October 2017

# The MARKET CALL

## Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
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UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

## Executive Summary

***GDP to Expand by ≥ 6.5% in Q3*** as domestic demand and external demand (exports) propel growth. Domestic demand will count on NG spending which in August soared over 10% for 4th successive month, and on consumer spending which banks on OFW peso remittances, already on 3rd month of above-12% gains. Exports—reflecting external demand--returned into the double-digit growth territory as advanced economies expand above expectations.

## Macroeconomy

***Better implementation of key infrastructure projects*** along with the rebound in exports and manageable inflation, is expected to augur well in driving a vibrant growth in H2-2017.

- NG recorded a surplus of P28.8 B in August as strong gains in revenues blunt 13.9% rise in spending.
- Exports growth in July picked up amid the rebound in the demand from U.S., E.U., and other ASEAN countries.
- Inflation climbed to 3.4% in September but YTD rate lodged well within target.
- Manufacturing slowdown in July due to broad-based decline in the production of key commodities.

***Outlook: We maintain our view that domestic demand should remain robust with faster spending on infrastructure and elevated consumer spending due to high OFW peso remittance growth, while exports would continue its run as advanced economies and China achieve synchronized expansion.***

## Bonds Market

***Local bond yields generally moved down*** amid a sharp rise in U.S. Treasury bond yields following the Fed's announcements of one more policy rate hike for the year as well as its plan to start reducing its balance sheet this month.

- Yields in auctions of the short-term Treasury bills, fell by 7 bps to 11.1 bps, reflecting higher demand.
- Yield of the 10-year bond issue moved lower by 7.1 bps on stronger investor demand.
- GS trading rebounded by 15.7% (m-o-m) owing to the further Fed hikes held to be less likely.
- The yield curve shifted down as the 10-year to 2-year bond spread narrowed by 9 bps.
- Along with U.S. Treasury bond yields, ROP yields increase less for the three liquid tenors.

***Outlook: The upside for U.S bond yields appears limited despite the Fed's announcing its plans of reducing its balance sheet starting October. Similarly, the rise in local bond yields would likely be muted given less-than-expected borrowing and government deficit. On the other hand, inflation is expected to reverse in Q4 as crude oil prices return to below-$50/barrel. Foreign investors, however, may focus more on Indonesian and Indian sovereign bonds and reduce ROPs attractiveness.***

## Equities Market

***PSEi reached an all new-high, 8,294.14, on September*** as foreign net buying (P29 B) powers up the index to take second place among fastest growing index YTD (+19.1%) from KOSPI.

- PSEi takes second place in fastest growing index YTD (+19.1%) from KOSPI.
- The Mining and Oil sector takes the lead with a double digit growth of 11% in Q3-2017.
- SCC fueled the Mining and Oil sector with an outstanding 16.5% gain in Q3-2017.
- The Industrial sector kept afloat by the hefty gains of JFC(+19.5%) and PGOLD (+17.1%) in Q3.
- The Holdings sector enjoyed commendable gains, after LTG rose by 19.6% in Q3-2017.
- Property sector had broad-based gains, especially MEG with a 21.6% rise.
- Foreign buying continues in Q3, as foreign investors turned into buyers to the tune of P33.3B (-11.4% q-o-q).

***Outlook: The PSEi has entered bull territory as it broke through resistance barriers with foreign net buying (P29 B) in Q3-2017, with the bulk place in September. With foreign fund managers finding U.S. stocks overvalued, they look towards emerging markets to capture better returns. Upcoming Q3 income reports should be above average for the uptrend to be sustained.***

| Economic Indicators<br>(% 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 (July) | 8.1% | -1.1% | 7.1% | 2.4% | 9.0% | 9.5% |
| Inflation Rate (September) | 3.1% | 3.4% | 3.1% | 1.4% | 1.8% | 2.8- 3.2% |
| Government Spending (July) | 11.0% | 13.9% | 9.4% | 12.6% | 18.0% | 15% |
| Gross International Reserves ($B) (September) | 81.7 | 81.3 | 81.3 | 81.6 | 80.7 | 85 |
| PHP/USD rate (September) | 50.88 | 51.01 | 50.23 | 45.50 | 47.49 | 51 |
| 10-year T-bond yield (end-August YTD bps change) | 4.89% | 4.61% | -2.0 | 4.10% | 4.63% | 4.8-5.1% |
| PSEi (end-July YTD % change) | 7,958.7 | 8,171.4 | 19.1% | 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*

# NG Outlays, Exports to Push GDP Above 6.5% in Q3



Solid domestic demand, spurred by National Government (NG) and consumer spending (boosted by robust Overseas Filipino Workers' remittances) and rising external demand (i.e., exports) appear to be in synch to ensure another above-6.5% Gross Domestic Product (GDP) growth in Q3. NG spending has chalked in the 4th consecutive month of double-digit growth by August and OFW remittances in its 2nd month of above 5% gains should boost consumer spending. And with exports back to a double-digit expansion of 11% in July, the double-barreled upswing should supply vigor to GDP growth in Q3.

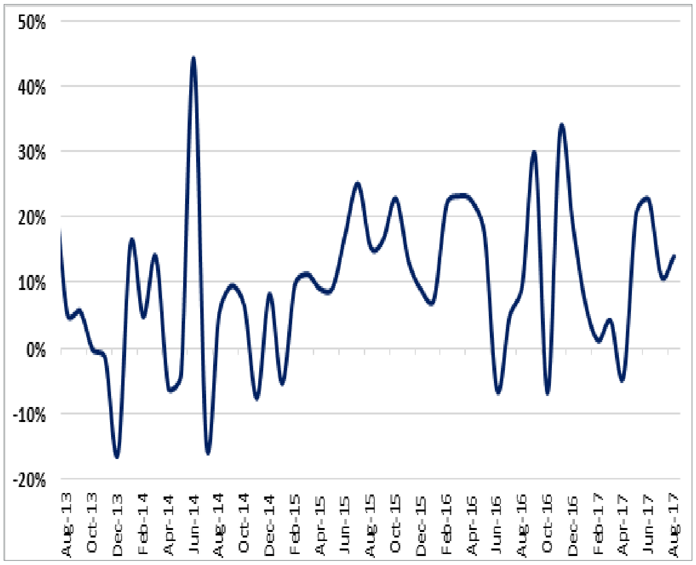
Outlook: We see another 6.5% or better expansion in GDP for Q3, as consumer spending should kick up following above-12% peso-remittance gains in the three months ending July and NG spending in its 4th consecutive month of double-digit rise by August. Exports renewed its above-10% gains in Q3 and should continue to boost growth for the quarter. The inflation uptick in September should prove temporary as U.S. production recovers from its two big hurricanes.

## NG Spending Continues Uptrend in August

National Government (NG) disbursements continued its above-10% growth pace, marking its 4th consecutive month of double-digit growth amidst the resumption of key infrastructure projects. Total spending in August reached P201.6 B, 13.9% higher than a year ago levels.

Meanwhile, total revenues managed to grow by 9.9% to P230.4 B, sustained by the remarkable gains from the Bureau of Internal Revenue (BIR) and Bureau of Customs collections. With total revenue gains overshadowing expenditure increase, the NG recorded a budget surplus amounting to P28.8 B, trimming down the year-to-date (YTD) deficit to P176.2 B.

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




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

The BIR raked in a total of P171.7 B (or 9% growth) in August while the Bureau of Customs' (BoC) take rose by 15.7%, faster than the 13% recorded in July. The remarkable increase in BoC revenues would suggest higher imports in August (i.e., fuel and consumer good items).

The YTD deficit only accounted for 37% of total target deficit for 2017 of P473.1 B (3% of GDP). With four months remaining, the 63% fiscal space suggests sufficient budget for the fast implementation of other projects or that the target deficit may not be achieved.

We maintain our view that NG spending will continue at an elevated pace anchored on the administration's determination to fast track the roll-out of big-ticket infrastructure projects.

| GDP Growth for ASEAN 6 +1 | | | | |
|---|---|---|---|---|
| | 2016 | Q1-2017 | Q2-2017 | Inflation |
| China | 6.7% | 6.9% | 6.9% | 1.8%* |
| Philippines | 6.7% | 6.4% | 6.5% | 3.4% |
| Malaysia | 4.2% | 5.6% | 5.8% | 3.7%* |
| Vietnam | 6.2% | 5.1% | 6.2% | 3.4% |
| Indonesia | 5.0% | 5.0% | 5.0% | 3.7% |
| Thailand | 3.2% | 3.3% | 3.7% | 0.9% |
| Singapore | 2.0% | 2.5% | 2.9% | 0.4%* |

*Source of Basic Data: Philippine Statistics Authority*
*Note: Inflation statistics are for the month of September except for China, Malaysia, and Singapore*

*Electronic products continued to reign as the top export commodity with total earnings of $2.8 B. This comprised 52.3% of total exports revenue for July.*

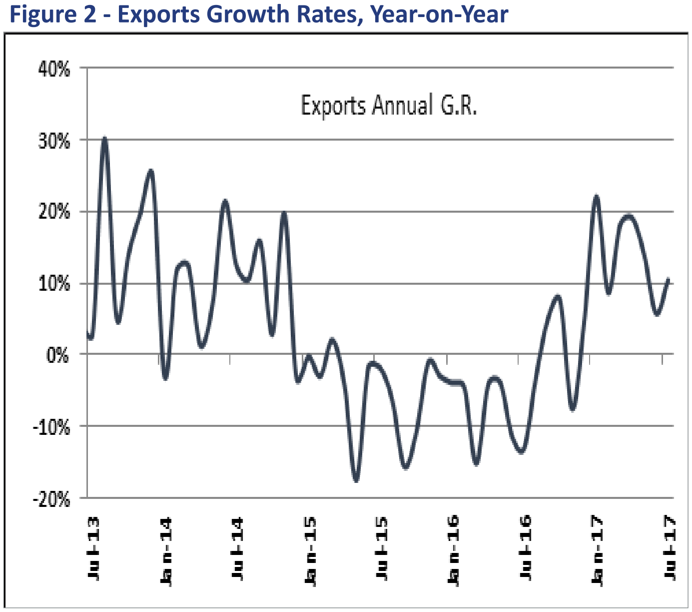


## Exports Expands by 11% in July

Exports sales picked up in July, returning to its double-digit reign after it took a breather in the previous month. Shipments abroad totaled $5.3 B, representing a 11% year-on-year (y-o-y) increase due to recorded strong gains in six out of the top 10 export goods led by Machinery and Transport equipment (+63.8%).

Higher exports of Electronic Equipment and Parts (different from Electronic products) and Metal Components, up 60.2% and 21.2%, respectively, likewise contributed to the remarkable performance in July. Other major gainers included Electronic products (+11.8%) and Other Mineral products (+6.8%). YTD total exports in July reached $36.6 B, showing a 13.9% y-o-y increase.

**Figure 2 - Exports Growth Rates, Year-on-Year**




*Source of Basic Data: Philippine Statistics Authority (PSA)*

Electronic products continued to reign as the top export commodity with total earnings of $2.8 B. This comprised 52.3% of total exports revenue for July. It rose by 11.8% to $2.7 B from $2.5 B of the same period in the previous year. Among electronic products, Semiconductors grew by a notable 13.4%, with sales jumping from $1.8 B to $2 B. It also accounted for the biggest share among electrical products at 37.9%.

Other Manufactures came at second place with earnings worth $235.3 M, although sales for this commodity dropped by 3.8%. Machinery and Transport Equipment grabbed the third-place spot as its exports skyrocketed by 63.8% to $285.9 M (a 5.4% contribution to total exports). Woodcrafts and Furniture followed in fourth place, with shipments valued at $214 M and contributing 4.1% to total exports, despite its sales decline of 4.9% from the previous year. Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships closed the top five list with total export receipts valued at $185.2 M, or 3.5% to shipments.

