

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,093.34 (-1.63%)	79,401,095.37	(7,816,209.48)	25.70 (+1.18%) = 1,393.61	54.226

MARKET OUTLOOK

- The stock market was back in turmoil yesterday, sinking deeper into bear territory and hitting the 7,000 level again, a day before the government is set to announce the inflation in September which is expected to hit a new peak once more.
- The lack of catalysts, inflation worries and still unresolved concerns on the unabated increase in crude prices are likely to keep turning off investors from the Philippine stock market.
- The Philippine Statistics Authority is scheduled to report September inflation today which has been estimated at 6.4% by the Department of Finance and 6.8% by the central bank. A poll of 13 economists late last week yielded a 6.8% median which, if realized, would be the fastest inflation since February's 2009's 7.2%.
- Analysts believe damage wreaked by super typhoon Mangkhut, locally called Ompong, last month — estimated at least P26.7-bil worth of crops and livestock — likely stoked price pressures further.
- Domestic pump prices have reached a record high of up to P62 per liter after oil companies, citing the uptick movement in the global market, implemented this week another big hike of P1 per liter for gasoline.
- Risks are growing with borrowing cost on the rise and fixed-income markets looking very attractive.

ECONOMIC HIGHLIGHTS
Growth Forecasts

- The World Bank has downgraded its 2018 economic growth forecast for the Philippines — making it the third multilateral lender to do so since last week due to heightened external uncertainties and surging inflation locally — but overall prospects should remain “strong” enough for it to maintain the country's projections for 2019-2020.
- The Washington-based multilateral lender said it expects Philippine gross domestic product (GDP) to grow 6.5% this year, down from a 6.7% April projection and 2017's actual 6.7%. At the same time, the World Bank kept its 2019 and 2020 forecasts at 6.7% and 6.6%, respectively.
- The Philippines' medium-term growth outlook remains strong, supported by an expected rise in public investment spending and a robust private demand, the World Bank said, noting that consumption is supported by a “steady” labor market, continuous remittance inflows and “inflation easing,” following Palace administrative orders to boost food supply and speed up distribution.
- The latest projection took into account the slower-than-expected 6% growth in Q2 that compared to 6.6% in the same period last year and last January-March, due to weak exports and weak farm performance.
- The World Bank expects growth to accelerate this semester and into next year despite high inflation, as election-related spending kicks in. “GDP growth is expected to accelerate in H2 of 2018 and in early 2019, boosted by upcoming senatorial and local pre-election spending and continued strong public investment growth. This is consistent with the government's plan to speed up the implementation of its infrastructure program. Investment spending is expected to accelerate import growth, while export growth is expected to remain moderate given the slowdown in global trade,” it said.
- The World Bank's estimates are below the government's 7% to 8% annual target until 2022.

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 Forecasts (continued)

- The World Bank' forecasts match the International Monetary Fund's 6.5% and 6.7% for 2018 and 2019, respectively. The Asian Development Bank has a slightly lower estimate of 6.4% for this year, but has the same 2019 projection of 6.7%.
- The Philippines' 6.5%, 6.7% and 6.6% updated forecasts for 2018, 2019 and 2020 are outdone or matched for the same years only by Vietnam (6.8%, 6.6% and 6.5%, respectively) and the less developed Association of Southeast Asian Nations (ASEAN) members Cambodia, Laos and Myanmar. "Developing ASEAN" — which excludes Singapore and Brunei — is expected to grow by 5.4% this year and 5.3% in the succeeding two years, while "developing" East Asia and the Pacific — which includes China — is projected to expand by 6.3% this year and by six percent in each of the succeeding two years. China itself will grow by 6.5% this year and 6.2% in 2019 and in 2020.
- Other international institutions have yet to update their forecasts. The United Nations Economic and Social Commission for Asia and the Pacific as of May expected the Philippines to grow 6.8% and 6.9% this year and in 2019, respectively, while the Organization for Economic Cooperation and Development as of July projected 6.7% for both years.
- The inflation is high but private consumption remains robust. That shows how the Philippines is pretty resilient to inflation.
- High inflation suppresses consumption growth, but the World Bank sees pre-election spending balancing everything out in H2.
- Headline inflation averaged 4.8% in the first eight months, well above the 2% to 4% target band for 2018 after the August's 6.4% that was the fastest in about nine years.
- The multilateral lender cited key downside risks to the outlook as faster policy rates hikes by the Federal Reserve and worsening trade tensions between United and China.
- Such developments will trigger bigger capital outflows, in turn widening the country's current account deficit and putting more pressure on the peso — already among the worst-performing emerging market currencies — to weaken further.
- Although the Philippines has enough buffers, the government should monitor its current account deficit closely to prevent it from widening too much and too fast.
- The Philippines' macro fundamentals are strong given the country's flexible exchange rate regime, large international reserves, low public debt, low external debt and robust inflow of remittances. In addition, the Philippines is relatively resilient to capital flows as the country has low exposure to portfolio flows from foreign investors.
- Yet, given the increased global uncertainties, to mitigate downside risks, it would be prudent to monitor the evolution of the current account deficit.
- At the same time, the current account shortfall could be considered a good deficit because it finances capital goods imports to help close the country's long-due infrastructure gap, and that currently FDI (foreign direct investment) is financing the current account deficit.

