September 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

***Philippine economy keeps fast growth pace, expanding by 6.5% in Q2,** slightly faster than 6.4% in Q1, and the best in ASEAN.*

- National Government (NG) ramps up spending in Q2 and begins Q3 with infrastructure spending growing by 25% in July.
- Investment expenditures still led domestic demand, albeit slightly slower than Q1.
- Exports grew by another 20% to provide the needed added boost.
- Manufacturing output gains remained robust, while the Services sector put a below-par uptick of only 6.1%

Macroeconomy

***Robust Investments (+8.7%) and government spending (+7.1%) in Q2 drive vibrant growth.** Strong export growth supported solid domestic demand, while infrastructure spending soars by 25% in July.*

- Fiscal deficit down to P50 B in July, as strong gains in revenues blunt 11% rise in spending.
- Exports growth in June on respite but quick rebound likely as EU, Japan grow faster.
- Inflation climbed to 3.1% in August but YTD rate remained within target.
- Manufacturing kept a robust growth of 8.1% in June.

Outlook: We believe that the rapid spending on infrastructure and the strong domestic demand will continue to buoy the economy. The continued improvement in exports, coupled with higher inflows from OFW remittances, should moreover push further the country's economic expansion.

Bonds Market

***Local bond yields eased on increased risk appetite from investors,** as markets see no further Fed hikes for the rest of the year, owing to weak economic data from the U.S.*

- Yields in Treasury bill auctions fell by 3.7 bps to 6 bps, reflecting higher demand.
- For similar reasons, yields of 7-year and 10-year bond issues eased by 0.9 bps and 4.1 bps,
- GS trading rebounded by 1.2% (m-o-m) and 6.7% (y-o-y), owing to the increase in the supply of liquid, long-dated papers.
- The yield curve flattened as the 10-year to 2-year bond spread narrowed by 10 bps.
- Tracking the dip in U.S. Treasury yields, ROP yields declined for the three liquid tenors.

Outlook: Amid weak U.S. inflation data, market expectations that the Fed may raise policy rates this year have considerably dimmed. Moreover, the synchronized growth of E.U., Japan, China, and the rest of the world may put a little upward pressure on inflation. Local risk appetite, however, has reawakened owing to an increase in domestic savings due to a depreciating peso as well as a surge in global investment funds moving back to EMs. Thus, we should see continued opportunities for yields to drop in the next two months.

Equities Market

***Q2-2017 earning reports kept the PSEi above minor support level of 7,850,** as the Q2-2017 earnings average of +6.5% y-o-y came above market expectations.*

- PSEi entered the "ghost month" on August 22nd and may last until September 19.
- Mining & Oil led PSEi with a 2.9% gain, as SCC got SEC approval of its 300% stock dividend
- Services followed with a 2.7% rise, driven by a surprise earnings-based gain (+5.7%) of TEL.
- EDC skyrocketed in August due to the plan of Philippines Renewable Energy Holdings Corporation (PREHC) to acquire a 31.7% stake from EDC, backed by a tender offer above market prices.
- Foreigners withdrew a bit from the market by some 9.2% in August, but still remained net buyers for P2.3 B.

Outlook: With DJIA being overbought, foreign investors are looking into more profitable investments, and are eyeing emerging markets. Moreover, the conflict between North Korea and U.S. has the PSEi moving based on the sentiments in PH. Considering the PSEi has entered the ghost month, this may push the PSEi towards a more decisive consolidation in September and October.

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)	6.4%	6.5%	6.5%	5.9%	6.8%	6.5-7%
Industrial Output (June)	9.8%	8.1%	8.5%	2.4%	9.0%	9.5%
Inflation Rate (August)	2.8%	3.1%	3.2%	1.4%	1.8%	2.8- 3.2%
Government Spending (July)	22.6%	11.0%	8.8%	12.6%	18.0%	15%
Gross International Reserves ($B) (August)	81.1	81.5	81.5	81.6	80.7	85
PHP/USD rate (August)	50.64	50.87	50.13	45.50	47.49	51
10-year T-bond yield (end-August YTD bps change)	4.94%	4.89%	3.8	4.10%	4.63%	4.8-5.1%
PSEi (end-August YTD % change)	8,018.1	7,958.7	16.0%	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

PH Q2 GDP Growth Faster at 6.5%, Best in ASEAN

With the National Government (NG) ramping up spending, especially infrastructures, and investments' expansion still near 10% for the second quarter, domestic demand gains remained solid to press on GDP expansion to 6.5% in Q2, a tiny but meaningful step faster than 6.4% in Q1. Exports, morever, provided an added boost as it surged by almost 20%. The steady growth in overall demand led to robust Industrial growth leading production sectors' expansion of 7.3%, and a remarkable 6.3% pickup in Agricultural output offset a surprisingly weak Services sector gain of 6.1%.

PH Economic Expansion in Q2 Beats Other ASEAN Neighbors

The country's Gross Domestic Product (GDP) in Q2 expanded by 6.5%, slightly outpacing the previous quarter. A robust Agricultural sector and higher government disbursements sustained PH economic expansion. The growth in Q2, while posting lower than the growth registered in the same period last year, is believed to still be on track in meeting the full-year government target of 6.5-7.5%. Moreover, economic performance in Q2 ranked ahead of other East Asian and ASEAN nations, save for China.

All sectors but Services improved from Q1-2017, with the Industry sector showing the most improvement (+7.3% from 6.1% in the previous quarter). The 6.3% gains in the Agricultural sector, faster than the 4.9% recorded from Q1, reflected the continued recovery of the sector. Growth would have been on target had the Services sector performed better. Surprisingly, it decelerated to 6.1% from 6.8% posted in the previous quarter.

The stronger performance of the Industry sector drew from the robust growth of Manufacturing (+7.9%), coupled with the recovery in Mining and Quarrying (MAQ). Radio, television and communication equipment and apparatus industry (+17.5%) led the expansion in the manufacturing sector. The rest of the manufacturing subsectors, except for food manufacturing, likewise registered double-digit growths. Meanwhile, MAQ rebounded by 13.7%, after contracting 18% in the previous quarter, driven by the hefty gains in Other Non-metallic Mining industry (+73.8%).

GDP Growth for ASEAN 6 +1

	2016	Q1-2017	Q2-2017
China	6.7%	6.9%	6.9%
Philippines	6.9%	6.4%	6.5%
Vietnam	6.2%	5.1%	6.2%
Malaysia	4.2%	5.6%	5.8%
Indonesia	5.0%	5.0%	5.0%
Thailand	3.2%	3.3%	3.7%
Singapore	2.0%	2.5%	2.9%

Source of Basic Data: Philippine Statistics Authority

The Construction industry only gained by 6.3%, slower than the 9% in Q1, weighed down by the modest growth in private construction. Electricity, Gas and Water Supply (EGWS) accelerated to a 2.4% pace in Q2, faster than the 1.5% in Q1, despite the slowdown of Electricity to 3%.

The remarkable growth in the production of palay, corn, and sugarcane resulted in the continued recovery of the Agricultural sector. The small Forestry subsector, grew by 32.2%, following the negative performance in the past quarters.

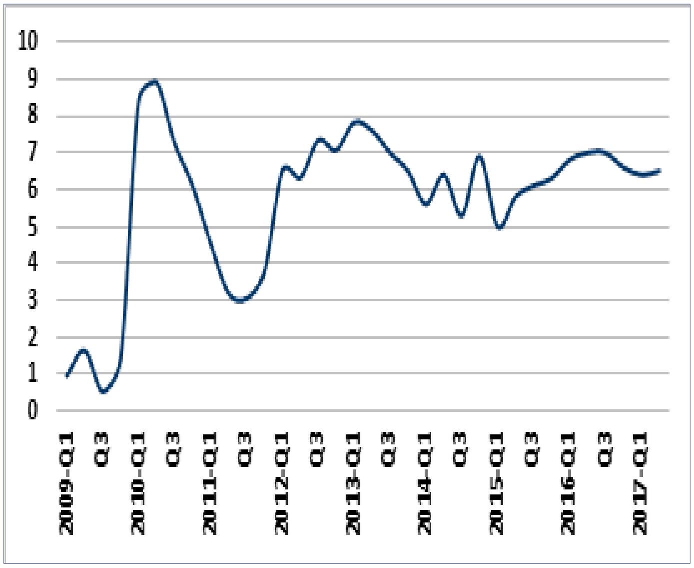
The Services sector, nonetheless, remained to be the biggest contributor to GDP at 56.5%. Real Estate, Renting and Business Activities (RERBA) posted the highest growth of 7.9%, driven by the expansion of real estate and renting and other business activities, which grew by 8% and 14.3%, respectively. Public Administration and Defense also drove the Service sector with an uptick of 7.6%, outpacing the 6.4% recorded in the same quarter last year, owing to the

Foreign direct investments continued to pour into the country amidst the strengthened investors' confidence due to the positive outlook of the PH economy.

increase in salaries of government employees and uniform and military personnel as well as the creation and filling up of positions by government agencies.

On the expenditure side, both Government Spending (7.1% from 0.1%) and Household Consumption (5.9% from 5.8%) registered an improvement from Q1, amidst NG's effort to ramp-up spending on key infrastructure projects and the increased consumers' purchasing power brought about by softer prices in key commodities. The lack of election-related spending pulled down NG's Final Consumption Expenditure and household spending as well, particularly of Food, Non-alcoholic Beverage, and Recreation products.

Figure 1 - PH GDP Quarterly Growth Rate (Year-on-Year)



Source of Basic Data: Philippine Statistics Authority

Meanwhile, softer Construction and Durable Equipment spending largely explained the weaker growth of 8.7% in Total Capital Formation (investments) versus the 10.6% in Q1. Anemic expenditures on Transport Equipment and Industrial Machineries weighed down Investments in durable equipment, offsetting the gains from the Telecommunications and Sound Recording/Reproducing Equipment and Mining Machineries. On the other hand, Intellectual Property (IPP) and Breeding Stock and Orchard Development (BSOD) picked up pace. IPP soared by 68.3% in Q2-2017 due to the increased spending on computer software and databases.

Exports still ended in the green, a tad lower than the past quarter (+19.7% in Q2 from 20.3% in Q1-2017) due to lower exports of services. It should be noted, however, that exports of goods recorded its 3rd consecutive quarter of double-digit growth.

We believe that the NG's promise to roll-out big-ticket projects, coupled with improving domestic and external demand, should gear up to a faster economic expansion, such that the full-year target of 6.5%-7.5% will easily be hit.

Foreign Investments Soar in May

Foreign direct investments continued to pour into the country amidst strengthened investors' confidence due to the positive outlook of the PH economy. Recall that the World Bank even earlier raised their forecast, buoyed by favorable macroeconomic fundamentals. Strong foreign investors' confidence is seen in the huge net inflow in May amounting to $572 M, soaring by 57%. This brought the YTD levels of the first five months to $3 B, lower by 23.8% for the same period in 2016. The YTD decline was due to a huge one-time $780 M equity investment of Bank of Tokyo-Mitsubishi UBJ in Security Bank last year.

