

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,399.61 (+0.16%)	64,072,248.69	(8,318,460.17)	25.29 (-0.71%) = 1,353.52	53.520

**MARKET OUTLOOK**

- President Rodrigo Duterte' State of the Nation Address (SONA) today could set the tone for stock market trading moving forward.
- While Monday's close will come before Duterte takes to the podium at 4:00 p.m., investors will be looking for pronouncements regarding issues ranging from more tax reforms to autonomy in Mindanao.
- The President's SONA may turn out to be the catalyst to get investors back into this market as it may give them the assurance that they have been longing for.
- Attention would be focused on plans to lower corporate income taxes and reduce fiscal incentives, renewable energy, the expansion of the "Build, Build, Build" program, the Philippines' territorial dispute with China, moves to end illegal contractualization and progress with regard to the proposed Bangsamoro Basic Law.
- Investors would like to see if the key direction hasn't changed, or may divert in light of the initial phase of the tax reform plan's impact on inflation. This will be crucial to listed companies' capital expenditure rollout, including timing of budget preparation for large-ticket infrastructure undertakings. As such, any hint to affirm this year's growth prospects could invigorate appetite for equities, especially if these would lead to increased direct investments and job creation.
- Should the president's report fail to uplift market sentiment, the main index may continue moving sideways and retain its low trading volume instead.
- At the same time, investors are also looking forward to the release of Q2 corporate earnings. With the recent outflow of foreign funds from the local market, foreigners may be positioning themselves and are merely waiting for opportunities to move in.
- Support is from 7,340 to 7,185, while the resistance to overcome is 7,450 to 7,500.

**ECONOMIC HIGHLIGHTS**
**Wage-fueled Inflation Forecasts**

- Bank economists expect inflation to clock in faster in 2018 and to remain elevated over the next two years, as daily minimum wage increases add to price pressures.
- A survey conducted by the central bank among private sector economists in June showed a 4.5% mean and median forecast for overall commodity price hikes this year, higher than the 4.1% they gave in the March poll. This matches the latest full-year estimate given by the central bank in its June 20 policy review and surpasses the 2% to 4% target range for 2018.
- Analysts noted that risks to inflation in 2018 remain tilted to the upside, citing higher, volatile global oil prices, a weaker peso and the impact of tax reform on prices of basic goods among factors.
- Other factors flagged by analysts include higher public spending on infrastructure, adverse weather conditions, higher utility rates and rising global inflation.
- Among the upside factors would be the additional wage adjustment because some wage adjustment has been factored in the baseline scenario forecast of the central bank.

**ECONOMIC INDICATORS**

<b>GDP Growth Rate</b>	6.8% (Q1 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$77.675-B (June 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P32.9-B) (May 2018)	<b>Exports Growth Rate</b>	(3.8%) (May 2018)	<b>BOP</b>	(US\$1.177-B) (June 2018)
<b>Inflation</b>	5.2% (2012 BY) (June 2018)	<b>Imports Growth Rate</b>	11.4% (May 2018)	<b>O/N RP</b>	4.00% (as of June 20, 2018)
<b>91-day T-Bill Rate</b>	3.484 (as of June 25, 2018)	<b>Cash Remittances</b>	US\$2.469-B (May 2018)	<b>O/N RRP</b>	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)

**Wage-fueled Inflation Forecasts** (continued)

- Last week, the Labor department announced that daily minimum wages for private sector workers will increase in at least nine regions, with adjustments ranging from P9 to P56.43. Other regions, including Metro Manila which is regarded as a benchmark for wage hikes, are expected to follow suit.
- Prior to this, the central bank factored in an P18-20 increase in daily minimum wages to official inflation forecasts, based on average salary increments in previous years.
- The wage increase is already factored into the central bank's past policy moves, although the fact that it is higher than expected suggests that there may be a need to review the projected path of inflation to determine if future rate hikes are necessary, according to Land Bank of the Philippines.
- At the very least, the above-average hike in wages increases the chances of more tightening moves from the central bank, it added, noting that the sustained weakness of the peso may also prompt policy makers to respond strongly.
- Union Bank of the Philippines added that the central bank could turn more aggressive.
- If the P56 per day is fulfilled, then that's almost three times more than what was estimated. The impact will be quite significant, Union Bank said, noting that it sees two more rate hikes this 2018.
- However, with the way the second round impact is playing out, the central bank can opt to pull the trigger with 50 bps right away to address hikes in the level of prices down the line, it added while pointing out that supply-side issues driving up prices should actually be addressed via other economic policies rather than relying solely on interest rate tweaks.
- Inflation is seen to ease to 3.8% annually in 2019 and 2020, according to the central bank poll.
- Moody's Investors Service has flagged that Philippine authorities are facing "challenges" in managing mounting inflationary pressures. Moody's on Friday affirmed the country's credit rating at "Baa2" — still one notch above minimum investment grade — with a "stable" outlook.

