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The
MARKET CALL
Capital Markets Research

FIRST METRO INVESTMENT CORPORATION
Metrobank Group

UA&P
UNIVERSITY OF ASIA AND THE PACIFIC

FMIC and UA&P Capital Markets Research

Real Recovery Underway?

After a disappointing Q4-2009 GDP growth of 1.8% (year-on-year, y-o-y) and El Niño bearing down on agriculture in Q1-2010, it would seem premature to talk about a real recovery. Fortunately, the economic data that have come out for January 2010 have been surprisingly strong and indeed point towards a robust recovery stimulated by government's deficit spending and election campaign activities. Here are some of the numbers: 1) Meralco electricity sales up by 22.4% (y-o-y) – a 15-year high; 2) Employment generated by economy over a 1-year period increased by 5.0% or a record-high of 1.7 M jobs; 3) Tax revenues beat targets, rising by 18.2%; and 4) Exports zoomed up by 42.5%.

These were accomplished as the inflation rate remained stable at 4.2% in February, and the Bangko Sentral ng Pilipinas (BSP) mopped up "excess liquidity" of around P171 B between January 1st and March 5th, or roughly 17% of Reserve Money (Mo). We could argue that these growth rates take off from a low base; nonetheless, it is worthwhile to remember that no recovery starts from 100% gains.

Industry's Electricity Sales Growth of 44.5% Powers Meralco Indicator

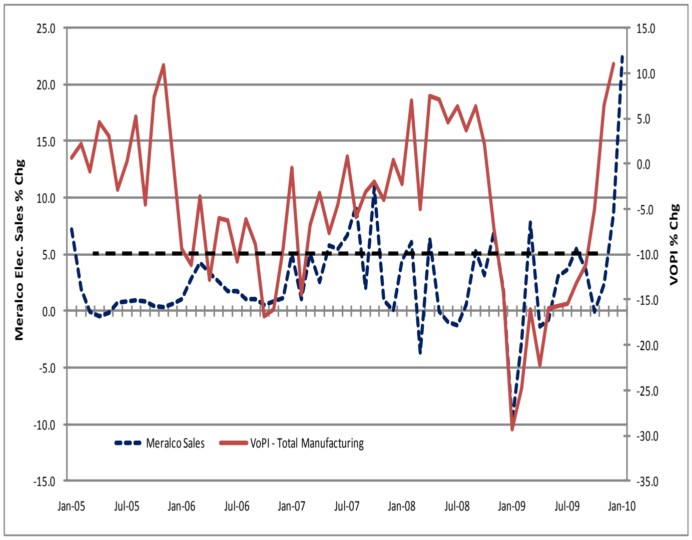
Coming from a low base in January a year ago, Meralco electricity sales were up by a hefty 22.4% (y-o-y) in January 2010, powered by the Industrial sector's dizzying gains. This acceleration from the last two months is in contrast to the 9.9% decline posted a year ago. Besides, this is the highest growth rate recorded since May 1994, and the first double digit growth since October 2007.

Revenues from all three major sectors – Residential, Commercial, and Industrial – were up to two digits (y-o-y). The biggest leap was from the industrial sector sales at 44.5%, almost threefold from December's 15.8%. Complementing this is the growth in the tandem of residential and commercial sales. The electricity sales from the two sectors were higher at 13.5% from 5.3% and 16.7% from 7.0%, respectively.

The Q1 Meralco sales remain a puzzle though. On one hand, energy output would likely be affected by the ongoing power shortages in Mindanao and some parts of Luzon. On the other, electricity price hikes have been seen in the Wholesale Electricity Spot Market (WESM) as a result of these power shortages. Economic activity could suffer because of these two phenomena. On the price side, this has already been reflected in the Consumer Price Index (CPI) for February through the Services index (see Inflation article).

There is some uncertainty in terms of supply due to low water levels in Luzon dams. Although officials have assured power availability with the return of the 1,500 MW Ilijan natural gas power plant in Batangas (after a month of annual maintenance and repair work), prices may still have an upward bias considering the upsurge in demand. The vice president and utility economics head of Meralco, Ivanna G. Dela Peña, recently told *Business World* that *"Meralco is revising its initial forecast of 3% growth for power sales in 2010 to reflect the growth last January. Given the indications in January... we are actually in the process of recasting our forecast."*

Figure 1 - Meralco Sales & Volume of Production Index Growth Rates (y-o-y)



Source: Meralco, National Statistics Office (NSO)

The biggest contributor to job gains continues to be Services, which added 1.3 million jobs, a 7.5% improvement from year-ago levels.

1.7 M Jobs Generated by 5.0% Growth in Employment

The latest Labor Force Survey released by the National Statistics Office (NSO) for January 2010 showed a modest decline in the unemployment rate to 7.3% from 7.7% a year ago. What was not so obvious was that the labor force rose by an exceptionally high 4.6%, but was more than offset by the 5% growth in net job creation. The latter translated into 1.7 M new jobs over a one-year period, a record high for the country.

The biggest contributor to job gains continues to be Services, which added 1.3 M jobs – a 7.5% improvement from year-ago levels. Next comes Industry which provided some 462,000 openings, representing a robust 9.5% jump from January 2009. Agriculture, on the other hand, lost nearly 50,000 jobs.

All sub sectors in the Service sector posted gains, except for minimal losses in Education and Health and social work. As usual, the heftiest plusses originated from the wholesale and retail trades, while Public Administration and Security services added 191,000 jobs. Hotels and Restaurants contributed 122,000 more slots.

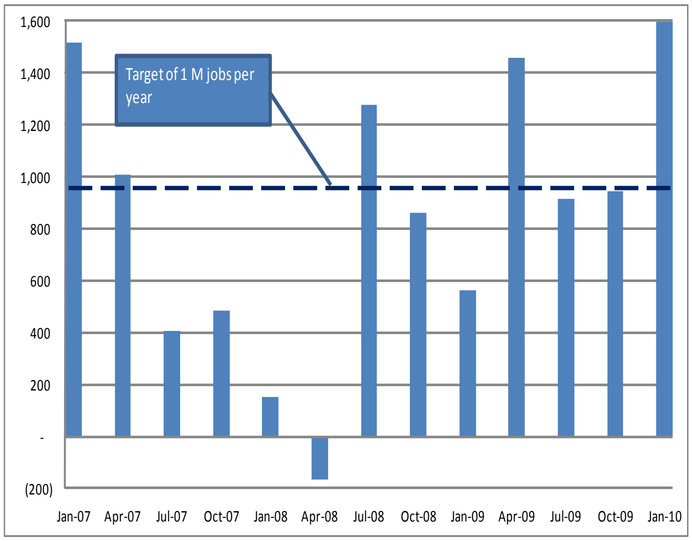
As for Industry, Mining and Quarrying continued to be the best job creator in growth terms. In absolute numbers, Construction provided the most jobs at 230,000, or an increase of 13.5% from a year ago. Manufacturing absorbed 180,000 new workers, equivalent to a 6.3% rise for the same period.

As for the type of workers that got work, 2.17 million were salaried or wage earners, 12.1% more than January 2009. This is a desirable feature of job growth, since it also showed a substantial decline in unpaid family workers by 9.5% (or almost 400,000), and a slight drop in own account workers.

Finally, consistent with the rest of the data, labor that worked more than 40 hours per week surged by 9.5% or an equivalent of 2 M jobs. Correspondingly, those that worked less than those hours declined. Also, the average number of hours worked per week rose by 2.4% to 42.3 hours.

While some of these jobs may not be permanent, the multiplier effect of this huge increase in employment into the coming quarters should not be overlooked.

Figure 2 - Net New Jobs Created (000) Year Ending Survey Month



Source: NSO

Inflation Eases Further to 4.2% in February

Contrary to expected increase in inflation due to El Niño, from a y-o-y perspective, there was a continued deceleration of inflation to 4.2% in February, while from a month-on-month (m-o-m) angle, the analysis could be more mixed.

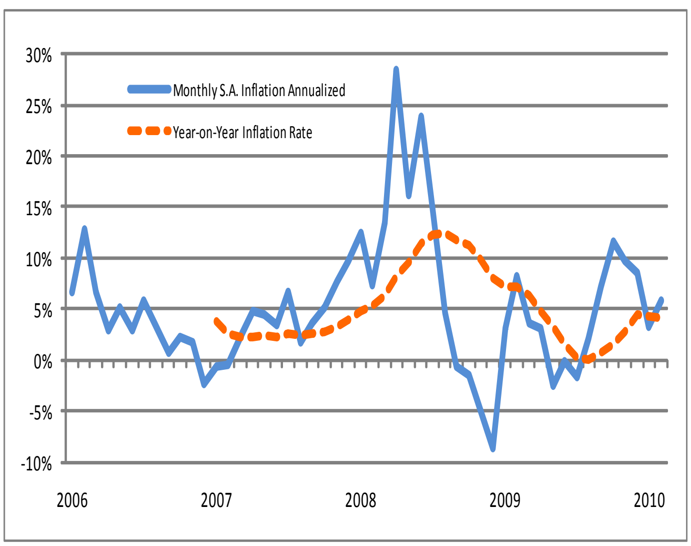
Headline inflation was slightly lower than January's 4.3%, as a result of a weakening pace in Food, Beverage, and Tobacco (FBT) price index. The said index slowed down from 4.3% to 3.8% as prices for commodities like corn, rice, eggs, and fruits and vegetables eased. Although there were some items that exhibited further price hikes, such as cereals, fish, and miscellaneous food (e.g. sugar), the uptick was minimal. On the other hand, core inflation, which excludes volatile food and energy prices, went up to 3.6% from 3.0% the previous month. Both headline and core inflation measures, however, remain well within BSP's inflation target of 4.5% +/- 1%.

FLW jumped by 3.8% in February which made it the biggest contributor to monthly inflation (71.5% from a measly 3.6% the previous month).

From the m-o-m perspective, CPI increased by 0.4% which paints a slightly different story. The higher monthly electricity rates greatly affected the Fuel, Light, and Water (FLW) index. From a low 0.1% rise in January, FLW jumped by 3.8% in February. This uptick made FLW the biggest contributor to monthly inflation (71.5% from a measly 3.6% the previous month). Because of its sheer weight in the CPI basket, the food component (FBT) contributed almost 17% to the monthly price increase. The rest of the commodity classifications contributed less than 5% each. Miscellaneous accounted for 4.6% of the price movement, while Housing and Repairs added 3%. Clothing and Services each pitched in a minimal 2%. Average crude oil prices (West Texas Intermediate, WTI) were down by 2.5% from January, even though these were almost double the levels a year ago. Thus, gasoline and diesel pump prices contributed little to the minimal gain in the Services index.

