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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

Indicators Show A Mixed Picture

With the recovery in the US sputtering, the euro-zone mired in a debt crisis, and Japan slowly emerging from the devastating tsunami in March, the Philippines felt the compounded blow just as our other Asian neighbors also suffered a similar plight. Gross Domestic Product (GDP) growth in Q2 eased further to 3.4% from a revised (downward) 4.6% uptick in Q1. However, there was also a large base effect since the GDP gain for Q2 2010 was a 34-year record high of 8.9%, a result of massive election-related government spending.

The real bad news is that Gross National Income (formerly Gross National Product or GNP) managed only to increase by 1.9% as Net Personal Income (formerly Net Factor Income from Abroad), which includes Overseas Filipino Workers' (OFW) remittances, declined by 2.9%. This was primarily due to the strong peso which appreciated by 4.6% from Q2 2010.

The good news is that base effects will work to the benefit of the economy with government spending easily showing a double-digit growth in H2, as it declined during the corresponding period in 2010. The National Government (NG) is bent on accelerating its spending as the 7-month budget deficit only reached P43.7 B or 16% of the full-year target of P293 B. Besides, the US and Japan are showing more signs of vitality once again.

Another positive factor is the weakness in crude oil prices, which had spiked in Q1 of this year, and stayed below $90/barrel in August.

Unusual Brew Slows Economy in Q2

Ailing economies in the west, weaker infrastructure compared to an election year, and Overseas Filipino Workers' (OFW) remittances shrunk by an appreciating peso conspired to slowdown the economy's pace in Q2 to 3.4% year-on-year (y-o-y) from a revised (downward) 4.6% in Q1. The economy decelerated as Exports turned negative at -0.3% from 3.3% the previous quarter, infrastructure spending plummeted by -46%, and the strong peso deflated higher OFW dollar remittances as to pull down Net Primary Income (formerly Net Factor Income from Abroad) by -2.8% (from 0% in Q1).

Thus, in reality the worse news was the eerie slide of Gross National Income (GNI, the larger figure for RP) to a mere 1.9% in Q2 from 3.6%. This is lowest growth record since 2000, the new base year for GDP/GNI and other national accounts estimation.

For the supply side, the slow down was caused solely by the Industry sector which has always been considered as an important driver of economic growth. It turned negative from 7.2% to -0.6% and offset the strong growths in the Agriculture, Hunting, Forestry and Fishery (AHFF) and Services sectors of 4.2% to 7.1% and 3.7% to 5.0%, respectively. And so, despite the slower pace of GDP gains, there is much life in the economy as AHFF and Services sector account for two-thirds of the economy.

Taking a closer look at the subsectors of Industry, each one decelerated with Construction causing the most substantial change as it went down from 4.0% to -16.1%. Electricity-Gas-Water (EGW) also remained negative at -2.0% from -0.4%. These pulled down the Industry sector despite expansions, albeit slower, in Mining and Quarrying of 3.0% from 18.6%, and in Manufacturing of 4.8% from 8.6%. The 22 major industries that comprise the Manufacturing sector were split down the middle for gainers and losers.

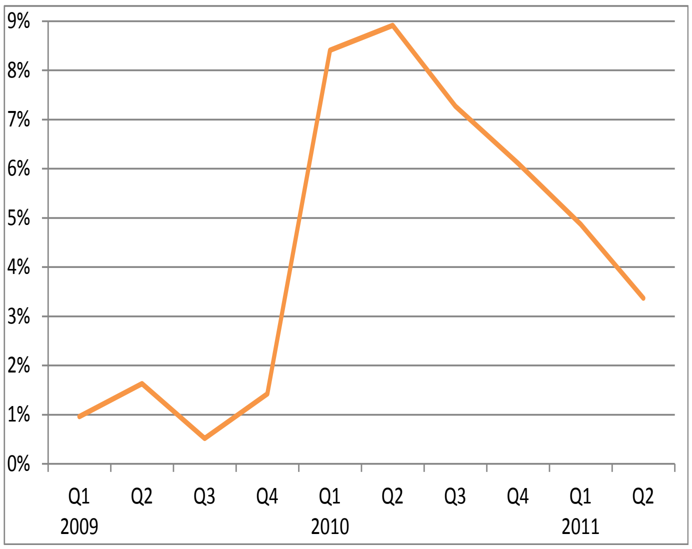
The growths and decline of these major sectors were also coherent with the reported seasonal quarter-on-quarter (q-o-q) adjustments for the second quarter. Both the AHFF and Services sectors accelerated from 1.8% and 1.3% to 2.2% and 2.4%, respectively. At the same time, the Industry sector slumped from 3.1% to -3.0%.

On the other hand, the demand side of GDP shows that the slow down was caused by the slower pace of Investments (37.0% to 0.9%) and Exports (3.3% to -0.3%). The lower investment was an upshot of contraction of Construction from 7.2% to -13.5%. And that was primarily due to the

Looking at Meralco electricity sales which we use as a proxy variable for GDP, it turned positive in July from -2.2% to 1.3%.

-46% plunge in Public Construction which obliterated the massive 26% gain in Private Construction. The low interest rate environment has worked favorably for the latter.

Figure 1 -Gross Domestic Product Growth (year-on-year)



Source: National Statistical Coordination Board (NSCB)

In spite of the further deceleration of GDP growth in Q2, seasonally adjusted growth rates on a q-o-q basis show a slightly faster pace from Q1, and these first two quarters of year did better than the average 0.3% for Q3-Q4 of 2010. Unsurprisingly, we expect it to significantly improve come H2 2011 as a result of higher NG spending, in the high-teens, and better economic growth in the country's export markets. Moreover, looking at Meralco electricity sales which we use as a proxy variable for GDP, it turned positive in July from -2.2% to 1.3%. Its Industrial sector also turned highly positive during the same period from -1.6% to 8.0%. We, thus, think that the Industry sector — especially public construction — will recover in the second half of the year and pull up GDP to average a decent 5.2% growth for the whole year 2011.

Inflation Inches Up to 4.6% in July

Our inflation forecast of 4.6% for the month of July was on the dot as the NSO reported the same figure. This showed a more controlled inflation rate given minimal changes from May's 4.5% to 4.6% in June. Meanwhile, core inflation slowed down from 4.0% in June to 3.7% in July. The maintained y-o-y inflation rate was caused by the decelerations in Fuel-Light-Water (FLW) and Services which offset the accelerations in the three other commodity groups. At the same time, it can also be attributed to the weaker domestic economy as the latest national income figures suggest.

For the y-o-y inflation rate, the uptick in most categories was only marginally higher. Food-Beverage-Tobacco (FBT) went up from 4.0% to 4.1%; Clothing accelerated from 2.7% to 2.9%; and Miscellaneous sped up from 1.3% to 1.5%. Meanwhile, Housing and Repairs maintained its growth at 2.3%. However, these were counter-weighted by the slower paces of FLW (10.8% to 9.1%) and Services (6.9% to 6.7%) which still had the fastest growths despite their slow down. The slower growth of FLW can be attributed to the low oil price reported by the West Texas Intermediate (WTI). It was recorded at $97.3/barrel and is expected to go down further in the coming months due to slower economic growth. Although this had started in the euro-zone, US and Japan, it has filtered into the emerging economies of Asia as well.

In terms of month-on-month (m-o-m) inflation rate, on the other hand, it slowed down from 0.4% to 0.1%. This was a result of the decelerations in Clothing (0.7% to 0.2%), Housing and Repairs (0.3% to 0.2%), FLW (1.2% to -1.4%), and Services (0.8% to 0.2%).

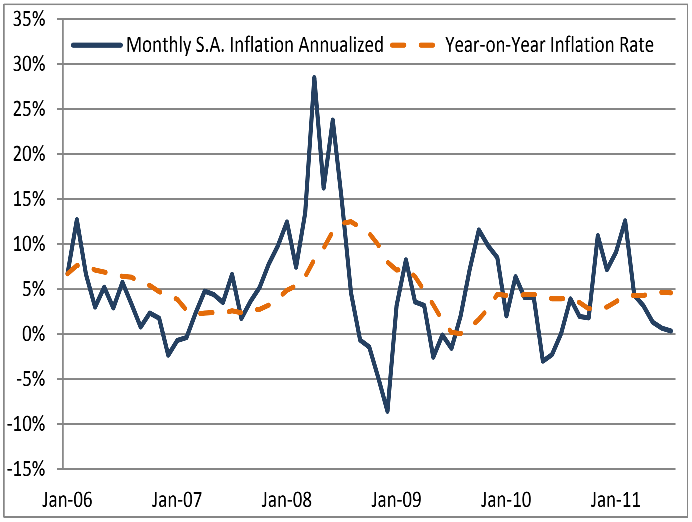
The seasonally adjusted annualized rate (SAAR) followed the trend of the m-o-m inflation rate as it decelerated from 0.7% to 0.3%. In spite of the higher SAAR of food items from -1.2% to 2.8%, this was offset by the lower and negative SAAR of non-food items from 2.6% to -2.0% on account of the significant easing in FLW, Services, and Clothing prices as seen above.

