

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,500.53 (-1.09%)	101,091,875.05	(12,541,867.08)	26.63 (+0.15%) = 1,422.41	53.414

MARKET OUTLOOK

- The main index is seen to continue consolidating in the week ahead as investors look for catalysts that could sustain an upward trend in the long run.
- Expect the local bourse to continue trading sideways in the coming days, given the lack of catalysts and the need for the government to institute reforms that would place them on track to reach economic targets.
- The market will continue to be on consolidation. The index will be hovering around 7,400 to 7,600, and will likely go on for until the early part of October because the market seems to be illiquid starting from the month of August to October until probably the much needed reforms and inflationary pressures have been reined upon to the tune of the government's target of 2% to 4%, then the market can sustain going up.
- Effective supply chain management, production efficiencies are considered important elements to keep goods/service prices in check. Purchase order renegotiations might be in store, and financing arrangements may be re-tooled, to ensure working capital needs are supported.
- Unless the private sector fulfills its part on these items, pressure might run high on monetary authorities to re-check on policies again and again.
- Companies must follow through on their employment initiatives, as more projects are rolled out in key provincial sites.
- Expediting the infrastructure drive should be supported by labor measures attuned to project-based undertakings, especially if the gestation to complete is long-term.
- The PSEI's 7,500 support level remains intact, noting that there may be a possible drive today from the returning participants.

ECONOMIC HIGHLIGHTS
Tax Reform Program

- The current form of the second tax reform package, as approved by a House of Representatives committee earlier this month, risks slowing momentum of progress in state revenues and infrastructure spending, Fitch Ratings and Moody's Investors Service warned.
- One of the drivers of the improvement in the credit rating is the government's tax reform initiative.
- When Fitch affirmed its "BBB" rating — a notch above minimum investment grade — with a "stable" outlook in July, it noted that revenue improvement from Republic Act No. 10963 — or the Tax Reform for Acceleration and Inclusion Act (TRAIN) that slashed personal income tax rates in order to give households more money to spend, raised or added taxes on several goods and services and removed various value added tax exemptions when the law took effect on Jan. 1 — should help preserve fiscal stability as the government ramps up spending on infrastructure.
- If the package were to result in a significant loss of revenue, rather than being revenue neutral, it could pose a partial setback to the tax reform program in our view, since the Philippines' revenue ratio is low compared to its 'BBB' peer median (16.2% vs the median 32.1%), said Fitch.
- Higher revenues will also be needed to finance the ambitious infrastructure program.

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)

Tax Reform Program (continued)

- However, it was too early to estimate the fiscal impact of the legislated reform, since it has yet to secure plenary approval in the House and in the Senate.
- The second tax reform package, filed as House Bill No. 8083, or the Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO), is up for second and third reading approval in the House after it hurdled Ways and Means committee deliberations on Aug. 7.
- It seeks to cut the corporate income tax (CIT) rate to 20% gradually from 30% currently in order to put the regime at par with the country's Asian rivals for investors, while removing redundant tax incentives.
- The House committee, however, did not adopt the Department of Finance's (DOF) proposal to peg gradual CIT cuts to incremental revenues from removal of select tax incentives in order to keep the measure "revenue-neutral," meaning the package in its current form would bleed the revenue stream by P62-bil from the planned first two percentage point CIT cut in the first year of implementation in 2021 that will not be matched by an offsetting provision.
- Moody's Investor Service vice-president and senior credit officer said: As the government had intended TRAIN 2 to be revenue neutral, the absence of conditionality between the rationalization of fiscal incentives and the cuts in the corporate tax rates poses some risk to that revenue neutrality.
- This is not to say that it would be impossible to achieve revenue neutrality, but it would be more difficult to do so.
- Ultimately, if corporate tax cuts were not ultimately funded by the additional revenue from lower fiscal incentives, the government may have to pare back expenditure to maintain deficits at a sustainable level.
- Moody's expects the main revenue gains to come from tax package 1, that went into effect at the beginning of this year, with additional gains from tax administration.
- Moody's Investors Service late last month affirmed Philippines' "Baa2" rating — a notch above minimum investment grade — and "stable" outlook, citing the economy's overall strength, even as it flagged risks from rising inflation and the planned shift in government form.

