

The  
**MARKET CALL**  
*Capital Markets Research*



FMIC and UA&P Capital Markets Research

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# Slowdown: Due to Euro-zone Crisis or Domestic Woes?

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The Q3 Gross Domestic Product (GDP) growth of 3.2%, or flat from a revised 3.1% (from 3.4%), in Q2 caught analysts flatfooted with consensus estimate at 4.2%. It is easy to blame the Euro-zone crisis and the weak US recovery since exports fell by 27% during the quarter. But if we look at the production side, we would see that agriculture did not do well and industry slumped by 0.2%, led by a 12.2% decline in construction and hardly any growth in mining. But the main concern should be on the bigger income measure, Gross National Income (GNI) which inched up by only 1.6% despite an 8.6% gain in Overseas Filipino Workers' (OFW) USD remittances. The culprit here was the 5.7% peso appreciation for the period.

Other economic data were mixed. Inflation hit over 5% year-on-year (y-o-y) for the first (and likely last) time in 2011, as food prices went up due to weather-related supply shortages in some items and a low base in 2010. Government expenditures (excluding interest payments) were up by 18.4% in October, the third consecutive month of robust spending; while the budget deficit reached P74.3 B for the 10-month period, still only a fourth of the full-year target of P 291 B. This will result in a below-P180 B deficit for 2011, which will lower the debt-ratio to below 50%, the first time in more than 30 years. Money growth fell back to single digits as the earlier tightening moves of the Bangko Sentral ng Pilipinas (BSP) gained traction.

And with Meralco electricity sales slowing to a 0.8% uptick in October, unless the government changes tack on the peso's continued appreciation and gets to an urgency mode in much-touted public-private partnership (PPP) projects to get off the ground soon, Q4 may yet see another mediocre performance, albeit slightly better than Q3.

## Q3 GDP Growth Flat at 3.2%

Lower-than-expected expansion of Agriculture and a decline in industrial performance pulled down third quarter GDP growth to 3.2%, although this was minimally up from Q2's 3.1% (revised downward from 3.4%). While external markets' weakness could be cited as main cause for the manufacturing sector's sub-par performance, a sharp drop in food manufacturing that was actually the main reason.

Agriculture posted only a 1.8% gain despite an outstanding jump of 19.5% in rice output due to the negative impact of inclement weather on fisheries (down by 7%), corn (another 6%), and fruit crops like mangoes. The industrial sector declined by 0.2% as the construction industry slumped by 12.2% with government spending on infrastructures still on a catch up mode; while private construction, especially residential, was hit by a wait-and-see attitude of Overseas Filipino Workers (OFWs) as the peso-equivalent of remittances actually fell by 0.8% as a consequence of the peso's appreciation.

More worrying than the flat GDP growth was the lukewarm 1.6% expansion in GNI which is the larger measure as it includes OFW remittances. This was a tad faster than the 1.1% (revised) increase in Q2. This marked the second consecutive quarter of weak growth in GNI.

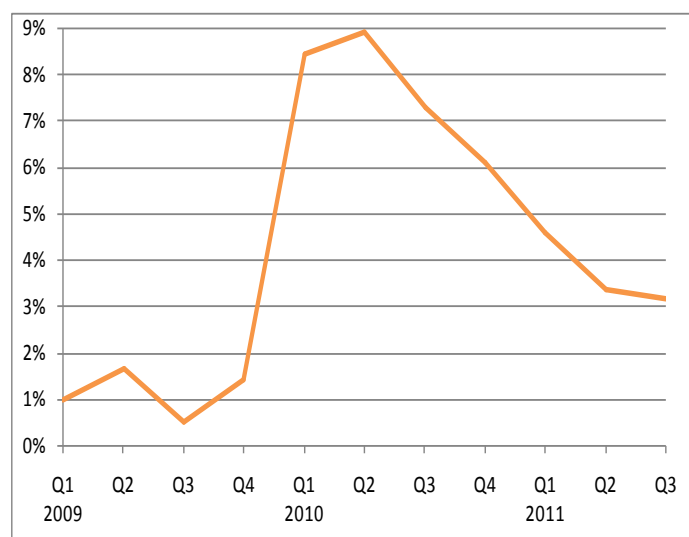
Services sector provided a boost with a 5.3% uptick as all sub-sectors posted gains along a narrow range of 3.6% to 7.6%. The industrial sector's poor performance was, nevertheless, pulled down by a disappointing 1.1% rise of the Mining sector and a contraction of 1% in the Electricity-Gas-Water sector.

The Manufacturing sector, meanwhile, managed to grow by 3.1%, slightly down from 4.7% jump in Q2. The sector could have done better if not for the large 15.2% fall in food manufacturing output and double-digit declines in textile and electrical machinery manufactures. The latter two industries were certainly affected by the slowdown in exports due to the recession in the Euro-zone and the slow recovery in the US food manufactures accounts for some 25% of total manufacturing. It is surprising for it to slump in such a magnitude considering that household consump-

*Euro-zone debt crisis and the anemic US recovery dragged exports of both goods and services.*

tion of food shot up by 10.7%. The strength in the manufacturing sector is underpinned by the fact that 14 out of the 22 industrial classifications came out positive.

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



Source: National Statistical Coordination Board (NSCB)

In the mining industry, nickel, chromite, and natural gas posted robust gains, but these were offset by the 15.3% plunge in stone and quarrying output revealing the weakness in construction. In the Services sector, Real Estate and Business Activity led the group with its 7.6% rise, followed by 7.0% in Other Services.

On the demand side, the economy saw strong domestic demand with household consumption spending accelerating to a 7.1% clip from 5.5% in Q2. Investments rose by 24% with a near double-digit increment in Durable Equipment. Furthermore, inventories had a huge turnaround from -P39 B to +P18.6 B.

Obviously, the Euro-zone debt crisis and the anemic US recovery dragged exports of both goods and services. Goods exports, led by electronics, tumbled by 14.8% while services exports eased by 2.5%. But since the “correct” estimate is the production approach by sector, a positive statistical discrepancy was lodged in the demand or expenditure approach.

On a seasonally-adjusted basis, quarter-on-quarter gains slowed slightly from 0.5% to 0.3%, neither of which is encouraging. Public construction and the continued low interest regime are needed to put back the construction sector in the black, while mining will likely recover with higher volumes in Q4 to compensate for the lower metal prices in the world markets.

The economy must now expand by 6% in Q4 just to be able to hit an annual growth of 4%, or 7.2% to achieve the lower end of 2011 goal of 4.5%. The former is the more likely outcome.

### Base Effects Push Up Oct Inflation to 5.3%

As expected, base effects drove year-on-year inflation rate in the month of October higher to 5.3% from 4.6% in September.<sup>1</sup> This was slightly higher than our projected 5.2% headline inflation and was within BSP’s forecast of 4.5-5.4%. It also brought the year-to-date (y-t-d) inflation to 4.4%. Likewise, core inflation went up from 3.5% to 3.9%. The higher inflation was due to the larger hikes in the prices of Food-Beverage-Tobacco (FBT), Fuel-Light-Water (FLW), and Miscellaneous commodity groups.

There was a difference in the growth rates of the different sectors as half of them slowed down: Clothing decelerated from 2.9% to 2.8%; Housing and Repairs went down from 2.3% to 1.9%; and Services dropped from 7.0% to 6.6%. Unfortunately, the faster increases of the other half counter-weighted these and brought the y-o-y inflation rate higher.

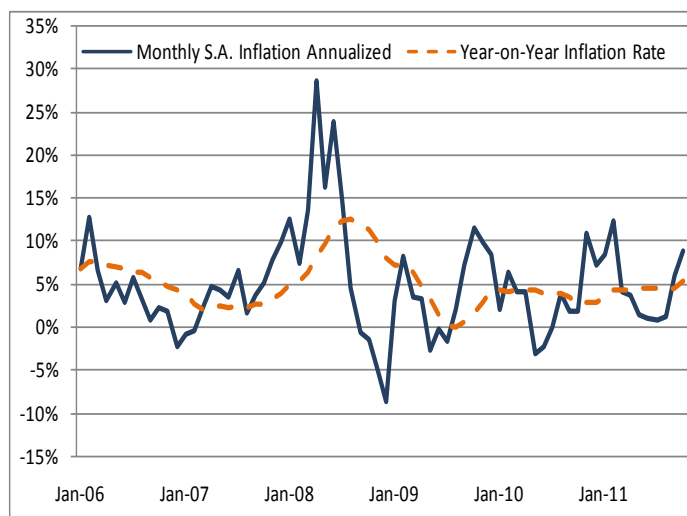
The main cause of the acceleration was the price increases in FLW from 10.6% to 13.4% (y-o-y). This was followed by a spurt in FBT and Miscellaneous from 3.9% to 5.0% and 1.4% to 1.7%, respectively. Food prices — particularly fish, fruits and vegetables — rose more than the usual seasonal pace due to adverse weather conditions brought about by typhoon Pedring.

<sup>1</sup> We are still using the CPI series with base year 2000 because of the long historical data it offers. The new series with base year 2006 showed a 5.2% hike in October compared to 4.8% the previous month. We will be using the new series in 2012.

*Even if monthly inflation were to replicate the October record, the inflation rate for the whole year 2011 should not go beyond 4.6%.*

Meanwhile, m-o-m inflation rate accelerated to 0.5% from 0.1%. The monthly inflation rates of FBT and Miscellaneous sectors had a faster pace from 0.2% and 0.1% to 0.9% to 0.2%, respectively.

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



Source: National Statistics Office (NSO)

The seasonally adjusted annualized rate (SAAR) likewise moved up from 6.0% to 8.7% in spite of the easing in non-food items from 5.6% to 3.3%. This was a result of the faster pace of food items from 6.4% to 14.5%.

