DAILY MARKET PRIMER

20 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,221.23 (-0.89%)	101,537,961.72	(11,764,243.95)	25.96 (-0.42%) = 1,404.49	54.102

MARKET OUTLOOK

- The stock market fell for a second day on Wednesday amid fears of higher inflation due to Typhoon Ompong's impact, a weaker peso and the escalating US-China trade war.
- The market's losses reflected lingering concerns over the peso, which fell to a near 13-year low last week, and above-target inflation that was eroding consumers' purchasing power.
- A weak local currency should make assets cheaper and healthy in dollar terms but the expectation is that the peso might still weaken due to foreign investors taking funds out of the Philippine market.
- Combine that with improving opportunities abroad in expectations of higher rates from the Federal Reserve and then there are more opportunities there than here.
- Concerns over inflation will continue to linger given the damage caused by Ompong in the northern Philippines, a primarily agricultural area.
- Ompong's damage will put more pressure on food prices going forward, so that counters to what economic managers are trying to pass on to the people.
- Investors are probably worried as well about the inflationary effect of the typhoon for the month of September which may push the central bank to raise rates. In that way, yields may rise and might make local stocks even more unattractive.
- Meanwhile, China on Tuesday said it would impose tariffs on $60-bil worth of US goods after US President Donald Trump announced that he was slapping duties on $200-bil of Chinese products beginning next week.
- The trade issue continues to weigh on the minds of analysts and investors but the broad conclusion from this week's exchange of blows was that China in particular may be running out of ammunition, given how much less it imports from United States than vice versa.

ECONOMIC HIGHLIGHTS

Growth Forecasts

- Philippine economic growth is expected to stay strong this year but slow somewhat from 2017, British investment bank Barclays said, with above-target inflation a challenge to continued expansion.
- Barclays has been positive on the growth outlook of the Philippines for quite some time and forecasts close to 6.5% growth for this year.
- The lender's 2018 projection represents a slowdown from last year's actual growth of 6.7% and is also lower than the government's 7.0% to 8.0% target.
- Gross domestic product growth fell below expectations in Q2 at 6.0%, bringing H1 expansion to an average of 6.3%.
- Barclays expects structural inflows such as overseas Filipino worker (OFW) remittances and foreign direct investments (FDI), as well as public spending, to be the main drivers of growth for the rest of the year.
- Personal remittances, which sum up the net compensation of overseas Filipino workers, personal transfers whether in cash or in kind and also capital transfers between households, totaled $2.675-bil in July—up 4.5% from a year earlier.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$77.829-B (August 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.225(as of September 3, 2018)	Cash Remittances	US$2.401-B (July 2018)	O/N RRP	4.00% (as of August 9, 2018)

ECONOMIC CALENDAR

Monday, September 24
• Budget Balance (August)

Thursday, September 27
• Monetary Board Policy Meeting

ECONOMIC HIGHLIGHTS (continued)

Growth Forecasts (continued)

- Barclays added that FDI was picking up as well, which is generally a good indicator that the country will probably see more investment numbers.
- However, Barclays estimated that net FDI inflows would reach about $6-bil this year, lower than the over $10-bil posted in 2017.
- As of H1 of 2018, net FDI inflows reached $5.755-bil, 42.4% higher compared to the same period last year.
- Government spending is also a big driver of growth as construction momentum sort of picks up and the projects are getting contracted out.
- Government expenditures grew by 23% to P1.931-tril in the first seven months of 2018. Of the total, P437.2-bil was spent for infrastructure and other capital spending.
- A primary risk to economic growth, Barclays pointed out, is high consumer price growth that he forecast to average 5.1% this year—above the 2.0% to 4.0% target—before easing to 3.5% in 2019.
- Challenges around inflation are likely to persist for some time but the central bank, as it said, is on top of the situation.
- Consumer price growth has exceeded target since March, prompting the central bank policymaking Monetary Board to raise key interest rates by a total of 100 basis points. A fresh rate hike is expected to be announced next week after inflation hit a fresh nine-year high of 6.4% in August.

