

The
MARKET CALL
Capital Markets Research



FMIC and UA&P Capital Markets Research

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Boiling Euro Crisis May Dent Growth Only by 2012

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Prior to the meltdown of financial markets in mid-September, the economy looked poised to recover in H2 following an unexciting 4.0% GDP expansion in H1. The domestic forces that provided the optimism were robust industrial growth, continuing job creation, improved fiscal situation, and easing of inflationary pressures.

In August, Industrial electricity sales increased by a double-digit 11.5% — up from 8.0% in July. This carried total electricity sales to positive growth for two consecutive months in Q3. Meanwhile, the economy generated 822,000 new jobs in the year ending July 2011. While this number was lower than the job creation of 1.4 M in April 2011, total employment rose by 286,000 from that month. The National Government (NG) spending increased by 13% in August (excluding interest payments) compared to a year ago, the first increase in 2011. Meanwhile, headline inflation rate slowed to 4.3% in August from 4.6% in the previous month.

The fiscal crisis in the Euro-zone and the weak recovery in the United States are certainly headwinds to the local economy's growth, but the brunt will be felt more in late-Q4 and 2012. It was only this September that the International Monetary Fund (IMF) downgraded projections for world GDP growth in 2012 to 4.0% from an earlier 4.6% forecast in July.

Industrial Electricity Sales Lead Way with 11.5% Gain in Aug

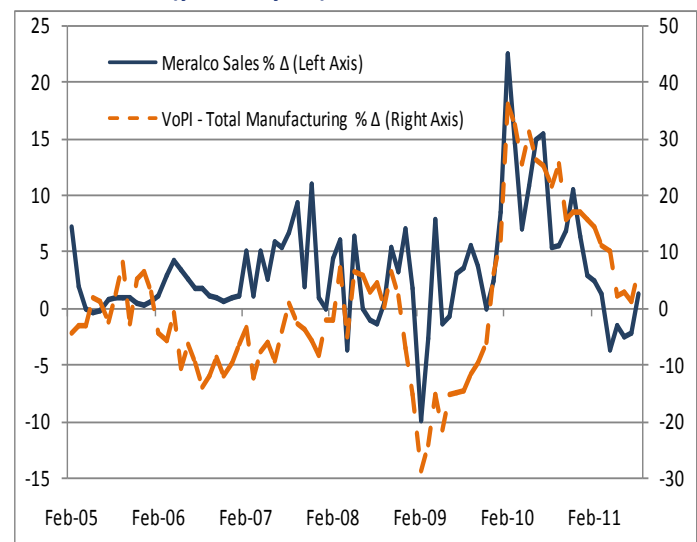
Industrial electricity sales' double-digit growth of 11.5% pushed total Meralco sales up by 4.4% in August after rising by 1.3% in July. The two consecutive months of gains reflect a reversal of March-June negative year-on-year (y-o-y) growth rates of Meralco sales during the first half of 2011. These continuous improvements are in line with our expected faster GDP growth in H2 2011.

The primary cause of the acceleration of Meralco sales in July and August was the substantial uptick in the Industrial sector. After turning positive from June's -1.6% to July's 8.0%, its faster pace continued and reached double-digit annual growth of 11.5% in August. The Commercial sector also followed the same trend from 0.1% in June to 2.4% and 2.8% in the next two months. Meanwhile, the Residential sector remained at a negative growth rate, though somewhat improved, from -5.4% in June to -5.8% in July and -0.1% in August. The latter may not be indicative of slower consumer spending as a relatively cool and wet August may have meant less air-conditioning usage.

The 8.0% growth in industrial sales in July has been validated by the 6.7% jump in industrial production for the same month according to the latest release of NSO's Monthly Integrated Survey of Selected Industries (MISSI). In the

said report, 13 out of the 20 major industries registered output gains, and 7 of those 13 industries had double-digit increases. Furniture & Fixtures led the growth with a 134.7% output expansion. Other industries that chalked up production gains were publishing and printing, paper and paper products, beverages, miscellaneous manufactures, chemical products and rubber and plastic products.

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



Source: Meralco, National Statistics Office (NSO)

Construction contributed the largest number of new jobs, up to 121,000 with a sustained residential building activity.

In Q3 2011, we expect Meralco sales to turn positive from Q2's -2.1% to around 4.0%. Meanwhile, using Meralco sales as a proxy variable for GDP, we expect GDP to recover in H2 given the positive values shown in Q3. We believe that each sector will continue to speed up during the coming months, especially the Industrial sector, due to the anticipated increase in government spending with public construction as one of its main focus. Together with the stable inflation and an expected acceleration of OFW remittances for the Christmas season, this should lead us to maintain our view that GDP will have a faster pace in H2. Unfortunately, the sharp drop in equities prices and commodity markets has forced to downgrade our full-year forecast to 4.7%.

Economy Continues to Add Jobs till July

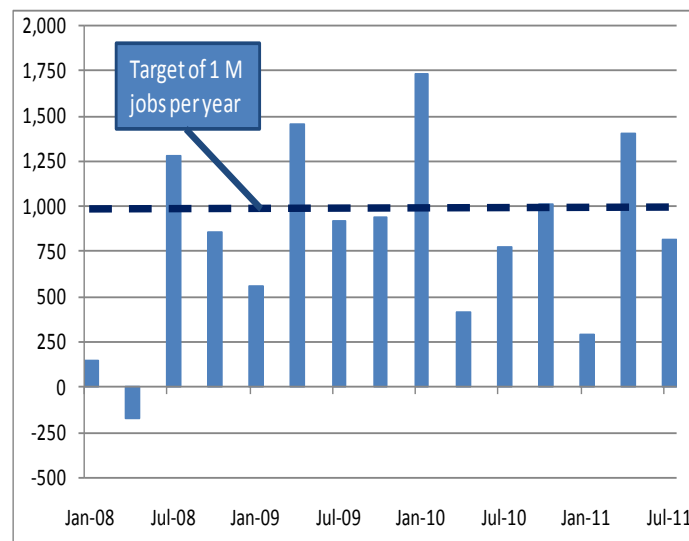
The latest Labor Force Survey (LFS) released by NSO for July 2011 reported a slightly better unemployment rate of 7.1% from 7.2% in April although higher than the 6.9% record during the same month last year. In actual figures, the new jobs created in a year ending July amounted to 822,000 — a slowdown from April's 1.4 M net new jobs. On a quarterly basis, the economy nevertheless added 286,000 jobs since April.

The underemployment rate also followed this trend as it decelerated from 19.4% to 19.1% although higher than 17.9% from a year ago. Underemployment is defined as those employed but working for less than 40 hours/week and looking for additional work.

The Services sector continued to maintain the highest share of employment with 52.2%. Its y-o-y growth rate rose from 3.4% to 4.3%. The sector with the highest number of new jobs created with 792,000, an acceleration of 171.9% (y-o-y) from -23.4% in April. Following the Services sector is the Industry sector which accounts for 15.2% of total employment. The sector contributed at faster pace of 4.3% from 2.6% in April 2011. Net new jobs in Industry amounted to 234,000. Only the Agriculture sector turned negative from 5.6% to -1.7%. Moreover, it lost 204,000 jobs after incurring the highest net new jobs in April.

Construction contributed the largest number of new jobs, up to 121,000 with a sustained residential building activity. The Manufacturing subsector was next in line with 68,200 but this was lower than April's 84,300. At the same time, the Mining and Quarrying and Electricity-Gas-Water (EGW) subsectors took in more workers since April as they gained 32,800 and 34,800, respectively over a one-year period. In terms of the annual growth of each subsector's employed labor pool, however, only the Manufacturing sector had a slower rate of 2.3% from 2.8%. The other three accelerated— Construction (4.0% to 5.9%), Mining and Quarrying (4.0% to 22.7%), and EGW (4.0% to 27.8%).

Figure 2 - Net New Jobs Created (000) Year Ending Survey Month



Source: National Statistics Office (NSO)

Meanwhile, in the Services sector, the subsectors with the largest shares in employment were Trade (wholesale and retail) which accounted for 19.7% of total employed, Private households at 5.3%, and Public administration and social security systems at 5.1%. For new job absorption, however, the top three gains were made by the Transport-Storage-Communications with 173,900, Private households with employed persons with 117,400, and Hotels and Restaurants with 94,900. In contrast, Real estate, renting and business activities, and Wholesale and retail trade had the most number of employee losses with -162,900 and -112,800, respectively.

The West Texas Intermediate (WTI) crude oil registered an average price of \$86.3/barrel in August down 11.3% from \$97.3/barrel in July.

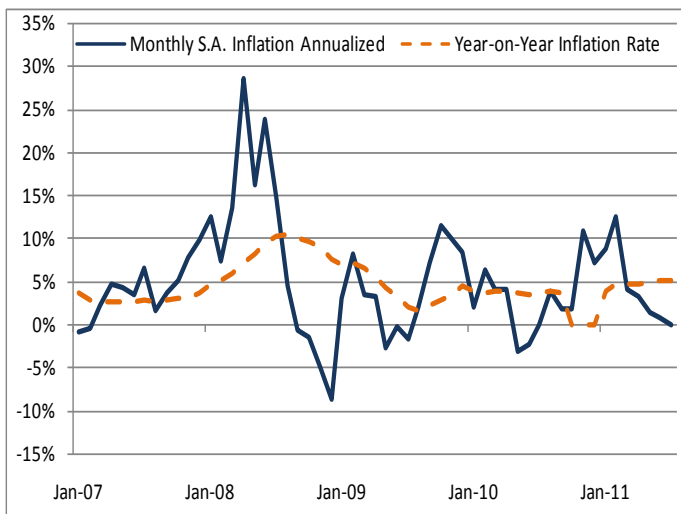
The survey revealed an improvement in terms of types of jobs of employed workers. In July, Wage and Salary workers fast-tracked from 4.9% to 8.2% as it recorded a 1.6 M net new jobs. Meanwhile, Self-employed and Unpaid Family Workers eased from 1.9% and 4.9% to -2.7% and -8.8%, respectively.

