November 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

Slower-than-expected Q3 GDP growth of 6.1% still meant the 3rd fastest in East & Southeast Asia. This came as a result of poor, typhoon-dampened agricultural output, and weaker consumer spending due to elevated inflation. Nonetheless, infrastructure and capital outlays and capital goods imports remained elevated and should drive faster growth in Q4 and beyond, with some support from improving exports. Bond markets returned to life in October and after the Monetary Board (MB) raise policy rates by 25 bps to 4.75%. PSEi showed the least decline in October in the region, and recovered above bear market threshold by mid-November.

Macroeconomy

Q3 GDP expanded by 6.1%, buoyed by private and public investments (see capital goods imports and National Government (NG) spending article). While slightly slower than (revised upward) 6.2% in Q2, the performance came in next only to Vietnam and China in East & Southeast Asia. Disaster-hit agriculture performance and 9-year high inflation rate for September, which dampened consumer spending, however, tempered gains registered in the other sectors.

- Telecom and electrical machinery boosted capital goods imports by another double-digit jump of 12.9% y-o-y in August.
- NG disbursements surged by 26% y-o-y in September, and hit 2.5% YTD higher than target.
- Exports posted its 3rd straight month of growth at 3.1% y-o-y in August.
- Money growth eased to single-digit pace as Monetary Board's (MB) previous tightening moves made its impact.
- With October inflation still high, MB hiked policy rates by 25 bps on November 14, as we expected.
- Personal remittances from overseas Filipino workers in August posted a mild 1.4% decline y-o-y.
- The peso still ended in the red but showed strength towards the end of October.

Outlook: Sustained by durable equipment and construction investments and a modest rebound in exports, we see a faster GDP growth of 6.6% in Q4, accelerating further in 2019. Higher dollar remittances in Q4 should likewise support consumption and should somehow buffer the contractionary spending effect of inflation, unless the Bangko Sentral ng Pilipinas (BSP) allows significant appreciation of the peso.

Bonds Market

Slightly stronger demand at the primary (auction) and secondary GS markets came at the cost of higher yields, as inflation stayed at an elevated 6.7% in September and October. US 10-year T-bonds had a smaller impact as these eased closer to 3.1%. US inflation rates remained low despite very strong job gains. Bloomberg started providing benchmark yield computation starting October 22. ROP yields jumped a little bit more than equivalent US Treasuries, resulting in wider spreads between the two.

- Bidders tendered only P125.7 B for P90 B worth of GS on offer, down from P225.9 B a month ago.
- In T-bill auctions, tender-offer ratio rose to 1.4x from 1.2x, but yields climbed by 101-153 bps.
- For the lone, partially awarded 5-year T-bond auction, yield reached 7.342%, up by 144 bps from August's 5.902%
- Trading in the GS secondary market gained by 54.7% (m-o-m) to P160 B in October, also 18.1% higher than a year ago.
- Yields in the GS secondary market soared by 56.2 bps (20-year) to 148.9 bps (for 182-day T-bills), except for slight dip for 3-year T-bonds.
- Four companies issued bonds and a bank listed long-term negotiable certificate of time deposits (LTNCD) in October.
- ROP yields for longer tenors outpaced the rise in US Treasuries increasing the spread between the two.

Outlook: With crude oil plunging into bear territory and food prices heading south, the inflation outlook both here and abroad has brightened and makes bonds (especially in PH) more attractive. Corporate bond issuances will then wait for days in 2019, while ROPs may recover its allure if the PH economy rebounds as expected, and stabilizes or lowers its balance of trade deficits.

Equities Market

PSEi incurred a 1.9% drop in October, joining other global equity markets heading south for most of October because of robust US employment gains. Furthermore, IMF projected slower growth in China, EU, Japan and other emerging markets, albeit the Philippines performed best among its ASEAN counterparts.

- PSEi remained in the bear market, ending in the 7,140-level in October, a deceleration compared to September's 7.4% plunge.
- Property, Holdings and Services remained in the red with declines of 3.5%, 2.2% and 2.2%, respectively while Mining and Oil reversed its September losses with a 6.7% surge.
- DMC, MER, and JFC enjoyed the biggest gains among PSEi constituent stocks, with 12.8%, 8.2%, and 7.4% increases, respectively, while JGS and URC's dismal Q3 earnings dragged its prices down by 12.3% and 10%, respectively.
- Foreign fund managers continued to pull out from the PSE, with net selling of P10.9 B in October, a slight slowdown from P11.5 B last month.

Outlook: External (policy uncertainties with mixed US mid-term results, US Fed rate hikes) and domestic (elevated inflation, moderate Q3 earnings) factors provide headwinds to a definitive resumption of PSEi's upward trend, which would come only in 2019, likely before the mid-term elections and better economic growth recovering to a 7% trajectory.

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)	6.2%	6.1%	6.3%	6.9%	6.7%	6.5-7%
Inflation Rate (October)	6.7%	6.7%	5.2	1.3%	2.9%	5.2-5.5%
Government Spending (September)	28.7%	26.0%	24.6%	4.1%	12.6%	12.0%
Gross International Reserves ($B) (October)	75.2	74.8	78.3	80.7	81.6	76.0
PHP/USD rate (October)	53.94	54.01	52.7	47.49	50.40	53.90
10-year T-bond yield (end-October YTD bps change)	7.21	7.95	6.6	4.15%	4.93%	6.25-6.65%
PSEi (end-October YTD % change)	7,277	7,140	-14.6%	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.

DOMESTIC INVESTMENT SPENDING STILL IN LA-LA LAND, WHILE FOREIGN INVESTMENTS UP BY 31% YTD AUG

The Philippine economy (in terms of Gross Domestic Product, or GDP) grew by 6.1% in Q3, boosted by infrastructure and government spending. The performance came in only next to Vietnam (+7%) and China (+6.5%) in ASEAN+4. Foreign direct investments (FDI) stole the thunder from domestic investment spending as it attained a year-to-date (YTD) level of $7.4 B, a 31% surge over the same period last year (with capital formation accounting for 28% of total GDP). National Government (NG) spending (accounting for 12% of total GDP), boosted by infrastructure and capital outlays, bloated by another 26% (year-on-year, y-o-y) in September. Capital goods imports also continued its double-digit-run as these rose by 12.9% in August, a correction from its 39% burst in July. Exports grew for the third consecutive month, albeit modestly. And inflation remained as the dampener since it clocked at 6.7% in October, the same pace as in September.

Outlook: With agricultural output significantly down from two devastating typhoons that hit large swaths of Luzon, the impressive gains in investment spending still enabled the economy to expand by 6.1% in Q3 a touch slower than (revised upward) 6.2% growth in Q2. The higher inflation in Q3 & Q4 will also stymie consumer spending for those quarters. In response to the elevated inflation rates, the Bangko Sentral ng Pilipinas (BSP) raised policy rates by another 25 basis points (bps) in November to reach 4.75%, as we expected. However, it will be more circumspect in 2019 when inflation slows down sharply, especially in the light of the planned suspension of higher petroleum excise taxes for a good part of next year by Pres. Duterte.

Q3 GDP Expansion at 6.1%, Next only to Vietnam, China

Total economic activity expanded by 6.1% in Q3, slightly lower than the revised Q2 figure of 6.2%. Faster-than-target inflation rates dampened consumer demand, and the typhoon-riddled agriculture performance pulled down economic output.

Domestic demand remained relatively upbeat (+9.2% y-o-y growth) mainly driven by double-digit increases in both capital formation (investments) and government spending. Large investments in durable equipment (+17.5%), albeit slower than Q2's 28.6% surge, buoyed the growth in capital formation. Gains in air transport (+287%), mining and construction machineries (+24.9%), aircon and refrigeration equipment (+23%) and other miscellaneous durable equipment (+13.7%) resulted in higher durable equipment in Q3.

The construction sector continued to provide robust gains of 14.8%, amidst the aggressive spending in public construction (+25.4%) while private construction maintained a steady pace (+12.1% y-o-y). Hefty spending on infrastructure and other capital outlays, likewise, sustained domestic demand growth shown in the 14.3% acceleration in government spending from the 11.9% increase in the previous quarter.

Meanwhile, household consumption continued to decelerate, slowing to 5.2% compared to 5.6% in Q2, dampened by the elevated prices of the heavily weighted commodities. Higher inflation took its toll in food and non-alcoholic beverages as it recorded slower growth of 2.8% compared with the 6.3% increase in Q2.

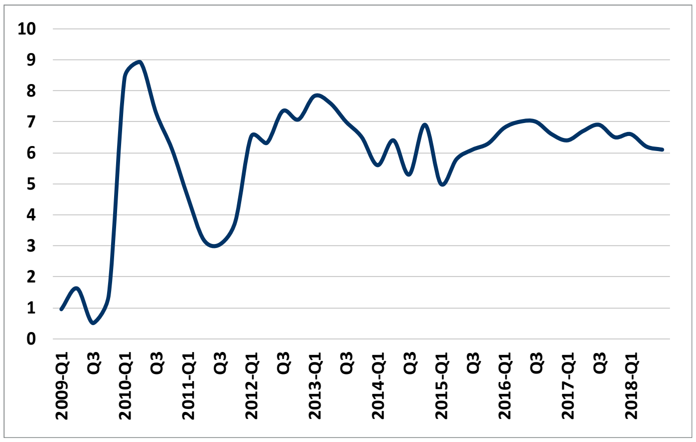
On the supply side, the services sector posted the biggest increase, expanding by 6.9%, a bit faster than the previous quarter's 6.8%. Drivers of the sector's growth included public administration and defense and compulsory social security (+17.8%, from Q2's +15%), financial intermediation (+7.6%), other services (+7.5%), and trade and repair of motor vehicles, motorcycles, personal and household goods (+5.6%).

