

Philequity Corner (August 26, 2013)

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Present Day Heroes

Last week, we wrote about the historic feat that the Philippine national basketball team achieved (*Historic Moments in Philippine Basketball and Stocks*, August 19, 2013). The Gilas Pilipinas team members are considered heroes for playing their hearts out and winning against a taller and stronger Korean squad. The team's win put Philippine basketball back on the world map.

Last Wednesday, we commemorated the 32nd death anniversary of Ninoy Aquino. Today, we are celebrating National Heroes Day to honor and remember the national heroes of our country. These heroes are men and women whose acts of courage enabled the Philippines to grow as a nation. Since today is a day for our heroes, we are dedicating this article not only to our past heroes but also to our present day heroes.

EM Storm

Last week, local trading was suspended for three days due to a holiday and torrential rains brought by Typhoon Maring. As the country withstood the impact of another strong typhoon, emerging markets (EM) faced a different kind of storm and were heavily sold down. The sharp declines in EM stock indices were triggered by the problems in India and Indonesia. When local trading resumed last Thursday, the PSE Index caught up with its Asian peers and fell 6.0% on P4.7B worth of net foreign selling.

The table below shows the effects of India and Indonesia's problems on some of the major Asian indices. The "LCY" column shows the year-to-date (YTD) returns of the various Asian indices in local currency terms while the "USD" column shows the YTD returns in US dollar terms.

YTD Performance of Asian Stock Indices			
Country	Index	YTD	
		LCY	USD
Philippines	PSEi	6.0%	-1.5%
Malaysia	KLCI	1.9%	-5.6%
Singapore	STI	-2.5%	-6.9%
Thailand	SET	-3.5%	-7.6%
Korea	KOSPI	-6.4%	-10.6%
<i>Indonesia</i>	<i>JCI</i>	<i>-3.4%</i>	<i>-15.7%</i>
<i>India</i>	<i>Sensex</i>	<i>-4.6%</i>	<i>-18.7%</i>

Source: Bloomberg

It can be seen that the PSE Index is still the best performer among the stock indices included in the table, in both LCY and USD terms. However, it pays to note that all the indices in the table have negative YTD returns in dollar terms. Moreover, as a result of their weakening currencies, the Indian and Indonesian stock indices are the weakest performers in terms of YTD dollar returns.

The Rupiah and the Rupee

A few weeks ago, we observed weakness in the Indian rupee and Indonesian rupiah based on how their price charts were moving. From the table below, it can be seen that these two currencies are the worst performers among Asian currencies.

YTD Performance of Asian Currencies		
Country	Currency	YTD
Thailand	Baht	-4.1%
Singapore	Dollar	-4.7%
Korea	Won	-4.9%
Philippines	Peso	-7.8%
Malaysia	Ringgit	-7.9%
<i>Indonesia</i>	<i>Rupiah</i>	<i>-12.9%</i>
<i>India</i>	<i>Rupee</i>	<i>-15.2%</i>

Sources: Bloomberg, Wealth Securities

Investors heavily sold down the Indian and Indonesian currencies because of the **surging current account deficits of these countries**.

What is current account?

The current account balance is defined as the sum of the balance of trade (exports minus imports of goods), services, net income from abroad and net current transfers. When the current account is a deficit, it is indicative of an economy that is a net debtor to the rest of the world.

Current account deficits plunge Indian and Indonesian stock markets

India has been running on a current account deficit for many consecutive years already. Recently, India's current account deficit widened to a record high 4.8% of GDP. Meanwhile, Indonesia's current account deficit amounted to 4.4% of GDP, a level not seen since the 1997 Asian Financial Crisis. These huge current account deficits ultimately triggered the sell-down of the Indian and Indonesian stock markets.

Philippines is on a current account surplus

Unlike India and Indonesia, the Philippines has a current account surplus. This surplus amounted to 5.3% of GDP in 1Q2013. Our country enjoys a consistent and comfortable current account surplus mainly because of the massive dollar inflows and revenues from the OFW and BPO Sectors. In 2012, OFW remittances grew to \$21.4B, equivalent to 8.6% of our country's GDP. Meanwhile, BPO revenues increased to \$13.4B, amounting to 5.4% of GDP.

Unsung Heroes

While our country has a current account surplus, we suffer from a trade deficit. Our balance of trade is negative because we import more goods than what we export. We import a substantial portion of our food and oil requirements. Since we are a net importer, our country would have experienced a huge current account deficit without the contributions of our OFWs and BPO employees. Moreover, the OFW

and BPO sectors have been crucial underpinnings of our country's robust domestic consumption. We would not have experienced a secular bull market and resilient economic growth if not for these two sectors. The OFWs and BPO employees are therefore our present day heroes, as far the stock market and the economy are concerned.

Unique Labor Force

The OFW and BPO sectors experienced significant growth because we have a unique labor force. This, in our opinion, separates us from the rest of the world. Aside from having a good grasp of the English language, Filipino workers are respectful, compassionate, amiable, courteous, flexible and adaptable. Moreover, Filipinos are kind, tolerant, patient and enduring. These unique Filipino traits allow our countrymen to thrive in different locations and excel in different situations. These are also the reasons that propelled the Philippines to become the #1 call center destination in the world.

Filipinos Rise to the Occasion

Some of the traits that make us Filipinos unique can also be the same traits that give us problems. Because we are tolerant, patient and enduring, we can be taken advantage of, especially by some opportunistic people who are in power. However, when the abuses are too blatant and the indignation is too deep (*nakakasuka na*), the Filipinos can be counted upon to rise to the occasion in order to fight for their beloved country. We saw this happen in People Power 1 in 1986 and People Power 2 in 2001.

The Filipinos Are Our Present Day Heroes

Today, the Filipinos will again stand tall and rise to the occasion. They will go out of their way to join the *Million People March*. Because of their disgust over the shameless corruption, the Filipinos will go out of their homes to demand accountability and meaningful change. They will voice out their indignation over the disgusting corruption scandals that rocked the nation. The Filipino people are therefore the ultimate present day heroes. They will march all over the nation to forge their own destiny.

Today, on National Heroes Day, we remember and honor our past heroes. We also salute our present day heroes – the Filipino people.

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