

DAILY MARKET PRIMER

25 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,129.42 (-0.95%)	86,219,213.49	(12,994,938.64)	26.29 (+0.65%) = 1,416.27	53.871

MARKET OUTLOOK

- The stock market fell for a second day on Wednesday as sentiment was dampened by renewed global concerns.
- Philippine shares continued to be sold lower just as regional markets mostly ended lower on renewed fears regarding the trade wars plus growing concerns that the US economy may have peaked.
- Expectations for a one-on-one meeting between President Donald Trump and China's Xi Jinping are already being lowered with officials from both sides increasingly pessimistic about prospects for a resolution to their deepening trade war.
- US President Donald J. Trump and Chinese President Xi Jinping are scheduled to meet at the G20 Summit in Argentina next month, with the former's officials saying that Beijing has yet to agree with its requests.
- White House economic adviser Larry Kudlow has said that Trump and Xi would briefly meet during next month's G-20 summit, downplaying the likelihood that some agreement could be reached about the trade dispute.
- Investors will continue to look at how US markets perform overnight, also noting that San Miguel Food and Beverage, Inc. (SMFB) will be pricing its follow-on offering on Thursday, which may affect the PSEi's performance.
- A global slowdown is actually an issue at this point, and part of it translates into slow earnings and earnings growth and ultimately that means lower stock prices.

ECONOMIC HIGHLIGHTS

Vehicle Sales Forecast

- Vehicle sales are expected to drop by 10-15% for the full year, as demand continues to be dampened by higher excise taxes, soaring inflation, and rising fuel prices.
- If realized, this would mark the first decline in full-year vehicle sales in seven years.
- Data jointly from the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) and Truck Manufacturers Association (TMA) showed the groups' member companies sold 425,673 vehicles in 2017, an 18.4% increase from 359,572 units in 2016. The domestic auto industry had recorded annual double-digit growth since 2012.
- A combination of negative economic factors, such as high inflation and soaring fuel prices, prevented a rebound in vehicle sales in H2 of 2018.
- Inflation surged to a fresh nine-year high of 6.7% in September, bringing the nine-month average to 5%. Prices rose by an average of 6.2% during the July to September period.
- For the first nine months of 2018, vehicle sales fell 13.8% to 261,057 units, from 302,869 units sold during the same period last year. In September, 31,116 units were sold, 9.7% lower than the 34,445 units sold during the same month in 2017.
- The September sales figure is a 2.6% increase from the 30,313 units sold in August. It was also the second consecutive month that vehicle sales showed month-on-month gains.
- CAMPI originally expressed guarded optimism despite sales declines since the start of the year, hoping for a yearend boost from holiday sales. The drop was steepest in July at 24.1% and an easing to 9.7% in September had reinforced the hope.
- CAMPI said on Wednesday that a Q4 improvement would not be enough to avoid a contraction.

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)

TRAIN Revenue Target

- Targeted revenues from tax reforms implemented this year have been reduced due to delays in implementing fuel marking and electronic invoicing provisions, a senior Finance department official said on Wednesday.
- Speaking at a Senate hearing, Finance Undersecretary Karl Kendrick Chua disclosed that the Department of Finance (DOF) was now aiming for just P63.3-bil in revenues from the Tax Reform for Acceleration and Inclusion (Train) law, lower than the original target of P89.9-bil.
- Last week, Finance Secretary Carlos Dominguez III reported that the Train law, which was implemented in January, contributed P26.6-bil to the government's coffers for the first seven months of the year.
- Providing an update on the fuel marking scheme, Budget department Director Rolando Toledo said the government was likely to implement the system next year as a supplier contract would soon be awarded to the lone bidder.
- Dominguez, meanwhile, has said that assistance from the South Korean government was be used to put up the e-invoicing system in the country.
- The Philippines has been given a \$41-million grant from South Korea for the implementation of an Electronic Receipt, Invoice and Sales Reporting System that will help the country improve its revenue-monitoring mechanisms.