Meanwhile, the industry sector decelerated to 6.2% from Q2's 6.5%, dragged down by manufacturing's slowdown to 4% from 5.5% in the previous quarter. Mining and quarrying also added to the weakness as it posted a 1.1% decline, albeit better than -6.9% in Q2. However, the double-digit gains in construction (+16.1%), followed by modest increases in electricity, gas and water supply (+5%) offset the mining's fall. As expected, agriculture suffered a huge setback in Q3 with a 0.4% dip, after two typhoons stifled production. The fishing sub-sectors also gave up 1.1%.

Hefty disbursements on infrastructure projects, along with higher spending on personnel services, and maintenance and other operating expenditures (MOOE), drove above-20% expansion in NG spending in September, to 26% y-o-y to P299.6 B.

We think that economic performance will slightly be better in Q4, getting extra push from NG and holiday-spree consumer spending as 2019 May election campaign begins to heat up. However, given elevated inflation should put a ceiling to Q4 GDP growth at 6.6%.

Figure 1 - Philippine Gross Domestic Product Growth



Source of Basic Data: Philippine Statistics Authority (PSA)

NG Spending Spikes by 26% in September, YTD 2.5% Above Target

Hefty disbursements on infrastructure projects, along with higher spending on personnel services and maintenance and other operating expenditures (MOOE), drove above-20% expansion in NG spending in September, to 26% y-o-y to P299.6 B. This brought YTD disbursements to P2.5 T, higher by P62.5 B than the programmed YTD spending. This reinforces our view that NG spending will be a key driver of economic expansion in Q3. The YTD cumulative expenditures exceeded the program by 2.5%.

That infrastructure and capital outlays led NG spending by a wide margin may be inferred from its 70.5% power jump in August that pushed overall NG spending by 29% in that month.

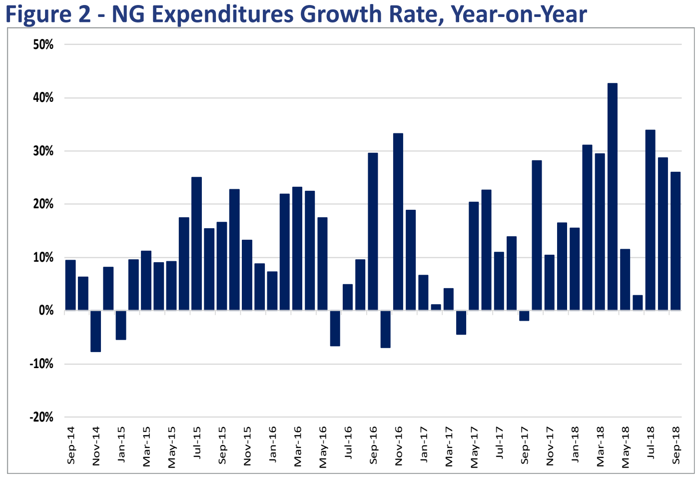
Total revenues, meanwhile, only posted a 1.1% increase to P202.4 B in September, resulting in a budget deficit of P96.2 B. Year-to-date (YTD), budget deficit totaled to P378.2 B, which represented 72.2% of the year's total target deficit of P523.7 B, which puts the deficit trajectory in line to hit the year's target.

Total revenues' meager gain for the month relied on a 26.9% jump in Bureau of Customs' (BoC) collections amidst higher imports on capital goods, raw materials, and mineral fuels; coupled with the 5.8% (y-o-y) peso depreciation. The Bureau of Internal Revenue (BIR) raked in a total of P131 B but came in 7.7% lower over a year ago level.

Nonetheless, YTD revenue stood at P2.1 T, 3.8% higher than the programmed level as cumulative collections from BoC exceeded its target. BIR collections from January-September, however, came in 1.8% shy of its target but 11% higher than the comparable period in 2017.

We think that NG will continue to ratchet up spending given the administration's commitment to reach its target infra spending of 6.3% share to GDP for 2018. This should help boost domestic production in the last quarter of 2018.

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



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

Capital Goods Imports Still Post Double-Digit Gain in August

The imports of capital goods still posted double-digit gains of 12.9% in August, albeit slower than the 39% in July as declines in other sub-categories offset the gains in some big-ticket items. Significant increase in telecommunication and electrical machinery (+12.7% y-o-y), along with the whooping gains of 129% y-o-y in the imports of aircrafts, ships, and boats buoyed capital goods imports. The decline in the imports of power generation and specialized machines (-2.4%), office and EDP machines (-1%), and photographic equipment and optical goods, however, tempered gains in durable equipment imports.

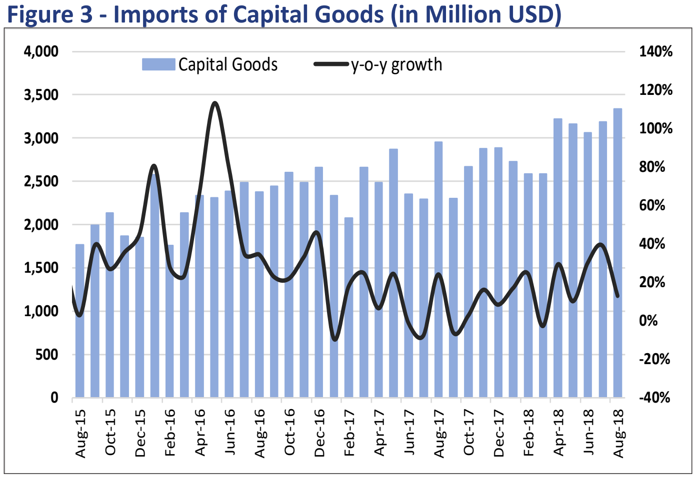
Raw materials & intermediate goods imports captured the largest share of total imports at 38.2%, registering a 4.3% y-o-y gain, largely driven by hefty demand for semi-processed raw materials (especially the manufactured

Money sent by Filipinos working abroad continued to pour in amounting to $2.7 B in August, albeit showing a slight 1.4% decline from a year ago and reversing the past month's 5% gain.

items such as iron, steel, non-ferrous metals and non-metallic minerals). Higher prices of crude oil and petroleum products also resulted in a remarkable increase in mineral fuels, lubricant and related materials category (+42.3%). 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 to record a 5.9% y-o-y increase.

Remarkable positive performance in all categories drove total imports higher by 11% y-o-y to reach $9.7 B. While exports finally ended in the green, exports in absolute terms still recorded lower than total imports, resulting in a trade deficit of $3.5 B, the same level as in July, and bringing YTD trade deficit up to August to $26 B (+63% from the same period a year ago).

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



Source of Basic Data: Philippine Statistics Authority (PSA)

Exports Gain for 3rd Consecutive Month

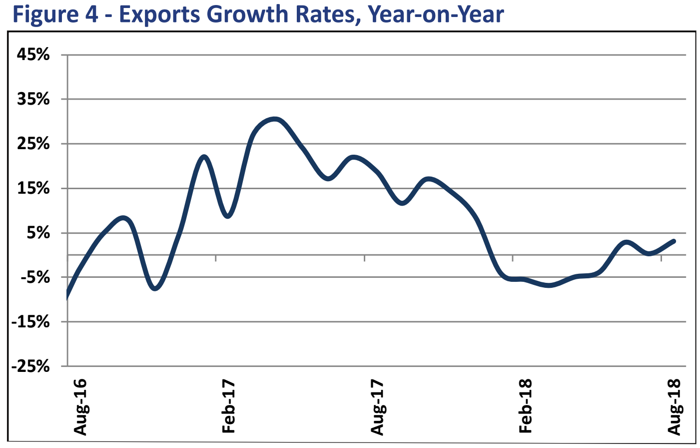
Philippine exports showed signs of strength after posting its 3rd straight month of growth, largely due to strong demand from top export destinations. August data showed a 3.4% y-o-y increase (amounting to $6.2 B) in outbound shipments, following a 0.3% gain in July. YTD exports still recorded a 2.4% YTD slump, weighed down by the lackluster performance in the first five months of the year.

Electronic product exports continued to account for the lion's share at 54.3%, expanding by 7% y-o-y to $3.4 B. Semiconductors, which had the biggest share among electronic products (at 41%) also bulked up to $2.5 B, a 7.7% increase. The rest of the top export products recorded gains, save for the exports of machinery and transport equipment which declined by 3.5%. Other manufactured goods at 2nd placer likewise increased by 6.4% y-o-y. Meanwhile, outbound shipments of bananas (4th) and cathodes (5th) racked up whooping gains of 47% and 79%, respectively.

China snatched the top spot from the US in August, accounting for 15.3% of total export sales with a sizable gain of 34.4%. Shipments to the US in 2nd spot, nonetheless, grew by 8.9%. Hong Kong (3rd) and Singapore (5th) also increased by 5.2% and 35.9%, respectively. Export demand from Japan (4th) remained weak, still slumping by 6.5%.

Half of the total exports in August still headed towards East Asian (EA) nations, valued at $3.1 B. Outward sales to the region rose by 2%, tracking higher demand from China and Hong Kong. Shipments to the ASEAN also increased by 10.3% to $988 M. We think that export growth in the last quarter of 2018 will remain in the positive territory, buoyed by strong economic expansion in the US and EU.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

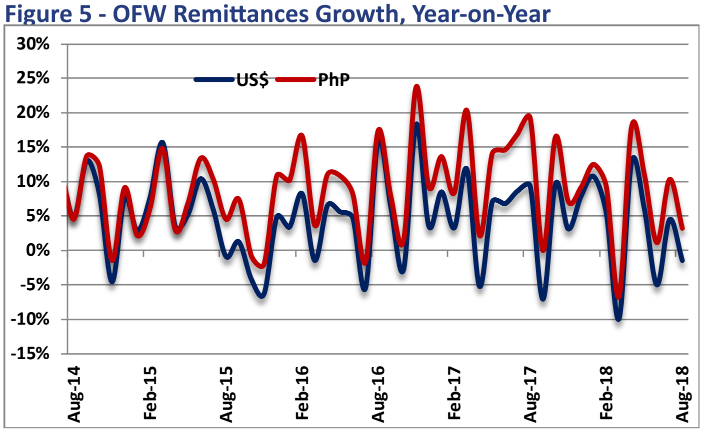
Personal Remittances Slip by 1.4% in August, Still Up 2.4% YTD

Personal remittances sent by Filipinos working abroad continued to pour in amounting to $2.7 B in August, albeit showing a slight 1.4% decline from a year ago and reversing the past month's 4.5% gain. YTD level stood at $21.2 B, a 2.4% increase driven by steady transfers from both land- and sea-based overseas Filipino workers (OFWs). Land-based workers with at least one-year contract had an 80% share, with remittances expanding by 2.1% y-o-y. Cash remittances (i.e., coursed through banks) in August, however, decreased by 0.9% due to weaker transfers from United Arab Emirates (UAE), Saudi Arabia and Qatar.

