

The
MARKET CALL
Capital Markets Research



FMIC and UA&P Capital Markets Research

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Executive Summary

2023 ended with more positive economic data—record low unemployment, lower inflation, lower interest rates—than when it began. We now expect GDP to expand by 6% in 2024 from 5.5% in 2023. Social Weather Stations (SWS) Self-rated Poverty rate survey tend to validate the brighter outlook for consumers in 2024, as these showed a decline in poverty rate to 47% in December 2023 from 51% a year ago and 54% in December 2019. NG spending in infrastructure shall keep its 5% to GDP trajectory, while public and private construction spending accelerate, providing a further boost to employment and consumption. Bond market ended a little better in 2023, while the equities market which ended lower than it started in 2023, should continue its recovery in 2024 with PSEi expected to reach 7,000-7,500. A muscular 11% growth in earnings and stronger macroeconomic fundamentals should support this projection, while a Fed/BSP rate cut would put the nail on the coffin.

Macroeconomy

3 Economic growth should accelerate to 6% in 2024 from 5.5% last year driven by strong employment, much softer inflation and robust infrastructure spending. NG capital outlays (incl. infrastructures) should again reach at least 5% of GDP in 2024; in addition, large PPP infra projects (considered "Private Construction") have gained traction and likely to accelerate. These, together with inflation average of 3.8% full year (from 6% in 2023), should bolster consumer spending. The peso, however, will remain in depreciation mode due to large trade deficits and U.S. Fed inaction on policy rate cuts until mid-year.

Unemployment (in terms of levels and rate) fell to all-time lows in November at 1.8-M and 3.6%, respectively. Manufacturing PMI remained expansionary in December at 51.5, albeit slower than 52.7 a month ago. Output in November was slightly faster than in the previous month. NG spending contracted by -4.7% in November due primarily to base effects. Inflation maintained its downward trend with a 3.9% YoY print for December, down from 4.1% a month earlier. On a seasonally adjusted basis, it only edged up by 0.1% MoM from 0% earlier. Exports déjà vu tumbled by -13.7% YoY in November while imports stayed flat resulting in a trade deficit of \$4.6-B, 6.8% higher MoM. The peso appreciated by -0.4% on average in December, a seasonally strong month for OFW remittances.

Economic Indicators (% change, latest month, unless otherwise stated)	Latest Period	Previous Period	Year-to-Date	2021 (year-end)	2022 (year-end)
GDP Growth (Q3-2023)	5.9	4.3	5.5	5.8	7.2
Inflation Rate (December)	3.9	4.1	6.0	3.1	8.1
Government Spending (November)	-4.7	8.3	3.9	12.8	13.6
Gross International Reserves (\$B) (December)	102.5	102.7	100.5	107.1	95.1
PHP/USD rate (December)	55.59	55.81	55.63	48.88	55.68
10-year T-bond yield (end-December)	6.02	6.24	6.35	4.16	6.98

Sources: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Department of Budget and Management (DBM), Philippine Stock Exchange (PSE), Philippine Dealing System (PDS), and Authors' Calculations

Bond Markets

11 The bond market's rally in the last two months of 2023 ended at the onset of January as Fed officials pushed back on market views of early 2024 rate cut. U.S. job gains in December above market expectations and a slightly faster inflation print provided the basis for the cautionary statements. However, the January rise in U.S. bond yields appeared to have peaked at 4.15%, and this has already impacted PH bond yields. Peso bond yields will likely depend on domestic inflation and NG borrowings. The latter mirrors Q3-2023 BTr issuances and therefore not extraordinary. The local inflation print in Q1 will have a greater impact on bond yield movements. However, we expect 10-year benchmark yields to end the year between 5.25% and 5.75% as inflation rates ease and policy rates fall.

BTr held only two auctions (one each for T-bills and T-bonds) in December limiting the rise in bond yields at the end of 2023. Yields across the curve fell by 15.8 (for 3-year bonds) to 23.4 bps (for 10-year) in the secondary market. This occurred despite the -40.2% MoM plunge in trading volume, but up by 22.7% YoY. December saw two final corporate issuances—Union Bank of the Philippines (UBP, P18.2-B) and Vista Land and Landscapes Inc. (VLL, P6.0-B). Spreads of ROPs over equivalent U.S. Treasuries narrowed as the latter corrected more from over aggressive market view that the Fed would start policy rate cuts by March 2024.

Equities Market

17 Philippine equity investors launched 2024 with more optimism sending the PSEi higher by 3.6% to 6,680.45 by mid-January. The brighter macroeconomic, inflation and interest rate outlooks together with robust corporate earnings growth should provide substantial basis for the more sanguine view. Besides, expected policy rate cuts by the Fed and/or BSP late in H1 or early Q3 should add momentum to PSEi to reach 7,000 to 7,500 in 2024. Robust corporate earnings expanding by 11% and a slight upgrade of market PE to 12.6x to 13.6x would provide solid fundamentals to the more positive sentiment.

PSEi soared by +3.6% MoM to end December at 6,450.04 as five out of six sectors landed on the green. Best performer, Services sector, posted a +5.9% MoM gain in December, followed by Property sector's +4.8% increment. AGI topped PSEi-constituent stocks with its +15.1% gain MoM. AC Energy Corporation (ACEN) dropped the most with an -8.8% MoM downtick. In the Mining & Oil sector, Nickel Asia Corporation (NIKL) rose by +8.5% MoM. December ended with more foreign investors re-entering the market as net buying totaled P1.0-B.

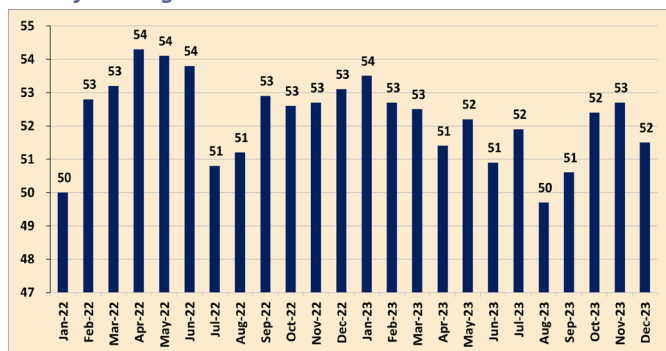
MACROECONOMY

PH ECONOMY STARTS 2024 WITH BRIGHTER HORIZON

Newly released economic data--record unemployment lows, inflation slowest in 22 months, Manufacturing PMI still on expansion mode--blew away dark clouds that threatened the economy and ushered in a brighter horizon for 2024. November registered unprecedented lows in total unemployed persons of 1.8-M and in unemployment rate of 3.6% (the first time below 4%). December inflation also eased to 3.9% year-on-year (YoY), while seasonally adjusted rate rose by a tad 0.1% month-on-month (MoM), from 4.1% and 0.0%, in the previous month, respectively. PMI clocked at 51.5 (i.e., a MoM expansion) in December, albeit slower than 52.7 a month ago. Despite a jump in the balance of trade deficit in November to \$4.6-B, the peso appreciated by 0.4% based on December average exchange rates.

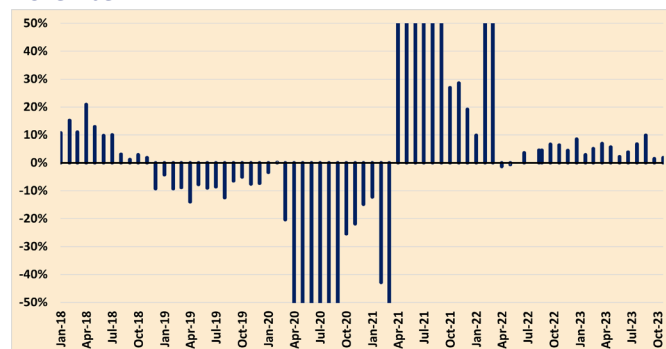
Outlook: Robust job numbers, slower inflation and sustained infrastructure spending should power GDP growth in 2024 to 6% from an estimated 5.5% uptick in 2023. While total employment will likely decelerate in December-January due to seasonal factors, we think the upward trend will hold. With the debt-to-GDP ratio starting to fall in 2023 and down to 59% in 2024 from 60.9% in 2022, NG spending on infrastructures will again reach 5% of GDP. This does not count the ongoing large PPP projects on rail, highways/bridges, and water, as these are considered "Private Construction." These and inflation rate slowing to 3.8% in 2024 from 6% last year should rekindle consumer spending. The peso, however, will resume its upward trend after Q1-2024 since the trade deficits will remain elevated and the BSP will more strongly boost its gross international reserves.

Figure 1 - Manufacturing PMI
Manufacturing PMI Rose to 51.5 in December 2023



Source of Basic Data: S&P Global

Figure 2 - Volume of Production Index
Volume of Production Index Posted a 1.9% YoY Uptick in November



Source of Basic Data: Philippine Statistics Authority (PSA)

Manufacturing PMI Shows Growth in December, Output Slows to +1.9% in November

S&P Manufacturing PMI (51.5) showed moderate expansion in December, although slower than 52.7 in November. This signaled the fourth consecutive month of expansion of the manufacturing sector since its contraction in August. However, the reduction in factory workforce in November validates the weaker PMI reading, even though local manufacturers remained optimistic with respect to the coming months.

Industrial output as measured by the Volume of Production Index (VoPI) modestly went up to 1.9% YoY in November from 1.5% in the previous month.

Out of the 22 industry divisions, seven experienced annual gains, led by Manufacture of Coke & Refined Petroleum Products (+37.0%), Manufacture of Electrical Equipment (+29.9%), and Manufacture of Basic Metals (+26.6%). These three industry divisions kept their top slots in October 2023.

Meanwhile, 15 industry divisions registered negative YoY performances, led by Manufacture of Machinery & Equipment Except Electrical (-27.0%), Manufacture of Leather & Related Products, Including Footwear (-26.6%), and Manufacture of Fabricated Metal Products, Except Machinery & Equipment (-25.4%). Notably, these same three industry divisions also saw declines a month ago.

Table 1 - Labor Force Survey Summary

	October 2023	November 2023	MoM Change	
			Levels	% Change
Labor Force	49,891	51,469	1,577	0.1%
Employed	47,801	49,635	1,834	3.8%
Underemployed	5,598	5,787	188	3.4%
Underemployment rate%	11.7	11.7	(0.05)	-0.5%
Unemployed	2,090	1,833	(257)	-12.3%
Unemployment rate%	4.2	3.6	(0.63)	-15.0%
Labor Participation rate%	63.9	65.9	1.96	3.0%
Not in Labor Force	28,127	26,639	(1,488)	-5.3%
Agriculture ('000)	10,591	12,189	1,597	15.1%
Industry ('000)	8,498	7,904	(594)	-7.0%
Mining and Quarrying	162	200	38	23.2%
Manufacturing	3,603	2,947	(656)	-18.2%
Electricity, Gas, Steam, and Air-Conditioning Supply	102	106	4	4.4%
Water Supply; Sewerage, etc.	60	29	(31)	-51.5%
Construction	4,571	4,622	51	1.1%
Services ('000)	28,713	29,543	830	2.9%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	10,130	10,925	794	7.8%
Transportation and Storage	3,533	3,658	124	3.5%
Accommodation and Food Services Activities	2,195	2,344	148	6.8%
Information and Communication	541	463	(77)	-14.3%
Financial and Insurance Services	638	656	19	2.9%
Real Estate Activities	259	230	(29)	-11.2%
Professional, Scientific, and Technical Activities	390	316	(74)	-18.9%
Administrative and Support Services Activities	2,539	2,497	(42)	-1.7%
Public Administration and Defense; Compulsory Social Security	2,845	2,783	(61)	-2.2%
Education	1,583	1,633	51	3.2%
Human Health and Social Work Activities	747	602	(144)	-19.3%
Arts, Entertainment, and Recreation	389	449	60	15.4%
Other Service Activities	2,922	2,986	65	2.2%

Source of Basic Data: Philippine Statistics Authority (PSA)

Record Low Number of Unemployed and Unemployment Rate in November

The country's unemployment rate fell to a record low of 3.6% in November as new jobs rose by 1.9-M MoM from October, resulting as well in the lowest number of unemployed persons of 1.8-M. The unemployment rate had never gone below 4%; the unemployed never went below 2.0-M, despite much larger labor force. The underemployment rate remained at 11.7% as that in the previous month.

