August 2023

# The MARKET CALL

## Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

**FMIC and UA&P Capital Markets Research**

## Executive Summary

***We still think 6% GDP growth in FY 2023 is attainable despite the admittedly tepid GDP expansion of 4.3% year-on-year (YoY) in Q2. Robust employment levels until June, specially in high multiplier sectors like Manufacturing, Construction, Accommodation & Food Activities, together with recovery in infrastructure spending should boost GDP in H2. However, the USDPHP rate shall remain challenged in Q3 with higher crude oil and rice prices bloating trade deficits amidst elevated foreign interest rates. The outlook for the bond and equity markets, which improved in July, has dimmed in August, even though the new levels now appear more apt for starting to accumulate.***

## Macroeconomy

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***Despite the slowdown in GDP expansion to 4.3% YoY in Q2, other key economic data do not preclude a full year growth of 6-7%. Sustained job growth, especially in Manufacturing, Construction (for industry), Accommodation & Food Services and Other Services (in Service sector), and a slight uptick in exports, with an added boost from the peso depreciation in August, provide some glow for the economy. Apart from inflation slowing to 4.7% a 15-month low, NG will likely ramp up spending in H2, specially in infrastructures, which will also benefit from ongoing major PPP projects (classified as private construction). Higher crude oil and rice prices constitute the headwinds for the economy, albeit transitory, and these will again enlarge trade deficits and put upward pressure on the peso in Q3 amidst elevated foreign interest rates.***

GDP expanded by 4.3% YoY in Q2-2023, slower than 6.4% in Q1, as National Government (NG) spending fell by -7.1%. That alone clipped GDP by -1.3 percentage points.■ Total employment rose by 5% MoM to 4.8-M in June, second highest level in 2023.■ Manufacturing sector provided more jobs for the third straight month by June, even as its PMI took faster expansion pace of 51.9 in July.■ Headline inflation decelerated to 4.7% YoY in July, slowest in 15 months from 5.4% in June. ■ Big drop in imports pull down trade deficit to $3.9-B in June from $4.4-B in prior month.■ USDPHP breaks six-month weakness with 1.7% appreciation in June.

## Bond Markets

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***With local inflation easing to 4.7% in June, investors flocked the short-dated bonds in both auctions and secondary market in July, pushing down yields in the front-end of the curve. However, domestic yields continue its ascent as U.S. 10-year Treasuries climb further in August as the Fed hinted more rate hikes to come. In our view, the Fed will likely pause in its September meeting as they will have to wait for more data that shows clearer signs that inflation will fall within target. Furthermore, we see that the yields of peso bonds and U.S. Treasuries will tend to decouple as local inflation falls within BSP target range of 2% to 4% by Q4. Besides, real 10-year yields have turned positive by June and neared normal levels in July after an abnormal, prolonged 11-month run with negative readings.***

Positive sentiment brought about by the lower-than-expected U.S. June inflation at 3% resulted in a higher total tender-offer-ratio (TOR) of 2.127x in July from 1.642x a month ago.■ The 91-day T-bill yields saw the biggest decline by -86.2 bps in July auctions.■ Trading volume in the secondary market rebounded sharply by 63.1% MoM to P536.1-B in July.■ Only the front-end of the curve descended on the back of robust demand in July. ■ The spread between 10-year and 2-year bond yields turned positive to 18.6 bps in July from -1.3 bps in the prior month.■ ROPs spread over equivalent U.S. Treasuries had mixed results with the 10-year and 20-year papers contracting by -4.6 bps to -20.2 bps, respectively.

## Equities Market

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***PSEi broke through strong support as it resulted to 6,200 levels in mid-August due to fears of renewed inflation upswing and weaker GDP growth in Q2-2023. PSEi gained by 1.9% in July after the Fed raised its policy rates by 25 bps as expected by markets. Four of PSEi sectors turned in a positive performance, while two sectors turned in a negative performance. The Financial sector turned in the highest performance as it posted a +5.1% MoM gain in July. Meanwhile, the Holdings sector ranked last in the sectoral race with its -0.9% loss in July. Still, emergence of robust macroeconomic data and milder-than-expected inflation prints for August and September could bring back investors to the equities market.***

Globe Telecom (GLO) posted the best performance among PSEi-constituent stocks (GLO, +10.9% gain MoM).■ Universal Robina Corporation (URC) led the decliners with -10.8% dip MoM.■ In the Mining & Oil sector, Semirara Mining & Power Corporation (SCC) showed a 3% uptick MoM.■ Foreigners ended the month as net sellers to the tune of P18.2-B from net selling of P5.4-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 (Q2-2023) | 4.3 | 6.4 | 5.3 | 5.8 | 7.2 |
| Inflation Rate (July) | 4.7 | 5.4 | 6.8 | 3.1 | 8.1 |
| Government Spending (May) | 24.6 | -0.2 | 9.3 | 12.8 | 13.6 |
| Gross International Reserves ($B) (July) | 99.9 | 99.4 | 100.3 | 107.1 | 95.1 |
| PHP/USD rate (July) | 55.85 | 55.36 | 54.89 | 48.88 | 55.68 |
| 10-year T-bond yield (end-July) | 6.43 | 6.42 | 6.22 | 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

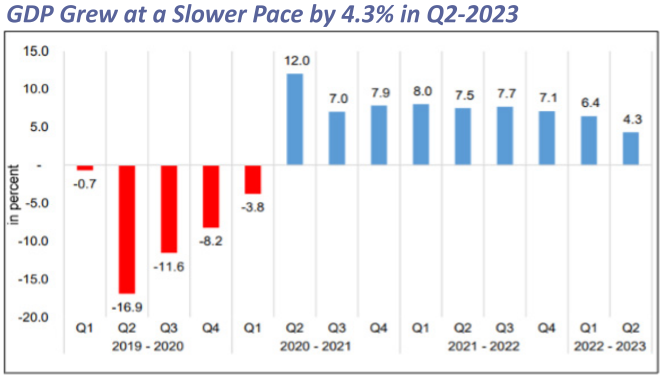
## Q2 GDP DISAPPOINTS BUT EMPLOYMENT AND MOBILITY DATA SHOW ROBUST H2 EXPANSION

*While Gross Domestic Product (GDP) growth unexpectedly weakened in Q2 to 4.3% year-on-year (YoY) from 6.4% in Q1, other economic data like higher employment in June, slower inflation and improved Manufacturing PMI in July do not support the major slowdown narrative. Total employment in June increased by 5% YoY, and for Q2 as well. Note that the Manufacturing sector chalked up the third consecutive month of gains, like the Construction, Accommodations & Food Services, and Other Services (in Service sector). Inflation slid further to 4.7% in July from 5.4% a month earlier. And exports expanded in June, a hat trick from May, albeit still at a slow pace. And suprisingly, the peso appreciated by 1.7% in July.*

***Outlook****: We think the economy has sufficient vitality to still meet the lower part of the government's target of 6% to 7%. The 5% YoY growth in employment in Q2 should feed into H2 income and spending. We note that Manufacturing PMI accelerated to 51.9 in July from 50.9 a month earlier, as it steadily increased hirings in Q2. The National Government (NG) will likely ramp up infrastructure in H2, in addition to the major ongoing PPP projects. Google's mobility index for the Philippines shows an upward trend that exceeds those of our neighbors and should sustain employment gains in the Services sector. While inflation will likely spike in August and September due to higher oil and food prices, we think this will prove transitory as the supply response to high prices should prove adequate to bring YoY inflation to BSP's 2% to 4% by Q4. Q3 won't treat the peso kindly as interest rates abroad will remain high while PH balance of trade deficits should again balloon due to the surge in crude oil prices.*

**Figure 1 - GDP Growth Rates, Year-on-Year Growth Rates (in percentage)**

*GDP Grew at a Slower Pace by 4.3% in Q2-2023*




*Source of Basic Data: Philippine Statistics Authority (PSA)*

### GDP Moderately Expanded at 4.3% in Q2-2023, Falls Short of Expectations

The Philippine economy registered another quarter of expansion with 4.3% YoY growth in GDP for Q2-2023, albeit much below market expectations of 6% growth. Higher expenditures tied to tourism and commercial investments fueled this quarter's expansion, yet elevated commodity prices, delayed effects of interest rate hikes, reduced government spending, and a slowdown in global economic growth held back its momentum. H1 GDP growth rate settled at 5.3%, implying that there remains more work to be done in H2 before we achieve the GDP growth target of 6% to 7% for the year. Nevertheless, Gross National Income (GNI) grew twice that of GDP growth by 8.6% YoY in Q2-2023, as Net Primary Income (NPI) from the Rest of the World surged by 90.6% YoY.

Unlike in previous quarters, domestic demand performed only modestly with a +2.2% uptick, while the external sector improved by +7.2%. Leading the demand side growth, Household Final Consumption Expenditure (HFCE) increased by +5.5% YoY, albeit slower than +8.5% a year ago and +6.4% in the previous quarter. The main drivers of growth in consumer spending consist of the Transport (+30.1%), Restaurants & Hotels (+23.3%), and Recreation & Culture (+20.1%) sectors, highlighting the revenge spending that still has some way to go.

**Table 1 - Labor Force Survey Summary**

| | May 2023 | June 2023 | MoM Change | |
|---|---|---|---|---|
| | | | Levels | % Change |
| **Labor Force** | **50,428** | **51,169** | **741** | **1.5%** |
| **Employed** | **48,260** | **48,842** | **581** | **1.2%** |
| **Underemployed** | **5,661** | **5,875** | **214** | **3.8%** |
| **Underemployment rate%** | **11.7** | **12.0** | **0.30** | **2.6%** |
| **Unemployed** | **2,167** | **2,327** | **159** | **7.4%** |
| **Unemployment rate%** | **4.3** | **4.5** | **0.25** | **5.8%** |
| **Labor Participation rate%** | **65.3** | **66.1** | **0.73** | **1.1%** |
| **Not in Labor Force** | **26,742** | **26,272** | **-470** | **-1.8%** |
| | | | | |
| **Agriculture ('000)** | **11,727** | **11,622** | **(105)** | **-0.9%** |
| **Industry ('000)** | **8,147** | **8,810** | **663** | **8.1%** |
| Mining and Quarrying | 185 | 276 | 91 | 49.3% |
| Manufacturing | 3,493 | 3,566 | 73 | 2.1% |
| Electricity, Gas, Steam, and Air-Conditioning Supply | 86 | 99 | 13 | 15.2% |
| Water Supply; Sewerage, etc. | 39 | 37 | (1) | -3.6% |
| Construction | 4,344 | 4,832 | 488 | 11.2% |
| **Services ('000)** | **28,387** | **28,410** | **24** | **0.1%** |
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles | 10,162 | 10,076 | (85) | -0.8% |
| Transportation and Storage | 3,434 | 3,229 | (205) | -6.0% |
| Accomodation and Food Services Activities | 2,163 | 2,267 | 104 | 4.8% |
| Information and Communication | 391 | 389 | (2) | -0.5% |
| Financial and Insurance Services | 688 | 613 | (74) | -10.8% |
| Real Estate Activities | 317 | 218 | (99) | -31.1% |
| Professional, Scientific, and Technical Activities | 374 | 276 | (97) | -26.1% |
| Administrative and Support Services Activities | 2,057 | 2,365 | 308 | 15.0% |
| Public Administration and Defense; Compulsory Social Security | 2,857 | 2,985 | 128 | 4.5% |
| Education | 1,486 | 1,582 | 96 | 6.5% |
| Human Health and Social Work Activities | 734 | 776 | 42 | 5.7% |
| Arts, Entertainment, and Recreation | 653 | 529 | (124) | -19.0% |
| Other Service Activities | 3,070 | 3,104 | 34 | 1.1% |

*Source of Basic Data: Philippine Statistics Authority (PSA)*

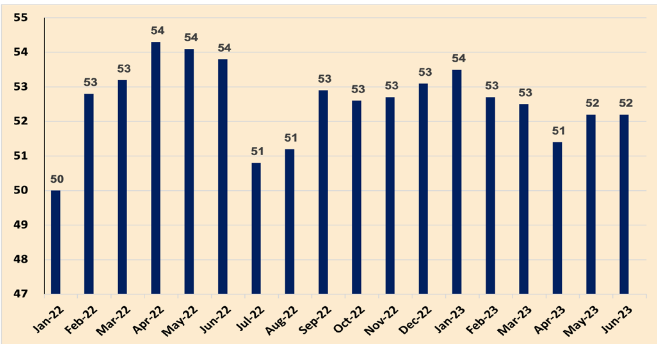
Meanwhile, Gross Capital Formation (GCF or Investment spending) marginally declined by -0.04% YoY in Q2-2023, the lowest since the -14.1% slump in Q1-2021. The slight fall in GCF owes much to the slowdown of construction spending by +2.1% YoY from +15.3% in the previous year, as interest rates remained elevated. Nonetheless, all subsectors turned in a green scorecard this quarter, with Durable Equipment (+10.8%) and Intellectual Property Products (+3.6%) being the top gainers. Government Final Consumption Expenditure (GCFE) also moved to negative territory with a -7.1% YoY contraction in Q2-2023, as election-related spending a year ago provided a higher base. Current account deficit also narrowed as it slipped by -7.2% YoY to P609.6-B. This was a consequence of exports of goods and services growing at a faster pace of +4.1% YoY compared to imports of goods and services, which eased to +0.4%.

