

DAILY MARKET PRIMER

19 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,451.37 (+0.94%)	79,554,779.50	3,811,500.65	25.30 (+0.80%) = 1,352.69	53.466

MARKET OUTLOOK

- The Philippine Stock Exchange index (PSEi) finished at a one-month high on Wednesday, drawing strength from Wall Street's rise on Federal Reserve Chairman Jerome Powell's optimistic remarks on the US economy and solid earnings results.
- The PSEi's performance was still likely just a continuation of broad bargain hunting after the index exited bear territory.
- And with Fitch's affirmation of the country's investment grade rating, the trend is likely to continue today.
- The fact that the market largely ignored bad news such as more central bank rate hikes and weak auto sales suggests that these developments have been priced in already.
- Expectations have been mounting among bank economists that quickening inflation — which picked up for the sixth straight month to a fresh five-year-high 5.2% in June — will force the central bank to raise policy interest rates further next month after back-to-back increases of 25 basis points each in May and June.
- As Q2 earnings season shifts into high gear, forecasts have grown rosier.
- Although trading volume has still been relatively thin, expect the index to continue this reversal.

ECONOMIC HIGHLIGHTS

PH Credit Rating

- Fitch Ratings has kept its credit rating for the Philippines a notch above minimum investment grade amid strong growth prospects, even as it flagged rising inflation, rapid bank lending and a growing trade gap that could signal overheating risks.
- Fitch on Wednesday affirmed the Philippines at "BBB" with a "stable" outlook, steady from the debt watcher's December upgrade that placed the country one notch above minimum investment grade. This matches the rating given by major credit raters Moody's Investors Service and S&P Global Ratings.
- Fitch said the ratings balance a "favorable" growth outlook and modest debt burden against a lower per-capita income and "weaker governance and business environment indicators," compared to similarly rated economies.
- Fitch sees Philippine gross domestic product (GDP) growing 6.8% this year, which if realized will pick up from 2017's 6.7% but fall short of the government's 7% to 8% target. The pace is expected to be sustained annually till 2020 on the back of robust domestic demand to maintain the country's status as a growth leader in Asia.
- Maintaining investment-grade rating helps cut borrowing costs for the economy, as it lowers the risk premiums on loans extended to the Philippines. The "stable" tag means current conditions support the country's rating over the next year.
- Strong macroeconomic performance remains a rating strength, notwithstanding overheating risks, Fitch said.
- The agency believes the economy faces some overheating risks — evident from a recent rise in inflation, rapid credit growth and a widening trade deficit — although steps taken by the central bank to tighten monetary policy may contain these risks.
- Inflation hit a fresh five-year peak of 5.2% in June that brought last semester's average to 4.3%, well above the central bank's 2% to 4% target band. The pace is seen to rise further in July-September before easing later this year.
- Economic officials welcomed the rating affirmation, although the central bank disputed overheating concerns.

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)

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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)

PH Credit Rating (continued)

- The one-off impact of the tax hikes is likely to dissipate in 2019, and therefore Fitch expects average inflation to fall to around 3.8% in 2019, even as the new tax law's enactment signaled the government's "commitment to reform."
- As of May, state revenues were up 19% from last year and continue to beat targets.
- With TRAIN, Fitch sees state revenues rising to an equivalent of 16.2% of GDP this year and 16.7% in 2019, from 15.6% last year. This should support fiscal stability even as the government ramps up spending on infrastructure, and will keep the budget deficit within the programmed three percent of GDP.
- At the same time, the debt watcher flagged that the recent Supreme Court decision requiring the national government to allocate a bigger share of tax collections to local governments may "put upward pressure" on general government debt and pose as a challenge for managing public finances.
- On trade, Fitch sees a wider but still manageable current account deficit this year amid a continued imports surge. Inflows from worker remittances and business outsourcing will offset these outbound flows and keep the gap at 1.1% of GDP.
- Strong foreign investment inflows, a stable banking system and robust dollar reserves also lend further strength to the economy at a time of uncertainties, Fitch said, even as rising global interest rates and the persistent trade gap keep the peso weaker against the dollar.
- Fitch also cited the country's weaknesses in terms of business climate and human development. It flagged that a reversal of reforms and instability in the financial system could pull the country's ratings down. Continued strong growth, stronger governance standards and a sustained pickup in tax collections, on the other hand, could help improve ratings.