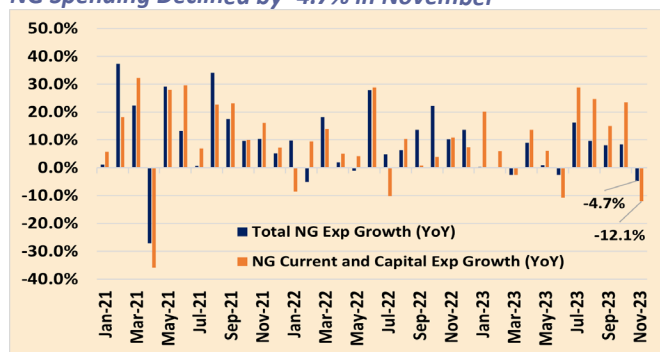
With higher food prices, the Agriculture sector produced the highest number of jobs at 1.6-M, followed by the Services sector with its 0.8-M gain. However, the Industry sector shed 0.6-M jobs led by the 0.7-M slump in the Manufacturing sub-sector.

The top three sub-sectors that provided the strong upswing in the Services sector include the following: Trade (+794,000), Accommodation & Food Services (+148,000), and Transportation & Storage (+124,000). Revenge spending, including domestic tourism, and to some extent foreign tourism, continued to boost the latter two sub-sectors. Seven out of 13 sub-sectors posted gains in November.

In the Industry sector, the Construction sub-sector (+51,000) provided the most job openings as NG infrastructure spending has gained traction, while the onset of the dry season drew more labor into the Mining sector (+38,000). However, the slump in the Manufacturing sector (-656,000) easily overwhelmed those upticks.

Moving forward, employment will likely ease in December, by the end of Christmas shopping, and in January, a typically weak month with regard to economic activity. These, however, doesn't imply a slowdown, because PSA doesn't release seasonally adjusted employment data since monthly readings only start in January 2021.

Figure 3 - NG Expenditures Growth Rate, Year-on-Year
NG Spending Declined by -4.7% in November



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

NG Spending Slips by -4.7% YoY in November

National Government (NG) expenditures decreased by -4.7% YoY in November to P433.6-B mainly due to the high base in 2022 when NG current and capital spending climbed by 49.1% from October 2022. The weaker spending resulted in a budget deficit of P93.3-B, higher than the previous month, but 25.8% lower than the same month in 2022. YTD the deficit dropped by 10.1% YoY to P1.1-T.

Revenues expanded by only 2.8% YoY as collections by the two major tax collection agencies—Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC)—tumbled by -11.3% and -2.9%, respectively. The change in VAT remittances from monthly to quarterly starting 2023 caused the shortfall in BIR revenues in November, after an outsized tax take in October. Weak BOC collections resulted from the 3.2% YoY peso appreciation. Non-tax revenues saved the day for NG as these vaulted by 220.2%, and accounted for 16% of total revenues, compared to the 9.5% average share in the first 10 months of 2023.

Higher interest rates propelled total interest payments by 86.1%. On the other hand, NG spending on current and capital outlays slumped by -12.1% in contrast with the strong upswing in the previous months. We expect NG to make up for this in its December spending as NG departments and agencies use up much of their unspent budgets.

Table 2 - Major Contributors to Year-on-Year Inflation

Inflation Year-on-Year Growth Rates	Nov-2023	Dec-2023	YTD
	4.1%	3.9%	6.0%
Food and Non-Alcoholic Beverages	5.7%	5.4%	7.9%
Alcoholic Beverages and Tobacco	9.0%	9.0%	10.7%
Clothing and Footwear	4.3%	4.2%	4.8%
Housing, Water, Electricity, Gas, and Other Fuels	2.5%	1.5%	4.9%
Transport	-0.8%	0.4%	1.7%
Restaurants and Accommodation	5.6%	5.6%	7.4%
Personal Care & Miscellaneous Goods and Services	4.8%	4.6%	5.4%

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

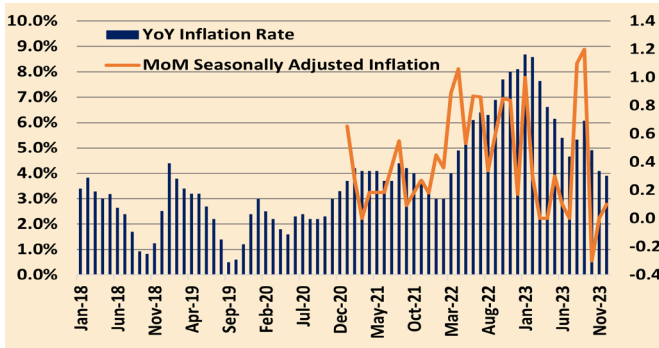
Source of Basic Data: Philippine Statistics Authority (PSA)

Inflation Eases Further to 3.9% in December

With eight out of 13 product classifications showing decelerations and three categories retaining their previous month's uptick, headline inflation slipped further to 3.9% in December from 4.1% a month earlier. Despite rice prices accelerating to 19.6% YoY in December from 15.8% a month earlier, other food prices either slowed or held their ground, resulting in easing overall Food & Non-Alcoholic Beverages to 5.4% from 5.7% a month earlier.

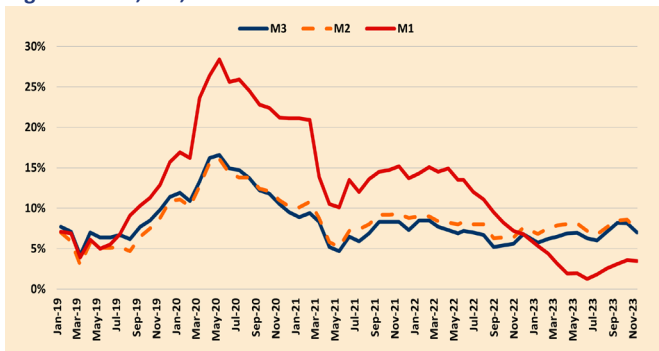
Among food items, prices of Vegetables & similar items fell the most at -9% YoY from -2% a month earlier. Sugar prices also dropped to 0.1% YoY from 1.5% in November. Other major slowdowns showed up for Fruits & Nuts (from 13.1% YoY to 12.2%), Flour, Bread & Other Cereals (6.3% YoY from 6.9%), and Oils & Fats (from -3.1% YoY to -3.6%).

Figure 4 - Inflation Year-on-Year Growth Rates



Source of Basic Data: Philippine Statistics Authority (PSA)

Figure 5 - M1, M2, M3 Growth Rates



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

The Transport sub-index yielded the only acceleration in prices from -0.8% YoY to +0.4%, due to fare hikes overwhelming weaker fuel prices. The latter slipped further (by -5.2% YoY) with West Texas Intermediate (WTI, U.S. benchmark) averaging \$71.90/barrel down -5.9% YoY, while Brent dove deeper by -7.5% YoY to \$77.60/barrel.

Month-on-month inflation (seasonally adjusted) marginally rose by 0.1% from 0% in November.

We expect inflation to go within the Bangko Sentral ng Pilipinas (BSP) target in Q1, when it averages some 3.2%. This could go even lower if other food prices remain soft.

Money Supply Expands Slower at 7% in November

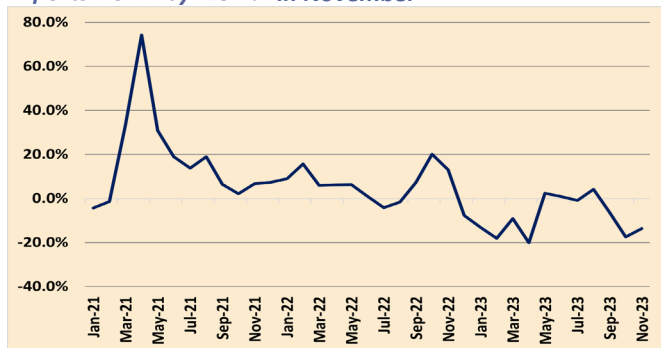
Domestic liquidity (M3) grew by 7% YoY to P16.8-T in November, albeit slower than the 8.1% YoY expansion in October. On a MoM seasonally adjusted basis, M3 declined by 0.3%.

Net foreign assets (NFA) in peso terms edged up by 3.2% YoY in November, faster than the 2.1% uptick a month earlier. The BSP's NFA position also increased by 5.1% YoY in November from 4.7% YoY in the previous month. Additionally, the NFA of banks fell on account of higher bills payable.

Lending for production activities increased by 5.7% in November, continuing its 5.9% growth in October, as outstanding loans to key industries grew, specifically Electricity, Gas, Steam, and Airconditioning Supply (+12.8%), and Real Estate Activities (+11.9%). Wholesale and Retail Trade, and Repair of Motor Vehicles and Motorcycles (+9.6%) also saw an increase in its loan availments.

Meanwhile, consumer loans accelerated by 23.6% in November from 22.8% in October, as credit card loans, motor vehicle loans, and salary-based general purpose consumption loans gained higher momentum.

Figure 6 - Exports Growth Rates, Year-on-Year
Exports Down by -13.7% in November



Source of Basic Data: Philippine Statistics Authority (PSA)

Table 3 - Exports Year-on-Year Growth Rates

	Oct-2023	Nov-2023	YTD
Total Exports	-17.5	-13.7	-8.4
Agro-Based Products	-1.9	6.5	-22.1
Mineral Products, of which	6.2	13.3	-1.7
Copper cathodes	60.3	38.0	3.2
Others (incl. nickel)	10.4	-6.2	-16.0
Manufactured Goods	-21.1	-17.5	-8.3
Electronic Products	-28.9	-24.7	-10.4
Other Electronics	4.1	1.7	8.2
Chemicals	38.8	29.0	-8.0
Machinery and Transport Equipment	-3.6	33.9	11.6
Processed Food and Beverages	12.3	12.0	-7.8
Others	10.4	0.5	-2.2

Source of Basic Data: Philippine Statistics Authority (PSA)

Exports Contract by -13.7% in November

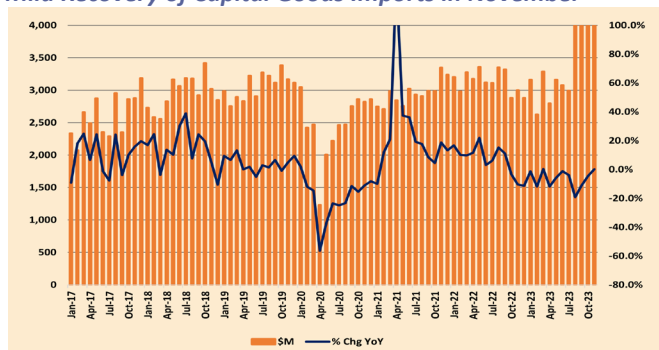
Exports fell for the third consecutive month by -13.7% YoY in November from -17.5% YoY in October. In monetary terms, this amounted to \$6.1-B in November from \$7.1-B a year ago.

