

DAILY MARKET PRIMER

04 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,210.87 (+1.10%)	100,362,354.11	(5,196,295.24)	25.40 (-1.85%) = 1,377.98	54.251

MARKET OUTLOOK

- The main index snapped its three-day losing streak on Wednesday as it took a breather from oversold conditions in previous sessions.
- Philippine shares took a breather as investors focused on issues affecting other regional markets Wednesday, namely the Fed Chairman reiterating a muted inflation for the US, and the unfolding of the Europe budget debacle.
- Locally and in Asia, investors remain tentative as no fresh catalysts hit the market with China out for Golden Week.
- The overall sentiment has been the same since the start of the week with participants waiting on Friday's inflation data release. Until then, the market might still see more of the low value turnover its been encountering.
- The central bank earlier said inflation have reached 6.8% last month, or within a range of 6.3% to 7.1%. The Department of Finance on the other hand, expects the reading to be the same as August's figure of 6.4%.
- Meanwhile, Wall Street gained overnight, driven by gains in financial and technology stocks.
- Italy indicated that it was open to reducing its budget deficit and debt in the coming years, easing concerns over the country's high debt levels that have pressured global stock markets since the country's ruling coalition last week tripled the previous government's deficit target.
- While Italy was not a gigantic catalyst for the market, but a loss out of Europe has been setting the tone for the US markets.

ECONOMIC HIGHLIGHTS

Growth Outlook

- Bank executives remain optimistic about the Philippine economy but most expect growth, at best, to only hit the bottom end of the government's target.
- Majority (76.3% of respondents) of bank executives expect the economy to grow by 5% to 7% in the next two years across the banks surveyed, the central bank said on Wednesday, citing the results of its maiden Banking Sector Outlook Survey.
- The government is targeting 7.0% to 8.0% gross domestic product (GDP) for this year up to 2022. Growth as of H1 of 2018 remained below this at 6.3%.
- The forecast economic growth is expected to further improve the respondent banks' asset quality, liquidity, solvency, and profitability, the central bank said of the executives' outlook.
- It said that 66.7% of the respondents expected the banking system to remain stable, with the remaining 33.3% even more optimistic as they forecast the sector to strengthen in the next two years.
- The positive outlook was attributed to the country's strong macroeconomic fundamentals, adequate banking liquidity and rising capital buffers, and an industry risk assessment upgrade by S&P Global Ratings.
- In upgrading the banking system's credit rating, the central bank noted that S&P had pointed to the sector's "improved credit fundamentals, in particular, the establishment of credit bureaus and improvement in the underwriting practices of the consumer loans segment."

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)

ECONOMIC CALENDAR

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)

Growth Outlook (continued)

- The industry survey, meanwhile, also revealed that banks' products and services were focused on corporate and retail banking. Banks were also positioning to take advantage of financial technology to grow their businesses.
- The majority, or 78.1% of the respondents, said their respective banks were finding it difficult to comply with mandatory lending to the agri-agra and micro, small and medium enterprises sectors.
- Also, 37.3% said they were finding it hard to comply with the central bank's anti-money laundering requirements and regulations.
- In the same manner, the respondents also view credit risk management and other areas of risk management as most challenging in terms of compliance with central bank's existing rules and regulations, the central bank said.
- The survey covered all universal/commercial and thrift banks and the top 20 rural/cooperative banks in terms of total loan portfolio.

World's Worst Stock Market?

