February 2014

The

MARKET CALL

Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

Macroeconomy	2	Fixed-Income Securities	11	Equity Markets	17
Recent Economic Indicators	20	Contributors	22		

Despite Setbacks, PH Economy Remains Robust

Beating market expectations, the Philippine economy (measured in terms of Gross Domestic Product or GDP) expanded by 6.5% in Q4 2013, and brought the full-year growth to 7.2%, second only to China for the second year in a row. That the PH economy is entering into a rapid growth path is supported by eight uninterrupted quarters of above-6% gains. Exports had surged by double digits in November 2013 while Overseas Filipino Workers' (OFW) remittances (in US$) hit a new record high in the same month. The fly in the ointment was the acceleration of headline inflation rate to 4.1% in December. But even this brought Q4 inflation average only to 3.4%, and the full-year rate to 3.0%, which is at the lower end of the government's inflation target of 3-5%.

Industry continued to set the pace with manufacturing and construction being the engines for the strong performance in Q4. At the same time, the fiscal picture continues to improve as tax collections went into high gear in November and kept the 11-month fiscal deficit to P114.5 B, or less than half of the target for the year with a single month left. But the devastation caused by the super typhoon Yolanda (Haiyan) in November and the political turmoil spun by the corruption-filled "pork barrel" (Project Development Assistance Fund, or PDAF) have poised a challenge to the administration in sustaining the growth momentum.

Q4 GDP Surprises at 6.5%, Higher than Market Consesus

The PH economy grew by 6.5% in Q4 2013, marking its 8th uninterrupted quarter of above 6% gains, bringing the 2013 annual GDP growth rate to 7.2%. This is also the second consecutive year in which the country trailed only China in the East Asian growth race. As in the previous quarters, the increase in GDP was led by the Industry and Services sectors, which surged ahead at 8.4% and 6.5%, respectively.

The growth of the Industry sector was largely driven by the Manufacturing subsector, which continues to be the leading growth driver in the sector, contributing 2.8 percentage points. The subsector exhibited growth rates of above 9.5% since Q1 2013, surging to 12.3% year-on-year (y-o-y) growth in Q4 2013, propelled by the continued demand for Chemical and Chemical Products (124.5% from 3.5% last year) and the rebound in Furniture and Fixtures at 72.8% from -3.8%. The sterling performance of Furniture and Fixtures and the negative growth in Non-metallic minerals (cement, quarrying) would suggest that private construction is now more tilted towards the finishing stage rather than the start of new structures. Meanwhile, Mining and Quarrying and Construction posted negative growths of 10.4% and 0.8%, respectively. The former was largely weighed down by the underperformance of Crude Oil (-32.4%), Nickel Mining (-3.7%), and other Metallic Mining (-10.0%), among others. On the other hand, Construction setback was due to the sluggish performance of both the Public and Private Construction subsectors. The easing in building permits (in square meters) confirms the slowdown in Private Construction.

The Services sector remained robust with the positive growth of all its subsectors. Financial Intermediation led the pack (9.9% y-o-y), followed by Trade and Real Estate, Renting, & Business Activities (7.4% and 6.3% y-o-y, respectively). Growth in the Financial Intermediation Services was largely driven by banks and non-banks, which expanded by 10.1% and 8.0% y-o-y, respectively. In addition, capital outflows precipitated starting in late May. The acceleration in trade was spurred by the 7.6% growth in Retail Trade from 5.8% in the previous year. Despite the uptick in Renting and Other Business Activities (9.3% from 5.8%), the Real Estate, Renting, & Business Activities slowed down due to the decelerated growth of Real Estate and Ownership of Dwellings, both recording a decline of 6.1 and 1.4 percentages points, respectively.

GNI expanded on the back of hefty OFW remittances.

Serious damages caused by super typhoon Yolanda in the East Visayas region brought more havoc on the struggling Agriculture sector. In Q4, there was an apparent decline in the production of corn, coconut products, and other crops (growth rates of the three plummeted to 3.6%, 8.3%, and 2.2%, respectively). However, Palay cushioned the decline (registering a growth of 8.1% y-o-y) amidst lower incidence of pests and the expansion and improvement in yield in Central Luzon, Caraga, SOCCSKSARGEN, Bicol, and ARMM.

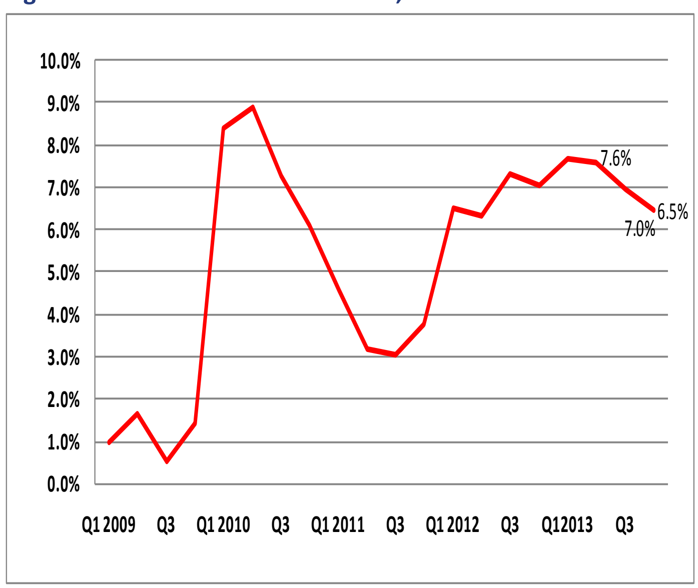
On the expenditure side, Household Final Consumption Expenditure (HFCE) and Capital Formation Expenditure (CFE) registered positive y-o-y growths of 5.6% and 5.7%, respectively. The uptick in HFCE was attributed to the 4.9% increase in the heavily-weighted Food and Non-Alcoholic Beverages and Tobacco expenditure. Meanwhile, investments in Fixed Capital and Durable Equipment fueled the acceleration of Capital Formation to 5.7%, taking its year-to-date (YTD) growth to 19.7%. The huge improvement in Capital Formation YTD growth (from -3.0% in 2012 YTD) gives credence to the argument that the country is shifting from consumption-driven to investment-driven economy.

On the other hand, Government Final Consumption Expenditure declined by 5.2% due to the slowdown in both Personal Services and Maintenance and Other Operating Expenses (MOOE) expenditures of the government.

The heightened exports of services in Q4 (7.0% from -0.6% last year) was stifled by the slowdown in the exports of goods (6.2% from 11.9%), bringing down Q4 total exports growth to 6.4% from 8.6%. Some goods that pulled down exports were Coconut Oil (slumping to 51.6%), Semiconductors (-0.9%), Telecommunication (-24.3%), among others. On the other hand, the rebound of the exports of services was attributed to Transportation (recovering to 15.0% from -11.3%), Government Services (8.3% from 5.5%), and Miscellaneous Services (7.7% from -2.7%). These notwithstanding, total imports slowed down mainly because of the deceleration in both the imports of goods (1.1%) and services (4.6%), somehow suppressing the country's trade deficit. For 2013, trade deficit stood at 4.0% (from 4.8% last year) of Gross National Income (GNI). However, the trade balance figures may be biased downwards due to rampant smuggling.

Total exports expanded from -6.5% in Q2 to 10.6% in Q4, due to higher exports of goods and services, which grew to 11.5% and 6.7%, respectively. This, however, was offset by a faster acceleration in imports (14.9%), causing net exports to remain in the negative territory.

Figure 1 - GDP Year-on-Year Growth, 2009-2013



Source of Basic Data: National Statistics Office (NSO)

Lastly, the country's GNI expanded by 7.8%, higher by 1.4 percentage points than its year ago level on hefty gains from OFW remittances. The 13.9% growth of remittances' peso value in

Inflation outlook within the government's target of 3-5% is grounded on the EIA's forecast of lower WTI and Brent prices.

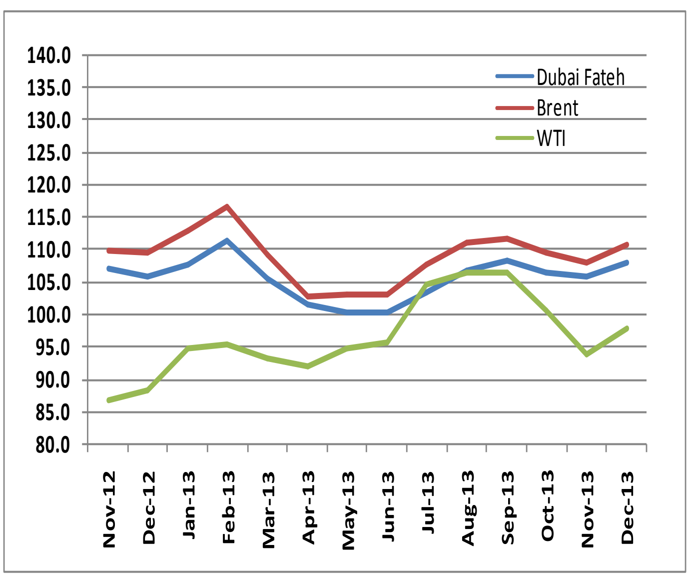
November (from 2.2% in the same period last year) contributed to the fast acceleration of Net Primary Income (15.1%). We should note that GNI is 19.2% larger than GDP due to huge OFW remittances.

December Inflation Breaches 4% Barrier

Inflation continued its ascent in December 2013, registering a 4.1% uptick. This brought Q4 2013 inflation to 3.4% from the quarter-ago rate of 2.4%. The acceleration of December inflation was due to the stronger demand during the holiday season, accompanied by the supply chain constraints inflicted by the super typhoon Yolanda. Likewise, higher electricity rates on account of the increased generation charges at the Wholesale Electricity Spot Market (WESM) contributed to the over-all increase in prices.