Six of the 10 major commodities expanded in November. Cathodes and Sections Of Cathodes, Of Refined Copper still registered the highest gain with a 38% YoY increase from last year. Machinery and Transport Equipment also came close as it rose by 33.9% YoY. On the other hand, the country's top export, Electronic Products, plunged by -24.7% YoY in November. Electronic Equipment and Parts and Other Mineral Products also registered declines of -16% YoY and -6.2% YoY, respectively.

By major types of goods, Petroleum Products took the top spot with a whopping 137.6% YoY expansion in November, followed by Special Transactions which surged by 21.3% YoY. Mineral Products also climbed by 13.3% YoY driven by the growth in shipments of Copper Concentrates (166.6%) and Copper Metal (38.0%). Meanwhile, Forest Products slumped the most by -22.4% YoY due to lower export sales of Plywood (-81.9%).

The U.S. retained its position as the primary destination for the country's exports after recording \$970.2-M in November. However, it decreased by -14.5% YoY, accounting for 15.8% of total exports. Japan followed suit with a 15.5% share in total exports, amounting to \$949.6-M. Furthermore, exports to the People's Republic of China reached \$821.5-M, securing the third spot with a 13.4% share.

Figure 7 - Imports of Capital Goods (in Million USD)
Mild Recovery of Capital Goods Imports in November



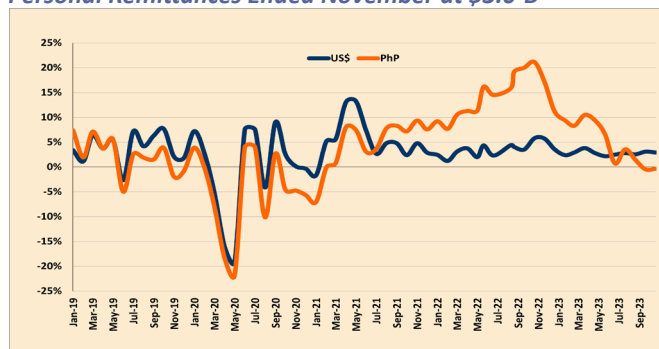
Source of Basic Data: Philippine Statistics Authority (PSA)

Table 4 - Imports Year-on-Year Growth Rates

	Oct-2023	Nov-2023	YTD
Total Imports	-4.4	0.0	-8.6
Capital Goods	-4.6	0.1	-6.4
Power Generating and Specialized Machines	11.0	-9.4	2.8
Office and EDP Machines	-27.3	3.8	-30.8
Telecommunication Equipment and Electrical Machinery	-11.5	-13.9	-8.8
Land Transport Equipment excluding Passenger Cars and Motorized cycle	21.0	46.9	8.4
Aircraft, Ships and Boats	10.3	92.4	-5.9
Prof. Sci and Cont. Inst., Photographic Equipment and Optical Goods	6.6	22.4	6.6
Raw Materials and Intermediate Goods	-7.5	-3.8	-13.7
Mineral Fuels, Lubricant and Related Materials	-5.3	-7.8	-16.0
Consumer Goods	4.8	15.4	9.1

Source of Basic Data: Philippine Statistics Authority (PSA)

Figure 8 - OFW Remittances Growth Rates, Year-on-Year
Personal Remittances Ended November at \$3.0-B



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

Capital Goods Imports Edges Up by 0.1% in November

Following seven straight months of decline, imports of capital goods eked out a tad 0.1% YoY uptick to \$3.03-B in November from \$3.02-B in the previous year. Meanwhile, the growth of total imports turned flat in November after reaching \$10.8-B like last year.

Among the capital goods imports, Aircraft, Ships and Boats claimed the top spot as it soared by 92.4% YoY in November following its 10.3% YoY climb in the previous month. Land Transport Equipment Excluding Passenger Cars and Motorized Cycle followed suit with 46.9% YoY while Professional Scientific and Control Instrumentation, Photographic Equipment and Optical Goods inched up by 22.4%. On the downside, Telecommunication Equipment and Electrical Machinery concluded November with a -13.9% YoY downtick, trailed by imports of Power Generating and Specialized Machines which dropped by -9.4%.

Metalliferous Ores and Metal Scrap posted the highest growth among the top import commodities in November with a 114.1% YoY gain. Transport Equipment also went up with a 41.2% YoY upswing. On the opposite side, imports of Electronic Products led the decliners after experiencing a -16.4% YoY contraction.

Given the steep drop in exports and flat growth of imports, the trade deficit in November widened to \$4.6-B. This signifies a 6.8% MoM increase from October and a 26.3% YoY rise from the same month a year ago.

OFW Remittances Inched Up by 2.9% in November 2023

Personal remittances of Overseas Filipino Workers (OFW) grew by 2.9% to \$3.0-B in November. This brought the YTD remittances to \$33.6-B, a 2.9% uptick from the same period last year. The increase in personal transfers during November benefited from land-based workers which rose by 2.8% to \$2.3-B and sea-land based workers which jumped by 3% to \$0.6-B.

On the other hand, cash remittances from OFWs coursed through banks climbed by 2.8% to \$2.7-B in November from \$2.6-B in the same month a year ago. The rise in cash remittances from the United States (U.S.), Saudi Arabia, and United Arab Emirates (U.A.E.) led the growth in remittances for the first 11 months of 2023.

Table 5 - Exchange Rates vs USD for Selected Asian Countries

Exchange Rates vs USD for Selected Asian Countries			
	Nov-2023	Dec-2023	YTD
AUD	-2.7%	-3.1%	-1.4%
CNY	-2.6%	-0.2%	1.9%
INR	0.1%	-0.2%	0.6%
IDR	-3.1%	0.0%	-1.5%
KRW	-3.9%	-0.3%	1.2%
MYR	-2.3%	-1.0%	4.2%
PHP	-2.8%	-0.4%	-1.0%
SGD	-2.3%	-0.9%	-2.2%
THB	-3.1%	-1.8%	-1.8%

Note: **Green font** - means it depreciated, weaker currency
Red font – means it appreciated, stronger currency

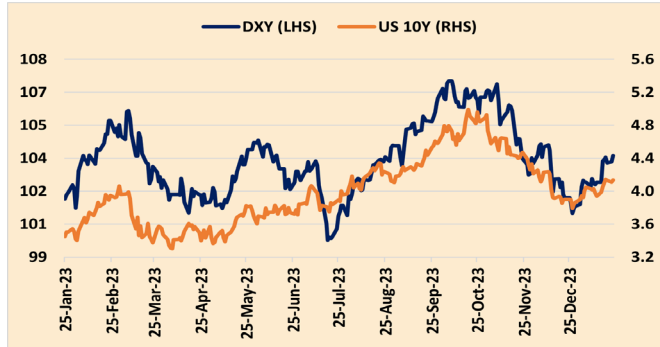
Source of Basic Data: *Bangko Sentral ng Pilipinas (BSP)*

As for the country origin, the U.S. registered the highest share of overall remittances at 41.2% followed by Singapore, Saudi Arabia, Japan, United Kingdom, United Arab Emirates, Canada, Qatar, Taiwan, and Republic of Korea. The consolidated remittances from these top 10 countries accounted for 79.8% of the total cash remittances from January to November 2023.

Peso Strengthens by -0.4% MoM in December

Asian neighbors’ currencies including the Philippine peso appreciated in December, pouncing on U.S. dollar weakness due to falling 10-year U.S. T-bond yields. USDPHP averaged P55.58 or -0.4% stronger than a month earlier. Year-to-date (YTD) the FX rate appreciated by -1% based on end-month rates. The Australian dollar gained the most with its -3.1% uptick.

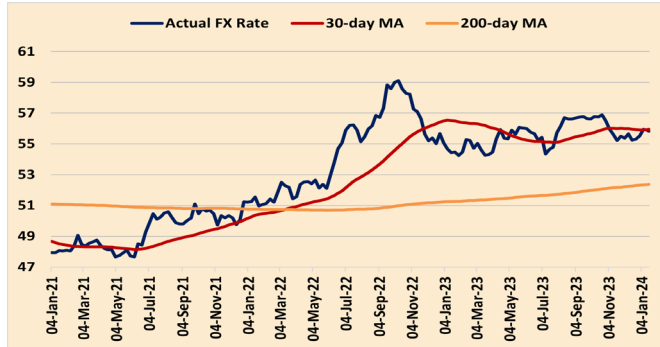
Figure 9 - U.S. Dollar Index and U.S. 10-Year Government Bond Yield



Source of Basic Data: *Trading Economics*

On a technical analysis basis, actual FX rates roughly correspond to the 30-day Moving Average (MA), but much above the 200-day MA. USDPHP may trade sideways in January but external forces—U.S. interest rates and weighed FX rates—will likely tilt the balance either way.

Figure 10 - Dollar-Peso Exchange Rates and Moving Averages



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

Outlook

Economic data released in December 2023 and early January 2024 provide more than sufficient reason to be more optimistic in 2024.

- The 1.8-M additional people employed in November bringing the total unemployed persons and the unemployment rate at 3.6% to historical lows inject much fuel to aggregate demand. Although we expect a seasonal slowdown in December and January, the upward trend in both the labor participation rate and employment exhibited in H2-2023 should continue in 2024.
- Manufacturing PMI still showed an expansion in December, albeit a bit slower than a month ago. However, we should note that PMI has treaded above 50 (i.e., expansion) since January 2022 with only August 2023 as the exception due to heavy monsoon rains.
- NG spending may have eased in November, but last month catch-up spending to exhaust budgeted amounts will likely bulge in December. However, with minimal additional borrowings in December, we expect a decline in debt-to-GDP ratio to 60.4% in 2023 from 60.9% in 2022. Faster GDP growth and lower interest rates during the year should push this down further to 59%. Infrastructure spending (which excludes PPP projects) by NG should continue to reach 5% of GDP in 2024.
- Various methodologies do show a definitive easing in inflation. Food prices, except for rice, have stabilized or declined while crude oil prices have quickly headed south after every major event that got traders nervous. Thus, we expect Q1-2024 to average 3.2% YoY, partly due to a high base a year ago, but despite elevated rice prices, we still think full year inflation would settle within the BSP target at 3.8%.
- Money growth will be sluggish (i.e., below 10% YoY) until BSP starts raising its policy rates.
- The peso will likely trade sideways in Q1-2024 but resume its depreciation trend thereafter as the trade deficits remain above \$4.0-B per month, and the BSP will likely start rebuilding its gross international reserves.

FIXED INCOME SECURITIES

BOND MARKET MINI-RALLY EXTENDS TO DECEMBER BUT ENDS IN EARLY JANUARY

The local bond market’s mini-rally continued until the end of 2023 as domestic inflation maintained its downswing, apart from the low supply of debt papers with only two auctions of government securities (GS) done (i.e., only P29.7-B accepted) in December. The U.S. Fed’s dot-plot (which shows each governor’s view of the trajectory of GDP, unemployment, inflation and policy rates) also supported earlier optimism that the Fed would cut rates by some 75 basis points (bps) in 2024. The seasonally shortened trading month of December saw local bond yields fall month-on-month (MoM) across the yield curve despite a -40.2% plunge in volume. We also observed two last-minute corporate bond issuances in December. And as in the previous month, ROPs yields slumped more than equivalent U.S. Treasuries as market players there got over-optimistic starting November projecting policy rate cuts starting March 2024.

