

The
MARKET CALL
Capital Markets Research



FMIC and UA&P Capital Markets Research

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Growth Recovery Seen in H2

2

The year-on-year decline in August exports from -1.7% to -15.1% poses a threat to growth in the second half of 2011. However, positive news both from abroad and the domestic front lead us to believe that Gross Domestic Product (GDP) in H2 2011 will recover from a tepid GDP expansion of 4% in H1.

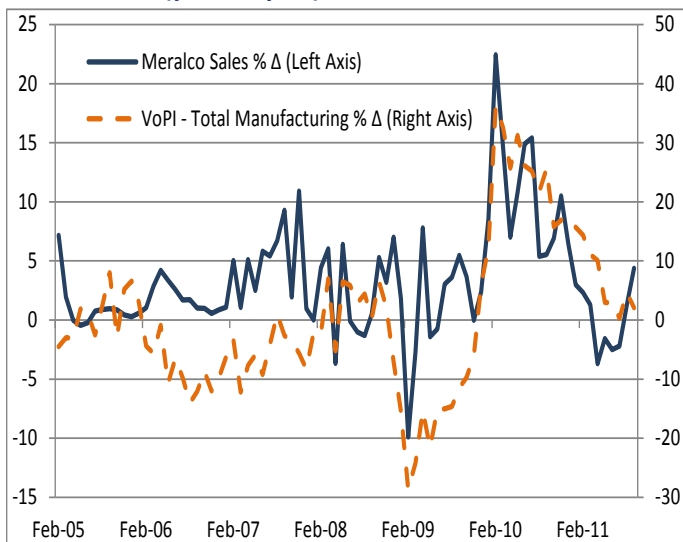
The recent EU Summit lays out a concrete plan for the euro-zone debt crisis and the G20 Summit in November brightens the once bleak outlook for global growth. The strong growth recently exhibited in China (9.5% to 9.1%) and the US (1.3% to 2.5%) revives optimism that the world will not sink into recession.

In the domestic scene, the National Government (NG) continued to raise spending (excluding Interest Payments) growth to 5.7% in September from 13.0% in the previous month. Inflation remained low and is stable at a 0.1% month-on-month (m-o-m) uptick and an annual growth of 4.6%. The lower inflation allowed Monetary Authorities to keep the key policy rates at their previous levels. Moreover, the Overseas Filipino Workers (OFW) remittances reached double-digit growth of 11.1%.

Slightly Weaker Growth of Electricity Sales in September

Contrary to expectations, a slowdown in the expansion of the Industrial sector caused the pace of Meralco sales in September to ease. Total electricity sales slowed down while remaining positive – from 4.4% in August to 3.4% in September bringing the Q3 2011 y-o-y average sales growth to 3.0%, a significant upturn from -2.1% in Q2.

Figure 1 -Meralco Sales & Volume of Production Index Growth Rates (year-on-year)



Source: Meralco, National Statistics Office (NSO)

Sales to the Industrial sector was tracked at a slower annual growth of 6.5% down from its double-digit upsurge of 11.5% in August – the slowest growth in Q3. Nonetheless, the sales growth to the sector was relatively higher than the changes in the other sectors. Sales to the Residential sector finally broke away from negative clips since March achieving a y-o-y flat growth in September from a negative 0.1% decline in August. The Commercial sector also accelerated from 2.8% to 4.2%.

Average quarterly sales to each sector showed faster pace, especially to the Industrial sector which registered an impressive quarterly average expansion of 8.6% in Q3 – a big turnaround from -0.6% in Q2 2011. Sales to the Residential sector had similarly improved, though still negative, from -5.9% to -2.0%. Meanwhile, the Commercial sector sales turned further positive from 0.2% to 3.1%.

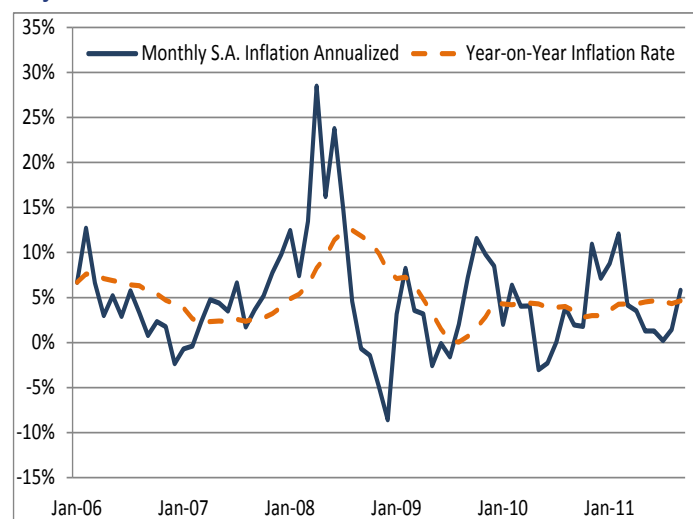
Although the annual growth of Q3 Meralco sales was slightly lower than what we expected, we continue to believe that it will expand faster in Q4 2011. Moreover, in using Meralco sales as a proxy to GDP, the big difference between the quarterly growth rates leads us to believe that GDP for Q3 2011 will likewise recover from the tepid 3.3% pace in Q2.

We maintain our view that year-end inflation would remain below 4.6% as we expect food and oil prices to remain stable.

September Inflation Accelerated to 4.6%

Headline inflation rate advanced to 4.6% in September from 4.3% in August although slightly below our 4.7% forecast. Nonetheless, our third quarter average forecast was on the dot at 4.5%. Meanwhile, core inflation for August was revised to 3.4% and slightly accelerated to 3.5% in September. The sectors contributing to the uptick were Food-Beverage-Tobacco (FBT), Fuel-Light-Water (FLW), and Services.

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



Source: National Statistics Office (NSO)

In terms of y-o-y inflation growth rate, FBT accelerated from 3.7% to 3.9% primarily due to unfavorable weather conditions resulting in faster annual rates for several food indices such as meat, fruits and vegetables, corn and rice. Simultaneously, FLW spiked from 8.3% to 10.6% while Services inched up from 6.7% to 7.0%. The other half of the commodity group which includes Clothing, Housing and Repairs, and Miscellaneous sectors remained flat from August rates.

Meanwhile, there was a minimal rise in m-o-m inflation rate from 0.0% to 0.1%. In spite of the easing of FLW from 0.2% to -0.2% due to lower West Texas Intermediate (WTI) oil prices from \$86.3/barrel to \$85.5/barrel in September, the quicker pace in FBT from -0.1% to 0.2% and Housing

and Repairs from 0.0% to 0.1% pulled up the m-o-m rate slightly. Similar to the y-o-y increases of half of the commodity groups, the Clothing, Services and Miscellaneous sectors stayed at their August m-o-m rates as well.

The seasonally adjusted annualized rate (SAAR) recorded a higher increase than actual inflation. From 1.5% in August, it reached 5.8% in September on account of the faster pace of both food and non-food items. Food items accelerated from 1.1% to 6.3% while non-food items rose from 1.8% to 5.4%.

As of the end of Q3 2011, average inflation reached 4.3%. Because of this, we maintain our view that year-end inflation would remain below 4.6% as we expect food and oil prices to remain stable. In fact, even with the erratic weather situation in the country, rice prices only had a marginal increase from 1.7% to 1.8%. Furthermore, US Department of Energy projects that average price of crude oil for the fourth quarter would further decline to \$84/barrel.

NG Spending (Excluding Interest) Up 5.7% in September

The National Government (NG) stepped up its spending (excluding interest payments) in September by 5.7%, the second consecutive month of increase. Overall, total expenditures were down by -0.6% as it was offset by an 18.8% decline in interest payments due to lower rates.

The budget deficit for the month of September reached P18.5 B after a surplus of P9.2 B in August bringing the cumulative deficit from Q1 to Q3 2011 to P53.0 B compared to the P34.5 B in the January to August period. According to the Bureau of Treasury (BTr), even with the higher deficit, the figure was P181.4 B lower than the programmed ceiling of P234.4 B.