Inflation Outlook

- Economists on Thursday said they expect a slowdown in the last three months of the year.
- The World Bank said inflation is expected to taper down in the latter part of the year.
- Ultimately, the effect of higher inflation suppresses consumption growth and also at some point, perhaps investment growth.
- But ultimately, what the World Bank perceives for H2 of the year is that pre-election spending will be starting and that will balance it out and the same also in the investment side.
- According to the central bank, inflation is seen to hit 6.8% in September. If realized, this will be the fastest since the 7.2% in April 2009.
- In August, inflation hit 6.4%, the fastest in over nine years since the 6.6% in March 2009, mainly driven by food inflation.

DAILY MARKET PRIMER

05 October 2018

ECONOMIC HIGHLIGHTS (continued)

Growth Forecasts (continued)

- Land Bank of the Philippines echoed that inflation is likely to decelerate come October.
- Land Bank expects inflation to decline starting October 2018, although such decrease does not preclude the possibility of more rate hikes from the central bank this year.
- The peso is currently under pressure because of the gradual but steady interest rate normalization of the US. As long as the peso continues to weaken, inflation expectations may remain elevated.
- To address this concern and curb domestic inflation, the central bank may need to match the move of the US Federal Reserve in order to protect the local currency from depreciating further.

CORPORATE NEWS

TEL

- PLDT, Inc. announced on Thursday it has signed an agreement to sell separately \$175-mil worth of shares in its digital innovations unit Voyager Innovations, Inc. to a group of foreign investors led by investment firm Kohlberg Kravis Roberts & Co. (KKR) and Chinese tech company Tencent Holdings Ltd.
- PLDT first revealed details of the Voyager deal in August, saying then the sale of majority stake would help the company recoup its losses from the unit, which widened to P1.3-bil in H1 of 2018 from P300-mil in the same period last year.
- PLDT has said since late last year its plan for Voyager was to find foreign partners that would help the unit expand its coverage, at least within the ASEAN market. It targets to have 30-mil users on its platforms by 2020.
- The original plan was for Voyager to seal a deal with Tencent within the first half of 2018, but PLDT said in May this was not pushing through as they didn't initially get feedback from the Chinese tech giant.

FB

- Consumer giant San Miguel Food and Beverage Inc. has obtained the Securities and Exchange Commission's nod to pursue what is seen to be the country's largest ever equity market deal.
- Parent company San Miguel Corp. is selling as much as 1.02-bil SMFB shares at an indicative price of P140 per share to raise a maximum P142.8-bil. This includes an overallotment option of 133.5-mil shares.
- The share sale is aimed at meeting the local bourse's rule on minimum public ownership for listed companies.
- SMFB, which recently absorbed SMC's beer and liquor operations San Miguel Brewery and Ginebra San Miguel, tapped JP Morgan Securities Plc, Morgan Stanley Asia (Singapore) Plc and UBS AG Singapore as its global coordinators while Deutsche Bank AG Hong Kong and Goldman Sachs (Singapore Plc) will serve as the joint bookrunners.
- BDO Capital & Investment Corp. and BPI Capital Corp., meanwhile, are the lead domestic underwriters. Standard Chartered Bank, on the other hand, is the financial advisor.
- The final offer price will be set on Oct. 19 while the offering is targeted to kick off on Oct.23 and end until Oct.29.

MBT

- Metropolitan Bank & Trust Co. (Metrobank) has raised P8.68-bil from the first tranche of its P25-bil long-term negotiable certificates of deposit (LTNCD) program meant to diversify its funding sources.
- Metrobank has raised P8.68-bil from the peso-denominated issue, more than the P5-bil it originally intended to raise.
- The notes will mature in 5.5 years and carry a 5.375% rate to be paid quarterly.

GOLD BUYING / Troy Oz.

COPPER BUYING / lb.

US\$1,198.45

US\$2.787

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