The equity capital investments were mainly sourced from Hong Kong, the United States, Japan, Singapore, and Malaysia channeled to real estate; financial and insurance; manufacturing; electricity, gas, steam and air conditioning supply; and wholesale and retail trade activities.

Infrastructure Spending Soars by 25% in July

Infrastructure Spending soars by 25% in July, maintaining the momentum of NG disbursements in July, albeit slower than June's 22.6% expansion. NG spending amounted to P245.1 B (or +11% year-on-year y-o-y) with the resumption of key infrastructure projects. Meanwhile, total revenues managed to grow by 14.3% to P194.6 B, sustained by the remarkable gains from the Bureau of Internal Revenue (BIR) and Bureau of Customs collections. With revenue

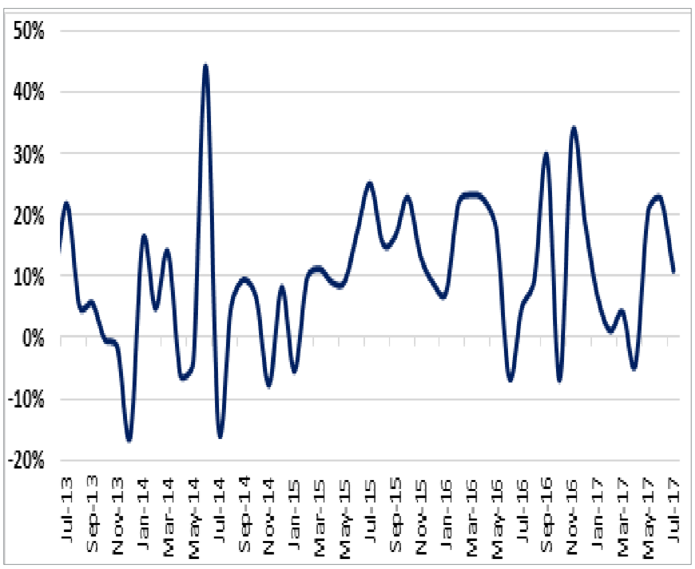
Capital goods imports registered a negative 3.5% in June after bouncing up to 20.1% in the previous month.

gains stronger than spending growth, the budget deficit declined to P50.5 B in July. Year-to-date (YTD), the fiscal deficit has reached P205 B.

The BIR raked in a total of P138 B (or 17.6% growth) in July while the Bureau of Customs' (BoC) take rose by 12.9%, a big improvement from the tepid 0.4% expansion recorded in June. The big jump in BIR revenues would suggest better corporate sales and profits in Q2, as income taxes and VAT are collected in the month after the end of each quarter.

With YTD deficit accounting for only 43% of total target deficit for 2017 of P473.1 B (3% of GDP), this leaves about 57% of the programmed deficit for the remaining five months, suggesting sufficient fiscal space for the implementation of other projects.

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



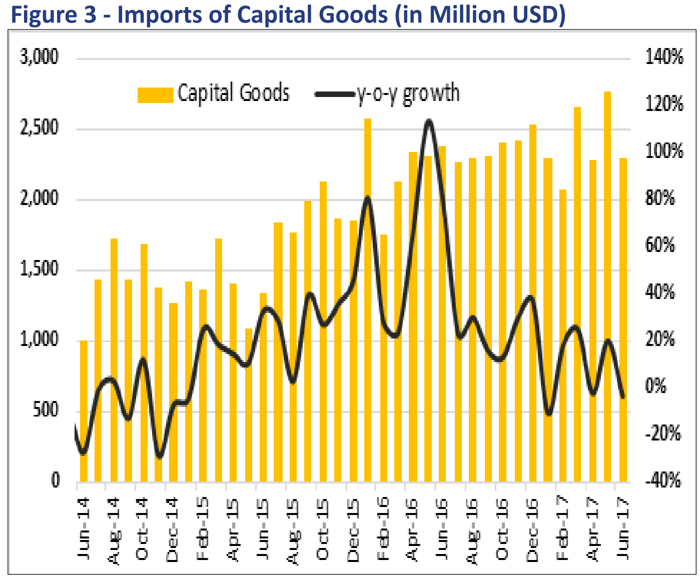
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

We maintain our view that NG spending will continue at an elevated pace underscored by the administration's determination to fast track the roll-out of big-ticket infrastructure projects. We, likewise, believe that the infrastructure buildup will be an important catalyst in driving the country's GDP growth to 6.5%-7% for the full year.

Capital Goods Imports Ease in June

Following the roller coaster pattern of the past months, capital goods imports registered a negative 3.5% in June after bouncing up to 20.1% in the previous month. Significant decline in most capital goods products (i.e. Power Generating and Specialized Machines (-14.5%), Telecommunication Equipment and Electrical Machinery (-6.6%), and Land Transport Equipment excluding Passenger Cars and Motorized Cycle (-17.5%)) largely pulled down capital goods imports' performance to record a total of $2.3 B. The other three categories posted a positive growth (i.e. Office and EDP Machines and Photographic Equipment and Optical Goods) but not strong enough to offset the decline of the other items.

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



Source of Basic Data: National Statistics Office (NSO)

The other imports categories, likewise, registered declines led by the Special Transactions (-43.6%). Raw Materials & Intermediate Goods imports, which captured the highest share of total imports at 38.6%, also fell by 6.9%. Meanwhile, the imports of Mineral Fuels, Lubricant and Related Materials bucked the trend with a 3.4% gain as buyers built up inventories to take advantage of weak prices of petroleum products. Consumer goods imports also had a positive growth (+7%), reflecting a robust consumer demand.

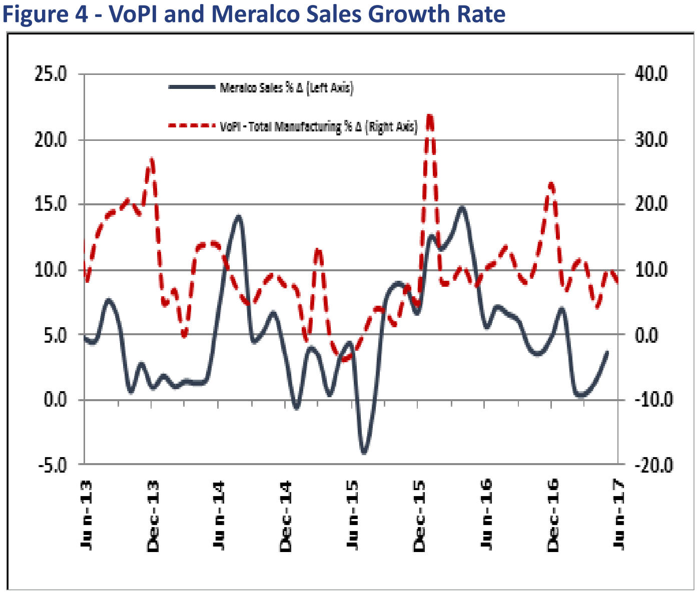
The country's domestic liquidity (M3) expanded by 13.5% in July, a bit faster than the 13.2% in the previous month, marking the 19th straight month of double-digit growth.

With hefty declines in heavily-weighted import categories, total imports fell by 2.5% y-o-y which outpaced the 0.8% y-o-y rise of total exports receipts. Thus, trade deficit in June stood at $2.1 B, significantly lower than the $2.7 B in May and $2.4 B a year ago.

Manufacturing Output Continues to Expand in June

The country's manufacturing output (measured by Volume of Production Index or VoPI) expanded by 8.1% in June from 9.8% (revised) in May. Strong double-digit gains in 12 out of 20 sectors sustained the manufacturing output's expansion led by the production of Footwear & Wearing Apparel and Fabricated Metal Products which soared by 340.4% and 116.9%, respectively. Other rapidly expanding sectors included Leather Products (+48.1%), Electrical Machinery (+19.6%), Wood and Wood Products (+19.5%), and Basic Metals (+18.5%), among others. The positive gains recorded in the first half of 2017 brought the YTD growth to 8.5%.

Figure 4 - VoPI and Meralco Sales Growth Rate



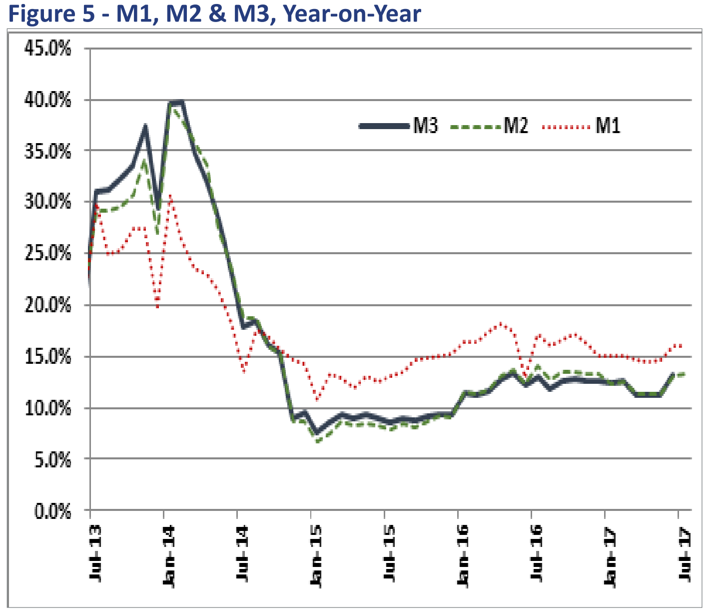
Sources of Basic Data: Meralco & Philippine Statistics Authority

Domestic Liquidity Slightly Faster in July, MB Keeps Policy Rates Steady

The country's domestic liquidity (M3) expanded by 13.5% in July, a bit faster than the 13.2% (revised) in the previous month and marking the 19th month of straight double-digit growth. Broad Money (M2), likewise, increased to 13.4%, while Narrow Money (M1) maintained the past month's rate at 16%. This uptick, nonetheless, remained manageable and in-line with the Bangko Sentral ng Pilipinas' (BSP) outlook. Thus, the Monetary Board (MB) decided to maintain key policy rates (BSP's overnight reverse repurchase, RRP facility) at 3%. during its August 10th meeting. The interest rates on the overnight lending, deposit facilities, and the reserve requirement ratios remained unchanged.

Meanwhile, the continued expansion of money supply drew support from the increase in loans for productive activities by 18.9%, quicker than the 17.9% in the previous month. Bulk of bank loans went to productive activities. Big loan gains went into Information and Communication (+38.7%); Electricity, Gas, Steam and Air-conditioning Supply (+27.1%); Real Estate Activities (+18.9%); and Manufacturing (+12.3%). Despite the sustained inflow of OFW remittances and earnings from BPOs, the Net Foreign Assets (NFA) of monetary authorities edged up by 0.8%, even slower than the 1.5% recorded in June.

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



Source of Basic Data: National Statistics Office (NSO)

Despite the slight acceleration in the money growth in July, it has remained at the lower end of the 10% to 16% range. We believe that the MB will continue to hold policy rate steady in Q3, anchored also on slower uptick in inflation.

Higher price increments in electricity and fuel resulted in an uptick in the country's inflation.

