

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,804.03 (+2.25%)	149,323,404.38	9,630,328.81	27.25 (+2.41%) = 1,455.01	53.395

MARKET OUTLOOK

- Local equities rallied on Thursday, as investors looked to the resumption of talks between the United States and China on their ongoing trade war.
- Officials from China and the United States are scheduled to meet this week to initiate a new round of trade talks. US President Donald J. Trump, however, said he does not “anticipate much” from the negotiations.
- The two economies yesterday slapped new tariffs on each other, after the US imposed duties on \$16-bil worth of Chinese goods. China retaliated with new tariffs on the same amount of American goods.
- Investors will retest the 7,800-8,000 area despite the absence of local fresh catalyst. So, this sharp upward move of the PSEi after finding support at 7,500 is mainly driven by external news from China and western markets.
- Meanwhile, Wall Street ended mixed overnight.
- Federal Reserve Chair Jerome Powell's speech at the Jackson Hole central bankers' symposium on Friday will be keenly watched for clues on future rate hikes.
- Investors are waiting on Powell's speech to figure out what kind of hike path the Fed is on.

ECONOMIC HIGHLIGHTS
Capital Outflow Pressure

- The Philippines and other emerging markets are likely to see more outbound capital at a time of rising global yields and an ongoing trade dispute between the United States and China, a credit rater warned on Thursday.
- Overall, emerging market countries remain inherently vulnerable to the risk of capital outflows associated with tightening global liquidity as advanced economy central banks reverse their quantitative easing measures, Moody's Investors Service said.
- Escalating trade frictions further add to overall uncertainty.
- This comes at a time when the US Federal Reserve has been pursuing rate normalization, having hiked benchmark interest rates seven times since 2015 — including twice so far this year. The Fed is again expected to raise rates by another 25 basis points (bp) next month, amid signs that growth and job creation have been recovering.
- This has also triggered similar moves from other monetary authorities as they sought to keep local yields competitive, with investors now sensing the opportunity to take their funds back to the United States as a safe haven.
- The central bank itself has hiked benchmark rates by a total of 100bps since May, but largely in response to surging inflation.
- Foreign portfolio investments saw a \$53.29-mil net inflow in July as investors anticipated strong Q2 earnings reports from Philippine corporates, the central bank said. Those inflows represented a turnaround from two months of fund outflows and pulled the seven-month tally to a \$455.75-mil net inflow, reversing from the \$204.24-mil net outflow a year ago and better than the \$900-mil net outflow the central bank has projected by yearend.
- The central bank also reported net inflows in the first two weeks of August, which came ahead of an aggressive 50bp rate hike announced on Aug. 9.

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)	(P86.4-B) (July 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

ECONOMIC HIGHLIGHTS (continued)

Capital Outflow Pressure (continued)

- Moody's expects portfolio flows to emerging market countries to remain volatile as monetary policy accommodation in advanced economies is gradually withdrawn.
- But other flows, including FDI (foreign direct investments) and bank flows will remain relatively strong overall, the credit rater said.
- Moody's also expects global growth to have "peaked," even as it should remain solid for advanced economies at 3.3% this year before easing to 3.1% in 2019. The US is still expected to lead global expansion.
- Emerging markets forming part of the G-20 are expected to grow by 5.1% this year and the next.
- Developing economies' growth outlook is likely to take a beating from rising US trade protectionism, tightening global liquidity conditions and elevated oil prices.
- Moody's base case now assumes that the US administration will go forward with some of the proposed additional restrictions on imports from China, noting that this factor poses a "disruptive downside risk" to its economic growth forecasts.
- Washington and Beijing have lately been engaging each other in tit-for-tat tariff hikes, with total value of affected goods at \$100-bil so far — equivalent to a seventh of total annual US-China trade.
- Moody's expects the Philippine economy to grow by 6.8% this year, according to its assessment as of July, when the debt watcher kept the country's credit rating at "Baa2" — notch above minimum investment grade — with a "stable" outlook.
- In its annual credit update, Moody's said protectionist policies abroad could weigh on external demand, although robust domestic consumption should provide "sufficient buffer" against the impact of weaker merchandise exports.
- The debt watcher also expects tighter monetary policy to temper capital outflows and help cushion the impact of "imported" inflation from higher global oil and other commodity prices.

