July 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

Muscular real economy indicators, like bulked up growth in infrastructure spending, capital goods imports, and manufacturing output, and foreign direct investments should carry the economy to faster GDP growth in Q2 to at least 7%. This improves on the 6.8% recorded in Q1. The positive data should overcome some negative sentiment—e.g., inflation speeding up, peso under siege—in Q2 and set the stage for the higher growth trajectory for the rest of the year.

Macroeconomy

Positive economic fundamentals still surround the country, reinforcing our view that the economy will likely expand faster in Q2, from 6.8% in Q1. Infrastructure spending and manufacturing output remained in high gear, while tax revenue collections expand by double-digits. FDI inflows, likewise, reached $3.2 B by year-to-date (YTD) April, up by 24.3%. These, along with other economic indicators, should support a faster pace growth starting Q2.

- Infrastructure spending surged by 28.5% in May, after a record 95.9% in April.
- Capital goods imports bounced back in April, surging by 29.3% after a slight dip in March.
- Manufacturing output expanded by 19.8% in May after the 29% uptick in April.
- Inflation rate speeded to 5.2% in June from 4.6% in May, due to food and oil price gains.
- MB raised policy rates by 25 bps during their June 20 meeting to cool inflation expectations.

Outlook: More recent positive real sector data, along with robust gains in jobs creation and bullish consumer sentiment in Q2 & Q3, point to a faster 7% growth trajectory in Q2. We maintain our view that inflation will have little upside and should taper off starting in Q3.

Bonds Market

After pricing in four Fed rate hikes in 2018, local bond investors and traders focused on rising inflation. Thus, they tendered less amounts for the GS auctions causing yields to rise once again especially for the 91-day T-bills. Reflecting greater risk-aversion, trading volumes slumped in the secondary market driving up yields as well.

- Yields in 364-day T-bills jumped the most by 21.2 bps to 4.4% while it rose only by 12.2 bps for 20-year T-bonds.
- In the secondary market, volume plummeted by 34.2% in May to mark the lowest for 2018.
- Yields in 91-day T-bills soared by 57.4 bps to 3.907%, while in 20-year bonds only climbed by 15.2 bps.
- 15-year and 20-year ROPs yields rose by 9 to 12 bps, while similar US treasuries were stable.

Outlook: As local bond investors put more emphasis on the specter of faster pace of inflation, having priced in four Fed rate hikes in 2018, demand for bonds and yield movements should come more under the influence of developments in the inflation front. We do expect the inflation rate to peak in June or July since rice prices may soften with the recent availability of imported rice, and crude oil prices appear to have already began to fall below $70/barrel.

Equities Market

PSEi continued its freefall to an 18-month low at 6,986.88 on June 25, plagued by global uncertainties, such as sustained funds outflow from emerging markets, sharp climb of crude oil prices, threats of a trade war, and slower growth in the Eurozone, intensified by negative domestic sentiments due to accelerating inflation and weakening peso.

- PSEi lost another 300 points in June, putting its YTD decline to 17.5%.
- All sectors remained in the red, with Services (-16.7%) and Financial (-14.9%) sectors losing most.
- Property (-2.7%) and Industrial (-8.9%) escaped the onslaught of double-digit losses.
- Outflow of foreign funds from the local bourse accelerated yet again by 47.4% to P13.4 B.

Outlook: Positive news in the coming months such as Q2 GDP growth of 7% or higher, clear slowing of inflation, and stable exchange rate, together with better earnings reports for Q2 and Q3, could spark the rally to overcome finally the wildly negative vibes and end the year on a stronger note at 7,900 – 8,200.

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%	6.8%	6.8%	6.9%	6.7%	7-7.5%
Inflation Rate (June)	4.6%	5.2%	4.3%	1.3%	2.9%	4.2-4.5%
Government Spending (May)	42.7%	11.5%	25%	4.1%	12.6%	12.0%
Gross International Reserves ($B) (June)	79.2	77.7	79.8	80.7	81.6	80.0
PHP/USD rate (June)	52.20	53.05	51.93	47.49	50.40	53.90
10-year T-bond yield (end-May YTD bps change)	6.099%	6.55%	5.935%	4.15%	4.93%	6.25-6.65%
PSEi (end-June YTD % change)	7,497.2	7,193.7	-17.5%	6,840.6	8,558.4	7,900-8,200

Sources: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Philippine Stock Exchange (PSE), Philippine Dealing System (PDS), and Authors' Calculations
Note: FMIC forecasts for 2018 were revised in July 2018.

Q2 DATA SHOW FASTER GROWTH PACE

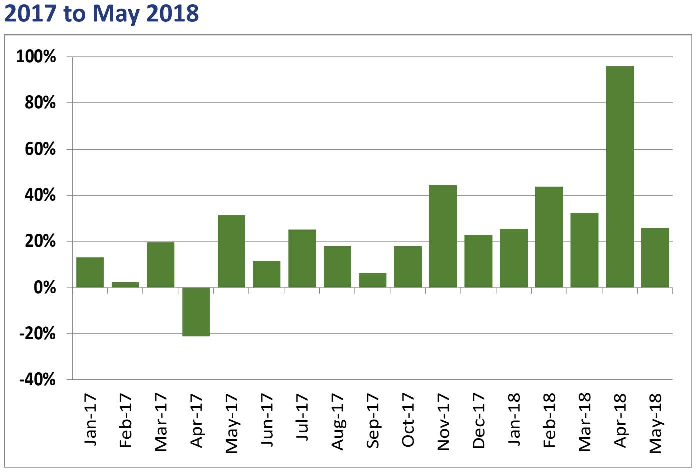
Elevated growth on infrastructure spending (+25.6%), capital goods imports (+29.3%), manufacturing output (+19.7%) and foreign direct investments (+13.2%) suggest GDP expansion in Q2 at 7% or higher, an acceleration from 6.8% in Q1. Infrastructure spending has soared above-20% in the last seven consecutive months. Despite the real economy's strength, some negative sentiment, however, still emerged as headline inflation accelerated to 5.2% in June, a 9-year high, goading the Monetary Board (MB) to raise policy rates by another 25 basis points (bps) to 3.50%. The exchange rate also depreciated further by 1.6% from May and contributed to the negative vibes.

Outlook: We think the government (particularly, infrastructure) spending will continue to ramp up--double-digit growth over the last eight months—and the manufacturing output expansion at an unusually fast pace, will provide the basis for robust job creation (and consumer spending). Consumer sentiment for Q2 did go up and appeared stable towards Q3. These support our view that GDP gains will accelerate to 7% in Q2 and the rest of the year. Inflation will likely start slowing down in Q3 as rice imports have arrived and the September harvest just around the corner while the US Department of Energy expects crude oil prices sliding all through H2.

Infra and Capital Outlay Continues to Drive NG Spending

Spending on infrastructure and capital outlay continued its rapid rise as it expanded by 26% in May (year-on-year, y-o-y) after a record climb of 95.9% in April. This drove National Government (NG) spending higher by 11.5% to reach P292 B in May, the 7th consecutive month of above-10% gains. The sustained remarkable spending performance in the first five months resulted in a P1.325 T or 25% more than in the same period last year.

Figure 1 - Infrastructure Spending Growth Rate (y-o-y), Jan 2017 to May 2018



Source of Basic Data: Department of Budget and Management (DBM)

Various road widening and improvement projects by the DPWH, as well as the repair and rehabilitation of schools by the Department of Education, largely contributed to the increase in infrastructure spending. The procurement of medical facilities and medical equipment by the Department of Health, likewise, boosted capital outlays.

April and May expenditures, which together stood at P553.1 B, suggest that the NG will hit its disbursement target of P813 B in Q2 and this augurs well for more job creation and healthy economic activity.

Capital Goods Imports Swell by 29.3% in April

The imports of capital goods growth jumped by 29.3% (y-o-y) in April, handily overpowering the minimal 2.9% slippage in March. Gains among all sub-categories, led by the imports of telecommunication equipment and electrical machineries (+35.7%), as well as the large demand for power generating and specialized machines (+17.6%), resulted in the superb increase in capital goods imports. These imports captured 36.9% of total imports.

Consistent with the past trend, raw materials & intermediate goods imports captured the largest share of total imports at 40.7%, expanding by 11.8% due to hefty demand for semi-processed raw materials (especially the manufactured and chemical items). Higher imports of durable (i.e., passenger cars and home appliances) and nondurable goods (i.e., beverage, articles of apparel, among others) also resulted in a fast increase in consumer goods imports (+29.9%). Likewise, the mineral fuels, lubricant and related materials category further increased by 27.1% amidst hefty gains in prices of coal and petroleum products in the world markets.

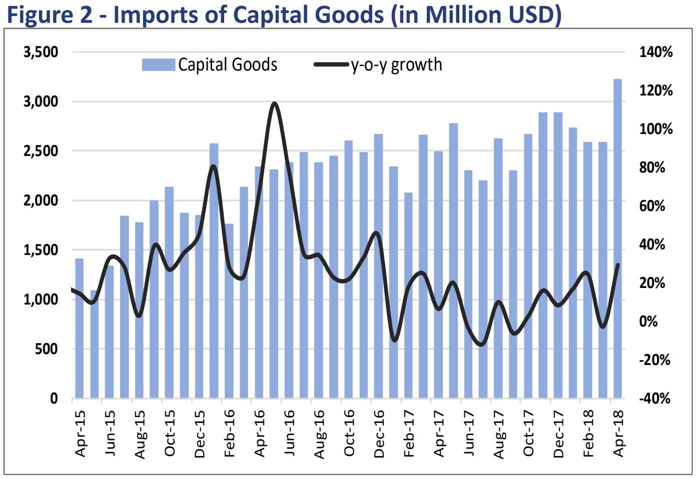
The positive performance across board pushed imports higher, growing by 22.2% y-o-y from virtually flat a month ago. Coupled by the continued negative performance in

NG maintained double-digit growth in tax revenue collections at 13.1% in May, which along with the remarkable spending performance, point to a more brisk economic activity.

exports, PH incurred a trade deficit of $3.6 B, significantly higher than the $2.6 B recorded in March.

We maintain our view that large spending on public and private investment will continue to drive capital goods imports.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

FDI Hits $1 B in April, bring up YTD to $3.2 B, a 24.3% Rise

PH yielded a net inflow of $1 B in foreign direct investments (FDI) in April, a 13.2% jump y-o-y. Gains across all capital placements reflect the positive sentiment of investors towards the country's economic prospects. The remarkable gains in the first four months of the year brought the year-to-date (YTD) level to $3.2 B, representing 24.3% increase from a year-ago level.