Contrary to the slower pace seen in the y-o-y view, the seasonally adjusted annualized rate (SAAR) took a faster turn. From 4.0% in January, it rose to 5.8% in February. This was primarily due to the 9% SAAR jump in non-food items. The food items were modestly up by 2.6% due to improved supply. In-season fruits were abundant as well as other food products like fish.

Figure 3 - Inflation Rates Annualized (2006-2010) Seasonally Adjusted vs. Year-on-Year



Source: NSO

While Q1 inflation figures seems headed to average below the 4.5% target, this is likely to range between 4.2% to 4.8% in Q2, considering the additional demand caused by election spending. Besides, the El Niño's negative impact on agriculture and supply may worsen, even though the Southern Oscillation Index (SOI) had already peaked by February 2010. In the meantime, some rains have started in March and daily cloud formations are now more discernible.

NG Surprises with Tax Revenue Gains in January

The National Government (NG) registered a deficit of P37.1 B in January, or 2.4% lower than a year ago, as a result of unexpected strength in tax revenues. Tax collections increased by 18.2% (y-o-y), a tad above target, according to Department of Finance (DOF) officials. Higher imports enabled the Bureau of Customs' (BOC) tax take to vault by 22.2% from January last year, while the Bureau of Internal Revenue (BIR), under a new commissioner, hauled in 17% more than a year ago.

In tandem with revenue collections, total expenditures grew by 11% (y-o-y). Actually, since interest payments only moved up by 5.8%, NG spending on other critical items (excluding interest expenses), such as infrastructure and social services, increased at a more elevated rate of 13.3% from a year ago. The improved tax take translated into a primary surplus, which excludes interest among expenditures, of P0.5 B. This is in contrast to a primary deficit of P2.5 B in January 2009.

While the projection for the whole year is P293 B, the mentioned P37.1 B January deficit does not look alarming since it is expected that most of the deficit would be front-loaded to the first semester. However, critics say that this would be wishful thinking as, 2010 being an election year, spending may easily go out of control. But according to Finance Undersecretary Gil S. Beltran, the 2010 Q1 budget deficit of P110.9 B will be met thanks to the two agencies responsible for tax collections. The aim for the BIR is P48 B for February, while the BOC wanted to collect P18.4 B. Preliminary information would show that their targets were met, and so it is likely that the budget deficit

Fuelled by a 51.2% surge in electronics exports, the country's total exports climbed steeply by 42.5% (y-o-y).

set for 2010 will be achieved. Actually, BIR Commissioner Joel Tan-Torres has bared that the collection trends up to mid-March would indicate that the agency would meet its Q1 revenue targets.

The financial markets remain skeptical about this "positive" outlook, but players will have to scamper for good yields fast should these prognostications turn out right.

Monetary Policy Stance On Hold in H1

The Monetary Board on March 11th maintained policy interest rates (overnight borrowing or reverse repo's) at 4% as the inflation rates in the last three months averaged 4.3% or well within the BSP's target of 3.5% to 5.5%. Later in the month, BSP Governor Amando Tetangco was quoted as saying that the rate will be on hold for the rest of the first semester.

Total liquidity (M3) growth had been in a single digit pace or 8.1% (y-o-y) in January 2010, a slight further deceleration from 8.3% the previous month. This was primarily due to another slowdown in bank lending to the private sector to 7.2% from 8.1% in December 2009. This type of lending has been in the single digit zone for the last six months.

Figure 4 - M3 Money Supply Growth Rates (y-o-y)

Source: Bangko Sentral ng Pilipinas (BSP)

We should bear in mind that the BSP has been on "mopping up liquidity" mode, scooping in a gargantuan P171 B from the banking system in the first nine weeks of 2010. Special Deposit Accounts (SDAs) have zoomed up to P781 B as against P549 B at the beginning of the year. SDAs are paid interest at 4%, or the same as the policy rate.

It still puzzles us why the BSP should be in this mode when the economy grew by only 1.8% in Q4-2009 and the inflation is quite moderate.

ASEAN + 4: Policy Rates

Country	Current Rate	Date Last Changed	Δ bps	Forecast Δ for Q2
ASEAN				
Philippines	4.00	9-Jul-09	-25	0
Indonesia	6.50	5-Aug-09	-25	0
Malaysia	2.25	4-Mar-09	+25	+25
Thailand	1.25	8-Apr-09	-25	0
Singapore	0.67	14-Apr-09	n.a	+33
China	2.25	23-Dec-08	-27	0
South Korea	2.00	12-Feb-09	-50	0
Taiwan	1.25	18-Feb-09	+25	0
India	5.00	19-Mar-10	+25	+25
US	0.125		-	0

Electronics lead exports to gain by 42.5% in January

Fuelled by a 51.2% surge in electronics exports, the country's total exports climbed steeply by 42.5% (y-o-y) at the start of 2010. Tracking closely the US recovery, like China and Japan's exports, the growth pace of Philippine exports was the highest rate achieved since 1995. January total exports reached $3.6 B from December's $3.3 B and a mile ahead of January 2009's $2.5 B. This is the third consecutive month of growth at an accelerating mode.

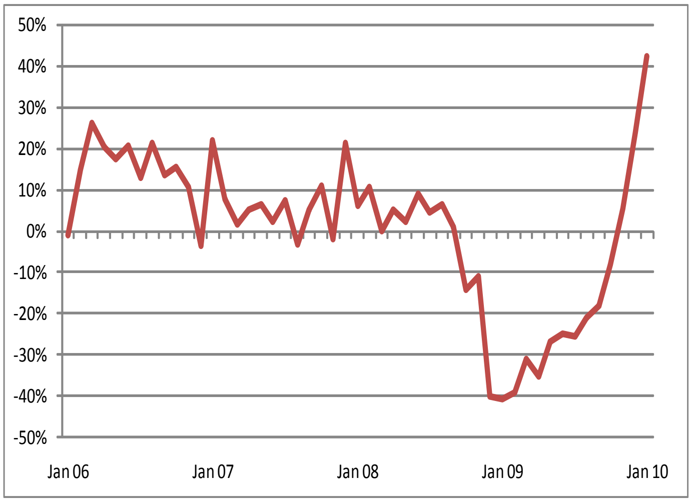
Overall, it was the manufactured products that triggered the growth rally of exports. Its ascent by 47.2% from 26.6% a month ago (20% points higher) pushed further total exports. 6 of the 9 components of electronics exports posted especially high gains. Similarly, 11 out of 16 manufactured product categories rose mostly by double digits.

The remittances from sea-based workers rallied the remittances growth with a kick of 18.1%.

In terms of growth by category, petroleum products took pole position with its exports rising by 116.7% as petroleum products' prices climbed sharply. However, since it accounts for only a 0.8% share to the total exports, its overall impact was muted. After exports of manufactures, agro-based products took bronze by jumping 33.7% over a year ago. The leader here was coconut products which posted a 236.0% gain, up from December's 1.4%. Despite having only 3.4% contribution to export earnings, this was remarkable.

However, most of the items declined in the m-o-m perspective. But as a whole, the manufacturing exports still managed to grow. The electronic products component of the manufacturing exports, owning the biggest chunk (56.8%), had a m-o-m growth of 8.1%. This offsets all the declines in the other export products due to the high percentage share of manufactured products of 87.1%. As a result, total exports still mounted by 8.2%. The m-o-m growth is affected by seasonal factors and usually January exports are lower than the previous month by approximately 10% on average. Thus, the positive growth, though in single digits, is still an indicator of a global economy on its way to recovery.

Figure 5 - Monthly Exports Growth Rates (y-o-y)



Source: NSO

For January, the main destination of export goods was Japan (16.2%), immediately followed by the US (16.1%), and then Singapore (9.9%). The growth in export revenues can be attributed to the robust East Asian markets. As a matter of fact, the revenues from trading with East Asian markets increased by 43.5% from January 2009 to January 2010.

The outlook on exports is still good. It will continue its y-o-y growth at above 20% for the rest of the first semester, although imports are expected to increase together with exports which may inflate the trade balance. The elections that will occur in Q2 is something we have to watch out for because the trade policies that the upcoming president espouses will definitely affect the current trade regime and will either enhance or deter trading growth.

OFW Remittances Up by 8.5% in January

OFW remittances are definitely on their way to stability. After the minimal growth in 2009, 10-month single digit growth, persistent pick up has been felt. In fact, January remittances jumped by 8.5% from 0.2% a year ago.

Remittances totaled to $1.4 B for January. It was the remittances from sea-based workers that rallied this growth complemented by the land-based workers, as Filipino seamen retained their first preference position. Y-o-y growth rates of 18.1% and 6.3% respectively were observed from the two sources last January.

The continued need of host countries for skilled laborers in the fields of healthcare, education and services was one of the reasons for this growth. However, labor recruiters are finding it difficult to fill in orders due to the lack of experience of Filipino applicants (mostly new graduates). Even though deployments are still rising, better remittances from infrastructure and services — better availability of services (i.e. more remittance centers, foreign tie-ups by service providers, and placement of a marketing office abroad) which cater to remitters — are also helping the steady inflow of these remittances.

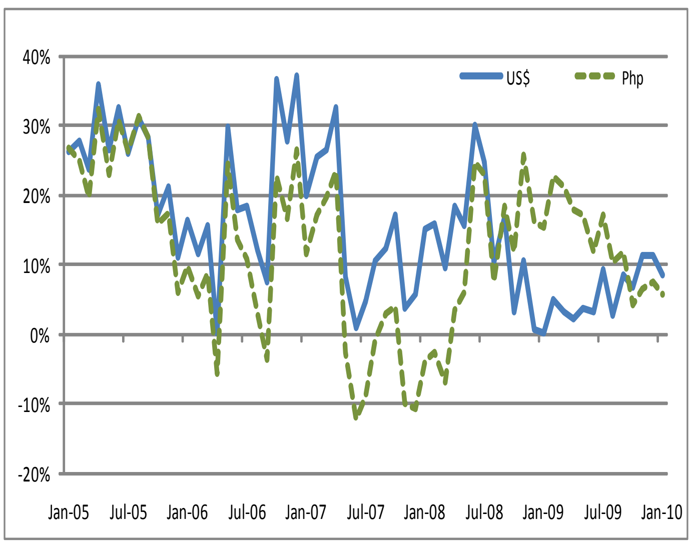
In peso terms, remittances grew by 5.7% (y-o-y). We will notice that this is way below the 15.5% growth observed last January 2009. But note that the increase last year was

In March, the appreciation rally seems again to be at work.

not due to the actual growth of $ remittances but due to the hefty 15.3% (y-o-y) peso depreciation. The January 2010's growth was coupled with a 2.5% appreciation of the peso which somewhat lessened the effects of remittances on domestic spending.

