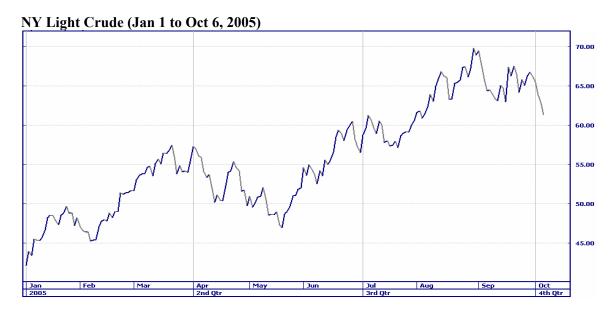
## PHILEQUITY CORNER (10/10/05)

By Ignacio B. Gimenez

## HAS OIL PRICES TOPPED OUT?

Oil prices dropped to a two-month low last Thursday with the NY Light Crude closing at \$61.36 a barrel, 13 percent off its recent high of \$70.85 in August. Some energy analysts say that recent data, such as a drop in implied US gasoline demand, a slowdown in Chinese demand, budget problems in Asia and a drop in emerging market demand, would suggest that global economic and global crude oil demand growth are already decelerating from near break neck rates and that the US consumer may be beginning to feel the pain.



Source: Technistock

Oil stocks, likewise, took a dive following the decline in crude oil prices. As of Oct. 6, integrated oil players such as Chevron Texaco, British Petroleum, Exxon-Mobil are down by 7% to 10% week-on-week. Meanwhile, exploration companies such as Burlington, Encana, XTO Energy are down by more than 10%.

Select Energy Stocks (Week-on-week % Chg)

	29-Sep	6-Oct	% Chg
British Petroleum	72.11	66.50	-7.8%
Burlington Resources	81.80	70.25	-14.1%
Canadian Natural Resources	45.47	38.31	-15.7%
Chevron Texaco	65.77	60.00	-8.8%
Encana (Canada)	67.00	58.20	-13.1%
EOG Resources	75.81	67.40	-11.1%
Exxon-Mobil	64.80	58.57	-9.6%
Halliburton	69.40	60.77	-12.4%
XTO Energy	45.32	40.59	-10.4%

Source: Bloomberg

The fall in oil prices has given respite to net importing countries such as the Philippines. We believe that now is the opportune time to go with the EVAT on fuel and power. Postponing its implementation could just drag on and on. Who is to tell where oil price will be 6 months or 9 months from now? Even energy analysts are divided in their outlook. Some say that consumers are already feeling the pain of high pump prices and that gradual demand destruction would cause prices to return into the mid \$50 per barrel range. Meanwhile, others argue that the onset of the Northern hemisphere winter, the continuing Atlantic hurricane season and the slow recovery of the US-Gulf of Mexico facilities would allow oil and gas prices to continue trending higher.

We should never second guess and time oil prices. Imposing the EVAT now on fuel and power is as good a time as anytime in the future.

Our creditors and the investment community are watching us very closely. We should not be perceived as backtracking in our push for economic reforms. Remember what happened to Indonesia two months ago. Indonesian stocks and the Rupiah plunged down as investors reckoned that fuel subsidies would destabilize Indonesia's fiscal position.

The Rupiah has since recovered 5 percent after reaching a low a month ago. What they have done is to raise interest rates and remove fuel subsidies despite all the protests and rallies. We should also show our resolve to continue with our fiscal reforms especially the EVAT on fuel and power. Any move to delay the EVAT will be received negatively by the investment community.

In the meantime, the local stock market has been trading sideways for more than six months now. What has happened is that a lot of investors have adopted a "wait and see" attitude on the market. Consequently, the lack of depth and liquidity have allowed small trickles of foreign buying and selling to already move the stock market up or down significantly.

In contrast, the peso and Philippine bonds have remained relatively stable. Fortunately, the bonds are held mostly by local banks. This has prevented the wild swings that are being experienced by stocks.

Should we then wait until we are sure enough that oil prices has topped before we push thru with the EVAT on fuel and power? Should we wait for investors to panic on us just as they did in Indonesia? I hope not. It's bad enough that we have prolonged our fiscal debacle to the brink before crafting a concrete solution for it. It's surely worse if we prolong its implementation while trying to second guess a market driven commodity that no one has control of.

We congratulate Secretary Teves' who has shown determination to continue with the fiscal reforms despite all the pressure to postpone the much needed revenue generating law. As we have always said, "This is short term pain for long term gain." More power to you.

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