DAILY MARKET PRIMER

12 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
6,884.38 (-1.67%)	100,188,569.66	(15,896,473.99)	24.89 (-1.62%) = 1,348.32	54.171

MARKET OUTLOOK

- The main index tumbled to its lowest finish so far this year, dampened by the overall negativity across international markets due to the weakness of the global economy.
- It was the PSEi's weakest finish since it ended at 6,861.31 on January 3, 2017. It also marked a 21% fall since the start of the year and a larger 24% drop from its January 29, 2018 record close of 9,058.62.
- Traders said the market needs a convincing recovery to encourage investors to return for a longer time.
- The International Monetary Fund (IMF) recently reduced its growth outlook for the global economy to 3.7%, indicating a steady expansion from 2017 but a 0.2% downgrade from its 3.9% forecast announced last July.
- The IMF also downgraded its growth forecast on the Philippine economy to 6.5% from its earlier projection of 6.7%.
- Interest rate put aside, the Sino-US trade spat is to blame for the October market rout because people are worried the friction would evolve into a political confrontation.
- In the absence of a specific trigger, investors are currently voting with their feet due to mounting concerns around trade tensions and the impact on global growth, higher interest rates in the US, and a potential rotation away from equities due to rising bond yields.
- With no positive catalysts to push the market higher, investors may once again look to US markets for direction.
- However, if Wall Street's performance overnight is any indication on how the local as well as regional indices will perform today, then the market may be in for another bloodbath.
- Wall Street indices continued their slide in Thursday's volatile session as investors worried about rising interest rates and braced for a trade war hit to corporate earnings a day ahead of the quarterly reporting season kickoff.
- Other factors that could trigger a sell off here and abroad include oil price increases in the world market which are dictated by global crude market forces.
- The Philippine stock market may continue to decline especially if the 6,800 support level does not hold.
- If 6,800 will not hold, the next major support is 6,500.
- Reining in inflation would take a while and a turnaround in the local bourse may come in only next year.

ECONOMIC HIGHLIGHTS

Growth Outlook

- Philippine economic growth is expected to stay strong despite rising headwinds but authorities need to act versus downside risks, analysts said on Thursday.
- The International Finance Corp. (IFC) said the country's medium-term growth outlook remained positive, with a 6.5% expansion likely for 2018.
- However, IFC said it would be "prudent to maintain strong macroeconomic fundamentals" as downside risks to growth had increased.
- The Philippines could be the most at risk in Southeast Asia from the worsening trade conflict between China and US, pointing out that about 16.9% of the country's outbound shipments are part of China's value chain.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 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

Monday, October 22
• Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Growth Outlook (continued)

- Electronics and electrical machinery such as computers and industrial goods are likely to be hit badly.
- To mitigate this, the IFC said structural policies that support capital investment and trade to boost productivity and growth were needed.
- Implementation bottlenecks to infrastructure projects have to be reduced with focus on net productivity gains and geographical distribution.
- For The Wallace Business Forum, the Philippines has become one of the fastest-growing economies in the region after achieving a 7.1% average growth from 2013-2017. Moving forward, the country has ample room to expand by 6% to 7% over the next two to three years.
- Wallace, however, underscored that the Philippines' negative external balance was the biggest threat to the outlook.
- The balance of payments and current accounts deficits resulted from heavy imports to support the infrastructure program, and initiatives to eventually contain the deficits could drag economic growth down in the near term, it noted.
- Wallace called for continued infrastructure spending to "provide support facilities that will spread growth opportunities geographically", along with changes to the Foreign Investment Negative List and the economic provisions of the Constitution.
- Credit Rating and Investors Services Philippines Inc., meanwile, said inflation, the peso's depreciation and growing interest rates were the biggest issues facing the Philippines.
- Today's inflation is worrisome, with September hitting 6.7%, it said, also claiming that a "serious lack of food policy of the government" had driven consumer prices.
- The peso could breach the P55:$1 level before the end of the year.

Hot Money

- Foreign portfolio investments returned to negative territory in September, recording the biggest net outflow in three months based on central bank data released on Thursday.
- The $440.30-mil net "hot money" outflow was a reversal of August's $225.85-mil net inflow. It was the largest since June's $516.12-mil net outflow and also a turnaround from the year-earlier net inflow of $112.63-mil.
- This may be attributed to investors' continuing concerns on trade tensions between the United States and China, the weakening of the Philippine peso and the continued uptick in inflation which may have been aggravated by the effects of Typhoon "Ompong", the central bank said.
- Registered foreign portfolio investments amounted to $743.31-mil for the month, 33.7% lower than the $1.121-bil recorded in August 2018. Inflows also dropped by 42.7% from $1.296-bil a year ago.
- The central bank said 85.7% of the foreign portfolio investments went to Philippine Stock Exchange-listed securities—mainly holding firms; banks; property developers; food, beverage and tobacco firms; and telecommunication companies.
- Peso government securities accounted for the rest.
- The United Kingdom, United States, Singapore, Switzerland, and Malaysia were the top five investor countries with a combined 81.8% of the total.
- September's outflows of $1.183-bil reflected an increase of 32.2% from the $895.31-mil in August, the central bank said.
- A minimal decline (less than $1-mil) was noted when said amount was compared to the level recorded in September 2017 ($1.2-bil), it added.
- The United States remained the main destination of repatriated funds, accounting for 73.7%. Year-to-date, hot money flows were positive with a net inflow of $161.61-mil.

