January 2019

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

Sharply falling inflation rate to 5.1% in December (and expected to hit BSP targets by Q1-2019), and a vigorous 43.6% gain in Infrastructure and Capital Outlays spending in November set the tone for other positive economic news released in early January. Exports stayed flat while OFW remittances continued to pile up in November. Even more encouraging data emerged in December for those economic indicators. While investors remained cautious in December, optimism reigned supreme at the onset of 2019 in both the bond and stock markets, despite a lower-than-expected GDP growth of 6.2% for 2018.

Macroeconomy

2018 ended with key positive news, such as (a) headline inflation continued to rapidly decelerate to 5.1% in December from 6.7% in October, (b) Infrastructure and capital outlays zoomed up by 43.6% in November after an amazing 83.5% spurt in October, while capital goods imports managed to climb by 4.9% in November after bumping up by 21.2% in October. With exports stable, and OFW remittances still in the green, a robust growth recovery in 2019 now looks likely.

- Inflation fell sharply to 5.1% in December from 6% a month ago, as food prices (led by rice) slumped, and crude prices plunged.
- NG disbursements post muscular growth of 18.5% in November as Infrastructure and Capital Outlays soared by 43.6%.
- Telecom and electrical machinery again boosted capital goods imports by another 21.2% y-o-y jump in October.
- Revised exports print showed a positive expansion since June 2018 until October, with a minor easing in November.
- Money growth remained single-digit at 8.4% in November.
- With Christmas in the air, OFW personal remittances still gained by 2.9% y-o-y in November on top of the 8% a month ago.
- The peso remained strong against the greenback, ending December in the green.

Outlook: We expect GDP growth to go faster at 6.8% to 7.2% in 2019 compared to 6.2% in 2018. Domestic demand which rose by 8.5% in 2018 should boost growth in 2019. Investments, via elevated infrastructure spending and strong capital goods imports, will continue to lead growth. Consumer demand should recover especially in 2019, as we expect inflation to decelerate to 3% to 3.5% in 2019 from 5.2% in 2018, more jobs from the above, and election-related spending in H1.

Bonds Market

With a looming global slowdown and trade tensions still unresolved, Philippine bond markets ended 2018 in a cautious note despite a sharp fall of inflation in November. This got reflected in the bids in government securities (GS) auctions easing slightly, while yields at the long-end of the curve held relatively steady. The secondary market also saw lower turnover and flatter yield curve as yields rose at the short-end but fell at the long-end. The start of 2019, however, strongly urged investors to take more risk. In the first three weeks of January, bond yields have dropped by 61.1 basis points (bps) to 81.5 bps (10-year to 2-year T-bonds), as inflation for December plunged to 5.1% from 6.7% in October 2018. Banks' need to meet Liquidity Coverage Ratio (LCR) required by the BSP kept short-term rates elevated.

- Bids in all Bureau of the Treasury (BTr) auctions decreased by 37% to P 157.7 B, with a tender-offer ratio (TOR) of 2.1x down from 2.3x a month ago.
- The TOR for T-bills slid to 1.7x from 1.9x a month ago while for T-bonds it went down from 3.1x to 2.6x.
- Weaker demand, especially at the short-end, meant yields surged for T-bills by 318 bps to 378 bps, but only 11.6 bps for 7-year T-bonds.
- Secondary market trading of GS fell by 31.5% (m-o-m) in December. For the full year, trading reached P1.93 T, 24.7% lower than in 2017.
- The yield curve flattened as yields rose progressively lower as maturity lengthened. From 32.8 bps rise in 3-month to 18.1 bps for 1-year papers.
- For the 5-year to 10-year T-bonds, yields edged up by only 3.5 bps to 6.2 bps, respectively, and even dropped by 12.1 bps for the 20-year benchmark.
- Corporate bond trading came in flat, but down by 39.2% for full year 2018 versus 2017.
- ROPs yields treaded a bit lower, but US Treasuries fell even more.

Outlook: US Fed's "pause" in its policy rate hikes cycle in 2019 and empirical evidence showing that natural real interest rates have gone below 1% for good, plus the global economic slowdown, imply that foreign interest rates won't matter much in 2019. These, together with our view that domestic inflation will decelerate sharply and go below 4% (y-o-y) by Q1, make us more optimistic for bond investments, even though short-term money remains tight.

Equities Market

PSEi tiptoeing in the bear market seemed transitory as the local bourse survived the onslaught of stock markets around the world, edging up 1.3% by end-2018 at 7,466.02 and even extended its spurt into 2019 as it raced up beyond the 8,000-level as investors took more risk with the sharp deceleration of inflation to 5.1% in December.

- PSEi extended its gains in December, growing by 1.3% on top of its 3.2% rally in November.
- Biggest sectoral gainers included Services and Industrial, with 2.9% and 2.8% growth, respectively.
- Mining & Oil remained in the red in December, declining by 3.4%.
- JGS, FGEN and AP grew most among PSEi's constituent stocks, rising by 15.6%, 12.8% and 10.7%, respectively.
- On the other hand, SMC and SCC suffered double-digit losses, declining by 15.9% and 12%, respectively.
- Turnover reversed, contracting by 36.4% while foreign funds amounting to P700 M exited the market.

Outlook: Prospects of solid US macroeconomic fundamentals, at least one (or none at all) Fed rate hike, sharp fall of domestic inflation (below 3% by Q3-2019), lower bond yields, and faster PH economic growth, together with expectations of EPS growing by 10% and market PE returning to 5-year average, should propel PSEi to reach 8,400 to 8,800 in 2019.

Economic Indicators (% change, latest month, unless otherwise stated)	Previous Period	Latest Month	Year-to-Date (2018)	2016 (year-end)	2017 (year-end)	2019 Forecast
GDP Growth (y-o-y, quarterly)	6.0%	6.1%	6.2%	6.9%	6.7%	6.8-7.2%
Inflation Rate (December)	6.0%	5.1%	5.2%	1.3%	2.9%	3.0-3.5%
Government Spending (November)	35.2%	18.5%	25.0%	4.1%	12.6%	12.0%
Gross International Reserves ($B) (December)	75.7	79.2	78.1	80.7	81.6	84.0
PHP/USD rate (December)	52.81	52.77	52.68	47.49	50.40	54.00
10-year T-bond yield (end-December YTD bps change)	7.04%	7.05%	6.65%	4.15%	4.93%	6.32-6.82%
PSEi (end-December YTD % change)	7,368	7,466	-12.8%	6,841	8,558	8,400-8,800

Sources: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Philippine Stock Exchange (PSE), Philippine Dealing System (PDS), and Authors' Calculations

HUGE PLUNGE IN INFLATION LEADS SLEW OF POSITIVE ECONOMIC DATA

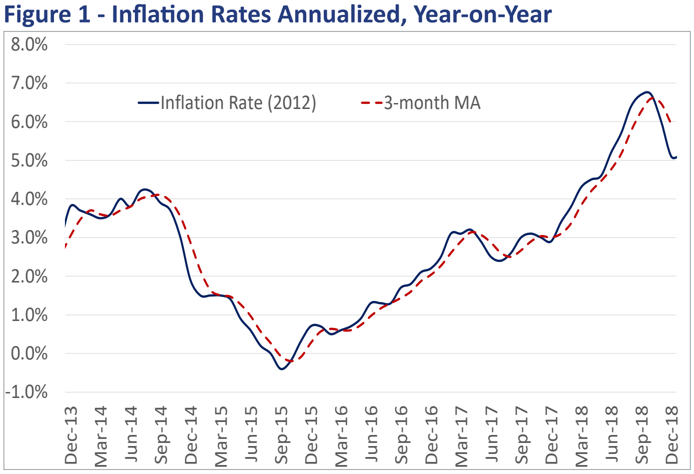
The Philippine economy looks poised to recover lost ground in the last three quarters of 2018 as headline inflation cooled down to 5.1% in December from 6% in November, while infrastructure spending (+43.6% in November) and capital goods imports (+4.9% in November) continue their upward streak. Lower food prices came about through large rice imports and harvests and the normalization of supply for other food products. Transport rates benefitted from the pullback of earlier fare rate hikes as the plunge in crude oil prices continued to the end of 2018. In the meantime, exports stabilized in November while overseas Filipino workers (OFW) remittances also rose mildly in the same month. Money growth continued to be at single digits paving the way for higher interest rates and stronger peso.

Outlook: With investment spending keeping high altitudes and consumer spending supported by inflation sharply falling into below-4% year-on-year (y-o-y) by Q1-2019 and election spending that has started in November 2018, we think that GDP growth will rebound starting 2019. This New Year we should see the start of major infrastructure projects like the Metro Manila Subway, the CALAX expressway, the 3rd bridge connecting Cebu and Mactan, and the major Public-Private Partnership (PPP) projects gaining further traction. Thus, we see GDP growth accelerate to 6.8% to 7.2% for the full year 2019. Our view that BSP will cut reserve requirements by Q1-2019 to meet liquidity needs of banks and cut policy rates by H2 as inflation goes below 3% (y-o-y) provide financial support to this fairly optimistic outlook.

Inflation Cools Down to 5.1% in December

Headline inflation continued its downtrend in December, further easing to 5.1% from 6% in the preceding month. Significant decline in transportation and other major food commodities largely triggered price deceleration. Nonetheless, full-year average stood at 5.2%, way above the Bangko Sentral ng Pilipinas' (BSP) upper target resulting from faster price upticks in other months especially starting mid-2018. Most regions outside NCR (i.e., Bicol, Ilocos, and ARMM) recorded faster price gains than the national average.

Figure 1 - Inflation Rates Annualized, Year-on-Year



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

Price rollback in jeepney and bus fares, due to the plunge in crude oil prices to below-$50/barrel, last seen in July 2017, resulted in hefty decline in the transportation index. It fell by a whopping 4.9 percentage points from the preceding month. The heavily-weighted Food and non-alcoholic beverages index (FNAB), likewise, cooled down -0.6% points (month-on-month, m-o-m) as supply normalized for key food items. Rice prices in December decelerated due to abundant harvest and imports. Prices of fish, meat, and vegetables and other food commodities eased, except for cereals, flour, bread, pasta and other bakery products. This translated in lower prices in the restaurants, miscellaneous goods and services, as well.

Inflation Year-on-Year Growth Rates	Dec 2018	Nov 2018	YTD
All items	5.1%	6.0%	5.2%
Food and Non-Alcoholic Beverages	6.7%	8.0%	6.8%
Alcoholic Beverages and Tobacco	21.7%	21.8%	19.9%
Clothing and Footwear	2.8%	2.7%	2.3%
Housing, Water, Electricity, Gas, and Other Fuels	4.1%	4.2%	4.0%
Furnishing, Household Equipment and Routine Maintenance of the House	3.8%	4.0%	3.1%
Health	4.8%	4.5%	3.4%
Transport	4.0%	8.9%	6.5%
Restaurants and Miscellaneous Goods and Services	4.3%	4.5%	3.6%

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

Softer prices of fuel resulted in the downtrend of the housing, water, electricity, gas and other fuels (HWEGOF) despite higher electricity cost. The international prices of crude oil (i.e., WTI and Brent) plunged by 13.1% m-o-m in December to $49.5/barrel and 10.8% to $57.2/barrel, *The imports of capital goods continued to register at fast double-digit growth pace, showing a 21.2% y-o-y expansion in October and marking the 6th out of 10 months of above-20% gains.*

respectively. Meralco rates, on the other hand, increased to P10.18/kWh from P10.09/kWh in December amidst higher power costs from Power Supply Agreements (PSAs) and Independent Power Producers (IPPs).

