

MARKET RECAP

19 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,151.52 (+0.14%)	91,393,972.15	(4,082,004.06)	26.12 (+0.69%) = 1,407.63	53.999

Market Recap

- Philippine share prices continued their ascent, albeit gains in today's session were tempered as global sentiment continued to sour on issues ranging from trade worries, Italy's 2019 budget, higher US interest rates and growth concerns in China.
- The benchmark Philippine Stock Exchange Index (PSEi) added 10.27 points or 0.14% to 7,151.52. The broader All Shares, however, lost 2.75 points or 0.06% to 4,359.65.
- Markets continue to digest the combination of higher US rates, ongoing trade tension and Chinese growth concerns.
- The flight to safe-haven assets partly offset a rise in US Treasury yields sparked by worries about the pace of interest rate increases by the US Federal Reserve. Early in Asia on Friday, the 10-year yield was higher at 3.1767%, compared with a US close of 3.175% on Thursday.
- The two-year yield, sensitive to expectations of higher Fed fund rates, edged up to 2.8741%.
- Investors are looking to Q3 GDP data out of China, due Friday, for indications of a slowing economy. The numbers are expected to show the weakest pace of growth since the global financial crisis amid a worsening trade war with the United States.
- China's premier said this week that the country's economic faces increased downward pressure, but said the government will take targeted measures to stabilize growth.
- Chinese authorities have taken steps in recent days to alleviate market pressure, including asking creditors of one Beijing company to avoid forcing margin calls.
- In the latest trade war volley, the US is requesting that a World Trade Organization dispute resolution panel look into tariffs imposed by China, the European Union, Canada and Mexico in retaliation to US tariffs on steel and aluminium.
- Further fraying market nerves, the European Commission on Thursday said a draft 2019 budget from Italy was in "particularly serious non-compliance" with EU rules, setting the stage for a possible unprecedented rejection of the country's fiscal plan.
- More than 2.165-bil shares, valued at P4.935-bil, changed hands. Advancers led decliners, 92 to 88, and 48 issues were unchanged.

Q3 Inflation

- Inflation or the rate of increase in the prices of goods and services clocked in at 6.2% during Q3 of 2018, the central bank said Friday.
- Q3 inflation print is faster than the 4.8% average posted in Q2 of the year, and compares with 2.7% recorded in the same period last year.
- This brought the first nine months average to 5%, higher than the upper end of the National Government's target range of 3.0% ± 1.0 percentage point for the year.
- Inflation pressures during the review quarter were attributed mainly to rising food and energy prices.
- Analysts have noted that inflation in 2018 remains tilted to the upside.
- The 6.2% inflation rate in July to September is also the fastest since Q2 of 2008 when it came in at 8.3%.
- Inflation spiked in Q3 clocking in at 5.7% in July, 6.4% in August, and 6.7% in September. September's inflation was the fastest in over nine years.
- Higher and volatile global oil prices, impact of the implementation of TRAIN law, weakening peso, rise on the food prices and other commodities due to weather adverse condition and supply shortage, and higher interest rates were among the causes of soaring inflation.
- Analysts also cited upside risks to inflation that include higher wages and transport fares, strong domestic demand during the holiday season and the upcoming mid-term elections in 2019.
- Inflation may have peaked in Q3 as prices of heavy-weight commodities such as rice started tapering off with the arrival of imports, said Rizal Commercial Banking Corp.
- The seasonal strength of the peso due to the influx of remittances during the Christmas season may also help ease inflation as stronger local currency helps reduce the cost of imports, it noted.

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Q3 Inflation (continued)

- The delayed implementation of the government’s mitigating measures against inflation and higher fiscal spending on infrastructure, as well as the global trade war are also factors exerting inflationary pressures.
- “Real gross domestic product (GDP) expanded by 6.0% in Q2 2018, slower than the 6.6% expansion registered both in Q1 2017 and Q1 2018, the central bank said, citing what happens when “domestic demand expands at a slower pace.”
- GDP grew by 6.3% in H1 of 2018—below the government’s growth target of 7.0% to 8.0%.

September BOP

- The country’s balance of payments position (BOP) returned to a deficit in September after posting a surplus in August, data released by the central bank on Friday showed.
- The payments deficit reached \$2.696-bil last month, a reversal from a surplus of \$1.27-bil in August and \$24-mil in September 2017.
- The BOP consists of the country’s transactions with the rest of the world during a given period. A surplus means more funds entered the country, while a deficit means more funds went out.
- Outflows in September 2018 stemmed mainly from foreign exchange operations of the central bank and payments made by the National Government for its foreign exchange obligations.
- These were partially offset, however, by the net foreign currency deposits of the national government.
- Year-to-date, the payments positions stood at a deficit of \$5.136-bil in January to September 2018.
- The higher deficit may be attributed partly to the widening merchandise trade deficit for the first eight months of the year. This, in turn, was brought about mainly by the sustained rise in imports of raw materials and intermediate goods as well as capital goods to support domestic economic expansion.
- The deficit was brought about by continuous importation of capital goods for the government’s infrastructure program, weak peso, and rising world prices of petroleum and other fuel products.
- The BOP position is consistent with the final gross international reserves level of \$74.94-bil as of end-September 2018.
- At this level, the GIR represents a more than ample liquidity buffer and is equivalent to 6.8 months’ worth of imports of goods and payments of services and primary income.
- It is also equivalent to 5.9 times the country’s short-term external debt based on original maturity and 4.2 times based on residual maturity, according to the central bank.

ECONOMIC INDICATORS

GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4% (July 2018)	GIR	US\$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	(US\$2.696-B) (September 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	4.404 (as of October 8, 2018)	Cash Remittances	US\$2.476-B (August 2018)	O/N RRP	4.50% (as of September 27, 2018)

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