Japan kept its status as leading exports destination as it drew 17.3% of total exports, despite a slight 1.1% decline from July last year. United States of America remained in second place with revenues rising slightly by 1.7% to $812 M, or 15.4% of shipments. Exports to Hong Kong (in third place) and China (in fourth place) likewise rose by 26.2% (to $568.1 M) and 7.9% (to $573.5 M), respectively, reflecting the growth resurgence in China.

Almost half of the total exports in July headed towards East Asian (EA) nations, valued at $2.6 B, which represented a 10% expansion y-o-y. Shipments to the ASEAN countries (comprising 15%), also increased by 10.4%. ASEAN+East Asia ex-Japan accounted for 46.6% of total exports. Trade exports to the E.U., likewise jumped by 19.7%, as its economy continued its upward trek, led by Spain, Germany and France.

We believe that exports will continue to expand at a double-digit pace buoyed by strong global demand (i.e., U.S., E.U., China, and India). In addition, the peso's real depreciation of 5.5% in September from December 2016 (as measured by BSP's Real Effective Exchange Rate) should provide fuel to this expansion. Thus, we think that gains in exports will further augment the fast-growing domestic demand.

## Meralco Sales Expand in August, while Manufacturing Output Dips in July

Meralco sales expanded at a faster rate in August, posting a 6.5% y-o-y increase from 6% in July due to broad-based gains in electricity demand across different customer

*PH headline inflation accelerated to 3.4% in September, climbing another 0.3% points from August in the wake of back-to-back torrential rains.*

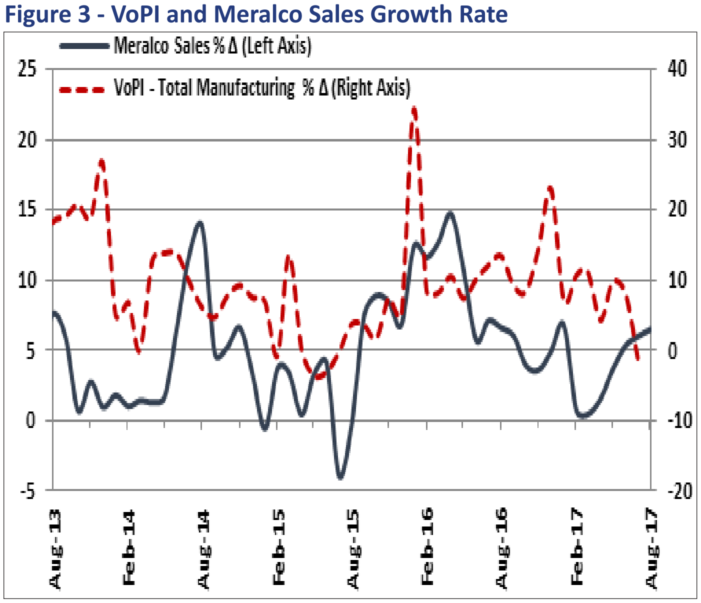


categories. However, the country's manufacturing output (measured by Volume of Production Index or VoPI) registered its first decline in 24 months, slipping by 3.5% in July from 1.3% (revised) in June. VoPI fell as eight out of the 20 major sectors ended in the red.

Despite the slightly higher electricity rates in August, Residential demand picked up by 7.2% y-o-y. The overall rate in August increased by P0.13/kWh from July to P8.38/kWh, reflecting the last installment of the over-recovery pass-through charges refund. Higher generation costs due to the increase in the cost of power from IPPs and PSAs, likewise, pushed electricity rates up. Electricity demand from Commercial and Industrial customers also increased by 6.1% and 5.1%, respectively.

Major segments of the Manufacturing sector (i.e. chemical products (-52.6%), textiles (-20.3%), and rubber and plastic products (-13.9%) posted double-digit decline. Nonetheless, the strong gains recorded in H1 2017 still brought the YTD growth to 7.1%.

**Figure 3 - VoPI and Meralco Sales Growth Rate**




*Sources of Basic Data: Meralco & Philippine Statistics Authority (PSA)*

## Price Upticks Records Faster in September

Broad-based price increments in heavily-weighted commodities resulted in a quicker-pace uptick in the country's inflation. PH headline inflation accelerated to 3.4% in September, climbing another 0.3% points from August in the wake of back-to-back torrential rains. Nonetheless, YTD price changes still stood well within the BSP's target at 3.1%.

Like last month, the Transport and Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) indices posted significant increase due to large price upticks in crude oil with WTI and Brent posting an average mark-up of 6% from the previous month. Higher Meralco and water charges in September, likewise, pushed HWEGOF index higher (see Meralco article). Faster uptick in the prices of key food items (i.e. meat, cereals, flour, and beverages) also brought the heavily-weighted Food and Non-Alcoholic Beverages (FNAB) and Alcoholic Beverages and Tobacco (ABT) indices higher. Clothing & Footwear and Restaurants and Miscellaneous Goods and Services also saw weaker gains. Only the Health index showed a slowdown, while the rest maintained its past month's rate.

| Inflation Year-on-Year Growth Rates | Sep-2017 | Aug-2017 | YTD |
|---|---|---|---|
| All items | 3.4% | 3.1% | 3.1% |
| Food and Non-Alcoholic Beverages | 3.6% | 3.5% | 3.7% |
| Alcoholic Beverages and Tobacco | 6.4% | 6.3% | 6.2% |
| Clothing and Footwear | 2.0% | 1.9% | 2.4% |
| Housing, Water, Electricity, Gas, and Other Fuels | 3.8% | 2.8% | 3.0% |
| Furnishing, Household Equipment and Routine Maintenance of the House | 1.8% | 1.8% | 2.2% |
| Health | 2.3% | 2.4% | 2.5% |
| Transport | 4.8% | 4.4% | 3.2% |
| Communication | 0.3% | 0.3% | 0.2% |
| Recreation and Culture | 1.4% | 1.4% | 1.5% |
| Education | 2.3% | 2.3% | 2.0% |
| Restaurants and Miscellaneous Goods and Services | 2.4% | 2.2% | 1.9% |

*Source of Basic Data: Philippine Statistics Authority (PSA)*

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

The seasonally adjusted annualized rate (SAAR) accelerated from 4.1% (revised) to 5.8%. Nonetheless, oil price upside remains limited. Thus, we maintain our view that the

*Monetary Board (MB) decided to maintain key policy rates (BSP's overnight reverse repurchase, RRP facility) at 3% during its September 21 meeting as it deemed money growth to be manageable.*



average inflation will continue to lodge within the BSP's target. Besides, core inflation (which excludes volatile food and energy prices) only registered a slight increase to 3.3% vis-a-vis the 3% recorded in August.

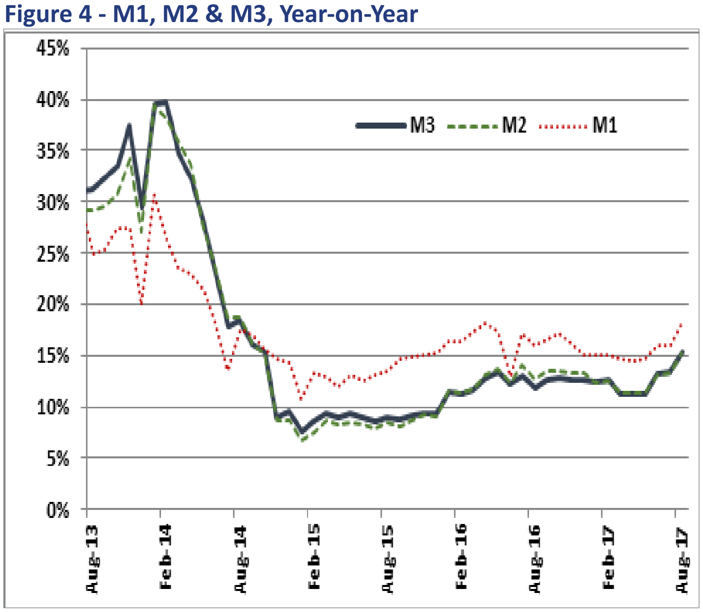
## Is the Peso Depreciation Adding Much to The Inflationary Pressure?

Its main impact is on the Transport sub-index, which since June 2016 has accelerated from 2.3% (y-o-y) to 4.8%. Since the sector accounts for 7.8% of the CPI basket, the rise has added 0.2% points to the inflation rate from July. This is fairly consistent with our past studies covering 2000-2015 which showed that a 10% peso depreciation adds only 0.4% to 0.5% points to inflation. As we project an average depreciation of 6.3% for the full year that could translate to some 0.2% to 0.3% additional inflation for the entire year. That implies only a minor addition up to year end.

## Domestic Liquidity Further Accelerates in August, MB Keeps Policy Rates Steady

The country's domestic liquidity (M3) expanded by 15.4% in August, accelerating from 13.5% in the previous month and marking the 20th month of straight double-digit growth. Broad Money (M2) and Narrow Money (M1), likewise, increased to 15.3% and 18.1%, respectively.

**Figure 4 - M1, M2 & M3, Year-on-Year**




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

Despite the uptick, the Monetary Board (MB) decided to maintain key policy rates (BSP's overnight reverse repurchase, RRP facility) at 3% during its September 21 meeting as it deemed money growth to be manageable. Bangko Sentral ng Pilipinas' (BSP) remains confident in its benign inflation outlook. Thus, it also left interest rates on the overnight lending, deposit facilities, and the reserve requirement ratios unchanged.

Meanwhile, the continued expansion of money supply drew support from the increase in loans for productive activities by 19.5%, quicker than the 18.9% in the previous month. Bulk of bank loans went to productive activities. Strong commercial bank lending went into several key sectors, i.e. Real Estate Activities (+18%); Electricity, Gas, Steam and Air-conditioning Supply (+23.7%); and Information and Communication (+38.1%), among others.

The sustained inflow of OFW remittances and earnings from BPOs brought the Net Foreign Assets (NFA) of monetary authorities higher by 3.9%, much faster than the 0.8% recorded in July.

We believe that the MB will continue to hold policy rate steady in Q4, anchored also on weak uptick in inflation. Besides, the acceleration in the money growth has remained within the 10% to 16% range.

## Residential Real Estate Price Index Down in Q2-2017

As the BSP kept a steady eye on possible asset bubbles, the residential real estate prices in the Philippines, measured by the Residential Real Estate Prices Index (RREPI), fell to 117.2 from 122.2 from the previous quarter, registering a 4.3% decline vis-à-vis Q1-2017, and 3.8% drop y-o-y. The 9.9% slump in prices of single detached units more than offset the gains registered in the prices of condominium units (+5.1%) and townhouses (+2.9%), driving down the average prices in Q2.

Prices in Areas Outside NCR (AONCR), likewise, declined by 8.2% in Q2 (y-o-y) weighed down also by the drop in the prices of single detached houses. Meanwhile, faster prices of condominium units in NCR resulted in a 2.5% uptick.

*Top Philippine and Japanese officials have agreed to utlilize streamlined approaches and new measures to facilitate the speedy implementation of big-ticket infrastructure projects.*



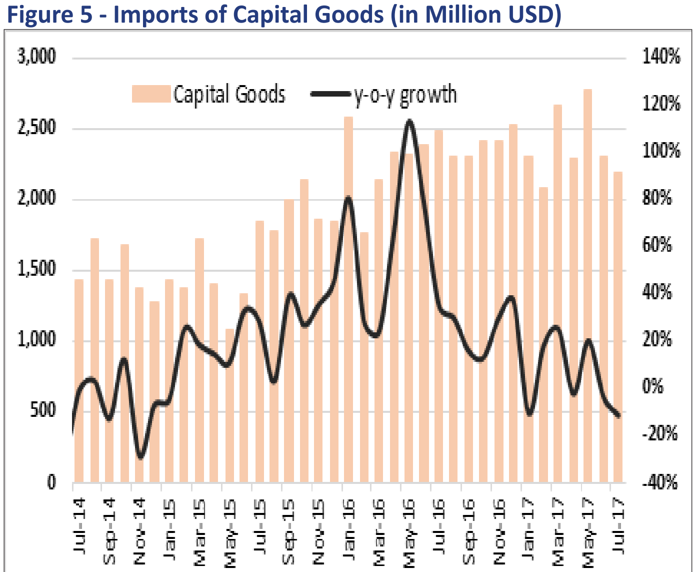
Residential estate loans data revealed that bulk of loans granted (44.9%) went to the NCR, while 28.9% headed for Calabarzon. The bulk of NCR loans covered purchases of condominium units. Loans granted to AONCR, meanwhile, mostly went into single detached housing acquisition. About 80% of the total loans were for the purchase of new housing units, mostly spent on single detached units (45.3%) followed by condominium units (44.8%).

