March 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

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Executive Summary

Superb annual job growth to January 2018, record $10 B FDIs, and strong finish for infrastructure in FY 2017 all point to an acceleration in the growth path. Significant upticks in the manufacturing sector and capital goods imports in January add to our optimism of above-7% GDP growth in Q1-2018.

Macroeconomy

Huge job creation of 2.4 M (year-to-Jan 2018) and FDI reaching another record of $10 B should provide the impetus to faster GDP growth in 2018. Sustained strength in infrastructure spending and manufacturing sector will likely shore up this trajectory.

- PH added 2.4 M jobs in January 2018 from a year ago, with total employment increasing by 6.1%.
- Full-year Foreign Direct Investments in 2017 hit an all-time high of $10 B, surpassing target of $8 B.
- Capital Goods imports surged by 8.4% in December amidst broad-based gains in key products.
- Manufacturing posted a huge 21.9% uptick in January 2018, a reversal from the negative zone.
- Remittances sent by OFWs reached $3 B in December, setting a new monthly record.
- Inflation in February climbed faster to 3.9% (base year of 2012), driven by higher oil prices and price upticks in commodities affected by the TRAIN.
- Domestic liquidity expanded by 12.8%, slightly faster than the 11.9% recorded in December.
- The peso remained under pressure as investors' optimism on the US dollar gets stronger.

Outlook: The 2.4 M new jobs created over a year and the still strong spending on infrastructure should bolster domestic demand. Strong FDI gains in H2 should provide additional support. Recovery in major trading partners would, likewise, improve the external sector's performance. These, together with the other indicators, should augur well for a faster expansion in 2018.

Bonds Market

Unexpected acceleration of January inflation and wages in the US and a seemingly hawkish new Fed Chairman triggered a sharp rise in 10-year US T-bond yields to a 43-month high. Local bond yields followed suit as demand dwindled while faster domestic inflation added fuel to the fire.

- In the GS auctions, 20-year T-bond yields shot up by 137.9 bps while 91-day T-bills added 34.9 bps.
- Trading volume in the secondary market nearly halved, with the yield curve moving up as well.
- The spread between PDST-R2 benchmark yields and liquid FXTNs widened further.
- Secondary corporate bond trading followed a similar fate as GS.
- ROPs yields rose faster than equivalent US treasuries resulting in bigger spreads.

Outlook: US bond market correction in early March provided little comfort as the local bond market shifted its focus on accelerating domestic inflation. Thus, little relief is in sight until the inflation rate (with a new 2012 base, which resulted in lower headline inflation) decelerates and gets accepted by the market as genuine.

Equities Market

After reaching new highs in January, PSEi joined DJIA and other markets in a freefall in late February as Fed may have four interest rate hikes with surprise January inflation and wage rate jumps in the US. Foreigners led the sell-off in the local bourse.

- PSEi headed south as top banks planned huge SROs and Q4 earnings only in line with consensus.
- Sectoral sub-indices came out mixed, led by Mining and Oil (+2.6%), as non-constituent stocks (like PXP) outperformed.
- Holdings (-4.2%) and Property (-5.5%) shares lost the most, with MPI slumping by 12.8%.
- Surprisingly, ALI and RLC saw share prices battered by 7.1% and 7.2%, respectively.
- JFC stood out with a 4.8% gain this month after reporting a 15% y-o-y rise in earnings to P7.1 B for FY 2017.
- February ended with an eight-fold increase in net selling worth P15.3 B.

Outlook: Trading is seen to stabilize at 7,900 to 8,300 level, as no major positive drivers will likely surface until the GDP data release in the 2nd week of May (with positive job and manufacturing sector and infrastructure spending outlook expected to boost PSEi). There is a further but slight downward bias due to global and regional geopolitical tensions.

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 (February)	3.4	3.9	3.7%	1.8%	3.2%	4.3-4.5%
Government Spending (December)	10.4%	31%	16.5%	18%	16.5%	12%
Gross International Reserves ($B) (February)	81.2	80.6	80.6	80.7	81.657	80
PHP/USD rate (January)	50.51	51.79	51.12	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%	5.55-5.80%
PSEi (end-January YTD % change)	8,558.42	8,475.29	-2.8%	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

WHOPPING 2.4 M JOBS IN YEAR TO JANUARY 2018 & RECORD $10 B FDI IN 2017 TO FUEL 2018 GROWTH

The Philippines stunningly created 2.4 M jobs in one year up to January 2018 and attracted a record $10 B in foreign direct investments (FDI) in FY 2017 to gear up for faster growth in 2018. With infrastructure spending soaring by 23% in December, capital goods imports up by 8.4%, and manufacturing output surging by 21.9% both in January, the signs are all pointing to Gross Domestic Product (GDP) expansion of above-7% in Q1-2018. While inflation accelerated to 3.9% (using a 2012 base commodity basket), the full-year inflation will still likely fall within the Bangko Sentral ng Pilipinas' (BSP) 2% to 4% target.

Outlook: The January data may not even have captured the stimulus coming from the Duterte administration's income tax cut which is estimated to put more than P140 B more disposable income in the hands of consumers. To be sure, higher excise taxes on petroleum products, among others and removal of unnecessary VAT exemptions could put holes in some pockets, but overall, multiplier effects of the stimulus will likely overshadow the tax impact. With all the above cylinders firing, plus expanding exports and overseas Filipino (OFW) remittances, the full year GDP growth will also likely exceed 7%.

PH Economy Adds 2.4 M Jobs in Year to January 2018

The hottest news that has come out from the most recent economic data releases is that the economy has added 2.4 M jobs over year until January 2018 (survey month). This is a 6.1% growth in employed persons that translates to an unemployment rate of 5.3%, despite a big jump in labor participation rate to 62.2% from 60.7% a year ago.

Services remained as the main provider of new jobs with 847,000, while Agriculture sector closely at its heels as it added 842,000 to the ranks of the employed. The Industry sector came not too far behind with its additional 711,000 workers, but it gained the most with a 10.5% rise. Within the sector, the construction boom enabled the Construction industry to create 429,000 jobs, while the Manufacturing sector's revival showed up with 270,000 jobs. These were both higher than all the Services sub-sector, except for Wholesale and Retail Trade.

Although small in its absolute contribution, the Mining industry's employed ranks grew the fastest at 23.3%. The Construction industry's workers soared by 13.3% while Manufacturing employment gained 8.2% for the period.

For the Services sector, Wholesale and Retail Trade provided the most number of jobs totaling 345,000 while the Transport, Communications and Storage sector added 233,000 slots.

To be sure, underemployment rate rose to 18% from 16.3% a year ago, but in absolute terms, it accounted for less than half of the total new jobs created. Those who worked less than 40 hours a week rose by one percentage point, but that

Money Supply 2/GIR Ratio. Money Supply 2 (or simply M2) is a measure of money that includes currency in circulation and demand deposit (these two equal M1), and savings and time deposits. Obviously, this is a much bigger measure of money than M1, especially in the Philippines, where some two-thirds of M2 consists of savings and time deposits.

The M2/GIR ratio is a measure of the potential demand for foreign exchange in relation to actual foreign exchange reserves (GIR). The lower the ratio, the less prone the economy is to a BOP crisis. The reasoning here may not look straightforward. However, we can readily understand that more money in the economy would translate into more demand for foreign exchange (for capital goods, raw materials, and consumer goods imports). Thus, if M2 rises too fast, leaving GIR far behind, the ratio will rise. This can go on until it reaches a critical level or that the country keeps losing GIR to meet the additional demand, in which case the ratio also rises.

The critical value computed for M2/GIR ratio is 2.57. As may be seen in the graph, the level has never been breached in the New Millennium. As of December 2017, the ratio was at 2.50, still below the critical level, but appears to be closing in. While this looks "dangerously close", it should be noted that in June 1995 or two years before the Asian Financial Crisis in PH, the ratio was 3.34 and consistently much above 3.00 from April 1994 to March 1996. In short, the recent threshold of 2.57 may be too low to signal a crisis.

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Money Supply 2/ GIR Ratio.
Besides, the BSP can reverse the current upward trend in two ways, not mutually exclusive. One is to buy more dollars and rebuild the GIR which has been trending lower than $85.3 B in January 2013, except for July-September 2016. The other is to slow down money growth by raising interest rates. The former will have a positive effect on output and employment while the other will have a negative effect on those key macroeconomic variables.

Figure 1 - M2/GIR Ratio

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

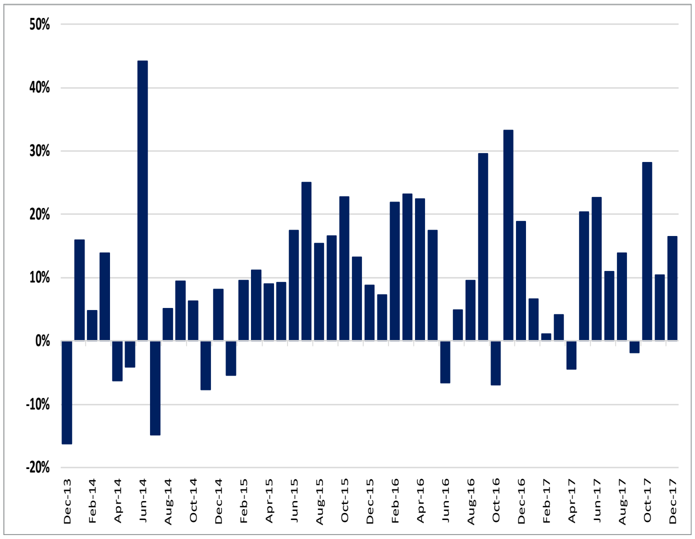
represented only some 417,000 workers, only roughly 16% of total new jobs.

The jobs data provide strong support to more elevated consumer spending. This, together with robust growth in Investment spending (i.e., in construction and capital goods) and exports should propel the economy above the 7% benchmark in Q1.

Infrastructure Spending Surges by 23% in December

Spending on Infrastructure and Capital Outlays surged by 23% in December enabling National Government (NG) disbursements to rise by 16.5%. This marked its 7th month of double-digit growth in 2017. Although smaller in size, Maintenance and Other Operating Expenditures also soared by 28%. Year-to-date (YTD), total expenditure amounted to P2.8 T higher by 10.8% from last year. With total NG revenues up by 34.9% to P223.1 B due to strong tax take by both the Bureau of Internal Revenue (BIR) and

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



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

Bureau of Customs (BoC), the December deficit eased to P107.1 B from P118.2 B in December 2016. YTD deficit reached P350.6 B, 27.3% short of the total target deficit for 2017 and only 2.2% of GDP (vs. 3% target).

