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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

Economic Data Confirm Slowdown

Higher crude oil prices, brought about by the Middle East and North African (MENA) political turmoil, and a festering debt crisis in the euro-zone, have finally dented Philippine economic growth. The resulting higher inflation rate and lower export growth in first quarter of 2011 have translated into a 4.9% Gross Domestic Product (GDP) growth for the period compared to a 6.1% expansion in the previous quarter. In addition, the Bangko Sentral ng Pilipinas (BSP) raised further its policy rates in May to 4.5% or 0.25% from the previous quarter, which may further dampen growth.

The good news is that the National Government (NG) posted a large budget surplus in April to enable it to have a 4-month surplus of P61 M compared to a deficit of P132.1 B a year ago. This augurs well for long-term interest rates and for lessening the country's high debt-to-GDP burden of 55% as of end 2010. Another plus factor that got buried in the plethora of "bad news" is the 37.0% growth in investment spending for Q1.

4.9% Q1 GDP Growth "Disappoints"

Q1 2011 GDP growth rate of 4.9% disappointed the markets which had a consensus estimate of 5.3% and our own just-below-6% outlook. After a re-basing of the National Income Accounts, the Q1 expansion represented a meaningful slowdown from 6.1% (revised from 7.1%) in Q4 2010 and the revised full year 2010 GDP climb of 7.6%. It should be noted that the revisions and the current estimates have been the result of moving the base year to 2000 from 1985, and using chained price index as against fixed weights in the past.

Looking at the supply side of GDP, this deceleration was caused solely by the below trend rise of the Services sector (at 3.7%) as the Agriculture, Hunting, Forestry, and Fishing (AHFF) and Industry sectors both significantly gained by 4.2% and 7.2%, respectively. Diminished government spending (-4.5%) and a very weak Trade subsector (+0.8%) pulled down growth.

The AHFF sector had a slight improvement from 4.1% to 4.2%. This was primarily driven by the double-digit growth rates of Palay (15.4%), Corn (19.6%), and Sugarcane (26.3%) crops. These, coupled with the positive rates of Banana, Cassava, Rubber, Livestock, Poultry, and Agricultural activities & services, were able to offset the losses in other lower weighted categories which includes Coffee (-10.9%) and Forestry (-12.1%).

At the same time, the Industry sector led growth during the period with an acceleration to 7.2% from Q4 2010's 6.5%. This was made possible by the continued faster pace of Mining & Quarrying at 18.6% (from 6.9% in the previous quarter) and robust expansion of Manufacturing (up 8.6% from 6.5% in Q4 2010). However, the Industry sector was pulled down by Electricity-Gas-Water (EGW) which turned negative to -0.4% from 9.4%. Construction, on the other hand, had a marginal downward impact as it slowed down to 4.0% from 4.6% in the previous quarter.

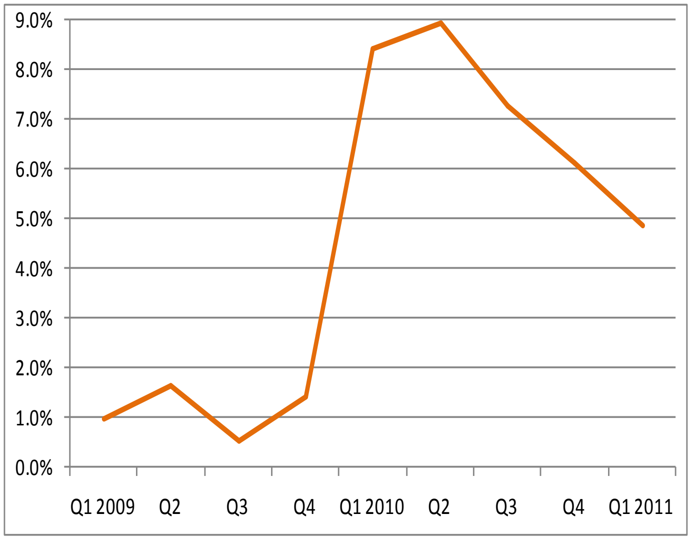
The surprising slide in the Services sector from 6.4% to 3.7% has been attributed to the under spending of the Government subsector (now Public Administration & Defense, PAD) resulting in its -4.6% fall. But the bigger impact came from Trade & Repair's (TR) weak 0.8% increase. After all, TR accounts for some 27% of the sector's output compared to 7.7% for PAD. Besides, only the Transport-Storage-Communication subsector had a higher annual growth rate record for Q1 as it expanded from 1.4% to 5.5%. All the other subsectors retarded simultaneously. Financial Intermediation dropped to a single-digit 5.4% uptick and Real Estate, Renting, & Business Activities slowed down from 9.4% to 5.9%.

Meanwhile, in the seasonally adjusted quarter-on-quarter (q-o-q) growth rates, only the Industry sector had a consistent effect on GDP. It gained pace from 2.1% in Q4 2010 to 3.2% in Q1 2011. The AHFF and Services sectors contrasted from the original growth rates as AHFF decelerated from 1.8% to 0.9% and Services gained from -0.7% to 1.3%. With these results, it is still evident that the Industry sector remains to be the most crucial driver of economic growth.

The sectors which greatly influenced the higher inflation rate were Fuel-Light-Water (FLW) and Services .

Viewing the GDP from the demand side, its slow down was characterized by decelerations in Government Final Consumption Expenditure (GFCE) and Exports. GFCE became more negative from -6.6% to -17.2% while Exports substantially eased from 16.8% to 3.3%. Only the faster pace of Investments from 25.7% to 37.0% boosted the GDP.

Figure 1 - Gross Domestic Product Growth (y-o-y)



Source: National Statistical Coordination Board (NSCB)

For the Gross National Income (GNI), the lower GDP record and Net Primary Income (NPI) naturally led to its slow down. For Q1, NPI went down from 3.9% to 0.0%. This was affected by the continuous downward trend of OFW remittances in peso terms for the same quarter (negatively affected by the peso appreciation, see section "Is the Weaker Peso a Temporary Phenomenon?"). With this, GNI was brought down to 3.6% from 5.6%.

The actual GDP growth rate of 4.9% was a full percentage point lower than our below-6.0% projection, as a result of the extraordinarily weak record of the Services sector. This weaker expansion will continue for the rest of H1 2011. However, it is expected to recover in H2 because of the higher NG spending in terms of investments in infrastructures merited by the current budget surplus. Another reason is the fact that despite a negative pull from government spending, the GDP descent of 4.9% shows that the private sector is still growing healthily.

Petroleum Pump Prices & Utility Rates Push April Inflation to 4.5%

A surge in petroleum pump prices and utility rates pushed the headline inflation rate up to 4.5% in April from a steady reading of 4.3% in the previous two months. Core inflation also accelerated from the revised 3.5% in March to 3.8% brought about by the higher growth rates in all the commodity groups except Food-Beverage-Tobacco (FBT).

In terms of y-o-y growth rate, the sectors which greatly influenced the higher inflation rate were Fuel-Light-Water (FLW) which sped up from its previous 7.8% to 8.8% and Services which went up to 6.5% from 5.7%. The other sectors, otherwise, had very minimal changes. Clothing, Housing and Repairs, and Miscellaneous prices inched up a bit faster by 0.1% points to 1.9%, 2.2%, and 1.2%, respectively. Bucking the trend, FBT prices decelerated to 4.2% from 4.4% but this was not enough to counter the higher prices in all the other sectors.

