

# Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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**MARKET OUTLOOK:** CAUTIOUS

**STRATEGY:** BANKING STOCKS

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

Over the weekend, a major oil processing facility in Saudi was hit by a coordinated drone attack. This took out 50% of Saudi's total oil output, equivalent to 5% of the daily global oil production. This caused Brent futures to surge \$12 at the open, its biggest single-day move on record.

Saudi said that it would immediately restore about one-third of the affected production. Meanwhile, the US has approved the release of oil from strategic reserves to mitigate the impact of the supply shock. Despite these measures, the concern is the escalation of geopolitical tensions and a potential military attack in retaliation. This can trigger supply shortages and prolonged price hikes. Moreover, higher oil prices will result in faster inflation which further hampers slowing global economic growth.

Oil accounts for 11.4% of our country's import bill and 7.4% of our inflation basket. A sustained increase in oil prices will thus translate to a wider trade deficit and faster inflation. Fortunately, inflation has been on a downtrend and is expected to continue declining, notwithstanding the sudden spike in oil price. However, faster inflation triggered by a sharp spike in oil prices may complicate efforts by the central bank to ease monetary conditions.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



The PSEi is hovering around the 8,000 level despite the oil price spike. However, a decisive breakout past 8,000 may be hindered by the latest oil price shock. Moreover, we await developments on the US-China trade war given initial indications that both sides are headed for a breakthrough when talks resume in October.