Outlook: The November-December 2023 bond market mini-rally ended as U.S. economic data released in early January 2024 still showed robust job gains and slightly higher CPI inflation rate. Thus, U.S. 10-year Treasury bond yields headed north but seems to have hit a ceiling of 4.15% by mid-January and so local yields have likewise risen due to the above and more supply of NG debt papers. However, NG auctions in Q1-2024 will just match offerings in Q3-2023. Still, local factors—inflation, National Government (NG) borrowings, and unlikely BSP policy rate move—will likely dictate much of H1-2024 yield movements. Year-on-year (YoY) inflation will likely average 3.2% in Q1 both due to steady/lower food prices and base effects and move closer to 4% in Q2, but with a full year average of 3.8%. NG net borrowing will likely increase its debt level by some 7% to 8% or much slower than projected nominal GDP growth of 10%. Thus, we expect 10-year benchmark yields to fall between 5.25% and 5.75% by yearend while the short end of the curve should slide more in line with actual policy rate cuts by the Bangko Sentral ng Pilipinas. While firms prepare for lower interest rates, the pipeline for corporate bond issuances will likely bulge in H1. ROPs should remain attractive to local investors as less than half of traders surveyed by Bloomberg expect a Fed rate cut in March.

Table 6 - Auction Results

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
4 Dec	91-day	4.2	15.51	4.20	3.693	4.996	24.3
	182-day	3.0	9.26	2.50	3.087	5.267	8.6
	364-day	4.0	9.96	2.98	2.490	5.732	0.5
Subtotal		11.2	34.7	9.68	3.101		
7 Dec	10-year	20.0	40.651	20.00	2.033	6.224	-55.7
	Subtotal	20.0	40.7	20.0	2.033		
All Auctions		31.2	75.4	29.7	2.416		

Source: Bureau of the Treasury (BTr)

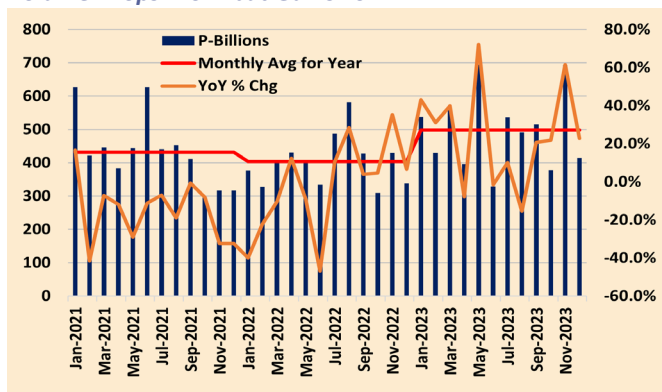
GS Auctions: BTr Does Only Two Auctions in December

Confident that it has built up sufficient cash reserves (e.g., P226.6-B added YTD November), Bureau of the Treasury (BTr) conducted only two auctions in December—one for Treasury bills (T-bills) and one for 10-year Treasury bonds (T-bonds) in the first week of December. It raised a paltry P29.7-B mostly from the longer tenors (P20.0-B).

Strong demand for longer tenors pushed yields down by 55.7 bps to 6.224% as market players expect yields on those papers would have peaked.

In the short-term space, yields rose, particularly for the 91-day T-bills which yielded 4.996% or up by 24.3 bps from November. The issue posted a tender-offer ratio (TOR) of 3.693x while the 364-day T-bills remained steady at 5.732%, a mere 0.5 bps higher than last month.

Figure 11 - GS Secondary Trading Volumes and Growth *Personal Volume Drops MoM but Gains YoY*



Source: Philippine Dealing Systems (PDS)

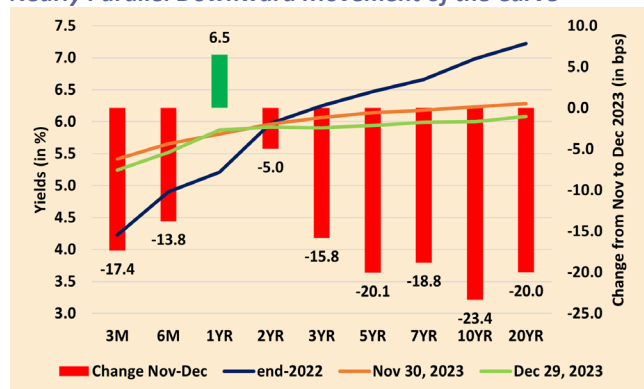
Secondary Market: Yields Drop Despite Large MoM Fall in Volume

With the onset of vacation during the Christmas season secondary market trading in government securities (GS) in December slumped by -40.2% MoM to P414.4-B but still saw yields generally fall between -5 bps to -23.4 bps. Nonetheless, trading volume improved by 22.7% YoY and 23.3% for the full year 2023. Annual trading volume picked up pace in H2 to hit P6.0-T from P4.8-T in the previous year.

Rekindled by slower local inflation (see Macroeconomy) and that U.S. interest rates had long peaked, bond yields slipped across the yield curve, except for the 1-year tenor, which saw a slim 6.5 bps uptick. The 10-year bonds took the deepest dive of -23.4 bps to end the year at 6% more than 100 bps lower than the end of 2022. The 5-year, 7-year and 20-year maturities fell close to 20 bps. The 5-year bonds shed -20.1 bps to close at 5.917%, while the 20-year bonds dropped by 20 bps to 6.082%.

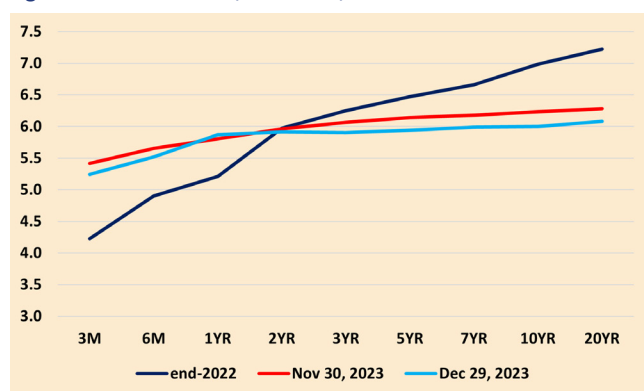
The country's yield curve flattened further as the steepness measure (i.e., 10-year less 2-year yields) tumbled to just 8 bps from 27 bps a month earlier.

Figure 12 - Month-on-Month Changes on the GS Benchmark Bond Yield Curves (bps)
Nearly Parallel Downward Movement of the Curve



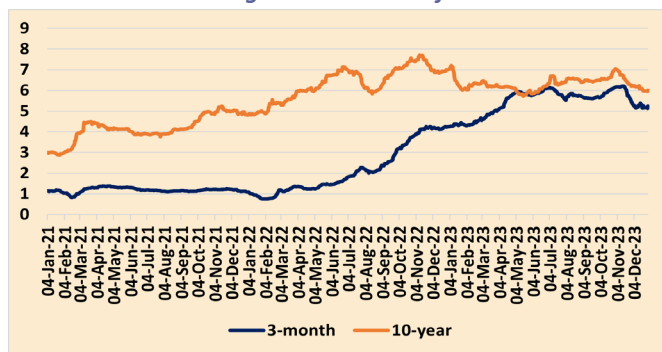
Sources: Bloomberg, Philippine Dealing Exchange (PDEX)

Figure 13 - Yield Curves, End-2022, November-December 2023



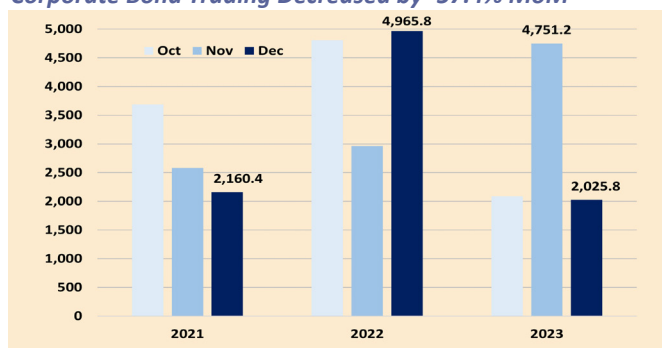
Sources: Bloomberg, Philippine Dealing Exchange (PDEX)

Figure 14 - 3-Month and 10-Year Bond Yields, 2021-2023
Yields Fall Both In Long and Short End of Curve



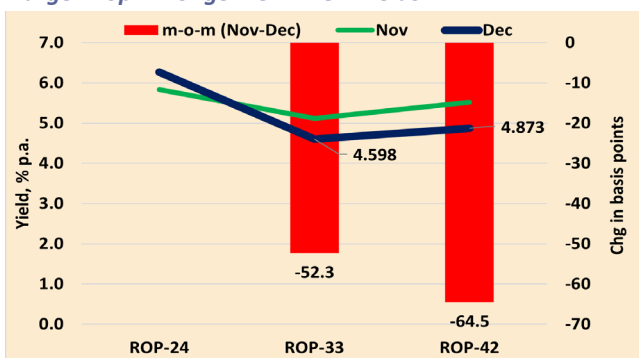
Source: Philippine Dealing Systems (PDS)

Figure 15 - Total Corporate Trading Volume (in Billion Pesos)
Corporate Bond Trading Decreased by -57.4% MoM



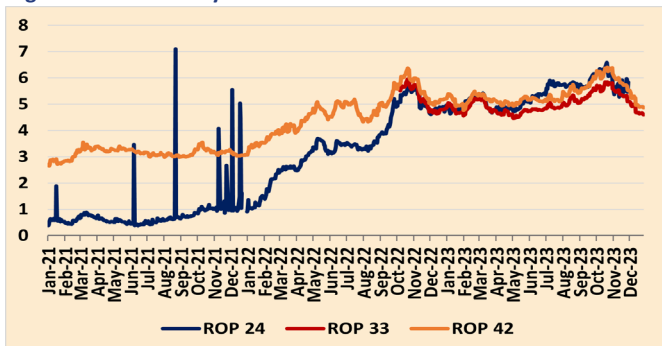
Sources: Bloomberg, Philippine Dealing Exchange (PDEX)

Figure 16 - ROPs Yield Curves, November-December 2023
Large Drop in Longer Term ROP Yields



Source: Bloomberg

Figure 17 - ROPs Daily Yields



Sources: Bloomberg, First Metro Investment Corporation (FMIC)

Corporate Bond Issuances and Trading

Issuances. We noted only two such issuances in December.

- Union Bank of the Philippines (UBP) listed its P18.2-B 1.5-year and 3-year Fixed Rate Bonds on the Philippine Dealing & Exchange Corporation, as it raised P10.3-B and P7.8-B, respectively. The bonds pay coupon rates of 6.5625% p.a. and 6.68% p.a., respectively, to be paid quarterly. Strong demand from investors enabled UBP to increase the issuance to over nine times the initial minimum offer size of P2.0-B for both tranches. With the new bonds, UBP marked the country's first public non-sovereign bond exchange which qualified the holders of its P8.1-B 2.75% Fixed Rate Series C Bonds due December 9, 2023 for the exchange.
- Vista Land and Lifescapes, Inc. (VLL) listed P6.0-B Series F and Series G Bonds on the Philippine Dealing & Exchange Corp. (PDEX). The bonds carry coupon rates of 7.5426% p.a., and 7.6886% p.a., payable quarterly. The issue enticed investors after VLL showed impressive financials and having received such as Best Integrated Property Development – Sustainable Green Development and Best Residential & Commercial Real Estate Brand by the European Global Business Awards.

