June 2018

The

MARKET CALL

Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

Executive Summary

Domestic demand will again widely offset weak external demand, as the government's infrastructure works (+95.9% in April) and PPP project hum, while the manufacturing sector's growth pace in April (+31.1%, fastest in eight years) and employment gains should boost consumer spending. Inflation, which reached 4.6% in May from 4.5% in April, appears to be peaking. But exports continued its negative streak. The rout of the peso by June, will likely reverse after the BSP raised its policy rates by 25 bps to 3.50% on June 20th. That may have a sobering effect on the bond and equities markets which had been skidding by June.

Macroeconomy

As infrastructure spending nearly doubled in April, while manufacturing output and tax revenues both showed sizzling above-30% gains, the economy appears to have moved to higher gear in Q2. That faster pace should be supported by FDI growth of 46.4% in February.

- Annual job gains averaged 1.5 M in the two surveys for H1 while consumer sentiment towards Q2 improved.
- Headline inflation rate inched up to 4.6% in May from 4.5% in April.
- Exports continued to fall by 6.8% (y-o-y) in March.
- OFW remittances unexpectedly dropped by 9.9% in March but bounced back much higher in April.
- On June 20, BSP raised policy rates by 25 bps after a similar increase in May, to stem the FX rate's fall into June.

Outlook: Very strong numbers in the real sector—infrastructure spending, manufacturing and new jobs—should combine with positive consumer sentiment in Q2 & Q3 to push Q2 GDP growth to 7.0%+. Inflation will likely peak in H1 as rice imports have arrived, and US Department of Energy forecasts sliding crude oil prices starting June. With the latest BSP rate hike, the pressure on the peso should ease.

Bonds Market

Local GS bond yields eased in May as 10-year Treasuries failed to hold above 3% but rebounded after muscular May employment data (+223,000 new jobs) and faster wage rate increase of 0.3% (m-o-m) vs. 0.1% a month ago came out in early June.

- Investors swamped 91-day T-bill auctions, with a tender-offer ratio (TOR) of 3.4x, pulling down yields by 18.5 bps.
- Removing the P66 B RTB 3-year issue, TOR for all issues rose to 2.556x from 1.776x in April.
- Yields in the GS secondary market fell between 10.4 bps to 25.5 bps for 10-year and 1-year tenors, respectively.
- Trading volume jumped by 48.3% (m-o-m) to P189.3 B, but still off by 33% from May 2017.

Outlook: With the US Fed expectedly raising policy rates by 25 bps to 1.75% to 2% on June 13, and the peso-dollar rate climbing fast, the peaking of inflation in H1 may not provide much space for bond yields to fall. Add to that, the possibility of a 4th Fed rate hike, and the escalating trade war between US and China, EU, Mexico and Canada, darken the outlook for local bond investors. Only a sharp and sustained drop in domestic inflation and easing of trade tensions can provide relief, not anytime soon.

Equities Market

Following the downward trend of stock prices in emerging markets (as investors returned to safe havens US and UK), Philippine stocks continued to retreat, falling below the 7,500-level, as investors recoiled on higher oil prices driving inflation, as well as BSP's 50 bps rate hike.

- PSEi continued to dive by 4.1%, as reports of higher yields in the US induced an outflow of foreign funds.
- All sectors remained in the red in May except Property (which grew by 3.7%).
- Heavy losses were recorded in the Holdings sector, which plunged by 7.3%.
- Foreign funds continued to flow out of PSEi, growing by 2.7% to P9.1 B.

Outlook: Without positive news and earnings surprises to temper anticipated continuous outflow of funds from the local bourse until August, we expect PSEi continuing to consolidate and trade sideways in the 7,200-7,800 range.

Economic Indicators (% change, latest month, unless otherwise stated)	Previous Month	Latest Month	Year-to-Date	2016 (year-end)	2017 (year-end)	2018 FMIC Forecast
GDP Growth (y-o-y, quarterly)	6.5%	6.8%	6.8%	6.9%	6.7%	7-7.5%
Inflation Rate (May)	4.5%	4.6%	4.1%	1.3%	2.9%	4.0-4.3%
Government Spending (April)	29.5%	42.7%	29%	4.1%	12.6%	12%
Gross International Reserves ($B) (May)	79.0	79.6	80.1	80.7	81.6	80.0
PHP/USD rate (May)	52.10	52.20	51.72	47.49	50.40	52.50
10-year T-bond yield (end-May YTD bps change)	6.203%	6.099%	6.150%	4.15%	4.93%	5.55-5.80%
PSEi (end-May YTD % change)	7,819.2	7,497.2	-14.1%	6,840.6	8,558.4	9,400

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

STRATOSPHERIC INFRA SPENDING, MANUFACTURING AND TAX TAKE POINT TO 7%+ GROWTH IN Q2

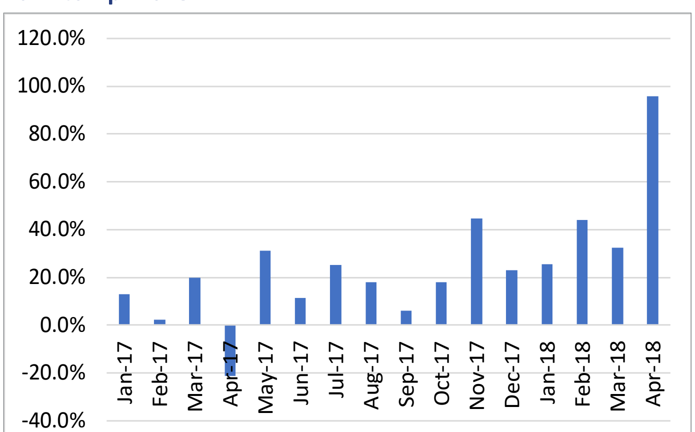
Q2 started off at a high note as infrastructure spending nearly doubled in April while manufacturing output and tax revenues surged with above-30% gains. February inflows of foreign direct investments (FDI) also soared by 46% to provide a further boost to GDP growth starting Q2. Inflation moved slightly faster at 4.6% in May, up by a tad 0.1 percentage point from the April pace. The fall in exports and Overseas Filipino Workers' (OFW) remittances in March left a bitter taste, although this is expected to be temporary.

Outlook: The six consecutive months of above-20% growth in infrastructure spending and major PPP projects gaining momentum show that the National Government's Build-Build-Build program is gaining traction. This, together with strength in manufacturing (4th consecutive month of above-16% gains), should overcome any weakness in exports in Q2 and beyond. In addition, annual employment gains averaging 1.5 M for the two surveys in H1 should contribute to the multiplier effect. Inflation is likely to peak in Q2 as the US Department of Energy forecasts crude oil prices to start easing by June and rice imports have arrived mid-June.

Infra Spending Sustains Torrid Pace, Nearly Doubles in April

The National Government (NG) sustained the torrid pace of growth in infrastructure and capital outlay spending, which almost doubled from P33.5 B to P65.6 B (+95.9% year-on-year, y-o-y) in April. This fueled NG expenditures to a 43% growth, the fastest in nearly four years. It also marked the 4th consecutive month of above-10% gains in 2018. Strong spending in April resulted in a P1 T disbursements in the first four months of the year.

Figure 1 - Infrastructure Spending Growth Rate (y-o-y), Jan 2017 to Apr 2018



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

The construction of roads and police stations, as well as the rehabilitation of schools accounted for the strong outlay on infrastructure. Other education-related spending (i.e., various scholarship assistance, grants, and incentives provided by the Commission on Higher Education) and the implementation of various social services by the DSWD

SHOULD WE WORRY ABOUT THE PESO DEPRECIATION?

As the Peso-Dollar exchange rate crossed the P53/$ on June 11th, a lot of people, including foreign analysts, raised their "worried" flag. Indeed, the next days thereafter the peso slid further to some 5.8% higher than the P50.40/$ average in 2017. But should we worry? The answer should depend on the factors that are driving the peso's weakness.

First, the US dollar has been strengthening since the end of Q1-2018. There are several reasons for this. IMF projects the US economic growth to accelerate to 2.9% this year compared to 2.3% in 2017. Apart from the growth momentum, the Trump's tax cuts get to be felt by individuals and corporations starting Q2 2018. Next, the same tax reform tries to attract back to the US some $2 T of cash held by US multinationals abroad. Even if half of that returns, that would add significant demand for the greenback. Finally, we have the Fed raising policy rates now to 1.75% and so 6-month T-bills yield 2.06% while in Germany the 6-month yield is -0.63% on June 13. It becomes attractive for German institutions to invest in US Treasuries because of the large differential.

Second, foreign stock and bond investors are selling off their peso-denominated financial assets as they stand to lose with a peso depreciation. Foreigners have been net sellers in the local stock market by a total of P52 B (~$1 B) from February to May this year.

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National Government (NG) generated extremely strong monthly tax revenues which rose by 30.4%, attributed to higher tax take by both the Bureau of Internal Revenue (BIR) the Bureau of Customs (BoC)

SHOULD WE WORRY ABOUT THE PESO DEPRECIATION?
Third, the PH balance of trade has been deteriorating and has reached a record $3.6 B in April 2018. For the first four months, this amounted to $12.2 B which if multiplied by three (simple annualization) yields $36.6 B which will be more than 20% higher than a year ago. However, this may not be viewed too badly as imports of capital goods (additions to productive capacity) have shown robust growth.

On the other side of the issue, we can look at the fact that if we take a longer view, the peso has actually appreciated by 4.6% from 2004 to June 13, 2018, while our neighbors Indonesia and Vietnam had large cumulative depreciations in excess of 40% during this period. Malaysia also shows net depreciation during the period.

Besides, there are positive effects of the peso depreciation. The most obvious effect of this would be to discourage imports and prod more exports, thus, reducing the trade deficits over the medium-term. And because more production is done locally, it will boost employment generation.

The second positive effect is that it will increase peso incomes of OFW families, exporters and those that supply raw materials to exporters. There are an estimated 10 M OFWs and with an average family size of 4.6, the peso slide benefits some 46 M families. Add to that the number of families dependent on exports, which account for some 30% of GDP, plus those that supply raw materials to exporters, and we easily obtain the conclusion that a vast majority of Filipino families benefit from the higher peso-dollar exchange rate.

Finally, both our research and that of BSP would show that a 10% peso depreciation adds only around 0.5% to inflation. If the FX rate averages some 6% higher, the resulting additional inflation would only be 0.3%. Besides, the consumers of imported goods are the higher income classes rather than the poor.

In short, while the current weakness of the peso might seem negative, its impact in both the short and medium term is net positive.

also drove Maintenance and Other Operating Expenses (MOOE) to reach P33.4 B (+33%). Spending on Personnel Services also jumped by 24% due to salary adjustments of military and uniformed personnel.

