

DAILY MARKET PRIMER

26 October 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
6,966.84 (-2.28%)	102,335,220.96	(20,789,532.94)	26.05 (-0.91%) = 1,399.85	53.737

MARKET OUTLOOK

- Local stocks tumbled on Thursday, sending the main index back below the 7,000 level alongside the global equity sell-off that saw Wall Street indices wipe out their gains for the year.
- With global growth slowing, trade tensions escalating, and a string of weaker-than-expected Q3 earnings reports from US industrials, it was just a matter of time before equity markets worldwide finally dipped.
- Another round of mixed earnings results was blamed but also pointed to expectations of another Federal Reserve rate hike and anxiety over the fallout of Saudi Arabian journalist Jamal Khashoggi's murder and an ongoing budget dispute between Italy and the European Union.
- Data released on Wednesday also raised concerns over the health of the US economy — home sales slowed to their lowest in nearly two years and the Fed reported that American firms were worried about trade disputes and labor shortages.
- The negative sentiment generated by news from the US had affected Philippine stocks as investors moved towards safe haven financial instruments.
- Investors continue to keep an eye on US markets for direction locally.
- Overnight, Wall Street rebounded, giving the Nasdaq its biggest daily gain since March, as Microsoft's upbeat earnings spurred a rebound in technology names and investors snapped up oversold shares.
- Stocks have sold off recently amid worries over the impact of tariffs and China's profit slowdown, as well as concerns ranging from rising costs, bond yields, Italy's budget struggles and upcoming US congressional elections.
- In a further sign that economic growth is moderating, US business spending on equipment appeared to have remained slow in September and the goods trade deficit widened further as rising imports outpaced a rebound in exports.
- But the recent sell-off has also made stocks slightly cheaper, and the market may bounce as investors hunt for bargains.

ECONOMIC HIGHLIGHTS

Inflation Outlook

- Domestic inflationary pressures —which made local consumer prices accelerate to their fastest levels in almost a decade in recent months—seem to be abating and may, in turn, make the central bank pause from its rate hike streak when its policymakers convene next month.
- ING Bank said that recent declines in food prices together with lower utility rates and pump prices bode well for the Philippines' inflation outlook and predicted that the rise in the October consumer price index would be capped at only 6.5%.
- Government officials have sounded off recently on the increasing likelihood that domestic inflation had indeed peaked in Q3, pointing to recently implemented nonmonetary and monetary measures that have begun to take root.
- The central bank has so far raised local interest rates by a total of 150 basis points in four successive adjustments since May.
- "The fruits of such measures are now being reflected on the ground, validating our earlier expectation that inflation peaked in September, affording the central bank some leeway to pause at its November meeting.

ECONOMIC INDICATORS

GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4% (July 2018)	GIR	US\$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P96.2-B) (September 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	(US\$2.696-B) (September 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	4.404 (as of October 8, 2018)	Cash Remittances	US\$2.476-B (August 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

Inflation Outlook (continued)

- ING's view jibes with that of government economic managers who have pointed out that the September inflation rate of 6.7%, though marking a nine-year high, saw a lower monthly increase from August's 6.4%—a possible indication of an emerging plateau in prices that may develop into a downtrend moving forward.
- ING said the normalization of supply chains after Super typhoon "Mangkhut" coupled with the government's efforts to augment supply and improved distribution "has been felt on the ground" with the latest official data from the Philippine Statistics Authority validating this development.
- A price drop of P1 was recorded for regular milled rice across seven out of the 17 regions with the average week-on-week decline at 0.5%, he noted. Meanwhile, prices for meat and fish were broadly stable while substantial declines were reported for vegetables such as carrots (-40%), native *pechay* (-50%), cabbage (-50%) and white potato (-12.5%).
- Aside from food, utility costs are also pulling back with Meralco lowering October charges while motorists have welcomed successive weeks of hefty pump price rollbacks. All these positive developments increase the likelihood that inflation has peaked in Q3.
- Risks to the inflation outlook now appeared more balanced with upside pressure from transport fare adjustments in November coupled with the projected minimum wage increase.
- Balancing these risks are downside pressures from the National Food Authority's plan to fast-track an additional 703,000 metric tons of rice.
- If declining crude oil prices continue their trend, normalizing pump prices and utility rates, together with favorable base effects will all factor into a decelerating trend for inflation toward end-2019.

