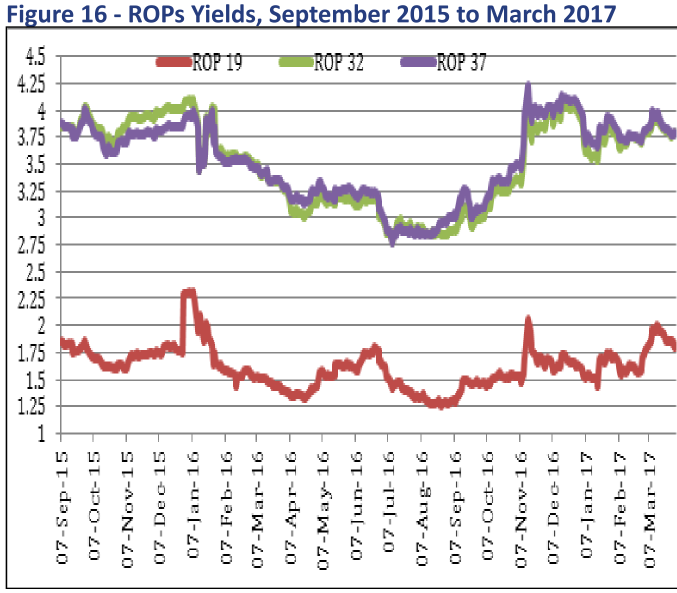


Sources: First Metro Investment Corporation (FMIC) & Philippine Dealing Systems (PDS)

ASEAN + 1 Market: Only PH Yield Curve Steepens

U.S.: For the second time in three months, the U.S. Federal Reserve increased its policy rates (Fed Funds) a quarter point on growing sentiment that the economy is poised for more robust growth. The hike raises the overnight funds rate to a target range of 0.75% to 1%. The market expects the Fed to hike two more times this year, as projected by the central back last December 2016, with the next hike expected in June and the third to take place in December. Companies added jobs at a significant pace exceeding 230,000 back-to-back in January and February. Beating market expectations, employment in the private sector surged by 227,000 for the month driven by the construction and manufacturing sectors which generated 66,000 and 32,000 jobs, respectively. Meanwhile, U.S. treasury yields dipped after data showing low 0.1% m-o-m inflation in March. Analysts averred that the Fed could aim for a slower pace of interest rate hikes this year than the initial forecast. However, inflation has already reached 2.7% y-o-y, well above its objective of 2%. In addition, consumer sentiment remained high at 96.9 only slightly lower than the expected 97.6. The continued strength in consumer sentiment reflects optimism regarding higher incomes and wealth, more favorable job prospects, and low inflation expectations. 10-year to 2-year spread eased by 4 bps from 117 bps to 113 bps.

Figure 16 - ROPs Yields, September 2015 to March 2017



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

PRC: Monetary officials from the People's Bank of China (PBOC) and other related departments are working to improve guidelines to give foreign investors easier access to China's 56 T yuan ($8.2 T) bond market. Policymakers now allow overseas funds to buy onshore bonds in transactions carried out in Hong Kong, even as officials simultaneously explore the possibility of creating a 'bond connect' scheme that would provide cross-border cash bond trading and settlement connectivity with China's onshore bond market infrastructures. The scheme should bring more foreign capital into the bond market which would help stabilize the onshore bond market.

Following the second U.S. Fed hike in three months, China's central bank raises its borrowing costs, while EMs continue to exercise caution.

Given its steady economy and rising inflation, China's central bank raised its borrowing costs in open-market operations and on its medium-term lending facility following the U.S. Fed hike. It retained the rates on reverse-repurchase agreements at 2.45% for 7-day RRPs, 2.6% for 14-day, and 2.75% for 28-day reverse repos. The cost of funds lent via its Medium-term Lending Facility (MLF) increased by 10 bps, with 6-month and 1-year rates rising to 3.05% and 3.2%, respectively. Meanwhile, the onshore yuan strengthened the most in a month on an intra-day basis. 10-year yields fell 4 bps to 3.32%. The PBOC will likely follow through with its incremental tightening in the interbank market this year. The country also tightened its rules concerning the use of corporate notes as collateral for short-term loans with China Securities Depository and Clearing Corporation. It plans to only allow financial institutions to use only AAA rated company securities as collateral for short-term loans. Consequently, bonds below the AAA level are expected to become less liquid, driving up yield premiums. As policymakers attempt to curb leverage in the debt market and limit financial risks, yield hunters may face losses from this measure. The minor tightening led the 10-year to 2-year spread to fall by 17 bps from 61 bps to 44 bps.

