

DAILY MARKET PRIMER

03 October 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,132.16 (-1.24%)	105,381,065.83	(7,345,956.70)	25.88 (+0.15%) = 1,399.98	54.095

MARKET OUTLOOK

- Local equities tumbled on Tuesday as the rise of global oil prices heightened inflation fears alongside the continued sell-off by foreign investors.
- Crude oil price continues to be on the bullish uptrend now at more than \$75 per barrel while net foreign selling persists weakening the peso. Both are inflationary in nature thus will further push prices upward.
- Oil prices jumped to their highest in nearly four years overnight, as markets project tighter supply once the United States' sanctions against Iran take effect next month.
- The market might, however, continue to see more of the lackluster volume in the next few days as the market awaits Friday's inflation data release.
- The consensus view is that consumer price growth—which surged to 6.4% in August—likely accelerated to a fresh nine-year high last month.
- The central bank last week said it could have settled “around 6.8%” while the Department of Finance claimed it likely remained unchanged at 6.4%.
- Anything above 6.7% will continue to spook the market as net foreign selling persists.

ECONOMIC HIGHLIGHTS

Inflation Forecasts

- Inflation will likely hover above seven percent in the remaining months of 2018, ANZ Research said, adding to mounting doubts about government expectations that overall price spikes could have peaked last quarter.
- The research group said inflation is unlikely to ease anytime soon, with price pressures stoked by typhoon Mangkhut, locally called *Ompong*, spilling into this quarter.
- ANZ estimates that inflation will remain above 7.0% for all of Q4 2018.
- The typhoon ravaged Cagayan Valley, Isabela, Central Luzon, and the Cordillera Administrative Region which are major sources of rice and vegetables.
- It has also been widely reported that production of rice, corn and livestock have been severely affected. All these components account for around 22% of the CPI basket, which is likely to lift inflation in the coming months.
- If realized, this will frustrate central bank expectations that inflation would peak in Q3 and edge towards its 2% to 4% target in 2019.
- Prices of widely used goods rose by 6.4% in August, marking a nine-year high amid cramped supply of rice, vegetables, meat and fish, as well as rising global oil prices. September inflation is expected to clock in even higher at 6.8%, based on estimates of the central bank and a poll last week of private sector economists.
- In response, the central bank fired off another a 50 basis point (bp) increase in benchmark rates to demonstrate its commitment to temper price pressures and quell inflation expectations.
- Last week, Malacañang issued four administrative orders directing the National Food Authority, the Sugar Regulatory Administration and the Department of Agriculture to lift non-tariff barriers and streamline import procedures for rice, sugar, meat and fish.

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)	(P2.6-B) (August 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	5.00% (as of September 27, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US\$2.401-B (July 2018)	O/N RRP	4.50% (as of September 27, 2018)

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ECONOMIC CALENDAR

Wednesday, October 3

- Retail Price Index YoY (Aug.)

Friday, October 5

- Core Inflation YoY (Sept.)
- Inflation Rate YoY (Sept.)
- Inflation Rate MoM (Sept.)
- PPI YoY (Aug.)
- Industrial Production YoY (Aug.)
- Foreign Exchange Reserves (Sept.)

Wednesday, October 10

- Balance of Trade (Aug.)
- Exports YoY (Aug.)
- Imports YoY (Aug.)
- Foreign Direct Investments (July)

Monday, October 22

- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Inflation Forecasts (continued)

- ANZ views these reforms as positive and believes that a combination of monetary and non-monetary measures is essential to deal with both the demand and supply-side drivers of inflation.
- At the same time, it pointed out that the central bank still needs to hike rates by another 25 bp in its Dec. 13 policy review.
- Whether that will help restore investor confidence hinges on the trajectory of inflation, bank economists said.
- However, the 8% decline in the peso year-to-date, coupled with strong oil prices, will underpin inflation in the near term. Even with a policy rate of 4.75%, real interest rates remain in negative territory.
- ANZ sees full-year inflation at 5.1%, just below the central bank's full-year estimate of 5.2%. Prices of basic goods went up by 4.8% in the eight months to August.
- The International Monetary Fund expects 2018 inflation at 4.9% this year. Other banks and research firms have also given higher estimates such as Capital Economics and Standard Chartered Bank (5.5%) and Fitch Solutions (5.3%).
- With unrelenting inflation, ANZ has also scaled down its growth forecast for the Philippines to 6.5% for 2018, coming from 6.6% in August and 6.8% earlier this year.
- The central bank said last week that policy makers are strongly committed to address the threat of high inflation.

