



Weekly Market Commentary

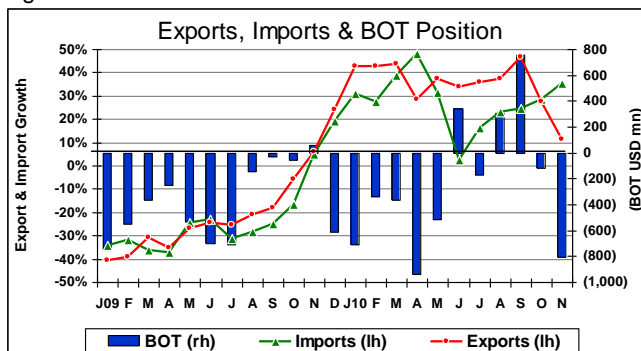
31 January 2011

Economic Update:

Nov. imports surged by 35.3% to USD4,944 bringing Jan. – Nov. total to USD49,770 or 27.1% higher compared to the same period last year. The Nov. Balance of Trade (BOT) deficit widened to USD808 mn as exports for the month only grew by 11.2% to USD4,136.

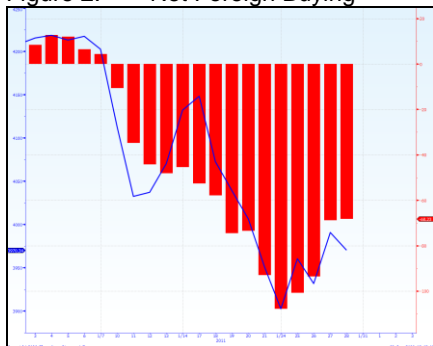
Moreover, the external trade for the first 11 months last year is only mildly negative. Exports grew by 34.5% to USD47,221 while imports increased by 27.1% to USD49,770. This has resulted to an 11-month BOT deficit of USD2,549. Fortunately, this BOT deficit can easily be offset by the equivalent of 1.5 months worth of remittances which makes it very manageable.

Figure 1



Stocks were generally flat last week with the PSEi only managing to gain 19 index points to 3,970. We believe that most of those who wanted to exit the market have already left as foreign selling is slowly abating (Fig. 2).

Figure 2. Net Foreign Buying



Stocks which were heavily sold down like Metrobank (+8.5% to ₱66.60) and Robinsons Land (+5.0% to ₱14.18) recovered strongly.

Megaworld (+4.9% to ₱2.16) and **Fil-Estate Land** (LND: +10.1% to ₱2.28) announced that they will jointly develop some 1,149 ha. in Batangas near Tagaytay. This project, dubbed as Twin Lakes, will include a luxury hotel, residential villas & condominiums and a country club. Future plans include a golf course, a retirement village and medical facilities. The estimated project cost is ₱5.0 bn. LND is 60%-owned by Alliance Global (+4.8% to ₱11.80), the parent company of Megaworld.

SMC (+9.2% to ₱178.00) is seeking another extension to complete its due diligence on Indophil. SMC earlier paid USD40.0 mn for a 10% stake in Indophil. The latter controls 37.5% of the Tampakan Copper-Gold Project. The Tampakan deposit is one of the largest undeveloped copper-gold deposits in the Southeast Asia–Western Pacific region.

A failure of SMC to acquire Indophil could enable other parties like **Philex Mining** (unchanged at ₱15.20) – which has a 3.0% stake in Indophil – to invest in the company.

Borrow when rates are low. Two companies recently tapped the bond market to raise funds. **DMCI Homes**, a unit of DMC Holdings, successfully raised ₱5.0 bn via the issuance of a fixed rate note to fund its expansion program. Meanwhile, **SMC Global Power** – the energy arm of SMC – raised USD300 mn 5-year bond yielding 7.0%.

Meralco's (-12.2% to ₱231.00) wild fluctuation (it reached a high of ₱299.60) can be traced to the rumored boardroom war (again) between the MPI/PLDT group and SMC. As far as we know, the MPI/PLDT group owns 41% of MER while SMC controls 43%. We believe that the large crosses last week came from the 3.6% bloc owned by businessman Eusebio Tanco which is being sold to MPI/PLDT.