Since October's pick-up in inflation was due to base effects, we expect it to subside in the remaining two months of 2011, especially with successive cuts in domestic fuel pump prices in November. Nonetheless, even if monthly inflation were to replicate the October record, the inflation rate for the whole year 2011 should not go beyond 4.6%.

**NG Spending Accelerates in October**

For the month of October, the National Government (NG) heightened its expenditure (excluding interest payments) to 18.4% from 5.7% in September. Total spending was also a huge acceleration from -0.6% to 14.8% as Interest payments expansion was halved from 18.8% to 9.2%.

Meanwhile, the budget deficit increased to P21.6 B from P18.5 B and brought the cumulative fiscal deficit to P74.3 B from P53.0 B. The programmed deficit for the entire year is P291 B which still leaves P216.7 B spending for the remaining two months.

In terms of actual figures, Total Revenues decreased from P104.3 B to P103.9 B and from its double-digit growth of 13.5% to 5.5%. The tax collection of the Bureau of Customs (BoC) grew a menial 1.2% from 11.8%; while the revenue growth of the Bureau of Internal Revenues (BIR) accelerated from 9.2% to 10.9%. This can be attributed to the departments ruling of applying a 20% final withholding tax (FWT) on the 10-year, zero-coupon Poverty Eradication and Alleviation Certificate (PEACe) Bonds, now worth P35.0 B, that recently matured. This is being contested by banks, since its tax-free issuance was premised on an earlier BIR ruling.

For the last two months of the year, we expect the government to continue their spending binge, especially with the higher revenues from tax, from 90.6 B to P93.3 B. However, given the NG's low spending and with the year almost over, we maintain that the budget deficit for the entire year will not exceed P200 B. Nonetheless, we expect the H2 2011 NG expenditure growth rate to range between 12-15%, which should be sufficient to push the economy towards a higher growth path.

**Money Growth Back to Single Digit in September**

The consensus in the financial market is that the Monetary Board (MB) of BSP will no longer increase the key policy rates in their last meeting of the year on December 1. Rather, there is a fair possibility that it may ease the overnight lending or repurchase (RP) facility from 6.5%, overnight buying or reverse repurchase (RRP) facility from 4.5%, and the Special Deposit Account (SDA) rate from 4.6%, considering weaker money growth of late.

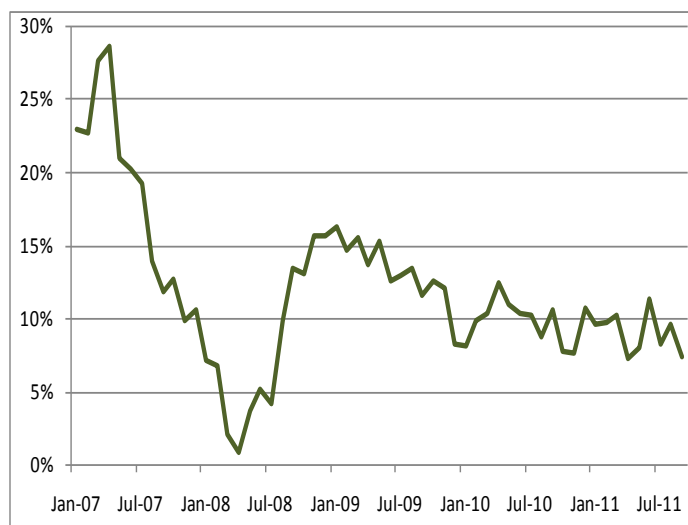
A good reason is the weaker-than-expected economic performance in Q3 and the downward trend in growth in M2 and M3 (see graph). In September, both decelerated from 10.0% to 7.6% and 9.6% to 7.4%, respectively. This was

*Petroleum and Mineral Products both turned positive from -30.2% to 138.2% and -27.2% to 25.1%, respectively.*

despite more money infusion into the banking system by the BSP as measured by Reserve Money (RM). RM was up by 11.3%, albeit slower than 13.2% in August.

The BSP's money creating actions reflected in its Net Foreign Assets (NFA) showed a slower pace of 39.6% from 43.2%. Net Domestic Assets (NDA) likewise decelerated from 66.1% to 60.3%. An important reason for the latter is the movement in Special Deposit Accounts (SDAs) with the BSP. These rose in absolute amount to P1.6 T but had a slower y-o-y growth from 84.8% to 77.8%.

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



Source: Bangko Sentral ng Pilipinas (BSP)

Recently, local banks requested the BSP to consider re-vamping the reserve requirement levels and composition. With this and the expectations that people will increase their spending in the fourth quarter, we maintain our view that there is a fair chance that the BSP will lower the key policy rates (or reserve requirements) during their next meeting as some emerging economies like Indonesia has done.

### September Exports Plunge by 27%

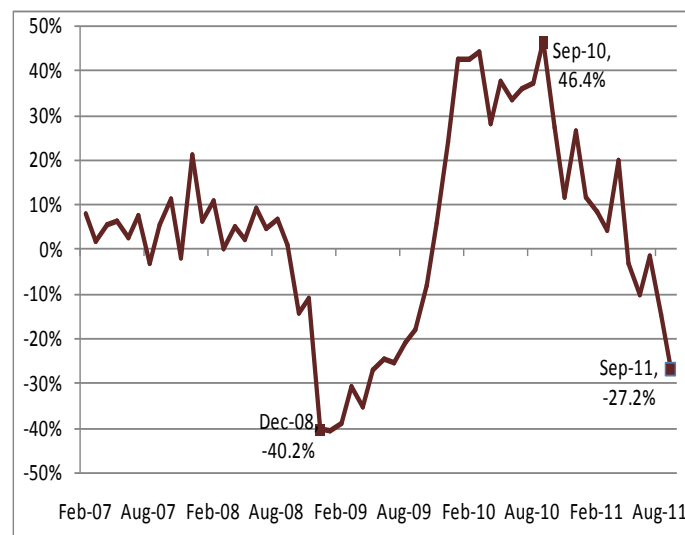
Exports in September decelerated further from -14.8% to -27.2%. This brought the Q3 2011 y-o-y growth to turn negative at -14.8% from 2.1% in Q2 2011. In actual fig-

ures, the drop was from \$4.1 B in August to \$3.9 B in September. The monthly growth rate was slightly better from -6.9% to -6.0%.

Once again, the primary reason for the decline of exports was the lower exports of Electronic Products (-47.9%) which make up 46.8% of total exports. Three other commodities also slumped and moving to negative growth rates: Other Products Manufactured from Materials Imported on Consignment Basis (-29.2%), Coconut Oil (-20.7%), and Ignition Wiring Sets (-0.2%).

Because of these falloffs, double to triple-digit gains in the other products were overshadowed. This included Petroleum Products (+154.6%), Cathodes and Sections of Cathodes and Refined Copper (+58.6%), Fresh Bananas (+36.3%), Woodcrafts and Furniture (+34.6%), Metal Components (+24.3%), and Articles of Apparel and Clothing Accessories (+11.4%).

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



Source: National Statistics Office (NSO)

Looking at the m-o-m growth rate of exports, the slight improvement was caused by the acceleration of 2 out of 5 major commodity groups. Petroleum and Mineral Products both turned positive from -30.2% to 138.2% and -27.2% to 25.1%, respectively. Total Agro-based Products

*Japan continues its reconstruction efforts from the tsunami disaster in March.*

also recovered a little from -17.4% to -5.6%. Meanwhile, Forest Products and Manufactures continued to ease up from 53.4% to -41.3% and -5.3% to -6.9%, respectively.

The top 3 importers of Philippine exports are Japan, US, and People’s Republic of China (PRC). Japan is the biggest importer of our products with 17.7% of total exports. For the month of September, more products were exported to China (14.1%) than to the US (13.4%).

As of September 2011, the y-t-d annual growth of exports turned negative to -3.2%, the first occurrence since January 2010. Nonetheless, we expect a recovery in Q4 2011 due to the robust consumption of the East Asia and ASEAN blocs. Excluding exports to Japan, these countries constituted 47.7% of Philippine exports and exports to China has surpassed that to the US. Furthermore, Japan continues its reconstruction efforts from the tsunami disaster in March. Despite these, we now have to revise our projections for whole year 2011 exports to 0-1%.

**OFW Remittances Slows to 8.4% Growth in September**

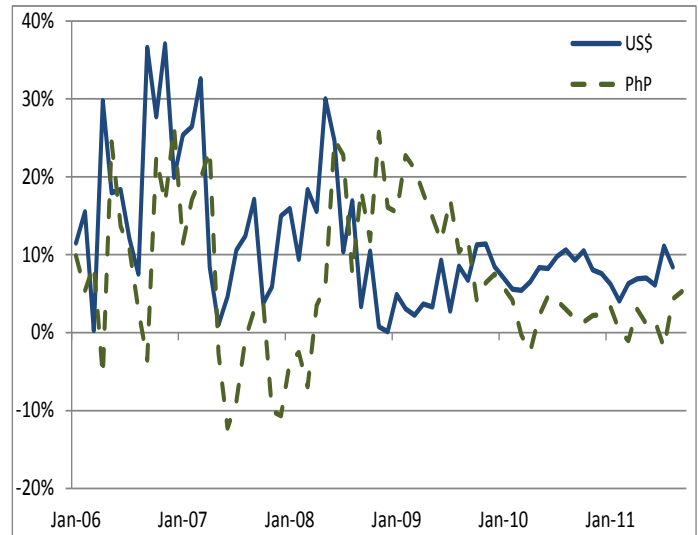
For five consecutive months to September, the Overseas Filipino Workers (OFW) monthly remittances approximated \$1.7 B. However, in comparison to year-ago levels, there has been a slight deceleration as its annual growth from the double-digit y-o-y growth in August of 11.1% to 8.4%. Nonetheless, the Q3 2011 remittances moved up to 8.6% from 6.7% in Q2 2011.

