August 2017

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

Faster NG Spending in June + Rise in Exports by 13.7% = Faster Q2 GDP

- NG spending (excluding interest payments) accelerated to 23.4% in June from 21.4% in May.
- Capital goods imports bounce back by 20.1% in May after a minor slip in April.
- Together with Industrial output up by 5.8% in May, domestic demand should improve from 5.9% in Q1.
- A further boost should come from exports, which in May expanded by 13.7%.
- The bond market showed a slowdown in demand, while the PSEi continued to rise.

Macroeconomy

NG spending surged by 22.6% in June still driven by strong spending on Infrastructure.

- Capital goods imports rebounded by 20.1% in May, after posting a decline a month ago.
- Manufacturing kept a robust growth of 5.8% in May.
- Exports continued to expand at a double-digit rate pace, posting a 13.7% increase in May.
- Inflation up 2.8% in July, a tad faster than 2.7% in June but YTD rate remained within target.

Outlook: We believe that economic expansion in Q2 will record faster than Q1 on the back of a robust investment spending and a resurgence in manufacturing. The double-digit growth in exports and vigourous capital goods imports, likewise, support our view of a faster growth in Q2. The speedier NG disbursements should moreover push further the country's growth.

Bonds Market

Local bond yields moved up on weak demand, outpacing U.S. Treasuries, despite local inflation rates falling below expectations.

- Yields in auctions of the short-term Treasury bills, rose by 4.2 bps to 7.5 bps, reflecting lower demand.
- Yield of the 5-year bond issue moved higher by 9.4 bps for the same reason.
- GS trading declined by 18.2% (m-o-m) and 33.5% (y-o-y), due to the market's expectations of higher yields.
- The yield curve flattened with 10-year to 2-year bond spread thinner by 62 bps, as erratic 10-year benchmark falls.
- Despite the slight decline in U.S. Treasury bond yields, ROP-19 and ROP-32 yields rose.

Outlook: Despite strong U.S. employment data for the months of June and July, the market senses that the Fed may not raise policy rates for a third time in December on softer-than-target U.S. inflation rates for the past three months. Moreover, recent geopolitical tensions between the U.S. and North Korea have fostered a risk-off investor sentiment, pushing up demand for U.S. Treasuries. Local bond yields are expected to trade within a narrow range as the domestic inflation continues to fall below market expectations. ROPs may suffer from the "safe haven" effect and their spreads over US Treasuries may rise until uncertainties in the external environment start to clear.

Equities Market

In year-to-date terms, PSEi remains to be the fastest growing index (+16.9% YTD in July) in ASEAN, breaking the 8,000 major resistance level on July 27.

- Property sector continued to top PSEi with a robust 5.3% gain in July, led by MEG (+11.6%).
- Services sector was a lone dark spot on the board, as it slumped by 0.7%, with telcos bearing the brunt.
- The Holdings sector edged up slightly, despite stellar gains of DMCI Holdings (+14.2%) and LT Group, Inc. (+19.7%).
- Jollibee Foods Corporation fuelled the industrial sector with a significant uptick of 10.3% in July.
- Foreign buying begins to flatten as the ghost month of August loomed, with net buying of only P1.9B in July (-34% m-o-m).

Outlook: With the ghost month of August approaching, both DJIA and PSEi show remarkable performance breaching the 22,000 and 8,000 resistance level, respectively. The PSEi will likely follow the movements of DJIA. Moreover, it gained solid support between the 7,700 and 7,800 levels after the Q2-2017 results were better than expected. In any case, it would be best to wait for the PSEi correction before taking in more risks.

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 (May)	4.3%	5.8%	7.8%	2.4%	9.0%	9.5%
Inflation Rate (July)	2.7%	2.8%	3.1%	1.4%	1.8%	2.8- 3.2%
Government Spending (June)	20.4%	22.6%	8.4%	12.6%	18.0%	15%
Gross International Reserves ($B) (July)	81.3	80.8	80.8	81.6	80.7	85
PHP/USD rate (July)	49.85	50.64	50.03	45.50	47.49	51
10-year T-bond yield (end-July YTD bps change)	4.70%	4.94%	4.5	4.10%	4.63%	4.8-5.1%
PSEi (end-July YTD % change)	7,843.2	8,018.1	16.9%	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

Faster GDP Growth in Q2 Now More Likely

The case for an acceleration in Gross Domestic Product (GDP) growth in Q2 got a further boost from another above-20% spending by the National Government (NG) in June and the rebound of capital goods imports to a similar pace in May. Private construction appeared formidable as residential property prices have picked up pace in Q1 2017 from the previous quarter. Adding more energy to the vigorous domestic demand, exports continued its double-digit expansion.

Other positive developments include the robust 5.8% gain in Manufacturing output in June and headline inflation clocking at 2.8% in July, the second consecutive month of sub-3% uptick.

Outlook: With NG spending, especially on infrastructures, back at a faster track, private residential construction still humming, while capital goods imports on a mend, the country's fast, investment-led growth narrative remains credible. Exports should continue to rise at an above-10% trajectory, boosted by good jobs and GDP numbers not only in the U.S., but also in E.U. and Japan. Given below 3% inflation and moderate money growth, monetary policy will likely be on hold in Q3, but may change in Q4 should the Fed make its 3rd rate hike in September instead of December. While it may have periods of transitory strength, the peso should remain under pressure in H2 as economic growth gathers momentum in the U.S.

NG Spending Continues to Surge, up by 22.6% in June

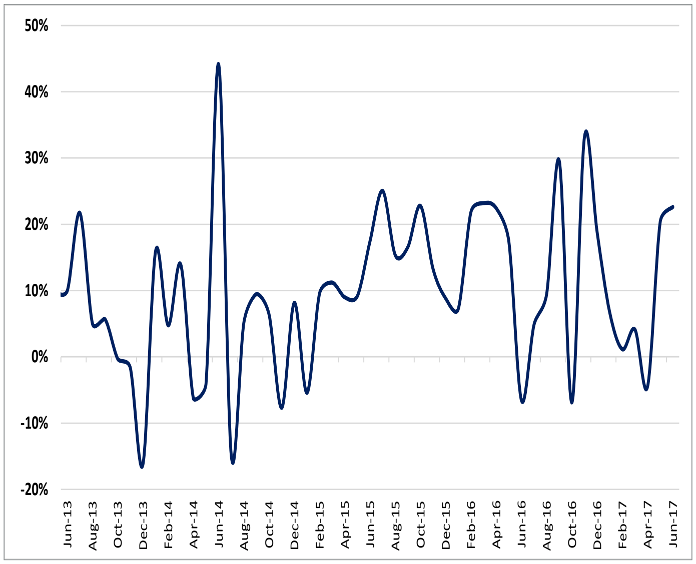
NG disbursements in June continued to surge, marking the second consecutive month of an above-20% growth in 2017. The NG spent a total of P270.7 B, or 22.6% year-on-year (y-o-y) expansion to implement key infrastructure projects. Higher spending on Infrastructure and Capital Outlays (+11.4% or P51.9 B) due to the implementation of various road projects by the DPWH, coupled with the huge spending on subsidies to government corporations (+101.3%, P32.3 B) and personnel services (+13.9%, P67.1 B), largely explain the impressive growth in NG's disbursements.

Excluding interest payments, NG spending grew faster at 23.4%. With the fast pace of spending exceeding revenue collection gains, the budget deficit soared to P90.9 B in June. Year-to-date (YTD), the fiscal deficit reached P154.5 B, accounting for only 33% of total target deficit for 2017 of P473.1 B (3% of GDP). This leaves about 67% of the programmed deficit for the rest of the year, suggesting a wide fiscal space for the implementation of other projects.

Meanwhile, total revenues in June managed only a 2.4% y-o-y increase to P179.8 B, sustained by the gains from the Bureau of Internal Revenue (BIR) collection. The BIR raked a total of P131.2 B (or 5.8% growth) while the Bureau of Customs' (BoC) take only inched up by a tepid 0.4% , much slower than the 23.5% expansion recorded in May.

We maintain our view that NG spending will continue at an elevated pace underscored by the administration's promise to fast track the release of funds to key implementing agencies and the roll-out of big-ticket infrastructure projects. We, likewise, believe that the infrastructure build-up will be an important catalyst in driving the country's GDP growth to 6.5%-7.0%.

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



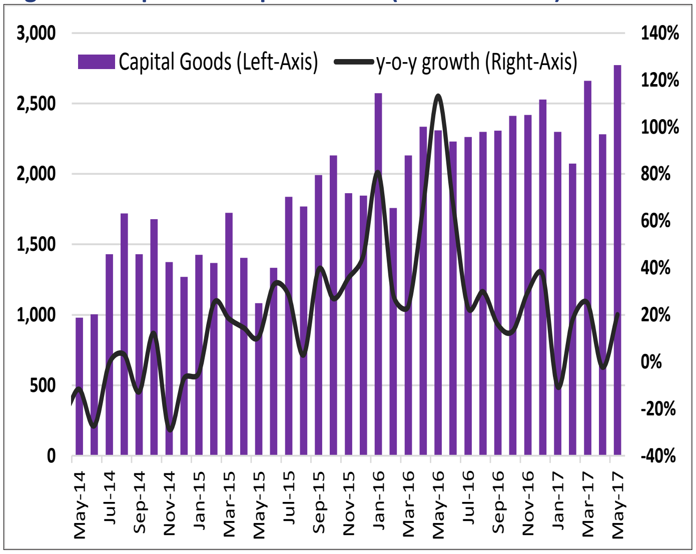
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

The country's manufacturing output (measured by Volume of Production Index or VoPI) picked up in May with a 5.8% expansion after the slowdown observed in April (4.3% revised).

