

DAILY MARKET PRIMER

26 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,332.17 (-1.37%)	64,475,736.11	(2,959,641.50)	25.61 (-0.19%) = 1,388.34	54.211

MARKET OUTLOOK

- Shares stumbled on Tuesday as Beijing's cancellation of trade talks with Washington triggered jitters across markets worldwide.
- The market failed to sustain its gains, succumbing instead to profit taking on news that China pulled out of trade talks with the US.
- Reports also quoted Chinese officials accusing the United States of "trade bullyism," claiming that Washington has been intimidating other countries to submit to its will. The US and China both slapped a new round of tariffs on each other's goods on Monday, with the former introducing new duties on \$200-bil worth of Chinese goods. In turn, China imposed tariffs on another \$60-bil worth of US goods.
- Investors are also already in wait-and-see mode ahead of Thursday's Monetary Board meeting.
- Market players also sold ahead of the September 27 meeting of the central bank's policymaking Monetary Board.
- Market consensus points to another 50-basis point rate hike, which would bring adjustments since May to a total of 150 bps.
- Investors are also looking forward to the results of a September 24-25 US Federal Reserve policy meeting where the US central bank is expected to announce its third rate hike for the year.
- The Fed's guidance on the path for future rate hikes and its comments on the impact of the escalating trade dispute between the United States and China will also help steer investments.
- The Fed's third hike this year would make cash the most attractive it has been in about a decade, lowering the appeal of stocks, especially those of dividend-paying companies such as utilities.
- Moving forward, the index is expected to consolidate within the 7,000 to 7,500 range as more red flags are seen in the horizon.

ECONOMIC HIGHLIGHTS

Growth Forecasts

- An Australia-based research firm has cut its 2018 growth forecast for the Philippines and expects a slowdown moving forward as a result of monetary policy tightening.
- ANZ Research said it now expected Philippine gross domestic product (GDP) growth of 6.5% for the year, lower than the previously projected 6.6%.
- It also forecast 2019 and 2020 growth to ease to 6.4% and 5.9%, respectively, well below the government's 7.0% to 8.0% target for this year until 2022.
- As of H1 of 2018, GDP growth remained below target at 6.3%, also lower than the full-year 6.7% result for 2017.
- In Indonesia and the Philippines, diminishing macro stability has forced a tighter monetary policy which should have a knock-on impact on domestic demand with a lag, ANZ Research noted.
- It said that a combination of domestic and external developments was weighing on the region's growth prospects.
- This slowdown is also coming at a time of solid growth in the US, a divergence that will impact capital flows into the region.

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

Thursday, September 27

- Monetary Board Policy Meeting

ECONOMIC HIGHLIGHTS (continued)

Growth Forecasts (continued)

- Although inflation remains well contained in most economies, it noted that rising exchange rate volatility was selectively forcing the hands of policymakers.
- Consumer price growth hit a fresh nine-year high of 6.4% in August, well above the 2.0% to 4.0% target and exceeding the Finance department and the central bank's 5.9% forecast for the month.
- The peso, meanwhile, has fallen by 8% since the start of the year. It closed at P54.31 to the dollar on Tuesday, its weakest in almost 13 years.
- Growth in the Philippines should also be impacted albeit more moderately, ANZ Research said.
- The central bank's policymaking Monetary Board, which will hold its sixth meeting for the year on Thursday, has raised key interest rates by a total of 100 basis points (bps) since May to address above-target inflation.
- The central bank has said "strong monetary action" would be announced following the meeting and analysts expect another 50-bps increase to be implemented.

NPL Growth

- Bad debt held by big banks grew further in July but remained subdued relative to the over 18% pace of loan growth, the central bank said.
- Non-performing loans (NPLs) held by universal and commercial banks totaled P112.297-bil in July, up from P110.606-bil in June and up 8% from a year earlier.
- NPLs are loans left unsettled at least 30 days past due date. These are considered risky assets with a reduced chance of being repaid, which would mean losses for lenders.
- The rise in problem debt was well below the 18.2% rise in total lending. According to the central bank, big banks lent out P8.353-tril in July, up from P7.065-tril a year earlier.
- The share of NPLs to total loans dropped to 1.34%, compared to a 1.47% ratio in July 2017 — a level considered by lenders to be manageable.
- Banks have opted to raise their provisioning levels for potential credit losses as they increase lending at a rate also under the pace of loan growth.
- Loan loss reserves rose to P160.699-bil, up 14% from a year earlier and more than sufficient to cover the bad debt assuming they are completely written off.
- Non-performing assets held by the lenders were steady at P75.791-bil, representing the value of real property and other items seized from borrowers failing to pay their obligations.
- The robust growth in loans was also accompanied by a bigger deposit base, which grew by 10.7% to P11.077-tril. The loan-to-deposit ratio was 75.41%.
- The central bank monitors the NPL ratios of banks and other institutions in order to monitor asset quality and maintain the soundness of the financial system.
- Overall bank lending rose 19.6% in July, with most of the loans channeled to production activities, according to central bank data. Consumer credit also posted a 16.9% increase year-on-year.