The BIR raked in a total of P151.2 B, 29% higher than December last year, marking its 8th month of double-digit growth. The BoC collections also increased by 29.4% (to P45.1 B), due to higher imports, especially, petroleum products, as well as the peso depreciation.

Various infrastructure projects (i.e., construction and improvement of roads and bridges) all over the Philippines, flood control projects, and AFP modernization program continued to sustain infrastructure spending to reach P82.3 B in December 2017. Maintenance expenditure expanded to P62.3 B driven by significant disbursements for the relief operations in Marawi and other crisis areas, higher spending on education scholarships, and performance-based grants to LGUs.

Primary deficit for the year hit P40.1 B neglible compared to P15.8 T GDP, and a bit lower than P49 B in 2016. The debt-to-GDP ratio remained at 42.1% as NG partly pre-funded its 2018 borrowing requirements with the huge RTB issue of P255.4 B in December (see TMC, January 2018).

The country's manufacturing output (measured by Volume of Production Index or VoPI) rocketed by 21.9% y-o-y in January 2018 to start off the year in a strong footing.

FDI in 2017 Hit All-time High

Full year level of foreign direct investments (FDI) in 2017 reached an all-time high of $10 B, surpassing the NG's target of $8 B. The investments raked in 2017 soared by 21.4% from a year ago amidst the unwavering investors' optimism on the country's growth prospects.

Broad-base gains in FDI components resulted in the notable increase in direct investments in 2017. Investments in net equity capital rose by 25.9% to $3.3 B, while investments in debt instruments increased by 20.7% to $6 B. Equity 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 $776 M (+9.3% y-o-y).

	FDI (in USD M, 2017)	Share to GDP (%)	5-year Average Growth
Philippines	10,049	3%	30%
Malaysia	9,065	3%	-2%
Indonesia	22,078	2%	76%
Thailand	8,020	2%	27%
Singapore	63,672	21%	0%
Vietnam	13,520	6%	11%

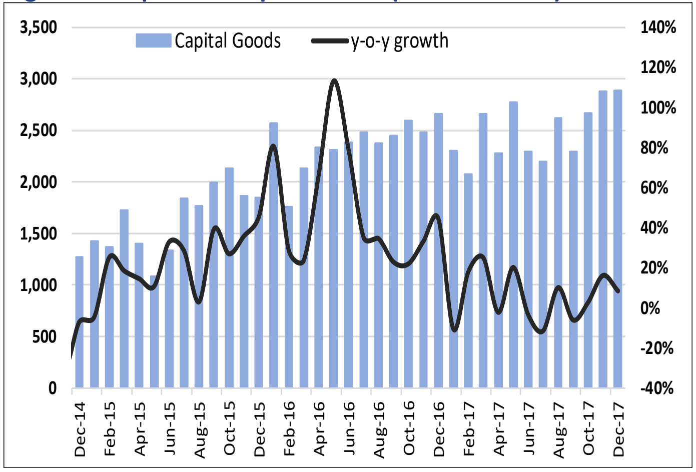
Sources of Basic Data: Bangko Sentral ng Pilipinas, International Monetary Fund

Capital Goods Imports Remain Positive in December

Imports of capital goods in December continued its 3rd consecutive month of gains due to broad-based increases in all categories, except for the imports of Aircrafts, Ships, and Boats. December data showed an 8.4% increase in capital goods imports to $2.9 B, accounting for 33% of total imports. This helped offset the negative performance recorded in some months, allowing FY growth to remain positive at 4.2%.

A 61.8% surge in Mineral Fuels, Lubricant and Related Materials imports provided the buggest boost. This resulted from strong demand and higher prices of petroleum products. Raw Materials & Intermediate Goods imports, which captured the largest share of total imports at 35.9%, rose by 17% driven by hefty gains in Manufactured Goods and Semi-Processed Raw Materials.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

The imports of Photographic and Optical Goods registered an 18.6% increase followed by Land Transport Equipment excluding Passenger Cars and Motorized Cycle with an 8.6% gain. Imports of Telecommunication Equipment and Electrical Machinery and Office and EDP Machines and Power Generating and Specialized Machines also increased by 7.8% and 7.1%, respectively.

Overall, total imports posted a 20% increase amounting to $8.9 B. Meanwhile, exports declined by 2.3%, bringing the trade deficit to $3.8 B, another all-time high, which handily exceeded the $2.5 B deficit posted in December 2016.

We maintain our view that the double-digit expansion in the imports of capital goods will be sustained by strong private investment and solid NG infrastructure spending as the government's Build, Build, Build program moves full-speed ahead.

Manufacturing Starts Strong in 2018

The country's manufacturing output (measured by Volume of Production Index or VoPI) rocketed by 21.9% y-o-y in January 2018 to start off the year in a strong footing. This represents a 24-month high, and reversed the revised 9.2% drop in December. Fourteen (14) out of 23 industry sub-groupings posted gains with eight exceeding 30%, led by Printing (+114.9%).

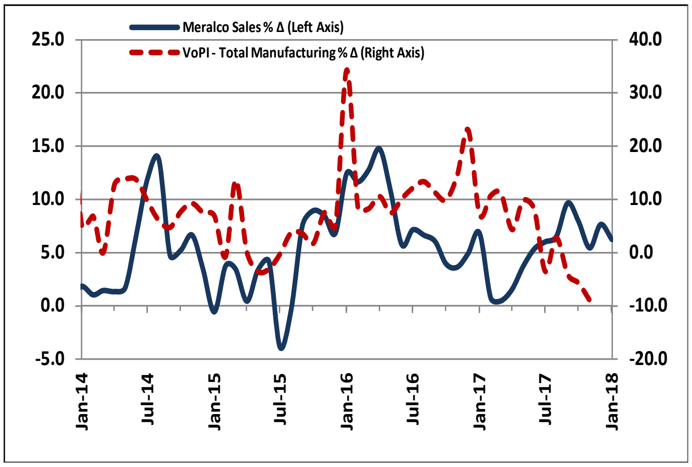
Seven (7) out of 21 segments showed declines with Wood & Wood products leading the fall as it slumped by 52.9%. Three other industries markedly slipped, (i.e., Tobacco

Domestic liquidity (M3) expanded at a slightly faster pace by 12.8% y-o-y (to P10.6 T) in January vis-à-vis the 11.9% increase in the previous month.

products down by 27.7% as a result of higher excise taxes under TRAIN, Transport Equipment (-13.9%) and Rubber & Plastics (-11.3%) while another three had minimal slides.

While one month's splendid gain may not be sustained, still the hopes remain high that industrial output would rise in double-digit fashion in 2018, given the huge jump in employment, especially in the Industrial sector.

Figure 4 - VoPI and Meralco Sales Growth Rate



Source of Basic Data: Philippine Statistics Authority (PSA)

Inflation Further Accelerates in February

Price upticks in heavily-weighted items (i.e., alcoholic beverages and tobacco), along with significant increments observed in the Transport index resulted in a quick acceleration in the average price in February to record near the upper target of the BSP. Inflation in February stood at 3.9% (using the new 2012 base price) vis-à-vis the 3.4% recorded in the previous month, bringing the YTD rate at 3.7%. When the 2006 base is used, the acceleration hit 4.5% from 4% in January.

[Note that the rebasing of the CPI had been previously scheduled, every six years, and announced. Just as in 2012 when PSA revised the CPI base to 2006 from 2000, the resulting inflation figures have come out lower than the old index they replaced. The overstatement of the CPI is well documented.]

Six (6) out of 11 product groups posted faster price increases led by the heavily-weighted Alcoholic Beverages and Tobacco (ABT) and Food and Non-Alcoholic Beverages (FNAB) indices, which posted 4.7 and 0.4 percentage points increase,

Inflation Year-on-Year Growth Rates	Feb-2018	Jan-2018	YTD
All items	3.9%	3.4%	3.7%
Food and Non-Alcoholic Beverages	4.8%	4.4%	4.6%
Alcoholic Beverages and Tobacco	16.9%	12.2%	14.5%
Clothing and Footwear	2.0%	1.9%	2.0%
Housing, Water, Electricity, Gas, and Other Fuels	2.6%	2.8%	2.7%
Furnishing, Household Equipment and Routine Maintenance of the House	2.5%	2.2%	2.3%
Transport	5.8%	4.5%	5.1%
Communication	0.2%	0.3%	0.2%
Recreation and Culture	1.4%	1.5%	1.4%
Restaurants and Miscellaneous Goods and Services	2.5%	2.2%	2.4%

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. Base year used is 2012.

Source of Basic Data: Philippine Statistics Authority (PSA)

respectively. TRAIN's higher excise taxes on cigarettes and new excise tax on sweetened beverages contribute to this jump. The increase in prices of these goods also led to a higher increment in the Restaurants and Miscellaneous Goods and Services index.

Combining Brent crude oil price increase by 19% y-o-y with the peso depreciation of 3.7% for the same period, we come up with 22.7% jump due to external factors. Around a third of this may be added to the price due to higher excise taxes on petroleum products (TRAIN). With the Transport index increasing by 2.1 percentage points since December, the additional inflation due to TRAIN would be 0.3%. Slight price acceleration was also observed in other indices (i.e., Clothing and Footwear and Furnishing, Household Equipment and Routine Maintenance of the House). Meanwhile, lower price adjustments were recorded in the Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) index, along with the indices of Communication and Recreation and Culture. The rest of the index maintained the past month's rate.

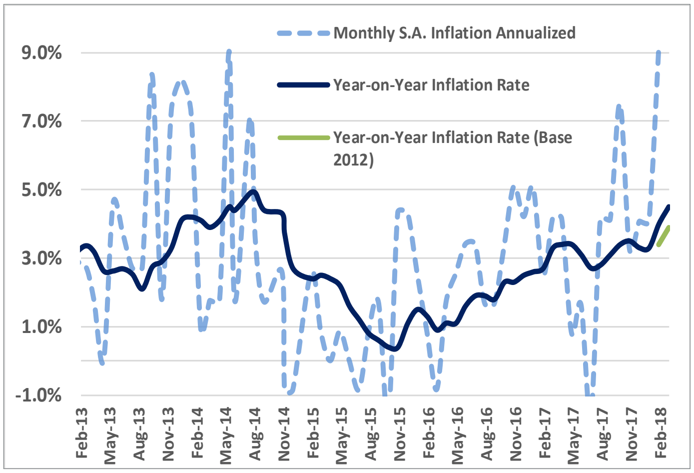
Domestic Liquidity Slightly Picks Up in January

Domestic liquidity (M3) expanded at a slightly faster pace by 12.8% y-o-y (to P10.6 T) in January vis-à-vis the 11.9% increase in the previous month. Broad Money (M2) and Narrow Money (M1) growth, likewise, picked up by 12.8% and 16.7%, respectively.