Inflation Accelerates in August

Higher price increments in electricity and fuel resulted in a quicker-pace uptick in the country's inflation. PH headline inflation accelerated to 3.1%, climbing by 0.3% points from July. The upticks recorded in most categories weighed on the softer prices recorded in Clothing and Footwear and Housing Maintenance. Nonetheless, YTD price changes still stood well within the BSP's target at 3.2%.

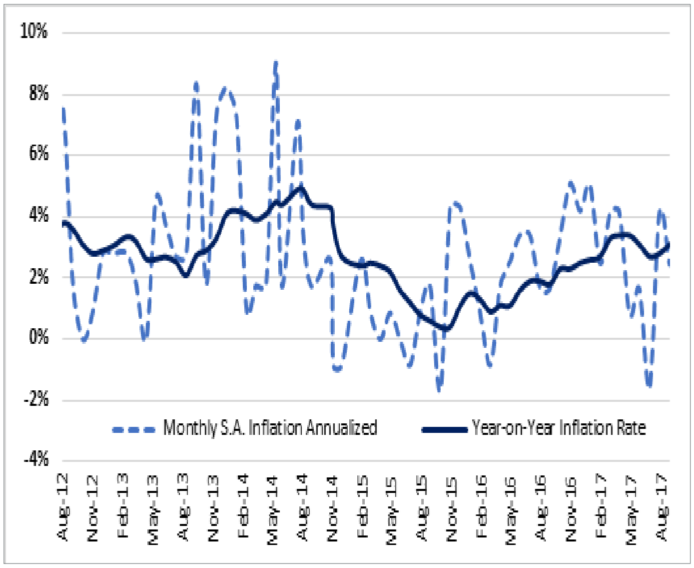
Inflation Year-on-Year Growth Rates	Aug-2017	Jul-2017	YTD
All items	3.1%	2.8%	3.1%
Food and Non-Alcoholic Beverages	3.5%	3.3%	3.7%
Alcoholic Beverages and Tobacco	6.3%	6.2%	6.1%
Clothing and Footwear	1.9%	2.1%	2.4%
Housing, Water, Electricity, Gas, and Other Fuels	2.8%	2.2%	2.9%
Furnishing, Household Equipment and Routine Maintenance of the House	1.8%	2.0%	2.2%
Transport	4.4%	3.8%	3.0%
Communication	0.3%	0.2%	0.2%
Recreation and Culture	1.4%	1.2%	1.5%
Restaurants and Miscellaneous Goods and Services	2.2%	2.1%	1.9%

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.

The Transport and Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) indices posted significant increase due to faster price upticks in crude with WTI and Brent posting an average mark-up of 5% from last month. Higher Meralco and water charges in August, likewise, pushed HWEGOF index higher. Meralco electricity charges in August went up by P0.13/kWH to P8.38/kWH for residential customers due to 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. Faster uptick in the prices of key food items (i.e. meat, cereals, flour, and other bakery products) also brought the heavily-weighted Food and Non-Alcoholic Beverages (FNAB) index higher. Meanwhile, slower annual growths were observed in the Clothing and Footwear index, both in NCR and areas outside NCR (AONCR). Price decelerations in items related to Restaurants and Miscellaneous Goods and Services also prevailed in AONCR.

Figure 6 - Inflation Rates Annualized, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

The seasonally adjusted annualized rate (SAAR) recorded a fast deceleration from 4.1% to 2.5%, suggesting a slowdown in inflation. Besides, core inflation (which excludes volatile food and energy prices) only registered a slight increase to 3% vis-a-vis the 2.8% (revised) recorded in July. Thus, we believe that the average inflation will continue to lodge within the BSP's target as supply from large-oil producers continue to limit the crude oil prices upside.

Exports Growth Takes Breather in June

After rising by double-digit pace in the first five months of 2017, exports took a breather with a minute 0.8% y-o-y increase in June. Nonetheless, five out of the top 10 major commodities posted strong upticks, led by Electronic Equipment and Parts (+28.6%). Exports of Mineral Products surged by 27.9% as the mining industry recovered from the negative stance of the former cabinet secretary on mining. YTD total exports in H1 reached $31 B, an all-time high in H1 levels, resulting in a double-digit growth of 13.6%.

The country raked in a total of $2.8 B worth of personal remittances from Filipinos working abroad in June, representing a 6.8% increase y-o-y.

Other major gainers included Metal Components (+18.7%), Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships (+13.7%), Electronic Products (+4.4%), and Machinery and Transport Equipment (+1.1%).

Exports of manufactured goods held steady and maintained its 85.1% share of total exports. Electronic products remained consistent as the top export earner with receipts worth $2.6 B, while accounting for 53.3% of total exports revenue for the month of June. It grew by 4.4% from a year ago. Similarly, Semiconductors still had the largest share among electronic products, experiencing a 6.1% increase with $1.9 B in export shipments.

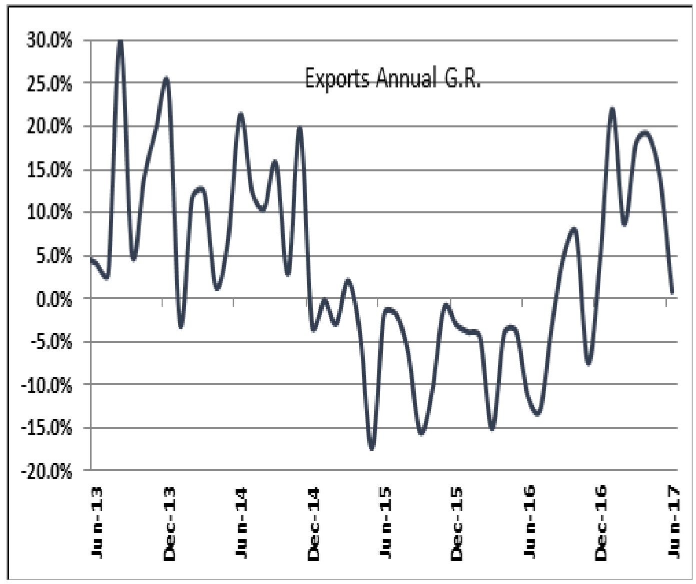
Other Manufactures come in second with shipment sales worth $293.9 M. It, however, fell by a slight 2% slippage from June 2016. Machinery and Transport Equipment followed in third place with $270.7 M, representing a 5.5% share to sales. It moved up by 1.1% from the $267.8 M a year ago. Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships took the fourth spot, contributing a 3.2% share worth $156 M, a 13.7% y-o-y increase.

Japan came first in terms of exports destinations (18.5% of total exports) receiving $909.2 M of goods in June 2017, despite a 9% decline from the same month last year. United States of America followed in second place with revenue totaling $697.8 M, or 14.2% of shipments. Exports to the U.S., likewise, fell by 8.7%. Among the top five, only exports to HongKong (in 3rd place) rose by 12.6% to $592.7, as shipments to China and Singapore also decreased by 2% and 7.1%, respectively.

A little over half of the total exports in June headed towards East Asian (EA) nations, valued at $2.5 B, which represented an expansion of 2.1% y-o-y. Shipments to the ASEAN countries (comprising 15%), also increased by 4.8%. ASEAN+East Asia ex-Japan accounted for 48% of total exports. Trade exports to the E.U., likewise, registered a 3.9% acceleration.

We believe that exports will continue to expand and return to its strong levels as global demand in the U.S., E.U., and some ASEAN countries improve, which should further augment the fast-growing domestic demand.

Figure 7 - Exports Growth Rates, Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

OFW $ Remittances Up by 6.8% in June

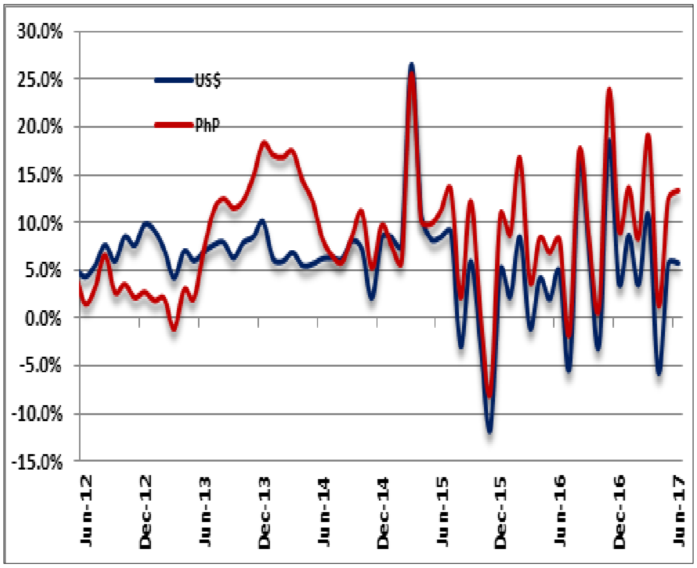
The country raked in a total of $2.8 B worth of personal remittances from Filipinos working abroad in June, representing a 6.8% increase (y-o-y) largely boosted by the gains from land-based workers with more than a year contract which accounted for about 77% of the total. Remittances from this group registered a 5.5% growth, further supported by the 1.7% increase in sea-based and land-based workers with work contracts of less than one year.

Remarkable gains (save for April) in H1 brought about by a remarkable demand of Filipino overseas workers resulted in a YTD 5.5% y-o-y expansion to reach $15.4 B. Preliminarily data from the Philippine Overseas Employment Administration (POEA) showed that for the first half of 2017, the total number of deployed overseas Filipino (OF) workers reached 1.1 M, already representing more than 50% of the total deployed workers in 2016.

Most of the remittances came from the United States, United Arab Emirates, Hongkong, and Singapore.

Despite foreign equity investors still in net buying mode, the USD/PHP rate showed a 0.5% fall in August.

Figure 8 - OFW Remittances Growth



Source of Basic Data: National Statistics Office (NSO)

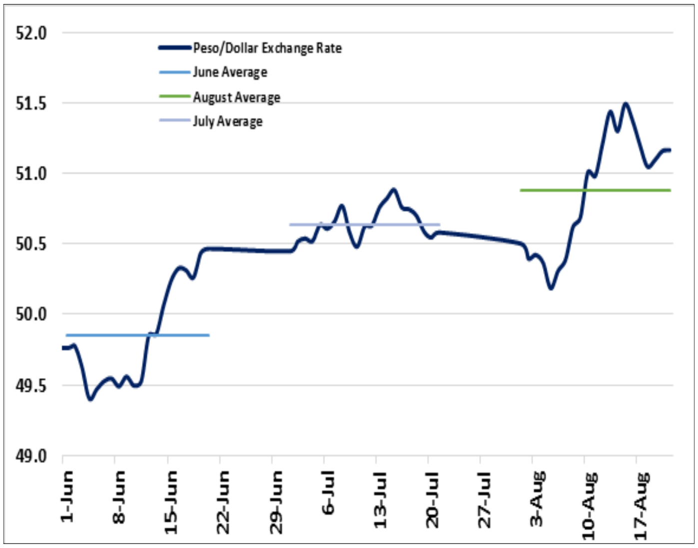
Meanwhile, the peso equivalent of these inflows continued to record a positive 13.4% growth, better than the previous month sustained by the 7.3% y-o-y peso depreciation. We believe that the healthy growth in both dollar and peso value of the remittances will help boost consumer spending in Q3.

