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Philippine Capital Markets Outlook

21 July 2011

Current Headlines

IMF BACKS NO-NEW-TAXES POLICY »See story below

TWO-TIME NEWSPAPER OF THE YEAR

A broader look at today's business

BusinessMirror

VOL. 6 NO. 246 THURSDAY, JULY 21, 2011 www.businessmirror.com.ph P25.00 NATIONWIDE | 5 SECTIONS 24 PAGES

SECOND FRONT PAGE A8 »China signs Declaration of Conduct with Asean »PHL income divide widest in region

COMPANIES

MURDOCH DOES NOT TAKE RESPONSIBILITY

The question was pointed. The answer, even more so. Wasn't he ultimately responsible, as chairman of media giant News Corp., for the phone-hacking scandal that has shaken his global empire to the core? "Nope," answered Rupert Murdoch, sounding almost surprised anyone would think so. »B2.1

PSE index closes above 4,500

By Miguel R. Camus, Reporter

THE Philippine Stock Exchange (PSE) index breached the key 4,500 barrier at Wednesday's close, following markets in the region and Wall Street, amid optimism that US lawmakers may reach an agreement to reduce their country's deficit and avoid default.

The Philippine benchmark index rose 21.39 points, or 0.48 percent, to a record 4,507.04. Volume was relatively strong with 10.3 billion shares valued at P6.6 billion changing hands.

Market watchers pointed to the easing of anxieties abroad, which led to increased demand for riskier emerging-market assets.

The domestic trend remains positive in the near term, but investors would need further confirmation, which will come from second-quarter corporate earnings due for release in the coming weeks.

"We are now in uncharted territory," Jonathan Ravelas, chief market strategist for Banco de Oro Unibank Inc., said in a phone interview on Wednesday.

"These levels can be sustained once we see first-half earnings. If these are positive, we can see more upticks ahead. The momentum is there," he said.

Expectations on earnings have already been tempered after the PSE reported that combined first-quarter corporate profits dipped almost 23 percent, as firms grappled with slower economic growth and rising costs.

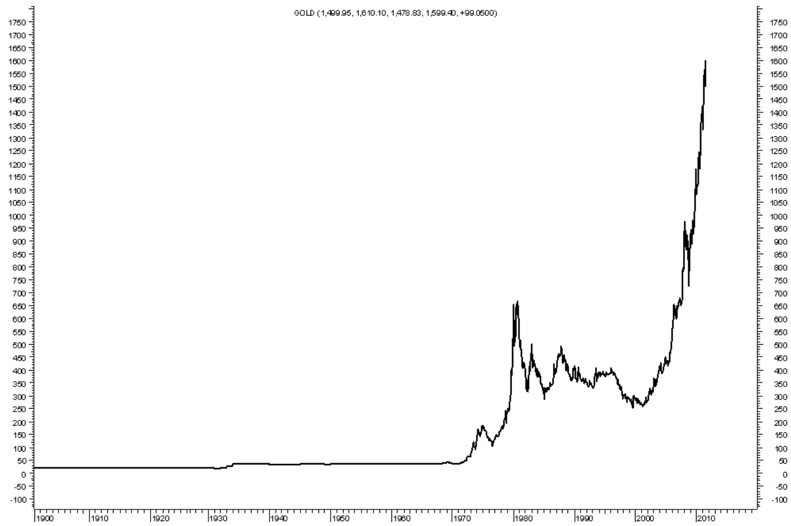
Meanwhile, Ravelas said the index may consolidate around current levels, with the near-term resistance seen at 4,550.

But James Lago, research head at local stock-brokerage firm PCCI Securities Brokers Corp., said the index

See "PSE," A2

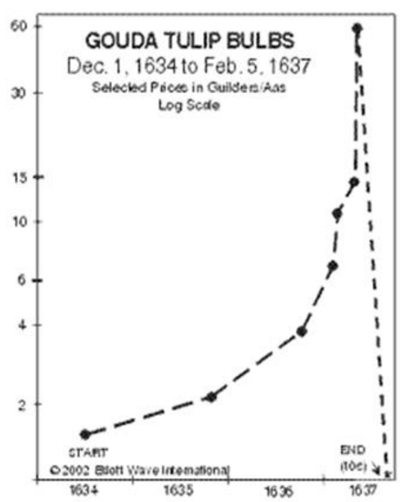
pressure inside and outside day.

