30 August 2020

Regional Oil & Gas Event

Navigating Oil Price Volatility

	Buy/Neutral/Sell
Thailand (Neutral):	2/5/2
Malaysia (Neutral):	5/1/2
Singapore (Overweight):	3/0/0

- **Crude oil prices (Brent) are forecast to average at USD45.00/bbl for 2H20 and USD43.00/bbl for 2020F.** We expect crude oil prices to average USD55.00/bbl for 2021-2022 and USD60.00/bbl in the long term. We view 2H20 as a recovery period as the world eases out of lockdown and life slowly returns to normal. When this happens, the global economy and oil demand – and hence prices and spreads – should recover. We believe that COVID-19 vaccines, which are being developed at warp speed, should be available by 2021 (albeit limited initially). This should further strengthen the global economy. By 2023, normalcy should return once there is global distribution of the vaccine. This is the basis of our base case crude oil price assumption. Risks are a resurgence of COVID-19 and rolling lockdowns globally dampening recovery momentum. Our regional O&G sector Top Picks are PTT, Keppel Corp and Serba Dinamik.
- **Indonesia likely to benefit from higher oil prices.** Although Indonesia is a net oil importer, rising oil prices should support prices of other hard commodities (ie coal and CPO), which would in turn improve the domestic economy. Both coal and CPO contribute c.10% of the country's total trade. Historical data shows that the JCI's movement has a positive correlation with international oil prices. The main beneficiaries of higher oil prices are companies in the plantation, mining & energy, auto, industrial estates, property, and poultry sectors (accounting for c.16.5% weightage on the JCI). The losers are likely companies engaged in healthcare and transportation & logistics (c.3.2% weightage on the JCI).
- **Malaysia.** Being a net energy exporter, any upward shift in oil prices (all else being equal) will tilt the Malaysian economy towards higher growth potential as the overall benefits outweigh the negative implications. Apart from the oil & gas sector being the main beneficiary, higher oil prices are positive for the plantation (narrowing of the price gap between CPO and gasoil would boost biodiesel demand) and banking (alleviating pressure on asset quality and credit cost), but negative for consumer, logistics and rubber gloves sectors. Top Picks under rising oil price momentum are Serba Dinamik, Bumi Armada and Malaysia Marine & Heavy Engineering.
- **Singapore.** A rise in oil prices is expected to have a net negative, albeit marginal, impact on Singapore's economic growth. This is also evident from our assessment of its impact on various business sectors in the country, with most expected to see insignificant impact from a rise in oil prices. The impact will be positive for offshore and marine and plantation sectors and negative for transportation and logistics sectors. Within our coverage, we see China Aviation Oil, CSE Global, First Resources and Keppel Corp as the key winners, while ComfortDelGro and Singapore Airlines (SIA SP, NR) would see the most negative impact from higher oil prices. We expect the earnings impact to be muted for the STI Index.
- **Thailand** is a net importer of crude oil, which represents 14% (THB840bn, c.5% of GDP), of the country's total imports pa from 2007-2019. Apart from FX concerns, a rise in oil prices could be a major threat to the economy as oil accounts for 15% of total costs for manufacturing, 10% for construction and 30-40% for transportation (sea and air) industries. In the capital market, oil & refinery stocks (9.4% of the SET's total market cap) would benefit from higher oil prices. We calculate a 10% rise in these stocks could have a positive impact on the SET Index of 0.95%.
- **Overall, the macroeconomic impact of higher oil prices on the countries varies substantially.** Malaysia is set to benefit the most. The Indonesian Government may increase fuel subsidies to limit any impact on consumption. For Singapore and Thailand, despite eroding consumer purchasing power, higher prices would benefit their oil & gas industries.

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Navigating Oil Price Volatility

Overview

Crude oil is one of the most wildly traded commodities in the world, yet it would also be one of the most worthless commodities without the refineries to process it into refined products that we use every day – diesel, gasoline, jet and the like.

Crude oil prices and its forecasting are not easy to understand as it embodies many elements. It is an indicator of expectations of global oil demand and of supply coming online. It is also a barometer of the global economy as well as expectations of OPEC+ actions.