Even with the continuous negative conditions in countries in the Middle East, Euro-zone and the US, the demand for Filipino manpower has been robust. In fact, the Philippine Overseas Employment Administration (POEA) recorded a 19.5% increment in the number of jobs processed in August. Nonetheless, the aforementioned crises resulted in slower growth of remittances compared to the same period in 2010.

The peso equivalent of remittances rose from 4.3% to 5.3% due to the slower 2.9% appreciation of the peso from P44.31/\$ in September 2010 to P43.03/\$ in September

2011 compared to the 6.1% strengthening in August. With this, Q3 2011 remittances in peso also had a slightly faster pace of 2.6% in Q3 from 1.9% in the previous quarter.

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



Source: Bangko Sentral ng Pilipinas (BSP)

We still expect remittances to become more resilient in the remaining months of Q4 2011 as a result of the Christmas season. It may even bounce back to double-digit growth in the coming months. However, we prefer to keep our forecast that OFW remittances will grow 6-8% for the full year 2011.

**Peso Trending Weaker with Global Economic Woes**

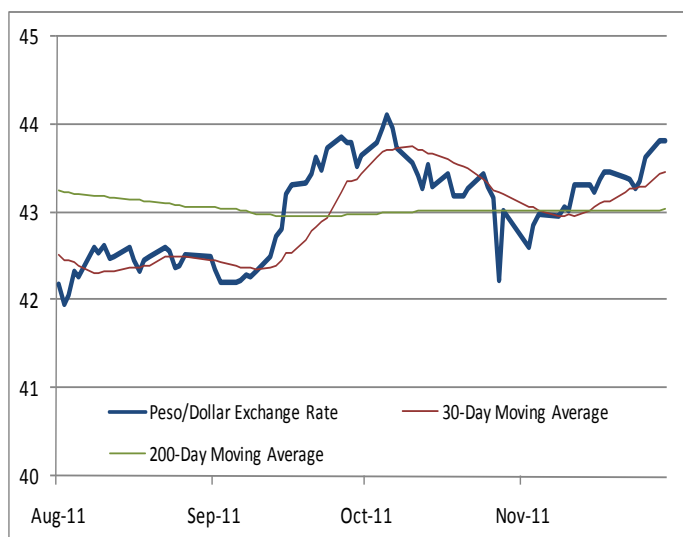
The Philippine peso maintained a firm undertone ranging around P43.40/\$ and P43.27/\$ as of November 29, although moves towards the P44.00 level may be expected as the widening euro-zone debt crisis drives investors toward the greenback.

Even as European leaders arrived at measures on how to solve their debt crisis, there is still a quandary on how these measures would be carried out. In the case of Greece, the former Greek Prime Minister George Papandreou decided to hold a referendum before accepting the aid through the increased bailout package and the 50% write-down of

*Fitch Ratings said that the Philippines can withstand the effect of financial pressures because of its sturdy foreign exchange reserves.*

Greece’s debts. There is also heightened risk aversion in the market as Italy, the third largest economy in the single-currency bloc, had to pay a higher premium on its latest bond auction. Likewise, Germany had to struggle with a very weak demand in its latest bond auction as well. Moreover, Fitch Ratings recently downgraded Portugal’s credit rating to junk and there is a threat that France might lose its AAA rating due to its slow growth and mounting borrowing costs. At the same time, China’s manufacturing activity report for this month was slow as its purchasing manager’s index (PMI) was recorded at 48.0, the lowest in 32 months, which being below 50.0 signifies a contraction.

**Figure 6 - Daily Peso-Dollar Exchange Rate**



Source: National Statistics Office (NSO)

In spite of all of these, the peso exchange rate remained within a comfortable range. High remittance inflows continue to beef up the country’s dollar reserves. In fact, Fitch Ratings said that the Philippines can withstand the effect of financial pressures because of its sturdy foreign exchange reserves.

The short-term technical outlook (see graph) shows that the exchange rate has exceeded the 200-day and 30-day moving averages (MAs). Thus, for as long as uncertainty prevails in the Euro-zone and the US dollar remains to be

the only safe haven, the peso will tend to slide. However, more remittances are expected to be sent in December and may temper the prevailing sentiment.

**Outlook**

In spite of the recent relatively slow economic performance, we maintain our view that the economy will show signs of recovery in the coming months of 2011 — increased wariness of the land mines, debilitating peso appreciation, government slowness in PPPs, ambivalent attitude towards the very promising mining industry, and a seeming “unfriendliness” towards business in general.

- Inflation rate will return to below-5% pace for the rest of Q4 2011 as we expect a rather stable weather condition which would normalize food prices, in addition to a fait accompli decline in fuel pump prices.
- OFW \$ remittances will continue to be robust during the Christmas season, prompting us to maintain our full year remittance growth forecast at 6-8%.
- Peso-dollar exchange rate will continue to be contained even with the instability of the global market given that the Philippines has a high foreign exchange reserve.
- The government will happily keep its high-spending ways to stimulate the economy but we expect the fiscal deficit for the entire year to be P180 B or lower.
- Key policy rates will likely be reduced in Q1 2012 as we expect the inflation rate to decelerate further at the same time that advanced economies continue to hobble.

Forecasts				
Rates	Nov	Dec	Jan	Feb
Inflation (y-o-y %)	4.8%	4.5%	4.1%	4.1%
91-day T-Bill (%)	0.94%	2.06%	2.11%	2.09%
Peso-Dollar (P/\$)	43.27	44.31	43.82	43.65
10-year (%)	5.80%	5.83%	5.85%	5.84%

Source: Authors’ Estimates

# Yields Remain Low Amidst High Euro Yields

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Contagions from Europe's debt crisis and recent developments continue to heavily influence global and local capital markets. Though investors are unsure how much risk banks are facing amidst possible defaults and restructurings, foreign bond markets, particularly European markets, are witnessing extremely elevated rates. Though the notions of "risk-free" government bonds remain in question, risk seeking may have been sparked by the latest rates. In the Philippines, this has translated to little consensus on the direction of yields. We acknowledge however that rates may remain stable until better indicators come along.

While technocrat Prime Ministers Lucas Papademos and Mario Monti's reforms for Greece and Italy are being laid out and criticized by the public, rates rise anew in Europe. It is expected that European countries will be paying its highest cost of borrowing yet. Spain will be floating 10-year debt with the final amount to be between 3 to 4 B euros. France is also planning to sell 6 to 7 B euros of debt soon. Yields for the 10-year bonds are seen to average around 6.5% with a coupon of 5.85%. A 10-year yield of more than 7% is generally regarded as unsustainable for countries to finance their debt.

In a possible show of anticipation for a chance to accumulate, investors may have started to lighten their assets in the Philippines in preparation for an opportunity to buy up in other markets. Domestic liquidity or M3 grew at a slower pace of 7.4% in September 2011 from 9.4% in August 2011 to reach P4.4 T. Hot money inflows plunged by 78.2% in October. Combined investments in stock and bond securities were weak as gross flows fell 49% in October.

This can also explain the small appetite for local bonds that have rather low yields and the uncertain tempo in bids for local papers. Primary markets lacked luster in terms of oversubscriptions while secondary markets had

mixed results in terms of yield movements. Backing up the uncertain local economic environment was the exacerbated fears of oil prices in the US possibly pushing inflation up and the earlier split decision on Q3 GDP growth of the economy.

## Primary Markets: Signs of Uncertainties

The rhythm of the market remains speculative. Some bill auctions only had partial awards while a lot of the bids were simply throwaways. As such, the Bureau of Treasury rightfully cited the investor appetite for bonds as "anemic" rejecting bids at its discretion. Oversubscriptions for local bonds declined at the start of the month and were

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)
3-Nov	91-day	2.00	5.18	2.00	2.59	0.92	22.90
	182-day	3.00	8.60	3.00	2.87	1.12	43.30
	364-day	4.00	7.67	4.00	1.92	1.08	-67.10
8-Nov	7-year	9.00	17.16	7.82	1.91	5.05	5.00
14-Nov	91-day	2.00	4.19	2.00	2.10	0.97	5.00
	182-day	3.00	3.57	1.15	1.19	1.20	8.90
	364-day	4.00	3.07	0.00	0.77	-	-
22-Nov	10-year	9.00	23.88	9.00	2.65	5.75	0.00
28-Nov	91-day	2.00	3.30	0.00	1.65	-	-
	182-day	3.00	2.92	0.00	0.97	-	-
	364-day	4.00	2.90	0.00	0.73	-	-
Total:		45.00	82.45	28.97	1.83		

Source: Bureau of the Treasury (BTr)

*The frequency of changes in bids is more focused on longer maturities, FXTN series 10-42 and 10-52.*

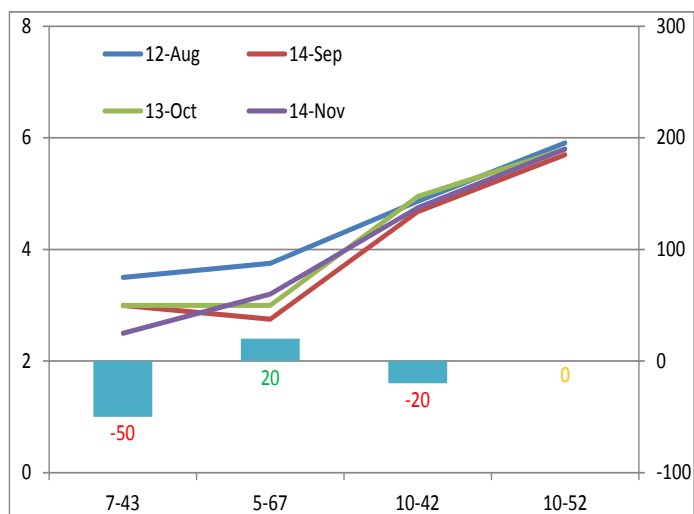
kept to a minimal with only two times oversubscription in the latest T-bill auctions. It is still expected that no excess borrowings up to the end of the year will be made more than what is necessary.

