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MARKET CALL
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Quick Economic Rebound of 6.4% GDP Growth in Q2

The Philippine economy showed its resilience as it rebounded in Q2 with a Gross Domestic Product (GDP) growth of 6.4% (year-on-year) versus 5.6% (as revised) a quarter ago. The industrial sector, powered by the manufacturing sector, led the upswing. Financial markets, however, reacted tepidly to the data release which handily exceeded consensus of 6% as players focused on the rising inflation and likely further monetary policy tightening. Inflation clocked at 4.9% in July, a significant acceleration from 4.4% in June. Exports surged by 21% in June, as electronics exports recovered.

Meanwhile, both monetary and fiscal figures showed a calming down of expansionary forces, with money growth slipping to below 20% in July, while the National Government's (NG) deficit for the first 7 months of the year totalling P55.7 B or less than a quarter of its full-year target. While revenue gains remained robust, expenditures fell in July, as NG agencies tightened their screening processes in the wake of Supreme Court's declaration of unconstitutionality in some parts of the NG's Development Acceleration Program (DAP).

Q2 2014 GDP 6.4% Growth Highlights Economic Resiliency

The Philippine economy quickly recovered from its below-6% growth in Q1, recording 6.4% year-on-year (y-o-y) growth in Q2. The figure was slightly weaker than Q2 2013, but a great improvement from Q1 2014's 5.6% (revised from 5.7%). Accelerated y-o-y growth rates across all industries underpinned the rapid expansion in Q2, highlighting the economy's resiliency and diversity.

Gross National Income (GNI) did even better, expanding by 7.3% from 6.4% recorded in Q2 2013 due to stronger performance of OFW remittances. The continuous influx of income from OFW workers and the peso depreciation pushed the Net Primary Income (NPI) to expand heftily by 12.7%.

The Industry sector came out as the main growth driver with an increase of 7.8%, taking the spot from the Services sector as the main contributor from the previous quarter, albeit lower than the 10.8% growth in Q1 2013. Nevertheless, the Services sector posted a respectable 6.0% uptick, while Agriculture provided a surprising 3.6% growth performance.

Manufacturing growth rate of 10.8% was far higher than the 6.8% y-o-y growth in Q1 2014 and a tad faster than the 10.3% figure in Q2 2013. Fabricated and Metal Products which grew by 48.6%, as well as hefty gains of the Publishing and Printing sector that surprisingly expanded by 35.1% boosted the sector's solid performance. Petroleum and Other Fuel products similarly contributed substantially to manufacturing growth after gaining 31.0% this quarter.

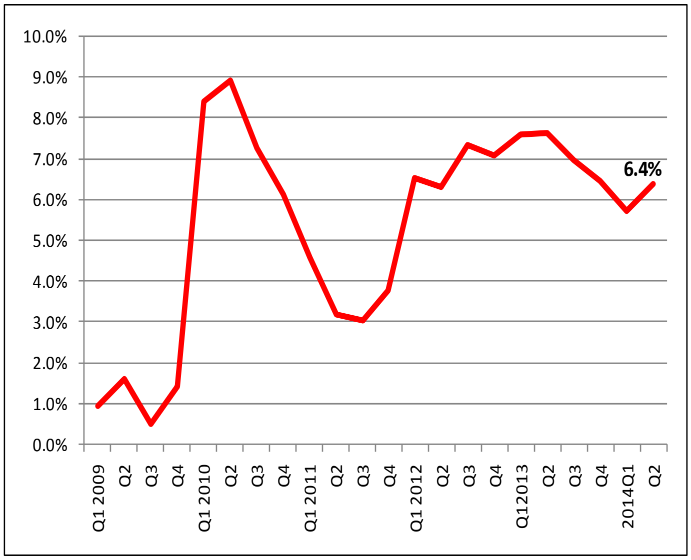
Far from its double-digit increase in Q1 at 17.5%, the contribution of Mining and Quarrying eased to 1.9%, while the growth of Construction also decelerated to a rate of 1.4% compared to Q1 2014's 6.8% increase. Chromium mining, the biggest contributor to the gains of the sector, grew by 56.9%. However, a large negative rate in Other Metallic Mining by 74.5% offset those gains. Private Construction growth remained robust (+12.7%) although the fall in Public Construction (-12.9%) brought the gross value-added in construction to a little over 1%.

Electricity, Gas, and Water Supply also decelerated to 2.8% from a 7.0% expansion in the same quarter last year. Steam rose the greatest by 8.9%, almost four times the growth in 2013. Electricity and Water, on the other hand, contributed an equal 2.6% to the sector, both down from 2013's 7.3% and 5.9% contribution.

Not to be left behind, the Services sector posted a robust 6.0% in gain in Q2, slightly below the 6.3% contribution last year. Real Estate, Renting & Business Activity, and Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods, which grew by 8.9% and 6.6%, respectively, provided an upward thrust. Relatively small contributions of Public Administration & Defense; Compulsory Social Security (1.2%) and Other Services (4.1%), however, pulled down the sector's marks.

The Philippine economy performed better than 2013. Q2 GDP and GNI 2014 grew by 6.4% and 7.3%, respectively, driven by the Industry Sector from the supply side and Household Consumption on the expenditure side.

Figure 1 - GDP Year-on-Year Growth, 2009-2014



Source of Basic Data: National Statistics Office (NSO)

The Agriculture sector grew by 3.6%, the first above-3.1% gain in 5 quarters. If in the previous quarter Typhoon Yolanda heavily affected agricultural output, the sector managed to quickly recover from Q1 losses due to significant contributions of Corn (+11.8%), Mango (+12.9%), and Cassava (+9.1%) output. Palay also showed healthier figures as growth increased by 6.4%. Coconut production, on other hand, remained in the negative zone (-4.4%) despite substantially growing by 40.2% at current values.

Forestry, which accounts for 18.6% of the entire Agriculture, Hunting, Forestry, and Fishing sector, also expanded by 32.5% from its 30.7% growth last year. Fishing, unfortunately, brought overall value-added down, dropping by 0.7% from its 3.3% gain a year ago. Declines mainly came from the fall in output of tiger prawns, seaweed, and milkfish by 8.0%, 4.4%, and 2.2%, respectively.

On the demand side, Household Final Consumption Expenditure (HFCE) expanded by 5.3% or slightly above the 5.1% increase in the same period last year. Spending on Alcoholic Beverages, Transport, and Health, which grew by 11.4%, 11.9%, and 10.6%, respectively, provided the boost. The other contributors to the growth include: Restaurants and Hotels (+10.4%); Clothing and Footwear (+6.2%); and Miscellaneous Goods and Services. Capital Formation Expenditure (CFE), however, suffered a major setback; compared to a 33.6% expansion in the same period last year, it declined by 2.4%. The contraction was due to the slowdown in investments in Fixed Capital (4.0% from 13.6%), Construction (5.1% from 16.5%), and Durable Equipment (2.3% from 13.2%).

Meanwhile, Government Final Consumption Expenditure (GFCE) decelerated by a hefty percentage, growing only by 0.02% from the 12.1% growth recorded in the same period last year. The lackluster performance resulted from the slowdown of major government expenditures for salaries and wages, as well as Maintenance and Other Operating Expenses (MOOE) for the implementation of programs and projects under the several departments. This was likely due to the spending delays after the Supreme Court ruled as unconstitutional some parts of the Development Acceleration Program (DAP).

On the brighter side, total exports of goods and services rebounded by 10.3% from the -7.7% decline recorded in Q2 2013. Exports of goods expanded by 10.0% from -8.8% in Q2 2013 pushed by Industrial Instrumentation (+139.5%), Communication (+103.0%), Mangoes (+240.4%), and Shrimps and Prawns (+290.0%). Exports of services also contributed to the growth, increasing by 11.7% from the 3.2% decline in Q2 2013 due to stronger performances from Insurance (+18.5), Travel (+16.6%), Government (+15.4%), and Miscellaneous Services (+11.5%).

Likewise, total imports also registered positive gains, growing by 1.4% from the 4.6% decline recorded in Q2 2013 due to healthier imports of goods and services. Imports of goods improved to a -3.9% rate from a previous -6.1% driven by Automotive Electronics (+63%) as double-digit upticks in car demand prevailed, Cereals (+38.5%), and Feedstuff (+50.1%). Gains in cereal imports were attributed primarily to the rice imports in the face of output shortfalls. Imports of services soared by 26.2% from 3.1%

Faster price increase of food and non-alcoholic beverages drove inflation to its 32-month high.

due to stronger imports of Travel (+39.9%), Miscellaneous Services (+33.7%), and Government (+17.6%). Total exports amounting to P892 B outperformed total imports (P778 B), resulting to a trade surplus of P114 B.

Regional GDP Growth			
Country	**Q2 2014**	**Q1 2014**	**Q2 2013**
Philippines	6.4%	5.6%	7.9%
China	7.5%	7.4%	7.5%
Indonesia	5.1%	5.2%	5.8%
Japan	-6.8%	6.1%	3.4%
Malaysia	6.4%	6.2%	4.5%
Singapore	2.4%	4.8%	4.0%
South Korea	3.6%	3.9%	2.7%
Thailand	0.4%	-0.5%	2.9%

Source: Bloomberg Finance LP

Inflation Picks Up Pace in July, Highest Since November 2011

July inflation rose to 4.9%, the highest in more than two years amidst the unabated upswing in food prices. Year-to-date (YTD) inflation averaged at 4.3%, slightly above the midpoint of the Bangko Sentral ng Pilipinas' (BSP) 3-5% target.