Similarly, core inflation advanced to 3.2% in December from 2.8% in November. Despite the steady increase in prices for the past 5 months, YTD inflation level averaged at 3.0%, lodged at the lower range of the Bangko Sentral ng Pilipinas' (BSP) target.

Figure 2 - Crude Oil Prices in the Crude Oil Spot Market, November 2012-December 2013



Sources of Basic Data: eia.gov.ph and indexmundi

We maintain our view that inflation will normalize in the next quarter once power producers complete their rehabilitation works and resume operations, such that 2014 inflation level will still be within the government's target of 3-5%. Our expectation is also anchored on lower crude oil dollar prices as forecast by the US Energy Information Administration. For 2014, West Texas Intermediate (WTI) and Brent are estimated to drop by 2.7% (US$95/bbl) and 4.0% (US$104.08/bbl), respectively. Note that the country's benchmark--Dubai Light--is closely linked officially to Brent.

Inflation Year-on-Year Growth Rates	13-Dec	13-Nov	YTD
All items	4.1%	3.3%	3.0%
Food and Non-Alcoholic Beverages	4.9%	4.0%	2.8%
Alcoholic Beverages and Tobacco	30.9%	30.7%	29.8%
Clothing and Footwear	3.1%	2.9%	3.6%
Housing, Water, Electricity, Gas, and Other Fuels	3.6%	1.7%	1.7%
Furnishing, Household Equipment and Routine Maintenance of the House	2.4%	2.3%	3.3%
Health	3.2%	2.9%	3.0%
Transport	1.2%	0.8%	0.7%
Communication	0.0%	0.0%	0.2%
Recreation and Culture	2.4%	2.5%	2.3%
Education	4.7%	4.8%	4.6%
Restaurant and Miscellaneous Goods and Services	2.3%	2.1%	2.4%

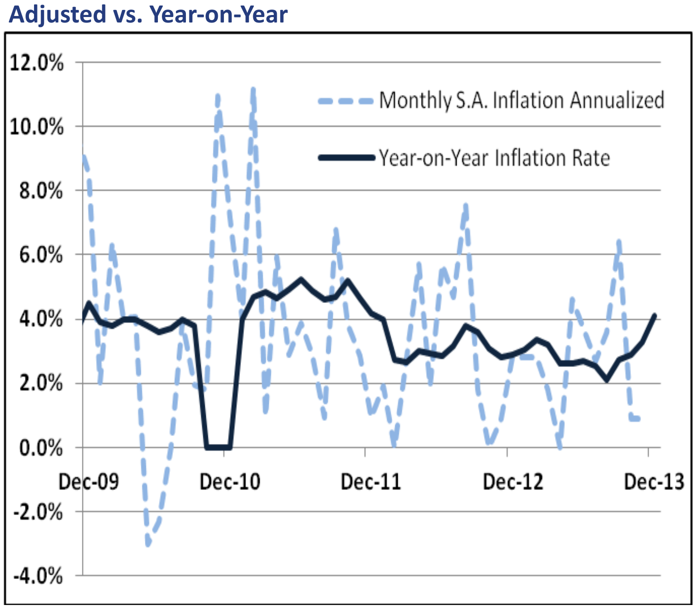
Source of Basic Data: National Statistics Office (NSO)

Except for Education, Communication, Recreation and Culture, sub-indices of all other commodity groups sped up. The heavily-weighted Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) and Food and Non-Alcoholic Beverages (FNAB) rose the highest increasing 1.8 and 0.9 percentage points, respectively. Sub-indices for Communication and Recreation and Culture retained their last month's rate while the sub-index of Education decelerated by 1%.

The seasonally-adjusted inflation rate suggests that December inflation was not brought about by seasonal factors.

Huge generation charges increased as large power plants in Luzon carried out maintenance work simultaneously, coupled with a 2.8% month-on-month (m-o-m) increase in average crude oil price in the world spot market and the soaring prices of LPG and kerosene pushed a large jump in HWEGOF index in both the National Capital Region (NCR) and areas outside NCR. Meanwhile, the upticks in the prices of fresh meat such as chicken, beef, pork and meat products brought by Christmas and New Year's celebrations and higher monthly price increments in rice drove the FNAB index higher.

Figure 3 - Inflation Rates Annualized (2009-2013) Seasonally Adjusted vs. Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

On a seasonally-adjusted annual rate (SAAR) basis, inflation rose by 8.2% in December from 7.3% in November, indicating that the acceleration of inflation was not brought about by seasonal factors. The 22.4 percentage points increase in seasonally adjusted (s.a.) non-food prices (i.e. electricity rates and fuel prices) more than offset the 11.0% drop in s.a. food prices.

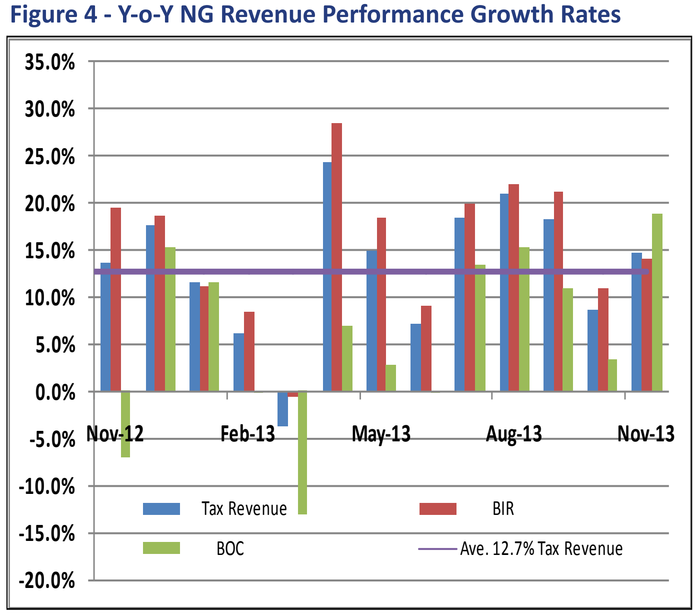
PH Posts a Surplus Amidst Lower NG spending and Higher Tax Collection in November

NG recorded a total spending of P154 B in November, decelerating by 7.7% y-o-y. Accompanied by hefty gains in tax collection of 14.6% (y-o-y), the country registered a surplus of P1.0 B, resulting to a modest deficit of P111.4 B YTD, 1.72% lower than last year's level. The waning disbursement was more apparent in the 23.1% and 14.2% y-o-y decline in Infrastructure and Other Capital Outlays in November figures.

Meanwhile, the 51.2% y-o-y decline in Non-Tax Revenue cushioned the 14.6% gain in Tax Revenue. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BoC) reported upbeat collections performance with growth rates of 14.2% and 19.0%, respectively. The surprising y-o-y growth of BoC (which apparently is the highest for 2013) was due to a lower base in November 2012 and the peso depreciation (see Exchange Rate section).

The robust expansion in tax collections amidst the improved tax reforms should maintain NG full year deficit below the P247 B YTD target.

Figure 4 - Y-o-Y NG Revenue Performance Growth Rates



Source of Basic Data: Bureau of the Treasury (BTr)

The adjustment in SDAs is expected to decrease domestic liquidity in the coming months.

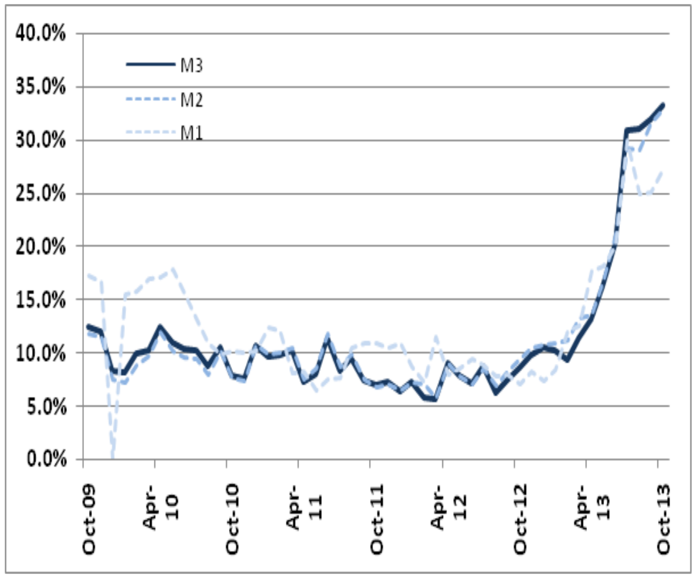
Money Growth Accelerates Further in November

On December 12, 2013, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) kept key policy rates unchanged at 3.50% for the reverse repurchase (RRP) facility and 5.50% for repurchase (RP) facility on the premise that the upside risk to inflation expectation remains within the target range. The interest rates on term RRPs, RPs, special deposit accounts (SDAs), and reserve requirement ratios were also left unchanged.

Reserve Money (RM) surged to 31.4% in November, the highest increase since November 2007. This mirrored the gap between the country's Net Foreign Assets (NFA) and Net Domestic Assets (NDA). NFA eased to 6.5% (y-o-y) from 7.3% last month while NDA declined further reaching its five-month low of -9.5%, implying a build-up in Gross International Reserves and lower SDA levels. The BSP's NFA position was on the back of robust foreign exchange inflows from overseas Filipinos' remittances, BPO receipts, and portfolio investments.

Generally, money supply was seen to increase on the back of sustained expansion in domestic claims to the domestic economy, reflecting improved bank lending to private sector. Heightened investments in National Government securities following the wave of credit upgrades also hyped-up money supply. As in recent months, the country's Domestic liquidity (M3) and Narrow Money (M2) continued to register record highs y-o-y of 36.9% and 36.6%, respectively. The growth in M3 was due to the operational adjustments in the BSP's Special Deposit Account (SDA) facility. Nonetheless, we expect domestic liquidity to decelerate in the coming months after such adjustments in SDAs are completed.