## Capital Goods Imports Further Decline in July

The imports of capital goods took a dip of 11.5% y-o-y growth in July, following the previous month's 3.5% drop. Significant decline in five out of six capital goods products largely pulled down capital goods imports' performance to record a total of $2.2 B.

Imports of Telecommunication Equipment & Electrical Machinery, and Power Generating & Specialized Machines, comprising about 60% of total capital goods imports, declined by 13.7% and 8.1%, respectively. Only the imports of Land Transport Equipment excluding Passenger Cars & Motorized Cycle posted a positive 5.4% y-o-y growth.

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




*Source of Basic Data: Philippine Statistics Authority (PSA)*

Other import categories, likewise, registered declines led by the Special Transactions (-48.2%). Raw Materials & Intermediate Goods imports, which captured the highest share of total imports at 39.6%, also fell by 8.2%. Meanwhile, the imports of Mineral Fuels, Lubricant and Related Materials (30.6%) and Consumer Goods (10.7%) remained positive, reflecting the strong demand of petroleum products as buyers built up inventories (low prices) and the robust consumer demand.

With hefty declines in heavily-weighted import categories, total imports fell by 3.2% y-o-y. Coupled with the faster increase in exports receipts (11% y-o-y), trade deficit in July stood better at $1.6 B, significantly lower than the $2 B in June and $2.4 B a year ago. With the peso's past depreciation, the trade gap should continue to narrow until the end of the year.

## Current Account Deficit Still Under Control?

The current account balance (CAB) appeared to be still under control as it swung into a minor $15 M surplus in Q2, an improvement from the $248 M deficit in Q1. But it was down from surpluses of $140.7 M in Q2-2016 and even more from $2.9 B in Q2-2015. The large slippage in CAB has been due primarily to the fast growth in imports since 2016 (election year), albeit led by capital goods imports. The improvement this year may be attributed to the fact that exports have been rising faster than imports (see BOT above). Nonetheless, there can be no complacency here since imports will accelerate as the Build, Build, Build program takes off. But if exports continue to pick up pace, the threat may be lessened.

## PH-Japan Agree to Fast Track Infrastructure Projects

Last September 26, top Philippine and Japanese officials have agreed to utlilize streamlined approaches and new measures to facilitate the speedy implementation of big-ticket infrastructure projects presented by Manila and Tokyo for possible financing. The "Fast and Sure" principle, which is at the heart of these agreements, has ensured the efficient processing of the jointly agreed project list between the two nations.

Both parties agreed to speed up project approval processes at both end but with precautionary measures to assure due diligence, a transparent procurement process, and in project implementation itself, especially in land acquisition and resettlement. Technical-level exchanges on the ground which included a mission dispatched by the Japan

*Cash remittances coursed through banks increased by 7.1% to reach $2.3 B.*



International Cooperation Agency (JICA) for the Metro Manila Subway, flood management, irrigation, and road projects; as well as the visit of the Philippines' "Build, Build, Build" team to the construction site of the Shin-Yokohama Subway in Tokyo also took place.

For its part, the Philippines has recently introduced an improved "3-in-1" approval process, in which the three needed approvals prior to the signing of any project loan agreement funded by Official Development Assistance (ODA) loans will be issued simultaneously during NEDA Board meetings to be headed by President Duterte. The "3-in-1" streamlined process aims at significantly shortening the processing time for loan approvals by two to three months. Fast expert-level consultations should ensure the smooth implementation of major projects, such as the first phase of the Metro Manila Subway (from Quezon City to NAIA) and the South Commuter Line (Manila-Los Banos) of the Department of Transportation. An indicative list of projects with an estimated total cost of P315.4 B got confirmed in the pipeline for possible Japanese financing.

The two countries also discussed their views on providing support for Mindanao and other areas of cooperation such as in power and energy, anti-illegal drug measures, public safety and counterterrorism, and information and communications technology, and Marawi reconstruction.

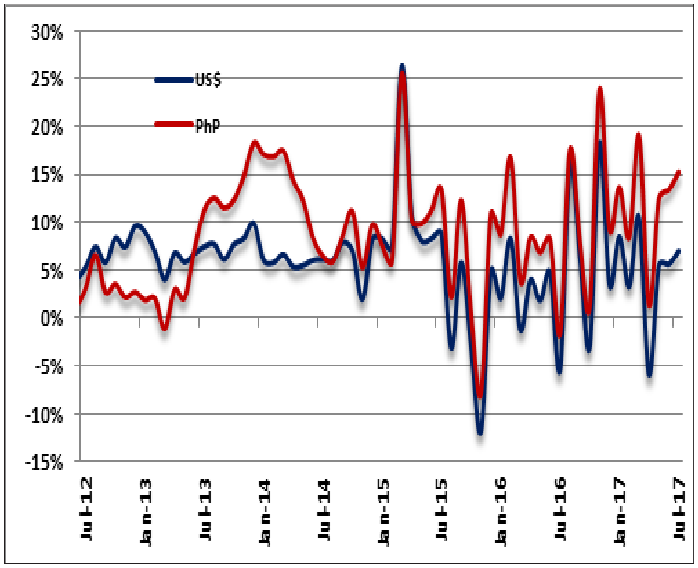
## OFW $ Remittances on a Roll, Soar by 8.7% in July

The country raked in a total of $2.6 B worth of personal remittances from Filipinos working abroad in July, representing an 8.7% increase (y-o-y). This brought the YTD level at $17.8 B, 5.9% higher than the previous period. The sustained expansion in land-based workers remittances (with more than a year contract) provided the major boost.

Cash remittances (i.e. coursed through banks), likewise increased by 7.1% to reach $2.3 B. Bulk of the remittances came from land-based workers, accounting for about 80%. Remittances from this group registered a 6.8% growth, further supported by the 8.4% increase in sea-based workers. Most of the remittances came from the United States, United Arab Emirates, Japan, and Singapore.

Preliminary data from the Philippine Overseas Employment Administration (POEA) showed that the country deployed a total of 81,777 OFWs in July, to reach 1.2 M in the first seven months of 2017. This represents more than 58% of the total deployed workers in 2016.

**Figure 6 - OFW Remittances Growth**




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

Meanwhile, the peso equivalent of these inflows also outperformed in June, as it posted a 15.3% growth, buttressed by the 7.6% y-o-y peso depreciation. We believe that the healthy growth remittances (in both dollar and peso value) will provide a big boost to consumer spending in H2.

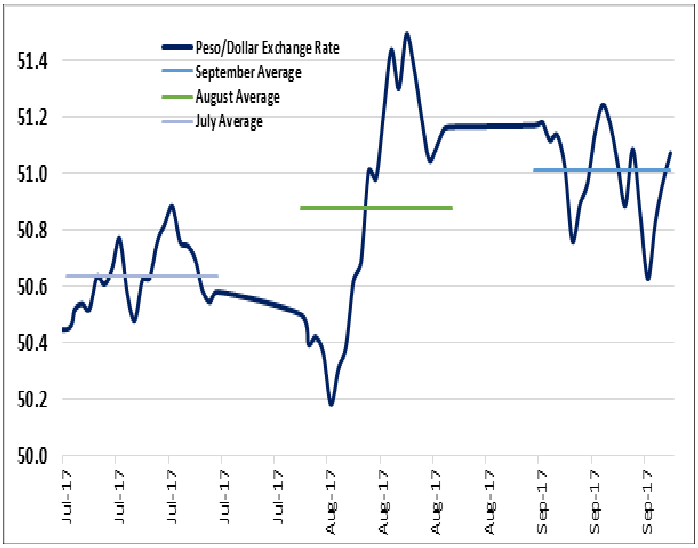
## Peso On Depreciation Mode Deja Vu

The USD/PHP succumbed to the dollar's strength déjà vu in September, as it fell by 0.3% from the previous month. The peso averaged at P51.01/$, the highest level in 10 years, but still far from its record of P56.34 in October 2004. The pair still broke through the P51/$ psychological resistance as it ranged from P50.63/$ to P51.24/$, albeit with narrower volatility measure of 0.16 from 0.42 in August. The currency's weakness in September reflected the investors' bullish sentiment toward the USD assets as inflation data came in lower than expected at 1.9%, along with its rebound from oversold positions with respect to the euro and the yen.

*Other emerging currencies managed to resist the greenback led by the yuan (CNY) due to the improving external account and PBoC's intervention.*

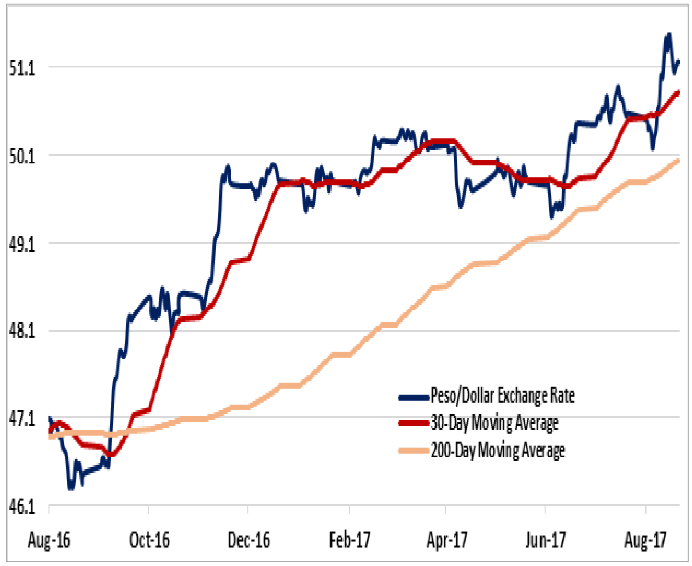


**Figure 7 - Daily Dollar-Peso Exchange Rate**




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

**Figure 8 - Dollar-Peso Exchange Rates & Moving Average**




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

Apart from the peso, India's rupee (INR) also stumbled, hitting its 6-month low as investors keep on liquidating their investments on signals of weak domestic data. Meanwhile, other emerging currencies managed to resist the greenback led by the yuan (CNY) due to the improving external account and the People's Bank of China's (PBoC) intervention. Healthy economic production and exports also supported Malaysia's ringgit (MYR). Thailand's baht (THB), likewise rallied amidst improving fundamentals and wide current account surplus. Thailand's reserves amounted to almost $200 B.

| Exchange Rates vs USD for Selected Asian Countries | |
|---|---|
| | Aug-17 |
| AUD | -0.7% |
| CNY | -1.7% |
| INR | 0.6% |
| IDR | -0.2% |
| KRW | 0.1% |
| MYR | -1.6% |
| PHP | 0.3% |
| SGD | -0.8% |
| THB | -0.3% |

*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 September still lodged above 200-day moving averages (MA) supporting our view that the peso will continue to be under pressure in the medium term as U.S. Treasuries' yields improve with solid economic growth. The peso, however, may have some moments of transitory strength as actual FX rate has fallen below the short-term (30-day) moving average.

## Outlook

Despite much political noise within and outside the Philippines, we don't see much change in the growth narrative, as the economy continues to emit bright lights. We still see 6.7% to 7.1% gains in Q3 and Q4.

