

The
MARKET CALL
Capital Markets Research



FMIC and UA&P Capital Markets Research

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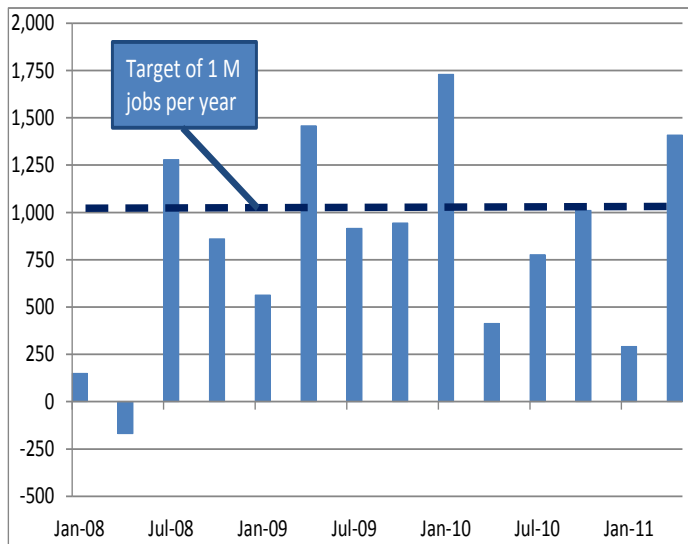
Economy Likely to Have Bottomed in Q1

Despite the disappointing 4.9% growth in Gross Domestic Product (GDP) in the first quarter of the year and policy rates rise to 4.5% or 0.5% since the beginning of the year, fresh economic data validated by the credit rating upgrade by Fitch are showing signs that the economy is likely to have bottomed in Q1.

The most important clue is the 1.4 million jobs created over the year ending April 2011 (the latest Labor Force Survey). Impressive also is the fact that from January to April 2011, the economy produced 528,000 new jobs. Both figures represent the third highest gains for similar periods in the past decade. More employment means more income and more spending in the coming quarters. (See details below). Exports jumped nearly 20% in April despite an equivalent fall in the EU. Bureau of Internal Revenue's tax collections were up by a robust 12.5% for April-May compared to the same months of 2010. Overseas Filipino Workers' (OFW) dollar remittances bounced back to 6.1% in April. In addition, the seasonally adjusted quarter-on-quarter (q-o-q) growth of GDP from Q3 2010 to Q1 2011 shows an uptrend with a sharp jump in the latest quarter equivalent to almost 4x the rate in Q4 2010. Finally, crude oil prices have dropped further to the vicinity of \$95/barrel (West Texas Intermediate, or WTI benchmark) and have stayed there or lower since June 15th. The more than 15% average decline since April 2011 eases inflationary pressures, especially locally, since the steep rise in crude oil prices from the beginning of the year had been the main cause of RP inflation.

1.4 Million Jobs Created in Year Ending April 2011

Figure 1 - Net New Jobs Created (000) Year Ending Survey Month



Source: National Statistics Office (NSO)

Shortly after the disappointing slowdown in Gross Domestic Product (GDP) growth to 4.9% in Q1 2011, the Labor Force Survey (LFS) of the National Statistics Office (NSO) reported 1.4 million jobs created in the year ending April 2011. When compared to January earlier this year, the

new jobs created reached 528,000. The financial markets failed to notice this important development that augurs well for a quick recovery, as it focused on the lower unemployment rate of 7.2%. This was understandable since the jobless rate was lower than January 2011's 7.4% and April 2010's 8.0%.

New jobs for the latest one-year period has been at their highest since the record 1.7 M in January of last year and a huge improvement from only 292,000 in January 2011. Underemployment rate also remained at 19.4% for both reports this year.

The Services sector continued to generate the largest share in total employment with 51.7% followed by the Industry and Agriculture sectors with 33.0% and 15.3%, respectively. In terms of job gains, Agriculture had the highest net new jobs with 642,000. While there was a deceleration of growth in two other sectors, the Industry and Services sectors still added 622,000 and 142,000 jobs, respectively.

Looking at the gains from January 2011, the positive news is that Industry contributed the most number of jobs totalling 371,000, while Agriculture added another 211,000. Some 190,000 additional workers were taken in by the Manufacturing sector, while the Construction sec-

Once again, the results were positive as net hiring of Wage and Salary workers moved at a faster pace from -1.2% in January 2011 to 4.9% in April 2011.

tor brought in some 140,000 more people. The bad news is that the Services sector lost some 17,000 workers, although this is hardly significant.

The positive growth of the Industry sector was caused by accelerations of all its subsectors. Mining and Quarrying, Electricity-Gas-Water (EGW), and Construction reached 4.0% marks coming from year-ago gains of 0.8%, 0.8%, and 2.7%, correspondingly. Meanwhile, Manufacturing had the most substantial turn from -2.8% to 2.8%. Among the 4 subsectors, Manufacturing similarly had the highest share in net new jobs with 84,000.

In the Services sector, Wholesale and Retail Trade continued to provide the highest share in job gains with 383,600 from April 2010 as growth accelerated from 2.9% to 5.6%. It is also important to note that Real Estate, Renting, and Business Activities subsector posted the fastest growth rate among all the Services subsectors. It reached 21.3% from 7.3%, providing a tremendous increase in new jobs from 81,600 to 226,300. This can be attributed to the current fast-growing real estate ventures of top developers in the country. Other subsectors, which accelerated as well, were Hotels and Restaurants (-5.7% to 4.0%), Public Administration (-1.2% to 0.2%), and Private Households with employed persons (-9.4% to 1.9%). All the other subsectors slowed down including Education, Health and Social Work, and Transport-Storage-Communication (TSC).

Another important aspect of the survey is the type of workers hired. Once again, the results were positive as net hiring of Wage and Salary workers moved at a faster pace from -1.2% in January 2011 to 4.9% in April 2011. This is also equivalent to 951,500 net new jobs for the latter 1-year period. At the same time, the annual growth rates of the Self-employed and Unpaid Family Workers classes both eased from 4.2% to 1.9% and 7.5% to 4.9%, respectively.

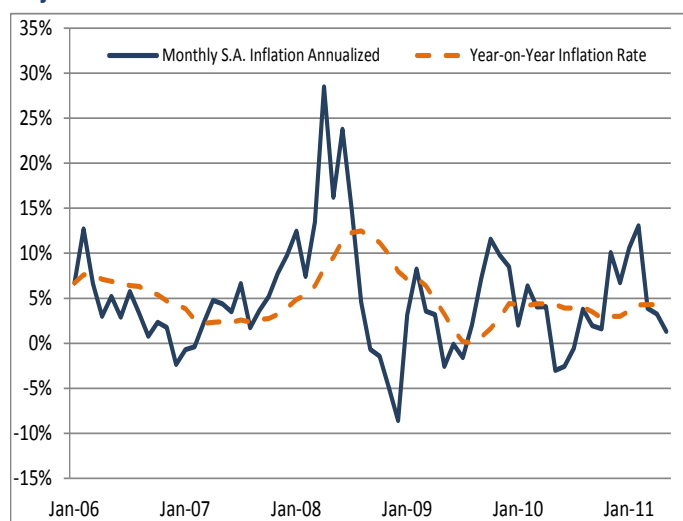
This improvement in the employment situation of the Philippines, both when compared to year ago levels, as well as with January 2011, will have multiplier effects that would boost GDP growth in the coming quarters. Besides, seasonally adjusted quarter-on-quarter 1.9% growth rate

of GDP in Q1 showed some acceleration from 0.3% and 0.5% in Q3 and Q4 of 2010, respectively. Finally, the National Government (NG) is expected to boost its spending starting Q2, and if spending results in a P250 billion budget deficit by the end of the year, this alone can add 2.9% points to the total 2011 GDP growth rate. Thus, we have ample reasons to think that GDP expansion in the coming quarters will be fast enough as to bring full-year GDP growth rate to 6.0%.

May Inflation Rate of 4.5% Below Expectations

Headline inflation for the month of May registered at 4.5% up slightly from April's revised 4.3%. Earlier market consensus was 4.9%. The figure was well within the BSP's target of 3.5-5.5% full-year target and right on the button to our 4.5% outlook for the month. Meanwhile, core inflation sped up from 3.3% (revised) to 3.7%. The acceleration in the y-o-y inflation rate was caused by the faster growth rates of the Clothing, Fuel-Light-Water (FLW), and Miscellaneous sectors.

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



Source: National Statistics Office (NSO)

Taking a closer look at the annual inflation rate, the FLW sector had the biggest influence in the y-o-y inflation as it grew faster from 6.0% to 8.9%. The other two sectors, Clothing and Miscellaneous, had minimal changes from

2.0% to 2.1% and 1.2% to 1.3%, respectively. The reasons behind the slight growth in inflation were the persistent increases of the Food-Beverage-Tobacco (FBT) and Services sectors although these were tempered by the slowdown of Housing and Repairs. FBT remained at 4.2%; Services stayed at 6.5%; and Housing and Repairs prices eased from 2.3% to 2.1%.

The m-o-m inflation rate showed a deceleration from April's 0.6% to 0.0% in May and was reflected in majority of the sectors: Clothing (0.3% to 0.2%), Housing and Repairs (0.3% to 0.0%), lower electricity rates and LPG prices brought FLW to negative territory at -0.4% from 3.7% a month ago, and softer gasoline and diesel pump prices offset gains in educational services to effect a slowdown in the Services index from 1.0% to flat. Only FBT accelerated, but only slightly, from -0.1% to 0.1%. Miscellaneous items remained at 0.2%.

The view from a seasonally adjusted annualized rate (SAAR) gives some relief from inflation concerns. It actually eased from 3.2% to 1.3% as a result of the slower pace of both food and non-food items. Food items continued to be negative at -0.2% while non-food items decelerated from 6.7% to 2.8%.

For Q2 2011, we think inflation will stay within 4.5-4.7% range (using the old 2000 base year series). The West Texas Intermediate (WTI) crude oil prices for the coming months should be lower than the \$109.53/barrel average in April. As of this writing, WTI dipped further to below \$95/barrel. Also, in spite of the higher inflation rate for rice from 1.6% to 3.1% on account of the typhoons that hit the country, rice stock remains adequate as these were some 2% higher in May 2011 compared to year ago levels. Abroad, rice prices in Thailand got stuck to a mild downward trend since April, in view of good harvests in the Mekong delta.

BSP's Draconian 1% Hike in Reserve Requirements

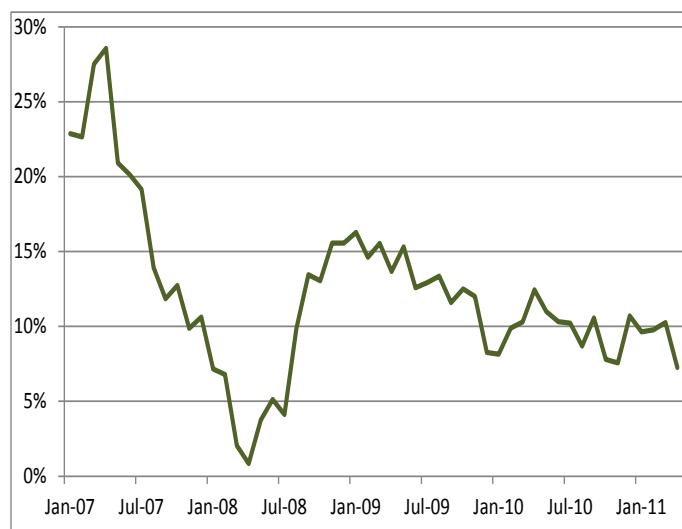
Despite the sharp fall in crude oil and commodity prices, the BSP hogtied monetary policy by raising banks' reserve requirement by 1% point in its June 16 meeting. The move was more draconian than the market's expectation of an-

Looking at the monthly differences, there was a slight improvement in RM from 4.3% last March to 4.6% in April.

other 0.25% policy rate increase since it will immediately remove at least P38 B from the banking system, lower the money multiplier, and raise intermediation costs by more than the 1% climb in reserve requirements.

