January 2018

# 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

***2017 ended with a bang! With infrastructure spending soaring by ~45% in November and exports still on the rise, our GDP growth forecast of 6.5% to 7% for the full year 2017 appears a no-brainer. Foreign domestic investments have reached $7.9 B YTD by October, nearly the full year 2017 record, even as capital goods imports have recovered. Inflation remained at 3.3% in December, while OFW remittances kept their vitality. The equities market continued to shine, with PSEi ending with another record of 8,558.42 (the 14th for 2017, and 2nd best in Asia), but the bond market saw higher yields, as investors priced in Fed and PH Monetary Board rate hikes in 2018.***

## Macroeconomy

***Accelerating Infrastructure and Capital Outlays should catalyze faster GDP growth in Q4 and 2018.*** The upward growth momentum into Q4 could count on positive exports, higher remittances, low budget deficit, and slower price uptick as main drivers.

- Infrastructure and Capital Outlays surged by 44.8%, keeping NG spending at a double-digit growth pace.
- Foreign Direct Investments soared to $7.9 B YTD in October, nearly equal 2016 inflows, while Capital Goods rebounded
- Exports again rose by 7.1% in October, buoyed by robust global recovery especially in US, EU, and China.
- Remittances sent by overseas workers continued to pour in for Christmas-related spending, up by 9.7% in October.
- December inflation steadied at 3.3%., while full year average stood at 3.2%, hitting our forecast.
- Imports of Telecommunication Equipment and Electrical Machinery led the capital goods rebound.
- The peso ended the year in the green, due to better-than-expected Q3 GDP growth, coupled with a positive sentiment toward Q4 growth.

***Outlook: Anchored on the domestic macroeconomic indicators pointed out above, we maintain our positive prospect over GDP growth in Q4 which should hit our 6.5%-7% full year target. Inflation may pick-up pace in the first few months of 2018 amidst the tax reform, but should remain within the BSP target (albeit, at higher end). Global recovery, especially in the US, EU, and China, should provide a needed boost to exports, to fuel the economy's second engine to drive 2018 GDP growth to 7-7.5%.***

## Bonds Market

***Bureau of the Treasury rejected all bids in the December auctions, after raising a record P255.4 B in Retail Treasury Bonds (RTB) on December 4.*** Bond yields in the GS secondary market climbed significantly higher to end the year, as investors anticipated the Fed and Monetary Board policy rate hikes in 2018. This pushed the yield curve upward, despite improved trading volume in the secondary market.

- BTr rejected all bids in single auction for Treasury bills and the auctions for 7-year and 4-year Treasury bonds.
- Trading in the secondary market rebounded for the month of December by 73.4% m-o-m and 55.7% y-o-y.
- The increased supply of liquid, long-dated papers, especially, relatively high-yielding RTBs provided the incentive.
- The yield curve steepened at the long end with the 10-year to 2-year bond spread, widening by 28 bps.
- Three major corporate bond issuances came into the market last year as firms locked in low interest rates.
- Tracking the rise in US Treasury bond yields, ROP yields rose at the curve's short end.

***Outlook: As the US inflation figure still lags its target, financial markets anticipate three Fed rate hikes at most in 2018. The BSP is likely to respond with two rate hikes to limit inflationary expectations from exceeding its target as the TRAIN's higher indirect taxes come into effect. Thus, bond yields will likely have an upward bias in 2018.***

## Equities Market

***PSEi ends 2017 with a record high of 8,558.42, the 14th posted in the year.***

- December added 3.7% to PSEi with the approval of TRAIN, strong infrastructure spending, and US tax cut.
- PSEi ended with a 25.1% YTD gain in 2017, coming second in the region, following Hong Kong.
- All sectors landed in green, driven by Financial (+34.7% annual gain) and Property Sectors (+29.7%).
- SM grew the most in 2017 with an impressive 51.1% annual gain.
- Coming in close to SM, LTG soared by 49.2% in 2017.
- Net foreign buying in 2017 summed to a hefty P56 B, erasing the P3.5 B net selling in 2016.

***Outlook: The middle class will enjoy higher after-tax incomes due to the TRAIN which should result in higher consumption in 2018. This, together with the "golden age of infrastructure" should boost earnings in 2018 by an estimated 10% to bring PSEi to 9,400.***

| Economic Indicators<br>(% change, latest month, unless otherwise stated) | Previous Month | Latest Month | Year-to-Date | 2016 (year-end) | 2017 (year-end) | 2018 FMIC Forecast |
|---|---|---|---|---|---|---|
| GDP Growth (y-o-y, quarterly) | 6.5% | 6.9% | 6.7% | 6.8% | 6.5-7%[f] | 7-7.5% |
| Inflation Rate (December) | 3.3% | 3.3% | 3.2% | 1.8% | 3.2% | 3.5-4% |
| Government Spending (November) | 28.2% | 10.4% | 10.2% | 18.0% | 15%[f] | 12% |
| Gross International Reserves ($B) (December) | 80.3 | 81.5 | 81.5 | 80.7 | 81.5 | 80 |
| PHP/USD rate (December) | 51.04 | 50.40 | 50.40 | 47.49 | 50.40 | 52.50 |
| 10-year T-bond yield (end-December YTD bps change) | 5.40% | 5.70% | 119.9 | 4.63% | 5.70% | 5.34-5.59% |
| PSEi (end-December YTD % change) | 8,254.0 | 8558.4 | 25.1% | 6,840.6 | 8,558.4 | 9,400 |

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

# INFRASTRUCTURE SPENDING TO LEAD Q4 AND 2018 GDP GROWTH



Rapidly increasing Infrastructure and Capital Outlays should catalyze faster GDP growth in Q4 and 2018, supported by positive exports and higher Overseas Filipino Wokers (OFW) remittances. Public investment spending surged by 44.8% in November, while Foreign Direct Investments (FDI) soared to $7.9 B year-to-date (YTD) in October, nearly equal 2016 inflows, even as Capital Goods imports moved back to positive growth territory.

Exports continued to rise by 7.1% in October, propped up by robust global recovery especially in advanced economies and China, while remittances from OFW jumped by 9.7% in October. In addition, consumers had a respite from inflation which steadied at 3.3% in December; hitting our full year forecast of average 3.2%. The peso ended the year in the green, due to better-than-expected Q3 GDP growth, coupled with a positive sentiment toward Q4 growth.

Outlook: With strong domestic demand firmly supported by accelerating Infrastructure and Capital Outlays spending and exports expected to post double-digit growth as the synchronized advanced economies' growth sustains the momentum, we see 2018 GDP growth picking up pace to 7% to 7.5%, a half percentage point above our FY target of 6.5-7% (a no-brainer). Inflation may pick-up pace in the first few months of 2018 amidst higher indirect taxes of TRAIN, but should it would likely remain within the BSP target (albeit, at higher end).

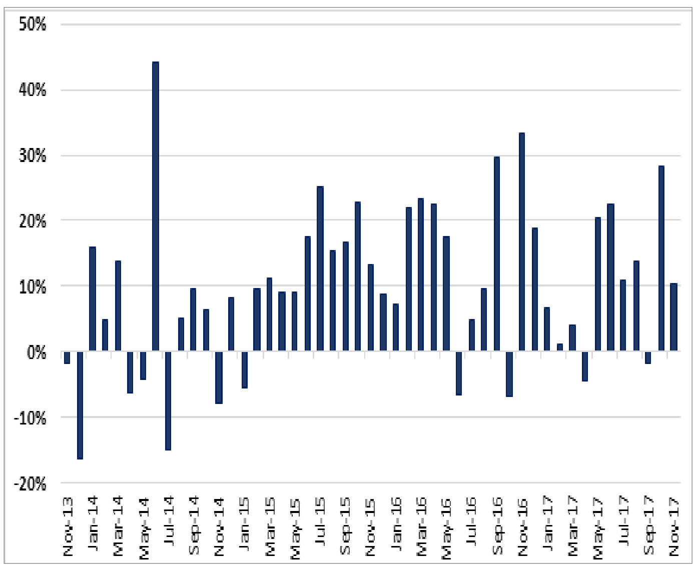
### Infra Spending Surges by 44.8% in Nov to Keep Double-Digit Growth Pace

National Government (NG) disbursements on Infrastructure and Capital Outlays surged by 44.8% in November enabling NG to keep its double-digit year-to-date (YTD) spending growth pace at 10.4% y-o-y (to P252.9 B), despite a high base a year ago. With total NG revenues up by 16.4% to P243.5 B due to strong tax take by both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BoC), the November deficit eased to P8.6 B from P19.1 B in November 2016.

The remarkable increase in revenue collection brought the country's YTD deficit to P243.5 B, equivalent to about 50% of total target deficit for 2017. Thus, it is quite likely the year's deficit may only account for around 2% of GDP which should further bring down the debt ratio to around 41.7% by year end. The BIR raked in a total of P179.4 B, 14.4% higher than November last year, marking the 7th month of double-digit growth. The BoC collections also increased by 14.3% (to P46.4 B), tracking higher imports, especially, petroleum products whose prices are on the rise.

Netting out interest payments, NG spending registered an 11.2% growth. Besides, the net primary surplus of P11.9 B in November brought YTD primary surplus to P46.5 B slightly off from P50.2 B a year ago.

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




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

### FDI Triples in October

Foreign direct investments (FDI) jumped three times in October to reach $2 B, bringing the YTD level to $7.9 B (+20.5%) amidst the unprecedented increase in equity capital. Gross equity placements surged to $1.6 B from $84 M in October last year, reflecting the still positive sentiment of foreign investors towards the country's economic prospects. Capital placements largely came from the Netherlands, Singapore, Kuwait, US, and Germany, *The country's domestic liquidity (M3) expanded by 14% (to P10.4 T) in November, albeit slower than the 14.8% recorded in the previous month.*



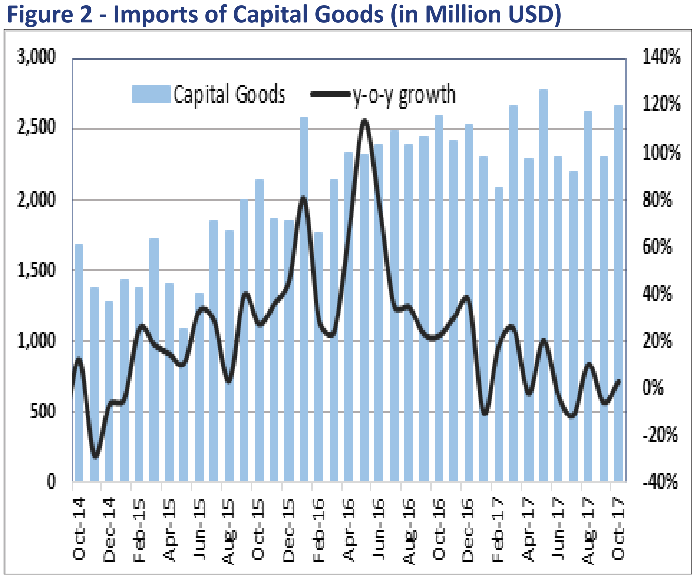
and were channeled mostly to Electricity, Gas, Steam and Air-conditioning Supply Activities, Manufacturing, Real Estate, and Wholesale and Retail Trade. Investments in debt instruments and reinvestments in earnings, likewise, added $431 M (-22%) and $57 M, respectively.

## Capital Goods Imports Rebound in October

The imports of capital goods in October recovered from previous month's decline, registering a 2.6% y-o-y increase amidst the gains recorded in most heavily-weighted capital goods products. Overall imports, thus, posted a 13.1% increase amounting to $8.2 B.

Imports in Telecommunication Equipment and Electrical Machinery posted the highest increase of 28.5%, followed by Office and EDP Machines (+19.5%) and Land Transport Equipment excluding Passenger Cars and Motorized Cycle (+3.3%). These collectively account for 55% of total capital goods imports and offset the decline in the rest of the product categories. The biggest drop at 64.8% showed up in the Aircraft, Ships and Boats category. Power Generating and Specialized Machines, likewise, declined by 4.7%.

