

The  
**MARKET CALL**  
*Capital Markets Research*



FMIC and UA&P Capital Markets Research

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## Executive Summary

**Just after very strong numbers (above-20% upticks) emerged from investment spending, infrastructure and capital outlays, foreign direct investments, and volume of industrial production index in Q2, the Philippine Statistics Authority reported an underwhelming 6% GDP growth for Q2, a substantial deceleration from 6.6% in Q1. The locus of the weakness came from the demand side, particularly the larger deficit in the trade of goods and services. It could also be attributed to faster inflation which clocked at 5.7% in July, shortly after which Bangko Sentral ng Pilipinas (BSP) raised its policy rates by 50 bps to 4%. The reported slowdown also contrasted with the positive performances of the equities and bond markets.**

## Macroeconomy

**Despite investment spending surging by 20.7% in Q2, GDP growth slowed to a disappointing 6%. This capitalized on the huge 28.6% jump in durable equipment investments, thus, keeping intact the country's investment-led growth narrative. Foreign direct investments (FDI) provided support as these soared by 138% in May to bring it to year-to-date (YTD) \$4.8 B, nearly half of total in 2017. Negatively, inflation rose faster to 5.7%, a 10-year high, and so BSP raised policy rates by 50 bps to 4%.**

- Spending on infrastructure and capital outlays surged by 38.5%, driving total NG disbursements higher.
- Capital goods imports expanded by 10.1% in May amidst gains in big-ticket components.
- M3 significantly slowed to 11.7% year-on-year (y-o-y) expansion in June vs. the 14.3% recorded in May.
- Personal remittances continued to pour into the country, posting a 6.1% y-o-y increase in May.
- Exports in May, however, remained in the red (-3.8% y-o-y).

**Outlook: We expect faster growth in H2 anchored on speedier NG disbursements and higher peso equivalent of the remittances. Robust capital investments and stronger infrastructure and capital outlay and better exports should, likewise, push further the expansion significantly better than growth in H1.**

## Bonds Market

**Local bond markets had a respite in July with higher volumes and lower yields especially for 3-month papers. Failure of US 10-year yields to break 3%, as trade tensions eased slightly, and BSP hiked policy rate by 50 bps to 4%. Longer-term ROPs yielded lower while similar US Treasuries inched up.**

- Tender-offer ratio in GS auctions improved to 1.7x versus 1.5x in June but bunched on 91-day T-bills
- Yields for 91-day T-bill dropped by 22.3 bps to 3.219% but rose by more than 40 bps for longer-dated T-bills.
- Turnover in the secondary GS market gained by 18.2% month-on-month (m-o-m), but still fell by 35.8% y-o-y.
- 3-month yields dove by almost 60 bps to 3.310%, but climbed for other tenors especially for 6-month to 3-year papers.

**Outlook: The local bond market shall focus on the domestic front—inflation, exchange rates, and BSP policy rate hikes. While inflation may again rise faster in August given the recent heavy rains, but should peak that month due to easing of food (especially rice, due to September harvests and larger importations) and crude oil prices. BSP may still hike policy rates by another 25 bps in H2 to keep inflationary expectations in check and the peso-dollar rate more stable.**

## Equities Market

**Joining other equity markets which reaped good gains last month, PSEi broke away from its brief stint in the bear market territory, ending with a strong 6.6% rally in July, as foreign funds returned to the local bourse halfway during the month.**

- PSEi added almost 500 points in July, lowering its YTD loss to 12.1% from last month's 17.5%.
- Holdings emerged as best performing sector with a 7.7% growth, amidst increases in all other sectors.
- GLO, DMC and JGS enjoyed biggest gains among PSEi stocks, gaining by 19.2%, 12.4% and 12%, respectively.
- The flow of foreign funds reversed after mid-July, thereby slashing net foreign selling by 80.4%.

**Outlook: PSEi's rally in July appears to be transitory as disappointing Q2 GDP growth and faster inflation in July are seen to mute healthy corporate earnings as to cause a weakening in the local bourse during the ghost month. Meeting the 7,900-8,200 target would thus require definitive easing of inflation and exchange rates, backed by better Q3 earnings.**

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)	6.6%	6.0%	6.0%	6.9%	6.7%	7-7.5%
Inflation Rate (July)	5.2%	5.7%	4.5%	1.3%	2.9%	4.2-4.5%
Government Spending (June)	11.5%	38.5%	20.49	4.1%	12.6%	12.0%
Gross International Reserves (\$B) (July)	77.5	76.9	79.3	80.7	81.6	80.0
PHP/USD rate (July)	53.05	53.43	52.17	47.49	50.40	53.90
10-year T-bond yield (end-June YTD bps change)	6.55%	6.55%	6.66%	4.15%	4.93%	6.25-6.65%
PSEi (end-July YTD % change)	7,193.7	7,672	-12.1	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.

# DESPITE ELEVATED INVESTMENT SPENDING, Q2 GDP DISAPPOINTS WITH 6% GROWTH

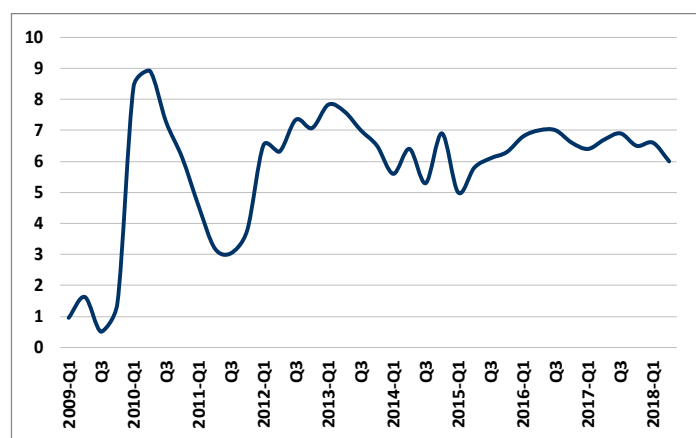
*Huge investment expansion of 20.7% notwithstanding, Q2-2018 GDP growth slowed to 6% from (revised) 6.6% in Q1. The investment-led growth narrative remains intact, especially since investment spending as a percentage to GDP reached 27.5% (current prices), the highest share achieved since 2008. Investments in durable equipment soared by 28.6%, while public construction spending on infrastructure and capital outlays provided the double-barrel boost. Foreign direct investment (FDI) provided support as this surged by 142.9% in May to bring year-to-date (YTD) to \$4.8 B, which at this pace, could reach close to \$12 B for year. The gross domestic product (GDP) reckoning left a big puzzle in that the Volume of Production Index (VoPI) for Q2 increased by 22.6%, while manufacturing sector growth in the national accounts came in at a modest 5.6%. Another disappointment came from the continued rise in inflation to 5.7% in July from 5.2% in June.*

*Outlook: Bangko Sentral ng Pilipinas' (BSP) policy rate hike of 50 bps to 4% should take the heat off from inflation, interest rates, and the exchange rate, especially since it has expressed readiness to make further increases if needed. Infrastructure and capital outlays should continue to expand at a rapid pace while durable equipment investments and manufacturing output shall remain robust. We do expect inflation to peak in August as food prices normalize and crude oil prices receding as Q3 progresses. Thus, we expect faster GDP growth in H2.*

## Q2 Economic Expansion Surprises the Market, Records Below the Consensus

Despite huge gains in investments and government spending (especially on infrastructure and other capital outlays), the Philippine economy expanded by below-consensus rate of 6% in Q2. Nonetheless, it marked the 12th uninterrupted quarters of 6%-or-above growth. Economists estimate for Q2 ranged from 6.6%-7%, but the slowdown, amidst lackluster performance in trade and agriculture, surprised analysts. Lagging behind Vietnam and China, the Philippines nonetheless, remained as one of the fastest growing economies in Asia.

**Figure 1 - Philippine Gross Domestic Product Growth**



Source of Basic Data: Philippine Statistics Authority (PSA)

Domestic demand grew by 10.1%, largely driven by the double-digit expansion in capital formation which expanded by 20.7%. Stronger National Government (NG) spending on infrastructure with the Duterte administration's "Build, Build, Build" program boosted public construction by 21%, thus increasing total investments in construction by 12.9%. Meanwhile, durable equipment surged by 28.6%, fueled by substantial increases in investments in water transport (+191.4%), mining and construction machineries (+53.3%), and telecommunication and sound recording/reproducing equipment (+43.6%). On the other hand, government spending continued to expand by 11.9%, attributed to the larger number of new teachers, police and armed forces personnel. Household consumption slightly decelerated to 5.6%, from 5.7% in Q1, with alcoholic beverages and tobacco and clothing and footwear posting declines of 4.3% and 2.9%, respectively. Food and non-alcoholic beverages (which accounts for 41.6% of total household expenditure), however, recorded faster growth of 6.3% compared to 4.9% in Q1.

On the supply side, the services sector recorded the fastest growth of 6.6%, slower than the 6.8% uptick in Q1. Huge gains in public administration and compulsory social security (up +15%) from the previous year's 8.4% buoyed the sector's strength. Strong increases also came from financial intermediation (+8.7%), transport, storage and communication (+6.2%) and trade and repair of motor vehicles, motorcycles, personal and household goods (+6.1%).

Spending on infrastructure and capital outlays (In&CO), which expanded by 38.5% in June, continued to drive total National Government (NG) disbursements.

