

# DAILY MARKET PRIMER

24 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,197.62 (-0.53%)	95,750,070.33	(1,913,837.69)	26.12 (-1.51%) = 1,403.51	53.733

## MARKET OUTLOOK

- The main index snapped its five-day winning streak on Tuesday, tracking the equity sell-off seen across international and regional markets triggered by various geopolitical concerns, including tensions between the United States and Saudi Arabia.
- The market corrected due to the global sell-off on geopolitical concerns, like the straining relationship between US and Saudi due to the death of the Washington post journalist. Also, the continued concern on the US tariff trade war.
- Philippine shares tracked the US market after four sessions of bargain hunting turned investors into profit takers, given there were no significant economic data nor earnings released.
- The Philippines managed to temper its losses to less than one percent due to the earnings report of SM Prime Holdings, Inc. (SMPH) together with continued increase in energy sales by Meralco after nine-month period indicative of strong GDP (gross domestic product) after Q3.
- Despite pessimism overseas, the market continue to be optimistic about Q3 corporate earnings results.
- Investors are advised to keep a watchful eye on foreign selling, especially on market heavyweights. Persistent foreign selling coupled with the lack of significant catalysts, the market just may see itself going back down to the initial psychological 7,000 support level.
- US stocks fell overnight after worries about the earnings outlook added to recent selling pressure.
- Along with worries over profit growth, concerns over the upcoming US mid-term elections and Italy's budget have also sent investors scrambling out of stocks.
- With no economic news to perk up the market locally, share prices may just mimic Wall Street's performance. The index was bound to correct itself after five-day rally.

## ECONOMIC HIGHLIGHTS

### Infrastructure Spending

- State spending on infrastructure and other capital outlays continued to surge in August, fueled by roadworks and acquisition of military equipment, the Department of Budget and Management (DBM) said on Tuesday.
- In its latest disbursement assessment report, the DBM said that infrastructure disbursements and other capital outlays grew 70.5% to P68.4-bil in August from P40.1-bil in the same month last year.
- This increase was mostly due to the various projects implemented by the Department of Public Works and Highways (DPWH); which include road widening, repair, and construction, flood control and drainage improvement projects, among others.
- The modernization program of the Armed Forces of the Philippines also contributed to the surge in spending with the procurement of military communication equipment.
- Disbursements for infrastructure and other capital outlays reached P505.6-bil as of August, up 49.8% from P337.6-bil in the same period last year.
- This is equivalent to 65.21% of the P775.37-bil full-year program.

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)

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## ECONOMIC CALENDAR

### **ECONOMIC HIGHLIGHTS** (continued)

#### **Infrastructure Spending** (continued)

- The Duterte administration has been delivering on its infrastructure program. The current data on capital outlays and operating expenses goes to show that the government is right on track with its spending on infrastructure facilities dubbed as the “Build, Build, Build” program.
- Moreover, the DBM also noted that the remaining unreleased balance of the P3.767-tril 2018 budget amounts to P269.1-bil, or 7.1% of the full-year appropriations.
- It said the balance consists largely of P124.3-bil agency-specific budgets and P140.4-bil in lump-sum Special Purpose Funds (SPFs).
- Some of the big-ticket program balances under the regular budget of agencies include the remaining requirements for creation and filling of positions in the DepEd (Department of Education) and Educational Facilities Fund for implementation of the DPWH, the DBM explained.
- Meanwhile, unreleased allotments from the SPFs are made up mostly of program balances from subsidy to government corporations, MPBF (Miscellaneous Personnel Benefits Fund) and PGF (Pension and Gratuity Fund), it added.