Secondary Market. Trading in the secondary market for corporate bonds slumped by -57.4% MoM to P2.0-B in December and an equally huge -42.9% YoY plunge.

ROPs: Spreads Narrow As ROP Yields Drop Deeper than U.S. Treasuries

With much slower domestic inflation in November and assertion by U.S. Treasurer Janet Yellen (former Fed Chairperson) that the U.S. economy has managed a “soft landing” U.S. dollar-denominated bonds of the Philippines (ROPs) tumbled in December. The slippage in ROP yields exceeded those of equivalent U.S. Treasuries so that spreads between ROPs and the latter fell especially for the longer tenor ROP-42.

Approximately 10-year ROP-33 shed -52.3 bps to end the year at 4.598%. The (closest to) 20-year ROP-42 took a deeper dive of -64.5 bps to close at 4.873%. We could not find reliable data for ROP-24.

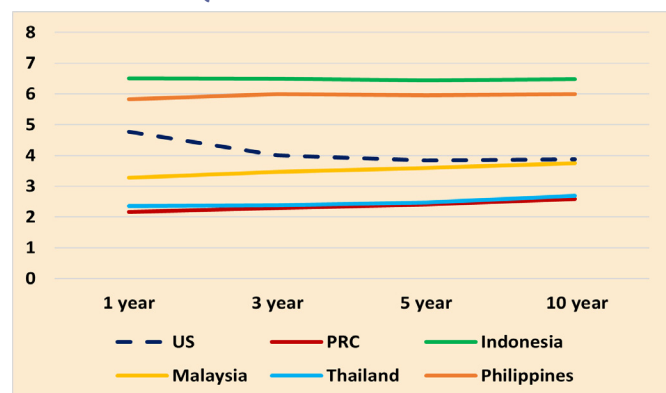
In the other side of the Pacific, 10-year U.S. T-bond yield in end-December slumped by -49 bps to fall below 4% at 3.88%. The 20-year U.S. Treasury bond yield declined a bit more by -52 bps to 4.2%.

Table 7 - Spreads of ROPs Over Equivalent U.S. Treasuries (bps)

Spreads of ROPs over Equivalent U.S. Treasuries (bps)			
Date	3-month	10-year	20-year
31-Oct	50.1	89.2	110.3
30-Nov	38.1	75.1	97.8
29-Dec		71.8	67.3

Sources: UA&P Direct Estimates from Federal Reserve Board, Philippine Dealing & Exchange Corporation (PDEX)

Figure 18 - ASEAN+1 Yield Curves End-December 2023
Yield Curves Still Quite Flat



Sources: Asian Development Bank (ADB), Federal Reserve Board

These movements resulted in narrower spreads by -3.3 bps and -30.5 bps for 10-year and 20-year tenors, respectively.

In another front, the Republic of the Philippines on December 6, 2023, successfully priced its Sukuk issuance (“Sukuk”), utilizing real estate assets under Ijara and Wakala, together with a Commodity Murabaha aspect. The Sukuk, with an issuance size of \$1.0-B and a tenor of 5.5 years, marks the first time the Republic has tapped the global Islamic financial markets in this structure. Oversubscription at 4.9x implies strong demand for the maiden issue. Priced at T+80 bps, with a profit rate of 5.045%, the Sukuk issue came down from the initial price guidance of T+115 bps area. The landmark maiden Sukuk issuance aims to promote the development of Islamic banking and finance in the country, and diversify its global investor base and source.

ASEAN+1: Yield Curves Modestly Flatten as Economic Recovery Remains Mixed

U.S.: Newly released economic data showed a mixed bag. The economy added 216,000 jobs in December, much above market expectations of 170,000, from a downward revised 173,000 (from 196,000 earlier reported) in November. The gains emanated from government, health care, social assistance, and construction. Retail sales (s.a.) expanded by 0.6% MoM in December adding on to its 0.3% jump a month earlier. But the country’s Manufacturing PMI went down further to 47.9 in December from 49.4 in November. Meanwhile, the U.S. inflation rate in December rose to 3.4% after reaching a 5-month low of 3.1% a month ago.

In November, both exports and imports fell by -1.9% to \$253.7-B and \$316.9-B, respectively. Consequently, the country’s trade deficit slightly narrowed to \$63.2-B in November.

The Fed’s policy rate currently sits at 5.25%-5.50%, as the market awaits its next moves with its next meeting on January 30 and 31. The yield curve remained inverted at -35 bps in December from a tiny improvement from -36 bps in November.

CHINA: The country still experienced deflation in December as consumer prices decreased by -0.3%, following its -0.5% plunge a month ago, as food prices continued to fall. Meanwhile, factory activity improved as the Caixin General Manufacturing PMI slightly rose to 50.8 in December from 50.7 in November.

During December, exports jumped by 2.3% to \$303.6-B while imports edged up by 0.2% to \$228.2-B. With this, China's trade surplus expanded to \$75.3-B in December from \$70.6-B a year ago.

The People's Bank of China's (PBoC) 1-year medium-term lending facility (MLF) rate remains at 2.50% in January. The spread between 10-year and 2-year bond yields became steeper by 8 bps to 36 bps in December.

INDONESIA: Indonesia's manufacturing sector expanded for the 28th consecutive month in December as PMI grew to 52.2 from 51.7 a month earlier. The country's inflation print eased to 2.6% in December from 2.9% a month earlier, driven by the slower increase in food and housing prices.

Outward shipments fell for the seventh consecutive month, tumbling down by -5.7% YoY to \$22.4-B in December, driven by a slowdown in the economy of its trading partners and moderating commodity prices. Similarly, imports trekked down by -3.8% YoY to \$19.1-B in December. As a result, trade surplus narrowed to \$3.3-B in December from \$3.9-B in the previous year.

Meanwhile, Bank Indonesia (BI) maintained its policy rate at 6% after its December meeting. The yield curve's steepness measure went up by 4 bps to 17 bps in December.

MALAYSIA: Manufacturing PMI remained unchanged at 47.9 in December, marking the 16th straight month of contraction in the manufacturing sector. On the inflation front, the country's annual inflation rate slowed down to 1.5% in November from 1.8% in October.

Exports in November edged down by -5.9% to MYR 122.1-B (\$26.1-B) while imports increased by 1.7% to MYR 109.7-B (\$23.4-B). This narrowed the country's trade surplus to MYR 12.4-B (\$2.6-B) in November from MYR 21.8-B (\$4.6-B) last year.

Bank Negara Malaysia's (BNM) policy rate still stands at 3%. The spread between 10-year and 2-year bond yields contracted by 9 bps to 34 bps in December.

THAILAND: The country experienced deflation for the third straight month in December, as consumer prices further dropped to -0.8% from -0.4% in November, caused by lower food and energy prices. Meanwhile, the manufacturing sector recorded its steepest contraction since June 2020 as Manufacturing PMI fell for the fifth consecutive month to 45.1 in December from 47.6 in November.

The country's exports climbed by 4.9% to \$23.4-B in November. Meanwhile, imports surged by 10.1% to \$25.8-B in November. Overall, this resulted in a wider trade deficit of \$2.4-B in November from \$1.3-B in the same month a year ago.

Meanwhile, the Bank of Thailand's (BOT) policy rate remains at 2.50% ahead of its first meeting in February 2024. The yield curve's steepness measure declined by 18 bps to 34 bps in December.

Table 8 - Spreads Between 10-year and 2-year T-Bonds

Spreads between 10-year and 2-year T-Bonds									
Country	2-year Yields	10-year Yields	Projected Inflation Rates	Real 10-Year Yield	10-Year and 2-Year Spread (bps)		Spread Change (bps)	Latest Policy Rate	Real Policy Rate
					Nov-23	Dec-23			
U.S.	4.22	3.87	2.4	1.47	(36)	(35)	1	5.50	3.10
PRC	2.23	2.59	2.0	0.59	28	36	8	2.50	0.50
Indonesia	6.31	6.48	3.0	3.48	13	17	4	6.00	3.00
Malaysia	3.41	3.75	2.7	1.05	43	34	(9)	3.00	0.30
Thailand	2.35	2.69	2.3	0.39	52	34	(18)	2.50	0.20
Philippines	5.92	6.00	3.8	2.20	27	8	(19)	6.50	2.70

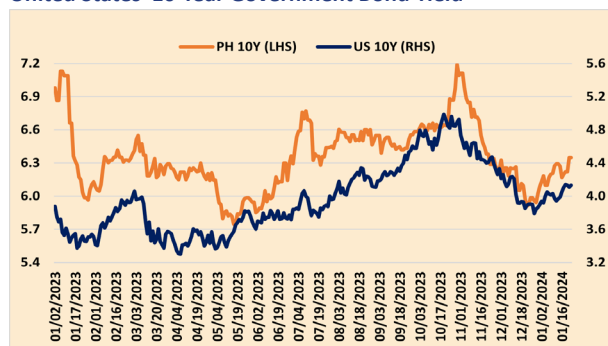
Sources: Asian Development Bank (ADB), The Economist & UA&P
 *1-year yields are used for PH because 2-year papers are illiquid

Outlook

The bond markets look more sanguine amid the downward trend of inflation and interest rates both here and abroad.

- Some Fed officials sounded dovish after very low inflation in October and November, and job gains in the latter month near its 10-year average, and U.S. FOMC did show projections by majority of individual members for some 75 bps rate cuts in 2024. These drove U.S. 10-year benchmark yields to end 2023 at 3.88% more than 110 bps lower than its peak in mid-October. We have seen some push back by some Fed officials as job gains for December exceeded market expectations, and so yields have rebounded to slightly above 4% in January. We expect, however, limited upside since seasonally adjusted annualized core inflation (using Fed-preferred PCE price index) has kept at 2% or lower (Fed target) in four of the five months since July 2023.
- Local bond yields also rose in tandem with U.S. 10-year bond yields in early January due to the delayed Fed pivot, and normal six BTr auctions. Also, we think the BSP will only come after and match Fed policy rate cuts which start mid-year.

Figure 19 - Philippine 10-Year Government Bond Yield Vs. United States 10-Year Government Bond Yield



Source: Trading Economics

- The sustained fall in domestic inflation, with the December seasonally adjusted MoM uptick of 0.1% from 0% and -0.4% in the two previous months, will likely continue, albeit not at a faster pace since rice prices remain elevated. However, YoY monthly inflation rate should average 3.2% in Q1-2024 and 3.8% for the whole year, as we expect possible hikes in crude oil prices to reverse quickly due to supply from non-OPEC sources.

