

# DAILY MARKET PRIMER

10 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,598.64 (-0.53%)	117,149,508.87	(26,470,700.74)	25.63 (-0.23%) = 1,375.92	53.684

## MARKET OUTLOOK

- Sentiment at the local market may still be dampened over last week's report of a faster-than-expected inflation rate and could take a breather following last week's battering, with investors likely to be seeking news on how the government will address the country's economic woes while being on the lookout for optimistic prospects here and abroad.
- The Philippine Stock Exchange index (PSEi) is expected to hover between 7,600 to 7,700 this week following a three-day slump that saw a return to 7,500 territory.
- Last week's disappointing factors to continue weighing on the market's mood. Movements might be limited within this zone for now, until significant positive catalysts arise.
- These may come from win-win arrangement on trade spats, approval of sequel on corporate income tax cut via the Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO). Choices meanwhile, might be limited on inflation hedge picks, defensives, and those with sequel stories to unlock for the remainder this year.
- TRABAHO is a substitute bill to the second package of the government's tax reform program.
- The index may continue to go sideways as it builds momentum to test 8,000 before the end of the month.
- Support hovers between 7,400 and 7,500 and resistance between 7,700 and 7,750. June's foreign direct investments and July's trade balance data — to be released today and Tuesday, respectively — are some of the local economic data which may test either support or resistance this week.
- Friday's decline, however, was lesser in magnitude, hinting that at the very least, the market has finished digesting the inflation news and may consolidate in the absence of fresh leads.
- If the market breaks below 7,500, the next support will be at 7,200.

## ECONOMIC HIGHLIGHTS

### Credit Raters on Political Noise

- Debt Watchers are cautious over increased political noise due to moves to persecute another of President Rodrigo R. Duterte's critics and changes at the Supreme Court, even as one said these developments are unlikely to alter its assessment on the country unless they dampen business sentiment.
- On Malacañang's revocation of opposition Senator Antonio F. Trillanes IV's amnesty, Moody's said political risk will still be a factor in their overall credit assessment for the Philippines.
- Moody's reiterated that political risk is unlikely to alter the sovereign risk profile as long as there are no spillovers to business or consumer sentiment, and there is no decrease in the government's ability to advance its socioeconomic reform agenda.
- The latest events, such as those related to Sen. Trillanes, do not pose a significant change to that view, it added.
- For its part, Fitch Solutions Macro Research in a separate commentary published on Sept. 5 said there is a "growing chance for Duterte-aligned policy makers to gain control of the Senate in the midterm elections" due to the government's moves versus Mr. Trillanes and Senator Leila M. de Lima.

## ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.0% (Q2 2018)	<b>Unemployment Rate</b>	5.4% (July 2018)	<b>GIR</b>	US\$77.829-B (August 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P86.4-B) (July 2018)	<b>Exports Growth Rate</b>	(0.1%) (June 2018)	<b>BOP</b>	(US\$1.177-B) (June 2018)
<b>Inflation</b>	6.4% (2012 BY) (August 2018)	<b>Imports Growth Rate</b>	24.2% (June 2018)	<b>O/N RP</b>	4.50% (as of August 9, 2018)
<b>91-day T-Bill Rate</b>	3.225(as of September 3, 2018)	<b>Cash Remittances</b>	US\$2.357-B (June 2018)	<b>O/N RRP</b>	4.00% (as of August 9, 2018)

**ECONOMIC CALENDAR**
**Monday, September 10**

- Foreign Direct Investments (June)

**Tuesday, September 11**

- Trade Balance (July)
- Exports (YoY, July)
- Imports (YoY, July)

**Monday, September 24**

- Budget Balance (August)