Aside from the low oil price, food prices (especially rice) have been relatively stable in spite of the typhoons that hit the country. Because of this, we maintain our view that

NG can boost its spending in the coming months to spur economic activity and still not exceed our expected P250 B budget deficit for the whole year.

a climb to 5.0% in October will only be a result of base effects; but for the whole year 2011, it should remain below 4.6%.

Figure 2 - Inflation Rates Annualized (2006-2011) Seasonally Adjusted Vs. Year-on-Year



Source: National Statistics Office (NSO)

H1 Fiscal Deficit at P17.2 B or 89% Below Target

The first half of 2011 ended with a miniscule budget deficit of P17.2 B after recording a deficit of P7.7 B for the month of June. This was P134.9 B or 88.7% lower than the NG's programmed ceiling of P152.1 B for H1 2011. Even more dramatic is the deficit's fall from P196.7 B in H1 2010.

The plummeting deficit was primarily due to the P139.7 B or 11.4% plunge in NG expenditures. This is understandable, considering the heavy front-loading of spending in H1 2010 on account of the national elections. Tax revenues reached P593.4 B representing a 9.8% uptick. While the Bureau of Internal Revenue's (BIR) collections had double-digit 13.5% growth for H1, the Bureau of Customs (BoC) slumped by -1.7% from the same period last year.

Based on June 2011's performance alone, tax revenues gained by only 7.2% y-o-y despite another good performance by the BIR. Fortunately, non-tax revenues were up by 22.1% to push up total revenues by 8.7%. BIR's tax take accelerated from 11.5% growth in May to 12.7% in June. At the same time, BoC's collections continued to suffer from the peso appreciation as these remained negative at -6.8%, though marginally better than the previous month's -9.5%.

Total NG expenditures for H1 totaled P698.9 B, 11.4% below the level for H1 2011. While P12.2 B was saved from interest payments compared to last year, it was NG's current and capital expenditures and allotment to local government units that had a bigger impact with their 12.1% fall from a year ago.

NG spending in June alone reached P107.8 B which was lower by 14.9% from June 2010 and surprisingly down also from P129.7 B in May 2011. The NG expenditures, thus, decelerated from -7.5% in the previous month. Even with the faster pace of Interest Payments from 32.4% to 61.7%, the other expenditures continued to slow down and became more negative from -11.2% to -20.1%.

Because of the low budget deficit record even after H1 and the recent report of BIR that it is still possible to meet its P940 B tax collection target by the end of the year, we believe that the NG can boost its spending in the coming months to spur economic activity and still not exceed our expected P250 B budget deficit for the whole year, still way below the government's target of P293 B. In fact, BIR has reported that its tax collections rose by an impressive 15.6% in July, bringing the Jan-July total to P531.8 B, only P3.1 B lower than the projected P534.9 B.

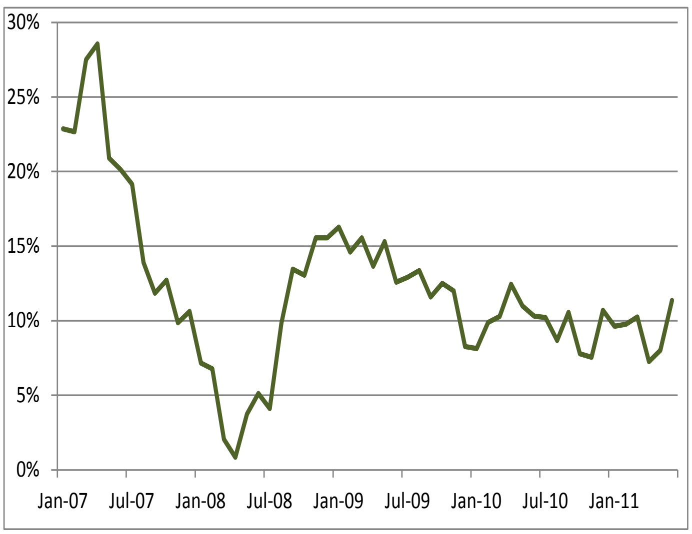
Should the full year deficit end up around or below our estimated deficit, we may expect the country's public debt to GDP ratio by end-2011 to fall to some 49%, the lowest debt ratio since 1983. This would likely enable the country to earn its much-awaited credit rating upgrade in Q1 2012. We, thus, do not see any need for accelerating spending to stimulate the economy, as the lower debt ratio will translate into less interest payments and the savings channeled to more for infrastructure and basic services spending.

The main driver for the dismal performance was the continuous negative annual growth rate of Electronic products from -26.2% to -23.9%.

Monetary Policy to be on Hold

Coupled with stable food prices and the sharp fall in crude oil prices, the adjustment of the reserve requirement for two consecutive months has helped stabilize the inflation rate. From 4.5% in May, it stayed at 4.6% for the months of June and July. After the July 28 Monetary Board (MB) meeting, the next meeting will be on September 8. In the meantime, there have been no new changes in the key policy rates. The reverse repurchase agreements (RRP) or overnight borrowing and repurchase (RP) or overnight lending facilities remained at 4.5% and 6.5%, respectively.

Figure 3 - M3 Money Supply Growth Rates (y-o-y)



Source: Bangko Sentral ng Pilipinas (BSP)

The annual growth rate of Reserve Money (RM) picked up pace in June as it reached 12.7% from 4.2% in May. This was caused by the sustained double-digit annual growth rate of Net Foreign Assets (NFA) from 35.7% in May to 33.1% in June, as the BSP continued to purchase dollars coming into the country. However, in spite of keeping its negative levels, Net Domestic Assets (NDA) eased from 63.3% to 48.9% for the same period, allowing RM to move up faster. On the other hand, the special deposit accounts (SDAs) surprisingly fell by P97 B as banks pulled out that much from BSP vaults to lend heavily to Financial Intermediaries, Wholesale & Retail Trade and Electricity-Gas-Water, and the preparation for the mega GS bond swap slated for early July.

Correlated to the sudden spurt in Reserve Money is the acceleration in M2 and M3 growth up from 8.6% to 11.9% and 8.0% to 11.4%, respectively. The upswing, however, is far from dramatic.

As we expect the inflation rate to keep a steady course, except for a possible spike in October due to base effects, we expect the Bangko Sentral ng Pilipinas (BSP) to keep the current key policy rates and reserve requirements on hold in its next MB meeting.

Exports Posts 1st Decline in 18 Months

Total exports in June remained at $4.1 B. However, compared to year-ago levels, this brought the y-o-y growth rate slower to -10.2% from -3.2% in May. From a quarterly perspective, the average growth in Q2 2011 decelerated to 2.1% from Q1's 8.0%. But semestrally, H1 exports had a more substantial drop from H2 2010's 30.8% to 5.1%. Meanwhile, the m-o-m exports growth rate slightly improved but still remained negative at -0.3% from -4.6%.

The main driver for the dismal performance was the continuous negative annual growth rate of Electronic products from -26.2% to -23.9%, which in spite of its 5th consecutive month of decline, still constituted 54.0% of total exports. Together with this commodity, three other products suffered losses during the same month: Ignition Wiring Set and other Wiring Sets used in Vehicles (-31.7%), Coconut Oil (-29.5%), and Metal Components (-10.4%). These poor performers overturned the notable accelerations in Petroleum Products (+8,080.1%), Gold (+253.6%), Fresh Bananas (+76.6%), and Woodcrafts and Furniture (+65.1%).

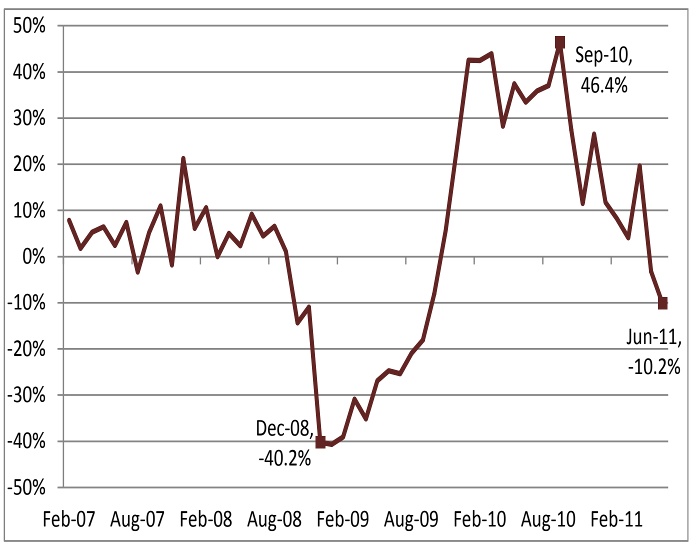
For the m-o-m export growth, on the other hand, the slightly better monthly growth rate was caused by the faster rates in Forest Products (-8.4% to 82.1%), Mineral Products (-29.4% to -2.6%), and Manufactures (-4.1%

The clear positive notes include Japan's reconstruction work and full reinstatement of its supply chain and President Aquino's trip to China.

to 2.5%). However, it continues to be negative at -0.3% due to the losses in Total Agro-based Products (-13.9% to -21.1%) and Petroleum Products (159.9% to -2.6%).

