September 2018

The

MARKET CALL

Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

Executive Summary

New positive economic data have failed to dominate the financial markets as faster inflation and renewed peso weakness have clouded the overall picture. Capital goods soared by 30.1% in June, while the volume of industrial production (VOPI) again rose double-digits at 11.8% in July. Exports appear to have turned a corner as growth entered positive territory in June and July. We expect the Monetary Board to lift policy rates by 50 basis points (bps) to 4.5% this month as it seeks to cool inflationary expectations and exchange rate pressures.

Macroeconomy

Robust investment spending will largely contribute to faster growth in Q3 but may be tempered by higher consumer prices. Latest inflation data, and months prior to it, showed a fast price acceleration; which is seen to keep Q3 PH expansion at the lower end of our forecast.

- Capital goods imports surged by 30.1% in June, amidst broad-based gains in big-ticket components.
- Total NG disbursements stood at P328 B in July, 33.9% higher than the year ago levels.
- Supply side triggers (food and oil) continue to push prices up, resulting in a nine-year high in inflation at 6.4% in August.
- M3 further eased to 11% in July, reflecting the contractionary stance of the Monetary Board.
- Exports in June and July finally returned to positive territory, albeit representing a small improvement
- Peso regained strength in August, ending the seven-month depreciation streak in 2018.

Outlook: Other economic drivers that will further push PH expansion better than growth in H1 include: strong NG disbursements and higher peso equivalent of the remittances, stronger infrastructure and capital outlay and better exports.

Bonds Market

Local bond markets came alive in August only to slump back to a risk-off mode starting early September. Volumes and yields improved in both primary and secondary markets. ROPs also shed a few basis points for longer tenors. A good number of firms announced plans to issue bonds before the end of the year, in an effort to snag good yields before they race higher.

- Auction of 182-day T-bills saw yields fell most by 22.1 bps to 4.070% as tender-offer ratio jumped to 3.4x.
- Similarly, in the secondary market, where turnover rose by 22.1%, yields came down by as much as 22.3%.
- For longer tenors, 10-year T-bond yields eased by 17.5 bps to 6.37% while 20-year yields dropped by 22.3 bps to 6.149%.
- Long-term ROP-32 and ROP-37 yields slipped by 2-3 bps, while equivalent US Treasuries came 10-11 bps lower.

Outlook: The acceleration in inflation, especially due to food shortages, has eyes glued to the ability of the NG to remove those shortages and reduce widened trade deficits which have pulled the peso down. The growing worries of contagion in emerging markets in terms of exchange rates and bond yields are a new source of push factor to domestic interest rates. Nonetheless, we think that bonds can become attractive again once the real 10-year yields reach 3% which can occur sometime before 2018 ends.

Equities Market

With earnings mostly in line of consensus, PSEi added 2.4% in August from the previous month's strong 6.6% recovery, only to be erased in the early days of September as fears of contagion over worsening inflation and exchange rates in emerging markets spooked investors.

- PSEi ended August with an almost 200 points increase from July, to reduce YTD losses to 10%.
- All sectors reaped respectable gains except Financial which contracted by 2.6%.
- Property and Industrial counters advanced most in August, by 5.1% and 4.1%, respectively.
- SMC, AGI, MPC, and GLO were the biggest gainers among PSEi stocks, rising by 21.4%, 15.8%, 15.7% and 15.3%, respectively.
- Foreign funds outflow accelerated yet again in August by 82.2% to P4.8-B

Outlook: Inflation, which may have peaked in August, and BSP's impending policy rate increases should provide market support for PSEi. However, this does not guarantee an upswing (as the local bourse seen to decline but not lower than 7,000), not until the market gets convinced that inflation has definitively started easing and external conditions improve (US stocks appearing overvalued, Fed rate hike in September seen to weigh down equities).

Economic Indicators (% change, latest month, unless otherwise stated)	Previous Period	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 (August)	5.7%	6.4%	4.7%	1.3%	2.9%	4.2-4.5%
Government Spending (June)	2.9%	33.9%	22.6%	4.1%	12.6%	12.0%
Gross International Reserves ($B) (August)	76.9	77.8	79.1	80.7	81.6	80.0
PHP/USD rate (August)	53.43	53.27	52.31	47.49	50.40	53.90
10-year T-bond yield (end-June YTD bps change)	6.55%	6.37%	6.34%	4.15%	4.93%	6.25-6.65%
PSEi (end-July YTD % change)	7,672	7,856	-12.1	6,841	8,558	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.

NET POSITIVE ECONOMIC DATA CLOUDED BY RISING INFLATION

Investment spending continued to trek an elevated path as capital goods imports surged by 30.1% in June while National Government (NG) spending, likely primed by infrastructure and capital outlays, forged ahead by 33.9% in July. The economy generated some 488,000 net new jobs in the year ending July 2018 (survey month) to bring down the unemployment rate to 5.4% from 5.6% a year ago. However, the acceleration of headline inflation to 6.4% in August (a nine-year high) due to food supply problems and elevated crude oil prices could keep growth in the lower end of our forecasts. Exports ended flat in the first month of H2, while the peso recovered in August from seven months of depreciation.

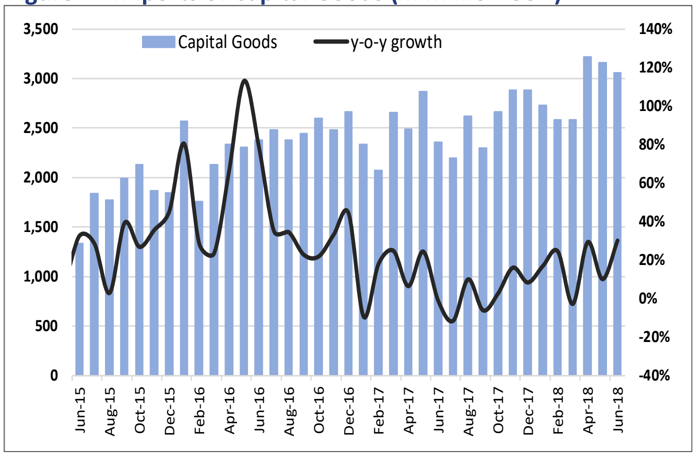
Outlook: The desired investment-led growth paradigm that now dominates the country's development should continue at elevated levels, as large Public-Private Partnership (PPP) projects (considered as private construction) add to the growing roster of ongoing and upcoming infrastructure projects. Robust capital goods imports and the manufacturing sector output should add to domestic demand while exports should move into positive territory in H2.

Capital Goods Imports Surge by 30% in June

The imports of capital goods surged by 30.1% in June from the 10.1% year-on-year (y-o-y) expansion recorded in May, suggesting that the investment-led growth story remains intact and that investments will be a major catalyst in driving the country's economic growth faster.

Strong demand for all products under the category largely buoyed capital goods imports, led by the 35% increase in the imports of heavily-weighted telecommunication equipment and electrical machinery. Power generation and specialized machines also posted a 15% expansion. The other items, which collectively comprised 34% of capital goods, likewise, recorded superb gains. Thus, June figures represented the 5th month of double-digit gains in 2018.

Figure 1 - Imports of Capital Goods (in Million USD)



Source of Basic Data: Philippine Statistics Authority (PSA)

Raw materials & intermediate goods imports still captured the largest share of total imports at 38.4%, after posting a significant gain of 21% y-o-y due to hefty demand for semi-processed raw materials (especially the manufactured and chemical items). Large imports of petroleum crude and coal also resulted in a fast increase in mineral fuels, lubricant and related materials category (+32.5%). Moreover, 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 reach $9.1 B, an expansion of 24.2% which doubled the 11.4% pace a month ago. As exports continued to be in the red, the Philippines incurred a trade deficit of $3.4 B, albeit lower than the $3.7 B recorded in May.

NG Spending Still Sizzles with 33.9% Jump in July

The NG's commitment to improve the country's dismal infrastructure resulted in its highest nominal spending in July, up by 33.9% y-o-y to P328.1 B. Thus, while revenue collection again showed above-20% gains, NG still recorded a deficit of P86.4 B in July, 71% higher than last year. Year-to-date (YTD), budget deficit stood at P279.4 B, which represented 53% of the year's total deficit target, suggesting enough fiscal space for the remaining five months of 2018. With the recent spending pace, NG should come close to the full-year target.

Robust economic activity translated into a total employment gain of 489,000 net new jobs in the year ending July 2018, pushing the unemployment rate further down to 5.4% from 5.5% in April 2018.

Significant gains in infrastructure and capital outlays, along with larger spending on personnel services and maintenance and other operating expenditures (MOOE), pushed total NG spending to P328.1 B in July. Revenues, likewise, stepped up raking in a total of P241.7 B due to broad-based gains in all tax collecting agencies, another huge 24.8% upswing in tax take. Thus, the cumulative level soared by 21% to P1.7 T, which comprised 58% of full year revenue target, a bit higher than the spending percentage above.

Total tax revenues' gain for the month relied on a 49.1% jump in Bureau of Customs' (BOC) collections amidst higher imports on capital goods and raw materials, coupled with the 5.5% (y-o-y) peso depreciation. The Bureau of Internal Revenue (BIR) also raked in a total of P164 B, or 18.8% more than in the same month last year, still reflecting strong economic activity.

Manufacturing Output Jumpstarts H2 with 11.8% Uptick in July

Despite a slowdown in food manufacturing output, the Volume of Production Index (VoPI) rose by 11.8% in July as 14 out of 21 industries posted gains. Half of the growth industries (i.e., seven) showed outsized increases.

Fabricated metal products led the expansion with a 39.7% jump, followed by petroleum products and textiles, which soared by 38.3% and 33.5%, respectively. Beverages, miscellaneous manufactures and basic metals joined the outperformers as they showed output climbing by 21.8%, 19.9% and 19.1%, respectively.

The other significant gainers included Machinery except electrical, rubber and plastic products, paper and paper products, and leather goods. Transport equipment turned positive after declines in four out of the first six months of 2018.

Unemployment Rate Improves to 5.4% in July from 5.5% in April

Robust economic activity translated into a total employment gain of 489,000 net new jobs in the year ending July 2018, pushing the unemployment rate further down to 5.4% from 5.5% in April 2018. Total employment in the economy expanded by 1.2% (y-o-y), slightly outstripping the 1% growth in labor force.

Despite employment gains in the fishing sub-sector, the a agriculture sector still showed a poor performance due to lackluster data in agriculture, hunting and forestry sub-sectors. It shed 731,000 jobs, which the services sector offset with 1 M new jobs while the industrial sector added 175,000 workers, mostly from manufacturing.

As usual, the services sector provided the most jobs, accounting for more than half of total employment. Total employees in the sector stood at 23.4 M, representing a 4.7% increase from year ago levels. Industry employment also climbed by 2.3%, driven by gains in the manufacturing (+4.3%) and construction (+0.8%) sub-sectors, tracking higher output data and reflecting strong boost coming from the infrastructure and residential projects.

