PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

24 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,383.00 (+3.48%)	214,424,348.47	(2,446,510.23)	25.69 (-0.04%) = 1,387.67	54.016

MARKET OUTLOOK

- The main index will likely trade sideways in the week ahead as investors anticipate the central bank's action on interest rates on Thursday.
- Friday's gain indicates that local investors have been supporting the market despite foreign investors' consistent selling spree.
- Based on the technicals and market sentiment, the index may trade sideways this week as investors sit on the sidelines waiting to see if the central bank will raise interest rates at the Monetary Board meeting on Thursday.
- Economists expect the central bank to hike rates by another 50 basis points (bps) when the Monetary Board meets on Sept. 27, given the faster-than-expected August inflation print of 6.4%. Should this materialize, the rate hike will follow the 100 bps increase the local central bank has implemented since May, with benchmark rates now ranging from 3.5% to 4.5%.
- If rates are raised this week, the market may go up as this will come as a positive to investors that something is being done to curb higher inflation. Another positive effect of an interest hike is it may encourage foreign funds to flow back in to the peso as our currency has performed better than what is expected.
- Inflation should taper off in Q4 as long as the Department of Finance executes a proper implementation of its 10-point inflation buster program.
- The only unknown variable so far is the extent of holiday spending growth, which might prod demand-push cycle.
- The central bank's policy meeting will come after the US Federal Open Market Committee's two-day meeting on Sept. 25-26, where analysts are also looking at a potential rate hike.
- Any aggressive move could widen the greenback's differential with peer currencies, unless regional counterparts adopt similar steps. Meanwhile, there are also those anticipating a status quo, pending resolution of trade-related spats.
- The market's support level from 7,200 to 7,350, with resistance from 7,500 to 7,840.

ECONOMIC HIGHLIGHTS

Monetary Policy Forecasts

- The central bank will likely raise interest rates by another 50 basis points (bp) this week, according to most analysts in a poll, citing inflation fueled by damage from the storm that ravaged Northern Luzon the other week and unrelenting oil price hikes.
- All but one of the 16 economists polled last week said the central bank will introduce another aggressive rate hike on Thursday — an "inevitable" move amid risks that inflation could breach another multi-year high in September due to widespread damage caused by typhoon Mangkhut, locally called Ompong.
- The policy-setting Monetary Board will hold its sixth review this week.
- If the forecast is realized, it would mark a fourth consecutive tightening move since May that would bring benchmark yields to the 4% to 5% range.

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	3.549 (as of September 10, 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)

Monetary Policy Forecasts (continued)

- Since another meaningful rate hike is necessary to convince consumers and businesses that price increases will not persist in the future, Bank of the Philippine Islands (BPI) expects the central bank to hike the policy rate by at least 50 basis points on their September 27 policy meeting.
- Economists said inflation will likely mark a new multi-year peak this month as food prices can be expected to soar in the wake of the strong typhoon that caused at least P14-bil worth of agricultural damage, according to initial estimates made by the National Disaster Risk Reduction and Management Council. The storm hit hard key crop producers Benguet, Isabela and Cagayan.
- ING Bank N.V. Manila, said September inflation could trend “towards 7%” amid persistent food supply bottlenecks and as world oil prices keep rising.
- Prior to the typhoon, several analysts had penciled a modest 25bp rate hike from the central bank.
- The potential impact of Typhoon Mangkhut on food prices has significant implications for headline CPI (consumer price index), said the Hong Kong and Shanghai Banking Corp.
- The continued upside risks to inflation beyond Q3 mean that there is greater likelihood of further monetary tightening in the next six months.
- Apart from tempering inflation expectations — which play a key role in fueling actual consumer price hikes — the 50bp rate adjustment is likewise expected to provide a reprieve for the peso, which has been down by nearly 8% year-to-date.
- Higher policy rate hikes help in supporting the peso and, broadly, also help in tempering inflationary pressures as well as in lowering inflation expectations, said the Rizal Commercial Banking Corp. Higher interest rates lead to increased borrowing/financing costs that could slow down loan demand and broader economic activities and, in the process, may result in some easing of inflationary pressures on the demand side.
- Central bank officials have been vocal about “excessive volatility” in the currency market as the peso broke the P54-per-dollar level earlier this month. This has prompted the central bank to reopen a hedging facility for corporate borrowers in a bid to ease pressures on the peso.
- The central bank committed to “take strong immediate action” in response to the faster-than-expected 6.4% inflation rate recorded in August, which would follow a cumulative 100bp increase in rates so far this year.
- The central bank had hinted a “strong policy response” ahead of the its Aug. 9 meeting, which eventually translated into a 50bp rate hike, marking the central bank’s biggest adjustment in a decade.

