March 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

The unabated easing of inflation to 3.8% in February and unemployment rate down to 5.2% in January 2019 showed the bright spots in the economy, while Overseas Filipino Workers (OFW) remittances in December and FY 2018 reached record levels. The dampeners included the declines in capital goods imports, exports, manufacturing, and weaker money growth in January. These had mixed effects on the financial markets. Demand for long-term T-bonds pulled yields down, while the PSEi dropped in February as foreign investors began to exit.

Macroeconomy

Economic indicators showed mixed signals with headline inflation, employment data, and OFW remittances painting a positive picture. Imports of capital goods and total exports, as well as, manufacturing data, however, ended in negative territory [although we have some reservations on some reports]. Infrastructure spending reached all-time high of 5.1% of GDP in FY 2018.

- Capital goods imports recorded a fall (-11% y-o-y) amidst huge declines in big-ticket items.
- Money growth's single-digit pace slowed further to 7.6% in January 2019 from 9.2% a month ago.
- OFW personal remittances hit a record-high of $3.2-B (+2.8% y-o-y) in December, and also a record full year 2018 total of $32.3-B.
- Export shipments recorded a huge decline, plunging by 12.3% in December.

Outlook: Economic expansion should pick up in Q1 from its 2018 pace driven by heightened infrastructure and renewed consumer spending. The fall of inflation to within BSP target range augurs well for consumer demand, besides the spill-over effect of election-related spending. The downside risk from yet unapproved fiscal budget could have a negative, albeit minimal impact on infrastructure spending in Q1.

Bonds Market

After brisk bond demand in January, investors became more choosey in February. Appetite for T-bills deteriorated while demand for longer-dated T-bonds resulting in further falls in yields, especially after NG issued 5-year RTBs. Secondary trading also weakened but Corporate trading total volume surged from last month. ROPs yields remained on a downward trend, while US Treasuries had a slight upward bias.

- Tender-Offer Ratio (TOR) for T-bills declined to 1.54x from 2.61x last January.
- Total tenders for longer-dated T-bonds soared to P188.7-B from P103.1-B, boosted by the 5-year RTBs issue.
- Secondary trading volume plunged 52.6% from P415.3-B in January to P218.4-B last month, as investors took profit.
- GS yield curve flattened further as yields for short-end rose while dropping for 3-year to 20-year tenors.

Outlook: T-bill yields should fall from current high levels after BSP adds more liquidity via cut in reserve requirements by Q2 (latest) and steady build-up of FX reserves. Long end bond yields may follow further inflation rate falls, albeit at a slower pace, for the rest of H1. However, we expect inflation to take a bigger drop to below-3% by August. Thus, we see more corporate bond issuances in H2.

Equities Market

Unlike upward bound bourses in AEs, PSEi slumped by 3.8% in February to end at 7,705.49, as foreign investors exited near month's end. External factors, like (1) a slowdown in Chinese factory output, amidst below-expectation PMI, (2) continued uncertainties over US-China trade deal, (3) the lack of progress in the US and North Korea summit on disarmament, and (4) the MSCI rebalancing and announcement of China A share MSCI inclusion exerted downward pressure on PSEi.

- PSEi moved to negative territory, with decline of 3.8%, a reversal from January's 7.3% upsurge.
- Sectors with the biggest declines included Financials, Holdings, and Services, with drops of 6.4%, 3.1%, and 3.0%, respectively.
- ICT, RLC, and FGEN grew the most among constituent stocks with upticks of 7.2%, 6.1%, and 4.2%, respectively.
- Total turnover slumped by 17.3% as net foreign buying persisted at P9.2-B, less than half of January's P18.7-B.

Outlook: Due to the inability of PSEi to break the resistance level of 8,200, not much can be expected from the local stock market in the near-term. However, things could change by April-May if Q1-2019 GDP growth lies clearly above 6%, BSP eases liquidity, good corporate earnings are posted, and credible and balanced results emerge from the Senatorial elections in May.

Economic Indicators (% change, latest month, unless otherwise stated)	Latest Period	Previous Period	Year-to-Date (2019)	2017 (year-end)	2018 (year-end)	2019 Forecast
GDP Growth (Q4 2018)	6.1%	6.0%	-	6.7%	6.2%	6.8-7.2%
Inflation Rate (February)	3.8%	4.4%%	4.1%	2.9%	5.2%	3.0-3.5%
Government Spending (December)	-5.1%%	18.5%	-	12.6%	22.5%	12.0%
Gross International Reserves ($B) (February)	82.8	82.1	82.7	81.6	79.2	84.0
PHP/USD rate (February)	52.19	52.47	52.33	50.40	52.68	54.00
10-year T-bond yield (end-February YTD bps change)	6.32%	6.40%	6.48%	4.93%	7.05%	6.32-6.82%
PSEi (end-February YTD % change)	7,706	8,008	-0.04%	8,558	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

BIG DROP IN INFLATION, UNDEREMPLOYMENT RATE BRIGHTENS HORIZON

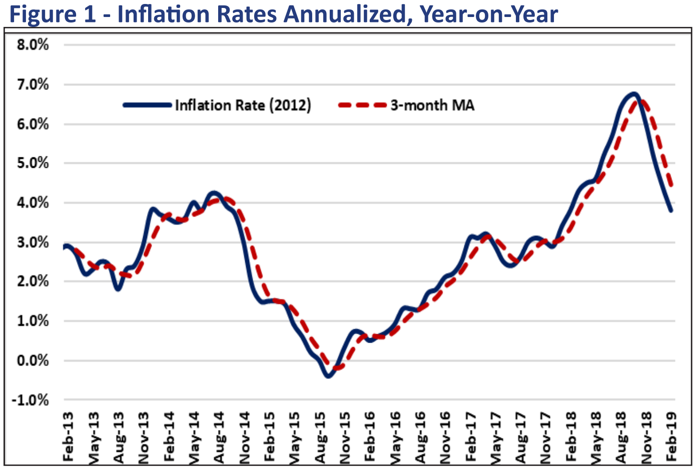
The economic horizon as headline inflation further shrank to 3.8% (year-on-year) in February (within the Bangko Sentral ng Pilipinas' (BSP) target range for the first time in a year, raising hopes of stronger consumer spending starting Q1-2019. In addition, the unemployment rate for January 2019 eased to 5.2% from 5.3% a year ago. Showing even more dramatic improvement, the underemployment rate fell to 15.6% from 18.0% a year ago, indicating some 1.1-M workers no longer sought additional work. Overseas Filipino Workers' (OFW) remittances increased by 3.6% in December 2018 to somehow offset the slight decline in exports. However, we think that the drop in exports and industrial output may not portray a correct picture due to some inconsistencies. Money growth (M3) slowed further to 7.6% in January, while the peso gained for the third straight month.

Outlook: Despite the 2019 budget still unapproved, work on large infrastructure projects like the Metro Manila subway (Japanese-aid funded), Cavite-Laguna Expressway (PPP), LRT-1 extension (PPP), 3rd bridge in Cebu-Mactan (PPP) and the three bridges over the Pasig river (China grants) have all begun and should drive investment spending. Consumer spending, likewise, should benefit from the unabated fall in inflation and pre-election spending. Even though exports may not yet contribute in Q1, GDP growth for the quarter and the year should accelerate from their 2018 pace. We also see infusion of liquidity into the banking system by the Bangko Sentral ng Pilipinas (BSP) in the near term, given the rapid decline in inflation, low money growth, the need to rebuild BSP's international reserves, and the global economic slowdown.

Inflation Falls Unabated to 3.8% in February, Within BSP Target Range

As we anticipated, headline inflation further plunged to 3.8% in February and finally lodged within Bangko Sentral ng Pilipinas' (BSP) 2-4% target. This is its lowest level yet in 12 months, amidst significant declines across major commodities (i.e., alcoholic beverages, food and non-alcoholic beverages, and transportation). Most regions outside the National Capital Region, likewise, recorded slower price upticks than the national average; except for Bicol, MIMAROPA, Ilocos and ARMM.

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



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

Prices of key food items (i.e., rice, vegetables, cereals, wheat and bread) fell by 0.3% month-on-month (m-o-m) which spilled over to the restaurants, miscellaneous goods and services and resulted in the slower upticks of the heavily-weighted food and non-alcoholic beverages index (FNAB) (i.e., 38.9% of CPI basket).

The alcoholic beverages and tobacco (ABT) index still registered the biggest decline as prices of commodities in this category recorded slower increments, followed by significant slowdown in the transportation index due to price rollbacks in jeepney fares implemented in the previous months. Despite higher electricity rates in February, the housing, water, electricity, gas and other fuels (HWEGOF) index cooled down triggered by softer international price of crude oil. Price of WTI in February averaged to $54.66/barrel, showing a 12.2% decline from a year ago. Meanwhile, Meralco rates rose to P10.41/kWh in February from P9.84/kWh in January amidst higher power costs from Power Supply Agreements (PSAs) and Wholesale Electricity Spot Market (WESM) charges. Other indices (i.e., clothing and footwear, health, recreation and culture) also posted price deceleration while the rest maintained the past month's rate.

Seasonally-adjusted annualized rate (SAAR) maintained the past month's rate at 1%. We think that headline inflation will continue its downtrend to below 4% in Q1 and below 3% by Q3 due to softer prices in crude oil and key food commodities (especially rice), among others.

The imports of capital goods declined in December after eight consecutive months of positive expansion due to weak imports of big-ticket capital products.