Most of the regions recorded lower unemployment rate than the national rate except for the following: Ilocos Region (6.6%), Bicol, CALABARZON, and Central Luzon (6.3%), National Capital Region (NCR) (6.1%), and Western Visayas (5.7%).

Positive data drawn from the latest Labor Force Survey (LFS) included the addition of 1 M Wage and salaried workers which constituted 65.3% of total employment, up from 63.8% a year ago. This movement exceeded the fall in number of self-employed by 471,000 to 27.2% of total employment and 215,000 in own family-operated farm or business without pay, down to 4.6% of total jobs. Also, people who worked more than 40 hours a week increased by 1.6 M while those working for less declined, despite the rise in the underemployment rate to 17.2% from 16.3% a year ago. Consistent with these data, the mean hours worked in week rose to 43 from 42.2 hours a year ago.

The consistent positive job generation since the start of the year augurs well for a downward trend in poverty and faster consumption spending.

Inflation Hits a 9-year High of 6.4% in August

Food price upticks in August stepped on the accelerator pedal to drive headline inflation to 6.4% (y-o-y) from 5.7% in the preceding month, the highest since April 2008. August inflation data, likewise, stood the highest among the ASEAN countries. Significant increments in heavily-

Money growth (M3) in July slowed to 11% from the revised 11.8% y-o-y recorded in June, amidst the monetary tightening stance of the BSP.

weighted commodities across most regions resulted in the faster pace, bringing the YTD rate to 4.7%, moving away further from the Bangko Sentral ng Pilipinas' (BSP) upper limit by 0.7 percentage points.

Figure 2 - Inflation Rates Annualized, Year-on-Year

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

The food and non-alcoholic beverages (FNAB) index posted significant price increments, largely emanating from higher prices of rice, meat, vegetables, and other poultry products; which in turn pushed restaurants and miscellaneous goods and services index higher. The alcoholic beverage and tobacco index also showed slight increment. Health, furnishing, household equipment and routine maintenance of the house; and recreation and culture indices, likewise, recorded 0.3, 0.2, and 0.5 percentage points increase, respectively.

Inflation Year-on-Year Growth Rates	Aug 2018	Jul 2018	YTD
All items	6.4%	5.7%	4.7%
Food and Non-Alcoholic Beverages	8.5%	7.1%	6.0%
Alcoholic Beverages and Tobacco	21.6%	21.5%	19.0%
Housing, Water, Electricity, Gas, and Other Fuels	5.5%	5.6%	3.7%
Furnishing, Household Equipment and Routine Maintenance of the House	3.5%	3.3%	2.8%
Health	4.0%	3.7%	2.8%
Transport	7.8%	7.9%	6.1%
Communication	0.4%	0.5%	0.3%
Recreation and Culture	2.4%	0.9%	1.5%
Education	-3.8%	-3.9%	0.6%
Restaurants and Miscellaneous Goods and Services	4.0%	3.7%	3.3%

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

Meanwhile, softer prices of international crude oil tempered gains in the housing, water, electricity, gas, and other fuels (HWEGOF) index despite higher Meralco rates. Electricity cost rose to P10.219/kWh from P10.1193/kWh in July amidst higher generation charges and peso depreciation. Price changes in the international prices of crude oil (i.e., WTI and Brent) increased by 41% y-o-y, albeit slower than the 52.3% y-o-y increase recorded in July, resulting in price deceleration in the transport index.

The communication and education price indices eased, with the latter still posting a negative change. We still believe that inflation will continue to lodge above the BSP's target but will start to soften once supply side triggers (rice, vegetables and crude oil) normalize.

M3 Growth Further Eases to 11% in July

Money growth (M3) in July slowed to 11% from the revised 11.8% y-o-y recorded in June, amidst the monetary tightening stance of the BSP. Note that the Monetary Board had further raised the overnight reverse repurchase (RRP) to 4% and the interest rates on the overnight lending and deposit facilities by another 50 basis points (bps) during their meeting last August 9. Narrow (M1) and broad money (M2) growth, likewise, decelerated to 14.9% and 10.6%, respectively.

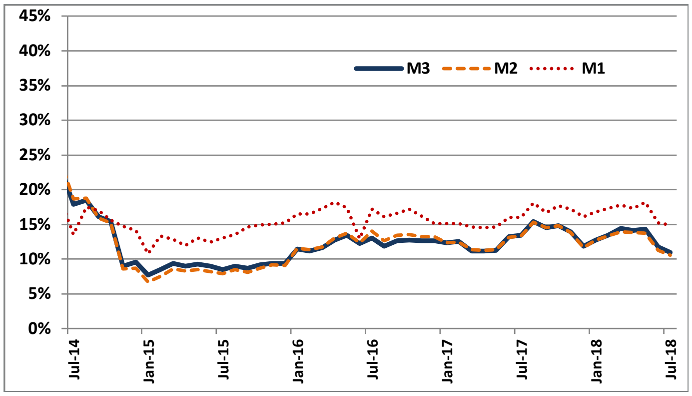
Sustained by the continued increase in production loans, the commercial bank lending which comprised 88.6% of banks' loan portfolio, expanded by 19.7% (faster than the 19.2% recorded in the previous month). Bulk of these loans went to wholesale and retail trade, repair of motor vehicles and motorcycles, real estate activities, financial and insurance activities, and manufacturing, among others.

Similarly, net foreign assets (NFA) of monetary authorities declined to -0.5% reversing the 0.8% rise in the preceding month.

We think that the latest interest rate hike will result in a continued slowdown in monetary aggregates and we believe that the BSP will remain aggressive in curbing further upticks in inflation.

Philippine exports performance remained in the red for six consecutive months, slipping by a tad 0.1% to $5.7 B in June.

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



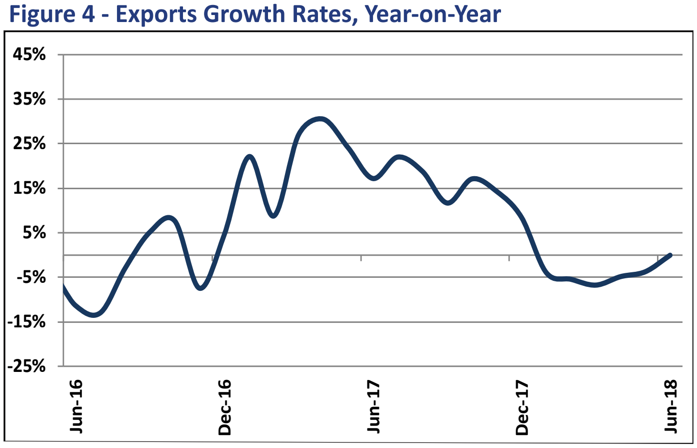
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Exports 6th Month in the Red

Philippine exports performance remained in the red for six consecutive months, slipping by a tad 0.1% to $5.7 B in June. This resulted in a 4.2% YTD slump, showing a drastic reversal from the 21.5% gain in the H1 last year.

PSA recently released the July exports data showing a 0.3% y-o-y expansion, and a revised June figure to 2.8% from -0.1%. Details of July data will be included in the next issue.

Figure 4 - 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 13.5% y-o-y to $3.3 B, at the same time accounting for the biggest share of exports at 59%. Semiconductors, which had the biggest share among electronic products at 43% also recorded a 9.2% increase to $2.4 B. Other manufactured goods in 2nd place, likewise, rose by 0.8% to $310.8 M (comprising 5.5% of total exports). Machinery & transport equipment (3rd place) and metal components (5th place) registered gains of 0.1% and 14.8%, respectively. Shipments of bananas ranked a notch higher, with sales valued at $141 M. Outbound receipts accounted for 2.5% of total exports but showed a 2.4% y-o-y decline.

Hong Kong outranked US in the first place, with outbound receipts amounting to $901.2 M (or 15.8% share of total exports). Shipments to Hong Kong significantly grew by 31.1% from $687.5 M in June last year. US in 2nd place snagged 15.5% of total shipments valued at $885 M, recording a 19.4% increase. Exports to China and Singapore significantly improved, recording gains of 14.5% and 18.9%, respectively. Meanwhile, export demand from Japan remained weak with a huge decline of 31.8%.

Almost half of the total exports in June headed towards East Asian (EA) nations, valued at $2.8 B but outward sales to the region further declined by 10.6% due to lower demand from Japan. Shipments to the ASEAN, on the other hand, went up by 18.1% valued at $900.9 M. Meanwhile, exports to the EU, which accounted for 12.6% of total shipments, registered a 12.2% expansion.

While exports performance remained lackluster, we retain our view that the strong acceleration in the US economy, as well as in EU, will help boost and push exports to finally move back to positive growth territory in H2.

Manufacturing Output Climbs to 10.6% in June

The country's manufacturing output (measured by Volume of Production Index or VoPI) continued to expand by 10.6% (revised) in June, albeit slower than the 13.6% in May. Nonetheless, this marked the 6th straight month of above-10% gains in 2018, indicating strong economic and job expansion.

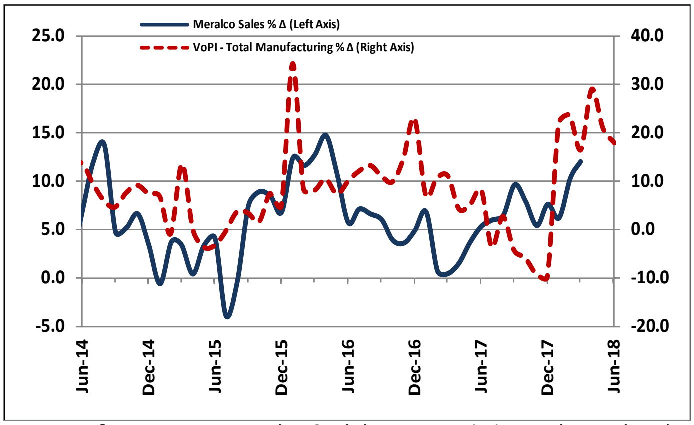
Remarkable growth in 13 out of 20 industry sub-groupings, with eight groups posting double-digit growth, resulted in another stellar performance in June. These big gainers included petroleum products (+61.9%), textiles (+29.1%), and furnitures and fixtures (+17.5%), among others. Notably, food manufacturing and beverages also jumped by 13.1% and 8.7%, respectively, suggesting broad-based expansion in the manufacturing sector.

The main industries that saw declines included printing (-71.9%), tobacco products (-49.9%), as well as wood and wood products (-11.4%) and footwear and wearing apparel (-9.1%).

Money sent by Filipinos working abroad totaled $2.6 B in June, showing a 5% decline from a year ago, the second time it fell this year (last one in March).

YTD, the industrial output growth climbed by 13.9% nearly two times faster than the 7.8% posted in the same period last year, suggesting huge job gains.

