

DAILY MARKET PRIMER

25 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,433.61 (+0.69%)	84,580,463.77	(10,431,324.26)	25.66 (-0.12%) = 1,386.33	54.027

MARKET OUTLOOK

- The stock market climbed back to the 7,400 level on Monday as investors resumed bargain-hunting ahead of the Federal Reserve and the central bank's monetary policy meetings.
- Market players loaded their portfolios in anticipation of fresh Fed and central bank rate hikes.
- US policymakers are set to conduct a two-day meeting on September 24 and 25 while the central bank will meet on September 27.
- Market participants were in a wait-and-see mode.
- The market operated under thin volume. Thus, the sustainability of the rally is questionable.
- However, the latest round of U.S.-China tariffs as neither country showed signs of backing down from a protracted trade war, could weigh on sentiment.
- The latest list of Chinese goods subject to tariffs includes many technology products. While the new duties spared many high-profile consumer technology items such as "smart" watches and speakers, less flashy home modems and routers were not so lucky.
- One of the bigger risks with these tariffs going into effect is that the United States may be pushed out of the Chinese market and it is a growing market.
- Inflation worries may also continue to hound sentiment, as investors became cautious about inflationary pressures caused by Typhoon Ompong. The government previously reported that the typhoon resulted in P14-bil in agricultural damage in Northern Luzon.
- Analysts warned inflation may not taper off in the fourth quarter, as projected by the country's economic managers, due to this calamity.

ECONOMIC HIGHLIGHTS

August Budget Balance

- The government's budget balance swung to a deficit in August from a year-ago surplus as expenditures surged faster than revenue growth, the Bureau of the Treasury (BTr) said on Monday.
- The government posted a P2.6-bil fiscal deficit in August against a P28.8-bil surplus recorded in the same month last year.
- Overall revenues that month grew 11% year-on-year to P256.9-bil from P230.4-bil in August 2017. However this was slower than the 24% growth clocked in July.
- Of this amount, tax revenues accounted for P239.8-bil, a 13% increase from last year's P212.2-bil. The Bureau of Internal Revenue (BIR) collected P185.1-bil, 8% more than the year-ago P171.1-bil. The Bureau of Customs (BoC) raked in P52-bil, 36% more than the P38.3-bil collected a year ago due to "the higher exchange rate, increased oil prices, proper valuation, strong enforcement and revenue-enhancing measures." Other revenue offices' tax take totaled P2.7-bil, 18% bigger than the P2.3-bil collected a year ago.
- Non-tax revenues, on the other hand, stood at P17.1-bil in August, down 6% from P18.2-bil in August 2017. The BTr's collections amounted to P5.4-bil, down 13% from P6.2-bil, while other offices' revenues were P11.7-bil, dipping 3% from P12-bil.

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)	(P2.6-B) (August 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	US\$1.272-B (August 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	3.549 (as of September 10, 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)

August Budget Balance (continued)

- Government expenditures, meanwhile grew 29% to P259.5-bil in August from P201.6-bil in the same month in 2017. Of this amount, interest payments (IP) accounted for P28.3-bil, up 7% from P26.4-bil last year. Other disbursements — which includes spending on infrastructure and other capital outlays — stood at P231.2-bil, 32% more than the P175.2-bil a year ago.
- For January-August, the government posted a P282-bil deficit, 60% bigger than the P176.2-bil recorded in the same eight months last year. This is equivalent to 54% of the P523.68-bil full-year deficit target.
- Revenues grew 19% to P1.91-tril from P1.60-tril in the same comparative seven months.
- Tax revenues accounted for P1.71-tril of the total, 18% more than the year-ago P1.46-tril. The BIR collected P1.31-tril of tax revenues, up 13% from P1.16-tril the past year. The BoC meanwhile raised P383.5-bil, a 35% surge from P283.6-bil a year ago. Other offices collected P15-bil, up 4% from P14.5-bil.
- Non-tax revenues surged 35% to P197-bil as of August from P145.6-bil collected in the same eight months of 2017. The BTr raised P83.3-bil of that amount, 24% bigger than the year-ago P67.4-bil, while other offices raked in P113.7-bil, 45% more from P78.2-bil a year ago.
- The same comparative eight-month periods saw the government spend 23% more at P2.19-tril from P1.78-tril.
- Interest payments accounted for P238.7-bil as of end-August, up 7% from P222.6-bil disbursed in the same period in 2017. The BTr attributed this performance to the “combined effects of the discount for T-bills (Treasury bills) issuances for 2017 and 2018 and the coupon payment for the 20-year domestic bond issued in February 2018, while the depreciated peso and higher LIBOR (London Interbank Offered Rate) continue to impact foreign payments.”
- Other disbursements on the other hand amounted to P1.95-tril, jumping 26% from P1.56-tril last year.
- The latest fiscal data have remained largely within expectations.
- From the start of this administration, ‘tax and spend’ was the key priority. The government said that they will reform the tax system and spend to fund an ambitious infrastructure development plan and other social services. And so far, it has been doing what it has set out to do.
- If government faithfully sticks to its spending and borrowing plans, it can stay within comfortable levels. Government needs to stay the course of reforms and changes necessary to help the country track a higher growth trajectory that benefits as many as possible.
- The state’s expenditure growth was “impressive.”
- The government appears more on track at hitting their target this year versus last year. As long as spending is pro-growth, this will help ensure that the deficit to GDP (gross domestic product) ratios remain close to or at target levels.