We see that remittances will still have favorable growth for the coming month. Coupled with the news from the Philippine Overseas Employment Administration that 19% of the job orders made during the first two months of the year have been approved already, we believe that this will open more job opportunities for migrant workers. On the other hand, the sustained appreciation of the peso (2.7% y-o-y for February) may hinder these remittances from fully boosting local consumption and residential construction.

Figure 6 - OFW Remittances Growth Rates (y-o-y) in US$ and PhP Terms



Source: BSP

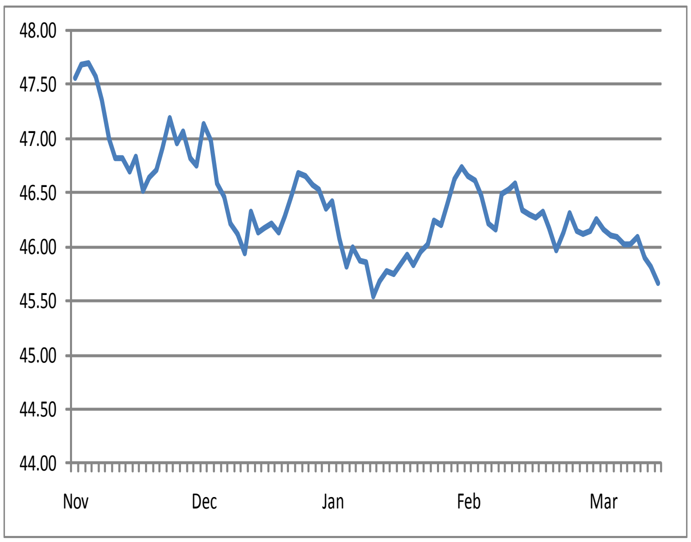
Peso on Roller Coaster at Narrow Range

At the start of the year, the peso seemed to be appreciating due to the growth in remittances and exports. The peso was even able to breach the 45 per dollar mark. However, this was halted by external factors like the emergence of China's tightening policies and the Greek debt problem which made it seem like the appreciation was short-lived.

In February, the peso then traded on a narrow range until more positive signs arose. The rumoured financial aid for Greece helped eased the situation enabling investors and traders to risk on Emerging Markets (EMs) again, including the Philippines. The better-than-expected US Gross Domestic Product (GDP) performance in Q4-2009 proved double-edged. It tended to weaken the peso when traders saw it as an indicator of recovery as the US economy dominated the market. Nevertheless, it facilitated a strengthening of the peso to the extent that it promoted less risk aversion for EMs. Finally, the unemployment data that was released by the Fed triggered disappointment on the US economy. More than the unchanged 9.7% unemployment rate in the US for February, the continued rise in the proportion of workers out of job for six months or more (44%) contributed to debilitate the dollar.

In March, the appreciation rally seems again to be at work. From its starting point in mid-February, peso strength was felt until March. A key factor for this is the high 42.5% y-o-y growth of January exports. The reduced risk posted by the Greek deficit is also being felt by the peso, together with other Asian currencies.

Figure 7 - Daily Peso-Dollar Exchange Rates (Nov 2009 to Mar 2010)



Source: BSP

This also considers that despite El Niño, the more-than-sufficient imports of rice, has also meant little dangers from escalating food prices.

The peso seems to run out of steam as Q1 ends. In the domestic stock market, foreign investors appear to be selling on strength as we see the PSEi having difficulty breaching the 3,150 level. And domestic interest rates have been propped up by the BSP, preventing the usual asset shifts. Nevertheless, the developments in East Asia augur well for the peso. The appreciation of Asian currencies will tend to tag the peso along with it. More specifically, the outlook for a stronger yuan will benefit the currencies of the whole East Asian region. The dilemma posed by the Greek debt problem on the EU will be advantageous for EMs debt issues. In the local setting, as the outlook trade balance is expected to be increasingly negative due to the high price of oil and other commodities. Foreign investments should be on hold until after the elections in May, and so OFW remittances will have to rise to cover these shortfalls. The direction of the peso, for the coming quarter, will be determined more by BSP's moves. So watch their hips.

Outlook

The outlook for the economy is looking better for the first half of the year. Here's why.

- January 2010's record gains in electricity sales and employment are reflecting the rebound in exports and the renewed strength of construction spending. Based on Dun & Bradstreet's Business Optimism Index and the BSP's Expectations surveys, the economy is significantly up from Q4-2009 unto Q1-2010 and is likely to accelerate further in Q2, as election spending peaks in April-May.

- Despite elevated crude oil prices, their upward trend has weakened, and further pressures on domestic inflation are limited. This also considers that despite El Niño, the more-than-sufficient imports of rice, has also meant little dangers from escalating food prices. We think inflation would range from 4.2% to 4.8% in Q2.

- The fiscal situation seems to have stabilized, based on tax revenues moving up as targeted.

- As earlier expected, monetary policy will remain at least on hold for the rest of the first semester, even though we see a clear room for further easing.

- Exports are expected to continue being in a strong recovery mode as the US and East Asia have rebounded impressively.

- OFW remittances are likely to grow between 8-10% for Q2, but must offset the expected slowdown in foreign investments, which are on hold due to the May elections.

- The peso is likely to trade within a narrow range with an appreciation bias that can easily be overturned by the expected faster economic growth and by more aggressive BSP building of dollar reserves and lowering of policy rates.

Forecasts

Rates	Mar	Apr	May	Jun
Inflation (y-o-y%)	4.60	4.30	4.80	4.60
91-day T-bill (%)	3.86	3.77	3.66	3.65
Peso-dollar (P/$)	45.82	46.12	46.37	46.86
10-year T-bonds (%)	7.80	7.54	7.12	6.83

Source: Authors' Estimates

Trapped and “Bond”-ed

In spite of the uneasiness in the European sovereign debt market arising from the ongoing resolution of Greece’s fiscal deficit woes and Portugal’s ratings downgrade, investors have not lost appetite for Asian emerging market debts. Both the Philippines and Indonesia managed to bring issues to the market successfully. For the first three months of the year, the National Government (NG) endeavored to complete its 2010 foreign borrowing requirements amounting to $2.5 B. In January, a $1.5 B global bond was issued followed by the samurai bond issuance of $1.1 B. The NG plans to finance a portion of the country’s fiscal deficit of P293 B this year from further foreign currency bond issuance if domestic market players insist on relatively high yields.

Given the fewer supply of the government’s domestic securities, investors have shown good interest in corporate bonds. A number of firms with good credit ratings have turned to the domestic bond market for long-term financing. While 2009 had seen a record P263 B issuance of long-term corporate debt papers due to several mergers and acquisitions-related fundings and the Power Sector Asset and Liabilitites Management (PSALM) privatization of Napocor power plants, corporate issuance is not likely to come anywhere close to last year’s activity this time around. After all, the differential between 10-year peso T-bonds and dollar-denominated ROP (lower) has expanded further to some 250 basis points (bps).

Primary Market: Inevitable Downward Trend

In the first quarter of 2010, investors favored shorter-tenor securities while trying to gauge the government’s ability to cover the projected budget deficit. With the government deciding to borrow abroad rather than pay higher coupons domestically, investors have become convinced that the government’s financial operations would not at all be difficult in the near future.

For the quarter, T-bill auctions had managed an average of 3.14 times oversubscription from the very first T-bill auction this year (January 5) up to March 22, reflecting

T-Bills and T-Bonds Auction Results

Date	T-Bond/T-Bill	Offer (Php B)	Tendered (Php B)	Awarded (Php B)	Tendered ÷ Offered	Average Yield	Change bps
19-Jan	5-year	8.50	13.20	4.40	1.55	6.23	34.00
25-Jan	91-day	2.00	6.99	2.00	3.50	3.90	-1.40
	182-day	3.00	8.16	1.96	2.72	4.17	4.10
	364-day	3.50	4.75	1.70	1.36	4.67	8.80
2-Feb	7-year*	8.50	8.42	0.00	0.99	7.45*	-
8-Feb	91-day	2.00	4.03	2.00	2.02	3.94	4.00
	182-day	3.00	10.24	3.00	3.41	4.20	3.00
	364-day	3.50	10.38	3.50	2.97	4.62	-5.00
16-Feb	10-year	8.50	12.83	2.50	1.51	7.83	5.60
22-Feb	91-day	2.00	5.92	2.00	2.96	3.92	-2.00
	182-day	3.00	13.84	3.00	4.61	4.12	-8.00
	364-day	3.50	13.29	3.50	3.80	4.49	-13.00
2-Mar	3-year	8.50	30.71	8.50	3.61	5.16	-11.40
8-Mar	91-day	2.00	7.66	2.00	3.83	3.86	-6.00
	182-day	3.00	13.65	3.00	4.55	4.09	-3.00
	364-day	3.50	15.94	3.50	4.55	4.43	-6.00
16-Mar	5-year	8.50	27.01	8.50	3.18	6.09	-14.00

Source: BTr

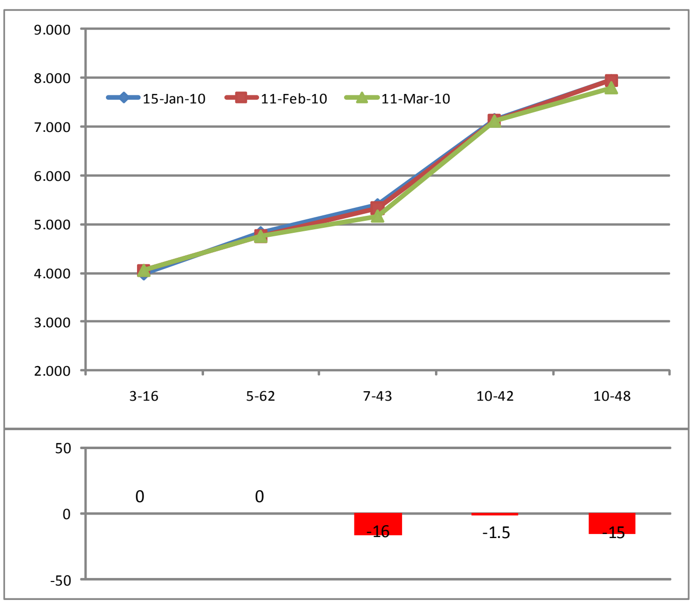
Yields had been trapped in a very narrow range mainly due to a floor in domestic interest rate.

the large amount of cash sitting in investors' balances. T-bonds, on the other hand, were being oversubscribed by 2.17 times. It was only the auction on February 2 for the 7-year maturity that the government rejected possibly because they were unhappy about the cost, and they had just raised money from abroad.