Meanwhile, loans in productive activities, which sustained the growth in money, eased to 18.1% y-o-y from the revised

Electronic products remained the country's top performing export, with earnings at $2.9 B, accounting for a 60.6% share of the total exports revenue in December.

Figure 5 - Inflation Rates Annualized, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

figure of 18.6% in the past month. Commercial bank lending went into several key sectors, i.e., Real Estate Activities (+18%); Electricity, Gas, Steam and Airconditioning Supply (+24.8%); Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles (+13.2%); and Manufacturing (11.9%), among others.

Net Foreign Assets (NFA) of monetary authorities likewise recorded a faster y-o-y increase of 2.9% in January from 1.4% in the preceding month. The increase in NFA reflects higher dollar receipts from Filipino overseas workers and BPO employees.

The slight pick-up of money supply in January and the large jump in inflation support our view that the Monetary Board (MB) will likely increase policy rates in late Q1.

PSA reported a more accurate inflation rate in February 2018. Some quarters are questioning why the Philippine Statistical Authority reported a lower inflation rate of 3.9% in February using a rebased Consumer Price Index (CPI) to 2012 basket from a 2006 basket which showed a 4.5% inflation. Is it fudging the figures so that TRAIN cannot be blamed for the inflation acceleration?

The PSA did explain the rebasing in an accompanying note that came out with the recent release. But we wanted to clear the air with solid facts and research.

1. Rebasing to a more recent period (year, in this case) is a standard procedure because the consumer's market basket changes through time. The rebasing every six years after the adoption of 2006 as new base (then) was announced last year. Previous to the 2006 base, the base year and weights used was 2000. In July 2011, then National Statistics Office announced that starting June 2011, the new base i.e., 2006 would be used and the 2000-based CPI was to be released simultaneously until December 2011.

2. When the CPI was rebased from 2000 to 2006, in 2011, the resulting inflation rates from 2001 to 2006 were lower by an average of one percentage point than the 2000-based CPI. In 2008, the year of the two crises—oil and rice—the 2006-based inflation rate was 8.3% compared to 9.3% with a 2000 base.

3. An important reason for this outcome is that CPIs tend to be overstated. This is because new, cheaper, and more-features are not immediately included in the CPI survey since they were not in original market basket.

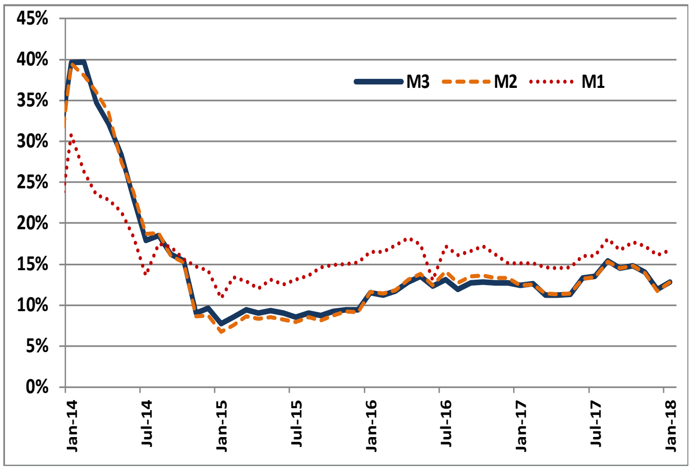
4. There is evidence for this overstatement. Boskin, et.al. (1998) estimated that the US inflation rate, based on the CPI, was overstated by 1.1% (or 0.8 to 1.6% as a range). "Estimates of the upward bias in consumer price inflation in Europe, Japan, and other countries are not available, but it seems very likely that consumer price increase are overstated in those countries as well." (IMF, "Rise and Fall of Inflation," World Economic Report, October 1996).

5. In the Philippines, the overstatement could be as high as 1.7% to 1.8% (Magdame, 2002).

6. The failure to recognize this overstatement is cited as important reason why Japan had a "lost decade" (1995-2005), which was when it suffered from "deflation" (i.e., falling prices) and could hardly grow and unemployment rates reached post-World War II highs. This deflation occurred because at the time the Japan's monetary authorities were thinking that their economy was beginning to overheat, as inflation was rising, but less than 2%, the government imposed a 5% consumption tax. That reduced consumption spending. In a deflationary situation, you postpone your purchase of goods and services because you anticipate lower prices in the future. Thus, aggregate demand falls. That deflation is more difficult to cure than inflation is borne out by the fact that the Japanese economy took a decade to get out of the debacle. Even now, the Japanese economy has had to fight off this propensity by pursuing an inflation target of 2% (much like the US and the Eurozone). *- Victor A. Abola, Ph.D.*

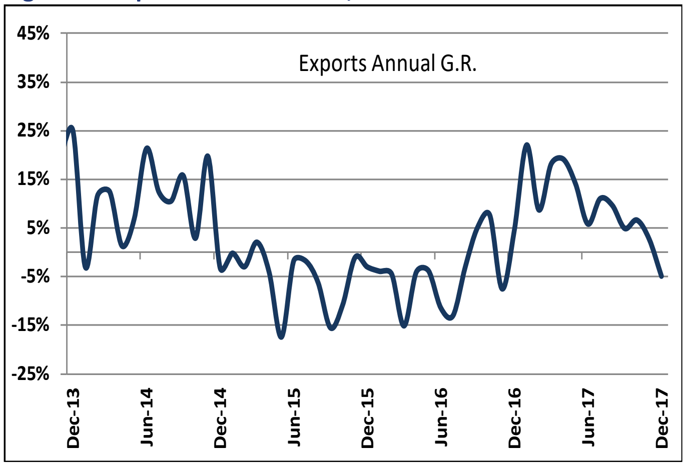
We believe that global recovery in some markets (US and EU) will continue to prop up export demand for PH products to bring 2018 PH exports to a faster growth pace.

Figure 6 - M1, M2 & M3, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Exports Remain Positive in December

PH exports continued to record gains, registering 2.3% (revised) in December 2017. This brought the YTD level to $63.2 B, higher by 10.2% from 2016 and far better from the 2% slowdown a year ago.

Electronic products remained the country's top performing export, with earnings at $2.9 B, accounting for a 60.6% share of the total exports revenue in December. It continued to expand by 15% y-o-y from its previous value of $2.5 B. Semiconductors, which had the biggest share among electronic products at 45.6%, also posted an increase of 18.9% to $2.2 B. Machinery and Transport Equipment followed in 2nd place with export revenue amounting to $347.6 M. Exports of this product registered a colossal growth of 62.8% from the $213.6 M recorded in December 2016.

Other Manufactured Goods took the 3rd spot, with $263.8 M or 5.6% share of the total export shipments. It dropped by a hefty 24.4% from December 2016 value of $348.7 M. Exports of Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships in 4th place also declined by 27.1% to $119.6 M. Meanwhile, Cathodes & Sections of Cathodes, of Refined Copper ranked as the 5th top export earner with $124.6 M or 2.6% share of total exports. It achieved a major turnaround, attaining the highest growth among the top 10 exports, in comparison to its negligible export value in December 2016.

Hong Kong still outranked Japan as the top export destination in December, accounting for 16.7% of the total shipments (equivalent to $789.6 M). Shipments to Hong Kong climbed by 27.3% from the $620.3 M recorded in December 2016. This was followed by the US, with a share of 13.9% (valued at $655.1 M). Exports to Japan, now in 3rd, totaled to $636.6 M and comprising 13.5% of the total. Both exports to the US and Japan declined by 7.6% and 34.4%, respectively. Fourth was China which still dropped by 14.7% to $517.8 M, representing an 11% share. Rounding up the top five was Singapore which grew by 13.4% with outbound sales valued at $324.4 M.

About 48% of the total exports in December headed towards East Asian (EA) nations, valued at $2.3 B, which further declined by 12.2% y-o-y amidst lower demand from China and Japan. Meanwhile, shipments to the EU, accounting for 16.7% of shipments, surged by 45.9%, tracking improvements in its economy. Outward shipments to the ASEAN countries (comprising 15.7%), likewise, increased by 4.6%. ASEAN+East Asia ex-Japan accounted for 50.6% of total exports.

We believe that global recovery in some markets (US and EU) will continue to help prop up export demand for PH products to bring 2018 PH exports to a faster growth pace. Stronger demand of Electronics products from China, and the upticks in the price of copper and nickel, should further sustain exports growth.

Higher demand for dollar arising from strong investment spending and higher imports in December (reported in February) continued to put pressure on the peso.

Growth in Remittances Beats Target

As previously anticipated, the flow of remittances heightened in December when Christmas related-spending hit its peak, resulting in a new record high level amounting to $3 B (+7.9%). This brought the FY level to $31.3 B, representing a 5.3% expansion from the previous year. Steered by increase in both remittances from among workers with contracts more than a year (+4.1%) and among those with less than a year contracts (+5.3%), personal remittances breached the government's target of 4%.

Similarly, cash remittances (i.e., coursed through banks), grew by 7.1% to an all-time high of $2.7 B mostly coming from the US, United Arab Emirates (UAE), Saudi Arabia, Singapore, Japan, UK, Qatar, Kuwait, Germany, and Hong Kong, which collectively accounted for 80% of total remittances. Despite the fallout in early 2017, total cash remittances in 2017 remained resilient amidst the increase in most of the regional block. Remittances from the Middle East (mostly coming from the UAE, Qatar, and Bahrain) grew by 3.4%. Transfers from Asia and US, likewise, increased by 7.3% and 5.8%, respectively.

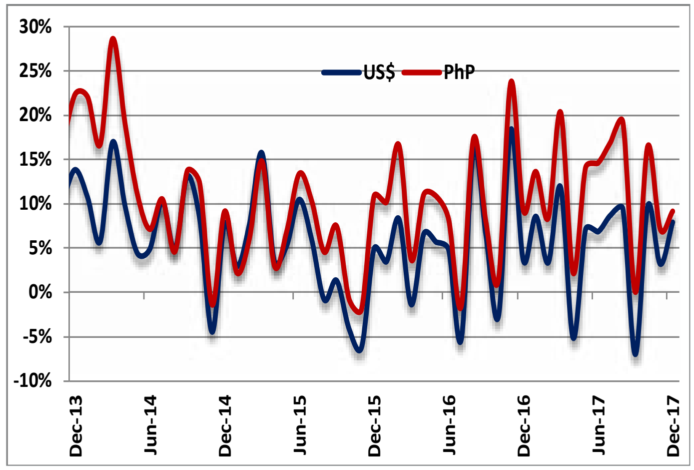
The peso equivalent of these inflows also registered a 9.1% gains, driven by higher dollar inflows and further sustained by the 1.2% y-o-y peso depreciation. We think that personal remittances will slightly slow down in January and February of 2018 due to seasonality effect.