Meanwhile, the Lopez family is willing to completely exit from Meralco . . . if it can sell its remaining 6.6% in the power firm for at least ₱300/share.

Purefoods (+50% to ₱3,000) will issue ₱15.0 bn worth of preferred shares valued at ₱1,000 each. The indicative dividend rate is between 7.5% - 8.5%. Individuals are levied a 10% withholding tax on dividend income. No withholding tax on corporate preferred shareholders. The preferred shares may be redeemed by the issuer starting on the 5th year from issue date or on any dividend payment date thereafter. The preferred shares shall be listed in the Phil. Stock Exchange.

The offering looks attractive especially for those who want a steady income stream with a possibility of capital appreciation.

Belle Corp. (-6.4% to P5.71) – a subsidiary of the SM group -- plans to raise USD200 mn via the issuance of convertible bonds to help finance its casino venture. The company hopes to soft open its casino by Dec. this year with at least 70% of its gaming space of 17,000 sq.m. and a 100 room hotel in operation. BEL’s casino is located near the Mall of Asia.

Fixed income. Peso bond yields moved lower last week after climbing sharply on inflation scare. The mild rally does not mean that inflation went away but that investors feel that the recent weakness was a bit too excessive. The PDSTF table below shows that rates have eased by around 80 – 90 basis points across the curve.

Table 1. PDSTF Rates

PDST-F	YIELD		Change (bps)
	21-Jan	28-Jan	
1 Month	4.12	3.31	(81.12)
3 Months	4.13	3.31	(81.96)
6 Months	4.38	3.39	(98.85)
1 Year	4.62	3.83	(78.98)
2 Years	5.39	4.92	(46.65)
3 Years	5.70	5.06	(63.43)
4 Years	6.08	5.65	(42.52)
5 Years	6.37	5.61	(76.50)
7 Years	7.30	6.73	(56.70)
10 Years	7.79	6.88	(90.29)
20 Years	9.35	8.49	(86.19)
25 Years	9.52	8.37	(114.55)
HSBC ALBI*	298.57	301.87	1.1%

*The HSBC Asia Local Bond Index (Phil.) tracks the price movement of Phil. sovereign bonds. A positive change means that bond prices moved higher & yields lower or vice versa.

Meanwhile ROPs continued to move higher after experiencing some weakness during the previous week. The recent strength though may be short-lived considering investor unease over the unrest in Egypt. While the Egyptian market is small, Egypt itself is geopolitically important. It is one of the largest countries in the Middle East and controls the Suez Canal. This vital waterway accounts for 15% of [global](#)

[maritime trade](#). Aside from the Suez Canal, the fear amongst investors is that the unrest in Egypt could spread in similarly situated countries in and around the Middle East. Recall that the protests in Egypt were inspired by the revolt in Tunisia. News wires have reported that anti-government protests broke out in Khartoum, the capital of Sudan Sunday. Sudan borders Egypt in the south.

Not surprising, our volatility indices -- VIX & V2X (see Explanatory Notes below) have moved higher.