Foreign direct investments for the first eight months of 2018 has reached P7.4 B, a significant 31% gain over the same period last year.

Tracking lower inflows, the peso equivalent of personal remittances still managed to record a 3.2% increase supported by the 4.7% (y-o-y) peso depreciation. August growth, however, stood slower than the 10.3% recorded in July. Nonetheless, we believe that remittances will record positive expansion in the next months in anticipation of the Christmas holidays.

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



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

MORE RECENT DATA RELEASES

Exports three-month consecutive growth ended as September data show a 2.6% decline (y-o-y) as against the 3.4% uptick in August. Imports, on the other hand, soared by 26.1% boosted by capital goods imports which increased by 25.4%. Thus, the balance of trade deficit ballooned to a record $3.9 B, from $3.5 B a month ago.

Overseas Filipino Workers' ***(OFW) personal remittances improved by 2%*** in September, making up for the 1.4% decline in August. YTD OFW remittances continued its positive streak to 2.4%.

Foreign Investments Climb by 31% to Reach $7.4 B YTD in August

Foreign direct investments for the first eight months of 2018 has reached P7.4 B, a significant 31% gain over the same period last year. Although down by 41.3% y-o-y in August, this simply represented a correction from the super growth of 165.7% in July. Investments in debt instruments accounted for more than 60% of FDI net inflows, amounting to $534 M in August. Net equity capital investments showed a big decline to $172 M from $652 M (-74% y-o-y) due to much lower gross placements, mostly sourced from Singapore, the United States, Japan and Hong Kong and channeled to manufacturing, financial and insurance, real estate, and wholesale and retail trade.

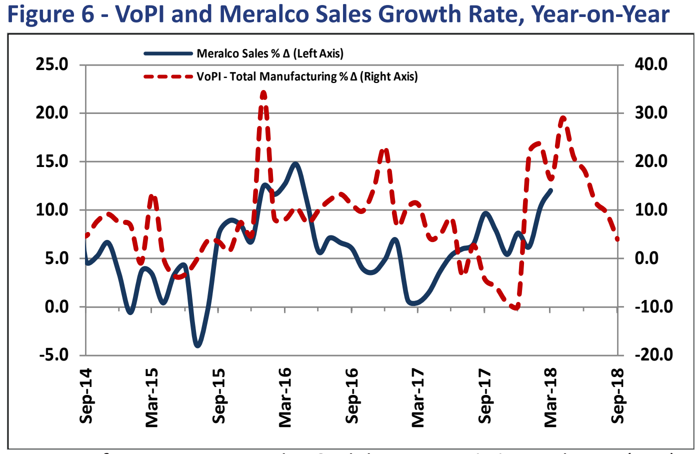
Manufacturing Output Still Expands at a Decelerating pace in September

The Volume of Production Index (VoPI) continued to expand by 4%, significantly slower than 9.5% in August, as 11 out of 20 industries posted gains with only six of the growth industries showing double-digit increases.

Textiles led the expansion with a 44.7% jump, followed by petroleum products (+26.7%) and machinery, except electrical (+20.1%). Miscellaneous manufactures and transport equipment joined the outperformers as these showed output climbing by 16.5% and 16.2%, respectively.

Beverages (-0.1%), leather products (-4.2%), food manufacturing (-10.7%) and fabricated metal products (-23.7%) originally in the positive list now joins the losers together with tobacco products, printing, and footwear & wearing apparel and two other product categories.

Figure 6 - VoPI and Meralco Sales Growth Rate, Year-on-Year



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

Monetary Growth in September Slows to Single-Digit Pace

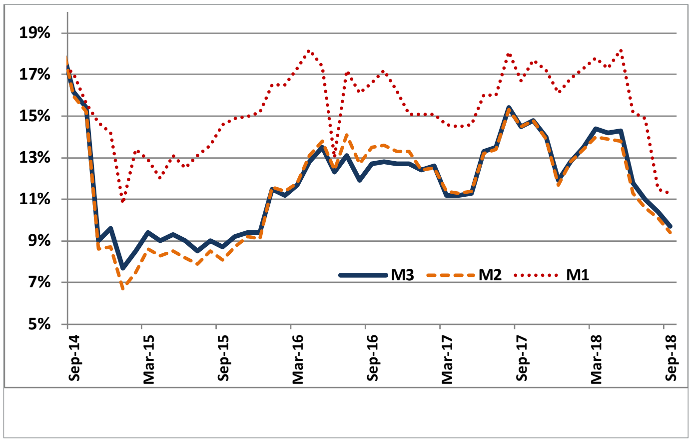
Domestic liquidity (M3) in September further eased to 9.7% y-o-y (or P11.2 T) from the 10.4% recorded in the preceding month, following the BSP's aggressive contractionary stance to limit further inflation uptick. Recall that as of September, the Monetary Board had raised the overnight reverse repurchase (RRP) facility for the 4th time by 150 bps (to 4.5%). A similar increase in higher interest rates on the overnight lending and deposit facilities to curb inflation came with the policy rate moves. Narrow (M1) and broad money (M2) growth, likewise, decelerated to 11.3% and 9.4%, respectively.

Increasing US bond yields and volatile global market supported dollar's strength, dragging most emerging currencies including the Philippine peso.

Commercial bank lending which comprised 88.6% of banks' loan portfolio also expanded at a slower pace by 17.2% from 19.1% in August. Bulk of these loans went to financial and insurance activities, wholesale and retail trade, repair of motor vehicles and motorcycles, manufacturing, and real estate, among others. Meanwhile, net foreign assets (NFA) of monetary authorities also remained negative at 0.6%.

With the peaking of inflation in September-October and the collapse of crude oil prices, we think the latest 25 bps policy rate hike by BSP on November 15 will be the last until next year, even if the Fed continues its hiking cycle.

Figure 7 - M1, M2 & M3, Year-on-Year



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

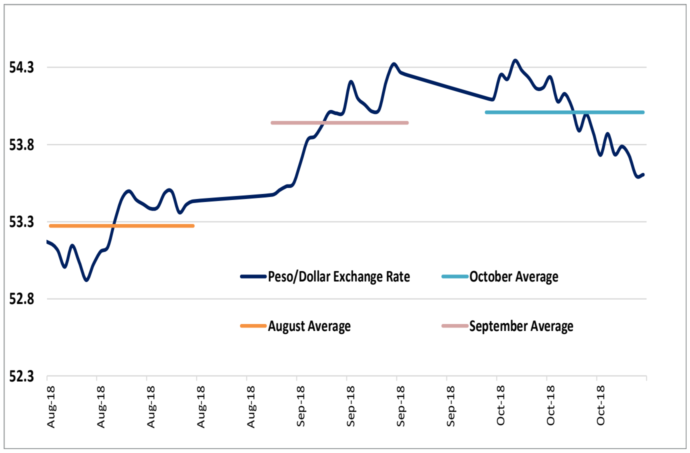
Peso Continues to Stumble but Ends October with Signs of Strength

Increasing US bond yields and volatile global market supported dollar's strength, dragging most emerging currencies including the Philippine peso. Global uncertainties dented sentiment on emerging currencies but boosted demand for the greenback. Besides, some US data came in better, suggesting solid economic prospects in the US. The US Consumer Confidence Index rose to 137.9 in October from 135.3 in the previous period and unemployment rate improved to 3.7% in September, a 49-year low, from 3.9%. Market consensus, likewise, showed an improving employment data in October.

Meanwhile, the Philippines' widening trade deficit and higher consumer prices put downward pressure on the peso. The peso averaged P54.01/$ in October, representing a 0.12% depreciation from September. The volatility measure narrowed to 0.2 from 0.3 in September as the pair hovered between a high of P54.35/$ and a low of P53.60/$.

The peso, however, showed some strength towards mid-October until the end of the month.

Figure 8 - Monthly Dollar-Peso Exchange Rates



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

Other emerging currencies extended losses against the US dollar. Sentiment towards the yuan remained bearish, weighed down by the apparent slowdown in the Chinese economy. India's rupee also continued to stumble in response to higher oil prices and large current account deficit. High external debt further extended the weakness of the rupiah and the volatile global market added pressure to the weak ringgit and won.