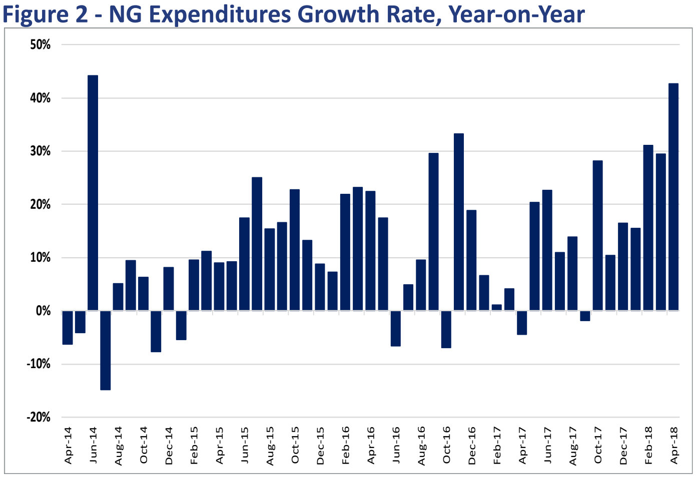
Tax Revenues Climbed by 30.4% in April for Bigger Primary Surplus

Suggestive of an upswing in economic activity, NG generated extremely strong monthly tax revenues which rose by 30.4%, attributed to higher tax take by both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BoC). The BIR raked in a total of P232.6B, 24% more than in the same month last year, reflecting the positive impact of TRAIN despite individual income tax cuts but higher taxes on petroleum and beverages. BoC collections also soared by 50.3% (to P46.8 B), due to higher imports, especially for petroleum products, supported by the 4.5% peso depreciation.

Despite the continued increase in spending, NG managed to record a surplus in April amounting to P46.3 B due to larger revenue take. Netting out interest payments, the NG primary surplus in April increased to P69.5 B. The cumulative deficit for the first four months reached P105.9 B, almost four times than the P30.2 B a year ago. Nonetheless, the year-to-date (YTD) budget deficit appears to still be below the full-year target deficit of P567 B.

We retain our view that indeed the NG has managed to put its projected bulked up spending back on track.

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



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

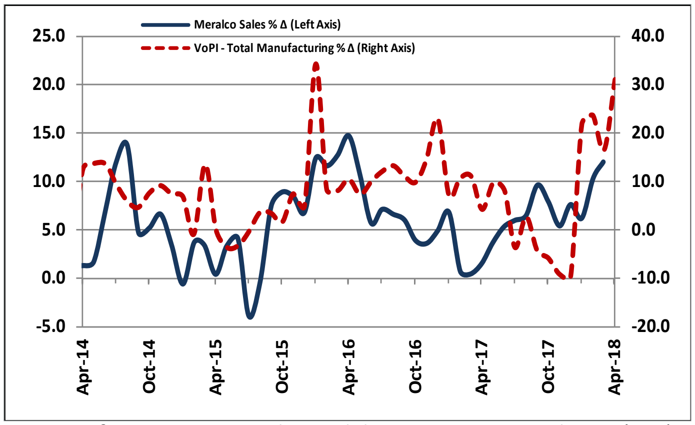
After five consecutive months of growth, imports of capital goods growth slipped by a minute 2.7% in March, a likely correction from the huge 24.5% expansion a month ago.

Manufacturing Output Soars by 31.1% in April

The country's manufacturing output (measured by Volume of Production Index or VoPI) soared by 31.1% in April, a large jump from the 16.5% (revised) expansion recorded in March. This, likewise, marked the 4th straight month of double-digit gains in 2018, indicating a strong economic production and strong job creation. The robust growth in April may be attributed to 15 out of 23 industry sub-groupings posting above-10% growth. These included printing (+166.7%), petroleum products (+104.9%), tobacco products (+65%), and beverages (+47.2%), among others.

YTD, the industrial output growth bumped up by 23%, much faster than the 8.3% posted in the same period last year.

Figure 3 - VoPI and Meralco Sales Growth Rate, Year-on-Year



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

FDI Surges by 46.4% in February

Investors' sentiment towards PH economic fundamentals remains positive as they continue to pour in direct investments into the country. In February, PH yielded a net inflow of $573 M in foreign direct investments (FDI), soaring by 46.4% from the same period last year. The increase in direct investments was largely due to the remarkable increase in debt instruments (+56.3%). Notable gains in net equity capital which rose by 55.4% to $114M and comprising a large portion of foreign investments, also propelled FDI gains. Equity capital placements came mostly from Hong Kong, the United States, China, the Netherlands, and Japan which went into art, entertainment and recreation; real estate; manufacturing; construction; among others. Meanwhile, reinvestment of earnings added $65 M in February.

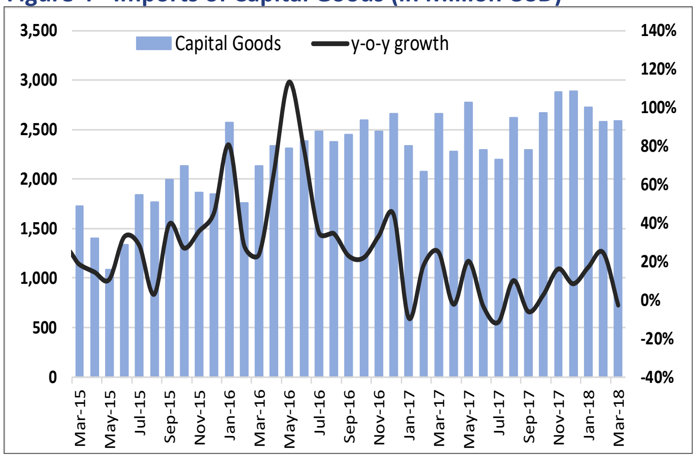
March Capital Goods Imports Post First Slight Fall in 2018

After five consecutive months of growth, imports of capital goods growth slipped by a minute 2.7% in March, a likely correction from the huge 24.5% expansion a month ago. The decline in four out of five sub-categories largely pulled down growth. Only the imports of telecommunication equipment and electrical machineries recorded gains (+20.7%) in March.

Consistent with the past trend, raw materials & intermediate goods imports captured the largest share of total imports at 39% but likewise declined by 2.6% due to lower imports of unprocessed and semi-processed raw materials. Lower imports of durable (i.e., passenger cars and home appliances) and nondurable goods (i.e., beverage, articles of apparel, among others) also resulted in lower consumer goods imports (-7.6%).

Bucking the trend, the mineral fuels, lubricant and related materials category posted a huge increase (+30.6%) amidst hefty gains in the imports of petroleum products (+63%). WTI crude oil prices came in 27.2% higher in March and accounted for nearly half of the jump. The decline in other categories mentioned above which collectively accounted for 85.6% of total imports offset the gains in fuel imports. Thus, total imports ended virtually flat.

Figure 4 - Imports of Capital Goods (in Million USD)



Source of Basic Data: Philippine Statistics Authority (PSA)

Price movements in May showed a slight acceleration of 4.6% from 4.5% in the preceding month, hitting another high.

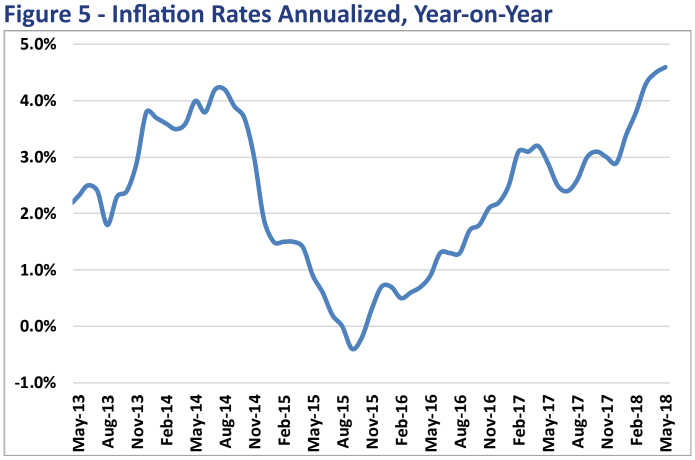
We think that the expansion in the import of capital goods will recover, especially with the continued spending on public and private investment.

On the other hand, exports still trended downward, resulting in a trade deficit of $2.6 B for March, albeit lower than the $3.1 B in February 2018.

Inflation Inches Up in May, But Much Below Market Consensus

Price movements in May showed a slight acceleration of 4.6% from 4.5% in the preceding month, hitting another high. May inflation data, however, came as a surprise as market consensus pointed to a faster price acceleration averaging at 4.8%. Nonetheless, the continuous price upticks brought the YTD rate above the BSP's target, 0.1 percentage point higher than the upper limit.

Figure 5 - Inflation Rates Annualized, Year-on-Year



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

We observed highest price gains in the transport and the heavily-weighted alcoholic beverages and tobacco (ABT) indices, which recorded 1.3 and 0.6 percentage points increase, respectively. Higher international prices of crude oil (i.e., WTI and Brent), which rose by 6% on average in May largely drove prices of the former, while the latter could still be affected by the TRAIN's higher excise tax on alcoholic beverages and cigarettes. The restaurants and miscellaneous goods and services index, likewise, posted increments emanating from the spilled over inflationary effect recorded in other commodities.

Inflation Year-on-Year Growth Rates	May-2018	Apr-2018	YTD
All items	4.6%	4.5%	4.1%
Food and Non-Alcoholic Beverages	5.7%	5.9%	5.3%
Alcoholic Beverages and Tobacco	20.5%	20.0%	17.6%
Furnishing, Household Equipment and Routine Maintenance of the House	2.9%	2.8%	2.6%
Transport	6.2%	4.9%	5.2%
Restaurants and Miscellaneous Goods and Services	3.7%	3.4%	3.0%

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

Meanwhile, price deceleration in some food baskets resulted in the decline of the food and non-alcoholic beverages (FNAB) which we believe, has tempered the overall price upticks in May. The rest of the index maintained the past month's rate. Lower electricity charges in May have offset the inflationary effect of higher domestic fuel price thus, the housing, water, electricity, gas, and other fuels (HWEGOF) index posted the same rate as last month. Meralco rates in May declined by P0.54/kWh to P10.0/kWh due to lower generation and transmission charges.

We maintain our view that inflation will continue to breach the BSP's upper target but will start to taper off closer to 4% after Q2 due to the following: (a) large rice imports have arrived in early June but just needs to clear Customs and be distributed and (b) US Dept. of Energy projects that crude oil prices have peaked in May and should be on a downward trend until at least H1 of 2019.

Money Growth Eases in April, MB Raises Key Policy Rates

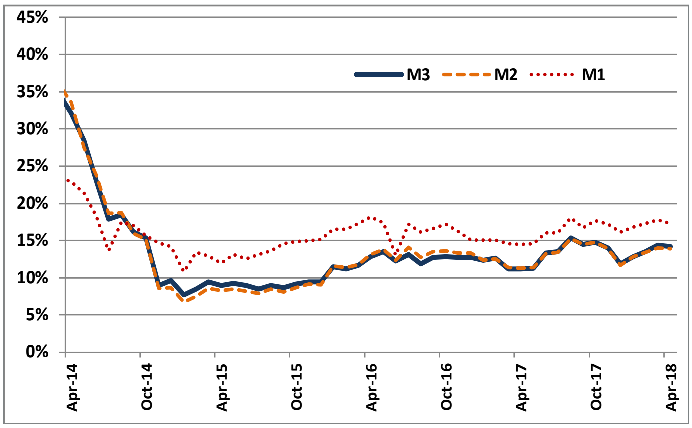
Sustained by the loans used in productive activities, monetary aggregates continued to expand in April, although at a slightly slower pace than in the previous month. Domestic liquidity (M3) expanded by 14.2% y-o-y to P10.9 T compared with the 14.4% increase in March. Broad Money (M2) and Narrow Money (M1) growth, likewise, decelerated to 13.9% and 17.3%, respectively.