Peso Continues to be in the Red

Higher demand for dollar arising from strong investment spending and higher imports in December (reported in February) continued to put pressure on the peso. Latest trade data showed a record high deficit of $3.8 B in December. Meanwhile, renewed investors' optimism towards the US economy on the back of some positive economic data and the possible rate hike in March added to the positive sentiment for the US dollar. Thus, the peso averaged at P51.79/$ in February, representing a 2.5% depreciation from last month. The pair hovered between a high of P52.35 and a low of P51.21, reducing the volatility measure to 0.33 from 0.46 in January.

Apart from the peso, other emerging currencies also succumbed to losses against the greenback. Tracking recovery in the US market, Indonesia's Rupiah (IDR) edged

Figure 8 - OFW Remittances Growth

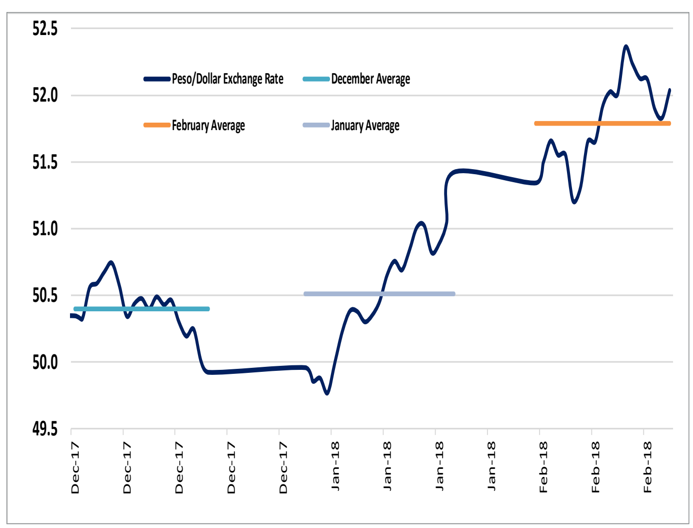


Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

The Indian Rupee (INR) also slumped amidst widening current account deficit while funds outflow in Korea's stock market explained the won's weakness (KRW).

On the other hand, rising oil prices strengthened Malaysia (MYR) and Singapore's (SGD) currencies. Large capital inflows and higher capital account surplus supported gains in Thailand's Baht (THB). Despite the news of a possible economic slowdown in China this 2018, the Yuan (CNY) managed to resist the greenback owing to the PBoC's bias on CNY's appreciation.

Figure 9 - Daily Dollar-Peso Exchange Rate



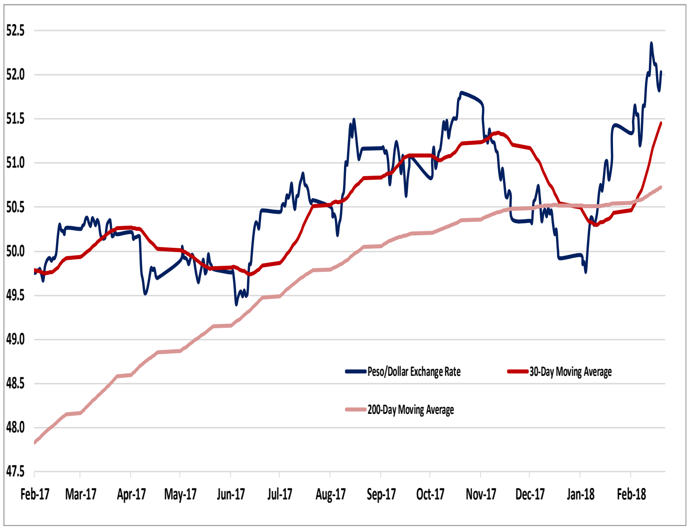
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

For the year ending January 2018, the economy added 2.4 M jobs, the highest in a non-election year, with the Industry sector—construction and manufacturing contributing the biggest boost—clearly making a headway.

Exchange Rates vs US $ for Selected Asian Countries			
	Jan-18	Feb-18	YTD
AUD	-4.0%	0.9%	-3.2%
CNY	-2.5%	-1.8%	-4.2%
INR	-1.0%	1.2%	0.2%
IDR	-1.3%	1.5%	0.2%
KRW	-1.8%	1.2%	-0.5%
MYR	-3.0%	-1.2%	-4.2%
PHP	0.2%	2.5%	2.7%
SGD	-1.8%	-0.2%	-2.0%
THB	-2.2%	-1.4%	-3.6%

Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Figure 10 - Dollar-Peso Exchange Rates & Moving Averages



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

The actual USD/PHP rate in February still remained above both the 30-day and the 200-day moving averages (MAs), suggesting a further weakening in peso will linger in the near and long term. The improvement in the US economy and PH's strong imports are expected to largely put pressure on the peso. Our estimate is that peso will slide to P52.50 by year end.

Outlook

The economy appears to have a strong start in 2018 as indicators on the real economy shone brightly.

- For the year ending January 2018, the economy added 2.4 M jobs, the highest in a non-election year, with the Industry sector—construction and manufacturing contributing the biggest boost—clearly making a headway.

- Manufacturing also surged by 21.9% in January, providing support to the robust job numbers.

- From the demand side, infrastructure spending in December again exceeded 20%, while capital goods imports kept its positive pace.

- The main concern has shifted to the acceleration of inflation to 3.9% in February from 3.5% a month ago, or from 3.3% in December 2017 to 4.5%, using the old CPI base. Note, however, that the rebasing has been carried in accordance with its schedule revision every six years to base 2012, and most evidence shows that CPI tends to be slightly overstated. The effect of TRAIN may have been more fully felt, even though the sharp 21.9% Brent crude oil price and peso depreciation would account for much larger part of the uptick.

- While money growth has kept its low double-digit pace, we think that BSP may raise policy rates in April or May, or after the Fed makes its rate hike move in March.

- OFW remittances remained in the green, but portfolio capital outflows and the stronger US economy put pressure on the peso.

All told, we see GDP growth accelerating to beyond 7% pace in Q1, given the strong multiplier effects of job growth, and robust manufacturing and construction sectors.

Forecasts			
Rates	March	April	May
Inflation (y-o-y %)	4.1	4.1	4.2
91-day T-Bill (%)	2.70	2.77	2.82
Peso-Dollar (P/$)	51.68	51.84	52.02
10-year T-Bond (%)	6.07	6.21	6.34

Source: Authors' Estimates; Base year for inflation: 2012

SHARP RISE IN US INFLATION & STRONG JOB GAINS IN JANUARY ROIL BOND MARKETS

A sharp rise in US inflation rates in January to 0.5% month-on-month (m-o-m) (seasonally adjusted) and an economy creating 200,000 jobs, and a seemingly hawkish new Federal Reserve Board Chairman proved to be dizzying cocktail to financial markets that saw benchmark 10-year US T-bond yields rise to a 43-month high. Market players and analysts began seriously considering a 4th Fed policy rate hike in 2018. Local bond yields followed suit, boosted further by accelerating inflation rate in the domestic scene. And so, demand for local bonds slumped while yields shot up. Fortunately, early March inflation numbers for February slowed to 0.2% m-o-m and wage gains remained muted enough to calm bond markets a bit.

Outlook: Despite the sharp climb of yields at both primary and secondary markets, demand for bonds will remain weak until domestic inflation clearly decelerates. And while the Fed's March 25 bp policy rate hike has been priced in locally, the expectedly large maturities of government securities in Q2 would likely drain liquidity. We see yields tending to have a slight upward bias but could provide some buying opportunities when the inflation picture improves.

Primary Auctions: Weaker Demand, Higher Yields

Investors turned more risk-averse in February as they bid less in terms of amounts and asked for higher yields. This came about as a result of a surprise jump in inflation in the US, strong US job numbers for January and the apparent hawkish comments of the new Fed Chairman Jerome Powell to Congress. In the domestic front, the acceleration of inflation to 4% in January (up to 4.5% in February using old 2006 base) had also a strong negative impact on the market.

In the first Treasury bill (T-bill) auction on February 12, Bureau of the Treasury (BTr) accepted P14.2 B of bids which accounted for only 70.8% of the P20 B on offer. Despite this, 91-day T-bill yields soared by 34.9 basis points (bps) to 2.670% from January 29. For 182-day T-bills, the yield jumped by 27.7 bps to 2.854%, while 364-day T-bills showed a more modest rise of 11.5 bps to 3.040%. BTr, however, rejected all the P21.3 B offered by market players in the 2nd auction of another P20 B on February 26.

The situation hardly differed for the Treasury bond (T-bond) auctions. BTr rejected fully the P25.8 B tendered by GSEDs for the P20 B, 7-year T-bonds auctioned on February 6. On the other hand, BTr saw it fit to partially accept P8.8 B of bids for the P20 B February 22 auction of 20-year T-bonds at an average yield of 6.414%, a huge 137.9 bps climb since its last issue of June 27, 2017.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Average Yield	Change bps
12-Feb	91-day	9.00	13.024	7.394	1.447	2.670	34.9
	182-day	6.00	6.069	5.189	1.012	2.854	27.7
	364-day	5.00	3.870	1.590	0.774	3.040	11.5
26-Feb	91-day	9.00	13.328	-	1.481	-	-
	182-day	6.00	3.810	-	0.635	-	-
	364-day	5.00	4.190	-	0.838	-	-
Subtotal		40.00	44.29	14.17	1.107		
6-Feb	7-year	20.00	25.824	-	1.291	-	-
22-Feb	20-year	20.00	22.766	8.853	1.138	6.414	137.90
Subtotal		40.00	48.590	8.853	1.215		
All Auctions		80.00	92.88	23.03	1.18		

The tepid demand got reflected in the tender-offer ratios (TOR) of the different auctions. The two T-bill auctions only got a TOR of 1.1 a big slump from 2.0 in January. Surprisingly, the two T-bond auctions got slightly better TOR of 1.2, but still lower than 1.4 a month ago.

