Philequity Corner (April 20, 2009)
By Valentino Sy

US markets: Out of Intensive Care Unit (ICU)

Readers have asked why Philequity Corner has paid a lot of emphasis on the S&P 500 Index instead of the PSE Index (PSEi). We would like to point out that the housing and credit problems precipitated the drop in the US markets, which caused the economy to go on a tailspin, and which eventually affected the markets all over the world.

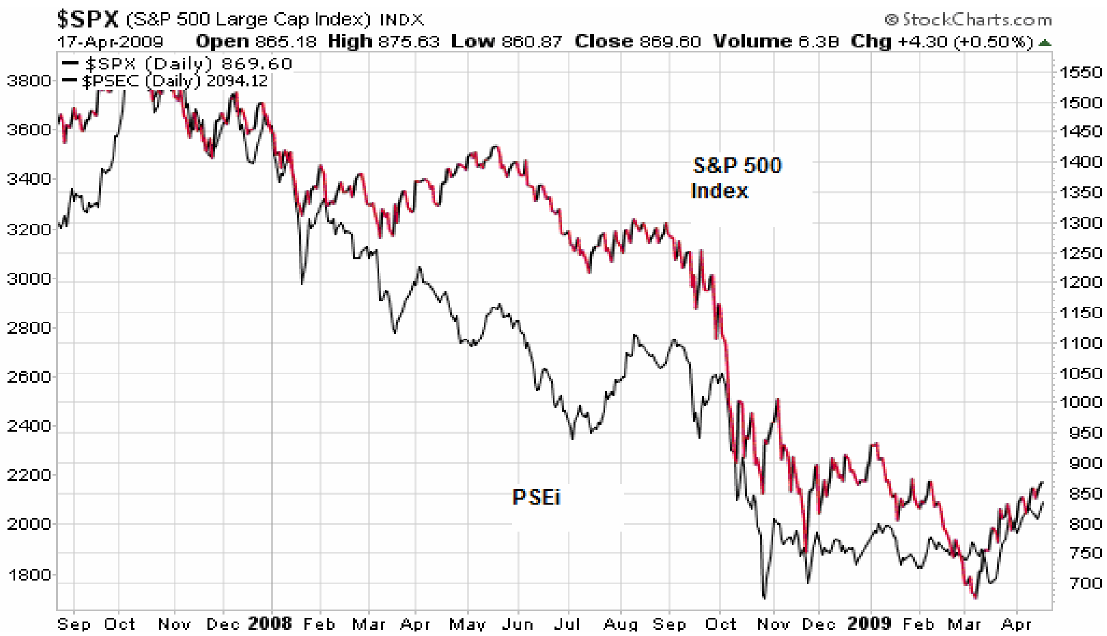
As we've written before, when the US sneezes, the rest of the world catches pneumonia. But what happened this time around as described by Mohammed El-Erian of Pimco, the US economy went into cardiac arrest. And unlike past financial crises which developed into regional contagions, the US subprime crisis advanced into a credit crisis of global proportions.

It so happens that there has been a strong correlation between the US and emerging markets (including the Philippines) in recent years. Financial innovations in securitization, including those that new electronic technology makes possible, have made the global financial system more tightly knit than ever.

Strong correlation

The integration of global financial markets is even more pronounced during times of panic. The chart below shows that the S&P 500 Index peaked in October 2007 and dropped as much as 57 percent before bottoming out at 666 on March 6, 2009. Likewise, the PSEi peaked in October 2007 and similarly plunged by 57 percent before bottoming out at 1,684.75 on October 28, 2008.

Except for a short period (during last year's rice supply scare) when the two charts temporarily diverged, the PSEi has closely tracked the movement of the S&P 500 Index.



One of the reasons why the PSE Index follows closely the S&P 500 Index is that PLDT is listed in New York. And in the basket of stocks that comprise the PSEi, PLDT accounts for roughly 30 percent.

Foreign funds dominate the PSE

The other reason for the strong correlation between the PSEi and the S&P 500 Index is because foreign funds dominate the trading in the Philippine Stock Exchange. Most of these funds are domiciled in the US and in other major financial centers such as London, Japan, Hong Kong, and Singapore.

From the table below, we can see that foreign transactions in April accounted for 51.2 percent of total value turnover in the PSE. This is even an increase from the 41 to 42 percent share during the first three months of the year.

	Foreign Buying (in Php Millions)	Foreign Selling (in Php Millions)	% of Foreign Transactions in the PSE
Jan-09	11,451.0	13,919.1	42.5%
Feb-09	35,206.6	15,109.1	41.3%
Mar-09	19,432.6	25,634.8	41.3%
Apr 1 to 17-09	10,649.0	15,803.3	51.2%

Source: PSE, Philequity Research

PSE dominated by foreign brokers

It is therefore not surprising that foreign brokers dominate the PSE in terms of value turnover. Out of the top 15 brokers in the PSE, eight are foreign (Macquarie, CLSA, UBS, JP Morgan) or affiliated with foreign (Deutsche-Regis, ATR-KimEng, PEP-Merrill Lynch, DBP-Daiwa). Five are affiliated with unibanks (BDO Securities, First Metrol, SB-Equity, RCBC Securities and BPI Securities).

RANK	BROKER	BUYING (in Php millions)	SELLING (in Php millions)	NET BUYING (in Php millions)	TOT VALUE (in Php millions)	WT.
1	MACQUAR	18,575	15,464	3,111	34,039	12.19%
2	DEUTSCHE	14,662	15,208	-546	29,870	10.69%
3	ATR	12,116	12,119	-3	24,235	8.68%
4	PEP	10,565	12,400	-1,835	22,964	8.22%
5	CLSA	9,070	10,517	-1,447	19,588	7.01%
6	UBS	8,156	9,329	-1,173	17,485	6.26%
7	JPMORGAN	8,400	7,642	758	16,042	5.74%
8	BDO	5,651	5,862	-210	11,513	4.12%
9	FIRSTMET	3,630	3,868	-238	7,498	2.68%
10	ABACUS	3,791	3,496	295	7,288	2.61%
11	SB-EQTY	3,211	3,520	-309	6,731	2.41%
12	DBP-DWA	1,777	3,313	-1,536	5,090	1.82%
13	WEALTH	2,889	2,031	857	4,920	1.76%
14	RCBC	2,249	2,442	-193	4,691	1.68%
15	BPI	1,631	1,468	164	3,099	1.11%

Source: Technistock

US markets recovering

The US markets had a cardiac arrest when Lehman Brothers collapsed and credit totally disappeared. The Fed did all it can to revive the US economy. They poured trillions of dollars to provide liquidity, restore credit, support ailing financial institutions and deal with banks' toxic assets. After the cardiac arrest, the markets went into the intensive care unit. It is now in the recovery room.

The world economy has not recovered fully, and it will take time to restore it back to full health. It may well be weak for some time. But with the expert handling of Dr. Bernanke and the help of the IMF, World Bank and global central banks, we are confident that the world economy will be restored back to health in due time.

This early we are already predicting that when the world market recovers, Bernanke or Obama will be strong candidates as Man of the Year for 2009.

For comments and inquiries, you can email us at info@philequity.net. You can also view our archived articles at www.philequity.net or www.yehey.com/finance.