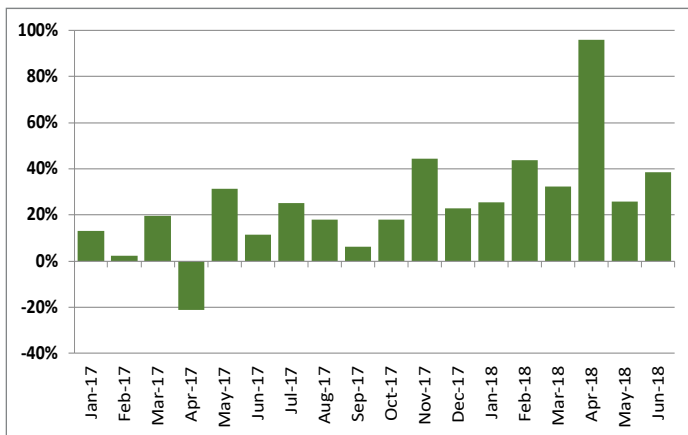
On the other hand, growth in the industry sector decelerated to 6.3% from 7.1% in Q1, dragged down by mining and quarrying’s decline of 10.9%. This fall offset double-digit gains in construction, which expanded by 13.1%. Manufacturing and electricity, gas, & water supply also grew by 5.6% and 3.6%, respectively. Growth in agricultural output also dropped to 0.07% from 1.1% in the previous quarter. The 2.1% decline in crop production, which accounts for 49.6% of total agricultural output, largely explains the sector’s dismal record, with palay and corn production contracting by 1.4% and 3.4%, respectively. In addition, fisheries output continued to drop by 0.05% after declining by 4.6% in Q1.

We think that the NG’s strong push on the “Build, Build, Build” program and other various social reforms to counter the inflationary effect of the TRAIN law will drive economic growth faster in Q3 and Q4. Investments add to productive capacity and will therefore add to future growth.

**Infrastructure and Capital Outlays On a Roll with Huge 38.5% Surge in June**

Spending on infrastructure and capital outlays (In&CO), which expanded by 38.5% in June, continued to drive total NG disbursements. Remarkable gains in the previous months brought the total In&CO to P352.7 B in H1, higher by 41.6% year-on-year (y-o-y). NG’s commitment to ramp-up infrastructure spending has also pushed actual spending higher by 20.5% in H1-2018 from the same period a year ago.

**Figure 2 - Infrastructure Spending Growth Rate Year-on-Year, Jan 2017 to June 2018**



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

Total expenditures also exceeded the programmed budget in H1 by P34.4 B or by some 2.2% as it also bested its revenue targets. Various road infrastructure projects of the Department of Public Works and Highways (DPWH), the rehabilitation of schools and classroom facilities by the Department of Education (DepEd), the procurement of hospital equipment of the Department of Health (DOH), and rail transport projects under the Department of Transportation (DOTr) largely drove fast pace growth in infrastructure spending.

**Capital Goods Imports Expand by 10.1% in May**

The imports of capital goods recorded a 10.1% increase (y-o-y) in May, on top of the 29.3% expansion in April, suggesting that the country’s investment-led growth remained intact.

Demand for telecommunication equipment and electrical machinery (+27.5%) and office and EDP machines (+16%) largely buoyed capital goods imports. Meanwhile, the imports of power generating and specialized machines and aircraft, ships and boats (which collectively comprised 35% of capital goods) fell, offsetting the gains recorded from the former products mentioned. Nonetheless, May figure represented the 4th month of double-digit gains in 2018.

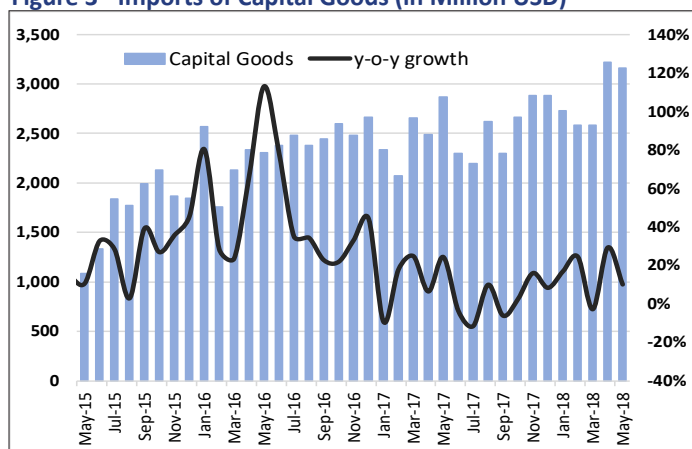
Consistent with the past trend, raw materials & intermediate goods imports captured the largest share of total imports at 39.2%, expanding by 4.3% due to hefty demand for semi-processed raw materials (especially the manufactured and chemical items). The surge in the imports of petroleum crude and coal also resulted in a fast increase in mineral fuels, lubricant and related materials category (+41.6%). Likewise, the continuous demand for durable (i.e., passenger cars and home appliances) and nondurable goods (i.e., beverage, articles of apparel, among others) sustained gains in consumer goods imports.

The positive performance across-the-board drove total imports to a record \$9.5 B, growing by 11.4% albeit lower than the 22.2% a month ago. Coupled by the continued negative performance in exports, the Philippines incurred a trade deficit of \$3.7 B, slightly higher than the \$3.6 B recorded in April. The widening trade deficits have likely contributed to the peso’s weakness.

Year to date, foreign investments stood at \$4.8 B (representing a 49% y-o-y gain).

We maintain our view that the NG's commitment to ramp-up spending on public and private investment, especially with enough fiscal space, will continue to drive capital goods imports.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

### FDI Soars by 142.9% in May

Investors' appetite remained solid shown in the 142.9% increase in foreign direct investments, amounting to \$1.6 B in May. Year to date, foreign investments stood at \$4.8 B (representing a 49% y-o-y gain).

The huge increase is largely attributed to broad-based gains across the different investment components, with debt instruments soaring by 135.7% (to \$1.3 B). These debt instruments issued by local affiliates accounted for about 80% of total FDIs. Notable gains in net equity capital which increased more than 5x to \$241 M, also propelled FDI gains. Equity capital placements came mostly from Singapore, Hong Kong, China, Japan, and the United States which went into manufacturing, financial and insurance, and real estate; among others. Reinvestment of earnings, likewise, added \$75 M, registering a 5.7% increase from a year ago level.

### NG Revenues and Expenditures Beat Target in H1

The better-than-expected revenue and spending performance observed in June and the months prior to it suggests a strong fiscal position of the economy, resulting in a H1 deficit of P193 B, P71.3 B or 27% lower than programmed. Significant gains in In&CO, along with larger spending on personnel services and maintenance

and other operating expenditures (MOOE), pushed total NG spending to P278.5 B, up by 2.9% in June and YTD to P1.6 T for a 20.5% jump in H1. This expenditure level beat the target by 2.2%.

Revenues, likewise, stepped up raking in a total of P224.2 B in June, up 24.7% y-o-y due to broad-based gains in all tax collecting agencies. Thus, H1 level soared by 19.9% to P1.4 T, which likewise exceeded the target by 8.1%. Total tax revenues' gain of 11.9% for the month relied on a 41.3% jump in Bureau of Customs' (BOC) collections amidst higher imports on capital goods and raw materials, coupled with the 6.4% peso depreciation. The Bureau of Internal Revenue (BIR) also raked in a total of P136.8 B, or 4.2% more than in the same month last year, still reflecting the positive impact of TRAIN.

Because disbursements rose faster in June, NG recorded a P54.3 B deficit in the month. Nonetheless, the cumulative deficit for H1 which totaled to P193 B fell short of the target deficit by 27%. Besides, the YTD budget deficit only represents a third of the full-year programmed deficit, leaving enough fiscal space for the rest of the year.

### NG Issues \$1.4 B in Samurai Bonds

The Philippine government successfully launched 3-year, 5-year and 10-year Yen-denominated (or Samurai) bonds last August 8th in Tokyo for a total of Yen 154.2 B (~\$1.4 B). The coupons ranged from 0.38% for the 3-year debt paper to 0.99% for the 10-year issue. This marked the return of NG in the Samurai bond market after a hiatus of eight years, a period characterized by much Yen volatility.

Transaction Details			
Issuer:	Republic of the Philippines		
Series:	8 <sup>th</sup> Series	9 <sup>th</sup> Series	11 <sup>th</sup> Series
Bond Ratings:	Baa2 (Moody's) / BBB (S&P) / BBB+ (JCR)		
Tenor:	3-year	5-year	10-year
Issue Size:	JPY 107.2 billion	JPY 6.2 billion	JPY 40.8 billion
Coupon:	0.38%	0.54%	0.99%
Price:	100%		
Re-offer Spread over Yen Swap Offer (YSO):	+25bps	+35bps	+60bps
Pricing Date:	8 <sup>th</sup> August 2018		
Settlement Date:	15 <sup>th</sup> August 2018		
Maturity Date:	13 <sup>th</sup> August 2021	15 <sup>th</sup> August 2023	15 <sup>th</sup> August 2028

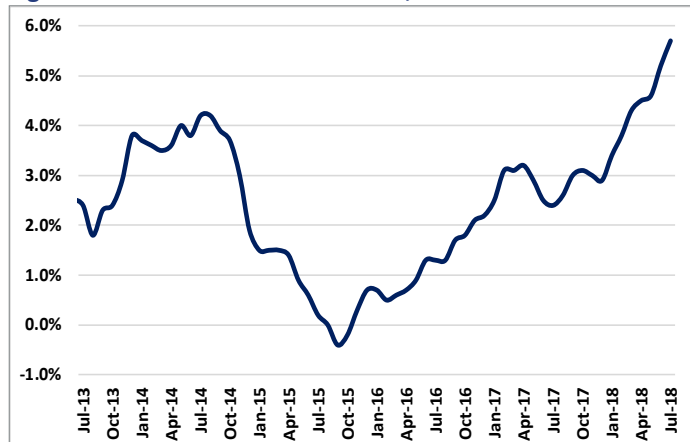
Source: Department of Finance (DOF)

Price movements in July further climbed to 5.7% (y-o-y) from 5.2% in the preceding month, marking a new high since April 2008.

**July Inflation Hits 10-year High at 5.7%**

Price movements in July further climbed to 5.7% (y-o-y) from 5.2% in the preceding month, marking a new high since April 2008. Significant increments in heavily-weighted commodities across most regions resulted in a faster acceleration, bringing the YTD rate above the BSP’s target, breaching the upper limit further by 0.5 percentage points.

