February 2018

The

MARKET CALL

Capital Markets Research

FMIC and UA&P Capital Markets Research

Executive Summary

FDI HITS ALL-TIME OF $8.7-B YTD NOV, AS GDP EXPANDS BY 6.7% FY 2017

Foreign direct investments (FDI) into the country streaked to a record-high of $8.7-B YTD in November even as domestic investors and government infrastructure spending drove Gross Domestic Product (GDP) to a 6.7% full-year growth in 2017. These translated into a 16.1% surge in capital goods imports in November. As added booster, exports posted slightly positive gains, while Overseas Filipino Workers' (OFW) remittances continued to expand. The fly-in-the-ointment came from the sharp rise in inflation to 4% in January from 3.3% in December, mostly attributable to higher food and crude oil prices, as well anticipated increases in fuel taxes and some other indirect taxes. While trading volumes and auctions gained in the GS bond market, yields headed north as US Treasuries showed the way. The stock market racked up 6 new records in January but consolidation appeared underway as the market looked overbought, while the US stock market's plunge into early February pulled the local bourse in the same direction.

Macroeconomy

Stronger government outlays, robust investment spending and the rebound in exports buoyed the country's economic expansion in 2017. The continued acceleration in these catalysts, along with the other economic indicators, should bring the economy to a higher growth trajectory in 2018.

- Foreign Direct Investments hit an all-time high of $8.7 B by November.
- Capital Goods imports surged by 16.1% in November amidst broad-based gains in heavily-weighted products.
- Exports expanded by 1.7%, bringing the YTD level to $58.1 B (+10.8%).
- Remittances sent by OFWs continued to pour in for Christmas-related spending, up by 3.2% in November.
- January inflation climbed to 4% driven by higher crude oil prices and other commodities affected by the TRAIN.
- Domestic liquidity gains remained manageable, easing to 11.9% in December.
- The peso got battered at start of the year due to record trade deficits owing to strong investment spending.

Outlook: We believe the PH is geared towards a faster expansion and 2018 onwards with robust domestic demand as the main driver. The external environment, especially with the recovery in US, EU, Japan, and China, should further boost the country's export and fuel economic expansion. Moreover, we think that inflation will accelerate in H1 but will start to decelerate thereafter as food and crude oil prices normalize.

Bonds Market

Bond yields in the primary market for government securities moved generally higher in January, while trading volume in the secondary market rebounded and pushed the yield curve downward, as risk-on sentiment prevailed in the local market amid a possible US government shutdown.

- Yields in auctions of the short-term Treasury bills, rose by 1.4 bps to 17.3 bps, reflecting lower demand.
- The yield of the 3-year bond issue moved higher by 22.9 on weaker investor demand, while the 10-year bond issue remained unrewarded.
- GS trading improved by 106.0% (m-o-m) and 6.0% (y-o-y), on increased investor appetite amid a possible shutdown of the US government.
- The yield curve slightly moved markedly higher as the 10-year to 2-year bond spread widened by 44 bps.
- Tracking the rise in U.S. Treasury bond yields, ROP yields rise across the curve.

Outlook: The recent climb of 10-year US bond yields may persist should the Trump tax cuts and the government spending on infrastructure and defense contribute to a significant budget deficit. On the other hand, local inflation is projected to outpace the 2-4% BSP inflation target in 2018, thus, demand for local bonds will likely taper off for the first half of the year with the nominal 10-year PH bond yield not likely to exceed 6.5%.

Equities Market

PSEI joins other markets to start 2018 strong by breaching the 9000-mark, followed by a market correction during the month-end.

- Investor confidence boosted by the stimulus aspect of TRAIN law enabled PSEi to increase by 2.4%.
- US's DJIA soared by 5.8% in January, only to be followed by a reversal early in February that erased 2018 gains and started a global sell-off which affected PSEI.
- All sectors landed in green, except Mining and Oil (-0.4%), led by Financial (+6.2%) and Industrial sectors (+4.6%).
- SMC grew largest during the first month with a significant +29.0% increase.
- LTG likewise ended the month soaring, posting +19.8% gains.
- January ended with net foreign selling worth P2.2B.

Outlook: PSEi's ongoing decline possibly leading investors to sustain the trend and the low spread between E/P and 10-year T-bond rates suggest a deep consolidation period soon. Investors must try to avoid getting whipsawed due to recent developments.

Economic Indicators (% 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%	6.7%	7-7.5%
Inflation Rate (January)	3.3%	4.0%	4.0%	1.8%	3.2%	3.5-4%
Government Spending (November)	28.2%	10.4%	10.2%	18.%	15%[f]	12%
Gross International Reserves ($B) (January)	81.57	81.2	81.2	80.7	81.657	80
PHP/USD rate (January)	50.395	50.51	50.51	47.49	50.40	52.50
10-year T-bond yield (end-December YTD bps change)	5.70%	5.88%	5.88%	4.63%	5.7%	5.34-5.59%
PSEi (end-January YTD % change)	8,558.42	8,764.01	2.4%	6,840.64	8,558.42	9,400

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

ROBUST GDP EXPANSION OF 6.7% IN 2017 SETS STAGE FOR FASTER GROWTH IN 2018

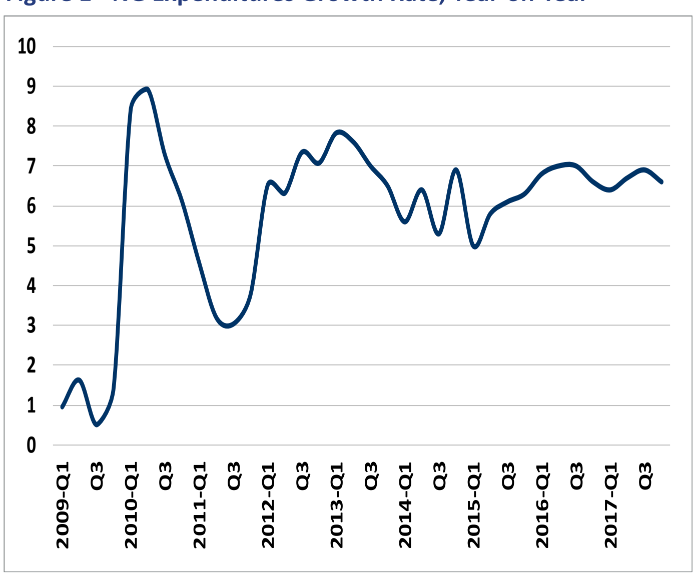
The country's economy expanded by 6.7% for the full year 2017 at the back of Gross Domestic Product (GDP) growth of 6.6% in Q4-2017, in which government spending and strong external demand took the lead. The PH growth came in close on the heels of China (+6.9%) and Vietnam (+6.8%). Nevertheless, the Philippines outperformed the rest of ASEAN+2 (including India's 6.6%) and remained among the fastest growing economies in Asia. Investment spending continued to lead the economy as it increased by 9.0%, supported by elevated infrastructure spending and higher capital goods imports in October and November. Inflation got identified as the fly-in-the-ointment as it climbed faster to 4.0% in January 2018. Overseas Filipino Workers' (OFW) remittances coasted along its robust growth path into November.

Outlook: Accelerating infrastructure spending and likely double-digit growth of capital goods imports in 2018 should combine with robust export growth to drive faster GDP growth in 2018. Despite the jump of inflation to 4.0% in January mainly due to higher crude oil prices and indirect taxes of TRAIN-1, inflation should hover around that rate in H1 and decelerate in H2, as crude prices stabilize or even decline, while producers and consumers tweak their adjustment to the TRAIN's initial effects. Finally, the peso will again be generally under pressure in 2018 as PH trade deficits bloat with elevated investment spending and renewed strength of the US economy at the back of the massive Trump tax cuts.

Strong NG Spending Drives PH Economic Expansion in Q4

The country's economic expansion in the last quarter of 2017 stood at 6.6%, marking the 10th uninterrupted above-6% growth, backed by robust government spending and strong external demand. Next to China (6.9%) and Vietnam (6.8%), the Philippines outperformed the rest of ASEAN-6 and still placed among the fastest growing economies in Asia. Full year GDP growth average at 6.7%, hitting our 6.5%-7% FY 2017 projection.

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



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

Domestic demand grew above the 5% mark for the 13th consecutive quarter, driven by stronger NG spending which registered a double-digit growth of 14.3% in Q4, coming from the administration's thrust to ramp up infrastructure spending. Capital Formation, up 9.3%, likewise boosted domestic demand, fueled by Durable Equipment spending (+12.1%). Higher capital goods spending in 13 out of 20 sectors provided a strong push, with investments in mining and construction machineries posting the fastest growth (+44.7%).

The sustained increase in Consumption spending (+6.1%) amidst higher gains in the peso-equivalent of the OFW remittances due to the 3.7% peso depreciation in Q4, likewise, buoyed domestic demand. The remarkable performance of the external sector shown in another double-digit expansion in Q4 (+18.6% y-o-y) due to the global recovery, also contributed to the fast economic growth.

In the production side, the Industry sector posted the highest increase of 7.3%, albeit slower than Q4-2016 and the previous quarter's growth, due to the deceleration in Construction and Manufacturing. The 2.8% deceleration in the Construction sector in Q4 from 10.7% in the same quarter last year can be attributed to the slowdown in private construction. Mining and Quarrying and Electricity, Gas and Water Supply sub-sectors, on the other hand, registered a quick-pace acceleration.

Domestic demand grew above the 5% mark for the 13th consecutive quarter, driven by stronger NG spending which registered a double-digit growth of 14.3% in Q4, coming from the administration's thrust to ramp up infrastructure spending.

The Services sector, remained positive at 6.8% y-o-y although slower than Q4-2016, buoyed by the gains in Transport, Storage and Communication (+87.9%) and Public Administration & Defense, Compulsory Social Security (+8.7%). Meanwhile, the Agriculture sector rebounded at 2.4% y-o-y from the negative performance in Q4-2016, reflected in higher production of crops (i.e., rice, corn, vegetables, among others).