Net equity capital, which is 3x larger than in the same month last year to $247 M, largely propelled FDI gains. Equity capital placements came mostly from Singapore, Hong Kong, Netherlands, the United States, and Japan which went into manufacturing; arts, entertainment and recreation; real estate; financial and insurance; and wholesale and retail trade activities, among others. Meanwhile, debt instrument inflows and reinvestment of earnings added $705 M and $75 M, respectively.

Manufacturing Output Soars by nearly 20% in May

The country's manufacturing output (measured by Volume of Production Index or VoPI) continued to surge, expanding by 19.8% in May, on top of the 29% (revised) in April. This, likewise, marked the 5th straight month of above-15% gains in 2018, indicating strong economic and job expansion.

Remarkable growth in 14 out of 20 industry sub-groupings, with seven groups posting above-10% growth, resulted in another stellar performance in May. These included printing (+117.8%), petroleum products (+33.3%), food manufacturing (+32.5%), and textiles (+18.8%), among others. Notably, miscellaneous manufactures also jumped by 19.2%, suggesting broad-based expansion in the manufacturing sector.

The main industries that saw declines included tobacco products (-41.1%), transport equipment (-8.7%), both hit by higher excise taxes, as well as basic metals (-5.2%) and footwear and wearing apparel (-5.2%).

YTD, the industrial output growth climbed by 20.9%, nearly three times faster than the 7.3% posted in the same period last year.

Revenue Collection Still Above 10%-Mark in May

NG maintained double-digit growth in tax revenue collections at 13.1% in May, which along with the remarkable spending performance, point to a more brisk economic activity. Total revenue collections in May stood at P259 B (+13.5%), attributed to higher tax take by both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC). Non-tax collections also contributed to higher revenue income in May.

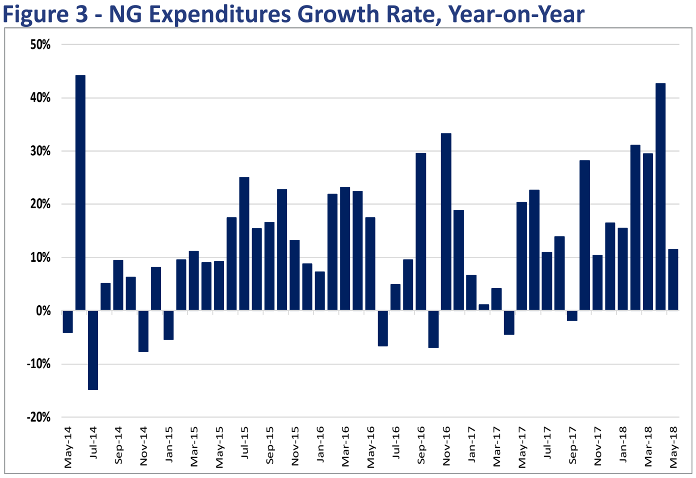
Total tax revenues' gain of 13.1% for the month relied on a 33.2% jump in BOC collections, while the BIR raked in a total of P172 B, or 8.4% more than in the same month last year, still reflecting the positive impact of TRAIN. BOC collections soared due to higher imports, especially for petroleum and coal products, supported by the 4.7% (y-o-y) peso depreciation.

While total spending climbed by 11.5% in May or much slower than the 43% lift in April, it represented the 8th consecutive month of double-digit growth. Because NG disbursements outstripped revenue collections, NG

Price movements in June surged to a 5-year high of 5.2% (y-o-y) from 4 6% in the preceding month.

recorded a P32.8 B deficit in May. The cumulative deficit for the first five months reached P138.7 B, two and a half times higher than the P63.6 B a year ago. Nonetheless, YTD budget deficit only reached a quarter of the full-year target deficit of P567 B.

Figure 3 - NG Expenditures Growth Rate, Year-on-Year



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

Removing interest payments, the NG primary deficit in May decreased to P11.8 B. YTD, NG still eked out a primary surplus of P2.7 B, down from P68.7 B for the same period a year ago.

We retain our view that healthy revenue and spending performance will help drive PH economy on to a faster track.

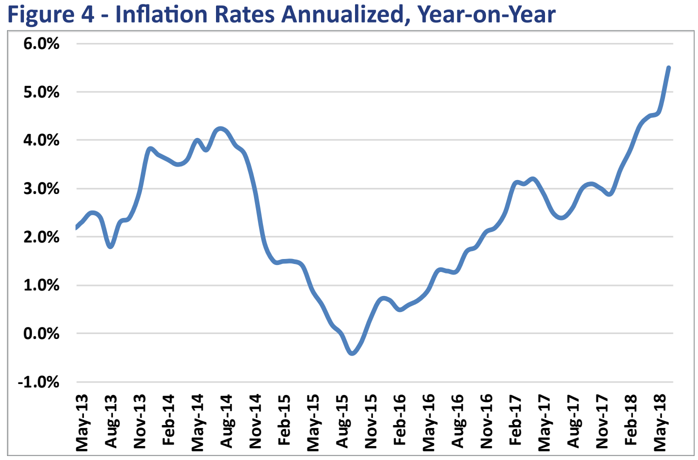
Inflation Hits 5-Year High of 5.2% in June

Price movements in June surged to a 5-year high of 5.2% (y-o-y) from 4.6% in the preceding month. Significant increments in heavily-weighted commodities resulted in a fast price acceleration, bringing the YTD rate above the BSP's target, 0.3 percentage points higher than the upper limit of 4%.

We observed highest price gains in the housing, water, electricity, gas, and other fuels emanating from higher cost of electricity and fuel. Price mark-ups in the international prices of crude oil (i.e., WTI and Brent), which rose by 53.1% y-o-y (on average) in June largely drove up the index, likewise resulting in faster price increments in the Transport index. Significant upticks in rice, corn, cereal, bread, vegetables, tobacco (among others) also pushed the heavily-weighted food and non-alcoholic (FNAB) & alcoholic beverages and tobacco (ABT) indices, which recorded 0.3 and 0.2 percentage points increase, respectively. The latter could still be affected by the TRAIN's higher excise tax on alcoholic beverages and cigarettes.

Meanwhile, price deceleration in some food baskets resulted in the decline of restaurants and miscellaneous goods and services index. Health, and Recreation & Culture indices, also posted slowdown. Only clothing and footwear index maintained the past month's rate.

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



Source of Basic Data: Philippine Statistics Authority (PSA)
Note: base year used is 2012

Inflation Year-on-Year Growth Rates	Apr2018	Mar2018	YTD
All items	5.2%	4.6%	4.3%
Food and Non-Alcoholic Beverages	6.1%	5.7%	5.5%
Alcoholic Beverages and Tobacco	20.8%	20.5%	18.1%
Clothing and Footwear	2.2%	2.2%	2.1%
Housing, Water, Electricity, Gas, and Other Fuels	4.6%	3.0%	3.1%
Furnishing, Household Equipment and Routine Maintenance of the House	3.0%	2.9%	2.7%
Health	2.7%	2.8%	2.5%
Transport	7.1%	6.2%	5.5%
Communication	0.4%	0.3%	0.3%
Recreation and Culture	1.4%	1.5%	1.4%
Education	4.0%	1.8%	2.2%
Restaurants and Miscellaneous Goods and Services	3.6%	3.7%	3.1%

Source of Basic Data: Philippine Statistics Authority (PSA)
Note: Green font - means higher rate (bad) vs. previous month
Red font – means lower rate (good) vs. previous month

PH exports performance remained lacklustre, posting an 8.5% decline to $5.1 B in April, marking the 4th consecutive month of negative growth.

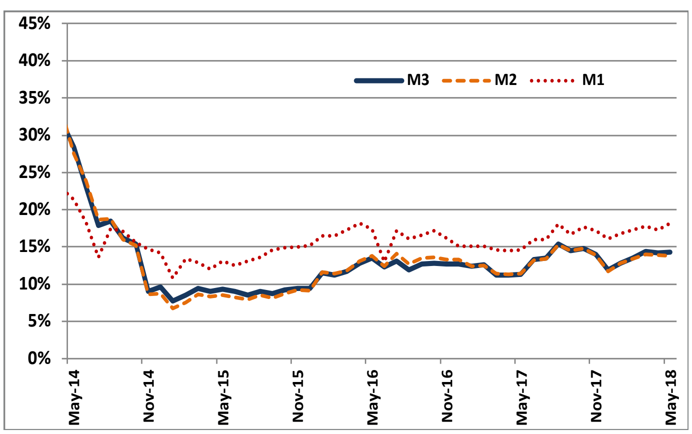
We maintain our view that inflation will continue to lodge above the BSP's target but will start to taper off closer to 4% after Q2 anchored on the slowdown of crude oil prices and in anticipation of lower cost of rice which will hopefully, be brought about by the proposed rice tariffication and the September harvests.

Money Growth Picks Up Pace in May, MB Further Raises Key Policy Rates

Monetary growth (M3) aggregates picked up pace slightly in May, as these grew by 14.3% (y-o-y), up from 14.2% faster than the previous month driven by the expansion in loans used in productive activities. Narrow Money (M1) growth, likewise, showed a faster increase at 18.2%, while Broad Money (M2) slightly decelerated to 13.8%. The continued expansion in money supply, as well as the uptick in inflation, provided the Monetary Board (MB) reason to further raise key policy rates (i.e., RRP and overnight lending and deposit rates) by another 25 bps to 3.50% during their June 20 meeting.

Sustained by the continued increase in production loans, the commercial bank lending which comprised 88.5% of banks' loan portfolio, expanded by 19.3%, albeit slower than the 19.6% recorded in the previous month. Bulk of these loans went to wholesale and retail trade, repair of motor vehicles and motorcycles; real estate activities; financial and insurance activities; and manufacturing, among others.

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



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

Net foreign assets (NFA) of monetary authorities increased to 1.7% from 0.5% in the preceding month, reflecting higher dollar receipts from the BPO sector. We think that the BSP will raise policy rates again in Q3-2018 by at least another 25 bps in order to douse cold water on expectations of higher inflation.