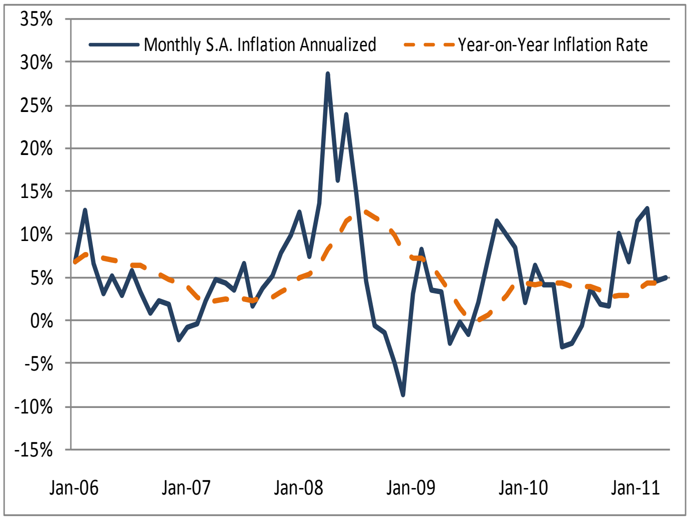
Meanwhile, m-o-m inflation registered a faster rate of 0.8% from only 0.3% the previous month due solely to the growth in FLW as all the other sectors either maintained its rates or had lower record for the same month. FBT, Housing and Repairs, and Miscellaneous maintained their rates at -0.1%, 0.2%, and 0.2%, respectively. Meanwhile, Clothing and Services eased from 0.3% to 0.2% and 1.3% to 1.0%, respectively. All of these were counter-weighted by the significant rise in FLW from 0.6% in March to 6.4% in April.

The seasonally adjusted annualized rate (SAAR) also picked up from the revised 4.5% to 4.9% due to the higher SAAR of non-food items which went up to 10.4% from 7.2%, offsetting the fall in the SAAR of food items from 1.8% to -0.3%.

Because of the higher oil prices, inflationary pressures continue to persist in the mindset of people. Fortunately, because the Department of Agriculture states that rice stocks remain at double-digit growth rate (11.1%) and as rainfall is expected to increase, there is positive outlook in Palay and Corn output in the coming months. Besides, *SDA climbed further to P1.49 T, up from 84.4% to 89.4%.*

crude oil prices (West Texas Intermediate, WTI) fell by more than 10% to below $100/barrel on May 5 (US time) and have stayed in that range throughout the month because of weaker demand. Because of the foregoing factors, we maintain our below 5.0% average in Q2 2011 even with the higher rice inflation rate of 1.3% from 1.0%.

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



Source: National Statistics Office (NSO)

P61 M Surplus for Jan-Apr Surprises

Robust revenue gains together with weaker spending combined to give the NG a surplus of P26.3 B in April, bringing about a surprising cumulative surplus of P61.0 M for the first four months of 2011. The surplus is a complete reversal of 2010's deficit of P131.8 B. Because of this, it is highly unlikely for the NG to exceed its programmed budget deficit of P152.1 B for H1 2011.

Total revenue in April reached P138.3 B or another double-digit y-o-y growth of 11.1% from 10.6%. However, tax revenues decelerated from 14.8% to 10.4% due to the negative performance of the Bureau of Customs (BoC). Its collections dropped by 1.5% from year ago levels, even though this was slightly better than the 5.6% fall in March. Bureau of Internal Revenue's (BIR) tax take was up by a respectable pace of 13.4% (or close to our benchmark of 15% growth rate required for sustainability) but slowed from 22.7% in March. This was caused by low tax collections from Treasury bills and bonds sales as NG rejected a number of auctions.

NG continued to underspend as total expenditures, amounting to P112.1 B, actually fell by 8.0% from April 2010. This was, however, an improvement from March's -22.1%. The main reason for the reduced spending was lower interest payments which plunged by 27.0% from a year ago. That was good news. Not so favorable in terms of economic stimulus was the 5.2% decline in non-interest expenditures. Moreover, the previous year was an election year and the presence of El Niño prompted the government to allot monetary support for the farmers.

The current surplus makes it highly probable for the deficit in 2011 not to exceed P250 B (or way below the budget deficit target of P290 B). It also leaves a lot of room for the government to spend more on infrastructures and on safety nets for the poor in the coming months. Finally, it will mean a larger primary surplus than earlier targeted and a sharper 3-4% points reduction in the debt-to-GDP ratio by the end of the year.

BSP Raises Policy Rates to 4.5%

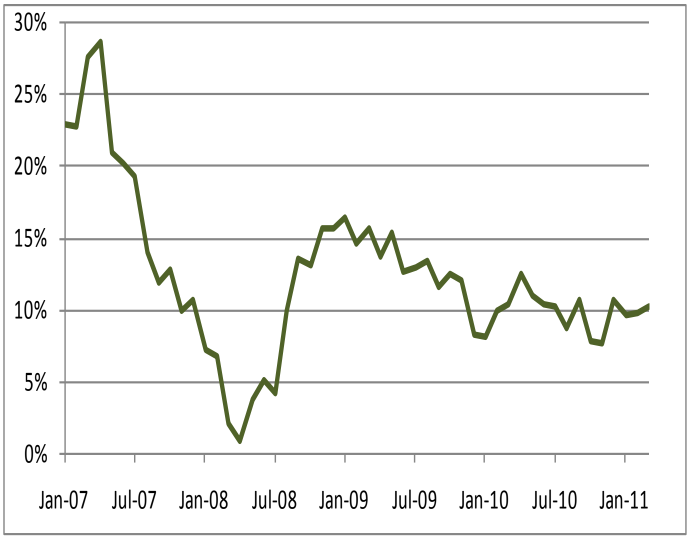
In the last Monetary Board (MB) meeting of the BSP on May 5th, it decided to increase their key policy rates by another 25 basis points. This was because of the rising fear of continued oil price hikes causing the inflation rate for the month of April to spike. With this, reverse repurchase (RRP) or overnight borrowing increased to 4.5% and repurchase (RP) or overnight lending went up to 6.5%. The special deposit accounts (SDA) interest rate was also raised accordingly from 4.5% to 4.6%. The BSP move came a day ahead of the surprising plunge in crude oil prices.

Last March, Reserve Money (RM) continued to slow down from February's 6.0% to 4.3%. In spite of the higher Net Foreign Asset (NFA) of BSP from 32.9% to 39.5%, it was not enough to offset the acceleration of their Net Domestic Asset (NDA) growth to 74.4% from the previous 57.0%. At the same time, SDA climbed further to P1.49 T, up from 84.4% to 89.4%. Simultaneously, M2 and M3 continued

The actual level of total exports in March was higher compared to February registering at US$4.4 B from US$3.9 B.

their mini-recoveries as both registered double-digit y-o-y growth rates. M2 and M3 further improved from 10.1% to 10.6% and from 9.8% to 10.3%, respectively.

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



Source: Bangko Sentral ng Pilipinas (BSP)

Due to the persistent MENA conflicts, fear of oil price volatility remains and kindles worries concerning the BSP's inflation target of 3-5% for H1 2011. With the European debt crisis continuing to fester and the dip in oil prices, it is now less likely that the target will be breached this year, although the full-year inflation rate will likely fall in the upper range of the target.

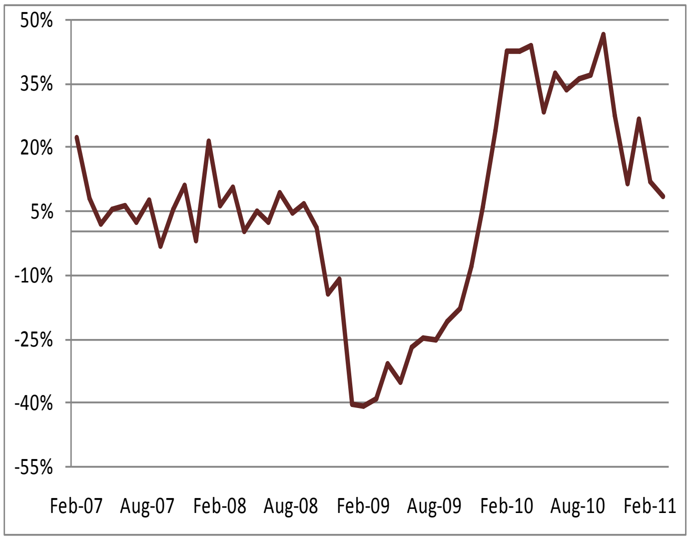
March Exports Slows Further to 4.0%

Weaker exports of electronic products have cut the pace of total exports growth to 4.0% in March, or further down from February's 8.2% (y-o-y) climb. The actual level of total exports in March was higher compared to February registering at US$4.4 B from US$3.9 B — a huge improvement on m-o-m growth rate from -3.4% to 12.6%. Thus, the average annual growth rate of 2011-Q1 exports fell to 8.0% from 2010-Q4's 21.8%.

