

May 14, 2012

## Global Financial Markets

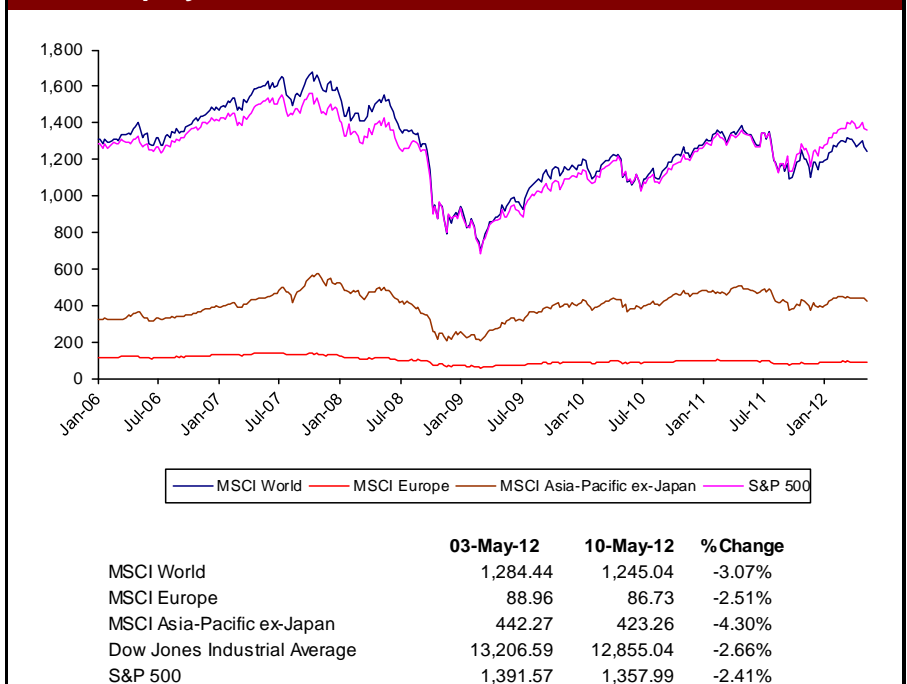
Global equities ended the week nursing losses as news from Europe elevated concern towards the region's sovereign debt crisis. For fixed income and currency markets, caution prompted by concerns towards US and Europe pushed safety assets higher.

### Global Equities

The global equities market ended the week with losses as investors were heavily concerned towards the political turmoil in Greece. In addition, the result of the French election prompted speculation for weaker support towards the Euro-zone's austerity efforts. For the US, disappointing jobs data contributed to the negative sentiment towards economic growth. The MSCI World, MSCI Europe and MSCI Asia-Pacific ex-Japan Indices all declined by 3.07%, 2.51% and 4.30%, respectively. For US markets, the Dow Jones Industrial Average fell by 2.66% while the Standard & Poor's 500 Index dropped by 0.60% the past week.

- Jobs reports for the week were generally a source of concern. American employers added the fewest number of jobs in six months. The 115,000 gain in nonfarm payrolls was less than forecasted 160,000 increase in April, following a revised 154,000 growth in March. In addition, although the unemployment rate inched down to 8.1% in April from 8.2% the previous month, the change was due to a decrease in overall labor force rather than an improvement in the labor market.
- The US trade deficit widened in March. The US deficit in international trade of goods and services widened by 14.1% to \$51.83 billion from a revised \$45.4 billion in February.
- News from Europe was the main influence for the downward movement of the market. In terms of economic data, the composite purchasing managers' index in Europe decreased to 46.7 in April from 49.1 the previous month. The market estimate was at 47.4.
- Worries towards the European sovereign debt crisis remained heavy the past week, particularly with regards to France's election and Greece's inability to form a coalition government. In France, voters elected François Hollande as president, giving the country a Socialist leader who has pledged to soften the current prescription of austerity. Consequently, Greece is preparing itself for another general election after its center-right leader failed to win leftwing support. The repeat election will probably take place on June 17. Decision-making on further reforms, including finalizing a new €11.5 billion medium-term austerity package, will be stalled until a new administration is in place.
- Reports from the Japanese Ministry of Finance showed that Japan's March trade balance declined by more than 98% year-on-year to 4.2 billion yen (US\$52.7 million). The smaller surplus was attributed to higher imports, which gained 11.9%, as against a 7.3% gain in exports.
- China's April trade data experienced a sharp drop, with both export and import figures falling below expectations. Reports from China's General Administration revealed that exports and imports climbed 4.9% and 0.3%, respectively, in April. Analysts surveyed by Dow Jones Newswires expected an 8.5% increase for exports and a 10% gain for imports.