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




*Source of Basic Data: National Statistics Office (NSO)*

Raw Materials & Intermediate Goods imports, which captured the largest share of total imports at 36.2%, shot up by 22.2% due to hefty gains in Manufactured Goods and Unprocessed Raw Materials. The imports of Mineral Fuels, Lubricant and Related Materials also rose by 15.9%, reflecting the strong demand of coal and petroleum crude. Higher remittances and the peso depreciation also bode well in domestic consumption, pushing Consumer Goods imports higher by 14.8%. Meanwhile, imports of Special transactions fell, although posting a negligible effect, as it only accounted for a small share in the total.

## FX Reserves Rise to $81.5 B at Year End, Up $0.8 B from 2016

With exports receipts totaling to $5.4 B, trade deficit in October stood at $2.8 B, higher than $2.2 B a year ago, and the highest recorded for the year. YTD the trade deficit reached $21.9 B, slightly higher than $21.7 B for the same period in 2016.

Despite the huge trade imbalance, which has stabilized, the country's Gross International Reserves (GIR) rose to $81.5 B by the end of 2017. This increased by 1.4% (or $1.2 B) from end-November and $0.8 B from a year ago when it was at $80.7 B. It suggests strong inflows in December from OFWs and investments and BSP's apparent policy of rebuilding GIR back to its above-9 months levels. It ended the year at 8.3 months of imports of goods and services, up from 8.2 in November but down from 8.8 months a year ago.

## Domestic Liquidity Slows Down in November

The country's domestic liquidity (M3) expanded by 14% (to P10.4 T) in November, albeit slower than the 14.8% recorded in the previous month. Nonetheless, this marked the 23rd month of straight double-digit growth. Broad Money (M2) and Narrow Money (M1), likewise, decelerated to 13.9% and 17.2%, respectively.

Money growth drew support from loans for productive activities, which likewise eased to 18.5% from 18.7% in October. Bulk of bank loans went to productive activities. Strong commercial bank lending went into several key sectors, i.e., Real Estate Activities (+18.3%); Electricity, Gas, Steam and Airconditioning Supply (+24.2%); and Financial and Insurance activities (+23.1%), among others.

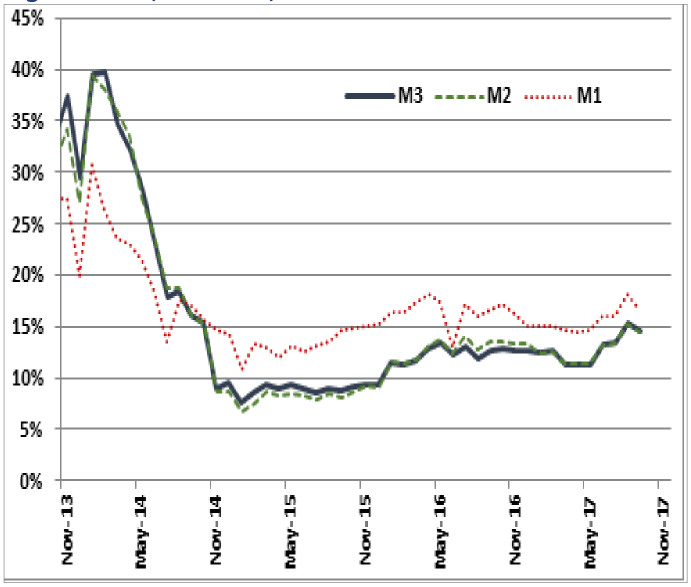
Net Foreign Assets (NFA) of monetary authorities fell by 0.3%, slower than the +0.6% recorded in October, still probably reflecting BSP's efforts to slow down the peso depreciation.

*The average price change in December maintained the previous month's rate at 3.3%, amidst mixed movements in the prices of various product categories.*



Because growth in money remained reasonable and price upticks manageable, the Monetary Board (MB) decided to maintain the status quo with respect to its policy rate, the related interest rates, and reserve requirements during its meeting on December 14. We think, however, that the MB will increase the rates starting Q1-2018, as we expect money and loan growth to continue to decelerate.

**Figure 3 - M1, M2 & M3, Year-on-Year**




*Source of Basic Data: National Statistics Office (NSO)*

## Inflation Remains Steady in December

The average price change in December maintained the previous month's rate at 3.3%, amidst mixed movements in the prices of various product categories. Prices of food commodities, and alcoholic beverages mostly registered higher prices, but tempered by the limited increase in the prices of fuel and transportation. Recall that inflation has peaked at 3.5% in October 2017 and eased at 3.3% thereafter. FY rate stood at 3.2%, hitting our forecast, and lodging well within the NGs target.

Five out of 11 product groups posted faster price increment led by the heavily-weighted Food and Non-Alcoholic Beverages (FNAB) index and Alcoholic Beverages and Tobacco (ABT), which both posted a 0.3 percentage point increase. This was followed by the. Higher mark-up of these products arose mostly in areas outside NCR. Other indices (i.e., Housing, Water, Electricity, Gas, and Other Fuels, Health, Furnishing, Household Equipment and Routine Maintenance of the House, and Restaurants and Miscellaneous Goods and Services) only posted a slight increase. Charges in electricity registered decline due to lower spot market prices and a reduction in the generation cost while other fuels posted a limited upward adjustment (i.e. WTI and Brent had an average mark-up of 2.4% from the previous month, compared to the 9% recorded in November). Meanwhile, the Transport index still recorded a weak gain, slowing down by over 2 percentage points, somehow offsetting the weightier price upticks noted in the other products. The rest of the index maintained the past month's rate.

| Inflation Year-on-Year Growth Rates | Dec-2017 | Nov-2017 | YTD |
|---|---|---|---|
| All items | 3.3% | 3.3% | 3.2% |
| Food and Non-Alcoholic Beverages | 3.5% | 2.6% | 3.6% |
| Alcoholic Beverages and Tobacco | 6.4% | 5.4% | 6.2% |
| Housing, Water, Electricity, Gas, and other Fuels | 3.8% | 3.6% | 3.2% |
| Furnishing, Household Equipment and Routine Maintenance of the House | 1.9% | 1.6% | 2.1% |
| Health | 2.2% | 2.1% | 2.4% |
| Transport | 2.4% | 4.0% | 3.3% |
| Restaurants and Miscellaneous Goods and Services | 3.0% | 2.6% | 2.1% |

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 November.

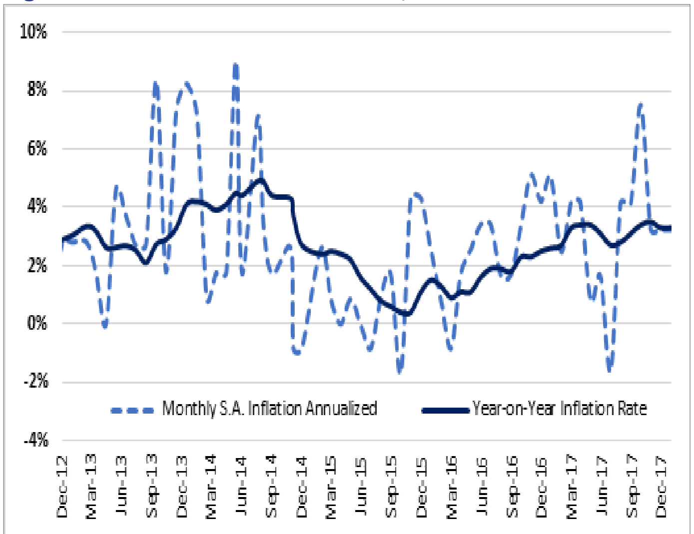
*Source of Basic Data: National Statistics Office (NSO)*

The seasonally adjusted annualized rate (SAAR) likewise moved sideways, still suggesting negligible real change in the prices of goods. Besides, core inflation (which excludes volatile food and energy prices) declined to 3.0% vis-a-vis the 3.3% recorded in November. We think that prices mark-ups will to continue to move at a quicker pace in the coming months brought about by the imposition of excise tax on some commodities (fuel, automobiles, sugar, and beverages, among others). Nonetheless, we believe that inflation will still be within the BSP's target, albeit at the higher end.

*More households believed that Q4 is a favorable quarter to buy big-ticket items, probably reflecting the excise tax that will be levied on some goods.*

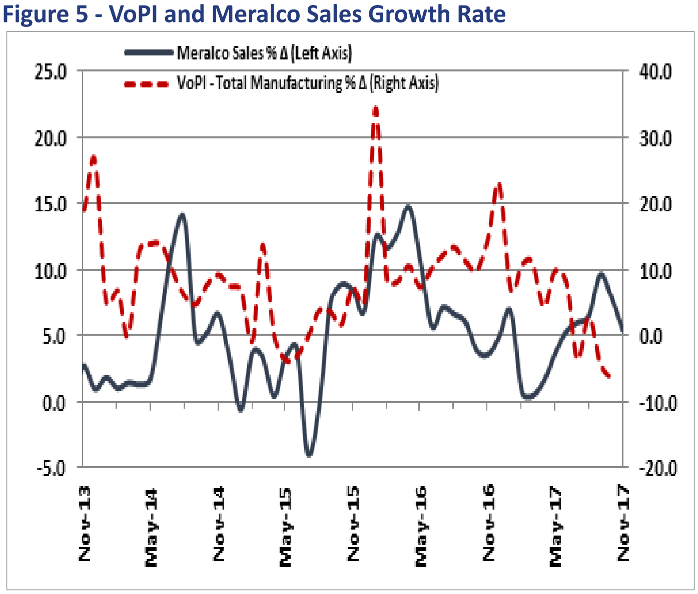


**Figure 4 - Inflation Rates Annualized, Year-on-Year**




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

**Figure 5 - VoPI and Meralco Sales Growth Rate**




*Sources of Basic Data: Meralco & Philippine Statistics Authority*

## Energy Demand Up in November, Manufacturing Still Weaker in October

Meralco electricity sales continued to post a positive 4.9% growth in November due to a broad-based pick-up in energy demand across customer classification. The use of appliances, instruments, and gadgets for the holidays sustained demand from the Residential customers (+5.4%). Higher production and longer mall/establishments operation, likewise, pushed greater electricity consumption in Industrial and Commercial operators.

The country's manufacturing output (measured by Volume of Production Index or VoPI) further declined by 6.5% in October (preliminary) from a revised 4.1% slippage in the previous month. This represented only the 3rd decline in 2017. Significant slowdowns recorded in nine out of 21 segments (i.e., Chemical Products (-61%), Tobacco Products (-39.4%), Textiles (-28.3%), Footwear and Wearing Apparel (-27.5%), (-24.4%), and Paper and Paper Products (-18.9%), among others, contributed to the still weak performance in October. Nonetheless, the strong gains recorded in H1 brought YTD growth to 2.2%.

## Consumer Confidence Remains Positive in Q4 and Beyond

Consumer confidence remained fairly steady in Q4 with the Confidence Index (CI) still showing a positive mark of 9.5%, although slightly lower than the 10.2% recorded in Q3. Nonetheless, the optimists still outnumbered the pessimists, citing higher salary and more jobs as reasons for keeping their positive sentiment. Meanwhile, concerns on elevated household expenditures, peace and order, and natural calamities moderated their bullish view.

The survey also revealed that more households believed that Q4 is a favorable quarter to buy big-ticket items, probably reflecting the excise tax that will be levied on some goods. This is particularly seen from those receiving OFW remittances with 97.2% using up the money for food and household needs, most likely in preparation for the holiday season. Thus, the proportion of households with savings declined from 36.8 to 35.6% % in Q3. About 65% of the respondents maintained savings accounts while the rest opted to keep their money at home or put it in other forms of investment (i.e., cooperative, insurance).

Consumer outlook for the next 12 months remained high at 32%, albeit a slight easing from 33.5% a quarter ago.

In addition, the survey respondents expect inflation to increase but will still lodge within the target. They also anticipate higher interest rates and unemployment rates and the peso to depreciate in 2018.

*The country's exports growth continued with its positive streak, expanding by 6.6% in October with sales amounting to $5.4 B.*



## Residential Real Estate Price Index Up in Q3-2017

The average prices of residential real estate, measured by the Residential Real Estate Price Index (RREPI), climbed by 1.8% (y-o-y) in Q3 versus the 4.3% drop recorded in Q2-2017. The index increased to 111.6 from 109.6 recorded in the same quarter last year, largely driven by the price upticks in the townhouses units (+7.3%) and condominium units (+3.6%) observed in both NCR and areas outside it (AONCR). Prices in NCR and AONCR both rose by 2.2% and 1.8%, respectively. Meanwhile, prices of single detached and duplex units in the NCR declined while in areas outside NCR, only the prices of duplex unit slowed down.