Inflation Year-on-Year Growth Rates	Feb 2019	Jan 2019	YTD
All items	3.8%	4.4%	4.1%
Food and Non-Alcoholic Beverages	4.7%	5.6%	5.2%
Alcoholic Beverages and Tobacco	12.2%	16.1%	14.2%
Clothing and Footwear	2.4%	2.5%	2.5%
Housing, Water, Electricity, Gas, and Other Fuels	3.7%	4.0%	3.8%
Furnishing, Household Equipment and Routine Maintenance of the House	3.8%	3.9%	3.9%
Health	4.2%	4.3%	4.3%
Transport	1.2%	2.5%	1.8%
Communication	0.4%	0.4%	0.4%
Recreation and Culture	3.1%	3.2%	3.1%
Education	-3.8%	-3.8%	-3.8%
Restaurants and Miscellaneous Goods and Services	4.0%	4.3%	4.2%

Source of Basic Data: Philippine Statistics Authority (PSA)

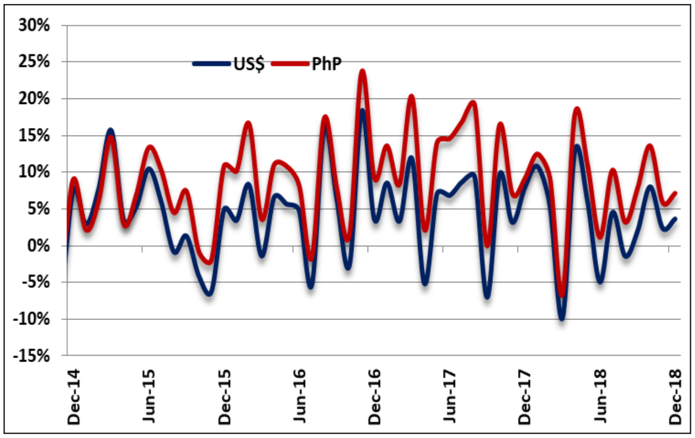
Note: Green font - means higher rate (bad) vs. previous month
Red font – means lower rate (good) vs. previous month

OFW Remittances Post Records in December and 2018

Filipinos working abroad (OFWs) sent a record-high of $3.2-B in personal remittances in December. This came in 3.6% higher than in the same period last year as OFWs poured hefty amounts for the Christmas holidays. Full-year remittances stood at $32.3-B, also an annual record-high, and up 3% from 2017.

Inflows coming from sea- and land-based workers with at least one-year contract supported remittances flow (+2.8%), boosted further by the 4.6% gains of those with less than one-year contract. Cash remittances (i.e., coursed through banks) also increased by 3.1% (or $28.9-B) in January amidst strong transfers from the US, Saudi Arabia, UAE, Singapore, Japan, the United Kingdom, Qatar, Canada, Germany, and Hong Kong which comprised about 80% of total cash remittances last December. The peso equivalent of personal remittances in December, likewise, posted a 7.2% increase due to the 3.4% (y-o-y) peso depreciation.

Figure 2 - OFW Remittances Growth, Year-on-Year

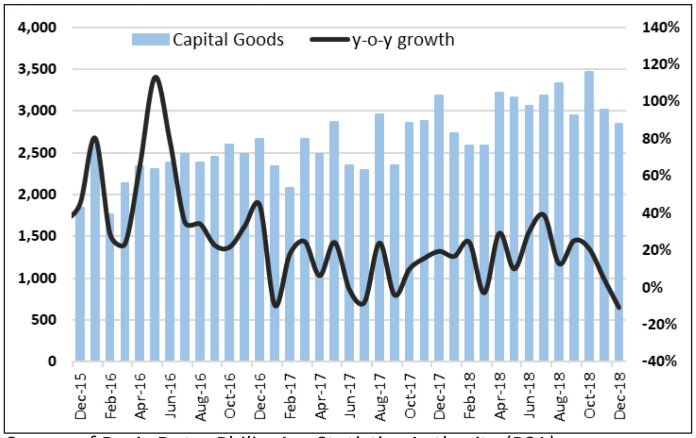


Source of Basic Data: Philippine Statistics Authority (PSA)

Consecutive Positive Expansion in Capital Goods Import Put On Halt

The imports of capital goods declined in December after eight consecutive months of positive expansion due to weak imports of big-ticket capital products. Demand for telecommunication and electrical machinery and aircrafts, ships, and boats posted 8% and 53.3% falls, respectively. Imports of photographic equipment and optical goods also fell by 10.8% y-o-y.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

As in the past, raw materials & intermediate goods imports captured the largest share of total imports at 36.3%, registering a 5.8% decline due to lower demand for unprocessed and semi-processed raw materials (especially the manufactured items such as iron, steel, non-metallic minerals and paper). Mineral fuels, lubricant and related materials category also fell by 14.4% due to lower prices of crude petroleum of some

The Volume of Production Index (VoPI) recorded a 4.1% decline in January, tracking slowdown in 12 out of the 20 major industry groups.

11% to 14%. Weak demand for durable (i.e., passenger cars & miscellaneous manufactures) resulted in a negative growth in consumer goods imports to record a 12.1% y-o-y decline.

Tracking the lethargic growth in most sub-categories, total imports slumped by 9.4% y-o-y to reach $8.5-B in December but still outpaced total exports. Thus, the country incurred a $3.8-B trade deficit in December, albeit slightly better than the $3.9-B deficit a month ago. This brought year-to-date (YTD) trade deficit to $41.4-B, zooming up by 51% from FY 2017.

Manufacturing Output Continues to be in the Red

The Volume of Production Index (VoPI) recorded a 4.1% decline in January, tracking slowdown in 12 out of the 20 major industry groups. Furniture and fixtures and basic metals registered double-digit decrement, falling by 31.1% and 12%, respectively. Footwear and wearing apparel and wood and wood products, originally in the positive list now join the losers.

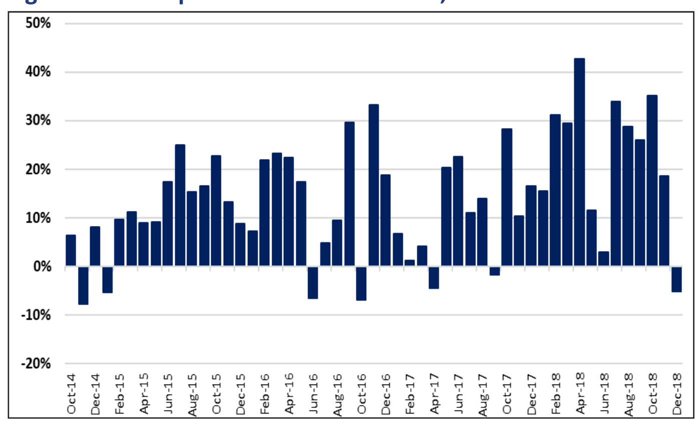
Meanwhile, leather products led the expansion with a 21.2% jump, followed by beverages (+14.9%). Electrical machinery and transport equipment joined the outperformers as their outputs climbed by 9% and 6.6%, respectively.

Nonetheless, we do not believe in the reported decline, as heavy-weighted food manufacturing sowed a 4.3% drop which does not jibe with greater food spending during pre-election months, and as basic metals and furniture and fixtures showed large falls, which do not square off with the unabated gains in infrastructure work and in residential and commercial construction at the finishing stage.

Budget Deficit in 2018 Widens, Infra-to-GDP on Target

National Government (NG) spending in December totaled to P313.3-B due to hefty disbursements on infrastructure and capital outlays. Total expenditures in December, however, stood 5% lower than the year-ago level, as NG strove to keep the budget deficit manageable. Strong spending in the past months brought the full year (FY) level to P3.4-T, exceeding the P3.3-T revised ceiling. Nevertheless, this has been translated into quicker implementation of big-ticket infrastructure projects and delivery of various sectoral programs (i.e., health, education, and poverty-reduction) which should drive economic growth faster. Moreover, the share of infrastructure spending to GDP in 2018 reached a record 5.1% (per Department of Budget and Management), above the 5% benchmark for developing countries. It also represents a turnaround from the lackluster infra-to-GDP data recorded in the past administrations.

Figure 4 - NG Expenditures Growth Rate, Year-on-Year



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

Gains in revenues for the month relied on a 21.2% jump in Bureau of Customs' (BoC) collections but still fell short of NG disbursements. Thus, the government's FY budget deficit widened to P558.3-B, 60% higher than the previous year and higher than the revised deficit ceiling of P526.8-B. The deficit represented 3.2% of GDP, slightly higher than the 3% target.

The Bureau of Internal Revenue (BIR) raked in a total of P232-B in December, down by 0.3% from a year ago. Nonetheless, total 2018 BIR tax revenues stood at P2-T representing a 10% increase over FY 2017, while the BOC's YTD collections reached P593.1-B, 30% above FY 2017, amidst strong import expansion and depreciation of the peso

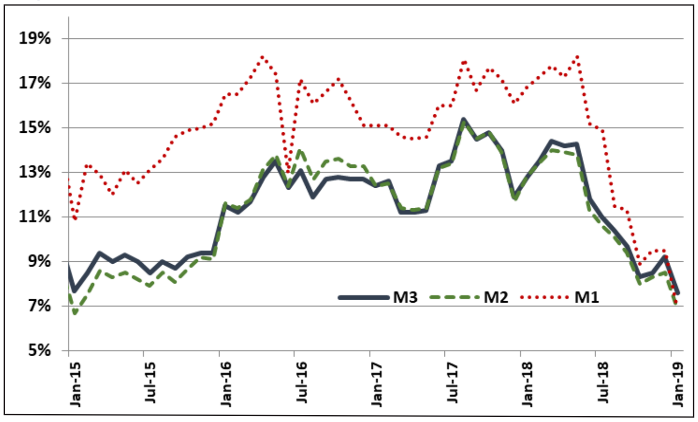
We believe that NG spending will be on an uptrend, once again, as the administration continues to unleash the funds to infra projects and other NG's social projects, even though there is a temporary downside risk in Q1 due to the failure of Congress to approve the 2019 budget.

Exports print in December plunged by 12.3% y-o-y to $4.7-B, amidst double-digit decline in most of the top five outbound shipments.

Monetary Growth Slows to 7.6% at the Start of 2019

Domestic liquidity (M3) growth slowed further to 7.6% (y-o-y) in January from 9.2% in December, as it kept a single-digit pace since September 2018. On a SAAR basis, M3 growth declined by 2.4%. Broad money (M2) and narrow money (M1) growth, likewise, showed relative tightness to record a quick-pace deceleration of 6.9%.

Figure 5 - M1, M2, M3 Growth Rates



Source of Basic Data: Philippine Statistics Authority (PSA)

Commercial bank loans outstanding which comprised 88.6% of banks' loan portfolio also expanded at a slower pace to 15.3% y-o-y from 15.8% in December. Bulk of these loans went to wholesale and retail trade, repair of motor vehicles and motorcycles, financial and insurance activities, manufacturing and real estate, among others. Meanwhile, net foreign assets (NFA) of monetary authorities remained in the positive territory at 3.3% (some P2.6-B), from 2.1% in the preceding month. This corresponds roughly to the increase in GIR by $2.9-B in January. The weak money suggests that BSP had sterilized a good part of the pesos created by the purchase of dollars from the market. But such moves has not helped provide more liquidity to banks.