As for the country destination of Philippine exports, Japan took over the top spot with 22.8% of total exports with its 41.1% growth in June. This reflects Japan's ongoing recovery from March's devastating tsunami. Meanwhile, the US only made up 14.0% of total exports because of the problems it continues to face such as the recent credit rating downgrade by Standard & Poor's (S&P) and is followed by the People's Republic of China (PRC) which stayed as the 3rd highest importer with 11.8%.

Figure 4 - Monthly Exports Growth Rates (y-o-y)



Source: National Statistics Office (NSO)

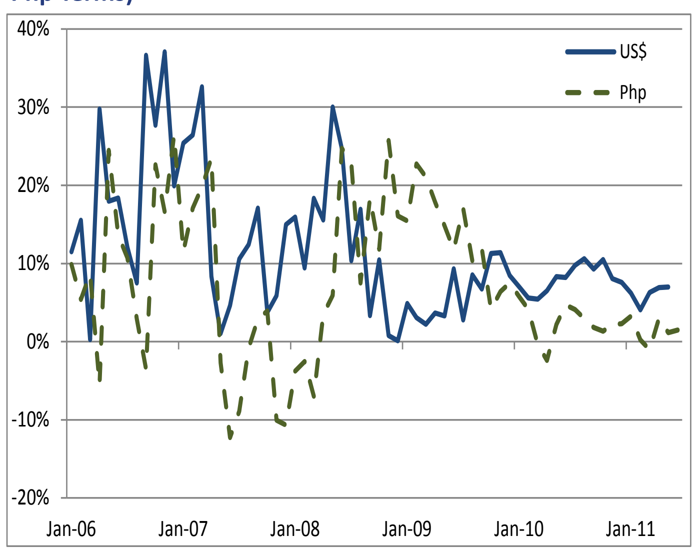
Even with the current problems that the US and Europe are experiencing, we still maintain our view that exports will return to double-digit growth in the coming months. This is because half of Philippine exports go to East Asia (ex-Japan but including China) and ASEAN countries. The clear positive notes include Japan's reconstruction work and full reinstatement of its supply chain and President Aquino's trip to China. During that trip, he is expected to sign the 5-year development program by the end of this month to facilitate better trade and investment relations with the Philippines.

OFW $ Remittances Rise by 7% in June

The remittances sent by Overseas Filipino Workers (OFWs) for the month of June ended flat with $1.7 B, staying true to the trend that May and June are high months for remittances due to the start of the new school year. This figure brought the annual growth rate to 7.0% from 6.9% in May. As for its quarter average, it also accelerated from 6.0% to 6.7%.

Aside from seasonal factors, it is also believed that one of the reasons for the higher OFW remittances is strengthening of the peso. In periods of peso appreciation, OFWs typically send more dollars to the Philippines in order to maintain the spending capacity of their families. Moreover, the Department of Labor and Employment (DOLE) reported that Filipinos continue to trust the government agencies that help in their re-deployment and displacement to other countries. The Social Weather Station (SWS) reported the Q2 2011 net satisfaction with the national administration on specific issues, particularly the promotion of the welfare of OFWs, ranked high.

Figure 5 - OFW Remittances Growth Rates (y-o-y in US$ and Php Terms)



Source: Bangko Sentral ng Pilipinas (BSP)

Other currencies became more volatile and investors chose to turn to the greenback as safe haven, despite the recent credit rating downgrade by S&P.

The peso equivalent of remittances moved up to P76.3 B in June from P72.8 B in May. This was brought about by the slightly weakened peso-dollar exchange rate from P43.13/$ to P43.91/$ which caused the y-o-y growth rate of peso remittances to speed up a little to 1.5% from 1.1%.

As shown in the Q2 annual growth rate, remittances rebounded as we have expected. We believe that this will continue in the second half of 2011, especially in Q4 as the Christmas season approaches. Therefore, we maintain our view of an above 7.0% growth rate for H2.

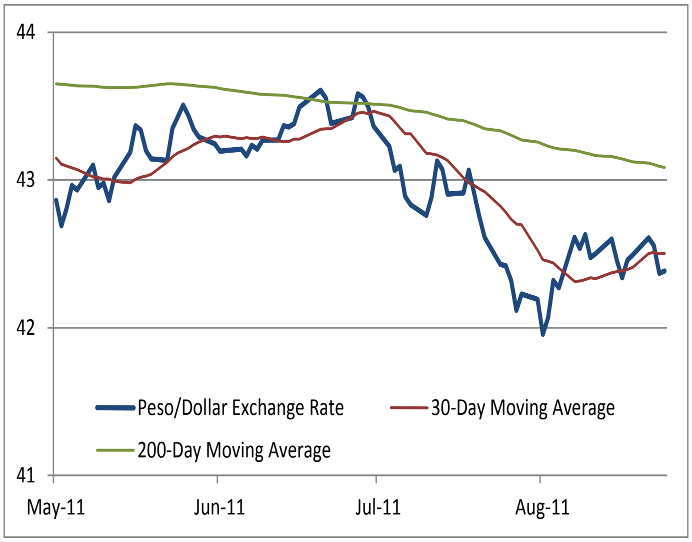
Euro-zone Debt Woes, Global Slowdown Create Volatility

After getting sidetracked last June, the exchange rate returned to its appreciation streak. By the end of July, the peso appreciated further and brought the July average to P42.81/$ from P43.91/$ in June. This trend has continued until August as the peso-dollar exchange rate registered at an average of P42.42/$ as of August 26.

In spite of the appreciated average peso for August, there have been several instances wherein it was recorded to be weaker. One of the reasons for this is the risk aversion of investors due to lingering euro-zone debt problems that threaten to spread to Italy as the markets were asking higher yields for its bonds. There has also been negative news on the euro-zone as the euro waned every now and then and German business confidence was reported to be at its lowest in 13 months.

Because of these, other currencies became more volatile and investors chose to turn to the greenback as safe haven, despite the recent credit rating downgrade by S&P. Nonetheless, there was still a number of positive news that offset the negatives such as the buying of bonds from Spain and Italy by the European Central Bank in order to lessen their borrowing costs; the good manufacturing data released by China; the US Fed's announcement of keeping its interest rates near zero for 2 years; and the people's anticipation of a third round of quantitative easing (QE3) in the US.

Figure 6 - Daily Peso-Dollar Exchange Rate



Source: National Statistics Office (NSO)

As shown in the graph, the peso has been volatile during the past months. However, it started to gain its strength in July and this has continued in August despite the occasional depreciation. It is believed that the previous weakening was a technical correction as a result of the constant appreciation in the months leading to June. For the coming months, we still believe that the peso will remain volatile due to external factors but should move around the P42.50-44.00/$ range for Q3 2011 as investors may delay return to emerging markets.

Outlook

While the H1 GDP growth figures were clearly disappointing, the overall picture remains positive:

- While GDP, on a seasonally adjusted basis, decelerated to 0.6% in Q2 from 1.9% in Q1, both numbers were better than H2 2010 upswing of only 0.4%. Significantly higher government spending in H2 should bring the economy back to an acceleration mode and so we still see a full-year gain of 5.2% over 2010.

With inflation likely to be below earlier BSP projections, we expect BSP policy stance to remain neutral for the rest of the year.

- Inflation has been on a slowdown mode and is likely to continue in this trend as crude oil prices, the main driver in H1, should remain subdued for the rest of the year.

- BIR's tax collections continued to improve in July with a 15.6% expansion, despite the economic slowdown. This is likely to be sustained in H2 as the economy picks up pace, while the deficit will likely be below P250 B. This should enable the country to bring down its debt-ratio to below-50%, the first time in almost 30 years, and may likely be the factor that would clinch an upward credit re-rating to investment grade (BBB-). This will enable the country to cheaply refinance expensive foreign debt and boost foreign investor confidence.

- Despite a blip in credit expansion in June and correspondingly a slight acceleration in money growth, we do not see this to be sustainable given the current policy rates at 4.5% and reserve requirements at 21%. With inflation likely to be below earlier BSP projections, we expect BSP policy stance to remain neutral for the rest of the year.

- Finally, the exchange rate will be more influenced by whether or not foreign portfolio investors keep moving funds back to advanced countries and commodities, as equities and debt papers may not regain their luster.

Forecasts

Rates	Aug	Sept	Oct	Nov
Inflation (y-o-y %)	4.3%	4.8%	5.3%	4.8%
91-day T-Bill (%)	1.52%	0.69%	1.45%	0.99%
Peso-Dollar (P/$)	42.42	43.76	44.16	44.48
10-year (%)	5.59%	5.45%	5.51%	5.57%

Source: Authors' Estimates

US Credit Downgrade Benefits RP Bonds

With the US government's credit rating downgrade from AAA to AA+ and with a negative outlook from S&P, risk-averse investors stepped up purchases of US Treasuries. With the FED promising to keep interest rates at near-zero levels, there is little elbow room for yields to move up in the US as fears of a double dip recession mounted. The story is similar for the Philippines: although the policy rate and reserve requirement were hiked over the past months to counter inflationary pressures in the region, local bond yields continue to sink to 2011 lows, particularly in the long-end. With the renewed demand for low-risk investments such as government bonds amidst the US crisis, money should keep flowing into emerging markets (EM) such as the Philippines.