While electronics exports (-7.4%) did not drop as much as other products, it had the largest impact, since these constituted 51.5% of total exports. The deceleration in the annual growth rate of exports was abetted by the negative growth rates of three products: Other Products Manufactured from Imported Materials on Consignment Basis (-23.7%), Metal Components (down to -10.3%), and Ignition Wiring Set & Other Wiring Sets Used in Vehicles (-2.3%). But despite these red numbers, some exported products' growth actually accelerated during the same month. These are Petroleum Products (+315.5%), Coconut Products (+78.5%), Fresh Bananas (+52.5%), Woodcrafts and Furniture (+50.9%), Cathodes and Sections of Cathodes and Refined Copper (+21.8%), and Articles of Apparel and Clothing Accessories (+1.9%). Since these are also big-ticket items, their gains helped keep the y-o-y growth rate of March exports positive.

Meanwhile, the substantial improvement in the m-o-m growth of exports can be attributed to the acceleration in all the different commodity groups. From previous negative m-o-m rates in February, Total Agro-based Products went up from -17.4% to 23.3%, Manufactures recovered to 6.9%, and Forest Products reversed from -35.4% to 6.5%. In addition, Mineral Products exports growth rocketed from 6.1% to 98.2%; while Petroleum Products, though staying at negative growth, improved from -43.2% to -18.9%.

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



Source: National Statistics Office (NSO)

In actual peso terms, the 4.9% appreciation transformed OFW $-remittances to P70.3 B.

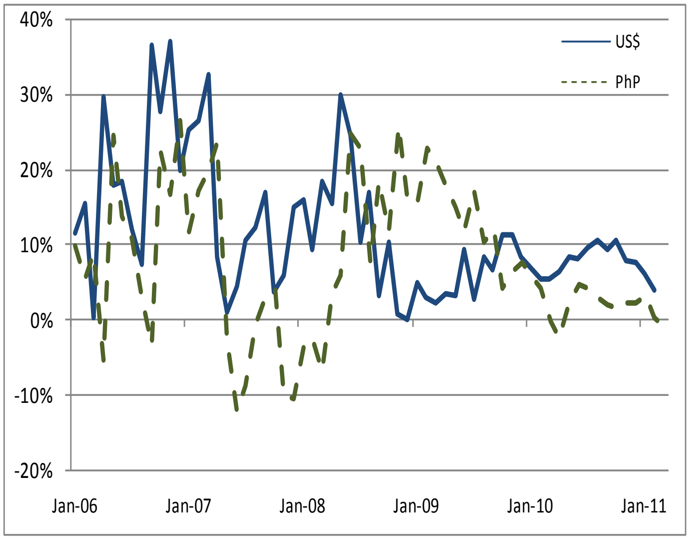
Looking at export destinations, the top three markets for Philippine products continue to be Japan, US, and People's Republic of China (PRC). Japan accounted for 17.5% of total exports, while the US and PRC made up 14.0% and 11.5%, respectively.

The actual Q1 growth rate of exports was slightly lower than our 9.0% estimate; however, because of justifiably higher exports to Japan and actual figures pointing to a recovery, we maintain our view that exports growth will improve in the coming months.

OFW Remittances Also Lose Some Steam

The combined MENA political and euro-zone's debt crises appear to be taking a bite off Overseas Filipino Workers' (OFW) remittances as a slower pace of growth of 4.1% (y-o-y) was seen in March. This was more sluggish compared to the previous month's 6.2% despite actual dollar inflows inching up to $1.6 B from February's $1.5 B. This brought the y-o-y growth rate of remittances in Q1 2011 down to 6.0% from Q4 2010's 9.3%.

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



Source: Bangko Sentral ng Pilipinas (BSP)

Consequently, the Department of Labor and Employment (DOLE) has been trying to promote entrepreneurship among the OFWs, especially the women. In the Philippines, it recently launched a new project called "Balik-Pinay, Balik-Hanapbuhay" for returning OFW women which aims to equip them with skills that are highly in demand in the local market. In Italy, leadership and social entrepreneurship training has also been offered in hopes of providing more opportunities for OFWs by presenting to them other kinds of professions.

Looking at its peso equivalent, OFW remittances y-o-y growth rate turned negative at -1.0% from 0.2%. This was due to the appreciation of the peso. The average peso-dollar rate in March was down to P43.52, which was 4.9% lower than P45.74/$ a year ago. In actual peso terms, the 4.9% appreciation transformed OFW $-remittances to P70.3 B, slightly lower than the P71.1 B record during the same period last year.

While we may expect seasonal upticks in these inflows in May and June, the peso will continue to be stronger than its year ago levels. Thus, the peso equivalent of OFW remittances would continue to be low and will not provide their usual stimulative effect to the Philippine economy.

Is the Weaker Peso a Temporary Phenomenon?

The unresolved euro-zone debt crisis and perceived stronger US recovery than other advanced countries have enabled the US dollar to strengthen against major currencies as a safe haven in May. Correspondingly, the peso had a depreciation bias for most of the month.

But will this weakness last?

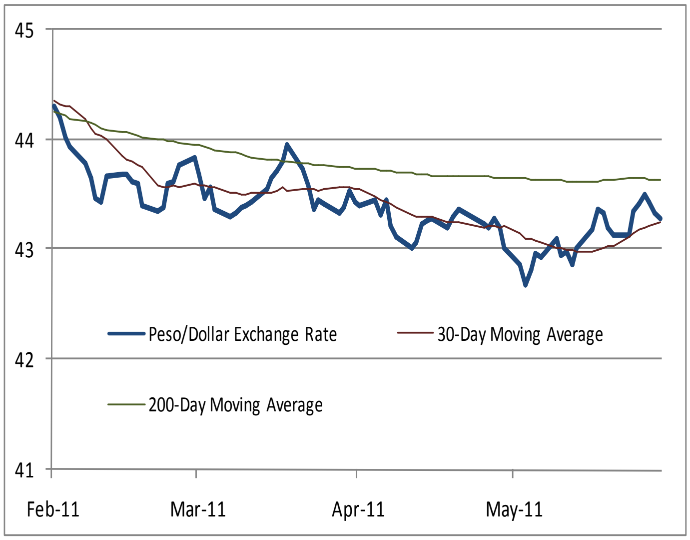
It may be recalled that unlike bouts of weakness that were felt in March, the peso took a definitely stronger track in April when the peso-dollar rate averaged P43.24/$ from P43.52/$ the previous month. In the first few weeks of May, we can see that the strengthening trend of the peso remained intact.

In general, the peso has tracked the movement of the exchange rates of other Asian countries, as the MENA or Greek crises continue to unfold.

As investors became more risk-averse following the downgrade of the sovereign rating of Greek bonds by Moody's and Fitch, profit-taking was seen in the local bond and stock markets. The seasonal stronger inflow of OFW remittances in May was not able to offset this negative pressure on the peso.

Nevertheless, there remain positive reasons for buoyancy of the peso. One is the significantly lower-than-expected budget deficit reported for the first quarter. Also, inflation remains relatively subdued. And so, in general, the peso has tracked the movement of the exchange rates of other Asian countries, as the MENA and Greek crises continue to unfold.

Figure 6 - Daily Peso-Dollar Exchange Rate



Source: National Statistics Office (NSO)

Based on technical analysis, the exchange rate's 30-day moving average (MA) continues to be below the 200-day MA, providing some basis for expecting a stronger peso. However, the 30-day MA has reversed from a downward path and is heading towards the 200-day MA.