We maintain our view that the Monerary Board (MB) will likely provide more liquidity to banks by cutting reserve requirements in H1-2019 and also reduce policy rates in H2 anchored on slow monetary expansion and inflation falling well within its target. These should help boost further growth in the economy via investments and to a lesser extent consumer spending.

Export Ends 2018 with a Steep Dive

Exports print in December plunged by 12.3% y-o-y to $4.7-B, amidst double-digit decline in most of the top five outbound shipments. This resulted in a YTD slump of 2.1% pulled down by seven out of 12 months decline in exports demand -- and representing a huge reversal from the 18.4% gains recorded in FY 2017. Nonetheless, given the big number of holidays in December and the huge 25.4% jump in electronic products in the same month, we may see a strong rebound in January.

Electronic products continued to be the top export accounting for 57.2% of total exports, even though earnings fell by 15.2% y-o-y. Semiconductors, which had the biggest share among electronic products (at 42.4% of total exports), also declined by 18.4% y-o-y to $2.4-B. Exports of machinery & transport equipment had a worse fall of 53.1% (to $159.2-M) to capture the 4th slot. Other manufactured goods also fell by 9% y-o-y, with export sales amounting to $285.2-M. The rest of the top five export products posted an increase, led by bananas which grew six times higher than in the same period last year (to $159.3-M). Exports of ignition wiring set and other wiring sets also registered a 23.1% (to $152.1-M) gain.

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

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

US still took the lion's share, accounting for 16.4% of the total exports with export sales registering a 9% gain. The rest of the top export destinations posted weak outbound shipments. While almost half of the total exports in December still headed towards East Asian (EA) nations, valued at $2.2-B, weak demand from China, Hong Kong, and Japan resulted in the 18.2% slump in the export going to the EA region. Exports shipments to ASEAN, likewise, *The peso continued to rally against the greenback, after US economic expansion lost some of its momentum in Q4.*

showed a 5% decline with receipts amounting to $771.8-M. 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%.

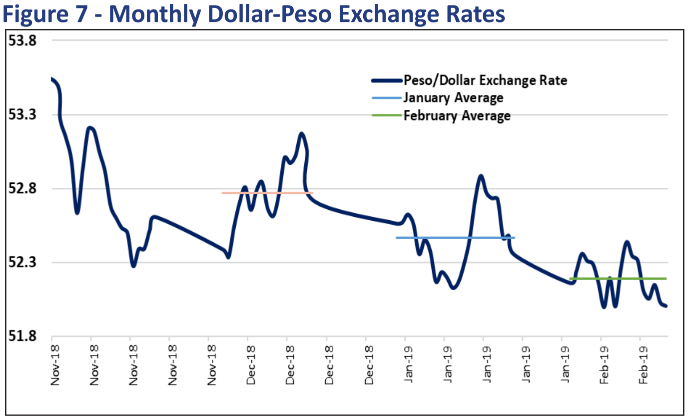
Despite ending 2018 in the red, we think that export growth this year will lodge in the positive territory, albeit unspectacular with only a weak rebound of Japan and China's economies.

Peso Continues to Rally

The peso continued to rally against the greenback, after US' economic expansion lost some of its momentum in Q4. The overall economic growth stood at 2.6% in Q4, a significant slowdown from 3.5% in Q3. Industrial production in the US also fell due to lower output of motor vehicles and auto parts. The government shutdown, likewise, dampened the dollar's prospects.

Meanwhile, record-high inflow of remittances to the Philippines, along with remarkable improvement in inflation print, also added strength to the peso as it averaged P52.19/$ in February from P52.47/$ a month ago. This represented a 0.5% appreciation (m-o-m) of the peso. The volatility measure further narrowed to 0.14 from 0.21 in January as the pair hovered between a high of P52.44/$ and a low of P51.99/$.

Figure 7 - Monthly Dollar-Peso Exchange Rates



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

As in the previous month, most emerging currencies firmed up against the US dollar with the Thai baht (THB) taking the lead, supported by Thailand's higher current account surplus and huge government spending on big projects. The Chinese yuan (CNY) managed to resist the greenback following news about the apparently positive developments in the US-China trade negotiations. The Malaysian ringgit (MYR) also strengthened due to higher crude oil prices. India's rupee (INR), on the other hand, weakened due to weak equity market while sluggish exports performance in Korea dampened the won.

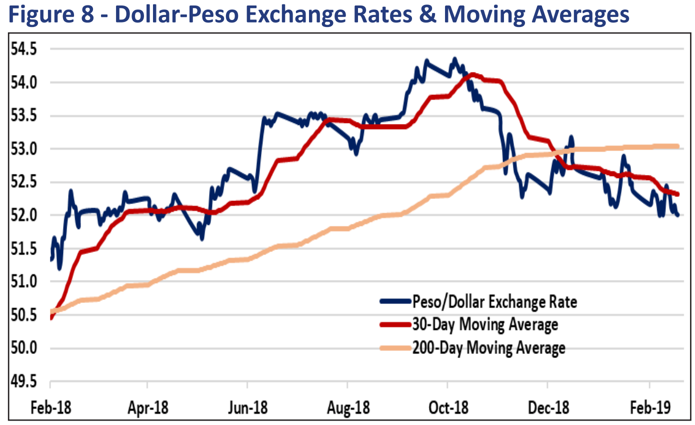
Exchange Rates vs USD for Selected Asian Countries			
	Jan-19	Feb-19	YTD
AUD	0.3%	-0.1%	0.2%
CNY	-1.4%	-0.8%	-2.2%
INR	-0.2%	0.8%	0.6%
IDR	-2.2%	-1.1%	-3.3%
KRW	-0.3%	0.1%	-0.1%
MYR	-1.4%	-0.9%	-2.3%
PHP	-0.6%	-0.5%	-1.1%
SGD	-1.0%	-0.2%	-1.3%
THB	-2.7%	-1.7%	-4.3%

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 February lodged below the 200-day and the 30-day MAs (on most days), suggesting stronger peso. We, however, think that the peso will trade again within the P52.00-52.60 range in Q2, as BSP rebuilds its GIR. The country's huge trade deficits should also put pressure on the peso in the medium-term.

Figure 8 - Dollar-Peso Exchange Rates & Moving Averages



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

Demand for Filipino labor continues to be robust and we still see gains in this in 2019.

Outlook

The relentless fall of the headline inflation to below 4% (y-o-y), i.e., within BSP target, has provided much-needed good news. The continuing delay in the enactment of the 2019 NG budget, after all, has placed a downside risk to GDP growth in Q1.

• With headline inflation dropping to 3.8% in February, it is on track to go below 3% in Q3. Consumer spending should begin to recover in Q1, aided by more money in consumers' hands due to election spending and to 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.

• The weaker capital goods imports in December, to our mind, should be temporary since 2018's December had more holidays than a year ago. The start of major infrastructure projects, e.g., Metro Manila subway, three new bridges over the Pasig river, etc., should provide the needed impulse to bring it back to double-digit expansion in Q1.

• We don't think the negative print in industrial output paints an accurate picture. Heavy-weighted food manufacturing appeared hugely negative which does not square off with the stronger food spending during pre-election months.

• NG spending may increase at a slower pace in Q1 compared with the previous quarters, due to the delayed budget. However, since it is just the start of 2019, NG can continue to spend according to its planned annual budget, as it simultaneously pushes for its approval in Q1.

• The unabated optimism of US consumers and further employment gains shall keep the US economy expanding fast, albeit less than the 3% clocked in 2018, but much above the below-2% trend during the Obama years. Thus, together with solid gains in Japan and China, should propel Philippine export growth to positive territory in 2019.

• The fear that tensions in the Middle East would slow down OFW remittances again proved exaggerated. Demand for Filipino labor continues to be robust and we still see gains in this in 2019.

• The peso may remain strong only for a limited time as the US dollar has rebounded, amidst a robust economy and slightly higher interest rates that go with it, despite a likely delay and fewer Fed policy rate hikes than its previous projections.

LOCAL BOND YIELDS DROP WHILE US TREASURIES RISE

Despite a large but temporary rise in 10-year US Treasury bonds after Consumer Confidence index spiked and Q4-2018 GDP growth came in faster than market expectations, local 10-year T-bond yields eased slightly in February. The latter's fall continued into the first week of March. The demand for longer term peso government securities (GS) became evident even in the February auctions where 7-year and 5-year T-bond yields plummeted by 100.3 bps and 86.9 bps, respectively from their previous auctions. Secondary trading of corporate bonds carried on positively in February, while ROP yields fell as well.

Outlook: As the last-minute spurt in 10-year US Treasury bond yields petered in March, local bond investors will remain more focused on domestic developments. The further plunge in inflation rate to 3.8% in February (i.e., as we expected to go below 4% in Q1) provided the incentive to investors to buy more long-dated GS which we think should continue as inflation goes below 3% year-on-year (y-o-y) by Q3. Our expectation that Bangko Sentral ng Pilipinas (BSP) will boost liquidity starting late Q1 will support this downtrend. For the same reason, we also expect bunching up of corporate bond issuances in H2-2019

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
04-Feb	91-day	6	11.3	6	1.89	5.484	
	182-day	6	11.4	6	1.91	5.867	
	364-day	8	10.9	8	1.36	5.924	
11-Feb	91-day	6	7.3	6	1.22	5.550	
	182-day	6	11.6	6	1.93	5.933	
	364-day	8	11.4	8	1.43	5.983	
18-Feb	91-day	6	7.0	4.4	1.17	5.733	19.9
	182-day	6	13.9	6	2.31	5.978	8.6
	364-day	8	8.0	5.2	0.99	6.052	10.6
Subtotal		**60**	**92.8**	**55.6**	**1.54**		
12-Feb	7-year	20	66.9	20	3.35	6.087	-103.3
26-Feb	5 year	120	121.8	113.7	1.02	6.134	-86.9
Subtotal		**140**	**188.7**	**133.7**	**1.35**		
All Auctions		**200**	**281.5**	**189.4**	**1.41**		

Source: Philippine Dealing Systems (PDS)

GS Primary Market: Demand Shifts from T-bills to T-bonds

While the overall tender-offer ratio (TOR) fell to 1.54x in February from 2.61x a month ago, it masked the fact that in the primary market for government securities (GS) the total tenders for longer-dated T-bonds reached P188.7-B, a huge jump from P103.1-B in January 2019. This resulted from NG's issuance of P113.8-B of 5-year Retail Treasury bonds (RTBs). A slight decline in the total TOR came from weaker T-bill bids which saw a fall in their TOR to 1.54x from 2.61x in January.