Residential estate loans data revealed that bulk of loans granted went to the NCR (47.4%) used mainly to purchase condominium units. Other regions followed in this order: CALABARZON (29% share), Central Luzon (6.4%), Central Visayas (5.2%), Western Visayas (4.3%), Davao (3%), and Northern Mindanao (1.6%). Together, these seven regions accounted for 96.9% of loans granted for residential purposes. Loans granted to AONCR, on the other hand, were mostly used for single detached housing acquisition.

## Exports Climb in October

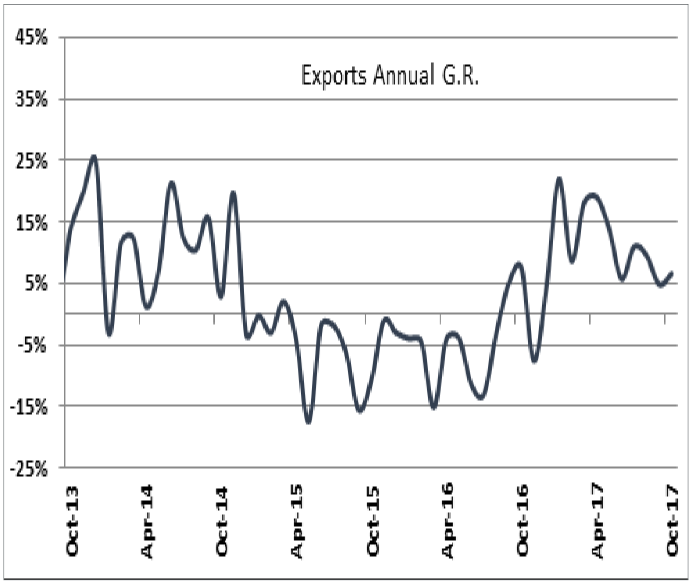
The country's exports growth record continued with its positive streak, expanding by 7.1% in October with sales amounting to $5.4 B. The above-10% growth in six out of top 10 product lines largely drove up exports in October.

These included Gold (+297%), Electronic Equipment and Parts (+43.3%), Metal Components (+21.9%), Bananas (+20.8%), Other Mineral Products (+19.6%) and Electronic Products (+13.8%). YTD outward shipments totaled to $53.1 B, representing an 11.7% gain y-o-y, still showing a major turnaround from the lackluster performance recorded in the same period last year.

Electronic Products started off the list as the top product with total earnings of $2.9 B, responsible for 53.2% of the total export revenue in the month of October. It grew by 13.8% y-o-y from its previous value of $2.5 B. Similarly, Semiconductors hold the largest share among electronic products at 38.8%, rising by 15.9% to $2.1 B, an improvement from the $1.8 B it earned in the previous year.

Other Manufactured Goods followed in second, with shipment revenues of $355.4 M. Sales for this commodity however, slipped by 6.2% from the $378.7 M it recorded in the same month last year. Machinery and Transport Equipment took the third spot, with $184.4 M or a share of 3.4% of the total export receipts. This export good also fell by a sizeable 27.4%. Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships landed in fourth spot with $162 M, and a 3% share. It, likewise fell by 8.1% from its previous earning of $176.2 M. Meanwhile, Metal Components in fifth place, with shipment sales at $147.8 M and a share of 2.8% grew by a significant 21.9% over the previous year's performance.

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




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

Japan outranked US as the top export destination in October, accounting for 16.2% of the total shipments (equivalent to $871.4 M). Shipment to Japan, however, dipped by 13.1% y-o-y. The US, in third place, also posted a decline of 3.1% to $748.8 M. Meanwhile, the rest of the top five countries registered an increase. Hong Kong came in second, with a whopping 39.5% increase in export receipts, totaling to $758.9 M or 14.1% of the total. China followed at fourth place, representing 12.5% of total exports valued at $672. Outbound sales to this country increased by 6.5%.

*Personal remittances from Filipinos working abroad soared by 9.7% to $2.6 B in October, to more than offset the 7% contraction in the previous month.*



Singapore closed the list at fifth place, with a 6.5% share to total shipment sales valued at $349.4 M. It, likewise, registered a 6% gain from the $329.7 M of October 2016.

More than 50% of the total exports in October still headed towards East Asian (EA) nations, valued at $2.6 B, which represented a 4.9% y-o-y expansion. The shipments to the ASEAN countries (comprising 16%), also increased by 11.8%. ASEAN+East Asia ex-Japan accounted for 50.8% of total exports. Commodity exports to the EU, likewise, registered a hefty gain of 23.4% with receipts amounting to $677.9 M.

We believe that exports will continue to expand buoyed by the improving global demand (I.e., China and EU) and thus, provide additional boost to the country's economic performance in Q4.

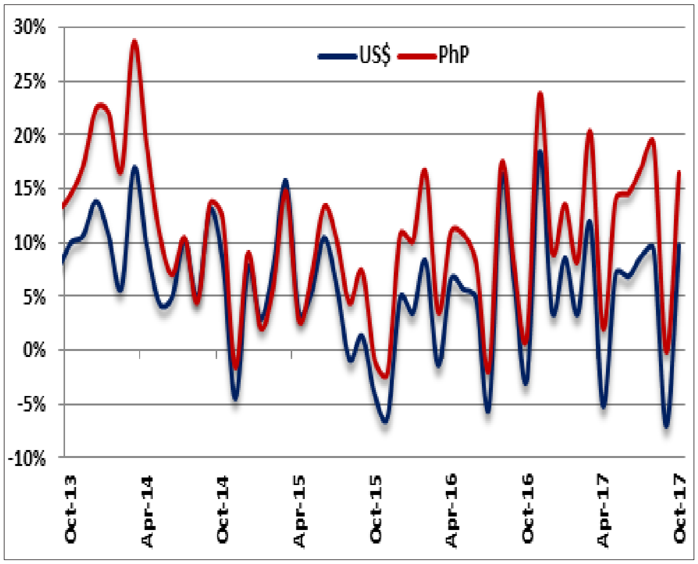
## OFW $ Remittances Rebound in October

Personal remittances from Filipinos working abroad soared by 9.7% to $2.6 B in October, to more than offset the 7% contraction in the previous month. Workers from abroad continued to send money to their families for Christmas-related spending. Thus, YTD level stood at $25.7 B, up by 5.2%. Both remittances from among workers with contracts more than a year and among those with less than a year contracts increased by 4.2% ($19.8 B) and 4.1% ($5.3 B), respectively.

Similarly, cash remittances (i.e., coursed through banks), expanded by 8.4% to $2.3 B. Bulk of this came from United Arab Emirates (UAE) and the US. YTD to October, total cash inflows amounted to $23.1 B (+4.2% higher) boosted by both land and sea-based workers.

The peso equivalent of these inflows also registered a sharp increase of 16.5%, further sustained by the 6.2% y-o-y peso depreciation. We believe that personal remittances will continue to increase in November and December as we expect more workers to send or bring in money to their families during the Christmas holidays.

**Figure 7 - OFW Remittances Growth**




*Source of Basic Data: National Statistics Office (NSO)*

## Peso Ends Year with Show of Strength Against the Greenback

The peso ended the year stronger against the dollar, marking the 2nd consecutive month of peso appreciation, with strength spilling over from the better-than-expected Q3 GDP growth. Thus, the peso averaged at P50.39/$ in December, representing a 1.3% appreciation from the previous month. The pair reached a high of P50.74 but strengthened to P49.92 at the end of the month, reducing the volatility measure to 0.21 from 0.35 in November. The year ended with an average rate of P50.40, a 5.8% weakening from 2016.

Investors showed optimism towards the Q4 growth with some indicators already pointing to an upbeat expansion (i.e., manageable inflation, positive exports, higher dollar inflows, and narrow budget deficit). The upgrade of the country's credit rating to BBB by Fitch Ratings also bode well. This coincided with the dollar's weakness arising from lower US Treasury yields, as well as the uncertainties the US tax reform has brought over the size of the fiscal deficit analysts think it would engender

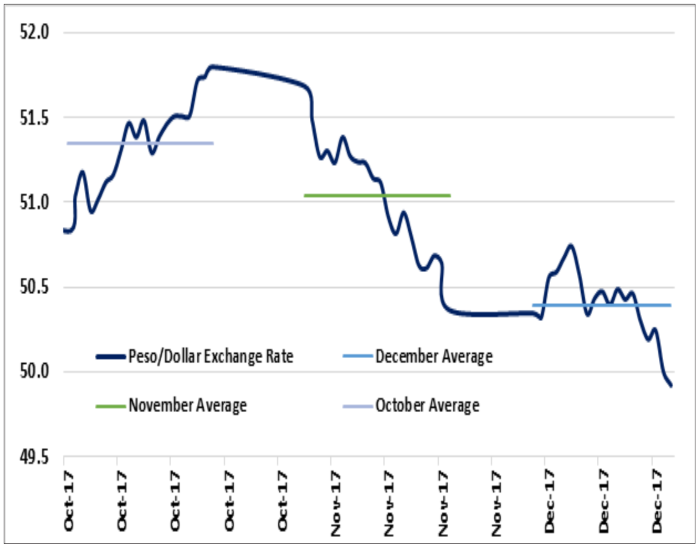
Other emerging currencies also edged higher against the greenback, tracking weakness in USD. Malaysia's Ringgit (MYR) remained bullish amidst strong exports and rising

*The actual USD/PHP rate in December still lodged below the 30-day moving averages (MA), suggesting peso vitality in the near term.*



oil prices. Investors are also expecting a rate hike on Malaysia's overnight policy rate. Korean Won (KRW) hit its highest level since 2015, buoyed by strong exports performance. Korea's exports surged by 8.9% in December, resulting in a 15.8% FY growth. The Chinese Yuan (CNY) recovered amidst the surplus in its current account and higher growth prospects in FY 2017. The soft USD, helped by stronger capital inflows to India, provided a boost to the Indian Rupee (INR)

**Figure 8 - Daily Dollar-Peso Exchange Rate**

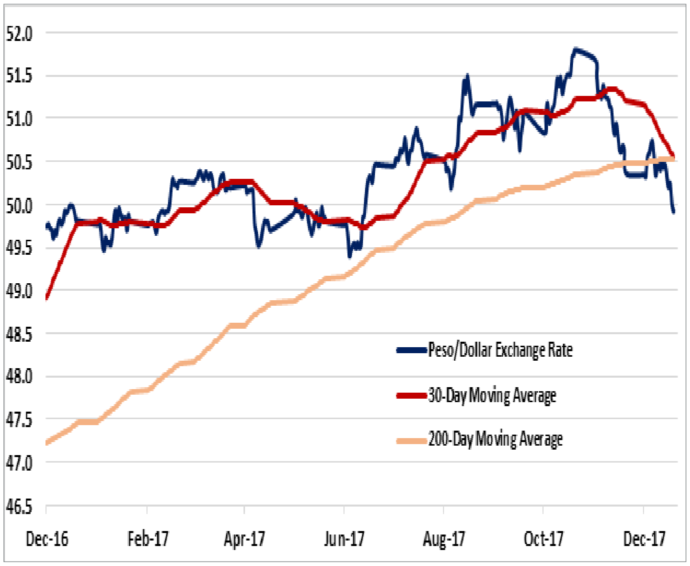



*Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)*

| Exchange Rates vs US $ for Selected Asian Countries | | | |
|---|---|---|---|
| | Nov-17 | Dec-17 | YTD |
| AUD | 3.19% | -0.84% | -3.8% |
| CNY | -0.05% | -0.36% | -4.7% |
| INR | -0.37% | -0.91% | -5.2% |
| IDR | -0.02% | 0.26% | 1.1% |
| KRW | -4.12% | -0.32% | -8.4% |
| MYR | -1.28% | -2.26% | -8.5% |
| PHP | -0.59% | -1.24% | 1.2% |
| SGD | -0.24% | -0.67% | -6.2% |
| THB | -1.75% | -0.02% | -8.8% |

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

**Figure 9 - Dollar-Peso Exchange Rates & Moving Average**




*Source of Basic Data: National Statistics Office (NSO)*

The actual USD/PHP rate in December still lodged below the 30-day moving averages (MA), suggesting peso vitality in the near term. The peso's vitality may last until December or January 2018 with more dollar inflows coming from the overseas workers. We maintain, however, our view that the improvement in the US economy and its financial markets will put back pressure on the peso.