Even with the lower jobs created in July, the gap is not so far from the 1.4 M in April. Since we expect the Construction sector to continue to grow faster due to the higher spending of NG, Mining to keep its luster, and Services to remain strong, we also expect net new job creation to continue to be positive in the second half of 2011. The strength in the employment figures give support to our stand that GDP growth in H2 will most likely be better than the 4.0% for Q1.

August Inflation Eases to 4.3%

Despite core inflation accelerating 4.2% in August from 3.7% in July, headline inflation remained in check as it slowed down to 4.3% (y-o-y) from the prior 4.6% level. The deceleration can be attributed to the slower growth in Food-Beverage-Tobacco (FBT), Fuel-Light-Water (FLW), and Miscellaneous commodity groups.

Figure 3 - Inflation Rates Annualized (2006-2011) Seasonally Adjusted Vs. Year-on-Year



Source: National Statistics Office (NSO)

The annual growth rates of all the commodity groups in August either eased or maintained their previous growth rates. As previously mentioned, half of the groups slowed down: FBT decelerated from 4.1% to 3.7%; while FLW and Miscellaneous eased from 9.1% to 8.3% and 1.5% to 1.4%, respectively. Clothing, Housing and Repairs, and Services, on the other hand, stayed put at July's rate.

The month-on-month (m-o-m) inflation growth rate also recorded a slower pace as it eased further from 0.1% to 0.0%, the same rate in May. Looking at each category, five of the six product categories recorded a slower pace of upticks. These included FBT (0.3% to -0.1%), Clothing and Miscellaneous both of which saw their growth rates pared from 0.2% to 0.1%, while Housing & Repairs and Services both slowed to 0.0% from 0.2%. The lone category to post faster price gains was FLW which turned positive from -1.3% to 0.2%.

On a seasonally adjusted annualized rate (SAAR) basis, inflation took a faster pace in contrast to the slowdown in y-o-y and m-o-m inflation rates. SAAR rates accelerated moderately from 0.1% to 1.6% as non-food items flipped to 2.1% from -2.0%. This overturn was enough to offset the deceleration in food items from 2.3% to 1.1%.

For the third quarter, we expect average inflation rate to be at 4.5%. At the same time, we maintain our view of inflation rate staying below 4.6% for the whole year 2011 supported by the continuously low oil prices and stable food prices. The West Texas Intermediate (WTI) crude oil registered an average price of \$86.3/barrel in August, down 11.3% from \$97.3/barrel in July. The US Department of Energy, prior to the meltdown in financial markets in late September, projected oil price in the last few months of the year to be around \$90/barrel. Also, food prices in the Philippines remain stable, particularly rice with a slightly slower inflation rate of 1.7% from 1.8%.

NG Spending Up 13% in August

For the first time in 2011, NG posted a growth in spending in August compared to a year ago. Although total NG

Tax revenues, totaling P111.1 B continued to rise at a faster pace of 13.2% (y-o-y) from 10.4% during the same period.

expenditures were up by only 7.9%, this included lower interest payments. Thus, before debt service, NG spending rose by a double-digit 13%.

Despite the higher outlays, NG posted a P9.2 B surplus for the month, bringing its cumulative 8-month deficit to P34.5 B, lower than the P43.7 B in the seven months to July. The total remains menial in comparison to the P191 B deficit for the same period in 2010 and far below the P293 B projected budget deficit for the whole year 2011.

Good revenue collections tilted the bottom line to a surplus as total revenues collected in August amounted to P124.1 B representing an annual growth rate of 15.2% from 3.9% in July. Tax revenues, totaling P111.1 B continued to rise at a faster pace of 13.2% (y-o-y) from 10.4% during the same period. This was a result of the constant double-digit growth of collections from the Bureau of Internal Revenue (BIR), though slightly slower, from 15.6% to 11.2%. Similarly, the Bureau of Customs (BoC) reported a huge uptick from -4.3% to 24.7%.

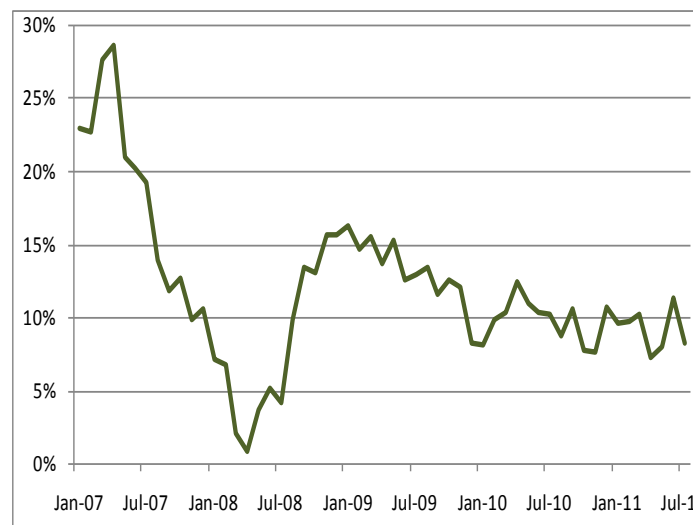
NG's so-called under-spending was virtuous for the month, as savings on interest payments slowed down further to -10.1% from -3.7% in July 2011. Its expenditures increased to P133.4 B in July but went down to P114.9 B in August. Allotments to Local Government Units (LGUs) also sped up from 10.5% to 12.8%. With this, total expenditures (excluding Interest Payments) actually grew faster from -0.6% in July to 13.0% in August.

Given the current budget deficit, the total under-spending for the first 8 months of the year is seen at P159 B based on the full-year spending program of the NG translating to roughly 1.7% of GDP. We expect spending to catch up in the remaining months of H2 2011 with y-o-y growth exceeding 15%. This will likely bring the under-spending to a shade below P100 B. There is, however, a positive side to this which is a fiscal budget deficit of only P200 B at the most (2.1% of GDP) and the consequent reduction of our debt-to-GDP ratio to below 50%, the lowest in 30 years. This could prompt ratings upgrade by Q1 2012.

MB Keeps Policy Rates on Hold as M2 Growth Slows

The Monetary Board (MB) decided to keep the key policy rates on hold in its meeting on September 8th. Thus, reverse repurchase (RRP) or overnight borrowing rates remained at 4.5%, repurchase (RP) facility or overnight lending stayed at 6.5%, and the special deposit account (SDA) rate settled at 4.6%. The MB also decided to keep the current reserve requirement at 21% after two months of adjustment given that inflation rate has become stable. With a weaker growth expectation, the Bangko Sentral ng Pilipinas (BSP) believes that the 3-5% inflation target for the whole year 2011 would easily be achieved.

Figure 4 - M3 Money Supply Growth Rates (y-o-y)



Source: Bangko Sentral ng Pilipinas (BSP)

In July, both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of BSP accelerated. NFA sped up from 33.1% to 36.5% while NDA had a faster pace of 57.3% from 48.9% in June. Seeing that the negative NDA had a faster growth than NFA, Reserve Money (RM) slightly decelerated but remained double-digit at 11.0% from 12.7%. Following the trend of net assets is SDA as it also accelerated from 66.4% to 68.1%, reaching P1.5 T. With this, M2 and M3 slowed down from 11.9% and 11.4% to 8.8% and 8.3%, respectively.

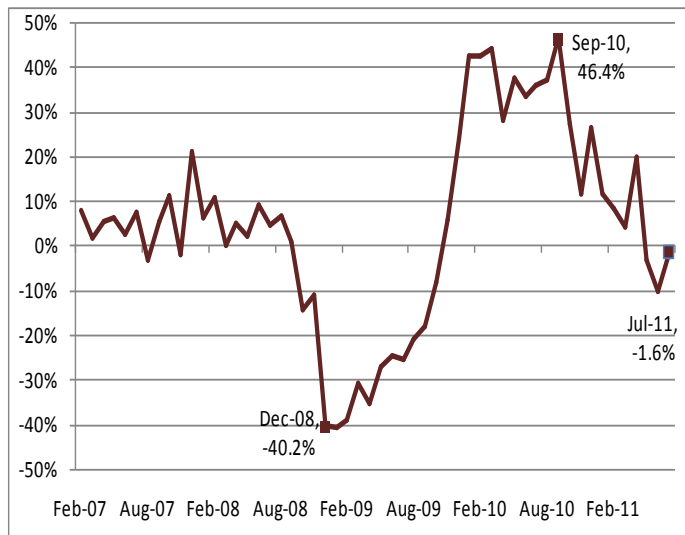
Japan's share (in exports) alone almost amounts to the combined share of US and EU (28.2%).

As expected, the MB kept the key policy rates steady. While BSP continues to watch out for internal and external factors that may disrupt the stable inflation rate, we expect that rates will be kept at their current levels in the next meeting on October 20 as commodity prices remain stable. Moreover, any spike in inflation rate for the month of October will only be due to base effects.

