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The MARKET CALL

Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

Growth, Credit Upgrades, Okay Solid Footings

A spate of positive external and internal assessments in late October upheld the growing and widespread belief that the economy is grounded on solid footings and is likely to be in the throes of becoming a Tiger economy in the current decade. The International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB) have raised their forecast for the country's economic growth for 2012 with the best prognosis provided by the usually conservative ADB at 5.5%. Moody's, on the other hand, raised its credit rating for the country's foreign-denominated debt papers to a just a notch lower than investment grade, putting its evaluation at the same grade as those of Standard & Poor (S&P) and Fitch Ratings. Finally, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) cut the policy rate by 25 basis points (bps) to 3.5%, a second record-low achieved in 2012.

Concretely, the economy appears to have recovered from the devastating floods in August, as evidenced by the slight uptick of electricity sales in September, albeit slower than expected as the destruction had been greater due to a reprise of the heavy rains and flooding in the later part of August. More rains came in September which negatively affected the service sector, but had positive impact on agriculture.

Other positive developments came from the fiscal sector which continued to ramp up infrastructure and capital outlays, but still kept the cumulative deficit until September 2012 to P106.1 B, which is P173.0 B less than the full year program of P279.1 B. Money growth in August was still single-digit and slower than the previous month, and Special Deposit Accounts (SDA) with the BSP rose further to P1.7 Tr. Overseas Filipino Workers (OFW) remittances accelerated in August, despite the turmoil in both the Middle East and Europe. These overwhelmed the two negative developments—a further decline in exports and appreciation of the peso.

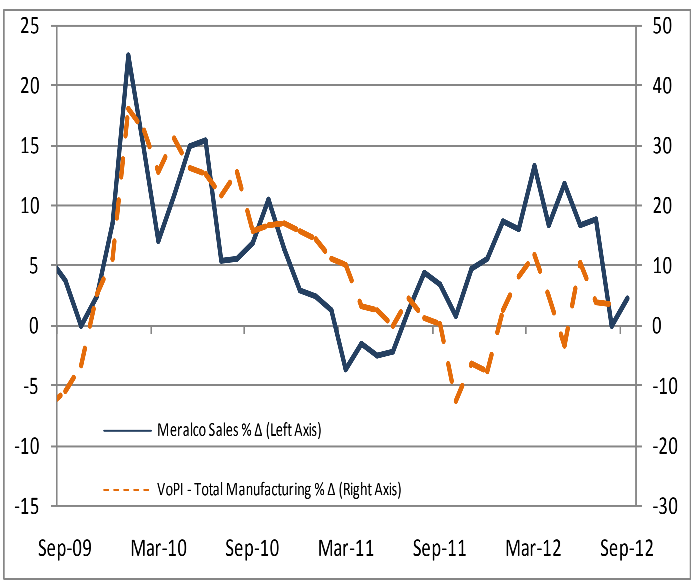
Electricity Sales Recover in September

Meralco electricity sales indicated minimal recovery from the downtick in August as the toll from the August floods was larger than expected. Total electricity sales accelerated from -0.1% in August to 2.3% in September bringing the Q3 2012 year-on-year (y-o-y) average sales growth to 3.7%, a significant slowdown from the 9.5% growth in Q2. Nevertheless, this quarter's growth was slightly better than the 3% in Q3 2011.

Electricity sales to the Industrial sector showed a faster annual growth rate of 7.1% in September from a 4.4% decline in August. While it lagged the double-digit growth rates posted from January to July this year, the growth in sales to the Industrial sector was stronger compared to the other sectors.

September sales to the Residential sector fell by 1.1% from 0.9% in August, the worst figure since October 2011. Sales to the Commercial sector grew by 1.4% from -1% in August. The decline in the latter two sectors was likely due to the lingering effect of the typhoons and series of fire accidents.

Figure 1 - Meralco Sales & Volume of Production Index Growth Rate (Year-on-Year)



Sources: Meralco, National Statistics Office (NSO)

...the difference between the quarterly growth rates leads us to expect that GDP growth for Q3 2012 will most likely be 5.3% with agriculture coming to the rescue this time around.

On the quarterly average data, the three major sectors posted the slowest pace in Q3 relative to Q1 and Q2. The Residential sector had slowed the most to 1.3% from 7.2% in Q2. The Industrial sector eased to a 10.1% growth from 15.7% of the previous quarter while the Commercial sector similarly slipped to 2% from 7.1% in Q2.

The Volume of Production Index (VoPI) for manufacturing in August decelerated slightly to 3.5% from the revised 3.7% in July. Out of the 20 monitored major products, only six were gainers. Among these six were basic metals, wood and wood products, and chemical products, each of which posted double-digit growth rates. However, they were not enough to offset the slowdown of the majority.

Since we were expecting a slowdown – and based on Meralco sales as proxy for GDP – the difference between the quarterly growth rates leads us to expect that GDP growth for Q3 2012 will most likely be 5.3% with agriculture coming to the rescue this time around.

Inflation Eases to 3.6% in September

Headline inflation rate decelerated from 3.8% to slightly lower 3.6% last September, far from a 4.7% uptick in the same month a year ago. Third quarter average inflation registered to 3.5%, higher than 3.1% and 2.9% of Q1 and Q2, respectively. This brought year-to-date (YTD) inflation average to 3.2%, well within the government target range of 3-5%.

In the same period, core inflation also slowed from 4.3% to 3.8%. Based on the National Statistics Office (NSO) data, the slower inflation was due to weaker price gains in Clothing and Footwear; Housing, Water, Electricity, Gas & Other Fuels (HWEGH); Health and Restaurant and Miscellaneous Goods and Services (RMGS) indices. The gradual restoration of both the food supply chain and the power supply contributed to easing inflation in September.

In terms of y-o-y increases for September, Food & Non-alcoholic Beverages index added 0.4% points to bring it to 3.7%. This was better than in August which added 0.9% points as the unfavorable weather disrupted the food supply chain. Transport index rose faster by 0.6% points from 1.1% to 1.7% with hikes in fuel prices due to higher Dubai Fateh crude oil prices in September which increased from $106/barrel to $111/barrel or a 4.7% y-o-y gain. West Texas Intermediate (WTI) also recorded an uptick of 10.5% from $85.6/barrel to $94.6/barrel.

Despite the rise in the Food and Transport Indices, the HWEGH index registered a hefty slowdown of -1.2% points from 5.6% to 4.5%. This was mainly due to the power cost charge reduction evident in electricity bills in September which averaged P5.4/kWh from P6.7/kWh in August, a 19.9% decline in power charges as against a 4.4% rise in August. The decline in electricity prices was contributed by lower generation costs of National Power Corporation (NPC) and Sta. Rita power plant under First Gas Power Corporation (FGPC) which together had 57.6% share in total power generation. NPC and FGPC registered cuts of 4% and 3.5% in price generation charge, respectively. Other commodity indices posted minimal change ranging from 0 to 0.2 percentage points. Below is the table for the y-o-y inflation and the YTD rates:

Inflation Year-on-Year Growth Rates	Aug	Jul	YTD
All items	3.60%	3.80%	3.20%
Food and Non-Alcoholic Beverages	3.70%	3.30%	2.30%
Alcoholic Beverages and Tobacco	4.80%	4.80%	4.90%
Clothing and Footwear	5.00%	5.20%	4.60%
Housing, Water, Electricity, Gas, and Other Fuels	4.50%	5.60%	4.80%
Furnishing, Household Equipment and Routine Maintenance of the House	4.60%	4.40%	3.40%
Health	3.00%	3.10%	3.10%
Transport	1.80%	1.10%	2.50%
Communication	0.30%	0.20%	0.00%
Recreation and Culture	2.70%	2.70%	2.60%
Education	4.40%	4.40%	4.60%
Restaurant and Miscellaneous Goods and Services	3.20%	3.30%	3.30%

Source: National Statistics Office (NSO)

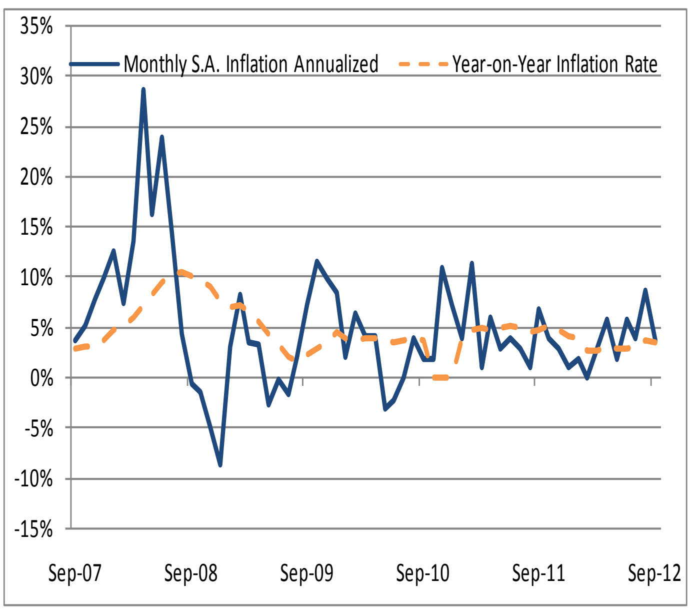
On a monthly basis, the HWEGH decelerated to -1.1%. Food and Non-alcoholic Beverages dropped by 0.6% points from 1% to 0.4%. Almost all the other indices slowed down except for RMGS which had a minimal rise from 0% to 0.1% while Education, Health, and Communication indices were unchanged. This pulled down the overall monthly inflation rate to -0.1% from 0.8% in August.

The Bureau of Internal Revenue's (BIR) growth in tax revenue eased from 10% to 6.7%. At the same time, the Bureau of Customs (BoC) collections grew by 2.6% from 2.2% in August.

The Seasonally Adjusted Annualized Rate (SAAR) screeched to a slower pace than actual inflation. From 8.6% in August, it slowed to 3.7% in September due to food price increases from 6.5% to 5.3% and a sharp deceleration in non-food prices from 10.9% to 2.1%.

As of the end of Q3 2012, average inflation reached 3.2% supporting our view that year-end inflation would not exceed 4.0% as we expect food and oil prices to remain stable. Even with the unfavorable weather conditions in the past months, the inflation rate of rice fluctuated at a narrow range of 1% to 1.3% in September. Similarly, global crude oil prices for the Q4 2012 and the whole of 2013 are projected to trend lower based on WTI and Brent International price movements. The US Department of Energy forecasts a decline by an average of 3.4% for 2013. Nonetheless, we expect a 3.3-3.5% inflation rate for the succeeding months with an upward bias in December due to the Christmas holidays spending.