### Global Equity Performance



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## Global Bonds

- US Treasury prices were strongly positive for the longer-end as concerns in Europe prompted stronger demand for the safety of US debt. The 10-year benchmark yield dropped 6.42 basis points while the 2-year note yield inched up 0.01 basis points during the week. Over at the farther end of the curve, the 30-year bond yield surrendered 7.77 basis points.
- The 3-year notes were sold at a yield of 0.362%, the lowest since February. The bid-to-cover ratio was 3.65, higher than the average of 3.46 for the previous four sales.
- Spanish government bonds jumped back above 6% amid expectations that the country's fourth-largest bank would effectively be nationalized. Spain's fourth-largest bank by market value, Bankia has the industry's largest exposure to Spanish real-estate developers, with €37.52 billion in loans to the sector, €17.85 billion of which are considered problematic.

### US Treasury Yield Curve

Tenor	3-May	10-May	+/- bps
3m	0.076	0.092	1.52
6m	0.137	0.142	0.50
2y	0.258	0.258	0.01
5y	0.822	0.758	-6.42
10y	1.931	1.867	-6.42
30y	3.118	3.041	-7.77

## Currencies

- Week-on-week, the US dollar generally gained against its peers as a slowdown in economic growth and elevated concerns towards Europe prompted investors to seek safety. The euro, the Swiss franc and Japanese yen all declined against the US dollar to 1.2948, 92.77 centimes and 79.90, respectively.

### Currencies

	4-May	11-May	% Change
USD/PHP	42.320	42.570	-0.59%
EUR/USD	1.3084	1.2948	-1.04%
GBP/USD	1.6151	1.6124	-0.17%
USD/JPY	79.85	79.90	-0.06%
AUD/USD	1.0182	1.0048	-1.32%
USD/CHF	0.9182	0.9277	-1.02%
EUR/CHF	1.20135	1.20128	0.01%
EUR/JPY	104.49	103.47	0.99%

## The week ahead (May 14 – May 18)

- The past week was haunted by the Euro-zone debt crisis as investors focused on the political turmoil in Greece. This week, if Greece's struggle lightens up, global equities could experience a rally.
- For the fixed income and currency markets, demand for safety could lessen this week if Greece is able to forge a government that would avert the prospect of a new election.

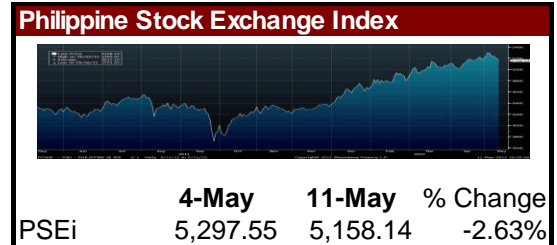
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## Philippine Financial Markets

Local equities slid, bond yields rose and the Philippine peso weakened against the greenback as developments abroad prompted investors to shed risky assets given market uncertainty.