Tax Reform Program

- The Senate on Tuesday will hold its first public hearing on the second tax reform package, with senators expected to scrutinize the rationalization of fiscal incentives provisions and its possible effects on jobs and prices.
- Senator Juan Edgardo M. Angara, chairman of the Senate Ways and Means committee, said the panel will try to strike a balance between streamlining fiscal incentives, which the Finance department has blamed for billions of pesos in foregone revenues yearly, and keeping the Philippines’ investment lure and jobs intact.
- The committee will tackle Senate Bill No. 1906, or the proposed Corporate Income Tax and Incentives Reform Act authored by Senate President Vicente C. Sotto III, as well as separate bills cutting the corporate income tax (CIT) rate and rationalizing fiscal incentives, proposed amendments to the Tax Incentives Management and Transparency Act and other tax administration reforms.

ECONOMIC HIGHLIGHTS (continued)

Tax Reform Program (continued)

- The House of Representatives approved its version — House Bill No. 8083 or the Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO) — on third and final reading on Sept. 10.
- Senate Bill No. 1906 cuts the CIT rate to 25% from 30% in the first year of the implementation. That compares to HB 8083 which gradually reduces CIT rate to 20% by two percentage points every other year starting 2021.
- It also seeks to repeal special laws on fiscal incentives and consolidate all such perks in a single measure.
- Critics have blamed that tax reform for headline inflation rates that have pierced the central bank's 2-4% full-year target for 2018 for six straight months till August, so far, which saw a multi-year-high 6.4% that fueled the year-to-date pace to 4.8%.

CORPORATE NEWS

MPI

- Cavitex Infrastructure Corp. said it is on schedule to complete the construction of a 7.7 kilometer tollroad that will connect C5 to the Manila-Cavite Toll Expressway by June next year.
- The first 2.2 km section of the P10-bil C5 South Link, which connects C5 to Merville, Paranque, is expected to be completed by Q1 of 2019.
- With the project, travel time from Parañaque, Las Piñas and Cavite to Taguig will be cut to 20 to 30 minutes from the usual 1 1/2 hours.
- The project is seen to benefit 50,000 vehicles by decongesting Sales Road in Pasay and EDSA when it starts commercial operations.

SM

- The unsolicited proposal of a consortium led by the family of taipan Henry Sy Sr. and businessman Wilson Tieng to build a $12-bil international airport at Sangley Point, Cavite still stands a chance, the Department of Transportation (DOTr) said.
- The DOTr said the Sy-Tieng proposal was still on the table and that everything would depend on how the Cavite government would address the technical and financial issues surrounding its own airport development project.
- DOTr's legal department has rejected the Cavite provincial government's proposed P552.08-bil airport project at Sangley Point allegedly due to lack of technical and financial capability.
- The government earlier said it was pursuing the development of airports in Bulacan and Sangley to decongest the busy Ninoy Aquino International Airport.
- Under the Sy-Tieng group's proposal, the regional airport hub can accommodate about 120-mil passengers a year once fully developed. The proposed concession period is 50 years.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,208.05	US$2.840