Indonesia: State-owned lenders remain as the main drivers of the banking industry's loan growth, projected to rise between 10% and 15% this year. Monthly inflation in February stood at 0.23% m-o-m despite price hikes in volatile foods as rice prices declined. State-run financing company Sarana Multigriya Finansial plans to raise up to Rp 12 T ($900.7 M) by issuing multi-year bonds to finance its business expansion. Moreover, the government plans to issue U.S.-dollar sukuk as well as euro- and yen-denominated conventional bonds in the first half of this year. In response to the Fed hike, the Bank of Indonesia (BI) intervened in foreign exchange and sovereign bond markets to reduce rupiah volatility and held its BI 7-day Reverse Repo Rate at 4.75% while maintaining its Deposit Facility and Lending Facility rates at 4% and 5.5%, respectively. With these, the central bank hopes to preserve macroeconomic and financial system stability amidst some global uncertainty. In addition, the central bank also appointed the Indonesia Stock Market Clearing House (KPEI) as the domestic clearing operator for government bond transactions in the secondary market to increase trading activity and investor diversification. 10-year to 2-year spread slipped by 21 bps from 57 bps to 36 bps.

Malaysia: Bank Negara held its benchmark rate as the economy has improved after suffering from poor global oil and commodity prices for more than a year. Meanwhile, corporate loan growth eased as companies exercised more caution and focused instead on measures to strengthen their balance sheets. On the other hand, forecasters expect the ringgit to improve at a moderate pace in the H2 following the improvement of the local economy. The CIMB Bank Bhd has launched and priced a Regulation S only $1 B dual tranche issuance under its $5B euro medium-term note program. A Regulation S bond is a bond issued for international investors sold outside

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

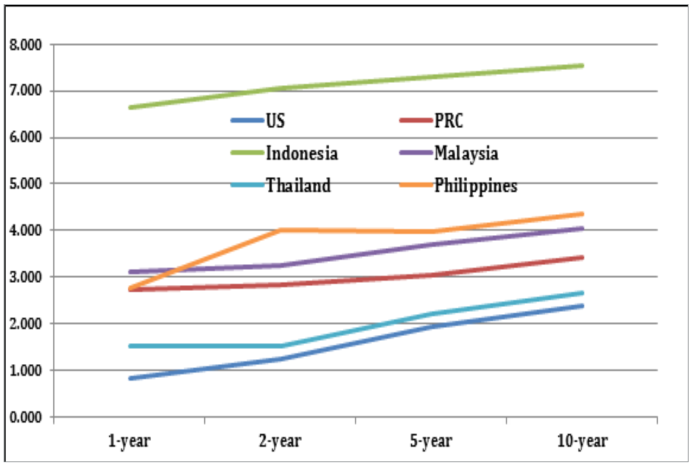
Country	2-year rate	10-year rate	Projected Inflation Rates	Real 10-year yield	10 year to 2-year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					02-Mar-17	31-Mar-17			
US	1.254	2.387	2.30	0.09	117.00	113.00	-4.00	0.75	-1.55
PRC	2.940	3.380	2.30	1.08	61.00	44.00	-17.00	4.35	2.05
Indonesia	6.687	7.043	4.20	2.84	57.00	36.00	-21.00	4.75	0.55
Malaysia	3.415	4.149	3.20	0.95	84.00	73.00	-11.00	3.00	-0.20
Thailand	1.537	2.687	1.30	1.39	119.00	115.00	-4.00	1.50	0.20
Philippines	2.671	5.055	3.30	1.76	52.00	181.00	129.00	3.50	0.20

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

The failure of the Trump to repeal and replace Obamacare has somewhat dampened the market's expectation of strong stimulus measures passing Congress any time soon.

the United States. The issuance consists of $500 M 3-year floating rate notes (FRN) and a $500 M 5-year fixed rate notes (FXD). In addition, Bank Negara has allowed companies and insurers to short sell sovereign bonds to help them manage their interest-rate exposure and generate more trading volume. 10-year to 2-year spread inched lower by 11 bps, from 84 bps to 73 bps.