- NG won't also exert extraordinary demand on the money market despite its announced borrowing program for 2024 reaching P2.46-T. BTr's gross borrowing program in Q1-2024 only matches that of Q3-2023. Besides, after netting T-bills and T-bonds maturing in 2024, which will be refinanced, new borrowings for the year will likely only add some 7% to 8% to the debt stock, while nominal GDP growth should exceed 10%. Thus, we expect a more pronounced reduction in the debt-to-GDP ratio in 2024.
- Thus, we foresee 10-year benchmark bond yields dropping to 5.25% to 5.75% by yearend as these would reflect normalizing real yields and likely policy rate cuts by BSP.
- Corporate issuances should rebound significantly in 2024, as interest rates fall.
- ROPs remain attractive to domestic investors for H1-2024 because only at the end of the semester would we see U.S. Fed start cutting policy rates mildly by 25 bps.

EQUITY MARKETS

MILDLY OPTIMISTIC EQUITY INVESTORS PUSH UP GLOBAL, PSE SHARES AS 2023 ENDS

Greater optimism among global equity investors including the Philippines again pushed up share prices in December. The Australian bourse led gainers with a 7.1% upswing followed by U.S. Dow Jones Industrial Average's (DJIA) 4.8% rise. Likewise, PSEi climbed by 3.6%, thus outperforming its ASEAN neighbors, with five out of six sectors in the green, as foreign investors slowly re-entered the market. The Services sector, powered by International Container Terminals Services, Inc. (ICTSI, +14.4%) gained the most with a 5.9% month-on-month (MoM) jump. The Property sector came in next as Ayala Land Inc. (ALI) recorded a 10.4% uptick. The Industrial sector, although landing in the third spot, counted on strong performances of Jollibee Foods Corporation (JFC, +10.9%) and Manila Electric Co. Inc. (MER, +10.8%). Alliance Global Group Inc. (AGI) emerged with the best record of +15.1% despite the Holdings sector coming only second to the last place.

Outlook: Despite soft profit-taking at yearend, equity investors propelled the PSEi by 3.6% as of mid-January 2024. The prospect of lower inflation and interest rates coupled with robust corporate earnings enticed bargain hunters into the market. In fact, foreigners again became net buyers to the tune of \$63.0-M YTD as of January 2024. Local investors also snatched occasional foreign selling, and together improved turnover to over P5.0-B for the same period. Earnings growth of 11%, albeit mildly slower than 15% in 2023, and an upgrade of PSEi average price-earnings ratio to 12.6x – 13.6x should catapult PSEi to 7,000 – 7,500 in 2024. Faster GDP growth of 6% (see Macroeconomy) should also prove supportive. While we may see strong performance in Q1, the threat of El Nino may slow down the momentum in Q2, but Fed and BSP policy rate cuts by Q3 (at latest) should reignite PSEi to reach our target range.

Figure 20 - PSEi Outlook



Source: First Metro Investment Corporation (FMIC)

Table 9 - Global Equities Markets Performances

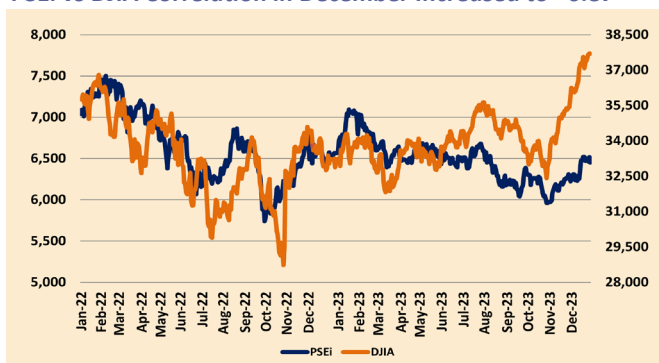
Global Equities Markets Performances				
Region	Country	Index	December M-o-M Change	2023 % Change
Americas	US	DJIA	4.8%	13.7%
Europe	Germany	DAX	3.3%	20.3%
	London	FTSE 101	3.7%	3.8%
East Asia	Hong Kong	HSI	0.0%	-13.8%
	Shanghai	SSEC	-1.8%	-3.7%
	Japan	NIKKEI	-0.1%	28.2%
	South Korea	KOSPI	4.7%	18.7%
Asia-Pacific	Australia	S&P/ASX 200	7.1%	7.8%
Southeast Asia	Indonesia	JCI	2.7%	6.2%
	Malaysia	KLSE	-0.1%	-3.0%
	Thailand	SET	2.6%	-15.2%
	Philippines	PSEi	3.6%	-1.8%

Sources: Bloomberg and Yahoo Finance

Global Picture. Majority of our tracked global equities markets landed on the green, while only three performed negatively in December. Australia S&P/ASX 200 recorded the highest upswing as it ended the month with a 7.1% month-on-month (MoM) gain, piling on top of its 4.5% MoM uptick in November. United States DJIA also followed suit with a 4.8% MoM increment. Meanwhile, Shanghai SSEC recorded the steepest decline with a -1.8% MoM loss wiping out the 0.4% MoM gain a month ago. On the other hand, Philippines PSEi recorded a 3.6% MoM increase to end December at 6,450.04.

Figure 21 - PSEi vs DJIA

PSEi vs DJIA Correlation in December Increased to +0.87



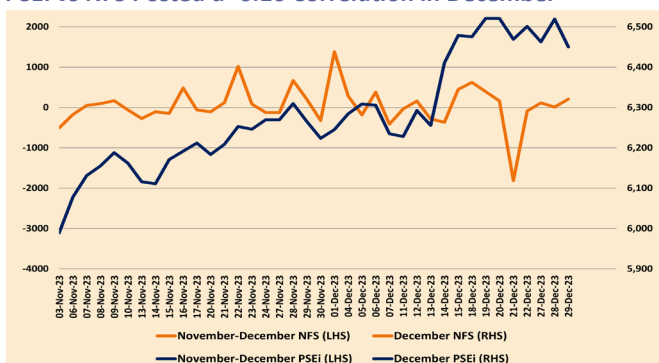
Sources: Wall Street Journal, Bloomberg

PSEi and DJIA. The Dow Jones Industrial Average (DJIA) closed a volatile month of trading. DJIA ended December at 37,689.54. Meanwhile, PSEi finished the month at 6,450.04 from the previous month’s close of 6,223.73. The correlation between the two indices in December remained elevated at +0.87 from +0.83 in the previous month.

Net Foreign Buying/Selling. In terms of trading volume, all sectors landed on the green in December, with the Mining & Oil sector leading the gainers as it posted the largest uptick of +36.4% in December from -72.2% in the previous month. Meanwhile, the Industrial sector came next with a 33.8% increase in trading volume.

Figure 22 - PSEi vs Net Foreign Selling

PSEi vs NFS Posted a -0.10 Correlation in December



Sources: Bloomberg & Yahoo Finance

More foreign investors re-entered the market gingerly as they ended 2023 with net buying position of P1.0-B in December.

The top five favorite stocks (net buying) of foreign investors amounted to P6.5-B with Ayala Land, Inc. (ALI, P2.1-B) and SP New Energy Corporation (SPNEC, P1.6-B) leading the pack.

The top five disfavored stocks (net selling) in December amounted to P2.2-B with Universal Robina Corporation (URC, P827.0-M) and Bank of the Philippine Islands (BPI, P520.6-M) in the front rows.

Table 10 - Monthly Turnover (in Million Php)

Monthly Turnover (in Million Pesos)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	15,138.41	10.6%	841.02	16.8%
Industrial	24,471.02	33.8%	1,359.50	41.2%
Holdings	16,026.64	14.4%	890.37	20.7%
Property	15,523.67	13.9%	862.43	20.3%
Services	15,846.32	12.0%	880.35	18.2%
Mining & Oil	1,814.64	36.4%	100.81	44.0%
Total	88,820.71	18.3%	4,934.48	24.8%
Foreign Buying	43,853.37	8.0%	2,436.30	14.0%
Foreign Selling	42,848.19	8.3%	2,380.46	14.3%
Net Buying (Selling)	1,005.18	-2.2%	55.84	3.2%

Source of Basic Data: PSE Quotation Reports

Table 11 - Top Foreign Buy in December (in Million Php)

Top Foreign Buy	
Company	Total Value
ALI PM Equity	2,107.04
SPNEC PM Equity	1,672.06
ICT PM Equity	1,425.44
SM PM Equity	811.74
AC PM Equity	582.08
Total Buy Value	6,598.37

Sources of Basic Data: Bloomberg, First Metro Investment Corporation (FMIC)

Table 12 - Top Foreign Sell in December (in Million Php)

Top Foreign Sell	
Company	Total Value
URC PM Equity	-827.04
BPI PM Equity	-520.65
ACEN PM Equity	-449.47
PGOLD PM Equity	-241.91
AP PM Equity	-235.71
Total Sell Value	-2,274.78

Sources of Basic Data: Bloomberg, First Metro Investment Corporation (FMIC)

Table 13 - Monthly Sectoral Performance

Monthly Sectoral Performance					
Sector	30-November-2023		29-December-2023		2023 YTD
	Index	% Change	Index	% Change	
PSEI	6,223.73	4.2%	6,450.04	3.6%	-1.8%
Financial	1,742.53	1.8%	1,738.88	-0.2%	5.7%
Industrial	8,688.02	2.5%	9,075.91	4.5%	-2.9%
Holdings	5,910.80	3.2%	6,106.00	3.3%	-5.1%
Property	2,723.03	7.2%	2,854.94	4.8%	-2.5%
Services	1,515.44	4.3%	1,604.99	5.9%	-1.8%
Mining & Oil	9,667.60	-1.2%	10,000.43	3.4%	-7.5%

Source of Basic Data: PSE Quotation Reports

Table 14 - Financial Sector Constituent Stocks

Company	Symbol	11/30/2023 Close	12/29/2023 Close	M-o-M % Change	2023 YTD
Metropolitan Bank and Trust Company	MBT	49.95	51.30	2.7%	-5.0%
BDO Unibank, Inc.	BDO	133.50	130.50	-2.2%	23.5%
Bank of the Philippine Islands	BPI	103.30	103.80	0.5%	1.8%

Source of Basic Data: PSE Quotation Reports

Similar to November, five sectors of PSEi registered positive performances in December with only one sector landing on the red. This resulted to a +3.6% MoM gain by PSEi in December. The Services sector valuations grew by +5.9% MoM, claiming the top spot among sectors in December. The Property sector followed suit with a +4.8% MoM uptick. Meanwhile, the Financial sector marginally declined by -0.2% MoM, emerging as the sole loser in December. Nevertheless, the Financial sector still held the best year-to-date (YTD) performance with its +5.7% increase.

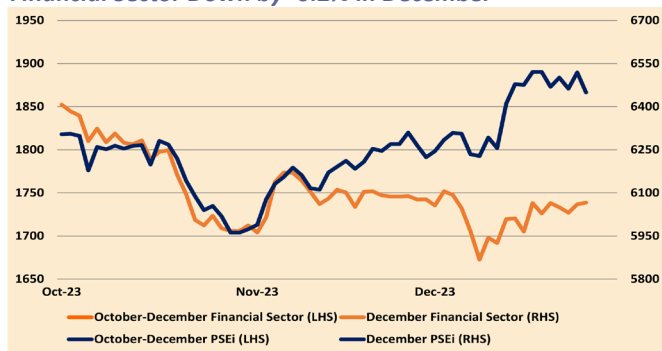
The Financial sector landed in the cellar in the sectoral race as it ended December with a -0.2% dip, a minor cut from its 1.8% gain a month earlier.