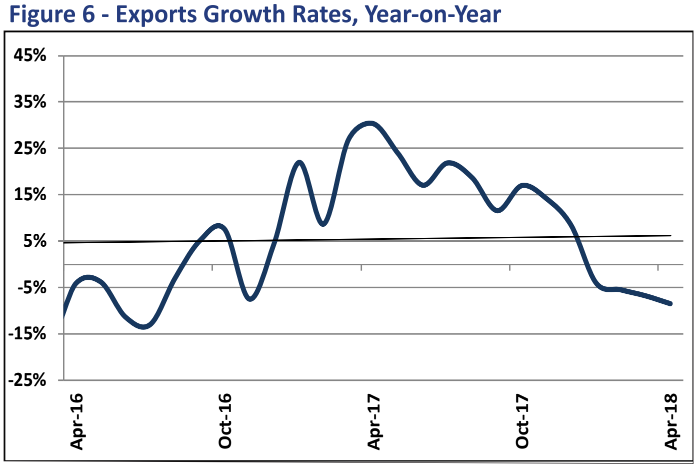
Exports Still in the Red in April

PH exports performance remained lacklustre, posting an 8.5% decline to $5.1 B in April, marking the 4th consecutive month of negative growth. This resulted in a 6.2% overall slump in the first four months of the year, showing a big reversal from the 26.7% gains in the same period last year.

Despite the overall downtrend, electronic products exports continued to expand by 5.5% y-o-y to $2.9 B, at the same time accounting for the biggest share of exports at 58%. Semiconductors, which had the biggest share among electronic products at 43.8%, also posted a 5.3% increase to $2.2 B. Exports of other mineral products at 4th place, likewise, registered an 3.3% increase to $123 M (comprising 2.5% of total exports).

The rest of the top five commodities came in lower, starting off with the exports of other manufactured goods, which ranked 2nd. Outward shipments of these items declined by 2.1%. Export sales of machinery & transport equipment and ignition wiring sets used in vehicles, aircrafts & ships, likewise, plummeted by 45% and 24.4%, respectively.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

The PH peso breached P53/$1 in June, as it succumbed to the dollar's strength (which rose by 1.8% in June) and rising domestic inflation.

Surprisingly in April, Hong Kong overtook the US in the first place; snagging 16.4% of total shipments valued at $838 M. Exports to Hong Kong posted a huge increase of 25.7%. Shipments to the US also grew by 14.1% (to $789.5 M and accounting for a 15.4% share of the total). Singapore, in 5th place, likewise showed a 9.1% increase. The huge decline in outbound trade to Japan and China more than offset the above gains. Export demand from these countries plunged by 30.2%and 4.6%, respectively.

Almost half of the total exports in April headed towards East Asian (EA) nations, valued at $2.5 B but outward sales to the region further declined by 13.6% due to lower demand from China and Japan. Shipments to the EU also decreased by 8.9% valued at $705.8 M. Meanwhile, exports to the ASEAN, which accounted for 16.3% of total shipments, registered a 4.5% expansion.

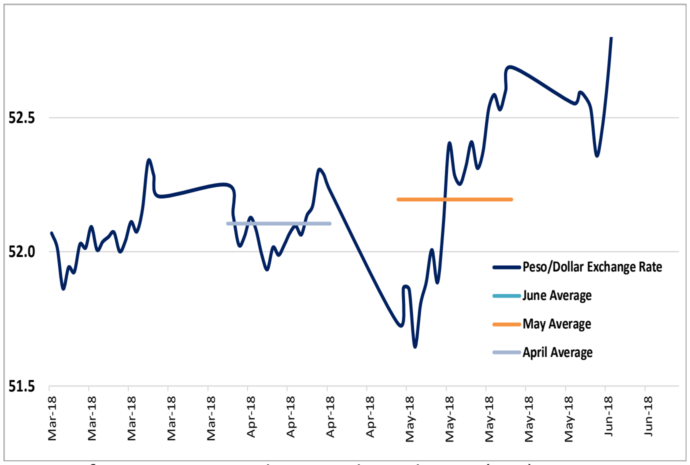
While exports performance showed to be rather weak in the first four months of the year, we think that the synchronized recovery in the US, EU, China and Japan will help boost PH exports starting late Q2.

Peso Still Succumbs to Losses against the Greenback

The PH peso breached P53/$1 in June, as it succumbed to the dollar's strength (which rose by 1.8% in June) and rising domestic inflation. The US dollar renewed its upswing following the Fed's rate hike in mid-June on the back of solid upswing in the US economy. June US data showed robust 245,000 job gains in May from 175,000 (both revised upward) a month ago, while wage rate gains remained weak. US manufacturing data showed a month-on-month (m-o-m) seasonally adjusted (s.a.) uptick of 0.6% in April, i.e., better than expected. Meanwhile, the widening PH trade deficits added pressure, bringing the peso to its lowest in 12 years. The peso averaged P53.05/$ in June, representing a 1.6% depreciation from previous month and marking the 6th consecutive month of peso depreciation in 2018. The pair hovered between a high of P53.52/$ and a low of P52.36/$, further widening the volatility measure to 0.43 from 0.32 in May.

Other emerging currencies also plunged tracking upbeat US data led by the Korean won (KRW). Huge outflows from Thailand and Malaysia still brought the baht (THB) and the ringgit (MYR) down. The yuan continued to edge downward as it struggles to endure trade war with the US. Massive sell-off and weak economic fundamentals, likewise, added pressure to the already weak Indonesian rupiah (IDR) (which broke through its 14,000 resistance, the lowest level since 2015).

Figure 7 - Daily Dollar-Peso Exchange Rate



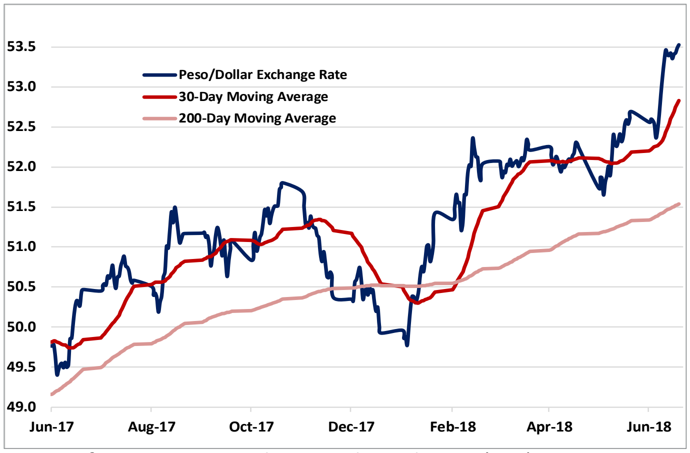
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Exchange Rates vs USD for Selected Asian Countries			
	Apr-18	May-18	YTD
AUD	2.1%	0.39%	1.7%
CNY	1.1%	1.43%	-2.2%
INR	2.8%	0.40%	5.4%
IDR	1.7%	-0.38%	3.2%
KRW	0.7%	1.66%	0.8%
MYR	1.9%	0.96%	-2.1%
PHP	0.2%	1.63%	5.2%
SGD	1.8%	0.65%	0.0%
THB	2.0%	1.63%	-0.6%

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

The actual USD/PHP rate in June remained above both the 30-day and the 200-day moving averages (MAs), suggesting that the peso will continue to feel the heat near and long term largely explained by the PH's large trade deficits and the US dollar strength.

Figure 8 - Dollar-Peso Exchange Rates & Moving Averages



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

Outlook

A sanguine view of Q2 has emerged from the formidable economic data released in June 2018.

- NG appears successful in ramping up infrastructure and capital outlays spending as May growth still hit 28.5% from 95.9% in April. Overall NG spending has risen at above-20% pace for the last seven consecutive months.

- Capital goods imports in April shot up by 29.3%, wiping out the minimal 2.9% drop in the previous month. In April these accounted for a sizeable 36.9% a close second to raw material imports.

- Manufacturing output continue to sizzle, as it gained by 19.7% in May after soaring by 29% in April. This suggests huge job gains that should support further spending and growth.

- A disconcerting trend may be the inflation rate that has raced to 5.2% in June after two months of seeming stability. But the recent sharp uptick in crude oil prices and in food prices (the latter due to insufficient imports) indicate that rising inflation primarily originates from the supply side, which monetary policy has little effect on.

- The 25 bps increase in the BSP's policy rate to 3.5% in June may not seem sufficient to ward off inflation expectations from rising.

- Exports, while still down in single-digits in April, may finally move back to positive growth territory in the light of the strong acceleration in the US economy starting Q2.

- The peso has pierced the P53/$1 resistance and appears likely to stay slightly above that in Q3 given the robust US economy and its higher interest rates.

We remain confident that Q2 GDP performance will hit 7% again given outsized gains in infrastructure spending, capital goods imports, and manufacturing. However, consumer confidence may be eroded unless inflation slows down back to below 5% in Q3 as we expect it will.

Forecasts			
Rates	July	August	September
Inflation (y-o-y %)	5.3	5.2	5.1
91-day T-Bill (%)	3.24	3.2	3.56
Peso-Dollar (P/$)	52.77	53.02	53.30
10-year T-Bond (%)	6.44	6.13	6.32

Source: Authors' Estimates

BONDS LOSE GLITTER AS FED HIKES RATES AND PH INFLATION SPEEDS UP

Local bond investors became more risk-averse and eschewed bonds after the US Fed raised its policy rates in mid-June and appeared to price in four Fed rates in 2018, as hinted by the latest Fed announcement. Thus, they tendered less amounts (both absolutely and relatively) in auctions and demanding higher yields especially in the 91-day T-bills to seek protection from the rising inflation rate. Similarly, the GS secondary market exhibited lower trading and higher yields across the board.

Outlook: As local bond investors have priced in possible four Fed rate hikes, their focus has shifted to the faster pace of inflation in June. However, as we expect inflation to peak in June or July due to arrival of rice imports in late June and softening crude oil prices, the upside in bond yields appear thin. Thus, there may be buying opportunities should our expectations turn into reality, especially, since market players do not necessarily share this view.