Always Believe in Gold !



Tulip Manila

This anonymous 17th-century watercolor illustrates the Semper Augustus tulip, the most famous and highest-priced bulb during 'Tulipmania'.



2010 ASIA TOP TOURIST DESTINATIONS

CHINA	55.67 million
MALAYSIA	24.58 million
HONG KONG	20.09 million
THAILAND	15.84 million
MACAU	11.93 million
SINGAPORE	9.16 million
SOUTH KOREA	8.80 million
JAPAN	8.61 million
INDONESIA	7.00 million

PHILIPPINES 3.52 million!!!!!

Why Oh Why PHILIPPINES?


WE HAVE THE
MAKINGS OF
A TOP
TOURIST
DESTINATION

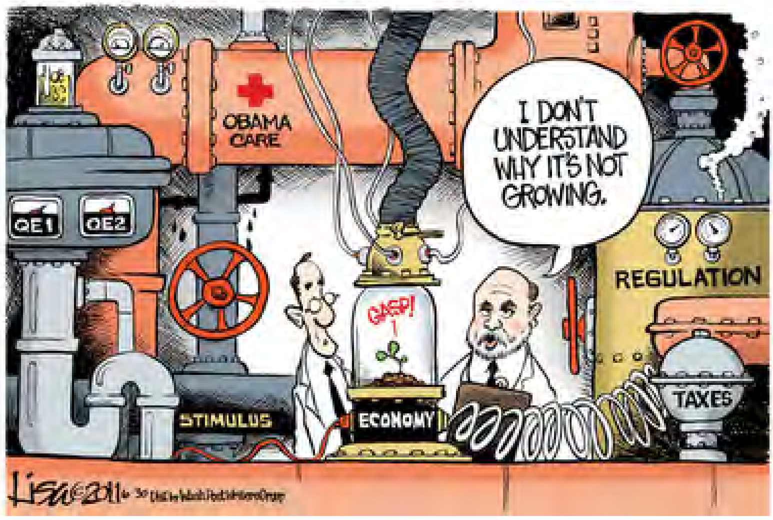

WE NEED
INFRASTRUCTURE!

Economic Indicators that matter

Market	Indicator
Economic Activity	Gross Domestic Product (GDP)
Goods Market	Inflation Rate
Funding Market	Interest Rate
External Market	Foreign Exchange Rate

Global Outlook

Economists are puzzled about the recovery



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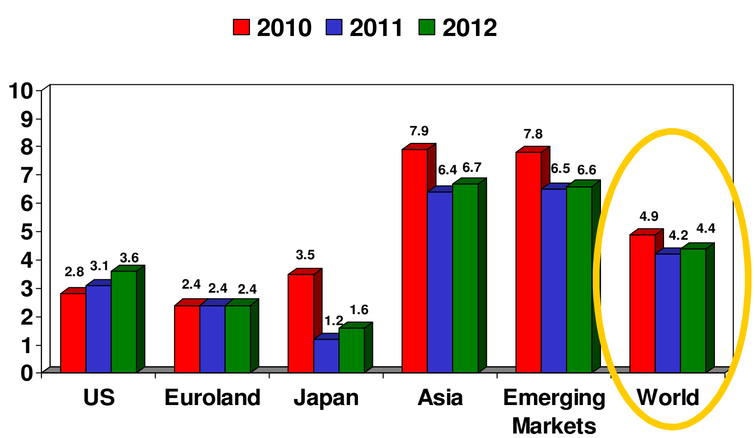
Slower global economic growth expected



