

Market Consolidation Continues...

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The Philippine equities market continues to be in consolidation mode as foreign investors continue to exit the market.

Inflation Will Be The Recurring Theme

Although inflation was relatively muted in 2010, it will definitely be the recurring theme for the next few months as Asian economies like the Philippines are posting strong growth rates.

For the Philippines in particular, we are seeing upward pressures in food (especially rice), oil, and transportation costs that will certainly put pressures on inflation. While the market has discounted that, subsequent headline numbers featuring sequential increases in inflation might put more pressures on the market.

Egypt is Just Another Geopolitical Risk

As we said in the past, market risk appetite goes down every time a new geopolitical risk comes up. The latest being the turmoil in Egypt. The thing is anything that disrupts the political balance in the Middle East is always going to be a geopolitical risk. For the current one, the worst case scenario might be a shift in the political balancing game in the Middle East. We view this as a concern but at this stage, it is definitely too early to think that a worst case scenario would be at hand.

PPP/Possible Reforms of Government Remain Strong Catalyst

Despite the short-term correction of the market, we are seeing that the potential for a re-rating of the Philippine equities market is still very possible if the PPP will be more concrete moving forward. We also have been seeing some tax efficiencies and actually new enhancing policies of both the Bureau of Customs and Bureau of Internal Revenue that had resulted in higher revenues for the government.

We are also emphasizing that even if it is inevitable that higher inflation would kick in, the long term effects of higher toll rates as well as higher LRT rates are actually positive. This is because by allowing rates to go up, the Philippine government is advocating a more friendly regulatory environment which had always had a bureaucratic reputation in the past.

MAIN STRATEGY:

We reiterate that we are running a marathon--not a sprint---And a marathon would have cooling off periods!

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