As consolation and after the two consecutive key policy rate hikes on March 24 and May 5, the Monetary Board (MB) decided to maintain the policy rate or the reverse repurchase (RRP) on overnight borrowing at 4.5% during the same meeting while keeping the special deposit account (SDA) rate at 4.6%.

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



Source: Bangko Sentral ng Pilipinas (BSP)

In Q1 2011, the BSP's money creation activities, as reflected in Reserve Money (RM), had been tepid to say the least and had been consistently diminishing each month. It eventually settled at the annual quarter growth of 6.0% with a Net Foreign Assets (NFA) rising at 35.2% but offset by ratcheting up its liquidity-draining Net Domestic Assets (NDA) by 62.4%. However, looking at the monthly differences, there was a slight improvement in RM from 4.3% last March to 4.6% in April. Even with the faster growth of NDA of BSP from 74.4% to 77.8% during the same period, the faster pace of NFA of 41.3% from 39.5% was able to counter-weigh it. Meanwhile, the SDA facility remained strong as it accumulated P1.4 T even with its slow down from 89.4% to 80.7%.

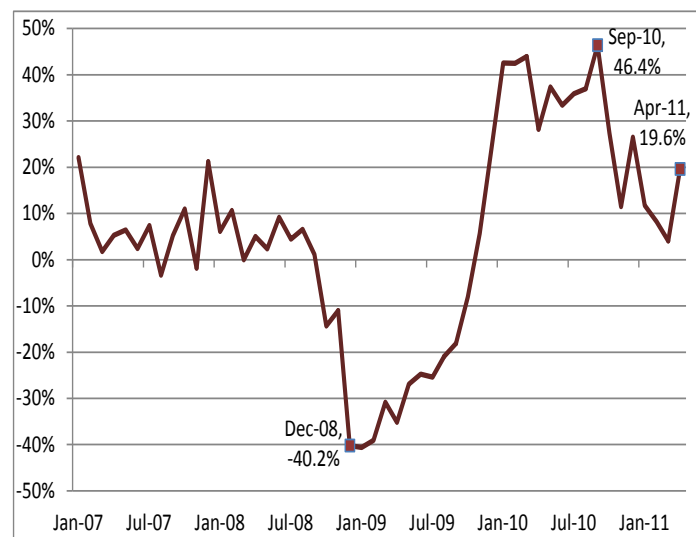
The country's exports are already starting to recover just as we have anticipated for the months following Q1 2011.

As a consequence, M2 and M3 also decelerated sharply from 10.6% to 7.5% and 10.3% to 7.3%, respectively.

As expected no further changes on the policy rates was undertaken during the last MB meeting given the relatively low inflation rates in Q2 2011. Also, since the BSP has started to consider other means of controlling inflationary expectations and liquidity, it is likely that policy rates would remain at their current levels. The only problem is that the impact of these alternative measures is not easily quantifiable.

Exports Growth Surprises with 19.6% Rebound in April

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



Source: National Statistics Office (NSO)

After the consistent slow down in the annual growth rate during the first few months of 2011, exports showed a double-digit uptick in April. It accelerated to a higher-than-expected 19.6% from March's 4.1% in spite of the still negative path of Electronic Products exports. Meanwhile, m-o-m exports growth rate slowed down from 12.7% to -1.2% as its actual level went down slightly from P4.4 B to P4.3 B.

Electronic Products still carries in the largest portion of the total exports with its 49.9% share. And even with its negative y-o-y growth rate of -2.1%, this was still an improvement from the -7.3% of previous month. The growth story belongs to primary products, such as Bananas (+219.7%), Cathodes and Sections of Cathodes and Refined Copper (+204.0%), Woodcrafts and Furniture (+81.6%), Gold (+81.6%), Coconut Oil (+81.4%), Petroleum Products (+47.3%), Articles of Apparel and Clothing Accessories (+24.0%), and Metal Components (+9.3%) gained in April.

For the m-o-m growth of total exports, Total Agro-based Products, Forest Products, Mineral Products, and Petroleum Products all had double-digit growth rates. Unfortunately, these could hardly offset the fall in the exports of Manufactures which comprises 79.4% of total exports as it eased from 6.9% to -3.4% arising from the deceleration brought about by the negative m-o-m growth rate of Electronic Products from 11.1% to -4.1%. The calamities that struck Japan, which is a primary supplier of parts needed in manufacturing and producing electronics goods, was seen to be the main reason for the huge decline.

Nevertheless, Japan remains as the top country importer of Philippine products with 17.3%, as it imported 20.2% more in April 2011 compared to a year ago. There was no change in the ranking of export destination countries. US comprised 13.2% of total Philippine exports while People's Republic of China (PRC) made up 11.4%. Exports to China and ASEAN remained robust as these expanded by 36.0% and 27.5%, respectively.

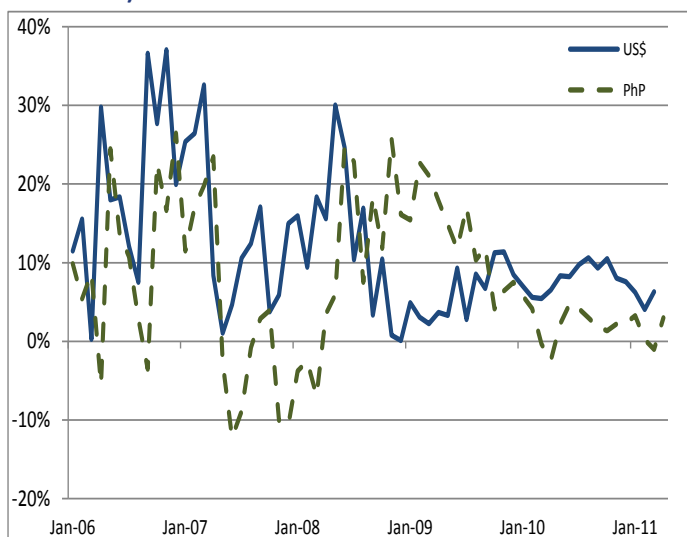
The April export is truly surprising because Holy Week fell late in this month, while it straddled March and April last year, thus providing less working days this year compared to 2010. Evidently, the country's exports are already starting to recover just as we have anticipated for the months following Q1 2011. With this, we maintain our view that this trend will continue, especially since China has been reported to have faster growth in imports as compared to her exports.

In actual figures, the dollars sent in the country for both months remained at \$1.6 B.

April OFW \$ Remittances Up 6.3%

Breaking the unfavorable downward trend during Q1 2011, the y-o-y Overseas Filipino Workers' (OFWs) remittances had grown faster in April. Even with the crisis in the Middle East and North African (MENA) regions and the repatriations of many OFWs, it did not take long for them to find new employment abroad given the continuous demand for Filipino services. April remittances were up by 6.3% compared to March's 4.1%. However, in absolute terms, total inflows for both months remained at \$1.6 B.

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



Source: Bangko Sentral ng Pilipinas (BSP)

There was, once again, news about OFWs returning to the Philippines given the current alert level status of Yemen. However, the constant outflow of Filipino workers, including those who were previously brought home, made it possible to have a faster paced growth in comparison to year ago levels. Moreover, the adoption of the recent Domestic Workers Convention by the International Labor Organization (ILO) ensures better working conditions for OFWs which, in effect, makes the families left behind by Filipinos working as domestic workers overseas more at ease and more people are enticed to consider accepting similar jobs.

In peso terms, there was an improvement from the annual growth rate in March of -1.0% to 3.0% in April. The peso equivalent of remittances was lower in April with only P69.9 B from P70.3 B in March and only slightly higher than April 2010's P67.8 B brought about by the incessant appreciation of peso. From P44.63/\$ in April 2010, it strengthened further to P43.52/\$ last March and P43.24/\$ in April.

As expected, seasonal upticks in remittances were evident given the school enrolment period. Nonetheless, it is important to note the resilience of remittances due to OFWs' decision to continue working despite the unstable conditions in the Arab countries.

Exchange Rate Weakens With Unresolved Greek Debt Crisis

In the beginning of Q2 2011, the peso continued the appreciating trend seen in Q1. From March's P43.52/\$, it strengthened to P43.24/\$ in April and to P43.13/\$ in May brought about by the buoyancy of OFW remittances and exports. However, in June, the peso started to show signs of weakness against the US dollar.

Last April, the strength of the peso was attributed to the large remittances for the school enrolment period. These remittances had accumulated because of the Easter holidays. Another reason for the peso appreciation during the same month was the significant uptick in the annual growth rate of exports from March's 4.1% to 19.6%.

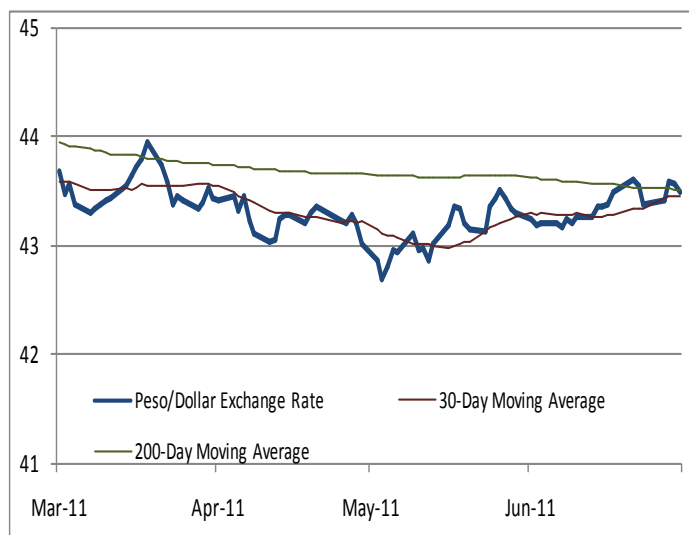
In May, in spite of the downgrade of the sovereign debt rating of Greece by Moody's and Fitch which initially made investors risk-averse, the lower-than-expected inflation rate released by NSO helped in turning the tide in favor of the peso. Furthermore, because of the budget surplus of P61 M from January to April, the government was expected to start spending more in the coming months.

A bias toward depreciation became evident in June as risk-aversion became the trend among investors after Standard & Poor's (S&P's) further downgraded Greece's credit rating. Unlike in previous months when investors tended

We extend the upper range of the peso/dollar and lift our forecast to P43.20-44.20/\$ average in Q3 2011.

to raise their risk appetite while waiting for current news on the euro-zone crisis, they now choose to quickly turn to the US dollar so that the peso-dollar exchange rate went as high as P44.05/\$ on June 22.

Figure 6 - Daily Peso-Dollar Exchange Rate



Source: National Statistics Office (NSO)

So far, the Q2 exchange rate has averaged at P43.37/\$. As shown in the graph, the peso started to weaken beyond the 200-Day and 30-Day Moving Averages (MAs). Since the euro zone is unlikely to put the Greek debt problem away permanently and with the end of quantitative easing 2 in the US this month, trading sentiment will be supportive of depreciation bias for the peso. Thus, we extend the upper range of the peso/dollar and lift our forecast to P43.20-44.20/\$ average in Q3 2011.

