

The
MARKET CALL
Capital Markets Research



FMIC and UA&P Capital Markets Research

Macroeconomy	3	Fixed Income Securities	11	Equity Markets	17
Recent Economic Indicators	24	Contributors	26		

Executive Summary

The economy has stayed resilient as inflation and the unemployment rate continue to fall. Despite National Government (NG) spending, especially on infrastructures, picking up pace starting late Q2, the debt-to-GDP ratio should start its descent in 2023 to close to 60% from 60.9% in 2022. Consumer spending should accelerate in H2 in response to the above and the P70.0-B income tax cut, especially with inflation heading back to BSP target of 2-4% by Q4. The financial markets, however, showed mixed results as the bond market volumes surged and yields eased, while the PSEi mildly dipped by -2.2% in May sparing only one sector in positive territory, despite reported Q1 earnings exceeding expectations. PSEi will likely head north again in Q3 as long as Q2 GDP growth exceeds 6%, as our forecast sees it at slightly below 6%.

Macroeconomy

3 The 4-month decline in headline inflation to 6.1% by May and the rebound in NG spending fling open the door to consumer optimism in addition to the P70.0-B income tax cut. Manufacturing sector supports this as PMI moved up to 52.2 in May, the 16th consecutive month of expansion. With exports still ailing from the global economic slowdown, the peso will likely remain slightly weak. However, the plunge in imports due to the slump in crude oil and other commodity prices should result in a less negative trade deficit for Q2 GDP growth which we think will slightly trail 6%.

Unemployment rate down to 4.5% in April due to vigorous Services sector hirings. Manufacturing PMI accelerates to 52.2 in May from 51.4 a month earlier. NG spending rebounds by 9% in April, YTD deficit at P204.1-B less than 1/6 of full year plan. Headline inflation slips to 6.1% YoY from 6.6% a month ago as fuel prices fall. Exports slump further in April but trade deficit smaller at \$4.5-B from \$5.1-B in prior month. Peso depreciates by 0.7% in May due to U.S. dollar strength and elevated trade deficits.

Bond Markets

11 With BSP's pause in its rate hiking cycle, taking the cue from the Fed's taking a break after 13 consecutive rate increases, and BSP's lowering of reserve requirements (RRR) by as much as 250 bps for universal/commercial banks would provide more liquidity to banks and likely pull down long bonds initially. By its own earlier estimates every 1% cut in RRR adds some P100.0-B to bank liquidity. Thus, by mid H2, we expect yields to fall by 25 bps as inflation loses further steam and break through 4% by Q4.

Tenders for GS auctions soared by 78% from prior month, as inflation recedes and expected BSP pause.

- GS trading volume likewise climbed by 75.1% from April to an almost 3-year high of P694.2-B.
- Yields flattened further as 20-year and 10-year bond yields plunged by -39.6 bps and -24.7 bps, respectively.
- SM Prime Holdings, Inc. (SMPH) emerged as the sole corporate issuer to the tune of P33.3-B.
- ROPs spreads over equivalent U.S. Treasuries slightly narrowed by -4.5 bps and -5 bps, for ROP-33 and 42, respectively as Fed raised policy rates in May by 25 bps.

Equities Market

17 PSEi posted -2.2% MoM loss to end May at 6,477.36. Notably, DJIA and FTSE100 also slumped by -3.5% and -8.3%, respectively – possibly affecting the negative performance of the PSEi in the same month. Only the Holdings sector turned in a positive performance as it posted a +1.3% MoM gain in May. Meanwhile, five sectors landed in the negative territory. The Financial sector ranked last in the sectoral race with its -5.5% loss in May. Nonetheless, the upcoming release of Q2 GDP data should bear heavy importance on PSEi's direction in the following months. Still, we expect PSEi to breach 6,700 even with our moderately fast projection of GDP expansion.

GT Capital (GTCAP), the major listed Philippine conglomerate involved in banking through Metropolitan Bank & Trust Company (MBT), posted the best performance among PSEi-constituent stocks (GTCAP, +7.9% gain MoM). Monde Nissin Corporation (MONDE) led the decliners with -13.4% dip MoM. In the Mining & Oil sector, Semirara Mining & Power Corporation (SCC) rose by +3.7%. Foreigners ended the month as net buyers to the tune of P4.5-B from net selling of (P1.9-B) a month earlier.

Economic Indicators (% change, latest month, unless otherwise stated)	Latest Period	Previous Period	Year-to-Date	2021 (year-end)	2022 (year-end)
GDP Growth (Q1-2023)	6.4	7.2	6.4	5.8	7.2
Inflation Rate (May)	6.1	6.6	7.5	3.1	8.1
Government Spending (April)	11.2	15.0	7.8	12.8	13.6
Gross International Reserves (\$B) (May)	100.6	101.5	100.6	107.1	95.1
PHP/USD rate (May)	54.80	55.74	54.89	48.88	55.68
10-year T-bond yield (end-May)	5.94	6.14	6.11	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

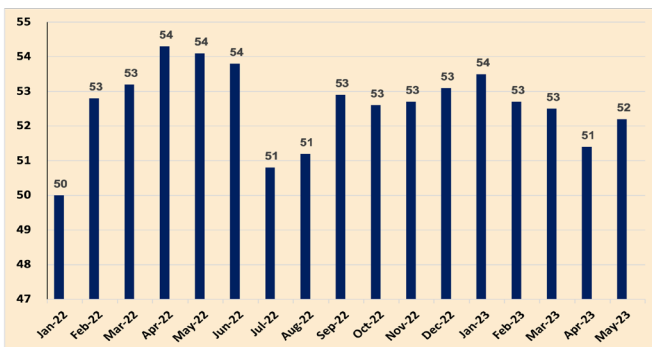
MACROECONOMY

ROBUST GDP GROWTH OF 6.4% IN Q1 AMID RISE IN EMPLOYMENT

The most encouraging news in May emerged from the further fall of inflation to 6.1% from 6.6% a month earlier, as fuel prices sank while food prices stabilized (i.e., just two out of 11 product categories showed an increase (year-on-year, YoY). National Government (NG) spending in April resumed its climb with a 9% jump, while tax revenues revved up resulting in a P66.8-B surplus, and a year-to-date (YTD) deficit of only P204.1-B or -34.6% lower than a year ago. Thus, NG will likely fall quite short of its programmed deficit of P1.45-T by some P150.0-B which will also result in lower debt-to-GDP ratio in 2023 and beyond. Unemployment rate also declined to 4.5% in April from 4.7% a month earlier boosted by the strength of the Services sector. Manufacturing PMI climbed to 52.2 in May from 51.4 in April. The main negative report came from the external sector as exports slumped by -20.2%.

Outlook: The undeniable deceleration of inflation towards Bangko Sentral ng Pilipinas’ (BSP) inflation target of 2-4% by Q4, together with the P70.0-B income tax cut, should provide consumers more confidence to spend in H2. NG spending should resume accelerating by Q2 while at the same end up with a lower debt-to-GDP in 2023. Manufacturing sub-sector seems on the mend as its PMI expanded faster in May. While exports remain in the doldrums, imports have plunged as well and so the trade deficit for Q2-2023 will likely slip from the same quarter in 2022 and may positively contribute to GDP growth. We expect the Fed to raise policy rates by 25 basis points (bps) in its July meeting and so the peso should remain in a mild depreciation mode especially by July.

Figure 1 - Manufacturing PMI
Manufacturing PMI Faster at 52.2 in May 2023



Source of Basic Data: S&P Global

Manufacturing PMI Improved in May

S&P Manufacturing PMI for the country accelerated to 52.2 in May from 51.4 in April, as operating conditions improved further, and orders and manufacturing output expanded. This marked the 16th consecutive month of improvement for the country’s manufacturing sector. While Manufacturing firms experienced higher costs, they could pass them on to customers due to greater consumer confidence. Nonetheless, Filipino manufacturing firms remain broadly optimistic in expanding output.

The Volume of Production Index (VoPI) of the Manufacturing sector grew by 8.2% YoY. The faster annual growth of VoPI for April was brought by higher annual rates in the following sectors: Manufacture of Transport Equipment (38%), Manufacture of Food Products (+14.7%), and Manufacture of Other Non-Metallic Mineral Products (+15.7%). These led the six out of 19 major industry divisions which posted annual increases in April 2023. Meanwhile, 13 industry divisions registered decrements in April, led by Manufacture of Wearing Apparel (-35.6%) and Manufacture of Chemical and Chemical Products

Table 1 - Labor Force Survey Summary

	March 2023	April 2023	MoM Change	
			Levels	% Change
Labor Force	50,998	50,314	(684)	-1.3%
Employed	48,581	48,058	(523)	-1.1%
Underemployed	5,442	6,204	762	14.0%
Underemployment rate%	11.2	12.9	1.71	15.3%
Unemployed	2,417	2,256	(160)	-6.6%
Unemployment rate%	4.7	4.5	(0.09)	-5.5%
Labor Participation rate%	66	65.1	(0.57)	-1.4%
Not in Labor Force	26,258	26,946	688	2.6%
Agriculture ('000)	11,408	10,545	(863)	-7.6%
Industry ('000)	8,513	8,172	(341)	-4.0%
Mining and Quarrying	276	240	(36)	-12.9%
Manufacturing	3,460	3,452	(8)	-0.2%
Electricity, Gas, Steam, and Air-Conditioning Supply	103	85	(18)	-17.4%
Water Supply; Sewerage, etc.	93	76	(17)	-18.7%
Construction	4,581	4,319	(262)	-5.7%
Services ('000)	28,661	29,341	681	2.4%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	10,485	10,738	253	2.4%
Transportation and Storage	3,594	3,466	(128)	-3.6%
Accommodation and Food Services	2,006	2,110	104	5.2%
Information and Communication	426	490	63	14.9%
Financial and Insurance Services	588	656	68	11.6%
Real Estate Activities	195	298	103	52.9%
Professional, Scientific, and Technical Activities	413	374	(39)	-9.5%
Administrative and Support Services Activities	2,258	2,424	166	7.3%
Public Administration and Defense; Compulsory Social Security	3,064	2,896	(167)	-5.5%
Education	1,618	1,638	20	1.2%
Human Health and Social Work Activities	572	812	241	42.1%
Arts, Entertainment, and Recreation	410	492	82	19.9%
Other Service Activities	3,032	2,945	(87)	-2.9%

Source of Basic Data: Philippine Statistics Authority (PSA)

Unemployment Rate Eased Further to 4.5% in April

The unemployment rate eased further to 4.5% in April from 4.7% a month earlier as total employment still registered the fifth highest level during the past year.

To be sure, employed persons numbering 48.1-M came 0.5-M lower than in March, but this turned up less than the 0.8-M new entrants to the labor force. While the underemployment rate rose to 12.9% in April from 11.2% in the prior month, the number of unemployed persons fell by -160,000 to 2.3-M, the third lowest in the past year.

