July 2015

The MARKET CALL

Capital Markets Research

FMIC and UA&P Capital Markets Research

Inflation Falls to 1.6%, while Infra Spending Surges by 40%

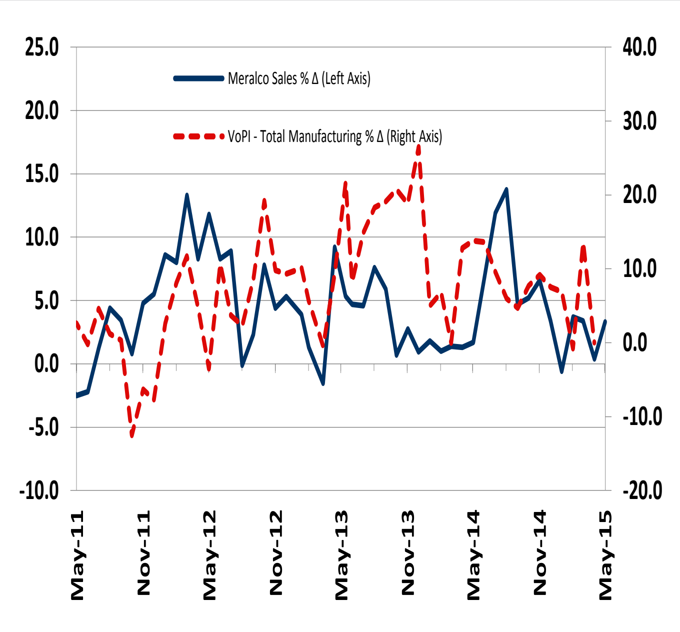
The Philippine economy appears headed to a more sanguine second quarter performance as inflation fell to a 67-month low of 1.6% in May, while the National Government's (NG) infrastructure zoomed up by 40% in April. Below-target headline inflation, pulled down by stable to lower food prices, should encourage more consumer spending in Q2 onwards. NG infrastructure spending signaled a rebound from overall underspending in Q1 as NG boosted its April expenditures by 9%, and still brought year-to-date budget surplus to P19.1 B from P3.3 B a year ago. The more optimistic outlook is bolstered by a seasonally adjusted annualized net job creation of 1.3 M in April compared to January 2015.

Despite robust gains in electronics exports, the fly in the ointment came from the 4.1% drop in exports also in April. Overseas Filipino Workers' remittances still up by 5.1% in the same month. Thus, strong OFW inflows and BPO earnings and lower imports (due to the plunge in oil and other commodity prices), the country reported a balance of payments (BOP) surplus of $877 M in Q1-2015, a huge reversal from $4.1 B deficit in the same quarter of 2014.

Meralco Sales Increase in May

Lower spot market charges and cheaper fuel prices resulting to a downward adjustment in the electricity bill in May buoyed electricity demand up to 3.3% in May. The overall rates went down by P0.7 per kilowatt-hour (kWh), primarily driven by the reduction in the generation charge. Meralco sales across the three segments improved, with the Commercial segment posting the highest growth (+5.1%). Residential and Industrial electricity consumption recorded positive growths of 2.4% and 1.7%, respectively. Meanwhile, the Volume of Production Index (VoPI) maintained a positive growth of 0.3% (revised from 1.4% in April), significantly lower than 13.6% and the 12.8% increases recorded in March 2015 and April 2014. The minimal growth was mainly due to the double-digit growths in Chemical Products (46.2%), Tobacco Products (35.5%), Furniture and Fixtures (22.8%), Basic Metals (22.3%), Textiles (17.8%), Printing (14.7%), Machinery except Electrical (14.5%), Paper and Paper Products (13.3%), Leather Products (11.7%), and Beverages (10.2%). The rainy season has likely curtailed production thus, will further dampen VoPI. For Meralco sales, however, the continued downward adjustments in electricity bills might offset this possible slump.

Figure 1 - Meralco Sales and VoPI Year-on-Year Growth, 2011-2015



Source of Basic Data: National Statistics Office (NSO)

Inflation Plunges to 1.6%, Lowest Since Oct 2009

Inflation dipped to 1.6% in May, the lowest in 67 months, as soft fuel prices and ample key food commodities further pulled most of the prices down. Year-to-date (YTD), headline inflation averaged 2.2%, lodging at the tail-end of the government's target.

Price deceleration in most of the heavily-weighted indices primarily contributed to the slowdown in May's inflation. The Housing, Water, Electricity, Gas, and Other Fuels (HWEGOF) index posted the biggest decline, resulting

Domestic liquidity grew at 9.3% month-on-month (m-o-m) as trust entities furthered their placements in the BSP's Special Deposit Account (SDA) facility.

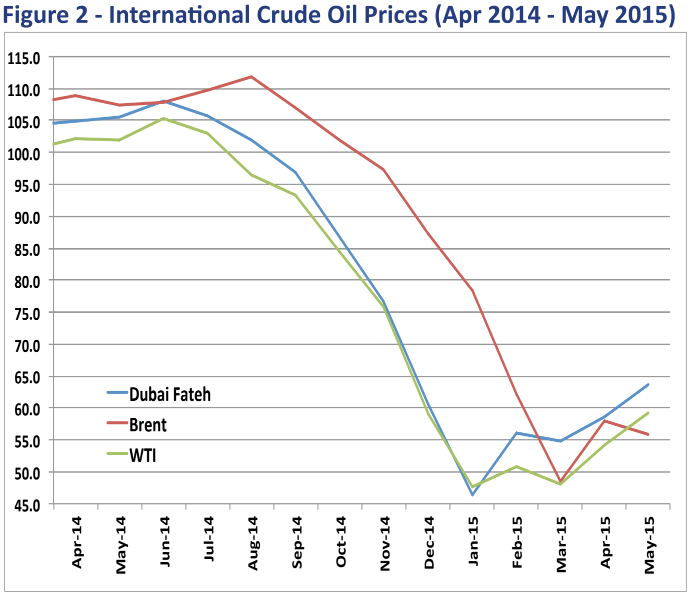
Inflation further slid to 1.2% in June due to persistent price deceleration observed in the heavily-weighted Housing, Water, Electricity, Gas and Other fuels (HWEGOF) index. More details will be discussed in the next issue.

from the continued year-on-year (y-o-y) decline in crude oil prices (Dubai Fateh, West Texas Intermediate, and Brent have declined by an average of 42% (y-o-y).

Favorable weather conditions similarly boosted supply of major food commodities (i.e., rice, fruits, vegetables, and fish). The Food and Non-Alcoholic Beverages (FNAB) index recorded downward adjustments. Alcoholic Beverages and Tobacco (ABT), Clothing and Footwear, and the Furnishing, Household Equipment and Routine Maintenance of the House indices also posted a slowdown in prices. The rest of the indices maintained the previous month's pace, except for the Transportation index, which had a slight increment of 0.3 percentage points.

The seasonally-adjusted annual rate (SAAR) climbed to 1.7% from 0.85% (revised), almost the same as the actual headline inflation data, suggesting a real slowdown in

Figure 2 - International Crude Oil Prices (Apr 2014 - May 2015)



Sources of Basic Data: eia.gov.ph and Index Mundi

Inflation Year-on-Year Growth Rates	14-May	14-Apr	YTD
All items	1.6%	2.2%	2.2%
Food and Non-Alcoholic Beverages	3.2%	3.9%	4.3%
Alcoholic Beverages and Tobacco	3.7%	4.1%	3.9%
Clothing and Footwear	2.6%	2.8%	2.9%
Housing, Water, Electricity, Gas, and Other Fuels	-1.5%	-0.4%	-1.1%
Furnishing, Household Equipment and Routine Maintenance of the House	2.2%	2.3%	2.2%
Health	2.3%	2.3%	2.5%
Transport	0.1%	-0.2%	-0.4%
Communication	-0.1%	-0.1%	-0.1%
Recreation and Culture	1.1%	1.1%	1.2%
Education	5.1%	5.1%	5.1%
Restaurant and Miscellaneous Goods and Services	1.2%	1.2%	1.4%

Source of Basic Data: National Statistics Office (NSO)

Note: Red font – means lower rate (good) vs. previous month

key commodities after isolating the seasonal factors. We maintain our view that inflation will likely trek the downward path due to stable food prices and soft oil prices and will likely average a below-target 1.5% in Q3.

PH employment appears encouraging as the seasonally adjusted annualized net job creation totaled 1.3 M in April. More details will be discussed in the next issue.

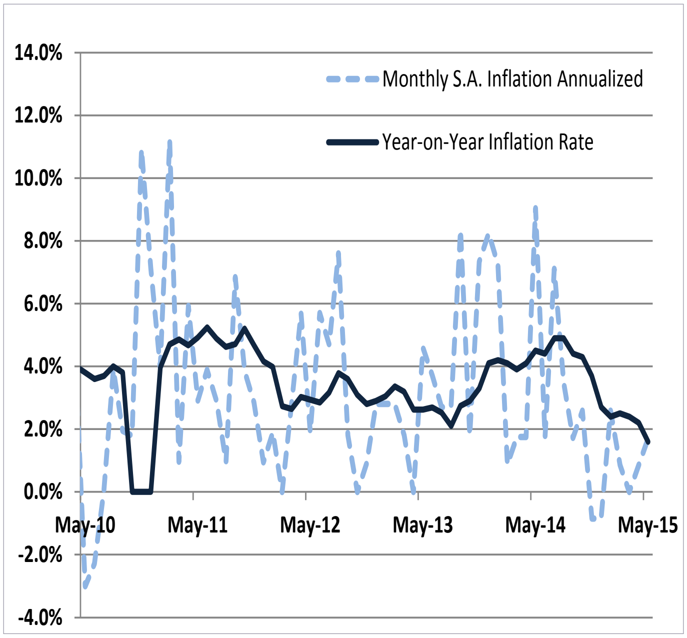
Domestic Liquidity Inches Up in May, while MB Keeps Policy Rates Unchanged

Domestic liquidity (M3) expansion accelerated slightly in May to 9.3% from 9% in the previous month. Nonetheless, it appeared well contained and barely sufficient to support the country's economic growth trajectory. Increased placements of trust entities into the BSP's Special Deposit Account (SDA) facility helped keep money growth in check. Broad Money (M2) and Narrow Money (M1) likewise grew by 8.5% and 9.3%, respectively.