Outlook

We have become more bullish on the economy for the coming quarters, as both new economic indicators and business sentiment have turned positive.

- GDP growth should be back on acceleration mode, bouncing back from Q1 2011 tally of 4.9% to nearly 6% by Q2, and moving up further to above 6.5% for H2, when the US and Japan economies regain their vitality.

- Using 2000-base year data, Inflation is likely to be stable for the rest of the year, even though H2 may see the 5% y-o-y breached; we see this uptick to be due to base effects; also, y-o-y growth rates usually lag monthly SAAR which has been decelerating since April 2011.
- Exports expansion to keep its double-digit pace in Q2 given the strength in East Asia & Asean, with a further acceleration in H2, as the economies in the region expand at a faster pace due to heightened domestic spending, while US and Japan's healthy growth should increase their appetite for Philippine products.
- Given the inflation outlook above, the BSP may hike rates by 0.50% until yearend, despite headline inflation peaking in October. The effect on long-term rates, as empirical evidence shows, will be minimal, and likely to be more than offset by continuing liquidity expansion driven by the sizeable domestic savings.
- OFW \$ remittances should continue to grow above 5% in H2 and may provide additional boost to the economy if the peso depreciates even slightly or remains stable at its present range of P43-P44/\$1.
- The peso-dollar rate is likely to remain volatile in H2 as a credible and lasting solution to the Greek debt problems is not expected to emerge; it will have a slight appreciation bias by Q4 as more foreign investments (especially, portfolio investments) get attracted to the robustness of the economy.

Forecasts				
Rates	Jun	Jul	Aug	Sept
Inflation (y-o-y %)	4.5%	4.4%	4.4%	5.0%
91-day T-Bill (%)	1.81%	2.00%	2.14%	2.27%
Peso-Dollar (P/\$)	43.98	44.73	45.08	45.47
10-year (%)	6.12%	6.35%	6.22%	6.31%

Source: Authors' Estimates

Hopes of Credit Upgrade Keep Long-term Yields

8

The consecutive policy rate hikes by the BSP in Q2 combined with a 1% point increase in reserve requirements to 20% have put pressure on bond yields to rise. On the other hand, Moody's Investor Service upgraded Republic of the Philippines' dollar-denominated bonds (ROPs) from Ba3 to Ba2 last June 15, assessing the economic outlook of the Philippines from negative to stable and bringing it to the same level as those of S&P and Fitch. Last June 23, Fitch upgraded the Philippines' long-term foreign currency issuer rating to "BB+" from "BB", just one notch below investment grade. This was based on the fiscal consolidation of the new administration, the macroeconomic stability including the well-handled inflationary pressures particularly in Q2, as well as the sustained growth in industry. This positive development is presently providing optimists greater hopes that the country's debt papers will be upgraded one notch in H2 and shielding long-term yields from the BSP move.

Figure 7 - Credit Ratings

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BB+	BB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC
Caa2	CCC	CCC
Caa3	CCC-	CCC
Ca	CC	CCC
Ca	C	CCC
C	D	DDD
	D	DD
	D	D

*Lowest Investment Grade Rating

*Philippine Long-term Debt Rating

More aggressive tightening of monetary policy by the BSP has started to push yield rates higher by May but more so in June. This, coupled with the tight fiscal position of NG, has sparked yield inversion speculation. Six-month papers were not sold last June 13 as its yield would have recorded at 3.23%, 35 and 32 bps higher than the latest 91- and 364-day average yield rates. On the other hand, the recent credit upgrades is the sign that the National Government (NG) had been waiting for to push through with its issuance of 20- and 25-year treasury bonds, including a debt swap for new 10-year and 20-year bonds to lengthen the average maturity of its outstanding debt.

In foreign markets, the US quantitative easing (QE2) is scheduled to end this June. How the US bond market reacts to this will certainly affect domestic rates. Softer crude oil and commodity prices, however, will likely offset any upward rate push from the former. Investors, however, are expected to be more risk-averse with the continuing uncertainties surrounding the Greek debt crisis.

Primary Markets: Yields Moving Up at Short End

The NG admitted its underspending as one of the main reasons for the weaker-than-expected GDP growth for the Philippines. NG debt increased by P51 B from end-February 2011. Because of its promised care and transparency, a slowdown in actual spending and the high internal liquidity of NG, yields slid as NG saved P30 B by April on interest expenses thus pushing rates down.

Source: Moody's, S&P, and Fitch

Because of its strong fiscal position, NG rejected bids it felt were too high in 182- and 364-day.

T-bill rates by the start of April were at historical lows, having negative bps changes. Rates however went further south by the third week of April, with all tenors having more than 20 bps decreases. By the first week of May, the longer dated T-bills started to rise in yields while the 91-day bills were being held until maturity by investors hence trading at a rate 11 bps lower than the previous rate.

By the third week of May, bids failed to consolidate on 182- and 364-day bills. But by this time, yields had started to rise because of the tighter monetary policy that started to take into effect. Market forces started to put upward pressure for yields, but because of its strong fiscal position, NG rejected bids it felt were too high in 182- and 364-day.

T-Bills and T-Bonds Auction Results							
Date	T-Bond/T-Bill	Offer (PhP B)	Tendered (PhP B)	Awarded (PhP B)	Tendered ÷ Offered	Average Yield	Spread (bps)
4-Apr	91-day	1.50	6.35	2.10	4.23	0.90	-35.00
	182-day	3.50	11.22	3.50	3.21	1.21	-54.80
	364-day	4.00	14.00	4.00	3.50	2.19	-67.40
12-Apr	7-year	9.00	25.97	9.00	2.89	6.33	1.90
18-Apr	91-day	1.50	7.57	2.10	5.05	0.68	-22.00
	182-day	3.50	11.87	3.50	3.39	0.89	-31.50
	364-day	4.00	11.50	4.00	2.88	1.97	-22.30
26-Apr	10-year	9.00	32.35	9.00	3.59	6.50	-87.50
2-May	91-day	1.50	6.43	2.10	4.29	0.57	-11.00
	182-day	3.50	6.65	3.50	1.90	0.96	7.00
	364-day	4.00	8.74	4.00	2.19	2.03	6.20
10-May	7-year	9.00	40.69	9.00	4.52	5.95	-38.40
16-May	91-day	1.50	2.98	1.40	1.99	1.89	132.00
	182-day	3.50	2.08	0.00	0.59	-	-
	364-day	4.00	2.97	0.00	0.74	-	-
24-May	4-year	9.00	35.68	9.00	3.96	5.21	-
30-May	91-day	1.50	3.09	1.06	2.06	2.26	37.40
	182-day	3.50	4.55	0.50	1.30	2.44	148.00
	364-day	4.00	4.55	0.00	1.14	-	-
7-Jun	7-year	9.00	31.65	9.00	3.52	5.94	-1.00
13-Jun	91-day	1.50	2.87	0.74	1.91	2.88	61.60
	182-day	3.50	3.31	0.00	0.95	-	-
	364-day	4.00	8.33	4.00	2.08	2.91	88.10
21-Jun	10-year	9.00	21.25	9.00	2.36	6.50	-
Totals		108.00	306.64	90.50	2.84		

Source: Bureau of the Treasury (BTr)

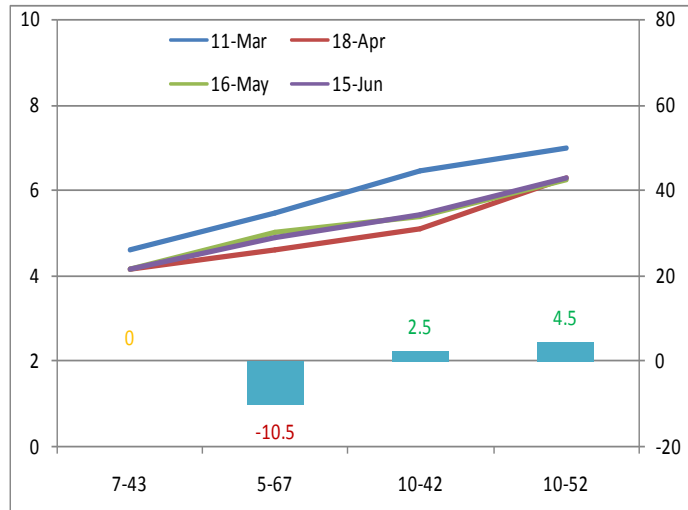
Yield movements were initially kept at a minimum as bond returns bottomed out in May.

Due to the lower-than-expected inflation in May yields on longer-term papers have also been on the downswing as 10- and 7-year bonds showed consistently negative changes in yields. The latest auctions proved there is ample liquidity and high expectations of a further credit upgrade such that the NG was able to keep the rate at 6.5 % for 10-year bonds although there was market pressure towards a higher rate. While the earlier 7-year T-bond offering on June 7th had an oversubscription of 3.52, this slipped to 2.36 for the latest 10-year T-bond auction on June 21st.

Oversubscriptions were 3.25x, 3.87x, and 2.96x for the months of April, May, and June respectively. Total debt papers sold was slightly lower from last quarter's 116 B worth of bills and bonds sold to the public.

Secondary Markets

Figure 8 - FXTN Yields



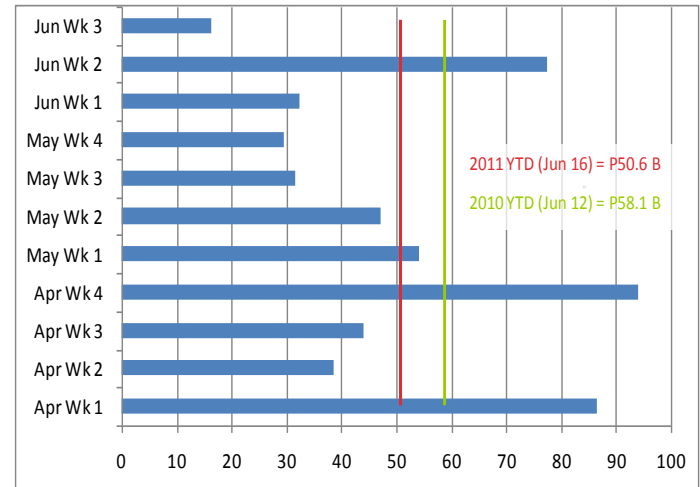
Source: First Metro Investment Corp. (FMIC)

Yield movements were initially kept at a minimum as bond returns bottomed out in May. Volatility was more pronounced by June with shorter tenor yields being weighted down by the latest credit upgrade of the Philippines. Longer-tenor yields had slight upward pressures due to fears of inflationary pressures emanating from China. FXTN series 5-67 with a remaining 3-year life, registered a decline of 10.5 bps; while series 10-42, with basically a 5-year

tenor, and series 10-52, with a 10-year tenor, registered increases of 2.5 and 4.5 bps month-on-month (m-o-m) respectively.

