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By Valentino Sy

GOLD MEDAL for the Philippine Stock Market

The Philippines languished at 6th place in the recently concluded 2011 Southeast Asian Games with only 36 golds, 56 silvers and 77 bronze medals. This is the worst performance by the Philippine contingent to the biennial event since 2001 when the country garnered only 31 gold medals. In contrast to our athletes' debacle in the sporting field, Philippine stocks are scoring a breakthrough in the financial arena. Thanks to sound macroeconomic fundamentals, improved business environment, healthy OFW remittances, robust consumer consumption growth and developing growth sectors such as those in the business process outsourcing (BPO), the Philippine stock market is having its best finish yet vis-à-vis the rest of the world since 1993.

In 1993, when the Philippines was touted to be one of the emerging Asian tigers, our stock market was the best performing market in the world with a 154.4 percent return. Today, the Philippine market may only need 1/100th of that return to finish first with a GOLD medal.

No. 1 in Asia-Pacific

When you go to the Bloomberg screen and look at performance of equities markets in the Asia-Pacific region, there is only one green in a pool of red. This means that the Philippines is the only one up (+1.4% year-to-date) while the rest are all losers. In general, most stock markets lost a lot this year mainly due to the EU debt crisis, the marked slowdown in the developed economies, the threats of credit downgrade to most European countries, the growing strains in the global banking sector and the need for recapitalization among European and US banks.

Incidentally, ASEAN rivals such as Indonesia, Malaysia and Thailand is in the top 5 in the Asia-Pacific category. Like the Philippines, these countries' healthy fiscal positions and robust domestic economies made them less vulnerable to the crisis outside the region. Meanwhile, Singapore due to its heavy reliance on banking and exports fared worse.

Medal Standings – Equities Market Performance (Year-to-date %)

	Asia Pacific	Index	Price	Week-on Week Change (%)	Year-to-Date Performance (%)
ASEAN	Philippines	PSEi	4,261.59	-0.9%	1.4%
ASEAN	Indonesia	JCI	3,637.19	-3.1%	-1.8%
	New Zealand	NZ 50	3,212.27	-1.2%	-2.9%
ASEAN	Malaysia	KLCI	1,431.55	-1.6%	-5.8%
ASEAN	Thailand	SET	967.18	-1.7%	-6.3%
	South Korea	KOSPI	1,776.40	-3.4%	-12.5%
	Australia	ASX 200	3,984.30	-4.6%	-16.0%
ASEAN	Singapore	STI	2,643.93	-3.2%	-17.1%
BRIC	China	CSI 300	2,569.97	-1.4%	-17.8%
	Japan	Nikkei 225	8,160.01	-2.6%	-20.2%
ASEAN	Vietnam	Ho Chi Minh Idx	383.35	1.0%	-20.9%
BRIC	India	SENSEX	15,668.23	-4.3%	-21.9%
	Hong Kong	Hang Seng	17,689.48	-4.3%	-23.2%
	Taiwan	TWSE Index	6,784.52	-6.2%	-23.4%

Source: Bloomberg

Among the developed countries, the US market is the strongest with the Dow Jones Industrial Average (DJIA) down by only 3 percent year-to-date. Despite its slowing economic growth, its own debt problems and threats to its AAA credit rating, the US appears to be the best in a bad neighborhood.

Expectedly, the PIIGS (Portugal, Italy, Ireland, Greece and Spain) were the worst this year, led by Greece and Italy. Even the bastions of stability in the EU, Germany and France, and emerging market leaders such as Brazil, Russia, India and China (the BRICs) performed poorly.

	World	Index	Price	Week-on Week Change (%)	Year-to-Date Performance (%)
	US	DJIA	11,231.80	-4.8%	-3.0%
	US	S&P 500	1,158.67	-4.7%	-7.9%
	US	Nasdaq Comp	2,441.51	-5.1%	-8.0%
	UK	FTSE	5,164.65	-3.7%	-12.5%
PIIGS	Ireland	ISEQ Index	2,521.97	-3.3%	-12.6%
	Canada	TSX Comp	11,462.10	-3.6%	-14.7%
	Switzerland	SMI Index	5,395.61	-3.9%	-16.2%
	Germany	DAX	5,492.87	-5.3%	-20.6%
BRIC	Russia	RTS Index	1,403.23	-6.2%	-20.7%
BRIC	Brazil	Bovespa	54,894.50	-3.2%	-20.8%
PIIGS	Spain	IBEX 35	7,763.50	-6.6%	-21.3%
	Netherlands	AEX	274.37	-4.7%	-22.6%
	France	CAC 40	2,856.97	-4.7%	-24.9%
PIIGS	Portugal	PSI General	2,040.24	-4.4%	-25.0%
PIIGS	Italy	MIB Index	13,937.40	-8.5%	-30.9%
PIIGS	Greece	Athex Comp	664.24	-6.8%	-53.0%

