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The

MARKET CALL

Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
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UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

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Executive Summary

Encouraging economic data in March, i.e., further slump in inflation, ramped up spending by the National Government (NG) in February, and unabated gains in OFW remittances, keep us upbeat for Q1 GDP growth. Besides, weak money growth and the easing of inflation allow the Bangko Sentral ng Pilipinas (BSP) to cut reserve requirements (RRR) in Q2. Slower inflation sparked secondary bond trading to a 4-year high, but failed to thrust the equities market beyond its trading range.

Macroeconomy

Despite key positive news in March (and early April) — inflation nearing mid-point of BSP target range, rebound in NG spending, robust gains in remittances — the unfinished business of providing more liquidity to banks and the delay in 2019 budget approval stand out. With the latter's likely approval in April, BSP has the space and means to provide the needed liquidity in its next meetings.

- Capital goods imports started the year off on a positive note, posting an 8.9% y-o-y gain in January.
- National Government spending, excluding interest payments, soared by 24.0% in February.
- Headline inflation's slide continued to reach 3.3% (y-o-y) in March, a 15-month low.
- M3 growth slowed further to 7.1% in February.

Outlook: Elevated NG spending on infrastructure projects, coupled with the spill-over effects of the election should keep growth momentum in Q1 steady. Moreover, the downtrend in inflation print augurs well for higher consumer spending and leads us to expect cuts in RRR in Q2. The peso's recent gains should prove temporary given the huge trade imbalance and the need to beef up GIR to counter possible external shocks.

Bonds Market

Sickly in 2018, the bond market sprang to running in March when secondary GS trading reached a 4-year high while tenders in auctions bulged further from February. Weak US economic data in early March led to tumbling long-term (LT) bond yields there, and local inflation's perceived demise, whetted investors' risk appetite to send local LT bond yields plunging in both primary and secondary market. ROPs yields continued to fall with US treasuries.

- Long-term bond yields plummeted by 85.2 bps and 75.2 bps for 20-year and 10-year T-bonds to 5.819% and 5.605%, respectively.
- Tender-offer ratio (TOR) in auctions jumped to 2.06x from 1.41x last month, lifted by strong demand for LT bonds.
- Yield spreads between ROPs and US treasuries widened as the latter took a deeper dive.

Outlook: With the US economic slowdown, "confirmed" by the Fed's stance of no rate hikes in 2019, US 10-year T-bond yields headed south in March. IMF's further cut in its World growth projections for 2019 reinforces our stance that domestic factors will drive local bond yields. Long-term bond yields should track the slide of inflation deep into H2. Besides, our take that BSP will likely trim RRRs supports our view that bonds continue to be an attractive asset class.

Equities Market

PSEi climbed by 2.8% last March, but couldn't break through the 8,200 resistance level even with encouraging US and local economic signals. Those proved insufficient to significantly prop up investor sentiment. Besides, the slowdown in China's PMI and delay in approval of the National Government's (NG) 2019 budget provided headwinds.

- PSEi rebounded last March with gains of 2.8%, an upsurge from February's 3.8% decline.
- Property sector kept its winning streak throughout Q1, while Mining and Oil ended the quarter with a 6.6% loss.
- AGI, ICT, and MEG led index gainers among constituent stocks, while RRHI, JGS, and AEV led laggards
- Turnover contracted anew, falling by 11.7%, with a net foreign inflow of P4.7-B, half of February's P9.2-B.

Outlook: We expect PSEi to trade within the range of 7,500 to 8,200 in Q2 with positive drivers just on balance with downbeat forces. On the constructive side, we see some progress in US-China trade negotiations, BSP lowering RRR, and, further easing of inflation. The headwinds come from delayed national budget approval, slowing world economic growth led by China and US, and a possibly less-than-expected GDP expansion in Q1.

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)	6.3%	6.0%	-	6.7%	6.2%	6.8-7.2%
Inflation Rate (March)	3.3%	3.8%	4.1%	2.9%	5.2%	3.0-3.5%
Government Spending (February)	21.0%	-7.2%	6.9%	12.6%	22.5%	12.0%
Gross International Reserves ($B) (March)	83.2	82.8	82.8	81.6	79.2	84.0
PHP/USD rate (March)	52.41	52.19	52.36	50.40	52.68	54.00
10-year T-bond yield (end-March YTD bps change)	6.13%	6.32%	6.36%	4.93%	7.05%	6.32-6.82%
PSEi (end-March YTD % change)	7,920	7,706	2.8%	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

POSITIVE ECONOMIC DATA IN MARCH, BUT UNFINISHED BUSINESS REMAINS

Despite economic data released in March emitting positive signals—drastically lower inflation rate in March (3.3%), plunging long-term bond yields, recovery in government spending in February, and robust gains in overseas Filipino workers remittances—some unfinished business remains. One clear item is the tight liquidity of banks as shown by elevated short-term interest rates (1-year bond yield is still at 6.0% while 10-year yields are slightly lower). The irony is that this is easily addressed by lowering reserve requirements say by 200 basis points (bps), and contrary to a view that it will just go to exchange rate speculation, it will just ease the search by banks for funds to meet the liquidity coverage ratio (LCR) and won't signal a change in monetary policy stance. Another is the approval of the 2019 budget, the delay of which can upset the spending program of the National Government (NG).

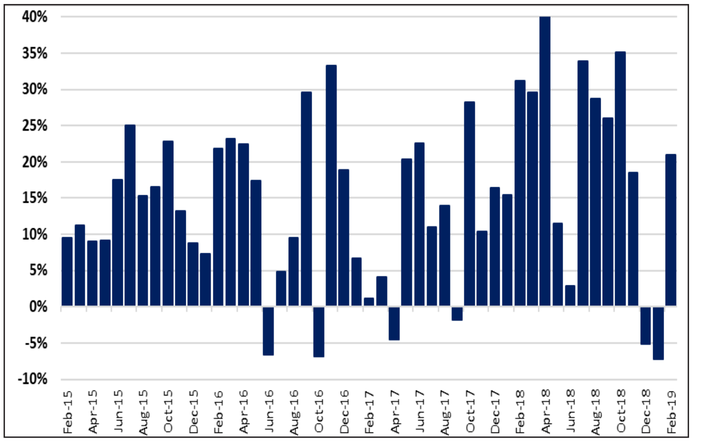
Outlook: The surge in the national government (NG) spending in February offsets its slowdown in January, and shows that despite the delay in budget approval, the pace of government spending can run on an elevated track, since the 2019 budget will likely be signed in April or May. Thus, the impact of the delay in Q1 GDP growth would be limited. Big ticket infrastructure and Public-Private Partnership (PPP) projects have proceeded well in Q1 and should go full blast in Q2. Election spending should spur consumer spending in Q1, while inflation's further slide to average 3.1% in Q2 would add fuel to the earlier momentum. With M3 growth expected to average 7.1% in the first four months of 2019, the case for a cut in reserve requirements becomes even more compelling.

NG Spending Jumps by 20.9% in February

National Government (NG) spending in February soared by 20.9% year-on-year (y-o-y) to reach P278.5-B, despite the delay in NG budget approval. This double-digit rebound followed two consecutive months of declines and resulted in a deficit of P76.4-B for the month. Spending on infrastructure projects and NG's various social projects would likely have boosted NG expenditures, which grew by 24.0% when interest payments are excluded.

Total revenues accelerated to a 13.2% uptick for the month, relying on a hefty gain in the Bureau of Internal Revenue (BIR) collections, while Bureau of Customs (BOC) imposts remained fairly flat. BIR posted a 16.4% y-o-y growth, suggesting a still robust Q1 economic performance. But revenues still fell short of NG disbursements. Thus, the government's year-to-date (YTD) budget deficit easily turned negative at P31.8-B, as the February deficit offset the January surplus.

Figure 1 - NG Expenditures Growth Rate, Year-on-Year



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

We believe that NG spending will continue to increase in March as the administration remains focused in finishing key infra projects but the delay in budget approval, constitute a downside risk.

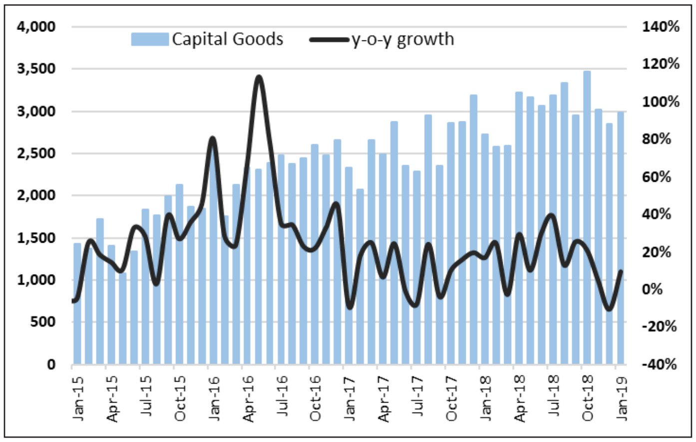
Capital Goods Imports Kicks Off on a Positive Note

The imports of capital goods (1/3 of total imports) kicked off to a good start with an 8.9% jump (y-o-y) in January, following a lethargic performance in December 2018. Strong demand for telecommunication and electrical machinery buoyed total capital goods growth, boosted next by double-digit gains in the imports of land transportation equipment, aircrafts, ships, and boats, and photographic equipment and optical goods. Meanwhile,

Despite higher electricity rates in March, the housing, water, electricity, gas and other fuels (HWEGOF) index cooled down, triggered by softer international price of crude oil.

imports of power generating and specialized machines slightly fell by 0.6%.

