

DAILY MARKET PRIMER

19 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,286.34 (-1.72%)	121,644,870.25	(5,429,825.42)	26.07 (-0.91%) = 1,413.18	54.207

MARKET OUTLOOK

- The stock market plunged to the 7,200 level on Tuesday as investor sentiment was again rattled by an escalating trade war between the United States and China as well as fears of more inflationary pressures following the onslaught of typhoon Ompong last weekend.
- Market players lightened their portfolios after US President Donald Trump decided to levy a 10% tariff rate on Chinese imports beginning September 24, which would eventually increase to 25% on January 1 next year.
- Trump also warned of further taxes to be imposed on some \$267-bil worth of Chinese goods should Beijing pursue retaliation plans.
- Investors are also assessing Typhoon Ompong's inflationary impact, as the storm had battered northern Luzon over the weekend.
- The market is seen grinding to a halt toward the 7,000 level or within this level, and then just move sideways and consolidate while waiting for more positive news for action from the government on how to somehow bring the confidence of investors back.
- The political situation and these crises have caused inflation to move up, bringing the market to a medium-term bearish environment. Until economic managers start to address what should be done and solve the rice problem in the next six months or before the year ends, then a correction is seen.
- However, a rebound on Wall Street overnight as investors brushed aside intensifying trade rhetoric between the United States and China could provide some impetus for the market to recover as well.
- There's much more pressure on the Chinese to reach a deal than there is on the United States, at this point.

ECONOMIC HIGHLIGHTS

Inflation Outlook

- Despite the onslaught of Typhoon Ompong so close to the holiday season, inflation is still expected to ease in Q4, economic managers said yesterday.
- Economic managers expressed confidence that Ompong's impact on food prices may ease with the implementation of non-tariff measures meant to address supply woes as well as the expected strengthening of the peso versus the dollar that can make imports cheaper during the fourth quarter which traditionally sees higher consumer demand.
- The central bank said that based on initial estimates, the damage inflicted by Ompong is confined to certain areas and has no widespread effect to the economy.
- On Monday, the Department of Agriculture reported that damage to agriculture has reached P14.27-bil, with the rice sector hit the hardest.
- The central bank said they are counting on the immediate implementation of inflation-busting non-tariff measures meant to boost the supply of key food products, especially for rice which accounts for more than nine percent of the consumer price index (CPI).

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)	(P86.4-B) (July 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	(US\$455-M) (July 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.225(as of September 3, 2018)	Cash Remittances	US\$2.401-B (July 2018)	O/N RRP	4.00% (as of August 9, 2018)

ECONOMIC CALENDAR

Monday, September 24

- Budget Balance (August)

Thursday, September 27

- Monetary Board Policy Meeting

ECONOMIC HIGHLIGHTS (continued)

Inflation Outlook (continued)

- Among the non-tariff measures included in a proposed executive order is the immediate importation of more rice as well as the immediate release of 4.6-mil bags of rice from warehouses of the National Food Authority (NFA) to retail outlets to eliminate the participation of traders.
- The central bank also noted that harvest in several provinces has already started, contributing to supply.
- The central bank also expressed optimism that the rice tariffication bill, which provides for the liberalization of rice trade, would be passed soon.
- The seasonal appreciation of the peso against the dollar is also expected to provide relief from soaring prices as import costs for goods may go down.
- The other point is that while it is true that the last quarter of the year is a high demand quarter given the holiday season, but this is also the time when the exchange rate actually appreciates and that could have some countervailing impact on the depreciation of the peso that we have seen in the nine months of the year. So that can provide some mitigation.
- The Department of Finance (DOF) is still waiting for the final report on typhoon damage but said the government can tap a loan facility with the World Bank to deal with damage caused by Ompong.
- The National Economic and Development Authority (NEDA) said it will formulate a rehabilitation and recovery program (RRP) for areas struck by Ompong.
- NEDA said current inflationary pressures are “transient” and can be addressed with the proposed non-tariff measures.
- The inflation control executive order (EO) submitted by the government’s economic development cluster (EDC) to President Duterte would focus on the removal of administrative and non-tariff barriers on the importation of key food items such as rice, fish, sugar, meat and vegetables.
- Economic managers want the removal of non-tariff barriers for these food items done within the month to boost supply and drive down prices.
- The economic development cluster recognizes that the rise in prices of these items has been the major contributor to inflation for the past two months. Fish and seafood, rice and meat, and vegetables accounted for 2.4 percentage points out of the 6.4% inflation rate in August.
- Immediate to short-term measures contained in the proposed EO include making rice available in the market through immediate release of stocks from NFA warehouses, importation, and distribution of projected harvest; monitoring of rice transfer from ports to warehouses and retail outlets; and the speedy passage of the Rice Tariffication Bill.
- Availability of fish and chicken would be increased by allowing imports to be distributed quickly and by setting up public markets with cold storage facilities where producers can sell directly to end consumers. Apart from importation, improving logistics, transport, distribution, and storage was also deemed crucial for curbing price inflation of sugar, vegetables, and other food items.

