

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,227.96 (+0.48%)	89,861,836.81	(8,571,522.76)	23.90 (+2.22%) = 1,276.36	53.404

MARKET OUTLOOK

- The stock market firmed up on Monday as investors resumed bargain-hunting and repositioned portfolios ahead of Thursday's release of June inflation data.
- The PSEi bucked the regional downturn and shrugged off ongoing global trade tensions to kick off H2 positively despite thin turnover as investors continued to acquire select beaten-down blue chips while positioning for Thursday's inflation data.
- However, domestic factors such as rising inflation, higher interest rates, weak consumer spending and the peso's depreciation would continue to weigh on the stock market.
- Still to be considered are the escalating trade tensions overseas and the government's delayed search for a third major telecommunications player.
- The major narrative underlying the optimism was the "Build, Build, Build" rollout. In a way, investors and analysts probably did place too much trust on it. As it is, most of the projects are still on the paper.
- Earnings will have to pick up and stabilize, and economic growth maintained, to help the stock market regain strength.
- The market is seen to bottom out come August.
- Investors are still advised to avoid food and beverage bets as companies in the sector will remain under threat from rising inflation and the weak peso.
- The risk of an escalating tariff war between Washington and its trading partners may continue to weigh on sentiment.
- Trade war worries were also being compounded by a threat from the European Union to hit the United States with almost \$300-bil in retaliatory tariffs.
- Canada on Friday struck back at the Trump administration over US steel and aluminum tariffs, vowing to impose punitive measures on \$12.63-bil worth of American goods.

ECONOMIC HIGHLIGHTS

June Manufacturing Output

- Improvement in manufacturing activity eased in June from the preceding month as increases in output and new orders ebbed, according to the latest survey IHS Markit conducted for Nikkei, Inc. that nevertheless showed last month's "solid" growth pushing the second quarter's average Purchasing Managers' Index reading higher than that of January-March.
- The Nikkei Philippines Purchasing Managers' Index (PMI) slid to 52.9 in June from 53.7 in May, placing the Philippines third among select Association of Southeast Asian Nations (ASEAN) members from second in the preceding month though still above the region's 51.0 PMI that itself was down from May's 51.4.
- Manufacturing conditions in the Philippines improved further at the end of Q2, buoyed by increases in both output and new orders, as higher input inventories and stretched supply chains also boosted the headline PMI.
- However, greater manufacturing activity failed to test firms' operating capacity as reflected by lower backlogs which, in turn, weighed on hiring. Employment levels were broadly steady.
- Inflation meanwhile remained elevated, as did business confidence.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$78.968-B (May 2018)
Fiscal Surplus / (Deficit)	(P32.9-B) (May 2018)	Exports Growth Rate	(8.5%) (April 2018)	BOP	(US\$583-M) (May 2018)
Inflation	4.6% (2012 BY) (May 2018)	Imports Growth Rate	22.2% (April 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.484 (as of June 25, 2018)	Cash Remittances	US\$2.360-B (April 2018)	O/N RRP	3.50% (as of June 20, 2018)

ECONOMIC CALENDAR

Tuesday, July 3

- Retail Price Index (May)

Thursday, July 5

- Inflation rate (June)

Friday, July 6

- Foreign exchange reserves (June)

Tuesday, July 10

- Balance of trade (May)
- Exports (May)
- Imports (May)
- Industrial production (May)

ECONOMIC HIGHLIGHTS (continued)

June Manufacturing Output (continued)

- June survey results showed the Philippines manufacturing economy continued to recover from the implementation of tax reforms at the start of the year with improving demand conditions at the end of Q2.
- At the same time, sharp input cost inflation on a weaker peso, increased taxes, supply shortages and higher prices of fuel that was nevertheless slowest in five months.
- As a result, factory gate price hikes remained sharp, which could feed through to consumer inflation in the coming months, as headline inflation pierced the government's 2% to 4% full-year target for the third straight month in May at a six-and-a-half year high 4.6%.
- Projected faster inflation would add to expectations of further rate hikes after the central bank's 25 basis-point increases in its Monetary Board's May 10 and June 20 policy meetings.
- The strong business investment and government spending were both supported by TRAIN that in turn allowed manufacturers to sustain their healthy production despite rising costs induced by elevated global oil prices and peso depreciation, referring to Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion that slashed personal income tax rates to prod households to spend more and increased or added taxes on several goods and services when the law took effect on Jan. 1.
- In the first few months of the year, some firms were still testing the waters, adjusting their product prices gradually to prevent negative demand shocks.
- When firms complete the process of passing input price inflation to consumers, we could probably see some improvement in firm profitability.
- While this strategy could reduce the negative impact of rising prices, it could not totally eliminate all repercussions. In particular, this strategy could temper domestic demand.

