DAILY MARKET PRIMER

16 August 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,540.92 (+0.18%)	95,817,657.37	(12,076,009.51)	25.44 (-0.82%) = 1,359.79	53.451

MARKET OUTLOOK

- The stock market recovered on Wednesday, snapping a four-day losing streak as investors went on a last-minute buying spree, recovering after two days of dampened sentiment due to fears of a contagion amid a crisis in Turkey.
- Investors gave some breathing space midweek to reassess the movement of the index after the sudden change of the global macroeconomic environment.
- Investors loaded positions following a 300-point decline from last week that was fueled by fears Turkey's financial crisis could spread elsewhere.
- The PSEi may end up trading sideways to lower again on low volume today as tensions from turkey continue to linger despite the lira's recent recovery and as Wall Street overnight is hurt by concerns over the strong dollar and Turkey's currency crisis, as well as the trade tensions with U.S. trading partners that have dominated H1 of 2018.
- While the lira continues to pull back from record lows against the dollar, Turkey on Wednesday doubled tariffs on some U.S. imports including alcohol, cars and tobacco in retaliation to U.S. moves.
- Meanwhile, Beijing has lodged a complaint to the World Trade Organization to help determine the legality of U.S. tariff and subsidy policies.
- China's complaint escalates the trade skirmish to the next level, which continues to be a drag on the markets as it has been over the last couple of months.
- 7,500 seems to be holding at the moment as the index's initial support area so we could use this as reference in the next few days.

ECONOMIC HIGHLIGHTS

June Remittances

- Cash remittances slipped to a two-month low in June due to smaller flows from the Middle East, the central bank reported on Tuesday.
- Money sent home by overseas Filipino workers (OFWs) totaled $2.357-bil that month, down from May's $2.469-bil inflows and 4.5% lower than the $2.467-bil received in June 2017.
- This is the smallest amount of remittances seen since April's $2.347-bil and settled lower than market expectations, according to central bank data.
- ING Bank had expected remittances to rise by 5.3% in June, versus a consensus forecast of 5.4%.
- The central bank said cash remittances declined on the back of smaller amounts sent by Filipinos working in the United Arab Emirates (UAE), Saudi Arabia and Kuwait.
- The overseas Filipino workers repatriation program of the government may have partly affected the remittance flows for the month, the central bank said, noting that a total of 4,149 OFWs have been brought home from the three countries during the first two months of 2018.
- In February, President Rodrigo R. Duterte asked Filipinos in Kuwait to return home amid reports of abuse, and ordered a deployment ban soon after. The ban was lifted in May following an agreement signed by the two nations.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.5%% (April 2018)	GIR	US$76.892-B (July 2018)
Fiscal Surplus / (Deficit)	(P54.3-B) (June 2018)	Exports Growth Rate	(0.1%) (June 2018)	BOP	(US$1.177-B) (June 2018)
Inflation	5.7% (2012 BY) (July 2018)	Imports Growth Rate	24.2% (June 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.290(as of August 6, 2018)	Cash Remittances	US$2.357-B (June 2018)	O/N RRP	4.00% (as of August 9, 2018)

ECONOMIC CALENDAR

Wednesday, August 22
- Budget balance (JULY)

ECONOMIC HIGHLIGHTS (continued)

June Remittances (continued)