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



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

We observed higher increments in big ticket indices (i.e., food and non-alcoholic beverages and housing, water, electricity, gas, and other fuels (HWEGOF). Gains in these items largely emanated from price upticks in rice, meat, vegetables, and other confectioneries; coupled with higher cost of electricity and fuel. Electricity cost rose to P10.2/kWh from P9.9/kWh in June amidst higher generation charges and peso depreciation. Price mark-ups in the international prices of crude oil (i.e., WTI and Brent), which rose by 52.3% y-o-y (on average) in July largely drove up the HWEGOF index, with spillover effects on the transport index. Health & alcoholic beverages and tobacco (ABT) indices, likewise, recorded 1.1 and 0.7 percentage points increase, respectively. TRAIN-1’s higher excise tax on alcoholic beverages and cigarettes kept ABT prices at elevated levels.

Meanwhile, the health and recreation & culture indices recorded slowdowns, with the former even posting a negative change. We still believe that inflation will continue to lodge above the BSP’s target but will start to taper off once supply side factors (price upticks in rice and crude oil) start to stabilize in Q3.

Inflation Year-on-Year Growth Rates	Jul 2018	Jun 2018	YTD
All items	5.7%	5.2%	4.5%
Food and Non-Alcoholic Beverages	7.1%	6.1%	5.7%
Alcoholic Beverages and Tobacco	21.5%	20.8%	18.6%
Clothing and Footwear	2.4%	2.2%	2.1%
Housing, Water, Electricity, Gas, and Other Fuels	5.6%	4.6%	3.5%
Furnishing, Household Equipment and Routine Maintenance of the House	3.3%	3.0%	2.7%
Health	3.7%	2.7%	2.7%
Transport	7.9%	7.1%	5.8%
Communication	0.5%	0.4%	0.3%
Recreation and Culture	0.9%	1.4%	1.3%
Education	-3.9%	4.0%	1.3%
Restaurants and Miscellaneous Goods and Services	3.7%	3.6%	3.2%

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

**M3 Growth Decelerates to 11.7% in June**

Money growth (M3) In June significantly slowed down to 11.7% y-o-y from the 14.3% recorded in May, an apparent immediate effect of the 25 bps rate hike effected in June. Narrow (M1) and broad money (M2) growth, likewise, decelerated to 15.2% and 11.3%, respectively.

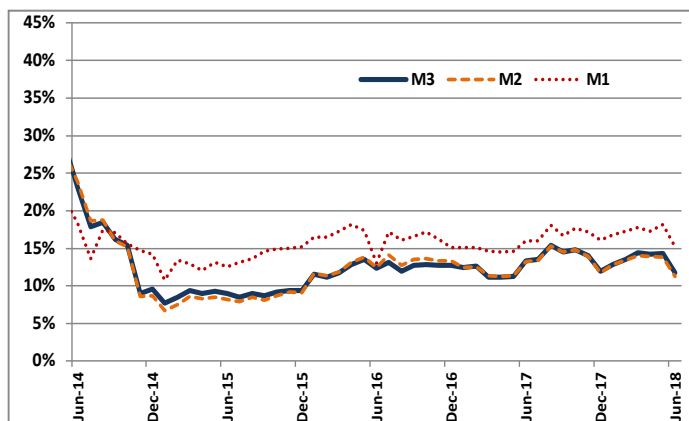
Sustained by the continued increase in production loans, the commercial bank lending which comprised 88.6% of banks’ loan portfolio, expanded by 19.2% (slightly lower than the 19.3% recorded in the previous month). Bulk of these loans went to wholesale and retail trade, repair of motor vehicles and motorcycles, real estate activities, financial and insurance activities, and manufacturing, among others.

Similarly, net foreign assets (NFA) of monetary authorities declined to 0.4% from 1.7% in the preceding month.

Given the acceleration of inflation to 5.7% in July, the Monetary Board (MB) decided on August 9 to hike its policy rate by 50 bps to 4%. That should take the heat off BSP, which critics claimed had stayed “behind the curve” until then.

PH exports performance remained in the red, posting a 3.8% decline to \$5.9 B in May, marking the 5th consecutive month of negative growth.

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

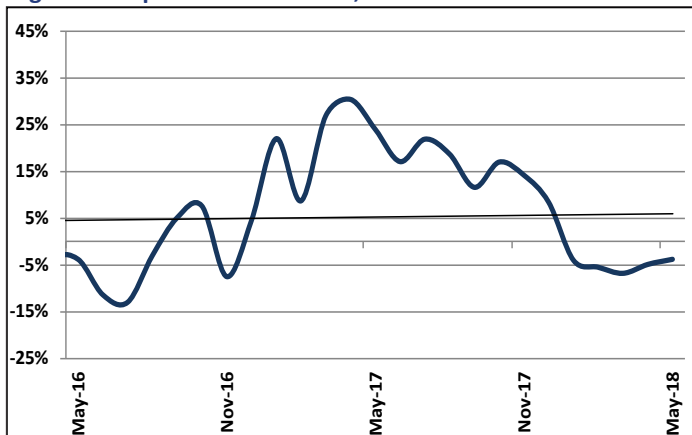


Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

### Exports Still Sliding in May, down by 3.8%

Philippine exports performance remained in the red, posting a 3.8% decline to \$5.9 B in May, marking the 5th consecutive month of negative growth. This resulted in a 5% YTD slump, showing an unexpected turnaround from the 22.4% gains in the same period last year.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Despite the overall downtrend, electronic products exports continued to expand by 2.3% y-o-y to \$3.3 B, at the same time accounting for the biggest share of exports at 54%. Semiconductors, which had the biggest share among electronic products at 40%, however, recorded a slight decline of 0.1% to \$2.3 B.

Machinery and transport equipment in 2nd place, likewise, registered a huge increase, climbing by 24.9% to \$455.5 M (comprising 2.5% of total exports). The rest of the top five

commodities came in higher, starting off with the exports of other manufactured goods (+7%) and metal products (80.9%), which ranked 3rd and 4th, respectively. Shipments of bananas joined the top five exports commodities, with sales valued at \$146.4 M. Outbound receipts accounted for 2.5% of total exports and showed a 1.6% y-o-y increase.

US regained its spot as the top export destination of the Philippines, snagging 14.6% of total shipments valued at \$840 M. Exports to the US increased by 6.6%. Shipments to Hong Kong (now in 2nd place) and China also grew by 13.8% and 8.9%, respectively. Meanwhile, export demand from Japan and Singapore remained weak with a huge decline of 25.8% for Japan.

Almost half of the total exports in May headed towards East Asian (EA) nations, valued at \$2.8 B but outward sales to the region further declined by 8.4% due to lower demand from Japan. Shipments to the ASEAN also slightly decreased by 0.1% valued at \$887.7 M. Meanwhile, exports to the EU, which accounted for 15.2% of total shipments, registered a 2.9% expansion.

While exports performance continued to be in the red, we think that the strong acceleration in the US economy, as well as in EU and Japan, will help boost and push exports to finally move back to positive growth territory in H2.

### Remittances Increased by 6.1% in May

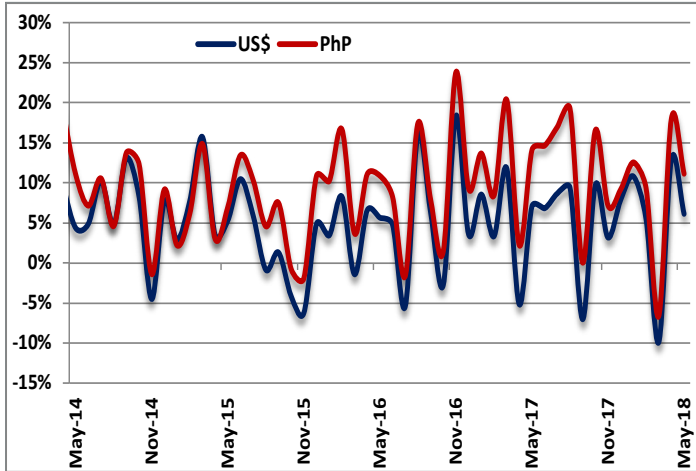
Money sent by Filipinos working abroad continued to pour into the country, hitting a total of \$2.7 B in May (representing a 6.1% y-o-y increase). The positive performance in four of five months (save for March) brought the YTD level to \$13.2 B. About 80% of remittances during the five month period represented steady inflows from land-based OF workers with more than one year work contracts.

Cash remittances (i.e., coursed through banks), likewise, increased by 6.9% to \$2.5 B due to higher transfers from both land- and sea-based workers, mostly working in the US, UK, and Singapore.

Meanwhile, the peso equivalent of personal remittances posted a double-digit gain of 11% from a year ago level amounting to P143.3 B, supported by the 4.7% y-o-y peso depreciation. We believe that remittances will continue to pour into the country and will be magnified by the lingering weakness in the peso.

The Philippine peso tumbled to a 10-year low against the US dollar, further moving past P53/\$1 in July.

Figure 7 - OFW Remittances Growth, Year-on-Year

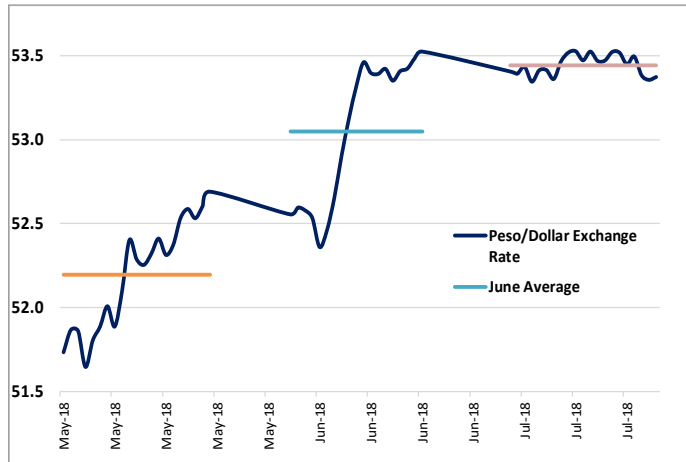


Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Dollar Rally Pushes Peso Further Down

The Philippine peso tumbled to a 10-year low against the US dollar, further moving past P53/\$1 in July. Rising interest rates and solid upswing in the US economy largely triggered the dollar rally leaving most Asian currencies in the red. US jobs data showed a remarkable gain of 157,000 jobs in July (plus upward revisions in jobs for May and June), while manufacturing activity still expanded at a healthy rate. Consumer confidence index, likewise, rose to 127.4 from 127.1 in June.

