PrimeEquity Research

Meridian Securities Incorporated
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

06 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,752.27 (-1.64%)	110,001,577.75	(19,477,670.96)	26.46 (+0.30%) = 1,416.40	53.530

MARKET OUTLOOK

- Stocks suffered a bloodbath during Wednesday's trading after August inflation figures ended much higher than expected.
- The Philippine Statistics Authority reported Wednesday, September 5, that headline inflation accelerated to 6.4% last August, faster than July's 5.7%. This is the highest figure recorded since inflation shot up to 6.6% in March 2009.
- The August inflation reading beat all market estimates, including the central bank's estimate range of 5.5% to 6.2%, as well as the Department of Finance's 5.9%.
- Analysts are now expecting another rate hike from the central bank to curb inflation.
- Unfortunately, bearish sentiment is expected to persist at least for the remainder of the week, as investors will still digest the components of the latest CPI (consumer price index) numbers, as well as gradually factor in the implications.
- Adding to the pressure, with concerns over trade simmering, Commerce Department data showed that the U.S. trade deficit hit a five-month high in July, which economists said could heighten the White House's resolve to aggressively pursue an "America First" approach to trade.
- The data comes amid concerns that a U.S. proposal to impose tariffs on $200-bil more in Chinese imports could go into effect soon after a public comment period ends on Thursday, even as the U.S.-Canada talks to renegotiate the North American Free Trade Agreement continue.

ECONOMIC HIGHLIGHTS

August Inflation

- Headline inflation in August caught state economic managers and financial markets by surprise, shooting up to its fastest clip in almost a decade, according to official data the Philippine Statistics Authority (PSA) released on Wednesday.
- PSA data showed that the prices of widely used goods increased by 6.4%, higher than July's 5.7% and August 2017's 2.6%. The latest figure was the fastest since March 2009 when it registered 6.6%.
- August's pace also pierced the 5.5% to 6.2% range estimated by the central bank's Department of Economic Research as well as the 5.9% estimate of the Department of Finance and the median in a poll of economists.
- Year-to-date, headline inflation averaged 4.8%, higher than the central bank's target range of 2% to 4% for the year and right below its upward-revised 4.9% forecast for 2018.
- Core inflation, which excludes food and energy items, clocked in at 4.8%, higher than last month's 4.5% and August 2017's 2.2%.
- An unfortunate confluence of cost-push factors continues to drive consumer price inflation in August beyond the acceptable target range. Much of it has to do with food supply shocks, rice in particular, the central bank said, adding that these factors "warrant more decisive non-monetary measures."
- Elevated oil prices also continue to impact transport and power prices. At the same time, the peso (along with other currencies) is being adversely affected by emerging market uncertainties and a strong US dollar. These are adding to the cost-push pressures.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 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	6.4% (2012 BY) (August 2018)	Imports Growth Rate	24.2% (June 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.225(as of September 3, 2018)	Cash Remittances	US$2.357-B (June 2018)	O/N RRP	4.00% (as of August 9, 2018)

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ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

August Inflation (continued)

- The central bank governor further cautioned that the strong domestic demand is “making it too convenient” for producers and traders to pass on higher costs to consumers.
- The food-alone index for August was 8.2%, higher than last month’s 6.8% and last year’s 3.1%. The PSA noted that, except for corn, most food subindices posted higher annual mark-ups in August.
- The government, particularly the Department of Agriculture, must act quickly and fervently with a sound judgment to ease the increasing prices of agricultural commodities which are the main drivers of inflation.
- The central bank will be looking more closely at the latest data to reassess the medium-term inflation path. It also needs to consider external developments and US Federal Reserve actions to the extent these exert undue pressure on the peso.
- Under the circumstances, the central bank will weigh the need for further monetary policy action. Appropriate recommendations will be presented to the MB (Monetary Board) on Sept. 27 at its next policy meeting. It is most critical at this point to restore inflation back to the target range soonest and securely anchor inflationary expectations.
- The chances of another aggressive monetary policy action has zoomed as inflation surged. Another 50bp policy rate hike at the Sept. 27 meeting is a real possibility, according to ING Bank NV Manila.
- ANZ Research likewise expects a stronger policy response, saying: “With inflation surpassing 6% for the first time since March 2009, bringing it back below target will require more policy response given cost-push pressures in the economy.”
- ANZ Research now expects the central bank to increase its overnight reverse repurchase rate by 50 bp at the upcoming Sept. 27 meeting to 4.50%, compared to our earlier expectation for a 25 bp hike.
- For Nomura: This higher-than-expected pick-up in headline inflation could further stoke inflation expectations, raising the risk of the central bank hiking again by a relatively aggressive 50bp this month, with possibly more to come.

Manufacturing Output

- The country’s manufacturing activity sustained its double-digit growth pace for the seventh straight month in July, the government reported on Wednesday.
- Preliminary data from the Philippine Statistics Authority showed factory output, as measured by the Volume of Production Index, increased 11.8% year on year in July, faster than June’s 10.6%, and a turnaround from July 2017’s 5.1% contraction.
- On the average, factory output volume has grown by 13.6% year-to-date, faster than the 4.48% recorded in 2017’s comparable seven months.
- Capacity utilization rate, which measures how much of factory capacity was in use that month, averaged 84.2% with 11 of the 20 sectors posting capacity utilization rates of at least 80%.
- Growth in the production volume of construction-related manufactures slightly slowed down in July with slight declines in cement production and miscellaneous non-metallic minerals. Volume of production of glass (14.3%) and basic metals (19.1%), however, posted double-digit growth, the National Economic and Development Authority (NEDA) said.
- NEDA added that production volume growth of most export-oriented products was “sustained” in July, with increases for petroleum products (38.3%), textiles (33.5%), beverages (21.8%), and non-electrical machinery (12.1%) offsetting declines for tobacco (-64.6%), footwear and wearing apparel (-17.9%), wood products (-9.3%), and furniture and fixtures (-4.6%).
- High importation of raw materials and intermediate goods supported the increase in production levels of export-oriented goods, the NEDA statement further read.