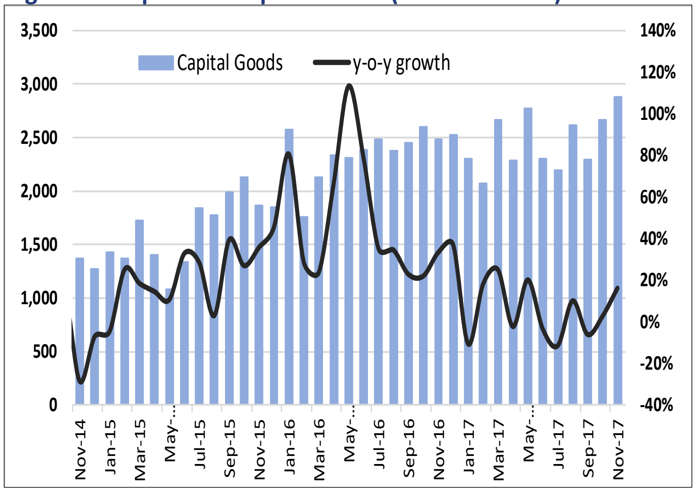
Anchored on strong domestic demand—due to acceleration in the government's "Build-Build-Build" infrastructure program ensured by the passage of its tax reforms (TRAIN-1) and recovery of private construction (in terms of residential and PPP projects) and the renewed strength of Mining and Manufacturing industries and robust export demand due to the synchronized upswing of advanced economies, we think that the 7%-8% NG target would be doable.

	Q3 2017	Q4 2017	2015-16	2016-17
Agriculture Sector	2.6	2.4	-1.3	3.9
Industry	7.9	7.3	8.4	7.2
Manufacturing	10.0	8.8	7.0	8.6
Construction	3.5	2.8	13.7	5.4
Service Sector	7.2	6.8	7.4	6.7
Consumption	5.3	6.1	7.0	5.8
Investment	8.7	8.2	23.7	9.0
Construction	2.6	2.9	15.1	5.7
Government Spending	8.3	14.3	8.4	7.3

Jan-Nov FDI Hit All-time High of $8.7 B, beating FY 2016

Foreign direct investments (FDI) in January to November 2017 reached an all-time high of $8.7 B, beating the previous $8 B record for full year 2016. The achievement counted on a net inflow of $869 M in November, a 16.9% jump from a year ago. The investments raked in the first eleven months came in 20.1% higher than in the same period last year, and even surpassed the BSP's FY 2017 projection of $8 B. Remarkable growth in net placements in debt instruments (+9% to $5.2 B), coupled with the more than 50% y-o-y increase in the investments in equity capital (to $2.8 B) largely propelled YTD FDI. Capital placements largely came from the Netherlands, US, Singapore, Japan, and Hong Kong, and found their mostly into Electricity, Gas, Steam and Air-conditioning Supply Activities, Manufacturing, Real Estate, Construction, and Wholesale and Retail Trade. Reinvestments in earnings, likewise, added $717 M.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Capital Goods Imports Surges by 16.1% in November

Imports of capital goods in November soared by 16.1% (and taking 32.9% share of total imports) amidst the gains recorded in most heavily-weighted capital goods products, save for the imports of Aircrafts, Ships, and Boats. The imports of Telecommunication Equipment and Electrical Machinery registered a 32.9% increase followed by Land Transport Equipment excluding Passenger Cars and Motorized Cycle with 23.9% gain. Imports of Office and EDP Machines and Power Generating and Specialized Machines also increased by 4.3% and 2.9%, respectively.

Raw Materials & Intermediate Goods imports, which captured the largest share of total imports at 37.7%, rose by 18.9% driven by hefty gains in Manufactured Goods and Semi-Processed Raw Materials. The imports of Mineral Fuels, Lubricant and Related Materials, likewise, surged by 38.6%, reflecting the strong demand and higher prices of coal and petroleum products. Higher remittances, moreover, encouraged greater consumer spending, reflected in the 14.4% increase in the imports of Consumer Goods.

Overall, total imports posted an 18.5% increase amounting to $8.7 B. Meanwhile, exports expansion slowed to 1.6%, bringing the trade deficit to $3.8 B, an all-time high, which handily exceeded the $2.5 B deficit posted in November 2016.

Faster increments in most-heavily weighted commodities (i.e., food and beverages) resulted in the uptrend of average prices in January, to lodge at the higher end of the BSP's target.

We think that the expansion in the imports of capital goods will be sustained by strong private investment and infrastructure spending.

Inflation Climbs to 4% in January

Faster increments in most-heavily weighted commodities (i.e., food and beverages) resulted in the uptrend of average prices in January, to lodge at the higher end of the BSP's target. Six out of 11 product groups posted faster price increases led by the heavily-weighted Food and Non-Alcoholic Beverages (FNAB) index and Alcoholic Beverages and Tobacco (ABT), which posted 0.9 and 5.9 percentage points increase, respectively. TRAIN's higher excise taxes on petroleum products, on cigarettes, and new excise tax on sweetened beverages contributed much to this jump.

Higher crude oil prices coupled with higher fuel taxes, especially, for diesel (previously exempt), contributed to the uptrend in the Transport sector. In January, WTI and Brent registered an average markup of 8.7% from the previous month, compared to the 2.4% recorded in December. The other indices (i.e., Health; Furnishing, Household Equipment and Routine Maintenance of the House; and Restaurants and Miscellaneous Goods and Services) also posted price increases.

Meanwhile, lower charges in electricity led to the decline in the Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) index, along with the Recreation and Culture

Inflation Year-on-Year Growth Rates	Dec-2017	Nov-2017	YTD
All items	4.0%	3.3%	4.0%
Food and Non-Alcoholic Beverages	4.5%	3.5%	4.5%
Alcoholic Beverages and Tobacco	12.3%	6.4%	12.3%
Clothing and Footwear	3.7%	3.8%	3.7%
Housing, Water, Electricity, Gas, and Other Fuels	2.0%	1.9%	2.0%
Furnishing, Household Equipment, and Maintenance of the House	2.6%	2.2%	2.6%
Health	3.2%	2.4%	3.2%
Transport	1.4%	1.5%	1.4%
Education	3.7%	3.0%	3.7%

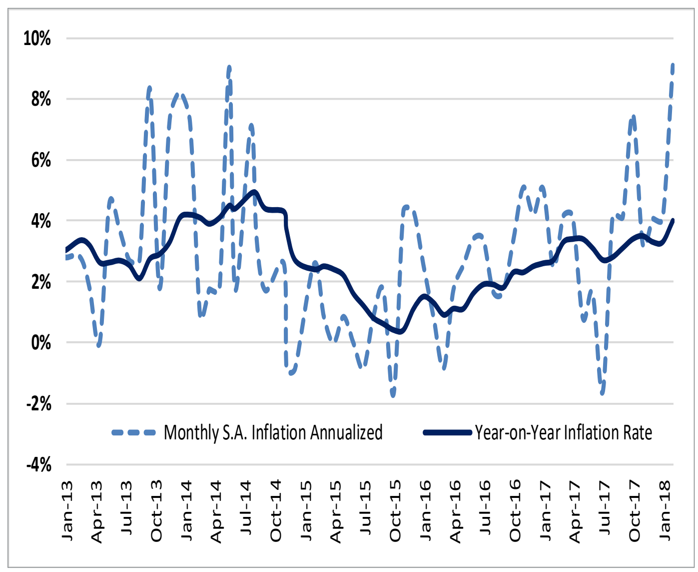
Note: Green font - means higher rate (bad) vs. previous month
Red font – means lower rate (good) vs. previous month
Not included in details are the items whose growth rate remained the same as in September.

Source of Basic Data: Philippine Statistics Authority (PSA)

index. Meralco charges fell in January due to lower spot market prices and a decrease in the generation cost, translating to a P0.5 reduction per kWh to P8.7 per kWh in January. The rest of the index maintained the past month's rate.

The seasonally adjusted annualized rate (SAAR) shot up, affirming our view that price mark-ups will continue to move at a quicker pace in the coming months. This is largely attributed to the increase in the prices of fuel, automobiles, sweetened beverages, among others brought about by the imposition of excise tax. Nonetheless, we believe that annual inflation can still fall within the BSP's target.

Figure 3 - Inflation Rates Annualized, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Domestic Liquidity Further Eases in December

Domestic liquidity (M3) expansion eased to 11.9% in December, markedly slower than the 14% rise in the previous month. Broad Money (M2) and Narrow Money (M1), likewise, decelerated to 11.8% and 15.9%, respectively.

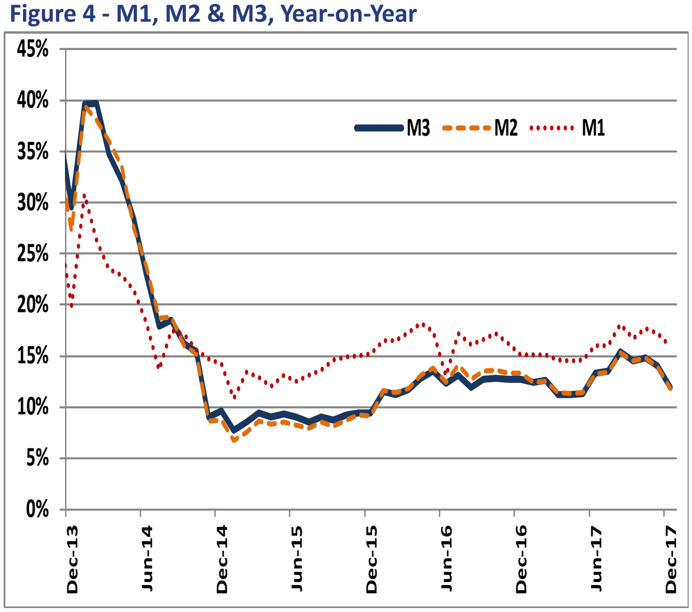
Loans in productive activities, which maintained the past month's rate at 18.5%, sustained the growth in money. Solid commercial bank lending went into several key sectors, i.e., Real Estate Activities (+19.3%); Electricity, Gas, Steam and Airconditioning Supply (+25.4%); and Wholesale and Retail trade, Repair of Motor vehicles and Motorcycles (+20.1%), among others.

Exports receipts in November remained positive, expanding by 1.6%, although slower than the 6.6% (revised) growth recorded in October.

Net Foreign Assets (NFA) of monetary authorities posted a 1.4% y-o-y increase in December, a turnaround from the negative 0.3% registered in the preceding month. The increase in NFA reflects higher dollar receipts from Filipino overseas workers and BPO employees.

We think that money supply will continue its decelerating pace in the coming months. Nonetheless, we believe that the MB will likely increase policy rates in Q1 in view of the large jump in headline inflation in January, which BSP-DOF may have underestimated.

