

# MARKET RECAP

17 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,413.56 (+0.006%)	72,930,242.62	(4,644,993.29)	26.26 (-0.19%) = 1,418.15	54.011

## Market Recap

- Philippine share prices closed flat to start off the week, amid reports Washington was about to announce a new round of tariffs on Chinese imports, setting the stage for possible reprisals by Beijing.
- The benchmark PSEi inched 0.41 points or 0.006% to 7,413.56 at the closing bell. The broader All Shares, on the other hand, lost 5.30 points or 0.12% to 4,550.00.
- The Washington Post and Wall Street Journal said the president had decided to impose 10% levies on \$200-bil of Chinese imports and could make an announcement in the coming days.
- That would come on top of the \$50-bil already announced over the summer and would account for about half of China's exports to the United States. Beijing has threatened to retaliate to any measures.
- The WSJ also reported Beijing may decline to participate in proposed trade talks with the United States later this month if the Trump administration moves forward with the tariffs.
- Other officials who advise the country's leaders are suggesting China impose limits on the sale of parts and supplies needed by U.S. businesses, using "export restraints" to threaten their supply chains.
- Further escalation looks very likely in which the rate will likely be raised to 25% and more US tariffs threatened, while China may potentially pull out of trade talks entirely and escalate on the new front of outright export restrictions.
- Positives could be taken from the fact Trump is said to be considering 10% tariffs, rather than the feared 25%.
- No more tariffs would still be the best outcome for the markets but with the US administration seemingly wanting to pursue its longer-term strategic agenda against China, that's unlikely to be the case, especially as there is little in the way of pain being felt by the US economy or equity market.
- Timing is also important when it comes to enacting any new tariffs. A staggered implementation is being viewed as the best of a bad situation.
- More than 968.132-mil shares valued at P3.939-bil, changed hands. Market breadth was negative, with decliners beating advancers, 99 to 95, and 44 issues were unchanged.
- Gainers: URC (+2.83%), JFC (+2.23%), SMPH (+1.65%), ALI (+1.46%), GLO (+1.28%)
- Laggards: SECB (-3.30%), MEG (-2.74%), AEV (-2.69%), AGI (-2.05%), RLC (-1.91%)

## Monetary Policy Outlook

- There is a need for the central bank to raise rates for a fourth time this year given the rising inflation environment in the country, strategists at Singapore-based DBS Group Research said Monday.
- DBS strategists said the market has already discounted another 50-basis point hike at the next monetary policy on September 27.
- The Philippines need to raise rates again to rein in inflation.
- The central bank has a fair amount of tightening to do because monetary conditions have become loose after the higher-than-expected CPI inflation in August widened its gap against the overnight borrowing rate.
- Inflation came in at 6.4% in August, the fastest in over nine years since it clocked in at 6.6% in March 2009.
- Current conditions warrant a change in monetary policy, according to the University of Asia and the Pacific (UA&P) School of Economics.
- UA&P believes stronger and persistent measures have to be put in place to calm the agitated price environment.
- During its policy meeting last month, the central bank raised interest rates by 50 basis points, bringing the overnight borrowing rate to 4.00%, the overnight lending to 4.50%, and overnight deposits to 3.50%.
- For its part, the central bank said it was taking into close consideration the need for a fourth rate hike this year given the August inflation figures.
- Appropriate recommendations will be presented to the Monetary Board at its next policy meeting on September 27. It is most critical at this point to restore inflation back to the target range soonest and securely anchor inflationary expectations, the central bank said.
- Last month, Budget Secretary Benjamin Diokno said the inter-agency Development Budget Coordination Committee will also review the inflation target and forecast for the year.

# MARKET RECAP

17 September 2018

## AEV

- Aboitiz Equity Ventures, Inc. (AEV) expects to start constructing its P14-bil Apo Agua bulk water supply project in Davao City by next month, after having secured all the necessary permits.
- Initially expected to be operational by 2019, the company had pushed back the target completion date for Apo Agua to 2021 due to delays in securing permits.
- The Apo Agua project is expected to provide 300 to 350-mil liters of potable water every day, making it the largest bulk water project in the country. The water for Apo Agua will be sourced from Tamugan River, prompting the firm to build 30 to 52 kilometers of pipes to bring the water from the river to the water treatment plant.
- Aside from the water treatment component, the project will also include a hydropower plant with an expected output of 2.2 megawatts (MW), which is enough to run the bulk water facility.
- The project is being undertaken by Apo Agua Infraestructura, Inc., a 70-30 joint venture between AEV and J.V. Angeles Construction Corp. (JVACC). The group has also signed the bulk water supply agreement with the Davao City Water District (DCWD) back in 2015.
- DCWD currently sources its supply from 60 production wells for ground water extraction. Apo Agua will serve as an alternative source of water in Davao, and will allow half of the production wells to be rested.
- Financing for the project will be finalized by the end of September.

## AP

- Aboitiz Power Corp. is in talks with two interested parties for the sale of the 8.8-megawatt (MW) biomass power plant in Lian, Batangas under subsidiary Aseagas Corp., which it wrote off for P3.7-bil in January this year.
- In January, the company announced that it would be permanently stopping the operations of the biomass power plant because of the lack of organic materials to produce electricity. It said its top consideration was to balance the interests of stakeholders, including those of Aseagas' employees.
- In December last year, AboitizPower said the plant had temporarily ceased operations because of the unavailability of organic effluent wastewater from its supplier Absolut Distillers, Inc. for conversion into clean and renewable energy.
- This time Absolut would again be the source of the feedstock for the power plant.
- The company had been given assurance that there would be available feedstock from Absolut, which had expanded as well. Also, the company had not closed its doors to a joint venture.
- The total value affected as a result of the plant's closure included Aseagas' invested equity of P3.45-bil and the company's estimated remaining obligations of around P250-mil.
- AboitizPower acquired the biomass plant in July 2016, building up its renewable energy footprint, which covers large hydro, run-of-river hydro, geothermal and solar.

### ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.0% (Q2 2018)	<b>Unemployment Rate</b>	5.4% (July 2018)	<b>GIR</b>	US\$77.829-B (August 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P86.4-B) (July 2018)	<b>Exports Growth Rate</b>	0.3% (July 2018)	<b>BOP</b>	(US\$455-M) (July 2018)
<b>Inflation</b>	6.4% (2012 BY) (August 2018)	<b>Imports Growth Rate</b>	31.6% (July 2018)	<b>O/N RP</b>	4.50% (as of August 9, 2018)
<b>91-day T-Bill Rate</b>	3.225 (as of September 3, 2018)	<b>Cash Remittances</b>	US\$2.357-B (June 2018)	<b>O/N RRP</b>	4.00% (as of August 9, 2018)

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. [www.meridiansec.com.ph](http://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 any 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.