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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

The economy likely expanded faster in Q3 than the 6% posted for Q2, as red-hot investment spending and robust manufacturing sector stepped up on the accelerator. Capital goods imports soared by 39% in July, while National Government (NG) spending added fuel to growth with a 29% uptick, likely driven by infrastructure and capital outlays. Exports had its third consecutive month of growth, albeit still at a mild pace. Accelerating inflation in September to 6.7%, highest in the region, will put some brakes on consumer spending as it has done for the bond and stock markets.

Macroeconomy

The economy still looked healthy as most indicators released proved robust. Investment spending continued to catapult the economy buoyed by private investments (capital goods imports rising by 39%) and public investments (NG sustained a 29% growth pace in August). Exports should also contribute to the demand side as it eked out its third consecutive, albeit modest, gain (y-o-y) in August, while OFW remittances in July more than offset the fall in June. Inflation continued to batter consumers as it rose faster to 6.7% y-o-y in September from 6.4% a month ago. Nonetheless, the BSP's tightening moves, including another 50-bp policy rate rise late last month have been cooling money growth and probably inflation expectations as well.

- Capital goods imports further surged by 39% in July amidst broad-based gains across all sub-categories.
- Total NG disbursements showed a 29% y-o-y increase in August amounting to P260 B.
- Exports posted its 3rd straight month of growth at 3.1% y-o-y in August.
- The strong contractionary stance of the Monetary Board led to the continuous deceleration in monetary aggregates.
- Dollars sent by overseas Filipino workers in July posted a 5% increase y-o-y, reversing the past month's decline.
- Overall prices surged by 6.7% in September due to supply side triggers (rice and oil), a 9-year high.
- Peso succumbed to losses in September as dollar showed impressive gains.

Outlook: We maintain our view that GDP expansion in Q3 will exceed the 6% mark recorded in Q2 amidst exceptional strength of private and public investment spending, coupled with modestly rebounding exports. We think that BSP would raise policy rates by a maximum of 25 bps before the end of 2018, despite falling rice, food and oil prices, since bus and jeepney fares are supposed to rise by November.

Bonds Market

With inflation still on an upswing, demand for bonds in auctions and in the secondary markets plummeted by 50% and 41%, respectively. This resulted in government securities (GS) auction bond yields rising across-the-board, progressively higher as the tenor lengthened, from 33.1 bps to 110.9 bps. In the secondary market, yields expanded by more than 100 bps for short-term to medium-term papers and less than that for 10-year and 20-year bonds.

- Bidders tendered only P125.7 B for P90 B worth of GS on offer, down from P225.9 B a month ago.
- Yields ended at 3.549% for 91-day T-bills, but jumped by 53.7 bps and 61.1 bps, for 182-day and 364-day T-bills to reach 4.597% and 5.4%, respectively.
- 7-year T-bonds auctioned off at 7.085%, up by 110.9 bps from its last auction in June.
- In the secondary market, 3-year papers rose the most, by 196.1 bps to 7.034% while 3-month and 5-year yields added 109.6 bps and 124.8 bps to end at 4.309% and 7.04%, respectively.
- 10-year and 20-year bond yields surged by 86.5 bps and 97.5 bps to reach 7.235% and 8.297%, respectively.
- ROPs yields surprisingly dropped slightly while US Treasuries moved up, resulting in lower spreads between the two.

Outlook: The September super-typhoon proved more disastrous than expected and boosted inflation and bond yields. And while US Treasuries have risen and will still move up with the likely fourth Fed rate hike in December, domestic inflation remained as the main concern not only of consumers but also of financial markets. Local bond investors have largely priced-in future rate hikes, and so the key factors on future bond yields would be inflation and market liquidity. With rice prices actually falling by early October and crude oil prices receding from last month's peak, we think inflation would have peaked in September. However, entry into the market should be disciplined and only when elevated real yields exceed historical averages.

Equities Market

While the US and UK stock markets continued their bull run into September and early October (propelled by positive US employment data), PSEi fell into bear market territory, dragged by concerns over accelerating inflation, higher interest rates and weak though stabilizing peso.

- PSEi ended September as the worst performer in ASEAN, plunging by 7.4% to 7,276.82.
- All sectors ended in the red in September, with Financial and Mining & Oil declining by 11.7% and 9.4%, respectively.
- The biggest losses in share prices were SECB, LTG and MPI, which posted falls of 20.8%, 16.3% and 12.8%, respectively.
- Foreign investors pulled out more from the PSE, with net selling at P11.5 B in September, up from P4.8 B last month.

Outlook: With volume being way below average in the first week of October, we cannot say that PSEi has unequivocally entered the bear market. A slowdown in inflation, which is seen to have peaked in September, and an unusually strong Q3 earnings, which remain a question mark (given rising interest rates and peaking inflation in Q3), should allow investors to confidently return to the market in the months ahead.

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%	6.5% to 7.0%
Inflation Rate (September)	6.4%	6.7%	5%	1.3%	2.9%	5.2% to 5.5%
Government Spending (August)	33.9%	28.7%	23.3%	4.1%	12.6%	12.0%
Gross International Reserves ($B) (August)	77.9	75.2	78.7	80.7	81.6	76.0
PHP/USD rate (September)	53.27	53.94	52.49	47.49	50.40	53.90
10-year T-bond yield (end-September YTD bps change)	6.37	7.21	6.42%	4.15%	4.93%	6.25-6.65%
PSEi (end-September YTD % change)	7,856	7,277	-16.6	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.

INVESTMENTS STILL ON HOT STREAK

Investment spending's hot streak gained more traction as capital goods imports soared by 39% in July and National Government (NG) spending, including infrastructure outlays, jumped by 28.7% in August. Exports also registered gains for the third consecutive month in August, as Overseas Filipino Workers' (OFW) remittances, likewise, increased by 5% for the same month. The fly-in-the-ointment stayed at the inflation front where we saw prices further accelerating to 6.7% in September from 6.4% in August.

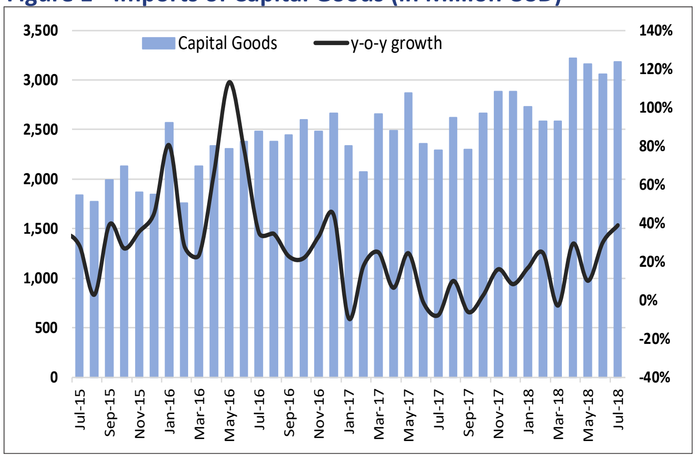
Outlook: The strength of the economy lies in investment and government spending, while there may be slight weakness in consumer spending due to higher inflation. However, this may be compensated by more robust growth in exports in Q3. While BSP has raised policy rates by another 50 basis points (bps) in late September, we do not rule out the possibility of a further rate increase in Q4 should inflation rise even faster. We, however, think it has peaked in September, and so remain a bit sanguine about GDP growth in Q3 which should improve on Q2.

Capital Goods Imports Further Expand by 39% in July

The country's investment-led story remains solid as the imports of capital goods zoomed up by 39% year-on-year (y-o-y) in July much faster than the 30% expansion in June. We have indicated our view that growth in Q3 will be supported by strong investments, especially with the administration's unrelenting effort to push for faster completion and faster delivery of the Build-Build-Build projects they have lined-up.

Broad-based gains across the sub-categories largely buoyed capital goods imports, led by the 37.4% increase in the imports of heavily-weighted telecommunication equipment and electrical machinery. Power generation and specialized machines also posted an 8% expansion. The other items, which collectively comprised 34% of capital goods, likewise, recorded superb gains. Thus, July figures represented the sixth 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 36.8%, registering a 28.3% gain y-o-y, largely driven by hefty demand for semi processed raw materials (especially the manufactured items such as iron, steel and metal products, and chemical items). Higher crude oil and petroleum products and coal prices also resulted in a fast increase in mineral fuels, lubricant and related materials category (+35.5%). 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.

Remarkable positive performance in all categories drove total imports to reach \$9.4 B, an expansion of 31.6%. While exports finally ended in the green, exports in absolute terms still came below total imports, resulting in a trade deficit of \$3.5 B, slightly higher than the \$3.4 B recorded in June. Year-to-date (YTD) to July total trade deficit reached \$22.5-B, surging by 72.7% from the same period a year ago.

NG Spending Remains Elevated in August

Rocketing by 70.5% in August, infrastructure and rehabilitation spending, drove another double-digit expansion in NG spending (targeted at 19.2% of GDP for 2018), up by 28.7% y-o-y to P259.5 B in August. Year-to-date (YTD), budget deficit totaled P282 B, which represented only 54% of the year's total target deficit, giving enough fiscal space for the remaining four months of 2018. Total revenues, meanwhile, rose by 11.5% to P256.9 B, resulting in a budget deficit of P5.6 B.

