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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

Infra Spending Surge and Positive Data Signal Robust Growth in Q2, H2

- Investment-led growth déjà vu as spending on Infrastructure & Capitals surged by 31.4% in May
- Manufacturing kept a robust growth of 5.9% in April.
- Exports provided the added boost with a 12.1% expansion in April.
- Inflation slowed to a year low of 2.8% in June, enabling the Monetary Board to keep policy rates on hold.
- Trading in the bond markets slowed but yields, especially at the short-end, fall.
- The stock market continued its upward climb posting a 14.3% YTD growth in H1 as foreigners return.

Macroeconomy

NG ramped up spending in May driven by 31.4% surge in Infrastructure & Capital Outlays.

- Manufacturing sustained expansion in April as 13 out of 20 sectors posted double-digit gains.
- Exports in April marked the 5th consecutive month of positive growth in the last 16 months.
- Inflation further eased to 2.8% from 3.1% due to lower food and crude oil prices.
- Money growth (M3) remained modest at 11.3% in May, enabling the Monetary Board to keep policy rates.
- Monetary Board to keep key policy rates.

Outlook: We maintain our economic outlook for 2017, except for GDP (slightly lower than the expected 7-7.5% to 6.5-7%, but on the higher end) and PSEI (upgraded from touching 7,500 this year to 8,200). We believe that robust investment spending and resurgent manufacturing, along with improving external demand, will continue to support the country's fast economic growth. Speedier NG disbursements and higher peso-equivalent of the remittances should likewise push further the expansion to be significantly better than the 6.4% GDP growth in Q1.

Bonds Market

After the Fed hike in mid-June, local bond yields tracked the downward movement of U.S. Treasuries.

- Trading volumes in both GS and corporate bonds eased slightly for the month of June.
- Yields in auctions of short-term Treasury bills fell by 9.1 bps to 18.1 bps, reflecting higher demand.
- Yield of the 20-year bond issue moved lower by 6.9 bps, on stronger investor demand.
- GS trading declined by 2.2% (m-o-m) and 16.9% (y-o-y), due to low supply of liquid long-dated papers.
- The yield curve flattened as the 10-year to 2-year bond spread narrowed by 52 bps.
- Despite a slight uptick of U.S. Treasury bond yields, ROP-32 and ROP-37 yields fell.

Outlook: After the sharp rise in U.S. yields due to strong June employment data, a slight upward bias in long-term bond yields will continue but corrections are also expected as the Fed appears willing to adopt a less aggressive stance on monetary policy. Moreover, lower inflation and continued liquidity would likely dampen future increases in local bond yields. Indonesian dollar-denominated bonds should continue to outperform ROPs.

Equities Market

PSEi, the top performer in ASEAN, posted a 14.3% YTD jump in H1 as foreigners turned bullish.

- The Property sector was the best performing sector for Q2-2017, increasing by 15.4%.
- For Q2, MEG (+27.2%) and ALI (20.3%) led the property counter.
- Telcos TEL and GLO, as well as ICT, fueled the Services sector (2nd with +8.7%).
- The Holdings sector (up 5.9%) counted on robust growth of DMC (+20.7%) and SMIC (+15.2%).
- The Industrial sector was the "weakest" with a minor uptick of 0.1% due to mixed results.
- For a third straight month, foreign investors turned into net buyers to the tune of P37.6 B in Q2.

Outlook: With the spread of earnings yield (EP) to 10-year PH bond yield close to zero, breaching the 8,000 level will prove to be a major resistance level for the PSEi. Nonetheless, the index has shown resilience as it continued to bounce back every time it fell below 7,800. Selectivity will remain the key strategy to capture the value of the market until the end of the year. Attractive stocks may still be found in the Holdings, Banking and Power sectors.

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%	6.4%	6.4%	5.9%	6.8%	6.5-7%
Industrial Output (Apr)	11.1%	5.9%	8.9%	2.4%	9.0%	9.5%
Inflation Rate (June)	3.1%	2.7%	3.1%	1.4%	1.8%	2.8- 3.2%
Government Spending (May)	-4.5%	20.4%	5.6%	12.6%	18.0%	15%
Gross International Reserves ($B) (June)	82.1	81.4	81.4	81.6	80.7	85
PHP/USD rate (June)	49.86	49.85	49.92	45.50	47.49	51
10-year T-bond yield (end-June YTD bps change)	5.00%	4.70%	4.1	4.10%	4.63%	4.8-5.1%
PSEi (end-June YTD % change)	7,837.1	7,843.2	14.3%	6,952.1	6,781.2	8,200

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

Infrastructure Spending Back on Track

Robust spending on Infrastructure and Other Capital Outlays jumped by 31.4% in May, marking a significant turnaround from April's 21.2% decline. This, along with other initial economic data up to June, suggests that the economy should improve on its 6.4% GDP growth in Q1. Fears of government underspending may dissipate as National Government (NG) expenditures in May, excluding interest payments, surged by 21.1%. Manufacturing also lifted domestic demand with a robust expansion of 5.9%. The external demand boost to the economy continued as exports notched solid gains of 12.1% in April. Overseas Filipino Workers' (OFWs) personal remittances increased by 7.1% to $2.6 billion in May after dropping by 5.2% in the previous month. On the policy side, monetary policy stance remained neutral as the Monetary Board (MB) kept policy rates unchanged in its latest meeting (June 22, 2017) encouraged by the slowdown in inflation rate from 3.4% in March and April to 3.1% in May. June inflation, down to 2.8%, vindicated the MB decision.

A few negative data surfaced though. One came from the 2.3% fall in capital goods imports in April. Job creation came in negative in the April survey, but this appeared mainly due to exaggerated gains during pre-election months last year.

Outlook: Investment spending should rise at double-digit pace starting Q2 (which had a low base) supported by Manufacturing sector's robustness and the Construction sector rebound. Consumer spending should provide strong support to the Investment-led growth, with the Industrial sector's expected pick up and inflation continuing to ease at the back of the plunge in crude oil prices. Exports should also continue its above-10% growth trajectory in response on upgraded growth outlook for advanced economies, especially the U.S., Japan and E.U. The strengthening U.S. dollar, bolstered by growth and rising Treasury bond yields attracting more portfolio investments, shall renew pressure on the USD/PHP rate in H2.

Infrastructure and Capital Outlays Jump by 31.4%

Spending on Infrastructures and Other Capital Outlays in May surged by 31.4% to P46.2 B, resulting from the aggressive road construction, repair and rehabilitation, and flood control infrastructure projects implemented of the DPWH (i.e, Impalutao – Dalwangan Road Section in Bukidnon, the Calintaan-Sablayan Road Section in Occidental Mindoro, and the Pasig-Marikina River Channel Improvement Project (Phase III).

This noteworthy gain, moreover, suggests that the administration's "Build, Build, Build" Program is making a headway. Recall that the NG has revealed the three-year rolling infrastructure program (TRIP) from 2018 to 2020, amounting to P3.6 T (P1.13 T for 2018, P1.18 for 2019, and P1.29 T for 2020). Some big tickets projects under the said program include the modernization, upgrade and extension of the MRT, LRT and PNR (Railway); modernization, development and operation the Bacolod-Silay, Iloilo, Davao, Laguindingan, and New Bohol gateways (Air); and the revival of the Pasig River Ferry Service and the broader roll-on, roll-off service for inter-island travel around the country (Maritime), among others. For 2017, the government has allocated P847.2 B for infrastructure projects, representing 5.3% of GDP.

Meanwhile, the government has expressed its preference for the hybrid PPP approach where the government will build the projects and bid out the operations and maintenance to the private sector later on. The Clark International Airport marked the first hybrid project of the Duterte administration is. Other projects under the hybrid approach included the construction of the Plaridel Bypass Road and the Central Luzon Link Expressway (CLEx) (as of May 2017).

We believe that NG will continue to fast tract spending especially on key infrastructure projects as it intends to spend P8 to P9 T in the next six years.

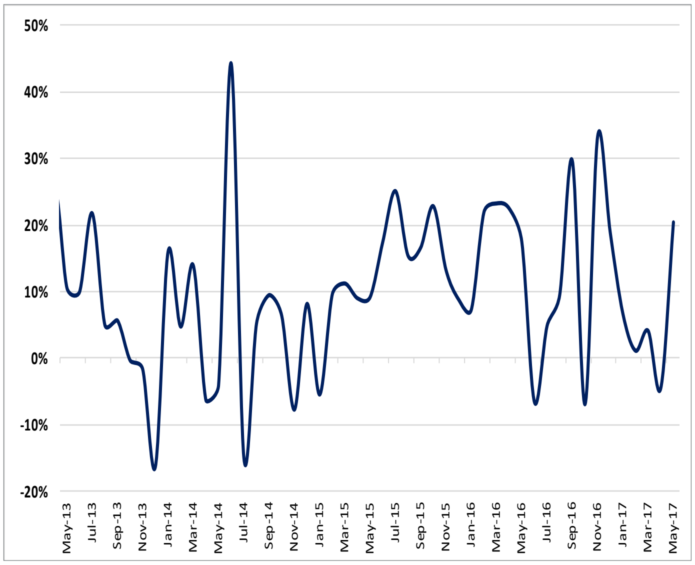
Strong double-digit gains in 13 out of 20 sectors resulted in the continued expansion of the country's manufacturing output.

NG Spending Excluding Interest Surges by 21.4% in May

In an apparent bid to quell complaints of underspending, NG disbursements in May surged by an above-20% growth. The NG spent a total of P261.7 B or 20.4% year-on-year (y-o-y) to implement the projects of key departments (i.e. DPWH, DOTr). Excluding interest payments, NG spending grew faster at 21.4%. Infrastructure and Capital Outlays soared by 31.4% to pull up overall growth.

With the fast pace of spending exceeding revenue collection gains, the budget deficit soared to P33.3 B in May. Year-to-date (YTD), the fiscal deficit reached P63.6 B, but this only accounts for a paltry 13% of total target deficit for 2017 of P473.1 B (3% of GDP). This leaves sufficient fiscal space available for other key infrastructure projects.

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



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

Meanwhile, total revenues in May managed only a 14.3% y-o-y increase to P228.3 B. The 23.5% gain from the Bureau of Customs' (BoC) collections pulled up overall growth as the Bureau of Internal Revenues (BIR) managed to increase by a tepid 4.7%.

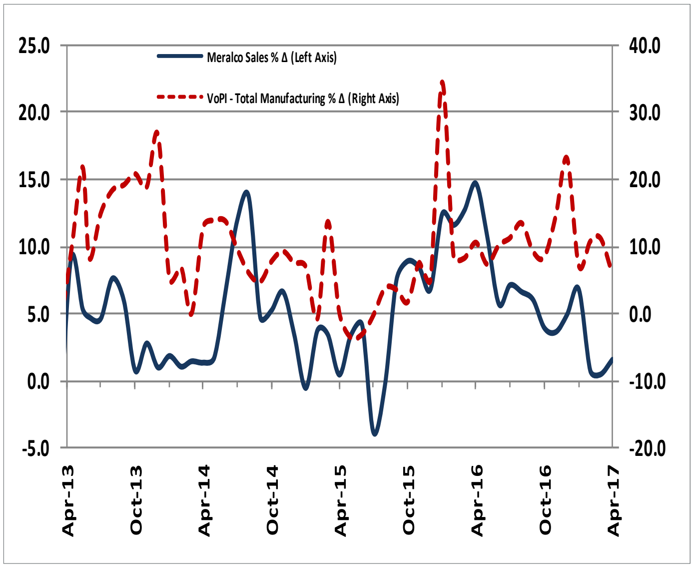
We believe that NG spending will continue to pick up as the Department of Budget and Management (DBM) has promised to accelerate fund releases and fast track the roll-out of big-ticket infrastructure projects, which will be an important catalyst in driving the country's growth to 6.5%-7%.