The appetite for the short-term space deteriorated and that showed up in higher yields for all T-bills cumulatively from January to last month. 91-day T-bill yields moved up by 19.9 bps to end this month at 5.733%. Slightly better demand for 182-day T-bills and 364-day T-bills still pushed up yields by 8.6 bps and 10.6 bps, to 5.978% and 6.052%, respectively.

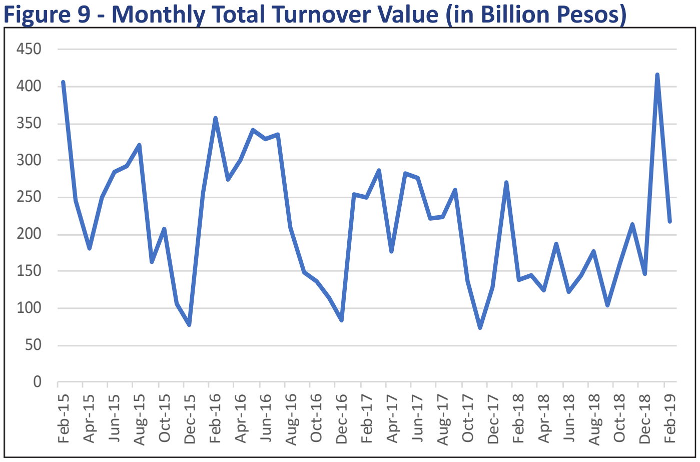
On the other hand, investors jostled for longer-dated T-bonds driving the 7-year T-bonds' plunge of 100.3 bps from December 4, 2018 to obtain a 6.087% yield. The Bureau of the Treasury (BTr) offered a total amount of P120-B for 5-year retail treasury bonds in which it made slumped to 6.134% average yield, representing a huge 86.9 bps fall from the previous 5-year offering last November 21, 2018.

Secondary Market (GS): Volume Drops as Demand for T-bill Slow Down

Since much of the excitement occurred in January, investors again returned to a cautious stance in February as shown in the 52.6% dive in secondary trading volume to P218.4-B last month from P415.3-B last January as shown in Figure 9. This reflects investors' distaste for Treasury bills, which faced several conditions and substitutes. One comes from banks' little excess cash in view of liquidity coverage ratio (LCR) needs. Another could be the attractiveness of substitutes, such as BSP's term deposit facility, FX deposits, and big paper supply provided by National Government (NG) borrowing requirements (e.g., RTBs, and regular issues to the market).

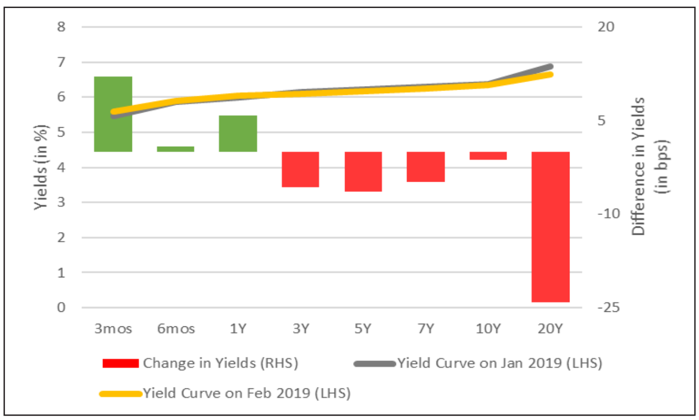
Secondary trading volume in corporate bonds improved in February as total volume reached P2.3-B or 13.8% (m-o-m) compared to P2-B in the previous month.

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)

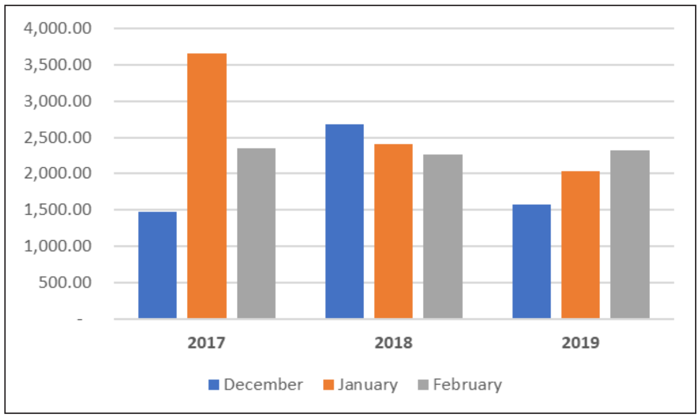
The GS yield curve flattened a bit more by the end-February. For while the long-end of curve (3-year, 5-year, 7-year, 10 year and 20-year tenors) experienced a decline in yields, short-term tenors' yields (for 3-month, 6-month and 1-year) rose even mildly as shown in Figure 10. Given banks' need for more liquidity to meet LCR benchmarks, short-tenor yields rose with the 3-month benchmark up by 12 bps to 5.588% and the 1-year tenor inched up by 5.8 bps to 6.055% by end-February.

On the other hand, inflation's downward spiral to within BSP target range starting Q1, and BSP revising downward its forecast for 2019 3.07% from 3.18% two months ago, demand for the long-term tenors firmed up. 20-year T-bond yields plummeted by 24.2 bps to 6.644% while 10-year benchmark yields gave up 4.8 bps to end February at 6.357%.

Corporate Bond Trading: Volume Further Improves in February

Secondary trading volume in corporate bonds improved in February as it reached P2.3-B or 13.85% (m-o-m) higher compared to P2-B in the previous month. It also represented a 2.8% (y-o-y) increase from P2.2-B a year ago as shown in Figure 11.

Figure 11 - Total Corporate Trading Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Powered by Ayala Land, Inc.'s (ALI) Board debt papers changing hands, trading in the top five corporate issues soared by 44.2% m-o-m to P1.2-T in February. The five leading corporate issuers include: SM Prime Holdings (SMPH), San Miguel Brewery (SMB), Ayala Land Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC).

ALI remained in the top spot with a big jump of 209.1% m-o-m to P855-M. SMPH took a far second place with P172.5-M, up by 46.4% m-o-m. On the other hand, trading in AC, SMIC and SMB debt papers plummeted. AC made it to the third position with P72.7-M or down 58.3%. SMIC and SMB claimed the fourth and fifth spot with total spending of P45.2-M and P20.4-M, respectively.

Corporate Issuances and Disclosure

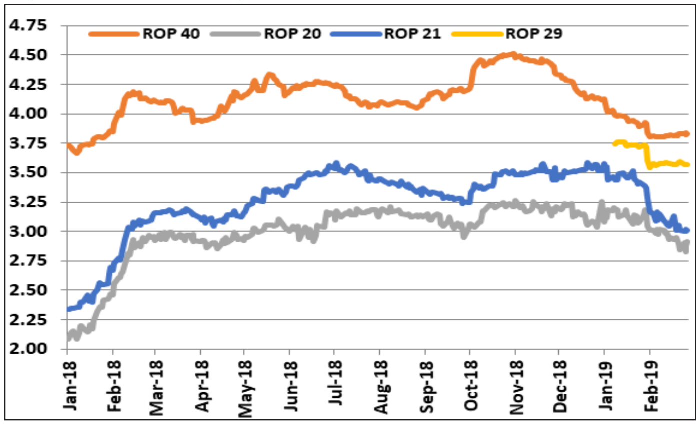
- Ayala Land, Inc.'s (ALI) Board of Directors approved issuance of (a) the P16-B retail bonds under the Shelf Registration and PDEx (b) the P4-B SEC-exempt Qualified Buyer Notes for the enrollment on PDEx and (c) the P25-B bilateral term loans to partially finance corporate requirements and maturing loans.

ROP yields held on to their downward trend, albeit more on the shorter end of the curve.

- The Board of Directors of Phoenix Petroleum Philippines approved the issuance of dollar-denominated perpetual bonds worth up to $300-M which shall be listed at the Singapore Exchange for purposes of refinancing the capital of the Company and for general corporate purposes.

- The Board of Directors of Union Bank of the Philippines approved the issuance of P30-B corporate bonds and/or commercial papers. It did not specify a timeline for the issuance.

Figure 12 - ROPs Daily Trend



Source: Bloomberg

ROPs: Yields Fall Close Gap with US Treasuries

ROP yields held on to their downward trend, albeit more on the shorter end of the curve. This contrasts with the generally higher yields of US treasury bonds, especially at the long-end. US bond yields edged higher by the end of February and thereafter as the US economy grew faster-than-expected in Q4-2018. As a result, spread between ROPs and US debt papers narrowed again last month.

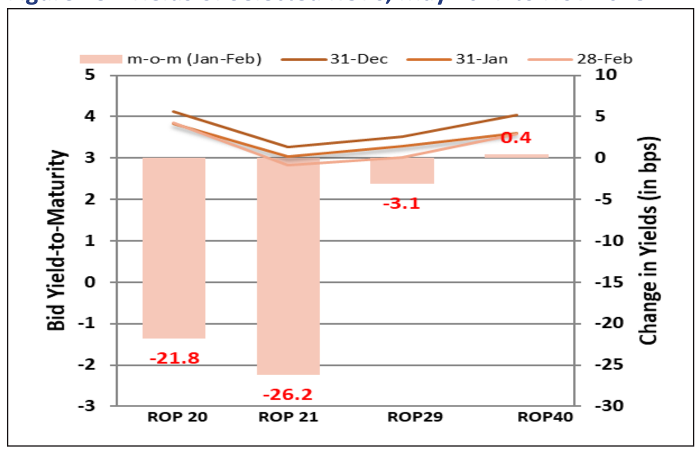
ROP-20 and ROP-21 saw yields fall by 21.8 bps to 2.825% and 26.2 bps to 3.02%, respectively. ROP-29 and ROP-40 ended February at 3.573% and 3.843%, marking minor declines of 3.1 bps and 0.6 bps, respectively. Meanwhile, 10-year and 20-year US Treasuries rose by 10 bps and 11 bps to 2.73% and 2.94%, respectively.