Viewed from the production side, the Services sector lifted the economy with its 6% YoY expansion, as it accounted for 62.1% of GDP, slowing from 8.4% in Q1-2023. The Agriculture sector hardly grew with a 0.2% climb, while the Industry sector hardly contributed to economic growth with its tepid 2.1% climb only about half of Q1's 4% uptick. Filipinos renewed their "going-out" activities as Accommodation & Food Services (+28.3%), Other Services (+22.2%) and Transport & Storage (+17.3%) gains led the Services sector's vault. Only one sub-sector, Public Administration, Social Security, etc. slipped to negative territory (-2.4%).

In the Industry sector, the huge slump in the Construction sector, to 3.5% in Q2 from 11.1% in the previous quarter, pulled down the sector. The largest sub-sector, Manufacturing, could only edge up by 1.2%, as it had a 17.6% share of GDP. Only the Mining & Quarrying sub-sector had a negative performance of -3.5% YoY.

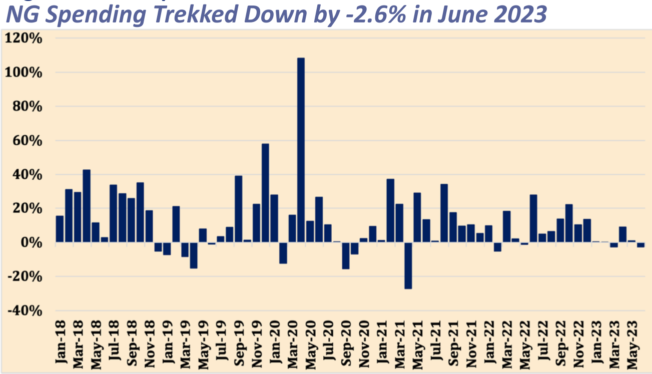
On a seasonally adjusted (s.a.) basis, the country's GDP dropped by -0.9% quarter-on-quarter (QoQ), as HFCE fell by -1% QoQ. On the production side, all three major sectors posted negative performances with the Services sector (-1.02%) as the top decliner. Looking at the bright side, the slowdown of inflation for its sixth consecutive month in July at 4.7% sets a favorable scenario for reducing interest rates that should stimulate economic growth. Furthermore, with the National Government planning to expedite the implementation of its programs and projects, the projected 6% to 7% GDP growth for the entire year remains attainable.

**Figure 2 - Manufacturing PMI**
*Manufacturing PMI Remained at 51.9 in July 2023*




*Source of Basic Data: S&P Global*

**Figure 3 - NG Expenditures Growth Rate, Year-on-Year**
*NG Spending Trekked Down by -2.6% in June 2023*




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

## Manufacturing PMI Expanded Faster in July

S&P Manufacturing PMI for the country climbed to 51.9 in July from 50.9 in June, driven by the robust production of local factories and strong domestic and foreign demand. This figure signaled the 18th consecutive expansion of the country's manufacturing sector. However, persistent disruptions in the supply chain marked by longer average lead times kept input costs up. Nevertheless, manufacturers stayed optimistic with their expectations about their production in the succeeding months.

Industrial output as measured by the Volume of Production Index (VoPI) inched up to 3.4% YoY in June, albeit slower than the annual increment of 7.7% in the previous month.

Out of the 22 industry divisions, nine registered positive YoY performances, led by Printing & Reproduction of Recorded Media (+34.6%), Manufacture of Transport Equipment (+30.6%), and Manufacture of Electrical Equipment (+29.5%). These three industry categories also led the gains in May 2023.

Meanwhile, 13 industry divisions posted annual declines, led by Manufacture of Fabricated Metal Products, Except Machinery & Equipment (-36.4%), Manufacture of Wearing Apparel (-34.5%), and Manufacture of Furniture (-28.2%).

## June Added 581,000 Jobs, But Unemployment Rate Slightly Rose to 4.5%

Philippine Statistics Authority (PSA) reported that the economy added 581,000 in June, easily exceeding the 470,000 who entered the labor force. Despite this, the unemployment rate inched up to 4.5% from 4.3% a month earlier as the labor force participation rate (LFPR) climbed to 66.1% from 65.3%.

Unlike their performances in terms of national income accounting, the Industry sector chalked up the best record as it took in 663,000 more workers in June, while the Services sector could manage only to add 24,000 to its ranks. The Agriculture sector gave up 105,000 jobs with the rice planting season ending in July.

The Construction subsector contributed 488,000 jobs, while the Manufacturing subsector provided 73,000 new jobs, the second consecutive month of job gains. In contrast with its Q2 negative performance, the Mining & Quarrying subsector had the second highest job creation in the sector with 91,000 new openings in June.

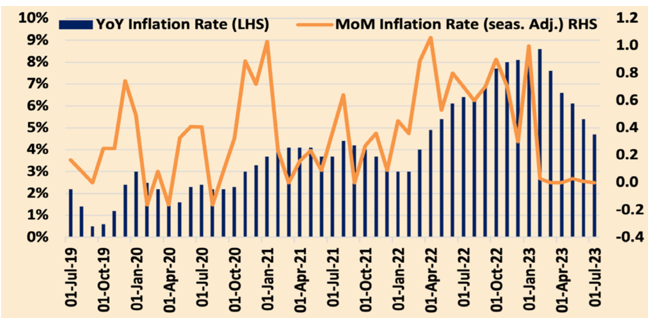
**Table 2 - Major Contributors to Year-on-Year Inflation**

| Inflation Year-on-Year Growth Rates | June-2023 | July-2023 | YTD |
|---|---|---|---|
| | **5.4%** | **4.7%** | 6.8% |
| **Food and Non-Alcoholic Beverages** | 6.7% | 6.3% | 8.0% |
| **Alcoholic Beverages and Tobacco** | 11.6% | 10.9% | 14.1% |
| **Clothing and Footwear** | 5.1% | 4.8% | 5.6% |
| **Housing, Water, Electricity, Gas, and Other Fuels** | 5.6% | 4.5% | 6.5% |
| **Transport** | -3.1% | -4.7% | 1.7% |
| **Restaurants and Accommodation** | 8.2% | 7.9% | 9.1% |
| **Personal Care & Miscellaneous Goods and Services** | 5.8% | 5.6% | 6.3% |

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)*

**Figure 4 - Headline Inflation**




*Source of Basic Data: Philippine Statistics Authority (PSA)*

In the Services sector, six subsectors hired more people, while seven laid off some people. Three subsectors contributed the most--Administrative & Support Services (+308,000), Public Administration, Social Security, etc. (+128,000), and Accommodations & Food Services (+104,000). The worst performers included Transportation & Storage (-205,000) and Arts, Entertainment, etc. (-124,000).

Average total employment in Q2-2023 rose by 5% YoY and this should provide the impetus for growth to get back on track in H2.

## NG Posted P225.4-B Deficit in June Driven by Lower Tax Collections

Following the P122.2-B deficit in May, the National Government (NG) incurred another round of deficit amounting to P225.4-B in June, marking a 4.6% increase compared to last year's deficit of P215.5-B. Government slumped by -7.9% YoY amid expenditures contracting by -2.6% YoY. Nonetheless, the YTD deficit stands at P551.7-B or -18.2% lower from P674.2-B a year ago.

Non-tax revenues led the decline as these shrank by -28% YoY to P28.3-B with Bureau of the Treasury's (BTr) income (BIR) tax take reached only P164.7-B or -5.1% lower from a year earlier. Likewise, the Bureau of Customs (BOC) saw a -2.7% YoY slump in revenues to P74.1-B. Nevertheless, the BOC collections YTD reached P433.4-B. This exceeded the agency's target of P420.7-B in H1 as collection efficiency improved despite an 8% plunge in YTD imports. In the same breath, BIR's YTD revenues climbed by 7.7%.

From P505.8-B a year prior, total NG disbursements in June slipped by -2.6% YoY to P492.7-B driven by the fall in National Tax Allotment shares of LGUs and outstanding checks in numerous agencies. Although overall NG expenditures trekked down, interest payments surged by 43.9% to P52.9-B from P36.8-B in the previous year as interest rates stayed relatively high.

In addition, total NG expenditures in H1 increased marginally by 0.4% YoY, reaching P2.4-T. However, this amount fell below the projected H1 program of P2.6-T.

## Inflation Tumbled Further to 4.7% YoY in July

Headline inflation slid for the sixth consecutive month to 4.7% YoY in July from 5.4% a month earlier, as prices of only one out of 13 product categories took a slightly faster pace. Lower fuel prices and easing food costs provided the downward pull. YTD inflation slowed to 6.8%

**Figure 5 - Exports Growth Rates, Year-on-Year**
***Exports Improved by 0.8% in June***


*Source of Basic Data: Philippine Statistics Authority (PSA)*

**Table 3 - Exports Year-on-Year Growth Rates**

| | May-2023 | June-2023 | YTD |
|---|---|---|---|
| **Total Exports** | **1.9** | **0.8** | **-9.3** |
| **Agro-Based Products** | **-28.0** | **-24.0** | **-30.1** |
| **Mineral Products, of which** | **13.5** | **-14.8** | **-12.2** |
| Copper cathodes | **-18.8** | **38.5** | -20.6 |
| Others (incl. nickel) | -3.0 | -38.3 | -23.7 |
| **Manufactured Goods** | **4.5** | **5.2** | **-7.5** |
| Electronic Products | 6.7 | 12.0 | -8.7 |
| Other Electronics | 34.5 | 9.4 | 15.6 |
| Chemicals | -27.5 | -41.9 | -24.7 |
| Machinery and Transport Equipment | -8.4 | 11.2 | 16.6 |
| Processed Food and Beverages | 4.5 | -27.7 | -14.0 |
| Others | 4.5 | 1.5 | -3.1 |

*Source of Basic Data: Philippine Statistics Authority (PSA)*

compared to 7.2% a month ago.

The Transport sub-index's slumped to -4.7% YoY from -3.1% a month earlier pulled down CPI. The -23.2% YoY plunge in fuel costs (under Operation of Private Transport Vehicles) made this possible, as crude oil prices growth abroad remained negative YoY. West Texas Intermediate (WTI, or U.S. benchmark) plummeted by -28.4% YoY to average \$76.07/barrel (bbl), while Brent (the European benchmark) eased a little less at -25.1% YoY to average \$80.11/bbl in July.

Among the major product categories, the sub-indexes for Housing, Water, Electricity, Gas, & Other Fuels (HWEGOF) and Alcoholic Beverages & Tobacco delivered the largest price decelerations of -1.1 percentage points (to 4.5%) and -0.7% (to 10.9%), respectively.

