

# DAILY MARKET PRIMER

25 July 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,447.02 (+0.95%)	82,921,084.22	(897,317.49)	25.69 (+1.82%) = 1,373.03	53.446

## MARKET OUTLOOK

- The stock market rebounded on Tuesday as investors were heartened by President Rodrigo Duterte's State of the Nation Address (SONA), while China's signal of new monetary stimulus boosted regional markets.
- Based on the weeks the market has been oversold, the SONA came across as favorable to the investing public.
- Technically saying, the investing public is still maintaining the same attitude — staying on the sidelines, buying only on fundamental strengths.
- Investors also welcomed a leadership shakeup at the House of Representatives, as well as China's plan to have a more active engagement with fiscal stimulus.
- China said it will adopt a more vigorous fiscal policy to help tackle external uncertainties without resorting to strong policy stimulus.
- The fiscal policy will focus on cutting taxes for companies while the pace of local governments' special bond issuance will be quickened.
- Meanwhile, the change in the leadership in the House of Representatives could be favorable for the passage of the second package of planned tax reforms.
- The installation of Pampanga Representative Gloria Macapagal-Arroyo as House Speaker could be beneficial for the second package of the Tax Reform for Acceleration and Inclusion (TRAIN).
- Amid the lack of any other market-moving news, expectations of a robust corporate earnings season is seen to propel the market.

## ECONOMIC HIGHLIGHTS

### Tax Incentives

- Several tax incentives granted to a number of sectors were "unnecessary," and the benefits gained from supporting these investments were mostly less than the cost shouldered by the government, the Department of Finance (DOF) said yesterday.
- Citing a cost-benefit analysis of fiscal incentives done by the DOF using 2015 data generated through the Tax Incentives Management and Transparency Act or TIMTA Law, Finance Undersecretary Karl Kendrick T. Chua told the House committee on ways and means that for every P1 in tax perk given away by the government, between P0.60 and P1.15 come back in benefits to the economy.
- The House ways and means committee chaired by Quirino Rep. Dakila Carlo Cua yesterday tackled the proposed second tax reform package which was aimed at reducing corporate income tax rate which is now at 30%, the highest in Asia, while rationalizing the fiscal perks granted to investors.
- By sector, every P1 in tax incentive given to manufacturing projects gives a return of P0.81-P1.34; agriculture, P0.73-P1.20; services, P0.45-P0.94, and nonmanufacturing activities, between zero and P0.74.
- Chua said there were many investment projects that were "very long-term recipients" of tax incentives.
- "Many firms are profitable but are still enjoying incentives," he added.

### 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>	(P54.3-B) (June 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)

# DAILY MARKET PRIMER

25 July 2018

## ECONOMIC CALENDAR

### 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)

### Tax Incentives (continued)

- For Chua, incentives were not necessary if the projects serve the domestic market, as there was a ready market for their goods and services.
- As for investments tapping resources—for instance, natural resources such as minerals as well as human resources, Chua said perks were also not necessary because investors would already be making use of these resources.
- But in the case of exporters, tax incentives are necessary because the Philippines is competing with neighboring countries in hosting these investors, Chua said.
- Based on the DOF's analysis, 70% to 100% of incentives to the following sectors were unnecessary: housing; mining and quarrying; energy (refining, storage, marketing and distribution of petroleum); coal and diesel, and renewable energy.
- Among the perks extended to voice-based business process outsourcing (BPO) firms, 59% to 85% percent were unnecessary; 52% to 76% among manufacturers of wood, glass, paper, plastic, ceramic and rubber products; 52% to 75% among electronics manufacturers; 43% to 62% among metals and steel manufacturers, and 40% to 57% among personal care and medical products manufacturers.
- Those with the least number of unnecessary incentives relative to total were garments (23% to 32%); chemicals (16% to 23%); non-voice BPO (11% to 15%), and food manufacturing (4% to 6%).
- Finance Secretary Carlos G. Dominguez III said foregone revenue due to these tax incentives hit P376-bil from 2015 to 2016.

