

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,759.55 (-1.004%)	92,842,039.63	(4,550,407.74)	25.00 (-1.11%) = 1,327.88	53.115

MARKET OUTLOOK

- Stocks tumbled on Thursday as foreign investors reversed their buying position, alongside the US Federal Reserve's decision to keep rates unchanged.
- Funds sold on news after the FOMC (Federal Open Market Committee) reaffirmed a gradual hike and driving the risk appetite as the 10-year US treasury yield went above 3%.
- At the close of its two-day policy meeting on Wednesday, the Fed said it decided to keep rates steady, but signaled at increases in following meetings.
- Worries of a trade war between the United States and China were heightened after President Donald Trump proposed 25% tariffs on \$200-bil worth of Chinese imports.
- U.S. Trade Representative Robert Lighthizer said Trump directed the increase from a previously proposed 10% duty because China has refused to meet Washington's demands and has imposed retaliatory tariffs on U.S. goods.
- Beijing responded to the new threat saying it was ready to escalate the trade war.
- Markets are substantially weaker as investors are spooked out by the latest development in the trade battle.
- Economic strength is evident, but the trade war is creating turbulence for investors and trading is expected to be choppy, volatile and could easily change direction.

ECONOMIC HIGHLIGHTS
Growth Outlook

- Nomura Securities Ltd. said the Philippine economy likely grew by 6.8% in Q2, bolstering the possibility of a more aggressive policy rate hike by the central bank.
- Nomura said the expected 6.8% growth in Q2 and the projected 5.6% inflation in July would call for a 50-basis-point rate hike during the meeting of the central bank's Monetary Board on Aug. 9.
- The economy accelerated by 6.8% in Q1 from the revised 6.5% in Q4 of last year.
- Economic managers, through the Development Budget Coordination Committee, penned a GDP growth of between 7% and 8% for this year and next year.
- Nomura forecasts Q2 GDP growth at a robust 6.8% year-on-year, stable from Q1, driven by the goods-producing sectors such as manufacturing and construction.
- The strong growth reflects the surge in industrial production growth to 24.4% year-on-year in Q2 from 18.6% in Q1.
- Nomura also cited the 60.8% jump in public sector capital outlays and infrastructure disbursements from 34%, boosting construction activity.
- The central bank's Monetary Board delivered back-to-back rate hikes in May and June to curb rising inflationary pressures. It lifted benchmark rates by 25 basis points for the first time in more than three years on May 10 followed by another 25 basis points last June 20.
- Rising inflation and inflation expectations are the main policy parameters that will prompt central bank action, underpinning the signals for a stronger policy adjustment in the near term.

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)

Growth Outlook (continued)

- The central bank's latest inflation report showed that inflation expectations have clearly risen.
- Despite Nomura's forecast of a larger 50 basis point hike in the policy rate, it expects the policy statement to keep a hawkish tone, with the central bank likely to emphasize its vigilance against upside risks around its inflation forecasts, and underscore its readiness to act should it see more evidence of a further build-up of inflation expectations.

Monetary Policy Outlook

- Monetary authorities could ramp up an expected policy rate next week with inflation likely to remain well above target, Japan's Nomura said on Thursday.
- Nomura now expects a 50-bps (basis point) policy rate hike at the central bank's next Monetary Board meeting on 9 August, from 25 bps earlier, which would take the policy rate to 4%.
- Nomura explained that its forecast was in line with the central bank's statement last month that it was considering "strong follow-through monetary adjustment" at the next meeting of its policy-making body.
- Importantly, Nomura expects the policy statement to remain hawkish, with the central bank clearly leaving the door open for further hikes.
- The Monetary Board, which will hold its fifth meeting for the year next week, raised key interest rates in May and June to address above-target inflation.
- The consecutive 25-basis point adjustments brought the central bank's overnight borrowing, lending and deposit rates to 3.5%, 4.0% and 3.0%, respectively.
- Moreover, Nomura pointed out that the central bank's hawkish rhetoric had stepped up in recent weeks and that data to be released ahead of the meeting should support more aggressive policy action.
- In particular, it said inflation likely jumped to 5.6% in July — within the central bank's 5.1% to 5.8% forecast range.
- Official inflation data for July will be announced on August 7 and the results will be considered when the Monetary Board meets two days later.
- Consumer price growth has topped the central bank's target since March and economic managers have raised their forecast for the year to 4.0% to 4.5% from 2.0% to 4.0%.
- The central bank expects consumer price growth to peak in Q3, with the full-year average breaching its target, before returning to the 2.0% to 4.0% target in 2019.
- During its last policy meeting, the Monetary Board trimmed its inflation forecasts for 2018 and 2019 to 4.5% and 3.3%, respectively, from 4.6% and 3.4% previously.