## Outlook

After the release of Q3 GDP figures and recent economic data, domestic and foreign investors have become more optimistic over prospects for Q4 and 2018.

- NG spending, led by Infrastructure and Capital Outlays, continue to track double-digit growth path and should end the year at a high note, and even better in the New Year.
- Consumer sentiment, both for Q4 and for 2018, remain high and bolstered by the above and robust OFW remittances (esp. in peso terms), should provide the other booster for domestic demand.
- As expected monetary policy remained steady in 2017, but we do project around two rate hikes (totaling 50 bps) this year, with the first one likely to come in Q1.

*The peso averaged at P50.39/$ in December, representing a 1.3% appreciation from last month.*



- While Phase I of TRAIN, the government's tax reform will impose higher petroleum and sin excise taxes, a new tax on sugar-based beverages, and less exemptions to VAT, headline inflation which averaged 3.2% in 2017 will accelerate but on average land within the government's target range of 2% to 4%, albeit at the higher end.

- We expect exports to accelerate in 2018 as the US economy, already growing the fastest after the Global Financial Crisis, will receive a further boost from the huge tax cuts and likely renewed investments by US firms into the country.

- While the peso has been enjoying an appreciation at the moment, we don't expect that to last long since the US economy's strength and reflow of cash from US operation abroad would put back the pressure on the peso.

| Forecasts | | | |
|---|---|---|---|
| Rates | January | February | March |
| Inflation (y-o-y %) | 3.7 | 3.9 | 3.9 |
| 91-day T-Bill (%) | 2.44 | 2.43 | 2.42 |
| Peso-Dollar (P/$) | 50.77 | 50.66 | 50.46 |
| 10-year T-Bond (%) | 5.25 | 5.29 | 5.31 |

*Source: Authors' Estimates*

# LOCAL BOND MARKETS END YEAR QUIETLY



The market for government securities (GS) ended 2017 with a whimper as the Bureau of the Treasury (BTr) rejected all bids in its three auctions, as it wallowed in cash following the mammoth issue of P255.4 B issue of Retail Treasury Bonds (RTBs) on December 4. Secondary trading improved during the month, but total turnover for the year fell by 11.1% from 2016. Nonetheless, it appears everyone left the table happy since the National Government (NG) prefunded much of its 2018 net borrowing requirements, while bond investors got significantly higher yields, both in anticipation of Fed and Monetary Board policy rate hikes in 2018.

Outlook: With US inflation only slowly closing in on its 2% target despite robust job creation, financial markets expect three Fed rate hikes, at most, in 2018. The massive US tax cut and expected repatriation of multinationals' cash to the US will likely change the picture and these have not really figured into the projections. Besides, the Bangko Sentral ng Pilipinas (BSP) will likely follow with probably two rate hikes especially to snuff out inflationary expectations from going beyond its target, and so yields will have an upward bias in 2018. They are likely to be less than the projected US policy rate increases, since NG has prefunded much of its net borrowing needs and the market players have earlier priced in the US moves.

### Primary Market: BTr Reject Soaring Bids

Bureau of the Treasury (BTr) rejected all bids in the Treasury bills (T-bill) and Treasury bonds (T-bond) the auctions in December. The P8 B offer of 91-day T-bills and P6 B offer of 182-day T-bills fetched less than half tenders of only P3 B and P2.3 B, respectively. Meanwhile, the P6 B offer of 364-day T-bills also garnered only P2.3 B in bids, which BTr fully rejected. It also did not award any bids for the 4-year and 7-year T-bonds on offer. Weak demand also showed in the overall tender-to-offer ratio (TOR) of only 0.4x compared of 1.6x in November.

The 91-day, 182-day and 364-day T-bills reached full-year average yields of 2%, 2.2%, and 2.69%, respectively. These averages resulted in increases between 49 basis points (bps) to 93 bps compared to 2016 results. Based on TORs, investors showed marked preference for short-dated T-bills as they priced in Fed policy rate hikes in 2018. Their TOR of 2.3x showed up much higher than 1.9x for the T-bond auctions.

**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-Dec | 91-day | 8.00 | 2.975 | - | 0.372 | - | -214.80 |
| | 182-day | 6.00 | 2.325 | - | 0.388 | - | -256.30 |
| | 364-day | 6.00 | 2.276 | - | 0.379 | - | -295.20 |
| **Subtotal** | | 20.00 | 7.58 | - | 0.379 | | |
| | | | **T-Bonds** | | | | |
| 05-Dec | 7-year | 20.00 | 4.390 | - | 0.220 | - | -439.00 |
| 19-Dec | 4-year | 20.00 | 10.094 | - | 0.505 | - | -453.00 |
| **Subtotal** | | 40.00 | 14.484 | - | 0.362 | | |
| **All Auctions** | | 60.00 | 22.06 | - | 0.37 | | |

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

*Trading in the secondary market rebounded for the month of December with the trading volume reaching P132 B, a 73.4% month-on-month (m-o-m) improvement.*

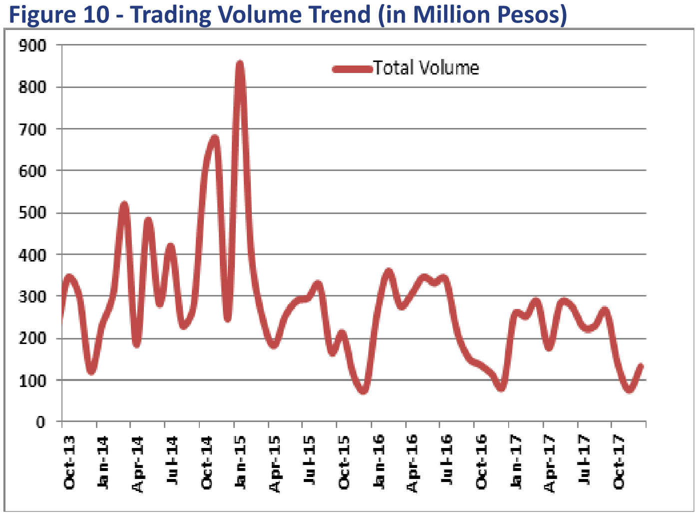


In the T-bill space, TOR for 91-day papers rose to 2.9x from 2.2x, while TOR for the 364-day T-bills moved up to 2x from 1.5x. Demand for 182-day papers remained relatively stable as its TOR only slid slightly to 1.9x from 2x in 2016.

## Secondary Market: Trading Improves at Year-End

Trading in the secondary market rebounded for the month of December with the trading volume reaching P132 B, a 73.4% month-on-month (m-o-m) improvement as well as a 55.7% year-on-year (y-o-y) jump. The yearly increase in volume can be attributed to the increase in the supply of liquid, long-dated papers in the market, especially, RTBs which were issued at relatively high yields. However, the year-to-date (YTD) trading volume fell by 11.1% to P2.6 T in December 2017 versus P2.9 T a year ago.

**Figure 10 - Trading Volume Trend (in Million Pesos)**

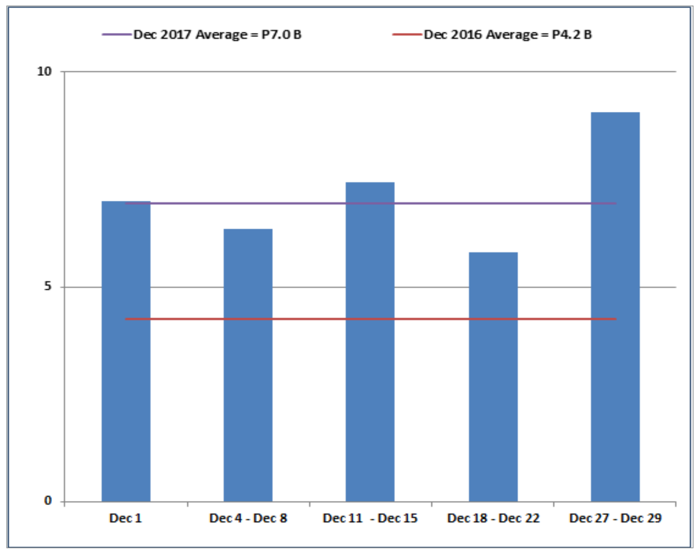



*Source: Philippine Dealing Systems (PDS)*

The 10-year T-bond yield started out at 5.076% on January 3, 2017 and moved down to a year-low of 4.236% on February 10 and remained below 5% for most of the year. However, this promising trend reversed and has recently surged upward since November and ended 2017 at 5.699%. In terms of averages, the 10-year benchmark yields hit 4.935% as against 4.177% in 2016, a 75.9 bps jump.

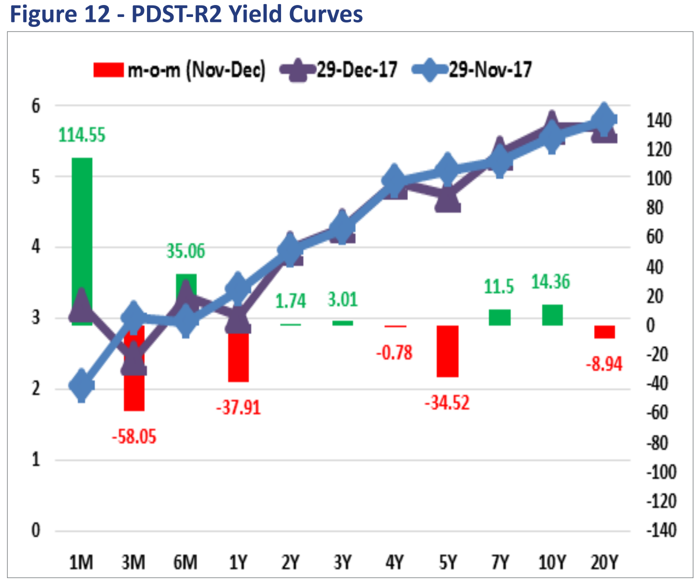
We observed a similar pattern for the 91-day T-bill whose yield hit a year-low of 1.577% on January 11 followed by a slow upward trend afterwards. The 91-day T-bills yield ended the year at 2.432% from 5.076% and 2.332% at the beginning of the year. The 91-day T-bills' yields averaged 2.317% in 2017 compared to 1.744% in the previous year, representing a milder 57.3 bps rise.

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




*Source: Philippine Dealing Systems (PDS)*

**Figure 12 - PDST-R2 Yield Curves**




*Source: Philippine Dealing Systems (PDS)*

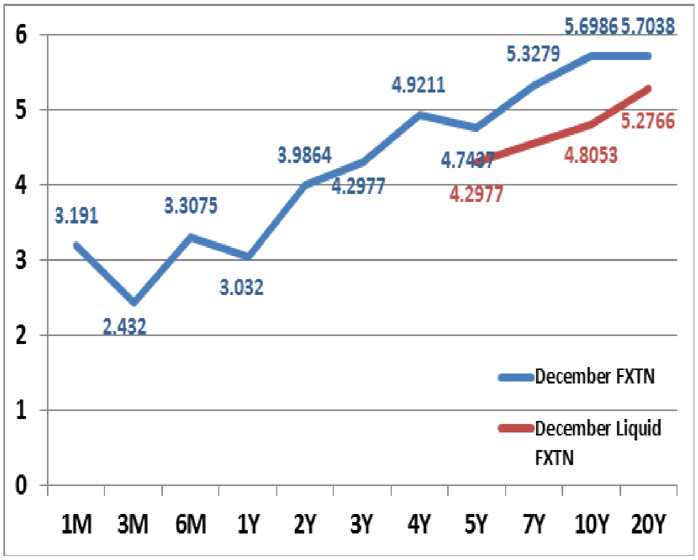
The 10-year bond showed a gradual decline after hitting a peak in mid-April until October 13, followed by an upward surge on October 17 and a gradual climb until October

*Across tenors, yields generally observed mixed movement in December, although these had been limited as market players had anticipated the December Fed policy rate hike.*



30, marking the start of an upward trend until the end of the year, with both moving averages showing clear gains towards the end of 2017.

