

# MARKET RECAP

10 July 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,233.29 (+0.65%)	94,921,829.38	(9,556,466.96)	24.31 (+0.87%) = 1,298.45	53.359

## Market Recap

- Philippine share prices sought to rally as hopes for upbeat corporate earnings buoyed the market, while overnight gains on Wall Street and the lack of bad news surrounding U.S.-China tariffs boosted sentiment.
- The benchmark PSEI gained 46.67 points or 0.65% to close at 7,233.29. Meanwhile, the broader All Shares index added 28.14 points or 0.64% to 4,413.44 at the closing bell.
- Investors chose to cherry-pick beaten stocks and reposition ahead of Q2 corporate earnings releases, to which there is much optimism on positive results.
- On Friday, Washington put in place a 25% tax on \$34-bil worth of Chinese imports. Beijing retaliated with an equal amount of tariffs on U.S. products, including soybeans, electric cars and whiskey. The development hardly rattled the markets, as investors had weeks to steady their nerves. The U.S. is currently gathering public comments for taxes on 284 more Chinese imports worth \$16-bil. It is also identifying an additional \$200-bil in Chinese goods for 10% tariffs, which the Trump administration has said would take effect if Beijing reacted to higher U.S. taxes.
- Despite Trump suggesting that there are more tariffs to come, the fact that they've not been put in place gives markets a little bit of relief. The optimism is temporary. But for now, no news is good news.
- More than 697.015-mil shares, valued at P5.064-bil, changing hands. Market breadth was positive with advancers edging out decliners, 113 to 73, while 54 issues were unchanged.
- Gainers: AP (+3.60%), GTCAP (+3.02%), BPI (+2.25%), LTG (+2.16%), TEL (+2.16%)
- Laggards: ALI (-1.22%), SM (-1.12%), SMC (-0.87%), RLC (-0.40%), ICT (-0.38%)

## Trade Balance

- The Philippines' trade deficit in May rose to a five-month high driven by double-digit growth in imports and contraction in exports, the country's statistics agency reported Tuesday.
- The country's trade gap widened to \$3.70-bil in May, up from April's deficit of \$3.48-bil and the \$2.51-bil shortfall posted a year ago. Total external trade in goods surged 5.1% to \$15.22-bil.
- The trade deficit in May was the biggest after last December's \$4 billion.
- Philippine President Rodrigo Duterte's plan to keep his country's growth engine humming by spending more than P8-tril on infrastructure has been fueling demand for imports of construction-related goods.
- The increasing capital goods imports due to the infrastructure boom have reversed the country's current account surplus to a deficit, pressuring the Philippine peso, one of Asia's worst performing currencies so far this year.
- Year-on-year, exports fell 3.8% to \$5.76-bil in May following declines in export shipments to major trading partners Japan and Singapore.
- Outbound shipments of electronic products, the country's top export in May, jumped 2.3% to \$3.13-bil from \$2.82-bil in the same month last year.
- Meanwhile, total imports inched up 11.4% to \$9.46-bil in May from \$8.49-bil a year ago, fueled by heightened purchases of electronic products, mineral fuels and telecommunication equipment overseas.
- The widening of the trade deficit is expected as the nation is importing a lot of capital goods to accommodate the investment needs of the country.
- A wider trade deficit will subtract some points from growth, but it could be compensated by a stronger expansion in investment spending.
- Moving forward, higher importation of capital goods also sets the stage for stronger growth in the future, as these goods could improve the country's productive capacity.
- But a widening trade gap could be "worrisome" when it contributes to weaken the peso and raise domestic prices.
- At the same time, however, it reflects greater government spending on infrastructure and relatively higher cost of petroleum products in the world market.
- The negative impact of a widening trade deficit on gross domestic product can be offset by positive stimulus from government spending.

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## 2019 National Budget

- President Rodrigo Duterte and his Cabinet approved the proposed P3.757-tril national budget for 2019, Malacañang said Tuesday.
- It was approved during the Cabinet meeting in Malacañang on Monday.
- The 2019 proposed budget is slightly lower than 2018's P3.767-tril, the country's biggest to date.
- Nearly a third of the proposed budget will go to personnel services, with an allocation of P1.185-tril.
- The rest of the budget will cover the following: capital outlays (P752.7-bil), local government unit allotments (P640.6-bil), maintenance expenditures (P562.9-bil), debt burden (P414.1-bil), government-owned and controlled corporations' support (P187.1-bil), tax expenditures (P14.5-bil)
- Per sector allocation, the share of social services in the 2019 budget was slightly trimmed to 36.7% from 37.8%.
- Economic services were also reduced to 28.4% from 30.6%, while the share of general public services was increased to 18.9% from 17.4%.
- Provision for debt burden also increased to 11% from 9.8%, while defense was increased to 5% of the total from 4.3% in 2018.
- Reports have it that the 2019 proposed general appropriations would be the first ever cash-based budget, meaning the implementation is just one year with an extended payment period of three months after the fiscal year.
- The Duterte administration aims to submit the proposed national budget to Congress on July 23 when the President is to deliver his third State of the Nation Address.

## Mining

- The Philippine Nickel Industry Association (PNIA) on Tuesday belied claims made by President Duterte that miners conspired and lobbied against Gina Lopez to stop the powerful congressional body from approving her appointment as Environment secretary.
- The PNIA emphasized that Lopez was not the only Cabinet official who was rejected by the Commission on Appointments in 2017.
- The appointments of Foreign Affairs Secretary Perfecto Yasay Jr., Agrarian Reform Secretary Paeng Mariano, Health Secretary Pauline Ubial, and Social Welfare Secretary Judy Taguiwalo were also rejected.
- On July 4, President Rodrigo Duterte said there was likely a "conspiracy" behind CA's decision in May last year to reject Lopez's appointment at the Department of Environment and Natural Resources.
- A deeper look into the process why Lopez was rejected would show that it was really based on merits.
- The industry is open to a dialogue with the President to address miscommunications about the sector.
- The mining industry has an ongoing dialogue with the government on the plan to ban open-pit mining.

### ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.8% (Q1 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$77.675-B (June 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P32.9-B) (May 2018)	<b>Exports Growth Rate</b>	(3.8%) (May 2018)	<b>BOP</b>	(US\$583-M) (May 2018)
<b>Inflation</b>	5.2% (2012 BY) (June 2018)	<b>Imports Growth Rate</b>	11.4% (May 2018)	<b>O/N RP</b>	4.00% (as of June 20, 2018)
<b>91-day T-Bill Rate</b>	3.484 (as of June 25, 2018)	<b>Cash Remittances</b>	US\$2.360-B (April 2018)	<b>O/N RRP</b>	3.50% (as of June 20, 2018)

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