

Philequity Corner (09/12/05)
By Ignacio B. Gimenez

GOING BACK TO WORK

Now that the EVAT bill was upheld and the impeachment already over, everyone should be going back to their normal course of business.

That's what exactly the Department of Finance did last Thursday when they sold \$1 billion in 10 year bonds to complete their funding requirements for 2005. This puts the total financing raised externally this year to \$3.25 billion.

Clearly an immediate beneficiary of the upholding of EVAT, the global bond offering was 7.5 times oversubscribed – the largest oversubscription ever achieved for a Philippine paper. The pricing improved to a yield of 8.25% (or 410 basis points above US Treasuries) from original guidance of 8.375%.

We recall that a planned road show last June for the said bonds was cancelled amid rising political tensions. This was further delayed when the SC slapped a TRO on the EVAT. Implementing it then made no sense since the pricing would have been disadvantageous and the success of future bond offerings would be affected.

Regarding the stock market, we expect it to consolidate further and it may take a while to get back the momentum that was lost. We also noticed that foreign investors have been selling blue chip counters in the past few days. If this continues, it can temporarily sap liquidity out of the market especially now when everybody is still cautious.

Although most foreign funds are still on the positioned on the long side, there may be a few hedge funds who may be encouraged to take the contrary view following the plunge in Indonesian currency and stocks last month. These funds are looking for selling opportunities in other countries with macro vulnerabilities (poor fiscal accounts, unsustainable fuel subsidies, etc.) similar to Indonesia's.

Note that Indonesia and Thailand have increased their key interest rates last week. Indonesia increased its key interest rate by 50 basis points to 10% to bolster the rupiah and stabilize its stock market while Thailand raised its key interest rate by 50 basis points to 3.25%.

In the case of the Philippines, interest rates may also need to rise if inflation gets out of control. The inflation rate registered in August was higher than expected at 7.2 percent. This prompted the government to revise their targets to 7.9 percent in 2005 and 7.5 percent in 2006, from the previous target of 5 to 6 percent in 2005 and 4 to 5 percent in 2006.

Now that external risks are ever more present (from high oil prices, increases in regional interest rates, rising inflation), we all the more urge President Arroyo and the lawmakers to stay the course of reforms.

SHOWING POLITICAL WILL

Talk about going back to work, the government should continue its efforts on improving basic services, education, healthcare, infrastructure, and the need to provide adequate safety nets to absorb the reform measures.

One area of special importance is the NAIA 3 opening. The opening of this long delayed project will show POLITICAL WILL on the part of the government. This will show that the government can push through with important projects despite the legal and political roadblocks that have been set against it. Once opened, the new airport terminal will be a showcase not only for the government but for the entire Filipino people. Moreover, it will provide a big boost to the economy, particularly the tourism sector which is another area that has huge potentials for the country.

In the area of education, policies can be crafted to further raise English competence among Filipinos. In doing so, Filipinos can take better advantage of the growing outsourcing/call center business in the country. According to the Business Processing Association of the Philippines, the industry expects revenues to hit \$1 billion this year from \$800 million last year. Total seats are expected to reach 100,000 by end-2005.

This industry, in turn, is creating a lot of trickle down effects to other industries. Aside from helping the recovery in office leasing and property, it has also generated a lot of business for fast food, restaurants, coffee shops and other satellite businesses. At the same time, the outsourcing/call center industry is also helping create a wider Filipino middle class by providing young college graduates an opportunity to earn P15,000 to P30,000 a month and boost their spending power.

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We congratulate Chairman Bayani Fernando of the MMDA for his excellent proposal on the use of White Plains Road (instead of EDSA) to hold the rallies in front of the People Power monument. Hopefully, this should solve the usual gridlock in EDSA caused by these rallies, and at the same time, provide the people a place where they can congregate and air their grievances.

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