The reduction in spreads ranged from 11.3 bps to 34.6 bps. This reflects the improved demand for ROPs.

Spreads between ROPs and US Treasuries

Date	1-year	2-year	10-year	20-year
31-Jan	54.9	84.6	97.6	101.9
28-Feb	28.5	50	84.3	90.3
Change	(26.4)	(34.6)	(13.3)	(11.6)

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



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN +2: Regional Yield Curves Steepen Mildly

US: GDP growth in Q4-2018 eased to 2.6% from 3.4% in Q3, but came in above market expectations. New jobs remained robust at an estimated 180,000. Housing starts in December slumped by 11.2%, below expectations, probably due to the expected government shutdown (which actually happened in January 2019), since building permits showed faster uptick of 0.3% m-o-m. S&P Carnegie-Case-Shiller 20-city house price index in December slowed to 0.2% (m-o-m, s.a.) gain from 0.3% in the previous month, casting doubt on residential construction as a growth driver in 2019. Nonetheless, Conference Board's Consumer Confidence had a huge jump to 131.4 for February from 121.7 a month ago, boosted by the end of shutdown and an unlikely repeat looking forward. With the mixed economic signals, the 10-year T-bond yields climbed a bit higher than 2-year T-bond yields so as to widen the spread between the two by 3 bps to 21 bps at end-February.

China: The economy has slowly started to recover after President Donald Trump announced the delay in imposing additional tariffs for Chinese goods. While People's Bank of China (PBOC) has eased monetary policy temporarily, leaders and policy makers seek economic stability for

With Bank Negara keeping its policy rate steady at 3.25% and an expected growth slowdown, Malaysia's yield curve flattened as spreads between the 10-year to 2-year bonds decreased by 18 bps, from 55 bps last year to 37 bps this February.

the country. It raised the inflation ceiling to 3% from 2.6% last year while aiming improved job creation. Issuance of special local government bonds will increase to CNY2-T ($300-B) from CNY1.4-T last year. The government also plans to cut the value-added tax by 2 percentage points. It also pared down annual growth target to 6-6.5% from 6.5-7% for the past two years.

China's inflation rate (CPI-based) rose to 1.7% y-o-y in January. Food prices climbed by 1.9% y-o-y, albeit by 0.6% from the previous month. Non-food prices gained 1.7%, the same pace as in December 2018.

Meanwhile, on the financial side, PBOC issued $223-M of 1-year central bank perpetual bonds with coupon of 2.45%. This may increase the liquidity and market acceptance of perpetual bonds and may encourage financial institutions to use them as collateral in inter-bank operations.

China's yield curve steepened as spreads between the 10-year to 2-year bonds rose 7 bps from 50 bps to 57 bps last month.

Indonesia: Q4-2018 GDP expanded by 5.18% (y-o-y), a tad faster than 5.17% in Q3. Full-year growth improved to 5.17% from 5.07% in 2017. Q4 performance was boosted by investment spending which increased by 6%, although slower than the 7% reported in Q3. Consumer spending also provided support with a 5.1% uptick, a bit stronger than the 5% in Q3. Meanwhile, net exports inhibited the upswing as imports expanded more than exports. On the production side, mining & quarrying and the manufacturing sectors pulled down growth with sub-par output gains.

Headline inflation (based on CPI) eased to 2.6% (y-o-y) in February, the lowest since November 2009. Sharply lower food prices, especially chili, chicken, eggs, pepper, and fuel price kept inflation at bay. These more than offset price increases in housing, water, electricity, processed foods, beverages, cigarettes and tobacco, health and clothing. With this, Bank Indonesia (BI) remained within its inflation target range of 2.5% to 4.5% for 2019. BI also reported foreign capital inflow amounting to IDR63-T ($4.5-B) by the end of February. Most of the inflows went to government bonds and BI certificates followed by the stock market.

In addition, rupiah appreciated by 1.2% to IDR14,071/$ in February due to the pause in Fed rate hikes. BI retained its policy rate of 6% in its latest meeting in February while the yield curve's steepness also held on steadily with a tiny 1 bp upward nudge.

Malaysia: Malaysia's GDP expanded by 4.7% for Q4-2018 from 4.4% in Q3-2018. The full year growth also came out at the same pace as Q4, a huge easing from 5.9% in 2017. GDP gain in Q4 relied on outperformance in government services (+9.2%); mining & quarrying (+7.1%); wholesale and retail trade, accommodation and restaurants (+6.8%); and finance, insurance, real estate (+3.2%). On other hand, output declines in agriculture (-6.2%) and construction (-4.4%) cooled the expansion in Q4. In addition, both output and new orders continued to deteriorate for manufacturing sector. The Nikkei Malaysia Manufacturing Purchasing Manager's Index (PMI) came in lower at 47.6 in February from 47.9 in January. Meanwhile, business confidence for Q1-2019 also dropped by 2.2% based on the quarterly business tendency survey.

Like the Indonesian rupiah and for the same reason, the Malaysian ringgit (MYR) gained by 1% on US dollar in February. With Bank Negara keeping its policy rate steady at 3.25% and an expected growth slowdown, Malaysia's yield curve flattened as spreads between the 10-year to 2-year bonds decreased by 18 bps, from 55 bps last year to 37 bps in February.

Thailand: GDP expanded by 3.7% y-o-y in Q4-2018 from 3.3% y-o-y in previous quarter, albeit slower on quarter-on-quarter basis. Annual GDP growth clocked at 4.1%, the fastest pace since 2012. Main contributors for Q4 gains included private consumption and investment spending which increased by 5.3% and 5.5%, respectively. On the other hand, net exports slowed the output expansion as imports of goods and services rose by 5.6% while exports only managed to gain by 0.6%.

Headline inflation decelerated to 0.3% in January from 0.4% a month ago, due mainly to the fall in global crude oil prices. Full year 2018 inflation tracked a low 1.1% path.

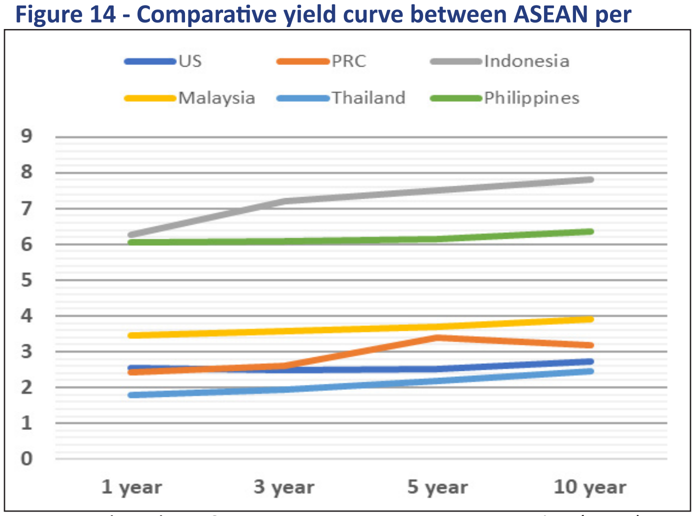
World Bank expects weaker growth of 3.8% in 2019 as exports get battered by the strengthening currency, US-

Although the US economy slowed to a 2.6% GDP growth in Q4-2018, this came above market expectations, and only after consumer confidence shot up did 10-year T-bond yields move up near 2.75%, but these have since eased once more.

China trade war and slower global economy. Meanwhile, Thailand's parliament passed an amended Budgetary procedure act and provided close monitoring of budget disbursement according to the Comptroller-General Department. The amended law stipulates that any contract not signed by the end of fiscal year will be canceled automatically, urging agencies to accelerate investment spending, thus boosting economic growth of the country.

Despite uncertainties on the outcome of the elections and global disturbances, Bank of Thailand kept its policy rate steady at 1.75%. With 10-year T-bond yields up by 9 bps to 2.47%, the yield curve steepened as the spread between the 10-year and 2-year bond yields reached 73 bps from 61 bps a month ago.

Figure 14 - Comparative yield curve between ASEAN per



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Outlook

Despite a slight uptick in local bond yields in February, the outlook remains constructive.

- Although the US economy slowed to a 2.6% GDP growth in Q4-2018, this came above market expectations, and only after consumer confidence shot up did 10-year T-bond yields move up near 2.75%, but these have since eased once more. The Fed's delay of a policy rate hike until clearer signs of tightening in the labor market provided support to the US bond market.

- The banks' need to comply with LCR pushed up short-term yields, while profit-taking occurred for the long-dated bonds in February given the big fall in their yields in January.

- With headline inflation rate falling to 3.8%, as we expected to go within BSP target in Q1 and on to below-3% by Q3, bond investors appeared willing to take on more risk with the onset of March.

- The appointment of class-A macroeconomist as BSP governor should provide relief to the market, especially since he recognizes the need to provide liquidity to banks. This should occur in Q2 and so short-term bond yields would likely fall then, especially in the light of better fiscal position in that quarter when bulk of income taxes fall due.

- We expect more corporate bond issuances in H2 when long-term benchmark yields would approach lows for the year.

- ROP yields may have limited downside especially as we expect a slightly muted growth due to delay in the approval of the 2019 NG budget. Nonetheless, it still remains attractive to local investors as a hedge against peso depreciation.