ECONOMIC HIGHLIGHTS (continued)

Manufacturing Output (continued)

- Union Bank of the Philippines (UnionBank) said the results can be attributed to the "strong positive economic growth" in H1 of 2018 that clocked in at 6.3%.
- This expansion is a momentum of manufacturing resurgence since last year. It is obvious from the influx of foreign direct investments (FDIs) and the growing trade imports, it added.
- NEDA expects this strong performance of the manufacturing sector this year as we continue to see stable domestic demand, as well as robust investments due to heightened infrastructure projects and consumer spending.
- Domestic demand is growing and external demand is positive and is still expected to grow. These factors will continue to influence production growth for the rest of the year.

Infra and Capital Spending

- Infrastructure and other capital spending climbed by double digits in July on the back of the government's "Build Build Build" program, Budget Secretary Benjamin Diokno said on Wednesday.
- Infrastructure and capital outlays owing to the "Build, Build, Build" program continue to boost government spending as it reached P84.5-bil, surging P36.1-bil or 75% compared to July 2017.
- tTe Department of Budget and Management also said that project implementation by the Department of Public Works and Highways had continued to drive infrastructure disbursements.
- In particular, these include nationwide road construction, improvement and widening projects; the Pasig-Marikina River Channel Improvement Project; and flood control, drainage, and dike improvement and rehabilitation projects.
- Frigate and engineering equipment acquisitions under the Armed Forces of the Philippines Modernization Program and the procurement of machinery, aircraft and aircraft equipment by the Department of Transportation-Philippine Coast Guard also contributed.
- Expenditures subsequently grew by 47% to P437.2-bil for the first seven months of the year, it added, raising total government spending for the period to P1.931-tril, up 22.6%.

CORPORATE NEWS

FGEN

- First Gen Corp. is still on buying the Philippine National Oil Co.'s (PNOC) banked gas after the latter did not respond to its earlier offer.
- Last month, PNOC posted on its website an invitation for interested parties to submit offers to buy its banked gas amounting to 97.67 Petajoules. It set the deadline for submission on Sept. 3, but there is no word on whether it received any offers.
- Under the terms of its latest invitation, PNOC wanted the offered price to be in US dollars, exclusive of any applicable taxes, as well as the schedule of withdrawal of the banked gas. It also required the interested buyers to describe the intended use of the gas.
- PNOC said at its sole discretion, it reserves the right to accept or reject any or all offers to buy the banked gas. It said it can also suspend or cancel the sale of the banked gas at any time without any reason or liability.
- First Gen had expressed interest in PNOC's banked gas when it was first offered in 2015, when the two parties had joint negotiations in 2016, and when the state corporation asked for an offer in July this year.
- PNOC did not immediately respond to a query on the outcome of its latest invitation for buyers of banked gas.
- The banked gas was bought by PNOC from the Department of Energy in 2009, including all the rights, benefits and entitlements of the total 108.6 Petajoules valued at P14.4-bil.
- The corporation since then has been trying to sell the gas but was only able to sell 4.61 Petajoules to Power Sector Assets and Liabilities Management Corp. in 2013 for P937-mil. Another portion at 6.324 Petajoules was sold to Pilipinas Shell Petroleum Corp. in 2015 for P2.5-bil.

NAIA Consortium

- The consortium proposing to rehabilitate the Ninoy Aquino International Airport (NAIA) on Wednesday said it is not seeking any government guarantees in its bid to develop and expand the gateway.

CORPORATE NEWS (continued)

NAIA Consortium (continued)

- The so-called "NAIA consortium," composed of seven of the country's biggest conglomerates, issued the statement in reaction to a concern raised by Senator Ralph G. Recto over its proposal to adjust airport terminal fees as part of the airport's rehabilitation plan.
- The NAIA consortium said they are not asking for any guarantee or protection from the government in its P102-bil proposal, saying terminal fees should not be counted as such as "all airport proposals have provisions for terminal fees which are subjected to reasonable adjustment during the life of the contract."
- The consortium is "taking all the risks including a drop in the number of passengers and consequently revenues."
- It added that "terminal fees are no different from the fares passengers pay when riding LRT (light rail transit) or when using toll roads."
- Last week, Mr. Recto said the consortium's proposed adjustment for the terminal fee should be considered as a government guarantee, which is prohibited by the Department of Transportation (DoTr) for unsolicited proposals.
- Transportation Undersecretary for Planning Ruben S. Reinoso, Jr. said the government cannot assure the NAIA consortium of terminal fee adjustments.
- "The proposed terminal fees will not be guaranteed by the gov't, but will have to go through the process of public hearing before any increase can be implemented," he said.

MBT

- The Metropolitan Bank & Trust Company (Metrobank) announced that it has acquired the last remaining share of its subsidiary Metrobank Card from its former foreign partner.
- The bank owned by George SK Ty said it has acquired the last 20% stake in the unit from global bank ANZ, one year after they announced the plan.
- The final transaction brings Metrobank's ownership in MCC to 100% and likewise completes the full handover from ANZ as Metrobank assumes 100% responsibility over MCC operations.
- It came with a price tag of P7.4-bil.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,191.50	US$2.624