### Local Equities

- The local bourse took its queue from foreign developments this week as continued worries on the political situation in the Eurozone spurred risk aversion. This was brought about by the uncertainty in resolving the European debt crisis as countries such as Greece, France, and Spain continued to show reluctance in adopting austerity measures. World markets also reacted negatively which put further pressure on the domestic market. As such, investors took the opportunity to book trading profits as the 1Q earnings cycle reached its close. The PSEi closed in the negative week-on-week shedding 139.41 points or 2.63% to close at 5,158.14 on Friday.



### Conglomerates

- Diversified conglomerate San Miguel Corp. sold nearly 60% of its lending unit Bank of Commerce to Malaysia's second-largest lender CIMB Group for more than US\$280 million. The deal marks CIMB's foray into the Philippine lending industry and would strengthen CIMB's foothold in the region.
- Earnings of Metro Pacific Investments Corp. soared to Php1.57 billion in the first quarter, 91% higher than 1Q2011 level. Consolidated core net income likewise grew 40% to Php1.59 billion as operating revenues rose to P hp6.67 billion. The robust performance reflected significant service level improvements and efficiency gains across all its subsidiaries

### Bank

- Yuchengco-led Rizal Commercial Banking Corporation grew its earnings by more than half in the first quarter of 2012 to Php1.53 billion, compared to the Php1.02 billion registered during the same period a year ago. The growth can be traced to the 60% growth in non-interest income, particularly, in trading gains, exchange income and trust fees. Net interest income likewise grew by 6.11% to Php2.7 billion

### Utilities

- Manila Electric Co. (Meralco) announced yesterday that it would slash its generation charge by 6.38 centavos to P hp5.5893 per kilowatt-hour. The reduction implies that customers consuming 101 kWh a month would realize a P hp12.76 decrease while those that use 200 kWh will experience a P hp12.76 drop. The company argues that the decrease would be larger had National Power Corporation not increased rates it charges Meralco.
- Manila Water Co. Inc. disclosed that its net income in the first quarter of 2012 increased by 64% year-on-year to P hp1.34 billion. Revenues from the east zone of Metro Manila went up 22% to P hp3.25 billion while sales from new businesses, located in Laguna, Boracay, Clark and Vietnam, jumped 173% to P hp164 million. The company said billed volume in the first quarter went up to 107.7 million cubic meters (mcm) in the first quarter from 100.5 mcm a year earlier

### Electronics

- Ayala-led Integrated Micro-Electronics, Inc. (IMI) more than doubled its profit in the first quarter of 2012 to US\$854 million due to the company's global geographic expansion in Europe and Mexico, complemented by a reduction in operating expenses. According to Arthur Tan, president and CEO of IMI, the expansion has helped curb the effects of the global electronics industry slowdown. IMI's subsidiaries in Europe and Mexico contributed US\$40.9 million while operations in China and Singapore generated US\$61.7 million in combined revenues.

### Telecommunications

- Globe Telecom, Inc. reported to the bourse a 6% hike in its first quarter consolidated service revenues to an all-time high of P hp20.2 billion buoyed by robust demand of its Apple iPhone 4s postpaid and Tattoo-On-The-Go offerings. Mobile revenues rose by 6% year-on-year to P hp16.6 billion, while broadband revenues increased by 13% from P hp1.8 billion to P hp2.0 billion. Despite strong sales in the fourth quarter brought by the holiday season, service revenues were up by 1% on the back of strong results from Globe Postpaid.

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## Telecommunications

- Property giant Ayala Land Inc. reported that its first quarter net income grew 31% year-on-year to Php2.13 billion on strong real estate sales and leasing revenues. The company's four residential brands launched 2,693 units in the first quarter of 2012, with a total sales value of Php11.3 billion. Revenues from commercial leasing, which include shopping center and office leasing operations, registered at Php2.04 billion in the first quarter, 21% higher year-on-year.

