

MARKET RECAP

20 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,134.73 (-1.20%)	84,872,257.17	(7,134,750.45)	25.96 (-0.42%) = 1,404.49	54.060

Market Recap

- The local stock market slipped to bear territory as local inflation jitters escalated in the aftermath of Typhoon “Ompong.”
- The benchmark PSEi dropped 86.50 points or 1.20% to 7,134.73 at the closing bell. The broader All Shares lost 42.75 points or 0.96% to 4,411.96.
- The local stock barometer has now slid by 1,943.64 points, or 21.41% from its all-time high of 9,078.37 that was hit on Jan. 29 this year.
- After hitting record highs in January, the PSEi touched bear territory in June this year but immediately recovered.
- Because of the typhoon and the crop damage, easing inflation expectations because of the harvests that were supposed to come in are all but shattered, as rising consumer prices may take more time to slow down.
- However, the market’s reaction may be “overdone” because even if interest rates were rising with inflation, these rates were just normalizing from record lows.
- Nonetheless, many investors were dumping large-cap stocks, especially banks, as the usual “reflex” was to expect that higher interest rates may curb loan volumes, increase delinquency, and constrain economic activity.
- But inflation can be contained. It would just take a few months for supply to catch up with the demand.
- With the projected crop damage from the recent typhoon, the Philippines may continue to see accelerated price pressures on the overall September inflation print, with food and energy prices possibly lifting inflation past 6.5%.
- The market expects inflation to peak in Q3 and although the September reading may remain elevated, many continue to believe that the path of inflation will eventually move towards target going into 2019.
- As such, the central bank would likely enact “substantial” monetary action at the upcoming policy-making meeting on Sept. 27.
- Although the protracted inflation overshoot may be tied in large part to bad weather and rising oil prices, monetary authorities will look to anchor inflation expectations and remain vigilant against a possible de-anchoring. Thus, the central bank will need to maintain their current hawkish stance and continue to assure markets that they remain committed to bringing inflation back to target over the medium-term.
- More than 792.145-mil shares valued at P4.588-bil, changed hands. Market breadth was negative, with decliners beating advancers, 113 to 82, and 33 issues were unchanged.
- Gainers: MEG (+4.77%), JFC (+2.65%), JGS (+1.73%), BPI (+0.63%), BDO (+0.09%)
- Laggards: AEV (-4.03%), LTG (-3.79%), SM (-3.15%), ICT (-2.91%), MER (-2.77%)

TDFs

- The central bank reduced the volume of the weekly term deposit facility (TDF) auction, but financial institutions remained cautious toward parking their funds in the instruments meant to siphon off inflationary idle funds from the economy.
- At the same time, banks shied away from the longer-term tenors offered by the central bank in anticipation of a possible interest rate hike next week during the policy setting meeting of the Monetary Board.
- Liquidity is tight and funding is expensive, therefore there’s no interest to participate in the TDF market. Banks also tended to pay off expensive deposits from their maturing placements with the central bank, hence the recent lukewarm interest in the facility.
- During Wednesday’s term deposit facility auction, financial institutions pushed interest rates marginally higher on the seven- and 14-day instruments, but the yield on the 28-day facility declined slightly on weak demand.
- The total volume for the entire TDF auction was reduced by the central bank to P70-bil this week from P100-bil last week in anticipation of the diminished interest from banks.
- The yield on the seven-day term deposit facility rose to 4.3884% from the previous week’s 4.3744%. Banks tendered P60.3-bil worth of bids for the P40-bil on offer, with the central bank making a full award of P40-bil.
- Meanwhile, the central bank’s 14-day term deposit instrument also saw a hike in its yield to 4.4339% from the previous week’s 4.4224%. Banks submitted only 17.4-bil in bids for the P20-bil offered, with authorities making an award of 17.1-bil.

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TDFs (continued)

- Finally, the yield on the 28-day term deposit facility dipped slightly to 4.4754% from the previous week's 4.4824%. Banks tendered only 9.4-bil worth of bids for the P10-bil on auction, with the central bank accepting P9.2-bil worth.
- All told, financial institutions submitted P87.1-bil in bids for the P70-bil that the central bank attempts to "sterilize" from the financial system each week in a bid to cap the inflation rate. Of this amount, P66.3-bil were accepted.
- Authorities would carefully weigh the need for another rate hike after poring over the latest inflation data.
- The Monetary Board will convene on Sept. 27 to decide on the response to the August inflation rate of 6.4%, which is a nine-year high. Market watchers expect another rate hike but are divided whether this will come in the form of a 25- or 50-basis point adjustment.

DNL

- Jadel Holdings, the investment arm of the Lao family, has shored up its holdings in chemical and food ingredient manufacturer D&L Industries Inc.
- In a regulatory filing, D&L said its parent firm Jadel purchased 547,100 at P10 each.
- This effectively raised Jadel's stake in D&L to 58.4% or about 4.12-bil shares.
- D&L has four principal business lines namely, food ingredients, colorants and plastics additives; aerosols; and oleochemicals, resins and powder coatings. It also toll manufactures a range of related products, including insect control, industrial maintenance chemicals, and home and personal care products, among others.

CLI

- Cebu Landmasters, Inc. (CLI) reported that it had fully used up the P2.15-bil raised after the company's initial public offering (IPO) last year, bringing its land bank of properties to almost a million square meters.
- The listed property developer said around 70% of the funds went to the acquisition of land. Majority of the properties are located in Mindanao at 41%, while 33% are in Visayas and the 26% balance are in Cebu.
- The Cebu-based firm now has a total of 52 projects in various stages of construction located across Cebu, Mandaue, Cagayan de Oro, Davao, Bacolod, Dumaguete, Iloilo and Bohol.
- Among CLI's recent projects is the P3.6-bil Astra Centre, a mixed-use property located on a 1.2-hectare lot in Mandaue City, Cebu. Astra Centre will house residential towers, office spaces, a boutique mall, and hotel carrying the Radisson RED brand. The company looks to finish the first phase of the project in Q4 of 2021.
- CLI is also scheduled to launch a new mixed-use project and business district in Davao City in the following months.

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\$1.272-B (August 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	3.549 (as of September 10, 2018)	Cash Remittances	US\$2.401-B (July 2018)	O/N RRP	4.00% (as of August 9, 2018)

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