

# DAILY MARKET PRIMER

11 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,233.29 (+0.65%)	94,921,829.38	(9,556,466.96)	24.49 (+0.74%) = 1,306.76	53.359

## MARKET OUTLOOK

- Local equities climbed on Tuesday, tracking the positive finishes of its global counterparts.
- Positive momentum from strength in the US markets on the back of strong economic data amid trade war fears helped prop up the local index.
- Global markets seemed to react better as heading into the first effective week of US-China trade tariffs. However, headlines of China tying new strings and opening up more cooperation globally might smoothen concerns for China imports/exports issues.
- Economic managers said the impact of the US-China trade war on the Philippines is minimal and negligible.
- The immediate support and resistance of PSEi is seen at 7,000 and 7,500 levels, respectively.
- The market may be set to continue its assault of the 7,500 level.
- However, concerns over inflation spiraling out of control may continue to hound investors.

## ECONOMIC HIGHLIGHTS

### April FDI

- Foreign direct investments (FDI) inflows rose further in April to a six-month peak, the central bank said in a statement on Tuesday, supported by solid investor optimism towards the Philippines.
- Net FDI inflows reached \$1.027-bil for the month, surging from the \$682-mil in March but 3.2% less than the \$1.062-bil inbound capital recorded in April 2017, the central bank reported yesterday.
- Inflows marked the third straight month of increase and were the largest seen since October's \$1.918-bil.
- Investors grew more bullish about Philippine prospects as they poured more funds into equity.
- Total equity investments reached \$262-mil in April, almost triple the \$84-mil tallied a year ago. These inflows were partly offset by \$15-mil in withdrawn capital, versus \$14-mil the prior year.
- This yielded \$247-mil in net equity capital that was nearly four times bigger than the \$70-mil in April 2017.
- Investors from Singapore, Hong Kong, the Netherlands, the United States and Japan were the biggest sources of fresh capital in April, the central bank said. Funds went to manufacturing; arts, entertainment and recreation; real estate; financial and insurance; and wholesale and retail trade activities.
- The surge in equity infusions more than offset declines in other investment components.
- Reinvested earnings slipped by 7.1% to \$75-mil from \$81-mil.
- Lending by foreign companies to their Philippine subsidiaries and affiliates saw a bigger 22.6% fall to \$705-mil from \$911-mil the past year.
- Despite April's decline, year-to-date FDIs still settled 24.3% higher at \$3.202-bil from \$2.577-bil in 2017's comparable four months.
- Net equity placements grew sixfold to \$1.134-bil as of April from \$199-mil in the 2017's first four months, as total placements increased more than fourfold to \$1.258-bil from \$285-mil and total withdrawals increased by a slower 43.4% to \$124-mil from \$86-mil.

## 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	(3.8%) (May 2018)	BOP	(US\$583-M) (May 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	11.4% (May 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

### **ECONOMIC HIGHLIGHTS** (continued)

#### **April FDI** (continued)

- The same comparable four months saw foreign companies' investments in their Philippine units' debt instruments going down 14.6% to \$1.8-bil from \$2.104-bil and reinvested earnings slipping by 2.1% to \$268-mil from \$274-mil.
- FDI inflows were boosted by continued favorable investor sentiment on the back of the country's solid macroeconomic fundamentals and growth prospects, the central bank said.
- Such investments — which are longer term than foreign portfolio investments that come and go with ease in the face of breaking developments and news and, hence, are labelled as “hot money” — inject additional capital to the local economy, spurring business expansion and, in turn, generating more jobs.
- The Philippine economy expanded by 6.8% in Q1, fueled partly by industry expansion, the Philippine Statistics Authority said.
- This compares to the government's 7% to 8% growth goal, largely supported by P1.068-tril in infrastructure investments for 2018.
- Economic managers have said that they expect growth to have accelerated to 7% last quarter given a fresh boost from government spending as more infrastructure projects are rolled out.
- The central bank expects full-year FDIs to reach \$9.2-bil this year, coming from the record \$10.049-bil in 2017.
- London-based Capital Economics has flagged that persistent political noise and relatively unstable policy in the Philippines could turn off investors and “hold back” the economy, but acknowledged that it has not seen such impact on growth so far.