PH Growth Goals

- The World Bank is urging the removal of constraints affecting productivity — such as restrictions on foreign investments — to enable the country to attain its long-term agenda of being a poverty-free society by 2040.
- The international finance organization said the country would be better able to create high-paying jobs and reduce poverty if it can use its resources (human capital, natural resources, machines, technology, knowledge) more efficiently.
- Productivity growth is deemed most crucial in the agriculture sector where many, World Bank said, the country’s ability to sustain its high growth rate would depend strongly on its aggressive infrastructure push and maximizing the use of inputs to produce goods and services needed by the local and global markets.

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ECONOMIC HIGHLIGHTS (continued)

PH Growth Goals (continued)

- To attain its long-term vision of becoming a predominantly middle class economy by 2040, the country would need to triple its current income per capita (around \$3,500) in the next two decades. This means the economy would have to grow at the annual average of 6.5% in the next 22 years versus its average growth rate of 5.3% since 2000.
- To sustain growth in productivity, the World Bank urges the removal of constraints to productivity such as a low competition environment in key business sectors, easing of regulations that are “stifling” small and medium businesses, as well as restrictions on foreign participation in Philippine businesses.
- The WB thus recommends promoting increased competition in the telecommunications, power, and transport sectors; streamlining burdensome procedures in starting a new business and paying taxes; and reducing restrictions on foreign investors.

CORPORATE NEWS

SECB

- Security Bank Corp. may tap the offshore and onshore debt markets next year after successfully raising \$300-mil from the first tranche of its medium term note program.
- The bank has completed its fund raising activity this year as investors swarmed the first tranche of its \$1-bil medium term note program.
- The fund raising activity was 3.7 times oversubscribed as orders reached \$1.1-bil. Proceeds of the notes would be used to extend term liabilities, expand funding base, improve liquidity gaps, to fund investment and other general corporate purposes.
- The offering was distributed to high-quality investors with 55% allocated to global fund and asset managers, 20% to insurance companies, and the remaining 25% to banks and other investors.
- Likewise, about 73% went to Asian investors while 27% were allocated to European investors.
- Security Bank is also not considering issuing another tranche of long-term negotiable certificates of deposits (LTNCDs) after receiving an approval from the central bank to raise up to P20-bil in October last year.
- The bank has so far raised P5.78-bil during the first tranche of the fund raising activity last May to help the bank manage its liabilities and ratios, while also expanding their funding and investor base.

AP / AC

- The Cebu-based Aboitiz clan is reportedly close to sealing a deal to purchase the thermal power assets of conglomerate Ayala Corp.
- Negotiations between the two corporate giants have reached advanced stage and that a deal may be signed in the coming weeks.
- The Ayala Group’s power arm AC Energy Inc. Earlier said it could unload as much as half of its thermal power business to partly fund its expansion in Southeast Asia.
- Its thermal assets include the 632-megawatt GNPowr Mariveles coal plant, a joint venture with Aboitiz Power Corp. unit Therma Power and Power Partners, and the 552-MW GNPowr Kauswagan.
- Earlier reports valued AC Energy’s assets at P135-bil.

GOLD BUYING / Troy Oz.

US\$1,196.85

COPPER BUYING / lb.

US\$2.826

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