Commercial bank lending, comprising 88.5% of banks' loan portfolio, grew by 19.6%, faster than the revised 18.2% recorded in the previous month sustained by

With the slowdown of growth in the US to 2.3% in Q1 2018 from 2.9% in Q4-2017, exports of ASEAN experienced a weakening. Philippine exports could not escape from this and so these declined by another 6.8% to $5.6 B in March.

production loans. Loans to the transportation and storage sector (+30.9%) grew the fastest, followed by lending to wholesale and retail trade, information and communication (+24.6%). Other sectors obtaining loans at a double-digit pace included electricity, gas, steam and air conditioning supply (+22.7%) and the real estate activities (+15.7).

Figure 6 - M1, M2 & M3, Year-on-Year



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

Likewise, net foreign assets (NFA) of monetary authorities declined to 0.5% from 3.4% in the preceding month, reflecting lower dollar inflows from OFW (see Remittance article).

As previously anticipated, the Monetary Board (MB) decided to increase key policy rates (i.e., RRP and overnight lending and deposit rates) by 25 bps to 3.25%, anchored on the continued expansion in money supply. Coupled with faster uptick in inflation in H1, we think that the BSP will raise policy rates again towards in Q4 of 2018 by another 25 bps.

Exports Slump by 5.5% in Q1

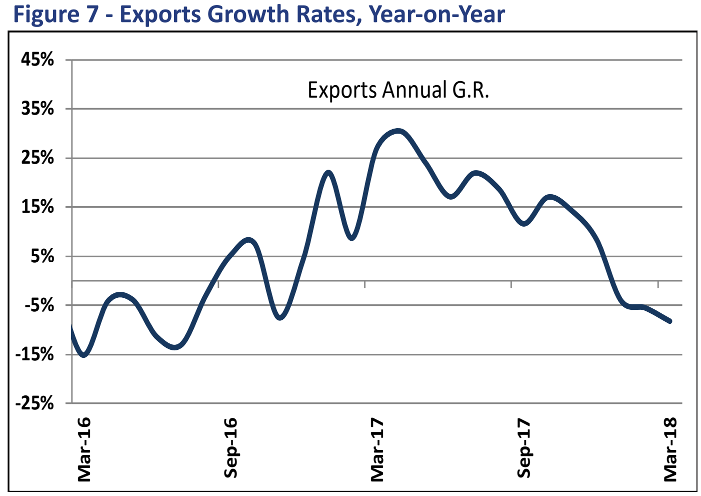
With the slowdown of growth in the US to 2.2% (3rd reading) in Q1-2018 from 2.9% in Q4-2017, exports of ASEAN experienced a weakening. Philippine exports could not escape from this and so these declined by another 6.8% to $5.6-B in March. This resulted in a negative 5.5% y-o-y growth in Q1 2018, showing a big reversal from the 25.5% increase in the same period last year.

Despite the overall growth weakness, electronic products exports continued to expand by 6.8% y-o-y to $3.2 B, at the same time taking the lion's share of exports at 59%. Semiconductors, which had the biggest share among electronic products at 41.7%, also posted an increase of 2.6% to $2.2 B. Exports of cathodes and section of cathodes at 4th place, likewise, registered an 8.1% increase to $140 M (comprising 2.5% of total exports).

The rest of the top five commodities came in lower, starting off with the exports of other manufactured goods, which ranked 2nd and accounted for 5.3% share. Outward shipments of these items plummeted by 24.5%. Shipments of machinery & transport equipment and ignition wiring sets used in vehicles, aircrafts & ships, likewise, decreased by 44.6% and 28.9%, respectively.

US still overtook Japan in first place, comprising 15.7% of total shipments valued at $865 M. Contrary to the previous months trend, exports to the US in March increased by 4.4%, tracking positive economic production in the latter. Hong Kong ranked 2nd, which expanded by 4.7% to $847.6 M (with a 15.4% share). Exports to Japan and China in 3rd and 4th contracted by 4.3% and 3.1%, respectively, amidst slower economic expansion in these countries. Merchandise exports to Japan amounted to $774.6 M (14.1% share) while exports receipts to China stood at $676.2 M (12.3%). Meanwhile, outbound trade to Singapore (at 5th place) rose by 1.3% with sales amounting to 344.1 M.

Figure 7 - Exports Growth Rates, Year-on-Year



Source of Basic Data: Philippine Statistics Authority (PSA)

Personal remittances fell by an unexpected 9.9% (y-o-y) to $2.6 B.

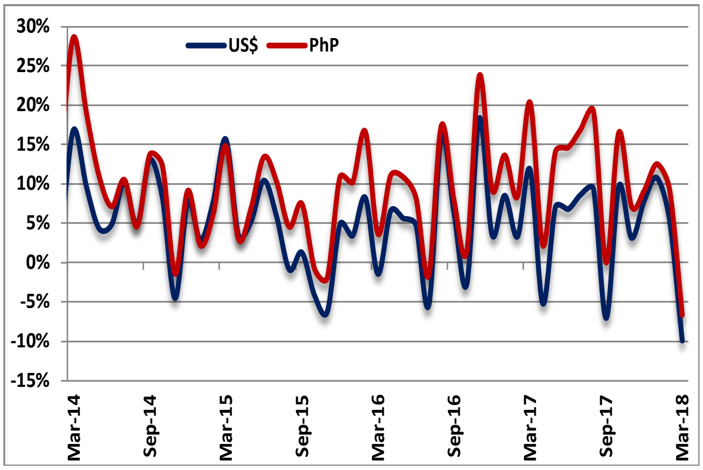
Almost half of the total exports in March headed towards East Asian (EA) nations, valued at $2.7 B. Outward sales to the region further declined by 7.8% due to lower demand from China and Japan. Exports to the ASEAN accounted for 15.8% of total shipments, registering a 1.3% decline. Shipments to the EU also decreased by 15.9% valued at $769.9 M.

While exports had a lackluster performance in Q1, we believe that the synchronized recovery in the US, EU, China and Japan will help boost PH exports starting Q2.

Remittances Plunge in March

The impact of the government's decision to bar deployment of Overseas Filipino Workers (OFWs) to Kuwait appears to start in March when personal remittances fell by an unexpected 9.9% (y-o-y) to $2.6 B. Cash remittances (i.e., coursed through banks), likewise, fell by 9.8% to $2.4 B due to the high base effect following the sharp increase in cash transfers last March 2017. Moreover, transfers from both land and sea-based workers were seen to decline, especially from the Filipinos working in Saudi Arabia, United Arab Emirates (UAE), Qatar, and the US. Less number of working days (due to the celebration of Holy Week), as well as the continued repatriation of workers from Middle East might also have contributed to the reduction in the inflow of cash remittances. Based on the preliminary data from the Department of Labor and Employment, a total of 1,124 OF workers were repatriated from Kuwait as of February 28, 2018.

Figure 8 - OFW Remittances Growth, Year-on-Year



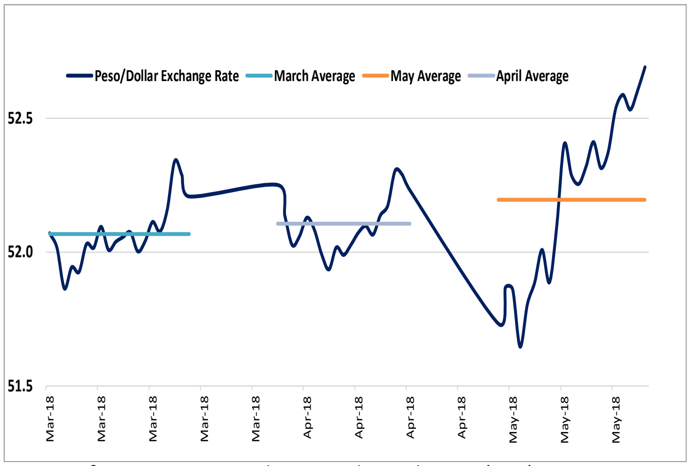
Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Despite the unremarkable exports growth recorded in the first three months of the year reflecting slower GDP growth in the US in Q1, we still believe that PH exports performance is set to a faster growth pace especially with the strong recovery in China and Japan, and pick up in the US after the huge corporate tax cut gets channeled to investment spending.

Peso Still on Depreciation Streak

The solid upswing in the US economy (with the US recording its lowest unemployment rate in 18 years, adding a monthly average of 200K jobs in 2018) provided further strength to the US dollar while widening PH trade deficits added pressure to the PH peso. The peso averaged P52.19/$ in May, representing a 0.2% depreciation from last month and marking the 5th consecutive month of peso depreciation in 2018. The pair hovered between a high of P52.69/$ and a low of P51.65/$, further widening the volatility measure to 0.32 from 0.10 in April.

Figure 9 - Daily Dollar-Peso Exchange Rate



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

Other emerging currencies also succumbed to losses against the greenback led by Hong Kong dollar (HKD) following the rapid increase in Libor which sent HKD to its weak end. Huge outflows from Thailand and Malaysia also brought the baht (THB) and the ringgit (MYR) down. Wide current account deficit and FDI outflows, likewise, added pressure to the already weak Indonesian rupiah (IDR) (which broke through 14,000 resistance) and India's rupee (INR). China's yuan (CNY) also edged downward as the PBOC favored yuan depreciation to a certain extent as trade war between US and China loomed larger.

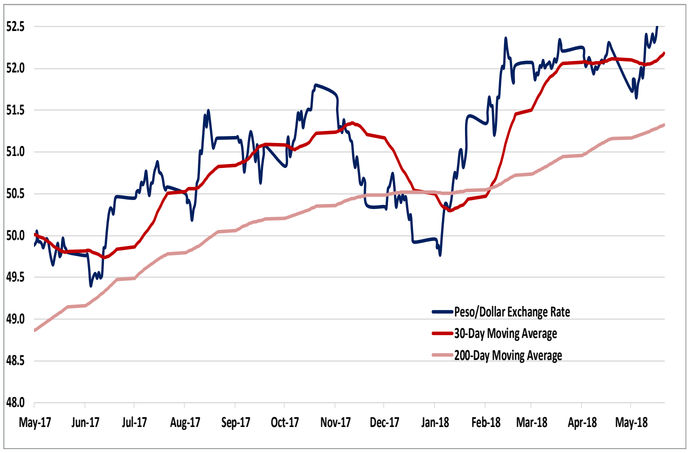
NG has shown the ability to ramp up infrastructure spending on a sustained basis, and with major PPP projects getting up to speed, the construction sector will likely lead Investment spending in Q2.