The higher budget deficit was the result of slower growth of tax revenues from 13.2% to 10.3%. Both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BoC) reported weaker pace in collections. BIR tax revenue growth eased from 11.2% to 9.2% while BoC collection gains decelerated to 11.8% from 24.7%.

Our projected lower deficit and borrowing requirements by the NG augur well for the country's debt ratio to fall below 50% by end-2011.

In response to criticisms of underspending in the face of a weaker global economy, the NG actually spent more in September (P122.8 B) than the P114.9 B in August. This, however, represented a slight 0.6% drop in comparison to P123.6 B a year ago. The decreased spending was caused by lower interest payments and the deceleration in the Allotment to Local Government Units (LGUs) from 12.8% to 8.8%.

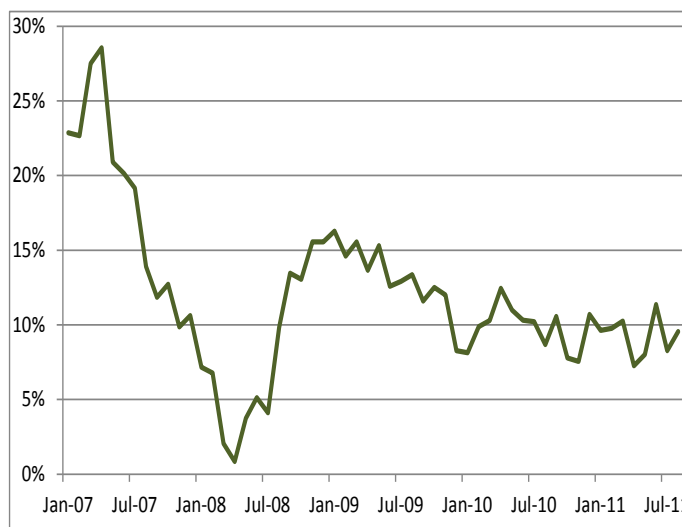
On a quarterly basis, there was acceleration in the annual growth rates of tax revenues to 11.3% from 8.1% in Q2. Similarly, we find a return to growth in expenditures to 1.9%, from -10.2% in the previous quarter. In short, the administration is getting more confident in spending better-earned tax revenues.

With three months left in 2011 and the cumulative deficit until September, we maintain our view that the total deficit for the year will be less than P200 B. The so-called P72 B stimulus will actually come from the present budget but spent more expeditiously. Nonetheless, since we think that NG spending will average 12%-15% growth in H2 compared to the year ago level, this in itself will be a stimulus for the second half of the year which should carry on to 2012. Our projected lower deficit and borrowing requirements by the NG augur well for the country's debt ratio to fall below 50% by end-2011 while interest rates should remain soft.

BSP Policy Rates Still on Hold

As inflation remained stable, the Monetary Board (MB) maintained key policy rates and reserve requirements at their previous levels during their latest meeting on October 20th. The overnight lending or the repurchase (RP) facility stayed at 6.5% and the overnight borrowing or reverse repurchase (RRP) facility remained at 4.5%. The special deposit account (SDA) rate was also maintained at 4.6%. The Bangko Sentral ng Pilipinas (BSP) believes that its 3-5% target range for the years 2011 to 2013 is attainable given the current drift of inflation.

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



Source: Bangko Sentral ng Pilipinas (BSP)

The negative Net Domestic Assets' (NDA's) y-o-y growth of 66.1% from 57.3% in July reflected the liquidity draining activities by the BSP, although the counter-weight was the rise in the Net Foreign Assets (NFA) from 36.5% to 43.2% arising from the robust OFW remittances. This pushed up the annual growth rate of Reserve Money (RM) from 11.0% to 13.2%. The SDA had also accelerated substantially from 68.1% to 84.8%. Actual SDA levels reached P1.6 T in August with the BSP and banking system activities resulting in moving back both M2 and M3 to double-digit growth of 10.0% from 8.8 % and 8.3%, respectively.

As expected, the policy rates were unchanged. Except for crude oil, commodity prices continue to settle much below their peaks in the last week of October. We believe that there will no longer be any changes to the key policy rates and reserve requirement in the last MB meeting on December 1. If at all, there may be a slight easing in view of the weaker world economic growth and lower inflation expectations as other ASEAN countries have done.

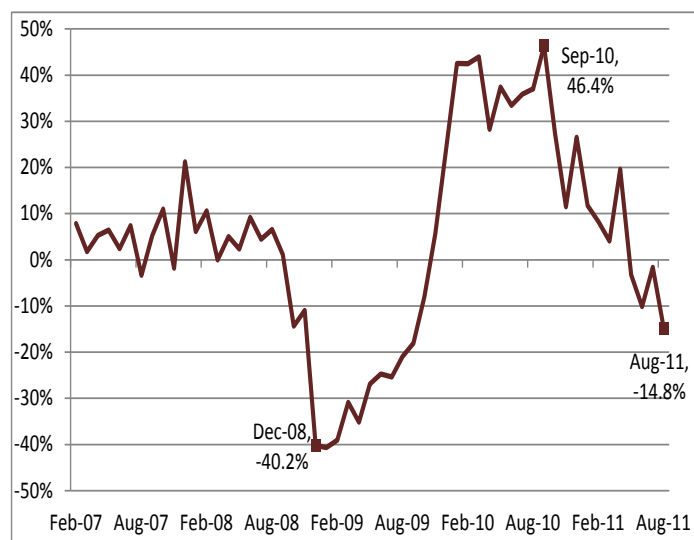
Compared to the same period in 2010, job placements increased by 8.6% in 2011 as an additional 15,240 jobs were processed.

Exports Slump 8.5% in August

Total exports in August surprisingly dropped to \$4.1 B from \$4.3 B in July. In terms of growth rates, its m-o-m growth turned negative from 7.3% to -8.5%. Growth y-o-y recorded a negative value for the fourth consecutive month slowing down further from -1.7% to a double digit decline of 15.1%.

In contrast to previous months, more export commodities incurred losses in August. Out of the top 10 Philippine exports, only 4 were gainers: Sugar (+201.3%), Woodcrafts and Furniture (+70.7%), Pineapple and Pineapple Products (+65.4%), and Cathodes and Sections of Cathodes and Refined Copper (+32.4%). Unfortunately, the huge upticks in these commodities could not offset the other 6 commodities, particularly Electronic Products which made up 51.2% of total exports which slowed further from -21.3% to -30.6%. Declines were also exhibited by Coconut Oil (-27.9%), other Products Manufactured from Materials Imported on Consignment Basis (-25.9%), Articles of Apparel and Clothing Accessories (-4.1%), Ignition Wiring Sets (-2.3%), and Metal Components (-1.9%).

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



Source: National Statistics Office (NSO)

On a month-on-month basis, 4 out of the 5 major product groups had negative growth rates. Only Forest Products was positive at 53.4% from -15.6%. Petroleum Products showed a -30.2% rate, although better than -67.0% in July. Three other major export categories turned negative from their previous positive rates, namely, Total Agro-based products (53.1% to -17.4%), Mineral Products (6.2% to -27.2%) and Manufactures (7.0% to -5.3%).

Looking at the Philippine's export performance, the top three destination of exports remained unchanged. Japan received 16.1% of exports followed by the US and People's Republic of China (PRC) with 15.1% and 14.0%, respectively.

In spite of the negative annual growth rate of exports in the past few months, the year-to-date export growth remains positive at 0.8%. Despite the fact that 50% of Philippine exports are still purchased by the ASEAN and East Asia (ex Japan), the huge decline due to the weakness in Europe and the US forces us to lower our full-year forecast to 3-5%, assuming a rebound in Q4.

