PrimeEquity Research

Meridian Securities INCORPORATED Member: Philippine Stock Exchange

DAILY MARKET PRIMER

01 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,276.82 (-0.60%)	110,638,114.76	(537,181.65)	25.70 (+2.84%) = 1,394.25	54.251

MARKET OUTLOOK

- Shares may move upward in the week ahead as investors react to the central bank's latest move to counter inflation, while awaiting the release of September consumer price index data.
- This is the fourth week in a row that the index ended in the red which has brought prices back down to more attractive levels. Based on the technicals, there is indication that the selling is exhausted, and we may see the index end in the green this week.
- Investors may see the central bank's decision to hike rates by another 50 basis points as a positive move, indicating that the government is doing something to address the rising prices of goods and services.
- The Philippine Statistics Authority will be releasing its September inflation reading on Friday, Oct. 5. The central bank projects inflation to be at 6.8%, or within the range of 6.3% to 7.1% range. Should this be realized, this will be the highest recorded since February 2009's 7.2%. Meanwhile, the Department of Finance expects no change from August's inflation print of 6.4%.
- In the eight months ending August, inflation has already reached 4.8%, well beyond the government's target range of 2% to 4% for the year.
- There are indications inflation could spike further because of Typhoon *Ompong's* impact on agricultural products. The Department of Agriculture said that the typhoon ravaged P26.7-bil worth of crops. The Department of Public Works and Highways also said the typhoon caused damage on P7-bil worth of public infrastructure.
- While investors will consider the volatile nature of agri items on the consumer basket, several will take heed on the effectiveness of fiscal measures to mitigate the spike, which includes boosting supply via importation of key staple items (i.e., rice, fish, poultry, meat).
- There will be interest surrounding the telecom sector, as the government prepares to announce the third telco player by December. Investors will likewise be looking at the awarding of infrastructure projects such as airports, roads, and subways in order to measure companies' spending plans.
- The market's support is placed at 7,000 to 7,200, with resistance from 7,500 to 7,840.

ECONOMIC HIGHLIGHTS

Budget Deficit

- The Philippines should aim for a more modest budget deficit by trimming "non-priority" expenses in order to reduce the risk of overheating, the International Monetary Fund (IMF) said.
- IMF said that the Philippines should be "reprioritizing expenditures" primarily by doing away with some unitemized entries in the national budget.
- Special purpose funds are lump-sum provisions in the national budget that are given to various agencies for projects or allocations which are not yet identified during national budget preparation. Some offices use it as a calamity fund, others for pension payments or as subsidy to state-owned corporations, to name a few.

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)	(P2.6-B) (August 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US$2.401-B (July 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, October 1
- Nikkei Manufacturing PMI (Sept.)

Wednesday, October 3
- Retail Price Index YoY (Aug.)

Friday, October 5
- Core Inflation YoY (Sept.)
- Inflation Rate YoY (Sept.)
- Inflation Rate MoM (Sept.)
- PPI YoY (Aug.)
- Industrial Production YoY (Aug.)
- Foreign Exchange Reserves (Sept.)

Wednesday, October 10
- Balance of Trade (Aug.)
- Exports YoY (Aug.)
- Imports YoY (Aug.)
- Foreign Direct Investments (July)

Monday, October 22
- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Budget Deficit (continued)