Capital Goods Imports Bounces Back by 20.1% in May

Capital goods imports recovered from the past month's decline, jumping by 20.1% in May. Significant increase in most capital goods products (i.e. Aircraft, Ships and Boats (+149.5%), Office and EDP Machines (+58.3), and Telecommunication Equipment and Electrical Machinery (+13.0%)) pulled up the total capital goods imports to record its highest-level of $2.7 B since January 2012. Only imports of Power Generating and Specialized Machines products showed a 2% decline.

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



Source of Basic Data: National Statistics Office (NSO)

Imports of Mineral Fuels, Lubricant and Related Materials jumped the most (+33.1%) as buyers built up inventories with the weakening prices of petroleum products. Raw Materials & Intermediate Goods imports, which captured the highest share of total imports at 38.9%, likewise, posted a 14.5% increase. Consumer Goods imports also expanded by 8.3%. With the hefty gains in heavily-weighted import categories triggered the overall 16.6% y-o-y growth in imports which outpaced the rise of total exports receipts. Thus, trade deficit in May stood at $2.7 B, higher than the $2.1 B in April and $2.2 B a year ago.

Residential Real Estate Prices Continue to Accelerate in Q1 2017

The residential real estate prices in the Philippines, measured by the Residential Real Estate Prices Index (RREPI), edged up by 1.1% (y-o-y) in Q1 2017. The index rose to 117.2 from 115.9, registering a faster expansion than the 0.3% increase posted a quarter ago. The recovery in the prices of single detached units (0.4% rise after the 1% decline in Q4 2016) and the quicker growth in the prices of condominium units (up by 2.7% from 1.8% in the previous quarter) offset the slowdown observed in townhouses. Average prices of townhouses only registered a 1.3% increase versus 6.2% posted in the past quarter.

Prices in Areas Outside NCR (AONCR) and within NCR both rose by 1.1%. The double-digit increase in the prices of condominium units in AONCR largely sustained the real estate price expansion in the said area, which offset softer prices of condominiums in NCR. The move to other major cities of key property players provides support for this figure.

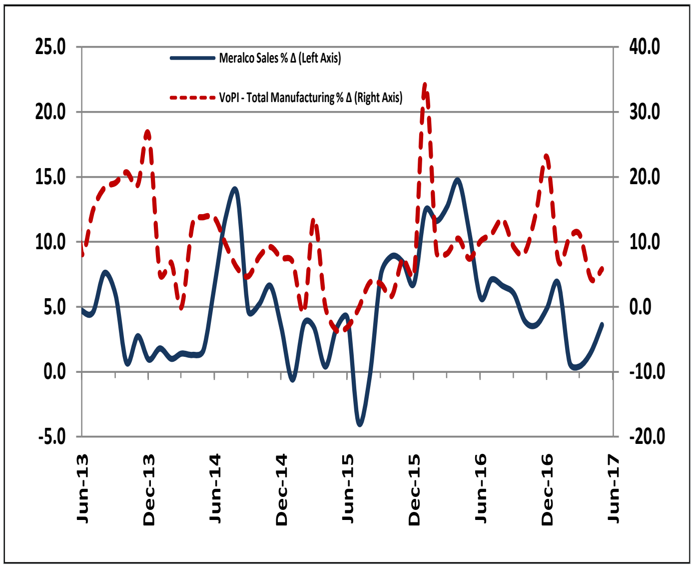
Residential estate loans data revealed that bulk of loans granted went to the NCR (44.8%) used mainly to purchase condominium units. Loans granted to AONCR, meanwhile, were used for single detached housing acquisition.

Manufacturing Output Picks Up

The country's manufacturing output (measured by Volume of Production Index or VoPI) picked up in May with a 5.8% expansion after the slowdown observed in April (4.3% revised). Strong double-digit gains in 12 out of 20 sectors sustained the manufacturing output's expansion led by the production of Fabricated Metal Products which soared by 116.9%. Other rapidly expanding sectors included Leather Products (+44.3%), Footwear and Wearing Apparel (+34.6%), Furniture and Fixtures (+34.4%), Basic Metals (+29.1%), Tobacco Products (+28.2%), Printing (28.2%), among others. The positive gains recorded in the past five months brought the YTD growth to 7.8%.

Despite higher price increments in electricity and fuel, the country's headline inflation in July remained below 3% at 2.8%.

Figure 3 - VoPI and Meralco Sales Growth Rate



Sources of Basic Data: Meralco & Philippine Statistics Authority

July Inflation Follows June's Below 3% Pace

Despite higher price increments in electricity and fuel, the country's headline inflation in July remained below 3% at 2.8%. This represented a slightly inching up after posting 2.7% (revised) in June. The upticks recorded in four non-food categories weighed on the softer prices for food and other basic items. YTD price changes still stood at mid-point of government's target (2% to 4%).

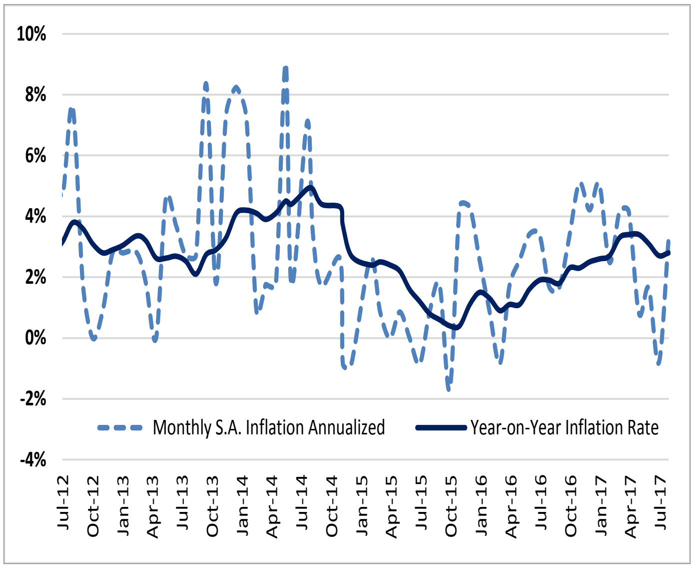
The Transport index posted significant increase due to faster price upticks in petroleum, along with the fare hike in railway transport. Crude oil prices (i.e. WTI and Brent) breached the $50/barrel mark towards the end of July, posting an average mark-up of 3.9% from last month. Higher Meralco charges in July and price increase in the housing units, likewise, pushed the Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) index higher. Upward 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, contributed to the overall increase in electricity charges. Meralco electricity charges in July went up by P0.08/kWH to P8.25/kWH for residential customers. Meanwhile, prices of key food items (meat, vegetable, sugar, corn) recorded price decelerations which slowed down the Food and Non-Alcoholic Beverages (FNAB) sub-index. Slower growth in alcoholic, non-alcoholic beverages, and tobacco prices also prevailed in NCR.

Inflation Year-on-Year Growth Rates	Jul-2017	Jun-2017	YTD
All items	2.8%	2.7%	3.0%
Food and Non-Alcoholic Beverages	3.2%	3.5%	3.7%
Alcoholic Beverages and Tobacco	5.9%	6.2%	6.1%
Clothing and Footwear	1.9%	2.1%	2.4%
Housing, Water, Electricity, Gas, and Other Fuels	2.3%	2.1%	2.8%
Furnishing, Household Equipment and Routine Maintenance of the House	1.7%	2.1%	2.2%
Health	2.2%	2.4%	2.4%
Transport	4.1%	2.3%	2.8%
Education	2.3%	2.2%	2.0%
Restaurants and Miscellaneous Goods and Services	1.9%	1.7%	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.

Figure 4 - Inflation Rates Annualized, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

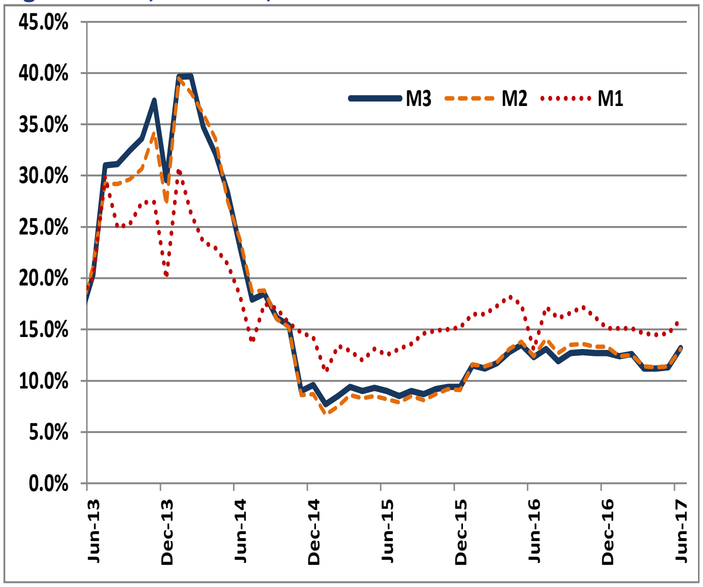
After keeping a steady 11% pace for three consecutive months, the country's domestic liquidity (M3) growth in June accelerated to 13.2% from 11.3% in the previous month.

The seasonally adjusted annualized rate (SAAR) which quickly moved from -0.8% in June to 3.3% in July resulted more from unusual hikes in transport rates and fuel prices and the semestral adjustment (January & July) in Housing prices in the index . Thus, we believe that the average inflation will 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) due to higher crude oil and shale oil production. Besides, core inflation (which excludes volatile food and energy prices) has dropped sharply to 2.1% in July vis-a-vis the 2.6% recorded in June.

Domestic Liquidity Gains Accelerate in June

After keeping a steady 11% pace for three consecutive months, the country's domestic liquidity (M3) growth in June accelerated to 13.2% from 11.3% in the previous month. This marked the 18th month of straight double-digit growth. Broad Money (M2) and Narrow Money (M1), likewise, increased to 13.1% and 16%, respectively. Nonetheless, this uptick remained in-line with BSP's outlook. The Central Bank is determined to closely monitor the developments in domestic liquidity to ensure that prices remain within the target.