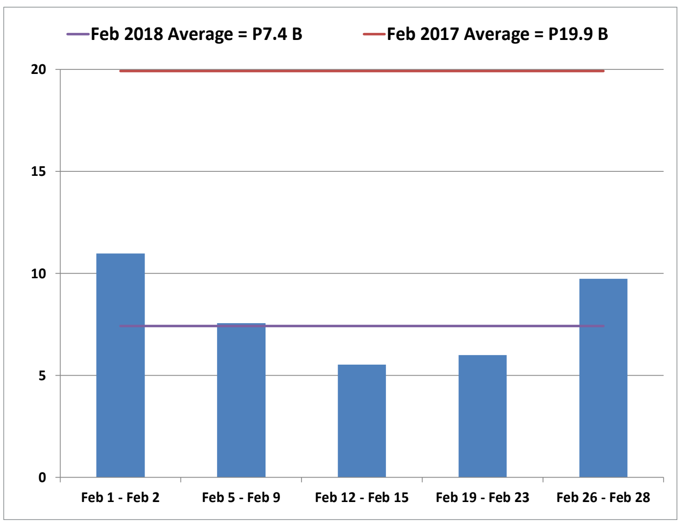
It appears that the T-bill rates are closing in on BSP's Term Deposit Facility (TDF) rates between 3% and 3.5%, as investors try to shield themselves from rising inflation and interest rates.

Trading in the secondary market for Government Securities (GS) in February plunged to nearly half of the turnover from the previous months, with total turnover falling 48.2% (m-o-m) from January to P141.2 B.

Secondary Market: Lower Turnover & Higher Yields Déjà vu

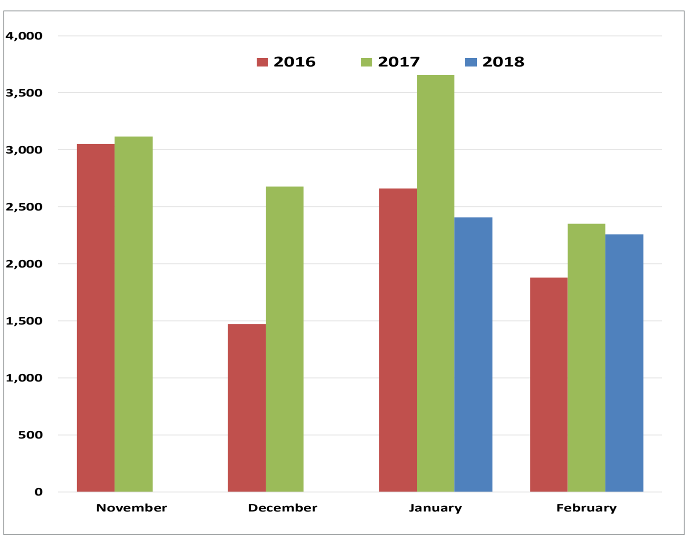
Trading in the secondary market for Government Securities (GS) in February plunged to nearly half of the turnover from the previous months for the same reasons seen in the primary market. Total turnover fell 48.2% (m-o-m) from January to P141.2 B. This also represented a 43.9% plunge from February 2017. The lifeless average daily turnover of P7.4 B even fell below the average daily trading of P8.9 B in the stock market.

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



Source: Philippine Dealing Systems (PDS)

Figure 12 - Secondary Market Trading Volume, October 2016 – January 2017, October 2017 – January 2018



Source: Philippine Dealing Systems (PDS)

With demand languishing on fears of higher interest rates in the horizon, the yield curve moved up across the board, although accentuated in the short-end and the long-end. Yields in the 3-months to 1-year space surged by 53.3 bps to 113.8 bps. The biggest jump occurred for 1-year T-bonds which ended at 3.356%. In the long-end of the curve, we saw the 10-year T-bond benchmark (PDST-R2) similarly soaring by 36.4 bps to 6.571% while the 20-year benchmark bumped by 40.6 bps to 6.873%.

PDST-R2 benchmark yields widened in their disparity against liquid FXTNs. For the 5-year tenors, the difference widened to 77.5 bps from 55 bps as F5-73 yielded 4.771% in end-February. Similarly, we find a bulging spread between R2 and FXTN 10-60 to 89.3 bps as it yielded 5.7975%; the spread came from 80.8 bps a month ago. In the 20-year space, the distance between R2 and FXTN 20-17 slimmed to 92 bps as the latter ended at 5.9438%; it had been 112.3 bps in end-January.

Corporate Bond Market: Followed Pattern of Weakness in GS Market

Just like the GS bond market, secondary trading of corporate bonds slowed both on a monthly and an annual basis. Total turnover hit P2.3 B down by 3.4% (m-o-m) from January 2018 and 34.2% from a year ago, as investors avoided bonds in general.

The four top issues—San Miguel Brewery (SMB), Ayala Land Inc. (ALI), Ayala Corporation (AC), and SM Investment Corporation (SM)—followed a similar decline on a monthly and annual basis. ALI continued to take the top spot as trading in its debt papers rose by 6.1% to P310.2 M. SM followed a similar route as its trading jumped by 30.2% (m-o-m) to P210.7 M. However, both SMB and AC had lower trading volume. SMB dropped by 24.3% to P136 M, but still garnered 3rd place, while AC fell the most by 36.9% (m-o-m) to P83.5 M. We have scratched PSALM from the top issues traded due to continued inactivity and will see if the robust performance of SMPH, TEL and GLO would be sustained as to justify inclusion in the top five.

Corporate Bond Issues & Disclosures

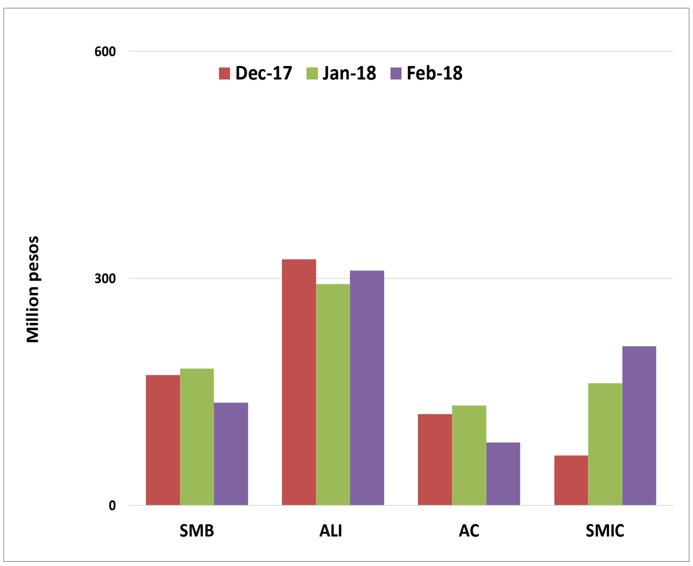
While there were no new corporate issuances that emerged in February, the planned P20 B issue of SM Prime Holdings, Inc. (SM) (see details in TMC February 2018)

Since ROPs yields climbed higher than US Treasuries, their spreads over US T-bonds of similar tenor likewise widened.

went ahead by the first week of March. SM issued 7-year retail bonds with a coupon of 6.0804% due March 1, 2025. For disclosures of fund raising, February only saw one.

- Ayala Land, Inc. (ALI) planned to raise up to P20 B through (a) retail bonds listed in the Philippine Dealing and Exchange Corporation and (b) bilateral term loan/s to partially finance general corporate requirements. The retail bonds will be issued under ALI's P50 B Debt Securities Program as approved by the Securities and Exchange Commission (SEC) in March 2016. ALI plans to raise P5 B through the issuance of Qualified Buyer Notes with a tenor of up to 5 years to refinance the corporation's short-term loans.

Figure 13 - Corporate Bond Market Trading Volume, November 2017 – January 2018



Source: Philippine Dealing Systems (PDS)

ROPs: Yields Climb in February as ROPs Lose Some Luster

Yields in Philippine government's dollar-denominated bonds (ROPs) moved sharply higher across all tenors as market players reacted to the ballooning trade deficits of the country. The rise in yields ranged from 26.2 bps for ROP-19 (2 years to maturity) to 39.2 bps for ROP-32 (15 years to maturity). These increases far exceeded those for US Treasuries which only climbed by 7 bps to 19 bps.

The short-dated ROP-19 ended February 2018 at 2.62% from 2.357% in the previous month. ROP-32 and ROP-37 yields exceeded 4% for the first time since December 2016, as they yielded 4.126% and 4.121%, respectively. ROP-37 shot up by 38.2 bps during February.

In the US Treasuries market, the 91-day T-bill added 19 bps to reach 1.65%. 2-year T-bonds ended at 2.25%, up 11 bps from end-January. At the longer end, 10-year benchmark yield came at 2.86% up 15 bps, but much lower than the peak of 2.95% hit on February 22. The 20-year and 30-year benchmarks clocked at 3.02% and 3.13%, respectively, roughly 18 bps higher than their close in January.

Since ROPs yields climbed higher than US Treasuries, their spreads over US T-bonds of similar tenor likewise widened. For the 2-year tenors, the spread rose to 37 bps from 21.7 bps a month ago. For ROP-32 against the US 15-year paper, the difference expanded to 118.1 bps from 95.9 while for the spread between ROP-37 and the US 15-year T-bond yields increased from 90.8 bps in January to 110.1 bps at end-February.

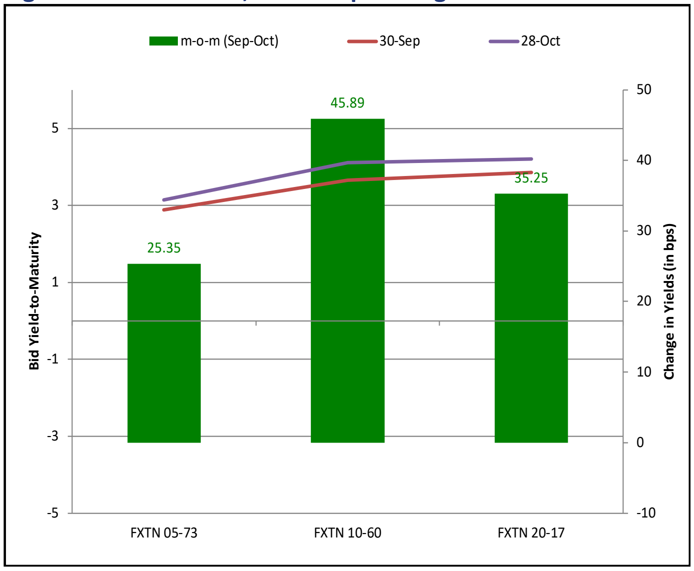
Likewise, 10-year PH bond yields exceeded US Treasury by 292.8 bps, an uptick of 75.9 bps, while the 20-year PH bond yield to US T-bond spread rose by 41 bps to 292.4 bps. These reflect the markets' expectation of accelerating inflation in the Philippines compared to the US.