With regard to food inflation, three product categories, Oils & Fats (-3.6% points), Fruits & Nuts (-3% points), and Fish & Other Seafoods (-1.7% points), counteracted faster rice prices (+0.6% points) to end at 2%, 8.4%, and 4.5% YTD, respectively.

On a seasonally adjusted basis, the month-on-month (MoM) inflation fell further to 0% from 0.1% a month ago. Figure 4 shows that, barring a possible transitory jump in rice and oil prices, inflation continues to move southward. Given these risks, we have upped our full year inflation forecast back to 5.7% from 5.5% last month.

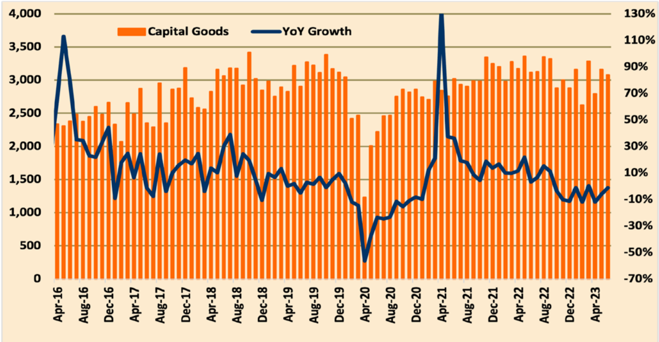
## Exports Achieved a 7-Month High in June

Outward shipments expanded to \$6.7-B in June or 0.8% higher from \$6.6-B a year ago. It marks the second consecutive month of growth despite waning global demand. Furthermore, it advanced by 3.5% from \$6.5-B in the previous month.

Seven out of 10 major commodities landed on the green in June. Copper Concentrates led the pack with its 74.8% boost from last year. Cathodes & Sections of Cathodes, Of Refined Copper and Ignition Wiring Set & Other Wiring Sets Used in Vehicles, Aircrafts & Ships saw remarkable increases with 38.5% and 14.6%, respectively. The country's top export, Electronic Products, also experienced double-digit gains with 12% YoY in June. On the other hand, Chemicals and Other Mineral Products plummeted deeply by -42.8% and -38.3%, respectively.

By major types of goods, Petroleum Products surged the most in June with 47.7% YoY, followed by Manufactured Goods at 5.2% YoY. Forest Products tumbled down by

**Figure 6 - Imports of Capital Goods (in Million USD)**
***Imports of Capital Goods Inched Down by -1.2% in June***




*Source of Basic Data: Philippine Statistics Authority (PSA)*

**Table 4 - Imports Year-on-Year Growth Rates**

| | May-2023 | June-2023 | YTD |
|---|---|---|---|
| **Total Imports** | **-8.8** | **-15.2** | **-8.0** |
| **Capital Goods** | **-5.9** | **-1.2** | **-5.1** |
| Power Generating and Specialized Machines | -2.9 | 7.0 | 6.7 |
| Office and EDP Machines | -45.3 | 35.9 | -35.8 |
| Telecommunication Equipment and Electrical Machines | -9.5 | -14.6 | -3.1 |
| Land Transport Equipment excluding Passenger Cars and Motorized cycle | 15.1 | 10.6 | 5.3 |
| Aircraft, Ships and Boats | 26.1 | 207.9 | -20.0 |
| Prof. Sci and Cont. Inst., Photographic Equipment and Optical Goods | 2.7 | -0.8 | 7.1 |
| **Raw Materials and Intermediate Goods** | **-12.3** | **-15.3** | **-13.9** |
| **Mineral Fuels, Lubricant and Related Materials** | **-31.7** | **-42.7** | **-16.2** |
| **Consumer Goods** | **24.7** | **0.2** | **12.6** |

*Source of Basic Data: Philippine Statistics Authority (PSA)*

-25.2% due to lower export sales of Plywood (-41.8%) and Lumber (-20.5%).

The U.S. displaced China as the country's top export destination with $1.1-B in June, accounting for 16.7% of total exports. Meanwhile, volume to China spiked by 15% YoY to $999.2-M totaling to 14.9% share. Hong Kong represented 14.3% portion of outward shipments or $957.9-M in June.

## Trade Deficit Contracted Further by -33.3% as Imports Saw Fastest Descent in Near 3 Years

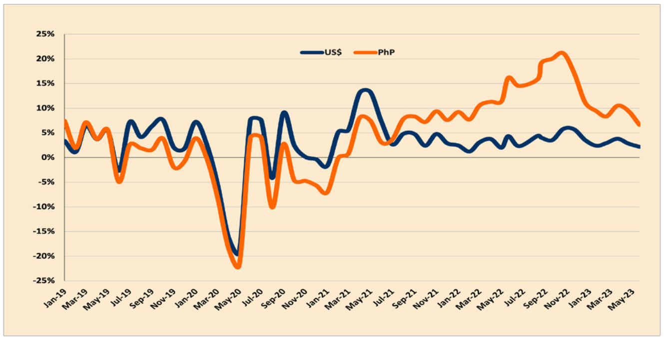
Total imports plunged by -15.2% YoY to $10.6-B in June, the steepest decline since October 2020, from $12.5-B in the previous year due to waning domestic demand in light of further cost pressures. Moreover, imports of capital goods shrank by a tad -1.2% to $3.1-B in June or $38.8-M less from the prior year.

Among the capital goods imports, Aircraft, Ships and Boats once again topped the charts with their massive 207.9% vault in June from the previous year. Land Transport Equipment excluding Passenger Cars & Motorized Cycle followed next with 10.6% YoY. On the opposite end, Office & EDP Machines slid by -35.9% while Telecommunication Equipment & Electrical Machinery edged down by -14.6%.

Metalliferous Ores & Metal Scrap surged the most among the top import commodities in June with an impressive 486.7% gain. Transport Equipment and Miscellaneous Manufactured Articles experienced double-digit growth of 39.7% and 31.1%, respectively. Meanwhile, Iron & Steel and Mineral Fuels, Lubricants and Related Materials contracted the most by -48.4% and -42.7%, respectively.

For the third consecutive month, the trade deficit narrowed by -33.3% to $3.9-B in June from $5.9-B a year earlier due to the steep drop in imports.

**Figure 7 - OFW Remittances Growth Rates, Year-on-Year**
***Personal Remittances Ended June at $3.1-B***




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

**Figure 8 - Dollar-Peso Exchange Rates and Moving Averages**
***USDPHP Continued to Move Up in August***


*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 | | | |
|---|---|---|---|
| | May-2023 | June-2023 | YTD |
| AUD | -1.0% | -0.5% | 1.4% |
| CNY | 2.4% | -1.4% | 2.4% |
| INR | -0.1% | 1.3% | -0.6% |
| IDR | 0.8% | 1.5% | -3.0% |
| KRW | -2.5% | -3.7% | -0.1% |
| MYR | 2.5% | -2.5% | 3.0% |
| PHP | 0.3% | -1.7% | -2.3% |
| SGD | 0.5% | -1.8% | -1.3% |
| THB | 2.0% | -4.3% | -2.1% |

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 2.2% in June 2023

Personal remittances of Overseas Filipino Workers (OFW) grew by 2.2% to $3.1-B in June. This brought the YTD remittances to $17.6-B, a 3% uptick from the same period last year. The increase in personal transfers during the year benefited from land-based workers, which rose by 2.1% to $2.5-B from $2.4-B in the same period last year and sea-land-based workers, which rose by 2.2% to $0.57-B from $0.56-B in the same period last year.

On the other hand, cash remittances from OFWs coursed through banks grew by 2.1% to $2.8-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 remittances for the first half of 2023. As for the country origin, the U.S. registered the highest share of overall remittances at 41.1% followed by Singapore, Saudi Arabia, Japan, United Kingdom, and United Arab Emirates. The consolidated remittances from the top 10 countries accounted for 79.5% of the total cash remittances from January to June 2023.

## Peso Appreciated by 1.7% in July After 4 Months of Weakness

After four consecutive months of weakness, the peso-dollar exchange rate (USDPHP) appreciated by 1.7%, the highest among its peers, in July to an average of P54.921/$ from P55.895/$ a month earlier. Lower U.S. June inflation at 3% and narrower local trade deficit contributed to the peso's strength in July. However, the downward momentum snapped following the stronger-than-expected U.S. GDP print at 2.4% in Q2 and higher U.S. policy rates at 5.25-5.50% range. Most Asian currencies gained on the U.S. dollar as may be seen in the table below.

Heightened uncertainty over policy rates and renewed bullish greenback brought the volatility measure to shoot up in July to 44% from 25% in June as it ranged from P54.41 to P55.62 in July.

USDPHP continued to move up in August as the U.S. dollar rebounded due to higher interest rates there. The FX rate will remain challenged for the rest of Q3 as PH trade deficits will likely balloon again in August with significantly higher crude oil prices and U.S. interest rates staying at elevated levels. Besides, technical analysis for August shows that actual USDPHP has exceeded both the 30-day moving average (MA) and the 200-day MA.

### Outlook

The Q2-2023 GDP growth rate of 4.3% clearly disappointed the markets. And so, the following question has resurfaced: "Is NG's projected 6% to 7% growth for FY 2023 still achievable?" H2 growth will have to rely on robust gains in the main drivers—employment, inflation, and tourism---both foreign and local.

- Even though employment may ease in August due to typhoons, we expect this to exceed H2-2022 levels for the rest of the year. Despite slower GDP expansion in Q2, the late 5% YoY increase in employment in Q2 should feed into H2 income and spending. We note that Manufacturing PMI accelerated to 51.9 in July from 50.9 a month earlier. Also, hirings by the sector picked up pace in June. Google's mobility index for the Phiippines shows an upward trend that exceeds those of our neighbors, and so employment in Hotels and Restaurants and Transport & Storage in the Services sector should remain robust.

- Inflation will likely jump in August as crude oil and rice prices have gone much beyond their levels in July. The monsoon rains that came with the two super typhoons (local names of Egay and Falcon), which battered China (especially Beijing), should have only transitory effects on vegetable and fish products. The hype about increased crude oil demand from China will likely peter out as the latter's PMI has turned contractionary in July, at 49.2 and a growth slowdown seems likely due to the disruptive effects of the super typhoons on economic activity.

- NG expenditures should accelerate in H2 as it ramps up infrastructure spending with Metro Manila subway and North-South Commuter Rail projects leading the way. Major ongoing PPP projects (MRT-7, CALAX, LRT-1 extension to Bacoor, Cavite, SLEX extension to Lucena, among others) should pick up pace as well.

- Money growth will remain tepid as higher interest rates inhibit borrowers—both firms and consumers—while banks keep channeling excess funds to BSP coffers as policy rates continue to exceed 3-month bond yields.

- We expect a minimal contribution from the external sector to GDP since the global economic slowdown won't improve significantly in the near future. Thus, the balance of trade deficits will remain elevated and, together with the U.S. dollar's renewed strength, should put continued pressure on the peso for the rest of Q3.

- After a respite in July, the USDPHP rate has climbed sharply in August as U.S. interest rates will likely remain elevated for longer, and PH's balance trade should again spike due to the surge in international crude oil prices.