Figure 5 - M1, M2 & M3, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

The continued expansion of money supply drew support from the increase in loans for productive activities by 17.9%, quicker than the 17.6% 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 (+18%); and Manufacturing (+12%), 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 1.5%, much slower than the 4.8% recorded in May.

With the manageable growth in money supply and inflation decelerating, we think that MB does not have a compelling reason to raise policy rates in Q3-2017, except should the Fed decide to advance the 25-bp hike in September instead of December.

Exports Still Record Above 10% Mark

Exports sales in May continued to expand at a double-digit rate, albeit slower than the 19.1% (revised) growth recorded in the past month. Nevertheless, the 13.7% y-o-y growth (to $5.5 B) marked the 6th consecutive month of positive growth in the last 17months. The consistent positive gains in the past five months resulted in a remarkable growth of 16.3% YTD, versus the negative 6.3% recorded in the same period last year.

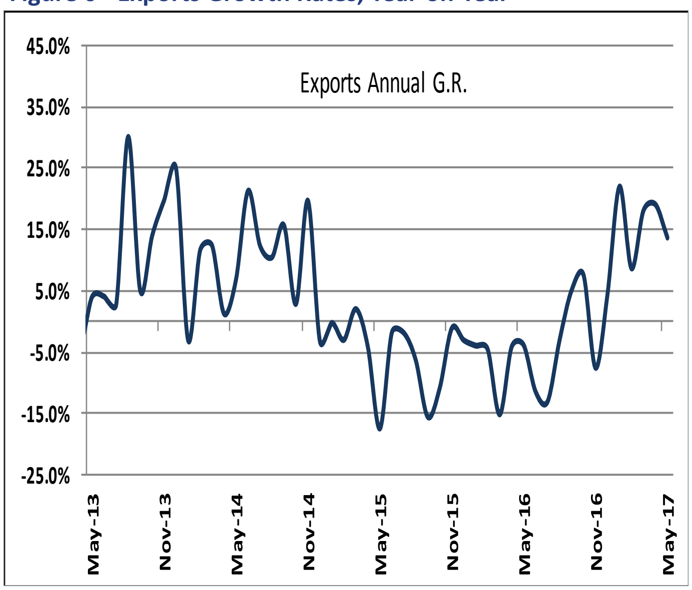
Significant gains in seven out of the top 10 export commodities sustained the remarkable exports performance in June. The list comprised of Cathodes and Sections of Cathodes, of Refined Copper (293.8%); Coconut Oil (62.5%); Other Mineral Products (47.5%); Ignition Wiring Set and Other Wiring Sets used in Vehicles, Aircrafts and Ships (23.9%); Metal Components (21.7%); Electronic Products (17.8%); and Machinery and Transport Equipment (2.6%). The huge jump in copper cathode exports reflects PASAR's (the country's lone copper smelter) capacity expansion and improvement in copper prices.

Electronic Products maintained its top post with total exports worth $2.7 B, accounting for exactly 50% of revenues for the month. It grew by 17.8% from May 2016.

The USD/PHP rate showed a large 1.6% fall but over a narrow range in July. The peso averaged P50.64/$ in July, the lowest level in 10 years.

Similarly, semiconductors contributed the biggest share among Electronic Products at 36.4% and increased by 19.6% from a year ago. Machine and Transport Equipment followed in second place with a $364 M contribution as it rose by 2.6% in 2016. Other Manufactures took the third place, with a 6.3% share to total shipments; still, it fell by 4.6% from May 2016. Woodcrafts and Furniture ranked fourth, with a 4.2% addition to total exports, likewise slumped by 25.6% from the same month last year. Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships came in fifth place, with a 4.1% contribution and recorded sales worth $181.1 M for a significant 23.9% improvement from $146.2 M a year ago.

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



Source of Basic Data: National Statistics Office (NSO)

In terms of export destination, Hong Kong and China showed the fastest gains even though these took only the 3rd and 4th place in terms of share in total exports. Outbound shipments to Hong Kong rose by a whopping 32.7% to $685.9 M while those to China shot up 17.7% from the previous year. Shipments to the United States totaled $772.5 M or 14.1% of exports for this month to land in 2nd place. These increased by 7.1% compared to proceeds it earned last year. Meanwhile, exports to Japan fell by 9.4% to $939.6 M but it remained as the top destination accounting for 17.1% of total exports. Lagging at the fifth spot, exports to Singapore surged by 31.9% to reach $374.2 M, and represented 6.8% of exports.

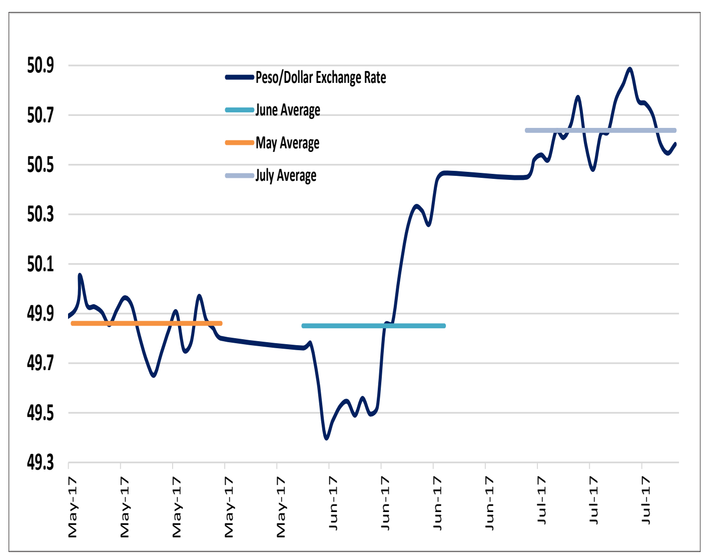
Almost half of the total exports headed towards East Asian (EA) nations, valued at $2.7 B, which represented an expansion of 9.7% y-o-y. Shipments to the ASEAN countries (comprising 16%), also made a hefty 25.6% jump. ASEAN+East Asia ex-Japan accounted for 53% of total exports. Trade exports to the E.U., likewise, registered a fast acceleration of 39%.

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.

Peso Loses Against the Greenback

The USD/PHP rate showed a large 1.6% fall but over a narrow range in July. The peso averaged at P50.64/$, the lowest level in 10 years. The pair almost hit another psychological resistance of P51/$ as it ranged to P50.88/$ from P50.45/$, reducing the volatility measure to 0.12 from 0.37 in June. A huge trade deficit and the political instability in Mindanao triggered the weakness of the PH currency.

Figure 7 - Daily Dollar-Peso Exchange Rate



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

The actual USD/PHP rate in July still lodged above the 30 and 200-day moving averages (MAs) supporting our view that the peso will continue to be under pressure as US data (i.e. GDP growth and Treasury bond yields) attract more foreign capital.

Apart from the PH peso, other emerging currencies, likewise, lost against the greenback. Indonesia's rupiah (IDR) slumped following the rumor of a cabinet reshuffle and ahead of the Q2 GDP release. Korea's won, likewise, edged lower amidst potential foreign capital outflow from emerging markets. Meanwhile, the other currencies extended gains on the back of improving economic fundamentals. India's rupee (INR) and Thailand's baht (THB) managed to sustain its strength as abundant capital inflows turned on investors' sentiment

Exchange Rates vs US $ for Selected Asian Countries	
	Jul-17
AUD	-3.18%
CNY	-0.57%
INR	-0.26%
IDR	0.27%
KRW	0.41%
MYR	0.30%
PHP	1.58%
SGD	-0.90%
THB	-0.72%

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

The actual USD/PHP rate in July still lodged above the 30 and 200-day moving averages (MAs) supporting our view that the peso will continue to be under pressure as U.S. data (i.e. GDP growth and Treasury bond yields) attract more foreign capital. In addition, President Trump's call for U.S. multinational firms to bring back excess cash to the U.S. should further add strength to the dollar.

Figure 8 - Dollar-Peso Exchange Rates & Moving Average

Source of Basic Data: National Statistics Office (NSO)

Outlook

The outlook for Q2 and H2 has brightened as NG spending surged again in June suggesting that it is back on track. In addition, exports have been on a double-digit growth pace for the last five months.

- Growth in Q2 should continue to be investment-led as NG Infrastructure and Other Capital Outlays kept its double-digit gains in May and June, and capital goods imports' growth path has returned to above-10% trajectory.

- Manufacturing output gains remained robust. Together with this and capital spending above 20%, OFW remittances have also bounced back to healthy growth, and so we expect consumer spending to provide strong support to boost domestic demand.

- Even going beyond our expectations of a slight positive contribution to growth, exports are showing signs of strength at the back of faster Q2 GDP growth (+2.6%) in the U.S., and upgrades for E.U. and Japan projected by the IMF.

The US/PHP rate will remain under pressure as US Treasuries' yields improve with solid economic growth, apparently more broad-based than expected, even though the peso may see some periodic and transitory strength.

- Inflation threats have practically vanished as July headline inflation rate stayed below 3% for the second consecutive month. Besides, recent crude oil prices appear high likely due to seasonal factors (summer driving season) but its upside continue to be limited with large oil producers such as Russia, Iran, Iraq, Nigeria and Libya needing much boost and foreign exchange for their economies, while U.S. shale oil producers have tended to sell at above $50/barrel in the futures market.

- While money growth clocked a bit faster in June, it has remained at the lower end of the 10% to 16% range. With inflation back to below 3%, a BSP policy rate hike in Q3 appears unlikely. However, a Q4 rate hike now seems more probable as the Fed may now carry out its next rate hike in September in the face of strong job numbers and robust Q2 GDP growth.