Faster price increments in the heavily-weighted Food and Non-Alcoholic Beverages (FNAB) index (+0.9 percentage points) accounted for most of the increase. Supply bottlenecks in various food items resulting from delayed rice importation and the Manila truck ban placed an upward pressure on FNAB. The food index alone accelerated to 8.7% (y-o-y) in July from 7.8% last month. Higher gains in major food groups (i.e., rice, fruits, vegetables, meat, fish, milk and eggs) stoked FNAB. Annual increases in Housing, Water, Electricity, Gas and Other Fuels (HWEGOF); Health; Transport; Recreation and Culture; and Education indices contributed also to the uptrend.

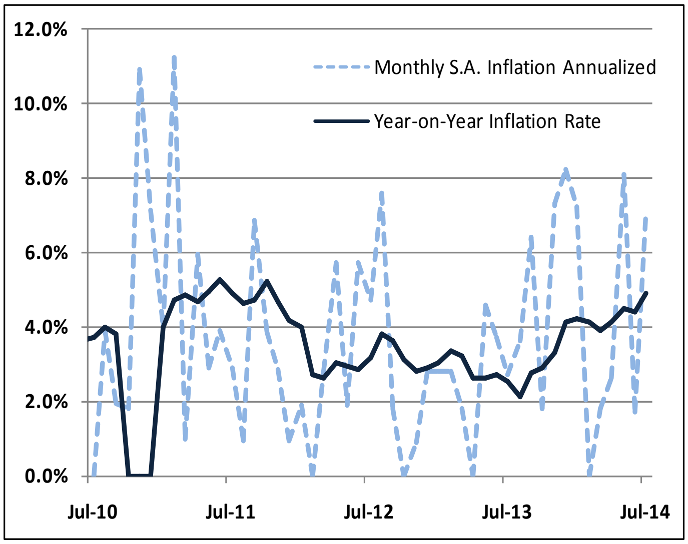
Inflation Year-on-Year Growth Rates	14-Jul	14-Jun	YTD
All items	4.9%	4.4%	4.3%
Food and Non-Alcoholic Beverages	8.2%	7.4%	6.5%
Alcoholic Beverages and Tobacco	3.5%	3.7%	6.4%
Clothing and Footwear	3.3%	3.4%	3.5%
Housing, Water, Electricity, Gas, and Other Fuels	2.4%	2.3%	3.0%
Furnishing, Household Equipment and Routine Maintenance of the House	2.6%	2.6%	2.6%
Health	3.2%	3.0%	3.4%
Transport	1.5%	1.3%	1.3%
Communication	0.0%	0.1%	0.0%
Recreation and Culture	1.3%	1.2%	2.1%
Education	5.1%	5.0%	4.8%
Restaurant and Miscellaneous Goods and Services	0.2%	1.9%	1.8%

Source of Basic Data: National Statistics Office (NSO)

Note: Red font – means lower rate (good) vs. previous month,
Green font – means higher rate (bad)

Meanwhile, slower price increments in Restaurants and Miscellaneous Goods and Services, Alcoholic Beverages and Tobacco (ABT), Clothing and Footwear indices provided some cushion.

Figure 2 - Inflation Rates Annualized (2010-2014) Seasonally Adjusted vs. Year-on-Year



Source of Basic Data: National Statistics Office (NSO)

Liquidity growth continued to ease ahead of the Monetary Board's raising of key policy rates.

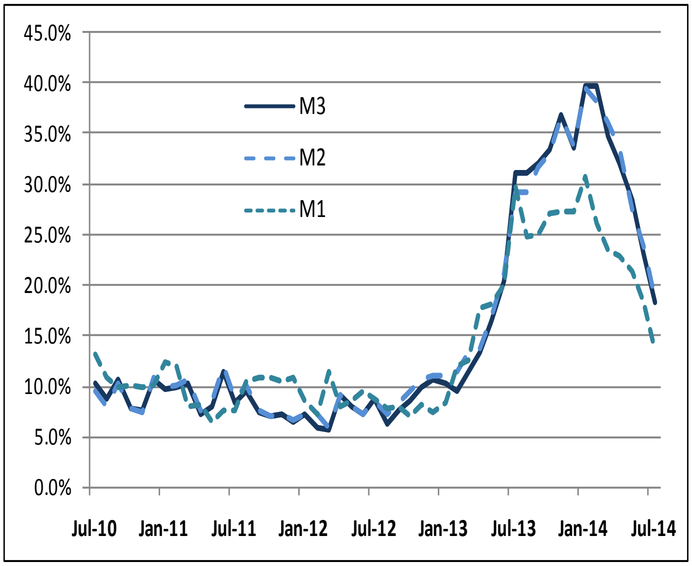
On a seasonally-adjusted annual rate (SAAR) basis, inflation climbed to 7.1% from 1.7% in June. This, however, does not mean further price acceleration as it has been very volatile lately (see graph). Nonetheless, while the National Economic Development Authority still expects a full-year inflation to average at 4.4%, we prefer to closely monitor the domestic rice and other food prices.

Domestic Liquidity Eases Further to 18.3% in July

Domestic liquidity (M3) continued to slowdown, recording close to its 2012 growth levels, even as the Monetary Board (MB) adjusted policies to rein inflation expectations. Recall that MB had previously raised the SDA interest rates and the reserve requirement ratio (RRR) to align domestic liquidity growth with the real sector's growth. We believe that these and previous monetary tightening moves will result in a rapid deceleration of money growth starting Q4 to a single-digit growth in succeeding periods.

In July, domestic liquidity grew by 18.3% (P7.1 T) y-o-y, slower than the revised 23.3% expansion recorded in June. Narrow money M1 and M2, likewise, decelerated by 4.7 and 5.1 percentage points, respectively.

Figure 3 - M1, M2 & M3, Year-on-Year, 2010-2014

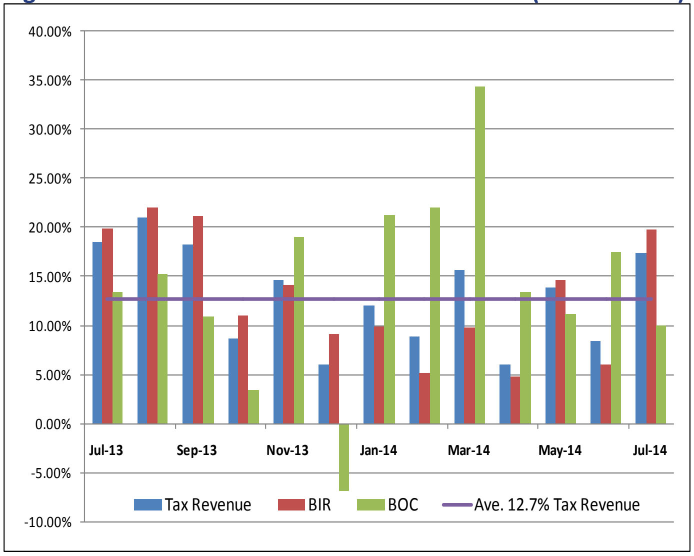


Source of Basic Data: National Statistics Office (NSO)

Meanwhile, Net Domestic Assets (NDA) increased by 13.0% compared to 13.8% recorded the previous month. Large increases in lending to the real estate, renting, & business services; utilities; wholesale & retail trade; manufacturing & financial services sectors sustained NDA growth. Meanwhile, monetary authorities' Net Foreign Assets (NFA) declined by 3.2% as liabilities to non-residents grew faster than its claims.

The Monetary Board is scheduled to meet on September 11 to discuss policies that will maintain price stability. We expect another policy hike either in the policy rate (by 25 bps) or in the reserve requirements (by 100 bps) before the end of this year.

Figure 4 - Year-on-Year Growth of Tax Revenues (BIR and BOC)



Source of Basic Data: National Statistics Office (NSO)

NG Deficit Down by 97% in July

The National Government (NG) recorded a P1.8 B fiscal deficit in July, down by 97% from July 2013 due to higher revenues coupled with significant underspending. YTD budget shortfall registered at P55.7 B (compared to P104.5 B in 2013), a level which does not even reach ¼ of the target deficit for the year. The good news is that this provides NG more fiscal space, and lowers the country's debt-to-GDP ratio to some 46.7% by year-end.

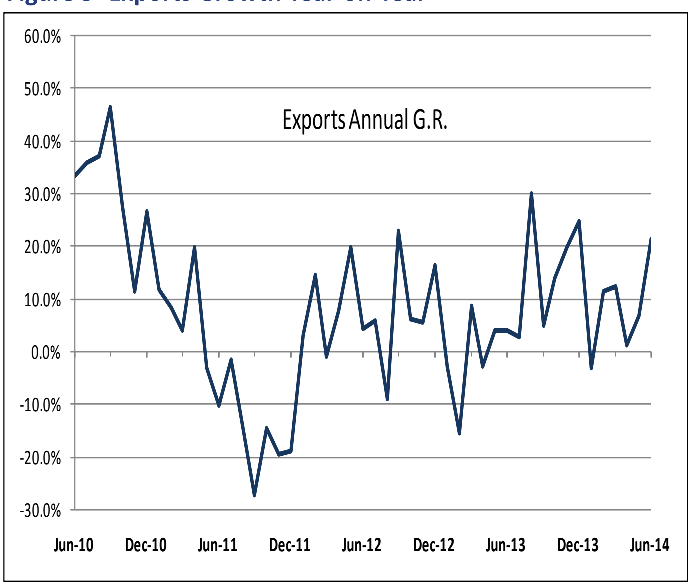
Tax collection boosted NG revenues while increased manufacturing activity maintained growth of exports.