Government Borrowing Program

- The government plans to borrow P270-bil from the domestic market next quarter through auctions of securities, the Bureau of the Treasury (BTr) announced on Tuesday.
- The Treasury said it will sell P180-bil worth of Treasury bills (T-bill) and P90-bil worth of Treasury bonds (T-bond) in the next three months.
- The planned borrowing for October-December is slightly less than the P300-bil it offered this quarter but more than the P150-bil placed on the auction block in 2017's Q4.
- Broken down, the government plans to raise P15-bil through T-bills — P4-bil in 91-day tenor, P5-bil in 182-day debt, and P6-bil in 364-day bills — which will be offered in five auctions in October four in November and three in December.

ECONOMIC HIGHLIGHTS (continued)

Government Borrowing Program (continued)

- For T-bonds, the Treasury will auction off five-year, seven-year and 10-year debt papers.
- This quarter, out of its P300-bill program, the government borrowed P200.6-bil from domestic creditors, with bulk of awards made in Treasury bills.
- The planned borrowing was “more on the long end. The government was “trying to catch up with rising interest rates.” If their projection is higher inflation number, they better lock in the yields for their borrowing.
- The central bank is widely expected to adopt another 50-basis point interest rate hike tomorrow, after a cumulative 100-bp hike so far this year.

CORPORATE NEWS
LTG

- LT Group, Inc. (LTG) is infusing additional capital to its unit Asia’s Emerging Dragon Corp. (AEDC) to support its foray into infrastructure projects.
- The holding firm of tycoon Lucio C. Tan, Sr. said it subscribed to P900 million worth of shares in AEDC, consisting of 9-mil common shares with a par value of P100 per share. The shares came from the authorized but unissued capital stock of the company, and comprise 45% of its total outstanding shares.
- LTG currently has indirect ownership of the infrastructure company through its unit, Kenrock Holdings, Inc., which in turn owns majority of the common shares of AEDC. The listed conglomerate noted that it shares common directors with AEDC.
- LTG will pay an initial P225-mil in cash for the transaction.
- AEDC is part of the group of seven conglomerates that proposed to rehabilitate and expand NAIA for P102-bil. The others are Aboitiz InfraCapital, Inc., AC Infrastructure Holdings Corp., Alliance Global Group, Inc., Filinvest Development Corp., JG Summit Holdings, Inc. and Metro Pacific Investments, Inc.
- The group named Changi Airports International Private Ltd. as technical partner.

PXP

- PXP Energy Corp. said an exploration block in Peru in which a subsidiary has participating interest had been removed from its force majeure status after recent changes in the hydrocarbon law in the foreign country.
- The company cited a corporate update from Karoon Gas Australia Ltd., an international oil and gas exploration company with projects in Australia, Brazil and Peru.
- PXP Energy holds a 53.43% controlling interest in Pitkin Petroleum Ltd., an upstream oil and gas company registered in the United Kingdom with operations in Peru. Pitkin’s asset is a 25% participating interest in Peru Block Z-38 located in offshore Tumbes Basin, Peru.
- Karoon said along with its new farm-in partner Tullow Oil Peru Ltd., they were moving forward to drill Marina-1 exploration well during early 2020. The block was under force majeure since September 2013.
- It said the block has a best case gross unrisks prospective resource of 1,373 mmbbls (million barrels) at 100% in 20 leads and prospects.
- It described its partner Tullow as having “a long established” track record for exploration and that both companies recognize the high impact of the Marina-1 exploration well in opening up offshore exploration in the Tumbes Basin.

GOLD BUYING / Troy Oz.

US\$1,198.85

COPPER BUYING / lb.

US\$2.822

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