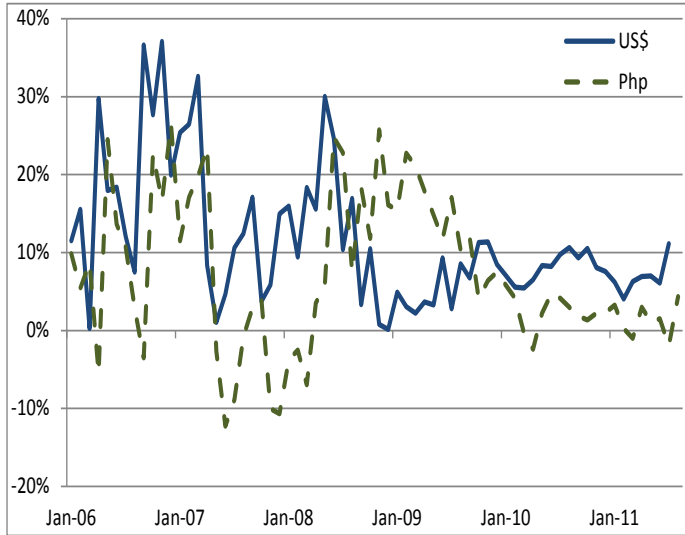
Double-digit Rise of OFW \$ Remittances in August

In August, Overseas Filipino Worker (OFW) remittances recorded its first double-digit y-o-y growth in 2011 increasing by 11.1% from 6.1% in the previous month. In spite of the static dollar remittances (\$1.7 B) for the past 4 months, the low base in 2010 provided the latest boost.

Redeployment of the OFWs affected by the Middle East and North Africa (MENA) crisis is still ongoing, helping to maintain the favorable remittance level. Also, there has been an improvement in the processed job orders according to the Philippine Overseas Employment Administration (POEA) from January to September. Compared to the same period in 2010, job placements increased by 8.6% in 2011 as an additional 15,240 jobs were processed. We expect this trend to persist until 2012 due to the Japan-Philippines Economic Partnership Agreement (JPEPA) under which additional licensed nurses and caregivers will be deployed in the coming year.

The weakening of the peso will be contained in the remaining months of Q4 2011.

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



Source: *Bangko Sentral ng Pilipinas (BSP)*

Because of the substantial difference of remittances from a year ago (\$1.5 B), its peso equivalent also had a remarkable annual growth even with the 6.1% appreciation of peso from P43.44/\$ to P42.42/\$. The total peso value actually declined from P73.4 B in July to P70.8 B in August. Nevertheless, the latter represents a decent increment (y-o-y) from -2.0% to 4.3%, due primarily to base effects.

We believe that remittances will continue to be resilient in the last few months of the year due to seasonal factors. In addition, OFWs tend to send more dollar remittances to compensate for any appreciation bias of the peso leading us to maintain our 6-8% growth forecast in OFW \$ remittances for the year.

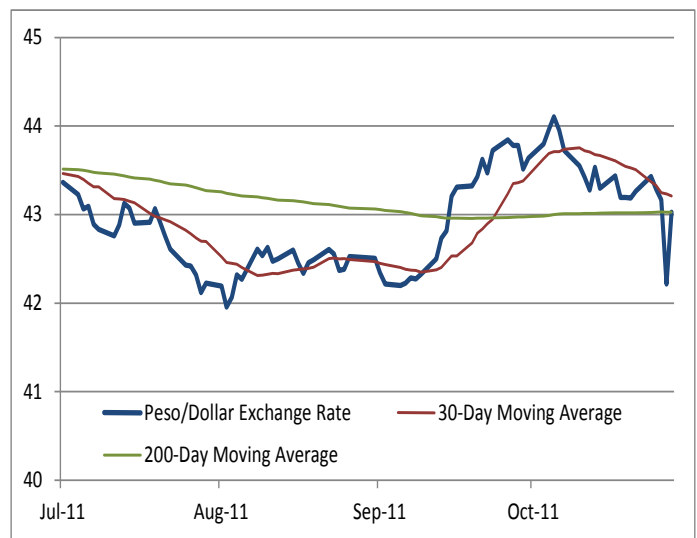
Peso Weakness Extends to October

The peso-dollar exchange rate for the whole month of September closed at an average of P43.03/\$. This was a depreciation from P42.42/\$ in August. Furthermore, it continued to weaken in October with an average of P43.52 as of October 24.

Volatility of the peso was primarily due to uncertainties in the euro-zone as investors opted to lessen exposure to risky assets. Nonetheless, during the latter half of the month, sentiment shifted as the EU Summit on October 23 was preceded by a decision of German Chancellor Angela Merkel and French President Nicolas Sarkozy to boost the bailout package from 440 B Euros to 2 T Euros. After the summit, Greek debt burden was reduced by 100 B Euros with private holders agreeing to a 50% haircut on their holdings. Investors regained confidence and the peso started to strengthen.

Peso volatility has continued this month due to fears of a global slowdown. However, we believe that the weakening of the peso will be contained in the remaining months of Q4 2011. Market players have had high expectations that the G-20 Summit on November 3 and 4 will have positive results. As OFW remittances continue to flow, any weakness of the peso will likely be mitigated.

Figure 6 - Daily Peso-Dollar Exchange Rate



Source: *National Statistics Office (NSO)*

It has become more likely for GDP to reach a growth of at least 5% in Q3.

Outlook

Overall, we expect developments in the remaining months of 2011 to become more favorable compared to a few months ago:

- Because of the continuously strong Industrial Sector, decent NG spending and OFW remittances, strong growth in China and US and the easing euro-zone crisis, it has become more likely for GDP to reach a growth of at least 5% in Q3.
- Given the stable inflation rate and the external positive developments, the Monetary Board will no longer increase the key policy rates and reserve requirement for the rest of 2011. It may even favor easing in the wake of an expected weaker global economy.
- Exports would likely turn positive again in Q4, while OFW remittances will continue its robust growth in the next months and eventually reach a yearly average of 6-8%.
- The peso-dollar exchange rates will likely have a firmer bias again starting in November due to dollar remittances and portfolio investment flows into the country.

Forecasts				
Rates	Oct	Nov	Dec	Jan
Inflation (y-o-y %)	5.2%	4.7%	4.5%	4.10%
91-day T-Bill (%)	0.69%	1.64%	1.71%	1.41%
Peso-Dollar (P/\$)	44.28	44.62	44.82	44.18
10-year (%)	5.75%	5.79%	5.65%	5.73%

Source: Authors' Estimates

Risk Aversion Still Dependent on Eurozone

8

November 3 was D-day when the G20 Summit will take place and the deadline falls for European leaders to announce its final decision on Greece's bail-out including a recapitalization or restructuring of Europe's banking sector. A speculative rhythm for the new rescue plan and bargain hunting for select papers may continue to dictate prices and rates. But in the long-run, a nation's fundamentals always prevail.

Until the G20 Summit, short-term rates will range-trade. This is so because questions about the \$609.5 B European Financial Stability Facility (EFSF) lingers as France and German leaders show little consensus on the breadth and timetable of their recapitalization plan. Haircuts or writing off Greek debts have been brought up as proposed solutions. But this move has faced strong opposition from foreign leaders and countries that are debt holders. On this matter, no one seems to want to take the losses, but that cannot last very long as the markets may make the decision for them otherwise.

Betting on rates that seem to have peaked in foreign markets, the National Government (NG) bought back \$1.3 B worth of foreign currency bonds. This not only safeguarded the NG's exposure to foreign markets, but also saved up on high interest payments due to the recent trend of firming up by the greenback. The NG also raised \$50 M by reopening its maturing bonds on 2034 with a coupon of 6.375%. The recent retail bond auction also proved highly successful as both the 10- and 15-year peso debt papers had good amount of oversubscriptions and raised a total of P110.1 B.