Figure 5 - VoPI and Meralco Sales Growth Rate, Year-on-Year



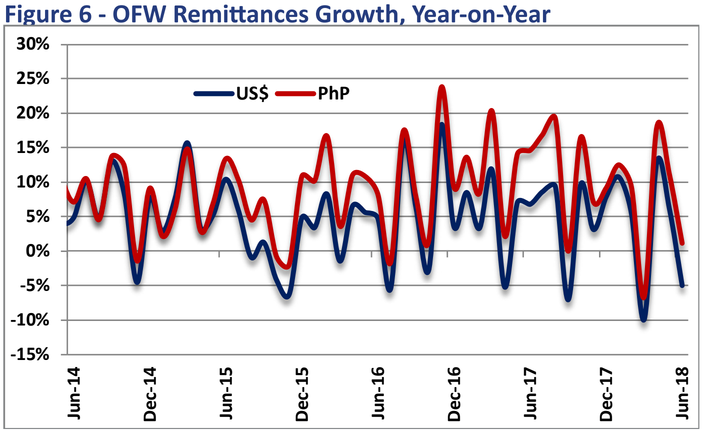
Sources of Basic Data: Meralco & Philippine Statistics Authority (PSA)

Remittances Record 2nd Decline in June

Money sent by Filipinos working abroad totaled $2.6 B in June, showing a 5% decline from a year ago, the second time it fell this year (last one in March). YTD level stood at $15.8 B, a 2.8% increase, while steady inflows from land-based overseas Filipino workers (OFWs) with more than one year work contracts accounted for 80% of that total.

Cash remittances (i.e., coursed through banks), likewise, fell by 4.5% to $2.4 B due to lower transfers from the United Arab Emirates (UAE), Saudi Arabia, and Kuwait. The decline in the number of deployed OFWs amidst the repatriation program of the government, partly explains lower remittances for the month of June. Data from Philippine Overseas Employment Administration (POEA) showed that a total of 4,149 OFWs repatriated during the first two months of the year.

Figure 6 - OFW Remittances Growth, Year-on-Year



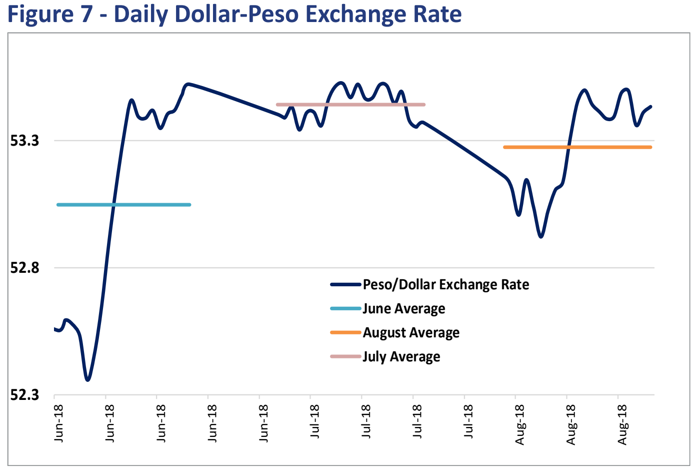
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Tracking lower inflows, the peso equivalent of personal remittances registered a minimal expansion (+1.2% y-o-y) despite the 6.4% (y-o-y) peso depreciation. Nonetheless, we believe that remittances will recover in the upcoming months and will be magnified by the lingering weakness in the peso, especially that the 'Ber' months have started.

Peso Regains Strength in August

The peso ended in the green in August as US trade deal for a new NAFTA (North American Free Trade Agreement) may soon materialize. This ended the seven consecutive months of peso weakness. However, this strength might be short-lived amidst strong US economic data. Robust consumer spending and healthy labor data provide compelling justification for two future rate hikes, which will again put downward pressure on the peso. Data on US consumer spending showed a 0.4% increase as the economy created 198,000 jobs in August. Nonetheless, PH still suffers from wide trade deficit and high inflation rate.

Figure 7 - Daily Dollar-Peso Exchange Rate



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

The peso averaged P53.27/$ in July, representing a 0.3% appreciation from June. The volatility measure, meanwhile, widened to 0.18 from 0.06 in July as the pair hovered between a high of P53.50/$ and a low of P52.92/$.

Other emerging currencies remained in the red, due to higher interest rate and solid recovery in the US. Indian rupee extended fall due to large fund outflows and huge dollar demand from oil importers. The rupiah also stumbled amidst current account and fiscal deficits. Malaysia's budget deficit, likewise, added pressure to the weak ringgit. Sentiment towards the yuan remained bearish as trade war between China and the US intensifies.

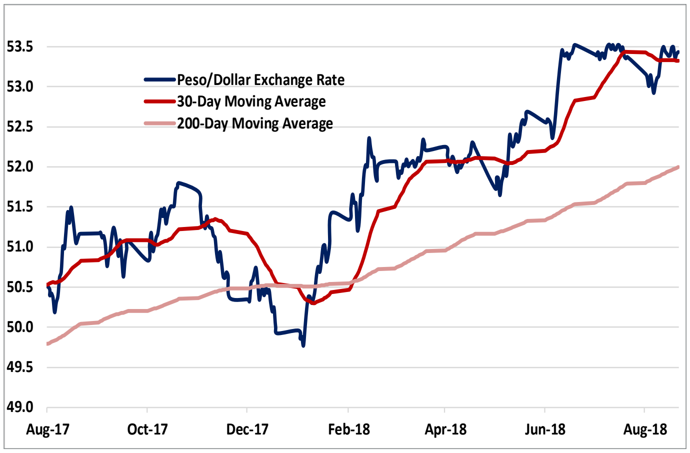
NG spending, especially in infrastructure and capital outlays, trended on a faster pace increasing by double-digits in 13 of the last 15 months, capped by a 33.9% jump in July, which boosted YTD spending by 22.6%.

Exchange Rates vs USD for Selected Asian Countries			
	Jul-18	Aug-18	YTD
AUD	1.22%	0.98%	4.0%
CNY	3.91%	2.00%	3.7%
INR	1.35%	1.14%	8.1%
IDR	2.92%	1.10%	7.4%
KRW	2.59%	-0.06%	3.4%
MYR	1.31%	1.05%	0.3%
PHP	0.74%	-0.31%	5.7%
SGD	1.13%	0.43%	1.6%
THB	2.46%	-0.64%	1.2%

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

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

Figure 8 - Dollar-Peso Exchange Rates & Moving Averages



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

The month-end actual USD/PHP rate in August remained above the 200-day moving average (MA), suggesting that the peso will continue to be under pressure in long term as long as the US dollar continues to rally and the country's trade deficit linger, but may experience a respite in the short-term as indicated by the 30-day MA trend.

Outlook

Despite the lower-than-expected GDP growth in Q2, we remain optimistic for a rebound in H2. Nonetheless, the expansion in economic activity will not be linear, but still subject to bumps, particularly in the inflation front.

- NG spending, especially in infrastructure and capital outlays, trended on a faster pace increasing by double-digits in 13 of the last 15 months, capped by a 33.9% jump in July, which boosted YTD spending by 22.6%.

- Capital goods imports, although showing an alternating pattern of low growth followed by rapid increase, soared by 33.9% in June bringing the YTD growth to 19%. We expect this trend to continue in H2.

- Manufacturing also has been on a roll, based on the monthly reported Volume of Production Index (VoPI), with a robust 11.8% climb in July. It also outperformed construction in job generation in the year ending July.

- All these have contributed to substantial job growth averaging 1.2 M net new jobs for the first three surveys of 2018 each one compared to a year ago. Although, it appears slowing down, but with manufacturing now leading job growth, we may see a recovery in Q4, given that the multiplier effect of manufacturing sector growth is higher than for services or agriculture.

- Enough to disturb our sober outlook, inflation has accelerated to a nine-year peak due to astronomical rice and vegetable prices, with monsoon rains cutting supply, and crude oil prices at just below $70/barrel. However, we still think that it may have reached its peak in August, since September has ushered a drier period, while rice imports should accelerate, in addition to the September-October harvest.

- Exports, which held flat in June, should start H2 in positive territory as the US economy has galloped at a 4.2% pace in Q2 and early US economic indicators paint another rosy quarter ahead.

- While we have seen a break in the peso depreciation in August, we still think the peso will continue to weaken, albeit slowly and to below P54/$1 level by yearend.

Forecasts			
Rates	September	October	November
Inflation (y-o-y %)	6.1	5.4	5.2
91-day T-Bill (%)	3.577	3.661	3.754
Peso-Dollar (P/$)	53.86	54.25	54.69
10-year T-Bond (%)	7.658	7.527	7.197

Source: Authors' Estimates

SEPTEMBER INFLATION REPORT FOR AUGUST TRUMPS SLIGHT DIP IN YIELDS

Local bond markets' improved volume and slight dip in yields in August got reversed in early September as inflation accelerated to a nine-year high of 6.4% in August. A clear reassessment by market players appear in the offing after gains in auctions and yields of government securities (GS) stood out in August. The continuing US-China and US-Canada trade wars (while those with Mexico and EU eased) and, more recently, the fears of contagion in emerging markets (EMs) of the inflation and currency crises in Turkey, Argentina and Venezuela have pushed investors scurrying to safety.

Outlook: With headline inflation rate hitting a nine-year high at 6.4% in August, and exchange rate pressures in emerging markets, we have revised our view of Bangko Sentral ng Pilipinas' (BSP) policy rate hike to 50 basis points (bps) in the next Monetary Board (MB) meeting. This remains consistent with our view that inflation may have peaked in August, as we expect lower food prices starting September (with new harvests and larger importations coming to the market) and slightly lower crude oil prices. Nonetheless, BSP may still cut reserve requirements in Q4 due to the huge fund-raising plans of major banks to comply with Basel 3 requirements and pre-funding of the National Government (NG) requirements in 2019.

GS Primary Market: Risk Appetite Increased Driving T-bill Yields Down

Risk appetite improved in August as total amount of bids in the auction for GS remained above P200 B while the Bureau of the Treasury (BTr) offered only P90 B, down by P30 B from July. Thus, the overall tender-offer ratio (TOR) rose to 2.3x from 1.7x a month ago. Investors bid more aggressively for short-term Treasury bills (T-bills) which saw TOR reached 2.9x in August, much higher than 2x in the previous month. Meanwhile, demand for the longer dated Treasury bonds (T-bonds) rose to 1.7x from 1.1x in July, and so BTr fully awarded the P30 B to the best bids.

With a strong preference for 182-day T-bills, as TOR surged to 3.5x from 1.7x in July, yields of these papers fell by 22.4 bps to 4.070% in August from 4.294% in the previous month. On the other hand, 364-day T-bill yields eased only by a tad 2.1 bps to 4.879% from 4.9% a month earlier. 91-day T-bills did a little better with a 4.3 bps drop from 3.261% in July to 3.218%.