The Volume of Production Index (VoPI) continued to expand by 8.8%, albeit slower than the 11.8% in July, as 15 out of 20 industries posted gains with more than half of the growth industries (i.e., nine) showing double-digit increases.

Elevated spending on ambitious infrastructure projects along with higher spending on personnel services, and maintenance and other operating expenditures (MOOE), boosted the spending spree. The continued upswing in tax take (+12.9%), likewise, contributed to higher revenue collection. Total tax revenues' gain for the month relied on a 35.8% 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 P185 B, or 7.8% over a year ago, but reflected some weakening in economic activity.

We think that NG will continue to record deficits amidst the administration's determined push to get key and broad-based infrastructure projects off the ground, even as agencies ratchet up spending that should boost the overall domestic output.

Manufacturing Output Expands at a Decelerating pace in August

The Volume of Production Index (VoPI) continued to expand by 8.8%, albeit slower than the 11.8% in July, as 15 out of 20 industries posted gains with more than half of the growth industries (i.e., nine) showing double-digit increases.

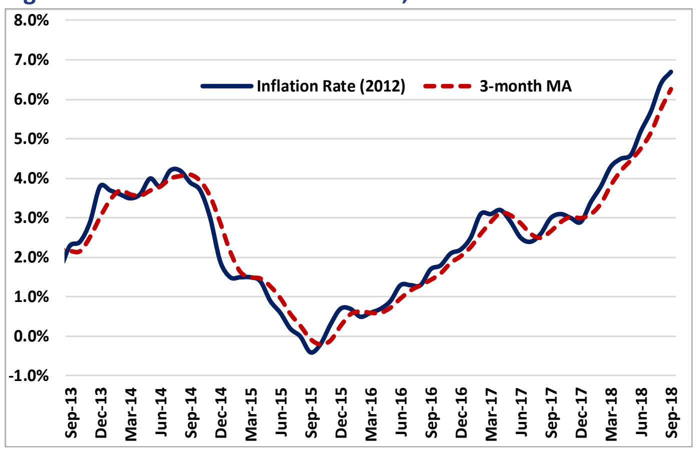
Textiles led the expansion with a 39.7% jump, followed by petroleum products (+37.9%) and miscellaneous manufactures (+26.6%). Beverages and paper products joined the outperformers as they showed output climbing by 24.2% and 18.7%, respectively.

Chemical (-4.9%) and fabricated metal products (-11.5%) originally in the positive list now joins the losers together with tobacco products, printing, and footwear & wearing apparel.

Inflation Hits Another High in September

Inflation soared to another high in September, driven by significant upticks in food prices due to disruption created by super typhoon Ompong in Northern Luzon. September data showed a 6.7% (y-o-y) price acceleration from 6.4% in the preceding month. Price increments in most index drove the overall inflation higher, bringing the YTD rate to 5%, 100 bps away from the Bangko Sentral ng Pilipinas' (BSP) upper limit.

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



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

The heavy-weighted food and non-alcoholic beverages (FNAB) index (38.3% of CPI) posted the fastest acceleration as rice, meat, vegetables, and other poultry products output and/or supply chains suffered from the super typhoon. Alcoholic beverages and tobacco (ABT) and clothing & footwear indices also showed slight increments. Health; furnishing, household equipment and routine maintenance of the house; and recreation and culture indices, likewise, recorded 0.1, 0.2, and 0.5 percentage points increase, respectively.

Inflation Year-on-Year Growth Rate	Sept 2018	Aug 2018	YTD	Weight
All items	6.7%	6.4%	5.0%	100%
Food and Non-Alcoholic Beverages	9.7%	8.5%	6.4%	38.34%
Alcoholic Beverages and Tobacco	21.8%	21.6%	19.3%	1.58%
Clothing and Footwear	2.5%	2.4%	2.2%	2.93%
Housing, Water, Electricity, Gas, and Other Fuels	4.6%	5.5%	3.8%	22.04%
Furnishing, Household Equipment and Routine Maintenance of the House	3.6%	3.5%	2.9%	2.95%
Health	4.1%	4.0%	3.0%	3.89%
Transport	8.0%	7.8%	6.3%	8.06%
Communication	0.5%	0.4%	0.4%	2.93%
Recreation and Culture	3.0%	2.4%	1.6%	1.41%
Education	-3.8%	-3.8%	0.1%	3.28%

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

Philippine exports performance bucked the previous lackluster trend, recording its second month gain. July data showed a 0.3% y-o-y increase (amounting to $5.8 B) in outbound shipments, following the 2.8% gain in June.

Meanwhile, softer prices of international crude oil and lower Meralco rates tempered gains in the housing, water, electricity, gas, and other fuels (HWEGOF) index. Electricity cost fell to P10.073/kWh from P10.219/kWh in August amidst lower generation charges and WESM prices. Price changes in the international prices of crude oil (i.e., WTI and Brent) increased by 41% y-o-y, slightly slower than the 41.7% y-o-y jump recorded in August.

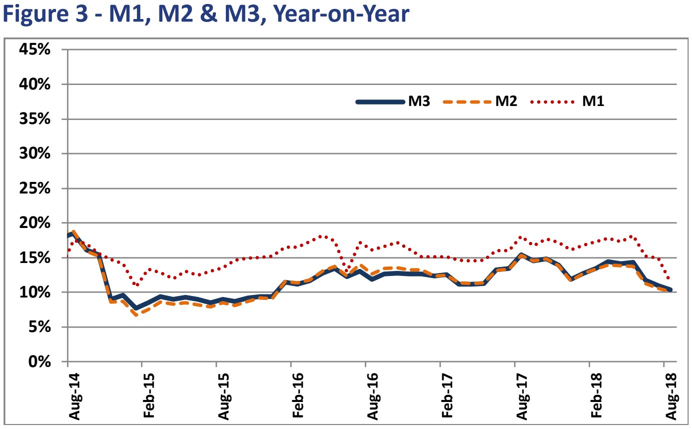
The education and restaurants & miscellaneous goods and services indices maintained its past month's pace, with the former still posting a negative change.

We think that inflation has reached a peak in Q3 as we expect huge rice imports (1M MT) and harvests begin to enter the market in October. Other food items like vegetable and fish output should normalize by the end of October. However, crude oil prices will remain elevated as Iran sanctions bear down on the market.

Aggressive Monetary Tightening Stance Reduces Money Supply

Money growth (M3) in August further eased to 10.4% (or P11.2 T) from the 11% y-o-y recorded in the preceding month, tracking the aggressive contractionary stance of the BSP. Note that as we expected, the Monetary Board had further raised the overnight reverse repurchase (RRP) to 4.5% and the interest rates on the overnight lending and deposit facilities by another 50 basis points (bps) during their meeting last September 27. Narrow (M1) and broad money (M2) growth, likewise, decelerated to 11.5% and 10.1%, respectively.

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



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

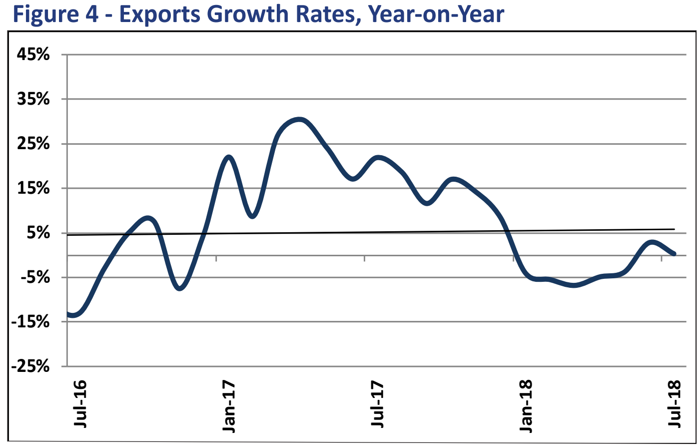
Likewise, commercial bank lending which comprised 88.6% of banks' loan portfolio expanded at a slower pace by 19.1% from 19.7% in June. Bulk of these loans went to wholesale and retail trade, repair of motor vehicles and motorcycles, real estate activities, financial and insurance activities, and manufacturing, among others. Net foreign assets (NFA) of monetary authorities also remained negative at 0.4%.

We think that the Monetary Board (MB) is poised for another rate hike which will result in a continued slowdown in monetary aggregates, hoping to curb further upticks in inflation. However, it should also consider bankers' complaint of tight liquidity.

Exports Record 2nd Straight Gain

Philippine exports performance bucked the previous lackluster trend, recording its second monthly gain. July data showed a 0.3% y-o-y increase (amounting to $5.8 B) in outbound shipments, following the 2.8% gain in June. Recall that exports posted declines from January until May. This resulted in a 3.1% YTD slump, still a big reversal from the 21.6% gain in the same period last year.

Figure 4 - Exports Growth Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Electronic product exports remained as the top export commodity, expanding by 5.2% y-o-y to $3.3 B, at the same time accounting for the biggest share of exports at 56%. Semiconductors, which had the biggest share among electronic products at 41% also recorded a 1.5% increase to $2.3 B. Other mineral products (4th place), likewise, showed a whopping gain of 33%. The rest of the top five export products fell, offsetting the gains in the above mentioned categories. Other manufactured goods and machinery and

Money sent by Filipinos working abroad totaled $2.8 B in July, showing a 5% increase from a year ago, and reversing the past month's decline of 4.9%

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transport equipment in second and third place declined by 7.3% and 14.4%, respectively. Shipment of ignition wiring set is now part of the top five, albeit posting a fall of 18.8%.