#### **PH Banks**

- Active fund-raising initiatives taken by Philippine banks should help sustain robust lending in the country, especially amid strong demand for infrastructure financing, a global credit rater said.
- Universal and commercial banks have taken turns in soliciting fresh investments in order to beef up their capital bases by issuing long-term notes and stock rights offerings from both local and foreign investors, shoring up billions of pesos for the lenders.
- Return on equity clocked in at a 5.09% median rate from January-March, slipping from the 5.70% tallied the previous quarter, according to data. This came alongside a 17.8% year-on-year growth in total loans to hit P8.07-tril, which ushered in assets growth by nearly 11% for big banks.
- Officials from the central bank have also said that the industry trend for capital-raising represents the banks' steps towards the full implementation of tighter standards imposed by the regulator.
- Starting Jan. 1, 2019, big banks are expected to be fully compliant with capital and liquidity standards set under the international Basel 3 framework, a set of prudential measures meant to improve risk management that ensures a solid footing for banks.
- These stricter rules ensure that banks will not fold even during a financial crisis.
- The central bank has been introducing tighter regulatory standards under the Basel 3 regime since 2014, which include the 10% capital adequacy ratio, a framework for domestic systemically important banks, the 5% leverage ratio, a 30-day liquidity coverage ratio, and a year-long net stable funding ratio.
- Moody's holds a “stable” outlook for the Philippine banking system as they see macroeconomic conditions remaining robust, which they said will “trickle down” to lend support to local lenders.
- Meanwhile, Mr. Chen said the recent change in relaxed ceilings for infrastructure lending entails a “neutral” adjustment as far as Philippine banks are concerned.
- The central bank announced in April that they will allow firms implementing major infrastructure projects to have a separate single borrower's limit in securing credit lines from banks and quasi-banks.

**CORPORATE NEWS**
**SMC**

- San Miguel Corp. (SMC), the operator of Boracay Airport in Caticlan, is submitting an unsolicited proposal to build a bridge connecting the mainland of Caticlan, Aklan to Boracay on Wednesday.
- San Miguel is investing P3-bil for the Caticlan-Boracay bridge.
- Weeks before the six-month closure of Boracay island, he proposed that the government look into the possibility of building a bridge connecting Caticlan to Boracay island.
- The Department of Public Works and Highways has said the construction of a bridge connecting Caticlan and Boracay is not part of the rehabilitation masterplan of the island resort.
- Separately, the diversified conglomerate plans to build four new processing plants for liquor business Ginebra San Miguel Inc.
- SMC is still finalizing a study on where to put up the plants.
- Additional details will be disclosed once the company submitted its plan to the Board of Investments.

**DMW**

- For the last seven years, Lucio Co's Puregold has held the title as the worst initial public offering (IPO) in the Philippine Stock Exchange.
- But Puregold's reign as the poster boy for bad IPOs ended last month when D.M. Wenceslao, the builder of Asean City in Manila Bay, made an ignominious debut in the stock market.
- D.M. Wenceslao, which raised P8.15-bil from the sale of 679-mil shares at P12, saw its stock nosedive by 14.5% on day one. This is the worst performance among 39 IPOs since 2010. Its underwriters are BPI Capital Corp. and Maybank Kim Eng.
- This is worse than Puregold's chart-topping IPO debut in October 2011 when it lost 12% on day one Puregold's lead underwriters were BDO Capital First Metro Investment Corp., HSBC and UBS.
- Bad IPOs are the fault of investment bankers who misread the market as an IPO should be priced lower than what they expected the market to pay for the stock.

**MEG**

- Megaworld Corp. is ramping up its land bank in Cavite and Laguna with the acquisition of a South Luzon-based real estate firm through one of its subsidiaries.
- Megaworld said its wholly owned unit Suntrust Properties, Inc. recently acquired Stateland, Inc. The financial details of the deal were not disclosed.
- The 42-year old Stateland has existing developments covering over 200 hectares primarily in Cavite and Laguna, as well as some parts of Metro Manila.
- Stateland is known to participate in the government's shelter programs in areas with potential growth.
- The acquisition also includes around 150 hectares of raw land and other allied properties of Stateland, which will now be placed under Megaworld's portfolio.
- Stateland will now be folded into Megaworld's portfolio. Megaworld is the parent firm for tycoon Andrew L. Tan's property investments, including Global-Estate Resorts, Inc and Empire East Land Holdings, Inc., among others.

**GOLD BUYING / Troy Oz.**

US\$1,258.30

**COPPER BUYING / lb.**

US\$2.830

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