Yields fell across all tenors in both the primary and secondary markets. 91-day T-bills were auctioned off at 0.979% on August 22nd, 171 basis points (bps) down from the July 7th auction. The abundant liquidity in search for better yields saw 7-year notes yielding at around 5%, with almost 5 times oversubscription. In the secondary market, long-dated 10-year yield have fallen below the resistance levels of 6% while yields of 25-year significantly broke through 8%.

Finance Secretary Purisima has declared that the National Government (NG) will reduce its foreign currency-denominated debt. As such, the share of local borrowings is planned to rise to 75% while foreign borrowing is to be kept to a minimum at 25%. The Bangko Sentral ng Pilipinas (BSP) is closely monitoring its $10 B externally-managed portfolios (EMP) as well, of which 42% are invested in the US-dollar hedged instruments.

Hot money inflows will likely show higher growth for August as the flight to quality puts the limelight on local fixed income securities. While the show is up, the government could issue $3 B worth of global peso and dollar bonds next month, banking on the continued attraction of EM despite renewed global volatility. However, this volatility keeps the question on whether yields should be consolidating our bottoming out open for debate.

Primary Markets: Oversubscriptions Galore

The latest 91-, 182-, and 364-day T-bill auction showed remarkable drops of 109.4, 125, and 125 bps respectively from the August 8 auction. Philippine Dealing System (PDS) Treasury fixing rates for these benchmark bills fell further too — quoted at 1.32%, 1.18%, and 1.66% for 91-, 182-, and 364-day T-bills respectively. Notably, 91-day T-bills had over 7 times oversubscription, prompting the NG to accept excess bids of its original amount of papers offered.

Both bills and bonds were priced at a premium in the latest primary market auctions. Prominently falling in yields are government issued long-term notes with 10- and 7-year notes having yield rates of 5.90% and 5.12%. Total

T-Bills and T-Bonds Auction Results

Date	T-Bond/T-Bill	Offer (PhP B)	Tendered (PhP B)	Awarded (PhP B)	Tendered ÷ Offered	Yield	Change - (bps)
2-Aug	10-year	9.00	41.63	9.00	4.63	5.90	-60.00
8-Aug	91-day	2.00	9.62	2.00	4.81	2.07	-23.30
	182-day	3.00	11.08	3.00	3.69	2.25	-53.40
	364-day	4.00	13.77	4.00	3.44	2.75	-48.60
16-Aug	7-year	9.00	44.06	9.00	4.90	5.12	-82.00
22-Aug	91-day	2.00	14.69	2.80	7.34	0.98	-109.40
	182-day	3.00	13.70	3.00	4.57	1.00	-125.00
	364-day	4.00	14.65	4.00	3.66	1.50	-125.00
Total		36.00	163.18	36.80	4.53		

Source: Bureau of the Treasury (BTr)

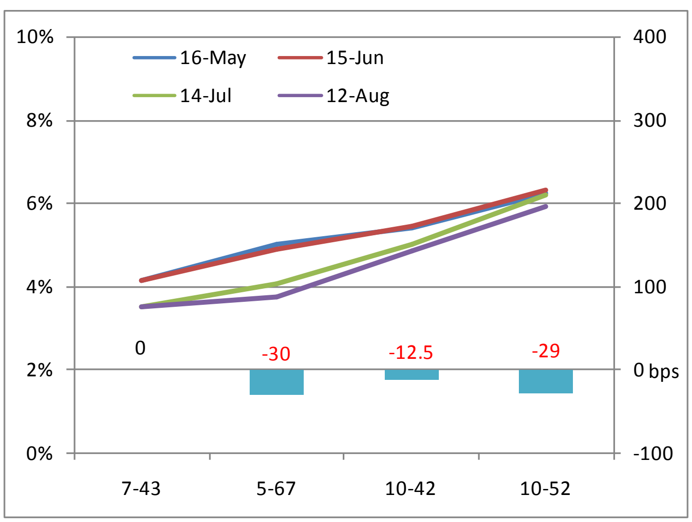
Trading volume surged from previous levels as more investors chose to cling on bonds.

oversubscriptions were around 4.5 times, with all papers having more than 3 times the oversubscription. The government plans to rely more on domestic borrowings and issue more papers, including possible Retail Bonds (RTBs) by late Q4, tapping on local demand and capital markets.

Apart from overflowing liquidity, the Philippine budget deficit continued to narrow in June to P7.691 B from P9.601 B in May, not to mention the Balance of Payments (BOP) rising slightly to $222 M in June from $217 M in May. These events have continued to bolster the confidence of both foreign and local investors in the peso debt papers of the NG, providing fundamental basis for downward trend in yields.

Secondary Markets: Record Volumes as Yields Slide Further

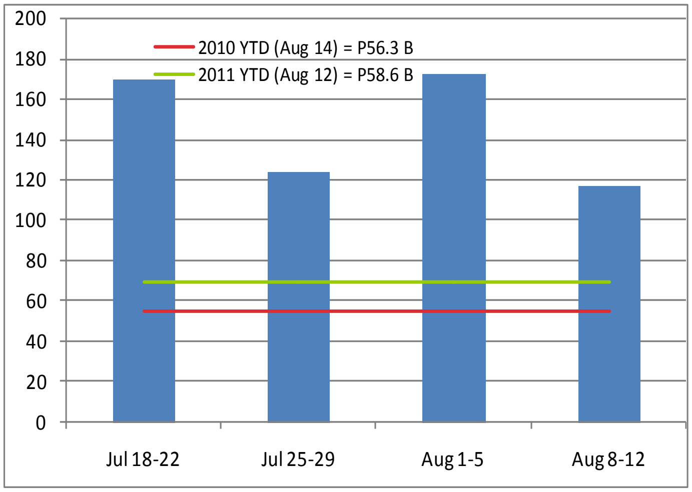
Figure 7 - FXTN Yields



Source: First Metro Investment Corp. (FMIC)

Yields continued to drop for most maturities with the action focused on the belly of the curve. FXTN series 5-67, 10-42, and 10-52 have 3, 5, and 10 year maturities, respectively. These tenors registered decreases of 30, 12.5, and 29 bps month-on-month (m-o-m), respectively. Assuming that the fundamentals of our economy remain robust, a further flattening of the curve cannot be dismissed, especially as yields continue to fall further in the long end.

Figure 8 - Trade Volume (in billions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

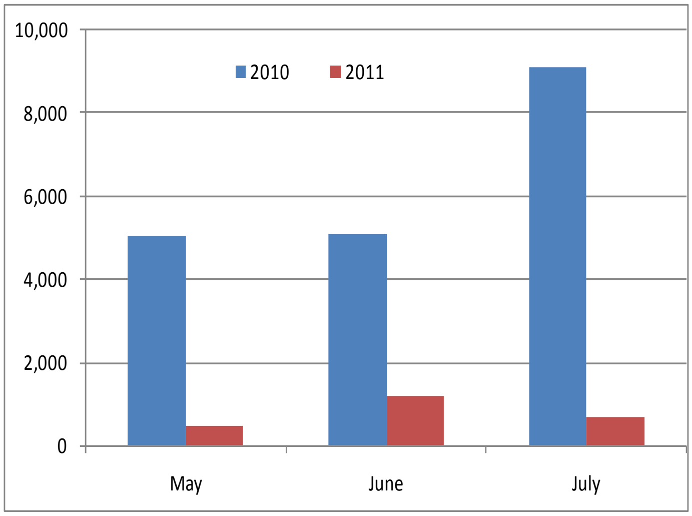
Trading volume surged from previous levels as more investors chose to cling on bonds. The second week of August showed an increase of almost 320%, the highest weekly growth of traded papers for the year. This was most likely due to the anticipation of the US downgrade. The last week of July showed 27.4% decline in volume as market sentiments hoped for a resolution in the debt debacle. Once the downgrade was confirmed by the start of August, investors in developed markets reduced exposure to US assets and turned to local debt papers and weekly volume hit 171.72 B worth of papers, even higher than last July's high of 169.75 B worth of traded papers. M-o-m total volume registered a 22% growth from 336.6 B in June to 447.4 B in July.

Secondary Corporate Bond Market: Dull Trading as Investors Hung on to High Coupons

Just like last month, total secondary trading of corporate bonds were once again much duller than year ago levels. The market turnover also slid slightly lower on a month-on-month (m-o-m) basis. Total corporate trading amounted to P448 M, P1,179 M, and P676 M for May, June, and July respectively. This pattern is likely to persist as coupon rates on existing corporate bonds are much higher than present yield levels, forcing investors to hang on to these positions.