Source: Bloomberg LP, IMF, BDO

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World Economy

Global growth to remain **SLOW** and **UNCERTAIN**

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Jonathan L. Ravelas

21.07.2011
T-MR

G-7 unemployment remains high

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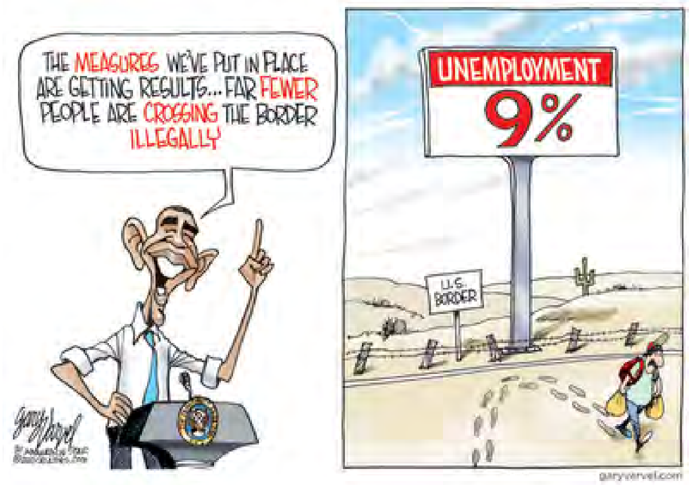
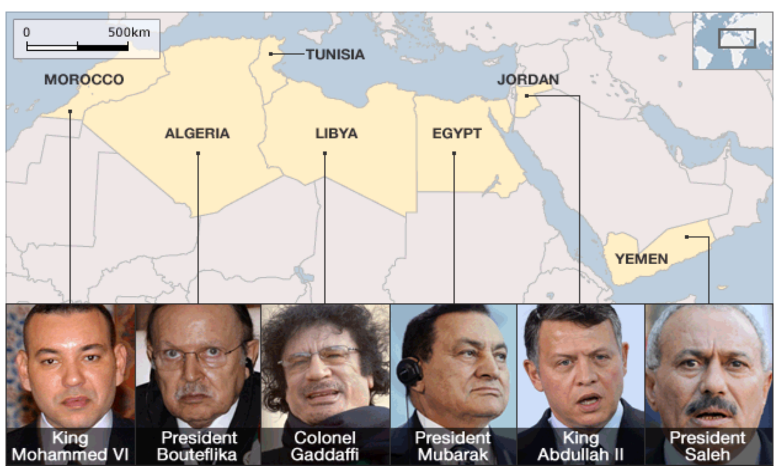
USA: What's in a number?



Europe: Sick Man of the World

Greece dials a friend !

Geopolitical tensions in MENA region



Who's next? Prince Ali?

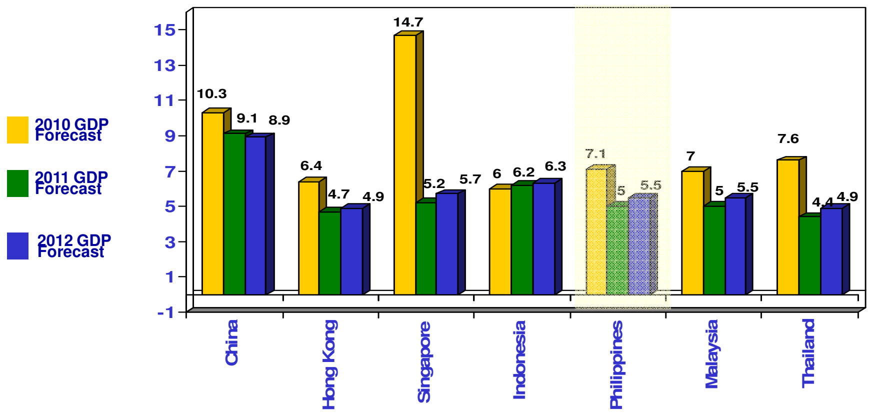
Japan’s Woes

Earthquake-Tsunami-Nuclear Crisis

The State of Global Recovery

Direction remains unclear !

Asia, leading the recovery race



Source: Bloomberg LP, BDO

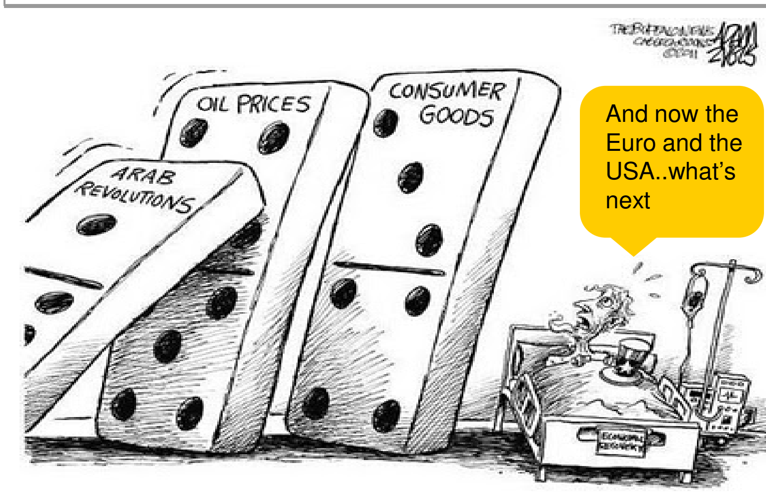
Philippines to post modest growth in the region

