



Weekly Market Commentary

13 February 2012

Wall of money. Local stocks experienced some mild correction around the middle of last week but the pull back was shallow as investors snapped shares to take advantage of lower prices. But is the market still cheap? At current level (PSEi at 4,783) the market is still trading at around 14x 2012 earnings. This multiple is still a shade lower than the market's long-term average of 15x. Thus, we are not expensive as yet but not cheap either.

Despite current valuation, the market keeps rising due to sheer liquidity. Increasingly, passive funds (e.g., exchange traded funds or ETF that merely track an index) are becoming significant market players due to their size. Vanguard's MSCI Emerging Markets Index Fund has a market value of USD54.3 bn while a similar fund managed by Blackrock (iShares MSCI Emerging Markets Fund) is currently valued at USD39.4 bn. The strategy of these funds is to invest their money based on the allocation of the MSCI Emerging Markets Index. The allocation for the Phil. is 0.6% and 0.8% from the BlackRock EM Fund and the Vanguard EM Fund, respectively. Not much in percent but already several hundred million dollars in absolute amount.

In addition, BlackRock has a dedicated ETF for the Phil. This fund is just 16 months old but is already worth USD102 million. The entire amount is invested in Phil. equities. BlackRock also launched a similar fund for Indonesia in May 2010 (only 20 months old). It is now worth USD337 mn).

The Phil. and Indonesian exchange traded funds are clear examples of how passive funds have grown in recent years. These funds were non-existent two years ago.

There are other smaller funds invested in the Phil. but these three are the biggest I know.

Table 1. Emerging Markets ETF*

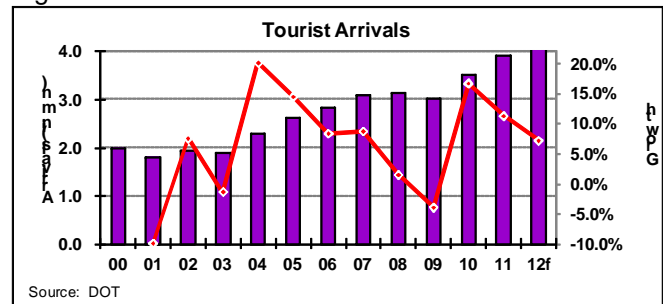
ETF	NAV (USD mn)	Phil. Allocation		Inception
		(USD mn)	(%vs. NAV)	
iShares EM	39,432	246	0.6%	April 2003
Vanguard EM	54,300	408	0.8%	March 2005
Phil ETF	102	102	100.0%	Sept. 2010
Total		757		

*Data as of 10 Feb. 2012

It's more fun in the Philippines. Tourist arrivals hit an all-time high of 3.9 mn or 11.3% higher than the 3.7 mn recorded in 2010. The five largest markets are Korea, United States, Japan, China and Taiwan. For 2012, the Dept. of Tourism aims to attract 4.2 mn tourists.

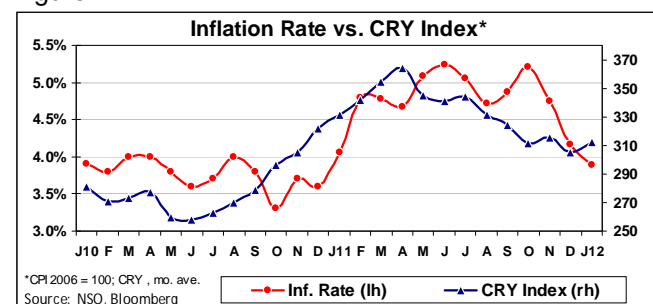
The current administration has identified tourism as a key component in economic development. This is the reason why four of the airports to be privatized under the PPP are gateways to major tourist destinations: Puerto Princesa airport in Palawan; New Bohol airport and Mactan Terminal, 2 both in the Visayas; and Laguindingan airport in Misamis Oriental (Northern Mindanao).

