

PHILEQUITY CORNER (11/14/05)

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PRESIDENT GMA IS REALLY LUCKY

The peso-dollar rate could have gone above P60/\$1 by now without the EVAT. The timing of the Supreme Court's decision and the EVAT's implementation was impeccable. The Philippines is very fortunate the EVAT bill was upheld and implemented just in time when the US dollar is making a major move against other currencies. Since Oct. 18, the day the SC released their decision, most currencies have depreciated against the US dollar while the peso appreciated by 2.5 percent.

Year-to-date, the euro weakened by 15.5 percent against the US dollar, the yen is down by 13.0 percent, while the peso is up by 3.4 percent (see table below).

Currency Rankings	Price End-2004	11-Nov	%Chg YTD
Major Currencies vs. US Dollar			
Australian Dollar	0.7803	0.7329	-6.5%
British Pound	1.9181	1.7424	-10.1%
Swiss Franc	1.1403	1.3108	-13.0%
Japanese Yen	102.63	118.02	-13.0%
Euro	1.3551	1.1734	-15.5%
Asian Currencies vs. US Dollar			
Philippine Peso	56.28	54.42	+3.4%
Chinese Yuan	8.2676	8.0856	+2.3%
Malaysian Ringgit	3.795	3.7787	+0.4%
Korean Won	1035.1	1041.3	-0.6%
Singapore Dollar	1.6317	1.7015	-4.1%
Indian Rupee	43.46	45.685	-4.9%
Thai Baht	38.92	41.07	-5.2%
Taiwan Dollar	31.74	33.47	-5.2%
Indonesian Rupiah	9270	9987	-7.2%

Source: Bloomberg, BSP

ON THE BRINK OF DISASTER

If the opposition succeeded in scrapping the implementation of EVAT or if the government acceded to populist moves, the peso would have gone above 60, the stock market would have tanked and gone to new lows, and the ROPs would have dropped to a level of junk status wherein the capability of the government to borrow would be put seriously in doubt. The Philippines then would have been on the brink of disaster. Not only would we have political crisis in our country but we would have had economic crisis as well.

For instance, if the peso depreciated by the same amount as the euro (-15.5 percent), the peso-dollar rate would have been P65/\$1. If the peso depreciated by the same amount as the yen (-13 percent), the peso-dollar rate would have been P63.60/\$1. Even if we have only gone the way of our neighbor Thailand and the peso depreciated the same as the baht (-5.2 percent), the rate should have reached P59.20/\$1 by now.

Lucky for us, it did not turn out that way. The peso is now trading at P54.42/\$1, the Philippine Composite Index (PHISIX) is now at 2,092, up 14.5 percent year-to-date, and ROPs have gone up 200 basis points. Most foreign houses have also revised their peso and PHISIX forecasts upwards. From the original peso forecast of P58/\$1 by end-2006, they have been revised to P52/\$1 by end-2006. Their 12-month PHISIX target now ranges from 2,400 to 2,600.

SUWERTE TALAGA SI GMA

“Suwerte talaga si GMA,” says many of the businessmen, bankers and stock traders we’ve talked with. She’s really lucky because **1)** Oil prices came down in the past two weeks to \$57.53 per barrel, **2)** The timing of the EVAT implementation was uncanny. It came just in time when the US dollar is appreciating against all currencies, and **3)** OFW remittances keep coming in record numbers. These three factors have reversed any possible political and financial upheavals that could have happened in the country.

NO RETREAT, NO SURRENDER

The EVAT law is already in place and all it needs is to be implemented fully. **We emphasize the importance of the increase of the VAT rate from 10% to 12% in January 2006.** Any postponement, delay or hesitation in the implementation of the 2 percent increase in January will be perceived as negative by the investment community. This will be viewed as a sign of backtracking and lack of political will by the government. There should be **NO RETREAT, NO SURRENDER. WARNING: We have been lucky so far, but it does not mean that we can be complacent.**

KUDOS TO OUR COUNTRY’S ECONOMIC TEAM

We owe the country’s string of good luck to the hard work and perseverance of President GMA and her economic team. No matter how one dislikes the president, we have to credit her for standing firm and pursuing the reform measures despite the political pressure and the unpopularity of the new taxes.

We congratulate Congressman Joey Salceda, one of the principal architects of the Philippine fiscal road map. We commend the past economic team led by former Finance Secretary Cesar Purisima for pursuing the fiscal reform plan.

Our praises to the new economic team led by Finance Secretary Gary Teves, Trade Secretary Peter Favila, National Treasurer Omar Cruz and Budget Secretary Romulo Neri who are steadfastly implementing the highly unpopular but much-needed reforms. Gary, Peter and Omar were our colleagues in the Philippine Stock Exchange (PSE) and we are very proud of them. They know the importance of investor sentiment and the value of the capital markets in the development of the economy. If not for their urgent actions, our country could have lost that narrow window of opportunity for corrective fiscal measures.

As we have said before, we are bullish on the Philippines. In the long run and barring unforeseen events such as U.S. markets tanking, oil prices going back to \$70/barrel or a reversal / delay in implementing the EVAT, we see **the PHISIX ultimately testing its 1999 high of 2,622 and the peso-dollar rate going to P52/\$1.**

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