GLOBAL MARKETS TODAY

Plunging US Dollar($)

- Behind the problems:
  - huge & growing US trade deficit – above 800bn for 2006 or 7% of the US economy
  - large Federal budget deficit – tax cuts & war in Iraq have led to a budget deficit of hundred billion dollars
  - The sub-prime mortgage crisis
- Rapid fall in the dollar will/may result in:
  - a hike in domestic inflation (higher price of imported goods)
  - high inflation, keep raising high interest rates.
  - Decline in American trade competitiveness

Plunging US Dollar($)

- Investors are diversifying away from their US assets into “hotter”, higher-yielding investments/markets like Europe, Japan, Asia & other emerging markets.

- Europe overtook the US as the biggest destination for Chinese exports; – Financial Times Oct.’07

- Growth in exports from China to Europe has been outpacing sales to US. – Financial Times Oct.’07

Asian Giants

- CHINA, JAPAN & KOREA
  - Sell much more to US than they buy.
  - East Asian countries have accumulated foreign currency surpluses of nearly $3-4 trillion, held in US Treasury bonds in dollars.
  - Funding both budget gap/trade gap of the US

YUAN: China's Currency Regime

- To correct global imbalances, US has long been stressing that China should revalue its currency.

- China, reluctant to revalue Yuan for it would make investing in China much more expensive & could deter valuable foreign investment.

YUAN: China's Currency Regime

- China is sitting on an estimated $1.4 trillion in foreign exchange reserves, and has started converting some of those reserves into purchases of US companies.
- China has acted to keep the value of Yuan low by purchasing dollars on vast scale, compiling high reserves of dollars & other foreign currencies.

Rising Peso on Declining Dollar

- For 2007, the peso has already appreciated by about 6%
- Why peso is appreciating against dollar?
  - Philippines, being in the middle of the global economic turn around, is believed by investors to have “great potential.”
  - This has resulted in lower interest rates on peso instruments, higher stock and asset prices and stronger peso.

Rising Peso on Declining Dollar

What's in it for the Philippines

- How does a stronger peso benefit the Philippine economy?
  - half of country's debt is dominated in foreign currency, a strong peso means lower interest & principal payments in peso terms – it's cheaper to service debt.
  - lower debt payments = more funds for investments, social projects
  - lower interest rates = affordable housing/car loans; companies can reduce borrowing cost; higher salaries and higher profits
  - making imports cheaper
  - offsets oil price hike
  - increase investor confidence

Rising Peso on Declining Dollar

What's in it for the Philippines

- Why is a stronger Peso detrimental to the Philippine economy?

    - inflate asset prices
    - over spending/ over borrowing
    - decline in exports/worsening of terms of trade
    - decreasing value of OFW dollar remittances

Yuan revaluation seen good for Peso

- Less pressure to depreciate the Peso
- Further build-up of Philippine trade surplus w/ China

Outlook for 2008

Variable	Rate/Growth	Remarks
GDP	5.9 - 6.3	High growth in 2007 will be tempered
GVAODRE	5.5 – 6.0	More or-less move sideways
Exchange Rate	41 - 42	Will be more stable than 2007 figures
Interest Rate	8.0 – 8.99	Move sideways
Inflation Rate	3.0	Lower than ’06 rate but slightly higher than ‘07