DAILY MARKET PRIMER

05 November 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,140.29 (+1.77%)	73,688,145.55	(17,537,161.96)	25.83 (+1.29%) = 1,384.64	53.606

MARKET OUTLOOK

- Shares may continue their upswing in the week ahead as investors look forward to the release of economic figures alongside more corporate earnings from Q3.
- If the index can sustain its run and break above resistance at 7,200 this week, then this may signal that the main index has bottomed out and is officially in a reversal to the upside.
- Leads for the week include the release of corporate earnings, including Globe Telecom, Inc.; Ayala Land, Inc.; Manila Water Company; SM Investments Corp.; AboitizPower Corp.; Aboitiz Equity Ventures, Inc.; International Container Terminal Services, Inc.; 8990 Holdings, Inc.; PLDT, Inc.; and Eagle Cement Corp. These companies account for 39% of the PSEi basket and 26% to the all-shares index.
- So far, corporate earnings have exceeded expectations and this may be just what the market needs right now to draw investors back in.
- Investors will also be looking ahead to the October inflation data, which the Philippine Statistics Authority will release on Nov. 6, Tuesday. Meanwhile, the Q3 gross domestic product (GDP) growth print will be announced on Nov. 8, Thursday.
- Consensus points to 5.8% to 6.3% for Q3, with the bulk of the downside explained by July to September weather interruptions on agri output, noting that the damages brought by typhoons Gardo (international name: Maria), Karding (Yagi), Ompong (Mangkhut), and Paeng (Trami) are valued at around P29-bil.
- Also note that the National Capital Region's share to GDP is at 36%, Calabarzon at 17%, and Central Luzon at almost 10%. To meet the low end of the government's revised 6.5% to 6.8% target this year, Q3 GDP may need to rise 6.4% and 6.8% in Q4.
- Meanwhile, the central bank said inflation likely stood at 6.2% to 7% in October, down from its 6.3% to 7.1% forecast range for September.
- The slowdown of net foreign outflows will likely bring optimism back to the market, after it recorded net buying for the first time since Aug. 30 last Wednesday.
- The PSEi's support level is pegged at 6,800 to 7,000, while resistance could go from 7,200 to 7,500.

ECONOMIC HIGHLIGHTS

Growth Forecasts

- Philippine economic growth likely accelerated in Q3 of 2018 from Q2, but remained slower than a year ago, analysts polled said ahead of the release of gross domestic product (GDP) data for the period on November 8.
- Estimates for July to September ranged from 5.9% to 6.7% with a 6.2% average, lower than the revised 7% expansion in the same period last year and slightly higher than 6% in April to June.
- Land Bank of the Philippines projected 6.7%, claiming that faster gains in most spending components likely allowed the economy to gain momentum in the quarter. Government spending picked up, along with investment spending, supported by the "Build, Build, Build" program of the government. The recovery in exports also contributed to faster growth.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P96.2-B) (September 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	(US$2.696-B) (September 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	4.404 (as of October 8, 2018)	Cash Remittances	US$2.476-B (August 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, November 5
- Nikkei Manufacturing PMI (Oct)
- Retail Price Index, YoY (Sept)

Tuesday, November 6
- Core Inflation Rate, YoY (Oct)
- Inflation Rate, YoY (Oct)
- Inflation Rate, MoM (Oct)
- Industrial Production, YoY (Sept)

Wednesday, November 7
- Balance of Trade (Sep)
- Exports, YoY (Sept)
- Imports, YoY (Sept)
- Foreign Exchange Reserves (Oct)

Thursday, November 8
- GDP Growth Rate, QoQ (Q3)
- GDP Growth Rate, YoY (Q3)

Monday, November 12
- Foreign Direct Investments (Aug)

Thursday, November 15
- Interest Rate Decision

Monday, November 26
- Budget Balance (Oct)

ECONOMIC HIGHLIGHTS (continued)

Growth Forecasts (continued)