Secondary Trading: Low Yields Led to Lower Trading

Figure 9 - Trade Volume (in billions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

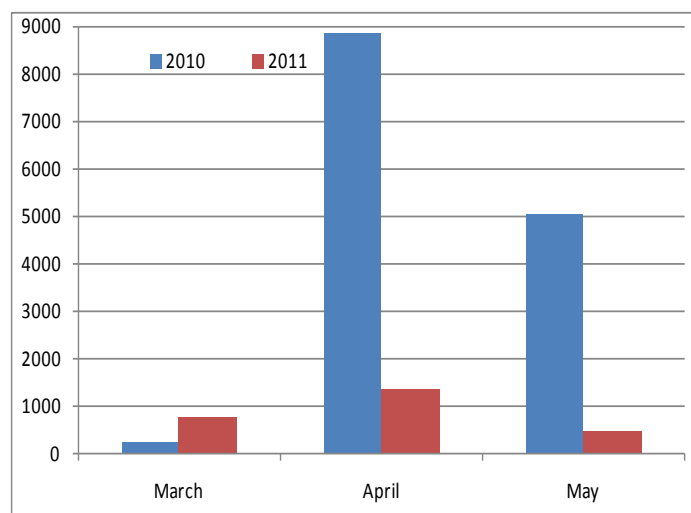
April turnover showed an average growth of 55%, with the first and last week trading very actively and showing triple-digit growth rates. This occurred despite the fact that Holy Week was during the last week of April. May was dismal with an average decline of 23.6% in trading. With rates at historical lows, traders opted to hold bonds to maturity. Trading volume showed positive changes for the first two weeks of June — with P32.2 B and P77.4 B traded, having growths of 8.8% and 140.4% respectively. By the third week of June, trade was down to P16.1 B, a decline of 79.1%, as traders began to fear an upward pressure on yields because of the BSP's move to increase reserve requirements. The year-to-date (YTD) average weekly volume for 2011 was P50.6 B, down from P58.1 B last year.

Secondary Corporate Bond Trading: Down from Year Ago

Corporate volume was substantially lower from May last year, which registered a high of P5,054 M. This year's May turnover totaled only P448 M, representing a 91% drop in total traded volume. This was even worse than April's y-o-y fall of 85%, a m-o-m volume decline of 67%.

Power Sector Assets and Liabilities Management (PSALM) had the highest contribution in volume in April and May last year.

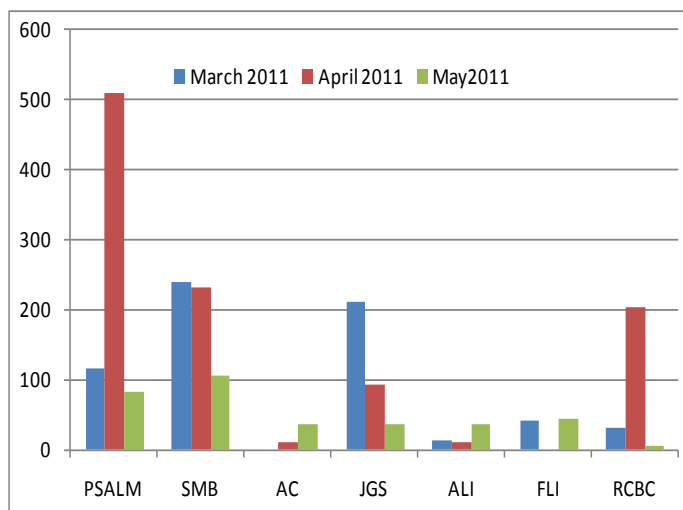
Figure 10 - Total Corporate Trade Volume (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

Power Sector Assets and Liabilities Management (PSALM) had the highest contribution in volume in April and May last year, accounting for 93% and 92% of total volume respectively. This time around, San Miguel Corporation (SMC) topped demand in May with traded papers worth P105 M, followed by PSALM with P82 M. This reversed previous months' trends which saw PSALM bonds in most demand followed by SMC. Last March, SMC had the greatest following, with JG Summit (JGS) and PSALM trailing behind.

Figure 11 - Corporate Trading (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

Corporate Issuances

Financial institutions have taken the spotlight in issuing bonds for the month of June:

- Banco de Oro Unibank, Inc. (BDO) raised P8 B from its sale of notes for Tier 2 capital needs, 60% higher than the original issue plan of P5 B. The notes were priced at 6.50% and have a tenor of 10 years and 3 months from its June 27 issue date. Interest is to be paid quarterly and is tax-exempt, being BSP-approved papers with a maturity of more than 5 years. The notes have a call option after 5 years. Funds will be used to finance expansion plans and enhance the bank's capital adequacy ratio.
- The Philippine National Bank (PNB) raised P6.5 B from its own sale of lower Tier 2 notes. With a rate of 6.75% and a tenor of 10 years, the bond also has a call option after five years.

PSALM debt rating was recently upgraded in line with the upgrade of NG's rating as the government guarantees PSALM's debt. More plans of debt issuances include:

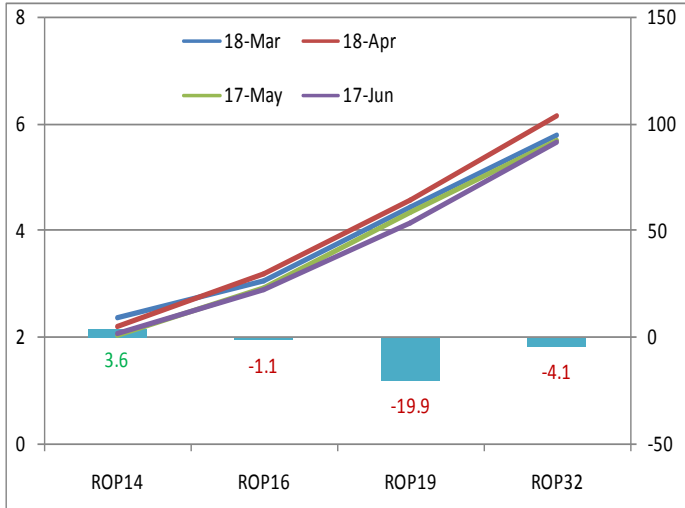
- Filinvest will issue bonds worth P3 B to finance capital requirements. Bonds issued will have a tenor of 5 years and 3 months and the selling should start before the end of June.
- Meralco is mulling over a P3 B notes issue to fund general corporate purposes. Overallotment option is planned at P2 B with a maturity of 7 to 10 years.

ROPs: Yields Ease in Tandem with US Treasuries

Philippines dollar-denominated bonds (ROPs) yields continued to fall albeit at a slower rate than last month. A flattening of the curve is also apparent for ROPs with ROP14 rising by 3.6 bps while ROP16, ROP19, and ROP32 yields easing by 1.1, 19.9, and 4.1 bps. With the latest credit upgrade awarded by Moody, it will be very likely that NG will seek another round of dollar-denominated issuances. Currency deals, however, will be more regulated as BSP circulated an order for all banks to submit non-deliverable forward daily reports instead of weekly reports to curb excessive volatility in the foreign exchange market.

As the flattening of the curve gains traction, more risk-taking by investors will likely follow.

Figure 12 - ROPs



Source: Bloomberg

ASEAN Market + 1: Yield Curves Continue to Flatten

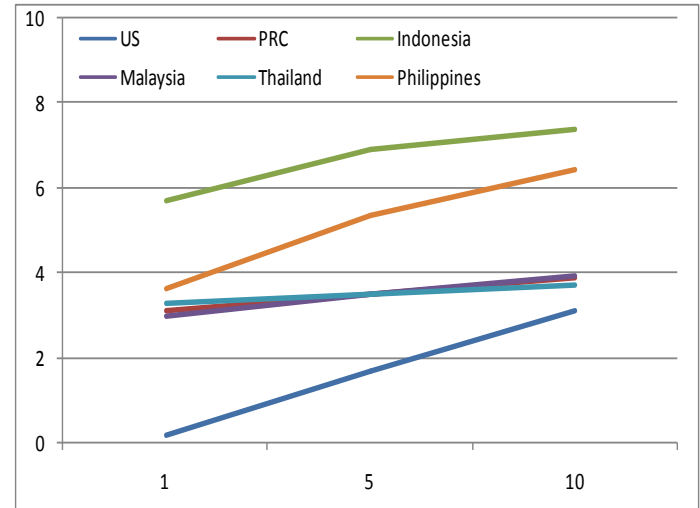
With crude oil prices down to below \$95/barrel (West Texas Intermediate or WTI), inflationary pressures are seen to have subsided a bit resulting in a further flattening of yield curve for all ASEAN countries including the benchmark US Treasuries. As the flattening of the curve gains traction, more risk-taking by investors will likely follow. However, this is being muted a bit by the lack of a credible resolution of the Greek debt crisis. Funds will continue to shift out of investments that rest on the back of strong advanced economies and flow into high yielding investments such as junk bonds and emerging market bonds. Junk bonds have already taken record shares in debt sales in the US, and this trend should follow for emerging markets.

US — Yields for 1-year bonds increased by 1 bps while 5- and 10-year bonds decreased by 11.4 and 5 bps respectively. The latest spread change m-o-m between 10-year and 1-year government papers further narrowed by 6 bps from May. The announcement of a no-go on the possible third round of quantitative easing pulled down inflation expectations that have slightly weighed down on longer-tenor bonds.

PRC — Yields have increased by 20, 7, and 5 bps for 1-, 5-, and 10-year bonds respectively. The latest 10-year and 1-year spread change m-o-m declined by 15 bps. The People’s Bank of China (PBoC) raised reserve ratios (RRR) further to 21.5% of deposits as China’s inflation rate in May rose further to 5.5%. This was fuelled by high food and housing prices.

Indonesia — Yields have decreased by 2.9, 5, and 22.6 bps for 1-, 5-, and 10-year bonds respectively. Thus, the latest 10- and 1-year spread change recorded at a decline of 20 bps. Foreign purchases of government bonds reached Rp11.24 T, compared to Rp3.9 T last May due to the relatively high yields brought by local currency bonds and lower inflation prospects in H2.

Figure 13 - ASEAN Market + 1



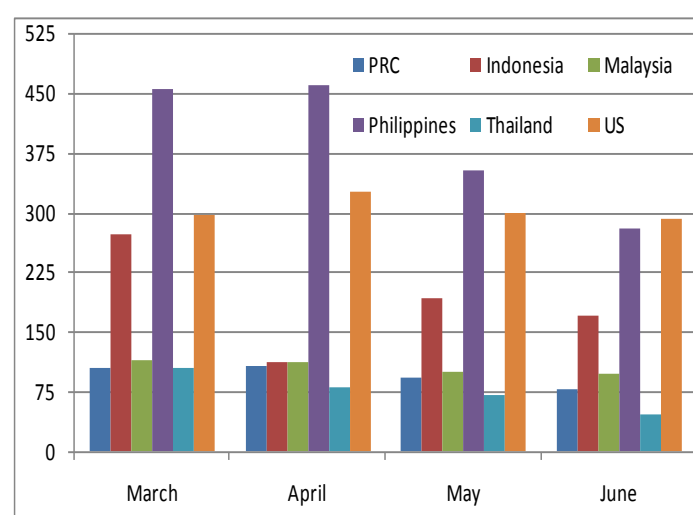
Source: Asian Development Bank (ADB)

Malaysia — A decline in yields was noted across the yield curve. For 1-, 5-, and 10-year bonds, they slid by 4.8, 6.6, and 7.5 bps respectively. The decrease in the 10-year vs. 1-year spread change of 3 bps for Malaysia was the least in the region. Malaysia’s GDP is seen to grow by 6.1% compared to last year’s 7.1% with inflation hovering at 3.2%.

Further policy rate hikes are likely to be on hold in the country and in the region.

Thailand — Yields of 1- and 5-year bonds crept upwards by 20 and 11.7 bps respectively, while 10-year bonds eased by 3.7 bps. The latest 10-year and 1-year spread declined by 24 bps from last month's spread. Thailand raised its policy rate by 25 bps to 3% as consumer price inflation rose 4.2% year-on-year last May.