Total revenues in July expanded by 15.0% amounting to P166.7 B, largely driven by the collections coming from the Bureau of Internal Revenue (BIR). BIR tax revenues registered a double-digit growth of 20.0% (P119.9 B), its highest gain in 2014. BOC's collection growth streak continued, albeit slower at 10.0%.

Meanwhile, NG disbursements amounted to P168.5 B, 15% lower than July 2013 level. This slowdown in public spending brought by the commotion over the unfavorable Supreme Court ruling on the government's Disbursement Acceleration Program (DAP) should be temporary. We expect spending, especially on infrastructures, to get back on track in H2.

Netting out interest payments from expenditures, NG recorded a large primary surplus of P46.5 B in July. Peso appreciation and lower imports of some goods (i.e., crude materials, coal, chemical compounds, telecommunication equipment, etc.) probably contributed to the feeble upswing in customs' tax take.

Figure 5- Exports Growth Year-on-Year



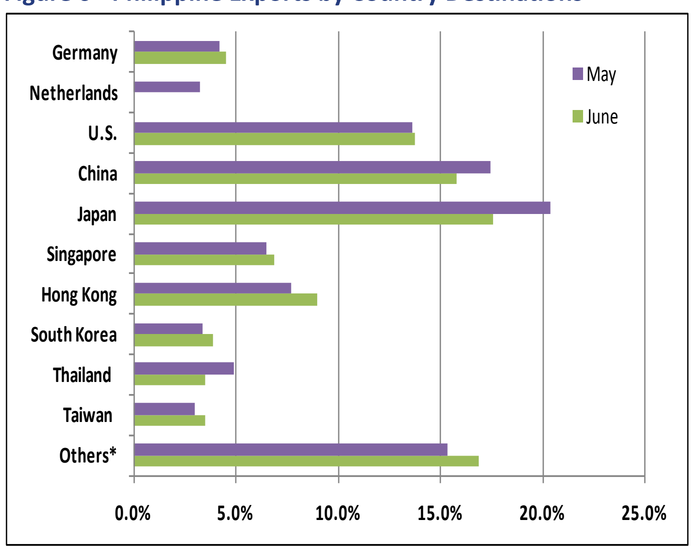
Source of Basic Data: National Statistics Office (NSO)

Exports Register Rapid Growth of 21.3% in June

Exports growth in June surged to 21.3% (to $5.4 B from $4.5 B) from 6.9% a month ago, propelled by stronger shipments of machinery and transport equipment, fresh bananas, and other mineral products among others. This brings H1 exports growth to a positive territory of 8.4% compared to -0.7% in H1 2013. We had earlier expected stronger exports growth using the Volume of Production Index (VoPI) as an indicator (see our previous issues).

Electronic products remained the country's top export with total receipts of $2.2 B, accounting for 40.8% of total exports. It picked up by 10.7% (from its previous plunge) amidst remarkable gains in Semiconductors shipments (+14.7%). Likewise, Other Manufactures kept its 2nd spot, registering a hefty gain of 67.8% (from $321 M in June 2013 to $538.7 M in June 2014). Nine manufactured product categories recording positive growth easily outnumbered the decline in seven categories. High double digit gains in Garments, Furniture & Fixtures, and Textile exports led the surge. Machinery and Transport Equipment ranked third (accounting for 7.2% of total exports), posting the highest y-o-y increase of 120.4% (from $177.4 M to $390.8 M).

Figure 6 - Philippine Exports by Country Destinations



Source of Basic Data: National Statistics Office (NSO)

Additional employment abroad contributed to the increased OFW remittances but the slight peso appreciation in June tempered its growth.

Rankings of the top three exports destinations remained the same as in the previous month with China recording the highest increase. Japan still had the largest share (comprising 17.6% of total exports), but growth slipped by 3.0% (from $985.2 M in June 2013 to $956.0 M). Exports to China posted a massive gain of 40.0% valued at $859.4 M. US accounted 13.8%, valued at $751.7 M.

In terms of economic bloc, East Asia accounts for the largest export share of 49.9%. Shipments to ASEAN took the second spot, making up 14.2% of total exports. Exports to the region (ASEAN + East Asia ex Japan) cornered 64.1% of the market.

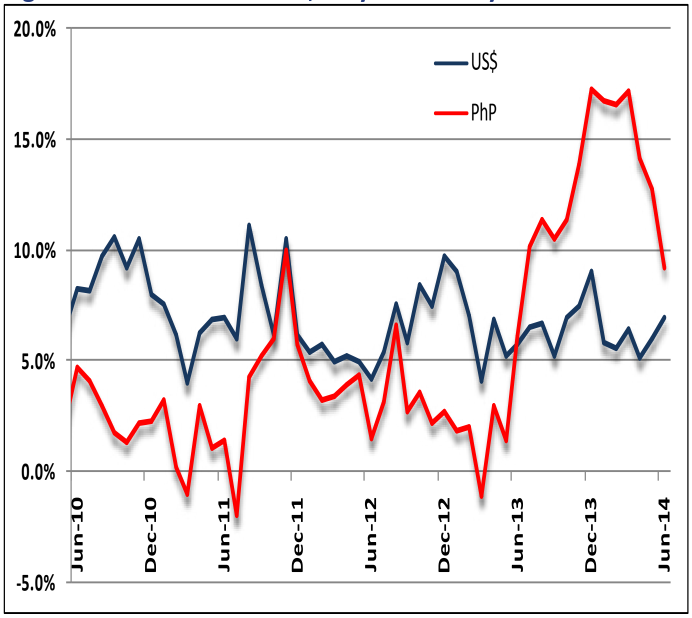
Stronger global manufacturing activity and the relaxation of the Manila truck ban should help sustain export growth. Moreover, we expect exports to record robust growth in H2 with the US economy showing solid signs of recovery especially in job creation. Anticipation of modest growth in both EU and China further supports our optimism.

OFW Cash Remittances on Acceleration Streak

OFW cash (dollar) remittances further accelerated in June 2014, registering a 5.9% y-o-y growth (or $2.0 B) from 5.4% in May as steady demand for Filipino workers prevailed. The continued expansion of the banks and non-banks service providers, catering to the needs of both the OFWs and their families provided support to the acceleration. YTD cash remittance in H1 2014 reached $11.4 B, higher by 5.8% over the same period last year.

Majority of the remittances (75%) came from the land-based workers, expanding by 4.8% (to $8.7 B). Sea-based workers provided the balance, posting a faster increase of 8.8%. Major sources of cash remittances were the United States, Saudi Arabia, the United Arab Emirates, the United Kingdom, Singapore, Japan, and Hong Kong. The Philippine Overseas Employment Administration (POEA) reported that 38.5% of processed job orders included manpower for service; production; and professional, technical and related employment in Saudi Arabia, the United Arab Emirates, Kuwait, Taiwan, and Qatar.

Figure 7 - OFW Remittances, May 2010 - May 2014



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

Meanwhile, the peso equivalent of OFW cash remittance continued to decelerate despite growth in $ remittances (especially in the past three months). This clearly reflects the appreciation of country's peso, which has reduced peso value of the OFW's remittances. June marks the first time the peso value of remittances registered a single-digit growth.

Monthly US Dollar Cross Rates of Selected Asia-Pacific Currencies

Currency	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
AUD	-1.31%	-2.51%	0.14%	-0.68%	-0.25%	0.86%
CNY	1.56%	0.86%	0.20%	-0.13%	-0.47%	-0.74%
HKD	0.04%	-0.09%	-0.02%	-0.01%	-0.02%	0.00%
IDR	-3.49%	0.12%	0.68%	3.29%	-1.73%	0.32%
KRW	-0.07%	-2.63%	-1.63%	-0.59%	0.16%	0.41%
MYR	-0.90%	-0.76%	-0.76%	-0.38%	-1.12%	-0.14%
PHP	-0.18%	-0.39%	-1.56%	-0.22%	-0.78%	0.78%
SGD	0.06%	-0.98%	-0.25%	-0.02%	-0.69%	0.47%
THB	-0.78%	-0.22%	0.69%	-0.07%	-1.19%	-0.31%

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

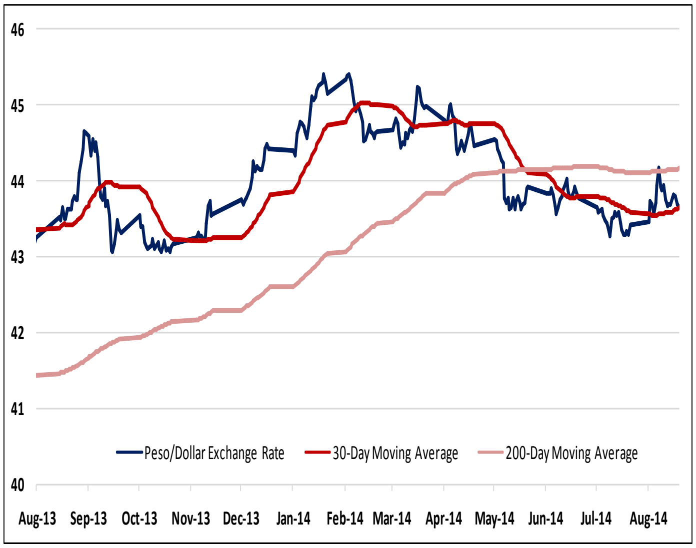
Recovery of the US economy in Q2 is deemed to curb recent peso gains, but peso depreciation is still predicted in the long run.