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



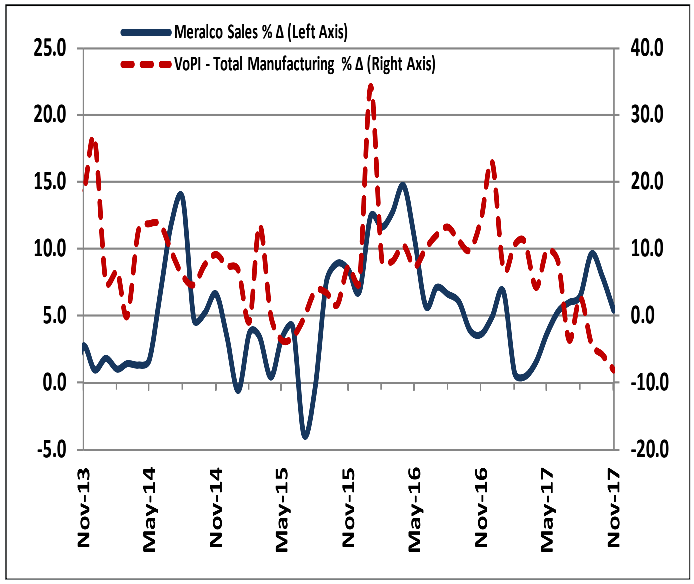
Source of Basic Data: Philippine Statistics Authority (PSA)

Manufacturing Remains Weak in November

The country's manufacturing output (measured by Volume of Production Index or VoPI) further slipped by 8.1% in November (preliminary) from a revised 5.8% drop in the previous month. This represented the 4th decline in 2017.

Huge declines recorded in six out of 21 segments (i.e., Chemical Products (-63%), Tobacco Products (-48%), Textiles (-34%), Footwear and Wearing Apparel (-24%), among others, contributed to the shortfall, which outpaced the gains registered in the other sectors. Nonetheless, the strong gains recorded in H1 brought YTD growth to 2.1%.

Figure 5 - VoPI and Meralco Sales Growth Rate



Source of Basic Data: Philippine Statistics Authority (PSA)

Exports Still Slightly Positive in November

Exports receipts in November remained positive, expanding by 1.6%, although slower than the 6.6% (revised) growth recorded in October. Double-digit growth in six out of 10 top commodities sustained the expansion. Triple-digit gains in Cathodes and Section of Cathodes and of Refined Copper (+418.6%), and Gold (+136.7%) provided the impetus. YTD, exports reached $58.1 B, higher by 10.8% from the same period in 2016. This contrasts with the negative 4.9% recorded YTD a year ago.

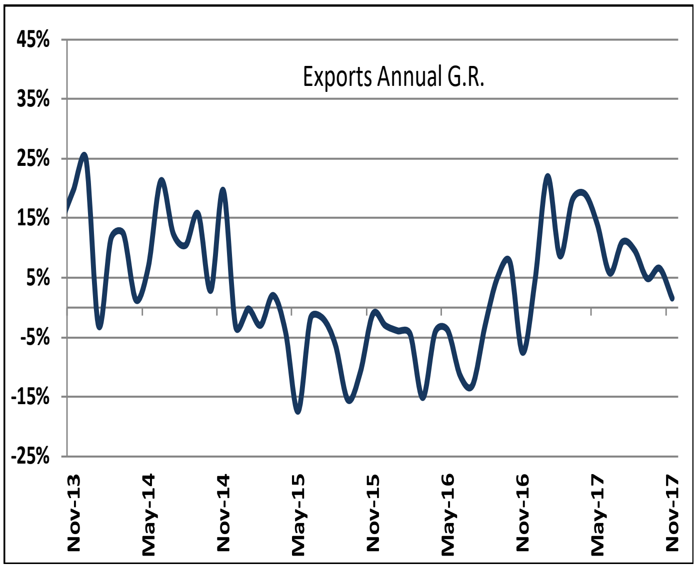
Electronic Products started off the list as the top product with total earnings of $2.9 B, accounting for 58.1% of the total export revenue in the month of November. It continued to expand by 12.7% y-o-y from its previous value of $2.6 B. Semiconductors, which hold the largest share among electronic products at 42.9%, also rose by 17.8% to $2.1 B. Electronic equipment and parts also strong uptick of +47.5%. Other Manufactured Goods followed in second, with shipment revenues of $269.8 M. Sales for this commodity still fell by 26.8%.

Meanwhile, Cathodes and Section of Cathodes and of Refined Copper in third place, surged by 418.6% to $174 M (or a share of 3.5%). Machinery and Transport Equipment took the fourth spot, with $158.4 M or a share of 3.2% of

Filipino overseas workers (OFW) expectedly sent more money to their families for the Christmas holidays, resulting in a 3.2% expansion in the personal remittances to reach $2.5 B in November

the total export receipts. This export good, however, fell by a sizeable 33.7%. Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships landed in fifth place with receipts valued at $152.5 M, and a 3.1% share. It, likewise, registered a slight drop of 0.1%

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Hong Kong outranked Japan as the top export destination in November, accounting for 15.4% of the total shipments (equivalent to $766 M) with gains climbing by 24%. Japan came in second place after it fell by 17.5% to $751.3 M (accounting for 15.1% share of total exports sales). The US, now in third place, also registered positive gains, albeit minimal at 0.9% to $690.5 M (or a share of 13.9%). Fourth was China which dropped by 3.8%, representing 11% of total exports valued at $570M. Rounding up the top five was Singapore which grew by 4.5% with outbound sales valued at $327.2 M.

Almost half of the total exports in November headed towards East Asian (EA) nations, valued at $2.4 B, which represented a 4.5% decline y-o-y. Meanwhile, shipments to the ASEAN countries (comprising 18.1%), soared by 17.9%. ASEAN+East Asia ex-Japan accounted for 57.3% of total exports. Trade exports to the EU, likewise, increased by 12%, tracking improvements in its economy.

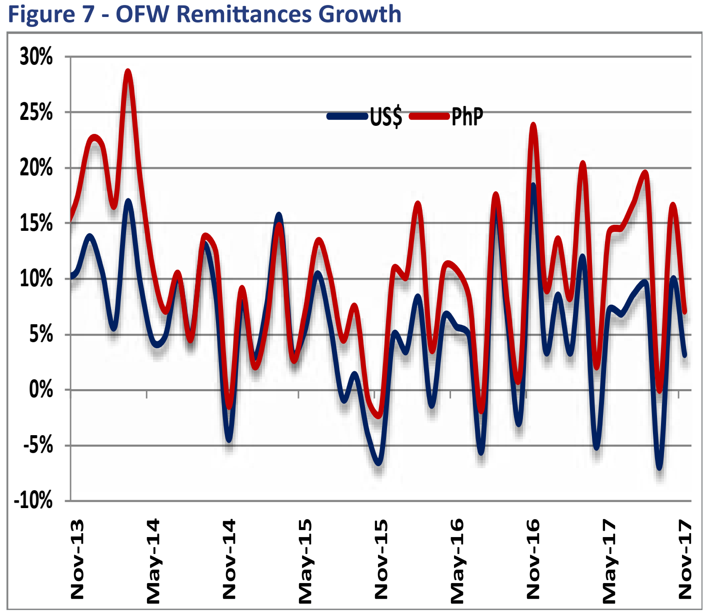
We believe that global recovery in some markets (US, EU, China, and Japan) will continue to prop up export demand from PH and will bring 2018 exports to a faster growth pace.

OFW $ Remittances Continues to Expand in November

Filipino overseas workers (OFW) expectedly sent more money to their families for the Christmas holidays, resulting in a 3.2% expansion in the personal remittances to reach $2.5 B in November, albeit slower than the 9.7% growth recorded in the previous month. The positive performance in nine out of 11 months brought the YTD level at $28.2 B (up by 5.1%) supported by the increase in both remittances from among workers with contracts more than a year (+3.7%) and among those with less than a year contracts (+5.1%).

Similarly, cash remittances (i.e., coursed through banks), grew by 2% to $2.3 B mostly coming from the US, United Arab Emirates (UAE), and Germany. YTD to October, total cash inflows amounted to $25.3 B (+4% higher) boosted by both land and sea-based workers.

Figure 7 - OFW Remittances Growth



Source of Basic Data: Philippine Statistics Authority (PSA)

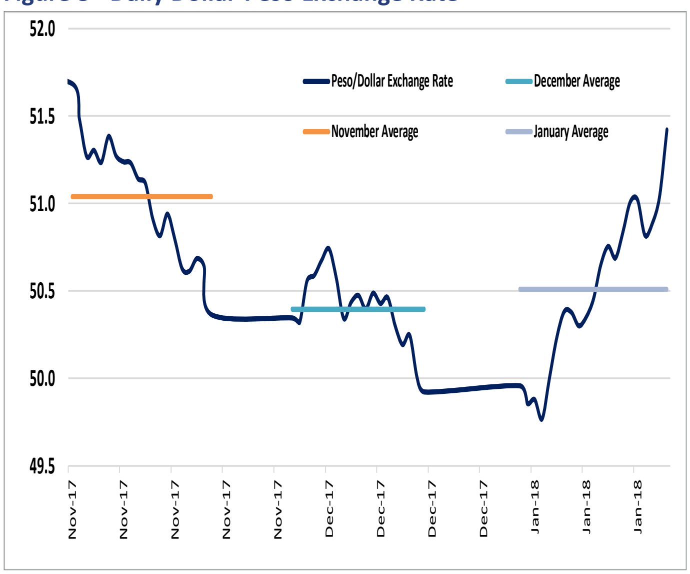
The peso equivalent of these inflows also registered a 7.1%, sustained by the 3.8% y-o-y peso depreciation. We believe that personal remittances will continue to increase in December as the Christmas holidays hit its peak.

The actual USD/PHP rate in January breached both the 30-day and the 200-day moving averages (MAs), suggesting a weak peso in the near and long term.

Peso Starts 2018 in the Red

The peso started the year weak, putting a halt to the past two consecutive months of strength due to higher demand for dollar arising from strong investment spending, and record trade deficit in November (reported in January). Besides, the dollar inflows from OFWs normalized after the holidays . The peso averaged at P50.51/$ in January, representing a 0.2% depreciation from the previous month. The pair reached a high of P51.42 but showed strength at the start of the month at P49.77, increasing the volatility measure to 0.46 from 0.21 in December.