Sustained demand for credit continued to add money into the banking system. Banks channeled the bulk of credit to key production sectors such as real estate, renting, and business services; manufacturing; wholesale and retail

The National Government (NG) posted its first surplus for the year at P52.6 B in April.

Figure 3 - Inflation Rates Annualized (2010-2015) Seasonally Adjusted vs. Year-on-Year



Source: National Statistics Office (NSO)

Monetary authorities' Net Foreign Assets (NFA) increased by 2.1% from 1.4% recorded last April amidst the robust foreign exchange inflows coming from OFW remittances and BPO earnings.

Despite the lower actual and forecast inflation, the Monetary Board (MB) decided to maintain policy rates at its current level during its June 25 meeting. Overnight borrowing or reverse repurchase (RRP) facility stood at 4% and the overnight lending or repurchase (RP) facility at 6%. Likewise, the MB kept interest rates on term RRPs, RPs and special deposit accounts (SDAs) as well as the reserve requirements, on hold. The BSP argued that the prevailing policy remains appropriate given the well-anchored inflation outlook within the 3 (+/- 1) % target. With the messy Greek debt crisis spawning uncertainty, a general domestic demand weakness seen in Q1, and the continuing downward trend in inflation, we believe that there is sufficient reason for monetary policy easing in Q3. However, given the conservative BSP stance, the more likely scenario is a no-change of policy for the rest of the year.

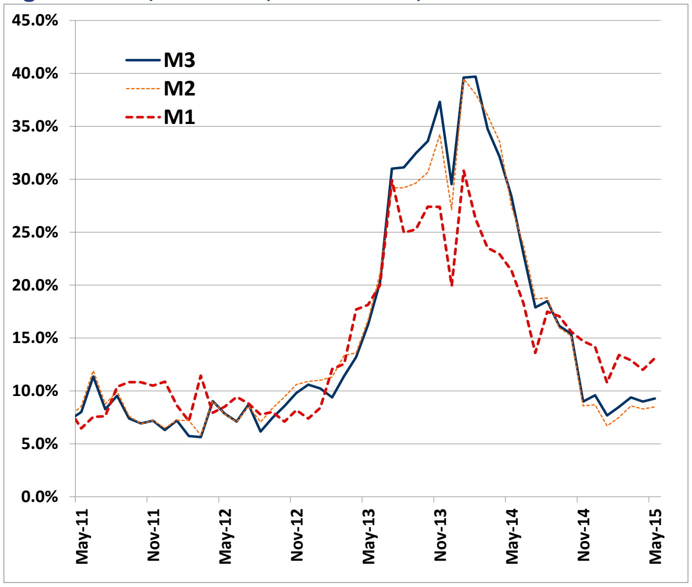
NG Records Its First Surplus in 2015

The NG recorded a surplus of P52.6 B in April, reversing its past fiscal deficit. Although 35% less than the P80.9 B surplus recorded last April 2014, this brought the YTD level to a surplus of P19.1 B, in contrast with the P3.3 B deficit in the same 4-month period last year.

Total expenditure grew by 9% amounting to P156.5 B, hopefully a definitive recovery from the slowdown recorded in the past months. YTD disbursements totaled P660.6 B, representing a 5% y-o-y growth. Further acceleration in NG spending is expected as agencies resolved to ramp up spending. The Department of Management (DBM) recently reported that infrastructure spending rose by 40% to P23.2 B in April. The expansion was primarily driven by the strong performances in the Office of the President and the departments of Education (DepEd), Public Works (DPWH), Social Welfare and Development (DSWD), and Interior and Local Government (DILG).

Meanwhile, the P2.6 B (or -8.5%) decline in the Bureau of Custom's (BoC) collections accounted for the P15.3 B decline in total revenue. A huge part of this underperformance may be attributed to sharply lower

Figure 4 - M1, M2 & M3, Year-on-Year, 2011-2015



Source of Basic Data: National Statistics Office (NSO)

Philippines BOP surfaced with a surplus of $877 M in Q1 with the enhancement of the sub-accounts of the PH current account and lower net outflows in other investment and portfolio investment accounts.

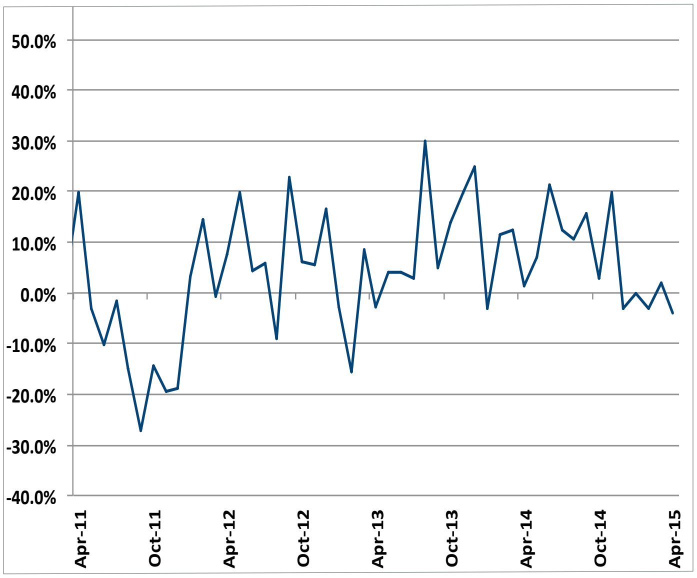
crude oil prices compared to year-ago levels. Nonetheless, YTD levels of BoC and BIR collections posted 2.7% and 11.2% y-o-y gains, respectively.

NG spending on infrastructure developments and other key projects need to be sustained to fire up the economy, and the upcoming elections and lower inflation provide sufficient reasons to believe that spending will increase in the coming months.

PH BOP Posts $877 M Surplus in Q1

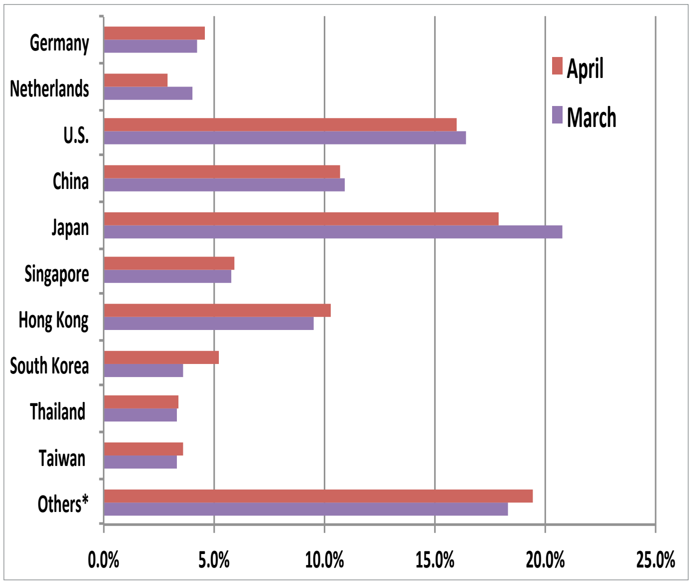
The Balance of Payments (BOP) recorded a surplus of $877 M in Q1 2015 amidst the robust inflows in the country's current account, along with a decline in net outflows in the financial account. This surplus marked a substantial improvement from the $4.5 B deficit yielded in Q1 2014. Improvements in the sub-accounts of the PH current account and lower net outflows in other investment and portfolio investment accounts resulted to the favorable outcome in the country's BOP. Additionally, modest growth in the US, Japan, and in some parts of the Eurozone supported BOPs expansion via the current account.

Figure 5 - Exports Growth Year-on-Year, 2011-2015



Source of Basic Data: National Statistics Office (NSO)

Figure 6 - Philippine Exports by Country Destinations



Source of Basic Data: National Statistics Office (NSO)

The BOP surplus resulted in a $1 B increase in the country's gross international reserves (GIR) to reach $80.5 B as of end-March 2015, sufficiently covering 10.6 months of imports and is equivalent to 6.1x the country's short-term external debt based on original maturity.

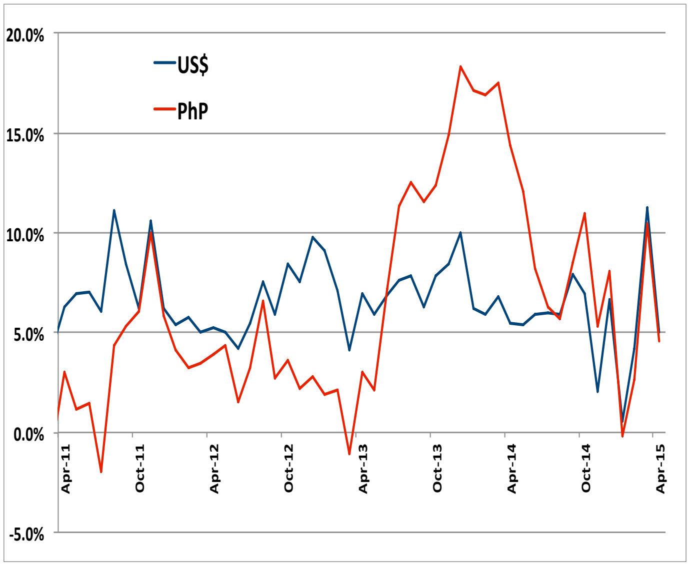
PH Exports Slump in April

Philippine exports continued to decline in April, with sales falling by 4.1%. Despite the positive performance of Electronic Products, which grew by 17.8%, this was not enough to counteract the fall in other export products. Notable declines in the various commodities exported include Mineral Products (-36.8%), Other Manufactures (-26.7%), Woodcrafts and Furniture (-23.9%), Metal Components (-14.5%), and Chemicals (-10.2%), among others. YTD growth remained weak at negative 1.3% from $18.84 B in 2014 to $18.64 B in the same period of 2015.

Electronic products category was the top export with total earnings of $2.2 B, or 50.6% of total exports for the month of April 2015. Of the electronic products, semiconductors comprised the biggest group at 38.1%, accounting for $1.7 B in revenues.

Philippine exports presented sluggish performance in April, visible in Japan and China, two of the country's top three export destinations.