From the first auction on January 5 all the way through to March 22, the government had rejected bids totaling to P166.6 B. Total awarded bids, on the other hand, had reached P63.3 B, which reflected the government's ability to control its cost of funding.

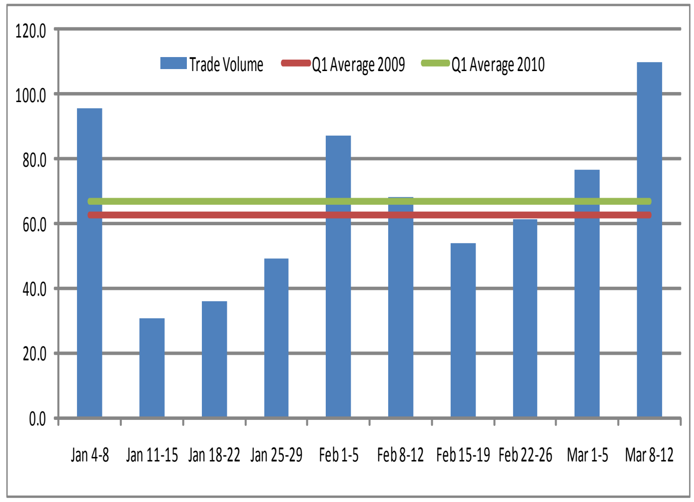
The domestic money market continued to be very liquid despite BSP mopping up P171 B of liquidity from the financial system in the first 65 days of the year. With NG steadily accumulating cash and maintaining its credit standing abroad, market players are beginning to go farther out of the yield curve.

Figure 8 - FXTN Yields



Source: First Metro Investment Corporation (FMIC)

Figure 9 - Trading Volume



Source: PDex

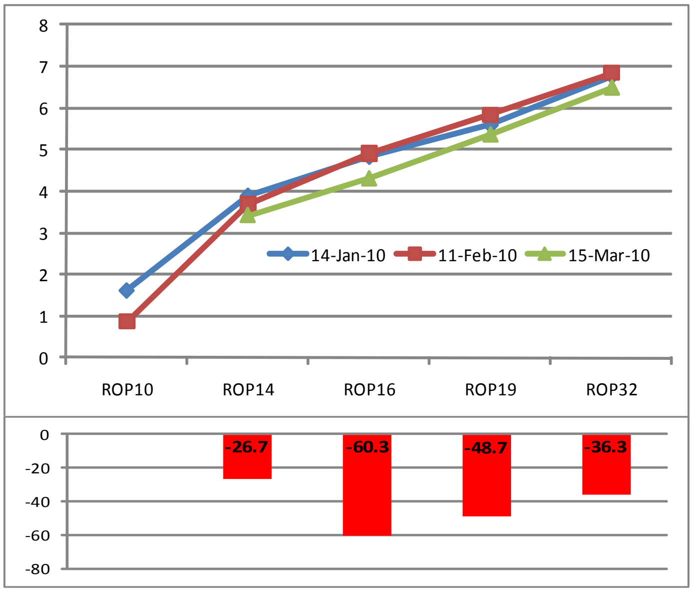
Secondary Market: Long-term Yields Drop Slightly

Earlier in the year, the FXTN market had shown very small movements in yield as well as low trading volume. Trading of T-bills and T-bonds in January shrank by 20% compared to the same month last year. However, volumes picked up in February and year-to-date transactions in the secondary market have now exceeded the volume in the same period last year by 6.7%. Yields had been trapped in a very narrow range mainly due to a floor in domestic interest rates dictated by BSP's policy rate of 4%. At this rate, banks can simply put excess money in Special Deposit Accounts (SDAs). In fact, the SDA balance in the BSP had reached P781 B by March 5th. Similarly, with no threat of inflation and oversupply of long dated paper, yields in the long-end have been subdued.

Medium-term yields dropped 16 bps as the FXTN 7-43's went from 5.32% on February 11 to 5.17% in March. The longer end of the curve also shifted downwards as the FXTN 10-42 and FXTN 10-48's rates crept down to 7.12% and 7.8% from 7.13% and 7.95%, respectively. As March drew on, record volumes had been seen in secondary market trading, but this appears to be tucking supply away into very firm hands. We may need more supply to come in to the market to avoid drying up the trading liquidity in the secondary market.

With fewer domestic issues from the NG, a wide financing window was opened for corporate debt issuance.

Figure 10 - ROP Yields



Source: First Metro Investment Corporation (FMIC)

ROPs

The first quarter of 2010 was very positive for ROPs with investors readily snapping up $1.5 B in global bonds. Similarly, the Philippines reopened for itself the Japanese market with the issuance of samurai bonds in the equivalent of $1.1 B. With the two issues, the 2010 foreign financing requirement of $2.5 B was completed. With the country's budget deficit projected to reach P293 B in 2010, NG expressed its willingness to do more foreign issuances.

The $1.5 B dual-tranche issuance was more than six times oversubscribed, indicating a very good demand for the country's paper. Due to the huge demand, the 10-year dollar-denominated bonds yielded 5.67%, 34 bps lower than the yield of the more recently dated Indonesian dollar bonds. The samurai bond issue raised 100 B yen and was similarly oversubscribed.

Movements across all tenors have only been in the sideways, though it exhibit a slight downward pressure on yields, as the market remained quiet amidst the concerns over Greece's fiscal deficit problem. ROP10, on the other hand, had already matured last March 15 and thus, was excluded from the March yield curve in the graph.

Corporate Issuances: Small Compared to 2009

With fewer domestic issues from the NG, a wide financing window was opened for corporate debt issuance. For the first two months of the year, Pag-ibig Fund, Tanduay Distillery, Inc., and Petron joined the cue of corporate issuers. . On March 9, Pag-ibig Fund's 5-year P12 B bond offering (guaranteed by Home Guarantee Corp.) was publicly auctioned, with a 5% p.a. yield. Proceeds of Pag-ibig's issue will be used to pay the corporation's maturing debts in May. Tanduay Distillers floated P5 B while Petron issued 5-year P10 B , with rates of 8.06% and 9.53%, respectively. Petron, whose papers are redeemable after 5 years and whose preferred shares are cumulative, shall be using its proceeds to finance its retail expansion and refinery upgrade programs. This comes to a total issuance of only P27 B up to mid-March. If we add the P75 B expected in Q2, this totals to P102 B or less than two-thirds of last year's P163 B total H1 corporate issuances.

Tapping the foreign market, International Container Terminal Services, Inc. (ICTSI) was quick to issue $250 M of unrated securities on March 15. The bond carried a 7.38% coupon and a 10-year term. ICTSI will use the proceeds to fund its capital spending in the different container ports it operates around the world.

For April to May, we see Pag-ibig, Ayala Land, Inc., Aboitiz, ICTSI, Ayala Corp., and Anchor Land bringing an additional supply of P75 B in long-term bonds and notes. There may be other offerings that may surface during Q2, but these are unlikely to materialize because of the focus of everyone on the all-important May national elections - the first to be fully automated.

- PSALM plns to offer P20 to P30 B of 5 and 7-year bonds (with a retail component), proceeds of which hall be used to augment its capital requirements and to strengthen its liability program

- Beacon Electric, a new subsidiary of Metro Pacific Investments Corp. (MPIC) that will hold on to the Meralco shares of the MV Pangilinan group, will go to the market starting March 30 with a P18 B 10-year notes issue, *The Greek debt crisis which surfaced last February had no major impact on the Asian market.*

partly at a fixed rate of Treasury +250 bps, and partly at a floating rate Treasury +275 bps. This will be used to fund MVP group's purchase of additional Meralco shares from the Lopez group in order to ensure its control of the company;

- Apart from the P12 B it has already raised earlier in the year, Pag-ibig is also thinking of reviving its Biglang Bahay funds by selling zero-coupon bonds in order to raffle daily a house and lot worth P1 M;

- Aboitiz Power Corp. (AP) is eyeing P5 B retail corporate bonds and another P5 B in syndicated loans, from which it plans to acquire hydropower facilities in Mindanao and other plants being privatized by the PSALM. The terms of the bond issue are still in the works;

- Ayala Land, Inc. (ALI) is also proceeding to sell its third tranche of home-starter bonds. It will offer up to P1 B worth of fixed-rate bonds, with a rate of 5% p.a. due on 2013;

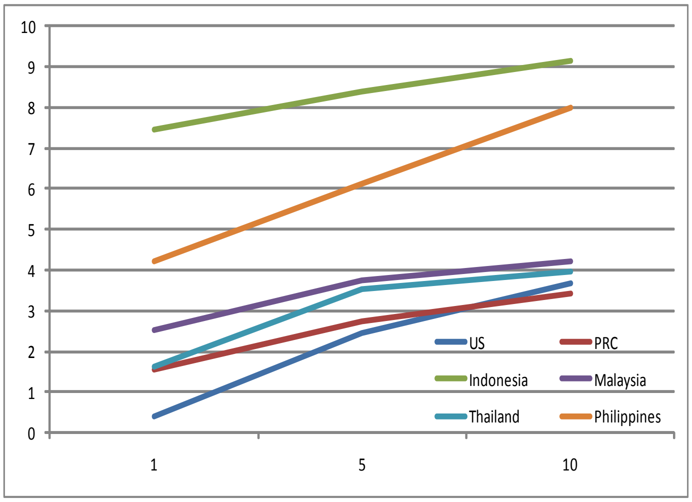
- Ayala Corp. (AC) plans to issue P10 B worth of 7-year bonds, with a put option on the 5th year, in order to partly finance its capital expenditures. That option would allow bondholders to redeem their bonds on that year. The pricing of the issue is to be based on the 5-year T-bonds plus a still undetermined spread;

- Anchor Land, an affiliate of the Henry Sy group of companies, marked its debut on the market on the 17th of March with its issuance of long-term notes totaling P1 B to pay off its short-term debts and improve its working capital for its on-going projects, considering that the company is on its expansion stage.