ASEAN+1 Bond Yields: Yield Curves Steepen

US: With January 2018 adding 200,000 jobs, inflation racing to 0.5% from the previous month, and housing starts at a post-2010 record of 1.3 M units, the US economy appeared solid. However, markets took all these positive numbers, especially the quickened inflation rate, as providing the Fed with reason to do four policy rate hikes in 2018, rather than the widely anticipated three hikes. 10-year bond yields, thus, reached 2.95% on February 22, the highest since July 2014. However, despite another strong addition to employment of 313,000 in February (reported in early March), the markets relaxed a bit after February inflation came out at 0.2% as expected while wage growth eased. This ushered in the reversal of bond yields towards 2.8%. With consumer sentiment hovering at recent highs, and the Trump tax cut kicking in starting February, the US

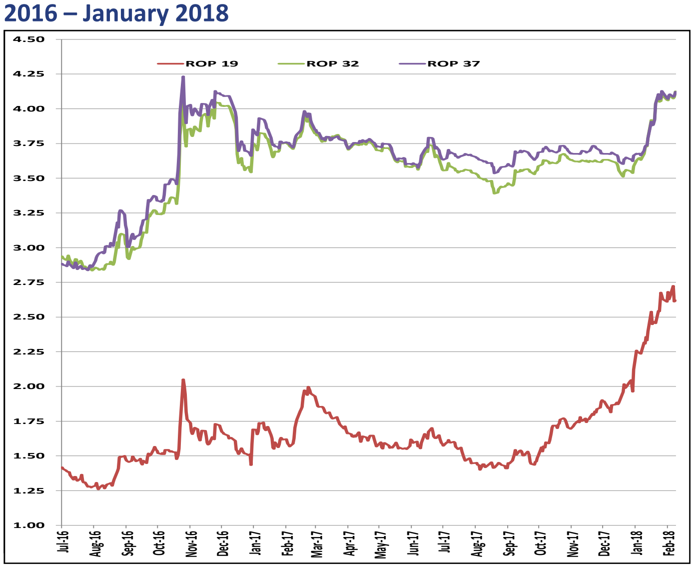
Bank Indonesia (BI) held its rates unchanged last February 15 to maintain macroeconomic stability amid uncertainty in the global economy.

Figure 14 - ROPs Yield, m-o-m bps changes



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Figure 15 - ROPs Avg Monthly Yields for Selected Tenors, June 2016 – January 2018



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

economy is headed for a boom in the coming quarters. The yield curve steepened slightly as the spread between the 10-year T-bond and 2-year T-bond yields rose to 61 bps from 55 bps a month ago.

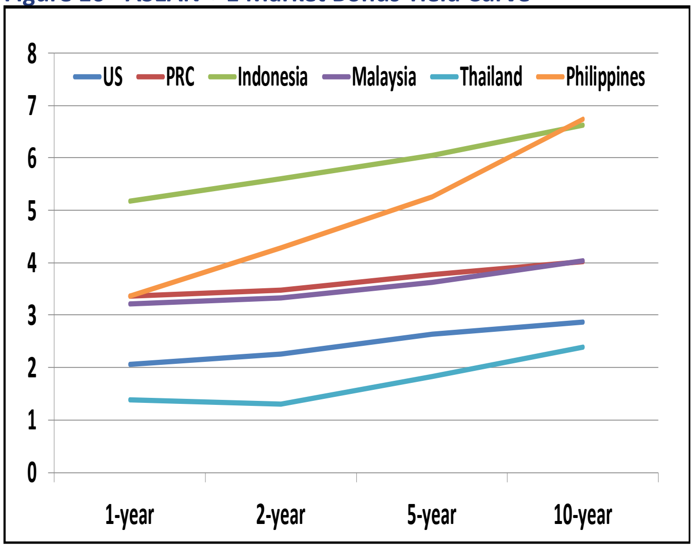
China: Top political leaders and the People's Bank of China (PBoC, its central bank) plan to tighten fiscal and monetary policy in 2018 to reduce their projected GDP growth to 6.5% for 2018, slower than 6.9% recorded in 2017. The government aims to cut the budget deficit to 2.6% of GDP from 3% last year by slowing down spending. Manufacturing sector appeared to have slowed a little as PMI in January clocked at 51.3 as against 51.6 in December 2017. Despite low inflation of 1.5% in January, and an easing of producers' prices to 4.3%, PBoC kept its policy rates at 1.5% for deposits and 4.35% for lending. The large spread discourages banks from tapping the central bank for liquidity. Nonetheless, the PBoC injected $62.2 B at 3.25% in its Medium Term Liquidity Facility (MLF) to maintain liquidity of the financial sector. It also signaled preference for the use of open market operations (OMO) instead of changes in reserve requirements. Fairly independent of its disapproval of the Trump's steel and aluminum tariffs, PBoC approved JPMorgan Chase Bank as the first non-Chinese yuan-clearing bank in pursuit of its goal of making the yuan an international currency. The spread between the 10-year benchmark and 2-year bond yields rose by 6 bps to 55 bps.

Indonesia: The country's inflation rate eased to 3.25% in January (y-o-y) compared to 3.61% in December, as subdued increases in transportation and communication costs largely offset a rise in food prices. The economy grew by 5.19% (y-o-y) in Q4-2017, slightly faster than the 5.06% recorded in Q3, bringing economic growth for FY 2017 to 5.07%. Investment spending led growth with its 7.27% gain in Q4. Household spending, which accounted for more than half of GDP, grew by 4.97% in Q4, slightly above the 4.93% growth in Q3. Exports rose by 8.5% in Q4, but failed to contribute to GDP growth, as imports increased at a faster rate of 11.81%. Bank Indonesia (BI) held its rates unchanged last February 15 to maintain macroeconomic stability amid uncertainty in the global economy. BI kept its seven-day reverse repurchase rate at 4.25% for a fifth straight month. On the other hand, the deposit facility stayed at 3.5%, while the overnight lending facility also remained unchanged at 5%.

State-owned enterprises (SOEs) are being encouraged to issue rupiah-denominated Komodo bonds, following the success of toll road operator PT Jasa Marga ($300 M) and construction firm PT Wijaya Karya (Wika) ($400 M) in their bond issuances in the London Stock Exchange (LSE).

In line with rising global yields, Malaysian government securities (MGS) spiked up towards the end of January.

Figure 16 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

The country expects further foreign inflows into its debt market after news that Rupiah bonds will be added to a global bond index, prompting fund managers to add them to their portfolios. Indonesian rupiah-denominated bonds will be eligible for the widely used Bloomberg Barclays's Global Aggregate Index, which covers investment-grade bonds, starting June 1, 2018. In addition, Indonesia will become the first Asian country to sell "green" bonds internationally as it looks to tap into growing investor interest in climate-friendly investments. Last February 22, the country launched a five-year green Sukuk bond, which means the deal will conform to Islamic finance norms as well, with analysts expecting at least $300 M will be the target amount to be raised. 10-year to 2-year spread moved up by 19 bps from 84 bps to 103 bps.

Malaysia: The Malaysian economy grew faster than had been forecasted last year, but economists are looking at the high base effect, a slower pace of export growth and external conditions to impact Malaysia's growth prospects this year. Overall, GDP growth came in at 5.9% in Q4, the same pace as in the previous quarter, which repeated in FY 2017 GDP of 5.9%.

Headline inflation moderated to 3.5% in Q4 due mainly to lower inflation in the housing, water, electricity and gas and transport categories. Inflation is expected to moderate further in 2018, as global cost factors and a stronger ringgit take hold.

Meanwhile, the Malaysian ringgit edged higher versus US dollar last February 26, as investors positioned themselves ahead of Fed Chair Powell's semi-annual monetary policy report last February 28. USD/MYR fell by 0.2% for the month to 3.9125 per US dollar as the currency pair continued to consolidate near 3.90. In line with rising global yields, Malaysian government securities (MGS) spiked up towards the end of January. The yield of 1-year MGS had increased by 28 bps m-o-m to 3.19% by end-January, and has exceeded 3.2% since then. Similarly, the 10-year MGS posted a 4.6 bps m-o-m rise in yield to 3.96% as of the end of January, before increasing further to 4.04% in mid-February. 10-year to 2-year spread inched higher by 8 bps, from 64 bps to 72 bps.

Spreads between 10-year and 2-year T-Bonds (February)

Country	2-year Yields	10-year Yields	Projected Inflation Rates	Real 10-year yield	10 year to 2-year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					31-Jan-18	28-Feb-18			
US	2.250	2.861	2.10	0.76	56.00	61.00	5.00	1.25	-0.85
PRC	3.480	4.030	1.60	2.43	49.00	55.00	6.00	4.35	2.75
Indonesia	5.602	6.632	3.80	2.83	84.00	103.00	19.00	4.25	0.45
Malaysia	3.326	4.041	3.90	0.14	64.00	72.00	8.00	3.25	-0.65
Thailand	1.306	2.383	0.70	1.68	101.00	108.00	7.00	1.50	0.80
Philippines	3.356	6.734	4.30	3.53	231.00	246.00	15.00	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*

Given the upward trend of global interest rates and Thailand's consistent economic expansion, the market expects the Bank of Thailand to gradually hike its benchmark rates by three times this year.

Thailand: The country's industrial output beat market expectations, rising for a third straight month, owing to higher production of cars, petroleum and rubber products, as the manufacturing production index in January rose by 3.4% (y-o-y). The Thai economy grew by 4% in Q4-2017, while full-year growth was 3.9%, up from 3.3% in 2016. Private consumption also rose by 3.5% y-o-y in Q4, largely due to consumers buying more durable goods, while private investment increased 2.4% y-o-y, slightly down from the 2.5% in Q3. Public investment, however, declined 6% y-o-y declined 6% y-o-y, due to slower spending than budget.

Exports of goods (in US dollar) expanded 11.6% y-o-y in Q4, but may grow at a much slower pace of 3.5% in 2018 due to a strong baht and higher wages, after expanding nearly 10% in 2017. The baht has appreciated about 3% against the greenback so far this 2018, and was trading at a near 4-year high of BHT31.52/$1 by February 6.

The Monetary Policy Committee (MPC) voted unanimously to leave the policy rate unchanged at 1.5% effective since April 2015. MPC believes that the current accommodative monetary policy stance remains conducive to economic growth and to the return of headline inflation to MPC's target of 1% to 4%. Nevertheless, given the upward trend of global interest rates and Thailand's consistent economic expansion, the market expects the Bank of Thailand to gradually hike its benchmark rates by three times this year. Thai Beverage is preparing to raise up to BHT50 B ($2.1 B) in its biggest baht bond issue, adding to a string of acquisition-related financing in the local debt market. 10-year to 2-year spread moved slightly higher by 7 bps, from 101 bps to 108 bps.