Figure 3. VIX Index

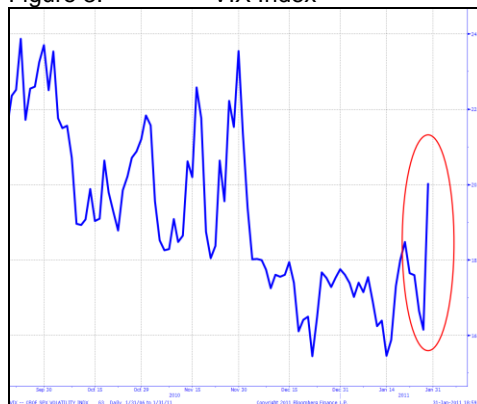


Figure 4. V2X Index

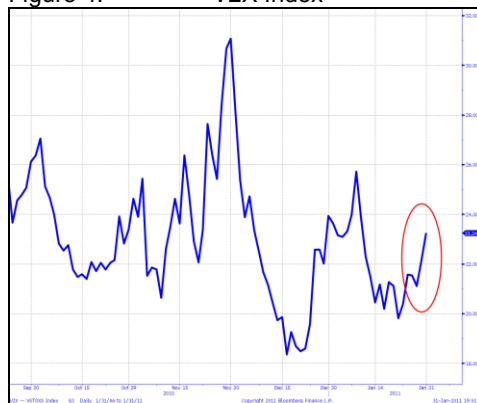


Table 2. Indicative ROP Prices

Series	Coupon	PRICE		Change (bps)
		21-Jan	28-Jan	
ROP 11	8.375	100.19	100.24	4.90
ROP 13	9.000	113.75	114.00	25.00
ROP 14	8.250	116.75	117.00	25.00
ROP 15	8.875	124.00	124.13	12.50
ROP 16 n	8.000	124.00	124.22	21.80
ROP 16	8.750	130.50	131.00	50.00
ROP 17	9.375	129.75	130.50	75.00
ROP 19	9.875	135.75	136.75	100.00
ROP 19 n	8.375	126.50	127.74	124.40
ROP 20	6.500	113.25	114.49	124.00
ROP 21	4.950	97.50	100.50	300.00
ROP 24 n	7.500	121.50	122.78	128.10
ROP 24	9.500	141.50	142.75	125.00
ROP 25	10.625	153.00	153.75	75.00
ROP 30	9.500	142.00	142.33	33.30
ROP 31	7.750	121.50	122.45	94.70
ROP 32	6.375	104.25	106.01	176.30
ROP 34	6.375	104.25	105.88	163.00
JACI Phil*		176.1	177.6	0.8%

*JACI Phil. tracks the price movement of Phil. USD sovereign bonds with maturity of at least 1 year.

Peso. The peso reversed course and strengthened ending the week at ₱44.12. The slower pace in the exodus of funds from the stock market may have helped stabilize the peso. Unfortunately developments in Egypt have reduced risk-taking appetite (e.g., moving out of emerging markets like the Phil.) and are forcing investors to safer havens like US Treasuries. We expect the peso to experience weakness in the near term.

UITF Performance

Table 3. UITF Performance

UITF (PhP)	31-Dec-10	21-Jan-11	28-Jan-11	Change	
				Wk-on-Wk	Yr-to-Date
UCF	1.4839	1.4859	1.4866	0.04%	0.18%
U\$MMF	1.2462	1.2471	1.2484	0.11%	0.18%
UCMF	1.1451	1.1467	1.1473	0.05%	0.19%
UBF	1.7428	1.7159	1.7311	0.88%	-0.67%
UEF	2.2666	2.2144	2.2358	0.97%	-1.36%
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 4. Market Indicators

Indicator		Level			Change			
		2010 Yr. End	21-Jan-11	28-Jan-11	Wk-on-Wk	% Ch	YTD	% YTD
Peso	1	43.80	44.46	44.12	-0.34	-0.75%	0.32	0.73%
Stocks	2	4,201	3,951	3,970	19.30	0.49%	-230.80	-5.49%
3-month PDSTF (%)	3	1.2917	4.1292	3.3096	-0.82	(81.96)	2.02	201.79
Peso Bonds	4	307	299	302	3.30	1.11%	-5.57	-1.81%
3-month USD LIBOR (%)	5	0.3028	0.3031	0.3044	0.00	0.12	0.00	0.16
USD Bonds (ROPs)	6	178	176	178	1.45	0.82%	-0.09	-0.05%
Crude Oil (USD/bbl)	7	91.38	89.11	89.34	0.23	0.26%	-2.04	-2.23%
Gold (USD/troy oz)	8	1,420.78	1,342.68	1,336.75	-5.93	-0.44%	-84.03	-5.91%
DXY	9	79.03	78.21	78.13	-0.08	-0.10%	-0.90	-1.13%
ADXY	10	116.46	116.20	115.82	-0.38	-0.33%	-0.64	-0.55%
VIX	11	17.75	18.47	20.04	1.57	8.50%	2.29	12.90%
V2X	12	23.92	19.80	22.13	2.33	11.76%	-1.78	-7.46%

Sources:

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