

Philequity Corner (August 13, 2012)

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Another Epic Flood

Last week, torrential monsoon rains caused an epic flood that submerged the metropolis. Metro Manila was turned into a waterworld, as several cities and provinces were declared under state of calamity. Classes in all levels were suspended for several days last week. Work in government and private offices was also suspended, prompting the Philippine Stock Exchange (PSE) to suspend trading last Tuesday, August 7, 2012.

Record Rainfall

Last week's monsoon rains brought in a record rainfall of 472mm over a 22-hour period between Monday and Tuesday last week. This surpassed Typhoon Ondoy's previous rainfall record of 455mm, which it poured over a 24-hour period. Many will surely remember how Ondoy, like last week's monsoon rains, caused an epic flood and widespread damage to the country. However, when comparing the 2 calamities, it seems that Ondoy wreaked more havoc as most of the rainfall was poured in the span of 6 hours. Moreover, Ondoy's heavy rainfall unfortunately coincided with water release from several dams within and surrounding Metro Manila.

Floods Here, Droughts Elsewhere

Ironically, while our country is dealing with the damage brought about by heavy rains and floods, some other countries in the world are dealing with prolonged droughts. Drought in US has caused significantly lower corn production, thereby causing corn prices to skyrocket. Dry spells in Eastern Europe have affected wheat production while droughts in Argentina and Brazil have affected soybean production. These droughts have caused a surge in the prices of soft commodities, as seen in the table below.

Surge in Prices of Soft Commodities	
Commodity	YTD Change
Corn	25.3%
Wheat	35.7%
Soybeans	36.1%

Sources: *StockCharts.com, Wealth Securities*

Many observers note that these extreme and unpredictable weather disturbances in different parts of the world will probably continue to persist since they are brought about by global climate change. The major concern here is that these prolonged droughts might later cause food prices to surge, which might then trigger social unrest in highly-populated countries such as China and India.

Typhoon Country

Different countries experience different types of natural calamities. US is known for experiencing devastating hurricanes while Japan is prone to earthquakes and tsunamis. The Philippines, on the other hand, has had its fair share of typhoons and tropical storms. Aside from Ondoy, our country has experienced several devastating typhoons. In the table below, we summarize some of the most financially-damaging typhoons that our country has dealt with.

Most Financially Damaging Typhoons		
Typhoon Name	Period of Occurrence	Damage in Billion Pesos
Pepeng (Parma)	September 2009	27.2
Pedring (Nesat)	September 2011	15.6
Frank (Fengshen)	June 2008	13.3
Ondoy (Ketsana)	September 2009	11.1
Ruping (Mike)	November 1990	10.8
Rosing (Angela)	October - November 1995	10.8
Kadiang (Flo)	September - October 1993	8.8
Loleng (Babs)	October 1998	6.8
Milenyo (Xangsane)	September 2006	6.6
Unsang (Ruby)	October 1998	5.6

Sources: NCSB, NDCC, NDRRMC, Typhoon2000.com

Quantifying the Economic Impact

The rescue and relief efforts are ongoing for the victims of this recent epic flood. Economists and government agencies are in the early stages of assessing and quantifying the damage that has been dealt and the corresponding economic impact. We previously wrote about Typhoons Milenyo (*Typhoon Milenyo Closes Financial Markets*, October 2, 2006) and Ondoy (*Epic Flood, the Effect on Stocks*, September 28, 2009). In those Philequity Corner articles, we enumerated the direct and indirect effects of super typhoons and epic floods. We again summarize some of the direct effects below:

- *Property*: flooded houses, unusable appliances, cars which have to be repaired or replaced
- *Infrastructure*: damage to roads, bridges, power lines
- *Agriculture*: destruction of plants, crops and fields
- *Fisheries*: damage to fish pond and fish cage operators
- *Inventories*: impairment of raw materials, intermediate and finished goods

Aside from the direct effects, there are also indirect effects of these natural disasters. The closure of banks, malls, restaurants and other businesses for several days resulted in foregone revenues. Moreover, lost business days and damage to infrastructure may bring about a slower flow of goods and services, which may then result to slower economic activity.

The Effect on the Stock Market

Aside from the economic effects of typhoons and floods, we also want to show the effect of natural disasters on the stock market. A few days after Typhoons Milenyo and Ondoy, the PSE Index was slightly down compared to where it was before the typhoons occurred. Similarly, the PSE Index is down 0.4%, on lethargic trading, 3 days after the peak of the recent rains and floods.

PSE Index After Typhoons				
% Returns	3 days	1 month	6 months	1 year
Ondoy	-0.7%	4.3%	12.4%	46.1%
Milenyo	-2.7%	5.7%	24.2%	39.9%

Source: Wealth Securities

On the days after Milenyo and Ondoy, the PSE Index drifted downward because of the magnitude of the damage brought by the 2 super typhoons. However, the index bounced back and resumed its strong upward trajectory in the months following Milenyo and Ondoy.

Resilient Country, Resilient Stock Market

In the next few weeks, economists and government agencies will come up with firmer estimates of the damage that these monsoon rains dealt. Though the damage might be substantial, we are confident that our country will bounce back and again show its resilience in the face of adversity and calamity. Based on our previous experiences with other floods and super typhoons, the negative effects of this recent calamity on the economy will likely be temporary.

Similarly, we believe that our stock market will display its trademark resilience, just as it did when it performed strongly in the months following Milenyo and Ondoy. Notwithstanding the strength of our stock market, investors should take steps to insulate their portfolios from the effects of calamities and natural disasters. We at Philequity continue to advocate buying companies that have great business models, solid fundamentals and strong earnings growth. We believe that such companies will be able to withstand shocks or black swan events and will continue to remain profitable while growing their earnings base for years to come.

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