US regained its spot as the top destination, with outbound receipts amounting to $972.5 M (or 16.6% share of total exports). Shipments to US grew by 7.4% from July last year. Hong Kong took second place and snagged 14.7% of total shipments valued at $860 M, posting an 11.4% increase. Exports to China and Singapore also recorded gains of 14.5% and 18.9%, respectively. Meanwhile, export demand from Japan remained weak slumping by 18.6%.

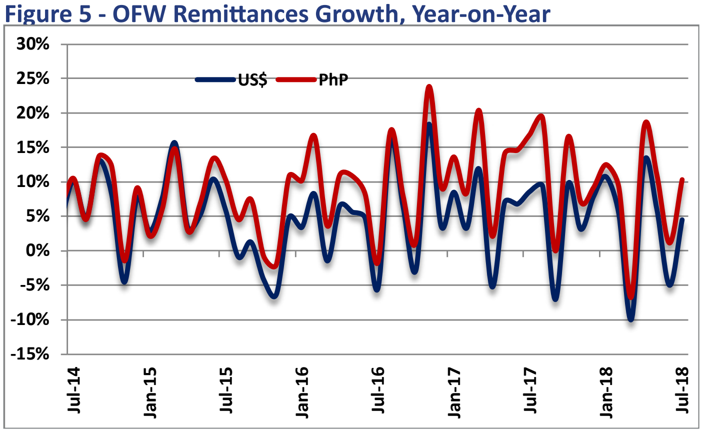
Almost half of the total exports in July still headed towards East Asian (EA) nations, valued at $2.8 B (accounting for 48% of the total). Outward sales to the region further fell by 3.1% due to lower demand from Japan. Shipments to the ASEAN, on the other hand, went up by 13.5% amounting to $944.9 M.

We think that export growth will remain in positive territory, supported by strong expansion in the US and EU.

Remittances Record Higher Inflow in July

Money sent by Filipinos working abroad totaled $2.8 B in July, showing a 5% increase from a year ago, and reversing the past month's decline of 4.9%. YTD level stood at $18.4 B, a 5.2% increase, as 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, expanded by 5% to $2.4 B due to higher transfers from the United States, Canada, United Kingdom, and Germany.

Figure 5 - OFW Remittances Growth, Year-on-Year



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

Tracking higher inflows, the peso equivalent of personal remittances registered a big jump of positive 10.3% from the meager +1.2% in June, supported by the 5.5% (y-o-y) peso depreciation. We believe that remittances will continue to pour into the system especially as the 'ber' months roll on.

Peso Weakens Anew

The dollar strength further put downward pressure to most emerging currencies, including the Philippine peso. As previously anticipated, the peso's strength in August proved short-lived as positive US economic fundamentals reigned. US data showed unrevised Q2 GDP growth at 4.2%, higher durable goods production, and strong labor market; reinforcing prospects of another rate hike this year. The Fed also hinted at raising policy rates thrice in 2019. The Philippines' lingering trade deficit and elevated price levels, moreover, put downward pressure on the peso.

The peso averaged P53.94/$ in September, representing a 1.3% depreciation from August. The volatility measure, meanwhile, widened to 0.3 from 0.2 in August as the pair hovered between a high of P54.32/$ and a low of P53.48/$. The pair breached the P54/$ level in mid-September and has stayed above that until the end of the month.

Exchange Rates vs USD for Selected Asian Countries

	Aug-18	Sept-18	YTD
AUD	1.0%	1.9%	6.0%
CNY	2.0%	0.1%	3.8%
INR	1.1%	3.8%	12.2%
IDR	1.1%	2.0%	9.6%
KRW	-0.1%	-0.1%	3.3%
MYR	1.1%	1.1%	1.4%
PHP	-0.3%	1.3%	7.0%
SGD	0.4%	0.2%	1.8%
THB	-0.6%	-1.3%	-0.1%

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

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

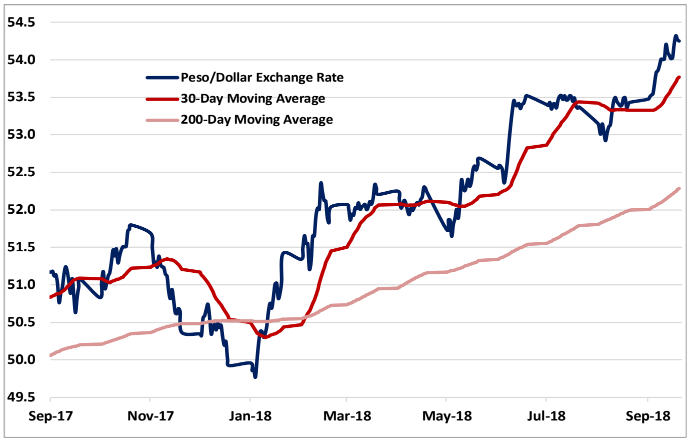
Other emerging currencies succumbed to the US dollar's impressive gains. Sentiment towards the yuan remained bearish, weighed down by investor fears as trade war between China and the US intensified. India's rupee also took a beating due to large fund outflows and the volatile global market. High external debt and lackluster trade data

The outlook from the demand side—investments and exports—still look positive while slowing manufacturing and commodity prices rising at a faster pace cloud this view.

extended the weakness of the rupiah. Lower oil prices, likewise, added pressure to the weak ringgit. Meanwhile, Thai baht held its ground as it enjoyed high current account surplus and foreign exchange reserves.

The month-end actual USD/PHP rate in September remained above the 200- and 30-day moving average (MA), suggesting that the peso will remain in the red as long as the US dollar marches on and the country's trade deficit lingers.

Figure 6 - Dollar-Peso Exchange Rate and Moving Averages



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

Outlook

The outlooks from the demand side—investments and exports—still look positive while slowing manufacturing and commodity prices rising at a faster pace cloud this view. Nonetheless, GDP should still handily grow by more than 6% in Q3.

- Investments in capital goods appear firmly on an elevated path as it scored double-digit import growth in six out of the last seven months, and above-20% in four of the last five months.

- Even more solid, NG keeps ramping up infrastructure and capital outlays without let up.

- Manufacturing output remains robust, albeit showing a slowdown from Q1.

- Exports should add to its second consecutive monthly growth in July, with the help of US and EU economic expansion.

- Inflation's food-and-oil driven run kept unabated by September; however, we think it has reached its peak as food supply normalizes in October.

- Monetary authorities stand poised for another policy rate hike, even though it should be mindful of tightening liquidity in the face of huge fund-raising plans by banks in Q4.

Forecasts			
Rates	October	November	December
Inflation (y-o-y %)	6.4	6.1	6.2
91-day T-Bill (%)	3.463	3.64	3.76
Peso-Dollar (P/$)	53.89	54.11	54.22
10-year T-Bond (%)	7.309	7.455	7.596

Source: Authors' Estimates

INVESTORS SHY AWAY FROM LOCAL BONDS DUE TO RISING INFLATION

The unabated rise in inflation into September further pushed up government bond yields, aided by the Fed's expected policy rate hike on September 26 which put US 10-year Treasury bond yields firmly above the resistance level of 3%. Market players' bids in the auction of Philippine government securities (GS) fell by 50% as the overall tender-offer ratio (TOR) slumped to 1.3x from 2.5x in. August. Similarly, secondary trading of GS plunged by 41% to hit the lowest level yet in 2018. Surprisingly, ROPs yields mostly eased, due to rising consumer prices, while US Treasuries headed north, resulting in lower spreads between the two. Two banks issued long-term negotiable certificates of time deposit (LTNCD) in September, still at favorable rates.

Outlook: Wariness focused on rising inflation will likely keep away investors from the local currency bond markets. We see little effect of the Fed's expected policy rate hike in December as it has already been priced in by the market. Nonetheless, as we expect inflation to slow down starting Q4, opportunities may arise should real yields exceed 10-year historical average.

GS Auctions: More bids for T-bills, down for T-bonds

Government securities (GS) auctions saw an overall decline in investor interest reflected in large falls in TOR, in addition to greater Bureau of the Treasury (BTR) rejections. Investors also showed preference for the shorter-term debt papers. The total amount tendered by bidders decreased by 50% to P112.7 B, representing a TOR of only 1.2x compared to 2.5x in September.

For the 10-year treasury bonds offered for the month of September (totaling P15 B), tenders barely exceeded the securities on offer (TOR of only 0.8x) and so the BTr rejected the bids. TORs for shorter tenors plunged by more than 50% to 1.4x for the T-bills auctioned versus 2.9x a month ago.

Short-dated papers offered on September 24 barely exceeded the securities on offer with TOR of 1x, leading BTr to reject all bids for that auction date.