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




*Source: Philippine Dealing Systems (PDS)*

Across tenors, yields generally observed mixed movement this month, although these had been limited as market players had anticipated the December Fed policy rate hike.

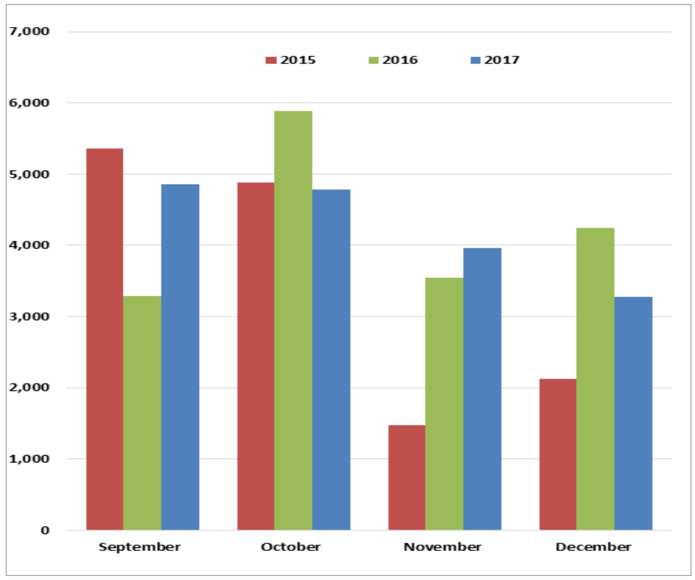
The 3-month and 1-year bonds fell by 58.1 bps and 37.9 bps, respectively, while the 6-month bond went up by 35.1 bps. 10-year to 2-year spread jumped from 159 bps to 187 bps, a spread uptick of 28 bps (See ASEAN +1 table below).

As in the past, liquid FXTN tenors continued to post lower yields than FXTN benchmarks under PDST-R2. The difference between 10-yr R2 and FXTN 10-60 yields widened further to 89.3 bps from 80.8 bps a month ago. On the other hand, in the 20-year space, the difference between 20-yr R2 and FXTN-20-17 narrowed to 42.7 bps from 68.2 bps in November.  This suggests less upside potential for the 10-yr space.

## Corporate Bonds: Trading Tracks Lower GS Volumes

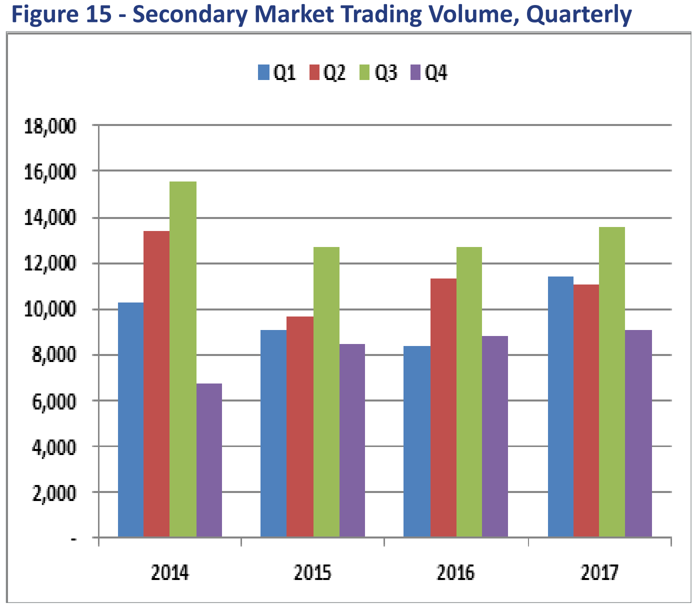
Secondary market trading of corporate bonds volume came at P2.7 B in December, slumping by 14% m-o-m but improving by 30.8% y-o-y. In terms of the quarterly volume, Q3 gained the most volume at P13.6 B while Q4-2017 finished at the bottom with P9.1 B. The Q4-2017 underperformance mirrored the figures for the same period in 2016. Despite the market's recent weakness, total trading for 2017 reached P45 B, beating the previous year's mark by 9.7%.

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




*Source: Philippine Dealing Systems (PDS)*

**Figure 15 - Secondary Market Trading Volume, Quarterly**

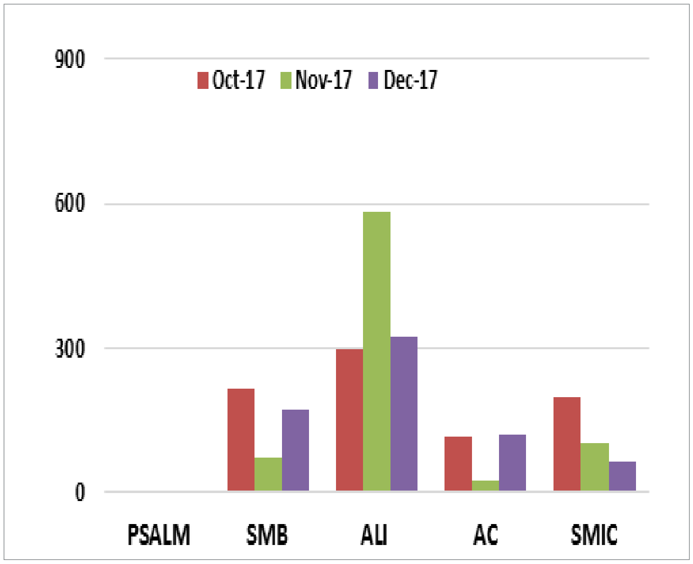



*Source: Philippine Dealing Systems (PDS)*

*Following the December Fed policy rate hike, Philippine dollar-denominated bonds (ROPs) yields rose for one of the three remaining tenors.*



**Figure 16 - Corporate Trading (In Million Pesos)**




*Source: Philippine Dealing Systems (PDS)*

Total 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) – fell by 14% (m-o-m) in December, although each headed in different directions.

For the seventh straight month this year, ALI once again topped total trading with P325.2 M, down by 44.4% m-o-m. SMB and AC came in second and third, as the former traded P172.4 M as it improved by 130.6% m-o-m, while the latter traded P120.6 M, up by 335.2% m-o-m, respectively. SMIC followed at P66.3 M, down by 36%. Of the top five, PSALM brought up the rear, with no trading at all for the eighth straight month this year.

## Corporate Issuances & Disclosures

Capping an active market in 2017, the year ended with several short-term and long-term bonds/notes issues.

- Ayala Land, Inc. (ALI) recently listed on the Philippine Dealing and Exchange Corporation (PDEx) P3.1-B worth of fixed-rate notes aimed at qualified institutional investors. This marked the second tranche of a uniquely structured financial instrument that was introduced in partnership with China Bank Capital Corporation last July 2017. The said issue carries a coupon of 3.25% and a 2019 maturity. The initial issue amounted to P4.3-B, bringing ALI's total enrollment for the notes to P7.4 B.

- BDO Unibank Inc. (BDO) has issued its first green bond, raising $150 M to expand financing for private sector investments that help address climate change problems. This marks the first green bond issued by a commercial bank in the Philippines. IFC, a member of the World Bank Group, is the sole investor of the said bond. The pioneering green bond will provide an alternative source of long-term green financing in the country as the funds will be used exclusively to finance climate-smart projects including renewable energy, green buildings, and energy-efficient equipment. The financing is expected to help save 93,000 tons of CO2 emissions per year by 2022.

- Last December 22, 2017, SMC Global Power Holdings Corporation issued fixed rate bonds with a combined worth of P35 B of debt securities, of which P20 B will be issued as part of the initial tranche. The said bonds will be issued in the following manner: (i) 5-year Series D Bonds due on 2022, with a fixed interest rate of 5.375%, (ii) 7-year Series E bonds due on 2024, with a fixed interest rate of 6.250%, and (iii) and 10-year Series F Bonds due on 2027, with a fixed interest of 6.625%.

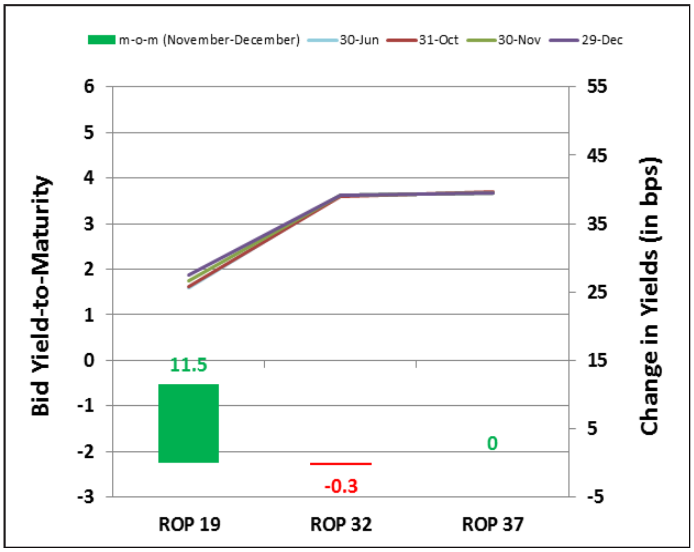
## ROPs: Yields Rise at the Short End of the Curve

Following the December Fed policy rate hike, Philippine dollar-denominated bonds (ROPs) yields rose for one of the three remaining tenors. ROP-19, with 2 years to maturity, rose by 11.5 bps from 1.752% to 1.867%. This tracked closely the 11 bps rise in 2-yr U.S. T-bond yields. ROP-32, 15 years from maturity, declined slightly by 0.3 bps from 3.626% to 3.623%. ROP-37, 20 years from maturity, remained unchanged at 3.685%.

*China's factory inflation moderated as consumer price gains remained tepid, further reducing a potential source of pressure for policy makers to boost borrowing costs.*

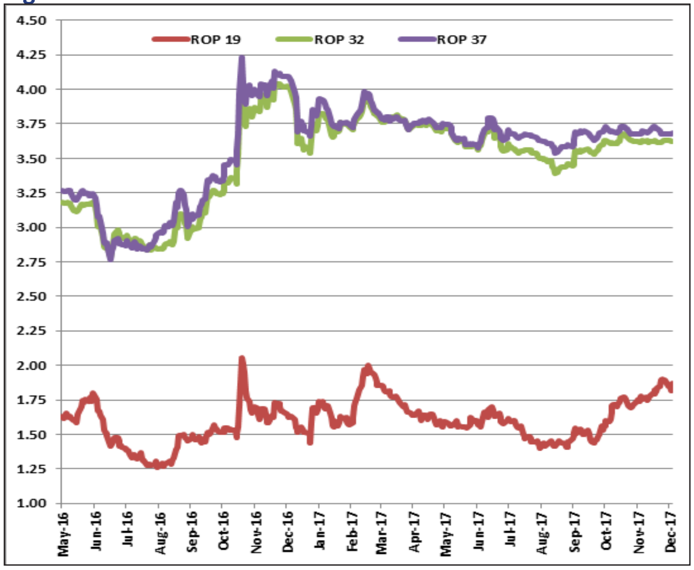


**Figure 17 - ROPs Yield (Month-on-Month Changes)**




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

**Figure 18 - ROPs Yields**




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

In comparison, US Treasury rates of similar tenors show that the 2-year US T-bond climbed by 11 bps to 1.89%, the 15-year US T-bond yield declined by 4.5 bps to 2.49% from 2.54% a month ago, and the 20-year bond inched down by 7 bps to 2.6%. In general, the movements in ROPs followed those of US Treasuries but at a slightly faster pace.

## ASEAN + 1 Market: Improving Economic Outlooks for EMs Despite December Fed Hike

**US:** The Federal Reserve came through on a widely expected 25 bps policy rate hike in mid-December and sharply raised its economic growth forecast for 2018. The move pushed the target range to 1.25% to 1.5%. In its decision, Fed policymakers mostly followed the script, although they did indicate that one less hike is on the way for 2019. The Fed raised its full-year GDP growth projection from 2.1% in September to 2.5%, following two consecutive quarters of 3% growth or higher and estimates that the fourth quarter could track that pace as well. However, growth is projected to slow down to 2.1% in 2019 and 2% in 2020, although both came above the respective 2% and 1.8% forecasts three months ago. Fed officials cut their estimates for the unemployment rate to 3.9% in 2018 and 2019, with the current unemployment rate already down to 4.1%. The inflation forecast for 2018 also got a modest boost, from 1.6% to 1.7%. Reaching its 2% inflation goal, however, has remained elusive for the Fed, and it expects to hit it only by 2019. Projections for 2018 remained unchanged at three policy rate increases. 10-year to 2-year spread fell by 5 bps from 63 bps to 58 bps.

