

# MARKET RECAP

20 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,399.61 (+0.16%)	64,072,248.69	(8,318,460.17)	25.47 (+0.67%) = 1,361.86	53.520

## Market Recap

- Philippine share prices rose towards the close after a wobbly session, on signs that China and the U.S. were preparing to impose more tariffs on each other's products.
- Reversing earlier losses, the benchmark Philippine Stock Exchange Index (PSEi) gained 11.74 points or 0.16% to close at 7,399.61. Meanwhile, the broader All Shares index added 4.26 points or 0.010% to 4,466.70 at the closing bell.
- Most Asian stock markets retreated after China allowed its yuan currency to slide further, stoking concerns Beijing's currency management could become the next flash point in a fierce trade conflict with the United States.
- With China showing little signs of arresting its currency's depreciation, the yuan promptly retreated to a near 13-month low.
- One theory is that the PBOC is depreciating the yuan because it has not enough ammunition to fight a dollar-for-dollar increase in tariffs. The markets are very risk-off. There is a loss in confidence right now.
- The market was already edgy after Wall Street shares declined overnight amid the latest flare up in trade tensions.
- Officials from the EU Trade Commission, due to arrive in Washington next week for trade talks, are said to be preparing a list of tit-for-tat actions in response to proposed U.S. tariffs on EU cars.
- Critics lined up to urge the administration to reject auto tariffs. They argued that the taxes would raise car prices, squeeze automakers by increasing the cost of imported components and invite retaliation from U.S. trading partners - and allies - like the European Union and Canada. The Alliance of Auto Manufacturers rejected the levies on car, truck and auto parts imports.
- Investors are keeping an eye on the President's State of the Nation Address (SONA), the European Central Bank policy meeting and data on how the U.S. economy performed in Q2. They will also be looking out for more corporate earnings.
- More than 568.582-mil shares, valued at P3.429-bil, changed hands. Market breadth was positive, with advancers outpacing decliners, 96 to 93, with 51 issues unchanged.
- Gainers: GTCAP (+2.26%), AP (+2.06%), JGS (+1.89%), BDO (+1.85%), AGI (+1.71%)
- Laggards: AEV (-3.79%), MPI (-3.15%), SECB (-2.36%), DMC (-1.43%), JFC (-1.19%)

## Inflation Forecasts

- Inflation likely rose 5.3% year-on-year in July, a fresh over five-year high on mostly the back of higher cigarette prices, although the average increase in consumer prices this month was slower than in June, the Department of Finance (DOF) said.
- The rate of increase in prices of basic goods in July would be faster compared to the 2.4% posted in the same month last year, which was the lowest monthly headline inflation rate in 2017, hence a low base.
- The DOF nonetheless noted that on a month-on-month basis, commodity prices this month inched up by an average of only 0.17% compared to June prices, slower than the 0.6% last month.
- The lower month-on-month price increases were observed both on food (up only 0.04% in July from the 0.74% increase in June) and non-food items (up 0.22% compared with June's 0.45% increase).
- While price increases for most commodity groups slowed month-on-month compared to June, the following items bucked the trend: tobacco; housing, utilities, and fuels; and as health.
- In particular, prices of electricity, gas and other fuels rose 0.95% month-on-month in July, faster than the 0.1% in June, which the DOF blamed on "lagged impact of petroleum products on electricity prices."
- On a year-on-year basis, prices of electricity, gas and other fuels increased 10.77% in July, faster than the 9.37% in June.
- Meanwhile, prices of tobacco products jumped 29.36% year-on-year in July—the fastest climb across all commodity groups, from 28.29% a month ago and 8.58% a year ago.
- Month-on-month, tobacco prices also posted the fastest increment of 1.23% from 0.62% in June.
- To recall, the cigarette excise tax further increased to P35 per pack starting July under the Tax Reform for Acceleration and Inclusion (TRAIN) Act.
- Last January 1, the unitary excise tax slapped on cigarettes rose to P32.50 per pack from P30 a pack last year.

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## Inflation Forecasts (continued)

- Signed by President Duterte last December, the TRAIN Law or Republic Act No. 10963 has jacked up or imposed new excise taxes on cigarettes, sugary drinks, oil products and vehicles, among other goods, since January 1, 2018 to compensate for the restructured personal income tax regime that raised the tax-exempt cap to an annual salary of P250,000.
- From January to June, the headline inflation rate averaged 4.3%, already breaching the government's full-year target range of 2% to 4% for 2018.
- Economic managers projected inflation to be within the 4% to 4.5% range by end-2018.
- Meanwhile, the Asian Development Bank sees consumer prices in the country to remain elevated for the rest of the year and projects annual inflation to hit at least a six-year high of 4.3%.
- The Manila-based multilateral lender raised its 2018 inflation outlook for the Philippines from 4% in April.
- To compare, inflation averaged 2.9% last year, 1.3% in 2016, 0.7% in 2015, 3.6% in 2014 and 2.6% in 2013, based on 2012 prices.
- For next year, the ADB kept its inflation forecast of 3.9% as "the impact of tax reform on inflation is expected to be transitory and normalize in 2019."
- Also arguing for maintaining the inflation forecast for 2019 are the upward adjustments to monetary policy rates anticipated in line with the tightening of monetary policy globally, the ADB added.
- The central bank is seen raising interest rates again at its next policy meeting in August.

## SM / AC / MPI / SMC

- The Department of Transportation expects to finally start work on the long-delayed common station project that will link LRT Line 1, MRT 3 and the planned MRT 7 by September this year.
- Targeted for completion in 2020, the P2.8-bil project will be built on a property between SM City North Edsa and Trinoma which will run up to Bulacan.
- The project started in 2009 but was put on hold due to legal issues.
- After months of talks, the private sector stakeholders led by SM Group, Ayala Corp., Metro Pacific Investments Corp. and San Miguel Corp. agreed on where to build the common station.
- The common station, with a size of 13,700 square meters, can accommodate passenger flow and convenience and overall larger volume.

### ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.8% (Q1 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$77.675-B (June 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P32.9-B) (May 2018)	<b>Exports Growth Rate</b>	(3.8%) (May 2018)	<b>BOP</b>	(US\$1.177-B) (June 2018)
<b>Inflation</b>	5.2% (2012 BY) (June 2018)	<b>Imports Growth Rate</b>	11.4% (May 2018)	<b>O/N RP</b>	4.00% (as of June 20, 2018)
<b>91-day T-Bill Rate</b>	3.484 (as of June 25, 2018)	<b>Cash Remittances</b>	US\$2.469-B (May 2018)	<b>O/N RRP</b>	3.50% (as of June 20, 2018)

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