Figure 8 - Daily Dollar-Peso Exchange Rate



Source of Basic Data: Philippine Statistics Authority (PSA)

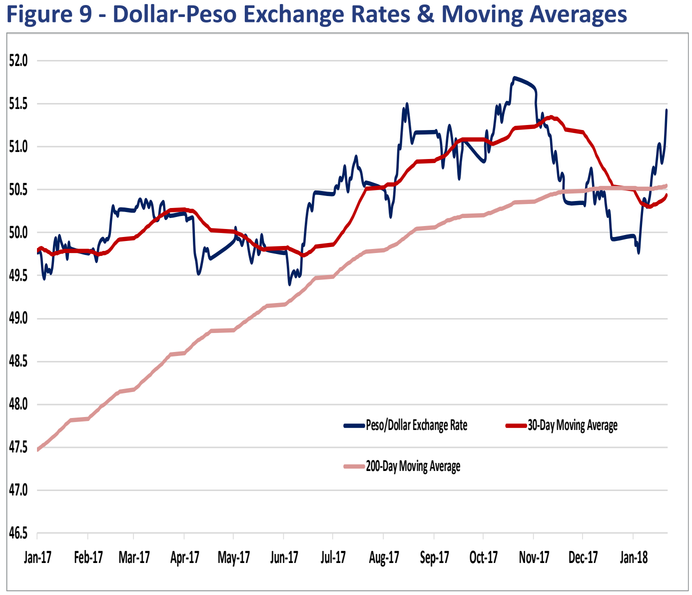
Meanwhile, despite mostly positive economic fundamentals in the US, the dollar still succumbed to losses especially with investors showing renewed interest in other markets (e.g., EU, Japan, and China, among others). Tracking the weakness in USD, most emerging currencies edged higher, led by the Australian dollar (AUD) and Malaysian ringgit (MYR). Strong exports receipts in Malaysia, as well as the rising oil prices, strengthened its currency. Thailand's high current account surplus and large capital inflows also supported gains of Thai baht (THB). Indian rupee also advanced to its two-year high amidst strong fund flows and good economic fundamentals. The Korean won, likewise, climbed lifted by the improvement in the EU market.

Exchange Rates vs US $ for Selected Asian Countries

	January 2018
AUD	-4.0%
CNY	-2.5%
HKD	-1.0%
IDR	-1.3%
KRW	-1.8%
MYR	-3.0%
PHP	0.2%
SGD	-1.8%
THB	-2.2%

The actual USD/PHP rate in January breached both the 30-day and the 200-day moving averages (MAs), suggesting a weak peso in the near and long term. We think that the improvement in the US economy and its financial markets will bring back pressure on the peso. We project the peso to slide to P52.50 by year end.

Figure 9 - Dollar-Peso Exchange Rates & Moving Averages



Source of Basic Data: Philippine Statistics Authority (PSA)

While headline inflation has reached 4% in January, there is little chance it will deviate much from that benchmark in H1, and will likely decelerate in H2, as the initial effects of TRAIN and higher crude oil prices dissipate.

Outlook

Despite a minimal easing of GDP growth in Q4-2017, we remain optimistic about achieving faster expansion in 2018 and beyond.

- We remain confident that capital goods spending (i.e., investments) shall carry on expanding at a double-digit pace through 2018, as the government's Build, Build, Build program goes full-speed ahead, and the private sector expands manufacturing and mining capacities.

- While headline inflation has reached 4% in January, there is little chance it will deviate much from that benchmark in H1, and will likely decelerate in H2, as the initial effects of TRAIN and higher crude oil prices dissipate.

- With breaching of the upper limit of the BSP's inflation target and consistent with its desire to avoid overheating (esp. manifested in asset prices), we think BSP will raise its policy rate by 25 bps to 3.25% in Q1. Thus, we should see money growth (M2 & M3) to hover more closely around 10% or lower starting February.

- With copper and nickel prices trending upward since Q2-2017 and stronger consumer electronic products demand in China and advanced economies, we renew our call of double-digit growth in exports in 2018.

- Despite the weakness of the US dollar, its economic strength and country's bulging trade deficits, the depreciation pressure on the peso should linger for most of 2018.

Forecasts			
Rates	**February**	**March**	**April**
Inflation (y-o-y %)	4	4.5	4.5
91-day T-Bill (%)	2.61	2.67	2.71
Peso-Dollar (P/$)	51.26	51.14	51.32
10-year T-Bond (%)	6.22	6.38	6.51

Source: Authors' Estimates

STRONG US JOB NUMBERS FUEL LARGE JUMP IN BOND YIELDS

The surge in US Treasury bond yields dictated the tempo in the local bond market. The benchmark 10-year US Treasury bonds added 30 bps in January 2018 to end at 2.705%. With strong job and wage numbers for January and the Fed remaining steadfast in its plans to hike policy rates 2 to 3 times in 2018, the debt paper added 15 bps to reach 2.851% by February 9, 2018. While bond investors showed greater risk appetite at the start of 2018, this thinned out towards the end of January and unto early February, with longer-dated bond yields sharply rising especially in February.

Outlook: The steep climb in US 10-year bond yields may be overdone if much of the expected positive effects of the Trump tax cuts and infrastructure/defense spending hikes do not play out. Local long-term bond yields may find a ceiling at 6.5% given high real yields. Inflation will likely slowdown in H2 and together with domestic savings should shore up resistance at that level.

x

Primary Market: Yields Move Up on Weak Investor Demand

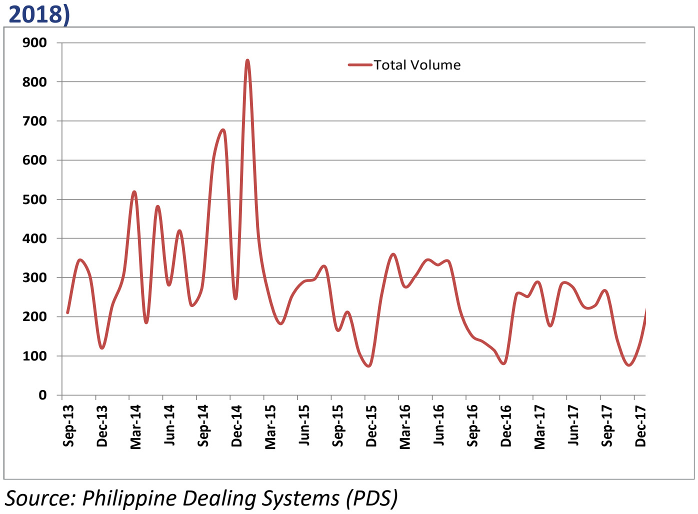
Average yields in January auctions among treasury bills moved generally higher from the November 2017 (since BTr rejected all bids in December), and for 3-year Treasury Bond (T-bond) as well. The 10-year Treasury bond remained unrewarded, reflecting investor aversion towards long-dated debt papers as bond yields continued to rise, especially in the US.

Yields in 91-day T-bill cumulatively rose by 17.3 bps to 2.321% from 2.148% in November. On the other hand, the 182-day T-bill yield also increased by only 1.4 bps to 2.577% from 2.563% in November, while the 364-day T-bill yield fell by 2.7 bps to 2.925% from 2.952% in the same period. The tender-offer ratio (TOR) for the 91-day T-bill reached 2.3x, up from 1.6x in November whereas the TOR for the 182-day T-bill was at 1.7x, slightly down from 1.8x. Meanwhile, the TOR of the 364-day T-bill soared to 1.92x from 1.0x in November providing the impetus for the slippage in yields.

The 3-year T-bond had a yield of 4.256%, up from 4.027% nine months ago, reflecting investors' anxiety over rising yields, with a TOR of 1.9x from 1.2x in the previously accepted offering. The 10-year T-bond meanwhile remained unrewarded as investors shied away from the issue reflected in its TOR of 0.9x down from 1.6x in November. In addition, the TOR, on the other hand, for all the auctions of January moved up to 1.6x from 1.5x in the two months ago further stronger investor demand for short-dated papers.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Average Yield	Change bps
15-Jan	91-day	9.00	22.835	9.000	2.537	2.233	8.50
	182-day	6.00	13.930	6.000	2.322	2.519	-4.40
	364-day	5.00	13.350	5.000	2.670	2.849	-10.30
29-Jan	91-day	9.00	18.720	9.000	2.080	2.321	8.80
	182-day	6.00	6.965	4.615	1.161	2.577	5.80
	364-day	5.00	5.853	2.853	1.171	2.925	7.60
Subtotal		40.00	81.65	36.47	2.041		
09-Jan	10-year	20.00	18.676	-	0.934	-	-491.50
23-Jan	3-year	20.00	39.107	14.891	1.955	4.256	22.90
Subtotal		40.00	57.783	14.891	1.445		
All Auctions		80.00	139.44	51.36	1.64		

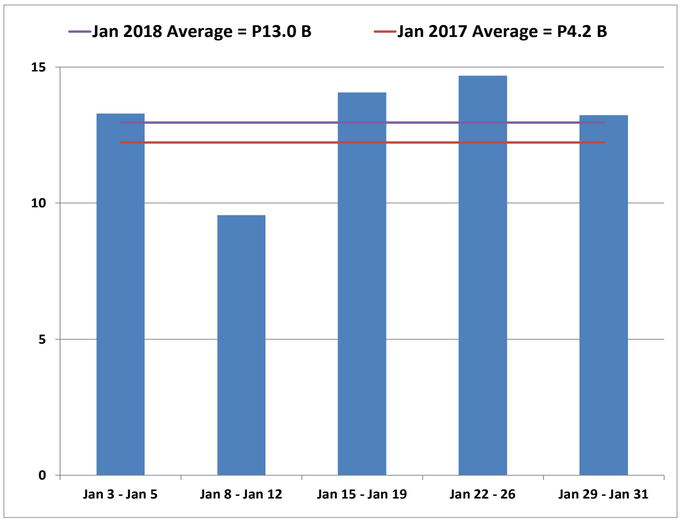
Figure 10 - Monthly Trading Volume Trend (Nov 2013 - Jan 2018)



Source: Philippine Dealing Systems (PDS)

Total trading volume for January increased by 106.0% (m-o-m) to P272.2 B from P132.1 B in the previous month.