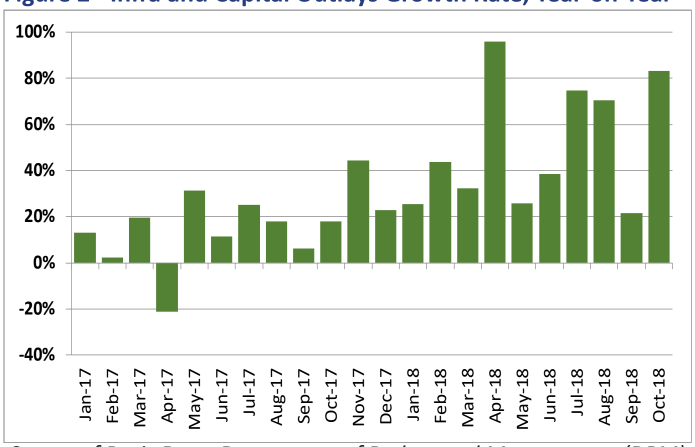
Alcoholic beverages and tobacco, and furnishing, household equipment and routine maintenance of the house also registered slower upticks. Meanwhile, the other indices showed gains (save for Education, Communication, Recreation & Culture which remained unchanged from last month).

Seasonally-adjusted annualized rate (SAAR) further decelerated to -4.9% from -3.7% in November. We now think that price increments will continue to decelerate faster than earlier expected in 2019. And so we project the inflation rate to go below 4% in Q1 and below 3% by Q3. This is still anchored on future price slowdown (y-o-y) in fuel, rice and other major food commodities. We expect full-year inflation in 2019 to dramatically slowdown to 3% to 3.5% from 5.2% in 2018.

NG Spending Records 18.5% Expansion in November

The National Government's (NG) Build-Build-Build program gained further traction as infrastructure and other capital outlays, comprising the bulk of capital spending, showed impressive gains of 43.6% to reach P62.9 B in November. Total NG spending in November continued its double-digit expansion with an 18.5% y-o-y gain to P298.8 B in November, albeit slower than the 35.2% posted in October. Higher disbursements on maintenance and other operating expenses (MOOE) and on infrastructure brought the year-to-date (YTD) level to P3.1 T, 24.1% higher than a year-ago.

Figure 2 - Infra and Capital Outlays Growth Rate, Year-on-Year



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

Meanwhile, total revenues in November reached P259.7 B (+6.7% y-o-y), resulting in a fiscal deficit of P39.1 B for the month. YTD budget deficit totaled P477.2 B which represented 91% of the year's total target deficit of P523.7 B, leaving enough fiscal space for the last month of 2018.

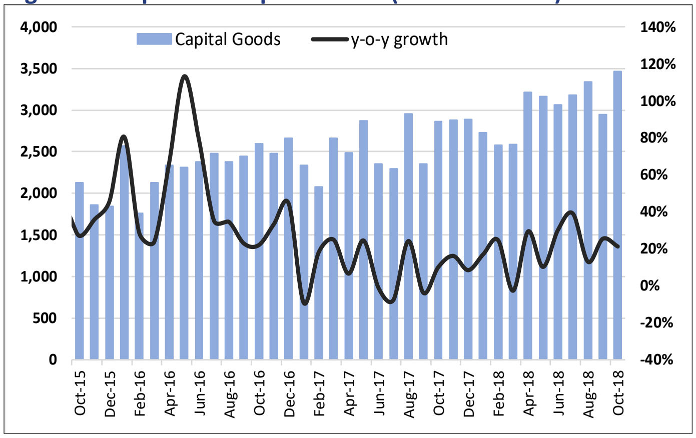
Revenue gains for the month relied on a 3.3% expansion in Bureau of Customs' (BoC) collections sustained by higher imports of capital goods, raw materials and mineral fuels. The Bureau of Internal Revenue (BIR) raked in a total of P192 B, 7.1% higher over a year ago level. YTD BIR tax revenues stood at P1.8 T, an 11.9% increase over the same period last year, while the BOC's YTD collections reached P538.5 B, 9.8% above YTD November 2017.

We believe that NG disbursements will continue to record an uptrend given NG's strong commitment to fast-track the implementation of various public infrastructure projects.

Capital Goods Imports Maintain Above-20% Gains in October

The imports of capital goods continued to register at fast double-digit growth pace, showing a 21.2% y-o-y expansion in October and marking the 6th out of 10 months of above-20% gains. Broad-based gains driven by large demand for big-ticket import products (i.e., telecommunication and electrical machinery, +7.1% y-o-y), along with the whooping gains of 200% y-o-y in the imports of aircrafts, ships and boats sustained capital goods imports.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

The Volume of Production Index (VoPI) continued to expand by 1%, but slower than the 3.2% recorded in October.

As usual, raw materials & intermediate goods imports captured the largest share of total imports at 37.7%, registering a significant increase of 22.2% y-o-y. Large demand for unprocessed and semi-processed raw materials (especially the manufactured items such as iron, steel, non-ferrous metals and non-metallic minerals, paper) drove growth in this sector. Mineral fuels, lubricant and related materials category also posted a hefty 45.4% (y-o-y) increase, much faster than last September, due to higher prices of crude oil and petroleum products in the world market. Moreover, the continuous demand for durable (i.e., passenger cars and home appliances) and non-durable goods (i.e., beverage, articles of apparel, among others) sustained gains in consumer goods imports to record a 7.5% y-o-y increase.

The positive performance in all categories drove total imports higher by 21.4% y-o-y to reach $10.3 B, outpacing total exports. Thus, the country accrued a total of $4.2 B trade deficit in October, setting another record high. This brought YTD trade deficit to $33.9 B, zooming up by 68.5% from a year ago. Full-year trade deficit should reach some $40 B, which would be 12.1% of GDP, not far from the record 12.9% reached in 1996 before the Asian Financial Crisis.

Manufacturing Output Slowdown in November

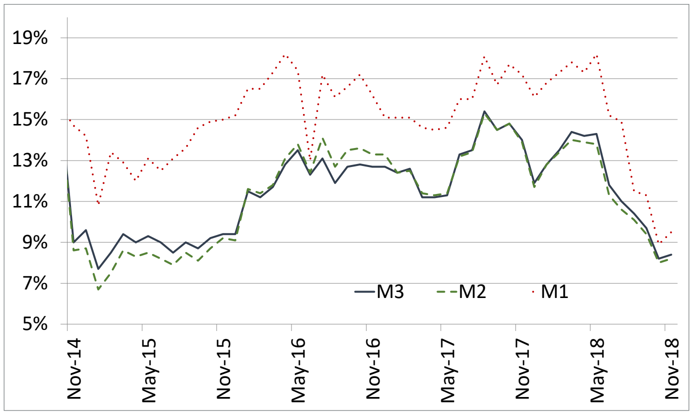
The Volume of Production Index (VoPI) continued to expand by 1%, but slower than the 3.2% recorded in October. Gains in 14 out of 20 industries, with seven of the growth industries showing double-digit increases, supported manufacturing output growth. Textiles led the expansion with a 45.8% jump, followed by miscellaneous manufactures (+25.6%) and petroleum products (+22%).

Tobacco products, basic and fabricated metals joined the outperformers as their outputs climbed by 21.1%, 2.6% and 3.2%, respectively. On the other hand, machinery, except electrical basic and chemical products, originally in the positive list now join the losers.

Monetary Growth Expands in November

Domestic liquidity (M3) expansion in November bucked the previous months' trend, with growth a tad faster at 8.4% (or P11.3 T) from the 8.3% (revised) y-o-y recorded in October. On a seasonally adjusted annualized rate basis, M3 growth was a mere 6.2%. Narrow (M1) and broad money (M2) growth, likewise, moved slightly higher to 9.5% and 8.2%, respectively. The single-digit growth that started in September shows the effectiveness of BSP's policy rate hikes.

Figure 4 - M1, M2 & M3, Year-on-Year



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

Commercial bank loans outstanding which comprised 88.6% of banks' loan portfolio, meanwhile, expanded at a slower pace of 17.2% y-o-y from 18.7% in October. 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. Net foreign assets (NFA) of monetary authorities also remained negative at 2%, albeit slightly better than -3.9% in October.

Given the rapid deceleration of inflation (y-o-y) into within BSP's target range of 2% to 4% by Q1 and below 3% by Q3, we think that the Monetary Board (MB) will likely provide banks' need to comply with the Liquidity Cover Ratio (LCR) mandated by BSP via reserve requirement reduction of 2% points in Q1. As inflation falls below the 3% barrier and interest rates abroad remaining soft, we think that BSP will reduce its policy rates in H2 to an extent needed to boost the economy which had slowed down in 2018.

Revised Exports Data Showed Positive 5-Month Streak Since June

October exports print showed a 3.3% increase (to $6.1 B), continuing the positive streak since June, with the upward revision of September to 0.8% from -2.6% for preliminary data. YTD, exports recorded a 1.4% slump pulled down by

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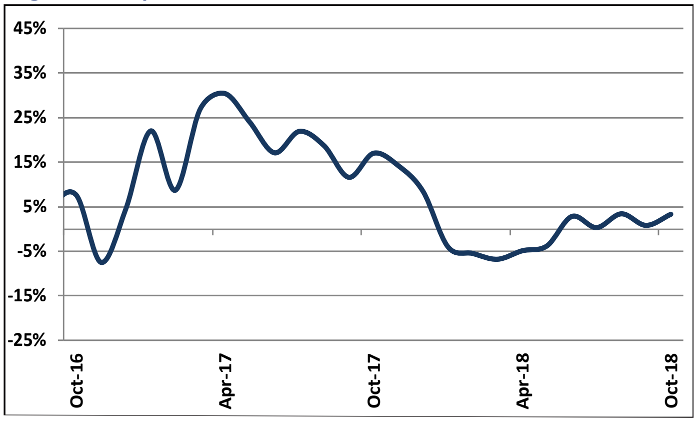
five out of 10 months decline in exports demand -- a huge turnaround from the 19.8% recorded in the same period last year.

Figure 5 - Exports Growth Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Electronic products continued to be the top export products accounting for 53.2% of total exports, with earnings posting an almost flat expansion (+0.6% y-o-y to $3.3 B). Semiconductors, which had the biggest share among electronic products (at 38.9% of total exports), declined by 2.3% y-o-y, to $2.4 B. Exports of ignition wiring set and other wiring sets, likewise, fell by 4.1% to $170.3 M to capture the 5th slot. The rest of the top five export products increased, led by machinery and transport equipment which posted a hefty expansion of 94.1%. Exports of other manufactured goods and bananas also registered 24.3% (to $451.4 M) and 30.9% (to $178.8 M) gains, respectively.

US still took the lion's share, accounting for 16.3% of the total exports. Outbound shipments to the US, as well as in China, registered gains of 18% and 4.4%, respectively. Exports to Japan (2nd place) and Hong Kong (4th) remained lethargic with declines of 7.5% and 7.3%, respectively. Exports sales to Singapore (in 5th place) also fell by 3.1%.

