

DAILY MARKET PRIMER

27 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,665.85 (+2.02%)	124,800,015.00	12,076,731.48	25.41 (-0.51%) = 1,356.41	53.381

MARKET OUTLOOK

- Easing trade tensions, increased net foreign buying and higher volumes allowed the stock market to return to the 7,600 level on Thursday.
- Tariff tensions dropped after the United States and the European Union reached some deal which averted an outright trade war, with the US winning some concessions from the European continent.
- Investors also continue to digest President Rodrigo R. Duterte's State of the Nation Address (SONA) on Monday, particularly on his push for legislative approval of the remaining tax reform packages.
- The market has been oversold prior to the SONA. Now that it's over, everything is coming into the picture and investors are watching what will happen.
- Investors will especially be watching progress of legislative action on the remaining three to four tax reform packages after Senate leaders signaled on Tuesday and Wednesday that even just the second package — which seeks to slash corporate tax rates and remove redundant fiscal incentives — will be difficult to approve within the year before midterm election fever sets in starting January 2019.
- Investors are also looking forward to more Q2 earnings results, which will determine listed firms' plans for the remaining half of 2018.
- Investors may already be positioning ahead of the Q2 earnings season and the release of Q2 GDP and an anticipated central bank rate hike on Aug. 8.

ECONOMIC HIGHLIGHTS

Lower Deficit Cap

- Economic managers will consider lowering the deficit cap to contain inflation but warn that this would put the "Build Build Build" program at risk.
- The International Monetary Fund (IMF) on Wednesday recommended that the fiscal deficit be kept "at around 2.4% of GDP (gross domestic product) to support efforts to contain inflationary pressures," along with other measures, to prop up growth and macroeconomic stability.
- At the moment, the deficit program has been set at P523.682-bil or 3% of GDP for 2018, P624.370-bil or 3.2% for 2019, and 3% for 2020-2022.
- Economic managers noted that the medium-term deficit cap took into account the "Build Build Build" program, meant to address infrastructure gaps that the IMF had pushed the country to address.
- "Reducing the budget deficit program to 2.4% of GDP is feasible," Budget Secretary Benjamin Diokno said.
- "However, the implication of abandoning some of our big-ticket infrastructure projects is something we are not comfortable with," he added.
- Finance Secretary Carlos Dominguez III called the IMF proposal "tough advice" as the government was moving forward with the infrastructure drive.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$77.675-B (June 2018)
Fiscal Surplus / (Deficit)	(P54.3-B) (June 2018)	Exports Growth Rate	(3.8%) (May 2018)	BOP	(US\$1.177-B) (June 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	11.4% (May 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.219(as of July 23, 2018)	Cash Remittances	US\$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 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)

Lower Deficit Cap (continued)

- The government, which is targeting 7.0% to 8.0% gross domestic product growth for 2018 until 2022, is banking on its infrastructure program to provide the impetus.
- The ambitious infrastructure program will be bankrolled by tax reforms and concessional loans, with the overall budget expected to hit up to P9-tril by 2022. Of the 75 high-impact projects under the program, 35 have already passed the approval process.
- Economic managers noted that lowering the deficit cap would “ease the burden on monetary policy in managing inflation”.
- However, they said that the rise in consumer prices — at a five-year high of 5.2% in June — was mainly due to “one-off and transitory” factors such as tax reforms implemented this year, higher crude prices and rice supply issues.
- The proposed lifting of quantitative restrictions on rice — certified as urgent earlier this week by President Rodrigo Duterte — will reduce inflation by 0.4 percentage points, the economic managers said.
- The central bank, meanwhile, reiterated earlier pronouncements that monetary authorities were prepared to take “strong follow-through action” after raising key interest rates in May and June.
- Socioeconomic Planning Secretary Ernesto Pernia, for his part, welcomed an IMF proposal to open more sectors to foreign investors.