- Exports should continue rising above 10% in H2 as the U.S. economy, as well as the Eurozone and Japan, is making skeptics cringe.

- The US/PHP rate will remain under pressure as U.S. Treasuries' yields improve with solid economic growth, apparently more broad-based than expected, even though the peso may see some periodic and transitory strength.

Forecasts			
Rates	**August**	**September**	**October**
Inflation (y-o-y %)	3	3	3
91-day T-Bill (%)	2.23	2.26	2.28
Peso-Dollar (P/$)	50.65	50.9	51.18
10-year T-Bond (%)	4.79	4.83	4.84

Source: Authors' Estimates

Local GS Yields Inch up a Bit More than U.S. Treasuries

Despite local inflation rates falling below expectations and the 3% benchmark, peso-denominated government bond (GS) yields moved up a bit faster than U.S. Treasuries amid weak demand. GS yields in both the primary and secondary markets inched up while the tender-offer ratio (TOR) for primary issues slumped and trading volume declined for the third consecutive month. Fears of another Fed policy rate hike in the year spooked local bond investors after superb June employment data emerged early in July.

Outlook: Softer-than-target inflation rates in the U.S. for the past three months have overpowered strong above-200,000 new jobs for June and July, with more analysts sensing that the Fed may not be able to raise policy rates for a third time by December this year. In addition, fears that the war of words between U.S. President Donald Trump and North Korean leader Kim Jung Un may turn into a messy bloody conflict, had investors increase their demand for "safe-haven" U.S. Treasuries and kept yields from rising. This and the below-3% inflation rate in the Philippines for June-July have had similar effects on the local bond markets. Until these dark clouds dissipate, we expect local bond yields to trade within a narrow range.

Primary Market: Yields Move Up on Weaker Demand

Average yields in July auctions among Treasury bills (T-bills) moved higher from the previous month while Treasury Bond yields increased on lower demand.

The 91-day and 364-day T-bills both rose in yield by cumulative 10.5 and 12 basis points (bps), respectively, to end July at 2.189% and 2.995% for both bills. On the other hand, Bureau of the Treasury (BTr) rejected the second 182-day T-bill auction for July as the TOR fell from 1.1 on July 3 to 0.7 recorded at the July 17 auction. The TOR for the 91-day T-bill was at 1.5, down from 2 in the previous offering. Meanwhile, the TOR of the 364-day T-bill, which was also not fully awarded moved down to 1.5 from 1.7 in the previous auction.

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							
03-Jul	91-day	6.00	12.005	6.000	2.001	2.126	4.20
	182-day	5.00	5.631	4.131	1.126	2.496	7.50
	364-day	4.00	6.902	2.370	1.726	2.926	5.10
19-Jun	91-day	6.00	9.162	4.127	1.527	2.189	6.30
	182-day	5.00	3.550	-	0.710	-	-249.60
	364-day	4.00	5.930	3.610	1.483	2.995	6.90
Subtotal		30.00	43.180	20.240	1.439		
T-Bonds							
11-Jul	5-year	15.00	21.144	15.000	1.410	4.226	9.40
25-Jul	20-year	15.00	11.202	-	0.747	-	-503.50
Subtotal		30.00	32.346	15.000	1.078		
All Auctions		60.00	75.530	35.240	1.200		

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

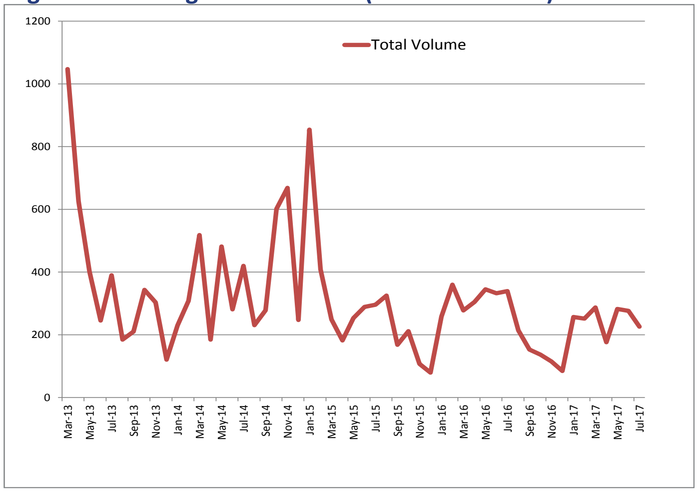
Total trading volume for July fell for the third consecutive month by 18.2% month-on-month (m-o-m) on the low supply of long-dated papers in the market.

The 5-year treasury bond had a yield of 4.226%, up 9.4 bps from 4.132% three months ago, with a TOR of 1.4 which was down from 1.8 in the same period, reflecting weaker demand from investors. On the same breath, BTr rejected all bids for the 20-year Treasury bond, which only recorded a TOR of 0.8 which is down from the 2.1 TOR recorded in the previous month. In addition, the TOR for all the T-bill and T-bond auctions of the month of July moved down to 1.2 from the 2.8 in the previous month, further indicating weaker investor demand.

Secondary Market: Trading Eases Slightly in June

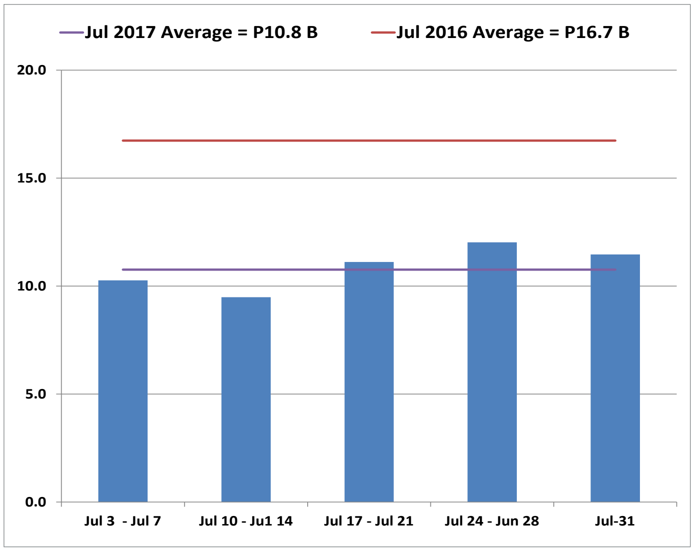
Total trading volume for July fell for the third consecutive month by 18.2% month-on-month (m-o-m) to P226 B from P276.2 B last month. This, moreover, represents a decline of 33.5% year-on-year (y-o-y) from P339.6 B recorded last July 2016. The continued yearly decline in volume can be attributed to market's expectation of higher yields and the less availability of liquid, long-dated papers in the market. In addition, the year-to-date (YTD) trading volume also declined to P1.7 T recorded in July 2017 as compared to P2.2 T a year ago.

Figure 9 - Trading Volume Trend (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

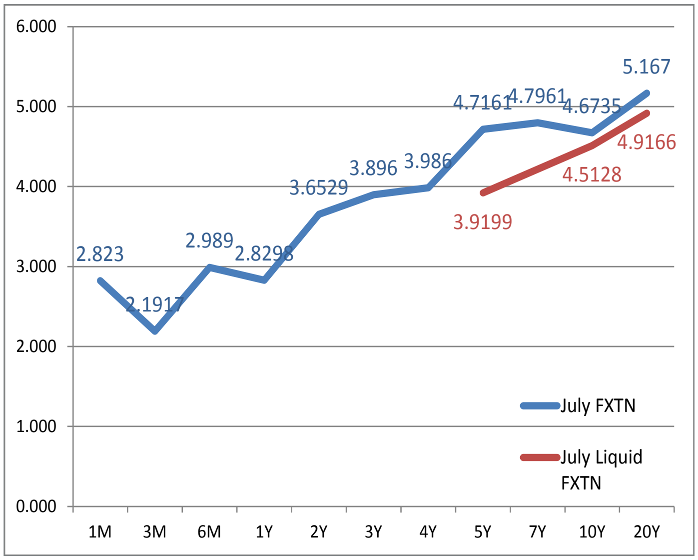
Figure 10 - Average Daily Trading Volume/Week (In Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Across tenors, yields generally moved erratically but slightly upward this month. The 1-month and 5-year bonds rose sharply by 83.8 bps and 68.3 bps, respectively. On the other hand, the 3-month fell by 62.2 bps, while the 1-year bond went down by 39.6 bps. 10-year to 2-year spread went down from 164 bps to 102 bps, a spread change of 62 bps (See ASEAN +1 table below). The flatter yield curve reflects the large rise in the yields for shorter-dated T-bonds.

Figure 11 - PDST-R2 vs. FXTN Yields (Month-end)



Source: Philippine Dealing Systems (PDS)

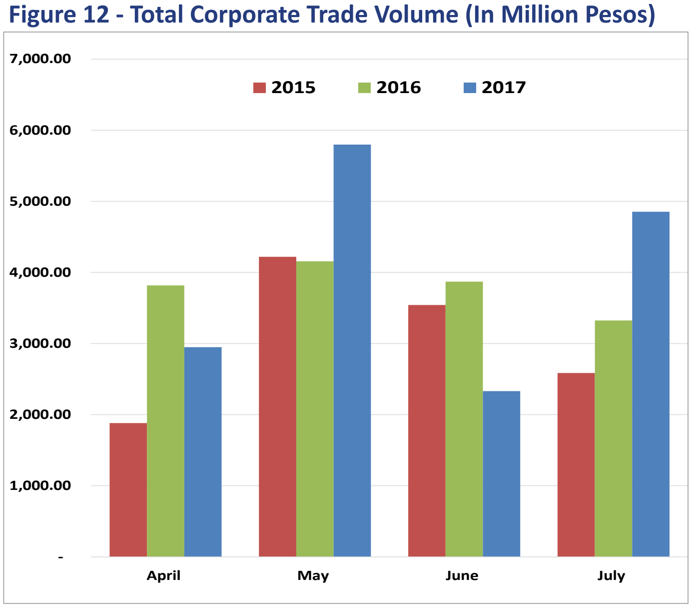
Overall secondary trading of corporate bonds for July 2017 reached P4.9 B, an increase of 108.2% m-o-m from P2.3 B and an improvement of 47.5% y-o-y from P3.3 B in July last year.