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
					Jan-19	Feb-19			
US	2.52	2.73	2.4	0.33	18	21	3	2.50	0.10
PRC	2.61	3.18	1.9	1.28	50	57	7	4.35	2.45
Indonesia	7.04	7.82	3.2	4.62	77	78	1	6.00	2.80
Malaysia	3.53	3.90	1.0	2.90	55	37	(18)	3.25	2.25
Thailand	1.74	2.47	1.1	1.37	61	73	12	1.75	0.65
Philippines	6.06	6.36	3.0	3.36	28	30	2	4.75	1.75

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

US AND AE STOCK MARKETS STILL HEADED UPWARD, WHILE PSEi STUMBLES IN FEBRUARY

US and other advanced economies' (AE) stock markets continued to trek upward in February. East Asia + ASEAN had a mixed record, but the PSEi led the correction, as it paced growth in January. PSEi gave up 3.8% in the month to end at 7,705.49, as foreign investors went to the exit door near month's end. This may be attributed to the following: (1) Morgan Stanley's announcement that Chinese equities would take a bigger weight in the MSCI-EM index; (2) China's economic slowdown as evidenced by below-expectation PMI at 49.2 in February; (3) the negative impact on China's growth as a result of the US-China trade dispute, even though some relief (i.e., delay in tariff imposition) surfaced; and (4) the lack of progress in the much-touted 2nd summit between President Trump and North Korean leader King Jong Un.

Outlook: The inability of the PSEi to break the resistance level of 8,200 followed by lower highs suggest that not much may be expected of the local stock market in the near term. Things could begin to pick up April-May if favorable developments occur. These would include: (1) Q1-2019 GDP growth clearly above 6%, which has a downside in absence of an approved fiscal budget; (2) BSP eases liquidity through reserve ratio requirements or policy rate cut, as it had already lessened pressure on banks by moving back the implementation of the liquidity coverage ratio (LCR) to January 2020; (3) Good corporate earnings, which hold promise if Q4-2018 results continue to impress, and (4) Credible and balanced results of the Senatorial elections in May. 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.

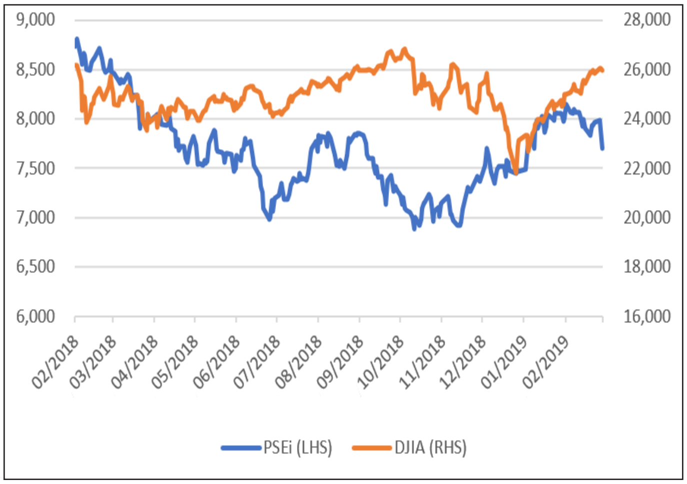
Global Equities Markets Performances

Region	Country	Index	February M-o-M change	2019 change
Americas	US	DJIA	3.4%	11.0%
Europe	Germany	DAX	3.1%	8.8%
	London	FTSE 101	1.5%	5.1%
East Asia	Hong Kong	HSI	2.5%	13.9%
	Shanghai	SSEC	13.8%	19.3%
	Japan	NIKKEI	2.9%	9.3%
	South Korea	KOSPI	-0.4%	9.2%
Asia-Pacific	Australia	S&P/ASX 200	5.2%	11.0%
Southeast Asia	Indonesia	JCI	-1.4%	4.2%
	Malaysia	KLSE	1.4%	2.4%
	Thailand	SET	0.7%	5.6%
	Philippines	PSEi	-3.8%	2.9%
	Singapore	STRAITS	0.7%	5.7%

The global rally that greeted the 2019 has already taken a knock as majority of equities booked minimal growth month-on-month (m-o-m) compared to last January, except for China's SSEC which surged 13.8% m-o-m, posting its strongest market gains in nearly four years. Markets decelerated due to a slowdown in Chinese factory output, continued uncertainties over US-China trade deal, rising geopolitical tensions in Kashmir (India & Pakistan), and the summit between US and North Korea ending abruptly with no deal on disarmament.

The surge in foreign demand for Shanghai stocks came after news that Morgan Stanley Capital International (MSCI) might increase the presence of mainland Chinese shares in its key benchmarks this year. Asian markets, PSEi, JCI, and KOSPI, moved to negative territory, with declines of 3.8%, 1.4%, and 0.4%, respectively. Meanwhile, European bourses managed to land on the green as talks on a possible compromise between Britain and the European Union gained some ground.

Figure 15 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

From a correlation of a high +0.7 in January, DJIA and PSEi's correlation reversed to a -0.7 level. DJIA moved on an upward trend, already at its 2-month winning streak while PSEi plummeted by the last week of February. The

The Financial sector's constituent stocks booked significant declines.

local bourse took a big hit as many foreign investors came out as sellers due to the factors mentioned above and the decline in China PMI. Despite global uncertainties, DJIA raced to the 26,000 level within the last few days of February, due to better-than-expected release of Q4-2018 US GDP data and positive corporate earnings reported.

Monthly Sectoral Performance				
	29-Nov-18		28-Dec-18	
Sector	Index	% Change	Index	% Change
PSEi	8,007.48	7.3%	7,705.49	-3.8%
Financial	1,825.20	2.5%	1,708.16	-6.4%
Industrial	11,667.18	6.5%	11,341.40	-2.8%
Holdings	7,968.46	8.5%	7,725.12	-3.1%
Property	3,921.56	8.1%	3,981.72	1.5%
Services	1,582.29	9.7%	1,534.99	-3.0%
Mining and Oil	8,503.37	3.7%	8,491.76	-0.1%

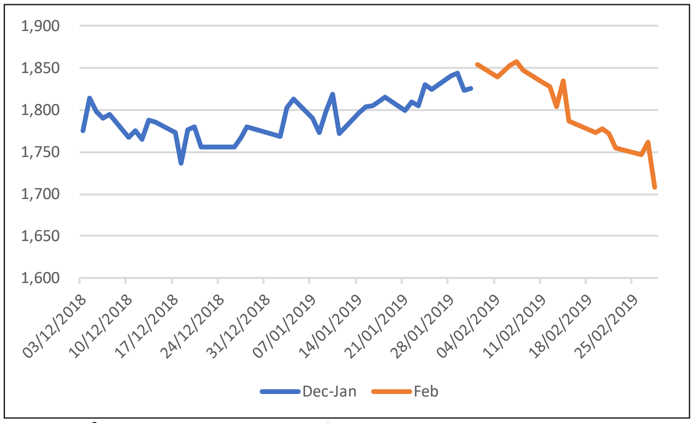
Source of Basic Data: PSE Quotation Reports

PSEi failed to gain traction making a turnaround from biggest gainers on January to biggest losers last February. Property sector proved to be the lone bright spot, recording a muted growth of 1.5%, albeit decelerating from previous month's 8.1% gain. PSEi kept below the 8,000 level as investor confidence vaporized when PSEi repeatedly failed to break the 8,200 resistance level. Sectors with the biggest reductions included Financials, Holdings, and Services, declining by 6.4%, 3.1%, and 3%, respectively, a reversal for both Holdings and Services sectors which recorded the highest growths last January. Meanwhile, Industrials and Mining & Oil sectors ended the month losing 2.8% and 0.1%, respectively.

Company	Symbol	01/31/18 Close	02/28/19 Close	% Change
Metrobank	MBT	84.00	76.00	-9.5%
BDO Unibank, Inc.	BDO	135.00	127.60	-5.5%
Bank of the Philippine Islands	BPI	91.00	84.00	-7.7%
Security Bank Corporation	SECB	179.00	165.80	-7.4%

Source of Basic Data: PSE Quotation Reports

Figure 16 - Financial Sector Index (Dec 2018 - Feb 2019)



Source of Basic Data: PSE Quotation Reports

The Financial sector's constituent stocks booked significant declines. From increasing at a steady pace in December and January, the sector went down in February.

BDO Unibank, Inc. recorded the smallest decline among constituent stocks after the release of better-than-expected net income of P32.7-B last year, up by 16% year-on-year (y-o-y) due to a major drop in tax provisions (-62.4% y-o-y).

Despite earnings that surged by 21% to P22-B for FY 2018 attributed to the solid performance of its core businesses, Metropolitan Bank and Trust Company (MBT) shares still lost 9.5% in value as it also raised P16-B in debt notes to pay off maturing debt.

Bank of the Philippine Islands' (BPI) share price slumped by 7.7% after FY 2018 earnings results revealed a weakening core lending business. BPI's net income for FY 2018, as expected, only grew by 3% y-o-y to P23.1-B. Moreover, its loan growth decelerated to 12.7%, while deposits expanded by only 1.5% y-o-y.

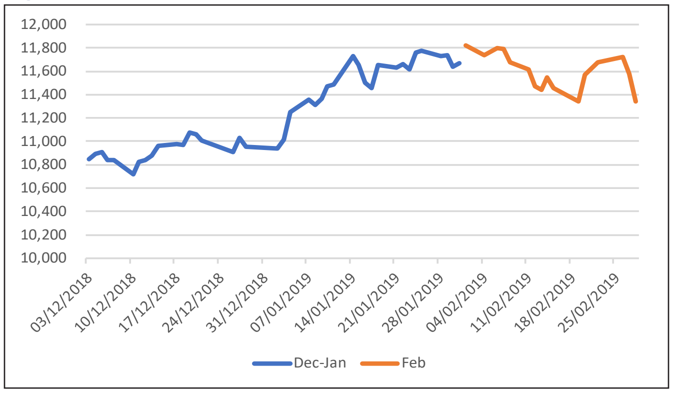
Security Bank Corporation (SECB) made a reversal from January's double-digit increase after the release of its earnings, with the bank only booking P8.6-B in net profit for 2018, a 16% drop from 2017. Decrease in earnings can be attributed to lower trading gains by 85% or P2-B y-o-y and an upsurge in tax provision of 47% or P790-M.

Petron's share prices plummeted after its removal from PSEi and replacement by Bloomberry Resorts Corporation.

