

DAILY MARKET PRIMER

06 July 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,233.57 (-1.56%)	97,560,414.79	(9,836,602.31)	24.00 (+0.93%) = 1,280.23	53.343

MARKET OUTLOOK

- The stock market snapped a four-day recovery on Thursday after higher-than-expected inflation stoked fears of another central bank rate hike.
- The Philippine Statistics Authority (PSA) announced that headline inflation had clocked in at a new five-year high of 5.2% in June, exceeding the 4.3% to 5.1% and 4.9% forecasts, respectively, of the central bank and the Department of Finance.
- The implications of the June result may pull the market down further with many already pointing to a third rate hike during the August 9 Monetary Board meeting. Even some have hinted that a 50-basis point (bps) hike is needed over the traditional 25 bps.
- Higher inflation and expectations of more to come have given fodder to anticipation of at least one (or even two more) tweaks to the central bank policy rate.
- While the government seems still in 'denial' over the TRAIN law's impact on the prices of basic goods, the body of evidence to the contrary is growing. But whether the argument is valid or false, it is the perception of the former that has lent apprehension to investors.
- Another factor that could lead to further declines is the United States' scheduled enforcement of tariffs on Chinese goods beginning Friday.
- However, the market may find some reprieve on signs that Washington may dial back on plans for tariffs on European cars, soothing some worries about trade even as China looked set to face US tariffs.
- The Trump administration's tariffs on \$34-bil of Chinese imports are due to go into effect at 0401 GMT on Friday and Beijing said it would respond in equal measure on US goods ranging from cars to soybeans the instant US measures go into effect.
- Trump has threatened to escalate tariffs to as much as \$450-bil worth of Chinese goods if China retaliates.
- The US Federal Reserve is also set to release minutes from its June 12-13 policy meeting at 2:00 p.m. ET, where it raised interest rates for a second time this year and flagged that more are likely.

ECONOMIC HIGHLIGHTS

Policy Rate Outlook

- Inflation surged in June to a fresh five-year high as it beat market and government estimates given for the month, leaving the door open for another policy interest rate hike.
- Prices of widely used goods and services clocked in at 5.2% last month to mark another peak in at least five years, the Philippine Statistics Authority announced on Thursday.
- The pace surged from May's 4.6% and 2.5% in June 2017, maintaining a steady ascent for six straight months. June also saw the fourth straight month that inflation pierced the central bank's 2% to 4% full-year 2018 target range.
- June inflation pierced the 4.3% to 5.1% range estimated by the central bank's Department of Economic Research, the 4.9% estimate of the Department of Finance and the 4.7% median in a poll.

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	5.2% (2012 BY) (June 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

Friday, July 6

- Foreign exchange reserves (June)

Tuesday, July 10

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

ECONOMIC HIGHLIGHTS (continued)

Policy Rate Outlook (continued)

- Core inflation, which excludes volatile food and energy prices, picked up to 4.3% last month from May's 3.6% and 2.1% in June 2017.
- Year-to-date, headline inflation averaged 4.3%, compared to the central bank's 4.5% forecast for the entire 2018.
- The central bank will review and update its situational assessment and forecast inflation path. This will shape the strength and timing of its next monetary policy response to firmly anchor inflation expectations.
- The central bank re-affirms its strong commitment to ensure that inflation returns to within the 2% to 4% target range as soon as possible.
- Socioeconomic Planning Secretary Ernesto M. Pernia said that the June turnout is "unwelcome news," but noted that inflation so far is "just slightly" higher than the government's target range for the year.
- For Land Bank of the Philippines (LANDBANK), inflation spiked on increasing oil prices and "seasonal factors."
- An important seasonal factor is the start of classes, which likely caused an acceleration in the price of education. Likewise, weather disturbances possibly caused a similar inflationary effect on food items, particularly rice and corn.
- Union Bank of the Philippines (UnionBank) shared this view, adding that a "persistently weak peso" is also a probable factor for the rising cost of imported products that include production inputs.
- The central bank's Monetary Board introduced back-to-back 25-basis point rate hikes in its May and June policy meetings to rein in future inflation.
- For the Asian Institute of Management and former undersecretary at the Department of Social Welfare and Development, businesses and household sectors "will have to make adjustments since most have much lower inflation rate assumptions for 2018."
- Given the latest inflation pace, economists believe that price pressures now warrant another tightening move from the central bank during its Aug. 9 policy review.
- The high inflation point for June would likely require further monetary policy response as early as the August meeting. Real policy rate is deeper in the red indicating that a more aggressive economic policy response would be needed.
- Observers have been pointing out that the central bank has been behind the curve as it kept interest rates low for too long. The central bank has kept its policy stance since September 2014 before its first rate hike in nearly four years on May 10.
- Analysts at Nomura noted that prices have picked up "across the board" and will keep rising faster until August or September, thus requiring central bank intervention.
- Nomura believes inflation expectations are also likely to rise further, as evident in rising demand for wage increases. As such, it also now see some risk that central bank may deliver additional rate hikes this year, taking the policy rate above its 3.75% forecast.
- For IHS Markit, the central bank is "facing a perfect storm of pressures to hike policy rates further" as a result of rising inflation as well as the impact of the widening current account deficit and rising US interest rates that have pressured the peso to weaken.
- While June 2018's strong inflation figure increases the chances of another rate hike next month, it certainly does not guarantee of more tightening moves from the central bank amid views that this year's elevated inflation is temporary.
- Furthermore, the next action of the central bank might also be hinged on how local financial markets react to developments here and abroad. Higher volatility domestically could prompt further action from the central bank.

CORPORATE NEWS
MPI

- A Metro Pacific Tollways Corp. (MPTC) unit began on Thursday the construction of a toll bridge that will connect Mactan island to mainland Cebu.
- The 8.5-kilometer Cebu-Cordova Link Expressway (CCLEx) have a two-lane road, a main bridge, a viaduct at Cordova, an eight-lane toll plaza and a causeway. MPTC unit Cebu Cordova Link Expressway Corp. (CCLEC) is in charge of the project.
- The company is looking to charge a maximum P89 toll fee at the CCLEx.
- The total project cost is estimated at P26-bil to P29-bil, taking into consideration “indirect project costs” that may arise.
- The company is raising funds of around P18-bil to P19-bil through syndicated loans from local banks.
- MPTC said the toll bridge could cut travel time from Mactan to Cebu by half as the Mactan-Mandaue and Marcelo Fernan bridges are connected to the northern part of Cebu, while CCLEx would end in the south.
- An initial traffic of 40,000 vehicles a day is expected on the CCLEx.
- CCLEEx is MPTC’s first project outside of Luzon done in cooperation with the local government of Cebu. In the future, the tollways company said it may still pursue projects in Cebu again.

DMW

- D.M. Wenceslao & Associates, Inc. (DMWAI) will be spending P12-bil over the next five years to develop its mixed-use estate in Pasay City, banking on the rising demand for residential, retail, and commercial spaces in the area.
- The newly listed property and construction firm said this spending plan will allow for the development of projects covering 400,000 square meters in the 204-hectare mixed-use business district Aseana City.
- The company has allotted P3.1-bil for its capital expenditures in 2018, more than three times higher than the P850-mil it spent in 2017. DMWAI is set to spend P3.5-bil for 2019 and P4.3-bil for 2020, while the balance will be spent from 2021 to 2022.
- DMWAI raised P8.1-bil through an initial public offering on June 29, which will be used to partially fund its capex for the coming years.

GOLD BUYING / Troy Oz.

US\$1,256.00

COPPER BUYING / lb.

US\$2.834

 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

Disclaimer: This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst’s personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addressees and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.