We maintain our positive outlook on the Philippine economy, including the firming up of long-term yields. Though exports were down due to the global crisis (See Macroeconomy), this was offset by the growth of foreign portfolio investments from January to September, which can largely be considered as grabbing asset products of the Philippines. Latest inflation figures for September registered a modest increase, albeit benign. With further support from both fiscal and monetary policies of the government, which includes a P72 B fiscal stimulus package and prudent liquidity management from the Bangko Sentral ng Pilipinas (BSP), we expect capital markets to have robust growth for the rest of the year.

Primary Markets: T-bonds on a Roll while T-bills are Benched

The NG will not be borrowing more than what is needed from both domestic and foreign markets until the end of the year according to Department of Finance (DOF) officials. NG now projects a budget deficit for this year of P260.6 B, P39.4 B lower than the programmed P291 B set at the start of 2011. We doubt, however, that it would even reach P200 B.

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-Oct	91-day	2.00	3.36	0.00	1.68	-	-
	182-day	3.00	2.22	0.00	0.74	-	-
	364-day	4.00	2.00	0.00	0.50	-	-
10-Oct	10-year RTB	10.00	22.98	10.00	2.30	5.75	24.50
	15-year RTN	10.00	47.96	10.00	4.80	6.37	-
18-Oct	91-day	2.00	6.90	0.00	3.45	-	-
	182-day	3.00	6.60	0.00	2.20	-	-
	364-day	4.00	9.37	4.00	2.34	1.75	62.00
25-Oct	25-year	9.00	26.61	9.00	2.96	7.20	-42.50
Total:		47.00	128.00	33.00	2.72		

Source: Bureau of the Treasury (BTr)

The RTB auction last October 10 became the best indicator of market sentiment.

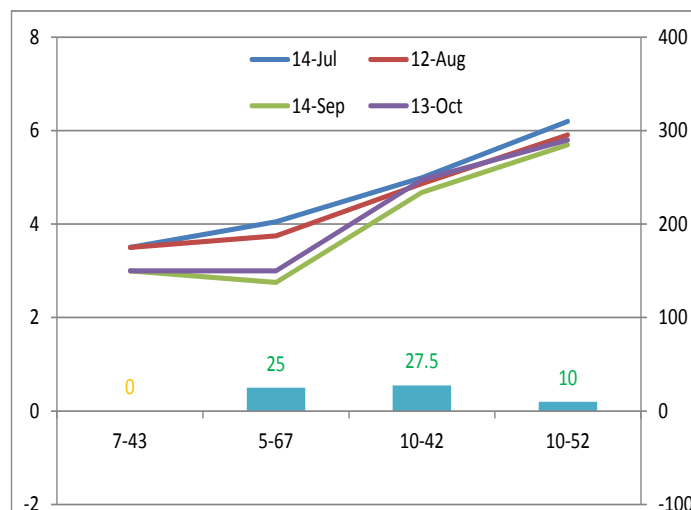
A short-term upward correction is expected from month-ago levels. From a successful breakout of support levels from the first week of September, T-bill yields are seen to rally ranging at least 100 bps higher. Bids for the T-bill auction in October 3 were simply throw-away bids and NG dutifully rejected bids in all tenors. After all, had it accepted the bids, yields were to rise to 2.775%, 3.296%, and 3.469% for 91-day, 182-day, and 364-day T-bills, respectively — a surge of more than 200 bps for all tenors. In October 18th, bids were again rejected for 91-day and 182-day T-bills. If bids for 91-day and 182-day papers were accepted, they would have fetched average rates of 1.941% and 2.292%, respectively. In the second round of T-bill auctions for the month, only bids for the 364-day papers were accepted with yields rising 62 bps from the previous rate.

The RTB auction last October 10 became the best indicator of market sentiment. The 10-year and 15-year papers have coupon rates of 5.75% and 6.25%, respectively. The RTBs were more than 2 times and almost 5 times oversubscribed, respectively. Final yields-to-maturity for the papers registered at 5.75% and 6.374 for the 10-year and 15 year retail bonds. Finally, the 25-year paper had a final rate which was 42.5 bps lower than the previous rate.

Secondary Markets: Belly Bulges Upward Slightly

Secondary markets yields inched up on most tenors with movements focused on the belly of the curve. FXTN series 5-67, 10-42, and 10-52 had increases of 25, 27.5, and 10 bps respectively; while FXTN series 7-43, with a 1 and ½ years until maturity, sustained yields. Yields shot up because of the initial flight of foreign capital from the Philippines. An upward correction was due for the FXTN series 5-67 — the slight inversion of yields last September. For FXTN series 7-43, bids were quoted at 3% or above while sellers had offers reaching as low as 2.9%. Investors were keen to hold on to papers in the shorter-end to minimize losses of what they would have incurred by selling at a much higher yield from the yield at which they bought.

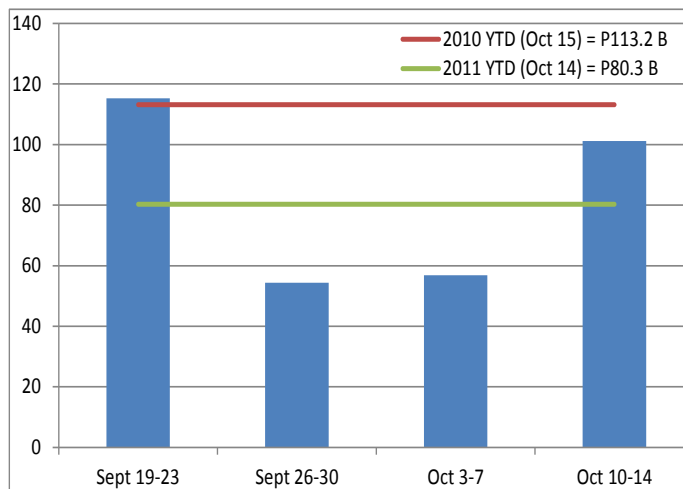
Figure 7 - FXTN Yields



Source: First Metro Investment Corp. (FMIC)

Less trading volume was seen in the last two weeks of September and the first two weeks of October compared to August levels. The year-to-date (YTD) weekly average for 2011 was again substantially lower at P80.3 B in contrast to the P113.2 B of 2010. Last year's YTD average was mainly buoyed by resurgence of corporate bond issuances. The second week of October saw a 78% increase in total traded papers, while the last week of September had a decrease of 52.8%, both on a weekly basis.

Figure 8 - Trade Volume (in billions)



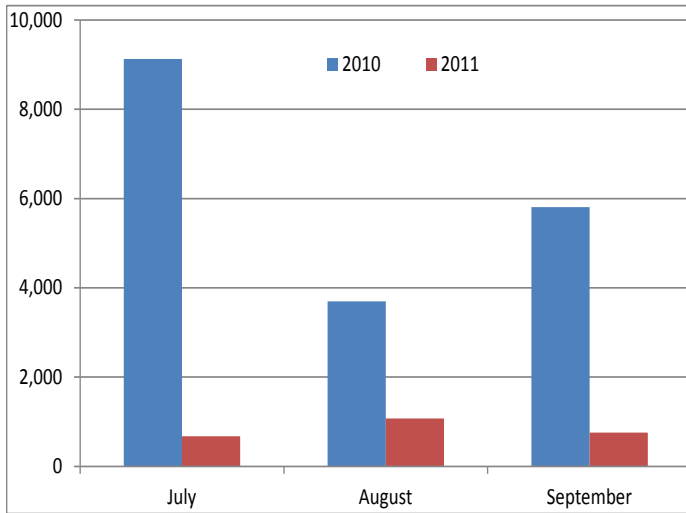
Source: Philippine Dealing and Exchange Corp. (PDEX)

Traders will likely to hold on to long term corporate bonds as their yields are much higher than current yields.

The lower levels of traded papers can be explained from both the demand and supply side. On one hand, news of a slowdown of the Philippine economy and the combined forces of US and Europe governments seeking to ward off the crises meant less demand for the safe haven of bonds, as more capital flowed back to other investment assets. On the other hand, with persistently low rates, current bond holders are opting to hold on to their papers with higher coupons rates. If the global economy continues to improve and influences the market, expect trade volume to increase gradually in the next few weeks.

