PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

30 July 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,701.38 (+0.46%)	116,521,236.02	6,948,640.26	25.05 (-1.42%) = 1,336.52	53.354

MARKET OUTLOOK

- The stock market is now a few days away from the ghost month of August, which may put market investors on the sidelines again.
- The Philippine Stock Exchange Index (PSEi) is currently up 7% for the month. With two days left of trading in July, it will not be surprising to see a pullback at the beginning of the week.
- Bargain hunting has resumed last week as seen in the index's performance.
- However, the index cannot continue to maintain this momentum without relieving some pressure. Historically, during the month of August, or the so-called "ghost month", the index has been seen to either stay flat or end the month down as the PSE has a lot of Chinese investors and they will be staying out of the market for the duration.
- At the same time, Chinese investors may stay away during the ghost month, other investors may still be interested after the index hit recent lows.
- Ghost month in the Chinese lunar calendar is when investors are supposed to hold off from major moves. Buddhist and Taoist beliefs hold that restless spirits cause mischief during the period.
- Investors will likely take neutral positions ahead of the ghost season. Players, however, are expected to remain on the lookout for earnings announcements and act accordingly.
- On the fiscal front, attention would turn to the Monetary Board's upcoming August 9 policy meeting. With inflation having hit a five-year high of 5.2% in June, many analysts expect another rate hike to be announced.
- This year is a very different situation as the index has just bottomed out in July. The index has just broken above the strong resistance at 7,500 and it remains to be seen if this will get investors back into the market regardless of the ghost month.

ECONOMIC HIGHLIGHTS

BOP Outlook

- Multilateral lender International Monetary Fund (IMF) said the Philippines would continue to spend more US dollars than what it earns amid higher importation of capital equipment and raw materials to support the growing economy.
- The multilateral lender now expects the country's current account deficit to hit 1.5% of gross domestic product (GDP) or five times wider than the previous projection of 0.3% of GDP.
- The current account deficit is expected to rise to 1.5% of GDP by end-2018, reflecting increased imports of capital goods and raw materials.
- The projected current account shortfall of the IMF is wider than the revised projection of the central bank of 0.9% of GDP or $3.1-bil.
- The country's current account consists of transactions in goods, services, primary income and secondary income. This account measures the net transfer of real resources between the domestic economy and the rest of the world.
- Last year, the country spent more dollars than it earned, translating to a current account deficit of $2.52-bil or 0.8% of GDP, more than double the shortfall of $1.2-bil or 0.4% of GDP recorded in 2016.

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)

BOP Outlook (continued)

- This was the highest since the current account shortfall amounted to $2.87-bil or 3.5% of GDP in 1999. The deficit peaked at $5-bil or 5.1% of GDP during the Asian financial crisis in 1997.
- The current account deficit of the Philippines is projected to remain manageable, financed largely by foreign direct investments (FDIs).
- This despite the projected lower FDI inflows of $9.2-bil set by the central bank for this year after reaching a record $10.02-bil last year.
- Downside risks stem mainly from rising inflation, continued rapid credit growth, higher US interest rates and US dollar, volatile capital flows and trade tensions.
- The central bank expects the country's external payments position to further bleed this year with a wider balance of payments (BOP) deficit of $1.5-bil or 0.4% of GDP instead of $1-bil.
- The BOP is the difference in total values between payments into and out of a country over a period. A deficit means more foreign exchange flows out of the country to pay for the importation of more goods, services and capital than what flows in from exports.
- Latest data showed the country's BOP deficit swelled to $3.26-bil in H1 of the year from only $706-mil in the same period last year due to the widening trade deficit. The shortfall was more than double the projection of $1.5-bil for this year.
- For its part, the central bank said the country's BOP position has been posting deficits since 2016 on account of strong foreign currency outflows, reversing previous surpluses accumulated from the large inflows due to quantitative easing since the global financial crisis.
- With the normalization of US monetary policy and rising global interest rates, the central bank sees significant corrections in capital flows that are affecting the country's BOP and exchange rate. This is compounded by uncertainties posed by the trade war and geopolitical risks.
- The central bank added the external position remains manageable as the country has sufficient liquidity buffers against global headwinds with gross international reserves (GIR) level of $77.67-bil as of end June, equivalent to 7.5 months' worth of imports.
- Aside from the twin deficits in trade and current account, the peso slumped to its weakest level in 12 years piercing the 53 to $1 level this year as the US Federal Reserve jacked up interest rates for the second time this year and sees two more rate hikes instead of one for the rest of the year.

