



Weekly Market Commentary

30 January 2012

Economic & Corporate News:

Balance of Trade (BOT) deteriorates further on weak external demand. Merchandise exports for the first 11 months of the year contracted by 5.6% as demand of electronic products, the country's largest merchandise export item, fell on slowing global growth. Meanwhile, merchandise imports increased for the period on higher crude prices. Both developments contributed to the deterioration of our BOT position. As of Nov. last year, our BOT deficit has reached USD10.9 bn, more than 3 times higher compared to the same period last year.

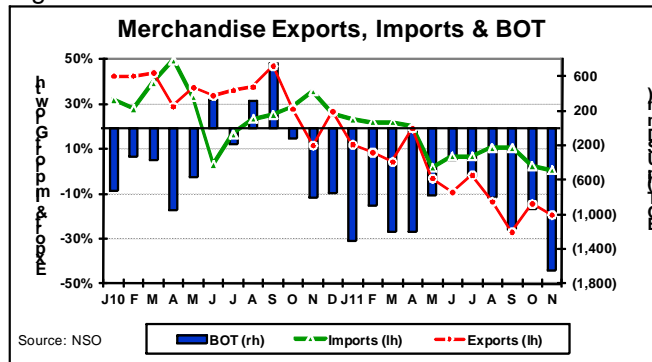
The BOT deficit is a concern but not troublesome as this could readily be offset by remittances which have already reached USD18.3 bn as of Nov. last year.

Table 1

	Year-to-November		% Gr
	2011	2010	
Exports	44,636	47,296	-5.6%
Imports	55,505	49,983	11.0%
BOT	(10,869)	(2,687)	304.5%

Source: NSO

Figure 1



More privatization. The Bases Conversion Dev. Authority (BCDA) plans to privatize a number of assets this year including the San Fernando seaport and San Fernando airport, both located within the Poro Point Freeport Zone. Also to be privatized are Fort San Antonio de Abad in Malate and some lots within Camp

John Hay. However, the biggest item in the BCDA list is the 33.1 ha. Bonifacio South properties. SM Land has made an unsolicited proposal which will likely be subjected to a Swiss challenge soon.

Another casino complex. Universal Entertainment, through its subsidiary Tiger Resorts, Leisure & Entertainment Corp., has broken ground on its USD2.0 bn gaming and entertainment complex within the Bagong Nayong Pilipino Entertainment Complex. Universal Entertainment is one of four operators granted casino license by PAGCOR. Two of these licensees, Belle Corp. and Bloombury Investments Holdings, are finishing their respective casino complexes and are planning their soft launch late this year.

Table 2

	Travellers	Belle	Tiger
Casino			
Gaming space (sq.m.)	16,600	19,626	
Slot machines	1,600	1,900	
Tables	300	350	
Hotel Rooms			
Suite	191	88	450
Luxury	304	168	600
Standard	712	572	1,000
Total	1,207	828	2,050

JG Summit's tourism push. The JG Summit group (JGS) is making a huge push into tourism-related investments. First, Cebu Pacific is borrowing up to USD160 mn to help fund the acquisition of 4 new planes – part of the company's fleet expansion program. Second, Robinsons Land Corp. will open another GoHotel in Puerto Princesa, its first outside of Metro Manila. Finally, parent JGS is interested in the privatization of the 4 airports under the gov't's PPP program. These are the airports in Puerto Princesa, Legaspi, Mactan and Laguindingan in Misamis Oriental. JGS may also bid for the NAIA 3 should the gov't. decides to privatize it.

MRT 3 subject to competitive bidding but . . .

DOTC Sec. Mar Roxas II stated that the rehab, expansion and operation of MRT 3 will be subject to public bidding so as to get the best deal. However,

Roxas' proposal may hit a snag since Metro Pacific Investments, as majority owner of MRT 3, claims the right to upgrade the railway system.

MPI has committed to invest USD300 mn to expand the capacity of MRT 3 to 700,000 passengers/day from the current 350,000. MPI also offered another USD350 mn to buy out the equity stakes of DBP and LBP in MRT 3 as well as pay-off some of the bonds issued by the Metro Rail Transit Corp. (MRTC).

While it may look like an impasse, a compromise is most likely.

Jollibee acquires 50% of SuperFoods for USD25 mn. JFC also agreed to extend a USD35 mn loan to Viet Thai Int'l., its partner in SuperFoods.

SuperFoods operates Highlands Coffee, Pho 24 fast food chain and Hard Rock Café franchised stores. Highlands Coffee has 54 stores in Vietnam while Pho 24 operates 48 outlets in Vietnam and another 21 in other Asian cities.

SuperFoods generates annual revenues of around USD30 mn, which translates to a 1.7x price-to-sales multiple.

Beacon Electric (50-50 joint venture between Metro Pacific Investments & PLDT) has acquired from the Lopez family an additional 2.7% stake in Meralco for P8.9 bn (or P295/share). This brings Beacon's take to 48%. The transaction will be funded via a combination of debt and equity.

East West Bank IPO. The bank plans to sell around 20% - 25% of its outstanding shares this year via a public offering to raise as much as P6.6 bn. East West Bank has 122 branches and expects 2011 net income to reach P1.7 bn.

Stocks ended lower last week on profit taking.

Investors have been anticipating the correction after two weeks of solid gains. GMAP and GMA7 were heavily traded on rumors that the network is in talks with businessman Manny Pangilinan.