**Monetary Policy Outlook**

- Deutsche Bank expects the central bank to raise policy interest rates until H1 of 2019, taking cue from more "hawkish" statements of policy makers in past weeks.
- The bank expects aggressive policy responses from the Monetary Board as it realizes that inflation will not ease anytime soon, following a fresh five-year-high 5.2% in June and expectations of an uptrend in the next few months.
- It pointed out that the central bank's June 20 policy statement announcing the second straight rate hike in nearly four years hinted a more active approach to temper price spikes, with benchmark interest rates already "too loose."
- With a newly hawkish central bank, the German bank now expects they will try to close this gap whereas previously we thought they would pursue an easier policy stance.
- Deutsche Bank now expects policy rates to rise 100bps (basis points) in H2 of this year and another 50bps in H1 of 2019.
- Deutsche Bank sees full-year inflation averaging 4.9%, well above the central bank's 4.5% estimate.
- Headline inflation is seen to consistently clock in higher than 4% until next year.
- The bank expects the Monetary Board to raise rates by 50bp each in Q3 and Q4, and by another 25bp in Q1 2019. Rates are currently 75bp lower than where they should be, the bank added.
- Market players are already pricing in a rate hike next month, with some observers even saying that the central bank may opt to turn "more aggressive" and raise rates by 50bp in one go.
- Deutsche Bank is also less upbeat about growth prospects compared to other market watchers, as it expects overall Philippine growth to slow to 6.3% this year and to 5.7% in 2019, versus a 7% to 8% target set by the government.

**CORPORATE NEWS**
**SM / SMPH**

- SM Investments Corp. is looking at areas in northern and southern Luzon for the next stage of expansion of its shopping mall business.
- The holding firm of the country's richest man Henry Sy, Sr. is also planning to further its presence in Mindanao "at the right time."
- Even with a target to have 75 malls in the country by the end of 2018, the company said the Philippines is not yet saturated with shopping malls.
- The company is opening malls mostly in the provinces in the next three years, with SM City Urdaneta Central, SM City Telabastagan, SM City Legaspi, SM City Ormoc and SM City Dagupan set for opening this year.
- In 2019, SM's property unit SM Prime Holdings, Inc. expects to open SM Daet, SM Butuan, SM Olongapo Central, SM Balanga Bataan, SM Sorsogon, SM Tagum, SM City Tuguegarao, SM Mindoro and SM Grand Central in Caloocan.
- SM Prime will also be opening SM City Roxas, SM Calamba Turbina, SM Tanza, SM San Fernando, La Union, SM Laoag, SM Zamboanga and SM Malolos in 2020.
- This year alone, the listed conglomerate is spending P75-90-bil to finance its expansion.
- SM is also interested in buying more retailing brands, as long as they are in a "good location, right time, at the right price."
- Meanwhile, SM noted the current impacts of technology on the general business environment, citing that disruptions like artificial intelligence could hamper sectors like the business process outsourcing industry in the near future.
- Should BPOs weaken in the coming years, office buildings can be converted to other uses.

**AEV / CLC**

- The Department of Transportation (DoTr) said it might decide by Q3 whether to grant original proponent status to the three companies planning to develop, operate and manage regional airports, all of which have resubmitted their proposals earlier this year.
- Transportation Undersecretary for Aviation Manuel Antonio L. Tamayo said the review of the proposals submitted by Chelsea Logistics Holdings Corp. (CLC), Aboitiz InfraCapital, Inc. and Mega7 Construction Corp. are now in advanced stages. They are proposing to build Davao International Airport, New Bohol (Panglao) International Airport and Kalibo International Airport, respectively.
- Transportation Undersecretary for Planning Ruben S. Reinoso, Jr. said CLC and Aboitiz InfraCapital both initially submitted four bundled proposals for multiple regional airports, but were advised by the DoTr to resubmit separately to avoid "monopolizing" control of the airports.
- Dennis A. Uy's CLC chose to resubmit its proposal for the Davao airport, while Aboitiz InfraCapital picked the Bohol airport.
- For Mega7, Mr. Reinoso said the group's first proposal for the Kalibo airport was rejected in March for lack of information, hence the need for a new submission, which now has complete documentation.
- Mr. Reinoso also said that for airports with no unsolicited proposals such as Iloilo, Bacolod and Laguindingan, chances are the DoTr will have to bid out contracts for their expansion and operations and management.
- Mr. Tamayo said the bidding of contracts for the airports is set "as soon as possible," but some feasibility studies may have to be redone because the information are "not relevant anymore."
- He noted that in a year or two, airports may be filled up as the demand for movement increases. For instance, the new Puerto Princesa airport is nearing overcapacity after it was opened for commercial use only last year, he added.

**GOLD BUYING / Troy Oz.**

US\$1,222.85

**COPPER BUYING / lb.**

US\$2.751

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