Figure 2 -Inflation Rates Annualized (2008-2011) Seasonally Adjusted vs. Year-on-Year



Source: National Statistics Office (NSO)

P34. 9 B Fiscal Budget Deficit in September

Budget deficit for the month of September reached P34.9B after a surplus of P2.5 B in August. This brought the cumulative budget deficit in Q3 2012 to P106.1 B from P71.2 B in January to August. The nine-month deficit is 42.2% lower than NG's program of P183.3 B and is only 38% of the full-year program of P279 B or 2.6% of GDP.

According to the Secretary of Department of Budget and Management (DBM), the closely monitored problem of weak absorptive capacities of the different government agencies needs stronger improvement in order to attain better spending performance. Nevertheless, there was a boost in fiscal spending in September but sluggish revenue collections took its toll on the deficit.

Reflecting the prolonged effect of the August floods on business activity, government saw growth in tax revenues weakened from 8.4% to 5.3%. The Bureau of Internal Revenue's (BIR) growth in tax revenue eased from 10% to 6.7%. At the same time, the Bureau of Customs' (BoC) collections grew by 2.6% from 2.2% in August. Total tax revenues in Q3 slowed down to 6.7% from 11.5% y-o-y growth rate in Q2.

Fiscal expenditures, meanwhile, rose from P126.9 B in August to P140.2 B in September. This was an uptick in y-o-y growth rate from 10.4% to 14.1%. The NG spending excluding interest payments grew by 18.6% compared to 13.9% in August. The rise in expenditures was due to the acceleration in the allotment to Local Government Units (LGUs). Interest payments were 6.6% lower.

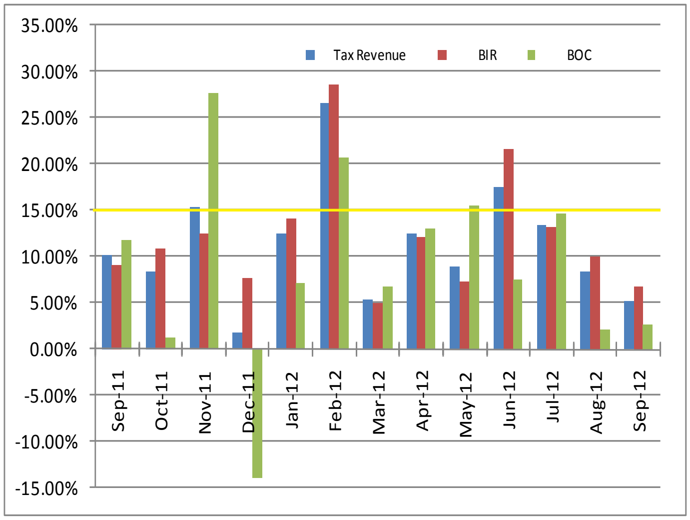
The growth in y-o-y expenditures excluding interest payments was the highest gain relative to Q1 and Q2 which had 14.6% and 14.1% growth, respectively. In particular, the boost in expenditure was attributed to Infrastructure and Capital Outlays (CO) which bloated by 58.5% and Maintenance and Other Operating Expenditures (MOOE) which expanded by 34.8% y-o-y from Q1 to Q3 based on DBM reports.

We expect stronger GDP growth in Q4 as fiscal expenditures become more free flowing. Election spending has already begun and seasonal factors for the three major sectors namely Agriculture, Industry, and Services will all have an upward bias. Greater construction activity also happens during the dry season. We can also expect an improvement in the absorptive capacity of government

In August, the BSP increased its liquidity draining activities as reflected in its Net Domestic Assets' (NDA) y-o-y growth of 0.6% from 9.9% in July.

agencies, and this will help boost Q4 disbursements. These developments support our expected GDP growth of 5.5-6% for 2012.

Figure 3 - NG Revenue Performace Growth Rates Year-on-Year of BoC and BIR



Source: Bureau of the Treasury (BTr)

BSP Cut Key Policy Rates for the Fourth Time this 2012 by 0.25%

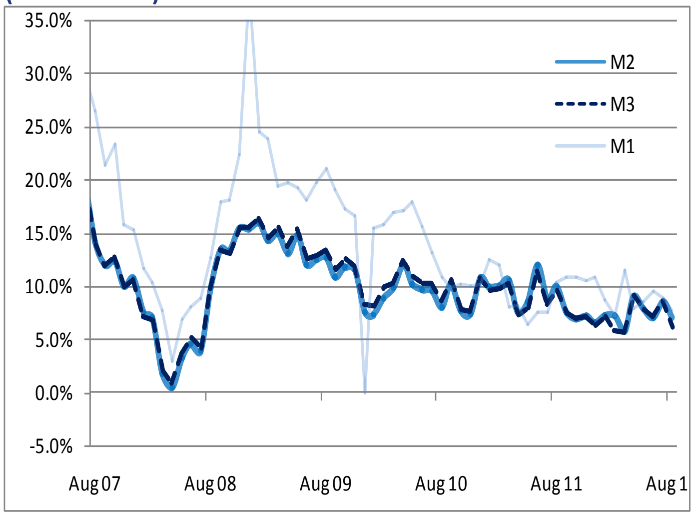
The Monetary Board (MB) cut further key policy rates by 25 bps at their most recent meeting last October 25. The overnight borrowing or reverse repurchase (RRP) was at an all-time low of 3.5% and the overnight lending rate repurchase (RP) facility got reduced to 5.5%. Special Deposit Account (SDA) rates were similarly cut. The decision of Bangko Sentral ng Pilipinas (BSP) was based on the assessment that inflation for 2012-2014 will be within the target range on the back of weak global demand.

In August, the BSP increased its money infusion as reflected in its Net Domestic Assets' (NDA) y-o-y growth of 0.6% from 9.9% in July. This was coupled with a sluggish growth of the Net Foreign Assets (NFA) from 10.1% to 5.9% arising from a slowdown in exports. Despite the slowdown, the huge difference between NFA and NDA growth rates pushed up the annual growth rate of Reserve Money (RM) from 10.5% to 15.9%.

The SDA, meanwhile, substantially decelerated from 17.6% to 10.7% y-o-y due to the previous policy rate reduction and modification that only Philippine residents can make deposits. The SDA level was P1.8 Tr in August similar to July's. SDA levels may go down as a result of the October 25th easing. The BSP action and banking system activities in August resulted in both M2 and M3 slowing down to 7.1% from 8.6% and 6.2% from 8.7%, respectively. This follows from a decline in the Money Multiplier (MM) from 3.7x to 3.5x which indicates that banks are still tight in their lending.

As we expected, the policy rates reduction was meant to restrain carry trade inflows and keep the exchange rate closer to P42/$.

Figure 4 -M2 and M3 Money Supply Growth Rates (Year-on-Year)



Source: Bangko Sentral ng Pilipinas (BSP)

Exports Slump by 9.0% in August

Total exports in August unsurprisingly dropped to $3.8 B from $4.7 B in July. In terms of growth rates, its month-on-month (m-o-m) record turned negative from 9.6% to -19.7% while y-o-y growth recorded a decline of -9% compared to a 6% rise in July.

Despite the apparent slowdown, the Electronic Products, which account for 46.5% of total exports, posted a gradual improvement of -14.9% from -25.6% in July. All major

For the August y-o-y record, four out of the top 10 export products were gainers. Most of the decelerations were double-digit.

products flagged red with Petroleum Products showing the worst performance. Japan regained the top spot as an export destination, topping Singapore, July's top performer.

For the August y-o-y record, four out of the top 10 export products were gainers. Most of the decelerations were double-digit. The next table presents the y-o-y growth of the top ten export products:

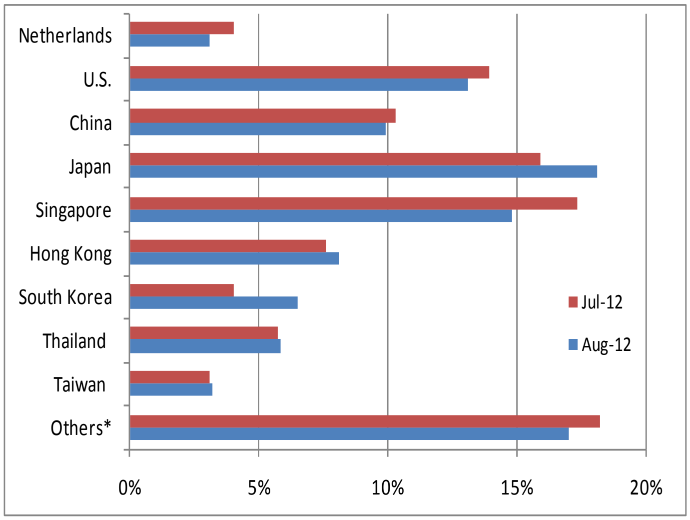
Top 10 Philippine Exports for All Countries in August 2012	
(Year-on-Year Growth in Percent)	
Gainers	
Metal Components	100.2
Gold	40.6
Copper Concentrates	38.5
Woodcrafts and Furniture	23.9
Losers	
Articles of Apparel and Clothing Accessories	-55.4
Coconut Oil	-50.5
Bananas (Fresh)	-15.4
Electronic Products	-14.9
Pineapple and Pineapple Products	-4.2
Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships	-0.9

Source: National Statistics Office (NSO)

In terms of m-o-m export growth, the top 10 product groups showed equal numbers expanding or declining. Copper Concentrates (+209%) and Fresh Bananas (+279.1%) posted the highest gains, while Metal Components (-78.6%) and Coconut Oil (-58.9%) pulled down total growth. On an aggregate view, the monthly record almost mimicked the huge drops on the y-o-y basis which were mostly double-digit decelerations except for Special Transaction and Re-Export which registered +97.9% and +6.9%, respectively.

Philippine's export destinations showed little change. Japan took back the no. 1 spot from Singapore as it absorbed 18.1% of all exports. Singapore had a 14.8% share, and U.S. followed with 13.2%. Japan still had the bulk of accumulated imports from January to August of $6.2 B, a 3.6% expansion.