Growth Forecasts

- Philippine economic growth will likely fall short of the government's 7% to 8% target until next year, due to a sustained slowdown in exports and weak manufacturing, even as strong capital formation should help gross domestic product (GDP) expand in line with potentials, economists of the Ateneo de Manila University said.
- The economists projected 6.1% to 6.3% GDP growth this year and 6.2% to 6.5% in 2019.
- "Manufacturing at Q2 shows a disappointing slowdown to 5.6% but they have always been averaging 7-8% since 2010. So there seems to be some alarming signals also coming from the manufacturing sector," economics professor Cielito F. Habito, himself a former socioeconomic planning secretary from 1992 to 1998 under former president Fidel V. Ramos, said.
- Latest available Philippine Statistics Authority (PSA) data showed merchandise export sales dropping 3.8% to \$32.732-bil last semester from \$34.035-bil in 2017's H1.
- GDP grew 6.3% last semester, compared to the year-ago 6.6%, and needs to expand by 7.7% this semester to reach the bottom end of the government's official target band (compared to Q2 2017's 6.8%).
- "Where are the sources of growth right now? We're seeing it more right now in investment spending and that, to the large extent, is government spending on construction," said Mr. Habito.
- "And then we are also seeing it in the supply side in industry."
- At the same time, another Ateneo economist said that the projected 6% GDP expansion is still aligned with the country's growth potential, based on a "steady-state analysis on the sustainable growth of the economy."
- Still, there could be faster growth over the medium to long term as the country has been accumulating capital equipment.

ECONOMIC HIGHLIGHTS (continued)

Growth Forecasts (continued)

- Capital formation grew 16.4% last semester, compared to 9.5% in 2017's H1, according to PSA data. Growth of investment in construction picked up to 11.6% compared to 7.5% in the same comparative six-month periods, while that of investment in durable equipment quickened to 17.1% from 11%.
- Inflation played a part in the group's economic growth forecast, with the headline pace expected to average 5% by end-2018, above the central bank's 2% to 4% target range and 4.9% upgraded full-year forecast for 2018.
- Inflation may peak around September or October, hovering around the multi-year-high 5.7% recorded in July.

CORPORATE NEWS
FB

- Appetite for San Miguel Food and Beverage, Inc. (SMFB)'s P142-bil follow-on offering will depend on its pricing, as the company undertakes the largest fund-raising activity in the country before the end of the year.
- SMFB applied to sell up to 1.02-bil common shares, consisting of 887 million common shares with an over-allotment option of up to 133.05-mil common shares, priced at up to P140 apiece. The shares to be offered are currently owned by parent, San Miguel Corp. (SMC).
- The shares comprise 17.26% of the company's issued and outstanding capital stock. The offering will allow SMFB to comply with the minimum public ownership rule of 10%, as its current public float stands at 4.12%.
- Once it secures approval from the SEC and Philippine Stock Exchange, the listed food and beverage company looks to price the offering by Oct. 19. The offering is scheduled to run from Oct. 23 to 29. Crossing of the offer shares is slated for Nov. 6.
- The company engaged J.P. Morgan Securities, Plc, Morgan Stanley Asia (Singapore) Pte., and UBS AG Singapore Branch as the offer's joint global coordinators. Deutsche Bank AG, Hong Kong branch and Goldman Sachs (Singapore) Pte., will act as joint book runners, while BDO Capital & Investment Corp. and BPI Capital Corp. will act as local lead underwriters.
- SMFB also tapped Standard Chartered Bank to be its financial adviser.
- Funds raised from the offering will be used to finance SMC's projects, according to the company's prospectus.

FLI

- Filinvest Land, Inc. (FLI) is set to finish its second office tower within the group's 201-hectare tourism and leisure estate in Pampanga this year, as it seeks to cater to the business process outsourcing (BPO) firms flocking to the province.
- The office tower called 2 Workplus offers a total gross leasable area (GLA) of 13,035.5 square meters (sq.m.) across five office floors, while there will be another floor dedicated to retail. The building also offers 171 parking slots for its employees.
- 2 Workplus is the second of six mid-rise buildings inside the estate's office complex called Workplus. The first building was completed in 2017, and has a GLA of 8,409.55 sq.m. The building is now fully leased out to a combination of BPOs and Chinese gaming firms.
- The company said one floor of 2 Workplus has already been taken up by flexible workspace operator Regus.
- FLI expects to add four more office towers to the estate until 2021.
- The Workplus office complex is part of the Filinvest group's Mimosa+ Leisure City in Clark Freeport Zone, Pampanga. The mixed-use development is being leased out to the group for a period of 50 years.

GOLD BUYING / Troy Oz.

US\$1,183.80

COPPER BUYING / lb.

US\$2.647

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