Figure 8 - Daily Dollar-Peso Exchange Rate



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

Meanwhile, the widening Philippine trade deficit and higher domestic inflation further added pressure to the peso to average P53.44/\$ in July, representing a 0.7% depreciation from June. This marked the 7th consecutive

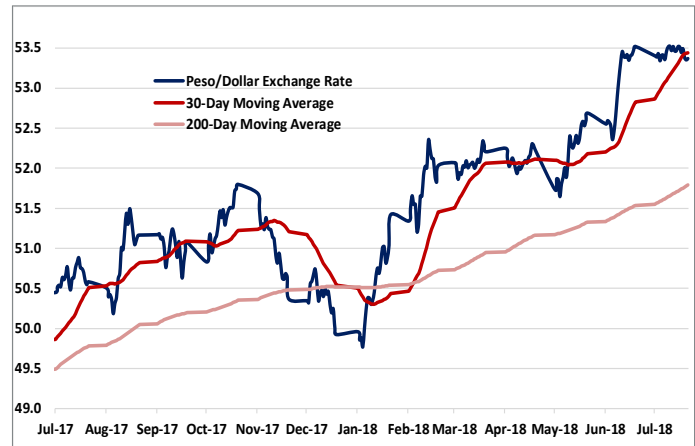
month of peso depreciation in 2018. The volatility measure, meanwhile, narrowed to 0.06 from 0.43 in June as the pair hovered tightly between a high of P53.52/\$ and a low of P53.34/\$.

Exchange Rates vs USD for Selected Asian Countries			
	Jun-18	Jul-18	YTD
AUD	0.4%	1.2%	3.0%
CNY	1.4%	3.9%	1.7%
INR	0.4%	1.4%	6.9%
IDR	-0.4%	2.9%	6.2%
KRW	1.7%	2.6%	3.4%
MYR	1.0%	1.3%	-0.8%
PHP	1.6%	0.7%	6.0%
SGD	0.7%	1.1%	1.1%
THB	1.6%	2.5%	1.9%

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

Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback

Figure 9 - Dollar-Peso Exchange Rates & Moving Averages



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

The renewed strength of the dollar whacked most emerging market currencies as investors pulled out their funds and found a safe haven in the US market, banking on the upbeat US economic growth (+4.1% GDP growth in Q2-2018) and the rising policy rates. The trade war between the US and China brought the yuan to its lowest performance this year, which spilled over to China's major trading partners (i.e., Thailand and Malaysia, among others). The soft yuan also weighed on Korea's won which recorded an eight-month low, following the downgrade of its economic prospects. Indonesia's rupiah (IDR) remained



*Our optimistic outlook of a 7% GDP growth in Q2 got crushed as the 22.6% gain in the earlier reported Volume of Production Index (VoPI) for Q2 translated to a less-than-6% growth in manufacturing.*

weak amidst the lingering trade deficit arising from higher oil prices. Significant uptick in oil price likewise added woes to other oil net-importing countries, with the Indian rupee (INR) seen to fall despite its central bank's decision to increase rates in June.

The month-end actual USD/PHP rate in July remained above the 200-day moving average (MA) but below the 30-day MA, suggesting that the peso will continue to be under pressure in long term as long as the US dollar advances and the country's trade deficit linger, but may experience a respite in the short-term. The latter has become more likely with the BSP's latest decision to raise policy rates by 50 bps to 4%.

### Outlook

Our optimistic outlook of a 7% GDP growth in Q2 got crushed as the 22.6% gain in the earlier reported Volume of Production Index (VoPI) for Q2 translated to a less-than-6% growth in manufacturing.

- Nonetheless, Q3 GDP expansion may remain tepid (i.e., 6.5% or less), unless inflation starts to slowdown and exports begin to move to positive territory. With construction (especially infrastructure) and manufacturing remaining robust, the underlying growth momentum should hold up.
- Headline inflation will peak in August given the heavy rains and flooding during the month. The saving factor in Q3 would be normalizing food prices, due to September rice harvests and larger imports and downward trending crude oil prices to well below \$70/barrel. Electricity rates should also go down as hydro-power plants go full blast during the rainy season.
- While BSP has said it is ready to raise rates further, we think markets will be assuaged by the recent 50 bps hike. Besides, money growth has also began to slowdown more significantly.
- We still think that exports growth will turn positive in H2 as there is some six months lag between the peso depreciation and improvement in exports.
- While the peso should have a relief from depreciation pressure as a consequence of BSP's 50 bps policy rate hike on August 9, renewed pressure may arise in Q4 as strong

US economy, repatriation by US multinationals, and higher interest rates continue to attract foreign flows to that country.

Forecasts			
Rates	August	September	October
Inflation (y-o-y %)	5.9	5.2	5.0
91-day T-Bill (%)	3.56	3.34	3.22
Peso-Dollar (P/\$)	53.37	53.54	53.76
10-year T-Bond (%)	6.73	6.38	6.25

Source: Authors' Estimates

# SLIGHTLY IMPROVED BOND MARKETS AS BSP HIKES POLICY RATES

10

Local bond markets improved in volume and slightly in yields in July as US 10-year yields failed to break 3%, despite widely anticipated two additional policy rate hikes for H2, and the anticipated and actualized BSP policy rate hike by 50 bps to 4%. We saw more activity seen in both auctions and secondary markets, although yields dropped only in debt papers with 3-month maturity. 91-day T-bills yielded 3.261% and 3.31%, down by 22.3 bps and 60 bps for auctions and secondary markets, respectively. T-bond yields moved up slightly but humped in the 6-month to 3-year space. BTr rejected all bids in the T-bond auctions due to weak demand.

*Outlook: With two additional Fed rate hikes (for rest of year) priced in by US and local bond players, the local bond market shall focus on key movements in the domestic front—inflation, exchange rates, and BSP policy rate hikes. We think inflation should peak in August given the most recent heavy rains, but also the likely easing of food prices (especially rice, due to September harvests and larger importations) and crude oil prices. Exchange rates should be relatively stable, while the BSP may still hike policy rates by another 25 bps in H2 to ward off inflationary expectations and peso-dollar rate speculation.*

## GS Auctions: More Bids for T-bills, Down for T-bonds

The auction of government securities (GS) saw greater interest among investors especially for the shorter-term debt papers. As for the three sets of Treasury bonds offered (totaling P45 M), the tenders barely exceeded the securities on offer (tender-offer ratio or TOR of only 1.1x) and so the Bureau of the Treasury (BTr) rejected all the bids.

In general, however, the total amount tendered by bidders increased by 50% to P202.8 B, representing a TOR of 1.7x compared to 1.5x in June. The preference for the shorter tenors showed in the TOR of 2x for the T-bills auctioned versus 1.5x a month ago. It also got manifested itself in the steep drop in TOR for July T-bond offerings to 1.1x from 1.4x in the previous month.

But even for the short-dated papers, the preference for 91-day T-bills stood out as yields dropped by 22.3 bps to 3.261% on the strength of demand (TOR at 3.2x from 1.7x in June). On the other hand, yields for both 182-day and 364-day T-bills soared by 42.1 bps and 47.1 bps to end the month at 4.294% and 4.9%, respectively.

## GS Secondary Market: Trading Improves, Yields Mixed

Trading of GS in the secondary market improved by 18.2% month-on-month (m-o-m) in July to P145.1 B, the third best performance for the year. Nonetheless, it still continued to fall year-on-year (y-o-y) by 35.8%. Thus, by July year-to-date (YTD) trading volume still declined by 34.9% compared to a slower decline of 19.9% for the same period a year ago. The better volumes boded well for yields which fell for the 3-month tenor.

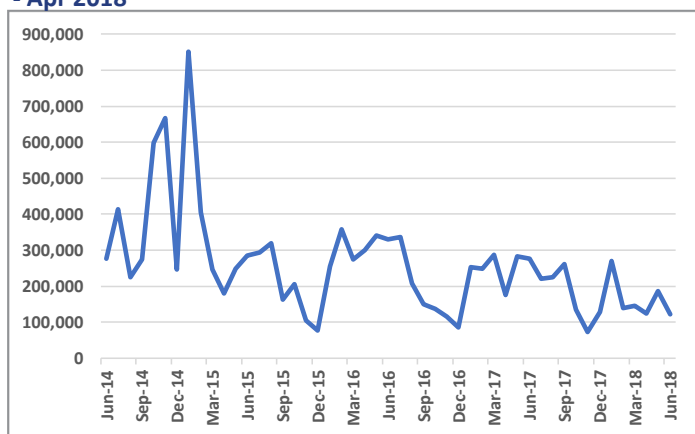
Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
02-Jul	91-day	4	14.4	4	3.6	3.4	
	182-day	5	5.3	3	1.1	3.9	
	364-day	6	6.8	4	1.1	4.6	
09-Jul	91-day	4	15.8	4	4	3.3	
	182-day	5	6.1	5	1.2	4	
	364-day	6	8.1	4.4	1.3	4.7	
16-Jul	91-day	4	13.5	4	3.4	3.3	
	182-day	5	8.1	3.4	1.6	4.2	
	364-day	6	6.6	4.7	1.1	4.8	
23-Jul	91-day	4	10.4	4	2.6	3.2	
	182-day	5	9	5	1.8	4.2	
	364-day	6	13.5	6	2.2	4.8	
30-Jul	91-day	4	9.6	4	2.4	3.3	-22.3
	182-day	5	13.1	5	2.6	4.3	42.1
	364-day	6	13.2	6	2.2	4.9	47.1
<b>Subtotal</b>		<b>75</b>	<b>153.4</b>	<b>66.6</b>	<b>2</b>		
03-Jul	10-year	15	14.8	-	1	-	
07-Jul	7-year	15	14	-	0.9	-	
31-Jul	20-year	15	20.6	-	1.4	-	
<b>Subtotal</b>		<b>45</b>	<b>49.4</b>	<b>-</b>	<b>1.1</b>		
<b>All Auctions</b>		<b>120</b>	<b>202.8</b>	<b>66.6</b>	<b>1.7</b>		

