

DAILY MARKET PRIMER

09 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,186.71 (-0.65%)	90,938,165.07	(11,944,970.62)	24.10 (+0.42%) = 1,287.18	53.410

MARKET OUTLOOK

- The Philippine Stock Exchange index (PSEi) is likely to continue trading sideways this week as investors anticipate Q2 results that could push trading volume higher.
- The Philippine Statistics Authority reported that inflation picked up to 5.2% last month, a fresh five-year high that beat the local central bank's estimate range of 4.3% to 5.1% and the Department of Finance's 4.9% estimate, as well as the 4.7% median in a poll.
- The month started slow ending almost unchanged from the close in June. However, the index held support at 7,150 which is impressive despite the very low trading volume that seen last week. Based on the technicals, the index will continue to trade sideways.
- Given higher inflation, people will be tightening their belts or at least cut back on non-essentials. This should prepare investors to put their money in assets with good inflation hedge.
- In equities, these are common in real estate assets and companies with solid recurring income sources. While controlling inflation rests on the hands of competent economic managers, it would be best to stay defensive by carefully selecting stocks anchored on business models where demand is supported.
- Sectors with such demand include food and beverage, telco services, utilities, and fuel.
- Good companies to invest in would be those with strong leasing income streams, such as SM Prime Holdings, Inc., Ayala Land, Inc., Megaworld Corp., and DoubleDragon Properties Corp.
- Abroad, leads include developments on the trade war between the United States and China. While the trade war has no direct impact on Philippine exports, it still continues to weigh on investor sentiment.
- All told, investors are simply scouting for opportunities to re-enter once negative headlines are fully absorbed. In the meantime, eyes are on H1 results and whether listed firms remain on track with their H2 prospects.
- The index's immediate support is placed at 7,070, with resistance at 7,340.
- It's all going to come down to volume. If more volume comes in then the market may end higher. But if another low-volume week is in the offing, then it may be seen to come down even further.

ECONOMIC HIGHLIGHTS

June GIR

- Gross international reserves (GIR) continued to decline at the mid-year point to their lowest level in nearly seven years, with the central bank continuing to intervene in the foreign exchange market to defend the peso.
- The central bank reported on Friday that GIR declined 1.92% month-on-month to \$77.675-bil in June. The indicator fell 4.48% from a year earlier.
- This was the lowest level since the \$75.302-bil GIR recorded in December 2011.
- The month-on-month decline in the GIR level was due mainly to outflows arising from the foreign exchange operations of the central bank, revaluation adjustments on its gold holdings resulting from the decrease in the price of gold in the international market, and payments made by the National Government (NG) for its maturing foreign exchange obligations.

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)	(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

Tuesday, July 10

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

ECONOMIC HIGHLIGHTS (continued)

June GIR (continued)

- The central bank sometimes intervenes in the foreign exchange market to temper sharp swings during the daily peso-dollar trading sessions.
- These were partially tempered by the NG's net foreign currency deposits as well as the central bank's income from its investments abroad.
- The central bank's gold holdings fell to \$7.913-bil last month from \$8.197-bil in May. They rose from the year-earlier \$7.835-bil level.
- The central bank's offshore investments decreased to \$62.455-bil in June from \$63.924-bil in the previous month, and fell from \$68.16-bil in June 2017.
- Foreign currency holdings rose to \$5.615-bil from \$5.46-bil in May and \$3.695-bil a year earlier.
- Reserves held under the International Monetary Fund (IMF) grew to \$489.6-mil last month from \$418.7-mil in May and \$452.8-mil a year earlier.
- Special drawing rights, or the amount which the Philippines can tap under the IMF's reserve currency basket, were steady at \$1.203-bil.
- At this level, the GIR nonetheless continues to serve as an ample external liquidity buffer and is equivalent to 7.5 months' worth of imports of goods and payments of services and primary income.
- The central bank also said reserves can cover up to six times the country's short-term external debt obligations and 4.1 times when computed in residual terms.
- Land Bank of the Philippines said that the reserve outflows may be due to the monetary policy tightening in the US, which has caused the dollar to strengthen.
- The drop in reserves can be attributed to the repatriation of foreign funds as a result of the interest rate normalization of the US. This has caused massive swings in the domestic currency, prompting the central bank to intervene.
- The current GIR levels are still at comfortable despite the continuous decline.
- The drop does not warrants much concern for now. It does, however, necessitate close monitoring of the GIR level to make sure that it remains high enough to shield the country from external headwinds.
- The key concern right now is to stabilize the peso while managing the impact of growing inflation.

