



**Philequity Corner (January 20, 2020)**

**By Wilson Sy**

### **Impact of Taal eruption**

To the surprise of many, Taal Volcano suddenly erupted last January 12, spewing out ash clouds and lava fountains into the sky. This prompted the Philippine Institute for Volcanology and Seismology (Phivolcs) to raise the alert level to 4 (out of 5) to signify an imminent hazardous eruption. Residents were caught unprepared in the provinces of Batangas and Cavite, and they were forced to hastily evacuate their homes after heavy ash fall buried areas near the volcano.

### **Taal eruption brings back memories of Mount Pinatubo**

I was in an afternoon party when Taal's first eruption occurred, and I was shocked to see ash fall in the garden. The thick ash fall witnessed by Metro Manila residents brought back memories of Mount Pinatubo. On June 12, 1991, Mount Pinatubo awoke and erupted violently after five centuries of dormancy. Magma burst into the sky and turned into ash clouds which reached the streets of Metro Manila. Unfortunately, the Pinatubo eruption coincided with Typhoon Diding, thus resulting in a fatal mix of ash and rain called lahars. These giant mudflows buried many agricultural, commercial, and residential areas while also inflicting substantial damage to infrastructure in Zambales, Pampanga, and Tarlac.

### **Effect of Pinatubo eruption on economy and stock market**

Whole villages and residential communities were buried by the lahar flows. Meanwhile, agricultural lands were severely damaged and were untillable following the Pinatubo eruption. Total damage caused by the explosion was estimated to be at \$700m. Because of the calamity, the Philippine economy experienced a recession when GDP growth slowed to -1.3% in 2Q91 and -1.9% in 3Q91. Nonetheless, the economy stabilized in 1992 and posted stronger growth from 1993 to 1996.

As seen in the table below, Philippine stocks were negatively affected by the natural disaster. According to Bloomberg data, the Philippine stock market was down 14.1% and 21.8% one month and three months after the explosion. However, the market was able to recoup almost all of its losses six months after the Pinatubo eruption. It continued to rally and was up 38.1% one year after Mount Pinatubo exploded.

**Performance of the Phl stock market after the Pinatubo eruption**

<b>06/12/91</b>	<b>1m</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
1,157	993	905	1,132	1,598
-	-14.1%	-21.8%	-2.1%	38.1%

*Source: Bloomberg*

### **Pinatubo vs. Taal**

Before its eruption, Mount Pinatubo was long dormant and was thought by many to be extinct. Pinatubo's extended inactivity resulted in the long build-up of large magma deposits which fueled its vicious eruption. The ash from Pinatubo was fine and light gray, leading many to compare it to snow.

Though its eruption was destructive, Mount Pinatubo is relatively far from Metro Manila and the surrounding provinces are not as populated.

Taal, on the other hand, is one of the country's most popular volcanoes and has been active for hundreds of years. Taal is only about 70 km from Metro Manila. It is surrounded by Batangas, Cavite, Laguna, and Quezon which are densely populated provinces. Including Rizal, the Calabarzon region accounts for 17% of the country's GDP. The region contains agricultural lands, livestock farms, real estate, tourist destinations, manufacturing sites, and power plants. Total agricultural damage from the recent eruption is so far estimated to be at P3.06b, coming mostly from damage to fisheries and high-value crops.

A major volcanic eruption will cause business disruption and affect the various mid- to high-end residential, leisure, and hospitality projects of property companies in Tagaytay and in nearby provinces. In addition, a major eruption may impact the operations of power plants in the area. Note that ash fall from the recent Taal eruption forced several power plants to operate at de-rated capacities.

### **Domestic risks replace subsiding global concerns**

Major geopolitical concerns have subsided in recent weeks. The US and China recently signed phase one of their trade deal (see *Signed, Sealed, Delivered*, December 16, 2019) and will continue working on subsequent phases. The US-Iran conflict abated when both parties backed down from further military action. Likewise, the prospect of a disorderly Brexit has decreased in light of a decisive election and continuing negotiations between the UK and EU. The de-escalation of geopolitical tensions and concerns have propelled major markets into new highs, led by the US stock market.

However, in the Philippines, receding global concerns have been replaced by domestic risks. Regulatory risk continues to hound certain sectors, specifically water utilities. This has affected index heavyweights and has consequently dragged the performance of the broader market. The recent eruption raises an important concern for the country given Taal's proximity to Metro Manila and the dense population in the areas surrounding it. Recent reports from Phivolcs have given rise to fears that a more powerful explosion is imminent. The situation bears watching until Phivolcs declares that the risk of a hazardous eruption has subsided. In the meantime, uncertainty surrounding the water concessionaires and concerns regarding a potentially violent volcanic eruption continue to weigh on the Philippine stock market.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email [ask@philequity.net](mailto:ask@philequity.net).*