PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

18 July 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,381.68 (+0.17%)	66,982,556.63	(8,988,148.63)	25.10 (+0.12%) = 1,343.40	53.522

MARKET OUTLOOK

- The main index eked out last-minute gains on Tuesday after moving within a tight range as investors await the release of corporate earnings results in the coming weeks.
- Investors are anticipating the release of Q2 corporate earnings from some blue-chip companies in the next few weeks, though market participants are being selective. Although most of the index stocks have rallied from the past two weeks, it is still trading below its average volume turnover.
- The PSEi's movement the past three days has really been reflective of the hesitation felt all around.
- 7,400 remains to be the initial obstacle to overcome, but with the low volume being seeing and stochastics being overbought it might be best to still exercise caution.
- Investors also await news about US Federal Reserve Chairman Jerome Powell's semiannual report to Congress.

ECONOMIC HIGHLIGHTS

Monetary Policy Outlook

- The central bank continues to have a firm hand on inflation, its chief said amid mounting calls for a more aggressive rate hike next month.
- Central bank Governor Nestor A. Espenilla, Jr. said monetary authorities have delivered "measured" responses to surging consumer prices through two successive interest rate hikes, coupled with the weekly term deposit auctions, contrary to criticisms that the central bank has been behind the curve in doing so.
- Mr. Espenilla said the central bank continues to have "firm monetary control" despite fast-rising inflation, which hit a fresh five-year peak of 5.2% in June to bring the year-to-date average to 4.3%, beyond the central bank's target.
- The central bank's two successive rate hikes in May and June were measured and deliberate responses to the evolving economic environment and dynamic market conditions meant to help anchor inflation expectations and temper second-round effects, firmly signaling its commitment to ensuring price stability.
- These were undertaken even as the central bank awaits full implementation of appropriate policy response to supply shocks such as the National Government's social safety net programs.
- The Monetary Board tightened rates through two 25 basis point (bp) increases in its May and June meetings, bringing benchmark rates to 3-4%.
- Mr. Espenilla made his latest statement as more economists are seeing another rate hike from the Monetary Board's Aug. 9 meeting.
- The University of Asia & the Pacific said the central bank may raise rates by 50bp next month given the need for a "more aggressive" response to temper inflation pressures.
- HSBC likewise noted that the central bank needs a stronger policy response given that inflation is unlikely to taper off soon. HSBC believes the "June shock" has broad implications and, as stated above, calls for a more forceful response from the central bank. The banking giant expects a 50bp rate hike at its next policy meeting in August in recognition that inflation is now significantly higher than initially expected and to show the central bank's resolve to curtail it as soon as possible.

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$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 2018)

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)

Monetary Policy Outlook (continued)

- HSBC noted that another 25bp hike is already expected by market players, but said taking rates a notch higher in one go would be "more preemptive" than reactive to inflation pressures.
- HSBC sees inflation peaking at 5.5% and will remain above 4% monthly until Q1 of 2019.
- The bank also sees slim chances for another cut in banks' reserve requirement until December as conditions turn "less favorable."
- Despite inflation concerns, Mr. Espenilla said the Philippine economy continues to be robust despite concerns both abroad and at home.
- Capital outflows observed in recent months are likely temporary, the central bank chief said, noting that long-term prospects still point to sustained growth and solid fundamentals.
- The country's balance of payments (BoP) position has been posting deficits since 2016 on account of strong foreign currency outflows. This is a reversal from previous BoP surpluses accumulated from the large inflows due to quantitative easing since the global financial crisis.
- With the normalization of US monetary policy and rising global interest rates, the central bank sees significant corrections in capital flows that are affecting BoP and exchange rate. This is compounded by uncertainties posed by the trade war and geopolitical risks.
- Mr. Espenilla also sees above-6% growth momentum sustained on the back of manufacturing, strong consumer and government spending, as well as a young, skilled workforce.
- The Duterte administration targets to the economy to grow by 7% to 8% this year, faster than the 6.7% pace seen in 2017.