- This could be achieved by intensifying efforts on the revenue side and containing non-priority spending, such as new hiring of public sector employees and non-urgent capital projects, according to the IMF.
- Further reduction in nonpriority spending, especially those unrelated to flagship infrastructure projects and social protection, would be warranted if tightening of global financial conditions engenders a surge in borrowing costs, while expanding social protection spending as needed.
- The multilateral lender said the Philippines should keep the fiscal deficit at 2.4% of gross domestic product (GDP), steady from the 2017 level and lower than the government's three percent ceiling.
- The budget deficit stood at 2.3% of GDP last semester.
- The Duterte government has been pushing for a wider budget gap to accommodate increased spending on infrastructure, particularly big-ticket items in its "Build, Build, Build" pipeline.
- The IMF fully supports infrastructure investments, but it is very desirable to keep the fiscal stance neutral. Tightening monetary policy and neutral fiscal stance would help reduce overheating risks, the IMF said, noting that the bank now sees "increased" risks of the economy overheating.
- The IMF announced last week that the bank has scaled down its growth forecast for the Philippines to 6.5% this year from an earlier 6.7% estimate in the wake of a slower-than-expected 6% Q2 growth that brought last semester's pace to 6.3%, against the year-ago 6.6%.
- The IMF said it expects growth to accelerate this semester, with GDP growth seen to recover to 6.6% in Q3 and 6.9% in 2018's final three months. Still, it would mean that the 7% to 8% growth goal of the Duterte administration will be out of reach.
- The growth slowdown in Q2 is temporary, the bank said, noting risks to growth amid quickening inflation fueled partly by rising global oil prices, rapid credit growth, increasingly tight global credit conditions and worsening world trade tensions.
- The growth rebound is expected to be fueled by "very strong investments" and robust consumer spending, even if the latter softened in the previous quarter.
- Sustained policy reforms to attract more foreign investments as well as the impending shift to a regular tariff scheme for rice imports that is expected to slash retail prices of the staple, however, could help lift growth prospects while easing inflation pressures.
- The IMF said economic growth should remain "very respectable" and "strong" even as the Philippines faces new challenges. GDP expansion is seen to pick up to 6.7% in 2019, although inflation is expected to remain elevated at 4.9% this year and 3.9% next year versus a 2% to 4% government target.
- The IMF is also calling for enactment of all planned tax reforms in order to raise more revenues to support state projects.

Inflation Forecasts

- Inflation likely clocked in faster in September as a strong typhoon that month pushed food prices even higher, according to a poll in which analysts cited the need for more interest rate hikes from the central bank to rein in overall price pressures.
- A poll among 13 economists yielded a median inflation expectation of 6.8%, which if realized would speed up from August's 6.4% rate and soar from the three percent climb in September 2017.
- The Philippine Statistics Authority (PSA) will release official inflation data on Friday. Last week, the central bank gave a 6.8% estimate — within a 6.3% to 7.1% range — while the Department of Finance pegged last month's inflation at 6.4%.
- It would also mean that price increases will be the fastest since a 7.2% rate in February 2009, according to rebasing done by the PSA using 2012 prices.

ECONOMIC HIGHLIGHTS (continued)

Inflation Forecasts (continued)

- Economists said damage by typhoon Mangkhut, locally called *Ompong*, worsened supply issues for rice and other crops, adding to inflation pressures from an unrelenting increase in world crude prices.
- Standard Chartered sees food inflation rising further in the near term on supply disruptions, exacerbated by Typhoon *Ompong*, adding that since "September is usually harvest season in the Philippines, the impact of the typhoon is likely to weigh heavily on supply for the rest of this year."
- However, the central bank said a reprieve from lower electricity rates could have helped cap inflation for the month.
- Headline inflation averaged 4.8% in the eight months to August, well above the 2% to 4% target band for 2018. The central bank now sees 2018 inflation averaging 5.2%, with Q3 expected to have experienced the peak.
- Economists polled were split on whether September inflation had already been 2018's worst, with some noting that the central bank needs to remain hawkish in order to calm market speculation and prevent further spikes.
- Land Bank of the Philippines expects inflation to decline starting October 2018, although such decrease does not preclude the possibility of more rate hikes from the central bank this year.
- It noted that the central bank might need to match tightening moves in the United States to "protect the local currency from depreciating further," with the peso currently hovering near 13-year lows weaker than P54 to dollar.
- Despite the projected slowdown in inflation for the last three months of the year, the central bank may need to remain hawkish to snuff out brewing concerns about runaway inflation, said ING Bank N.V. Manila.
- More decisive, deliberate and consistent messaging will be needed from the central bank if central bank would like to rein in these concerns and look to establish its credibility as an inflation fighter, it said.
- The Asian Institute of Management, believes inflation will keep rising to "up to 7%" by December.
- Ateneo de Manila University's Alvin P. Ang also sees above-six percent inflation toward yearend.
- The analysts tagged the planned shift to a regular tariff scheme for rice imports and non-monetary measures to improve crop supply as key steps to easing overall price pressures.
- The central bank last Thursday fired off another 50 basis point (bp) hike in benchmark interest rates to 4% to 5%, taking the year-to-date increment to 150 bps in four consecutive policy meetings since May.