When the world went into global lockdown in April-June, crude oil prices tested historic lows. This is not without reason. It reflected fear of the unknown, with the novel coronavirus COVID-19 spreading uncontrollably. It also reflected plummeting demand as the world stopped travelling and oversupply as the OPEC+ agreement collapsed at the same time.

We had confidence that this was just a moment in time, and that the world would come out of lockdown. We also had faith that, one day, Russia and Saudi Arabia would come together to share a common cause that is greater than their differences. As events unfolded as we envisioned, crude oil prices returned to more normalised levels under the current circumstances.

Crude oil prices (Brent) are forecast to average USD45.00/bbl for 2H20 and USD43.00/bbl for 2020F. We expect crude oil prices to average at USD55.00/bbl for 2021-2022 and USD60.00/bbl in the long term. We view 2H20 as a recovery period as the world eases out of lockdown and life slowly returns to normal. When this happens, the global economy and oil demand – and hence prices and spreads – should recover. We believe that COVID-19 vaccines, which are being developed at warp speed, should be available by 2021 (albeit limited initially). This should further strengthen the global economy. By 2023, normalcy should return once there is global distribution of the vaccine. This is the basis of our base case crude oil price assumption.

Risks remain a resurgence of COVID-19 and rolling lockdowns globally dampening recovery momentum. Our Top Picks for the regional O&G sector are PTT (PTT TB, BUY, TP: THB44.90), Keppel Corp (KEP SP, BUY, TP: SGD7.30) and Serba Dinamik (SDH MK, BUY, TP: MYR2.55).

We do not believe that crude oil demand will be supressed over the medium term. Until the world can wean off its fossil fuel addiction, we believe that the world will go through several more bull and bear markets. This report provides a list of winners and losers to help navigate through times of crude oil price volatility.

Beneficiaries of higher oil prices

Sustainable higher oil prices will directly benefit E&P players, and depending on the magnitude, it could prompt them to scale up their spending. This would then translate to higher upstream activities, cascading the work flow to the services players. For refineries and petrochemicals, this upward momentum indicates a more robust global economy, leading to higher consumption of refined petroleum and petrochemical products. This usually results in upside in earnings, coupled with widening margins for the entire value chain, assuming there is no oversupply in any major products in the value chain. The magnitude of such earnings momentum would depend on the sub-segments within the value chain.

Malaysia

We are NEUTRAL on the Malaysia O&G sector as capex spending is expected to stay flattish in the near term. Margin compression is forthcoming alongside rate renegotiations. We maintain our cautious stance on the sector and prefer stocks with resilient business models and better earnings visibility. Our Top Picks in this sector are Dialog (DLG MK, BUY, TP: MYR4.25) and Serba Dinamik.

For service players, we expect the drilling segment to be among the first to recover, benefiting drilling-related players: Sapura Energy (tender assisted drilling rigs, or TADRs, and semi-submersible rigs), Velesto Energy (VEB MK, NR) (jack-up rigs and hydraulic workover units, or HWUs), and Uzma (UZMA MK, NR) (HWUs). This would then provide sufficient job demand for local OSV players such as Perdana Petroleum (PETR MK, NR), Alam Maritim Resources, and Bumi Armada, as local vessels are generally being prioritised.

On the other hand, higher maintenance, construction & modification (MCM) and hook-up & commissioning (HUC) work demand will boost revenue of the service players, ie Dayang Enterprise (DEHB MK, NR), Petra Energy (PENB MK, NR), and Carimin Petroleum (CARIP MK, NR). Last but not least, local job flow may be more robust if the long-awaited decommissioning works can be expedited.

The downstream players expected to benefit on economic recovery and demand are: Petronas Chemicals (PCHEM MK, SELL, TP: MYR4.76), Lotte Chemical Titan (TTNP MK, NR), Petron Malaysia Refining & Marketing (PETRONM MK, NR) and Hengyuan Refining Company (HYR MK, NR).

Finally, we do not believe midstream players will benefit from a rising oil price environment, especially when backwardation is formed (spot prices are higher than future contract prices), signalling a shortage of the commodity in the spot market. As such, spot tank terminal rates tend to soften upon crude withdrawal from storage, and this may affect Dialog's independent tank terminals, Pengerang Independent Terminals (PITSB) and Langsat 3. Although Dialog's independent storage terminals may be under pressure, we still favour the company as its other core businesses and upstream segments will still benefit under a rising oil price environment.