Manufacturing Output Slows Down

Strong double-digit gains in 13 out of 20 sectors resulted in the continued expansion of the country's manufacturing output (measured by Volume of Production Index or VoPI) to 5.9% in April, albeit slower than the 11.1% in the previous month. The positive gains recorded in the past four months brought the YTD growth to 8.7%.

Rapidly expanding sectors included Fabricated Metal Products (+95.6%), Furniture and Fixtures (+76.9%), Petroleum Products (+51.7%), Paper and Paper Products (+36.5%), and Basic Metals (+28.5%), among others.

Figure 2 - VoPI and Meralco Sales Growth Rate



Sources of Basic Data: Meralco & Philippine Statistics Authority

Exports Continues to Hit Above 10% Mark

Exports sales in April continued to expand at a double-digit rate, albeit slower than the past month record. Nevertheless, the 12.1% y-o-y growth (to $4.8 B) marked the 5th consecutive month of positive growth in the last 16 months. Notable performance in eight of the 10 major commodities, largely drove export activity in the said month.

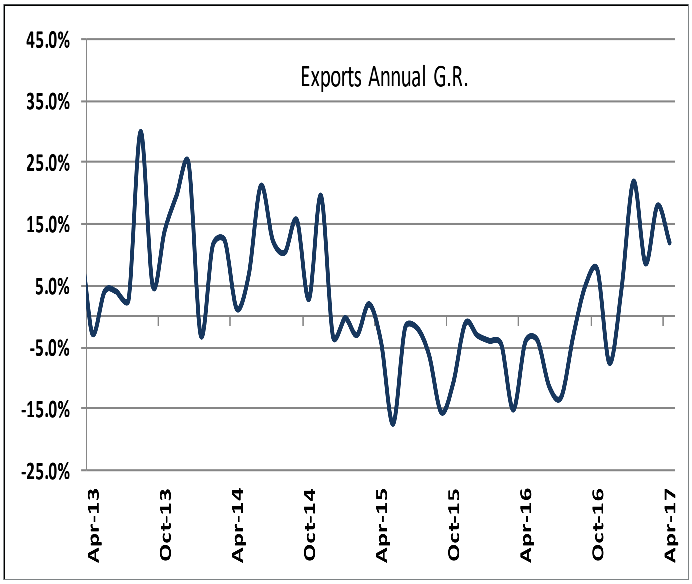
Capital goods imports slightly slipped by 2.3% in April after hitting a double-digit growth in the past two months.

Top gainers included Gold (+2,740.3%), Other Mineral Products (+199.7%), Coconut Oil (+59.8%), Machinery and Transport Equipment (+50.5%), Metal Components (+27.9%), Other Manufactures (+11.7%), Electronic Products (+6.8%), and Chemicals (+5.6%).

Electronic products remained at the top of the exports with a total of $2.4 B, accounting for practically half of the export revenue at 50.9%. Semiconductors continued to grab the biggest share among electrical products at 36.8%. Both commodities grew by 6.8% and 7.7%, respectively. Machinery and Transport Equipment came in second with exports revenues worth $354 M. Sales for this product jumped by 50.5% from $235.2 M in April 2016. Other Manufactures followed in third place with a 7.3% contribution to total shipment sales. It also increased by 11.7% from its previous $313 M total. In fourth place is Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships, with a 3% share to export sales. As one of the two negative performers of the month, it fell by a slight 3.7%, with its total falling to $145.8 M from $151.3 M. In fifth place, Chemicals went up by 5.6% with a 3% share to exports, valued at $145.7 M.

In terms of export destinations, Hong Kong and China showed the fastest growths. Hong Kong grew its market by a sizeable 36.8%, while ranked only 3rd. It contributed 13.5% to total sales, amounting to around $646.9 M. Exports to China increased by a hefty 24.6%, even though this was good only for 4th place, with an 11.1% share to exports and shipments worth $534.6 M. It increased by a hefty 24.6% from the $423 M earned a year ago. Japan continue to rank as the top export destination, responsible for 14.8% of total exports, with receipts amounting to $710 M. This, however, represented a 16.6% decline from a year ago. Exports to the United States of America captured the second-place spot with shipment receipts totaling $653 M, or 13.6% of total exports, but this mean a fall of 6.7%. Finishing the top five list is Singapore, responsible for 6.3% share to shipments ($304.9M). However, it likewise fell by 14.5%.

Figure 3 - Exports Growth Rates



Source of Basic Data: National Statistics Office (NSO)

Almost half of the total exports headed towards East Asian (EA) nations, valued at $2.3 B. Total exports to the EA region still went up, expanding further by 10%. Commodities shipments to the ASEAN countries (comprising 16%), also registered a 6.1% increase. ASEAN+East Asia ex-Japan accounted for 50% of total exports. Trade exports to the E.U., likewise, registered a fast acceleration of 36%.

We believe that exports will continue to expand as global demand (especially in the U.S., E.U., and ASEAN) improves, and these should further add impetus to the fast-growing domestic demand.

Capital Goods Imports Slip in April

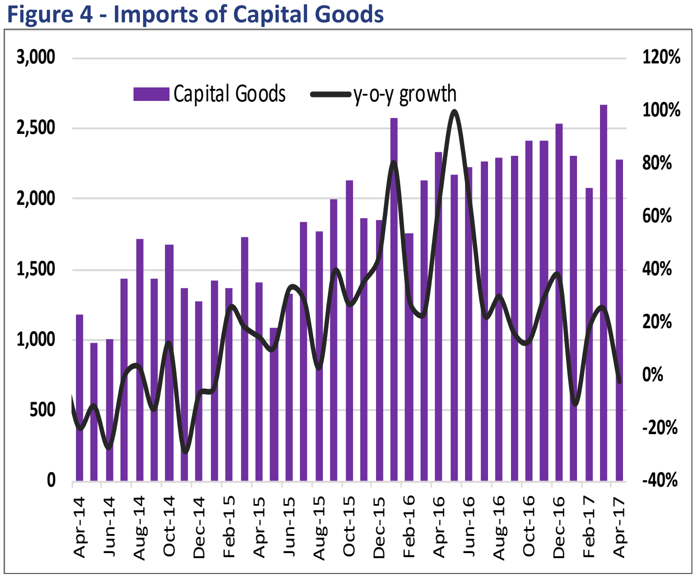
Capital goods imports slightly slipped by 2.3% in April after hitting a double-digit growth in the past two months. Significant drops in the imports of heavily-weighted capital goods products (i.e. Power Generating and Specialized Machines (-8.9%) and Telecommunication Equipment and Electrical Machinery (-5%) which accounted for about three-fourth of the capital goods imports triggered the fall. The rest of the subsector, likewise, posted negative growth, save for the imports of Office and EDP Machines and Aircraft, Ships and Boats.

Softer prices of key food items, electricity, and fuel further cushioned price movements, resulting in a lower inflation of 2.8% in June.

Imports of Consumer Goods and Minerals Fuels, Lubricants, and Related Materials (which collectively comprised about 30% of total imports) also posted significant declines. Consumer Goods imports and imports of Mineral Fuels, Lubricant and Related Materials slumped by 11.2% and 2%, respectively. The latter declined due to weakening prices of petroleum products. Imports of Raw Materials and Intermediate Goods, which constitute the largest category accounting for 40.4% of total imports, however, registered an 8.2% increase.

Thus, total imports came in flat, with a 0.1% drop. Despite this slowdown, total imports still outpaced the total exports receipts in April resulting in a trade deficit of $2.1 B, significantly down from $2.3 B in March and $2.6 B a year ago.

Figure 4 - Imports of Capital Goods



Source of Basic Data: National Statistics Office (NSO)

Inflation Decelerates to 2.8% in June

Softer prices of key food items, electricity, and fuel further cushioned price movements, resulting in a lower inflation of 2.8% in June. This marked the second consecutive decline after hitting the highest price uptick of 3.4% (recorded in 2017) in March and April. YTD price changes stood at 3.1%, at mid-point of government's target (2% to 4%). Eight out of 11 price categories slowed down from the previous month.

Inflation Year-on-Year Growth Rates	June-2017	May-2017	YTD
All items	2.8%	3.1%	3.1%
Food and Non-Alcoholic Beverages	3.5%	3.7%	3.8%
Alcoholic Beverages and Tobacco	6.2%	6.1%	6.1%
Clothing and Footwear	2.1%	2.3%	2.6%
Housing, Water, Electricity, Gas, and Other Fuels	2.1%	3.6%	3.0%
Furnishing, Household Equipment and Routine Maintenance of the House	2.1%	2.3%	2.3%
Health	2.3%	2.4%	2.5%
Transport	2.3%	2.7%	2.7%
Recreation and Culture	1.0%	1.3%	1.6%
Education	2.1%	1.8%	1.9%
Restaurants and Miscellaneous Goods and Services	1.7%	1.5%	1.8%

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.

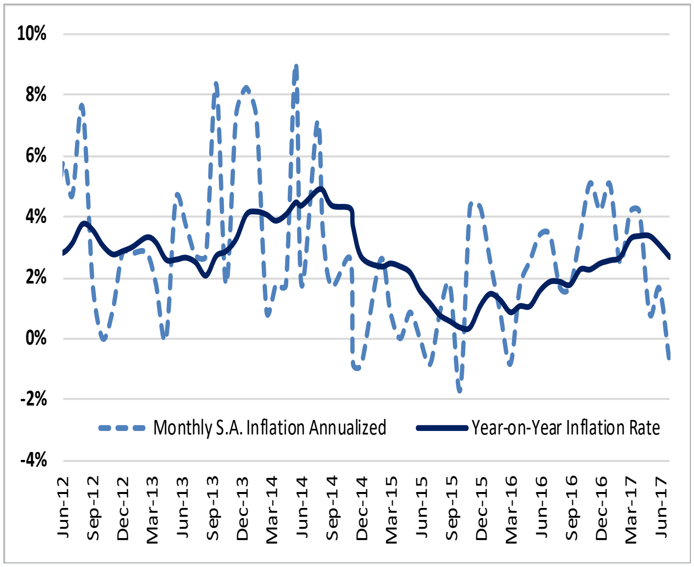
Housing, Water, Electricity, Gas, and Other Fuels index declined by over 1 percentage point vis-à-vis the past month's rate due to lower fuel prices and Meralco charges. Meralco electricity charges in June (residential customers) further fell by P1.43/kWH to P8.17/kWH, the second lowest since December 2009. Downward adjustments in the cost of power coming from the Independent Power Producers (IPPs) and the Power Supply Agreements (PSAs), along with the refund of over-recovery on pass-through charges from January 2014 to December 2016, contributed to the overall decline in electricity charges. Crude oil prices (i.e. WTI and Brent) reached its lowest level so far in 2017 to $45.20/ barrel and $46.30/barrel, respectively; which likewise led to notable declines in the Transportation index. Prices of LPG, kerosene, gasoline and diesel and cheaper air and ship fares similarly fell in most regions. Prices of key food items (meat, vegetable, fish) recorded price decelerations bringing down the Food and Non-Alcoholic Beverages (FNAB).

We expect headline inflation to continue to lodge within the BSP's target in anticipation of lower oil prices (which is likely to remain below $55/barrel for the rest of the year) amidst higher crude oil and shale oil production. We

The country raked in a total of $2.6 B worth of personal remittances from Filipinos working abroad, marking a 7.1% increase (y-o-y) primarily due to noteworthy gains from land-based workers.

also believe that food supply will continue to normalize but with a short respite during the rainy season. We think that inflation had peaked in March-April this year. The seasonally adjusted annualized rate (SAAR) of inflation supports our view of continued price deceleration with SAAR moving from 1.6% (revised) in May to -0.8% in June.

