

# MARKET RECAP

11 October 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
6,884.38 (-1.67%)	100,188,569.66	(15,896,473.99)	25.30 (-2.65%) = 1,370.40	54.171

## Market Recap

- Share prices on the Philippine Stock Exchange broke past the critical support level at 7,000, weighed by declines overnight on Wall Street.
- The benchmark PSEI lost 116.76 points or 1.67% to 6,884.38 at the closing bell. The broader All Shares shed 57.49 points or 1.34% to 4,241.25.
- The index fell as low as 3% or 210.56 points to 6,790.58 in intraday trading.
- A stock market rout that started on Wall Street rolled through Asia on Thursday, driving China's benchmark to a four-year low and sending indexes in Japan, Korea, and Australia plunging.
- Investors are wary of possible further U.S. interest rate hikes. That will raise the cost of corporate borrowing and could drag on economic growth.
- The U.S. Federal Reserve recently raised short-term interest rates for the third time this year, with one more expected before the year ends. Strong economic data and a positive outlook from Fed officials have led to a sell-off in U.S. Treasury bonds, particularly longer-term ones, sparking concerns about even higher interest rates.
- On Wednesday, President Donald Trump said the Fed "is making a mistake" with its campaign of rate increases.
- Equity markets were pulverized today as investors remain in full out retreat and even the most pessimistic of equity bears are still in shock by the sheer magnitude of the move.
- This meltdown isn't just a mild case of the sniffles, suggesting the latest sneeze from the U.S. equity market could morph into a global markets pandemic.
- Sentiment also has been dampened by the spreading U.S.-Chinese tariff fight over Beijing's technology policy. U.S. officials have accused China of meddling in its midterm elections and stealing trade secrets from its companies through spies.
- The International Monetary Fund cut its outlook for global growth this week, citing interest rates and trade tensions.
- More than 1.031-bil shares valued at P5.427-bil, changed hands. Market breadth was negative, with decliners winning over advancers, 167 to 39, and 34 issues were unchanged.
- Gainers: AP (+2.76%), PCOR (+2.02%), AEV (+1.86%), SCC (+1.42%), DMC (+1.00%)
- Laggards: RLC (-7.73%), GTCAP (-5.49%), RRHI (-3.85%), PGOLD (-3.57%), JGS (-3.40%)

## Rice Tariffication Bill

- President Rodrigo Duterte certified on Wednesday the rice tariffication bill as urgent in order to facilitate the passage of the proposed measure to help temper inflation.
- Duterte addressed the certification to Senate President Vicente Sotto III and House Speaker Gloria Macapagal-Arroyo.
- Duterte cited the "urgent need to improve availability of rice in the country, prevent artificial rice shortage, reduce the prices of rice in the market, and curtail the prevalence of corruption and cartel domination in the rice industry."
- Bills certified as urgent by the President can sail smoothly through the legislative process when certain rules are dispensed with such as approving on third and final reading a proposed measure only after the second reading.
- The House passed its version of the bill in August while a counterpart bill is pending before the Senate.
- Socioeconomic Planning Secretary Ernesto Pernia said in July that once the rice tariffication bill is signed into law and fully implemented, prices of rice will likely go down.
- According to preliminary estimates of the National Economic and Development Authority, headline inflation would slow down by one percentage point if domestic wholesale prices of goes down to the level of imported rice.
- Inflation hit a fresh nine-year high of 6.7% in September.

## Trade Tensions

- Escalating trade tensions between the U.S. and China could undo global progress in helping end extreme poverty, World Bank (WB) President Jim Yong Kim said Thursday at the outset of bank's annual meeting with the International Monetary Fund (IMF) and other financial institutions.

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## Trade Tensions (continued)

- Threats to growth and the trade that helps drive it are overshadowing the gathering of finance officials, central bankers and other leaders on the Indonesian island of Bali, a tropical tourist destination that reflects Indonesia's own rapid development over the past three decades.
- Kim joined IMF chief Christine Lagarde and others in warning of the risks to world growth and economic development from threats to world trade after the U.S. imposed tariffs on tens of millions of dollars of Chinese exports and Beijing responded with similar retaliatory taxes on imports of U.S. goods.
- The WB was working with countries to prepare for a worsening situation because if tariffs were imposed to the most extreme limits there would be a "clear slowdown and the impact on the developing countries would be greater."
- Lagarde said the United States and China should de-escalate their trade dispute and work to fix trade rules instead of breaking them.
- Lagarde said that, so far, there had been no "contagion" of major damage from penalty tariffs imposed by the two countries on each other's exports, but that they do risk hurting "innocent bystanders."
- Lagarde said her advice was in three parts: "De-escalate. Fix the system. Don't break it."
- She said the rules-making World Trade Organization (WTO) had ways of addressing U.S. complaints that China's policies unfairly extract advanced technologies and put foreign companies at a disadvantage.
- But she said the WTO does need to work on addressing issues like subsidies.

## Fuel Excise Tax Suspension and Inflation

- Despite President Rodrigo Duterte's willingness to suspend the excise taxes on oil, there may be no immediate relief for consumers hit by rising prices of goods as the law only allows the suspension to be implemented next year.
- Finance Assistant Secretary Tony Lambino said his agency would seek guidance on the pronouncement of the president, whom he said may be referring to the next tranche of increase in the excise taxes of oil.
- On Tuesday, Duterte said he was open to suspending the excise taxes on oil, a move that activists and some lawmakers said would address the impact of soaring commodity prices.
- Senate Minority Leader Franklin Drilon previously said Duterte could ask lawmakers to issue a resolution that would allow him to suspend the excise taxes on petroleum products.
- Under the TRAIN law, the next tranche of the fuel tax rate increase can be suspended if the three-month average of Dubai crude reaches \$80 per barrel. The next round of increase will take effect in January next year.
- But Lambino said legislative action is needed to implement an immediate suspension of the excise taxes.
- Lambino claimed that without the TRAIN law, the inflation would still hit 6% to 6.3% instead of 6.7%. He said the excises taxes on fuel only constitute 25% of the increase in fuel prices.
- Lambino said the government would not be able to collect P40-bil in 2019 if the next tranche of increase in fuel excise taxes is suspended.

### ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.0% (Q2 2018)	<b>Unemployment Rate</b>	5.4% (July 2018)	<b>GIR</b>	US\$75.161-B (September 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P2.6-B) (August 2018)	<b>Exports Growth Rate</b>	3.1% (August 2018)	<b>BOP</b>	US\$1.272-B (August 2018)
<b>Inflation</b>	6.7% (2012 BY) (September 2018)	<b>Imports Growth Rate</b>	11.0% (August 2018)	<b>O/N RP</b>	5.00% (as of September 27, 2018)
<b>91-day T-Bill Rate</b>	3.549 (as of September 10, 2018)	<b>Cash Remittances</b>	US\$2.401-B (July 2018)	<b>O/N RRP</b>	4.50% (as of September 27, 2018)

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