

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,151.52 (+0.14%)	91,393,972.15	(4,082,004.06)	26.43 (+1.19%) = 1,427.19	53.999

MARKET OUTLOOK

- Shares may continue moving sideways in the week ahead as investors look forward to the release of Q3 earnings reports.
- With the first tranche of nine-month earnings, attention should firm up how corporates are strategizing on challenges of rising borrowing costs, and whether expansion plans are still soldiered on.
- Should earnings reports exceed expectations, this could be the catalyst the market is waiting for to start going up again.
- For this week, the market can trade sideways and shuffle around the 7,000-level or investors may come in and bargain hunt as there are several companies that have been taking a constant beating in the last few months.
- However, the constant foreign selling in the market may continue to drag the PSEi's performance.
- On the other hand, the appreciation of the Philippine peso last week could also uplift sentiments moving forward.
- The influx of OFW remittances in Q4 may strengthen the currency further and may calm yet another concern of investors.
- Meanwhile, the general sentiment in markets overseas will also be in focus. Wall Street suffered losses in the previous weeks, due to a combination of geo-political tensions between the United States and Saudi Arabia, the US with China, and rising interest rates. This weakness has likewise dampened sentiment in Asian markets, including the Philippines.
- Most, however, will have to come to terms on hints of rate tightening from the US Federal Reserve, as this carries a weight in capital flows.
- Locally, the upcoming midterm elections could turn into "market-movers" for the end of 2018.
- During an election year, it is worth to note: local consumption (a major dynamo to national output) generally outperforms; and market-friendly policies can be expected to deepen support from the electorate.
- The PSEi's support is placed from 7,000 to as low as 6,800, with resistance to reach 7,200 to 7,500.

ECONOMIC HIGHLIGHTS
Growth Forecast

- Fitch Ratings has tempered its growth forecast for the Philippines to match the low end of the government's projection, in the wake of last semester's slower expansion and amid rising interest rates.
- The credit rater scaled down its full-year estimate for Philippine gross domestic product (GDP) growth to 6.5%, lower than the 6.8% given in July.
- The downward revision to its growth forecast reflects its expectation that the cumulative rate hikes by the central bank of 150 basis points (bp) so far this year, would support some moderation in growth.
- Further, GDP growth in H1 of 2018 of 6.3% was weaker-than-expected, which is also a reason for the downward revision to the credit rater's growth forecast.
- The Philippine economy grew by a slower-than-expected 6% in Q2 as household spending cooled at a time of surging consumer prices.
- Both Q2 and H1 GDP growth rates compare to 6.6% a year ago.
- The central bank has also stepped in to raise rates in four consecutive meetings since May, including a back-to-back 50-bp hikes in August and September in an attempt to rein in inflation expectations.

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\$2.696-B) (September 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)

Growth Forecast (continued)

- Inflation averaged five percent in the nine months to September, well above the central bank's 2% to 4% target.
- Fitch's slower growth forecast matches tempered outlooks of the World Bank and the International Monetary Fund, while the Asian Development Bank penciled in an even lower forecast of 6.4% earlier this month.
- Economic managers of President Rodrigo R. Duterte followed suit and announced on Tuesday that GDP growth will likely clock in at 6.5% to 6.9% in 2018, slower than the original 7% to 8% target, amid escalating global trade tensions, tighter credit conditions and elevated world crude prices.
- The Philippines holds a "BBB" rating — a notch above minimum investment grade — with a "stable" outlook from Fitch. The debt watcher said this rating balances a "favorable" growth outlook and modest debt burden against a lower per-capita income as well as "weaker governance and business environment indicators" compared to those of similarly rated economies.
- Prospects look better in the next two years as Fitch expects the economy to grow at 6.7% in 2019 and 2020 driven by strong domestic demand. The credit rate thinks policy tightening by the central bank of cumulative 150 basis points so far in 2018 should help to keep inflationary pressures under control.
- The projection compares to the 7% to 8% annual growth goal set by the government for 2019 and 2020.