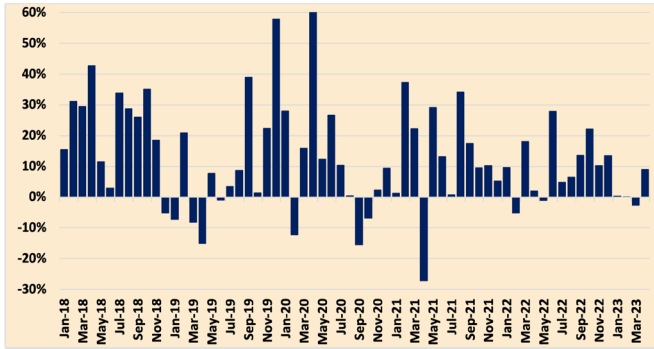
The +683,000 increase in jobs in the Services sector could not offset the plunge in employment in the Agricultural sector (-863,000) and the cut of -381,000 in the Industry sector.

Nine out of 13 sub-sectors under Services racked gains, led by Trade (+253,000), Human Health and Social Work Services (+241,000) and Administrative and Support Services (+166,000). The latter took more workers for the second consecutive month as more firms normalized operations and reduced their work-from-home (WFH) contingent. The start of hot summer months also contributed to the 166,000 gain in employment in the Accommodation and Restaurant sub-sector.

Public Administration, Defense & Social Security sub-sector shed the greatest number of jobs at -167,000, followed by -128,000 in Transportation & Storage. All sub-sectors in Industry generated less jobs in April led by Construction sub-sectors' -282,000 as private construction work slowed. Small losses occurred in the other sub-sectors even as the Manufacturing sub-sector had a tiny -8,000 decrement after a substantial increase in March.

A positive note emerges from the fact that the percentage of salary-wage earners slipped by only -0.1% to 61.5% of employed, while the share of unpaid family workers slipped by -0.4% to 8.5%. However, the large increase in the percentage of workers rendering less than 40 hours by 9.7% to 44.2% led to the rise in underemployment rate.

Figure 2 - NG Expenditures Growth Rate, Year-on-Year
NG Spending Grew by 9% in April



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

NG Spending Rebounded by 9%, Budget Surplus of P66.8-B in April

From a budget gap of P210.3-B in March, the National Government (NG) recorded a surplus amounting to P66.8-B in April, almost 14x higher than last year’s P4.9-B as revenue once again outperformed disbursements. This brings the YTD deficit to P204.1-B or -34.6% lower from P311.9-B a year earlier.

From a -12% YoY drop in March, government collections revived by 26.7% YoY to P440.7-B in April from P347.9-B in the previous year. Revenues from the Bureau of Internal Revenue (BIR) soared by 40.2% to P336.0-B in April as a result of the implementation of Revenue Memorandum Circular No. 5-2023 in line with Section 37 of the TRAIN Law. This required the filing of Quarterly VAT Returns within twenty-five days following the close of each taxable quarter. On the other hand, Bureau of Customs (BOC) registered modest gains amounting to P67.6-B or 2.9% higher from P65.7-B a year prior. Bureau of the Treasury (BTr) income declined by -28.9% YoY to P18.3-B from P25.7-B attributable to the base effect of early remittances of dividends from GOCCs last year.

NG expenditures went up by 9% to P373.9-B from P343.0-B in the previous year due to the subsidy release to PhilHealth, larger capital expenditures of the Department of Public Works and Highways (DPWH) and Department of Transportation (DOTr), as well as higher interest payments for the month. However, the decline in transfers to Local Government Units (LGUs) due to lower National Tax Allotment shares moderated the spending growth.

Primary expenditures in April advanced by 7.2% to P327.6-B from P305.7-B in the prior year. Meanwhile, April interest payments spiked by 24% to P46.3-B from P37.3-B a year ago.

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

Inflation Year-on-Year Growth Rates	Apr-2023	May-2023	YTD
	6.6%	6.1	7.5%
Food and Non-Alcoholic Beverages	7.9%	7.4%	8.4%
Alcoholic Beverages and Tobacco	12.7%	12.3%	13.5%
Clothing and Footwear	5.1%	5.1%	5.3%
Housing, Water, Electricity, Gas, and Other Fuels	6.5%	6.5%	8.7%
Transport	2.6%	-0.5%	4.9%
Restaurants and Accommodation	8.6%	8.3%	8.8%
Personal Care & Miscellaneous Goods and Services	5.7%	5.7%	5.9%

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)

Headline Inflation Slowed Anew to 6.1% in May

With the Consumer Price Index (CPI) unchanged from April, headline inflation fell further to 6.1% YoY in May from 6.6% a month ago, as Transport eased while Food prices steadied. YTD inflation slid to 7.5% YoY from 7.9% in April. While still elevated YTD inflation should continue to slide as YoY inflation goes below 4% by Q4 in line with BSP’s revised projections.

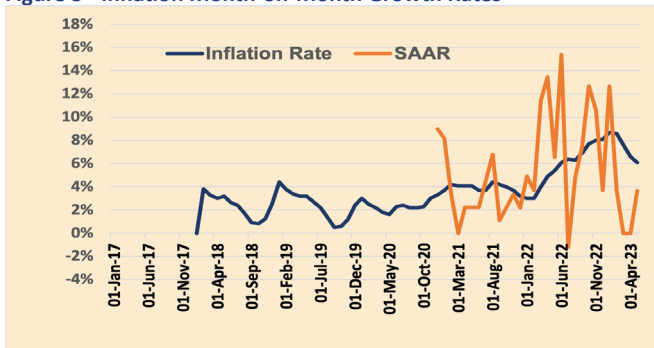
Lower fuel and transport fares led the decline in the Transport sub-index. After all, crude oil prices plunged by -32.8% YoY to \$71.74/barrel for West Texas Intermediate (WTI, U.S. benchmark) and by -34.5% to \$75.65/barrel for Brent (European benchmark). Four other product categories remained unchanged from the previous month, i.e., Housing-Water-Electricity-Gas, & Other-Fuels, Education, Communication, and Financial Services.

For Food products, only two major items out of 11 categories speeded up—Rice (+3.4% YoY from 2.9%) and Vegetables (+12.6% from 10%). The largest falls (YoY) came from Oils & Fats (8.6% from 11.7%). These may suggest easing supply constraints.

On a seasonally adjusted basis, MoM inflation rose to 0.3% from 0% in April. When annualized (Seasonally Adjusted Annual Rate, SAAR) this tallied at 3.7% from 0%. Nonetheless, even SAAR is kept within BSP’s target range of 2% to 4%.

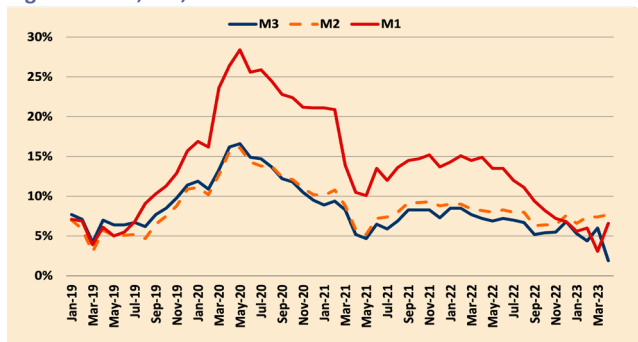
BSP has again lowered its inflation projection for 2023 to 5.4% from 5.5% a month earlier, but with upside risks still lurking. These emanate from food supply bottlenecks, crude oil and commodity prices with the ongoing Russia-Ukraine war, other geo-political conflicts.

Figure 3 - Inflation Month-on-Month Growth Rates



Source of Basic Data: Philippine Statistics Authority (PSA)

Figure 4 - M1, M2, M3 Growth Rates



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

Money Supply (M3) Growth Recorded at 6.6% YoY in April

Domestic liquidity (M3) grew by 6.6% YoY to P16.3-T. On a MoM seasonally adjusted basis, M3 increased by 0.5%. Net foreign assets decreased by 0.2% YoY in April. On the other hand, BSP's NFA position expanded by 2.5% after its 0.9% contraction in March.

Lending for production activities grew by 8.3% YoY in April from 9% in March, as outstanding loans to key industries grew, specifically Information and Communication Activities (+19%), and Electricity, Gas, Steam, and Airconditioning Supply (+12.4%). Wholesale and Retail Trade, and Repair of Motor Vehicles and Motorcycles also saw an increase in its loan investments (+10.3%).

Meanwhile, consumer loans expanded at a faster rate of 22.3% in April from 21.8% in March.

Exports Posted Lowest Volume Since May 2020 in April

Exports of Philippine goods dipped to its lowest level in almost 3 years by -20.2% to \$4.9-B in April from \$6.1-B in the previous year, pointing to five consecutive months of decline. Furthermore, this marks the steepest drop since the -26.9% downturn in May 2020. Global economic slowdown continues to weigh on export growth. Moreover, total exports trekked down by -24.9% from \$6.5-B a month ago.

Three out of 10 major commodities observed growth in April. Gold took the lead with its 25.2% jump in April, followed by Ignition Wiring Set & Other Wiring Sets Used in Vehicles, Aircrafts & Ships (+24.9% YoY) and Fresh Bananas (+8% YoY). Other Mineral Products experienced the largest decline with -47.8%. The country's top export, Electronic Products, slumped by -17.9% in April.

Only Petroleum Products expanded with its 4.1% YoY increase in April. Meanwhile, total Agro-Based Products plunged by -39.1% in April due to lower sales in Coconut Products by -68.8%. Similarly, Mineral Products and Forest Products edged down by -34% and -32.9%, respectively.

China retained its position as the country's top export destination in April, accounting for 15.8% of the total exports. However, shipments to China fell by -20.7% YoY to \$772.5-M in April. The next top export recipients included the U.S. and Japan, representing 14.6% and 13.1% share, respectively. Exports to these countries also tumbled by -25.3% to \$713.7-M and -21.8% to \$642.2-M, respectively, in April.