ASEAN + 1 Market: Yield Curves Flatten

The Greek debt crisis which surfaced last February had no major impact on the Asian market. Instead, investors chose to view the latter's strong economic and financial-fundamentals which, compared to Greece, shows more solid fiscal and balance of payments positions.

Figure 11 - Asian Markets



Source: Asian Development Bank (ADB)

USA: With US unemployment remaining high at 9.7%, economists feel that it is not yet time for the Fed to raise interest rates. More than 44% of Americans have been jobless for at least 6 months. In the meantime, the US treasury yield curve has been steepening as market players remain anxious about future inflation and the inevitable rise in interest rates at the latter half of the year.

Indonesia: Indonesia's budget deficit may swell up to Rp132.2 T due to additional subsidies, though a portion of those will be financed by 2009's budget surplus. While the country's budget deficit for 2010 seems to be increasing in amount, the yield curve is flattening due to the perception that inflation will stay within the government's target despite power tariff hikes during the first quarter of the year. More so, emerging market investors seem to be favoring the country. Indonesia, earlier this year, was able to immediately sell up to Rp44.6 T, ¼ of a total annual target of Rp175.06 T.

Thailand: While the political upheaval in Thailand had affected long-term investments, specifically, it did not worsen the confidence in Thai economy in general. According to Krung Thai bank, the decline in the extension of loans for long-term investment was seen by investors as an off-

More companies should be accessing the debt capital markets to beef up capital.

shoot of the anti-government Red Shirt rallies. However, confidence in the Thai economy seems to be unaffected and the Thai baht has strengthened to Bt32.42 to the dollar, its strongest level in 21 months.

China: The flattening of the yield curve in China suggests that the government will be able to keep inflation under control despite its rise to 2.7% in February. Inflation rate in China has been quickening, as well as its industrial output in recent months. We expect further monetary tightening, which will be targeted at the overheating property sector this coming April as the government raises the 3% policy target.

Malaysia: The flat yield curve over the first quarter was due to Malaysia's low interest rate environment. Yields in longer tenor securities remain steady. The central bank, however, warned on March 15 that it may hike interest rates to forestall further speculative investments. Inflation, on the other hand, will remain modest. Maybank Investment Bank Bhd. said that the risk of higher inflation will remain a threat for as long as interest rates are kept very low for an extended period.

Outlook

- Interest rates will remain stable in the second quarter with very little threat from inflation and a strong peso. With cash positions of banks and investors remaining very high, there appears very little threat that the curve will sharply steepen. Indeed, a moderate flattening is already beginning to emerge.

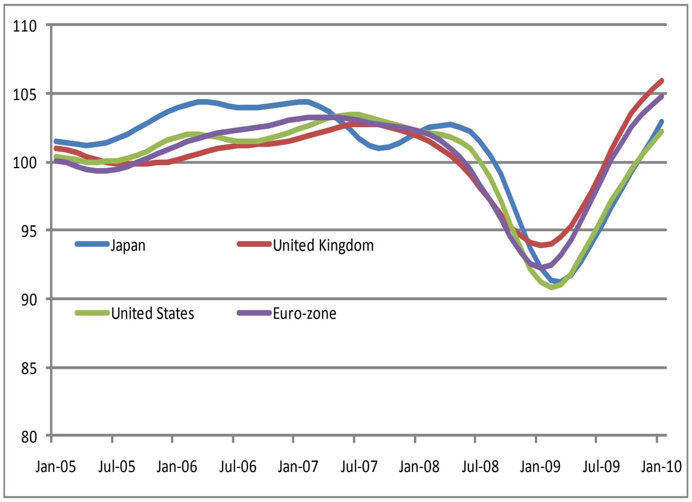
- With the economy looking stronger, more companies should be accessing the debt capital markets to beef up capital. There should be enough demand for good quality credits in the fixed income markets. However, for the first semester, it reached only less than two-thirds of last year's corporate and Government-Owned and Controlled Corporations (GOCC) bond offerings in H1.

- ROPs will most likely narrow its trading range but could move up if euro-zone debt problem escalates.

To Tighten and Not Tighten at the Same Time

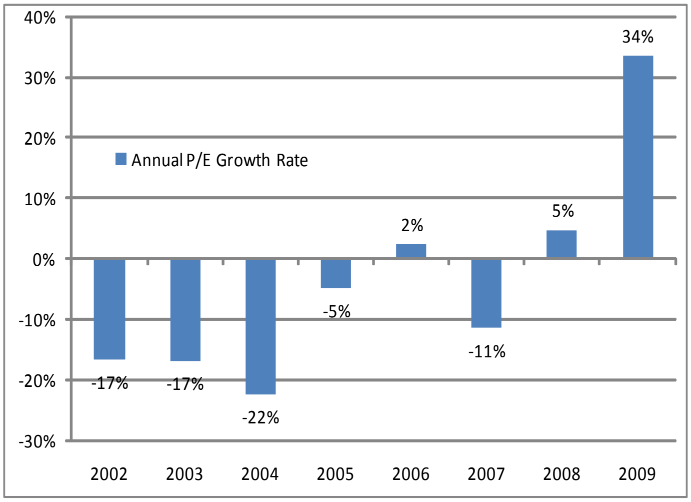
A "V" shaped cyclical recovery continues to progress as impacts of considerable fiscal and monetary stimuli have filtered into the global economy. Aside from the euro-zone where growth stalled in the 4th quarter of 2009, the US appears to be on a fairly solid recovery despite lagging credit availability. If 2009 was the year when the global economy and financial markets were saved from collapse due to the successful implementation of the unprecedented government stimuli; 2010 is shaping up to be the year where the key policy challenge is how to best exit from expansionary measures while enhancing prospects of sustained growth. As for the equities market, the positive backdrop remains due to improving corporate data and the global economic recovery gaining momentum. On the other hand, during the quarter, the focus of uncertainty has shifted towards tightening concerns (China) and future bank regulation in the US and other developed markets (DM). Furthermore, the growing concerns over fiscal sustainability, particularly in the euro-zone, have weighed heavily on equity markets in the 1st quarter.

Figure 12 - OECD Leading Economic Indicators



Source: Organisation for Economic Co-operation and Development

Figure 13 - MSCI World Annual P/E Growth



Source: Bloomberg

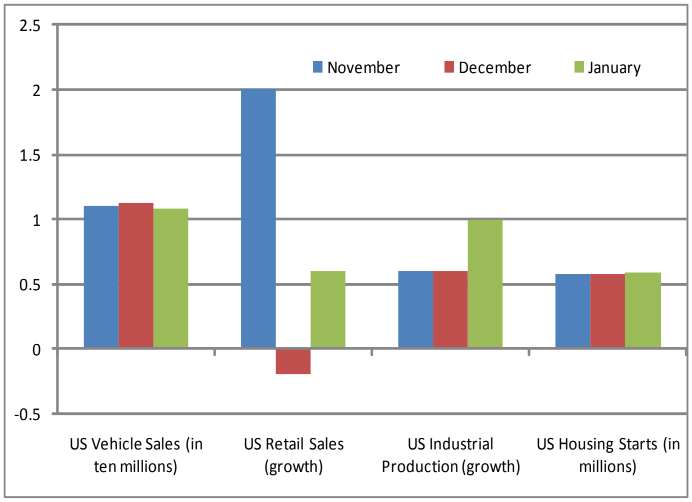
Developed Markets

It has been a year since the high beta rally began. Considering the record level of the massive price-to-earnings (P/E) expansion in 2009, an encore performance is highly doubtful this year. With a "V" shaped cyclical recovery likely priced in, some P/E contractions can be expected later in 2010. It is very important, therefore, that investors remain selective on both sector and individual stock levels. And in light of pervasive concerns on monetary policy tightening in DM, we find such fears to be unfounded. See list:

US – a series of economic indicators (see Figure 14) points to a solid recovery; however, the structural damage (e.g. high unemployment and increasing savings rates) caused by the global economic recession continues to pose a challenge. Capacity utilization at nowhere near levels that can put pressure on prices, sluggish recovery in labor markets and private demand, and the weakness in financial sector should put cautionary note on expectations of rate hikes in the interim. The Federal Reserve (Feds) raising the discount rate from 0.50% to 0.75%, in our view, is a necessary adjustment from emergency to accommodative monetary conditions rather than an imminent shift in monetary policy.

Neither the fundamental situation, valuationsnor cyclical conditions appear to be challenging.

Figure 14 - US Economic Indicators



Source: Federal Reserve

Euro-zone – weak growth dynamics, lower than expected inflation, and fiscal deficit woes (in Portugal, Ireland, Italy, Greece, and Spain) do not warrant an early tightening in the region. We view potential consequences of fiscal tightening efforts (deterioration in the already weak demand) to weigh heavily on policy makers. Like the US, structural factors (excess slack, high unemployment, and fragile financial systems) limiting any strong growth should delay monetary tightening in the euro-zone.

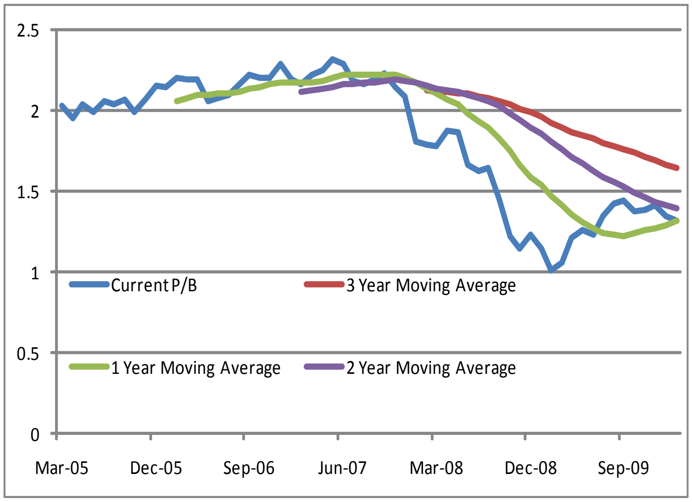
Japan – lower-than-expected Gross Domestic Product (GDP) should prolong the expansive policy measures in the deflation-prone economy. Japan's GDP grew on stuttering annualized rate of 3.8% in the last quarter of 2009, less than the consensus 4.6% estimate. We view that Japan's economy benefitted from government stimuli local and abroad, but the momentum is not sufficient to sustain the recovery in domestic private demand. Also, negative inflation rate in the last twelve months (-1.30% in January 2010) does not warrant rate hikes.

