

# DAILY MARKET PRIMER

13 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,350.58 (+0.23%)	103,367,669.36	(4,911,008.11)	25.04 (+1.71%) = 1,340.04	53.516

## MARKET OUTLOOK

- With no new leads to draw investors back to the market, share prices advanced for a third straight session on Thursday, tracking a regional rebound said to have been spurred by an easing of investor concerns over the US-China trade war.
- The Philippine markets continue to be perceived as a safe haven when US stocks fell sharply after the Trump administration announced new tariffs on Chinese goods.
- Investors see the PSEi as a less volatile market since it is a net importer.
- However, it might be too early to cheer the market's recent gains given its current level and thin trading volumes.
- While the PSEi ended above its recent high, it might be too soon to be overly optimistic as the index still closed at practically the same level. Volume has been light in recent trading — a clear breakout would need a large accompanying volume.
- In terms of technicals, the PSEi is already overbought.

## ECONOMIC HIGHLIGHTS

### Growth Forecasts

- Philippine economic growth will likely stay “decent” over the medium term but fall short of the government's 7.0% to 8.0% target, research consultancy Capital Economics said.
- The London-based firm forecast gross domestic product (GDP) growth of 6.5% for 2018, down from last year's 6.7% result, and a further easing to 6.0% in 2019 and 2020.
- A trade war between China and the United States is “not the only headwind to Asian growth,” it noted with GDP growth across emerging Asia still likely to slow as weaker export demand would offset monetary policy actions.
- For the Philippines, Capital Economics said a larger concern is the string of inflammatory comments and policy changes by President Rodrigo Duterte that have raised concerns in the minds of investors over the president's judgment and commitment to the rule of law.
- There are signs this is having an impact, it added, pointing to the country's worsening global competitiveness ranking, sharp drops in foreign investment approvals and the stock market's underperformance.
- The Philippines' own history shows how poor leadership and political uncertainty can hold back an economy, Capital Economics declared.
- The biggest risk for the Philippines is that history now repeats itself.
- Still, government spending under its “Build Build Build” program is expected to support GPP growth as revenues have been bolstered by the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) law. Planned changes to corporate taxes are also expected to provide further support.
- Capital Economics noted, however, that the infrastructure drive and tax reforms had led to problems such as higher inflation, a weaker peso and a deterioration in the capital account.
- With inflation expected to average 5.0% this year, substantially higher than 2017's 2.9%, the consultancy expects the central bank to implement another 25 basis point rate hike in Q3, bringing its overnight rate to 3.75% by the end of 2018.

### ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.8% (Q1 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$77.675-B (June 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P32.9-B) (May 2018)	<b>Exports Growth Rate</b>	(3.8%) (May 2018)	<b>BOP</b>	(US\$583-M) (May 2018)
<b>Inflation</b>	5.2% (2012 BY) (June 2018)	<b>Imports Growth Rate</b>	11.4% (May 2018)	<b>O/N RP</b>	4.00% (as of June 20, 2018)
<b>91-day T-Bill Rate</b>	3.484 (as of June 25, 2018)	<b>Cash Remittances</b>	US\$2.360-B (April 2018)	<b>O/N RRP</b>	3.50% (as of June 20, 2018)

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## ECONOMIC CALENDAR

### Monday, July 23

- State of the Nation Address (SONA)
- Budget balance (JUNE)

### Wednesday, August 1

- Nikkei Manufacturing PMI (JULY)

### Friday, August 3

- Retail Price Index (JUNE)

### Saturday, August 4

- Inflation rate (JULY)

### Tuesday, August 7

- Core inflation rate (JULY)

### Thursday, August 9

- Trade data (JUNE)
- GDP growth rate (Q2)
- Interest rate decision

### Friday, August 10

- Industrial production (JUNE)

### Wednesday, August 22

- Budget balance (JULY)

## ECONOMIC HIGHLIGHTS (continued)

### Growth Forecasts (continued)

- The rise in consumer prices is expected to return to the government's 2.0% to 4.0% target band in 2019, averaging 4.0%, and drop to 3.5% in 2020.
- With infrastructure spending set to increase further but export growth likely to continue to struggle, we think the current account will remain in deficit, Capital Economics said.
- As a result, the peso is likely to come under further downward pressure over the coming year, it added.
- The peso was forecast to weaken to P57 to the dollar by the end of 2018 and P59.50 the following year before recovering some ground to P58 in 2020.
- The Philippine Stock Exchange index is also expected to fall and stay below 7,000, hitting 6,975 by end-2018, 6,225 in 2019 and 6,525 in 2020.
- Government bond yields — at 3.2% and 4.1%, respectively, for two-year and 10-year bonds as of July 11 — were also forecast to hit 3.8% and 4.5% by the end of the year.
- Further increases to 4.0% and 4.8% are expected as of end-2019 before these moderate to 3.2% and 4.0% in 2020.

