PrimeEquity Research

Meridian Securities INCORPORATED Member: Philippine Stock Exchange

MARKET RECAP

07 August 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,725.85 (-1.17%)	98,342,318.27	(2,119,799.49)	25.73 (+1.30%) = 1,367.45	53.040

Market Recap

- Philippine share prices tumbled as the July inflation print showed further acceleration, fueling expectations that the central bank will deliver another rate hike this week.
- The benchmark PSEi dropped 91.46 points or 1.17% to close at 7,725.85. The broader All Shares index fell 24.85 points or 0.53% to 4,635.59 at the closing bell.
- Inflation jumped to 5.7% last month, higher than June's 5.2% and the fastest pace in over five years. In July last year, inflation was at 2.4%.
- The July inflation print fell on the top end of the central bank's 5.1% to 5.8% range forecast and faster than a median consensus of 5.5%, prompting investors to cash out ahead of the central bank policy meeting on Thursday.
- Worries over the US-China trade conflict also further added to the market's decline.
- The market is being buffeted by conflicting currents. The bottom-up view from a corporate perspective is positive.
- However, the increasing potential for trade disputes to slow the global economy is restraining investor enthusiasm.
- Some analysts see the trade conflict benefiting the US dollar, in turn detrimental to the Philippine peso, as the nation's emerging market economy is not better placed to handle protectionism than its first world counterparts.
- More than 1.791-bil shares, valued at P5.207-bil, changed hands. Market breadth was negative, with decliners outweighing advancers, 103 to 99, with 38 issues unchanged.
- Gainers: GLO (+3.50%), RLC (+3.00%), SMC (+1.10%), URC (+1.06%), AC (+0.80%)
- Laggards: BDO (-4.07%), JFC (-3.57%), JGS (-3.45%), DMC (-3.11%), TEL (-2.58%)

July Inflation

- Prices of key consumer items rose for a seventh straight month in July, fueling expectations that the central bank will deliver another rate hike this week.
- Inflation jumped to 5.7% last month, higher than June's 5.2% and the fastest pace in over five years. In July last year, inflation was at 2.4%.
- Year-to-date, inflation averaged 4.5%, still above the central bank's 2% to 4% target band.
- The latest inflation print, which was due to higher food and transport costs, settled at the high end of the central bank's forecast for the month but exceeded the market consensus of 5.5%.
- Prices in the National Capital Region climbed at a faster rate of 6.5% in July than areas outside the capital, which saw a 5.5% increase.
- Central bank Governor Nestor Espenilla said the July inflation figure remains consistent with the regulator's expectations.
- "We will consider all the latest data updates in determining the strength of our follow-through response in the upcoming policy meeting of the monetary board this Thursday," Espenilla said.
- People have blamed soaring prices on the Tax Reform for Acceleration and Inclusion (TRAIN) law, which raised excise levies on fuel, "sin" products and sugary beverages, among others.
- Supply-side factors like higher global oil prices—exacerbated by the continuing depreciation of the peso—are also pushing up commodity prices. The country's economic managers, meanwhile, have pointed out that elevated inflation was typical of a rapidly expanding economy.
- The central bank, which is due to meet on Thursday, has responded by raising its policy rate twice this year. Higher interest rates discourage people from borrowing money and from spending, causing a decline in demand which, in turn, tempers inflation and can even slow down the country's economic growth to avoid overheating.
- But analysts say the central bank will likely lift its benchmark rates again this week, this time by 50 basis points (bps) instead of the traditional 25 bps adjustment to contain inflation and lend some strength to the local currency, which has weakened by more than 5% year-to-date.
- Inflation is expected to remain above 5% for the remainder of the year, with its peak likely in August. Against this backdrop, analysts expect a 50 basis point rate hike on August 9.
- A more aggressive rate adjustment cannot be ruled out considering July's inflation data.

MARKET RECAP

July Inflation (continued)

- Overall, the combination of robust domestic demand, lingering impact of tax reforms, and elevated global crude oil prices continue to present a challenging environment. The emerging inflation trajectory warrants further tightening.
- The policy statement should remain hawkish, with central bank clearly leaving the door open for more rate hikes ahead.

TRAIN 2 Substitute Bill

- The House of Representatives' Ways and Means Committee on Tuesday approved a substitute bill of the Duterte administration's proposed corporate tax reform program.
- Corporate tax reform comprises Package 2 of the Duterte administration's Comprehensive Tax Reform Program. The proposal is also known as TRAIN 2, after the name of the Tax Reform for Acceleration and Inclusion law.
- The measure aims to trim corporate income tax and streamline fiscal incentives to grant them only to those who need them
- The House panel-approved substitute bill seeks to gradually slash the current 30% corporate income tax by 25 every other year starting 2021 to 2029, provided that the cut would not reach lower than 20%.
- The committee also proposed renaming Package 2 of the tax reform program to "Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO)." The measure was previously known as Corporate Income Tax and Incentives Reform Act (CITIRA).
- Despite President Rodrigo Duterte's public popularity and the super-majority he holds in Congress, Senate Majority Leader Juan Miguel Zubiri earlier said Package 2 has "very little support" from senators amid fears that the measure could slow investments and fan inflation.
- The Department of Finance is targeting to introduce in July this year the rest of the tax reform packages that mainly cover property and capital income taxation.
- Since the start of 2018, the DOF has submitted Package 2, as well as the reforms on taxes on alcohol and mining, while supporting the bill of Sen. Manny Pacquiao on tobacco excise taxes.

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	5.7% (2012 BY) (July 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)

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