Source: Philippine Dealing Systems (PDS)

The short-end of the yield curve moved downward with a hump from the 6-month to 1-year space. As investors flocked to the shortest tenors, the 3-month yield dove by almost 60 bps to 3.310% by the end of July from 3.907% a month ago. The least gains in yields in the 5-year and

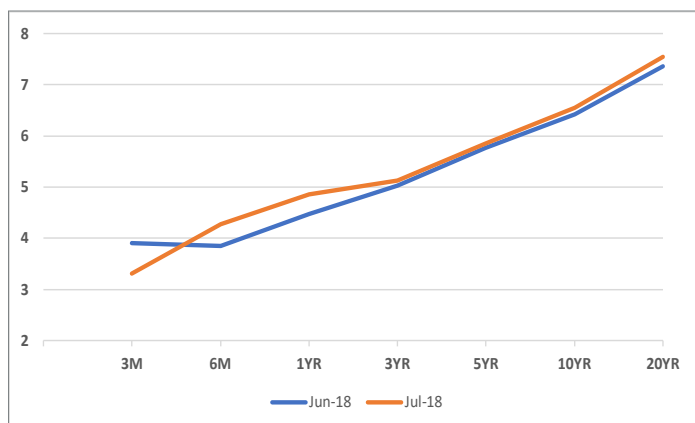
10-year tenors which saw upticks of 8.8 bps and 12.3 bps. Thus, 5-year bond yields ended at 5.85%, while the 10-year yielded 6.545%.

**Figure 10 - Monthly Total Turnover (in Billion Pesos), Jan 2014 - Apr 2018**



Source: Philippine Dealing Systems (PDS)

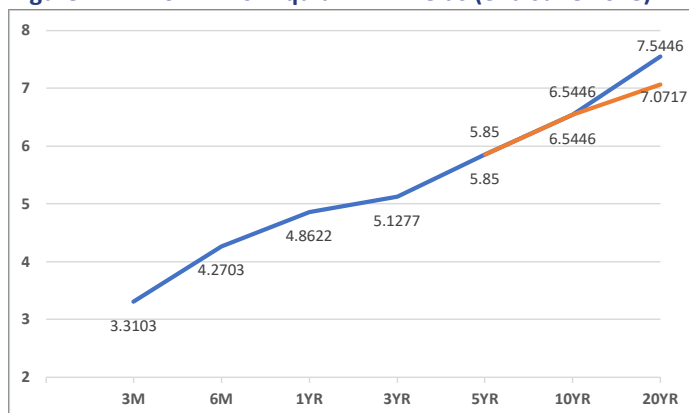
**Figure 11 - End-Month Yield Curves (PDST-R2)**



Source: Philippine Dealing Systems (PDS)

Liquid bond issues converged more towards PDST-R2 benchmark yields for the 5-year and 10-year space. However, for the 20-year tenor the yields diverged a little bit more from 44.9 bps to 47.3 bps. RTB-25-01 (with nearly 20 years remaining life) ended at 7.072% while the R2 benchmark yield closed at 7.545%.

**Figure 12 - PDST-R2 vs. Liquid FXTN Yields (end-June 2018)**



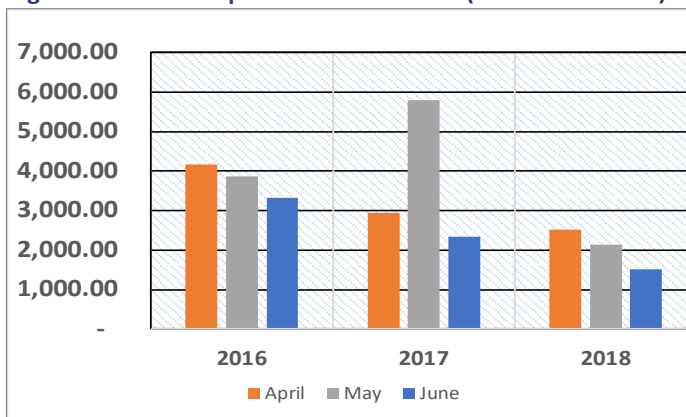
Source: Philippine Dealing Systems (PDS)

**Corporate Bonds: Trading Improves in July, but Still Below Year Ago**

Secondary trading in corporate bonds improved in July from a month ago, but insufficient to avoid a fall from a year ago.

Total trading volume in July almost doubled to P2.8 B from P1.5 B a month ago. This represented a huge gain of 87.2% over June, but still fell by 41.9% from July 2017. As a consequence, YTD decline moved up slightly to 40% from 39.6% in June.

**Figure 13 - Total Corporate Trade Volume (in Millions Pesos)**



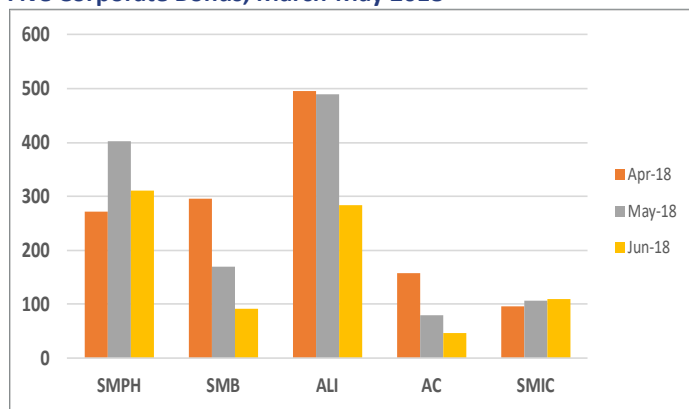
Source: Philippine Dealing Systems (PDS)

Powered by the 219.7% vault in Ayala Land Inc. (ALI) bonds to P909 M, the total trading of top 5 companies' debt papers shot up by 62.5% to P1.4 B. The top 5 companies include ALI, SM Prime Holdings (SMPH), SM Investments Corporation (SMIC), Ayala Corporation (AC), and San Miguel Brewery (SMB). SMPH took 2nd place in trading

*The yield curve of the Republic of the Philippines' US dollar-denominated bonds (ROPs) flattened in July, as yields in longer-dated ROPs fell by 19-21 bps, as risk appetite for EM bonds resurfaced.*

turnover despite a 15.4% drop in volume to P262.9 M. SMIC snagged the next place at P105.9 M, but still a 2.7% slippage from June. AC held the distinction of posting also a gain of 4.3%, but its trades of P48.7 B remained well below its over P100 M in April 2018.

**Figure 14 - Monthly Trading Volume (In Million Pesos) of Top Five Corporate Bonds, March-May 2018**



Source: Philippine Dealing Systems (PDS)

### Issuances and Disclosures

Banks tapped the capital market through the issuance of Long-term Negotiable Time Deposit Certificates (LTNCDs) which are tax-exempt.

- China Banking Corporation (CBC) issued and listed P10.25 B worth of LTNCDs due 2024 at a 4.55% interest rate per annum (p.a.).
- Robinsons Bank also had an LTNCD issuance and listing at much less (P1.78 B) also due 2024 (5.5 years to maturity) with interest rate of 4.875% p.a. This should form part of a total P5 B planned offering.
- San Miguel Corporation (SMC) plans to issue P10 B in 2-year fixed rate notes with a coupon of 5.25%. Final issuance and listing remained pending. The entire proceeds for this Issue will be used either for: (i) refinancing the existing loan obligations and/or re-denomination of US dollar-denominated obligations of the company or (ii) investments in SMC subsidiaries.
- NLEX Corporation (NLEX), tollway operator subsidiary of Metro Pacific, Inc., listed at Philippine Dealing and Exchange Corporation (PDEX) its P7 B bond issuance done in March 2014. The issue consisted of two fixed rate bonds, one due 2021 (3-years remaining) amounting to

P4.4 B with a coupon of 5.07%, and the other due 2024 (6-years to maturity) amounting to P2.6 B with a coupon of 5.5%.

### ROPs: Surprising Flattening of Yield Curve

The yield curve of the Republic of the Philippines' US dollar-denominated bonds (ROPs) flattened in July, as yields in longer-dated ROPs fell by 19-21 bps, as risk appetite for emerging markets (EM) bonds resurfaced. Since ROP-19 only has a remaining life of around six months, while ROP-20 has 1.5 years to maturity, we took an average of the two to obtain an estimate for the 1-year ROP yields.

While yields at the long-end dropped, ROPs in the 1-year space edged only 1.9 bps higher to end July at 2.959%. For ROP-32 yields which fell by 20.6 bps in July, the yield came to 4.231%, while for ROP-37 the yield slipped by 19.3 bps to 4.272%.

US Treasury bond yield curve, on the other hand, moved upward across-the-board with some 10-12 bps uptick, except for the 2- and 3-year T-bonds which rose by 15 bps and 14 bps, respectively. US T-bonds with one year to maturity yielded 2.44%, while the 15-year tenor ended at 2.995%. Yields for the 20-year tenor closed the month at 3.03%.

With the contrasting moves at the long-end of the curve, the spreads of ROP-32 and ROP-37 over the corresponding US Treasuries narrowed significantly by 32.1 bps and 31.3 bps, respectively. The resulting spreads for the two tenors ended at 123.6 bps and 124.4 bps, respectively. Even the spread for the 1-year tenors slipped by 9.1 bps to 62.3 bps.

### ASEAN+2 Roundup: Yield Curve Movements Varied

**US:** GDP growth in Q2 hit 4.1%, the fastest since Q3-2014, while unemployment rate fell to 3.9% in July (from 4% a month ago), among the lowest in 30 years. The economy added 157,000 jobs that month, which was below expectations, although May and June figures were revised upward to 59,000 jobs. The manufacturing sector added 37,000 jobs in July, pushing the industry to the best annual job gain in more than 20 years. Meantime, President Trump is considering raising tariffs on \$200 B worth of Chinese imports from 10% to 25%. In addition, he ratcheted up the tariffs on Turkish steel and aluminum to 50% and 20%, re-

*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.*

spectively. Both Goldman Sachs and Morgan Stanley have raised their expectations for US growth in 2018 to at least 3%, in line with the Trump administration's target.