Figure 5 - Exports Growth Rates, Year-on-Year
Exports Sank by -20.2% in April



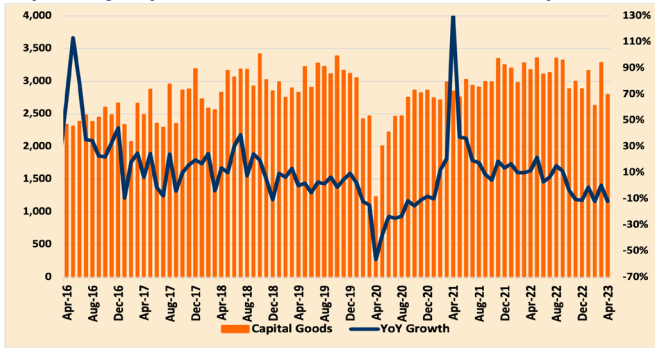
Source of Basic Data: Philippine Statistics Authority (PSA)

Table 3 - Exports Year-on-Year Growth Rates

	Mar-2023	Apr-2023	YTD
Total Exports	-9.1	-20.2	-14.9
Agro-Based Products	-17.8	-42.6	-32.2
Mineral Products, of which	-3.6	-34.0	-17.9
Copper cathodes	-8.4	-37.5	-29.6
Others (incl. nickel)	-6.2	-47.8	-24.0
Manufactured Goods	-9.8	-16.5	-13.8
Electronic Products	-12.1	-17.9	-17.6
Other Electronics	15.2	11.3	12.9
Chemicals	-8.2	-33.8	-19.6
Machinery and Transport Equipment	24.8	10.3	25.6
Processed Food and Beverages	-10.8	-24.4	-14.4
Others	-8.0	-7.8	-6.0

Source of Basic Data: Philippine Statistics Authority (PSA)

Figure 6 - Imports of Capital Goods (in Million USD)
Imports of Capital Goods Amounted to \$2.8-B in April



Source of Basic Data: Philippine Statistics Authority (PSA)

Table 4 - Imports Year-on-Year Growth Rates

	Mar-2023	Apr-2023	YTD
Total Imports	2.7	-17.7	-6.7
Capital Goods	0.3	-11.9	-5.9
Power Generating and Specialized Machines	25.7	8.7	9.7
Office and EDP Machines	-29.4	-29.7	-33.2
Telecommunication Equipment and Electrical Machines	0.3	0.3	1.8
Land Transport Equipment excluding Passenger Cars and Motorized cycle	5.1	20.2	1.5
Aircraft, Ships and Boats	-58.8%	-71.7	-56.9
Prof. Sci and Cont. Inst., Photographic Equipment and Optical Goods	14.7	4.1	10.1
Raw Materials and Intermediate Goods	-7.1	-18.9	-14.1
Mineral Fuels, Lubricant and Related Materials	-23.9	-42.6	-6.8
Consumer Goods	31.3	8.3	13.2

Source of Basic Data: Philippine Statistics Authority (PSA)

Imports of Capital Goods Descended by -11.9% in April

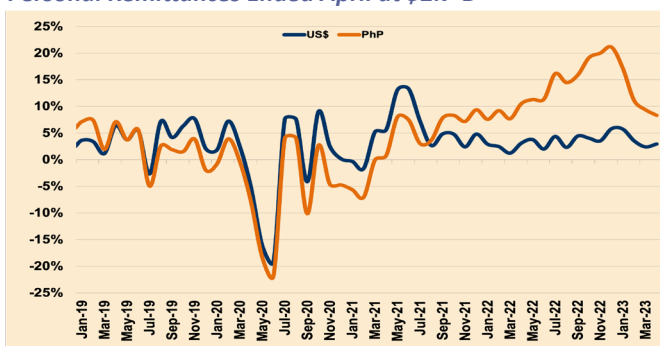
Inward shipments of capital goods slipped by -11.9% YoY to \$2.8-B in April, a reversal from a 0.3% gain in March. Meanwhile, total imports sank by -17.7% to \$9.4-B from \$11.5-B a year earlier. Likewise, it decreased by -18.9% from \$11.6-B in the prior month.

Although three out of six major capital goods categories rose, Aircraft, Ships and Boats plummeted by -71.7%, followed by Office and EDP Machines with -29.7% pulled down overall equipment imports. Land Transport Equipment excl. Passenger Cars and Motorized Cycle led the gains with 20.2% increase in April, followed by Power Generating & Specialized Machines with 8.7% YoY. Professional Scientific & Control Instrumentation, Photographic Equipment & Optical Goods rose by 4.1% while Telecommunication Equipment and Electrical Machinery slightly grew by 0.3%.

Among the top 10 imports, only four registered positive growth in April. Metalliferous Ores and Metal Scrap improved massively by 281% YoY in April, followed by Miscellaneous Manufactured Articles and Cereals & Cereal Preparations with 25.3% and 17.7%, respectively. On the flip side, Mineral Fuels, Lubricants and Related Materials took a nosedive by -42.6%. Transport Equipment and Electronic Products dropped by -25.5% and -17.9%, respectively.

The trade deficit narrowed by -14.9% to \$4.5-B in April from \$5.3-B in the previous year. Additionally, it contracted by -11.2% from \$5.1-B a month earlier but has stayed elevated.

Figure 7 - OFW Remittances Growth Rates, Year-on-Year
Personal Remittances Ended April at \$2.7-B



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

Figure 8 - Dollar-Peso Exchange Rates and Moving Averages
Philippine Peso Averaged P54.80/\$ in May



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

Table 5 - Exchange Rates vs USD for Selected Asian Countries

Exchange Rates vs USD for Selected Asian Countries			
	Apr-2023	May-2023	YTD
AUD	-0.1%	0.7%	1.6%
CNY	-0.2%	1.4%	0.0%
INR	-0.4%	0.4%	-0.1%
IDR	-2.8%	-0.3%	-4.8%
KRW	1.1%	0.6%	2.5%
MYR	-1.1%	2.1%	2.3%
PHP	0.9%	0.7%	0.1%
SGD	-0.7%	0.6%	-1.0%
THB	-0.9%	0.1%	-1.7%

Note: Green font - means it depreciated, weaker currency

Red font – means it appreciated, stronger currency

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

OFW Remittances Rose by 3.8% in April 2023

Personal remittances of Overseas Filipino Workers (OFW) grew by 3.8% to \$2.7-B in April. This brought the YTD remittances to \$10.4-B, a 3.2% uptick from the same period last year. The increase in personal transfers during the year benefitted from land-based workers which rose by 3.9% to \$2.1-B from \$2.0-B in the same period last year and sea-land based workers which rose by 3.1% to \$0.6-B from \$0.5-B in the same period last year. Personal remittances coursed through banks rose by 3.2% to \$11.6-B in the first four months of 2023 from \$11.3-B in the same period last year.

On the other hand, cash remittances from OFWs coursed through banks grew by 3.7% to \$2.4-B in the same month a year ago. The increase in cash remittances from the United States (U.S.), Singapore, and Saudi Arabia led the growth in the remittances in April 2023. As for the country origin (reflecting foreign banks effecting the remittances), the U.S. registered the highest share of overall remittances at 41.3% followed by Singapore, Saudi Arabia, Japan, United Kingdom, United Arab Emirates, Canada, Qatar, Republic of Korea, and Taiwan. The consolidated remittances from these top 10 countries accounted for 79.3% of the total cash remittances in April.

Philippine Peso Depreciated by 0.7% in May

The peso-dollar exchange rate (USDPHP) weakened by another 0.7% to average P55.728/\$ from P55.316/\$ a month ago. This marks the third straight month of depreciation amid strong U.S. dollar tone as markets price in a higher-for-longer Fed policy stance. Stubborn U.S. inflation, robust labor market, and dovish BSP also contributed to the peso's weakness.

The volatility measure lessened to 30.2% as the local currency traded between P55.201/\$ and P56.260/\$ in May.

The 30-day moving average (MA) exhibits a steep upward slope, suggesting a depreciation bias in the near term. Market uncertainty concerning the Fed's tightening path support the peso's downward trend.

Outlook

Economic data released in May broadly painted a positive picture.

- The real economy looks poised for another robust uptick in Q2, albeit slightly slower than Q1, as employment flattened. However, the speeding up of Manufacturing PMI, now on its 16th consecutive month of expansion, and NG spending back to near double-digit pace in April should provide sufficient impulse to aggregate demand.
- That inflation slowed further YoY in May amid lower petroleum product prices and more stable food inflation support the perceived downward trend of inflation. Note that despite OPEC's announcement of a 1.0-M cut in crude oil production early in May, prices reverted back to \$70/barrel even as the U.S. Energy Information Administration revised its projections downward all the way to December 2024. We agree with Gov. Medalla's statements that YoY inflation will fall to below 4% by Q4.
- NG YTD budget deficit at P204.0-B by April suggests that it will ramp up spending for the rest of the year, but keep full year deficit much lower than the programmed P1.45-T. Thus, we see the debt-to-GDP ratio ease from 60.9% in 2022 to nearly 60% in 2023, and enable the country to recover some lost fiscal looking forward.
- With M3 growth still tepid (6.6% YoY in April), BSP's reduction of reserve requirements percentage on June 8th by as much as 250 bps for universal/commercial banks would provide banks with some P250.0-B additional loanable funds and raise money growth to support robust economic expansion.
- While exports may remain weak, the overall trade deficit should decline in Q2-2023 from last year, and so the external sector may have a slightly positive contribution to GDP growth in Q2.
- The USDPHP will likely weaken again in July as we expect the Fed to raise its policy rates by 25 bps, while BSP remains on hold.

FIXED INCOME SECURITIES

SLOWER INFLATION, BSP POLICY RATE HIKING PAUSE BOOST BOND MARKETS IN MAY

The most encouraging news in May emerged from the further fall of inflation to 6.1% from 6.6% a month earlier, as fuel prices sank while food prices stabilized (i.e., just two out of 11 product categories showed an increase year-on-year) (YoY). National Government (NG) spending in April resumed its climb with a 9% jump, while tax revenues revved up resulting in a P66.8-B surplus, and a YTD deficit of only P204.1-B or -34.6% lower than a year ago. Thus, NG will likely fall quite short of its programmed deficit of P1.45-T by some P150.0-B which will also result in lower debt-to-GDP ratio in 2023 and beyond. Unemployment rate also declined to 4.5% in April from 4.7% a month earlier boosted by the strength of the Services sector. Manufacturing PMI climbed to 52.2 in May from 51.4 in April. The main negative report came from the external sector as exports slumped by -20.2%.

Outlook: BSP kept policy rates unchanged at 6.25% in its June 22 meeting following the cue of the Fed which kept policy rates steady in its June 13-14 meeting, its first pause after thirteen consecutive months of rate hikes. BSP also took note of the consistently lower inflation since January 2023 and the slowdown in GDP growth in Q1. On June 8th BSP lowered reserve requirements (RRR) by 250 bps (at most) for commercial banks to bring down the RRR to 9.5%, closer to regional levels. Since it did not change its policy rates, BSP said the move did not ease monetary policy. However, based on previous calculations by BSP that P100.0-B is added to domestic liquidity for every 1% reduction in RRR, this could potentially increase loanable funds by P250.0-B. Thus, we think there would a downward bias across the yield curve by up to 25 bps.