Figure 17 - ASEAN Bond Yields



Source: Asian Development Bank (ADB)

Thailand: Capital outflows surged in anticipation of the U.S. Fed hike which led to further depreciation of the baht. The trend of baht depreciation is expected to continue throughout the year to about 36.50 baht to the U.S. dollar by the end of the year, marking a 4-5% decrease from its current value of some 35 baht. Analysts think that the Bank of Thailand (BOT) may be pressured to raise its policy rate for the first time in almost two years due to rising inflation and to prevent further capital outflows. Despite the capital outflows, the central bank decided to maintain its accommodative stance on monetary policy as the Fed hike is expected to cause the baht to depreciate and which should contribute to Thailand's economic recovery. Moreover, the BOT held its key interest rate as it rebuffed IMF's call for easier monetary policy as the central bank contends that the current rate supports the country's recovery. In addition, the central bank raised its forecast for economic growth from 3.2% to 3.4% on a stronger export outlook. 10-year to 2-year spread slid by 4 bps, from 119 bps to 115 bps.

Outlook

The failure of the Trump administration to repeal and replace Obamacare has somewhat dampened the market's expectation of strong stimulus measures passing U.S. Congress any time soon. Thus, after reaching a 2-1/2 year high of 2.626% on March 13, 10-year U.S. T-bond yields head south to end the month at 2.387%.

- Until President Trump can muster budget allocation for his plans for massive infrastructure upgrading, the Mexico border wall and tax cuts, 10-year U.S. Treasury yields would likely go sideways with a slight downward bias, given the 61 bps jump in November which over anticipated the December Fed rate hike.

- An upside risk would be sustained above-200,000 job creation and higher inflation which may force the Fed the raise policy rates again in June.

- Local bond yields have also overreacted initially and found support in higher inflation that exceeded 3% in February and March. However, since we see inflation stabilizing at 3.5% in Q2, yields would have a downward bias especially as U.S. yields continue to slip.

- Demand for medium-term T-bonds, especially RTBs, appears strong even as banks have begun avoiding lower yields from the BSP's TDF and ODF offerings. This suggests that they sense highs already reached in H1.

- Corporate bond issuances will likely pick up in Q2 and Q3 as firms take advantage of the still low interest rates. This would spur more secondary trading.

- ROPs may prove to be better alternatives to U.S. Treasuries in Q2 as funds flow back to EMs (which provide better yields) and as the market may expect a possible credit rating upgrade should indicators suggest economic growth closer to 7%.

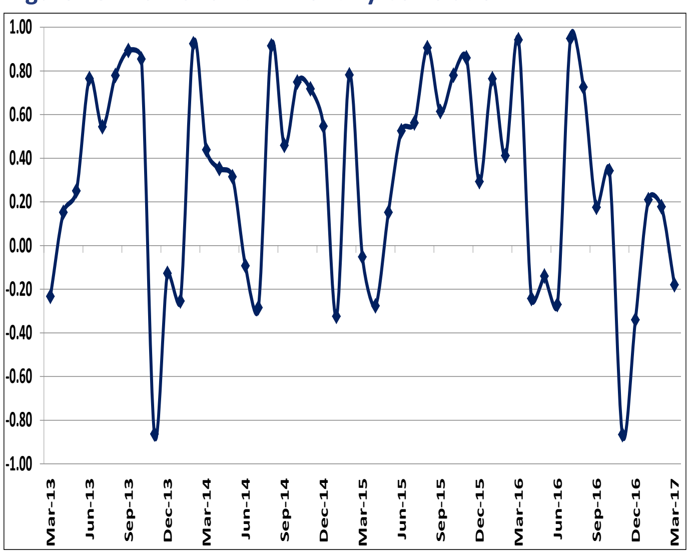
Foreign Funds Back to EMs & Local Investors Push PSEi Up 6.9% in Q1

The return of foreign funds into emerging markets (EMs) and confident local investors pushed PSEi up by 6.9% in Q1. The Fed policy rate hike had minimal impact as the market had earlier priced it in. Remarkably, PSEi still edged up by 1.4% in March backed by the positive earnings reports and prospects of the PSEi's constituent stocks. The market also shrugged off the somewhat murky political environment as the administration's strong economic managers appeared dauntless in their pursuit of ambitious policy goals. Telcos share prices rebounded, while banking stocks shone as their loan portfolios continued to expand.

