PrimeEquity Research

Meridian Securities INCORPORATED Member: Philippine Stock Exchange

DAILY MARKET PRIMER

02 August 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,838.22 (+2.17%)	135,059,705.52	6,102,461.46	25.32 (+1.36%) = 1,346.01	53.160

MARKET OUTLOOK

- Share prices bounced back on the first day of August after taking a breather in the wake of a five-day rally, lifted by sustained net foreign buying for the sixth straight session and peso's appreciation against the dollar.
- The Philippine market may again mimic overnight gains on Wall Street, which was said to have taken heart from news that the Washington was open to discussions with Beijing.
- Tariffs on $16-bil of Chinese imports are due in coming weeks, following measures on $34-bil worth of goods imposed in July that prompted a response in kind by Beijing.
- investors had also shrugged off the weaker-than-expected PMI (Purchasing Managers' Index) data in favor of the currency appreciating against the US dollar. Plus the net foreign buying is seen to continue over the next few days.
- Research firm IHS Markit said the Philippine manufacturing sector likely slowed in July based on a survey that put the PMI at 50.9 from 52.9 in June, the lowest in five months.
- It is clear that investors' fears have dissipated.
- Investors are now flocking back to the market and foreign fund managers are again putting their funds in Philippine equities.

ECONOMIC HIGHLIGHTS

Monetary Policy Outlook

- Additional rate hikes from the central bank will temper exchange rate movements and outbound capital flows, Moody's Investors Service said, against a backdrop of a resilient and fast-growing economy.
- In its annual credit update, the debt watcher said the Philippines shows "high" economic strength and is expected to weather the "temporary" episode of faster inflation.
- The Philippines' central bank has already hiked policy rates twice to anchor inflation expectations. Tighter monetary policy will also serve to temper capital outflows, peso depreciation and, hence, imported inflation, Moody's said.
- The peso has been trading weaker than P53 per dollar since mid-June, but has been gaining strength in the past few days amid bets that the central bank will raise benchmark interest rates for the third time this year in next week's policy review.
- At the same time, the debt watcher said that it "expects the rise in prices since the beginning of 2018 to be temporary and not as a result of excessive overheating risks."
- Moody's made these remarks after it affirmed the Philippines' credit rating at "Baa2" with a "stable" outlook last month, keeping the country one notch above minimum investment grade. It took stock of the fast-growing economy and improving revenue base, but flagged rising prices and "domestic political developments" — particularly the planned shift to a federal government system — as key risks.
- Credit analysts also noted that recent trends in commodity prices present a major challenge for policy makers in terms of managing inflation pressures, but pointed out that these remain "transitory."
- Moody's also does not expect the acceleration in the pace of growth in oil prices earlier this year to be sustained and notes that it expects inflation to return to the 2% to 4% target range by next year.

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

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)

Monetary Policy Outlook (continued)

- Inflation has shot beyond target to average 4.3% last semester, hitting a nine-year high of 5.2% in June.
- For July, the central bank said prices may have picked up even faster by 5.1% to 5.8% year-on-year, which if realized will mark a fresh multi-year peak.
- Moody's earlier said that future rate increases from the central bank are likely to be "gradual" and "modest," which will be manageable for both banks and borrowers as far as loan pricing is concerned.
- In a separate market report, Nomura said they expect the Monetary Board to raise key interest rates by 50 basis points (bp) next week, taking cue from central bank Governor Nestor A. Espenilla, Jr.'s signal of a "strong follow-through" in monetary policy action next week.
- Nomura reads this as a step up from a "measured" response, which was the language central bank officials used ahead of previous 25bp rate hikes.
- Nomura puts a lot of weight in Governor Espenilla's comments because he tends to be deliberate in his signals, and — as decisions at the last two meetings demonstrate — there is ultimately follow-through action even though decisions are collective on the part of the Monetary Board.
- Meanwhile, Moody's gave the Philippines a better score in terms of managing the economy.
- The debt watcher said it set the Philippines' institutional strength score at "Moderate (+)," one notch above the indicative score of "Moderate," to reflect its track record of fiscal and monetary policy effectiveness.
- The government's demonstrated ability to pursue its economic and fiscal reform agenda in the face of heightened political noise informs the debt watcher's assessment, despite a deterioration in the Worldwide Governance Indicators.
- It noted that the Duterte administration was able to deploy "considerable" political capital to push key reforms, resulting in enactment of the first of up to five planned tax reform packages and the Ease of Doing Business law, as well as increased infrastructure spending and expanded social protection programs.
- Fiscal authorities have continued to focus on revenue reform, budgetary control, and proactive debt management, which have combined to result in lower debt and debt servicing costs over the past decade, Moody's noted.
- Political noise has not resulted in a significant reduction in the President's approval ratings, negative spillovers to business and consumer sentiment, or a decrease in the government's ability to advance its socioeconomic reform agenda, it added.
- The credit rater gave the Philippines a "high" score for economic strength in the face of rising prices, a volatile external financial market and local political noise. Moody's expects the Philippines to remain a growth leader in Asia, attracting even more foreign investments that, in turn, will support further expansion.
- Moody's expects the economy to expand by 6.8% in 2018, which would be faster than last year's 6.7% but will fall short of the state's 7% to 8% goal.

