

MARKET RECAP

05 July 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,233.57 (-1.56%)	97,560,414.79	(9,836,602.31)	23.78 (unch) = 1,270.61	53.343

Market Recap

- Bloodbath ensued on the Philippine Stock Exchange as the June inflation figures came as a surprise for investors.
- The benchmark PSEI tumbled 114.85 points or 1.56% to close at 7,233.57. Meanwhile, the broader All Shares index lost 46.42 points or 1.04% to 4,404.62 at the closing bell.
- Shares were in red across all indices.
- Investors were shocked that inflation is over 5%.
- Inflation in June clocked in at 5.2%, the fastest in at least five years under the base year 2012, the Philippine Statistics Authority reported.
- This is also faster than the 4.3% to 5.1% range forecasted by the central bank, and the 4.9% outlook of the Department of Finance (DOF).
- According to the PSA, the acceleration in June was due to faster increments registered in prices of alcoholic beverages and tobacco (20.8%); and housing, water, electricity, gas, and other fuels (4.6%).
- More than 680.838-mil shares, valued at P5.204-bil, changing hands. Market breadth was negative with decliners outnumbering advancers, 113 to 75, while 60 issues were unchanged.
- Gainers: EMP (+0.55%), SECB (+0.39%)
- Laggards: MBT (-3.82%), SM (-3.78%), URC (-2.64%), GLO (-2.54%), MEG (-2.25%)

June Inflation

- Inflation jumped by 5.2% year-on-year in June, a new over five-year high, due to sustained elevated prices of food and “sin” products, the government reported Thursday.
- In a report, the Philippine Statistics Authority (PSA) said the faster inflation last month was “primarily brought about by higher annual rate posted in the heavily-weighted food and non-alcoholic beverages index at 6.1%.”
- In particular, prices of alcoholic beverages and tobacco climbed 20.8% in June; housing, water, electricity, gas, and other fuels, up 4.6%; furnishing, household equipment and routine maintenance of the house, up 3%; transport, up 7.1%; communication, up 0.4%; and education, up 4%, the PSA data showed.
- Under the Tax Reform for Acceleration and Inclusion (TRAIN) Act, the unitary excise tax slapped on cigarettes rose to P32.50 per pack effective January 1 from P30 a pack last year.
- Also, the excise tax rates slapped on alcoholic drinks go up every year under the Sin Tax Reform Law of 2012.
- Starting July, the unitary excise tax slapped on cigarettes will further rise to P35 per pack, as mandated under the TRAIN Law.
- Improved tax compliance by Mighty products, now owned by Japan Tobacco International, had also been blamed by the DOF for pushing cigarette prices higher, as correct tax payments elevated the brand’s retail prices.
- The food alone index rose 5.8% in June, due to the prices increases in rice (up 4.7%); corn (up 14.1%); other cereals, flour, cereal preparation, bread, pasta and other bakery products (up 2.4%); meat (up 5%); vegetables (up 8.6%); sugar, jam, honey, chocolate and confectionery (up 3.9%); and other food products (up 3.1%).
- At the end of H1 of 2018, headline inflation averaged 4.3%, beyond the government’s 2% to 4% target range.
- Headline inflation in the National Capital Region jumped by a faster 5.8% from 4.9% in May, while the rate outside Metro Manila climbed to 5.1% from 4.6% in the previous month.
- Last Monday, economic managers conceded that inflation would likely breach the target for 2018 as they adopted the central bank’s forecast of 4% to 4.5% for the entire year.
- While keeping the 2% to 4% inflation target for the period 2018-2020, the Cabinet-level Development Budget Coordination Committee (DBCC) jacked up their projected rate of increase in prices of basic goods for this year from the earlier forecast of 2% to 4% during their previous meeting in April.
- For the period 2019-2022, the yearly inflation forecasts were kept at 2% to 4%.

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Inflation Path

- The central bank is set to review its inflation forecasts, after prices of goods and services accelerated by 5.2% last month.
- The June inflation breached the 4.3% to 5.1% the central bank had predicted, and the 4.9% outlook of the Department of Finance.
- The central bank will take into account the latest inflation figures and review and update its situational assessment and forecast inflation path. This will shape the strength and timing of its next monetary policy response to firmly anchor inflation expectations.
- The central bank re-affirms its strong commitment to ensure that inflation returns to within the 2% to 4% target range as soon as possible.
- While the central bank has retained its 2% to 4% target range for the full-year 2018, it expects inflation to settle at 4.5% this year—in line with the revised forecast of the Development Budget Coordination Committee to 4.0% to 4.5%.

WIN / ALI

- A proposed project that aims to convert 17 hectares of the Gatchalian family's Plastic City into a mixed-use urban hub is expected to move forward after a local court terminated the rehabilitation proceedings of Wellex Industries Inc.
- In December 2012, Wellex entered into a deal with Ayala Land unit Avida Land to develop the former's property in Valenzuela City, which used to house its plastics manufacturing facilities, into a masterplanned township.
- The rehabilitation proceedings were dismissed after a subsidiary of Wellex settled its debt.
- With the termination of the court case, the annotations on the titles covering the Plastic City properties can be lifted, paving the way for the development of the property.
- This positive development will enable the concerned subsidiaries to comply with the terms of the MOA with Avida Land, Wellex said, noting that the deal has not been rescinded.

TEL

- The order of the Department of Labor and Employment (DOLE) for telecommunications firm PLDT Inc. to stop in engaging in subcontracting activities and regularize more than 7,000 employees will disrupt the company's operations.
- PLDT denied that it has terminated its service contracts as the DOLE has also ordered its contractors to cease and desist from providing their services.
- PLDT has filed an appeal before the Court of Appeals (CA) last May to invalidate the DOLE order dated April 30 mandating the company to regularize 7,306 employees.
- The Labor Department has also ordered 38 service contractors of PLDT to cease on engaging in labor-only contracting.
- Among the contractors were Activeone Health Inc., Aremay Enterprise, BBS-VPN Allied Services Corporation Philippines, Best Options Assistance, Inc., Comworks Inc., Consolidated Management Resources, Curo Teknika Inc., and Diar's Assistance Inc.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$78.968-B (May 2018)
Fiscal Surplus / (Deficit)	(P32.9-B) (May 2018)	Exports Growth Rate	(8.5%) (April 2018)	BOP	(US\$583-M) (May 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	22.2% (April 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.484 (as of June 25, 2018)	Cash Remittances	US\$2.360-B (April 2018)	O/N RRP	3.50% (as of June 20, 2018)

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