Demand for Ayala Corporation (AC) debt papers remained strong with P105 M worth of papers traded.

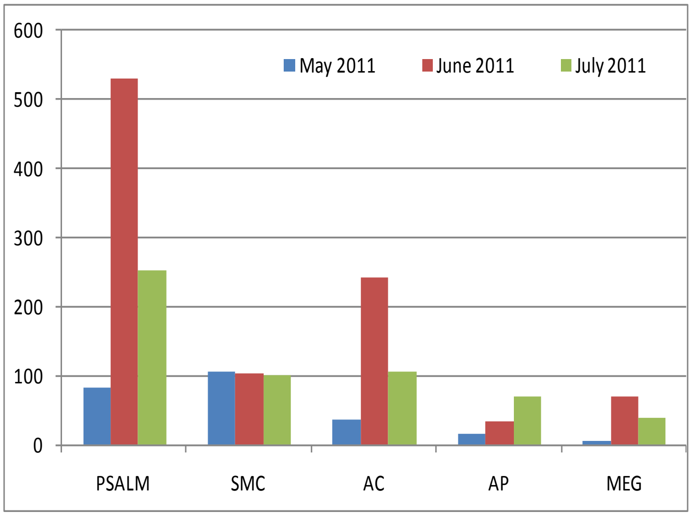
Figure 9 - Total Corporate Trade Volume (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

The Power Sector Assets and Liabilities Management (PSALM) once more led the corporate trading market hitting P252.7 M worth of papers, albeit significantly lower than last June's P529.8 M. Demand for Ayala Corporation (AC) debt papers remained strong with P105 M worth of papers traded, followed by San Miguel Corporation (SMC) and Aboitiz Power (AP) which traded P99.5 M and P68.9 M respectively.

Figure 10 - Corporate Trading (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

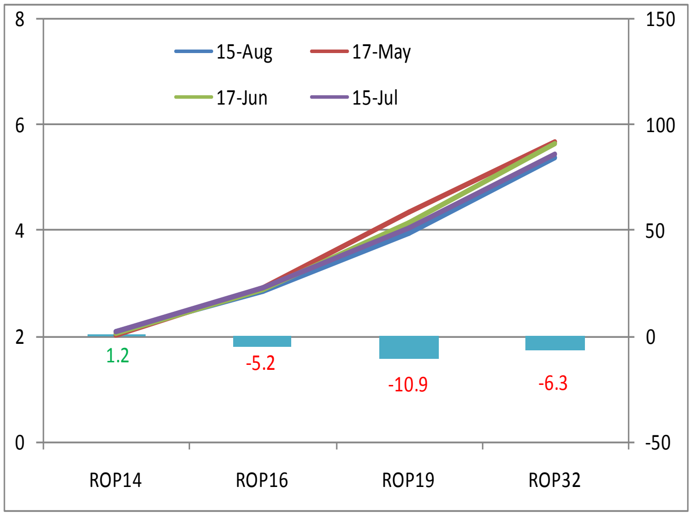
Notable in the trading volume results is the robust demand for SMC while there was more volatility in the trading in other firms' papers. More investors may come forward for AP papers next month as it has consistently shown signs of growth in trading volume since March.

Corporate Issuances

- Phoenix Petroleum Philippines, Inc. concluded a P750 M notes facility agreement to finance capital expenditure and general corporate purposes.
- United Coconut Planters Bank's plans to offer next month P3 B worth of long term negotiable certificates (LTNC) with maturity of 5 years. Funds will be used to increase the bank's long-term deposit base and finance expansion of long-term assets.
- The Development Bank of the Phillippines (DBP) is planning to sell Tier 2 notes worth P7 B to be used for its capital base and in preparation of its participation in the public-private partnership (PPP) projects.

ROPs: Yields at Longer End Ease

Figure 11 - ROPs



Source: Bloomberg

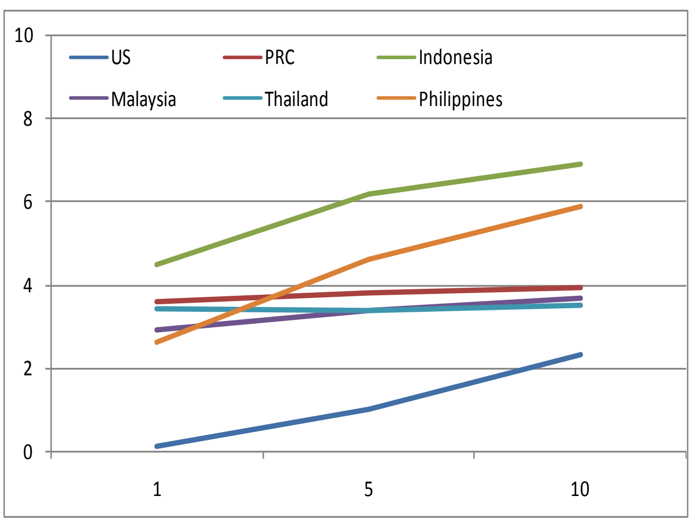
Though the trend in yields is downward, real 10-year yields continue to show promise in the country.

Yields in the long-end of the Philippines' dollar denominated bonds (ROPs) eased again as strong demand for emerging markets issues continued. Flattening of the curve is echoed as ROP16, ROP19, and ROP32 inched downwards by 5.2, 10.9, and 6.3 bps respectively. Movement is more focused on the long-end of the curve and this trend can be expected to continue provided the fundamentals of the Philippine economy remain stable and positive.

ASEAN Market + 1

Based on selected 3-month local currency Government Securities, the Philippines has had the largest fall in yields in the region. Though the trend in yields is downward, real 10-year yields continue to show promise in the country along with Malaysia and Indonesia. Together with tamed inflation in the ASEAN region, another round of policy rate hikes now seem unnecessary to fortify its own attractiveness to global investors.

Figure 12 - ASEAN Market + 1



Source: Asian Development Bank (ADB)

US: Despite the downgrading of US government debt by S&P, yields ironically decreased by 3.5, 50.8, and 64.8 bps for 1-, 5-, and 10-year bonds, respectively. The yield spread between 1-year and 10-year had the largest change, narrowing by 61 bps in the current month. Rising fears of a double-dip recession have hammered down the US economy and heightened volatility in the stock market. In light of this, flight to quality brought about strong demand for bonds, thereby decreasing yields. Investors have been moving their capital away from riskier investments to the safest investment vehicle being government bonds.

PRC: Yields crept up by 5, 22, and 2 bps for 1-, 5-, and 10-year bonds respectively. The latest 10-year and 1-year spread for China T-bonds narrowed by a miniscule 3 bps. Consumer Price Index (CPI) in China slightly rose to 6.5% year-on-year (y-o-y) in July from 6.4% in June, driven greatly by rising food costs. Nevertheless, the government remains confident that its money-tightening moves and lower oil prices should cool inflationary forces. Besides, it believes its debt position, which is about 27% of China's GDP, to be quite safe. Exports grew in July to 20.4% from June's 17.9%.

Indonesia: Yields have decreased by 74, 52.7, and 39.3 bps for 1-, 5-, and 10-year bonds respectively. Latest 10- and 1-year spread recorded an increase of 35 bps, the largest spread movement among the ASEAN + 1 countries. Budget concerns divide the sentiments in Indonesia, as government spending accounts for 8.3% of GDP, minute compared to the share of consumer spending, exports, and investments. Businessmen have been concerned that the development of infrastructure has been very slow and timid. Country economists find the 2012 budget prudent compared to last year's budget.

Malaysia: Yields in 1-, 5-, and 10-year bonds declined slightly by 2.9, 12.1, and 19.2 bps respectively. Yield spread between 1-year and 10-year, on the other hand, narrowed by 16 bps. Malaysia's CPI increased 3.4% y-o-y, which was below market expectations. This was led by the 4.6% rise in prices of food and non-alcoholic beverages. The industrial production index rose 1% y-o-y in June, a far improvement from the revised decline of 5.6% in the previous month.

Thailand: Yields along the curve decreased by 14, 57.4, and 54.3 bps for 1-, 5-, and 10-year bonds, respectively. The latest 10-year to 1-year spread declined by 40 bps. The Bank of Thailand intends to soak up extra liquidity brought by enormous capital flows by issuing Bt50 B worth of sav-

Funds in SDAs have jumped by 66.4% in H1 as investors search for high-yielding but safe investments.

ings bonds. These bonds will have fixed rates with maturities of 3- and 7-year. As promised by its prime minister, rice price hikes in Thailand, the region's leading exporter of rice, may have global repercussions particularly through inflation in Asia.

Philippines: The Philippines likewise saw yields fall across the curve with decreases of 55.6, 12, and 32.6 bps in 1-, 5-, and 10-year bonds. Spread change between 1-year and 10-year registered an increase of 23 bps due to the larger fall of yields in the short end. Foreign remittances surged again in June, higher by 7% y-o-y and 3% m-o-m. Funds in Special Deposit Accounts (SDAs) have also jumped by 66.4% in H1 as investors search for high-yielding but safe investments. Liquidity can be expected to increase again substantially next month, tempered by SDAs and other bank placements in the country.

