

DAILY MARKET PRIMER

03 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,855.71 (+0.03%)	150,106,641.90	(849,905.40)	26.22 (+0.69%) = 1,401.04	53.434

MARKET OUTLOOK

- Shares are expected to rise in the week ahead, taking cues from the positive finish in August and expectations for listed companies' plans during last quarter of 2018.
- Analysts are looking at a good start for the month of September, with expectations of the PSEi likely breaking the 8,000 resistance level soon.
- Market players are starting September with a lot of confidence, certain that the index will break and stay above that 8,000 key level. Breaking above it will start a climb to the upside which may even take the market to its previous high of 9,000 before the end of the year.
- Investors will likely come back to the market given the end of the Chinese ghost month on Sept. 9.
- As the ghost month draws near its close, participants' attention would be swayed to prospects in store for Q4, specifically telco, infra, energy, property/tourism and exploration. It would be timely to start reviewing sequels to other M&A angles, given the resonating call to align resources and expertise accordingly.
- However, there is also the possibility the stock market could edge lower given expectations the government will report that inflation hit another five-year high last month.
- The Philippine Statistics Authority (PSA) is scheduled to announce August inflation data this Wednesday and the consensus view points to a further rise from July's 5.7%. A 6.0% and above result could stoke concerns that monetary authorities would again raise key interest rates after a total of 100 basis points since May.
- Last Friday, the central bank said inflation could have settled "at around 5.9%" last month "with a range of 5.5% to 6.2%" due to higher food, fuel and power rates.
- The central bank's policymaking Monetary Board, which ordered 25-bps adjustments in May and June and followed these up with a 50-bps increase in July, will hold its next meeting on September 27.
- Another round of interest rate hikes should be expected if August consumer price growth clocks in higher.
- The PSEi's immediate support at 7,800, with resistance from 7,950 to 8,000.

ECONOMIC HIGHLIGHTS

Inflation Forecasts

- Inflation likely zoomed to a fresh multi-year high in August due largely to higher food costs, analysts said in a poll, boosting the case for another rate hike this month to douse surging prices.
- A poll among 14 economists late last week yielded a median inflation estimate of 5.9%, which if realized will mark another high coming from July's 5.7% and from 2.6% in August 2017.
- This also matches the estimate given by the central bank's Department of Economic Research on Friday, in the middle of a 5.5% to 6.2% range. This is the first time the central bank gave a specific figure for headline inflation ahead of the release of official data due on Wednesday.
- Analysts point to thin rice supply as the main culprit, worsened by heavy rains that damaged crops. Food items account for more than a third of the consumer basket used in tracking overall price movements.

ECONOMIC INDICATORS

GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$76.892-B (July 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	Exports Growth Rate	(0.1%) (June 2018)	BOP	(US\$1.177-B) (June 2018)
Inflation	5.7% (2012 BY) (July 2018)	Imports Growth Rate	24.2% (June 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.203(as of August 20, 2018)	Cash Remittances	US\$2.357-B (June 2018)	O/N RRP	4.00% (as of August 9, 2018)

ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

Inflation Forecasts (continued)

- Retail prices of rice (up by about 10% year on year) and sugar (up by about 15% to 20% since early 2018) increased recently amid shortage in local supply. Prices of other food items also increased after storms/floods in recent weeks.
- Higher global crude oil prices also added to inflation pressures last month alongside a rise in electricity rates.
- The impact of the first of up to five planned tax reforms continued to be felt in August, with second-round effects still sending price shocks eight months into its implementation.
- The continued effect of the TRAIN (Tax Reform for Acceleration and Inclusion) law, which raised the prices of fuel, automobile, mineral, and coal, as well as the further weakening of peso against the greenback may have also boosted local inflation.
- Last week, the central bank said it expected prices of basic goods to have climbed even faster in August, with the pace, however, not breaching 6%. It added that TRAIN-related pressures are “slowly tapering off.”
- Still, some analysts gave higher forecasts while others were unconvinced that August had seen the peak.
- De La Salle University School of Economics hopes that this will be the highest this year, but prices of oil and other food items such as rice have not yet stabilized so we might still experience higher inflation but at a slower rate.
- Union Bank of the Philippines sees the peak occurring some time next quarter.
- As such, the central bank may further consider raising interest rates in its September meeting, it added.
- The University of Asia and the Pacific (UA&P) said the Monetary Board will likely hike policy rates by 25 bps if 6% inflation is exceeded.
- Metropolitan Bank & Trust Co. cited the need for another 25-bp hike to “address second-round effects.”
- The central bank will review its policy stance for the sixth time this year on Sept. 27. Monetary authorities have “kept the door open” for future rate adjustments in a bid to ease price pressures, with the view that the economy can still absorb further tightening moves while keeping the growth momentum intact.