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:** China's GDP growth rate slowed to 6.7% (y-o-y) in Q2 from 6.8% in Q1, pulled down mainly by a slowdown in industrial production to 6% y-o-y in Q2 from 6.3% in Q1. Export data confirmed this easing as June exports rose 11.3% y-o-y after gaining 12.6% in May. Import growth also slowed to 14.1% in June from 26% in May. Chinese consumer prices rose 1.9% y-o-y in June versus 1.8% in May due to an acceleration in food prices. On a m-o-m basis, consumer prices fell 0.1% in June.

Growth in the China's investment in fixed assets slowed to 6% y-o-y in June from 6.1% in May, largely driven by a weakening in agriculture's investment growth rate to 13.5% in June from 15.2% in May. At the same time, fixed asset investment growth in industry accelerated slightly to 3.8% y-o-y from 2.5%, while for the services sector it decelerated to 6.8% y-o-y from 7.7% a year ago. China's manufacturing Purchasing Managers Index (PMI) fell to 51.2 in July from 51.5 in June, while its non-manufacturing PMI fell to 54 from 55 in the same period last year, suggesting a continuing deceleration.

**Malaysia:** The Index of Industrial Production slowed in May to 3% y-o-y from 4.6% in April due to slower output growth in the manufacturing and electricity sectors, and a decline in the mining sector. The manufacturing sector slowed to 4.1% y-o-y in May from 5.3% in April as all major subsectors saw weaker output. Nonetheless, it posted a trade surplus in June of MYR 6 B (\$1.5 B).

On a m-o-m seasonally adjusted basis, industrial production slowed by 0.2% in May after gaining 1.5% in the previous month. Inflation (CPI-based) decelerated from 1.8% in May to 0.8% y-o-y in June, below 1% for the first time in 40 months. All components of CPI either registered a price deceleration except for the transport group, the latter due to higher fuel prices. An important reason for the slower inflation comes from the abolition of the goods and services tax effective June 1 and the discounted prices by retailers in conjunction with the Eid'l Fitr holidays.

**Indonesia:** Indonesia posted a trade surplus of \$1.7 B in June, following two consecutive monthly trade deficits in April and May. The trade surplus resulted from weaker import growth of 12.7% y-o-y in June from 28.3% in May as demand normally slows following the Eid'l Fitr holiday. Export growth also eased to 11.5% y-o-y from a revised 13.1% hike in May. Thus, in H1 it recorded a trade deficit of \$1 B, a huge turnaround from a trade surplus of \$7.7 B a year ago. Consumer prices in Indonesia rose 3.2% y-o-y in July, after gaining 3.1% in June, due largely to higher food prices. The government cut the income tax for small and medium enterprises (SMEs with maximum annual sales of Rp 4.8 B (\$332,458) from 1% to 0.5% effective July 1.

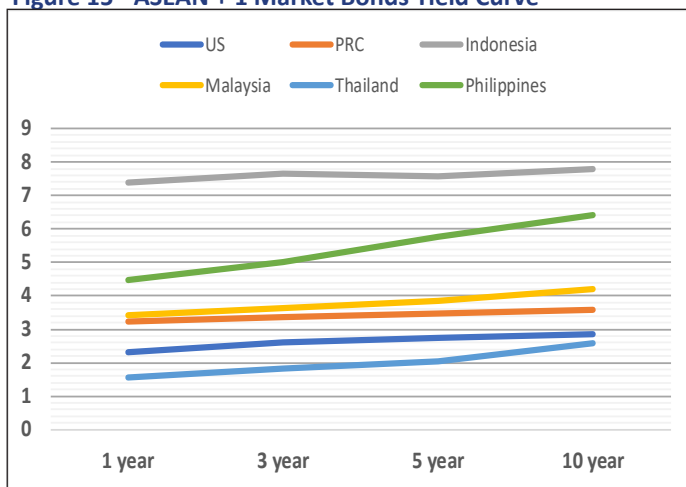
Bank Indonesia (BI) resumed the issuance of 9-month and 12-month central bank certificates known as Sertifikat Bank Indonesia (SBI). The issuance of SBIs is expected to attract foreign portfolio investments into the Indonesian market and provide more diversity in the instruments being issued by the central bank. Policy-wise, BI retained the 7-day reverse repo rate at 5.25% in mid-July while it kept the lending facility and deposit facility rates at 6% and 4.5%, respectively. Yield curve steepened (10-year less 2-year yields) by 28 bps to 56 bps as shorter-dated papers' yields fell.

**Thailand:** The Finance Ministry raised its growth forecast from 4.2% to a range of 4.2% to 4.8% for 2018, as investments in infrastructure projects, the development of special economic zones and PPP investments are expected to boost investor confidence and lead to more private investments this year. Economic indicators for June and Q2 suggested an expansion in private investment and consumption. Banking on an 18th straight month of growth, car sales rose by 23.6% y-o-y in Q2. Real incomes of farmers increased by 3.2% in June, rising for the fourth consecu-

As local bond market players have largely priced-in four policy rates by the Fed (from earlier consensus of three) in 2018, they will likely focus on the domestic front.

tive month, and by 4.9% for Q2. Tax revenue from VAT, a consumption indicator, expanded by 6.9% in June and 6% in Q2. Exports grew 10% y-o-y in June to reach \$21.8 B, while imports rose slightly by 12.9% y-o-y in June compared with 12.7% in May. Thailand’s trade surplus widened to \$2.9 B in June. Headline inflation rate picked up to 1.5% in July after easing to 1.4% in June. Higher prices in energy, tobacco and alcoholic drinks; housing and furnishings; rice and cereal products; seasonings and condiments; and prepared food drove inflation up. With policy rates unchanged and growth accelerating, the yield curve steepened by some 8 bps.

Figure 15 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Outlook

As local bond market players have largely priced-in four policy rates by the Fed (from earlier consensus of three) in 2018, they will likely focus on the domestic front.

- Despite the new consensus of four policy rates by the Fed, US 10-year T-bond yields have failed to breach 3% except for the first day in August suggesting that, coupled with the strengthening US dollar, there may be less supply as a result of the Fed’s redemption of its long-term bond holdings (under QE) and the widening interest rate differential with the yen and the euro (particularly, for Germany).
- With eyes glued on the domestic front, the movements in inflation, exchange rates, and BSP policy rates will be of greatest importance.
- We think that inflation will peak in August (moved from July, due to heavy rains in Luzon), and the easing should be prompted by normalizing food prices, led by bigger rice harvests and importations, removal of supply bottlenecks caused by the monsoon rains, and downward-trending crude oil prices.
- Exchange rates will tend to be relatively stable since domestic interest rates have already risen and the BSP has readied its weapons against peso-dollar speculation.
- BSP will likely increase policy rates by another 25 bps in H2 not only to tone down inflation expectations, but also to moderate the pressure on the exchange rate.
- Some last-minute fund raising in the bond markets should be forthcoming in H2.

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	2.669	2.960	2.1	0.75	33	29	(4)	1.75	-0.35
PRC	3.050	3.610	1.6	2.00	28	56	28	4.35	2.75
Indonesia	7.311	7.766	3.8	3.19	22	46	24	5.25	1.45
Malaysia	3.485	4.075	3.9	0.17	65	59	(6)	3.25	-0.65
Thailand	1.732	2.706	1.1	1.61	89	97	8	1.50	0.40
Philippines	5.059	6.545	4.8	1.75	164	149	(15)	4.00	-0.80

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

# PSEI ESCAPES FROM BEAR MARKET TERRITORY

15

PSEi broke away of its brief stint in bear market territory by posting a strong gain of 6.6% in July, only a tad less than East Asian leader Thailand. Risk appetite appeared to improve as the perception that President Trump's tariff war versus China, EU, and NAFTA played more as bargaining stance gained more adherents. Aggregate earnings of constituent stocks in PSEi rose by only 1.2% in Q2, but 4.4% in H1 year-on-year (y-o-y). The weighted (by market capitalization) of EPS growth tallied at 4.5% in H1 just a bit lower than consensus of 4.7% (y-o-y). PSEi nonetheless closed at 7,672 in July, eclipsing the 4% drop in June when it became much oversold.

*Outlook:* With disappointing Q2 GDP growth way below market expectations and faster inflation in July, healthy corporate earnings won't have sufficient strength to avoid a fall in the ghost month. The July rally appears transitory since turnover fell by 12%. It will likely take a definitive easing in the inflation and exchange rates and markedly better Q3 earnings picture for PSEi to reach our target of 7,900-8,200.