ECONOMIC HIGHLIGHTS (continued)

Credit Rating

- The credit ratings of emerging market countries like the Philippines will remain broadly stable amid concerns that recent global interest rate increases might create liquidity problems, S&P Global Ratings said in report released on Thursday.
- Higher US interest rates signal the end of an era of cheap money and herald a growing risk of negative credit developments in emerging markets (EM), S&P said.
- It noted that the increased pace of US monetary policy normalization had resulted in capital outflows from many EM countries, "putting pressure on their currencies to depreciate, raising local interest rates, lowering local asset prices, and dampening GDP (gross domestic product) growth."
- The debt watcher warned that this could hinder access to liquidity for EM sovereigns and non-sovereign borrowers, and potentially lead to lower credit ratings to the extent that it undermines economic fundamentals.
- It noted that Argentina and Turkey were the first ones to be seriously affected as the two EMs had large current account deficits and a reliance on external capital inflows.
- Subsequently, investors have focused on a potential second wave of market turmoil affecting other EM sovereigns and the possibility of liquidity problems spreading across the asset class, S&P said.
- Nevertheless, the credit rater does not foresee an imminent and high risk of contagion from recent market turmoil to the EM asset class as a whole.
- S&P Global Ratings' average rating for EM sovereigns is within the investment-grade category (around 'BBB-'; investment-grade ratings are 'BBB-' or higher), and it has stable outlooks on most of these.
- For the Philippines, S&P projected that external assets would exceed liabilities by nearly 10% of GDP in 2018, which it described as a "remarkable improvement" from 1998 when external liabilities were 26% of GDP higher than assets.
- This steady improvement reflects, among other things, the strength of steady inbound remittances from Filipinos working abroad, which have improved both the current account balance and GDP growth, contributing to a rising credit rating (which went from 'BB-' in 2008 to 'BBB' today), it said.

Vehicle Sales

- Vehicle sales slipped nearly 10% year-on-year in September, according to the joint report issued by the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) and the Truck Manufacturers Association (TMA).
- A total of 31,116 units were sold during the month, 9.7% lower than the 34,445 units sold in September 2017.
- However, CAMPI noted the September sales figure is a 2.6% increase from the 30,313 units sold in August.
- CAMPI said the introduction of new models helped drive sales growth for two straight months.
- CAMPI remains optimistic that this trend will be sustained before the year ends, as it expects a boost in sales from the upcoming 7th Philippine International Motor Show this month and the Christmas season.
- The auto industry has slumped this year with the implementation of the first package of the Tax Reform for Acceleration and Inclusion (TRAIN) law.
- For the first nine months of 2018, vehicle sales dropped 13.8% to 261,057 units, from 302,869 units sold during the same period last year.
- Commercial vehicle sales, a proxy for durable-goods investment and broader economic activity, dropped 9.4% year-on-year in September to 21,675 units. For the nine-month period, commercial vehicle sales fell 10.6% to 179,979 units year-on-year.
- Passenger car sales declined 10.2% annually to 9,441 units in September. This brought the nine-month sales of passenger sales 20.2% lower to 81,078 units.

CORPORATE NEWS

AP

- Aboitiz Power Corp. has received the certificate of permit to sell securities on Thursday from the Securities and Exchange Commission (SEC), it told the stock exchange, paving the way for the sale of the second tranche of its P30-bil debt securities program.
- The listed firm said the second tranche bonds, which is equivalent to P10-bil and with an oversubscription option of up to P5-bil, will be issued on Oct. 25.

CORPORATE NEWS (continued)

AP (continued)

- The public offer will start on Oct. 12, and end on Oct. 18.
- AboitizPower previously said it would use the proceeds of the second tranche bonds to refinance the medium-term loan of its wholly owned subsidiary Therma Power, Inc., to repay its short-term loan obligations, and for general corporate purposes.
- It has engaged BDO Capital Corp. as the issue manager, BDO Capital Corp., BPI Capital Corp. and United Coconut Planters Bank as joint lead underwriters, and BDO Unibank, Inc. Trust & Investments Group as the trustee, and the Philippine Depository & Trust Corp. as the registrar of the bonds.
- AboitizPower intends to list the bonds with the Philippine Dealing & Exchange Corp.
- Philippine Ratings Services Corp. (PhilRatings) previously rated the bonds as "PRS Aaa" with a stable outlook. The credit rating is the highest quality with minimal credit risk, which indicates the obligor's extremely strong capacity to meet its financial commitment on the obligation.
- A stable outlook means the rating is likely to be maintained or to remain unchanged in the next twelve months.
- The rating and outlook were assigned based on significant levels of cash flows and financial flexibility in relation to debt service requirements; adequate capital structure supported by healthy growth in retained earnings; diversified portfolio, with good growth prospects; and experienced management team.

PTT

- Philippine Telegraph and Telephone Corp. is confident about its chances of bagging the third telco slot, saying it is the only local company that can meet the tedious requirements set by the government.
- Formalizing its intention to vie for the third telco slot, PT&T bought bid documents from the National Telecommunications Commission Wednesday.
- PT&T purchased the bid documents even after NOW Corp.sued the government for allegedly inserting "onerous" financial requirements in the terms of reference for the selection of the third telco.
- Apart from PT&T and Now Telecom, Dennis Uy's Udenna Corp., the joint venture of businessman Chavit Singson's LSC Group of Companies and TierOne Communications; and Norway's Telenor Group acquired the bid documents.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,194.30	US$2.784

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