Figure 2 - Imports of Capital Goods (in Million USD)



Source of Basic Data: Philippine Statistics Authority (PSA)

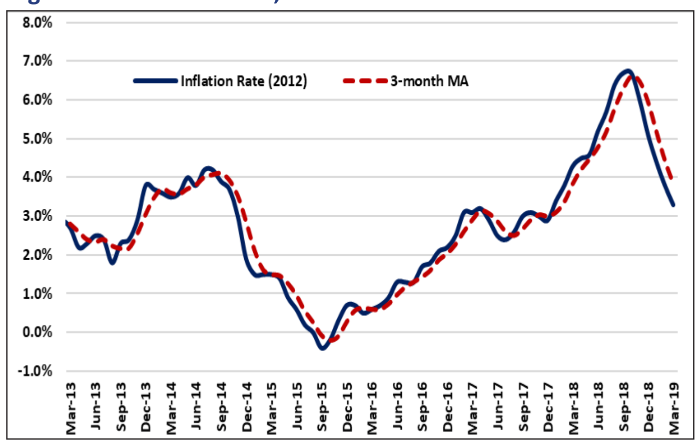
As in the past, raw materials & intermediate goods imports captured the largest share of total imports at 39.3%, registering only a 1.8% increase. The 9.9% plunge in mineral fuels, lubricants and related materials, due mainly to the sharp fall in crude oil prices starting November 2018 weakened the former's expansion. A rebound in demand for semi-processed raw materials (especially the manufactured items such as metal products, non-metallic minerals and textile) provided the positive impulse. Higher demand for durable (i.e., passenger cars & miscellaneous manufactures) and non-durable products (i.e., food and live animals chiefly for food, as well as, apparel) resulted in 19.1% y-o-y increase in consumer goods imports.

Tracking gains in most sub-categories, total imports grew by 5.8% y-o-y to reach $9.0-B in January, a reversal of 9.3% drop in December. But since it still outpaced total exports, the country incurred a $3.8-B trade deficit in January, practically the same deficit a month ago.

Inflation Further Decelerates to 3.3% in March, Q1 Data Within Target

As previously anticipated, inflation print in Q1 stood below 4% brought about by the three consecutive months of price deceleration. Price upticks in March further slowed down to 3.3%, the slowest increase in 15 months and remarkably milder than the 4.4% and 3.8% headline inflation registered in the first two months of the year. Significant decline in prices of major commodities (i.e., alcoholic beverages, food and non-alcoholic beverages) largely contributed to the downtrend. Q1 core inflation stayed at 3.9%, but still within the Bangko Sentral ng Pilipinas' (BSP) target range. Most regions outside the National Capital Region (NCR), likewise, recorded slower price gains than the national average; except for MIMAROPA, Davao, Northern Mindanao, Ilocos and Soccksargen which had 4% and above inflation rate.

Figure 3 - Inflation Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Prices of key food items (i.e., corn, rice, fish, fruits, vegetables, and sugar, jam & confectionary) posted slower annual increments which spilled over to the restaurants, miscellaneous goods and services and resulted in the slower upswings 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 (1.5% points) as price of commodities in this category increased at a decelerating pace, followed by furnishing, household equipment and routine maintenance of the house.

Despite higher electricity rates in March, the housing, water, electricity, gas and other fuels (HWEGOF) index cooled down, triggered by softer international price of crude oil. Price of WTI in March averaged to $58.15/barrel, showing a 7.3% decline from a year ago. Meanwhile, Meralco rates rose to P10.49/kWh in March from P10.41/kWh in February amidst higher transmission charges from the National Grid Corporation of the Philippines.

The Volume of Production Index (VoPI) decelerated further to 8.5% y-o-y decline in February from -2.9% (revised from -4.1%) in January.

Inflation Year-on-Year Growth Rates	Mar 2019	Feb 2019	YTD
All items	3.3%	3.8%	4.1%
Food and Non-Alcoholic Beverages	3.4%	4.7%	5.2%
Alcoholic Beverages and Tobacco	10.8%	12.2%	14.2%
Clothing and Footwear	2.5%	2.4%	2.5%
Housing, Water, Electricity, Gas, and Other Fuels	3.4%	3.7%	3.8%
Furnishing, Household Equipment and Routine Maintenance of the House	3.4%	3.8%	3.9%
Health	3.9%	4.2%	4.3%
Transport	3.3%	1.2%	1.8%
Communication	0.3%	0.4%	0.4%
Restaurants and Miscellaneous Goods and Services	3.7%	4.0%	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

Higher transport fares in NCR and price increase in apparel in most regions drove the transportation and clothing & footwear indices higher while the rest of the indices 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 3% by Q3 due to lower prices in key food commodities (especially rice), among others. The continuous downtrend in the overall level of prices surely augurs well for higher consumer spending in the coming months.

Manufacturing Output in February Remains Lackluster

The Volume of Production Index (VoPI) decelerated further to 8.5% y-o-y decline in February from -2.9% (revised from -4.1%) in January. Huge slowdown in eight out of the 20 major industry groups contributed to lower manufacturing activities. Food manufacturing and the production of non-metallic mineral products registered double-digit decrement, falling by 19.5% and 12.0%, respectively. Electrical machinery, tobacco and petroleum products, originally in the positive list now join the losers.

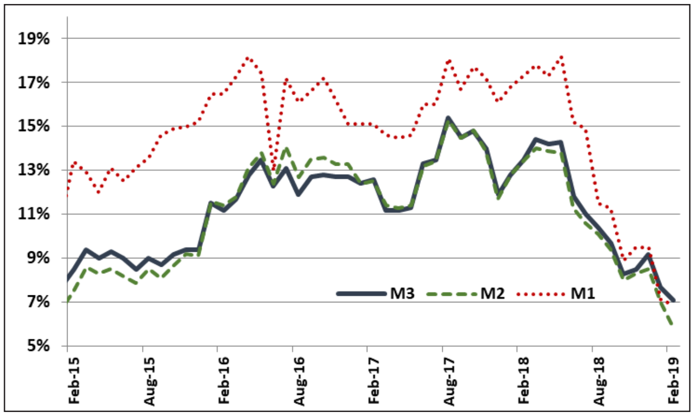
Meanwhile, wood products led the expansion with a 41.7% jump, followed by footwear and wearing apparel (+36.5%). Miscellaneous manufactures and beverage joined the outperformers as their outputs climbed by 22.0% and 20.4%, respectively.

Nonetheless, like last month, we expect upward revisions in the data as the VOPI remained inconsistent with the unabated gains in infrastructure work and in the increase in residential and commercial construction and election-related food spending.

Domestic Liquidity Still at a Slower Pace, MB Keeps Policy Rates Steady

Domestic liquidity (M3) maintained its single-digit pace and further slowdown to 7.1% (y-o-y) in February from 7.7% in January. Broad money (M2) and narrow money (M1) growth, likewise, showed relative tightness to record a quick-pace deceleration of 5.9% and 6.9%, respectively.

Figure 4 - M1, M2, M3 Growth Rates



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

Commercial bank loans outstanding which comprised 88.4% of banks' loan portfolio also expanded at a slower pace to 13.6% y-o-y from 15.3% in January. 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, growth in net foreign assets (NFA) of monetary authorities remained in the positive territory at 2.4% from 3.3% in the preceding month.

Monetary Board (MB) decided to maintain key policy rates during its meeting last March 23rd at 4.75%. It also kept reserve requirements (RRR) unchanged. In short, while BSP Gov. Diokno made dovish statements shortly after assuming the new position, he proved skeptics wrong about his eagerness to cut policy rates or RRR.

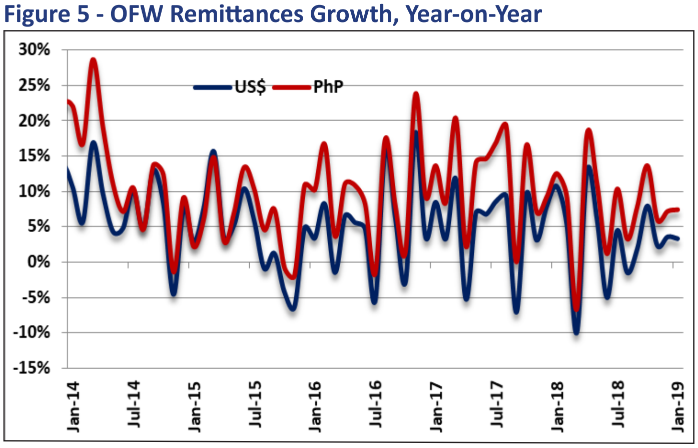
Filipinos working abroad (OFWs) continued to pour in money amounting to $2.7-B in personal remittances in January, 3.4% higher (y-o-y) than in the same period last year.

We, however, think that with inflation continuing to trend downward much within BSP's target range and slow monetary expansion, we maintain our view that the MB will likely provide more liquidity to banks by cutting reserve requirements in H1-2019 and also reduce policy rates in H2. These should bolster sustained growth in the economy.

OFW Remittances Higher by 3.4% in January

Filipinos working abroad (OFWs) continued to pour in money amounting to $2.7-B in personal remittances in January, 3.4% higher (y-o-y) than in the same period last year. Inflows coming from sea- and land-based workers with at least one-year contract supported remittances flow (+2.3%), boosted further by the hefty 12.6% gains of those with less than one year contract.

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



Source of Basic Data: Philippine Statistics Authority (PSA)

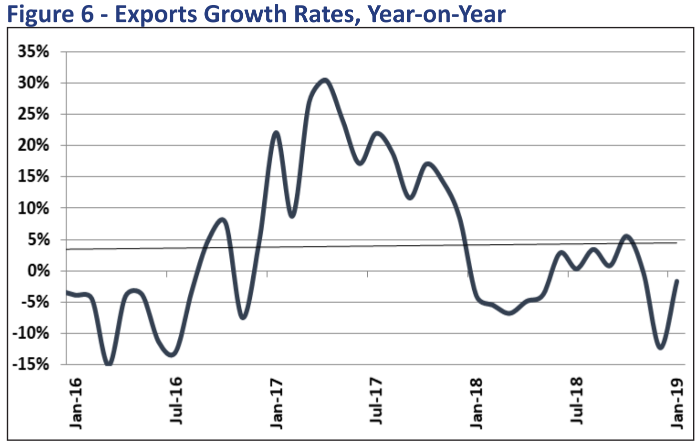
Cash remittances (i.e., coursed through banks) also increased by 4.4% (or $2.5-B) in January amidst strong transfers from the US which accounted for about 35% of total cash remittances. Saudi Arabia, UAE, Singapore, the United Kingdom, Japan, Qatar, Canada, Germany, and Hong Kong which comprised another 40% also contributed to the unrelenting increase of remittances. Just like in the previous months, peso depreciation (3.9% y-o-y) magnified the peso equivalent of personal remittances in January to post a 7.4% increase.

We think that strong demand abroad for Filipino workers remain unaltered, and that, OFW remittances will continue to flow into the country, and help fuel domestic demand.