Figure 5 - Inflation Rates Annualized, Year-on-Year



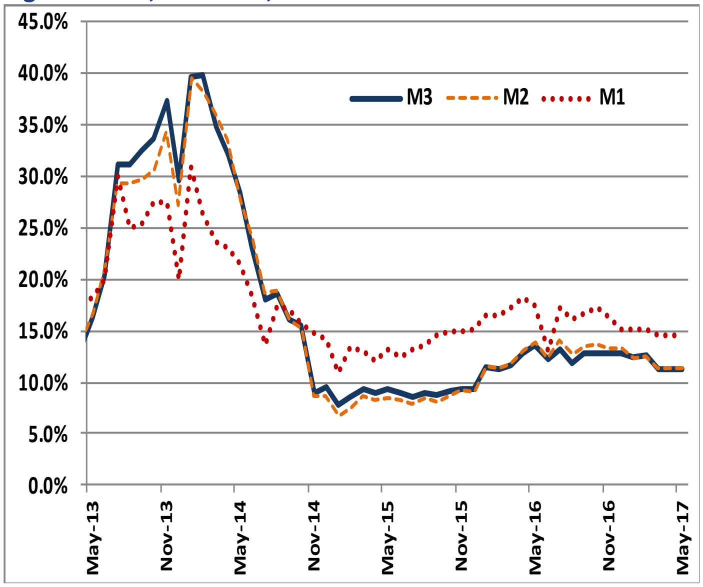
Source of Basic Data: National Statistics Office (NSO)

MB Maintains Policy Rates Amidst Steady Domestic Liquidity Gains

The country's domestic liquidity (M3) growth in May remained steady at 11.3% y-o-y from 11.2% y-o-y in the previous month. This marked its 17th modest double-digit growth. Broad Money (M2) and Narrow Money (M1), likewise, increased by 0.1 percentage point to 11.4% and 14.6%, respectively. This slight uptick remained in-line with the BSP's outlook allowing MB to keep policy rates (i.e. BSP's overnight reverse repurchase (RRP), overnight lending rates and deposit facilities), and the reserve requirement ratios unchanged. MB has kept key policy rates steady since June 2016 and will continue to do so while money growth remains moderate and inflationary pressures weaken.

The continued expansion of money supply drew support from the increase in loans for productive activities by 17.6% slower than 18.4% last month. Bulk of bank loans went to productive activities (i.e. Information and Communication (+36%); Electricity, Gas, Steam and Air-conditioning Supply (+25%); Real Estate Activities (+17%); and Manufacturing (+11%), among others). Sustained by the inflow of OFW remittances and earnings from BPOs, the Net Foreign Assets (NFA) of monetary authorities continued to expand by 4.8%, faster than the 3.5% recorded in April.

Figure 6 - M1, M2 & M3, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

With the modest growth in money supply and inflation decelerating, we think that MB does not have a compelling reason to raise policy rates. MB's reaction may occur in Q4 at the earliest, and conditioned by Fed's hawkish stance leading to more aggressive credit tightening.

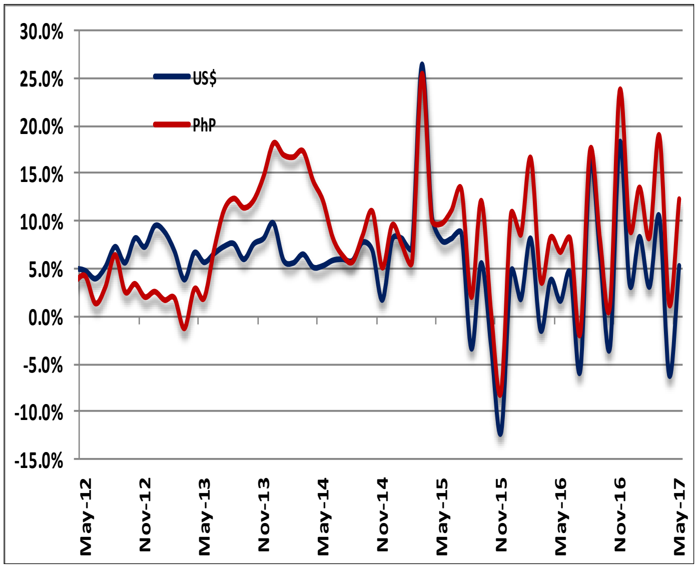
OFW Remittances Up in May

In May, the country raked in a total of $2.6 B worth of personal remittances from Filipinos working abroad, representing a 7.1% increase (y-o-y) primarily due to noteworthy gains from land-based workers with more than a year contract which accounted for about 80% of the total. Remittances from this group registered a 5.9% growth, compensating for the 0.6% decline from sea-based and land-based workers with work contracts of less than one year. Remarkable gains (save for April) in the past months of the year brought the YTD levels to $12.6 B, representing a 5.2% y-o-y growth.

The U.S. dollar remained on the downside as the economic and political environment in the U.S. placed some doubts on a June rate hike and even more on another one in H2.

Cash remittances, likewise, increase by 5.5% to $2.3 B as transfers from both land and sea-based workers grew by 6.2% and 3.0%, respectively. Most of the remittances came from United Arab Emirates, Canada, Saudi Arabia, and the United States.

Figure 7 - OFW Remittances Growth



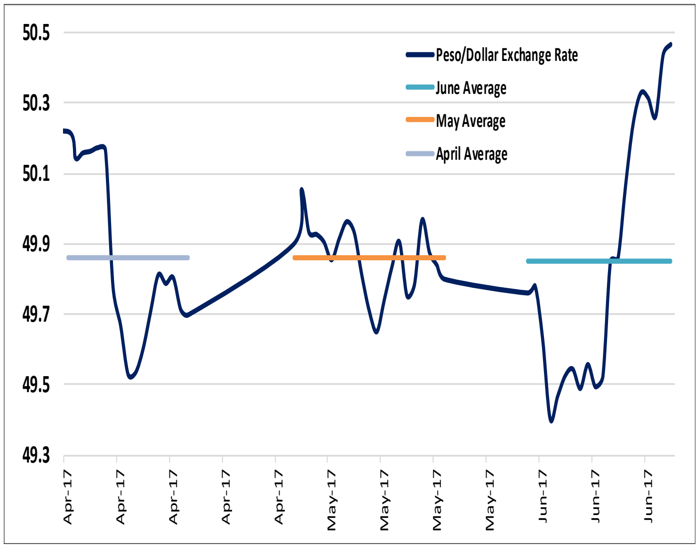
Source of Basic Data: National Statistics Office (NSO)

Meanwhile, the peso equivalent of these inflows continued to record a positive 12.5% growth, far better than the previous month. The continued y-o-y peso depreciation (6.5% in May) sustained the positive mark. We think, however, that the brief respite in peso depreciation in Q2 may cause a slowdown in the peso-equivalent of the remittances in June.

USD/PHP Rate Remains Flat in June

The USD/PHP rate fluctuated over a wider range but still ended flat on average in June. The peso averaged at P49.85/$, representing a minute 0.02% appreciation from May. Still, this represented the strongest level in four months. The pair ranged to P50.46/$ from P49.40/$, widening the volatility measure to 0.37 from 0.10 in May. The U.S. dollar continued to wobble amid mixed economic signals. An official report showed an upward revision of U.S. GDP in Q1 to 1.4% from the previous reading of 1.2%. Job gains, which suggested a rather weak labor market in May, put a strong 222,000 increment in June in addition to upward revisions totaling 47,000 jobs in previous months. This will likely further push interest rates up, making U.S. dollar assets attractive to foreigners.

Figure 8 - Daily Dollar-Peso Exchange Rate



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

Exchange Rates vs US $ for Selected Asian Countries	
	May-17
AUD	-1.46%
CNY	-1.12%
INR	0.31%
IDR	-0.15%
KRW	0.36%
MYR	-0.93%
PHP	-0.02%
SGD	-0.70%
THB	-1.34%

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

The U.S. dollar remained on the downside against most emerging currencies as the economic and political environment in the U.S. placed some doubts on a June rate hike and even more on another one in H2. India's rupee (INR) and Thailand baht (THB) led the pack (posting a 5% appreciation YTD). The rupee drew its strength from the past months' strong intervention to strengthen the

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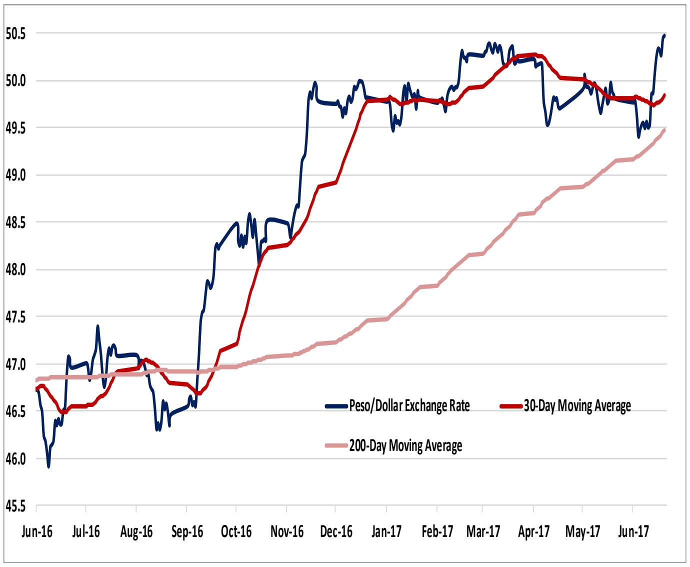
currency. Malaysian ringgit (MYR) and Indonesia rupiah (IDR), likewise, extended its rally amidst improving economic fundaments and heavy capital inflows.

Figure 9 - Dollar-Peso Exchange Rates & Moving Average



Source of Basic Data: National Statistics Office (NSO)

Contrary to the past trend, the actual USD/PHP rate in June lodged above the 30 and 200-day moving averages (MAs) supporting our view that the past peso's strength is temporary and that peso will start to weaken in the coming months. Besides, the peso started to breach the P50/$1 psychological resistance in the last few days of June.

Outlook

To be sure, the huge uptick in government spending in May could be a one-month spike, but it does give us some confidence that NG is addressing project bottlenecks in infrastructure projects such that H2 should be significantly better than the 6.4% GDP growth in Q1.

- Investment spending should continue to lead growth in Q2 since our empirical work shows that Manufacturing output usually precedes Investment spending. Industrial production should again rise by double-digits in Q2 as public and private construction spending and capital goods imports bounce back from a "tepid" Q1 gain. This can also count on a positive base effect since government spending in June 2016 showed a 7% decline.

- Consumer spending should expand faster than the 5.7% growth posted in Q1 as Manufacturing and Construction will likely rise by above-10% starting Q2. Besides, robust OFW remittances, especially in peso terms and inflation rates peaked in March-April.

- Headline inflation will likely slide slightly in Q3 to average 3% but take a bigger cut in Q4 at 2.8%. This counts on core inflation (excludes volatile food and energy prices) lodged YTD in June at 2.8% compared to headline inflation at 3.1%. More stable food production based on good agricultural output and weaker crude oil prices, which in June had already posted a 3.3% decline (y-o-y) and 15.5% lower than 2017 peak month of February.

- With inflationary pressures easing in H2 and money growth fairly stable at 11-12%, we don't see a policy rate hike for the rest of the year, unless the Fed effects its last 25 bps hike in September instead of December.