Peso Slightly Loses Ground in August

Philippine peso fell in August, slightly reversing the previous six month-gain to average P43.7/US$ that month as the US dollar strengthened and as the BSP rebuilt its dollar reserves. Volatility measure climbed to 0.71 versus 0.37 last month, with the US$ reaching its monthly low of P43.47/US$ and monthly high of P44.18/US$.

Most Asian currencies lost ground against the greenback except for China, Malaysia, and Thailand. Chinese Yuan (CNY) led the rally as investors' confidence shored up amidst improving fundamentals. August data showed that China's July exports was the fastest in 15 months. Moreover, its Purchasing Managers Index (PMI) rose to 51.7, the fastest growth pace in more than two years. Thai Baht (THB) also advanced for a third month boosted by both public spending and private consumption, along with restored political stability. Malaysian Ringgit (MYR) also advanced as Malaysia's Q2 economic expansion and current-account surplus recorded better-than-expected gains.

Figure 8 - Daily Dollar-Peso Exchange Rate, Aug 2013-2014



Source: Bangko Sentral ng Pilipinas (BSP)

Based on technical analysis using moving averages (MA), the 200-day MAs traded through the actual exchange rate level, suggesting a depreciation outlook in the long-run. We believe that the gains of the peso may not last very long as US economic data point to a more solid economic recovery starting Q2. The recent expansion in the country's GDP also gives BSP more leeway to curb currency gains and protect PH producers (both for local and export markets). Meanwhile, it would be best to watch BSP's moves (both in policy and foreign exchange market interventions) for short-term decision-making.

Outlook:

It would appear that the remaining stumbling blocks for an even stronger rebound in H2 are the relatively high inflation rate and the NG underspending. We, however, see these two main concerns addressed in H2.

•NG spending should see a clear upward trend in H2 as the President has already asked Congress (controlled by his party) for a supplementary budget that would offset the cutting off of DAP funds.

•We think inflation has peaked at 4.9%, considering that rice harvests start in September and 500,000 MT of new imports begin to arrive in October. Manila Mayor Estrada has lifted the truck ban in the city, which should ease the flow of food items to Metro Manila and other parts of the country. Besides, crude oil prices have broken through their strong support levels both in the US (WTI) and Europe (Brent) and are likely to continue their downward trend until H1 of 2015.

•We see another round of monetary policy tightening moves before the end of year. The BSP is likely to have a pause as consistently softer inflation figures (4.2% by year-end) hit home starting September. Besides, with the previous BSP measures clamping down on liquidity, money supply (M3) is likely to slide to a single-digit growth by November.

•Exports are showing signs of life as a consequence of the solid recovery in the U.S. To be sure, its growth trajectory will not have its ups-and-downs but hardly anyone doubts that its current expansion is sustainable. That is why some quarters are calling for raising policy rates there sooner than the original Fed plan for H2 2015.

•Finally, we continue to see the peso having difficulty coping with the strength of the US dollar. The fundamentals and the technical indicators both show a depreciation bias for the rest of the year, with brief respites provided by OFW Christmas-related remittances.

Forecasts				
Rates	Aug	Sept	Oct	Nov
Inflation (y-o-y %)	4.9	4.6	4.5	4.6
91-day T-Bill (%)	1.355	1.415	1.480	1.543
Peso-Dollar (P/$)	43.767	44.140	44.327	44.606
10-year T-bond (%)	4.125	4.086	4.159	4.205

Source: Authors' Estimates

Investors Go for Short-Dated Bonds While Eyes Were Fixed on Bond Swap

Risk aversion for long-dated government bonds became the theme, as investors bidded aggressively for short-dated Treasury Bills (T-bills), while awaiting details of the bond swap that took place later in the month. The bond swap may be graded as "moderately successful" despite the fact that the National Government (NG) accepted more than double its original target of P60 B. Market players felt the exchange was too tightly priced, such that little follow through trades ensued.

Accelerating inflation remained as underlying reason for the lack of conviction in committing to longer-dated bonds. This will likely change in Q4 when inflation starts to slow down consistently, as liquidity remains abundant, and upward pressure on 10-year US Treasuries keeps subdued. In short, investors are not selling much either.

Primary Market: Investors Swamp Bond Swap

The Bureau of the Treasury (BTr) successfully conducted its first domestic swap for Treasury bonds after three years in addition to a regular T-bill auction in August.

Average yields at August 4 T-bill auction were slightly higher than secondary market rates, driven by the recent policy rate hike and higher inflation expectation. A pre-emptive Monetary Board increased its policy rates by 25 bps (Repo rate to 5.75%; Reverse Repo rate to 3.75%) last July 31 to counter elevated inflation expectations. Appetite for long-dated government securities remained tepid signaled by the result of the recent bond swap (Offer period: Aug 15-19, Transaction date: Aug 20). The bond swap, which created a new benchmark 10-year, received total tender of P225 B, 3.75x of the offer floor.

BTr partially awarded its T-bill offering during the last August 4 auction, as market tried to bid higher amid the recent 25 bps rate hike (July 31) and higher inflation expectation. The market was slightly on a defensive mode as the tendered-offered ratio dropped to 2.29x from 2.85x from previous auction and average bids were 5.97 bps higher than the secondary market rates in the previous auction.

The BTr only awarded P11.7 B, 0.59x of the total offer. Bids were also 18.7 bps higher than the secondary market rate (1.625%) prior auction (91-day at 1.373% vs secondary rate at 1.375%; 182-day at 1.812% vs secondary rate at 1.625%; 364-day at 1.869% vs secondary rate at 1.875%). BTr fully rejected tenders for the 182-day T-bills, which would have fetched a rate of 1.81%, 29.9 bps higher than the July auction. BTr found the bids for the 182-day T-bills

T-Bills and T-Bonds Auction Results

T-Bill/T-Bond	Offer	Tendered	Awarded	Tendered ÷ Offered	Yields	Bps Change from Previous Auction
T-Bills						
91-day	8.00	22.39	8.00	2.80	1.373	21.60
182-day	6.00	11.30	-	1.88	-	-
364-day	6.00	12.08	3.66	2.01	1.869	15.10
Sub-Total	**20.00**	**45.77**	**11.66**	**2.29**	**-**	**-**
T-Bonds						
10-year new benchmark bonds (due 2024)	225.00	140.33	140.33	1.60	4.125	-
Sub-Total	225.00	140.33	140.33	1.60	-	-
All Auctions	**245.00**	**186.10**	**151.99**	**0.83**	-	-

Source: Bureau of the Treasury (BTr)

The Bureau of the Treasury (BTr) accomodated more than 60% of total bids or 133% of the planned issue size for 10-year GS bond swap.

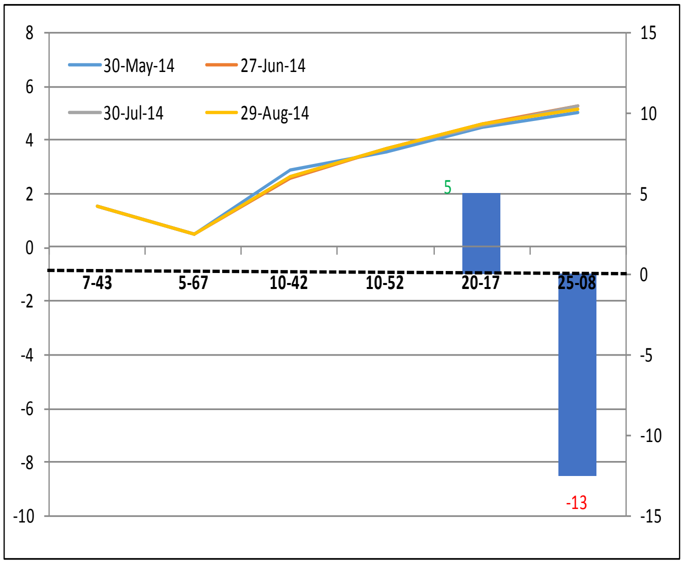
too high and was confident to reject bids with its favorable cash position. Jan-July budget deficit was only at P55.7 B versus the full-year target of P266.2 B.

BTr cancelled its regular bonds auction scheduled August 19 to give way to its local bond swap program. The exchange aimed to lengthen the maturity profile of the government's borrowing and support the secondary market by issuing a liquid 10-yr paper. The government targeted to issue P60 B worth of new 10-year benchmark bonds due August 20, 2024 in exchange of existing investors' short-tenored bonds.

From the results of the August 20 auction, the outstanding size of newly issued 2024 bonds was at P140.39 B, 2.33x of the planned issue size. Total bids were at P225 B, thus, bid cover ratio reached 1.60x. The said papers were competitively priced at a rate of 4.125%, at par with the 10-year rate at the secondary market prior the offer period.

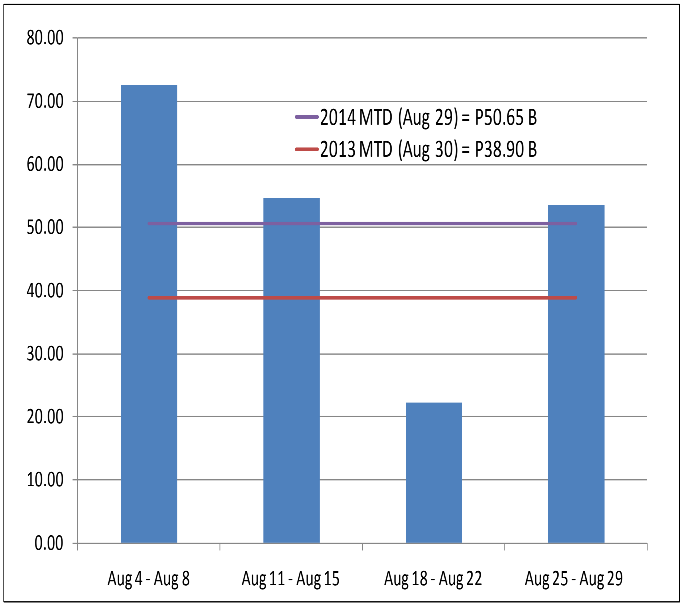
The country's last domestic bond exchange took place in July 2011. At that time, NG issued a total of P323.5 B in new 2022 and 2031 bonds. That bond exchange extended the average maturity of swapped local bonds from 5.5 years to 18 years.