Exports Print Improves But Still Negative

Total exports performance in January improved, albeit still lodging in the negative territory, with sales amounting to $5.3-B. Export growth slid by 1.7% y-o-y, tracking double-digit declines in the top five outbound shipments. Nonetheless, January rate stood a lot better than the 12.3% drop recorded in December 2018.

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



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

Electronic products continued as the top export accounting for 52.9% of total exports and posting a 1.7% y-o-y increase. Semiconductors, which had the biggest share among electronic products (at 38.6% of total exports), also grew by 0.9% y-o-y to $2.0-B. Exports of ignition wiring set and other wiring sets and bananas in 4th and 5th place also registered huge gains of 54.5% (to $195.8-M) and 127.8% (to $160.6-M), respectively. Meanwhile, outbound shipments of machinery & transport equipment had a worse fall of 24.2% (to $317.7-M) to capture the 2nd slot. Other manufactured goods also fell by 15.3% y-o-y, with export receipts amounting to $312.9-M.

Japan snared the lion's share, accounting for 16.8% of the total exports and outranking US. Exports sales to the country, however, registered a 3.0% decline. Hong Kong (-15.8% y-o-y) and Singapore (-6.9% y-o-y) also posted weak outbound shipments. Exports demand from the US and China, on the other hand, still showed strength with gains of 8.4% and 2.3% y-o-y, respectively.

While almost half of the total exports in January still headed towards East Asian (EA) nations, valued at $2.6-B, weak demand from Japan and Hong Kong resulted in the

Despite the weak print in January, we think that export growth this year will lodge in the positive territory, albeit unremarkable in anticipation of a weak rebound in Japan and China's economies.

6.7% slump in the export going to the EA region. Exports shipments to ASEAN bucked the trend with a 10.0% y-o-y increase, with receipts amounting to $768.2-M.

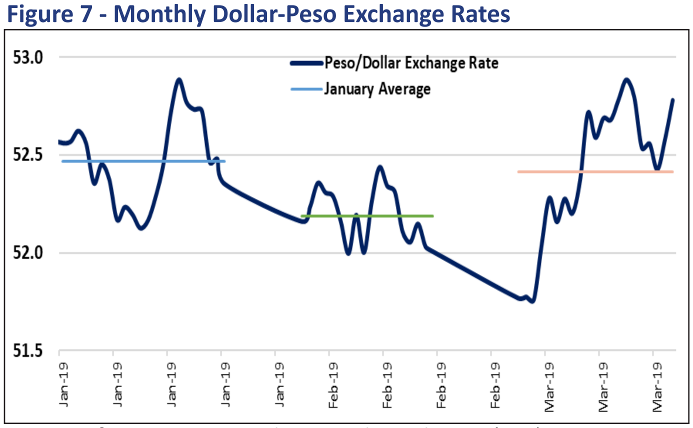
Despite the weak print in January, we think that export growth this year will lodge in the positive territory, albeit unremarkable, in anticipation of a weak rebound in Japan and China's economies.

Peso Slides Against the Greenback

Soon after new BSP Gov. Benjamin Diokno expressed his desire to address the apparently flagging economic growth, the peso lost ground against the greenback in March, after four straight months of appreciation. Weighed down by huge trade deficits, the peso averaged P52.41/$ from P52.19/$ a month ago. This represented a 0.4% depreciation (m-o-m) of the peso. The volatility measure widened to 1.1 from 0.4 in February, with the peso reaching a high of P52.89/$ and a low of P51.76/$. However, the negative sentiment towards the peso vanished after the MB maintained policy rates and RRR in its March 23rd meeting.

Meanwhile, the global uncertainty emanating from the US-China trade war and Brexit, and untarnished strength of the US economy (ref. Job gains under "Bond Markets"), among others, encouraged capital flows into the US, which boosted the dollar.

Figure 7 - Monthly Dollar-Peso Exchange Rates



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

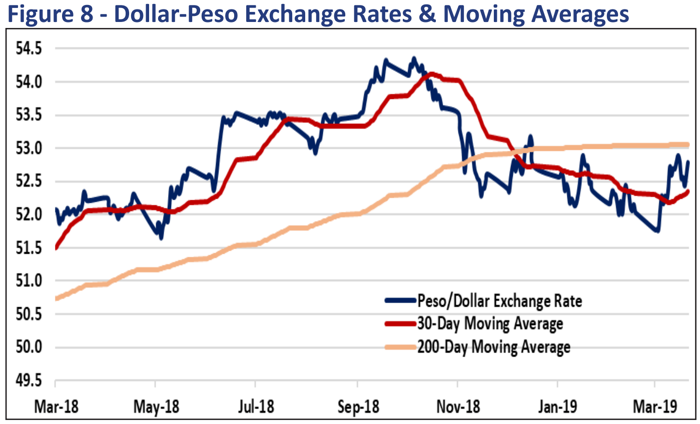
Other emerging currencies also succumbed to losses, led by Thai baht (THB), dragged down by huge equity outflows and weak tourism demand. The election-related issues also dampened prospects for the baht. Indonesian rupiah (IDR) and Korean won (KRW), likewise, weakened amidst heavy capital outflows. On the other hand, upbeat factory production in China provided strength to Chinese yuan (CNY), following an increase risk appetite.

Exchange Rates vs USD for Selected Asian Countries			
	Feb-19	Mar-19	YTD
AUD	-0.1%	1.0%	1.2%
CNY	-0.8%	-0.4%	-2.6%
INR	0.8%	-2.2%	-1.6%
IDR	-1.1%	1.1%	-2.2%
KRW	0.1%	0.9%	0.8%
MYR	-0.9%	0.0%	-2.3%
PHP	-0.5%	0.4%	-0.7%
SGD	-0.2%	0.1%	-1.1%
THB	-1.7%	1.3%	-3.1%

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 March lodged below the 200-day moving average (MA) but above the 30-day MA, suggesting more volatility in the coming months. We maintain our view that the peso will trade again within the P52.0-53.0 range in Q2, as BSP rebuilds its GIR.

Outlook

Positive economic data releases in March outweighed negative ones and so we retain our view that PH economy grew by 6% or higher in Q1 despite the pending approval of the NG budget for 2019. Besides, we think that Congress will approve the budget in Q2 thereby providing NG with the ammunition to accelerate spending in H2, and so we

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

have kept, for now, our full-year projection of 6.5% to 7.0% GDP growth.

• Capital goods imports' good performance in January leads us to think that these will revert to double-digit growth by February, thus supporting robust investment spending in Q1.

• NG spending, excluding interest payments, soared by 24.0% in February suggesting higher spending despite a still unapproved budget for 2019.

• Inflation continued to spiral down and, on its way, to below-3% by early Q3.

• We think that with weaker inflation staying near mid-point of its target range and money growth barely above GDP growth, MB will cut RRR in Q2 and trim the policy rate by Q3 as inflation goes below 3.0% and could even hit 2.0% in Q3.

• Manufacturing output decline worsened in February, but the January index got an upward revision suggesting that the sector wouldn't fare badly in the estimation of Q1 GDP.

• Exports nearly ended in the positive territory in January, recovering from a sizeable fall in December. With the US and ASEAN economies still showing strength, we think exports will turn positive more consistently starting Q2, counting also on a low base in 2018.

• We expect the peso-dollar rate to mildly depreciate in Q2 as the BSP rebuilds its GIR on peso rallies and infuses liquidity into banks at the same time.

BOND TRADING VOLUME HIT 4-YEAR HIGH, YIELDS PLUNGE

Rapidly falling inflation rates into March (at 3.3%) and weak US economic data released in March induced bond investors to throw away their risk-averse caps to propel secondary government securities (GS) bond trading to a 50-month high at P563.7-B in March. Thus, both in auctions and in the secondary market long-term bond yields plummeted by as much as 82.5 basis points (bps) from their end-February levels. More corporate bond issuances got the nod of the Securities and Exchange Commission (SEC) to feed the markets by April 2019. ROPs somehow followed the larger fall in US Treasuries yields resulting in wider spreads between the two, except for the 10-year tenor.

Outlook: We see little upward pressure from foreign interest rates as the International Monetary Fund (IMF) further cut its world economic forecasts for 2019, while put the US Fed policy rate hikes on hold amidst Q4-2018 GDP slowdown to 2.2%, and financial markets even project a rate cut later this year. Domestically, the swiftly decaying rate of inflation should continue into H2 when it goes below 2.6% year-on-year (y-o-y), with long term bond yields likely to follow suit. Besides, the new Bangko Sentral ng Pilipinas (BSP) Governor Benjamin Diokno will likely trim reserve requirements in Q2 and policy rates by Q4 to satisfy liquidity needs of banks and to bring the economy back to a faster growth track, while lowering borrowing costs of National Government (NG).

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
04-Mar	91-day	6	8.893	0.000	1.482	0.000	
	182-day	6	11.569	3.939	1.928	5.975	
	364-day	8	11.340	0.000	1.418	0.000	
11-Mar	91-day	6	6.745	6.000	1.124	5.716	
	182-day	6	11.569	6.000	1.928	5.933	
	364-day	8	13.081	8.000	1.635	6.018	
18-Mar	91-day	6	6.686	3.386	1.114	5.786	
	182-day	6	9.480	4.960	1.580	5.987	
	364-day	8	8.766	5.096	1.096	6.051	
25-Mar	91-day	**6**	6.605	3.455	1.101	5.787	5.4
	182-day	6	11.760	6.000	1.960	5.927	-5.1
	364-day	8	12.818	8.000	1.602	6.044 1..044	-0.8
Subtotal		**80**	**119.312**	**54.836**	**1.491**		
12-Mar	10 year	20	54.603	20.000	2.730	6.196	-63.3
26-Mar	7 year	20	73.685	20.000	3.684	5.934	-15.3
Subtotal		**40**	**128.288**	**40.000**	**3.207**		
All Auctions		**120**	**247.6**	**94.8**	**2.063**		

Source: Philippine Dealing Systems (PDS)

GS Primary Market: Demand Improves as Inflation Goes on Freefall

With the unabated fall in inflation, bond investors flocked to the auctions of government securities (GS) in March when total auction amounted to P247.6-B resulting in a jump in Tender-offer ratio (TOR) to 2.06x from 1.41x in the previous month. Although February had a higher total tender of P281.5-B, P100.0-B of that would be attributable to large 5-year Retail Treasury Bonds (RTBs) that NG placed that month.

