PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

15 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,004.77 (+1.75%)	97,399,817.90	(13,289,079.37)	25.64 (+3.01%) = 1,390.66	54.238

MARKET OUTLOOK

- Shares are seen to trade sideways in the week ahead as the market tries to bounce back from this year's record low, amid the continued outflow of foreign investors and lack of positive leads.
- Friday's rebound should see some follow-through support, which backs up the range-trading view on the market. The important thing to remember is surviving the volatility, until external anxieties ebb.
- While inflation, the weaker peso, and higher interest rates are still "top-of-the-mind" for investors' watch list, they should also look at economic growth.
- Despite recent downgrades from multilateral institutions (e.g. International Monetary Fund, World Bank), the fact exists they still see growth, albeit at a slower pace versus their earlier bullish tone at the start of the year.
- The index's performance this week will rely on foreign investors as well as by developments abroad given the absence of catalysts on the local front.
- The index is struggling to stay above 7,000 and local investors are doing their best to support this market. However, the bottom line is that any significant gains in this market will not be seen until foreign outflows slow down.
- The release of September US retail sales data at the start of the week (Monday evening in Manila) would provide a fresh look at the state of the US economy.
- Also awaited are the minutes of the last month's US Federal Open Markets Committee meeting that are due Wednesday (early Thursday in Manila). The US central bank raised interest rates as expected and the report is expected to provide a look at how further adjustments down the road will shape up.
- Q3 China growth data due on Friday, meanwhile, could also sway investor sentiment as a slowdown would mean that a trade war with the United States was affecting the Chinese economy.
- It could also embolden Washington to pursue its "take no prisoners" approach to trade disputes as the US may continue to assert the same strategy to other countries to decimate China's influence in the global trade.
- Two scenarios for the index are seen in the week ahead. It could either move sideways and stay above the 7,000 level or fall and test the next support level of 6,800.
- Based on market sentiment, there is a stronger possibility of the latter scenario. Majority of investors will continue to stay on the sidelines while foreigners are dumping and let the market decide what it's going to do. The result is lower trading volumes.
- The market's support is placed at 6,900 to 7,000, while resistance could be from 7,200 to 7,250.

ECONOMIC HIGHLIGHTS

Growth Outlook

- The Philippine economy is strong enough to cope with rising interest rates and a growing external trade gap, the International Monetary Fund (IMF) said last weekend.
- The IMF said that the Philippine economy is resilient in the face of rising interest rates worldwide. Overall, the IMF thinks the debt repayment capacity in the Philippines remains strong.

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	4.404 (as of October 8, 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)

- The IMF said the Philippines can absorb the impact of rising yields on its outstanding debt, given that this burden accounts for a “relatively low” share in the overall economy.
- Unpaid debts from foreign creditors amounted to $72.199-bil as of June, equivalent to 22.5% of gross domestic product (GDP). This declined from a 23.5% share as of June 2017 and is modest compared to the country’s counterparts.
- The Philippines can also stand its ground in the face of a growing trade gap, the multilateral lender said.
- The current account deficit has increased on the back of higher oil prices and import demand, but at a 1.5% (of GDP) deficit, it still remains manageable, the IMF said.
- Moreover, reserves at about $80-bil represent seven months of import coverage and about four times the size of short-term external debt falling due, it added. But perhaps most importantly, growth remains robust.
- The IMF sees the current account deficit settling at 1.5% of GDP this year, which if realized will top the 0.9% of GDP forecast of the central bank for 2018. It will likewise widen from the $2.518-bil gap posted in 2017 equivalent to 0.8% of GDP.
- The current account posted a $3.1-bil deficit as of end-June, compared to a $133-mil gap in 2017’s H1, already hitting the full-year 2018 estimate as imports continue to grow by double-digit pace while exports remain slumped.
- Global oil prices have increased for the ninth consecutive week, leading to a bigger import bill for the Philippines.
- Still, this is expected to be offset by the $75.161-bil dollar reserves held by the central bank. This is enough to cover 6.8 months’ worth of imports or pay 5.9 times outstanding foreign debt, although it was the lowest level seen in seven years.
- The IMF has downgraded its growth forecast for the Philippines to 6.5% this year and 6.6% in 2019, falling short of the 7% to 8% target set by the Duterte administration.
- The growth estimate for 2018 was revised from 6.7% previously, with the IMF citing last semester’s slower-than-expected 6.3% that compared to the 6.6% recorded in 2017’s H1.
- The IMF sees faster growth this semester, but flagged risks like rising oil prices and headline inflation, rapid credit growth, worsening global trade tensions and tighter credit conditions.
- The 2019 revision, on the other hand, factors in the impact of a changing external environment, particularly “escalating trade tensions” between the United States and China, the IMF said last week.
- The IMF expects the government’s infrastructure push and a steady stream of foreign direct investments — coupled with continuing robust private consumption — to sustain the economy’s expansion.
- Separately, the central bank assured that Philippine authorities are taking steps to keep the economy on solid footing.
- The Philippines remains one of the best performing economies in the fastest growing region in the world. GDP growth remains strong, FDI inflows are at record levels, infrastructure investment is booming, and we have historically low levels of public sector debt.
- It added that recent peso swings against the dollar are “expected” and that the local unit remains “stable and competitive” relative to other currencies.

Fuel Excise Tax Suspension

- Pressure is building on the Executive and on Congress for suspension of an oil excise tax hike set in January, which a Finance official said will likely happen given current world crude price forecasts.