Exchange Rates vs USD for Selected Asian Countries

	Sept-18	Oct-18	YTD
AUD	1.91%	1.3%	7.3%
CNY	0.14%	0.9%	4.8%
INR	3.79%	2.1%	14.5%
IDR	2.04%	2.1%	11.9%
KRW	-0.09%	1.1%	4.4%
MYR	1.13%	0.5%	1.9%
PHP	1.25%	0.1%	7.2%
SGD	0.21%	0.5%	2.3%
THB	-1.30%	0.4%	0.3%

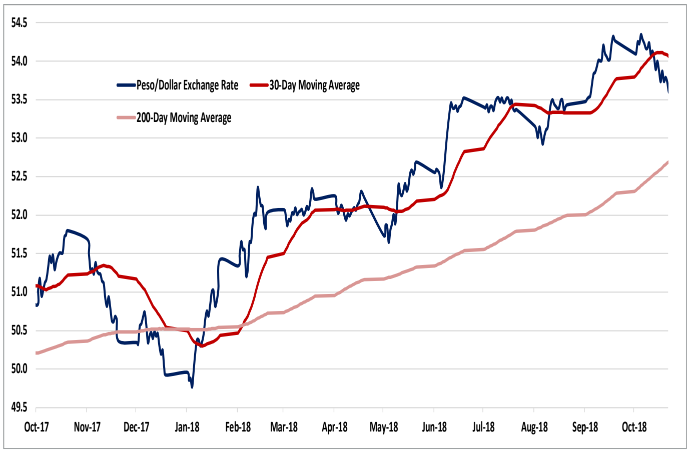
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

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

The month-end actual USD/PHP rate in October remained above the 200-day moving average (MA) but below 30-day MA, suggesting that the peso will remain in the red in the long run but will experience respite in the next month or so when OFWs send/bring in more dollars for the Christmas festivities.

While inflation held up at 6.7% in October, the same pace as in September, we think the headline rates will start to decline more meaningfully starting November.

Figure 9 - Dollar-Peso Exchange Rates & Moving Averages



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

Outlook

Despite sizzling infrastructure spending and elevated capital goods imports, Q3 GDP performance slowed to 6.1% from the upwardly revised Q2's 6.2% pace. We may attribute this to the expected sizeable fall in agricultural output due to the two devastating storms in Luzon in September.

- We do expect investment spending to lead the gains in GDP in Q4, with above-20% jump. However, the elevated inflation rate in Q4 would slightly weaken consumer spending from its 5.2% Q3 expansion to offset partly investment's buoyancy.

- Mildly positive performance of exports in Q4 would provide only a dent to the huge trade deficit that will show up in external sector in Q4. However, we do expect a bigger improvement in 2019.

- While inflation held up at 6.7% in October, the same pace as in September, we think the headline rates will start to decline more meaningfully starting November. Further normalization of good supply and prices and the 15% drop in crude oil prices (and the more than 20% drop in crude oil prices by mid-November) from its early October peakshould offset the impact of the hike in transport fares.

- With the peaking of inflation in September-October, we think the MB's latest policy rate hike of 25 bps on November 15 will be the last until next year, even if the Fed continues its hiking cycle.

- The peso may be on a stronger run in November until mid-December due to OFW remittances and a hiatus in the rise of the US dollar.

Forecasts			
Rates	**November**	**December**	**January**
Inflation (y-o-y %)	6.2	6.3	5.7
91-day T-Bill (%)	4.95	5.10	4.90
Peso-Dollar (P/$)	53.70	54.05	54.16
10-year T-Bond (%)	7.33	7.57	7.10

Source: Authors' Estimates

DEMAND GAINS SLIGHTLY BUT YIELDS CONTINUE TO RISE

With global growth outlook slightly dimmer, local bond investors put more funds into the market, but demanded higher yields as domestic inflation remained elevated. Investors put in more bids in the auctions of government securities (GS) and more user-related demand emerged in the secondary market. Yields of ROPs raced up faster than equivalent US treasuries resulting in widening spreads.

Outlook: While local inflation appears to have peaked, higher minimum wages and transport fare hikes in November should keep inflation elevated (6% or higher) and spell tentativeness in the bond markets up to end-2018. Our expected hikes in policy rates (by 25 bps) by the Monetary Board (MB) and in the Fed (in the US) will have minimal effects on yields as market players have discounted these moves. The outlook for 2019, however, looks positive as we expect a significant decline in inflation. Care, nonetheless, should be exercised in the near-term as major banks raise capital before yearend.

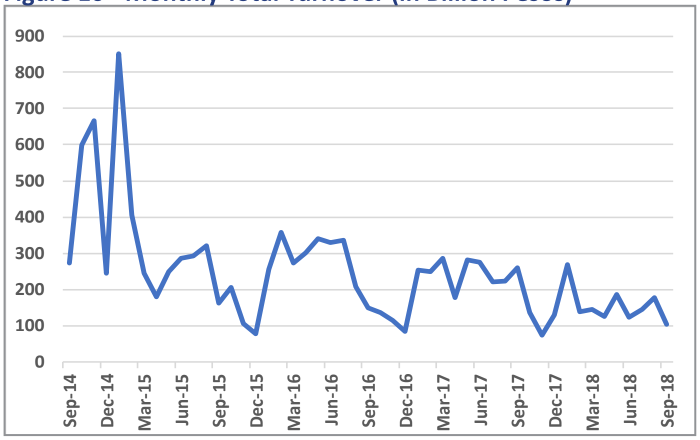
Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
01-Oct	91-day	4	3.1	-	0.8	-	
	182-day	5	4.1	3	0.8	5.2	
	364-day	6	9.8	6	1.6	5.6	
08-Oct	91-day	4	6.1	4	1.5	4.4	
	182-day	5	5.9	4	1.2	5.7	
	364-day	6	8.1	6	1.4	5.9	
15-Oct	91-day	4	5.2	-	1.3	-	
	182-day	5	6.8	4	1.4	5.9	
	364-day	6	5.9	3	1.0	6.3	
22-Oct	91-day	4	7.3	4	1.8	5.0	
	182-day	5	7.3	5	1.5	6.1	
	364-day	6	9.9	6	1.6	6.5	
29-Oct	91-day	4	5.9	4	1.5	5.0	143
	182-day	5	7.6	5	1.5	6.2	156
	364-day	6	13.5	6	2.3	6.4	101
Subtotal		**75**	**106.6**	**60**	**1.4**		
09-Oct	5 year	15	15.7	10	1.0	7.3	
23-Oct	7 year	15	24.5	-	1.6	-	
Subtotal		**30**	**40.2**	10	**1.340**		
All Auctions		**105**	**146.7**	**69**	**1.4**		

Source: Philippine Dealing Systems (PDS)

GS Auctions: More Bids but Yields Jump

October saw an improvement in tenders to P146.7 B from P112.7 B in September. Total amount tendered by bidders increased by 30%, representing a tender-offer ratio (TOR) of 1.4x compared to 1.3x in the previous month. However, the total amounts of bids are not strictly comparable because total offering in October reached P105 B or P15 B more than in September.

Figure 10 - Monthly Total Turnover (in Billion Pesos)



Source: Philippine Dealing Systems (PDS)

91-day T-bill yielded 4.979% in the last October auction representing a cumulative 143 bps increase from September. The biggest jump of 156 bps took place in the 182-day T-bill space. The 364-day T-bill yields in end-October hit 6.41%, 101 bps higher than a month ago. For the 5-year T-bonds auctioned on October 9, it yielded 7.342%, a 144 bps vault from its previous auction in August.

For the 7-year T-bonds offering of P15 B, tenders barely exceeded the securities on offer, thus the Bureau of the Treasury (BTr) rejected the said bids. TORs for longer tenors saw a slight improvement with an uptick of 50% to 1.3x for the T-bonds auctioned versus 0.8x in September. Meanwhile, TORs for short dated papers remained the same at 1.4x

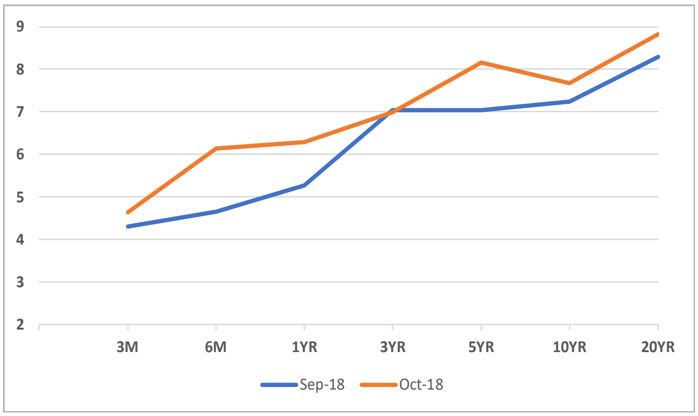
The 91-day T-bills offered on October 1 and October 15 barely exceeded the securities on offer, thus BTr rejected the bids for the 91-day T-bills on the said day.

Trading volume in the GS secondary market bounced back in October by as much as 54.7% to P160 B compared to September (m-o-m). Similarly, the October level rose by 18.1% y-o-y.

GS Secondary Market: More Trading but Also Higher Yields

Trading volume in the GS secondary market bounced back in October by as much as 54.7% month-on-month (m-o-m) to P160 B compared to September. Similarly, the October level rose by 18.1% year-on-year (y-o-y). This comes after a 60.2% (m-o-m) slump in September. Thus, year-to-date (YTD), it showed a smaller decline of 33.4% from the previous month's YTD of 36.5%.

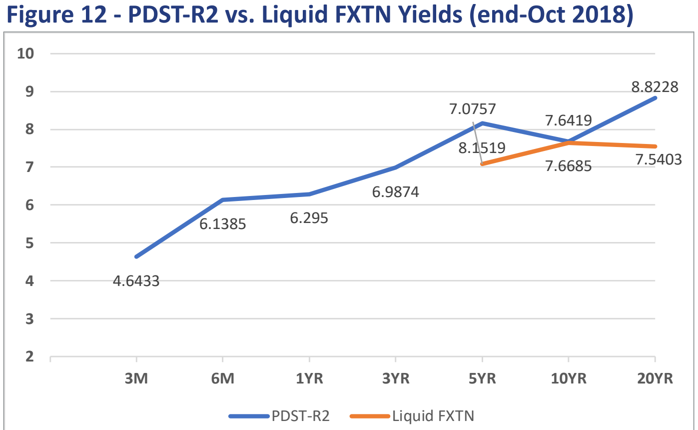
Figure 11 - End-Month Yield Curves (PDST-R2)



Source: Philippine Dealing Systems (PDS)

Yields generally rose in the secondary market except for the 3-year tenor, which dropped by 4.7 bps to end October at 6.99%. Meanwhile, the 6-month tenor saw the largest increase of 148.9 bps to end at 6.4%. Yields at the long end of the curve saw the smallest increments for the month of October. Yields for the 5-year jumped to 8.15%, a 111.2 bps increase from the previous month while the 10-year T-bond yield ended at 7.64%, representing a 52.6 bps jump from the previous month. The 20-year T-bond yields rose only by 52.6 bps to 7.54%.