3rd Telco

- The Department of Information and Communications Technology (DICT) presented on Tuesday the final timetable for selection of the country's third major telecommunications service provider, with documents available for purchase by interested parties starting Oct. 8, Monday.
- In a gathering organized by the DICT and the National Telecommunications Commission (NTC) attended by prospective bidders and other stakeholders, DICT Acting Secretary Eliseo M. Rio, Jr. said the government is on track to name the so-called "third telco" before Christmas.
- The timeline was approved by the oversight committee in compliance with the instruction of the President to have the third telco known by November and be awarded by December, before Christmas. So more or less, the timeline is final.
- Selection documents may be bought online or physically from the NTC for P1-mil.
- The timetable sets deadline for submission and opening of bids on Nov. 7.
- DICT and NTC released joint Memorandum Circular No. 09-09-2018 last month outlining the rules by which the government will choose the third major telco. That telco will be chosen according to the highest committed level of service based on population coverage (with a 40% weight), minimum average broadband speed (25%), and capital and operational expenditure (35%).
- At stake is a certificate of public convenience and necessity (CPCN) valid for 15 years or the length of the franchise of a bidder, whichever is shorter; and radio frequency bands of 700 megahertz (MHz), 2100 MHz, 2000 MHz, 2.5 gigahertz (GHz), 3.3 GHz and 3.5 GHz.
- Upon being named provisional winner of the third telco auction, the memorandum circular said the company must submit within 90 days its business and roll-out plans and other additional requirements. The provisional winner must also commit to the NTC a "performance security" worth 10% of its total capital and operational expenditures and a "participation security" worth P700-mil.
- Eligible participants should have a congressional franchise or team up with a holder of one, paid-in capital of at least P10-bil, experience as a nationwide telco provider for the last 10 years, be without outstanding liability to the NTC as of Oct. 1 and should not be related to Globe and PLDT.

CORPORATE NEWS
X

- Xurpas, Inc. is forming a new subsidiary that will focus on remittances, money transfers and operate as a virtual currency exchange (VCE).
- The mobile content provider said in a disclosure to the stock exchange on Tuesday its board of directors has approved on Monday the incorporation of CTX Technologies, Inc., which will be a wholly owned subsidiary of Xurpas.
- It added that its new remittance subsidiary will be designed to process cryptocurrency payments.
- Xurpas said it will now need the approval of the Securities and Exchange Commission (SEC) to proceed with the incorporation of CTX. Its operations may only begin after completing the central bank registration process.

MEG

- Megaworld Corp. continues the expansion of its hospitality business with the development of a P500-mil luxury boutique hotel within its Bacolod City township.
- Tycoon Andrew L. Tan's property firm said the hotel inside the 34-hectare The Upper East township is set to cater to conventions, weddings, and other MICE (meetings, incentives, conventions, and exhibitions) events in the area.
- Offering a total of 48 suites, the hotel will house an all-day dining restaurant, cafe, courtyard, swimming pool and pool deck, fitness center, lanai, and Megaworld's signature hotel bar concept called Zabana Bar.
- The hotel will also feature a ballroom that can accommodate up to 1,000 guests in a banquet setting, making it the largest hotel ballroom facility in Bacolod City. It can likewise be divided into three separate ballrooms for smaller events.
- Megaworld expects to complete the hotel by 2022.

MRP

- The majority shareholder of Melco Resorts and Entertainment (Philippines) Corp. (MRP) has deferred its plan to conduct a tender offer, effectively pushing back the company's plan to delist from the Philippine Stock Exchange (PSE).
- MRP said MCO (Philippines) Investments Limited has informed the company that it is pushing back the tender offer originally scheduled for Oct. 3.
- MCO Investments was supposed to buy back 1.57-bil common shares from the public at a price of P7.25 apiece during the tender offer period.
- The company did not disclose the reason for the tender offer's delay.
- A number of analysts have previously complained about the low tender offer price set by MCO Investments, which they noted would be unfair to the public who invested in the company during its follow-on offering in 2013, when each share was priced at P14.
- MRP however clarified in a earlier disclosure that the tender offer price was independently determined by MCO Investments through the services of FTI Consulting Philippines, Inc. Taking into account MRP's historical and projected earnings while using market-standard methods recognized by regulators, FTI Consulting arrived at a fair value price range of P6.11 to P7.49, with the final tender offer price at the higher end of the range.
- The company also explained that investors will experience "very different financial outcomes" depending on when they purchased MRP shares.

GOLD BUYING / Troy Oz.

US\$1,189.10

COPPER BUYING / lb.

US\$2.804

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