Peso Still Loses Against the Greenback

Despite foreign equity investors still in net buying mode, the USD/PHP rate showed a 0.5% fall over a wider range in August. The peso averaged at P50.87/$, the lowest level in 10 years, but still far from its record of P56.34 in October 2004. The pair broke through another psychological resistance of P51/$ as it ranged to P51.49/$ from P50.19/$, widening the volatility measure to 0.42 from 0.12 in July. The currency's weakness in August probably reflected local firms' hedging and buybacks of their dollar-denominated loans.

Meanwhile, other emerging currencies managed to resist the greenback led by Thailand's baht (THB) amidst improving fundamentals and wide current account surplus. Thailand's economic expansion in Q2 gained traction at 3.7% y-o-y, the highest in more than four years, which further supported THB. The yuan (CNY), likewise, rallied due to the improving external account. Korea's won (KRW) ended the month in the green as stocks rebounded after the North Korean scare. The Indonesian rupiah (IDR) remained steady.

Figure 9 - Daily Dollar-Peso Exchange Rate



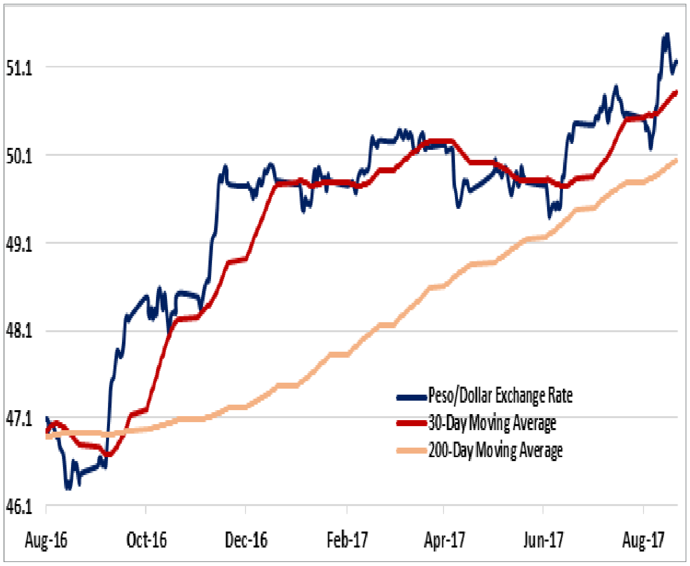
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Exchange Rates vs US $ for Selected Asian Countries	
	Aug-17 (m-o-m period average)
CNY	-1.4%
INR	-0.7%
IDR	0.0%
KRW	-0.3%
MYR	-0.1%
PHP	0.5%
SGD	-0.7%
THB	-1.5%

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 August still lodged above the 30-day and 200-day moving averages (MAs) supporting our view that the peso will continue to be under pressure as U.S. Treasuries' yields improve with solid economic growth.

Figure 10 - Dollar-Peso Exchange Rates & Moving Average



Source of Basic Data: National Statistics Office (NSO)

The actual USD/PHP rate in August still lodged above the 30-day and 200-day moving averages (MAs) supporting our view that the peso will continue to be under pressure as U.S. Treasuries' yields improve with solid economic growth. The peso, however, may see some periodic and transitory strength.

Outlook

While the economy's growth pace improved to 6.5% in Q2, early data suggest further improvements in H2.

- NG spending, especially on infrastructures, continued its double-digit growth pace in July 2017, while the sharp 17.6% gain in BIR tax collections for the same suggests better sales and profits in Q2 that should carry over into Q3 spending.

- Capital goods imports may have slowed in June, but that just corrects for the 22% gain in the previous month. The trend still points to above-10% hike in Q3. This would have likely caused partially the weakness of the peso in July and August.

- Manufacturing remains as a bright spot with its 8.1% expansion in June supported by 12 out of 20 subsectors posting two-figure gains. Continued fast growth in OFW remittances in peso terms will likely translate to stronger domestic demand.

- Exports should maintain its double-digit growth pace as the U.S. economy has shown robustness in GDP growth in Q2 and strong gains in job creation in June to August, while the E.U., Japan, China and India keep on surprising in the upside.

- While the peso has been under pressure in the past months, the analysts' view that the Fed may not raise policy rates in December may prevail slightly in September-October and put some relief on the USD/PHP rate during those months. However, this view is quite tenuous and may change quickly with better U.S. economic data.

Forecasts			
Rates	**September**	**October**	**November**
Inflation (y-o-y %)	3	3	2.8
91-day T-Bill (%)	2.12	2.15	2.18
Peso-Dollar (P/$)	50.92	51.06	51.19
10-year T-Bond (%)	4.72	4.72	4.71

Note: Yields refer to PDST-R2
Source: Authors' Estimates

MARKETS SEE NO FURTHER FED RATE HIKES, BOOST BOND YIELDS

As the financial markets interpreted U.S. economic data as sufficiently weak (at least for inflation and the labor markets) as to dissuade the Fed from another policy rate hike in 2017, U.S. bond yields moved lower, with a similar trend being observed in yields on National Government bonds at both the primary and secondary markets. Risk appetite for bonds has reawakened and the pressure for local bond yields to further fall should remain intact for most of September and October.

Outlook: The current conventional wisdom (of no further rate increase this year) is tenuous due to the synchronized growth of E.U., Japan, China and the rest of the world. This will put a little upward pressure on inflation, including in the U.S., which shall be sensitive to positive economic data. Since local market reaction to the above has lagged, we see continued opportunities for yields to drop in the next two months. Besides, domestic savings arising from the depreciating peso and global investment funds moving back to emerging markets (EMs) would add fire to rekindle risk appetite for domestic bonds.

Primary Market: Yields Move Down on Stronger Demand

Average yields in August auctions of both Treasury bills and Treasury bonds generally moved slightly lower from the previous month on higher demand.The 91-day and 364-day T-bills both fell in yield by a cumulative 3.7 basis points (bps) and 6 bps to 2.143% and 2.935%, respectively. On the other hand, the 182-day T-bill rose even more by 9.6 bps to 2.592%. Stronger demand surfaced as the tender-offer ratio (TOR) for the 91-day T-bill moved up to 3.5, from 2.7 in the previous offering whereas the TOR for the 182-day T-bill was at 2.3, up from 1.2 in the preceding offer. Meanwhile, the TOR of the 364-day T-bill moved up to 2.8 from 2.5 in the previous auction.

Bureau of the Treasury had two longer-term offerings. The 7-year Treasury bond had a yield of 4.510%, slightly down 0.9 bps from 4.519% three months ago. It also reflected stronger demand as its TOR reached 2.3 which is up from 0.9 in the same period last year, reflecting stronger

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				
14-Aug	91-day	6.000	16.196	6.000	2.699	2.161	-2.800
	182-day	5.000	6.179	5.000	1.236	2.557	6.100
	364-day	4.000	9.917	4.000	2.479	2.946	-4.900
29-Aug	91-day	6.000	20.867	6.000	3.478	2.143	-1.800
	182-day	5.000	11.610	5.000	2.322	2.592	3.500
	364-day	4.000	11.229	4.000	2.807	2.935	-1.100
Subtotal		30.000	76.000	30.000	2.533		
			T-Bonds				
08-Aug	7-year	15.000	33.885	15.000	2.259	4.510	-0.900
22-Aug	10-year	15.000	28.356	15.000	1.890	4.718	-4.100
Subtotal		30.000	62.241	30.000	2.075		
All Auctions		60.000	138.240	60.000	2.230		

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

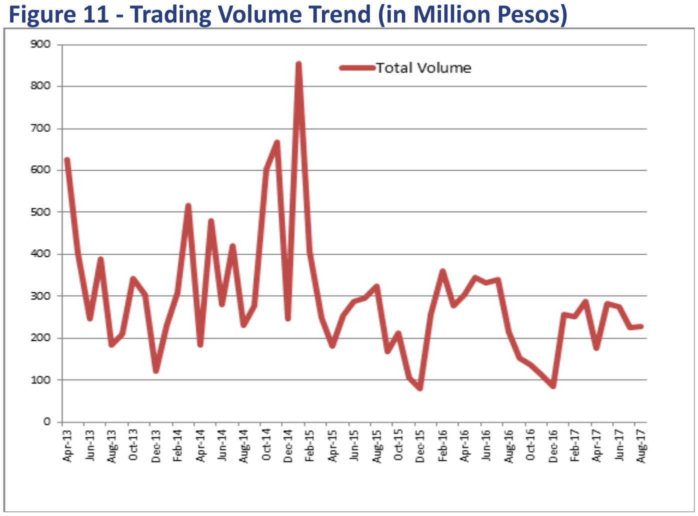
Total trading volume for August increased slightly by 1.2% month-on-month (m-o-m) to P228.7 B from P226 B last month.

demand from investors. On the other hand, the 10-year T-bond recorded a TOR of 1.9 also higher than 1.6 recorded three months ago. In addition, the TOR for all the auctions of the month moved up to 2.2 from 1.2 in the previous month, further indicating greater investor appetite.

Secondary Market: Trading Rebounds in August

Total trading volume for August increased slightly by 1.2% month-on-month (m-o-m) to P228.7 B from P226 B last month. This also represents an improvement of 6.7% year-on-year (y-o-y) from P214.3 B recorded last August 2016. This was the first 2017 monthly volume that exceeded the corresponding month's trades in 2016. The yearly increase in volume can be attributed to the rise in the supply of liquid, long-dated papers in the market. However, the year-to-date (YTD) trading volume still declined by 18.4% to P1.9 T in August 2017 from a year ago.