Investors placed a bid of only P3 B for the 364-day paper, or about P1 B undersubscribed from the P4 B offering. Tenders for the 91-day papers were only two times more than the offering at P4.19 B. For the 182-day paper, the NG only awarded P1.15 B, less than half the original P3 B offering. All bids for the 364-day bill were turned down as the low and high range for the one-year debt is 1% to 4%.

Short-term papers already showed mild signs of upward movement at the start of the month with 91- and 182-day papers increased by 22.9 and 43.3 bps respectively. This was after bids were rejected for 2 and 3 consecutive auctions for 91- and 182-day bills respectively. 364-day papers declined 67.1 bps after a high of 1.75% last October 18, the highest since the onset of the Euro debt crisis. Long-term rates also inched up slightly with 7-year papers registering a 5 bps increase.

## Secondary Markets: Movements in the Shorter End

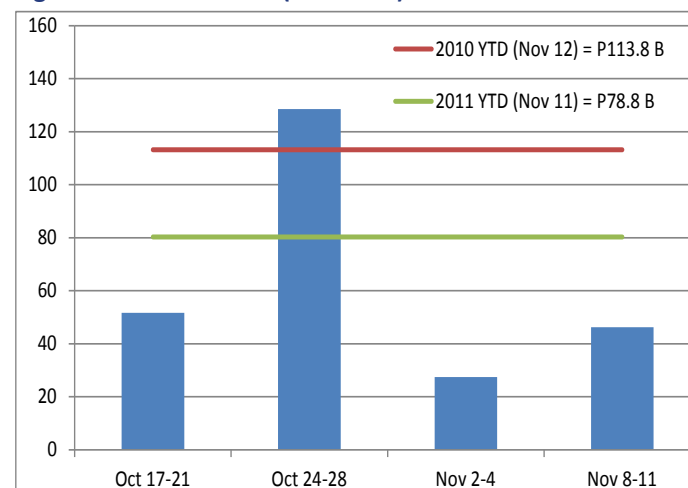
Figure 7 - FXTN Yields



Source: First Metro Investment Corp. (FMIC)

Overall, secondary markets showed movements in the short-end to the belly of the curve with slightly mixed directions mid-November. FXTN series 5-67, with a little over 1 year until maturity, and 10-42 with over 4-years until maturity registered decreases of 50 and 20 bps respectively. FXTN series 5-67 with a little over 2 year until maturity, however, registered a 20 bps increase. Though the movement is more pronounced on the shorter end, the frequency of changes in bids is more focused on longer maturities, FXTN series 10-42 and 10-52. This still shows that the demand for papers is on the long-end rather than the short end.

Figure 8 - Trade Volume (in billions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

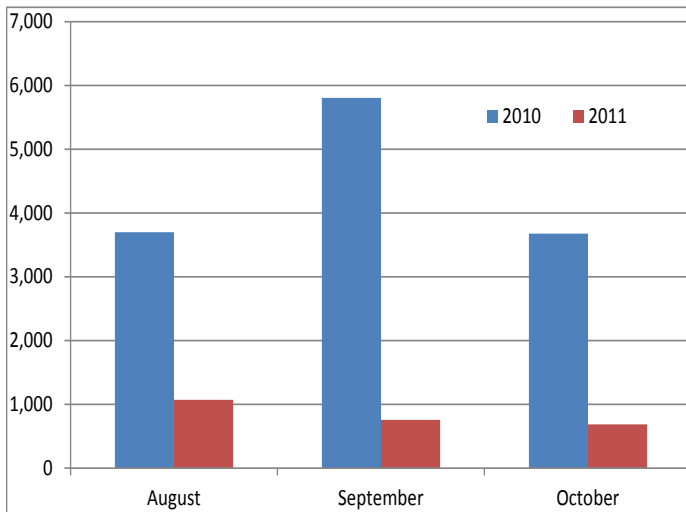
Trade volume for papers may have peaked last September as October volumes generally lacked luster: T-bills, fixed income treasury notes, and retail treasury bonds' trade volume for September fell by 52.5%, 36.9%, and 39.9% respectively on a month-on-month (m-o-m) basis. Trading volume for the last two weeks of October and the first two weeks of November were considerably lower than previous week's levels. Due to the long weekends and limited number of days to trade, trade volume dropped by 78.7% and subsequently increased by 68.6% in November 2-4 and November 8-11 respectively. Traders and investors most likely rebalanced their bond portfolios by the last week of October so as not to be caught in the holidays.

*We expect trade volume to increase in the coming weeks regardless of the external and internal factors.*

This led to a 149% increase in volume. The year-to-date average for 2011 was at P78.8 B, again significantly lower than 2010's P113.8 B. We expect trade volume to increase in the coming weeks regardless of the external and internal factors, since there is ample excess liquidity and the quest for better yields remain.

**Secondary Corporate Bond Market: Trading Volumes Continue to Slide**

Figure 9 - Total Corporate Trade Volume (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

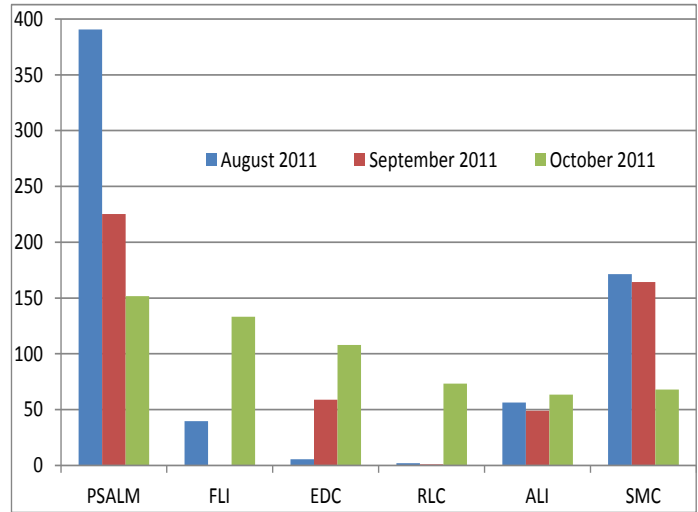
Total secondary trading of corporate bonds last month was minimal again compared to year-ago levels due to the minimal corporate issuances in the past months. Less volume was seen on a m-o-m basis. Total corporate trading registered at P686.7 M for September, a 9.3% decrease, compared to September last year.

The Power Sector Assets and Liabilities Management (PSALM) led demand in the market with P151.6 M worth of papers traded. Notably, Filinvest Land Inc. (FLI) showed strong demand for October with P133.2 M worth of traded papers. Ayala Land Inc. (ALI) debt papers worth P63.40 M changed hands last month. FLI more than doubled its capital expenditures this year as management sees more demand for lower priced homes on the back of strong re-

mittance inflows and low interest rates. New comers Energy Development Corp. (EDC) and Robinsons Land Corp. (RLC) papers faced strong demand for October registering P108 M and P73 M worth of traded papers respectively. Lastly, once again, San Miguel Corporation (SMC) showed market presence with P68.09 M worth of traded papers, albeit much lower than the previous month.

**Corporate Issuances: Getting There**

Figure 10 - Corporate Trading (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

Done deals may have started to pick up but remains meager despite long term rates remaining at historical lows. Larger companies have already made moves towards greater capitalization but the uncertainty of the market is still causing doubts on yield movements:

- The Philippine National Bank (PNB) raised P3 B from the sale of long-term negotiable certificates of deposits (LTNCD). The debt papers have maturity of 5 years and 3 months with an interest rate of 5.18%. Interest will be paid quarterly and will be tax exempt for individual investors who hold the papers for more than 5 years. Funds will be used for general corporate purposes. Another tranche of LTNCD sale from PNB may be offered early next year.

*ROP14, ROP16, ROP19, and ROP32 decreased by 25.7, 41.9, 52.9, and 11.5 bps respectively.*

- The Philippine Long Distance Telephone Co. (PLDT) issued P5 B in fixed rate notes consisting of 5-, 7-, and 10-year until maturity with yields of 5.47%, 5.50%, and 6.22% respectively. The notes were oversubscribed with lenders including different kinds of bank, investment funds, and insurance firms. Fitch recently upgraded PLDT's long term default rating to A- from BBB+ with a stable outlook. Spreads over local T-bonds hovered around at 75, 50, and 50 bps for 5-, 7- and 10-year corporate bonds respectively.
- Petron Corp. (PCOR) successfully raised P3.5 B from the sale of fixed coupon notes by the end of last month without disclosing its plans on what to do with the proceeds.
- First Metro Investment Corp. (FMIC) will be issuing 5-year bonds with an interest rate pegged at 5.675% per annum. The issuance is aimed to lengthen the debt profile of FMIC by issuing longer-dated investment instruments. Minimum initial placements for retail investors are P10,000 while for institutional investors P1 M.

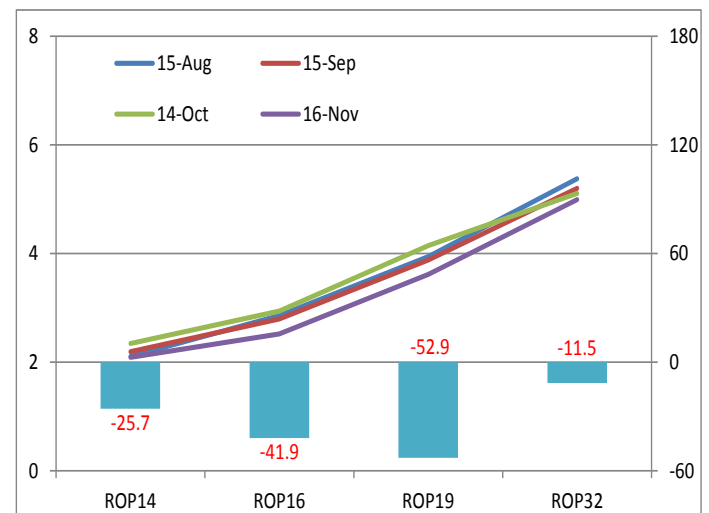
It still expected that bond issuances will continue to be pushed in the pipeline as long as rates are still trending downwards.