## Philippine Bond Markets

- For the week, yields advanced on average following significant increases in the rates of the 1-month, 1-year and 3-year maturity buckets. Bond prices encountered resistance as interest in local assets waned following concerns on the sustainability of austerity measures in Europe. Benchmark PDST-R2 rose by 2 basis points week-on-week across the curve.
- The Bureau of the Treasury` fully awarded Php9 billion worth of 10-yr government bonds at an auction on Tuesday. Bids fetched Php14.7 billion, or 1.63x the offer size. The auction yielded an average rate of 5.42%, 26 basis points lower than 5.16% average rate in March 10-yr re-issuance. On a separate note, Budget Secretary Butch Abad told reporters that the country is looking into issuing global bonds on the back of a strong peso and increased government spending.

## Philippine Peso

- The Philippine peso weakened by 25 centavos against the greenback during the week as the recently-held elections in the European region raised concerns of whether the region would implement austerity measures that would save the region from the debt crisis. The local currency closed at 42.570 on Friday.
- Tax collections from sin products liquor and tobacco dropped by 19% to Php25.4 billion in 2011 from the Php31.5 billion collected last year. Finance Undersecretary Jeremias Paul Jr. blamed the flawed tax collection scheme currently imposed on sin products for the decline. He added that sin tax revenues normally decline a year before excise tax rates are increased as companies usually frontload their sales during those periods. The decline urged the department to seriously pursue the passing of the excise tax reform bill.
- Mining investment in the country missed its 2011 target by more than a half due to the deferred development of major projects. The Mines and Geosciences Bureau reported a shortfall of 57% from its target of US\$1.44 billion in 2011 equivalent to only US\$618.5 million worth of actual investments. Environment Secretary Ramon Paje pointed out that a bulk of the decline is attributable to Sumitomo HPAL project which is expected to contribute about US\$600 million worth of investments but spent only less than US\$200 million.
- Data from the central bank showed that gross international reserves as of end-April 2012 stood at US\$76.0 billion, 11% up year-on-year, albeit, US\$0.1 billion lower compared to the US\$76.1 billion registered in March. The current level is equivalent to 11.4 months worth of the country's imports and payments of services and income or 10.8x the country's short-term external debt.
- In a bid to boost government spending this year, the Department of Budget and Management announced that the government has released 69.2% or Php1.26 trillion of the Php1.82 trillion national budget for 2012. Various government agencies were the major recipients of these funds, accounting for 63% of total releases while interest payments, internal revenue allotments, and appropriation for Special Purpose Funds comprised the balance.

### Peso Yield Curve (PDST-F Reference Rates)

Tenor	4-May	11-May	Change
1m	2.33	2.45	12
3m	2.41	2.39	-1
6m	2.47	2.41	-7
1y	2.79	2.88	8
2y	3.36	3.33	-3
3y	3.79	3.99	20
4y	4.77	4.78	1
5y	5.06	5.13	7
7y	5.22	5.18	-5
10y	5.84	5.85	0
20y	6.08	6.05	-3
25y	6.52	6.47	-5
<b>Average</b>			<b>2</b>

### ROP Yield Curve

Tenor	4-May	11-May	% Change
ROP13	1.1460	1.1690	2
ROP16N	2.1180	2.1560	4
ROP19N	2.9280	3.0650	14
ROP20	3.0940	3.1360	4
ROP21	3.1360	3.1690	3
ROP24N	4.2070	4.2330	3
ROP25	4.1740	4.1790	0
ROP26	4.0050	4.0680	6
ROP30	4.4890	4.5210	3
ROP32	4.5100	4.5230	1
ROP34	4.5460	4.5790	3
ROP37	4.5510	4.5840	3
<b>Average</b>			<b>4</b>

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**The week ahead (May 14 – May 18)**

- This week, we expect developments offshore to play a lead role in guiding the direction of the local financial markets. However, the market may receive an additional boost if corporate earnings reports – whose season will end next week – surprise to the upside. We expect the index to trade between the 5,100 support level and the 5,300 resistance level.
- Local bond yields are seen to trade sideways as players wait for positive news at the home front while the local currency is expected to trade range bound with an upward bias due to the past week's significant correction.