Given the uncertainties in the external environment and the BSP's reluctance to take up more exchange rate losses (per books, though), we don't see any major movements in the peso whether upward or downward. In short, we still see the peso trading within the P43-44/$ range into the third quarter.

Outlook

While the slowdown was evident, part of the reason was that the NG underspent significantly in Q1, which means that the private sector's growth was better than 4.9%, indicating that it remains in a healthy condition for further expansion.

- GDP growth Q2 may be a little better than Q1 as we expect exports growth to recover, investments to continue rise, and the government to spend more than it did in Q1.

- Inflation is likely to remain within the 4.5-4.7% range for Q2 due to very stable rice and other food prices and the more than 10% fall in crude oil prices on May 5th.

- Tax revenues may slow down in Q2, particularly for BoC, on account of lower oil prices and peso appreciation vis-à-vis year ago levels.

- Monetary policy is unlikely to change given our view that the headline inflation rate will not accelerate substantially in Q2.

- The peso will be volatile with a slight positive bias but will be subject to the changing and complex external environment.

Forecasts				
Rates	**May**	**Jun**	**Jul**	**Aug**
Inflation (y-o-y %)	4.5%	4.6%	4.7%	4.7%
91-day T-Bill (%)	1.89%	2.01%	2.19%	2.33%
Peso-Dollar (P/$)	43.13	44.42	44.74	45.12
10-year (%)	6.29%	6.32%	6.41%`	6.51%

Source: Authors' Estimates

Policy Rate Rise Not Felt in Longer-Dated Bonds

The historic low of 0.568% for 91-day T-Bills on May 2nd was short lived as policy rates brought up yields in the shorter end of the yield curve by the third week. The Bangko Sentral ng Pilipinas (BSP) hiked its policy rates anew by 25 basis points (bps), totaling to 4.5% for overnight borrowing and 6.5% for overnight lending, to diminish inflation expectations and valuing the real interest rate at 0%. These developments, however, failed to push up yields in longer-dated bonds as fresh economic data, particularly in the fiscal front, were positive. Yields in the secondary markets for these benchmark bills, however, have started to ease.

The latest official figures show that Special Deposit Accounts (SDAs) surged 89 percent in Q1 while demand for foreign currency swelled as portfolio capital moved out of the country. The high bids, leading to the rejection of bids, for T-Bills may be due to BSP offering more attractive rates on SDAs to a minimum of 4.5% in tandem with the policy rates (i.e., reverse repo rates). The BSP thus continues to siphon off huge doses of liquidity in the form of SDAs.

Sovereign debt crisis in the euro-zone and the current unrest in the Middle East and North Africa (MENA) continue to bear on the money markets inducing slightly greater risk-aversion among investors.

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-May	91-day	1.5	6.43	2.1	4.29	0.57	-11.20
	182-day	3.5	6.65	3.5	1.90	0.96	7.00
	364-day	4.0	8.74	4.0	2.19	2.03	6.40
10-May	7-year	9.0	40.69	9.0	4.52	5.95	-55.20
16-May	91-day	1.5	2.98	1.4	1.99	1.89	132.10
	182-day	3.5	2.08	-	0.59	-	-
	364-day	4.0	2.97	-	0.74	-	-
24-May	4-year	9.0	35.68	9.0	3.96	5.23	-
Totals:		36.0	106.20	29.0	3.66		

Source: Bureau of the Treasury (BTr)

Primary Markets: Risk Aversion Prompts High Bids from Investors

The National Government (NG) stance which showed a fiscal surplus for January-April surprised the market late in May. The NG debt decreased to P4.655 T as of end- February, a P86 B decrease from previous debt levels. Guarantees issued by NG dropped to P546 B, lower by P4 B from end-January 2011 level. This gave it confidence in the issuance of its debt papers (or rejection of tenders) for possibly better prices and lower yields.

The first week of May delivered slightly higher rates for 182- and 364-day T-Bills as average yields hit 0.96% and 2.03% with a fair amount of over subscription. By the third week, however, market pressures attributed to the aftershock of the recent hike in policy rates has set in. Investor bids were hyped with high bids reaching 1.889 for 91-day T-Bills. While the NG accepted the bids for the shortest dated T-Bill, bids for 182- and 364-day T-Bills were all rejected with undersubsctriptions of 0.59 and 0.74 times.

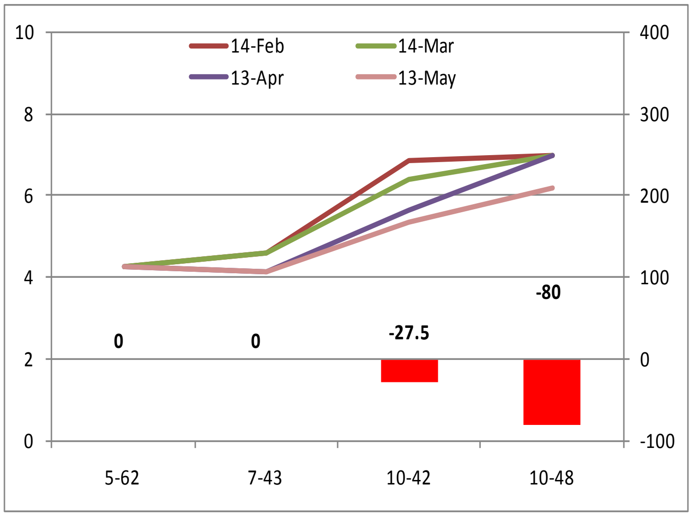
The market is expecting higher yields in T-bonds with longer tenors based on faster inflation starting May.

Long-dated bonds showed better results on May 10th as 7-year bonds were oversubscribed 4.5 times, reigning in a high and low yield of 5.948% and 5.75% respectively. The awarded yield represented a 55 bps fall from its previous offering. This followed the narrow bid spread from last month's auction of the 10-year T-bonds.

The May 24th auction of 4-year T-Bonds proved equally successful as oversubscription was almost 4 times with bidders tendering a high yield of 5.23% —an average of 5.213% and a low of 5.125%. The market is expecting higher yields in T-Bonds with longer tenors based on faster inflation starting May. This will be tempered by possible continued gains in NG's fiscal situation and a possible credit rating upgrade which the latter is pursuing.

Secondary Markets: Long-End Yields Ease

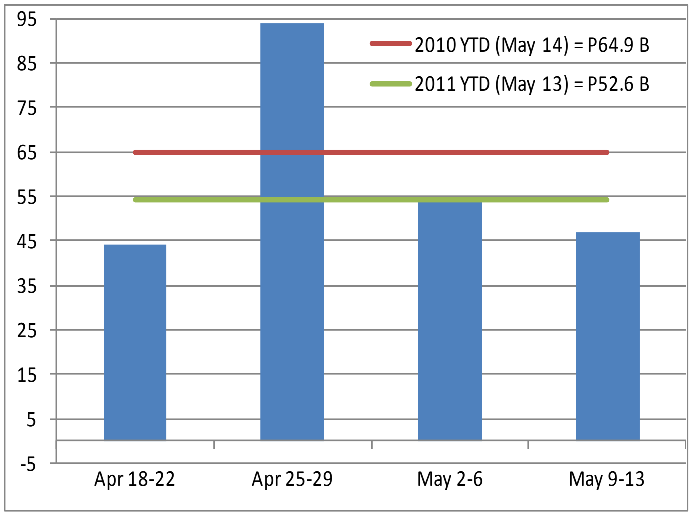
Figure 7 - FXTN Yields



Source: First Metro Investment Corp. (FMIC)

Secondary markets show little signs of movement in the short-end as investors prefer to hold their papers in view of the downward volatility and historical lows of yields. As FXTN series 5-62 papers end their lifespan, investors chose to hold out in light of the risk involved in managing such papers. FXTN 10-42 and 10-48 series both registered declines of 27.5 and 80 bps month-on-month (m-o-m) respectively. With remaining lives of 5 and 6 years, the yields in the long-end will tend to be stable or only slightly higher.