Growth Outlook

- Higher inflation and interest rates pose downside risks to Philippine economic growth and Moody's Investors Service will have to take these into account when it reviews its country projections.
- Moody's has yet to update its forecast but in the near term the debt watcher is going to have to start to consider the things that it did not assume when it made that forecast.
- The credit ratings agency currently hold a 2018 growth forecast of 6.8% for the Philippines, slightly higher than last year's 6.7% result but below the government's 7.0% to 8.0% target.
- Downside risks to its forecast are inflation and monetary policy tightening as well as some of the spillovers from softening external demand.
- Improved government spending was providing some support.
- Looking at the year-to-date figures, budgetary execution has actually improved quite a bit so there is upside risks to growth from government spending.
- Inflation has topped the central bank's 2.0% to 4.0% target since March, hitting a five-year peak of 4.6% in May and prompting monetary authorities to order two successive policy rate hikes.
- The central bank's policymaking Monetary Board, in raising key interest rates for the second time this year in June, noted the need for "follow-through" action to address inflation.
- The Monetary Board, however, trimmed its inflation forecasts for 2018 and 2019 to 4.5% and 3.3%, respectively, from 4.6% and 3.4% previously.
- Meanwhile, Economic managers on Monday reiterated that the weak peso and stock market were not signs of a weak economy, as they highlighted the gains in the economy despite a depreciating currency.
- The government will announce Q2 GDP performance in August.

DAILY MARKET PRIMER

CORPORATE NEWS

MWIDE

- Megawide Construction Corp. targets to book P24-bil worth of new construction contracts this year, driven by projects from the private sector.
- The diversified engineering conglomerate said this is the second highest value of contracts it has signed to-date, following the P38-bil worth of deals it bagged back in 2015, and more than twice the P10.8-bil it secured in 2017. More than half of the contracts were signed during Q1 of the year.
- This year, Megawide expects revenues to grow 12% to P21.37-bil, of which P18.59-bil will come from the construction segment.
- Meanwhile, revenues from airport operations are expected to grow by 21% to P2.78-bil for the year.

MER / FGEN

- The Energy Regulatory Commission (ERC) has granted Manila Electric Co. (Meralco) and First NatGas Power Corp. (FNPC) the authority to implement their power supply agreement (PSA) in an “interim relief” that sets certain conditions.
- “In the event that the final rate is higher than that granted in the interim, the resulting additional charges shall be collected by FNPC from MERALCO. On the other hand, if the final rate is lower than that granted in the interim, the amount corresponding to the reduction shall be refunded by FNPC to MERALCO,” the ERC said in its order.
- In their joint application in March, Meralco and FNPC said the timely implementation of the PSA would best serve the interest of electricity consumers.
- In its order, the ERC said the applicants have satisfied the substantial requirements for the grant of interim relief. Based on its rules of practice and procedure, the agency may act on applications with or without hearing based on allegations, supporting documents and evidences presented by the applicants.
- The PSA between Meralco and FNPC was forged after the power utility invited price challengers in December 2017, which resulted without any challenger submitting qualification documents. A second round of invitation came out with no qualified price challenger, prompting the award to FNPC.

CEB

- Cebu Air, Inc., the listed operator of Cebu Pacific, on Monday said it sold its majority stake in its ground-handling service subsidiary.
- The Gokongwei-led company said it has sold 60% of its shares in 1Aviation Groundhandling Services Corp. to the Philippine Airport Ground Support Solutions, Inc. (PAGSS), led by Jefferson G. Cheng.
- Cebu Pacific created 1Aviation in March after Manila International Airport Authority did not renew the contract of MIASCOR Ground Handling Corp. due to incidents of luggage theft involving the latter’s employees.

ICT

- International Container Terminal Services, Inc. (ICTSI) on Monday said its port concession in Ecuador has been given the go signal from the government to service larger vessels.
- The Razon-led port operator said the Ecuadorian Ministry of Transport and Public Works has allowed ICTSI’s concession Contecon Guayaquil SA (CGSA) to handle up to 305-meter mega vessels at Berths 2 and 3 of the Port of Guayaquil.
- With this, CGSA is now the first and only terminal in Ecuador with the capacity to serve two mega vessels at the same time, resulting in higher efficiency and productivity levels.

GOLD BUYING / Troy Oz.

US\$1,253.40

COPPER BUYING / lb.

US\$2.945

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64

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