Figure 9 - FXTN Yields



Source: First Metro Investment Corporation (FMIC)

Figure 10 - Weekly Trading Volume (in Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Secondary Market: Slower Trading as Traders Gear Up for Bond Swap

Trading in August crowded around long-tenored debt securities while yield movements were more stable at the front end of the curve. Yields of FXTN 20-17 and 25-08 tried to offset each other as the former's hike slowed down to 5 bps (from July's 13 bps increase), while the latter were pushed down by aggressive demands by 13 bps (compared to the 25 bps climb the previous month). Despite daily variations in the yield of FXTN 10-42, the bids still ended up identical to that of the previous month. FXTN 10-52, on the other hand, had fixed bids since the second week of June.

Trading in August slumped to P202.60 B volume turnover, less than half from July's P459.42 B, but obviously higher versus 2013's P155.58 B. On a weekly basis, we observed a weak trading on the 3rd week due to the absence of a strong economic catalyst. Average weekly volume reached P50.65 B, down by 81.40% from July, but up by 30.21% from August 2013.

H1 income company results boosted trading of corporate bonds.

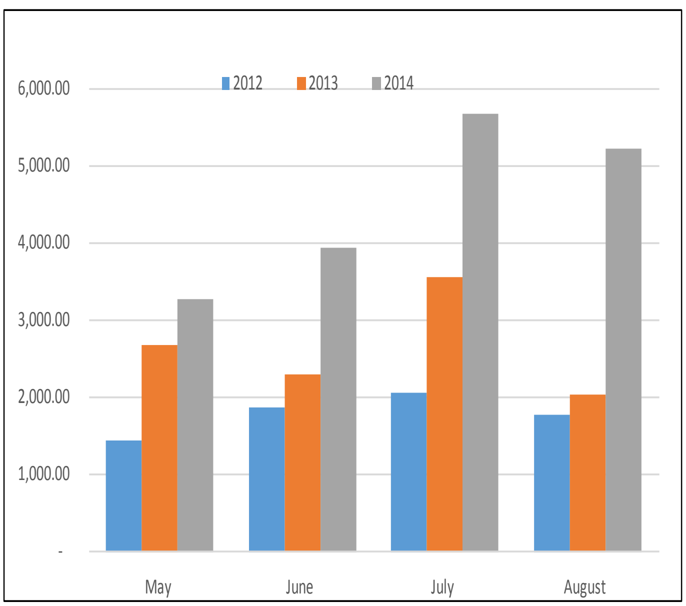
Corporate Bonds: Sideways Trading, But Up Over 2014

Corporate bond trading weakened, as total volume slipped to P5.23 B from July's P5.67 B. August trading had the fourth largest volume in 2014, following after April (P6.23 B), February (P5.99 B), and July (P5.67 B). Year-to-date, total traded corporate bonds already reached P34.60 B, up by 20.9% from 2013.

Ayala Corporation (AC) still retained its spot as the top traded corporate debt papers in August after posting a 34.0% income increase in H1. AC's total traded volume reached P950.96 M but fell by 31.48% from its July turnover of P1.39 B.

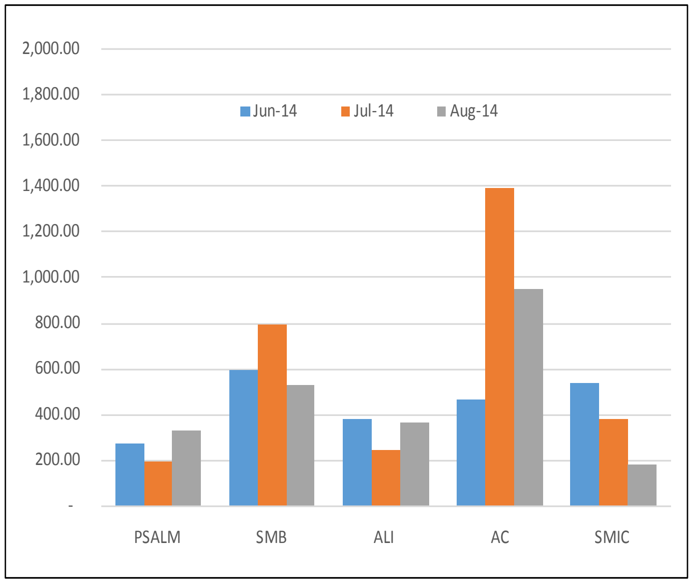
Trading of Ayala Land, Inc. (ALI) papers was also pushed by its 25% H1 income increase, reaching 46.8% in total turnover from July's slump by 35.4%. Papers of Power Sector Assets and Liabilities Management (PSALM) also posted the greatest improvement among the batch by 66.9%. Both corporations had traded volumes hovering around the P300 M mark.

Figure 11 - Total Corporate Trade Volume (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 12 - Corporate Trading (in Million Pesos)



Source: Philippine Dealing Systems (PDS)

SM Investments Corporation (SMIC) and San Miguel Brewery (SMB) debt securities, on the other hand, dwindled substantially by 52.5% and 33.10%, respectively, despite being top AC chasers last month. Such declines in trading were affected by SMIC's H1 income drop by 3.1% and SMB's 4.0% loss in H1 income from operations.

Total turnover in August of the five companies was P2.35 B, down by 21.8% from the previous month.

Corporate Issuance and Disclosures

New Issuance:

• Aboitiz Power Corporation (AP) received approval from the Securities and Exchange Commission (SEC) for its P10 B retail bond issuance, with P5 B oversubscription option, at the close of August. The P5-B 7-year issue drew a 5.205% coupon rate (vs. secondary rate at 3.71%), while the 12-year bonds had a coupon rate of 6.10% (vs. secondary rate of 10Y GS at 4.07%). Philippine Rating Services Corporation (PhilRatings) gave the bonds a PRS Aaa rating due to the company's sustainable cash flows (along with SM Prime Holding Inc.'s triple-A-rated P25 B bond offer).

Financial companies took their lead in developing new debt instruments in the market.

The proceeds of the sale will be used for the company's power plant projects all over the country.

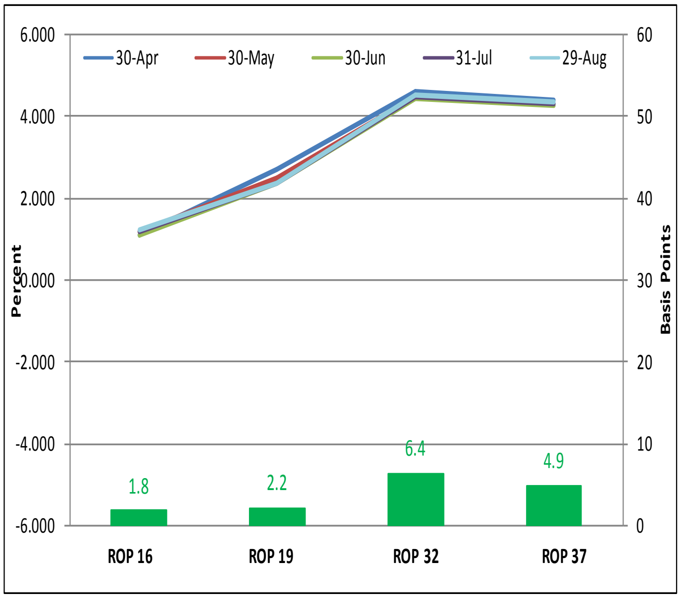
• Rizal Commercial Banking Corporation (RCBC) reopened its sale of Basel 3-compliant bonds to raise additional P3 B in Tier-2 capital. The said notes had a coupon rate of 5.375% due in 10 years (vs. secondary rate at 4.07%). The bank received approval to issue up to P10 B worth of Tier 2 notes from its first disclosure in June. P7 B had been issued on June 27. The offer ran from August 26 to September 1.

New developments in the market:

• BPI Family Savings Bank shall pioneer a new debt instrument as it planned to issue bonds tied to car loans. The BPIFSB Auto Dream Bonds Special Purpose Trust shall be the "first registered transaction in the Philippines and the first retail issuance and securitization of auto loans under the Securitization Act of 2004", said the press release. The issuance involves P4.8 B worth of bonds in three tranches: Class A1 Senior Bonds (expected to mature in 12 months), Class A2 Senior Bonds (expected to mature in 36 months), and Class B Junior Bonds (expected to mature in 48 months). The Philippine Rating Services Corporation (PhilRatings) gave the bonds the highest credit rating. The said instrument, presently queued for approval by the Securities and Exchange Commission (SEC) and the BSP would likely be offered in October, after actual approval. After the October issuance, BPI also eyes to release mortgage-backed bonds.

• RCBC also plans to issue P20 B worth of long-term negotiable certificates of time deposit (LTNCD) which can also be sold in the secondary market. The peso-denominated LTNCDs still awaits the approval of the Bangko Sentral ng Pilipinas (BSP), as well as more favorable market conditions.