Outlook

- Given the events in and out of the country, we can expect that domestic liquidity will grow significanly in August. The bias on yields across the curve will be downwards.

- We expect no further tightening moves by the BSP probably up to the end of the year.

- Low levels of interest rates should entice more corporate bond issuances in the coming months.

Spreads between 10-year and 1-year T-bonds								
Country	1-year rate	10-year rate	Projected Inflation Rates	Real 10-year yield	10-year to 1-year Spread		Spread change (bps)	Latest Policy Rate
					15-Aug	15-Jul		
PRC	3.59	3.94	4.6	-0.660	35.0	38.0	-3	3.50
Indonesia	4.5	6.912	5.9	1.012	241.2	206.5	35	6.75
Malaysia	2.915	3.674	2.3	1.374	75.9	92.2	-16	3.00
Philippines	2.6	5.875	4.6	1.275	327.5	304.5	23	4.50
Thailand	3.42	3.497	3.5	-0.003	7.7	48.0	-40	3.25
US	0.102	2.305	3.1	-0.795	220.3	281.6	-61	0.25

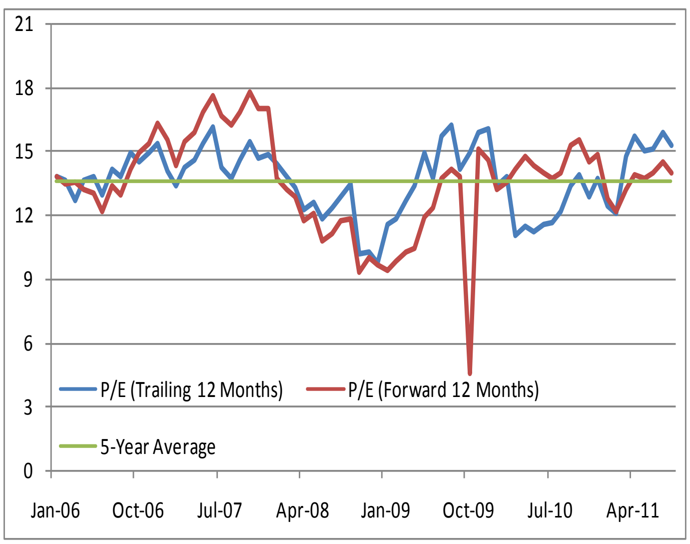
Source: Asian Development Bank (ADB)
** computed at current 10-year yield less projected full-year inflation*

Attractive Yet Not Enticing

The fear-based global equity markets sell-off in August has conjured memories of the 2008 financial crisis. Lackluster economic growth (recent and moving forward) in developed markets (DM), increasing risk of a global economic slowdown, and the spiraling sovereign debt woes in the euro-zone were the main drivers of "FEAR" in the global financial markets. Funds have flown out of risky assets and in to safe havens. Gold hit a record high, while the US 10-year T-bond yield fell below 2% (a historic event), defying the downgrade of the US by Standard & Poors' from AAA to AA+. But amidst the fear-based sell-off in global risky assets, we were able to seek solace in the resiliency of the Philippine equities market. Nonetheless, we are increasingly nervous looking ahead. Philippine Gross Domestic Product (GDP) eased to 3.4% in the 2nd quarter, while local company fundamentals remain robust. However, valuations are not that encouraging, so is the activity of foreign investors.

Valuations: "Attractive Yet Not Encouraging"

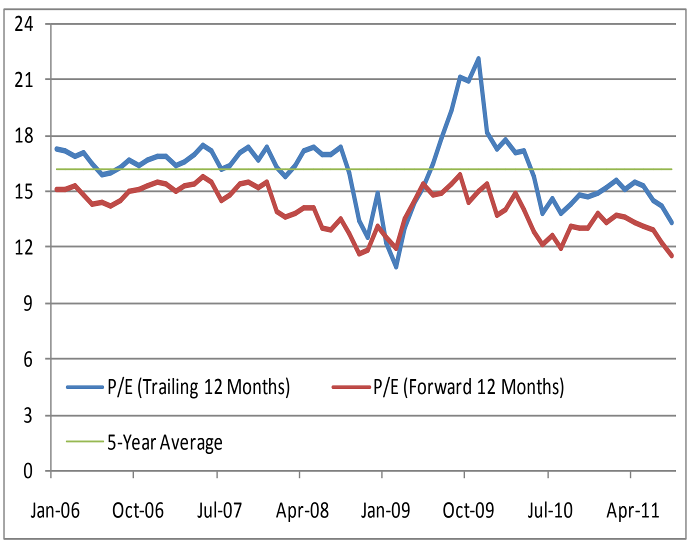
Figure 13 - PSEi



Source: Bloomberg

The PSEi is attractive based on a re-rating scenario but not on a historical perspective. Price-to-earnings ratio (P/E) of the main index is above its 5-year average and below the 15x P/E re-rating scenario. Having said this, we have become cautiously optimistic. Prior to the recent sell-offs in global risky assets, it was easy to justify the above long-term average P/E of the PSEi. Local company earnings to be better-than-expected or in-line with expectations, credit upgrade to mitigate potential spikes in fixed-income yields from policy rate hikes, and expansion easing to a more sustainable level still remain as reasons for a re-rating scenario in Philippine equities market. But with most global equity indices down sharply for the year, valuations of these indices have become more enticing.

Figure 14 - S&P 500



Source: Bloomberg

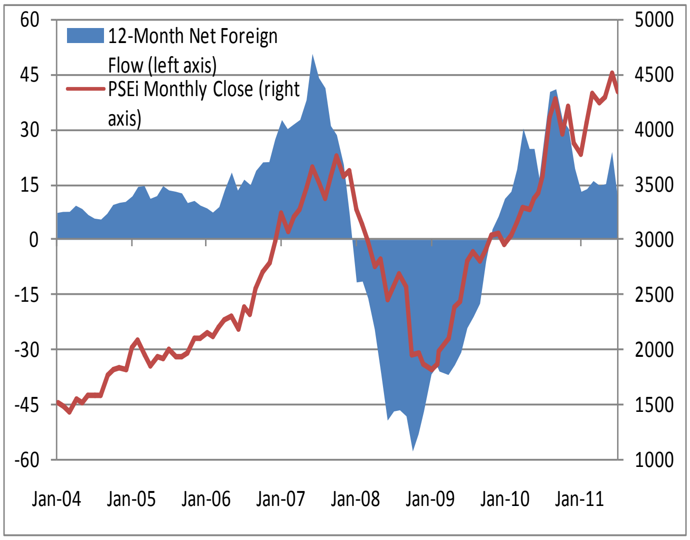
While most global equity indices may deserve such low valuations, others do not. For instance, in the US, investors are pricing in recession, a view that we do not share. High frequency economic data in the US indicates a soft patch rather a return to recession. The significant growth slowdown (US revised its 2nd quarter growth from 1.3% to 1%) is a bit frightening but nonetheless temporary in nature. Impediments, such the global supply disruption borne of the March earthquake in Japan and the oil-price shock on

Foreign investors are likely to continue taking the Philippine equities' resiliency as chance to further reduce exposure.

consumer confidence and purchasing power, may have take its toll on the US economy and are now abating. Having said these, we think that the trailing P/E of the S&P 500 of 13.88 times as of August 26, 2011 (well below its 5-year average of 17 times) makes the US more inexpensive than the Philippines. While corporate earnings growth (trailing and forward) is robust in the PSEi, the US could be better.

Foreign Activity: "Selling the Bounce"

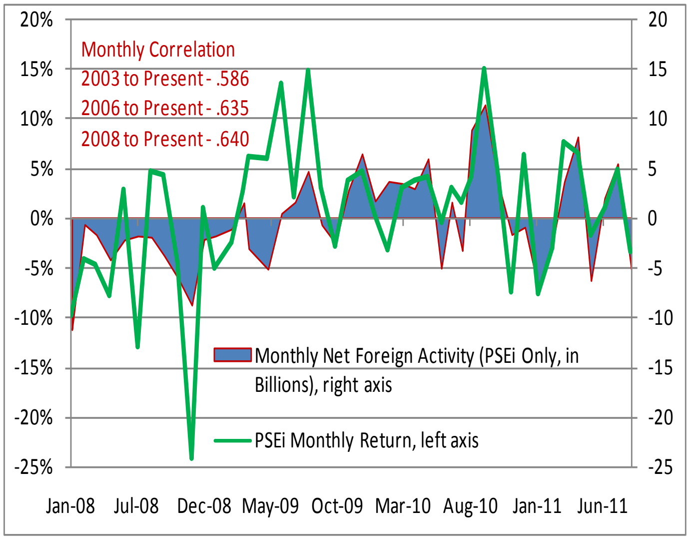
Figure 15 - 12-Month Net Cumulative Flow



Source: FMIC Investment Advisory Group

Foreign investors have sold our local equities market in August, and we believe that they will continue to do so in the near-term. Reason being is that the PSEi's resiliency presents an opportunity to take profits and at the same time compensate losses from other markets. Based on First Metro Investments Corporation's (FMIC) Investment Advisory Group's (IAG) estimate of selected equities, the pace of which foreign investors have sold our market has quickened resulting in a sharp decline in exposure on a 12-month cumulative net flow. We are uncertain whether foreign investors will continue to sell Philippine equities and register negative cumulative net flow in the following months. However, odds are high that foreign flows will not be robust in the near-term, given the heightened risk aversion globally and better return potential on other equity markets (i.e. US and South Korea). In this scenario, we expect monthly returns of the PSEi to be rather difficult, according to First Metro Securities Brokerage Corporation (FMSBC) Research Department.