GS Auctions: Weak Demand, Higher Yields

Investors have shied away from the auctions of government securities (GS) in June resulting in less bids and yields slightly higher by 7 to 21 basis points (bps). Weaker demand translated into a sharp drop in total bids caused yields to rise.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
4-Jun	91-day	5.0	12.2	5.0	2.4	3.3	
	182-day	4.0	10.6	4.0	2.6	3.7	
	364-day	6.0	6.8	4.2	1.1	4.2	
11-Jun	91-day	5.0	8.9	5.0	1.8	3.3	
	182-day	4.0	7.2	4.0	1.8	3.7	
	364-day	6.0	7.8	3.4	1.3	4.3	
18-Jun	91-day	5.0	6.5	-	1.3	-	
	182-day	4.0	7.1	4.0	1.8	3.8	
	364-day	6.0	8.7	4.4	1.5	4.4	
25-Jun	91-day	5.0	6.7	3.6	1.3	3.5	18.4
	182-day	4.0	5.7	2.5	1.4	3.9	17.3
	364-day	6.0	3.2	5.9	0.5	4.4	21.2
Subtotal		**60.0**	**91.6**	**45.9**	**1.5**		
13-Jun	7-year	10.0	14.4	7.6	1.4	6.0	11.1
19-Jun	20-year	10.0	14.2	4.1	1.4	7.0	12.9
26-Jun	5-year	10.0	14.9	-	1.5	-	-
Subtotal		**30.0**	**43.5**	**11.7**	**1.5**		
All Auctions		**90.0**	**135.1**	**57.6**	**1.5**		

Source: Philippine Dealing Systems (PDS)

The tender-offer ratio (TOR) slipped to 1.5x for all auctions from 1.7x in May, as demand for the short-tenored Treasury bills (T-bills) dwindled. TOR for 91-day T-bills went down to 1.7x from 3x. Similarly, the TOR for 182-day T-bills dropped from 3.1x to 1.9x in June. Demand for 364-day T-bills remained fairly constant at 1.11x in June only slightly off from 1.13x in the previous month.

91-day T-bill yields rose by 18.4 bps to 3.484% by the end of June from 3.3%. Yields for 182-day T-bills went up by 17.3 bps to 3.873%. 364-day T-bills jumped a bit more to 4.429% some 21.2 bps higher than 4.198% in the previous month.

The pattern, albeit slightly milder, emerges from the P10 B auctions of Treasury bonds (T-bonds or FXTNs). Of the three auctions, the Bureau of the Treasury (BTr) rejected completely all tenders for 5-year T-bonds on June 26. The others showed similar demand as in May, and yields moved up a bit more mildly compared to T-bills as they edged higher by 11.1 bps to 12.9 bps.

The June 13 auction for 7-year FXTNs obtained a yield of 5.976%, which came in 11.1 bps higher than the previous month's results. Its TOR of 1.4x came in close to May's 1.5x. And for the June 19 offer of 20-year T-bonds, the awarded yield rose by 12.9 bps to 6.979%. The TOR slumped to 1.4x, substantially lower than 1.9x in a similar auction in April.

July auctions may show little upside in yields as BTr announced lower amounts to be offered.

Secondary Trading: Déjà vu as Volume Plunges While Yields Soar

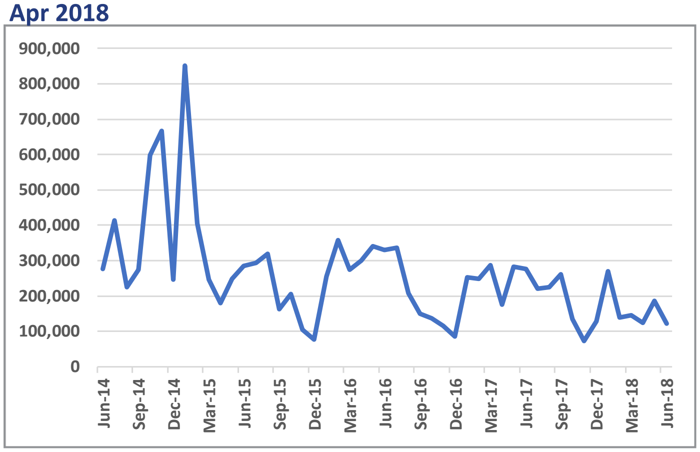
The overall demand (i.e., trading volume in secondary market) for bonds plunged by 5% in June driving up yields by 15.7 bps to 57 bps. In short, we saw an upward shift in the yield curve with a slight flattening.

Disenchantment with government bonds carried over to the secondary market for corporate bonds. Trading in the latter fell by 29.4% to P1.5 B in June (m-o-m) and 34.4% from May 2017.

Total trading volume of P122.7 B in June also meant a huge 34.4% drop from the previous month and the lowest turnover for 2018. The cumulative total for H1 also soured by 34.7%.

External factors—e.g., trade war, higher crude oil prices, a possible 4th Fed policy rate hike in 2018—and domestic concerns—e.g., faster inflation, weakening peso—have combined to discourage bond investors.

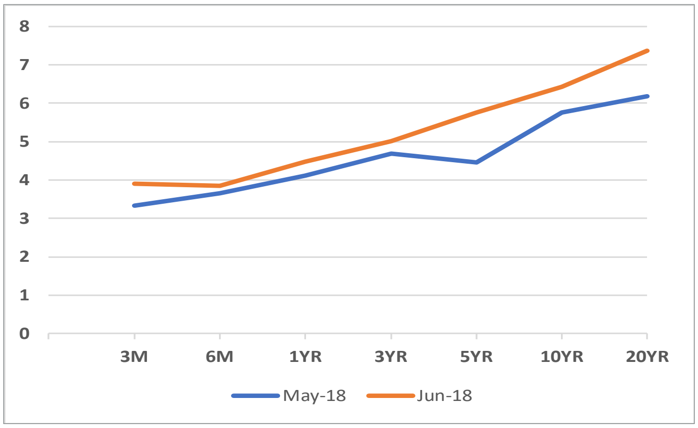
Figure 9 - Monthly Total Turnover (in Billion Pesos) Jan 2014 - Apr 2018



Source: Philippine Dealing Systems (PDS)

The tiniest jump in GS bond yields (PDST-R2) occurred in the 20-year tenor with a 15.2 bps to reach 6.912%, followed by the 6-month tenor which had a 19.7 bps increment to 3.845%. In contrast, shorter 3-month papers saw the highest jump of 57.4 bps to 3.907%. At the longer end of the curve, 10-year maturities leaped by 32.3 bps to 6.422%, while for those with 5-year remaining life scaled 34.9 bps to end June at 5.8%.

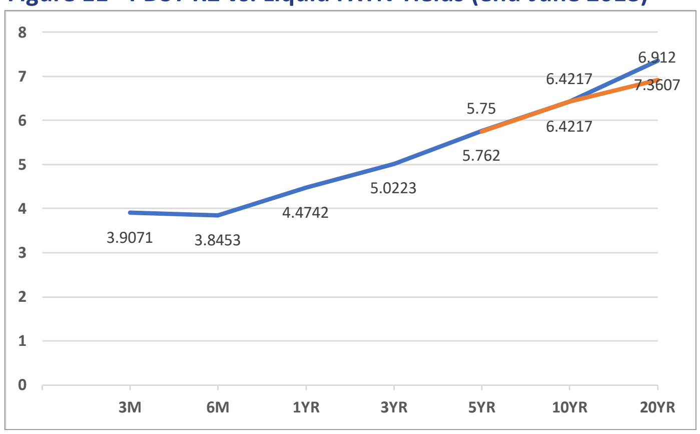
Figure 10 - End-Month Yield Curves (PDST-R2)



Source: Philippine Dealing Systems (PDS)

When comparing PDST-R2 benchmark yields with liquid FXTNs, the divergence narrowed further in June. For the 10-year tenor, the 10-year PDST-R2 benchmark actually equaled the liquid FXTN 10-63. The largest difference occurred in the 20-year tenor, but even that narrowed to 44.9 bps (PDST-R2 at 7.361% vs. RTB 25-01 at 6.912%) from 82.1 bps a month ago. In the case of the 5-year tenor, PDST-R2 yielded 5.762%, a slight 1.2 bps higher than FXTN 5-75. Still, the daily differences remain considerable, and so ideally BTr should again do bond exchanges for key tenors.

Figure 11 - PDST-R2 vs. Liquid FXTN Yields (end-June 2018)



Source: Philippine Dealing Systems (PDS)

Corporate Bonds: Fall in Top Five Corporate Bonds Pull Down Total Trading Volume

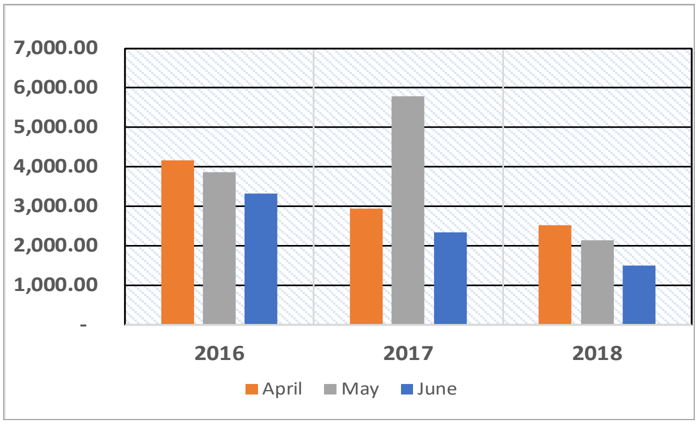
Disenchantment with government bonds carried over to the secondary market for corporate bonds. Trading in the latter fell by 29.4% to P1.5 B in June (m-o-m) and 34.4% from May 2017. The 34.2% (m-o-m) plunge in trading of the top five corporate bonds to P852 M in June pulled down total trading volume as it accounted for 55.9% of total trades.

SM Prime Holdings (SMPH) bond trading volume reached P310.6 M in June and overtook Ayala Land (ALI) to grab the prime spot among the top five corporate bond issuers. Even SMPH papers showed 22.8% less trading (m-o-m), ALI debt issues fell even more, i.e., by 42% to only P284.3 M. For ALI this was the lowest amount traded so far in 2018. Only SM Investment Corporation (SMIC) posted a gain among the top five, with its slight 2.3% upward nudge to capture the 3rd place. San Miguel Brewery (SMB) trades plunged by 46.2% to P91.2 M, the largest drop among the

Investors continued to shun EM financial assets (including bonds) driving ROPs yields higher at the longer end of the curve despite stable comparable US Treasuries.