Figure 13 - ROPs Yield Curve



Source of Basic Data: Bloomberg

ROPs: Flat Yield Curve from Dovish Rate Outlook

The yield curve of PH dollar-denominated bonds slightly flattened from the drop of yields at the long end, along with a marginal increase at the short end. Traders became more hawkish towards the long term ROPs as demand pushed yields down by double-digits. The market is signaling lower US interest rates expectations after Yellen's position in the Jackson Hole meeting. Appetite for safety persisted with disappointing GDP figure from Europe and Japan and continued geopolitical tension. Some global managers also took early position amid EU stimulus speculation. The US 10-yr rate dropped to 2.35% (-23 bps week-on-week, -65 bps year-to-date), while the 10-year German bond broke below 1%.

ASEAN Market +1: Mixed Movements in Yield Curves

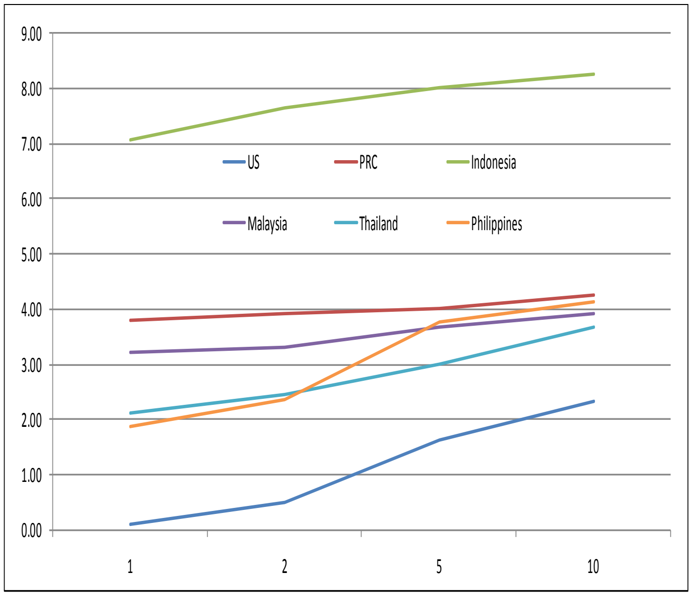
Better-than-expected macroeconomic improvements of Indonesia, Malaysia, and the Philippines stimulated yields of long-term bonds. Yellen's dovish take on interest rates from the Jackson Hole meeting kept US market expectations down, while demand for China's GS securities shall be expected to surge once direct bond transactions by provincial governments take place.

Rebound of the US economy did not bring life to its bond yields while local and international setbacks continue to challenge China's debt market.

US: Yields across all tenors dropped significantly from last month, especially in the long-tenored bonds, along with the start of the rebound of the US economy. Rates of the 10-year and 5-year bonds substantially shed 22.2 bps at 2.34% and 12.1 bps at 1.63%, respectively, signaling US bonds' first downswing since May. Moderate dips in yields hit short term papers. The 1-year bonds fell by 2 bps, while the 2-year bonds eased by 2.8 bps. Quick recovery of home construction in July and pickup of manufacturing boosted outlook for H2. The fall in yields also convinced the Fed to keep interest rates at lower levels, consistent with Yellen's stand during the Jackson Hole meeting, to allow labor market recovery and stabilization before raising rates. Slashed interest rates, nevertheless, moved consumer spending down in the practice of becoming thriftier. Inflation thus continued to run below the target,placing it favorably with Fed's objective to keep it low after the end of its bond-buying program in October.

PRC: China's yields moved along with the rhythm of US' long term bonds although temperately. The region's yields for the 5-year and 10-year bonds fell by 4 bps and 6 bps, respectively. Increase in yields of short-term bonds, on one hand, also softened from the previous month's double-digit surge. Rates for 1-year and 2-year bonds, respectively, increased moderately by 12 bps and 2.2 bps. This tempered preference for short-tenored bonds may have

Figure 14 - ASEAN Market + 1



Source: Asian Development Bank (ADB)

been brought about by China's recent economic challenges, both locally and internationally. Xu Shaoshi, minister in-charge of the National Development and Reform Commission, said that "there are things to be worried behind the positive signs". The country has indeed performed well in the past seven months, as shown in its 7.4% GDP growth in H1, reduced unemployment rate to 4.08%, and enhanced consumer spending and investments in infra-

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	Latest Policy Rate	Real Policy Rate
					Aug 4, 2014	Aug 29, 2014			
US	0.50	2.34	1.90	0.44	202.00	184.00	-18.00	0.25	-1.65
PRC	3.93	4.26	2.40	1.86	39.00	33.00	-6.00	6.00	3.60
Indonesia	7.65	8.26	6.00	2.26	66.00	60.00	-6.00	7.50	1.50
Malaysia	3.32	3.94	3.30	0.64	56.00	62.00	6.00	3.25	-0.05
Thailand	2.46	3.68	2.50	1.18	122.00	122.00	0.00	2.00	-0.50
Philippines	2.37	4.13	4.20	-0.07	157.00	176.00	19.00	3.75	-0.45

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

Investor optimism in the bond markets of Indonesia, Thailand, and Malaysia still persists despite lack of current macroeconomic catalysts.

structure – all within targets. Fiscal revenues, on the other hand, did not reflect the economic growth as collections slowed down in 24 out of 31 provinces. Thus, as part of its mini-stimulus program, Premier Li Keqiang allowed local governments to sell bonds directly to refinance high-cost debts.

Indonesia: Slower economic growth transpired in Q2 at 5.12% (vs. Q2 2013's 5.8%) but investors' optimism for the current government helped push yields up by double-digits across all tenors. The 2-year bond's yield hiked by 36 bps followed by the 23.8 bps yield climb of the 10-year bonds. Rates for the 1-year and 5-year bonds also increased by 13.3 bps and 16.7 bps, respectively. President-elect Joko "Jokowi" Widodo eyes investments as the prime driver of the country's growth, and is therefore posed to adopt market-friendly policies to attract foreign investment in Indonesia by October. The new government remains hopeful that enhanced investments will promote increased state revenues and greater generation of employment. Nevertheless, Indonesia was also confronted by major drags in August coming from the external front. These include the adverse impacts of the ban on the export of raw minerals and risks of the global economy. But despite difficulties in achieving its targeted growth, the Bank of Indonesia kept policy rates firm in the effort to narrow its current account deficit. This appears to be the central bank's foreseen solution to attract investors once again to consequently revive the economy.

Malaysia: Malaysia's yield curve slightly shifted upwards, as the country's 6.4% GDP growth in Q2 strengthened the economy by 6.3% in H1. Only the 2-year bonds experienced aggressive calls this month with a slump of 3.2 bps in yields, now at 3.32%. The country's main growth driver came from its trade balance. Exports surged by 12.5%, outpacing imports' 9.2% growth year-on-year. Despite good macroeconomic conditions, investors still put a premium on longer-tenored bonds as the spread between the yield of the 5-year and 10-year bonds (at 3.7% and 3.9%, respectively) hit 23.5 bps from July's 21.4 bps spread. We suspect that investors remain cautious as regards the sustainability of Malaysia's growth but economic analysts remain optimistic with Malaysia's short term growth as economic forecasts for 2014 have been revised upwards from 5.1% to 5.6%.

Thailand: Thailand had a rough week at the start of August as yields of 10-year bonds surged due to risk aversion brought about by the geopolitical tensions abroad. But the market slowly gained momentum towards the end of the month as the yield curve shifted downwards as rates plunged across all tenors ahead of the Monetary Policy Committee's (MPC) decision to hold its benchmark rates. Yields slumped by 2.5 bps, 6.2 bps, and 2.8 bps for the 2-year, 5-year, and 10-year bonds, respectively. The 1-year bond, on one hand, maintained its rates from the previous month at 2.11%. After the rubble of the military coup, Thailand is once again on the radar screen of some investors. The military government proved its worth in implementing stimulus measures to drive consumption and economic growth. Loans for businesses also showed signs of recovery for Q3. A rebound of the economy is thus expected in H2. But despite all these, foreign investors are still wary of Thailand's long-term stability, since the country has yet to demonstrate its internal and external resiliency.

Outlook:

We expect a Q4 rally in peso-denominated bonds amidst stronger PH economic performance, falling domestic inflation rates, and the continuing appeal of US Treasuries given its economy's robust growth.

• Removal of supply chain constraints (with the lifting of Manila's truck ban), huge rice imports, greater impetus to move international goods shipments to Subic and Batangas, and falling crude oil prices underpin our optimism that inflation will significantly slow down in Q4. This will remove the Damocles sword that hangs over investors desiring to take longer-dated GS.

• A likely pause in BSP's tightening cycle in Q4 would likewise contribute to more risk appetite. Besides, faster H2 economic growth, with renewed government spending and stronger exports, should infuse greater optimism in the local financial markets.

• We do not see much pressure from US T-bond rates rising in Q4. At best, 10-year T-bonds are forecasted to hit 2.75% or some 40 bps from the lowest levels reached in Q2. Since the transmission of a 100-bps change in this issue to PH T-bonds of the same tenor is only in the order of 20-30 bps, a yields rise in the US has already been discounted in the local market.

• A rush of corporate bond issuances in Q4 appear likely as the backlog has been building up due to the need to satisfy regulatory requirements.

