

Philequity Corner (06/13/05)

Political concerns clouds over improving fundamentals

By Ignacio B. Gimenez

Investors went bargain hunting last Friday following a 3-day market plunge that saw the Philippine Composite Index (PHISIX) decline by 7.5% or 147 points. The huge decline is primarily due to the perception of increased political risk in the midst of controversies currently hounding the first family. All these political concerns are not helping the market any and have temporarily shifted investors' focus away from the improving macro fundamentals.

Likewise the peso fell by as much as 1.3% for the week to close at P55.20/US\$1, and the 10-year ROPs declined by 2.8% for the week.

These reactions are due to the perceived growing political risk, which have clouded the positive developments on the fiscal front.

For example, tax collections have been showing significant improvements this year. Preliminary indications from the Bureau of Internal Revenue (BIR) show that tax collections in May is up at least 17%, which should bring the Jan to May collections to an increase of 14% compared to the previous year.

Meanwhile, the Bureau of Treasury reported last week that the government's outstanding debt as of March declined by 0.4% or P14 billion mainly due to the appreciation of the peso against other currencies.

While everyone may be aware that the peso have appreciated against the US dollar this year (up 1.9%), not many may have noticed that the peso has strengthened significantly against other major currencies. Compared to the euro, the peso has strengthened by 11.9%, and against the yen, by 6.8% year-to-date.

Note that the country's foreign debts (amounting to around P1.81 trillion) are denominated in these currencies. No wonder, outstanding debt declined by that much due to the peso appreciation alone.

Philippine Peso vs. Other Currencies

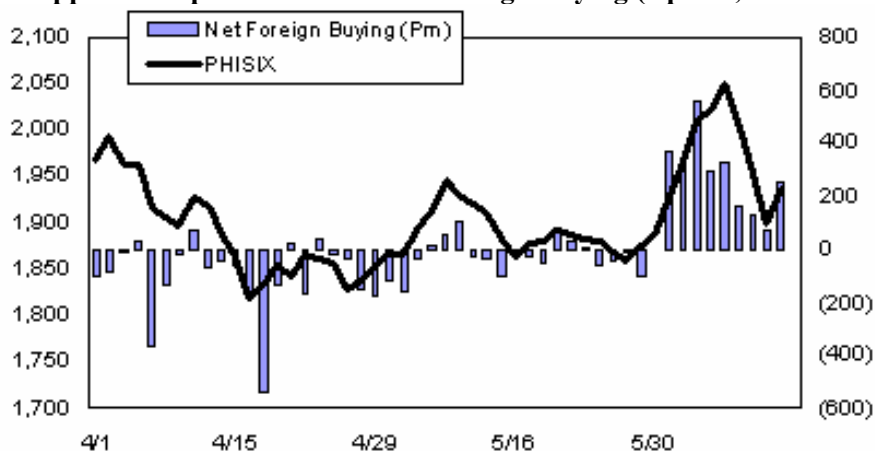
Peso vs.	% Chg Ytd
US dollar	1.9
Euro	11.9
British Pound	7.1
Japanese Yen	6.8
Aussie Dollar	3.8
Thai Baht	6.6
Indonesian Rupiah	4.6
Singapore Dollar	3.9

As we noted in previous articles, the strengthening of the peso this year is mainly due to the improving fiscal outlook, steady OFW remittances and regional factors (possible Chinese currency revaluation and weaker Euro and Yen).

Foreign inflows to the stock market continue to be positive for two straight weeks. Last week's net foreign buying amounted to P960.2 million, which followed a net inflow of P1.57 billion during the previous week. While local investors have been selling like mad these past few days, causing the PHISIX to abruptly drop, foreign funds seem naïve to have been accumulating stocks despite the delicate political scenario.

Looking from their point of view, however, our stock market (as represented by the PHISIX) is up 8.3% year-to-date in US dollar terms, 12.0% in Yen terms, and by 20.5% in Euro terms. So their actions may not have been naïve after all. On the contrary, they may have been looking for opportunities after a wave of panic selling as corporate fundamentals remain intact and the macro picture is improving. As that old adage says, "*Capital always flows out of a depreciating currency and into an appreciating asset.*"

Philippine Composite Index & Net Foreign Buying (April 1, 2005 – June 10, 2005)



With the ongoing political ruckus, we expect the market to continue exhibiting increased volatility in the short term. The longer these concerns persist, the more detrimental it is for the market. Further declines, however, should create a lot of buying opportunities for value investors who are positioning for the long haul, since on the longer term the market usually focuses back to fundamentals.

Let me sidetrack from the market discussion and tell you something about the Market Integrity Board of the Phil. Stock Exchange (PSE) wherein I currently sit as a member. It is chaired by former Supreme Court Justice Jose Vitug, with former Securities and Exchange Commissioner Monico Jacob as Vice Chairman. Sitting in the regular meetings of the board, I can attest that the PSE (headed by its Chairman, Peter Favila, and its President, Francis Lim) really want to make sure that the investing public is efficiently informed and is safeguarded from unfair play. I also see the fervor, hard work and the concern by the whole MIB board in safeguarding investors and introducing reforms toward transparency, with fairness to stockbrokers and in line with the development of the industry.

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