Figure 14 - Monthly Comparison of 1- and 10-year Spread



Source: Asian Development Bank (ADB)

Philippines — The Philippines registered increases of 96, 17.5, and 23 bps for 1-, 5-, and 10-year. The country showed the sharpest fall in 10-year versus 1-year spread among the ASEAN+1 with decline of 73 bps. Though policy

rates were kept steady by the BSP, reserve ratio was increased by 1 percentage point. The latest spread change resulted in the largest flattening of yield curves among regional peers. However, it remains to have the steepest yield curve in the region.

Outlook

- Commodity, especially crude oil prices slumped, resulting in lower inflationary expectations. Further policy rate hikes are likely to be on hold in the country and in the region.
- Trading papers started to slow down again and this trend may continue until the end of June. The next few months after June months should show better results as the government starts to pump prime and borrow more funds from the money market, resulting in more tradable papers in the market.
- The yield inversion among T-bills will have little effect on the long-run growth of the economy as the papers in question are situated in the shorter end of the curve and in between very near maturities.
- Corporations will find the right market cue from primary markets, particularly a decline or firming in yield rates for long-term bonds, before they issue their own set of long-term debt papers.

Country	1-year rate	10-year rate	Real 10-year yield	Projected Inflation Rates	10-year to 1-year Spread		Spread change (bps)	Latest Policy Rate
					15-Jun	16-May		
					PRC	3.12		
Indonesia	5.69	7.402	1.502	5.9	171.2	191	-20	6.75
Malaysia	2.973	3.948	1.648	2.3	97.5	100	-3	3.00
Philippines	3.625	6.43	1.830	4.6	280.5	354	-73	4.50
Thailand	3.28	3.738	0.238	3.5	45.8	70	-24	3.25
US	0.173	3.097	-0.003	3.1	292.4	298	-6	0.25

Source: Asian Development Bank (ADB)

* computed at current 10-year yield less projected full-year inflation

Looking Forward to the Back-end of 2011

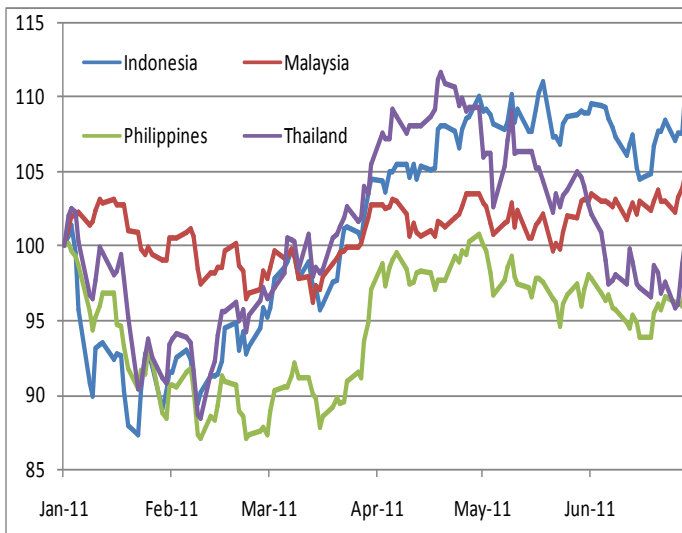
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In the 1st half of 2011, the Philippine equities market has been on a rollercoaster ride. It ebbed in February, flowed late March, and sputtered in early June as it digested risk events from both global and local sources. Spiraling euro-zone debt crisis, the geopolitical in the Middle East and North Africa (MENA), the natural disaster in Japan, tightening pressures locally and in emerging markets (EM), and the soft patch in US economy were the main causes of much of the volatility in our local equities market. However, moving forward, we view sunnier prospects for most EM equities in the back-end of 2011, especially in the Philippines. This is because we believe foreign fund managers' strategy (i.e., favor developed equity markets in the 1st half and rotate back to EM equities in the 2nd half of 2011) at beginning of year to remain intact.

The Philippines, in our view, should be one of the more attractive EM countries for the remainder of 2011. A potential catch up scenario in our local equities in the 2nd half of the year is warranted by the following:

Attractive Entry Points — Morgan Stanley Capital International (MSCI) Philippines index has underperformed its neighbors by a wide margin in the front-end of 2011, except Thailand (the sharp decline in MSCI Thailand, which we think is temporary, was due to the ongoing political uncertainty rather than economic and fundamental issues). The underperformance will likely translate to a good entry point in increasing risk exposure in the Philippines.

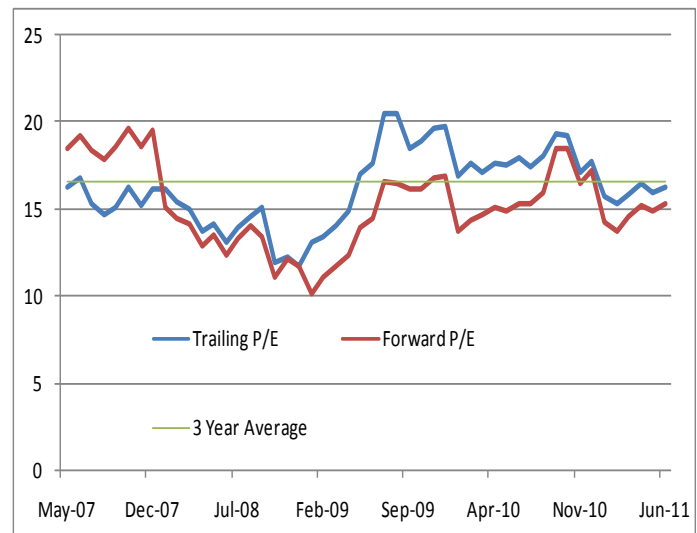
Figure 15 - MSCI Indices of Southeast Asia



Source: MSCI

“Hot Money” Flows to Accelerate — we expect foreign fund inflows into the country to gather momentum on the back of recent credit upgrades. As of this writing, only Standard & Poor's (S&P) is yet to upgrade the Philippines' sovereign rating. Given the upgrades from Moody's and Fitch (Ba2 and BB+ respectively), an S&P credit rating upgrade to BB+ may just be around the corner. Fixed income yields will likely be stable or lower, resulting in spreads converging, which would make Philippine equities attractive from a risk-reward perspective.

Figure 16 - MSCI Philippines Valuation



Source: Bloomberg

Economic Growth Premium — Philippine expansion rate eased to 4.9% in 1st quarter of 2011 in contrast to a revised 8.4% from year ago. Rather than a cause for con-

Odds of an outperformance in the Philippine equities market in the backend of 2011 are high.

cern, we think of it as a shift to a more sustainable growth path. And after taking a much closer examination on the dynamic of the 1st quarter Gross Domestic Product (GDP), we have concluded that expansion revealed a robust private sector (i.e., government spending was negative). Moving forward, the Philippine economy should expand by 5% to 6% in 2011. This is a premium compared to developed markets (DM). For more information, see “The Market Call” May 2011.

Multiples to Compress — While we acknowledge that the trailing valuation of the PSEi is quite challenging based on a historical perspective, valuation levels of MSCI Philippines remain undemanding. On a forward 12-month basis, price-to-earnings (P/E) ratio of the index is at a point which shows potential for compression. This is due to our expectation of better-than-expected corporate profits and upward earnings revisions in the 2nd half of 2011.

Having said these, odds of an outperformance in the Philippine equities market in the back-end of 2011 are high. But these do not warrant complacency. Negative risks events (euro-zone debt crisis, unrest in the MENA region, tightening pressures in most EMs, and the slowdown in the US economy compounded by fiscal pressures) that plagued global equity markets in the 1st half of 2011 are still unresolved. Thus, we have constructed a scenario analysis to assist in our investment decisions (see page 18-19).

Sectoral Performance

Monthly Sectoral Performance				
	31-Mar-11		30-Jun-11	
	Index	% Change	Index	% Change
PSEi	4,055.14	-3.80%	4,291.21	5.82%
Financial	901.66	-6.76%	952.45	5.63%
Industrial	7,038.17	-4.94%	7,227.59	2.69%
Holdings	3,436.99	1.09%	3,542.20	3.06%
Property	1,506.37	-4.29%	1,509.48	0.21%
Services	1,486.52	-6.35%	1,514.02	1.85%
Mining and Oil	14,547.23	5.54%	19,992.43	37.43%

Source of Basic Data: PSE Quotation Reports

Since early April 2011, the Philippine equities market has traded sideways for most of the quarter but was able to record a 5.82% gain. Despite the pullbacks in the months of May and June, all of the sub-indices ended in the green led by the Mining and Oil. The Mining and Oil sector registered a remarkable 37.43% jump for the quarter as higher metals prices and the rush of positive developments continued to prop up prices of mining equities.

Company	Symbol	3/31/11 Close	6/30/11 Close	% Change
Metrobank	MBT	64.20	70.00	9.0%
Banco de Oro	BDO	51.90	54.65	5.3%
Bank of the Philippine Islands	BPI	57.25	58.50	2.2%

Source of Basic Data: PSE Quotation Reports

The Financial sector rose by 5.63% for the quarter as lending continued to be strong. Bank lending by universal and commercial banks for the month of April increased by 14.2% year-on-year (y-o-y), indicating economic expansions in the local scene. This is coupled with the ratings upgrade of the country's top banks by Moody's including MBT, BDO and BPI. Among the top banks under the sub-index, MBT recorded the largest increase of 9.0% for the quarter followed by BDO increasing by 5.3%. MBT recorded the highest profit growth of 21.2% among the top banks during the 1st quarter, and it recently partnered with a leading international payments company to expand its money transfer services from Filipinos abroad. BDO has expressed its interest in acquiring stakes of Philippine Bank of Communications which currently has 64 branches and 41 automated teller machines. BPI was flat for the period still due to unconstructive outlook about the bank's income for the year.

Company	Symbol	3/31/11 Close	6/30/11 Close	% Change
Meralco	MER	258.00	274.20	6.3%
Aboitiz Power	AP	30.00	31.30	4.3%
Energy Development Corp.	EDC	6.01	6.59	9.7%
San Miguel Corporation	SMC	161.30	115.20	-28.6%
Jollibee Food Corp.	JFC	87.20	88.50	1.5%

Source of Basic Data: PSE Quotation Reports

As electricity spot prices picked up, MER, AP, and EDC all posted gains for the quarter.

The Industrial sector bumped up by only 2.69% this 2nd quarter due to the divergence in the performance of its power and food segments. As electricity spot prices picked up, MER, AP, and EDC all posted gains for the quarter led by EDC climbing by 9.7%. Also, expansion has been the major story for these companies. EDC's road to expansion is increasing its generating capacity by 38% to 1,542 MW in a span of five years. Aside from two potential sites in the Philippines, the company is also eyeing three geothermal sites located in Chile, output of which is not yet projected as of the moment. Similarly, AP is also looking at expansion potentials both in its existing operations and in new ones. AP plans to expand the Magat hydropower plant in Isabela and to build a coal-fired power plant in Davao. Lastly, MER, being the largest power distributor in the country, jumped by 6.3% as it aims to also move to power generation through its planned coal-fired power plant with 300 MW capacity. Meanwhile, SMC recorded a loss of 28.6% while JFC gained only 1.5% for the period as inputs were heavily affected by inflation of food commodities. Nevertheless, both companies are off to conducting expansionary measures both in the local and the international markets.