PSEI CONTINUES TO SLIDE INTO EARLY MARCH

PSEi and DJIA both took sharp falls since January 26 and both recovered to still notch slightly positive year-to-date (YTD) by end-February. However, they parted ways as DJIA managed to move up until March 9 while PSEi continued to falter as foreign investors exited the market for two consecutive weeks. DJIA got boosted by strong job growth of +313,000 in February coupled with weaker wage gains, while top domestic banks planned huge SROs and Q4 earnings just around consensus dogged PSEi. In addition, the acceleration in inflation (see Macroeconomy) in January and February had investors running for cover with a likely policy rate hike by BSP in March or April.

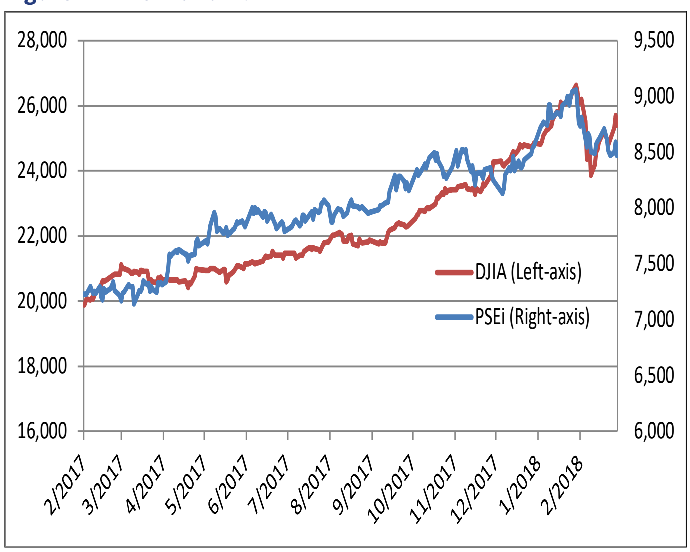
Outlook: With impressive job and manufacturing sector growth in January, and infrastructure spending expected to push Q1 GDP growth above 7%, PSEi may see some upticks with the data release in the 2nd week of May. However, in the interim, no major positive drivers would likely surface and so until then we would expect sideways trading between 7,900 and 8,300.

Global Equities Markets Performances

Region	Country	Index	Growth Rate Feb 2018 (m-o-m)	2018 YTD
Americas	US	DJIA	-4.3%	0.8%
Europe	Germany	DAX	-5.7%	-3.4%
	London	FTSE 101	-4.0%	-5.4%
East Asia	Hong Kong	HSI	-6.2%	1.1%
	Shanghai	SSEC	-6.7%	-2.7%
	Japan	NIKKEI	-5.4%	-6.1%
	South Korea	KOSPI	-5.4%	-2.1%
Asia-Pacific	Australia	S&P/ASX 200	-1.0%	-1.4%
Southeast Asia	Indonesia	JCI	-0.1%	4.1%
	Malaysia	KLSE	-0.7%	4.1%
	Thailand	SET	0.2%	2.9%
	Philippines	PSEi	-3.3%	-2.9%
	Singapore	STRAITS	-0.5%	2.6%

Sources: Bloomberg & Yahoo Finance

Figure 17 - PSEi and DJIA



Source: Bloomberg

After a flying start in January, global equity markets plummeted in February with a lot of investors reducing equity exposure given free fall in share prices and increased volatility starting early February. After reaching the 26,600-mark in late January, DJIA commenced its downward trend due to prospects of increased frequencies of interest rate hikes, with the market having its biggest point drop ever a week after. This ignited a global sell-off, with most Asian counters following suit. Apart from Thailand's SET, most ASEAN markets fell, albeit less than a percentage point, save for the PSEi's 3.3% slump.

The correlation of PSEI and DIJA remained at a moderate +0.6, although slightly lower than January's +0.7. Speculation over the Federal Reserve raising interest rates more than three times this year, strengthened by the hawkish comments of its new chair Jerome Powell to the US Congress, spooked equity and bonds markets. This brought the PSEi down to some extent, although the fall may also be attributable to investors (especially, foreign) taking profits after it hit the record high 9,058.62 on January 26. This has led to a major market correction, even though the PSEi's bull run appears intact, as fundamentals remain solid, and earnings prospects seem promising. In addition, the government kept on track with its "Build Build Build" program while the BSP has kept policy rate hikes on hold.

After an impressive start in January when it posted four new records, the local equities market dipped by 3.3%.

Monthly Sectoral Performance				
	31-Jan-18		28-Feb-18	
Sector	Index	% Change	Index	% Change
PSEi	8,764.01	2.4%	8,475.29	-3.3%
Financial	2,223.98	-0.3%	2,225.65	0.1%
Industrial	11,790.56	5.0%	11,440.91	-3.0%
Holdings	8,957.81	4.0%	8,585.06	-4.2%
Property	3,939.56	-1.0%	3,721.70	-5.5%
Services	1,710.73	5.6%	1,745.89	2.1%
Mining and Oil	11,937.95	3.8%	12,253.82	2.6%

Source of Basic Data: PSE Quotation Reports

After an impressive start in January when it posted four new records, the local equities market dipped by 3.3%. Performance of sectors were mixed, with Mining and Oil heading the gainers with a 2.6% increase. It was followed by Services and Financial sectors, with gains at 2.1% and 0.1%, respectively. On the other hand, the Industrial and Holdings sectors ended in the red last month, with 4.2% and 5.5% decline, respectively. The Property sector lost most in February, posting a 5.5% decline.

Company	Symbol	01/30/18 Close	02/28/18 Close	% Change
Metrobank	MBT	99.50	97.85	-1.7%
Banco de Oro	BDO	153.00	155.80	1.8%
Bank of the Philippine Islands	BPI	119.20	119.90	0.6%
Security Bank Corporation	SECB	246.00	246.20	0.1%

Source of Basic Data: PSE Quotation Reports

The Financial sector came fairly flat (up by 0.1% last month), following the previous month's decline of 0.3%. BDO Unibank, Inc. (BDO) led the sector with a 1.8% uptick, after reporting a net income of P28.1 B for FY 2017, a 7% increase y-o-y. Despite being below market expectations, the increase came from BDO's topline growth (20.3%) buoyed by its core lending business.

After leading the sector in the previous month, Bank of the Philippine Islands (BPI) posted a slight increase of 0.6%, after announcing a 1.7% increase y-o-y in net income for FY 2017 (netting P22.4 B), also below consensus estimates.

On the other hand, Security Bank Corporation (SECB) remained relatively flat with a 0.1% increase despite reporting a P10.3 B net earnings last year (an increase of 19.8% y-o-y), ahead of consensus estimates. The growth was also evident in SECB's loan book which grew 28% last year (primarily driven by wholesale loans).

Meanwhile, Metropolitan Bank & Trust Company (MBT) was flat. The company reported a 10% increase in FY 2017 earnings, which reached P18.2 B, driven by robust loan and deposits growth.

Company	Symbol	01/30/18 Close	02/28/18 Close	% Change
Meralco	MER	338.60	336.60	-0.6%
Aboitiz Power	AP	41.00	38.50	-6.1%
Jollibee Foods Corporation	JFC	284.80	298.40	4.8%
First Gen Corporation	FGEN	15.98	14.50	-9.3%
Universal Robina Corporation	URC	161.30	149.00	-7.6%
Petron Corporation	PCOR	9.60	9.19	-4.3%

Source of Basic Data: PSE Quotation Reports

The Industrial sector reversed its 5% advance in January with its 3% setback last month. First Gen Corporation's (FGEN) stock price continued to slump, suffering the biggest decline of 9.3% (worse than its 6% drop in January) despite announcing its interest in investing in the government's planned liquefied natural gas (LNG) import facility.

Universal Robina Corporation (URC) joined the trend with a 7.6% price drop, triggered by its 16% y-o-y decline in net income for FY 2017 which stood at P11 B, dragged by the rise of input and financing costs, losses in joint ventures and unfavorable exchange rates.

Aboitiz Power Corporation (AP) also dropped this month by 6.1% despite announcing the operation of the 8.5 MW Maris hydro powerplant in Ifugao Province, a joint venture between AP and Norway's SN Power AS.

With a 4.3% decline in February, Petron Corporation's (PCOR) share prices offset its 4.3% increase in the previous month. This arose despite the company's expression of interest in putting up charging hubs for electric vehicles in select retail stations, which is another possible revenue stream for PCOR.

While most of the stock prices were down, Jollibee Foods Corporation remained a gainer last month with a 4.8% increase after reporting a 15% y-o-y increase in net income to P7.1 B for the FY 2017.

On the other hand, Meralco (MER) settled in the red with a 0.6% decline. The company posted core net income of P20.2 B, a 3% increase y-o-y for FY 2017, driven by volume growth and controlled expenses.

While most of the stock prices were down, Jollibee Foods Corporation remained a gainer last month with a 4.8% increase after reporting a 15% y-o-y increase in net income to P7.1 B for the FY 2017. JFC continued to gain market confidence given its continuous store network expansion and sustained same store sales growth.

Company	Symbol	01/30/18 Close	02/28/18 Close	% Change
Ayala Corporation	AC	1,050.00	1,057.00	0.7%
Metro Pacific Investments Corporation	MPI	6.46	5.63	-12.8%
SM Investments Corporation	SM	1,025.00	940.00	-8.3%
DMCI Holdings, Inc.	DMC	14.40	13.92	-3.3%
Aboitiz Equity Ventures	AEV	76.80	77.40	0.8%
GT Capital Holdings, Inc.	GTCAP	1,345.00	1,350.00	0.4%
San Miguel Corporation	SMC	144.00	141.00	-2.1%
Alliance Global Group, Inc.	AGI	15.34	14.86	-3.1%
LT Group Inc.	LTG	22.45	22.95	2.2%
JG Summit Holdings, Inc	JGS	76.50	72.00	-5.9%

Source of Basic Data: PSE Quotation Reports

The Holdings sector ended February with a 4.2% decline, with its constituent stock prices having mixed results. Metro Pacific Investments Corporation (MPI) posted the biggest loss at 12.8%, following the sentiment caused by the Philippine government contesting the arbitral ruling of the High Court of Singapore favoring Maynilad Water Services, Inc. (a subsidiary of MPI) in a P3.4 B dispute in 2015.

SM Investments Corporation (SM) followed MPI in the red with an 8.3% decrease after reporting a net income of P32.9 B for FY 2017 (+6% y-o-y) which came in below consensus estimates.

JG Summit Holdings, Inc. (JGS) also plunged in February, losing 5.9% of its value, as the Department of Transportation (DOTr) rejected the proposal of the consortium of JGS and Filinvest Development Corporation to expand and develop Clark Airport.

DMCI Holdings, Inc. (DMC) also dipped in February by 3.3%. DMC announced that it will deliver P9.4 B worth of residential units in 11 nearly sold-out condominium buildings in Metro Manila this year.

