PrimeEquity Research

Meridian Securities Incorporated
Member: Philippine Stock Exchange

MARKET RECAP

05 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,078.20 (-0.21%)	75,119,512.77	(16,291,589.70)	25.70 (+1.18%) = 1,393.61	54.345

Market Recap

- Share prices on the Philippine Stock Exchange failed to stage a recovery and fell slightly as the September inflation print came in faster than the previous month, but pointed to signs of easing.
- The benchmark PSEi shed 15.14 points or 0.21% to 7,078.20 at the closing bell. The broader All Shares fell 6.98 points or 0.16% to 4,363.36.
- Inflation rate surged 6.7% in September, hitting a fresh nine-year high weighed by increases in the prices of food items, the Philippine Statistics Authority (PSA) announced earlier today.
- The September inflation is also slightly slower than the 6.8% forecast of the central bank and within its 6.3% to 7.1% range, but faster than the 6.4% projection of the Department of Finance.
- These clear signs of easing boost investor confidence that inflation will taper off by year-end and go back to the government's target range of 2% to 4% by early next year. However, this optimism must be coupled with quick and focused actions in order to sustain gains made so far in keeping inflation in check.
- Global fuel prices remain a concern in the near term given the gloomy outlook on oil supply and an increasing demand for petroleum products during the winter.
- Meanwhile, hawkish speeches by Federal Reserve officials stoked concerns about inflation globally.
- Fed Chairman Jerome Powell said the US economy can expand for "quite some time," which also helped the yield curve steepen to its highest in two months.
- The surge in Treasury yields has also prompted a rise in government bond yields across the globe.
- That sense of the market's rising discomfort about inflation risks leads many to expect that wage inflation will be critical to the current sell-off.
- More than 1.132-bil shares valued at P4.082-bil, changed hands. Market breadth was negative, with decliners winning over advancers, 129 to 66, and 40 issues were unchanged.
- Gainers: GLO (+2.25%), SMC (+2.07%), AC (+1.69%), FGEN (+1.62%), ICT (+1.38%)
- Laggards: JGS (-3.44%), LTG (-2.58%), GTCAP (-2.49%), AP (-2.04%), AGI (-2.00%)

September Inflation

- Inflation rate surged in September, hitting a fresh nine-year high weighed by increases in the prices of food items, the Philippine Statistics Authority (PSA) announced on Friday.
- Inflation rate in September 2018 further accelerated to 6.7% from 6.4% in August 2018.
- This is the fastest in over nine years since inflation clocked in at 7.2% in February 2009.
- Food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transport are the top contributors to the overall inflation, the statistics office said.
- The weight of food and non-alcoholic beverages is 38.34%. For the other components tobacco and alcoholic beverages the weight is 1.58%, for clothing and foot wear the weight is 2.93%; for housing, water, electricity, gas, and other fuels the weight is 22.4%.
- Food and non-alcoholic beverages inflation rate came in at 9.7% from 8.2% in August.
- The September inflation is also slightly slower than the 6.8% forecast of the central bank and within its 6.3% to 7.1% range.
- In a joint statement, the Economic Team composed of the Departments of Finance, Budget and Management, and National Economic and Development Authority linked the high inflation to the onslaught of Typhoon Ompong last month on the prices of commodities.
- Supply disruptions caused by the onslaught of Typhoon Ompong in the regions of Ilocos, Cagayan, and Cordillera Autonomous Region put upward pressures on food prices.
- The damage to agriculture, including facilities and infrastructure, amounted to P26.8-bil, has kept the price of the country's staple grain elevated despite the arrival of some imported rice and the improvement in the rice stocks of the National Food Authority.

MARKET RECAP

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September Inflation (continued)

- University of Asia and the Pacific said inflation clocking in below forecast means that the "measures taken by the central bank could have started to take effect and demand could have slowed down due to weaker purchasing power brought about by unrelenting price increases across commodities.
- To recall, the central bank hiked key policy rates by 50 basis points last month, bringing the overnight borrowing rate at 4.50%. The central bank has so far raised interest rates four times this year for a total of 150 basis points.
- At this level, Union Bank of the Philippines is having second thoughts on another rate hike from the central bank this year.
- The PSA noted that non-food inflation slowed to 4% from 4.1% in August, while inflation in Metro Manila eased to 6.3% from 7% last month.
- These clear signs of easing boost confidence that inflation will taper off by year-end and go back to the government's target range of 2% to 4% by early next year. However, this optimism must be coupled with quick and focused actions in order to sustain gains made so far in keeping inflation in check.
- The Economic Team also recognized that global fuel prices remain a concern in the near term "given the gloomy outlook on oil supply and an increasing demand for petroleum products during the winter."
- Thus, the Economic Team urges a quick response to address this upside risk, including demand-side management strategies. One of the proposed measures is to reduce the country's overall energy demand through the Department of Energy's (DoE) e-Power Mo program, the Public Utility Vehicles modernization program of the Department of Transportation, and other renewable energy initiatives.
- The economic managers also reiterated their call for the speedy passage of the bill amending Republic Act No. 8178 or the Agricultural Tariffication Act, which is seen to bring down the price of rice and improve the competitiveness of the rice sector in the long-term.
- The possibility of another interest rate hike this year is still on the table despite the slower-than-expected September inflation, the central bank said.
- The central bank will remain vigilant with strong tightening bias until such time that it is certain inflation can be sustained within the target range of 2% to 4% for 2019 and 2020.
- However, it is still too early for the central bank to comment on its next move and September inflation's impact on monetary policy.
- Instead, the central bank shall await data on domestic demand, supply conditions, liquidity and credit and of course the actual inflation for October to process them into an integrated view on inflation outlook and appropriate policy stance.
- The Monetary Board's next meeting is scheduled on November 15.

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	6.7% (2012 BY) (September 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)

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