Exports' M-o-m Growth Up Sharply in July

Total exports rose at a much faster pace (m-o-m) as it turned positive in July to 8.3% from -0.3% in June. In actual levels, it increased from \$4.1 B to \$4.4 B; however, its y-o-y growth rate remained negative at -1.6% yet better than the previous month's -10.2%.

Figure 5 - Monthly Exports Growth Rates (y-o-y)



Source: National Statistics Office (NSO)

The continued export growth of several commodities, mostly reaching double-digit spurs, aided the improvement in July. Some of these commodities were Gold (+273.1%), Woodcrafts and Furniture (+68.9%), Cathodes and Refined Copper (+49.1%), Fresh Bananas (+45.8%), Articles of Apparel and Clothing (+30.1%), and Metal Components (+20.7%). In spite of these impressive gains, the large fall in exports of Electronic Products of -21.3% from -23.9% continues to take its toll on the average an-

nual growth rate because it constitutes 51% of the total exports. Other Products Manufactured from Materials Imported on Consignment Basis also incurred a -25.0% decline.

Meanwhile, to attain the positive m-o-m growth rate, the strong acceleration in Total Agro-based Products from -21.1% to 53.1% together with the faster pace of Mineral Products (-2.6% to 6.2%) and Manufactures (2.5% to 7.0%) were able to counter-weight the export losses in Forest and Petroleum Products from 82.1% and -6.9% to -15.6% and -67.0%, respectively.

For the top country destinations of Philippine exports, there has been no change from July. Japan remained as the top importer of Philippine goods as it accounted for 23.8% of total exports, followed by US with 14.7% share and People's Republic of China (PRC) with 12.3%. The reconstruction efforts in Japan had a positive impact on exports to that country which shot up by 84%.

Despite the negative export growth rate from May to July, we expect it to pick up its pace in the coming months. Although the US and European Union (EU) continue to purchase less of our products, Japan's share alone almost amounts to the combined share of US and EU (28.2%). Furthermore, 42% of Philippine exports go to East Asia (excluding Japan) and the ASEAN countries. We believe that majority of our exports will continue to be imported by the same bloc.

OFW Remittances Slow Slightly in July

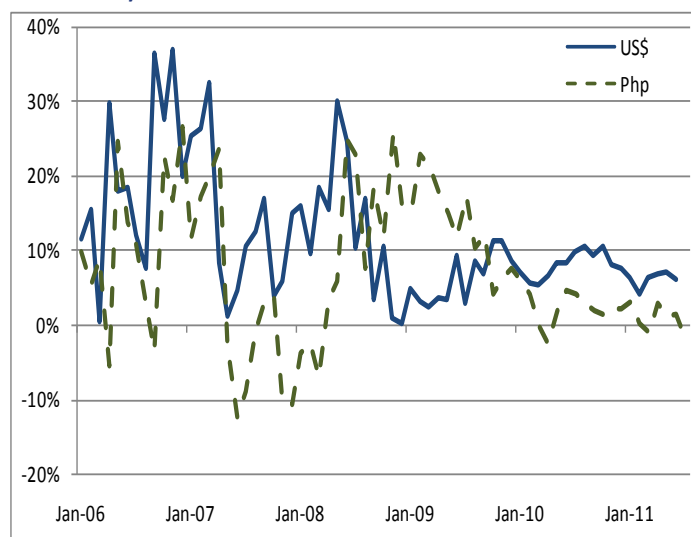
The Overseas Filipino Worker (OFW) dollar remittances remained at its peak for three consecutive months staying at \$1.7 B since May. However, in July, its y-o-y expansion was slower than in previous months. From June's 7.0%, it slowed down to 6.1% in July.

The slower pace of OFW remittances can be attributed to the continuous crisis in the Middle East, US, and the Euro-zone. Until now, OFWs in the Middle East are still being aided in returning to the country and there have been several programs at work in the Philippines that provides

For the remaining months in Q3, we expect remittances to remain modest given the situation in other countries.

the repatriated workers with an option to stay in the country instead of being relocated to another country. The Department of Labor and Employment's (DOLE's) Balik-Pinay Balik Hanap-buhay Program and the National Reintegration Program provide loans to OFWs who wish to start their own businesses in the Philippines.

Figure 6 - OFW Remittances Growth Rates (y-o-y in US\$ and PhP Terms)



Source: Bangko Sentral ng Pilipinas (BSP)

Meanwhile, the peso equivalent of remittances continued to follow a downward trend. It also decelerated and even turned negative from 1.5% in June to -2.0% in July due to the appreciation of peso. In comparison to year-ago levels, it has strengthened by 7.6% from P46.32/\$ to P42.81/\$.

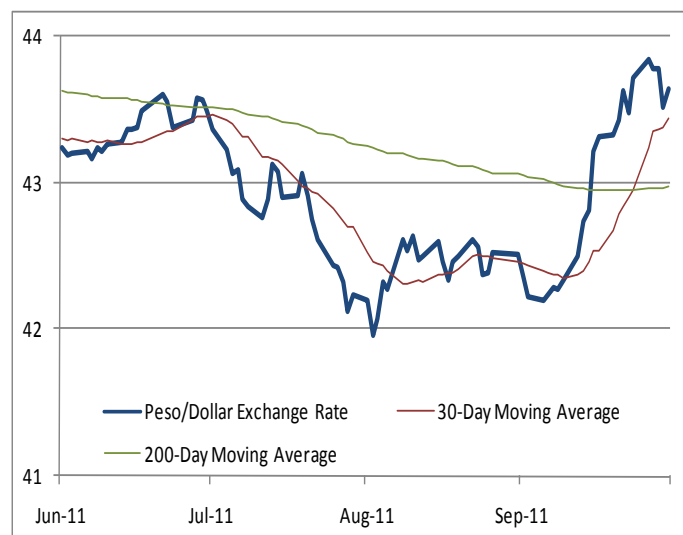
For the remaining months in Q3, we expect remittances to remain modest given the situation in other countries. Come Q4, we think it will recover due to seasonal factors. Also, given that the Philippine Overseas Employment Administration (POEA) recently decided to partially lift the deployment ban to Iraq and Afghanistan, this would open more opportunities for Filipinos who wish to work abroad. Thus, we maintain our view of a 7.0% annual growth for H2 2011.

External Turmoil Weakens Peso

The peso succumbed to the turmoil in Europe and the United States, with the exchange rate up to an average P42.88/\$ up to September 26 weaker by 1.1% from August's average of P42.42. Thus, after appreciating again for two consecutive months in July and August, the peso-dollar exchange rate dropped sharply starting in mid-September. Nevertheless, this brought the Q3 average exchange rate to P42.7/\$ from P43.43/\$ in Q2.

There were a few instances when the peso strengthened. This was when the positive fiscal news in the country as a surplus of P9.2 B was reported for the month of August. Other external news which propped up the peso were the EU's decision to aid Greece which decided to implement debt-reduction targets, the continuous anticipation of a third round of quantitative easing (QE3), and the positive news on China's purchasing managers index (PMI) that signaled a stabilized manufacturing sector.

Figure 7 - Daily Peso-Dollar Exchange Rate



Source: National Statistics Office (NSO)

Meanwhile, the spate of negative external news managed to put more pressure on investors and made them more cautious. The weakening of the peso can be attributed to

The monthly average in September remained within the lower bounds of our projected range of P42.50-44.0/\$ for Q3 2011.

increased risk aversion of investors due to the unsettled Euro-zone crisis and US economic slow down. Investors continue to have negative sentiments because of Standard & Poor's (S&P's) downgrade of the debt rating of Italy from A+/A-1+ to A/A-1 and Moody's downgrade of two large French banks together with its credit rating cut of the long and short-term debt of the Bank of America Corp. and the short-term debt of Citigroup, Inc. Likewise, the fear of Greece defaulting on their debt and the recent resignation of the European Central Bank (ECB) Executive Board Member Juergen Stark, which is believed to be caused by his opposition to ECB's purchase of bonds from Greece, Italy and Spain, increased the uncertainty in Europe.

The peso has been continuously depreciating to the point of going beyond the 200 and 30-Day moving averages (MAs) as seen in the graph. Nevertheless, the monthly average in September remains within the lower bounds of our projected range of P42.50-44.0/\$ for Q3 2011. For the coming months, we think that the peso will remain volatile due to several external factors. We still expect it to strengthen again in Q4 due to higher OFW remittances.

Outlook

The financial markets have gone to a severe risk-aversion mode as a result of the widening debt crisis in the Euro-zone and unexpectedly weak recovery of the US in the first two quarters of 2011. These two factors are contributing to a world growth slowdown, as seen by the IMF, and will negatively impact the economic growth of the country. Nonetheless, the domestic outlook is fairly stable.

- Given the strength of the industrial sector, despite weak electronics exports, the continuing upsurge in residential construction, and higher NG spending in Q3, we expect a better than 5% uptick in the quarter that could hold on until the end of the year, depending on how domestic investors react to the slower growth. Large ticket investment items in power and infrastructure should provide a good cushion to the otherwise negative sentiment that is threatening the local scene.

- A positive effect of the anemic world growth prospects is the significant fall in commodity prices. This will mean lower inflation rates versus earlier expectations and better purchasing power to domestic consumers.
- The NG is in better position to stimulate the economy in H2 as its Jan-Aug deficit is only P34 B compared to the target of P293 B. NG's double-digit expansion in spending in August is likely to continue for the rest of H2 with growth likely to exceed 15%.
- Given the adverse effect of Euro-zone and US economy weakness on growth, and the positive effect on lower inflation, the Monetary Board is unlikely to raise policy rates or reserve requirements for the rest of the year. If at all, there is a greater need to ease once again as it did in the wake of the 2008-09 world financial and economic crisis.
- OFW remittances will barely surpass the trade deficits and net portfolio outflows for the rest of the year. The peso-dollar should hold steady with a slight appreciation bias.