Figure 1



Inflation continues to moderate for the 3rd straight month. Inflation rate for Jan. this year further eased to 3.9% from 4.2% in Dec. on lower inflation rates for food and alcohol & tobacco. These two items are critical as they account for 65% of the Consumer Price Index (CPI), the measure used to track the country's inflation rate.

Figure 2



SM group has confirmed reports regarding its plans to acquire a majority stake in Oritigas Holdings, Inc. The key asset of Ortigas Holdings is the 16 ha. Greenhills Shopping Center located in San Juan. Details are still being finalized.

GT Capital Holdings, Inc., controlled by taipan George Ty, plans to raise as much as ₱24.6 bn via an initial public offering (IPO). The company plans to sell 41.2 mn shares at ₱520 each including a greenshoe option of 6.18 mn shares. GT Capital Holdings has interests in banking (Metrobank), property development (Federal Land), car manufacturing (Toyota Motor Phil.), power generation and insurance (Phil. AXA Life Insurance).

If plans push through, this will be the country's second largest IPO after SM Investments debut in 2005 which raised about ₱28.8 bn. Cebu Pacific's IPO in 2010 sold ₱23.3 bn worth of common shares.

Ayala Corp. has expressed interest in the privatization of five govt. projects: (a) Balara Water Hub; (b) Cavite-Laguna Expressway; (c) LRT 2 East Extension to Antipolo; (d) Mactan Terminal 2; and (e) Laguindingan airport. It is also interested in the rehab of Ninoy Aquino and Diosdado Macapagal airports should the govt. decide to put them in the auction block. Ayala Corp. recently won the 4-km. Daang Hari-SLEX tollroad, the first project auctioned off under the PPP program.

This is a welcome initiative of AC as it would provide the conglomerate an opportunity to further diversify its holdings. Ayala Corp. is one of few local companies with enough cash to engage in big ticket infra projects. AC has interests in property development (Ayala Land), banking (BPI), telecommunications (Globe) and water distribution (Manila Water), amongst others.

Another PPP project. The Dept. of Education (DepEd) has invited interested parties to bid for the design, financing, construction and maintenance of school buildings in Reg. 1, Reg. 3 and Reg. 4A. The entire project is estimated to cost ₱10.4 bn. Nine entities have secured bid documents.

Table 2. DepEd Classroom Project

Package	Location	School Bldgs.	Classrooms
A	Reg. 1	686	2,050
B	Reg. 3	746	3,003
C	Reg. 4A	1,096	4,279
Total		2,528	9,332

Battle royal, again. DBP plans to sell its economic stake in MRT 3 (the light rail system along EDSA) via competitive bidding. Around 75% of the economic interest in MRT 3 is owned by DBP and Landbank. Metro Pacific (MPI) though owns majority of the equity interest of the project. MPI and San Miguel Corp. are both interested in rehabilitating and running the light rail system.

Table 3. PDSTF Rates

PDST-F	YIELD (%)		Change (bps)
	03-Feb-12	10-Feb-12	
1 Month	2.07	2.00	(7.61)
3 Months	2.11	2.06	(4.58)
6 Months	2.21	2.62	41.92
1 Year	2.36	2.75	39.03
2 Years	3.10	3.06	(3.46)
3 Years	3.85	3.85	0.00
4 Years	4.51	4.34	(16.73)
5 Years	4.84	4.74	(10.58)
7 Years	5.02	4.93	(8.54)
10 Years	5.21	5.10	(11.38)
20 Years	5.99	5.85	(14.27)
25 Years	6.16	6.05	(10.38)

Source: Bloomberg

Table 4. SDA Rates

Tenor	YIELD (%)		Change (bps)
	03-Feb-12	10-Feb-12	
1 Month	4.4375%	4.4375%	0.00
14 Days	4.3750%	4.3750%	0.00

