

DAILY MARKET PRIMER

28 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,320.59 (+0.72%)	93,007,427.70	(9,591,051.92)	24.99 (-1.03%) = 1,371.63	54.269

MARKET OUTLOOK

- Local equities rebounded on Thursday as investors picked up selected stocks at the last minute, while factoring in the expected rate hikes from the central bank and the United States Federal Reserve.
- Trade was listless for most of the day's session but ended with a surge of last-minute positioning in the index stocks.
- The US Federal Open Market Committee announced yesterday a rate hike of 25 basis points (bps), bringing benchmark interest rates to 2% to 2.25%.
- The central bank also raised its key interest rates by 50 bps after market hours on Thursday, as expected, as the central bank cited "persistent signs of sustained and broadening price pressures."
- With the central bank delivering on expectations and indeed raising rates by 50 bps after the market's close, we might see confidence returning to the central bank as it remains steadfast to control inflation.
- Some positivity might also be seen in the PSEi today due to the rate hike coupled by possible quarter-end window dressing.
- Meanwhile, the market is expected to remain between the 7,200 to 7,500 level in light of external concerns.
- External concerns such as the ongoing trade war between the US and China will still hound the market, consider also that the coming winter season will push oil prices higher and will have an impact on local inflation numbers.

ECONOMIC HIGHLIGHTS

Policy Rate Hike and Inflation Outlook

- The central bank fired off another strong policy action yesterday, bringing interest rates to a nine-year high as it sought to temper surging prices and lend support to the peso.
- The Monetary Board raised policy rates by another 50 basis points (bp) on Thursday, marking the fourth consecutive tightening move this year as policy makers seek to rein in expectations.
- This matched the central bank's tightening move last month, and brings benchmark rates to 5% for overnight lending and to 4% for overnight deposit.
- The (overnight reverse repurchase) key policy rate is now at 4.5%, the highest since March 2009.
- The Monetary Board recognized that further tightening of monetary policy was warranted by persistent signs of sustained and broadening price pressures.
- Latest baseline forecasts have shifted higher for both 2018 and 2019, with risks to the outlook still leaning toward the upside.
- This likewise carries out the central bank's earlier signal of a "strong monetary action" following a 6.4% inflation rate in August that was the fastest pace in nine years amid food supply issues and rising global oil prices.
- A poll showed that markets have priced in another tightening move by the central bank, with 15 out of 16 economists expecting a 50bp hike this week.

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	5.00% (as of September 27, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US\$2.401-B (July 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

Policy Rate Hike and Inflation Outlook (continued)

- The Monetary Board believed that a tighter monetary policy stance will help steer inflation toward a target-consistent path over the medium term by reducing further risks to the inflation outlook, including those emanating from exchange rate volatility given the continued uncertainty in the external environment amid geopolitical tensions and the normalization of monetary policy in advanced economies.
- Thursday also saw the United States Federal Reserve raise rates by another 25bp, as expected.
- The Fed's latest move was "already incorporated" in the central bank's decision.
- The impact of a successive 50bp increase in the policy rate is greater than a single 50bp increase because that shows that there is a commitment of the central bank to address the inflation pressures that may be coming from current developments.
- The rate hike "should help" the peso strengthen against the dollar, which has been trading at fresh 12-year lows, weaker than the P54-to-\$1 mark.
- Benchmark rates have now risen by a cumulative 150bp so far this year.
- Prior to Thursday's hike, bank lending rates have climbed by 84.2bps from when the central bank kicked off its current tightening round in May.
- The central bank on Thursday also bumped up its inflation forecasts anew and now sees 2019 inflation also at risk of clocking in beyond the 2% to 4% target range.
- The central bank forecasts Inflation will average 5.2% this year, higher than the 4.9% estimate given last month. Inflation averaged 4.8% in the eight months to August, well above the 2% to 4% target band for 2018.
- Next year, inflation could log 4.3%, also higher than the 3.7% previous estimate. By 2020, inflation is seen at 3.2%.
- The higher forecasts follow in the wake of August's faster-than-expected pace, surging prices of rice and other farm products, as well as higher global oil prices.
- If rice tariffication pushes through in 2019, that could push inflation rate back to within target range. This is in reference to the measure that applies a regular tariff scheme on the staple from the current import quota scheme.
- The measure can reduce headline inflation by 0.7 percentage point should it take effect at the start of next year.
- The central bank still expects inflation to have peaked this quarter, while supply shocks due to the recent typhoon should be limited "to just a few months."
- Central bank officials have said that price pressures are supply-driven, hence, better addressed by non-monetary measures.
- At the same time, economic growth can be expected to remain "respectable" and "above trend" despite rising interest rates.
- Economists said inflation could have clocked a new record this month as food prices likely soared as the typhoon Mangkhut — locally called Ompong — caused damage worth at least P26-bil in farms and nearly P7-bil in infrastructure, according to latest estimates made by the National Disaster Risk Reduction and Management Council. Heavy rains ruined crops in Benguet, Isabela and Cagayan which are among the country's major sources of vegetables.
- Malacañang has also issued four administrative orders directing the National Food Authority, the Sugar Regulatory Administration and the Department of Agriculture to lift non-tariff barriers and streamline import procedures for rice, sugar, meat and fish, in line with recommendations outlined by President Rodrigo R. Duterte's economic managers.
- Market economists said yesterday's hike sought to temper price pressures.
- However, ING Bank N.V. Manila said the central bank may still "enact another round of rate hikes" as inflation expectations remain elevated.