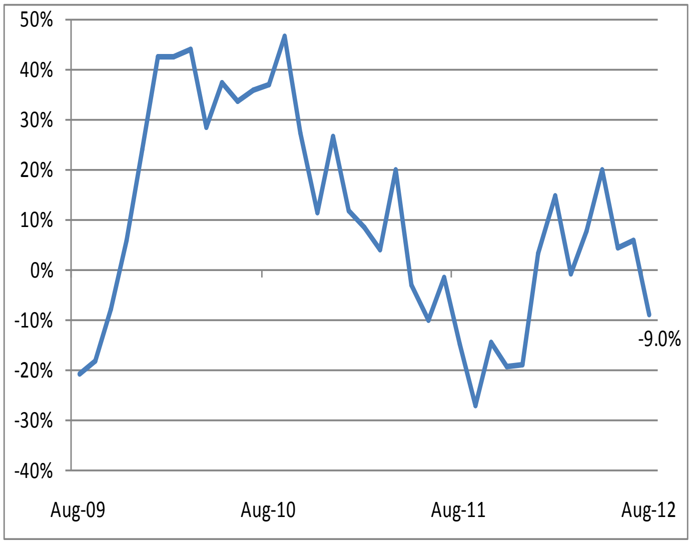
Figure 5 - Monthly Exports Growth Rates (Year-on-Year)



Source: National Statistics Office (NSO)

In spite of the gloomy outlook for exports, the year-to-date (YTD) export growth remains at positive 5.5%. Seasonal factors suggest a below average bias for Q4, but annual exports growth for 2012 should be within 5.0-6.0% because more than 50% of exports go to fast-growing East Asia (ex-Japan) and ASEAN. Moreover, the expected boost in spending in U.S. could alleviate the cloudy outlook for the PH exports.

Figure 6 - Philippine Exports Growth Rate (Year-on-Year)



Source: National Statistics Office (NSO)

The peso will have an appreciation bias in November-December and could challenge the P41/$1 level.

7.6% Strong Rebound in OFW $ Remittances in August

Overseas Filipino Worker (OFW) remittances in August recorded its first above-7% y-o-y growth this year, the fastest pace since November of 2011. In spite of relatively static dollar remittances growth of above 5% since January 2012, except in June which had 4.2%, the low base in 2011 underpinned the latest boost. It reached $1.8 B approximately close to July's robust amount. The YTD growth of OFW remittances until August was 5.5%, higher than the government's projected 5% expansion.

The sustained demand for Filipino workers abroad supported the sustained spate of OFW remittances. Based on the Philippine Overseas Employment Administration (POEA) records, there were 1 M plus Filipinos waiting for deployment abroad for the months after H1. Moreover, from Q1 to Q3, a total of 231,316 job orders were processed, or 19.7% more than the same period a year ago.

In spite of the political and economic turmoil in the Middle East and the Euro-zone, the double-digit January to August YTD growth of remittances of 11.8% within Asia offset their negative effects. Remittance from European countries in the January to August 2012 period slipped by 2.27%.

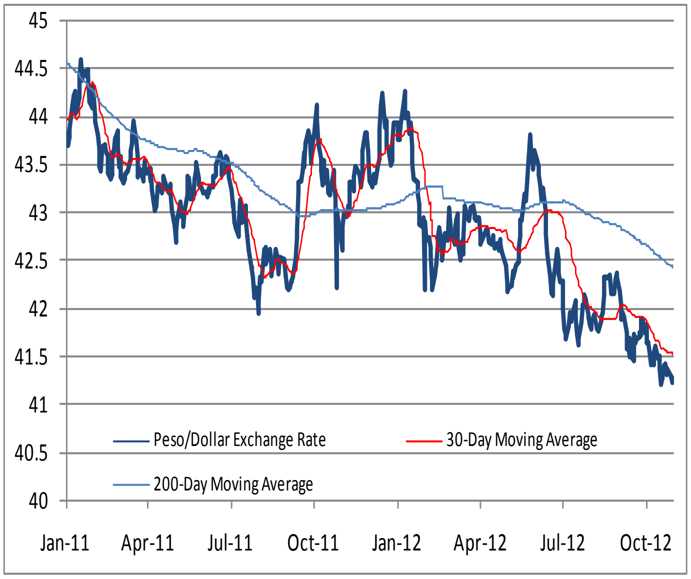
In August of last year, the OFW remittances in pesos totaled P70.8 B. This jumped by 6.6% in the same month this year to P75.5 B. The growth is slower than the dollar value of the remittance due to the 1% appreciation of the peso from P42.40/$1 a year ago to P42.05/$1 this year.

Apart from positive seasonal factors in Q4, and even though peso may tend to appreciate, OFWs are expected send more dollars to compensate for any shortfall in their peso requirements. With these, we retain our forecast of an annual 5.0-6.0% growth rate in OFW $ remittances for the year.

Peso Strength Extends to October

The peso-dollar exchange rate averaged P41.50/$1 in October. August had an average of P42.05/$1 which appreciate in September when it averaged P41.75/$1, which was also lower than the 55-month low of P41.20/$ on October 18. All these reflect a global bias towards currencies of emerging economies which have strong fundamentals in terms of balance of payments, ratio of foreign debt to GDP, levels of gross international reserves and outlook for growth, all of which the Philippines seem to presently possess the strength of the currency should even be supported as Japanese and other multinational companies firm up operations in the Philippines as they shift operations from China to Southeast Asia. In addition, based on the chart below, all the indicators point to a continued appreciation bias. An interest rate cut (with another 25 bps still likely) may temper the peso's strength, but dollar-buying by the government to reduce its dollar obligations could prove more effective. The peso will have an appreciation bias in November-December and could challenge the P41/$1 level.

Figure 7 - Peso-Dollar Foreign Exchange Rate Trend



Sources: Meralco, National Statistics Office (NSO)

Outlook

The prolonged negative impact of the heavy rains and floods in August will certainly result in a slightly slower GDP growth in Q3, but a strong recovery is expected in Q4, as the National Government (NG) plans to accelerate infrastructure and other capital outlays, and private firms are reporting slightly better-than-expected earnings in Q3.

The peso will have an appreciation bias, but this will be moderated by a further 25 bps rate cut in December and macroprudential measures that the BSP is prepare to put in place...

- With crude oil prices trending downward and food supply ample, there is little pressure on the inflation front. It is likely that 3.5% Q3 average inflation will be replicated in Q4.

- Fiscal spending is expected to step up even more in Q4 as NG units' absorptive capacity improves and election spending begins in earnest. Nonetheless, we do not expect the full-year deficit to only reach P220 B, which is only 2% of GDP.

- The latest rate cut should enable banks to lend more, with money growth expanding more than in Q3. SDAs are likely to start declining with the narrowing interest rate spread between domestic and foreign Treasury bills.

- Exports are likely to bounce back to positive growth territory, as the recoveries in East Asia, ASEAN and the U.S. gain traction. Nevertheless, full-year growth should remain single-digit.

- The peso will have an appreciation bias, but this will be moderated by a further 25 bps rate cut in December and macroprudential measures that the BSP is prepare to put in place to avoid further erosion of PH economy's competitiveness.

Forecasts

Rates	Oct	Nov	Dec	Jan
Inflation (y-o-y %)	3.10	3.40	3.90	3.90
91-day T-Bill (%)	0.56	0.48	0.60	0.51
Peso-Dollar (P/$)	41.45	41.42	41.38	41.27
10-year (%)	4.70	4.65	4.58	4.50

Source: Authors' Estimates

Moody's Upgrade and Rate Cut Lower Yields

On October 25, the Bangko Sentral Ng Pilipinas (BSP) clipped policy rate by 25 basis points (bps) to an all-time low of 3.5%. The move did not come as a surprise as most analysts anticipated the rate cut. What was more telling was BSP's announcement of their openness for further easing to bolster the economy and to curb the peso's appreciation.

The following week, Moody's Investor Services upgraded Philippine sovereign credit to one notch below investment grade. Anticipating a renewed demand for the Philippine currency, investors pushed 364-day T-bill rates to below-1% as the month ended. Other T-bill rates continued to trend lower with the 91-day and 182-day T-bills nearing the lowest awarded rates set in September 2011. Unmet demand from cancelled T-bond auctions and a shortened Retail Treasury Bond (RTB) offer period also contributed to the drop in T-bill yields.

The Bureau of the Treasury (BTr) marked another record in the bond market in October as the Retail Treasury Bonds (RTBs) sale raised P188 B in its 16 tranche for 25-year paper. The scheduled 10-day auction period was cut short as daily offers had been continuously oversubscribed. Long tenors in the secondary market were met with high demand as well with inflation remaining benign at 3.6% in September and the budget deficit staying widely below programmed levels.

The International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB) lowered their global growth forecasts and downgraded their outlook for Spain and Italy. In contrast, their outlook on the Philippines was more positive with the WB raising its growth forecast from 4.6% to 5% and ADB, from 4.8% to 5.5%. The IMF maintained its growth forecast at 4.8%.

Primary Market: Record P188 B RTB Sale and T-bills below 1%

The October 29 364-day T-bill auction came 2.29x oversubscribed causing the yield to plummet by 42 bps to a record-low of 0.95%. Similar oversubscription for the 91-day T-bill took its yield down 24.9 bps to 0.463% as tenders were 5.86x the offer. The 182-day was also oversubscribed 3.82x and yields slipped 35 bps to 0.7%. Pent-up demand from the early end of the RTB sale and cancelled T-bond auctions, which shrank Q4 borrowing from P90 B to P64.5 B, drove T-bill yields down to their lowest levels for the year.

The downward trend had started with the October 1 T-bill auction which saw the 91-day fetch a 0.712% yield, a 3.3 bps drop from the previous rate awarded, and was 3.97x oversubscribed. The 182-day bill plunged 39.5 bps to 1.05% with a 4.33x oversubscription. The 364-day T-bill fell the most by 53.6 bps to 1.37%, oversubscribed 2.54x in the same auction.

T-Bills and T-Bonds Auction Results

Date	T-Bond/ T-Bill	Offer (PhP B)	Tendered (PhP B)	Awarded (PhP B)	Tendered ÷ Offered	Average Yield	Change (bps)
01-Oct-12	91-day	1.00	3.97	1.00	3.970	0.712	-3.3
	182-day	2.50	10.83	2.50	4.330	1.050	-39.5
	364-day	4.00	9.80	4.00	2.450	1.370	-53.6
29-Oct-12	91-day	1.00	5.86	1.00	5.860	0.463	-24.9
	182-day	2.50	9.55	2.50	3.820	0.700	-35.0
	364-day	4.00	9.15	4.00	2.288	0.950	-42.0
Totals	All Auctions	15.00	49.16	15.00	3.79	-	-

Source: Bureau of the Treasury (BTr)

Trading was more active in longer tenors; although the 20-17 was unchanged and the 25-08 series had a slight 2.5 bps uptick on profit-taking.

The price-setting auction on October 9 for the 25-year RTBs produced a 6.125% coupon rate which was 16.8 bps higher than the secondary market that day. The 25-year RTB offer period was slated to run from October 9 to 22, but the BTr ended it on October 18 after a record P188 B had already been raised.

