DAILY MARKET PRIMER

04 July 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,267.34 (+0.55%)	89,565,884.35	(7,957,586.50)	23.78 (-0.50%) = 1,269.61	53.390

MARKET OUTLOOK

- Share prices rose for a third straight day on Tuesday with investors said to have been heartened by expectations that inflation would start easing following a first-semester acceleration.
- Investors reacted positively to economic managers' claims that consumer price growth — currently above the 2.0% to 4.0% target — would start tapering off as both crude and rice prices drop.
- However, thin trading volumes also indicated continued wariness over global trade tensions.
- Investors may remain hesitant to load up ahead of Thursday's release of June inflation data.
- Trade tensions continued to fester, with US President Donald Trump on Monday making a veiled threat against the World Trade Organization. Also looming is a July 6 deadline when Washington is set to impose tariffs on $34-bil worth of Chinese goods.
- In the short term, company fundamentals are quite solid and the economy is strong.
- But with the trade war looming there is a lot of uncertainty and a lot of unknowns. Until we get more clarity there it is difficult for investors to jump back into the equity market.

ECONOMIC HIGHLIGHTS

Growth Forecasts

- The Philippine economy can easily expand by at least 6.5% over the next few years on robust investments and consumer spending, analysts at S&P Global Ratings said, adding that sound policies and the infrastructure push should help lift growth prospects.
- Growth-wise in the Philippines, the past two years have actually been stellar. In terms of the outlook for the next few years, 6.5% and above as a pace of growth is actually very easily achievable, S&P said.
- The credit rater forecasts another 6.7% growth for Philippine gross domestic product (GDP) this year to match its 2017 pace, but will fall short of the government's 7% to 8% target.
- The economy expanded by 6.8% in Q1, and state economic managers believe Q2 growth — to be reported on Aug. 9 — could have clocked at least 7%.
- In April, the debt watcher revised its credit outlook for the Philippines to "positive" from "stable," hinting at stronger chances of bagging a rating upgrade from the current "BBB" level, which is a notch above minimum investment grade.
- S&P said a young and agile Filipino work force is "very favorable" for the economy, helping to buoy household spending that contributes more than 60% to GDP and attract investments.
- The rosy outlook is likewise supported by "very stable" fiscal and monetary policies.
- The ramping up of the infrastructure program is one of the relatively newer additions to the policy tool kit and that's actually a positive. It can generate even further potential growth farther into the future.
- State infrastructure spending totaled P280.8-bil in the five months to May, up 42.4% from a year ago, the Budget department has said. The government intends to spend P1.068-tril on infrastructure this year, forming part of an P8-9-tril program until 2022, when President Rodrigo R. Duterte ends his six-year term.

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

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)

Growth Forecasts (continued)

- S&P sees limited credit rating impact from the passage of the second tax reform package currently pending in Congress, but noted that additional revenues should help boost domestic economic activity.
- Overall, the second package is not likely to make much change either to the revenue or expenditure side of things on the budget. In other words, the fiscal impact is very small and unlikely to directly affect the rating.
- The key thing S&P is looking at in tax reform is if the government actually has the ability to carry this out.
- A measure that seeks to gradually cut corporate income tax rates to 25% from 30% now awaits approval by the House of Representatives. Projected foregone revenues will be offset by the streamlining of tax holidays and fiscal perks granted by 14 investment promotion agencies.
- This follows the implementation of Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion Act (TRAIN), since Jan. 1 that cut personal income tax rates, with revenue losses — estimated at P10 billion a month — expected to be offset by the removal of some value-added tax breaks; higher fuel, automobile, mineral and coal excise tax rates, as well as new levies on sugar-sweetened drinks and cosmetic surgery.
- S&P took into consideration TRAIN and "improved" fiscal policies in lifting its outlook for the Philippines, saying these factors build the case for "more sustainable public finances and balanced growth" in the next two years. The government plans to raise P2.846-tril in revenues this year, 15.1% more than 2017's P2.473-tril and accounting for 16.2% of GDP. Tax collections reached P1.186-tril as of end-May, a fifth more than the year-ago P996.5 billion.