Growth Outlook

- Philippine companies and their peers in the Association of Southeast Asian Nations (ASEAN) are largely expected to weather rising interest rates, S&P Global Ratings said in a Sept. 17 report that cited bigger debts incurred by firms in the region.
- The debt watcher said Southeast Asian companies remain armed with enough money supply to support growing funding requirements despite tighter credit conditions.
- This comes at a time of “slowing” revenue and earnings growth of firms in the Philippines, Indonesia, Malaysia, Singapore, Vietnam and Thailand.
- Earnings before interest, tax, depreciation and amortization have risen by about two percent so far this year, S&P said, noting that overall revenues grew seven percent and profit rose by five percent in 2017.

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ECONOMIC HIGHLIGHTS (continued)

Growth Outlook (continued)

- Growth momentum slowed particularly for firms engaged in commodities as well as consumer sectors amid “muted” consumer sentiment, higher input costs and increased competition.
- Businesses across the region have also been spending “more than they generate,” leading to a taller pile of debt and financial charges.
- Bigger foreign debts also drive up exchange rate exposure, although such concerns are relatively contained, S&P said.
- The report noted that Philippine firms display “weaker” credit quality this year amid a slowing earnings momentum and rising capital spending, matching the regional trend.
- Companies in the Philippines, Thailand and Vietnam are also seen most exposed to interest rate pressures, but any impact would be “moderate” overall.
- It is generally the case in the Philippines and Thailand because of debt-funded spending and acquisitions by domestic companies, the credit rater said.
- S&P believes that rising rates will have a moderate effect overall and will not, in isolation, lead to a widespread interest-servicing crisis in the region. Any sensible interest-rate sensitivity and stress analysis would be company-specific because capital providers would be more choosy when lending capital.

CORPORATE NEWS

AGI

- Infracorp Development, Inc. looks to propose a monorail project connecting the Metro Rail Transit Line 3 (MRT-3) to Eastwood City, in a bid to ease traffic congestion and increase connectivity for commuters in the area.
- The infrastructure arm of Alliance Global Group, Inc. (AGI) said it has identified three to four areas where it would like to build infrastructure solutions, with the Eastwood City to MRT-3’s Santolan Station being one of them. Eastwood City is an integrated township being developed by AGI’s property arm, Megaworld Corp.
- The project will most likely replicate Infracorp’s proposal for the two-kilometer Skytrain, connecting MRT-3’s Guadalupe Station to Fort Bonifacio.
- The company is still evaluating potential partners for the operation and management of the Skytrain.
- Infracorp’s proposal also includes provisions to interconnect the Skytrain with other transport hubs.

SMC

- San Miguel Corp.’s proposed P735-bil New Manila International Airport project in the province of Bulacan is up for Swiss challenge soon.
- The Department of Transportation said San Miguel Holdings Corp. submitted a revised concession agreement Monday, which is now under its review.
- San Miguel’s proposal involves the construction of a world-class, major international gateway with four to six parallel runways, modern terminals, a sea port and an industrial zone.
- To rise on a 2,500-hectare property in Bulakan, Bulacan, the project will be undertaken over a period of five to seven years.
- The conglomerate has the financial capacity and track record to build the Bulacan airport.

GOLD BUYING / Troy Oz.

US\$1,199.25

COPPER BUYING / lb.

US\$2.732

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