Table 6 - Auction Results

Date	T-Bond/ T-Bill	Offer (Php B)	Tendered (Php B)	Accepted (Php B)	Tendered ÷ Offered	Ave. Yield	Change bps
29 May	91-day	25.000	57.727	19.975	2.309	5.783	-8.6
	182-day	25.000	71.181	18.030	2.847	5.879	-11.4
	364-day	25.000	107.561	25.000	4.302	5.948	-26.1
Subtotal		75.000	236.469	63.005	3.153		
16 May	10 year FXTN 13-01	25.000	68.404	25.000	2.736	5.854	-38.6
23 May	7 year FXTN 07-69	25.000	30.625	25.000	1.225	5.774	-23.8
30 May	10 year FXTN 10-69	75.000	203.355	75.000	2.711	5.958	-18.4
Subtotal		125.000	302.384	125.000	2.419		
All Auctions		200.000	538.853	188.005	2.694		

Source: Bureau of the Treasury (BTr)

Primary GS Market: Lower Yields in Auctions Following BSP's Pause in its Hiking Cycle

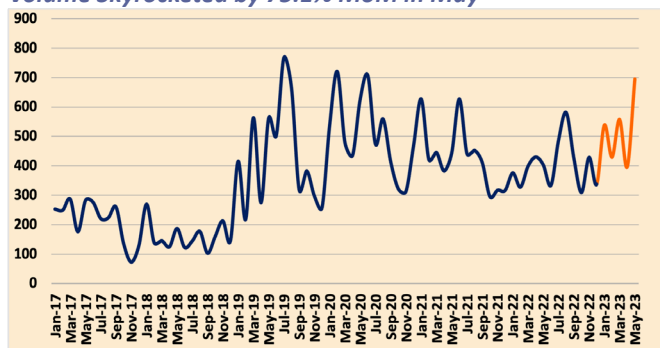
The total tender-offer ratio (TOR) jumped to 2.694x in May from 1.889x a month ago on the back of slower-than-expected April inflation at 6.6% and BSP's decision to keep the policy rate unchanged at 6.25%. Robust market appetite for peso bonds pushed yields lower for both the Treasury bills (T-bills) and Treasury bonds (T-bonds) in May.

With both inflation and economic growth (Q1 GDP at 6.4%, slowest in 2 years) on the downtrend, BSP decided to keep rates on hold during the Monetary Board meeting on May 18. This eased the upward pressure on yields, particularly the T-bills which is more sensitive to policy rate changes. The TOR of T-bills soared to 3.153x in May from 1.603x in the prior month.

The 364-day debt papers shed maximum -26.1 bps to 5.948% from 6.209% in the previous month. Furthermore, the 91-day and 182-day papers declined by -8.6 bps to 5.783% from 5.869% and -11.4 bps to 5.879% from 5.993%, respectively.

On the other hand, yields of T-bonds fell as much as -38.6 bps in May. The 7-year tenors dropped by -23.8 bps to 5.774% from 6.012% in April. Issued 3x in May, 10-year T-bonds slid by -18.4 bps to 5.958% from 6.142% a month earlier. Lastly, 13-year tenors plunged by -38.6 bps to 5.854% from 6.240% in April.

Figure 9 - Monthly Total Turnover Value (in Billion Pesos)
Volume Skyrocketed by 75.1% MoM in May



Source: Philippine Dealing Systems (PDS)

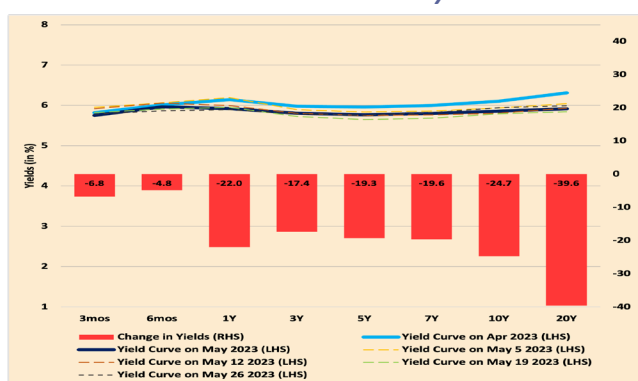
Secondary Market: Highest Volume in Nearly 3 Years in May

Impressive investor demand for peso bonds brought the trading volume in the secondary market to a near 3-year high of P694.2-B in May or 75.1% higher than P396.4-B a month earlier. Investors took on more risks as the BSP refrained from tightening further in May due to fading price pressures and slower growth. Strong auction participation and slower U.S. April inflation at 4.9% also contributed to the market’s increased appetite.

The 3-month and 6-month debt papers slipped by -6.8 bps to 5.752% in May from 5.819% and -4.8 bps to 5.964% from 6.012%, respectively. Meanwhile, 1-year and 3-year securities trekked down by -22 bps to 5.922% from 6.142% and -17.4 bps to 5.806% from 5.979%, respectively. The 5-year and 7-year T-bonds slumped by -19.3 bps to 5.764% from 5.957% and -19.6 bps to 5.800% from 5.996%, respectively. Moreover, the 10-year tenors fell below 6%, stumbling by -24.7 bps to 5.857% from 6.105% in the previous month. It even reached a low of 5.720%, levels not seen since March 2022. Additionally, 20-year papers edged down by -39.6 bps to 5.913% from 6.309% in the prior month.

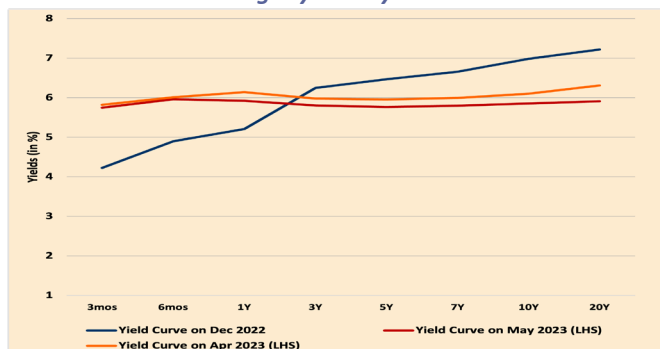
The spread between 10-year and 2-year bond yields contracted by -8.7 bps to -0.2 bps in May. The yield curve inversion in May suggests the market’s view of decelerating inflation amid a high interest rate backdrop. This finds support in BSP’s lower inflation forecast to 5.5% in 2023 down from 6% stated in its March 23, 2023 meeting. However, upside risks linger surrounding the Fed’s hiking cycle. The market felt unsure on whether the Fed would hike or pause in the next meeting on June 14 as inflation stayed way above the 2% target while the labor market remains robust.

Figure 10 - Week-on-Week and Month-on-Month Changes on the GS Benchmark Bond Yield Curves (bps)
Yields Declined Across the Board in May



Sources: Bloomberg, First Metro Investment Corporation (FMIC)

Figure 11 - Year-end Yield Curve in 2022 and Latest Yield Curve Versus Previous Month in 2023
Yield Curve Inverted Slightly in May 2023



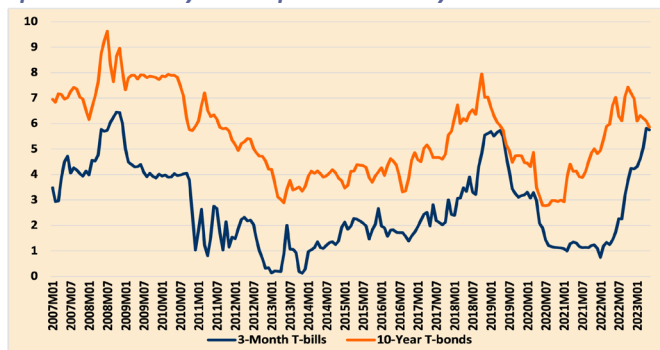
Sources: Bloomberg, First Metro Investment Corporation (FMIC)

Corporate Bonds: Volume Decelerated by -68% MoM in May

From a 33-month high in April, the trading of corporate securities sank by -68% to P3.8-B in May from P12.0-B in the previous month. However, it climbed by 22.6% from P3.1-B a year ago. The volume of the top five corporates dropped by -34.2% to P1.2-B in May. This translates to 30.3% share of the total trades in May. Additionally, Ayala Corporation (AC) and Rizal Commercial Banking Corporation (RCBC) provided remarkable trade volumes with P734.6-M and P348.0-M, respectively.

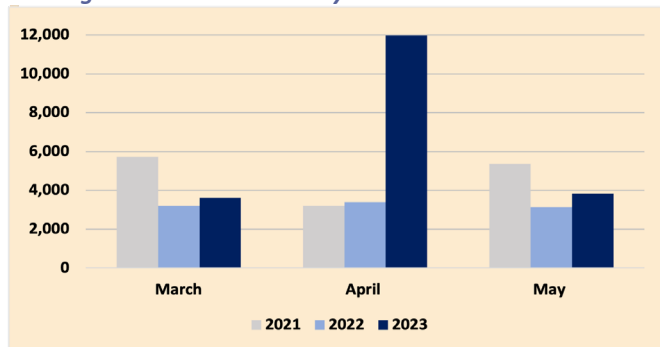
SM Prime Holdings, Inc. (SMPH) seized the top spot as trades surged by 93.5% MoM to P519.0-M in May. Ayala Land, Inc. (ALI) and SMC Global Power (SMCGP) climbed to second and third place with P250.7-M (up by 54.2%) and P155.7-M (315.7%), respectively. Previously placing first,

Figure 12 - 3-month T-bills and 10-year T-bonds Yields Spread Shrank by -17.9 bps MoM in May 2023



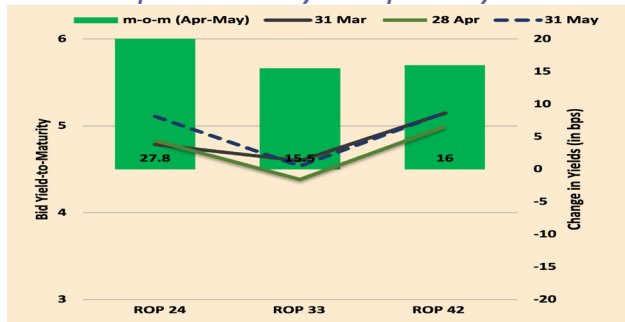
Source: Philippine Dealing Systems (PDS)

Figure 13 - Total Corporate Trading Volume (in Billion Pesos) Trading Volume Plummeted by -68% MoM



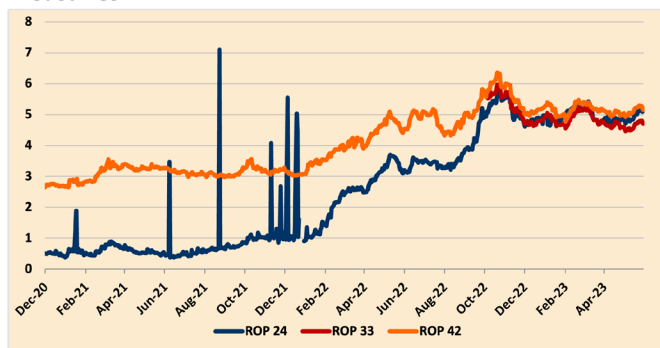
Sources: Bloomberg, First Metro Investment Corporation (FMIC)

Figure 14 - ROPs Yield, Month-on-Month Changes (bps) ROP-24 Jumped the Most by 27.8 bps in May



Source: Philippine Dealing Systems (PDS)

Figure 15 - ROPs Daily Yields ROPs Yields Followed the Movement of its Equivalent U.S. Treasuries



Sources: Bloomberg, First Metro Investment Corporation (FMIC)

BDO Unibank (BDO) fell to fourth place as trades plunged by -88.2% MoM. San Miguel Corporation (SMC) came in last with P89.1-M or 12% higher from last month's volume.

