PrimeEquity Research

Meridian Securities Incorporated
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

17 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,413.15 (-1.39%)	111,108,052.55	(15,098,051.02)	26.26 (-0.19%) = 1,418.15	54.004

MARKET OUTLOOK

- Shares are seen to move upward in the week ahead after two consecutive weeks in the red, with more local investors participating in the market amid the exit of foreign funds.
- Local investors seen providing a boost but fresh US tariffs on Chinese goods likely to spur selling.
- Foreign funds have walked away from the Philippine market because of the continuous caution on emerging markets.
- However, with the absence of foreign investors, locals are picking up the slack that has prevented the PSEi to record a total bloodbath.
- There is strong indication that the index will end in the green this week. The next support comes in at 7,350. The bottom line is that the market is moving away from relying on foreign funds. The market may take a little longer to climb as it absorbs all this foreign selling but eventually it will stop.
- Meanwhile, investors will be looking at the Philippine peso, which breached the P54 mark last week — its weakest in almost 13 years — after continued fears of the trade war between the US and China. It noted that the weaker peso poses a challenge on listed firms' spending in the fourth quarter, especially those with imported capital goods or fixed assets.
- Nonetheless, volatility of the local currency should eventually taper off, given the seasonal spike in remittances in Q4, plus the fact a number of corporates have already undergone inventory hedging since Q2.
- Market participants also looking forward to the signing of an executive order (EO) that aims to control inflation. Malacañang said the EO will contain measures that will seek to lessen trade barriers on the importation of rice, fish, sugar, meat, and vegetables.
- The expected signing of an EO to control inflation must be properly coordinated for a successful run. Otherwise, unabated inflation may prod corporates to implement pass-through charges, to maintain their ability to meet working capital needs.
- Most opportunities are in second-tier and speculative issues — a situation that will continue until year-end or until blue chip firms start to perform better. The PSEi's support is placed from 7,200 to 7,350, with resistance from 7,500 to 7,840.
- Expect the market to hover between 7,300 to 7,500 with Washington expected to announce fresh tariffs on some $200-bil worth of Chinese goods.
- While this news is nothing new, it might affect sentiments across risky assets such as stocks.
- Investors are also waiting for new catalysts to push the index above 7,500 but this is seen a bit unlikely to happen since most of the factors that are dragging the market come from the West due to their stronger economy.

ECONOMIC HIGHLIGHTS

Remittance Outlook

- Remittances likely grew modestly in July from a year ago as overseas Filipino workers (OFWs) reaped benefits of a weaker peso, a global bank said, giving their families more cash even with the same level of dollars they used to send home.
- HSBC Global Research said cash remittances likely grew by 5.1% in July. If realized, this would signal recovery from the 4.5% decline in such inflows in June but would ease from a 7.1% year-on-year pickup in July 2017.
- The central bank is scheduled release the latest remittance data today.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$77.829-B (August 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	(US$455-M) (July 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 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

Monday, September 24
• Budget Balance (August)

Thursday, September 27
• Monetary Board Policy Meeting

ECONOMIC HIGHLIGHTS (continued)

Remittance Outlook (continued)

- Remittances have been slow at the start of the year, up just 2.7% year-on-year for the year to date. Annual remittance growth ranges around 5% to 7%, and lower transfers this year mean that growth will probably come in at the low-end of the usual range, at around 5%.
- Money wired home by OFWs through banks amounted to $14.179-bil last semester, a modest climb from $13.813-bil in last year's first half. The increase is softer than the central bank's forecast of 4% growth in remittances for the entire 2018.
- The central bank had said the slower rise in remittances could be due to thousands of Filipinos working in the Middle East who availed of the repatriation offer of the Duterte administration amid reports of illegal recruitment and maltreatment at the hands of their employers. This resulted in smaller inflows from United Arab Emirates, Saudi Arabia and Kuwait.
- Around 10-mil OFWs provide for their families in the Philippines. In turn, these cash transfers fuel household spending that drives more than 60% of overall economic growth.
- The peso's weakness against the dollar is likewise expected to keep remittance amounts steady. There are downside risks to remittance growth given PHP weakness, which may be limiting growth in dollar terms as overseas Filipino workers do not feel the need to send so many dollars back home, HSBC said.
- The peso has depreciated versus the greenback in recent months, touching a fresh 12-year low after breaching the P54:$1 mark last week. The global lender said this gave OFWs the leeway to send the same amount of dollars to their families from a year ago, as these would have bigger values once converted to the local currency.
- In a separate commentary, ING Bank N.V. Manila said remittances have been weak in recent months and have been "inadequate to cover the wider trade deficit".
- The country's current account deficit ballooned to $3.1-bil as of end-June, already hitting the central bank's full-year forecast, on the back of surging merchandise imports and an export slump.