Tax Reforms

- The Department of Finance (DOF) expects rough sailing in Congress for remaining tax reforms as lawmakers increasingly focus on preparations for the May 2019 mid-term elections.
- The department met its deadline to submit all remaining tax reform proposals to Congress by the end of July.
- The second package — approved in principle on Thursday by the House of Representatives Ways and Means committee, while a separate version was filed the same day in the Senate — seeks in general to slash corporate income tax rates gradually to 20-25% from 30% currently in order to put the level at par with those of the Philippines' main Southeast Asian rivals for investors, as well as scrap redundant fiscal incentives which the DoF estimates cost the government some P301-bil in 2015 and P178.56-bil in 2016 in terms of potential revenues.
- There are up to three other packages now awaiting formal filing in Congress which President Rodrigo R. Duterte, in his third State of the Nation Address last month, said he wanted approved by Congress by yearend in order to beat the 2019 election fever.

ECONOMIC HIGHLIGHTS (continued)

Tax Reforms (continued)

- The other packages include proposals to further increase tobacco and alcohol excise tax rates, hike the government's take in mining revenues, introduce a uniform valuation scheme for real property taxes for both the national and local governments, and streamline taxes on passive income.
- Senate Majority Leader Juan Miguel F. Zubiri last week had said none of the senators was willing to sponsor the second package due to lingering concerns about tax reforms' inflation impact.
- Both Fitch Ratings and Moody's Investors Service last month warned that any "reversal of reforms" raised the risk of a downgrade in the Philippines sovereign rating, which both debt watchers at that time affirmed at a notch above minimum investment grade.

CORPORATE NEWS
MPI

- Metro Pacific Investments Corp. (MPIC) delivered a 10% growth in consolidated core profit during the first six months of 2018, fueled by the growth across its portfolio and increased investments in the power sector.
- The infrastructure conglomerate said that consolidated core net income climbed to P8.6-bil from January to June, higher than the P7.8-bil it generated in the same period a year ago.
- Systemwide revenues grew by 9% to P200.3-bil, including revenues from power distribution unit Manila Electric Company (Meralco).
- Meralco contributed 55% to MPIC's net operating income, followed by toll roads at 21%, and water at 20%. The hospital group accounted for 3%, while the rail, logistics, and systems group accounted for 1%.
- MPIC spent P21.3-bil in capital expenditures during tH1 of the year, excluding investments for acquisitions.
- Separately, the logistics unit of MPIC has completed its acquisition of a 12% stake in logistics services provider Air21, in line with its goal to become the leading player in the sector within the next two years.
- Metropac Movers, Inc. (MMI) said it has sealed the deal for a minority share in Air21 last July, adding the company has the option to further raise its ownership to as high as 100% in the future.
- The acquisition is part of the infrastructure conglomerate's goal to ramp up its investments in the logistics sector, in a bid to keep up with the rising e-commerce industry and need for more warehousing spaces in the country.

PX

- Philex Mining Corp. saw a 13% drop in net income attributable to equity holders of the parent to P248.9-mil in Q2 due to lower metal output.
- Philex said attributable net income in the first six months fell 23% to P551.7-mil from P718.6-mil during the same period last year. The company attributed this to lower revenues and wider foreign exchange losses this year.
- Core net income in Q2 went up 4% to P300.3-mil compared with P289.3-mil for the same period in 2017. For H1, core net income fell by 13% to P646.3-mil, "as a result largely of lower revenues, increased excise taxes, and higher non-cash production costs."
- During Q2, total operating revenues rose 3% at P2.274-bil, "as the effect of higher metal prices and foreign exchange rate outweighed the impact of lower metal production." This brought total operating revenues for H1 to P4.646-bil, 2% lower than the P4.756-bil reported in 2017.

GOLD BUYING / Troy Oz.

US\$1,217.25

COPPER BUYING / lb.

US\$2.732

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