Liquid FXTN tenors continued to post lower yields than FXTN tenors under PDST-R2. The difference in the 20-year space widened slightly as 20-yr PDTST-R2 reflected an improvement of 8 bps while FXTN 20-17 yields rose by 12 bps. The FXTN 10-60 (less than 9 years to maturity) yielded 4.513%, a 9 bps jump from 4.424% in June.

Corporate Bonds: Trading Improves Despite the Decline in GS Volumes

Overall secondary trading of corporate bonds for July 2017 reached P4.9 B, an increase of 108.2% m-o-m from P2.3 B and an improvement of 47.5% y-o-y from P3.3 B in July last year. The strong July performance, however, brought up YTD trades by 19% to total P27.4 B from 14.2% a month ago.

Figure 12 - Total Corporate Trade Volume (In Million Pesos)

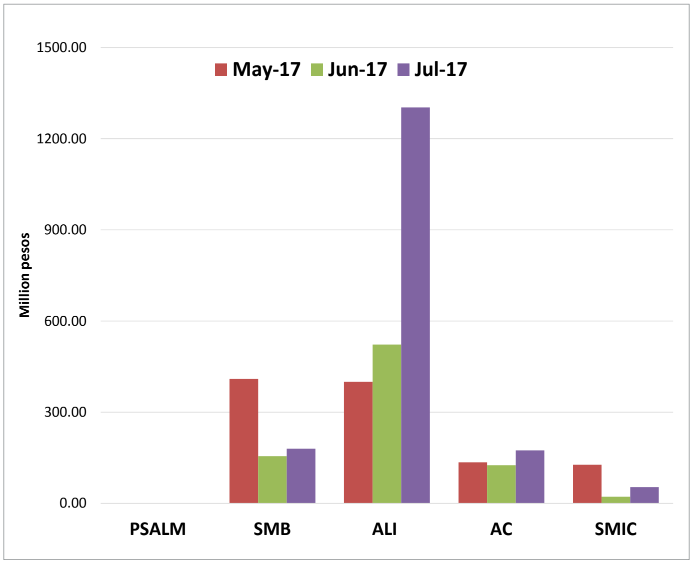


Source: Philippine Dealing Systems (PDS)

Bond trading volume of 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 generally positive movement as trading activity improved for four out of the five leading corporations.

ALI once again placed first, trading P1.3 B, up by 149.3% m-o-m. SMB and AC came in second and third, as the former traded P179.8 M improving by 15.9% m-o-m, while the latter traded P174.4 M, up by 39.3% m-o-m. SMIC was next at P53.2 M, up by 146.4%. Of the top five, PSALM brought up the rear, with no trading at all for the third straight month.

Figure 13 - Corporate Trading (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

Corporate Issuances & Disclosures

New bond and long-term notes issuances continued to pile up in order to lock in at low borrowing rates.

- Cyberzone Properties, Inc. (CPI) formally listed its 5.5-year Fixed Retail Bonds at the Philippine Dealing Exchange (PDEX) last July 7, 2017. Due to strong demand, the company opted to exercise the authorized oversubscription option to a maximum of P1 B, which allowed CPI to issue P6 B worth of bonds. The company pegged the coupon rate for the 5.5-year bonds at 5.0496% p.a. Proceeds from the said bond issuance will be used to finance CPI's aggressive build-up program involving the construction and operation of additional buildings and towers in locations such as Filinvest City and Cebu City.

- DoubleDragon Properties Corporation (DoubleDragon) issued 7-Year Fixed Retail Bonds with a coupon rate of 6.0952% p.a. last July 21, 2017. This marked the second tranche from the company's P15 B shelf-registered Retail Bond approved by the Securities Exchange

Despite the slight decline in U.S. Treasury bond yields, Philippine dollar-denominated bond (ROPs) yields gradually rose for two of the three liquid tenors.

Commision (SEC) last year. The said bond issuance will have a base size of P6.5 B with an option to issue an additional P3.2 B in oversubscription.

- Vista Land & Lifescapes, Inc. (VLL) has set the coupon rates for its Fixed Rate Retail Bonds at 5.7512% p.a. for its 7-Year Bonds due 2024 and 6.2255% p.a. for its 10-Year Bonds due 2027. The bonds in the aggregate principal amount of P3 B with an oversubscription option of up to P2 B will be issued out of the P20 B shelf registration of VLL, which the SEC approved last July 13, 2017. The bonds are set to be issued on August 4, 2017.

- Property giant Ayala Land, Inc. plans to raise another P3 B to P5 B in short-dated debts after successfully generating P4.3 B from the issuance of the pioneering short term financial instrument. Due to strong demand, the company instructed underwriters to come up with a follow-up offering to be issued as early as August of this year. The coupon for the short-dated notes will be 2.75%. Proceeds will be used to refinance outstanding short-term loans.

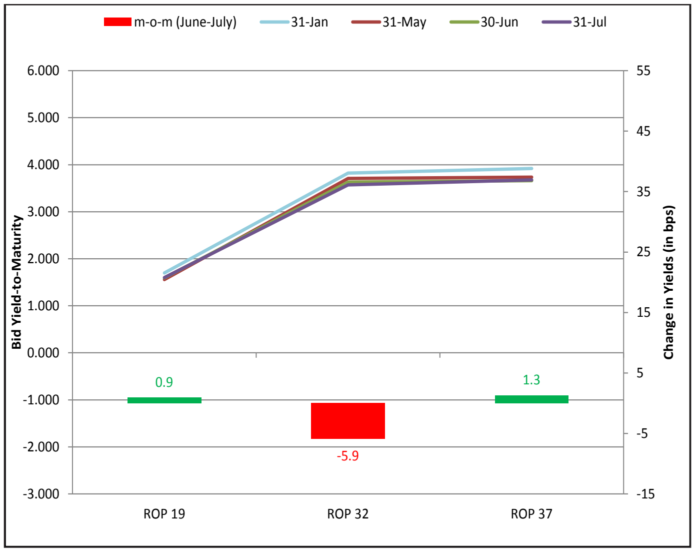
- BDO Unibank, Inc. (BDO) is set to issue P5 B of Long-term Negotiable Certificates of Deposit (LTNCD) as part of the bank's efforts to diversify the maturity of its funding sources and support business expansion plans. This latest tranche of LTNCDs will have a term of 5.5 years with indicative pricing at 3.50% to 3.75%. The issue date for the said LTNCDs is set for August 18, 2017.

ROPs: Yields Slightly Rise at Short End of Curve

Despite the slight decline in U.S. Treasury bond yields, Philippine dollar-denominated bond (ROPs) yields gradually rose for two of the three liquid tenors. ROP-19, with 2 years to maturity, went up by 0.9 bps from 1.593% to 1.602%. ROP-32, with 15 years remaining to maturity, dropped by 5.9 bps from 3.631% to 3.572%. ROP-37, 20 years from maturity, also mildly rose by 1.3 bps from 3.663% to 3.676%. Since ROP-19 and ROP-37 are more liquid, it would show that ROPs had been tracking U.S. Treasuries closely in July.

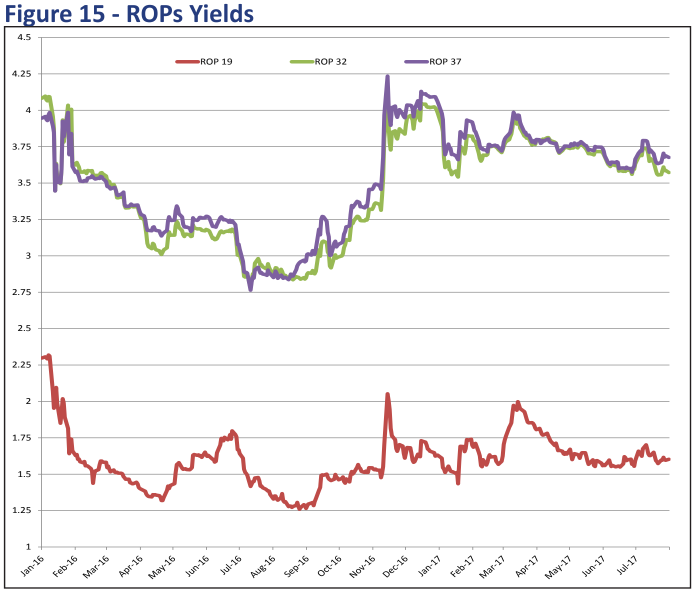
In contrast, U.S. Treasury bonds of similar tenors show that the 15-year paper's yield went up by 2 bps to 2.5%, and the 20-year bond rose by 5 bps to 2.7%. U.S. Treasuries, except for the 1-month and 3-month T-bonds, then experienced slight declines that ROPs pushing up spreads slightly upwards. For the exception, the U.S. Treasury yield ended up slightly flatter while ROP-19 took a 0.9 bps increase. Thus, for the 2-year and 20-year space, spreads of ROPs over Treasuries narrowed in July.

Figure 14 - ROPs Yield (Month-on-Month Changes)



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

Figure 15 - ROPs Yields



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

The U.S. job market improved in June, beating market expectation with 222,000 new jobs vs. 179,000 consensus.

ASEAN + 1 Market: Q2 Growth for Emerging Markets Improve Amid Mixed Data from the U.S.