The BTr cancelled several scheduled auctions – the October 9 five-year, the October 15 T-bills and October 23 seven-year bond auctions – which would have totalled P25.5 B to give way to the 25-year RTB sale. The cancelled auctions reduced the programmed Q4 borrowing to P64.5 B from P90 B.

On October 25, with the latest BSP move, year-to-date (YTD) in policy rate cuts comes to a cumulative minus 100 bps to stand at 3.5%. Meanwhile, the repurchase rate is down to 5.5%. There were hints of further rate cuts if the situation in Europe does not improve or if peso appreciation needs to be curbed. Inflation continues to be manageable with the Jan-Sep figure at 3.2% which is at the lower end of the BSP's 3-5% target, giving room for further easing.

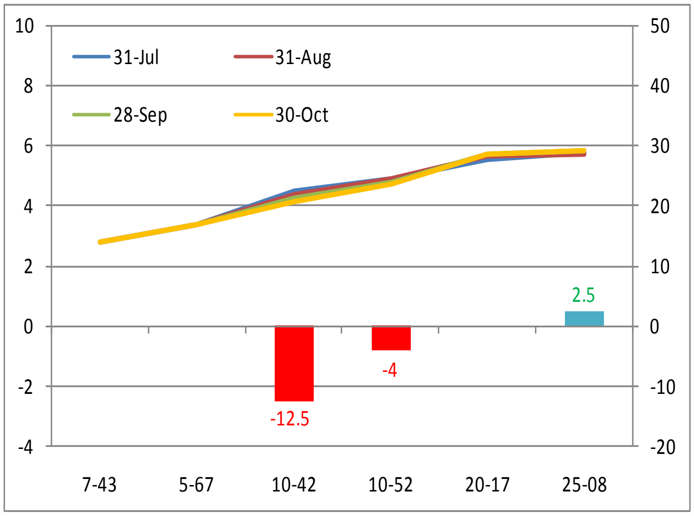
Moody's Investor Service unsurprisingly upgraded the country's long-term currency deposit rating from Ba2 to Ba1. This places their rating at par with S&P's BB+ rating given last July and Fitch's BB+ rating given much earlier in June 2011. Aside from a consistently low inflation environment, fiscal prudence was one of the key factors that led to the upgrade. As of end-August, the country's outstanding debt was P5.181 Tr which was 8.1% higher year-on-year (y-o-y) and only 0.47% month-on-month (m-o-m). The ratio of domestic to foreign debt was around 60:40. Meanwhile, despite the budget deficit being twice the amount in the same period last year, the 9-month shortfall was 58% lower than planned at P106 B. Another factor cited was foreign currency reserves which reached $81.9 B as of end-September. The country's sovereign rating is now just one-notch below investment grade in all three major ratings agency under a stable outlook.

In addition, Moody's cited NG's debt consolidation, which will be further buttressed by the BTr's liability management program. A domestic debt exchange was rescheduled for December to give banks time to plan for the program. In this exercise, the government will exchange outstanding shorter-tenors with issuances of 7-, 10-, 15-, 20- and 25-year T-bonds each worth at least P60 B.

Secondary Market: High Demand for the Longer-End

FXTN yields in the 7-43 and 5-57 series were unchanged m-o-m. The 10-42 and 10-52 decreased by 12.5 bps and 4 bps m-o-m, respectively. Trading was more active in longer tenors; although the 20-17 was unchanged and the 25-08 series had a slight 2.5 bps uptick on profit-taking.

Figure 8 - FXTN Yields

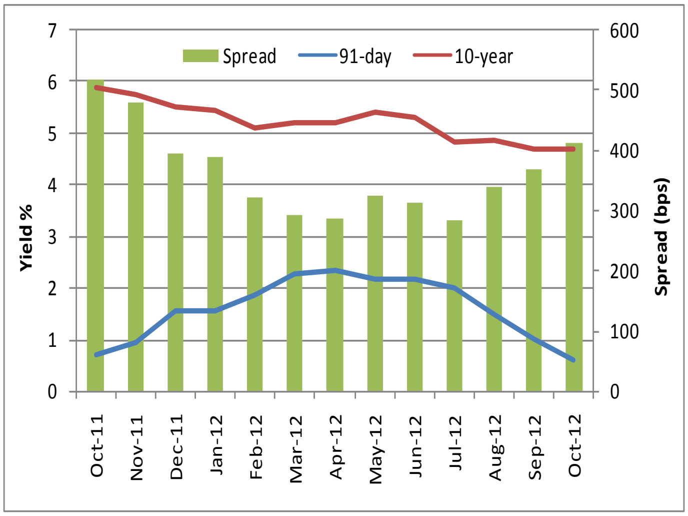


Source: First Metro Investment Corp. (FMIC)

In the first half of the month, dealer activity was characterized by position shifting as investors built up cash positions for the RTB sale. Activity in the second week saw dealers pushing yields higher by selling long dated tenors. The strong demand for the 25-year RTB raised the possibility that the offer period would be cut short (as actually happened), and the cancellation of T-bond auctions led more players to position themselves at the longer-end. Yields consolidated as the RTB issuance was capped especially in the very long end. While the T-bill to ten-year curve steepened, the slope seems less meaningful with currency plays dominating the very short end of the government securities market.

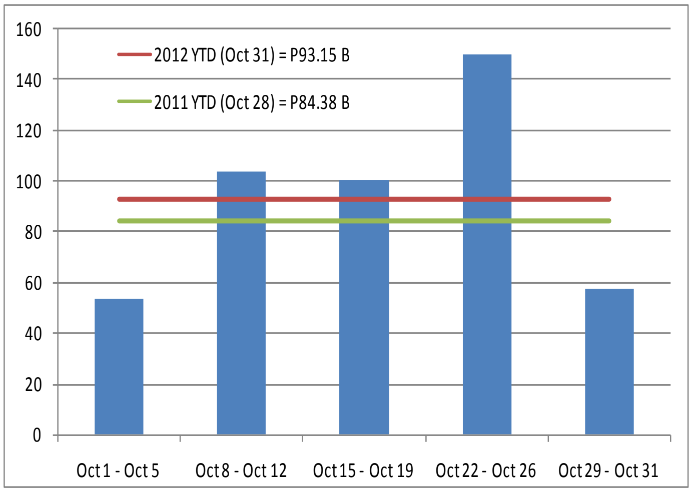
Borrowing locally seemed to be the preferred mode as the Eurozone financial crisis resulted in wider spreads for bonds issued in the international market.

Figure 9 - 91-day vs 10-year Yield Spread



Source: Bureau of the Treasury (BTr)

Figure 10 - Weekly Trade Volume (in Billion Pesos)

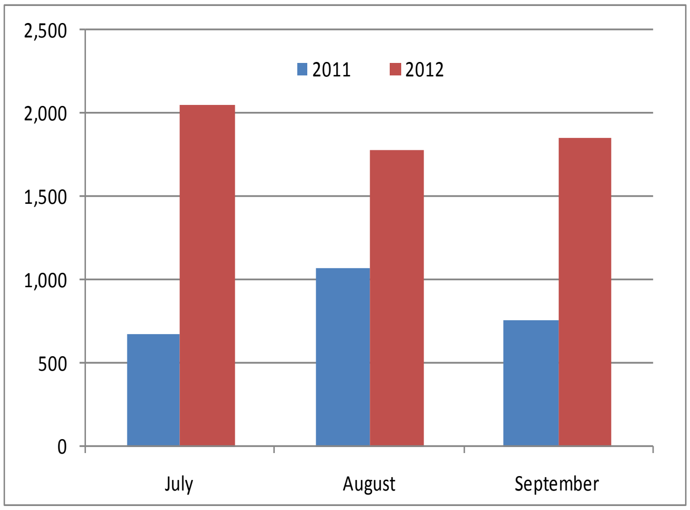


Source: Bureau of the Treasury (BTr)

Corporate Bonds: Continued Gains but Outperformed by Region

Corporate bond/notes trade volume in September rose 4% from August and 145.1% from a year ago. Traded volume was P1.86 B. According to the September issue of ADB's Asia Bond Monitor, the Philippines continues to lag behind its East Asian counterparts in Q2. The regional market had grown 22% y-o-y for Q2 as more firms took advantage of low domestic interest rates in the face of the global demand slowdown. Borrowing locally seemed to be the preferred mode as the Eurozone financial crisis resulted in wider spreads for bonds issued in the international market.

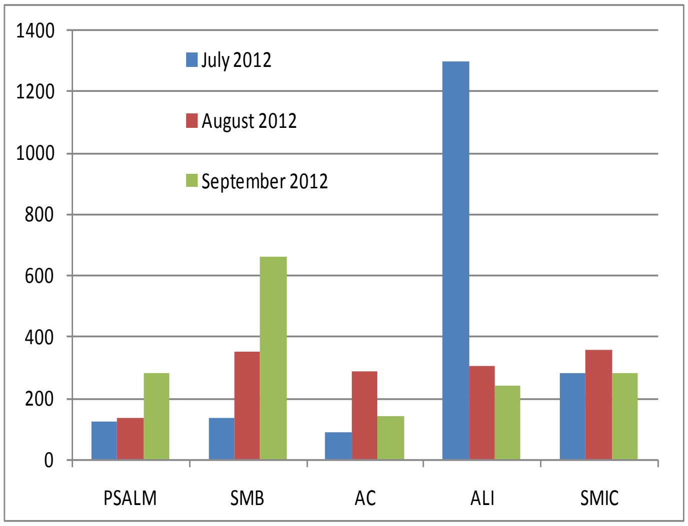
Figure 11 - Total Corporate Trade Volume (in Million Pesos)



Source: Philippine Dealing and Exchange Corp. (PDEx)

San Miguel Brewery Inc. (SMB) paper led secondary trading in September with a turnover of P658.63 M. As usual, Power Sector Assets and Liabilities Management Corp. (PSALM) was a strong performer with P279.54 M worth of traded paper. Ayala Land, Inc. (ALI) traded P240.61 M while Ayala Corp.'s (AC) debt paper valued at P141.55 M changed hands. SM Investments Corp. (SMIC) debt issues worth P278.23 M in the secondary market.

Figure 12 - Corporate Trading (in Million Pesos)



Source: Philippine Dealing and Exchange Corp. (PDEx)

The yield curve for Philippine dollar-denominated bonds (ROPs) continued to shift downwards and became steeper as the peso continued to strengthen.

Corporate Issuances

- Banco De Oro Unibank, Inc. (BDO) concluded a P5 B sale of 7-year long-term negotiable certificates of deposit (LTNCD) with a coupon rate of 5.25% that will mature on October 15, 2019. Funds raised will be used to finance its expansion plans and other expenditures.