# FIXED INCOME SECURITIES

## DEMAND FOR SHORT-DATED PAPERS PRESS DOWN YIELDS BELOW BSP POLICY RATES

*As July inflation eased to 4.7% year-on-year (YoY), investors in local bonds pursued short-dated government securities (GS) in both auctions and secondary market pushing down yields at this segment of the yield curve. The latter steepened, not only due to this, but also due to the rising yields in the long end of the curve. With the tender-offer ratio (TOR) for Treasury bills (T-bills) jumping to 2.687x in July from 1.399x a month earlier, yields of 91-day T-bills plunged by 86.2 bps to 5.224% while 365-day T-bills hardly moved from 6.21%. Demand for T-bonds at the long end of the curve remained weak with similar TOR as in June for the P120.0-B offering by the Bureau of the Treasury (BTr). Just like in the auctions market yields for longer term, T-bond yields soared by 10.9 bps to 42.7 bps in the secondary market. Two banks (Security Bank, SBC, and Development Bank of the Philippines, DBP) raised a total of P22.4-B both with 1.5 year tenors. ROPs spreads over equivalent U.S. Treasuries had mixed results as these dropped by 4.6 bps to 20.2 bps for the 10-year and 20-year papers but climbed by 38.6 bps in the 1-year space. Investors in long-term U.S. bonds demanded higher yields as expectations of another Fed policy rate hike before the end of 2023 heightened despite rapidly falling inflation rates.*

***Outlook**: Despite the 20-bps rise in 10-year U.S. T-bond yields to over 4.15% in August, local 10-year yields held close to 6.5% or some 10 bps climb. This supports our view that the two will tend to decouple as local inflation falls within BSP target range of 2% to 4% by Q4. The latter already factored in a spike in crude oil and rice prices in August and retracement by October when rice harvests reach markets. Even with a likely leap in inflation in the short-term, food prices tend to rebound in a matter of months. Besides, real 10-year yields have turned positive by June and neared normal levels in July after an abnormal, prolonged 11-month run with negative readings. In addition, we don't expect the NG to borrow more aggressively (locally) since it had added P892-B to its vaults by end-June. We don't see much corporate bond issuances in H2 given the elevated yields that may last until September. Local investors may seek ROPs as FX rates have risen.*

**Table 6 - Auction Results**

| Date | T-Bond/ T-Bill | Offer (Php B) | Tendered (Php B) | Accepted (Php B) | Tendered ÷ Offered | Ave. Yield | Change bps |
|---|---|---|---|---|---|---|---|
| 31 Jul | 91-day | 25.000 | 86.070 | 22.954 | 3.443 | 5.224 | -86.2 |
| | 182-day | 25.000 | 63.392 | 22.670 | 2.536 | 5.789 | -35.5 |
| | 364-day | 25.000 | 52.073 | 23.012 | 2.083 | 6.210 | -0.9 |
| Subtotal | | 75.000 | 201.535 | 68.636 | 2.687 | | |
| 4 Jul | 10 year FXTN 10-69 | 30.000 | 52.797 | 23.586 | 1.760 | 6.562 | 31.9 |
| 11 Jul | 15 year 15-01 | 30.000 | 47.501 | 30.000 | 1.583 | 6.971 | |
| 26 Jul | 7 year 07-70 | 60.000 | 112.905 | 54.793 | 1.882 | 6.328 | 23.1 |
| Subtotal | | 120.000 | 213.203 | 108.379 | 1.777 | | |
| *All Auctions* | | 195.000 | 414.738 | 177.015 | 2.127 | | |

*Source: Bureau of the Treasury (BTr)*

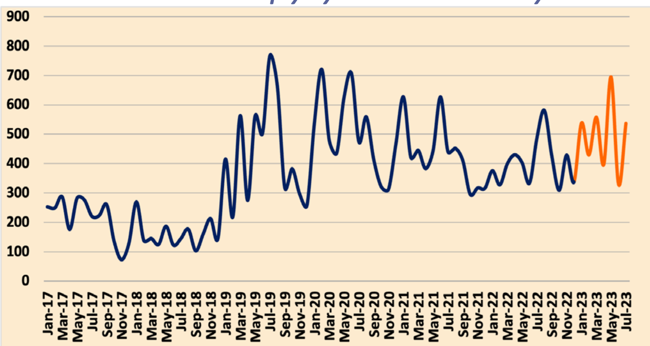
### Primary GS Market: Solid Demand for T-bills in July

Positive sentiment surfaced by mid-July following the lower-than-expected U.S. June inflation at 3% resulting in a higher total tender-offer ratio (TOR) of 2.127x in July from 1.642x a month ago. Treasury bills (T-bills) benefitted the most as tenders more than doubled to P201.5-B from P84.0-B in the previous month. Furthermore, yields of T-bills declined as much as -86.2 bps in July, reflecting market's expectation of easing inflation both here and in the U.S.

The 91-day debt papers saw the biggest drop in July, shedding -86.2 bps to 5.224% from 6.086% in June. Likewise, yields of 182-day and 364-day papers dropped by -35.5 bps to 5.789% from 6.144% and -0.9 bps to 6.210% from 6.219%, respectively.

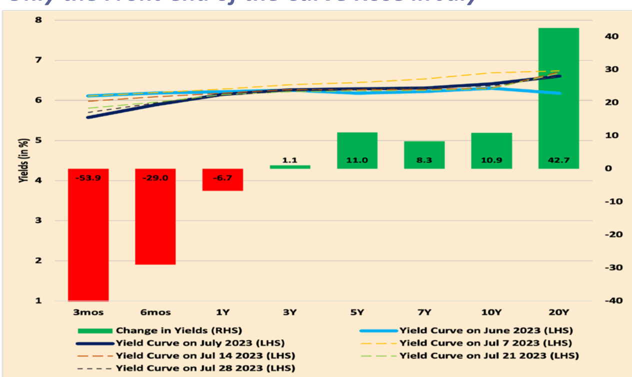
On the contrary, yields of Treasury bonds (T-bonds) accelerated in July amid heightened volatility on concerns over policy rate hikes globally and inflationary risks. The 10-year and 7-year tenors spiked by 31.9 bps to 6.562% from 6.243% in June and 23.1 bps to 6.328% from 6.097%, respectively. Additionally, the Bureau of the Treasury (BTr) fully awarded the newly issued 15-year T-bonds with a coupon rate of 7% and an average yield of 6.971%, garnering tenders worth P47.5-B in July.

**Figure 9 - Monthly Total Turnover Value (in Billion Pesos)**
***Volume Rebounded Sharply by 63.1% MoM in July***



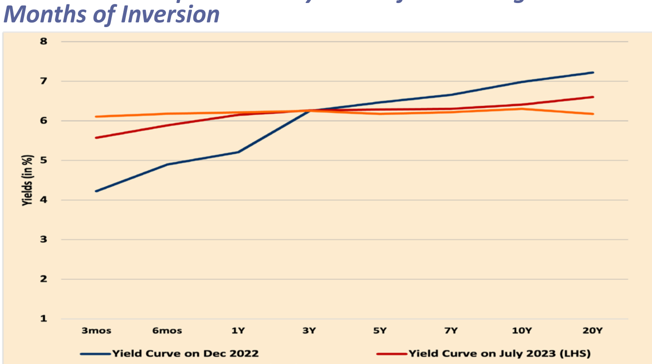

*Source: Philippine Dealing Systems (PDS)*

**Figure 10 - Week-on-Week and Month-on-Month Changes on the GS Benchmark Bond Yield Curves (bps)**
***Only the Front-end of the Curve Rose in July***




*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 Steepened in July 2023 After 2 Straight Months of Inversion***




*Sources: Bloomberg, First Metro Investment Corporation (FMIC)*

## Secondary Market: Short Rally Amid Easing Inflation in July

The upbeat market sentiment stemming from easing U.S. June inflation spilled over to the secondary market as trading volume rebounded sharply by 63.1% month-on-month (MoM) to P536.1-B in July from an 8-month low of P328.7-B in June. Given this, a short rally emerged by mid-July with the 10-year yields dropping to the 6.2%-6.3% range after touching the 6.7% level, highest since January. The slowdown in U.S. inflation boosted optimism that the end of its tightening cycle was getting close. However, domestic yields reversed to the upside by month-end, tracking the movement of U.S. Treasuries, fueled by strong U.S. employment and economic data and Fed's 25 bps rate hike in July.

Only the front-end of the curve descended on the back of robust demand in July. Yields of 3-month papers plunged the most by -53.9 bps to 5.573% from 6.111% a month earlier. Moreover, 6-month and 1-year debt papers trekked down by -29 bps to 5.891% from 6.182% and -6.7 bps to 6.151% from 6.218%, respectively.

The remaining 3-year to 20-year space rose ranging from 1.1 bps to 42.7 bps amid risk-off tone in July. The 3-year and 5-year tenors climbed by 1.1 bps to 6.266% from 6.255% and 11 bps to 6.266% from 6.255%, respectively. Meanwhile, 7-year and 10-year T-bonds went up by 8.3 bps to 6.306% from 6.222% and 10.9 bps to 6.412% from 6.304%, respectively. Lastly, 20-year securities surged the most by 42.7 bps to 6.604% from 6.177% in the previous month.

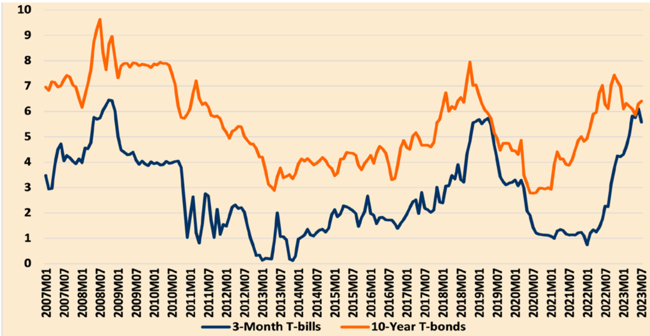
The spread between 10-year and 2-year bond yields turned positive in July as it widened by 19.9 bps to 18.6 bps. Despite local inflation slowing down to 4.7% in July, domestic yields continue its upward momentum owing to the U.S.' credit downgrade by Fitch. Weaker-than-expected PH GDP growth in Q2-2023 (+4.3% YoY) and U.S. July inflation will provide guidance on peso bond yields. Furthermore, BSP kept its policy rate unchanged in its August 17 meeting due to abating inflationary woes and slower GDP growth.

## Corporate Bonds: Volume More Than Doubled in July

The trading of corporate securities skyrocketed by 116.7% to P5.3-B in July or more than twice the volume of P2.5-B in the prior month. The volume of the top five corporates amounted to P3.4-B or 63.2% of the total trades in July.

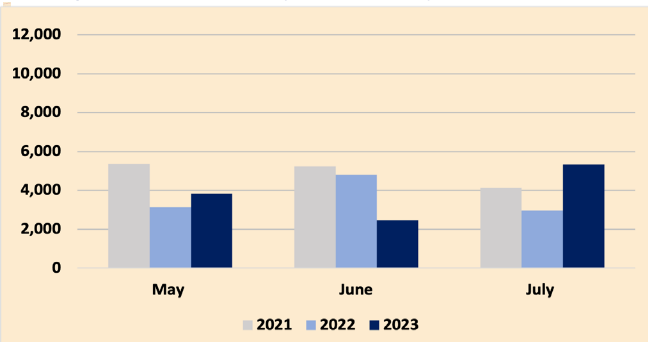
The top corporate issuers included SM Prime Holdings, Inc. (SMPH), Ayala Land, Inc. (ALI), BDO Unibank (BDO), Union Bank of the Philippines (UBP), and Rizal Commercial Banking Corporation (RCB). We substituted UBP and RCB,

**Figure 12 - 3-month T-bills and 10-year T-bonds Yields**
*Spread Widened Significantly by 64.7 bps MoM in July 2023*



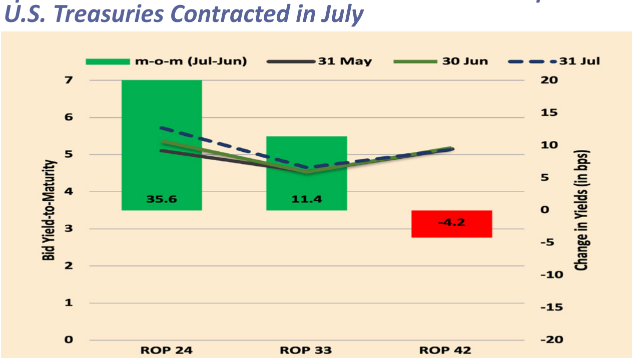

*Source: Philippine Dealing Systems (PDS)*

**Figure 13 - Total Corporate Trading Volume (in Billion Pesos)**
*Trading Volume Drastically Increased by 116.7% MoM*



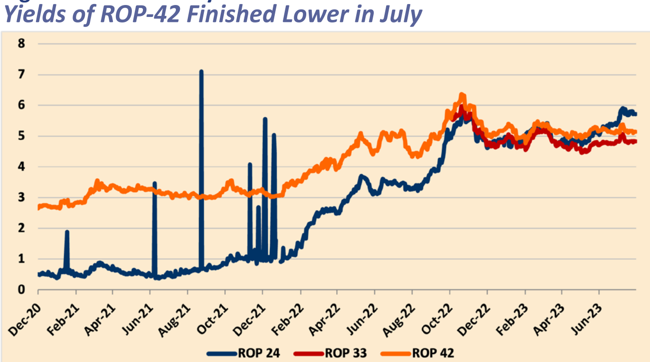

*Sources: Bloomberg, Philippine Dealing Exchange (PDEx)*

**Figure 14 - ROPs Yield, Month-on-Month Changes (bps)**
*Spread Between ROP-33 and ROP-42 and Their Equivalent U.S. Treasuries Contracted in July*




*Source: Philippine Dealing Systems (PDS)*

**Figure 15 - ROPs Daily Yields**
*Yields of ROP-42 Finished Lower in July*




*Sources: Bloomberg, First Metro Investment Corporation (FMIC)*

both banks, for San Miguel Corporation (SMC) and SMC Global Power (SMCGP) as SMC and SMCGP amassed trades less than P1.0-B year-to-date (YTD). On the other hand, the YTD volume of UBP and RCB exceeded P4.0-B, respectively.

