

MARKET RECAP

08 October 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,050.82 (-0.39%)	73,672,287.85	(9,725,261.55)	25.86 (+0.62%) = 1,405.36	54.281

Market Recap

- Share prices on the Philippine Stock Exchange stumbled as investors waited with bated breath as China's markets reopened following a week-long holiday and after its central bank cut banks' reserve requirements in a bid to support growth.
- The benchmark PSEI shed 27.38 points or 0.39% to 7,050.82 at the closing bell. The broader All Shares fell 15.52 points or 0.36% to 4,347.84.
- Investors were focused on markets in China, following a decision on Sunday by the People's Bank of China (PBOC) to cut the level of cash that banks must hold as reserves in a bid to lower financing costs and spur growth amid concerns over the economic drag from an escalating trade dispute with the United States.
- Equity markets around the world came under pressure last week after a steep sell-off in US Treasuries, prompted by hawkish comments from US Federal Reserve officials and data widely seen as bolstering the case of further US rate hikes.
- Whether it is just in response to the weight of evidence from the strong US data or instead an active decision by Fed officials to steer the market more towards its tightening profile presented at its rate decision last month, there is little doubt that officials have turned more hawkish recently.
- Moves were limited by a lack of liquidity with Japan on holiday and the US bond market on a break. A sudden and steep rise in Treasury yields had underpinned the market for much of last week.
- More than 769.203-mil shares valued at P3.999-bil, changed hands. Market breadth was negative, with decliners winning over advancers, 115 to 71, and 56 issues were unchanged.
- Gainers: MPI (+3.99%), DMC (+2.73%), GLO (+2.64%), TEL (+1.80%), SCC (+1.59%)
- Laggards: PGOLD (-4.09%), MER (-4.04%), GTCAP (-3.14%), LTG (-3.07%), AP (-1.79%)

Inflation Forecasts

- Nomura Securities Ltd. has raised its inflation forecasts over the next two years amid the persistence of higher oil prices, weather-related disruptions, and strong demand conditions.
- Nomura said inflation may hit 5.4% this year and 4.2% next year.
- Its forecast is driven by the likely persistence of the impact of supply-side factors, such as weather-related disruptions, higher oil prices and demand conditions remaining strong.
- It added the government's counter-measures to increase rice supply would likely take some time.
- Nomura said inflation would average 6.8% in Q4 from 6.2% in Q3, but would moderate gradually in Q1 of 2019.
- Inflation averaged 5% in the first nine months after hitting 6.7% – the highest since 7.2% in February 2009 – in September from 6.4% in August.
- Nomura said inflation on utilities would rise next year amid higher energy prices and higher excise tax on coal under Republic Act 10963 or the Tax Reform for Acceleration and Inclusion Law.
- The economist said rising headline inflation would likely drive inflation expectations higher, warranting further policy responses.
- This also implies that the real policy rate will remain negative for some time, which, along with the central bank increasingly citing peso as posing a risk to inflation expectations, should remain a key consideration for the central bank, it added.
- Nomura said the central bank would raise interest rates by 50 basis points in Q4 and by another 50 basis points in Q1 of next year.
- All this supports its forecast that the central bank will hike by another 100bp within the next six months, taking its policy rate to 5.50%. Nomura does not believe the country has seen the peak of headline inflation yet.
- The central bank has lifted rates by 150 basis points so far this year as its main anti-inflation weapon. It raised interest rates by 25 basis points for the first time in more than three years last May 10, followed by 25 basis points last June 20, 50 basis points – the biggest in a decade – last Aug. 9, and another 50 basis points last Sept. 27.

Inflation and Poverty

- Around 2.4-mil Filipinos will sink in poverty, if not malnutrition and stunting, as a result of inflation that has been soaring at a nine-year high, a lawmaker said.

MARKET RECAP

08 October 2018

Inflation and Poverty (continued)

- Rep. Joey Salceda of Albay, who is also an economist, issued the warning three days after the Philippine Statistics Authority announced that inflation soared to 6.7% in September, due to higher costs of food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transportation.
- While the national inflation rate is at 6.7%, it reached 10.1% in the Bicol Region and 9% the Autonomous Region in Muslim Mindanao.
- He slammed the Duterte administration for failing to import enough rice supply, which could have tempered rice prices that have been ranging between P43 and P70 per kilogram.
- Twenty-four Liberal Party lawmakers from the House of Representatives have called for suspending the second round of excise taxes on fuel products next year under the Tax Reform for Acceleration and Inclusion (TRAIN) Act.
- The tax reform law also provides that the increased taxes on petroleum products will be suspended if the average price of oil in the global market reaches \$80 per barrel for three consecutive months.
- Sonny Africa, executive director of think tank IBON Foundation, said the higher excise taxes on fuel must be suspended altogether right now—not just the second round—for government intervention to make a dent in addressing inflation.
- He called on the government to implement price control on basic commodities.
- Under the Price Act, the President, upon recommendation of the Price Coordinating Council, is allowed to impose a price ceiling on basic necessities or prime commodities in times of calamities as well as in other emergency situation, price manipulations, unreasonable increase in the price of the basic necessities and prime commodities.

MPI

- Following its investment in PLDT's Voyager Inc., private equity fund KKR & Co. Inc. is now eyeing a piece of Metro Pacific Investments Corp. (MPIC) as it sees opportunities in Philippines' infrastructure scene.
- MPIC said KKR is keen on investing in the Philippine infrastructure sector through a possible partnership in the local flagship of Hong Kong conglomerate First Pacific Co. Ltd. However, the company pointed out that nothing was definite yet.
- The \$7.4-bil global fund is focused on pursuing global infrastructure investment opportunities with low volatility and strong downside protection to ensure its continued growth. KKR has a broad investment mandate across infrastructure sectors, including but not limited to energy, transportation, water, wastewater and waste, social infrastructure, and communications infrastructure.

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)

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64

Disclaimer: This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst's personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addressees and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.