Figure 7 - OFW Remittances, April 2011-2015



Source of Basic Data: National Statistics Office (NSO)

Other manufactures was second although earnings plunged from last year's $374.6 M to $274.6 M this month. Machinery and Transport Equipment moved to third place, bringing in exports amounting to $234.6 M (-4.4%). Woodcrafts and Furniture slipped to fourth place, with a revenue worth $210.8 M, but experienced a downturn of 23.9% from last year's earnings. Other mineral products, which ranked third last year, was replaced by Articles of Apparel and Clothing Accessories, which landed on fifth place. Its revenue contributed 3.6% to total export receipts.

Japan, the United States and China continued to be the country's top three export destinations. Japan accounted for 17.9% or $784.9 M of total exports although it was a notable decline of 16.1% from last year's earnings of $835.3 M. The United States, which remained at a close second with receipts amounting to $700.2 M (5.4%), accounted for around 16% of the total exports. China stayed in third place, with a 10.7% share of exports. Similar to Japan, we saw a 17.9% slump in earnings, securing only $467.7 M versus last year's $569.5 M. Hong Kong and Singapore garnered fourth and fifth places, with shares of 10.3% and 5.9% of exports, respectively.

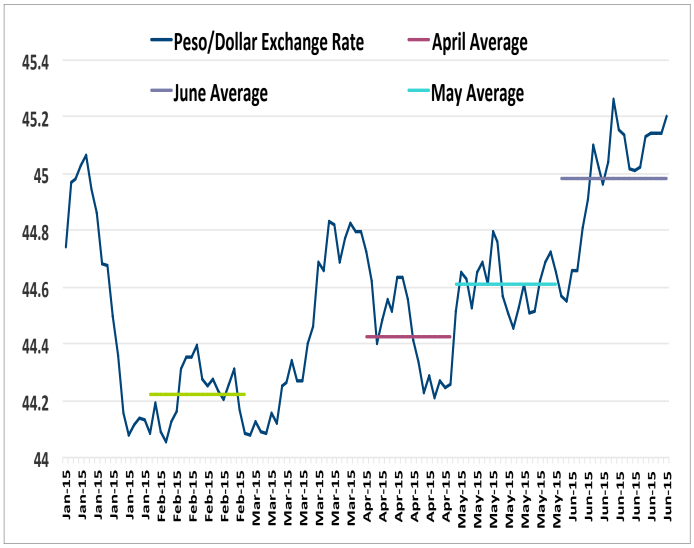
PH Exports posted a big drop of 17.4% in May brought about by the decrease in seven out of 10 major commodities. More details will be discussed in the next issue.

East Asian countries accounted for the bulk of total merchandise exports, with a 47.9% share to total exports worth $2 B. Despite a remarkable performance, it was a 6.3% decline. On another note, the country's exports to the European Union saw a notable growth of 18.7% from a low base. Outbound shipments to the region declined by 24.4% valued at $594.95 M. Commodity exports to the ASEAN + East Asia ex Japan accounted for 43.6%.

Weak exports data in Q1 reflected the slowing growth in Japan, China, and the US. However, we believe that exports will improve in H2 as modest expansion in US and Japan kicks in.

Imports slumped much more to negative 12.8%, resulting to an improvement in the Balance of Trade (BOT) to -$301 M from -$802 M a year ago. Growth of total imports less Mineral Fuels, Lubricants & Related Materials, Iron & Steel, and Non-Ferrous Metals imports still stood positive at 3.5%. Balance of Trade (BOT) decline to -$301 M from -$802 M last year.

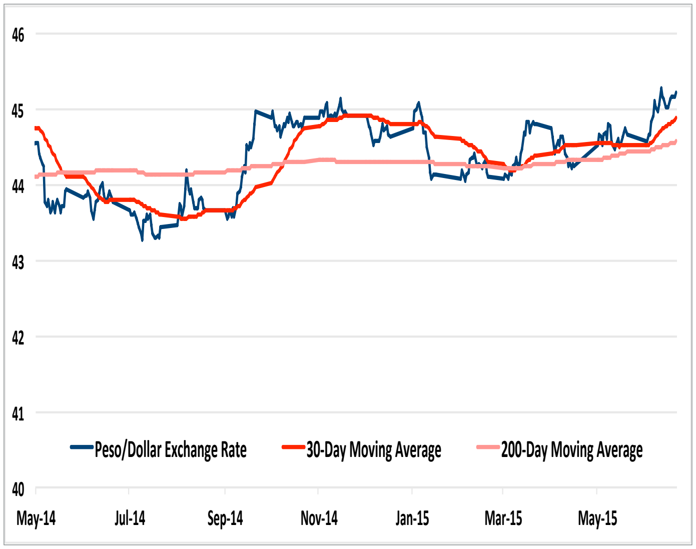
Figure 8 - Daily Dollar-Peso Exchange Rate, Jan - Jun 2015



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

OFW cash remittances slowed down as the total approved job orders from January-April decreased at 3% y-o-y.

Figure 9 - Dollar-Peso Exchange Rates & MAs, May 2014-2015



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

OFW Cash Remittances Decelerate in April

Cash remittances sent by the Overseas Filipino Workers (OFW) expanded by 5.1% (or $2 B), albeit slower than the 11.3% recorded in March. The 3% y-o-y decline in total approved job orders from January-April partly explains the slowdown in the remittances coursed through banks. Preliminary data from the Philippine Overseas Employment Administration's (POEA) data showed that a total of 67,682 were added in April, making it 310,727 from January-April (from 319,888 in the same period of last year). A third of processed job orders intended to place workers mainly for service, production, and professional, technical and related work in Saudi Arabia, Kuwait, Qatar, Taiwan, and the United Arab Emirates.

YTD level stood at $7.8 B, registering a 5.3% y-o-y increase. Land based workers sent a total of $5.9 B (up 5.3%) accounting for more than ¾ of total transfers. Sea-based workers took care of the balance which posted an increase of 5.6%.

Following the slowdown in the dollar growth of cash remittances, the peso equivalent eased even more (+4.5%) due to the 0.5% peso appreciation in April 2015 vis-à-vis a year ago.

Monthly US Dollar Cross Rates of Selected Asia-Pacific Currencies					
Currency	Feb-15	Mar-15	Apr-15	May-15	Jun-15
AUD	3.5%	0.9%	-0.1%	-1.8%	2.2%
CNY	0.5%	-0.2%	-0.7%	0.2%	0.0%
HKD	0.0%	0.0%	-0.1%	0.0%	0.0%
IDR	1.7%	2.4%	-1.1%	1.4%	1.5%
KRW	1.2%	1.1%	-2.7%	0.8%	1.9%
MYR	0.7%	2.3%	-1.5%	-0.7%	3.9%
PHP	-0.9%	0.5%	-0.1%	0.4%	0.8%
SGD	1.4%	1.6%	-2.1%	-1.1%	0.9%
THB	-0.5%	0.2%	-0.5%	3.2%	0.7%

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

We think that OFW remittances should continue to pile in at 4-6% in H2 despite low oil prices that affected Middle East economies. Construction work kept a good rhythm in the area, as these economies have fat reserves to draw on.

Peso on Depreciation Mode

Stronger employment and housing sales growth in the US underpinned the strength of the dollar as it advanced vis-à-vis other ASEAN currencies. Sales of new homes in May rose to its highest level (at 546,000 annualized) in seven years and net new jobs created hit 280,000 exceeding market consensus by 27%. Demand for business equipment likewise posted remarkable growth for the second time this year. These suggest improving demand in the construction and industrial sectors which should support broader growth in the US.

Meanwhile, the USPHP rate further weakened to P44.98 from P44.60 in May, representing a 2.66% y-o-y PHP depreciation. The volatility measure climbed to 0.71 from 0.34 last month, with the PHP ranging between P44.55/US$ and P45.26/US$. The peso breached the 45 level in the second week of June and continued to depreciate mildly until the end of the month.

The Philippine peso, along with the other emerging currencies, performed weakly in June brought about by the US economic recovery, seen through their improved employment and housing sales data.

Most of the emerging currencies slumped on the US dollar's strength. Malaysia's Ringgit (MYR) tumbled the most following an 8.8% drop in exports, exacerbated by the funds outflow spurred by higher interest rate in the US. Similarly, Thailand Baht (THB) and Philippine Peso (PHP) declined due to foreign capital outflow from the domestic bonds/stocks. Weak global demand and sluggish export performance continue to weaken Korea's Won (KRW). Indonesia's Rupiah (IDR) remained volatile and remained as one of the worst performers among ASEAN currencies.

The 30-day and 200-day moving averages (MAs) suggest peso weakness in the near-term and we believe that the peso will continue to be on a depreciation mode as the US growth proves intact. However, there might be occasional reversals as BSP seems to favor a "strong" currency.

Outlook

• The early Q2 signs point to a definite recovery from the measly 5.2% GDP growth in Q1. Although there are still some negative signals, on balance the outlook looks more promising.

• We see some mixed signals from real sector indicators, like industrial production which is likely to be lower than 5% in Q2. However, the strong job growth (q-o-q) and very low inflation rates for the rest of Q2 should boost consumer and firm spending.

• Headline inflation in Q2 likely fell to 1.7%, while it should decelerate further to 1.3% in Q3 supported by weak crude oil prices and stable to lower food prices. Rice inventory is at 5-year highs. However, base effects and some early El Nino effects would likely bring up average inflation in Q4 to 2%, still at the bottom end of the government's inflation target of 2%-4%.

• Money growth remains muted and should continue to be or near single-digit rates in H2. With very soft inflation rates, there appears to be some leeway for a slight easing in H2 via lower reserve requirements, which have been one of the highest in the region, and the elevated levels have pushed up intermediation costs.

• While the April increase in government spending may not be representative, we do think that the aversion towards underspending in the context of an upcoming Presidential elections would lead to a sustained increase in NG spending, especially, for infrastructure.

• While exports have started soft, imports have slumped much more resulting in a balance of trade deficit of $301 M in April 2015 versus $802 M a year ago, a substantial saving of some $500 M. This should also be a positive stimulus starting Q2.

• The festering Greek debt crisis and corresponding Eurozone weakness highlights the steadily improving US economy. This, together with the expected rise in Fed policy rates by Q4 this year, should boost the US dollar and continue to provide a depreciation bias to the peso.