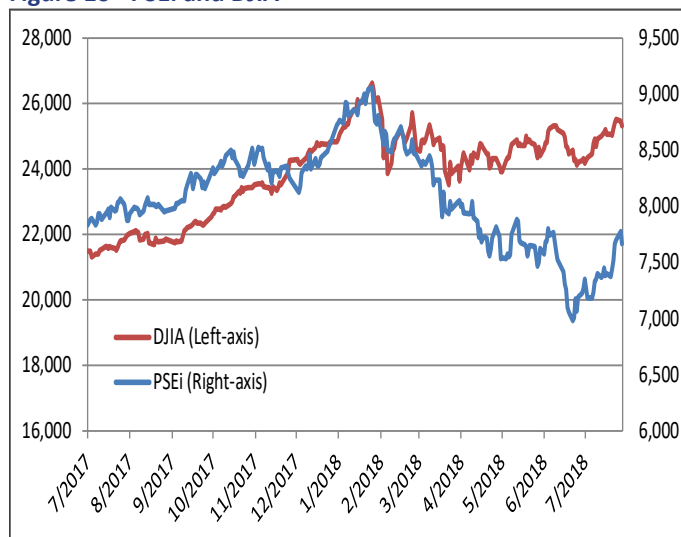
Global Equities Markets Performances				
Region	Country	Index	Growth Rate May 2018 (m-o-m)	2018 YTD
Americas	US	DJIA	4.7%	2.4%
Europe	Germany	DAX	4.1%	-0.5%
	London	FTSE 101	1.5%	1.3%
East Asia	Hong Kong	HSI	-1.3%	-6.3%
	Shanghai	SSEC	1.0%	-14.1%
	Japan	NIKKEI	1.1%	-4.1%
	South Korea	KOSPI	-1.3%	-7.4%
Asia-Pacific	Australia	S&P/ASX 200	1.4%	3.6%
Southeast Asia	Indonesia	JCI	2.4%	-6.4%
	Malaysia	KLSE	5.5%	0.1%
	Thailand	SET	6.7%	-4.3%
	Philippines	PSEi	6.6%	-12.1%
	Singapore	STRAITS	1.6%	-3.2%

Sources: Bloomberg & Yahoo Finance

Most global equity markets advanced in July as trade tensions slightly relaxed with US President Donald Trump and European Commission President Jean-Claude Juncker expressing commitment to lower or eventually scrap tariffs on non-auto industrial goods and to cooperate in reforming World Trade Organization rules to address unfair trade practices. Western markets accelerated substantially, with DJIA and DAX growing 4.7% and 4.1%, respectively. Emerging Asian indices recorded substantial even better gains, with SET, PSEi, and KLSE leading Asian counterparts with 6.7%, 6.6% and 5.5%, respectively. On the other

hand, East Asian markets HSI and KOSPI dipped slightly, with their values declining both by 1.3% last month.

Figure 16 - PSEi and DJIA



Sources: Wall Street Journal, Federal Reserve

PSEi and DJIA treaded the same path in July, with correlation registering at a high of 0.8. Reports on the US economic growth accelerating to a substantial 4.1% (fastest in four years) backed by solid consumer spending and steady exports, excited investors in US equities. Moreover, tech companies disclosed key milestones which boosted growth in stock prices while investors juggled with Q2 results. E-commerce giant Amazon.com Inc. reported its biggest quarterly profit total in its corporate history, encompassing the \$2 B mark. Apple, Inc. also reached a \$1 T market capitalization, a first-time for a US company to do so.

After a few months of being Asia's worst performing index, PSEi recovered in July with a 6.6% rally, as foreign funds returned.

Monthly Sectoral Performance				
Sector	29-Jun-18		31-Jul-18	
	Index	% Change	Index	% Change
PSEi	7,193.68	-4.0%	7,672.00	6.6%
Financial	1,779.30	-4.7%	1,858.92	4.5%
Industrial	10,414.84	-3.2%	10,830.18	4.0%
Holdings	7,051.74	-3.8%	7,593.74	7.7%
Property	3,549.11	-5.5%	3,754.81	5.8%
Services	1,392.62	-6.0%	1,493.42	7.2%
Mining and Oil	9,673.22	-3.5%	9,696.31	0.2%

Source of Basic Data: PSE Quotation Reports

After a few months of being Asia's worst performing index, PSEi recovered in July with a 6.6% rally, as foreign funds returned. The local bourse advanced during the second half of the month, managing to exceed the 7,700-level on July 30, albeit ending July a little lower as investors pocketed gains at month-end. Holdings and Services sectors gained most, experiencing 7.7% and 7.2% growth in stock prices, respectively. Meanwhile, Property, Financial and Industrial sectors, likewise, underwent an upsurge in share prices, with 5.8%, 4.5% and 4% increases, respectively. On the other hand, Mining and Oil still managed to end in positive territory with a 0.2% uptick from the previous month.

Company	Symbol	06/29/18 Close	07/31/18 Close	% Change
Metrobank	MBT	73.40	73.70	0.4%
BDO Unibank, Inc.	BDO	125.50	132.00	5.2%
Bank of the Philippine Islands	BPI	88.50	98.00	10.7%
Security Bank Corporation	SECB	200.00	203.00	1.5%

Source of Basic Data: PSE Quotation Reports

The Financial sector bounced back in July, with its constituent stocks gaining 4.5% growth in share prices. Bank of the Philippine Islands (BPI) enjoyed big gains last month, with its shares rising by 10.7%. BPI had an upswing during the second half of the month, only to taper off when it announced a 5.7% drop in net profit for the first six months of 2018 due to the decline in its treasury and investment management units.

On the other hand, BDO Unibank, Inc. (BDO) joined BPI in reaping substantial returns in July, gaining 5.2%, despite announcing 1.5% drop in earnings in H1 to P13.1 B, some P0.2 B lower than BDO's H1-2017 net income.

Security Bank Corporation (SECB) still managed to rise by 1.5% in end-July, despite a downturn which offset much of its hefty gains during the mid-month. SECB disclosed that the bank might not be able to match its 2017 loan portfolio growth due to slower corporate borrowing.

Meanwhile, Metropolitan Bank and Trust Company (MBT) ended with a 0.4% price uptick. The bank reported strong earnings gains of 16% in H1-2018, amounting to P11 B.

Company	Symbol	06/29/18 Close	07/31/18 Close	% Change
Meralco	MER	355.60	379.60	6.7%
Aboitiz Power	AP	34.75	37.20	7.1%
Jollibee Foods Corporation	JFC	263.00	270.00	2.7%
First Gen Corporation	FGEN	14.46	15.52	7.3%
Universal Robina Corporation	URC	121.00	128.00	5.8%
Petron Corporation	PCOR	8.88	8.88	0.0%

Source of Basic Data: PSE Quotation Reports

On the other hand, the Industrial sector climbed by a respectable 4% in July. First Gen Corporation (FGEN) led the sector, ending with a substantial 7.3% increase, as the company commenced its two-year share buyback program of P10 B worth of FGEN's preferred shares.

Aboitiz Power Corporation (AP) slightly trailed FGEN, with a 7.1% growth in July. AP announced plans to issue P27 B worth of fixed rate retail bonds, to be used for financing capital expenditures, acquisitions, future investments and other general corporate requirements, as well as refinancing existing debt.

Continuing last month's rise, Manila Electric Company (MER) booked gains amounting to 6.7% of share price in July. MER's stock price accelerated as the company reported a 17% upsurge in net profit to P6.6 B in H1 after robust electricity sales increased revenues by 7% (y-o-y) to P79.7 B.

Universal Robina Corporation's (URC) share price, likewise, recovered last month with a 5.8% upturn, despite reporting a 23% (y-o-y) drop in earnings for H1-2018 due to foreign exchange losses, thus dragging the stock price downward during the month-end.



*The Holdings sector emerged as the best performing among the six sectors in July, advancing by a big 7.7%.*

Jollibee Foods Corporation (JFC), likewise, experienced a 2.7% gain in July. The fast-food giant continues its overseas expansion with the opening of its Mississauga, Ontario location, its 4th store in Canada.

Petron Corporation (PCOR) ended flat in July despite reporting a huge 39.8% rise in Q2 earnings counting on a 43.2% jump in revenues. Investors had likely anticipated this improvement.

Company	Symbol	06/29/18 Close	07/31/18 Close	% Change
Ayala Corporation	AC	920.00	999.00	8.6%
Metro Pacific Investments Corporation	MPI	4.60	4.71	2.4%
SM Investments Corporation	SM	875.00	950.00	8.6%
DMCI Holdings, Inc.	DMC	10.50	11.80	12.4%
Aboitiz Equity Ventures	AEV	54.50	57.35	5.2%
GT Capital Holdings, Inc.	GTCAP	910.00	970.00	6.6%
San Miguel Corporation	SMC	138.00	139.20	0.9%
Alliance Global Group, Inc.	AGI	11.62	11.92	2.6%
LT Group Inc.	LTG	18.08	18.00	-0.4%
JG Summit Holdings, Inc	JGS	50.00	56.00	12.0%

Source of Basic Data: PSE Quotation Reports

On the other hand, the Holdings sector emerged as the best performing among the six sectors in July, advancing by a big 7.7%. DMCI Holdings, Inc.'s (DMC) share price skyrocketed this month, enjoying a 12.4% upsurge compared to a month ago, as the company's residential arm (DMCI Homes) will construct a high-rise residential condominium as part of the redeveloped NCCC Mall Buhangin in Davao City.

JG Summit Holdings, Inc. (JGS) also experienced a hefty gain of 12% in July. JGS's stock price rallied following the announcement of its plans to convert its commercial bank, Robinsons Bank, to a universal bank within the next five years.

SM Investments Corporation's (SM) value also increased by 8.6% amidst healthy performance of its core businesses and continuous expansion of its various business units.

Earnings in Q2 jumped by 7.9%, riding at the back of a 12.5% expansion in revenues.

Ayala Corporation (AC) also posted significant gains of 8.6% in July, as the company's energy unit AC Energy Holdings, partnering with two Indonesian firms, completed its 75 MW wind farm project worth \$150 M in Indonesia.

GT Capital's (GTCAP) share price continued to recover in July, rising by 6.6%, after a substantial drop in the previous month. The company disclosed that its subsidiary Property Company of Friends (ProFriends) sold a 20-hectare property in Cavite to MetroPac Movers Inc., Metro Pacific Investments Inc.'s (MPIC) logistic arm.

Aboitiz Equity Ventures (AEV) also posted a significant increase of 5.2% last month, as the company signed a \$338 M loan agreement with four foreign banks to acquire a 75% equity interest in Gold Coin Management Holdings Ltd., which is Asia's largest privately-owned agribusiness company.

Meanwhile, Alliance Global Group, Inc. (AGI) experienced a 2.6% increase, as the company's subsidiary Suntrust Properties, Inc. (SPI) completed the acquisition of a 97% stake in Stateland Inc., a medium-sized horizontal property developer.

Metro Pacific Investments Corporation's (MPI) share price, likewise, advanced by 2.4% last month. The company disclosed that it would be entering in a joint venture with MER for the development of a liquefied natural gas (LNG) integrated terminal.

San Miguel Corporation's (SMC) value edged higher by 0.9% in July, as earnings climbed by a modest 5.7%. It also announced its plan to develop an additional 10,000 MW of renewable energy in its portfolio through its power unit, SMC Global Power Holdings Corporation.