Exchange Rates vs USD for Selected Asian Countries			
	Apr-18	May-18	YTD
AUD	1.0%	2.1%	1.3%
CNY	-0.4%	1.1%	-3.5%
INR	0.9%	2.8%	5.0%
IDR	0.3%	1.7%	3.6%
KRW	-0.4%	0.7%	-0.8%
MYR	-0.5%	1.9%	-3.0%
PHP	0.1%	0.2%	3.6%
SGD	0.0%	1.8%	-0.6%
THB	0.1%	2.0%	-2.2%

Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)
Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback

The actual USD/PHP rate in May remained above both the 30-day and the 200-day moving averages (MAs), suggesting that the peso will remain under pressure in the near and long term largely explained by the PH's large trade deficits coupled with the improving economic fundamentals in the US.

Figure 10 - Dollar-Peso Exchange Rates & Moving Averages



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

Outlook

Apart from the mind-blowing gains shown by infrastructure spending, manufacturing and FDIs at the start of Q2, the BSP's Consumer Expectations Survey for Q2 showed an improvement for the current quarter to 3.8% from 1.7% in Q1-2018. This is the 8th consecutive quarter of positive reading of the BSP's composite index. Consumer outlook for the next quarter (Q3) remained unchanged at 8.7%.

- NG has shown the ability to ramp up infrastructure spending on a sustained basis, and with major PPP projects (considered as private construction) getting up to speed, the construction sector will likely lead investment spending in Q2.

- Unusually rapid growth in manufacturing and tax revenues in April also point to brisker economic activity during the quarter.

- Strong employment gains averaging 1.5 M new jobs for the year ending in H2, should provide additional impetus to consumer spending apart from the above gains and the likely positive impact of TRAIN's individual income tax cuts.

- While inflation has risen further by 4.6% in May, the increases have become smaller, and with the US Department of Energy projecting crude oil prices to peak in May, local inflation will also peak in Q2 and head back to BSP's upper target in H2. This should provide a further boost to consumer spending.

- Despite a slightly faster uptick in money growth in April due to the 1% reduction in reserve requirements, this will also slow down in H2 forestalling the need for another policy rate hike until Q4.

- Exports had a drubbing in Q1, but with the significantly faster growth expected in the US starting Q2 and better recoveries in EU, Japan and China, we expect a turnaround to positive territory before the end of Q2. Similarly, OFW remittances slumped in March due to the unilateral ban on deployments to Kuwait, the issue has been resolved, and by June the growth numbers should regain the positive ground.

- The peso will continue to feel the heat as the US economy (and dollar) roars ahead and as long as the domestic economy manages to whittle down significantly its trade deficit, while inflation concerns should ease as explained above.

Overall, the high-octane driven speed suggested by economic numbers and consumer sentiment should enable the PH economy to resume 7% and above growth by Q2.

Forecasts			
Rates	June	July	August
Inflation (y-o-y %)	4.7	4.6	4.4
91-day T-Bill (%)	3.11	3.23	3.34
Peso-Dollar (P/$)	52.56	52.91	53.03
10-year T-Bond (%)	6.05	6.14	6.24

Source: Authors' Estimates

YIELDS SLIP WITH US TREASURIES AS MAY ENDED, BUT REBOUNDED AFTER FED RATE HIKE IN JUNE

Local peso bond yields generally eased in May as 10-year US Treasury bond yield failed to hold above 3%, but resumed their upward trend in early June as investors fretted over the twin rise of peso-dollar exchange rate and inflation and the Fed expectedly raise policy rates on June 13. These showed up in both the primary market for government securities (GS) (auctions) as well as in the secondary market as they tracked US Treasury bond (T-bond) yields which generally eased in late May despite consecutive months of strong job creation. 10-year US T-bonds raced to a near 7-year high of 3.11% on May 17 on the strength of US economic fundamentals but failed to hold above 3%; rather, it fell 26 bps to 2.84% by end-May, and recovered only after the Fed announced its widely expected 25 bps policy rate hike on June 13 as the US inflation and wage gains in May inched up slightly higher.

Outlook: The Philippine yield curve is by far the steepest in the region (see Figure 18) as market players priced in future Fed policy rate hikes in addition to domestic concerns like the rapidly rising exchange rates and elevated inflation rates. Despite inflation likely to peak in H1 (vs. other projections for H2), a looming Fed policy rate hike for a 4th time this year and the turmoil in international financial markets due to the escalating trade war between US and China, EU, Mexico and Canada make a decline in yields unlikely in Q3.

GS Auctions: Yields Continue to Rise for Long Tenors in May

In general, yields in the auction of government securities (GS) by the Bureau of the Treasury (BTr) in May showed an upward trend. The exceptions occurred in the shortest tenors of 91-day and 182-day Treasury (T-bills) as investors flocked to these tenors to minimize interest rate risks. On a cumulative basis from the last auction in April, 91-day T-bill yields fell by 18.5 bps to 3.3% while 182-day T-bills yielded 3.7%, a similar drop of 18.9 bps. On the other hand, yields in the 364-day T-bills reached 4.2%, a rise of 21.2 bps.

Yields moved higher in all the auctions for longer tenors. To be sure, it has not been a parallel shift in the T-bond yield movements. The cumulative yield on 3-year T-bonds rose by 24.3 bps to 4.9%, but for the 7-year and the 10-year bonds, the uptick proved a bit more modest at 15.3 bps to 5.9% and at 13.7 bps to 6.4%, respectively.

In terms of demand, the overall tender-offer ratio (TOR) came in 1.8x or seemingly not much different from 1.7x in April. However, there are two things veiled by this total picture, i.e., (1) when the RTB 3-year issue is removed which had an initial offer of P66 B, the overall TOR rises to 2x; and (2) the fall in yields in the 91-day and 182-day bills may be explained by the much higher TOR of 3x for both tenors—more demand pushed up prices and yields downwards.

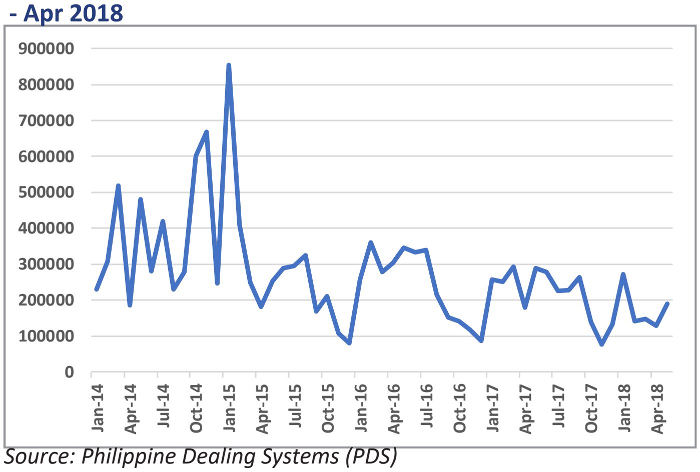
Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
7-May	91-day	5.0	15.1	5.0	3.0	3.4	
	182-day	4.0	10.2	4.0	2.5	4.0	
	364-day	6.0	4.6	0.0	0.7	0	
15-May	91-day	5.0	15.0	5.0	3.0	3.5	
	182-day	4.0	10.5	4.0	2.6	3.9	
	364-day	6.0	3.1	2.2	0.5	4.2	
21-May	91-day	5.0	16.0	5.	3.2	3.4	
	182-day	4.0	14.1	4.	3.5	3.9	
	364-day	6.0	8.8	4.0	1.5	4.3	
28-May	91-day	5.0	13.8	5.0	2.8	3.3	-18.5
	182-day	4.0	13.6	4.0	3.9	3.7	-18.9
	364-day	6.0	10.5	6.0	1.8	4.2	21.2
Subtotal		**60.0**	**135.3**	**48.2**	**2.3**		
2-May	5-year	10.0	18.9	10.0	1.9	5.6	14.0
8-May	3-year	10.0	19.4	10.0	1.9	4.7	7.1
15-May	7-year	10.0	15.0	4.9	1.5	5.9	15.3
22-May	10-year	10.0	13.4	4.1	1.3	6.4	13.7
30-May	3-year	66.0	92.8	66.0	1.2	4.9	17.2
Subtotal		**106.0**	**48.7**	**20.0**	**1.5**		
All Auctions		**166.0**	**294.8**	**143.2**	**1.8**		

Source: Philippine Dealing Systems (PDS)

May turnover in the GS secondary market jumped by 46.6% to P187.16 B, compared to the previous month's P127.69 B.

GS Secondary Market: Big Stride in May Trading

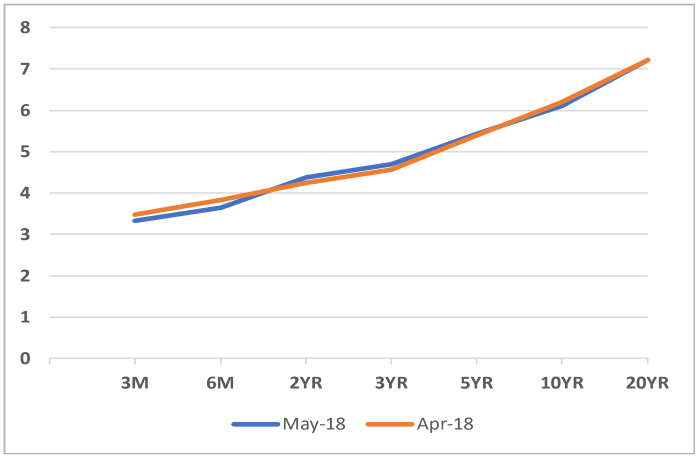
Figure 11 - Monthly Total Turnover (in Billion Pesos) Jan 2014 - Apr 2018



Source: Philippine Dealing Systems (PDS)

Trading volume in the GS secondary market improved significantly, much like that in the auction market. Compared to the previous month, May turnover jumped by 46.6% to P187.2 B from P127.7 B. However, on a year-on-year (y-o-y) basis, this came in still 33.8% below the P282.5 B trading volume in May 2017. In the same breath, year-to-date (YTD) trades continued to decline by 30.1%, just slightly lower than in March and April.

Figure 12 - End-Month Yield Curves (PDST-R2)



Source: Philippine Dealing Systems (PDS)

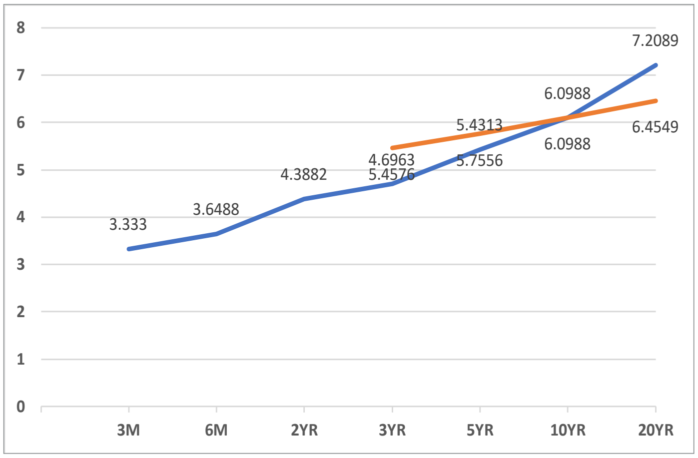
PDST-R2 Yields (end-March and April 2018)

PDST-R2	Apr-18	May-18	M-o-M change (bps)
3M	3.4778	3.333	-14.5
6M	3.8326	3.648	-18.5
1Y	4.3661	4.111	-25.5
3Y	4.5656	4.696	13
5Y	5.3987	5.413	1.4
10Y	6.2033	6.099	-10.4
20Y	7.2179	7.209	-0.9

Source: Philippine Dealing Systems (PDS)

Because of the risk-on sentiment, yields dropped in general from 10.4 bps in the 10-year space to 25.5 bps in 1-year bonds. This may be seen in the graph above. This is detailed in the table below. The smoother yield curve on May 31, 2018 compared to end-April may also be observed.