Figure 5 - M1, M2 & M3, Year-on-Year, 2009-2013



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

PH Exports Up by 18.9% in November, Tops East Asian & ASEAN Peers

Exports performance in November took the fast lane with growth at 18.9% (y-o-y), reaching a total value of $ 4.3 B from $3.6 B last November 2012. This made the Philippines the top export performer among its East and Southeast Asian peers. Vietnam and China followed with 15% and 12.7% y-o-y growth, respectively.

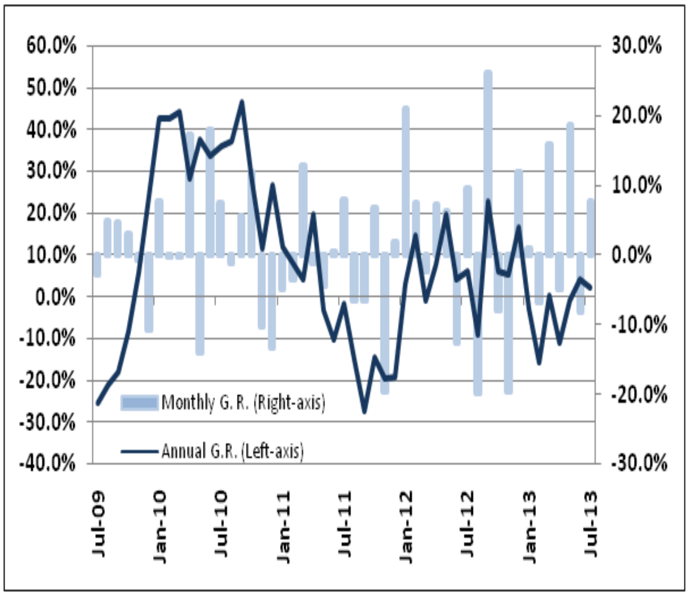
The country's export growth was mainly driven by the revival in the Manufacturing sector propelled by the continued demand for Chemical and Chemical Products and Electronic Products. The latter is still the country's top export, accounting for 44.6% of the total exports revenue, with total receipts of $1.9 B (10% increase y-o-y). This was followed by Other Manufactures and Woodcrafts and Furniture valued at $339 M and $282 M, respectively.

Due to recovering global demand in electronics, the country's exports in H2 2013 (excluding December) bucked the trend of H1 characterized by declining

OFW remittances registered its 10th month high in October amidst steady deployment of OF workers.

performance, bringing H2 average to a positive territory (12.9%) compared to -4.3% in H1. Exports YTD level amounted to $49.3 B. Given the resilient exports performance in the past months, it is likely that PH exports in 2013 will breach its 2012 value of $52 B.

Figure 6 - Exports Growth Year-on-Year and Month-on-Month

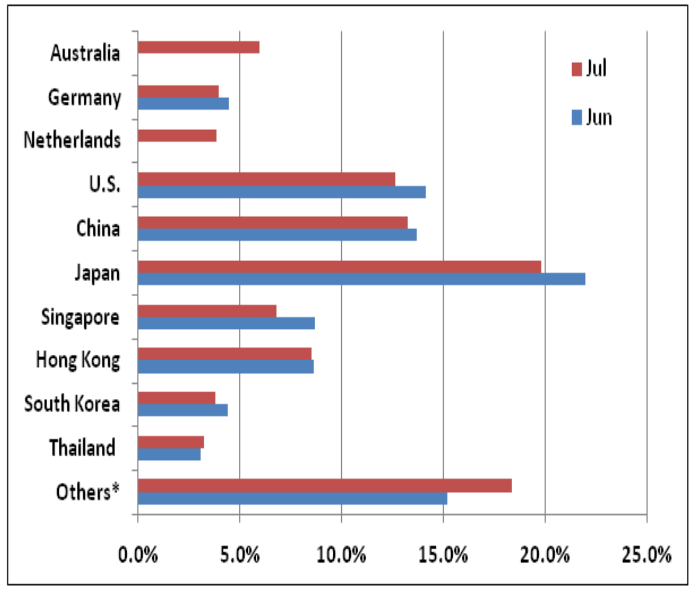


Source of Basic data: National Statistics Office (NSO)

Meanwhile, 86.7% of the total exports receipts came from the country's top ten market destinations. Japan continued to account for the biggest share of 23.6%, higher by 1.5 percentage points than last month. The US and China followed, accounting for 13.7% and 12.0%, respectively. This further implies that in terms of economic bloc, the East Asia is still the largest export destination, comprising 53.8% of total exports.

Reports on Global Manufacturing PMI suggest that global demand is expanding at a faster rate than expected with PMI hitting another high of 53.2% (1.1% increase from last month) since 2011, underpinned by stronger expansion of production in the US, Japan, China, and in the Eurozone (albeit modest). This leads us to maintain our view that exports will recover in Q4 and further mildly accelerate in 2014.

Figure 7 - Philippine Exports by Country Destinations



Source of Basic Data: National Statistics Office (NSO)

Remittances Remain Resilient in October

The total OFW remittances growth in November registered its tenth-month gain high of 7.5%, reaching another record-high of $2.06 B, driven largely by the steady deployment of OF workers. Preliminary data from the Philippine Overseas Employment Administration (POEA) indicated that the approved job orders totaled 731,254 for January-November 2013, of which about two-fifths (43.2%) were processed job orders mainly for services, production, and professional, technical, and related workers. These job orders were intended for the manpower requirements of Saudi Arabia, the United Arab Emirates, Kuwait, Taiwan, Hong Kong, and Qatar.

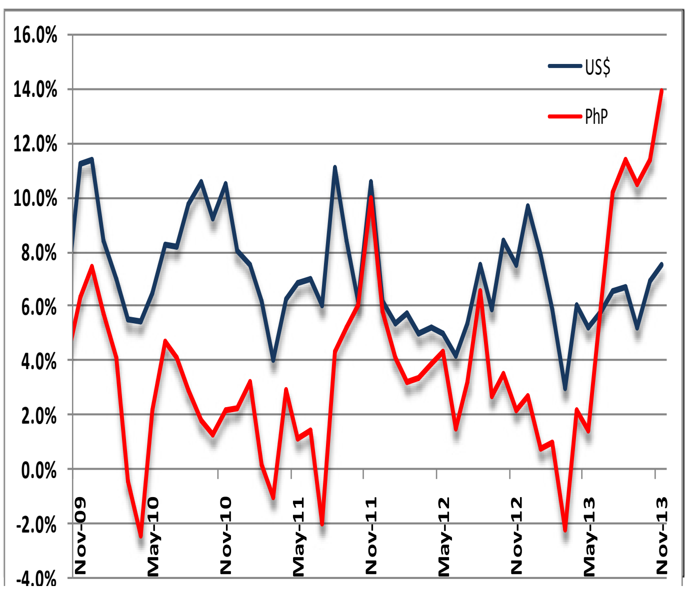
Year-to-date (YTD), OFW Remittances totaled $20.6 B, 6.1% higher than last year's YTD level, amidst the steady inflow of cash transfers from both land-based (77% of the total) and sea-based workers (23%). The major sources of cash remittances

The FDI inflows to the Philippines surged amidst robust macroeconomic fundaments.

were from those working in the United States, Saudi Arabia, the United Kingdom, the United Arab Emirates, Singapore, Canada, and Japan.

Meanwhile, the peso value of the remittance grew by 13.9% (marking the eight consecutive months high), bloated by the 5.9% y-o-y depreciation of the peso. The steady growth of the US dollar value of the remittances (which is expected to increase), coupled with peso depreciation has supported economic activity in the country. The same stimulative effects in the ensuing months may be expected on the back of continued peso depreciation and the expected larger inflow of remittances to support the victims of super typhoon Yolanda.

Figure 8 - OFW Remittances, November 2009 - November 2013



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Hefty FDI Inflows in October 2013

Net Foreign Direct Investment recorded a sterling growth of 65.9% (y-o-y), reaching $254 M in October 2013. On a cumulative basis, FDI inflows posted a 35.3% increase (y-o-y) to $3.4 B. This hefty gain in FDI inflows reflected positive investors sentiment, revived by the country's stable macroeconomic performance and the wave of investment credit upgrade.

Moreover, the rise in FDI inflows was due to the observed increase across most of the FDI components. Non-residents' net placements in debt instruments issued by local affiliates accounted for more than 50% ($135 M) of the total FDI in October 2013. FDI inflows were also boosted by the placements on equity capital amounting to $115 M. The bulk of which was sourced mostly from US, Singapore, Switzerland, Hong Kong, and Taiwan; channeled mainly to manufacturing, transportation and storage, financial and insurance, real estate, and mining and quarrying activities.

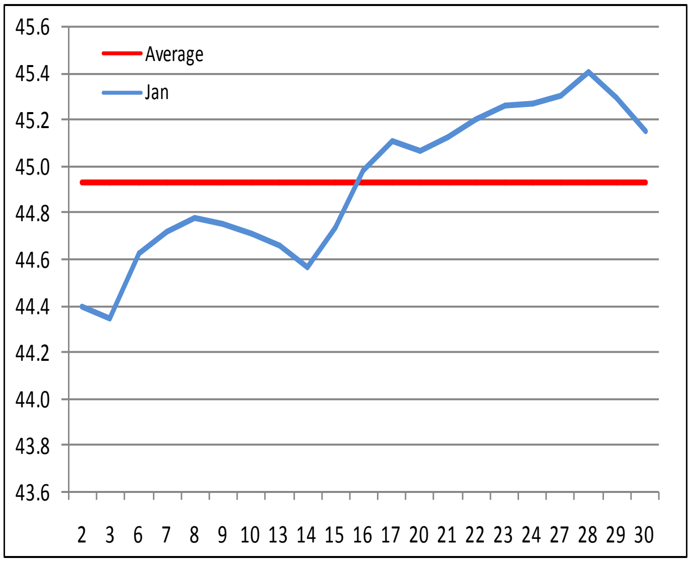
Meanwhile, reinvestment of earnings dropped by 44.2% amounting to $50 M lower than the $90 M recorded last October 2012.