Weaker demand resulted in progressively higher yields as tenors lengthened. 91-day T-bills ended September at 3.549%, up by 33.1 bps from end-August. However, this is the yield for September 10, the last auction in which BTr accepted bids for this tenor. Yields for 182-day and 364-day T-bills came at 4.597% and 5.400%, increases of 62.7 bps and 71.7 bps, respectively. These yields correspond to the September 17 auction, since BTr rejected the bids for these tenors in the last auction. For the longer 7-year bond auction, the yield increased by 110.9 bps from June 2018 to hit 7.085%. The auction for 10-year T-bonds on September 11 resulted in full rejection of bids, which fell short of the P15 B on offer.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
3-Sep	91-day	4	6.2	4	1.6	3.2	
	182-day	5	11.6	5	2.3	4.1	
	364-day	6	9.6	6	1.6	4.9	
10-Sep	91-day	4	5.8	2	1.4	3.5	
	182-day	5	8.1	5	1.6	4.4	
	364-day	6	8.1	6	1.3	5.1	
17-Sep	91-day	4	5.4	-	1.4	-	
	182-day	5	7.3	5	1.5	4.6	
	364-day	6	8.0	4	1.3	5.4	
24-Sep	91-day	4	3.0	-	0.7	-	-321.8
	182-day	5	4.6	-	0.9	-	-407.0
	364-day	6	8.4	-	1.4	-	-478.9
Subtotal		**60**	**86.1**	**37**	**1.4**		
11-Sep	10 year	15	12.7	-	0.8	-	
25-Sep	7 year	15	13.9	6	0.9	7.1	
Subtotal		**30**	**26.6**	**6**	**0.9**		
All Auctions		**90**	**112.7**	**43**	**1.3**		

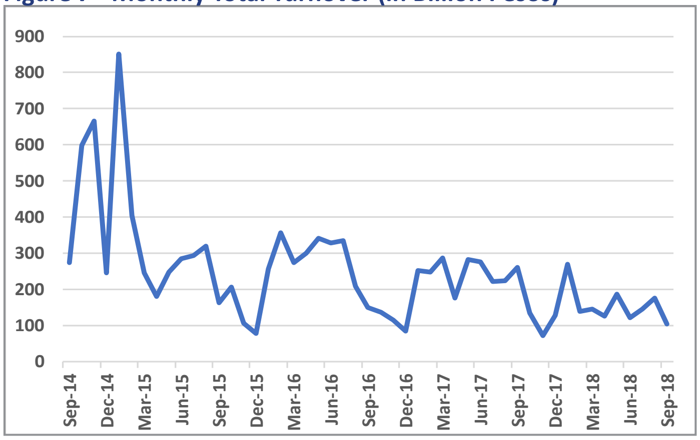
Source: Philippine Dealing Systems (PDS)

GS Secondary Trading: Dives to Lowest Level in 2018

Trading volume in the GS secondary market took a deep dive in September by 41.5% to P103.5 B, the lowest level for the year. The fall reversed the 22.1% increase in August (month-on-month, m-o-m). On a year-on-year (y-o-y) basis, trading came in still 60.2% below the P260.5 B trading volume in September 2017. Similarly, the year-to-date (YTD) trading volume in September continued to decline at 36.5%, again worse than the 33.4% YTD decline in August.

Trading in corporate bonds in the secondary market plunged by 39.3% (m-o-m) to P1.7 B in September and a whopping 57.1% below a year ago levels.

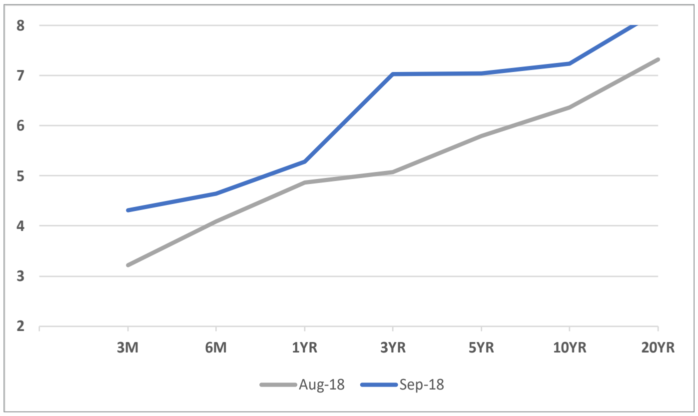
Figure 7 - Monthly Total Turnover (in Billion Pesos)



Source: Philippine Dealing Systems (PDS)

In contrast to the drop in volume last month, yields across the board increased by as much as 196 bps for all tenors. The 3-month, 3-year, and 5-year tenors increased by more than 100 bps, yielding 109.6 bps to 4.309%, 196.1 bps to 7.034%, and 124.8 bps to 7.04% respectively by the end of September. The short end of the yield curve saw the smallest increase for this month, the 1-month tenor yielded 41.1 bps to 5.276% whereas the 6-month tenor increased by 55.9 bps to 4.649%. Meanwhile, the 10-year tenor rose by as much as 86.5 bps to 7.235% while the 20-year tenor rose by 97.5 bps to 8.297% by the end of the month.

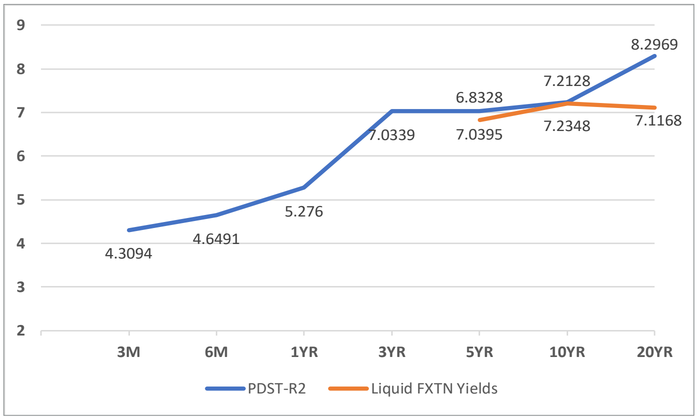
Figure 8 - End-Month Yield Curves (PDST-R2)



Source: Philippine Dealing Systems (PDS)

The PDST-R2 yields finished higher compared to liquid FXTN yields albeit there is not much difference in the 5-year and 10-year space, as investors are seen to be indifferent between investing in either tenors. However, in the 20-year tenor, the PDST-R2 exceeded RTB 25-01 by a huge 118 bps.

Figure 9 - PDST-R2 vs. Liquid FXTN Yields (end-June 2018)

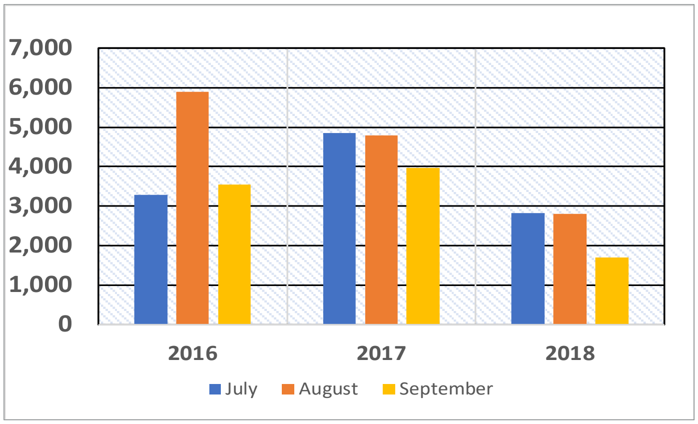


Source: Philippine Dealing Systems (PDS)

Corporate Bonds: Trading Slumps Again

Trading in corporate bonds in the secondary market plunged by 39.3% (m-o-m) to P1.7 B in September and a whopping 57.1% below a year ago levels. This brought YTD to P20.9 B down by 42.1% from the same period in 2017, deeper than YTD fall by 40.3% to August. The graph below shows the market's weakness.

Figure 10 - Total Corporate Trade Volume (in Million Pesos)

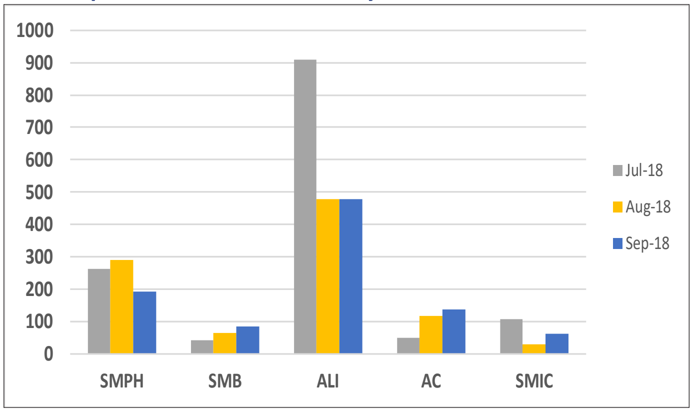


Source: Philippine Dealing Systems (PDS)

While the top five corporate bond issuers also suffered from the secondary market's illness, even though their aggregate trading slipped by only 2.7% to P949.9 M. The top five includes Ayala Land Inc. (ALI), Ayala Corporation (AC), SM Prime Holdings (SMPH), SM Investments Corporation (SMIC), and San Miguel Brewery (SMB). By far ALI debt papers traded the most but practically flat from August to September at P478.5 M. SMPH kept the second spot at P190.8 M, but this plunged by 34.1% from a month ago. AC returned to the third place with trading of P135.9 M, a 17.1% jump from August. SMIC did more than double to P60.6 M but still left it in the last place of the top five. SMB also rose by 31.2% to P84.2 M in September.

US dollar-denominated Philippine Government bonds (ROPs) showed slight easing while similar US Treasuries generally moved higher in line with the Fed's policy rate hike in September.

Figure 11 - Monthly Trading Volume (in Million Pesos) of Top Five Corporate Bonds, March-May 2018



Source: Philippine Dealing Systems (PDS)

Issuances and Disclosures

Two listings of bank debt papers in Philippine Dealing and Exchange Corporation (PDEx) surfaced in October.

