DAILY MARKET PRIMER

16 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
6,926.51 (-1.12%)	81,340,001.57	(13,646,125.58)	25.18 (-1.79%) = 1,361.76	54.081

MARKET OUTLOOK

- Shares fell on Monday as investors remained cautious following the global equity sell-off last week.
- The stock market fell back to the 6,900 level on Monday as investor sentiment was dented by political tensions between the United States and Saudi Arabia.
- Philippine markets started the week on a bumpy note as some tension between Saudi Arabia and the US kept investors in a wait-and-see mode. Analysts and traders said the Saudi response could be read as a veiled threat to use its energy riches as a political tool. Key European allies have also added to the pressure.
- On a technical note, the relief rally from the low of 6,790 last week failed to hold above 7,000. Expect the market to range between 6,800 and 7,000 with the possibility of testing 6,700 and 6,575 support levels, assuming the bearish momentum persists.
- The market is in wait-and-see mode. It's waiting for earnings, waiting for the Fed, and waiting for economic data from China to see if things are stabilizing.
- With the index closing below the psychological 7,000 level, our next support should be in the area of its most recent low of 6,790. With barely any catalysts locally, the immediate factor to watch out for would be how US markets perform for a possible indication of movement for the PSEi.

ECONOMIC HIGHLIGHTS

August Remittances

- Cash remittances slipped in August from a year ago due to lower inflows from the Middle East, the central bank said on Monday, which could signal softer household spending in Q3.
- Overseas Filipino workers (OFWs) sent home $2.476-bil that month, 0.9% less than the $2.499-bil which were wired to the Philippines in August 2017, the central bank said. August inflows, however, picked up from the $2.401-bil cash remitted in July and was the biggest amount of remittances received since December's $2.741-bil.
- Around 10-mil OFWs provide for their families living in the Philippines. These cash transfers fuel household spending that, in turn, contributes nearly 70% of overall economic output.
- The countries that contributed to the decline in August 2018 are the United Arab Emirates (UAE), Saudi Arabia and Qatar.
- August remittances pushed eight-month inflows to $19.057-bil, 2.5% more than the $18.595-bil received in 2017's comparable period. This, however, is softer than the 4% growth expected by the central bank for the entire year, coming from last year's $28.06-bil.
- Land-based OFWs continued to be the biggest source of remittances at $15.1-bil, up by 2.1% from a year ago. Those working at sea also wired 3.8% more funds to $4-bil, the central bank said.
- Filipinos working in the United States remained the biggest source of inflows as of August, followed by Saudi Arabia, UAE, Singapore, Japan and the United Kingdom.
- Union Bank of the Philippines said the marginal drop in remittances was expected given that the strong August 2017 inflows were "a bit hard to top."

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$2.476-B (August 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, October 22
- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

August Remittances (continued)

- It added that lower remittance inflows in August may have tempered domestic spending in Q3 even as July inflows were 5.2% up.
- With the year-on-year decline in remittances, a softness in domestic demand is expected, but a robust Q3 growth result is still expected as well, stronger than previous quarter's 6.0%.
- OFWs are just waiting for yearend to send remittances to their loved ones in time for the Christmas season.
- Remittances usually peak in December each year as OFWs send more money in time for the Christmas season, in order to support increased spending for festivities and gifts during the holidays.
- ING Bank said separately that remittances likely adjusted to mirror school year changes and possible late payments to workers, coupled with exchange rate "nuances", contributed to the year-on-year contraction.
- The peso traded weaker than the P53-per-dollar mark during the month to average P53.2735, compared to the P50.8747 rate in August last year. That means OFW families enjoyed bigger peso values for the dollars they received, putting more pesos in their pockets to spend.
- Going forward, annual and year-to-date growth rates are still seen to average around 3%.