Figure 13 - PDST-R2 vs. Liquid FXTN Yields (end-May 2018)



Source: Philippine Dealing Systems (PDS)

To compare PDST-R2 benchmark yields against more liquid issues, we made some adjustments. Instead of FXTN 10-60s (remaining 7.27 years to maturity), we used FXTN 10-63 which still had 9.81 years to maturity for the 10-year tenor despite the large outstanding amount for FXTN 10-60s. To match against the 20-year PDST-R2 benchmark, we replaced FXTN 20-17 by RTB 25-01 which had a remaining life of 19.4 years. And for the 5-year tenor, we used FXTN 5-75 (with 4.70 years to maturity) instead of FXTN 5-73 which had much shorter period to maturity of 2.22 years.

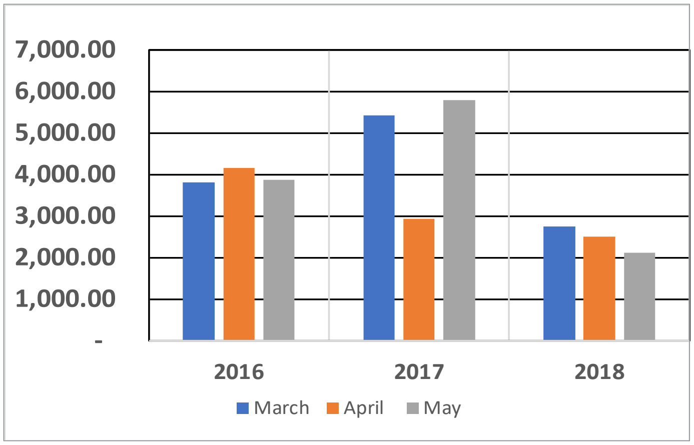
Secondary trading in corporate bonds slumped anew in May by 15.4% following through the 8.7% drop in April (both m-o-m).

As a result of these changes, we can see parity in the 10-year space and a still significant difference in the 20-year tenor where PDST-R2 exceeded RTB 25-01 by 82.1 bps. The liquid 5-year FXTN 5-75 came in slightly higher than the benchmark. Hopefully, the two would come closer to each other as BTr regularly issues more long-term bonds while the market continues to adjust to the PDST-R2 benchmark yield-setting rules.

Corporate Bonds: Secondary Trading Slumps Anew

Secondary trading in corporate bonds slumped anew in May by 15.4% following through the 8.7% drop in April (both month-on-month, m-o-m). Viewed on y-o-y basis, the fall was much larger at 63.2%. YTD total trading volume also fell short compared to the same period last year by 40.1%.

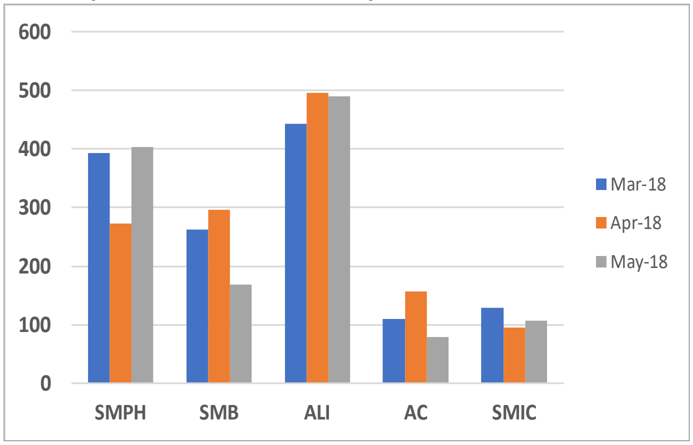
Figure 14- Total Secondary Trading Volume in Corporate Bonds (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Similarly, trading in the top five issuers' bonds slipped by 5.2% in May (m-o-m) compared to a smaller 1.5% dip in April. The five includes Ayala Corporation (AC), Ayala Land Inc. (ALI), San Miguel Brewery (SMB), SM Investments Corporation (SMIC) and SM Prime Holdings (SMPH). Investors flocked to the two SM issuers, while the rest of the top five experienced a drop in trading volume. ALI retained the top spot with P489.9 M, even though it slightly edged lower by 1.1%. Second placer SMPH saw its bond trading surge by 48% to P402.6 M. This more than offset the previous month's fall of 30.7%. Its sister company, SMIC also did well with turnover increasing by 11% to P106.4 M. However, this only landed in 4th place. SMB and AC captured the 3rd and 5th spot, respectively, as their turnovers plunged by 42.7% and 49.6%.

Figure 15 - Monthly Trading Volume (In Million Pesos) of Top Five Corporate Bonds, March-May 2018



Source: Philippine Dealing Systems (PDS)

New Issuances and Disclosures

- BDO Unibank, Inc. issued on May 7 its 5.5-year P8.2 B Long-Term Negotiable Certificates of Time Deposit (LTNCD) due November 7, 2023 with a tax-free coupon rate of 4.375% and shortly thereafter listed them in the Philippine Dealing & Exchange Corporation (PDEx), bringing the YTD new listings to P70.4 B. With this issuance, the SM Group's total outstanding amount of bonds listed stands at P180.8 B for a share of 21% of the total face amount of P862.9 B ($17 B) of corporate bonds now listed on PDEx.

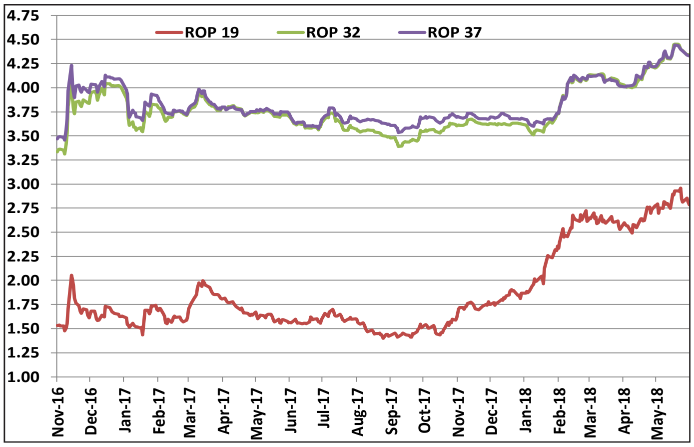
ROPs: Yields Rise While US Treasuries Ease

Philippine government's sovereign dollar-denominated bond (ROPs) yields rose sharply while US Treasuries eased in May. Yields jumped across the board as investors became increasingly wary of the continued weakness of the peso relative to the US dollar and the rising inflation rate.

ROP-19, which matures in 2019 or less than a year, obtained yields of 2.815%, 4.2 bps higher than in end-April. This came in 58.5 bps higher than 1-year US Treasury bond yields, way above near parity which prevailed as late as December 2017. ROP-32 and ROP-37 yields hit 4.344% and 4.335% as they rose by 13.8 bps and 11.8 bps, respectively. These had remaining maturities of 14 years for the first bonds and 19 years for the latter.

The failure of 10-year US Treasury bond yields to remain above 3% in May, in the light of mild inflation and wage gains despite strong job creation, put a downward pressure on US bond yields.

Figure 16 - Yields of Selected ROPs, Sep 2016 to May 2018

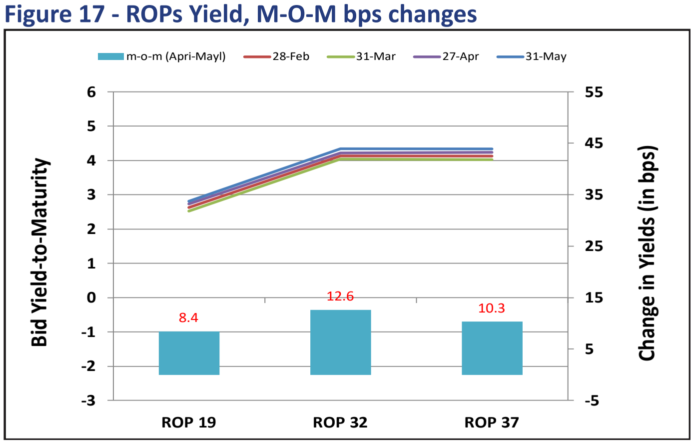


Sources: Bloomberg & First Metro Investment Corporation (FMIC)

On the other hand, the failure of 10-year US Treasury bond yields to remain above 3% in May, in the light of mild inflation and wage gains despite strong job creation, put a downward pressure on US bond yields. The 1-year Treasury bond yielded 2.2%, a tad lower than in end-April. The fall in yields came in at the long end of the curve, where we saw 15-year bonds ease by 11 bps while the 20-year T-bonds bumped up by 10 bps. The resulting yields for the two tenors reached 2.87% and 2.91%, respectively.

The spread of ROPs over US Treasuries, thus, expanded across the yield curves. The spread of ROP-19 over 1-year US Treasuries lifted by 9.4 bps to reach 58.5 bps, as noted above. For ROP-32, the differential increased by 23.6 bps to 147.4 bps, while for ROP-37 rose by 20.3 bps to 142.5 bps. The longer maturity had lower spreads due to its greater liquidity.

Figure 17 - ROPs Yield, M-O-M bps changes



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

ASEAN+1: Yield Curves Flatten As Yields Rise Faster at Short-end

US: The US economy continued to exhibit robustness as employment gains in May reached 223,000 much above consensus of 190,000, and (revised upward) 164,000 in April. The unemployment rate reached a 40-year low of 3.8% in May, 0.1 percentage point below the previous two months. Industrial production rose by 0.7% in May (m-o-m, seasonally adjusted) vs. 0.6% consensus while capacity utilization was 78% still below consensus of 78.3%.

Despite these, inflation (measured by CPI) moved marginally higher to 0.42% in May from 0.40% (m-o-m, seasonally adjusted). The rise in April from 0.23% in March pushed bond yields upwards until the last five days of May when it slumped back to 2.83% by end-May. With the expected (and actual) 25 bps Fed policy rate hike on June 13, 10-year bond yields moved back to 2.95% but still failed to breach 3%. With the strong economic numbers in the US, analysts raised the expectation of four rate hikes in 2018 to a probability of 58% compared to only 50% in the previous month. Indeed, the median Fed Funds projections of Fed members had risen by some 25 bps, but the average remained the same. So while this suggested a possible 4th rate hike in 2018, the future rate increases are to remain "gradual" and dependent on developments especially in the inflation and wage rate fronts.