ASIA: Retains superpower status

Asia Rising

Rising inflation could hurt consumption and could reverse capital flows

Falling Dominoes……



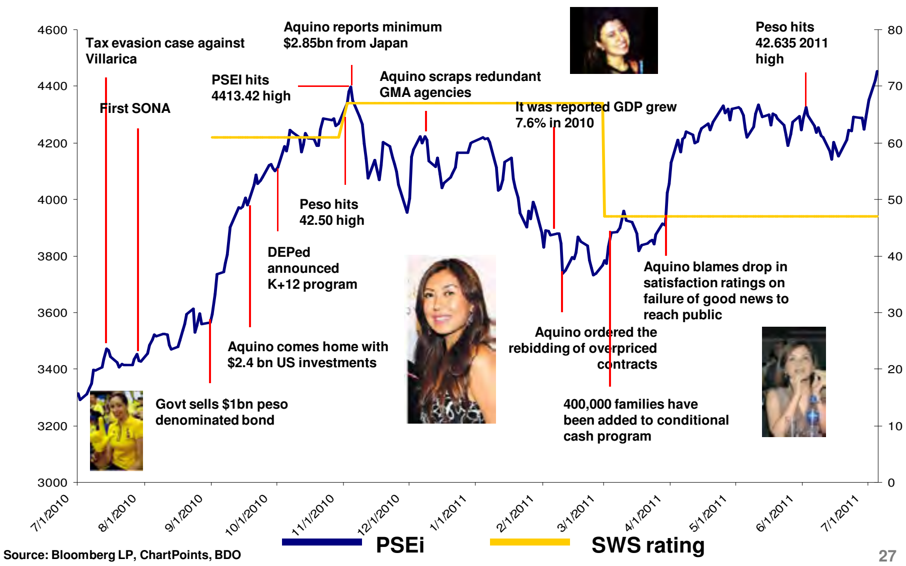
This threatens global recovery

Global Outlook: Uncertainty rising

- Jobless recovery in the US
- Deepening Eurozone crisis
- Rising risk premium in oil prices
- Rising inflation in emerging markets

The Outlook

Philippines: One Year into P-Noy's term

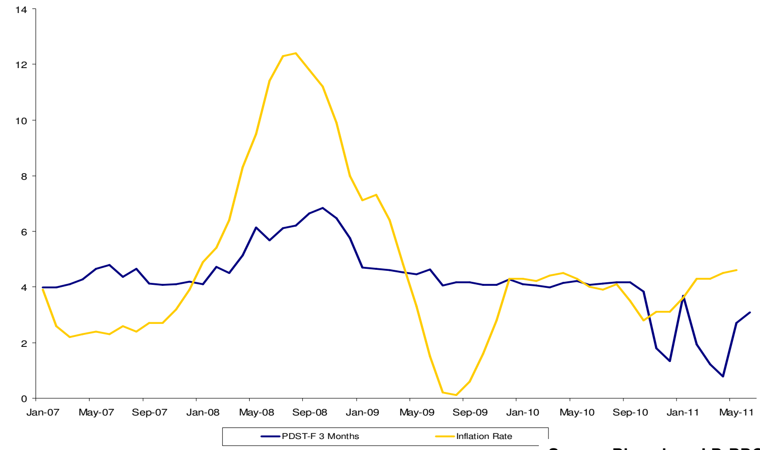


Source: Bloomberg LP, ChartPoints, BDO

Philippines: Today

Positive	Negative
Strong OFW Remittance Inflow	Weak NG Balance Sheet, limited Stimulus
The Flexible Foreign Exchange Policies	Weak fiscal revenue structure
Possible Credit upgrade and Change in NG's borrowing mix	High, but lower government external debt
Widespread English proficient and well educated workforce	Political/Social tensions rising from leftist and low income sectors