Peso Still Can't Withstand Greenback Strength

The Philippine peso continued to weaken averaging P44.93/US$ in January 2014, or 1.8% higher than last month, indicating that the bias towards the greenback is still strong. For the 4th consecutive month, the volatility measure expanded to 1.06 versus 0.65 quarterly average, with the peso reaching its monthly low of P44.34/US$ and monthly high of P45.41/US$. USD/PHP traded higher towards the end of the month following solid economic data in the US. Labor market indicators there were mixed but on balance showed improvement. The US Industrial and Manufacturing data came in better than expected and the US initial jobless claims came in lower at 326,000 against expectations of 330,000 (although continuing claims come in at 3.06 M against expectations of 2.93 M). The rally was tempered by the announcement of impressive Q4 GDP (see GDP article).

Using technical analysis, the peso is expected to depreciate both in the short and long term.

Figure 9 - Daily Peso-Dollar Exchange Rate, January 2014

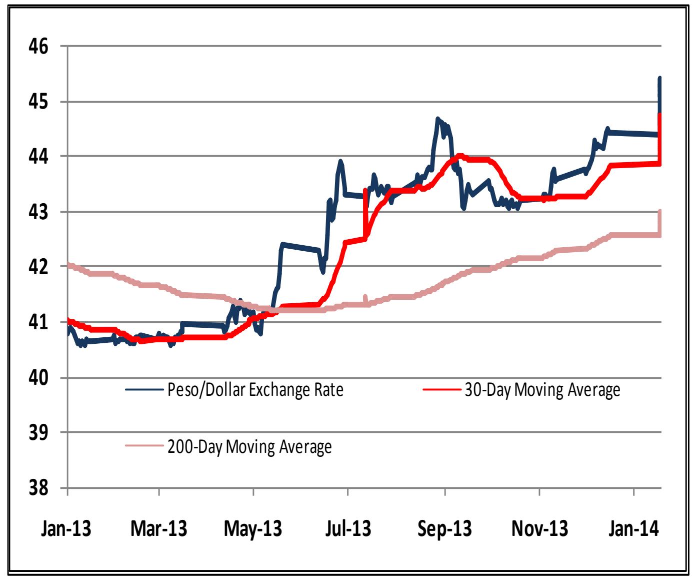


Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Some form of consolation comes from the fact that currency depreciation hit all ASEAN countries, but the Philippines got hit the most (1.8%) followed by Thai Baht (THB) and Malaysian Ringgit (MYR). Meanwhile, the Chinese Yuan managed to brush off the strength of the greenback amidst the country's reforms of the exchange rate mechanism launched to prevent further weakness of its currency.

Using moving average (MA) technical analysis, the actual exchange rate curve remains above the 30-day and 200-day MAs, indicating a continued depreciation outlook of the Philippine peso both in the short and long terms. PHP performance will continue to track US recovery and the BSP's exchange rate reforms.

Figure 10 - Daily Peso-Dollar Exchange Rate, Jan 2013- Jan 2014



Source of Basic Data: Bangko Sentral ng Pilipinas (BSP)

Monthly US Dollar Cross Rates of Selected Asia-Pacific Currencies						
Currency	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
AUD	1.2%	-2.5%	-2.6%	2.3%	3.7%	1.4%
CNY	-0.3%	0.0%	-0.3%	-0.2%	-0.3%	-0.4%
HKD	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IDR	5.0%	6.7%	-1.5%	3.0%	4.7%	0.2%
KRW	-0.9%	-2.8%	-1.6%	-0.4%	-0.6%	1.0%
MYR	2.6%	-0.7%	-2.5%	0.9%	1.7%	1.5%
PHP	1.3%	-0.3%	-1.4%	1.0%	1.5%	1.8%
SGD	0.3%	-0.7%	-1.6%	0.4%	0.9%	1.0%
THB	1.4%	0.3%	-1.4%	1.4%	2.3%	1.7%

Note: Positive changes mean depreciation and negative changes mean appreciation against the greenback
Source: x-rates.com

Outlook

The negative impact of super typhoon Yolanda on the economy is not likely to dissipate in early 2014, but a strong rebound may be expected for the rest of the year to keep full-year growth above 7% once again.

For Q1, inflation will not likely go beyond 4.2% and will even start easing in Q2 as agriculture recovers and supplies become more adequate.

• The slight slowdown of the economy in Q4 2013 is likely to continue into Q1 2014, as 4-6 months would be needed to bring back the supply chain and incomes closer to normal. Thus, we expect Q1 2014 GDP growth to be even slower at 5.8% to 6.0%. But continued relief work and reconstruction work getting off the ground beyond Q1 should propel the economy back to its 7% growth path.

• Manufacturing may take the lead in Q1 growth as materials for reconstruction and completion of private residential and commercial projects together with improved exports, especially electronics, should provide the impetus of this. Pre-planned infrastructure spending as well as new money for reconstruction, especially from foreign aid, should propel public construction spending in Q1.

• While inflation is a concern, it is unlikely to go beyond 4.2% for Q1, but rather ease by Q2 as agriculture recovers and supplies become more adequate. Also, power generation from the typhoon-battered geothermal fields in Leyte should be on its way to 100% of the 600-MW capacity by the end of Q1. Crude oil appears to have limited upside risk, despite supply disruptions in Libya, Nigeria, and Iran. These are deemed to be temporary.

• Although money growth has been exceptionally high in the past quarter, this is not expected to last long since the BSP has drained pesos from the financial system by selling some $4 B of its Gross International Reserves. We expect M3 growth to fall below 20% in Q2, and do not see any tightening of policy in H1.

• Meanwhile, the fiscal situation should continue its consolidation as tax revenues continue to rise at double-digit pace, and the deficit contained within the government's target. Despite the reconstruction work, it is likely to be again below 2% of GDP.

• While the peso stopped depreciating after the BSP shelled out $4 B in GIR to the market in January and early February, we do not believe that the depreciation bias has been avoided. Rather, it has just been postponed for a little later this year, when the US economy resumes its upswing after an unusually snowy winter.

Forecasts

Rates	January	February	March	April
Inflation (y-o-y %)	4.2	4.1	4.2	4.1
91-day T-Bill (%)	0.693	0.848	1.072	1.307
Peso-Dollar (P/$)	44.927	44.430	44.398	45.250
10-year (%)	3.942	3.954	3.941	4.102

Higher Bonds Yield Ahead

With a majority of practitioners expecting higher yields later in 2014, the local government securities market remains defensive in their positions. Aggressive bids for paper in the long end of the curve are rarely to be found while many sellers emerge when dips in yields arise.

Primary Market: Yields Moving Up

The weak peso led National Treasurer Rosalia de Leon, on January 21, to warn the public that peso depreciation at an average of P44-P45/$1 could increase interest payments. Recent US Fed's tapering mechanism also heightened uncertainty for markets in the short run, and the Bureau of the Treasury's (BTr) non-issuance of T-bills last December have increased demand for shorter tenors. Thus, the market's tenders just practically matched the P45 B offered by the government in its auctions. The 3-year bonds garnered a mere 1.33x cover with yields rising by 34.50 bps from the last offer in July 2013.

Compared to exorbitant oversubscription of 6.5x, 5.46x and 8x, for the 91-day, 182-day, and 364-day T-bills, respectively in January 2013, bid covers this January were sober. Subscriptions played around 0.47x for 364-day, 0.55x for 192-day, and 1.27x for the 91-day T-bills – roughly 84% to 93% lower than 2013's.

Average yields are now significantly higher compared to all-time low of 0.001% for the 91-day and 182-day T-bills in November 2013. Early in 2014, 91-day rates were at 0.69% while 364-day rates hit 1.08%. For 182-day T-bills, which was an exception, the underbidding led the NG to reject all tenders.

Secondary Market: Trade Volumes Start Low

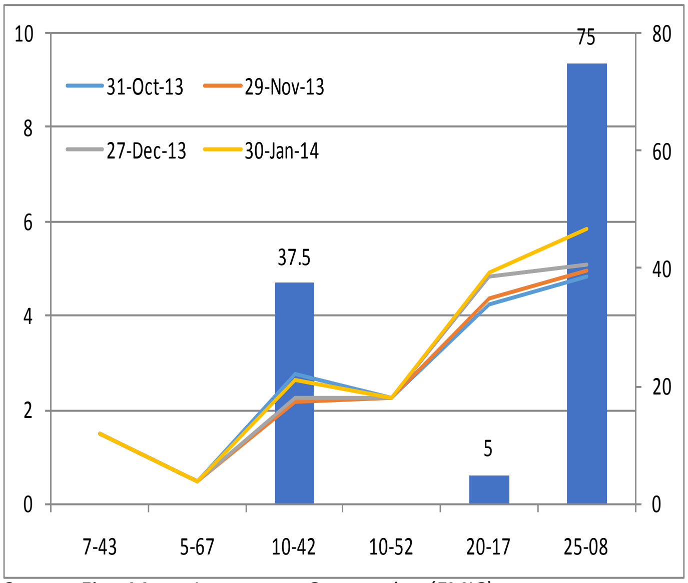
Demand for longer tenored bonds dwindled pushing yields to surge in the belly and long-end of the curve while FXTN 7-43, 5-67, and 10-52 yields remained unchanged. In anticipation for the short-term consequences of the Fed tapering, investors are demanding a larger premium for long-term bonds. Yields for FXTN 25-08 rose by 75 bps making the curve steeper. FXTN 10-42, with a gain of 37.5 bps, also made a sharp incline at the belly of the curve. Similarly, yields for FXTN 20-17 rose by a mere 5 bps resulting in a slight flattening in that section of the curve. Weekly trading volumes for January 2014 started at steady P50 B+ levels (except for the artificial limitation created by the two-day trading period during the first week) as against January 2013's volatile P36B to P186B w-o-w trade volumes. Average trading volume for 2013 reached P194.5 B, a far cry from January 2014's P45.4 B starting volume. This represented a huge 76% plunge similar to 2013's June and September P40 B+ average trading size, when fears revolving the US Fed's tapering program ran high.