Second-Round Price Pressures

- Last week's increase in jeepney fares has added to inflation pressures, which state economic managers have expected to peak this quarter.
- The Land Transportation Franchising and Regulatory Board on July 4 approved a P1 provisional fare hike for public utility jeepneys in Metro Manila, Central Luzon and the Cavite-Laguna-Batangas-Rizal-Quezon region.
- The fare hike will have a domino effect on prices of other commodities.
- The P1 fare hike should be viewed only as part of an evolving story. Naturally, workers can be reasonably expected to demand a higher wage to deal with a higher transportation fare and more expensive food prices.
- Both economic managers and private economists have been watching out for "second-round" price pressures from public transport fare hikes and minimum wage increases in the regions that could drive headline inflation further beyond the central bank's 2% to 4% target for 2018.
- The June inflation print is largely due to structural bottlenecks, particularly on food items (rice, vegetables, etc). Aside from these, the economy's vulnerability to global oil price volatility is another concern.
- However, these price developments are out of the control of the central bank, and analysts are a bit wary if further monetary policy tweaks will actually help rein in price levels.

ECONOMIC HIGHLIGHTS (continued)

Second-Round Price Pressures (continued)

- While the central bank will be “hard-pressed to intervene” by tweaking interest rates, analysts warned that such moves may be “distractive” as far as overall economic growth is concerned.
- The central bank has acknowledged that inflation will pick up further to peak between this month and September, as it noted that uncertainties in the global oil market and unfavorable weather conditions continue to affect the prices of basic goods.
- Several observers are noting that another policy interest rate hike may be on the table for the central bank at its Aug. 9 meeting which, if realized, will mark three consecutive tightening moves this year. Others have been pointing out that the central bank has been behind the curve as it kept interest rates low for far too long.
- Other analysts have cautioned that inflation has been supply-driven — amid rising world crude rates and a shortage of rice supply — and had little to do with monetary policy.

CORPORATE NEWS
SMC

- SMC Global Power Holdings Corp. intends to raise P15-bil from the issuance of fixed rate bonds to refinance debt.
- Philippine Rating Services Corp. (PhilRatings) said it assigned SMC Global Power a PRS Aaa rating for its proposed bond offering, which represents the last tranche of its three-year shelf registration of up to P35-bil.
- PRS Aaa is the highest credit rating under the local debt watcher’s long-term issue credit rating scale. This indicates that SMC Global Power has an “extremely strong” capacity to meet its financial obligations.
- The proposed bonds were also given a stable outlook, which means that the rating is unlikely to change in the next 12 months.
- The power generation arm of diversified conglomerate San Miguel Corp. (SMC) has so far issued P20-bil worth of bonds from its shelf registration program, with P15-bil issued in July 2016 and P20-bil last December. Both outstanding issuances retained their PRS Aaa rating.
- In coming up with the ratings, PhilRatings took into account SMC Global Power’s market position, support from SMC, stable earnings and cash flows, as well as its capacity to expand.

GLO

- Globe Telecom Inc. said it is establishing a new company to operate its tower assets.
- The telecommunications company said that it has begun the process of incorporating a separate tower holding company. After it obtains approval from the Securities and Exchange Commission (SEC), the company will begin divesting all or some of its tower assets.
- In February, Globe said it was in talks with certain parties to form an independent tower company to help speed up the building and deployment of cellular towers.
- The company remains open to working with new and existing telecom companies in the interest of national development.
- Globe has said that it was open to working with rival PLDT, Inc. on the initiative. PLDT has said that the company does not see a need to share any of its network assets.
- The government on Thursday released its initial common tower policy and pole guidelines, and hopes to accredit up to two independent tower companies by Q1 of next year, followed by a six-month building period.

GOLD BUYING / Troy Oz.

US\$1,257.50

COPPER BUYING / lb.

US\$2.819

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