- Ayala Land, Inc. (ALI) issued P1 B worth of fixed rate 3-year Homestarter Bonds. Credit Rating and Investors Services Philippines Inc. (CRISP) rated the issue as AAA. It carried a 5% p.a. coupon, priced at 100% of face value. Upon maturity in 2015, bondholders have the option to use the principal as a full or partial down payment for an ALI property.

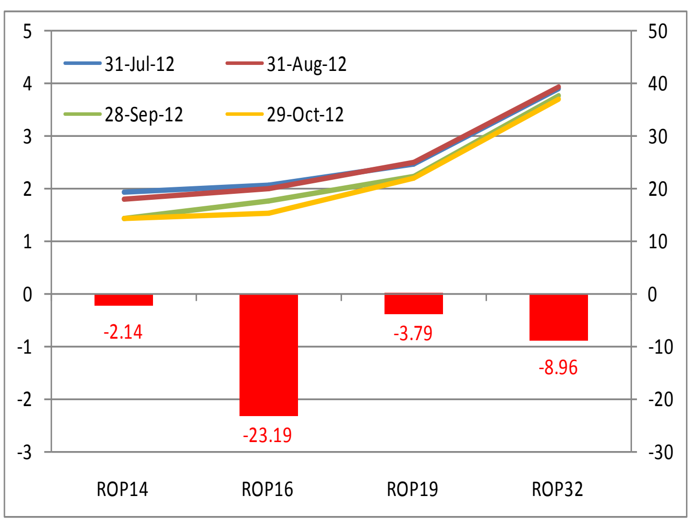
Planned Issuances

- Ayala Corp. (AC) plans to sell P10 B worth of fixed-rate 7-year bonds for which Philippine Rating Services Corp. (PhilRatings) has issued a triple-A credit rating. The bonds will carry a call option exercisable on every anniversary date from the 4th to the 6th year.

ROPs: Appreciating Peso Continues to Cut into Yields

The yield curve for Philippine dollar-denominated bonds (ROPs) continued to shift downwards and became steeper as the peso continued to gain against the US dollar.

Figure 13 - ROPs



Source: Bloomberg

As the month unfolded, prices of ROPs were higher on the back of better-than-expected US economic data and a possible bailout for Spain. The ROP14 yields fell 2.14 bps while the ROP16 was down 23.19 bps. Yields on ROP19 eased by 2.70 bps while that of the ROP32 slid by 8.96 bps.

ASEAN+1: Yield Curves Shift Down, except for China, US

On a month-to-date (MTD) basis (October 1 against October 30), most yield curves shifted downwards except for China and the US. Safe-haven buying stepped up as the World Bank, International Monetary Fund and Asian Development Bank cut global growth forecasts in the face of downbeat data being reported in Europe, US and China.

US: Treasury prices declined MTD dragged down by Eurozone woes. Yields inched up 1.52 bps in the 1-year and by 5.88 bps in the 2-year. The 5-year yields climbed 11.38 bps while 10-year yields ticked up by 8.54 bps. As October ended, US markets were closed due to super storm Sandy. Inflation accelerated to 2% on the back of higher fuel prices and Manufacturing rebounded with the ISM Purchasing Managers Index (PMI) climbing to 51.7 in October for a second month in a row. Unemployment fell to 7.8% in September while Q3 GDP increased by 2% SAAR and consumer sentiment showed some improvement.

PRC: As the yuan strengthened against the US dollar, domestic yields shifted upwards. The 1-year and 2-year rates climbed 18 bps and 11 bps, respectively while the 5-year crept up 5 bps and the 10-year had a 12 bps uptick. These follow another slowdown in FDI flows in September as investors were held back by rising costs. In addition, production continued to contract with PMI in September down to 49.8. As inflation decelerated to 1.9% in September, the People's Bank of China (PBOC) increased money creation as part of China's pro-growth policies which has so far resulted favorably with 7.3% Q3 GDP growth. Other policy moves include lower taxes for small businesses and incentives to decrease reliance on external markets. Meanwhile, trade increased by 9.1% y-o-y with the US helping offset trade declines of 2.1% y-o-y with Europe and 1.8% y-o-y with Japan. The trade bulge was due to a 9.9% y-o-y increase in exports and 2.4%

Indonesian sovereigns also received a boost from the upgrade to BB+ by Rating and Investment Information (R&I) which cited the country's strong fundamentals.

y-o-y increase in imports finally breaking a three-month decline. Trade surplus for September of US $27.67 B, up 3.8% from August and a nine-month total of US $148 B.

Indonesia: On a MTD basis, the 1-year yields fell 16.2 bps while the 2-year declined 9.1 bps. The longer-end dipped even further with the 5-year shedding 17.8 bps while the 10-year ended 24 bps lower. The downward shift in the yield curve was due to the strong demand from global funds of Rp4.52 Tr or around $470 M from October 1 to October 24. The issuance of Rp12.6 Tr worth of retail bonds was short of the target that was revised just a day before the offer ended. Nevertheless, liquidity was easily soaked up by the treasury bonds sold on October 23 which exceeded the Rp6 Tr target. Inflation slowed to 4.31% in September which took inflation for the first nine months to 3.49%. Despite a slower rise in prices, the Bank of Indonesia (BI) refrained from cutting its benchmark interest rate which remained at 5.75%. While the rupiah remained susceptible to risk-off sentiment from the lack of bailout resolutions for Greece and Spain, it mostly gained against the dollar this month due to strong fund inflows. Jan-Sep investment flows were up 7.0% from the same period last year as it registered Rp229.9 Tr which moved it closer to the annual target of Rp283.5 Tr (about $30 B).

Indonesian sovereigns also received a boost from the upgrade to BB+ by Rating and Investment Information (R&I) which cited the country's strong fundamentals. Nevertheless, worries remain over energy and fuel subsidies which now drain 20% of the spending allocation in the state budget. It was increased from Rp202 Tr to Rp305 Tr (about $32 B) for 2012. For 2013, the government hopes to cut the subsidy by 10% with a plan to increase electricity tariffs by 15%. The lower subsidy aims to shrink the budget deficit and reduce the debt to GDP ratio to 23% by next year. Programmed borrowing was also set at Rp172.8 Tr in domestic financing and Rp18.5 Tr (about $1.9 B) in foreign financing.

Malaysia: Yields slipped with the 1-year lower by 1.5 bps while the 2-year by 5.1 bps as investors reacted after the neighboring Bank of Thailand unexpectedly cut its benchmark rate. This gave room for the Bank Negara Malaysia (BNM) to cut interest rates. BNM refrained from doing so in October. The 5-year fell 6.9 bps while the 10-year was down 8.1 bps. September inflation moderated below forecasts to 1.3%, the lowest in 2 years. In other news, the Securities Commission's (SC) Guidelines for Registered Persons introduced two new classes of trading and allowed trading by authorized representatives. These would create more job opportunities in the stockbroking industry and ensure the industry's sustainable growth. To enhance regulation over a fast-growing Islamic Bond Market, BNM announced shariah standards that outline security features that are applicable to Islamic financial transactions and help guide the development of Islamic financial products and services.

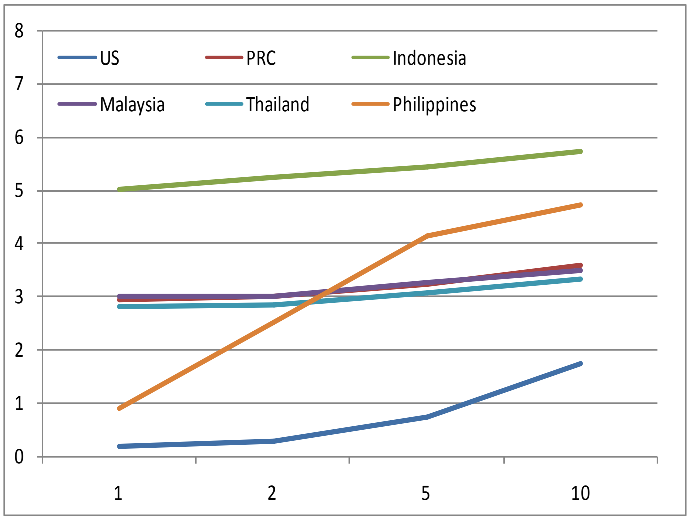
Thailand: The yield curve shifted downwards on the back of a stronger baht. MTD, the 1-year was 22 bps lower, the 2-year down 27.5 bps while the 5-year fell 23.4 bps and the 10-year declined by 20 bps. The Bank of Thailand (BOT) was not worried about the higher-than-expected inflation in September which at 3.38% was partly due to last year's base effect. In addition, Jan-Sep inflation was 2.94% which is even below the lowered inflation forecast for the year of 3% to 3.4%. This gave room for the BOT to cut the policy rate by 25 bps to 2.75%. The rate cut was intended to curb the baht's appreciation due to foreign capital inflows and to boost domestic markets as consumer confidence dipped for the third consecutive month in September. The BOT has also taken steps to further promote capital outflows such as allowing individuals to invest unlimitedly to expand operations abroad and permitting investments into foreign bonds issued in the country. In addition, the BOT proposed the "Capital Account Liberalization Master Plan," already approved by the Ministry of Finance wherein 2012-2013 will be focused on relaxing foreign exchange regulations. According to the BOT, this would allow flexibility for overseas investment and foreign exchange risk management. Moreover, Thailand seeks to benefit from the ASEAN linkage that would allow trade of financial assets in Malaysia and Singapore through nine brokerages. Its $208 B international reserves serve to dispel fears of sudden large capital outflows. Meanwhile, it posted a US$ 1.15 B trade surplus despite the minimal rise in exports in September; imports after all declined by 7.7% y-o-y. Another focus of the BOT is the rise in household debt which has surged to 40-50% of household income from 30%. Non-banks continue to attract customers with advertisements while charging high interest rates which

Auction T-bill and T-bond yields will likely challenge present records, with the secondary market not far behind.

the BOT has no control over. As for government and state-owned enterprises, the 2013 borrowing program is planned at THB959.4 B (about $30.9 B) which would increase public debt to 47.5% of GDP from 44.2% according to Finance Minister Kittratt Na-Ranong. The government will use local funds to help the BOT manage liquidity in the market and help keep the baht from appreciating too much.

Philippines: The front end of the PH yield curve steepened in October with the one-year plunging by 56.71 bps. The 2-year rate climbed 22.5 bps, but the 5-year dropped by 22.4 bps leaving the rest of the curve flat. The 10-year had a small 1.69 bps uptick. The successful conclusion of the RTB sale set the direction for interest rates at 6.125% for 25-years while T-bills yields declined due to cancelled T-bond auctions.