- Exports continue in its over-10% growth path considering economic growth in advanced countries (U.S., Japan and E.U.) gaining traction while China & India's growth engines clock at near 7%.

- The pressure on USD/PHP exchange rate should resume in H2 as U.S. GDP growth and Treasury bond yields move up and attract more foreign capital. In addition, President Trump's call for U.S. multinational firms, which hold more than $1 T in cash abroad, to bring back much of it to invest in the U.S. will provide additional strength to the U.S. dollar.

Forecasts			
Rates	June	July	August
Inflation (y-o-y %)	2.9	3	3
91-day T-Bill (%)	2.25	2.32	2.35
Peso-Dollar (P/$)	50.41	50.5	50.8
10-year T-Bond (%)	4.77	4.78	4.84

Source: Authors' Estimates

Fed's June Rate Hike Pulls Investors to Short-End

As expected, the U.S. Federal Reserve Board (Fed) raised policy rates by 25 basis points (bps) in mid-June, which had a soothing effect of lower U.S. bond yields, until near the end of June when newer data suggested strong employment figures for the month. Local bond yields roughly tracked the U.S. market's moves with FXTN 10-60 shedding 10.7 bps to end the month at 4.424%, and while Treasury bills auctions saw a 9-18 bps lower from May. However, the release of robust employment data in the U.S. saw a modest rebound in long-term local bond yields in early July.

Outlook: While we have seen a sharp rise in U.S. long-term bond yields after the U.S. June employment data came out and together with it local bond yields, we also see some overshooting as the markets parse the jobs data as well as comb through the weak inflation numbers. The slight upward bias in long-term yields will continue but corrections will also likely to occur as future Fed actions point to a less aggressive tightening of monetary policy and balance sheet reduction. Locally, lower inflation and continued liquidity should temper future increases in yields.

Primary Market: Yields Move Down on Higher Demand

Average yields in June auctions among shorter-dated Treasury bills continued the downward trend from the previous month while Treasury bond yields fell slightly on higher demand.

The 91-day and 182-day T-bills both fell in yield by a cumulative 12.1 bps and 18.1 bps, respectively, to 2.084% and 2.421% for the two auctions in June. 364-day T-bill yields also shed off 9.1 bps during the month to end at 2.875%.

Higher demand for T-bills showed in the tendered-offered ratio (TOR) which climbed to 3.5 from 2.3 in May. Bureau of the Treasury (BTr) awarded in full all T-bills offered. Appetite for 91-day T-bills proved strongest as its TOR reached 3.9, up from 2.9 in the previous month. TOR for 182-day T-bills improved the most to 3.4 from 1.6 in May. Meanwhile, the 364-day T-bills' TOR rose to 3.1 in June 19 from 2.4 a month ago.

The 20-year Treasury bond had a yield of 5.035%, down from 5.104% in the previous month, as stronger demand from investors surfaced with a TOR of 2.1 from 1.9 in May.

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-Bills							
05-Jun	91-day	6.00	25.080	6.000	4.180	2.103	-10.20
	182-day	5.00	14.677	5.000	2.935	2.456	-14.60
	364-day	4.00	12.069	4.000	3.017	2.850	-11.60
19-Jun	91-day	6.00	21.679	6.000	3.613	2.084	-1.90
	182-day	5.00	18.902	5.000	3.780	2.421	-3.50
	364-day	4.00	12.376	4.000	3.094	2.875	2.50
Subtotal		30.00	104.78	30.00	3.493		
T-Bonds							
27-Jun	20-year	15.00	31.078	15.000	2.072	5.035	-6.90
Subtotal		15.00	31.078	15.000	2.072		
All Auctions		45.00	135.86	45.00	2.78		

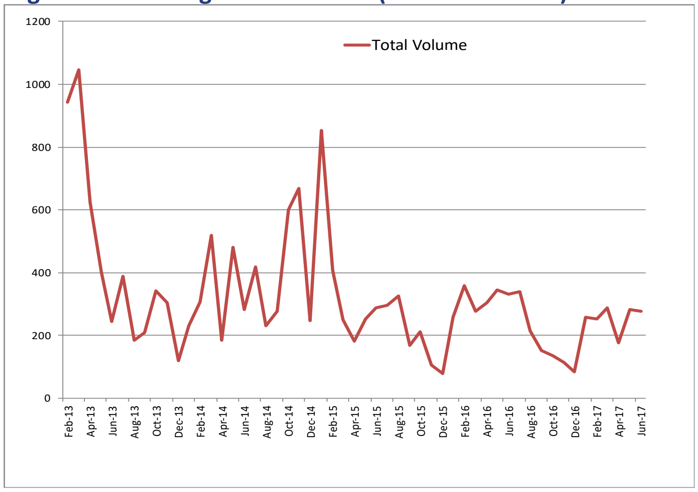
Source of Basic Data: Bureau of the Treasury (BTr)

Higher demand for T-bills showed in the tendered-offered ratio (TOR) which climbed to 3.5 from 2.3 in May.

Secondary Market: Trading Eases Slightly in June

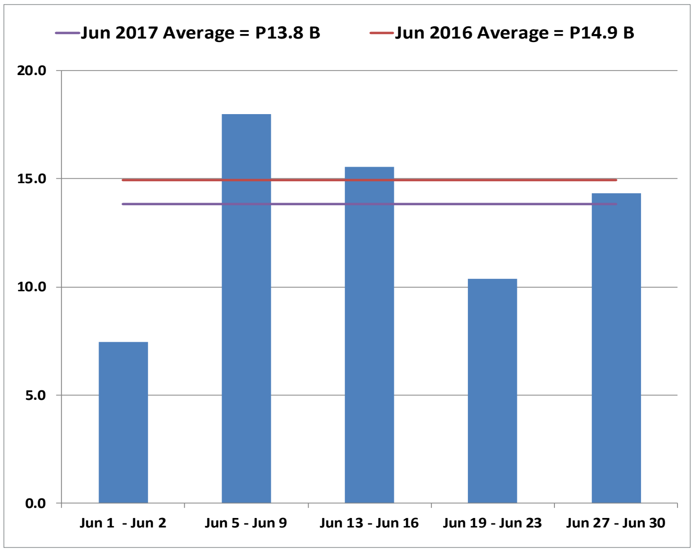
Total trading volume for June fell slightly by 2.2% month-on-month (m-o-m) to P276.2 B from P282.5 B last month. This, however, represented a larger 16.9% decline year-on-year (y-o-y) from P332.4 B in June 2016. The yearly decline in volume can be attributed to less availability of liquid, long-dated papers in the market and the expected rise in bond yields in H2. In addition, H1 year-to-date (YTD) trading volume reached only P1.5 T or an 18.5% plunge from P1.9 T a year ago.

Figure 10 - Trading Volume Trend (in Million Pesos)



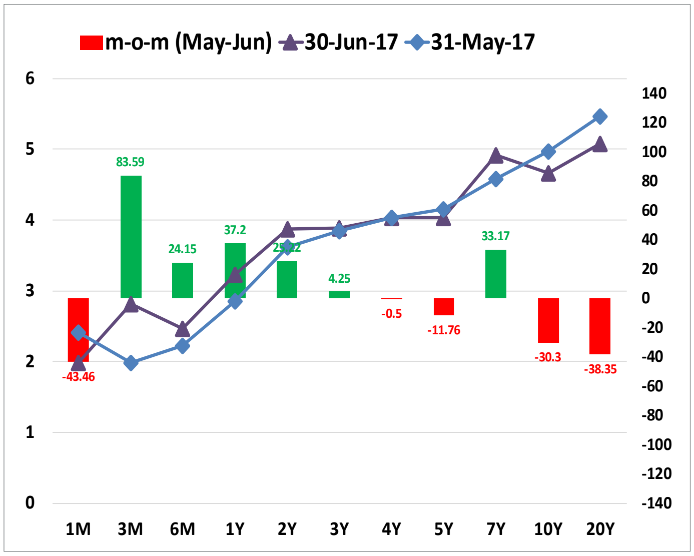
Source: Philippine Dealing Systems (PDS)

Figure 11 - Average Daily Trading Volume/Week (In Billion Pesos)



Source: Philippine Dealing Systems (PDS)

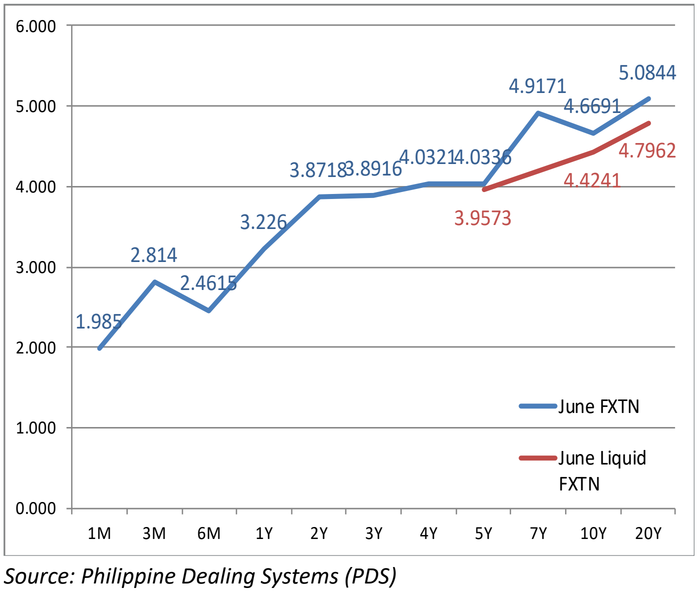
Figure 12 - PDST-R2 Yield Curves



Source: Philippine Dealing Systems (PDS)

The yield curve slightly flattened as long-dated tenors eased, while they rose at the shorter end. The 3-month and 1-year T-bond yields rose sharply by 83.6 bps and 37.2 bps, respectively. On the other hand, the 20-year paper went down by 38.4 bps. 10-year to 2-year spread, thus, narrowed from 132 bps to 80 bps, a spread change of 52 bps (See ASEAN +1 table below). The flatter yield curve reflects more the large rise in the yields for shorter-dated T-bonds.

Figure 13 - PDST-R2 vs. FXTN Yields (Month-end)



Source: Philippine Dealing Systems (PDS)

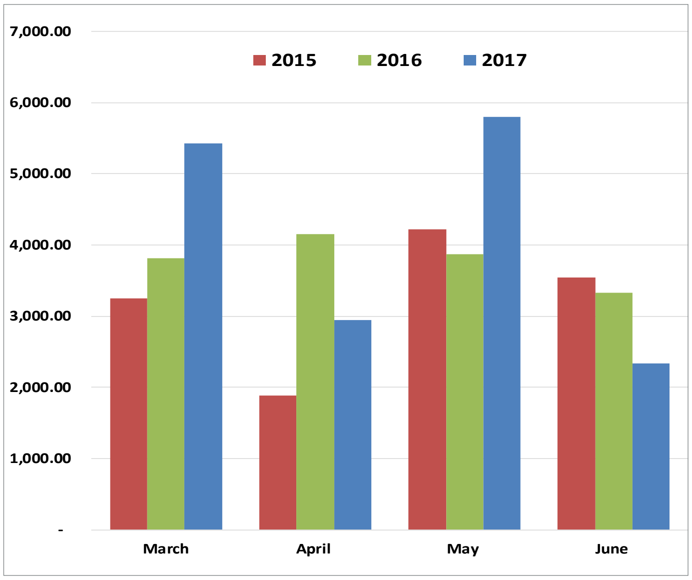
Overall secondary trading of corporate bonds for June 2017 plummeted by 59.8% (m-o-m), settling at P2.3 B from P5.8 B.