Company	Symbol	3/31/11 Close	6/30/11 Close	% Change
Ayala Corp.	AC	384.80	319.00	-17.1%
Metro Pacific Investments Corp.	MPI	3.26	3.58	9.8%
SM Investments Corp.	SM	519.00	534.50	3.0%
DMCI Holdings, Inc.	DMC	37.35	42.55	13.9%
Aboitiz Equity Ventures	AEV	41.10	42.00	2.2%

Source of Basic Data: PSE Quotation Reports

The Holdings sector grew by 3.06% led by DMC with a 13.9% gain and MPI with 9.8%. DMC and MPI outperformed the other companies because of their jointly-owned Maynilad. Maynilad recently conducted pipe network projects in the southern part of Metro Manila as it capitalizes on its half of the region. Also, Maynilad plans to build 13 sewage treatment plants and secured a \$137.5 M loan from the World Bank to start the first four. Aside from

that, DMC's remarkable profit growth of 61% during the 1st quarter of the year and rumors of its inclusion to the MSCI index helped push its share prices up. On the other hand, MPI was deemed undervalued at the beginning of the quarter so it rallied in April buoyed by its water utility and energy distribution subsidiaries. Meanwhile, SM rose by 3.0% this quarter as it unveiled plans to aggressively expand to the Visayas and Mindanao regions by adding more malls and hypermarkets. The company seeks to add more malls in the southern Philippines since only four SM malls exist outside of Luzon. SM is also redeveloping The Podium from a shopping mall into an integrated commercial complex. AEV ended flat as its 1st quarter earnings results continue weigh down on its stock price.

Company	Symbol	3/31/11 Close	6/30/11 Close	% Change
Ayala Land, Inc.	ALI	15.50	15.60	0.6%
SM Development Corp.	SMDC	7.80	8.20	5.1%
Robinsons Land Corporation	RLC	11.52	12.00	4.2%
Megaworld Corp.	MEG	2.11	1.99	-5.7%

Source of Basic Data: PSE Quotation Reports

The Property sector ended sideways with the lowest growth among the sub-indices for this period led by MEG losing 5.7%. This is despite the 20.5% y-o-y profit growth of the sector during the 1st quarter paced by ALI and SMDC. That is why the companies under the sub-index have taken an aggressive stance to expand in and out of the Metro Manila. MEG plans to spend P25 B as capex for the year in line with its projects such as the Iloilo Business Park and the Bonifacio Uptown. RLC is into developing more office spaces in the Ortigas Central Business District which are designed both for BPOs and traditional corporate offices. SMDC sees profit higher than its first target due to steady demand. It actually plans to expand not just locally but globally as well, particularly in China. ALI is making a mark in Cagayan de Oro after about 70% of Alegria Hills, the company's first high-end residential development in the province, had been sold out. ALI is also developing a commercial complex in the province named Centrio, the second one in Mindanao after Abreeza in Davao.

LC soared by 84.0% for the 2nd quarter as it led the Mining and Oil sector to its double-digit growth.

Company	Symbol	3/31/11 Close	6/30/11 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,324.00	2,312.00	-0.5%
Globe Telecom	GLO	891.00	894.00	0.3%

Source of Basic Data: PSE Quotation Reports

The Services sector ended the period with a 1.85% increase despite the values posted by both TEL and GLO. TEL and GLO ended flat as these two companies continue to discuss the TEL's acquisition of DGTL. The approval of the deal, which was set on June 30, was extended to the next month due to further regulatory hearings. Anti-competition and interconnection issues are some of the concerns that need to be addressed. A new deadline for the deal has not been set so as to be flexible on how long the investigation would take.

Company	Symbol	3/31/11 Close	6/30/11 Close	% Change
Philex Mining Corporation	PX	14.98	23.25	55.2%
Semirara Mining Corp.	SCC	226.80	213.40	-5.9%
Lepanto Consolidated Mining Co.	LC	0.5	0.92	84.0%

Source of Basic Data: PSE Quotation Reports

LC soared by 84.0% for the 2nd quarter as it led the Mining and Oil sector to its double-digit growth. LC is so far the best performing stock in the local equities market zooming by 100% year-to-date. PX meanwhile jumped by 55.2% this quarter after reporting P6.72 B worth of ore production. Although volumes were virtually almost the same as the previous year, better ore grades and metal prices helped buoy revenues this year. PX also reported that the explorations for its Silangan project show that the site contains an estimated \$22 B worth of gold and copper reserves.

Quarterly Turnover

Total turnover for the 2nd quarter rose only by 3.5%, pulled by the softening of the Property and Services sectors. Among the sectors in the green, the Mining and Oil sector recorded the highest growth of 91.5% with an average daily turnover increase of 97.7%. Global risk events

particularly those of the US economy and unresolved euro zone debt problems continue to weigh down on the local equities market. Foreign investors were net buyers by P19.97 B with foreign buying increasing to 22.3% of total market activity this quarter compared to 19.3% during the 1st quarter.

Quarterly Turnover (in millions)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	34,917.8	9.2%	563.19	12.8%
Industrial	92,832.9	-8.2%	1,497.31	-5.3%
Holdings	79,757.1	6.7%	1,286.40	10.1%
Property	35,073.6	-12.3%	565.70	-9.4%
Services	47,280.0	-11.1%	762.58	-8.2%
Mining and Oil	47,250.7	91.5%	762.11	97.7%
Total	337,112.2	3.5%	5,437.29	6.8%
Foreign Buying	150,172.3	19.6%	2,422.13	23.5%
Foreign Selling	130,206.7	0.3%	2,100.11	3.6%

Source of Basic Data: PSE Quotation Reports

Corporate earnings will pick up in the 2nd half of the year. As a result, P/E ratios will compress.

Scenario Analysis - Next 12 Months

Base Case — 70% Probability

Scenarios

Bangko Sentral ng Pilipinas (BSP)

- Inflation peaks at 5.0%-6.0%, year-end policy rates hover around 4.5%-5.0%
- Given the usual lag between monetary policy actions and their related effects, inflationary pressures should recede naturally in late 2011.

Government

- Execution of Public-Private Partnership (PPP) projects deferred to next year.
- Political noises remain as “just” noises or resolved.
- Credit rating upgrade to BB+ by S&P realized.

External Developments

- World — The global economic expansion stays on its path amidst the recession in Japan, the ongoing political tensions in the MENA region, and heightened commodity prices.
- US — The Federal Reserve System (FED) ends quantitative easing 2 (QE2) as planned (end of June). Preferably a slow and data dependent exit.
- Political leaders compromise on raising the debt ceiling and implementing triggers to reduce debts.
- European Union (EU) — Greece restructures, albeit a soft one. Short-term financing help, in addition to longer maturity and lower rates on debt will be needed.
- Haircuts can be avoided in the near-term, but inevitable in our longer-term view.
- The EU remains committed in preserving the euro. Other debt stricken member states stay on track on their austerity path and avoid restructuring.

Investment Implications

Economy

- Real GDP at 5%-6% levels.
- Moderation to a more sustainable and quality growth path.
- No artificial growth (i.e. less government spending).

Philippine Peso

- Foreign exchange (FX) Appreciation Bias Against the USD (0% to +5%)
- Growth premium and credit rating upgrade will result in “Hot Money” inflow.
- However, extent of the appreciation will depend on the BSP’s comfort zone.

Fixed-Income

- Lower Yields.
- Credit rating upgrade will reduce the country’s borrowing costs. Spreads will tighten.
- The potential FX appreciation will be value added to returns for foreign investors.

Equities

- Equities Rally (+10% to +15%)
- Valuations are not challenging despite higher P/E ratios.
- Corporate earnings will pick up in the 2nd half of the year. As a result, P/E ratios will compress.
- High beta stocks to outperform.

The BSP's anti-inflationary stance takes its toll on key sectors, such as domestic consumption.

Scenario Analysis - Next 12 Months

Risk Case — 30% Probability

Scenarios

Bangko Sentral ng Pilipinas (BSP)

- Inflation accelerates higher than our forecast and stays elevated rather than moderating.
- The BSP becomes more hawkish in combating rising inflationary pressures. Year-end monetary policy rate above 5%.

Government

- Economic expansion slows instead of moderating.
- Growth in key sectors such as domestic consumption, lending, and infrastructure are affected by the government's anti-inflationary stance.
- Political noises are louder and worrisome.
- Credit rating outlook remains positive but upgrade to BB+ by S&P not realized.

External Developments

- World — The global economy slows more considerably as aggressive inflation control measures and higher interest rates hamper emerging market growth.
- US — The FED prolongs QE2, with little hint on how it will exit, to support its fragile economy.
- US debt ceiling raised but plans for austerity are limited.
- EU — Greece unable to meet fiscal reform targets and contagion spreads outside the periphery.
- Further capital is needed in Greece, Portugal, and Ireland. Spain's fiscal condition worsens and seeks bailout.
- The EU remains committed in preserving the euro but resistance from stronger member states (i.e. Germany, France, Finland, and Netherlands) for further bailout intensifies.

Investment Implications

Economy

- Real GDP below 5%.
- The BSP's anti-inflationary stance takes its toll on key sectors, such as domestic consumption.
- Growth hampered by high interest rates and other inflation control measures.

Philippine Peso

- FX Appreciation Bias Against the USD (0% to +2.5%).
- Higher rates translate to a higher Philippine Peso. Stronger currency maybe used to combat inflation.
- But extent of the appreciation will depend on the BSP's market intervention.

Fixed-Income

- Yields at higher levels.
- Increase in policy rates on the account of rising inflation expectations.

Equities

- Equities still rally but weaker (+5% to +10%).
- Higher policy rates to put a limit on the rally.
- Company revenues grows but costs accelerates at a higher pace due to inflation.
- Selective outperformance. Flight to equities that are undervalued and have robust forward earnings. Companies that are "Price Setters" outperform those that are "Price Takers."

“How Much Should We Pay for A Stock?”

20 By: Ghia Paula Yuson, Research Analyst, FMSBC and Eduardo Banaag, Jr., VP - Investment Advisory Group, FMIC

Investing in the stock market is never easy. When it's bad, it's bad and one sees all red in his portfolio. But when it's good, it could be so good that one could have money enough for retirement. Last year was a good year for the stock market. The year 2010 was a banner year for the PSE index (PSEi). Investors witnessed the benchmark hit a record high of 4,413.42, and the index ended 2010 with roughly a 37% growth year-on-year. That's greater than what you can earn from just parking your money in the bank.

Phenomenal, yes, but it is possible to still beat such a feat. Note that the PSEi run-up reflects the performance of the “best” stocks along with the unremarkable ones. That alone will tell you that the index is going to lag the true winners. And the key to topping the benchmark is through intelligent stock selection. As an investor (or an aspiring investor), it's doubtful that one would beat the PSEi by just following others blindly or by just picking up whatever rumours one hears. That could lead to awful investment decisions.

Figure 17 - “I've got a stock here that could really excel...”



Source: Kallagher, Kevin. Baltimore Sun

Spotting Mispriced Stocks

Excellent stock selection is about spotting the most “mispriced” stocks. By “mispriced”, this means stocks whose prices are not yet fully reflective of how much the company is really worth and how much the market is paying for the worth of the stocks. In the short run, stocks may tend to be “underpriced” or “overpriced” due to certain factors such as good (or bad) news reports, investor sentiment, and let's not forget, “tsismis”.