3rd Telco Race

- The list of potential third telco bidders has expanded with a ninth firm having paid a non-refundable P1-mil for selection documents, the National Telecommunications Commission (NTC) said.
- The firm, however, does not want to be identified at the moment, joining one other that has also chosen anonymity ahead of the submission of final bids. The other firms that have come out in the open are TierOne Communications, Udena Corp., Telenor Group, NOW Telecom, Philippine Telegraph and Telephone Corp., China Telecommunications Corp. and Austria's Mobitel Holding GmbH.
- Officials did not say if the ninth prospective bidder was Villar-led Streamtech Systems Technologies, Inc., which has been given a 25-year telecommunications franchise by President Rodrigo Duterte.
- Acting Information and Communications Technology Secretary Eliseo Rio Jr. said Startech had expressed interest in joining the third telco race.
- Rio, meanwhile, said that the number of selection document buyers was not the final number of bidders as "those who bought will merge as partners."
- The winning bidder, which is expected to challenge the PLDT-Globe duopoly, will be chosen based on five-year commitments on national population coverage, minimum average broadband speeds, and capital and operating expenditures.
- The NTC expects to name the third telco player before Christmas as directed by Duterte.

Tax Hike Delay

- Inflation could drop by 0.2-0.3 percentage points if the government defers fuel excise tax hikes scheduled next year, Finance and central bank senior officials told legislators on Tuesday.
- Central bank Assistant Governor Francisco Dakila Jr., meanwhile, said they expected a 0.2-percentage point drop in inflation over a one-year timeframe.
- Dakila noted that the central bank had a 4.3% inflation forecast for 2019, an upward revision from the previous 3.7%.
- During the same hearing, think tank REID Foundation Vice President Ronilo Balbieran said the full year impact of the suspension would reduce inflation by 0.3ppt.

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ECONOMIC HIGHLIGHTS (continued)

Tax Hike Delay (continued)

- Higher taxes on fuel products, among other goods and services, were implemented when the Train law took effect at the start of 2018. The fuel tax hikes, in particular, have been blamed for rising inflation, which hit a fresh nine-year high of 6.7% in September.
- Given rising inflation, economic managers have recommended that President Rodrigo Duterte order the deferment of a second round of fuel tax hikes next year.
- Under the TRAIN law, the government may halt scheduled fuel tax hikes once Dubai crude averages \$80 per barrel in the three months prior to the increase. However, it does not state how long the suspension should last.

CORPORATE NEWS

PXP

- PXP Energy Corp. reported a net loss of P31.4-mil in nine months to September this year, 37% bigger than year-ago's P23-mil consolidated losses attributable to equity holders of the parent firm as revenues lagged behind the cost and expenses during the period.
- The upstream oil and gas exploration company said its reported consolidated net loss reached P49.1-mil, up 43% from P34.3-mil a year ago "due to higher depletion cost and decommissioning, other charge of P11.9-mil, and a provision for income tax of P1.6-mil."
- The losses were offset by a foreign exchange gain of P30-mil during the period, the company added.
- Consolidated petroleum revenues reached P106.1-mil, higher by 38.3% from P76.7-mil a year ago "resulting from the 38% improvement in crude oil price and the 1% increase in volume," the company said.
- However, consolidated cost and expenses grew by 43.6% to P173.7-mil from P121-mil because of the higher depletion cost in Galoc and the decommissioning of Tara and Libro wells in Service Contract (SC) 14, the company said, referring to the areas where it has an agreement with the government to explore.

AEV

- The Aboitiz group said it remains interested in taking part in the National Identification (ID) system, despite the Philippine Statistics Authority's (PSA) rejection of its unsolicited proposal earlier this month.
- The PSA said earlier this month that it will opt for a competitive bidding for the Philippine identification system, which will help the government manage the timeline for procuring and awarding the system by year end.
- A consortium led by AIC and Ayala Corp.'s AC Infrastructure Holdings Corp. submitted an unsolicited proposal for the design and development of the national ID system last August.
- Under the proposal, the consortium said it will be spending P15-bil to develop the infrastructure for the national ID system. The group tapped global information technology firm Unisys Philippines to provide the security software and services, and digital transformation and workplace services, among others.
- The proposed concession period was for 17 years, at which time the consortium promised to "develop and implement an expedient and comprehensive solution that will provide a safe and secure identification and benefits payment mechanism for individuals transacting with government."
- The proposal to develop the country's national ID system is in line with Republic Act No. 11055, otherwise known as the Philippine Identification System Act (PhilSys). The entire PhilSys project will require P30-bil over the next five years.

GOLD BUYING / Troy Oz.

US\$1,231.15

COPPER BUYING / lb.

US\$2.748

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