

MARKET RECAP

02 August 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,759.55 (-1.004%)	92,842,039.63	(4,550,407.74)	25.32 (+1.36%) = 1,346.01	53.115

Market Recap

- Philippine share prices sank on mounting trade war fears after the US warned it was looking at more than doubling threatened tariffs on a range of Chinese imports.
- The benchmark PSEi tumbled 78.67 points or 1.004% to close at 7,759.55. The broader All Shares index fell 34.84 points or 0.75% to 4,644.68 at the closing bell.
- Donald Trump's Trade Representative Robert Lighthizer confirmed earlier reports that the White House was considering hiking levies to 25% from the announced 10% on \$200-bil of Chinese goods.
- Lighthizer's statement comes after separate reports said the two sides were looking to restart talks to avert a trade war between the world's top two economies that could hammer global growth.
- In response to earlier reports that the US was considering the move, Chinese foreign ministry spokesman Geng Shuang warned Wednesday that "blackmail and pressure from the US side will never work on China".
- The latest developments come as Washington considers imposing tariffs on \$16-bil of goods in the coming weeks, having already targeted imports worth \$34-bil last month.
- Investors are left guessing about how the crisis will play out, with some worrying that with both sides digging in there could be more pain down the line, but others are saying Trump is playing tough as a negotiating tactic.
- Meanwhile, the Federal Reserve kept interest rates unchanged on Wednesday, as expected, characterizing the US economy as strong and staying on track to increase borrowing costs in September and likely again in December.
- More than 1.056-bil shares, valued at P4.931-bil, changed hands. Market breadth was negative, with decliners trumping advancers, 120 to 76, with 46 issues unchanged.
- Gainers: MPI (+3.09%), SCC (+1.39%), EMP (+1.10%), MBT (+0.41%)
- Laggards: MER (-3.80%), LTG (-3.70%), JGS (-2.62%), ICT (-2.25%), TEL (-2.24%)

The Federal Reserve

- The Federal Reserve on Wednesday (Washington time) left its benchmark interest rate unchanged while signaling further gradual rate hikes in the months ahead as long as the economy stays healthy.
- The Fed's widely expected decision kept the central bank's key short-term rate at 1.75% to 2% — the level hit in June when the Fed boosted the rate for a second time this year.
- The Fed projected in June four rate hikes this year, up from three in 2017. Private economists expect the next hike to occur at the September meeting with a fourth rate hike expected in December.
- The Fed's statement was upbeat on the economy, pointing to a strengthening labor market, economic activity growing at "a strong rate," and inflation that's reached the central bank's target of 2% annual gains.
- Analysts saw all the comments about economic strength as a clear signal that the Fed remains on track to raise rates two more times this year.
- All signs still point to a September rate hike, as consumers should continue to pay down their home equity, credit card and other loans with variable rates that will rise further as the Fed keeps hiking rates.
- There was no mention in the statement of what many economists see as one of the biggest risks at the moment: rising tariffs on billions of dollars of U.S. exports and imports that have been imposed as a result of President Donald Trump's new get-tough approach on trade.
- The Fed statement also made no reference to criticism Trump has lodged recently against the Fed's continued rate hikes.
- The Fed's decision was approved on a unanimous 8-0 vote. The action was not surprising, given that this meeting followed a June session where the Fed took a number of steps including raising rates by another quarter-point and changing its projection for hikes this year from three to four.
- The March and June rate hikes followed three hikes in 2017 and one each in 2015 and 2016. The Fed's key policy rate is still at a relatively low level. But it's up from the record low near zero where it remained for seven years as the central bank worked to use ultra-low interest rates to lift the economy out of the Great Recession.

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The Federal Reserve (continued)

- The string of quarter-point rate hikes is intended to prevent the economy from overheating and pushing inflation from climbing too high. But higher rates make borrowing costlier for consumers and businesses and can weigh down stock prices. Trump has made clear he has little patience for the Fed's efforts to restrain the economy to control inflation.
- At the moment, economic growth is strong, rising at an annual rate of 4.1% in the April-June quarter, the best showing in nearly four years. Unemployment is at a low 4%, and some analysts believe it will fall further when the government releases the July figures on Friday.
- But there are worries as well, led by fears of what a Trump-led trade war might do to growth in the United States and around the world.
- Many analysts believe that the possible harm from rising tariffs was a key discussion topic this week. While trade was not mentioned in the statement, it likely will show up in the minutes of the Fed's discussion which will be released in three weeks.

EMP

- Emperor Inc. reported double-digit growth earnings in Q2 of the year, buoyed by its international business.
- The company recorded a 34% increase in earnings in Q2 to P1.6-bi.
- H1 net income, attributable to the parent company, was up 18% at P3.2-bil. Revenues were up 8% at P19.5-bil.
- The strong performance comes from the strong growth of international business amid a soft domestic market.
- Among its brands are Emperor Brandy, Emperor Light, Emperor Deluxe Spanish Edition, Emperor Solera Brandy, Andy Player Whiskey, The Bar, Smirnoff Mule, The Dalmore Single Highland Malt, and Jura Premium Single Malt.
- Emperor also carries the brands Tambavulin Single Malt Scotch Whisky, Fettercairn, Whyte & Mackay Blended Scotch Whisky, Valdivar Vodka, Glayva, Claymore, Cluny, John Barr, Fundador, Terry Centenario, Tres Cepas, and Harveys.
- The premium Spanish brandy and Scotch whisky business continues to show robust growth led by Fundador brandy, The Dalmore, and Jura single malt whiskeys led by Asia and North America.
- The local market continues to be soft but new market initiatives for growth are underway. Still, Emperor Inc. is in a good position to accelerate growth in the years to come as we envision robust and stable international and domestic businesses in the long run.
- Emperor owns Emperor Distillers Inc., Scotch whiskey maker Whyte and Mackay Group, and Bodegas Fundador of Spain.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$77.675-B (June 2018)
Fiscal Surplus / (Deficit)	(P54.3-B) (June 2018)	Exports Growth Rate	(3.8%) (May 2018)	BOP	(US\$1.177-B) (June 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	11.4% (May 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.219 (as of July 23, 2018)	Cash Remittances	US\$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 2018)

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