As external pressures on bond yields eased, BTr received more bids resulting to a TOR of 1.7x, a big improvement from 1.1x in July. Better TORs notwithstanding, yields for the reissued 5-year FXTN 7-52 sprang to 5.902%, up by 45 bps from the last accepted offering on March 6. Similarly, the yield on the 3-year T-bonds offered on August 29 reached 5.136%, a 26.1 bps rise from a similar issue on May 30.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
06-Aug	91-day	4	11.4	4	2.8	3.3	
	182-day	5	17.3	5	3.5	4.2	
	364-day	6	17.7	6	3.0	4.9	
13-Aug	91-day	4	11.7	4	2.9	3.2	
	182-day	5	20.9	5	4.2	4.1	
	364-day	6	16.8	6	2.8	4.9	
20-Aug	91-day	4	12.9	4	3.2	3.2	
	182-day	5	18.4	5	3.7	4.1	
	364-day	6	12.4	6	2.1	4.9	
28-Aug	91-day	4	8.1	4	2.0	3.2	(4.3)
	182-day	5	12.5	5	2.5	4.1	(22.4)
	364-day	6	15.0	6	2.5	4.8	(11.1)
Subtotal		**60**	**175.1**	**60**	**2.9**		
14-Aug	5 year	15	24.5	15	1.6	5.9	
29-Aug	3 year	15	26.3	15	1.8	5.1	
Subtotal		**30**	**50.8**	30	**1.7**		
All Auctions		**90**	**225.9**	**90**	**2.5**		

Source: Philippine Dealing Systems (PDS)

With inflation rising to 6.4% in August and the Fed likely to raise its policy rates by 25 bps in their meeting this month, investors will likely push yields up further in September.

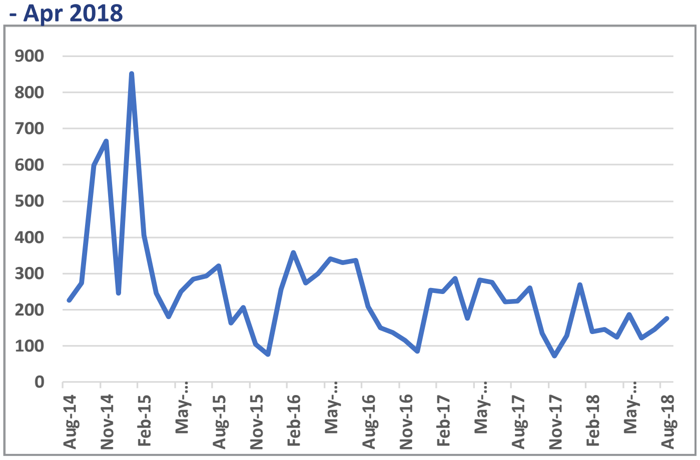
GS Secondary Market: More Brisk Trading in August, Yields Fall

Action in the GS auctions mirrored the brisker trading in the secondary market that resulted in a generally downward movement in yields across the entire curve.

Secondary trading in corporate bonds remained flat from a month ago, as it slipped by a tiny 0.7%.

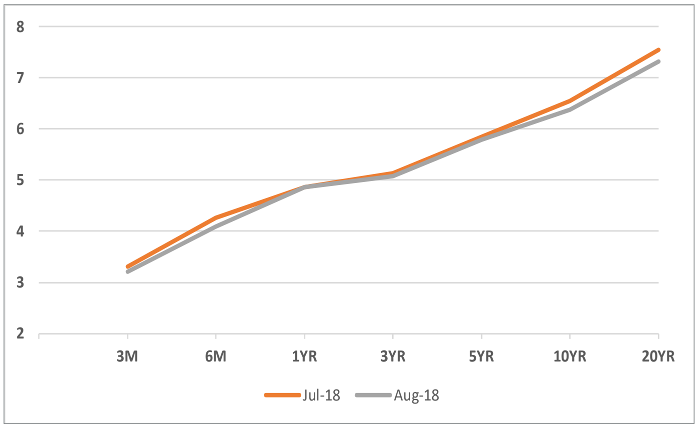
Overall volume in August expanded by 22.1% to P177.1 B, following an 18.2% increase in July. Year-on-year (y-o-y), however, it still trailed the same month in 2017 by 22.6%, an improvement from -35.6% seen in July. Year-to-date (YTD) volume in August remained much below those for the same period last year by 33.4%, albeit a slight improvement from 34.9% in YTD July.

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



Source: Philippine Dealing Systems (PDS)

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

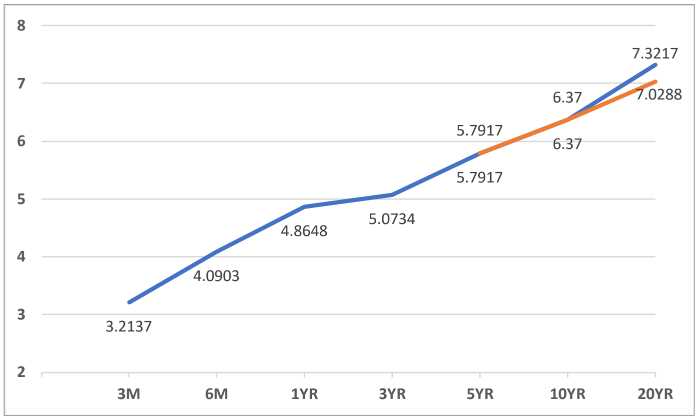


Source: Philippine Dealing Systems (PDS)

Yields across the board dropped by as much as 22.3 bps, except for the 1-year tenor. The 3-month and 6-month yields dove by 9.7 bps to 3.213% and 18 bps to 4.090%, respectively. 1-year bond yields saw a slight uptick of 0.3 bps to 4.865% by the end of August from 4.862% last July. Yields for 3-year and 5-year tenors dropped by 5.4 bps and 5.8 bps, respectively, thus 3-year bond yields finished at 5.073% while 5-year bond yields ended August at 5.792%.

The long end of the yield curve saw the largest drop among the tenors: 10-year yields eased by 17.5 bps to 6.37% while 20-year bond yields drop by 22.3 bps to 6.149%.

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

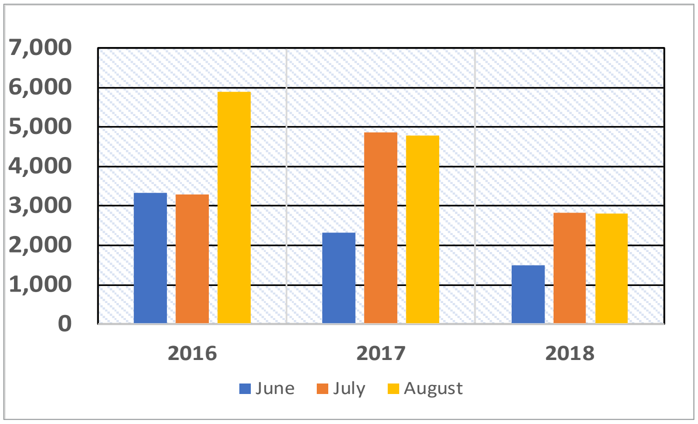


Source: Philippine Dealing Systems (PDS)

Corporate Bonds: Trading Flat in August, Stays Below a Year Ago

Secondary trading in corporate bonds remained flat from a month ago, as it slipped by a tiny 0.7%. It remained lower than a year ago by 41.5%, but slightly better than in July. Total trading reached P2.7 B compared to P2.8 B in July. YTD total trading slumped again by 40.3%, a bit lower than YTD July of -40%.

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



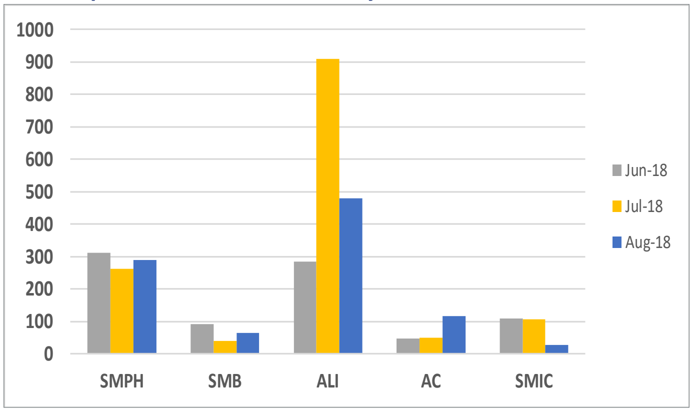
Source: Philippine Dealing Systems (PDS)

Pulled down by the plunge in trading of SM Investments Corporation's (SMIC) papers by 73% to only P28.6 M, total trading of top five companies' debt papers fell by 28.6% to P976.6 M. The top five companies included Ayala Land (ALI), SM Prime Holdings (SMPH), SMIC, Ayala Corporation (AC), and San Miguel Brewery (SMB). ALI bonds traded

Yields in Philippine government dollar-denominated bonds (ROPs) fell across-the-board in August but not quite as much as those for equivalent US Treasury bonds.

most in August with a total P478.6 M despite plummeting by 47.4% from a month ago. SMPH remained in 2nd spot with trading volume turnover higher by 10% to P289.2 M. AC papers traded as much as P116 M, a huge 138.5% climb from July after two consecutive months of declines. Total trading volume of P64.2 M in SMB's bonds enabled it to still capture the 4th place. SMIC took the bottom spot as it traded quite thinly in August as pointed out above.

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



Source: Philippine Dealing Systems (PDS)

Issuances and Disclosures

SMC Global Power Holdings and Philippine Savings Bank issued corporate bonds and Long-term Negotiable Time Deposit Certificates (LTNCDs), respectively, and listed them in the Philippine Dealing & Exchange Corporation (PDeX) in August. Aside from these two, other firms below announced plans to issue debt papers.

- SMC Global Power Holdings Corporation (SMC Global Power) issued on August 17 P15 B 5-year fixed rate bonds with coupon of 6.75%, the last tranche of its P35 B shelf registration. The bonds comprised Series G Bonds due on 2023. This latest issuance increased SMC Global Power's outstanding listed bonds to P50 B.

- Philippine Savings Bank (PSB) returned to the organized secondary market with its 5-year P5.1 B Long-Term Negotiable Certificates of Time Deposit (LTNCD) due 2024 with tax-free interest rate of 5%. This is the initial tranche of its approved P15 B LTNCD shelf issue.

- Mass housing developer 8990 Holdings (HOUSE) plans to issue P3 B asset-backed retail bonds in Q3. No further details on pricing and tenor have been disclosed.

- Ayala Land, Inc. (ALI) mulls raising up to P8 B worth of 5-year fixed rate retail bonds by the end of the year, as part of its shelf registration, to be listed at PDeX.

- Petron Corporation (PCOR) filed an application with the Securities and Exchange Commission (SEC) for a permit to sell peso-denominated fixed rate bonds with an aggregate principal amount of P20 B, to be taken down from the remaining bonds under the P40 B shelf registration.

- Aboitiz Power (AP) also filed an application with the SEC to issue the second tranche of its P30 B Debt Securities Program, under its shelf registration. AP expects to issue the second tranche of its retail bonds, equivalent to P10 B and with an oversubscription option of up to P5B, in Q4-2018.