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

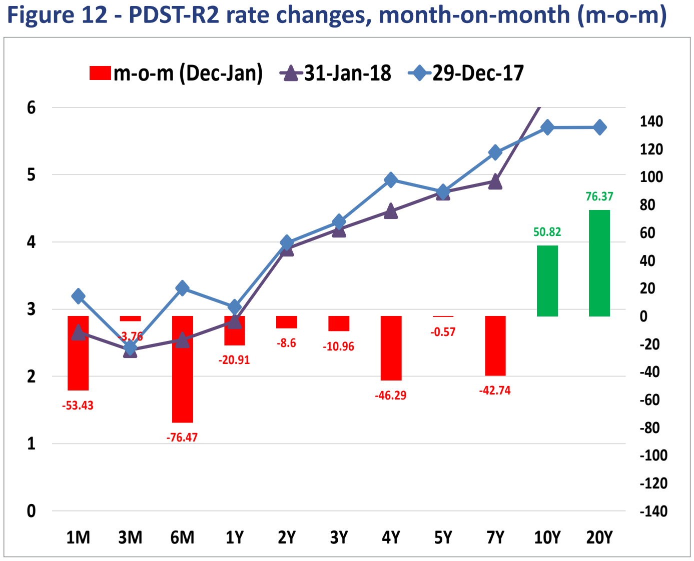


Source: Philippine Dealing Systems (PDS)

Secondary Market: Trading Rebounds for the month of January

The year started with increased investor appetite. Total trading volume for January increased by 106% month-on-month (m-o-m) to P272.2 B from P132.1 B in the previous month. This also represents a 6% gain (y-o-y) from P256.8 B recorded last January 2017. With possible 2017 losses

Figure 12 - PDST-R2 rate changes, month-on-month (m-o-m)



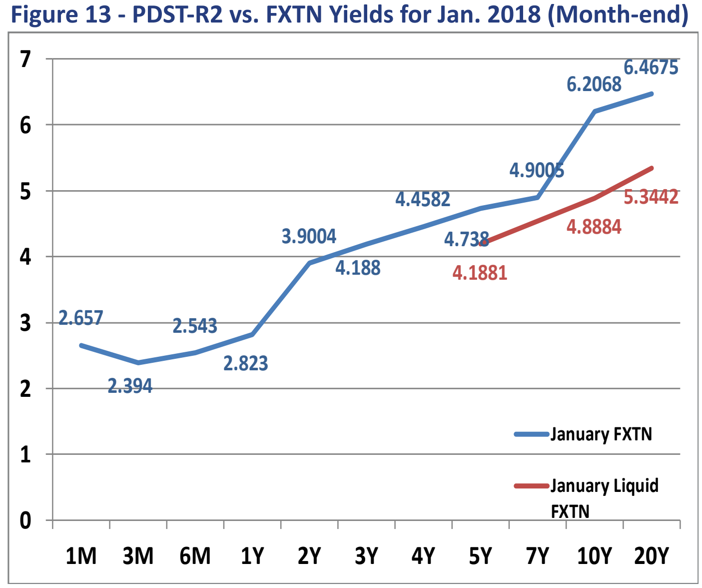
Source: Philippine Dealing Systems (PDS)

already reflected in the investors' books by yearend, they began the year with an optimistic note in the face of a possible US government shutdown due to lingering disagreements over the budget.

Yields generally moved downward in January from the shortest to 7-year tenors. The 10-year and 20-year T-bond yields, however, surged by 50-76 bps.

Based on PDST-R2 benchmark yields, the 1-month and 6-month bonds fell by 53.4 bps and 76.5 bps, respectively. On the other hand, the 10-year and 20-year T-bond yields surged by 50.8 bps and 76.4 bps, respectively. Thus, the PDST-R2 yield curve steepened as 10-year to 2-year spread, thus, shot up from 187 bps to 231 bps, a spread change of 44 bps (See ASEAN +1 table below). The steeper yield curve reflects the sharp rise in long-dated T-bond yields.

Figure 13 - PDST-R2 vs. FXTN Yields for Jan. 2018 (Month-end)



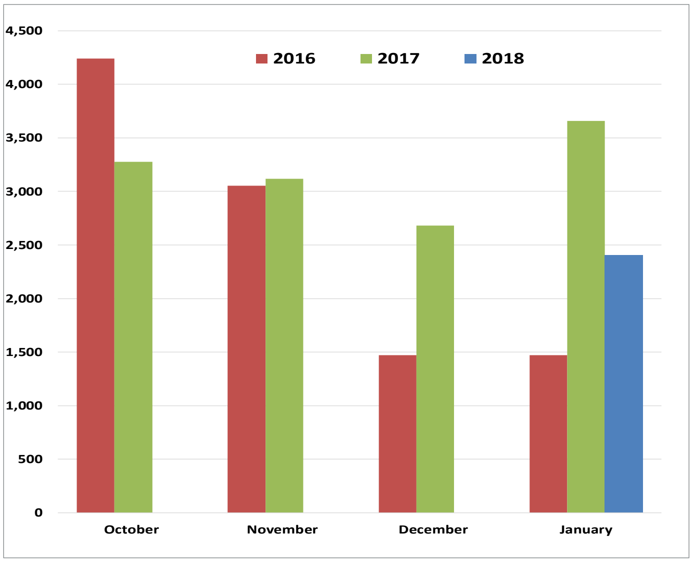
Source: Philippine Dealing Systems (PDS)

The reliability of PDST-R2 benchmarks remained in question, as liquid FXTN tenors continued to post significantly lower yields than FXTN tenors under PDST-R2. The variation in the 10-year tenor rose to 131.8 bps from 89.3 bps a month ago. The difference in in the 20-year space widened from 89 bps to 131 bps (see table 13).

Overall secondary trading of corporate bonds for January 2018 reached P2.41 B, a decrease of 10.2% m-o-m from P2.68 B the previous month.

Tenor	Dec 31 2017	Jan 31, 2018
10-yr PDST-R2	5.6986	6.2068
10-yr (F10-60)	4.8053	4.8884
Difference	0.8933	1.3184
20-yr PDST-R2	5.7035	6.4675
20-yr (F20-17)	5.2766	5.3442
Difference	0.4269	1.1233

Figure 14 - Secondary Market Trading Volume, October 2016 – January 2017, October 2017 – January 2018



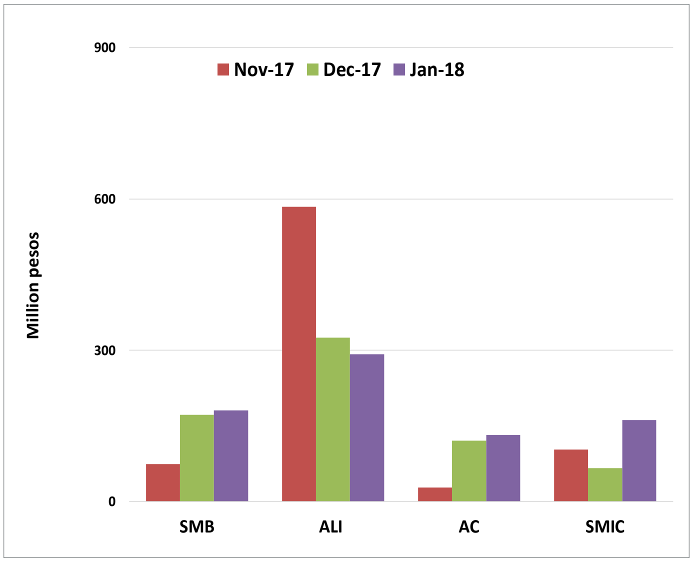
Source: Philippine Dealing Systems (PDS)

Corporate Bonds: Trading Further Weakens Despite the Improvement in GS Volumes

Overall secondary trading of corporate bonds for January 2018 reached P2.4 B, a decrease of 10.2% m-o-m from P2.7 B the previous month. Besides, this represented a decline of 34.2% y-o-y from P3.7 B in January last year.

Bond trading volume of four leading corporate issues – San Miguel Brewery (SMB), Ayala Land, Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC) – saw mostly positive movement as trading activity improved for three out of the four leading corporations.

Figure 15 - Corporate Bond Market Trading Volume, November 2017 – January 2018



Source: Philippine Dealing Systems (PDS)

ALI once again placed first, trading P292.5 M, down by 10.1% m-o-m. SMB and SMIC came in second and third, as the former traded P180.7 M as it improved by 4.8% m-o-m, while the latter traded P161.7 M, a huge 143.8%j ump m-o-m, respectively. Of the top 4, AC brought up the rear, at P132.3 M, up by 9.7%.

Corporate Issuances & Disclosures

2018 started with relative more active primary corporate bond market.

• SM Prime Holdings, Inc. plans to issue fixed rate bonds amounting to P15 B with an oversubscription option of up to P5 B with maturities of 5 years and 7 years. The said bonds are part of the company's proposed 3-year Debt Securities Program of up to P60 B. The issue obtained a rating of PRS Aaa from Philratings.

• The Board of Directors of East West Banking Corporation (EW) approved the plan to issue up to P15 B pesos of Long Term Negotiable Certificates of Time Deposits (LTNCDs). EW plans to use the proceeds to diversify the company's funding sources as part of its overall liability management.

Philippine dollar-denominated bond (ROPs) yields edged higher for all the three liquid tenors, taking the cue from the rise in US Treasury bond yields.

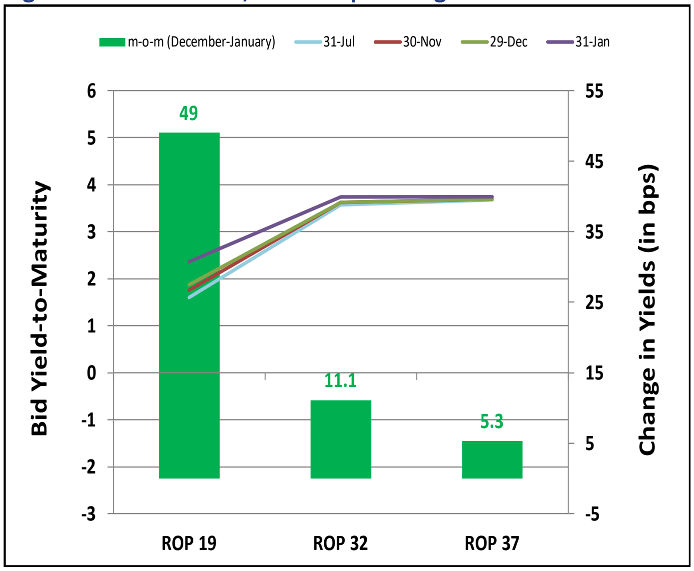
- Last January 30, 2018, San Miguel Corporation (SMC) filed a registration statement together with an offer supplement for the issuance of P20 B peso-denominated fixed rate bonds with an oversubscription option of up to P10 B, to be issued out of the firm's P60 B shelf registration. The bond issuance also received a rating of PRS Aaa from Philratings.

