

DAILY MARKET PRIMER

01 August 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,672.00 (-1.30%)	132,451,644.58	4,798,644.86	25.34 (+1.16%) = 1,352.42	53.263

MARKET OUTLOOK

- Shares snapped their five-day winning streak on Tuesday after investors resorted to profit taking ahead of the United States Federal Reserve's meeting this week, even as those overseas remained predominantly buyers.
- After five consecutive days of bargain hunting, investors decided to take profit from issues that they had bought earlier. Disappointing earnings results from companies such as BDO Unibank, Inc. and Universal Robina Corp. (URC) also contributed.
- Funds also kept to cash ahead of the FOMC (Federal Open Market Committee) meeting.
- Market players were basically selling ahead of ghost month.
- Ghost month in the Chinese lunar calendar is when investors are supposed to hold off from making big-ticket investments. Buddhist and Taoist beliefs hold that restless spirits cause mischief during the period.
- The market is seen to consolidate within 7,400 to 7,700 and there maybe a strong market after the ghost month.
- Taking cues from Wall Street overnight, the market may bounce back following reports of renewed trade negotiations between the United States and China.
- U.S. Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He are exploring ways to cool down the tariff war brewing between the world's two largest economies.
- Investors may buy in the dips that may cause the index to rebound.
- Q2 reporting season remains in full swing and many are still hoping that more listed companies will be reporting better earnings.

ECONOMIC HIGHLIGHTS

Inflation Forecasts

- Prices of widely used goods likely sustained their overall increase past an official full-year target in July, the central bank said on Tuesday.
- The central bank Department of Economic Research said headline inflation likely picked up within a range of 5.1% to 5.8% last month, coming from a nine-year peak of 5.2% actually clocked in June.
- The range compares to the 4.3% to 5.1% estimate given for last month, surpassing the central bank's 2% to 4% target for the fourth straight month.
- Inflation clocked in at 2.4% in July 2017. As of end-June, prices have increased by an average of 4.3%, versus the central bank's 4.5% projection for the entire 2018.
- The central bank unit attributed the elevated inflation expectation to a sustained increase in prices across most commodities.
- The increases in electricity rates in Meralco-serviced areas, water rate adjustments in Maynilad- and Manila Water-serviced areas, domestic gasoline and LPG prices, jeepney fares, scheduled increase of the tobacco excise tax, and prices of rice and other agricultural commodities could lead to upward price pressures during the month.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$77.675-B (June 2018)
Fiscal Surplus / (Deficit)	(P54.3-B) (June 2018)	Exports Growth Rate	(3.8%) (May 2018)	BOP	(US\$1.177-B) (June 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	11.4% (May 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.219(as of July 23, 2018)	Cash Remittances	US\$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 2018)

ECONOMIC CALENDAR
Wednesday, August 1

- Nikkei Manufacturing PMI (JULY)

Friday, August 3

- Retail Price Index (JUNE)

Saturday, August 4

- Inflation rate (JULY)

Tuesday, August 7

- Core inflation rate (JULY)

Thursday, August 9

- Trade data (JUNE)
- GDP growth rate (Q2)
- Interest rate decision

Friday, August 10

- Industrial production (JUNE)

Wednesday, August 22

- Budget balance (JULY)

ECONOMIC HIGHLIGHTS (continued)

Inflation Forecasts (continued)