**PRC:** China's factory inflation moderated as consumer price gains remained tepid, further reducing a potential source of pressure for policy makers to boost borrowing costs. The producer price index rose 5.8 % in November (y-o-y), slowing from 6.9 % in October, while the consumer price index climbed by only 1.7 %. Despite this, China's central bank raised money market rates last December 14, 2017, as authorities sought to defuse financial risks without negatively impacting the economy, which has been its focus all year-long. Growth for the economy has started to cool in recent months amid a government crackdown on high-risk lending and polluting factories, and this move by the People's Bank of China (PBOC) signaled that Beijing will keep policy tighter next year. The PBOC increased rates on reverse repurchase agreements, used for open market operations, by 5 bps for the 7-day and 28-day tenors. It increased rates on its 1-year medium-term lending facility (MLF) also by 5 bps and similarly for its standing lending

*Indonesia's annual inflation rate fell for a fifth consecutive month in November.*



facility (SLF) for short-term loans. According to the World Bank's latest quarterly report, China's economic growth will moderate in the next two years as policies to reduce leverage gradually take hold. Growth in the world's second largest economy will slow to 6.4% in 2018 and 6.3% in 2019 from 6.8% this year. Stronger inflation, recovering global trade and resilient domestic demand have boosted China's expansion, putting it on track to deliver its first full-year acceleration since 2010. Analysts suggest that slower investment and easing factory inflation will test the government's determination to maintain tightened financial regulation and slower money supply growth into 2018. 10-year to 2-year spread inched lower by 7 bps from 33 bps to 26 bps.

**Indonesia:** Indonesia's annual inflation rate fell for a fifth consecutive month in November, reaching its slowest pace since December, as prices of some raw foodstuffs fell. The headline consumer price index (CPI) rose 3.3% in November (y-o-y) compared to 3.58% in October. The central bank kept its key policy rate unchanged last December 15, to maintain macroeconomic stability and support domestic recovery, amid rate rises by the US Federal Reserve and other developed economies. Bank of Indonesia (BI) held the 7-day repurchase rate at 4.25% for a third straight month, while the deposit facility and lending facility rate were kept at 3.5% and 5%, respectively. Future rate decisions would depend on Indonesia's inflation and the rupiah's level against the dollar. Indonesian shares closed at a record high last December 21, after Fitch raised the country's credit ratings to "BBB" with its outlook as stable, saying economic and monetary policies have made Southeast Asia's largest economy resilient to external shocks. The country is expected to record full-year economic growth of 5.1 % in 2017, buoyed by increasing exports and investments. 10-year to 2-year spread moved up by 5 bps from 80 bps to 85 bps.

**Malaysia:** AmBank Group Research expects Malaysia's economy to continue performing strongly in Q4-2017, with preliminary estimates at 6% for and at 5.9% for the full-year 2017 gross domestic product (GDP). Exports continued to perform favorably with exports up 18.9% (y-o-y) in October, marking the fourth consecutive month of double-digit growth. Meanwhile, imports gained 20.9% y-o-y in October coming from strong intermediate (+14.8% y-o-y) and consumption (+11.1% y-o-y) with capital up 5.1% y-o-y. Moreover, trade balance in October surged to some $2.6B from $2.1 B in September. In addition, AmBank Group Research says growth will be supported largely by exports on the back of an improving external demand and the cheap ringgit. Thus, the Malaysian ringgit (MYR) remains attractive due to its better position than regional peers to withstand a steeper US yield curve, which continued to steepen as US 10-year yields were trading at a nine-month high in the wake of the Tax Reform Bill. Analysts suggest that, given the improving domestic and external landscapes, as well as a likely interest rate increase from the Bank Negara Malaysia in early 2018, investors will further lend support for the ringgit. 10-year to 2-year spread, however, rose by 6 bps from 74 bps to 80 bps.

| 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 |
| | | | | | 30-Nov-17 | 26-Dec-17 | | | |
| US | 1.899 | 2.476 | 2.10 | 0.38 | 63.00 | 58.00 | -5.00 | 1.25 | -0.85 |
| PRC | 3.780 | 4.040 | 1.60 | 2.44 | 33.00 | 26.00 | -7.00 | 4.35 | 2.75 |
| Indonesia | 5.514 | 6.368 | 3.90 | 2.47 | 80.00 | 85.00 | 5.00 | 4.25 | 0.35 |
| Malaysia | 3.148 | 3.945 | 3.90 | 0.04 | 74.00 | 80.00 | 6.00 | 3.00 | -0.90 |
| Thailand | 1.475 | 2.373 | 0.70 | 1.67 | 87.00 | 90.00 | 3.00 | 1.50 | 0.80 |
| Philippines | 3.078 | 5.827 | 3.20 | 2.63 | 159.00 | 187.00 | 28.00 | 3.50 | 0.30 |

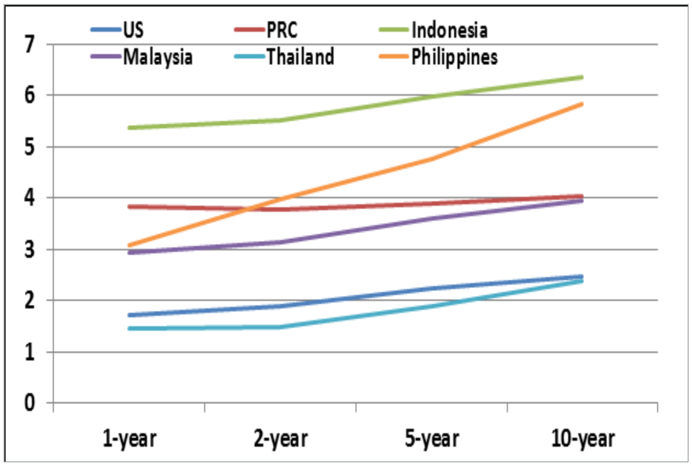
*Sources: Asian Development Bank (ADB), The Economist & UA&P*
**1-yr yields are used for PH because 2-yr papers are illiquid*

*As inflationary pressure remains subdued, the Bank of Thailand plan to continue with its accommodative stance to support the country's economic recovery.*



**Thailand:** Thailand's central bank kept its benchmark interest rate unchanged near a record low in the face of subdued inflation, as economic growth forecasts for the country were raised. Monetary policy committee members voted unanimously to keep the 1-day bond repurchase rate at 1.5 %. As inflationary pressure remains subdued, the Bank of Thailand plans to continue with its accommodative stance to support the country's economic recovery. Asian Development Bank (ADB) hiked its forecast for Thai GDP growth to 3.8% this year and next, propelled by the pickup in exports and private investment, an upgrade from its September estimates of 3.5% and 3.6%, respectively.  10-year to 2-year spread inched higher by 3 bps from 87 bps to 90 bps.

**Figure 19 - ASEAN Bond Yields**




*Source: Asian Development Bank (ADB)*

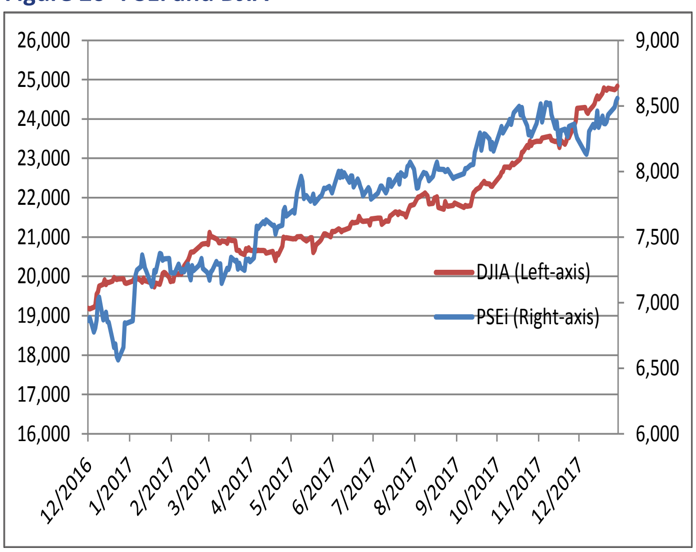
# PSEi Soared by 25.1% to End Year at Record High of 8,558.42



Final approval of the Duterte Administration's Tax Reform Package 1 (TRAIN) and elevated infrastructure spending, and the approval of US President Trump's massive tax cut and reforms fueled a further 3.7% jump in the PSEi in December to end the year at an all-time high of 8,558.42. This meant a 25.1% YTD gain for the year, which came in next only to Hong Kong's 36% gain among the markets we follow in the region, and third in the whole world. Besides, corporate earnings are estimated to have increased by 10.6%, and looks set to continue its bull run into 2018.

Outlook: TRAIN will boost after-tax incomes of the middle class by more than P100 B which should translate into stronger consumer spending in 2018. This coupled with accelerating infrastructure and PPP spending and more robust exports should drive earnings higher in 2018. We estimate it to rise by some 10% for the year and drive the PSEi to 9,400.

**Figure 20- PSEi and DJIA**




*Source: Bloomberg*

The PSEi and Dow Jones Industrial Average (DJIA) moved similarly in December, with a high correlation of 0.83. The co-movements of the indices resulted from positive developments in the foreign and local fronts. On the local front, optimism reigned with the passage of the Tax Reform for Acceleration and Inclusion (TRAIN). As for the foreign front, better than expected US job data has allowed the US construction, manufacturing, and health sectors to continue their uptrend; besides, the massive Trump tax cut and reform promised economic growth acceleration. For the most part of the year, the indices have shown high correlation.

| Global Equities Markets Performances | | | | |
|---|---|---|---|---|
| **Region** | **Country** | **Index** | **Growth Rate (m-o-m)** | **YTD December 2017** |
| Americas | US | DJIA | 1.8% | 25.0% |
| Europe | Germany | DAX | -0.8% | 12.5% |
| | London | FTSE 101 | 4.9% | 7.6% |
| East Asia | Hong Kong | HSI | 2.5% | 36.0% |
| | Shanghai | SSEC | -0.3% | 6.6% |
| | Japan | NIKKEI | 0.2% | 19.1% |
| | South Korea | KOSPI | -0.4% | 21.8% |
| Asia-Pacific | Australia | S&P/ASX 200 | 1.6% | 7.0% |
| Southeast Asia | Indonesia | JCI | 6.8% | 20.0% |
| | Malaysia | KLSE | 4.6% | 9.4% |
| | Thailand | SET | 3.3% | 13.7% |
| | Philippines | PSEi | 3.7% | 25.1% |
| | Singapore | STRAITS | -0.9% | 18.1% |

*Sources: Bloomberg & Yahoo Finance*

The PSEi increased by a significant 3.7% in December, bringing YTD gains up to 25.1% to snatch the 2nd highest among selected indices. Indonesia made a commendable 6.8% gain in December. However, YTD Hong Kong HSI remained securely as the fastest growing index as it surged by 36% through 2017.