Metropolitan Bank & Trust Company's (MBT) share prices took the lead in the sector with a +2.7% MoM gain in December, following its -4.5% dip in November. MBT concluded the year on a high note, securing multiple accolades from esteemed financial publications and industry peers. Among these are the Best Bank of the Year award from The Banker, the Strongest Bank in the Philippines award from The Asian Banker, and the Best Domestic Bank award from Asiamoney. For its third straight year, MBT also recently received recognition from the Bureau of the Treasury (BTr) as the Top Market Maker for Government Securities Eligible Dealers (GSED) for 2024.

Bank of the Philippine Islands (BPI) share prices experienced a +0.5% MoM uptick in December, piling on top of its 2.8% gain in November. BPI has recently received the approval by the Bangko Sentral ng Pilipinas (BSP) and Securities and Exchange Commission (SEC) to raise its authorized capital stock by P4.0-B to P54.6-B from P50.6-B. These stamps of approval form part of BPI's preparation for its merger with Robinsons Bank Corporation, which has already taken effect since January 1, 2024.

BDO Unibank, Inc. (BDO) share prices dropped by -2.2% MoM in December, partially reversing its +4.7% MoM rise in the previous month. BDO has recently completed its acquisition of the 50% direct equity stake in Keppel Philippines Properties, Inc. and Opon-KE Properties, Inc. into SM Keppel Land, Inc. As a result, BDO now gains complete ownership of the Podium Complex, which includes BDO's Corporate Center Ortigas, the West Tower and the Podium Mall.

Figure 23 - Financial Sector Index (October 2023 - December 2023)
Financial Sector Down by -0.2% in December



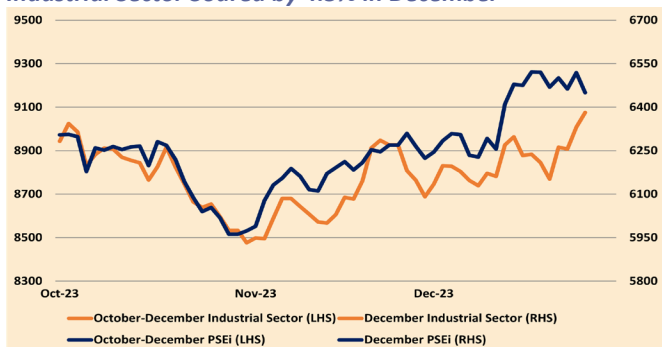
Source of Basic Data: PSE Quotation Reports

Table 15 - Industrial Sector Constituent Stocks

Company	Symbol	11/30/2023 Close	12/29/2023 Close	M-o-M % Change	2023 YTD
Meralco	MER	360.00	399.00	10.8%	33.5%
Jollibee Foods Corporation	JFC	226.60	251.40	10.9%	9.3%
Universal Robina Corporation	URC	113.00	118.20	4.6%	-13.1%
AC Energy Corporation	ACEN	4.80	4.38	-8.8%	-42.5%
Emperador Inc.	EMI	20.95	20.85	-0.5%	1.2%
Monde Nissin Corporation	MONDE	8.40	8.38	-0.2%	-24.4%
Century Pacific Food, Inc.	CNPF	30.40	30.95	1.8%	20.0%
Semirara Mining and Power Corporation	SCC	28.95	30.25	4.5%	-12.3%

Source of Basic Data: PSE Quotation Reports

Figure 24 - Industrial Sector Index (October 2023 - December 2023)
Industrial Sector Soared by 4.5% in December



Source of Basic Data: PSE Quotation Reports

The Industrial sector ranked third in the sectoral race as it rose by +4.5% MoM in December, following its +2.5% increment in the previous month.

Jollibee Foods Corporation (JFC) share prices registered the highest uptick in the sector with +10.9% MoM in December, adding on top of its +10.5% gain in November. JFC recently disclosed its declaration of regular cash dividend on its Series A and Series B preferred shares amounting to P8.20525 and P10.60125 per share, representing 3.3% and 4.2% dividend yields, respectively.

Meralco (MER) share prices followed closely with a +10.8% MoM rise in December from previous month's gain of +1.4%. MER, through its renewable energy arm, MGen Renewable Energy (MGreen), has recently completed its P15.9-B investment in SP New Energy Corporation (SPNEC) after settling its remaining balance of P8.9-B on December 27. With this, MGreen now owns SPNEC's 15.7-B common shares and 19.4-B preferred shares, allowing MGreen to hold 50.5% of the total voting interest in SPNEC. Additionally, Mr. Manny V. Pangilinan, incumbent president and chief executive officer (CEO) of MER, took over as new chairman, president, and CEO of SPNEC to replace Mr. Leandro Leviste.

AC Energy Corporation (ACEN) share prices contracted the most by -8.8% MoM in December, piling on top of its -9.4% loss a month earlier. ACEN recently invested a total of P12.9-B to acquire shares from its six subsidiary units, namely SolarAce2 Energy Corporation, Sinocalan Solar Power Corporation, Giga Ace 6, Inc., Giga Ace 8, Inc., Gigasol1, Inc., and Santa Cruz Solar Energy. ACEN's investment aims to fund the development of solar and wind power projects of the said subsidiaries.

Table 16 - Holdings Sector Constituent Stocks

Company	Symbol	11/30/2023 Close	12/29/2023 Close	M-o-M % Change	2023 YTD
Ayala Corporation	AC	664.00	681.00	2.6%	-2.0%
SM Investments Corporation	SM	819.00	872.00	6.5%	-3.1%
Aboitiz Equity Ventures	AEV	46.80	44.60	-4.7%	-22.7%
GT Capital Holdings, Inc.	GTCAP	542.50	590.00	8.8%	35.6%
San Miguel Corporation	SMC	108.00	102.10	-5.5%	9.8%
Alliance Global Group, Inc.	AGI	9.80	11.28	15.1%	-5.2%
LT Group, Inc.	LTG	8.85	8.98	1.5%	-2.4%
JG Summit Holdings, Inc.	JGS	38.50	38.15	-0.9%	-24.2%
DMCI Holdings, Inc.	DMC	9.20	9.77	6.2%	-18.6%

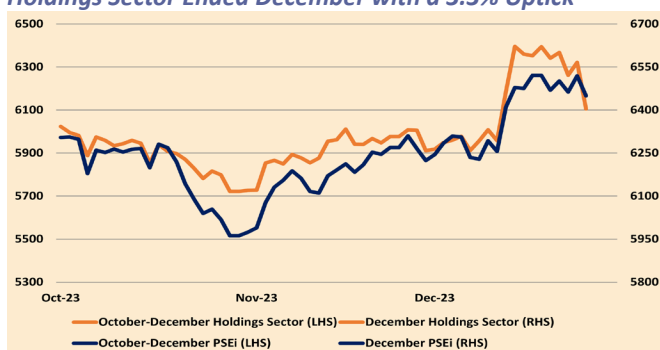
Source of Basic Data: PSE Quotation Reports

The Holdings sector took fifth place in the sectoral race in December with a +3.3% MoM uptick, continuing from its +3.2% gain a month ago.

Alliance Global Group, Inc. (AGI) share prices rose the most with a +15.1% MoM increase in December, leaving no trace of its -7.5% loss in November. AGI recently announced its declaration of cash dividends amounting to P0.15 per share on its outstanding common shares payable on January 12, 2024. It provided some 1.3% dividend yield based on its closing price in 2022.

GT Capital Holdings, Inc. (GTCAP) share prices also went up by +8.8% MoM in December, overwhelming its -1.2% downtick in the previous month. In December 18, GTCAP has declared cash dividends for its Perpetual Preferred Shares Series "B" amounting to P12.73725 per share for each quarter in 2024.

Figure 25 - Holdings Sector Index (October 2023 - December 2023)
Holdings Sector Ended December with a 3.3% Uptick



Source of Basic Data: PSE Quotation Reports

Ayala Corporation (AC) share prices ended December with a +2.6% MoM increment, piling on top of its +9.7% increase a month earlier. AC also declared cash dividends for H2-2023 amounting to P3.806 per common share payable on January 10, 2024, equal to its H1 cash dividend. These translates to a minor 1% annual dividend yield based on its 2022 closing price. AC also recently signed a credit facility with MUFG Bank Ltd. (MUFG) and Sun Life Philippines worth P5.0-B to support its sustainability financing initiatives.

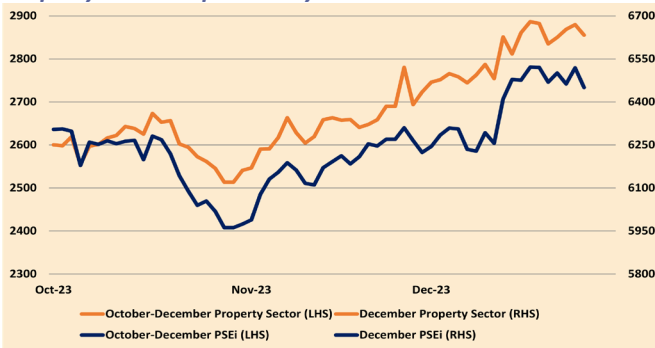
San Miguel Corporation (SMC) share prices trekked down by -5.5% MoM in December, wiping out its +2.8% gain in November. SMC recently issued its Series 2-L, 2-N, and 2-O preferred shares with a par value of P5 per share and at an offer price of P75 per share. Through these, SMC raised P34.0-B from the sale of preferred shares in its follow-on offering.

Table 17 - Property Sector Constituent Stocks

Company	Symbol	11/30/2023 Close	12/29/2023 Close	M-o-M % Change	2023 YTD
Ayala Land, Inc.	ALI	31.20	34.45	10.4%	11.9%
SM Prime Holdings, Inc.	SMPH	32.30	32.90	1.9%	-7.3%

Source of Basic Data: PSE Quotation Reports

**Figure 26 - Property Sector Index (October 2023 - December 2023)
Property Sector Expanded by 4.8% in December**



Source of Basic Data: PSE Quotation Reports

Table 18 - Services Sector Constituent Stocks

Company	Symbol	11/30/2023 Close	12/29/2023 Close	M-o-M % Change	2023 YTD
PLDT, Inc.	TEL	1,288.00	1,279.00	-0.7%	-2.9%
Globe Telecom	GLO	1,710.00	1,720.00	0.6%	-21.1%
Converge ICT Solutions, Inc.	CNVRG	8.21	8.38	2.1%	-47.2%
Puregold Price Club Inc.	PGOLD	27.20	26.90	-1.1%	-22.9%
Wilcon Depot, Inc.	WLCON	21.15	20.90	-1.2%	-29.2%
International Container Terminal Services, Inc.	ICT	215.80	246.80	14.4%	23.4%
Bloomerry Resorts Corporation	BLOOM	9.65	9.84	2.0%	28.6%

Source of Basic Data: PSE Quotation Reports

The Property sector finished second in the sectoral race as it ended December with a +4.8% MoM increment, augmenting its +7.2% uptick a month ago.

Ayala Land, Inc. (ALI) share prices led the sector with another gain of +10.4% MoM in December, building upon its +12% increase in November. ALI recently disclosed its plan to develop a 62-hectare area in Nasugbu, Batangas into a leisure destination. ALI expects the project to cost some P1.9-B for the first five years of its development.