- Manila Electric Co., the country's biggest power distributor, said bills rose by P0.316 per kilowatt-hour in July due to a higher generation charge, reversing from two straight months of a rate reduction.
- The Metropolitan Waterworks and Sewerage System also approved an increase in rates for water concessionaires at P0.99 per cubic meter (/cu.m.) for Manila Water Co., Inc. and P0.06/cu.m. for Maynilad Water Services, Inc., reflecting foreign currency movements.
- July also saw fuel pump prices go up overall to mirror movements in world crude oil prices as well as the peso's continuing general weakness against the dollar. Still, a rollback in domestic diesel prices may have partly offset upward pressures.
- The government also approved last month a P1 provisional increase in jeepney fares to help drivers cope with rising fuel costs.
- Another P2.50 increase in excise tax per pack of cigarettes also took effect last month, as provided under the Tax Reform for Acceleration and Inclusion (TRAIN) law. Together with alcoholic drinks, these so-called "sin" products have seen the biggest year-on-year increase in prices.
- At the same time, monsoon rains and three tropical cyclones that hit parts of the country in July wreaked damage to agriculture worth P2.579-bil, according to the National Disaster Risk Reduction and Management Council.
- The Philippine Statistics Authority will report July inflation data on Tuesday next week.
- If the central bank forecast were realized, it would mean a fresh high for monthly inflation, in line with expectations that price spikes will peak this quarter.
- Going forward, the central bank will continue to keep a watchful eye on the risks to the inflation outlook and will take necessary action to help ensure that inflation expectations remain firmly anchored to the target.
- The central bank has assured that it has kept a firm hand on prices, and is considering "strong follow-through" to two 25-basis-point rate hikes announced in May and June that were designed to help rein in inflation pressures.
- Yesterday, the central bank assured lawmakers at the House of Representatives that it "stands ready to take decisive monetary policy responses" to keep prices stable.

M3, Bank Lending Growth

- Money supply continued to grow in June — although at a slower pace — amid a tempered increase in bank lending, the central bank reported on Tuesday.
- M3, or the broadest measure of money in an economy, reached P11.1-tril in June as it grew by 11.7%, slowing from the 14.3% increase clocked in May. This is the slowest pace seen since an 11.5% rise recorded in May 2017.
- Month on month, money supply actually declined by 0.1%.
- Funds from local sources rose by 16% in June, slower than the 16.8% pickup in May as growth of bank loans eased, the central bank said in a statement.
- Growth of net claims on the government eased to 12.5% from 17.3% the previous month, which came even after the government borrowed more money. The Bureau of the Treasury raised P121.765-bil from three-year retail bonds in June, on top of its weekly float of debt notes.
- Net foreign assets (NFA) in peso terms went up by 2.4%, easing from May's 5.4% pickup following a decline in dollar reserves maintained by the central bank.
- Gross international reserves slipped to \$77.525-bil in June from \$79.202-bil the preceding month.
- Despite the softer increase, the central bank said overall money supply growth "remains in line" with inflation and economic activity, as it continued to support key production sectors.

ECONOMIC HIGHLIGHTS (continued)

M3, Bank Lending Growth (continued)

- Credit growth likewise eased to 19.1% in June from the downward-revised 19.3% growth in May, the central bank said, logging the slowest climb since March.
- Computed to include reverse repurchase agreements availed by banks, bank lending grew by 17.6% compared to 17.7% a month earlier.
- Some 88.6% of the loans funded productive sectors, growing by 19.2% in June versus 19.3% the preceding month.
- Lending for community, social and personal activities nearly doubled, while credit for finance and insurance increased by a third.
- Other sectors that got bigger loans were wholesale and retail trade, repair of motor vehicles and motorcycles (24.9%); manufacturing (17.8%) and real estate activities (16.1%).
- On the other hand, borrowings for administrative and support services fell by 52.9%, while credit for the farm sector slipped by 7.8%.
- Consumer lending also softened in June as credits grew by just 17.7%, slower than the 18.4% clocked in the previous month. This came as loans for motor vehicles slowed while other borrowings declined, versus an increase in salary-based borrowings and bigger credit card debts.
- The central bank raised interest rates by another 25 basis points in its June policy meeting, following an increase of the same magnitude in May as policy makers sought to rein in inflation pressures.
- The central bank will continue to ensure that the expansion in domestic credit and liquidity proceeds in line with overall economic growth while remaining consistent with its price and financial stability objectives.
- Debt watcher Fitch Ratings affirmed the Philippines' investment grade status last month, but flagged overheating risks given rapid bank lending growth, a bigger trade gap and rising inflation.

TRAIN Revenues

- Revenues from tax reforms approved by Congress last year have exceeded expectations, Finance Secretary Carlos Dominguez III told legislators on Tuesday.
- "The Train Law, which you kindly passed and which was implemented at the start of 2018, contributed 33.7-bil pesos in revenues for H1 of the year — surpassing our target by 3.6-bil pesos," Dominguez said.
- Implemented in January, the Tax Reform for Acceleration and Inclusion Act or Train raised excise taxes on fuel and cars, among others, in exchange for lower personal income tax rates.
- The Finance chief said the government expected to raise another P181.4-bil from Train and its supplemental Package 1B, which covers a proposed tax amnesty and Motor Vehicle Users Charge adjustments that Congress has yet to approve.
- To generate additional revenue streams that will enable the government to sustain a massive infrastructure buildup and increased spending on human capital development, Dominguez said other packages under the Comprehensive Tax Reform Program (CTRP) would have to be passed by legislators, hopefully before the end of the year.