Figure 8 - Trade Volume (in billions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

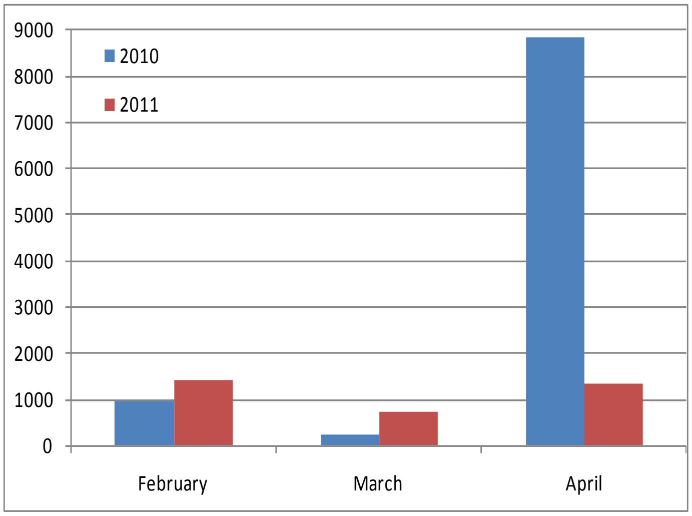
Uncertainties on the magnitude and timing of inflation have caused a wait-and-see attitude among market players by the start of May. Trading volume showed positive changes for the last two weeks of April and minimal declines in May —P44 B and P93.7 B were traded for the last two weeks of April, a 14.1% and 112.8% growth, respectively. P54.1 B and P47 B were traded in the first two weeks of May, lower by 42.3% and 13.1% month-on-month (m-o-m) respectively. The year-to-date (YTD) average weekly volume for 2011 was P52.6 B, down from P64.9 B last year.

Secondary Corporate Bond Trading: Improving Volumes

Corporate volume for April last year was at a peak with P8.843 B. Paling in comparison is last month's P1.342 B —an 85% drop in total traded volume. Last year's leader of the pack was the Power Sector Assets and Liabilities Management (PSALM), which accounted for 93% of total volume. However, on a current year basis, trading in corporate bonds almost doubled from P0.739 B last February to P1.34 B in April.

The general impression was that even large corporations may default, thus upsetting the risk tolerance of the market.

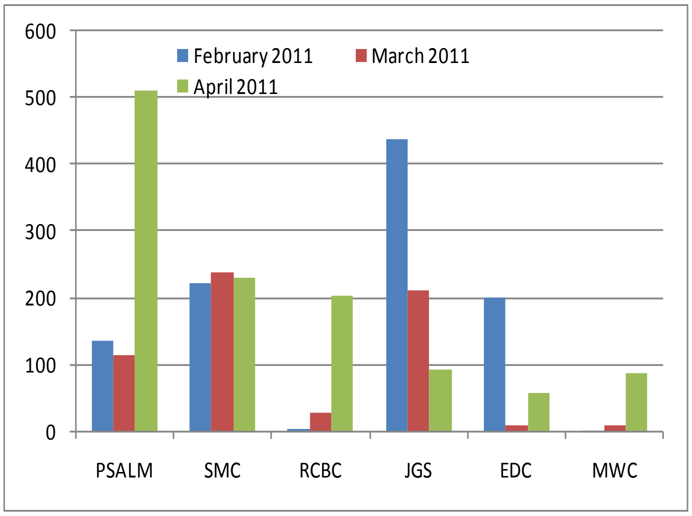
Figure 9 - Total Corporate Trade Volume (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

PSALM once again led the way with a demand amounting to P510 M worth of papers with San Miguel Corp. (SMC) and emerging Rizal Commercial Banking Corp. (RCBC) following with P231 M and P204 M, respectively.

Figure 10 - Corporate Trading (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

Corporate Issuance: Slow but Sure

The recent debacle in the downgrading of San Miguel Corp.'s credit rating, due to the aggressive investing profile of the company, caught the attention of forward-looking investors. The general impression was that even large corporations may default, thus upsetting the risk tolerance of the market. Extended facilities (convert, put, and call options) might play a crucial role on those who invested on the following:

- San Miguel Corp. has delivered \$600 M worth of convertible bonds with an interest rate of 2% per annum to their respective buyers. Issued bonds will mature in 2014, but it may be converted anytime into common shares at P137.50 per share. Funds will be used for investments in infrastructure, working capital, and general corporate purposes.

- Ayala issued P10 B worth of putable bonds with a tenor of 10-years at 6.8%. Liquidity features include a 20% partial put option in the 5th year and 100% full put option on the 8th year. Demand was more than double its offer size. Fresh funds will be used to redeem P5.8 B worth of preferred shares and to fund its operations.

The drawing board is full but the issuances are slow in coming. Nonetheless, a few likely issuers emerged from their disclosures to the local stock exchange.

- Filinvest Land, Inc. is planning to issue P3 B worth of 5-year fixed rate bonds, to be used for capital expenditures. These may include four new socialized housing projects, six new affordable housing projects, and two new mid-rise building projects.

- Vista Land & Lifescapes, a property firm, plans to sell additional \$100 M worth of US dollar notes with a tenor of 5 years and a coupon of 8.25%. Funds will be used for expansion in 16 new areas around the country.

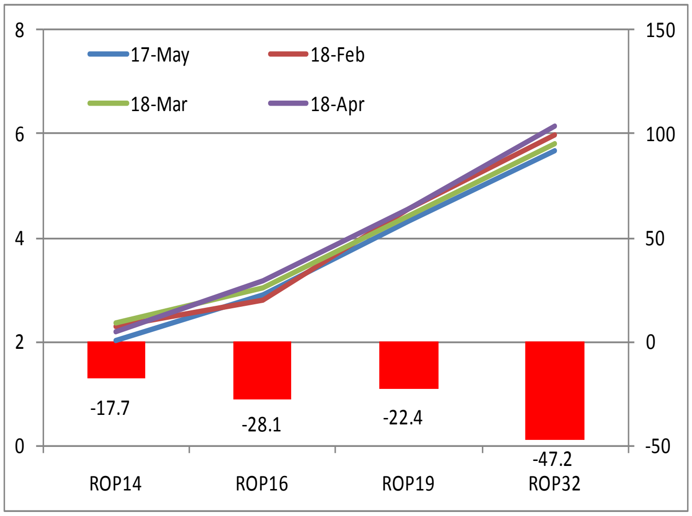
Yields in the Republic of the Philippines' dollar-denominated bonds (ROPs) followed the downward path of US benchmark rates

- Banco de Oro Unibank, Inc. plans to issue P15 B worth of bonds with a tenor of 10-years as part of Tier 2 capital. The issue will have a call option after five years with no incentive after early redemption. Funds will be used for expansion and the improvement of capital expansion including the acquisition of Export-Import Bank.

- International Container Terminal Services (ICTSI) will be issuing $200 M worth of perpetual bonds to fund expansion. The bonds will pay an interest of 8.375% for the first 10 years, after which the rate can be reset.

ROPs: Yields Down with US T-bonds

Figure 11 - ROPs

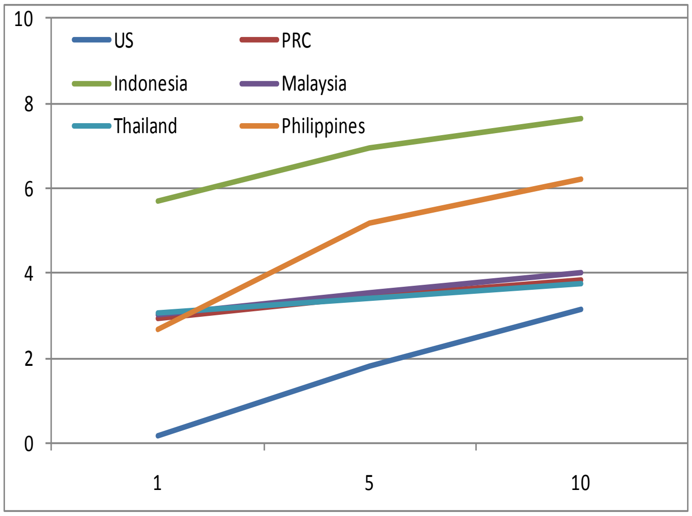


Source: Bloomberg

Yields in the Republic of the Philippines' dollar-denominated bonds (ROPs) followed the downward path of US benchmark rates (see ASEAN Market+1). ROP14, ROP16, ROP19 and ROP32 yields fell by a range of 17.7 to 47.2 bps, from the short end to the longer end of the yield curve.