PH Rice Tariffs

- The imposition of 35% tariffs on imported rice will still leave Philippine rice uncompetitive relative to the produce of Southeast Asian neighbors, Senator Cynthia A. Villar said on Sunday.
- Ms. Villar, who chairs the Senate committee on agriculture and food, said the national government should provide assistance to rice farmers, particularly for mechanization and acquiring high-yielding seed.
- Ms. Villar said she plans to take up the rice tariffication bill at the Senate plenary this Congress session. She has identified the bill as among her committee's legislative priorities.
- She said the Senate's version of the bill has the needed remedies for the sector once the tariff system is imposed, including the P10-bil rice competitive enhancement fund for farmers and the provision mandating the Bureau of Customs (BoC) to implement the national single window system to prevent rice smuggling.
- The central bank and the National Economic and Development Authority (NEDA) have cited the rice tariffication bill as one of the levers for easing inflation, which hit 5.2% in June. The proposed measure seeks to amend Republic Act 8178 or the Agricultural Tariffication Act of 1996 in order to lift the quantitative restrictions (QR) on rice imports and impose a 35% tariff on rice.
- In his third State of the Nation Address (SONA) on July 23, President Rodrigo R. Duterte asked Congress to prioritize the measure, certifying it as urgent as well.

CORPORATE NEWS

SMC

- Diversified conglomerate San Miguel Corp. (SMC) plans to build up to 10,000 megawatts (MW) of renewable energy facilities in the next 10 years, adding to its existing installed capacity coming mostly from traditional coal and gas power plants.
- Among renewable energy resources, hydropower, wind, ocean tide and battery storage were identified as the company's possible investment ventures. The company declined to disclose details on which of these will corner the biggest share.
- San Miguel predicts to invest up to 10,000 megawatts in the next 10 years.
- The required investment in renewable energy would be substantial as these remain costlier to build than a coal-fired power plant, except for solar energy. The company brushed off solar energy, saying its availability is limited as experienced by other countries that had to resort to other sources to maintain the delivery of the required power capacity.
- Initial studies have shown good "wind profile" in an area in Luzon, which the company is considering to build a wind farm. A wide area within the country's main island remains viable for a wind energy project.

MPI

- The Metro Pacific group is pushing back its target closing of fund-raising for the Cavite-Laguna Expressway (CALAX) to August from its original end-July target.
- MPCALA Holdings, Inc. said that the change in closing date is because the "financial close is being timed with the acquisition of the balance of right of way in Laguna and Cavite."
- After an awarding ceremony with the Department of Public Works and Highways (DPWH) for another project, the company was anticipating to close the P25.3-bil CALAX financing by next month.
- The budget would be used for both the Cavite and Laguna sides of the expressway, but the company was already using equity for part of the Laguna side, which has already started construction.
- The funding will be sourced from around six local banks.
- MPCALA Holdings, a part of the Metro Pacific Tollways Corp. (MPTC), is the private concessionaire for the 45.29-kilometer CALAX project. Once finished, the toll road will connect the South Luzon Expressway (SLEx)-Mamplasan interchange to the Cavite Expressway (CAVITEx).
- Segments 7 and 8 in the Laguna side of CALAX is 45% complete. It is targeted to be fully completed by Q1 of 2019.
- The whole Laguna segment begins at Laguna Boulevard and ends in Mamplasan, Biñan. The road is supposed to reduce travel time from the two ends by half.
- For the Cavite side, the DPWH said earlier it was yet to deliver the right of way by mid-next year. But initial construction work is eyed to begin by Q3 of this year.
- The CALAX project is expected to be completed by 2020. The four-lane expressway is aimed to cut travel time from SLEx to CAVITEx by 45 minutes.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,223.30	US$2.796

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