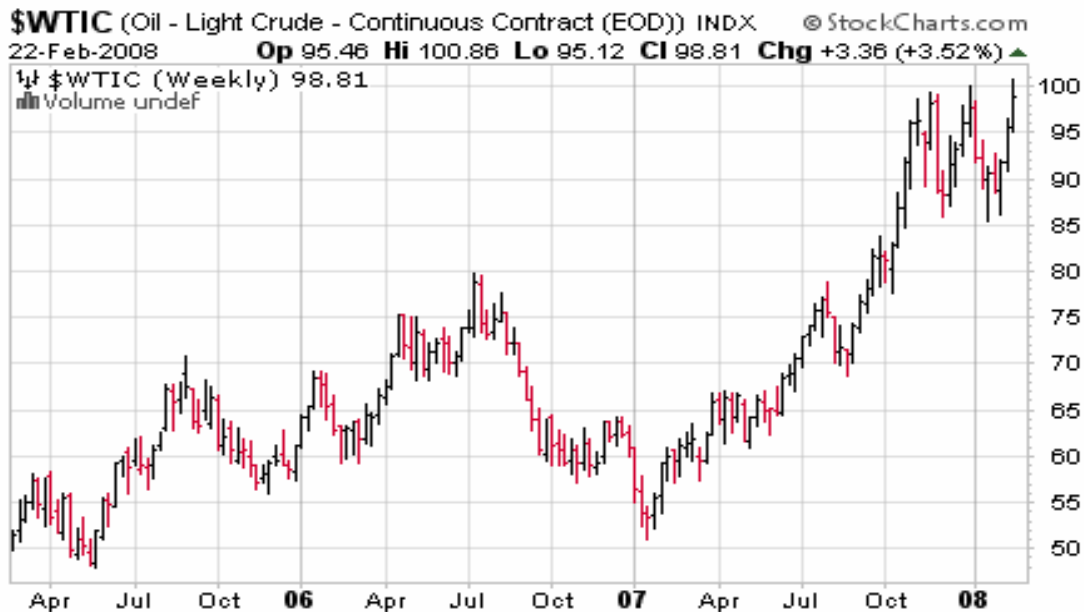


Philequity Corner (February 25, 2008)
By Valentino Sy

Good News, Bad News

In October 2007, we wrote two articles, one entitled “Oil on the way to US\$100” and second entitled “Gold on the way to US\$1000.” At that time gold had just traded above US\$800 per oz and oil had just breached US\$90 per barrel. What was deemed far-fetched then has now become a reality.

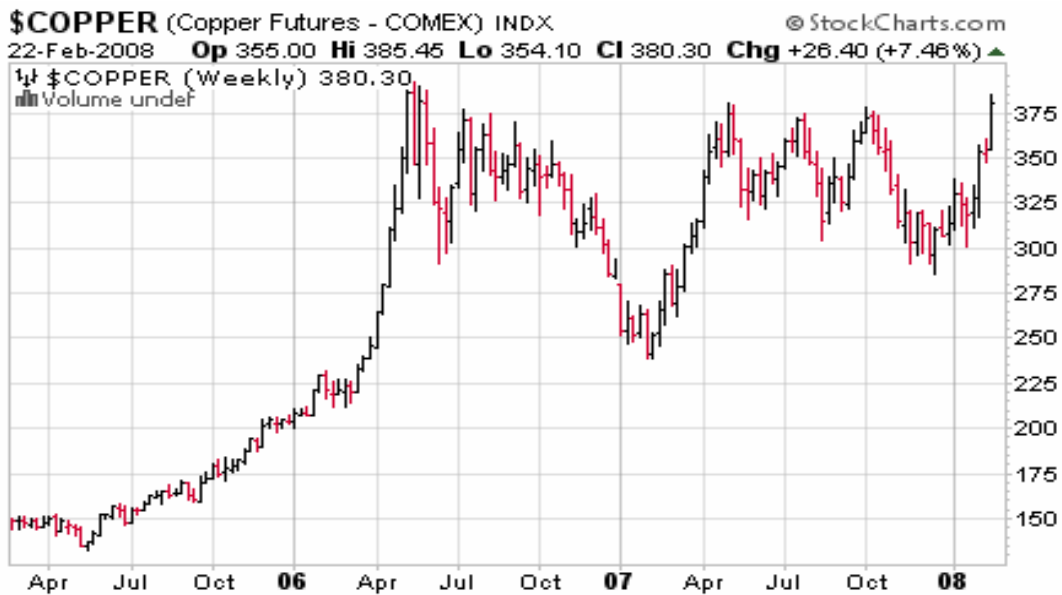
New York Light Sweet Crude spiked to a record high of US\$101.32 per barrel last Wednesday on fears about supply disruptions around the globe and amid strong demand.