Our expectation on monetary policies, remaining accommodative, should keep DM equity markets supported. Along with the global economic recovery, expanding margins—due to rising demand, restructuring, and cost containment measures—will continue to be beneficial in the improvements of both top and bottom-line earnings (robust 1st quarter earnings season). This should continue to make return prospects in DMs attractive.

Emerging Markets

Sell-off in risky assets associated with the imminent tightening in China and euro-zone's sovereign debt concerns, compounded by profit taking, has caused emerging market (EM) equities to correct strongly in the middle of the 1st quarter. But as of this writing, the consolidation seems to be over. In contrast to DMs, we view near-term tightening is warranted in some EM countries (especially in China, Brazil, and India). The strong domestic demand in Brazil and India has increased the risk of overheating; while in China, expansive policy measures are now accompanied with strong growth (10.70% GDP growth in the 4th quarter of 2010). China's money supply is currently growing at the rate of 3 times the GDP and its inflation rate (2.70%) is at a 16-month high.

Figure 15 - MSCI EM Monthly P/B



Source: Bloomberg

Although monetary tightening could pose a threat, we view upside potential once the volatility associated with the primary phase of the tightening recedes. Neither the fundamental situation, valuations nor cyclical conditions appears to be challenging. Fundamentals remain sound

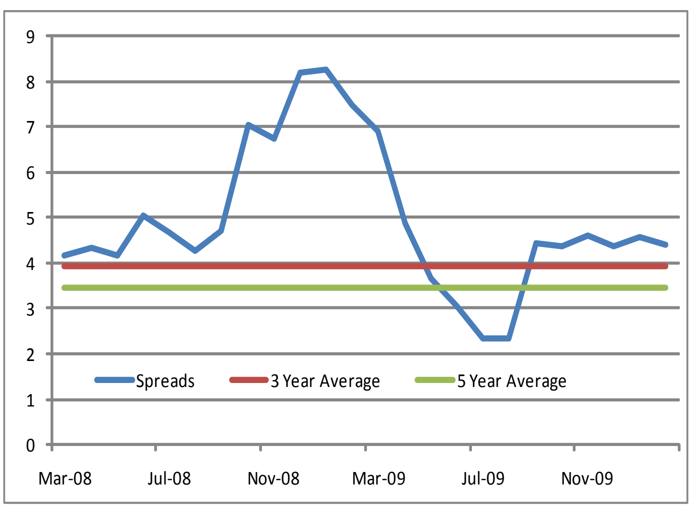
Only a failure in the upcoming national election will likely derail the ongoing positive environment for Philippine equities market.

due to the absence of fiscal pressures (in EM Asia and Latin America) and structural reasons — i.e. stronger economic growth, healthier financial system, rising middle class, and etc. Valuations have become attractive due to the strong consolidation. EM's price-to-book (P/B) is currently trading close to its 1-year moving average. Moreover, we do not view downward revision on earnings forecast despite nearing cyclical peak. Economic expansion may somewhat temper; however, strong revenue growth may continue to support earnings.

Local Equities

The Philippine equities market had moved higher in the 1st quarter of 2010 despite the fear-based sell-off in February. We view the strong recovery from oversold levels in February to be driven by excess liquidity and adjustment of investors to more positive views regarding monetary tightening and euro-zone's increased sovereign risk. In spite of the adverse effects of El Niño, investors' confidence and risk appetite may continue to increase due to the strengthening of economic fundamentals (see Macroeconomy article) and robust corporate profits. Current year-to-date correlation between the PSEi and Dow Jones Industrial Average (DJIA) is at 0.88 (where 1 is perfect correlation) on a daily basis. Given the high correlation, we may see the local index continue to take cue from developments abroad.

Figure 16 - PSEi Spreads (E/P - US 10 Year T-Bonds)



Source: Philippine Stock Exchange and Federal Reserve

Referring to Bangko Sentral ng Pilipinas' (BSP) recent decision to keep policy rates on hold, the Philippine equities market should be well supported in the interim. Valuations appear to be attractive as the monthly spread between PSEi's earnings yield (E/P) and 10-year US T-bond is trading above longer-term averages.[1] Contemporary stock market research in developed countries would indicate that the higher the spread the more attractive equity markets are compared to riskless security assets. Despite extended prices and prospects of rising interest rates, we see further upside potential in Philippine equities market due to the improving sentiments abroad and strong earnings growth. Fundamental soundness, high return potential, and increased activity in mergers and acquisitions (M&A) warrant higher equity prices. Only a failure in the upcoming national election will likely derail the ongoing positive environment for Philippine equities market.

Screening PSEi's Components

To assist us in our selectivity, we screened the components of the PSEi based on fundamentals and financial health. For our first screening model, we used Joel Greenblatt's investing formula,[2] which determines "oversold" and "overbought" stocks. Then for the second screening model, we used Joseph Piotroski's nine step model[3] to rank PSEi components based on financial strength and profitability.

In the fundamental screening (Joel Greenblatt model), return on invested capital (ROIC) and the ratio of enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EDBITDA) are the two factors used to examine stocks. However, this does not include the financials due to zero EV/EBITDA and those with negative ROIC. To show the seven most and seven least preferred stocks, we used the ROIC and EV/EBITDA as of February 2010. Oversold stocks are the most preferred ones (high ROIC and low EV/EBITDA), while overbought stocks are least preferred (low ROIC and high EV/EBITDA).

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1 To calculate E/P, we used the PSEi's monthly net income (trailing 12 months) and divide it over its monthly market capitalization (end of the month price and outstanding shares). Data were obtained from the Philippine Stock Exchange (PSE).

2 Greenblatt, J. (2005). "The Little Book That Beats the Market."

3 Graham, B. (2003). "Intelligent Value Investing."

We used Piotroski score to determine the financial health of the companies listed in the PSEi.

“Oversold” High ROIC and Low EV/EBITDA			
Company	**Market Cap (in Millions Php)**	**ROIC**	**EV/EBITDA**
Philex Mining	38,289.85	24.16	3.40
Globe Telecom	129,701.20	13.68	4.63
Universal Robina	48,135.74	9.98	4.48
Philippine Long Distance Telephone Co	481,937.10	25.52	5.99
GMA Network	25,207.85	24.08	6.38
Manila Water	30,585.79	11.08	5.81
Robinson’s Land	38,289.85	9.07	6.94
“Overbought” Low ROIC and High EV/EBITDA			
Alliance Global Group	50,542.58	1.62	20.35
Filinvest Land Inc.	21,339.79	2.52	14.53
Energy Development Corp.	89,062.50	3.23	9.39
Megaworld Corp.	33,841.88	4.61	8.37
International Container Terminal Services Inc.	43,071.73	0.33	7.68
Ayala Land Inc.	145,833.80	5.94	22.13
Ayala Corp.	146,496.50	4.96	98.31

Source of Basic Data: Bloomberg

As for the next model, we used Piotroski score to determine the financial health of the companies listed in the PSEi. Simply, this system has nine categories in which a company is given a point if it passes the condition and zero if it fails. The higher the final score the better, as it represents a financially healthy company.

The nine criteria are as follows:

Positive Net Income – score one point if the net income is greater than zero.

Decreasing Debt – obtained by dividing total debt and total assets for both previous and present year. A point is garnered if the ratio is lower in the present year than the previous one.

Positive Cash Flow – score one if the cash flow is greater than zero.

Piotroski Score				
Company	**Piotroski Score**	**Last Price (03/26)**	**P/E (TTM)**	**D/Y (TTM)**
Universal Robina Corp.	8	24.50	8.72	1.02
DMCI Holdings Inc.	7	14.25	10.19	1.40
Alliance Global Group	6	5.40	11.71	N.A.
Manila Electric Co	6	185.00	34.05	1.35
Robinsons Land Corp	6	14.75	11.72	1.70
San Miguel Corp	6	74.00	4.21	2.37
Bank of the Philippine Islands	5	47.00	18.11	3.83
First Gen Corp.	5	10.50	31.46	N.A.
First Philippine Holdings Corp.	5	53.50	3.47	1.87
Philippine Long Distance Telephone Co	5	2505.00	12.02	8.70
Ayala Land Inc.	4	13.00	41.94	0.46
Banco de Oro Unibank Inc.	4	40.50	19.29	0.69
Energy Development Corp.	4	4.85	285.97	2.06
Filinvest Land Inc.	4	0.89	10.99	3.71
Jollibee Food Corporation	4	59.50	23.09	1.43
Lepanto Consolidated Mining	4	0.22	N.A.	N.A.
SM Investments Corp	4	370.00	14.86	1.86
SM Prime Holdings Inc.	4	10.00	19.05	2.40
Ayala Corp.	3	322.50	20.34	1.24
Aboitiz Equity Ventures	3	13.50	11.43	3.85
Globe Telecom Inc.	3	980.00	10.53	12.45
GMA Network Inc.	3	7.70	13.68	4.55
International Container Terminal Services Inc.	3	23.00	18.03	1.74
Megaworld Corp.	3	1.28	7.00	1.48
Manila Water Co Inc	3	15.25	13.50	2.62
Philex Mining Corp	3	13.50	20.26	N.A.
Security Bank Corp	3	52.50	8.48	3.17
Philippine Stock Exchange Inc	3	300.00	31.41	3.33
Aboitiz Power Corp.	2	12.50	18.44	2.40
Metropolitan Bank & Trust	2	50.00	17.40	3.20

Source of Basic Data: Bloomberg

The PSEi continues to be resilient despite periods of overbought conditions and negative shocks.

Earnings Quality – score a point if the operating cash flow is greater than net income. Cash from operating activities that is less than net income means that the company is in red as it does not generate cash.

Increasing Working Capital – defined as the difference between current assets and current liabilities. A point will be scored if the working capital is higher than the previous year because the company is more than capable to pay off its short-term liabilities.

Improving Productivity – measured using asset turnover (revenue/total assets). A point will be scored if the ratio is higher than the previous year from the increasing amount of sales generated for every dollar's worth of assets.

Growing Profitability – one point will be scored if return on assets (ROA) is higher than the previous year.

Issuing Stock – measured using the total number of shares outstanding and the stock will have a score of one point if it is equal to or lower than the previous year. Increasing issuing stock may imply a red flag as the company's net income may not be sufficient to finance its dividends.

Competitive Position – rising profit margins may indicate a rising competitive position which means that a score will be accounted if the gross profit margin is greater than the previous year.