- Metropolitan Bank and Trust Company (MBT), the first bank to list its issues in the PDEx secondary market, listed P8.68 B long-term negotiable certificate of time deposit (LTNCD) paying 5.375% p.a. and due 2023 in the PDEx early in the month. MBT also disclosed a bond and notes issuance program that could reach P100 B in several tranches in the coming months.

- Rizal Commercial Banking Corporation (RCBC) also tapped the local debt market, listing its P3.6 B 5.5-year LTNCD at a coupon rate of 5.5% per year. It was the first tranche of its P20 B LTNCD program.

ROPs: Yields Take Opposite Direction vs US Treasuries

US dollar-denominated Philippine Government bonds (ROPs) showed slight easing, while similar US Treasuries generally moved higher in line with the Fed's policy rate hike in September. ROP-20, which will be maturing in a little over a year, obtained yields of 3.014%, 10.1 bps lower than in end-August. This came in 42.4 bps higher than 1-year US treasury bond yield of 2.57%. ROP-32, which still has 14 years to maturity, dropped by 2 bps to 4.18% while ROP-37, which has 19 years remaining to maturity, rose by 2.5 bps to 4.271%.

US treasury bonds on the long end, however, saw a larger increase in yields. The 1-year US treasury bonds yielded 2.59%, which was 13 bps higher than in end-August. The 15-year US T-bonds saw an uptick by 12.5 bps while the 20-year bonds bumped up by 14 bps. The resulting yields for the two tenors reached 3.04% and 3.08%, respectively.

The spread of ROPs over US Treasuries all narrowed, as ROPS are viewed as riskier investments due to the rising inflation sentiment compared to US Treasuries. The spread of ROP-20 over 1-year US T-bonds dropped by 23.1 bps to reach 42.4 bps. For ROP-32, the differential dropped by as much as 14.5 bps to 114 bps while for ROP-37, the differential dropped by 11.5 bps to 119.1 bps by the end of the month.

ASEAN+2: Yield Curves Generally Flatten

US: The United States (US) Federal Reserve on September 26 raised its key target policy rate range by 25 bps to between 2% and 2.25% on the back of robust labor market and economic activity. The Conference Board's Consumer confidence index rose to 138.4 in September from 134.7 in August, notching its highest level in about 18 years. According to the Conference Board, consumer optimism about the short-term outlook improved considerably in September with 27.6% of consumers expecting business conditions to improve over the next six months; which is up from 24.4% in August. Labor market expectations also improved in September as 22.5% of consumers expected more jobs in the months ahead, up from 21.5 % in August.

The US consumer price index rose less than expected in August, posting a 2.7% y-o-y growth, a slowdown from July's 2.9% rise. Excluding the volatile food and energy components, core CPI edged up 0.1% (m-o-m) and increased 2.2% (y-o-y) after rising 2.4% in July despite gasoline prices bumping up to 3% after dropping 0.6% in July. Food prices edged up 0.1%, matching July's rise. 10-year T-bond yields broke through the 3% barrier last September 19 and continued to rise up to early October during which it reached a 7-year high at 3.23% on October 5. In short, the US yield curve has steepened, with the 10-year vs 2-year yield spread rising to 24 bps in end-September to 35 bps by October 5. Fears of an inverted yield curve have eased for now.

China: Inflation in China rose 2.3% y-o-y in end August, following the 2.1% y-o-y increase in July. The increase in consumer prices was largely due to food, tobacco, and liquor prices, which rose by 1.9% in August. Industrial production grew 6.1% y-o-y in August, slightly up from 6% in July. Meanwhile, unemployment rate in China dropped by 0.1%

Malaysia's Index of Industrial Production bounced back to 2.6% y-o-y in July from 1.1% y-o-y in June amidst faster output growth from the manufacturing and electricity sectors.

between July and August to 5%. It posted a trade surplus of $31.1 B in August, slightly better than $28.1 B in July. Export growth decelerated to 9.8% y-o-y in August from 12.2% posted in July, while import growth rose by 20% y-o-y in August, down from 27.3% growth posted in July.

By sector, manufacturing grew 6.1% while electricity, gas, and water output posted 9.9% y-o-y growth in August. Fixed asset investment saw a 14.2% growth y-o-y in the primary industry, the secondary industry grew by 4.3% y-o-y while the tertiary industry grew by 5.5% during January to August. China's yield curve slightly flattened with the spread between 10-year and 2-year bond yields slip- ping by 6 bps to 39 bps by end-September. Overall, the Chinese economy remains to be robust despite the looming trade war with US.

Indonesia: Consumer prices in Indonesia grew by 3.2% y-o-y in August, maintaining the same pace as in July. Year-to-date (YTD) inflation stood at 2.1% to August, which was 0.4 percentage points below Bank Indonesia's (BI) target range of 2.5%–4.5% for full-year 2018. Fitch Ratings (Fitch) affirmed Indonesia's long-term foreign currency and local currency issuer default ratings at BBB and were given a stable outlook. Fitch reaffirmed its projections for Indonesia's GDP growth to reach 5.1% by the end of 2018 to 5.3% in 2020. Indonesia booked a $1 B trade deficit in August, down from $2 B deficit in July as import growth eased to 24.7% y-o-y from 31.8% y-o-y in July while exports eased to 4.2% y-o-y in August after rising 19.7% a month ago.

BI again decided to raise the 7-day reverse repurchase rate by 25 bps to 5.75%, marking the fifth time it has raised rates since May for a cumulative hike of 150 bps from the beginning of 2018 to support the currency. BI correspondingly adjusted also the deposit facility rate (5%) and lending facility rate (6.5%). BI expects the policy rate hike to lead the current account deficit to a more manageable level and support the competitiveness of domestic financial markets. BI also introduced a new derivatives instrument, the non-deliverable forward (NDF), to support the further deepening of the foreign exchange market and provide an alternative hedging instrument for banks and corporates. Yield curves flattened significantly with a 60-bp drop in the spread between 10-year and 2-year bond yields to a slim 34 bps.

Malaysia: Index of Industrial Production bounced back to 2.6% y-o-y in July from 1.1% y-o-y in June amidst faster output growth from the manufacturing and electricity sectors. The manufacturing sector expanded by 5.2% y-o-y, up from 4.5% y-o-y in June, led by transport equipment and other manufactured and electronic products. Bank Negara Malaysia (BNM), the Malaysian central bank, maintained its overnight policy rate at 3.25% during its September 5 monetary policy meeting on the back of the resilient Malaysian economy.

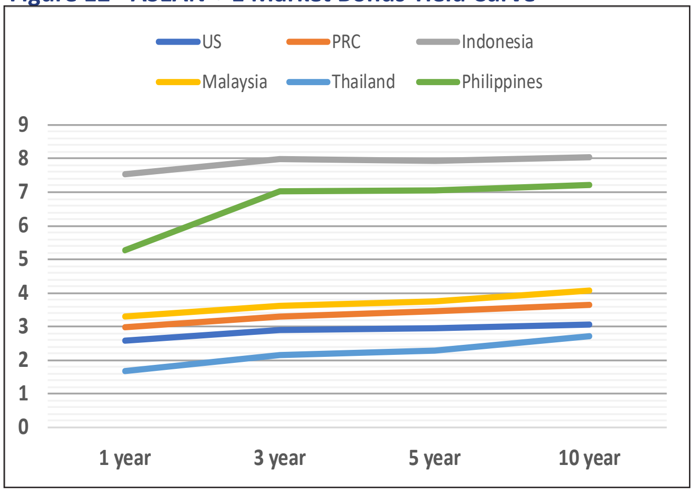
Malaysia's trade surplus increased to $2.1 B in July, up from $1.5 B in June, as export growth accelerated to 9.4% y-o-y in July from 7.6% in June, posting a record-high of $21 B. Imports slumped to 10.3% in July from 14.9% y-o-y in June. Consumer prices eased to its lowest rate in 42 months in August at 0.2% y-o-y. Lower price adjustments in the transportation group of 2.1% y-o-y in August versus 6.7% y-o-y in July explain much of its slowdown. Only the education group showed a higher price adjustment of 1.1% y-o-y while all other CPI components showed either a slowing gain or a decline in prices. Core inflation decreased 0.2% y-o-y in August, the same rate of decline as in the previous month. The yield curve flattened the most with a 66 bps compression of spreads between 10-year and 2-year bond yields to just 60 bps at month end.

Thailand: Inflation edged up to 1.6% (y-o-y) in August from 1.5% in July, marking the 14th consecutive months of positive inflation and the 5th consecutive month above 1%. Food prices grew to 0.8% y-o-y from 0.02% y-o-y in July, while non-food items decelerated to 2.1% y-o-y in August from 2.3% y-o-y in July. Core inflation decelerated to 0.75% in August compared with 0.79% in July. The Monetary Policy Committee of the Bank of Thailand (BOT) maintained the 1-day repurchase rate at 1.5% in its policy setting meeting on September 19, reasoning out that the current accommodative monetary policy stance remained conducive to the continuation of economic growth and appropriate given the inflation target.

Growth in merchandise exports slowed to 5.8% y-o-y in August from 8.3% y-o-y in July. Imports, on the other hand, surged 24.2% y-o-y in August following a 12.4% y-o-y jump in the prior month. The trade surplus came in lower at $604 M in August vis-à-vis $858 M booked in July. Thailand's cur-

While US Treasuries have risen, domestic inflation remained as the main concern not only of consumers but also of financial markets.