T-Bills and T-Bonds Auction Results

T-Bond/T-Bill	Offer PhP B)	Tendered (PhP B)	Awarded (PhP B)	Tendered/ Offered
T-Bills				
91-day	4.00	5.10	3.54	1.27
182-day	6.00	3.31	0	0.55
364-day	10.00	4.66	3.11	0.47
Total	20.00	13.07	6.65	2.29
T-Bonds				
3-year	25	33.2220	9.62	1.33
Total	25	33.2220	9.62	1.33
All Auctions	45	46.292	16.27	1.03

Source: Bureau of the Treasury (BTr)

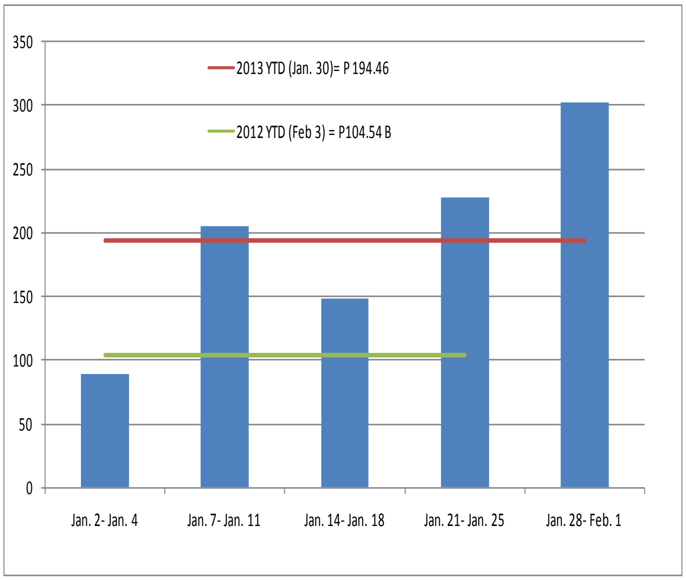
Figure 11 - FXTN Yields



Source: First Metro Investment Corporation (FMIC)

Trading of corporate bonds in 2014 started modestly but slowly gaining momentum in its last weeks.

Figure 12 - Weekly Trading Volume (in Billion Pesos)



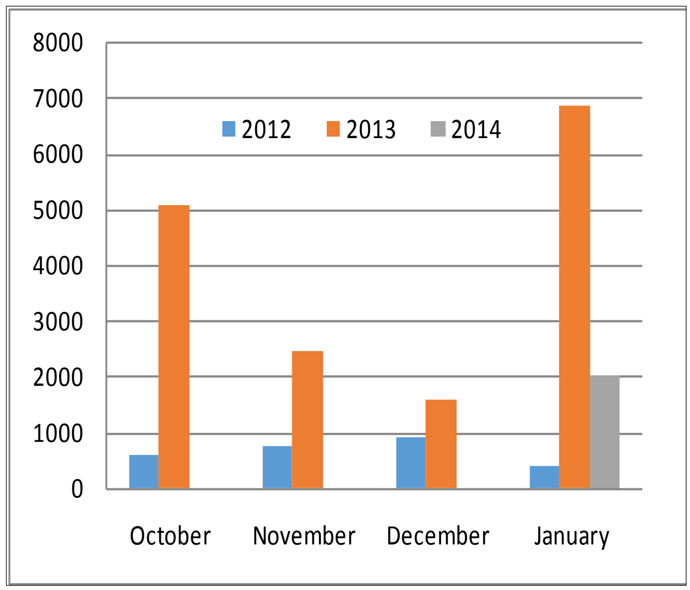
Source: Philippine Dealing and Exchange Corporation (PDEx)

Investor trading activities picked up during the following weeks, starting at P53.14 B in the second week, only to fall by 4.24% in the third week with a P50.88 B volume. But the investor sentiment bounced back and buoyed trading to P57.72B, a 13.43% upswing from the past week. The momentum carried on until the last trading week of the month when total trading volume reached P58.35B.

Corporate Bonds: Losing Momentum, Slowly Picking Up

Secondary trading of corporate bonds in the last quarter of 2013 showed an evident downward trend compared to the incremental yet very minimal volume month-on-month (m-o-m) difference in Q4 2012. Trade volume in December 2013 closed at P1.5B, a failure of recovery from the strong P5.06B volume for the 1st month of Q4 2013. The decline continued to reflect in the November volume cutting the previous trading size by half at P2.43B. 2013 trading volumes, however, topped 2012 levels. 2013 volumes were 8.8x, 3.2x, and 1.77x higher than the 2012 volumes for October, November, and December, respectively. Nevertheless, despite the relatively declining activity of corporate bonds trading, Q1 2014 trading activity rose slightly. But investors' aversion to bonds in general in the face of rising interest rates, no matter how gradual, prevailed.

Figure 13 - Total Corporate Trade Volume (in Million Pesos)



Source: Philippine Dealing and Exchange Corporation (PDEx)

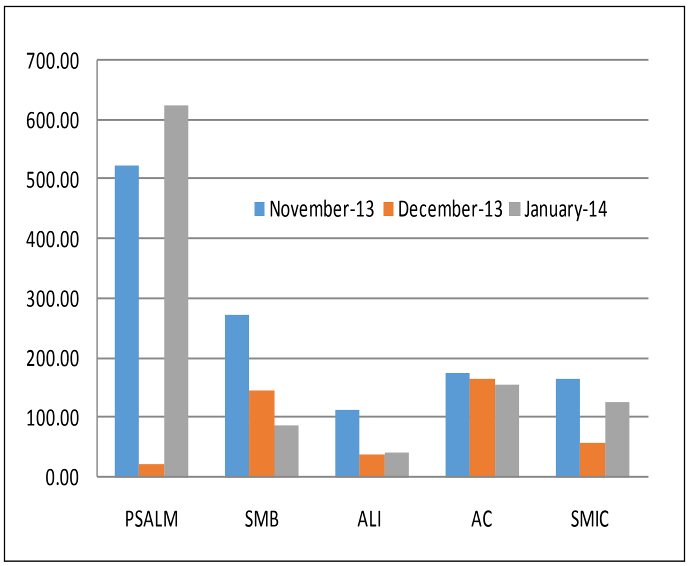
Power Sector Assets and Liabilities Management Corporation (PSALM) showed remarkable attractiveness in the trade of corporate bonds for November 2013 and January 2014 while December trading was at its lowest level. PSALM trade volumes regained thrust at P624.29M in January this year, from the company's low key status in December at P23.74M. The observed January trend was very similar with the cresting of PSALM trading last 2013 at P4.812B (670.14% higher). The four other companies, on one hand, had meek volumes throughout the three-month trading relative to PSALM. San Miguel Brewery (SMB) had a total trade volume of P509.89 M, having its highest trades in November 2013 at P274.98 M while slowly declining until 2014 to P87.4 M. Ayala Corporation (AC) came in third with very marginal decreases during the three-month period, while SM Investment Corporation (SMIC) started potently in 2014 at P127.19 M. Ayala Land Incorporated (ALI) seemed to be heating its engines by starting off with P43 M for the current year, after trading only P194.96M from November 2013 to January 2014.

In general, investors' negative sentiments on bonds dominated despite gradual improvement of interest rates.

Corporate Issuance and Disclosures

•Broadcast giant ABS-CBN Corporation announced last January 21 the first cut of its retail bond sale worth P6 B with a tenor of 7 years and a 5.335% interest rate. The firm accepted an overallotment of P1 B in addition to the primary issue of P5 B due to insistent demand from retail and institutional investors. ABS-CBN's documents said that proceeds will be used to fund growth initiatives, which include diversification and expansion of assets. The approved borrowing plan by the Securities and Exchange Commission (SEC) was up to P10 B. The said bond offering shall comprise a minimum of P50,000 and additional denominations in multiples of P10,000 and shall last from January 27 to February 3.

Figure 14 - Corporate Trading (in Million Pesos)



Source: Philippine Dealing and Exchange Corporation (PDEx)

•Dominant telecommunications firm Philippine Long Distance Telephone Co. (PLDT) secured approval from SEC during the second week of January to sell P15 B worth of retail bonds, with a coupon rate of 5.225% for 7-year debt papers due 2021, and 5.2813% for 10-year bonds due 2024. The said bonds were given AAA ratings by the Credit Rating and Investors Services Philippines, Inc. (CRISP). Proceeds are set for PLDT's capital expenditures (capex), as well as refinancing of current obligations due to ongoing improvements and expansion of their services.

•Filinvest Development Corporation (FDC) listed P8.8 B worth of 10-year bonds due 2024. The said bonds carried a rate of 6.1458% per year, and the offer period ran from January 12 to 17. FDC's main motivation for the issuance is to fund capital expenditures (capex), which includes residential developments, purchase of power units, and hotel projects for the year.

•Philippine Rating Services (PhilRatings) awarded Ayala Corporation's (AC) P40 B bond issue with Aaa ratings. The rating covered AC's four P10 B packages including callable bonds due 2027, multiple corporate bonds due 2021, fixed-rate bonds due 2019, and other retail bonds due 2017. Final coupons are still being finalized. Aaa ratings are the highest rating that can be given by PhilRatings indicating minimal credit risks or strong financial capacity for debt obligations by a company.