Source: BSP

Table 5. Indicative ROP Prices

Series	Coupon	Maturity	Yrs to Maturity	PRICE	Yield to Maturity
				10-Feb-12	
ROP 13	9.000	15-Feb-13	1.0	106.93	2.1%
ROP 14	8.250	15-Jan-14	1.9	111.64	2.1%
ROP 15	8.875	17-Mar-15	3.1	120.50	2.0%
ROP 16 n	8.000	15-Jan-16	3.9	121.02	2.4%
ROP 16	8.750	07-Oct-16	4.7	126.78	2.6%
ROP 17	9.375	18-Jan-18	5.9	130.49	3.6%
ROP 19	9.875	15-Jan-19	6.9	141.34	3.2%
ROP 19 n	8.375	17-Jun-19	7.3	134.24	3.1%
ROP 20	6.500	20-Jan-20	7.9	121.28	3.4%
ROP 21 n	4.000	15-Jan-21	8.9	104.13	3.5%
ROP 21	4.950	15-Jan-21	8.9	105.75	4.2%
ROP 24 n	7.500	25-Sep-24	12.6	130.51	4.3%
ROP 24	9.500	21-Oct-24	12.7	149.18	4.4%
ROP 25	10.625	16-Mar-25	13.1	162.17	4.3%
ROP 26	5.500	30-Mar-26	14.1	112.96	4.3%
BSP 27	8.600	15-Jun-27	15.3	134.57	5.3%
ROP 30	9.500	02-Feb-30	18.0	157.85	4.7%
ROP 31	7.750	14-Jan-31	18.9	137.87	4.7%
ROP 32	6.375	15-Jan-32	19.9	121.73	4.7%
ROP 34	6.375	23-Oct-34	22.7	122.58	4.7%
ROP 36	6.250	14-Jan-36	23.9	110.75	5.4%
ROP 37	5.000	13-Jan-37	24.9	104.50	4.7%

Source: Bloomberg

UITF Performance

Table 6. UITF Performance

UITF (PhP)	31-Dec-11	03-Feb-12	10-Feb-12	Change	
				Wk-on-Wk	Yr-to-Date
UCF	1.6013	1.6447	1.6695	1.51%	4.26%
U\$MMF	1.2649	1.2652	1.2652	0.00%	0.02%
UCMF	1.1769	1.1802	1.1808	0.05%	0.33%
UBF	1.9234	2.0127	2.0140	0.06%	4.71%
UEF	2.5150	2.6568	2.6601	0.12%	5.77%
UCF	United Conservative Fund				
U\$MMF	United USD Money Market Fund				
UCMF	United Cash Management Fund				
UBF	United Balanced Fund				
UEF	United Equity Fund				

Table 7. Market Indicators

Indicator		Level			Change			
		2011 Yr. End	03-Feb-12	10-Feb-12	Wk-on-Wk	% Ch	YTD	% YTD
Peso	1	43.84	42.56	42.43	-0.13	-0.31%	-1.42	-3.23%
Stocks	2	4,372	4,759	4,784	24.95	0.52%	411.56	9.41%
3-mo. PDSTF (ch in bps)	3	1.6581	2.1054	2.0596	-0.05	(4.58)	0.40	40.15
Peso Bonds	4	347	354	359	5.32	1.50%	12.02	3.47%
3-mo. USD LIBOR (ch in bps)	5	0.5810	0.5270	0.5060	-0.02	(2.10)	-0.08	(7.50)
Rep. of the Phil. bonds (ROP)	6	196	200	201	0.16	0.08%	4.35	2.22%
Crude Oil (USD/bbl)	7	98.83	97	100	3.28	3.40%	1.06	1.07%
Gold (USD/troy oz)	8	1,564	1,759	1,730	-29.00	-1.65%	166.65	10.66%
DXY (USD Index)	9	80	79	79	-0.41	-0.51%	-1.57	-1.95%
ADXY (Asian Currencies)	10	115	118	118	-0.01	-0.01%	2.43	2.11%
VIX	11	23	17	21	3.69	21.58%	-2.61	-11.15%
V2X	12	32	24	27	3.85	16.34%	-4.45	-13.99%

Sources:

1/ Phil. Dealing System	5/ Bloomberg; change in basis points	9/ DXY = USD spot index
2/ Phil Stock Exchange Index	6/ JP Morgan Asia Credit Index	10/ ADXY = Asian currencies vs. USD index
3/ Phil. Deal. & Exch. Corp.; change in basis points	7/ West Texas Intermediate	11/ CBOE volatility index
4/ HSBC Local Bond Index	8/ Bloomberg	12/ Eurozone volatility index

Annex A

Explanatory notes on our Market Indicators.