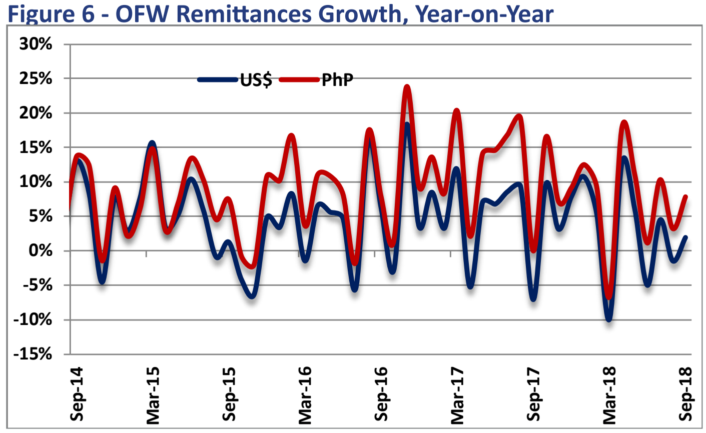
Half of the total exports in October still headed towards East Asian (EA) nations, valued at $2.9 B. Outward sales to the region contracted by 5%, tracking weak demand from Japan and Hong Kong. Meanwhile, shipments to the US significantly increased by 18% to $996.9 M. Exports to ASEAN, likewise, showed a 9.2% increase with receipts amounting to $977 M.

We think that export growth will remain positive as demand from China recovers, but we still foresee a sober expansion in outbound shipments in 2019.

Personal Remittances Up by 8% in October

Personal remittances sent by Filipinos working abroad climbed by 8% in October to $2.8 B, much faster than the past month's gain as OFWs poured money into the system in preparation for the holiday season. This resulted in a YTD level of $26.5 B, 2.9% higher than in the same period last year. Inflows coming from sea- and land-based workers with at least one-year contract supported remittances flow (+2.8%), boosted further by the 4.2% gains of those with less than one-year contract. Cash remittances (i.e., coursed through banks) also increased by 3.1% (or $23.8 B) in January to October amidst strong transfers from the US, Canada and Taiwan, among others.

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



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

Tracking higher inflows, the peso equivalent for October of personal remittances likewise posted a 13.6% increase supported by the 5.2% (y-o-y) peso depreciation. We believe that remittances will continue to chalk up gains in the remaining months as OFWs relatives are on Christmas spending spree.

Peso Ends 2018 in the Green

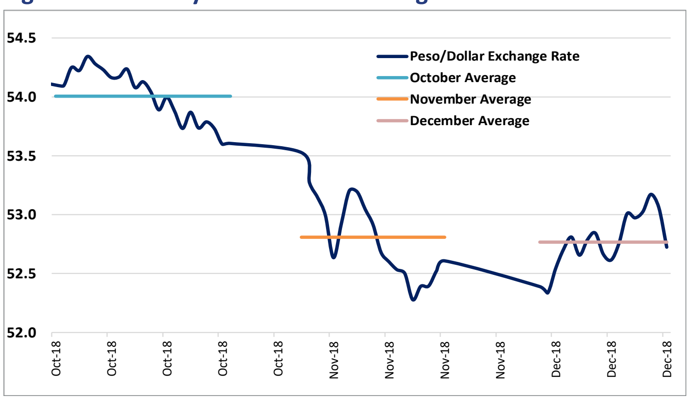
The Philippine peso ended the year with modest strength, after a series of peso depreciation (save for August and November). Concern over slowing global growth and weaker-than-expected economic data in the US (i.e., manufacturing and housing data) halted the dollar's rally. Data from the Institute for Supply Management (ISM) showed a lackluster

With the huge fall in inflation in December, we now see a faster deceleration of inflation rate to below-4% in Q1-2019 and below-3% by Q3-2019, with the full-year at 3% to 3.5%, fairly midway BSP's 2% to 4% inflation target.

US manufacturing print, registering its lowest since November 2016. Higher dollar receipts from Filipinos working abroad also provided a stronger run for the peso.

The peso averaged P52.77/$ in December, representing a 0.7% appreciation from November. The volatility measure narrowed to 0.23 from 0.36 in November as the pair hovered between a high of P53.17/$ and a low of P52.34/$.

Figure 7 - Monthly Dollar-Peso Exchange Rates



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

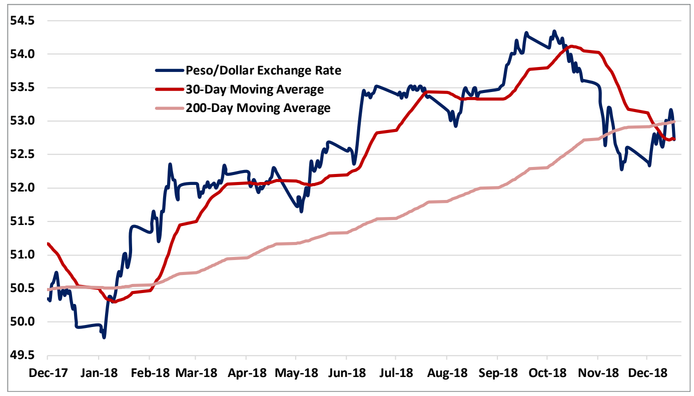
Most emerging currencies firmed up against the US dollar with rupee (INR) taking the lead, supported by India's strong forex reserves. Indonesia's rupiah (IDR) remained strong, tracking large decline in international prices of crude oil and bullish equity market. Meanwhile, the yuan, baht and ringgit, reversed previous losses, following the dollar's weakness.

Exchange Rates vs USD for Selected Asian Countries			
	Nov-18	Dec-18	YTD
AUD	-1.9%	1.0%	6.4%
CNY	0.4%	-0.6%	4.5%
INR	-2.2%	-1.7%	10.1%
IDR	-3.1%	-1.4%	7.0%
KRW	-0.4%	-0.3%	3.6%
MYR	0.6%	-0.2%	2.3%
PHP	-2.2%	-0.1%	4.7%
SGD	-0.2%	-0.3%	1.8%
THB	0.6%	-0.7%	0.3%

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

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

Figure 8 - Dollar-Peso Exchange Rates & Moving Averages



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

The month-end actual USD/PHP rate in December lodged below the 200-day moving average (MA) but above the 30-day MA, suggesting stronger peso in the longer term due to a perceived weakness in the US dollar. The country's huge trade deficits and the need to shore up the country's dwindling international reserves should again, however, put pressure on the peso in the coming months.

Outlook

The dramatic plunge of crude oil prices in the last two months of 2018 has had a significant impact on domestic and global inflation.

- With the huge fall in inflation in December, we now see a faster deceleration of inflation rate to below-4% in Q1-2019 and below-3% by Q3-2019, with the full-year at 3% to 3.5%, fairly midway BSP's 2% to 4% inflation target. Weak crude oil prices, projected by the US Energy Information Administration to average some 17% lower than 2018, should contribute much to this downward trend.

- In the real economy, investment-led growth should continue to dominate 2019. Not only have infrastructure and government spending traced an elevated growth path, but also private investments, as seen in robust capital goods imports and private construction, including accelerating PPP accomplishments, should provide strong support. Thus, we expect double-digit investment spending growth in 2019.

- Consumer spending, which slowed to a 4-year low in Q3-2018, should have a strong recovery back to 6%, given the fast pace price declines to bring inflation back to well

NG spending should still grow by double digits, but it will keep the budget deficit to within 3.2% of GDP as planned.

within the 2-4% BSP target for 2019. Election spending and more jobs should put the added boost.

• With the new expected trajectory of inflation, we think that monetary policy tightening has ended, and with inflation down to below 4% (y-o-y) in Q1, BSP will likely provide more liquidity to banks (especially due to Basel-3 requirements) via lower reserve requirements and more purchases of foreign exchange, also as BSP rebuilds its GIR.

• NG spending should still grow by double digits, but it will keep the budget deficit to within 3.2% of GDP as planned.

• Export growth should remain in positive territory, but at a modest rate, considering the slowdown in Japan and China. The US export market should remain attractive as economic growth there should persist at 2.5% or over. We don't expect a recession in 2019.

• While we expect much volatility for the exchange rate, we think the large trade deficits, the need to rebuild GIR, and the strong US economy (in contrast with weaker Japan and China) should renew the pressure on the peso over the course of 2019.

In terse, despite the slightly weaker global economic growth, we think that the Philippine economy, relying as it does on solid domestic demand, should grow faster than 6.2% in 2018 to 6.8% to 7.2% in 2019. The lower base for 2018 will help attain this year's pace of expansion.

MARKET REMAINS CAUTIOUS AT END OF 2018

The Philippine bond markets ended 2018 in a cautious mode despite a sharp fall of inflation in November as bids in the auctions of government securities (GS) eased slightly while yields at the long end of the curve held relatively steady. The secondary market saw similarly lower volume turnover and flatter yield curve as yields rose at the short-end but fell at the long-end. The global economic slowdown and geopolitical uncertainties kept investors wary about getting into risky assets.

The start of 2019, however, changed the market's mood to one of more optimism. In the first three weeks of January, bond yields have dropped by 61.1 basis points (10-year) to 81.5 bps (2-year), as inflation for December braked to 5.1% from 6.7% as late as October 2018. Banks need to meet Liquidity Cover Ratio (LCR) required by the Bangko Sentral ng Pilipinas (BSP) kept short-term rates elevated.

Outlook: With the Fed on "pause" in its policy rate hikes cycle and empirical evidence showing fundamental reasons bringing down natural real interest rates to below 1%, external factors will count for little especially with the global slowdown. These, together with our view that domestic inflation will decelerate sharply and go below 4% (year-on-year, y-o-y) by Q1 make us more optimistic for bond investments, even though short-term money remains tight.

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
03-Dec	91-day	4	6.8	4.0	1.7	5.4	
	182-day	5	13.0	5.0	2.6	6.3	
	364-day	6	15.8	6.0	2.6	6.5	
10-Dec	91-day	4	7.7	4.0	1.9	5.4	
	182-day	5	8.5	5.0	1.7	6.3	
	364-day	6	7.4	6.0	1.2	6.6	
17-Dec	91-day	4	6.6	4.0	1.6	5.3	5.0
	182-day	5	5.9	-	1.2	-	2.5
	364-day	6	6.9	-	1.1	-	-2.7
Subtotal		**45**	**78.4**	**34.0**	**1.7**		
04-Dec	10 year	15	49.4	15.0	3.3	7.0	-106.0
11-Dec	7 year	15	29.9	15.0	2.0	7.1	11.6
Subtotal		**30**	**79.3**	**30.0**	**2.6**		
All Auctions		**75**	**157.7**	**64.0**	**2.1**		

Source: Philippine Dealing Systems (PDS)

GS Auctions: Slightly Fewer Bids with Stable Yields

The month of December ended with a total amount tendered by bidders decreased by 37% to P157.7 B, representing a tender-offer ratio (TOR) of 2.1x compared to 2.3x in November. This mirrored Bureau of the Treasury's (BTr) total offering of P75 B in December which fell 28.6% from P90 B a month ago. TORs for longer tenors showed slightly weaker demand, with TORs sliding to 2.6x compared to 3.1x a month ago. Similarly, TORs for short dated papers saw a 6% decrease to 1.7x compared to 1.9x in the previous month.