Liquid FXTN tenors continued to post lower yields than FXTN tenors under PDST-R2. The smaller difference in yields in the 20-year space may be accounted for by the huge 40 bps descent in 20-year PDST-R2 while the liquid FXTN 20-17 yields shed only 9 bps. For the 10-year T-bonds, the spread widened to 24.5 bps as FXTN 10-60 yield slipped by 10.7 bps.

Corporate Bonds: Trading Follow the Decline in GS Volumes

Overall secondary trading of corporate bonds for June 2017 plummeted by 59.8% (m-o-m), settling at P2.3 B from P5.8 B. It also posted a decline of 29.9% y-o-y from P3.3 B in June last year. The weak June performance, however, still managed to push up YTD trades by 14.2% to P22.5 B, but pulled it down from 23.1% YTD gain a month ago.

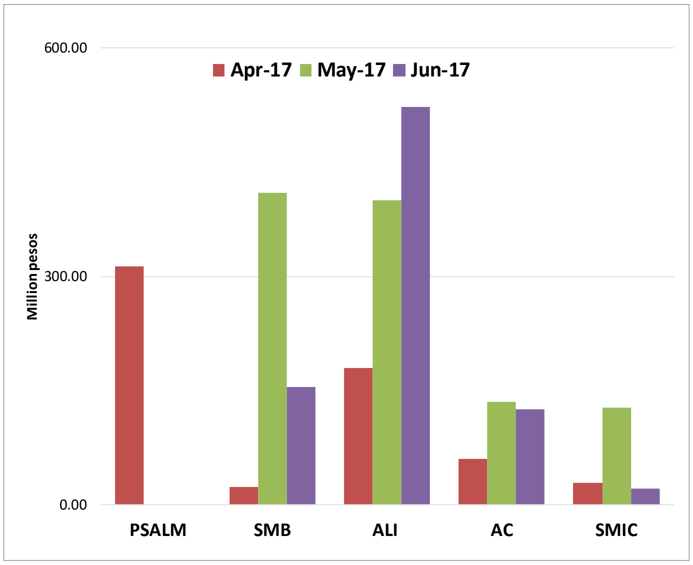
Figure 14 - Total Corporate Trade Volume (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

Except for Ayala Land, Inc. (ALI) trades, corporate bond trading volume of the leading corporate issues – Power Sector Assets and Liabilities Management (PSALM), San Miguel Brewery (SMB), Ayala Corporation (AC) and SM Investments Corporation (SMIC) – saw generally slackening trading activity.

Figure 15 - Corporate Trading (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

ALI placed first, trading P522.5 M, up by 30.5% m-o-m. SMB and AC came in second and third, as the former traded P155.1 M, while plummeting by 62.1% m-o-m, and the latter traded P125.2 M, down by 7.3% m-o-m, respectively. SMIC came in fourth at P21.6 M, down by 83%. Of the top five, PSALM took up the rear position, with no trading at all for the second straight month.

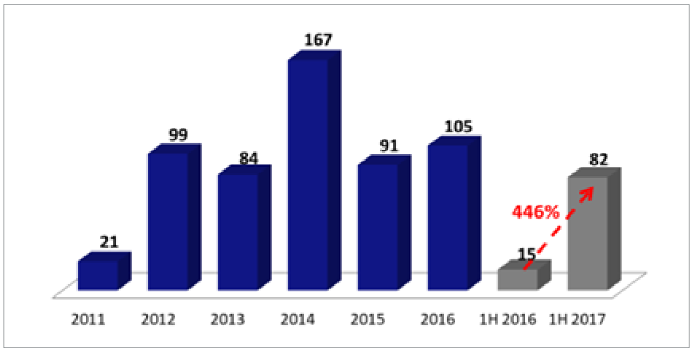
Corporate Issuances & Disclosures

Bond issuances in the first semester of 2017 soared to P82 B from only P15 B in H1-2017 despite the lack of issuances in the month of June. The graph below show the improvement in the debt issuance space, as well as the combined debt and equity rollouts in H1-2017 compared to the same period last year. New debt issues in H2 should bring the full year much above the level of P105 B in 2016 as firms try to beat the expected rise in interest rates in the U.S., and to some extent locally.

Aboitiz Power Corporation (AP) received the approval from the Securities and Exchange Commission (SEC) for its application for the issuance of up to P30 B fixed-rate corporate retail bonds. The said bonds will be registered under the shelf registration program of the SEC and will be issued in tranches. The first tranche is equivalent to P2 B, with an oversubscription option of another P1 B, and was issued on July 3.

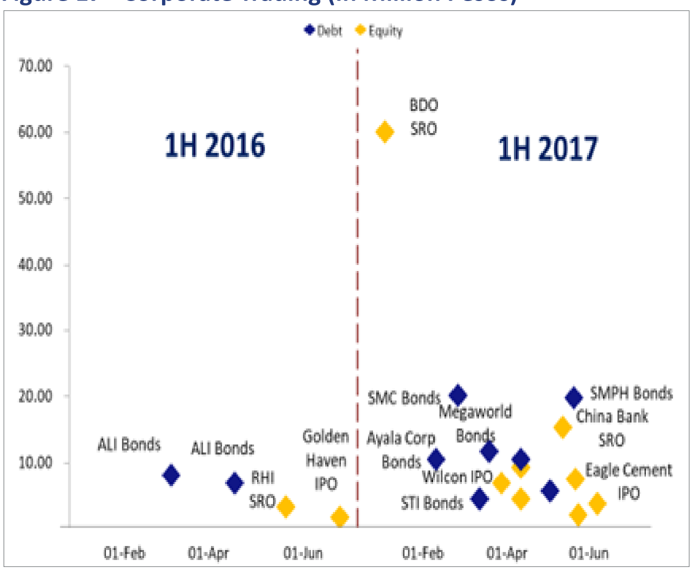
U.S. Treasuries of similar tenors show that the 15-year T-bond yield went up by 1 bp to 2.5%, and the 20-year bond similarly rose by 1 bp to 2.6%.

Figure 16 - Philippine Bond Issues(In Billion Pesos)



Source: First Metro Investment Corporation (FMIC)

Figure 17 - Corporate Trading (In Million Pesos)



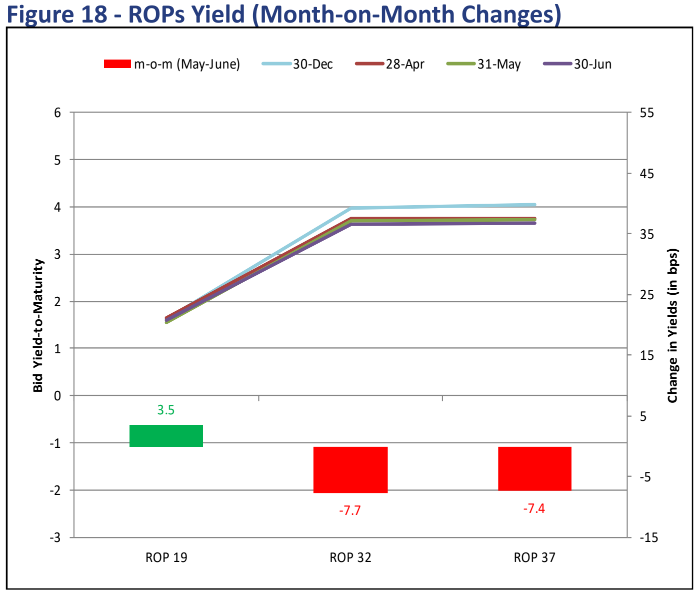
Source: First Metro Investment Corporation (FMIC)

ROPs: Yields Slip at Long End of Curve

Despite the slight rise in U.S. Treasury bond yields, Philippine dollar-denominated bond (ROPs) yields declined for two long liquid tenors, ROP-32 and ROP-37, while ROP-19, with 2 years to maturity, edged up by 3.5 bps from 1.558% to 1.593%. ROP-32, with 15 years remaining to maturity, went down by 7.7 bps to yield 3.631% from 3.708%. ROP-37, with 20 years to maturity, similarly slipped by 7.4 bps from 3.737% to 3.663%.

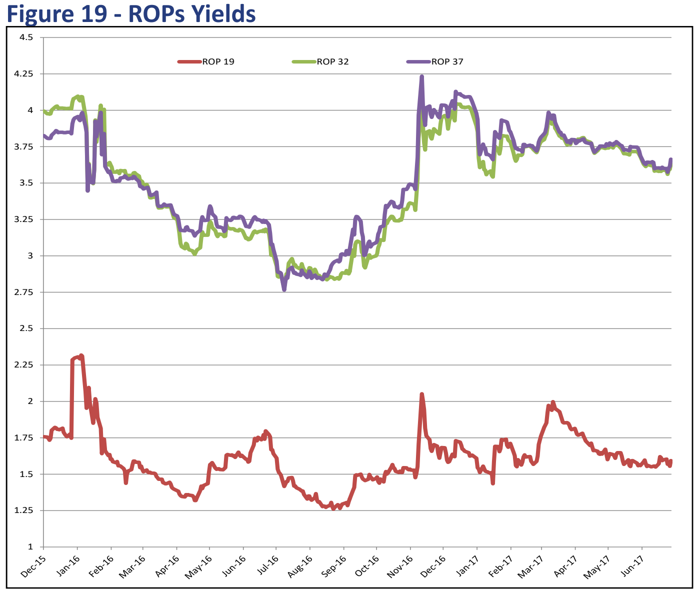
In contrast, U.S. Treasuries of similar tenors show that the 15-year T-bond yield went up by 1 bp to 2.5%, and the 20-year bond similarly rose by 1 bp to 2.6%. U.S. Treasuries, except for the 1-month T-bonds, then experienced slight increases such that ROPs spreads to U.S. Treasuries moved slightly downwards. The U.S. yield curve's steepness remained the same as in May since both 10-year and 2-year T-bond yields slipped by 10 bps.

Figure 18 - ROPs Yield (Month-on-Month Changes)



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

Figure 19 - ROPs Yields



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

While the Fed increased its outlook for U.S. GDP growth in 2017 by 0.1% to 2.2% from 2.1% in March, it expects unemployment to drop more this year to 4.3%.

ASEAN + 1 Market: Central Banks Turn Cautious After U.S. Fed Hike

U.S.: Despite expectations that inflation would run well below the central bank's target, the U.S. Federal Reserve Board approved its second rate hike in June 2017 by raising its policy rate by 25 bps to 1%-1.25%. Moreover, the Fed also laid out initial plans to begin contracting its balance sheet that had tripled after the World Financial Crisis. This refers to its aim at reducing its portfolio of bonds that includes Treasuries, mortgage-backed securities and government agency debt, as long as the economy grows as anticipated. Fed officials proceeded with both moves despite some wobbly economic data lately, suggesting that growth won't reach the lofty 3% target of the Trump administration, as its vaunted infrastructure spending will have to start only by October. While the Fed increased its outlook for GDP growth in 2017 by 0.1% to 2.2% from 2.1% in March, it expects unemployment to drop more this year to 4.3% to below its previous projection of 4.5%. It also expects lower inflation—it cut its headline inflation forecast to 1.6% from 1.9%, and core inflation now seen at 1.7% from 1.9% in March. The Fed, however, believes that inflation will fall short of its 2% target this year, despite a pick-up in household spending in recent months. The Fed's actions proved justified as the economy added 222,000 jobs in June and a 14,000-upward revision of May figures to 152,000, suggesting that the job market remains healthy. Finally, the Consumer Confidence Index rose in June to 118.9, continuing its upward trend since a reading of 98.6 prior to U.S. elections (October 2016). 10-year to 2-year spread remained unchanged at 92 bps.

