

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,853.16 (+0.28%)	118,560,844.40	(1,972,530.03)	26.04 (-0.88%) = 1,390.82	53.411

**MARKET OUTLOOK**

- Local equities staged a gradual climb on Thursday, as investors looked forward to the MSCI rebalancing today and amid positive sentiment across international markets.
- The local bourse is still on consolidation mode and still waiting for a major catalyst such a MSCI rebalancing which will take effect today.
- There is positive sentiment on the back of the infrastructure push of the government.
- The government unveiled last Tuesday P36.23-bil worth of large-scale flood control, road and railway projects which form part of the flagship infrastructure projects for 2019.
- Most of the projects will be funded through a hybrid framework with initial funding by state budget or official development assistance for the construction phase, while opting for public-private partnerships for operation and maintenance.
- Another rise today can also be attributed to window dressing on the last trading session of August.
- However, putting a damper on sentiment may be the end of a four-day winning streak on Wall Street overnight as risk reduction ahead of the long holiday weekend accelerated on growing trade anxieties.
- President Donald Trump wants to impose proposed tariffs on an additional \$200-bil of Chinese imports as early as next week, sooner than many expected.
- This coincided with continuing efforts by Canada and the United States to revamp the North American Free Trade Agreement (NAFTA) ahead of a Friday deadline.
- There are trade tension headlines coming out on a daily basis. With relatively low trading volumes, it's harder for the market to absorb strong buying or selling pressure.

**ECONOMIC HIGHLIGHTS**
**Concerns on Federalism Shift**

- The meeting last Wednesday of state economic managers and members of the Consultative Committee to review the 1987 Constitution failed to dispel worries about the fiscal impact of the draft federal charter, whose fate now lies with Congress.
- Arthur N. Aguilar, who led the consultative body's subcommittee on economic reforms, said on Thursday that his group told state economic managers that there are "more than ample provisions in the constitutional design that ensure fiscal prudence."
- But Finance Secretary Carlos G. Dominguez III said more clarity is still needed on the fiscal impact of the proposed changes to the current Constitution.
- Mr. Aguilar said much of their discussions last Wednesday revolved around the proposed revenue and expenditure sharing between the federal government and the federated regions.
- "The 50-50 share is only in four taxes," he said, referring to income, excise, value-added tax and customs duty, meaning that the federal government will still get bulk of overall revenues.

**ECONOMIC INDICATORS**

<b>GDP Growth Rate</b>	6.0% (Q2 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$76.892-B (July 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P86.4-B) (July 2018)	<b>Exports Growth Rate</b>	(0.1%) (June 2018)	<b>BOP</b>	(US\$1.177-B) (June 2018)
<b>Inflation</b>	5.7% (2012 BY) (July 2018)	<b>Imports Growth Rate</b>	24.2% (June 2018)	<b>O/N RP</b>	4.50% (as of August 9, 2018)
<b>91-day T-Bill Rate</b>	3.203(as of August 20, 2018)	<b>Cash Remittances</b>	US\$2.357-B (June 2018)	<b>O/N RRP</b>	4.00% (as of August 9, 2018)

