PrimeEquity Research

Meridian Securities Incorporated
Member: Philippine Stock Exchange

MARKET RECAP

29 August 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,890.96 (-0.17%)	116,308,178.03	1,709,311.00	26.40 (-0.34%) = 1,412.27	53.362

Market Recap

- Philippine share prices fell slightly as investors cashed in on gains from Tuesday's rally and moved more cautiously as they took stock of the latest trade developments and possible headwinds.
- The bellwether PSEi fell 13.65 points or 0.17% to 7,830.96 at the closing bell. The broader All Shares declined 8.27 points or 0.17% to 4,750.86.
- A flat finish on Wall Street and a dearth of major economic data across the region pointed to a quiet session ahead.
- Optimism over the US-Mexico trade deal was quickly replaced by caution ahead of a looming deadline on tariffs with China.
- While the news was seen as a much-needed boost after Donald Trump threatened to tear up the North American Free Trade Agreement when he took office, there remain concerns about his tariffs row with China that has rattled markets for months.
- Washington could soon also impose levies on $200-bil of Chinese goods, which would come on top of the $50-bil already being hit.
- End-of-month flows could start to take hold into the end of the week, and combined with light news flow and the risk of impending trade war escalation could result in conviction remaining light.
- Canada's main trade negotiator was in talks to preserve a three-nation North American Free Trade Agreement following Monday's deal between the United States and Mexico.
- President Trump warned he could proceed with Mexico alone and levy tariffs on Canada if it does not come on board with the revised trade terms.
- Yet even if Trump were to go with Mexico alone, Congress would have to approve the deal in a process that would take months and put it beyond the mid-term elections.
- In a nutshell, it seems that many contentious issues remain unresolved and there is a very tight timeline that needs to followed if a NAFTA deal is to be ratified by the current US Congress.
- The White House has also said it wants to settle NAFTA before dealing with China, suggesting that trade dispute could run well into 2019.
- More than 3.035-bil shares valued at P6.206-bil, changed hands. Market breadth was negative, with decliners beating advancers, 81 to 112, and 51 issues were unchanged.
- Gainers: FGEN (+6.10%), MPI (+3.16%), SMC (+2.95%), JGS (+2.16%), ALI (+1.82%)
- Laggards: AEV (-2.78%), MER (-2.32%), SECB (-1.72%), AP (-1.35%), GTCAP (-1.16%)

Growth Outlook

- Economic growth in Q3 may remain "tepid" unless inflation cools down and exports begin to rise, adding that the central bank may still hike policy rates to temper rising prices of key consumer items.
- Economists at First Metro Investment Corp. and University of Asia and the Pacific said the Philippine economy may expand 6.5% or less in the July-September period, although underlying growth momentum should hold up amid robust construction and manufacturing activity.
- FMIC and UA&P expect faster growth in H2 anchored on speedier government disbursements and higher peso equivalent of the remittances.
- Robust capital investments and stronger infrastructure and capital outlay and better exports should, likewise, push further the expansion significantly better than growth in H1.
- 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 sharply eased to 6%, its slowest pace in three years. In H1 of the year, the economy grew at 6.3%, below the government's goal for 2018.
- 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.
- Inflation jumped to a nine-year high of 5.7% in July on the back of higher food and transport costs.

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Growth Outlook (continued)

- The central bank has responded by raising its benchmark rates by a cumulative 100 basis points from May to August.
- First Metro and UA&P expect year-on-year inflation to hit a fresh peak of 5.9% in August before tapering off to 5.2% and 5 percent in September and October, respectively.
- They also see the central bank firing off another 25 basis points rate hike in H2 of 2018 to keep inflationary expectations in check and make the peso-dollar rate more stable.
- Headline inflation will peak in August given the heavy rains and flooding during the month, they said.
- The saving factor in Q3 would be normalizing food prices, due to September rice harvests and larger imports and downward trending crude oil prices to well below $70/barrel, they added. Electricity rates should also go down as hydro-power plants go full blast during the rainy season.

SECB

- Security Bank Corporation announced on Tuesday, Aug. 28 that they have hired a new Corporate Banking Group head.
- The bank said they have appointed Charles M. Rodriguez as their new executive, who will hold the rank of executive vice president.
- However, he will officially assume the post by Oct. 1. Rodriguez is a top brass at ANZ Philippines.

PTT

- Philippine Telephone & Telegraph Corp. will expand its broadband/fiber business in Central Luzon and Calabarzon as it prepares to build a nationwide backbone in the next two years.
- Controlled by business magnate Salvador “Buddy” Zamora II, PT&T is currently serving Metro Manila and the nearby Calabarzon area.
- The company also plans to offer more broadband and corporate data products. Assuming plans on the fiber transmission backbone pushes through, PT&T could potentially launch a wholesale bandwidth business.
- PT&T said it was considering the sale of some of its properties to settle its statutory obligations and fund its operational requirements.
- It is vying to become the country’s third telco player that will challenge the duopoly of PLDT and Globe.
- From the existing 181 employees, PT&T expects this number to increase to 247 by yearend.

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)

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64