

MARKET RECAP

28 August 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,844.61 (+1.006%)	143,004,722.01	8,868,101.62	26.50 (+0.84%) = 1,417.43	53.495

Market Recap

- Philippine share prices rallied after a holiday break, tracking another Wall Street record as investors cheered a fresh trade deal between the United States and Mexico that brings an end to one row picked by Donald Trump that had rattled global markets.
- The bellwether PSEI gained 78.14 points or 1.006% to 7,844.61 at the closing bell. The broader All Shares added 30.31 points or 0.64% to 4,759.13.
- The agreement raises hopes the two-decade-old North American Free Trade Agreement, torn up by the White House soon after Trump's election, can be salvaged after Canada rejoins talks on Tuesday.
- Monday's agreement comes after officials from Washington and Beijing held talks last week aimed at easing trade tensions that have seen them hit each other with tariffs on tens of billions of dollars worth of goods.
- While the meeting did not achieve any breakthrough, the fact they took place was seen as a good sign.
- Investors expect Canada too would agree to the new terms to preserve a three-nation pact, ultimately dispelling the economic uncertainty caused by US President Donald Trump's repeated threats to ditch the 1994 NAFTA accord.
- However, some treated this rally with a degree of caution.
- News of the US-Mexico trade deal has fueled risk appetite.
- It is hard to extrapolate much out of it, as the United States continues to treat each country and deal on its own merit. Traders remain wary of the current rally in risk appetite, and see it as short-lived.
- Amid the absence of any market-moving news locally, investors will keep an eye on US economic data with consumer confidence figures due later in the day and the latest estimate for Q2 gross domestic product expected on Wednesday.
- The NAFTA agreement is clearly a positive to the extent that it reduces the risk of a generalized global trade war, but was not automatically positive for the outcome of talks with China.
- Despite this, APAC equities including HK/China should benefit from the weaker US dollar and risk-on moves.
- More than 1.552-bil shares valued at P7.650-bil, changed hands. Market breadth was positive, with advancers beating decliners, 112 to 94, and 38 issues were unchanged.
- Gainers: JGS (+5.65%), MER (+3.83%), GLO (+3.50%), ICT (+2.86%), SM (+2.32%)
- Laggards: AEV (-4.76%), SMC (-3.32%), PCOR (-1.00%), GTCAP (-0.92%), TEL (-0.76%)

Rate Hikes on PH Economy

- The central bank's back-to-back rate hikes to fight inflation won't have a significant impact on the economy, the country's finance chief said Tuesday, giving the economic managers enough room to keep its 2018 growth target for the time being.
- Inflation jumped 5.7% in July, higher than June's 5.2% and the fastest pace in nine years. The central bank has responded by raising its benchmark rates by a cumulative 100 basis points from May to August.
- Finance Secretary Carlos Dominguez III said the current policy rates are "totally appropriate" and "data-driven."
- "While they (rate hikes) may have some effect on the growth rate, we don't think it's going to be that serious because the economy is really growing at quite a fast pace," Dominguez said.
- "So it may affect it a bit but I don't think it will be significant," he added.
- Higher interest rates discourage people from borrowing money and from spending, causing a decline in demand which, in turn, tempers inflation and can even slow down the country's economic growth.
- The government plans to ramp up infrastructure spending to 7.3% of the country's gross domestic product by the end of Duterte's six-year term, and supercharge economic growth to 7% to 8% from this year up to 2022. But in Q2 of 2018, the Philippine economy grew at its slowest pace in three years and failed to meet both government and market expectations.
- Some analysts expect economic growth to continue to decelerate over the second semester of the year as tighter monetary policy and higher inflation weigh on consumer spending, which accounts for about seven-tenths of the Philippine economy.
- Despite what he called "restrained growth performance during Q2" and the recent round of monetary policy tightening, Dominguez said the government's economic growth goal "remains for now."

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Rate Hikes on PH Economy (continued)

- Central bank Governor Nestor Espenilla said inflation will probably peak in Q3 and is unlikely to hit 6%.
- “What’s most important for the central bank is to send a very strong signal to the whole community that we are very committed to retuning the inflation path back on target and we are prepared to deploy our instruments,” Espenilla said.

Tax Reform and Deficit Ceiling

- Finance Secretary Carlos Dominguez III on Tuesday said he is open to inputs from stakeholders regarding tax reform as long as the target deficit ceiling is not compromised.
- “We will not prejudice the entire economy by exceeding 3% or around that area,” Dominguez said.
- For his part, Budget Secretary Benjamin Diokno said the economic managers are committed to maintain the budget deficit at 3% of gross domestic product (GDP).
- “We won’t allow the deficit to increase further to 4%. I think that should be a welcome message to foreign investors,” Diokno said.
- Duterte’s economic managers have raised the 2019 deficit ceiling to 3.2% of GDP.
- On Sunday, the DOF said it has submitted the remaining tax reform packages to Congress and would like to have them passed into law by the end of 2018.
- The three additional packages submitted to Congress include the following:
 - Package 2+: Increasing excise taxes on tobacco and alcohol products and increasing the government’s share from mining
 - Package 3: Reforming property taxation to make the valuation system “more equitable, efficient, and transparent”
 - Package 4: Rationalizing capital income taxation to address multiple rates and various tax treatments and exemptions on capital income and other financial instruments
- Despite the non-negotiable deficit ceiling, Dominguez noted the inputs from stakeholders must be able to improve the proposals submitted to Congress.

ISM

- Accion Common Development Fund SPC will acquire nearly a third of bilyonaryo Roberto V. Ongpin’s ISM Communications for P1.22-bil.
- ISM said its executive committee approved the purchase by Accion of all of ISM’S 8412.94-mil treasury shares at P1.45 per share.
- Of the total purchase price of P1.22-bil, 25% is payable upon purchase while the remaining 75% shall be paid before the end of the year.
- Accion is a special purpose company owned and managed by Accion Management Pte. Ltd., a registered fund management company based in Singapore.

ECONOMIC INDICATORS

GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$76.892-B (July 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	Exports Growth Rate	(0.1%) (June 2018)	BOP	(US\$1.177-B) (June 2018)
Inflation	5.7% (2012 BY) (July 2018)	Imports Growth Rate	24.2% (June 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.203 (as of August 20, 2018)	Cash Remittances	US\$2.357-B (June 2018)	O/N RRP	4.00% (as of August 9, 2018)

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