In addition, the BSP's decision to defer the full implementation of Basel III liquidity coverage ratio (LCR) until January 2020 (from January 2019) boosted demand, especially for longer-dated Treasury bonds. T-bonds auctioned obtained a 3.21x TOR, soaring from 1.35x last February. Meanwhile, short-term T-bills TOR dropped slightly from 1.54x to 1.49x a month ago.

As investors jampacked the longer-dated T-bond auctions, yields of both the 10-year T-bonds and 7-year T-bonds plummeted. 10-year T-bond yields plunged by 63.3 basis points (bps) to 6.196% from 6.829% last January 8, 2019. Yield of 7-year T-bonds, however, declined more modestly to 5.934%, down 15.3 bps from 6.087% last February 12.

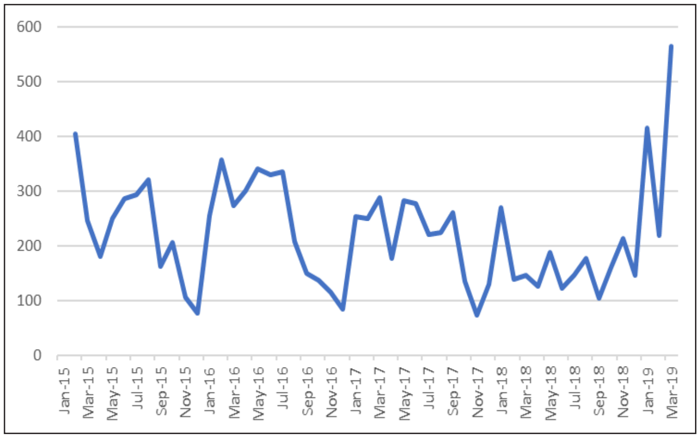
Short-term T-bills also saw yields falling for 182-day and 364-day T-bill auctions. Improved appetite drove 182-day T-bills and 364-day average yields lower yield by 5.1 bps to 5.927% and by 0.8 bps to 6.044%. Yields on 91-day T-bills, however, rose slightly by 5.4 bps to 5.787%.

Secondary Trading (GS): Volume Spikes to P563.7-B, Pushing Down Yields

Sensing definitive sharp downward trend of inflation to the lower half of the BSP target, bond investors' risk appetite became voracious as they hurtled the secondary trading to a 50-month high of P563.7-B in March. Demand in the secondary market, thus, zoomed up by 158.1% month-on-month (m-o-m) from P218.4-B last February. Compared to March 2018, it meant a humongous increase of 287.0% (y-o-y). The last high of P851.8-B occurred in January 2015, to which March volume still pales in comparison.

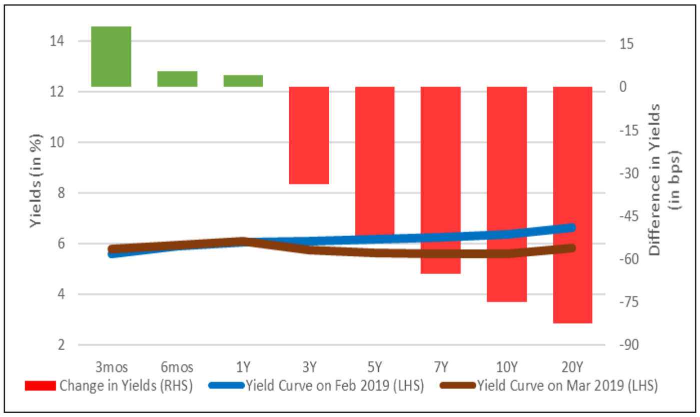
Lower inflation expectations and general speculation towards sooner monetary easing according to BSP resulted in a deep dive in long end of the yield curve.

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



Source: Philippine Dealing Systems (PDS)

Figure 10 - GS Benchmark Bonds Yield Curves

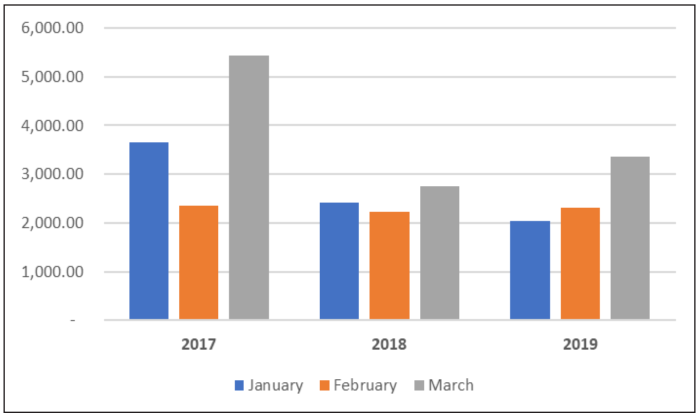


Source: Philippine Dealing Systems (PDS)

The yield curve shows a flattening in March as short tenors remained flat while yields fell more drastically as the tenors lengthened, as seen in Figure 10 above. The 3-month yield rose by 21.1 bps to 5.799% while the 1-year tenor increased by 4.2 bps to 6.097%.

Lower inflation expectations and general speculation towards sooner monetary easing according to BSP resulted in a deep dive in long end of the yield curve. The 20-year benchmark plunged by 82.5 bps to 5.819% while the 10-year benchmark slumped by 5.2 bps to 5.605%. The 3-year tenor saw the smallest drop of 33.8 bps to 5.758% while the 5-year and 7-year (belly) benchmark yields got slashed more--by 53.7 bps and 65.3 bps, respectively.

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



Source: Philippine Dealing Systems (PDS)

Corporate Bond Trading: Volume Continues to Move Up by the End of Q1

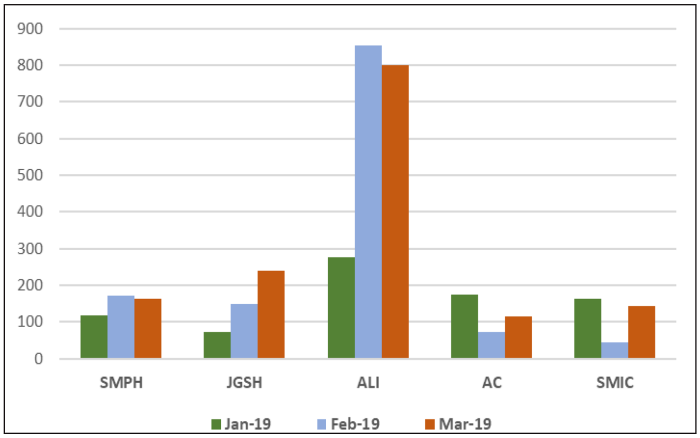
Trading in corporate bonds also became brisker in March (shown in Figure 11) which jumped by 44.6% (m-o-m) to P3.4-B from February's P2.3-B, and up by 21.6% from a year ago. For Q1, the volume of corporate trading surged by 44.6% to P7.7-B, also 4.3% higher than the same quarter of 2018.

Volume for the top five corporate issuers continued to surge in March to reach P1.5-B or an increase of 12.6% over the previous month. Year-to-date (YTD) volume of P3.6-B, however, fell short by 4.9% compared to Q1 2018. Note, however, that the composition of the current top five issuers differ from the top five issues in 2018. The present top five corporate issuers are SM Prime Holdings (SMPH), JG Summit Holdings (JGS), Ayala Land Inc. (ALI), Ayala Corporation (AC), and SM Investments Corporations (SM).

Alhough volume for ALI shrunk by 6.5% (m-o-m), it hung on first place at P799.0-M. JGS took the second spot with P239.0-M or an increase of 61.6% m-o-m. Meanwhile, SMPH fell by 6.1% m-o-m to P162.0-M. On the other hand, SMIC and AC debt papers picked up and claimed the 4th and 5th positions vaulting by 214.4% m-o-m to P142.0-M and by 56.8% to P114.0-M, respectively.

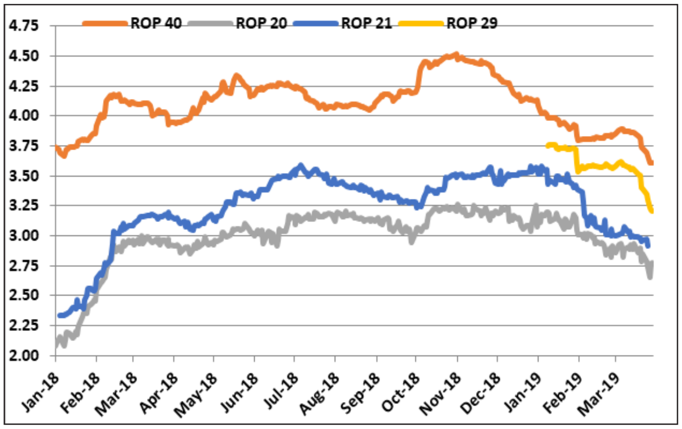
An inverted yield curve has preceded a US recession by some two years during the post-World War II era.

Figure 12 - Top 5 Corporate Issuance January - March 2019



Source: Bloomberg

Figure 13 - ROPs Daily Yields



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Corporate Issuances and Disclosure

• Century Properties Group Inc. obtained the Securities and Exchange Commission's (SEC) approval to issue 3-year unsecured fixed-rate peso retail bonds with the aggregate principal amount of P2.0-B due 2022 at 7.8203%, with an oversubscription option of P1.0-B. The bonds will be offered from April 1 to 5, 2019.

• BDO Unibank, Inc. (BDO) offered a total amount of P5.0-B 5.5-year long term negotiable certificate of deposit (LTNCD) to lengthen maturity of funding source and support business expansion plan. The offer period is from March 27 to April 5, 2019, with an indicative yield of 5.125% to 5.5%.

• San Miguel Corporation (SMC) sought SEC approval for a shelf-registered issuance of fixed rate bonds with a principal amount of P60.0-B which SMC will offer in tranches as early as April.

• Aboitiz Equity Ventures, Inc. (AEV) filed its Registration Statement with the SEC under its P30.0-B shelf registration of fixed rate retail bonds. AEV intends to issue in H1 a P3.0-B tranche with an oversubscription option of P2.0-B.

