

# DAILY MARKET PRIMER

18 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,413.56 (+0.006%)	72,930,242.62	(4,644,993.29)	26.31 (+0.19%) = 1,421.03	54.011

## MARKET OUTLOOK

- The main index barely moved on Monday as investors stayed on the sidelines following the typhoon that ravaged some parts of the country over the weekend, alongside prevailing fears over the trade war between the United States and China.
- Value turnover was unusually low after slowly climbing higher the last few weeks as investors are trying to assess the damage caused by the typhoon that passed through Northern Luzon over the weekend.
- Investors remain vigilant in the coming days especially as the full effects of Typhoon Ompong start to materialize. The provinces of Cagayan and Isabela, producers of rice and corn, were hit which may add pressure on inflationary effects this month.
- The market's weakness further weakness was also attributed to to US President Donald J. Trump's new pronouncements on their trade spat with China.
- The index may extend its losses ahead of the tariff announcement after Trump asserted his belief that the United States' trade deficit with China was too big, stating "we can't do that anymore."
- Earlier, China vowed that it will not play defense in the escalating trade dispute, adding further fuel to tensions as a new list of items subject to tariffs, including technology and consumer goods, was anticipated from Washington.

## ECONOMIC HIGHLIGHTS

### July Remittances

- Cash remittances recovered in July, the central bank reported on Monday, as overseas Filipino workers (OFWs) likely took advantage of a weakening peso.
- Money sent home by migrant workers reached \$2.401-bil that month, growing 5.2% from the \$2.283-bil received in July 2017 and turning around from a 4.5% decline posted in June, according to data released by the central bank.
- In a statement, the central bank attributed the rebound to a 4.5% increase in amounts sent by land-based OFWs which hit \$1.9-bil. OFWs working at sea also sent bigger amounts totaling \$511-mil, up by 7.8% year-on-year.
- By source, remittances mostly came from the United States, Canada, the United Kingdom and Germany.
- Around 10-mil OFWs provide for their families living in the Philippines.
- In turn, these cash transfers fuel household consumption that contributes nearly 70% to gross domestic product (GDP).
- HSBC Global Research as well as the Union Bank of the Philippines (UnionBank) had expected July remittances to have grown by 5.1%.
- With July's inflows, year-to-date cash wired home by OFWs through banks reached \$16.58-bil, 3% more than the \$16.095-bil sent in 2017's comparable seven months.
- Remittance flows grew as more Filipinos took advantage of a weaker peso-dollar rate.
- The depreciating peso is the major driver of July remittances' recovery. Overseas workers are really encouraged to send money back home right away if they think their families will get more.
- The local unit traded weaker than P53 against the greenback that month to average P53.4329, compared to the P50.6382 rate in July 2017.

## 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>	0.3% (July 2018)	<b>BOP</b>	(US\$455-M) (July 2018)
<b>Inflation</b>	6.4% (2012 BY) (August 2018)	<b>Imports Growth Rate</b>	31.6% (July 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\$2.401-B (July 2018)	<b>O/N RRP</b>	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)

### **July Remittances** (continued)

- In turn, July's recovery in cash inflows should spur household spending this quarter, offsetting any GDP damper from damage by super typhoon Mangkhut which destroyed 250,730 metric tons of paddy rice as of latest count. While farm output has historically contributed less than 10% to GDP, rice has been a key contributor to multi-year-high inflation that averaged 4.8% in the seven months to August against the central bank's 2% to 4% target band for 2018.
- Q3 consumption will definitely be higher with this July recovery, and with higher domestic demand, this would mean better overall growth prospects.
- Philippine GDP expanded by a disappointing 6% in Q2 due to slower growth in consumer spending that was offset by a surge in state spending and investments.
- The central bank expects a fresh peak for remittances for 2018, projecting a 4% increase from last year's record \$28.06-bil.