### Hot Money

- More foreign funds fled the Philippines in June — marking the second straight month of net outflows — as concerns about rising inflation and a weaker peso dampened investor appetite, the central bank said yesterday.
- Data released showed June's gross inflows at a two-year low.
- Registered foreign portfolio investments posted a \$516.12-mil net outflow last month, more than double the \$206.35-mil net outbound funds recorded in May and reversing the marginal \$72.56-mil net inflow in June 2017.
- These investments are referred to as "hot money" due to the ease by which such funds enter and leave the country with ease in the face of market-moving news.
- Foreigners put in \$910.78-mil worth of funds in June, the smallest amount of investments since January 2016.
- These bets were cancelled out by \$1.427-bil funds plucked out of the Philippines, with hot money seeing net outflows for all of June's five weeks.
- This may be attributed to the United States (US) Federal Reserve's decision to increase interest rates and investor concerns on inflation and the further weakening of the Philippine peso.
- The Fed introduced last month its second rate hike for the year in the face of US economic recovery evidenced by inflation and job creation targets met.
- Last month also saw a second rate hike from the central bank, amounting to another 25 basis points, to rein in inflation pressures.
- Inflation went beyond the central bank's estimates to clock in at a five-year-high 5.2% last month, which brought the first semester pace to 4.3% against an official 2% to 4% full-year target for 2018.
- The peso has been trading at 12-year lows against the dollar as it pierced the P53 level since mid-June. For the month, the currency averaged P53.0476 versus the greenback to remain one of Asia's worst performers.
- Nearly 92% of the investments went to shares of publicly listed companies, particularly holding companies, property firms, banks, food, beverage and tobacco companies, as well as utility providers. Transactions in such securities, however, yielded net outflows of \$346 million.
- The central bank said the "continuing trade war between the US and China" pushed investors to withdraw their funds, adding to a net foreign selling trend at the Philippine Stock Exchange since February.

**ECONOMIC HIGHLIGHTS** (continued)

**Hot Money** (continued)

- Foreigners also placed their money in government-issued debt papers, which also ended up with \$170-mil net outflows.
- Despite the June turnout, hot money still yielded a \$306.25-mil net inflow last semester.
- This reverses the \$467.83-mil net outflows in 2017's H1, data showed.
- Investors from the United States, United Kingdom, Singapore, Hong Kong and Switzerland emerged as the biggest hot money sources last month.
- About 82.7% of outbound funds went back to the US as the primary safe haven for market players.
- The central bank expects hot money to register \$900-mil net outflows by year's end, which would be wider than the \$205.03-bil in outbound funds last year, amid nagging uncertainties in global financial markets.

**CORPORATE NEWS**
**EDC**

- Energy Development Corp. (EDC) has secured on Thursday approval from its board of directors to obtain three-year loan facilities with various local banks for a total amount of P11.5-bil.
- The loan facilities will be partly used to refinance its \$80-mil club loan.
- Aside from dollar-denominated loan, which translates to around P4.2-bil in the local currency, EDC said it will use the proceeds "to fund a portion of its capital expenditure program, and for other general corporate purposes."
- The loan facilities are targeted to be obtained within Q3 of this year.
- In May, EDC had allocated a capital expenditure of P6.1-bil for 2018, around the same as the previous year's.
- EDC expects this year's revenues and profit to be flat, a positive development for the company that ended Q1 with a double-digit decline in top- and bottom-line figures.

**PNX / CEB**

- Phoenix Petroleum Philippines, Inc. has expanded its services to Cebu Air, Inc. in two more domestic airports, bringing the total to 17 under their decade-long partnership.
- Phoenix Petroleum said the listed airline, which operates under the trade name Cebu Pacific Air, recently granted the independent oil company the contract to provide into-plane services in Bacolod and Dumaguete, with Cebu-Mactan airport soon to be added in the list.
- The contract is apart from the fuel storage and bridging services that Phoenix Petroleum provides.

**TBGI**

- Transpacific Broadband Group International, Inc. (TBGI) is looking to sell up to 40% of its common equity to foreign investors, as it prepares to join the bidding for the third major telecommunications player.
- TBGI said the board approved the company's plan to raise funds equivalent to 40% of stockholders equity to foreign investors.
- TBGI said it may participate in the third telco player selection as a member of a consortium of investors, or as part of a "Common Tower Investment Corp." The Common Tower Investment Corp. could set up around 50,000 cell towers that can be leased to the third telco player.

**GOLD BUYING / Troy Oz.**

US\$1,242.90

**COPPER BUYING / lb.**

US\$2.781

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