Figure 14 - ASEAN Market+1



Source: Asian Development Bank (ADB)

Outlook

With recession in the Eurozone and generally weak recovery in the US, China and Japan as a backdrop, near-zero short-term interest rates will continue to prevail in advanced economies in Q4.

- Lower SDA rates, a likely further 25 bps cut in policy rates in December, inflows of portfolio capital to emerging economies (especially, the ASEAN including the Philippines) and lower regular NG debt issuances will push the yield curve further downwards, but with special impact on the belly.
- Auction T-bill and T-bond yields will likely challenge present records, with the secondary market not far behind. More intense bond trading is likely to persist given a wallowing in liquidity and scarcity of supply.
- A year-end rush in corporate issues may follow as firms take advantage of even lower interest rates. Trading in corporate bonds/notes will continue to expand.
- ROPs should remain in favor among foreign investors, given the strong dollar inflows and PH's very high international reserves to reach $84.5 B by year-end (equivalent to 12 months of imports of goods and services), much higher in relative terms than our ASEAN and East Asian neighbors, except for China and Taiwan.

Spreads between 10-year and 2-year T-Bonds

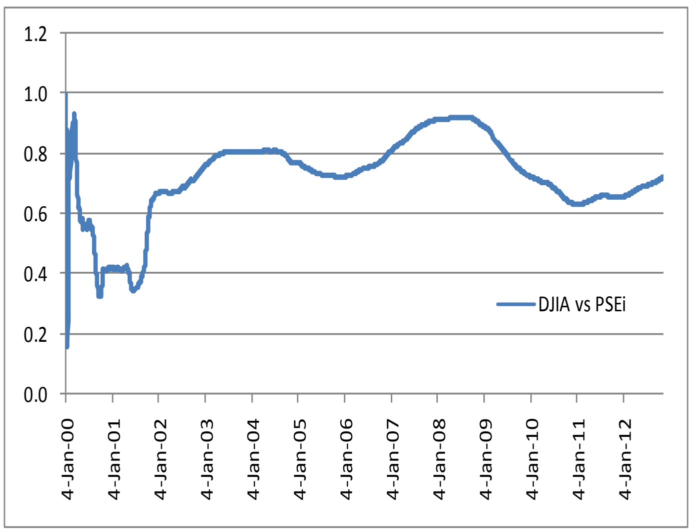
Country	2-year rate	10-year rate	Projected Inflation Rates	Real 10-year yield	10 year to 2-year Spread (bps) Sep. 3, 2012	10 year to 2-year Spread (bps) Sep 27, 2012	Spread Change (bps)	Latest Policy Rate	Real Policy Rate
US	0.289	1.719	2.0	-0.28	139	143	4	0.25	-1.75
PRC	3.01	3.570	3.1	0.47	55	56	1	6.00	2.90
Indonesia	5.239	5.726	4.5	1.23	60	49	-11	5.75	1.25
Malaysia	3.008	3.473	1.7	1.77	50	46	-4	3.00	1.30
Thailand	2.850	3.306	3.1	0.21	36	46	10	2.75	-0.35
Philippines	2.500	4.700	3.1	1.60	246	220	-26	3.50	0.40

Sources: BTr and FMIC

The Philippine Bull Has Stronger Legs

In the US, earnings concerns, fragile economy, and the 2012 Presidential Election weighed on equities. But unlike previous periods, we are seeing correlation between the PSEi and US equity indices declining. For the month of October, the PSEi rose 1.47%, while the Dow Jones Industrial Average fell a moderate 0.65% and the S&P 500 a similarly mild 0.03%. The PSEi's performance in October was consistent with our seasonality study. In November, we expect the Philippine equities market to move higher. Most local companies will release earnings results this month which should be in-line with consensus. While investors may take profit on earnings news, we will keep existing positions and accumulate on dips. Trailing valuations may appear stretched but robust macro, undemanding forward valuations and strengthening inflow from foreign funds make a case to remain invested.

Figure 15 - Historical Correlations PSEi vs. US Equities



Sources: Bloomberg, NSCB

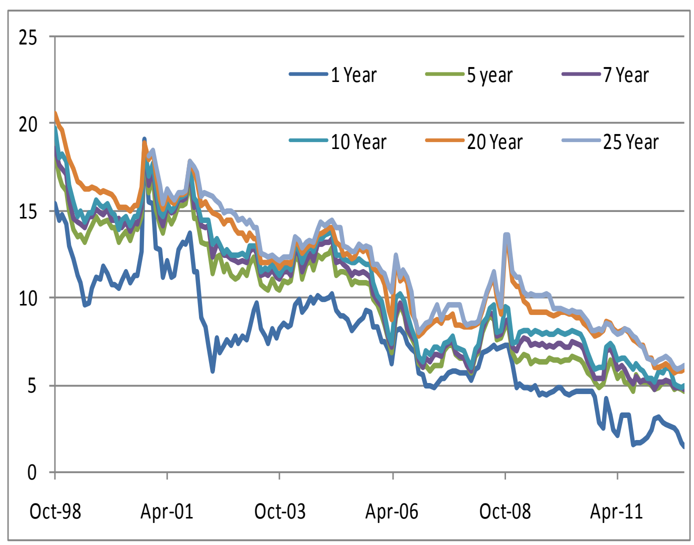
Macro Fundamentals Warrant Elevated P/Es

The markets trailing price to earnings (P/E) ratio should remain above historical average due to the above average Gross Domestic Product (GDP) growth and low inflation environment (see The Market Call October). The 2013 outlook for growth remains constructive even to the conservative institutions i.e., the International Monetary Fund (IMF), World Bank (WB) and Asian Development Bank (ADB).

	2012		2013
	Previous Projection	Latest Projection	Latest Projection
ADB	4.8	5.5	5.0
IMF		4.8	4.8
WB	4.6	5.0	5.0

The recent credit upgrade of the Philippines by Moody's (Ba1) to one notch below investment grade reaffirms the earlier ratings from S&P and Fitch. Yields of Philippine T-Bill and T-Bonds are trading at near historic lows. While we may not see the country being upgraded to investment grade in the near-term, we see lower yields on Philippine debt to persist for some time to come. High peso liquidity evidenced by the growth in Special Deposit Accounts (SDA) with the BSP will keep fixed income yields depressed.

Figure 16 - Philippine Interest Rates



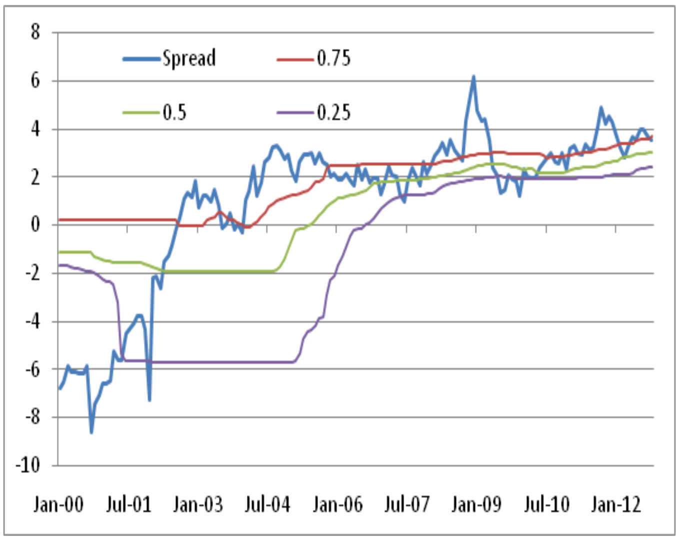
Sources: Bloomberg, NSCB

Philippine Q3 GDP is usually less robust than the H1 on a historical context based on studies by the University of Asia and Pacific (UA&P). This is due to weather disruptions and seasonal spending patterns. Agricultural output is usually hampered by typhoons occurring during the

On a risk-to-reward basis, the Philippine equities market is attractive. Odds of positive return is higher in the next 12 months if investors enter the Philippines equities as of this writing.

quarter. Furthermore, the Q3 marks the opening of the school year, while most consumer spending had already been done in the Q2. Fortunately, economic activity always picks up in the Q4 with the better weather and the festive mood of Filipinos for the approaching Christmas season. (For more information see Macroeconomy).

Figure 17 -MSCI Philippines Trailing and Forward P/E

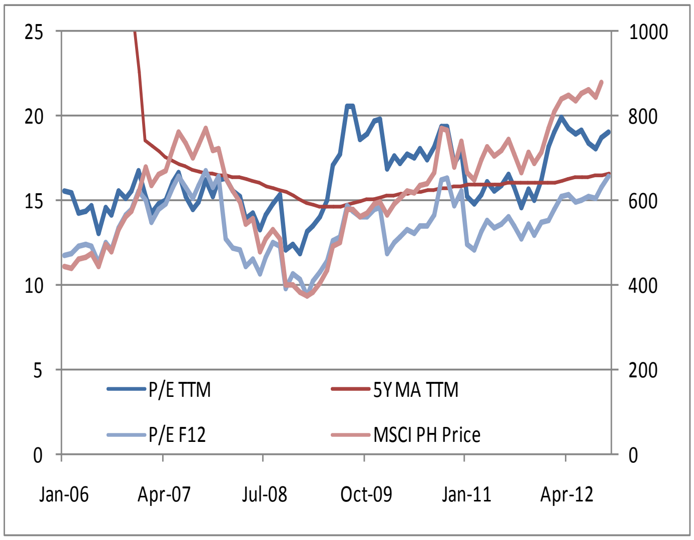


Sources: Bloomberg, First Metro Sec Research

Valuations are Expensive or Not...

We acknowledge that Morgan Stanley Capital International (MSCI) trailing P/Es are expensive. But on a forward perspective, P/Es are acceptable. We cannot help but reminisce about the Q4 2007 and November 2010 (PSEi peaked and declined). How do those two quarterly patterns compare to the quarter that we are entering? We think current market conditions are not comparable to the Q4 2007 and November 2010. The gap between trailing and forward P/Es remains wide indicating constructiveness among analysts in the next 12 months. Moreover, the domestic economic outlook is brighter now than it was in the Q4 2007 and November 2010.