Meanwhile, gold is less than five percent away from the US\$1000/oz. mark, enjoying a record high of US\$ 953.91 per ounce on Thursday. The yellow metal has once again found appeal among investors fleeing from dollar assets in lieu of further rate cuts by the US Fed. The strong demand for gold also comes amid firming oil price as the yellow metal is highly regarded as a natural hedge against inflation.



Base metals prices rallied across the board as tightening global supplies dictated market direction. Copper, which closed at US\$3.80 per pound, is now poised to break its all-time high due to strong China demand and speculation by investment funds. Recently, metal prices have decisively broken their link with equity prices and are being driven higher by supply concerns.



Towards energy independence

There is no question that rising oil prices is bad news for an oil-importing country like ours, especially since we are aiming to sustain the high levels of growth we have recently achieved.

The good news, however, is that the Philippines is endowed with rich natural resources and the potentials for the development of alternative and renewable sources of energy are huge.

Fortunately, we have learned our lessons during the oil crisis in the 1970s which prodded the government to accelerate the development of substitute indigenous energy sources.

Today, the Philippines is the second largest geothermal energy producer in the world next only to the US. Geothermal energy output in the country reached 10,282 GWh in 2006 or 18.45 percent of our total power generation mix. Meanwhile, the Malampaya and San Antonio fields have produced a total of 87,556 million cubic feet of natural gas, accounting for 28.85 percent of our total power generation mix. Expect an increased contribution from oil production as Galoc oil field is on track to producing oil by March or April.

At the same time, the government continues to promote the use of alternative fuels and technology, particularly in the transport sector. These cleaner alternatives include biofuels (coco-biodiesel, coco-methyl, fuel-ethanol and jatropa curcas), compressed natural gas and autogas. The Department of Energy (DOE) aims to attain a sustainable 60 percent self-sufficiency level by 2010 and beyond.

Impediments to the revitalization of mining

Rising metals prices, on the other hand, is definitely good news to the Philippines. We have written numerous articles on the mining sector as we see its importance to the overall growth of the country. The Philippines is considered the fifth most mineralized in the world, with nine million hectares of mineralized land, and established reserves 13 known metallic and 29 non-metallic minerals. Government estimates put the country's reserves at 7.1 billion tons of metallic and 51 billion tons of non-metallic minerals. This was conservatively valued at close to \$850 billion or about 10 times our GDP.

The bad news, however, is still the largely untapped state of our mining industry despite the Supreme Court decision in 2004 to uphold the 1995 Mining Act. Negative publicity from environmental groups and the church, problems with communist insurgency and ever-shifting tribal loyalties in the area of the find have continually posed as serious roadblocks. The constitutional impediment that gives authority to local governments to protect their environment and communities further hinders the development of the mining industry. In fact, certain Provincial Boards have made proposals to ban large-scale open pit mining such as that of the Tampakan area. All these issues have underscored the high risks to mining development in the Philippines.

While world metal prices remain favorable, it is important that the government (both on the national and local level) should not lose its focus. Together with the local communities, they must vigorously pursue the sustainable development of our mining industry, with equal consideration for both social and environmental responsibilities.

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