Philequity Corner (July 26, 2010)
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Our Time Is Now

In a previous article, we said that when the US markets stabilize, the PSE index will go to higher highs (see *The Perfect Storm*, June 7, 2010). Thanks to an apparent soft-landing in China, the global markets have now calmed down. The Philippine stock market is now in a sweet spot where it benefits not only from stabilized global markets, but also from a bullish ASEAN region.

There is also renewed optimism in the Philippine market now that President Noynoy Aquino is at the helm. P-Noy will be giving his first State of the Nation Address (SONA) today. This would give us a glimpse on which direction he would take the economy.

With the right set of economic policies, a healthier external environment and a bullish ASEAN region, we believe that the postive trend in Philippine stocks will be bolstered. It will be just a matter of time when the PSE index reaches our immediate target of 3,500 and ultimately surpass the all-time peak of 3,890.

China to the Rescue

During the 2008 global financial crisis, it was China who led the world in dealing with the problems. China loosened credit conditions, cut taxes and embarked on a massive infrastructure spending program worth US$570 billion, well ahead of Bernanke's quantitative easing and bailout programs..

With US and Europe slowing down and the risk of a double-dip recession increasing, it has to be China that should take up the cudgels once more. China has signalled that their tightening is over and they are willing to take their important role in reviving the sputtering global economy.

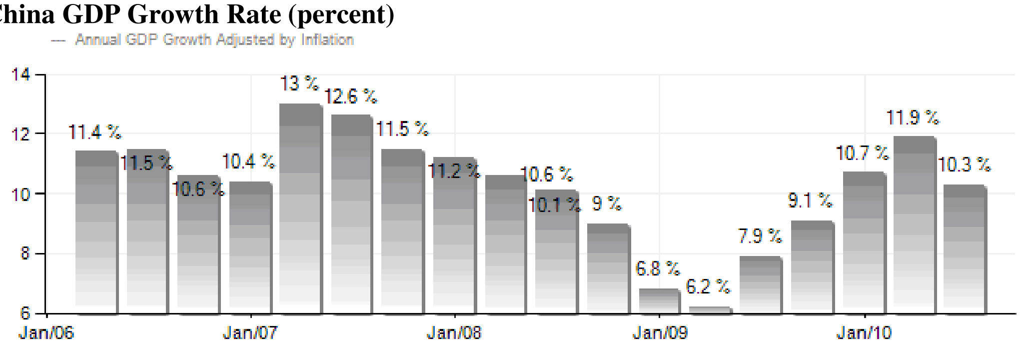
China Soft-landing

In our previous articles, we mentioned that the deliberate slowing of China is one of the primary reasons why the rally in global equities markets appears to have stalled (see *The Perfect Storm*, May 23, 2010 and *Local Stength*, July 19, 2010). Chinese authorities started tightening the noose on their monetary policies as in the 2nd half of 2009 to arrest an inflating property market.

Recently, a number of leading indicators suggest that a China soft-landing is apparent.

Growth is lower but still robust with GDP growth decelerating to 10.3 percent in 2nd quarter of 2010 from 11.9percent the previous quarter.

China GDP Growth Rate (percent)



Source: www.tradingeconomics.com

The property bubble appears to have ruptured. Beijing's residential property sales are down 80percent from the December 2009 high and down 50percent from a month ago. Meanwhile, China's stock market is at its lowest in 15 months. The SSE Index is down a staggering 30 percent from its high in August 2009.

Recently, the Purchasing Manager's Index is down for the second month in a row from 53.9 in May to 52.1 in June. Inflation is still not what you may consider hot at 2.9 percent in June, way below the scorching 6 to 8 percent registered during the months of 2007.

Taking the Lead Role

A China soft-landing, coupled with robust growth with moderate inflation is positive for global stocks. This means that China can afford to take the lead role again in jumpstarting the global economy.

They are actually in a better position compared to US, Europe or Japan which are all tied down with huge fiscal deficits. Chinese policymakers can also act faster because there are less political impediments.

Actually, this is the reason why the S&P 500 index was able to stage a comeback in the latter part of last week, skirting a Head and Shoulders breakdown below 1,040 (see *Head and Shoulders, Death Cross and Double Dip*, July 26, 2010). Indications that China has stopped tightening and has resumed its growth path turned world stock markets around, especially those in the developed countries that were poised to go down and reach new lows for the year.