Forecasts				
Rates	Sept	Oct	Nov	Dec
Inflation (y-o-y %)	4.7%	5.2%	4.7%	4.5%
91-day T-Bill (%)	0.57%	2.32%	2.7%	2.75%
Peso-Dollar (P/\$)	43.03	42.28	44.62	44.82
10-year (%)	5.57%	5.77%	5.83%	5.90%

Source: Authors' Estimates

External Woes had Limited Impact on Long-Term Yields

The Euro-zone's debt crises raised an epidemic global credit crunch amidst the thinning line of international aid. The US launched a new plan to further decrease long-term borrowing costs in the hopes of encouraging economic activity. We hold on to the view that the "flight to safety" is the course for capital markets as investors are deeply averse to the possibility of a financial shakedown. But our long-term scenario for fixed income securities remains constructive with yields trending down after the initial sell-off.

German officials stated that there is no intention to increase the emergency funding plan of \$595 B. The European Central Bank and the International Monetary Fund (IMF) declared that they would withhold any decision of aid until next month. On the other hand, the Fed pulled off "Operation Twist." This involves selling \$400 B of short maturities and buying long maturities, flattening the yield and thereby lowering long-term financing cost for companies.

We think that the effect of the moves of the European Central Bank (ECB) and of the Federal Open Market Committee (FOMC) will depend on two forces: first, the pervasiveness of the risk-averse sentiment of the market which may trigger further near-term sell-offs; and second, the fundamentals of developed markets particularly employment and spending on durable goods, which would reflect the long-term view of investors. It is well accepted that markets will be extremely volatile in the coming weeks.

In the PH, low oversubscriptions and higher yields have been realized for the latest T-bill auction on September 19th with rates at 0.69% and 1.33% for 91- and 364-day bills respectively. All bids for 182-day bills were rejected. Bid-ask spreads widened in secondary markets asking for a much-needed consolidation. Still, the latest 25-year paper auction on September 29th saw a large fall in yields as the market remained awash with liquidity and still showed an appetite for better yields.

Primary Markets: Early Oversubscriptions Cave in to Risk Aversion in late Sept

With a tiny deficit of P34 B as of August 2010 (see Macro), NG is likely to issue less debt papers in H2. Besides, it plans to contain exposure to foreign currency risk by shifting to more domestic borrowings.

Yields in T-bills consistently fell by the third week of July. The largest drop in T-bill yields was in August during the US credit downgrade. Yields continued to drop with the

yields registering record lows of 0.44%, 0.68%, and 0.94% for 91-, 182-, and 364-day papers at the start of September. These papers had drops of 31.8, 55.6, and 39.5 bps respectively. An upward correction was seen by the 3rd week of September as T-bill yields were already too low and the renewed risk aversion due to the festering Euro-zone debt problems and lingering doubts of the US economy's strength. Higher yields were sought for 91- and 364-day T-bill as rates crept up by 25.2 and 38.6 bps respectively. 182-day bids were fully rejected.

Long term T-bonds were consistently oversubscribed with 10-year T-bonds being 4 times oversubscribed. On the run 7-year yields were quoted at 5%, a mere 50.5 bps from the 10-year benchmark. On the run 364-day or 1-year yields were at 1.33%, a 418 spread from the benchmark. Spreads per year in the medium to long-term (about 16.8 bps) are significantly less than short to long-term spreads per year (about 46.4 bps), hence our positive view for the medium to long-term segment of the curve.

Notably, FXTN series 5-67, with a little over 2 years until maturity, dipped by 100 bps on the back of high demand.

T-Bills and T-Bonds Auction Results							
Date	T-Bond/T-Bill	Offer (PhP B)	Tendered (PhP B)	Awarded (PhP B)	Tendered ÷ Offered	Average Yield	Spread (bps)
7-Jul	91-day	1.5	8.56	2	5.71	2.5	-37.9
	182-day	3	7.5	3	2.5	2.76	31.9
	364-day	4	7.21	4	1.8	3.24	1.7
19-Jul	4-year	9	22.68	9	2.52	4.88	-33.8
25-Jul	91-day	2	8.03	2	4.02	2.31	-19.5
	182-day	3	5.88	3	1.96	2.78	2.5
	364-day	4	5.77	0	1.44	-	-
2-Aug	10-year	9	41.63	9	4.63	5.9	-60
8-Aug	91-day	2	9.62	2	4.81	2.07	-23.3
	182-day	3	11.08	3	3.69	2.25	-53.4
	364-day	4	13.77	4	3.44	2.75	-48.6
16-Aug	7-year	9	44.06	9	4.9	5.12	-82
22-Aug	91-day	2	14.69	2.8	7.34	0.98	-109.4
	182-day	3	13.7	3	4.57	1	-125
	364-day	4	14.65	4	3.66	1.5	-125
31-Aug	7-year	9	24.04	9	2.67	5	-12
5-Sep	91-day	2	12.57	2.8	6.29	0.44	-54.1
	182-day	3	14.55	4.2	4.85	0.68	-31.8
	364-day	4	15.65	5.6	3.91	0.94	-55.6
13-Sep	10-year	9	41.79	9	4.64	5.51	-39.5
19-Sep	91-day	2	4.72	0.33	2.36	0.69	25.2
	182-day	3	3.32	0	1.11	-	-
	364-day	4	5.32	2.4	1.33	1.33	38.6
28-Sep	25-year	9	30.82	9	3.42	7.63	-51.5
Total:		107.5	381.59	102.13	3.55		

Source: Bureau of the Treasury (BTr)

Secondary Markets: Focus on the Belly of Yield Curve

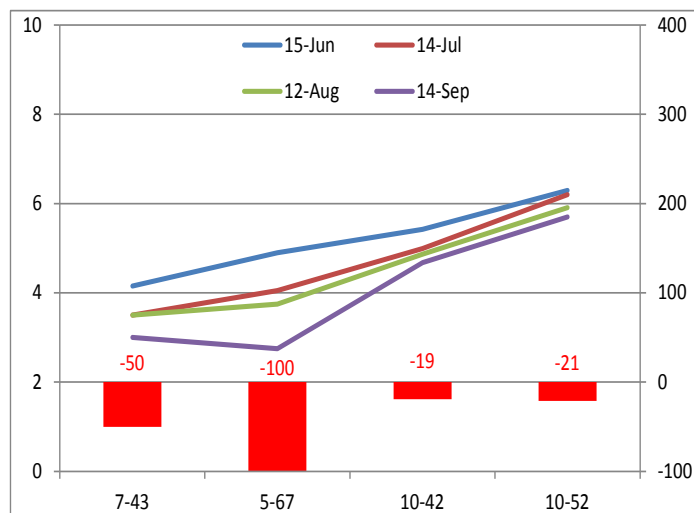
Secondary markets show slight inversion in the belly of the curve yields but yields fell for all tenors. Notably, FXTN series 5-67, with a little over 2 years until maturity, dipped by 100 bps on the back of high demand. Continuing from previous month's trends, yields crept down but this time with the action focused on the medium to short end of

the curve. FXTN series 7-43, 10-42, and 10-52 have maturities slightly over 1, 5, and 9 years respectively. These papers registered decreases of 50, 19, and 21 bps month-on-month (m-o-m), respectively. Fixed income securities in the secondary market are starting to show signs of an upward correction in the coming weeks mirroring primary markets.

Share to total fixed income securities traded was about 85%, 10%, and 5% for FXTNs, T-Bills, and RTBs respectively.

More trading volume was dealt in Q3 than the previous quarter as investors snapped up bonds both from the government securities market and the corporate bond market. Average weekly volume for Q2 was P53 B compared to P134 B for Q3. The year-to-date (YTD) weekly average for 2011, however, was substantially lower this year at P80.1 B compared to the P101.1 B of 2010. Though corporate bonds held higher yields, funds were funneled to FXTNs, T-Bills, and even RTBs which are risk free. By the second week of September, the share to total fixed income securities traded was about 85%, 10%, and 5% for FXTNs, T-Bills, and RTBs respectively.

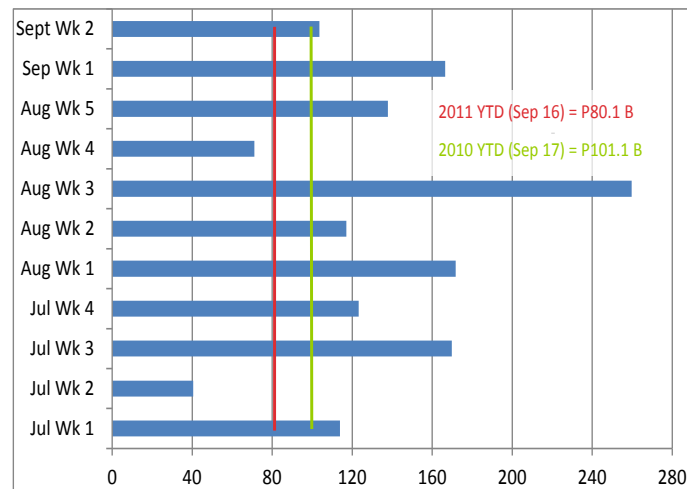
Figure 8 - FXTN Yields



Source: First Metro Investment Corp. (FMIC)

With the investors' edginess over US and Europe issues, they started to pour on emerging markets bonds heavily by mid-July. Thus, the third week of July registered almost P170 B worth of traded papers, peaking until the third week of August and registering almost P260 B worth of traded papers. With the news focused on easing signs of inflation for the month of August and GDP slowdown for Q2, demand for papers slightly subsided but still dealing a considerable amount.