Figure 18 - Back Test



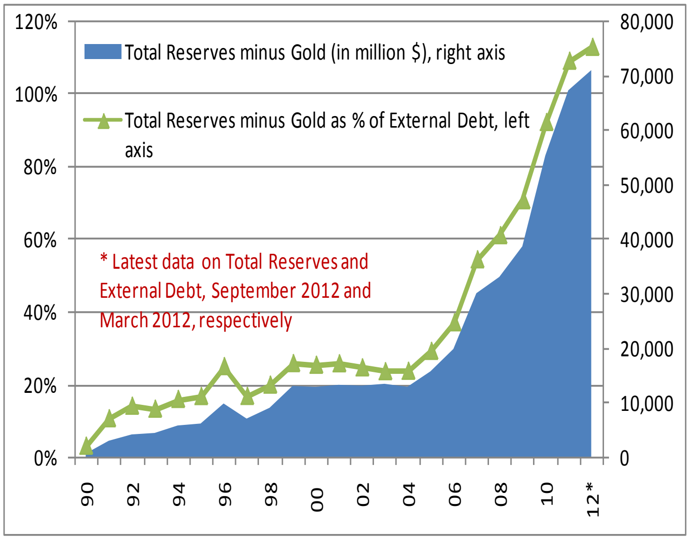
Source: Bloomberg

On a risk-to-reward basis, the Philippine equities market is attractive. The spread between MSCI Philippines earnings yield and US 10-year T-bond yield remains wide. Based on our market timing model, odds of positive return is higher in the next 12 months if investors enter the Philippines equities as of this writing. See table "Spreads Back Test Results" for more details.

	9 Month Performance		12 Month Performance	
	Average Return	Hit Ratio	Average Return	Hit Ratio
>=0.75	15%	84%	21.8%	92%
0.75>.5	9%	64%	13.2%	64%
0.5=>.25	-5%	40%	-9.5%	35%
0.25=>	-4%	50%	-4.7%	29%

We expect equity portfolio inflows to continue being supported by high domestic liquidity and positive year-round outlook for the economy.

Figure 19 - Reserves



Sources: Bloomberg, First Metro Securities Research

Foreign Inflows Remain Robust

According to EPFR Fund Flows Research, flows to Philippine focused funds have recovered from the outflows in August 2012. General Emerging Market (GEM) funds have also increased their allocation to the Philippines. The country's "Growth Story" and outlook for a stronger peso will likely attract more inflows. While a stronger peso is not necessarily a boost to the Philippine economy, its strength is warranted due to strong money flows. Resilient OFW remittances, Gross International Reserves (minus gold) over 100% of external debt, nine consecutive years of Current Account Surplus, and Quantitative Easing 3 are factors supportive of a stronger peso.

Based on the foregoing, we reiterate our view of remaining invested in Philippine equities. Market backdrop warrants higher multiples longer into the future and Q3 earnings results are likely to come in as expected or even better. This should encourage further analysts' earnings upgrade. While external risks, namely, the US fiscal cliff, the Europe debt crisis, and the slowing global growth will be disruptive to the local equities market, signs that the Philippine market has become less correlated to the major markets should provide greater confidence to investors.

Monthly Sectoral Performance				
	28-Sep-12		31-Oct-12	
Sector	Index	% Change	Index	% Change
PSEi	5,346.10	1.90%	5,424.51	1.47%
Financial	1,370.60	5.07%	1,374.73	0.30%
Industrial	8,138.57	3.81%	8,536.60	4.89%
Holdings	4,492.12	0.07%	4,625.22	2.96%
Property	2,073.88	7.60%	2,107.37	1.61%
Services	1,799.85	2.32%	1,754.28	-2.53%
Mining and Oil	19,838.99	-19.45%	19,912.88	0.37%

Source of Basic Data: PSE Quotation Reports

PSEi closed in the green, posting an increase of 1.47% and resumed its bull run. It breached the 5,400 level early in October and was able to withstand a strong consolidation. While investors perceived the market to have gone ahead of itself, investors were buying dips rather than selling the highs. Momentum regained towards the end of the month,and the BSP announcement of a 25 bps cut in key policy interest rates made investors even more comfortable with their positions. Moody's upgrade of PH's credit rating to one notch below the investment grade level kept the sentiment upbeat. We expect equity portfolio inflows to continue being supported by high domestic liquidity and positive year-round outlook for the economy. All of the sectors, except for the Services sector, recorded positive gains.

Company	Symbol	9/28/12 Close	10/31/12 Close	% Change
Metrobank	MBT	92.50	95.00	2.7%
Banco de Oro	BDO	64.90	64.00	-1.4%
Bank of the Philippine Islands	BPI	79.80	81.00	1.5%

Source of Basic Data: PSE Quotation Reports

The Financial sector's index had a slight increase of 0.30%, attributed mainly to the rise in share prices of Metrobank (MBT, +2.70%) and Bank of the Philippine Islands (BPI, +1.50%). There was not much trading news this month except that approved bank branches for opening declined by 11.30% in Q2 2012. Banco de Oro (BDO) share price eased despite the bank's efforts to increase longer-term funds for their re-lending projects. On the other hand, investors' confidence on MBT and BPI was renewed amid

Like the Industrial sector, trade in the Holdings sector showed a positive response to the robust local performance and recent developments in the country.

the companies' solid core income and loan growth. MBT and GT Capital entered into a memorandum of understanding for the purchase of MBT's 30% stake in Toyota Motor Philippines. This transaction is said to strengthen MBT's capital position to meet the Basel 3 requirements. Moreover, DBS Group Holdings, Ltd. announced that it had agreed to divest a 10.4% interest stake in BPI in an effort to prepare the bank for the introduction of Basel 3. DBS will continue to have representation in the BPI board as it still has 9.9% share holdings in the bank.

Company	Symbol	9/28/12 Close	10/31/12 Close	% Change
Meralco	MER	255.00	279.00	9.4%
Aboitiz Power	AP	33.55	33.10	-1.3%
Energy Development Corp	EDC	6.08	6.67	9.7%
San Miguel Corporation	SMC	110.30	109.10	-1.1%
Jollibee Food Corp.	JFC	101.00	105.70	4.7%

Source of Basic Data: PSE Quotation Reports

The Industrial sector enjoys a better position with the country's robust economic performance as it continues to grow in the same trajectory as the country's economic growth. This month's PSEi rally was led by this sector, which posted a 4.89% appreciation in the sub-index. Meralco (MER) and Energy Development Corporation (EDC) had substantial gains of 9.4% and 9.7%, respectively. Both of these firms are keen on their expansion projects. MER has signed a Memorandum of Understanding (MOU) with Shell Companies in the Philippines (SCiP) for a natural gas power project in Southern Luzon. Moreover, it recently reported a 37% growth in net income due to higher energy sales, which inspired it to upgrade its core profit to P16 B from the previous P15.5 B target.

Likewise, EDC will pursue its overseas expansion program in Peru and Chile. It has signed an agreement with Alterra Power Corporation, having a 70% stake in the joint venture. Part of the deal was for both of the companies to conduct exploration field works at Alterra's geothermal concessions in Chile and five geothermal projects in Peru. Jollibee Food Corporation (JFC) also posted a positive gain (+4.7%) due to its expansion plans to the neighboring countries and supported by strong domestic consumption.

The Ang-led San Miguel Corporation (SMC) continued to undergo a correction from its previous overbought condition, with its price declining by 1.10%. Share price of Aboitiz Power (AP) fell amid absence of trading leads in the first half of trading days in the month. Recently, AP reported that its net income increased by 10% in Q3 due to higher electricity rates and sales volume.

Company	Symbol	9/28/12 Close	10/31/12 Close	% Change
Ayala Corp.	AC	426.00	443.00	4.0%
Metro Pacific Investments Corp	MPI	4.19	4.14	-1.2%
SM Investments Corp.	SM	730.00	803.00	10.0%
DMCI Holdings, Inc.	DMC	58.05	54.00	-7.0%
Aboitiz Equity Ventures	AEV	48.85	48.25	-1.2%

Source of Basic Data: PSE Quotation Reports

Like the Industrial sector, trade in the Holdings sector showed a positive response to the robust local performance and recent developments in the country. Sy-led SM company led the rally (+10%) followed by the Ayala Corporation (+4%) as both of the companies increased their efforts on raising capital to prepay some debts. AC added 10% ownership-stake in BPI after DBS Group Holdings agreed to divest the said interest stake for P25.6 B in cash. Meanwhile, DMCI Holdings Incorporation (DMCI) posted the highest fall of 7.0% but the company has a good future value as it continues to expand its infrastructure projects. The most recent is the team-up with Marubeni Corporation for the P60 B PPP project to expand, operate, and maintain LRT-1. With its real estate and construction's prospects going well, the drop is attributed to the decrease in earnings of Semirara (See Mining & Oil). Metro Pacific Investments Corporation's (MPI) had the same drop as AEV. The company now is venturing on the airport operation business as it plans to bid, along with a local partner, on the government's PPP infrastructure projects. Last month, MPI secured the go-signal from NG to proceed with the NLEx-SLEx connecting road project, which is expected to be fully operational by 2016.

Ayala Land Inc. has acquired the stake owned by Kingdom Hotel Investment (KHI) in the Fairmont Hotel and Raffles Suites and Residences projects in Makati for $24.11 M.

Company	Symbol	9/28/12 Close	10/31/12 Close	% Change
Ayala Land Inc.	ALI	23.85	23.55	-1.3%
SM Development Corp.	SMDC	6.10	6.24	2.3%
SM Prime Holdings, Inc.	SMPH	14.20	14.50	2.1%
Robinsons Land Corporation	RLC	19.04	19.00	-0.2%
Megaworld Corp.	MEG	2.23	2.45	9.9%

Source of Basic Data: PSE Quotation Reports

The upswing in the Property sector was primarily observed in the Tan-led Megaworld Corporation (MEG) having a substantial gain of 9.9% as it had better sales record from its residential and "condotel" projects here in Metro Manila and Cebu. Both of the Sy-led property firms also posted an increase in share prices on the back of better consumer spending and efficient operations. SM Prime Holdings (SMPH) expects that it will have a faster growth in H2 backed up by its plans towards international expansion in China. Moreover, SMPH's net income for Q3 rose by 16% to P2.48 billion as it opened more shopping centers in the country and as China's performance improved. Meanwhile, Ayala Land, Inc. (ALI) has acquired the stake owned by Kingdom Hotel Investment (KHI) in the Fairmont Hotel and Raffles Suites and Residences projects in Makati for $24.11 M. The company is also increasing its investment in the redevelopment of Ayala Center in Makati, the increased spending will include the addition of a new 54-story upscale residential condominium project.