- Latest available data showed that government spending increased by 33.9% in July before growing further by 28.7% in August.
- Land Bank noted, however, that while consumption spending improved, its rate of increase was tempered by a surge in consumer prices, which weighed down on households' purchasing power.
- Inflation in Q3 averaged 6.2%, rising from 4.8% in Q2.
- On the production side, the services and industry sectors remained growth drivers that offset the downward pull from the agricultural sector, which had been lagging in terms of growth.
- Analysts from the research arm of the Metropolitan Bank & Trust Co. (Metrobank) and banking giant HSBC, meanwhile, see GDP growth in Q3 at 6.4%.
- This growth, Metrobank Research said, was "driven by general across-the-board improvements in current spending, with some drag created by net imports."
- The country's trade balance widened by 171.7% and 28.4% in July and August, respectively, according to the latest data.
- HSBC analysts said private consumption growth likely remained steady above 5% in light of steady remittances, while high frequency data suggest that government expenditure and investment likely quickened in the quarter.
- Personal remittances expanded by 4.5% in July, but dropped by 1.4% in August, according to the central bank.
- That said, there are downside risks to the economy. HSBC expects net exports to drag on growth, as imports of capital goods and raw materials for infrastructure projects remain elevated.
- HSBC analysts also said business confidence also fell to its lowest level in more than eight years in Q3 due to a weak peso, high inflation, and rising domestic and global interest rates.
- The central bank's latest Business Expectations Survey showed that the confidence index plunged to 30.1% in the period from 39.3% in April to June.
- Analysts from ING Bank Manila and Moody's Analytics said the economy expanded by 6.3%.
- According to ING Bank Manila, government spending has stepped in to offset a projected slowdown in consumption.
- The Philippines will continue to post above-6% growth, but may have to see the other sectors of the economy step up to the plate, with consumption seen to take a backseat with households bearing the double whammy of accelerating inflation and elevated borrowing costs after the central bank hiked 150 bps (basis points) in only a matter of months.
- Moody's Analytics said the "relatively upbeat" investment and domestic demand have provided some counterbalance to the slower manufacturing sector in Q3.
- DBS also saw growth of 6.2%, saying steady household consumption and pick-up in capital formation accounted for that.
- Bank of the Philippine Islands stressed that Q3 GDP likely slowed further to 5.9% as "net exports will continue to be a drag owing to elevated oil prices, and the surge in capital goods just as merchandise exports remain soft."
- The Asian Institute of Management (AIM) and London-based research consultancy firm Capital Economics forecast 5.8% — the lowest among those polled.
- AIM believes the GDP growth rate continued to slow down to about 5.8% in Q3, propped by a continuously strong service sector and slight uptick by the manufacturing sector, but dragged by declining agriculture.
- Capital Economics acknowledged that higher inflation, which likely weighed on consumer's purchasing power, was the key factor in the growth drag.
- Monetary policy is another factor that is likely to have weighed on demand. In response to rising inflation, the central bank has raised rates by 150bps, it added.

ECONOMIC HIGHLIGHTS (continued)

Inflation Forecasts

- Inflation in October is likely to stay at a nine-year high after the Finance department put it at 6.5% and analysts polled see it hitting between 6.0% and 7.1%.
- This comes ahead of the release of official inflation data on Tuesday and after consumer price growth hit 6.7% in September and the central bank last week said it expected inflation to settle “within [the] 6.2% to 7.0% range.”
- The Department of Finance (DOF) cited stabilizing food prices as its reason for its projected rate.
- According to the department, month-on-month inflation for the month may have slumped to 0.05% from 0.8% in September.
- The DOF also said other administrative streamlining measures signed by President Rodrigo Duterte to boost food supply are underway.
- For their part, analysts expect inflation to continue topping 6%, with their forecasts averaging 6.7%.
- Maybank Kim Eng estimated it to reach 7.1% but declined to elaborate.
- Analysts from Singapore-based bank DBS, the Asian Institute of Management (AIM), Moody’s Analytics and Bank of the Philippine Islands (BPI) said inflation likely accelerated further to 6.9% last month.
- DBS believes the main driver was the volatile prices of food, especially rice, noting that oil price increases have somewhat subsided in October.
- AIM Department of Economics said October inflation continued to soar “due to the disruption in the supply of cheap rice and vegetables as a result of the inability of the country’s food managers to plan against the rather routine visits of strong typhoons in the country.”
- Although there is little the country can do about the global oil price movements, tthe excise tax on fuel — implemented as part of the Tax Reform for Acceleration and Inclusion (TRAIN) law in January — contributed a lot to the rising inflation rate, which was second to Myanmar among Southeast Asian countries.
- Another interest rate hike could be expected should inflation continue to soar beyond 6.8%.
- Moody’s Analytics said the rate acceleration was due to the “painfully” weak peso, high oil prices and disruptions to fresh produce supplies caused by earlier typhoons.
- According to BPI, rice and petroleum prices continued to rise month-on-month amid reduced prices of vegetables, fish and other food items.
- Because of this, the central bank will probably be compelled to hike by another 25 bps during its November 15 Monetary Board (MB) meeting.
- HSBC analysts expect headline inflation to remain high at 6.8%, but said this belied the fact that price pressures were easing in the country.
- Land Bank of the Philippines said inflation likely stayed at 6.7% on the back of faster annual increases in the costs of fuel and rice.
- Ateneo de Manila University predicted inflation at a slower 6.6% on account of stabilized prices of rice and other food products.
- Metrobank Research had inflation at 6% — the lowest among those polled — saying that this was “based largely on lower food prices on a month-on-month basis,” which means the central bank does not need to hike rates anymore for 2018.