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



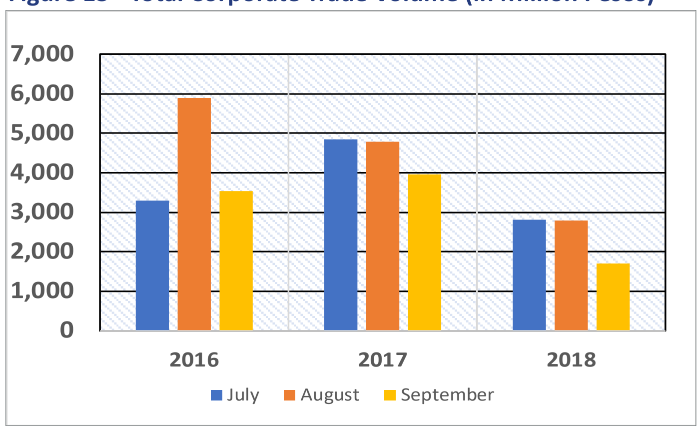
Source: Philippine Dealing Systems (PDS)

However, their liquid counterparts showed declines across the board. PDST-R2, as usual, finished higher compared to liquid FXTNs. While the difference between 10-year R2 and FXTN 10-63 narrowed, the 20-year and the 5-year tenor exceeded their liquid counterparts by 107.6 bps to 7.0757% and 128.3 bps to 7.5403%, respectively.

Corporate Trading: Volumes Up

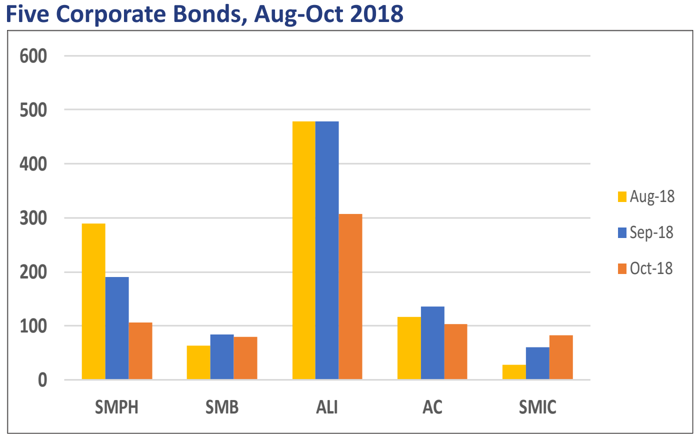
Trading of corporate bonds in the secondary market expanded by as much as 101.8% (m-o-m) to P3.4 B in October from P1.7 B in September. When compared to October 2017, corporate trading for the end of month also showed a 4.7% (y-o-y) increase. On a YTD basis, trading saw an uptick of 7.4%, a slight slowdown compared to the 11.3% expansion in YTD to September this year.

Figure 13 - Total Corporate Trade Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 14 - Monthly Trading Volume (in Million Pesos) of Top Five Corporate Bonds, Aug-Oct 2018



Source: Philippine Dealing Systems (PDS)

The top five (consisting of SMPH, SMB, ALI, AC, and SMIC) did not perform well in October with P678 M trading volume, a 28.5% decline from P949 M in September. The

Yields in Philippine government dollar-denominated bonds (ROPs) generally moved higher in October. ROP-32 yields ended at 4.41% or 23 bps higher than the previous month.

rankings, however, remained relatively the same, save for the 4th and 5th spot, from the previous month. ALI bonds maintained the top spot with total volume of P306.7 M, a hefty 35.8% decline from September. SMPH debt papers total trades also fell by 44.6% to hit P105.7 M. Still in the 3rd place, AC bonds' total trades reached P103.9 M, a disappointing 23.5% drop from a month ago. SMIC slipped to the 4th slot as trading in its papers expanded by 36.7% to P82.8 M. In the last place, trades in SMB bonds declined by a modest 5.3% to P79.7 M.

ROPs: Yields Bump Up in Long End of Curve

Yields in Philippine government dollar-denominated bonds (ROPs) generally moved higher in October. ROP-32 (with some 14 years remaining to maturity) yields ended at 4.41% or 23 bps higher than the previous month. Similarly, tenor of ROP-37 yields (which still has 20 years to maturity) bumped by 24.3 bps to 4.514%, while ROP-19 (which is due in around 3 months) shed 49.8 bps to close at 2.32%.

US T-bonds also saw a general increase in yields albeit at a slower pace compared to ROPs. The 2-year US T-bonds yielded 2.86%, up by 9 bps from the previous month. The long end of the US T-bonds saw a larger uptick in yield than a month ago as the 15-year US T-bond rose by 17 bps to 3.21% while the 20-year T-bonds saw an increase of 19 bps to 3.27%.

The differential for ROP-19 and the 1-year US T-bonds eased from 58.8 bps to 54 bps. However, the spread of ROP-32 over the 15-year US T-bond saw an uptick at 6 bps to reach 120 bps by the end of October. In a similar light, the differential for ROP-37 and the 20-year US T-bonds yields rose by 5.3 bps to 124.4 bps.

ASEAN+2: Slight Yield Curve Movements Except for Indonesia's Steepening

US: The Federal Reserve (Fed) left policy rates unchanged in their November meeting but stayed on course to hike in December as the central bank sees US economic activity rising at a strong rate on top of strong job gains. Unemployment rate remained at 3.7%, a 48-year low in October, despite a significant 0.2 percentage points increase in the labor participation rate to 62.9%. Employment-population ratio rose to 60.6% m-o-m in October from 60.4% a month ago, while underemployment rate, fell to 7.4% in October from 7.5% in September.

Meanwhile, nonfarm payrolls rose 250,000 in October, way above consensus, after a downwardly revised 118,000 gain in September. Notably, manufacturing added 32,000 jobs (vs. consensus of 13,000), a big improvement from 18,000 in September. Average hourly earnings for private workers advanced 3.1% y-o-y. On a m-o-m basis, average hourly earnings rose 0.2 percentage points from the prior month, matching analysts' projections.

The 10-year bond versus 2-year bond yield spread rose by almost 5 bps to 30 bps with the 10-year bond yield ending at 3.17%, as fears of a coming recession may have mellowed a little.

China: Exports from China swelled to 14.5% y-o-y in September, accelerating from 9.1% growth in August, with import growth easing to 14.3% y-o-y from 19.9% in the same period. The trade surplus widened to $32 B from the $27 B in the previous month.

China's gross domestic product (GDP) grew 6.5% y-o-y in Q3-2018 after rising by 6.7% in Q2. The print marked the slowest pace since Q1-2009. The slowdown in GDP growth came as a result of Xi Jinping's thrust of lowering corporate and local government debt. The industrial sector only expanded by 5.8% y-o-y in Q3 after posting a 6.1% growth in Q2. The primary industry picked up to 3.4% y-o-y from 3.2% in the previous quarter while tertiary industry slightly gained by 7.7% from 7.6% in Q2.

Consumer price inflation hastened to 2.5% y-o-y in September from 2.3% in August, with the largest increase stemming from food, tobacco, and liquor prices, which rose 3% y-o-y. Meanwhile, transportation and communication prices also climbed by 2.8% y-o-y. On a m-o-m basis, consumer prices rose by 0.7%, as the fastest rising price categories included food (1.5%) and clothing (0.7%).

China's yield curve steepened by some 8 bps with the spread between 10-year and 2-year bond yields expanding to 47 bps. While yields of both tenors eased, the 2-year benchmark fell more by 19 bps to 3.07%.

Indonesia: Export growth in Indonesia moderated to 1.7% y-o-y in September from 4.5% in August while import growth slowed to 14.2% y-o-y from 24.5% during the same period. A trade surplus valued at $227 M was posted in September, reversing the trade deficit of $944 M in August. The Indonesian government continues to take measures to help keep the current account deficit within a manageable level as it decided to postpone projects with heavy import

Export growth in Indonesia moderated to 1.7% y-o-y in September from 4.5% in August while import growth slowed to 14.2% y-o-y from 24.5% during the same period.

dependence and required the use of a 20% biodiesel mix to reduce imports. The government also announced tax levies on certain imported goods.

Bank of Japan and Bank Indonesia agreed to enhance their existing bilateral swap arrangement. The amendment allowed for the use of the local currencies of both markets through the swap of Indonesian rupiah into Japanese yen. Previously, the swap facility only involved tapping funds in US dollars. In total, the bilateral swap agreement between Indonesia and Japan now amounts to an equivalent of up to $22.8 B.

In its October meetings, the Board of Governors of Bank Indonesia (BI) decided to keep the 7-day policy rate (reverse repurchase), deposit facility rate, and lending facility rate steady at 5.75%, 5%, and 6.5%, respectively. BI regarded that current rates remained supportive of lowering the country's current account deficit and keeping the domestic financial market attractive.

Consumer price inflation (CPI) in Indonesia accelerated to 3.2% (y-o-y) in October from 2.9% in September. The faster uptick came about due largely to increases in the cost of food, fuel, and transportation. Meanwhile, the Indonesian government raised IDR23.4 T (~$1.6 B) from the sale of Retail Treasury Bonds. The issue was the 15th series of such bonds, and carried a coupon rate of 8.25% and maturity of 3 years.