Inflation for Poorest Households

- Inflation for the country's bottom 30% income households has risen to 6.5% in Q2 of the year because of faster increases in the prices of food, the Philippine Statistics Authority (PSA) reported.
- This was higher than the 5.3% annual growth in Q1 of the year and 2.7% in Q2 of 2017.
- Year-to-date average inflation for this consumer subgroup was placed at 5.9%.
- PSA said the indices of all commodity groups posted higher annual rates during Q2 of the year.
- The faster growth in the prices of goods and services for the country's poorest households were attributed to the faster growth in the food index which grew 6.2% at the national level in Q2, faster than 5.3% in Q1 and 2.7% in Q2 in 2017.

ECONOMIC HIGHLIGHTS (continued)

Inflation for Poorest Households (continued)

- In particular, higher annual markups were seen for rice, corn, cereal preparations, dairy products, fruits and vegetables, and miscellaneous food stuff.
- Prices for this particular consumer group rose even faster in the National Capital Region (NCR) to 6.6% in Q2 from 5.9% in the previous quarter and 5.2% in the same period last year.
- Growth was primarily brought about by higher prices of food, beverages and tobacco, as well as light and fuel.
- In particular, faster increases in the prices of the following food groups were seen during Q2: rice, fish, fruits and vegetables, and miscellaneous food stuff.
- In areas outside NCR, inflation for the bottom 30% income households picked up to 6.5% during Q2 of 2018. In the previous quarter, annual inflation was posted at 5.3%, and Q2 of 2017, at 2.6%.
- Increases in the prices of consumer goods were also attributed to faster increments in food prices.

CORPORATE NEWS

AEV

- Aboitiz Equity Ventures, Inc. (AEV) reported a H1 net income of P10.1-bil, lower by 2% compared with the P10.3-bil it recorded a year ago as the holding firm continued to suffer non-recurring foreign exchange losses on its dollar-denominated debt.
- AEV's biggest income contributor, its power business, reported a 6% drop in income to P9.1-bil from P9.7-bil after booking non-recurring foreign exchange losses.
- For AEV, the net foreign exchange losses reached P467-mil, down from P495-mil a year ago. Aboitiz Power Corp. placed these losses at P1.4-bil, bigger than last year's P744-mil.
- During the semester, power contributed 68% of AEV's income, followed by banking and finance at 22%, food at 22%, food at 6%, land at 3% and infrastructure at 1%.

CNPF

- Century Pacific Food, Inc. (CNPF) delivered a 9% increase in earnings for Q2 of 2018, driven by the double-digit growth in branded revenues amid higher costs of raw materials.
- In a regulatory filing, the listed canned goods manufacturer said its net profit reached P838.9-mil in the April to June period of 2018, higher than the P767.5-mil posted in the same period a year ago. Revenues for the quarter went up by 19% to P10.2-bil.
- This pushed the company's top-line performance 20% higher in the first six months of 2018 to P19.3-bil. Net income accordingly rose 7% to P1.57-bil.
- The company noted a double-digit growth across branded marine, meat and milk products for an overall 25% in branded sales to P14.4-bil.
- Meanwhile, its original equipment manufacturer (OEM) export business booked a 9% uptick to P4.9-bil in H1. The company exports canned tuna products to North America, Europe, Asia, Australia, and the Middle East.
- Despite the strong performance during the period, the company said it remains on watch for rising input costs that may weigh down full-year earnings results.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,223.80	US$2.751