It was an uneventful week for local bonds as most traders remained in the sidelines awaiting for signals on whether or not the BSP will further cut rates.

Meanwhile, the peso continues to strengthen on the back of solid domestic fundamentals and a weaker US dollar. As uncertainty over Europe's problems ease, the "safe haven" status of the US dollar is losing its appeal. Investors are slowly becoming risk takers once more and are shifting some of their funds into riskier assets like equities and emerging markets.

Some developments to watch out this week:

- 4Q 2011 Phil. GDP
- Greece and its private creditors indicated that a debt swap deal will likely be reached this week. The ability of Greece to restructure its debt is one of the key milestones in addressing Europe's debt woes.
- Iran announced that it might ban the sale of crude to the European Union in retaliation to an EU embargo on Iranian oil. How Iran will react to growing international pressure over its nuclear program will definitely affect the price of crude. Iran is the second largest OPEC producer after Saudi Arabia.

Table 3. PDSTF Rates

PDST-F	YIELD (%)		Change (bps)
	20-Jan-12	27-Jan-12	
1 Month	1.93	2.07	14.43
3 Months	1.67	2.17	50.50
6 Months	2.14	2.43	29.31
1 Year	2.22	2.42	20.92
2 Years	2.65	3.16	50.96
3 Years	3.86	3.85	(0.58)
4 Years	4.98	4.60	(37.50)
5 Years	5.11	5.07	(3.66)
7 Years	5.34	5.28	(6.35)
10 Years	5.37	5.37	(0.39)
20 Years	6.66	6.50	(16.27)
25 Years	6.38	6.44	6.25

Source: Bloomberg

Table 4. SDA Rates

Tenor	YIELD (%)		Change (bps)
	20-Jan-12	27-Jan-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
				27-Jan-12	Maturity
ROP 13	9.000	15-Feb-13	1.1	107.48	1.8%
ROP 14	8.250	15-Jan-14	2.0	111.67	2.2%
ROP 15	8.875	17-Mar-15	3.1	120.52	2.1%
ROP 16 n	8.000	15-Jan-16	4.0	120.58	2.5%
ROP 16	8.750	07-Oct-16	4.7	126.27	2.7%
ROP 17	9.375	18-Jan-18	6.0	129.28	3.8%
ROP 19	9.875	15-Jan-19	7.0	139.45	3.5%
ROP 19 n	8.375	17-Jun-19	7.4	132.03	3.4%
ROP 20	6.500	20-Jan-20	8.0	119.88	3.6%
ROP 21 n	4.000	15-Jan-21	9.0	102.91	3.6%
ROP 21	4.950	15-Jan-21	9.0	103.00	4.5%
ROP 24 n	7.500	25-Sep-24	12.7	129.13	4.5%
ROP 24	9.500	21-Oct-24	12.7	146.72	4.6%
ROP 25	10.625	16-Mar-25	13.1	160.15	4.5%
ROP 26	5.500	30-Mar-26	14.2	112.43	4.3%
BSP 27	8.600	15-Jun-27	15.4	112.43	7.2%
ROP 30	9.500	02-Feb-30	18.0	155.99	4.8%
ROP 31	7.750	14-Jan-31	19.0	135.97	4.8%
ROP 32	6.375	15-Jan-32	20.0	119.46	4.8%
ROP 34	6.375	23-Oct-34	22.7	120.62	4.9%
ROP 36	6.250	14-Jan-36	24.0	103.25	6.0%
ROP 37	5.000	13-Jan-37	25.0	102.97	4.8%

Source: Bloomberg

UITF Performance

Table 6. UITF Performance

UITF (PhP)	31-Dec-11	20-Jan-12	27-Jan-12	Change	
				Wk-on-Wk	Yr-to-Date
UCF	1.6013	1.6188	1.6213	0.15%	1.25%
U\$MMF	1.2649	1.2651	1.2651	0.00%	0.02%
UCMF	1.1769	1.1789	1.1796	0.05%	0.23%
UBF	1.9234	1.9957	1.9991	0.17%	3.93%
UEF	2.5150	2.6463	2.6519	0.21%	5.44%
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	20-Jan-12	27-Jan-12	Wk-on-Wk	% Ch	YTD	% YTD
Peso	1	43.84	43.32	42.85	-0.47	-1.09%	-1.00	-2.27%
Stocks	2	4,372	4,748	4,680	-68.01	-1.43%	307.93	7.04%
3-mo. PDSTF (ch in bps)	3	1.6581	1.6673	2.1723	0.51	50.50	0.51	51.42
Peso Bonds	4	347	348	349	0.82	0.23%	2.00	0.58%
3-mo. USD LIBOR (ch in bps)	5	0.5810	0.5611	0.5511	-0.01	(1.00)	-0.03	(2.99)
Rep. of the Phil. bonds (ROP)	6	196	197	198	0.86	0.44%	1.79	0.91%
Crude Oil (USD/bbl)	7	98.83	98	100	1.23	1.25%	0.73	0.74%
Gold (USD/troy oz)	8	1,564	1,667	1,739	72.42	4.35%	175.37	11.22%
DXY (USD Index)	9	80	80	79	-1.32	-1.65%	-1.28	-1.59%
ADX (Asian Currencies)	10	115	116	117	1.04	0.89%	2.22	1.93%
VIX	11	23	18	19	0.25	1.37%	-4.87	-20.81%
V2X	12	32	25	24	-0.63	-2.53%	-7.44	-23.36%

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.*

ADX. *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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