Secondary Corporate Bond Market: Mediocre but has Potential

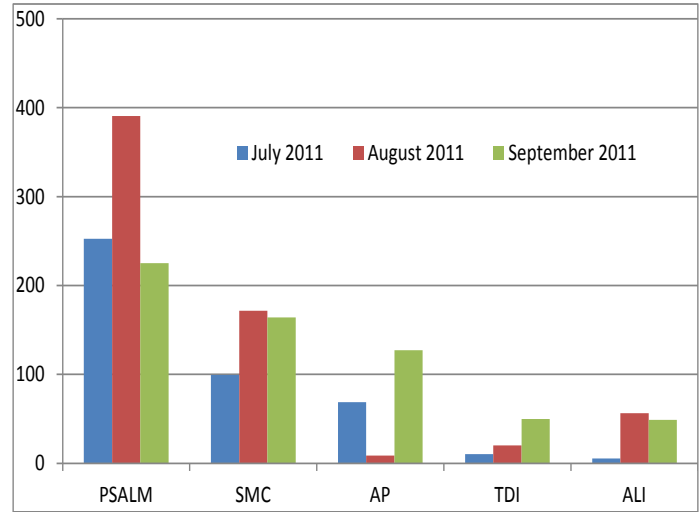
Figure 9 - Total Corporate Trade Volume (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

Total secondary trading of corporate bonds last month paled again compared to year-ago levels due to the very few corporate issuances in the past months. Less volume was seen on a m-o-m basis. Total corporate trading registered at P757 M for September, a 29% decrease, compared to the P1,071 M for August. We reiterate our view that traders will likely to hold on to long term corporate bonds as their yields are much higher than current yields.

Figure 10 - Corporate Trading (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEx)

The Power Sector Assets and Liabilities Management (PSALM), once again, had the highest demand in the market with P225.3 M worth of papers traded. San Miguel Corporation (SMC) showed consistent demand with P164 M worth of traded papers compared to the previous months' P171.52 M. A newcomer, Aboitiz Power (AP), showed strong demand last month registering P127 M worth of traded papers. Tanduay Distillers Inc. (TDI), and Ayala Land Inc. (ALI) debt papers worth P49.90 M and P48.90, respectively, changed hands in September.

Corporate Issuances: More... Coming Soon

Done deals remain sparse in the bond market as corporations remain uncomfortable with the volatility of interest rates due to negative factors emanating from the global economy:

- Banco De Oro Unibank Inc. (BDO) issued P6.5 B worth of subordinated notes of Tier 2 capital. The notes had a yield of 6.375% and a maturity of 10 years and 3 months. This issue has a call option exercisable by the Bank after 5 years.

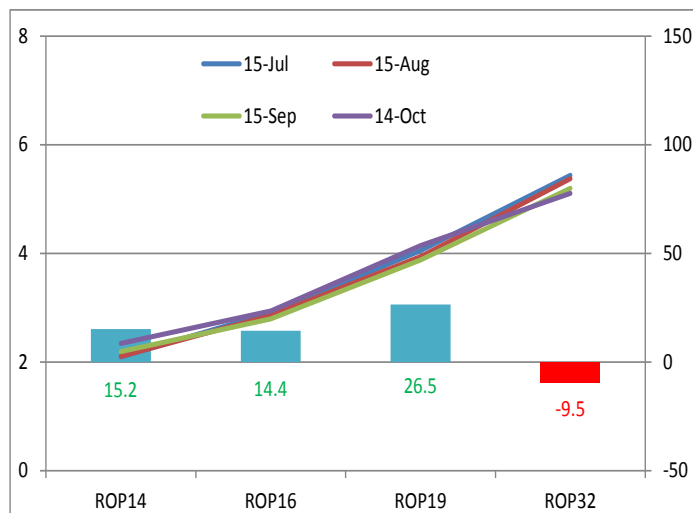
With inflation pressures at bay, loosening of key policy rates is now a primary option for most economies.

A few planned bond issuances emerged for October with the Public Private Partnership focus as the driver. The government has already said that projects will most likely push through by the start of 2012.

- The Development Bank of the Philippines (DBP) plans to sell P7-10 B worth of lower Tier 2 notes by the end of next month. Fresh funds will be used to finance key initiatives of the government, particularly for infrastructure and logistics, environment, social services and micro, small and medium enterprises.
- Security bank is pushing ahead with its issuance of up to P10 B worth of long-term negotiable certificates. The notes will have a maturity of 5 to 7 years.

ROPs: Favorable Flattening

Figure 11 - ROPs



Source: Bloomberg

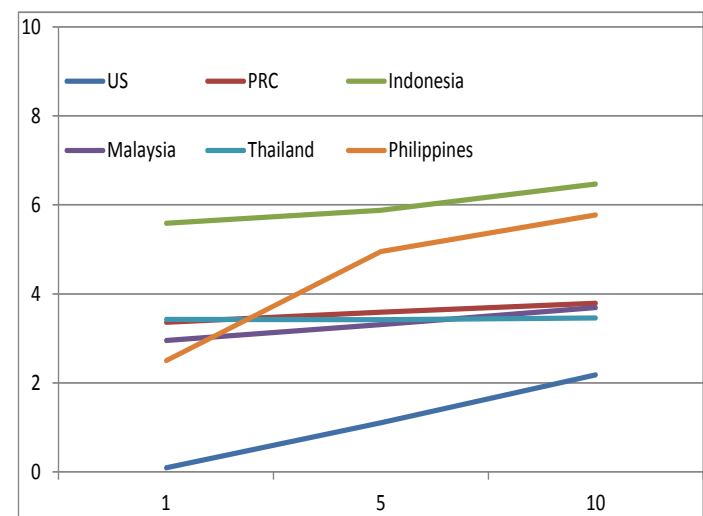
A flattening of the yield curve is again the trend for the Philippines' dollar denominated bonds (ROPs) as most ROPs crept up while the ROP32 inched downwards. ROP14, ROP16, and ROP19 increased by 15.2, 14.4, and 26.5 bps respectively. ROP932 registered a decline of 9.5 bps. The global view on Philippine credit will continue to be constructive as the economy remains buoyant despite

tensions in the Middle East and North Africa (MENA), and the unsettled sovereign debt crisis in Europe. This view is supported by the news that the capitalization of local banks exceeds the international benchmark by large margin. This index assures that local banks have the capacity to absorb a reasonable amount of possible losses amidst the global fears of a recession. This is due to the high growth rate of capital in the country, coupled with the proper management of risk weighted assets.

ASEAN Market+1: Philippines still Steepest

ASEAN countries have started to be on the move to keep their economy afloat in the anticipation of a global recession from the developed countries. With inflation pressures at bay, loosening of key policy rates is now the primary option for most economies, with Indonesia leading the way and the likes of the Philippines, Thailand, and Malaysia mulling over their monetary moves.

Figure 12 - ASEAN Market+1



Source: Asian Development Bank (ADB)

US: Yields slightly increased by 1.1, 16.2, and 10.1 bps for 1-year, 5-year, and 10-year bonds, respectively. The yield spread between 2-year and 10-year increased by 3.7 bps. Despite the latest shift of \$400 B worth of holdings into more long-term holdings of treasury securities, to lower interest rates, there has still been a slight increase in yield.

The announcement of the fiscal stimulus package in the Philippines will have direct effects on the goods market of the country as well as growth expectations.

Hence the Fed is mulling further long-term bond purchases to bring down interest rates and support the economy. This move is supported by the “unsinkable” unemployment rate, which is currently at 9.1% in the U.S.