- June's inflows brought last semester's total to $14.179-bil, 2.7% more than the $13.813-bil logged in last year's comparable six months. That compares to the central bank's forecast of a 4% growth in remittances for the entire 2018.
- Cash transfers from OFWs deepens pockets of their families back home, which in turn helps fuel overall economic growth. Household spending in proportion to national output steadied at about 56% last semester from a year ago, though growth of this segment slowed to 5.7% compared to the year-ago 5.9%, according to latest available data which the Philippine Statistics Authority released on Thursday last week.
- Overall economic growth slowed to six percent last quarter, compared to a downward-revised 6.6% climb in the first three months.
- Remittances also act as a counterweight to growing import payments that have been driving the country's current account balance deeper into deficit, in turn making the peso weaker against the dollar.
- The central bank expects remittances to touch a new all-time high and grow by another 4% this year, coming from the all-time high of $28.06-bil in 2017.
- Preliminary data from the Philippine Overseas Employment Administration showed that OFW deployment has eased, with land-based workers dropping by 3.28% and those working at sea falling by 14.6%.
- By country, the United States remained the biggest source of remittances last semester. It was followed by Saudi Arabia, Singapore, the United Kingdom, UAE, Japan, Qatar, Germany, Hong Kong and Canada, according to the central bank, noting that these countries accounted for more than 79% of total cash remittances in 2018's first six months.
- The lower-than-expected 4.5% remittance drop may be temporary because this has been seen as well last year. It is expected to recover in the coming months.
- In 2017, remittances posted annualized declines in April (5.9%) and September (8.3%) but grew in the other 10 months.
- Economists had expected a 5.4% growth in remittance inflows to around $2.6-bil for June.
- Still, the softer increase in remittances had "minimal" impact on household spending, which eased to 5.6% during the second quarter from the 5.7% pace logged in January-March at a time of rising commodity prices. Such consumption had grown by faster 5.9% and six percent in last year's Q1 and Q2, respectively.

Inflation Outlook

- Inflation should peak in the next two months before slowing closer to target, the country's central bank chief said, noting that tax-related price pressures have been "tapering off."
- Central bank Governor Nestor A. Espenilla, Jr. said the biggest price spikes will be seen in August or September, before settling within the 2% to 4% target band by next year.
- Latest baseline forecasts have shifted higher over the policy horizon, suggesting that inflation will remain elevated in 2018 with the peak occurring sometime in Q3, and will revert to the inflation target of 2% to 4% in 2019.
- Inflation has averaged 4.5% as of end-July as it touched a multiyear high of 5.7% last month.
- In response, the central bank fired off its strongest response in a decade as it raised benchmark rates by 50 basis points (bp) in its meeting on Thursday last week, following hikes of 25 bp each in May and June.
- Monetary authorities have long conceded to missing their inflation target this year, citing persistent "supply-side" pressures that are beyond the central bank's purview.

ECONOMIC HIGHLIGHTS (continued)

Inflation Outlook (continued)

- In a supply shock episode, central banks would typically not react, as these historically tend to be transitory or short-lived in nature, but remain vigilant and undertake action against incipient signs of second-round effects.
- The central bank has been seeing signs that the price spikes are becoming less fueled by tax reform-related adjustments.
- “We also see the tapering off of month-on-month changes of CPI items related to excise tax adjustment in the first five months. The month-on-month changes for electricity, tobacco and sweetened beverages are also slowly tapering off as we pass seven months of 2018,” the central bank chief said.
- “This supports our view that the impact of excise tax adjustments are transitory.”
- The central bank sees headline inflation averaging 4.9% this year.
- Mr. Espenilla explained that the central bank continues to see risks to inflation in the face of impending wage increases, pending petitions for higher transport fares and utility rates, a faster-than-expected rate tightening in advanced economies, and a further increase in rice prices.
- He added that the three rate hikes announced so far this year — cumulatively 100bps — signal the central bank’s “strong commitment to ensuring macroeconomic stability,” noting that these steps “will help reduce further risks to inflation” without stunting overall growth.
- Robust domestic activity shows that the economy can absorb rising interest rates, even as growth eased to 6.3% last semester against a 7% to 8% full-year goal, from 6.6% in 2017’s first six months.
- Mr. Espenilla noted that “non-monetary intervention” like shifting to a regular tariff scheme for rice from the current import quota system — expected to slash retail prices of the staple by P7 per kilogram — should help tame inflation. The House of Representatives approved this measure earlier this week.
- ING Bank N.V. Manila expects inflation to peak at around 6% in August or September, but will likely stay above 5% for the rest of 2018.
- Union Bank of the Philippines expects Q3 inflation to average 5.9% before easing to 5.8% from October-December.
- Finance Secretary Carlos G. Dominguez III, who sits in the policy-setting Monetary Board, said the central bank “has a very good capacity to analyze economic trends.” He said yesterday that the central bank will take “appropriate action” to respond to emerging trends in the local and global scene.
- Bank analysts have noted that the central bank remained hawkish in its Aug. 9 policy statement, which they said left the door open for further rate hikes.