ASEAN Economies Decouple

China's leadership of the global economic recovery makes the ASEAN region a major beneficiary because of their close proximity and growing trade ties. In fact, ASEAN's economic recovery from the global financial crisis continued in the 1st half of 2010 despite recent tensions in global financial markets. ASEAN is now forecast by the IMF to grow by 6.5 percent for 2010.

Thanks to the relatively large domestic demand bases, private domestic consumption has remained robust. If there is one thing that ASEAN has in common with the BRICs (Brazil, Russia, India and China), it is the demographics. ASEAN has a large and young population similar to the BRICs, not to mention economic growth near that of the BRICs' 7.8 percent.

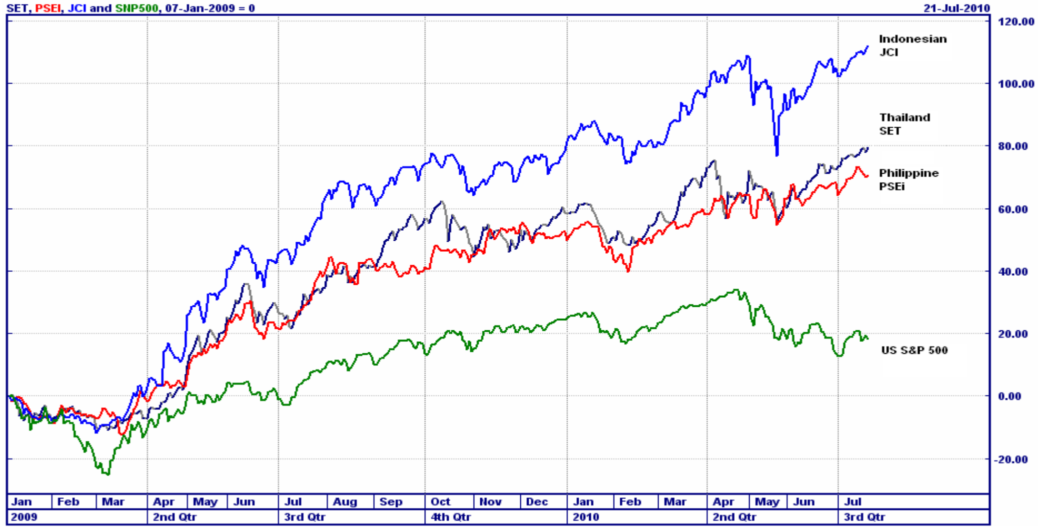
ASEAN Markets Diverge

Strong economic growth and the absence of inflationary asset bubbles in ASEAN have enabled the stock markets in the region to diverge or decouple from the global trend.

In fact, ASEAN markets have outperformed the benchmark S&P 500 index by 50 to 90 percent since 2009. And recently, while the US and developed markets are in the process of consolidation, ASEAN markets are making higher highs.

As you can see from the chart below, Indonesia's Jakarta Composite index is up 110 percent since January 2009. Thailand's SET index increased 80 percent, while the Philippines' PSE index rose 70 percent over the same period. Meanwhile, the S&P 500 index managed to grow by only 20 percent.

Performance of S&P 500 index, JCI, PSEi & SET since 2009



Source: Technistock

Pinning Our Hopes on P-Noy

On the domestic front, there is also a good reason to be hopeful. P-Noy has given Filipinos a renewed sense of optimism through his clean governance and no-nonsense platform. The PSE index, which now trades at a new 52-week high of 3,416, reflects this.

P-Noy has a credible economic team now in place. It is just a matter of setting the right economic policies and implementing them. For his first SONA, investors would like to hear concrete steps on how the administration plans to tackle the fiscal deficit, reduce graft and corruption, promote a better investment environment and further advance our competitive advantage in sunrise industries such as BPO and tourism.

Right Place, Right Time, Right Leader

We are in the right place. China is the biggest growth engine in the world. We are in the ASEAN which benefits from China's growth and the growth in the Asian region. We have a bright domestic environment and we have the right leader in P-Noy.

With the right economic policies, right external conditions and the right leader at the helm we believe that Philippine stocks will continue to make higher highs. OUR TIME IS NOW.

Mergers and Acquisitions (M&As) in the Philippine Banking Sector

Philippine bank stocks have moved up significantly last week, specifically Philippine National Bank which had a fantastic move on Friday (up 13 percent). There are talks about mergers and consolidations in the banking sector. If you want to know more and get a glimpse of the possible bank M&As, Philequity shareholders may want to attend the Philequity's Annual Shareholders Meeting tomorrow, July 27, 2010, 3pm at the Makati Shangri-la Hotel.

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