PRC: Yields slipped by 50, 33, and 26 bps for 1-year, 5-year, and 10-year bonds respectively. Still, the latest 10-year and 2-year spread for China narrowed by 6 bps. There was a slight decrease of the Consumer Price Index (CPI) in China from 6.2% in August to 6.1% in September. Industrial production also speeded up slightly from 13.5% in August to 13.8% in September. China is currently reducing its holdings of U.S. Treasuries too by 3.1% to minimize its exposure to US dollar risks.

Indonesia: Yields have increased by 70 bps for 1-year bonds but decreased by 46.4 and 68.1 bps for 5-, and 10-year bonds respectively. Latest 10- and 2-year spread recorded a decrease of 83.2 bps. The Bank of Indonesia recently cut its policy rates by 25 bps from 6.75% to 6.5% to keep their market liquid thus explaining the drops in yield rates. CPI stood at 4.61% compared to a consensus of 4.86%. Despite the cut in rates, the demand for Indonesian papers remains substantial.

Malaysia: Yields in 1-year bonds increased by 2.4 bps but decreased by 9.8 and 1.5 bps for 5- and 10-year bonds re-

spectively. Yield spread between 2-year and 10-year, on the other hand, decreased slightly by 2.9 bps. Malaysia is currently preparing for greater internationalization for Islamic capital markets. The ringgit, the currency of Malaysia, fell steeply after concerns of weakening exports to China and Europe.

Thailand: Yields along the curve decreased by 10, 6, and 17.7 bps for 1-year, 5-year and 10-year bonds, respectively. The latest 10-year and 2-year spread decreased by 8.4 bps. The Bank of Thailand plans to increase the 2012 budget deficit from 350 B baht to 400 B baht to stimulate the economy. Funds will be needed by the government for financing infrastructure reconstruction, development after the unabated flooding hit the manufacturing industry hard, and the world supply chain that has been more reliant on Thai manufactures.

Philippines: The Philippines saw major increases in yield for 1-year, 5-year and 10-year year papers of 165, 27.9, and 1 bps respectively. A slight decrease in 10-year and 2-year spreads of 1.1 bps was also seen. The announcement of the fiscal stimulus package in the Philippines will have direct effects on the goods market of the country as well as growth expectations. This was in response to the perceived lack of government spending, which placed GDP growth in Q2 at a mere 3.4%.

Spreads between 10-year and 2-year T-bonds								
Country	2-year rate	10-year rate	Projected Inflation Rates	Real 10-year yield	10-year to 2-year Spread		Spread change (bps)	Latest Policy Rate
					17-Oct	15-Sep		
PRC	3.720	3.79	4.6	-0.81	7	13	-6	3.5
Indonesia	5.713	6.471	5.9	0.571	75.8	159	-83.2	6.75
Malaysia	3.052	3.693	2.3	1.393	64.1	67	-2.9	3
Philippines	2.625	5.774	4.6	1.174	314.9	316	-1.1	4.5
Thailand	3.355	3.461	3.5	-0.039	10.6	19	-8.4	3.5
US	0.262	2.189	3.1	-0.911	192.7	189	3.7	0.25

Source: Asian Development Bank (ADB)

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

We see long-term rates sustaining their downward trend, ranging within 5.5% to 6% yield.

Outlook:

- We see long-term rates sustaining their downward trend, ranging within 5.5% to 6% yield. Range-trading may continue until latest GDP growth rates are known by late November.
- The latest fiscal stimulus package announced by the NG seems to contain only minimal new spending apart from what is already in the budget. As such, we do not see it push yields higher nor threaten the benign inflationary environment.
- We expect further flattening of the Philippine government yield curve as interest rates in the developed and emerging markets remain stable at near zero levels and the peso sustains its strength.

From “Hope” to “Relief”

14

From “Hope” to “Relief,” global equity markets staged a rally in October as optimism over a solution to Europe’s debt crisis took hold of market sentiment. Strong US Gross Domestic Product (GDP) in the 3rd quarter (2.5%) had eased worries of another recession. For Philippine equities, the PSEi closed the month in positive territory year-to-date (YTD). Positive news from the US and Europe supported by the approval of the merger between PLDT and DIGITEL prevented the local index’s from entering a bear market. While global equity markets reacted positively to the euro-zone’s bailout news, Europe’s bond and interbank lending markets continued to lose liquidity. The euro-zone leaders have yet to unveil the details of their new bailout plan. Greek Prime Minister George Papandreou resigned despite having survived a no-confidence vote in Parliament. It is still uncertain what the new Prime Minister will do about the fiscal austerity plan and whether Greece will stay as a member of the euro-zone. Nonetheless, we will not bet against the euro as the resolve of their leaders will help them muddle through the present sovereign debt crisis.

Europe’s Resolve

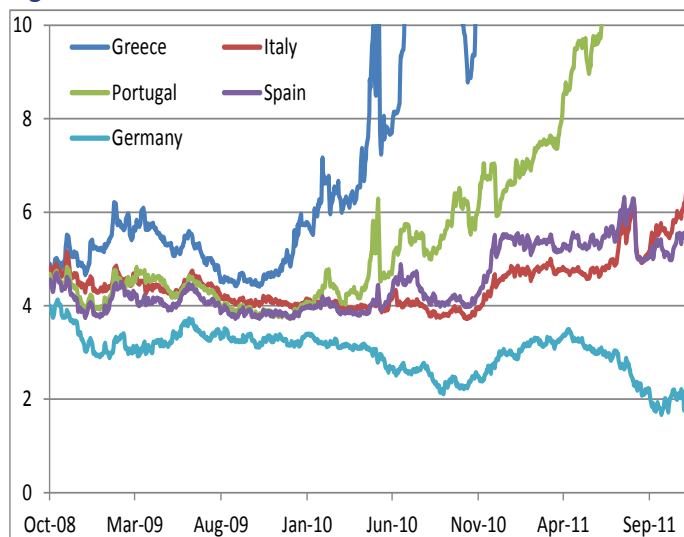
After weeks of deliberation, Europe’s leaders finally reached an accord on its debt woes. The plan includes making the European Financial Stability Facility (EFSF) flexible and expanding its lending capacity to €1 T; recapitalization of Europe’s banks; and a voluntary 50% haircut on Greek debt. Details on how the expanded EFSF will be funded are not yet clear nor explained. Furthermore, Europe is seeking help from China and Japan to ease the burden of France and Germany in funding any bail-out.

Under the new accord, European leaders hope to create a firewall in order to contain the debt contagion; allow debt-stricken member states to access lower borrowing costs from private markets; and give relief to ailing Greece. Euphoria on the new measures to save Europe echoed across various asset classes (euro strengthened, risky assets rallied, credit default swaps and bond yields on debt-ridden member states declined, and commodity prices moved higher). However, these were short-lived and excitement petered out as investors looked for details of the measures. We think investors should closely monitor euro-zone’s credit and interbank lending markets. They will serve as guides as to whether the debt crisis is abating or worsening.

The 50% haircut on its debt gave a temporary reprieve to Greece. The spotlight, unfortunately, moves to Italy. As a result, the market dumped Italian bonds. As of this writing, yields on 10-year Italian bonds have gone above the 6% level. This is close to the level in which the European Cen-

tral Bank (ECB) previously intervened. A sustained spread of more than 450 basis points between 10-year Italian T-bond and 10-year German bund yields will likely spell out more trouble (margin calls are likely at these levels).