- Domestic demand's luster should have undiminished shine, as government spending on infrastructure and consumer spending, amidst rapidly rising peso OFW remittances.

- Despite a high base in 2016, infrastructure spending has picked up since May and should be hitting a growth pace approaching 20% as the year's end draws nearer. This, combined with a rebound in private construction, should boost total construction spending which should more than offset some weakness in durable equipment expenditures.

*The actual USD/PHP rate in September lodged above 200-day moving averages (MA).*



- Exports, with its double-digit expansion, will provide the needed stimulus to achieve our original full year growth target of 6.5%-7%. Exports will continue to accelerate as the economic expansion in the U.S., Eurozone and China has gained traction and has exceeded expectations so far.

- Inflation may have a slight uptick in September and October as Typhoon Harvey's negative impact on U.S. petroleum production take its toll. However, the recent rise in crude oil prices should be short-lived as OPEC's September output jumped—thanks to Saudi Arabia, Libya and Nigeria--, the rig count in North America climbs, and the U.S. dollar has been strengthening anew.

- With this benign inflation outlook, we see the BSP maintaining the status quo with respect to its policy rate, the related interest rates, and reserve requirements for the rest of the year.

- The USD/PHP rate will again experience more upward pressure as the U.S. dollar resumes its ascent and the differential between U.S. and PH Treasury yields narrows slightly.

| Forecasts | | | |
|---|---|---|---|
| Rates | October | November | December |
| Inflation (y-o-y %) | 3.3 | 3.0 | 3.1 |
| 91-day T-Bill (%) | 2.13 | 2.15 | 2.16 |
| Peso-Dollar (P/$) | 51.23 | 51.23 | 51.48 |
| 10-year T-Bond (%) | 4.72 | 4.76 | 4.79 |

*Source: Authors' Estimates*

# Bond Market Perks Up Despite Fed to Unwind QE Assets



Despite the sharp rise in U.S. Treasury bond yields after the Fed's announcement that it will hike policy rates one more time in 2017 and start slimming down its balance sheet in October, the local bond markets showed resilience as yields generally eased at both primary and secondary markets. Increased demand, likewise, showed in higher volumes in both markets.

Outlook: Domestic bond yields may rise, but the upside would be limited. For one, U.S. Treasuries may also find difficulty to further rise as petroleum products flow's normalization should keep inflation at 1.7% year-on-year (y-o-y) even in Q4. At home, this would have a similar effect to which may be added less-than-expected government borrowing in Q4 as NG struggles with absorptive capacity constraints and weak execution of large infrastructure projects.

## Primary Market: Strong Investor Demand Pushes Yields Down Further

Yields in September auctions of 10-year Treasury bills generally moved slightly lower from the previous month due to higher investor demand.

The 91-day and 364-day T-bills both fell in yield by a cumulative 11.1 basis points (bps) and 7.4 bps, respectively, for September. Thus, yields eased to 2.032% and 2.861% for both bills, respectively. On the other hand, the 182-day T-bill fell a little less in yield by 7 bps to 2.522%.

Stronger demand also got reflected in the higher tender-offer ratio (TOR) recorded for the T-bill auctions in September. The TOR for the 91-day T-bill auctions reached 5.2, up from 3.1 in the previous month whereas the TOR for the offerings of the 182-day T-bill was at 3.2, up from 1.8 in August. The TOR for the offerings of the 364-day T-bill was at 3.4, up from 2.6 a month ago.

As for the 10-year treasury bond auction, it gave a yield of 4.647%, down from 4.718% a month ago. It reflected greater investor appetite, despite having a TOR of 1.8, slightly down from 1.9 in the previous offering. In addition, the TOR for all the auctions in September moved up to 2.9 from 2.2 in the previous month, further indicating stronger investor demand.

**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** | | | | |
| 11-Sep | 91-day | 6.000 | 29.429 | 6.000 | 4.905 | 2.088 | -5.500 |
| | 182-day | 5.000 | 11.035 | 5.000 | 2.207 | 2.564 | -2.800 |
| | 364-day | 4.000 | 11.790 | 4.000 | 2.948 | 2.920 | -1.500 |
| 25-Sep | 91-day | 6.000 | 32.576 | 6.000 | 5.429 | 2.032 | -5.600 |
| | 182-day | 5.000 | 20.416 | 5.000 | 4.083 | 2.522 | -4.200 |
| | 364-day | 4.000 | 15.310 | 4.000 | 3.828 | 2.861 | -5.900 |
| **Subtotal** | | 30.000 | 120.560 | 30.000 | 4.019 | | |
| | | | **T-Bonds** | | | | |
| 19-Sep | 10-year | 15.000 | 26.287 | 15.000 | 1.752 | 4.647 | -7.100 |
| | | | | | | | |
| **Subtotal** | | 15.000 | 26.287 | 15.000 | 1.752 | | |
| **All Auctions** | | 45.000 | 146.840 | 45.000 | 2.890 | | |

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

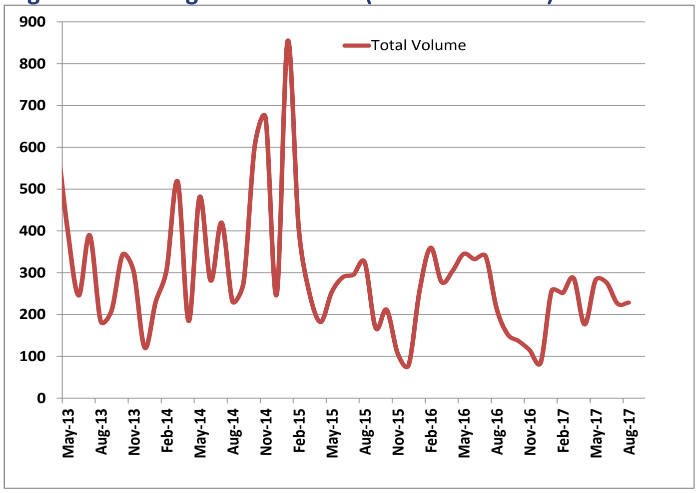
*The yield curve (for PDST-R2) at the end of September shifted down, as yields generally moved downward this month, practically across all tenors.*



## Secondary Market: Yield Curve Down as Trading Improves in September

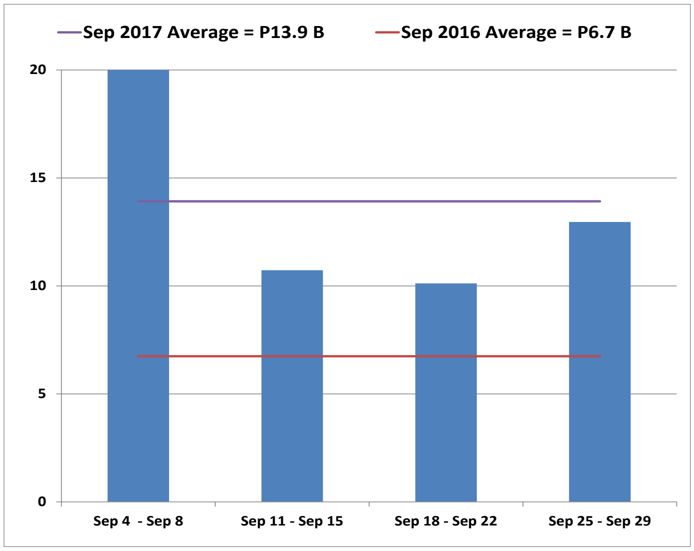
Investors' risk-on mode hiked total trading volume for September by 15.7% month-on-month (m-o-m) to P264.5 B from P228.7 B last month. This also represented an improvement of 73% year-on-year (y-o-y) from P152.8 B recorded last September 2016. The yearly increase in volume can be attributed to the lower probability of further Fed hikes for the rest of 2017. However, year-to-date (YTD) trading volume declined by 12.9% to P2.2 T in September 2017 as compared to P2.6 T a year ago.

**Figure 9 - Trading Volume Trend (in Million Pesos)**



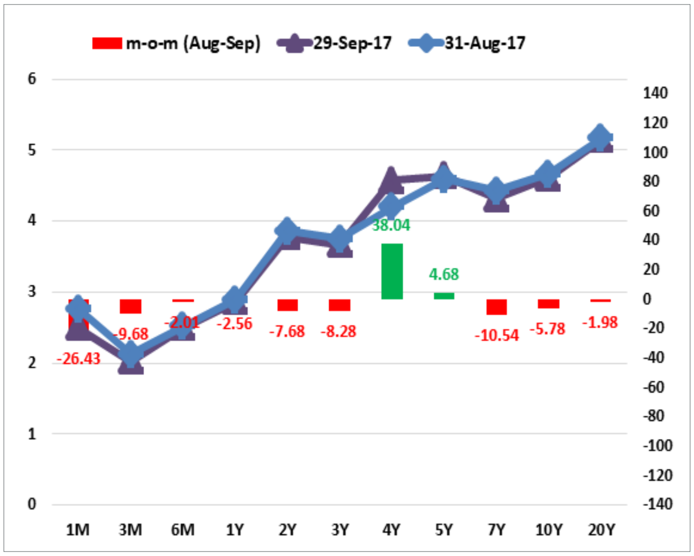

*Source: Philippine Dealing Systems (PDS)*

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




*Source: Philippine Dealing Systems (PDS)*

**Figure 11 - PDST-R2 Yield Curves**




*Source: Philippine Dealing Systems (PDS)*

The yield curve (for PDST-R2) at the end of September shifted down, as yields generally moved downward this month, practically across all tenors.

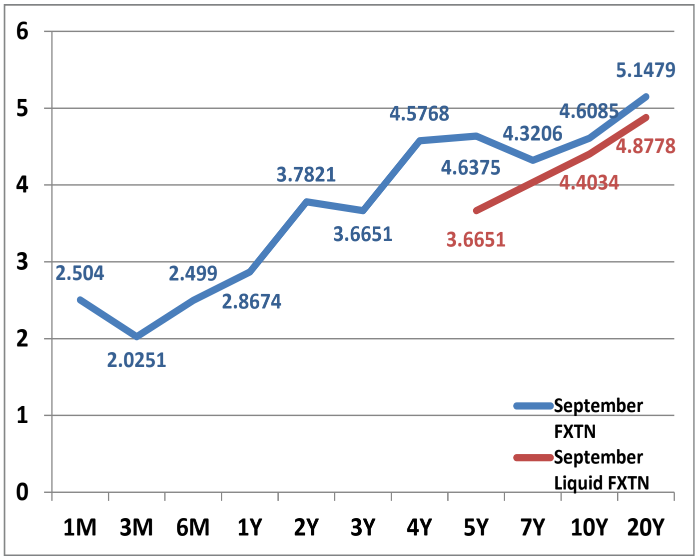
The largest drops occurred in the 1-month and 3-month tenors, which fell by 26.4 bps and 9.7 bps, respectively. On the other hand, the 2-year bonds fell by 7.7 bps, while the 10-year bond went down by 5.8 bps. 10-year to 2-year spread went down from 92 bps to 83 bps, a spread change of 9 bps (See ASEAN +1 table below).

As before, liquid FXTN tenors continued to post lower yields than (PDST-R2) FXTN benchmarks. The difference in the 5-year space widened as 5-yr R2 rose by 4.7 bps while FXTN 5-73 yields fell by 8.3 bps.