BOP Outlook

- Dutch financial giant ING Bank expects the current account deficit to widen to a new record of at least $7.5-bil this year or three times last year's $2.52-bil as the country spends more dollars to finance surging imports to support the expanding economy.
- This year's current account shortfall may settle at between $7.5-bil or 2.3% of gross domestic product (GDP) and $9.8-bil or 2.9% of GDP, ING said.
- ING thinks this imbalance could deteriorate further and could increasingly weigh on sentiment and on the peso. The tightening of the central bank would likely moderate private sector activity but is unlikely to keep the current account deficit at below 2% of GDP for this year and next year.
- Higher imports reflect the strong domestic demand that is likely to be sustained.
- With a weak export sector, the pressure from rising imports results in a wider trade gap. Structural inflows such as OFW remittances have also been weak and have in the past year been inadequate to cover the wider trade deficit.
- The Department of Economic Statistics at the central bank, reported last Friday the country's current account deficit widened to $3.09-bil or 1.9% of GDP in H1 from $133-mil or 0.1% of GDP in the same period last year.
- The wider current account deficit in the first half was due mainly to the widening deficit in the trade-in-goods account and lower net receipts in the primary income account, which more than offset the higher net receipts in the trade-in-services and secondary income accounts.
- Trade-in-goods deficit widened by nearly 28% to $23.3-bil as imports of goods jumped 10.7% to $48.7-bil while exports of goods slipped 1.6% to $25.3-bil.

ECONOMIC HIGHLIGHTS (continued)

BOP Outlook (continued)

- Net receipts in the trade-in-services account surged by 55% to $5.9-bil from $3.8-bil due largely to increased net receipts in technical, trade-related and other business services; manufacturing services; and computer services.
- As a result, the country's balance of payments position (BOP) yielded a deficit of $3.3-bil in H1 of year, more than four times higher than the $706-mil recorded in the same period last year.
- "This underlying external payments weakness underpins the weakening bias of the Philippine peso.

CORPORATE NEWS

ICT

- International Container Terminal Services Inc. (ICTSI) is not making moves to take a controlling stake in Manila North Harbor Port Inc. (MNHPI) at present after raising its stake in the domestic port to equal that of the San Miguel Corp. (SMC).
- The listed company announced early this month that it has signed a share purchase agreement with Harbour Centre Port Terminal Inc. (HCPTI) for the acquisition of the latter's 4.55-mil shares in MNHPI, hiking further its stake to 50% from 34.83%.
- The remaining 50 percent is held by SMC.
- ICTSI, however, said the completion of the share purchase agreement remains subject to a number of conditions precedent, including approvals from the Philippine Ports Authority (PPA) and the Philippine Competition Commission (PCC).

SMC / FB

- San Miguel Food and Beverage Inc. (SMFB), the newly consolidated food and beverage powerhouse of San Miguel Corp. (SMC) said investor appetite for the company's forthcoming share sale is strong despite bearish market conditions.
- Initial feedback from investors in an ongoing global roadshow for SMFB's P142.8-bil planned share sale has been encouraging.
- The company set a maximum offer price of up to P140 per share and officials are optimistic the final price that would be accepted by the market would on the high end given the rosy prospects of the newly consolidated food and beverage giant.
- According to the registration statement filed with the Securities and Exchange Commission (SEC), SMFB's follow-on offering involves the sale of 887-mil secondary shares owned by parent firm SMC and an over-allotment option covering 133-mil shares.
- The final pricing and allocation of the offer shares is set on Oct. 19 while the submission of firm order and commitments by Philippine Stock Exchange's trading participants is on Oct. 25. The offer period will run from Oct. 23 to 29, according to the timetable, which is still subject to the approval of both the SEC and the PSE.
- SMFB tapped BPI Capital Corp. and BDO Capital & Investment Corp. as local lead underwriters; J.P. Morgan Securities, Morgan Stanley Asia, UBS AG Singapore Branch as joint global coordinators; Deutsche Bank and Goldman Sachs as joint bookrunners; and Standard Chartered Bank as financial adviser.
- Part of the proceeds would be used for investments in the SMC Group including capital and funding requirements of future projects, according to the registration statement.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,202.60	US$2.613