PH External Liability

- The Philippines' international investment position (IIP) improved as of end-June 2018, in relative terms, given lower net external liabilities, the central bank reported over the weekend.
- At $169.85-bil, the country's external financial assets were smaller than its external liabilities of $198.22-bil, the central bank said.
- The resulting net external liability of $28.36-bil was 16.2% lower compared to the $33.87-bil recorded as of end-March this year. It was also a 16.6% drop from the $34.01-bil posted at end-June last year.
- On a quarter-on-quarter basis, external financial liabilities decreased as a $7.7-bil contraction in total financial liabilities outweighed a $2.2-bil decline in total financial assets.
- The drop in the country's external financial assets reflected a $3-bil decrease in central bank reserves from the previous quarter's level.
- Meanwhile, the decline in the country's external financial liabilities was due mainly to revaluation adjustments, particularly in direct and portfolio equity instruments, the central bank explained.
- These negative revaluation adjustments more than offset the continued inflows of foreign direct investments to the economy during the quarter, it added.
- Net IIP weakened on a year-on-year basis, due primarily to a 3% growth in external financial assets and a 0.4% decline in external financial liabilities.
- On the one hand, the increase in the country's total external assets was on account of the combined effect of direct and portfolio investment inflows, and the positive revaluation adjustments, the central bank said.
- On the other hand, the moderate decline in the country's external liabilities was due largely to the negative revaluation adjustments, it added.

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CORPORATE NEWS

TEL

- PLDT Inc. said on Friday it signed a new agreement with US-based Amdocs to manage and automate the telecommunications giant's information technology (IT) operations.
- Under the new deal, PLDT said Amdocs, which provides software and services to communications companies, will introduce artificial intelligence, machine learning, analytics, and robotics to its operations.
- The new six-year service agreement is in addition to the seven-year Master Transformation Agreement signed by the two companies earlier this year.
- Amdocs Intelligent Operations is part of AmdocsONE, an open, modular and integrated solution set.
- In March, rival telecommunications company Globe Telecom, Inc. hired Amdocs to modernize and run IT operations for multiple lines of businesses, such as prepaid and postpaid mobile services, fixed-line broadband, and enterprise services.

URC

- Universal Robina Corp. (URC) has seen a general uptick from year-to-date low in June but a reversal could occur if inflation continues to exceed expectations.
- The food and beverage manufacturer was hit by a sell-off on Friday, plunging by 1.87% to P144.59 apiece amid a 0.60-percent dip for the Philippine Stock Exchange index.
- Its share price remained well above its current 2018 low of P112.80 per share but is also down markedly for its peak for the year: P174 on January 9.
- The reason URC experienced a sell-off was because of the anticipation of an elevated September inflation data to be released this week.
- Investors try to avoid consumer stocks during high levels of inflation.
- Moving forward, investors are expecting less earnings from the company given that inflation is expected to remain elevated for the rest of 2018.
- However, inflation would only pose a "minor setback" for URC, which is expected to see a yearend boost from holiday spending as there will be more demand for their products.

AEV

- The Department of Transportation (DoTr) granted original proponent status to Aboitiz InfraCapital, Inc. (AIC) for the operations, maintenance, and future expansion of the New Bohol International Airport in Panglao, the company said on Friday.
- Located on Panglao island, the new airport is seen as the replacement for the one currently operating in Tagbilaran City.
- As an unsolicited proposal, the New Bohol International Airport project will have to go through a Swiss challenge, where other groups may submit counterproposals that AIC has the option to match.
- The Bohol airport project was part of the unsolicited proposal submitted by AIC last March for the P148-bil upgrade of four regional airports. This included airports in Iloilo, Bacolod-Silay, and Laguindingan.
- However, AIC's unsolicited proposal was rejected by the DoTr in April, as the government does not support bundled proposals.
- The Aboitiz-led company edged out businessman Dennis A. Uy's Chelsea Logistics Holdings Corp. which also submitted a proposal for the New Bohol International Airport and the Davao International Airport.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,183.40	US$2.804