U.S.: Flat inflation rates and a drop in June retail sales triggered some doubts that the Federal Reserve would raise interest rates again this year. CPI remained unchanged at 1.6% (y-o-y) in June from the prior month, marking the fourth month of surprising weakness. Excluding food and energy, the core prices inched up 0.1 %, a bit below market expectations of 0.2 %. Meanwhile, retail sales fell 0.2% in June, down for a second month, which raised concerns in markets about the strength of the economy. Some analysts and economists began to doubt the likelihood of a third rate hike this year as they thought this would depend on H2-2017 inflation data. The U.S. job market improved in June, beating market expectation, with 222,000 new jobs vs. 179,000 consensus. While the unemployment rate remained unchanged at 4.4 %, wage growth kept its slow pace with average hourly earnings rising 2.5 % (y-o-y), basically unchanged from May. Consumer Confidence Index rose in July to 121.1 to a 16-year high, despite expectations for a drop, as consumers foresee the current economic expansion continuing well into H2 of this year. The latter may see a further boost as July job growth held high at 209,000 (with an upward revision for June to 231,000), amid higher labor participation rates, and slightly faster gains in wage rates. Unemployment rate dropped to a post-2008 record low of 4.3%. In the bond market, yields fell with the 10-year Treasury bonds initially rose to 2.34% early in July after the strong June job numbers, but eased back to 2.29% by month end, and raised the prospect of a swift move to 2.2%. Bond market players appear unsure about how inflation will play out and if the Fed will hike policy rates in December. 10-year to 2-year spread inched up by 1 bp from 94 bps to 95 bps.

PRC: China's manufacturing activity expanded to a three-month high, suggesting that the economy is stable despite headwinds at home and abroad. The Caixin China General Manufacturing Managers' Index (PMI) beat market expectations to hit 50.4 in June, up from 49.6 in May. Also, China's strategic emerging industries, which include information technology, high-end manufacturing, and digital industries, have seen rapid growth this year with output expected to account for around 10% of GDP by year end. Moreover, recent economic data indicate further economic stabilization in the country with a more balanced economic structure, as consumption contributed 77.2% to economic growth in Q1, up from 64.6% a year ago. The country's central bank suspended open market operations last July 3, citing a relatively high level of liquidity in the banking system, as monetary officials continue to remain prudent and neutral in terms of monetary policy for the year in order to keep an appropriate liquidity level and avoid excessive liquidity injections. China's banks are weaning themselves off short-term debt as a result of the recent deleveraging efforts from the authorities. Meanwhile, derivatives which include bond futures and interest rates swaps are on the rise, as traders pick up new tools to find returns, suggesting that the market is maturing as the recent

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	1.349	2.294	2.00	0.29	94.00	95.00	1.00	1.00	-1.00
PRC	3.410	3.690	2.00	1.69	14.00	28.00	14.00	4.35	2.35
Indonesia	6.561	6.951	4.30	2.65	30.00	39.00	9.00	4.75	0.45
Malaysia	3.310	3.993	4.00	-0.01	66.00	68.00	2.00	3.00	-1.00
Thailand	1.416	2.431	0.70	1.73	99.00	102.00	3.00	1.50	0.80
Philippines	2.830	4.674	3.00	1.67	164.00	102.00	-62.00	3.50	0.50

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

Indonesian companies race to raise fresh funds at cheaper costs through bond sales after rating agency Standard & Poor's upgraded the country's sovereign rating to investment grade in May.

tightening by the central bank boosts volatility. On the other hand, volumes remained low despite the opening of China's "Bond Connect", which allows global investors to purchase the country's notes through Hong Kong, even as investors show minimal appetite for its bonds due to concerns on political risks. In addition, aside from inflated credit ratings, a key factor that has discouraged investors from purchasing Chinese bonds is that the said notes are not included in any major benchmark indexes. 10-year to 2-year spread rose by 14 bps from 14 bps to 28 bps.

Indonesia: Indonesia's inflation slowed in July as demand normalized after Idul Fitri holidays. It ease to 3.88% in July (y-o-y) from 4.37% a month ago, which was the fastest pace since March 2016. Also, CPI rose by 0.22% (m-o-m), still consistent with its central bank target headline inflation of 3% to 5% for this year. The country's manufacturing sector contracted after four months of improvement due to subdued demand as the Purchasing Managers' Index (PMI) dropped to 49.5 in June from 50.6 in May. The June pullback in manufacturing activities likely resulted from declining employment. On the other hand, Indonesia's external trade contracted in June (y-o-y) for the first time in nine months, but it still posted a trade surplus of $1.63 B. Monetary officials expect budget deficit to increase to 2.6% of GDP, up from the initial target of 2.41%, because of higher expenditures for the education and health sectors. Meanwhile, the central bank expects that the country's economy to grow by 5.1% in Q2 of this year as retail sales began to recover. Furthermore, monetary officials predict that the economy throughout the year may expand by 5.2%. Bank Indonesia (BI) held its benchmark interest rate unchanged at 4.75% for the ninth straight policy meeting, as an effort to maintain macroeconomic and financial system stability. Indonesian companies race to raise fresh funds at cheaper costs through bond sales after rating agency Standard & Poor's upgraded the country's sovereign rating to investment grade in May. Finally, the central bank plans to introduce non-dollar currency swap hedging transactions with commercial banks to support efforts to broaden the use of other foreign currencies and thus reduce the economy's dependence on the dollar in trade and finance. This should also help maintain the rupiah's stability. 10-year to 2-year spread inched up by 9 bps from 30 bps to 39 bps.

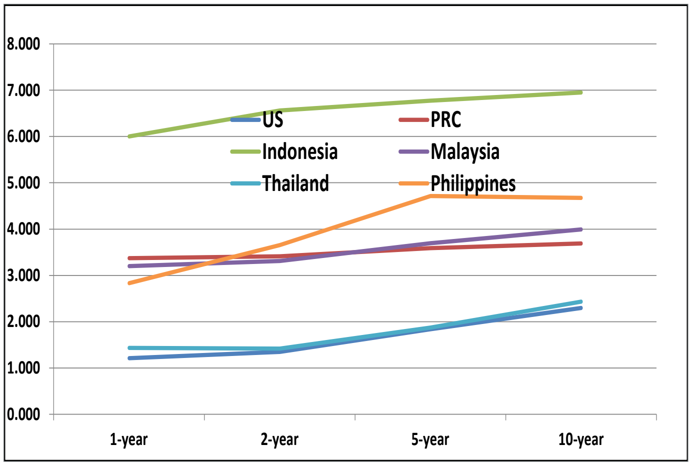
Malaysia: Malaysian exports soared by 32.5% (y-o-y) in May providing a strong boost to the economy. The outlook for the ringgit is becoming more positive as analysts expect the ringgit to strengthen towards RM4 per U.S. dollar over the next two years, but remain between 4.20 and 4.30 against the greenback at least through 2017. The country is projected to record a higher inflation of 3.8% this year on the back of a weak ringgit earlier in 2017 and higher transportation-related costs. The economy is expected to further improve in Q2 with robust exports likely to add to the continuous strong domestic demand. The government plans to stick to its original growth forecast between 4% and 5% for this year, despite IMF's upgrade of its GDP growth projection to 4.8% from 4.5%, citing savvy economic management and commendable monetary policies. On the other hand, investor sentiment in the debt market could turn more cautious in the second quarter due to market externalities which could spark a moderate increase in bond yields. These external uncertainties include the U.S. Fed rate hike, the normalization of central banks' balance sheet globally, and policy uncertainty from the Trump administration. There is an emerging view that Bank Negara will have to raise the benchmark overnight policy rate by the end of the year or early next year on the back of a strengthening economy, driven by rising inflation, higher consumption, and an improving employment situation. 10-year to 2-year spread inched higher by 2 bps, from 66 bps to 68 bps.

Thailand: Thailand's inflation rate dropped to a 14-month low (-0.05% y-o-y) in June due to falling oil and food and beverage prices as well as an economic recovery in a period of excess capacity. YTD, the average inflation rate for the first six months of the year came low at 0.67%. Inflation, however, is expected to pick up in the H2 due to government economic measures and an expected rise in oil prices. Exports surged by 11.7% in June (y-o-y) despite the rising baht, as orders from traditional markets remined firm. YTD, the baht has gained about 7% against the U.S. dollar, trailing only South Korean won's 8% gain. Bank of

Large domestic firms may replicate the strong bond issuances in H1 as long as the low interest environment lasts and NG's planned infrastructure spending spree gains traction.

Thailand held the policy rate unchanged at 1.5%, despite signs that the economy may sink into deflation again. The central bank's Monetary Policy Committee raised its 2017 economic growth forecast slightly to 3.5% from 3.4% due to robust exports. Notably, the amount of bond defaults reached 14.2 B baht in H1 but remained minimal when compared with banks' non-performing loans (NPLs), which amounted to 11.3 T baht. 10-year to 2-year spread moved slightly higher by 3 bps, from 99 bps to 102 bps with the slightly better economic outlook.

Figure 16 - ASEAN Bond Yields



Source: Asian Development Bank (ADB)

Outlook

Global bond markets, including the Philippines, have eyes glued to the U.S. economy and monetary policy developments there. This sets the jump off point for our outlook for the rest of the year.

- Despite back-to-back job creation of over 200,000 in the U.S. for June and July, with the former month revised upwards besides, inflation in June and July remained tepid at 0.0% and 0.1%, respectively, raising concerns that inflation may not reach the Fed's target of 2% for the year. The inflation picture has raised big doubts in the markets that the Fed would still raise policy rates for the 3rd time by December. This, together with the growing fears of a nuclear conflict with North Korea, has raised "safe haven" demand for U.S. Treasuries, keeping yields from rising.
- Locally, the below-3% (and market expectations) inflation rate for June and July, backed by good food production and low crude oil prices, has provided an additional basis for local players not to push up yields. However, the uncertainties in the external situation and domestic inflation remaining in the lower band of BSP's target of 3% would prevent aggressive risk-taking and so yields will likely trade within a fairly narrow band until the murky situation clears.
- Large domestic firms may replicate the strong bond issuances in H1 as long as the low interest environment lasts and NG's planned infrastructure spending spree gains traction.
- ROPs, on the other hand, may suffer from the "safe haven" effect and their spreads over U.S. Treasuries may rise a little given the dark clouds enveloping the external environment.