Anxiety over Eventual Fed Policy Rates Hike Pushes Up Yields, Stymies Trades

Anxiety over the impact of a policy rate hike by the Federal Reserve Board (Fed) of the US expected late this year hanged over investors' head in June. The month-ending stalemate in the Greece-EU (with ECB and IMF) negotiations over the former's debt overhang added angst among investors. These resulted in higher domestic bond yields, especially in the shorter end of the curve, as well as sleepy trading in the secondary markets.

The markets appear to be awaiting clearer indications of the timing and extent of the Fed rate hike as well as resolution of the question as to whether Greece would remain in the Euro or not. With risk aversion favoring US debt markets and the consequent portfolio capital outflow (from local equities), the bond markets may move sideways in Q2.

Primary Market: Yields on the Rise

Treasury bill auctions led to higher average yields across all short-term tenors in anticipation of the upcoming US Fed rate hike and uncertainty surrounding the Greek debt crisis. Investors received full awards of the 91-day T-bills at 2.142%, up 9.3 bps and 182-day at 2.350%, up 9.8 bps. Tender-to-offer ratio was 2.29X for the 3-month paper and 1.82X for the 6-month. The National Treasurer was happy to fully award the auction since yields were lower than what was being seen in the secondary market.

In contrast, for the 364-day T-bill, NG only awarded P5.05 B out of the P6 B-offer as the average yield of 2.512% was only 8.1 bps higher than the previous month's auction.

In the longer tenors, the re-issued 5-year paper, with less than 3-years remaining life, was fully awarded at 3.061% with a bid cover of 1.63X.

Secondary Market: Back to Tepid Trading

After May trading volume shot up with the entry of the tax-exempt institutions (TEIs) in the secondary market, volume for June declined by 8.75% with an average volume of P57.78 B. However, it still managed a modest uptick of 5.71% year-on-year (y-o-y). Results across the weeks varied since significant differences with the weekly volume surfaced. Most activity happened during the first week after recording a volume of P95.77 B. The second and last week recorded the weakest volume at less than half the monthly average. This month's results went below the returns for May.

T-Bills and T-Bonds Auction Results

Date	T-Bill/T-Bond	Offer	Tendered	Awarded	Tendered/ Offered	Average Yield	Bps Change from Previous Auction
T-Bills							
1-Jun	91-day	8.00	18.320	8.00	2.29	2.142	9.30
	182-day	6.00	10.933	6.00	1.82	2.350	9.80
	364-day	6.00	5.056	1.52	0.84	2.512	8.10
Subtotal		20.00	34.309	15.52	1.72	7.004	
T-Bonds							
16-Jun	5-year*	25.00	40.660	25.00	1.626	3.061	45.9 (From February 2014's 3.52%)
All Auctions		45.00	66.052	35.385	2.854		

**Re-issued (Original Issue Date: May 23, 2013)*

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

The corporate bond market ended weakly, both on m-o-m and y-o-y basis, due to investors' decision to hold on to higher-yielding bonds and to be watchful of global market uncertainties.

Yield changes across all tenors showed mixed results as in the previous month further contributing to the flattening of the curve. (Please see the comparative yield curves in Figure 11.)

Among ASEAN-4 and China, PH government bonds showed the largest steepening in the yield curve as the spread between the 2-year and 10-year bonds rose by 81 bps.

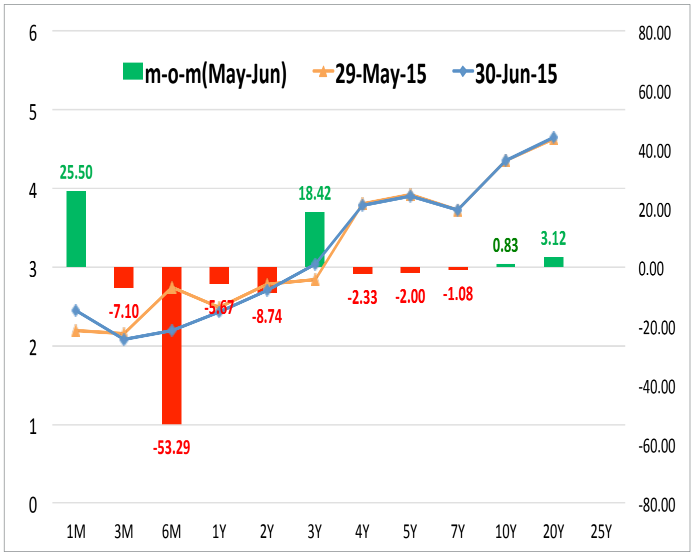
No trading occurred in the 25-year space.

Corporate Bonds: Trading Eases in June

Corporate bond trading in the month of June slowed down compared to both the previous month and a year ago. It chalked a total volume of P3.54 B, 16.1% lower than in May, and 10.1% below June 2014 as investors preferred to hold on to their higher-yielding bonds. The sluggish volume transpired as investors continue to track global market risk events, affecting the general activity in the market. At the same time, continuous and steady demand for higher yielding securities remained as some investors preferred to hold on to cash with the Greek debt crisis creating more uncertainty in the market.

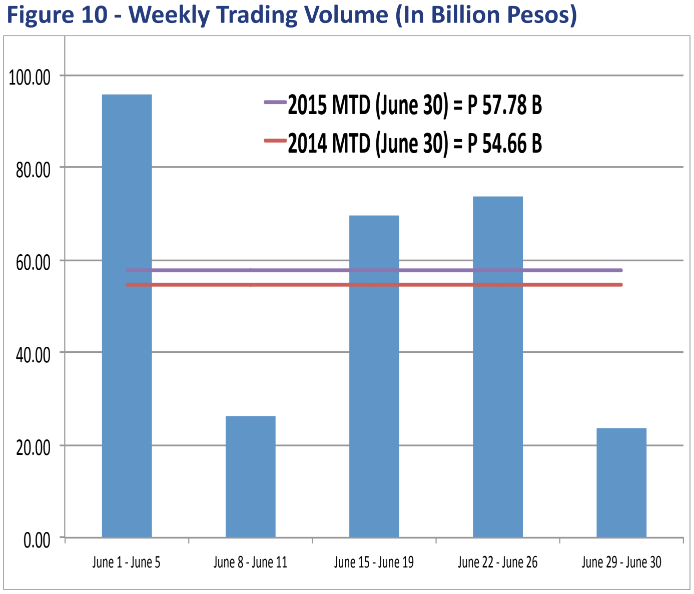
The five corporate papers—namely Power Sector Assets and Liabilities Management (PSALM), San Miguel Brewery (SMB), Ayala Land, Inc. (ALI), Ayala Corporation (AC) and SM Investments Corporation (SMIC)—traced different paths this month as shown through the varying trading results. ALI recovered from its very weak performance in May because of its 1,158.52% improvement at P483.41 B. Majority of these notes are going to be used for the company's expansion, specifically its real estate developments. SMIC went up to the second position from the third spot last month at P348.59 B. Running closely with SMIC, PSALM papers' turnover reached P334.95 B. San Miguel

Figure 11 - PDST-R2 Yields



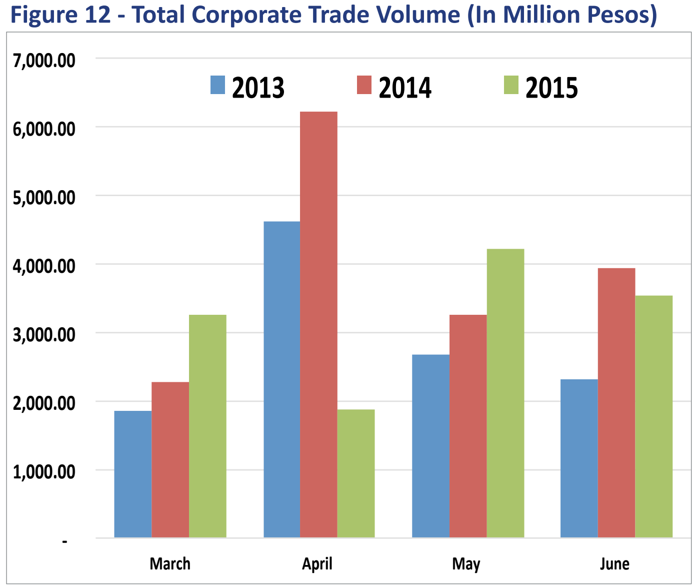
Source: Philippine Dealing Systems (PDS)

Figure 10 - Weekly Trading Volume (In Billion Pesos)



Source: Philippine Dealing Systems (PDS)

Figure 12 - Total Corporate Trade Volume (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

Investors' demand for ROPs declined this June because of the uncertainties on the much-awaited US Fed rate hike. The yields for the dollar-denominated bonds rose along with the long-term bonds in the US.

Brewery papers moved at an opposite direction from last week's overwhelming performance, seen through its P233.19 B results, 25.87% lower than the previous month. The mother company of the Ayala's, Ayala Corporation, fell on the fifth slot with P156.48 B.

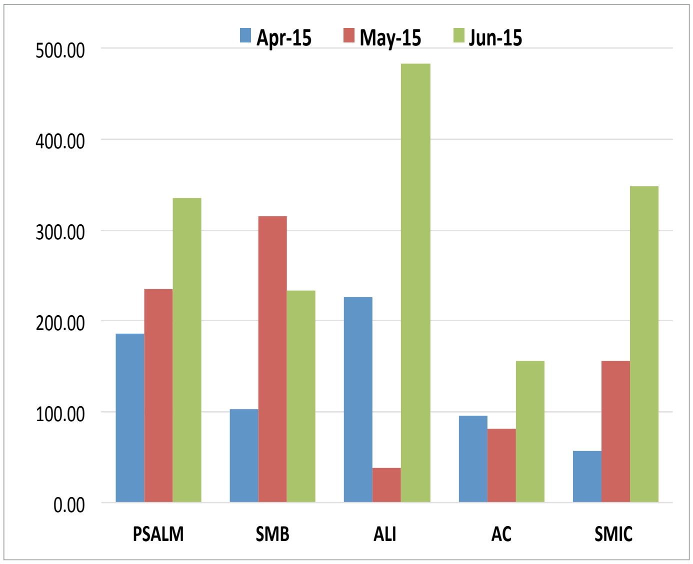
Corporate Issuances and Disclosures: Still a Slow Grind

Two real estate development companies listed their bond offerings for the month of June or obtained approval as part of their expansion and settlement of financial obligations.