Corporate Issuances and Disclosures

- SM Prime Holdings, Inc. (SMPH) raised P33.3-B from its Series S (2.5-year), Series T (4-year), and Series U (6-year) Fixed Rate bonds as part of the final tranche of their P100.0-B bond program. The bonds carry rates of 6.2069%, 6.2151%, and 6.3275%, respectively, to be paid on a semi-annual basis.

ROPs: ROPs Yields Rose Across the Board in May

Yields of the Republic of the Philippines' U.S. dollar-denominated bonds (ROPs) ascended in May amid higher U.S. Treasuries, a weaker peso, and uncertainty around Fed's hiking path.

ROP-24 advanced the most by 27.8 bps to 5.109% in May from 4.831% a month ago. Furthermore, ROP-33 and ROP-42 increased by 15.5 bps to 4.538% from 4.383% and 16 bps to 5.153% from 4.993%, respectively.

Data showed persistent labor market strength as Non-Farm Payrolls unexpectedly added 339,000 jobs in May, way above the market forecast of 190,000 for the month. Additionally, the Personal Consumption Expenditures (PCE) price index, Fed's preferred gauge to measure inflation, rose more-than-expected to 0.4% MoM (estimate of 0.3%). With these in mind, the Fed's tightening cycle might not yet be done at 5.25%.

Possible policy rate increases pushed 1-year U.S. Treasuries to accelerate by 38 bps to 5.18% in May from 4.80% in the previous month. On the other hand, 10-year and 20-year U.S. Treasuries went up by 20 bps to 3.64% from 3.44% and 21 bps to 4.01% from 3.80%, respectively.

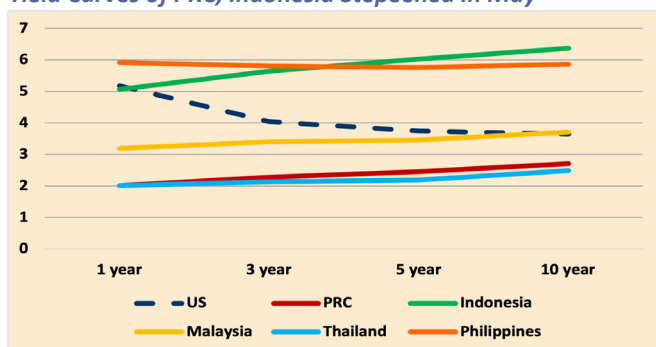
The spread between ROPs and its equivalent U.S. Treasuries eased ranging from -4.5 bps to -10.2 bps in May as the latter climbed more than the former.

Table 7 - Spreads Between ROPs and U.S. Treasuries (bps)

Spreads between ROPs and U.S. Treasuries (bps)			
Date	3-year	10-year	20-year
31-Mar	14.7	111.8	133.6
28-Apr	3.1	94.3	119.3
31-May	-7.1	89.8	114.3

Sources: UA&P Direct Estimates from Federal Reserve Board, Philippine Dealing & Exchange Corp. (PDEx)

Figure 16 - Comparative Yield Curve Between ASEAN per Tenor Yield Curves of PRC, Indonesia Steepened in May



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

ASEAN+1: Yield Curves Mostly Flattened as Inflation Slid Globally

U.S.: Robust job gains persisted in May as the economy added 339,000 jobs, much above consensus estimates, apart from an upward revision of the March and April data by a huge 97,000. Surprisingly, unemployment rate edged up to 3.7% from 3.4% a month earlier. Inflation slowed to 0.1% MoM from 0.4% in April, and to 4% YoY from 4.9%, due mostly to lower fuel prices. However, core inflation only eased to 5.3% YoY from 5.5% in the prior month.

After two consecutive months of decline, retail sales (seasonally adjusted) climbed in April by 0.4% MoM when consumer confidence held up. However, University of Michigan’s Consumer Sentiment measure in May slumped to 59.2, the lowest in six months, from 63.5 in April. Correspondingly, Manufacturing PMI went into a contraction mode of 48.4 in May from 50.2 a prior month. The U.S. dollar (weighted) strengthened during the month to 104.3 after dropping to 100.1 in April 2023, a two-year low. The yield curve inverted further to -76 bps from -60 bps previously.

CHINA: Factory activity unexpectedly recovered as Caixin China Manufacturing PMI climbed to 50.9 in May from 49.5 a month ago. On the other hand, annual inflation rate went up to 0.2% in May from April’s 26-month low of 0.1% due to higher food prices.

Exports contracted for the first time in three months to \$283.5-B or -7.5% lower YoY in May. Similarly, imports shrank by -4.5% to \$217.7-B in May. Trade surplus narrowed to a 3-month low of \$65.8-B in May, reflecting weak demand, both locally and abroad, slowing down its economic recovery.

People’s Bank of China (PBoC) slashed the 1-year medium-term lending facility (MLF) rate by 10 bps to 2.65% from 2.75% on June 15, marking the first reduction since August 2022. PBoC stepped in to support its economic rebound, paving the way for monetary easing ahead. The yield curve steepened by 10 bps to 54 bps in May.

INDONESIA: Indonesia's Manufacturing PMI dropped to a 6-month low of 50.3 in May from 52.7 in the previous month. Inflation print fell to a 12-month low of 4% in May (vs 4.3% in April) amid easing food prices (4.3% vs 4.6%). This marks the first time CPI returned to the central bank's target range of 2% to 4%.

Outward shipments went down by -29.4% to \$19.3-B in April, representing the steepest decline since February 2009, amid fewer working days, due to the Eid al-Fitr holidays. Furthermore, inward shipments shrank by -22.3%, the most in 2.5 years, to \$15.4-B in April. With this, trade surplus narrowed significantly to \$3.9-B in April from \$7.6-B a year earlier.

The Bank Indonesia (BI) maintained its key interest rate at 5.75% for four straight months in May. BI claimed that the current policy stance ensures that core inflation will remain within the range of $3 \pm 1\%$ for the rest of the year.

MALAYSIA: The country's manufacturing activity contracted further to 47.8 in May, the steepest fall in four months, from 48.8 in the prior month. On the inflation front, CPI slowed down to 3.3% in April (vs 3.4% in March), an 11-month low, due to lower food and transport prices.

Global uncertainty and moderating commodity prices led to a significant decline in both exports and imports in April, marking the most substantial decrease since May 2020. In particular, exports slumped by -17.4% to MYR 105.4-B (\$22.7-B) while imports trekked down by -11.1% to MYR 92.6-B (\$19.9-B). Malaysia recorded the smallest trade surplus in 11 months to MYR 12.9-B (\$2.8-B) from MYR 23.5-B (\$5.1-B) a year ago.

The current interest rate is at 3% after Bank Negara Malaysia (BNM) unexpectedly hiked rates by 25 bps on May 3. The spread between 10-year and 2-year bond yields contracted by 11 bps to 44 bps in May.

THAILAND: Its annual inflation rate hit a 21-month low as CPI decelerated sharply to 0.5% in May from 2.7% in the previous month amid falling energy and food prices and a high base in 2022. Still in expansionary mode, PMI slipped to 58.2 in May from April's record high of 60.4.

Global demand remained slow in April dragging exports and imports by -7.6% YoY to \$21.7-B and -7.3% YoY to \$23.2-B, respectively. Trade deficit shrank to \$1.5-B in April from \$1.9-B a year earlier.

Bank of Thailand (BoT) raised its interest rate by 25 bps to 2% in May, the highest in eight years due to inflationary risks as the economy gains traction. The yield curve flattened by 23 bps to 40 bps in May.

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
					Apr-23	May-23			
U.S.	4.40	3.64	4.0	(0.36)	(60)	(76)	(16)	5.25	1.25
PRC	2.17	2.71	2.1	0.61	44	54	10	2.75	0.65
Indonesia	5.65	6.37	3.9	2.47	30	72	42	5.75	1.85
Malaysia	3.27	3.71	2.8	0.91	55	44	(11)	3.00	0.20
Thailand	2.09	2.49	2.5	(0.01)	63	40	(23)	2.00	-0.50
Philippines	5.86	5.86	5.5	0.36	10	-	(10)	6.25	0.75

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

Outlook

The outlook for bond yields in H2 looks more sanguine due to improved domestic and external environment developments.

- As expected by most market players and analysts, the Fed took a pause in its policy rate hiking in its meeting of June 13-14. However, with still high core inflation (at 5.3% YoY, albeit down from 5.5% in April) and outsized job gains and huge upward revisions for March-April data, the Fed's individual governors traced the appropriate policy rate (i.e., dot plot) at a median of 5.6% implying two more rate hikes by the end of 2023. The press statement stressed that the Fed remains committed to its pursuit of 2% inflation rate over the long-run, even as it projected core PCE inflation in 2023 at 3.9% and at 2.6% in 2024. The focus now shifts to the Fed's July meeting.
- Domestic inflation, in the meantime, has decelerated over the past four months since hitting a peak in January 2023 as crude oil prices have lingered below \$70/barrel despite OPEC's 1.0-M barrel production cut. U.S. Energy Information Administration (EIA) has slashed its projections for 2023 suggesting 22% to 24% fall in average prices for WTI and Brent, with a further 5-6% slide in 2024 due to the global economic slowdown. On the other hand, food prices appeared to have started to normalize as only two out of 11 product categories' prices moved faster in May. BSP's revised inflation forecast of 5.4% looks doable, albeit with some upside risks.
- NG's YTD deficit by April stood at P204.1-B, sizeably lower by 34.6% compared to the same period in 2022, as tax revenues have rebounded. Thus, we think the NG deficit will reach only P1.3-T or some P150.0-B lower than budgeted. Besides, by April BTr has added P954.0-B to its coffers which should ease its borrowing program in H2.
- Thus, with the above positive factors in addition to the higher liquidity to be provided by the June 8 RRR cut announcement (effective June 30) should put a clear downward trend on bond yields, and the BSP may have cut policy rates by Q4 when we expect headline inflation to go below 3.5% YoY.
- Demand for corporate bond issuances should accelerate in H2 as firms would benefit from the likely slide in bond yields.
- With an expected minor GDP slowdown in Q2, the spreads of ROPs over US Treasuries may not compress much further despite brighter domestic fiscal picture. The large trade deficits and peso weakness certainly won't create the environment to foster a major spread tightening.

EQUITY MARKETS

RIISING INTEREST RATES SCARE EQUITY INVESTORS

Robust job growth in April (preliminary at +254,000) and faster MoM inflation (seasonally adjusted to 0.4% from 0.1% a month earlier) sparked an upward climb in 10-year U.S. T-bond yields as investors guarded against a possible rate hike by the Fed in its June meeting. This confluence of events pushed investors away from equities markets in the U.S., Europe, and China and held sway as well in the Philippines. The Dow Jones Industrial Average (DJIA) and the London FTSE100 slumped by -3.5% and 8.3%, respectively, pulling the PSEi down by -2.2% to 6,477.36. Only the Holdings sector turned in a positive month as foreign investors fished on the oversold, heavy-weighted counters like Ayala Corporation (AC), and Sy-led SM Group of companies. However, Tokyo's Nikkei index bucked the trend soaring by 7% as key investors like Warren Buffet picked up less pricey shares.