Interest Rates bottoming out



Source: Bloomberg LP, BDO

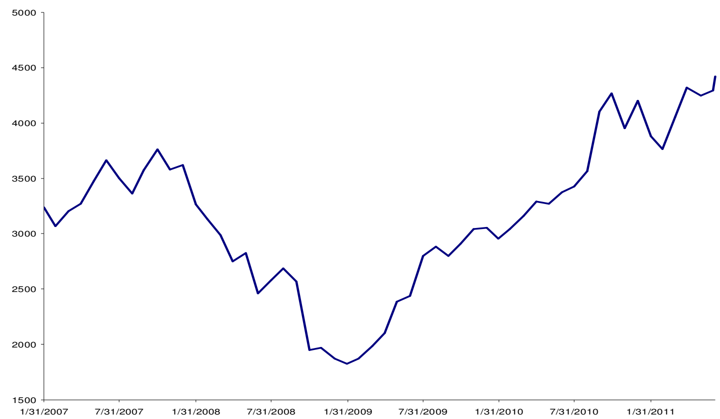
Mounting inflationary pressures ....

USD/PHP

Source: Bloomberg LP, BDO

Weak US dollar and portfolio flows supporting the peso.

The Stock Market



Source: Bloomberg LP, BDO

Reaching new highs

2011: Forecast Summary

Indicator	Range	Best Case	Worst Case	Consensus
GDP (Average)	5.00 % to 5.5%	5.5%	5.00 %	5.30 %
Inflation (Average)	4.00% - 4.50%	4.30%	4.50%	4.50%
Dubai Crude($/bbl)	100.00 – 130.00	105.00	115.00	110.00
PDSTF-3M Rate	1.00 % - 4.00%	3.00	4.00	4.70
PDSTF-5Y Rate	5.00% - 6.500%	5.50	6.00	6.30
Currency	40.00- 46.00	41.00	44.00	42.00
Equities (EOP)	3,600 – 5,000	5,000	4,550.00	N/A

United Nations 2008 Awardee

BusinessMirror

Very interesting. Award-winning.

A broader look at today's business

www.businessmirror.com.ph

VOL. 5 NO. 280 FRIDAY-SATURDAY, OCTOBER 1-2, 2010

P25.00 NATIONWIDE | 5 SECTIONS 32 PAGES

BSP EXCHANGE RATES

United States, dollar	43.8960
Japan, yen	0.5247
United Kingdom, pound	69.2898
Hong Kong, dollar	5.6582
Switzerland, franc	44.9248
Canada, dollar	42.5102
Singapore, dollar	33.3708
Australia, dollar	42.5264
Bahrain, dinar	116.4412
Saudi Arabia, rial	11.7056
Brunei, dollar	33.2445
Indonesia, rupiah	0.0049
Thailand, baht	1.4421
United Arab Emirates, dirham	11.9517
European Monetary Union, euro	59.8390
India, rupee	0.9785
Malaysia, ringgit	14.2335
Korea, won	0.0385
Taiwan, dollar	1.3994

September 30, 2010

GOLD PRICE

$1,308.35/troy oz.

September 30, 2010

PESO-DOLLAR RATES

₱43.880 ₱0.000

SOURCE: PDS Close: September 30, 2010

PSE COMPOSITE INDEX

4,100.07 10.98 pts

Business

BY CAI U. ORDINARIO
Reporter

IN the face of the general optimism of investors and analysts on the Philippine economy, the business sector is still looking for more concrete plans from the Aquino administration on how to address issues like the budget deficit and the threats of a strong peso.

The business sector hopes the answers will soon come. Ravelas said without concrete plans, particularly on the fiscal side, investors may become hesitant in putting their money in projects designed to be the backbone of the government's development agenda.

Govt extends 0% tariff on wheat, cement

THE government will extend the zero tariff on wheat and cement imports by another six months, Trade Secretary Gregory Domingo said on Thursday.

Domingo said in a Palace briefing the papers for the extension will be fast-tracked in the Cabinet so that the appropriate executive order (EO) may be issued when Congress goes into recess.

"On the wheat, the technical committee on the TRM, Tariff Related Matters, is recommending the extension of the zero-percent tariff and they will fast-track the process in the Cabinet so that the EO can be issued during the recess of Congress sometime October or November," Domingo said.

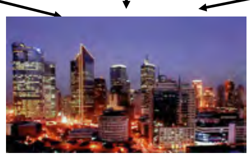
The Trade chief, who later added that the zero tariff on cement imports

infrastructure

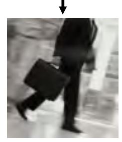
lower energy costs

streamline business processes

DEPARTMENT OF TRADE AND INDUSTRY PHILIPPINES



encourage business growth



more jobs

reduce poverty / increase wealth

infrastructure

power and energy

electronics

outsourcing

agri-business

tourism

Things to watch?