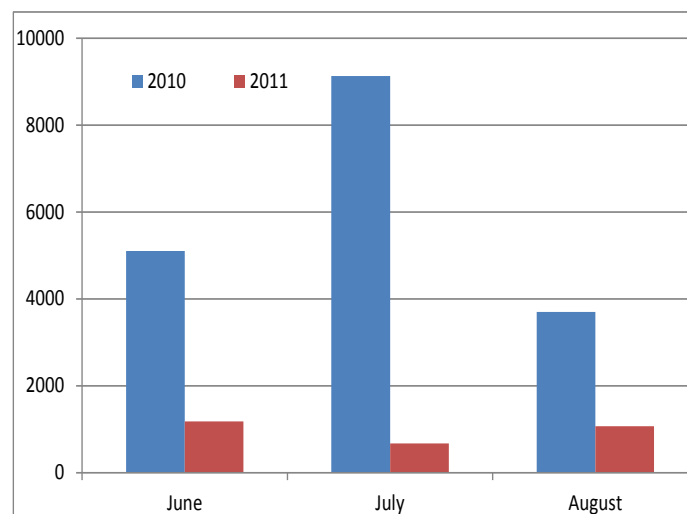
Figure 9 - Trade Volume (in billions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

Secondary Corporate Bond Market: Still Small but Improving

Figure 10 - Total Corporate Trade Volume (in millions)



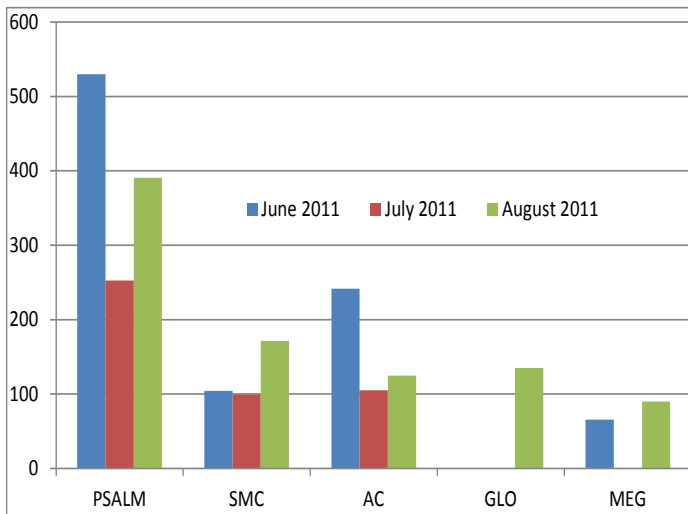
Source: Philippine Dealing and Exchange Corp. (PDEX)

Total secondary trading of corporate bonds was once again duller than year-ago levels due to the little to none corporate issuances in the past months. The market hit slightly higher demand on a m-o-m basis. Total corporate trading amounted to P1,179 M, P676 M, and P1,071 M for June, July, and August respectively. More than ever, trad-

The Power Sector Assets and Liabilities Management (PSALM) had the highest demand in the market with P390.7 M worth of papers traded.

ers will be likely to hold on to corporate bonds as their yields are much higher than current yields especially in the longer end.

Figure 11 - Corporate Trading (in millions)



Source: Philippine Dealing and Exchange Corp. (PDEX)

The Power Sector Assets and Liabilities Management (PSALM) had the highest demand in the market with P390.7 M worth of papers traded, significantly higher than July's P252.7 M. San Miguel Corporation (SMC) showed consistent demand with 171.5 M worth of papers traded followed by Ayala Corporation (AC) with P124.8 M worth of traded papers. Two new companies came up with strong demand for August: Globe Telecom (GLO) and Megaworld Corp. (MEG) with P135 M and P90 M worth of papers traded respectively. PSALM, SMC, and AC has consistently shown sizeable demand in the secondary markets. This can be traced back to their high-yield issuances from previous years, which are suitable hedging instruments against prevailing low yields.

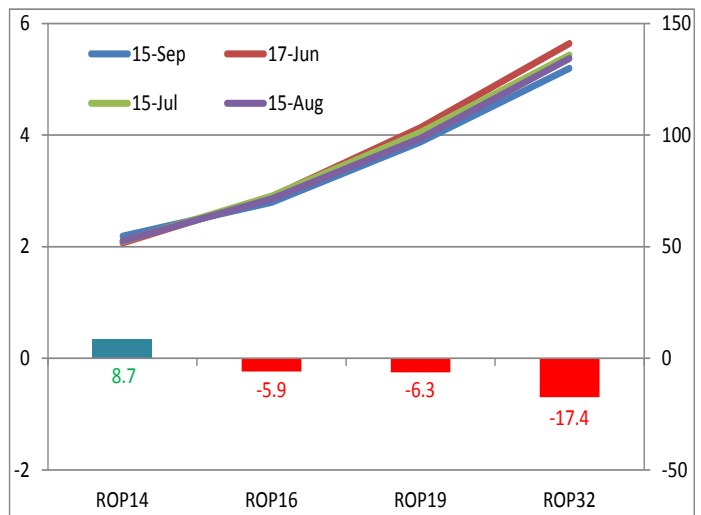
Corporate Issuances

We still see prevailing long-term rates to abate. Though some corporations are unsure about how bond yields will play out, we still expect more to join the "bond-wagon" in the last leg of 2011:

- First Metro Investment Corporation (FMIC), the investment banking unit of the Metrobank group, is mulling to offer as much as P7 B worth of retail bonds in October. The planned tenor is 5 years and the accompanying rate will be determined according to market demand. Proceeds are seen to be used for their new trust operations to complement FMIC's investment banking and advisory activities.
- Banco de Oro Unibank, Inc. (BDO) will issue on October 7th P3 B worth of Tier 2 unsecured subordinated notes to fund its expansion plans. The issuances will have a tenor of 10 years and 3 months and will have a call option exercisable after 5 years. Coupon rate will be based on prevailing market rates. Offer period is from Sept. 20 to 30.

ROPs: Slight Easing of Yields at Longer End

Figure 12 - ROPs



Source: Bloomberg

Following the previous months' trend, yields in the long-end of the Philippines' dollar denominated bonds (ROPs) crept down further reflecting the view of the global markets on Philippine credit. The flattening of the curve was observed as ROP16, ROP19, and ROP32 inched down-

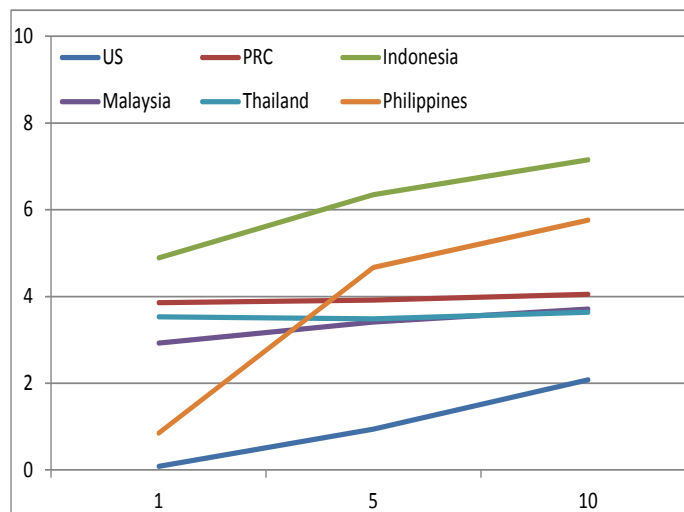
China's Producer Price Index (PPI) rose 7.3% y-o-y in August provided the basis for yields to pick up.

wards by 5.9, 6.3, and 17.4 bps respectively. There is a slight uptick in ROP14 of 8.7 bps. As the curve flattened and spreads narrowed, a further downside in yields is, however, unlikely as the financial and commodity markets collapse in the second half of September has made investors more risk-averse.

ASEAN Market+1:

The figures for the Philippines having the fastest dropping yields in the region materialized. This placed the Philippines in the limelight for this month as it has the steepest yield curve, the highest bps change in spread, and the highest 10-year real rate. These accentuate, however, probable signs of being an outlier and may thereby prompt upward corrections on short-term yields, but stable to downward consolidation on longer-term yields.

Figure 13 - ASEAN Market+1



Source: Asian Development Bank (ADB)

US: Yields remained very low but still slightly decreased by 2.1, 5, and 2.3 bps for 1-, 5-, and 10-year bonds, respectively. The yield spread between 1-year and 10-year increased by 2.1 bps. To cure their own debt problems, the current administration is looking to raise taxes particularly by reducing the maximum percentage of deductions for donations to non-profit organizations. This reduction

applies to tax-free bonds. Compounded by the “twist” in monetary policy, the move is seen to diminish demand for bonds, which already have very low yields in the first place.

PRC: Yields crept up by 27, 12, and 11 bps for 1-, 5-, and 10-year bonds respectively. Still, the latest 10-year and 1-year spread for China narrowed by 16 bps. China’s Producer Price Index (PPI) rose 7.3% y-o-y in August provided the basis for yields to pick up. Major statistical revision in measuring money supply in China is currently underway to better anticipate economic fluctuations, especially inflation.