• VLL International, Inc., a Vista Land subsidiary, issued a $300 M Senior Unsecured Notes offering due 2022 at 7.375%. These 7-year term securities are part of Vista Land's $1 B medium term note program.

• Vista Land (VLL), through its subsidiary VLL International Inc., acknowledged valid tender offers on 6.75% guaranteed notes worth $37.5 M out of $100 M issuance due 2018 and 7.45% guaranteed notes with an amount of $169.2 M out of the $350 M issuance due 2019. The balances of the 2018 and the 2019 notes are at $62.5 M and $180.8 M, respectively, will remain after the settlement of the offer.

Figure 13 - Corporate Trading (In Million Pesos)



Source: Philippine Dealing Systems (PDS)

• 8990 Holdings (HOUSE) will issue a SEC-approved P9 B worth of Fixed-Rate Bonds, consisting of P5 B base offer and P4 B oversubscription coverage. The bond offer will come in three tranches: Series A due 2020, Series B due 2022 and Series C due 2025. The bonds seek to refinance the company's existing debt worth P9 B.

Two other firms announced their plans of borrowing for their capital expenditures and business expansion.

• Filinvest Land, Inc. (FLI) proposes to issue a P8 B bonds in the second half of 2015. Specifically, the issuance will consist of a P5 B worth of Unsecured Fixed Rate notes with a P3 B oversubscription option. These bonds will mature in 7 and 10 years. PhilRatings assigned these bonds with a PRS Aaa rating. The proceeds from the sale is to be utilized for the construction of residential (units for sale) projects for the retail and office leasing projects of the company.

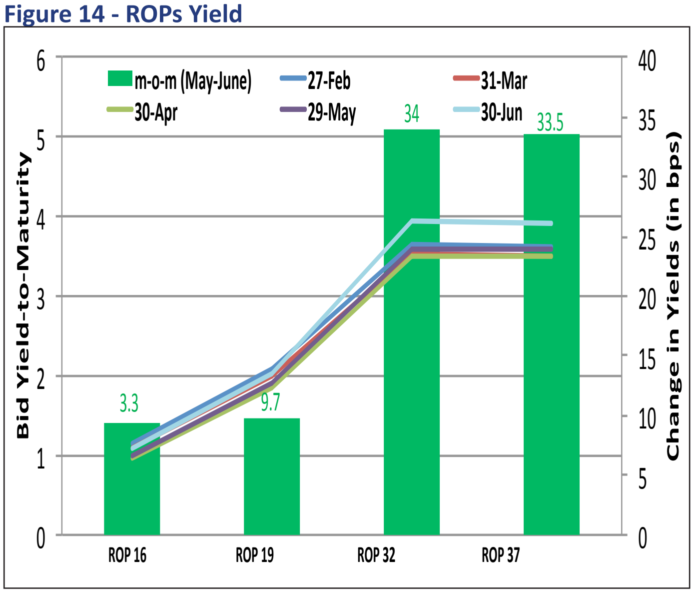
• Energy Development Corporation (EDC) plans to raise P5 B worth of syndicated loans from three local banks. EDC aims to accomplish the borrowing this July in order to fund a maturing debt included in the P12 B bonds issuance it made three years ago.

Lower ROPs: Yields Upswing Track US Treasu-ries

Yields for the dollar-denominated bonds (ROPs) continuously took an upward path this June in tandem with rising long-term bond yields in the US. The weak performance for the ROPs arose because of investors' uncertainties regarding the much-anticipated US Fed policy tightening. At the same time, weak Q1 economic data for the Philippines sustained its effect leading to the slowdown in the demand for these securities. ROP-32 at 3.933% saw the weakest demand with a 34 bps yield increase, similar to the results of May. ROP-37 almost matched the outcome of ROP-32 rising 33.5 bps to yield 3.924%. The yields of the two longest tenors' continued to rise closely to similar yields since December 2014. ROP-16 and ROP-19 had the least yield movement at 3.3 bps and 9.7 bps changes, respectively. The shortest tenor finished the month at 1.086% while the second shortest was at 2.018%.

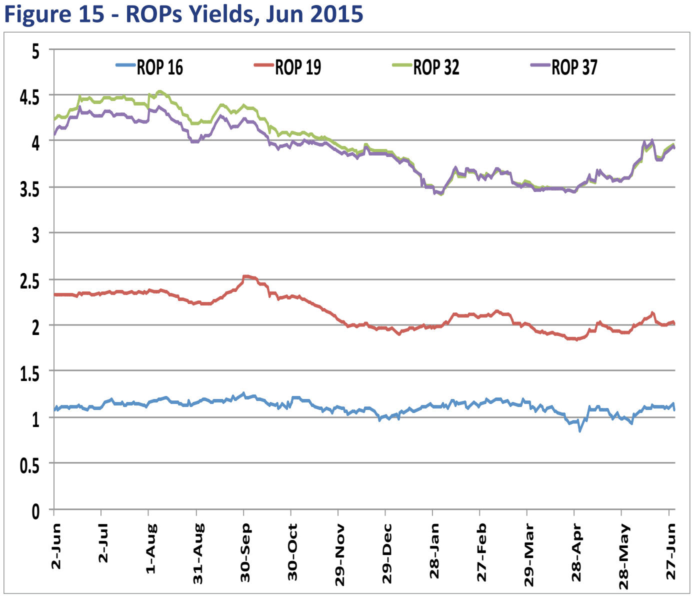
China's central bank implemented a cut on its benchmark lending rate, lowest since 2008, because of the weak performance of the stock and bond market.

Figure 14 - ROPs Yield



Sources: First Metro Investment Corporation (FMIC) & Philippine Dealing Systems (PDS)

Figure 15 - ROPs Yields, Jun 2015



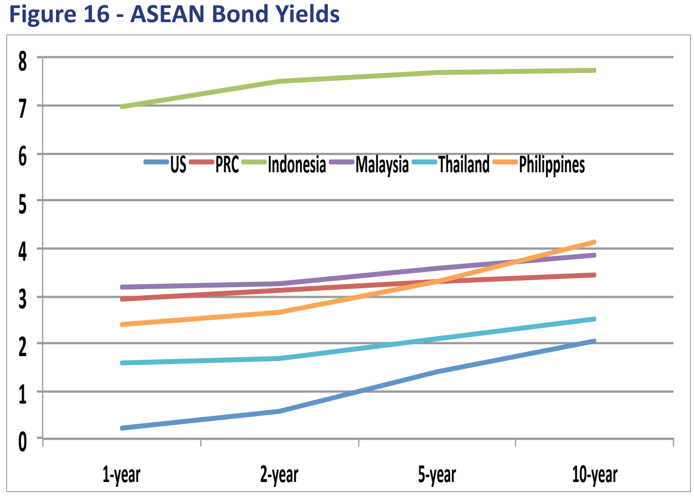
Sources: First Metro Investment Corporation (FMIC) & Philippine Dealing Systems (PDS)

ASEAN Market +1:

US: Amidst the maintenance of the policy rate this June, Fed officials continued to have a positive outlook on US economy as job creation surged by 280,000 in May, some 60,000 more than consensus. However, residential construction came in lower than expected and showed the basis for "patience." In addition, Fed Chair Yellen noted that the strong dollar may continue to hinder the economy's continuous growth, especially of exports. In the bond market, the US 10-year Treasury notes reached its highest level of 2.49% in nine years at the last week of June. After Greece's announcement of its inability to pay its debts by end-June, benchmark US treasury yields plunged with flight to quality. During the course of June, the uptick in the yields surfaced across all US benchmark tenors. 1-year notes experienced the least increase at only 2 bps rise m-o-m. 2-year and 5-year debt papers showed positive yield changes of 3.8 bps and 6 bps, respectively. The yield of the 10-year T-bond rose 9 bps. In addition, as an anticipation of the Fed policy tightening, American bond portfolio managers cut their exposure to emerging markets to bolster liquidity.

PRC: Due to the weak performance of the stock market and of local government bond sales, the People's Bank of China decided to implement a benchmark lending rate cut, considered to be the lowest since 2008, and lower reserve-requirement ratios for some lenders. The benchmark-interest rate swap also dropped this quarter to a record low in six years, supplementing the monetary easing measures to fight the sluggish performance of the economy. In the financial markets, Chinese banks resumed the

Figure 16 - ASEAN Bond Yields



Source: Asian Development Bank (ADB)

Indonesia's benchmark bonds presented weak performance as its yields rise in June, influenced by the country's economic indicators with weak outcomes.

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 (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					01-Jun-15	30-Jun-15			
US	0.643	2.353	0.00	2.35	153.00	171.00	18.00	0.25	0.25
PRC	2.320	3.620	1.20	2.42	110.00	130.00	20.00	4.85	3.65
Indonesia	7.926	8.329	7.10	1.23	38.00	40.00	2.00	7.50	0.40
Malaysia	3.169	4.032	2.10	1.93	64.00	86.00	22.00	3.25	1.15
Thailand	1.536	2.943	-1.30	4.24	121.00	141.00	20.00	1.50	2.80
Philippines	2.700	4.355	2.30	2.06	85.00	166.00	81.00	4.00	1.70

Sources: Asian Development Bank (ADB), The Economist

issuances of certificate of deposits at large denominations this month after the central bank suspended them for two decades. This move will free up domestic interest rates and will provide higher yields for investors than traditional bank deposits. In the bond market, the yield curve for June slightly steepened as investors' regained their appetite for the 1-year, 2-year and 5-year debt securities at the end of the month seen in yield declines of -34 bps, -22 bps and -10 bps, respectively. However, the 10-year notes experienced a slight uptick at 2 bps month-on-month (m-o-m). The combination translated into a higher spread between the 10-year and 2-year notes by 20 bps.