Outlook: PSEi has traded sideways with a slight downward bias into the third week of June. This should spill over into July. It failed to get a boost from the Fed and BSP pause in policy rate hikes in their June meetings. A paucity of positive data kept the PSEi from trekking upwards despite Q1 earnings generally going beyond expectations. We think the emerging view on the upcoming release of Q2 GDP data in early August would have an important bearing on the direction the PSEi will eventually take. But our more optimistic view on the economy should bring the PSEi above 6,700 in Q3.

Table 9 - Global Equities Markets Performances

Global Equities Markets Performances				
Region	Country	Index	April M-o-M Change	2023 % Change
Americas	US	DJIA	-3.5%	-0.7%
Europe	Germany	DAX	-1.6%	12.5%
	London	FTSE 101	-5.4%	-0.1%
East Asia	Hong Kong	HSI	-8.3%	-7.8%
	Shanghai	SSEC	-3.6%	3.7%
Asia-Pacific	Japan	NIKKEI	7.0%	18.4%
	South Korea	KOSPI	3.0%	15.2%
	Australia	S&P/ASX 200	-3.0%	0.7%
Southeast Asia	Indonesia	JCI	-4.1%	-3.2%
	Malaysia	KLSE	-2.0%	-7.2%
	Thailand	SET	0.3%	-8.1%
	Philippines	PSEi	-2.2%	-1.4%

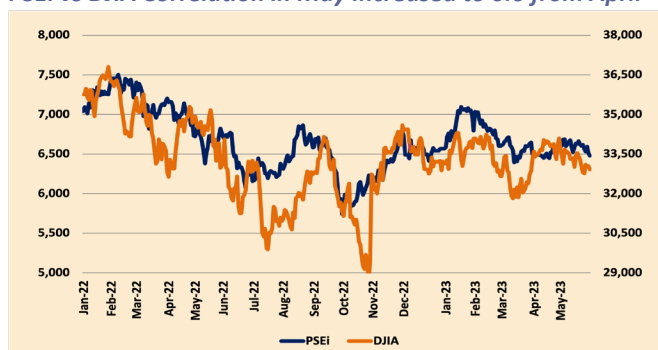
Sources: Bloomberg and Yahoo Finance

Global Picture. Majority of the global equities landed on the red, while three performed positively. Japan NIKKEI recorded the highest upswing, ending the month with a 7% month-on-month (MoM) increment, after its +2.9% increment a month ago. Meanwhile, Hong Kong HSI recorded the steepest decline with -8.3% MoM. PSEi recorded a -2.2% MoM loss to end May at 6,477.36.

PSEi and DJIA. The Dow Jones Industrial Average (DJIA) closed a volatile month of trading. DJIA ended May at 32,908.27 from April's close at 34,098.16. Meanwhile, PSEi ended April at 6,477.36 from the previous month's close of 6,625.08. The correlation between the two indices in March increased to +0.6 from +0.1.

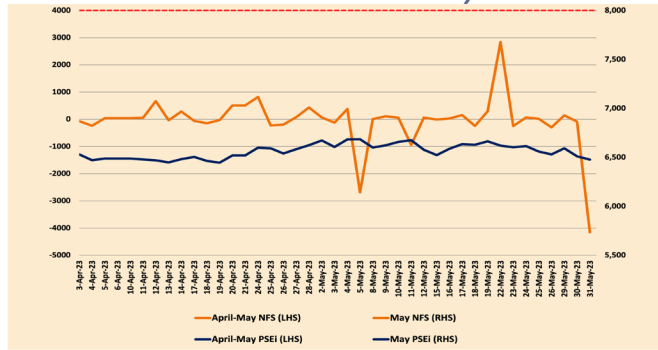
Figure 17 - PSEi vs DJIA

PSEi vs DJIA Correlation in May Increased to 0.6 from April



Sources: Wall Street Journal, Bloomberg

Figure 18 - PSEi vs Net Foreign Selling
PSEi vs NFS Posted a 0.2 Correlation in May



Sources: Bloomberg & Yahoo Finance

Table 10 - Monthly Turnover (in Million Php)

Monthly Turnover (in Million Pesos)				
Sector	Total Turnover		Average Daily Turnover	
	Value	% Change	Value	% Change
Financial	18,336.89	5.5%	833.50	-23.3%
Industrial	34,466.84	128.3%	1,566.67	66.1%
Holdings	27,099.86	79.5%	1,231.81	30.5%
Property	24,369.87	101.5%	1,107.72	46.5%
Services	25,544.33	98.4%	1,161.11	44.3%
Mining and Oil	2,512.92	-49.2%	114.22	-63.1%
Total	132,330.71	70.8%	6,015.03	24.2%
Foreign Buying	68,283.88	71.1%	3,103.81	24.4%
Foreign Selling	72,813.17	91.6%	3,309.69	39.3%
Net Buying (Selling)	(4,529.28)	-337.7%	(205.88)	-272.9%

Source of Basic Data: PSE Quotation Reports

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

Top Foreign Buy	
Company	Total Value
AC PM Equity	650.81
SMPH PM Equity	381.41
BDO PM Equity	296.65
SM PM Equity	264.47
BPI PM Equity	258.88
Total Buy Value	1,852.22

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

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

Top Foreign Sell	
Company	Total Value
MONDE PM Equity	-1,262.22
ACEN PM Equity	-932.99
ICT PM Equity	-736.02
ALI PM Equity	-702.74
TEL PM Equity	-22.78
Total Sell Value	-4,256.74

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

Net Foreign Buying/Selling. Five sectors landed on the green, with Industrial sector leading the sectors having the largest volume uptick of +128.3% in May. Meanwhile, the Mining & Oil sector reversed its performance from the previous month, with a -49.2% plunge in volume in May.

Foreigners ended as net buyers in May to the tune of P4.5-B from net selling amounting to P1.9-B a month earlier.

The top five favorite stocks (net buying) of foreign investors amounted to P1.8-B with Ayala Corporation (AC) (P6.8-M) and SM Prime Holdings, Inc. (SMPH) (P3.4-M) leading the list.

The top five stocks (net selling) in May amounted to P4.2-B with Monde Nissin Corporation (MONDE) (P1.2-B) and ACEN (P933.0-M) in the front rows.

Five sectors of PSEi turned in negative performance which resulted to a -2.2% dip by PSEi MoM in May. The Mining & Oil sector valuations fell by -5.9% MoM, emerging as the worst performance for the month. Nonetheless, the Holdings sector turned in positive score card for the month, with its +1.3% MoM increase, from its +0.3% increment a month.

Table 13 - Monthly Sectoral Performance

Monthly Sectoral Performance					
Sector	28-Apr-2023		31-May-2023		2023 YTD
	Index	% Change	Index	% Change	
PSEI	6,625.08	1.9%	6,477.36	-2.2%	-1.4%
Financial	1,918.13	5.9%	1,812.01	-5.5%	10.2%
Industrial	9,505.89	1.1%	9,201.32	-3.2%	-1.6%
Holdings	6,405.79	2.4%	6,490.26	1.3%	0.9%
Property	2,735.49	2.1%	2,654.15	-3.0%	-9.4%
Services	1,605.20	-3.5%	1,517.94	-5.4%	-7.1%
Mining and Oil	10,586.54	-4.0%	9,964.78	-5.9%	-7.8%

Source of Basic Data: PSE Quotation Reports

Table 14 - Financial Sector Constituent Stocks

Company	Symbol	4/28/2023 Close	5/31/2023 Close	M-o-M % Change	2023 YTD
Metropolitan Bank and Trust Company	MBT	58.60	57.60	-1.7%	6.7%
BDO Unibank, Inc.	BDO	144.00	136.00	-5.6%	28.7%
Bank of the Philippine Islands	BPI	107.60	99.95	-7.1%	-2.0%
Unionbank of the Philippines	UBP	82.90	78.45	-5.4%	-5.4%

Source of Basic Data: PSE Quotation Reports

The Financial sector placed fifth in the sectoral race, as it contracted by -5.5% in May, from its +5.9% MoM gain in the previous month.

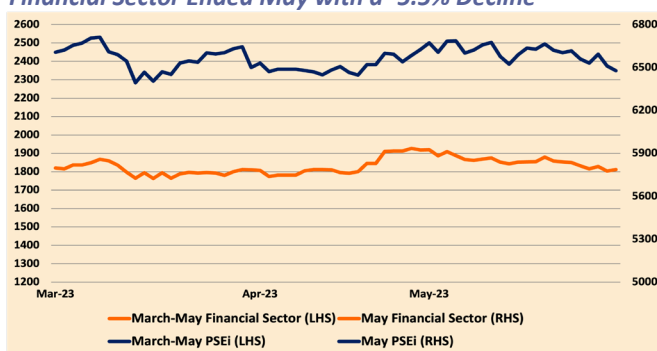
Bank of the Philippine Islands (BPI) lost the most in value in the sector by -7.1% in May, giving up its 5.1% gain in the prior month. Nonetheless, BPI has been proactively building its credit card portfolio through aggressive client acquisition and retention promotions. Thus, BPI's credit card loan book shows good results at 38% YoY.

BDO Unibank, Inc. (BDO) share prices dipped by -5.6% in May, shedding part of its +12.1% gain in the previous month. Nonetheless, as the country's largest bank BDO remains optimistic in achieving its projected 8-10% increase in its loan disbursements this year, and drawing net foreign buying.

The country's second-largest lender, Metropolitan Bank & Trust Company's (MBT), share prices contracted the least, by -1.7% in May, after its +0.2% uptick in the previous month. Nonetheless, MBT reported a 12.5% increase in its gross loans to P1.4-T in Q1-2023. MBT's asset quality also improved as its non-performing loans (NPLs) ratio eased to 1.8% from 2.2% during the same period last year.

Figure 19 - Financial Sector Index (March 2023 - May 2023)

Financial Sector Ended May with a -5.5% Decline



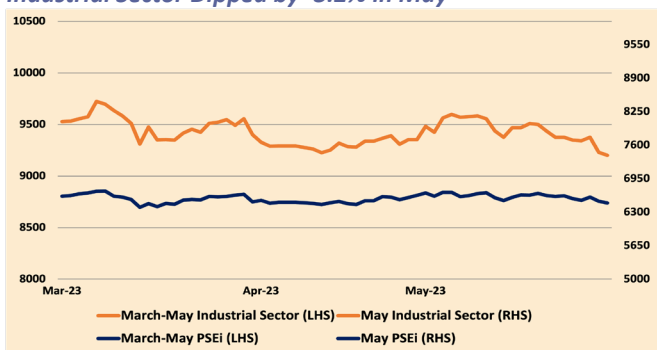
Source of Basic Data: PSE Quotation Reports

Table 15 - Industrial Sector Constituent Stocks

Company	Symbol	4/28/2023 Close	5/31/2023 Close	M-o-M % Change	2023 YTD
Meralco	MER	339.00	327.00	-3.5%	9.4%
Aboitiz Power	AP	38.00	37.20	-2.1%	9.3%
Jollibee Foods Corporation	JFC	225.00	235.60	4.7%	2.4%
Universal Robina Corporation	URC	147.00	140.60	-4.4%	3.4%
AC Energy Corporation	ACEN	6.01	5.86	-2.5%	-23.1%
Emperador Inc.	EMI	20.90	21.10	1.0%	2.4%
Monde Nissin Corporation	MONDE	9.35	8.10	-13.4%	-26.9%

Source of Basic Data: PSE Quotation Reports

Figure 20 - Industrial Sector Index (March 2023 - May 2023)
Industrial Sector Dipped by -3.2% in May



Source of Basic Data: PSE Quotation Reports

The Industrial sector index ranked third in the sectoral race, with a -3.2% MoM dip in May, from its +1.1% uptick a month earlier.