- As the Philippine Stock Exchange Index (PSEi) dipped below 7,100 during Tuesday's session, taking its valuation to its lowest level since January 2016, Metropolitan Bank & Trust Co. is among the firms that's staying on the sidelines.
- Concerns about the high inflation level, rising oil prices, weakening peso, increasing interest rates and drying up liquidity continue to dampen sentiment.
- Everybody is bracing and positioning for a higher inflation, and with oil continuing its climb there isn't anything to say that's enticing to go bargain hunting at this point.
- It used to be that a buy-on-weakness strategy works, but now for prudence it's better to step aside and let the market take its course.
- The PSE has plunged 17% since the end of December, becoming the world's biggest losing equity market and taking its valuation to 15 times estimated earnings for the next year, below its five-year average.
- The gauge fell as much as 0.5% to 7,095.26 on Wednesday.
- The recent sell-off from emerging markets and US-China trade frictions only added to worries over the nation's headwinds.
- Overseas investors have withdrawn almost \$1.6-bil in 2018, exceeding inflows from the past four years.
- It's not improbable for the Philippine stock gauge to fall below 7,000 in the near term and that it could go as low as 6,600. Metrobank will change its underweight call on the equities should consumer prices, the peso, interest rates and liquidity show improvements. September inflation data are due on Friday.
- Investors can get a better return with their cash in time deposit now rather than exposing it to equities, where at best you get a flat return but run the risk of losing part of your money if you buy the wrong name.
- The country's shares will face more challenges before things get better, according to Sun Life of Canada Philippines, Inc. The PSEi could stay at around 7,100 this year, with earnings growth of 5.5% compared with 10% to 12% consensus. To put that into perspective, the key stock gauge closed at almost 8,559 at the end of last year.
- Rizal Commercial Banking Corp. sees further risk as limited. While the benchmark index may drop to 6,900, he says there's also a chance it could climb to 8,000 this year as sentiment improves. The bank expects inflation to peak and says the peso may have already seen its sharpest depreciation this year.

CORPORATE NEWS
PSE

- Trading participants welcomed the Philippine Stock Exchange's (PSE) move to tweak listing rules that would prompt companies seeking to conduct a follow-on offering (FOO) to provide a price range for the benefit of the investing public.
- The PSE said it plans to require firms to indicate a price range when conducting an FOO of common shares and exchange traded funds, as opposed to the current standard of providing only a maximum offer price.
- Small investors, in general, fail to recognize that the price disclosed in the offering documents (i.e., red herring prospectus) is the ceiling and that the final offer price may be lower than the disclosed price. The investors may expect to realize capital gains considering the difference between the market price and the disclosed maximum offer price, the PSE said.
- The PSE aims to address this with the proposed disclosure of a price range consisting of a minimum price and maximum price to better guide small investors on the possible changes in the final offer price.
- The price range requirement will only be applied for FOOs, since investors will not have a baseline price during initial public offerings. Preferred shares will not be included as well since investors look at the coupon rate instead of the offer price when deciding to participate in such offerings.
- Analysts were mostly in favor of setting a price range, saying that this will help guide small investors on whether they will participate in an offering.

AC / MPI

- Light Rail Manila Corp. (LRMC) expects to start construction of the Light Rail Transit Line 1 (LRT-1) Cavite extension in Q1 of next year.
- LRMC, the consortium of Ayala Corp., Metro Pacific Light Rail Corp., and Macquarie Infrastructure Holdings (Philippines) Pte. Ltd., bagged the public-private partnership (PPP) project for the Cavite extension in September 2015. It involves rehabilitation of the existing 21-kilometer (km.) LRT-1 line and an 11.7-km. extension from Baclaran to Bacoor.
- In August, Mr. Alfonso said they have already issued the Notice to Proceed to its engineering, procurement and construction contractors, French firm Bouygues Travaux Publics and European firm Alstom.
- For the extension, LRMC will build eight new stations from Baclaran, namely, Redemptorist, NAIA Avenue, Asia World, Ninoy Aquino, Dr. Santos, Las Piñas, Zapote and Niog.
- Once construction of the Cavite extension begins, it will take around four years to complete the project.

SMC

- San Miguel Corp. (SMC) said on Wednesday that it was planning to replace coal with rice husks to fuel its circulating fluidized bed (CFB) power plants to boost the income of farmers while the conglomerate moves towards renewable and sustainable energy generation.
- SMC will convert its existing power plants using CFB "clean coal" technology into biomass power facilities. Its power unit SMC Global Power Holdings Corp. operates two new facilities in Limay, Bataan and Malita, Davao.
- The plants use CFB combustion technology, which SMC said is among the world's most advanced pollution-mitigating technologies for power plants, yielding lower emissions. But the listed company said emissions from rice husk-based fuel are expected to be even lower.
- SMC's transition into biomass technology could also boost rice farming in the country.

GOLD BUYING / Troy Oz.

US\$1,206.90

COPPER BUYING / lb.

US\$2.824

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