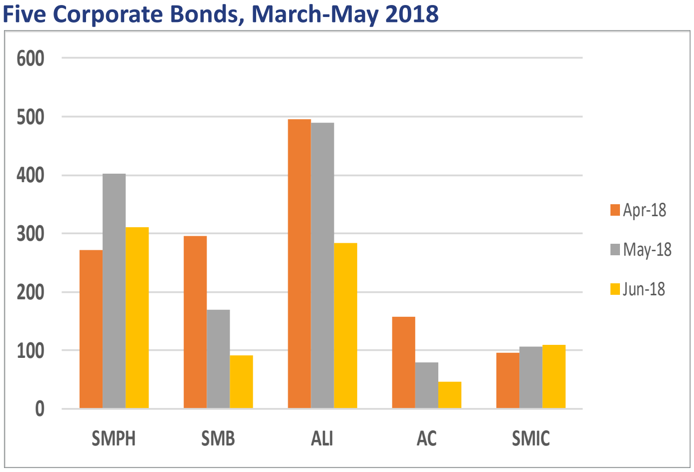
top five. And as in the past months, AC came in last with a volume of P46.7 M as it suffered a 41% decline.

Figure 12 - Total Corporate Trade Volume (in Millions Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 13 - Monthly Trading Volume (In Million Pesos) of Top Five Corporate Bonds, March-May 2018



Source: Philippine Dealing Systems (PDS)

Issuances and Disclosures

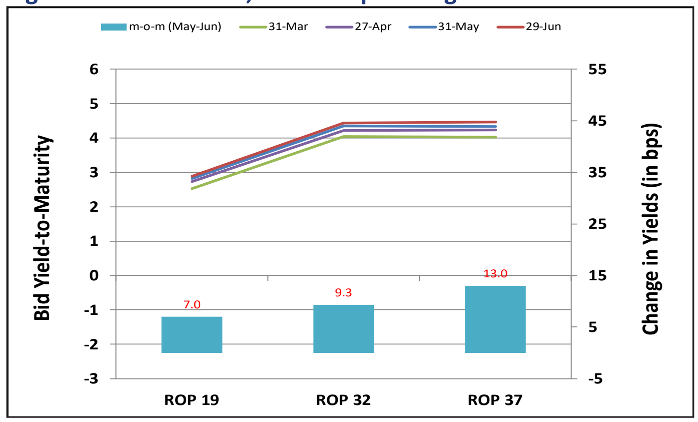
The top bond issuers had successfully prefunded their requirements earlier in the year or late last year and so we only saw one issue in June.

- The International Finance Corporation (IFC), the private investment banking arm of World Bank issued a 15-year peso bond due June 22, 2033 worth P4.8-B with a coupon rate of 6.3448%.

ROPs: Yields Move Higher, as Investors Flee from EM bonds

Investors continued to shun EM financial assets (including bonds) driving ROPs yields higher at the longer end of the curve despite stable comparable US Treasuries.

Figure 14 - ROPs Yield, M-O-M bps changes

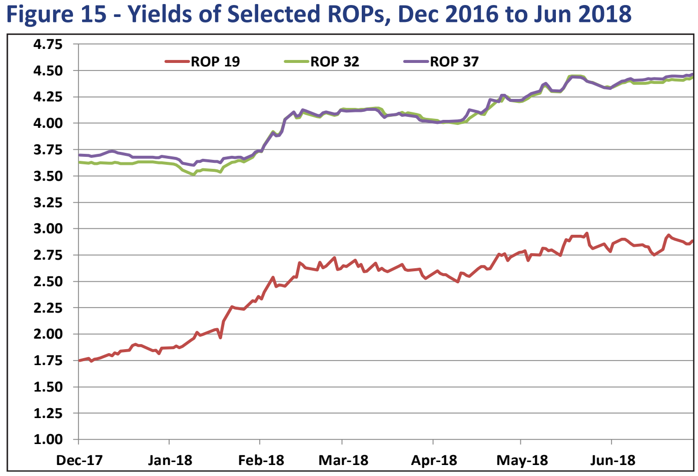


Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ROP-37 (with approximately 20 years to maturity) added 13 bps to last month's close to end June at 4.465%, the highest level in 52 months. ROP-32 (~15 years to maturity) likewise edged up 9.3 bps higher to close June at a 50-month high of 4.437%. At the short-end of the curve, ROP-19 picked up 7 bps to close at 2.885%. In short, we have seen a parallel upward shift of the yield curve (see Figure 15).

In contrast, US 20-year T-bond yields remained unchanged from end-May at 2.91%. Similarly, the 15-year T-bond yields only inched up by 1 bp to close June at 2.89%. The 6-month bond yields (comparable to ROP-19) ended at 2.11% or a tiny 3 bps uptick from a month ago.

Figure 15 - Yields of Selected ROPs, Dec 2016 to Jun 2018



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

In an attempt to accelerate the pace of debt-for-equity swaps and spur lending to smaller firms, the People's Bank of China (PBOC) reduced the reserve requirement ratio by 50 bps.

Thus, we saw a rise in the spreads between ROPs and their equivalent US T-bonds. For ROP-19 the spread widened to 77.5 bps from 73.5 bps in May. The minimal increase may be attributable to the fact that ROP-19 carries a high coupon rate of 9.875%. ROP-32 came in 155.7 bps higher than the US 15-year bond yield, up from 147.4 bps in May. Perceptions of greater credit risk likely drove ROP-37 some 155.5 bps above the US 20-year bond yield at end-June, up from 142.5 bps a month ago.

ASEAN + 1: Mixed Reactions to the Fed Rate Hike

US: As widely expected, the US Federal Reserve (Fed) raised its key policy rate target range by 25 bps to 1.75% to 2.00% in the face of strengthening labor market and the sustained growth in economic activity. Moreover, the Federal Reserve's dot plot hinted that there may be four rate hikes for 2017, instead of the consensus of only three hikes. Markets reacted by jacking up bond yields, but this soon petered out as June employment data saw a significant gain in the labor participation rate which cooled wage increases. The economy had added 213,000 jobs in June– above market expectations but the unemployment rate climbed to 4% from 3.8% in May as more people entered the labor force. The average hourly earnings rose 2.7% y-o-y for June, a little below the expected 2.8% increase.

Construction spending rose to 0.4% y-o-y in May, led by expenditures on private residential projects which gained by 0.8% following a 0.5% rise in April. This offset lower spending on nonresidential structures of 0.3% in May after rising 0.4% in the preceding month. Trade tension between US and China continued to heighten as US tariffs on $34 B of Chinese goods came into effect, causing China to impose its own retaliatory levies on imports from the US. The spectre of a widening trade war became more probable, but news of backdoor negotiations between these two major economies eased concerns a bit by mid-July.

China: In an attempt to accelerate the pace of debt-for-equity swaps and spur lending to smaller firms, the People's Bank of China (PBOC) reduced the reserve requirement ratio by 50 bps. The reserve reduction, the third by the Chinese central bank this year, would release about 700 B yuan ($107.6 B) in liquidity; 500 B yuan ($77 B) coming from five large state banks and 12 national joint-stock commercial bank while 200 B yuan will be released to increase lending to mid-sized and small firms. The move flattened the yield curve by 20 bps (difference between 10-year vs. 2-year bonds)

The latest RRR cut is set to take effect on July 5, a day before US and China are expected to begin to impose higher tariffs on respective lists of goods. The monetary easing came in despite the 6.8% (y-o-y) rise in May in industrial production, only slightly lower than the 7% y-o-y growth posted in April.

Meanwhile, consumer prices rose to 1.8% y-o-y in May where prices for healthcare grew fastest at 5.1% y-o-y, followed by residential housing prices at 2.2% y-o-y. On a m-o-m basis, prices fell 0.2% due to a 0.8% drop in food prices. Retail prices climbed by 8.5% y-o-y in May, a bit milder than the 9.4% y-o-y growth posted in April.

Malaysia: The Malaysian economy posted a 5.4% growth for Q1-2018, which is lower than the 5.4% growth posted in the preceding quarter. The Malaysian central bank nonetheless expects the country's GDP to grow between 5.5% - 6% for 2018, more optimistic than the World Bank which forecasted steady growth of 5.4% in 2018.

Industrial output expanded faster in April at 4.6% y-o-y, compared with 3.1% y-o-y in March, buoyed by higher output across all sectors. Manufacturing sector output grew 5.3% y-o-y from 4.1% y-o-y growth in the previous quarter which is driven by higher production of electrical and electronic products. Output for the mining sector grew 1.8% y-o-y after posting zero growth in March due to increased crude oil production which counterpoised the output of natural gas. Electricity output also grew 5.8% y-o-y in April from 4.4% y-o-y in March

Meanwhile, inflation accelerated to its fastest pace for 2018 in May at 1.8% y-o-y from 1.4% y-o-y in April. Transportation prices which posted 3.8% y-o-y increase from 0.4% y-o-y in April provided the main boost to inflation. Meanwhile, other commodity groups posted moderate price increases. Malaysia posted a net outflow of ~$1.2 B for the month of June. Foreign selling is expected to continue until the year end due to the US-China trade friction. The yield curve on government bonds, thus, steepened by 7 bps to a total 65 bps by end-June.

Thailand's Monetary Policy Committee (MPC) decided to maintain its policy rate at 1.5% noting that the Thai economy remains strong, buoyed by exports, tourism and stronger domestic demand, especially from private consumption.

Indonesia: In tandem with other central banks in the region, Bank Indonesia (BI) also raised its 7-day reverse repurchase rate by another 50 bps to 5.25% on its June 28-29 meetings. BI has hiked its policy rate three times in the past six weeks – for a cumulative hike of 100 bps in 2018. BI said the move as a "pre-emptive, front-loading and ahead of the curve move" to stabilize the rupiah which had slipped to new lows since its recent peak of 14,680 in September 2015. It also justified the move in the face of rising global trade tensions and tightening global liquidity. While the rupiah appreciated markedly following the policy rate hike, its impact on the local currency seemed temporary as the currency continued to hover around 14,400 per USD the week after the hike. Thus, the yield curve made a parallel upward move and maintained the 22 bps spread between the 10-year bond and 2-year bond yields.

Indonesia's current account deficit grew to 2.2% of GDP in Q1, compared with 1.7% last year. Moreover, trade deficit grew to $2.4 B between January and May, and is expected to raise current account deficit to 2.5% - 3% of GDP by Q2. Domestic credit improved by 10.2% y-o-y but only 2.93% YTD in May. These suggest that Indonesia is still recuperating from adverse global economic conditions.

Growth in the manufacturing sector slowed as the Purchasing Managers' Index (PMI) posted 50.3 in June, which was 1.4 lower than the PMI recorded in May and is the lowest index recorded for the past five months. The slump in the expansion of the manufacturing sector is said to be attributed to BI's decision to raise policy rates and the trade tension between US and China.