•GT Capital recently disclosed its acquisition of Charter Ping An, a non-life insurance company. GT Capital purchased 1.7 million common shares of Charter Ping An amounting to P712 M. The said number of shares covered 33.3% of the non-life insurance firm's outstanding capital stock.

•The Asian Development Bank (ADB) issued P1.5 B worth of dollar-denominated five-year global benchmark bonds last January 23, due April 12, 2019. The coupon rate was tagged at 1.875% per annum payable semiannually. Bonds were priced at 99.814% expecting to yield 23.90 bps over the 1.5% US Treasury notes due December 2018. 31% of the bonds were placed in Asia; 52% in Europe, Middle East, and Africa; and 17% in the Americas. ADB said that proceeds shall be part of the bank's capital resources and shall help fuel its non-concessional operations.

ASEAN Market+1: 10-Year Yields Rise Except in China

US: US Fed "tapering" finally took effect in January 2014 pushing US 10-year Treasuries to yield as low as 2.695%, the first below 2.7% since November 2013. As a result of the December FOMC meeting, the US Fed reduced monthly bond purchases by $10B to $75B, a decrease

US "tapering" was finally felt in world financial markets due to improving US employment and economic activity.

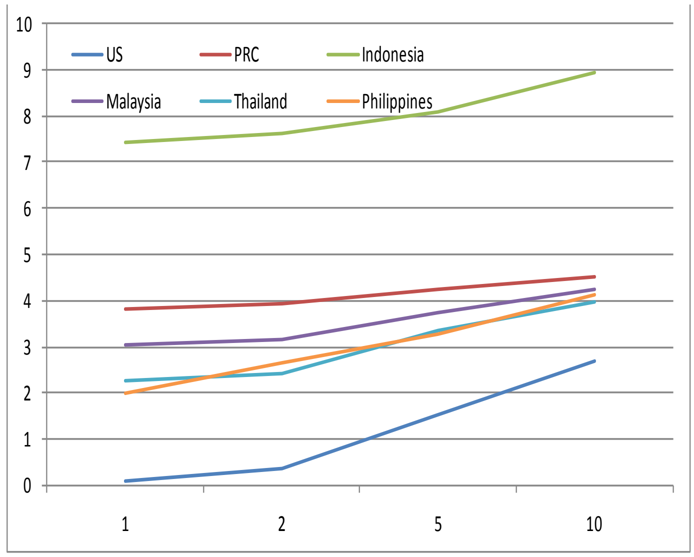
of 11.76% from its original $85B per month purchase plan. The reasons for tapering included improvement in US labor market and robust US economic growth for Q4 2013. Unemployment dropped to a five-year low of 7.0% in November, while the FOMC panel believed that that US economy has already recovered from its ailing situation back in 2013. However, a problem of low inflation peeps in together with the Eurozone. Average US inflation was at 1.5%, from 2012-2013 compared to 2.1% in 2011-2012, while the Eurozone inflation was running at 0.7% (y-o-y).

We saw stock prices plunged during the last week of January as the Dow Jones Industrial Average (DJIA) suffered its biggest drop since June in a 2-day market sell-off, finishing the month with a slash of 150 points. But traders said that investor behavior was less vigorous as expected. Long-term players decided to hold on to their stocks while short-term players covered losses via trade of futures and exchange-traded funds. Month-to-date (MTD), 1-year T-bill yield closed at 0.081%, a decline by 3.6 bps from the previous month, while the longer tenor yields overtook to even lower grounds. 2-year yields plummeted to 3.6 bps at 0.344%. 10-year bond yields also dipped to a whopping 33.3 bps, with an ending figure of 2.695%.

PRC: China resembled US market condition as yields across the curve slipped. China's growth momentum weakened in Q4 at 7.7% (from 7.8% in Q3) despite increased industrial outputs and fixed-asset investment spending in the private sector. China's economists attributed the slowdown to recent credit clampdowns, allowing swollen debts to suffer if risks are not mitigated immediately. With this, Moody's reported that direct government's debts may have been too leveraged than the average. Nonetheless, the credit rating agency provided relief in saying that the rising debt burden can be offset by a considerable degree of growth of GDP. Given current growth, China's liabilities are still said to be manageable. China's swelling foreign-exchange reserves at $3.82 T is also said to sustain the nation's appetite for US debt.

China's borrowing yields rushed down faster for the 1-year and 2-year bonds at -33 bps and -46 bps, respectively. Yields for 10-year debt papers timidly fell by 9 bps to 4.53%. People's Bank of China's (PBOC) recent cash injection of 255 B yuan or $42 B, to meet Lunar New Year demand for cash, also reflected cuts on interest rates as investors leave the short-term bonds for higher returns on longer-term papers.

Figure 15 - ASEAN Market + 1



Source: Asian Development Bank (ADB)

Indonesia: Indonesian bonds performance ended weak in 2013 with government yields reaching -12.35% from 2012's 12.92%. Inflation rate also minimally declined to 8.22% in January 2014 from December 2013's 8.38%. But the recent sell-off of $4 B 10-year and 30-year bonds achieved its longest winning streak since October, after recording straight gains until its sixth day, when Fed's stimulus cut pushed inflows of foreign funds. Despite short-term improvements, continuous Rupiah depreciation, worsening trade imbalance, and higher debt-to-GDP ratio shall carry on as the major impediments to the country's growth, now lingering below 6%, the lowest in 4 years. Indonesia's bond yields showed a pull on the extremes as 1-year bond rates closed at a strong MTD 33.6 bps at 7.427% while 10-year bonds further toughened at an increase of 51.6 bps at 8.968%.

Malaysia: Malaysian Ringgit also received a slight brunt of the dollar strength after Fed's tapering forcing investors to leave emerging markets but Malaysian investors remained

Political instability and deteriorating macroeconomic data stifled growths in ASEAN market.

bullish on the local bond market. Despite the steepening pressure on yield curves, Malaysia was self-assured due to local fund managers' optimism on demand for long-term bonds. The January 30 yield close on 10-year bonds recorded an increase of 11 bps, while 5-year bond yields also experienced a positive change at 6.1 MTD bps, but bonds as income curbed the effects of the rising rates. Capital flight has also not materialized due to Malaysian government's preventive measures and to Malaysia's upgrade from stable to positive by Moody's Investors Service. Malaysian currency recovered immediately at 3.34 MYR to $1, and achieved a stable inflation of 3.2%.

Thailand: Persistent domestic turmoil in Thailand together with Fed's tapering decision continue to put pressure on all economic indicators, making 2014 a horrible beginning for the country. Foreign capital outflow, net public debt rising by 19.8 B baht and plunging tax revenues, Baht depreciation, dips on Thai shares, and loss of consumer confidence due to political insecurity, all contributed to a big hodge-podge of misfortunes stifling growth for 2014. With this, we saw investors leaving the short-term bonds for long-term debt papers with the 1-year, 2-year, and 5-year bonds diving 10 bps, 13.8 bps, and 5.6 bps MTD. Long-term 10-year papers, on one hand, posted stability at a growth of 9 bps. Bonds outlook for 2014 continue to pose rising rates, since immediate resolutions to Thailand's unrest may not be forthcoming unless Thaksin leaves the political scene for good.

Philippines: The Philippines proved to be the most resilient economy in the ASEAN despite slashed stimulus and a spate of calamities as 2013 was ending. Local stock index may have fallen to as low as 5,984.12 in tandem with US stock indices, but such decline was tempered by the favorable Q4 growth by the country at 6.5%, finishing off the year with an overall GDP growth rate of 7.2%. Philippines' resistance to external shocks is most indebted to robust OFW remittances and bulging BPO dollar revenues. The BSP has also been prudently managing the economy to keep economic indicators sound and kept at appropriate levels given various economic conditions. Investors have had much reliance on the Philippine economy thereby observing exceptional growth across all debt papers. But 2014 is promising to be a difficult year, with 1-year bond yields posting a large monthly rise of 127.5 bps, followed by the 2-year bonds with an uptick of 55 bps. The increasing trend continues at the long end of the curve, as yields for the 5-year bonds and 10-year bonds persisted with MTD gains of 38.1 bps at the rate of 3.29% and 52.3 bps at the rate of 4.12%, respectively.

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	Real Policy Rate
					Oct. 1, 2013	Oct. 30, 2013			
US	0.344	2.695	1.3	1.395	265	235	-30	0.25	-1.15
PRC	3.920	4.530	2.5	2.03	24	61	37	6	3.50
Indonesia	7.611	8.968	8.38	0.59	92	136	44	7.50	-0.88
Malaysia	3.146	4.246	3.2	1.05	92	110	18	3	-0.20
Thailand	2.426	3.987	1.67	2.32	133	156	23	2.25	0.58
Philippines	2.675	4.123	4.1	0.02	148	145	-3	3.5	-0.60

Sources: Asian Development Bank (ADB), UA&P

Corporate bonds must grab the opportunity for the ultra-low interest rates in Q1 before the offer is over.

Outlook

2014 started inauspiciously as market players psyched themselves about having to face higher interest rates during the year in the face the Fed's "tapering" and the acceleration of inflation domestically. Nonetheless, we think the fears may be a bit exaggerated and so there would still be opportunities for savvy bond investors during the year.

• While the Fed made good its plan to start tapering in January, economic numbers that came late in the month were not so good, that yields on 10-year US Treasuries fell by month's end. With the winter proving to be especially cold, February may offer more of the same for the economic indicators.

• The lower-than-expected US yields should finally make its way felt to local bond yields. However, even more important for a positive bond market run would be the slowing of the inflation rate, which we expect to occur only starting March. The primary market will be influenced much by NG's desire to keep its borrowing costs low, and thus may be rejecting more bids that would tend to boost yields too sharply.