*The average 10.6% rise in earnings banked on the positive macroeconomic fundamentals and the ability of the current administration to deliver on its promises.*



| Annual Sectoral Performance | | | | |
|---|---|---|---|---|
| | 29-Dec-16 | | 29-Dec-17 | |
| Sector | Index | % Change | Index | % Change |
| PSEi | 6,840.60 | -1.6% | 8,558.42 | 25.1% |
| Financial | 1,655.50 | 6.8% | 2,230.17 | 34.7% |
| Industrial | 10,650.20 | -3.5% | 11,231.30 | 5.5% |
| Holdings | 6,992.10 | 5.9% | 8,616.51 | 23.2% |
| Property | 3,066.50 | 5.2% | 3,78.19 | 29.7% |
| Services | 1,302.90 | -14.9% | 1,619.84 | 24.3% |
| Mining and Oil | 11,857.80 | 13.7% | 11,502.58 | -3.0% |

*Source of Basic Data: PSE Quotation Reports*

The PSEi had a good year, as it started and ended well, with a clear uptrend throughout. In the first two quarters, it grew by a hefty 6.9% and 7.3%, respectively. The growth continued but at a slightly slower but still significant third and fourth quarter, 4.2% and 4.7%, respectively. The average 10.6% rise in earnings was sufficient to attract investors, banking on the positive macroeconomic fundamentals (GDP growth, infrastructure and capital goods spending, etc.) and the ability of the current administration to deliver on its promises. Its legislated tax reform and emerging Build, Build, Build program have helped sustain investor optimism. Moreover, growing demand (both local and external) and consumption have fueled the growth of many PSE sectors. Thus, most sectors posted two-digit annual gains. However, the Mining and Oil even fell slightly as regulations—TRAIN's additional excise taxes on coal and royalties demanded had a negative effect on the sentiments towards this sector.

| Company | Symbol | 12/29/16 Close | 12/29/17 Close | % Change |
|---|---|---|---|---|
| Metrobank | MBT | 72.60 | 101.40 | 39.7% |
| Banco de Oro | BDO | 112.10 | 164.00 | 46.3% |
| Bank of the Philippine Islands | BPI | 88.80 | 108.10 | 21.7% |
| Security Bank Corporation | SECB | 190.00 | 251.40 | 32.3% |

*Source of Basic Data: PSE Quotation Reports*

The Financial sector led the boards with a 34.7% annual growth. Driving the sector, BDO Unibank, Inc. (BDO) posted a significant growth of 46.3% in 2017 driven by strong loan expansions every quarter.

Also on the rise, Metropolitan Bank and Trust Co. (MBT) increased by 39.7% in 2017, on the back of expansion of its loan portfolio. MBT's Q4-2017 performance (+17.2% quarter-on-quarter) was sufficient to recover from the underperformance of Q3-2017 (-1.1% q-o-q).

Not to be outdone, Security Bank Corporation (SECB) posted a hefty 32.3% annual growth. Its consistent performance put them in green through all four quarters, with Q3-2017 as its biggest driver (+12.1% q-o-q).

Bank of the Philippine Islands (BPI) was able to recover from its weak performance in Q2-2017 (+0.1% q-o-q) and Q3-2017 (-4.4% q-o-q), with a moderate gain in Q4-2017 of 8.7% q-o-q.

| Company | Symbol | 12/29/16 Close | 12/29/17 Close | % Change |
|---|---|---|---|---|
| Meralco | MER | 265.00 | 328.60 | 24.0% |
| Aboitiz Power | AP | 41.70 | 41.55 | -0.4% |
| Robinsons Retail Holdings, Inc. | RRH | 74.20 | 96.20 | 29.6% |
| Jollibee Foods Corporation | JFC | 194.00 | 253.00 | 30.4% |
| Puregold Price Club, Inc. | PGOLD | 39.00 | 50.00 | 28.2% |
| First Gen Corporation | FGEN | 22.00 | 17.00 | -22.7% |
| Universal Robina Corporation | URC | 163.50 | 151.00 | -7.6% |
| Petron Corporation | PCOR | 9.95 | 9.17 | -7.8% |

*Source of Basic Data: PSE Quotation Reports*

The Industrial sector posted moderate gains (+5.5%) as the board showed mixed results. Consumer stocks led the way, with Jollibee Foods Corporation (JFC) posting a 30.4% annual gain in 2017 due to its aggressive expansion not only locally but also abroad. In Q3-2017, its foreign segments expanded by 28.1% y-o-y.

Robinsons Retail Holdings, Inc. (RRHI) followed closely behind with a 29.6% annual price increase with consistent large increases in Q1-2017 (+9.6% q-o-q), Q2-2017 (+5.6% q-o-q) Q3-2017 (+10.9% q-o-q), even though it was flat in Q4-2017. RRHI large gain in Q3-2017 could be attributed to its inclusion in the PSEi and MSCI PH index.

*TRAIN's new excise tax on sugary drinks came in lower than expected, playing to the benefit of URC.*



Puregold Price Club, Inc. (PGOLD) surged by 28.2% in 2017 driven by its strong Q1-2017 (+12.1% q-o-q). Its announcement to expand outside Metro Manila lifted its Q3-2017 price by 17.1% q-o-q.

Manila Electric Company (MER)also posted a double digit annual gain, increasing by 24% in 2017. MER rates were down to P9.25/kilowatt-hour, supporting its projections of an increased sales by 4.5% in 2017. It also benefitted from its inclusion in the MSCI PH global standard index during MSCI's rebalancing in November.

Aboitiz Power (AP) ended the year relatively flat with a minor dip of 0.4% in 2017. AP recently paid off its loan (P2.3 B) to DBP, and invested P950 M to their 8.8 MW biomass plant that is currently in shutdown. Moreover, its hydroelectric and base power plants with a capacity of around 500 MW will be up and running this year.

Universal Robina Corporation (URC) slumped by 7.6% in 2017 as the negative impact of its Vietnam faus pax lingered. However, it appears as if URC is staging a comeback, as it tapered its losses in Q4-2017, -1.2% q-o-q from -6.2% q-o-q in Q3-2017. In addition, TRAIN's new excise tax on sugary drinks came in lower than expected and, thus, the extent of its negative effect would not be as great.

Petron Corporation (PCOR) was unable to stay afloat, ending 2017 with a decline of 7.8%. Higher crude oil prices have not favored PCOR, as Organization of Petroleum Exporting Countries (OPEC) decided to extend its oil production cut until June 2018. PCOR suffered in Q4-2017 (-12.5% q-o-q) from profit taking.

In deep red, First Gen Corporation (FGEN) under performed last year with a severe plunge of 22.7% after it suffered loss after loss due to several factors, such as the exchange rate that tapered its peso-denominated profits. In Q4-2017, FGEN registered is largest fall of 10.1% q-o-q.

| Company | Symbol | 12/29/16 Close | 12/29/17 Close | % Change |
|---|---|---|---|---|
| Ayala Corporation | AC | 730.50 | 1,015.00 | 38.9% |
| Metro Pacific Investments Corporation | MPI | 6.66 | 6.85 | 2.9% |
| SM Investments Corporation | SM | 655.00 | 990.00 | 51.1% |
| DMCI Holdings, Inc. | DMC | 13.26 | 14.40 | 8.6% |
| Aboitiz Equity Ventures | AEV | 70.80 | 74.00 | 4.5% |
| GT Capital Holdings, Inc. | GTCAP | 1,270.00 | 1,292.00 | 1.7% |
| San Miguel Corporation | SMC | 92.30 | 111.6 | 20.9% |
| Alliance Global Group, Inc. | AGI | 12.78 | 16.00 | 25.2% |
| LT Group Inc. | LTG | 12.56 | 18.74 | 49.2% |
| JG Summit Holdings, Inc | JGS | 67.65 | 72.1 | 6.6% |

*Source of Basic Data: PSE Quotation Reports*

As the economy hummed, the Holdings sector registered an annual growth of 23.2%. SM Investments Corporation (SM) increased by an outstanding 51.1% in 2017 backed by its bustling mall business segments and growing consumption.

LT Group, Inc. (LTG) skyrocketed by 49.2% as its main cigarette competitor was forced out of the industry due to tax evasion. Its largest gain (+27.5% q-o-q) occurred in Q1-2017, when Mighty Corporation was charged with tax evasion and in Q3-2017 (19.6% q-o-q), when Mighty decided to sell out in order to settle its tax evasion penalty.

Ayala Corporation (AC) soared by 38.9% in 2017 driven by its growing business segments, AC Renewables and AC Industrials. Moreover, the expansion of its online financial services following Alibaba's Ant Financials' acquisition of Mynt also contributed to AC's stellar year.

Trailing behind, Alliance Global Group, Inc. (AGI) posted a 25.2% increase in 2017 with its Q2-2017 contributing 12.8% q-o-q growth and its Q3-2017 adding yet another 12.2% q-o-q after it announced to buy back shares.

San Miguel Corporation (SMC) posted an annual growth of 20.9% for 2017. Its Q1-2017 and Q4-2017 price increases of 12.7% and 13.5%, respectively, made up for its flat Q2-2017 and poor Q3-2017 (-5.5% q-o-q).

GT Capital (GTCAP) managed to end with a minimal gain of 1.7% after automobile excise taxes were under the TRAIN came out lower than the original.



DMCI Holdings, Inc. (DMC) enjoyed moderate gains of 8.6% in 2017, driven by consistent growth of its construction business and higher earnings from its subsidiary, Semirara Mining and Power Corporation. Moreover, in Q2-2017, DMC announced that it will enter the cement business.

JG Summit Holdings, Inc. (JGS) posted moderate gains rising by 6.6% in 2017. The recent MSCI rebalancing, contributed to the decline in its stock price, as its weight was reduced by 0.16 percentatge points.

Aboitiz Equity Venture, Inc. (AEV) ended the year with a minor gain of 4.5% despite the negative effect of the approval of the excise tax on coal.

Metro Pacific Investments Corporation (MPI) increased slightly by 2.9% even as it sought to expand its power generation portfolio. It acquired additional stakes in MER, Global Business Power Corporation (GBP), and Alsons Thermal Energy Corporation (ATEC) through GBP.

GT Capital (GTCAP) managed to end the year with a minimal gain of 1.7% due to tax reform overhang. However, the stock managed to recover after package 1 was passed into law in December as approved automobile excise taxes came out lower than the original bill.

| Company | Symbol | 12/29/16 Close | 12/29/17 Close | % Change |
|---|---|---|---|---|
| Ayala Land, Inc. | ALI | 32.00 | 44.60 | 39.4% |
| SM Prime Holdings, Inc. | SMPH | 28.35 | 37.50 | 32.3% |
| Robinsons Land Corporation | RLC | 26.00 | 21.30 | -18.1% |
| Megaworld Corporation | MEG | 3.57 | 5.16 | 44.5% |

*Source of Basic Data: PSE Quotation Reports*

Megaworld Corporation (MEG) led the sector, as it soared by 44.5% this year. Propelled by its residential business segments in Q2-2017 and Q3-2017 which brought share prices higher by 27.2% (q-o-q) and 21.6% (q-o-q), respectively.

Not to be outdone, Ayala Land, Inc. (ALI) also skyrocketed by 39.4% in 2017, as it showed a continued good performance throughout the year. However, its Q2-2017 fuelled most of the gain when share prices increased by 20.3% (q-o-q) due to the launching of its new mall and hotel, Vertis North, in the said quarter.

SM Prime Holdings, Inc. (SMPH) showed the robust and expanding nature of its mall segment, as its launched several malls in 2017. These included SM CDO Downtown Premier in Cagayan de Oro, SM Cherry Antipolo in Rizal, SM City Puerto Princesa in Palawan, SM Center Tuguegarao Downtown in Cagayan, among others. The multiple launches resulted in its impressive 32.3% annual growth.

Bucking the trend, Robinsons Land Corporation (RLC) plunged by 18.1% in 2017. The dismal performance resulted in the reversal of all its gains in Q2-2017 and Q3-2017 due to the sell down in Q4-2017 after it announced to raise P20 B through additional stock offering.

| Company | Symbol | 12/29/16 Close | 12/29/17 Close | % Change |
|---|---|---|---|---|
| Philippine Long Distance Tel. Co. | TEL | 1,365.00 | 1,480.00 | 8.4% |
| Globe Telecom | GLO | 1,509.00 | 1,900.00 | 25.9% |
| International Container Terminal Services Inc. | ICT | 71.95 | 105.50 | 46.6% |

*Source of Basic Data: PSE Quotation Reports*

The Services sector started strong and ended the year with a 24.3% annual gain. International Container Terminal Services, Inc. (ICT) fueled the sector's rise as it registered a stellar 46.6% annual increase as its net income surged by 207% in Q1-2017. Moreover, its expansion to new ports in Papua New Guinea has contributed to its overall success in 2017.

Philippine Long Distance Telephone Company (TEL) ended with the smallest gain of 8.4% in 2017 amid revenue pressure and threat of a third player. Moreover, the rebalancing of MSCI in November, has reduced the weight of TEL by 0.11 percentage points.

Globe Telecom (GLO) still had a good year, with a 25.9% annual increase. However, the large net foreign selling that followed amid the threat of the entry of a third player ate away at what would have been an even more impressive climb in 2017.