PRC: Monetary officials do not expect China's recent deleveraging efforts to result in an economic slowdown as exports are projected to pick up together with the global economy's recovery. Nevertheless, due to the country's monetary tightening, the 7-day repurchase rate averaged 2.93% last May while the yield on 10-year government bonds surged by about 100 bps since August to 3.69% last May 10, which were both two-year highs. Despite the concerns about China's debt, the largest listed firms are getting stronger on accelerating economic growth, as profit margins and interest coverage ratios have improved, while free cash flows have swelled. Meanwhile, as the yuan stabilizes, China is prepared to increase its holdings of U.S. Treasuries as monetary officials view those assets more attractive than other sovereign debt. Retail sales and industrial output remained resilient in May, as they rose by 10.7% and 6.5% (y-o-y), respectively. The government is also finalizing preparations for the bond trading link between the mainland and Hong Kong, which would make its $10 T mainland debt more accessible to overseas investors. In addition, even as the country's clampdown on leverage is expected to continue, Chinese companies are expected to step up bond issuances in the coming months, which would provide a buffer to external shocks. Finally, central bank officials claim that they do not feel

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 to 2-year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					01-Jun-17	30-Jun-17			
US	1.382	2.304	2.20	0.10	92.00	92.00	0.00	1.00	-1.20
PRC	3.440	3.560	2.10	1.46	16.00	12.00	-4.00	4.35	2.25
Indonesia	6.463	6.829	4.20	2.63	41.00	37.00	-4.00	4.75	0.55
Malaysia	3.266	3.928	4.00	-0.07	63.00	66.00	3.00	3.00	-1.00
Thailand	1.470	2.475	0.80	1.68	110.00	101.00	-9.00	1.50	0.70
Philippines	2.854	4.972	3.30	1.67	68.00	135.00	67.00	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*

Indonesia's annual inflation rate climbed again in May, as consumer prices rose to 4.33% in May, which was the highest y-o-y increase in 14 months.

much pressure to reduce their balance sheet despite the Fed rate hike in the U.S. 10-year to 2-year spread fell slightly by 4 bps from 16 bps in May to 12 bps in June.

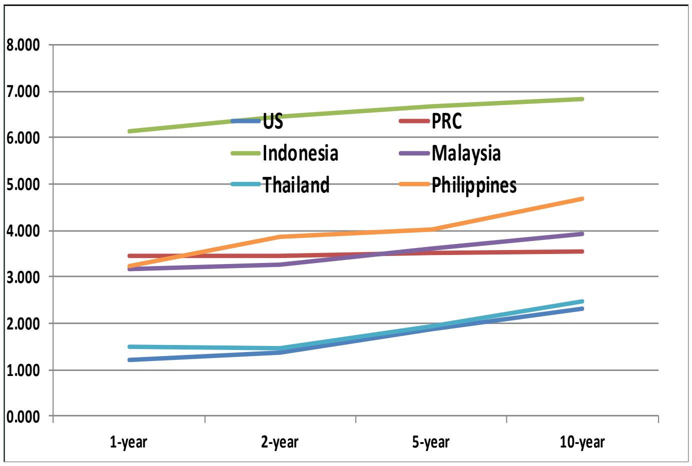
Indonesia: Indonesia's annual inflation rate climbed again in May, as consumer prices rose to 4.33%, which was the highest y-o-y increase in 14 months. Meanwhile, the IMF said in a report that Indonesia's banking system remains strong enough to weather slow economic growth and rising bad loans, owing to healthy capital levels, strong profitability of local banks, and improvements in the supervisory regime. On the other hand, the country's exports and imports surged more than expected in May, with the former growing at 24.1% y-o-y to $14.3 B as exports of oil, gas, and agriculture products increased. Imports rose by 24% on increased demand due to preparations for Ramadan. Despite the Fed policy rate hike in June, the central bank left its benchmark interest rate unchanged after citing that the current level still fits efforts to maintain stability and support growth. Projections for Q2 GDP, however, were revised down by the central bank to 5.1% from 5.2%, on sluggish exports, and weaker-than-expected investment and household consumption. June inflation is expected to reach around 0.5% due to contributions from the food sector. Several large state-owned companies plan to issue bonds primarily for infrastructure and power projects. State electricity company PT Perusahaan Listrik Negara (PLN) plans to issue conventional bonds worth Rp 8 T ($601.2 M) and sharia bonds (sukuk) worth Rp 2 T ($150 M). State-controlled fertilizer firm Pupuk Indonesia seeks to issue Rp 3.6 T ($270 M) of bonds in July to restructure its maturing bonds and inject funds to its subsidiary. State-controlled Bank Rakyat Indonesia, the country's second largest bank, plans to issue Rp 5 T ($376.2 M) of bonds in H2, taking advantage of cheaper financing. State-owned home lender Bank Tabungan Negara is seeking to raise Rp 5 T ($375 M) from a bond issue month to support the government's One Million Homes program. 10-year to 2-year spread inched down by 4 bps from 41 bps to 37 bps.

Malaysia: Malaysian exports continued to grow at a robust pace of 20.6% in April, due to strong demand for electrical and electronic products and higher commodity prices. The country has been a major beneficiary of Asian bond demand, which recorded its highest level in eight months, boosted by the region's higher returns at a time when stubbornly low inflation in the U.S. is keeping a lid on Treasury yields. Foreign investors poured $9 B into Asian government and corporate bonds. Meanwhile, the ringgit is expected to stabilize further in the coming months with the boost coming from a combination of foreign fund inflows and exporters converting three quarters of their earnings back into ringgit. In addition, despite the slight easing of the country's industrial production from 4.6% to 4.2% in April, monetary officials believe that the upbeat momentum in trade will have positive spillover effects on Malaysia's industrial production this year. 10-year to 2-year spread inched higher by 3 bps, from 63 bps to 66 bps.

Thailand: Thai stocks are expected to rally in the H2-2017 on the back of improving economic forecasts and the scheduling of a general election next year to normalize its democracy. Meanwhile, the Thai business sector has voiced concerns that the rapid gain of the baht may take a toll on exports, causing economic recovery to falter, as the local currency is one of the best performing currencies in the region this year. It has risen by 5% against the greenback. However, despite these concerns, Thai exports jumped 13.2% y-o-y to $19.9 B in May, which is a four-year high. The global economic recovery helped boost demand and muffled the impact of the local currency's appreciation. Moreover, Thailand's central bank expects to finalize measures to tighten controls on unsecured consumer credit in order to keep citizens from overspending at a time of high household debt and rising bad loans. In addition, monetary officials do not expect major market volatility following the Fed hike, as they believe it has largely been discounted. 10-year to 2-year spread moved slightly lower by 9 bps, from 110 bps to 101 bps.

As the markets sensed strong employment growth in June, which early July data releases confirmed, the 10-year U.S. T-bond yields shot up by almost 25 bps in a week's time to reach 2.39% by July 7.

Figure 20 - ASEAN Bond Yields



Source: Asian Development Bank (ADB)

Outlook

The Fed did hike the policy rate during the month, but bond yields continued to trend downward in June. However, as soon as the markets sensed strong employment growth in June, which early July data releases confirmed, the 10-year U.S. T-bond yields shot up by almost 25 bps in a week's time to reach 2.39% by July 7. This, however, just nearly equaled the 50-day high in May, and still far below 2.63%, this year's peak hit on March 13. Given the softness of inflation, despite the low unemployment rate of 4.4% in June, yields have eased a bit.

- US 10-year T-bond may continue to shed some more basis points, due to overshooting, until wage rate gains rise further and begin pushing up inflation. Nonetheless, the 3rd rate hike in 2017 appears inevitable to market players.

- Philippine headline and core inflation also seem to ease and will not fuel local bond yields, especially at the long end, to jump. Continuing liquidity primed by strong OFW peso remittances will provide the other damper on yields moving sharply upward. Rather, we should see more range trading, as investors await possible surprises, either up or down.

- Long-dated ROPs should continue to track U.S. Treasuries, even though Indonesian dollar-denominated sovereign bonds will continue to perform better.

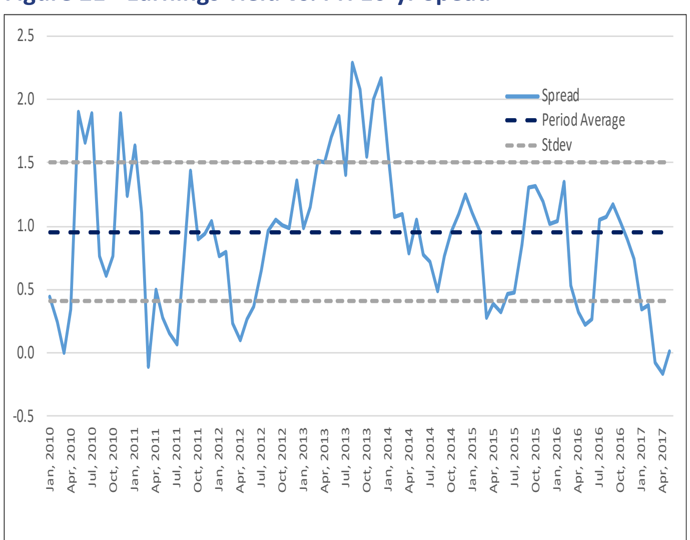
PSEi Adds 7.3% Gain in Q2 to 6.9% in Q1 to Top ASEAN Markets in H1

With the much-expected Fed policy rate hike implemented in June, the PSEi ended the month flat (0.1%) albeit at an elevated level of 7,843.2. This represented a further 7.3% gain from March 31, which had climbed by 6.9% from the beginning of the year. Thus, year-to-date (YTD) the PSEi has posted a remarkable 14.3% jump, the best performance in the ASEAN, but behind South Korea (+18%) and Hong Kong (+16.3%) in the wider East Asian region. The main driver had been the return of foreign funds in Q2 with a net buying position of P37.6 B after they sold out late last year and in January 2017. Investors got excited about moving on after the March Fed rate hike, corporate earnings rising much in line with expectations, and the passage of the Tax Reform bill in the House of Representatives. These pushed the PSEi to a year high of 8,002.3 on June 7, a 100 points shy of the all-time record of 8,102.3 hit on July 21, 2016.

Outlook and Strategy

Share prices would appear overvalued if viewed from the virtually zero spread between earnings yield (E/P or the inverse of the PE, trailing twelve months or TTM) and the PH 10-year T-bonds as may be seen in the graph below. Nonetheless, while the PSEi has had difficulties breaking 8,000 again, it similarly has bounced back every time it had reached support levels slightly below 7,800. We continue to see value in the market to end the year higher, but greater selectivity will have to be the underlying theme. We do think many conglomerates, some power producers, banking stocks and a few consumer issues have upside potential, as the economy continues to show positive signals.

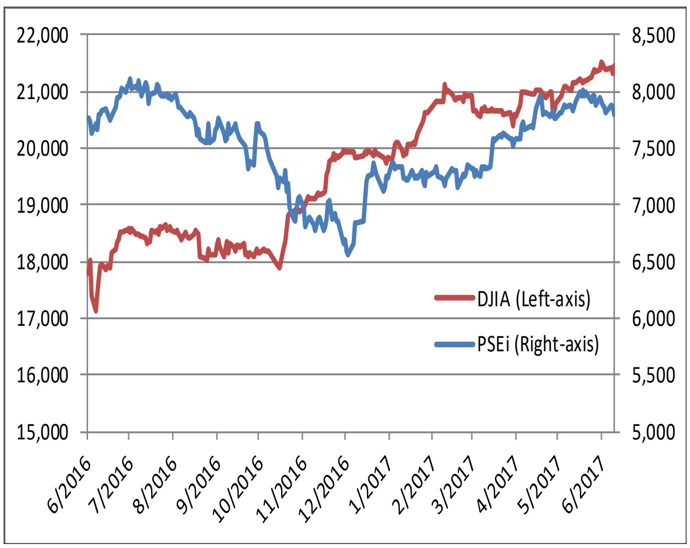
Figure 21 - Earnings Yield vs. PH 10-yr Spead



Source: Bloomberg

Note: When the spread is high, the earnings yield (EP) would be much higher than 10-year bond yields, making equities attractive as equity returns may easily cover the equity risk premium.