#### **GDP Growth Outlook**

- Economic growth will likely remain below target this semester, a global bank said, with the pace to be driven largely by government spending as consumption will likely ease amid rising prices of goods.
- Latest Treasury data showed robust growth in state expenditures, which grew by a fourth in September to P298.6-bil. Government spending was also 3% more than program for the first three quarters, with “productive” investments up 26% year-on-year.
- The September deficit brought the nine-month fiscal balance to a P378.2-bil gap, 78% wider than the P213.1-bil tallied in the same period in 2017 and logging closer to the P523.6-bil programmed for the entire year.
- Economic managers of President Rodrigo R. Duterte have scaled down their gross domestic product (GDP) growth forecast to 6.5% to 6.9% for 2018 from 7% to 8% originally, citing the need to be more realistic given tighter credit conditions, the impact of a trade war between the United States and China, as well as surging global oil prices. Growth is still shy of the revised goal, having clocked in at 6.3% last semester compared to a year-ago 6.6%.
- In order to clear the full-year program spending of P3.76-tril, government spending will need to approach 40% growth on top of last year’s impressive Q4 print, according to ING Bank N.V. Manila.
- The bank pointed out that much depends on the pace of state disbursements, as household spending, which has long been the biggest driver of economic activity, is expected to remain muted.
- Given the recent resolve the government has displayed in spending these past months, ING’s forecast for 6.0% to 6.5% growth in the H2 will rely more heavily on the national government’s ability to pump-prime to offset the projected deceleration in household consumption as the twin effects of accelerating inflation and higher borrowing costs begin to bite.
- Election-related spending may “kick into high gear” ahead of the midterm elections in May 2019, providing some overall growth boost.
- The national government will also need to raise more funds via a mix of local and foreign currency denominated borrowings in order to meet its spending targets.
- The government was on track with plans to sell a fresh set of dollar bonds this quarter, while a new retail bond offering is also in the works.
- The national government borrows from local and foreign sources to fund increased spending — particularly for infrastructure projects — and boost economic activity.

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## **ECONOMIC HIGHLIGHTS** (continued)

### **GDP Growth Outlook** (continued)

- The planned fresh credit will be on top of the P270-bil which will be raised from the domestic market this quarter by offering P180-bil in Treasury bills and another P90-bil in Treasury bonds.

## **CORPORATE NEWS**

### **CLC**

- Businessman Dennis A. Uy's Chelsea Logistics Holdings Corp. (CLC) has been given original proponent status (OPS) by the government for its P49-bil proposal to operate and expand the Davao International Airport.
- The Department of Transportation (DoTr) said the Civil Aviation Authority of the Philippines (CAAP) on Friday granted OPS to Chelsea Logistics for its Davao airport proposal, and Mega 7 Construction Corporation for its P3.8-bil proposal to upgrade the Kalibo International Airport.
- CLC last May 28 submitted its unsolicited proposal to operate, maintain and expand the Davao International Airport.
- Mega 7, on the other hand, sent its unsolicited proposal for the operations, maintenance and upgrade of the Kalibo International Airport last Aug. 6.
- The proposals of CLC and Mega 7 both include the expansion of passenger terminal buildings at the Davao and Kalibo airports, respectively. Both firms proposed a concession period of 30 years.
- The DoTr and CAAP did not have any objections to the two airport proposals.
- Once the proposals are given the go signal by the NEDA Investment Coordination Committee, they will be endorsed to the NEDA Board, led by President Rodrigo R. Duterte, for final approval.
- As unsolicited proposals, the two airport projects will have to undergo a Swiss challenge, where other companies can make competing offers, while giving the original proponent the right to match them.

### **IRC**

- The consortium led by IRC Properties, Inc. can now proceed with its \$3.7-bil Makati Subway System project, after securing the nod of the Makati City government.
- The listed firm led by businessman Antonio L. Tiu said it has received the notice of award from Makati's Public-Private Partnership Committee for the construction and operation of the 11-kilometer subway through a joint venture agreement.
- The consortium, which includes IRC and Chinese partners Greenland Holdings Group, Jiangsu Provincial Construction Group Co. Ltd., Holdings Ltd., and China Harbour Engineering Company Ltd., is the original proponent for the project. There were no competing bids submitted during the Swiss challenge. "The company shall, in due course, inform the public through a disclosure the schedule of commencement of operations, including ground breaking activities," IRC said.
- The Makati Subway System will have eight to 10 underground stations in key areas such as Ayala Avenue, Makati City Hall, Poblacion Heritage Site, University of Makati, and Ospital ng Makati.
- To be built at no cost to the government, the consortium expects to accommodate up to 700,000 passengers per day aboard six car trains with a capacity of about 200 people each.
- The subway will also have provisions to be interlinked with other mass transport systems such as the Metro Rail Transit Line 3, the Pasig River ferry, and the proposed Metro Manila Mega Subway.

**GOLD BUYING / Troy Oz.**

US\$1,222.10

**COPPER BUYING / lb.**

US\$2.763

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