DAILY MARKET PRIMER

05 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,881.82 (+0.63%)	110,986,747.91	(4,813,863.05)	26.38 (+0.61%) = 1,411.44	53.504

MARKET OUTLOOK

- The stock market rebounded on Tuesday with some investors said to be taking positions ahead of today's release of August inflation data.
- Local participants might be trying to find or cement a support at least above 7,800, even in the absence of fresh local catalysts.
- The Philippine Statistics Authority will release data for August this morning. The central bank has a 5.5% to 6.2% forecast while the Department of Finance expects an uptick to 5.9%.
- Investors remained on the sidelines while waiting for August inflation data. A result higher than the 5.9% estimate would give the market a cause for a pause or a pullback.
- As investors also grapple with rising trade uncertainties, they may continue move cautiously as they await developments in the United States' trade disputes with China and Canada.
- The public comment period on a U.S. proposal for new tariffs on Chinese goods is set to end on Sept. 5, after which U.S. President Donald Trump can follow through on plans to impose levies on $200-bil more of Chinese imports, though it is unclear how quickly that will happen.
- Talks between Canada and the United States to renegotiate the North American Free Trade Agreement (NAFTA) ended on a sour note on Friday, but officials set plans to resume their talks on Wednesday.

ECONOMIC HIGHLIGHTS

Growth Outlook

- Credit rater Fitch Ratings said that the Philippines maintains a generally "favorable growth outlook" even as overheating risks have begun to show.
- The Philippines' rating balances a favorable growth outlook, government debt levels that are below peer medians, a net external creditor position and policies geared towards maintaining macrostability against lower income per capita and weaker governance and business environment indicators compared with rating peers, Fitch said.
- Fitch expects the economy to perform well in 2018, despite a disappointing 2Q18 outturn of 6%, supported by private consumption and investment.
- It said a steady inflow of remittances and improved labor conditions due to business process outsourcing (BPO) growth would drive up household consumption in 2018 and 2019, and that the rise in infrastructure spending would push up overall investment.
- However, the agency believes the economy faces some overheating risks, evident from a recent rise in inflation, rapid credit growth and a widening trade deficit.
- It said that the country's current account deficit would widen to 1.1% of gross domestic product (GDP) this year and 1.3% in 2019 and 2020 from 0.8% of GDP last year, driven by continued strong growth in the import of capital goods associated with the government's public-investment program and higher oil prices.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.5%% (April 2018)	GIR	US$76.892-B (July 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	Exports Growth Rate	(0.1%) (June 2018)	BOP	(US$1.177-B) (June 2018)
Inflation	5.7% (2012 BY) (July 2018)	Imports Growth Rate	24.2% (June 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.203(as of August 20, 2018)	Cash Remittances	US$2.357-B (June 2018)	O/N RRP	4.00% (as of August 9, 2018)

ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

Growth Outlook (continued)

- The BPO sector's strong receipts and steady remittance inflows are offsetting these factors and helping to contain a further widening of the current account deficit, it added.
- It also noted that steps being taken by the central bank to tighten monetary policy — policy rates have increased by 100 basis points since May 2018 — may contain these risks.
- The debt watcher flagged the risk of overheating in June last year, and more recently in July as it affirmed the country's credit rating at a notch above investment grade with a "stable" outlook.
- Among other key credit raters, Moody's Investors Service had earlier voiced caution on overheating risks, even as it said in April that these "are not yet material", while S&P Global Ratings said in May that such event was unlikely.
- Central bank and Finance department officials have argued that the growing current account gap was fueled mainly by a trade deficit fueled by importation of capital equipment such as heavy machinery and other durable goods that, in turn, signal an expansion of the economy's capacity.
- Fitch expects the first of up to five planned tax reform packages to improve national government revenues to 16.2% of gross domestic product this year and 16.7% next year, from 15.6% in 2017.
- The government targets revenues as a share of the economy at 17.7% by 2022 to fund needed state infrastructure investments of more than P8-tril till 2022, when President Rodrigo R. Duterte ends his six-year term. That will bring such investments' share of GDP to 7.4% in 2022 from 5.6% in 2017.
- Latest government data show that tax revenues grew 18% year-on-year to P1.47-tril in the seven months to July, while infrastructure and other capital outlays increased by 41.7% annually to P352.7-bil last semester.
- Finance Secretary Carlos G. Dominguez III recently told Fitch that GDP growth could reach "close to 6.8%" this year, which is the debt watcher's expected economic growth level, below the government's 7% to 8% target band. This was after a 6% GDP growth in Q2 from 6.6% a year ago and in Q1 this year, that fueled a 6.3% expansion last semester versus 6.6% in 2017's H1.