Figure 12 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

rent account surplus slumped to $753 M in August from $1.1 B a month ago. As the economy remained robust, a slight 5-bp rise in yield curve occurred, with the 10-year and 2-year bond yield spread up to 74 bps.

Outlook

We erred in our view that inflation would peak in August, as the September super-typhoon proved more disastrous than expected. And while US Treasuries have risen, domestic inflation remained as the main concern not only of consumers but also of financial markets.

• Despite US 10-year T-bond yields hitting a 7-year high of 3.23% on October 5, yields since then have eased to around 3.15%, as the sell-off in the US stock market put a bit of life in the US bond market, while demand from foreign investors remained robust. We think that the rise in yields will fall far short of the next 25-bp rate hike expected in December. Thus, pressure from US rising interest rates should be relatively muted.

• Rising domestic inflation has kept bond investors in the sidelines, even as the peso-dollar rate has relatively stabilized. However, with rice prices actually falling by early October and crude oil prices receding from last month's peak, we still think inflation would have peaked in September. However, entry into the market should be disciplined and only when elevated real yields exceed historical averages.

• We revise our view regarding corporate bond issuances to one which sees a revival only by 2019 as inflation eases significantly.

• ROPs with high coupon rates appear relatively attractive as Fed raises policy rates again in December.

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	2.831	3.076	2.1	0.98	23	25	1	2.00	-0.10
PRC	3.265	3.655	1.6	2.10	45	39	(6)	4.35	2.75
Indonesia	7.695	8.031	3.8	3.19	94	34	(60)	5.75	1.95
Malaysia	3.481	4.076	3.9	0.30	125	60	(66)	3.25	-0.65
Thailand	1.97	2.710	1.1	1.90	69	74	5	1.50	0.40
Philippines	6.199	7.213	5.2	1.60	151	101	(49)	4.50	-0.70

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

FLIRTING WITH THE BEAR MARKET

While the US and UK stock markets continued its bull run into September and early October, the PSEi took a beating in September with a 7.4% plunge to end at 7,276.82, the worst performance in ASEAN. The situation spilled into early October as US employment data showed an additional 134,000 jobs in September (plus 69,000 in upward revisions for August) with weak wage rate gains. PSEi, on the other hand, fell into bear market territory (i.e., below 7,246) in three out of the first five trading days of October as negative sentiment pervaded the market with accelerating inflation, higher interest rates, and weaker (although stabilizing) peso. The financial markets remained nervous though about whether inflation has peaked or not. Foreign fund managers pulled out more from PSE with net selling of P11.5 B in September, up from P4.8 B a month ago.

Outlook: Since volume had been way below average in the first week of October, we cannot say that the PSEi has entered unequivocally the bear market. Inflation, we believe, has peaked in September, but it may take another month of inflation slowdown into November before investors may confidently return to the market. This is because their investible funds may have reached their limits given the tighter liquidity in the market. Unusually strong Q3 earnings could provide the impetus, although that remains a question mark, amidst the backdrop of inflation peaking in Q3 and rising interest rates.

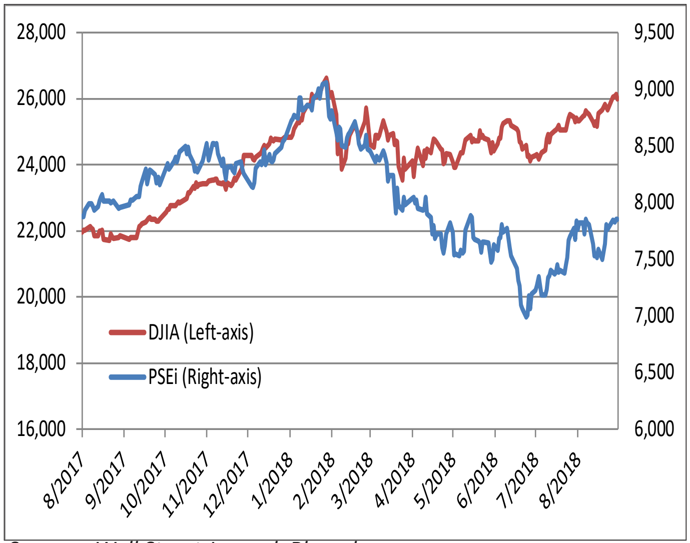
Global Equities Markets Performances

Region	Country	Index	Growth Rate Sept 2018 (m-o-m)	2018 YTD
Americas	US	DJIA	1.9%	6.6%
Europe	Germany	DAX	-0.9%	-4.9%
	London	FTSE 101	1.0%	-1.8%
East Asia	Hong Kong	HSI	-0.4%	-8.9%
	Shanghai	SSEC	3.5%	-15.7%
	Japan	NIKKEI	5.5%	2.6%
	South Korea	KOSPI	0.9%	-5.5%
Asia-Pacific	Australia	S&P/ASX 200	-1.8%	2.4%
Southeast Asia	Indonesia	JCI	-0.7%	-5.7%
	Malaysia	KLSE	-1.5%	0.6%
	Thailand	SET	2.0%	-1.2%
	Philippines	PSEi	-7.4%	-16.6%
	Singapore	STRAITS	1.4%	-5.1%

Sources: Bloomberg & Yahoo Finance

A confluence of both positive and negative developments in trade relations caused global equity markets to end September with mixed results. With US and Canada reaching an agreement to replace North American Free Trade Agreement (NAFTA), positive investor sentiment flooded western markets and Japan, with DJIA, FTSE 100 and NIKKEI growing by 1.9%, 1% and 5.5%, respectively. On the other hand, the escalating trade conflict between US and China pushing Beijing to implement stimulus measures increased confidence in Chinese equities, causing SSEC to slightly recover by 3.5%, decreasing its year-to-date (YTD) losses to 15.7%. Meanwhile, concerns about the brewing trade war led investors to pull out from China's neighbors, with PSEi, ASX200, and KLSE, ending September in the red with 7.4%, 1.8% and 1.5% declines, respectively. However, other Southeast Asian counters such as SET and STRAITS, backed by strong domestic demand, remained to be gainers, with 2% and 1.4% increases, respectively.

Figure 13 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

With increasing inflation and a weakening to a 13-year low peso clouding investor sentiment, PSEi ended as Asia's worst performer for 2018 in September as the local index plunged by 7.4% from the previous month, putting its YTD losses at 16.6%.

DJIA and PSEi diverged paths in September, shown by a negative correlation of -0.6. Optimistic investor sentiment followed easing trade tension between US with Canada and Mexico as negotiations led to an agreed deal that would replace NAFTA, enabling Dow Jones to hit the 26,000-mark, highest since January 2018. A slight reversal of gains was felt when the Federal Reserve increased interest rates by 25 basis points (bps) on September 26, but such was not enough to bring back the bourse to its previous level.

Monthly Sectoral Performance				
	31-Aug-18		28-Sept-18	
Sector		% Change	Index	% Change
PSEi	7,855.71	2.4%	7,276.82	-7.4%
Financial	1,810.09	-2.6%	1,598.17	-11.7%
Industrial	11,272.85	4.1%	10,647.53	-5.5%
Holdings	7,764.67	2.3%	7,159.93	-7.8%
Property	3,945.53	5.1%	3,620.84	-8.2%
Services	1,537.18	2.9%	1,494.97	-2.7%
Mining and Oil	9,903.96	2.1%	8,972.00	-9.4%

Source of Basic Data: PSE Quotation Reports

With increasing inflation and a weakening to a 13-year low peso clouding investor sentiment, PSEi ended as Asia's worst performer for 2018 in September as the local index plunged by 7.4% from the previous month, putting its year-to-date (YTD) losses at 16.6%. The extent of the decline of the local bourse last month is evident in most sectors, as all except Services shed not less than 5% of value. The Financial sector extended its losses from August, accelerating its decline to 11.7% last month. Also, the following sectors suffered substantial losses: Mining & Oil, Property and Holdings sectors, all ending with 9.4%, 8.2% and 7.8% declines, respectively. Services drew the least blood as it dropped by "only" 2.7%.

Company	Symbol	08/31/18 Close	09/28/18 Close	% Change
Metrobank	MBT	73.25	67.00	-8.5%
BDO Unibank, Inc.	BDO	130.10	119.80	-7.9%
Bank of the Philippine Islands	BPI	93.75	83.30	-11.1%
Security Bank Corporation	SECB	194.50	154.00	-20.8%

Source of Basic Data: PSE Quotation Reports

Continuing its 2.5% slide in August, selling of Financial sector shares intensified with BSP's recent 50 bps policy rate hike, resulting in another 11.7% loss of value in September. Banks appeared to feel a liquidity crunch. Suffering the heaviest loss, Security Bank Corporation (SECB) shares plummeted by 20.8% last month. SECB issued $300 M worth of 4.5% senior unsecured fixed rate notes also in September, with proceeds aimed at extending term liabilities, expanding funding base, improving liquidity gaps, funding investment and other general corporate purposes.

Among the top three largest domestic banks, Bank of the Philippine Islands (BPI) took the biggest hit with a 11.1% drop in share prices last month. Investors reacted negatively to the bank's plan to raise P50 B from a peso bond and commercial paper program for general corporate purposes in Q4. BPI shares showed a downward trend since mid-August.