Malaysia: Malaysia's Index of Industrial Production growth slowed in August to 2.2% y-o-y from 2.6% in July. The biggest slowdown occurred in the manufacturing sector, which grew 4.3% y-o-y in August down from 5.2% in July. The electricity sector output also eased to 4% y-o-y from 4.5% in the previous month. Meanwhile, output growth in the mining sector remained negative as production dropped by 4.6% y-o-y in August, following a decline of 5.9% in July, largely due to decreases in the Natural Gas Index and the Crude Oil Index. On a m-o-m basis, Malaysia's industrial production contracted 0.4% in August after expanding by 2.6% in the previous month.

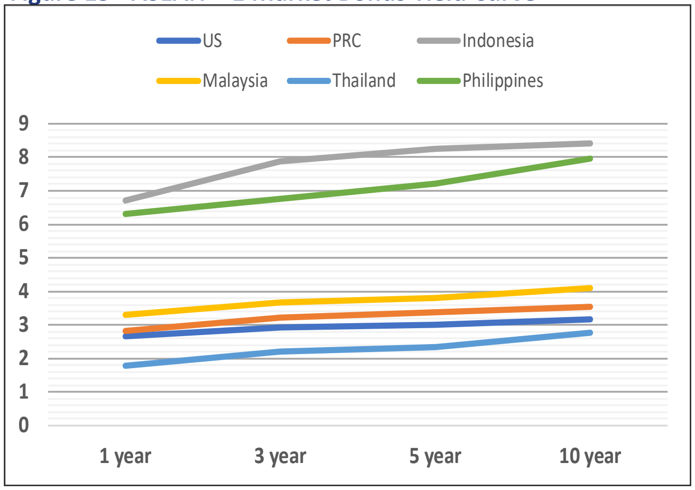
Malaysia's consumer price inflation (CPI) increased 0.3% y-o-y in September, marginally faster than in August when it hit a 42-month low of 0.2% y-o-y. The slow pace of price increases in September was due to the unchanged pricing of RON95 fuel, while the reinstatement of the sales and services tax on September 1 did not have a significant effect on the CPI. Moreover, the muted inflation rate was a result of only five out of the 12 main groups recording an upward price adjustment, while the rest continued to register price declines. On a m-o-m basis, consumer prices increased 0.4% in September. YTD inflation remained low at 1.2% y-o-y. September's core inflation increased by 0.3% y-o-y, reversing the 0.2% fall in August.

Malaysia's yield curve remained relatively steady from September.

Thailand: Thailand's inflation increased by 1.2% y-o-y in October, slightly easing from 1.3% in September on the back of price declines for raw and fresh food. Transportation costs posted the fastest upward adjustment observed at 3.9% y-o-y amid rising oil prices. Thailand's inflation averaged 1.2% YTD while core inflation rose 0.8% y-o-y in October. Thailand's Ministry of Commerce has forecast inflation in Q4-2018 at 1.3%–1.5% and average inflation in full-year 2018 at 1.3%.

Thailand's exports declined by 5.5% y-o-y in September after registering growth of 5.8% y-o-y in August. Trade tensions between China and the US, and a high comparative base accounted for the fall. Import growth eased to 14.3% y-o-y in September from 24.2% in the previous month. Exports amounted to $20.7 B, while imports were valued at $18.7 B, resulting in a trade surplus of $2 B. Thailand's current account balance registered a higher surplus of $2.4 B compared with $753 M in the previous month.

Figure 15 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Global and domestic bond markets remain volatile as the economic outlook and policy moves in advanced economies, except the US has gotten a bit cloudy.

With inflation remaining low, the yield curve flattened by 4 bps. Thus, the spread between 10-year and 2-year bond yields slipped to 70 bps from 74 bps from the previous month.

Outlook

Global and domestic bond markets remain volatile as the economic outlook and policy moves in advanced economies, except the US has gotten a bit cloudy.

• Despite an impending Fed policy rate hike in December, US 10-year T-bond yields have eased from its October high of 3.24% back to the 3.15% range even up mid-November. Plunging crude oil prices to $65/barrel (bbl) (and still falling) from its recent high of $76.14/bbl on October 3 have provided the downward pressure on future inflation and yields.

• The improvement in volumes at the primary and secondary market for GS slightly masked the overall rise in bond yields. These ranged from 101 bps to 156 bps for the primary market, and 52.6 bps to 148.9 bps for the secondary market, with lower increases at the long end of the yield curve. With domestic inflation peaking in October, the outlook for 2019 appears positive. However, care should prevail over the near-term as tighter liquidity looms with the top three banks carrying out capital raising exercises before the year ends.

• In the secondary corporate bond market, trading also rose both on m-o-m and y-o-y basis, despite weaker trading on the top five corporate issues.

• ROP yields moved up in tandem with equivalent US treasuries, albeit at a faster pace than the US counterparts. Demand for ROPs may slacken on doubts about the sustainability of fast economic growth emerged.

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
					Sept-18	Oct-18			
US	2.879	3.174	2.1	1.07	25	30	4	2.00	-0.10
PRC	3.07	3.543	1.6	1.94	39	47	8	4.35	2.75
Indonesia	7.524	8.408	3.8	3.19	34	88	54	5.75	1.95
Malaysia	3.53	4.105	3.9	0.20	60	58	(2)	3.25	-0.65
Thailand	2.06	2.76	1.1	1.66	74	70	(4)	1.50	0.40
Philippines	6.745	7.95	5.3	2.75	101	121	20	4.75	-0.55

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

GLOBAL EQUITIES SLUMP IN OCTOBER AS IMF DOWNGRADES OUTLOOK FOR 2019

Despite robust job growth in the US, bond yields headed south for most of October and in its train stock prices not only in the US, but also around the world, ASEAN, the Philippines included. The International Monetary Fund's (IMF) less sanguine outlook for 2019 released early October emerged as the likely main culprit, as it projected slower economic growth in China, the European Union, Japan and key emerging markets. This view quickly spread to commodity markets where crude oil prices slumped by more than 15% by early November from their October 3 peak. Nonetheless, PSEi's 1.9% fall in October performed best among its ASEAN peers.

Outlook: With the PSEi weaving in and out of the bear market unto early November, the jury is still in doubt, as both external and domestic factors provide headwinds to a definitive resumption of PSEi's upward trend. External factors include policy uncertainties in the US rising from mixed mid-term election results and the pace of Fed rate hikes in the light of weak inflationary pressures notwithstanding solid growth and job gains. Domestically, inflation will remain elevated despite an emerging slowdown, while corporate earnings appear moderate, much in line with estimates. Thus, we think a major upward move in PSEi would come only in 2019 likely by Q2 after mid-term elections and better economic growth should recover to near the 7% trajectory.

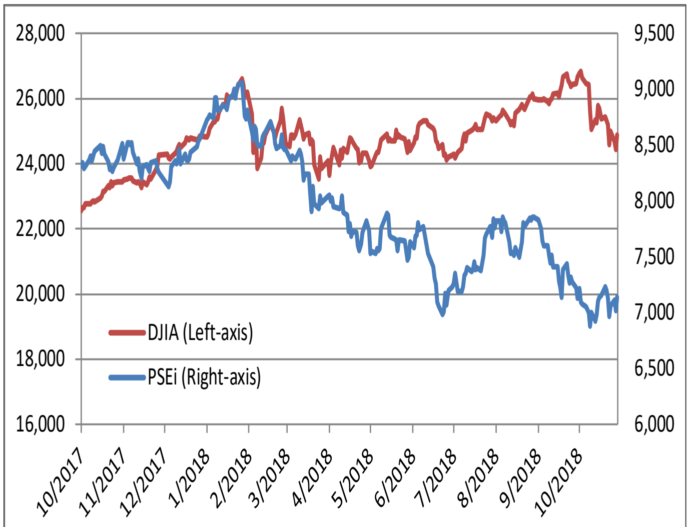
Global Equities Markets Performances

Region	Country	Index	October M-o-M change	2018 YTD change
Americas	US	DJIA	-5.1%	1.2%
Europe	Germany	DAX	-6.5%	-11.1%
	London	FTSE 101	-5.1%	-6.8%
East Asia	Hong Kong	HSI	-10.1%	-18.1%
	Shanghai	SSEC	-7.7%	-22.3%
	Japan	NIKKEI	-9.1%	-6.7%
	South Korea	KOSPI	-13.6%	-18.4%
Asia-Pacific	Australia	S&P/ASX 200	-5.9%	-3.6%
Southeast Asia	Indonesia	JCI	-2.4%	-8.0%
	Malaysia	KLSE	-4.7%	-4.1%
	Thailand	SET	-5.0%	-6.2%
	Philippines	PSEi	-1.9%	-18.2%
	Singapore	STRAITS	-7.3%	-12.0%

Sources: Bloomberg & Yahoo Finance

Global equities suffered a nosedive in October as fears of a global slowdown causing market volatilities inhibited investors to place their money on stocks. Most indices took huge blows and ended in the red last month as the unpredictable course over the ongoing trade war, increasing bond yields in the US as well as pessimistic sentiment on China's and Eurozone's economies caused the reduction of exposure on equities. The lack of positive cues from western bourses DJIA, DAX, and FTSE 100 failed to keep sentiments positive, incurring losses of not lower than 5%. On the other hand, Asian markets, most evident in KOSPI, HSI and NIKKEI, bore heavy beating as well, experiencing 13.6%, 10.1% and 9.1%, respectively. The sell-off reversed earlier gains of NIKKEI, ASX 200 and KLSE (which last month stood at 2.6%, 2.4% and 0.6%) and further increased losses of SSEC, KOSPI, PSEI, HSI, and STRAITS, all to the double-digit level.

Figure 16 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

PSEi continued its slump in the bear market in October, ending in the 7,140 level, albeit in a decelerated pace with decline recorded at 1.9% compared to the previous month's 7.4% plunge.