### Rice Tariff Bill

- The National Economic and Development Authority (NEDA) urged lawmakers yesterday to immediately pass the rice tariffication bill, stressing that easing rice importation can slash a percentage point off headline inflation which is expected to remain within the 5% level until Q3 this year.
- In his third State of the Nation Address on Monday, President Duterte called on Congress to deem as urgent the passage of the bill introducing amendments to the Agricultural Tariffication Act of 1996 to replace the quantitative restriction (QR) on rice with tariffs to give the private sector a free hand in the importation of the staple. This is seen to stabilize rice prices and address the artificial rice shortage in the country.
- Duterte also warned of sanctions against “rice hoarders, cartels and their protectors,” saying he has directed intelligence and law enforcement agencies to uncover these entities so they will be prosecuted.
- Socioeconomic Planning Secretary Ernesto Pernia said based on NEDA's preliminary estimate, headline inflation rate would be reduced by one percentage point if the domestic wholesale market reduces its price to the level of imported rice.
- Passing the bill into law would pave the way for the removal of the QR on rice imports and the imposition of the 35% tariff rate instead.
- The QR on rice imports is a special privilege granted by the World Trade Organization (WTO), which has been extended three times since it was first imposed in 1995.
- This entails restricting the volume of inbound rice shipments to 805,200 metric tons (MT) at 35% tariff. Imports outside of this minimum access volume (MAV) are levied higher tariffs.
- The tariff revenues to be generated would be plowed back to the agriculture sector through the Rice Competitive Enhancement Fund (RCEF) to support projects that would modernize the rice industry and enhance its efficiency.
- Part of the fund would be used to directly support rice farmers, especially those who would initially be displaced by the removal of the QR, to diversify into other economic activities.

**CORPORATE NEWS**
**IRC**

- The proponent of the \$3.7-bil (P196.1-bil) Makati Subway project is now looking to face challengers interested in topping the unsolicited proposal.
- IRC Properties, Inc., which will be changing its name to Philippine Infradev Holdings, Inc., told the Philippine Stock Exchange on Tuesday that it had executed an agreement with the Makati City government certifying the property developer as eligible to pursue the project.
- IRC and its foreign partners were granted original proponent status last month for its proposal to construct an 11-kilometer intra-city mass transport system with up to 10 stations. The planned railway will also connect with the Metro Rail Transit-3, the proposed Metro Manila Mega Subway and the Pasig River Ferry.
- Under a Swiss challenge, interested parties will be invited to match or exceed IRC's offer. The listed firm will then be given a chance to submit a counter-offer.
- The company will partner with international firms such as Greenland Holdings Group, Jiangsu Provincial Construction Group Co. Ltd., Holdings Ltd., and China Harbour Engineering Company Ltd. to undertake the construction.
- Meanwhile, IRC said its stockholders had approved an increase in its authorized capital stock by P18-bil, double the P9-bil proposed by its board, from the current P1.5-bil "to finance current and future projects".
- The increased capital stock of P19.5-bil will consist of 9.5-bil common shares with a par value of P1.00 per share and 1-bil preferred shares with a par value of P10.00, "from which, shares may be issued through private placements, pre-emptive rights offering, or other arrangements," it said.
- At least 25% of said capital increase shall be issued through private placement/s at the issue price ranging from P1.10 per share to P1.40 per share, and under such other terms and conditions as may be determined by the IRC Executive Committee, the company said.
- Stockholders also approved the company's plan to switch its corporate name to Philippine Infradev Holdings, Inc. and expand its primary purpose to include the business of infrastructure development.

**CEB**

- Budget carrier Cebu Pacific is set to launch its non-stop service from Manila to Melbourne next month, a move that will further strengthen its grip on the Australia market.
- The Gokongwei-led airline is offering an introductory fare of as low as P9,539, about 60% lower than prevailing fares of other airlines.
- Melbourne is Cebu Pacific's second destination in Australia.
- Tourism between the Philippines and Australia has increased by an average 16% year from about 186,000 in 2014 to over 413,000 as of April 2018.
- Australia is also one of the top sources of tourist arrivals in the Philippines, with over 120,000 Australians visiting the country in the first five months of 2018 alone.
- The Philippines is fast gaining popularity among Australian travelers as a holiday destination, rivaling Bali and Thailand.

**GOLD BUYING / Troy Oz.**

US\$1,223.80

**COPPER BUYING / lb.**

US\$2.808

 2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. [www.meridiansec.com.ph](http://www.meridiansec.com.ph) Tel: +632 635 6261 to 64

**Disclaimer:** This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst's personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addressee and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.