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# PHILEQUITY CORNER

By Wilson Sy



## Energy Crisis

Last February 27, the PSEi closed at 6,611- tantalizingly close to bull market territory after an 18.4 percent rally from its November low. The next day, US and Israeli forces launched a massive, coordinated strike on Iran. The operation killed Supreme leader Ayatollah Khamenei, destroyed nuclear facilities and military assets. It plunged the Middle East into its most dangerous crisis since the 1973 Arab oil embargo. For the Philippines, a net oil importer just beginning to recover from a difficult 2025, the timing could not have been worse.

## Regime change, not a surgical strike

The joint operation targeted Iran's political and military leadership. Khamenei's compound was destroyed. Several IRGC commanders were killed. Iran retaliated with waves of drones and missiles aimed at Israel and US bases across the Gulf. Six US service members died in Kuwait. Over 1,000 people have been killed in Iran with more than 6,000 wounded.

The conflict has rapidly expanded. Israel struck Hezbollah infrastructure in Lebanon. Iran attacked targets across the Gulf - including Saudi Arabia's Ras Tanura oil refinery - one of the world's largest - forcing a partial shutdown. The UAE is considering freezing billions in Iranian assets. Defense Secretary Hegseth says the US expects "complete control" of Iranian skies. Secretary of State Rubio says strikes will increase in scope and intensity. This is a regime change, not a surgical strike.

## Strait of Hormuz shuts down

The most consequential market event is the effective closure of the Strait of Hormuz, the world's most critical energy chokepoint. About 13 million barrels of oil per day - 31 percent of global seaborne crude flows - transit this narrow waterway between Iran and Oman. An IRGC commander declared it "closed" and warned any vessel would be attacked.

Iran achieved this with cheap drone strikes that caused insurers to withdraw coverage. Tanker traffic has collapsed, down 86 percent from the daily average. Just three tankers transited on March 1. Hundreds of vessels are stranded on both sides of the waterway. Qatar halted LNG production after its facilities were hit, disrupting both energy and fertilizer supply chains - a direct threat to Philippine food and fuel prices.

## Oil prices surge to crisis levels

Brent crude surged 28 percent, from \$72.48 per barrel to \$92.69 per barrel by Friday's close. WTI hit \$90.90, its biggest weekly gain in the history of oil futures trading dating back to 1983. Iraq has shut down 1.5 million barrels per day of production. Kuwait is cutting output. Qatar's energy minister warned that Gulf producers may call force majeure within days.

Goldman Sachs warns that five weeks of disruption could push prices to \$100. Wood Mackenzie says \$150 is possible if Hormuz stays shut. RBC Capital's Helima Croft called this the biggest energy crisis since the 1970s. The \$100 threshold is no longer a tail risk. It's days away.

## Markets in turmoil

The Dow fell 3 percent for the week to close at 47,502. The S&P 500 dropped 2 percent to 6,740. Making matters worse, US nonfarm payrolls unexpectedly fell by 92,000 in February – the worst jobs report in years – raising the specter of stagflation: slowing growth and rising inflation at the same time.

In Asia, South Korea's KOSPI tumbled a combined 20 percent last Tuesday and Wednesday, before recovering to close the week down 10.6 percent. The US dollar index (DXY) rose to 98.86 as markets pushed Fed rate-cut expectations to just one cut this year.

## Peso weakens, PSEi retreats

The Philippine peso weakened to 59, reversing its recent gains. Higher oil prices increase the country's import bill. In a March 2 research note, Nomura flagged the Philippines as among Asia's most vulnerable economies to an oil supply shock, citing its high dependence on imported crude. Department of Energy data shows that nearly all of the country's crude oil imports come from the Middle East."

The PSEi dropped 2.8 percent to 6,426 last Monday, its biggest single-day loss since April 2025. It fell further to 6,320 last Friday to close the week down 4.4 percent. The rally that brought the PSEi from 5,584 last November to the doorstep of a bull market has been stopped cold.

## Rate hikes back on the table

BSP Governor Eli Remolona Jr. said last Friday that the central bank does not see the need for a rate hike yet – but warned that \$100 oil could change the calculus. "At some point, if the price of oil goes to \$100 a barrel, and the dollar continues to strengthen, then we'd have to consider a rate hike," he told CNBC. The BSP just cut rates for the sixth consecutive time in February, bringing the policy rate to 4.25 percent. Remolona acknowledged that room for further easing has narrowed.

## Filipinos stranded and afraid

There are 2.4 million Filipinos living and working in the Middle East – 973,000 in the UAE and 813,000 in Saudi Arabia. Thousands of tourists are stranded. We know of friends and relatives on vacation or in transit who are stuck and cannot fly out. Gulf airports have partially reopened on limited schedules, but airspace remains restricted and most normal flight operations have not resumed.

## If not resolved, all bets are off

If this conflict ends within a couple of weeks – a ceasefire, resumption of Hormuz flows – markets can recover and damage will be transitory. But if the war drags on, all bets are off. A sustained Strait closure would be the worst supply failure in oil market history. Oil at \$100 or \$150 would be deeply inflationary, force central banks to reverse course, and derail the Philippines' recovery. The PSEi's nascent bull market would be over before it began.

If the war ends quickly, this is a buying opportunity. If it drags on, we may need to revisit our outlook. For now, we wait – and pray for the safety of our kababayans in the Middle East.

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