The key to spotting mispriced stocks is by knowing how the market is valuing stocks. How does the market value stocks? Other than paying the price at which the stock is

being offered, buyers of stock bid for the stock's “drivers” – earnings growth, dividend payout, volatility of cash flows, etc. By “drivers”, this means that which determines how much the market will inevitably buy your stock. These drivers exert the greatest influence (but not the only) on the price of a stock. Fortunately, for stock pickers, there exists a quantifiable relationship between stock prices and their drivers. It is this relationship that defines how the market is valuing stocks.

Therefore, an investor should keep in mind of two things to be able to select stocks: one, what are the “drivers”; and two, how much is the market actually paying for these drivers?

Figure 18 - The Power of Rumors



Source: CartoonStock.com

Every multiple is affected by three factors namely risk, growth, and the ability to produce cash.

Relationship of Multiples with the Drivers

So how does one select the “bargains” from the “rip-offs”? This is done by noting how much investors are paying for the drivers and then see if they’re buying at cheap or expensive values. We will be evaluating cheap stocks from expensive ones by comparing the market value of stocks with similar companies.¹ Throughout the course of this article, 3 valuation metrics or “multiples” will be used instead of using prices to represent current market values:

Valuation Multiples		
Multiple	Definition	Interpretation
Price-to-earnings (PE ratio)	Ratio of a company's current market value compared to its forecasted earnings-per-share	Firms with higher forecasted earnings should be trading at higher PEs than those with lower earnings forecasts
Enterprise Value (EV)-to-EBITDA	Ratio comparing the current market value of a firm, including debt and other liabilities, to its actual earnings	Used to determine the value of a company, taking debt into account
Price-to-book (PB ratio)	Ratio of a company's current market value to its forecasted book value	Compares market value to the value of the company as indicated in its financial statements

Source: Investopedia

Point blank, stocks with higher multiples are usually treated as expensive and unattractive already while those with lower multiples are seen as low-priced and attractive investments. When investors foresee that a company is going to outperform, they buy the stock, demand exceeds supply and the stock price and multiples are driven higher. This leads to what some investors called overvaluation,

¹ Comparing the prices of assets is more prudent by standardizing the values to scale them to a common variable. It would not be wise to say that an EDC (Energy Dev't Corp) share is cheap compared to an AP (Aboitiz Power) since the former is doing at around P6.60/share while the latter P29.75/share. One has to control for several variables such as how much they earned, to really evaluate them in the same plane. Thus this brings about the use of multiples instead of the actual share prices, which would help the investor judge stocks more fairly.

since the market value of the stock is already fully reflective (or over-reflective) of what the company is worth. Likewise, when a company is seen to weaken, they sell the stock, supply exceeds demand and the stock prices and multiples move lower.

What are then the so called “drivers” of these multiples? It has been said that every multiple is affected by three factors namely risk, growth, and the ability to produce cash. The “drivers” are enumerated in the succeeding table.

The “Drivers”		
Driver	Definition	Interpretation
Expected Growth (g)	Forecasted growth in net income for the next 2 years	How much the market sees the earnings of the company will increase; higher is then better
Beta (proxy for risk)	Measures how much the stock's price moves relative to the overall market	Since this is a measure of risk, higher betas pertain to riskier assets
Return on Invested Capital (ROIC)	Measures profit as a percentage of combined owner's equity and debt investments; shows how much the firm is earning per capital peso (dollar) invested	Higher ROIC means that the company is more efficient in the distribution of funds in its investments
Tax rate (t)	Measures taxes paid as a percentage of pre-tax income	Higher tax rates relate to lower bottom-line or net income
Reinvestment rate (RiR)	Ratio of net income less dividends to common equity	Higher RiR means that less earnings were paid out as dividends
Payout	Shows the percentage of the firm's earnings being paid out in the form of dividends	Higher payout means that more dividends were issued
Return on Equity (ROE)	Measures how much a company returns to its owners or the shareholders	Higher ROE translates to more effective use of the shareholders' investments

Source: Investopedia

Companies with less risk, higher growth and greater ability to generate cash should be valued more or priced higher.

Intuitively, one could say that companies with less risk, higher growth and greater ability to generate cash should be valued more or priced higher. To put it another way, these firms should trade at higher multiples compared to firms with high risk, lower growth and less cash flow.

Relationship of the Multiples with the “Drivers”	
Multiple	Drivers and Nature of Relationship with Multiple
PE Ratio	Expected Growth (↑), Payout (↑), Risk (↓)
PB Ratio	Expected Growth (↑), Payout (↑), Risk (↓), ROE (↑)
EV-to-EBITDA	Expected Growth (↑), Risk (↓), ROIC (↑), Reinvestment Rate (↓), Tax rate (↓)

Source: Damodaran, A. (2006) Damodaran on Valuation, John Wiley & Sons: USA

Box 1.1. Explaining the Quantifiable Relationship with the Multiples and its Drivers

On the on-set, an investor would just scratch his head and think that the drivers mentioned don't have any connection with the multiples listed earlier. However, there exists a quantifiable relationship between these drivers and the PE ratio, PB ratio and EV-to-EBITDA. It may be hard to believe for investors especially for something as random like payout to PE ratio, given the definition. But the PE ratio can also be calculated using the dividend discount model:

$$P_0 = \frac{DPS_1}{r - g_n}$$

where P_0 is the market value of the equity (or the price per share), DPS is the expected dividend per share, r is the cost of equity¹ and g is the expected stable growth rate. Dividing both sides with earnings per share would give you:

$$\frac{P_0}{EPS_0} = PE = \frac{Payout Ratio * (1 + g_n)}{r - g_n}$$

The equation above confirms the quantifiable relationship between the PE ratio and its key determinants mentioned.

When we divide the first equation by book value of equity,

$$\frac{P_0}{BV_0} = PBV = \frac{ROE * Payout Ratio * (1 + g_n)}{k_e - g_n}$$

we come up with the PB ratio and the right hand side of the equation again shows the relationship of the multiple with its drivers.

For EV-to-EBITDA, which is a firm multiple, EV or the value of the firm can also be expressed as:

$$Value\ of\ Firm = \frac{FCFF_1}{WACC - g_n}$$

where WACC is the cost of capital and FCFF or free cash flow for the firm is the measure of the net amount of cash generated for the firm, consisting of taxes, changes in net working capital and investments, and expenses. Dividing both sides by FCFF yields,

$$\frac{Value}{FCFF} = \frac{1}{WACC - g_n}$$

The FCFF multiple then is dependent upon two variables: cost of capital and expected growth. Given the definition of FCFF earlier, other multiples such as that of EBITDA can also be estimated similarly.

$$\frac{Value}{EBITDA} = \frac{(1 + g)(1 - RiR)}{(1 - t)(WACC - g)}$$

To solidify the claim that there is indeed a quantifiable relationship between the multiples and their corresponding determinants, we estimated the relationship via regression analysis. We had selected 38 of the most liquid stocks in the market to ensure that their valuations reflect less manipulation of prices. The multiples of selected stocks are the dependent variables while their drivers are the independent factors. The following table sums up the results of the analysis.

Regression	
PE ratio =	14.1229 + 0.1195 g + 5.1771 Payout – 2.9973 Beta
PB ratio =	2.423 + 0.0220 g + 0.1256 Payout – 1.2437 Beta + 0.0580 ROE
EV-to-EBITDA =	8.9892 + 0.0843 g – 0.0843 RiR – 0.2836 Beta – 0.0869 t + 0.0686 ROIC

¹ Cost of equity represents compensation that the investor demands in exchange for bearing the risk of owning the asset. Increased risk in owning the stock would also increase the demanded compensation.

Vista Land & Lifescapes is trading at similar expected growth rates and with even less risk, albeit with a lower payout.

Spotting the Bargains: The Case of Property Stocks

Now, how does one spot the “bargains” from the “rip-offs”? Since the drivers of a stock and of its peers are a given, one can just “guess-timate” how much the market is willing to pay for a stock and see if the investor is buying it cheap or expensive.

Let’s use a basket of property stocks to illustrate. The market is valuing Robinsons Land Corp. (RLC) at 11.10x PE. If one compares this to the simple industry average, he would initially think that the stock is cheap and buys the stock. Before concluding hastily, one should take a look first its drivers and the drivers of its peers. RLC is also trading at 10.30% expected growth, 45% payout, and with a beta of 1.49. Notice that Vista Land & Lifescapes (VLL) is trading at similar expected growth rates and with even less risk, albeit with a lower payout. But given the similarity in the drivers, an investor could say that VLL is “mispriced” since it’s trading at a lower PE ratio as compared to RLC. As per our calculations, VLL should be valued more thus implicating room for increase in share price.

Philippine Property Stocks: PE Ratios				
	PE ratio	Growth	Payout	Risk
VLL	8.10	8.20	0.11	1.28
SMPH	18.20	6.30	0.44	1.09
RLC	12.10	8.50	0.35	1.45
MEG	8.60	12.70	0.11	1.62
FLI	10.20	1.20	0.27	1.42
ALI	30.70	12.60	0.27	1.22
Average	14.65			

Source: Bloomberg

In terms of PB ratios, VLL seems also to be mispriced. At 0.60x PB, its drivers point out to similar figures to that of RLC, which is trading at a higher PB ratio. One could argue that VLL has a lower ROE but compared again to MEG (with ROE of 8.90) which is trading at 0.90x PB, VLL still seems to be mispriced with an upside bias.

Philippine Property Stocks: PB Ratios					
	PB Ratio	Growth	Payout	Risk	ROE
VLL	0.61	8.20	0.11	1.28	8.20
SMPH	2.74	6.30	0.44	1.09	14.80
RLC	1.17	8.50	0.35	1.45	13.70
MEG	0.91	12.70	0.11	1.62	8.60
FLI	0.68	1.20	0.27	1.42	7.30
ALI	3.15	12.60	0.27	1.22	9.40
Average	1.54				

Source: Bloomberg

Checking out the EV/EBITDA multiples, one could see that VLL is also below the simple industry average. But looking at the drivers of the multiple, it could be seen that it is trading at drivers that are at par with its peers and even better, in terms of the tax rate. Thus even in terms of the EV/EBITDA ratio, VLL is mispriced compared to its peers. One can now say that at 7.00x EV/EBITDA, 0.60x PB, and 7.50x PE and given the multiples of its other peers, VLL is rather “cheap” and we guess-timate that the market should be paying more for the stock.

