PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

07 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,638.71 (-1.47%)	125,396,163.42	(18,993,039.24)	25.69 (-2.91%) = 1,375.62	53.547

MARKET OUTLOOK

- The local bourse tumbled further on Thursday as the faster-than-expected August inflation print continued to roil the market and as global trade tensions further dampened sentiment.
- Emerging market jitters mainly caused yesterday's bloodbath.
- Concerns of emerging market sell-off and contagion plus news of some foreign managers reducing weight on the Philippines are affecting the equities market.
- The unexpected 6.4% inflation in August – the highest in almost a decade and way above the 5.7% in July – continues to add to the concerns, but most investors may have already factored this in.
- Traders said investors are getting wary of investing in emerging markets on the back of a trade war that could be worse than earlier expected with the US likely to implement another wave of tariffs against China.
- The rout in emerging markets is stirring worries among investors about the resilience of these countries to Western catalysts
- Markets are also cautious ahead of more tariff hikes expected from the United States, as trade wars threaten global growth.
- Negative sentiment from the August inflation figure of 6.4% along with peso's upward breakout from its recent consolidation may continue to weigh heavily on the index.
- Foreign selling might continue today, especially if the peso weakness lingers.
- Stock market analysts, meanwhile, again pointed to the fact that August inflation was well over government forecasts and the market consensus.
- Investors are concerned that the central bank could implement another 50-basis point rate hike.

ECONOMIC HIGHLIGHTS

Business Confidence

- Business sentiment plunged in Q3, the central bank reported on Thursday, with consumer prices, seasonality, weak local currency and competition said to have dampened optimism.
- Results of the central bank's latest Business Expectations Survey put Q3 confidence index (CI) — computed as the percentage of companies that answered in the affirmative minus those who replied otherwise — at 30.1%, down from 39.3% three months earlier.
- The central bank's Department of Economic Statistics described business sentiment as "less optimistic," with the latest CI the lowest in almost nine years or since the 22% recorded in Q4 of 2009.
- Respondents attributed the lower confidence to increasing prices of basic commodities in the global market — augmented locally by the effects of the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) law; rising overhead costs and lack of raw materials; seasonal factors such as business activity interruptions and lower crop production during the rainy season, slack in consumer demand as households prioritized school expenses, as well as the suspension of commercial fishing in Davao Gulf from June to August; the weakening peso; and stiffer competition.

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)

ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

Business Confidence (continued)

- The decline in Q3 optimism was attributed largely to the wholesale and retail trade sector, which registered the biggest decline in confidence.
- Aside from the sluggish consumer demand during the rainy season, respondents' outlook was dampened by higher input costs brought about by rising commodity prices, weakening of the peso, and increasing minimum wage requirements.
- The outlook for the next three months, meanwhile, rose to 42.6% from 40.4% in Q2 with respondents pointing to higher demand, increase in orders and projects, expansion of business and product lines, continued rollout of government infrastructure and other development projects, favorable weather conditions and the opening of high seas/fishing operations in October.
- Positive outlook was likewise driven by respondents' expectations of more favorable macroeconomic conditions in the country for the next quarter — particularly robust gross domestic product growth, sustained foreign investment inflows and the steady stream of overseas Filipinos' remittances.
- Businesses also expect inflation to increase, the peso to depreciate, and interest rates to go up for the current and next quarters.
- Inflation was expected to breach the upper end of the government's 2.0% to 4.0% target range for 2018, at 4.7% for the current quarter and 4.8% for the next, from 3.8% for both periods in the previous survey.

Foreign Investment Pledges

- Foreign investments approved by the country's investment promotion agencies (IPAs) went up by 10% in H1 of the year, driven by the surge of approved pledges in Q2, data from the Philippine Statistics Authority (PSA) showed.
- Approved projects from January to June this year amounted to P45.2-bil, from P41-bil in the same period last year, the PSA said.
- Bulk of approvals were made in Q2 as total approved foreign investments surged 70.4% to P30.9-bil from P18.2-bil in the same period a year ago.
- The PSA said the total approvals for Q2 were made by five out of seven IPAs, namely the Board of Investments (BOI), Clark Development Corp., Philippine Economic Zone Authority and Subic Bay Metropolitan Authority as well as Cagayan Economic Zone Authority.
- Indonesia, Japan and the United States were the top three prospective investing countries during the six-month period.
- Pledges from Indonesia reached P6.4-bil, accounting for 20.8% of the total foreign investments during the period, while Japan and the US committed P5.1-bil and P 4.0-bil, or 16.5% and 12.9% of the total investments, respectively.
- Meanwhile, the manufacturing industry received the largest amount of pledges in Q2 at P12.8-bil or a 41.5% share of total.
- Construction came in second with investment pledges valued at P7.1-bil or a 23% share. Administrative and support service activities followed at P5.4-bil or a 17.4% share.
- The biggest approved foreign investments in Q2 of 2018, amounting to P12.9-bil or 41.6%, would be intended to finance projects in the National Capital Region (NCR), the PSA said.
- The second biggest, amounting to P8-bil or 25.7%, was pledged to CALABARZON. Central Luzon followed with P4.3-bil or 13.8%.
- Investment commitments of both foreign and Filipino nationals, however, reached P114.7-bil in Q2, down by 50.2% from the previous year's P230.4-bil.
- Filipino nationals shared 73% of the total investment pledges during the quarter, the PSA said.

ECONOMIC HIGHLIGHTS (continued)

Foreign Investment Pledges (continued)

- Total amount of projects by foreign and Filipino investors in Q2 of 2018 are expected to generate 44,526 jobs. This is 53.2% lower than the projected employment of 95,131 jobs in the same quarter in 2017, the PSA reported.