Company	Symbol	31/01/19 Close	28/02/19 Close	% Change
Meralco	MER	365.80	367.60	0.5%
Aboitiz Power	AP	38.40	34.85	-9.2%
Jollibee Foods Corporation	JFC	316.00	307.80	-2.6%
First Gen Corporation	FGEN	20.40	21.25	4.2%
Universal Robina Corporation	URC	148.10	136.10	-8.1%
Petron Corporation	PCOR	7.48	6.67	-10.8%

Source of Basic Data: PSE Quotation Reports

Figure 17 - Industrial Sector Index (Dec 2018 - Feb 2019)



Source of Basic Data: PSE Quotation Reports

The Industrial sector ended with a drop of 2.8%, opposite of January's 6.5% gains as losers outweighed gainers four to two. The sector started February on a downward trend, then managed to rebound by the latter half, but eventually took a nosedive by the last week of February. Dragging the sector down, Petron Corporation (PCOR), Aboitiz Power Corporation (AP), and Universal Robina Corporation (URC) recorded losses of 10.8%, 9.2%, and 8.1%, respectively. Meanwhile, Jollibee Foods Corporation (JFC) only posted a minor setback of 2.6%. On the green, however, First Gen Corporation (FGEN) and Meralco experienced gains of 4.2% and 0.5%, respectively.

PCOR's share prices plummeted after its removal from PSEi and replacement by Bloomberry Resorts Corporation.

Not far behind, AP's value also dropped significantly after the announcements made last January of the closure of two of Therma Mobile, Inc.'s power plants finally kicked in.

URC landed in the red after it reported that FY 2018 net income sank by 15% y-o-y to P9.2-B while core net income also went down by 13% y-o-y to P11.9-B. Lower 2018 earning resulted from a decline in branded consumer food (BCF) volume sales (especially coffee), increased distribution costs for BCF-Phils, and higher raw materials and operating expenses for agro-industrial and commodities segments.

JFC suffered a minor setback despite positive news on a 17% y-o-y growth to P8.3-B for reported net income and core net income for 2018. The fast-food giant plans to beef up capital spending this year to P17.2-B, almost double of 2017's actual spending, in order to put up new stores, renovate existing stores, and invest in manufacturing plants.

FGEN led index gainers last February after it had one of the top net foreign buying activity at P93.1-M by the last week.

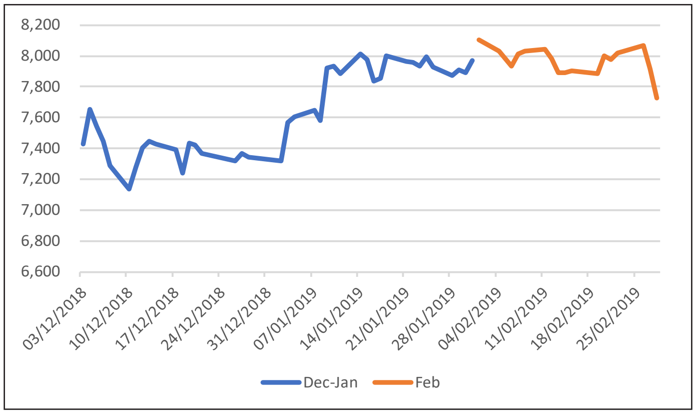
Meralco (MER) went up by 0.5%, a minor reversal of the 3.7% decrease in January. The uptick came after MER reported consolidated net income of P23-B for 2018, a 12.9% jump as it reduced systems losses further. Consolidated core net income reached P22.4-B, a 10.9% increase from 2017, even as electricity sales volume rose by a solid 5.3%

Company	Symbol	01/31/19 Close	01/28/19 Close	% Change
Ayala Corporation	AC	927.00	925.00	-0.2%
Metro Pacific Investments Corporation	MPI	4.86	4.70	-3.3%
SM Investments Corporation	SM	990.00	940.00	-5.1%
DMCI Holdings, Inc.	DMC	12.58	11.40	-9.4%
Aboitiz Equity Ventures	AEV	64.25	61.00	-5.1%
GT Capital Holdings, Inc.	GTCAP	1,067.00	955.00	-10.5%
San Miguel Corporation	SMC	165.00	170.90	3.6%
Alliance Global Group, Inc.	AGI	13.70	13.70	0.0%
LT Group Inc.	LTG	15.50	14.80	-4.5%
JG Summit Holdings, Inc	JGS	64.65	66.20	2.4%

Source of Basic Data: PSE Quotation Reports

Surprisingly, SM Investments Corporation's (SM) share price dropped, despite registering a 13% jump in net income to P37.1-B last year from P32.9-B in 2017 .

Figure 18 - Industrial Sector Index (Dec 2018 - Feb 2019)



Source of Basic Data: PSE Quotation Reports

The Holdings sector became the second losing sector, a switch from being the second top gainer in January. As above graph shows, the sector held its ground throughout February until the last week when its share prices plummeted. On the negative territory, DMCI Holdings, Inc. (DMC) and GT Capital (GTCAP) fell most by 9.4% and 10.5%, respectively. Following them, Aboitiz Equity Ventures (AEV) and SM Investments Corporation (SM) landed on the red tied at 5.1% decline. LT Group, Inc. (LTG), Metro Pacific Investments Corporation (MPI), and Ayala Corporation (AC) joined the red group with losses of 4.5%, 3.3%, and 0.2%, respectively. Bucking the sector's fall, San Miguel Corporation (SMC) and JG Summit Holdings, Inc. (JGS) experienced an uptick of 3.6% and 2.4%, respectively. This came after their inclusion in the Financial Times Stock Exchange (FTSE) large capital index.

SMC's uptrend can be attributed to news that the Department of Transportation (DOTr) had begun working on the terms of reference or the guidelines for the bidding process required for unsolicited project proposals such as SMC's P735.6-B New Manila International Airport project. Moreover, SMC released news that the conglomerate succeeded in reducing water consumption by 23%, already ahead of its schedule.

The award of the Clark International Airport operations and maintenance contract to JGS-led North Luzon Airport Consortium stirred investor interest in JGS.

Going on the opposite direction, GTCAP suffered big losses after the stock experienced net foreign selling of P157.6-M in mid-February as its automobile unit, Toyota Motor Philippines Corporation's (TMP) sales slumped. TMC's sales of 11,355 units fell 14.1% y-o-y in 2018 short of its 2017 record, albeit retaining its premier position in the country's cars and commercial vehicles market with a 42.2% market share.

DMC also figured as an index laggard after the firm's shares succumbed to net foreign selling in February to the tune of P131-M. The selloff may be attributed primarily to the 15% decline in earnings (to P12-B) in its subsidiary, Semirara Mining and Power Corporation (SCC). Earnings came below consensus estimates (see below).

Despite consecutive upticks from December to January, AEV gave up 5.1% in value after reporting a net operating loss of P34-M in 9M-2018. One positive news arose from securing a P206-M contract for Aboitiz Construction, Inc., the construction arm of AEV, to design and construct the overhead transmission line from Batangas to Lipa City for Lima Enerzone Corporation. The other consisted of Aboitiz InfraCapital, Inc. being awarded by DOTr original proponent status to operate Laguindingan airport.

Surprisingly, SM Investments Corporation's (SM) share price dropped, despite registering a 13% jump in net income to P37.1-B last year from P32.9-B in 2017 amidst a similar rise in consolidated revenues to P449.8-B on stronger revenues from its property, bank and retail segments.

LTG's value dipped further still on negative sentiments over the LTG's plan to revive the operations of its distillery unit, Asian Alcohol Corporation, disclosed in late January.

MPI share price also spiraled down after the government decided to divest its stake in Metro Pacific Tollways Corporation (MPTC), MPI's tollway subsidiary, worth some P2.6-B. On the positive side, MPI signed a memorandum of agreement with Aboitiz Construction, Inc. to develop South Mega Distribution Center (logistics) in Cavite. On February 28, President Duterte inaugurated the North Luzon Expressway Harbor Link Segment 10 (an NLEX diversion expressway directly to Manila's port area), which would increase recurring income for MPTC, and ease traffic in the Metropolis as cargo trucks move to and from Central and North Luzon.

The lone bright spot in PSEi, the Property sector edged up by 1.5% as gainers beat losers three to one.

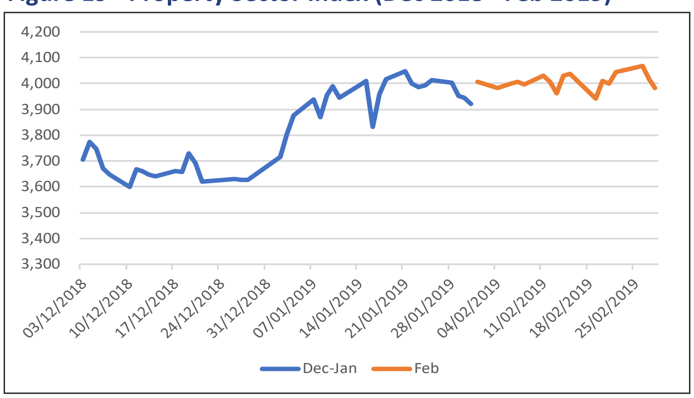
AC's share prices fell moderately with news that its subsidiary AC Energy signed an investment agreement to acquire Phinma Energy Corporation (PHEN).

AGI ended the month flat, as AGI got hit by net foreign selling in February, reflecting its inability to sustain strong net foreign buying a month ago.

Company	Symbol	01/31/19 Close	02/28/19 Close	% Change
Ayala Land, Inc.	ALI	44.40	44.00	-0.9%
SM Prime Holdings, Inc.	SMPH	38.10	38.35	0.7%
Robinsons Land Corporation	RLC	22.05	23.40	6.1%
Megaworld Corporation	MEG	5.16	5.17	0.2%

Source of Basic Data: PSE Quotation Reports

Figure 19 - Property Sector Index (Dec 2018 - Feb 2019)



Source of Basic Data: PSE Quotation Reports

The lone bright spot in PSEi, the Property sector edged up by 1.5% as gainers beat losers three to one. While trading relatively flat throughout the previous month, the sector's share prices slightly dipped in the last few days of February. All companies landed on the green with the exception of Ayala Land, Inc. (ALI) which registered a drop of 0.9%. Robinsons Land Corporation (RLC) registered the highest increase among constituent stocks of 6.1%, while SM Prime Holdings, Inc. (SMPH), and Megaworld Corporation (MEG) rose but only by 0.7% and 0.2%, respectively.

Following the negative route, ALI's share prices dropped by 40 centavos, despite reporting earnings gain of 16% to P29.2-B in 2018 amidst the 17% jump in consolidated revenues to P166.3-B.