The NG will possibly raise at least $500 M from a bond issue later to complete its $3.25 B foreign commercial borrowing program. The bond offering is likely to be done in H2. The NG is awaiting and pushing for a credit upgrade before making the pitch in the global markets.

Figure 12 - ASEAN Market + 1



Source: Asian Development Bank (ADB)

ASEAN Market+1: Yield Curves Flatten

Inflation and interest rate expectations have diminished in the ASEAN region inducing yield curves to flatten. China's industrial output jumped by 13.4% in April; Malaysia's GDP rose by 4.9% last quarter; and Indonesia is being touted as one of six major economies by 2025. While European markets are heavy on risk, the question as to which ASEAN countries will be receiving larger fund inflows remains.

US: Yields have decreased by 7.4, 42.6, and 35.1 bps for 1-, 5-, and 10-year bonds respectively. The latest spread between 10-year and 1-year government papers has narrowed to 298 bps or 28 bps from April. Mixed economic indicators, with the housing sector still in the pits, have brought back fears of a weaker economic recovery.

PRC: While yields have increased by 10 bps for 1-year bonds, yields eased by 3 and 4 bps for 5- and 10-year bonds, respectively. The latest 10-year and 1-year spread hit 93 bps, a decline of 14 bps from last month. Confidence in the economy's ability to contain inflation may have set in and yields started to crawl back, as the central bank raised its reserve requirement for the fifth time to a record of 21%. China, however, has vowed to limit its interest-rate increases so as to not choke growth.

Companies which are in need of fresh funds will find more ways of securing capital, preferably with long-term bonds/notes.

Indonesia: Yields have decreased by 80.2 and 0.5 bps for 1- and 10-year bonds respectively but have increased by 14.3 bps for 5-year bonds. Thus, the latest 10- and 1-year spread recorded at 191 bps, reflects a relatively sharp increase of 80 bps from last month's spread. Demand for Indonesian currency bonds is on the rise as they return almost twice those for other currency bonds. Indonesia plans to issue its second Islamic US currency bonds in the second half of this year.

Malaysia: A mild decline in yields may be noted for 5- and 10-year bonds as they slid by 2.3 and 6.3 bps respectively, while 1-year bond yields inched up by 5.1 bps. This resulted in a tiny 1 bps decrease in the 10-year vs. 1-year spread to 86 bps. Malaysia intends to follow the interest rate guidance of China and Taiwan. After all, Malaysia is heavily dependent on its exports to drive growth and to improve further the government's financial position.

Thailand: Yields in all tenors crept upwards by 23, 16.4 bps, and 12.4 bps for 1-, 5-, and 10-year bonds, respectively. The latest 10-year and 1-year spread was at 65 bps, a decline of 11 bps from last month's spread. Year-on-year (y-o-y) inflation in Thailand last April was at 4.04% compared with 3.14% last March due to the influx of capital in Asia, thus causing high liquidity in its financial markets.

Philippines: The Philippines registered an increase of 67 bps in 1-year bonds but a decrease of 9.4 and 40 bps for 5- and 10-year bonds. Though still having the steepest yield curve, the country showed the largest fall in 10-year versus 1-year spread among the ASEAN+1 with a drop of 107 bps. The latest hike in policy rates have pushed yields up only in the shorter-end of the yield curve. Demand for longer-tenored bonds is still high, but market players are hesitant, as they look for clearer trends in the inflation front.

Outlook

With the recent policy hike mitigated by the fiscal stance of the Philippines and a possible credit upgrade, two scenarios are probable, with the second being the more likely:

- The recent policy hike will push yields higher, starting from the short-end, eventually pressing on long-end yields to go up, slightly higher than expected.
- Funds will find its way to high yielding investments, particularly focused on external currencies, slightly dampening local secondary markets, restricting yield movements.

Companies which are in need of fresh funds will find more ways of securing capital, preferably with long-term bonds/notes and even tapping foreign markets as interest rates abroad remain low.

Spreads between 10-year and 1-year T-bonds

Country	1-year rate	10-year rate	Real 10-year yield	Date	10-year to 1-year Spread		Spread change (bps)
					16-May	15-Apr	
PRC	2.920	3.850	-0.650	16-May-11	93	107	-14
Indonesia	5.719	7.628	1.128	17-May-11	191	111	80
Malaysia	3.021	4.023	1.023	18-May-11	100	112	-11
Philippines	2.665	6.200	1.100	19-May-11	354	461	-107
Thailand	3.080	3.775	0.275	20-May-11	70	80	-11
US	0.163	3.147	0.447	21-May-11	298	326	-28

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

Change in Strategy

The Philippine equities market consolidated in May. The strong run-up that started late February has stalled as equity investment conditions became challenging. While technical conditions indicate a bullish continuation pattern (rectangle), investors' sentiments have deteriorated in recent weeks. In our view, unless extremely positive risk events shock the market (i.e. less bad and/or more good news from external factors, credit upgrade to BB+, growth surprises, and better-than-expected 2nd quarter earnings), odds are low that the PSEi will break out of its current resistance (near the 4,330 level) in the near-term. The reason is that both the macro and micro backdrop have become less supportive of the Philippine equities market. As regards these unfortunate developments, we take a closer look and reevaluate our views.

Less Focus on Macroeconomic Issues

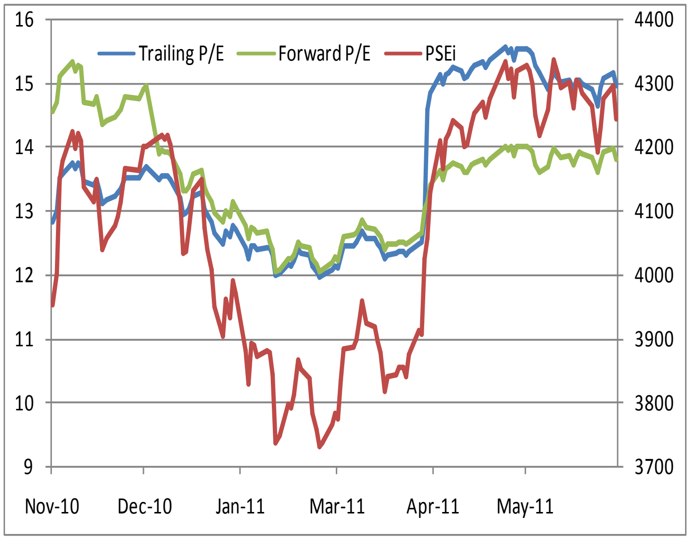
As the Philippine economy flashes signs of slowdown and with the bull market on its third year, we expect corporate fundamentals to be the focal driver of price movements of the local equities market going forward. Thus, it is crucial to put more emphasis on valuation fundamentals rather than purely macroeconomic factors. In our view, this perception reflects a positive evolution, a step towards normal conditions where dynamic portfolio allocation and valuation analysis can create/preserve portfolio values.