Sectoral Performance

The PSEi continues to be resilient despite periods of overbought conditions and negative shocks (euro-zone sovereign debt crisis, tightening concerns, and uncertainties surrounding US bank regulations) that occurred in the quarter. The local index rallied from its February lows and consolidated gains of 3.07%. We view the performance to be broad-based among components. PSEi's return would have been bigger if not for Philippine Long Distance Telephone Co.'s (TEL) decline.

Monthly Sectoral Performance

	19-Mar-10		04-Jan-10	
	Index	% Change	Index	% Change
PSEi	3,097.23	3.07%	3,005.01	--
Financial	656.71	0.22%	655.24	--
Industrial	4,769.65	5.54%	4,519.29	--
Holdings	1,851.93	15.98%	1,596.72	--
Property	1,076.09	1.62%	1,058.91	--
Services	1,495.93	-0.28%	1,500.18	--
Mining and Oil	9,110.46	-13.46%	10,527.09	--

Source of Basic Data: PSE Quotation Reports

The financial sector was up for the quarter by 0.22% even though the major banks underperformed the sub-index (except for MBT). MBT led in extending loan to a private consortium to construct a 164-megawatt coal-fired power plant in Iloilo costing P22 B. On the other hand, BPI wanted to seek new partnerships and other alternative channels instead of raising funds for expansion this year. Banks expect robust lending this year, as double digit growth is anticipated by Bankers' Association of the Philippines.

Company	Symbol	01/04/10 Open	03/19/10 Close	% Change
Metrobank	MBT	44.00	45.50	3.4%
Banco de Oro	BDO	39.00	38.00	-2.6%
Bank of the Philippine Islands	BPI	47.50	46.50	-2.1%

Source of Basic Data: PSE Quotation Reports

The industrial sector also remains upbeat by 5.54%. Although power producers may have excellent margins due to the present high demand of electricity, worries should also be considered due to power outages and the critical levels of hydroelectric dams. Sadly, customers of MER may experience higher generation charge of P6.76/kWh this month due to the shortage in electricity supply. In addition to their 27.5 megawatt hydroelectric power plant project in Davao, AP has also acquired two power barges

Heavy loss of 13.46% hit the mining and oil sector this quarter as the "rational exuberance" in PX prices has waned.

in Agusan del Norte and Compostella Valley worth $30 M as rotating power shortage is more prevalent in Mindanao. Meanwhile, SMC continues to diversify in power, mining and infrastructure ventures as the company is now planning to sell-off $1 B worth of assets to fuel its diversification into different industries.

Company	Symbol	01/04/10 Open	03/19/10 Close	% Change
Meralco	MER	206.00	185.00	-10.2%
Aboitiz Power	AP	8.60	12.25	42.4%
Energy Development Corp	EDC	4.70	4.70	0.0%
San Miguel Corporation	SMC	69.00	74.00	7.2%

Source of Basic Data: PSE Quotation Reports

Diverse as it is, the major companies in the holdings sector continue to diversify by expanding to other industries. The increased activity in M&A had led the sub-index higher (15.98%). Both AC and MPI teamed up to bid for Angat hydroelectric power as they acquired a 33.33% stake each from First Gen Northern Energy Corp, serving as their means to bid for the plant. Also, MPI and its sister company (Pilipino Telephone Corp.) consolidated its MER shares to Beacon Electric Asset Holdings, Inc. to allow the company to access debt financing in case of additional purchases of MER shares. We see that this benefits MPI as it reduces its debt by P4.6 B and decreasing its debt to equity ratio from 0.37 times to 0.27 times.

Company	Symbol	01/04/10 Open	03/19/10 Close	% Change
Ayala Corp.	AC	302.50	297.50	-1.7%
Metro Pacific Investments Corp	MPI	2.60	3.10	19.2%
SM Investments Corp.	SM	327.50	365.00	11.5%

Source of Basic Data: PSE Quotation Reports

The property sector grew by 1.62% as the companies under the sub-index go for further expansion. ALI continues to expand as it plans to launch 9,275 units this year from its residential brand and initiates to build a business processing outsourcing center in Mandurriao, Iloilo City, taking its stage to develop growth centers across the country. Analogously, SMPH will have a nationwide expansion this year in provincial areas as five new local malls are expected to open in 2010. On the other hand, RLC is also allotting P9 B for its capital expenditure this year as it plans to expand its retail, residential, office, and hotel portfolio.

Company	Symbol	01/04/10 Open	03/19/10 Close	% Change
Ayala Land Inc.	ALI	11.25	11.50	2.2%
SM Prime Holdings	SMPH	9.80	9.60	-2.0%
Robinsons Land Corporation	RLC	13.00	14.00	7.7%

Source of Basic Data: PSE Quotation Reports

Service sector ebbed 0.28% as the decline in TEL dragged the sector down. TEL wants to raise up P10 B to finance its operation and expansion this year as it plans to double the size of its internet business. Similarly, GLO entered to a loan agreement with Allied Banking Corporation amounting to P2 B to finance the company's capital expenditures. We view that telecommunications firms are expanding their internet base as the industry are largely benefitting with their increasing numbers of subscribers.

Company	Symbol	01/04/10 Open	03/19/10 Close	% Change
Philippine Long Distance Telephone. Co.	TEL	2,620.00	2,550.00	-2.7%
Globe Telecom	GLO	915.00	990.00	8.2%

Source of Basic Data: PSE Quotation Reports

Heavy loss of 13.46% hit the mining and oil sector this quarter as the "irrational exuberance" in PX prices has waned. PX had a good start this year as it reported a 9% growth in the value of ore produced from its operations in Benguet mainly due to higher metal prices. It produced an estimated P1.58 B worth of copper and gold during the period as compared to P1.45 B last year. Its subsidiary, Philex Petroleum Corp (PPC) has bought additional 2.4% stake from Forum Energy Plc. (FEP), raising its total interest to 65%. As the parent company subscribed 1.2 B new shares from PPC, we view that PX is now pushing forward on the gas field as the demand for higher energy efficiency is much needed in the country.

Uncertainties regarding the election process and its outcome may have also played a big part in lower value turnover.

Company	Symbol	01/04/10 Open	03/19/10 Close	% Change
Philex Mining Corporation	PX	15.75	13.00	-17.5%
Semirara Mining Corp.	SCC	54.50	58.00	6.4%

Source of Basic Data: PSE Quotation Reports

Quarterly Turnover

Total turnover decreased by 56.6% quarter on quarter (q-o-q). However, the statistics may be distorted as the robust trading activity in the last quarter of 2009 cannot be not easily replicated. Uncertainties regarding the election process and its outcome may have also played a big part in lower value turnover. Foreign investors buying activity declined during the period.

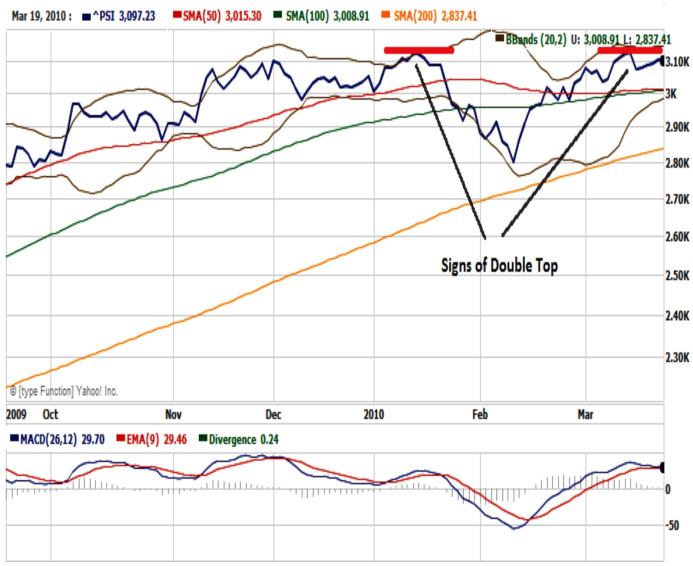
Monthly Turnover (in Millions)				
	Total Turnover		Average Daily Turnover	
Sector	Value	% Change	Value	% Change
Financial	15,203.3	-26.3%	276.42	-26.3%
Industrial	44,246.6	-76.3%	804.48	-76.3%
Holdings	28,720.9	-39.1%	522.20	-39.1%
Property	24,954.7	-11.4%	453.72	-11.4%
Services	29,425.0	-6.2%	535.00	-6.2%
Mining and Oil	11,000.6	-71.9%	200.01	-71.9%
Total	**153,551.0**	**-56.6%**	**2,791.84**	**-56.6%**
Foreign Buying	61,616.8	-23.9%	1,120.31	-23.9%
Foreign Selling	55,567.8	-18.8%	1,010.32	-18.8%

Source of Basic Data: PSE Quotation Reports

Technical Observation

After putting together an impressive rally from oversold levels in February, the PSEi has moved higher in March. At this point, technical conditions justify caution as subtle signs of double top scenario emerges and the local index is close to being overbought. We may see pullbacks materialize in the coming weeks if the crossover in the Moving Average Convergence Divergence (MACD) fully develops. On the other hand, pullbacks may not be as deep due to the resilience and plentiful liquidity in the Philippine capital markets. Referring to the double top scenario, it is pos-

Figure 17 - PSEi



Source: FMIC

sible but the odds are low. For it to exist, the PSEi would have to move lower and retest February lows. Unless extremely negative events occur locally and abroad, the prospect of February-like sell-offs is doubtful. We view potential range-bound movements in the PSEi to be more plausible. A sideways trend would allow the local index to breathe while maintaining technical strength. If the PSEi is to continue trending higher with sustained strength, cooling-off and healthy consolidations are needed.

Outlook

Global Equity Markets

- Near-term – the global economic recovery, based mainly on the unprecedented government stimuli and buoyant financial markets driven by ample liquidity, warrants the increase in urgency to at least unwind some of the expansionary measures. We expect EMs (especially in Asia) to lead the tightening cycle and to be followed by DMs' central banks. The slowly recovering labor markets, weak growth dynamics in the euro-zone, and fragility in the banking sector may delay the start of tightening in DMs. Nonetheless, we remain optimistic in the interim as odds are high for expansive policy measure to remain intact in the 2nd quarter.

In our view, it is in EU's best interest to financially help Greece and other fiscally challenged member states.