Indonesia: Several economic indicators presented Indonesia's rough economic conditions. Its International Investment Position (IIP) recorded a 1.5% quarter-on-quarter (q-o-q) increase in net liabilities due to the increase in the country's foreign financial liabilities, along with a negative revaluation of the assets and liabilities of Indonesia due to the stronger greenback performance. The cost involved ensuring the Indonesian bonds' against default (CDS) increased to a record high this year amidst the depreciation of the rupiah and acceleration of inflation. This triggered fear among foreign investors who pulled out money from the country. Despite these concerns, Bank Indonesia (BI) maintained its policy rates while monitoring the hazards in the inflation and exchange rates fronts. The central bank also started to urge companies to transact using rupiah alone by July 1. To address the volatility of the currency, BI relaxed the foreign exchange regulations covering local lenders to limit the rupiah's fall. The benchmark notes of the bond market ended weakly with yields trekking upward. The 2-year, 5-year and the 10-year finished at 12.9 bps, 21.3 bps and 16.1 bps higher than end-May. However, investors shifted their focus to 1-year debt papers whose yield slid by -9.5 bps for June.

Malaysia: Malaysia reported mixed economic signals, which in turn affected the capital markets. The country's Leading Index, indicator of economic performance, decreased by 0.6% in April implying a slowdown of the GDP for Q2. This turned foreign fund managers into net sellers (majority) in the money market while most of the net buyers were local institutions particularly due to the weakening of the local currency against the greenback. Bank Islam Malaysia Berhad (BIMB) Securities Research expected the domestic market to continue its cautiousness regarding the Greece's debt experience and the current political uncertainty. Despite these unstable conditions, Malaysia raised RM3 B of new investments in the shared services and outsourcing (SSO) industry since January along with the rationalization plan for 1Malaysia Development Berhad (1MDB), a state-owned strategic development company, to address its debt burden and the issue of gross mismanagement for not being able to pay a repayment deadline, thereby causing its inability to execute multi-billion ringgit projects. In the capital markets, mixed outcomes surfaced among the benchmark notes. The shorter term securities, specifically the 1-year and the 2-year debt papers attracted stronger investors' demand resulting in

The Bank of Thailand kept its key policy rate despite the slow-paced performance of the bond market and exports in June.

declines of -8.4 bps and -10.7 bps, respectively. Demand for longer tenor debt papers eased to push up yields by 7.8 bps and 11.4 bps for the 5-year paper and 10-year notes, respectively. The apparent current weakness of the Malaysian economy may have led investors to seek shelter in the shorter, less risky tenors.

Thailand: The Bank of Thailand (BOT) maintained its key policy rate amidst the continuous slow recovery of the economy mainly driven by the tourism and public spending. The central bank expects that the sluggish recovery will continue due to weak export growth despite the deceleration of projected inflation into the near future. It also worried that this slow-paced economy could damage the financial condition of the private sector. In the bond market, weak demand drove yields higher across benchmark tenors. 10-year debt papers appeared least attractive as yields jumped by 20.9 bps from end-May. 5-year notes followed with 11.7 bps rise while the 1-year and 2-year tenors slightly moved up by 1.3 bps and 1.1 bps, respectively. However, the foreign investors retained confidence and increased exposure in big infrastructure developments to 30%, according to the Federation of Thai Capital Market Organizations (FETCO). The slight stronger Thai Baht after the US Fed's announcement of the maintenance of its policy rate contributed to the investors' trust and the optimistic outlook for the economy, specifically for the capital market in the second half of the year, based on the Krungsri Asset Management.

Outlook

The bond markets are likely to be dull in Q3 as investors fret over the Fed rate hike and the Greek debt crisis.

• US long-term bond yields showed a lot of volatility in June, but with a downward bias, as money flowed from the Eurozone to the US. This trend will likely continue in Q3 but the drift would likely be soft due to the expected Fed policy rate hike by September at the earliest. US futures markets have tilted slightly in favor of a December rate hike.

• Domestically, liquidity remains ample despite the exit of foreign investors from the local stock market. Domestic savings driven by robust OFW remittances and BPO earnings should keep yields in check. Besides, the entry of GSIS and SSS (government-sponsored pension funds) into the secondary market provides additional large demand for long-dated tenors and would also contribute to limiting upticks in the long-end of the curve.

• With market players still anxious about a Fed policy rate hike, we expect corporate bond issuers to step up the pace in H2. A number of issues apparently is winding its way through regulatory requirements and agencies.

• ROPs will attract domestic investors as the US dollar strengthens. Thus, it is unlikely that the spread (with respect to US Treasuries) at the long end would rise in Q3. Besides, some international fund managers see ROPs as underrated with respect to its credit standing.

Forecasts				
Rates	June	July	August	September
Inflation (y-o-y %)	1.2	1.0	1.1	1.4
91-day T-Bill (%)	2.080	1.948	2.203	2.424
Peso-Dollar (P/$)	44.983	45.430	45.510	45.356
10-year T-Bond (%)	4.360	4.297	4.321	4.345

Source: Authors' Estimates

PSEi Drops by 4.7% in Q2 2015

Economic and earnings growth concerns weighed on the Philippine stocks in the later part of H1-2015. The PSEi gave up most of its gains for the year as foreign investors exited. Trading activity dried up and average daily trading value fell below the six-month average. Expectations of Fed policy rate hike, falling stock prices in China, and uncertainty in the Eurozone (Greece) dampened appetite. Market valuations have eased but are still pricey. Moving forward, we see investors to be concerned on the trajectory of GDP and earnings.

Outlook and Strategy

We maintain our view that market volatility will persist for the remainder of the year. We see the market getting increasingly nervous over growth, earnings, and Fed rate hike concerns. Valuations de-rated on the recent pullback but still remain rich. There could be further de-rating if Q2-2015 GDP and earnings disappoint further in the upcoming quarters. On a foreign funds flow perspective, we do not see robust inflows in the interim unless there is a strong rebound in GDP and earnings. Nevertheless, we remain positive on the market, especially on certain stocks but wait for attractive entry points. Below are our key themes for H2:

Going for defense. Given our view of increasing volatility and the difficulty in predicting the direction of foreign funds flows in the upcoming quarters of 2015, we prefer defensive stocks over index glamour names. We think index glamour names are still trading at rich valuations and are double edged swords as their performance tends to be driven by the flow of foreign funds. Defensive stocks with strong near re-rating catalysts could outperform.

Leveraging on election spending. We usually see an increase in liquidity starting a year before elections, providing a boost in consumption spending. Expenditure on staples (groceries), liquor, cigarettes, and fuel tend to be higher prior to elections.

Quarterly Sectoral Performance

	31-Mar-15		30-June-15	
Sector	Index	% Change	Index	% Change
PSEi	7,940.49	9.82%	7,564.50	-4.74%
Financial	1,864.12	9.90%	1,724.87	-7.47%
Industrial	12,831.97	7.09%	11,554.57	-9.95%
Holdings	7,071.74	12.25%	6,803.07	-3.80%
Property	3,193.10	13.62%	3,026.11	-5.23%
Services	2,100.12	-1.23%	2,063.83	-1.73%
Mining and Oil	15,484.38	-2.09%	13,574.10	-12.34%

Source of Basic Data: PSE Quotation Reports

Far from the record-setting run in March, the PSEi fell by 375.99 points (-4.74%) in Q2-2015 after Q1-2015 GDP results signaled a downtrend bias. Notably, the month-on-month (m-o-m) drop in the PSEi gradually slowed down with 2.84% in April, 1.74% in May, and 0.21% in June. In the last weeks of June 2015, the situation of Greece initially led to a decline in the PSEi, but the Philippines proved resilient against the external shock as the index recovered. The Bangko Sentral ng Pilipinas' (BSP) decision to keep policy rates steady for the rest of the year should provide room for investors' appetite to grow as government spending is expected to rise in the following quarters along with an abundant supply of liquidity available. Besides, the Q1 2015 aggregate net profits of publicly listed companies rose by 13.9% year-on-year (y-o-y) to P158.3 B from P139 B. The Property Sector, which contributed P27.4 B led the earnings expansion.

Company	Symbol	03/31/15 Close	06/30/15 Close	% Change
Metrobank	MBT	97.55	94.00	-3.6%
Banco de Oro	BDO	123.70	108.40	-12.4%
Bank of the Philippine Islands	BPI	100.50	94.50	-6.0%

Source of Basic Data: PSE Quotation Reports

The Industrial sector declined by 9.95% in Q2-2015 after its growth in the previous quarter.

The Financial sector fell by 7.47% this quarter, reducing gains from last quarter. Banco de Oro (BDO) led the sector's fall this quarter despite reporting a 14% improvement in Q1-2015 net income to P6.1 B from P5.5 B in the same quarter last year. BDO expects its 2015 net income at P25.1 B, which represents a 10% increase from 2014. BDO reported that it will have full control of two life insurance units of the Generali Group, which were initially under a joint venture agreement, in order for BDO to tap more into the middle income market segment.

Bank of the Philippine Islands (BPI) ended in the red this month. BPI recorded Q1-2015 net profit of P4.9 B, a hefty 36% y-o-y growth due to increased revenues. In addition to its double-digit gain in lending and deposits, BPI had managed to reduce its cost-to-income ratio which improved to 50.3% from 54.4% a year ago. Metrobank (MBT) also declined this quarter despite its 46% y-o-y increase in core net income to P5.1 B in Q1-2015 from P3.5 B. In addition, MBT's capital adequacy ratio (CAR) remained much above the Basel III regulatory limit at 16.5% and Common Equity Tier 1 (CET1) ratio at 12.6%.

Company	Symbol	03/31/15 Close	06/30/15 Close	% Change
Meralco	MER	267.00	291.20	9.1%
Aboitiz Power	AP	44.50	45.50	2.2%
Energy Development Corp.	EDC	8.50	7.48	-12.0%
Jollibee Foods Corp.	JFC	220.00	197.30	-10.3%

Source of Basic Data: PSE Quotation Reports

After growing by 7.09% in Q1-2015, the Industrial sector experienced a 9.95% decline this Q2-2015 resulting in the second largest drop among all sectors this quarter. Meralco (MER) bucked the trend as it recorded Q1-2015 core net income of P4.4 B, 8% higher y-o-y. MER's Standard & Poor's credit rating also improved to "BB+" from "BB" last May, as the profitability of MER in the next four years is expected to be resilient and its cash generation remains robust. Aboitiz Power (AP) also rose this quarter despite recording a 7% y-o-y decrease in its Q1-2015 core net income to P4.1 B from P4.4 B. The 31% y-o-y jump in its energy distribution business in Q1-2015 to P812 M from P618 M contributed much to this. Finally, AP disclosed its plan to borrow P9.4 B or 75% of the construction cost of AP's P12.5 B, 68.8 megawatt (MW) Manolo Fortich Hydro-facility.