Metropolitan Bank and Trust Company (MBT) shed 8.5% in value in September. MBT launched the 1st tranche of the P25 B worth of long-term negotiable certificates of time deposit (LTNCD) the bank offered.

BDO Unibank, Inc. (BDO) joined the other banks with a substantial 7.9% slide in September. It showed the least decline as it disclosed that it has agreed to sell 15% stake of its rural bank One Network Bank Inc. (ONB) to Singapore's Osmanthus Investment Holdings, providing it with more liquidity.

Company	Symbol	08/31/18 Close	09/28/18 Close	% Change
Meralco	MER	373.40	340.00	-8.9%
Aboitiz Power	AP	37.00	33.45	-9.6%
Jollibee Foods Corporation	JFC	288.00	257.00	-10.8%
First Gen Corporation	FGEN	17.00	16.76	-1.4%
Universal Robina Corporation	URC	139.50	144.50	3.6%
Petron Corporation	PCOR	9.06	8.69	-4.1%

Source of Basic Data: PSE Quotation Reports

On the other hand, the Industrial sector shed 5.5% last month, giving up more than its 4.1% gain in August. Spared from the bloodbath, Universal Robina Corporation (URC) added 3.6% to its share price in September. The company

While the Holdings sector lost 7.8% in value last month, San Miguel Corporation (SMC) remained unscathed as it showed a 0.3% uptick on top of a huge 21.4% rise in August.

disclosed its full control of Calbee-Universal Robina Corporation (CURC), a joint venture with Japan's Calbee, Inc. focused on producing high-end Calbee-branded products for the local market. Its uptick may reflect a recovery coming from a 9% surge in August from badly oversold position.

Jollibee Foods Corporation's (JFC) stock price continuously moved downward in September, resulting in a 10.8% drop in share price which erased its 6.7% upswing a month ago. This arose despite JFC's announcement of a deal bringing American Chinese restaurant chain Panda Express to the Philippines during the latter half of the month. JFC also opened its first branch in United Kingdom last month.

Meanwhile, Aboitiz Power Corporation (AP) continued to trend downward as share prices also slumped by 9.6% in late September. The market ignored AP's disclosure that it will acquire a stake in Arlington Mariveles Netherlands Holding BV, an AC Energy, Inc.-led thermal power company for $579.2 M.

Manila Electric Company (MER) lost 8.9% in share price last month, adding to the 1.6% fall in August. This came through despite the recent recognition of Atimonan One Energy Inc.'s (a subsidiary of Meralco's power generation arm, Meralco PowerGen Corporation (MGEN)) 2x600 MW coal powerplant by the Department of Energy as a "project of national significance", which will result in a decrease in processing time of permits.

Petron Corporation (PCOR) shed 4.1% of its value in September which wiped out its August gain of 2%, despite PCOR's announcement that the Board of Investments (BOI) had approved the granting of income tax holiday for PCOR's new condensing processing project worth P80 B.

First Gen Corporation (FGEN) ended in the red last month sliding by 1.4% but providing only a small dent to its 9.5% increase in August. FGEN announced the commencement of high-level exploratory talks between the company and San Miguel Energy Corporation for the planned $1 B onshore liquified natural gas (LNG) import facility to be set up in Batangas province.

Company	Symbol	08/31/18 Close	09/28/18 Close	% Change
Ayala Corporation	AC	1,000.00	928.00	-7.2%
Metro Pacific Investments Corporation	MPI	5.45	4.75	-12.8%
SM Investments Corporation	SM	966.00	904.00	-6.4%
DMCI Holdings, Inc.	DMC	12.80	11.38	-11.1%
Aboitiz Equity Ventures	AEV	53.45	49.00	-8.3%
GT Capital Holdings, Inc.	GTCAP	876.00	820.00	-6.4%
San Miguel Corporation	SMC	169.00	169.50	0.3%
Alliance Global Group, Inc.	AGI	13.80	12.48	-9.6%
LT Group Inc.	LTG	17.20	14.40	-16.3%
JG Summit Holdings, Inc	JGS	60.00	53.95	-10.1%

Source of Basic Data: PSE Quotation Reports

While the Holdings sector lost 7.8% in value last month, San Miguel Corporation (SMC) remained unscathed as showed by its 0.3% uptick on top of a huge 21.4% rise in August. SMC reported at the start of the month that its revenues will likely reach P1 T this year, two years ahead of schedule, given strong performance of its traditional segments, as well as from its new business ventures.

LT Group, Inc. (LTG) had the biggest loss in September as its stock prices plunged by 16.3%, worsening from 4.4% drop a month ago. LTG announced plans to infuse P900 M of fresh capital to its infrastructure arm, Asia's Emerging Dragon Corporation (AEDC) to fund its participation in big ticket projects such as the P105 B Ninoy Aquino International Airport (NAIA) modernization program.

Metro Pacific Investments Corporation (MPI) reversed its August's double-digit gains as it lost 12.8% in value last month, despite disclosing that the Ninoy Aquino International Airport (NAIA) Consortium, a partnership of MPI and six other conglomerates, have been awarded original proponent status for the P105 B rehabilitation, development, operations and maintenance of NAIA.

DMCI Holdings, Inc. (DMC) likewise suffered a double-digit 11.1% drop in share prices in September to more than offset its 8.5% gain in the previous month. DMC's residential arm DMCI Homes, Inc. projects an increase in earnings in 2018 backed by strong sales of its new residential projects, such as Fairlane Residences in Pasig City which has sold

The Property sector reversed its previous month's 5.1% gain as it shed 8.2% in September.

99% of its 1,140 units, bringing in P7.5 B worth of revenues as of the end of September 2018.

JG Summit Holdings, Inc. (JGS) took a similar path with a double-digit 10.1% price contraction, taking back its 7.1% uptick in August. The market also ignored JGS's participation in the NAIA Consortium that bagged original proponent status for the airport's rehabilitation.

Alliance Global Group, Inc. (AGI) also shed 9.6% of its value last month albeit less than its 15.8% gain in August. AGI's announcement of capex reaching P240 B through 2020 to spur growth of its subsidiaries and sustain double-digit growth failed to excite investors. The company also disclosed its plan of putting up a monorail linking Santolan MRT-3 station to Eastwood City through its infrastructure arm Infracorp Development Inc.

Aboitiz Equity Ventures (AEV) ended September with an 8.3% drop, failing to fully recover from its downward trajectory which lasted until the third week of the month. AEV reported that its infrastructure subsidiary Aboitiz InfraCapital Inc. (AIC) secured original proponent status from the Department of Transportation (DOTr) for its proposal to operate and maintain the New Bohol International Airport in Panglao Island, Bohol.

Ayala Corporation's (AC) share price dipped by 7.2% last month after a flat August. AC's announcement that its infrastructure arm AC Infrastructure Holdings Corporation (AC Infra) had entered into a joint venture with Brillant 1257 GmbH & Co. Vierte Verwaltungs Kg., a German affiliate of online shopping firm Zalora to enter the logistics business also failed to attract investors bothered by overall negative sentiment.

SM Investments Corporation's (SM) share price decreased by 6.4% in September, which easily wiped out the 1.7% rise a month ago. SM reported lower earnings growth (7.8% in the Q2-2018 from 9% in Q1-2018) and felt more the exit of investors from the local counter.

GT Capital (GTCAP), likewise, slowed down with a 6.4% decrease in stock price, following through its August fall, despite reporting strong H1-2018 earnings. Investors may have overreacted to the fall in Toyota car sales due to higher excise taxes imposed by TRAIN-1.

Company	Symbol	08/31/18 Close	09/28/18 Close	% Change
Ayala Land, Inc.	ALI	44.50	40.05	-10.0%
SM Prime Holdings, Inc.	SMPH	39.00	36.15	-7.3%
Robinsons Land Corporation	RLC	21.30	20.30	-4.7%
Megaworld Corporation	MEG	4.59	4.40	-4.1%

Source of Basic Data: PSE Quotation Reports

The Property sector reversed its previous month's 5.1% gain as it shed 8.2% in September. Ayala Land Inc. (ALI) suffered the biggest drop in stock price which tracked a downward trajectory throughout the month, losing 10% by month-end. This, however, represented a correction from its 8.9% jump in August. ALI disclosed ramping up construction activities at its Alviera township at Pampanga, but this failed to excite investors smarting from huge losses in the stock market.

SM Prime Holdings, Inc.'s (SMPH) share price declined last month by 7.3%, also a reversal of its 3.3% upswing in August. SMPH launched two new office buildings in the company's Mall of Asia Complex, adding 304,000 sqm. of gross floor area to its office building portfolio, but investors also failed to respond to this announcement positively.

On the other hand, while Robinsons Land Corporation's (RLC) share price dropped by 4.7% in September, this proved smaller than the 8.8% uptick it had a month ago. RLC appeared to make substantial progress in its building projects.

Megaworld Corporation (MEG) shared the same fate as other property stocks as its share prices fell by 4.1% last month, on top of the 1.1% decline in August. MEG's deal to build JPMorgan Chase's 25-storey global service center in Bonifacio Global City, Taguig could not overcome weak market sentiment.