Jollibee Foods Corporation (JFC) share prices climbed by +4.7% in May, after its 0.4% increment in April, despite reporting net income contraction by -10.6% to P2.1-B in Q1-2023. Investors focused more on the 31.1% jump to P78.6-B in Q1 for its system wide sales from all of its stores and brands in the Philippines and abroad.

Emperador, Inc. (EMI) share prices followed suit as it inched up by +1% in May. EMI reported net income growth of 10.5% to P2.3-B in Q1-2023 from P2.1-B. Emperador’s global expansion provided a solid foundation for its growth and it expects to do even better in Q2-2023 with a projected earnings at approximately P3.0-B.

AC Energy Corporation (ACEN) share prices contracted by -2.5% in May, after its -1.8% loss in the previous month. Nonetheless, ACEN reported that its net income expanded to P2.0-B in Q1-2023 from P405.0-M in the same period last year due to the expansion of its renewable projects. Revenue gains outpaced increased borrowing costs and growth in overhead.

Meralco (MER) share prices contracted by -3.5% in May, after its +9% climb in the previous month. To recall, MER recently reported the possibility of higher electricity prices from the spot market due to increasing demand, unscheduled shutdowns and the end of its mandated refund program.

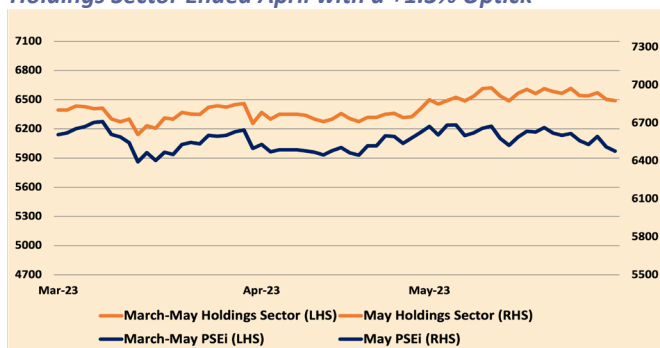
Universal Robina Corporation (URC) share prices followed suit as its share prices slipped by -4.4% MoM in May, wiping out its +2.1% gain in the previous month. URC plans to acquire the idle sugar milling machinery and equipment of Central Azucarera Don Pedro, Inc. (Cadpi) from Roxas Holdings, Inc. The acquisition will help expand the capacity and improve the sugar recovery process of URC’s sugar mill in Batangas, as it will bring the capacity of URC’s Balayan mill from 5,000 tons to 8,000 tons daily.

Monde Nissin Corporation (MONDE) registered a -13.4% MoM loss after its -4.7% loss in April. MONDE reported that its net income declined by 17% to P1.9-B. Investors likely took the MSCI delisting of MONDE from its PH Standard Index. Nonetheless, MONDE has taken necessary steps to reverse the current market situation,

Table 16 - Holdings Sector Constituent Stocks

Company	Symbol	4/28/2023 Close	5/31/2023 Close	M-o-M % Change	2023 YTD
Ayala Corporation	AC	639.00	660.00	3.3%	-5.0%
Metro Pacific Investments Corporation	MPI	4.43	4.35	-1.8%	27.2%
SM Investments Corporation	SM	895.00	929.00	3.8%	3.2%
Aboitiz Equity Ventures	AEV	54.75	54.50	-0.5%	-5.5%
GT Capital Holdings, Inc.	GTCAP	478.00	516.00	7.9%	18.6%
San Miguel Corporation	SMC	106.20	107.40	1.1%	15.5%
Alliance Global Group, Inc.	AGI	13.80	13.26	-3.9%	11.4%
LT Group Inc.	LTG	10.16	9.58	-5.7%	4.1%
JG Summit Holdings, Inc.	JGS	50.70	48.00	-5.3%	-4.6%
DMCI Holdings, Inc.	DMC	9.81	9.46	-3.6%	-3.6%

Source of Basic Data: PSE Quotation Reports

Figure 21 - Holdings Sector Index (March 2023 - May 2023)
Holdings Sector Ended April with a +1.3% Uptick

Source of Basic Data: PSE Quotation Reports

by addressing their U.K. business and restructuring it to better weather the current conditions while remaining agile when market for meat alternatives eventually recovers.

The Holdings sector, the only one with price gains in May with a +1.3% MoM increment on top its +2.4% gain in April.

GT Capital (GTCAP) share prices led the sector as it climbed up by +7.9% MoM in May, reversing its -7.4% loss in the previous month. GTCAP reported that its net income soared by 52% YoY to P6.6-B in Q1-2023 from P4.4-B in the same period last year.

SM Investments Corporation (SM) followed suit as it inched up by +3.8% after its +0.7% gain a month ago. SM reported huge earnings expansion by 33% to P17.3-B from P13.0-B in the same period last year. SM expects continued growth in its business units even as it disclosed that 47% of its earnings came from its banking businesses.

Ayala Corporation (AC) registered a +3.3% MoM gain after its -1.7% loss a month ago, as foreign investors renewed interest in the conglomerate. AC net income surged by +61% to P10.2-B in Q1-2023 led by its banking arm BPI.

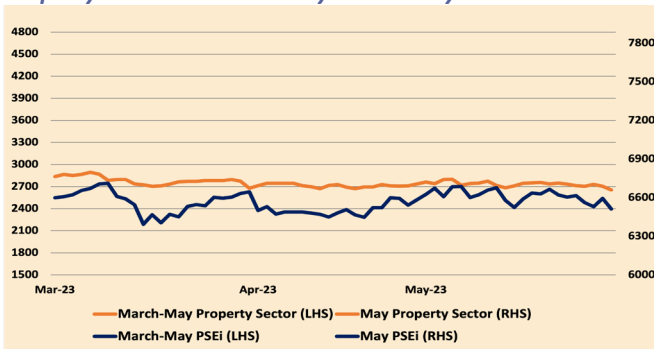
San Miguel Corporation (SMC) share prices increased by +1.1% MoM after its -0.7% loss a month ago. SMC's earnings climbed by 27% YoY to P17.7-B in Q1-2023 from P13.9-B in the same period last year. SMC attributed its performance to the widespread growth from its fuel, brewery, and infrastructure units, such as: Petron Corporation (P3.4-B operating income, 10% growth), Ginebra San Miguel, Inc. (P2.5-B net income, 81% growth), San Miguel Brewery, Inc. (P6.8-B net income, 29% growth), San Miguel Food and Beverage, Inc. (P9.9-B net income, 12% growth), and SMC Infrastructure (P4.5-B operating income, 31% growth).

JG Summit Holdings, Inc. (JGS) posted the steepest loss in the sector as its share prices contracted by -5.3% MoM, nearly erasing its +5.8% increment a month ago. JGS reported major reversal of earnings in Q1-2023 to P5.0-B, from its P2.8-B loss a year ago. JGS projects its core businesses to show strong recovery due to robust growth in their air transport, property, and food segments.

Table 17 - Property Sector Constituent Stocks

Company	Symbol	4/28/2023 Close	5/31/2023 Close	M-o-M % Change	2023 YTD
Ayala Land, Inc.	ALI	26.10	26.30	0.8%	-14.6%
SM Prime Holdings, Inc.	SMPH	33.95	32.70	-3.7%	-7.9%

Source of Basic Data: PSE Quotation Reports

**Figure 22 - Property Sector Index (March 2023 - May 2023)
Property Sector Contracted by -3% in May**

Source of Basic Data: PSE Quotation Reports

Table 18 - Services Sector Constituent Stocks

Company	Symbol	4/28/2023 Close	5/31/2023 Close	M-o-M % Change	2023 YTD
PLDT, Inc.	TEL	1,204.00	1,200.00	-0.3%	-8.9%
Globe Telecom	GLO	1,700.00	1,700.00	0.0%	-22.0%
Converge ICT Solutions, Inc.	CNVRG	11.80	10.88	-7.8%	-31.5%
Puregold Price Club Inc.	PGOLD	32.60	30.30	-7.1%	-13.2%
Wilcon Depot, Inc.	WLCON	28.95	28.40	-1.9%	-3.7%
International Container Terminal Services, Inc.	ICT	217.00	195.00	-10.1%	-2.5%

Source of Basic Data: PSE Quotation Reports

Alliance Global Group, Inc. (AGI) share prices came next as it dipped by -3.9% MoM in May partially chopping its +11.7% uptick in the previous month. AGI reported a 20% YoY jump to P4.7-B in net income in Q1-2023, due to robust gains in its major business segments (i.e., life-style malls, hotels, integrated resort operations, quick service restaurants, real estate sales, and office rentals).

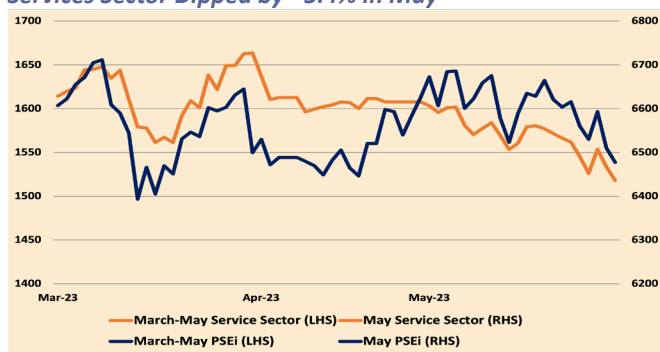
DMCI Holdings, Inc. (DMCI) share prices contracted by -3.6% in May from its -14.7% loss in the previous month. Although DMCI reported a 32% fall for its net income to P7.6-B in Q1-2023 from P11.2-B in Q1-2022 due to lower coal shipments and prices, reduced construction accomplishments, fewer real estate accounts, DMCI still expects better results than pre-pandemic level due to expected growth in its power businesses and water business (Maynilad).

The Property sector ranked second in the sectoral race as it ended May with a -3% MoM loss, after its +2.1% increment in the previous month.

Ayala Land, Inc. (ALI) share prices inched up by +0.8% after its -1.5% loss in April. Notably, ALI recently expressed its willingness to work with the National Government (NG) to further boost infrastructure development in the country.