ROPs: Yields Fall, But Less than US Treasuries

Yields in Philippine government dollar-denominated bonds (ROPs) fell across-the-board in August but not quite as much as those for equivalent US Treasury bonds. August ROP-1, which saw the biggest drop as yields fell by 16.9 bps to 2.79% by the end of August from 2.959% a month ago. On the other hand, yields at the long end of the curve had relatively smaller dips as yields dropped by 2-3 bps. ROP-32, with some 15 years remaining to maturity, slipped by 3.1 bps to 4.2% while ROP 37, which has around 20 years to maturity, fell by 2.6 bps to 4.246%

The US treasury yield curve steepened on the short-end while T-bonds yields on the long-end flattened. 1-year US T-bonds edged up by 2 bps, ending at 2.46% while the 15-year T-bonds yielded 2.915%, down by 10 bps from last July. Similarly, 20-year T-bonds shed 11 bps, to close August at 2.94%. Thus, the spreads between the 15-year US T-bonds and ROP-32 have expanded to 128.5 bps from 121.6 bps, while the spreads for 20-year T-bonds and ROP-37 bloated to 130.6 bps from 122.2 bps in July.

ASEAN+2 Roundup: Yield Curve Movements Varied

US: Even as Q2-2018 GDP growth got revised upward to 4.2%, US Q3 outlook looked promising as well as the economy generated 201,000 jobs in August following 147,000 (revised from 157,000) in July and kept the unemployment rate at 3.9%. A 0.4% rise in the wage rates suggests a slowly emerging tightness in the labor market. Also, US PMI rose to 61.3 in August from 58.1 in July, the metric's

China's yield curve flattened slightly as the spread between 10-year and 2-year government bonds eased by 11 bps to 45 bps, reflecting the slowing economy.

fastest rate of expansion since September 2004. A surge in new orders boosted PMI, although growing concerns over rising raw material costs as a result of import tariffs could restrain further growth. Construction spending inched up by 0.1% in July as increases in homebuilding and investment in public projects were overshadowed by a sharp drop in private nonresidential outlays.

The Fed kept the policy rate unchanged in August, but market players widely expect another 25 bps hike in September given the robust economic and labor numbers so far. As 10-year T-bonds dropped by 10 bps to 2.86% while 2-year yields edged up by only 5 bps to 2.62%, resulting in a spread decline of 6 bps to 23 bps, the lowest since July 2007. Economists are keeping a close eye at this spread which when negative (or inverted yield curve) usually signals a recession in 1-2 years' time.

China: China's manufacturing Purchasing Managers Index (PMI) slightly rose to 51.3 in August from 51.2 in July, while industrial production grew by 6% in July, the same rate of increase as in June. Exports from China rose 12.2% y-o-y in July, after a revised 11.2% hike in June. Import growth accelerated to 27.3% from 14.1% in the same period. This resulted in lower trade surplus of $28.1 B from $29 B a month earlier. Consumer prices rose by 2.1% y-o-y in July, up from 1.9% in June, due largely to faster increases in the price of food and petroleum products. Food prices inched up 0.5% y-o-y in July, higher than the 0.3% uptick in June. While non-food inflation accelerated to 2.4% from 2.2% a month ago. The yield curve flattened slightly as the spread between 10-year and 2-year government bonds eased by 11 bps to 45 bps, reflecting the slowing economy.

Indonesia: Gross domestic product (GDP) growth of Indonesia climbed to 5.3% y-o-y in Q2-2018 from 5.1% y-o-y in Q1 2018. The higher GDP growth for the quarter was buoyed by stronger domestic consumption and modest growth in investments. Household consumption rose 5.1% (y-o-y) on the back of rising income, and partly due to increased spending during Ramadan and Eid'l Fitr. Investment growth was still modest at 5.9% y-o-y, easing from 8% in the earlier quarter. In the face of continuing pressure on the rupiah, Bank Indonesia (BI) decided to raise by 25 bps the 7-day reverse repurchase (repo) rate to 5.5% in August. Corresponding adjustments were also announced for the deposit facility rate (4.75%) and lending facility rate (6.25%).

Imports climbed 31.6% y-o-y in July to reach $18.3 B, after posting a revised 12.8% hike in June, while exports rose 19.3% y-o-y, up from 11.3% during the same period. Thus, the trade deficit in July reached $2 B, a reversal from a trade surplus of $1.7 B in June. As a consequence of the policy rate hikes and pressure on the rupiah, the yield curve steepened with a 48 bps jump in the 10-year to 2-year bond yields spread which reached 94 bps.

Malaysia: Malaysia's Q2 GDP growth slowed to 4.5% y-o-y from Q1's strong 5.4% uptick. While industrial output eased in Q2 (especially mining), the large fall in Malaysia's current account surplus to MYR3.9 B (~$1 B) in Q2-2018 from MYR15 B (~$3.8 B) in Q1 contributed to the slowdown in output growth. The surplus had slipped to its lowest level since Q2-2016 due to lower goods surplus of MYR26.1 B (~ $6.7 B), and larger deficits in services, primary and secondary incomes.

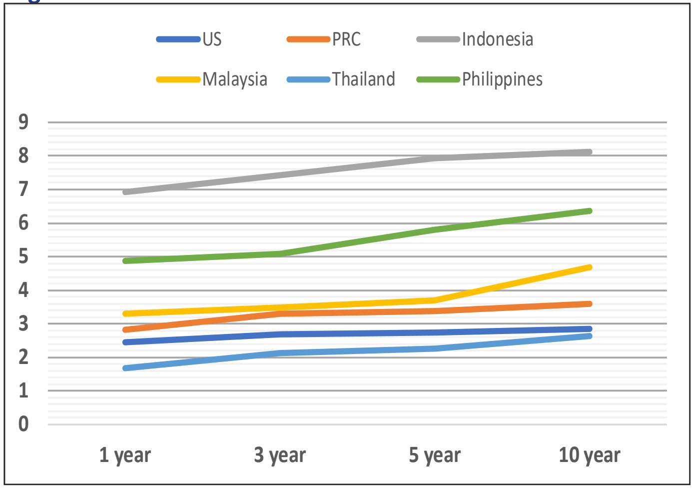
Consumer price inflation rose in Malaysia to 0.9% y-o-y in July after posting a 3-year low of 0.8% in June. Higher transport prices, which increased by 6.7% y-o-y in July from 5.5% in June on the back of costlier fuel, mainly caused the uptick. Monetary policy remained on hold since November 2017 but the yield curve slightly steepened by 2 bps despite the 10-year bond yield eased by 3.6 bps to 4.039%.

Thailand: Thailand's GDP expanded by 4.6% (y-o-y) in Q2. The main driver had been exports of goods and services (up 6.4%), while private consumption remained solid with a 4.5% gain. On the production side, the main impetus came from the agricultural sector which grew by 10.4% y-o-y in Q2-2018, up from 6.5% in Q1-2018, while growth in the manufacturing and services sectors moderated. At the start of Q3, merchandise exports from Thailand slowed to 8.3% in July, from 10% in June. Imports, on the other hand, increased by 12.3%, a milder pace from 12.9% in June. Thus, the trade surplus narrowed to $858 M in July compared to $2.9 B in the previous month. Its current account surplus plunged to $1.1 B in July from $4.1 B in June.

With the acceleration of the inflation rate in August and further peso depreciation to P53.80/$ in the first week of September, local bond market players will remain glued to developments in the domestic scene.

The Monetary Policy Committee of the Bank of Thailand decided to maintain 1-day repurchase rate at 1.5% on the back of the Thai economic growth continuing to gain traction underpinned by strong domestic and external demand. With apparent signs of slowing growth in Q3, the yield curve flattened by 10 bps from 95 bps in July, resulting from a slight 2.8 bps slide in 10-year bonds to 2.741% while 2-year yields edged up 12.7 bps higher.

Figure 14 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Outlook

With the acceleration of the inflation rate in August and further peso depreciation to P53.80/$ in the first week of September, local bond market players will remain glued to developments in the domestic scene.

- US 10-year T-bond yields have edged higher but still below 3%, as the US dollar remained strong. With the Bank of Japan keeping its QE intact with the attractiveness of carry trade and the US dollar's status as a safe have, the upside for the US 10-year bond yields remain limited.

- We reiterate our view that inflation may have peaked in August (when food prices escalated due to heavy monsoon rains in Luzon) as food supply from Northern Luzon, rice harvests and importations bring down prices and the easing should be prompted by normalizing food prices, led by bigger rice harvests while WTI crude oil prices appear to have settled between $65-70/barrel.

- We now think BSP will likely increase policy rates by 50 bps starting Q3 to weaken inflation expectations and offset some of US dollar strength.

- The corporate bond market should see a good number of issuances in Q4 as a slew of announcements indicate.

[i] As was done in the previous issue, ROP-1 is a weighted average of ROP-19 which matures in 4 months and ROP-20 which matures in 16 months.

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	2.629	2.860	2.1	0.76	29	23	(6)	1.75	-0.35
PRC	3.149	3.600	1.6	2.10	56	45	(11)	4.35	2.75
Indonesia	7.190	8.127	3.8	3.19	46	94	48	5.50	1.70
Malaysia	3.432	4.039	3.9	0.30	59	61	2	3.25	-0.65
Thailand	1.891	2.741	1.1	1.90	95	85	(10)	1.50	0.40
Philippines	4.865	6.370	4.8	1.60	149	151	2	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*

AUGUST UPTICK IN PH STOCKS SHAKEN BY WIDENING FEARS OF EM CONTAGION

August proved positive for local equity market as the PSEi added 2.4% from the previous month's strong 6.6% recovery. As the early days of September came in, however, foreign investors again retreated from emerging markets (EMs), including the Philippines, as fears of contagion over worsening inflation and exchange rates in Turkey, Argentina, and Italy, and into other EMs. We can visualize these worries in the fast rising Implied Volatility of Emerging Market stocks (see graph below) which are at a two-year high. In addition, reported earnings of PSEi constituent stocks remained mostly in line with expectations and these could not provide an impetus to further gains in equities.

Outlook: Apart from the contagion fears, US stocks appear richly valued and the widely expected Fed rate hike in September combine to create an unfavorable external environment. Domestically, we think inflation may have peaked in August and this, together with a policy rate increase by the Bangko Sentral ng Pilipinas (BSP), will provide market support to PSEi. Still, we do not expect a clear upswing until the market gets convinced that inflation would have indeed slowed down, but possible decline seen to not go lower than 7,000.

