

# MARKET RECAP

09 August 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,820.71 (-0.39%)	119,398,618.08	6,090,902.27	25.97 (+2.00%) = 1,374.38	53.025

## Market Recap

- Philippine share prices retreated as slower gross domestic product (GDP) growth in Q2 proved disappointing to investors.
- The bellwether PSEi lost 30.75 points or 0.39% to 7,820.71 at the closing bell. The broader All Shares increased by 7.21 points or 0.15% to 4,715.82.
- The index even plunged as low as 100.04 points or 1.27% during the morning session, but managed to recoup losses towards the close.
- The decline was due to the “very disappointing” Q2 GDP figures, which prompted investors to liquidate gains from previous sessions.
- Economic growth in Q2 of 2018 slowed down to 6.0% from 6.7% a year earlier.
- The market’s performance was a knee-jerk reaction to the economic data, considering that the market was on an uptrend prior to this.
- The Q2 GDP growth is also slower compared with the downwardly revised Q1 economic performance of 6.6% from 6.8% as the government announced earlier.
- More than 1.126-bil shares valued at P6.331-bil, changed hands. Market breadth was negative, with decliners leading advancers, 121 to 90, and 34 issues were unchanged.
- Gainers: EDC (+41.41%), RLC (+4.48%), FGEN (+3.64%), MEG (+3.33%), LTG (+2.43%)
- Laggards: JFC (-2.82%), GLO (-2.42%), MPI (-1.77%), AEV (-1.66%), MER (-1.33%)

## Q2 GDP

- The Philippine economy grew 6.0% in Q2 of 2018, the Philippine Statistics Authority (PSA) reported Thursday morning.
- The April-June gross domestic product (GDP) growth figure was lower than the revised 6.6% growth recorded in the same period in 2017 and the 6.8% median estimate in a poll last week.
- This brings growth in H1 to 6.3%, which is also below the government’s 7% to 8% target band for 2018.
- The services led growth among major sectors at 6.6%, faster than the 6.4% recorded in the same period last year. Meanwhile, the industry sector posted a 6.3% growth, slower than the 7.1% in 2017.
- Agriculture also grew albeit marginally at 0.2% versus the 6.3% growth posted a year ago.
- On the expenditure side, household spending was up 5.6% during the period compared to the 6.0% growth in Q2 of 2017.
- Exports of goods and services grew by 13.0%, slower than 2017’s 21.4%. Meanwhile, imports grew 19.7% from 18.6%.
- On the other hand, government spending picked up steam during the quarter, growing by 11.9% from 7.6% in the same period last year. Capital formation, which is a measure of private investment, was likewise up by 20.7% from 7.6%.
- Gross national income—the sum of the nation’s GDP and net income received from overseas—recorded a growth of 5.8% in Q2 of 2018, down from 6.6% previously.
- The deceleration was blamed in part to policy decision made by the Duterte administration that, according to Socioeconomic Planning Secretary Ernesto Pernia, were supposed to support “sustainable and resilient development.”
- Pernia noted Q2 GDP growth placed the Philippines third in terms of the fastest growing economies in Asia, but that it could have done better.
- “We are referring to the temporary closure of Boracay Island from April to October 2018, which partly made a dent in the economy with growth in exports of services slowing to 9.6% in Q2 from 16.4% in Q1,” he said.
- President Rodrigo Duterte approved in April a recommendation to close the island resort for six months and make way for an environmental rehabilitation.
- Pernia earlier said the six-month closure of the island would cost the economy as much as P1.96-bil.
- “We are also referring to regulations in the mining sector – the closure of several mining pits and the excise tax on non-metallic and metallic minerals – so that the mining and quarrying sector showed a lackluster performance. It is down by 10.9%,” Pernia noted on Thursday.
- “Moreover, the stricter enforcement of regulations on aquaculture producers at Laguna Lake resulted in the drop of freshwater fish catch,” he said.

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## Q2 GDP (continued)

- This implies that the Philippine economy would have to expand by at least 7.7% in H2 to attain the low end of the target of 7% to 8% for 2018.
- The Philippines could still meet the low-end of the target range, with the entry of a third player in the telecommunications industry and the reopening of the Boracay.
- In the services sector, the immediate facilitation of the possible entry of a third player in the telecommunications industry will enhance the efficiency of communications, and support the growth of small business, particularly retail trade.
- “Further, the resumption of tourism activities in Boracay Island by October gives us good reason to be bullish about prospects for tourism and other service sectors in the fourth quarter,” Pernia said.
- Environment Secretary Roy Cimatu noted that Boracay will officially reopen on October 26.
- The recent uptick in inflation also caused the Philippine economy to miss the government target growth of 7% to 8% in Q2.
- Inflation accelerated to 4.5% in April, 4.6% in May, 5.2% in June, and 5.7% in July, all being the fastest in at least five years during the time.
- Socioeconomic Planning Secretary Ernesto Pernia in May already called for government intervention to address the acceleration in inflation, given its implications on Q1 economic growth.
- He also called on the immediate tariffication on rice for private distributors to be able to import supplies, which is currently only being done by the National Food Authority (NFA).

## SM

- SM Investments Corp. grew its H1 earnings by 9% to P18.1-bil, driven by higher contributions from its retail and residential development businesses.
- Consolidated revenues went up 12% to P204.9-bil.
- The results show the strength of the economy and consumer sentiment but the conglomerate remains vigilant about inflationary pressures. SMIC is optimistic that consumption will remain resilient.
- SM Retail sustained its growth with earnings and sales growing 10% to P5.7-bil and P145-bil, respectively. As of the end of the first semester, It had a total of 2,149 stores, comprising 61 The SM Stores, 1,304 specialty stores, 55 SM Supermarkets, 49 SM Hypermarkets, 190 Savemore stores, 49 WaltherMart stores and 441 Alfamart stores.
- Its convenience business under Alfamart increased its network by 93 while its specialty retail stores grew 17% to P37.3-bil, driven by the expansion of Miniso, which had 55 stores at the end of H1.
- Banking arm BDO Unibank reported a slight drop in net income to P13.1-bil. Excluding the impact of Philippine Financial Reporting Standards (PFRS9), which was implemented early this year on the investment portfolio of BDO Life and the ongoing expansion of One Network Bank, net income would have increased by 13%.

### 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>	(P54.3-B) (June 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>	4.00% (as of June 20, 2018)
<b>91-day T-Bill Rate</b>	3.219 (as of July 23, 2018)	<b>Cash Remittances</b>	US\$2.469-B (May 2018)	<b>O/N RRP</b>	3.50% (as of June 20, 2018)

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