Tax Hike Deferral

- Cuts to non-infrastructure spending, including cash transfers to the poor and fuel subsidies for jeepney drivers, will be implemented by the government in exchange for the suspension of fuel tax hikes scheduled next year.
- Finance Secretary Carlos Dominguez III confirmed reports that the government was considering the tax hike suspension, which he said had been recommended to President Rodrigo Duterte by economic managers.
- He did not say if the President had already acted on the recommendation—Special Assistant to the President Christopher Lawrence "Bong" Go on Sunday initially said that Duterte had issued an order but later walked that back—but added that the matter would be further discussed during today's Development Budget Coordinating Committee (DBCC) meeting.
- The Tax Reform of Acceleration and Inclusion (TRAIN) law that took effect at the start of 2018 raised taxes on a number of goods and services, including fuel products, in exchange for lower personal income tax rates.
- The law, part of the Duterte administration's Comprehensive Tax Reform Program, has been blamed for stoking inflation, which hit a fresh nine-year high of 6.7% in September—well over the 2.0% to 4.0% target.
- With a second round of fuel tax hikes scheduled to take effect at the start of next year, calls have been mounting for its suspension—initially rejected by economic managers but now made feasible given rising crude prices.
- Under the TRAIN law, the excise tax increases can be suspended "when the average Dubai crude oil price based on Mean of Platts Singapore (MOPS) for three months prior to the scheduled increase of the month reaches or exceeds $80 per barrel."
- With prices having hit the level but the three-month average still to be determined, Dominguez said the tax hike could still push through, but added that this was highly unlikely.
- Measures to address the resulting revenue loss, he said, will be discussed by the DBCC during today's meeting, where economic managers will be reviewing their macroeconomic assumptions and targets.
- In particular, unconditional cash transfers (UCT) under the Train law and fuel subsidies for jeepney drivers via the *Pantawid Pasada* Program (PPP) could be slashed, Dominguez said.

ECONOMIC HIGHLIGHTS (continued)

Tax Hike Deferral (continued)

- For UCT, 75% was already implemented while this PPP only 35% was implemented, so there's something really wrong. Not with the government but with how this thing is being operated, Dominguez noted.
- At present, some 10-mil UCT beneficiaries receive a P200 monthly subsidy from the government while PPP recipients get P5,000 per month. Both doleouts are supposed to increase to P300 and P20,000, respectively, next year.

Non-Infra Spending

- The government will cut spending on non-infrastructure items to weather the impact of billions of pesos in revenues to be foregone from the suspension of an oil excise tax hike scheduled in January and to keep the fiscal gap in check, the Finance chief said on Monday.
- "We will have to cancel some non-infra expenditures," Finance Secretary Carlos G. Dominguez III said, while assuring that spending on social services will also be unaffected.
- "We are going to take the necessary action not to increase our deficit."
- He said economic managers will identify items to sustain funding cuts during a Development Budget Coordination Committee (DBCC) meeting today.
- The DBCC has programmed a deficit ceiling equivalent to three percent of gross domestic product this year. In 2019 it will inch up to 3.2% amid a foreseen spike in infrastructure spending, then back to three percent in the succeeding years until 2022. These programs compare to the actual 2.2% recorded in 2017.
- Mr. Dominguez also noted that since oil prices will go up further and the peso will likely continue depreciation, the revenue loss may be partly recouped from higher value-added tax collections on fuel imports.
- "So the total estimated foregone revenue is around P41-bil but we are still calculating how much the net revenue will be. We don't expect the full P41-bil to be the actual amount," he said.
- He also noted that the DBCC will study whether the *Pantawid Pasada* program, a cash transfer for public utility jeepney service franchise holders affected by higher fuel taxes, will also be suspended along with the fuel excise hike.
- Mr. Dominguez confirmed that economic managers and members of Congress had agreed on the need to suspend January's oil tax hike under Republic Act no. 10963 or the Tax Reform for Acceleration and Inclusion Act.
- Mr. Dominguez also said that the DoF is still studying how the suspension can be lifted once the Dubai crude oil prices normalize. "The law is silent but I suppose that if for three months it's lower than $80 per barrel then it can be reapplied. We will do that in the next few days," he said.
- Economists interviewed separately via e-mail said that the move to suspend the 2019 fuel excise hike should help temper price speculation.
- Some also said that the 2019 mid-term elections was a key factor in the decision.
- The suspension might actually impact the market positively. If it were a non-elevated inflation environment, it might probably have a negative effect. Expect the market to have a bounce because of this particular information.
- The 2019 elections will have inflation among its core issues. Since inflation can be partly ascribed to higher fuel prices, the 2019 elections will definitely influence the lifting of the suspension of the fuel tax. The lifting of the suspension will follow a few months after the 2019 elections but not before that.
- Forgone revenues may also be offset when the economy accelerates. If the economy grows fast enough in 2019 owing to the anticipated improvement in next year's inflation print, collections from existing tax laws could be seen improving fast enough to offset some of these foregone opportunities.