Bureau of the Treasury (BTr) rejected all the bids for the 182-day and 364-day Treasury bills (T-bill) auctioned on December 17, the last one for 2018. The P5 B offer for 182-day T-bills and P6 B offer for 364-day T-bills fetched tenders that barely exceeded offers, with 1.1x and 1.7x TORs, respectively.

Meanwhile, BTr fully awarded the bids for the 7-year and 10-year bonds on offer. All the tenders for the 7-year and 10-year Treasury bonds offered (totaling P30 B), easily exceeded the securities on offer, with TOR of 2.6x and so the BTr accepted all the bids.

Based on TORs, investors showed marked preference for longer-dated T-bonds as they priced in expectations of inflation slowing down in 2019. Their TOR of 2.6x showed up much higher than 1.7x for the T-bill auctions.

Despite less tenders, yields remained relatively stable, while end-December yields on 10-year T-bonds plunged to 6.975%, a fall of 106 bps from the previous month. The November surge for this tenor clearly emerged as an outlier. For the 7-year issue, the average yield moved up by 11.6 bps to 7.09%. The 91-day, 182-day and 364-day T-bills auctions ended 2018 with yields of 5.323%, 6.344% and 6.585%, respectively. These yields had soared from 2.321%, 2.577% and 2.925%, respectively, in the last accepted

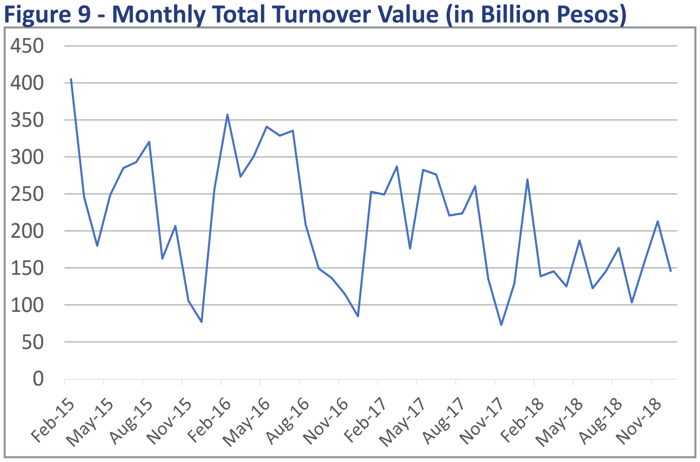
Trading of government securities (GS) in the secondary market eased in December as turnover fell by 31.5% (m-o-m) to P149.5 B from November.

auction of 2017 (November, as BTr rejected all bids in the December auctions). The huge jump in yields amounted to 318 bps, 378 bps and 363 bps for 91-day, 182-day and 364-day T-bills, respectively, as banks scrambled for meet BSP's liquidity cover ratio requirements (mandated by Basel 3) and the push from accelerating inflation during the year.

Secondary Market: Lower Volume and Very Flat Yield Curve

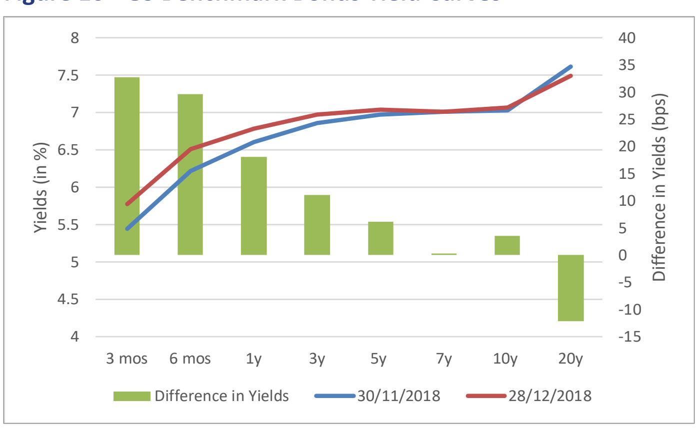
Trading of GS in the secondary market eased in December as turnover fell by 31.5% (month-on-month, m-o-m) to P149.5 B. However, it still bested a year ago's tally of P129.5 B or 12.7% higher. For the full year, trading reached P1.9 T, but this came 24.7% lower than P2.6 T in 2017. Clearly, 2018 proved to be a bad year for bonds, especially with continuously higher interest rates on the table throughout the year.

Figure 9 - Monthly Total Turnover Value (in Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 10 - GS Benchmark Bonds Yield Curves

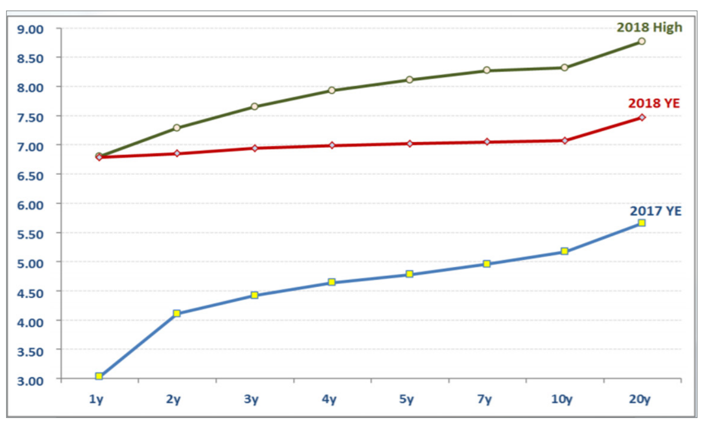


Source: Philippine Dealing Systems (PDS)

Yields at the short end of the curve rose further while for the belly and long tenors (5-year to 20-year) we saw only a minor and progressively lower upticks of 0.3 bps to 6.2 bps and even lower by 12.1 bps for the 20-year tenor. As banks scampered for funds to boost liquidity in their balance sheets, for the 3-month horizon, yields shot up by 32.8 bps to 5.776%, while for the 1-year tenor only jumped by 18.1 bps to 6.783%. The 20-year bonds yielded 7.491%, while 10-year bond yields went up by 6.2 bps to 7.065%. The 7-year tenor hardly moved (up by 0.3 bps) to 7.014%.

The yields' upward thrust during the year was massive. This may be seen in the chart below which shows 3-month debt papers' yields posted a huge 375 bps increase from the end of 2017 to December 2018. The jump had reached a year high on October 22, 2018 which saw similar gains throughout the curve. However, as the year drew to a close, longer tenors eased, as inflation decelerated sharply, while the short-end remained elevated. Thus, we can see a major flattening of the curve by end of 2018.

Figure 11- Yield Curve (Year-end 2018 vs. Year-end 2017)



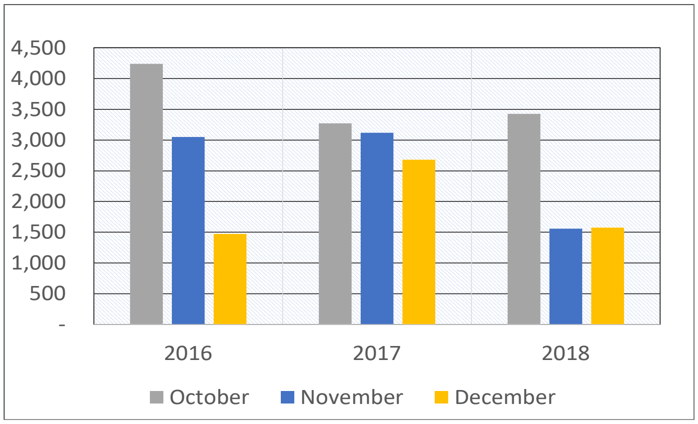
Source: First Metro Investments Corporation

Corporate Trading: Still Weak, Especially for Top Five Issuers

Secondary market trading of corporate bonds volume came at P1.6 B in December, improving by 1.1% m-o-m but slumping by 41.1% y-o-y. In terms of the quarterly volume, Q1 garnered the most volume at P7.4 B while Q4-2018 finished third with P6.6 B. Total trading for 2018 reached P27.5 B, a 39.2% decline from the previous year's mark of P45.2 B. This came in step with the drop in secondary trading volume for GS (see above).

Following the December Fed policy rate hike, Philippine dollar-denominated bond (ROPs) yields dropped for all the two liquid longer tenors.

Figure 12 - Total Corporate Trading Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Total bond trading volume of five leading corporate issues – SM Prime Holdings (SMPH), San Miguel Brewery (SMB), Ayala Land, Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC) – fell by 9.3% (m-o-m) in December, although each followed different paths.

Claiming the top spot from ALI, SMB topped total trading with P287 M, up by 101.2% m-o-m. ALI and AC came in second and third, as the former traded P126.9 M as it slowed down by 51.3% m-o-m, while the latter traded P99.2 M, up by 69.4% m-o-m, respectively. SMPH followed at P79.1 M, down by 50%. Of the top five, SMIC brought up the rear, with a small P19.7 M total trading for the month of December, down by 63.6%.

Corporate Issuances and Disclosures

Despite elevated interest rates, we still saw a few issuances/listings in December. We had reported last month on the Bank of the Philippine Islands (BPI) and Unionbank of the Philippines (UBP) issues. Two more issuances occurred in December.

- Phoenix Petroleum Philippines Inc. (PNX) issued P7 B of short-term commercial papers on December 27 and listed the same with Philippine Dealing and Exchange Corporation (PDEX) on the same date.

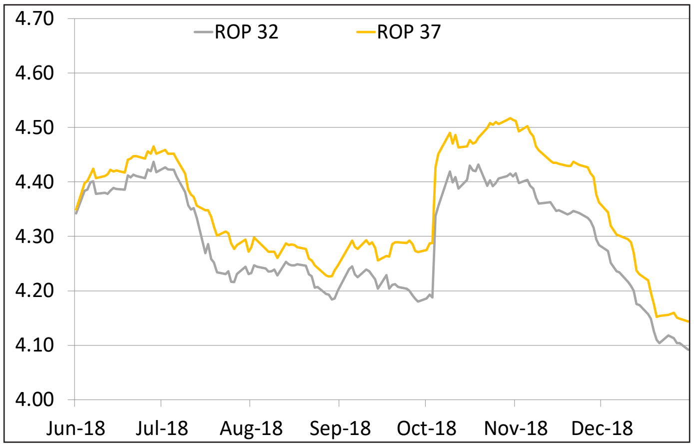
- Vista Land & Landscapes, Inc. (VLL) issued P10 B worth of 5-year (due 2023) and 7-year retail bonds on December 21, the last for the year. The 5-year bonds fetched a coupon rate of 8%, while the 7-year bonds came with an 8.25% coupon rate. The original plan was to issue only P5 B from its P20 B shelf registration, but with the oversubscription, the total issue doubled. The disclosures did not specify the amount allocated for each tenor.

- Phoenix Petroleum Philippines, Inc. also announced its board approval to issue P10 B worth of perpetual bonds. No further details on the planned issue surfaced as the Securities and Exchange Commission (SEC) still has to approve its registration.

ROPs: Long Term Yields Drop but US Treasuries Fall Faster

Following the December Fed policy rate hike, Philippine dollar-denominated bond (ROPs) yields dropped for the two liquid longer tenors. ROP-32, with 16 years from maturity, declined by 19.2 bps from 4.284% to 4.92%. ROP-37, with 19 years to maturity, similarly saw a 21.8 bps drop from 4.362% to 4.144%.