Figure 1: Oil & gas stocks valuations

	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV (x)	P/CF (x)	ROE (%)	DY (%)	Rec
				FY20F	FY21F	FY20F	FY21F	FY20F	FY20F	FY20F	FY20F	
MISC	7.82	8.91	34,906	16.9	16.0	24.1	5.8	1.0	7.3	5.8	3.8	Buy
Dialog	3.67	4.25	20,693	37.9	35.9	12.4	5.6	5.5	26.9	15.2	0.8	Buy
Yinson^	6.25	7.77	6,664	17.6	17.5	63.1	0.2	3.5	7.9	21.7	1.0	Buy
Serba Dinamik	1.75	2.55	5,900	9.8	8.5	(18.6)	15.5	1.6	20.8	18.8	3.1	Buy
Bumi Armada	0.24	0.30	1,383	4.6	4.3	9.0	7.6	0.3	2.6	6.9	0.0	Buy
MMHE	0.38	0.40	600	n.m.	17.4	(237.1)	137.6	0.3	(6.1)	(3.9)	0.0	Neutral
Petronas Chemicals	5.81	4.76	46,480	27.8	19.5	(40.7)	42.2	1.5	27.7	5.5	1.8	Sell
Petronas Dagangan	20.72	17.06	20,584	66.0	31.3	(62.3)	111.0	3.4	65.8	5.2	1.2	Sell
Sector Avg				**26.5**	**20.3**	**(11.5)**	**30.5**					

Note: ^FY20-21 valuations refer to those of FY21-22

Source: Company data, RHB

Singapore

Maintain OVERWEIGHT on Singapore offshore & marine (O&M) sector. Top Pick: Keppel Corp (KEP). While KEP's O&M business should be weak over the next few quarters, the property and infrastructure wings should still drive profitability. Sembcorp Marine (SMM MK, BUY, TP: SGD0.26) will see its balance sheet strengthened after the rights issue, which should help support its ability to secure new contracts.

Higher oil prices will help grow KEP's orderbook. Its O&M segment recorded provisions of SGD889m in 2Q20, mainly from contract assets and share of Floatel's vessel impairment. Excluding impairments, 1H20 O&M EBITDA is a positive SGD40m. For the first seven months of 2020, SGD107m worth of offshore wind and FPSO projects were secured. Higher oil prices will help KEP secure more contracts, improving on its Jun 2020 net orderbook of SGD3.5bn.

SMM – no significant new contracts secured in 1H20, but orderbook remains respectable. SMM's net orderbook as at end-June was SGD1.91bn (Dec 2019: SGD2.44bn). In addition, the repairs & upgrades business has outstanding orders for execution of SGD280m. Any short-term rise in crude oil prices will brighten the prospects for new orderbook opportunities. In addition, the rights issue will help bring its net gearing from Jun 2020's 1.35x to a pro forma 0.45x.

Figure 2: Oil & gas stocks valuations

Company Name	Rating	Target Price (SGD)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Keppel Corp	BUY	7.30	58	na	0.8	2.2
Sembcorp Industries	BUY	2.11	14.2	na	1	-
Sembcorp Marine	BUY	0.26	26.3	na	0.6	-

Source: Company data, RHB

Thailand

We are NEUTRAL on the Thai oil & gas sector. Share prices have mostly risen to near our TPs, and thus we have downgraded most stocks to NEUTRAL. Our Top Picks are PTT and PTT Global Chemical (PTTGC TB, NEUTRAL, TP: THB52.00), as these two companies have more diversified portfolios. We like PTT as we believe that its natural gas and oil retail business should see demand recover, while the listing of PTT Oil & Retail (PTTOR) within the next 12 months should provide positive momentum for PTT's share price. Meanwhile, we believe PTTGC's diversified portfolio and petrochemicals business (especially polymers) should help alleviate the weaker refinery earnings.