Policy Rate Outlook

- A fourth successive tightening move may be announced by the central bank next month, a global bank said, as it sees inflation topping six percent until September.
- ING Bank N.V. Manila believes that inflation could breach 6% in the next two inflation reports. If the bank's view is correct then further tightening is likelier.
- The central bank has adopted three rate hikes in a row this year in the face of surging inflation.
- Benchmark yields have risen by a cumulative 100 basis points (bp) from May to August as policy makers sought to rein in inflation expectations, in an attempt to temper future price increases for basic goods and services.
- ING noted that monetary policy makers remained hawkish in their Aug. 9 meeting as they signaled readiness to tighten rates further as needed. The bank took it as a hint that another rate hike is on the table later in the year.
- ING expects the tightening to continue with another 25bps hike as early as the September meeting or as late as the November meeting.
- The bank continues to see upside risk on the inflation front, especially with the latest reports of rice prices continuing to rise while supply-related constraints also compounding the pressures.
- ING Bank said the effect of the aggressive 50bp rate hike announced by the central bank during its Aug. 9 policy meeting has "worn off," but markets are holding on to hints that the central bank may hike further.

CORPORATE NEWS
SM

- SM Retail, Inc. aims to grow the number of stores under its portfolio to 3,000 within the next five years, banking on the increasing spending power of Filipinos alongside the growing economy.
- The company is open to adding more specialty retail brands under its network when the opportunity arises.
- The retail unit of country's richest man Henry Sy, Sr. ended H1 of the year with 2,149 stores, consisting of 61 The SM Stores, 1,304 specialty stores, 55 SM Supermarkets, 49 SM Hypermarkets, 190 Savemore stores, 49 WalterMart stores, and 441 Alfamart stores.
- For this year alone, the company is set to open four The SM Stores, four SM Supermarkets, 18 Savemore stores, two SM Hypermarkets, and 76 specialty stores.
- To accelerate expansion, the company is considering introducing more foreign brands in the country.
- The company's partnership with Japanese clothing retailer Uniqlo, saying this has been "fairly successful."
- Aside from Uniqlo, other specialty stores under SM Retail include Ace Hardware, Forever21, Watsons, Crate & Barrel, The Body Shop, Miniso, Toy Kingdom, Kultura, and Surplus.
- SM Retail is getting a boost from the increased consumer spending as a result of the continued growth of the economy.

SMC

- The Department of Public Works and Highways (DPWH) said it is looking to give San Miguel Corp. (SMC) by next month the original proponent status (OPS) for its proposal to extend the Tarlac-Pangasinan-La Union Expressway (TPLEX).
- In February, SMC submitted to the government a P23.948-billion unsolicited proposal to build a 59.4-kilometer toll road extending the TPLEX from Rosario, La Union to San Juan, La Union.
- The extension has three sections, namely Rosario to Tubao, Tubao to Naguilian, then Naguilian to San Juan.
- DPWH said on Friday that while the proposal for the extension is still under review, they are positive the third phase of the original alignment of TPLEX will be completed by 2019.
- The original alignment of the 89.31-kilometer TPLEX is divided into three segments: the stretch from Tarlac City to Rosales, Pangasinan; then from there to Urdaneta City, Pangasinan; then from there to Rosario, La Union.
- Right of way acquisition and construction of a portion of the third section is on-going. The third section, which stretches from Pozorrubio in Pangasinan to Rosario in La Union, is scheduled to open in June 2019.
- SMC is also the government's private concessionaire for the TPLEX project.

T

- Listed steel firm TKC Metals Corp. received a notice from the Philippine Stock Exchange that it could be delisted for incurring negative stockholders equity.
- Based on PSE's review of TKC's financial statements, the Tiu-led firm has a negative stockholders equity of P899.72-mil and P574.78-mil as of Dec.31, 2017 and March 31 this year.
- TKC, however, is asking PSE for leeway to turn its operations profitable again given improving metals market worldwide.
- The company cited Sec. 5 of the PSE rules which provides that a listed company shall be subject to delisting if it incurs negative stockholders equity for three consecutive years.
- So far, TKC posted negative stockholders' equity balance only for 2016 and 2017.

GOLD BUYING / Troy Oz.

US\$1,184.55

COPPER BUYING / lb.

US\$2.687

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