*Net foreign buying totaled P56 B (~$1.1 B) a reversal of (P3.5 B) Net selling in 2016.*



| Company | Symbol | 12/29/16 Close | 12/29/17 Close | % Change |
|---|---|---|---|---|
| Semirara Mining and Power Corporation | SCC | 32.5 | 36.8 | 13.2% |

*Source of Basic Data: PSE Quotation Reports*

The Mining and Oil sector was the lone dark spot, as it slumped by 3% in 2017. Semirara Mining and Power Corporation (SCC), however, managed to end with a commendable gain of 13.2% in 2017. SCC's higher coal output and Calaca Power's earnings drove the increase throughout the year. However, the approval of higher excise tax on coal has had a detrimental effect on SCC's share prices in Q4-2017, as it slumped by 21.2% q-o-q.

## Total Turnover

| Annual Turnover (in Million Pesos) | | | | |
|---|---|---|---|---|
| | Total Turnover | | Average Daily Turnover | |
| Sector | Value | % Change | Value | % Change |
| Financial | 294,924.2 | 16.2% | 1,218.7 | 18.6% |
| Industrial | 472,561.0 | 22.7% | 1,952.7 | 25.2% |
| Holdings | 429,984.2 | -6.9% | 1,776.8 | -5.0% |
| Property | 319,539.3 | -5.3% | 1,320.4 | -3.3% |
| Services | 351,647.7 | 10.9% | 1,453.1 | 13.2% |
| Mining and Oil | 72,232.3 | 14.1% | 298.5 | 16.5% |
| **Total** | 1,966,298.3 | 7.5% | **8,125.2** | 9.8% |
| Foreign Buying | 1,041,139.8 | 8.1% | 4,302.2 | 10.4% |
| Foreign Selling | 986,259.9 | 2.1% | 4,075.5 | 4.2% |
| Net Buying (Selling) | 56,103.5 | 1,683.8% | 231.8 | 1716.7% |

*Source of Basic Data: PSE Quotation Reports*

Despite the 24.7% rise in share prices, the total turnover in 2017 only increased by 16.2%, implying that volumes had underperformed. Nonetheless, turnover rebounded from the 15% drop in the previous year. The Industrial and Financial sectors' turnovers gained impressively by 22.7% and 16.2%, respectively. Mining & Oil and Services sectors' turnovers followed, increasing by 14.1% and 10.9%, respectively. However, Holdings and Property turnovers fell by 6.9% and 5.3%, respectively, despite huge climb in share prices. As for foreign investors, both net foreign buying and selling moved higher this year. With its growth at faster pace, net foreign buying totaled P56 B (~$1.1 B) in 2017 a reversal of the P3.5 B net selling in 2016, despite ending December on a net selling position of P2.2B.

# Recent Economic Indicators



## NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

| | 2015 | | 2016 | | 2nd Quarter 2017 | | | 3rd 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% | 173,875 | -4.5% | 6.3% | 164,213 | -5.6% | 2.5% |
| Industry Sector | 2,535,796 | 6.0% | 2,738,320 | 8.0% | 756,856 | 9.8% | 7.3% | 695,200 | -8.1% | 7.5% |
| Service Sector | 4,338,284 | 6.8% | 4,664,261 | 7.5% | 1,292,066 | 13.1% | 6.1% | 1,229,016 | -4.9% | 7.1% |
| Expenditure | | | | | | | | | | |
| Household Final Consumption | 5,264,137 | 6.3% | 5,628,318 | 6.9% | 1,468,147 | 5.2% | 5.9% | 1,393,848 | -5.1% | 4.5% |
| Government Final Consumption | 785,347 | 7.8% | 850,747 | 8.3% | 272,461 | 31.4% | 7.1% | 217,820 | -20.1% | 8.3% |
| Capital Formation | 1,805,281 | 15.1% | 2,180,842 | 20.8% | 573,565 | -7.8% | 8.7% | 578,168 | 0.8% | 6.6% |
| Exports | 3,681,166 | 9.0% | 4,016,105 | 9.1% | 1,248,027 | 4.1% | 19.7% | 1,346,722 | 7.9% | 17.2% |
| Imports | 3,942,163 | 14.0% | 4,631,536 | 17.5% | 1,353,674 | -2.7% | 18.7% | 1,427,855 | 5.5% | 13.9% |
| GDP | 7,593,828 | 5.9% | 8,113,170 | 6.8% | 2,222,797 | 10.3% | 6.5% | 2,088,429 | -6.0% | 6.9% |
| NPI | 1,540,910 | 5.3% | 1,622,040 | 5.3% | 423,063 | -2.4% | 8.6% | 415,276 | -1.8% | 5.7% |
| GNI | 9,134,739 | 5.8% | 9,735,210 | 6.6% | 2,645,860 | 8.0% | 6.8% | 2,503,705 | -5.4% | 6.7% |

*Source: National Statistical Coordination Board (NSCB)*

## NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

| | 2015 | | 2016 | | Oct-2017 | | | Nov-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% | 205,068 | 2.5% | 17.4% | 243,492 | 18.7% | 16.4% |
| Tax | 1,815,475 | 5.6% | 1,980,390 | 9.1% | 186,487 | 1.7% | 18.5% | 228,250 | 22.4% | 15.4% |
| BIR | 1,433,302 | 7.4% | 1,567,214 | 9.3% | 142542 | 0.8% | 16.9% | 179355 | 25.8% | 14.4% |
| BoC | 367,534 | -0.5% | 396,365 | 7.8% | 42915 | 6.6% | 28.6% | 46366 | 8.0% | 15.3% |
| Others | 14,639 | -2.1% | 16,811 | 14.8% | 1,030 | -39.4% | -51.4% | 2,529 | 145.5% | 233.2% |
| Non-Tax | 293,317 | 54.9% | 215,446 | -26.5% | 18,581 | 11.3% | 7.7% | 15,242 | -18.0% | 33.2% |
| Expenditures | 2,230,645 | 12.6% | 2,549,336 | 14.3% | 226,868 | -4.3% | 28.2% | 252,115 | 11.1% | 10.4% |
| Allotment to LGUs | 387,559 | 12.6% | 449,776 | 16.1% | 41,595 | -0.7% | 6.7% | 41,839 | 0.6% | 15.7% |
| Interest Payments | 309,364 | -3.7% | 304,454 | -1.6% | 20,434 | -22.6% | 27.3% | 20,583 | 0.7% | 5.3% |
| Overall Surplus (or Deficit) | (121,689) | 66.5% | (353,422) | -190.4% | (21,800) | 157.0% | -11.7% | (8,623) | 60.4% | 55% |

*Source: Bureau of the Treasury (BTr)*

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

| | 2016 | | Aug-2017 | | | Sep-2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Annual Levels | Growth Rate | Levels | Y-o-Y G.R. | YTD | Levels | Y-o-Y G.R. | YTD |
| TOTAL | 39,583 | 8.1% | 3,686.80 | 6.5% | 20.4% | 3,752.30 | 9.6% | 22.5% |
| Residential | 12,439 | 11.9% | 1,163.30 | 7.2% | 19.9% | 1,176.30 | 8.7% | 21.2% |
| Commercial | 15,648 | 8.2% | 1,450.50 | 6.1% | 16.6% | 1,432.60 | 5.4% | 15.1% |
| Industrial | 11,362 | 4.2% | 1,049.40 | 5.1% | 25.5% | 1,028.40 | 5.9% | 23.0% |

*Source: Meralco*

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

| | 2015 | | 2016 | | 2nd Quarter 2017 | | 3rd 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%) | (56.7) | (95.5%) | 553.70 | 1930.0% |
| Balance of Trade | (17,854) | 40.0% | (26,955) | 51.0% | (7,459.9) | 8.7% | (6,722.84) | -2.9% |
| Balance of Goods | (23,309) | 34.5% | (34,079) | 46.2% | (9,736.9) | 2.3% | (9,486.51) | 5.5% |
| Exports of Goods | 43,197 | (13.3%) | 43,444 | 0.6% | 12,213.7 | 17.6% | 12,751.85 | 12.9% |
| Import of Goods | 66,506 | (1.0%) | 77,524 | 16.6% | 21,950.6 | 10.3% | 22,238.35 | 9.6% |
| Balance of Services | 5,454 | 19.2% | 7,125 | 30.6% | 8,698.9 | 8.9% | 9,560.09 | 95.5% |
| Exports of Services | 29,065 | 14.0% | 31,357 | 7.9% | 6,422.0 | -3.2% | 6,796.43 | 13.0% |
| Import of Services | 23,610 | 12.9% | 24,233 | 2.6% | 6032.75 | 2.0% | 6419.37 | 3.3% |
| Current Transfers & Others | - | - | - | - | - | - | - | - |
| II. CAPITAL AND FINANCIAL ACCOUNT | 2,385 | (75.5%) | 1,051 | (55.9%) | (891.2) | (3531.1%) | 891.1 | 21.2% |
| Capital Account | 84 | (21.9%) | 102 | 21.4% | 36.7 | 41.2% | 36.3 | 29.8% |
| Financial Account | 2,301 | (76.1%) | 949 | (58.8%) | (927.8) | (59.8%) | 854.8 | 20.9% |
| Direct Investments | (99) | (109.8%) | (4,235) | 4,149.6% | (2,066.9) | (12.8%) | (1,864.2) | 192.4% |
| Portfolio Investments | 5,471 | 102.0% | 1,383 | (74.7%) | (108.5) | 41.2% | 784.5 | 29.8% |
| Financial Derivatives | 6 | 40.8% | (32) | (673.4%) | (5.7) | (3.2%) | 45.5 | (510.2%) |
| Other Investments | (3,076) | (152.1%) | 3832 | (224.6%) | 1,253.3 | 41.2% | 1,889.0 | 29.8% |
| III. NET UNCLASSIFIED ITEMS | (2,433) | (40.5%) | (175) | (92.8%) | (619.3) | (1193.2%) | (396.9) | 91.0% |
| OVERALL BOP POSITION | (2,616) | (191.5%) | (420) | (116.1%) | 288.6 | (65.8%) | (661.7) | (165.2%) |
| Use of Fund Credits | - | 0.0% | - | 0.0% | - | - | (650.9) | - |
| Short-Term | - | 53.2% | - | (6,678.9%) | - | - | 10.8 | - |
| Memo Items | | | | | | | | |
| Change in Commercial Banks | (1,164) | (119.2%) | (1,510) | (229.7%) | (15.2) | (98.6%) | 1,404.5 | 204.4% |
| Net Foreign Assets | (1,065) | (117.8%) | (1,470) | (238.1%) | (78.9) | (92.7%) | 1,428.4 | 160.6% |
| Basic Balance | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |

*Source: Bangko Sentral ng Pilipinas (BSP)*

## MONEY SUPPLY (In Million Pesos)

| | 2016 | | Oct-2017 | | Nov-2017 | |
|---|---|---|---|---|---|---|
| | Average Levels | Annual G. R | Average Levels | Annual G.R. | Average Levels | Annual G.R. |
| RESERVE MONEY | 13,502,588 | 13.9% | 14,650,063 | 12.2% | 14,631,468 | 10.5% |
| Sources: | | | | | | |
| Net Foreign Asset of the BSP | 4,308,975 | 7.8% | 4,591,951 | 6.1% | 4,432,479 | 1.9% |
| Net Domestic Asset of the BSP | 9,193,613 | 17.0% | 10,058,112 | 15.2% | 10,198,989 | 14.7% |
| MONEY SUPPLY MEASURES AND COMPONENTS | | | | | | |
| Money Supply-1 | 3,069,611 | 15.1% | 3,407,947 | 17.7% | 3,446,508 | 17.2% |
| Money Supply-2 | 9,137,898 | 13.2% | 9,868,176 | 14.8% | 9,938,108 | 13.9% |
| Money Supply-3 | 9,497,935 | 12.7% | 10,262,502 | 14.8% | 10,351,566 | 14.0% |
| MONEY MULTIPLIER (M2/RM) | 0.68 | -0.5% | 0.67 | 2.3% | 0.66 | 3.1% |

*Source: Bangko Sentral ng Pilipinas (BSP)*

**January 2018**

## CONTRIBUTORS


| | |
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UA&P UNIVERSITY OF ASIA AND THE PACIFIC