DAILY MARKET PRIMER

20 July 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,387.87 (-0.85%)	68,986,607.64	(10,850,910.35)	25.47 (+0.67%) = 1,361.86	53.469

MARKET OUTLOOK

- The stock market retreated on Thursday as both local and foreign investors cashed in on gains following two days of advances.
- Stock prices slumped below 7,400 amid thin trading, as investors stayed on the sidelines due to lack of leads.
- After reaching a one-month high on Wednesday, the Philippine market succumbed to profit taking and traded in negative territory for almost the entire session.
- Also, the previous rally was unsustainable given that the market was operating on low value turnovers.
- Trade tensions may once again be in the spotlight on news the European Union may retaliate if the United States slaps tariffs on EU cars.
- EU Trade Commissioner Cecilia Malmstrom said she hoped a mission to Washington would ease the trade dispute that started after the United States imposed tariffs on EU steel and aluminum on June 1, with President Donald Trump threatening to extend them to cars and auto parts.
- Today's theme is trade war, as the EU is going to retaliate against car tariffs and that is going to weigh.
- The market is probably going to be defensive even though there is optimism on the economy as well as Q2 corporate earnings results.
- However, White House trade adviser Peter Navarro on CNBC downplayed tariff-related concerns, saying President Trump's trade strategy with China, which includes levying new tariffs, is not as disruptive as many describe.

ECONOMIC HIGHLIGHTS

June BOP

- The country's balance of payments (BOP) deficit further widened in June, the central bank reported on Thursday, hitting a 19-month high and boosting the year-to-date figure past the $3-bil mark.
- The $1.177-bil result followed May's $583-mil shortfall and was also wider than the $569-mil recorded a year earlier. It was the largest since November 2016 when the payments position stood at a deficit of $1.670-bil.
- Outflows in June 2018 stemmed mainly from foreign exchange operations of the central bank and payments made by the national government for its maturing foreign exchange obligations. These were partially offset by net foreign currency deposits of the national government and income from central bank investments abroad during the month.
- June's result brought the six-month payments balance to a $3.257-bil deficit, significantly wider than the $706-mil recorded in the same period last year and more than double the central bank's full-year deficit forecast of $1.5-bil.
- The higher cumulative BOP deficit for period may be attributed partly to the widening merchandise trade deficit (based on Philippine Statistics Authority data) for the first five months of the year that was brought about by the sustained rise in imports of raw materials and capital goods to support domestic economic expansion, the central bank noted.
- The trade deficit widened by 55.2% in January-May to $15.766-bil, from $10.164-bil a year earlier, based on latest available data.
- The Philippines ended 2017 with a BOP deficit of $863-mil, narrower than the revised $1.038-bil posted in 2016.

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$1.177-B) (June 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)

June BOP (continued)

- IHS Markit raised concerns over the "significant blowout" of the BOP deficit.
- The deteriorating BOP deficit will add to pressures for further depreciation for the peso, particularly against a backdrop of expected further rate hikes by the US Fed in H2 of 2018 and during 2019, it said.
- The peso, described as Asia's worst-performing currency this year, fell to a new 12-year low on Thursday, closing at P53.53 against the dollar and down four centavos from the previous day.
- On Tuesday (Wednesday in Manila), Fed Chairman Jerome Powell said the Federal Reserve would continue to raise rates gradually as the US economic outlook remained strong despite trade policy uncertainties.
- Above all this, IHS Markit said the central bank is facing a perfect storm of rising inflation, a weakening peso, higher US interest rates and broader global capital markets outflows from emerging markets, which will increase pressures for further central bank rate hikes in 2018-2019.
- The central bank's policymaking Monetary Board has so far raised key interest rates by a total of 50 basis points over May and June, bringing the central bank's overnight borrowing, lending and deposit rates to 3.5%, 4.0% and 3.0%, respectively.
- The central bank, meanwhile, said the payments balance was consistent with the country's final gross international reserves (GIR) level of $77.53-bil as of end-June.
- At this level, the GIR represents more than ample liquidity buffer and is equivalent to 7.5 months' worth of imports of goods and payments of services and primary income, it added, noting that end-June reserves were also equivalent to 6.2 times the country's short-term external debt based on original maturity and 4.2 times based on residual maturity.