ROPs: Yields Fall, but Little Less than US Treasuries

ROPs yields continued to slide in the secondary market, even though US treasury bonds slipped much more as unusually weak job creation in February seemed to support the Fed's pause stance and parts of the yield curve inverted late in March. An inverted yield curve has preceded a US recession by some two years during the post-World War II era. A rebound to above-expectations job gains in early April, however, has somewhat eased recession fears, but the slowdown in the US economy in Q4-2018 kept yields at the low side.

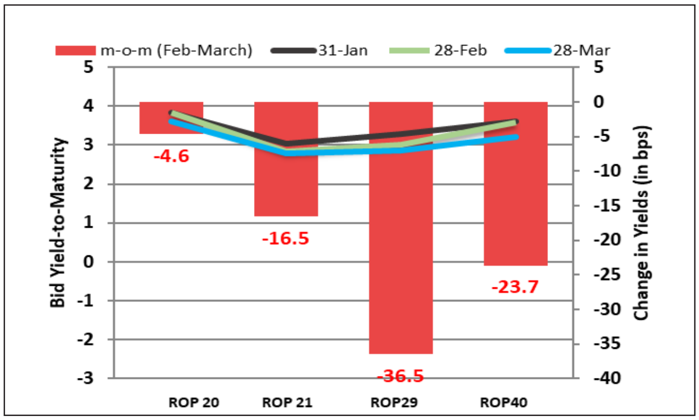
There were slight declines for the yields of ROP-20 and ROP-21 compare to the February yields. ROP-20 was down by 4.6 bps to 2.779% and ROP-21 by 16.5 bps to 2.855%. On the contrary, ROP-29 and ROP-40 fell largely by 36.5 bps to 3.208% and by 23.7 bps to 3.606%.

10-year US T-bond yields ended March at 2.41%, a fall of 31 bps from 2.72% in February, the lowest since December 29, 2017. 20-year yields also dropped by the same magnitude to 2.63%. On the shorter end, 1-year T-bonds shed 10 bps to end at 2.44% while 2-year yields closed at 2.27%, with a 25 bps decline.

Thus, with larger falls in US bond yields than ROPs of similar tenor, except for the 10-year tenor, the spreads between ROPs and equivalent US Treasuries widened for the 1-year, 2-year and 20-year tenors. (See table below).

On the financial sector, People's Bank of China (PBOC) will reduce the required reserve ratio (RRR) by 50 bps in three-month period or 150 bps by the end of the year.

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

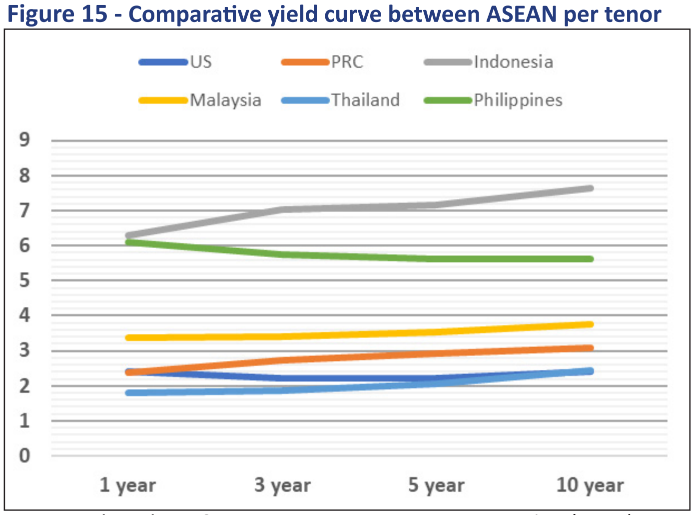


Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Spreads between ROPs and US Treasuries

Date	1-year	2-year	10-year	20-year
28-Feb	28.50	50.00	84.30	90.30
29-Mar	37.90	58.50	79.80	97.60
Change	9.40	8.50	-4.50	7.30

Figure 15 - Comparative yield curve between ASEAN per tenor



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN+2: 10-Year to 2-Year Spread Decline for ASEAN Countries as Tenor Yields Remain Slightly Flat

China: The country's economic czar Premier Li Keqiang announced the 2019 gross domestic product (GDP) growth target to range between 6.0% and 6.5%. Chief Asia-Pacific economist, Alicia Herrero, of Natixis SA in Hongkong views the modest target as aiming to accommodate structural deceleration in which policymakers need to undertake without sacrificing too much growth.

China's inflation (CPI-based) increased by 1.5% y-o-y in February. Higher costs of health care (+2.8%), education (+2.4%), culture and recreation (+1.0%), residence (+2.2%), clothing (+2.0%), and other articles and services (+2.0%) drove up inflation while transportation declined by 1.2%.

On the financial sector, People's Bank of China (PBOC) will reduce the required reserve ratio (RRR) by 50 bps over a three-month period or 150 bps by the end of the year. Monetary policy takes a back seat this year as policy makers focus on fiscal measures such as tax cuts. PBOC refrained from infusing more funds via open market operations this month. PBOC expects to keep policy rates on hold in 2019. With the trade talks between US and China still in progress, Beijing stepped back on its initial commitment over the data protection of pharmaceuticals. US appeared willing to reverse the tariffs imposed on goods roughly valued at $360.0-B since July 2018. Trump already delayed the imposition of additional tariffs twice as sweeteners for a good deal with President Xi Jinping.

Indonesia: March inflation rate in Indonesia rose 0.1% (m-o-m) due to the price increase in the manufactured food, beverages and cigarettes. While year-on-year (y-o-y) inflation came in at 2.5%, lower than the inflation last year of above 3%, Indonesian Chief Statistician Dr. Suhariyanto observed that core inflation remains high and volatile food prices did not affect the consumer price index. In addition, current account deficit fell to around 2.5% of GDP, with weaker crude oil prices.

On the other note, foreign capital inflows totaling $6.3-B entered in Q1-2019. Bank of Indonesia (BI) said that $5.3-B went to State bonds and $1.0-B into equities. With this, BI predicted that the economic growth will be at a range of 5.0-5.4% for the year. It projects economic growth to accelerate to 6.0% by 2024, driven by infrastructure development: power plants, toll roads, ports and airports, human resource development and series of deregulation in line with the structural reforms aimed at improving the investment climate in Indonesia.

Thailand: Headline inflation edged up by 1.24% y-o-y in March, accelerating from 0.73% y-o-y in February and 0.27% in January. Some food items drove prices higher

On the other hand, Nikkei Malaysia PMI suggested more tepid manufacturing activity as it slipped away from the 50-benchmark at 47.2 in March from 47.6 of February.

such as fresh vegetables at 9.5% due to the low supply caused by the hot and dry weather. Milled rice increased to 4.6%, and livestock products rose by 4.7%. Petroleum products also gained 2.3%.

Bank of Thailand (BoT) clipped its GDP growth forecast for 2019 to 3.8% from 4.0% earlier, triggered by the slow export demand and unchanged policy rate. BoT expects weaker private consumption spending with a growth of 3.4% from 4.0% predicted three months ago and 2.3% from 2.6% for the public consumption. At the same time, BoT expects export to slow down further this year, with a 3.0% growth from 3.8% earlier projected. The downward revision is due to slower global growth and the unresolved trade spat between US and China the downward revision.

Despite the slower economy, BoT said that policy rates will remain at 1.75%. It viewed overall financial conditions as sufficiently accommodative and conducive to economic growth. Real interest rates remained at low levels to encourage the private sector to invest. In addition, BoT will continue to monitor risks that could impact financial stability in the future.

Malaysia: Bank Negara (BN) believes that Malaysia is not entering recession nor suffering deflation despite tough economic headwinds. It projects GDP growth of 4.3% to 4.8% in 2019, slightly slower than the 4.9% growth forecast last November by the Ministry of Finance. BN Governor Datuk Yunus said that three main factors should support GDP growth, i.e., resilient private sector spending, stable income and employment growth and continued external demand from major trading partners.

Overall inflation rate remained negative at -0.4% in February 2019, a bit better than -0.7% in January. The 6.8% decline in transportation rates pulled down inflation while housing, water, electricity, gas & other fuels (+2.0%) and food & non-alcoholic beverages (+1.0%) mainly provided the push factor positive.

On the financial sector front, Malaysian ringgit (MYR) slightly weakened by 0.3% against US dollar following a surge of capital movement to US Treasuries. BN observed that robust US manufacturing activity has encouraged investors to shift towards US dollar-denominated bonds. On the other hand, Nikkei Malaysia PMI suggested more tepid manufacturing activity as it slipped away from the 50-benchmark to 47.2 in March from 47.6 of February.

Together with other three ASEAN countries (Thailand, Indonesia and Philippines), Malaysia has urged ASEAN to chart out a framework to promote trade and investment in local currencies to combat the markedly more tepid global economic growth.

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
					Feb-19	Mar-19			
US	2.27	2.41	2.2	0.21	21	14	(7)	2.50	0.30
PRC	2.63	3.07	2.6	0.47	57	44	(13)	4.35	1.75
Indonesia	6.78	7.63	3.1	4.53	78	85	7	6.00	2.90
Malaysia	3.38	3.77	0.9	2.87	37	39	2	3.25	2.35
Thailand	1.78	2.43	0.9	1.53	73	65	(8)	1.75	0.85
Philippines	5.82	5.61	3.0	2.61	30	(21)	(51)	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*

PSEi PARTLY RECOVERS LOSS IN FEBRUARY

PSEi climbed by 2.8% in March partly offsetting the 3.8% fall in February and, thus, remained below 8,000 at 7,920.93. Although US Fed's decision to put policy rate hikes on hold in 2019, some positive developments in US-China trade negotiations, and the unabated fall of domestic inflation to 3.8% in February and further to 3.3% in March provided stimulus to the local equities market, these seemed insufficient for PSEi to break through the 8,200 resistance level. Even by early March the PSEi appeared confined to a narrow range of 7,600 to 8,000, as China's PMI eased further to confirm the slowdown there, while domestic demand may get hurt by the delay in the approval of National Government's (NG) 2019 budget.