ROPs: Yields Rise Across the Curve

Philippine dollar-denominated bond (ROPs) yields edged higher for all the three liquid tenors, taking the cue from the rise in US Treasury bond yields. ROP-19, with 1 year to maturity, went up by 49 bps from 1.867% to 2.357%. The large jump in ROP-19 yields responded to expected Fed policy rate hikes and the high coupon rates attached to the issue. ROP-32, with 14 years remaining to maturity, moved higher by 11.1 bps from 3.623% to 3.734%. ROP-37, 19 years from maturity, slightly rose by 5.3 bps from 3.685% to 3.738%.

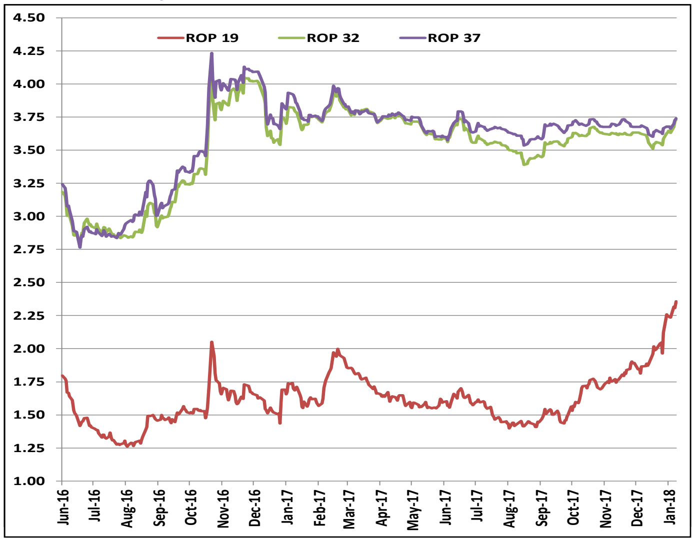
In contrast, US Treasury bonds of similar tenors show that the 1-year paper's yield went up by 14 bps to 1.9%, and the 15-year bond also rose by 29 bps to 2.8%. The 20-year T-bond also rose by 25 bps to 2.8%. As the increase in US Treasuries yields in these two tenors exceeded those of equivalent ROPs, the spread between ROP-32 and 15-year US T-bond yields tightened to 95.9 bps from 113.3 bps in

Figure 16 - ROPs Yield, m-o-m bps changes



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Figure 17 - ROPs Avg Monthly Yields for Selected Tenors, June 2016 – January 2018



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

December. Similarly, the difference between ROP-37 and the 20-year US T-bond yields dropped to 91 bps from 111 bps a month ago.

ASEAN + 1 Market: Strong Economic Outlook for Q1-2018 Growth for the US and EMs

US: US economy added 200,000 in January while the unemployment rate remained at the 17-year low of 4.1%. Shaking the nervous bond markets, however, wages climbed by 0.3%, the biggest jump since the end of the Great Recession. Meanwhile, the US consumer confidence index further improved to 125.4 in January from 122.1 in December. Analysts attributed the climb to improved expectations of solid economic growth for 2018 and higher take-home pay with the massive Trump tax cuts. On the other hand, US economic growth unexpectedly slowed in the fourth quarter of 2017, expanding by a 2.6 % annual rate from 3.2 % in the third quarter, as a surge in imports offset the robust consumer spending's jump of 3.8%. This turned out to be the fastest rate in three years. Consumer and investment are expected to power GDP growth much above 3% in Q1-2018.

In Janet Yellen's final meeting as Fed chair, the Fed's Federal Open Market Committee (FOMC) decided last January 31 against increasing its policy rate but indicated it expects inflation pressures to heat up as the year moves

U.S. economic growth unexpectedly slowed in the fourth quarter of 2017, expanding by a 2.6 % annual rate from 3.2 % in the third quarter, as a surge in imports offset the robust consumer spending's jump of 3.8%.

on. The FOMC said current conditions indicate that the overnight funds rate should remain anchored at 1.25% to 1.5%. Monetary officials however, project inflation on a 12-month basis to move up this year and to stabilize around the Committee's 2% objective over the medium term. Given the current market conditions, traders expect two to three rate hikes for 2018. 10-year to 2-year spread slightly fell by 2 bps from 58 bps to 56 bps.

PRC: China's producer-price gains eased to their slowest pace since November 2016 last December, as it rise by 4.9 % in December while consumer price growth remained largely stable at 1.8 % in the same period, taking pressure off the People's Bank of China to restrain inflation even as it raises market borrowing costs to curb debt growth.

Meanwhile, the country's manufacturing sector expanded at a slower pace in January, as the purchasing managers' index was at 51.3 for the month, from 51.6 in December. Economists project that China would garner 6.5 % growth for this year, amid strong external demand. On the other hand, the People's Bank of China, boosted its injections via open-market operations as a means to counter seasonal tightening of liquidity, amounting to a net 270 B yuan ($42 B) last January 16, the most the bank has pumped in the last two months. Analysts expect that China's money market rates would grind higher and a bear market in bonds will worsen before it gets better. Liquidity will likely tighten further in 2018 given the recent deleveraging and risk control efforts. Thus, 10-year to 2-year spread rose by 23 bps from 26 bps to 49 bps.

Indonesia: Indonesia's annual inflation rate in January is expected to ease from December, wherein it rose by 3.61 %, due to lower transport and energy costs and food prices remaining under control. The Indonesian economy is expected to maintain a positive outlook this year, despite rising oil prices, on the back of a domestic recovery and changing monetary policies by the world's major economies. Meanwhile, the government plans to issue its 17th economic policy package related to exports and imports to reduce time for visa processes. On the other hand, Bank Indonesia (BI) recorded foreign capital inflows of some$3.5 B between January 1 and January 26, a 170 % increase from the same period last year. The said inflow should help improve the country's resilience against external risks. As expected, BI kept it policy rate unchanged last January 18, but reiterated plans to change reserve requirements rules by July to give banks more liquidity and encourage investments. BI kept the 7-day reverse repurchase rate at 4.25 % for a fourth straight month. Moreover, it recognized limited room for lowering interest rates due to the US Fed's plan to increase its benchmark rate, and the need to keep inflation in check. 10-year to 2-year spread inched lower by 1 bp from 85 bps to 84 bps.

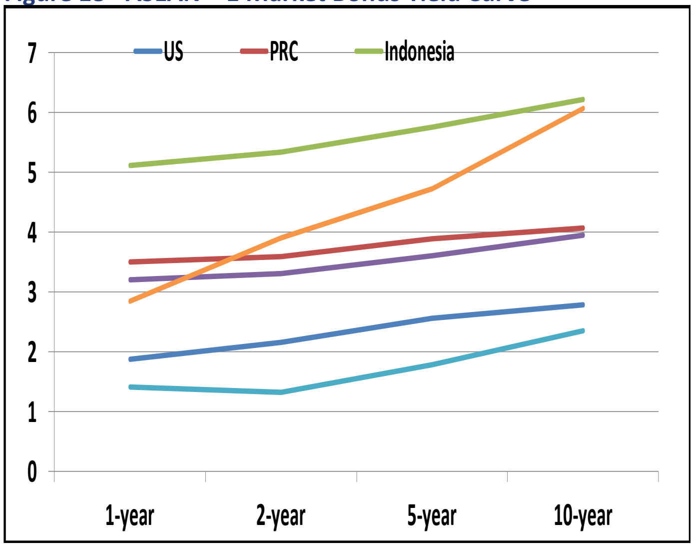
Malaysia: The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index (PMI) rose to 50.5 in January 2018 from 49.9 in December, with a marginal improvement in operating outlook for the country's manufacturing sector. Meanwhile, the ringgit continued its stronger momentum as the currency stood at 3.901 per USD, up 3% in January. Bank Negara Malaysia (BNM), Malaysia's central bank, raised its policy rate for the first time since 2014, increasing the overnight policy rate to 3.25 % from 3%. Economists don't see a need for it to tighten again this year. The government is forecasting growth of as much as 5.5 % this year, buoyed by a global trade recovery and rising domestic spending. Inflation pressures are also building because of rising fuel and food costs. Analysts, however, expect that Malaysian ringgit-denominated bonds will remain supported in the near term on increased foreign demand. 10-year to 2-year spread fell by 16 bps from 80 bps to 64 bps.

Thailand: Thailand's annual exports rose for a 10th straight month in December, increasing by 8.6 % from a year earlier. Imports in the same period rose by 16.6 per cent from a year earlier, resulting in a trade deficit of $280 M, the first deficit since July 2017. Meanwhile, Thai banks forecast at least 4% growth for the country in 2018 on improving exports, domestic investment, and tourism.

On the other hand, foreign holdings of Thai bonds hit a record high of 902 B baht ($28.1 B), which pushed up the baht to 32.04 baht per US dollar, a 3-1/2 year high. The baht has appreciated 1.6 % against the U.S. dollar so far this year and has been Asia's best performing currency, after rising 9 % in 2017. 10-year to 2-year spread moved higher by 11 bps from 90 bps to 101 bps.

Inflation in PH will likely remain above 4% in H1 but may taper off the H2 as the initial effects dissipate.

Figure 18 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Outlook

• The steady, steep climb of 10-year US T-bond yields from the beginning of the year unto February 9 looks overdone but may be rational if the Trump tax cuts and spending in infrastructure and defense do push budget deficits significantly upward. Thus, a close monitoring and careful assessment of developments in the US economy is called for in the coming months.

• Inflation in PH will likely remain above 4% in H1 but may taper off the H2 as the initial effects dissipate. At 2% real yields, nominal 10-year bond yields need not exceed 6.5%. Domestic savings will also contribute to keep it close to or below that level.

• We do expect a rush for bond issues in H1 up to early Q3, as firms will try to lock on lower interest rates than towards the end of the year.