Figure 13 - Yields of Selected ROPs, May 2017 to Nov 2018



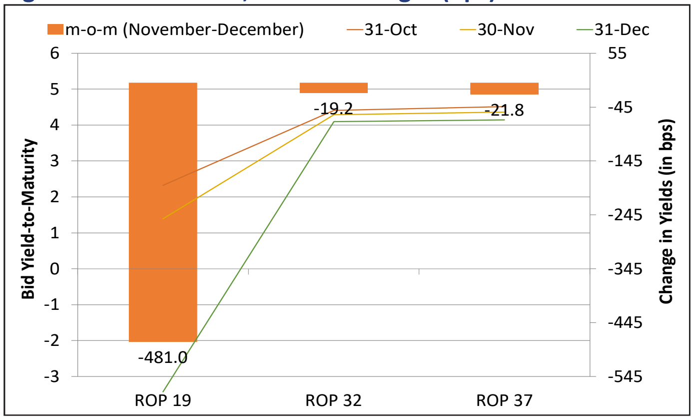
Sources: Bloomberg & First Metro Investment Corporation (FMIC)

In comparison, US treasury rates of similar tenors show that the 2-year US T-bond dropped by 17.25 bps to 2.6875%, the 15-year US T-bond yield declined by 28.25 bps to 2.913% from 3.195% a month ago, and the 20-year T-bond inched down by 28.5 bps to 2.985%. In general, the movements in ROPs followed those of US treasuries but at a slightly slower pace. Thus, the spread between ROPs and equivalent US Treasuries widened to 117.9 bps for the ROP-32 and 15-year US T-bond yield from 108.9 bps a month ago. For ROP-37 versus the 20-year US T-bond yields, the spread reached 115.9 bps from 109.2 bps in November.

All told, ROPs retain some attractiveness for local investors.

November US unemployment rate slipped to 3.7%, a 49-year low, since the economy added 176,000 jobs (revised). The rate moved up to 3.9% in December (released early January) despite new jobs at an astonishing 312,000.

Figure 14 - ROPs Yield, M-O-M Changes (bps)



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN+2: Varied Yield Curve Movements Seen in the Region

US: November unemployment rate slipped to 3.7%, a 49-year low, since the economy added 176,000 jobs (revised). The rate moved up to 3.9% in December (released early January) despite new jobs at an astonishing 312,000. The unusual rise in the unemployment rate could be traced to the increase in the labor participation rate in December to 63.1% from 62.9% a month ago and 62.7% a year ago. This occurred with mild wage gains of 3.4% (y-o-y). The ratio of unemployed persons to job openings remained at 0.9, i.e., there were less unemployed persons than job openings. A previous low of this ratio occurred in April 2007 at 1.4. In short, the US can continue to grow with relatively tame wage growth in 2019.

The Institute for Supply Management (ISM) disclosed that the non-manufacturing index (Services) came in at lower-than-expected 57.6 in December, the slowest pace since July 2018, from 60.7 in November. Its employment index slipped by 2.1 percentage points to 56.3. Similarly, activity in the US manufacturing sector continued to expand, but at a much slower pace. The ISM manufacturing index fell to 54.1 in December, its lowest level since November 2016. Economists polled by Refinitiv expected the index to slip to 57.9 in December, down from 59.3 in November.

On the other hand, warehouse sector continued to boom as online shopping, particularly during the holiday season, boosted the number of items returned to retailers every year. Since, 2012, warehouses have experienced a surge in demand as e-commerce and online services continued to grow. Although there were concerns among analysts earlier in 2018 that the trade war might hurt demand, US economic growth has so far negated those fears. Warehouse construction surged, especially near large cities and transportation hubs with the national vacancy rate at 4.3%, the lowest in 20 years.

China: With Q4 GDP growth at only 6.4%, China's full-year GDP expanded by 6.6%, the slowest pace since 1990. It marked the third consecutive quarter of slowdown. UBS expected a further slowdown to 6.1% in 2019. The newly released data were supported by the sharp deceleration of exports from 15.5% y-o-y in October to 5.4% y-o-y in November. The weaker y-o-y growth in exports emerged despite a reported frontloading of exports ahead of the implementation of tariffs amid the ongoing trade dispute between China and the US. Import growth also declined to 3% y-o-y in November from 20.8% y-o-y in October. China reported a trade surplus of $44.7 B in November, up by 28.4% from $34.8 B a month ago.

Consumer prices rose 2.2% y-o-y in November after gaining 2.5% y-o-y in October. The slower y-o-y uptick drew mostly from smaller increases in food, tobacco and liquor prices, which rose 2.5% y-o-y in November, down from 2.9% y-o-y in October. Transportation and communication eased to 1.6% y-o-y or about half the pace in October (3.2%) and contributed to the milder inflation.

China also announced that overseas institutional investors will be exempt from corporate income taxes and value-added taxes on interest income from bond investments in the country effective November 7, 2018 and lasting for a period of three years. The government said that the move formed part of its efforts to open up China's bond market to foreign investors. The exemption will not apply to local firms established by foreign institutions.

With most indicators suggesting a further downside on GDP growth, the People's Bank of China (PBOC) may have to resort to cutting its reserve requirements both to provide liquidity and more lending to both consumers and producers.

The yield curve flattened as spreads between the 10-year T-bond and the 2-year T-bond yield plunged by 61 bps to end up just at 50 bps by yearend.

Malaysia: Malaysia's industrial production growth pace nearly doubled in October to 4.2% y-o-y from 2.3% in September, with all production indices recording growth

Thailand's economy expanded 3.3% y-o-y in Q3-2018, easing from 4.6% y-o-y in Q2-2018 and from the 5-year high of 4.9% y-o-y posted in Q1, driven by domestic demand as external demand weakened during the quarter.

during the month. Manufacturing output increased to 5.4% y-o-y in October from 4.8% in the previous month, propelled by rising production of transport equipment and other manufactures; electrical and electronics goods; and petroleum, chemicals, rubber, and plastics. World Bank economists projected a 4.7% GDP growth in 2019 similar to the expected growth in 2018.

Malaysia's exports in October accelerated to a 17.7% expansion (to $23.5 B) from 6.5% y-o-y in September. Electrical and electronic products remained Malaysia's top export, comprising 39.8% of the total amidst growth of 23.3% y-o-y. Total imports amounted to $19.5 B, led by consumption and intermediate goods as imports of capital goods declined. Malaysia's trade surplus, thus, surged by 86.6% y-o-y to MYR 15.3 B ($3.7 B).

Malaysia's inflation (CPI-based) accelerated to 0.6% y-o-y in October from 0.3% in September, in line with market expectations. Faster, but not harmful, inflation originated from larger y-o-y price adjustments for food and non-alcoholic beverages (1.2% y-o-y), restaurants and hotels (1.2% y-o-y), and transport (0.8% y-o-y). Prices of housing, water, electricity, gas and other fuels, and education increased 2.1% y-o-y and 1.1% y-o-y, respectively in October, the same rates as in the previous month.

The country's yield curve remained fairly flat with only a 63 bps difference between the 10-year and 2-year government bonds, albeit a tiny 3 bps higher than in November.

Indonesia: Headline inflation (using CPI) slightly rose in Indonesia to 3.23% (y-o-y) in November from 3.16% a month ago, marking the second consecutive month of an uptick in inflation. Among the major expenditure groups, food and processed food accounted for the largest increase, with prices rising 4.3% y-o-y and 4% y-o-y, respectively. These were followed by clothing prices, which rose 3.6% y-o-y. For the January–November period, inflation stood at 2.5%, hitting the lower end of Bank Indonesia's 2018 target range of 2.5%–4.5%.

The Indonesian government tapped the global bond market early in 2019, taking advantage of good market conditions generated by the recently announced trade truce between the US and China. The bond sale formed part of prefunding for the government's 2019 state budget. The government raised a total of $3 B, comprising (i) $750 M of 5-year bonds priced to yield 4.48% and carrying a coupon rate of 4.45%, (ii) $1.25 B of 10-year bonds priced to yield 4.78% and carrying a coupon rate of 4.75%, and (iii) $1 B of 30-year bonds priced to yield 5.38% and carrying a coupon rate of 5.35%.

Domestically, Indonesia's yield curve made only a slight upward move with the spread between the 10-year and 2-year bonds rising by 9 bps to 66 bps. Bank Indonesia's policy rate of 6% remained unchanged and stayed ahead of inflation by at least 220 bps.

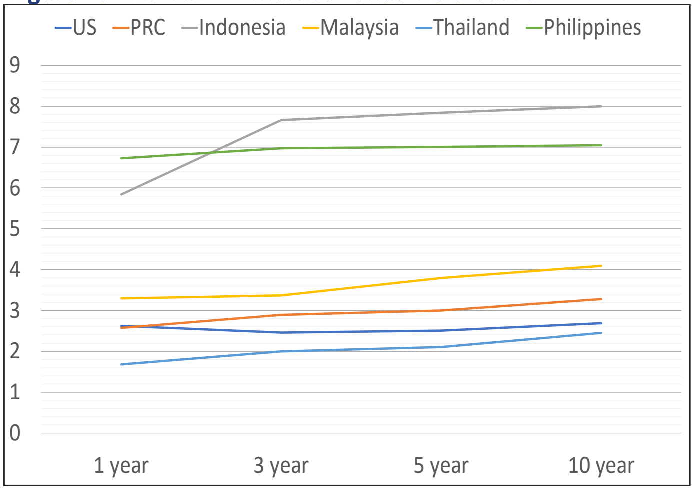
Thailand: Thailand's economy expanded 3.3% y-o-y in Q3-2018, easing from 4.6% in Q2 2018 and from the 5-year high of 4.9% posted in Q1, driven by domestic demand as external demand weakened during the quarter. Faster growth rates in domestic demand for Q3-2018 versus Q2- 2018 showed up in private consumption (5% y-o-y versus 4.5%), government expenditure (2.1% y-o-y versus 2%), and gross fixed capital formation (3.9% y-o-y from 3.7%). Exports declined 0.1% y-o-y in Q3-2018, reversing the growth of 6.8% y-o-y in the previous quarter. Authorities blamed the protracted trade tensions between China and the US, even as imports grew faster at 10.7% y-o-y. On the production side, growth in the agriculture sector decelerated to 4.3% y-o-y in Q3 from 10.2% in Q2, while growth in the non-agriculture sector slowed to 3.3% y-o-y from 4.1%, dragged down by the fall in mining and quarrying output, and slower growth in manufacturing and utilities, even as construction output grew faster.

Inflation in November slowed further to 0.9% y-o-y. While inflation has been positive for 17 consecutive months, it has been slowing since reaching 1.6% y-o-y in August. Lower transportation prices mainly contributed to the deceleration, partially offsetting the upward price adjustments for fresh food products. Transportation rates increased 1.6% y-o-y in November, down from 3.7% in the previous month. Core inflation also slowed to 0.7% y-o-y from 0.8% y-o-y. On a m-o-m basis, consumer prices in Thailand actually declined by 0.2% in November. Bank of Thailand maintained its policy rate at 1.75% after increasing it by 25 bps in November given the weakening growth and inflation.

The government bonds yield curve retained its fairly flat look even though the spread between 10-year and 2-year bonds went a tad lower by 2 bps to 71 bps by end-2018.

US and global interest rates are not expected to rise significantly in 2019.