Foreign Flows Push PSEi Upwards Despite Rich Valuations

Philippine equity market has moved in a positive direction in August, lifted by higher economic growth outlook, robust foreign inflows, and favorable outcome of the MSCI quarterly rebalancing. The PSEi was up 186 points (+2.7% m-o-m) and foreign investors were net buyers by P13.0 B from P68 M recorded in the previous month. On the economic front, Philippines' Q2 2014 GDP grew 6.4% year-on-year (y-o-y), higher than the expected 6.0% y-o-y growth but slower than the 7.9% posted last Q2 2013. July headline inflation also recorded a 2-year high after posting a rate of 4.9% y-o-y (see Macroeconomy). Moving forward, we are not yet losing any sleep over the market's strong performance; however, there is a reason to be guarded given the rich valuations.

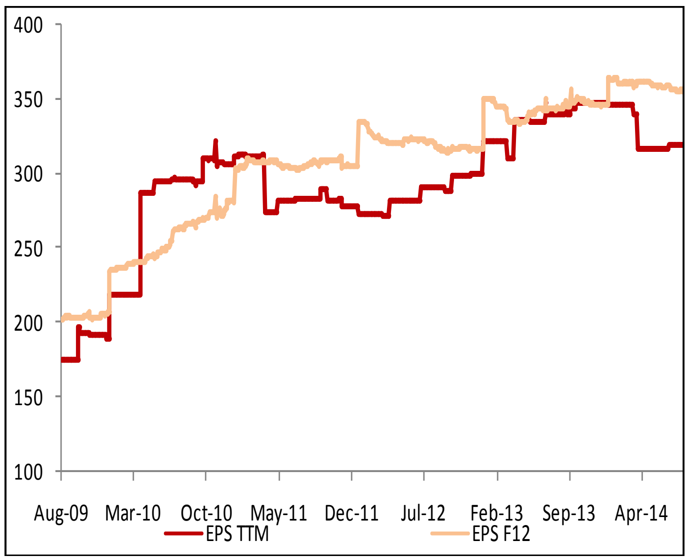
Outlook

Complacency has taken hold on investors' sentiment and could keep the risk appetite at high level. But since the Philippine market currently trades at rich valuations (historical versus peer) and viewing its strong performance against the backdrop of higher inflation, monetary tightening and unexciting earnings data, we prefer to be tactically guarded and de-risk equity exposure on market strength. There could be another round of foreign outflows as the Fed lays down its groundwork for interest rate hikes in 2015. We may see investors start pricing this in Q4 2014. On this backdrop, we see the US dollar strengthening versus EM currencies (including the Philippines), hurting portfolio gains in the process. At this point, capital inflows may no longer inundate the Philippine equity market.

Furthermore, we think it is time for a reality check to see whether the high price levels are justified. We see corporate earnings to move into the limelight and the ability of companies to actually deliver on earnings to be the subject of much scrutiny, especially given the lackluster H1 2014. This could lead to volatile market returns in the interim.

There will be selective opportunities. We see companies with above-average earnings growth and/or near-term re-rating catalyst, in particular, to come out as outperformers in this investment backdrop.

Figure 15 - PSEI EPS



Sources: Bloomberg L.P., First Metro Securities

Monthly Sectoral Performance				
	31-July-2014		29-Aug-2014	
Sector	Index	%Change	Index	%Change
PSEi	6,864.82	0.30%	7,050.89	2.71%
Financial	1,634.22	-0.84%	1,625.82	-0.51%
Industrial	10,479.75	0.77%	10,784.75	2.91%
Holdings	6,178.69	-1.04%	6,150.12	-0.46%
Property	2,570.55	-1.41%	2,676.33	4.12%
Services	2,099.88	2.13%	2,237.16	6.54%
Mining and Oil	16,718.73	0.27%	17,603.15	5.29%

Source of Basic Data: PSE Quotation Reports

The local bourse breached its resistance at the 7,000 level and registered positive gains by the end of August on the back of robust foreign inflows due to the favorable outcome of the MSCI rebalancing.

The local bourse breached its resistance at the 7,000 level and registered positive gains by the end of August on the back of robust foreign inflows due to the favorable outcome of the MSCI rebalancing. Most sectors ended in the green, spearheaded by the Services sector.

Company	Symbol	07/31/14 Close	08/29/14 Close	% Change
Metrobank	MBT	85.30	85.95	0.8%
Banco de Oro	BDO	90.60	90.50	-0.1%
Bank of the Philippine Islands	BPI	95.50	95.00	-0.5%

Source of Basic Data: PSE Quotation Reports

Bank of the Philippine Islands (BPI) slightly declined as it recorded a net income of P8.03 B for the first half of 2014, which is 33% lower compared to the same period last year due to a 32% decrease in its non-interest income. On the other hand, Metrobank (MBT) inched a little bit higher as its non-performing loans (NPL) ratio for the first half of the year improved to 1.3% from the 1.6% recorded in the same period last year.

Company	Symbol	07/31/14 Close	08/29/14 Close	% Change
Meralco	MER	256.20	253.40	-1.1%
Aboitiz Power	AP	36.75	37.50	2.0%
Energy Development Corp.	EDC	6.16	7.27	18.0%
San Miguel Corporation	SMC	80.00	79.00	-1.3%
Jollibee Foods Corp.	JFC	175.00	180.00	2.9%

Source of Basic Data: PSE Quotation Reports

Most stocks in the Industrial sector registered positive gains, with Energy Development Corporation (EDC) leading the charge. EDC rose on the back of the resumption of partial operations of the BacMan geothermal power plant in Bicol following the repair of facilities damaged by typhoon Glenda. Jollibee Foods Corporation (JFC) ended in the green as its Q2 net profit increased by 16.2% from a year earlier, propelled by a 6% expansion in overall store numbers. Aboitiz Power (AP) also recorded gains as it geared itself to start commercial operations of its 300-megawatt (MW) Therma South coal-fired power plant in Davao in the first half of 2015. San Miguel Corporation (SMC) and Meralco (MER) shares, on the other hand, headed south. San Miguel Corporation (SMC) suffered a minor setback as the submission of bids for the P2.5 B Integrated Transport System (ITS) deal was moved as the government announced that it has to revise some of the items of the deal. Meanwhile, Meralco also incurred a slight decrease as its consolidated revenues in H1 2014 amounted to P132.2 B, a 6.7% decline from the P141.7 B recorded in the same period last year due to the P9.3 B downward adjustment of pass-through charges on Meralco's purchases from the Wholesale Electricity Spot Market (WESM) as well as lower system loss charge.

Company	Symbol	07/31/14 Close	08/29/14 Close	% Change
Ayala Corporation	AC	653.00	700.50	7.3%
Metro Pacific Investments Corporation	MPI	5.02	5.15	2.6%
SM Investments Corporation	SM	798.00	772.00	-3.3%
DMCI Holdings, Inc.	DMC	74.50	80.00	7.4%
Aboitiz Equity Ventures	AEV	55.95	54.75	-2.1%
GT Capital	DMC	880.00	940.00	6.8%

Source of Basic Data: PSE Quotation Reports

Majority of the stocks in the Holdings sector ended as gainers, spearheaded by DMCI Holdings, Inc. (DMC). DMC registered gains as it expects completion of Sorrel Residences (near SM Center Point), Amaryllis in New Manila, and another tower in Flair (Pioneer, Mandaluyong) by the end of the year or in Q1 2015 at the latest. Ayala Corporation (AC) also benefited from its weight increase in the MSCI rebalancing. GT Capital (GTCAP) increased as it completed a major fundraising program with the successful listing of P12 B bonds to finance expansion plans. Furthermore, its consolidated net revenues for the first half of this year expanded by 35% to P66.2 B from P49.1 B recorded last year due to higher vehicle sales of Toyota Motor Philippines Corporation. Metro Pacific Investments Corporation (MPI) joined the gainers as its net income hiked by 18% to P4.6 B in the first half of this year on the back of improving performance of all its operating units. On the other hand, SM Investments Corporation (SM) slipped as it posted a 3.1% decline in six-month profits to P12.3 B due to the absence of extraordinary trading

Philex Mining Corporation (PX) plunged after its removal from the benchmark list of 30 stocks that comprise the PSEi after it failed to meet the parameters set by the PSE.

gains recorded in the same period last year. Its exposure to the MSCI index also decreased after the quarterly rebalancing. Aboitiz Equity Ventures (AEV) also decreased as its weight in the MSCI index shrank, worsened by the lower contribution from its banking and power generation units which dragged its earnings in the second quarter of this year.

Company	Symbol	07/31/14 Close	08/29/14 Close	% Change
Ayala Land, Inc.	ALI	31.00	33.00	6.5%
SM Prime Holdings, Inc.	SMPH	15.58	16.18	3.9%
Robinsons Land Corporation	RLC	22.45	22.40	-0.2%
Megaworld Corporation	MEG	4.14	4.37	5.6%

Source of Basic Data: PSE Quotation Reports

Ayala Land, Inc. (ALI) led all gainers in the Properties sector as it received a weight increase with the MSCI rebalancing. Megaworld Corporation (MEG) also increased as the flagship property unit of tycoon Andrew Tan nearly quadrupled its first half earnings on the back of an asset sale and the strength of real estate operations. SM Prime Holdings, Inc. (SMPH) shares also climbed as its consolidated net income expanded by 12.0% to P5.22 B in the second quarter from P4.66 B a year ago due to the strong revenues from its rental and residential projects.