Source: Bloomberg

Global Equities Markets Performances				
Region	**Country**	**Index**	**Growth Rate Aug 2018 (m-o-m)**	**2018 YTD**
Americas	US	DJIA	2.2%	4.6%
Europe	Germany	DAX	-3.4%	-3.9%
	London	FTSE 101	-4.1%	-2.8%
East Asia	Hong Kong	HSI	-2.4%	-8.6%
	Shanghai	SSEC	-5.3%	-18.6%
	Japan	NIKKEI	1.4%	-2.7%
	South Korea	KOSPI	1.2%	-6.3%
Asia-Pacific	Australia	S&P/ASX 200	0.6%	4.3%
Southeast Asia	Indonesia	JCI	1.4%	-5.1%
	Malaysia	KLSE	2.0%	2.1%
	Thailand	SET	1.2%	-3.2%
	Philippines	PSEi	2.4%	-10.0%
	Singapore	STRAITS	-3.2%	-6.3%

Sources: Bloomberg & Yahoo Finance

Despite news about a looming trade war and continuous political concerns in the US, as well as numerous disappointing earnings reports, the "ghost month" failed to quiver equity markets last month, as some bourses experienced respectable gains in August. DJIA took a different path from other western markets, as the US bourse posted a 2.2% growth amidst losses in DAX and FTSE 100. On the other hand, most markets in the East Asia followed Dow Jones' expansion by ending in the green except for China (down 18.6% from January), Singapore, and Hong Kong. Biggest gainers in the Asia-Pacific region were PSEi and KLSE with 2.4% and 2% increases, respectively. However, PSEi still had the biggest year-to-date (YTD) decline.

Figure 15 - PSEi and DJIA

Sources: Wall Street Journal, Bloomberg

Surpassing market expectations, the local bourse ended the "ghost month" in a positive note, continuing the previous month's streak with 2.4% growth, slightly gaining from positive sentiment from improving NAFTA talks.

PSEi tracked better the strong-performing DJIA in August and their correlation averaged 0.5. Positive investor sentiment due to reports of the US and Mexico closing a trade deal, eased uncertainty which pervaded in the market for the past few months. This translated to another bright performance of US stocks, with DJIA hitting its second-highest record after January's growth spurt. The month ended with a slight dip as the attention refocused on Canada, whose participation in the new North American Free Trade Agreement (NAFTA) deal remained in limbo. Moreover, other risk factors such as weak Turkish and Argentinian currencies, as well as the impending Brexit remain, posed threats to the EM growth and currencies while the current positive momentum of the Dow Jones may be compromised.

Monthly Sectoral Performance				
	31-Jul-18		31-Aug-18	
Sector		% Change	Index	% Change
PSEi	7,672.00	6.6%	7,855.71	2.4%
Financial	1,858.92	4.5%	1,810.09	-2.6%
Industrial	10,830.18	4.0%	11,272.85	4.1%
Holdings	7,593.74	7.7%	7,764.67	2.3%
Property	3,754.81	5.8%	3,945.53	5.1%
Services	1,493.42	7.2%	1,537.18	2.9%
Mining and Oil	9,696.31	0.2%	9,903.96	2.1%

Source of Basic Data: PSE Quotation Reports

Surpassing market expectations, the local bourse ended the "ghost month" in a positive note, continuing the previous month's streak with 2.4% growth, slightly gaining from positive sentiment from improving NAFTA talks. The Property and Industrial sectors gained most, experiencing 5.1% and 4.1% growths, respectively. On the other hand, the Services and Holdings sectors (last month's biggest gainers), took the backseat this month, with growth decelerating to 2.9% and 2.3%, respectively. Mining and Oil, however, gained a respectable thrust, rising by 2.1% from last month's 0.1% uptick. The Financial sector took a beating as investors shied away from banking stocks in August, with the sector declining by 2.6%, amidst the increase in interest rates as well as lower than expected H1-2018 earnings.

Company	Symbol	07/31/18 Close	08/31/18 Close	% Change
Metrobank	MBT	73.70	73.25	-0.6%
BDO Unibank, Inc.	BDO	132.00	130.10	-1.4%
Bank of the Philippine Islands	BPI	98.00	93.75	-4.3%
Security Bank Corporation	SECB	203.00	194.50	-4.2%

Source of Basic Data: PSE Quotation Reports

The Financial sector's 2.6% slide in August came despite a 7.7% increase in aggregate asset growth among universal and commercial banks in H1-2018, as looming macroeconomic concerns (interest rate hikes) as well as disappointing Q2 earnings shooed away investors. Bank of the Philippine Islands (BPI) incurred a substantial 4.3% decline in stock price as the company's H1 net income dropped by 5.7% to P11 B, attributable to the company's growing operating expenses as well as lower non-interest income. BPI earnings also shrank by 11.4% to P4.8 B in Q2-2018.

Security Bank Corporation (SECB) joined BPI's decline with a 4.2% loss in value. SECB's earnings dropped by 17.9% in H1-2018 to P4.3 B, following a poor Q2 when it saw a 19.9% y-o-y slump in earnings to P1.9 B. SECB suffered from lower gains in non-interest income.

Meanwhile, BDO Unibank, Inc. (BDO) incurred a slight 1.4% fall in value last month, as it reported a 1.5% drop in net profit for H1-2018 to P13.1 B, amidst negative impact of changes in the investment portfolio of subsidiary BDO Life as well as the expansion of rural banking unit One Network Bank, Inc. If both had not performed poorly, BDO's net income might have surged by 13%. BDO's Q2 earnings also fell by 3.2%.

Metropolitan Bank & Trust Company's (MBT) share price was stable in August (-0.6%), supported by the company's strong earnings growth in H1-2018 (up 16% to P11 B) driven by its robust lending business. In Q2 alone, MBT's earnings rose by 30.9% to P5.1 B.

Company	Symbol	07/31/18 Close	08/31/18 Close	% Change
Meralco	MER	379.60	373.40	-1.6%
Aboitiz Power	AP	37.20	37.00	-0.5%
Jollibee Foods Corporation	JFC	270.00	288.00	6.7%
First Gen Corporation	FGEN	15.52	17.00	9.5%
Universal Robina Corporation	URC	128.00	139.50	9.0%
Petron Corporation	PCOR	8.88	9.06	2.0%

Source of Basic Data: PSE Quotation Reports

While the Holdings sector gained by 2.3% in August, constituent stocks of the sector posted mixed results.

On the other hand, the Industrial sector rallied in August with a 4.1% increase in value. First Gen Corporation (FGEN) led the rise as its share price skyrocketed by 9.5%. FGEN pocketed gains as it reported a 19.2% increase in net income to $120.2 M (of which recurring income soared by 35% to $115.5 M), boosted by the 73% y-o-y increase in its natural gas assets.

Universal Robina Corporation's (URC) share price rise accelerated in August to 9% from 5.8% in July, as it disclosed of a possible acquisition of Roxas Holdings' sugar mill in Batangas. That eclipsed URC's reported lower Q2 income of P4.9 B, down 22.7%. The latter, however, arose from foreign exchange losses, while recurring income continued to rise amidst increased sales.

Jollibee Foods Corporation (JFC) also shared the spotlight in August with a 6.7% increase in share price. JFC attracted investors as the restaurant chain reported an 11.7% growth in net income in H1-2018 to P3.8 B, backed by a substantial 21.4% increase in revenues. H1 earnings growth counted on a 19.7% jump in operating income in Q2.

Petron Corporation (PCOR) ended last month with a 2% uptick in value as the company posted a 15.7% growth in income to P9.5 B in H1-2018. The company's continued expansion of both its Philippine and Malaysian operations enabled the company to grow revenues by 32%. Earnings in Q2 surged by 43% to boost H1 income.

Meanwhile, Aboitiz Power Corporation's (AP) stock price failed to recover to its July level, ending August with a 0.5% slip. AP reported earnings of P10.9 B for H1-2018, a tad less than a percent slide, as net income in Q2 fell by 3%.

Manila Electric Company (MER) retreated in August with a 1.6% decline, slightly reversing earlier gains despite a 7.2% jump in H1-2018 earnings to P10.9 B, buoyed by a 17.2% surge in Q2-2018 earnings amidst robust electricity sales.

While the Holdings sector gained by 2.3% in August, constituent stocks of the sector posted mixed results. San Miguel Corporation (SMC) took the lead among winners, with the conglomerate's share prices bolstered to 21.4% last month. The company's stable earnings (consolidated income up by 5.7% to P27.6 B in H1-2018) as all its strategic business units posted robust growth. Besides, the impending P142 B share sale of subsidiary San Miguel Food and Beverage and growth prospects in its infrastructure business excited investors throughout the month.

Company	Symbol	07/31/18 Close	08/31/18 Close	% Change
Ayala Corporation	AC	999.00	1,000.00	0.1%
Metro Pacific Investments Corporation	MPI	4.71	5.45	15.7%
SM Investments Corporation	SM	950.00	966.00	1.7%
DMCI Holdings, Inc.	DMC	11.80	12.80	8.5%
Aboitiz Equity Ventures	AEV	57.35	53.45	-6.8%
GT Capital Holdings, Inc.	GTCAP	970.00	876.00	-9.7%
San Miguel Corporation	SMC	139.20	169.00	21.4%
Alliance Global Group, Inc.	AGI	11.92	13.80	15.8%
LT Group Inc.	LTG	18.00	17.20	-4.4%
JG Summit Holdings, Inc	JGS	56.00	60.00	7.1%

Source of Basic Data: PSE Quotation Reports

Alliance Global Group, Inc. (AGI) joined SMC in experiencing substantial gains last month with a 15.8% increase in share price, boosted by the company's reported 23.3% growth in net profit to P12.4 B, powered by double-digit increases in its real estate, fast-food and alcoholic beverage subsidiaries.

Metro Pacific Investments Corporation (MPI) booked a huge 15.7% increase in stock price in August after posting a 30.2% increase in consolidated core net income to P13.3 B for H1-2018. The company also posted substantial extraordinary gains of P341 M from last year's P21 M, attributable to foreign exchange gains at MER.

DMCI Holdings, Inc. (DMC) also did quite well with its shares rising by 8.5% in August as it reported a 10.4% growth in core net income to P8.6 B, given robust performance of its core businesses except its power unit. This resulted from a 38% jump in Q2 earnings, ahead of analysts' expectations.

Meanwhile, JG Summit Holdings, Inc. (JGS) continued to book gains this month with a 7.1% increase despite announcing lower-than-expected earnings by 68.9% y-o-y, most probably overshadowed by URC's acquisition of Roxas Holdings' sugar mill in Batangas.

The Property sector extended its strong performance last month with real estate firms enjoying an aggregate 5.1% increase.

SM Investments Corporation's (SM) share price increased by 1.7% last month aided by a 7.2% increase in core net income for H1-2018 to P18.1 B, mainly driven by increase in real estate sales (up 22.7% y-o-y), as well as stable growth in merchandise sales and rent revenues. Nonetheless, the slowdown in earnings growth to 7.8% (y-o-y) in Q2 from 9% in Q1 kept investors at bay.