### ROPs: More Demand in the Belly

Yields uniformly went south for medium to long term bonds denominated in US\$ directly issued by the Republic of the Philippines (ROPs). ROP14, ROP16, ROP19, and ROP32 decreased by 25.7, 41.9, 52.9, and 11.5 bps respectively. Movement is seen to be relatively focused in the belly of the curve with the shorter to medium term bonds taking the brunt of demand. The overall view on Philippine credit continues to be rosy as demand for all tenors of ROPs peaks for November. There are two reasons why demand for ROPs is generally high: First, ROPs may be considered as a hedge against the possible risk in investing in developed markets including the Euro-zone. Second, this can hedge against the seeming trend of the peso in decline since the start of September with another

possible steep decline at the start of November. As long as Euro-zone fears rattle markets and the peso is in decline, we expect higher than usual demand for ROPs.

Figure 11 - ROPs



Source: Bloomberg

### ASEAN Market+1: Yields Decline Faster at Short-end of Curve

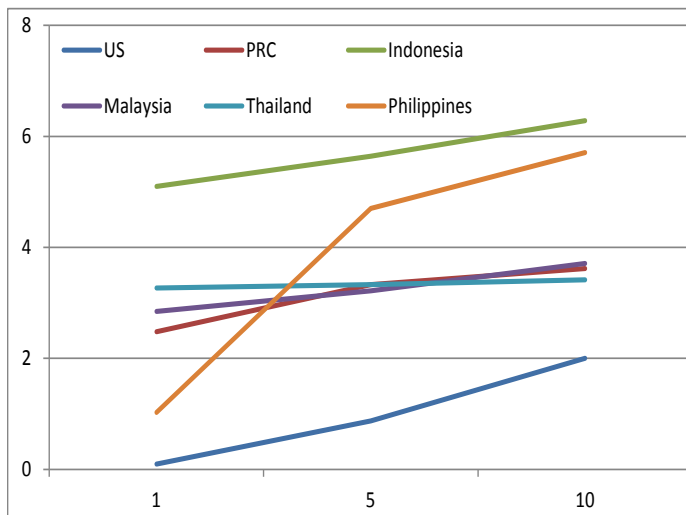
Yields have been in decline across the region. This is amidst slight increases in yield spreads for most countries. Short rates were quick to plunge down while longer rates were slow to follow as ASEAN capital markets seem to be well insulated against the Euro-zone contagion. Monetary policies have been most effective as inflation has been consistently curbed down. The Philippine yield curve is still the steepest in the region, with movement focused in the short to medium run. Uncertainties linger in the future economic prospects of the RP as supported by the volatile movement of rates in the short run. We maintain our view that once the GDP growth rate is reported by late November, the dust will settle for a more predictable interest rate climate in the country.

**US:** Yields slightly increased by 0.5 for 1-year and decreased 22.8 and 18.3 bps for 5- and 10-year bonds respectively. The yield spread between 2-year and 10-year

*The Bank of Thailand (BOT) is now focusing on risk management due to recent flooding damages on the industry and a speculative foreign market.*

decreased by 16.9 bps. As a start, the Federal Reserve is set to buy as much as \$2.75 B of Treasuries due from 2036 to 2041 to replace \$400 B in shorter maturities with longer term debt. Spreads are still continuing to widen as the debt crisis continues to threaten the survival of the euro as a currency.

Figure 12 - ASEAN Market+1



Source: Asian Development Bank (ADB)

**PRC:** Yields eased down by 88, 26, and 17 bps for 1-, 5-, and 10-year bonds respectively. The yield spread between 2-year and 10-year decreased by 17 bps. There is an apparent inversion in the yield particularly in the 2-year time horizon. The People’s Bank of China (PBoC) stated that it will continue to maintain its policy rates as the consumer

price index rose about 5.5% last month y-o-y, the lowest rise since May. Liquidity is expected to rise as more than 1 T yuan or \$158.2 B of treasury deposits are expected to be allocated by the Ministry of Finance to government departments in the next two months.

**Indonesia:** Yields decreased by 49.4, 23.8, and 18.8 bps for 1-, 5-, and 10-year bonds respectively. Latest 10- and 2-year spread recorded an increase of 17.8 bps. The Bank of Indonesia (BI) lowered its 2011 growth projections to 6.5% from 6.6%. The BI also raised Rp 2.5 T or \$277.5 M from a bond sale with 3-, 5-, and 7-year notes fetching 7.75%, 8.75%, and 10% respectively.

**Malaysia:** Yields crept down by 10.3, 9.2, and 4.7 bps respectively. Yield spread between 2-year and 10-year, on the other hand, increased by 16.7 bps. Bank Negara announced that it would boost Islamic Financial Institution’s liquidity by raising between \$2-3 B per issue of high-quality short term papers. Policy makers are confident that inflation has peaked and stabilized in Malaysia for this year with 2012 inflation expected to moderate further.

**Thailand:** Yields along the curve decreased by 16, 9.2, and 4.7 bps for 1-, 5-, and 10-year bonds, respectively. The latest 10-year and 2-year spread increased by 11.5 bps. The Bank of Thailand (BoT) is now focusing on risk management due to recent flooding damages on the industry and a speculative foreign market. The baht went down to a two-week low as news of euro-yields in the France, Belgium, Spain, and Austria reached record high.

Country	Spreads between 10-year and 2-year T-bonds							Latest Policy Rate
	2-year rate	10-year rate	Projected Inflation Rates	Real 10-year yield	10-year to 2-year Spread		Spread change (bps)	
					16-Nov	17-Oct		
PRC	3.72	3.62	4.6	-0.98	-10.0	7.0	-17.0	3.5
Indonesia	5.35	6.28	5.9	0.38	93.6	75.8	17.8	6.0
Malaysia	2.90	3.71	2.3	1.41	80.8	64.1	16.7	3.0
Philippines	2.49	5.71	4.6	1.11	322.3	314.9	7.4	4.5
Thailand	3.19	3.41	3.5	-0.09	22.1	10.6	11.5	3.5
US	0.24	2.00	3.1	-1.10	175.8	192.7	-16.9	0.25

Source: Asian Development Bank (ADB)

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

*Investors continued to seek high-yielding instruments as funds in Special Deposit Account (SDAs) surged 77.8% in the first 9 months of 2011.*

**Philippines:** The Philippines saw a huge decrease of 147.5 bps in yields for 1-year bonds, while 5- and 10-year year papers had decreases of 25 and 6.4 bps respectively. Having the smallest increase in the region, spread between 10-year and 2-year bonds inched up by 7.4 bps. Investors continued to seek high-yielding instruments as funds in Special Deposit Account (SDAs) surged 77.8% in the first 9 months of 2011. OFW remittances which picked up by 7.1% in the nine months to September is one of the main factors in keeping liquidity relatively up in the country.

### Outlook

- As inflation remains benign in the country, market sentiment is now tied to the prime indicator of the Philippines economy, GDP growth. If the growth rate released in late November is higher than expected, yields can be expected to further drop. Otherwise, yields may inch slightly upward. Long term rates will continue to range trade sideways with a slight downward bias.
- Shorter rates will continue to be volatile with primary market bids being noncompetitive. Because of this, market corrections and consolidation are much needed. We, however, maintain our view of status quo in policy rates at least until the end of the year.

# Santa Coming to Town?

14

Progress toward a resolution of the Euro-zone debt crisis buoyed equities in developed markets at the end of November. Investors, nevertheless, remained guarded as details of individual country solutions remain to be crafted. The concerted action of six central banks – U.S. Federal Reserve, European Central Bank, Bank of Japan, Bank of England, Swiss National Bank, and Bank of Canada – to lower dollar swap rates to half a percentage point should help to ease pressures. The move may be a signal that the crisis in Europe could be nearing its end. European leaders need more time to come up with concrete solutions. In the US, recent economic data have improved slightly and have been supportive of US equities in November.

Among Southeast Asian equity markets, the Philippines remain resilient on the back of strong 3<sup>rd</sup> quarter earnings season performance and expectations of higher growth premium over developed markets (DM). We, however, think our local equities may have lost some of its swagger given the disappointing 3<sup>rd</sup> quarter Gross Domestic Product (GDP) report. The Philippine economy just grew 3.2% in the 3<sup>rd</sup> quarter, while revised 2<sup>nd</sup> quarter GDP ebbed to 3.1% from an initial reading of 3.6%.