Figure 13 - PIGS 10-Year T-Bond Yields

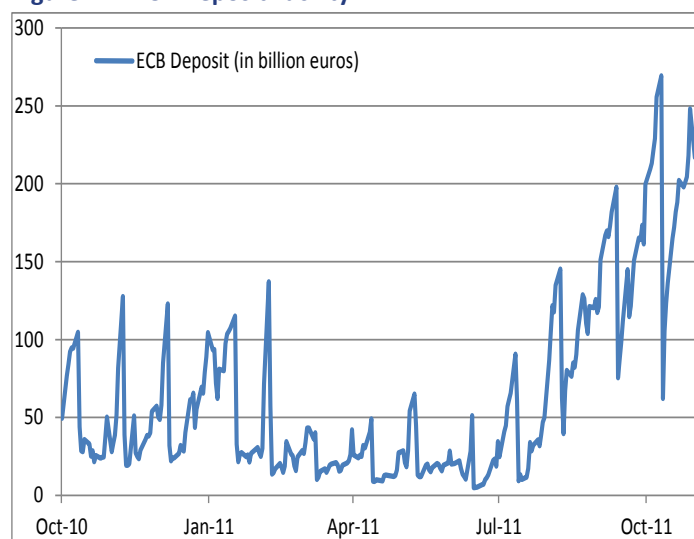


Source: Bloomberg

France is also feeling the pinch. The spread between 10-year French T-bond and 10-year German bond yields have widened to a record spread of more than 100 basis points as France risks losing its triple A rating. This is a view we share given the potential extra burden of expanding the EFSF, further deteriorating France’s fiscal health with current fiscal deficit already at 7% of GDP.

We favor equities with high dividend yields and those that can leverage the strong domestic demand.

Figure 14 - ECB Deposit Facility



Source: Bloomberg

European banks continue to prefer parking money in the ECB rather than lending to one another. The recent spike to above €200 M (a level above €100 M indicates banks' disinclination to lend) underscores the edgy financial market conditions in the euro-zone. The wide spread between 3-month Euribor and 3-month Euro Overnight Index Average (EONIA) swap confirms banks' reluctance to lend.

We acknowledge that the recent efforts by Europe's leaders are not a panacea for the euro-zone debt crisis but rather a step towards a comprehensive solution. It will be a difficult and tedious process. Nevertheless, we will not bet against the euro to fail and European leaders' strong resolve. The euro-zone will muddle through the crisis and probably come out a stronger union.

Outlook

Near-term – Philippine equities will continue to be driven by risk events from the US and euro-zone. Local earnings season kick-off may lead the market higher. We think a short-term rally can occur although we continue to guard against complacency. The devil may be in the details of the new euro-zone bailout.

Long-term – we maintain our long-term positive perspective on Philippine equities. The government has the capacity to stimulate economic growth next year (i.e., healthy fiscal balance, Public-Private Partnership, and lower policy rates). Company earnings have been robust and likely to be so in the next 12 months. Nonetheless, we prefer to accumulate selectively and with extra caution. We favor equities with high dividend yields and those that can leverage the strong domestic demand.

Sectoral Performance

Monthly Sectoral Performance				
	30-Sep-11		28-Oct-11	
	Index	% Change	Index	% Change
PSEi	3,999.65	-8.02%	4,333.72	8.35%
Financial	917.78	-7.02%	972.51	5.96%
Industrial	6,679.35	-5.44%	6,918.33	3.58%
Holdings	3,131.67	-7.84%	3,443.69	9.96%
Property	1,398.43	-8.57%	1,514.68	8.31%
Services	1,414.62	-7.75%	1,547.42	9.39%
Mining and Oil	20,525.99	-20.83%	22,941.36	11.77%

Source of Basic Data: PSE Quotation Reports

The PSEi recovered this month, undergoing a rally together with other global equity markets, as a solution for the euro-zone debt crisis was presented. The index rose by 8.35% this October once again returning to a positive YTD performance. The rally was led by the Mining and Oil sector with a double-digit growth of 11.77% followed by the Holdings sector jumping by 9.96%. Though earnings reports to be released early November may provide a better direction for the local equities markets, sentiments regarding the global scene would still play a bigger role in either uplifting or dampening the market.

The Financial sector climbed by 5.96% as assets in the banking sector rose by 10.7% from P6.5 T last year to P7.2 T as of end-July. Consequently, bank deposits also grew by 13% to P3.9 T. Besides, local banks reported a 17.39%

DMCI jumped by 12.4% this month as gains from Semirara Mining and Maynilad lifted the holding company.

capital adequacy ratio for the 1st quarter, an improvement from 16.93% for the 4th quarter of 2010. Local banks remain safe from the euro-zone crisis as exposure is only at 1.4% of total assets according to the Bangko Sentral ng Pilipinas (BSP). The top banks under the sub-index ended the month with a robust upturn led by BDO with 10.4% gain followed by MBT and BPI each with 8.3% and 4.8%, respectively. BDO recorded a 19% net income growth to P7.6 B for the three quarters of the year, while BPI's profits grew by 7% to P9.6 B for the first nine months.

Company	Symbol	9/30/11 Close	10/28/11 Close	% Change
Metrobank	MBT	66.00	71.45	8.3%
Banco de Oro	BDO	51.00	56.30	10.4%
Bank of the Philippine Islands	BPI	55.80	58.50	4.8%

Source of Basic Data: PSE Quotation Reports

The Industrial sector posted a 3.58% growth this month with uneven performance from the top companies under the sub-index. As power generation prices stabilized for the 2nd half of the year, MER recorded a 3.4% climb as sales volume for the 3rd quarter accelerated and reflected in the company's nine-month profit rising by 25% to P9.95 B. EDC, meanwhile, ascended by 8.0% for the month due to robust earnings forecast for 2012 and the expected accomplishment of the Bacman power plant rehabilitation this year. JFC rose by 7.3% as it acquired a majority stake in Burger King. SMC dropped by 1.5% for the month, the only company in the sub-index to end up in the red territory. The company decided to sell its power plant in Limay, Bataan, a 620 megawatt (MW) diesel power plant, as it expressed interest in bidding for other power assets.

Company	Symbol	9/30/11 Close	10/28/11 Close	% Change
Meralco	MER	234.00	242.00	3.4%
Aboitiz Power	AP	28.50	29.65	4.0%
Energy Development Corp.	EDC	5.65	6.10	8.0%
San Miguel Corporation	SMC	116.60	114.80	-1.5%
Jollibee Food Corp.	JFC	84.40	90.60	7.3%

Source of Basic Data: PSE Quotation Reports

The Holdings sector recorded a 9.96% gain this month. MPI led the rally, advancing by 18.9%, as the company consolidates its stake in Meralco through Beacon Electric. Likewise, the MPI plans to strengthen its diversification into hospitals. MPI showed interest in buying state-owned hospitals, such as Philippines General Hospital and Philippine Heart Center to name a few, if the government would opt to sell them. DMCI jumped by 12.4% this month as gains from Semirara Mining and Maynilad lifted the holding company. Semirara Mining is expected to have slightly better production numbers through 2012 while Maynilad is currently installing new electromagnetic meters to its top 100 accounts which will reduce commercial losses by 3%. Also, Maynilad has an estimated dividend payout of 25%.

Meanwhile, AEV surged by 7.8% following the opening of its Ambuklao dam housing a 75-MW upgraded to 105-MW hydroelectric power plant that will contribute to the Luzon grid. SM also surged by 6.7% as it plans to expand into power and infrastructure and as investors shift towards defensive securities. The company expects net income growth for the 3rd quarter to reach about 13% year-on-year and 12% for 2011. Earnings reports are expected to come out early November.

Company	Symbol	9/30/11 Close	10/28/11 Close	% Change
Ayala Corp.	AC	290.00	306.40	5.7%
Metro Pacific Investments Corp.	MPI	2.75	3.27	18.9%
SM Investments Corp.	SM	522.00	557.00	6.7%
DMCI Holdings, Inc.	DMC	34.70	39.00	12.4%
Aboitiz Equity Ventures	AEV	38.00	40.95	7.8%

Source of Basic Data: PSE Quotation Reports

The Property sector was not left behind, rising by 8.31% as the top developers posted double-digit gains for the month. RLC rose by 10.3% as it shifts to rent-generating and high-margin mall investments from commercial and residential properties for the year 2012. RLC will renovate its existing malls for the remaining of the year and

The Services sector posted a 9.39% gain for the month of October following the approval of the PLDT-Digital merger.

will open up four new malls in 2012 located in Metro Manila, Cebu, Pangasinan, and Puerto Princesa. SMDC grew by 7.6% after showing confidence that it will hit its sales target by the end of the year. SMDC is expecting a double-digit growth in residential unit sales. Meanwhile, SMPH registered a 6.6% growth in share prices for the month as the company posted 14% hike in profits to P6.41 B for the first nine months of the year stimulated by expansion of its malls nationwide. ALI strengthened its position in low-cost housing through Avida, Amaia, and Alveo, leading to its 10.8% upswing this month. On the other hand, MEG expanded its position in the luxury residential segment by launching Uptown Bonifacio, a 15-hectare project composed of business process outsourcing (BPO) offices, residential condominiums, and commercial units. Consequently, MEG registered an 11.2% increase in share price for the month.