Outlook and Strategy

The reflow of investments into EMs starting April will be positive for the market, but Q2 will still test the market's vitality as key indicators emerge. These include (1) Q1 corporate earnings reports, (2) Q1 GDP, and (3) semi-annual rebalancing of MSCI. In addition, the government's ability to roll out its infrastructure projects and big-ticket PPPs will become more evident. Consumer-oriented firms, banks, power, construction and well-diversified holding firms would be targets for investors on market sell-offs.

Figure 18 - PSEi and DJIA Monthly Correlation



Sources: Philippine Stock Exchange (PSE) & Federal Reserve Bank of St. Louis

The PSEi and Dow Jones Industrial Average's (DJIA) positive correlation turned negative from 0.18 to -0.18. The PSEi moved opposite to DJIA after local investors went on a bargain hunt as the Fed raised its policy rate in mid-March. Towards the end of the month, the market moved sideways as investors took profits whenever the PSEi breached 7,300. The weak correlation in March proved favorable to the local market as the PSEi still chalked up a 1.4% gain from end-February.

Global Equities Markets Performances

Region	Country	Index	Growth Rate (m-o-m)	2017 YTD
Americas	US	DJIA	-0.4%	4.9%
Europe	Germany	DAX	3.6%	6.8%
	London	FTSE 101	0.2%	1.1%
East Asia	Hong Kong	HIS	1.5%	3.2%
	Shanghai	SSEC	-0.7%	3.7%
	Japan	NIKKEI	0.3%	0.3%
	South Korea	KOSPI	3.5%	6.8%
Asia-Pacific	Australia	S&P/ASX 200	3.0%	3.8%
Southeast Asia	Indonesia	JCI	3.9%	5.7%
	Malaysia	KLSE	2.9%	6.1%
	Thailand	SET	1.4%	2.5%
	Philippines	PSEi	1.4%	6.9%
	Singapore	STRAITS	2.6%	10.3%

Sources: Bloomberg & Yahoo Finance

The PSEi grew by 1.4% in March, reversing the minor dip (-0.2%) of the previous month. Despite the small monthly growth in March, the PSEi posted significant growth of 6.9% in Q1-2017. The PSEi was the second best performing market in Southeast Asia, following STRAITS' 10.3% growth in Q1-2017.

The PSEi rallied despite the selling trend in the last two months, as it increased by 471.1 points (+6.9%) in Q1-2017. All sectors posted gains, with Services and Financial sectors leading the charge as they rose by 19.1% and 10%, respectively. The Holdings sector followed the leaders closely, posting an increase of 6.5% while the Industrial, Property, and Mining and Oil sectors had minor gains.

The Financial sector has gained by 10% in Q1-2017, completely reversing the significant drop (9.9%) in Q4-2016. .

Quarterly Sectoral Performance				
	29-Dec-16		31-Mar-17	
Sector	Index	% Change	Index	% Change
PSEi	6,840.6	-10.3%	7,311.72	6.9%
Financial	1,655.5	-9.9%	1,820.56	10.0%
Industrial	10,650.2	-9.6%	10,948.44	2.8%
Holdings	6,992.1	-7.4%	7,449.51	6.5%
Property	3,066.5	-11.7%	3,125.93	1.9%
Services	1,302.9	-12.6%	1,552.15	19.1%
Mining and Oil	11,857.8	8.4%	11,972.21	1.0%

Source of Basic Data: PSE Quotation Reports

Company	Symbol	12/29/16 Close	3/31/17 Close	% Change
Metrobank	MBT	72.6	80	10.2%
Banco de Oro	BDO	112.1	117.6	4.1%
Bank of the Philippine Islands	BPI	88.8	103.9	17.0%
Security Bank Corporation	SECB	190	202	6.3%

Source of Basic Data: PSE Quotation Reports

The Financial sector has gained by 10% in Q1-2017, completely reversing the significant drop (-9.9%) in Q4-2016. Leading the sector, Bank of the Philippine Islands (BPI) prices soared by 17% in Q1-2017 as profits of BPI increased by 21% for fiscal year (FY) 2016 due to a 19.2% increase in corporate loans.

Metropolitan Bank & Trust Co. (MBT) also posted double-digit growths (+10.2%) this quarter, after it increased its capital expenditure budget to P5 B from P1.6 B. The budget will be used primarily on information technology upgrades and improvements of its automatic teller machines (ATMs).