CORPORATE NEWS

MPI

- Metro Pacific Investments Corp. (MPIC) has joined local and foreign companies that have signified their intention to build a liquefied natural gas (LNG) import terminal ahead of the depletion of the country's lone source of the fossil fuel — the Malampaya offshore gas field.
- The company wants the LNG import terminal to be started "as soon as feasible." The urgency of putting up the facility is dictated by the time it takes to complete its construction.
- Natural gas, said to be the cleanest fossil fuel, is transported through a pipeline. But if the deposit is large and the market is overseas, the gas may be liquefied for ease of shipping and moved through specialized tankers. Imported LNG is then regasified or reverted to its former state in the country of destination.
- MPIC said the country should be aware that building an LNG import terminal is just a means to an end. Its main users are the existing local gas-fired power plants.

CORPORATE NEWS (continued)

MPI (continued)

- At present, the country's natural gas supply comes from the Malampaya gas field off the coast of Palawan province. Five gas-fired power plants in Batangas province, with a combined capacity of 3,211 megawatts (MW), are the main customers of the fuel source, which is expected to be depleted by 2022 to 2024.
- A number of questions should be answered before putting up an LNG terminal, including its cost, how it would translate into power rates, and how the fuel will be transported to the power plants and into the market, the conglomerate said.

AC

- Ayala-led AC Energy, Inc. expects 70% of its target 1,000-megawatt (MW) installed renewable energy capacity by 2020 to come from its foreign projects, including its investments in Vietnam, Indonesia and Australia.
- AC Energy's renewable energy capacity in Indonesia is currently bigger than that of the Philippines because of its acquisition of an existing geothermal project in the former.
- In April last year, AC Energy and its joint venture partners completed the acquisition of Chevron Corp.'s geothermal assets and operations in Indonesia, further boosting AC Energy's renewable energy portfolio in that country after earlier investing in a wind farm.
- The Chevron deal gave AC Energy a 19.8% stake in the 637-MW geothermal steam and power capacity in Darajat and Salak geothermal fields along with its 75% stake in the 75-MW wind farm project in Sidrap, South Sulawesi. These acquisitions more than doubled the company's clean energy capacity to at least 264 MW.
- In January, AC Energy announced a partnership with Vietnam's BIM Group to develop more than 300 MW of solar power in that country. They broke ground on a 30-MW solar project valued at 800-bil Vietnamese or P1.8-bil.
- In the coming weeks, the company would "make a lot of progress" in adding to the existing solar capacity in Vietnam ahead of its feed-in-tariff deadline.
- In May, AC Energy said it was investing \$230-mil to acquire a 50% stake in the Australian business of UPC Renewables and provide funding for the latter's renewable energy projects.
- AC Energy, a subsidiary of Ayala Corp., said its entry into the Australian renewables market is through a joint venture with the international renewable energy developer. It said UPC Renewables Australia complements AC Energy's goal to exceed 5,000 MW by 2025. The foreign energy platform is focused on large scale projects, it said.

ICT

- The International Container Terminal Services, Inc. (ICTSI) and the Department of Transportation (DoTr) said the Cavite Gateway Terminal (CGT) may finally be used by end-September, months later its original target because of the three typhoons that affected the area in the past months.
- After an inspection of the construction work by Transportation Secretary Arthur P. Tugade, other DoTr officials and representatives of International Container Terminal Services, Inc., the government said the barge terminal's original scope of work is now 99% complete.
- ICTSI, the proponent of the terminal, earlier said the project is part of the company's \$380-mil capital expenditure this year. It said in June the target opening of the CGT was on the third week of that month.
- The project is completed, and ICTSI has successfully simulated the receipt and delivery of containers via barge and trucks. The company is just confirming date of formal inauguration

GOLD BUYING / Troy Oz.
COPPER BUYING / lb.

US\$1,222.20

US\$2.807

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