Company	Symbol	08/31/18 Close	09/28/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,393.00	1,350.00	-3.1%
Globe Telecom	GLO	2,116.00	2,200.00	4.0%
Robinsons Retail Holdings, Inc..	RRHI	81.60	79.70	-2.3%
Puregold Price Club Inc.	PGOLD	46.00	45.00	-2.2%
International Container Terminal Services Inc.	ICT	93.65	94.10	0.5%

Source of Basic Data: PSE Quotation Reports

In terms of trading volume, the local bourse further slowed down as total turnover slumped by 13.1% (m-o-m), chipping at the 21.9% gain in August.

Meanwhile, the Services sector showed the least fall in value among sectors, as it only had a 2.7% drop last month. This, nonetheless, came after a 2.9% slippage in August.

Globe Telecom (GLO) bucked the recent bloodbath as its share price managed to improve by 4%. GLO remained in the growth territory despite ongoing discussions on the creation of a third telco player, as well as a proposed common tower policy. GLO probably benefit from its announcement that it kept on track of deploying LTE services to 95% of municipalities nationwide by the end of the year.

Philippine Long Distance Telephone Company (TEL) lost 3.1% in September, albeit insufficient to offset its 4.2% gain a month ago. TEL disclosed last month that it had signed a new agreement with US-based software and services provider Amdocs to manage and automate the company's information technology operations.

Robinsons Retail Holdings, Inc. (RRHI) further declined by 2.3% in September, adding misery to a 4.4% fall a month ago. The company increased its stake in Robinsons Convenience Stores, Inc., the exclusive master franchisee of Ministop in the Philippines, to 59.1% from 51%, as one of its partners, Mitsubishi Corporation, exited the joint venture.

Puregold Price Club Inc. (PGOLD) joined TEL and RRHI with a slump in share price of 2.2% last month, wiping out its 1.7% gain in August. PGOLD disclosed advanced plans to enter the remittance business through a new subsidiary, PurePadala, Inc.

International Container Terminal Services, Inc. (ICT) ended the month relatively flat with a 0.5% uptick, but still good enough to tack on to a 5.2% rise in August. In early September, ICT reported raising its stake in Manila North Harbor Port, Inc. to 50% from the previous 34.83% for P910 M.

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

On the other hand, Mining and Oil suffered a substantial 9.2% setback in September. Semirara Mining and Power Corporation (SCC) lost 7.9% of value last month, adding on to a previous month fall of 8.5%. SCC disclosed that it is set to complete the rehabilitation of Panian Coal Pit in Antique, but investors could not dispel fears regarding its ability to bring its original coal power plants to full capacity.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	19,772.88	21.8%	988.64	27.9%
Industrial	21,802.88	-3.3%	1,090.14	1.6%
Holdings	32,345.81	0.3%	1,617.29	5.3%
Property	21,453.93	-31.4%	1,072.70	-28.0%
Services	18,338.14	-28.1%	916.91	-24.5%
Mining and Oil	2,395.77	-58.3%	119.79	-56.2%
Total	**116,109.41**	-13.1%	**5,805.47**	-8.7%
Foreign Buying	55,616.31	-11.6%	2,780.82	-7.2%
Foreign Selling	67,080.19	-0.9%	3,354.01	4.0%
Net Buying (Selling)	(11,463.89)	139.5%	(573.19)	151.4%

Source of Basic Data: PSE Quotation Reports

In terms of trading volume, the local bourse further slowed down as total turnover slumped by 13.1% (m-o-m), chipping at the 21.9% gain in August. Meanwhile, the exodus of foreign funds from PSEi accelerated again in September by 140% to P11.5 B, almost thrice the pace of the previous month of 47.4%. Heavy trading activity of Financial sector shares ensued, hit hard by foreign selling, with turnover rising by 21.8%, reversing August's 32.6% slowdown. Meanwhile, trading volumes in Mining and Oil, Property and Services all ended in the red last month with declines of 58.3%, 31.4% and 28.1%, respectively. These followed through the largest increases in turnover in August, as these sectors' trading surged by 116.1%, 57.1% and 48.3%, respectively.

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	710,926	-1.3%	739,029	4.0%	184,118	-15.8%	1.1%	174,210	-5.4%	0.2%
Industry Sector	2,750,034	8.0%	2,947,103	7.2%	739,661	-8.7%	7.7%	799,911	8.1%	6.3%
Service Sector	4,661,781	7.5%	4,979,575	6.8%	1,216,651	-7.5%	6.8%	1,378,389	13.3%	6.6%
Expenditure										
Household Final Consumption	5,642,389	6.9%	5,973,816	5.9%	1,476,896	-13.1%	5.7%	1,552,812	5.1%	5.6%
Government Final Consumption	854,570	8.3%	914,136	7.0%	236,740	12.0%	13.6%	308,025	30.1%	11.9%
Capital Formation	2,289,675	20.8%	2,504,502	9.4%	703,990	-0.3%	12.4%	688,261	-2.2%	20.7%
Exports	4,124,942	9.1%	4,930,584	19.5%	1,258,933	14.2%	6.5%	1,426,056	13.3%	13.0%
Imports	4,788,834	17.5%	5,657,331	18.1%	1,552,691	12.0%	9.6%	1,621,626	4.4%	19.7%
GDP	8,122,741	6.8%	8,665,708	6.7%	2,140,429	-8.7%	6.6%	2,352,509	9.9%	6.0%
NPI	1,632,345	5.3%	1,729,139	5.9%	462,714	5.6%	5.0%	442,204	-4.4%	4.7%
GNI	9,755,087	6.6%	10,394,846	6.6%	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		Jul-2018			Aug-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%	241,743	7.8%	24.2%	256,875	6.3%	11.5%
Tax	1,980,390	9.1%	2,250,678	13.6%	217,699	15.7%	24.6%	239,770	10.1%	13.0%
BIR	1,567,214	9.3%	1,772,321	13.1%	163,999	19.9%	18.8%	185,091	12.9%	7.8%
BoC	396,365	7.8%	458,184	15.6%	52,144	4.2%	49.0%	52,012	-0.3%	35.8%
Others	16,811	14.8%	20,173	20%	1,556	11.4%	-1.6%	2,667	71.4%	17.6%
Non-Tax	215,446	-26.5%	222,415	3.2%	24,044	-33.1%	20.4%	17,105	-28.9%	-6.0%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	328,126	17.8%	33.9%	259,462	-20.9%	28.7%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	46,356	-0.2%	8.5%	45,939	-0.9%	5.1%
Interest Payments	304,454	-1.6%	310,541	2%	44,841	86.3%	0.5%	28,301	-36.9%	7.3%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	-86,383	59.1%	71.0%	-2,587	-97.0%	-109.0%

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		1st Quarter 2018		2nd 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%	-2,163	80.4%	-155	-46.3%	-2,931	-1969.6%
Balance of Goods	35,549	52.5%	40,505	13.9%	10,423	14.3%	12,901	41.5%
Exports of Goods	42,734	-1.1%	51,865	21.4%	12,492	-1.4%	12,847	-1.7%
Import of Goods	78,283	17.7%	92,370	18.0%	22,915	5.2%	25,748	16.0%
Balance of Services	-7,043	29.1%	-9,249	31.3%	-3,046	71.7%	-2,821	40.3%
Exports of Services	31,204	7.4%	35,884	15.0%	9,446	16.0%	9,427	9.9%
Import of Services	24,160	2.3%	26,635	10.2%	6,400	0.5%	6,606	0.5%
Current Transfers & Others		-						
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	57	-8.7%	0	-98.7%	-1	-104.0%
Financial Account	175	-92.4%	-2,664	-1622.4%	505	169.2%	-757	-16.7%
Direct Investments	-5,883	5803.4%	-6,545	11.3%	-1,032	-28.7%	-3,048	77.8%
Portfolio Investments	1,480	-72.9%	2,509	69.5%	2,001	-35.3%	1,093	-586.4%
Financial Derivatives	-32	-673.4%	-51	57.4%	-69	-47.7%	16	-379.8%
Other Investments	4,610	-249.8%	1,423	-69.1%	-396	-70.2%	1,183	14.1%
III. NET UNCLASSIFIED ITEMS	274	-136.6%	-1,421	-618.9%	-566	8.2%	145	-118.3%
OVERALL BOP POSITION	-1,038	-116.1%	-863	-16.9%	-1,227	23.4%	-2,030	-803.4%
Use of Fund Credits		-						
Short-Term		-						
Memo Items								
Change in Commercial Banks	1,421	-222.0%	410	-71.2%	1,344	1159.8%	-335	323.7%
Net Foreign Assets	1,381	-229.7%	443	-68.0%	1,376	2057.0%	-306	1910.3%
Basic Balance	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (In Million Pesos)

	2017		Jul-2018		Aug-2018	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	2,798,988	14.0%	2,908,321	4.8%	2,998,532	5.4%
Sources:						
Net Foreign Asset of the BSP	4,024,544	2.3%	4,478,537	0.1%	4,531,271	-1.3%
Net Domestic Asset of the BSP	9,722,563	15.6%	11,324,405	16.1%	11,350,174	15.0%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,562,223	17.1%	3,727,128	14.9%	3,682,954	11.5%
Money Supply-2	10,227,276	13.1%	10,638,212	10.6%	10,686,793	10.1%
Money Supply-3	10,655,369	13.2%	11,102,851	11.0%	11,154,831	10.4%
MONEY MULTIPLIER (M2/RM)	2.49		3.66		3.56	

Source: Bangko Sentral ng Pilipinas (BSP)

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