*Overall secondary trading of corporate bonds for September 2017 reached P4 B, an improvement of 11.8% y-o-y from P3.5 B in September last year.*



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




*Source: Philippine Dealing Systems (PDS)*

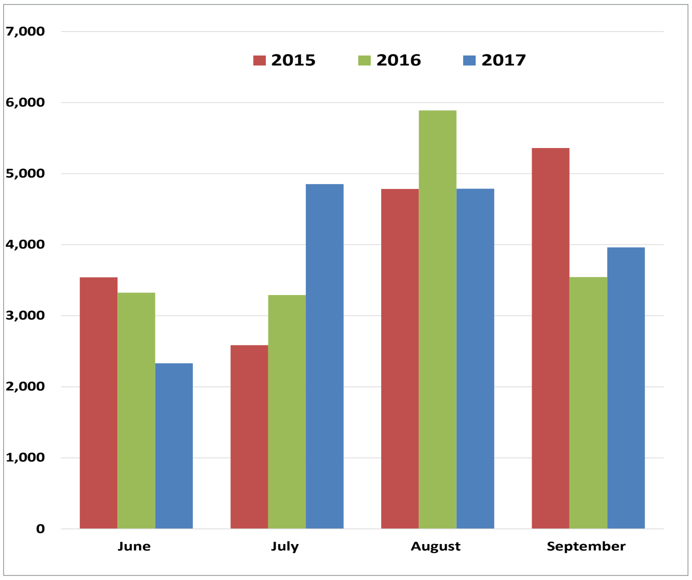
## Corporate Bonds: Trading Further Declines Despite the Improvement in GS Volumes

Moving in the opposite direction of GS trading, overall secondary trading of corporate bonds for September 2017 reached P4 B, a decrease of 17.3% m-o-m from P4.8 B, but an improvement of 11.8% y-o-y from P3.5 B in September last year. YTD trades hit a total P36.1 B, up 11.3% from a year ago, the same rate chalked up in August.

While overall trading volume in September improved from August, 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 negative movement resulting in a 17.3% decline. Trading activity in the secondary corporate market, improved for only one out of the five leading corporations.

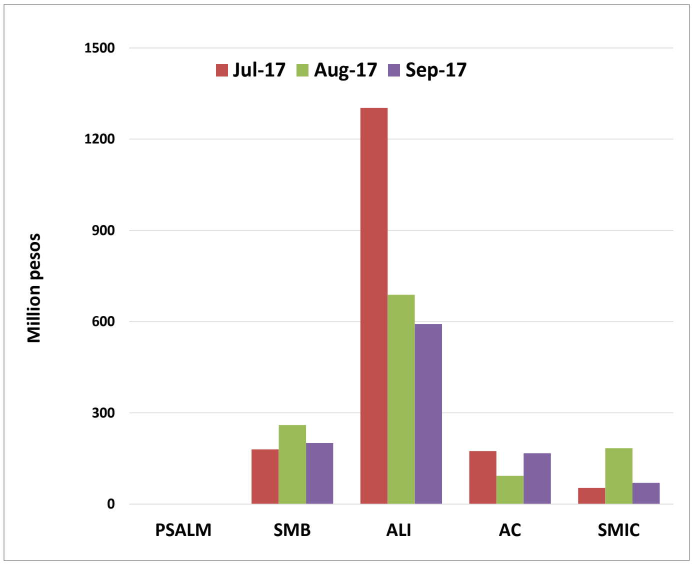
ALI once again placed first, trading P591.9 M, down by 14% m-o-m. SMB and AC came in second and third, as the former traded P200.7 M as it dropped by 22.8% m-o-m, while the latter traded P167.3 M, up by 79.9% m-o-m, respectively. SMIC was next, at P69.7 M, down by 62.1%. Of the top five, PSALM brought up the rear, with no trading at all for the fifth straight month.

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




*Source: Philippine Dealing Systems (PDS)*

**Figure 14 - Corporate Trading (In Million Pesos)**




*Source: Philippine Dealing Systems (PDS)*

*Philippine dollar-denominated bonds (ROPs) yields rose by an average of 6.3 bps for the three liquid tenors, tracking the rise in U.S. Treasury bond yields.*



## Corporate Issuances & Disclosures

- SMC Global Power Holdings Corporation, the power generation unit of conglomerate San Miguel Corporation issued P35 B worth of debt securities under a shelf-registration program. SMC Global's issuance consisted of an initial tranche of P25 B. Proceeds from the offering will be used to refinance outstanding loans of the parent company totaling $400 M. The bond was registered with the Securities and Exchange Commission and listed with the Philippine Dealing & Exchange Corporation. This marks the second offering of SMC Global after raising P15 B in fixed rate bonds due 2021, 2023, and 2026.

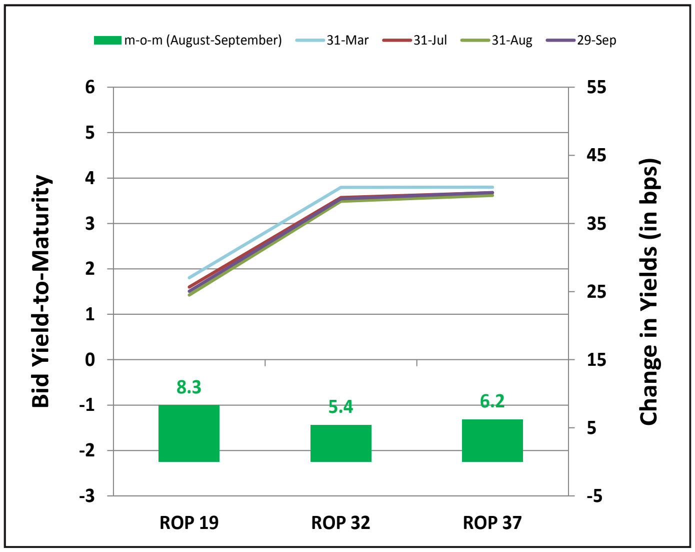
- Ayala Corporation announced last September 7, 2017 that the company had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US$400 M with an annual coupon of 5.125% for life with no step-up. The issuance is the first corporate fixed-for-life with no coupon step-up in Southeast Asia and the first fixed-for-life with no step-up (and reset) deal in the Philippines. The Notes will be issued by AYC Finance Limited (a wholly-owned subsidiary of Ayala Corporation) and will be guaranteed by Ayala Corporation. The pricing of the Notes reflected a 50-bp compression from initial price guidance as the offering was more than five times oversubscribed, with investors' confidence reflecting the high quality of the Ayala signature.

## ROPs: Yields Drop at Short End of the Curve

After three consecutive months of falling yields (on average), Philippine dollar-denominated bonds (ROPs) yields rose by an average of 6.3 bps for the three liquid tenors, tracking the rise in U.S. Treasury bond yields. ROP-19, with 2 years to maturity, went up by 8.3 bps from 1.424% to 1.507%. ROP-32, with 15 years remaining to maturity, moved higher by 5.4 bps from 3.488% to 3.542%. ROP-37, 20 years from maturity, also rose by 6.2 bps from 3.618% to 3.68%.

In contrast, U.S. Treasury bond yields rose by an average of 12.6 bps, albeit with wide variations across tenors. U.S. Treasuries of similar tenors show that the 5-year to 10-year papers rose the most by 21-22 bps. 2-year paper's yield went up by 14 bps to 1.5%, and the 20-year bond also rose by 16 bps to 2.6%. Except for the 15-year T-bond (stable), U.S. Treasuries yields rose faster than ROPs and so the latter's spreads over U.S. Treasuries slightly tightened.

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




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

**Figure 16 - ROPs Yields**


*Sources: Bloomberg & First Metro Investment Corporation (FMIC)*

*China's economy appears to have unexpectedly cooled in August, after a lackluster July, as factory output, investment, and retail sales all slowed.*



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

**U.S.:** The country's GDP grew a bit faster at 3.1 % SAAR in Q2, its quickest pace in more than two years. The upward revision from the 3% rate of growth reported last month reflected a slightly faster pace of inventory investment. Despite the destructive hurricanes Harvey and Irma transitory impact on the economy, the Federal Open Market Committee (FOMC) expects stronger economic growth as it raised its GDP growth projection this year to 2.2% from 2.1% in June. U.S. consumer prices accelerated in August, as inflation rose by 0.4% m-o-m after edging up 0.1% in July, amid a jump in the cost of gasoline and rents, signs of improving inflation that could allow further monetary policy tightening from the Federal Reserve this year. August's inflation, which beat market expectations of a 0.3% rise, marked the largest in seven months and lifted the year-on-year increase in the CPI to 1.9% from 1.7% in July. U.S. producer prices rebounded in August by 0.2% last month after slipping 0.1% in July, driven by a temporary 9.5% surge in the cost of gasoline. At the same time, the Fed reduced its outlook for inflation from 1.7% this year to 1.5% as monetary officials claim that market-based measures of inflation compensation remain low. In addition, the Federal Reserve still sees the federal funds rate at 1.4% by the end of 2017. The slowdown in job growth in August, coupled with higher jobless claims in September due to the negative impact of Hurricane Harvey and Irma and weaker consumer confidence, may have influenced the Fed's milder inflation outlook. Consumer confidence index fell to 119.8 in September from 120.4 in August. The U.S. central bank signaled that it anticipated one more policy rate hike by the end of the year as Fed chair Janet Yellen said that the Fed needed to continue gradual rate hikes despite the uncertainty about the path of inflation. The Fed also announced the start of the reduction of its $4.5 T balance sheet in October (mostly, Treasuries and mortgage-backed securities acquired under its QE). At the same time, the Fed kept policy rates at its current 1% to 1.25% target, but indicated that one more hike is likely this year. Officials also projected one fewer rate hike than initially forecast between now and 2019. U.S. Treasury bond yields thus have good reasons to move higher in the final days of Q3. The 10-year yield was at 2.33% last September 29 after hitting 2.35% a day before, its highest level since July. On the other hand, the 2-year was at 1.47% last September 29, from 1.49% recorded the previous day, which marked a nine-year high. The market expects most trading activity at the belly--2-year and 5-year tenors, as these had shown more sensitivity to Fed easing and the Fed's balance sheet reduction. The market, however, expects the 10-year also to move up, as most expect it to end the year higher, but not much. 10-year to 2-year spread rose by 6 bps from 79 bps to 85 bps.

**PRC:** China's economy appears to have unexpectedly cooled in August, after a lackluster July, as factory output, investment, and retail sales all slowed. Industrial output rose 6% from a year earlier in August, the slowest pace

**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-Aug-17 | 29-Sep-17 | | | |
| US | 1.483 | 2.334 | 1.90 | 0.43 | 79.00 | 85.00 | 6.00 | 1.00 | -0.90 |
| PRC | 3.450 | 3.770 | 1.80 | 1.97 | 30.00 | 32.00 | 2.00 | 4.35 | 2.55 |
| Indonesia | 6.004 | 6.497 | 4.20 | 2.30 | 58.00 | 49.00 | -9.00 | 4.25 | 0.05 |
| Malaysia | 3.206 | 3.926 | 3.90 | 0.03 | 61.00 | 72.00 | 11.00 | 3.00 | -0.90 |
| Thailand | 1.457 | 2.292 | 0.70 | 1.59 | 81.00 | 83.00 | 2.00 | 1.50 | 0.80 |
| Philippines | 2.867 | 4.609 | 3.00 | 1.61 | 92.00 | 83.00 | -9.00 | 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*

*Indonesia's manufacturing sector rebounded in August, due to improving business confidence and rising demand for exports.*



this year, versus a median projection of 6.6% and July's 6.4%. Retail sales expanded by only 10.1% in August from a year earlier, versus 10.4% in July, which was also the lowest for the year. Fixed-asset investment in urban areas rose 7.8% in the first eight months of 2017 (y-o-y), marking the slowest growth rate since 1999. The continued cooling of the economy suggests that efforts to rein in credit expansion and reduce excess capacity have been effective. Still, producer price inflation and a manufacturing sentiment gauge both exceeded estimates earlier this month, signaling some resilience. Some analysts, however, think that the economy had already peaked in the first half of this year as the economy has been weighed down by the declines in property and exports. The offshore yuan appreciated by 1.7%, as it enjoyed a record 14-day rally, the longest run since August 2010. This came about amid speculation that policymakers will buoy the currency in the run-up to the once-in-every-four-years Communist Party meeting on Oct. 18. Analysts expect that the yuan's strength will continue, and boost offshore borrowing. Beijing's deleveraging drive has inadvertently fueled a boom in short-end notes this year. As the government started withholding approvals for offshore debt issuance of property developers and local government financing vehicles, companies ended up selling debt due in one year or less as these don't require permission from the authorities. This recent phenomenon has led analysts to speculate that the country's under-the-radar boom may be the government's next risk target. 10-year to 2-year spread rose slightly by 2 bps from 30 bps to 32 bps.