Thailand: Unlike other ASEAN central banks that have raised policy rates in the light of the tightening with the US Fed's monetary policy, Thailand's Monetary Policy Committee (MPC) decided to maintain its policy rate at 1.5% noting that the Thai economy remains strong, buoyed by exports, tourism and stronger domestic demand, especially from private consumption. Thus, economic growth has exceeded previous estimates, and so MPC upgraded its GDP forecast for this year from 4.1% to 4.4%. At the same time, it expects inflation rate to rise to a benign 1.1% (from 1%) for 2018 due to higher oil prices. Bank of Thailand, nonetheless, would start tightening monetary policy if economic expansion continues and inflation stays within its target range as the demand for an accommodative monetary policy will decrease while the need for a rate hike to expand the policy space will increase.

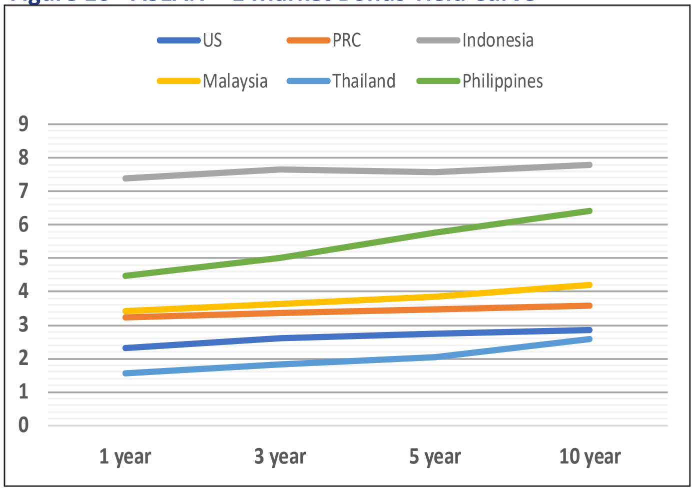
RAM Ratings upheld Thailand's global scale rating of gBB-B1(pi)/stable and ASEAN scale rating of seaAA1(pi)/stable reflecting the country's robust external finances, well-diversified economy, and intact fiscal position. Additionally, Thailand released its first green bond via a 7-year bond worth $60 M sold by TMB Bank to the International Financial Corporation. The government aims to partially fund climate-related projects with the proceeds. The yield curve's steepness remained practically the same as in May.

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
					Apr-18	May-18			
US	2.528	2.86	2.1	0.75	42	33	(9)	1.75	-0.35
PRC	3.31	3.359	1.6	2.00	48	28	(20)	4.35	2.75
Indonesia	7.576	7.797	3.8	3.19	22	22	0	5.25	1.45
Malaysia	3.55	4.2	3.9	0.30	58	65	7	3.25	-0.65
Thailand	1.69	2.581	1.1	1.90	87	89	2	1.5	0.40
Philippines	4.784	6.422	4.5	1.60	171	164	(7)	3.5	-1.00

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

Figure 16 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Outlook

After the Fed's 25 bps rate hike on June 13, bond yields initially rose, but shortly resumed its downward slide even until the first half of July. Local bond investors, however, focused more on the faster pace of inflation in June, remaining in the dark as to when the inflation rate would definitely slow down.

• Bond investors became more risk-averse in the light of domestic and external developments and demanded more shorter term T-bills (esp. 91-day T-bills) in both auction and secondary markets. At the same time, they asked for higher yields in this space. Yield movements in long-tenored T-bonds proved milder than in the short-end.

• It would seem to us that bond investors and traders have priced in four Fed rate hikes in the year, which are more noticeable in the shorter-end of the curve. With the market following local inflation more closely, our expectation that it would peak in June or July, especially, as crude oil prices appear to have turned a corner may contribute to little upside in the long-end. Besides, BTr's plan for reduced long-term auctions in Q3-2018 should make supply tighter and also help limit the upside in yields.

• As the inflation picture improves in Q3, we also see more trading activity in the GS secondary market starting Q3. Nonetheless, this does not provide much opportunity for large gains as the trading range will tend to be narrow.

• The hiatus in corporate bond issuances would likely end in H2 as issuers will have to take advantage of the pauses in the rise of bond yields as H2 unfolds.

• ROPs may underperform US Treasuries as long as the local inflation fails to drop and the peso-dollar rate remains under pressure, albeit less intensely.

• Thus, we do see trading opportunities, but bond traders will have to sharpen their pencils even more and be mindful of the true sources of rising bond yields, and act according to the changes in movements in these factors.

CAN PH ECONOMIC BULL GORE THE BEAR IN THE MARKET?

PSEi continued its freefall to an 18-month low of 6,986.88 on June 25 and has struggled to breach 7,300 in early July as global uncertainties piled on top of some poor local economic data. The local bourse got pulled down once again by the sustained exit of investors from emerging markets, spooked by the sharp climb of crude oil prices, the opening salvo of a trade war, and an apparent cooling of growth in the Eurozone. Unequivocally positive local economic data, such as booming infrastructure spending, robust capital goods imports, and sizzling manufacturing output, could not undo the negative sentiments spawned by accelerating inflation and weakening peso.

Outlook: While not much may be expected as we approach the "ghost" month, positive surprises in the local economic bull front such as Q2 GDP growth of 7% or higher, clear slowing of inflation, and stable exchange rate could spark the rally to overcome finally the wildly negative vibes and end the year on a stronger note. Better earnings reports for Q2 and Q3 would also help sustain such a rally and finally gore the "bear market".

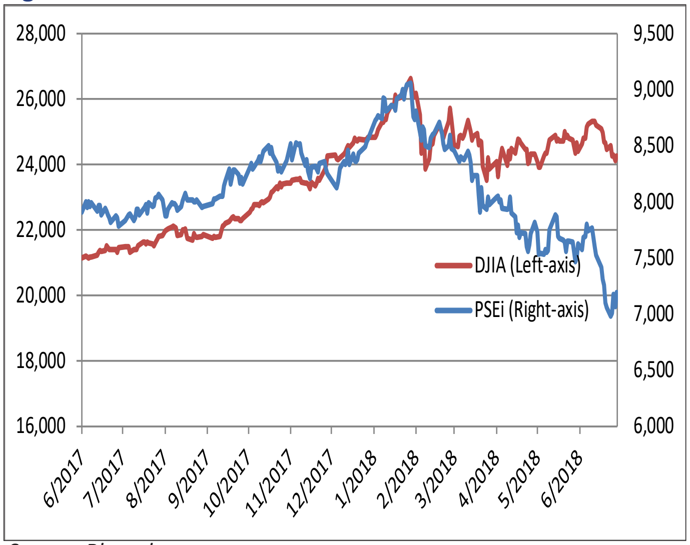
Global Equities Markets Performances

Region	Country	Index	Growth Rate May 2018 (m-o-m)	2018 YTD
Americas	US	DJIA	-0.6%	-2.2%
Europe	Germany	DAX	-2.4%	-4.4%
	London	FTSE 101	-0.5%	-0.1%
East Asia	Hong Kong	HSI	-5.0%	-5.1%
	Shanghai	SSEC	-8.0%	-15.0%
	Japan	NIKKEI	0.5%	-5.1%
	South Korea	KOSPI	-4.0%	-6.2%
Asia-Pacific	Australia	S&P/ASX 200	3.0%	2.2%
Southeast Asia	Indonesia	JCI	-3.1%	-8.5%
	Malaysia	KLSE	-2.8%	-5.1%
	Thailand	SET	-7.6%	-10.3%
	Philippines	PSEi	-4.0%	-17.5%
	Singapore	STRAITS	-4.7%	-4.7%

Sources: Bloomberg & Yahoo Finance

Trade concerns and rising crude oil prices have caused confidence in equities to remain elusive in June, as the previous months' sell-off persisted in most exchanges. Western markets slightly dipped, with DJIA and FTSE 100 reversing previous month's gains by ending in the red in June with 0.6% and 0.5%, respectively. On the other hand, share prices in Asian bourses endured substantial losses, with China's SSEC and Philippines' PSEi both tumbling into bear market territory during the second-half of the month, as these dropped by 8% and 4%, respectively. Thailand's SET and Hong Kong's HSI also incurred significant declines, with 7.6% and 5%, correspondingly while the only ones spared from the slump among Asia-Pacific markets were Australia's ASX 200 and Japan's NIKKEI which experienced marginal upsurges of 3% and 0.5%, respectively.

Figure 17 - PSEi and DJIA



Source: Bloomberg

DJIA and PSEi traversed similar downward paths last month, with correlation in both markets increasing to 0.7 in June from the previous month's 0.4. Investors initially benefited from a slight increment in early June as both bourses attempted to rebound from the previous months' losses, with some gains attributable to the anticipation of the Trump-Kim summit last June 12. These dissipated in

PSEi lost another 300 points in June, putting its year-to-date (YTD) decline to 17.5%.

the wake of heightened trade tensions between the US and its friendly trade partners (EU, Mexico, Canada), as well as with China. In addition, the Trump administration appeared to be drafting a bill that would enable the President to unilaterally increase tariffs without the need for congressional consent, in an apparent disregard for World Trade Organization's (WTO) rules.

Monthly Sectoral Performance				
	31-May-18		29-Jun-18	
Sector		% Change	Index	% Change
PSEi	7,497.17	-4.1%	7,193.68	-4.0%
Financial	1,866.66	-5.2%	1,779.30	-4.7%
Industrial	10,757.91	-3.2%	10,414.84	-3.2%
Holdings	7,329.53	-7.3%	7,051.74	-3.8%
Property	3,755.30	3.7%	3,549.11	-5.5%
Services	1,481.31	-5.0%	1,392.62	-6.0%
Mining and Oil	10,021.60	-5.1%	9,673.22	-3.5%

Source of Basic Data: PSE Quotation Reports

PSEi lost another 300 points in June, putting its year-to-date (YTD) decline to 17.5%, mainly caused by the sustained pullout by foreign investors from emerging markets, the continued onslaught on the peso, and the absence of positive surprises from corporate earnings. The selloff spared no sector. Services and Property sectors dropped the most, as their counters fell by 6% and 5.5%, respectively. On the other hand, Financial, Holdings, and Mining and Oil sectors continued to weaken, shedding 4.7%, 3.8% and 3.5% in prices, respectively. Meanwhile, the Industrial sector got "spared," with a relatively light drop of 3.2%.