- **B**old reforms
- **D**eficit – Containing it!
- **O**rder of Battle
  - Revenue Generation (Taxes)
  - Infrastructure Spending
  - Social Services

What are the risk and challenges?

MENA Crisis

Rising Geopolitical Risks

EU debt problem

It's not just a headline risk; it's a real one !

What Greece would look like

after the Crisis

China is battling against soaring inflation

Can they manage to stay ahead ?

Japan's Tragedy

This has an impact on the global supply chain.

Rising Commodity Prices

Geopolitical risks increased price volatility

Roadblocks

ASIA	▪ Strong growth may lead to higher interest rates ▪ Possible curbing of portfolio flows
US	▪ Slow economic recovery ▪ Restrictive banking regulations
EUROPE	▪ Unmanageable budget deficits ▪ Credit crunch ▪ Credit downgrades

Why is FEAR not here?

There is no manifestation of global uncertainty

The Challenge

- **Sustaining Infrastructure Spending and Investments!**

Things to watch?

- **B**old reforms
- **D**eficit – Containing it!
- **O**rder of Battle
  - Revenue Generation (Taxes)
  - Infrastructure Spending
  - Social Services

How?

- ***INVEST***
  - Long-term growth depends on investments made today
  - Purchasing power has improved and cost of capital is "cheap"
- ***CONSUME More***
  - Domestic demand remains a key driver in the short term
- ***PRAY Harder***

Investment Strategy

Asset Class	Products	2011F
Fixed Income **CASH**	Cash Deposits Special Deposit Accounts(SDAs), Money Market Funds	Neutral
Fixed Income **Peso Denominated**	Fixed Income Treasury Notes, Local corporate bonds	Diversify and shift to floaters from fixed
Fixed Income **USD$ Denominated**	ROPs, USTs US$ bond funds (UITF, Mutual Funds)	Trade Yield Range: 4.0% - 6.0%
Equities	Common stocks, stock funds (UITF, Mutual Funds)	Accumulate

Chorus from the Greek Play Antigone

Not only do men move about on an uncharted landscape. The landscape itself is in constant motion, and men best be quick enough to move about with it. When they aren't, they go through the cracks that open under their feet

"Be ready when the claws come out."

Summary

- World Economy is **struggling** to avert a double-dip recession.
- The Philippines is in **better shape** to face the challenges ahead.
- Adjustments (Corrections) are good opportunities to **ENTER** the market. But some **RISKS** remain.

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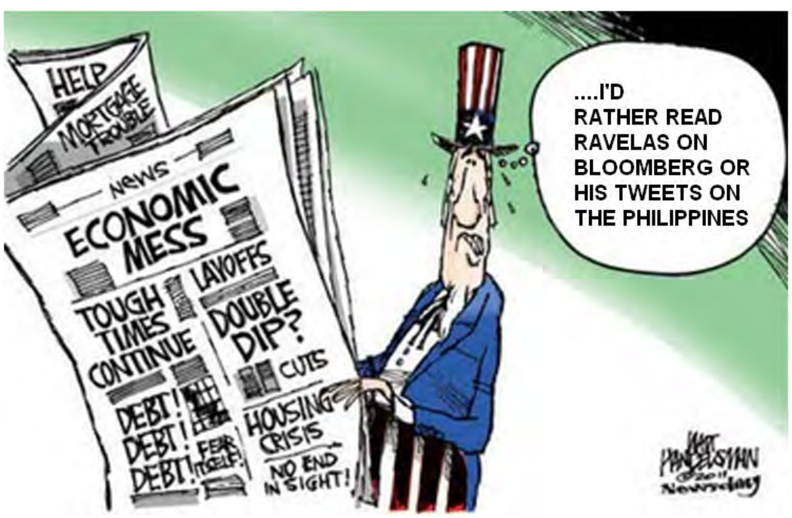
Jonathan L. Ravelas

21.07.2011
T-MR

Tired of reading the news?