New to the list, UBP acquired largest volume in July with P1.6-B worth of trades, followed by RCB with P886.3-M. In third place is ALI at P327.4-M or 0.4% higher from a month ago. Not so far off, volume of SMPH jumped by 13.8% MoM to P318.7-M in July. BDO placed last with P282.2-M

## Corporate Issuances and Disclosures

- Security Bank Corporation (SECB) raised P18.5-B of 1.5-year Fixed Rate Bonds with handsome coupon rate of 6.4250%, payable quarterly.

- Development Bank of the Philippines (DBP) enrolled its P3.9-B 1.5-year Fixed Rate Bonds Series 4. It carries an interest rate of 6.4126%, to be paid quarterly.

## ROPs: ROPs Yields Traded Rangebound in July

Yields of the Republic of the Philippines' U.S. dollar-denominated bonds (ROPs) saw no significant movements in July as investors adopted a wait-and-see mode amid increased uncertainty on monetary policy across the globe and persistent price pressures. On the local front, BSP Governor Remolona opens the door to further tightening, reiterating its commitment to cooling down inflation.

ROP-24 and ROP-33 went up by 35.6 bps to 5.719% in July from 5.363% a month ago and 11.4 bps to 4.647% from 4.533%, respectively. On the flip side, ROP-42 slipped by -4.2 bps to 5.139% in July from 5.181% in the previous month.

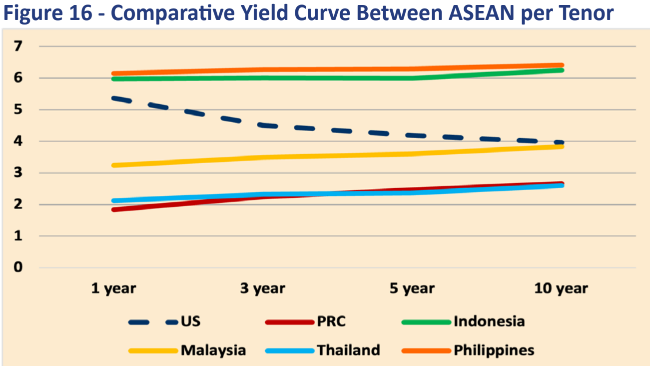
As widely expected, the U.S. Fed raised its policy rate by 25 bps to 5.25%-5.50% in July, highest in 22 years. Fed Chair Powell left hawkish guidance with the possibility of another 25 bps hike in its September meeting amid stubbornly elevated inflation and resilient labor market. Additionally, the Fed no longer forecasts a recession, boosting confidence of a soft landing.

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-May | -7.1 | 89.8 | 114.3 |
| 30-Jun | -3.7 | 72.3 | 112.1 |
| 31-Jul | 34.9 | 67.7 | 91.9 |

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

Figure 16 - Comparative Yield Curve Between ASEAN per Tenor




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

With the Fed nearing the end of its monetary tightening cycle, the 1-year U.S. Treasuries slid by -3 bps to 5.37% in July from 5.40% a month earlier. Meanwhile, strong economic and jobs data brought 10-year and 20-year U.S. T-bonds higher by 16 bps to 3.97% from 3.81% and 16 bps to 4.22% from 4.06%, respectively.

The spread between ROP-24 and 1-year U.S. Treasuries widened by 38.6 bps to 34.9 bps in July as the former advanced compared to the latter. On the other hand, the spread between ROP-33 and ROP-42 with their equivalent U.S. tenors slimmed by -4.6 bps to 67.7 bps and -20.2 bps to 91.9 bps, respectively.

## ASEAN+1: Yield Curve Movements Mostly Mixed

**U.S.:** The economy created 187,000 jobs in July, still much above the required 70,000 to 100,000 jobs needed to accommodate working age population increase. However, together with the previous month's revised employment of 185,000 (downward from 205,000) it gave the market more hopes of a pause or end in the Fed tightening cycle. Robust employment likely drove Q2 GDP growth to 2.4% quarter-on-quarter (QoQ) (annualized) from 2% in Q1. Headline inflation (seasonally adjusted) in July remained at 0.2% MoM even though YoY inflation slightly speeded to 3.2% from 3% a month earlier. Still it bit at retail sales which slowed to 0.2% MoM uptick from 0.5% in the prior month. Consumer confidence mildly slid to 71.2 in August from 71.6 based on the University of Michigan's monthly survey, the latter being the highest in 21 months. Manufacturing PMI in July jumped to 49.0 from 46.3 in June in response to renewed consumer confidence amid falling inflation and more job gains. The U.S. yield curve steepened slightly, but remained inverted, albeit less.

**CHINA:** China's Caixin General Manufacturing PMI hit its lowest reading in six months to 49.2 in July from 50.5 in the previous month. Compared to soaring prices experienced globally, China's annual inflation declined to -0.3%, the first decrease since February 2021 due to lower food prices (-1.7% YoY). The sign of deflationary pressure might undermine China's stimulus plans for economic recovery.

Exports sank by -14.5% to a 5-month low of $281.8-B in July, pointing to the steepest decline since February 2020, attributable to weak global demand. Similarly, imports trekked down by -12.4% to $201.2-B in July, the 6th straight month of contraction and the worst decline since January. Its trade surplus plunged to $80.6-B in July from $102.7-B a year ago.

The People's Bank of China (PBoC) slashed its 1-year medium-term lending facility (MLF) rate by 15 bps to 2.50% on August 15 to support economic recovery plagued by its deepening property crisis and weak consumer spending. The yield curve steepened slightly by 1 bp to 53 bps in July.

**INDONESIA:** The country's economy grew by 5.2% in Q2 of 2023, faster than the revised 5% growth in Q1 mainly driven by higher household consumption during the fasting month of Ramadan and the Eid-ul Fitr festivals (5.2% vs 4.5% in Q1) and increased government spending (10.6% vs 3.5%). Furthermore, factory activity improved as PMI achieved a 10-month high of 53.3 in July from 52.5 in the prior month. Annual inflation slipped to 3.1%, a 16-month low, in July from 3.5% a month earlier.

Both exports and imports in June plummeted by -21.2% YoY to $20.6-B and -18.4% YoY to $17.2-B, respectively. As exports descended faster, the trade surplus dropped to $3.5-B in June from $5.2-B a year earlier.

Bank Indonesia (BI) kept its policy rate at 5.75% for six consecutive meetings as the current policy stance is enough to keep inflation under control within the target range of 3% ± 1% this year and 2.5% ± 1% in 2024. The spread between 10-year and 2-year bond yields narrowed by 21 bps to 18 bps in July.

**MALAYSIA:** On the inflation front, CPI slowed down to 2.4% in June from 2.8% in May. This marks the lowest rate since April 2022 amid easing prices in food & non-alcoholic beverages (4.7% vs 5.9% in May), transport (0% vs 1%) and miscellaneous goods & services (2.6% vs 2.9%). Its Manufacturing PMI inched up to 47.8 in July, albeit still in contraction mode, from last month's 5-month low.

Outward and inward shipments slumped by -14.1% to MYR 124.0-B ($26.8-B) in June and -18.9% to MYR 98.2-B ($21.2-B), respectively. Consequently, trade surplus jumped to MYR 25.8-B ($5.6-B) in June from MYR 23.2-B ($5.0-B) in the previous year.

The current key interest rate is at 3% in July. The next policy meeting will be on September 7. The yield curve steepened by 5 bps to 49 bps in July.

**THAILAND:** The Manufacturing PMI dove further to a 13-month low of 50.7 in July from 53.2 a month earlier. Meanwhile, annual inflation went up to 0.4% in July (vs 0.2% in June) amid lower food and energy prices.

Exports slid by -6.4% YoY to $24.7-B in June while imports dropped the most in six months by -10.3% to $24.8-B in June. Thailand unexpectedly registered a small trade surplus of $57.7-M in June, the first positive gap since March, from a deficit of $1.5-B in the previous year.

Bank of Thailand (BoT) raised its policy rate by 25 bps to over a 9-year high of 2.25% on August 2 as it aims to maintain policy space amid a highly uncertain outlook. The spread between 10-year and 2-year bond yields contracted mildly by 3 bps to 38 bps in July.

**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 |
| | | | | | Jun-23 | Jul-23 | | | |
| U.S. | 4.88 | 3.97 | 3.9 | 0.08 | (106) | (91) | 15 | 5.50 | 1.60 |
| PRC | 2.13 | 2.66 | 1.2 | 1.46 | 52 | 53 | 1 | 2.50 | 1.30 |
| Indonesia | 6.07 | 6.25 | 3.8 | 2.45 | 39 | 18 | (21) | 5.75 | 1.95 |
| Malaysia | 3.34 | 3.83 | 2.7 | 1.13 | 44 | 49 | 5 | 3.00 | 0.30 |
| Thailand | 2.22 | 2.60 | 1.8 | 0.80 | 41 | 38 | (3) | 2.25 | 0.45 |
| Philippines | 6.23 | 6.41 | 5.4 | 1.01 | (7) | 18 | 25 | 6.25 | 0.85 |

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

## Outlook

Local 10-year bond yields continue to rise as U.S. 10-year T-bond yields trek higher as the Fed appears not ready to end its policy rate hiking cycle.

- After the Fed raised policy rates in July, it will likely pause in its September meeting. The Fed will have to wait for more data that would more clearly show that its inflation targets would be considered within reach. Meantime, U.S. 10-year yields have exceeded 4.15%, the highest level since April 2008 reflecting the market's skittishness. With real 10-year yields turning positive since July 2023 from nearly two years of negative real yields, market players may be hedging on a possible 25 bps hike before the end of the year, or at best hold on for longer.

- Local inflation, despite higher international prices of rice and crude oil, will continue to fall to within the BSP's target range of 2% to 4%. And so the recent climb in domestic 10-year yields closer to 6.75% may not much leg to stand on, since real PH 10-year yields turned positive since June 2023 (after being negative for 11 months before then).

- NG will borrow at a normal pace as it added P892.0-B cash in its coffers by the end of June. Besides, if banks try to extract higher yields from BTr, the latter could turn to foreign banks since ROPs spreads over equivalent U.S. Treasuries have fallen to 67.7 bps by the end of July.

- Corporate issuances in H2 will likely come to trickles, if at all, given the view that interest rates will likely peak in Q3. But we may expect a banner year in 2024.

- ROPs may prove attractive to local investors if they subscribe to the view of continued peso weakness for most of the rest of the year.