Company	Symbol	9/28/12 Close	10/31/12 Close	% Change
Philippine Long Distance Tel. Co.	TEL	2784.00	2650.00	-4.8%
Globe Telecom	GLO	1157.00	1140.00	-1.5%
Puregold	PGOLD	29.70	29.95	0.8%

Source of Basic Data: PSE Quotation Reports

The Services sector dragged down PSEi by 2.53% points as leading telecom players posted significant declines. A big drop of 4.8% was seen in PLDT (TEL) as the possible acquisition of GMA7 did not materialize. Pangilinan's group announced that it will focus on TV5 instead. Meanwhile, PLDT and Smart Communications, Inc. are spending P1.4 B for a fiber optic cable transmission backbone in Palawan that will enhance network and internet services. Talking about the Long-Term Evolution (LTE), Globe Telecom Inc. (GLO) launched its fastest and premium broadband stick powered by LTE and expects that with this, it will see sustained double-digit growth in broadband subscribers. Recently, GLO was named by the Frost and Sullivan research and consulting firm as the country's telecom service provider of the year. On the other hand, the continued uptick in Puregold's (PGOLD) share prices was due to its aggressive expansion program and planned acquisitions. It has recently earmarked P5 B for the development of 25 new retail stores in 2013.

Company	Symbol	9/28/12 Close	10/31/12 Close	% Change
Philex Mining Corporation	PX	14.28	15.00	5.0%
Semirara Mining Corp.	SCC	222.00	219.00	-1.4%
Lepanto Consolidated Mining Co.	LC	1.15	1.14	-0.9%

Source of Basic Data: PSE Quotation Reports

The Mining and Oil sector's recorded some gains in share prices after three consecutive months of decline. Philex Mining (PX) now recorded 5.0% increase after it shared its hopes to resume the Padcal operations within six to twelve months from now. It also announced its intention to build at least one new tailings pond as a long-term replacement for its current tailings facility, which will approximately cost P300 M. The company is also preparing the mine closure plan for its copper-gold project in Surigao del Norte, which is expected to begin commercial operation in 2017. Meanwhile, Semirara's (SCC) power generation is still expected to slow down due to the rehabilitation of one plant in Calaca and is also expected to lower profit contributions from coal mining due to soft coal prices.

As expected, only Mining and Oil sector posted minimal growth this month due to the bleak condition that the new mining rules brought to the sector and weighed down by weak world metal prices.

Total Turnover

October 2012 Turnover (in Million Pesos)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	40,160.68	126.00%	1,912.41	115.20%
Industrial	25,417.29	30.00%	1,210.35	23.80%
Holdings	36,563.75	39.40%	1,741.13	32.70%
Property	18,041.57	31.80%	859.12	25.50%
Services	34,203.26	67.00%	1,628.73	59.10%
Mining and Oil	5,991.50	3.60%	285.31	-1.40%
Total	**160,378.22**	**54.90%**	**7,637.06**	**47.60%**
Foreign Buying	72,276.81	26.60%	3,441.75	20.60%
Foreign Selling	81,003.46	51.00%	3,857.31	43.80%

Source of Basic Data: PSE Quotation Reports

Consistent with the positive market trends brought about by robust domestic macroeconomic outlook, total turnover surged by 54.90%. Among the sectors, the Financial sector recorded a surprising 126% leap in turnover value on the back of good trading in the first two weeks of the month. The Services sector followed with a 67.0% increase while the Holdings sector rose 39.4%. Property, and Industrial sectors had an approximately 31% gain. As expected, only Mining and Oil sector posted minimal growth this month due to the bleak condition that the new mining rules brought to the sector and weighed down by weak world metal prices. Foreigners were net sellers by P8.73 B. Advancers slightly outnumbered decliners, 87 to 75, while 48 stocks remain unchanged.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (in P millions)

	2010		2011		1st Quarter 2012			2nd Quarter 2012		
	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	663	-0.2%	678	2.4%	172	-11.9%	1.0%	162	-5.9%	0.7%
Industry Sector	1,860	11.6%	1,577	-15.2%	481	-5.6%	5.3%	505	5.1%	4.6%
Service Sector	3,179	7.2%	2,537	-20.2%	833	-6.0%	8.1%	926	11.2%	7.6%
Expenditure										
Household Final Consumption	3,946	3.4%	4,186	6.1%	1,027	-14.3%	5.1%	1,091	6.2%	5.7%
Government Final Consumption	570	4.0%	567	-0.6%	160	28.6%	20.9%	188	17.5%	5.9%
Capital Formation	1,184	31.6%	1,340	13.2%	249	-36.0%	-25.4%	268	7.7%	2.3%
Exports	2,886	21.0%	2,765	-4.2%	767	34.1%	10.9%	847	10.4%	8.3%
Imports	2,884	22.5%	2,968	2.9%	702	-0.9%	-3.2%	784	11.7%	4.4%
GDP	5,702	7.6%	5,921	3.9%	1,486	-6.9%	6.3%	1,594	7.2%	5.9%
NPI	1,860	10.0%	1,849	-0.6%	485	-0.7%	1.7%	490	1.0%	4.5%
GNI	7,561	8.2%	7,770	2.8%	1,971	-5.5%	5.1%	2,084	5.7%	5.6%

Source: National Statistical Coordination Board (NSCB)

NATIONAL GOVERNMENT CASH OPERATION (in P million)

	2010		2011		Aug-2012			Sep-2012		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
Revenues	1,207,926	7.5%	1,359,942	12.6%	129,408	-1.5%	4.2%	105,309	-18.6%	0.9%
Tax	1,093,643	11.4%	1,102,055	0.8%	120,441	-0.4%	8.4%	95,416	-20.8%	5.3%
BIR	822,623	9.6%	924,146	12.3%	96,756	2.3%	10.0%	71,036	-26.6%	6.7%
BoC	259,241	17.7%	265,108	2.3%	22,632	-10.3%	2.2%	23,208	2.5%	2.6%
Others	11,779	6.8%	12,801	8.7%	1,053	-8.0%	2.4%	1,172	11.3%	-21.1%
Non-Tax	113,877	-19.5%	157,612	38.4%	8,956	-14.4%	-31.3%	9,893	10.5%	-27.6%
Expenditures	1,522,384	7.1%	1,557,696	2.3%	126,885	-16.1%	10.4%	140,163	10.5%	14.1%
Allotment to LGUs	279,552	5.6%	315,114	12.7%	23,915	-16.2%	-4.3%	24,613	2.9%	1.2%
Interest Payments	294,244	5.5%	279,041	-5.2%	19,816	21.1%	-5.2%	24,134	21.8%	-6.6%
Others										
Overall Surplus (or Deficit)	(314,458)	5.3%	(197,754)	-37.1%	2,523	0.0%	-72.6%	(34,854)	-1481.5%	88.4%

Source: Bureau of the Treasury (BTr)

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

	2011		Aug-2012			Sep-2012		
	Annual Levels	Growth Rate	Levels	Growth Rate	YTD	Levels	Growth Rate	YTD
TOTAL	30,314	1.1%	2,665	-0.1%	8.3%	2,710	2.3%	7.6%
Residential	9,382	-1.6%	814	0.9%	5.9%	809	-1.1%	5.1%
Commercial	11,887	1.7%	1025	-1.0%	-3.6%	1057	1.4%	5.7%
Industrial	8,948	3.9%	848	4.4%	13.7%	834	7.1%	12.9%

Source: Meralco

BALANCE OF PAYMENTS (in US millions)

	2010		2011		1st Quarter 2011		2nd Quarter 2012	
	Levels	Growth Rate	Levels	Growth Rate	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	8465	-9.5%	7078	-20.7%	844	-11.3%	2,831	48.5%
Balance of Trade	-8438	25.4%	-11857	-44.1%	(2,920)	0.7%	(2,111)	26.5%
Balance of Goods	-10384		-15450	-40.9%	(4,029)	38.9%	(2,409)	27.5%
Exports of Goods	50684	34.8%	62681	-3.3%	12,682	-20.2%	13,767	11.4%
Import of Goods	61068	31.5%	74538	2.0%	16,711	-11.1%	16,176	3.2%
Balance of Services	1946	-7.9%	3593	31.4%	1,109	10.1%	298	-33.8%
Exports of Services	13243	20.2%	15450	9.6%	4,295	10.9%	3,782	10.7%
Import of Services	11297	26.9%	11857	4.4%	3,186	11.2%	3,484	17.5%
Current Transfers & Others	16595	1.9%	17642	6.0%	4,056	1.8%	4,504	2.8%
II. CAPITAL AND FINANCIAL ACCOUNT	7948	-588.5%	5228	-29.2%	335	-89.1%	(1,541)	-2301.4%
Capital Account	98	-5.8%	171	74.5%	26	13.0%	38	8.6%
Financial Account	7850	-553.5%	5057	-30.6%	309	-89.9%	(1,579)	-4611.4%
Direct Investments	1226	-23.6%	1253	83.7%	694	96.0%	(361)	-177.8%
Portfolio Investments	4018	-742.9%	5524	26.6%	1,333	-50.7%	561	-74.5%
Financial Derivatives	-191	-696.9%	1002	624.6%	59	-93.4%	(2)	-103.2%
Other Investments	2797	-202.0%	-2722	-211.8%	(1,777)	101.2%	(1,777)	33.9%
III. NET UNCLASSIFIED ITEMS	-2010	53.4%	-2127	6.2%	64	-111.7%	(1,217)	--
OVERALL BOP POSITION	14403	124.3%	10179	-28.9%	1,243	-64.4%	73	-95.2%
Use of Fund Credits	0		0	0.0%	- -	--	- -	0.0%
Short-Term	-2	-99.9%	-1	0.0%	10	0.0%	(11)	-10.0%
Memo Items								
Change in Commercial Banks								
Net Foreign Assets	4932	-231.4%	5622	11.7%	(714)	-124.2%	82	-174.0%
Basic Balance	11605	-3.6%	8655	-25.5%	994	-50.7%	1,654	-20.7%
Net Unclassified Items as percentage of Total Trade	-1.8	12.5%	-1.9	5.6%	0	-110.0%	(4)	--

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (in P millions)

	2011		Jun-2012		Jul-2012	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Average Levels	Annual G.R.
RESERVE MONEY	30,314	1.1%	1,214,859	10.5%	1,269,827	15.9%
	9,382	-1.6%				
Sources:	11,887	1.7%				
Net Foreign Asset of the BSP	8,948	3.9%	3,318,940	10.1%	3,387,097	5.8%
Net Domestic Asset of the BSP	1,261,415	-229.5%	(2,104,081)	9.9%	(2,117,270)	0.6%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	1,233,927	13.5%	1,429,115	8.8%	1,445,261	7.8%
Money Supply-2	3,893,063	9.3%	4,503,298	8.6%	4,499,286	7.1%
MONEY MULTIPLIER (M2/RM)	3.85	-1.5%	3.7	-1.7%	3.5	-7.6%

Source: Bangko Sentral ng Pilipinas (BSP)

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