Inflation Forecasts

- The Department of Finance (DOF) expects that inflation in June quickened further to a fresh six-and-a-half year high as seasonal rains pushed vegetable prices higher and households spent on education-related items as the new school year began.
- The DoF estimated a 4.9% rise in prices of widely used goods and services last month, from 4.6% logged in May, according to its latest economic bulletin that was e-mailed to journalists on Tuesday ahead of the Philippine Statistics Authority's scheduled July 5 report on June inflation.
- This is faster than the 4.7% median in a poll late last week and falls past the midpoint of the central bank's own 4.3% to 5.1% estimate for that month.
- The economic bulletin said that this was due to "base effects" as well as the "0.35% month-on-month (MOM) increase" that compares to June 2017's 2.5% annual inflation rate and zero month-on-month increase.
- To recall, inflation slowed to its lowest level in five months in June last year — matching January's pace — on softer food, utilities and transport price increases.
- The overall increase in food and alcoholic beverage prices likely accelerated to 5.6% last month from 3.04% in June 2017, but was slightly slower than the 5.75% recorded last May.
- The Development Budget Coordination Committee now expects full-year inflation to clock 4% to 4.5% — up from a 2% to 4% projection before its Monday meeting — while the central bank sees it at 4.5%, still beyond its official 2% to 4% official target band though lower than 4.6% previously.
- Prices in the non-food subsector likely rose 3.89% in June, faster than the year-ago 2.04% and the 3.23% a month-ago.
- Housing, utilities and fuel prices are expected to have increased by 4.51% in June, faster than 1.84% last year and three percent in the preceding month.
- Prices in the health as well as the clothing and footwear sectors are expected to have slowed to 2.7% and 2.19%, respectively, from 2.84% and 2.6% in June last year. Inflation for health also slowed from 2.77% in May, while that of clothing and footwear steadied.

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CORPORATE NEWS

CLC

- The Philippine Competition Commission (PCC) voided Chelsea Logistics Holdings Corp.'s (CLC) acquisition of Trans-Asia Shipping Lines, Inc. for its failure to notify the antitrust body of the 2016 deal.
- In its June 28 decision released on Tuesday, the PCC said the company consummated the Trans-Asia deal without securing the Commission's approval, even though the size of the transaction fell under the compulsory notification threshold of P1-bil at that time.
- The PCC also imposed a P22.8-mil fine on CLC and its parent Udenna Corp. led by businessman Dennis A. Uy, as well as Trans-Asia.
- The nullification of the Trans-Asia deal, however, paved the way for the PCC's conditional clearance of Chelsea's acquisition of KGLI-NM Holdings, Inc., which in turn controls 2Go Group.
- CLC said it is currently deciding if it will file a motion for reconsideration before the PCC or elevate the case to the Court of Appeals.

MPI

- A unit of Metro Pacific Tollways Corp. (MPTC) gained control of Indonesian infrastructure firm PT Nusantara Infrastructure Tbk after increasing its stake to more than 50%.
- MPTC's parent Metro Pacific Investments Corp. (MPIC) said PT Metro Pacific Tollways Indonesia (PT MPTI) acquired an additional 760-mil shares in PT Nusantara, or 4.99% of the company's total issued capital stock on a fully diluted basis.
- The transaction, valued at a total of P597.33-mil, or 79 centavos per share, was executed through a cross sale on the Indonesian Stock Exchange.
- This brings PT MPTI's stake in PT Nusantara to 53.26%, solidifying its control of the company that has interests in tollroads, water, energy, port operations, and telecommunications.
- Since PT MPTI now holds a majority of PT Nusantara's shares, the company is required to conduct a mandatory tender offer to its minority stockholders. The minority shareholders collectively own 44.21% of PT Nusantara's outstanding capital stock, with the balance of 2.53% held as treasury shares.

- The company expects the tender offer price to be at around 79 centavos per share or 211 Indonesian Rupiah (IDR). With this, the entire tender offer size could reach IDR 1,421-bil or around P5.29-bil. The final tender offer price will require approval from the Indonesian Financial Services Authority.
- PT MPTI said it will secure bank loans to finance the acquisition of the additional shares as well as the tender offer.

CNPF

- Century Pacific Foods, Inc. (CNPF) is spending up to P1.8-bil this year to expand its capacity, as it expects earnings to grow in single digits due to the rising costs of fuel and raw materials.
- The 2018 capex is higher than the P1.1-bil to P1.5-bil it committed to spend in 2017.
- The company is expanding its tuna facility as it is already operating at full capacity with 300 to 350 metric tons of tuna produced per day.
- The expansion will help support CNPF's growth targets in the next few years, as it plans to grow the business by 10-15% in the next five to 10 years.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,241.80	US$2.924