China: China's official factory gauge, the purchasing managers index (PMI) rose to an eight-month high of 51.9 in May, exceeding consensus of 51.4 unchanged from April. An acceleration of export orders drove the index, suggesting benefits of the global economic expansion. This came after Industrial output rose 7% in April (y-o-y) also above expectations of a 6.4% expansion, and 6% in March. While retail sales expanded 9.4% in April (y-o-y) this came in below consensus just like investments. What it does suggest is that consumer spending is overtaking investment spending growth. Inflation came in at a milder 1.8% (y-o-y) increase in April due to falling food prices, as against 2.1 % in March, according to the National Bureau of Statistics (NBS). On a m-o-m basis, the CPI edged down 0.2%.

China's goods exports rose 6.4 % (y-o-y) to CNY4.8 T in January-April while imports grew 11.7% to CNY4.3 T, resulting in a trade surplus of CNY506.2 B, which narrowed by 24.1%. The surplus could not prevent the decline in forex

Malaysia's government bond yield curve moved up slightly by 4.6 bps both at the 10-year and 2-year spaces, thus keeping the spread between the two stable at 58 bps.

reserves by some $18 B to $3.12 T in April from $3.14 T a month ago. Shanghai announced new measures to open wider its finance businesses, in a bid to develop itself into an international finance center. In the near future, the city will further open up banking, securities, and insurance sectors, according to city authorities. China's yield curve showed a flattening as 10-year bond yields dropped by 4 bps to 3.7% while 2-year yields rose by 7 bps to 3.22%, bringing down the spread between the two tenors by 11 bps to 48 bps by end-May.

Malaysia: Exports surged 14% y-o-y in April to MYR84.2 B ($21.1 B), the second-fastest growth on record to date. Imports grew 9.1% y-o-y in April from a drop of 9.6% last March, mainly propelled by an increase in imports of capital goods as intermediate goods and consumption goods decreased. Malaysia posted a trade surplus of MYR13.1 B in April. Nonetheless, Malaysia's international reserves slipped to $108.5 B at the end of May, a decline of $1 B from the end of April. The reserves position can still finance 7.6 months of retained imports and is equivalent to 1.1 times the short-term external debt.

Industrial production for March grew by 3.1%, a tad faster than February's 3.05% y-o-y. Another factor that pressured the exchange rate and the international reserves came from the 6.3% fall in foreign holdings of Malaysian sovereign and corporate bonds, and bills fell to RM192.5 B in May, the lowest level since August last year, due to the perceived uncertainties in the Malaysian market. Government bond yield curve moved up slightly by 4.6 bps both at the 10-year and 2-year spaces, thus keeping the spread between the two stable at 58 bps.

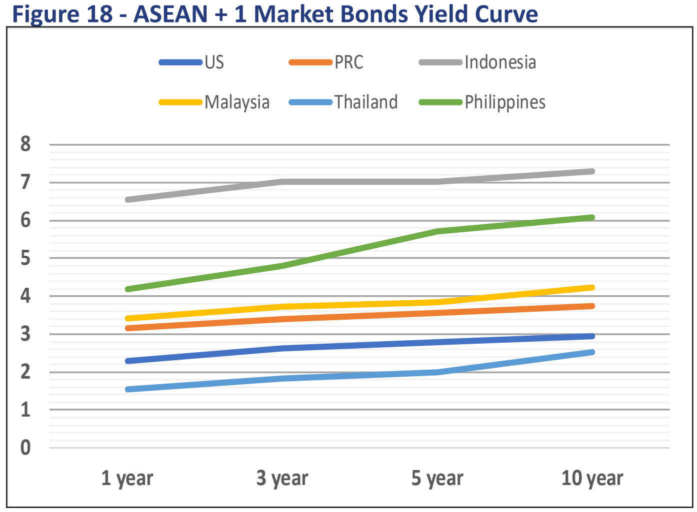
Indonesia: In order to forestall further depreciation of the rupiah which had broken through 14,000/$1 by early June, Bank Indonesia (BI) raised its policy rate twice during May to bring it to 4.75%. BI also raised the 7-day reverse repurchase rate, deposit facility rate, and lending facility rate by 50 bps each to 4.75%, 4%, and 5.5%, respectively. In addition, BI tried to boost rupiah use and prodded firms to sell their dollars and to hold more rupiah to stem the rupiah's weakness. Indonesia's foreign exchange reserves fell to $122.9 B as of late May, down from $124.9 B last April as BI intervened to stabilize the rupiah against the US dollar amidst foreign debt payments by the government.

State-owned electricity company PLN announced that it had issued global bonds worth $2 B on May 16 as part of liability management and debt profiling. The bonds were issued in two tenors - $1 B bonds with 10-year tenor and $1 B bonds with 30-year tenor -- with coupon rates at 5.45% and 6.15%, respectively. Government bond yield curve flattened with the spread between 10-year and 2-year bonds dropping to 22 bps in end-May from 68 bps a month ago. The rise in short-term bonds dominated the movement, even at the 10-year space yields increased by 11 bps.

Thailand: Real GDP growth accelerated to 4.8% y-o-y in Q1-2018 from 4% y-o-y in Q4-2017 due to the positive growth in all major expenditure types. On a seasonally adjusted q-o-q basis, the Thai economy expanded strongly by 2% in Q1-2018. Thus, the Ministry of Finance revised its full-year 2018 growth projection to 4.5% from an earlier estimate of 4.2%. Inflation rose to its fastest pace in 16 months in May at 1.5% y-o-y, up from 1.1% in April, due to higher fuel prices. The trade surplus declined to $200 M in April from $3 B in March. This came in despite merchandise exports climbing by 14.6% y-o-y in April after rising 6.3% in March.

However, a surge in imports at 22.7% y-o-y for April compared to 6.7% in March brought the trade surplus significantly down. Government bond yield curve also flattened slightly as the 10-year to 2-year yield spread slipped by 5 bps. Again, short-term yields rose faster than 10-year bond yields which edged up by 18 bps to 2.65%, next lowest in ASEAN6 after Singapore.

Figure 18 - ASEAN + 1 Market Bonds Yield Curve



Sources: Bloomberg & First Metro Investment Corporation (FMIC)

Spreads between 10-year and 2-year T-Bonds									
Country	2-year Yields	10-year Yields	Projected Inflation Rates	Real 10-year yield	10 year to 2-year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					Apr-18	May-18			
US	2.483	2.953	2.1	0.85	47	47	0	1.50	-0.60
PRC	3.220	3.700	1.6	2.10	59	48	(11)	4.35	2.75
Indonesia	6.769	6.992	3.8	3.19	68	22	(46)	4.75	0.45
Malaysia	3.614	4.196	3.9	0.30	58	58	0	3.25	-0.65
Thailand	1.306	2.600	0.7	1.90	92	87	(5)	1.50	0.80
Philippines	4.253	6.099	4.5	1.60	195	171	(24)	3.50	-1.00

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

PSEI DRAGGED FURTHER DOWN BY WAVE OF EXIT FROM EMERGING MARKETS

Stock prices in emerging markets (EMs) fell back into the red in May as investors returned to safe havens—the faster growing US and UK economies—amidst a political crisis in debt-ridden Italy, and off-again, on-again moves in relation to the US tariff hikes on Mexico, Canada and EU, as well as on the US-North Korea Summit. PSEi's 4.1% drop in May hit the median among ASEAN-5, due to the MSCI rebalancing, and concerns over a new policy rate hike spooked investors in the wake of rising inflation and crude oil prices. PSEi became the region's laggard for the year with YTD of -14.1%. The earlier 25 bps policy rate hike by the BSP eased some earlier concerns but this soon gave way to the risk-off sentiment.

Outlook: With foreign investors still in the selling mode, although probably slowing down, and positive news and earnings surprises not expected until August, the PSEi should continue to consolidate and trade sideways in the 7,200-7,800 range. A breakout above 8,000 should mark the end of this phase. There are some good counters to pick up for the rebound, but these must be chosen for their ability to generate bigger jumps in revenues and cash flows.

Global Equities Markets Performances

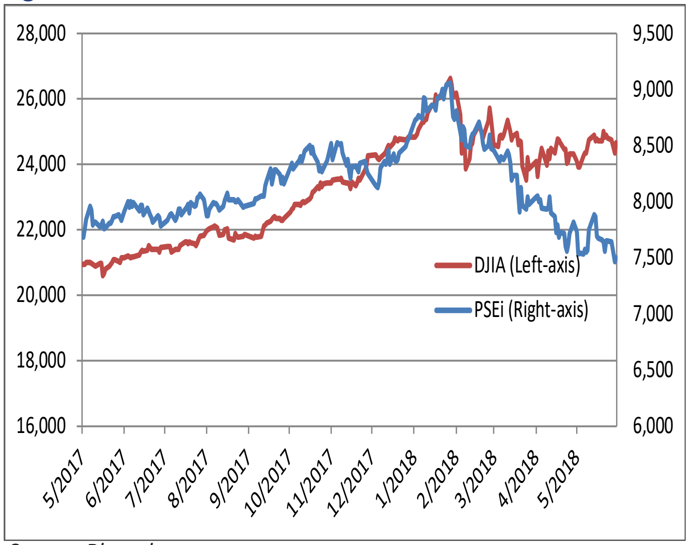
Region	Country	Index	Growth Rate May 2018 (m-o-m)	2018 YTD
Americas	US	DJIA	1.0%	-1.6%
Europe	Germany	DAX	-0.1%	-2.1%
	London	FTSE 101	2.2%	0.4%
East Asia	Hong Kong	HSI	-1.1%	-0.2%
	Shanghai	SSEC	0.4%	-7.6%
	Japan	NIKKEI	-1.2%	-5.5%
	South Korea	KOSPI	-3.7%	-2.3%
Asia-Pacific	Australia	S&P/ASX 200	0.5%	-0.8%
Southeast Asia	Indonesia	JCI	-0.2%	-5.6%
	Malaysia	KLSE	-6.9%	-2.4%
	Thailand	SET	-3.0%	-2.9%
	Philippines	PSEi	-4.1%	-14.1%
	Singapore	STRAITS	-5.1%	-0.1%

Sources: Bloomberg & Yahoo Finance

Global equities markets took turbulent paths in May, as recovery from the previous months' slump got stymied by looming political turmoil in Italy, trade war-related concerns, and the continuously shifting dynamics between the US and North Korea regarding its upcoming talks on June 12. Among Western markets, FTSE 100 and DJIA recovered marginally with 2.2% and 1% increases, respectively. On the other hand, the best performers among Asia-Pacific stocks only gained marginally as Australia (ASX 200) and Shanghai (SSEC) had slight upticks of 0.5% and 0.4%, respectively. The rest of Asian bourses ended in the red, with KLSE, STRAITS, and PSEi suffering the biggest losses at 6.9%, 5.1% and 4.1%, respectively.