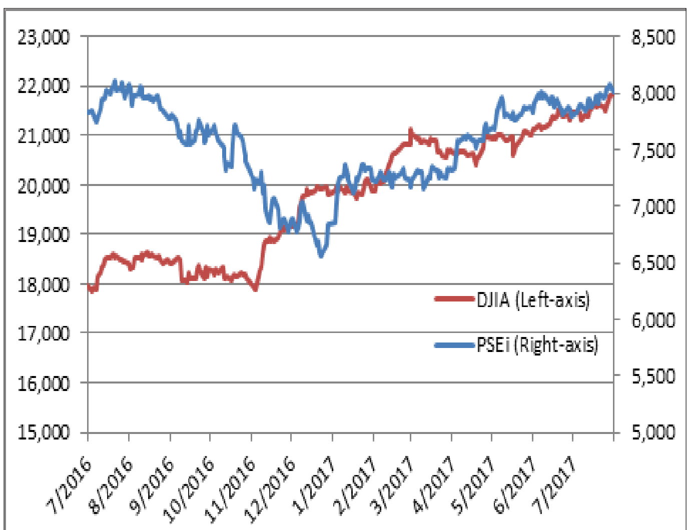
PSEi Breaks 8,000 in July, Missing All-Time High by just 56 Points

PSEi finally broke through the 8,000 major resistance level on July 27 and hit a year high of 8,071.47 the following day, a mere 56 points away from the all-time high of 8,127.48 and ending July at 8,018.05. The 2.2% July uptick marked the 5th consecutive month of gains. These came after Fed Chairperson Janet Yellen's "dovish" tone in her report to Congress and President Duterte's State of the Nation laid out his legislative agenda to Congress. The passage of the administration's Tax Reform Package 1 by the House of Representative more than a month ago and being deliberated by the Senate thereafter continued to pull in foreign investors, with local investors stepping in on pullbacks. The Property sector continued to lead the charge with a 5.3% gain in July on top of its 6.4% rise a month ago.

Outlook and Strategy

With the U.S. economy growing by 2.6% in Q2 and July adding 209,000 jobs on top of a 231,000 (revised upward) gain in June, Dow Jones Industrial Average (DJIA) hit another record above 22,000 on August 2 just two days before the employment numbers emerged. This may have pushed U.S. stocks to levels that would call for a consolidation especially during the "ghost month" of August. The PSEi which has moved more closely with the DJIA in July would likely follow suit. The earnings-to-price (EP) to 10-year T-bond yield spread has gone to negative territory, making a persuasive case for taking profits. However, better-than-expected Q2 GDP growth figures could provide a more solid support between 7,700 and 7,800. For the moment, it looks better to wait for the long-awaited PSEi correction before taking in more risk.

Figure 17 - PSEi and DJIA



Source: Bloomberg

The PSEi and DJIA's correlation remained strong and turned positive in July from -0.61 to 0.75. The co-movements of the two indices is attributable to the low inflation (2.8%) that fell below the expected (3%). Moreover, foreign investors turned into buyers in the latter part of July, after Fed Chairperson Janet Yellen's "dovish" testimony to Congress. She reiterated that policy rate increases will be quite gradual given inflation staying below its 2% target. Given the strong positive correlation, we could expect external foreign events to significantly affect the PSEi.

Global Equities Markets Performances

Region	Country	Index	Growth Rate (m-o-m)	2017 YTD
Americas	US	DJIA	2.5%	10.1%
Europe	Germany	DAX	-1.7%	4.5%
	London	FTSE 101	0.8%	2.7%
East Asia	Hong Kong	HIS	6.1%	23.4%
	Shanghai	SSEC	2.5%	4.4%
	Japan	NIKKEI	-0.5%	1.7%
	South Korea	KOSPI	0.5%	18.6%
Asia-Pacific	Australia	S&P/ASX 200	0.0%	-0.2%
Southeast Asia	Indonesia	JCI	0.2%	10.7%
	Malaysia	KLSE	-0.2%	7.6%
	Thailand	SET	0.1%	0.8%
	Philippines	PSEi	2.2%	16.9%
	Singapore	STRAITS	3.2%	14.9%

Sources: Bloomberg & Yahoo Finance

The growth of the different sectors began to ease mainly due to the slowdown of foreign buying, despite the positive news of the Fed with regards the retention of their current rates.

PSEi enjoyed a 2.2% increase in July. In year-to-date (YTD) terms as of July, PSEi continued to be the fastest growing index (+16.9%) in ASEAN. Most indices remained flat with minor dips and gains. However, Hong Kong's Hang Seng Index (HSI) experienced the largest increase of 6.1% in July, followed only by Singapore's STRAITS with 3.2%.

Monthly Sectoral Performance				
	30-Jun-17		31-Jul-17	
Sector	Index	% Change	Index	% Change
PSEi	7,843.2	4.8%	8,018.1	2.2%
Financial	1,937.9	3.7%	1,969.1	1.6%
Industrial	10,963.4	3.3%	11,146.2	1.7%
Holdings	7,889.1	4.9%	7,993.9	1.3%
Property	3,606.8	6.4%	3,799.0	5.3%
Services	1,687.6	4.1%	1,676.5	-0.7%
Mining and Oil	12,567.8	0.8%	12,875.8	2.5%

Source of Basic Data: PSE Quotation Reports

Déjà vu, the PSEi went up by 174.9 points (+2.2%) in July. The growth of the different sectors began to ease mainly due to the slowdown of foreign buying. Despite the positive news of the Fed with regards the retention of their current rates, it failed to encourage enough foreign buying to sustain the sectoral growths of the previous months. Leading the boards, Property sector listed a 5.3% gain in July. Mining & Oil, and Industrial sectors followed with an uptick of 2.5% and 1.7%, respectively. Also in the green, Financial and Holdings sectors rose by 1.6% and 1.3%, respectively. Bucking the trend, Services sector with a minor dip took a loss of 0.7%.

Company	Symbol	6/30/17 Close	7/31/17 Close	% Change
Metrobank	MBT	87.5	87.0	-0.6%
Banco de Oro	BDO	124.0	125.9	1.5%
Bank of the Philippine Islands	BPI	104.0	104.6	0.6%
Security Bank Corporation	SECB	217.0	234.0	7.8%

Source of Basic Data: PSE Quotation Reports

The Financial sector rose by 1.6% in July following its 3.7% gain in the previous month. Security Bank Corporation (SECB) led the sector with a significant growth of 7.8% after it reported net income growth of 32% quarter-on-quarter in Q2-2017.

BDO Unibank, Inc. (BDO) enjoyed minor gains, increasing by 1.5% in July as its net income in H1-2017 amounted to P13.3 B which was in line with market consensus. This was driven by the growth of core income and the expansion of the loan portfolio which increased by 16% year-on-year (y-o-y) and 17% (y-o-y), respectively.

Bank of the Philippine Islands (BPI) rallied by 0.6% in July from the 1.3% loss of the previous month. BPI aims to double their assets and net income again in the next five years by tapping the "unbanked" market.

Metropolitan Bank and Trust Co. (MBT) had a good run in early July and hit a year high of P95.20 on July 12. However, it shed the sharp gains and ended with a slight 0.6% slippage.

Company	Symbol	6/30/17 Close	7/31/17 Close	% Change
Meralco	MER	260.80	279.00	7.0%
Aboitiz Power	AP	38.90	39.00	0.3%
Energy Development Corporation	EDC	6.05	5.97	-1.3%
Jollibee Foods Corporation	JFC	204.00	225.00	10.3%
Puregold Price Club Inc.	PCGMF	44.55	47.15	5.8%
First Gen Corporation	FGEN	18.90	17.30	-8.5%
Universal Robina Corporation	URC	162.90	161.00	-1.2%
Petron Corporation	PCOR	9.68	9.46	-2.3%

Source of Basic Data: PSE Quotation Reports

The industrial sector increased by another 1.7% in July. Jollibee Foods Corporation (JFC) surged up by 10.3% after its famous Chickenjoy obtained the third best tasting chicken in the United States. Moreover, it increased its capital expenditure to P14.7 B to fund the expansion of its store network.

LT Group, Inc. (LTG) skyrocketed by 19.7%, completely reversing its 8.2% loss in Q2-2017.

Manila Electric Company (MER) rallied by 7% in July wiping out its 4.8% loss in Q2-2017. MER's growth is attributable to the sales volume increase of 4.2% y-o-y due to the strong demand from the residential sector.

Puregold Price Club, Inc. (PGOLD) followed closely behind with an uptick of 5.8%, picking up its pace from its 3% gain in the previous month.

Aboitiz Power (AP) ended relatively flat with a slight gain of 0.3% in July despite its plans to complete five projects this year. These include the 400-MW Pagbilao plant expansion, 69 MW Manolo Fortich hydropower plant, 8.5-MW Maris Canal hydro project, 340-MW Therma Visayas power plant, and 8.8-MW biomass power plant.

Universal Robina Corporation (URC) continued to suffer setbacks, as it decreased by 1.2% due to the slowdown of sales of its flagship brands, C2 and Refresh.

Energy Development Corporation (EDC) slumped by 1.3% after its power plants were temporarily shut down due to a 6.5 magnitude earthquake in Leyte.

Petron Corporation (PCOR) continued its down trend and gave up 2.3% due to apprehensions over the negative impact of the proposed excise tax hike on petroleum products now at the Senate committee level.