As for inflationary fears, we have expressed concerns that as a corollary of high inflation risk, corporate earnings may be negatively impacted by higher input costs. It is likely that the perception of inflation risk will be greater than our forecast would suggest, but we still continue to believe that the fears are exaggerated in the sense that the Bangko Sentral ng Pilipinas (BSP) is vigilant against inflation and real interest rates are no longer negative. We believe that inflationary pressures will recede naturally during the second half of the year given the usual lag between monetary actions and their related effects. But as a precaution, we place emphasis on the segmentation between companies that are "Price Setters" and "Price Takers" as a discriminator in equity selection. (For more information, see Macroeconomy)

Valuations: "Key Drivers"

Philippine equities have benefitted over the last two years from exceptionally robust earnings gains. However, earnings have not kept pace with price appreciation and as a result, the price-to-earnings (P/E) ratio of PSEi has expanded and is currently trading at expensive levels based on a historical perspective. While we acknowledge that top line revenues are growing, 1st quarter earnings were not as encouraging compared to last year's results. This resulted from revenues growing at a slower pace and input costs rising for most of the components of the PSEi, both as a consequence of higher oil prices and inflation in 1st quarter.

Figure 13 - PSEi P/E



Source: Bloomberg

On a brighter note, we are optimistic that earnings will catch up and lead to a P/E ratio compression. Earnings in the subsequent quarters will have to be better and/or just in-line with expectations in order for the P/E ratio to fall.

We prefer to be extra selective on equities that are undervalued, with robust forward 12-month earnings.

Outlook and Strategy

In addition to the challenging local macro and micro environment, negative externalities remain unresolved and have aggravated in recent weeks. Worries over the potential default of Greece, contagion from the euro-zone sovereign debt crisis (Italy and Belgium credit outlook downgrade), unrest in the Middle East and North Africa (MENA), the end of quantitative easing 2, and the reality of fiscal austerity in the US (politicians are unable to compromise about the raising of US' debt ceiling and the passing of 2012 budget) continue to weigh heavily on our minds.

Furthermore, over a 3-month horizon, we anticipate some heightened volatility as the status of the Philippine economy, the second quarter earnings reports, and the expectations of a credit upgrade are going to be the key inflection points in our local equities market going forward. These potential developments represent, in our view, a clear signal to lighten up and increase cash positions. We prefer to be extra selective on equities that are undervalued, with robust forward 12-month earnings, and are able to pass cost increases to customers as a hedge for potential downside risks.

Sectoral Performance

Monthly Sectoral Performance				
	29-Apr-11		31-May-11	
	Index	% Change	Index	% Change
PSEi	4,319.51	6.52%	4,244.64	-1.73%
Financial	955.89	6.01%	945.17	-1.12%
Industrial	7,414.04	5.34%	7,124.13	-3.91%
Holdings	3,604.59	4.88%	3,516.72	-2.44%
Property	1,611.56	6.98%	1,546.04	-4.07%
Services	1,586.02	6.69%	1,517.87	-4.30%
Mining and Oil	16,385.29	12.64%	18,559.33	13.27%

Source of Basic Data: PSE Quotation Reports

The PSEi ended with a 1.73% loss this month of May as consolidation persisted. Profit-taking was evident during the period driven by the overdone rally of the previous months coupled with valuation concerns and unresolved external events (euro-zone debt woes, slowdown in US economy, unrest in MENA). The Mining and Oil sector was the only one that posted an increase as it jumped by 13.27% buoyed by recent developments in PX and LC.

Company	Symbol	4/29/11 Close	5/31/11 Close	% Change
Metrobank	MBT	68.65	69.00	0.5%
Banco de Oro	BDO	54.30	58.50	7.7%
Bank of the Philippine Islands	BPI	58.80	55.65	-5.4%

Source of Basic Data: PSE Quotation Reports

The Financial sector ended with some loss this month despite the positive figures in net income growth posted by the top banks for first quarter of 2011. BDO led the sub-index rising by 7.7% this May along with its 18% growth in net income to P2.44 B. The rise is attributed to the increase in customer loans which grew by 16% y-o-y to P542.3 B. BDO is followed by MBT ending sideways with only 0.5% this month after recording the highest profit growth for the quarter of 21.2% among the top three banks. MBT recorded a net income of P3.1 B buoyed by net interest income climbing by 12.3% y-o-y to P7.3 B. BPI is the only bank among the top three that ended the period in red retreating by 5.4%. BPI expected a slowdown in profit growth this year as income from trading and foreign exchange operations declined for 1st quarter of 2011 leading profit growth only at 4.5% to P2.8 B.

Company	Symbol	4/29/11 Close	5/31/11 Close	% Change
Meralco	MER	245.00	240.20	-2.0%
Aboitiz Power	AP	31.55	30.15	-4.4%
Energy Development Corp.	EDC	6.75	6.79	0.6%
San Miguel Corporation	SMC	153.00	110.80	-27.6%
Jollibee Food Corp.	JFC	94.50	85.05	-10.0%

Source of Basic Data: PSE Quotation Reports

The Industrial sector slumped by 3.91% with the top companies under the sub-index ending up in the red. SMC plunged by a whopping 27.6% because of the dis-

Market conditions also weighed down the Property sector heavily as it eased by 4.07%.

appointing price of its secondary stock offering and the downgrade of the company's credit rating. After its voluntary suspension, SMC had a huge drop of 28.43% in share prices at P110 from P153 which initially disappointed investors. Then the company received a downgrade from "stable" to "negative" by S&P mainly due to its diversification plans that require heavy spending. This led to heavy foreign selling concentrated on SMC despite its three-digit profit growth of 146% to P7.14 B for the first quarter of the year fueled by consolidation of Petron and SMC Global. Meanwhile, JFC declined by 10% in May as its net income dove by 8.8% to P631 M due to higher input costs particularly higher prices of food raw materials and higher manufacturing expenses. JFC has been strengthening its position in the international market by acquiring stakes of all Chowking stores in the U.S. for $16 M and investing $60 M to acquire stakes of Viet Thai International Joint Stock Company which owns and operates various food chains in Vietnam and Hong Kong.

In the energy sector, top companies struggled during the month due to their poor 1st quarter earnings resulting from lower electricity consumption for the quarter. AP share prices lost some 4.4% this month as its net income for 1st quarter 2011 fell by 31% to P5.1 B; while EDC ended sideways inching by 0.6% with net income slumping by 61.4% to P3.77 B. MER also fell by 2% despite its 6% increase in net income to P2.1B this quarter brought about by higher electricity rates while electricity sales were basically flat. This is because the growth in net income was below expectations. MER also completed a block sale of shares of 14.2 M shares priced at P287 per share with the joint venture of MPI and TEL.

Company	Symbol	4/29/11 Close	5/31/11 Close	% Change
Ayala Corp.	AC	391.00	386.00	-1.3%
Metro Pacific Investments Corp.	MPI	3.67	3.39	-7.6%
SM Investments Corp.	SM	579.00	542.00	-6.4%
DMCI Holdings, Inc.	DMC	44.05	40.30	-8.5%
Aboitiz Equity Ventures	AEV	39.65	41.30	4.2%

Source of Basic Data: PSE Quotation Reports

The Holdings sector declined by 2.44% for the period with the major companies under the sub-index in the red as events in the market greatly affected these companies. Among them was MPI which dropped by 7.6% despite a 44% increase in net income to P1.13 B mainly attributed to contributions from Meralco and Maynilad Water. MPI's contract covering the Subic-Clark-Tarlac Expressway (SCTEx) was temporarily cancelled by the Bases Conversion Development Authority (BCDA) which is reviewing the terms of equitable benefits for the company and the government. BCDA granted the contract on November of last year but the newly appointed board members of the agency wanted to make sure that all BCDA deals are above board. Meanwhile, both SM and AC declined by 6.4% and 1.3%, respectively, even after these companies' net income growth of 13% and 16%. SM recorded a net income of P5.37 B while AC had P2.45 B. Even DMC declined by 8.5% despite a strong 61% profit growth to P2.2 B.