3rd Telco Race

- The consortium of TierOne and the LCS Group of Companies has signed a billion-dollar deal covering the acquisition of "substantial" equity stake in an international broadband satellite operator, the group said Thursday.
- The move is related to the group's bid in bagging the third major telecommunications slot in the Philippines.
- The transaction covers a broadband satellite for the country, said Luis Chavit Singson, chairman and president of the LCS Group of Companies, at a press conference in Quezon City.
- Singson declined to name the satellite operator, citing the "sensitivity" of the ongoing search for the new major player.
- The consortium bought bid documents worth P1-mil, expressing its intent to bid for the third telco slot.
- Once the high throughput broadband satellite is launched, the consortium said it will be able to offer 1.3 Gigabits per second (Gbps) of bandwidth per transponder, capable of delivering connectivity speeds of up to 100 Megabits per second (Mbps).
- The consortium will be able to cover the entire Philippine archipelago within a year, said TierOne chairman Jonathon Bentley Stevens.
- With its own satellite in place, the consortium will be able to lower its prices to one-twentieth of what incumbents Globe Telecom Inc. and Smart Communications Inc. are charging their customers.
- The consortium plans to roll out an initial 20,000 cellular shops which will also serve as the company's cellular sites, removing the need for a cellular site.
- The cellular shops are planned to range from 10-footer, 20-footer, and 40-footer storage units, and are envisioned to be located in every municipality.
- Singson said it has also tapped the Councilor's League of the Philippines for the easy deployment of the cellular shops which are set to be solar-powered and portable.

CORPORATE NEWS
FB

- San Miguel Food and Beverage, Inc. (SMFB) has priced its follow-on offering (FOO) at P85 per share, the low end of its indicative price range of P85-P95, which would allow it to raise as much as P39.19-bil in fresh capital before the year ends.
- SMFB said the secondary share sale will consist of 400.94-mil common shares held by parent San Miguel Corp., plus an over-allotment option of up to 60.14-mil shares.
- The final price is also way below the maximum price of P140 per share SMFB stated when it first announced the FOO.
- Amid the stock market's continued weakness, the listed firm last week announced it had reduced the size of its offering. It earlier planned to sell up to 1.02-bil shares consisting of 887-mil shares, with an over-allotment option of up to 133.05-mil.
- The payment and delivery of the offer shares is scheduled for Nov. 12.
- All proceeds of the share sale will be used for SMC's investments, although the company has yet to provide further details. SMC's has core interests in infrastructure, petroleum, power generation, mining, and the food and beverage sectors.
- SMFB is conducting the FOO to comply with the minimum public ownership rule of at least 10%. The company's public float fell to 4.12% after the consolidation of the San Miguel group's traditional businesses earlier this year.

PXP

- PXP Energy Corp. is raising P7.11-bil from the subscription of its shares by affiliate Philex Mining Corp., and a holding firm owned by businessman Dennis A. Uy.
- The crude oil and natural gas explorer said its board of directors had approved the subscription by Uy's Dennison Holdings Corp. to 340-mil common shares at a price of P11.85 per share.
- The quoted price per share represents a 20% discount to the 90-day volume weighted average price of the company's shares subject to the execution of a definitive subscription agreement.
- The board has also approved the subscription by Philex Mining to 260-mil common shares of PXP Energy under the same terms, subject to the execution of a definitive agreement.
- PXP intends to use the proceeds it expects to raise from the private placement to Dennison and Philex to fund its exploration activities and other oil assets within the Philippines and in Peru, and to repay its advances from Philex.
- The combined shares subscribed to by Dennison and Philex Mining amount to 600-mil, for a total subscription price of P7.11-bil at P11.85 per share.
- PXP Energy said Dennison had signed with it a non-binding term sheet on Thursday.

PNX

- Phoenix Petroleum Philippines, Inc. said on Thursday that its board of directors had approved the creation of a wholly owned subsidiary in Singapore to manage the company's overseas investments.
- The new unit, to be named PNX Energy International Holdings Pte Ltd. "for purposes of managing international investments including expansion of related business activities and operations in the Asia Pacific region."
- PNX Energy International followed the formation by Phoenix Petroleum in September last year of PNX Petroleum Singapore Pte Ltd., which it described as the group's trading and supply office.
- The previous Singapore office serves as springboard for regional expansion of the group, Phoenix Petroleum had said.

GOLD BUYING / Troy Oz.

US\$1,236.45

COPPER BUYING / lb.

US\$2.750

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