Outlook: With domestic and foreign economic and political signals remaining mixed, we expect range trading between 7,500 to 8,200 to continue in Q2. The positive drivers would be: (1) US-China trade negotiations end (even temporarily) on a positive note, (2) Bangko Sentral ng Pilipinas (BSP) cuts reserve requirements to ease liquidity needs of banks, and (3) a further dive of inflation to below-3% (more likely in Q3). The headwinds include: (1) a further slowdown in Q1 GDP growth to below 6.3%, a possible outcome due to delayed budget approval, whose effect would only be temporary; (2) more confirmation of economic weakness in China and US (with the latter showing an inverted yield curve, a usual harbinger of recession). The odds seem to go against a clear retracing of an upward path for the PSEi.

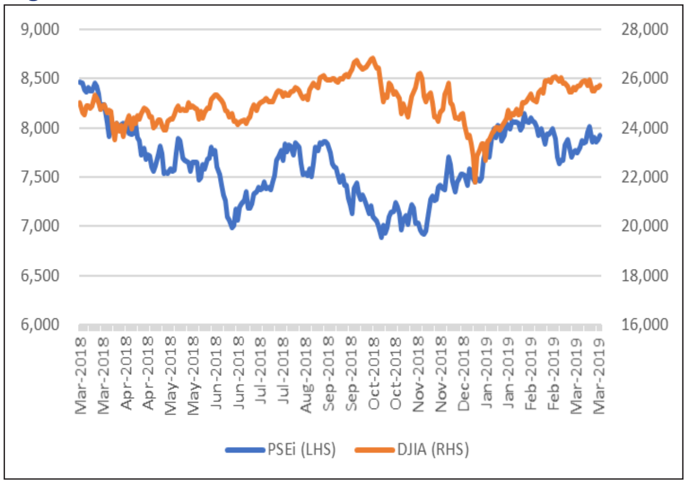
Global Equities Markets Performances

Region	Country	Index	March M-o-M change	2019 change
Americas	US	DJIA	0.0%	11.1%
Europe	Germany	DAX	-0.1%	8.7%
	London	FTSE 101	2.9%	8.1%
East Asia	Hong Kong	HSI	1.5%	15.6%
	Shanghai	SSEC	5.1%	25.4%
	Japan	NIKKEI	-0.8%	8.4%
	South Korea	KOSPI	-2.5%	6.5%
Asia-Pacific	Australia	S&P/ASX 200	0.2%	11.2%
Southeast Asia	Indonesia	JCI	0.4%	4.7%
	Malaysia	KLSE	-3.8%	-1.5%
	Thailand	SET	-0.9%	4.6%
	Philippines	PSEi	2.8%	5.8%
	Singapore	STRAITS	0.0%	5.7%

Sources: Bloomberg & Yahoo Finance

Global indices showed mixed results in March as China's industrial output posted its slowest growth in 17 years and US' benchmark 10-year bond yield fell to its lowest level in more than a year. However, US Fed's decision to keep rates steady in 2019 and the progress in US-China trade talks helped prop up investor sentiment. Asian and European bourses booked the highest gains last March with SSEC, FTSE 100, and PSEi, registering gains of 5.1%, 2.9%, and 2.8% month-on-month (m-o-m), respectively. The FTSE managed to increase despite the delay on Brexit as British Parliament rejected Prime Minister Teresa May's proposals. Following a different route, some Asian markets, like KLSE, KOSPI, and SET, moved to negative territory, as they dropped by 3.8%, 2.5%, and 0.9%, respectively. Surprisingly, DJIA's m-o-m growth rate remained unchanged, despite having more positive than negative news.

Figure 16 - PSEi and DJIA



Sources: Wall Street Journal, Bloomberg

From a low of -0.7 in February, DJIA and PSEi's correlation improved to +0.1. At the beginning until the middle of March, PSEi climbed steadily due to the better-than-expected inflation rate of 3.8% in February, below consensus of 4.0% and after new Bangko Sentral ng Pilipinas (BSP) Governor Benjamin Diokno hinted at the reduction of the reserve requirement ratio (RRR) at a faster pace. PSEi

PSEi rebounded by 2.8% in March, a reversal from the -3.8% in February.

lost its steam in the latter half of the month as a result of continued foreign selling and weakening of the Philippine peso. PSEi cut some of its losses during the last week of March due to quarter-end window dressing activities. Conversely, DJIA rallied during the month as investor sentiment turned positive arising from a promising outlook on US-China trade talks and US Fed taking a dovish stance on policy rates and a huge jumpin job creation in March reported in early April. DJIA slightly dipped towards the latter half after the spread between the US 3-month and 10-year Treasury yield curve inverted for the first time since 2007 but the index managed to rebound from perceived progress in Trump-Xi trade talks.

Monthly Sectoral Performance				
	28-Feb-19		29-Mar-19	
Sector	Index	% Change	Index	% Change
PSEi	7,705.49	-3.8%	7,920.93	2.8%
Financial	1,708.16	-6.4%	1,762.71	3.2%
Industrial	11,341.40	-2.8%	11,720.35	3.3%
Holdings	7,725.12	-3.1%	7,736.37	0.1%
Property	3,981.72	1.5%	4,115.57	3.4%
Services	1,534.99	-3.0%	1,608.34	4.8%
Mining and Oil	8,491.76	-0.1%	7,930.78	-6.6%

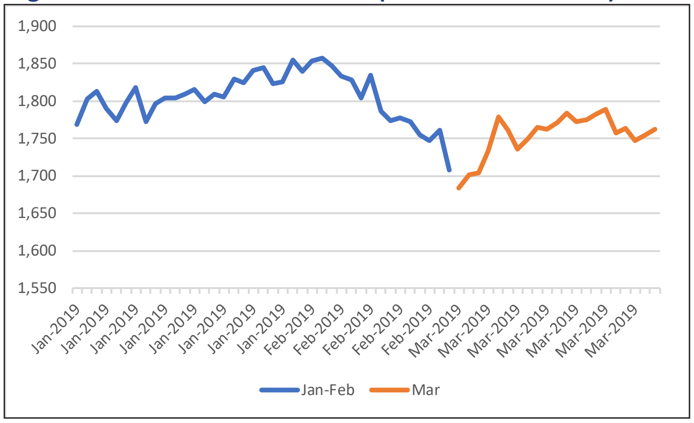
Source of Basic Data: PSE Quotation Reports

PSEi rebounded by 2.8% in March, a reversal from the 3.8% slide in February. As the Property sector kept its winning streak of being the lone bright spot last February, other sectors joined the uptrend, while Mining and Oil remained in a slump, declining by 6.6%. Led by the Services sector's 4.8% uptick, the biggest gainers included, Property and Industrial sectors which rose by 3.4% and 3.3%, respectively.

Company	Symbol	02/28/19 Close	03/29/19 Close	% Change
Metrobank	MBT	76.00	79.90	5.1%
BDO Unibank, Inc.	BDO	127.60	133.80	4.9%
Bank of the Philippine Islands	BPI	84.00	84.20	0.2%
Security Bank Corporation	SECB	165.80	173.00	4.3%

Source of Basic Data: PSE Quotation Reports

Figure 17 - Financial Sector Index (Jan 2019 - Mar 2019)



Source of Basic Data: PSE Quotation Reports

The Financial sector recovered from February's bloodbath as all constituent stocks landed on the green with a gain of 3.2%. It moved upward on a steady note after statements made by BSP chief Diokno to reduce RRR of banks, contributed to positive investor sentiment as it could free up liquidity which can also be used for the banks' loan and investment operations.

Metropolitan Bank and Trust Company (MBT) booked a strong 5.4% gain as it reported in early March that earnings surged by 21% for full year (FY) 2018 attributed this o the solid performance of its core businesses finally gaining traction. It reported a healthy 10% growth in loans complemented by margin expansion, higher service charges, fees and commissions, and manageable expense growth.

Not far behind, BDO Unibank, Inc.'s (BDO) share price rose by 4.9% as investors followed through from February's release of a 16.0% growth in net income for FY 2018.

Security Bank Corporation (SECB) rebounded due to market expectations that the bank's earnings in 2019 will rebound from the 16.0% drop in FY 2018. SECB expects to improve loan margins and to sustain double-digit expansion in core lending activities.

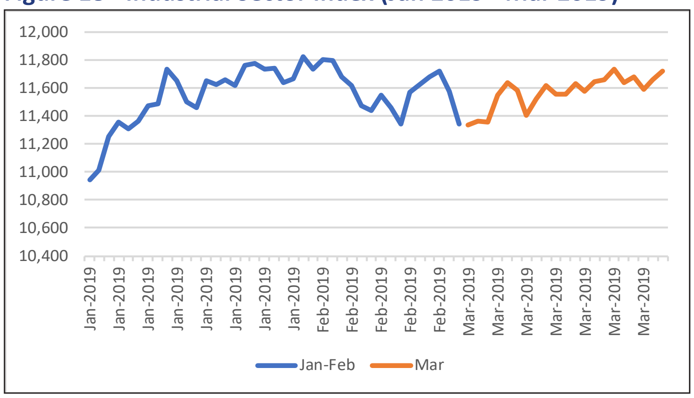
Bank of the Philippine Islands (BPI), on the other hand, only posted a muted uptick of 0.2% due to the company experienced large net foreign selling of P188.9-M towards the end of the month on news last February on the likely weakening core lending activities that dragged FFY 2018 earnings growth.

Jollibee Foods Corporation's (JFC) share price boosted by 3.0% from news that the fast-food giant will open a branch in Guam this April as part of the company's accelerated expansion plans around the globe.

Company	Symbol	28/02/19 Close	29/03/19 Close	% Change
Meralco	MER	367.60	380.00	3.4%
Aboitiz Power	AP	34.85	35.40	1.6%
Jollibee Foods Corporation	JFC	307.80	317.00	3.0%
First Gen Corporation	FGEN	21.25	21.80	2.6%
Universal Robina Corporation	URC	136.10	152.00	11.7%
Petron Corporation	PCOR	6.67	6.49	-2.7%

Source of Basic Data: PSE Quotation Reports

Figure 18 - Industrial Sector Index (Jan 2019 - Mar 2019)



Source of Basic Data: PSE Quotation Reports

The Industrial sector, among the best performing sectors, booked a 3.3% growth, bouncing back from a 2.8% fall in February. Petron Corporation (PCOR) proved to be the lone dark spot as it lost 2.7% in value, albeit decelerating from February's double-digit losses. All other constituent stocks shone in March, but Universal Robina Corporation (URC) stoked the sector's growth by recording a double-digit upsurge of 11.7%. The nosedive that ended February did not last as the sector traded at higher levels last March.