PSEI and DJIA took slightly similar paths in October with correlation recorded at 0.3 (compared to the previous month's diverted trend with correlation at -0.6). After experiencing a relatively good month in September with a year-to-date (YTD) growth of 6.6%, DJIA's October sell-off reduced previous month's gains to 1.2% and losing over $2 T in value. The downturn has been caused by a confluence of factors, such as Fed rates continue to hike towards normalization, ongoing trade war with China, and a stronger US dollar. Investors in Dow Jones shied away from tech stocks such as Amazon and Netflix (reducing their values by around 20%).

Monthly Sectoral Performance				
	28-Sept-18		31-Oct-18	
Sector	Index	% Change	Index	% Change
PSEi	7,276.82	-7.4%	7,140.29	-1.9%
Financial	1,598.17	-11.7%	1,607.90	0.6%
Industrial	10,647.53	-5.5%	10,648.79	0.0%
Holdings	7,159.93	-7.8%	7,003.53	-2.2%
Property	3,620.84	-8.2%	3,495.49	-3.5%
Services	1,494.97	-2.7%	1,462.55	-2.2%
Mining and Oil	8,972.00	-9.4%	9,572.05	6.7%

Source of Basic Data: PSE Quotation Reports

PSEi continued its slump in the bear market in October, ending in the 7,140 level, albeit in a decelerated pace with decline recorded at 1.9% compared to the previous month's 7.4% plunge. The local bourse even plummeted to the 58-week low 6,800 level in the middle of the month. Results among sectors were mixed, with Mining and Oil reversing its 9.4% drop in September with a 6.7% increase last month. Meanwhile, Financial and Industrial managed to end in the green in October, albeit having a muted performance compared to Mining and Oil with a flat 0.6% and 0.0001% uptick. On the other hand, Holdings, Services and Property further lost value last month, with 2.2%, 2.2% and 3.5% decreases, respectively.

Company	Symbol	09/28/18 Close	10/31/18 Close	% Change
Metrobank	MBT	67.00	65.55	-2.2%
BDO Unibank, Inc.	BDO	119.80	122.40	2.2%
Bank of the Philippine Islands	BPI	83.30	82.15	-1.4%
Security Bank Corporation	SECB	154.00	144.40	-6.2%

Source of Basic Data: PSE Quotation Reports

The Financial sector regained a minute part of its losses in the previous month, advancing 0.6% in terms of value compared to its 11.7% decline in September. Among constituent stocks, BDO Unibank, Inc. (BDO) added 2.2% to its stock price, primarily due to positive Q3-2018 earnings, as net income expanded by 18% year-on-year (y-o-y) to P8.4 B. BDO's strong performance arose from increased net interest income, which grew by 20% y-o-y, even as larger lending inflated the bank's loan book by 17% y-o-y especially to the consumer and middle-market segments.

On the other hand, Bank of the Philippine Islands (BPI) remained in the red zone as it lost 1.4% in October, a deceleration of its 11.1% decline last month. BPI is one of the 11 banks which took part in the newly-founded Philippine RMB Trading Community. The firm aims to create a renminbi trading facility in the Philippines to reduce need of the Chinese yuan being converted first to US dollars before being changed to Philippine peso.

Metropolitan Bank and Trust Company (MBT) shares also fell a small 2.2% last month, a deceleration from September's 8.5% decline. In October MBT raised P8.7 B from the first tranche of its P25 B long term certificate of negotiable time deposit (LTNCD) offering, which aims to diversify its sources of capital requirements.

Security Bank Corporation (SECB) continued to underperform in October as it fell 6.2%, on top of its 20.8% decline in September. This arose despite SECB readying to launch a remittance service with financial technology firm Piso-pay.com, which would allow remittances from Japan to be directly transferred to SECB.

Company	Symbol	09/28/18 Close	10/31/18 Close	% Change
Meralco	MER	340.00	367.80	8.2%
Aboitiz Power	AP	33.45	33.70	0.7%
Jollibee Foods Corporation	JFC	257.00	276.00	7.4%
First Gen Corporation	FGEN	16.76	15.62	-6.8%
Universal Robina Corporation	URC	144.50	130.00	-10.0%
Petron Corporation	PCOR	8.69	8.10	-6.8%

Source of Basic Data: PSE Quotation Reports

The Holdings sector continued to decline, contracting by 2.2%, a slowdown from September's 7.8% loss.

Meanwhile, the Industrial sector ended flat in October, compared to September's 5.5% decline, as improved performance of Manila Electric Company (MER) and Jollibee Foods Corporation (JFC) offset other stocks in the sector that continued to decline. Biggest gainer MER reversed its losses last month with an 8.2% surge in value. MER's upward move drew its impulse from the 9% increase in core net income to P16.7 B for the first nine months of 2018, mainly driven by increased electricity and non-electricity revenues, up by 6% and 11%, respectively.

JFC likewise rose significantly by 7.4% in October. The fast-food giant announced the opening of new branches overseas (located in London, United Kingdom and Manhattan, New York, USA), all part of the firm's efforts to equalize revenues of its overseas and domestic operations.

Aboitiz Power Corporation (AP) managed to end in the green with a 0.7% uptick. The company disclosed that its hydroelectric unit Hedcor Inc. secured supply contracts with 11 distribution utilities in Mindanao for 68 MW. AP is finalizing its acquisition of AC Energy's $579 M worth of coal assets, with the deal pending approval from the Philippine Competition Commission.

On the other hand, First Gen Corporation (FGEN) share price losses accelerated in October as it incurred a 6.8% decline from September's 1.4% dip, as the company's bid for the LNG import terminal project (in partnership with Tokyo Gas Company Ltd.) remained hanging. The selection among First Gen and two other bidders should be concluded by the end of November or December.

Likewise, Petron Corporation (PCOR) suffered heavier losses last month with a 6.8% decrease in value, compared to the previous month's 4.1% drop. PCOR recently issued and subsequently successfully raised P20 B from fixed rate bonds, which consists the final tranche of its three-year shelf registration program.

Universal Robina Corporation (URC) reversed its 3.6% share price gain in September, ending with a huge 10% loss in October. The price plunged may be attributed to URC's report that it experienced an uptick of 1.7% in net income for the first nine months of 2018, which is below consensus estimates, given that its sales contracted by 1.5% y-o-y to P31.2 B.

Company	Symbol	09/28/18 Close	10/31/18 Close	% Change
Ayala Corporation	AC	928.00	920.00	-0.9%
Metro Pacific Investments Corporation	MPI	4.75	4.80	1.1%
SM Investments Corporation	SM	904.00	900.00	-0.4%
DMCI Holdings, Inc.	DMC	11.38	12.84	12.8%
Aboitiz Equity Ventures	AEV	49.00	47.00	-4.1%
GT Capital Holdings, Inc.	GTCAP	820.00	760.00	-7.3%
San Miguel Corporation	SMC	169.50	171.00	0.9%
Alliance Global Group, Inc.	AGI	12.48	11.36	-9.0%
LT Group Inc.	LTG	14.40	14.50	0.7%
JG Summit Holdings, Inc	JGS	53.95	47.30	-12.3%

Source of Basic Data: PSE Quotation Reports

The Holdings sector continued to decline, contracting by 2.2%, a slowdown from September's 7.8% loss. DMCI Holdings, Inc. (DMC) enjoyed the largest share price gain in October, as it rallied by 12.8%. This may have arisen from the recent award in the arbitration court in favor of its affiliate Maynilad Water Services' rate hikes against the Philippine government.

Suffering the biggest price drop, JG Summit Holdings, Inc. (JGS) incurred a 12.3% decrease in value last month, attributable to the dismal performance of its food manufacturing subsidiary URC, which delivered lower-than-expected income for the first nine months of 2018.

Alliance Global Group, Inc. (AGI) experienced the next largest drop in value in October as its share prices fell by 9%, despite the company's recent opening of its 357-room hotel property carrying the Hilton brand in Resorts World Manila complex in Pasay City.

GT Capital (GTCAP) recorded a 7.3% drop in share price last month. The company's subsidiary Toyota Motors Philippines, Inc. (TMP) has recently entered into a partnership with Grab to help the Transport Network Vehicle Services (TNVS) drivers and operators through financing deals, with such move expected to increase TMP's auto sales in the coming years.

The Property sector declined most among sectors last month as it fell by 3.5%.

Aboitiz Equity Ventures (AEV) suffered a setback of 4.1% in value in October. The company's property arm AboitizLand recently launched projects in Tarlac and Nueva Ecija, both with 1,000 housing units each catering to the mid-market.

Ayala Corporation (AC) ended in the red last month with a 0.9% dip, despite the conglomerate's disclosures of its recent investments in health technology, automotive industry and logistics. AC's logistics moves involved putting in P1 B next year into AC Infrastructure Holdings Inc. to expand coverage of Entrego Fulfillment Solutions, Inc, a joint venture logistics firm of AC Infra and Brilliant 1257 GMBH & Company. AC's subsidiary, Ayala Healthcare Holdings, Inc. acquired a minority stake in home health mobile application AIDE. The new investment in automotive industry involved AC Industrial Technology Holdings, Inc. which became the official distributor of Chinese automaker SAIC Maxus Automotive Company Ltd.

SM Investments Corporation's (SM) share price declined by 0.4% in October. The company announced last month that it had entered into a partnership with technology company Cal-Comp Technology (Philippines), Inc. to launch the country's first customer service robots in one of SM's malls.

On the other hand, LT Group (LTG) managed to end on the green last month, experiencing a slight 0.7% uptick. The company recovered at end-month as early-October concerns over the possibility that investors would dump LTG with the initial public offering (IPO) of San Miguel Food and Beverage evaporated.

Meanwhile, San Miguel Corporation (SM) remained to be a gainer in October, adding 0.9% to its stock price. The conglomerate announced its intention of shouldering right-of-way (ROW) acquisition costs for its P735 B airport project proposal located in Bulacan.