August BOP

- The country's balance of payments (BOP) position swung to a surplus in August as the Philippines raised funds from the sale of yen-denominated bonds, but the eight-month tally remained in deficit.
- The Philippines' external position settled at a $1.272-bil surplus last month, turning around from the $455-mil deficit in July and the $7-mil gap logged in August 2017, the central bank said in a statement on Wednesday.
- August inflows ended seven months of BOP deficit and is the biggest amount of net inflows seen since January 2013, which saw a $2.044-bil surplus.
- Inflows in August 2018 stemmed mainly from net foreign currency deposits of the national government and income from the central bank's investments abroad during the month.
- The Bureau of the Treasury raised $1.39-bil from Japanese investors in a sale of "samurai" bonds last month, marking the country's return to the yen market in eight years.
- Inflows were partly offset by state payments for maturing foreign debt, as well as funds deployed by the central bank to temper sharp swings in the peso-dollar rate. The central bank dips into the country's foreign currency reserves to buy or sell more dollars as part of its "tactical intervention" to smoothen the peso's movements against the greenback. The local unit traded weaker than the P53 level against the dollar last month, averaging P53.2735 compared to P50.8747 in August last year.
- Despite last month's positive position, the year-to-date BOP posted a $2.44-bil deficit, bigger than the $1.391-bil shortfall as of August 2017 and the $1.5-bil gap which the central bank has projected for the entire 2018.
- The higher cumulative BOP deficit for the period may be attributed partly to the widening merchandise trade deficit for the first seven months of the year that was brought about by the sustained rise in imports of raw materials and intermediate goods as well as capital goods to support domestic economic expansion, the central bank explained.
- Some observers have cited the growing trade deficit as one of the factors that has been weighing on market sentiment towards the Philippines.

ECONOMIC HIGHLIGHTS (continued)

August BOP (continued)

- Economic officials, however, have said that the deficit should be viewed positively as it simply reflects heavy importation of capital equipment to support the infrastructure drive of the current administration.
- Barclays expects the Philippines to face a "small" deficit over the next few years.
- While "a transitory issue" since "the Philippines still does have a strong structural drivers of the current account: financing in the form of remittances and business process outsourcing flows," Barclays does not think that the deficit widens over the next couple of years.
- The ballooning trade gap has also been blamed for weaker peso, which has depreciated by more than seven percent versus the dollar year-to-date, making it one of Asia's worst-performing currencies.
- The current account posted a $3.1-bil deficit last semester against a $133-mil gap in H1 of 2017.

CORPORATE NEWS

SECB

- Security Bank Corp. raised $300-mil through a senior unsecured note drawdown to expand its funding base and extend term liabilities.
- The listed lender said it raised $300-mil from its five-year senior unsecured fixed rate notes which carry a coupon of 4.5%.
- The capital raising activity marked the bank's maiden drawdown from its $1-bil medium-term note program established last month.
- The transaction is expected to be settled on Sept. 24 and will be listed on the Singapore Stock Exchange.
- The notes are expected to have an issue rating of Baa2 with debt watcher Moody's Investors Service, a notch above the minimum investment grade.
- Proceeds of the notes will be used to extend term liabilities, expand funding base, improve liquidity gaps [and] fund investment and other general corporate purposes.
- The offering was 3.7 times oversubscribed, fetching tenders totaling $1.1-bil. About 73% of the order book was allocated to Asia and 27% in Europe, the bank said.
- By investor type, 55% were allocated to global fund and asset managers, 20% to insurers and the rest to banks, private lenders and other investors.
- Citigroup, CLSA, MUFG and UBS are the joint bookrunners for the transaction.

EDC

- Lopez-led Energy Development Corp. Is targeting to delist from the stock exchange on Nov. 29.the opportujity to realize their investment.
- As a precondition to the delisting of its shares, EDC will make a tender offer for up to 2.4-bil at P7.25 each share.
- The tender offer, which will run from Sept. 24 to Oct. 22, gives EDC's minority shareholders the opportunity to to realize their investment.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,199.45	US$2.740