Company	Symbol	9/30/11 Close	10/28/11 Close	% Change
Ayala Land, Inc.	ALI	14.58	16.16	10.8%
SM Development Corp.	SMDC	7.41	7.97	7.6%
SM Prime Holdings, Inc.	SMPH	12.20	13.00	6.6%
Robinsons Land Corporation	RLC	11.30	12.46	10.3%
Megaworld Corp.	MEG	1.69	1.88	11.2%

Source of Basic Data: PSE Quotation Reports

The Services sector posted a 9.39% gain for the month of October following the approval of the PLDT-Digital merger. The deal was initially set on June 30 of this year but was repeatedly delayed as GLO raised concerns primarily on competition. That is why the National Telecommunications Commission (NTC) mandated several conditions to make sure that the merger will not bring about monopoly in the telecom industry. For one, NTC would require TEL to make Sun Cellular's unlimited promos permanent. NTC also required TEL to divest its stakes on Connectivity Un-

limited Resource Enterprise (CURE), as subsidiary holding TEL's 3G segment and operator of Red Mobile brand and thus release the broadband rights of the subsidiary. TEL and GLO each rose by 9.2% and 2.4%, respectively, despite TEL posting a 4% slowdown in net income to P30.6 B for the first three quarters from P32 B during the same period last year.

Company	Symbol	9/30/11 Close	10/28/11 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,198.00	2,400.00	9.2%
Globe Telecom	GLO	888.00	909.00	2.4%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil sector recovered this month being the only sub-index with a double-digit growth. PX ended up with an 11.1% growth this month as earnings were robust for the company. PX recorded a three-digit profit growth for the first nine months of the year to P4.35 B from last year's P2.12 B. This is the company's highest nine-month profit and PX continues to be optimistic of record-high earnings this year. Likewise, metal output continues to increase and plans regarding its Silangan project slowly surfaced more clearly. Metal output of the company increased by 37% in September. Also, PX is asking creditors for most of the funds needed in the development of the Silangan mine which is expected to operate up to 50 years. SCC led the sub-index, jumping by 15.2% this month, as it entered in negotiations with Endesa Carbono S.L. of Spain regarding the construction of a coal mine gas extraction system in its mines in Antique.

Company	Symbol	9/30/11 Close	10/28/11 Close	% Change
Philex Mining Corporation	PX	22.05	24.50	11.1%
Semirara Mining Corp.	SCC	186.50	214.80	15.2%
Lepanto Consolidated Mining Co.	LC	1.25	1.32	5.6%

Source of Basic Data: PSE Quotation Reports

Foreign participation, however, decelerated to 30.2% of total market activity from September's 40.1%

Monthly Turnover

Monthly Turnover (in millions)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	9,570.2	-39.4%	478.51	-36.3%
Industrial	26,833.4	57.2%	1,341.67	65.1%
Holdings	18,554.6	6.5%	927.73	11.8%
Property	9,282.2	-21.5%	464.11	-17.6%
Services	24,685.3	73.0%	1,234.27	81.7%
Mining and Oil	20,353.4	-11.2%	1,017.67	-6.7%
Total	109,279.2	10.1%	5,463.96	15.6%
Foreign Buying	33,967.2	-11.5%	1,698.36	-7.1%
Foreign Selling	32,059.4	-23.3%	1,602.97	-19.4%

Source of Basic Data: PSE Quotation Reports

Total turnover for the month of October rose by 10.1% with an average daily turnover increase of 15.6%. Leading the rise were the Services and Industrial sectors with 73.0% and 57.2% upswing, respectively. Foreign participation, however, decelerated to 30.2% of total market activity from September's 40.1%. This is characterized by a drop in Foreign Buying from 19.3% to 15.5% and a deceleration in foreign selling from 21.0% to 14.7%. Foreign investors, nonetheless were net buyers by P1.91 B for the month.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (in P millions)

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

Source: National Statistical Coordination Board (NSCB)

	2009		2010		Aug-11			Sep-11		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
Revenues										
Tax	981,624	-6.4%	1,093,643	11.4%	111,108	15.5%	13.2%	90,648	-18.4%	10.3%
BIR	750,287	-3.6%	822,623	9.6%	87,928	19.2%	11.2%	66,547	-24.3%	9.2%
BoC	220,307	-15.3%	259,241	17.7%	22,152	4.1%	24.7%	22,615	2.1%	11.8%
Others	11,030	6.5%	11,779	6.8%	1,028	-5.9%	-21.3%	1,486	44.6%	44.4%
Non-Tax	141,396	-7.9%	113,877	-19.5%	13,029	21.0%	35.1%	13,663	4.9%	41.2%
Expenditures										
Allotment to LGUs	264,645	18.7%	279,552	5.6%	24,994	-2.2%	12.8%	24,314	-2.7%	8.8%
Interest Payments	278,866	2.4%	294,244	5.5%	20,906	-49.3%	-10.1%	25,835	23.6%	-18.8%
Others	878,232	13.2%	948,588	8.0%	69,028	3.5%	13.0%	72,689	5.3%	4.7%
Overall Surplus (or Deficit)	-298532	338.3%	-314,458	5.3%	9,220	-134.8%	599.0%	-18,501	-300.7%	-41.6%

Source: Bureau of the Treasury (BTr)

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

	2009		2010		Levels	Sep-11 Annual G. R.	YTD
	Annual Levels	Growth Rate	Annual Levels	Growth Rate			
TOTAL	27,271	1.7%	29,976	9.9%	2,649	3.4%	0.3%
Residential	8,901	3.2%	9,535	7.1%	818	0.0%	-88.6%
Commercial	10,796	3.0%	11,683	8.2%	1,042	4.2%	1.5%
Industrial	7,439	-1.6%	8,616	15.8%	778	6.5%	2.1%

Source: MERALCO

BALANCE OF PAYMENTS (in US millions)

	2009		2010		1 st Quarter 2011		2 nd 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		Aug-11	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Levels	Growth Rate
RESERVE MONEY	912,132	8.8%	1,011,270	10.9%	1,095,628	13.23%
Sources:						
Net Foreign Asset of the BSP	1,886,514	17.7%	2,272,685	20.5%	3,199,942	43.18%
Net Domestic Asset of the BSP	-974,382	-27.6%	1,261,415	29.5%	-2,104,314	66.05%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,087,408	19.2%	1,233,927	13.5%	1,341,037	10.41%
Money Supply-2	3,562,217	12.6%	3,893,063	9.3%	4,202,171	9.96%
MONEY MULTIPLIER (M2/RM)	3.91	3.4%	3.85	-1.5%	3.84	-2.9

Source: Bangko Sentral ng Pilipinas (BSP)

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CONTRIBUTORS

Roberto Juanchito T. Dispo	President, FMIC
Dr. Victor A. Abola	Senior Economist, UA&P
Johann Dale J. Diaz	Research Assistant, UA&P
Rachelle V. Flores	Research Assistant, UA&P
Jorenz C. Perez	Research Assistant, UA&P
Reuben Mark A. Angeles	Department Head — Research, FMSBC
Augusto M. Cosio, Jr.	President, FAMI

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