Global Equity Markets Performances		
Country	November	Year-to-date
Indonesia	-2.00%	0.31%
Philippines	-2.83%	0.24%
US	-0.51%	-0.85%
Malaysia	-1.33%	-3.08%
Thailand	2.11%	-3.62%
Mexico	1.85%	-4.47%
South Korea	-3.22%	-9.92%
Germany	-0.85%	-11.94%
Singapore	-5.37%	-15.28%
Shanghai	-5.46%	-16.90%
Brazil	-2.51%	-17.94%
India	-8.93%	-21.38%

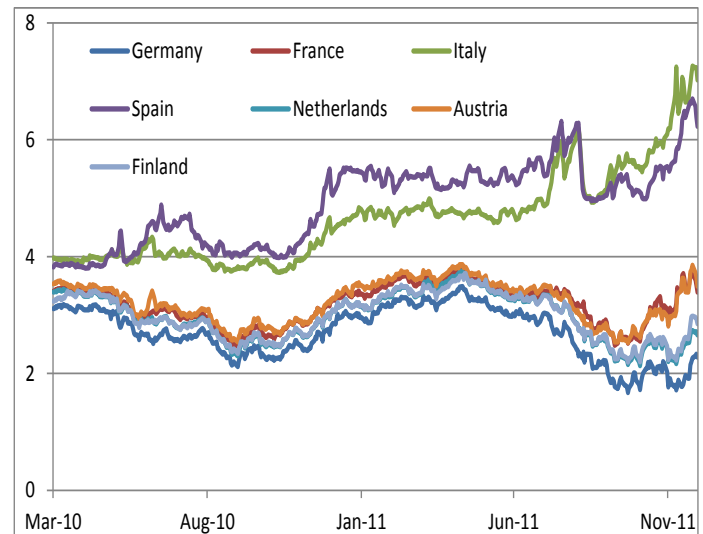
Source: Bloomberg and Yahoo! Finance

## Euro-zone's Debt Crisis Spreading to the "Core"

The Euro-zone's debt crisis appears to have entered a new phase. It is no longer just a periphery problem. The striking reality is that it is now a "core" problem, in which a contagion in Germany and France can no longer be ruled.

Germany's failure to get full allocation of bonds on offer and rising yields raised fears that the debt crisis is spreading to the strongest economy in the Euro-zone. Prior to the "failed" bond auction on November 23, pressures had mounted in all the Euro-zone's bond markets. Yields in the highest rated member states (Netherlands, Austria, Finland, and France) had risen. Aside from rising bond yields in France, the country stands to lose its triple AAA rating. Tepid economic growth, negative current account balance (-2.1% of GDP) and increasing government debt to GDP ratio (80.7) are discouraging signs for the country.

Figure 13 - Euro-zone Bond Yields



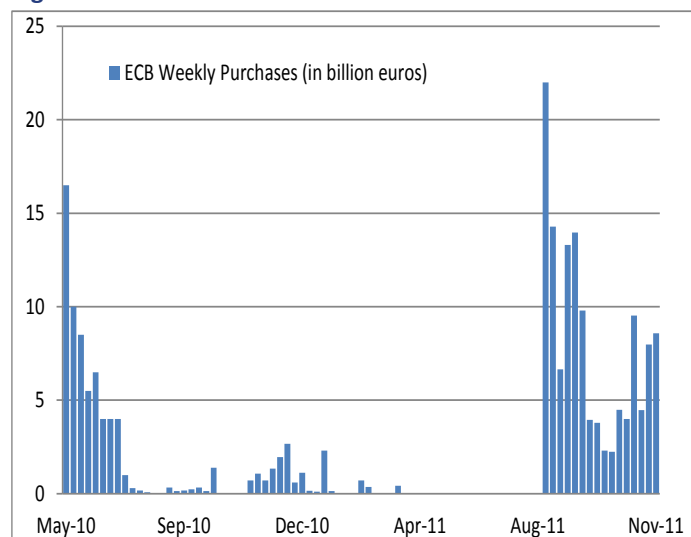
Source: Bloomberg

The 3<sup>rd</sup> and 4<sup>th</sup> biggest economy in the Euro-zone currently remain at the epicenter of Euro-zone's debt malaise. Italian 10-year bond yields rose well above the 7.0% thresh-

*We view a December rally in US equities to be probable barring a credit event in Europe becoming imminent.*

old, a level where Greece and Ireland, triggered a bailout. In Spain, prior to the coordinated action of six central banks, its 10-year bond yields traded well above the 6.0% level, a level not even seen in August 2011 when the debt crisis was at a point of worsening. Regardless of the European Central Bank's (ECB) bond purchases, bond yields of both Italy and Spain had gone to stratospheric levels and made investors jittery about the situation.

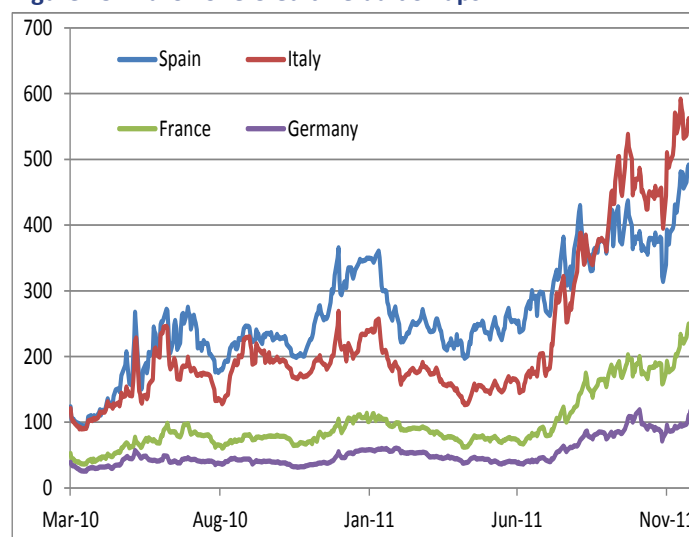
**Figure 14 - ECB Bond Purchases**



Source: Bloomberg

Moving forward, we believe that the Euro-zone will come out a better and more cohesive union after the debt crisis. They will likely muddle through the problem for a long period of time. The move by the six central banks is a "pain reliever" rather a "vaccine" to the debt disease. The scope for a solution remains limited and not yet in sight, in spite of the efforts of European leaders to stem debt crisis. News flows of potential solutions and/or efforts to solve the problem will likely drive risky assets higher. However, any rally will lose steam if Euro-zone's credit markets do not improve. Borrowing cost remains high together with the cost of insuring debt of troubled member states.

**Figure 15 - Euro-zone Credit Default Swaps**



Source: Bloomberg

### Better Economic Data in the US

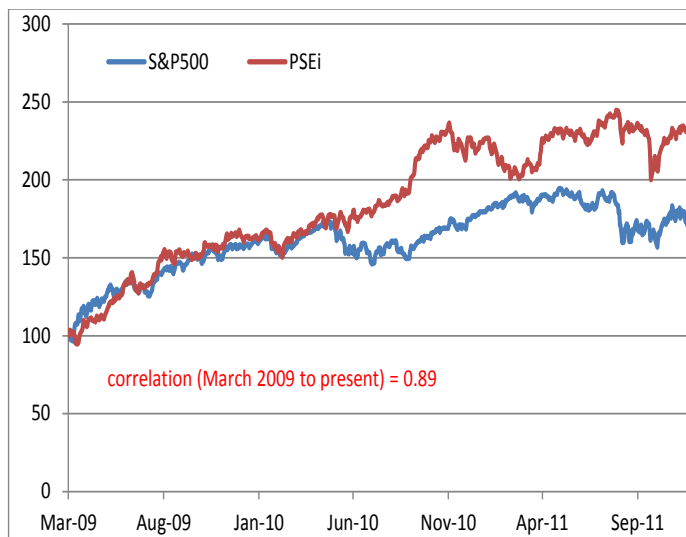
Recent high frequency data releases (job creation, retail sales, durable goods, international trade, and home data) have either matched or beaten expectations. While the revised 3<sup>rd</sup> quarter GDP (2.0% from 2.5% initially) may not be sufficiently robust to reduce US unemployment significantly, it is enough for us to be somewhat optimistic that the US economy remains on a growth path, albeit a slower pace. Moreover, strong sales during "Black Friday" and "Cyber Monday" indicate that the vital signs for the US consumers may get stronger as we go deeper in the holiday season. To be sure, the US economy is still in risk of entering a recession. And odds of it increase, if US lawmakers are unable reach a compromise on reducing the country's fiscal deficit and if Europe enters a deep and long recession.

Regardless, we view a December rally in US equities to be probable barring a credit event in Europe becoming imminent. Given the high year-to-date correlation between the S&P 500 and PSEi, we may also see the main index rally/

*Even if the global economy slows down in 2012, the Philippine government has the scope to stimulate growth.*

supported in December. The lackluster 3<sup>rd</sup> quarter GDP of the Philippines may weigh heavily on investors' psyche, moving forward.

**Figure 16 - S&P 500 and PSEi Performance Since March 2009**



Source: Bloomberg

### Philippines “Losing Swagger”

Like most emerging countries, the Philippines will not be immune to the slowdown in Europe as is evident in the slowdown in exports. Philippine 3<sup>rd</sup> quarter GDP growth was a disappointing 3.2% and 2<sup>nd</sup> quarter GDP rate was revised downwards to 3.1% (see Macroeconomy for more details). Investors were rattled by this report as the decline in food manufacturing, private construction, and corn/fisheries compounded to the slowdown in exports. Despite swirling optimism about the revival of the US consumers and reports of the International Monetary Fund rescue of Italy, the PSEi fell from positive territory on November 28, 2011 as the GDP figures were released. We interpret this as a nascent sign of the Philippine equities market losing its “swagger.” Moving forward, we remain constructive on the Philippine economy. Even if the global economy slows down in 2012, the Philippine government has the scope to stimulate growth (e.g. healthy fiscal balance, policy easing, and the Public-Private Partnership). Furthermore, corporate data remains healthy. Majority of 3<sup>rd</sup> quarter earnings results of PSEi components were in-line with or better-than-expected.