**Indonesia:** Indonesia's manufacturing sector rebounded in August, due to improving business confidence and rising demand for exports, according to the Nikkei Indonesia Manufacturing Purchasing Managers' Index report. The PMI was penciled in at 50.7 after two consecutive months of decline, with July's index of 48.6 as the lowest reading for the year. Any figure above 50 represents an increasing growth rate in the manufacturing sector for the month. Indonesia's trade balance returned to a surplus of $1.7 B in August, led by growth in manufacturing and mining exports. This is the largest surplus in more than five years, and it outpaced market expectations of $520 M. Bank Indonesia (BI) expects economic growth to slightly improve in Q3 and reach a range of 5.1%-5.2%, which includes higher private consumption spending. The country saw a lower CPI in August from a month, recording 0.07% deflation. This figure, which was a result of decreases in food prices, as well as prices of transportation, communications, and financial services, which declined by 0.67% and 0.6%, respectively, brought the country's inflation to 2.53% (YTD) and 3.82% (y-o-y). Indonesia's foreign exchange reserves rose to $128.8 B by the end of August, which was mainly supported by oil & gas and mining exports, as well as auction of Bank Indonesia foreign exchange bills. The Consumer Confidence Index (CCI) slipped by 1.5 points in August to 121.9, which shows only a slight dent on optimistic confidence, which rested on expectations of increased job creation in the next six months. An indicator of the latter was motorcycle sales which rose 5% in August (y-o-y) to 554,923 units. Analysts attribute this to more stable prices and lower interest rates. BI cut the benchmark seven-day reverse repurchase rate by 25 bps to 4.25%, for the second consecutive month, wrong footing most analysts. BI seeks to reverse sluggish lending and consumption, which kept growth at around 5% in the past four quarters. BI thinks the monetary easing would not risk reigniting inflationary pressures. Some analysts expect the rate cut to be the last for the year as "external pressures begin to intensify" as major central banks around the world start tightening their monetary policy. To fund infrastructure development, the government is considering ways to combine capital market instruments with traditional financing like bank loans and corporate bonds. The options considered included accounts receivable (AR) securitization and project-based mutual funds, which authorities claim will push capital market financing for corporations to have more options to get fresh cash. State-owned lenders aim to securitize the first ever rupiah denominated global bond as authorities view this as the right time to issue the rupiah-denominated global bond because Indonesia has received investment grade status from all global rating agencies and the rupiah has been stable in the last two years. 10-year to 2-year spread moved down by 9 bps from 58 bps to 49 bps.

*The Bank of Thailand (BOT) raised its 2017 economic growth forecast to 3.8% from 3.5%, with exports rising by 8%.*



**Malaysia:** Malaysia's industrial production in July expanded by 6.1%, its fastest pace in eight months, boosted by gains in the manufacturing, electricity, and mining sectors. It beat market expectations of a 5.3% annual rise. The country's exports in July beat market estimates, rising 30.9% from a year earlier, on higher shipments of manufactured products and mining goods. Analysts expect annual GDP growth to quicken to 5.4% in 2018, from the 5.3% in 2017, fueled by a pick-up in domestic demand amid expectations of sustained growth in exports. Inflation is expected to rise further in September, after a sharp increase to 3.7% in August, compared with a year ago, on rising domestic retail petrol pump prices. The ringgit (RMY) has appreciated by 1.6% in September due to the stronger-than-expected economic growth recorded in Q2-2017 as well as the weaker US dollar. RHB Research Institute believes the ringgit had previously overshot on the downside but is to recover gradually over time as the country's economy is still expected to grow at a stronger pace. Nevertheless, it said volatility in the ringgit could persist in the near term, due to further U.S. Fed rate hikes, shrinking of the Fed's balance sheet, vulnerable foreign holdings of Malaysian fixed income instruments and oil price volatility. Moreover, Bank Negara Malaysia is also expected to hike its overnight policy rate by 25 bps in 2018 to 3.25%, after maintaining rates at 3% until year end, as the hike would be in line with the central bank's projected improvements in Malaysian economic growth next year. Corporate bond issuance rebounded in August, following the low of RM2.8 B in the preceding month. A total of RM8.7 B of corporate bonds was issued in August, which brought the YTD issuance value to RM66.3 B – a 10.3% y-o-y increase. The conducive environment for bond financing in August includes declining Malaysia government securities and corporate yields across almost the entire maturity spectrum and bond classes, driven by reignited foreign interest in higher-yielding assets in emerging markets. 10-year to 2-year spread inched higher by 11 bps, from 61 bps to 72 bps.

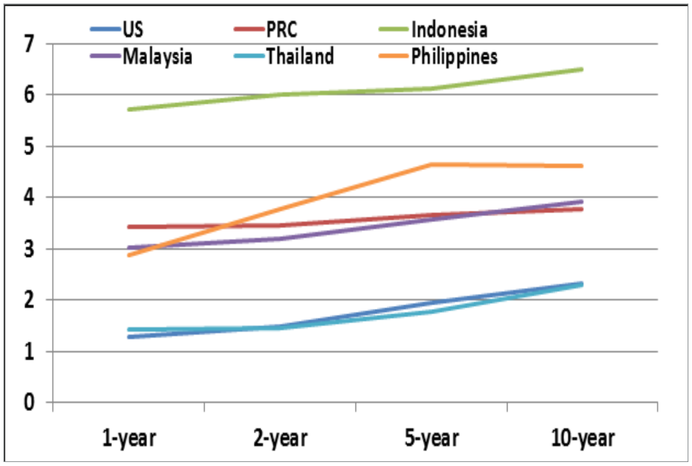
**Thailand:** The Bank of Thailand (BOT) raised its 2017 economic growth forecast to 3.8% from 3.5%, with exports rising by 8%. The manufacturing production index (MPI) rose for a second straight month in August, by 3.7% from a year earlier beating the market's forecast of 2.8%, helped by the stronger production of car and car engines, rubber and electronics, and suggesting the economic recovery is gaining traction. The country's CPI rose by 0.9% in September for the third straight month in August, largely due to higher prices for oil and other non-food items. Inflation may pick up further in the second half on seasonal demand and climbing global oil prices. The baht has risen by 8.2% against the US dollar this year, the top performing currency in Asia, underpinned by foreign inflows and record reserves of almost $200 B. The country's current-account surplus is forecast to be around 10% of gross domestic product this year and it's luring foreign investors, with YTD inflows already at $8.2 B. Tourism has not yet been affected by the strong baht, with the number of tourist arrivals in August rising 8.7% (y-o-y) to 3.13 M. But Thailand's annual exports are expected to grow no more than 5% in the fourth quarter as a strong baht has affected trade competitiveness. To lower the appreciation pressure, BOT has further relaxed curbs on capital outflows with the goal of widening overseas investment opportunities for local investors, giving more flexibility to money changers and creating a balance of fund flows to weaken the strong baht. In addition, the Finance Ministry will also let foreign state agencies and companies apply for baht-denominated bond issuance as a special case from September 6 to October 6. The central bank, however, kept its benchmark policy rate at 1.5%, spurning the government's call for policy easing to help bolster the economy. Thailand's Finance Ministry has been stepping up pressure on the BOT to cut interest rates as the currency surges even as inflation remains subdued. The International Monetary Fund supports the case for easing, saying it will help steer low inflation back to the target range. The country's economic growth is lagging its peers in Southeast Asia and the export-reliant nation is at risk from the strong baht. BOT has held its ground and argues that a rate cut may increase financial stability risks. The central bank has instead intervened in the currency market and curbed the supply of short-term bonds to restrain the baht. According to some analysts, Thai assets provide some relief for investors given the stability of the

*The U.S. Fed's announcement on September 20 to start reducing its balance sheet in October has put the nail in the coffin of rising U.S. Treasury bond yields.*



local currency which has the lowest three-month implied volatility among Asia's emerging market currencies. 10-year to 2-year spread moved slightly higher by 2 bps, from 81 bps to 83 bps.

**Figure 17 - ASEAN Bond Yields**




*Source: Asian Development Bank (ADB)*

## Outlook

The U.S. Fed's announcement on September 20 to start reducing its balance sheet in October has put the nail in the coffin of rising U.S. Treasury bond yields.

- While we have seen a sharp rise in benchmark 10-year U.S. Treasury bond yields especially after the Fed's announcement, the upside for bond yields appears limited as forecasts of U.S. inflation even up to Q4 have remained at 1.7%. Besides, since disruption in the petroleum products supply chain due to Typhoons Harvey and Irma had driven up the recent inflation, the likely normalization in Q4 should ease the price pressures.

- At home, the rise in bond yields would likely be muted, given overarching liquidity and less government deficit and borrowing than earlier expected. Government spending, especially on infrastructures, has held above 10%, but absorptive capacity and execution difficulties remain.

- Despite the recent acceleration in inflation due to higher oil prices, we expect this to reverse in Q4 when inflation should average more closely to 3%, as crude oil prices retrace its advance.

- While there exists a respectable number of issues in the pipeline, the December lull and the APEC summit in November would likely slow down the rate of new issuances.

- So far, ROPs prices have been doing better than U.S. Treasuries, but this may not hold true in Q4, as foreign investors may focus more on Indonesian and Indian sovereign bonds and less on ROPs. However, this tendency may be partly offset by locals shifting more funds into US dollar-denominated ROPs as part of investors' efforts to rebalance their portfolios and risks.

# Foreign Funds Push PSEi to New Record of 8,294



Foreign investors returned in September to the tune of P29 B (net buying) and drove PSEi to a new all-time high of 8,294.14 on September 18. The sharp increase in net buying occured in the last week of September, with the conmpletion of the EDC tender offer covering 8.9 B shares at P7.25/share or a total of P64.5 B by a consortium led by Macquarie and GIC Private Ltd. Year-to-date (YTD), PSEi has provided a 19.1% return, snatching the 2nd spot from KOSPI. Foreigners became optimistic as Typhoon Harvey hit the U.S., while relatively weak economic data convinced most market players that a December Fed rate hike looked unlikely with inflation way below the Fed's 2% target. Mining and Oil sector, rising for the 3rd consecutive month, led the charge as it climbed by another 5.3%. All indicators signaled positively as the PSEi held on above 8,100 for the rest of the month.

