



Philequity Corner (October 22, 2018)
By Wilson Sy

Oil prices decline sharply

Increased US production and an expansion of US crude stockpiles for the fourth straight week pushed oil prices sharply lower last week. US WTI crude fell to a nearly five-week low of \$68.53 per barrel, plunging more than 11% or \$8 a barrel from this month's four-year high of \$76.90. Meanwhile, Brent crude dropped by 9% or \$8 to a low \$78.69 last Thursday from its four-year high of \$86.75 on October 3.

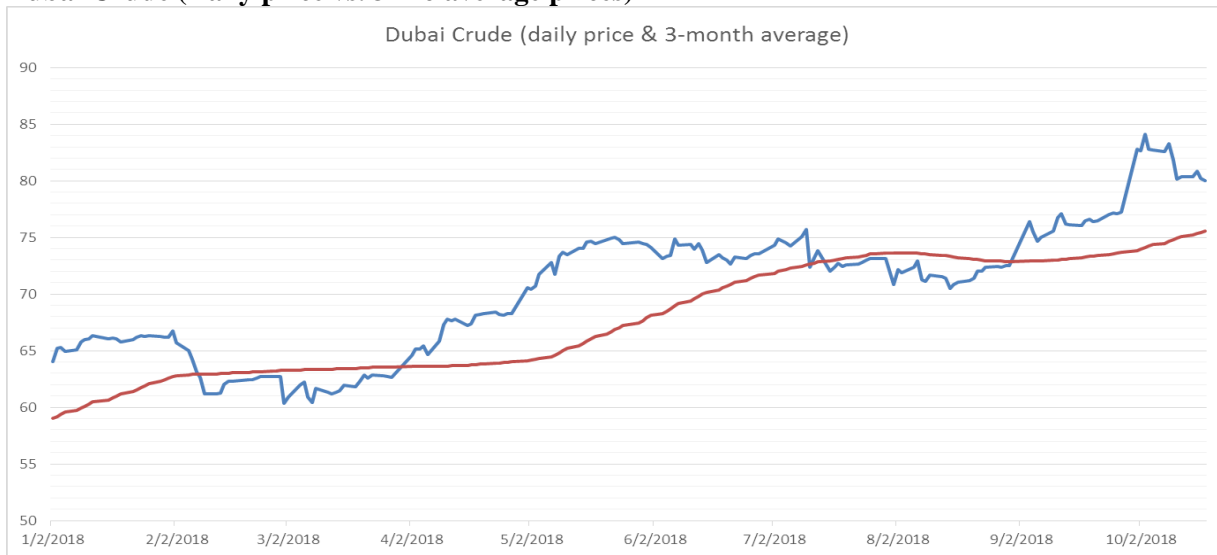


Source: Stockcharts.com

Dubai crude futures point to lower prices

From a high of \$84.116 per barrel last October 3, Dubai crude is has declined 4.9% to \$80.03 per barrel. Futures prices also point lower. The Nov '18 Dubai crude futures price is currently at \$77.018 per barrel as of Thursday, down 7.4% from its October 3 high of \$83.51. Meanwhile, the Dec '18 Dubai crude futures hit \$79.691 per barrel last Thursday, down 7.4% from its October 3 high of \$82.792.

Dubai Crude (Daily price vs. 3-mo average prices)



Source: Bloomberg, Wealth Research

Rising US – Saudi tensions, a possible black swan

While the price of crude oil has come down, it may be too early to say whether lower oil prices will continue because events are fluid. We cannot underestimate the risk of escalating Saudi-US tensions over the murder of Washington Post columnist Jamal Khashoggi. If the US imposes economic sanctions on Saudi Arabia, then it can change the oil picture resulting in negative global consequences.

Suspension of fuel tax hike

Earlier, the government proposed the suspension of the fuel tax hike to “help anchor inflation expectations better, and discourage profiteering and hoarding.” However, with the sharp pullback in oil prices in the recent weeks, there is an increased chance that the \$80 (3-month average) threshold for Dubai crude may not be triggered at all.

Gov’t addresses food inflation

President Duterte has signed Administrative Order (AO) 13 which eases the importation process for agricultural products, including rice, as well as Memorandum Order (MO) Nos. 26, 27, and 28 to stabilize prices of essential agricultural commodities and maintain sufficient supply in the domestic market. These measures should address food inflation and is expected to have a broader impact on the reduction of overall inflation.

Fiscal stability and economic growth

With oil prices leveling off, the government may have to rethink the planned suspension of the hike in fuel excise taxes. We believe that the increase in fuel taxes will create fiscal stability and economic growth thru the various “Build, Build, Build” programs. The benefits of fiscal stability outweigh the effects of the fuel tax hike suspension on inflation. On the other hand, a suspension may have an adverse impact of a wider fiscal deficit due to the foregone revenues which would open our economy to many risks such as credit downgrades, higher borrowing costs, weaker peso, and lower stock and bond prices as discussed in a previous article (see *High inflation and rising interest rates*, October 8, 2018).

Besides, the government programs to address food inflation are already in place, and overall inflation is expected to stabilize in the coming months. Hence, the suspension of the hike in fuel taxes may no longer be necessary. Instead, the money from the additional P41 billion fuel tax revenues can now be used to fund various inflation mitigation measures and other essential government projects and initiatives.

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