**Thursday, September 27**

- Monetary Board Policy Meeting

**ECONOMIC HIGHLIGHTS** (continued)

**Credit Raters o Political Noise** (continued)

- The government charged and jailed Ms. De Lima last year over her alleged involvement in the New Bilibid Prison illegal drugs trade when she was still Justice Secretary in the previous administration, although she argued she was only persecuted for being critical of Mr. Duterte's violent drug war.
- Fitch Solutions also said last week that the recent ouster of ex-Supreme Court Chief Justice Ma. Lourdes Sereno "also cast doubts about the independence of the judiciary."
- Ms. Sereno, also a known critic of Mr. Duterte, was ousted in June for failing to fully declare the required statement of assets, liabilities and net worth when she applied for the post.
- President Rodrigo Duterte's consolidation of power would likely be positive for policy making and would also bode well for his attempt at changing the Constitution, both to introduce federalism and shift the presidential system to a presidential-parliamentary model. However, Fitch Solutions sees a risk that checks and balances in the country could slip further.
- The draft Federal constitution is already with Congress, and both houses have indicated their intention to move forward with Charter change.
- The change in the government's structure is among Mr. Duterte's campaign promises, which seeks to boost regional development by granting them more autonomy. Moody's and Mr. Duterte's economic managers have earlier flagged the possibility of a bloated fiscal deficit if fiscal provisions are not clearly laid out.
- Moody's on July 20 flagged the Duterte administration's "contentious policies on law and order" as well as other "political controversies" as a downside risk on the country's attractiveness to investors, even as it affirmed the country's investment-grade rating and its stable outlook over high economic strength from its fiscal health and debt affordability.
- Moody's rated political risk as "low +," even as it noted political noise due to issues regarding illegal drugs trade, national security, foreign policy and the alleged suppression of criticism versus the government.
- The credit rater said the developments have not led to a significant reduction in the President's approval ratings, negative spillovers to business and consumer sentiment, and a decrease in the government's ability to push its socioeconomic reform agenda.
- However, it said that although the country's institutional strength is rated "moderate +" due to its effectiveness on monetary and fiscal capacity amid elevated political noise, "contentions regarding the recent ouster of the Supreme Court Justice by her peers foreshadow a further deterioration in the rule of law."
- Fitch Ratings also said last year that political noise failed to dent the country's growth prospects, while S&P Global Ratings said early into Mr. Duterte's term that a rating upgrade is unlikely over alleged human rights violations, but eventually upgraded its outlook in April to "positive" from "stable."

**Policy Rate Forecasts**

- The central bank will likely raise interest rates by another 50 basis points (bps) in the coming weeks following faster-than-expected August inflation, a global research firm said, even as price pressures due to oil and food products are seen to ease.
- Capital Economics said they now see the central bank with an equally aggressive rate hike this month following the news of a 6.4% inflation rate for August.
- The surge in prices will need an equally strong response from the central bank in order to quell future inflation expectations.
- The 50-bp increase will follow a hike of similar magnitude during the central bank's's Aug. 9 policy meeting, which came at the heels of a 5.7% inflation reading for July. Inflation has averaged 4.8% for the first eight months of the year, shy of a 4.9% forecast for the full year.

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### **ECONOMIC HIGHLIGHTS** (continued)

#### **Policy Rate Forecasts** (continued)

- Capital Economics took the cue from the central bank's statement last week that they are looking at the option to do an emergency policy meeting ahead of the Sept. 27 review.
- The central bank earlier noted that non-monetary measures carry the biggest weight in addressing cost-push factors due to the scarcity of cheap rice and elevated world crude oil prices. He also pointed out the weaker peso as aggravating price pressures.
- The central bank will "take strong immediate action" to douse inflation expectations as well as "excessive" swings in the peso-dollar trading, which hovered close to the P54 level last week.
- The more aggressive tightening is expected to come even as supply-side price pressures "should ease over the coming months," the economic research firm added.
- The pass-through from higher oil prices, which has pushed up fuel and transport inflation, has probably now peaked. What's more, food price inflation should ease if the government manages to pass legislation that would boost rice imports, Capital Economics said.
- Inflation will drop back even more sharply at the start of next year, when the impact of the tax hikes on products including fuel, alcohol and tobacco drops out of the annual comparison.
- Nonetheless, with inflation well above target, the central bank is becoming increasingly concerned about rising inflation expectations.