## Outlook and Strategy

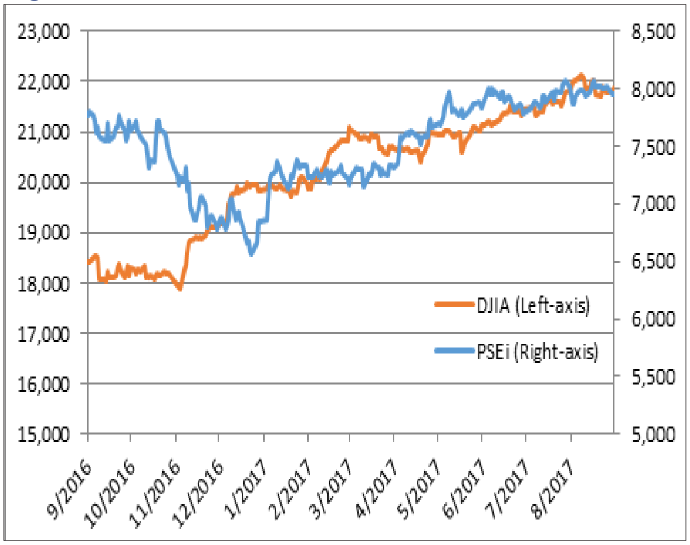
With high volume and continued defiance of support levels, the breakout confirms the new bull run of the PSEi. Foreign fund managers, wary of overvalued U.S. stocks and bonds, appear to be favoring emerging market (EM) stocks with PH among the frontrunners. Although slightly higher inflation both locally and abroad appear likely to emerge due to the disruption caused in the petroleum products supply chain abroad, top PH firms should continue to post slightly above-average earnings in Q3 to sustain the upward trend. Disappointment over Q3 earnings reports would scuttle the runup.

| Global Equities Markets Performances | | | | |
|---|---|---|---|---|
| Region | Country | Index | Growth Rate (m-o-m) | 2017 YTD |
| Americas | US | DJIA | 2.1% | 12.7% |
| Europe | Germany | DAX | 6.4% | 10.6% |
| | London | FTSE 101 | -0.8% | 2.7% |
| East Asia | Hong Kong | HIS | -1.5% | 24.4% |
| | Shanghai | SSEC | -0.5% | 6.8% |
| | Japan | NIKKEI | 3.6% | 3.9% |
| | South Korea | KOSPI | 1.3% | 18.2% |
| Asia-Pacific | Australia | S&P/ASX 200 | -0.6% | -0.9% |
| Southeast Asia | Indonesia | JCI | 0.6% | 11.8% |
| | Malaysia | KLSE | -1.0% | 7.3% |
| | Thailand | SET | 3.7% | 7.0% |
| | Philippines | PSEi | 2.7% | 19.1% |
| | Singapore | STRAITS | -1.7% | 11.1% |

*Sources: Bloomberg & Yahoo Finance*

With its strong September performance, PSEi has overtaken South Korea's KOSPI as the second fastest growing index in YTD terms. The PSEi's 2.7% gain in September brought YTD increase up to 19.1%. The rest of the indices experienced minor growths and dips, except for DAX which grew by 6.4% in September.

**Figure 18 - PSEi and DJIA**




*Source: Bloomberg*

The DJIA's rebound helped the PSEi as the two showed a strong 0.89 correlation compared with -0.1 in August. With a Fed rate hike in December appearing more unlikely, investors reverted to a risk-on mode, and geared their sights on the better outlook for emerging markets. They have also shrugged off the otherwise unnerving war of-words between the U.S. and North Korea. Foreign investors' optimism fueled the PSEi's gain, as they turned into buyers to the tune of P33 B in Q3-2017, buoyed by the P29 B inflow in September alone.

*Jollibee Foods Corporation (JFC) skyrocketed by 19.5% in Q3-2017 after it partnered with Globe to allow JFC customers to call Jollibee Delivery for free.*



| Quarterly Sectoral Performance | | | | |
|---|---|---|---|---|
| | 30-Jun-17 | | 29-Sep-17 | |
| Sector | Index | % Change | Index | % Change |
| PSEi | 7,843.2 | 7.3% | 8,171.4 | 4.2% |
| Financial | 1,937.9 | 6.4% | 1,961.2 | 1.2% |
| Industrial | 10,963.4 | 0.1% | 11,146.9 | 1.7% |
| Holdings | 7,889.1 | 5.9% | 8,221.7 | 4.2% |
| Property | 3,606.8 | 15.4% | 3,850.9 | 6.8% |
| Services | 1,687.6 | 8.7% | 1,716.2 | 1.7% |
| Mining and Oil | 12,567.8 | 5.0% | 13,954.3 | 11.0% |

*Source of Basic Data: PSE Quotation Reports*

Erasing the 0.7% decline in August, the PSEi's 2.7% gain in September boosted Q3-2017 performance by 4.2%. All sectors landed in the green, as Mining and Oil led the board with a hefty 11% increase. The Property sector and Holdings sector followed with 6.8% and 4.2% gains, respectively, as both bounced back from the negative territory in August. The Industrial and Services sector both grew by 1.7%. Lastly, the Financial sector ended Q3-2017 with a minor uptick of 1.2%, after giving up its August gains in September.

| Company | Symbol | 6/30/17 Close | 9/29/17 Close | % Change |
|---|---|---|---|---|
| Metrobank | MBT | 87.50 | 86.50 | -1.1% |
| Banco de Oro | BDO | 124.00 | 130.70 | 5.4% |
| Bank of the Philippine Islands | BPI | 104.00 | 99.50 | -4.4% |
| Security Bank Corporation | SECB | 217.00 | 243.20 | 12.1% |

*Source of Basic Data: PSE Quotation Reports*

The Financial sector hit the brakes as it posted a weak 1.2% gain from a 6.4% increase in the previous quarter. Security Bank Corporation (SECB) led the sector with a significant increase of 12.1% in Q3-2017 after winning three awards in Asian Banking and Finance Awards 2017.

BDO Unibank, Inc. (BDO) maintained its pace as it rose by another 5.4% in Q3-2017. BDO has blocked a few ATM cards as a precaution to an increase in data skimming activities.

Metropolitan Bank and Trust Company (MBT) slightly slipped by 1.1% in Q3-2017 despite total assets reaching P2 T in H1-2017, only the 2nd local bank to achieve that level.

Bank of the Philippine Islands (BPI) was in the red, with a loss of 4.4% in Q3-2017. BPI suffered from a major net foreign selling mid-September.

| Company | Symbol | 6/30/17 Close | 9/29/17 Close | % Change |
|---|---|---|---|---|
| Meralco | MER | 260.80 | 283.00 | 8.5% |
| Aboitiz Power | AP | 38.90 | 42.85 | 10.2% |
| Energy Development Corporation | EDC | 6.05 | 5.62 | -7.1% |
| Jollibee Foods Corporation | JFC | 204.00 | 243.80 | 19.5% |
| Puregold Price Club Inc. | PCGMF | 44.55 | 52.15 | 17.1% |
| First Gen Corporation | FGEN | 18.90 | 18.92 | 0.1% |
| Universal Robina Corporation | URC | 162.90 | 152.80 | -6.2% |
| Petron Corporation | PCOR | 9.68 | 10.48 | 8.3% |

*Source of Basic Data: PSE Quotation Reports*

The Industrial sector slightly picked up its pace with a 1.7% gain in Q3-2017 from a 0.1% increase in the previous quarter. Jollibee Foods Corporation (JFC) skyrocketed by 19.5% in Q3-2017 after it partnered with Globe to allow JFC customers to call Jollibee Delivery for free. This service will soon expand to the other segments of JFC, namely Chowking, Mang Inasal, and others.

Not to be outdone, Puregold Price Club, Inc. (PGOLD) surged by 17.1% in Q3-2017 after its expansion to Visayas, punctuated by its acquisition of five B&W stores in Roxas City, Capiz.

Aboitiz Power (AP) completely reversing its 6.8% loss in Q2-2017, posted a 10.2% increase in Q3-2017 after it disclosed its plans to bid for the 630-MW Masinloc coal fired power plant in Zambales.

Manila Electric Company (MER) rallied by 8.5% in Q3-2017 with a positive outlook that sales volume will increase by 5% despite starting 2016 with a relatively high sales volume base.

*LT Group, Inc. (LTG) led the industrial sector with a hefty 19.6% gain in Q3-2017, as LTG expected to regain market share.*



Petron Corporation (PCOR) registered another significant uptick of 8.3% in Q3-2017 due to an increase in their oil refining capacity and their increasing sales volume. Tropical storm Harvey, which hit the U.S. and shut down 25% of its oil refining capacity, implying higher gasoline prices abroad, also contributed to the uptick of PCOR.

First Gen Corporation (FGEN) managing to stay afloat, ended relatively flat with a 0.1% gain in Q3-2017after taking part in the tender offer of EDC with the sale of its 10.6% stake in the latter.

Universal Robina Corporation (URC), continued its downtrend, posting a 6.2% decrease in Q3-2017 due to a weaker consolidated net income of P6.4 B (-7.9% y-o-y) in Q2-2017. Weak performance of C2 in Vietnam continued to dog the food company.

Energy Development Corporation (EDC) was deep in red, reporting a decrease of 7.1% in Q3-2017 after the completion of the tender worth P64.5 B (~31.7% of common shares) by Macquarie Group Ltd. and Singaporean Fund, GIC. After the transaction, EDC was removed from the PSE index for not meeting the minimum requirement of having a 12% public float. EDC was replaced by Robinsons Retail Holdings, Inc., explaining the latter's steep uptick from P90.75/share (August 31) to P106/share (October 5) after the announcement of RRHI being included in the index.

| Company | Symbol | 6/30/17 Close | 9/29/17 Close | % Change |
|---|---|---|---|---|
| Ayala Corporation | AC | 850.00 | 970.00 | 14.1% |
| Metro Pacific Investments Corporation | MPI | 6.39 | 6.70 | 4.9% |
| SM Investments Corporation | SM | 803.00 | 883.00 | 10.0% |
| DMCI Holdings, Inc. | DMC | 14.10 | 15.60 | 10.6% |
| Aboitiz Equity Ventures | AEV | 76.15 | 73.30 | -3.7% |
| GT Capital Holdings, Inc. | GTCAP | 1,210.00 | 1,161.00 | -4.0% |
| San Miguel Corporation | SMC | 104.0 | 98.3 | -5.5% |
| Alliance Global Group, Inc. | AGI | 14.30 | 16.04 | 12.2% |
| LT Group Inc. | LTG | 14.70 | 17.58 | 19.6% |
| JG Summit Holdings, Inc | JGS | 81.00 | 75.00 | -7.4% |

*Source of Basic Data: PSE Quotation Reports*

The Holdings sector posted a 4.2% uptick in Q3-2017. LT Group, Inc. (LTG) led the sector with a hefty 19.6% gain in Q3-2017, as it is expected to regain market share in cigarettes after low-price producer Mighty Corporation was bought out by Japan Tobacco, Inc. (JTI).

Ayala Corporation (AC) posted double-digit gains of 14.1% in Q3-2017 after acquiring 10% (93.3 M shares) of Mynt in order to expand its online financial services. AC effected this through its subsidiaries AC Ventures Holding Corporation and Ant Financial Services Group

Not to be outdone, Alliance Global Group, Inc. (AGI) jumped by 12.2% in Q3-2017 after it announced its plan to buyback P5 B worth of its shares.

DMCI Holdings Inc. (DMC) also increased significantly by 10.6%, as its mining, construction, and homes segments consistently showed good performance.

SM Investment Corporation (SM) rose by a whopping 10% in Q3-2017 after opening its 64th mall located in Puerto Princesa, Palawan. The new mall has three floors occupied mainly by retail and dining stores. It opened last September 15 with an 80% occupancy rate.

Metro Pacific Investments Corporation (MPIC) increased by 4.9% in Q3-2017 after its subsidiary, Global Business Power Corporation (GBP) received an approval from the Philippine Competition Commission to acquire 50% of Alsons Thermal Energy Corporation (ATEC).

Bucking the trend, Aboitiz Equity Venture (AEV) reversed its gains (2.3%) in the previous quarter with a 3.7% loss in Q3-2017. AEV recently acquired 70% of outstanding shares of an animal feeds company, Europe Nutrition Joint Stock Co. through its subsidiary, PILMICO International Pte. Ltd.

GT Capital (GTCAP) eased by 4% in Q3-2017 despite substantial income gains of its leasing arm, Toyota Financial Services Philippines Corporation (TFSPH) earning 25.5% more in the FY2017 ending March.

*The Property sector continued to post significant gains, reporting another 6.8% gain in Q3-2017 with all counters in the sub-index moving up.*



San Miguel Corporation (SMC) surprisingly slumped by 5.5% in Q3-2017 despite announcing its plan to establish an industrial estate in Cebu, to fulfill its commitments to increase manufacturing activity in the country.

