

Philequity Corner (December 31, 2007)
By Valentino Sy

A rollercoaster ride in 2007

Despite the endless political noises haunting the country, the slowdown in the US economy, the surging oil prices, and increasing volatility in global financial markets, the Philippine economy and its stock market remained unscathed and managed to post another stellar performance in 2007. The country's GDP growth is expected to approach, if not reach 7 percent in 2007, its highest rate in the past three decades. Meanwhile, inflation and domestic interest rates have remained at historically low levels as the peso continued to strengthen and the government delivered a healthier fiscal performance.

The Philippine peso, just like in 2005, will finish 2007 as the best performing currency in Asia. It gained 15.8 percent year-on-year against the US dollar to close at 41.28 as at end-2007 from 49.03 as at end-2006. It is closely followed by the Thai baht which gained 14.9 percent against the greenback and the Indian Rupee which appreciated by 10.9 percent.

Asian Currencies vs. USD	Price end-2006	Price end-2007	%Chg YoY
Philippine Peso	49.03	41.28	15.8%
Thai Baht	35.29	30.03	14.9%
Indian Rupee	44.28	39.44	10.9%
Chinese Yuan	7.8175	7.3041	6.6%
Malaysian Ringgit	3.5310	3.3180	6.0%
Singapore Dollar	1.5346	1.4462	5.8%
Taiwan Dollar	32.52	32.50	0.1%
Korean Won	917.37	936.00	-2.0%
Indonesian Rupiah	8,966.40	9,405.00	-4.9%

Source: Bloomberg (data as of Dec. 28, 2007)

A number of factors contributed to the peso's strength. OFW remittances - a major source of US dollars - coming from 8-million strong overseas Filipino workforce are projected to reach \$15 billion in 2007 from \$12.8 billion in 2006. The sunrise sector of business process outsourcing (BPO) is expected to end 2007 with more than 300,000 jobs and \$4.5 billion in revenues from \$3.3 billion the previous year. In addition, net inflows of foreign direct investments and foreign portfolio investments are expected to reach record levels in 2007. Capital raised through the Philippine Stock Exchange alone (through 10 IPOs and 7 follow-on offerings) reached P89.9 billion in 2007, up 57 percent from 2006. Meanwhile, proceeds from the government's privatization program (another source of US dollars) reached P90 billion.

The peso also benefited from the general weakness of the US dollar which weakened against all major currencies in 2007. The Canadian dollar, for example, strengthened the most against the greenback, gaining 15.8 percent year-on-year. Meanwhile, the Euro and the Australian dollar appreciated by 11.5 percent and 11.0 percent, respectively.

Major Currencies vs. USD	Price end-2006	Price end-2007	%Chg YoY
Canadian Dollar	1.1664	0.9817	15.8%
Euro	1.3203	1.4724	11.5%
Australian Dollar	0.7893	0.8761	11.0%
Swiss Franc	1.2197	1.1262	7.7%
Japanese Yen	119.1110	112.2850	5.7%
British Pound	1.9591	1.9966	1.9%

Source: Bloomberg (data as of Dec. 28, 2007)

Drawing on the strength of the Philippine macro economy and sound corporate fundamentals, Philippine stocks had another great run in 2007. As of the first nine months, earnings of listed companies grew 24.4 percent according to the PSE. Thus, despite the roller coaster ride which saw stocks fall in February, in August and then in October, the benchmark PSE index ended the year up 21.4 percent. In US dollar terms, Philippine stocks are up 44.2 percent.

In Asia, China led all markets with the CSI 300 index gaining 180 percent in US dollar terms. This was followed by India and Thailand, which gained 64.6 percent and 48.4 percent in US dollar terms, respectively. Emerging markets continued to be the choice destination of global investable funds as shown by the MSCI Emerging Markets Index and the MSCI Asia Pac ex-Japan Index which are up 36.6 percent and 37.4 percent, respectively. In comparison, the MSCI World Index is up by only 7.5 percent.

Asia Pacific ex Japan	Index	2007 %Chg in local currency	2007 %Chg in US dollars
China	CSI 300	161.6%	180.0%
India	SENSEX	46.6%	64.6%
Thailand	SET	26.2%	48.4%
Indonesia	JCI	52.1%	45.0%
Philippines	PSEi	21.4%	44.2%
Malaysia	KLCI	32.0%	40.5%
Hong Kong	Hang Seng	37.1%	36.7%
Korea	KOSPI	32.3%	29.6%
Australia	All Ordinaries INDX	13.8%	26.3%
Singapore	STI	15.4%	22.5%
Taiwan	TWSE	7.3%	7.4%
MSCI Asia Pac ex-Japan			37.4%
MSCI Emerging Markets			36.6%
MSCI World			7.5%

Source: Bloomberg (data as of Dec. 28, 2007)

Stock markets in developed countries, likewise, performed reasonably well in 2007 with the exception of Japan. Germany, for example, gained 35.7 percent in US dollar terms, while Canada was up 27.3 percent. In the US, tech stocks were the leaders in 2007 with the Nasdaq returning 10.8 percent. However, the broader-based S&P 500 gained by only 4.1 percent.

Developed Markets	Index	2007 %Chg in local currency	2007 %Chg in US dollars
Germany	DAX	22.3%	35.7%
Canada	TSE 300	7.1%	27.3%
France	CAC	1.5%	12.7%
U.S.	Nasdaq	10.8%	10.8%
U.S.	DJIA	7.2%	7.2%
U.K.	FTSE	4.1%	6.1%
U.S.	S&P 500	4.1%	4.1%
Italy	MIB 30	-6.5%	3.8%
Japan	Nikkei	-11.1%	-7.1%

Source: Bloomberg (data as of Dec. 28, 2007)

Philequity Fund ended the year with an 18.33 percent gain. Since inception in 1994, Philequity Fund has gained 1,238.6 percent or a compounded annual return of 20.4 percent. Our other funds also fared well in 2007 despite the volatility (see table below). We wish our readers a Happy and a Prosperous New Year !!!

	NAVPS	2007 Performance
Philequity Fund, Inc.	13.3858	18.33%
Philequity Dollar Income Fund, Inc.	0.0375715	4.88%
Philequity PSE Index Fund, Inc.	2.0789	21.74%
Philequity Money Market Fund, Inc.	2.1757	5.65%

Source: Philequity Management, Inc.

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