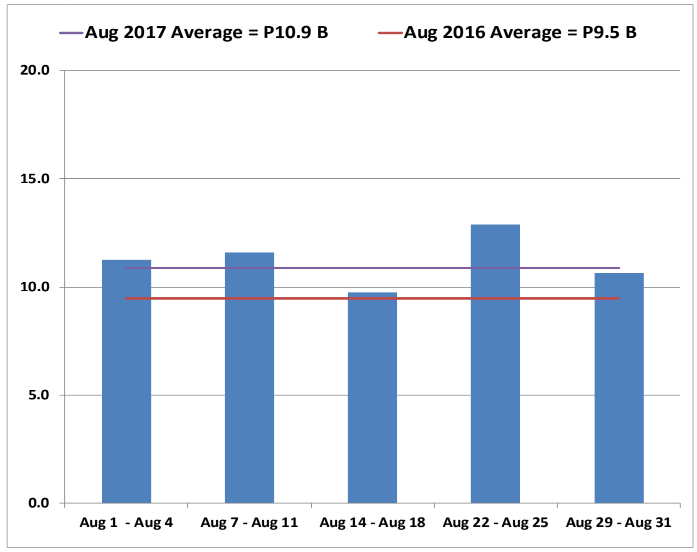
Figure 11 - Trading Volume Trend (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

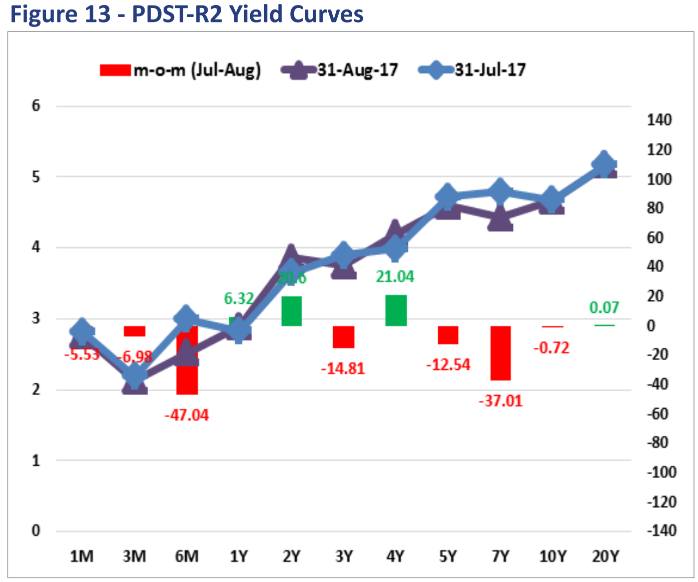
Across tenors, yields generally moved southward this month. The 6-month and 7-year T-bond yields fell sharply by 47 bps and 37 bps, respectively. Also down but at a slower pace, the 3-year bond yield fell by 14.8 bps, while the 5-year bonds trended 12.5 bps lower than in July. 10-year to 2-year spread went down from 102 bps to 92 bps, a spread change of 10 bps (See ASEAN +1 table below). The flatter yield curve reflects the uptick in 2-year bond yields.

Figure 12 - Average Daily Trading Volume Per Week (In Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 13 - PDST-R2 Yield Curves

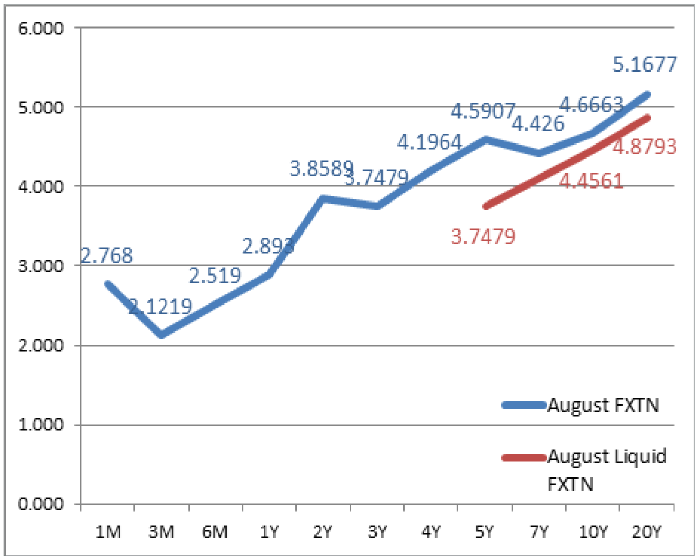


Source: Philippine Dealing Systems (PDS)

Liquid FXTN tenors continued to post lower yields than FXTN tenors under PDST-R2. In the 10-year space, the difference widened by 5 bps to 21 bps from 16 bps a month ago. This arose from the much larger fall in FXTN 10-60's yields of 5.7 bps. The difference in the 20-year space widened slightly as 20-yr PDST-R2 remained almost unchanged, while FXTN 20-17 yields fell by 4 bps.

Overall secondary trading of corporate bonds for August 2017 reached P4.8 B, or 1.3% lower m-o-m from P4.9 B in July and 18.7% y-o-y in August 2016.

Figure 14 - PDST-R2 vs. FXTN Yields (Month-end)

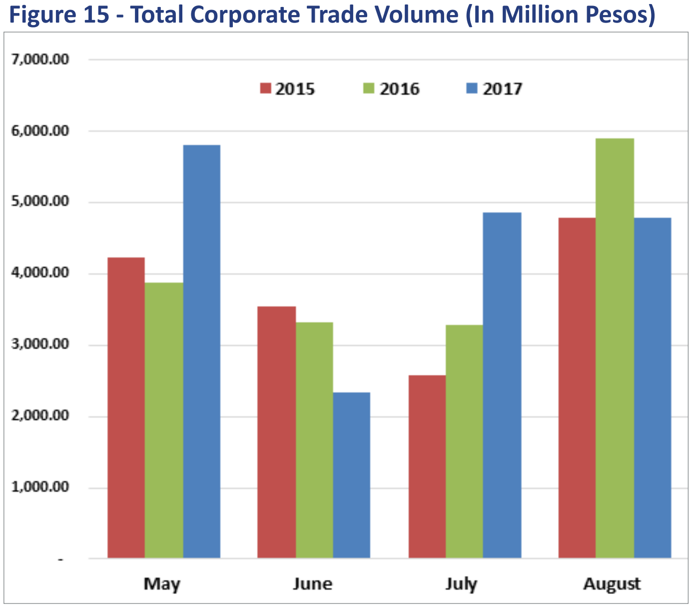


Source: Philippine Dealing Systems (PDS)

Corporate Bonds: Trading Declines Despite Gain in GS Volumes

Overall secondary trading of corporate bonds for August 2017 reached P4.8 B, or 1.3% lower m-o-m from P4.9 B in July and 18.7% higher y-o-y from P5.9 B in August 2016. The slightly weak August performance, also slowed down YTD trades growth to 11.3% from 19% a month ago.

Figure 15 - Total Corporate Trade Volume (In Million Pesos)

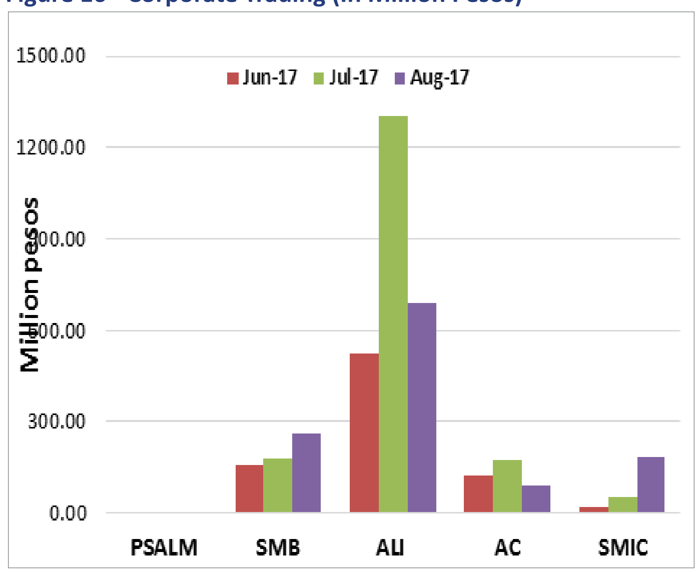


Source: Philippine Dealing Systems (PDS)

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) – also saw generally negative movement as trading activity improved for only two out of the five leading corporations.

ALI once again placed first, trading P688.4 M, but down by 47.2% m-o-m. SMB and SMIC came in second and third, respectively, as the former traded P260 M which improved 44.6% m-o-m, while the latter traded P183.9 M, up by 245.7% m-o-m. AC came in next, at P93 M, down by 46.7%. Of the top five, PSALM papers saw no trading at all for the fourth straight month.

Figure 16 - Corporate Trading (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

Corporate Issuances & Disclosures

- SMC Global Power Holdings Corporation approved the issuance, offer and sale to the public of peso-denominated Fixed Rate Retail Bonds of up to P35 B during the regular meeting of its board of directors which was held last August 8, 2017. The said bonds await registration by the Securities and Exchange Commission (SEC) and listing by the Philippine Dealing & Exchange Corporation (PDEx).

Tracking the dip in U.S. Treasury bond yields, Philippine dollar-denominated bond (ROPs) yields declined for the three liquid tenors.

- BDO Unibank, Inc. (BDO) issued P11.8 B worth of Long-Term Negotiable Certificates of Deposit (LTNCDs) last August 18, 2017, following strong demand from both retail and institutional investors for its original offer. The issue was upsized from the original offer of P5 B to P11 B, almost two and a half times the original offer, which marked the largest single issuance of LTNCDs by a local bank. This latest tranche of LTNCDs has a term of five and a half (5 & 1/2) years with the interest rate set at 3.625% per annum, while the maturity date will be on February 18, 2023. The LTNCD issuance is part of the bank's efforts to diversify the maturity profile of its funding sources and support business expansion plans.

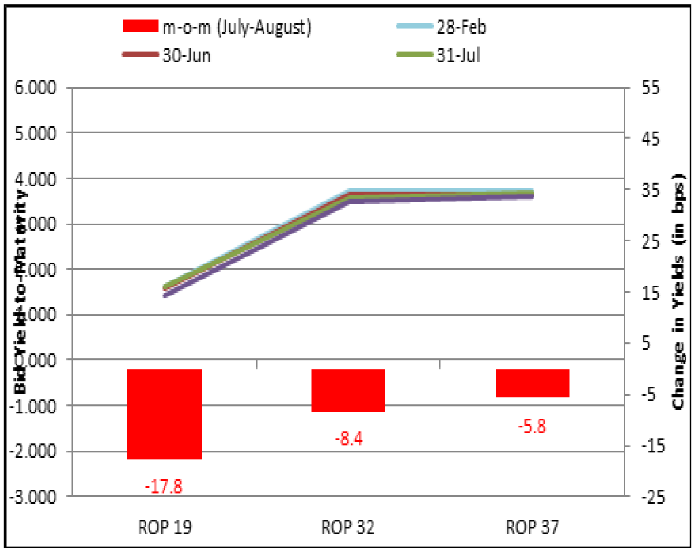
- BDO Unibank, Inc. (BDO) will issue $700 M in Fixed Rate Senior Notes under the Bank's Medium Term Note ("MTN") Program. This will be the second drawdown under the Program following the $300 M issued in October last year. The notes will have a coupon of 2.950% and will be issued at a price of 99.909 per 100, with a maturity of 5-1/2 years. The transaction was overwhelmingly oversubscribed, with orders reaching $2.2 B. Settlement will be on September 6, 2017. The Senior Note issue is part of the Bank's liability management initiatives to tap longer-term funding sources to support BDO's lending operations and general corporate purposes.

ROPs: Yields Drop at Short End of Curve

Tracking the dip in U.S. Treasury bond yields, Philippine dollar-denominated bond (ROPs) yields declined for the three liquid tenors. ROP-19, with two years to maturity, sank by 17.8 bps from 1.602% to 1.424%. ROP-32, with 15 years remaining to maturity, moved lower by 8.4 bps from 3.572% to 3.488%. ROP-37, 20 years from maturity, also fell by 5.8 bps from 3.676% to 3.618%.

In contrast, U.S. Treasury bonds of similar tenors show that the 15-year and 20-year T-bond yields went down by 19 bps to 2.3%, and 2.5%, respectively. Yields in all other tenors, except for the 1-year T-bond, also experienced declines. With the smaller fall in ROPs compared to the larger fall in U.S. Treasuries, the spreads (between the two papers) moved up to 118.8 and 114.4 bps for the 15-year and 20-year tenors, respectively. These rose by 9.6 bps and 13.2 bps from July.