Growth Forecasts

- The Asian Development Bank (ADB) retained its growth forecasts for the Philippines despite faster projected inflation.
- The regional lender kept the 6.8% and 6.9% gross domestic product (GDP) outlooks for the Philippines for 2018 and 2019, respectively, faster than 2017's 6.7%. GDP grew by 6.8% in Q1 and economic managers are hoping for at least 7% expansion in the succeeding three months. The government is targeting 7% to 8% GDP growth annually from this year up to 2022, when President Rodrigo R. Duterte ends his six-year term.
- ADB's estimates match the United Nations Economic and Social Commission for Asia and the Pacific's forecasts for the two years, but are more optimistic than the 6.7% forecasts of the World Bank and the Organization for Economic Cooperation and Development for 2018 and 2019.
- They also compare with Moody's Investors Service's 6.8% estimate for 2018, Fitch Rating's 6.8% for 2018 and 2019 and S&P Global Ratings' 6.7% and 6.8% for this year and for 2019, respectively.
- Philippine growth is expected to outpace Southeast Asia's 5.2% GDP growth average until next year and developing Asia's 6% and 5.9% for 2018 and 2019, respectively.
- At the same time, ADB raised its inflation outlook for the Philippines to 4.3% this year from 4% previously — against the central bank's 2% to 4% target range and 4.5% forecast for 2018 — but maintained a 3.9% projection for 2019.
- This outcome combines with expectedly high global oil prices, peso depreciation and strong domestic demand to prompt this supplement to revise the inflation forecast for 2018 to 4.3% from the 2018 forecast of 4.0%. Higher excise taxes on fuel and some commodities as part of the Tax Reform for Acceleration and Inclusion (TRAIN) Act, which took effect in January 2018, are contributing factors.
- The impact of tax reform on inflation is expected to be transitory, however, and normalize in 2019. Also arguing for maintaining the inflation forecast for 2019 at 3.9% are upward adjustments to monetary policy rates anticipated in line with tightening monetary policy globally.

CORPORATE NEWS

MBT

- Listed Metropolitan Bank & Trust Co. (Metrobank) recorded a double-digit 16% growth in earnings in H1 after a strong Q2 on the back of the solid performance of its core businesses.
- The net income of Metrobank, the country's second largest bank in terms of assets, amounted to P11-bil in H1, P1.5-bil higher than the P9.5-bil recorded in the same period last year.
- Metrobank said the bank's capital buildup would help sustain the growth momentum.
- The bank raised P60-bil through a stock rights offering and intends to sell P25-bil worth of long term negotiable certificates of deposits (LTNCDs) to diversify funding sources and raise long term deposits.
- For Q2 alone, the Ty-led bank's earnings surged by 31% to P5.2-bil from 3.9-bil in the same quarter last year.
- The robust performance was achieved as the bank continues to strengthen its risk management and operating controls.
- Metrobank's solid performance was underpinned by the core business, as double-digit growth in loans and sustained current and savings accounts ratio lifted margins even higher, while recurring expense growth was kept at a manageable level.
- Its loan book grew 18% to P1.3-tril, while its deposit base inched up 6.7% to P1.6-tril.
- The bank's gross revenue rose 10.7% to P45.1-bil in H1 from P40.74-bil in the same period last year.
- Net interest income grew by 12.5% to P33.3-bil from P29.6-bil as net interest margin improved to 3.77% from 3.7%.
- On the other hand, non-interest income went up by 14% to P11.8-bil from P11.1-bil, consisting of P6.8-bil in service fees and commissions and income from trust operations, P1.4 billion in net trading and foreign exchange gains, and P3.6-bil in miscellaneous income.
- Metrobank said fee-related revenues continued to benefit from steady customer-driven flows and foreign exchange income, and also boosted by the large corporate deals booked in the early parts of the semester.
- Expenses increased 8.8% to P25.9-bil from P23.8-bil. Reported provisions for credit and impairment losses stood at P3.5-bil, which is largely attributable to the impact of PFRS-9 adopted at the start of the year.
- Metrobank's consolidated assets stood at P2.2-tril and equity at P277.6-bil.

FNI

- Global Ferronickel Holdings, Inc. (FNI) raised more than P500-mil as it completed its follow-on offering last week, which will be used to pay for its $10-mil working capital loan.
- The firm sold shares worth P517.5-mil during the offer period that ended on July 13, it said in a regulatory filing on Thursday.
- This is equivalent to 250,000,000 common shares sold at an offer price of P2.07 per share.
- Of the shares sold, corporations bought the lion's share at P515.54-mil while individuals picked up an accumulated P1.958-mil worth of stocks.
- The total outstanding capital stock of FNI after the offer totaled 5,593,853,399 shares.
- The funds raised will be used to pre-pay a $10-mil loan from the Taiwan Cooperative Bank by Platinum Group Metals Corp., the firm's subsidiary which handles FNI's lone operational mine — the 4,376-hectare Cagdianao mine project in Surigao del Norte. The deadline for payment is by yearend.
- The company is targeting to ship six million wet metric tons of nickel this year, which will be subject to weather conditions.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,227.90	US$2.716