Shares of Alliance Global Group, Inc. (AGI) also slipped last month by 3.1% despite the company announcing that it will be allocating P3 B for a Skytrain monorail project that would connect the company's property from BGC to a Metro Rail Transit (MRT) station.

After an impressive 29% increase in stock price in January, San Miguel Corporation (SMC) joined other stocks that ended in the red this month with a decline of 2.1% despite announcing that it would set P700 B for capital expenditure for the next five years.

On the other hand, GT Capital posted a slight increase of 0.4%, with growth continuing to be driven by its banking and financial services activities.

Ayala Corporation (AC) posted an uptick of 0.7% as the company announced that its subsidiary AC Energy Holdings, Inc. anticipates hitting its target capacity of 2,000 MW by FY 2019, a year ahead of their target.

Aboitiz Equity Ventures (AEV) joined the gainers last month, as it posted a 0.8% increase for February. The company announced that it would sell 51% of its stake of cash remittance and payments firm PETNET Inc. to its thrift bank arm City Savings Bank and Union Properties, Inc. for P1.2 B as it consolidates its interests in banking and financial services.

LT Group (LTG) gained most in the sector last month, with its 2.2% rise. LTG and six other conglomerates in partnership with Changi Airport recently announced plans to develop the Ninoy Aquino International Airport.

Company	Symbol	01/30/18 Close	02/28/18 Close	% Change
Ayala Land, Inc.	ALI	44.25	41.10	-7.1%
SM Prime Holdings, Inc.	SMPH	36.90	35.30	-4.3%
Robinsons Land Corporation	RLC	20.90	19.40	-7.2%
Megaworld Corporation	MEG	4.95	4.85	-2.0%

Source of Basic Data: PSE Quotation Reports

Most share prices in the Property sector fell this month, reflective of the sector shedding off 5.5% of its value.

Most share prices in the Property sector fell this month, reflective of the sector shedding off 5.5% of its value. Robinsons Land Corporation (RLC) declined most at 7.2% despite announcing plans of ramping up investment in its office segment, particularly by developing up to two information technology parks in the next two to three years.

Ayala Land, Inc. (ALI) also suffered a huge drop of 7.1% despite announcing a 21% y-o-y increase in FY 2017 net income of P25.3 B, in line with consensus estimates, attributable to strong performances across its business segments.

Meanwhile, SM Prime Holdings, Inc. (SMPH) also suffered a 4.3% drop in share price despite booking recurring income of P27.6 B, an increase of 16% y-o-y for FY 2017.

Lastly, Megaworld Corporation (MEG) joined the downtrend with a 2% decrease despite announcing its plan of adding P54 B investment to its Westside City township development.

Company	Symbol	10/30/17 Close	10/30/17 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,569.00	1,520.00	-3.1%
Globe Telecom	GLO	1,900.00	1,722.00	-9.4%
International Container Terminal Services Inc.	ICT	113.50	110.00	-3.1%
Puregold Price Club Inc.	PCGMF	53.30	51.90	-2.6%
Robinsons Retail Holdings, Inc.	RRHI	94.60	95.00	0.4%

Source of Basic Data: PSE Quotation Reports

The Services sector picked up its pace, increasing by 2.1% this month despite having most shares ending on the red. Globe Telecom (GLO) ended the month with the biggest decline, plunging by 9.4%, given a 5% y-o-y decline in net income for FY 2017 to P15 B.

Philippine Long Distance Telephone Company (TEL) followed GLO with a 3.1% drop in share price. TEL announced that it would be surrendering radio frequencies to government at no cost, of which was previously assigned to Connectivity Unlimited Resource Enterprise, Inc. (CURE), now a wholly-owned subsidiary of TEL's subsidiary, Smart Communications (Smart)

International Container Terminal Services, Inc. (ICT) also ended in the red this month, shedding 3.1% of its stock price despite announcing its additional capex investment of $250 M in Iraq for the second phase development of its port infrastructure in Basra Gateway Terminal at Umm Qasr.

Puregold Price Club, Inc. (PGOLD) closed the month with a 2.6% decrease in stock price despite the supermarket chain's expansion in Quezon and Leyte provinces.

On the other hand, Robinsons Retail Holdings, Inc. (RRHI) bucked the trend, gaining 0.4% in February as the company continued to expand its retail network.

Company	Symbol	10/30/17 Close	11/29/17 Close	% Change
Semirara Mining and Power Corporation	SCC	37.90	36.80	-2.9%

Source of Basic Data: PSE Quotation Reports

Meanwhile, the Mining and Oil sector was the biggest gainer among sectors in February, ending with a 2.6% increase, slightly easing from last month's 3.8% growth. Although Semirara Mining and Power Corporation (SCC) was down for the month, other mining shares like Philex Petroleum (PXP) headed north. SCC slipped by 2.9% even though the company grew its net income by 18% y-o-y to P14.1 B in FY 2017. This, however, came below consensus estimates.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	21,915.52	-42.4%	1,153.45	-36.4%
Industrial	24,262.10	-22.0%	1,276.95	-13.8%
Holdings	36,024.17	-11.5%	1,896.01	-2.2%
Property	31,786.56	0.4%	1,672.98	11.0%
Services	44,434.85	33.8%	2,338.68	47.9%
Mining and Oil	8,546.55	119.6%	449.82	142.7%
Total	**168,293.96**	-5.8%	**8,857.58**	4.1%
Foreign Buying	64,246.93	-28.8%	3,381.42	-21.3%
Foreign Selling	79,550.63	-9.7%	4,186.88	-0.2%
Net Buying (Selling)	-15,303.70	-795.3%	-805.46	-868.5%

Source of Basic Data: PSE Quotation Reports

The local bourse's turnover reversed its trend from the previous month, ending with a 5.8% drop compared to 34.2% increase in January.

The local bourse's turnover reversed its trend from the previous month, ending with a 5.8% drop compared to 34.2% increase in January. The local market reflected a foreign capital outflow, with net selling recorded at P15 B, a result of 18 days of continued net selling by foreign investors, which extended until March 9. Mining and Oil turnover rallied with a 119.6% increase in total turnover from the previous month, in contrast to its lagging position of -15.4% in January, as commodity prices improved abroad. The Services and Property sectors followed next with 33.8% and 0.4% increases, respectively. On the other hand, the Financial sector turnover suffered the biggest decline last month with a 42.4% loss.

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: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2016				Nov-2017			Dec-2017		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	2,195,914	4.1%	2,473,132	12.6%	243,492	18.7%	16.4%	223,092	-8.4%	34.9%
Tax	1,980,390	9.1%	2,250,678	13.6%	228,250	22.4%	15.4%	197,007	-13.7%	29.1%
BIR	1,567,214	9.3%	1,772,321	13.1%	179355	25.8%	14.4%	151,246	-15.7%	29.0%
BoC	396,365	7.8%	458,184	15.6%	46366	8.0%	15.3%	45,078	-2.8%	29.4%
Others	16,811	14.8%	20,173	20%	2,529	145.5%	233.2%	683	-73%	23.7%
Non-Tax	215,446	-26.5%	222,415	3.2%	15,242	-18.0%	33.2%	26,085	71.2%	105.4%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	252,115	11.1%	10.4%	330,240	31.0%	16.5%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	41,839	0.6%	15.7%	44,761	7.0%	23.1%
Interest Payments	304,454	-1.6%	310,541	2%	20,583	0.7%	5.3%	20,554	-0.1%	7.8%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	(8,623)	60.4%	55%	(107,148)	1142.6%	-9.4%

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)

	2016		2017		3rd Quarter 2017		4th Quarter 2017	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	(1,199)	-116.5%	(2,518)	110.0%	1,850	-976.6%	(3,297)	-278.2%
Balance of Trade	(1,199)	-116.5%	(2,518)	110.0%	1,850	-976.6%	(3,297)	-278.2%
Balance of Goods	(35,549)	52.5%	(41,191)	15.9%	(8,647)	-11.2%	(13,123)	51.8%
Exports of Goods	42,734	-1.1%	48,199	12.8%	12,875	5.4%	11,337	-11.9%
Import of Goods	78,283	17.7%	89,390	14.2%	21,523	-1.9%	24,461	13.6%
Balance of Services	7,043	29.1%	9,496	34.8%	3,296	50.0%	2,236	-32.2%
Exports of Services	31,204	7.4%	35,605	14.1%	9,797	12.7%	9,163	-6.5%
Import of Services	24,160	2.3%	26,109	8.1%	6,501	0.1%	6,927	6.6%
Current Transfers & Others	-	-	-	-	-	-	-	-
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	57	-8.7%	18	-0.2%	14	-22.0%
Financial Account	175	-92.4%	(2,208)	-1361.6%	442	-146.7%	(2,033)	-559.9%
Direct Investments	(5,883)	5803.4%	(8,110)	37.9%	(2,117)	13.3%	(2,646)	25.0%
Portfolio Investments	1,480	-72.9%	3,889	162.7%	875	-776.5%	(114)	-113.0%
Financial Derivatives	(32)	-673.4%	(51)	57.4%	45	-892.2%	41	-9.9%
Other Investments	4,610	-249.8%	2,064	-55.2%	1,638	54.9%	686	-58.1%
III. NET UNCLASSIFIED ITEMS	892	-136.6%	(610)	-168.4%	(2,088)	349.9%	1,754	-184.0%
OVERALL BOP POSITION	(420)	-116.1%	(863)	105.4%	(662)	-329.3%	505	-176.3%
Use of Fund Credits	-	-	-	-	-	-	-	-
Short-Term	-	-	-	-	-	-	-	-
Memo Items								
Change in Commercial Banks	1,421	-222.0%	409	-71.2%	1,387	-1857.1%	(1,006)	-172.5%
Net Foreign Assets	1,381	-229.7%	442	-68.0%	1,363	-9047.3%	(970)	-171.2%
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)

	2017		Nov-2017		Dec-2017	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	2,799,944	14.0%	3,148,179	8.4%	2,937,520	-6.7%
Sources:						
Net Foreign Asset of the BSP	4,024,541	2.3%	4,003,568	0.8%	4,095,224	2.3%
Net Domestic Asset of the BSP	133,642	0.6%	172,564	8.8%	59,095	-65.8%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,257,603	16%	3,407,947	17.7%	3,446,508	17.2%
Money Supply-2	9,532,416	13.1%	9,868,176	14.8%	9,938,108	13.9%
Money Supply-3	3,257,603	13.2%	10,262,502	14.8%	10,351,566	14%
MONEY MULTIPLIER (M2/RM)	3.4		3.1		3.4	

Source: Bangko Sentral ng Pilipinas (BSP)

March 2018

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