

# Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

## MARKET OUTLOOK: NEUTRAL

**SECTORS:** OVERWEIGHT SELECT BANKING AND PROPERTY STOCKS

**TECHNICALS:** SUPPORT AT 7500 FOLLOWED BY 7200, RESISTANCE AT 8200

Water companies and their respective holding companies remain volatile and news-driven as regulatory risk still remains a concern. Note that 3 water-related stocks are index stocks, namely AC, DMC and MPI.

While trade war news has turned positive, a new geopolitical risk has emerged. Over the New Year, Iranian operatives staged 2 attacks on US locations, including the US Embassy. This prompted retaliation from the US, with Trump ordering a missile strike on Iranian General Qasem Soleimani, head of Iran's Quds force. His death prompted combative rhetoric from Iran, which has promised "vengeance and retaliation". Trump raised the ante by saying that if Iran retaliates, they are targeting 52 sites and that they will hit Iran "very fast and very hard!"

This caused crude oil prices to spike 4% last Friday. As of this writing, oil is up another 2%. At current prices, crude oil is 33% above its 2019 low. While a prolonged or escalating conflict may cause oil prices to rise further, we note that a significant supply disruption must occur to justify a sharp spike in oil prices. So far, both sides are saying that they are not interested in engaging in all-out war.

Moreover, we note that oil supply and demand is very different now versus 10 years ago. With the advent of fracking technology and shale oil, the US oil production now accounts for 18% of global output, vs. 12% for Saudi Arabia and 11% for Russia. Note that Iran accounts for only 4% of global oil production which, while sizeable, can be filled by the US or OPEC members.

That said, high oil prices will have a significant impact on Philippine inflation as we are a net oil-importing country. Because of that, higher oil prices tend to lead to negative stock returns for Philippine stocks. It will also affect consumption, GDP growth, the Philippine peso and even the BSP's interest rate target.

Moreover, history shows that OFW remittances also take a hit whenever there is a conflict in the Middle East. Note that 55% of registered OFWs are working in the Middle East. Remittances from the region are also down 7.8% in 10M19 vs. 10M18. Given the ramifications of oil prices on the Philippine economy, the US-Iran conflict is a geopolitical risk that bears watching.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



With the US-Iran conflict escalating at the start of the year, oil prices have so far spiked 6%. This will push inflation higher, especially for oil-importing countries like the Philippines. Combined with continuing regulatory risk for water concessionaires, this has dampened sentiment for our stock market.