### **Monetary Policy**

- The central bank on Monday reiterated signals of "strong" monetary response to surging inflation when its Monetary Board meets next week, even as its chief said it was too early to tell how much damage from super typhoon Mangkhut, locally known as Ompong, would affect prices of goods.
- The central bank said its Monetary Board will not hold an off-cycle policy review ahead of its Sept. 27 rate-setting meeting.
- The policy-setting Monetary Board reviews benchmark interest rates every six weeks.
- The central bank had committed to "take strong immediate action" in response to the faster-than-expected 6.4% inflation rate recorded in August. That pulled the eight-month average increase in prices to 4.8%, well above the 2% to 4% target band for 2018.
- Market analysts expect another rate hike from the central bank this month, with bets that policy makers will respond with another 50 basis points (bp) to douse inflation expectations and temper sharp peso-dollar swings.
- The central bank has said inflation has lately been driven largely by supply factors — citing scarcity of cheap rice and elevated world crude oil prices — hinting that fiscal measures have a key role to play in the state's response.
- The central bank said on Monday that it was "too early to tell" how much the damage the typhoon, which struck northern Luzon last Saturday, would translate to increased prices especially for crops like rice.
- The central bank has said it expects inflation to peak this quarter before easing closer to target towards yearend. The central bank has increased policy interest rates by a cumulative 100 basis points so far this year with this objective in mind.
- Also on Monday, the central bank signed an agreement with the Department of Trade and Industry to use the latter's one-stop Negosyo Centers to link micro, small and medium enterprises (MSMEs) to formal, cheap financing channels.

## CORPORATE NEWS

### **AC**

- Ayala Corp. (AC) aims to grow its newly formed Entrego delivery platform into one of the leading third-party logistics players in the future, as the conglomerate further ramps up its investments in the country's booming logistics sector.
- The listed conglomerate disclosed earlier this month that its wholly owned subsidiary AC Infrastructure Holdings Corp. will be forming an investment holding company with German firm Brillant 1257 GmbH & Co. Vierte Verwaltungs Kg — an affiliate of online fashion platform Zalora — to manage its logistics units.

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## **CORPORATE NEWS** (continued)

### **AC** (continued)

- The new holding firm will carry the operations of logistics firm Entrego, which currently handles the last mile deliveries for Zalora.
- AC Infra will hold a 60% interest in the new firm, with the remaining 40% to be held by Brilliant.
- Aside from Zalora, Entrego also serves external clients with logistics needs. The group is looking at further increasing Entrego's capacity in order to expand beyond last mile deliveries.
- Entrego can also complement the other business units of the Ayala group, which has core investments in real estate, telecommunications, banking, water, automotives, health and education.

### **EDC**

- Energy Development Corp. (EDC) has secured approval from the securities regulator on its request for exemptive relief from compliance with the 60-business day rule to complete its tender offer.
- The Lopez-led renewable energy company said the approval from the Securities and Exchange Commission (SEC) allows the company to extend the offer period for 20 more business days from Oct. 22, 2018, "if an extension is necessary or desirable" to complete the tender offer.
- EDC quoted the SEC's letter as saying that the commission viewed "that under this situation extending the tender offer period is for the benefit of the Company's shareholders. Thus granting the extension request is consistent with public interest and protection of investors."
- In August, EDC said it would conduct a tender offer for up to 2,040,006,713 common shares at P7.25 each that are held collectively by the public. The move is ahead of the company's plan to delist from the stock exchange.

### **ALI**

- Local debt watcher Philippine Ratings Services Corp. (PhilRatings) assigned the highest credit rating for Ayala Land, Inc.'s (ALI) proposed issuance of fixed rate bonds worth P8-bil.
- In a statement issued Monday, PhilRatings said it had given the listed property developer's proposed bonds a PRS Aaa rating with a stable outlook. The rating indicates that ALI has an extremely strong capacity to meet its financial commitment, while the obligation is "of the highest quality with minimal credit risk."
- Meanwhile, a stable outlook means that the assigned rating is unlikely to change in the next 12 months.
- The bonds represent the remaining unissued balance out of the company's P50-bil shelf registration program filed with the Securities and Exchange Commission back in 2016.
- ALI said the funds raised from the issuance will be used to partially finance several projects in the pipeline, including the Seda Hotels Bay Area in Parañaque, Seda Hotels Bonifacio Global City expansion, leasing projects in Arca South, the Taguig Integrated Terminal Exchange, and the Vertis North Corporate Center Tower 3.
- The company will also be funding projects outside Metro Manila, namely Ayala Malls Capitol Central in Bacolod, the Bacolod Capitol Corporate Center, and the Cebu Central Bloc mixed-use complex.
- PhilRatings took into account ALI's well-diversified portfolio with a sizable and strategic landbank, a healthy outlook for the real estate industry, its rising profitability and healthy cash flows, and a sound capitalization with manageable debt level and mix.

**GOLD BUYING / Troy Oz.**

US\$1,193.15

**COPPER BUYING / lb.**

US\$2.632

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