# EQUITY MARKETS

## PSEI SLUMPS IN AUGUST AS WEAKER Q2 GDP GROWTH AND FEARS OF HIGHER FOOD PRICES DOMINATE

*Mirroring the risk-on attitude of investors in advanced economies (AEs), PSEi also gained by 1.9% in July after the Fed raised its policy rates by 25 bps as widely expected by the markets. Although it rose the least among monitored ASEAN countries, four of its sectors turned in positive performances during the month, led by the Financial sector with its 5.1% uptick. Mining & Oil and Property sectors followed closely as they climbed by 4.5% and 3.9%, respectively. Globe Telecom (GLO) grabbed the top spot with its 10.9% jump, followed by Metrobank (MBT) with its 7.7% increment. Holdings and Industrial sectors, on other hand, lost -0.9% and -0.7% in value, respectively.*

***Outlook**: PSEi broke through the strong support of 6,350 by August 18 as it ended at 6,290.27, due to fears of renewed inflation upswing and weaker GDP growth in Q2-2023. Despite total corporate earnings of 25 out of 30 stocks included in PSEi soaring by 28.2% in Q2, negative sentiment clouded the fundamentals. With the breaching of the major support in mid-August, the negativities may continue to linger in September and prevent a major rebound. Nonetheless, the emergence of more robust macroeconomic data and milder-than-expected inflation prints for August and September could bring back investors to the equities market.*

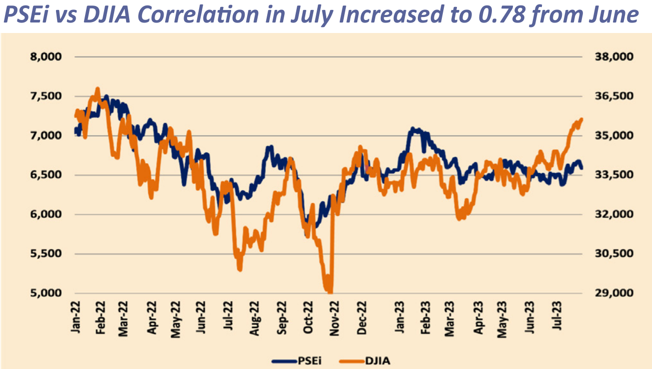
**Table 9 - Global Equities Markets Performances**

| Global Equities Markets Performances | | | | |
|---|---|---|---|---|
| Region | Country | Index | July M-o-M Change | 2023 % Change |
| Americas | US | DJIA | 3.3% | 7.3% |
| Europe | Germany | DAX | 1.9% | 18.1% |
| | London | FTSE 101 | 1.8% | 2.9% |
| East Asia | Hong Kong | HSI | 6.1% | 1.5% |
| | Shanghai | SSEC | 2.8% | 6.5% |
| | Japan | NIKKEI | -0.1% | 27.1% |
| | South Korea | KOSPI | 2.7% | 17.7% |
| Asia-Pacific | Australia | S&P/ASX 200 | 2.9% | 5.3% |
| Southeast Asia | Indonesia | JCI | 4.0% | 1.2% |
| | Malaysia | KLSE | 6.0% | -2.4% |
| | Thailand | SET | 3.5% | -6.7% |
| | Philippines | PSEi | 1.9% | 0.4% |

*Sources: Bloomberg and Yahoo Finance*

**Figure 17 - PSEi vs DJIA**

***PSEi vs DJIA Correlation in July Increased to 0.78 from June***



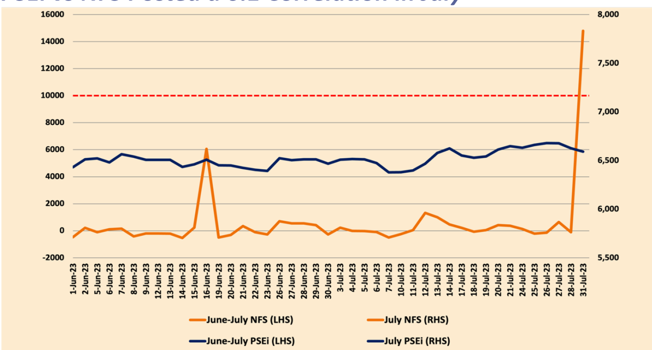

*Sources: Wall Street Journal, Bloomberg*

**Global Picture.** Majority of the global equities landed on the green in July. Hongkong HSI recorded the highest upswing as it ended the month with a 6.1% month-on-month (MoM) uptick, piling on top of its 3.7% increment a month ago. Malaysia KLSE followed suit as it ended the month with a 6% MoM increment, reversing its -0.8% loss a month ago. Meanwhile, Japan NIKKEI emerged as the sole but minor loser in July ended the month with a -0.1% decline MoM. On the other hand, PSEi recorded a 1.9% gain MoM to end July at 6,511.47.

**PSEi and DJIA.** The Dow Jones Industrial Average (DJIA) closed a volatile month of trading. DJIA ended July at 35,559.53. Meanwhile, PSEi finished the month at 6,591.47 from the previous month's close of 6,468.07. The correlation between the two indices in July strengthened to +0.78 from -0.01.

**Figure 18 - PSEi vs Net Foreign Selling**

***PSEi vs NFS Posted a 0.1 Correlation in July***




*Sources: Bloomberg & Yahoo Finance*

**Table 10 - Monthly Turnover (in Million Php)**

| Monthly Turnover (in Million Pesos) | | | | |
|---|---|---|---|---|
| | Total Turnover | | Average Daily Turnover | |
| Sector | Value | % Change | Value | % Change |
| Financial | 31,855.85 | -50.1% | 1,516.95 | -52.4% |
| Industrial | 18,541.82 | -18.9% | 882.94 | -22.8% |
| Holdings | 16,756.32 | -35.6% | 797.92 | -38.7% |
| Property | 17,665.55 | -8.3% | 841.22 | -12.6% |
| Services | 13,709.43 | -20.7% | 652.83 | -24.5% |
| Mining and Oil | 1,373.58 | 18.4% | 65.41 | 12.8% |
| **Total** | **99,902.55** | -33.6% | **4,757.26** | -36.7% |
| Foreign Buying | 58,308.86 | -4.3% | 2,776.61 | -8.9% |
| Foreign Selling | 40,065.87 | -27.9% | 1,907.90 | -31.3% |
| Net Buying (Selling) | 18,242.99 | 237.1% | 868.71 | 221.0% |

*Source of Basic Data: PSE Quotation Reports*

**Table 11 - Top Foreign Buy in July (in Million Php)**

| Top Foreign Buy | |
|---|---|
| Company | Total Value |
| JFC PM Equity | 1,163.42 |
| ALI PM Equity | 1,019.49 |
| BDO PM Equity | 699.21 |
| SMPH PM Equity | 519.86 |
| BPI PM Equity | 299.08 |
| **Total Buy Value** | **3,701.06** |

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

**Net Foreign Buying/Selling.** Five sectors landed on the red, with the Financial sector leading the sector decliners having the largest volume of decline of -50.1% in July. In contrast, the Mining & Oil sector, the lone sector with a positive trading performance for the month, ended July with an +18.4% uptick in its volume.

Foreign investors morphed into net buyers in July to the tune of P18.2-B from P5.4-B a month earlier.

The top five favorite stocks (net buying) of foreign investors amounted to P3.7-B with Jollibee Foods Corporation (JFC) (P1.1-B) and Ayala Land, Inc. (ALI) (P1.0-B) leading the list.

The top five favorite stocks (net selling) in July amounted to P1.4-B with PLDT, Inc. (TEL) (P4.8-M) and Universal Robina Corporation (URC) (P3.0-M) in the front rows.

Four sectors of the PSEi turned in a positive performance in July. The PSEi managed to spare half its losses in July, thus ending with a +1.9% increment MoM. The Financial sector led the sectors with a 5.1% increase during the month. The Holdings sector took the biggest fall of -0.9%, followed by -0.6% for the Industrial sector.

**Table 12 - Top Foreign Sell in July (in Million Php)**

| Top Foreign Sell | |
|---|---|
| Company | Total Value |
| TEL PM Equity | -468.81 |
| URC PM Equity | -367.01 |
| SM PM Equity | -234.03 |
| SEVN PM Equity | -195.46 |
| CNVRG PM Equity | -184.00 |
| **Total Sell Value** | **-1,449.31** |

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

**Table 13 - Monthly Sectoral Performance**

| Monthly Sectoral Performance | | | | | |
|---|---|---|---|---|---|
| | 30-June-2023 | | 31-July-2023 | | 2023 YTD |
| Sector | Index | % Change | Index | % Change | |
| PSEi | 6,468.07 | -0.1% | 6,591.47 | 1.9% | 0.4% |
| Financial | 1,847.13 | 1.9% | 1,940.59 | 5.1% | 18.0% |
| Industrial | 9,228.00 | 0.3% | 9,176.73 | -0.6% | -1.9% |
| Holdings | 6,386.54 | -1.6% | 6,328.99 | -0.9% | -1.6% |
| Property | 2,608.01 | -1.7% | 2,709.85 | 3.9% | -7.5% |
| Services | 1,565.18 | 3.1% | 1,613.19 | 3.1% | -1.3% |
| Mining and Oil | 9,909.69 | -0.6% | 10,364.31 | 4.6% | -4.1% |

*Source of Basic Data: PSE Quotation Reports*

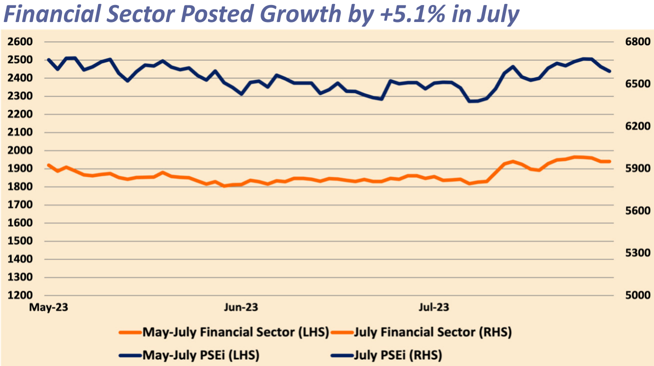
**Table 14 - Financial Sector Constituent Stocks**

| Company | Symbol | 6/30/2023 Close | 7/31/2023 Close | M-o-M % Change | 2023 YTD |
|---|---|---|---|---|---|
| Metropolitan Bank and Trust Company | MBT | 55.70 | 60.00 | 7.7% | 11.1% |
| BDO Unibank, Inc. | BDO | 137.70 | 145.10 | 5.4% | 37.3% |
| Bank of the Philippine Islands | BPI | 108.80 | 114.50 | 5.2% | 12.3% |
| Unionbank of the Philippines | UBP | 74.90 | 76.00 | 1.5% | 1.5% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 19 - Financial Sector Index (May 2023 - July 2023)**

***Financial Sector Posted Growth by +5.1% in July***




*Source of Basic Data: PSE Quotation Reports*

The Financial sector led the sectoral race in July with a +5.1% MoM uptick, following its +1.9% gain in June. After six months, all four of constituent stocks in the sector showed remarkably positive performance in July.

Metropolitan Bank & Trust Company's (MBT) share prices led the sector as it soared by +7.7% MoM in July, reversing its -3.3% loss a month ago. MBT's net income grew by 37.1% YoY in Q2, thus ending H1-2023 with P20.9-B earnings, a 34.1% surge from a year ago, backed by the bank's asset expansion and fee income increase.

BDO Unibank, Inc. (BDO) followed suit as it ended the month with a +5.4% gain in July, following its +1.3% increment a month ago. BDO's Q2-2023 net income soared by 53.2% to P18.7-B from P12.7-B in the same period last year. This resulted in an 11.2% increase to P35.2-B in its net income for H1-2023. BDO attributed its outstanding performance to its solid balance sheet, strong business franchise, and diversified earning streams – given the improving macroeconomic trends in the country.

Bank of the Philippine Islands (BPI) ended the month with a +5.2% gain in July, after its +8.9% uptick a month ago. BPI's Q2-2023 net income climbed by 4.5% to P13.0-B, thereby bringing its H1-2023 income to P25.1-B, representing a 23% uptick YoY.

Unionbank of the Philippines (UBP) share prices inched up by +1.5% in July, partly reversing its -4.5% loss in June. UBP's net income grew by 6% to P6.4-B in H1-2023 from P6.0-B in the same period last year. UBP attributed its growth to the speedy performance of all their business-engines, resulting to over a total of 12.0-M customers as of H1-2023. Specifically, its acquired Citi business reportedly contribute 1/3 of UBP's income, while subsidiary CitySavings continues to be a market leader in providing salary loans, and UnionDigital is already profitable and growing fast.