Figure 17 - ROPs Yield (Month-on-Month Changes)



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

Figure 18 - ROPs Yields

Sources: Bloomberg & First Metro Investment Corporation (FMIC)

U.S. Q2 growth expanded by 3%, its quickest pace in more than two years, reflecting robust consumer spending and strong business investment.

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

U.S.: The U.S. economy grew by an annual rate of 3% in the second quarter, its quickest pace in more than two years, which reflected robust consumer spending and strong business investment. Consumer spending, which makes up more than two-thirds of the U.S. economy, grew by 4.4%, the fastest since Q4-2014. U.S. consumer prices rose less than expected in July, as the Consumer Price Index edged up 0.1% after being unchanged in June pointing to benign inflation that could make the Federal Reserve cautious about raising interest rates again this year. U.S. consumer sentiment climbed to 96.8 in August from 93.4 in July as consumers remained optimistic about their personal financial conditions. On the other hand, the U.S. economy created 156,000 jobs in August while the unemployment rate edged higher to 4.4%, missing economists' estimates of 180,000 and 4.3%, respectively. Monetary officials appear to be split regarding the issue of raising interest rates, with some preaching caution in a low inflation environment, while others worry over the price of delaying, primarily due to labor market concerns. The market, however, expects that the Federal Reserve won't be hiking interest rates again this year, up until 2018, mainly because U.S. inflation has not met its inflation target. 10-year to 2-year spread fell by 16 bps from 95 bps to 79 bps, which reflected the market's more benign outlook towards another Fed rate hike in December.

PRC: China's manufacturing activity expanded at its fastest rate in four months in July as the Caixin China General Manufacturing Purchasing Managers' Index (PMI) stood at 51.1 for July, up from 50.4 in June. Caixin said the acceleration in July's manufacturing sector came as a result of rising business activity, with both output and new orders gains at the fastest rates in five months, boosted by export sales. China's financial institutions saw $2.1 B in net investment inflows from overseas investors in Q2-2017, which represented an improvement from $1.3 B in net investment outflows in Q1. The yuan is near its highest level versus the Hong Kong dollar in more than a year, at HK$1.705 per offshore yuan last August 17, as yuan deposits in the former British colony have stabilized in the past two years, attracted by higher-yielding mainland bonds. China once again became top foreign holder of U.S. Treasuries after increasing its holdings for the fifth straight month, as its holdings of U.S. bonds, notes and bills rose to $1.2 T in June, up $44.3 B from May. China's producer price gains held steady on surging commodity prices, with the producer price index rising by 5.5% in July from a year earlier, as demand stayed resilient and the government's drive to reduce industrial capacity takes hold. Meanwhile, China's trade surplus widened to $46.7 B as export growth remained solid and imports moderated, despite the uncertainty surrounding President Trump's stance on trade policy. On the other hand, the country will attempt to widen financing channels for local governments through a pilot revenue bond program. The new product, equivalent to U.S. revenue bonds, aims at standardizing

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
					31-Jul-17	31-Aug-17			
US	1.326	2.117	1.90	0.22	95.00	79.00	-16.00	1.00	-0.90
PRC	3.440	3.740	1.90	1.84	28.00	30.00	2.00	4.35	2.45
Indonesia	6.120	6.695	4.30	2.40	39.00	58.00	19.00	4.50	0.20
Malaysia	3.310	3.993	3.90	0.09	68.00	61.00	-7.00	3.00	-1.00
Thailand	1.416	2.431	0.80	1.63	102.00	81.00	-21.00	1.50	0.70
Philippines	2.830	4.674	3.00	1.67	102.00	92.00	-10.00	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*

Bank Indonesia cut its benchmark interest rate for the first time since October 2016 in a bid to boost disappointing economic growth.

local authority fund-raising and defusing the risk of accumulating debt. The Ministry of Finance (MOF) said the bonds will satisfy capital needs in key areas and attract private capital into public services. China's bond market is staging a comeback, following its deleveraging hit, as high yields lure both domestic and foreign investors. Yields on 10-year government bonds have settled at around 3.6%, well over 100 bps more than those on U.S. Treasuries and roughly 300 bps over what's available in Europe. 10-year to 2-year spread rose slightly by 2 bps from 28 bps to 30 bps.

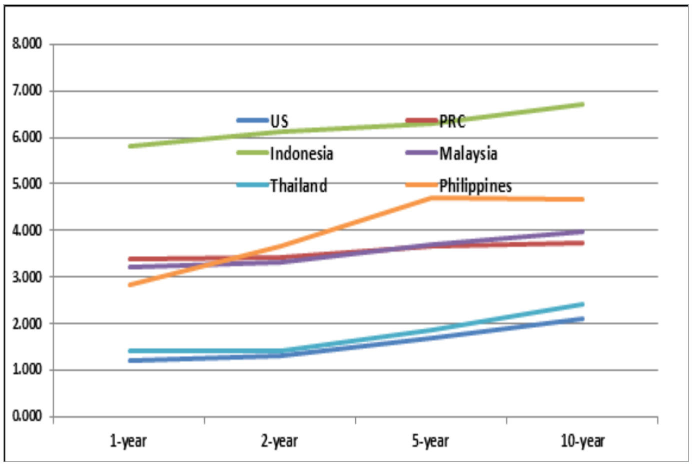
Indonesia: Indonesia's GDP expanded by 5.01% in Q2, lower-than-expected, as some key sectors slowed and pivotal private consumption remained sluggish. The pace remained unchanged from Q1. Meanwhile, Indonesian consumers were more optimistic in July that business activity, income and job availability would improve over the next six months, as Bank Indonesia's (BI) consumer sentiment index stood at 123.4 in July from 122.4 in June. With the country's annual inflation rate declining to 3.9% in July from 4.4% in June, BI has promised to keep inflation low during the rest of the year so that consumer spending would accelerate in H2, being the main driver of growth. Meanwhile, Indonesian imports surged more than exports since late 2015, as the country recorded a trade deficit of $271.2 M in July, the first since late 2015. Loans extended by Indonesian banks grew 7.7% in June y-o-y from 8.7% in May, the slowest pace for any month since October. The government launched its 16th economic policy package last August 31 in a bid to facilitate business activity and lure more investments to the country. The policy aims to speed up business permits issuance, in terms of greater certainty on the cost and time involved, and to improve coordination between the national and provincial governments. Besides, BI cut its benchmark interest rate for the first time since October 2016, in a bid to boost disappointing economic growth. The central bank cut the 7-day reverse repurchase rate by 25 bps to 4.5%, while the deposit facility and lending facility, were both cut by 25 bps to 3.75% and 5.25%, respectively. This move was made in anticipation of an improving inflation outlook and expectations of only one more U.S. rate increase this year, while both the rupiah and current account deficit would remain manageable. However, a cut in interest rates by BI may not be enough to give sluggish consumer spending a jolt, as weakness in purchasing power and reluctance by banks to lend undercuts efforts to boost the country's economy. 10-year to 2-year spread moved up by 19 bps from 39 bps to 58 bps.

Malaysia: The Malaysian manufacturing sector's performance, as measured by the Nikkei Malaysia manufacturing purchasing managers' index (PMI), continued to contract in July albeit at a slower pace, as the PMI rose to 48.3 in July, a slight expansion in both output and new orders amid reports of weak market activity and demand from 46.9 in June. Meanwhile, the country's economy grew at its fastest pace since Q1-2015, with GDP expanding by 5.8% which exceeded economists' forecast of a 5.4% rise. However, analysts have cautioned that gross domestic product (GDP) growth for the second half would increase at a slightly slower pace due to the higher base effect from the same period last year. On the other hand, continued strong demand for electronics suggested that exports would be the main driver of growth over the coming quarters, while higher oil prices would be supportive of overall growth. Moving forward, analysts also expect a firm ringgit against the US dollar, stable inflation, a healthy labor market and external demand, as well as import growth to provide the growth momentum in the areas such as construction, exports, services and private consumption, which, in turn, would support manufacturing and also SME activities. Moreover, the hunt for yield will ensure foreign interest in emerging market bonds, including Malaysian debt securities. Malaysia's bonds should see sustained demand, as the U.S. Federal Reserve is projected to tighten at a gradual pace, given weaker inflation data from the U.S. In addition, higher short-term interest rates, especially assuming stronger inflationary outlook as well, should boost longer-term yields, thus making Malaysian government securities more attractive for foreign players. 10-year to 2-year spread inched lower by 7 bps, from 68 bps to 61 bps.

Domestic savings arising from the peso depreciation and the move of investments to EMS could provide a bit more space in the downside for local 10-year T-bonds.

Thailand: The country's economy grew by 3.7% in Q2 after expanding by 3.3% in the previous quarter. This is its fastest pace in more than four years, boosting the government's 2017 economic growth forecast to 3.5%-4% from 3.3%-3.8% in May. Acceleration in exports of goods and services, continued expansion of private consumption and a rebound in private investment drove the growth. Exports accelerated by 8%, its fastest rate in 18 quarters, owing to economic improvements among key trading partners and rising commodity prices in the world market. The hotels and restaurants sector grew by 7.5% in Q2 from 5.3% in Q1, supported by tourism receipts. Moreover, the economy is expected to grow by 4%-5% annually in a few years as a result of the government's investment projects, such as the Eastern Economic Corridor development. The Bank of Thailand (BOT) kept its policy (repurchase) rate at 1.5% during the August 16 meeting, citing an improving growth outlook and increased financial stability risks should a further rate cut be done, as lower inflation has resulted from the supply side. BOT expects a further boost from exports and tourism on its growth outlook, even as it expects domestic demand to expand at a gradual pace. Annual headline inflation was just 0.2% in July, while the Thai baht has appreciated 7.9% against the U.S. dollar this year, making it Asia's strongest performing currency. The Stock Exchange of Thailand rose 0.6% last August 28 to close at its highest since June 27. 10-year to 2-year spread moved lower by 21 bps, from 102 bps to 81 bps.

Figure 19 - ASEAN Bond Yields



Source: Asian Development Bank (ADB)

Outlook

Current market conventional wisdom is that inflation is so far behind the Fed's target that another Fed rate hike in December is unlikely. While this may be true for now, the fact that there is a synchronized growth in the world economy, including possibly better U.S. economic numbers for the rest of the year, may upset this view. Thus, we have seen a continuing fall in U.S. 10-year T-bond yields since July. But it remains to be seen if this pattern will remain for the coming months.

- Having dropped significantly, we don't see much more downside to U.S. 10-year yields. Global inflation is low but not receding, especially with more economic growth in store. We should scrutinize developments in September and October to obtain a better outlook looking forward.

- With domestic inflation expected to stay near 3% in the coming months, we don't see much chance for a policy rate hike in 2017. Domestic savings arising from the peso depreciation and the move of investments to EMs could provide a bit more space in the downside for local 10-year T-bonds. This could further encourage BTr to provide more supply at the longer end also to drive liquidity and better benchmark yields. The shorter end will still have strong demand but more limited space for yields to drop significantly.