Metro Pacific Investments Corporation's (MPI) value gained by 1.1% last month, with positive sentiment that drove MPI's stock upwards attributable to the issuance of the arbitral award from Singapore's High Court in favor of MPI's and DMC's joint venture Maynilad Water Services claims against the Philippine government. The Singapore decision directed the Philippine government to compensate Maynilad for its lost revenues which came from the disapproval of Metropolitan Waterworks and Sewerage System (MWSS) to implement the company's tariff adjustment from 2013 to 2017 in accordance with its Concession Agreement.

Company	Symbol	09/28/18 Close	10/31/18 Close	% Change
Ayala Land, Inc.	ALI	40.05	39.65	-1.0%
SM Prime Holdings, Inc.	SMPH	36.15	33.80	-6.5%
Robinsons Land Corporation	RLC	20.30	20.95	3.2%
Megaworld Corporation	MEG	4.40	4.41	0.2%

Source of Basic Data: PSE Quotation Reports

The Property sector declined most among sectors last month as it fell by 3.5%. SM Prime Holdings, Inc. (SMPH) lost most value among Property's constituent stocks, as its stock price fell by 6.5%. This came about despite the company reporting a 17% growth y-o-y on net income for the first nine months of 2018, in line with consensus estimates. Sustained increase in revenues from SMPH's new retail properties in the provinces, box office receipts, and residential projects provided the impetus.

On the other hand, Ayala Land, Inc.'s (ALI) value shed 1% of value last month, despite the company's disclosure of its plan to expand in Southeast Asia, specifically through acquisitions after making its first investment in Malaysia (MCT Berhad) in 2015.

Meanwhile, Megaworld Corporation (MEG) managed to end in the green in October, with a slight 0.2% gain in value. The company launched two new hotel projects last month, with a P500 M boutique hotel in MEG's Bacolod property and a 12-storey hotel in Iloilo Business Park under the Belmont brand.

Robinsons Land Corporation (RLC) enjoyed respectable gains, experiencing a 3.2% increase in stock price. The company may have gained from the decision of the Regional Trial Court Branch 23 in Cebu City, proving that its sister company Universal Hotel and Resorts, Inc. is technically and financially capable of executing a planned P18 B integrated resort and casino project in Kawit Island, Cebu City, as RLC is involved in providing technical expertise as well as financial resources for the said project.

Volume in the local bourse contracted in October as total turnover shrank by 4%, following through its 13.1% decline in the previous month.

Company	Symbol	09/28/18 Close	10/31/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,350.00	1,390.00	3.0%
Globe Telecom	GLO	2,200.00	2,090.00	-5.0%
Robinsons Retail Holdings, Inc..	RRHI	79.70	75.80	-4.9%
Puregold Price Club Inc.	PGOLD	45.00	40.55	-9.9%
International Container Terminal Services Inc.	ICT	94.10	90.50	-3.8%

Source of Basic Data: PSE Quotation Reports

On the other hand, the Services sector ended the month with a 2.2% drop in value. The biggest loser in the sector, Puregold Price Club (PGOLD), suffered a 9.9% share price decline in October, despite the company announcing that its remittance subsidiary PurePadala Inc. had received approval of its incorporation from the Securities and Exchange Commission (SEC).

Globe Telecom (GLO) incurred a 5% dip in value last month, amid reports of the acquisition of bid documents of five prospective companies and/or consortiums from the Department of Information and Communications Technology (DICT), all vying to be the third telecommunications player in the country.

Robinsons Retail Holdings, Inc.'s (RRHI) share prices dropped by 4.9% in October, despite the company's disclosure of its core net income of P1.2 B (up by 0.1% y-o-y) for the first nine months of 2018, driven by robust store sales growth as well as revenue increases due to new stores.

International Container Terminal Services, Inc. (ICT) lost 3.8% in value last month. ICT announced in early October that its subsidiary Operadora Portuaria Centroamericana S.A. de C.V. (OPC) has commenced operations of a new pier facility in Puerto Cortes, Honduras. The company has also started the construction of the Manila International Container Terminal's (MICT) expansion project.

Meanwhile, Philippine Long Distance Telephone Company Inc. (TEL) did not suffer the same fate as GLO as the telecommunications giant saw its value growing by 3% in October, with the increase attributable to the acquisition of $175 M worth of shares in TEL's subsidiary Voyager Innovations, Inc. by US-based investment firm Kohlberg Kravis Roberts and Co. (KKR) and China's Tencent Holdings Ltd. (Tencent).

Company	Symbol	09/28/18 Close	10/31/18 Close	% Change
Semirara Mining and Power Corporation	SCC	26.70	27.95	4.7%

Source of Basic Data: PSE Quotation Reports

Mining and Oil became an outlier among sectors in October as the sector gained a respectable 6.7% increase in value last month. Semirara Mining and Power Corporation (SCC) added 4.7% to its value last month, with the company making known its expectation that its coal segment will drive income and revenue until 2019 as its power segment will undergo rehabilitation, following shutdowns in 2018.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	**Value**	**% Change**	**Value**	**% Change**
Financial	16,852.43	-14.8%	732.71	-25.9%
Industrial	25,656.77	17.7%	1,115.51	2.3%
Holdings	25,130.57	-22.3%	1,092.63	-32.4%
Property	20,810.92	-3.0%	904.82	-15.6%
Services	19,459.99	6.1%	846.09	-7.7%
Mining and Oil	3,526.93	47.2%	153.34	28.0%
Total	**111,437.61**	-4.0%	**4,845.11**	-16.5%
Foreign Buying	57,924.30	4.1%	2,518.45	-9.4%
Foreign Selling	68,835.99	2.6%	2,992.87	-10.8%
Net Buying (Selling)	(10,911.69)	-4.8%	(474.42)	-17.2%

Source of Basic Data: PSE Quotation Reports

Volume in the local bourse contracted in October as total turnover shrank by 4%, following through its 13.1% decline in the previous month. Meanwhile, the outflow of foreign funds from PSEi continued totaling P10.9 B, albeit a slowdown from the previous month. Turnover among sectors proved mixed, with volume in Mining and Oil growing most by 47.2%, reversing its 58.1% decline in September. Investor interest likewise increased in the Industrial and Services sectors, whose total turnovers expanded by 17.7%, and 6.1%, respectively, in contrast with their decline in September. On the other hand, the Financial and Holdings sectors, which were last month's gainers in terms of volume, saw their turnover dip by 14.8% and 22.3% respectively. Turnover in the Property sector continued its downward trend in September, albeit at a decelerated pace of -3%.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2016		2017		2nd Quarter 2018			3rd 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%	174,210	-5.4%	0.2%	163,797	-6.0%	-0.4%
Industry Sector	2,750,034	8.0%	2,947,103	7.2%	799,911	8.1%	6.3%	741,279	-7.3%	6.2%
Service Sector	4,661,781	7.5%	4,979,575	6.8%	1,378,389	13.3%	6.6%	1,316,267	-4.5%	6.9%
Expenditure										
Household Final Consumption	5,642,389	6.9%	5,973,816	5.9%	1,552,812	5.1%	5.6%	1,479,834	-4.7%	5.2%
Government Final Consumption	854,570	8.3%	914,136	7.0%	308,025	30.1%	11.9%	250,174	-18.8%	14.3%
Capital Formation	2,289,675	20.8%	2,504,502	9.4%	688,261	-2.2%	20.7%	702,237	2.0%	16.7%
Exports	4,124,942	9.1%	4,930,584	19.5%	1,426,056	13.3%	13.0%	1,581,805	10.9%	14.3%
Imports	4,788,834	17.5%	5,657,331	18.1%	1,621,626	4.4%	19.7%	1,783,427	10.0%	18.9%
GDP	8,122,741	6.8%	8,665,708	6.7%	2,352,509	9.9%	6.0%	2,221,343	-5.6%	6.1%
NPI	1,632,345	5.3%	1,729,139	5.9%	442,204	-4.4%	4.7%	452,140	2.2%	5.6%
GNI	9,755,087	6.6%	10,394,846	6.6%	2,794,714	7.4%	5.8%	2,673,483	-4.3%	6.0%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2016		2017		Aug-2018			Sept-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%	256,875	6.3%	11.5%	202,351	-21.2%	1.1%
Tax	1,980,390	9.1%	2,250,678	13.6%	239,770	10.1%	13.0%	183,445	-23.5%	0.2%
BIR	1,567,214	9.3%	1,772,321	13.1%	185,091	12.9%	7.8%	130,573	-29.5%	-7.7%
BoC	396,365	7.8%	458,184	15.6%	52,012	-0.3%	35.8%	51,075	-1.8%	26.9%
Others	16,811	14.8%	20,173	20%	2,667	71.4%	17.6%	1,797	-32.6%	22.9%
Non-Tax	215,446	-26.5%	222,415	3.2%	17,105	-28.9%	-6.0%	18,906	10.5%	11.6%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	259,462	-20.9%	28.7%	298,598	15.1%	26.0%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	45,939	-0.9%	5.1%	47,868	4.2%	14.3%
Interest Payments	304,454	-1.6%	310,541	2%	28,301	-36.9%	7.3%	32,675	15.5%	23.8%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	-2,587	-97.0%	-109.0%	-96,247	3620.4%	160.9%

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		Aug-2018		Sept-2018	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	2,798,988	14.0%	2,998,532	5.4%	3,017,687	4.8%
Sources:						
Net Foreign Asset of the BSP	4,024,544	2.3%	4,531,271	-1.3%	4,466,915	-0.7%
Net Domestic Asset of the BSP	9,722,563	15.6%	11,350,174	15.0%	11,491,355	14.5%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,562,223	17.1%	3,682,954	11.5%	3,713,749	11.3%
Money Supply-2	10,227,276	13.1%	10,686,793	10.1%	10,695,187	9.4%
Money Supply-3	10,655,369	13.2%	11,154,831	10.4%	11,157,031	9.7%
MONEY MULTIPLIER (M2/RM)	2.49		3.56		3.54	

Source: Bangko Sentral ng Pilipinas (BSP)

November 2018

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