In general, market indicators are used to assess the pulse and health of our economy. It is very similar to how doctors check our heartbeat, the color of our eyes, our cholesterol level or the sugar content of our blood to initially assess how healthy (or unhealthy) we are.

Since we are generally concerned with investments, the appropriate measures to look at are economic and market indicators. As investors, we want to know where these indicators are headed so we can make the appropriate decisions. These indicators are as follows:

Peso. *This is our currency and its current level and direction normally indicate the general health of the economy.*

Stocks. *A strong or robust stock market reflects a strong and growing economy or vice versa. Our stock market cannot be strong if our economy is weak. And the opposite is equally true. After all, corporate earnings and prospects reflect the overall outlook of the economy. The index we are using is the Phil. Stock Exchange Index (PSEi).*

3-month PDSTF Rate. This is the indicator we use for domestic interest rates. It used to be the 90-day Treasury Bill rate but this instrument has lost its appeal since it is not very liquid and may not truly reflect market levels. PDSTF rates are better indicators of where interest rates are since these are based on actual rates of highly liquid instruments.

Peso Bonds. The HSBC Local Bond Index (Phil.) tracks the average price movements of local bonds and is a good indicator of how expensive (or cheap) bonds are. The index should also provide an indication of where bond yields are headed since bond prices and bond yields move in the opposite direction.

3-month USD LIBOR. This is the US dollar counterpart of the 3-month PDSTF rate. LIBOR means London Interbank Offer Rate, the rate at which banks lend to each other and used as a benchmark for commercial lending.

USD Bonds (ROPs). This index tracks the price movements of Phil. bonds denominated in US dollars. The index we are using is the JPMorgan Asia Credit Index (Phil.).

Since the indices we use for stocks, peso bonds and USD bonds (ROPs) are based on price movements, the higher the level of the index, the better it is for investors.

Crude Oil. At least in our lifetime, oil will always be one of the most important economic indicators since it is a basic feedstock of economies worldwide. The benchmark that we are using is the West Texas Intermediate (WTI) as it is the most common and widely used crude oil index.

Gold. This is our proxy for uncertainty. The price of gold normally goes up during uncertain or difficult times. This is because gold is the ultimate store of value. Paper currencies could lose their value but gold will always retain its value whether as an ornament or as a unit of exchange.

DXY. It is a spot index of the USD based on a basket of five currencies, Euro (57.6%), Japanese Yen (13.6%), British Pound Sterling (11.9%), Canadian Dollar (9.1%), Swedish Krona (4.2%) and Swiss Franc (3.6%). The DXY does not reflect the trade position of the US in the global economy. It is being used for convenience as its value is updated on a daily basis.

ADXY. It is a spot index of emerging Asian currencies versus the USD. It is composed of ten currencies, Renminbi (33.9%), South Korean Won (14.2%), Hong Kong Dollar (11.4%), Singapore Dollar (10.3%), Taiwan Dollar (8.2%), Indian Rupee (6.3%), Malaysian Ringgit (5.2%), Thai Baht (4.9%), Indonesian Rupiah (3.3%) and Phil. Peso (2.3%). The index is constructed based on two considerations, trade performance (75%) and liquidity (25%).

Finally, note that there will always be a speculative element in the movement of these indicators. But speculation is not their main driver. The most important driver that normally sustains the movement of an indicator over the long-run is its fundamentals. For example, the movement of the peso is dictated by the following fundamental factors: (a) the health of our economy; (b) the amount of US dollars remitted by Filipinos working and living abroad; (c) the level of our exports; and (d) the amount of foreign direct investments we receive.

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