JG Summit Holdings, Inc. (JGS) plunged by 7.4% in Q3-2017 due to the said weaker operating income generation from URC in H1-2017. JGS received approval from Securities and Exchange Commission (SEC) for the new infrastructure unit of JGS, JG Summit Infrastructure Holdings Corporation.

| Company | Symbol | 6/30/17 Close | 9/29/17 Close | % Change |
|---|---|---|---|---|
| Ayala Land, Inc. | ALI | 39.75 | 43.50 | 9.4% |
| SM Prime Holdings, Inc. | SMPH | 33.00 | 34.45 | 4.4% |
| Robinsons Land Corporation | RLC | 24.25 | 25.30 | 4.3% |
| Megaworld Corporation | MEG | 4.30 | 5.23 | 21.6% |

*Source of Basic Data: PSE Quotation Reports*

The Property sector continued to post significant gains, reporting another 6.8% gain in Q3-2017 with all counters in the sub-index moving up. Megaworld Corporation (MEG) kept up its pace registering another outstanding performance in Q3-2017. MEG skyrocketed by 21.6%. The company successfully launched two condominium projects--Albany and Saint Dominique--earlier in the quarter. MEG also recently received an award for sustainable development during the 2017 Property and Real Estate Excellence Awards.

Ayala Land, Inc. (ALI) ended Q3-2017 strong, with a 9.4% gain after its subsidiary Ayala Land Premier (ALP), increased its sales of Arbor Lanes luxury condominiums to P3.9 B.

SM Prime Holdings, Inc. (SMPH) posted a decent growth of 4.4% in Q3-2017 after announcing its plans to build a condominium project worth P3 B in Cavite.

Not to be outdone, Robinsons Land Corporation (RLC) rose by 4.3% in Q3-2017. RLC plans to install more solar panels on the roof decks of its malls to use clean energy and reduce its carbon footprint.

| Company | Symbol | 6/30/17 Close | 9/29/17 Close | % Change |
|---|---|---|---|---|
| Philippine Long Distance Tel. Co. | TEL | 1,798.00 | 1,668.00 | -7.2% |
| Globe Telecom | GLO | 2,048.00 | 2,050.00 | 0.1% |
| International Container Terminal Services Inc. | ICT | 97.80 | 104.00 | 6.3% |

*Source of Basic Data: PSE Quotation Reports*

The Services sector eased up as it registered a 1.7% uptick in Q3-2017 from an 8.7% increase in the previous quarter. International Container Terminal Services, Inc. (ICT) experienced a significant rise of 6.3% in Q3-2017 after announcing plans to expand in Papua New Guinea where it sealed 25-year contracts to run two new ports, Port of Motukea and Port of Lae.

Globe Telecom (GLO) managed to end relatively flat with a 0.1% nudge in Q3-2017 despite President Duterte's plans to open the telecom industry to new players in order to bring down service costs.

Philippine Long Distance Telephone Company (TEL) plunged by 7.2% in Q3-2017, as the market overlooked its efforts to expand its broadband services to Cavite. TEL's expansion aims to give its customers in Cavite internet speeds of up to 1 Gbps.

| Company | Symbol | 6/30/17 Close | 9/29/17 Close | % Change |
|---|---|---|---|---|
| Semirara Mining and Power Corporation | SCC | 40.10 | 46.70 | 16.5% |

*Source of Basic Data: PSE Quotation Reports*

The Mining sector emerged as the strongest sector, as it soared by 11% in Q3-2017. Semirara Mining Corporation (SCC) surged by 16.5% in Q3-2017 following the setting of the ex-record and payment dates of its 300% dividend last August 31.

*While the PSEi hit a record, total turnover in Q3-2017 decreased by 7.2%.*



## Total Turnover

| Quarterly Turnover (in Million Pesos) | | | | |
|---|---|---|---|---|
| | Total Turnover | | Average Daily Turnover | |
| Sector | Value | % Change | Value | % Change |
| Financial | 69,772.00 | -28.1% | 1,204.3 | -29.4% |
| Industrial | 145,749.90 | 17.2% | 2,530.2 | 22.4% |
| Holdings | 94,646.10 | -19.4% | 1,633.6 | -17.6% |
| Property | 80,798.30 | -11.5% | 1,394.5 | -8.4% |
| Services | 88,550.50 | -19.4% | 1,531.9 | -17.3% |
| Mining and Oil | 20,089.60 | 29.5% | 347.2 | 35.0% |
| **Total** | 517,330.70 | -7.2% | **8,967.8** | -4.8% |
| Foreign Buying | 281,113.40 | -5.3% | 4,876.0 | -2.3% |
| Foreign Selling | 247,775.20 | -4.4% | 4,292.0 | -1.3% |
| Net Buying (Selling) | 33,338.30 | -11.4% | 583.9 | -9.2% |

*Source of Basic Data: PSE Quotation Reports*

While the PSEi hit a record, total turnover in Q3-2017 decreased by 7.2%. The net buying activity in Q3-2017 surprisingly decreased by 11.4% quarter-on-quarter (q-o-q), as Q2 showed more consistent gains. The continued net buying trend in Q3-2017 which amounted to P33.3 B, was partly a result of the EDC buy-in. The Mining and Oil sector together with the Industrial Sector turnover, led the board with 29.5% and 17.2% increases, respectively. The Property sector turnover dipped by 11.5% in Q3-2017. In deeper red, Holdings and Services turnover both decreased by 19.4%. Finally, at the end of the spectrum, Financial turnover plunged by 28.1% in Q3-2017.

# 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 | | Jul-2017 | | | Aug-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% | 194,621 | 8.2% | 14.3% | 230,408 | 18.4% | 9.9% |
| Tax | 1,815,475 | 5.6% | 1,980,390 | 9.1% | 138,080 | 5.2% | 17.6% | 171,654 | 24.3% | 9.0% |
| BIR | 1,433,302 | 7.4% | 1,567,214 | 9.3% | 34,994 | -1.2% | 12.9% | 38,289 | 9.4% | 15.8% |
| BoC | 367,534 | -0.5% | 396,365 | 7.8% | 1,461 | -0.7% | -4.4% | 2,351 | 60.9% | 63.5% |
| Others | 14,639 | -2.1% | 16,811 | 14.8% | 20,086 | 71.6% | -0.9% | 18,106 | -9.9% | 2.9% |
| Non-Tax | 293,317 | 54.9% | 215,446 | -26.5% | | | | | | |
| | | | | | 245,133 | -9.5% | 11.0% | 201,600 | -17.8% | 13.9% |
| Expenditures | 2,230,645 | 12.6% | 2,549,336 | 14.3% | 42,712 | -22.5% | 19.3% | 43,690 | 2.3% | 20.4% |
| Allotment to LGUs | 387,559 | 12.6% | 449,776 | 16.1% | 44,626 | 131.5% | 11.5% | 26,370 | -40.9% | 12.5% |
| Interest Payments | 309,364 | -3.7% | 304,454 | -1.6% | | | | | | |
| Overall Surplus (or Deficit) | (121,689) | 66.5% | (353,422) | -190.4% | (50,512) | 44.4% | 0.3% | 28,808 | 157.0% | -11.7% |

*Source: Bureau of the Treasury (BTr)*

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

| | 2016 | | Jul-2017 | | | Aug-2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Annual Levels | Growth Rate | Levels | Y-o-Y G.R. | YTD | Levels | Y-o-Y G.R. | YTD |
| TOTAL | 39,583 | 8.1% | 3,555.30 | 6.0% | 16.1% | 3,686.80 | 6.5% | 20.4% |
| Residential | 12,439 | 11.9% | 1,141.40 | 6.7% | 17.6% | 1,163.30 | 7.2% | 19.9% |
| Commercial | 15,648 | 8.2% | 1,397.80 | 6.2% | 12.3% | 1,450.50 | 6.1% | 16.6% |
| Industrial | 11,362 | 4.2% | 1,004.80 | 4.9% | 20.2% | 1,049.40 | 5.1% | 25.5% |

## 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%) | (318) | (143.7%) | 14.88 | 1387.6% |
| Balance of Trade | (17,854) | 40.0% | (26,955) | 51.0% | (7464) | 28.2% | (7458.27) | (8.7%) |
| Balance of Goods | (23,309) | 34.5% | (34,079) | 46.2% | (9839) | 25.9% | (9736.91) | 2.3% |
| Exports of Goods | 43,197 | (13.3%) | 43,444 | 0.6% | 11617 | 14.1% | 12213.67 | 17.6% |
| Import of Goods | 66,506 | (1.0%) | 77,524 | 16.6% | 21456 | 19.2% | 21950.57 | 10.3% |
| Balance of Services | 5,454 | 19.2% | 7,125 | 30.6% | 2374 | 19.0% | 2278.63 | 69.0% |
| Exports of Services | 29,065 | 14.0% | 31,357 | 7.9% | 8336 | 6.3% | 8698.00 | 8.9% |
| Import of Services | 23,610 | 12.9% | 24,233 | 2.6% | 5962 | 2.0% | 6419.37 | (3.3%) |
| Current Transfers & Others | - | - | - | - | - | - | - | - |
| II. CAPITAL AND FINANCIAL ACCOUNT | 2,385 | (75.5%) | 1,051 | (55.9%) | 589 | (39.9%) | 192 | 9.8% |
| Capital Account | 84 | (21.9%) | 102 | 21.4% | 9 | (62.0%) | 37 | 42.3% |
| Financial Account | 2,301 | (76.1%) | 949 | (58.8%) | 579 | (39.4%) | (688) | 70.2% |
| Direct Investments | (99) | (109.8%) | (4,235) | 4,149.6% | (1142) | (8.9%) | (2110) | 10.9% |
| Portfolio Investments | 5,471 | 102.0% | 1,383 | (74.7%) | 3205 | (121.7%) | (244) | 127.7% |
| Financial Derivatives | 6 | 40.8% | (32) | (673.4%) | (183) | (6560.7%) | (6) | (109.7%) |
| Other Investments | (3,076) | (152.1%) | 3832 | (224.6%) | (1301) | (331.6%) | 1672 | 290.2% |
| III. NET UNCLASSIFIED ITEMS | (2,433) | (40.5%) | (175) | (92.8%) | (106) | (1193.2%) | (451) | 91.0% |
| OVERALL BOP POSITION | (2,616) | (191.5%) | (420) | (116.1%) | (994) | 374.2% | 289 | (65.8%) |
| Use of Fund Credits | - | 0.0% | - | 0.0% | - | - | - | - |
| Short-Term | - | 53.2% | - | (6,678.9%) | 11 | 1.9% | (10) | 4.3% |
| Memo Items | | | | | | | | |
| Change in Commercial Banks | (1,164) | (119.2%) | (1,510) | (229.7%) | 55 | (97.2%) | (15) | 1415.5% |
| Net Foreign Assets | (1,065) | (117.8%) | (1,470) | (238.1%) | 12 | (99.3%) | (79) | 7787.4% |
| 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% | 14,181,738 | 11.2% | 14,417,894 | 13.3% |
| Sources: | | | | | | |
| Net Foreign Asset of the BSP | 4,308,975 | 7.8% | 4,472,197 | 2.7% | 4,589,761 | 6.4% |
| Net Domestic Asset of the BSP | 9,193,613 | 17.0% | 9,709,541 | 15.7% | 9,828,133 | 16.9% |
| MONEY SUPPLY MEASURES AND COMPONENTS | | | | | | |
| Money Supply-1 | 3,069,611 | 15.1% | 3,244,867 | 16.0% | 3,303,677 | 18.1% |
| Money Supply-2 | 9,137,898 | 13.2% | 9,597,988 | 13.4% | 9,690,852 | 15.3% |
| Money Supply-3 | 9,497,935 | 12.7% | 9,969,823 | 13.5% | 10,077,240 | 15.4% |
| MONEY MULTIPLIER (M2/RM) | 0.68 | -0.5% | 0.68 | 2.0% | 0.67 | 1.7% |

*Source: Bangko Sentral ng Pilipinas (BSP)*

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## CONTRIBUTORS

| | |
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