3rd Telco Race

- With the much-awaited bidding scheduled to start this week, the third telco initiative of the Duterte administration is now in full swing.
- Ten companies are set to join the bidding while one, the Villar-led Streamtech Systems Technologies Inc., backed out from the third telco race.
- After extensive discussions by the management, Streamtech has decided not to proceed with the current bidding for the third telco.
- Despite this, agencies mandated to spearhead the search for a challenger to the so-called telco duopoly of Globe Telecom and PLDT are “ready” to realize President Duterte’s order to have the new major telco player named on November 7.

ECONOMIC HIGHLIGHTS (continued)

3rd Telco Race (continued)

- Duterte earlier set a deadline for the National Telecommunications Commission (NTC) and the Department of Information and Communications Technology (DICT), stressing he would “take over” if the entry of the third telco would continue to face delays.
- Since the NTC and DICT made the selection documents available to potential bidders a month ago, the third telco race has already enticed 10 firms, including TierOne Communications, Udenna Corp., Telenor Group, NOW Telecom, Philippine Telegraph and Telephone Corp., China Telecommunications Corp., Austria’s Mobiltel Holding GmbH, Converge ICT Solutions, and AMA Telecommunications.
- Streamtech was likewise supposed to join the competition but recently withdrew citing other plans for backing out.
- Without elaborating, the group said it would rather pursue other internal expansion plans and strategies.
- Streamtech is a newly-incorporated company by the Villar Group whose franchise was granted by Duterte for 25 years.
- Under Republic Act 11089, Streamtech shall provide both wire and wireless telco system, as well as national broadband system, mobile and cellular fiber optics, multichannel multipoint distribution systems, and switches.
- It shall also provide value-added services including voice transmission, data, facsimile, control signs, audio and video, and information services, among others.
- Meanwhile, preparing for the official start of bidding, the NTC released a statement last week, revealing the final schedule.
- On November 5 and 6, submission of bids would be open from 8 to 5 p.m., and 8 to 10 a.m. on November 7.
- NTC said it invited three observers from the Commission of Audit, the Foundation for Media Alternatives, and the Philippine Technological Council to witness the opening of bids on Wednesday.
- Joining the technical working group would be representatives from the Open Election System (OES), Department of Finance (DOF), National Security Council (NSC), Department of Justice (DOJ), Philippine Competition Commission (PCC), Securities and Exchange Commission (SEC), and DICT.
- During a Senate hearing late in October, DICT said a “provisional” third telco carrier may be announced on November 7 as the government would make use of a computer program to determine the new major player, based on the highest committed level of services method —weighing on national coverage, internet speed, and capital expenditures.
- The winning bidder would have to ensure that all data it submitted to the telco regulators are true. It also needs to submit its organizational structure within 90 days, it said.
- DICT said failure to create its organization would lead to surrendering of the slot, which would be given to the second winning participant.

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