Quarterly Sectoral Performance				
	28-Mar-18		29-Jun-18	
Sector	Index	% Change	Index	% Change
PSEi	7,979.83	-6.8%	7,193.68	-9.9%
Financial	2,089.67	-6.3%	1,779.30	-14.9%
Industrial	11,429.65	1.8%	10,414.84	-8.9%
Holdings	7,839.09	-9.0%	7,051.74	-10.0%
Property	3,646.85	-8.3%	3,549.11	-2.7%
Services	1,671.82	3.2%	1,392.62	-16.7%
Mining and Oil	10,886.93	-5.4%	9,673.22	-11.1%

Source of Basic Data: PSE Quotation Reports

On a quarterly basis, the PSEi fell by 786.15 points, a 9.9% drop from Q1. Despite transitory boosts from announcements of Q1 GDP growth (+6.8%) and BSP's rate hike (+25 bps), the local bourse accelerated its decline amid negative economic factors (i.e., high inflation, wider trade deficit, local political noise) and improving conditions in the US. Four of the six sectors incurred double-digit losses, with Services plunging most by 16.7%, followed by Financial erasing 14.9% of value. Similarly, Mining & Oil, and Holdings sectors suffering huge losses, falling by 11.1% and 10%, respectively. The Industrial sector reversed its trend from a 1.8% growth to an 8.9% dip during Q2. The Property sector, which only lost 2.7% of value, emerged as the least affected sector.

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Metrobank	MBT	130.50	125.50	-3.8%
BDO Unibank, Inc.	BDO	95.00	88.50	-6.8%
Bank of the Philippine Islands	BPI	79.40	73.40	-7.6%
Security Bank Corporation	SECB	195.00	200.00	2.6%

Source of Basic Data: PSE Quotation Reports

With most banks seen to benefit from interest rate hikes, the Financial sector gave the local bourse a slight push early in June but gave up the gains as the month progressed due to trade tensions overseas. The sector ended with a 4.7% drop for a 14.9% plunge in Q2. Security Bank Corporation (SECB) reversed its downward trend with share price growth of 2.6% last month, but still ended Q2 with a 16.7% decline. SECB's bagging an investment grade rating from S&P Global Ratings may have cushioned the earlier fall.

Bank of the Philippine Islands (BPI) lost a substantial 6.8% of value in June, attributable to uncertain market conditions, putting the company's losses at 24.4% (quarter-on-quarter, q-o-q) for Q2. The bank disclosed that it will be putting up a medium-term note program worth $2 B aimed at funding future expansion and operations.

On the other hand, BDO Unibank, Inc. (BDO) ended last month with a 3.8% loss despite announcing the company's partnership with Bank of Fukuoka (BoF). This partnership aims to service the Japanese regional bank's clients planning to expand in the Philippines. Its shares, nonetheless, slumped by 9.7% in Q2.

The Industrial sector performed best last month, slipping by only 3.2% by end-June.

Metropolitan Bank and Trust Company (MBT) share prices dipped by 7.6% caused by heavy overall sell-off from the local bourse. The decline resulted in a 14.5% fall in Q2 (q-o-q).

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Meralco	MER	322.80	355.60	10.2%
Aboitiz Power	AP	39.30	34.75	-11.6%
Jollibee Foods Corporation	JFC	274.00	263.00	-4.0%
First Gen Corporation	FGEN	14.98	14.46	-3.5%
Universal Robina Corporation	URC	128.00	121.00	-5.5%
Petron Corporation	PCOR	8.85	8.88	0.3%

Source of Basic Data: PSE Quotation Reports

The Industrial sector performed best last month, slipping by only 3.2% by end-June. Manila Electric Company (MER) outperformed the sector, ending June with a 10.2% increase in stock price, as MER foresees a 6.5% increase in energy sales in H1. Investors basically ignored MER's disclosure that power sales in June may have been dampened by cooler weather. MER stood out among constituent stocks in the sector as it gained 11.8% on a quarterly basis.

On the other hand, Petron Corporation (PCOR) managed to land on the green a slight uptick of 0.3%, as the company became a favorite pick for investors given an increase in valuation of its Malaysian subsidiary. Company executives also expressed optimism of increased growth in the coming years with the current administration's infrastructure projects.

Meanwhile, First Gen Corporation (FGEN) share prices edged 3.5% lower in June, thus, ending Q2 with a 14.9% decline in value (q-o-q). The company announced last month that it will commence a two-year share buy-back program amounting to P10 B worth of "Series G" preferred shares, as part of its financial deleveraging strategy.

Jollibee Foods Corporation (JFC) joined FGEN with a slump of 4% in June. The leading fast-food group laid out plans to put up 500 stores this year, with 40-50% abroad, as part of its aim to have foreign and domestic segments contributing equally in terms of revenues by 2023.

Universal Robina Corporation (URC) stocks also fell by 5.5% in June, a slight deceleration from the previous month's 8.9% drop, and contributed to its 20.4% plunge in Q2. URC's disclosure in early June that it will be investing P1 B to build a manufacturing plant for its soy milk brand Vitasoy in Pampanga failed to buck the heavy selling sentiment.

Aboitiz Power Corporation (AP) also succumbed to the market's downward pressure as its share prices plunged at a double-digit pace of 11.6%. AP, in the meantime, signed a power supply agreement with 10 municipalities of Nueva Ecija to supply 33 MW of capacity, which comprise 80% of peak demand of the electric cooperative serving the said towns.

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Ayala Corporation	AC	940.00	920.00	-2.1%
Metro Pacific Investments Corporation	MPI	4.65	4.60	-1.1%
SM Investments Corporation	SM	868.00	875.00	0.8%
DMCI Holdings, Inc.	DMC	10.80	10.50	-2.8%
Aboitiz Equity Ventures	AEV	57.80	54.50	-5.7%
GT Capital Holdings, Inc.	GTCAP	970.00	910.00	-6.2%
San Miguel Corporation	SMC	142.00	138.00	-2.8%
Alliance Global Group, Inc.	AGI	13.30	11.62	-12.6%
LT Group Inc.	LTG	20.65	18.08	-12.4%
JG Summit Holdings, Inc	JGS	57.10	50.00	-12.4%

Source of Basic Data: PSE Quotation Reports

The Holdings sector, likewise, incurred a fall in share prices amounting to 3.8%. Three issues took huge double-digit losses in June. Alliance Global Group (AGI) experienced the biggest fall of 12.6%, placing its setback at 10% for Q2. The market seemed to pay little attention to its proposal to build a sky train monorail connecting the cities of Makati and Taguig.

Similarly, LT Group, Inc. (LTG) shares plunged by 12.4% in June, also struck by investors exiting from the local bourse. LTG's beverage subsidiary, Tanduay Distillers, Inc., claimed that its brand Tanduay is now the best-selling rum in the world, and that the company aims to introduce it to the European market soon.

After a good month in May, the Property sector plunged last month, ending having the second biggest decline among sectors of 5.5%, but its earlier positive performance partly offset this to chalk up only a 2.7% loss in value for Q2.

JG Summit Holdings, Inc. (JGS) also experienced a 12.4% loss last month, wiping out a huge 20.3% of value for Q2. JGS plans to initially invest P10 B to build and expand the reach of its mobile lending products and financial services under the brand Cashalo aimed at the financial inclusion for unbanked Filipinos.

On the other hand, SM Investments Corporation (SM) recovered with a slight uptick of 0.8% in value, as the conglomerate anticipates increased expansion in logistics and e-commerce sectors.

GT Capital's (GTCAP) share price, likewise, dipped by 6.2% in June, affected by heavy selling across the board. It shed 22.2% in share value in Q2. In its first offshore investment, and to cement its long-term ties with Toyota (Japan), the company announced plans to invest up to $200 M in the Japanese auto maker.

Aboitiz Equity Ventures' (AEV) stock price also lost 5.7% of value last month, which adds up to a 19.3% decline for Q2. This came about despite Australian shipbuilder Austal Philippines Pty Ltd.'s award to Aboitiz Construction, Inc., AEV's construction unit, to design and construct its shipyard in Cebu.

Meanwhile, DMCI Holdings, Inc. (DMC) managed to end the month in a slightly better position but still ended in the red with a 2.8% slip, even as the company launched a new condominium development in Parañaque City.

Like DMC, San Miguel Corporation (SMC) also posted a 2.8% decline in June. The conglomerate has partnered with International Container Terminal Services, Inc. (ICT) to expand and modernize Manila North Harbor in Tondo, Manila. For Q2, SMC shares stood out as the only company in the sector ending in the green with a respectable 3% gain in price.

Ayala Corporation (AC), likewise, suffered a setback of 2.8%, despite AC's disclosure that its subsidiary AC Energy, has engaged in joint venture negotiations with a Vietnamese firm for a possible renewable energy project in Vietnam worth $493 M.

Metro Pacific Investments Corporation (MPI) ended the month relatively flat, easing by 1.1%, even as it disclosed completion of its acquisition of a 49% stake in one of Vietnam's biggest water companies and its allocation of P8 B for the development of warehouses in Cavite.

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Ayala Land, Inc.	ALI	39.80	37.90	-4.8%
SM Prime Holdings, Inc.	SMPH	37.00	35.95	-2.8%
Robinsons Land Corporation	RLC	22.05	18.60	-15.6%
Megaworld Corporation	MEG	4.86	4.28	-11.9%

Source of Basic Data: PSE Quotation Reports

After a good month in May, the Property sector plunged last month, ending having the second biggest decline among sectors of 5.5%, but its earlier positive performance partly offset this to chalk up only a 2.7% loss in value for Q2. Robinson's Land Corporation (RLC) had the largest fall as its stock price plunged by 15.6%. The market shrugged off the company's recent opening of a hotel in Tacloban and its third mall in Iloilo province.

Close on RLC's heels, Megaworld Corporation (MEG) ended the month with a 11.9% slum, despite MEG opening of its 684-room hotel in Pasay City and its first mall in the Visayas-Mindanao region in Iloilo Business Park. On a per quarter basis, the decline in share price in June adds up to an 8.7% drop in MEG's stock price for Q2, the largest dip in the property sector.

Ayala Land, Inc. (ALI) suffered a milder 4.8% decline in June, also sharing the market's weakness. ALI announced plans to invest P20 B for the development of its 25-hectare mixed-used estate located in Davao City.