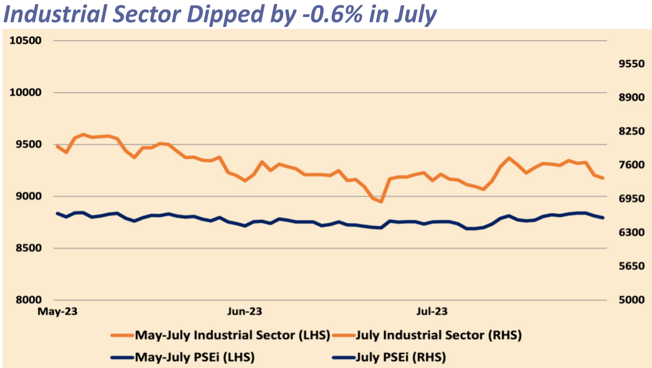
**Table 15 - Industrial Sector Constituent Stocks**

| Company | Symbol | 6/30/2023 Close | 7/31/2023 Close | M-o-M % Change | 2023 YTD |
|---|---|---|---|---|---|
| Meralco | MER | 335.00 | 356.00 | 6.3% | 19.1% |
| Aboitiz Power | AP | 38.45 | 36.05 | -6.2% | 5.9% |
| Jollibee Foods Corporation | JFC | 239.20 | 255.00 | 6.6% | 10.9% |
| Universal Robina Corporation | URC | 137.50 | 122.60 | -10.8% | -9.9% |
| AC Energy Corporation | ACEN | 5.39 | 5.22 | -3.2% | -31.5% |
| Emperador Inc. | EMI | 21.30 | 20.95 | -1.6% | 1.7% |
| Monde Nissin Corporation | MONDE | 8.01 | 8.19 | 2.2% | -26.1% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 20 - Industrial Sector Index (May 2023 - July 2023)**

***Industrial Sector Dipped by -0.6% in July***




*Source of Basic Data: PSE Quotation Reports*

The Industrial sector index ranked fifth in the sectoral race, with a -0.6% MoM loss in July, which wiped out its +0.3% increment a month earlier.

Jollibee Foods Corporation (JFC) share prices climbed by +6.6% in July, following its +1.5% increment a month earlier. JFC recently reported its joint venture with Food Collective Pte Ltd (FCPL) which would bring Tiong Bahru Bakery and Common Man Coffee Roasters to the Philippines. JFC will then own 60% of the business while FCPL would own 40%, which allows JFC to take the lead in management and operations of the business. This joint venture will be a strong addition to JFC's foreign franchised brands and will allow the company to strengthen its growth in the Philippine market.

Meralco (MER) share prices followed suit as it ended the month with a +6.3% gain in July, following its +2.4% increment a month ago. MER's Q2-2023 net income grew by +52.8% to P10.1-B from P6.6-B in the same period last year, thereby resulting to a 36.1% increase to P17.8-B from P13.1-B in its net income for H1-2023. MER attributed its performance to the strong rebound in power demand. Besides, MER aims to aggressively invest in distribution network upgrades and expansion, alongside its plans to implement more programs that will improve overall customer experience.

Monde Nissin Corporation (MONDE) share prices inched up by +2.2% in July. In line with MONDE's plans to expand its bakery and biscuit business, MONDE has already started its work on its P1.2-B production plant in Davao. The factory will likely open in February 2024 and will add capacity to its existing manufacturing facility allocated for its flagship Lucky Me! instant noodles. The expansion will not only enhance its manufacturing capacity, but also strengthen MONDE's network of partner distributors and retailers.

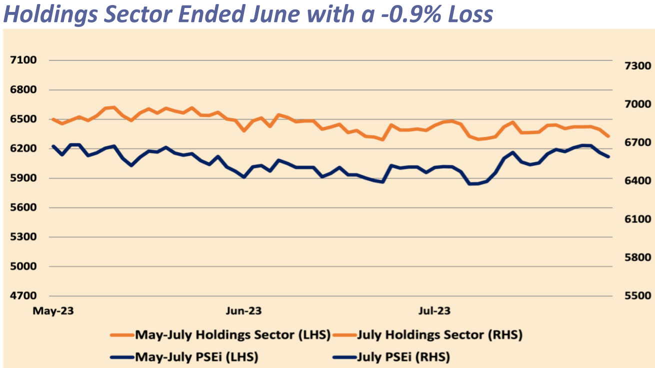
Aboitiz Power (AP) share prices contracted by -6.2% in July, after its +3.4% gain in the previous month. Nonetheless, AP's Q2-2023 net income grew by +47.1% to P10.3-B from P7.0-B in the same period last year. Altogether, this resulted to a 78% increase to P17.8-B from P10.0-B for AP's H1-2023 net income. AP believes it's on track towards achieving a 50:50 balanced mix portfolio by 2030 but will continue its focus on providing reliable and innovative power while adapting to dynamic market conditions.

**Table 16 - Holdings Sector Constituent Stocks**

| Company | Symbol | 6/30/2023 Close | 7/31/2023 Close | M-o-M % Change | 2023 YTD |
|---|---|---|---|---|---|
| Ayala Corporation | AC | 625.00 | 615.00 | -1.6% | -11.5% |
| Metro Pacific Investments Corporation | MPI | 4.77 | 4.87 | 2.1% | 42.4% |
| SM Investments Corporation | SM | 925.00 | 912.00 | -1.4% | 1.3% |
| Aboitiz Equity Ventures | AEV | 54.40 | 53.80 | -1.1% | -6.8% |
| GT Capital Holdings, Inc. | GTCAP | 515.00 | 545.00 | 5.8% | 25.3% |
| San Miguel Corporation | SMC | 105.40 | 108.90 | 3.3% | 17.2% |
| Alliance Global Group, Inc. | AGI | 13.42 | 12.44 | -7.3% | 4.5% |
| LT Group Inc. | LTG | 9.51 | 9.60 | 0.9% | 4.3% |
| JG Summit Holdings, Inc. | JGS | 44.45 | 43.05 | -3.1% | -14.4% |
| DMCI Holdings, Inc. | DMC | 9.06 | 9.60 | 6.0% | 6.0% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 21 - Holdings Sector Index (May 2023 - July 2023)**
***Holdings Sector Ended June with a -0.9% Loss***




*Source of Basic Data: PSE Quotation Reports*

Universal Robina Corporation (URC) share prices dipped by -10.8% MoM in July, after its recorded -2.2% loss in June. Despite higher commodity costs, URC reported a 19% uptick in its Q2-2023 net income to P3.2-B from P2.7-B in the same period last year. Notably, URC has maintained its sales momentum while showing improving margins despite higher input costs and inflationary pressures.

The Holdings sector ranked last in sector rankings in July with a -0.9% MoM loss from its -1.6% loss in June. DMCI Holdings, Inc. (DMC) share prices led the sector as it climbed up by +6% wiping out its -4.2% loss a month ago. Interestingly, DMCI reported a 9% decline in its Q2-2023 net income to P8.2-B from P9.0-B in the same period last year. The weaker performance arose from lower contributions from its coal, nickel, and construction businesses during the said period, offset partly by the strong rebound of their power and water businesses. Nonetheless, according to DMCI Holdings chairman and president Isidro Consunji, DMCI still saw their second-highest Q2-earnings ever.

GT Capital (GTCAP) followed suit as it jumped by +5.8% in July after it fell by -0.2% in the previous month. GTCAP plans to launch 10 master-planned township in the next few years. Specifically, seven communities will rise in Riverpark in Cavite.  It plans to redevelop three of its current communities (i.e., Grand Central Park in Bonifacio Global City, Met Park in the Bay Area in Pasay City, and a community in Makati). Profits at Toyota Motor Philippines soared by 119% to P3.5-B in Q2 YoY, bringing the H1 earnings to P8.0-B, a whopping 147% vault from H1-2022.

San Miguel Corporation (SMC) share prices pared its -1.9% loss in June with a +3.3% MoM gain in July. SMC reported double-digit 18% growth in its H1-2023 net income to P23.3-B. SMC attributed its growth to its beer, spirits, infrastructure, and packaging units. The firm also disclosed its strategic partnerships with international companies such as Kirin Holdings Company Limited (for beer), Hormel Foods International Corporation (for processed meats), Nihon Yamamura Glass Company Ltd., and Fuso Machine & Mold Mfg. Co. Ltd. and Can Pack S.A. (for packaging products), and Korea Water Resources Corporation (for its power business).

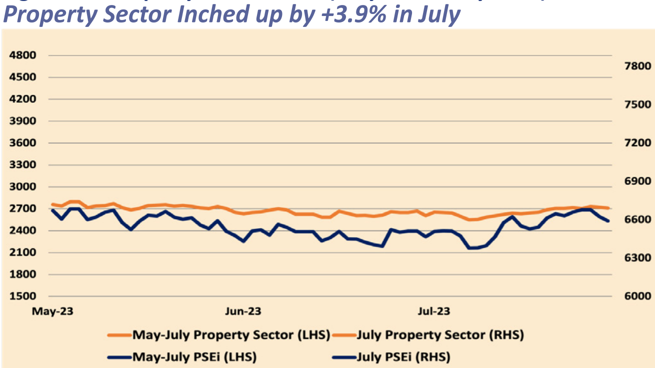
Metro Pacific Investments Corporation (MPI) share prices inched up by +2.1% after its +9.3% uptick a month ago. MPIC recently filed its application to delist from the Philippine Stock Exchange (PSE). The final offer

**Table 171 - Property Sector Constituent Stocks**

| Company | Symbol | 6/30/2023 Close | 7/31/2023 Close | M-o-M % Change | 2023 YTD |
|---|---|---|---|---|---|
| Ayala Land, Inc. | ALI | 26.30 | 27.40 | 12.8% | -11.0% |
| SM Prime Holdings, Inc. | SMPH | 32.70 | 33.40 | 1.7% | -5.9% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 22 - Property Sector Index (May 2023 - July 2023)**
***Property Sector Inched up by +3.9% in July***




*Source of Basic Data: PSE Quotation Reports*

**Table 18 - Services Sector Constituent Stocks**

| Company | Symbol | 6/30/2023 Close | 7/31/2023 Close | M-o-M % Change | 2023 YTD |
|---|---|---|---|---|---|
| PLDT, Inc. | TEL | 1,312.00 | 1,310.00 | -0.2% | -0.5% |
| Globe Telecom | GLO | 1,731.00 | 1,920.00 | 10.9% | -11.9% |
| Converge ICT Solutions, Inc. | CNVRG | 10.92 | 10.10 | -7.5% | -36.4% |
| Puregold Price Club Inc. | PGOLD | 29.40 | 29.00 | -1.4% | -16.9% |
| Wilcon Depot, Inc. | WLCON | 24.15 | 22.85 | -5.4% | -22.5% |
| International Container Terminal Services, Inc. | ICT | 203.80 | 217.00 | 6.5% | 8.5% |

*Source of Basic Data: PSE Quotation Reports*

price of MPI to minority shareholders comes to P5.20 per share. The represents a premium of 37 % over the one-year volume weighted average price (VWAP) of P3.80 per share.

Alliance Global Group, Inc. (AGI) share prices dipped by -7.3% in July, wiping out its +1.2% increment a month ago. Nonetheless, as AGI remains to be the biggest player in the Philippine tourism sector, the company reported its plans of expansion for its hotel operations by adding six new locations to its portfolio by 2028. The planned location of new hotels include Paranaque City, Laguna, Bacolod City (Negros Occidental), City of San Fernando (Pampanga), Boracay Island (Malay, Aklan), and San Vicente (Palawan). AGI's strategy aims to solidify its market dominance in the country's fast-growing tourism sector, being the largest hotel developer and operator in the Philippines.