SM Prime Holdings, Inc. (SMPH), on the other hand, contracted by -3.7% in May negating its +3.5% gain a month ago, as it received an underweighting in MSCI's latest rebalancing. Nonetheless, SMPH reported P90.0-B allocation in its capital expenditures (CAPEX) to fuel expansion of malls, residential developments, and retail stores in 2023. They also announced plans to push through with its real estate investment trust (REIT) listing in 2023.

Figure 23 - Services Sector Index (March 2023 - May 2023)
Services Sector Dipped by -5.4% in May



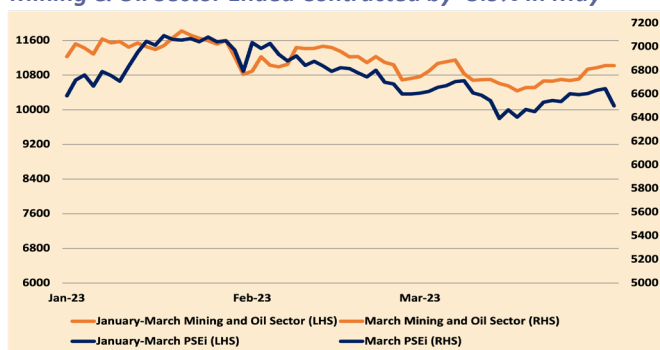
Source of Basic Data: PSE Quotation Reports

Table 19 - Mining and Oil Sector Constituent Stock

Company	Symbol	4/28/2023 Close	5/31/2023 Close	M-o-M % Change	2023 YTD
Semirara Mining and Power Corporation	SCC	27.00	28.00	3.7%	-18.8%

Source of Basic Data: PSE Quotation Reports

Figure 24 - Mining & Oil Sector Index (March 2023 - May 2023)
Mining & Oil Sector Ended Contracted by -5.9% in May



Source of Basic Data: PSE Quotation Reports

The Services sector contracted by -5.4% in May, adding to its -3.5% loss in the previous month.

Globe Telecom (GLO) was flat MoM in its share prices, from its -8.8% loss a month ago. Notably, GLO along with Ayala Corporation (AC) and Singapore-based ST Telemedia Global Data Centres are building the largest data center in the Philippines, reportedly one of the new drivers of economic growth.

Wilcon Depot, Inc. (WLCN) share prices dipped by -1.9% in May, after its -3.5% loss in April. Nonetheless, WLCN recently hosted two simultaneous groundbreaking ceremonies for its newest store branches in Valencia, Bukidnon and Koronadal, South Cotabato. This milestone marks the expansion of WLCN's stores into more areas in the countries, thus bringing WLCN's total number of branches even closer to their target of 100 stores nationwide.

Converge ICT Solutions, Inc. (CNVRG) share prices contracted by -7.8% in May, similar to its loss a month ago, as it was underweighted in MSCI Small Cap for Philippines. Nonetheless, CNVRG had a 10.3% jump in earnings to P2.2-B in Q1-2023. Overall, CNVRG seems still well-positioned to capitalize on its 8.0-M ports deployed across the country and CNVRG plans to continuously invest in other projects to maintain their growth momentum.

International Container Terminal Services, Inc. (ICT) recorded the steepest loss as its share prices slumped by -10.1% MoM in May, after its +1.7% gain a month ago. Nonetheless, ICT reported a 9% improvement in its net income to \$154.6-M in Q1-2023. ICT attributed its performance to its diversified portfolio and continued focus on its margins.

For the second consecutive month, the Mining & Oil sector ranked last in the sectoral race as it contracted by -5.9% in May, after its -4% dip in the previous month. Nonetheless, Semirara Mining and Power Corporation (SCC) share prices rose by +3.7% in May, cutting down part of its -16.5% loss in April. SCC is earmarking P1.5-B for its CAPEX in 2023 to boost its power output and avert power outages in the country. It also aims to improve the company's asset management program. At present, SCC also remains as the largest coal producer in the country, and its power generation business has a capacity of 900-megawatts (MW) and around 600-megawatts (MW) in the pipeline.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

	2020		2021		4th Quarter 2022			1st Quarter 2023		
	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	1,818,007	1.9%	1,954,345	7.5%	525,266	29.2%	-9.5%	444,620	-15.4%	2.2%
Industry Sector	5,151,945	-11.8%	5,607,009	8.8%	1,699,147	32.6%	-3.5%	1,466,352	-13.7%	3.9%
Service Sector	10,963,799	-6.6%	11,849,213	8.1%	3,350,731	8.8%	0.9%	2,996,208	-10.6%	8.4%
Expenditure										
Household Final Consumption	12,911,851	-8.0%	13,456,531	4.2%	4,196,072	19.7%	6.9%	3,691,935	-12.0%	6.3%
Government Final Consumption	2,652,447	10.0%	2,839,963	7.1%	706,680	1.2%	3.4%	715,279	1.2%	6.2%
Capital Formation	3,382,434	-33.5%	4,060,997	20.1%	1,186,524	10.5%	3.7%	1,124,997	-5.2%	12.2%
Exports	4,735,076	-31.8%	5,128,006	8.3%	1,434,654	-6.3%	14.7%	1,366,929	-4.7%	0.4%
Imports	6,146,212	-21.2%	6,947,443	13.0%	1,936,874	-5.5%	6.8%	1,981,154	2.3%	4.2%
GDP	17,530,785	-9.5%	18,538,053	5.7%	5,575,144	16.9%	7.2%	4,907,180	-12.0%	6.4%
NPI	1,325,383	-30.4%	642,515	-51.5%	354,878	21.2%	56.9%	409,847	15.5%	81.2%
GNI	18,856,166	62.3%	19,180,570	1.7%	5,930,022	17.2%	9.3%	5,317,027	-10.3%	9.9%

Source: Philippine Statistics Authority (PSA)

NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

	2020		2021		March-2023			April-2023		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G.R.	Annual G.R.	Levels	Monthly G.R.	Annual G.R.
Revenues										
Tax	2,855,959	0.2%	3,005,539	0.2%	258,650	22.1%	19.7%	440,697	70.4%	51.0%
BIR	2,504,421	-2.4%	2,739,350	-2.4%	221,793	15.3%	16.9%	403,589	82.0%	48.5%
BoC	1,951,023	0.0%	2,078,108	0.0%	140,962	9.0%	5.7%	336,020	138.4%	53.4%
Others	537,687	-9.3%	643,563	-9.3%	80,343	27.7%	46.8%	67,553	-15.9%	30.5%
Non-Tax	15,711	-24.7%	18,157	-24.7%	488	2,770.6%	-69.2%	16	-96.7%	-98.2%
	351,412	23.6%	265,357	23.6%	36,857	88.3%	39.2%	37,087	0.6%	84.5%
Expenditures										
Allotment to LGUs	4,227,406	24.0%	4,675,639	10.6%	468,911	47.3%	15.0%	373,899	-20.3%	11.2%
Interest Payments	804,546	39.8%	892,698	39.8%	83,271	12.8%	18.2%	74,110	-11.0%	-19.4%
	380,412	8.9%	429,432	8.9%	60,898	78.5%	27.8%	46,253	-24.0%	94.2%
Overall Surplus (or Deficit)	-1,371,447	145.7%	(1,670,100)	145.7%	(210,161)	97.6%	9.8%	66,798	-131.8%	-250.4%

Source: Bureau of the Treasury (BTr)

POWER SALES AND PRODUCTION INDICATORS

Manila Electric Company Sales (In Gigawatt-hours)

	2021		February-2023			March-2023		
	Annual Levels	Growth Rate	Levels	Y-o-Y G.R.	YTD	Levels	Y-o-Y G.R.	YTD
TOTAL	45,524.20	5.7%	3,843.00	2.7%	-46.7%	3,656.90	-1.7%	-66.5%
Residential	16,906.10	2.6%	1,226.90	-2.9%	-50.6%	1,230.90	-6.9%	-67.7%
Commercial	14,950.30	3.2%	1,428.40	13.3%	-41.6%	1,337.60	-5.9%	-63.9%
Industrial	12,897.30	12.4%	1,117.00	-3.9%	-47.9%	1,017.40	-5.2%	-68.4%

Source: Meralco

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

	2020		2021		4th Quarter 2022		1st Quarter 2023	
	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT								
Balance of Trade	11,578	-480%	-6,922	-160%	561	-114.2%	-4,348	7.5%
Balance of Goods	33,775	-32%	53,781	59%	14,564	-11.9%	16,991	8.2%
Exports of Goods	48,212	-10%	54,169	12%	15,173	10.0%	12,802	-10.0%
Import of Goods	81,987	-20%	107,950	32%	29,737	-2.0%	29,793	-0.5%
Balance of Services	-13,866	6%	-14,174	2%	-5,290	41.0%	-4,511	40.9%
Exports of Services	31,822	-23%	33,627	6%	12,347	34.0%	10,929	25.7%
Import of Services	17,956	-36%	19,453	8%	7,058	29.2%	6,418	16.9%
Current Transfers & Others								
II. CAPITAL AND FINANCIAL ACCOUNT								
Capital Account	63	-50%	80	26%	-8	-133.0%	21	-213.1%
Financial Account	-6906	-14%	-6,942	1%	-1,616	-67.5%	-5,664	20.0%
Direct Investments	-3,260	-39%	-8,116	149%	-1,294	-39.5%	-718	-52.3%
Portfolio Investments	-1680	-32%	8,046	-579%	-2,452	-1627.7%	-694	-1910.2%
Financial Derivatives	-199	15%	-603	203%	31	-115.8%	20	3424.0%
Other Investments	-6,268	255%	-8,152	30%	2,099	-174.9%	-4,271	31.3%
III. NET UNCLASSIFIED ITEMS								
	1245	-149%	361	-71%	-1,602	-266.0%	2,115	-1419.1%
OVERALL BOP POSITION	16,022	104%	1,345	-92%	568	-71.7%	3,453	597.6%
Use of Fund Credits								
Short-Term								
Memo Items								
Change in Commercial Banks	7,713	378%	294	-96%	472	-120.9%	-2,841	-604.9%
Net Foreign Assets	7,665	384%	433	-94%	475	-120.8%	-2,790	-1079.3%
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)

	2021		March-2023		April-2023	
	Average Levels	Annual G. R.	Average Levels	Annual G. R.	Average Levels	Annual G. R.
RESERVE MONEY	3,303,261	8.8%	3,676,823	11.7%	3,714,565	12.2%
Sources:						
Net Foreign Asset of the BSP	6,296,263	39.5%	5,534,613	-9.0%	5,661,511	-9.3%
Net Domestic Asset of the BSP	14,211,531	26.7%	4,505,162	-67.5%	4,421,422	-68.0%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply-1	5,659,905	52.6%	6,467,114	18.1%	6,460,516	17.1%
Money Supply-2	13,795,976	30.2%	15,702,639	16.6%	15,787,125	16.6%
Money Supply-3	14,432,021	30.4%	16,184,029	14.4%	16,251,351	14.3%
MONEY MULTIPLIER (M2/RM)	4.18		4.27			

Source: Bangko Sentral ng Pilipinas (BSP)

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