In deep red, First Gen Corporation (FGEN) plunged by 8.5% as it is expected to have a lower supply of energy due to the planned 8-month shutdown of Unit 2 of its Sual plant after the earthquake.

Company	Symbol	6/30/17 Close	7/31/17 Close	% Change
Ayala Corporation	AC	850.00	865.00	1.8%
Metro Pacific Investments Corporation	MPI	6.39	6.79	6.3%
SM Investments Corporation	SM	803.00	807.00	0.5%
DMCI Holdings, Inc.	DMC	14.10	16.10	14.2%
Aboitiz Equity Ventures	AEV	76.15	75.95	-0.3%
GT Capital Holdings, Inc.	GTCAP	1,210.00	1,213.00	0.2%
San Miguel Corporation	SMC	104.00	101.6	-2.3%
Alliance Global Group, Inc.	AGI	14.30	14.36	0.4%
LT Group Inc.	LTG	14.70	17.60	19.7%
JG Summit Holdings, Inc	JGS	81.00	79.50	-1.9%

Source of Basic Data: PSE Quotation Reports

The Holdings sector rose by 1.3%, easing from the 4.9% gain in the previous month. LT Group, Inc. (LTG) skyrocketed by 19.7%, completely reversing its 8.2% loss in Q2-2017. LTG's growth was due to Mighty Corporation's sale of assets worth P25 B to Japan Tobacco International (JTI) to settle its tax evasion case.

DMCI Holdings, Inc. (DMC) also experienced double-digit growths after the International Chamber of Commerce (ICC) ordered the government to pay for the losses of its affiliate, Maynilad, from March 2015 to August 2016 worth P3.42 B.

Metro Pacific Investments (MPI) enjoyed a significant gain of 6.3% as it holds majority stake of Maynilad. Moreover, MPI has submitted a project proposal worth P20 B to build a road connecting Manila-Cavite Expressway to the port area.

Ayala Corporation (AC) slowly picking up its pace, grew by 1.8% in July from 0.6% in the previous month. AC is currently in discussion with Shanghai Automotive Industry Corporation, China's largest automotive manufacturer, to bring in MG, a British motor brand that is solid in the United Kingdom and China, into the Philippines.

The Property sector continued to grow significantly posting a 5.3% growth in July with all firms in the green.

SM Investments Corporation (SM) ended relatively flat with a 0.5% gain, despite opening new malls in Aparri and General Santos.

Alliance Global Group, Inc. (AGI) rallied by 0.4% in July after Resorts World announced it will build a new gaming facility to rebuild its brand.

GT Capital, Inc. (GTCAP) also ended flat with a slight uptick of 0.2%. GTCAP has partnered with two Japan-based real estate firms Nomura Real Estate Development Co., Ltd and Isetan Mitsukoshi Holdings Ltd. to build Japanese inspired residential and commercial units.

Aboitiz Equity Ventures (AEV) was unable to stay afloat, slipped by 0.3% in July after its subsidiary, Unionbank reported a 6.9% y-o-y decrease in net profit for Q2-2017.

JG Summit Holdings, Inc. (JGS) dipped by 1.9% despite its subsidiary's (Cebu Pacific) plans to add flights in Sydney and Japan. The additional flights to Japan aim to address the strong and growing demand for flights to Japan.

San Miguel Corporation (SMC) suffered a 2.3% loss after it mentioned its plans to expand into the distribution of BMW cars, despite the possible negative effects of the proposed tax scheme on high-end cars.

Company	Symbol	6/30/17 Close	7/31/17 Close	% Change
Ayala Land, Inc.	ALI	39.75	42.00	5.7%
SM Prime Holdings, Inc.	SMPH	33.00	34.90	5.8%
Robinsons Land Corporation	RLC	24.25	25.70	6.0%
Megaworld Corporation	MEG	4.30	4.80	11.6%

Source of Basic Data: PSE Quotation Reports

The Property sector continued to grow significantly posting a 5.3% growth in July with all firms in the green. Megaworld Corporation (MEG) surged by 11.6%, completely reversing the 8.5% plunge in the previous month. MEG has launched its seventh residential tower, Saint Dominique, in its business park in Iloilo.

Robinsons Land Corporation (RLC) also posted a significant growth of 6% in July after it received the approval from the Board of Investments (BOI) to build a hotel facility worth P500 M in Tacloban.

SM Prime Holdings, Inc. (SMPH), still reaping benefits from the increased cash flow from its mall segments, grew by 5.8% in July.

Not to be outdone, Ayala land Inc. (ALI) also grew by 5.7% after it partnered with ABS-CBN to build a Vertis Tent in Ayala's newly opened complex, Vertis North, to hold public and private events.

Company	Symbol	6/30/17 Close	7/31/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,798.00	1,637.00	-9.0%
Globe Telecom	GLO	2,048.00	2,116.00	3.3%
International Container Terminal Services Inc.	ICT	97.80	106.80	9.2%

Source of Basic Data: PSE Quotation Reports

The Services sector ended relatively flat with a slight setback of 0.7% due to the sector's mixed results. Philippine Long Distance Telephone Co. (TEL) plunged by 9% after Duterte mentioned his plan to increase the allowed foreign ownership cap to 70% from 40% for telco companies. With this new rule, foreign competitors may take the opportunity to compete in the telco industry.

Globe Telecom (GLO) rallied by 3.3% in July from the 2.9% decrease in June, despite the same potential threat it faces from possible foreign competitors.

The total turnover plunged by 29.2% in July, reversing completely the 5.5% gain the previous month.

International Container Terminal Services, Inc. (ICT) has allotted P2 B to dredge the Congo River in order to allow bigger vessels to travel through the Congo River and directly to the port of Matadi in Congo. Besides, it is in serious talks with the MVP Group to build a freight railway system from Calamba, Laguna to the Manila International Container Port at a cost of some P10 B.

Company	Symbol	6/30/17 Close	7/31/17 Close	% Change
Semirara Mining and Power Corporation	SCC	160.50	169.50	5.6%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil Sector picked up its pace, growing by 2.5% in July from the 0.8% gain in the previous month. Semirara Mining and Power Corporation (SCC) gained by a significant 5.6% after its management disclosed its plan to increase further its coal production capacity to 16 M metric tons (MT) in two to three years.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	25,284.5	36.4%	1,204.0	29.9%
Industrial	29,304.7	-47.2%	1,395.5	-49.7%
Holdings	32,069.4	-25.3%	1,527.1	-28.8%
Property	26,894.3	-30.8%	1,280.7	-34.1%
Services	28,816.4	-41.7%	1,372.2	-44.5%
Mining and Oil	6,480.8	19.7%	308.6	14.0%
Total	149,544.2	-29.2%	**7,121.2**	-32.6%
Foreign Buying	71,435.6	-42.6%	3,401.7	-45.3%
Foreign Selling	69,489.4	-34.0%	3,309.0	-37.2%
Net Buying (Selling)	1,946.1	-89.8%	92.7	-90.3%

Source of Basic Data: PSE Quotation Reports

The total turnover plunged by 29.2% in July, reversing completely the 5.5% gain the previous month. Although still in an apparently slow selling mode, foreigners turned into buyers with a net buying of P1.9 B as they take profits from PSEi's 5-month climb. This net buying trend, however, will likely flatten out in August. Financial sector turnover rallied in July with an uptick of 36.4%. Not to be outdone, Mining and Oil also rose by 19.7%. On the other side of the spectrum, Industrial and Services sectors' turnover plummeted by 47.2% and 41.7%, respectively. Property's and Holdings' turnover also fell sharply by 30.8% and 25.3%, respectively.

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		May-2017			Jun-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%	228,251	-3.2%	14.3%	179,844	-21.2%	2.4%
Tax	1,815,475	5.6%	1,980,390	9.1%	200,961	-8.6%	8.6%	168,134	-16.3%	4.6%
BIR	1,433,302	7.4%	1,567,214	9.3%	158,694	-15.4%	4.7%	131,245	-17.3%	5.8%
BoC	367,534	-0.5%	396,365	7.8%	39,592	27.1%	23.5%	35,417	-10.5%	0.4%
Others	14,639	-2.1%	16,811	14.8%	2,675	150.0%	86.8%	1,472	-45.0%	-0.1%
Non-Tax	293,317	54.9%	215,446	-26.5%	27,284	70.7%	85.9%	11,706	-57.1%	-21.0%
Expenditures	2,230,645	12.6%	2,549,336	14.3%	261,672	42.9%	20.4%	270,717	3.5%	22.6%
Allotment to LGUs	387,559	12.6%	449,776	16.1%	46,155	-7.0%	29.2%	55,040	19.3%	49.3%
Interest Payments	309,364	-3.7%	304,454	-1.6%	20,966	55.5%	12.4%	19,273	-8.1%	9.1%
Overall Surplus (or Deficit)	(121,689)	66.5%	(353,422)	-190.4%	(33,421)	-163.3%	89.3%	(90,873)	-171.9%	101.1%

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		May-2017		Jun-2017	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	13,502,588	13.9%	13,802,051	11.0%	14,031,826	11.1%
Sources:						
Net Foreign Asset of the BSP	4,308,975	7.8%	4,368,351	4.6%	4,416,996	2.8%
Net Domestic Asset of the BSP	9,193,613	17.0%	9,433,700	14.3%	9,614,830	15.4%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,069,611	15.1%	3,175,166	14.6%	3,240,239	16.0%
Money Supply-2	9,137,898	13.2%	9,280,622	11.4%	9,513,711	13.0%
Money Supply-3	9,497,935	12.7%	9,630,334	11.3%	9,877,540	13.1%
MONEY MULTIPLIER (M2/RM)	0.68	-0.5%	0.67	0.3%	0.68	1.7%

Source: Bangko Sentral ng Pilipinas (BSP)

August 2017

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