Figure 22 - PSEi and DJIA



Source: Bloomberg

The PSEi and Dow Jones Industrial Average's (DJIA) positive correlation turned negative from 0.49 to -0.61. Disappointing U.S. jobs data and the recent policy rate increase of the Federal Reserve had a constructive impact on the DJIA, as it removed uncertainty. The PSEi, on the other hand, eased from its previous month's as the specter of higher domestic interest rates loomed weightier than the relatively weak employment data in the U.S. Despite this, foreign funds continued to flow in support of the growth of the PSEi. With the resulting high negative correlation, we could expect that external foreign events to have significant effects to the PSEi.

The PSEi continued its rally from Q4-2016, posting another 7.3% gain in Q2-2017 from the previous quarter.

Global Equities Markets Performances				
Region	Country	Index	Growth Rate (m-o-m)	2017 YTD
Americas	US	DJIA	1.6%	7.4%
Europe	Germany	DAX	-2.3%	6.3%
	London	FTSE 101	-2.8%	1.9%
East Asia	Hong Kong	HIS	0.1%	16.3%
	Shanghai	SSEC	2.4%	1.8%
	Japan	NIKKEI	1.9%	2.2%
	South Korea	KOSPI	2.1%	18.0%
Asia-Pacific	Australia	S&P/ASX 200	-0.1%	-0.2%
Southeast Asia	Indonesia	JCI	1.6%	10.5%
	Malaysia	KLSE	-0.1%	7.8%
	Thailand	SET	0.8%	0.7%
	Philippines	PSEi	0.1%	14.3%
	Singapore	STRAITS	0.5%	11.3%

Sources: Bloomberg & Yahoo Finance

PSEi remains as one of the fastest growing stock indices in YTD terms at 14.3%. This came in next to South Korea's 18% and Hong Kong's 16.3% upticks. Nonetheless, PSEi bested the gains in the major countries of ASEAN including Singapore (+11.3%), Malaysia (+7.8%) and Indonesia (+10.5%). Actually, PSEi ended relatively flat in June, growing slightly by 0.1%. Most of the world and regional indices either posted minor growths or dipped slightly, with Shanghai's SSEC posting the highest growth of 2.4%, followed by KOSPI (South Korea) with an increase of 2.1% in June.

Quarterly Sectoral Performance				
	31-Mar-17		30-Jun-17	
Sector	Index	% Change	Index	% Change
PSEi	7,311.7	6.9%	7,843.2	7.3%
Financial	1,820.6	10.0%	1,937.9	6.4%
Industrial	10,948.4	2.8%	10,963.4	0.1%
Holdings	7,449.5	6.5%	7,889.1	5.9%
Property	3,125.9	1.9%	3,606.8	15.4%
Services	1,552.2	19.1%	1,687.6	8.7%
Mining and Oil	11,972.2	1.0%	12,567.8	5.0%

Source of Basic Data: PSE Quotation Reports

With foreign investors turning into buyers for a third consecutive month, the PSEi continued its rally from Q4-2016, posting another 7.3% gain in Q2-2017 from the previous quarter. All sectors ended in the green, with the Property sector taking lead, as it rose by 15.4% in Q2-2017. Posting substantial gains, the Services and Financial sectors in Q2-2017 increased by 8.7% and 6.4%, respectively. Not to be outdone, Holdings and Mining and Oil Sectors in Q2-2017 edged up by 5.9% and 5%, respectively. At the tail end, with relatively flat performance, the Industrial sector eked out a 0.1% nudge in Q2-2017.

Company	Symbol	3/31/17 Close	6/30/17 Close	% Change
Metrobank	MBT	80.0	87.5	9.4%
Banco de Oro	BDO	117.6	124	5.4%
Bank of the Philippine Islands	BPI	103.9	104	0.1%
Security Bank Corporation	SECB	202.0	217	7.4%

Source of Basic Data: PSE Quotation Reports

The Financial sector bumped up by another 6.4% in Q2-2017. Leading the sector, share prices of Metropolitan Bank and Trust Co. (MBT) posted a significant growth of 9.4% in Q2-2017 as it consitently showed its outstanding performance.

BDO Unibank, Inc. (BDO) picked up its pace as it increased by 5.4% in Q2-2017 from 4.9% in Q1-2017, after receiving the approval from Bangko Sentral ng Pilipinas (BSP) to open eight more regular branches.

Security Bank Corporation (SECB), also on the rise, grew by another 7.4% in Q2-2017 as it managed to ease concerns with regards its system delays, clarifying that the said system delays were a result of system maintenance.

Bank of the Philippine Islands (BPI) flattened towards the end of the quarter due to a major IT glitch apparently caused by an employee's mistake. By the following week, all of the errors that occurred had been corrected.

PCOR experienced double-digit growths earlier in the quarter, and tapered off in June due to the drop on global oil prices.

Company	Symbol	3/31/17 Close	6/30/17 Close	% Change
Meralco	MER	274.0	260.80	-4.8%
Aboitiz Power	AP	41.75	38.90	-6.8%
Energy Development Corporation	EDC	6.02	6.05	0.5%
Jollibee Foods Corporation	JFC	197.50	204.00	3.3%
Puregold Price Club Inc.	PCGMF	43.70	44.55	1.9%
First Gen Corporation	FGEN	20.95	18.90	-9.8%
Universal Robina Corporation	URC	163.50	162.90	-0.4%
Petron Corporation	PCOR	8.90	9.68	8.8%

Source of Basic Data: PSE Quotation Reports

The Industrial sector ended relatively flat with a 0.1% gain in Q2-2017, as the sector displayed mixed results. Petron Corporation (PCOR) led the sectors lead, as it soared by 8.8% in Q2-2017. PCOR experienced double-digit growths earlier in the quarter, and tapered off in June due to the drop on global oil prices.

Jollibee Foods Corporation (JFC) experienced a moderate gain of 3.3% in Q2-2017 after its weight in the FTSE was rebalanced in June.

Puregold Price Club, Inc. (PGOLD) hit the brakes as it eased off to a 1.9% increase in Q2-2017 from a whopping 12.1% gain in Q1-2017.

Energy Development Corporation (EDC) ended flat in Q2-2017, growing by 0.5% despite registering a continued increase of 24% year-on-year (y-o-y) in recurring net income in Q1-2017.

Universal Robina Corporation (URC) also ended flat in Q2-2017, slightly slumping by 0.4%, after the sharp fall in the sales of its flagship brands C2 and Refresh by 14% y-o-y. URC prepares itself to rally with the introduction of new products.

Manila Electricity Company (MER) suffered a setback of 4.8% in Q2-2017 completely reversing its 3.4% gain in Q1-2017. MER announced that electricity rates will further drop by P1.43/kilowatt-hour (Kwh) in compliance with ERC's order to refund customers for extra charges.

Aboitiz Power (AP) unable to pick up its pace, slumped by 6.8% in Q2-2017 despite its laid out plans to issue P30 B worth of peso-denominated bonds to fund its future projects and expansion plans.

In deep red, First Gen Corporation (FGEN) plunged by 9.8% in Q2-2017 following through its 4.8% slump in Q1-2017.

Company	Symbol	3/31/17 Close	6/30/17 Close	% Change
Ayala Corporation	AC	845	850	0.6%
Metro Pacific Investments Corporation	MPI	6.02	6.39	6.1%
SM Investments Corporation	SM	697	803	15.2%
DMCI Holdings, Inc.	DMC	11.4	14.1	23.7%
Aboitiz Equity Ventures	AEV	74.45	76.15	2.3%
GT Capital Holdings, Inc.	GTCAP	1,145.00	1,210.00	5.7%
San Miguel Corporation	SMC	104	104	0.0%
Alliance Global Group, Inc.	AGI	12.68	14.3	12.8%
LT Group Inc.	LTG	16.02	14.7	-8.2%
JG Summit Holdings, Inc	JGS	81.35	81	-0.4%

Source of Basic Data: PSE Quotation Reports

The Holdings sector continued its rally from Q4-2016 as it registered another 5.9% gain in Q2-2017. Leading the charge, DMCI Holdings, Inc. (DMC) skyrocketed by 23.7% in Q2-2017 after it announced its plan to enter the cement business. Having a limestone reserve of over 1 B metric tons, DMC eyes a $300 M cement plant investment with an annual capacity of 2.3-2.4 M metric tons.

Listing double-digit growths, SM Investments Corporation (SM) accelerated to 15.2% in Q2-2017 from 6.4% in Q1-2017 due to its rapidly expanding property segment.

Alliance Global Group, Inc. (AGI) also posted a double-digit growth of 12.8% in Q2-2017, despite the negative sentiment surrounding the shootout in Resorts World Manila.

Metro Pacific Investments Corporation (MPI) rallied in Q2-2017 as it grew by 6.1% from 9.6% loss in Q1-2017 after it increased its stake in Manila Electric Company (MER) to 45.5% and Global Business Power Corporation (GBP) to 62.4%.

The Property sector led the boards with a 15.3% gain in Q2-2017.

GT Capital (GTCAP) trailed closely behind, as it rose by 5.7% in Q2-2017, tapering its loss (-9.8%) in Q1-2017. Toyota Motors Corporation, GT Capital's subsidiary, maintained its position as industry leader with a market share of 43.7% in the first five months of 2017.

Aboitiz Equities Venture (AEV) showed a minor increase of 2.3% in Q2-2017, easing from the 5.2% increase in Q1-2017. The slower growth can be attributed to the weakening of its power and food segments, as reflected in the 7% y-o-y decrease of its consolidated net income in Q1-2017.

Ayala Corporation (AC) registered a slight growth of 0.6% in Q2-2017, as the issue surrounding its subsidiary, Bank of the Philippine Islands (BPI), reversed its gains earlier in the quarter.

San Miguel Corporation (SMC) ended flat despite the news of its plans to diversify into stock brokering through SMC Stock Transfer Service Corporation.

JG Summit Holdings, Inc. (JGS) unable to stay in the green ended relatively flat with a slight slump of 0.4% in Q2-2017. JGS' subsidiary Cebu Pacific recovered from the recent cancellation of flights to Mindanao by acquiring seven aircrafts worth $812 M.

LT Group, Inc. (LTG) unable to bounce back from the similar situation of flight cancellation, ended in the red with a loss of 8.2% in Q2-2017. LTG mentioned its plans to diversify its beverage segment in ASEAN increasing its capital expenditure budget to P10 B (+ 43% y-o-y).

Company	Symbol	3/31/17 Close	6/30/17 Close	% Change
Ayala Land, Inc.	ALI	33.05	39.75	20.3%
SM Prime Holdings, Inc.	SMPH	28.3	33	16.6%
Robinsons Land Corporation	RLC	23	24.25	5.4%
Megaworld Corporation	MEG	3.38	4.3	27.2%

Source of Basic Data: PSE Quotation Reports

The Property sector led the boards with a 15.3% gain in Q2-2017. Driving the property sector, Megaworld Corporation (MEG) posted hefty gains of 27.2% in Q2-2017 after it unveiled its plans to build The Albany, a residential tower with an estimated worth of P3 B, in order to penetrate the upper income class market.