Security Bank Corporation (SEBC) enjoyed moderate gains of 6.3% for the quarter, after its net profit rose 11% year-on-year (y-o-y) in FY 2016. BDO Unibank, Inc. (BDO) grew by another 4.9% this quarter after reaching a milestone, opening its 1,000th branch.

Company	Symbol	12/29/16 Close	3/31/17 Close	% Change
Meralco	MER	265	274	3.4%
Aboitiz Power	AP	41.7	41.75	0.1%
Energy Development Corporation	EDC	5.15	6.02	16.9%
Jollibee Foods Corporation	JFC	194	197.5	1.8%
Puregold Price Club Inc.	PCGMF	39	43.7	12.1%
First Gen Corporation	FGEN	22	20.95	-4.8%
Universal Robina Corporation	URC	163.5	163.5	0.0%
Petron Corporation	PCOR	9.95	8.9	-10.6%

Source of Basic Data: PSE Quotation Reports

The Industrial sector experienced a minor gain of 2.8% this quarter due to mixed results in the sector. In the deep red, Petron Corporation (PCOR) experienced a major setback (-10.6%) after its total revenues declined because of cheaper oil prices. Crude oil prices lightened by 19% in FY 2016 as prices dropped from $50.9/barrel (bbl) to $41.3/bbl.

First Gen Corporation (FGEN) was also in the red, dropping 4.8% in Q1 despite its reported net income expanding 19% y-o-y to $200 M. Universal Robina Corporation (URC) continued to stay afloat, ending flat this quarter amidst a proposed10% excise tax on sugary drinks.

On the other side of the spectrum, Energy Development Corporation (EDC) ended deep in green after registering a 16.9% gain in Q1-2017. EDC's attributable recurring net income grew to P9.2 B (+4% y-o-y) after the performance of its power plants improved.

Following closely behind, Puregold Price Club Inc. (PGOLD) posted a significant increase of 12.1% last quarter even after its drop of 4.4% in mid-March due to technical correction.

Manila Electric Company (MER) rose by 3.4% in Q1-2017, slightly tapering its loss (-17.2%) in the previous quarter. MER's growth can be attributed to its efforts to transform its network into a smart grid. MER has filed an application for the deployment of basic smart metering services.

The Holdings sector rallied this quarter, rising by 6.5% after a loss of 7.4% in the previous quarter.

Jollibee Foods Corporation (JFC) slightly gained with a growth of 1.8% in Q1 due to its hefty earnings expansion (+24.6% y-o-y).

Aboitiz Power (AP) ended relatively flat, inching up by 0.1% because of the balancing outcomes of its different business segments. AP's generation segment grew by 17% y-o-y for FY 2016, however, its distribution segment suffered a setback of 4% y-o-y.

Company	Symbol	12/29/16 Close	3/31/17 Close	% Change
Ayala Corporation	AC	730.5	845	15.7%
Metro Pacific Investments Corporation	MPI	6.66	6.02	-9.6%
SM Investments Corporation	SM	655	697	6.4%
DMCI Holdings, Inc.	DMC	13.26	11.4	-14.0%
Aboitiz Equity Ventures	AEV	70.8	74.45	5.2%
GT Capital Holdings, Inc.	GTCAP	1,270.00	1,145.00	-9.8%
San Miguel Corporation	SMC	92.3	104	12.7%
Alliance Global Group, Inc.	AGI	12.78	12.68	-0.8%
LT Group Inc.	LTG	12.56	16.02	27.5%
JG Summit Holdings, Inc	JGS	67.65	81.35	20.3%

Source of Basic Data: PSE Quotation Reports

The Holdings sector rallied this quarter, rising by 6.5% after a loss of 7.4% in the previous quarter. Performances varied widely. Leading the charge, LT Group, Inc. (LTG) grew by 27.5% after the government charged its major cigarette competitor, Mighty Corporation, with tax evasion. Not to be outdone, JG Summit Holdings, Inc. (JGS) bounced back this quarter, posting a gain of 20.3% and more than offsetting the slump of 7.7% in Q4-2016. The positive sentiment on JGS can be attributed to the proposal of JGS and Filinvest Development Corporation (FDC) to redevelop the Clark Airport for P187 B.

Ayala Corporation (AC) rose by 15.7% in Q1 due to robust reported net income for FY 2016 which climbed by 16.8% y-o-y. Their fastest growing business segments, AC Energy and AC Industrials, whose earnings increased by 27% y-o-y and 51% y-o-y, respectively, fueled the impressive earnings expansion.