Company	Symbol	07/31/14 Close	08/29/14 Close	% Change
Philippine Long Distance Tel. Co.	TEL	3,070.00	3,450.00	12.4%
Globe Telecom	GLO	1,770.00	1,800.00	1.7%
Puregold	PGOLD	43.00	36.20	-15.8%
Robinsons Retail Holdings	RRHI	66.4	62.1	-6.48%

Source of Basic Data: PSE Quotation Reports

Dominant carrier Philippine Long Distance Telephone Company (TEL) registered a huge uptick after it obtained a greater exposure to the MSCI index. Globe Telecom (GLO) slightly increased as it reported an 18.0% growth in core net income to P7.6 B in the first half of this year from a year ago on the back of strong service revenues driven by mobile browsing and other data revenues. On the other hand, Puregold (PGOLD) suffered a major setback as it posted a 6.6% decline in first half net profit to P1.66 B due to some non-recurring items that boosted earnings in the same period last year.

Company	Symbol	07/31/14 Close	08/29/14 Close	% Change
Philex Mining Corporation	PX	12.24	11.50	-6.0%
Semirara Mining Corporation	SCC	350.00	405.00	15.7%
Lepanto Consolidated Mining Corporation	LC	0.380	0.380	0.0%

Source of Basic Data: PSE Quotation Reports

Semirara Mining Corporation (SCC) increased by a huge percentage after the Energy Regulatory Commission ordered Napocor and PSALM to pay P476.7 M worth of receivables to Sem-Calaca Power Corporation of the Consunji Group due to the transition supply contract between Meralco and Napocor. On the other hand, Philex Mining Corporation (PX) plunged after its removal from the benchmark list of 30 stocks that comprise the PSEi after it failed to meet the parameters set by the PSE.

Total Turnover

Monthly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	20266.948	15.8%	1,066.68	28.0%
Industrial	40533.896	17.7%	2,133.36	30.1%
Holdings	46769.88	15.3%	2,461.57	27.5%
Property	17148.956	15.5%	902.58	27.7%
Services	29620.924	16.4%	1,559.00	28.7%
Mining and Oil	1558.996	47.3%	82.05	62.8%
Total	**155899.6**	**16.5%**	**8,205.24**	**28.7%**
Foreign Buying	95215.7	20.2%	5,011.35	32.8%
Foreign Selling	88641.6	13.8%	4,665.35	25.8%

Source of Basic Data: PSE Quotation Reports

The easing tensions of global conflicts and the favorable outcome of the quarterly MSCI rebalancing encouraged trading among investors, resulting to a 16.5% increase in the monthly total turnover. The local market reflected a general foreign capital inflow as foreigners emerged as net buyers by P13.02 B, which was higher than the P68 M recorded the previous month.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million PhP)

	2012		2013		1st Quarter 2014		2nd Quarter 2014		
	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
Production									
Agri, Hunting, Forestry and Fishing	678	2.4%	706	1.0%	179,598	0.90%	167,432	(6.77%)	3.6%
Industry Sector	1,577	(15.2%)	2,213	9.4%	562,862	5.50%	607,755	7.98%	7.8%
Service Sector	2,537	(20.2%)	3,844	7.1%	946,095	6.80%	1,053,956	11.40%	6.0%
Expenditure									
Household Final Consumption	4,186	6.1%	4,692	5.6%	1,156,000	5.80%	1,209,666	4.64%	5.3%
Government Final Consumption	567	(0.6%)	707	(5.2%)	187,239	2.00%	221,727	18.42%	0.00%
Capital Formation	1,340	13.2%	1,368	5.7%	372,241	7.70%	300,538	(19.26%)	(2.4%)
Exports	2,765	(4.2%)	3,064	6.4%	779,445	12.605	892,153	14.46%	10.3%
Imports	2,968	2.9%	3,119	1.9%	790,148	8.00%	778,479	(1.48%)	1.4%
GDP	5,921	3.9%	6,765	7.2%	1,688,556	5.70%	1,829,143	(8.33%)	6.4%
NPI	1,849	(0.6%)	1,297	9.5%	363,342	16.10%	340,296	(6.34%)	12.70%
GNI	7,770	2.8%	8,060	7.5%	2,051,897	(7.30%)	2,169,439	(5.73%)	7.3%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million PhP)

	2012		2013		May-2014			June-2014		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	1,534,932	14.2%	1,716,093	9.59%	172,234	(23.19%)	11.8%	138,640	(19.50%)	5.8%
Tax	1,360,849	13.6%	1,535,300	8.57%	158,299	(15.80%)	13.9%	122,863	(22.39%)	8.4%
BIR	1,057,716	14.9%	1,216,661	8.63%	128,273	(17.83%)	14.6%	94,120	(26.63%)	6.0%
BoC	289,866	9.7%	304,537	8.48%	28,809	(6.35%)	11.1%	27,327	(5.14%)	17.5%
Others	12,833	8.0%	14,103	5.78%	1,217	7.04%	5.6%	1,416	16.35%	8.4%
Non-Tax	173,980	36.6%	180,473	19.00%	13,934	(61.75%)	(7.5%)	36,429	13.23%	(11.2%)
Expenditures	1,777,977	14.0%	1,777,977	14.0%	160,452	11.74%	(4.04%)	201,126	25.35%	44.14%
Allotment to LGUs	298,322	(4.8%)	298,322	(4.8%)	30,496	8.07%	2.95%	30,264	(0.76%)	9.48%
Interest Payments	312,799	13.8%	312,799	13.8%	23,594	76.10%	41.28%	19,620	(16.84%)	6.53%
Overall Surplus (or Deficit)	(197,754)	(281.3%)	(243,045)	(13.1%)	11,782.00	(85.39%)	(189.50%)	(62,486.00)	(630.35%)	639.39%

Source: Bureau of the Treasury (BTr)

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

	2013		May-2014			June-2014		
	Annual Levels	Growth Rate	Levels	Growth Rate	YTD	Levels	Growth Rate	YTD
TOTAL	33,704	3.79%	3,078.60	4.7%	1.42%	3,259.20	5.9%	2.41%
Residential	10,231	4.67 %	992.20	9.1%	-2.27%	1,035.40	4.4%	-0.52%
Commercial	13,147	4.32%	1,184.10	3.3%	2.08%	1,258.70	6.3%	2.95%
Industrial	10,196	2.33%	891.40	1.9%	4.40%	954.20	7.0%	4.80%

BALANCE OF PAYMENTS (In Million US$)

	2012		2013		1st Quarter 2014		2nd Quarter 2014	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	7126	2.2%	9,423	35.00%	1,961.00	13.2%	3,122.00	41.46%
Balance of Trade	(12,046)	(5.6%)	(11,958)	4.70%	(3,058.00)	(12.52%)	(2,550.00)	(23.02%)
Balance of Goods	(15,205)	10.4%	(18,525)	2.00%	(4,072.00)	2.1%	(3,154.00)	(25.08%)
Exports of Goods	46,284	20.9%	44,736	-3.60%	10,891.00	6.60%	11,630.00	4.45%
Import of Goods	61,489	11.3%	63,261	-3.10%	14,963.00	4.01%	14,784.00	(3.66%)
Balance of Services	3,905	31.4%	6,821	10.40%	1,014.00	(29.6%)	604.00	(53.07%)
Exports of Services	18,600	9.6%	21,790	6.00%	4,833.00	9.4%	6,073.00	11.00%
Import of Services	14,695	4.4%	14,968	5.00%	3,819.00	28.2%	5,469.00	30.71%
Current Transfers & Others			20,597	9.38%	4,997.00	8.6%	n.a	n.a
II. CAPITAL AND FINANCIAL ACCOUNT	(5,995)	9.4%	750	(111.27%)	3,084.00	(246.23%)	938.00	(65.00%)
Capital Account	136	%	115	21.80%	26.00	0.60%	26.00	(16.13%)
Financial Account	(6,131)	(9.3%)	635	109.40%	3,058.00	243.2%	912.00	(65.57%)
Direct Investments	(952)	25.5%	(218)	(122.70%)	(722.00)	25.60%	(429.00)	(150.35%)
Portfolio Investments	(3,523)	19.7%	(1,325)	58.70%	2,013.00	357.2%	(521.00)	9.00%
Financial Derivatives	(13)	98.7%	(88)	(543.00%)	(19.00)	(138.7%)	(7.00)	(72.00%)
Other Investments	(1,643)	(255.1%)	2,266	150.00%	1.785.00	514.4%	1,869.00	(18.77%)
III. NET UNCLASSIFIED ITEMS	(2,127)	(217.3%)	(3,818)	16.20%	(3,404.00)	(44.4%)	(1,905.00)	(231.20%)
OVERALL BOP POSITION	10,179	(19.0%)	5,085	(44.90%)	(4,475.00)	(391.2%)	330.00	(68.30%)
Use of Fund Credits	0	0.0%	0	0.00%	0.00	0.00%	0.00	0.00%
Short-Term	(1)	0.0%	0	107.00%	11.00	1.00%	(11.00)	1.00%
Memo Items								
Change in Commercial Banks								
Net Foreign Assets	(4,049)	19.9%	2,013	152.00%	2,381.00	807.1%	1,102.00	(54.12%)
Basic Balance	n.a.	n.a.	n.a	n.a	n.a.	n.a.	n.a.	n.a.

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (In Million PhP)

	2013		June-2014		July-2014	
	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%	3,497,007	9.3%	3,601,127	8.5%
Net Domestic Asset of the BSP	(1,980,769)	(3.07%)	-1,956,830	1.5%	-2,062,653	-2.0%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,777,699	21.39%	1779387	22.8%	1,855,552	29.8%
Money Supply-2	5,677,418	23.82%	5523264	19.2%	5,812,196	29.1%
Money Supply-3	5,774,456	23.68%	5748593	21.3%	6,031,739	30.9%
MONEY MULTIPLIER (M2/RM)	3.61	(45.5%)	3.59	-1.6%	3.78	1.9%

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