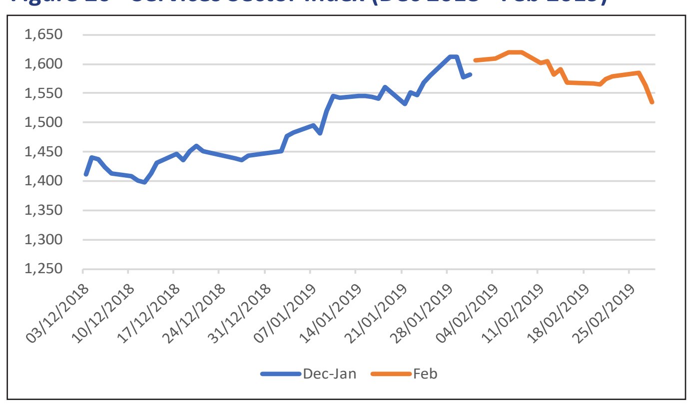
In the positive territory, RLC outperformed other stocks following JP Morgan's report stating that it prefers RLC and MEG over ALI and SMPH. In addition, the Securities and Exchange Commission approved the incorporation of RLC's new subsidiary, the Bonifacio Property Ventures, Inc., a high-end property developer.

SMPH only managed to get a slight uptick, a slowdown from previous month's 6.4% gain. The market seems to have price in SMPH's robust earnings growth of 17% in 2018 to P32.2-B supported by a 14% climb in revenues to P104.1-B. MEG posted muted growth of 0.2% despite announcements to launch a spate of residential projects within its owned townships outside Metro Manila.

Company	Symbol	01/31/19 Close	02/28/19 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,290.00	1,030.00	-20.2%
Globe Telecom	GLO	2,020.00	1,900.00	-5.9%
Robinsons Retail Holdings, Inc.	RRHI	88.00	87.50	-0.6%
Puregold Price Club Inc.	PGOLD	45.50	47.05	3.4%
International Container Terminal Services Inc.	ICT	108.20	116.00	7.2%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Services Sector Index (Dec 2018 - Feb 2019)



Source of Basic Data: PSE Quotation Reports

Months prior to February, the Services sector had continuously moved on an uptrend, but it lost steam by the second week of the month, ending up among the biggest losing sectors. Philippine Long Distance Telephone Company's (TEL) share prices took a nosedive, with a 20.2% plunge, the largest fall among all stocks. Globe Telecom (GLO) and Robinsons Retail Holdings, Inc. (RRHI) also landed in the

Both telco companies suffered the biggest loss after the Senate approved the transfer of Mindanao Islamic Telephone Company Inc.'s ownership to Dennis Uy and China Telecom consortium.

red with share prices dropping by 5.9% and 0.6%, respectively. Meanwhile, only International Container Terminal Services, Inc. (ICT) and Puregold Price Club Inc. (PGOLD) share prices that landed in the green with advances of 7.2% and 3.4%, respectively.

Both telco companies suffered the biggest loss after the Senate approved the transfer of Mindanao Islamic Telephone Company Inc.'s ownership to Dennis Uy and China Telecom consortium. Developments on the third party telco, together with threats from President Duterte to shut down the firm over its anti-graft hotline which remained inadequate to accommodate complaints and P8-B outstanding liabilities to the government, TEL posted a double-digit downsize in February. However, TEL plans to raise its capital expenditures to at least P70-B for 2019 to fund improvements of their fiber-to-the-home on the fixed line side and construction of 5G networks for the wireless side.

On the other hand, its rival GLO did not take as big of a hit as it reported earnings growth of 22% to P18.4-B as its consolidated service revenues increased by 10% to P132.9-B. Moreover, the Ayala-led carrier plans to ramp up capital expenditures for 2019 to P63-B from P43.3-B in 2018 as it prioritized its LTE rollout and enhancement of its data network.

Meanwhile, RRHI joined the telco stocks in the negative territory, as it posted relatively flat earnings only up by 6% to P4.9-M.

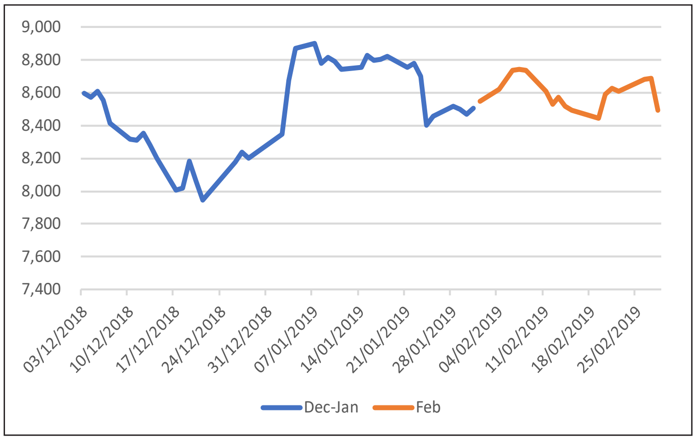
ICT topped the growth race after the announcement on the partnership between Manila International Container Port and ICT to address congestion problem in its container yards. Additionally, ICT will also repair the bay doors of the designated examination areas inside the port. ICT also rose because of the upweight (from 1.75% to 3.35%) during the MSCI rebalancing effective March 1.

Following ICT, PGOLD exhibited the second highest uptick after the negative sentiment on its call for additional capital in January vanished. The stock went back on an uptrend in February.

Company	Symbol	01/31/19 Close	02/28/19 Close	% Change
Semirara Mining and Power Corporation	SCC	23.70	22.50	-5.1%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Mining & Oil Sector Index (Dec 2018 - Feb 2019)



Mining & Oil came back on the red, albeit the slowest sectoral decline as it traded at a relatively narrow range. Semirara Mining and Power Corporation (SCC) fell by 5.6 % after it reported a 15% plunge in consolidated net income to P12-B in 2018 pulled down by its energy unit and weaker coal exports in Q3-2018. Prolonged outage of power subsidiary's SEM-Calaca unit 3 brought down total revenues by 4.5% to P42-B.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	28,843.13	11.9%	1,602.40	36.7%
Industrial	26,586.31	-15.2%	1,477.02	3.6%
Holdings	32,137.69	-41.7%	1,785.43	-28.8%
Property	29,516.33	-22.0%	1,639.80	-4.6%
Services	38,380.68	1.9%	2,132.26	24.5%
Mining and Oil	1,869.87	-25.1%	103.88	-8.4%
Total	**157,334.01**	-17.3%	**8,740.78**	1.1%
Foreign Buying	90,629.98	-19.0%	5,035.00	-1.0%
Foreign Selling	81,336.89	-18.3%	4,518.72	-0.1%
Net Buying (Selling)	9,293.09	-50.2%	516.28	-39.2%

Source of Basic Data: PSE Quotation Reports

Despite sectors landing on the red, foreign buying outweighed foreign selling with net funds inflow of P9.2-B in February, but less than half of January's P18.7-B.

PSE failed to gain traction as total turnover slumped by 17.3%, a reversal from January's 40.8% surge. Sectors that posted the biggest double-digit losses on total turnover included the Holdings, Mining & Oil, and Property sectors with huge drops of 41.7%, 25.1%, and 22%, respectively. Also on the red, albeit the lowest decline, the Industrial sector, its turnover slipped by 15.2%. On the other end of the spectrum, Financial and Services sectors expanded turnovers by 11.9% and 1.9%, respectively.

Despite sectors landing on the red, foreign buying outweighed foreign selling with net funds inflow of P9.2-B, but less than half of January's P18.7-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)

	2017		2018		Nov-2018			Dec-2018		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	2,473,132	12.6%	2,850,184	15.2%	259,702	5.2%	6.7%	232,209	-10.6%	4.1%
Tax	2,250,678	13.6%	2,565,812	14.0%	242,220	9.0%	6.1%	205,967	-15.0%	4.5%
BIR	1,772,321	13.1%	1,951,850	10.1%	192,048	16.5%	7.1%	150,837	-21.5%	-0.3%
BoC	458,184	15.6%	593,111	29.4%	47,902	-14.4%	3.3%	54,637	14.1%	21.2%
Others	20,173	20%	20,851	3.4%	2,270	51.0%	-10.4%	493	-78.3%	-27.8%
Non-Tax	222,415	3.2%	284,321	27.8%	17,482	-28.7%	14.7%	26,213	49.9%	0.5%
Expenditures	2,823,769	10.8%	3,408,443	20.7%	298,820	-2.5%	18.5%	313,251	4.8%	-5.1%
Allotment to LGUs	530,150	17.9%	575,650	8.6%	44,059	-1.2%	5.3%	44,168	0.2%	-1.3%
Interest Payments	310,541	2%	349,215	12.5%	24,660	2.7%	19.8%	29,213	18.5%	42.1%
Overall Surplus (or Deficit)	-350,637	-0.8%	-558,259	59.2%	-39,118	-34.7%	353.6%	-81,042	107.2%	-24.4%

Source: Bureau of the Treasury (BTr)

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

	2018		Jan-2019			Feb-2019		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	43,810.80	5%	3,353.30	3.1%	3.1%	3,498.50	1.6%	2.4%
Residential	13,549.70	3.7%	1,094.40	3.1%	3.1%	984.20	-0.4%	1.4%
Commercial	17,211.30	4.8%	1,467.00	3.2%	3.2%	1,377.40	1.2%	2.2%
Industrial	12,610.30	5.9%	944.20	4.3%	4.3%	1,096.90	5.7 %	5.0%

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)

	2018		Dec-18		Jan-2019	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	3,035,680	8.5%	3,338,027	6.4%	3,044,919	15.8%
Sources:						
Net Foreign Asset of the BSP	4,514,943	1.5%	4,459,547	1.3%	4,599,535	4.0%
Net Domestic Asset of the BSP	11,218,175	15.4%	12,009,225	14.6%	11,701,314	28.0%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,708,624	13.9%	3,887,379	9.5%	3,788,734	24.9%
Money Supply-2	10,597,336	11.2%	11,065,705	8.5%	10,864,397	20.6%
Money Supply-3	11,063,517	11.5%	11,612,149	9.2%	11,407,396	21.6%
MONEY MULTIPLIER (M2/RM)	3.49		3.32		3.57	

Source: Bangko Sentral ng Pilipinas (BSP)

March 2019

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