PrimeEquity Research

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MARKET RECAP

19 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,221.23 (-0.89%)	101,537,961.72	(11,764,243.95)	26.07 (-0.91%) = 1,413.18	54.102

Market Recap

- Philippine share prices fell anew, bucking the trend among its regional peers, as investors were unable to look past the latest escalation in the US-China trade conflict, even if it is seen by some market participants as less severe than expected.
- The benchmark PSEi declined 65.11 points or 0.89% to 7,221.23 at the closing bell. The broader All Shares lost 34.00 points or 0.76% to 4,454.71.
- Philippine equity markets failed to take its cue from Wall Street, which posted a broad-based rally on Tuesday amid emerging views that the US-China trade dispute's impact on world growth might not be as heavy as previously feared.
- Asian equity markets, on the other hand, were able to regroup now that the latest phase of the US-China trade war is over.
- There was relief as the United States set the initial tariffs at 10%, rather than the expected 25%, seen by some as a gesture that it was buying time for further negotiations.
- On Monday, the US administration said it will begin to levy new tariffs of 10% on $200-bil of Chinese products on Sept. 24, with the tariffs to go up to 25% by the end of 2018. China said it will levy tariffs on about $60-bil worth of US goods, as previously planned, but cut the tariff rates.
- Investors also priced in larger-than-expected damage from Typhoon “Ompong” as well as spiraling inflation stemming from weakness in the peso.
- Some of the price increases that have pushed the country’s inflation rate to its highest in nearly a decade can be attributed to the weak peso which has been on a downtrend since the start of the year.
- As such, the central bank said that an interest rate hike—which market watchers expect to be announced after next week’s Monetary Board meeting—might help cap the inflation rate by stabilizing the local currency.
- More than 848.725-mil shares valued at P5.493-bil, changed hands. Market breadth was negative, with decliners beating advancers, 153 to 36, and 41 issues were unchanged.
- Gainers: PGOLD (+1.69%), PCOR (+1.58%), SMPH (+1.23%), SMC (+1.08%), LTG (+1.02%)
- Laggards: DMC (-3.79%), MEG (-3.63%), MPI (-3.47%), SECB (-3.43%), SCC (-3.23%)

Economic Outlook

- The Philippines will remain one of the fastest growing countries in emerging Asia this year and not even the high consumer prices of late will deter economic expansion, the Duterte administration’s economic team said yesterday.
- “The Philippine economy is strong. This year, we will again be among the top performers in the region. The momentum is being sustained by policy and infrastructure reforms. Firm and decisive political leadership pushes forward these reforms,” Finance Secretary Carlos G. Dominguez III said.
- Dominguez noted that foreign direct investments rose “sharply” in H1, while domestic manufacturers ramped up importation of capital goods on expectations of a “growing domestic market.’
- “In the short term, this may put pressure on the exchange rate and gross international reserves. But in the longer term, this is indicative of strong capacity building,” Dominguez said.
- Dominguez was referring to the weakening of the peso against the dollar as a result of a wider trade-in-goods deficit, which also widened the current account deficit, putting pressure on the domestic currency.
- Besides the weak peso, the Finance chief acknowledged concerns on the elevated inflation, as the rate of increase in prices of basic goods climbed in August to 6.4%, the highest in more than nine years.
- “While the inflation rate kicked up, we do not see this as a structural infirmity. It is a transient phenomenon that all of government is now mobilizing to deal with decisively,” Dominguez said.
- The Finance chief was referring to the draft executive order submitted by the Economic Development Cluster submitted for President Duterte’s signature, containing short- and long-term measures that will bring down food prices.
- “Sometimes, we get distracted by the cloud and fail to appreciate the rainbow,” Dominguez said, citing that inflation “has been front and center in the public conversation about our economy” of late.
- Socioeconomic Planning Secretary Ernesto M. Pernia noted that the Philippine economy had been “on a strong footing, growing by an average of 6.4% in the last eight years, the strongest since the mid-1970s.”

Economic Outlook (continued)

- But in H1, gross domestic product (GDP) growth slowed to a "respectable" 6.3% from 6.6% a year ago, noted Pernia, who heads state planning agency National Economic and Development Authority.
- Pernia said the slower GDP expansion in the first six months was "due to prudent and judicious policy decisions for the environment, made by the government for long-term, sustainable, and resilient development."
- While H1 growth was slower than those posted by India, Vietnam and China, the Philippines' economic expansion was faster than those of Indonesia, Thailand, Malaysia and Singapore, Pernia added.
- "The economy is also undergoing structural transformation as growth is increasingly being driven by investments vis-à-vis consumption on the demand side, and by the industry sector—manufacturing, in particular—relative to the service sector on the supply side. In other words, the sources of economic growth have broadened and diversified," according to Pernia.
- "Moreover, our economy's total factor productivity (TFP) has risen sharply, close to 3%, now the highest in Asean. These three points about our economy, namely—consistently high growth, structural transformation, and high TFP suggest that economic development is sustainable and capable of creating quality or more gainful jobs," the Neda chief said.

Government Borrowings

- The government is intending to borrow a total of P1.189-tril from both foreign and local creditors next year.
- Compostela Valley Representative Maria Carmen Zamora made the pronouncement on Wednesday during her sponsorship speech on House Bill 8169, or the General Appropriations Bill for 2019.
- According to Zamora, P282.7-bil or 24% of the P1.189-tril that government intends to borrow will be sourced from foreign creditors. A total of P906.2-bil or 76%, meanwhile, will be sourced domestically.
- These borrowed funds will be used for various purposes, Zamora pointed out.
- "Of the total borrowings, P624.4-bil will be used to finance the deficit, settle P146.3-bil in maturing debt obligations, and the balance includes contributions to the bond sinking fund, and maintain sufficient cushion of cash in the Treasury," she said.
- The House of Representatives on Wednesday began its plenary deliberations on the proposed 2019 national budget amounting to P3.757-tril after a two-day delay.
- Zamora said that in order to finance the expenditure plan for 2019, the national government will be raising P3.208-tril in revenues.
- Of this amount, she said, P3.018-tril or 94.1% will be in the form of taxes.
- "The Bureau of Internal Revenue will generate the bulk of this amount with P2.331-tril, while the rest will be contributed by the Bureau of Customs with P662.2-bil, and other offices with P25-bil," she said.
- "The balance of 5.9% will come from non-tax revenues amounting to P188.3-bil while P2-bil is expected from the sale of government assets," she added.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	**Unemployment Rate**	5.4% (July 2018)	**GIR**	US$77.829-B (August 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	**Exports Growth Rate**	0.3% (July 2018)	**BOP**	(US$455-M) (July 2018)
Inflation	6.4% (2012 BY) (August 2018)	**Imports Growth Rate**	31.6% (July 2018)	**O/N RP**	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.225 (as of September 3, 2018)	**Cash Remittances**	US$2.401-B (July 2018)	**O/N RRP**	4.00% (as of August 9, 2018)

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