Figure 15 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Outlook

With global economic growth slowing down, foreign interest rates should also ease, and the Fed's initial hints of a "pause" in their policy rate hikes cycle highlights this likely development, while domestic inflation rapidly decelerates, 2019 promises to be a good year for the bond markets.

• US and global interest rates are not expected to rise significantly in 2019. Apart from the Fed's likely "pause," former Fed Vice Chairman Stanley Fischer, citing empirical findings by Fed and academic researchers, points out that the long-run natural real interest rates have been on a downward trend from some 2% (pre-Global Financial Crisis) to some 0.5% by 2016. He cites non-cyclical factors such as (a) lower growth trend, (b) aging population, which calls for more savings, and (c) slow investments growth, likely affected the two other factors. The average real yields (for US 10-year T-bonds) in 2018 was 0.43%. If we add to 0.5% the Fed's inflation target of 2%, then nominal yields should fluctuate around 2.5%.

• Given the above, domestic factors should primarily drive bond yields in 2019. Since we expect headline inflation rate to drop from 5.2% in 2018 to 3%-3.5% in 2019, yields can fall substantially from where they stood by end-2018.

• Although inflation is the main driver for long-term bond yields, liquidity will also play a role. At present, the banking system feels tightness as it has driven deposit rates to around 6% or higher. This could be a short-term phenomenon as banks strove to meet the liquidity coverage ratio (LCR) required by the BSP under Basel 3, and if the BSP does lower reserve requirements in Q1 by 200 bps as we expect. The liquidity would improve also once the BSP lowers its policy rate by H2 when we expect inflation to go below 3% on a y-o-y basis.

• More firms will take advantage of this situation, if it materializes, especially starting Q2 and as inflation decelerates and liquidity improves.

• ROPs with high coupon rates offer also some attraction given our view that the peso will remain under pressure, albeit more mildly than in 2018.

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 and 2-year spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					Nov-18	Dec-18			
US	2.496	3.026	2.1	0.93	22	53	31	2.50	0.40
China	2.897	3.397	1.6	1.80	111	50	(61)	4.35	2.75
Indonesia	7.288	7.947	3.8	4.15	57	66	9	6.00	2.20
Malaysia	3.526	4.154	3.9	0.25	60	63	3	3.25	-0.65
Thailand	1.93	2.635	1.1	1.54	73	71	(2)	1.75	0.65
Philippines	6.946	7.035	5.2	1.84	33	9	(24)	4.75	-0.45

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

PSEI BEATS GLOBAL DOWNTURN IN DECEMBER AND GLOWS AT START OF 2019

The local bourse survived the December onslaught on stock markets around the world by edging up 1.3% to the end the year at 7,466.02, on top of a 3.2% recovery in November. Thus, the PSEi's tiptoeing in the "bear market" territory appeared to be transitory. The Philippine story continued well into 2019, as it raced up beyond 8,000 to be the top world performer for the first 15 days of the New Year. The sharp deceleration of inflation to 5.1% in December from its peak of 6.7% in September and October allowed investors to take on more risk at the beginning of the year.

Outlook: With our sanguine view that the Fed may raise policy rates only once or none at all this year, the sharp fall in inflation which we expect to go below 3% by Q3 and average well within the Bangko Sentral ng Pilipinas' (BSP) inflation target, and bond yields likely to follow suit, while the economy gets back into faster growth, the solid macroeconomic fundamentals appear quite supportive of the equities market. These, together with our expectation of a 10% growth in EPS and the likely return of the market PE to 5-year average should propel PSEi to reach 8,400 to 8,800 in 2019.

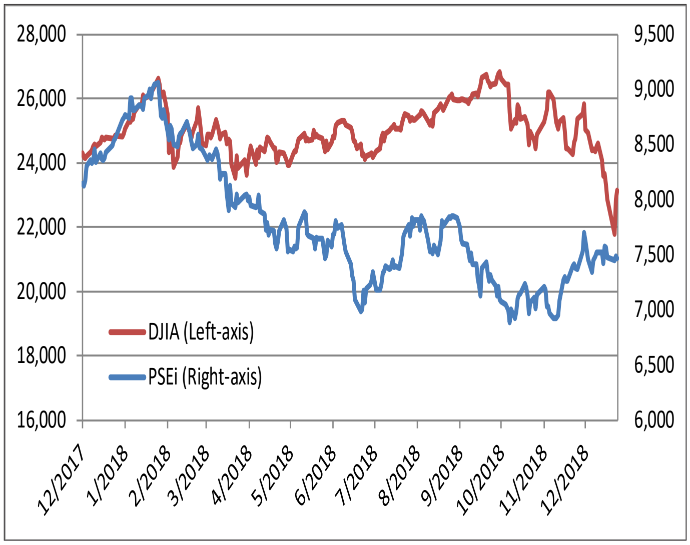
Global Equities Markets Performances

Region	Country	Index	December M-o-M change	2018 change
Americas	US	DJIA	-8.7%	-6.0%
Europe	Germany	DAX	-6.2%	-18.0%
	London	FTSE 101	-3.6%	-12.0%
East Asia	Hong Kong	HSI	-2.5%	-15.3%
	Shanghai	SSEC	-3.6%	-25.5%
	Japan	NIKKEI	-10.5%	-14.9%
	South Korea	KOSPI	-2.7%	-17.7%
Asia-Pacific	Australia	S&P/ASX 200	-0.4%	-6.8%
Southeast Asia	Indonesia	JCI	2.3%	-2.3%
	Malaysia	KLSE	0.6%	-5.2%
	Thailand	SET	-4.7%	-12.1%
	Philippines	PSEi	1.3%	-14.4%
	Singapore	STRAITS	-1.6%	-10.5%

Sources: Bloomberg & Yahoo Finance

December proved to be a challenging month for equities as most bourses around the world ended in the red. A confluence of factors such as concerns surfaced over the appropriateness of the Fed's December policy rate hike of 25 bps, on the lack of tangible progress in the US-China trade conflict, on the US government shutdown, and on the imminent slowdown and regulatory risk of tech firms. Dow Jones (DJIA) posted its weakest December performance since 1931 with its 8.7% plunge. European markets followed suit, with DAX and FTSE 100 recording falls of 6.2% and 3.6%, respectively. Most of Asian markets likewise ended in the red last month, with NIKKEI slumping most with its 10.5% dip. Southeast Asian bourses JCI, PSEi and KLSE became the few exceptions in this downtrend, as they gained 2.3%, 1.3% and 0.6%, respectively.

Figure 16 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

DJIA and PSEi recorded a +0.4 correlation in December although they started moving in slightly opposite directions in the latter half of the month. While Philippine stocks traded sideways in the 7,400-level, DJIA went on a free fall, hitting a low 21,792.20 on Christmas eve, only to recover in the next few days back to the 23,000-level. Negative sentiment pervaded markets as the ongoing trade war between the US and China have reportedly started to affect US companies' bottomline, as tariff costs increased to 2.3% of total value of goods (versus the 1.5% histor-

The Financial sector grew by 11.4% in terms of value for Q4-2018, reversing the sector's 10.2% decline in Q3-2018.

ical average). Uncertainties over a possible protracted US government shutdown added fears among investors. Meanwhile, while tech stocks, like Facebook, Amazon and Alphabet (Google) (FANG), saw share prices fall, as data privacy issues hang over them. Massive revenue cut from China and growing uncertainty from its hardware business sent Apple stocks tumbling as it has lost as much as 35% of the stock's value (since the start of October) by December 24. These conditions were amplified by concerns that the US Fed's recent tightening of monetary policy could possibly slowing down the economy and financial markets.

Monthly Sectoral Performance				
	29-Nov-18		28-Dec-18	
Sector	Index	% Change	Index	% Change
PSEi	7,367.85	3.2%	7,466.02	1.3%
Financial	1,758.25	9.4%	1,779.85	1.2%
Industrial	10,655.14	0.1%	10,951.36	2.8%
Holdings	7,230.90	3.2%	7,341.81	1.5%
Property	3,601.14	3.0%	3,627.98	0.7%
Services	1,401.55	-4.2%	1,442.71	2.9%
Mining and Oil	8,487.63	-11.3%	8,200.50	-3.4%

Source of Basic Data: PSE Quotation Reports

Amidst investors shying away from equities in other markets, the local bourse sustained November's gains with a slight uptick of 1.3% in December. PSEi continued the previous month's momentum to reaching a high of 7,703.92 as investor's cashed in gains in the first week of December. For most of the month, PSEi moved sideways along the 7,400-level, ending 2018 at 7,466.02. The Services and Industrial sectors benefited most, with their constituent stocks' prices rising by 2.9% and 2.8%, respectively. Holdings, Financial, and Property, likewise, ended in the green, experiencing upticks of 1.5%, 1.2%, and 0.7%, respectively. On the other hand, Mining and Oil extended November's decline with a 3.4% loss in December, although a deceleration from the previous month's 11.3% slump.

Company	Symbol	11/29/18 Close	12/28/18 Close	% Change
Metrobank	MBT	74.60	80.95	8.5%
BDO Unibank, Inc.	BDO	130.20	130.80	0.5%
Bank of the Philippine Islands	BPI	94.00	94.00	0.0%
Security Bank Corporation	SECB	161.00	155.00	-3.7%

Source of Basic Data: PSE Quotation Reports

The Financial sector grew by 11.4% in terms of value for Q4-2018, reversing the sector's 10.2% decline in Q3-2018. Most of the sector's constituent stocks accelerated their gains as banks recorded increased net income driven by higher interest earnings (that is compared to their H1-2018 performance) due to their expanding loan portfolios complemented by elevated interest rates. Metropolitan Bank and Trust Company (MBT) and Bank of the Philippine Islands (BPI) emerged as Financial sector's biggest share price gainers in Q4, with 20.8% and 12.8% increases, respectively.

Constituent stocks in the Financial sector experienced 1.2% growth in value in December. MBT's stock price rallied by 8.5%, becoming the sector's highest gainer in value for December, solidifying MBT's recovery that started in October. The bank disclosed during the month that its reissuance of its peso-denominated bonds raised P18 B, proceeds of which will fund the bank's core lending business and will support its future expansion plans.

On the other hand, BDO Unibank, Inc.'s (BDO) share prices experienced an uptick of 0.5% last month, a slight recovery during the month-end after a volatile month of trading. BDO's subsidiary BDO Private Bank (BDOPB) obtained from New-York based Global Finance magazine recognition as one of the world's best private banks and the best in the Philippines.

BPI recovered after a huge sell-off in the middle of December, ending flat by month-end. State-owned Singaporean firm GIC Private Ltd. increased its stake to 5% in BPI after transactions in the PSE for the past two months. On the other hand, the bank also reported that it has issued P25 B worth of peso-denominated bonds which should shore up its lending activities.

Security Bank Corporation (SECB) lost 3.7% of its value in December, as its share prices likewise dropped in the middle of the month, as the bank disclosed that it is joining the list of Philippine banks issuing peso-denominated bonds for its lending activities after its board approved a huge P50 B peso-denominated bond program.

Industrial sector shares gained 2.9% in Q4-2018, posting a higher increase compared to its 2.2% uptick in Q3-2018.