The Lopez-led Energy Development Corporation (EDC) led the sector's drop as a 37.5 MW unit of its 112.5 MW Tongonan geothermal power plant in Leyte shutdown due to age-related issues. On another note, EDC reported a 5% increase in attributable net income worth P2.5 B for Q1-2015 as compared to P2.4 B in the same quarter last year. Besides, EDC plans to refinance a P12 B outstanding bond float, with P8.5 B which matured in June 2015 and P3.5 B maturing in December 2016. EDC is also planning to fund its 140-megawatt Bacon-Manito (BacMan) geothermal project through seven-year local bank loans. Jollibee Foods Corporation (JFC) fell this quarter as the company announced expectation of lower profit for 2015 due to rising cost of raw materials and the speedy development of new stores. However, JFC reported Q1-2015 net income of P1.2 B, which is a 12.6% y-o-y improvement from P1.1 B. JFC's local and overseas businesses grew by 9.9% and 8.1%, respectively, resulting in a 9.5% increase in system-wide sales as it put up 60 outlets in Q1-2015.

Company	Symbol	03/31/15 Close	06/30/15 Close	% Change
Ayala Corporation	AC	795.00	790.00	-0.6%
Metro Pacific Investments Corporation	MPI	4.83	4.73	-2.1%
SM Investments Corporation	SM	899.50	895.00	-0.5%
DMCI Holdings, Inc.	DMC	15.50	13.20	-14.8%
Aboitiz Equity Ventures	AEV	58.00	58.05	0.1%
GT Capital	GTCAP	1,338.00	1,366.00	2.1%
San Miguel Corporation	SMC	67.45	59.50	-11.8%

Source of Basic Data: PSE Quotation Reports

The Holdings sector fell by 3.8% after ending in the green in the previous quarter. DMCI Holdings, Inc. (DMCI) led the quarter-on-quarter (q-o-q) fall as the firm is being pressured by the government to demolish its Torre de Manila, a would be 49-storey condominium, and refund its condominium unit buyers because of issues with the

The Property sector declined by 5.23% in Q2-2015 after its rise in the previous quarter.

view of the Jose Rizal monument. Nonetheless, DMCI projects have to generate P22 B of revenues this year as compared to P20 B in 2014 in order to reach its 10% annual growth target. San Miguel Corporation (SMC) also dropped despite recording an 8% y-o-y improvement in its Q1-2015 net income worth P2.3 B. SMC announced that it will refinance its $1.1 B debt due to lower interest rates which enables the firm to cut borrowing costs. SMC is the most indebted company in the Philippines with $11.7 B in total debt and interest obligations.

Metro Pacific Investments Corporation (MPIC) dropped in price even though its Q1-2015 core income grew by 14% y-o-y to P2.6 B from P2.2 B. MPIC expects to borrow P28 B to P30 B from both local and foreign banks in order to fund its construction of the Cavite-Laguna Expressway (Calax) project. MPIC is also ready to start constructing the P9 B road connecting the Manila Cavite Expressway (Cavitex) and the Circumferential Road 5 (C-5). Once completed, the project will also link Cavitex to the Calax. MPIC also received approval from its shareholders to increase its authorized capital stock by 32.8% to P40.5 B from P30.1 B for future flexibility should the need for additional capital arise.

Ayala Corporation (AC) declined this quarter as it posted lower consolidated net income of P5 B in Q1-2015, 8% lower y-o-y. AC's Manila Water Company (MWC) recorded practically flat Q1-2015 earnings of P1.5 B. While MWC's gross revenue grew by 3.3% to P4.9 B, its gross expense rose by 1% to P2.9 B. MWC was also authorized by its Board of Directors to bid for the build-operate-transfer contract of the Bulacan Bulk Water Supply Project (BBWSP) worth P24.4 B. SM Investments Corporation (SM) also suffered a drop as earnings attributable to parent rose modestly by 8.1% to P6.7 B for Q1-2015 from P6.2 B in Q1-2014. However, the P6.7 B net income turned out lower compared to the P7.42 B earned two years ago in Q1-2013. SM's banking and property businesses contributed to majority of its Q1-2015 earnings at 41% and 40%, respectively.

GT Capital (GTCAP) bucked the trend this Q2-2015 as it was added to the MSCI Global Standard Index with a 3.88% weighting last May. GTCAP also posted a huge 56% jump in net income to P4.3 B in Q1-2015 from P2.8 B a year ago. Aboitiz Equity Ventures (AEV) remained generally flat this quarter after reporting a 7% drop in its core income at P4.1 B in Q1-2015 from P4.4 B in Q1-2014. AEV also spent P1 B for 2.46 M shares, at P407.78 per share, or a 51% stake in PETNET, Inc., a money remittance business and an agent of Western Union; in order to take advantage of the potential growth in the OFW remittances market.

Company	Symbol	03/31/15 Close	06/30/15 Close	% Change
Ayala Land, Inc.	ALI	38.50	37.30	-3.1%
SM Prime Holdings, Inc.	SMPH	19.98	19.98	0.0%
Robinsons Land Corporation	RLC	30.80	29.30	-4.9%
Megaworld Corporation	MEG	5.43	4.76	-12.3%

Source of Basic Data: PSE Quotation Reports

The Property sector experienced a 5.23% setback in Q2-2015 after a 13.62% jump in the previous quarter. SM Prime Holdings, Inc. (SMPH) remained flat q-o-q with the company recording Q1-2015 net income at P12.7 B with P7.4 B arising from the sale of marketable securities. SMPH also recorded Q1-2015 core revenues at P16.7 B, a 9% y-o-y increase from P15.3 B. SMPH purchased a 2-hectare property along EDSA in Guadalupe, Makati from DMCI for an undisclosed amount. The acquisition increases SMPH land bank along EDSA to 14 hectares for new condominium projects on which 12,000 to 14,000 units could be built. SMPH could therefore have additional total sales worth P36 B to P42 B as the average price of a unit is some P3 M. In addition, SMPH-ALI consortium won with a P10.1 B bid to develop a 26 hectare lot portion of the 45.2 hectare South Road Properties in Cebu. Notably, the still-in-development SM Seaside Mall is near the 26 hectare lot. Megaworld Corporation (MEG) led the fall in the property sector as it reported a 12.7% y-o-y decline in net income to P2.35 B for Q1-2015. Higher operating and interest expenses led to the fall in net income, as its revenue estimates were in line with its guidance. In addition, MEG is setting up a high-end village called Forbes

The Mining and Oil sector recorded the largest drop as it slumped by 12.34% this quarter.

Hill in Bacolod City, where 197 lots ranging from 449 to 861 square meters will be sold for P16,000 to P17,000 per square meter.

Robinsons Land Corporation (RLC) also dropped in price this quarter. RLC recorded a 16% expansion in net income to P1.4 B in Q2-2015 from P1.2 B in Q2-2014. The company's gross revenue also went up by 17.4% y-o-y to P4.9 B in Q2-2015 from P4.2 B. RLC expects to double its P4.73 B net income in 2014 by the end of its September 2019 fiscal year. RLC also raised P12 B from a dual-tranche bond sale in order to refinance P8.1 B in maturing debt and for capex. Although Ayala Land, Inc. suffered a price drop this quarter, the firm reported that 80% or P64 B of its P80 B five-year capital investments for Arca South has already been mobilized through various projects. In addition, ALI, through Alveo, expanded its cumulative investment in Nuvali to over P7.4 B as it allotted P2.3 B to develop Mondia, a 40-hectare residential subdivision.

Company	Symbol	03/31/15 Close	06/30/15 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2,856.00	2,810.00	-1.6%
Globe Telecom	GLO	2,014.00	2,510.00	24.6%
Puregold	PGOLD	41.55	37.00	-11.0%
Robinsons Retail Holdings	RRHI	84.00	74.45	-11.4%

Source of Basic Data: PSE Quotation Reports

The Services sector continued to decline by 1.73% in Q2-2015 after a 1.23% drop in the previous quarter. Globe Telecom (GLO) bucked the trend this quarter as its net income rose by 42.5% in Q1-2015 to P4.2 B from P2.9 B in the previous year. The company's P14.5 B core net profit for 2014 is also a 25% increase compared to 2013.GLO's growth in data and broadband business and lessened dependence on SMS text revenues have led to the firm's robust earnings prospects.

Philippine Long Distance Telephone Company (TEL) continued to drop further this quarter after a 1.7% slide from the previous quarter. PLDT recorded a flat y-o-y Q1-2015 net income of P9.4 B. PLDT's core net income fell by 4.9% in Q1-2015 to P9.28 B from P9.76 B in Q1-2014. PLDT aims to earn P35 B in net profit for 2015 from P37.4 B in 2014. To add, PLDT also expects to spend P40 B worth of capex instead of P39 B in order to further improve network capacity, coverage, and quality of service. PLDT had initially planned to allot P39 B for its 2015 capex after already spending P34.8 B in 2014 in order to expand its fiber network which became the most extensive network in the Philippines at nearly 100,000 kilometers. PLDT acquired Metro Kidapawan Telephone Corporation (Metro Phone) in order to capture 75% of the fixed line business in Mindanao.

Robinsons Retail Holdings Incorporated (RRHI) declined as its Q1-2015 net income attributable to parent despite earnings growth of 39.1% to P781 M in Q1-2015 from P562 M a year ago. Investors may have been surprised by the huge 39.1% q-o-q fall in profits. Puregold (PGOLD) also dropped this quarter despite an 11.7% rise in its Q1-2015 consolidated net income at P1 B from P943 M in Q1-2014. PGOLD plans to open 10 mall-based supermarkets in a joint venture with Ayala Corporation. PGOLD also plans to spend P2.5 B to develop 25 new stores to add to its 233 existing stores.