Indonesia: Yields have increased by 39, 17.9, and 24 bps for 1-, 5-, and 10-year bonds respectively. Latest 10- and 1-year spread recorded a decrease of 15 bps. This was despite core inflation surging to 5.15% in August and Bank Indonesia (BI) kept its key interest rates steady at 6.75%. The BI is complacent with its monetary policy and even lowered its interbank rates to 5.25% from 5.75% providing banks with further incentive to expand its lending activities.

Malaysia: Yields in 1-, 5-, and 10-year bonds increased slightly by 1.2, 3, and 3.4 bps respectively. Yield spread between 1-year and 10-year, on the other hand, increased slightly too by 2.2 bps. Malaysia has been on a knife-edge on keeping economic growth up by scaling back on government spending to allow private sector to drive the economy. Malaysia, however, experienced the largest net foreign selling in August, thereby pushing yields up slightly.

Thailand: Yields along the curve increased by 11, 57.4, and 54.3 bps for 1-, 5-, and 10-year bonds, respectively. The latest 10-year and 1-year spread increased by 3.1 bps as policy rates were hiked by 25 bps late August to contain inflationary pressures and expectations for periods ahead. This was due to the 4.3% y-o-y inflation in August which was above market expectations stoked by government promises to increase the minimum wage and salaries of newly employed civil servants.

Due to the plunge in 1-year yields, the spread between 1-year and 10-year rose by 163.7 bps.

Philippines: The Philippines saw a steep fall in 1-year papers and a slight decrease in 10-year papers of 175 and 11.3 bps respectively. Due to the plunge in 1-year yields, the spread between 1-year and 10-year rose by 163.7 bps. While retaining the largest spreads in the region, this made the yield curve in the country even steeper than the rest of the region.

Outlook

- We see no upward pressure in short or long term yields due to weakness in both the EU and the US. Furthermore, a low growth and inflation outlook even warrants for interest rates to decline.
- If RP performs better than expected in H2, the long-term trend in yield rates will continue to be downward.
- As long as the RP has the highest real rate, capital flows can be expected to come in the Philippines with liquidity further topping previous month levels.
- The government should step up in accommodating a possible shock in the short run but making solid moves in terms of cash management and spending in the long run. It has been announced earlier that NG is having an RTB sale this October. We expect a good amount of oversubscriptions on these papers.
- The US and EU policies are seen as short-term fixes on money markets. Until a tangible and significant sign of improvement from the goods market is seen, expect capital markets to be rattled by monetary policies that will add to the volatility of the market.

Spreads between 10-year and 1-year T-bonds								
Country	1-year rate	10-year rate	Projected Inflation Rates	Real 10-year yield	10-year to 1-year Spread		Spread change (bps)	Latest Policy Rate
					15-Sept	15-Aug		
PRC	3.86	4.05	4.6	-0.55	19	35	-16	3.5
Indonesia	4.89	7.152	5.9	1.252	226.2	241.2	-15	6.75
Malaysia	2.927	3.708	2.3	1.408	78.1	75.9	2.2	3
Philippines	0.85	5.762	4.6	1.162	491.2	327.5	163.7	4.5
Thailand	3.53	3.638	3.5	0.138	10.8	7.7	3.1	3.5
US	0.081	2.305	3.1	-0.795	222.4	220.3	2.1	0.25

Source: Asian Development Bank (ADB)

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

A Septem‘Bear’ Month to Forget

In our last issue we argued that several major headwinds (i.e., global economic slowdown and Euro-zone debt crisis) would continue to undermine the world’s financial markets. With the Federal Reserve (Fed), the International Monetary Fund (IMF), and the World Bank (WB) recognizing the increasingly worrisome downside risks, most global equity markets entered bear market territory. This time the Philippine equities market was added to the sea of red and its year-to-date gains were wiped out in a flash. The fear-based sell-off in September reminds us of the 2008 financial crisis. We are on extreme “risk off” mode as fears of a slowdown in the global economy and another financial crisis with the Euro-zone as its epicenter increases. In our view, despite robust macro and corporate fundamentals, the Philippine equities markets will not be immune to a US recession and/or a European style financial crisis in the near-term.

3 rd Quarter Global Indices Performance		
Country/Index	3 rd Quarter	Year-to-date
MSCI World	-15.26%	-13.86%
MSCI EMU	-18.23%	-21.60%
MSCI Asia	-14.59%	-18.24%
MSCI Asia ex Japan	-18.02%	-19.47%
MSCI China	-25.13%	-26.16%
MSCI Philippines	-10.18%	-9.55%
Philippines	-6.79%	-4.80%
Thailand	-12.03%	-11.29%
Indonesia	-8.73%	-4.17%
Malaysia	-12.16%	-8.68%
S&P 500	-14.33%	-10.04%
Dow Jones	-12.09%	-5.74%

Source: Bloomberg

We acknowledged that the downward price actions in Philippine equities have nothing to do with local macro and corporate data but rather with the anxieties over external risks. As a result, local equities became inexpensive based on trailing and forward valuations. Yet we feel uncomfortable accumulating at these levels. The reason is that local equities may get even cheaper in the interim. Global market risks (recession in developed markets and a European style financial crisis) are yet to unfold as we are just at the tipping point of current woes. Moreover, should world leaders find ways to avert the crises, the Philippine equities markets will likely lag a global equity markets rally given that other markets are more attractive. This will give investors enough time to participate if such rally occurs.

Global Equity Indices Valuation			
Country/Index	Trailing P/E	Forward P/E	5-Year Average
MSCI World	11.93	10.90	16.82
MSCI EMU	9.74	8.81	14.62
MSCI Asia	12.55	11.75	44.21
MSCI China	8.42	8.31	16.25
MSCI Philippines	15.28	14.39	16.11
Philippines	13.71	13.01	13.60
Thailand	11.12	10.35	14.70
Indonesia	15.50	13.91	19.24
Malaysia	14.78	13.40	16.23
S&P 500	12.38	11.41	16.04
Dow Jones	11.71	11.06	15.15

Source: Bloomberg

US “Higher Odds of a Recession”

High frequency macro data, such as the Purchasing Managers Index (PMI) nearing contraction levels, in the US suggest a slowdown, raising the odds of another recession in the upcoming quarters. 2nd quarter Gross Domestic Product (GDP) was revised to 1.3% from 1.0% but this is old news. Most economists and analysts are looking ahead and would agree that US’ economic malaise started in September 2011. Moving forward, the “snail” pace of expansion in the US is very unnerving and any adverse shock could be detrimental growth. The longer the US growth rate remains at such low levels; consumers may continue to feel the pinch as high unemployment rate and insignificant growth in real wages are prolonged.

Based on historical performance of the Philippine equities market in the past two US recessions, there is no strong evidence of a decoupling.

Performance of the Philippine Equities Market in the Past Two US Recessions									
2001 Dot.com Bubble		Start of the Recession: June 2001							
	Level at the Start of the Recession	3 Months	6 Months	9 Months	12 Months	15 Months	18 Months	21 Months	24 Months
S&P 500	1,124.42	-14.98%	-6.23%	-6.29%	-19.16%	-33.42%	-28.14%	-30.73%	-20.41%
DJIA	10,502.40	-15.76%	-4.58%	-0.94%	-11.99%	-27.71%	-20.57%	-23.90%	-14.44%
MSCI Philippines	353.98	-18.16%	-17.46%	-1.67%	-26.81%	-28.16%	-40.64%	-40.50%	-27.40%
PSEi	1,410.07	-20.10%	-17.16%	-0.46%	-17.99%	-19.91%	-27.78%	-26.27%	-13.28%
2008 Financial Crisis		Start of the Recession: September 2008							
	Level at the Start of the Recession	3 Months	6 Months	9 Months	12 Months	15 Months	18 Months	21 Months	24 Months
S&P 500	1,166.36	-22.56%	-31.59%	-21.18%	-9.37%	-4.39%	0.26%	-11.63%	-2.16%
DJIA	10,850.66	-19.12%	-29.88%	-22.15%	-10.49%	-3.89%	0.06%	-9.92%	-0.58%
MSCI Philippines	511.38	-24.95%	-20.53%	-2.36%	9.64%	16.92%	18.33%	23.94%	50.32%
PSEi	2,569.65	-27.12%	-22.70%	-5.12%	9.00%	18.80%	23.04%	31.25%	59.56%

Source: Bloomberg and First Metro Securities

Economic Cycle Research Institute (ECRI) data points to an imminent recession in the US economy. While, poll of economists done by CNNMoney suggest that there is 1 out of 3 chance that the US will enter recession in the next 12 months. In a scenario of a US recession becoming inevitable, we think Philippine equities will not be immune to adverse market shocks in the near-term. Based on historical performance of the Philippine equities market in the past two US recessions, there is no strong evidence of a decoupling. Daily correlation of the PSEi and S&P 500 24 months after the start of the 2001 Dot.com bubble and the 2008 financial crisis are 0.68 and 0.88, respectively.