Excise Tax Collection

- Income, percentage and excise tax collections of the Bureau of Internal Revenue (BIR) exceeded targets last semester, the Department of Finance (DOF) said in a statement on Wednesday.
- The DOF cited the BIR's preliminary revenue data showing total income tax collected in January-June totaled P500.59-bil, 2.27% more than the P489.46-bil recorded in the same period last year and about 11.15% higher than a P450.38-bil target.
- Percentage tax collections reached P44.16-bil that period, 15.47% more than the P38.24-bil the past year, beating the P43.74-bil target by 15.48%.
- Value-added tax (VAT) collections, however, failed to meet the target. The DoF said VAT collections last semester totaled P179.95-bil, up from the past year's P178.44-bil but 19.09% short of a P222.42-bil target.
- Increases in the percentage and income tax collections over the 2017 period indicate that SMEs and self-employed individuals that have not exceeded the VAT threshold are now opting to pay either the 8% income tax on gross sales or receipts and other non-operating income or the percentage tax and the graduated income tax rates under TRAIN.
- "Sin" taxes — or those imposed on alcohol and tobacco products — accounted for about 74% of total excise tax collections. Taxes collected from such products reached P112.46-bil last semester, up 41.38% from the P79.5-bil collected a year ago and beating a P77.54-bil target by 45.03%.
- Tobacco excise taxes alone generated P78.95-bil, 53.5% more than the year-ago P51.43-bil and 53.53% higher than the P51.42-bil target.
- Alcohol taxes raised P33.51-bil, up 19.2% from the P28.11-bil the past year and 28.3% more than the P26.12-bil target.

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ECONOMIC HIGHLIGHTS (continued)

Excise Tax Collection (continued)

- DOF data also show excise tax collections generating P18.03-bil from oil products, 31.37% below target but 180.8% higher year on year; P2.92-bil from automobiles, 14.09% below target but 40.62% more than the past year; and P1.56-bil from minerals, missing the target by about 29.39% but still 67.16% more from last year's first semester.
- The BIR aims to collect P2.039-tril this year. Latest data show it raked in P827.73-bil in the five months to May — up 17% from the P716.8-bil in 2017 — which is equivalent to 40.59% of the full-year target for 2018.

CORPORATE NEWS

GLO

- Globe Telecom, Inc. is teaming up with Nokia's cloud business Nuage Networks to enhance its Software-Defined Wide Area Network (SD-WAN) service targeted to business customers by integrating Nokia's Virtualized Network Services (VNS).
- Nokia said the Nuage Networks VNS solution is an improved version of the former Internet Protocol-Virtual Private Network (IP-VPN) connections that Globe uses for its SD-WAN service.
- VNS "leverages any kind of network connectivity, including mobile," it said, therefore making connectivity in an archipelagic country like the Philippines easier.
- With the Nuage Networks VNS, Globe will differentiate itself by adding automation, improved flexibility, application-aware routing and per-application security, while offering a managed, self-service VPN portal to its customers.
- Globe launched its SD-WAN technology in February, aiming to connect businesses in multiple locations. The cloud-based technology lets companies manage operations from different offices, allowing it to run real-time applications and transactions connected from within the company or with customers.

SMC

- Philippine conglomerate San Miguel Corp. is planning to invest at least \$1-bil in the next two years to build 10 breweries inside and outside the country.
- Banking on strong consumer demand in one of Asia's fastest growing economies, the maker of San Miguel Pale Pilsen and Red Horse beer is setting up eight breweries around the country.
- San Miguel is also looking to open its first production facility in the United States and build a second plant in Vietnam.
- San Miguel is the Philippines' biggest brewer and its brewery business is partly owned by Japan's Kirin Holdings Co. Ltd. It has six existing breweries in the country, and six across Asia.
- Each of its new breweries would have an annual capacity of 1-2-mil hectoliters (100-200-mil liters) and would cost at least \$100-mil.
- At 10.6 liters per capita in 2017, beer sales in the Southeast nation of over 100-mil people have much room to grow.
- Philippine beer sales are expected to grow by a fifth to \$1.74-bil in 2021 from \$1.44-bil last year, data showed. Beer sales were \$1.03-bil in 2010.

GOLD BUYING / Troy Oz.

US\$1,227.55

COPPER BUYING / lb.

US\$2.772

 2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64

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