#### **August GIR**

- The Philippines' gross international reserves (GIR) recovered slightly in August to hit its highest level in two months, with the central bank attributing the result to its foreign exchange operations and the national government's net foreign currency deposits.
- Central bank data released on Friday showed the country's foreign exchange reserves at \$77.828-bil, up 1.4% from July but lower compared to the \$81.725-bil recorded a year earlier.
- It was the highest since June's \$77.525-bil.
- The month-on-month increase was due mainly to inflows arising from the national government's net foreign currency deposits as well as the BSP's income from its investments abroad, the central bank said.
- In August, the government raised 154.2-bil yen or \$1.39-bil from a samurai bond offer.
- The inflows were partially tempered by payments made by the national government for maturing foreign exchange obligations, net foreign currency deposits and central bank income from investments abroad, the central bank's foreign exchange operations and revaluation adjustments to its gold holdings due to lower gold prices in the international market.
- The latest reserve level was enough to cover 7.5 months' worth of imports—higher compared to July's 7.4 months but lower from the 8.4 months recorded a year earlier. It was also equivalent to 6.2 times the country's short-term external obligations due within one year and 4.2 times based on residual maturity.
- Net international reserves, which refer to the difference between GIR and total short-term liabilities, increased to \$77.82-bil from the end-July level of \$76.71-bil.

### **CORPORATE NEWS**

#### **SMC**

- San Miguel Corp. (SMC) is tapping Standard Chartered Bank (SCB) and Sumitomo Mitsui Banking Corp. (SMBC) as co-financial advisors for its proposed New Manila International Airport in Bulacan.
- The diversified conglomerate said the partnership with SCB and SMBC is a "key step forward" in pursuing the P735-bil airport project.
- The New Manila International Airport project was conditionally approved by the National Economic and Development Authority (NEDA) Board in April, with questions on its financial and technical viability.
- As an unsolicited proposal, the New Manila International Airport project will have to go through a Swiss challenge, where other groups may submit counterproposals that SMC has the option to match.
- SMBC said it will work with SCB to ensure "San Miguel has all the support required to get a project of this magnitude and scale, done."

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## **CORPORATE NEWS** (continued)

### **SMC** (continued)

- In June, the NEDA said it is preparing the concession terms for the airport project, which when completed, will be further reviewed by an inter-agency committee and the NEDA Board chaired by President Rodrigo R. Duterte.
- SMC intends to construct, operate and maintain the airport, which will feature four to six parallel runways and an 8.4-kilometer airport toll road. When completed, the gateway is expected to have a capacity of 100-mil passengers a year, making it an alternative to the Ninoy Aquino International Airport (NAIA) in Pasay City.

### **TEL**

- PLDT, Inc.'s sale of Voyager Innovations to foreign investors has now advanced to the next stage, with the finalization of the deal's term of reference set before the month ends.
- The company expects to submit to their respective boards the terms of reference by the third week or end-September.
- In early August, PLDT announced during the company's financial briefing that they have signed a non-binding and detailed term sheet with certain foreign investors who would take an investment and management position in Voyager. The term sheet stipulated that they have four weeks to enter into definitive documentation with the investors.
- Voyager's sale is expected to shore up PLDT's balance sheet as the digital innovations unit has been losing money.
- The transaction may reflect a gain for PLDT by Q4. In addition, it will also remove a recurring cash call on the part of PLDT for Voyager's expansion.
- Once the new investors are onboard, PLDT's equity will fall to around 40%.
- The company did not state a valuation for the deal, but noted it will be enough to recoup their investments in Voyager that has reached about P10-bil.
- Once the terms are finalized, PLDT will seek clearance with the Philippine Competition Commission (PCC) before completion of the deal.
- As the digital innovations unit of PLDT, Voyager manages PayMaya Philippines, Inc., Smart Money, FINTQ, Lendr and freenet.
- Separately, the digital business solutions subsidiary of PLDT said on Friday its new data center in Cebu has been accredited by global solutions company NTT Communications.
- In a statement, ePLDT Inc. said the Vitro Data Center in Cebu City is the fifth ePLDT data center to be Nexcenter-certified. The others are the data centers in Makati City, Pasig City, Parañaque City and Clark.
- The company noted these standards are set by international certifications and operational guidelines such as ISO and Information Technology Infrastructure Library (ITIL).
- The data center in Cebu is the newest of 10 data centers ePLDT currently has in the country. It holds 800 racks out of the company's total rack capacity of 9,150.

**GOLD BUYING / Troy Oz.**

US\$1,201.55

**COPPER BUYING / lb.**

US\$2.619

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