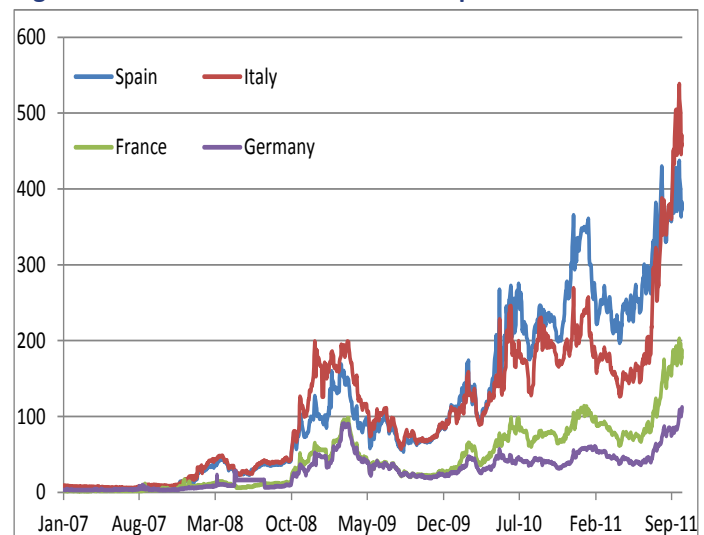
While we acknowledge that past performances are not indicative of future returns, they serve as guide to our expectations. Assuming Philippine macro and corporate fundamentals remain strong, adverse effects of US recession on local equities will likely be more felt in the near-term and recovery to be faster than its developed counterparts.

Deteriorating Conditions in the Euro-zone

It is no secret that the Euro-zone suffers from a sovereign debt crisis compounded by a low growth environment. These problems have now escalated. The European Mon-

etary Union (EMU) is at crossroads of falling into a recession, while contagion from the debt crisis has spread to the union's core economies and its financial system, threatening the world of another financial market meltdown with Europe at its epicenter this time around.

Figure 14 - Euro-zone Credit Default Swaps



Source: Bloomberg

CDS spreads of US banks, namely Bank of America and Morgan Stanley, are indicating credible financial stress.

Figure 15 - Markit Itraxx 5-year Senior European Financials

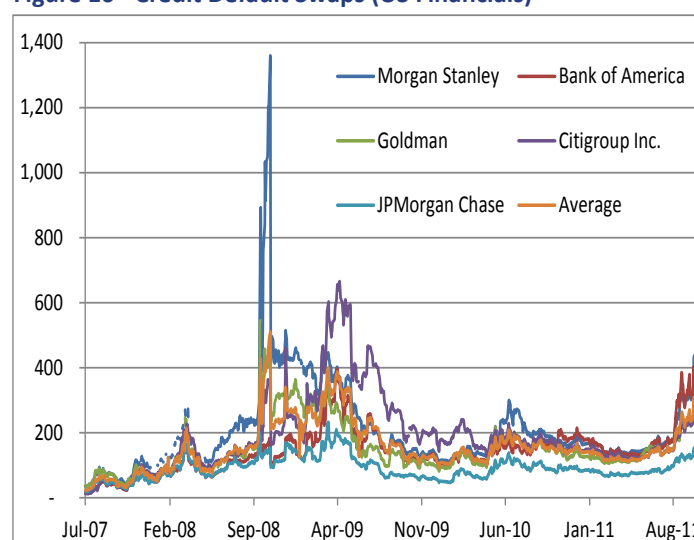


Source: Bloomberg

Contagion has spread into Italy but our focus is France. Credit default swaps (CDS) of France are diverging from Germany. According to the latest data from Eurostat, among the triple A rated economies in the EMU, France has the highest fiscal deficit (7.0%) and close to overtaking Germany for the highest ratio in terms of government debt to GDP. Current government debt to GDP ratio of France is 81.7, while Germany is at 83.2. Moreover, France is the only triple A rated country in the EU with a negative current account to GDP ratio (-2.1).

CDS of 5-year senior European financials are trading at danger levels. They are now wider than when they were during the 2008 financial crisis. The financial stress in Europe is adding pain to a still fragile US financial sector. CDS spreads of US banks, namely Bank of America and Morgan Stanley, are indicating credible financial stress. They are currently trading at levels not seen since March 2009 (bottom of the bear market).

Figure 16 - Credit Default Swaps (US Financials)



Source: Bloomberg

F12 Month PSEI Level							
	-10%	-5%	Current EPS	5%	10%	Consensus Growth 10.18%	15%
P/E	262.52	277.11	291.69	306.27	320.86	321.38	335.44
10	2,625.21	2,771.06	2,916.90	3,062.75	3,208.59	3,213.84	3,354.44
11	2,887.73	3,048.16	3,208.59	3,369.02	3,529.45	3,535.22	3,689.88
12	3,150.25	3,325.27	3,500.28	3,675.29	3,850.31	3,856.61	4,025.32
13	3,412.77	3,602.37	3,791.97	3,981.57	4,171.17	4,177.99	4,360.77
14	3,675.29	3,879.48	4,083.66	4,287.84	4,492.03	4,499.38	4,696.21
15	3,937.82	4,156.58	4,375.35	4,594.12	4,812.89	4,820.76	5,031.65
16	4,200.34	4,433.69	4,667.04	4,900.39	5,133.74	5,142.14	5,367.10
17	4,462.86	4,710.79	4,958.73	5,206.67	5,454.60	5,463.53	5,702.54

Source: Bloomberg and First Metro Sec Estimates

All the sub-indices registered losses except for the Mining and Oil sector which was able to post a 2.67% gain this quarter.

Outlook

Near-term – despite attractive valuations, we prefer to keep our heads down given the emotionally driven investing environment. Market risks (US and Euro-zone's woes) are likely to get worse before they get better. Accumulate with extreme caution. Odds of better and/or less risky entry points are higher moving forward.

Long-term – we reiterate a long-term positive perspective on Philippine equities. Forward 12 months earnings still show robust growth. Assuming no downgrades on earnings estimates and a growth of 15.0%, we see a target of 4,700 to 5,000 for the PSEi at 14 to 15 times price-to-earnings (P/E) ratio in the next 12 months. Nonetheless, selectivity is key. We prefer equities that are able leverage the domestic economy and/or can pay dividends.

Sectoral Performance

The PSEi went through a rollercoaster ride in the 3rd quarter, gaining in July and reaching an all-time high of 4,563.65 on August 2, 2011. The quarter ended with a 6.79% decline after a nerve-racking series of ups and downs. The two-fold threat of the EU and the US dragged down the local market led by the Holdings sector which sank by 11.59%. All the sub-indices registered losses except for the Mining and Oil sector which was able to post a 2.67% gain this quarter despite being the top loser in September.

Quarterly Sectoral Performance				
	30-Jun-11		30-Sep-11	
	Index	% Change	Index	% Change
PSEi	4,291.21	5.82%	3,999.65	-6.79%
Financial	952.45	5.63%	917.78	-3.64%
Industrial	7,227.59	2.69%	6,679.35	-7.59%
Holdings	3,542.20	3.06%	3,131.67	-11.59%
Property	1,509.48	0.21%	1,398.43	-7.36%
Services	1,514.02	1.85%	1,414.62	-6.57%
Mining and Oil	19,992.43	37.43%	20,525.99	2.67%

Source of Basic Data: PSE Quotation Reports

The Financial sector shed some 3.64% this quarter as the top banks under the sub-index followed the overall market sentiment despite the earnings resiliency showed by local banks amid the external risk events. Earnings of universal and commercial banks have risen by 23.57% for the 1st half of the year to P46.468 Billion. BDO had the largest contribution to the decline falling by 6.7% this quarter while BPI and MBT sank by 4.6% and 5.7%, respectively.

Company	Symbol	6/30/11 Close	9/30/11 Close	% Change
Metrobank	MBT	70.00	66.00	-5.7%
Banco de Oro	BDO	54.65	51.00	-6.7%
Bank of the Philippine Islands	BPI	58.50	55.80	-4.6%

Source of Basic Data: PSE Quotation Reports

The Industrial sector performed sluggishly this quarter as earnings were heavily dampened by lower power generation charges coupled with lower than expected demand and by higher input costs due to unfavorable commodity inflation. MER was particularly affected, dropping by 14.7% with worse-than-expected 1st half earnings. EDC, too, was hit heavily plunging by 14.3%. The company registered a 51% drop in 2Q core income due to lower contribution from its hydroelectric plant. In addition, EDC also made a P5 B provision for the impairment of the Northern Negros plant. Meanwhile, share prices in AP decreased by 8.9% after its 9.8% decline in recurring income which was caused by lower output plus lower selling prices. To add to that, the delay in its coal-fired power plant due to the intervention of the local government unit may have also affected sentiment. The Davao City vice-mayor pulled out his endorsement of the project after learning that AP would be using freshwater for the cooling of the plant instead of seawater.

Meanwhile, JFC declined by 4.6% for the quarter following its 6.3% decline in net income for the 1st half due to commodity inflation. However, as inflation eases, JFC will be taking on an aggressive stance with its planned expansion

SMC is the only one that closed in the green territory for the sector with an uptick of 1.2%.

in China and other parts of Asia. SMC is the only one that closed in the green territory for the sector with an uptick of 1.2% with its continued pursuit of diversification into energy in both natural gas and oil.

Company	Symbol	6/30/11 Close	9/30/11 Close	% Change
Meralco	MER	274.20	234.00	-14.7%
Aboitiz Power	AP	31.30	28.50	-8.9%
Energy Development Corp.	EDC	6.59	5.65	-14.3%
San Miguel Corporation	SMC	115.20	116.60	1.2%
Jollibee Food Corp.	JFC	88.50	84.40	-4.6%

Source of Basic Data: PSE Quotation Reports

With global events presenting troubles for the local equities market, the Holdings sector could not escape the onslaught. The sector recorded a double-digit drop led by MPI and DMC dipping by 23.2% and 18.4%, respectively. These two companies were particularly hit by the sell-off since both saw double-digit gains during the 2nd quarter unlike the other companies in the sub-index which had modest price increases. Meanwhile, SM is maintaining a double-digit growth in profits forecast in the 3rd quarter and is optimistic for year-end due to the contribution of its property arm fueled by strong remittances and a robust business process outsourcing (BPO) industry.