San Miguel Corporation (SMC) continued its ascent last quarter registering a gain of 12.7% after the company's subsidy, San Miguel Brewery Inc. (SMB) reported profit growth of 20% y-o-y due to strong sales performance especially of its high-margin San Miguel Pale Pilsen.

SM Investments Corporation (SM) slowly recovered from the loss of 24.2% in Q4-2016, as it rallied by 6.4% in Q1-2017. SM's net profit moved in line with the consensus estimate, increasing by 8.1% y-o-y. Aboitiz Equities Ventures (AEV), consistently in the green, rose by 5.2% after it reported consolidated core earnings soaring by 27% y-o-y. Its power subsidiary, Aboitiz Power, contributed 65% to total earnings as its net income showed a solid 14% improvement.

Alliance Global Group, Inc. (AGI) ended relatively flat, with a minor setback of 0.8%. AGI revealed plans of refinancing some $800 M in loans maturing this year through peso debt issuances.

Metro Pacific Investments Corporation (MPIC) failed to stay afloat, registering a loss of 9.6% despite a 20% y-o-y growth in its net income in FY 2016. GT Capital (GTCAP) stayed in the red in Q1-2017 with a decrease of 9.8%. GTCAP so far could not shrug off the specter of proposed higher excise taxes on automobiles.

DMCI Holdings, Inc. (DMC) suffered from a major drawback (-14%) after reporting a net income decline of 5% to P12.2 B in 2016 due to the suspension of DMCI's mining subsidiary, the 49% drop in earnings of DMCI Homes Inc., its property developer subsidiary and lower earnings contribution by Maynilad Water Services, Inc. in which it holds a 24% stake.

Company	Symbol	12/29/16 Close	3/31/17 Close	% Change
Ayala Land, Inc.	ALI	32	33.05	3.3%
SM Prime Holdings, Inc.	SMPH	28.35	28.3	-0.2%
Robinsons Land Corporation	RLC	26	23	-11.5%
Megaworld Corporation	MEG	3.57	3.38	-5.3%

Source of Basic Data: PSE Quotation Reports

The Services sector recovered from its sluggish performance in the previous quarter, registering a hefty gain of 19.1% this quarter..

The Property sector experienced a 1.9% gain in Q1-2017 with Ayala Land, Inc. keeping the sector afloat. Ayala Land Inc. (ALI) provided the lone bright spot in the property sector, gaining 3.3% in Q1-2017. Alveo Land, ALI's subsidiary, plans to introduce into the property market P40 B worth of inventory, consisting of 16 projects that will build 5,000 units, both residential and non-residential.

Robinsons Land Corporation (RLC) continued its descent by another 11.5% in Q1-2017 despite reporting strong earnings growth of 14.4% to reach P23.9 B in FY 2016.

Megaworld Corporation (MEG) also continued to dive, registering yet another loss of 5.3% this quarter as investors' anxiety over a drop in its capital ratios in February wouldn't go away.

SM Prime Holdings, Inc. (SMPH) remained flat this quarter, with a slight decrease of 0.2%. SMPH plans to fund its capital expenditures through an issuance of fixed-rate bonds worth P20 B.

Company	Symbol	12/29/16 Close	3/31/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,365.00	1,646.00	20.6%
Globe Telecom	GLO	1,509.00	2,032.00	34.7%
International Container Terminal Services Inc.	ICT	71.95	89.9	24.9%

Source of Basic Data: PSE Quotation Reports

The Services sector recovered from its sluggish performance in the previous quarter, registering a hefty gain of 19.1% this quarter. Globe Telecom (GLO) was the sector's leader, skyrocketing by 34.7% in Q1-2017. GLO's plans to expand its coverage and increase its data capacity provided the fuel for its ascent.

International Container Terminal Services, Inc. (ICT) also enlisted gains, rising by 24.9% this quarter. ICT's reported a 207% surge in net income to $180 M. Improvement in its throughput by 12% to 8.7 M TEUs provided the main impetus.

Not to be outdone, PLDT Inc. (TEL) grew by 20.6% after Congress passed the bill extending its franchise by another 25 years.