SM Prime Holdings, Inc.'s (SMPH) stock price also dipped by 2.8%, despite the 15% increase in net income for the Q1-2018. Nonetheless, the minor slide didn't prevent the company's shares gaining by 6.7% in Q2.

Following a 5% decline in May, the Services sector further declined in June, losing 6% of share value. Its continuing weakness resulted in a 16.7% fall in share value for Q2.

PSEi incurred a lower turnover of 9% as compared to May's 5.3% gain.

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,295.00	1,290.00	-0.4%
Globe Telecom	GLO	1,616.00	1,540.00	-4.7%
Robinsons Retail Holdings, Inc..	RRHI	88.00	79.50	-9.7%
Puregold Price Club Inc.	PCGMF	46.70	46.60	-0.2%
International Container Terminal Services Inc.	ICT	84.50	77.30	-8.5%

Source of Basic Data: PSE Quotation Reports

Robinsons Retail Holdings, Inc. (RRHI) plunged by 9.7%, an acceleration from the previous month's 3.3% dip. RRHI has allocated P1.2 B to be infused as fresh capital for the expansion of its sister company, Robinsons Bank.

International Container Terminal Services, Inc. (ICT) also ended last month with an 8.5% slump. ICT announced that it has recently received three new cranes for Manila International Container Terminal (MICT), enabling it to handle world's largest ships. The selloff added to ICTSI's woes, as its share price plummeted by 22.7% in Q2.

Globe Telecom (GLO) also reversed its trend in May, ending with a 4.7% contraction in share price in June. GLO disclosed the commercial launching of fifth generation (5G) wireless technology in the Philippines by middle of next year.

Meanwhile, Philippine Long Distance Telephone Company (TEL) incurred a milder 0.4% decline in June compared to the previous month's 11.5% drop, attributable to TEL's announcement that it is on track to post double-digit growth this year primarily due to their growing enterprise business.

Puregold Price Club (PGOLD), the least affected in the Services sector, shed 0.2% of value last month, as its continued expansion in Metro Manila and Nueva Ecija province offset negative market sentiment.

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Semirara Mining and Power Corporation	SCC	28.60	30.30	5.9%

Source of Basic Data: PSE Quotation Reports

Mining and Oil shared the downward trend with other sectors as its constituent stocks continued to tumble in June, losing 3.5% for a total 11.1% decline in Q2. Semirara Mining and Power Corporation (SCC) managed to end in the green with a 5.9% growth as it gradually recovered from the mid-month price dip. While SCC expects slower income growth in the company's power segment, it counts on its coal segment as its growth driver for the year, since coal prices have surged by 28% (year-on-year, y-o-y) in June.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	22,724.33	7.5%	1,196.02	18.9%
Industrial	22,461.48	-9.1%	1,182.18	0.5%
Holdings	30,875.85	-6.4%	1,625.04	3.5%
Property	26,146.92	-20.6%	1,376.15	-12.2%
Services	20,159.60	-13.9%	1,061.03	-4.9%
Mining and Oil	2,781.41	15.2%	146.39	27.4%
Total	**125,149.58**	-9.0%	**6,586.82**	0.5%
Foreign Buying	65,195.29	-13.0%	3,431.33	-3.8%
Foreign Selling	78,630.57	-6.5%	4,138.45	3.4%
Net Buying (Selling)	(13,435.28)	47.4%	(707.12)	62.9%

Source of Basic Data: PSE Quotation Reports

In terms of trading volume, PSEi incurred a lower turnover of 9% as compared to May's 5.3% gain. In a per quarter basis, turnover also dropped by 17.6% for Q2. Outflow of foreign funds from the local bourse accelerated yet again by 47.4%, to P13.4 B, bringing the February-June cumulative total to P59 B (or ~$1.1 B) .

After a whopping 55.2% growth in turnover in May, the Property sector slowed down, incurring the biggest decline with a 20.6% dip in June. Meanwhile, turnover of Holdings and Industrial, and Services sectors all ended red last month, with 6.4%, 9.1% and 13.9%.

On the other hand, trading improved for the Mining and Oil sector, which grew by 15.2%, primarily recovering from its 46% drop in turnover in May. However, growth in Financial sector turnover decelerated from a 17.1% surge in May to a 7.5% increase last month.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2016		2017		4th Quarter 2017			1st Quarter 2018		
	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%	465,878	32.62%	3.9%	397,214	9.1%	-14.7%
Industry Sector	2,738,320	8.0%	2,958,186	7.2%	1,438,448	16.86%	7.2%	1,224,388	10.5%	-14.9%
Service Sector	4,664,261	7.5%	4,971,610	6.7%	2,566,672	6.55%	6.7%	2,296,707	9.5%	-10.5%
Expenditure										
Household Final Consumption	5,628,318	6.9%	5,958,500	5.5%	3,277,763	20.3%	5.5%	2,938,839	9.4%	-10.3%
Government Final Consumption	850,747	8.3%	912,010	6.8%	477,075	-1.6%	6.8%	422,295	16.3%	-11.5%
Capital Formation	2,180,842	20.8%	2,479,583	8.3%	1,100,564	17.7%	8.3%	1,061,358	14.3%	-3.6%
Exports	4,016,105	9.1%	4,875,652	16.1%	1,074,003	-19.9%	16.1%	1,317,881	8.1%	9.3%
Imports	4,631,536	17.5%	5,552,632	15.0%	1,622,007	-6.6%	15.0%	1,813,449	9.7%	11.8%
GDP	8,113,170	6.8%	8,668,287	6.3%	4,470,998	12.0%	6.3%	4,762,692	9.3%	-9.9%
NPI	1,622,040	5.3%	1,721,698	5.3%	814,939	6.2%	5.3%	844,383	3.6%	7.5%
GNI	9,735,210	6.6%	10,389,984	6.1%	5,285,937	11.1%	6.1%	4,762,692	9.3%	-9.9%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2016		2017		Apr-2018			May-2018		
	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%	307,558	52.0%	30.4%	258,992	-15.8%	13.5%
Tax	1,980,390	9.1%	2,250,678	13.6%	281,274	58.6%	27.8%	226,973	-19.3%	13.1%
BIR	1,567,214	9.3%	1,772,321	13.1%	232,618	77.8%	24.0%	172,032	-26.0%	8.4%
BoC	396,365	7.8%	458,184	15.6%	46,794	3.4%	50.3%	52,747	12.7%	33.2%
Others	16,811	14.8%	20,173	20%	1,862	40.5%	47.2%	2,194	17.8%	-10.4%
Non-Tax	215,446	-26.5%	222,415	3.2%	26,284	5.3%	66.5%	32,019	21.8%	16.4%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	261,243	-16.5%	42.7%	291,865	11.7%	11.5%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	58,836	27.2%	18.5%	48,657	-17.3%	4.6%
Interest Payments	304,454	-1.6%	310,541	2%	23,172	-15.9%	71.9%	21,111	-8.9%	0.7%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	46,315	-141.8%	-12.3%	-32,873	-171.0%	-1.6%

Source: Bureau of the Treasury (BTr)

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

	2017		Feb-2017			Mar-2018		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	41,605	5.1%	3,441.90	10.3%	5.9%	3,356.00	12.0%	3.2%
Residential	13,055	5%	988.50	10.8%	-0.6%	1,014.50	15.0%	2.0%
Commercial	16,378	4.7%	1,361.20	8.1%	4.7%	1,318.60	10.9%	1.5%
Industrial	11,861	4.4%	1,038.20	8.3%	14.7%	979.30	7.3%	8.2%

Source: Meralco

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

	2016		2017		4th Quarter 2017		1st Quarter 2018	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT								
Balance of Trade	(1,199)	-116.5%	(2,518)	110.0%	-3,297	-278.2%	-208	-75.8%
Balance of Goods	(35,549)	52.5%	(41,191)	15.9%	-13,123	51.8%	-10385	7.2%
Exports of Goods	42,734	-1.1%	48,199	12.8%	11,337	-11.9%	12598	7.0%
Import of Goods	78,283	17.7%	89,390	14.2%	24,461	13.6%	22983	7.1%
Balance of Services	7,043	29.1%	9,496	34.8%	2,236	-32.2%	2960	67.6%
Exports of Services	31,204	7.4%	35,605	14.1%	9,163	-6.5%	9341	17.5%
Import of Services	24,160	2.3%	26,109	8.1%	6,927	6.6%	6382	3.2%
Current Transfers & Others	-	-	-	-	-	-	-	
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	57	-8.7%	14	-22.0%	11	80.8%
Financial Account	175	-92.4%	(2,208)	-1361.6%	-2,033	-559.9%	1457	343.6%
Direct Investments	(5,883)	5803.4%	(8,110)	37.9%	-2,646	25.0%	-1349	-8.8%
Portfolio Investments	1,480	-72.9%	3,889	162.7%	-114	-113.0%	2069	-36.5%
Financial Derivatives	(32)	-673.4%	(51)	57.4%	41	-9.9%	-69	-47.6%
Other Investments	4,610	-249.8%	2,064	-55.2%	686	-58.1%	806	-161.2%
III. NET UNCLASSIFIED ITEMS	892	-136.6%	(610)	-168.4%	1,754	-184.0%	428	127.2%
OVERALL BOP POSITION	(420)	-116.1%	(863)	105.4%	505	-176.3%	-1227	23.4%
Use of Fund Credits	-	-	-	-	-	-	-	-
Short-Term	-	-	-	-	-	-	-	-
Memo Items								
Change in Commercial Banks	1,421	-222.0%	409	-71.2%	-1,006	-172.50%	1344	2005.87%
Net Foreign Assets	1,381	-229.7%	442	-68.0%	-970	-171.20%	1376	1189.08%
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)

	2018		Apr-2018		May-2018	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	2,798,988	14.0%	3,026,581	10.0%	2,979,015	12.3%
Sources:						
Net Foreign Asset of the BSP	4,024,544	2.3%	4,533,624	4.2%	4,603,153	5.4%
Net Domestic Asset of the BSP	9,722,563	15.6%	10,836,280	16.4%	11,040,110	16.8%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,562,223	17.1%	3,721,328	17.3%	3,752,451	18.2%
Money Supply-2	10,227,276	13.1%	10,460,381	13.9%	10,572,988	13.8%
Money Supply-3	10,655,369	13.2%	10,899,993	14.2%	11,032,673	14.3%
MONEY MULTIPLIER (M2/RM)	2.49		3.46		3.55	

Source: Bangko Sentral ng Pilipinas (BSP)

July 2018

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