### ECONOMIC CALENDAR

### **ECONOMIC HIGHLIGHTS** (continued)

#### **Concerns on Federalism Shift** (continued)

- Federated regions will have exclusive power to collect 12 taxes and fees while the federal government will collect all other levies.
- “So the revenues, it’s about two-thirds federal and one-third federated regions,” said Mr. Aguilar.
- “Expenditure finance follows functions. There are 21 exclusive powers of the federal government, 15 exclusive powers for the federated regions. Each exclusive power carries a budgetary implication.”
- All other spending will be shared between the two governments.
- “We’re just shifting marbles from one to another. We’re not creating a bigger pie,” Mr. Aguilar explained.
- He also assured that “federated regions cannot incur indebtedness outside the guidelines of the federal government.”
- Economic managers earlier warned that the proposed changes could cause the fiscal deficit to balloon beyond the prescribed three percent-to-gross domestic product (GDP) ratio.
- Moody’s Investors Service last month flagged the planned shift to a federal form of government as a risk to the Philippines’ credit rating, which now stands a notch above minimum investment grade with a “stable” outlook.
- The National Economic and Development Authority’s (NEDA) had cautioned that the proposed changes to the constitution could add 1.0-1.6 percentage points to the three percent-of-GDP fiscal deficit ceiling.
- “In terms of the split, they said it’s a 50-50 split in terms of the revenues. But when we looked at the share in spending, it can actually go up to 80-20 if you consider debt payments,” NEDA Undersecretary for Policy and Planning Rosemarie G. Edillon told reporters late Wednesday after the meeting.
- She noted that the draft federal charter was “not clear” on whether spending responsibilities will be shared in terms of subsidies, tax expenditures, financial expenses and capital outlays.
- Ms. Edillon said that the government faces P156.6-243.50-bil in additional expenses — including personnel services and maintenance and operating expenses — in the first year of implementation of the new charter. She said that this does not include the cost of “around P10-bil to establish the new offices” in federated regions.
- At least in the first few years of operation, therefore, the new government form “will impede the delivery of goods and services” and lead to “inevitable disruptions to the economy’s growth momentum and progress in infrastructure improvement efforts.”
- The NEDA official said that there will also be “unquantifiable economic costs; repercussions and externalities [that] include impact on foreign direct investments and international trade, reaction of credit rating agencies to fiscal deficit and debt effects.”
- After the meeting last Wednesday, Mr. Dominguez told reporters still that “We need more clarity, that’s all.”
- “The document that was produced lacks clarity on these specific issues. We are not against federalism. It’s just that these things need to be clarified.”
- The consultative committee submitted its draft to both chambers of Congress in July.
- “Actually it’s already in Congress,” Mr. Dominguez said. “So it’s up to Congress already.”
- Budget Secretary Benjamin E Diokno told reporters on Thursday that “the real decision makers here will be Congress,” adding that economic managers’ main concern was to “control the deficit.”
- “That’s the major constraint: the size of the deficit.”

**CORPORATE NEWS**
**MPI**

- The Light Rail Manila Corp. (LRMC) said it will push through with the construction of the Light Rail Transit Line 1 (LRT-1) Cavite extension project despite possible delays in the implementation of a fare hike.
- This comes after Transportation Secretary Arthur P. Tugade told reporters on Tuesday that he hopes the private concessionaire for the LRT-1 wouldn't let construction of the Cavite extension rely on the approval of its fare hike.
- In July, the LRT-1 operator said the fare hike "will assure the construction of (the train's) extension to Sucat, Las Piñas and Bacoor," as banks would be more open to lend funds for the company if it can recover its investment.
- Its concession agreement indicates the government should allow a 5% increase in LRT-1 fares every two years.
- LRMC filed an application to the Department of Transportation (DoTr) in March for a P5 to P7 hike in LRT-1 fares. It was supposed to be implemented within August, but Mr. Tugade said no public hearing has been conducted yet.
- The Transportation secretary also said the government is not open to subsidizing any LRT-1 fare increase.

**MBT**

- Metropolitan Bank & Trust Co. chairman Arthur Ty loaded up on more shares of Metropolitan Bank and Trust Co.
- Metrobank said Arthur acquired five million shares of Metrobank for P73.60 apiece or a total of P368-mil on Aug. 23.
- Following the transaction, Arthur now indirectly owns nearly 350-mil million Metrobank shares or about 8.77%. He directly owns 13.25-mil shares representing 0.33% of the bank.
- Arthur is the eldest son of taipan George S.K. Ty, who also has investments in automotive assembly and dealership, property development, infrastructure, insurance, and utilities.

**ICT**

- Former San Miguel Corp. chairman and CEO Andres Soriano III raised P380.8-mil from the sale of half of his shares in International Container Terminal Services Inc.
- Soriano, a director of ICTSI, sold four million shares at P95.20 each share on Aug.28.
- With the transaction, the billionaire now owns 4.15-mil ICTSI shares or about 0.152% of the global port operator.
- Soriano serves as CEO of Seven Seas Resorts and Leisure Inc., which owns the world-renowned Amanpulo Resort on Pamalican Island.

**PTT**

- Philippine Telegraph & Telephone Corp. urges the Philippine Stock Exchange to immediately lift the trading suspension on its shares to allow it to raise the much-needed funds to support its aggressive expansion and its bid to become the country's third telco player.
- PT&T hopes to resume trading within the year after completing all the requirements set by the PSE for the lifting of its trading suspension.
- The new management of PT&T led by Salvador Zamora II wants to raise fresh capital to fund the expansion of its broadband and data business.
- Company president James G. Velasquez said PT&T has underlying assets and existing business to support its shares as well as competent management team and positive growth outlook.

**GOLD BUYING / Troy Oz.**

US\$1,205.40

**COPPER BUYING / lb.**

US\$2.693

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