#### 3Q11 and 9M11 Interim Earnings Scorecard (in millions)

Company	3Q10	3Q11	Y-o-Y	9M10	9M11	Y-o-Y	2011E	% of FY
ABS	636	563	-11.56%	2,901	2,240	-22.78%	2,534	88.40%
AC	2,361	2,351	-0.43%	6,782	7,286	7.43%	9,839	74.05%
AEV	5,109	5,815	13.82%	16,510	15,520	-6.00%	20,833	74.50%
ALI	1,423	1,847	29.80%	3,935	5,228	32.86%	6,755	77.39%
AP	5,824	5,641	-3.14%	18,538	16,236	-12.42%	20,306	79.96%
BDO	2,225	2,613	17.44%	6,399	7,637	19.35%	10,418	73.31%
BEL	152	-26	-2780%	333	76	-77.11%	527	14.49%
BPI	3,537	3,435	-2.88%	9,105	9,634	5.81%	12,617	76.36%
CEB	1,666	-219	-22,127%	4,832	2,221	-54.04%	4,330	51.28%
DMC	1,592	1,757	10.36%	5,773	7,036	21.89%	9,760	72.09%
EDC	2,012	1,661	-17.46%	6,440	3,967	-38.40%	6,319	62.78%
FGEN*	17	25	50.34%	67	12	-82.64%	68	16.89%
GLO	1,946	2,602	33.71%	7,131	8,176	14.65%	10,486	77.97%
ICT*	31	41	35.04%	73	101	38.85%	124	81.50%
JFC	712	741	4.14%	2,145	2,056	-4.17%	3,122	65.85%
JGS	5,054	4,205	-16.80%	15,620	13,240	-15.24%	16,167	81.90%

The PSEi will continue to take its cue from news flows US and Europe. We think a December rally is in the horizon.

MBT	1,805	2,758	52.80%	6,009	8,872	47.65%	10,835	81.88%
MEG	1,870	1,507	-19.40%	4,084	4,648	13.82%	6,022	77.19%
MER	3,115	3,860	23.92%	7,966	9,951	24.92%	15,834	62.84%
MPI	840	1,481	76.31%	2,594	3,438	32.54%	4,973	69.14%
MWC	1,005	1,097	9.22%	2,975	3,114	4.70%	4,076	76.41%
PX	1,152	1,131	-1.86%	2,127	4,315	102.91%	5,484	78.68%
SCC	664	618	-6.80%	3,212	5,196	61.74%	6,514	79.76%
SM	3,947	4,521	14.56%	12,475	14,165	13.55%	20,831	68.00%
SMC	1,900	1,100	-42.11%	8,218	11,587	41.00%	23,185	49.98%
SMDC	795	1,164	46.48%	2,049	3,094	51.00%	3,824	80.90%
SMPH	1,865	2,139	14.71%	5,623	6,412	14.04%	8,851	72.45%
TEL	10,309	9,319	-9.60%	31,988	30,618	-4.28%	39,982	76.58%

\*in dollars

Source: PSE

## Outlook

**Near-term** – we expect market volatility to continue given the emotional investment backdrop globally. The PSEi will continue to take its cue from news flows from US and Europe. We think a December rally is in the horizon. The concerted action by six central banks should buoy risky assets. However, the extent of such rally will be dependent on how investors perceive the Philippine economy moving forward.

**Long-term** – we reiterate our long-term constructive view of Philippine equities market. Though we expect forward earnings to be revised downwards given the assumption that the local economy will slow down next year, a majority of companies in the PSEi have sound corporate fundamentals. We suggest selectiveness and active portfolio management to be the “key” to outperformance next year. Equities that can leverage domestic demand and/or have high and sustainable dividends are likely to outperform others.

## Sectoral Performance

Faced with uncertainty throughout the month, the PSEi slipped 2.83% this November. Local macro data and corporate earnings results were diverse while insecurity over a possible US slowdown and the euro-zone debt crisis contributed to the decline of the local equities market. The

recent rebalancing of the MSCI Philippines index impacted the market particularly the companies that were rebalanced. The Holdings sector recorded the highest decline this month followed by the Financial sector.

Monthly Sectoral Performance				
	28-Oct-11		29-Nov-11	
	Index	% Change	Index	% Change
PSEi	4,333.72	8.35%	4,211.04	-2.83%
Financial	972.51	5.96%	930.44	-4.33%
Industrial	6,918.33	3.58%	6,949.35	0.45%
Holdings	3,443.69	9.96%	3,293.70	-4.36%
Property	1,514.68	8.31%	1,474.53	-2.65%
Services	1,547.42	9.39%	1,542.48	-0.32%
Mining and Oil	22,941.36	11.77%	23,715.71	3.38%

Source of Basic Data: PSE Quotation Reports

The Financial sector was heavily affected by the rebalancing of the MSCI Philippines. Weight of banks included in the index were reduced which resulted in their sell-off to bargain basement levels. BPI had the largest decline of 10.4% for the month mainly due to its slowdown for the third quarter. Although the bank's nine-month profit was in-line with expectations, its third quarter profit growth dropped by 2.9%. Robust earnings of MBT and BDO, which were actually better-than-expected, were disregarded as

*SMC, URC, and ICTSI were recently included in the MSCI Philippines.*

movements reflected only the rebalancing of the MSCI Philippines. BDO and MBT declined by 2.2% and 7.5%, respectively.

Company	Symbol	10/28/11 Close	11/29/11 Close	% Change
Metrobank	MBT	71.45	66.10	-7.5%
Banco de Oro	BDO	56.30	55.05	-2.2%
Bank of the Philippine Islands	BPI	58.50	52.40	-10.4%

Source of Basic Data: PSE Quotation Reports

The Industrial sector ended with a mere 0.5% uptick for the month of November mainly buoyed by SMC which posted a 7.0% growth for the month. SMC, URC, and ICTSI were recently included in the MSCI Philippines. MER plunged 2.9% despite its profit growth of 23.9% for the third quarter mainly because of increase in energy sales. MER was in green territory during the month and the drop was attributed to disappointing GDP data. AP dipped 2.2% due to a decline in net income of 3.1% for the third quarter because of lower power generation. AP plans to add 300-MW of capacity from two hydro projects located in Nueva Ecija and the Quezon province.

Company	Symbol	10/28/11 Close	11/29/11 Close	% Change
Meralco	MER	242.00	235.00	-2.9%
Aboitiz Power	AP	29.65	29.00	-2.2%
Energy Development Corp.	EDC	6.10	5.99	-1.8%
San Miguel Corporation	SMC	114.80	122.80	7.0%
Jollibee Food Corp.	JFC	90.60	88.00	-2.9%

Source of Basic Data: PSE Quotation Reports

Meanwhile, EDC dropped by 1.8% for the month due to lower-than-expected earnings harmed by the Northern Negros project write-off and delay in the Bacman geothermal power plant. The company, however, expects the Bacman power plant to be finished by end of the year and equipment of Northern Negros project to be transferred to a new power plant in Negros Oriental. JFC sank for the month by 2.9% as earnings were worst-than-expected. JFC recorded a 4.2% slowdown in profits for the first nine

months of the year due to higher expenses brought by inflationary and supply pressures after the typhoons that affected Central and North Luzon.

Company	Symbol	10/28/11 Close	11/29/11 Close	% Change
Ayala Corp.	AC	306.40	292.80	-4.4%
Metro Pacific Investments Corp.	MPI	3.27	3.36	2.8%
SM Investments Corp.	SM	557.00	518.00	-7.0%
DMCI Holdings, Inc.	DMC	39.00	37.00	-5.1%
Aboitiz Equity Ventures	AEV	40.95	39.00	-4.8%

Source of Basic Data: PSE Quotation Reports

The Holdings sector had the biggest decline falling by 4.4% this month with diverging performances from top companies. SM significantly plunged by 7.0% this November despite its 14.76% profit growth for the third quarter due to lower-than-expected growth. AC also shed off 4% in the month after a drop in net income growth of 0.4% for the third quarter. The deceleration was mainly due to low earnings from its electronics, automotive, and BPO business. AEV joined the decline with a 4.8% plunge for the month as nine-month earnings recorded a 5% drop due to lower earnings from its power business. MPI was the only company in the green territory among the top companies in the sub-index rising by 2.8%. MPI posted a net income growth of 76.3% for the third quarter mainly due to the strong growth of Maynilad and Meralco.

Company	Symbol	10/28/11 Close	11/29/11 Close	% Change
Ayala Land, Inc.	ALI	16.16	15.60	-3.5%
SM Development Corp.	SMDC	7.97	7.00	-12.2%
SM Prime Holdings, Inc.	SMPH	13.00	12.66	-2.6%
Robinsons Land Corporation	RLC	12.46	11.62	-6.7%
Megaworld Corp.	MEG	1.88	1.80	-4.3%

Source of Basic Data: PSE Quotation Reports

The Property sector dropped 2.65% for the month with all of the top companies in the sub-index ending up in the red region. This is despite the better-than-expected earnings

Foreign participation significantly increased to 42.5% of total market activity compared to 30.2% from October.

result by these companies. The outlook for the Property sector has become iffy making it unattractive to investors. In the disappointing GDP data for the third quarter, the construction was the major contributor to the slowdown. Construction declined by 12.2% year-on-year, a huge disappointment compared to its 15.6% increase during the same period in 2010. SMDC, RLC, and ALI fell by 12.2%, 6.7%, and 3.5%, respectively, even after their higher-than-expected profit growth. MEG declined by 4.3% primarily due to flat real estate sales leading to its 19.4% drop in Q3 profits.

Company	Symbol	10/28/11 Close	11/29/11 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,400.00	2,400.00	0.0%
Globe Telecom	GLO	909.00	943.00	3.7%

Source of Basic Data: PSE Quotation Reports

The Services sector ended flat this month as the performance of top companies was mixed. TEL was flat this month after reporting a 9.6% slowdown in net income for the third quarter. The slowdown was a result of lower service revenues after the company started its unlimited services in voice and SMS services coupled with aggressive marketing. A block sale was done between NTT and JGS for their stakes in TEL. As a result of the block sale, NTT gained 20% stake in TEL while JGS lost around 8%. GLO, on the other hand, rose by 3.7% this month with 33.7% profit growth for the third quarter mainly buoyed by strong broadband demand. Also, contributing to the company's rise this month was Fitch's upgrade of its long-term credit profile from BBB- to BB+.