Ayala Corporation (AC) managed to end in the green in August, posting a relatively flat 0.1% gain in share price. The conglomerate's share price recovered from heavy losses in the first half of the month as it reported a 6.9% increase in core net income to P16.1 B for H1-2018, driven by strong performance of its property and energy subsidiaries. AC also saw a weakening of earnings growth to 3.5% in Q2 from 10.5% in Q1.

On the other hand, LT Group's (LTG) extended its loss last month with a 4.4% decline in share price, despite the company's disclosure that its reported net income increased by 98% to P11.4 B in H1-2018, driven by sales of its banking unit Philippine National Bank of acquired properties, as well as stable earnings of its tobacco business.

Aboitiz Equity Ventures (AEV) suffered a 6.8% price drop in August, as it showed a 2% decrease in net profit for H1-2018 to P10.1 B, primarily due to foreign exchange losses as well as weak performance of its power business. Its earnings decline of 5.9% in Q2 added to the negative sentiment.

GT Capital (GTCAP) share price fell by 9.7%, mainly driven by flat earnings (1% down) in net income to P7.1 B for H1-2018 amidst 10% (y-o-y) weaker car sales in Q2.

Company	Symbol	07/31/18 Close	08/31/18 Close	% Change
Ayala Land, Inc.	ALI	40.85	44.50	8.9%
SM Prime Holdings, Inc.	SMPH	37.75	39.00	3.3%
Robinsons Land Corporation	RLC	19.58	21.30	8.8%
Megaworld Corporation	MEG	4.64	4.59	-1.1%

Source of Basic Data: PSE Quotation Reports

Meanwhile, the Property sector extended its strong performance last month with real estate firms enjoying an aggregate 5.1% increase. Ayala Land, Inc. (ALI) enjoyed an 8.9% boost in stock price in August, amidst positive investor sentiment over the company's strong performance which allowed it to expand attributable income by 17.6% in H1-2018 to P13.5 B, a pace sustained through each of the two quarters. Strong rental income combined with elevated reservations for its new projects provided the impetus to earnings.

Robinsons Land Corporation (RLC) booked a hefty 8.9% price increase in August, driven by the company's disclosure of H1-2018 earnings, with core net income growing by 14.2% y-o-y to P3.3 B. This reflected the stronger Q2 earnings which rose by 16% from 12% in Q1. Investors got encouraged by the broad gains in its residential, commercial, and hospitality units.

SM Prime Holdings, Inc. (SMPH) posted a 3.3% growth in share price in August as its net profit grew by 15.5% for the H1-2018 to P16.6 B given increased earnings driven by rental revenues, as well as its residential and hotel units. This growth pace proved fairly constant since Q1.

Megaworld Corporation (MEG), nonetheless, came in as outlier among constituent stocks in the property sector last month, slightly reversing last month's gains with a 1.1% loss, despite the company's disclosure of a 12.5% growth in core net income for H1-2018.

Company	Symbol	07/31/18 Close	08/31/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,337.00	1,393.00	4.2%
Globe Telecom	GLO	1,835.00	2,116.00	15.3%
Robinsons Retail Holdings, Inc..	RRHI	85.40	81.60	-4.4%
Puregold Price Club Inc.	PGOLD	45.25	46.00	1.7%
International Container Terminal Services Inc.	ICT	89.00	93.65	5.2%

Source of Basic Data: PSE Quotation Reports

Value of stocks in the Services sector enjoyed a 2.9% increase in August. Globe Telecom (GLO) reaped the biggest gains with a 15.3% increase in share price. The company disclosed increased core net income by 25.2% to P10 B in H1, powered by accelerating earnings in Q2 due to huge gains it its mobile data segment.

Total turnover in the local bourse rebounded with a 21.9% update from July's 12.4% loss.

International Container Terminal Services, Inc. (ICT) also booked a substantial 5.2% growth in value. Despite having a lower core net income of 1.8% in the H1-2018 to P5.1 B, the company's share price continues to increase as it recovers from its huge decline in the past months.

Philippine Long Distance Telephone Company (TEL) posted a respectable 4.2% rise in share price in August. Investors took notice of the company's increased revenues which grew by 5% to P78.5 B in H1-2018 amidst the strong performance of its Home segment.

Puregold Price Club, Inc.'s (PGOLD) stock price experienced a 1.7% uptick in August as it reported a 23.8% jump in core net income to P3.1 B for H1-2018. Net sales increased by 13.2% to P64 B, attributable to the strong performance of its Puregold stores as well as S&R Membership Warehouse clubs and standalone pizza stores.

Company	Symbol	07/31/18 Close	08/31/18 Close	% Change
Semirara Mining and Power Corporation	SCC	31.70	29.00	-8.5%

Source of Basic Data: PSE Quotation Reports

Mining and Oil stocks recorded a respectable 2.1% growth in August amidst the Department of Natural Resources' (DENR) announcement that it will declare more mineral reservation areas to boost non-tax revenues of government. However, Semirara Mining and Power Corporation's (SCC) continued to tumble all throughout the month, with share prices slumping by 8.5%. The company disclosed that its consolidated net income grew to P8.1 B, a 3% growth compared to the previous year, as its coal mining operations eclipsed weak performance of its power business due to plant shutdowns.

Total Turnover

Monthly Turnover (in Million Pesos)

	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	16,235.57	-32.6%	773.12	-29.4%
Industrial	22,541.62	28.6%	1,073.41	34.8%
Holdings	32,246.83	14.3%	1,535.56	19.8%
Property	31,287.36	57.1%	1,489.87	64.6%
Services	25,497.44	48.3%	1,214.16	55.4%
Mining and Oil	5,744.26	116.1%	273.54	126.4%
Total	**133,553.07**	21.9%	**6,359.67**	27.7%
Foreign Buying	62,925.09	6.6%	2,996.43	11.7%
Foreign Selling	67,712.20	9.8%	3,224.39	15.1%
Net Buying (Selling)	(4,787.11)	82.2%	(227.96)	90.8%

Source of Basic Data: PSE Quotation Reports

Total turnover in the local bourse rebounded with a 21.9% update from July's 12.4% loss. Turnover in the Mining and Oil, Property and Services sectors grew most, advancing by 116.1%, 57.1% and 48.3%, respectively. Meanwhile, the decline in value of stocks in the financial sector also translated to the drop in trading value, as turnover likewise decreased by 32.6%. On the other hand, net foreign outflows accelerated during the month by 82.2% to P4.8 B as more foreign funds cut exposure from emerging markets in general.

THE CONNECTION BETWEEN UNEMPLOYMENT AND INFLATION

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The unemployment rate in the Philippines has been decreasing in recent years, but it remains one of the highest in the ASEAN region. This problem draws attention to the central bank's policy of flexible inflation targeting to curb the volatility of unemployment growth. In this article, the inflation-unemployment tradeoff is analyzed by considering several indicators.

The total employment figure in July 2018 showed 489,000 net new jobs over the previous twelve months pushing the unemployment rate further down to 5.4% from 5.5% in April 2018. Total employment in the economy expanded by 1.2% year-on-year (y-o-y), slightly outstripping the 1% growth in labor force. The services sector provided the most jobs, generating 1 M additional jobs. Total employees in the sector stood at 23.4 M, representing a 4.7% increase from year ago levels. Industry employment also climbed by 2.3%, driven by gains in the manufacturing (+4.3%, adding 153,000 jobs) and construction (+0.8%, adding 33,000 jobs) sub-sectors. Meanwhile, the agriculture sector shed 731,000 jobs due to weak performance in the agriculture, hunting and forestry subsectors.

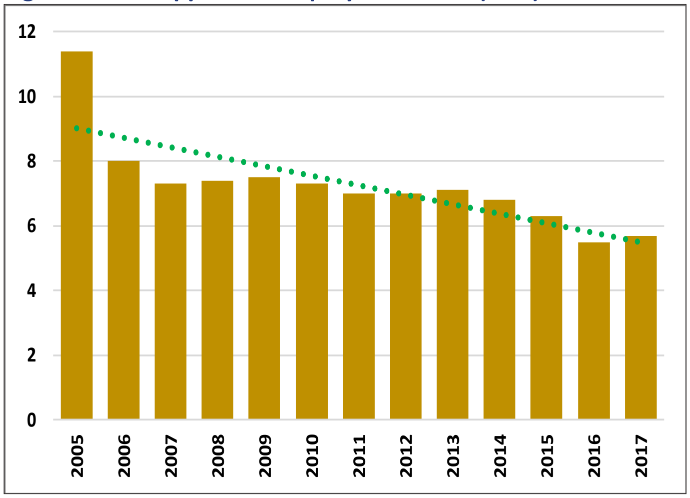
The labor sector needs to continue to improve even faster if the country's poverty rate, the highest in ASEAN, is to fall to 14% by 2022 from 21.6% in 2015 under the Duterte Administration's plan. Fortunately, the national government has committed to speed up infrastructure spending under its Build, Build, Build program, which is likely to create more employment opportunities and consequently help reduce the unemployment rate.

Major Goals of an Economy

Low unemployment rate and low inflation rate are the most common goals of an economy. This is even more important for the Philippines, which suffers from a high poverty rate of 21.6% as of 2015, a far cry from Indonesia's 10% and Vietnam's 7%.

The unemployment rate proves to be an important indicator in the labor market as it reflects the spending and production capabilities of a country. A high level of unemployment means that more people are out of work, thus losing their purchasing power. This eventually creates a vicious effect that ripples through the economy. In the Philippines, the labor statistics have shown that the unemployment rate has been decreasing in recent years relative to the data recorded in 2005[1] (see Figure 16) on the back of the government's commitment to create more jobs and legislate labor policies that will provide more employment opportunities for the people.

Figure 16 - Philippine Unemployment Rate (in %)

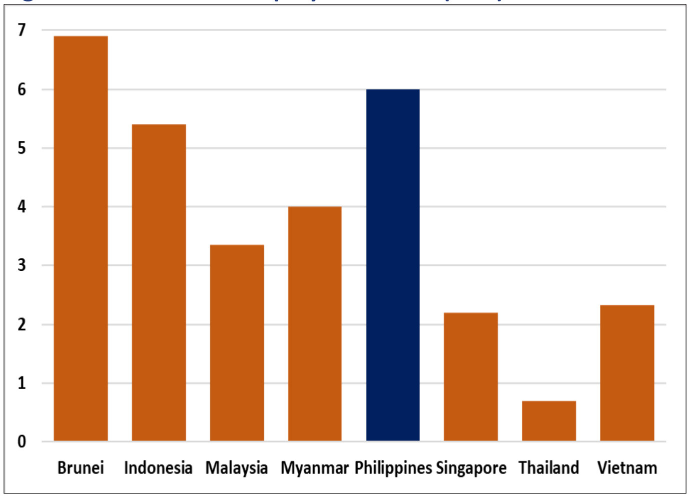


Source: Philippine Statistics Authority (PSA)

Despite this improvement, the country's unemployment rate remains high vis-à-vis that of its ASEAN neighbors. The 2017 data revealed that except for Brunei, the Philippines has the highest unemployment rate, warranting a more proactive approach in creating additional jobs. In developed economies such as the United States, the objective of the central bank is to focus on the promotion of low and stable inflation and maximum employment. The mandate of the Bangko Sentral ng Pilipinas (BSP), on the other hand, is centered on price stability. Since 1993, the BSP has adopted a framework that includes inflation-targeting to achieve that goal.