CORPORATE NEWS

GTCAP

- GT Capital Holdings, Inc. looks to grow its earnings in the mid-single digits for full year 2018, amid recording flat profit for the first semester after the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) law dented auto sales.
- In a regulatory filing, the holding firm of tycoon George S.K. Ty reported that net income attributable to equity holders of the parent dropped by 18% in Q2 to P3.4-bil, versus the P4.1-bil it booked in the same period a year ago. Revenues for the quarter also slumped six percent to P55.7-bil.
- This brought GT Capital’s attributable profit 1% lower to P7.1-bil in H1 of 2018, after revenues slipped by 6% to P101.2-bil, reflecting the slowdown in the number of units sold under Toyota Motor Philippines (TMP).
- The implementation of TRAIN last January directed higher excise taxes on vehicles, with those costing P600,000 and below slapped with a 4% tax, instead of the previous 2%. Taxes for cars priced between P600,000 to P1-mil are now at 10%, from the previous scheme of P12,000 plus 20% of the amount in excess of P600,000.

MWIDE

- Megawide Construction Corp. reported a seven percent decline in attributable profit for the second quarter of 2018, as the growth of the airport business tempered the slower performance of its construction unit.
- In a regulatory filing, the listed engineering and infrastructure conglomerate said net income attributable to shareholders of the parent went down to P452.25-mil from April to June, against the P487.02-mil it generated in the same period a year ago.

CORPORATE NEWS (continued)

MWIDE (continued)

- Net earnings attributable to equity holders of parent is the net income minus the non-controlling interests.
- Revenues dipped by 5% to P4.5-bil, as contract revenues — which accounted for 80% of total revenues for the quarter — slumped 12% to P3.63-bil. On a six-month basis, Megawide's attributable profit was flat at P926.54-mil. This followed a six percent decrease in revenues to P8.96-bil from the P9.5-bil it delivered in the same period a year ago.
- Construction revenues for H1 went down by 11% to P7.36-bil, which the company attributed to "varying stages of construction of projects in the order book and scheduled start of construction of the new projects booked towards the end of 2017."
- Megawide booked P14.2-bil worth of new contracts in the first semester, constituting 59% of its full year guidance of P24-bil.
- The private sector accounted for bulk of the new contacts at 86%, while 14% came from infrastructure projects including the engineering, procurement, and construction contract for Clark International Airport's expansion.

X

- Xurpas, Inc. slumped to a net loss in Q2, as its revenues from its mobile consumer services business continued to fall.
- The listed mobile content provider said it posted a P61.4-mil net loss attributable to equity holders of the parent during the April to June period, from a P13.82-mil net income.
- For the six-month period, the company registered an attributable net loss of P137.04-mil, from a net profit of P108.72-mil.
- Income from services and sale of goods dropped by 38% to P282.44-mil in Q2, and by 50% to P609.46-mil in H1.
- In H1, Xurpas said its mobile consumer services segment, which includes value-added services and digital advertising revenues, plunged 78% to P187.31-mil from P858.69-mil a year ago. The company did not provide Q2 figures for its business segments.
- Since Q1 of 2018, the changes in Globe's system have affected the Group's Mobile Consumer Services segment, particularly its Value Added Services (VAS) business. Likewise, Art of Click (AoC) has implemented a recovery plan for 2018 coming from its 2017 slowdown in revenues, however, with no significant results to date.
- Enterprise revenues rose 20% to P379.42-mil during the January to June period, from P316.3-mil a year ago.
- Revenues from Storm Technologies jumped 27% to P42.74-mil, on the back of "sustained businesses with large corporate clients and Storm's larger employee base."

HOUSE

- Mass housing developer 8990 Holdings, Inc. tripled its net income in Q2 of 2018, lifted by the higher number of residential units it sold for the period.
- The listed property developer said net income accelerated to P1.38-bil, versus the P469.20-mil it delivered in the same period a year ago. Revenues more than doubled to P3.5-bil, against the P1.45-bil it posted in H1 of 2017.
- This pushed 8990 Holdings' net income for H1 to P2.39-bil, almost double the P1.22-bil it generated in the same period a year ago. The company's revenues likewise soared 98% to P6-bil.
- The company's mass housing segment accounted for 59% of total revenues, while medium-rise and high-rise buildings contributed the balance of 41%.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,193.00	US$2.590

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