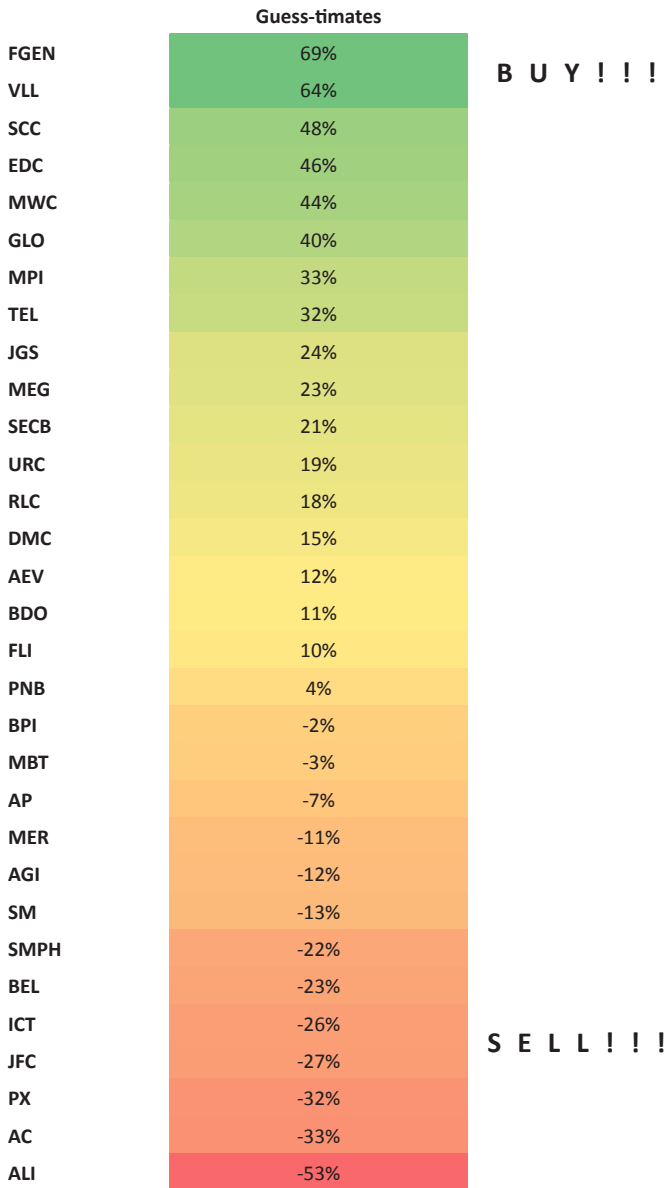
Philippine Property Stocks: PB Ratios						
	EV/EBITDA	Growth	Reinvestment rate	Risk	Tax rate	ROIC
VLL	7.00	8.20	1.80	1.30	6.80	5.80
SMPH	10.30	6.30	2.20	1.10	24.40	9.80
RLC	8.50	8.50	3.50	1.50	5.20	6.00
MEG	5.50	12.70	2.20	1.60	24.00	4.20
FLI	12.90	1.20	1.30	1.40	6.00	4.40
ALI	19.60	12.60	1.80	1.20	3.60	4.50
Average	10.63					

Source: Bloomberg

The top 5 most “underpriced” stocks are then FGEN, VLL, SCC, EDC, and MWC while the top 5 most “overpriced” stocks include ALI, AC, PX, JFC, and ICT.

The Guess-timates Meter

Figure 19 - The Buy/Sell Meter based on Guess-timates

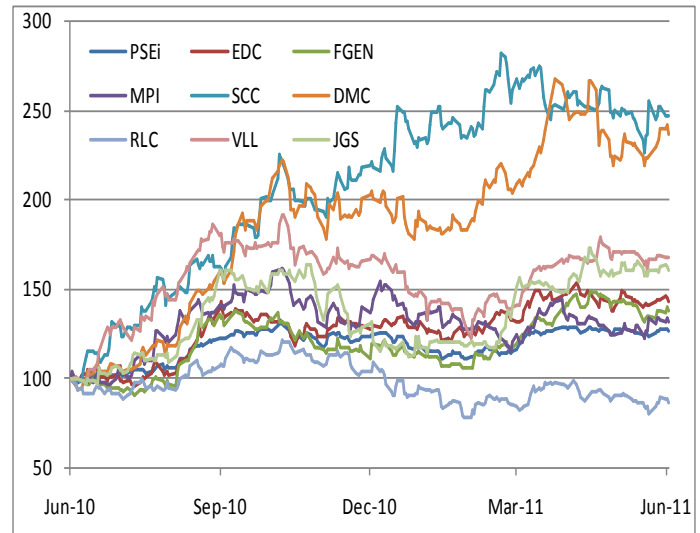


Source: FMIC Estimates

The figure above shows our guess-timates for some local stocks. Based on the stock’s drivers of and of its peers (listed in the table above), we have calculated that the market should be paying 70% more for VLL. At that rate, VLL is also

the most underpriced stock in our list with a positive bias. Meanwhile, we also think that the market should pay 51% less for ALI, making it the most overpriced stock. If we use the table to gauge what to buy and what to sell, we could say that the stocks from DMC all the way up to FGEN are “buys” while stocks from MER all the way down to ALI are “sells”.

Figure 20 - Top “Buy” Stocks based on the Buy/Sell Meter



Source: Bloomberg

The figure above shows the relative performance of some of the top buys in the Buy/Sell meter on guess-timates. Based on the drivers, we had established that VLL is the most “underpriced” and offers the most upside among all the property stocks. True enough, VLL has outperformed the other property stocks (i.e. RLC in the graph) and even the benchmark itself (PSE index). In the “guess-timates” table, FGEN was the most mispriced and the recommended top buy stock. In the graph above, one can see that FGEN has performed relatively well against the index.

Some of the more overpriced firms, from the guess-timates table include 2 Ayala companies. We could say that the overvaluation may be due to the brand name associated with the firms. The top 5 most “underpriced” stocks are then FGEN, VLL, SCC, EDC, and MWC while the top 5 most “overpriced” stocks include ALI, AC, PX, JFC, and ICT.

The key to topping the benchmark is through stock selection by way of picking the most mispriced stocks.

It was earlier said that the key to topping the benchmark is through stock selection by way of picking the most mispriced stocks. If the consensus forecasts a 10% to 20% growth for the benchmark this year, then one could easily beat that by buying stocks that are in the most “under-priced” category. From the table, we see that FGEN should be priced 69% more. Buying that and maybe some VLL (+64%), SCC (+48%), and TEL (+32%), just to have a diversified basket, could lead to more favourable returns.

Of course, timing the entry is also important but that is the subject of chartists and we leave that up to them. We advise investors to do your homework and pick stocks which have better drivers compared to their peers. If it turns out that their “under-priced”, then ride it out since in the long run, prices will eventually catch up and you can just look back and say that you just got yourself a bargain.

Annex 1. Top “Buys” and “Sells” based on Guess-timates Meter

	PE Ratio	PB Ratio	EV/EBITDA	Growth	Payout	Risk	ROE	Reinvestment rate	Tax rate	ROIC
"Underpriced"										
FGEN	10.50	1.20	8.20	45.00	-	1.00	5.90	2.50	25.70	5.90
VLL	7.50	0.60	7.20	5.80	0.14	1.30	8.50	1.80	5.40	5.90
SCC	9.50	3.80	7.50	7.50	0.45	6.70	35.60	6.70	-	13.90
EDC	17.90	3.00	9.50	96.10	0.61	0.90	7.40	1.50	23.00	7.90
MWC	9.30	1.60	6.00	1.40	0.35	0.70	17.50	3.50	24.10	8.50
"Overpriced"										
ALI	29.30	3.10	19.70	9.20	0.27	1.20	10.70	2.00	20.20	6.20
AC	17.70	1.40	24.40	-4.30	0.48	1.00	9.70	1.90	15.70	5.00
BEL	30.60	3.40	24.30	88.80	-	1.10	7.20	2.40	11.80	5.20
PX	23.90	4.80	12.20	1.70	0.14	0.80	24.20	4.70	30.90	75.00
JFC	26.00	4.60	11.50	22.20	0.77	0.90	18.60	0.30	24.60	14.10

Source: FMIC Estimates

Recent Economic Indicators

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NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (in P millions)

	2009		2010		4th Quarter 2010			1st 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%	200,959	34.7%	4.1%	170,499	-15.2%	4.2%
Industry Sector	1,666,601	-1.9%	1,859,515	11.6%	497,101	11.2%	6.5%	456,334	-8.2%	7.2%
Service Sector	2,966,895	3.4%	3,179,358	7.2%	836,818	6.7%	6.4%	771,178	-7.8%	3.7%
Expenditure										
Household Final Consumption	3,817,908	2.3%	3,945,827	3.4%	1,122,734	21.7%	4.9%	968,199	-13.8%	4.9%
Government Final Consumption	548,297	10.9%	570,208	4.0%	117,421	-8.6%	-6.6%	130,026	10.7%	-17.2%
Capital Formation	899,333	-8.7%	1,183,650	31.6%	406,541	69.1%	25.7%	336,004	-17.4%	37.0%
Exports	2,385,812	-7.8%	2,886,133	21.0%	605,208	-27.5%	16.8%	687,530	13.6%	3.3%
Imports	2,354,109	-8.1%	2,884,280	22.5%	732,342	-1.1%	21.9%	709,872	-3.1%	8.8%
GDP	5,297,240	1.1%	5,701,539	7.6%	1,534,877	11.2%	6.1%	1,398,011	-8.9%	4.9%
NPI	1,691,527	25.0%	1,859,847	10.0%	459,939	2.6%	3.9%	477,824	3.9%	0.0%
GNI	6,988,767	6.1%	7,561,386	8.2%	1,994,817	9.1%	5.6%	1,875,836	-6.0%	3.6%

Source: National Statistical Coordination Board (NSCB)

	2008		2010		Mar-11			Apr-11		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
Revenues										
Revenues	1,134,642	15.9%	1,207,926	7.5%	107,152	33.9%	10.6%	138,335	29.1%	11.1%
Tax	932,004	8.5%	1,093,643	11.4%	96,645	32.4%	14.8%	126,782	31.2%	10.4%
BIR	711,591	9.2%	822,623	9.6%	71,562	34.0%	22.7%	103,393	44.5%	13.4%
BoC	210,524	6.2%	259,241	17.7%	23,500	26.5%	-5.6%	22,440	-4.5%	-1.5%
Others	9,889	8.9%	11,779	6.8%	1,583	60.5%	56.9%	949	-40.1%	3.7%
Non-Tax	202,488	69.7%	113,877	-19.5%	10,507	49.5%	-16.6%	11,551	9.9%	20.4%
Expenditures										
Expenditures	1,144,064	9.9%	1,522,384	7.1%	125,283	23.4%	-22.1%	112,077	-10.5%	-8.0%
Allotment to LGUs	193,712	10.9%	279,552	5.6%	24,627	-6.5%	-4.3%	24,450	-0.7%	10.7%
Interest Payments	266,833	-14.0%	294,244	5.5%	32,732	47.8%	-18.0%	11,432	-65.1%	-27.0%
Others	683,519	22.9%	948,588	8.0%	67,924	28.1%	-28.6%	76,195	12.2%	-9.4%
Overall Surplus (or Deficit)	-62,198	-57.6%	-314,458	5.3%	-18,131	-15.6%	-128.4%	26,258	-244.8%	910.3%

Source: Bureau of the Treasury (BTr)

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

	2009		2010		May-11		
	Annual Levels	Growth Rate	Annual Levels	Growth Rate	Levels	Annual G. R.	YTD
TOTAL	27,271	1.7%	29,976	9.9%	2,572	-2.5%	-0.9%
Residential	8,901	3.2%	9,535	7.1%	845	-4.1%	-77.9%
Commercial	10,796	3.0%	11,683	8.2%	997	-1.0%	0.7%
Industrial	7,439	-1.6%	8,616	15.8%	718	-2.7%	-1.0%

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		Mar-11	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Levels	Growth Rate
RESERVE MONEY	912,132	8.8%	1,011,270	10.9%	1,057,333	4.31%
Sources:						
Net Foreign Asset of the BSP	1,886,514	17.7%	2,272,685	20.5%	2,843,047	39.54%
Net Domestic Asset of the BSP	-974,382	-27.6%	1,261,415	29.5%	-1,785,714	74.42%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,087,408	19.2%	1,233,927	13.5%	1,319,049	8.07%
Money Supply-2	3,562,217	12.6%	3,893,063	9.3%	4,201,734	10.57%
MONEY MULTIPLIER (M2/RM)	3.91	3.4%	3.85	-1.5%	3.97	6.0%

Source: *Bangko Sentral ng Pilipinas (BSP)*

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