• In the corporate bond space, issuances should accelerate for the rest of Q1 as firms realize that the window for ultra-low interest rates may be over. It would also appear that the issuances will be larger, but that would be good for the secondary market, as it would encourage more trading. There is still a felt need to open up the process of registration of bond issuances so as to allow more up-and-coming firms to access the huge savings available in the local financial system.

• With respect to the region's yields, the domestic rates will remain clustered with Thailand, China, and Malaysia. Indonesia will continue to be an outlier at the higher end due to its high inflation and shallow market.

Growth Story Intact but Priced-in

The Philippine equity market closed the month of January in positive territory amidst relentless foreign selling activity. PSEi and Morgan Stanley Capital International (MSCI) Philippine indices were up 2.6% and 2.4% for the month, respectively. It appears that slowdown fears brought about by typhoon Haiyan had been exaggerated. Q4 GDP was at 6.5% vs. consensus of 6.0%; full-year 2013 GDP was at 7.2%. While there was a slowdown from previous quarters, the fact is that the perceived impact of typhoon Haiyan by some analysts was not as bad as initially thought. Prior to this, the International Monetary Fund (IMF) upgraded Philippine growth from 6.0% to 6.3% in 2014. This is in-line with our view as we expect GDP to be boosted by rehabilitation of areas hit by the typhoon and export pick-up on stronger global growth. Our 2014 GDP forecast stands at 7.0-7.5%.

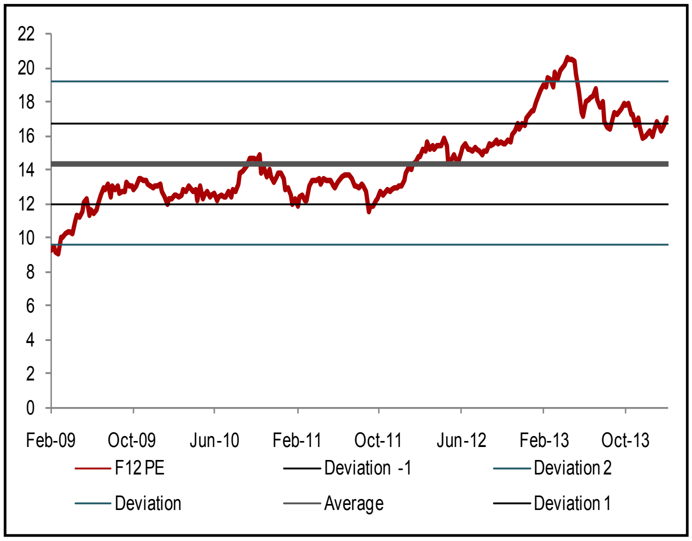
While all is well on the economic front, foreign flows and valuation remain an ongoing concern. Based on our tracked basket of the stocks, there is still much room for more foreign outflows. Foreign selling was at an incremental pace for most of the month of January, and quickly accelerated as the Federal Reserve (Fed) carried out quantitative easing (QE) taper. While valuations of some issues have improved, they remain fully priced based on a historical perspective. Meanwhile, earnings per share growth expectations of below 10% for 2014 do not make the market a compelling buy.

Outlook and Strategy

The month of February could prove to be challenging for the Philippine equity markets. Foreign outflows could accelerate given two risk events, 1.) Continuation of the Fed's taper process and 2.) MSCI quarterly rebalancing. Based on our study of seasonality of foreign activity, foreign inflows have the tendency to be at their weakest or negative during the months of MSCI scheduled rebalancing (i.e. February, May, August and November). Median monthly returns for MSCI Philippines tend to be in the red during the aforementioned months as well.

On the bright side, while MSCI's scheduled rebalancing usually creates confusion, it also leads to opportunities. Stocks that experienced a substantial reduction in weight or are deleted from the index tend to perform better a month after the implementation date of the rebalancing. Consequently, we are on the lookout for stocks that mispriced (due to MSCI rebalancing) and prefer to accumulate as it declines.

Figure 16 - Valuation Indicator



Sources: FirstMetro Securities, Bloomberg

Monthly Sectoral Performance				
	27-Dec-2013		30-Jan-2014	
Sector	Index	% Change	Index	% Change
PSEi	5,889.83	5.11%	6,041.19	2.57%
Financial	1,428.00	5.65%	1,497.83	4.89%
Industrial	8,690.37	2.70%	8,872.41	2.09%
Holdings	5,429.48	3.98%	5,429.87	0.01%
Property	2,205.45	9.71%	2,316.74	5.05%
Services	1,866.04	2.45%	1,875.78	0.52%
Mining and Oil	11,917.94	2.86%	13,735.34	15.25%

Source of Basic Data: PSE Quotation Reports

Prospects of possible mergers and acquisitions favored the Financial sector, with all three companies registering gains.

The local bourse settled in the green territory by the end of January despite the several dips brought about by capital outflows, as investors anticipated the tapering of the stimulus program. Within the month, the weakness of US equities and the slowdown in the manufacturing industry of China shook investor confidence which led to market sell-off. However, IMF's upgrade in its global growth forecast reversed the downward trend and stirred positive sentiments among investors.

Prospects of possible mergers and acquisitions favored the financial sector, with all three companies registering gains. Speculations that BDO Unibank Inc. will further retain its top spot, as well as its plan to acquire UCPB, jacked up its price by a hefty percentage. Bank of the Philippine Islands (BPI) stirred interest among investors as it offered an attractive pricing for its stock rights which are intended to raise P24 B. Metrobank also announced its plan to continue with its branch expansion strategy in 2014.

Company	Symbol	12/27/13 Close	01/30/14 Close	% Change
Meralco	MER	251.00	258.80	3.1%
Aboitiz Power	AP	34.00	35.95	5.7%
Energy Development Corp.	EDC	5.33	5.25	-1.5%
San Miguel Corporation	SMC	62.50	55.80	-10.7%
Jollibee Foods Corp.	JFC	173.10	152.00	-12.2%

Source of Basic Data: PSE Quotation Reports

Super typhoon Yolanda took its toll on the Industrial sector, causing companies to appear in the red. Expectations of a strong Q4 performance ricocheted on Jollibee Foods Corporation (JFC) as several company-owned and franchised stores were destroyed by the typhoon. Energy Development Corporation (EDC) incurred a slight decrease in its stock price as the firm already claimed that it had put into operational state some 135 MW out of 600 MW capacity after absorbing heavy damages. Stock price of San Miguel Corporation (SMC) also went down on the back of the selling of its 27% stake in Meralco. On the positive side, Aboitiz Power (AP) appeared in the green as its parent company, Aboitiz Equity Ventures (AEV), announced its budget of P88 B for its 2014 capital spending, majority of which was earmarked for the expansion of its flagship power business. Meralco also registered gains as it disclosed its guidance earnings estimate of P17 B for 2013, which was roughly higher than the P16.265 B recorded the previous year.

Company	Symbol	12/27/13 Close	01/30/14 Close	% Change
Ayala Corporation	AC	518.00	524.00	1.2%
Metro Pacific Investments Corporation	MPI	4.32	4.30	-0.5%
SM Investments Corporation	SM	711.00	704.50	-0.9%
DMCI Holdings, Inc.	DMC	56.00	59.80	6.8%
Aboitiz Equity Ventures	AEV	54.55	52.00	-4.7%

Source of Basic Data: PSE Quotation Reports

Except for Ayala Corporation (AC) and DMCI Holdings, Inc. (DMC), all other stocks in the Holdings sector posted losses by the end of the month. A wholly owned subsidiary of Ayala Corporation completed its acquisition of a 17% ownership stake in GNPower Mariveles Coal Plant Ltd. Co. ("GMCP"), which owns the 600-megawatt coal-fired power generating plant in Mariveles, Bataan province. DMCI Holdings, Inc. (DMC) rose on the back of its plan to allocate at least P20 B in capital expenditure to expand its coal-fired power facility in Calaca, Batangas province. Aboitiz Equity Ventures (AEV) appeared in the red as the buying of additional UBP shares elicited doubts among investors.

Company	Symbol	12/27/13 Close	01/30/14 Close	% Change
Ayala Land, Inc.	ALI	24.75	26.20	5.9%
SM Prime Holdings, Inc.	SMPH	14.68	15.52	5.7%
Robinsons Land Corporation	RLC	19.96	19.80	-0.8%
Megaworld Corporation	MEG	3.24	3.57	10.2%

Source of Basic Data: PSE Quotation Reports

Ayala Land, Inc. (ALI) recorded gains on the back of its joint venture with Aboitiz, which is expected to enhance its growth platform. Speculation that the weight of SM Prime Holdings, Inc. (SMPH) in the MSCI index would increase boosted investor confidence and caused an

Unstable conditions abroad and the possible Fed taper discouraged trading among investors, reducing the total turnover by 34.2%

upshot on its stock price. Megaworld plans to launch its second condominium project in Iloilo, as well as expand its premier township development project in Cebu.

Company	Symbol	12/27/13 Close	01/30/14 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,666.00	2,698.00	1.2%
Globe Telecom	GLO	1,640.00	1,710.00	4.3%
Puregold	PGOLD	37.90	38.50	1.6%

Source of Basic Data: PSE Quotation Reports

All the stocks in the Service sector posted modest gains by the end of the month, as Globe Telecom won the bidding for the Automatic Fare Collection System Project (AFCSP). Puregold (PGOLD) registered gains as it disclosed its plan to establish 200 stores by 2014. Philippine Long Distance Telephone Co. (TEL) announced its plan to allot P11.8 B for capital spending which will be primarily used for network expansion and technology modernization.