Though both were heavily affected by external events, DJIA and PSEi took slightly different paths last month, with correlation between markets recorded at a moderate +0.4, albeit a reversal of -0.4 in April. Developments on the bilateral dialogue between the US and North Korea, scheduled in June, inspired confidence in Wall Street at least in early May, though subsequent tensions, US President Trump's cancellation and its later reinstatement may have caused some volatility in the US markets. Though

Figure 19 - PSEi and DJIA



Source: Bloomberg

Philippine stocks continued to retreat as investors recoiled on higher oil prices driving inflation, as well as BSP's interest rate hike – the first in three years.

taking hard hits during the second-half of the month with the announcement of US Commerce Secretary Wilbur Ross on the US imposition of tariffs on steel and aluminum products from the EU, Mexico, and Canada, as well as the impending coalition of Italy's far-right and far-left political parties to elect a prime minister who plans to raise government spending amid a debt crisis, DJIA ended the month in a relatively positive note, recording their best month since January as better-than-expected reports on US employment wooed back investors.

Monthly Sectoral Performance				
	30-Apr-18		31-May-18	
Sector		% Change	Index	% Change
PSEi	7,819.25	-2.0%	7,497.17	-4.1%
Financial	1,969.63	-5.7%	1,866.66	-5.2%
Industrial	11,110.36	-2.8%	10,757.91	-3.2%
Holdings	7,908.50	0.9%	7,329.53	-7.3%
Property	3,622.17	-0.7%	3,755.30	3.7%
Services	1,559.17	-6.7%	1,481.31	-5.0%
Mining and Oil	10,561.56	-3.0%	10,021.60	-5.1%

Source of Basic Data: PSE Quotation Reports

Meanwhile, Philippine stocks continued to retreat as investors recoiled on higher oil prices driving inflation, as well as BSP's interest rate hike – the first in three years. The local bourse recovered as the central bank raised policy rates by 25 bps in its attempt to fight high inflation, but such growth tapered off during the mid-month as reports of higher yields in the US induced an outflow of foreign funds. By the end of May, PSEi traded in the red after BSP Governor Nestor Espenilla's hawkish tone on future rate hikes and fell below the 7,500-level, capping the month with a 4.1% decline. Among sectors, only Property ended in the green last month with a 3.7% gain. Heavy losses were recorded in the Holdings, Financial, Mining and Oil, and Services sectors, all plunging more than 5% of value. The Industrial sector could not escape from the tumble, dropping 3.2% last month.

The Financial sector had a volatile month but continued to trend downward, declining by 5.2% in addition to last month's 5.7%. Bank of the Philippine Islands (BPI) suffered the most, with a 9.5% plunge in share prices due to flat earnings of P6.3 B for Q1-2018, which the company attributed to slower net interest income, as well as meager income from fees and trading gains.

Company	Symbol	04/30/18 Close	05/31/18 Close	% Change
Metrobank	MBT	85.00	79.40	-6.6%
BDO Unibank, Inc.	BDO	131.70	130.50	-0.9%
Bank of the Philippine Islands	BPI	105.00	95.00	-9.5%
Security Bank Corporation	SECB	209.00	195.00	-6.7%

Source of Basic Data: PSE Quotation Reports

Security Bank Corporation (SECB), likewise, incurred a 6.7% decline in stock price, despite the company obtaining a credit rating upgrade from S&P Global Ratings. SECB's credit rating now stands at BBB-, which is investment grade, up from the previous BB+.

Despite posting a 5.3% increase in net income to P5.9 B for Q1-2018, Metropolitan Bank and Trust Company (MBT) shared the sector's weakness as it shed 6.6% of value last month.

Meanwhile, BDO Unibank, Inc. (BDO) managed to end a bit stronger but still in the red with a slight 0.9% dip. The company recently added Diners Club International (DCI) to its roster of credit card brand partners, making BDO the exclusive issuer of credit cards for DCI in the Philippines.

Company	Symbol	04/30/18 Close	05/31/18 Close	% Change
Meralco	MER	322.00	322.80	0.2%
Aboitiz Power	AP	38.00	39.30	3.4%
Jollibee Foods Corporation	JFC	285.00	274.00	-3.9%
First Gen Corporation	FGEN	15.58	14.98	-3.9%
Universal Robina Corporation	URC	140.50	128.00	-8.9%
Petron Corporation	PCOR	9.29	8.85	-4.7%

Source of Basic Data: PSE Quotation Reports

The decline in the Industrial sector lingered on last month as the sector lost 3.2% of value on top of the April's 2.8% drop. Losing most among constituent stocks, Universal Robina Corporation (URC) continued to dive primarily due to the company's report of a 25.3% y-o-y decline in earnings for Q1-2018.

The decline in the Industrial sector lingered on last month as the sector lost 3.2% of value on top of the April's 2.8% drop.

Meanwhile, Petron Corporation (PCOR) joined URC as it also slumped by 4.7% as investors got spooked by another possible round of price increase in gas and diesel due to the continued depreciation of the peso. This more than offset the positive impact of its higher-than-expected gain of 4% y-o-y in net income for Q1, as well as the company's P15 B capital expenditures for 2018.

First Gen Corporation (FGEN), likewise, ended in the red last month with a 3.9% drop. The fall came in the wake of a 4% decline in earnings, which stood at $40 M for Q1-2018.

Jollibee Foods Corporation's (JFC) stock price also dipped by 3.9% in end-May as it traded a relatively narrow range. JFC got tagged by the Department of Labor and Employment as being engaged in labor-only contracting which it deems illegal.

Bucking the negative trend, Aboitiz Power Corporation (AP) gained 3.4% in stock price in May, as the company's subsidiary Therma Power Visayas, Inc. received a Certificate of Effectivity from Power Sector Assets and Liabilities Management Corporation (PSALM) to purchase the 153.1 MW Naga Power Plant Complex in Cebu.

Manila Electric Company (MER) ended May with a slight uptick of 0.2%, with MER's gains erased during the month-end as the operation of its Atimonan coal-fired power plant project continued to await government approval. MER also sees a slowdown in its sales volume growth from Q1-2018's 9% increase, given lower-than-expected demand in April due to cooler weather.

Company	Symbol	04/30/18 Close	05/31/18 Close	% Change
Ayala Corporation	AC	966.00	940.00	-2.7%
Metro Pacific Investments Corporation	MPI	5.10	4.65	-8.8%
SM Investments Corporation	SM	940.00	868.00	-7.7%
DMCI Holdings, Inc.	DMC	11.04	10.80	-2.2%
Aboitiz Equity Ventures	AEV	69.85	57.80	-17.3%
GT Capital Holdings, Inc.	GTCAP	1,050.00	970.00	-7.6%
San Miguel Corporation	SMC	140.00	142.00	1.4%
Alliance Global Group, Inc.	AGI	13.04	13.30	2.0%
LT Group Inc.	LTG	20.20	20.65	2.2%
JG Summit Holdings, Inc	JGS	63.95	57.10	-10.7%

Source of Basic Data: PSE Quotation Reports

On the other hand, decline in the Holdings sector hastened as the sector dipped by 7.3% last month compared to April's 0.7% loss. Aboitiz Equity Ventures (AEV) suffered a double-digit decline as the company disclosed a 3% increase y-o-y on its Q1-2018 net income, which was below consensus estimates.

JG Summit Holdings, Inc. (JGS) similarly slumped in terms of stock price in May, dipping by 10.7% as the company posted a 35.8% decline in net income for Q1-2018 to P4.8 B given weaker earnings in its petrochemicals and food businesses. JGS also announced that it will ramp up capital spending this year, allocating P80 B, 83% higher than 2017's actual capex.

Meanwhile, Metro Pacific Investments Corporation (MPI) also incurred a substantial loss of 8.8% in stock price, as the firm anticipates higher construction costs for its delayed projects coupled with a weak peso, higher interest rates, and increasing inflation.

SM Investments Corporation (SM), likewise, experienced a huge drop of 7.7% despite a 10.4% increase in net income for Q1-2018 to P8.5 B, in line with consensus estimates. The double-digit increase was attributed to the company's continuously expanding retail and property business.

GT Capital (GTCAP) also suffered a 7.6% decline in share price despite posting a 21% y-o-y growth in net profit for Q1-2018 to P3.8 B. The company attributed the growth with increased earnings on its banking, insurance and infrastructure businesses.

Ayala Corporation (AC) ended May with a 2.7% decrease in share price. The company's power subsidiary AC Energy recently invested $30 M in a joint venture with UPC Renewables (UPC), an international renewable energy developer to enter the Australian renewables market.

DMCI Holdings, Inc. (DMC) also lost 2.2% in stock price despite announcing a 4.9% increase in net income for Q1-2018 to P4.3 B, which is in line with estimates. DMC's growth was due to strong earnings in the company's mining, construction, and water distribution business units.

May was a good month for the Property sector as new projects and respectable reported incomes for Q1-2018 charmed investors, capping the month with a 3.7% increase.

On the other hand, San Miguel Corporation (SMC) gained a 1.4% uptick last month as the company disclosed a 31% increase y-o-y in net income for Q1-2018 given robust performance among its business segments. The company also brought back its plan to build a $100 M beer brewery plant in the US.

Alliance Global Group, Inc. (AGI) also had a 2% increase in stock price in May despite a 2% drop in net income for Q1-2018 to P3.5 B, as AGI's subsidiary Travellers International Hotel Group, Inc. (RWM) weaker performance due to lower gaming capacity tempered strong earnings from its units Megaworld Corporation (MEG), Emperador Inc. (EMP) and Golden Arches Development Corporation (GADC).

LT Group (LTG) enjoyed a 2.2% growth in share price as the company disclosed its plan to set aside P11 B for capital expenditure in 2018, 48.6% higher than 2017's actual capex.

Company	Symbol	04/30/18 Close	05/31/18 Close	% Change
Ayala Land, Inc.	ALI	40.80	39.80	-2.5%
SM Prime Holdings, Inc.	SMPH	34.25	37.00	8.0%
Robinsons Land Corporation	RLC	17.90	22.05	23.2%
Megaworld Corporation	MEG	4.50	4.86	8.0%

Source of Basic Data: PSE Quotation Reports

May was a good month for the Property sector as new projects and respectable reported incomes for Q1-2018 charmed investors, capping the month with a 3.7% increase. After reversing last month's double-digit loss with its disclosure of a partnership with Hong Kong Land Group for a residential project in Pasig City, Robinsons Land Corporation (RLC) experienced an upsurge of 10% increase during May's month-end, boosting last month's gains at 23.2%. The company's announcement of interest in venturing into warehousing, dormitory and co-working spaces made it an attractive pick for investors.

On the other hand, SM Prime Holdings, Inc. (SMPH) also increased by 8%, as the company opened SM City in Telabastagan, San Fernando City, Pampanga. The new shopping center adds 55,000 sqm of retail space to SMPH's portfolio of 9.3 M sqm.

Megaworld Corporation (MEG) share prices similarly rose by 8%, recovering from the previous month's 4.1% dip, as the company posted a 12% increase in earnings to P3.2 B for Q1-2018. MEG attributed this to the company's impressive performance in its residential, rental, and hotel business segments.