• ROPs will continue to perform slightly better than US Treasuries given that these have high coupons attached to then.
than towards the end of the year.

• ROPs will continue to perform slightly better than US Treasuries given that these have high coupons attached to them.

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-Oct-17	30-Nov-17			
US	2.161	2.790	2.10	0.69	58.00	56.00	-2.00	1.25	(0.85)
PRC	3.590	4.080	1.60	2.48	26.00	49.00	23.00	4.35	2.75
Indonesia	5.338	6.223	3.80	2.42	85.00	84.00	-1.00	4.25	0.45
Malaysia	3.314	3.956	3.90	0.06	80.00	64.00	-16.00	3.25	(0.65)
Thailand	1.325	2.350	0.70	1.65	90.00	101.00	11.00	1.50	0.80
Philippines	2.852	6.075	3.20	2.88	187.00	231.00	44.00	3.00	(0.20)

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

ROBUST GDP EXPANSION OF 6.7% IN 2017 SETS STAGE FOR FASTER GROWTH IN 2018

After a roaring start by notching 6 new records to hit an all-time high of 9,058.62, PSEi closed January at 8,764.01 but continued to falter into the first days of February. Apart from apparent overvaluation, the index followed the Dow Jones Industrial Average's (DJIA) plunge after the strong December and January employment numbers and the Federal Reserve Board's (Fed) statement that it is on track for at least three rate hikes in 2018, while keeping the policy rate unchanged in its January meeting. PSEi's Overbought position may be gleaned from its elevated Price-Earnings (PE) ratio at the end of January of 23.6x (TTM).

Outlook: With DJIA sinking by 12.5% since the end of January, more investors think the rout won't end any time soon. As for the PSEi, the spread between E/P (inverse of PE) and 10-year PH T-bond yields has reached nearly (2.0%), which is way below 2 standard deviations from its 7-year average. The abrupt pause to the party suggests a deep consolidation period ahead. Investors should try to avoid being whipsawed by the latest developments.

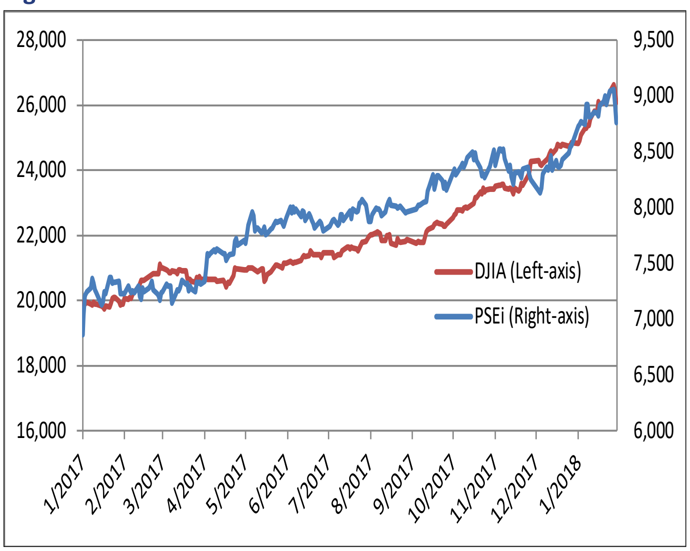
Global Equities Markets Performances

Region	Country	Index	Growth Rate January 2018 (m-o-m)
Americas	US	DJIA	3.8%
Europe	Germany	DAX	-1.6%
	London	FTSE 101	-2.2%
East Asia	Hong Kong	HSI	3.3%
	Shanghai	SSEC	-2.2%
	Japan	NIKKEI	3.2%
	South Korea	KOSPI	-1.9%
Asia-Pacific	Australia	S&P/ASX 200	0.9%
Southeast Asia	Indonesia	JCI	-0.9%
	Malaysia	KLSE	-1.7%
	Thailand	SET	-1.4%
	Philippines	PSEi	-1.3%
	Singapore	STRAITS	1.8%

Sources: Bloomberg & Yahoo Finance

Strong global economic growth enabled most equities markets to kick off 2018 with a flying start, with Hong Kong HSI's amazing 9.9% surge in January which led Asian counters. PSEi performed moderately compared to other regional players with a 2.4% climb. This, however, masks PSEi six new record-highs during the month, including the all-time high of 9,058.62 on January 29. This tracked US's Dow Jones Industrial Average's (DJIA) run of five records with the peak of 26,616.71 achieved on January 26.

Figure 19 - PSEi and DJIA



Source: Bloomberg

Thereafter, a reversal followed into the first days of February, erasing all the 2018 gains, and igniting a global sell-off including PSEi. In ASEAN, Thailand's SET and Malaysia's KLSE set the pace, rising by 4.2% and 4.0%, respectively. Save for HK, DJIA outperformed East Asia and ASEAN, with share prices moving up by 5.8%.

The correlation of PSEi and DIJA remained high at +0.7, albeit slightly lower than +0.8 last December. Optimism pervaded the US stock market as large corporations (e.g., Apple, Amazon, Chrysler, etc.) announced huge invest-

The local equities market fulfilled bullish market expectations, gaining a 2.4% increase (+205.6 points) in January.

ment plans in the US, and bonuses to employees as a result of the massive corporate income tax cut (from 35% to 21%). Positive economic indicators further boosted confidence, as weekly jobless claims fell to its lowest levels in 40 years. While the still Yellen-led Fed maintained policy rates, it hinted at possible increases in inflation and being on track for future rate hikes. On the other hand, PSEi strengthened with investor confidence further boosted by the stimulus aspect of the recently enacted tax reform law (TRAIN-1) and the filing of TRAIN-2 which promises to gradually lower corporate tax rates to 25% as reduced fiscal incentives take effect.

Monthly Sectoral Performance				
	29-Dec-17		31-Jan-18	
Sector	Index	% Change	Index	% Change
PSEi	8,558.42	3.7%	8,764.01	2.4%
Financial	2,230.17	6.2%	2,223.98	-0.3%
Industrial	11,231.30	4.6%	11,790.56	5.0%
Holdings	8,616.51	2.6%	8,957.81	4.0%
Property	3,978.19	2.9%	3,939.56	-1.0%
Services	1,619.84	0.6%	1,710.73	5.6%
Mining and Oil	11,502.58	-0.4%	11,937.95	3.8%

The local equities market fulfilled bullish market expectations, gaining a 2.4% increase (+205.6 points) in January. The board posted largely positive results. On the green, Services posted the largest gain of 5.6%, an improvement from having a lackluster performance last December at 0.6%. Trailing closely behind, the Industrial and the Holdings sectors, jumped by 5% and 4%, respectively. Mining and Oil sector moderately rose by 3.8%. On the other hand, the Financial and Property sectors suffered slight setbacks of 0.3% and 1% respectively.

Company	Symbol	12/29/17 Close	01/30/18 Close	% Change
Metrobank	MBT	101.40	99.50	-1.9%
Banco de Oro	BDO	164.00	153.00	-6.7%
Bank of the Philippine Islands	BPI	108.10	119.20	10.3%
Security Bank Corporation	SECB	251.40	246.0	-2.1%

Source of Basic Data: PSE Quotation Reports

The Financial sector declined by 0.3% during the month, compared to the sector's outsized growth of 6.2% in December. BDO Unibank, Inc. (BDO), down 6.7%, declined the most amidst reports of fraud incidents, with complaints of clients regarding unauthorized transactions. BDO's stock price continued to dip as the bank pledged to intensify investigations.

Metropolitan Bank & Trust Co. (MBT) ended the month flat. The bank has earlier announced a possible P60 B stock rights offering to raise fresh capital for its growing loan portfolio. This move has placed pressure on MBT's stock prices given market anticipation that the bank's return on equity might be diluted temporarily due to the additional shares.

Meanwhile, Security Bank Corporation (SECB) joined the trend of other banking stocks, slowing down by 2.1% this month.

Following a different route, Bank of the Philippine Islands (BPI) gained 10.3% in January after similarly announcing a stock rights offering of P50 B, which it intends to fund the bank's continuous growth initiatives in consumer, SME, and micro lending.

Company	Symbol	12/29/17 Close	01/30/18 Close	% Change
Meralco	MER	328.60	338.60	3.0%
Aboitiz Power	AP	41.55	41.00	-1.3%
Jollibee Foods Corporation	JFC	253.00	284.80	12.6%
First Gen Corporation	FGEN	17.00	15.98	-6.0%
Universal Robina Corporation	URC	151.00	161.30	6.8%
Petron Corporation	PCOR	9.17	9.60	4.7%

Source of Basic Data: PSE Quotation Reports

The Industrial sector gained this month, growing by 5%. Jollibee Foods Corporation (JFC) led the sector, ending the month as it soared by 12.6% as the company expressed plans to continue expanding its store network in new markets such as in Guam and the United Kingdom.

Not to be outdone, Universal Robina Corporation (URC) likewise posted a significant uptick of 6.8%, hinting renewed confidence in its consumer products despite higher excise taxes in sugar and fuel.

Jollibee Foods Corporation (JFC) led the industrial sector, ending the month as it soared by 12.6% as the company expressed plans to continue expanding its store network in new markets such as in Guam and the United Kingdom.

Petron Corporation (PCOR) also joined the gainers, with an increase of 4.7%. PCOR announced plans to issue undated unsubordinated capital securities worth $500 M, with proceeds to be used for repurchasing, refinancing and redemption of undated subordinated capital securities, repayment for indebtedness, and capital expenditures.

Meralco (MER) also took the high ground with a 3% climb this month. MER's power generation unit, Meralco PowerGen Corporation plans to put up two wind farms worth $800 M, with the combined 300 MW output of both wind farms supplied to Meralco should it materialize.

Aboitiz Power (AP) dipped by 1.3% after the company disclosed the permanent closure of its 8.8 MW biomass powerplant, incurring P3.7 B worth of losses. Despite this, the plant's closure remains negligible compared to the expected earnings of the company, given that AP aims to add 500 MW to its capacity from coal and hydropower plants.