CORPORATE NEWS

MEG

- Megaworld Corp. expects to generate P4-bil in sales from its fourth residential condominium in Uptown Bonifacio, banking on its prime location in the growing financial district in Taguig.
- The listed property developer unveiled on Monday Uptown Arts Residence, a 45-storey condominium along 9th Avenue in the northern part of Fort Bonifacio.
- Uptown Arts Residence will rise beside the Skytrain, the proposed monorail project of Megaworld's sister firm, Infracorp Development, Inc. The Skytrain is set to connect Fort Bonifacio to the Guadalupe Station of the Metro Rail Transit Line 3.

CORPORATE NEWS (continued)

MEG (continued)

- The project will likewise be situated near the Kalayaan Station of the proposed Mega Manila Subway project, a 30-kilometer subway system connecting Quezon City to the Ninoy Aquino International Airport.
- Uptown Arts Residence will also benefit from the construction of a bridge over Pasig River connecting Fort Bonifacio to Ortigas. This will cut travel time from Uptown Bonifacio to Ortigas to less than 10 minutes.
- Megaworld expects to complete Uptown Arts Residences in 2024. It will be the fourth residential building in the company's 15.4-hectare township. The first three are One Uptown Residence, Uptown Ritz, and Uptown Parksuites.

SMC / FB

- Diversified conglomerate San Miguel Corp. (SMC) has received clearance from the Bureau of Internal Revenue (BIR) for the tax-free transfer of its common shares to its newly consolidated food and beverage unit.
- SMC said the BIR issued last Friday BIR Rule No. 010-2018, confirming the tax-free transfer of its common shares in San Miguel Brewery, Inc. (SMB) and Ginebra San Miguel, Inc. (GSMI) to San Miguel Food and Beverage, Inc. (SMFB).
- The share swap transaction includes the transfer of 7.86-bil shares in SMB and 216.97 million shares in GSMI to SMFB, in exchange for 4.24-bil new common shares in SMFB to be issued to SMC out of its capital increase. The transaction is valued at P336.35-bil.
- With the tax exemption, SMC said it will apply for a certificate authorizing registration of SMFB's ownership over the SMB and GSMI shares in the stock and transfer books of the two companies.
- The transaction forms part of SMC's consolidation of its traditional businesses under SMFB, which now holds its liquor, brewery, and food and beverage units. Following the share swap, SMFB now holds 51.16% and 78.26% in SMB and GSMI, respectively. SMC will also increase its stake in SMFB to 95.87% from 85.37%.
- The consolidation intends to create a "significant consumer food and beverage vertical market under SMC," while also aiming to enhance its trading liquidity.
- SMFB is now looking to raise up to P142-bil in a follow-on offering to comply with the minimum public ownership rule of 10%, as its public float fell to 4.12% after the share swap.
- The company has already secured approval from the Securities and Exchange Commission to proceed with the share sale, consisting of a base size of 887-mil shares and an over-allotment option of 133.05-mil shares priced up to P140 each. Funds raised from the offering will be used to fund SMC's infrastructure projects.
- The share sale is currently awaiting approval from the Philippine Stock Exchange.
- As per its latest prospectus, SMFB targets to price the offering by Oct. 19, with the offering to run from Oct. 23 to 29. The shares will then be crossed at the exchange by Nov. 6.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,220.20	US$2.788