Ownership Caps vs Investments

- The Philippines must address constitutionally-mandated ownership restrictions if it wants take advantage of an Asean foreign direct investments (FDI) boom, banking giant HSBC said.
- Asean has seen a bounty of foreign direct investment in recent years, thanks in large part to the region’s tremendous economic potential, it said.
- Looking ahead, HSBC believes the post-global crisis trend will likely persist in the near to medium term, provided that Asean’s growth outlook and economic fundamentals remained sound.
- Structural issues like the rule of law, strength of institutions, demographics and investment incentives will all play a key part in attracting FDI to the region, it pointed out.
- The Philippines, in particular, receives the least amount FDI from its Asean peers, averaging just \$200-mil since 2010.
- This may be partly due to the country’s onerous restrictions on foreign ownership of certain key industries, as protected by its constitution, a situation that the government “must address to take larger part in the broader region’s FDI windfall.
- The Duterte administration is currently pushing for lower corporate income taxes and the rationalization of incentives via the proposed Tax Reform for Attracting Better and High-quality Opportunities (Trabaho) Act.

CORPORATE NEWS
MPI

- MPCALA Holdings Inc said it entered into a partnership with Egis Projects Philippines, Inc (EPPI) to operate an electronic toll collection system for the Cavite-Laguna Expressway and Manila-Cavite Expressway, which will allow transactions of 1,200 vehicles per hour.
- With Egis, bringing this technology to the MPTC tollroad networks, the company expects a more efficient travel experience, and also boost tourism, trade and commerce in the areas being linked by its thoroughfares.
- CALAEX is a MPCALA concession, while CAVITEX is the concession of Metro Pacific Investments Corp. wholly-owned subsidiary Cavite Infrastructure Corporation.
- EPPI said that the toll collection system will be a “breakthrough” in the industry by making transactions free-flowing.
- According to MPTC, the system will be installed in phases as each section of CALAEX is completed and become operational, while upgrades will be conducted by CAVITEX to its existing system.
- The new system will be designed to be compatible and interoperable with other toll roads’ ETC systems, MPTC said.
- CAVITEX is currently being expanded by MPTC with the construction of a 7.7-kilometer C5 South-Link which will traverse Taguig, Las Piñas, and Parañaque.
- CALAEX is a 45-km road between Mamplasan, Laguna connecting to CAVITEX in Kawit. The Laguna section is expected to be opened by December.

AC

- The infrastructure unit of Ayala Corp. (AC) is teaming up with Germany’s Brilliant 1257 GmbH & Co. Vierte Verwaltungs Kg. (Brilliant) to form a new holding company that will handle investments in the logistics sector.
- Ayala Corp said its unit AC Infrastructure Holdings Corp. (AC Infra) will hold a 60% interest in the new firm, while the 40% balance will be held by Brilliant.
- The newly-incorporated firm will handle AC’s investments in courier and freight forwarding services.
- AC’s partner for the venture is an affiliate of online fashion platform Zalora. In September 2017, the Ayala group also acquired a 49% stake in Zalora’s operator, Global Fashion Group, in a bid to ride the growth opportunities offered by e-commerce.
- Earlier this year, AC Infra also announced that it will be investing in firms that offer fulfillment solutions services in partnership with Brilliant.
- The Ayala group has recently been ramping its logistics business. Prime Orion Philippines, Inc. (POPI) of Ayala Land, Inc. is being positioned as a developer of logistics facilities and industrial parks.
- POPI acquired in April a majority stake in Laguna Technopark, Inc., which develops logistics facilities. The 460-hectare Laguna Technopark is located in Santa Rosa and Biñan.

GOLD BUYING / Troy Oz.

US\$1,199.20

COPPER BUYING / lb.

US\$2.663

 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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