Figure 16 - PSEi Monthly Returns and Net Foreign Flow



Source: FMSBC Research Department Estimates

Outlook and Strategy

Near-term – market volatility will be prevalent. The Philippine equities market may not escape unresolved negative risk events from external sources. Moreover, we think foreign investors are likely to continue taking the Philippine equities' resiliency as a chance to further reduce exposure given the emotionally driven investing backdrop globally.

Long-term – we reiterate our long-term positive perspective given the strong earnings growth in the next 12 months. Investors with long-term horizon may take pullbacks as a chance to increase exposure in Philippine risky assets. However, we still warn for complacency. While odds of a global economic recession are dim, the possibility of a slump can cloud our long-term constructive outlook.

The Financial sector lost 3.65% dragged down by the top banks in the sub-index despite the spike in bank lending to a 25-month high of 18.8% y-o-y in June.

Sectoral Performance

Monthly Sectoral Performance				
	29-Jul-11		31-Aug-11	
	Index	% Change	Index	% Change
PSEi	4,503.63	4.95%	4,348.50	-3.44%
Financial	1,024.45	7.56%	987.09	-3.65%
Industrial	7,561.88	4.63%	7,063.82	-6.59%
Holdings	3,598.42	1.59%	3,397.93	-5.57%
Property	1,600.69	6.04%	1,529.59	-4.44%
Services	1,578.38	4.25%	1,533.44	-2.85%
Mining and Oil	22,673.63	13.41%	25,927.68	14.35%

Source of Basic Data: PSE Quotation Reports

The PSEi experienced a bloodbath after the market rallied to an all-time high early in August. Heavy selling by both local and foreign investors caused the index to fall by 3.44% with all the sub-indices ending in the red, except the Mining and Oil sector which showed resilience due to robust metals and coal prices. Leading the fall was the Industrial sector shedding 6.59% due to lower power generation and distribution revenues while the Holdings index fell 5.57% purely on market sentiment.

The Financial sector lost 3.65%, dragged down by the top banks in the sub-index despite the spike in bank lending to a 25-month high of 18.8% year-on-year (y-o-y) in June. The market seem to be ignoring the growing financial strength of MBT, BDO, and BPI which posted 45.43%, 20.36%, and 10.71% earnings growth for the 1st half, respectively. Recall that the financial sub-index was a gainer last month next only to Mining and Oil sector. We can only surmise that it was heavily affected fear-based sell-off.

Company	Symbol	7/29/11 Close	8/31/11 Close	% Change
Metrobank	MBT	76.95	73.00	-5.1%
Banco de Oro	BDO	63.95	58.75	-8.1%
Bank of the Philippine Islands	BPI	59.70	57.65	-3.4%

Source of Basic Data: PSE Quotation Reports

The Industrial sector suffered a beating this month as power generation declined coupled with low electricity prices. Average price for the Wholesale Electricity Spot Market (WESM) dropped by 55% for the 1st half as a result of low demand for electricity. MER sank by 6.1% with 1st half net income worse than expected. Although MER's profits grew by 25.6%, it was buoyed only by higher distribution tariffs. Volume sold by the company was down as well as power generation. AP and EDC were the largest drag which suffered the same fate, both losing 8.0%. AP's net income was down by 23% after the decline in its power generation by 7% y-o-y. Similarly, EDC incurred a P2.3 B loss in net income that was mainly due to the shutdown of its Northern Negros Geothermal Power Plant and the disappointing revenues from the Pantabangan-Masiway Hydroelectric Power Plant.

Company	Symbol	7/29/11 Close	8/31/11 Close	% Change
Meralco	MER	279.00	262.00	-6.1%
Aboitiz Power	AP	32.50	29.90	-8.0%
Energy Development Corp.	EDC	6.79	6.25	-8.0%
San Miguel Corporation	SMC	127.50	124.80	-2.1%
Jollibee Food Corp.	JFC	86.95	87.00	0.1%

Source of Basic Data: PSE Quotation Reports

Meanwhile, JFC also recorded a loss of 6.3% in net income as commodity inflation continues to put stress in input costs. Accordingly, share prices in JFC ended flat this period. SMC, on the other hand, registered a 72% jump in profits lifted by Petron. However, it was not enough to offset the risk events surrounding the entire market, leaving SMC with a 2.1% dip.

Despite the fact that 1st half corporate earnings of the Holdings sector beat expectations, negative sentiment from external sources prevailed. In spite of robust gains reported by holding companies, the sector declined by 5.57% in August. DMC sank 10.6% and MPI was down 8.6%. However, this did not stop both companies from ag-

PX gained 8.0% for the month after a record-high profit in 1st half, growing by 233.6% due to higher metal prices and higher production.

gressively increasing their investments in power projects. MPI will be investing P189.6 B the next five years mainly in power generation ventures of MER. DMC would also invest a total of P21.2 B for the expansion of the 600 megawatt Calaca coal-fired power plant. For AC and SM, profits were up by 12% and 13% apiece, but share prices declined by 6.6% and 0.6%, respectively. Meanwhile, AEV dropped by 2.9% this month as a result of its 14.88% net loss following the plunge in AP.

Company	Symbol	7/29/11 Close	8/31/11 Close	% Change
Ayala Corp.	AC	326.00	304.60	-6.6%
Metro Pacific Investments Corp.	MPI	3.61	3.30	-8.6%
SM Investments Corp.	SM	543.00	540.00	-0.6%
DMCI Holdings, Inc.	DMC	45.00	40.25	-10.6%
Aboitiz Equity Ventures	AEV	41.90	40.70	-2.9%

Source of Basic Data: PSE Quotation Reports

The Property sector slumped by 4.44% this month, led by MEG which fell by 14.6% followed by RLC with a 7.1% decline. The sector has a similar story as the Holdings and Financial sectors, where companies individually posted healthy profits but failed to offset the general sentiment. The Property sector particularly took some beating since it was one of the top gainers last month. The sell-off expectedly had a greater effect on it relative to the other sectors.

Company	Symbol	7/29/11 Close	8/31/11 Close	% Change
Ayala Land, Inc.	ALI	16.82	15.94	-5.2%
SM Development Corp.	SMDC	8.05	8.34	3.6%
Robinsons Land Corporation	RLC	13.30	12.36	-7.1%
Megaworld Corp.	MEG	2.19	1.87	-14.6%

Source of Basic Data: PSE Quotation Reports

The Services sector was least affected by the bloodbath registering a 2.85% loss this August as index heavyweight TEL supported sub-index along the way. Despite the 3% decline in consolidated revenues, TEL was one of the strong stocks this month as a result of the anticipated conclusion of its merger with DGTL and its ex-dividend. GLO, meanwhile, shared the overall market condition and dropped 6.2% despite its sustained growth for the year. Net income of GLO was up by 7.5% to P5.57 B for the 1st half of 2011.

Company	Symbol	7/29/11 Close	8/31/11 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,400.00	2,390.00	-0.4%
Globe Telecom	GLO	959.00	900.00	-6.2%

Source of Basic Data: PSE Quotation Reports

As in the previous months, the Mining and Oil sector had been very resilient and continues to ascend despite the slowdown in both local and global markets. The sector posted a double-digit growth of 14.35% this month as metal and coal prices continue to rise. LC remains to be the leader in the sector, skyrocketing by 42.5% this month. As of August 31, share price in LC has gained 250.0% year-to-date making it the best performing stock in the local scene. However, the sub-index could have been points higher had it not been for the recent announcement taking LC out of the benchmark 30-company index, triggering a sell-off in the stock. Meanwhile, PX gained 8.0% for the month after a record-high profit in 1st half, growing by 233.6% due to higher metal prices and higher production. Unlike LC and PX, SCC decelerated by 1.1% this month even as coal prices increased. The company's power business, which shared the stories of MER and AP with low power generation, dragged down its share price offsetting the gains brought by higher coal prices. We expect a bounce in SCC since it will be included in the PSEi according to a recent announcement by the PSE. In fact, share prices of SCC increased by 3.9% following the announcement.