Ayala Land, Inc. (ALI) also skyrocketed by 20.3% in Q2-2017 after launching the first phase of Vertis North estate in Quezon City. Included in the first phase, ALI completed the mall component of Vertis North, as well as a hotel component consisting of 438 rooms.

Not to be outdone, SM Prime Holdings, Inc. (SMPH) posted double-digit growths (16.6%) in Q2-2017, as its mall segments continue to increase its cash inflows.

Robinsons Land Corporation (RLC) experienced the slowest growth, but still increased by a good 5.4% in Q2-2017, after it revealed its plans to build a BPO in Naga City, as well as diversify into infrastructure and integrated development (IID).

Company	Symbol	3/31/17 Close	6/30/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,646.00	1,798.00	9.2%
Globe Telecom	GLO	2,032.00	2,048.00	0.8%
International Container Terminal Services Inc.	ICT	89.9	97.8	8.8%

Source of Basic Data: PSE Quotation Reports

The Services sector picked up its pace in Q2-2017 as it rose by 5% from 1% in Q1-2017. PLDT Inc . (TEL) became the sector's leader as it experienced the largest gain of 9.2% in Q2-2017 following its announcement of plans to outsource its IT operations to save an estimated P7 B. Moreover, TEL expects its net income to grow by +6% y-o-y in FY17.

International Container Terminal Services, Inc. (ICT) also experienced an uptick of 8.8% as it eyes another possible port located in Georgia. ICTS Europe, Middle East and Africa Business Development Director claimed that Georgia's role as a transit corridor to Caucasus and Central Asia would underpin its fast growth. However, it noted that Georgia's port services has much to improve.

Total turnover growth was driven mainly by the Services and Property sectors turnovers in Q2-2017 which grew by 52.1% and 41.7%, respectively.

Globe Telecom (GLO) showed a slight gain of 0.8% in Q2-2017, after the Philippine Competition Commission raised concerns regarding the payment of the two telcos, GLO and TEL, to SMC for telco assets worth P69.1 B which could pre-empt courts ruling.

Company	Symbol	3/31/17 Close	6/30/17 Close	% Change
Semirara Mining and Power Corporation	SCC	147.6	160.5	8.7%

Source of Basic Data: PSE Quotation Reports

Semirara Mining and Power Corporation (SCC) enjoyed commendable gains of 8.7% in Q2-2017 as the growing demand for coal drove SCC's net income up. In addition, SCC has recently absorbed 281 vocational graduates in order to provide the communities hosting their operations with employment, as well as increase their coal production from 13 M metric tons (MT) to 14 M MT.

Total Turnover

Quarterly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	97,068.7	55.8%	1,706.5	75.7%
Industrial	124,385.0	30.3%	2,066.4	39.2%
Holdings	117,476.7	9.0%	1,982.8	18.8%
Property	91,340.9	23.7%	1,522.7	32.0%
Services	109,908.8	42.9%	1,852.8	55.3%
Mining and Oil	15,512.6	-12.4%	257.2	-8.3%
Total	557,721.6	27.9%	**9,422.4**	38.9%
Foreign Buying	296,863.2	30.7%	4,990.4	41.5%
Foreign Selling	259,225.5	6.0%	4,347.0	14.8%
Net Buying (Selling)	37,637.7	333.9%	643.4	363.8%

Source of Basic Data: PSE Quotation Reports

The total turnover increased by another 27.9% in Q2-2017, following the 37.4% gain in the previous quarter. The net buying trend continues to take shape for the third month due to the disappointing U.S. jobs data and positive sentiment over the approval of the tax reform. It should also be noted that the buying trend continued to take shape despite the Fed rate hike. Foreign buying grew by 30.7% while foreign selling rose by 4.4% in Q2-2017, ending with a net buying of P37.6 B. Total turnover growth was driven mainly by the Financial and Services sectors turnovers in Q2-2017 which grew by 55.1% and 42.9%, respectively. The Industrial and Property sectors turnovers trailed behind with an uptick of 30.3% and 23.7%, respectively. The Holdings sector turnover increased by 9%, while the Mining and Oil sector turnover slumped by 12.4%.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2015		2016		4th Quarter 2016			1st Quarter 2017		
	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%	213,317	33.2%	-1.1%	182,117	-14.5%	4.9%
Industry Sector	2,535,796	6.0%	2,738,320	8.0%	753,820	17.4%	7.6%	686,726	-9.6%	6.1%
Service Sector	4,338,284	6.8%	4,664,261	7.5%	1,229,221	7.1%	7.4%	1,141,072	-7.0%	6.8%
Expenditure										
Household Final Consumption	5,264,137	6.3%	5,628,318	6.9%	1,592,837	19.8%	6.3%	1,394,750	-12.4%	5.7%
Government Final Consumption	785,347	7.8%	850,747	8.3%	186,934	-7.2%	4.0%	207,409	11.0%	0.2%
Capital Formation	1,805,281	15.1%	2,180,842	20.8%	630,271	21.1%	15.0%	607,768	-3.6%	7.9%
Exports	3,681,166	9.0%	4,016,105	9.1%	891,272	-20.8%	10.4%	1,192,923	33.8%	20.3%
Imports	3,942,163	14.0%	4,631,536	17.5%	1,126,599	-9.0%	15.0%	1,377,758	22.3%	17.5%
GDP	7,593,828	5.9%	8,113,170	6.8%	2,196,358	12.6%	6.6%	2,009,914	-8.6%	6.4%
NPI	1,540,910	5.3%	1,622,040	5.3%	433,064	11.4%	4.1%	433,510	2.0%	3.9%
GNI	9,134,739	5.8%	9,735,210	6.6%	2,629,423	12.4%	6.1%	2,443,425	-6.9%	5.9%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2015		2016		April-2017			May-2017		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	2,108,956	10.5%	2,195,914	4.1%	235,876	30.9%	-4.4%	228,251	-3.2%	14.3%
Tax	1,815,475	5.6%	1,980,390	9.1%	219,882	40.6%	3.8%	200,961	-8.6%	8.6%
BIR	1,433,302	7.4%	1,567,214	9.3%	187,670	60.2%	5.6%	158,694	-15.4%	4.7%
BoC	367,534	-0.5%	396,365	7.8%	31,142	-16.6%	-4.8%	39,592	27.1%	23.5%
Others	14,639	-2.1%	16,811	14.8%	1,070	-43.7%	-23.4%	2,675	150.0%	86.8%
Non-Tax	293,317	54.9%	215,446	-26.5%	15,983	-33.0%	-54.2%	27,284	70.7%	85.9%
Expenditures	2,230,645	12.6%	2,549,336	14.3%	183,079	-24.3%	-4.5%	261,672	42.9%	20.4%
Allotment to LGUs	387,559	12.6%	449,776	16.1%	49,647	21.8%	38.5%	46,155	-7.0%	29.2%
Interest Payments	309,364	-3.7%	304,454	-1.6%	13,483	-56.9%	-8.7%	20,966	55.5%	12.4%
Overall Surplus (or Deficit)	(121,689)	66.5%	(353,422)	-190.4%	52,797	185.9%	-4.0%	(33,421)	-163.3%	89.3%

Source: Bureau of the Treasury (BTr)

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

	2016		April-2017			May-2017		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	39,583	8.1%	3,440.00	1.5%	12.3%	3,648.50	3.6%	19.2%
Residential	12,439	11.9%	1,107.00	1.0%	14.1%	1,220.80	3.1%	25.8%
Commercial	15,648	8.2%	1,355.60	2.5%	8.9%	1,415.10	3.6%	13.7%
Industrial	11,362	4.2%	966.20	0.8%	15.6%	1,001.50	4.3%	19.8%

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

	2015		2016		4th Quarter 2016		1st Quarter 2017	
	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%)	(1,032)	(171.6%)	(318)	(143.7%)
Balance of Trade	(17,854)	40.0%	(26,955)	51.0%	(8,238)	53.5%	(7464)	28.2%
Balance of Goods	(23,309)	34.5%	(34,079)	46.2%	(9,973)	33.8%	(9839)	25.9%
Exports of Goods	43,197	(13.3%)	43,444	0.6%	10,618	3.8%	11617	14.1%
Import of Goods	66,506	(1.0%)	77,524	16.6%	20,592	16.5%	21456	19.2%
Balance of Services	5,454	19.2%	7,125	30.6%	1,735	(16.7%)	2374	19.0%
Exports of Services	29,065	14.0%	31,357	7.9%	7,211	(5.2%)	8336	6.3%
Import of Services	23,610	12.9%	24,233	2.6%	5,476	(0.8%)	5962	2.0%
Current Transfers & Others	-	-	-	-	-	-	-	-
II. CAPITAL AND FINANCIAL ACCOUNT	2,385	(75.5%)	1,051	(55.9%)	78	(91.8%)	589	(39.9%)
Capital Account	84	(21.9%)	102	21.4%	24	3.6%	9	(62.0%)
Financial Account	2,301	(76.1%)	949	(58.8%)	54	(94.2%)	579	(39.4%)
Direct Investments	(99)	(109.8%)	(4,235)	4,149.6%	(1,829)	2,107.4%	(1142)	(8.9%)
Portfolio Investments	5,471	102.0%	1,383	(74.7%)	(309)	(220.9%)	3205	(121.7%)
Financial Derivatives	6	40.8%	(32)	(673.4%)	(78)	(530.9%)	(183)	(6560.7%)
Other Investments	(3,076)	(152.1%)	3832	(224.6%)	2,269	208.4%	(1301)	(331.6%)
III. NET UNCLASSIFIED ITEMS	(2,433)	(40.5%)	(175)	(92.8%)	(1,006)	(472.3%)	(106)	(1193.2%)
OVERALL BOP POSITION	(2,616)	(191.5%)	(420)	(116.1%)	(2,068)	(355.8%)	(994)	374.2%
Use of Fund Credits	-	0.0%	-	0.0%	-	-	-	-
Short-Term	-	53.2%	-	(6,678.9%)	(10)	(2.9%)	11	1.9%
Memo Items								
Change in Commercial Banks	(1,164)	(119.2%)	(1,510)	(229.7%)	63	340.3%	55	(97.2%)
Net Foreign Assets	(1,065)	(117.8%)	(1,470)	(238.1%)	184	142.6%	12	(99.3%)
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		April-2017		May-2017	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	13,502,588	13.9%	13,647,315	10.3%	13,802,051	11.0%
Sources:						
Net Foreign Asset of the BSP	4,308,975	7.8%	4,351,983	3.6%	4,368,351	4.6%
Net Domestic Asset of the BSP	9,193,613	17.0%	9,295,332	13.8%	9,433,700	14.3%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,069,611	15.1%	3,173,319	14.5%	3,175,165	14.6%
Money Supply-2	9,137,898	13.2%	9,171,032	11.3%	9,280,620	11.4%
Money Supply-3	9,497,935	12.7%	9,521,191	11.2%	9,630,331	11.3%
MONEY MULTIPLIER (M2/RM)	0.68	-0.5%	0.67	0.9%	0.67	0.3%

Source: Bangko Sentral ng Pilipinas (BSP)

July 2017

CONTRIBUTORS

Rabboni Francis B. Arjonillo	President, FMIC
Dr. Victor A. Abola	Senior Economist, UA&P
Viory Yvonne T. Janeo	Research Associate, UA&P
Ramon Alvaro G. Del Rosario	Research Assistant, UA&P
Jose Miguel D. Alonzo	Research Assistant, UA&P
Augusto M. Cosio, Jr.	President, FAMI

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UNIVERSITY OF ASIA AND THE PACIFIC