Vehicle Sales

- Domestic auto industry sales plunged by 21.% in June, extending a year-to-date fall that has been blamed on higher prices due to a tax reform law.
- Data released by the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) and the Truck Manufacturers Association (TMA) placed sales for the month at 29,350 units, down from 37,479 a year earlier.
- June's 21.7% drop was steeper than May's 13.7%. Sales for the year so far have contracted every month, except in January when a 4% uptick was recorded.
- Year-to-date vehicle sales rose to 171,352 units, 12.5% lower than 195,772 units sold last year.
- Observers have blamed the decline on the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) law, which raised taxes on cars, among others, in exchange for lower personal income tax rates.
- CAMPI said consumers were becoming more selective in parting with their money as inflation continued to rise.
- However, CAMPI remains optimistic that sales will recover in the coming months, and hopefully a sustained growth by the end of the year.
- Both the main passenger car and commercial vehicle segments declined, with the former plunging 42.6% to 7,766 units in June from 13,525 a year earlier.
- Commercial vehicle sales fell 9.9% to 21,585 units from 23,954 as declines for Asian utility vehicle, light commercial vehicle and light trucks offset truck and bus gains.
- Year to date, passenger car sales were down 16.5% to 55,746 units from 66,788 in the comparable six-month period, while commercial vehicle sales fell by 10.4 percent to 115,606 units from 128,984 previously.
- CAMPI, which posted 18.4% sales growth to 425,673 units in 2017 as buyers moved to purchase cars ahead of the TRAIN law's implementation, earlier this year said it was cautiously optimistic of flat growth.

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CORPORATE NEWS

Super Consortium

- The Manila International Airport Authority (MIAA) has received a recommendation from the Department of Transportation (DoTr) to accept the unsolicited proposal of the consortium of seven conglomerates to rehabilitate the Ninoy Aquino International Airport (NAIA).
- Transportation Secretary Arthur P. Tugade said they forwarded the decision drafted by the DoTr Planning Division to MIAA as the primary agency in charge of NAIA.
- If the board approves the proposal, it will again be forwarded to the DoTr which will then refer it to the National Economic and Development Authority's Investment Coordination Committee.
- The unsolicited proposal of the consortium is to rehabilitate the congested Manila gateway within a 15-year period for the cost of P105-bil to P106-bil.
- The original version of its proposal was for a 35-year, P350-bil concession that covers the construction of a third runway. DoTr Undersecretary for Aviation Manuel Antonio L. Tamayo said it was adjusted in accordance with government requests.
- The NAIA consortium consists of seven of the country's top conglomerates: Aboitiz InfraCapital, Inc.; AC Infrastructure Holdings Corp.; Alliance Global Group, Inc.; Asia's Emerging Dragon Corp.; Filinvest Development Corp.; JG Summit Holdings, Inc. and Metro Pacific Investments Corp.
- Its technical partner for the project is Singapore's Changi Airports International Private Ltd.
- Also vying to be the government's concessionaire for the NAIA rehabilitation is the tandem of Megawide Construction Corp. and Indian company GMR Infrastructure Ltd., which submitted a $3-bil, 18-year unsolicited proposal after the consortium.
- But the Megawide proposal would have to remain on hold "until the proposal of the consortium is rejected, because that is what the law says.:
- If the NAIA consortium is granted the original proponent status (OPS) for the rehabilitation project, its proposal will be subjected to a Swiss challenge, under which third party companies may try to match it. However, it will have the privilege to counter contending proposals as it holds the OPS.

X

- Xurpas, Inc. Chairman Nico Jose S. Nolledo will be stepping down as the technology firm's chief executive officer (CEO) to lead one of the company's subsidiaries that will focus on blockchain projects.
- The listed firm said that Mr. Nolledo will be focusing on developing Xurpas' wholly-owned unit, ODX Pte. Ltd., which has already taken in several bigwigs in the technology, telecommunications, and crypto industries as investors.
- ODX, which stands for Open Data Exchange, aims to employ blockchain technology to provide free Internet access to mobile consumer in emerging markets through sponsored data packages. The Xurpas unit incorporated in Singapore is currently planning to raise $100 million from the sale of utility tokens.
- Aside from ODX, the company is also planning to launch other blockchain projects that will complement its existing businesses such as Alto, which connects games to the blockchain; Xonio, a program that offers financial inclusion solutions for digital goods in emerging markets; and AllCare, an HR benefits platform that allows freelancers to avail of insurance, health, and other benefits.
- Former Xurpas President and Chief Operating Officer Raymond Gerard S. Racaza will now take over as CEO, while Mr. Nolledo will remain as company chairman.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,240.00	US$2.751