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ECONOMIC HIGHLIGHTS (continued)

Policy Rate Hike and Inflation Outlook (continued)

- Noting the central bank's signals on Thursday were "decisively hawkish", Nomura it will continue to see risks that the BSP will hike again this year given its clear hawkish signals and its forecast that inflation could remain above target again next year.

CORPORATE NEWS

AP / AC

- Aboitiz Power Corp. has agreed to acquire a stake in the thermal power company of Ayala-led AC Energy, Inc. for \$579.2-mil, the two companies said on Thursday.
- AboitizPower said it had entered into the share purchase agreement with AC Energy affiliate Arlington Mariveles Netherlands Holding BV and a shareholders' agreement with Ayala Corp.'s energy investment arm. The proposed acquisition will give it a 49% voting stake and 60% economic stake in AA Thermal, Inc., AC Energy's thermal platform in the Philippines.
- The transaction comes about four months after AC Energy first announced it was selling as much as half of its thermal energy platform.
- The deal allows AC Energy to balance its portfolio and provide fresh funds for its renewable energy projects.
- Once the transaction is completed, AC Energy the acquisition will increase AboitizPower's ownership in the Mariveles coal plant to 78.325%, and in the Dinginin coal plant project to 70%.
- The deal is good for AboitizPower since it has an existing stake in Mariveles, thus giving it control over the project.
- For AC Energy, they can focus on their other core competencies.
- The transaction's completion is subject to the satisfaction of certain conditions precedent, including the approval by the Philippine Competition Commission.

COSCO

- Lucio Co gobbled up over P360-mil worth of Cosco Capital Inc. shares.
- Cosco Capital said its chairman purchased 62.92-mil shares at a price of P5.86 and P6.04 each share.
- With the transaction, Co's holding in Cosco increased to 32.78% or a total of 2.38-bil shares.
- Cosco Capital is engaged in grocery retailing under Puregold and S&R Membership Shopping Club, LPG under Liquigaz Philippines, and office retail through Office Warehouse Inc.

DD

- Realty firm DoubleDragon Properties Inc. said its president Ferdinand Sia acquired nearly P5-mil worth of shares.
- DoubleDragon said Sia bought 115,000 shares on Sept.24 at an average price of P21.6261 apiece and 117,000 shares on Sept.25 at an average price of P21.2308 per share.
- Following the transaction, Sia now owns 233,000 DouleDragon shares.
- DoubleDragon saw its H1 profit surge 234% to P1.26-bil, driven by its growing leasable property portfolio.

GOLD BUYING / Troy Oz.

US\$1,196.55

COPPER BUYING / lb.

US\$2.773

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