Inflation Outlook

- Economists of private banks raised anew their inflation forecasts over the next three years amid rising global oil prices, higher food prices, a weak peso, and the effects of the implementation of the tax reform program.
- A survey conducted by the central bank showed higher inflation forecasts of 5.3% instead of 4.5% for this year and 4.3% and 3.9% for 2019 and 2020, respectively instead of 3.8%.
- Analysts noted that risks to inflation in 2018 remain tilted to the upside, with possible risks coming from various factors including higher and volatile global oil prices, higher utility rates, rise in wages and transport fares and higher inflation expectations.
- The survey covering 28 respondents was conducted from Sept. 6 to 14.
- Bank of China has the highest inflation forecasts at 7% for 2018, 5.5% in 2019, and 5% in 2020.
- Korea Exchange Bank sees inflation averaging 5.7% this year followed by Ayala-led Bank of the Philippine Islands (BPI) with 5.6%, Al Amanah Islamic Bank (5.5%), UBS (5.4%), and CTBC Bank, Robinsons Bank, and Philippine Equity Partners (5.3%).
- Deutsche Bank has the lowest inflation forecast of 4.8% for 2018.
- Economists also cited the impact of the implementation of Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law on the prices of domestic goods, the rise in the prices of food and other commodities due to adverse weather conditions and supply shortage, higher utility rates as well as rise in wages and transport fares, strong domestic demand during the holiday season.
- Other upside risks include the delay in the implementation of the government's mitigating measures against rising inflation, higher government spending on infrastructure as well as the trade war between the US and China.
- However, analysts noted there are downside risks to inflation emanating from fiscal policy actions or mitigating measures such as the rice tariffication, *Pantawid Pasada* program, unconditional cash transfers, and slower global growth.

DAILY MARKET PRIMER

22 October 2018

ECONOMIC HIGHLIGHTS (continued)

Inflation Outlook (continued)

- Inflation leapt to a near-decade high of 6.7% in September from 6.4% in August. The consumer price index (CPI) averaged 5% in the first nine months, exceeding the central bank's 2% to 4% target.
- This prompted the central bank's Monetary Board to raise interest rates by 150 basis points so far this year to keep inflation expectations well anchored.
- Economists expects inflation to moderate in 2019 and 2020 as the impact of TRAIN tapers off, global oil prices stabilize, and the government implements mitigating measures to temper inflation.
- However, analysts are also watchful of potential inflationary pressures from a possible reserve requirement ratio (RRR) reduction and the implementation of Package 2 of the TRAIN Law.
- Based on the probability distribution of the forecasts provided by 24 out of 28 respondents, there is a 0.5% probability that average inflation for 2018 would settle between the 2 to 4% target range, while there was a 99.5% chance that inflation would exceed the target.
- For 2019, the respondents assigned a 30.2% probability that inflation would fall within the target and 69.5% chance that inflation would breach the upper end of the target.

CORPORATE NEWS

PSE

- The Philippine Stock Exchange, Inc. (PSE) is optimistic it can breach its P200-bil full-year target for fund-raising activities at the local bourse, as the share sale of San Miguel Corp.'s food and beverage unit pushes through in Q4.
- Capital raised at the stock exchange has so far reached P181.68-bil. The figure already exceeds the P160-bil worth of funds raised at the PSE in 2017.
- The remaining three months of 2018 will see the conduct of a follow on offering by San Miguel Food and Beverage, Inc. (SMFB). The food and beverage giant targets to sell up to 522.96-mil common shares at P85 to P95 each. This excludes an over-allotment option of up to 15% of the offer shares.
- Without the over-allotment option, this could bring in P49.68-bil worth of fresh funds for SMFB, allowing the PSE to hit its fund-raising target for the year.
- SMFB will announce the final price of the share sale on Oct. 25, with the settlement and delivery of shares scheduled for Nov. 12.
- The expected record-breaking fund-raising activity comes amid the persistent volatility at the PSE for most of the year, which has prompted two firms — Del Monte Philippines, Inc. and Cal-Comp Technology (Philippines), Inc. — to push back their initial public offerings (IPO) until market conditions improve.
- Funds raised as of September came mostly from stock rights offerings, including P758.3-mil from PetroEnergy Resources Corp., P20-bil from Robinsons Land Corp., P5-bil from Integrated Micro-electronics, Inc., P2.898-bil from The Philippine Stock Exchange, Inc., P60-bil from Metropolitan Bank and Trust Co., P50-bil from the Bank of the Philippine Islands, and P15-bil from Rizal Commercial Banking Corp.
- Only one company braved to enter the stock exchange this year, as property developer and construction firm D.M. Wenceslao, Inc. raised P8.15-bil from its IPO for its expansion plans.
- Global Ferronickel Holdings, Inc. and DoubleDragon Properties Corp. also conducted follow-on offerings, raising P517.5-mil and P4.5-bil, respectively.
- Funds raised also includes those from private placements of IRC Properties, Inc., China Banking Corp., Basic Energy Corp., and Golden Bria Holdings, Inc.
- Meanwhile, the PSE also targets to launch the program for securities borrowing and lending and short-selling before the year ends.
- The approved guidelines indicate that only PSE member stocks and exchange traded funds are eligible for short selling, in addition to a limit of 10% of the outstanding shares of an eligible security to be sold.
- The PSE explained that they are now finalizing the systems for short selling and SBL, which will be transacted through the Central Securities Depository of the Philippine Depository & Trust Corp.
- Short-selling and SBL will also be made available to both local and foreign investors.