Meanwhile, Ayala Land, Inc. (ALI) suffered a 2.5% dip despite the company posting a 17% increase in net income for Q1-2018 to P6.5 B, albeit in line with consensus estimates. The company's disclosure of a joint venture with Green Square Properties Corporation (GSPC) and Green Circle Properties and Resources, Inc. (GCPRI) to develop about 28,000 has. of real estate in Aurora and Quezon failed to reverse the downtrend after ALI peaked in mid-May.

Company	Symbol	04/30/18 Close	05/31/18 Close	% Change
Philippine Long Distance Tel. Co.	TEL	1,463.00	1,295.00	-11.5%
Globe Telecom	GLO	1,540.00	1,616.00	4.9%
Robinsons Retail Holdings, Inc..	RRHI	91.00	88.00	-3.3%
Puregold Price Club Inc.	PCGMF	47.40	46.70	-1.5%
International Container Terminal Services Inc.	ICT	84.60	84.50	-0.1%

Source of Basic Data: PSE Quotation Reports

The Services sector continued to tumble last month, declining by 5% in May following through a 6.7% fall a month ago. Philippine Long Distance Telephone Company (TEL) incurred the biggest loss in the sector with a 11.5% decline as the Department of Labor and Employment also included TEL as one of the top companies said to engage in labor-only contracting.

On the other hand, Globe Telecom (GLO) experienced a 4.9% increase in May, as its earnings jumped by 18% in Q1-2018 to P4.5 B. GLO pointed to increased demand for data-related services as well as mobile and home broadband services to explain the earnings expansion.

Robinsons Retail Holdings, Inc. (RRHI) also suffered a milder 3.3% loss in share price after volatile movement throughout the month. The company disclosed its plan to spend P3.5 B for capital expenditures this year to fund 100-120 new stores and a distribution center in Marikina City.

Total turnover for May rose by 5.3%, a slight recovery from previous month's 24.2% plunge.

Puregold Price Club, Inc. (PCGMF) similarly dipped by 1.5% despite announcing a 4.6% increase in net income to P1.4 B for Q1-2018, in line with consensus estimates. PGOLD attributed the earnings improvement to its 10 new stores expansion.

Meanwhile, International Container Terminal Services, Inc. (ICT) lost a tiny 0.1%, a bit off from the company's lower earnings decline of 15% y-o-y for Q1-2018 to $44.1 M, as the new terminals that it operates slowed down earnings.

Company	Symbol	04/30/18 Close	05/31/18 Close	% Change
Semirara Mining and Power Corporation	SCC	30.85	28.60	-7.3%

Source of Basic Data: PSE Quotation Reports

Mining and Oil's fall accelerated to 5.1% in May from 3% a month ago. Semirara Mining Corporation (SCC) lost 7.3% of value last month despite reporting a 3% increase in net income for Q1-2018 to P4.6 B. SCC's strong performance in its coal business got tempered by the decline of its power generation operations due to the shutdown of a Calaca unit for major repairs.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	21,129.42	17.1%	1,006.16	11.5%
Industrial	24,703.43	-18.4%	1,176.35	-22.3%
Holdings	32,978.90	5.1%	1,570.42	0.1%
Property	32,924.26	55.2%	1,567.82	47.8%
Services	23,427.27	-7.5%	1,115.58	-11.9%
Mining and Oil	2,413.55	-46.0%	114.93	-48.5%
Total	**137,576.84**	5.3%	**6,551.28**	0.3%
Foreign Buying	74,941.79	7.5%	3,568.66	2.4%
Foreign Selling	84,056.23	7.0%	4,002.68	1.9%
Net Buying (Selling)	(9,114.44)	2.7%	(434.02)	-2.2%

Source of Basic Data: PSE Quotation Reports

Total turnover for May rose by 5.3%, a slight recovery from previous month's 24.2% plunge. Foreign funds continued to flow out of the local bourse, with a slight acceleration of 2.7% to P9.1 B compared to previous month's P8.9 B. With its apparent attractiveness, turnover in the Property sector soared the most with a whopping 55.2% growth from the previous month. The Financial sector proved robust with a double-digit growth of 17.1%. On the other hand, Mining and Oil further plummeted by 46% after April's 30.1% decline. The Industrial sector turnover reversed to a huge 18.4% drop from the 11.3% increase in April.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2016		2017		4th Quarter 2017			1st Quarter 2018		
	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
Production										
Agri, Hunting, Forestry and Fishing	710,590	-1.3%	738,491	3.9%	465,878	32.62%	3.9%	397,214	9.1%	-14.7%
Industry Sector	2,738,320	8.0%	2,958,186	7.2%	1,438,448	16.86%	7.2%	1,224,388	10.5%	-14.9%
Service Sector	4,664,261	7.5%	4,971,610	6.7%	2,566,672	6.55%	6.7%	2,296,707	9.5%	-10.5%
Expenditure										
Household Final Consumption	5,628,318	6.9%	5,958,500	5.5%	3,277,763	20.3%	5.5%	2,938,839	9.4%	-10.3%
Government Final Consumption	850,747	8.3%	912,010	6.8%	477,075	-1.6%	6.8%	422,295	16.3%	-11.5%
Capital Formation	2,180,842	20.8%	2,479,583	8.3%	1,100,564	17.7%	8.3%	1,061,358	14.3%	-3.6%
Exports	4,016,105	9.1%	4,875,652	16.1%	1,074,003	-19.9%	16.1%	1,317,881	8.1%	9.3%
Imports	4,631,536	17.5%	5,552,632	15.0%	1,622,007	-6.6%	15.0%	1,813,449	9.7%	11.8%
GDP	8,113,170	6.8%	8,668,287	6.3%	4,470,998	12.0%	6.3%	4,762,692	9.3%	-9.9%
NPI	1,622,040	5.3%	1,721,698	5.3%	814,939	6.2%	5.3%	844,383	3.6%	7.5%
GNI	9,735,210	6.6%	10,389,984	6.1%	5,285,937	11.1%	6.1%	4,762,692	9.3%	-9.9%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2016		2017		Mar-2018			Apr-2018		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	2,195,914	4.1%	2,473,132	12.6%	202,360	13.3%	12.3%	307,558	52.0%	30.4%
Tax	1,980,390	9.1%	2,250,678	13.6%	177,403	8.7%	13.5%	281,274	58.6%	27.8%
BIR	1,567,214	9.3%	1,772,321	13.1%	130,827	12.2%	11.7%	232,618	77.8%	24.0%
BoC	396,365	7.8%	458,184	15.6%	45,251	3.5%	21.2%	46,794	3.4%	50.3%
Others	16,811	14.8%	20,173	20%	1,325	-54.0%	-27.6%	1,862	40.5%	47.2%
Non-Tax	215,446	-26.5%	222,415	3.2%	24,957	63.1%	4.3%	26,284	5.3%	66.5%
Expenditures	2,549,336	14.3%	2,823,769	10.8%	313,053	30.3%	29.5%	261,243	-16.5%	42.7%
Allotment to LGUs	449,776	16.1%	530,150	17.9%	46,272	-21.8%	13.5%	58,836	27.2%	18.5%
Interest Payments	304,454	-1.6%	310,541	2%	27,549	-23.8%	-11.9%	23,172	-15.9%	71.9%
Overall Surplus (or Deficit)	(353,422)	-190.4%	(350,637)	-0.8%	-110,693	79.3%	80.1%	46,315	-141.8%	-12.3%

Source: Bureau of the Treasury (BTr)

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

	2017		Feb-2017			Mar-2018		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	41,605	5.1%	3,441.90	10.3%	5.9%	3,356.00	12.0%	3.2%
Residential	13,055	5%	988.50	10.8%	-0.6%	1,014.50	15.0%	2.0%
Commercial	16,378	4.7%	1,361.20	8.1%	4.7%	1,318.60	10.9%	1.5%
Industrial	11,861	4.4%	1,038.20	8.3%	14.7%	979.30	7.3%	8.2%

Source: Meralco

BALANCE OF PAYMENTS (In Million U.S. Dollar)

	2016		2017		4th Quarter 2017		1st 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%	(2,518)	110.0%	-3,297	-278.2%	-208	-75.8%
Balance of Goods	(35,549)	52.5%	(41,191)	15.9%	-13,123	51.8%	-10385	7.2%
Exports of Goods	42,734	-1.1%	48,199	12.8%	11,337	-11.9%	12598	7.0%
Import of Goods	78,283	17.7%	89,390	14.2%	24,461	13.6%	22983	7.1%
Balance of Services	7,043	29.1%	9,496	34.8%	2,236	-32.2%	2960	67.6%
Exports of Services	31,204	7.4%	35,605	14.1%	9,163	-6.5%	9341	17.5%
Import of Services	24,160	2.3%	26,109	8.1%	6,927	6.6%	6382	3.2%
Current Transfers & Others	-	-	-	-	-	-	-	
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	62	-26.3%	57	-8.7%	14	-22.0%	11	80.8%
Financial Account	175	-92.4%	(2,208)	-1361.6%	-2,033	-559.9%	1457	343.6%
Direct Investments	(5,883)	5803.4%	(8,110)	37.9%	-2,646	25.0%	-1349	-8.8%
Portfolio Investments	1,480	-72.9%	3,889	162.7%	-114	-113.0%	2069	-36.5%
Financial Derivatives	(32)	-673.4%	(51)	57.4%	41	-9.9%	-69	-47.6%
Other Investments	4,610	-249.8%	2,064	-55.2%	686	-58.1%	806	-161.2%
III. NET UNCLASSIFIED ITEMS	892	-136.6%	(610)	-168.4%	1,754	-184.0%	428	127.2%
OVERALL BOP POSITION	(420)	-116.1%	(863)	105.4%	505	-176.3%	-1227	23.4%
Use of Fund Credits	-	-	-	-	-	-	-	-
Short-Term	-	-	-	-	-	-	-	-
Memo Items								
Change in Commercial Banks	1,421	-222.0%	409	-71.2%	-1,006	-172.50%	1344	2005.87%
Net Foreign Assets	1,381	-229.7%	442	-68.0%	-970	-171.20%	1376	1189.08%
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		Feb-2018		Mar-2018	
	Average Levels	Annual G. R	Average Levels	Annual G.R.	Average Levels	Annual G.R.
RESERVE MONEY	2,798,988	14.0%	3,045,785	11.4%	3,026,581	10%
Sources:						
Net Foreign Asset of the BSP	4,024,544	2.3%	4,621,612	5.6%	4,533,500	4.17%
Net Domestic Asset of the BSP	9,722,563	15.6%	10,767,723	14.5%	10,837,800	16.4%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	3,562,223	17.1%	3,666,186	17.8%	3,721,314	17.3%
Money Supply-2	10,227,276	13.1%	10,477,292	14%	10,460,450	13.9%
Money Supply-3	10,655,369	13.2%	10,914,941	14.4%	10,900,074	14.2%
MONEY MULTIPLIER (M2/RM)	2.49		3.44		3.46	

Source: Bangko Sentral ng Pilipinas (BSP)

June 2018

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