LT Group, Inc. ended in the red last month with a 0.4% dip, despite its affiliate PAL Holdings, Inc. receiving the first of the six Airbus A350-900 aircraft for its Europe and North America operations.

The Property sector rallied by 5.8% in July, led by Megaworld Corporation (MEG) which had an 8.4% share price boost.

Company	Symbol	06/29/18 Close	07/31/18 Close	% Change
Ayala Land, Inc.	ALI	37.90	40.85	7.8%
SM Prime Holdings, Inc.	SMPH	35.95	37.75	5.0%
Robinsons Land Corporation	RLC	18.60	19.58	5.3%
Megaworld Corporation	MEG	4.28	4.64	8.4%

Source of Basic Data: PSE Quotation Reports

The Property sector rallied by 5.8% in July, led by Megaworld Corporation (MEG) which had an 8.4% share price boost. MEG recently released the master plan of its 34-hectare Bacolod township, aimed to be the city's next central business district, and launched its first high-rise residential development in this property.

Meanwhile, Ayala Land, Inc. (ALI) also enjoyed hefty gains with a 7.8% increase in share price. The Board of Investments (BOI) recently approved ALI's P1.7 B Seda Lio Resort in Palawan as the first inclusive business model (IB) project.

Robinsons Land Corporation (RLC) registered a 5.3% growth in July as the company opened its 50th mall in Tuguegarao City, Cagayan Valley. This property will add 38,000 square meters of new retail space to RLC's portfolio.

SM Prime Holdings, Inc., (SMPH) also joined the gainers last month, rising by 5%. The company reported that it currently readies for expansion of its mall business, particularly in northern and southern Luzon, targeting 75 malls by the end of 2018.

Company	Symbol	05/31/18 Close	06/29/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,290.00	1,337.00	3.6%
Globe Telecom	GLO	1,540.00	1,835.00	19.2%
Robinsons Retail Holdings, Inc..	RRHI	79.50	85.40	7.4%
Puregold Price Club Inc.	PGOLD	46.60	45.25	-2.9%
International Container Terminal Services Inc.	ICT	77.30	89.00	15.1%

Source of Basic Data: PSE Quotation Reports

The Services sector posted a significant uptick of 7.2% in July. Globe Telecom (GLO) enjoyed the biggest gains with a 19.2% upsurge from the previous month. The telecommunications provider disclosed that it is on-course in deploying 5G services by the second quarter of 2019.

On the other hand, International Container Terminal Services, Inc. (ICT) experienced a double-digit boost in price by 15.1% in July, as the port operator disclosed that its status as the preferred bidder to operate, manage, and develop a container terminal in Sudan under a 20-year concession.

Robinsons Retail Holdings, Inc. (RRHI) posted a 7.4% gain last month as the company opened up some of its retail formats in RLC's new shopping center in Tuguegarao City, Cagayan Valley.

Philippine Long Distance Telephone Company (TEL) rose by 3.6% in July as the company reported expectations of positive developments in the next weeks, possibly finalizing a strategic partnership for its digital innovations arm, Voyager Innovations Inc. The latter aims to expand two to three new markets in Asia by the end of 2018.

Puregold Price Club, Inc.'s (PGOLD) value declined by 2.9% last month despite the company's continuous expansion with the opening of a new supermarket in Quiapo, Manila.

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 ended relatively flat with a 0.2% gain last month. Semirara Mining and Power Corporation (SCC) posted a 4.6% gain in July despite President Rodrigo Duterte's announcing in his State of the Nation Address a plan to end open pit mining by the end of 2018, of which SCC currently operates in Semirara Island, as well as in Narra, Palawan and Caluya, Antique. However, this will unlikely affect SCC since the country relies on coal for 49% as energy source.

While stock prices recuperated during the month, turnover in PSEi turned up 12.4% lower compared to the previous month.

## Total Turnover

Monthly Turnover (in Million Pesos)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	24,075.79	5.9%	1,094.35	-8.5%
Industrial	17,524.09	-22.0%	796.55	-32.6%
Holdings	28,208.35	-8.6%	1,282.20	-21.1%
Property	19,918.94	-23.8%	905.41	-34.2%
Services	17,191.00	-14.7%	781.41	-26.4%
Mining and Oil	2,657.82	-4.4%	120.81	-17.5%
<b>Total</b>	<b>109,576.00</b>	<b>-12.4%</b>	<b>4,980.73</b>	<b>-24.4%</b>
Foreign Buying	59,025.62	-9.5%	2,682.98	-21.8%
Foreign Selling	61,653.47	-21.6%	2,802.43	-32.3%
Net Buying (Selling)	(2,627.85)	-80.4%	(119.45)	-83.1%

Source of Basic Data: PSE Quotation Reports

While stock prices recuperated during the month, turnover in PSEi turned up 12.4% lower compared to the previous month. All sectors (except Financial, whose turnover grew by 5.9%) ended in the red in July, with Property and Industrial sectors registering the biggest falls, dropping by 23.8% and 22% respectively. On the other hand, the flow of foreign funds, which in the past months headed the exit door, reversed during the second half of the month, thereby decreasing net foreign selling by 80.4% to P2.6 B.

# Recent Economic Indicators

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

	2016		2017		1st Quarter 2018		2nd Quarter 2018			
	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
<b>Production</b>										
Agri, Hunting, Forestry and Fishing	710,590	-1.3%	738,491	3.9%	184,118	-15.8%	1.1%	174,210	-5.4%	0.2%
Industry Sector	2,738,320	8.0%	2,958,186	7.2%	739,661	-8.7%	7.7%	799,911	8.1%	6.3%
Service Sector	4,664,261	7.5%	4,971,610	6.7%	1,216,651	-7.5%	6.8%	1,378,389	13.3%	6.6%
<b>Expenditure</b>										
Household Final Consumption	5,628,318	6.9%	5,958,500	5.5%	1,476,896	-13.1%	5.7%	1,552,812	5.1%	5.6%
Government Final Consumption	850,747	8.3%	912,010	6.8%	236,740	12.0%	13.6%	308,025	30.1%	11.9%
Capital Formation	2,180,842	20.8%	2,479,583	8.3%	703,990	-0.3%	12.4%	688,261	-2.2%	20.7%
Exports	4,016,105	9.1%	4,875,652	16.1%	1,258,933	14.2%	6.5%	1,426,056	13.3%	13.0%
Imports	4,631,536	17.5%	5,552,632	15.0%	1,552,691	12.0%	9.6%	1,621,626	4.4%	19.7%
GDP	8,113,170	6.8%	8,668,287	6.3%	2,140,429	-8.7%	6.6%	2,352,509	9.9%	6.0%
NPI	1,622,040	5.3%	1,721,698	5.3%	462,714	5.6%	5.0%	442,204	-4.4%	4.7%
GNI	9,735,210	6.6%	10,389,984	6.1%	2,603,143	-6.4%	6.3%	2,794,714	7.4%	5.8%

Source: National Statistical Coordination Board (NSCB)

## NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2016		2017		May-2018		June-2018			
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
<b>Revenues</b>										
Tax	2,195,914	4.1%	2,473,132	12.6%	258,992	-15.8%	13.5%	224,199	-13.4%	24.7%
BIR	1,980,390	9.1%	2,250,678	13.6%	226,973	-19.3%	13.1%	188,212	-17.0%	11.9%
BoC	1,567,214	9.3%	1,772,321	13.1%	172,032	-26.0%	8.4%	136,780	-20.5%	4.2%
Others	396,365	7.8%	458,184	15.6%	52,747	12.7%	33.2%	50,049	-5.1%	41.3%
Non-Tax	16,811	14.8%	20,173	20%	2,194	17.8%	-10.4%	1,383	-34.4%	-6.2%
Non-Tax	215,446	-26.5%	222,415	3.2%	32,019	21.8%	16.4%	35,965	12.0%	207.3%
<b>Expenditures</b>										
Allotment to LGUs	2,549,336	14.3%	2,823,769	10.8%	291,865	11.7%	11.5%	278,487	-4.6%	2.9%
Interest Payments	449,776	16.1%	530,150	17.9%	48,657	-17.3%	4.6%	46,427	-4.6%	-15.7%
Interest Payments	304,454	-1.6%	310,541	2%	21,111	-8.9%	0.7%	24,065	14.0%	24.9%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	-32,873	-171.0%	-1.6%	-54,288	65.1%	-40.3%

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
<b>TOTAL</b>	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.
<b>I. CURRENT ACCOUNT</b>								
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	-	-	-	-	-	-	-	-
<b>II. CAPITAL AND FINANCIAL ACCOUNT</b>								
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%
<b>III. NET UNCLASSIFIED ITEMS</b>								
	892	-136.6%	(610)	-168.4%	1,754	-184.0%	428	127.2%
<b>OVERALL BOP POSITION</b>								
	(420)	-116.1%	(863)	105.4%	505	-176.3%	-1227	23.4%
Use of Fund Credits	-	-	-	-	-	-	-	-
Short-Term	-	-	-	-	-	-	-	-
<b>Memo Items</b>								
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		May-2018		June-2018	
	Average Levels	Annual G. R.	Average Levels	Annual G. R.	Average Levels	Annual G. R.
RESERVE MONEY	2,798,988	14.0%	2,979,015	12.3%	2,980,258	5.9%
Sources:						
Net Foreign Asset of the BSP	4,024,544	2.3%	4,603,153	5.4%	4,071,004	1.0%
Net Domestic Asset of the BSP	9,722,563	15.6%	11,040,110	16.8%	11,163,083	16.0%
<b>MONEY SUPPLY MEASURES AND COMPONENTS</b>						
Money Supply-1	3,562,223	17.1%	3,752,451	18.2%	3,734,202	15.2%
Money Supply-2	10,227,276	13.1%	10,572,988	13.8%	10,607,742	11.3%
Money Supply-3	10,655,369	13.2%	11,032,673	14.3%	11,058,916	11.7%
MONEY MULTIPLIER (M2/RM)	2.49		3.55		3.56	

Source: Bangko Sentral ng Pilipinas (BSP)

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