DAILY MARKET PRIMER

22 October 2018

CORPORATE NEWS (continued)

MPI

- The Metro Pacific Tollways Corp. (MPTC) said it is investing around \$20-mil for a new project under its Indonesian subsidiary PT Nusantara Infrastructure Tbk.
- The company is working on the Petarani project, which is an extension of a toll road going to the airport in Makassar, the capital of South Sulawesi province.
- The funds will be internally generated.
- The 4.4-kilometer A.P. Pettarani elevated toll road will connect Soekarno-Hatta Port (Makassar) and Sultan Hasanuddin Airport to Makassar's business district and city center. Construction of the toll road started in April.
- Last month, the Indonesian unit of MPTC, PT Metro Pacific Tollways Indonesia (PT MPTI), raised its stake in PT Nusantara to 77.94% for P2.86-bil.

ABS

- ABS-CBN Corp. said it signed a deal with Thai content provider JKN Global Media Public Co. Ltd., which will broadcast more Filipino shows in Thailand and Laos.
- ABS-CBN said among the shows purchased by JKN Global are "Brothers" ("FPJ's Ang Probinsyano"), "La Luna Sangre" and "Till I Met You."
- The two companies first signed a deal in 2016, with ABS-CBN saying its shows such as "Got To Believe," "The Legal Wife," and "Bridges of Love" became hits in Thailand.
- ABS-CBN also said they are currently discussing with JKN Global new opportunities for co-production in the future.

MRP

- Melco Resorts and Entertainment (Philippines) Corp. (MRP) has withdrawn its application to voluntarily delist from the local bourse, announcing instead its largest shareholder's plan to increase its stake in the company.
- MRP said it has formally withdrawn its petition and amended petition for voluntary delisting from the Philippine Stock Exchange (PSE), which was filed last September.
- The operator of the City of Dreams Manila earlier announced plans to exit the PSE by November, citing its "inability to raise funds despite considerable efforts and expenses being incurred to maintain its listed status."
- The exit was dependent on the conduct of a tender offer by its largest shareholder, MCO (Philippines) Investments Limited, that sought to buy out all minority shareholders.
- A number of market participants however raised their eyebrows on the planned tender offer, as they deemed the tender offer price of P7.25 per share unfair. Traders pointed out that the tender offer price was way below the P14 per share MRP shares had when the company conducted its follow-on offering back in 2013, among others.
- Amid the withdrawal, MCO Investments said it will proceed with its planned tender offer consisting of up to 1.57-bil common shares, representing 27.23% of the company's outstanding capital stock.
- MCO Investments will be filing a second amended tender offer report next week to update the tender offer schedule.
- Meanwhile, the PSE welcomed the company's decision to withdraw its delisting plan, saying it will address the issues raised by investors.

GOLD BUYING / Troy Oz.

US\$1,225.60

COPPER BUYING / lb.

US\$2.782

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