Reserve Requirement

- Inflation leapt to a fresh five-year high of 5.2% in June from 4.6% in May due to higher oil prices, weak peso, and the impact of the implementation of the tax reform law.
- The central bank’s Monetary Board has already reduced the RRR twice this year to 18% from 20%, releasing around P190-bil in additional liquidity into the financial system to support the country’s growing economy.
- The first reduction that took effect last March 2 injected P90-bil worth of fresh funds into the system, followed by another 100 basis point cut last June 1 that released another P100-bil in additional liquidity into the economy.
- Despite the reduction, the Philippines has the highest RRR in the region compared to China’s 17%, Brazil’s 15.5%, Indonesia’s 12%, Thailand’s 6%, Taiwan’s 6%, India’s 4%, Malaysia’s 3.5%, Singapore’s 3%, and Japan’s 0.8%.
- Central bank Governor Nestor Espenilla, Jr. has committed to trim the ultra high RRR to single-digit levels within his six-year term.
- “Cutting RRR by 200 bps this year already sends a credible and concrete signal to the financial system of central bank’s commitment to structural reforms so the industry can be guided accordingly in developing their long term strategic plans,” the central bank chief said.
- Economists and analysts have questioned the move of the central bank in delivering back-to-back rate hikes for a combined 50 basis point increase last May 10 and June 10 to curb rising inflationary pressures, while releasing more liquidity into the system through the RRR reductions.
- Monetary authorities were deliberate in the timing of the RRR reductions as it waited for alternative mechanisms such as the shift to the interest rate corridor (IRC) framework which involved the launch of the term deposit auction facility (TDF).
- However, the International Monetary Fund (IMF) said there is a need to pause on further reductions to address communication challenges arising from the tightening of the policy stance with the 50 basis points rate hike so far this year.
- The IMF said there is a need to maintain the current level until inflation, which averaged 4.3% in H1 of the year – exceeding the central bank’s 2% to 4% target, is on a downward path.

CORPORATE NEWS
MPI

- Metro Pacific Tollways South Corp. has received original proponent status (OPS) for its P22.432-bil Cavite-Tagaytay-Batangas Expressway project from the Department of Public Works and Highways.
- The CTBEX was expected to spur further growth in the said areas by fostering connectivity, decongesting traffic and generating jobs.
- About 2,500 to 3,000 jobs are expected to be created from construction to operations and maintenance of the project.
- The project will then be submitted to the National Economic and Development Authority - Investment Coordination Committee for evaluation, subject to the approval of the NEDA Board for a Swiss challenge.
- CTBEX is the first project to be given OPS status by the DPWH under the Duterte administration.

IMI

- Net income of Ayala-led Integrated Micro-Electronics Inc. (IMI) surged by 86% in H1 from a year ago as it gained from the sale of a property in China and on the back of higher revenues.
- IMI said its net earnings reached \$31.6-mil from January to June, up from the \$17-mil a year ago.
- Net profit for H1 included the net gain of \$11-mil following the completion of shares sale transaction related to the transfer of the firm's Liantang facility to the new Pingshan facility in Shenzhen.
- The firm also recorded a higher net income after posting a 33% growth in revenues which reached \$668.8-mil as of end-June from the previous year's \$501-mil.
- Revenues from acquired businesses reached \$154.2-mil in H1.
- Revenues from operations in Europe grew by 29% year-on-year to \$170.1-mil driven mainly by automotive businesses, while revenues from Mexico posted a 17% increase year-on-year to \$46.9-mil despite delays in the mass production of new projects.
- Revenues from China operations rose 27% year-on-year to \$162.1-mil following the ramp up of new industrial applications and automotive platforms.
- Philippine operations contributed \$136-mil to total revenues which went up 5% year-on-year, driven by the automotive camera business and new industrial applications while being offset by the declining demand in the security and medical device business.

AP

- Aboitiz Power Corp. is issuing P27-bil worth of retail bonds towards the latter part of the year to finance projects.
- Proceeds will be used to fund potential acquisitions and investments and refinance existing debt.
- The bonds will be issued in one or more tranches depending on market condition.
- AboitizPower plans to offer the bonds in Q3 or Q4.
- The amount represents the balance of the P30-bil bonds registered under the shelf registration program of the Securities Exchange Commission (SEC) last year.

GOLD BUYING / Troy Oz.

US\$1,233.35

COPPER BUYING / lb.

US\$2.808

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