- Corporate bond issuances will likely rise in the last months of the year to take advantage of slightly falling longer-term interest rates.

- ROPs will continue to play second fiddle to sovereign bonds of Indonesia and India, where inflation is falling sharply and robust economic fundamentals gaining traction.

RESPECTABLE Q2 EARNINGS PROP UP PSEi

With Q2 earnings mostly released in August, the average of 6.5% year-on-year (y-o-y) for Q2 corporate earnings came in slightly above market expectations, and kept the PSEi above the minor support level of 7,850 during the month. However, with Q2 GDP only slightly better than Q1, there were no other factors that could contribute to a breakout beyond the historical record of 8,127.5 recorded in April 2015. Nonetheless, the PSEi fell short by only 34 points on August 17th's close of 8,072.8, the highest for 2017. Share price movements in the U.S. had negligible effect on the local market.

Outlook and Strategy

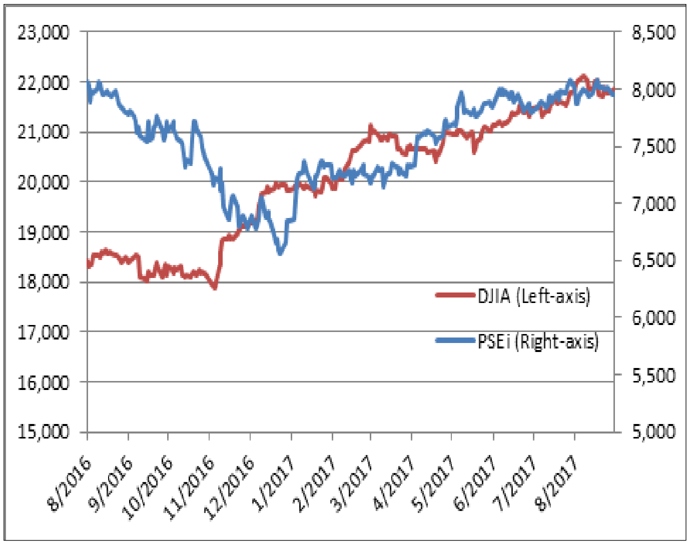
With the Dow Jones Industrial Average (DJIA) becoming more "overbought" and the odds of armed conflict between the U.S. and North Korea moving higher, share price movements abroad should have less impact on the PSEi based on the weak computed correlation of DJIA and PSEi. Besides, with the entry into the "ghost month" last August 22nd (up to September 19th) and the lack of new positive domestic developments, PSEi may finally make a more decisive consolidation move in September and October. Nonetheless, the return of foreign funds to emerging markets (EMs) may limit the depth of such needed correction.

Global Equities Markets Performances				
Region	**Country**	**Index**	**Growth Rate (m-o-m)**	**2017 YTD**
Americas	US	DJIA	0.3%	10.4%
Europe	Germany	DAX	-0.5%	3.9%
	London	FTSE 101	0.8%	3.5%
East Asia	Hong Kong	HIS	2.4%	26.3%
	Shanghai	SSEC	2.7%	7.2%
	Japan	NIKKEI	-1.4%	0.3%
	South Korea	KOSPI	-1.6%	16.6%
Asia-Pacific	Australia	S&P/ASX 200	-0.1%	-0.3%
Southeast Asia	Indonesia	JCI	0.4%	11.1%
	Malaysia	KLSE	0.7%	8.4%
	Thailand	SET	2.5%	3.4%
	Philippines	PSEi	-0.7%	16.0%
	Singapore	STRAITS	-1.6%	13.0%

Sources: Bloomberg & Yahoo Finance

PSEi remained as one of the fastest growing in year-to-date (YTD) terms, with its growth of 16% despite a slight dip of 0.7% in August. It kept the 3rd place spot after Hong Kong (+26.3%) and South Korea (+16.6%). On a month-on-month (m-o-m) basis, all other indices also posted minor growth in August led by Shanghai's 2.7% uptick, followed by Hong Kong's 2.4%.

Figure 20 - PSEi and DJIA



Source: Bloomberg

The PSEi and DJIA's correlation has weakened to only -0.1 in August from +0.7 a month ago. The initial spurt in DJIA petered out due to mounting tensions between the U.S. and North Korea, and media's claim that President Trump didn't respond well to a death in a right-wing demonstration and counter protest by left-wingers. Meanwhile, the PSEi reached another yearly record but failed again to overcome the all-time high.

The PSEi fell by 59.6 points (-0.7%) in August due to geopolitical tensions and fairly mixed earnings reports, albeit a bit better than market expectations.

Monthly Sectoral Performance				
	31-Jul-17		31-Aug-17	
Sector	Index	% Change	Index	% Change
PSEi	8,018.1	2.2%	7,958.7	-0.7%
Financial	1,969.1	1.6%	1,988.6	1.0%
Industrial	11,146.2	1.7%	10,995.2	-1.4%
Holdings	7,993.9	1.3%	7,838.1	-1.9%
Property	3,799.0	5.3%	3,720.8	-2.1%
Services	1,676.5	-0.7%	1,721.1	2.7%
Mining and Oil	12,875.8	2.5%	13,253.9	2.9%

Source of Basic Data: PSE Quotation Reports

The PSEi fell by 59.6 points (-0.7%) due to geopolitical tensions and fairly mixed earnings reports, albeit a bit better than market expectations. The board posted varying results. On the green, Mining & Oil and Services posted the largest gain of 2.9% and 2.7%, respectively. On the moderate side, Financial sector rose by 1% in August. On the other side of the spectrum, the Property and Holdings sector suffered slight setbacks of 2.1% and 1.9%, respectively. The Industrial sector slipped by 1.4%.

Company	Symbol	7/31/17 Close	8/31/17 Close	% Change
Metrobank	MBT	87.0	87.6	0.7%
Banco de Oro	BDO	125.9	127.1	1.0%
Bank of the Philippine Islands	BPI	104.6	105.9	1.2%
Security Bank Corporation	SECB	234.0	250.0	6.8%

Source of Basic Data: PSE Quotation Reports

The Financial sector grew yet again by 1% in August. Security Bank Corporation (SECB) led the sector with a significant increase of 6.8% after its net income soared by 32% year-on-year (y-o-y) in Q2-2017 to reach P2.4 B. Net interest income's surge (+25% y-o-y) drove this, supported by a huge jump in its loan portfolio (+27% y-o-y).

Following a different route, Bank of the Philippine Islands' (BPI) earnings rose by 17% y-o-y in Q2-2017 due to significant gains of its non-interest income which grew by 21% y-o-y. Its net interest income, however, only increased by 12% y-o-y as its loan portfolio expanded by 17% y-o-y.

BDO Unibank, Inc. (BDO) eased up to 1% growth from the 1.5% increase in the previous month. BDO reported a relatively flat performance, with net income growing only by 0.3% y-o-y in Q2-2017.

Metropolitan Bank & Trust Company (MBT) posted a slight uptick of 0.7% in August, despite reporting a net income for Q2-2017 of P3.9 B (+3.3% y-o-y). MBT has also reached P2 T worth of assets, only the second local bank to reach that benchmark.

Company	Symbol	7/31/17 Close	8/31/17 Close	% Change
Meralco	MER	279.00	271.00	-2.9%
Aboitiz Power	AP	39.00	39.50	1.3%
Energy Development Corporation	EDC	5.97	6.78	13.6%
Jollibee Foods Corporation	JFC	225.00	238.20	5.9%
Puregold Price Club Inc.	PCGMF	47.15	48.05	1.9%
First Gen Corporation	FGEN	17.30	16.82	-2.8%
Universal Robina Corporation	URC	161.00	146.10	-9.3%
Petron Corporation	PCOR	9.46	9.80	3.6%

Source of Basic Data: PSE Quotation Reports

The Industrial sector ended in the red with a 1.4% slide in August, as the sector displayed mixed results. Energy Development Corporation (EDC) led the sector with a surge of 13.6% after Philippines Renewable Energy Holdings Corporation (PREHC) filed a tender offer to Securities and Exchange Commission (SEC) to acquire a 31.7% stake in EDC at a premium over current market price.

Jollibee Foods Corporation (JFC) posted a significant gain of 5.9% as it reported a net income of P1.9 B (+16.5% y-o-y) in Q2-2017 attributable to their expansion worldwide.

Not to be outdone, Petron Corporation (PCOR) rallied by 3.6% in August completely reversing the 2.3% fall in July. PCOR's reported earnings were higher by 5.5% y-o-y to reach P2.6 B in Q2-2017 despite having several scheduled maintenance and repairs.

Puregold Price Club, Inc. (PGOLD) was also in the green registered a slight uptick of 1.9% in August, lower than its

Bucking the trend, Ayala Corporation posted significant gains (+6.4%) in August, due to the robust performance of its generation and property business segments.

5.8% gain in the previous month. PGOLD has recently expanded in Visayas after acquiring five B&W stores in Roxas City, Capiz.

Aboitiz Power (AP) picked up its pace with a minor increase of 1.3% in August despite reporting net income growth of 12.2% y-o-y for Q2-2017 due to its stable power generation segments.

Unable to stay afloat, First Gen Corporation (FGEN) gave up 2.8% after agreeing to sell 10.6% stake in EDC to PREHC. FGEN's earnings also plunged by 58.3% y-o-y in Q2-2017 due to the lower output of its gas plants, but mostly because of the one-time effect of refinancing the Santa Rita long-term debt, and premiums paid from buying back dollar-denominated bonds in Q2-2016.

Manila Electric Company (MER) suffered a setback of 2.9% after its net income for Q2-2017 fell by 8.6% y-o-y. The setback arose from the growth slowdown of their commercial and industrial segments which grew by 3% y-o-y and 3.7% y-o-y in H1-2017, respectively.

Universal Robina Corporation (URC) continued to plunge, posting a 9.3% decrease in August due to a weaker consolidated net income of P2.9 B (-22.8% y-o-y) in Q2-2017. URC attributed the weaker performance to lower operating income, foreign exchange losses, higher net finance costs, and income tax provision.

Company	Symbol	7/31/17 Close	8/31/17 Close	% Change
Ayala Corporation	AC	865.00	920.00	6.4%
Metro Pacific Investments Corporation	MPI	6.79	6.35	-6.5%
SM Investments Corporation	SM	807.00	810.50	0.4%
DMCI Holdings, Inc.	DMC	16.10	15.70	-2.5%
Aboitiz Equity Ventures	AEV	75.95	74.45	-2.0%
GT Capital Holdings, Inc.	GTCAP	1,213.00	1,118.00	-7.8%
San Miguel Corporation	SMC	101.6	100.0	-1.6%
Alliance Global Group, Inc.	AGI	14.36	13.90	-3.2%
LT Group Inc.	LTG	17.60	17.72	0.7%
JG Summit Holdings, Inc	JGS	79.50	71.80	-9.7%

Source of Basic Data: PSE Quotation Reports

Red paint splattered the Holdings sector with its 1.9% decline in August. JG Summit Holdings, Inc. (JGS) plunged by 9.7% y-o-y in Q2-2017 due to the said weaker operating income generation from URC.