Tax Reforms

- Two tax reforms — one that cuts the corporate income tax rate and removes redundant fiscal incentives, and another that provides for a general amnesty — were approved at different levels in the House of Representatives on Tuesday.
- The House on Tuesday approved on second reading the second tax reform package that will cut corporate income tax (CIT) rates and streamline fiscal incentives in order to plug foregone revenues amounting to hundreds of billions of pesos each year.
- House Bill No. 8083, Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO) bill, is the second of up to five planned packages designed to shift the burden more on those who can afford to pay bigger levies while yielding additional revenues to help finance an infrastructure development program that will need more than P8-tril until 2022, when President Rodrigo R. Duterte ends his six-year term.
- The measure seeks to trim the CIT rate to 20% gradually from 30% currently — the highest in Southeast Asia — by two percentage points every other year starting 2021.
- The bill also authorizes the President to accelerate CIT reduction in the face of increased collections from the rationalization of the fiscal incentives, as certified by the Finance chief.
- Besides removing perks deemed redundant and among other provisions, the measure also caps income tax holidays at five to seven years, depending on investments' location and merits.
- Tuesday also saw the House Ways and Means committee approve a general tax amnesty program that includes the estate tax amnesty that cleared the plenary last year.
- The committee will then submit the bill for plenary approval.

ECONOMIC HIGHLIGHTS (continued)

Growth Outlook (continued)

- Among others, the bill imposes an amnesty charge equivalent to a portion of outstanding unpaid taxes in exchange for immunity from civil, criminal and administrative penalties.
- Excluded are delinquencies involved in complaints of the Presidential Commission on Good Government, unlawfully acquired wealth under the Anti-Graft and Corrupt Practices Act, violations of the Anti-Money Laundering Law, pending criminal cases for tax evasion, as well as tax cases subject to final and executory judgment of courts.
- The bill also authorizes the government to examine concerned taxpayers' books of account to verify the accuracy of declared amounts and provides for the automatic exchange of tax information with foreign authorities.
- The bill's estate tax amnesty provision — which was actually approved as a separate bill by the House in February last year but was included in the current measure — imposes a flat rate of six percent on the decedent's net estate.
- A counterpart bill awaits approval at the Senate Ways and Means committee. By law, tax measures should emanate from the House, although the Senate can hold parallel hearings in order to expedite enactment of priority bills.
- The general amnesty provision covers all national internal revenue taxes except estate, value added tax and estate taxes collected by the Bureau of Customs, as well as local government taxes. That provision imposes a four percent amnesty rate if it is paid within six months from the amnesty offer and five percent after that period but only for up to one year.
- The committee adopted the use of incremental assets as basis for computation of payments of businesses that apply for amnesty. Incremental assets are defined as the difference of a taxpayer's total assets as of end-2017 and total assets declared in the latest financial statements submitted for amnesty purposes, provided that Bureau of Internal Revenue verification shows such incremental assets are understated by at least 30%.
- The Department of Finance (DOF) had batted for such computation to be based on total assets, arguing that this would be easier to administer and, hence, encourage small taxpayers to participate.
- However, SGV & Co. said that the total assets method would discourage large taxpayers from participation as the amnesty would include even assets for which proper taxes have been paid.
- For those assessed with tax shortfalls, the bill offers an amnesty of 50-100% of the basic tax depending on the nature of the delinquency.
- While the DOF has yet to come up with a computation of potential revenues from the planned amnesty offer, the government could raise P16-bil from delinquencies that have become final and executory alone, but would forgo the collection of some P197.57-bil.
- The committee removed the minimum amnesty payment of P50,000 to P1-mil for taxpayers without incremental assets to declare, as "it runs counter to the idea of an amnesty. It becomes a misnomer if you don't have incremental assets then there's no basis of imposition.
- It also removed the amnesty on customs duties and local business taxes, citing lack of required data.
- At the same time, the committee moved to include a provision allowing local government units (LGUs) to conduct their own one-time amnesty program on unpaid local real property taxes.
- Moreover, the bill also mandates the creation of a tax database for those that availed of the program for closer monitoring of compliance after amnesty availment.