Company	Symbol	12/29/16 Close	3/31/17 Close	% Change
Semirara Mining Corporation	SCC	130	147.6	13.5%

Source of Basic Data: PSE Quotation Reports

Despite the DENR's draconian closure order of dozens of mining firms, Semirara Mining Corporation (SCC) reversed its loss (-4.8%) in the previous quarter, rising by 13.5% in Q1-2017. SCC disclosed earnings at a record high of P12 B in 2016. Besides, it provided guidance that coal production would continue to increase in 2017 due to the robust demand for coal even as they expand its power generation capacity and further improve existing facilities.

Total Turnover

Quarterly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	24,390.3	43.3%	1,060.4	24.6%
Industrial	39,434.8	13.3%	1,714.6	-1.5%
Holdings	46,968.3	43.3%	2,042.1	24.6%
Property	27,421.1	24.4%	1,192.2	8.2%
Services	32,483.2	93.3%	1,412.3	68.0%
Mining and Oil	4,392.0	5.7%	191.0	-8.1%
Total	176,064.9	37.4%	**7,655.0**	19.5%
Foreign Buying	97,507.3	39.0%	4,239.4	20.9%
Foreign Selling	110,118.3	38.2%	4,787.8	20.2%
Net Buying (Selling)	(11,387.3)	-19.7%	(495.1)	-4.1%

Source of Basic Data: PSE Quotation Reports

The total turnover increased significantly by 37.4% in Q1-2017, completely erasing the decrease of 18.9% in the previous quarter with all sectors in the green. The net foreign selling trend continued throughout the quarter, due to the Fed rate hike and uncertainties brought about by the Trump administration. In sum, foreigners' net selling trades hit P11.4 B, up by 19.7%.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2015		2016		3rd Quarter 2016			4th Quarter 2016		
	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	719,748	0.1%	710,590	-1.3%	160,178	-2.1%	2.9%	213,317	33.2%	-1.1%
Industry Sector	2,535,796	6.0%	2,738,320	8.0%	642,333	-8.0%	8.4%	753,820	17.4%	7.6%
Service Sector	4,338,284	6.8%	4,664,261	7.5%	1,147,919	-5.7%	6.8%	1,229,221	7.1%	7.4%
Expenditure										
Household Final Consumption	5,264,137	6.3%	5,628,318	6.9%	1,330,062	-4.1%	7.1%	1,592,837	19.8%	6.3%
Government Final Consumption	785,347	7.8%	850,747	8.3%	201,423	-21.0%	3.1%	186,934	-7.2%	4.0%
Capital Formation	1,805,281	15.1%	2,180,842	20.8%	520,461	3.6%	18.6%	630,271	21.1%	15.0%
Exports	3,681,166	9.0%	4,016,105	9.1%	1,125,701	8.7%	8.8%	891,272	-20.8%	10.4%
Imports	3,942,163	14.0%	4,631,536	17.5%	1,238,534	10.6%	13.6%	1,126,599	-9.0%	15.0%
GDP	7,593,828	5.9%	8,113,170	6.8%	1,950,430	-6.2%	7.0%	2,196,358	12.6%	6.6%
NPI	1,540,910	5.3%	1,622,040	5.3%	388,826	-0.5%	2.3%	433,064	11.4%	4.1%
GNI	9,134,739	5.8%	9,735,210	6.6%	2,339,257	-5.3%	6.2%	2,629,423	12.4%	6.1%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2014		2015		October-2016			January-2017		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	1,908,527	11.2%	2,108,956	10.5%	174,642	5.2%	7.1%	200,314	21.2%	9.9%
Tax	1,718,986	12.0%	1,815,475	5.6%	157,519	6.4%	5.5%	184,343	20.8%	13.9%
BIR	1,334,762	9.7%	1,433,302	7.4%	121,893	7.9%	5.3%	147,393	25.7%	13.7%
BoC	369,277	21.1%	367,534	-0.5%	33,365	0.1%	2.7%	35,943	3.2%	15.6%
Others	14,947	13.9%	14,639	-2.1%	2,261	27.2%	110.1%	1,007	82.4%	-13.3%
Non-Tax	189,308	4.5%	293,317	54.9%	17,110	-4.2%	25.0%	15,965	25.7%	-21.5%
Expenditures	1,981,619	5.4%	2,230,645	12.6%	176,987	-26.6%	-6.9%	198,092	-30.1%	6.7%
Allotment to LGUs	344,235	8.5%	387,559	12.6%	35,691	0.0%	10.6%	40,782	12.1%	0.7%
Interest Payments	321,185	-0.7%	309,364	-3.7%	16,054	-50.8%	-0.6%	42,353	122.1%	-7.1%
Overall Surplus (or Deficit)	(73,092)	55.5%	(121,689)	66.5%	(2,345)	-96.9%	-91.3%	2,222	-101.9%	-164.0%