Company	Symbol	12/27/13 Close	01/30/14 Close	% Change
Philex Mining Corporation	PX	7.92	9.25	16.8%
Semirara Mining Corporation	SCC	288.00	320.00	11.1%
Lepanto Consolidated Mining Corporation	LC	0.31	0.40	29.0%

Source of Basic Data: PSE Quotation Reports

Philex Mining Corporation (PX) recorded gains as it expects a better performance in 2014 after its implementation of a comprehensive Integrated Environmental Management Program (IEMP) to address several environmental concerns that previously hindered mining operations. Meanwhile, Semirara Mining Corporation (SCC) also appeared in the green as its plan to expand its power plants by 350 MW (from 600 MW) appeared on track to be completed by Q1 of 2015.

Total Turnover

Monthly Turnover (in Million Pesos)

	Total Turnover		Average Daily Turnover	
Sector	**Value**	**% Change**	**Value**	**% Change**
Financial	23,478.00	0.24	1,118.00	0.07
Industrial	25,668.91	(0.74)	1,222.33	(0.78)
Holdings	28,263.99	0.09	1,345.90	(0.06)
Property	21,322.61	0.31	1,015.36	0.13
Services	22,875.41	(0.18)	1,089.31	(0.29)
Mining and Oil	3,234.38	0.71	154.02	0.47
Total	**124,860.26**	**(0.34)**	**5,945.73**	**(0.44)**
Foreign Buying	72,016.59	0.04	3,429.36	(0.11)
Foreign Selling	76,841.70	(0.00)	3,659.13	(0.15)

Source of Basic Data: PSE Quotation Reports

Unstable conditions abroad and the possible Fed taper discouraged trading among investors, reducing the total turnover by 34.2%. The local market reflected the general capital outflow from emerging markets as foreigners were net sellers by P4.8 B for January, which was at par with the net selling of P4.9 B that was recorded in the previous month.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million PhP)

	2012		2013		3rd Quarter 2013			4th Quarter 2013		
	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
Production										
Agri, Hunting, Forestry and Fishing	678	2.4%	706	1.0%	159,271	(1.3%)	0.3%	992,279	30.5%	1.1%
Industry Sector	1,577	(15.2%)	2,213	9.4%	516,843	(7.0%)	8.2%	604,024	16.9%	9.4%
Service Sector	2,537	(20.2%)	3,844	7.1%	956,999	(3.6%)	7.5%	1,004,086	4.9%	7.1%
Expenditure										
Household Final Consumption	4,186	6.1%	4,692	5.6%	1,116	(2.9%)	6.2%	1,334	19.5%	5.6%
Government Final Consumption	567	(0.6%)	707	(5.2%)	166	(26.0%)%	4.6%	133	(20.3%)	(5.2%)
Capital Formation	1,340	13.2%	1,368	5.7%	346	15.7%	15.6%	411	18.8%	5.7%
Exports	2,765	(4.2%)	3,064	6.4%	874	8.3%	10.6%	672	(-23.2%)	6.4%
Imports	2,968	2.9%	3,119	1.9%	879	12.4%	14.2%	162	(-15.6%)	1.9%
GDP	5,921	3.9%	6,765	7.2%	1,715	7.0	7.2%	2,025	6.5%	7.2%
NPI	1,849	(0.6%)	1,297	9.5%	310	11.9%	9.5%	490	15.1%	9.5%
GNI	7,770	2.8%	8,060	7.5%	2,025	7.8%	7.5%	2,084	7.8%	7.5%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million PhP)

	2011		2012		Jun-2013			Jul-2013		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	1,359,942	12.7%	1,534,932	14.2%	131,089	(14.9%)	13.7%	144,622	10.3%	17.3%
Tax	1,202,055	9.8%	1,360,849	13.6%	113,320	(18.5%)	7.2%	129,160	14.0%	18.5%
BIR	924,146	12.3%	1,057,716	14.9%	88,761	(20.7%)	9.1%	100,098	12.8%	19.9%
BoC	265,108	3.6%	289,866	9.7%	23,253	(10.3%)	(0.2%)	27,674	19.0%	13.5%
Others	11,885	n.a.	12,833	8.0%	1,306	(13.3%)	20.9%	1,388	6.3%	27.8%
Non-Tax	157,612	45.8%	173,980	36.6%	17,764	17.9%	12.7%	15,462	(13.0%)	8.0%
Expenditures	1,557,696	2.8%	1,777,977	14.0%	139,540	(19.5%)	9.9%	197,844	41.8%	21.7%
Allotment to LGUs	315,114	13.12%	298,322	(4.8%)	27,643	(35.8%)	4.0%	28,463	3.0%	11.5%
Interest Payments	278,996	1.3%	312,799	13.8%	18,418	(29.5%)	(3.2%)	53,510	190.5%	4.3%
Overall Surplus (or Deficit)	(197,754)	(281.3%)	(243,045)	(13.1%)	(13,164)	(135.8%)	(33.9%)	-53,222	529.8%	35.6%

Source: Bureau of the Treasury (BTr)

POWER SALES AND PRODUCTION INDICATORS
Manila Electric Company Sales (In Gigawatt-hours)

	2012		Jul-2013			Aug-2013		
	Annual Levels	Growth Rate	Levels	Growth Rate	YTD	Levels	Growth Rate	YTD
TOTAL	32,471	7.2%	2,913.3	4.6%	3.9%	2,867.4	7.6%	4.4%
Residential	9,775	4.8%	880.6	8.1%	4.7%	869.0	11.3%	5.5%
Commercial	12,602	6.1%	1,135.3	6.7%	5.0%	1,116.1	8.9%	5.4%
Industrial	9,964	11.5%	886.7	(1.0%)	1.9%	871.6	2.8%	2.0%

BALANCE OF PAYMENTS (In Million US$)

	2011		2012		4th Quarter 2012		1st Quarter 2013	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	7,078	(20.7%)	7126	2.2%	2,208	(0.8%)	3,439.0	775.1%
Balance of Trade	(11,857)	(44.1%)	(12,046)	(5.6%)	(3,031)	(15.4%)	(1,017.0)	74.0%
Balance of Goods	(15,450)	(40.9%)	(15,205)	10.4%	(4,701)	4.2%	(2,733.0)	42.9%
Exports of Goods	62,681	(3.3%)	46,284	20.9%	(10,991)	27.4%	11,152.0	7.9%
Import of Goods	74,538	2.0%	61,489	11.3%	(15,692)	16.0%	13,885.0	(8.2%)
Balance of Services	3,593	31.4%	3,905	31.4%	(1,441)	(15.7%)	1,819.0	18.8%
Exports of Services	15,450	9.6%	18,600	9.6%	(5,121)	5.3%	5,136.0	6.3%
Import of Services	11,857	4.4%	14,695	4.4%	(3,680)	16.8%	3,317.0	0.5%
Current Transfers & Others	17,642	6.0%					4,456.0	3.5%
II. CAPITAL AND FINANCIAL ACCOUNT	5,228	-29.2%	(5,995)	9.4%	2,494	(54.5%)		
Capital Account	171	74.5%	136	%	48	60.0%	23.0	(8.0%)
Financial Account	5,057	(30.6%)	(6,131)	(9.3%)	-2542	(158.5%)	(1,489.0)	69.1%
Direct Investments	1,253	83.7%	(952)	25.5%	-92	73.3%	(814.0)	9.4%
Portfolio Investments	5,524	26.6%	(3,523)	19.7%	-1851	(311.5%)	(3,123.0)	(150.2%)
Financial Derivatives	1,002	624.6%	(13)	98.7%	27	130.7%	52.0	186.7%
Other Investments	(2,722)	(211.8%)	(1,643)	(255.1%)	-626	(116.0%)	2,396.0	191.6%
III. NET UNCLASSIFIED ITEMS	(2,127)	6.2%	(2,127)	(217.3%)	(1,393)	(154.7%)	(3,416.0)	14.5%
OVERALL BOP POSITION	10,179	(28.9%)	10,179	(19.0%)	3,405	643.4%	1,535.0	23.5 %
Use of Fund Credits	0	0.0%	0	0.0%	0	0.0%	0.0	0.0%
Short-Term	(1)	0.0%	(1)	0.0%	(11)	0.0%	11.0	10.0%
Memo Items								
Change in Commercial Banks								
Net Foreign Assets	5,622	11.7%	(4,049)	19.9%	249	479.1%	1,546.0	23.4%
Basic Balance	8,655	(25.5%)	n.a.	n.a.	n.a.	n.a.		

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (In Million PhP)

	2013		Jun-2013		Jul-2013	
	Average Levels	Annual G. R	Average Levels	Annual G. R.	Average Levels	Annual G. R.
RESERVE MONEY	1,572,527	22.9%	1,540,178	21.1%	1,538,474	26.6%
Sources:						
Net Foreign Asset of the BSP	3,521,142	6.0%	3,497,010	9.3%	3,601,127	8.5%
Net Domestic Asset of the BSP	(1,980,769)	(3.07%)	(1,956,832)	1.5%	(2,062,653)	(2.0%)
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,777,699	21.39%	1,737,684	20.0%	1,856,486	29.9%
Money Supply-2	5,677,418	23.82%	5,611,566	21.1%	5,818,614	29.2%
Money Supply-3	5,774,456	23.68%	5,699,722	20.3%	6,033,935	31.0%
MONEY MULTIPLIER (M2/RM)	3.61	(45.5%)	3.64	0.0%	3.78	2.0%

February 2014

CONTRIBUTORS

Roberto Juanchito T. Dispo	President, FMIC
Dr. Victor A. Abola	Senior Economist, UA&P
Viory Yvonne T. Janeo	Research Associate, UA&P
German T. de la Paz III	Research Assistant, UA&P
Ivy T. Zuniga	Research Assistant, UA&P
Reuben Mark A. Angeles	Department Head — Research, FMSBC
Augusto M. Cosio, Jr.	President, FAMI