Company	Symbol	11/29/18 Close	12/28/18 Close	% Change
Meralco	MER	384.20	380.00	-1.1%
Aboitiz Power	AP	31.70	35.10	10.7%
Jollibee Foods Corporation	JFC	278.40	291.80	4.8%
First Gen Corporation	FGEN	17.72	19.98	12.8%
Universal Robina Corporation	URC	128.00	127.00	-0.8%
Petron Corporation	PCOR	8.20	7.71	-6.0%

Source of Basic Data: PSE Quotation Reports

Industrial sector shares gained 2.9% in Q4-2018, posting a higher increase compared to its 2.2% uptick in Q3-2018. Energy stocks First Gen Corporation (FGEN), Manila Electric Company (MER) and Aboitiz Power Corporation (AP) posted gains of 19.2%, 11.8%, and 4.9%, respectively in Q4-2018, driven by each company's continued roll-out of new projects while Petron Corporation (PCOR) posted an 11.3% drop in share price as it announced a double-digit drop in earnings aggravated by the tax court's rejection of a multi-million peso refund claim.

Meanwhile, Jollibee Foods Corporation (JFC) continued to be a big gainer in the quarter with its value advancing by 13.5% for the quarter, motivated by its recent M&A deals and overseas expansion. Universal Robina Corporation (URC) recorded the biggest drop in value among the sector's constituent stocks for the quarter, losing 12.1% for Q4-2018, as expectations of lower income due to foreign exchange losses weighed down its share price.

On the other hand, the constituent stocks in the Industrial sector gained 2.8% in value last month. FGEN's stock price reaped the highest increase with a 12.8% jump, as the energy firm announced that it has signed a joint development agreement with Tokyo Gas Company, Ltd. and submitted its bid to build the proposed liquefied natural gas (LNG) terminal facility in Batangas.

Another energy player, AP's share price took a double-digit leap of 10.7% last month. The company announced plans to expand its renewable energy and energy storage portfolios, and that its pilot floating solar energy system project in Magat Dam (a joint venture with SN Power of Norway) may be completed in Q1-2019. Subsequently, AP announced plans to construct a $28 M battery energy storage facility for the said powerplant.

JFC's shares enjoyed a 4.8% surge in December. The fast-food giant disclosed that it has fully acquired US hamburger chain Smashburger following its purchase of an additional 15% stake in the company for $10 M. The company also announced that it has entered into a venture with Tortas Frontera, founded by award-winning Chef Rick Bayless, to build a Mexican fast-casual restaurant chain in the US.

Meanwhile, URC stocks shed 0.8% in value last month as its share prices slid during the month-end. URC's share prices experienced growth during the second week of December as the company reportedly has signified interest in exporting eggs, chilled pork and chicken to Singapore by next year.

MER suffered a minor 1% decline in share price after a sell-off in late-December. This occurred despite MER's announcement that it has entered into a joint venture agreement with Japanese firms Marubeni Corporation, Kansai Electric Power Company, Inc. and Chubu Electric Power Company, Inc., to distribute power in New Clark City. The consortium submitted the lower tariff bid of P0.6188/kWh, besting the Aboitiz-Kepco proposal of P0.9888/kWh. The company's subsidiary Meralco PowerGen Corporation, which entered into a joint venture with SMC Global Power Holding Corporation, also plans to spend P99 B for its 1,200 MW coal project in Mariveles, Bataan.

PCOR's share prices dropped by 6% last month, after Court of Tax Appeals (CTA) ruled against PCORs' petition for a P219 M excise tax refund with its importation of alkylate which is used in the manufacture of unleaded gasoline.

Company	Symbol	11/29/18 Close	12/28/18 Close	% Change
Ayala Corporation	AC	951.00	900.00	-5.4%
Metro Pacific Investments Corporation	MPI	4.70	4.64	-1.3%
SM Investments Corporation	SM	908.50	917.50	1.0%
DMCI Holdings, Inc.	DMC	12.34	12.78	3.6%
Aboitiz Equity Ventures	AEV	52.20	55.00	5.4%
GT Capital Holdings, Inc.	GTCAP	888.00	975.00	9.8%
San Miguel Corporation	SMC	174.70	147.00	-15.9%
Alliance Global Group, Inc.	AGI	11.42	11.90	4.2%
LT Group Inc.	LTG	15.98	16.60	3.9%
JG Summit Holdings, Inc	JGS	48.20	55.70	15.6%

Source of Basic Data: PSE Quotation Reports

Constituent stocks in the Holdings sector extended its 1.5% gain in Q3-2018 by posting a 2.5% increase in value for the last quarter of the year.

Constituent stocks in the Holdings sector extended its 1.5% gain in Q3-2018 by posting a 2.5% increase in value for the last quarter of the year. GT Capital Holdings, Inc. (GTCAP), LT Group, Inc. (LTG), DMCI Holdings, Inc. (DMC), and Aboitiz Equity Ventures (AEV) posted double-digit gains in share prices for the quarter, growing by 18.9%, 15.3%, 12.3%, and 12.2%, respectively, with the support of solid Q3 gains in earnings (except for DMC, whose mining operations dragged Q3-2018 earnings down by 43.8%). Meanwhile, San Miguel Corporation (SMC) recorded the biggest reversal in share price for the quarter, declining by 13.3%, as it recorded a double-digit downturn in Q3-2018 earnings. Holdings stocks Alliance Global Group, Inc. (AGI), Ayala Corporation (AC), and Metro Pacific Investments Corporation (MPIC) likewise lost value in Q4-2018, declining by 4.6%, 3%, and 2.3%, respectively.

The Holdings sector grew by 1.5% in December, with JG Summit Holdings, Inc. (JGS) showing the highest gains in share prices in the sector with a 15.6% increase last month. The company announced that its consortium with Filinvest Development Corporation, Philippine Airport Ground Support Solutions, Inc., and Changi Airport Philippines obtained the award for a 25-year concession to operate, maintain and develop Clark International Airport.

GTCAP posted a 9.8% gain in value last month, attributable to huge gains of its banking segment MBT as well as expectations of higher revenues of its automobile unit Toyota Motor Philippines Corporation (TMP). TMP, which recently rolled out the new full model of Camry, expects increased sales of 10% in 2019 due to the election season.

AEV recorded a 5.4% increase in share price in December. The company plans to use P50 B to P60 B for capital expenditures, mostly for its power unit (AP) which expects an additional 500 MW of power capacity for 2019. The company also disclosed that it would be investing $200 M to develop and expand its animal feeds manufacturer Gold Coin Management Holdings Ltd. in the next two to three years.

AGI's shares' value increased by 4.2% last month. The company announced plans to resume the construction of its township and casino resort project Westside City Resorts World in 2019, a partnership of AGI and Genting Hong Kong Ltd., with construction expected to be completed by 2020.

LTG's stock price posted a 3.9% gain in December. The company disclosed its plan to revive the operations of its subsidiary Asian Alcohol Corporation, which was the country's second largest distillery that ceased operating in 2008 due to alleged environmental violations.

DMC enjoyed a 3.6% increase in stock price last month, as the company's subsidiary DMCI Homes disclosed that it is on track to meet its P40 B sales target for 2018, as 9M-2018 sales reservations had already reached P33.5 B, up 7% from a year ago. It also benefited from the launching of the 3rd tower of The Atherton condominium project in Paranaque City.

SM Investments Corporation (SM) posted a 1% uptick in value in December. SM announced a partnership with Grab Financial to rapidly expand its platform GrabPay mobile wallet in the country. On the other hand, the company's affiliate mini-mart chain Alfamart disclosed its plan to put up 200 new branches in the Philippines next year.

MPI lost 1.3% in value last month, as it saw downward pressure since the middle of December. This came despite MPCALA Holdings, Inc. ("MPCALA"), an indirect subsidiary of MPI signing an Omnibus Loan and Security Agreement for P 24.2 B, 15-year term loan facility with various banks. Proceeds of the loan will be used by MPCALA to fund project costs for its Cavite-Laguna Expressway Project, which will connect the Manila-Cavite Expressway (Cavitex) and the South Luzon Expressway (SLEX). The market also ignored its opening of the first Negros island cancer center facility in MPIC's Riverside Medical Center, Inc. in Bacolod.

AC's share prices took a big hit as these declined by 5.4% in December, during which it trended downward. This was despite AC's subsidiary AC Industrial Technology Holdings, Inc.'s (AC Industrial) disclosure that it had signed a distributorship agreement with Kia Motors Corporation, allowing AC Industrial to distribute Kia vehicles in the country. Another AC unit Ayala Healthcare Holdings, Inc. (AC Health) recently signed a share purchase agreement with Jasmium Corporation, acquiring the Bacolod-based drugstore Negros Grace Pharmacy.

After months on the green, SMC's stock price slumped by 15.9% last month. San Miguel Corporation's subsidiary San Miguel Holdings Corporation (SMHC) obtained an original

Despite the strong performance of its constituent stocks in Q3 earnings, gains in Property stocks slowed down in Q4-2018 as the sector recorded only a 0.2% uptick, compared to its 2% growth in the previous quarter.

proponent status (OPS) for its P24 B unsolicited proposal for the 59.4 km extension of the Tarlac-Pangasinan-La Union Expressway (TPLEx) from Rosario to San Juan, La Union. The OPS shall be subjected to the usual Swiss challenge in the case of unsolicited proposals.

Company	Symbol	11/29/18 Close	12/28/18 Close	% Change
Ayala Land, Inc.	ALI	41.65	40.60	-2.5%
SM Prime Holdings, Inc.	SMPH	34.70	35.80	3.2%
Robinsons Land Corporation	RLC	20.45	20.15	-1.5%
Megaworld Corporation	MEG	4.51	4.75	5.3%

Source of Basic Data: PSE Quotation Reports

Despite the strong performance of its constituent stocks in Q3 earnings, gains in Property stocks slowed down in Q4-2018 as the sector recorded only a 0.2% uptick, compared to its 2% growth in the previous quarter. Investors shied away from SM Prime Holdings, Inc. (SMPH) and Robinsons Land Corporation (RLC), given their 1% and 0.7% decline in share price for the quarter, even with the heavy take up of their office, residential, as well as commercial offerings. On the other hand, Megaworld Corporation (MEG) recorded an 8% gain while Ayala Land, Inc. (ALI) posted a muted 1.4% increase in value for the last quarter of the year.

Meanwhile, the Property sector expanded by 0.7% in value last month, with its constituent stocks showing mixed results. MEG had best record in this sector with its value increasing by 5.3% last month. The company disclosed that it is expecting to generate P8 B with its newly-launched residential property Vion Tower which will be the highest residential tower along EDSA-Makati.

SMPH posted a 3.2% increase in value last month. SMPH recently entered into a partnership with 8990 Holdings, Inc. (HOUSE) with SMPH's subsidiary SM Hypermarket being the lead anchor tenant of HOUSE's Deca Mall. The mall is HOUSE's P452 M shopping center within the 13-tower Urban Deca Homes Manila mixed-used community in Tondo, Manila.

On the other hand, RLC's share prices showed much volatility in December but slumped in the last two weeks of trading ending 1.5% lower than end-November. This came about despite the company's recent opening of its 51st mall Robinsons Place Valencia in Valencia City, Bukidnon.

Subjected to wild swings, ALI's stock price slumped by 2.5%, as the PSE listed nearly 200 M shares covered by an employee stock option plan. This overtook the positive news that ALI has allotted P8 B to P10 B until 2020 for the expansion of its hotel brand Seda and in projects outside Metro Manila. The company's residential brand Amaia also plans to construct more than 300 units of Amaia Scapes projects in Bulacan, Pampanga, Capas, Urdaneta, San Fernando and Cabanatuan.

