

MARKET RECAP

25 July 2018

| PSEi | Value Turnover (US\$) | Net Foreign Flow (US\$) | PHI:US (PLDT ADR) | US\$ 1.00 |
|-------------------|-----------------------|-------------------------|---------------------------|-----------|
| 7,514.00 (+0.90%) | 129,031,751.66 | 4,604,371.17 | 25.69 (+1.82%) = 1,373.03 | 53.493 |

Market Recap

- Philippine shares traded on a high note, rallying as much as 1.75% during the morning session, riding on the upbeat performance overnight of US markets.
- The benchmark Philippine Stock Exchange Index (PSEi) gained 66.98 points or 0.90% to close at 7,514.00. The broader All Shares index climbed 30.30 points or 0.67% to 4,535.53 at the closing bell.
- The support came from US markets which closed in positive territory overnight on the heels of strong corporate earnings.
- Asian stocks rode higher thanks to strong US corporate earnings and hopes China will boost fiscal support for its economy, while long-term US yields hovered near six-week highs on speculation the Bank of Japan could be less accommodative.
- Farmers welcomed government cash to help offset lost exports but said they would rather have President Donald Trump settle trade disputes with China, Mexico, Canada and Europe.
- Trump's comment on Twitter that "Tariffs are the greatest!" suggests relief will be short-lived Trump's aid to farmers points to staying the course on tariffs for now; or at least turning up the heat ahead of possible U.S.-Chinese negotiations.
- The President's State of the Nation Address (SONA) may have cleared some of the hesitation felt last week.
- In his SONA, Duterte said there would be more taxes as he rallied lawmakers support of TRAIN 2.
- However, majority of senators are not inclined to push for the second package of the Tax Reform Acceleration and Inclusion (TRAIN 2) Law even if it was mentioned by President Rodrigo Duterte during his third SONA.
- Although the senators welcome the proposed lowering of corporate income taxes, they must look into the possibility that hundreds of thousands of people may lose their jobs once the fiscal incentives presently enjoyed by several industries—including business process outsourcing and export manufacturing—are removed.
- The Department of Finance (DOF) allayed concerns of senators against the second package of the Duterte administration's tax reform initiative.
- More than 1.4000-bil shares, valued at P6.902-bil, changed hands. Market breadth was positive, with advancers outpacing decliners, 125 to 72, with 46 issues unchanged.
- Gainers: BDO (+4.65%), MPI (+4.21%), ALI (+3.58%), BPI (+2.92%), MEG (+2.35%)
- Laggards: FGEN (-5.73%), AP (-3.17%), RLC (-2.67%), SMPH (-1.89%), AEV (-1.88%)

Growth Outlook

- The Philippine is one of the region's top economic performers in recent years as a result of prudent policies and critical reforms, the International Monday Fund said on Wednesday.
- As such, the IMF retained its 6.7% economic growth forecast for the Philippines this year.
- In a briefing in Manila on Wednesday, IMF said the Philippine economy is likely to benefit from consumer spending and investment, with the gross domestic product (GDP) hitting 6.7%.
- The Philippine economy is performing well. Real GDP grew 6.7% in 2017 and the team projects that this rate will be sustained in 2018 and 2019, underpinned by strong consumption and investment, including public investment, the IMF noted.
- The IMF team assessed the current economic environment from July 11 to 25.
- The Philippines has been one of the region's strong economic performers over the past years, reaping the fruits of prudent policies and critical reforms.
- However, there are downside risks to economic growth that include the recent uptick in inflation which accelerated to 5.2% in June—the fastest in at least five years.
- Downside risks stem mainly from rising inflation, continued rapid credit growth, higher US interest rates and US dollar, volatile capital flows, and trade tensions.
- Last week, the Philippine peso hit a 12-year low against the dollar at P53.53:\$1, the weakest since it closed at P53.55:\$1 on June 29, 2006.
- But the IMF expects the economy to stay the course in the medium-term.
- The medium-term economic outlook remains favorable, but short-term risks have risen, it said.

MARKET RECAP

25 July 2018

TRAIN 2

- Senate President Vicente Sotto III admitted Wednesday that majority of senators are not inclined to push for the second package of the Tax Reform Acceleration and Inclusion (TRAIN 2) Law even if it was mentioned by President Rodrigo Duterte during his third State of the Nation Address.
- Sotto said this was because the promises and forecast made by economic managers when TRAIN 1 was being deliberated did not happen.
- Sotto called for a majority caucus Tuesday afternoon and then later that day met with all the senators in another caucus during the session to discuss the chamber's legislative priorities and other issues.
- Senators earlier scored the economic managers for failing to forecast a spike in inflation rate after it breached the 2% to 4% target range.
- They have also asked the delay in the implementation of social measures to mitigate the effect of TRAIN on poor people such as the cash transfer and fuel subsidy for drivers.
- He said the economic managers should instead check the bills pending in the Senate which would also achieve the goal intended by TRAIN 2.
- Sotto said of the six or seven priority bills mentioned by the President, four or five are already being discussed in the Senate, including the proposed Land Use Act.
- Separately, Senate Majority Leader Juan Miguel Zubiri gave the assurance that the Senate will discuss the tax reform measure once the House of Representatives transmits it to the senators.
- Although the senators welcome the proposed lowering of corporate income taxes, Zubiri said they must look into the possibility that hundreds of thousands of people may lose their jobs once the fiscal incentives presently enjoyed by several industries—including business process outsourcing and export manufacturing—are removed.
- The senator does not intend to stop other senators from discussing, amending, or proposing other bills related to the effects of tax reform.
- Meanwhile, the Department of Finance on Wednesday allayed concerns of senators against the second package of the Duterte administration's tax reform initiative.
- Under the proposed second package of the Tax Reform for Acceleration and Inclusion (TRAIN 2), the government will lower the corporate income tax (CIT) from 30% to 25% and rationalize fiscal incentives.
- "For TRAIN 2 we also need to convince the legislature that it is worth the time and effort. It is a measure that will reduce the corporate income tax for a vast majority of businesses in the Philippines, mostly small and medium enterprises," Finance Assistant Secretary Tony Lambino said at a news conference in Malacañang.
- "We really need to convince those who have doubts that this is worth doing and that it can be done within the time frame," he added.

ECONOMIC INDICATORS

| | | | | | |
|-----------------------------------|-----------------------------|----------------------------|------------------------|----------------|-----------------------------|
| GDP Growth Rate | 6.8% (Q1 2018) | Unemployment Rate | 5.5% (April 2018) | GIR | US\$77.675-B (June 2018) |
| Fiscal Surplus / (Deficit) | (P54.3-B) (June 2018) | Exports Growth Rate | (3.8%) (May 2018) | BOP | (US\$1.177-B) (June 2018) |
| Inflation | 5.2% (2012 BY) (June 2018) | Imports Growth Rate | 11.4% (May 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\$2.469-B (May 2018) | O/N RRP | 3.50% (as of June 20, 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 addressee 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 any 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.