

MARKET RECAP

17 July 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,381.68 (+0.17%)	66,982,556.63	(8,988,148.63)	25.07 (-0.52%) = 1,340.49	53.522

Market Recap

- Philippine share prices were higher on sluggish trades, weighed by a sharp decline in crude oil prices as Libyan ports reopened, and as mounting tensions over U.S. tariffs overshadowed data suggesting global growth was still on track.
- The benchmark Philippine Stock Exchange Index (PSEi) added 12.24 points or 0.17% to close at 7,381.68. Meanwhile, the broader All Shares index inched 2.78 points or 0.06% to 4,465.38 at the closing bell.
- Crude has been rising steadily so some kind of adjustment was due. From this context the impact on the broader economy, inflation and therefore the stock markets should be limited.
- Crude prices slumped more than 4% on Monday, with Brent futures reaching a three-month low of \$71.52 a barrel, as Libyan ports reopened and traders eyed potential supply increases by Russia and other producers.
- Concerns over China's Q2 economic growth also weighed on oil prices. The country's economy expanded at a slower pace as Beijing's efforts to contain debt hurt activity, while June factory output growth weakened to a two-year low.
- On Monday, the Trump administration brought cases against China, the European Union, Canada, Mexico and Turkey at the World Trade Organization for retaliating against American tariffs on imported steel and aluminum. The U.S. has imposed tariffs of 25% on steel and 10% on aluminum on the grounds that the imported metals pose a threat to its national security. In response, the countries have counterpunched with taxes on more than \$24-bil worth of U.S. exports. U.S. Trade Representative Robert Lighthizer said their retaliation violates WTO rules. If the WTO agrees, it would assess the damage and calculate the tariffs that the United States would be entitled to impose in response — retaliation for the retaliation. But WTO proceedings can last years. Earlier in the day, China said it had filed a WTO challenge to Trump's proposal for a tariff hike on \$200-bil of Chinese goods.
- The recovery for equity markets takes a breather with the earnings optimism coming under question and a reminder of the concerns over trade tensions.
- Volume remains light with more than 456.020-mil shares, valued at P3.585-bil, changing hands. Advancers outweighed decliners, 91 to 90, with 55 issues unchanged.
- Gainers: GLO (+2.83%), MPI (+2.03%), ICT (+1.89%), URC (+1.63%), JFC (+1.53%)
- Laggards: AC (-1.90%), LTG (-1.45%), RLC (-1.31%), BPI (-1.14%), MEG (-1.10%)

Federalism and PH Economy

- A shift to federalism can only spell disaster for the Philippines, possibly stoking “hyperinflation” and ceding more powers than what many local government units (LGUs) are ready to handle, top economists from the University of Asia and the Pacific (UA&P) warned on Monday.
- UA&P's Bernardo Villegas is not so optimistic on the proposed shift to a federalist form of government.
- The economist said the Philippines should learn from history, noting that other nations that were successful in embracing federalism were those which already had strong local government structures in the first place.
- Otherwise, he said a spending binge that would arise from a shift to federalism could trigger “hyperinflation,” a situation when consumer prices are skyrocketing, sharply eroding the value of the local currency.
- Villegas added there's “no rhyme, no reason” on how the so-called federal states in the Philippines were proposed to be organized.
- Under the local government code of 1991 which devolved powers to LGUs, Villegas said “enlightened” and “competent” governors and mayors already had the leeway to act as federal states and team up with other LGUs.
- Victor Abola, another senior economist from UA&P, noted that nations that had suffered from hyperinflations – specifically a consumer price upsurge of 1,000% – were mostly from Latin America as well as Eastern Europe, which had broken away from communism.
- In Latin America, he noted that two of the biggest economies – Brazil and Mexico – had the highest inflation in the region “because the federal state is not strong enough to control the local states.”
- Citing his regression study on middle-income countries, Abola added that federalism did not boost economic growth.
- Abola is likewise concerned on the quality of administration at the LGU level.

MARKET RECAP

16 July 2018

Federalism and PH Economy

- “At the national level, it’s getting more professional but at the local level, we usually have political appointees. And then the other thing is, of course, they are not very transparent. You don’t know how the money in your city and municipality is being spent,” he said.
- In the case of the Autonomous Region in Muslim Mindanao (ARMM), Abola said this region was “given practically everything they want and they have not managed to do it well.”
- Catapulting Philippine regions into federal states, Abola said, “is like going from grade school to doctorate in Physics...It’s going to be a disaster.”

PIZZA

- Shakey’s Pizza Asia Ventures has further expanded its presence in the Middle East with the opening of its first store in Dubai.
- The local pizza chain broke record sales during its opening day in Dubai.
- Located opposite Burjuman Mall and just a few steps from EXIT 4 of Burjuman Metro Station, the new store represents the first of nine outlets franchisee Aljeel Capital has committed to open over a span of five years.
- Shakey’s ended Q1 with a total of 212 stores locally. The store in Dubai is the second international store which owns the perpetual rights to the Shakey’s brand for the Middle East, Asia (excluding Japan and Malaysia), China, Australia, and Oceania.
- With two area development agreements already signed up, Shakey’s total international pipeline is at least 20 outlets over the next few years.

MBT / PIP

- The loan agreement has been refreshed.
- George Ty has revived its commitment to finance expansion plans of Pepsi-Cola Products Philippines Inc. for another five years.
- Ty’s Metropolitan Bank & Trust Co. has extended a fresh P2.5-bil loan line for the listed beverage maker, which will support local expansions.
- Pepsi remains upbeat about the Philippine market despite new taxes imposed on soft drinks and other sugary drink products.

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)	(P32.9-B) (May 2018)	Exports Growth Rate	(3.8%) (May 2018)	BOP	(US\$583-M) (May 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	3.484 (as of June 25, 2018)	Cash Remittances	US\$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 2018)

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64

Disclaimer: This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst’s personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addresses and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.