Company	Symbol	10/28/11 Close	11/29/11 Close	% Change
Philex Mining Corporation	PX	24.50	23.15	-5.5%
Semirara Mining Corp.	SCC	214.80	207.00	-3.6%
Lepanto Consolidated Mining Co.	LC	1.32	1.52	15.2%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil sector had the biggest gain for the month at 3.38% led by the double-digit growth of LC. LCB, Lepanto's B-shares available for both local and foreign investors, was recently included in the MSCI Philippines causing the price of both LC and LCB to shoot up. SCC's third quarter earnings declined by 6.8% to P618 M from P664 M of the same period last year leading its share price to fall by 3.6% for the month. PX declined by 5.5% as net income decelerated by 1.9% for the 3<sup>rd</sup> quarter due to lower output and lower copper prices.

## Monthly Turnover

Monthly Turnover (in millions)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	15,246.2	59.3%	802.43	67.7%
Industrial	24,877.5	-7.3%	1,309.34	-2.4%
Holdings	15,960.1	-14.0%	840.01	-9.5%
Property	11,192.7	20.6%	589.09	26.9%
Services	46,282.5	87.5%	2,435.92	97.4%
Mining and Oil	14,646.1	-28.0%	770.85	-24.3%
<b>Total</b>	<b>128,205.1</b>	<b>17.3%</b>	<b>6,747.64</b>	<b>23.5%</b>
Foreign Buying	61,422.3	80.8%	3,232.75	90.3%
Foreign Selling	47,643.4	48.6%	2,507.55	56.4%

Source of Basic Data: PSE Quotation Reports

November recorded an exceptionally high value turnover, a spike of 17.3%, with an average daily turnover from foreign investors increasing by 23.5%. The Services sector recorded the highest turnover growth with 87.5% and an average daily turnover of 97.4%. Among the sectors in the red territory, Mining and Oil sector had the highest decline of 28.0%. Foreign participation significantly increased to 42.5% of total market activity compared to 30.2% from October. Net foreign buying surged to 24.0% of total market activity from the previous month's 15.5%. Foreign investors were net buyers at P13.78 B.

# Recent Economic Indicators

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## NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (in P millions)

	2009		2010		2 <sup>nd</sup> Quarter 2011			3 <sup>rd</sup> Quarter 2011		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
<b>Production</b>										
Agri, Hunting, Forestry and Fishing	663,744	-0.7%	662,665	-0.2%	159,517	-75.9%	7.1%	151,822	-4.8%	1.8%
Industry Sector	1,666,601	-1.9%	1,859,515	11.6%	487,030	-73.8%	-0.6%	446,304	-8.4%	-0.2%
Service Sector	2,966,895	3.4%	3,179,358	7.2%	855,822	-73.1%	5.0%	825,626	-3.5%	5.3%
<b>Expenditure</b>										
Household Final Consumption	3,817,908	2.3%	3,945,827	3.4%	1,030,471	-73.9%	5.4%	988,007	-4.1%	7.1%
Government Final Consumption	548,297	10.9%	570,208	4.0%	174,735	-69.4%	4.5%	140,582	-19.5%	9.4%
Capital Formation	899,333	-8.7%	1,183,650	31.6%	293,957	-75.2%	0.9%	299,355	1.8%	24.5%
Exports	2,385,812	-7.8%	2,886,133	21.0%	778,285	-73.0%	-0.3%	725,982	-6.7%	-13.1%
Imports	2,354,109	-8.1%	2,884,280	22.5%	789,657	-72.6%	4.1%	744,412	-5.7%	0.5%
GDP	5,297,240	1.1%	5,701,539	7.6%	1,502,368	-73.6%	3.4%	1,423,752	-5.2%	3.2%
NPI	1,691,527	25.0%	1,859,847	10.0%	460,909	-75.2%	-2.8%	433,139	-6.0%	-3.4%
GNI	6,988,767	6.1%	7,561,386	8.2%	1,963,278	-74.0%	1.9%	1,856,891	-5.4%	1.6%

Source: National Statistical Coordination Board (NSCB)

	2009		2010		Sep-11			Oct-11		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
<b>Revenues</b>										
Revenues	1,123,211	-6.6%	1,207,926	7.5%	104,337	-16.0%	13.5%	103,939	-0.4%	5.5%
Tax	981,624	-6.4%	1,093,643	11.4%	90,648	-18.4%	10.3%	94,354	4.1%	8.3%
BIR	750,287	-3.6%	822,623	9.6%	66,547	-24.3%	9.2%	70,504	5.9%	10.9%
BoC	220,307	-15.3%	259,241	17.7%	22,615	2.1%	11.8%	22,843	1.0%	1.2%
Others	11,030	6.5%	11,779	6.8%	1,486	44.6%	44.4%	1,007	-32.2%	5.0%
Non-Tax	141,396	-7.9%	113,877	-19.5%	13,663	4.9%	41.2%	9,584	-29.9%	-15.9%
<b>Expenditures</b>										
Expenditures	1,421,743	11.9%	1,522,384	7.1%	122,838	6.9%	-0.6%	125,196	1.9%	14.8%
Allotment to LGUs	264,645	18.7%	279,552	5.6%	24,314	-2.7%	8.8%	25,628	5.4%	14.9%
Interest Payments	278,866	2.4%	294,244	5.5%	25,835	23.6%	-18.8%	12,705	-50.8%	-9.2%
Others	878,232	13.2%	948,588	8.0%	72,689	5.3%	4.7%	86,863	19.5%	19.4%
Overall Surplus (or Deficit)	-298532	338.3%	-314,458	5.3%	-18,501	-300.7%	-41.6%	-21,257	14.9%	102.2%

Source: Bureau of the Treasury (BTr)

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

	2009		2010		Oct-11		
	Annual Levels	Growth Rate	Annual Levels	Growth Rate	Levels	Annual G. R.	YTD
TOTAL	27,271	1.7%	29,976	9.9%	2,563	0.8%	0.3%
Residential	8,901	3.2%	9,535	7.1%	764	-3.6%	-90.4%
Commercial	10,796	3.0%	11,683	8.2%	998	-0.1%	1.3%
Industrial	7,439	-1.6%	8,616	15.8%	790	6.9%	2.6%

Source: MERALCO

## BALANCE OF PAYMENTS (in US millions)

	2009		2010		1 <sup>st</sup> Quarter 2011		2 <sup>nd</sup> 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%	982	-19.0%	2,104	20.1%
Balance of Trade	-6,728	-42.6%	-8,438	25.4%	-2,866	37.5%	-2,600	-3.2%
Balance of Goods	-8,842	-31.4%	-10,384		-3,907	34.9%	-3,257	8.2%
Exports of Goods	37,610	-22.1%	50,684	34.8%	12,021	8.1%	12,334	1.0%
Import of Goods	46,452	-24.0%	61,068	31.5%	15,928	13.7%	15,591	2.4%
Balance of Services	2,114	82.2%	1,946	-7.9%	1,041	28.2%	657	102.8%
Exports of Services	11,014	13.3%	13,243	20.2%	3,898	13.1%	3,674	17.8%
Import of Services	8,900	4.0%	11,297	26.9%	2,857	8.4%	3,017	7.9%
Current Transfers & Others	16,279	6.8%	16,595	1.9%	3,979	4.4%	4,354	3.2%
II. CAPITAL AND FINANCIAL ACCOUNT	-1,627	-1.3%	7,948	-588.5%	3,108	7869.2%	-126	-45.2%
Capital Account	104	96.2%	98	-5.8%	23	9.5%	26	-13.3%
Financial Account	-1,731	1.7%	7,850	-553.5%	3,085	17038.9%	-152	-41.5%
Direct Investments	1,604	24.8%	1,226	-23.6%	399	27.1%	439	2338.9%
Portfolio Investments	-625	-82.8%	4,018	-742.9%	2,705	-1501.6%	1,600	-371.2%
Financial Derivatives	32	-128.3%	-191	-696.9%	888	-2320.0%	70	-369.2%
Other Investments	-2,742	-464.1%	2,797	-202.0%	-907	1339.7%	-2,261	-768.9%
III. NET UNCLASSIFIED ITEMS	-1,310	-30.7%	-2,010	53.4%	-597	-2488.0%	-455	-230.7%
OVERALL BOP POSITION	6,421	7114.6%	14,403	124.3%	3,493	173.7%	1,523	-18.6%
Use of Fund Credits	0		0		0		0	
Short-Term	-1,510	-200.1%	-2	-99.9%	10	-9.1%	-10	-16.7%
Memo Items								
Change in Commercial Banks								
Net Foreign Assets	-3,752	-224.9%	4,932	-231.4%	2,952	-361.7%	-171	-125.1%
Basic Balance	12,038	261.1%	11,605	-3.6%	1,937	4.1%	2,198	8.2%
Net Unclassified Items as percentage of Total Trade	-2	-5.9%	-2	12.5%	-2	-2200.0%	-2	-223.1%

Source: *Bangko Sentral ng Pilipinas (BSP)*

## MONEY SUPPLY (in P millions)

	2009		2010		Sep-11	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Levels	Growth Rate
RESERVE MONEY	912,132	8.8%	1,011,270	10.9%	1,096,023	11.33%
Sources:						
Net Foreign Asset of the BSP	1,886,514	17.7%	2,272,685	20.5%	3,260,495	39.64%
Net Domestic Asset of the BSP	-974,382	-27.6%	1,261,415	29.5%	-2,164,472	60.28%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,087,408	19.2%	1,233,927	13.5%	1,347,612	10.84%
Money Supply-2	3,562,217	12.6%	3,893,063	9.3%	4,202,171	7.63%
MONEY MULTIPLIER (M2/RM)	3.91	3.4%	3.85	-1.5%	3.89	-3.3%

Source: *Bangko Sentral ng Pilipinas (BSP)*

November 2011

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