Company	Symbol	7/29/11 Close	8/31/11 Close	% Change
Philex Mining Corporation	PX	25.65	27.70	8.0%
Semirara Mining Corp.	SCC	226.00	223.60	-1.1%
Lepanto Consolidated Mining Co.	LC	1.13	1.61	42.5%

Source of Basic Data: PSE Quotation Reports

Among the sectors in the red, the Property sector contributed the largest decline of 34.7%.

Monthly Turnover

Monthly Turnover (in millions)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	16,417.3	-7.5%	781.78	-7.5%
Industrial	63,099.5	126.8%	3,004.74	126.8%
Holdings	23,824.1	6.9%	1,134.48	6.9%
Property	10,897.7	-34.7%	518.94	-34.7%
Services	16,159.9	17.2%	769.52	17.2%
Mining and Oil	34,680.7	57.2%	1,651.46	57.2%
Total	**165,079.3**	37.1%	**7,860.92**	37.1%
Foreign Buying	38,390.3	-21.9%	1,828.11	-21.9%
Foreign Selling	43,330.7	9.4%	2,063.37	9.4%

Source of Basic Data: PSE Quotation Reports

Turnover for the month of August increased by 37.1% mainly buoyed by activities in the Industrial and Mining and Oil sectors – each accelerating by 126.8% and 57.2%, respectively. Among the sectors in the red, the Property sector contributed the largest decline of 34.7%. Foreign participation declined to 24.8% of total market activity from July’s 36.9% and foreign investors were net sellers by P4.94 B.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (in P millions)

	2009		2010		1st Quarter 2011			2nd Quarter 2011		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
Production										
Agri, Hunting, Forestry and Fishing	663,744	-0.7%	662,665	-0.2%	170,499	-15.2%	4.2%	159,517	-75.9%	7.1%
Industry Sector	1,666,601	-1.9%	1,859,515	11.6%	456,334	-8.2%	7.2%	487,030	-73.8%	-0.6%
Service Sector	2,966,895	3.4%	3,179,358	7.2%	771,178	-7.8%	3.7%	855,822	-73.1%	5.0%
Expenditure										
Household Final Consumption	3,817,908	2.3%	3,945,827	3.4%	968,199	-13.8%	4.9%	1,030,471	-73.9%	5.4%
Government Final Consumption	548,297	10.9%	570,208	4.0%	130,026	10.7%	-17.2%	174,735	-69.4%	4.5%
Capital Formation	899,333	-8.7%	1,183,650	31.6%	336,004	-17.4%	37.0%	293,957	-75.2%	0.9%
Exports	2,385,812	-7.8%	2,886,133	21.0%	687,530	13.6%	3.3%	778,285	-73.0%	-0.3%
Imports	2,354,109	-8.1%	2,884,280	22.5%	709,872	-3.1%	8.8%	789,657	-72.6%	4.1%
GDP	5,297,240	1.1%	5,701,539	7.6%	1,398,011	-8.9%	4.9%	1,502,368	-73.6%	3.4%
NPI	1,691,527	25.0%	1,859,847	10.0%	477,824	3.9%	0.0%	460,909	-75.2%	-2.8%
GNI	6,988,767	6.1%	7,561,386	8.2%	1,875,836	-6.0%	3.6%	1,963,278	-74.0%	1.9%

Source: National Statistical Coordination Board (NSCB)

	2008		2010		May-11			Jun-11		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	1,134,642	15.9%	1,207,926	7.5%	120,088	-13.2%	9.5%	100,139	-16.6%	8.7%
Tax	932,004	8.5%	1,093,643	11.4%	11,085	-91.3%	-89.3%	89,921	711.2%	7.1%
BIR	711,591	9.2%	822,623	9.6%	88,150	-14.7%	11.5%	66,904	-24.1%	12.7%
BoC	210,524	6.2%	259,241	17.7%	21,836	-2.7%	-9.5%	21,663	-0.8%	-6.8%
Others	9,889	8.9%	11,779	6.8%	1,099	15.8%	21.2%	1,354	23.2%	1.7%
Non-Tax	202,488	69.7%	113,877	-19.5%	9,003	-22.1%	61.5%	10,218	13.5%	26.8%
Expenditures	1,144,064	9.9%	1,522,384	7.1%	129,689	15.7%	-7.5%	107,830	-16.9%	-14.9%
Allotment to LGUs	193,712	10.9%	279,552	5.6%	28,499	16.6%	7.9%	25,869	-9.2%	-0.1%
Interest Payments	266,833	-14.0%	294,244	5.5%	15,645	36.9%	32.4%	16,705	6.8%	61.7%
Others	683,519	22.9%	948,588	8.0%	-9,601	-112.6%	-109.4%	65,256	-23.7%	-27.9%
								91,125	-20.1%	-21.7%
Overall Surplus (or Deficit)	-62,198	-57.6%	-314,458	5.3%	34,410	31.0%	-212.7%	-7,691	-19.9%	-77.8%

Source: Bureau of the Treasury (BTr)

POWER SALES AND PRODUCTION INDICATORS
Manila Electric Company Sales (in gigawatt-hours)

	2009		2010		Jul-11		
	Annual Levels	Growth Rate	Annual Levels	Growth Rate	Levels	Annual G. R.	YTD
TOTAL	27,271	1.7%	29,976	9.9%	2,556	1.3%	-0.8%
Residential	8,901	3.2%	9,535	7.1%	781	-5.8%	-86.0%
Commercial	10,796	3.0%	11,683	8.2%	1,008	2.4%	0.8%
Industrial	7,439	-1.6%	8,616	15.8%	754	8.0%	0.1%

Source: MERALCO

BALANCE OF PAYMENTS (in US millions)

	2009		2010		4th Quarter 2010		1st Quarter 2011	
	Levels	Growth Rate	Levels	Growth Rate	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	9,358	158.0%	8,465	-9.5%	2,172	-19.0%	933	-23.0%
Balance of Trade	-6,728	-42.6%	-8,438	25.4%	-2,783	68.7%	-2,900	39.1%
Balance of Goods	-8,842	-31.4%	-10,384		-3,203	58.3%	-3,947	36.2%
Exports of Goods	37,610	-22.1%	50,684	34.8%	12,939	22.4%	12,021	8.1%
Import of Goods	46,452	-24.0%	61,068	31.5%	16,142	28.2%	15,968	13.9%
Balance of Services	2,114	82.2%	1,946	-7.9%	420	12.3%	1,047	28.9%
Exports of Services	11,014	13.3%	13,243	20.2%	3,409	24.6%	3,879	12.5%
Import of Services	8,900	4.0%	11,297	26.9%	2,989	26.5%	2,832	7.5%
Current Transfers & Others	16,279	6.8%	16,595	1.9%	4,427	6.8%	3,975	4.3%
II. CAPITAL AND FINANCIAL ACCOUNT	-1,627	-1.3%	7,948	-588.5%	5,726	1020.5%	2,121	5338.5%
Capital Account	104	#DIV/0!	98	-5.8%	15	-57.1%	16	-23.8%
Financial Account	-1,731	-3366.0%	7,850	-553.5%	5,711	1099.8%	2,105	11594.4%
Direct Investments	1,604	-194.2%	1,226	-23.6%	613	140.4%	432	37.6%
Portfolio Investments	-625	-82.8%	4,018	-742.9%	3,706	206.0%	1,546	-901.0%
Financial Derivatives	32	-128.3%	-191	-696.9%	-7	-78.1%	890	-2325.0%
Other Investments	-2,742	-464.1%	2,797	-202.0%	1,399	-246.0%	-763	1111.1%
III. NET UNCLASSIFIED ITEMS	-1,310	-30.7%	-2,010	53.4%	-35	-97.0%	439	1656.0%
OVERALL BOP POSITION	6,421	7114.6%	14,403	124.3%	7,863	289.6%	3,493	173.7%
Use of Fund Credits	0		0		0		0	
Short-Term	-1,510	-200.1%	-2	-99.9%	-12	-98.1%	10	-9.1%
Memo Items								
Change in Commercial Banks								
Net Foreign Assets	-3,752	-224.9%	4,932	-231.4%	3,284	-833.0%	2,776	-346.1%
Basic Balance	12,038	261.1%	11,605	-3.6%	3,870	9.6%	1,665	-10.5%
Net Unclassified Items as percentage of Total Trade	-2	-5.9%	-2	12.5%	0	-98.0%	2	1500.0%

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (in P millions)

	2009		2010		Jun-11	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Levels	Growth Rate
RESERVE MONEY	912,132	8.8%	1,011,270	10.9%	1,102,079	12.69%
Sources:						
Net Foreign Asset of the BSP	1,886,514	17.7%	2,272,685	20.5%	2,971,644	33.06%
Net Domestic Asset of the BSP	-974,382	-27.6%	1,261,415	29.5%	-1,869,565	48.93%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,087,408	19.2%	1,233,927	13.5%	1,323,552	7.55%
Money Supply-2	3,562,217	12.6%	3,893,063	9.3%	4,327,525	11.92%
MONEY MULTIPLIER (M2/RM)	3.91	3.4%	3.85	-1.5%	3.93	-0.69%

Source: Bangko Sentral ng Pilipinas (BSP)

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