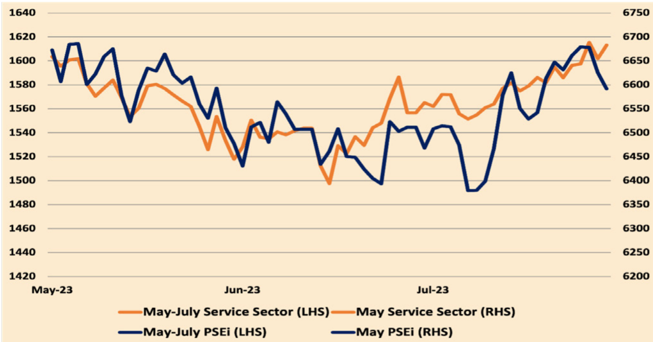
The Property sector ranked third in the sectoral race as it ended July with a +3.9% MoM gain reversing its -1.7% loss in the previous month.

Ayala Land, Inc. (ALI) share prices climbed by +12.8% in July, rebounding from its -7.6% fall a month ago. ALI listed Php 15.0-B of 5- and-10-year fixed rate bonds at the Philippine Dealing Exchange (PDEx). Proceeds will fund capital expenditures and refinancing requirements in this fiscal year.

SM Prime Holdings, Inc. (SMPH) inched up by +1.7% in July after its +0.5% increment a month ago. SMPH's Q2-2023 net income grew by 49% to P10.0-B from P6.7-B in the same period last year. SMPH attributed its performance to its mall segments, with 30% growth in revenues (42% increase in rents and 152% increase in cinema revenues). Moreover, SM Development Corporation, which is SMPH's residential development subsidiary, also saw an 82% increase in its Q2-2023 revenues.

**Figure 23 - Services Sector Index (May 2023 - July 2023)**

***Services Sector Ended July with a +3.1% Uptick***




*Source of Basic Data: PSE Quotation Reports*

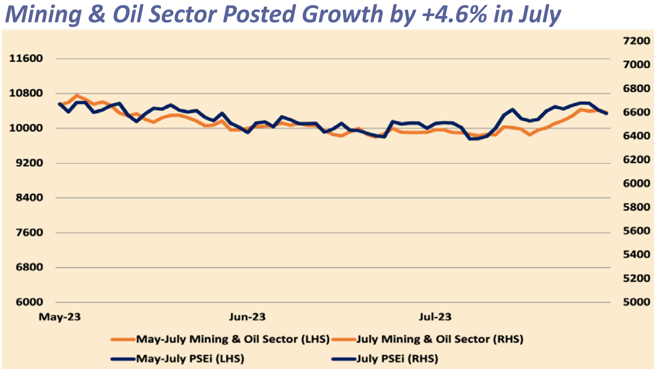
**Table 19 - Mining and Oil Sector Constituent Stock**

| Company | Symbol | 6/30/2023 Close | 7/31/2023 Close | M-o-M % Change | 2023 YTD |
|---|---|---|---|---|---|
| Semirara Mining and Power Corporation | SCC | 28.00 | 28.85 | 3.0% | -16.4% |

*Source of Basic Data: PSE Quotation Reports*

**Figure 24 - Mining & Oil Sector Index (May 2023 - July 2023)**

***Mining & Oil Sector Posted Growth by +4.6% in July***




*Source of Basic Data: PSE Quotation Reports*

The Services sector sub-index ranked fourth in the sectoral race, as it gained by +3.1% in July, replicating its June uptick.

Globe Telecom (GLO) share prices led the sector as it climbed up by +10.9% in July, after its +1.8% increment a month ago. As artificial intelligence (AI) has shown "promising" performance by automating routine tasks (i.e., outbound calls, customer care, and collection), GLO plans to explore the potential of using artificial intelligence (AI) to improve customer service experience and improve cost efficiency.

PLDT, Inc. (TEL) share prices contracted by -0.2% in July, a little slice of its +9.3% climb in the previous month. TEL reported a 20% jump in its Q2-2023 net income to P9.4-B. TEL's data and broadband services comprised 82% of its consolidated service revenues which inched up by 4% to P77.5-B in H1-2023.

Puregold Price Club, Inc. (PGOLD) share prices followed suit as it slipped by -1.4% in July, after tumbling by -9% a month ago. Nonetheless, PGOLD earnings stayed flat P2.0-B in Q2-2023 but attained a 4.8% YoY growth to P4.4-B in H1-2023. It attributed the gains to increased business activities and increased store count. Specifically, in H1-2023 alone, PGOLD opened 16 new Puregold stores, one S&R Membership Shopping Warehouse, and one S&R New York Style quick service restaurant (QSR).

Wilcon Depot, Inc. (WLCON) share prices likewise contracted by -5.4% MoM in July, after its -15% slump a month ago. WLCON's Q2-2023 net income sank by -15.4% to P855.7-M from P1.0-B in the same period last year. WLCON pointed out the decline in foot traffic in their old stores. Nonetheless, WLCON said that it will still pursue its expansion plans (i.e., seven ongoing construction projects not including those that are in the planning or permitting stage – are set to be open by next year) at their current pace.

The Mining & Oil sector ranked second in the sectoral race as it gained by +4.6% in July, after its -0.6% loss in the previous month. Semirara Mining and Power Corporation (SCC) share prices turned in a positive performance at 3% MoM in July, after staying flat in June. SCC reported a 26% dip in its H1-2023 net income to P19.2-B from P25.8-B in the same period last year, as coal prices normalized from a high base in 2022. Nonetheless, despite lower coal prices, SCC said it has delivered its second best H1 results due to China's demand recovery and improved performance of its Sem-Calaca Power Corporation Unit 2.

# Recent Economic Indicators

## NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (In Million Pesos)

| | 2021 | | 2022 | | 1st Quarter 2023 | | | 2nd 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 | 1,775,209 | -0.3% | 1,783,499 | 0.5% | 444,603 | -15.4% | 2.2% | 417,469 | -6.1% | 0.2% |
| Industry Sector | 5,551,621 | 8.5% | 5,914,703 | 6.5% | 1,466,659 | -13.7% | 4.0% | 1,555,126 | 6.0% | 2.1% |
| Service Sector | 11,213,252 | 5.4% | 12,245,429 | 9.2% | 2,996,231 | -10.6% | 8.4% | 3,234,491 | 8.0% | 6.0% |
| Expenditure | | | | | | | | | | |
| Household Final Consumption | 13,455,117 | 4.2% | 14,570,218 | 8.3% | 3,583,991 | -11.9% | 6.4% | 3,583,956 | -3.0% | 5.5% |
| Government Final Consumption | 2,842,705 | 7.2% | 2,981,663 | 4.9% | 715,279 | 1.2% | 6.2% | 838,500 | 17.2% | -7.1% |
| Capital Formation | 4,051,799 | 20.0% | 4,609,287 | 13.8% | 1,129,136 | -4.8% | 12.6% | 1,345,905 | 19.2% | 0.0% |
| Exports | 5,129,672 | 8.0% | 5,688,704 | 10.9% | 1,374,568 | -4.2% | 1.0% | 1,416,845 | 3.1% | 4.1% |
| Imports | 6,939,209 | 12.8% | 7,906,240 | 13.9% | 1,989,383 | 2.7% | 4.7% | 2,026,420 | 1.9% | 0.4% |
| GDP | 18,540,084 | 5.7% | 19,943,630 | 7.6% | 4,907,493 | -12.0% | 6.4% | 5,207,087 | 6.1% | 4.3% |
| NPI | 639,321 | -51.6% | 1,133,700 | 77.3% | 412,531 | 16.2% | 82.4% | 495,415 | 20.1% | 90.6% |
| GNI | 19,179,405 | 1.7% | 21,077,331 | 9.9% | 5,320,024 | -10.3% | 10.0% | 5,702,502 | 7.2% | 8.6% |

*Source: Philippine Statistics Authority (PSA)*

## NATIONAL GOVERNMENT CASH OPERATION (In Million Pesos)

| | 2021 | | 2022 | | May-2023 | | | June-2023 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Levels | Growth Rate | Levels | Growth Rate | Levels | Monthly G.R. | Annual G.R | Levels | Monthly G.R. | Annual G.R |
| Revenues | 3,005,539 | 0.2% | 3,545,505 | 0.2% | 333,437 | -24.3% | 30.0% | 267,315 | -19.8% | 8.9% |
| Tax | 2,739,350 | -2.4% | 3,214,534 | -2.4% | 291,711 | -27.7% | 24.5% | 238,870 | -18.1% | 11.9% |
| BIR | 2,078,108 | 0.0% | 2,335,674 | 0.0% | 213,273 | -36.5% | 16.1% | 164,736 | -22.8% | 3.4% |
| BoC | 643,563 | -9.3% | 862,420 | -9.3% | 77,926 | 15.4% | 60.3% | 74,125 | -4.9% | 42.1% |
| Others | 18,157 | -24.7% | 16,440 | -24.7% | 512 | 3100.0% | -74.9% | 9 | -98.2% | -99.6% |
| Non-Tax | 265,357 | 23.6% | 329,863 | 23.6% | 41,710 | 12.5% | 89.2% | 28,287 | -32.2% | -11.2% |
| Expenditures | 4,675,639 | 10.6% | 5,159,640 | 10.6% | 455,668 | 21.9% | -0.2% | 492,713 | 8.1% | 24.6% |
| Allotment to LGUs | 892,698 | 39.8% | 1,103,284 | 39.8% | 79,940 | 1.1% | -2.0% | 81,485 | 8.7% | 11.3% |
| Interest Payments | 429,432 | 8.9% | 502,858 | 8.9% | 41,344 | -10.6% | 42.9% | 52,884 | 27.9% | 76.7% |
| Overall Surplus (or Deficit) | (1,670,100) | 145.7% | (1,614,135) | 145.7% | (122,231) | -283.0% | -39.0% | (225,398) | 84.4% | 50.4% |

*Source: Bureau of the Treasury (BTr)*

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

| | 2022 | | February-2023 | | | March-2023 | | |
|---|---|---|---|---|---|---|---|---|
| | Annual Levels | Growth Rate | YTD Levels | Monthly G.R. | YTD | YTD Levels | Monthly G.R. | YTD |
| TOTAL | 48,270.70 | 6.0% | 7,474.00 | 2.7% | 3.7% | 11,130.90 | -1.7% | 1.9% |
| Residential | 17,140.40 | 1.4% | 2,468.90 | -2.9% | -0.6% | 3,699.80 | -6.9% | -2.8% |
| Commercial | 17,052.40 | 14.1% | 2,787.90 | 13.3% | 14.0% | 4,125.50 | 5.9% | 11.2% |
| Industrial | 13,296.80 | 3.1% | 2,072.70 | -3.9% | -3.4% | 3,090.10 | -5.2% | -4.0% |

*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)

| | 2022 | | April-2023 | | May-2023 | |
|---|---|---|---|---|---|---|
| | Average Levels | Annual G. R | Average Levels | Annual G.R. | Average Levels | Annual G.R. |
| RESERVE MONEY | 3,482,242 | 5.4% | 3,714,565 | 3.5% | 3,551,964 | 0.5% |
| Sources: | | | | | | |
| Net Foreign Asset of the BSP | 6,423,727 | 2.0% | 6,551,981 | -0.2% | 6,554,555 | 2.7% |
| Net Domestic Asset of the BSP | 15,667,570 | 10.3% | 16,867,755 | 11.9% | 17,010,968 | 11.4% |
| MONEY SUPPLY MEASURES AND COMPONENTS | | | | | | |
| Money Supply-1 | 6,317,720 | 11.6% | 6,461,076 | 1.9% | 6,444,855 | 2.0% |
| Money Supply-2 | 14,877,668 | 7.8% | 15,788,303 | 7.7% | 15,837,211 | 7.7% |
| Money Supply-3 | 15,432,545 | 6.9% | 16,256,666 | 6.6% | 16,284,987 | 6.6% |
| MONEY MULTIPLIER (M2/RM) | 4.28 | | 4.25 | | 4.46 | |

*Source: Bangko Sentral ng Pilipinas (BSP)*

## CONTRIBUTORS


| | |
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