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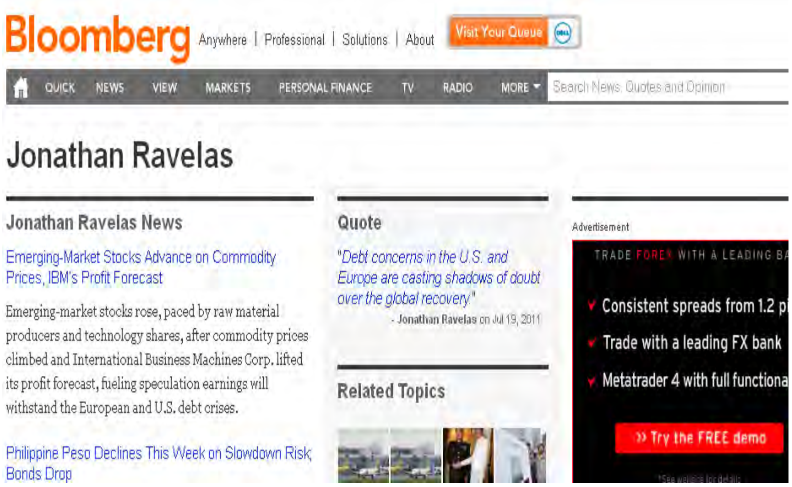
You can follow me through…..



http://topics.bloomberg.com/jonathan-ravelas

Outlook Summary

	2009	2010	2011F	2012F	2013F	2014F
Real Sector						
GDP (YoY in %)	1.10	7.60	5.50	5.30	5.30	5.50
Consumer Prices (YoY in %)	4.30	3.80	4.00	4.35	4.50	4.30
Interest Rate (short-term, EOP, in %)	3.89	1.29	3.00	4.50	4.53	5.00
Interest Rate (long-term, EOP, in %)	6.28	4.97	5.50	6.00	6.01	6.09
Exchange Rate (against US$, EOP)	46.20	43.84	41.00	40.69	40.27	40.29
Exchange Rate (against US$, AVG)	47.63	45.12	44.00	43.50	42.50	41.50

Source: Bloomberg LP and BDO

Prepared By:

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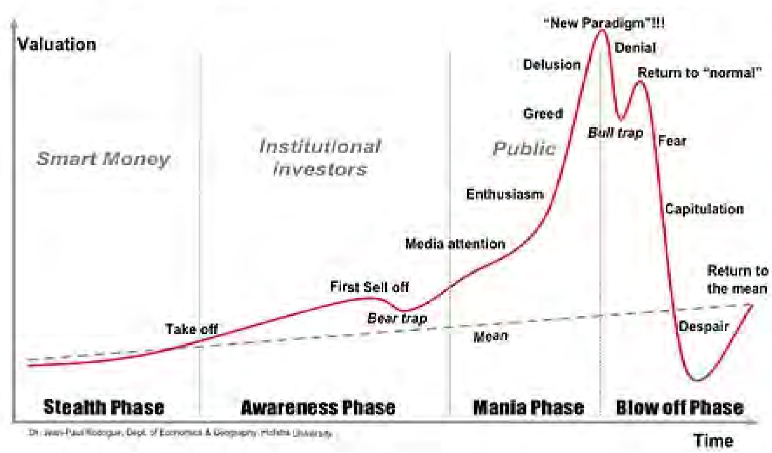
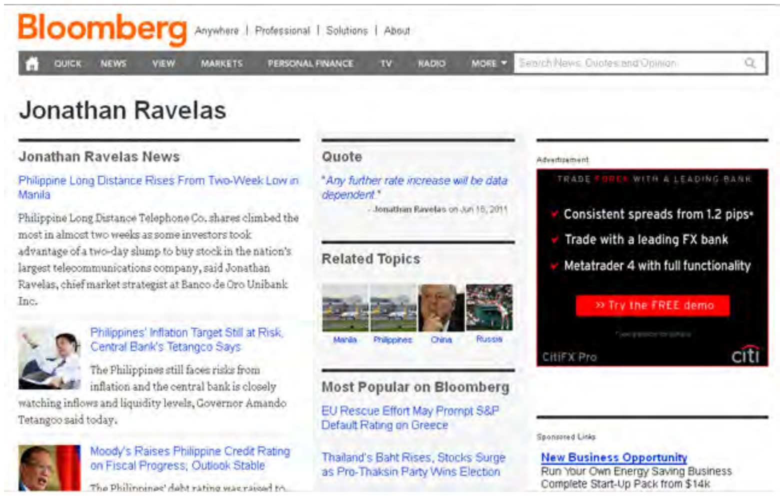
Main Stages in a Bubble



You can follow me on…..



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