Nonetheless, the development of the labor sector remains an important consideration in the conduct of Philippine monetary policy. In fact, one of the guiding principles of the BSP is the use of flexible inflation targeting, allowing some inflation variability to curb excessive volatility in the growth of employment.

Figure 17 - ASEAN Unemployment Rate (in %)

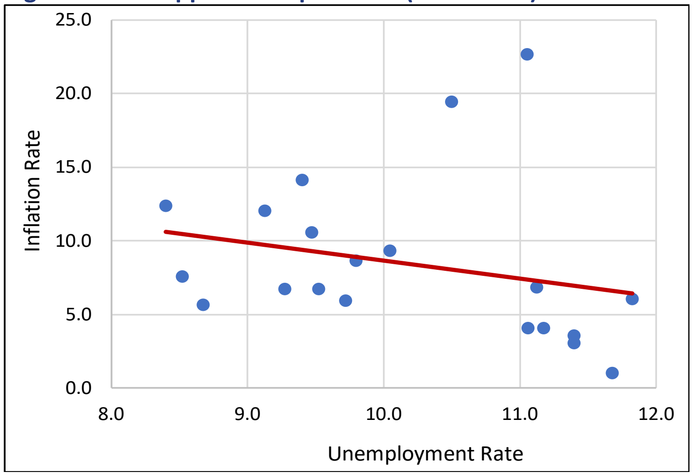


Source: International Monetary Fund (IMF)

The Philippines' Phillips Curve

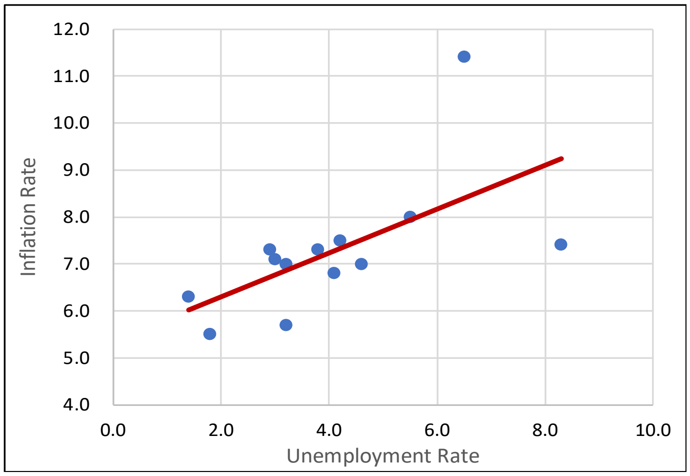
The theory captures the relationship of these two important economic variables, suggesting that shifts in aggregate demand, including those that are driven by monetary policy, push inflation and unemployment in opposite directions in the short-run. This is highlighted in the Phillips curve, developed by Alban William Phillips, showing that inflation and unemployment have an inverse relationship. The occurrence of stagflation, however, somehow refutes Phillips' theory. Notice for example the tradeoff using the historical data from 1985 to 2004 (see Figure 18). The graph shows that at very high inflation rates, there is an apparent inflation-unemployment tradeoff, equivalent to saying that growth (which leads to employment) usually has a positive relationship with inflation. In the succeeding years, however, the tradeoff disappeared (Figure 19).

Figure 18 - Philippine Phillip's Curve (1985-2004)



Sources: Bangko Sentral ng Pilipinas (BSP), International Monetary Fund (IMF)

Figure 19 - Philippine Phillip's Curve (2005-2017)



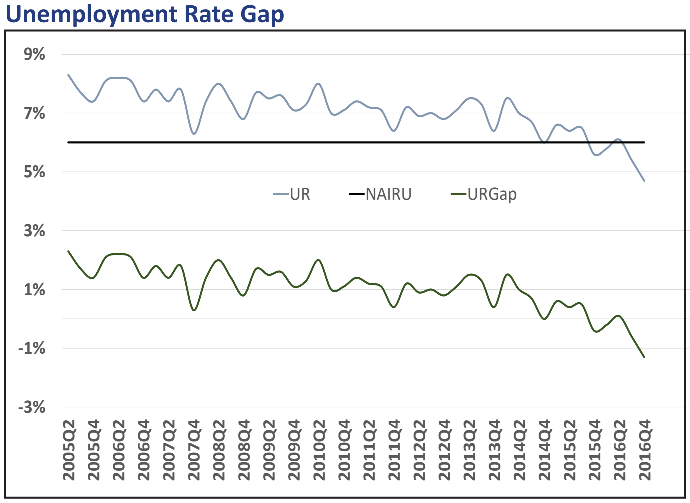
Sources: Bangko Sentral ng Pilipinas (BSP), International Monetary Fund (IMF)

While the relationship between unemployment and inflation is observed to be unstable, Ball and Mankiw (2002) pointed out that it would be wrong to deny the existence of a tradeoff. They admitted, however, that the tradeoff changes over time, citing Friedman and Phelp's contributions in using expected inflation to explain the shift in the tradeoff.

This led to a slight modification of the original equation, allowing for the emergence of the non-accelerating inflation rate of unemployment (NAIRU) or natural unemployment rate (NUR). The NAIRU is the unemployment rate when the economy's actual output is equal to potential output. This now makes reference to what economists call the augmented Phillips curve. When the NAIRU is used in analysis, inflation is expected to rise whenever the actual unemployment rate is below the natural rate. Conversely, whenever the unemployment rate is above the natural unemployment rate, inflation is expected to fall. An empirical test was done to calculate the unemployment rate gap, using the actual unemployment rate and the NAIRU estimate. The relationship of inflation to unemployment was likewise tested.

The result showed that the non-time-varying (ntv) NAIRU for 2005 to 2016 was estimated to be at 6%. Figure 20 shows a graphical comparison of the ntv NAIRU, the actual unemployment rate, and the deviation of the unemployment rate from the ntv NAIRU. With the constant level of NAIRU at 6%, the unemployment rate gap is observed to be gradually decreasing from 2.3% in the second quarter of 2005 to -1.3% in the fourth quarter of 2016. Also, notice that the actual unemployment rate is lodged above the NAIRU, suggesting that the changes in unemployment does not put much pressure on the inflation rate which in 2015-16 was falling way below BSP inflation targets.

Figure 20 - NTV NAIRU, Actual Unemployment Rate, and Unemployment Rate Gap

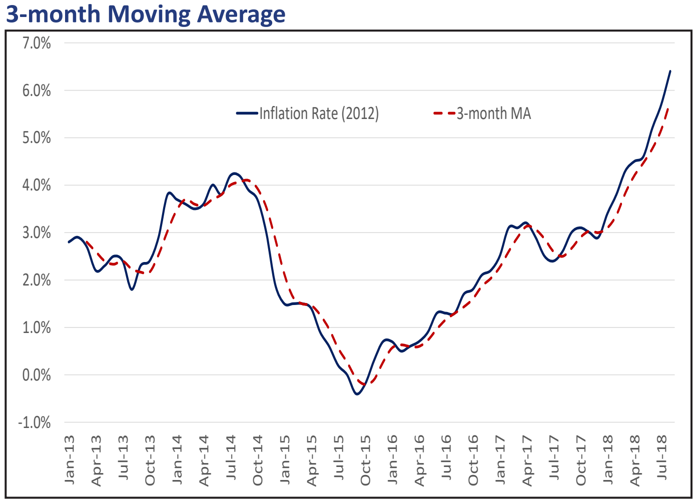


Source: Philippine Statistics Authority (PSA)

Our regression results on a Philippine Augmented-Phillips Curve (APC) showed that a negative relationship between the unemployment rate and the inflation rate. However, the estimated negative coefficient with tests proved far from being statistically significant. The APC empirical results revealed that a 1% reduction in unemployment rate would result in a 0.1% increase in inflation. Using the July 2018 data, it would suggest that an increase in the employed of some 437,000 would only raise inflation rate by 0.1%, or tripling that, 1.3 M would add 0.3% to inflation. This looks like a small effect, i.e., a small price to generate more employment. Besides, this relationship is not even statistically significant.

One may wonder if to favor employment generation over inflation would be wise as inflation has accelerated to a nine-year high of 6.4% in August 2018. But the recent inflation runup has its roots in the supply or cost side. Ultimately, the estimates from our regressions point out that there is, indeed, much room for employment generation without causing a large leap in the level of prices, although now may not be the best time pursue this policy.

Figure 21 - Actual Inflation Rate (Base year 2012) and 3-month Moving Average



Source: Philippine Statistics Authority (PSA)

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International Monetary Fund, World Economic Outlook, 2017. Philippine Statistics Authority. Labor and Employment Data, October 2017.

Footnote:

[1] The method used in estimating unemployment changed in 2005 to conform with the ILO standard. Thus, the data used in Figure 16 starts with 2005.

Recent Economic Indicators

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.
Production										
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%
Expenditure										
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		June-2018			July-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%	224,199	-13.4%	24.7%	241,743	7.8%	24.2%
Tax	1,980,390	9.1%	2,250,678	13.6%	188,212	-17.0%	11.9%	217,818	15.7%	24.7%
BIR	1,567,214	9.3%	1,772,321	13.1%	136,780	-20.5%	4.2%	163,999	19.9%	18.8%
BoC	396,365	7.8%	458,184	15.6%	50,049	-5.1%	41.3%	52,144	4.2%	49.0%
Others	16,811	14.8%	20,173	20%	1,383	-34.4%	-6.2%	1,675	19.9%	5.9%
Non-Tax	215,446	-26.5%	222,415	3.2%	35,965	12.0%	207.3%	23,925	-33.5%	19.8%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	278,487	-4.6%	2.9%	328,126	17.8%	33.9%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	46,427	-4.6%	-15.7%	46,356	-0.2%	8.5%
Interest Payments	304,454	-1.6%	310,541	2%	24,065	14.0%	24.9%	44,841	86.3%	0.5%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	-54,288	65.1%	-40.3%	-86,383	59.1%	71.0%

Source: Bureau of the Treasury (BTr)

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

	2017		Jun-2018			Jul-2018		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	41,605	5.1%	3,922.10	3.8%	6.9%	3,658.80	2.9%	6.3%
Residential	13,055	5%	1,290.60	2.7%	6.0%	1,126.10	-1.3%	4.9%
Commercial	16,378	4.7%	1,508.40	2.2%	5.5%	1,429.00	2.2%	5.1%
Industrial	11,861	4.4%	1,091.10	5.4%	6.5%	1,077.80	7.3%	6.6%

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		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%
MONEY SUPPLY MEASURES AND COMPONENTS						
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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