Company	Symbol	4/29/11 Close	5/31/11 Close	% Change
Ayala Land, Inc.	ALI	16.44	15.20	-7.5%
SM Development Corp.	SMDC	9.06	9.20	1.5%
Robinsons Land Corporation	RLC	13.30	12.50	-6.0%
Megaworld Corp.	MEG	2.33	2.11	-9.4%

Source of Basic Data: PSE Quotation Reports

Market conditions also weighed down the Property sector heavily as it eased by 4.07%, led by MEG which fell by 9.4%. However, MEG actually posted a 12% increase in profits to P1.25 B. A similar fate hit ALI which declined by 7.5% this month despite the 36% growth in net income to P1.6 B. SMDC was the only one in the green among the top companies in the sub-index at 1.5% increase after a 62% jump in net income to P3.02 B. Meanwhile, RLC also tumbled this month by 6% even after profits climbed by 17% which was powered by double-digit growth in real estate sales. The company is set to construct a seafront hotel in Cebu in its aim to attract tourism outside the metro aside from the 30 more budget hotels it has set to build in a span of 5 years.

LC is believed to have the richest mineral reserves among the mining companies in the country.

Company	Symbol	4/29/11 Close	5/31/11 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,486.00	2,328.00	-6.4%
Globe Telecom	GLO	900.00	890.00	-1.1%

Source of Basic Data: PSE Quotation Reports

The Services sector had the largest decline among the sub-indices in the red, dropping by 4.30%. The slide was mainly attributed to the 6% fall in TEL's net income of P10.73 B for 1st quarter of 2011, a result of slightly lower revenues but higher costs. These caused its share price to slip by 6.4%. However, its expected acquisition of DGTL will likely lift its profitability for the succeeding quarters. GLO, on the other hand, registered record-high revenues of P16.5 B for the 1st quarter, 8% higher y-o-y. Its subscribers also expanded by 14% to 27.3 M and its net income of P2.99 B is better-than-expected since it already constitutes 32% of the P9.4 B consensus estimate of the company's net income. However, this was not enough to counter the decline in GLO's share prices as it decreased by 1.1% this month. GLO continues to criticize the expected M&A between TEL and DGTL as it seeks government intervention, claiming that the deal would jeopardize free competition in the telecom industry.

Company	Symbol	4/29/11 Close	5/31/11 Close	% Change
Philex Mining Corporation	PX	17.80	20.35	14.3%
Semirara Mining Corp.	SCC	218.00	213.00	-2.3%
Lepanto Consolidated Mining Co.	LC	0.65	0.89	36.9%

Source of Basic Data: PSE Quotation Reports

With a surge of 36.9% and 14.3% this period, LC and PX led the Mining and Oil Sector to its 13.27% increase and the only sub-index to post a gain in May. PX acquired a 5% stake in LC earlier this month as LC is believed to have the richest mineral reserves among the mining companies in the country. Aside from this, PX also settled a deal to acquire 60% of Manila Mining's Kalayaan Copper Gold project which holds the rights to the Kalayaan gold-copper reserve in Surigao del Norte. Then, the company also announced plans to give out property dividends, giving one share of Philex Petroleum Corp. for every 8 shares of PX.

Moving to LC, the surge was due to the developments regarding the exploration in Benguet. Under the Far Southeast Project with Gold Fields, LC is looking at an ore body estimated to be around a kilometer across and another kilometer down having 400 M to 600 M tons of mineral content, though recent drillings indicate that the ore body may in fact be larger. Furthermore, the size of the ore body is complemented by its quality or the ore grade, which is estimated around 2 grams of gold per ton and about 0.8% copper. In addition, LC made a turnaround with a profit of P30.71 M last quarter from a loss of P110.68 M for 1st quarter of 2010. Meanwhile, SCC's profit growth also surged by a three-digit 185% to P1.7 B propped up by the 42% jump in coal prices.

Monthly Turnover

Monthly Turnover (in millions)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	12,182.5	10.8%	553.75	-4.3%
Industrial	50,923.7	155.9%	2,314.71	121.0%
Holdings	20,758.8	-38.1%	943.58	-46.5%
Property	11,728.1	-8.3%	533.09	-20.8%
Services	15,307.5	-11.7%	695.79	-23.8%
Mining and Oil	20,239.2	87.3%	919.96	61.7%
Total	**131,139.8**	24.5%	**5,960.90**	7.5%
Foreign Buying	55,558.2	10.6%	2,525.37	-4.4%
Foreign Selling	52,513.2	51.8%	2,386.96	31.1%

Source of Basic Data: PSE Quotation Reports

Total turnover for May increased by 24.5% led by the Industrial sector which skyrocketed by 155.9% and the Mining and Oil sector which spiraled by 87.3%. Among the sectors in the red, the Holdings sector had the biggest decline at 38.1%. Foreign activity accelerated to 41.2% from April's 40.25% with foreign buying decreasing to 21.1% of total market activity from last month's 23.83% and a little higher than 1st quarter of 2011 average of 19.4%. Foreign selling, on the other hand, was at P52.51 B which accelerated to 20.02% of total market activity from April's 16.4%. Foreigners were net buyers to the tune of P3.04 B for the month.

Recent Economic Indicators

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	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	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		Apr-11		
	Annual Levels	Growth Rate	Annual Levels	Growth Rate	Levels	Annual G. R.	YTD
TOTAL	27,271	1.7%	29,976	9.9%	2,456	-1.6%	-0.5%
Residential	8,901	3.2%	9,535	7.1%	768	-8.3%	-73.9%
Commercial	10,796	3.0%	11,683	8.2%	961	1.4%	1.1%
Industrial	7,439	-1.6%	8,616	15.8%	716	2.4%	-0.6%

Source: MERALCO

BALANCE OF PAYMENTS (in US millions)

	2008		2009		3rd Quarter 2010		4th Quarter 2010	
	Levels	Growth Rate	Levels	Growth Rate	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	3,633	49.0%	8,552	135.4%	14,435	41.3%	2172	-19.0%
Balance of Trade	-11,725	-90.9%	-7,339	37.4%	15,931	30.1%	-2783	68.7%
Balance of Goods	-12,885	-53.6%	-8,878	31.1%	88	22.2%	-3203	58.3%
Exports of Goods	48,253	-2.5%	37,510	-22.3%	2,844	26.3%	12939	22.4%
Import of Goods	61,138	-53.6%	46,388	-24.1%	2,756	26.4%	16142	28.2%
Balance of Services	1,160	-48.4%	1,539	32.7%	4,036	2.7%	420	12.3%
Exports of Services	9,717	-0.5%	10,101	4.0%	1,213	40.4%	3409	24.6%
Import of Services	8,557	13.8%	8,562	0.1%	32	10.3%	2989	26.5%
Current Transfers & Others	15,247	7.7%	15,960	4.7%	1,181	41.4%	4427	6.8%
II. CAPITAL AND FINANCIAL ACCOUNT	-1,802	-151.1%	-1,961	-8.8%	311	60.3%	5726	1020.5%
Capital Account	53	120.8%	104	96.2%	-28	-153.8%	15	-57.1%
Financial Account	-1,855	-153.0%	-2,065	-11.3%	-118	-1172.7%	5711	1099.8%
Direct Investments	1,285	307.3%	1,589	23.7%	1,016	75.8%	613	140.4%
Portfolio Investments	-3,798	-182.2%	1,449	138.2%	-617	-2.3%	3706	206.0%
Financial Derivatives	-113	60.8%	32	128.3%	3,256	48.9%	-7	-78.1%
Other Investments	771	463.7%	-5,135	-766.0%	0	0.0%	1399	-246.0%
III. NET UNCLASSIFIED ITEMS	-1,742	-6.5%	-1,296	25.6%	11	102.8%	-35	-97.0%
OVERALL BOP POSITION	89	-99.0%	5,295	5849.4%	2,199	401.6%	7863	289.6%
Use of Fund Credits	0		0		3,437	-3.8%	0	0.0%
Short-Term	1,508	21642.9%	-1,510	-200.1%	-2	25.9%	-12	-98.1%
Memo Items								
Change in Commercial Banks					593	168.2%	3284	-833.0%
Net Foreign Assets	2,852	378.2%	-3,650	-228.0%				
Basic Balance	3,391	-61.7%	9,921	192.6%	2,871	50.6%	3870	9.6%
Net Unclassified Items as percentage of Total Trade	-1.6	-5.3%	-1.5	6.3%	-1	60.0%	-0.1	-98.0%

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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