PCOR remained in negative territory as the oil refinery company registered a P7.1-B decline in net income for FY 2018 due to a P10.0-B inventory write-down. However, in terms of consolidated revenues, the firm rose by 28.0% y-o-y to P557.4-B backed by steady consolidated volume.

URC led index gainers last March, boosted by strong net foreign buying of P205.6-M, as it announced that it had inaugurated a new mill in Davao to meet the country's wheat demand. URC expects the new plant to raise production in Davao from 300 metric tons (MT) to 900 MT per day, resulting in bigger revenue haul.

Next in line, Meralco's (MER) share price had a 3.4% uptick following its announcements that assets and operations of the Electricity Company of Ghana will be handled by Power Distribution Services Ghana Ltd. (PDS), a consortium between MER, Meridian Power Ventures, TG Energy Solutions, Santa Baron Ventures, and GTS Engineering Ltd. However, the share price hit a ceiling as the electric company expects only a 2.5% y-o-y increase in sales in Q1-2019, slower than the 6.6% growth in Q1-2018 due to high base effect.

Jollibee Foods Corporation's (JFC) share price climbed by 3.0% due to news that the fast-food giant would open a branch in Guam this April as part of the company's accelerated expansion plans around the globe. However, JFC's upturn fizzled out as foreign investors took profit with net foreign selling of P357.2-M.

Meanwhile, First Gen Corporation (FGEN) only gained 2.6% in value despite news that FGEN LNG Corporation, a wholly owned subsidiary of FGEN, in tandem with Tokyo Gas Co. Ltd, got the notice to proceed from the Department of Energy (DOE) to start the construction of a liquefied natural gas terminal project in Batangas.

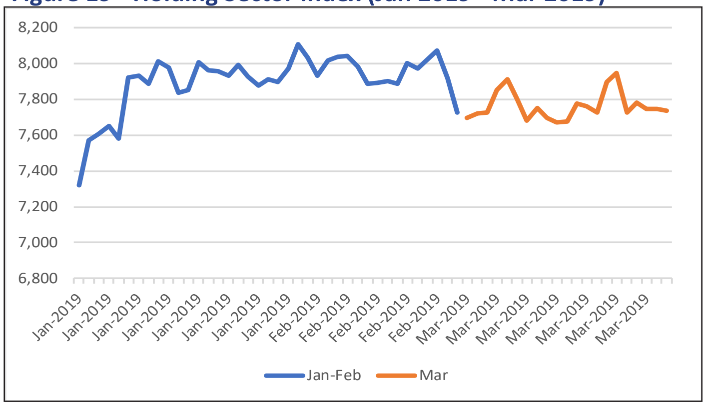
Aboitiz Power (AP) surprisingly posted a muted growth of only 1.6% despite securing approval from Philippine Competition Commission (PCC) of equity acquisition in the thermal platform of AC Energy worth $579.2-M. It appeared that the recorded minimal growth in core net income of 2.0% year-on-year (y-o-y) to P23.8-B for FY 2018 had more impact on the share price.

Company	Symbol	28/02/19 Close	29/03/19 Close	% Change
Ayala Corporation	AC	925.00	940.00	1.6%
Metro Pacific Investments Corporation	MPI	4.70	4.85	3.2%
SM Investments Corporation	SM	940.00	934.00	-0.6%
DMCI Holdings, Inc.	DMC	11.40	12.00	5.3%
Aboitiz Equity Ventures	AEV	61.00	58.95	-3.4%
GT Capital Holdings, Inc.	GTCAP	955.00	931.50	-2.5%
San Miguel Corporation	SMC	170.90	174.00	1.8%
Alliance Global Group, Inc.	AGI	13.70	16.16	18.0%
LT Group Inc.	LTG	14.80	16.10	8.8%
JG Summit Holdings, Inc	JGS	66.20	63.50	-4.1%

Source of Basic Data: PSE Quotation Reports

AGI led index gainers as the stock posted strong net foreign buying throughout last month, reaching an all time high of P177.8-M in mid-March.

Figure 19 - Holding Sector Index (Jan 2019 - Mar 2019)



Source of Basic Data: PSE Quotation Reports

The Holdings sector grew relatively flat, booking a 0.1% increase as the sector's trading levels fluctuated throughout the month, unable to sustain each attempt to climb. Alliance Global Group, Inc. (AGI) rallied the most among constituent stocks, with a double-digit increase of 18.0%. Next came, but far behind, LT Group, Inc. (LTG) and DMCI Holdings, Inc. (DMC) growing by 8.8% and 5.3%, respectively. JG Summit Holdings, Inc. (JGS) declined by 4.1%, the biggest drop among constituent stocks. Also muddled in the red, Aboitiz Equity Ventures (AEV), GT Capital (GTCAP) and SM Investments Corporation (SM) shed 3.4%, 2.5%, and 0.6%, respectively.

AGI led index gainers as the stock posted strong net foreign buying throughout last month, reaching an all time high of P177.8-M in mid-March.

LTG also pulled up the sector after it had reported a 49.0% net income growth y-o-y to P16.2-B in FY 2018 driven by the strong performance from its tobacco and banking segments.

DMC's share price swelled due to DMCI Homes unveiling of 10 new project developments in Davao and Cebu cities, worth P104.0-B, as it plans to beef up capital expenditure by 23.0% to P17.9-B.

Tredding a negative path, JGS led index laggards, despite its inclusion in Financial Times Stock Exchange's large capital index. It reports that net income plunged by 34.0% to P19.3-B, dragged the stock's share price even more. The poor performance emanated from lower earnings in its food, airline, and petrochemical businesses.

Also pulling the sector down, AEV's share price fell after it reported a 3.0% fall in core net income to P23.1-B. This resulted from lower earnings from its banking, real estate, and food businesses.

GTCAP continued to battle strong headwinds as the firm's net income slipped by 5.6% to P13.4-B in FY 2018, due to softer vehicle sales from its auto unit, Toyota Motor Philippines.

SM likewise landed on the red, albeit the lowest drop. This came about despite a 13.0% increase in earnings to P37.1-B 2018 reported in late February which failed to excite investors.

Metro Pacific Investments Corporation (MPI) moved to positive territory after it posted a 7.0% increase to P14.1-B in net income for 2018 due to expanded power portfolio investment in Beacon Electric Asset Holdings, Inc., continued traffic growth on its domestic toll roads, and steady volume growth from Maynilad Water. Another booster came from the Department of Transportation's (DoTr) announcement of the construction of LRT-1 Cavite extension to begin this April and the start of the Cavite-Laguna Expressway (CALAEX) construction last March, both by the firm's tollway subsidiary which would pump up future MPI revenues.

SMC rose by 1.8% after Department of Public Works and Highway's (DPWH) announcement that SMC's proposal to build the Boracay Bridge Project met its requirements and the commencement of the South Luzon Expressway Toll Road 4 construction. However, SMC's share price only increased minimally after the conglomerate reported consolidated recurring net income of almost flat at P55.2-B, burdened by the sharp decline in crude prices resulting in inventory losses for its fuels and petrochemical business.

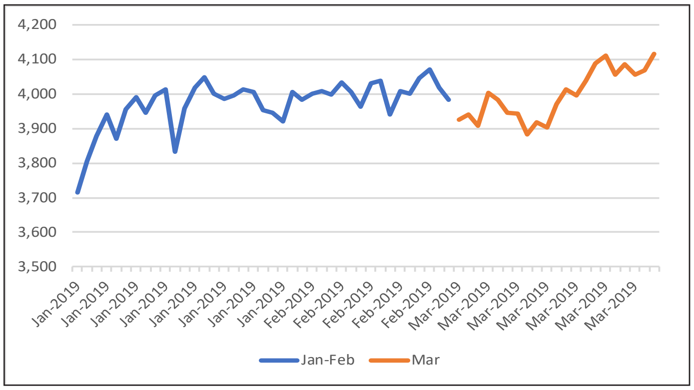
AC gained 1.6% in value on news of the P262.0-B increase in spending to expand its energy, infrastructure, and health arms.

The Property sector became the only sector that remained on the green for Q1-2019, after it rose by another 3.4% last March, the second highest among sectors.

Company	Symbol	28/02/19 Close	29/03/19 Close	% Change
Ayala Land, Inc.	ALI	44.00	44.90	2.0%
SM Prime Holdings, Inc.	SMPH	38.35	39.90	4.0%
Robinsons Land Corporation	RLC	23.40	24.50	4.7%
Megaworld Corporation	MEG	5.17	5.80	12.2%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Property Sector Index (Jan 2019 - Mar 2019)



Source of Basic Data: PSE Quotation Reports

The Property sector became the only sector that remained on the green for Q1-2019, after it rose by another 3.4% last March, the second highest among sectors. The sector's index fluctuated but tracked a sustained increase from middle to near-end of March. All stocks moved to positive territory as Megaworld Corporation (MEG) fanned growth, with double-digit gains of 12.2%, while Ayala Land, Inc. (ALI) posted the lowest growth of 2.0% among constituent stocks.

MEG pulled the property sector up due to announcements of a P15.0-B hike in capital spending for its 140-hectare Cavite township and a partnership with Bases Conversion and Development Authority for the property management of a 160-hectare Bonifacio Capital District in Taguig city. MEG's Maple Grove project in Cavite with 363 commercial lots inside its Commercial District has reservations worth about P9.0-B within six months after its launch in 2017.

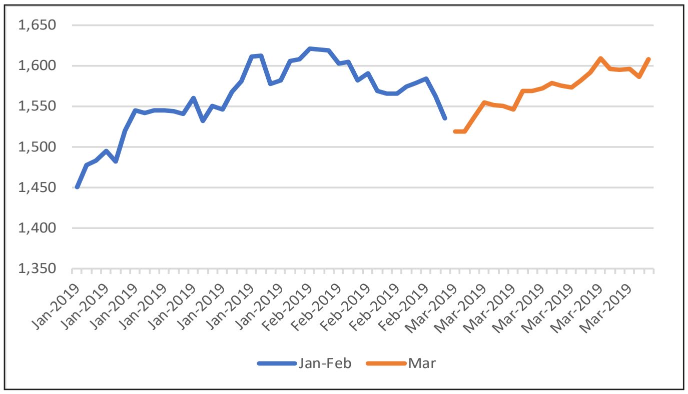
Following, Robinsons Land Corporation's (RLC) share price rose by 4.7% after the company reported a 40.0% surge in net income to P8.2-B for FY 2018, boosted by higher residential property sales.