Source: Bloomberg

No. 6 in the World

In the world standings the Philippines is no. 6, behind only to Venezuela (+76.6 percent year-to-date), Mongolia (+42.3 percent), Zambia (+13.7 percent), Jamaica (+12.8 percent) and Botswana (+8.2 percent). All these countries are very small compared to the Philippines. The market cap of all the other 5 stock exchanges combined stood at only $18.4 billion as of end-2010. In contrast, the Philippines' market cap was $157.3 billion as of end-2010.

So far, this is the Philippine stock market's best performance in terms of world rankings since placing 1st in the world in 1993.

Why is the Philippine stock market resilient?

We noticed something different happening to the Philippine stock market. The Philippine market is no longer acting as it used to (rising and falling in unison with global stock markets). The reason for this is the strong positive fundamental changes that are taking place from relative political stability, healthier business climate and improved fiscal and monetary environment, and more importantly a healthier external position. Even the technical picture is different with most of the global markets breaking down while the Philippine market is holding up.

We believe the Philippine market is much more resilient to bouts of global volatility now than it did in the past because of the following reasons:

1) Healthier external position. OFW remittances are expected to exceed the 2011 $20.1 billion target while BPO revenues are expected to hit $11 billion. This is the reason why the Philippines' gross international reserves (GIR) have expanded to $75.8 billion by October 2011, enough to cover 11.2 months of imports and 6.4 times the debt maturing within the short term. The country's large foreign reserves, and moreover, the steady dollar flows (from remittances and BPO revenues) enable it to handle potential capital outflows and weather liquidity problems arising from external sources such as the EU debt crisis.

2) Better fiscal health. While overleveraged US and Europe have to implement austerity measures and rein in public spending, the Philippines is in a better fiscal health. Like other Asian countries which learned their lesson from the 1997 Asian financial crisis, the Philippines is in a better position to provide support or stimulus thru government spending in areas such as infrastructure and public services. With a debt-to-GDP at under 50 percent, the Philippines is one of the most under-geared economies in the world.

3) Domestic driven economy and less export-reliant. Being a domestic-driven economy and relying less on trade exports makes the Philippines more resilient to slowdown in global economic growth. Consumption spending, both private and public, have offset weaknesses in investments and exports. This is very evident in the 2Q11 National Income Accounts which showed that capital formation grew by only 0.9 percent while exports shrank by 0.3 percent. Meanwhile, private and government spending increased by 5.4 percent and 4.5 percent, respectively, which enabled total GDP to expand by 3.4 percent.

4) Favorable demographics. In a recent article from CNBC.com, the Philippines is touted to become the “dark horse” among investment destinations due to its favorable demographics (aside from sound economic fundamentals). An analyst from Julius Baer was cited saying that the Philippine’s “very robust and young population” presents a ready pool of talent. This is in contrast to declining fertility rates in the West and Asian countries like Japan, Korea and China. In addition, “80 percent of Filipinos speak English” which will increasingly become an important source of immigrant labor.

5) Philippines as a portfolio investment destination. We have mentioned before that the Philippines has become a favorite destination of portfolio investments or a sort of “safe haven” throughout this period crisis in the developed world. According to the Bangko Sentral ng Pilipinas, portfolio investments have surged 37.3 during the first 10 months of the year. Investments in Philippine-listed securities were up 9.3 percent while investments in peso government securities jumped 250.5 percent.

6) Lower prices of oil and agricultural commodities. Lastly, slowing growth in the developed world is beneficial to the Philippines because it translates into lower prices of oil and agricultural commodities such as rice, corn, wheat and sugar which the country heavily imports. Lower prices of these commodities should translate to lower inflation which benefits the Philippine consumer.

7) Stronger local participation in the stock market. Lastly, we noticed that there is now stronger local participation in the stock market. The volume of local stock brokers has increased compared to foreign brokers, especially during the last two years. Retail investors have stepped up on their trading. Mutual funds and UITFs dedicated to investing the Philippine stocks have also become bigger. High net worth individuals (mostly Private Wealth Management clients of big global banks) have also been shifting their portfolio towards Philippine stocks and bonds due to their better performance compared to the lackluster performance of investments outside. In fact, even the GSIS timely sold their investments outside the country and shifted it back to the Philippine market just before the EU crisis turned for the worse.

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