Company	Symbol	6/30/11 Close	9/30/11 Close	% Change
Ayala Corp.	AC	319.00	290.00	-9.1%
Metro Pacific Investments Corp.	MPI	3.58	2.75	-23.2%
SM Investments Corp.	SM	534.50	522.00	-2.3%
DMCI Holdings, Inc.	DMC	42.55	34.70	-18.4%
Aboitiz Equity Ventures	AEV	42.00	38.00	-9.5%

Source of Basic Data: PSE Quotation Reports

The Property sector sank by 7.36% in the 3rd quarter following the trend of the local market. SMDC and RLC, which declined by 9.6% and 5.8%, respectively, go head-to-head in their construction of new high-rise condominiums. Aside from existing projects, SMDC recently added Mezza II Residences to its list of condominium projects. Mezza II will be located along Aurora Boulevard in San Juan and will commence construction this October. RLC, on the other hand, recently started the construction of the third tower of its condominium project at Ortigas CBD. The third tower, called The Allegro, is the second phase of the Sonata Place, a one-hectare project along San Miguel Avenue.

Company	Symbol	6/30/11 Close	9/30/11 Close	% Change
Ayala Land, Inc.	ALI	15.60	14.58	-6.5%
SM Development Corp.	SMDC	8.20	7.41	-9.6%
Robinsons Land Corporation	RLC	12.00	11.30	-5.8%
Megaworld Corp.	MEG	1.99	1.69	-15.1%

Source of Basic Data: PSE Quotation Reports

With the delay of the TEL-DGTL merger which was originally set for June 30 of this year, GLO and TEL have been on each other's neck for the whole 3rd quarter. GLO cited unfair competition, foreign ownership and a parallel US scenario as arguments against the merger. TEL, meanwhile, is willing to wait and is confident that the merger will push through despite the delay. Share prices for TEL and GLO slumped by 4.9% and 0.7%, respectively.

Company	Symbol	6/30/11 Close	9/30/11 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,312.00	2,198.00	-4.9%
Globe Telecom	GLO	894.00	888.00	-0.7%

Source of Basic Data: PSE Quotation Reports

LC tumbled by 19.9% for the month of September as a result of its removal from the PSEi and profit taking.

From the 2nd quarter of this year, the Mining and Oil sector has been the spotlight of the local equities market as the sub-index went on a rally. The surge continued this quarter reaching to a high of 27,105.18 on August 24, 2011. The surge has since decelerated; and, during the month of September, a sell-off did in fact accelerated. Most companies under the sector posted double-digit losses for the month of September, but it was not enough to place the sub-index in the red territory for the quarter. LC, the best performing stock year-to-date, tumbled by 19.9% for the month of September as a result of its removal from the PSEi and profit taking, though it was able to register a gain of 35.9% for the quarter.

Quarterly Turnover

Quarterly Turnover (in millions)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	43,622.1	24.9%	752.11	33.5%
Industrial	102,485.6	10.4%	1,766.99	18.0%
Holdings	58,059.5	-27.2%	1,001.03	-22.2%
Property	36,178.1	3.1%	623.76	10.3%
Services	3,969.5	-91.6%	68.44	-91.0%
Mining and Oil	74,094.1	56.8%	1,277.48	67.6%
Total	354,134.3	5.0%	6,105.76	12.3%
Foreign Buying	114,379.4	-23.8%	1,972.06	-18.6%
Foreign Selling	110,763.4	-14.9%	1,909.71	-9.1%

Source of Basic Data: PSE Quotation Reports

Total value turnover for the 3rd quarter jumped by 14.1%, buoyed mainly by the Mining and Oil sector. Among the sectors in the red, the Services sector posted the highest decline of 90.6%. Both Foreign Buying and Foreign Selling decelerated by 16.12% and 4.2%, respectively. Consequently, foreign participation declined to 32.6% of total market activity compared to 41.6% during the 2nd quarter. Foreign investor activity picked up only during the beginning of the quarter but eventually rode the sell-offs. Foreign investors were net buyers to the tune of Php 1.2 B this quarter.

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)

	2008		2010		Jul-11			Aug-11		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
Revenues										
Tax	932,004	8.5%	1,093,643	11.4%	96,164	6.9%	10.4%	111,108	15.5%	13.2%
BIR	711,591	9.2%	822,623	9.6%	73,789	10.3%	15.6%	87,928	19.2%	11.2%
BoC	210,524	6.2%	259,241	17.7%	21,283	-1.8%	-4.3%	22,152	4.1%	24.7%
Others	9,889	8.9%	11,779	6.8%	1,092	-19.4%	0.9%	1,028	-5.9%	-21.3%
Non-Tax	202,488	69.7%	113,877	-19.5%	10,769	5.4%	-31.7%	13,029	21.0%	35.1%
Expenditures										
Allotment to LGUs	193,712	10.9%	279,552	5.6%	25,563	-1.2%	10.5%	24,994	-2.2%	12.8%
Interest Payments	266,833	-14.0%	294,244	5.5%	41,199	146.6%	-3.7%	20,906	-49.3%	-10.1%
Others	683,519	22.9%	948,588	8.0%	66,683	2.2%	-4.3%	69,028	3.5%	13.0%
Overall Surplus (or Deficit)	-62,198	-57.6%	-314,458	5.3%	-26,482	244.3%	-19.0%	9,220	-134.8%	599.0%

Source: Bureau of the Treasury (BTr)

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

	2009		2010		Levels	Aug-11 Annual G. R.	YTD
	Annual Levels	Growth Rate	Annual Levels	Growth Rate			
TOTAL	27,271	1.7%	29,976	9.9%	2,667	4.4%	-0.1%
Residential	8,901	3.2%	9,535	7.1%	808	-0.1%	-87.4%
Commercial	10,796	3.0%	11,683	8.2%	1,035	2.8%	1.1%
Industrial	7,439	-1.6%	8,616	15.8%	812	11.5%	1.6%

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		Jul-11	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Levels	Growth Rate
RESERVE MONEY	912,132	8.8%	1,011,270	10.9%	1,099,527	11.02%
Sources:						
Net Foreign Asset of the BSP	1,886,514	17.7%	2,272,685	20.5%	3,013,936	36.53%
Net Domestic Asset of the BSP	-974,382	-27.6%	1,261,415	29.5%	-1,914,409	57.28%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,087,408	19.2%	1,233,927	13.5%	1,313,238	7.62%
Money Supply-2	3,562,217	12.6%	3,893,063	9.3%	4,147,794	8.76%
MONEY MULTIPLIER (M2/RM)	3.91	3.4%	3.85	-1.5%	3.77	-2.03%

Source: Bangko Sentral ng Pilipinas (BSP)

Achievements built on a stellar performance.

2010 Landmark Deals

February 2010
PhP5.0 Billion
Tanduay Distillers, Inc.
Bonds
Joint Issuer Manager and
Joint Lead Manager

March 2010
PhP18.0 Billion
Beacon Electric
Asset Holdings, Inc.
Corporate Notes
Joint Lead Manager and Bookrunner

March 2010
PhP14.0 Billion
Panay Energy
Development Corporation
Project Loan Facility
Lead Arranger

March 2010
PhP12.0 Billion
Home Development
Mutual Fund
Bonds
Joint Issuer Manager and
Joint Lead Underwriter

April 2010
PhP10.0 Billion
Ayala Corporation
Bonds
Co-Issuer Manager and
Joint Lead Underwriter

April 2010
US\$400 Million
€75 Million
Republic of the Philippines
(Bureau of Treasury)
Multi-Currency Retail Treasury Bonds
Joint Issuer Manager

April 2010
PhP30.0 Billion
Power Sector Assets and
Liabilities Management Corp.
Retail Bonds
Joint Issuer Manager and Bookrunner

April 2010
PhP2.0 Billion
Metrobank Card Corporation
Corporate Notes
Joint Issuer Manager and
Bookrunner

May 2010
PhP2.5 Billion
Aboitiz Equity Ventures, Inc.
Corporate Notes
Issuer Manager

July 2010
PhP2.5 Billion
Smart Communications, Inc.
Fixed Rate Notes
Sole Arranger

July 2010
PhP2.5 Billion
Philippine Long Distance
Telephone Company
Fixed Rate Notes
Sole Arranger

July 2010
US\$300 Million
First Pacific
FPMH Finance Limited
US\$ Bonds
Domestic Manager

August 2010
PhP97 Billion
Republic of the Philippines
(Bureau of Treasury)
Retail Treasury Bonds
Joint Issuer Manager

September 2010
PhP1.7 Billion
Visayan Electric Company, Inc.
Multi-Tranche Corporate Notes
Issuer Manager

November 2010
PhP5.0 Billion
GT Capital Holdings, Inc.
Fixed Rate Notes
Sole Arranger

December 2010
PhP5.0 Billion
Manila Electric Company
Fixed and Floating
Rate Notes
Sole Arranger

December 2010
PhP7.8 Billion
SM Prime Holdings, Inc.
Fixed and Floating
Rate Notes
Sole Arranger

December 2010
PhP200.0 Billion
Republic of the Philippines
(Bureau of Treasury)
Domestic Debt Consolidation Program
Joint Deal Manager
and Joint Deal Arranger



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45th Floor GT Tower International Ayala Ave., Makati City, Philippines • Tel. Nos. (632) 858-7900 • Fax No. (632) 840-3785 www.firstmetro.com.ph

September 2011

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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