Meanwhile, ALI's share prices only had minimal uptick as its shares experienced continued net foreign selling from the start until the near end-March which reached a high of P208.5-M outflow. However, the return of foreign investors by the end of the month enabled it to still land on the green on announcements that ALI will be issuing a P8.0-B worth of fixed rate bonds to finance its hotel, mall, and office projects.

Company	Symbol	28/02/19 Close	29/03/19 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,030.00	1,150.00	11.7%
Globe Telecom	GLO	1,900.00	1,938.00	2.0%
Robinsons Retail Holdings, Inc.	RRHI	87.50	79.00	-9.7%
Puregold Price Club Inc.	PGOLD	47.05	48.10	2.2%
International Container Terminal Services Inc.	ICT	116.00	130.70	12.7%

Source of Basic Data: PSE Quotation Reports

Figure 21 - Services Sector Index (Jan 2019 - Mar 2019)



Source of Basic Data: PSE Quotation Reports

The Services sector rallied the most among the sectors, booking a 4.8% growth, a reversal from the -3.0% last February. Majority of the sector's stocks trended upward, powered by double-digit surges in International Container Terminal Services, Inc. (ICT) and Philippine Long Distance Telephone Company (TEL) shares. These swelled by 12.7% and 11.7%, respectively. The lone dark spot, Robinsons Retail Holdings, Inc. (RRHI) slumped by a high -9.7%.

TEL emerged as Services sector's biggest gainer after TEL's wireless consumer business posted its 5th consecutive quarter of growth, as higher mobile data usage drove individual service revenues up by 7.0% y-o-y to P62.5-B. However, the bigger growth factor came from the 44.0% surge

While foreign selling continued across sectors, net foreign buying still emerged at P4.7-B, albeit half of February's P9.2-B inflow.

in net income to P19.2-B for FY 2018.

Not far behind, ICT remained within its uptrend channel attributable to the approval of PCC of ICT's plan to raise its stake in Manila North Harbour Port, Inc. from 34.83% to 50.0%. Moreover, its earnings soared by 28.0% to P11.2-B in FY 2018.

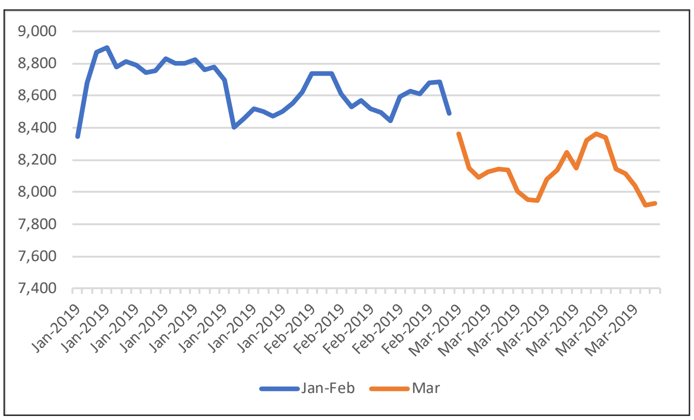
PGOLD registered a 2.2% gain in share value as the stock's net foreign buying outweighed net foreign selling through most of March on account of its plans to open new Puregold stores and S&R warehouses.

Taking the negative path alone, RRHI suffered from a 5.8% decline in its core net income in FY 2018 to P5.0-B, below consensus estimates, due to the 5.6% y-o-y decline in EBITDA of the department store business.

Company	Symbol	28/02/19 Close	29/03/19 Close	% Change
Semirara Mining and Power Corporation	SCC	22.50	21.95	-2.4%

Source of Basic Data: PSE Quotation Reports

Figure 22 - Mining & Oil Sector Index (Jan 2019 - Mar 2019)



Source of Basic Data: PSE Quotation Reports

Mining & Oil sector sustained its downward trend, with a drop of 6.6% in March. The sector failed to gain traction with its rise up to mid-month but ended up plummeting by the end of March. Semirara Mining and Power Corporation (SCC) shed 2.4% in value, albeit decelerating from the 5.6% drop in February as it expects a challenging 2019. It expressed expectations of shipments of lower grade nickel of only 1.57%, down from an average grade of 1.7% in 2018. The impact of older negative news weighed on the stock despite a foreign investment house upgrade of SCC from neutral to overweight and the company's declaration of cash dividends at P1.25/share, which translates to a yield of 5.4% as of last closing price.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	17,070.32	-40.8%	812.87	-49.3%
Industrial	25,996.18	-2.2%	1,237.91	-16.2%
Holdings	40,399.60	25.7%	1,923.79	7.7%
Property	28,069.72	-4.9%	1,336.65	-18.5%
Services	25,286.03	-34.1%	1,204.10	-43.5%
Mining and Oil	2,088.06	11.7%	99.43	-4.3%
Total	**138,909.92**	-11.7%	**6,614.76**	-24.3%
Foreign Buying	82,190.12	-9.3%	3,913.82	-22.3%
Foreign Selling	77,520.29	-4.7%	3,691.44	-18.3%
Net Buying (Selling)	4,669.83	-49.7%	222.37	-56.9%

Source of Basic Data: PSE Quotation Reports

PSE total turnover further plummeted by 49.7% last month, decelerating from February's 17.3% decline. Sectors which enjoyed double-digit gains included Holdings and Mining and Oil which grew by 25.7% and 11.7%, respectively. On the opposite track, Financial and Services sectors suffered double-digit losses in total turnover with drops of 40.8% and 34.1%, respectively. Also in negative territory, Property and Industrial sectors booked minimal declines of 4.9% and 2.2%, respectively.

While foreign selling continued across sectors, net foreign buying still emerged at P4.7-B, albeit half of February's P9.2-B inflow.

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		Jan-2019			Feb-2019		
	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%	256,742	15.1%	8.9%	202,085	-21.3%	15.5%
Tax	2,250,678	13.6%	2,565,812	14.0%	234,970	19.3%	9.2%	182,572	-22.3%	14.2%
BIR	1,772,321	13.1%	1,951,850	10.1%	185,088	22.4%	6.4%	135,720	-26.7%	18.0%
BoC	458,184	15.6%	593,111	29.4%	48,376	7.3%	21.0%	44,200	-8.6%	1.6%
Others	20,173	20%	20,851	3.4%	1,506	120.5%	-9.1%	2,652	76.1%	5.6%
Non-Tax	222,415	3.2%	284,321	27.8%	21,772	-16.5%	6.0%	19,509	-10.4%	30.0%
Expenditures	2,823,769	10.8%	3,408,443	20.7%	212,205	-35.7%	-8.3%	278,458	31.2%	27.5%
Allotment to LGUs	530,150	17.9%	575,650	8.6%	0	-100.0%	-106.0%	97,328	-	93.6%
Interest Payments	310,541	2%	349,215	12.5%	45,916	123.4%	5.7%	25,302	-44.9%	-3.3%
Overall Surplus (or Deficit)	-350,637	-0.8%	-558,259	59.2%	44,537	-141.6%	1546.0%	-76,373	-271.5%	104.1%

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)

	2017		2018		3rd Quarter 2018		4th Quarter 2018	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT								
Balance of Trade	-2,163	80.4%	-8,871	310.2%	-2,907	-364.2%	-2,400	-23.3%
Balance of Goods	40,505	13.9%	50,202	23.9%	13,546	43.5%	13,332	4.0%
Exports of Goods	51,865	21.4%	51,392	-0.9%	13,474	0.2%	12,579	-0.8%
Import of Goods	92,370	18.0%	101,594	10.0%	27,020	18.1%	25,911	1.6%
Balance of Services	-9,249	31.3%	-11,539	24.8%	-3,158	-5.5%	-2,513	18.4%
Exports of Services	35,884	15.0%	38,510	7.3%	9,890	-0.4%	9,747	5.5%
Import of Services	26,635	10.2%	26,971	1.3%	6,732	2.3%	7,233	1.7%
Current Transfers & Others		-						
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	15	-73.0%	-3	-113.8%	20	43.0%
Financial Account	175	-92.4%	-7,795	192.6%	-1,975	-247.9%	-3,768	14.9%
Direct Investments	-5,883	5803.4%	-5,834	-10.9%	-1,300	39.8%	-797	-67.6%
Portfolio Investments	1,480	-72.9%	1,548	-38.3%	-447	-173.9%	-1,275	32.5%
Financial Derivatives	-32	-673.4%	-53	5.5%	33	-26.5%	-34	-183.6%
Other Investments	4,610	-249.8%	-3,455	-342.9%	-262	-116.2%	-1,661	-1797.2%
III. NET UNCLASSIFIED ITEMS	274	-136.6%	-1,245	-12.4%	-945	112.3%	1,443	322.5%
OVERALL BOP POSITION	-1,038	-116.1%	-2,306	167.2%	-1,879	184.0%	2,830	461.0%
Use of Fund Credits		-						
Short-Term		-						
Memo Items								
Change in Commercial Banks	1,421	-222.0%	-461	-212.5%	395	-71.5%	-1,866	85.5%
Net Foreign Assets	1,381	-229.7%	1,423	216.5%	353	-74.1%	-22.1	-97.7%
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		Jan-19		Feb-2019	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	3,035,680	8.5%	3,044,919	15.8%	3,064,010	19.6%
Sources:						
Net Foreign Asset of the BSP	4,514,943	1.5%	4,582,251	3.6%	4,596,054	3.1%
Net Domestic Asset of the BSP	11,218,175	15.4%	11,716,706	28.1%	11,802,741	27.6%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,708,624	13.9%	3,793,198	25.1%	3,829,135	25.4%
Money Supply-2	10,597,336	11.2%	10,872,621	20.7%	10,907,469	20.2%
Money Supply-3	11,063,517	11.5%	11,415,612	21.7%	11,497,070	21.7%
MONEY MULTIPLIER (M2/RM)	3.49		3.57		3.56	

Source: Bangko Sentral ng Pilipinas (BSP)

April 2019

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