Source: Bureau of the Treasury (BTr)

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

	2016		December-2016			January-2017		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	39,583	8.1%	3214.90	4.9%	8.1%	3062.10	6.8%	6.8%
Residential	12,439	11.9%	974.30	5.1%	11.9%	970.40	7.4%	7.4%
Commercial	15,648	8.2%	1302.80	6.3%	8.2%	1244.30	7.0%	7.0%
Industrial	11,362	4.2%	926.70	3.0%	4.2%	836.10	5.7%	5.7%

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

	2015		2016		3rd Quarter 2016		4th Quarter 2016	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	7,266	(32.4%)	601	(91.7%)	763	(20.4%)	(1,032)	(171.6%)
Balance of Trade	(17,854)	40.0%	(26,955)	51.0%	(6,129)	21.8%	(8,238)	53.5%
Balance of Goods	(23,309)	34.5%	(34,079)	46.2%	(7,943)	25.5%	(9,973)	33.8%
Exports of Goods	43,197	(13.3%)	43,444	0.6%	11,933	6.8%	10,618	3.8%
Import of Goods	66,506	(1.0%)	77,524	16.6%	19,876	13.6%	20,592	16.5%
Balance of Services	5,454	19.2%	7,125	30.6%	1,814	40.1%	1,735	(16.7%)
Exports of Services	29,065	14.0%	31,357	7.9%	8,155	15.0%	7,211	(5.2%)
Import of Services	23,610	12.9%	24,233	2.6%	6,341	9.4%	5,476	(0.8%)
Current Transfers & Others	-	-	-	-	-	-	-	-
II. CAPITAL AND FINANCIAL ACCOUNT	2,385	(75.5%)	1,051	(55.9%)	877	81.3%	78	(91.8%)
Capital Account	84	(21.9%)	102	21.4%	28	27.3%	24	3.6%
Financial Account	2,301	(76.1%)	949	(58.8%)	849	267.8%	54	(94.2%)
Direct Investments	(99)	(109.8%)	(4,235)	4,149.6%	(387)	184.4%	(1,829)	2,107.4%
Portfolio Investments	5,471	102.0%	1,383	(74.7%)	(634)	(130.1%)	(309)	(220.9%)
Financial Derivatives	6	40.8%	(32)	(673.4%)	(11)	(164.3%)	(78)	(530.9%)
Other Investments	(3,076)	(152.1%)	3832	(224.6%)	1,882	175.5%	2,269	208.4%
III. NET UNCLASSIFIED ITEMS	(2,433)	(40.5%)	(175)	(92.8%)	1,073	(178.7%)	(1,006)	(472.3%)
OVERALL BOP POSITION	(2,616)	(191.5%)	(420)	(116.1%)	1,014	719.4%	(2,068)	(355.8%)
Use of Fund Credits	-	0.0%	-	0.0%	-	-	-	-
Short-Term	-	53.2%	-	(6,678.9%)	11	0.0%	(10)	(2.9%)
Memo Items								
Change in Commercial Banks	(1,164)	(119.2%)	(1,510)	(229.7%)	548	134.1%	63	340.3%
Net Foreign Assets	(1,065)	(117.8%)	(1,470)	(238.1%)	461	140.5%	184	142.6%
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)

	2016		December-2016		January-2017	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	13,502,588	13.9%	13,502,588	13.9%	13,553,099	13.4%
Sources:						
Net Foreign Asset of the BSP	4,308,975	7.8%	4,308,975	7.8%	4422765	8.7%
Net Domestic Asset of the BSP	9,193,613	17.0%	9,193,613	17.0%	9,130,334	15.9%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,069,611	15.1%	3,069,611	15.1%	3,032,914	15.1%
Money Supply-2	9,137,898	13.2%	9,137,898	13.2%	9,013,723	12.4%
Money Supply-3	9,497,935	12.7%	9,497,935	12.7%	9,374,949	12.4%
MONEY MULTIPLIER (M2/RM)	0.68	-0.5%	0.68	-0.5%	0.67	-0.9%

Source: Bangko Sentral ng Pilipinas (BSP)

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