Company	Symbol	12/29/17 Close	01/30/18 Close	% Change
Ayala Corporation	AC	1,015.00	1,050.00	3.4%
Metro Pacific Investments Corporation	MPI	6.85	6.46	-5.7%
SM Investments Corporation	SM	990.00	1025.00	3.5%
DMCI Holdings, Inc.	DMC	14.40	14.40	0.0%
Aboitiz Equity Ventures	AEV	74.00	76.80	3.8%
GT Capital Holdings, Inc.	GTCAP	1,292.00	1,345.00	4.1%
San Miguel Corporation	SMC	111.60	144.00	29.0%
Alliance Global Group, Inc.	AGI	16.00	15.34	-4.1%
LT Group Inc.	LTG	18.74	22.45	19.8%
JG Summit Holdings, Inc	JGS	72.10	76.50	6.1%

Source of Basic Data: PSE Quotation Reports

The Holdings sector rose by 4% in the month of January, with San Miguel Corporation (SMC) taking the sector's front seat, rocketing by 29%. The steep climb of SMC's shares may be attributable to recent indications that the Duterte administration would welcome its unsolicited proposals for big-ticket infrastructure projects. One of these was SMC's proposal for the new Manila International Airport project in Bulacan.

First Gen Corporation (FGEN) plunged by 6%, despite submitting an unsolicited proposal to be part of the government-led liquified natural gas (LNG) terminal project.

LT Group, Inc. (LTG) likewise spritely rallied, with a 19.8% bounce in its stock price after announcing that its real estate subsidiary, Eton Properties Philippines, Inc. would venture into the hotel business with two planned projects this year--one located at Pasay City and another in Quezon City. Eton also announced its recent partnership with Ayala Land, Inc. to develop properties in Pasig City worth P53 B. These new ventures can both boost earnings from LTG's real estate segment, considering that Eton contributes only 3.6% of LTG's net income as of September 2017.

JG Summit Holdings, Inc. (JGS) also posted significant gains at 6.1%. This growth is attributable to the company's announcement expressing interest in quadrupling its banking unit's assets by 2020.

GT Capital (GTCAP) also experienced some gains of 4.1%, after its automobile unit, Toyota Motors Philippines Corporation (TMC) announced significant increases in car sales despite earlier anxieties over TRAIN's higher excise taxes on cars, as TMC remained as the country's top seller of automobiles in 2017.

Aboitiz Equity Ventures (AEV) posted an increase of 3.8% after the announcement of the government to consider unsolicited bids for the NAIA development project, of which the AEV is part of the super consortium together with six other conglomerates.

SM Investments Corporation (SM) rallied by 3.5% after confirming talks to acquire Goldilocks Bakeshop, Inc. However, by the end of the month, SM dropped its plan to buy into Goldilocks citing changes in business environment.

Meanwhile, Ayala Corporation (AC) enjoyed gains of 3.4% after its power subsidiary AC Energy partnered with Vietnamese conglomerate BIM Group to develop 300MW of solar plant projects in Vietnam. As of September 2017, AC Energy accounted a net income of P2 B, an increase of 73% y-o-y.

The Services sector got a 5.6% boost in January, picking up pace from its 0.6% increase in the previous month

DMCI Holdings, Inc. (DMC) ended flat in January, after reports that the Department of Environment and Natural Resources had allegedly suspended operations of two of DMC's logging subsidiaries, South Davao Development Corporation (SODACO) and Sirawai Plywood & Lumber Corporation (SPLC).

On the other hand, Alliance Global Group, Inc. (AGI) suffered setbacks as it decreased by 4.1%. AGI did not share the same performance as with other conglomerates which formed part of the super consortium seeking to develop the Ninoy Aquino International Airport.

Metro Pacific Investments Corporation (MPI) slumped by 5.7%, despite announcing its company ramping up capital expenditures with possible acquisition of 2 logistics companies and a potential venture deal for a Malaysian tollway project.

Company	Symbol	12/29/17 Close	01/30/18 Close	% Change
Ayala Land, Inc.	ALI	44.60	44.25	-0.8%
SM Prime Holdings, Inc.	SMPH	37.50	36.90	-1.6%
Robinsons Land Corporation	RLC	21.30	20.90	-1.9%
Megaworld Corporation	MEG	5.16	4.95	-4.1%

Source of Basic Data: PSE Quotation Reports

The Property sector tapered its gains in the previous month, by shedding 1% of value in January. Ayala Land, Inc. (ALI) ended up in the red, as it slipped by 0.8%. This occurred despite ALI recently raising stakes in two property companies, Prime Orion Philippines, Inc. (owner and operator of Tutuban Complex) and Regent Wise Investments Limited (a Malaysian property developer).

Like other property companies, SM Prime Holdings, Inc. (SMPH) also slipped by 1.6% this month, despite opening new centers in Luzon (located in Tuguegarao City, Cagayan; Pulilan, Bulacan; and Lemery, Batangas) last December.

Robinsons Land Corporation (RLC) also ended the month with a setback of 1.9% after announcing plans to raise Php 20 B via a stock rights offering at P 18.20 per share.

Megaworld Corporation (MEG) fell by 4.1%, the largest in the sector, despite continuous development of its office, retail, and residential segments.

Company	Symbol	10/30/17 Close	10/30/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,480.00	1,569.00	6.0%
Globe Telecom	GLO	1,900.00	1,900.00	0.0%
International Container Terminal Services Inc.	ICT	105.5	113.5	7.6%
Puregold Price Club Inc.	PCGMF	50	53.3	6.6%
Robinsons Retail Holdings, Inc.	RRHI	96.2	94.6	-1.7%

Source of Basic Data: PSE Quotation Reports

The Services sector got a 5.6% boost in January, picking up pace from its 0.6% increase in the previous month. International Container Terminal Services, Inc. (ICT) led the sector, posting 7.6% growth as the company commenced port operations at the Lae Tidal Basin in Papua New Guinea. ICT expects the investment to boost ICT's revenues from its Asian operations, currently accounting for 47% of the company's topline as of September 2017.

Puregold Price Club, Inc. (PGOLD) also recorded a significant increase of 6.6%, attributable to the supermarket chain's continued expansion in the Visayas and Mindanao areas.

Meanwhile, Philippine Long Distance Tel. Co. (TEL) registered 6% growth as the company and its mobile subsidiary, Smart Communications, announced their recent partnership with Huawei Technologies Co., Ltd. for a $28.5 M to upgrade its wireless service platforms. The capital spending will enable the company to future-proof its operations, considering the imminent entry of a possible third player in the telco industry.

On the other hand, Globe Telecom (GLO) ended relatively flat despite announcements to pour in fresh capital to remain competitive, given the potential threat of a third player in the industry. It earlier announced its partnership with Pilipinas Shell Petroleum Corporation (SHLPH) to put up cell sites in SHLPH's strategically-located retail stations, a statement done amid government's plans to implement a common tower policy, which GLO opposed.

The total turnover improved further by 21.4% in January, on top of the 34.2% expansion in December.

Meanwhile, Robinsons Retail Holdings, Inc. (RRHI) ended up in the red, declining by 1.6%, despite the announcement of the company's partnership with Globe Telecom for the acceptance of digital payments in its retail stores.

Company	Symbol	10/30/17 Close	11/29/17 Close	% Change
Semirara Mining and Power Corporation	SCC	42.50	36.00	-15.3%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil sector reversed its trend in January, rebounding by 3.8% from -0.4% the previous month. Semirara Mining Corporation (SCC) grew by 3% after studies showed that the Philippines would continue having coal as a dominant part of the country's energy mix despite higher coal taxes due to TRAIN.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	**Value**	**% Change**	**Value**	**% Change**
Financial	38,058.73	81.00%	1,812.32	63.8%
Industrial	31,110.58	-9.80%	1,481.46	-18.4%
Holdings	40,700.04	43.90%	1,938.10	30.2%
Property	31,650.34	38.70%	1,507.16	25.5%
Services	33,212.29	57.90%	1,581.54	42.9%
Mining and Oil	3,892.51	-6.50%	185.36	-15.4%
Total	**178,624.50**	34.20%	**8,505.93**	21.4%
Foreign Buying	90,259.00	36.00%	4,298.05	23.0%
Foreign Selling	88,058.10	38.00%	4,193.24	24.9%
Net Buying (Selling)	2,200.91	-14.30%	104.81	-22.5%

Source of Basic Data: PSE Quotation Reports

The total turnover improved further by 21.4% in January, on top of the 34.2% expansion in December. Foreign net buying recorded at P2.2B as the PSEi continued its ascent to the 9000-level. Financial sector turnover rallied with a significant uptick of 63.8%. Services sector followed with 42.9% increase. Holdings and Property sectors turnover remained on the green with 30.2% and 25.5% gains, respectively. On the other hand, Mining and Oil and Industrial sectors continued to plunge by 15.4% and 18.4%, respectively, despite the upward trend in commodity prices.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2016		2017		3rd Quarter 2017			4th 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	710,590	-1.3%	738,491	3.9%	164,213	-5.6%	2.5%	218,079	32.62%	3.9%
Industry Sector	2,738,320	8.0%	2,958,186	7.2%	695,200	-8.1%	7.5%	815,360	16.86%	7.2%
Service Sector	4,664,261	7.5%	4,971,610	6.7%	1,229,016	-4.9%	7.1%	1,310,106	6.55%	6.7%
Expenditure										
Household Final Consumption	5,628,318	6.9%	5,958,500	5.5%	1,404,441	-5.1%	4.5%	1,690,135	20.3%	5.5%
Government Final Consumption	850,747	8.3%	912,010	6.8%	217,820	-20.1%	8.3%	214,326	-1.6%	6.8%
Capital Formation	2,180,842	20.8%	2,479,583	8.3%	589,369	0.8%	6.6%	693,776	17.7%	8.3%
Exports	4,016,105	9.1%	4,875,652	16.1%	1,352,421	7.9%	17.2%	1,082,706	-19.9%	16.1%
Imports	4,631,536	17.5%	5,552,632	15.0%	1,451,774	5.5%	13.9%	1,356,178	-6.6%	15.0%
GDP	8,113,170	6.8%	8,668,287	6.3%	2,091,655	-6.0%	6.9%	2,343,545	12.0%	6.3%
NPI	1,622,040	5.3%	1,721,698	5.3%	416,478	-1.8%	5.7%	442,402	6.2%	5.3%
GNI	9,735,210	6.6%	10,389,984	6.1%	2,508,133	-5.4%	6.7%	2,785,946	11.1%	6.1%

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)

February 2018

CONTRIBUTORS

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

FIRST METRO INVESTMENT CORPORATION Metrobank Group

UA&P UNIVERSITY OF ASIA AND THE PACIFIC