CORPORATE NEWS

MEG

- Megaworld Corp. is building an office tower for JPMorgan Chase Bank, N.A. in Fort Bonifacio, as the global banking and financial services provider consolidates its presence in the country.
- The listed property firm said the 25-storey building will serve as JPMorgan's Philippine Global Service Center. The building will cover a gross leasable area of around 70,000 square meters, making it the largest single office lease transaction in the country in terms of transaction value as well as total space leased to one company.
- Located along 38th Street corner 9th Avenue in Uptown Bonifacio, the building will stand near the future Uptown Transport Hub of the proposed Skytrain monorail project being developed by Megaworld's sister firm, INFRACORP Development, Inc.
- Megaworld expects to complete the tower by 2021, with full operations to start by 2022.
- The Andrew L. Tan-led firm will lease the building to JPMorgan for a period of 10 years, with a multiple renewal option.

CORPORATE NEWS (continued)

MEG (continued)

- Megaworld did not disclose the total cost for the tower, but noted that it is a multibillion peso project.
- For its part, JPMorgan Philippine Global Service Center said the building will allow the company to bring its Manila-based employees in one place.
- The building will be designed by United Kingdom-based architectural firm Broadway Malyan, and is applying for LEED (Leadership in Energy and Environmental Design) Gold certification. This indicates that the project will be a green building with energy-efficient and environmentally-friendly components.

GLO

- Globe Telecom, Inc. said it is moving closer to reaching its target of deploying long-term evolution (LTE) services to 95% of cities and municipalities in the country by end-2018.
- The telco company said it has established 1,752 new LTE sites all over the country over the January to June period, bringing the number of LTE stations nationwide to 12,000.
- The new LTE sites carry frequency bands of 700 megahertz (MHz) and 2600 MHz.
- The Ayala-led telco giant noted its customers' continued use of streaming services is spurring demand for mobile data. Globe said mobile data traffic grew 40% to 390 Petabytes in the first six months of 2018 compared to 280 Petabytes during the same period last year.

PTT

- The Philippine Telegraph and Telephone Corp. (PT&T) on Tuesday said it is willing to settle any remaining penalties the Philippine Stock Exchange (PSE) may impose, as well as comply with the requirements that may pave the way for the lifting of its trading suspension.
- On Monday, the PSE issued a statement, saying it is evaluating PT&T's repeated violation of disclosure requirements to see if this may be grounds for its removal from the roster of listed companies.
- PT&T said it only received on Sept. 3 the PSE's letter detailing additional fines totaling P3.8-mil from violations made between 2011 to 2018.
- The company had assumed it had already settled the case with the PSE after it paid on Aug. 31 the P635,000 penalties it was initially charged with.
- PT&T is seeking a meeting with the PSE to discuss any additional penalties.
- PT&T also reiterated its call to be allowed to resume the trading of its shares, saying it "has the underlying assets and existing business to support its shares as well as competent management team and positive growth outlook."
- PT&T is one of the telco companies planning to participate in the government's bid for a so-called "third telco" player.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,200.20	US$2.600

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