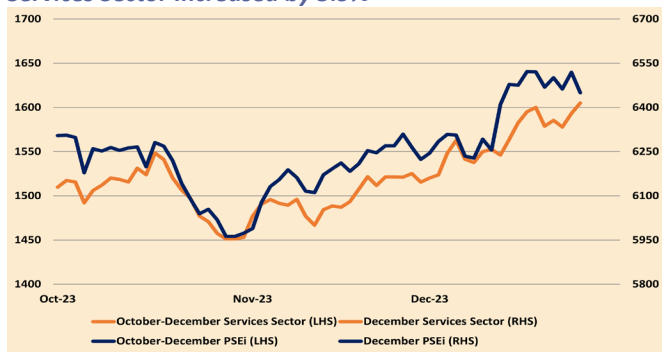
SM Prime Holdings, Inc. (SMPH) share prices also registered a +1.9% uptick in December, albeit slower than its +7.7% gain in November. SMPH has recently increased its mall presence in Laguna province by opening a new shopping center called SM Center San Pablo. This brings the total number of SM malls in the province to four, alongside SM City Santa Rosa, SM City Calamba, and SM City San Pablo.

The Services sector took pole position in the sectoral race as it ended December with a +5.9% MoM growth, after posting a +4.3% uptick in the previous month.

International Container Terminal Services, Inc. (ICT) share prices moved up by +14.4% MoM in December, continuing from its +7.3% gain in November. ICT posted a Q3-2023 net income amounting \$188.1-M (~P10.5-B), a tad 0.5% YoY increase from its \$187.1-M net income a year ago, as ICT's expenses on depreciation and amortization, interest on loans, lease liabilities and concession rights payable bloated.

Converge ICT Solutions, Inc. (CNVRG) share prices followed suit with a +2.1% MoM increase in December, eliminating its -1.9% loss a month earlier. CNVRG recently renewed its partnership with LBC Express Inc. to support the latter's growing demand for fiber connectivity as LBC continues to expand its operations throughout the country.

Figure 27 - Services Sector Index (October 2023 - December 2023)
Services Sector Increased by 5.9%



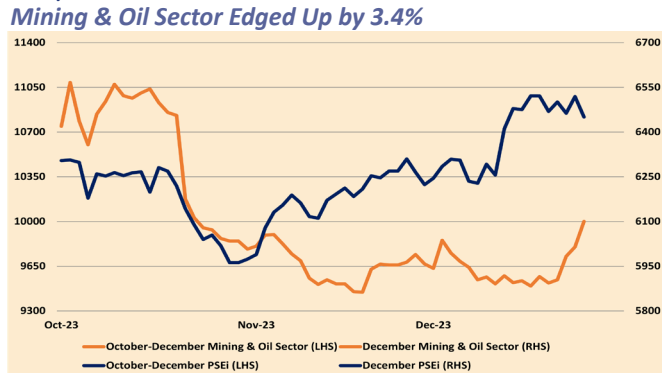
Source of Basic Data: PSE Quotation Reports

Table 19 - Mining and Oil Sector Constituent Stock

Company	Symbol	11/30/2023 Close	12/29/2023 Close	M-o-M % Change	2023 YTD
Nickel Asia Corporation	NIKL	5.05	5.48	8.5%	-6.2%

Source of Basic Data: PSE Quotation Reports

Figure 28 - Mining & Oil Sector Index (October 2023 - December 2023)
Mining & Oil Sector Edged Up by 3.4%



Source of Basic Data: PSE Quotation Reports

Globe Telecom (GLO) share prices posted a +0.6% MoM increment in December, a minor offset of its -2.8% loss in November. GLO recently obtained an additional P20.0-B from a term loan facility with BDO Unibank, Inc. to fund its capital expenditures, debt refinancing and general corporate requirements.

Puregold Price Club, Inc. (PGOLD) share price slipped by -1.1% MoM in December, following its 0.4% gain a month ago. PGOLD recently made a declaration of cash dividends amounting to P0.97 per share, which translates to a dividend yield of around 3.6%, payable on January 18, 2024.

Wilcon Depot, Inc. (WLCON) share prices tumbled down by -1.2% MoM in December, a minor contraction from its +6.8% gain in November. Nevertheless, WLCON wrapped up 2023 with the opening of its branch in Tuy, Batangas. This marked WLCON's 6th store in Batangas and 90th store in the Philippines.

The Mining & Oil sector took the fourth spot in the sectoral race as it ended December with a +3.4% MoM increment, leaving no trace of its -1.2% downtick a month ago. Nickel Asia Corporation (NIKL) share prices jumped by +8.5% MoM in December, wiping out its -7.3% plunge in November amid weaker nickel prices.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2021		2022		2nd Quarter 2023			3rd Quarter 2023		
	Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.	Levels	Q-o-Q G.R.	Y-o-Y G.R.	Levels	Q-o-Q G.R.	Y-o-Y G.R.
Production										
Agri, Hunting, Forestry and Fishing	1,775,209	-0.3%	1,783,499	0.5%	417,670	-6.1%	0.2%	410,293	-1.8%	0.9%
Industry Sector	5,551,621	8.5%	5,914,703	6.5%	1,554,914	6.0%	2.1%	1,351,011	-13.1%	5.5%
Service Sector	11,213,252	5.4%	12,245,429	9.2%	3,235,140	8.0%	6.1%	3,289,283	1.7%	6.8%
Expenditure										
Household Final Consumption	13,455,117	4.2%	14,570,218	8.3%	3,584,449	-3.0%	5.5%	3,682,451	2.7%	5.0%
Government Final Consumption	2,842,705	7.2%	2,981,663	4.9%	838,500	17.2%	-7.1%	745,138	-11.1%	6.7%
Capital Formation	4,051,799	20.0%	4,609,287	13.8%	1,349,911	19.6%	0.3%	1,056,561	-21.7%	-1.6%
Exports	5,129,672	8.0%	5,688,704	10.9%	1,421,446	3.4%	4.4%	1,571,141	10.5%	2.6%
Imports	6,939,209	12.8%	7,906,240	13.9%	2,022,466	1.7%	0.2%	2,023,100	0.0%	-1.3%
GDP	18,540,084	5.7%	19,943,630	7.6%	5,207,724	6.1%	4.3%	5,050,587	-3.0%	5.9%
NPI	639,321	-51.6%	1,133,700	77.3%	495,640	20.1%	90.7%	621,976	25.5%	112.5%
GNI	19,179,405	1.7%	21,077,331	9.9%	5,703,364	7.2%	8.6%	5,672,563	-0.5%	12.1%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2021		2022		October-2023			November-2023		
	Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.	Levels	M-o-M G.R.	Y-o-Y G.R.	Levels	M-o-M G.R.	Y-o-Y G.R.
Revenues										
Tax	3,005,539	5.2%	3,545,505	18.0%	385,808	51.1%	33.6%	340,395	-11.8%	2.8%
BIR	2,742,721	9.5%	3,220,315	17.4%	354,738	51.9%	34.6%	286,042	-19.4%	-8.9%
BoC	2,078,145	6.5%	2,335,674	12.4%	274,429	80.3%	46.9%	210,242	-23.4%	-11.3%
Others	643,563	19.7%	862,420	34.0%	77,926	-1.2%	3.8%	73,687	-5.4%	-2.7%
Non-Tax	21,013	33.7%	22,221	5.7%	2,383	-2.0%	43.7%	2,113	-11.3%	90.9%
	262,464	-25.3%	324,082	23.5%	31,070	43.4%	22.3%	54,352	74.9%	220.2%
Expenditures										
Allotment to LGUs	4,675,639	10.6%	5,159,640	10.4%	420,210	-17.0%	8.3%	433,649	3.2%	-4.7%
Interest Payments	892,698	11.0%	1,103,284	23.6%	75,358	-6.9%	-12.9%	80,236	6.5%	-7.0%
	429,432	12.9%	502,858	17.1%	58,983	-17.4%	77.7%	48,548	-17.7%	86.1%
Overall Surplus (or Deficit)	(1,670,100)	21.8%	(1,614,135)	-3.4%	(34,402)	-86.3%	-65.3%	(93,254)	171.1%	-24.8%

Source: Bureau of the Treasury (BTr)

POWER SALES AND PRODUCTION INDICATORS

Manila Electric Company Sales (In Gigawatt-hours)

	2022		May-2023			June-2023		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	48,270.70	6.0%	4,531.50	7.6%	3.2%	4,581.80	4.0%	3.4%
Residential	17,140.40	1.4%	1,689.40	7.7%	0.5%	1,700.20	5.6%	1.5%
Commercial	17,052.40	14.1%	1,630.70	11.0%	10.6%	1,673.50	8.5%	10.2%
Industrial	13,296.80	3.1%	1,103.20	-1.8%	-4.1%	1,116.70	-6.6%	-4.5%

Source: Meralco

BALANCE OF PAYMENTS (In Million U.S. Dollar)

	2021		2022		2nd Quarter 2023		3rd Quarter 2023	
	Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.
I. CURRENT ACCOUNT								
Balance of Trade	-5,943	-151%	-18,116	205%	-4,025	-49.5%	-2,100	-65.1%
Balance of Goods	-52,806	56%	-69,682	32%	-16,281	-15.7%	-16,688	-14.4%
Exports of Goods	54,228	12%	57,726	6%	13,814	-0.5%	14,537	-0.7%
Import of Goods	107,034	31%	127,408	19%	30,095	-9.4%	31,225	-8.5%
Balance of Services	14,039	1%	15,879	13%	4,045	36.7%	5,160	18.4%
Exports of Services	33,570	5%	41,127	23%	11,161	21.6%	12,628	15.8%
Import of Services	19,531	9%	25,248	29%	7,116	14.4%	7,467	14.1%
Current Transfers & Others								
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	80	26%	0	-100%	18	-2.6%	19	30.9%
Financial Account	-6,433	-7%	-12,896	100%	-2,578	-15.3%	-2,043	-40.2%
Direct Investments	-9,732	199%	-5,380	-45%	-1,306	-7.5%	-987	-6.9%
Portfolio Investments	10,237	-709%	-1,309	-113%	-55	-68.2%	862	-36.5%
Financial Derivatives	49	-125%	-48	-198%	-72	189.8%	-50	-8.6%
Other Investments	-6,987	295%	-6,158	-12%	-1,145	-20.2%	-1,868	-49.0%
III. NET UNCLASSIFIED ITEMS								
	774	-131%	-2,042	-364%	236	-82.0%	-485	-77.5%
OVERALL BOP POSITION								
	1,345	-92%	-7,263	-640%	-1,193	-66.8%	-524	-88.9%
Use of Fund Credits								
Short-Term								
Memo Items								
Change in Commercial Banks	1,092	-86%	-3,109	-385%	-51	-96.2%	-534	-79.1%
Net Foreign Assets	952	-88%	-2,839	-398%	82	-106.1%	-540	-78.7%
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 Pesos)

	2022		October-2023		November-2023	
	Average Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.	Levels	Y-o-Y G.R.
RESERVE MONEY	3,482,242	5.4%	3,627,816	3.4%	3,454,485	-1.9%
Sources:						
Net Foreign Asset of the BSP	6,423,727	2.0%	6,452,417	2.1%	6,486,719	3.2%
Net Domestic Asset of the BSP	15,667,570	10.2%	17,705,810	10.2%	17,908,125	9.6%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	6,317,720	11.6%	6,507,698	3.6%	6,587,155	3.5%
Money Supply-2	14,877,668	7.8%	16,243,343	8.7%	16,273,780	7.4%
Money Supply-3	15,432,545	6.9%	16,715,981	8.2%	16,761,936	7.1%
MONEY MULTIPLIER (M2/RM)	4.28		4.48		4.71	

Source: Bangko Sentral ng Pilipinas (BSP)

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