Bucking the trend, Ayala Corporation posted significant gains (+6.4%) in August. The net income for Q2-2017 grew by 5.4% due to the robust performance of its generation and property business segments.

GT Capital's (GTCAP) share prices fell by 7.8% in August due to negative sentiment on the effect of the proposed higher excise tax on cars. Investors have discounted this move, as they may have seen robust sales in Q2 as arising from buyers' efforts to avoid higher prices.

Metro Pacific Investments Corporation (MPI) completely reversed its gains (+6.3%) in the previous month, after decreasing by 6.5% in August. MPI showed earnings growth of 19.5% y-o-y in Q2-2017. It also announced a joint venture agreement with Cagayan de Oro Water District for bulk water supply for the next 30 years and it unsolicited proposal to the Department of Public Works and Highways (DPWH) to build an expressway connecting NLEX to CAVITEX worth P122.4 B.

Alliance Global Group, Inc. (AGI) hit the brakes shedding off 3.2% in August due to a huge 22.6% y-o-y plunge in its Q2-2017 net income. AGI attributed the earnings fall to heavy marketing expenses, interest expense, and foreign exchange losses.

DMCI Holdings, Inc. (DMC) slumped by 2.5% in August, tapering its hefty gain of 14.2% in July. The correction took place even as it posted core net income growth of 12.1% y-o-y in Q2-2017. Impressive performance of its mining, construction, and homes business segments drove earnings up.

The Property sector tapered its gains in the previous month, losing 2.1% of value in August.

Aboitiz Equity Venture (AEV) continued its downtrend with another 2% loss in August. AEV reported a net income loss of 2% y-o-y due to the revaluation of its dollar denominated debts. Its core net income, however, grew by 3% y-o-y in Q2-2017.

San Miguel Corporation (SMC) surprisingly slumped by 1.6% in August after reporting a net income of P12.2 B (-43.6% y-o-y) in Q2-2017. Although the revenue for Q2-2017 was higher than usual due to the last partial payment of its telecommunication business, it did not compare to the initial payment received upon the signing of the deal in Q2-2016.

SM Investments Corporation (SM) ended relatively flat with an uptick of 0.4%. With robust property and retail segments, SM reported earnings of P8.9 B (+9.7% y-o-y) in Q2-2017.

LT Group, Inc. (LTG) also managed to land on the green with a slight growth of 0.7% in August after Japan Tobacco, Inc. (JTI) bought out Mighty Corporation, providing LTG an opportunity to regain market share.

Company	Symbol	7/31/17 Close	8/31/17 Close	% Change
Ayala Land, Inc.	ALI	42.00	42.00	0.0%
SM Prime Holdings, Inc.	SMPH	34.90	33.40	-4.3%
Robinsons Land Corporation	RLC	25.70	23.20	-9.7%
Megaworld Corporation	MEG	4.80	4.94	2.9%

Source of Basic Data: PSE Quotation Reports

The Property sector tapered its gains in the previous month, losing 2.1% of value in August. Megaworld Corporation (MEG) led the sector yet again with a slight growth of 2.9% after posting a net income of P3.6 B (+10.1% y-o-y) in Q2-2017.

Ayala Land, Inc. (ALI) ended flat despite posting an impressive 17.8% y-o-y increase of its earnings in Q2-2017. This growth was driven by property development and commercial leasing which grew by 29% y-o-y and 11.1% y-o-y in H1-2017, respectively.

SM Prime Holdings, Inc. (SMPH) trimmed its gains in the previous month with a fall of 4.3% in August. SMPH posted a 15% y-o-y increase in net profits for Q2-2017, attributable to its mall segment growth (+9.6 y-o-y).

In deep red, Robinsons Land Corporation (RLC) suffered a major setback of 9.7% completely reversing its 6% gain in the previous month. Earnings for Q2-2017 declined by 7.9% y-o-y due to the lack of residential project rollouts.

Company	Symbol	7/31/17 Close	8/31/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,637.00	1,730.00	5.7%
Globe Telecom	GLO	2,116.00	2,000.00	-5.5%
International Container Terminal Services Inc.	ICT	106.80	104.40	-2.2%

Source of Basic Data: PSE Quotation Reports

The Services sector rose by 2.7% in August reversing the 0.7% dip in the previous month. Philippine Long Distance Telephone Company (TEL) took the sector's front seat, rallying by 5.7%. TEL posted a net income decrease of 2%y-o-y for H1-2017 which was ahead of consensus. TEL's recurring core net income (excludes asset sale and manpower reduction program), on the other hand, grew 1% y-o-y in H1 to P11.9 B, in line with the company's full year guidance of P21.5 B. However, its reported earnings for Q2-2017 grew by 85.4% y-o-y due to lower consolidated expenses, higher other income accounts, and lower consolidated provision for income tax.

Globe Telecom (GLO) suffered a setback of 5.5% after the Philippine Competition Commission (PCC) made it clear that it will not tolerate any anti-competitive practices from telco companies. GLO also reported a 6.7% drop in net profits for Q2-2017.

International Container Terminal Services, Inc. (ICT) experienced a slight dip of 2.2% in August despite a strong performance in Q2-2017. ICT posted a hefty gain of 15% y-o-y in net income for Q2-2017. ICT attributed the growth to the contribution of its newest ports in Manzanillo, Mexico, and Congo.

The total turnover decreased by 2.8% in August, as the net buying trend in may be taking its few final breaths with investors entering the "ghost month" of August which is expected to last until September 19.

Company	Symbol	7/31/17 Close	8/31/17 Close	% Change
Semirara Mining and Power Corporation	SCC	169.50	173.60	2.4%

Source of Basic Data: PSE Quotation Reports

Semirara Mining and Power Corporation (SCC) grew by another 2.4% in August as it announced SEC approval and dates for the payment of the 300% stock dividend approved by the board in February. SCC has recently acquired a retail electricity supplier (RES) license and plans to distribute in the Visayas area where 184 contestable customers with a electricity demand of 3,380 MW reside.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	23,044.76	-8.9%	1,280.3	-8.9%
Industrial	22,770.09	-22.3%	1,265.0	-22.3%
Holdings	27,439.01	-14.4%	1,524.4	-14.4%
Property	22,509.09	-16.3%	1,250.5	-16.3%
Services	27,231.69	-5.5%	1,512.9	-5.5%
Mining and Oil	5,714.45	-11.8%	317.5	-11.8%
Total	145,360.41	-2.8%	**8,075.6**	-2.8%
Foreign Buying	65,183.30	-8.8%	3,621.3	-8.8%
Foreign Selling	62,812.21	-9.6%	3,489.6	-9.6%
Net Buying (Selling)	2,371.10	21.8%	131.7	21.8%

Source of Basic Data: PSE Quotation Reports

The total turnover decreased by 2.8% in August. The net buying trend may be taking its few final breaths as investors enter the "ghost month" of August which is expected to last until September 19. This is evident as foreign buying and selling decreased by 8.8% and 9.6% in August, respectively, albeit remained net buyers at P2.4 B. All sectors suffered from weaker turnover. Industrial and Property sectors plunged by 22.4% and 16.3%, respectively, to lead the downturn. Holdings and Mining & Oil sectors followed with sharp falls of 14.4% and 11.8%, respectively. Financial and Services sectors had the smallest volume drop.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2015		2016		1st Quarter 2017			2nd 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%	182,117	-14.5%	4.9%	173,871	-4.5%	6.3%
Industry Sector	2,535,796	6.0%	2,738,320	8.0%	686,726	-9.6%	6.1%	755,534	9.8%	7.3%
Service Sector	4,338,284	6.8%	4,664,261	7.5%	1,141,072	-7.0%	6.8%	1,288,680	13.1%	6.1%
Expenditure										
Household Final Consumption	5,264,137	6.3%	5,628,318	6.9%	1,394,750	-12.4%	5.7%	1,467,749	5.2%	5.9%
Government Final Consumption	785,347	7.8%	850,747	8.3%	207,409	11.0%	0.2%	272,477	31.4%	7.1%
Capital Formation	1,805,281	15.1%	2,180,842	20.8%	607,768	-3.6%	7.9%	574,474	-7.8%	8.7%
Exports	3,681,166	9.0%	4,016,105	9.1%	1,192,923	33.8%	20.3%	1,241,090	4.1%	19.7%
Imports	3,942,163	14.0%	4,631,536	17.5%	1,377,758	22.3%	17.5%	1,353,664	-2.7%	18.7%
GDP	7,593,828	5.9%	8,113,170	6.8%	2,009,914	-8.6%	6.4%	2,218,084	10.3%	6.5%
NPI	1,540,910	5.3%	1,622,040	5.3%	433,510	2.0%	3.9%	429,107	-2.4%	8.6%
GNI	9,134,739	5.8%	9,735,210	6.6%	2,443,425	-6.9%	5.9%	2,647,191	8.0%	6.8%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2015		2016		Jun-2017			Jul-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%	179,844	-21.2%	2.4%	194,621	8.2%	14.3%
Tax	1,815,475	5.6%	1,980,390	9.1%	168,134	-16.3%	4.6%	138,080	5.2%	17.6%
BIR	1,433,302	7.4%	1,567,214	9.3%	131,245	-17.3%	5.8%	34,994	-1.2%	12.9%
BoC	367,534	-0.5%	396,365	7.8%	35,417	-10.5%	0.4%	1,461	-0.7%	-4.4%
Others	14,639	-2.1%	16,811	14.8%	1,472	-45.0%	-0.1%	20,086	71.6%	-0.9%
Non-Tax	293,317	54.9%	215,446	-26.5%	11,706	-57.1%	-21.0%			
								245,133	-9.5%	11.0%
Expenditures	2,230,645	12.6%	2,549,336	14.3%	270,717	3.5%	22.6%	42,712	-22.5%	19.3%
Allotment to LGUs	387,559	12.6%	449,776	16.1%	55,040	19.3%	49.3%	44,626	131.5%	11.5%
Interest Payments	309,364	-3.7%	304,454	-1.6%	19,273	-8.1%	9.1%			
Overall Surplus (or Deficit)	(121,689)	66.5%	(353,422)	-190.4%	(90,873)	-171.9%	101.1%	(50,512)	44.4%	0.3%

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		Jun-2017		Jul-2017	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	13,502,588	13.9%	14,031,826	11.0%	14,181,466	11.2%
Sources:						
Net Foreign Asset of the BSP	4,308,975	7.8%	4,416,996	4.6%	4,472,163	2.7%
Net Domestic Asset of the BSP	9,193,613	17.0%	9,614,830	14.3%	9,709,303	15.7%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,069,611	15.1%	3,240,239	16.0%	3,244,877	16.0%
Money Supply-2	9,137,898	13.2%	9,513,711	13.0%	9,597,464	13.4%
Money Supply-3	9,497,935	12.7%	9,877,540	13.1%	9,969,299	13.5%
MONEY MULTIPLIER (M2/RM)	0.68	-0.5%	0.68	1.7%	0.68	2.0%

Source: Bangko Sentral ng Pilipinas (BSP)

September 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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