ECONOMIC HIGHLIGHTS (continued)

Fuel Excise Tax Suspension (continued)

- The development comes as headline inflation has lately been hitting multiyear peaks — largely on surging world crude prices — averaging 5% in the nine months to September against the central bank's 2% to 4% target range for full-year 2018.
- Next year will also be marked by mid-term elections in May.
- President Rodrigo R. Duterte and his Cabinet have discussed this possibility, while majority of senators submitted an Oct. 9 letter to Mr. Duterte seeking such a move even before the "trigger period" set by Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) that took effect last January.
- The President and the Executive department is now looking into the temporary suspension of the next increase of oil excise tax rates in 2019 This is scheduled to be imposed by January of next year as mandated by the TRAIN Law.
- The law suspends the hike automatically should average crude oil price, based on Dubai, reach $80 per barrel (/bbl) in these last three months. Price of Dubai crude — used as a benchmark for Asia — rose 43% to $77.02/bbl in September from $53.86/bbl a year ago and by 6.78% from August's $72.23/bbl. Prices averaged $82.278/bbl in the 10 trading days to Oct. 12, 50.69% more than the $54.602/bbl in last year's comparable period.
- Today's price and multiple estimates of crude prices over the next two months show that the average price will stay above the $80 threshold, and it is therefore being announced early that the suspension mechanism will be activated.
- This announcement is being made two months before the time required by law, to proactively anchor inflation expectations and enhance the welfare of the Filipino people.
- After consulting the leadership of both the Senate and the House of Representatives, as well as the economic team, the President is confident that this course of action will help anchor inflation expectations for the coming year, allow the public to manage finances better, and disallow hoarders and profiteers from taking advantage of the situation.
- The Senate majority has sought Mr. Duterte's support for Congress' plans to suspend the scheduled increase in fuel excise tax come January.
- The senators said the suspension of fuel excise tax hike "would help lift the heavy burden" that Filipinos have been experiencing amid the rising prices of basic goods and services.

CORPORATE NEWS

AC

- AC Energy, Inc., along with its Vietnamese partner, has signed construction and financing contracts for the development of solar plants in Vietnam valued at an estimated $83-mil, the Ayala-led company said during the weekend.
- In partnership with AMI Renewables Energy Joint Stock Co., the Ayala Corp. energy platform signed engineering, procurement and construction (EPC) and financing documents to build solar farms with a total capacity of 80 megawatts (MW).
- The joint venture, which plans to build the solar projects in the provinces of Khanh Hoa and Dak Lak, targets the commissioning date ahead of the June 2019 solar feed-in tariff deadline in Vietnam.
- The projects will be financed with debt and equity, said AC Energy, adding that it will participate with at least a 50% economic share.
- Indovina Bank of Vietnam and Rizal Commercial Banking Corp. (RCBC) of the Philippines will provide non-recourse financing for the Dak Lak and Khanh Hoa projects, respectively.

MPI

- Toll rates at the Cavite Expressway (CAVITEx) may soon rise, as Cavitex Infrastructure Corp. (CIC) is set to file its application to hike fees before the Toll Regulatory Board (TRB) within the month.
- The company is eyeing a 20 centavo per kilometer increase for the use of the toll road.
- The existing toll fee at the CAVITEx is P24 for the seven-kilometer stretch. A 20-centavo increase means an additional P1.40 to the toll fee, but it will likely be rounded off.
- CIC is currently working on a P1.1-bil enhancement of the CAVITEx, phase 1 of which is the P800-mil widening of lanes and construction of a left-turn facility at the Marina flyover; and phase 2 the P300-mil widening of bridges in Wawa, Las Piñas and Parañaque.

CORPORATE NEWS (continued)

MPI (continued)

- The company expects to complete the left-turn facility at the Marina flyover and the lane widening by the end of the month.
- Construction works are substantially complete, and the contractor just needs to address the remaining balance and "punch listed items identified by the independent consultant."

ALI

- Ayala Land, Inc. (ALI) is in talks with a company in the ASEAN (Association of Southeast Asian Nations) region for potential partnerships in the real estate market.
- ALI is looking for a platform to grow through a company or local organization.
- Further details were not disclosed, but the company is based in one of the 10 ASEAN countries.
- ALI preferS partnering with companies that already have a landbank.
- This is the same strategy that ALI employed when it first planted its flag in Malaysia. The company initially purchased a 9.16% share in Malaysian firm MCT Bhd. in 2015, eventually increasing its stake to 72.31% last February. MCT is involved mainly in affordable residential condominium projects.

TEL / BLOOM

- PLDT, INC.'s enterprise business is expanding its partnership with Solaire Resort and Casino.
- The telecommunications giant said in a statement its PLDT Enterprise unit will start offering holders of Ruby and Diamond Solaire Rewards cards with mobile plans under Smart Communications' Postpaid Plan 2000.
- The two companies first started its partnership when PLDT was tapped to be Solaire's internet provider in 2013. It also offered services such as voice telephony solution PABX, IP-Virtual Private Network and vanity numbers for operations management and information technology needs.

SSI

- Leading upscale fashion and specialty retailer SSI Group Inc. said its president purchased additional shares.
- Anthony Huang, who joined SSI in 1995, bought 2.753-mil shares at P2.115 to P2.24 apiece from Sept. 3. to 28.
- SSI disclosed the series of purchases in a filing with the stock exchange.
- The purchase increases Huang's overall holding to 8.545-mil shares or 0.26% of the company.
- SSI, a member of the Rustan's Group of Companies of the Tantoco family, is the exclusive franchisee of some of the finest international brands in fashion and lifestyle such as Lacoste, Gucci, Salvatore Ferragamo, Bally, Michael Kors, Prada, Burberry, Marc Jacobs, among others.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,220.90	US$2.812