- Long-term – improving economic fundamentals, upswing in the profit cycle, and accommodative monetary policies will likely continue to be key supportive factors for equities throughout 2010. However, we reiterate our view on extra selectivity as equity markets may have priced in the ongoing "V" shaped cyclical recovery. To enhance returns, we prefer pullbacks to be used as entry points in increasing risk exposure. Also, we see no objection to higher allocation on risky assets that can leverage the recovery and/or can still pay dividends. Main risks to watch for in going forward are high unemployment rates, wide output gaps, and the potential for policy mistakes — e.g., premature removal of expansionary measures.

- Drama in Greece – the euro-zone sovereign debt concerns have abated due to the European Union (EU) and International Monetary Fund's (IMF) implicit fiscal support statement toward Greece's fiscal deficit woes. Considering the redemptions in April and May and the country's limited cash-on-hand, chances are high that the EU and IMF will have to inject liquidity in Greece if it is unable to raise money, meet reform targets, or deliver on consolidations. However, the amount, implementation, and under what premises remain to be uncertain. In our view, it is in EU's best interest to financially help Greece and other fiscally challenged member states. Leaving them to themselves would imply lack of commitment on EU integration, more pressure on the euro, and acceleration of write-downs in the EU banks (due to high exposure).

- Pains in Spain – should contagion to Spain become inevitable, adverse effects will likely be more aggravated than of Greece and may shake the very foundation of the euro. Spain's reeling economy (-0.1% quarterly GDP growth in the 4th quarter) is four times the size of Greece's with almost 20% unemployment rate. And to make matters worse, EU central banks and still recovering financial sector will be heavily weighed down due to higher credit exposures in Spain than in Greece.

Local Equities

- Near-term – El Niño continues to put pressure on growth, while rotating power disruptions may likely curtail company earnings. Even so, heavy election spending compounded with accommodative monetary policy will likely keep local equities afloat. Main risk to watch is the potential failure of the upcoming May national election. We expect pullbacks to proliferate due to the increase in volatility and uncertainties surrounding the election.

- Long-term – sentiments can go either way as it depends much on outcome of the May national election. We expect long-term sentiments to deteriorate if no clear winner is declared and/or a systemic failure occurs during the election process. On the other hand, positive sentiments may continue considering we have H.O.P.E (Honest, Orderly, and Peaceful Elections). Despite both scenarios, local equities market cannot escape the rise in uncertainties. Investors will have to factor in the next presidents' political and economical policies.

- El Niño – it is widely accepted that the phenomenon is bad for business and agriculture. We do, however, see upsides in the mining sector. More sunny skies and less rain may lead to higher output and less expenses (drainage costs) in mining companies. We may also see revenues of power distribution companies shoot up as the need for cooling increases, coupled with higher electricity prices due to supply contraints.

Recent Economic Indicators

NATIONAL INCOME ACCOUNTS, CONSTANT PRICES (in P millions)

	2008		2009		Q3 2009			Q4 2009		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Quarterly G.R.	Annual G.R.	Levels	Quarterly G.R.	Annual G.R.
PRODUCTION										
Agri, Fishery and Forestry	259,406	3.2%	259,573	0.1%	58,879	-0.3%	1.5%	75,889	28.8%	-2.8%
Industry Sector	465,107	5.0%	455,784	-2.0%	111,273	-5.7%	-5.0%	124,992	11.5%	1.1%
Service Sector	695,459	3.3%	716,621	3.2%	174,968	-2.3%	3.8%	195,061	11.2%	4.2%
EXPENDITURE										
Personal Consumption	1,107,569	4.7%	1,149,828	3.8%	278,540	-2.9%	3.2%	327,605	16.7%	5.1%
Government Consumption	93,746	3.2%	101,753	8.5%	25,362	-12.6%	8.1%	23,306	-7.9%	12.1%
Capital Formation	256,244	1.7%	230,906	-9.9%	54,668	-14.7%	-12.1%	56,072	1.6%	-0.8%
Exports	663,324	-1.9%	569,294	-14.2%	171,391	12.8%	-13.0%	122,121	-28.2%	-10.0%
Imports	643,572	2.4%	606,283	-5.8%	172,380	12.9%	0.1%	165,872	-3.9%	-2.5%
GDP	1,418,952	3.8%	1,431,978	0.9%	345,120	-3.1%	0.4%	395,942	14.3%	1.8%
NFIA	1,689,846	30.8%	202,704	20.1%	52,056	1.3%	26.1%	53,231	2.3%	7.5%
GNP	1,587,798	6.2%	1,634,682	3.0%	397,176	-2.5%	3.1%	449,173	12.7%	2.4%

Source: National Statistical Coordination Board

NATIONAL GOVERNMENT CASH OPERATIONS (in P millions)

	2007		2008		Dec-09			Jan-10		
	Levels	Growth Rate	Levels	Growth Rate	Levels	Monthly G. R.	Annual G. R.	Levels	Monthly G. R.	Annual G. R.
Revenues	1,202,905	6.0%	1,123,211	-6.6%	101,541	5.5%	-16.3%	92,265	-9.1%	17.6%
Tax	1,049,179	12.6%	981,624	-6.4%	87,809	-0.1%	15.0%	83,054	-5.4%	18.2%
BIR	778,571	9.4%	750,287	-3.6%	68,374	-2.3%	19.9%	64,606	-5.5%	17.0%
BoC	260,248	23.6%	220,307	-15.3%	18,860	7.8%	0.4%	17,605	-6.7%	22.2%
Others	10,360	4.8%	11,030	6.5%	575	37.2%	-0.9%	843	46.6%	34.9%
Non-Tax	153,601	-24.1%	141,396	-7.9%	13,629	62.2%	-69.7%	9,211	-32.4%	12.3%
Expenditures	1,271,022	11.1%	1,421,743	11.9%	127,550	24.2%	3.9%	129,390	1.4%	11.1%
Allotment to LGUs	222,995	15.1%	264,645	18.7%	21,564	-1.5%	5.2%	22,521	4.4%	9.9%
Interest Payments	272,218	2.0%	278,866	2.4%	18,719	74.4%	143.4%	37,602	100.9%	5.8%
Others	775,809	13.5%	878,232	13.2%	87,267	24.5%	-7.7%	69,267	-20.6%	14.5%
Overall Surplus (or Deficit)	-68,117	623.0%	-298,532	338.3%	-26,009	303.7%	1703.7%	-37,125	42.7%	-2.4%

Source: Bureau of the Treasury

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

	2008		2009		Jan-10		
	Annual Levels	Growth Rate	Annual Levels	Growth Rate	Levels	Annual G. R.	YTD
TOTAL	26,808	2.3%	27,271	1.7%	2,186	22.4%	22.4%
Residential	8,623	-0.3%	8,901	3.2%	680	13.5%	13.5%
Commercial	10,482	4.6%	10,796	3.0%	853	16.7%	16.7%
Industrial	7,563	2.1%	7,439	-1.6%	641	44.7%	44.7%

Source: MERALCO

BALANCE OF PAYMENTS (in US millions)

	2007		2008		Q2 2009		Q3 2009	
	Levels	Growth Rate	Levels	Growth Rate	Levels	Annual G. R.	Levels	Annual G. R.
I. CURRENT ACCOUNT	7,119	33.1%	4,227	-40.6%	2,141	138.2%	2,036	564.8%
Balance of Trade	-8,391	-24.6%	-12,582	-49.9%	-2457	33.8%	-1,915	54.3%
Exports of Goods	49,512	6.4%	48,202	-2.6%	9,078	-29.4%	10,211	-22.0%
Import of Goods	57,903	8.7%	60,784	5.0%	11,535	-30.4%	12,126	-29.8%
Balance of Services	2,249	1541.6%	1,438	-36.1%	229	-12.9%	37	-82.0%
Exports of Services	9,766	51.6%	10,194	4.4%	2,286	-11.2%	2,057	-21.5%
Import of Services	7,517	19.2%	8,756	16.5%	2,057	-11.0%	2,020	-16.4%
Current Transfers & Others	14,153	7.2%	15,225	7.6%	4,057	3.5%	3,898	6.9%
II. CAPITAL AND FINANCIAL ACCOUNT	3,527	17535.0%	-1,914	-154.3%	-704	-261.5%	147	-68.9%
Capital Account	24	-82.6%	53	120.8%	19	111.1%	33	83.3%
Financial Account	3,503	3068.6%	-1,967	-156.2%	-723	-269.3%	114	-74.9%
Direct Investments	-620	-122.0%	1,283	306.9%	783	153.4%	249	-48.1%
Portfolio Investments	4,623	51.9%	-2,584	-155.9%	424	126.8%	1,234	212.9%
Financial Derivatives	-288	-108.7%	-144	50.0%	31	-49.2%	11	-86.4%
Other Investments	-212	96.4%	-522	-146.2%	-1,961	-219.6%	-1,380	-240.0%
III. NET UNCLASSIFIED ITEMS	-2,089	-30.7%	-2,224	-6.5%	-953	25.9%	-1,122	-162.1%
OVERALL BOP POSITION	8,557	127.0%	89	-99.0%	484	119.0%	1,061	369.3%
Use of Fund Credits	0		0		0		0	
Short-Term	-7	98.4%	1,506	21614.3%	-511	-205.4%	-388	-193.5%
Memo Items								
Change in Commercial Banks								
Net Foreign Assets	-1,025	76.5%	2,537	347.5%	-786	-249.1%	-497	-143.5%
Basic Balance	8,859	60.5%	4,717	-46.8%	1,738	39.6%	2,549	457.0%
Net Unclassified Items as percentage of Total Trade	-1.9	-18.8%	-2.0	-5.3%	-4.6	-21.1%	-5.0	-257.1%

Source: Bangko Sentral ng Pilipinas (BSP)

MONEY SUPPLY (in P millions)

	2008		2009		Jan-10	
	Average Levels	Growth Rate	Average Levels	Growth Rate	Levels	Annual G.R.
RESERVE MONEY	838,517	13.3%	912,132	8.78%	990,946	11.3%
Sources:						
Net Foreign Asset of the BSP	1,602,362	24.5%	1,886,514	17.7%	2,100,977	19.7%
Net Domestic Asset of the BSP	n.a.	n.a.	n.a.	n.a.	(1,110,031)	28.3%
MONEY SUPPLY MEASURES AND COMPONENTS						
Money Supply -1	912,265	12.4%	1,087,407	19.2%	1,178,718	15.5%
Money Supply-2	3,164,345	8.0%	3,562,217	12.6%	3,726,374	7.32%
MONEY MULTIPLIER (M2/RM)	3.78	-1.0%	3.91	3.4%	3.76	-3.6%

Source: BSP

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