Inflation Forecasts and Legislative Measures

- Banking giant HSBC has raised its 2018-2019 inflation forecasts for the Philippines following August's nine-year high, accompanying this with a warning that monetary policy tightening was not enough to mitigate above-target consumer price growth.
- Legislative action, it said in a report released on Thursday, is "necessary" and the government should also consider temporary subsidies after inflation surged to 6.4% last month.
- HSBC said it now expected inflation to average 5.2% and 4.5% in 2018 and 2019, respectively, from 4.7% and 3.8% previously. The bank's forecasts are higher than the central bank's 2.0% to 4.0% target for both years.
- Year-to-date inflation currently stands at 4.8%. The central bank's policymaking Monetary Board last month raised its inflation forecasts for 2018 and 2019 to 4.9% and 3.7%, respectively, from 4.5% and 3.3% previously. It also issued a 3.2% forecast for 2020.
- HSBC emphasized that "monetary policy is not enough and that legislative measures must also be implemented to curb inflation."
- Passing reforms to eliminate quantitative restrictions on rice imports and reducing import tariffs on certain food products, as have been proposed to Congress, are necessary, it added.
- It also noted that another measure that could help ease inflationary pressures, especially for the poor, are temporary subsidies for certain food products.
- The lender warned that "continually higher inflation could threaten growth by way of curbing consumption and investment, as it prompts further monetary tightening" from the central bank.
- Monetary authorities will have to continue tightening, it said, to curb inflation expectations and limit any second-round impacts from higher prices.
- HSBC is also seeing "some incipient signs" that inflation may be broadening to other sectors of the economy.
- The bank also noted that in August, CPI components for recreation and culture as well as restaurants and miscellaneous goods and services also rose at an above-trend pace.
- This means that the central bank must now continue to further tighten monetary policy, whether or not the government is able to impose administrative controls on prices, to avoid broad-based price increases, it added.

PH Growth and Policy Tightening

- The economy can withstand further policy tightening from the central bank, even as it fired off its strongest response in a decade last month, according to the minutes of the Monetary Board meeting.
- The Monetary Board believed that the series of policy rate adjustments thus far in 2018 will help reduce the risks to inflation, including those emanating from the ongoing normalization of monetary policy in advanced economies and its impact on the foreign exchange market, and bring inflation toward a target-consistent path over the medium term.
- Favorable conditions arising from sustained domestic growth also suggest that the economy can accommodate a further tightening of monetary policy settings.
- The August print will "warrant more decisive non-monetary measures" to mitigate the impact of supply-side factors on inflation.
- Meanwhile, a global bank said the central bank needs to hike its interest rates further at their next policy meeting to dampen inflation expectations, as robust economic growth comes "at a cost."
- Credit Suisse said the central bank will likely raise its benchmark rates by another 50 bps during its Monetary Board's meeting on Sept. 27.
- The Swiss financial giant added that in the next 12 months, the central bank will likely hike rates by another 75 bps.
- Credit Suisse said there is a need for monetary tightening to bring down core inflation and control expectations.
- Credit Suisse expects Philippine GDP to expand by 6.3% this year and 6.5% the following year, missing the government's 7% to 8% economic growth target for 2018-2022.

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CORPORATE NEWS

ALI

- Property developer Ayala Land, Inc. is seeking Securities and Exchange Commission (SEC) approval to issue P8-bil worth of bonds to finance its 2018 capital expenditures program.
- Ayala Land said the amount represented the sixth and final tranche of a P50-bil shelf registration program approved by the SEC in 2016.
- The five-year bonds will be listed on the Philippine Dealing Exchange and Exchange Corp. (PDEx). No other details were disclosed.
- Ayala Land said it planned to use the net proceeds to partially finance ongoing and new projects and for other general corporate requirements.
- The company has tapped BDO Capital and Investment Corp. BPI Capital Corp., China Bank Capital Corp., East West Banking Corp., First Metro Investment Corp., PNB Capital and Investment Corp., and Standard Chartered Bank Philippine Branch as its joint lead underwriters and joint bookrunners for the transaction.
- Ayala Land has so far raised P15-bil in fresh funds this year, P5-bil of which was from a bilateral term loan agreement and P10 billion from the issuance of fixed-rate notes.

ICT

- International Container Terminal Services, Inc. (ICTSI) on Thursday said it is raising its stake in Manila North Harbor Port, Inc. (MNHPI) to 50%.
- The Razon-led port operator said it signed a share purchase agreement with Harbour Centre Port Terminal, Inc. (HCPTI) to acquire 4,550,000 MNHPI shares at P200 each or a total of P910-mil. This represents 15.17% of MNHPI.
- The deal will increase ICTSI's stake in the operator of Manila North Harbor to 50% from the current 34.83%. The Romero-owned HCPTI owns the remaining stake in MNHPI.
- The transaction will allow ICTSI to contribute its experience, expertise and state-of the-art technology and infrastructure to enhance the operational efficiency of the domestic terminal in the Port of Manila and improve the traffic condition in Metro Manila.
- ICTSI, which operates the Manila International Container Terminal, said the completion of the deal will depend on securing approval from the Philippine Ports Authority (PPA) and the Philippine Competition Commission (PCC), among others.
- This transaction will further improve the returns of ICTSI's shareholders through this value-accretive acquisition.
- In September 2017, ICTSI bought Petron Corp.'s 34.83% stake in MNHPI for P1.75-bil.
- MNHPI signed the 25-year contract to operate, manage and maintain the North Harbor in November 2009.

UBP

- Union Bank of the Philippines (UnionBank) said Thursday that its board had given the green light for the bank to raise P20-bil from the issuance of bonds and/or commercial paper.
- The bank said the issuance would be made in multiple tranches.
- UnionBank did not provide details as to when it would issue the debt paper and how it would use the proceeds.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,199.55	US$2.635

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64