Company	Symbol	03/31/15 Close	06/30/15 Close	% Change
Philex Mining Corporation	PX	7.28	6.13	-15.8%
Semirara Mining Corporation	SCC	167.00	142.50	-14.7%
Nickel Asia Corporation	LC	24.00	23.20	-3.3%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil sector recorded the largest drop among all sectors as it continued to decline by 12.34% after already slipping by 2.09% in the previous quarter. Philex Mining Corporation (PX) kept a downward trend this quarter with share prices down by another 4.8% in Q1-2015. PX's Q1-2015 net income, however, rose by 14% to P305 M from P267 M in Q1-2014. Nonetheless, PX's core net income and consolidated revenues fell to P214 M and P2.4 B from P278 M and P2.9 B, respectively, due to lower metal prices. PX also offered to increase its stake in Forum Energy Plc., the UK-based oil and gas firm, from 60.49% to 67.19%. In addition, Forum Energy has a 70% stake in an oil exploration project, Service Contract 72, *Foreign investors have been bearish this Q2-2015, particularly in June, with foreign net selling at P11.6 B.*

located in the Reed Bank within the West Philippine Sea. Semirara Mining Corporation (SCC) declined this quarter as it fell in April due to lower earnings from its Calaca power plant with delays in rehabilitation of existing facilities and commissioning new capacity. SCC's consolidated net income also fell by 9% in 2014 to P6.9 B from P7.53 B in 2013.Nickel Asia Corporation (NIKL) also dropped this quarter. NIKL recorded a net income attributable to parent of P675.8 M for Q1-2015, 281% higher compared to its P177.1 M amount in the same quarter last year. Higher sales and prices increased NIKL's Q1-2015 total revenues by 90.4% y-o-y to P3.4 B from P1.8 B.

Total Turnover

Quarterly Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	88404.33	18.5%	1473.41	16.5%
Industrial	143103.07	-2.1%	2385.05	-3.8%
Holdings	136432.39	-21.7%	2273.87	-23.0%
Property	75621.29	-26.9%	1260.35	-28.1%
Services	85431.76	-23.4%	1423.86	-24.7%
Mining and Oil	21934.78	-19.7%	365.58	-21.1%
Total	**553708.95**	-13.7%	**9228.48**	-15.2%
Foreign Buying	284586.91	-15.8%	4743.12	-17.2%
Foreign Selling	314210.61	8.1%	5236.84	6.3%
Net Buying (Selling)	-29623.70	-162.4%	-493.73	-161.3%

Source of Basic Data: PSE Quotation Reports

The total turnover slumped by 13.7% this Q2-2015, after the 11.1% rise in Q1-2015. Among the sectors, only the Financial sector experienced a gain at 18.5%. On the other hand, the turnover value of the Property and Services sectors declined by 26.9% and 23.4%, respectively. Notably, the Property sector and Services sector were the only sectors that also declined in turnover value in Q1-2015 at 3.2% and 18.2%, respectively. Foreign investors have been bearish this quarter, particularly in June with foreign net selling at P11.6 B. This became noticeable in first and second weeks of June which comprised 66.6% of the total drop of the month. In Q2-2015, the local market reflected foreign capital outflow as foreigners emerged as net sellers by P29.6 B.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million PhP)

	2013		2014		4th Quarter 2014			1st Quarter 2015		
	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	706619	1.1%	720127	1.9%	217,473	39.5%	4.8%	182,051	-16.3%	1.6%
Industry Sector	2,219,434	9.3%	2,386,815	7.5%	659,213	18.2%	9.2%	594,259	-9.9%	5.5%
Service Sector	3,839,405	7.2%	4,070,930	6.0%	1,064,763	6.0%	6.0%	991,878	-6.9%	5.6%
Expenditure										
Household Final Consumption	4,694,760	5.7%	4,948,250	5.4%	1,405,279	19.9%	5.1%	1,222,122	-13.0%	5.4%
Government Final Consumption	723640	7.7%	736745	1.8%	157,405	-7.7%	9.8%	191,164	21.5%	4.8%
Capital Formation	1,496,776	29.9%	1,513,711	1.1%	450,983	18.8%	-4.9%	412,165	-8.6%	11.8%
Exports	3,019,606	-1.1%	3,384,634	12.1%	748,063	-21.8%	15.5%	815,568	9.0%	1.0%
Imports	3,169,323	5.4%	3,353,692	5.8%	813,848	-13.7%	5.3%	884,917	8.7%	4.6%
GDP	6,765,459	7.2%	7,177,872	6.1%	1,941,449	13.0%	6.9%	1,768,189	-8.9%	5.2%
NPI	1,303,574	9.1%	1,398,430	7.3%	356,769	4.4%	2.8%	384,832	7.9%	2.7%
GNI	8,069,033	7.5%	8,576,302	6.3%	2,298,217	11.6%	6.3%	2,153,020	-6.3%	4.7%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (In Million PhP)

	2013		2014		Mar-2015			Apr-2015		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R	Levels	Monthly G.R.	Annual G.R
Revenues	1,716,093	9.6%	1,908,527	11.2%	171,106	28.9%	32.3%	209,104	22.2%	11.3%
Tax	1,535,300	8.6%	1,720,116	12.0%	134,372	14.4%	18.7%	190,056	41.4%	21.7%
BIR	1,216,661	8.6%	1,334,762	9.7%	97,063	9.2%	18.1%	160,777	65.6%	422.6%
BoC	304,925	5.2%	369,277	21.1%	35,717	31.3%	21.9%	28,136	-21.2%	-8.5%
Others	14,112	6.1%	16,077	13.9%	1,592	15.3%	-5.4%	1,143	-28.2%	7.4%
Non-Tax	180,074	3.6%	188,178	4.5%	36,708	140.4%	127.8%	19,046	-48.1%	-47.8%
Expenditures	1,880,155	5.8%	1,981,619	5.4%	188,478	32.3%	11.2%	156,505	-17.0%	9.0%
Allotment to LGUs	317,255	6.4%	344,235	8.5%	32,291	0.02%	14.0%	32,277	-0.04%	14.4%
Interest Payments	323,434	3.4%	321,185	-0.7%	30,321	60.4%	-1.6%	15,677	-48.3%	17.0%
Overall Surplus (or Deficit)	(164,062)	(32.4%)	(73,092)	55.5%	(17,372)	79.59%	-56.8%	52,599	-402.8%	34.9%

Source: Bureau of the Treasury (BTr)

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

	2014		March-2015			April-2015		
	Annual Levels	Growth Rate	Levels	Growth Rate	YTD	Levels	Growth Rate	YTD
TOTAL	35,407	5.1%	2,647.30	(4.7%)	2.1%	2,954.00	11.6%	1.7%
Residential	10,360	1.3%	742.10	(1.3%)	2.5%	917.70	23.7%	2.1%
Commercial	13,646	3.8%	1,049.40	(4.7%)	2.9%	1,166.70	11.2%	2.6%
Industrial	10,587	3.8%	845.20	(7.4%)	1.0%	858.60	1.6%	0.3%

BALANCE OF PAYMENTS (In Million US$)

	2013		2014		4th Quarter 2014		1st Quarter 2015	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	11,384	35.0%	12650	11.1%	4701.00	43.1%	3305.38	121.1%
Balance of Trade	(10,647)	4.7%	(10977)	3.1%	-2,086.00	-32.6%	-2,160.77	-39.8%
Balance of Goods	(17,662)	2.0%	(15851)	(10.3%)	-3711.00	-23.4%	-4694.48	-13.3%
Exports of Goods	44,512	(3.6%)	47758	7.3%	11340.00	1.2%	10408.49	2.5%
Import of Goods	62,174	(3.1%)	63609	2.3%	15051.00	-6.2%	15102.98	-3.0%
Balance of Services	7,015	10.4%	4874	(30.5%)	1625.00	-7.4%	2533.71	38.8%
Exports of Services	23,335	6.0%	24837	6.4%	6706.00	12.1%	7298.57	19.2%
Import of Services	16,320	5.0%	19963	22.3%	5080.00	20.1%	4764.86	10.9%
Current Transfers & Others	-	-	-	-	-	-	-	-
II. CAPITAL AND FINANCIAL ACCOUNT	2364	(111.3%)	10185	330.8%	4508.00	125.4%	628.56	-84.8%
Capital Account	134	21.8%	101	(24.6%)	28.00	-12.5%	22.44	-12.9%
Financial Account	2230	109.4%	10084	352.2%	4480.00	127.6%	606.12	-85.2%
Direct Investments	(90)	(122.7%)	789	(976.7%)	977.00	107.4%	395.08	-181.2%
Portfolio Investments	(1001)	58.7%	2,460	(345.8%)	1202.00	7.5%	226.54	-91.9%
Financial Derivatives	(88)	(543.0%)	(48)	(45.5%)	-31.00	-34.0%	-22.13	16.0%
Other Investments	3410	150.0%	6,883	101.9%	2332.00	447.4%	6.62	-99.6%
III. NET UNCLASSIFIED ITEMS	(4,202)	16.2%	(5,525)	31.5%	325.00	-461.1%	-1844.79	-2.8%
OVERALL BOP POSITION	5,085	(44.9%)	(2,858)	(156.2%)	574.00	-54.4%	876.92	-119.6%
Use of Fund Credits	0	0%	0	0%	0.00	0%	0.00	0%
Short-Term	0	107.0%	0	0%	-11.00	0.%	10.74	-1.4%
Memo Items								
Change in Commercial Banks	2186	-	6,082	178.2%	1028.00	-200.1%	0.00	-100.0%
Net Foreign Assets	2,040	152.0%	6010	194.6%	921.00	-185.0%	0.00	-100.0%
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)

	2014		April-2015		May-2015	
	Average Levels	Annual G. R	Average Levels	Annual G. R.	Average Levels	Annual G. R.
RESERVE MONEY	10,131,915	544.3%	10,845,832	9.2%	10,838,910	9.2%
Sources:						
Net Foreign Asset of the BSP	3,624,438	2.9%	3,888,214	8.8%	3,830,066	8.3%
Net Domestic Asset of the BSP	6,507,477	428.5%	6,957,618	9.3%	7,008,844	9.6%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	2,120,282	19.3%	2,343,910	12.0%	2,360,164	13.1%
Money Supply-2	6,890,803	21.4%	7,288,913	8.3%	7,323,078	8.5%
Money Supply-3	7,145,800	23.8%	7,603,300	9.0%	7,635,232	9.3%
MONEY MULTIPLIER (M2/RM)	0.68	(81.2%)	0.67	(64.3%)	0.68	(64.6)

Source: Bangko Sentral ng Pilipinas (BSP)

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