Company	Symbol	11/29/18 Close	12/28/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,158.00	1,125.00	-2.8%
Globe Telecom	GLO	1,970.00	1,900.00	-3.6%
Robinsons Retail Holdings, Inc.	RRHI	76.40	80.00	4.7%
Puregold Price Club Inc.	PGOLD	42.55	43.00	1.1%
International Container Terminal Services Inc.	ICT	93.50	100.00	7.0%

Source of Basic Data: PSE Quotation Reports

Stocks in the services sector declined by 3.5% for Q4-2018, compared with its 7.3% increase in the previous quarter. The decline is attributable with the weakening of telco stocks Philippine Long Distance Telephone Company (TEL) and Globe Telecom, Inc. (GLO) value, as each dropped by 16.7% and 13.6%, respectively, given that the Department of Information and Communications Technology (DICT) pushed through with the selection of the third telco player (Mislatel Consortium, a joint venture (JV) between the Udenna Group and China Telecom). Meanwhile, performance of retail stocks Puregold Price Club, Inc. (PGOLD) and Robinsons Retail Holdings, Inc. (RRHI) were mixed, with the former losing 4.4% in value while the latter barely ending on the green with a 0.4% uptick. Only port operator and developer International Container Terminal Services, Inc. (ICT) posted respectable gains of 6.3% in value as the company continued to enter into new agreements to manage ports abroad and has pushed through with port development projects (such as the opening of the Cavite Gateway Terminal) domestically.

Services sector stocks enjoyed the biggest gains in December as they rose by 2.8% last month. ICT reaped the greatest increase in the Services stocks with its value increasing by 7%. ICT recently signed a 20-year concession agreement with Sea Ports Corporation of Sudan to operate, manage, and devel-

While stock prices generally moved upwards, value traded in PSE declined as turnover across all sectors contracted, evident with total turnover declining by 36.4%.

op the country's South Port Container Terminal. Meanwhile, ICT 's recent investment in Manila North Harbor Port Inc. (increasing ICT's stake from 34.83% to 50%) will be undergoing review of the Philippine Competition Commission.

RRHI's share prices gained by 4.7% in December. RRHI's recently acquired retail brand Marketplace (Rustan Supercenters, Inc.) expanded with another branch in Mandurriao, Iloilo City--its second following its Iloilo Business Park branch which opened in October. RRHI's subsidiaries also launched new outlets alongside the opening of RLC's Robinsons Place Valencia in Bukidnon.

PGOLD showed a 1.1% increase in value as investors expect increased revenues from its retail units due to the Christmas season and the upcoming elections. This nonetheless represented a slowdown from the 4.9% jump in November.

On the other hand, TEL incurred a 2.8% decline in value last month despite disclosing that it has recently finalized the biggest investment deal in a Philippine technology company. This refers to a $40 M investment of the World Bank Group's International Finance Corporation (IFC) and the IFC Emerging Asia Fund in Voyager Innovations, Inc., into TEL's digital innovations arm, concluding the $215 M fund raising of the company which includes previously announced investments of $175 M from KKR and Tencent Holdings, Inc.

GLO lost even more (-3.6%) in value in December. The telecommunications giant entered into a $40 M loan facility agreement with BPI to fund GLO's expansion and to refinance its debt obligations. GLO subsequently secured a P5 B loan from China Banking Corporation, with proceeds to likewise fund its capital expenditures and general corporate requirements.

Company	Symbol	11/29/18 Close	12/28/18 Close	% Change
Semirara Mining and Power Corporation	SCC	26.70	27.95	4.7%

Source of Basic Data: PSE Quotation Reports

Mining and Oil extended its Q3 decline of 7.2% into the last quarter, accelerating its loss to 8.6% for Q4-2018. Mining's constituent stock SCC lost 13.7% in Q4-2018, as the company remained weighed down by shutdowns in its power segment since March 2018.

Mining and Oil continued its slowdown in the previous months, albeit decelerating from a 11.3% loss in November to a 3.4% decline in December. Semirara Mining and Power Corporation's (SCC) value slumped by 12%, as concerns over lower returns due to the company's coal powerplant business weakness weighed down share prices. This came about despite SCC's retail energy arm Sem-Calaca RES Corporation entering into a 4 MW retail supply contract with a Luzon-based steel manufacturing plant.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	18,768.02	-31.7%	1,042.67	-27.9%
Industrial	28,726.53	-63.6%	1,595.92	-61.6%
Holdings	30,833.47	-3.0%	1,712.97	2.4%
Property	24,079.11	-4.9%	1,337.73	0.4%
Services	30,372.94	-29.9%	1,687.39	-26.0%
Mining and Oil	2,392.25	-57.6%	132.90	-55.2%
Total	**135,172.33**	-36.4%	**7,509.57**	-32.9%
Foreign Buying	77,650.30	-39.1%	4,313.91	-35.7%
Foreign Selling	78,376.94	-13.3%	4,354.27	-8.5%
Net Buying (Selling)	(726.64)	-102.0%	(40.37)	-102.1%

Source of Basic Data: PSE Quotation Reports

While stock prices generally moved upwards, value traded in PSE declined as turnover across all sectors contracted, evident with total turnover declining by 36.4%. The following sectors posted double-digit declines in turnover: Industrial, Mining and Oil, Financial and Services. Their share trading sank by 63.6%, 57.6%, 31.7%, and 29.9%, respectively compared to the previous month. Meanwhile, the Property and Holdings sectors showed a muted drop in turnover compared to the rest of the sectors, posting 4.9% and 3% losses in turnover, respectively.

On the other hand, foreign funds amounting to P700 M exited PSE in December, albeit smaller compared to the previous months, thus again reversing November's foreign net buying of P11.2 B.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2017		2018		3rd Quarter 2018			4th 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	739,029	4.0%	744,814	0.8%	164,136	-5.8%	-0.2%	222,235	35.4%	1.7%
Industry Sector	2,947,103	7.2%	3,148,000	6.8%	740,532	-7.6%	6.1%	866,361	17.0%	6.9%
Service Sector	4,979,575	6.8%	5,310,300	6.6%	1,314,844	-4.8%	6.8%	1,397,922	6.3%	6.3%
Expenditure										
Household Final Consumption	5,973,816	5.9%	6,306,064	5.6%	1,480,379	-4.9%	5.2%	1,791,824	21.0%	5.4%
Government Final Consumption	914,136	7.0%	1,031,487	12.8%	250,174	-18.8%	14.3%	236,548	-5.4%	11.9%
Capital Formation	2,504,502	9.4%	2,852,306	13.9%	711,066	2.7%	18.2%	744,773	4.7%	5.5%
Exports	4,930,584	19.5%	5,495,712	11.5%	1,567,740	10.3%	13.3%	1,247,357	-20.4%	13.2%
Imports	5,657,331	18.1%	6,476,519	14.5%	1,768,187	10.1%	17.9%	1,550,159	-12.3%	11.8%
GDP	8,665,708	6.7%	9,203,113	6.2%	2,219,512	-5.8%	6.0%	2,486,518	12.0%	6.1%
NPI	1,729,139	5.9%	1,793,182	3.7%	448,801	2.0%	4.8%	441,817	-1.6%	0.9%
GNI	10,394,846	6.6%	10,996,296	5.8%	2,668,313	-4.6%	5.8%	2,928,335	9.7%	5.2%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2016		2017		Oct-2018			Nov-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%	246,762	21.9%	20.3%	259,702	5.2%	6.7%
Tax	1,980,390	9.1%	2,250,678	13.6%	222,248	21.2%	19.2%	242,220	9.0%	6.1%
BIR	1,567,214	9.3%	1,772,321	13.1%	164,792	26.2%	15.6%	192,048	16.5%	7.1%
BoC	396,365	7.8%	458,184	15.6%	55,953	9.6%	30.4%	47,902	-14.4%	3.3%
Others	16,811	14.8%	20,173	20%	1,503	-16.4%	45.1%	2,270	51.0%	-10.4%
Non-Tax	215,446	-26.5%	222,415	3.2%	24,514	29.7%	32.0%	17,482	-28.7%	14.7%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	306,627	2.7%	35.2%	298,820	-2.5%	18.5%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	44,601	-6.8%	7.2%	44,059	-1.2%	5.3%
Interest Payments	304,454	-1.6%	310,541	2%	24,015	-26.5%	17.5%	24,660	2.7%	19.8%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	-59,865	-37.8%	174.6%	-39,118	-34.7%	353.6%

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		2nd Quarter 2018		3rd 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%	-3,241	-2167.2%	-2,907	-364.2%
Balance of Goods	35,549	52.5%	40,505	13.9%	12,901	41.5%	13,546	43.5%
Exports of Goods	42,734	-1.1%	51,865	21.4%	12,847	-1.7%	13,474	0.2%
Import of Goods	78,283	17.7%	92,370	18.0%	25,748	16.0%	27,020	18.1%
Balance of Services	-7,043	29.1%	-9,249	31.3%	-2,821	40.3%	-3,158	-5.5%
Exports of Services	31,204	7.4%	35,884	15.0%	9,427	9.9%	9,890	-0.4%
Import of Services	24,160	2.3%	26,635	10.2%	6,606	0.5%	6,732	2.3%
Current Transfers & Others		-						
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	57	-8.7%	-1	-107.5%	-3	-113.8%
Financial Account	175	-92.4%	-2,664	-1622.4%	-1,512	66.5%	-1,975	-247.9%
Direct Investments	-5,883	5803.4%	-6,545	11.3%	-2,704	57.7%	-1,300	39.8%
Portfolio Investments	1,480	-72.9%	2,509	69.5%	1,288	-673.4%	-447	-173.9%
Financial Derivatives	-32	-673.4%	-51	57.4%	16	-379.8%	33	-26.5%
Other Investments	4,610	-249.8%	1,423	-69.1%	-112	-110.8%	-262	-116.2%
III. NET UNCLASSIFIED ITEMS	274	-136.6%	-1,421	-618.9%	-300	-62.2%	-945	112.3%
OVERALL BOP POSITION	-1,038	-116.1%	-863	-16.9%	-2,030	-803.4%	-1,879	184.0%
Use of Fund Credits		-						
Short-Term		-						
Memo Items								
Change in Commercial Banks	1,421	-222.0%	410	-71.2%	-335	323.7%	395	-71.5%
Net Foreign Assets	1,381	-229.7%	443	-68.0%	-306	1910.3%	353	-74.1%
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		Oct-2018		Nov-2018	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	2,798,988	14.0%	3,065,096	5.6%	3,129,541	7.8%
Sources:						
Net Foreign Asset of the BSP	4,024,544	2.3%	4,360,840	-5.0%	4,284,140	-3.2%
Net Domestic Asset of the BSP	9,722,563	15.6%	11,644,478	15.2%	11,742,283	14.6%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,562,223	17.1%	3,715,460	9.0%	3,773,019	9.5%
Money Supply-2	10,227,276	13.1%	10,670,183	8.0%	10,764,346	8.2%
Money Supply-3	10,655,369	13.2%	11,146,768	8.3%	11,250,727	8.4%
MONEY MULTIPLIER (M2/RM)	2.49		3.48		3.44	

Source: Bangko Sentral ng Pilipinas (BSP)

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