We are cautiously optimistic on global recovery, and we are mostly likely past the bottom in 2Q20. However, we remain cautious on the refinery segment of the business value chain. Spreads have mildly recovered, but are still less than half its normalised levels. With the resurgence of COVID-19 cases, many cities around the world have had to implement rolling lockdowns, quarantines and further closure of borders. This will impact confidence in travelling, hence affecting refining margins. The major trigger for further upwards momentum for this sub-segment would be signs of successful vaccine development and distribution.

Figure 3: Oil & gas stocks valuations

Company Name	Rating	Target Price (THB)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
PTT Exploration & Production	BUY	108.00	17.39	13.6	1.0	2.9
PTT PCL	BUY	44.90	19.73	18.9	1.2	2.1
Star Petroleum	NEUTRAL	7.30	8.15	1125.7	0.9	0.1
Thai Oil	NEUTRAL	39.80	-7.98	58.5	0.8	0.8
Bangchak Corp PCL	NEUTRAL	21.30	21.71	22.6	0.4	1.3
IRPC PCL	NEUTRAL	2.70	10.66	na	0.7	1.6
PTT Global Chemical	NEUTRAL	52.00	6.67	35.6	0.8	1.9

Source: Company data, RHB

Our Crude Oil Price Outlook

Demand is expected to fall by an unprecedented c.9mbpd YoY to 90.6mbpd for 2020. This is a result of 40% of the global population being under lockdown in April and May. As the world eases out of lockdown, we expect ground transportation to resume, while air travel will remain limited as countries remain cautious in opening borders to the world. We envision possible negotiated travel between countries could happen before global travel can return to normal – possibly when vaccines become available for the world population.

Supply is expected to be curtailed as a result of the OPEC+ agreement as well as higher-cost producers shutting down wells that are uneconomical at the current price range. With OPEC+ production cut and demand returning, we expect 3Q20-4Q20 to see demand outstrip supply by 5.64mbpd and 7.61mbpd respectively. All in all, we expect the markets to be more or less balanced for 2020F, with oversupply in 1H20 and a deficit in 2H20F.

Our main assumptions are:

i. For 2H20F, demand should slowly recover to 92.1mbpd (-8.4mbpd YoY) in 3Q20, then improve further to 95.8mbpd (-4.9mbpd YoY) in 4Q20. Full-year demand is expected at 90.6mbpd (-9.0mbpd YoY).

ii. For 2020F, non-OPEC production is expected to decline by 3.03mbpd YoY to 62.1mbpd, as higher-cost producers curtail production.

iii. We have assumed the OPEC+ production cut to be 7.7mbpd in August-December, and assumed 100% compliance by its members.

iv. We have included OPEC's latest quarterly estimates for 2021F. According to the OPEC+ agreement, OPEC 10 production will be at 23.1mbpd from Jan 2021-30 April 2022, assuming Venezuela, Iran and Libya produce c.2.6mbpd during this period; the total OPEC production will b c.25.7mbpd. At this rate of production, demand will outstrip supply by c.+/-3mbpd during that period. OPEC+ would normally try to balance the oil market, so we believe OPEC may likely increase production to meet the demand by that time. As such, we have assumed that OPEC+ will do all it can to balance the recovering oil markets.

We maintain our crude oil price outlook at USD45.00/bbl for 2H20F and USD43.00/bbl for 2020F. For 2021F-2022F, we expect crude oil prices to average USD55.00/bbl, and USD60.00/bbl in the long term.

Figure 4: Demand/supply and crude oil prices/forecasts

	2017	2018	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021
Crude oil price (USD/bbl)													
Brent ,RHB	54.4	71.2	64	50.6	31	45	45	42.9	50	50	60	60	55
World oil demand and supply balance, mbpd													
Total demand	97.52	98.98	99.69	92.67	81.84	92.10	95.83	90.63	96.50	96.82	97.79	99.33	97.63
YoY change		1.46	0.71	-6.13	-16.76	-8.40	-4.97	-9.06	3.83	14.98	5.69	3.50	7.00
Total non-OPEC	60.10	63.11	65.14	66.54	60.56	60.28	61.10	62.11	62.41	62.33	63.14	64.49	63.10
YoY change				2.14	-3.84	-4.62	-5.75	-3.03	-4.14	1.77	2.85	3.39	0.98
OPEC NGLs	5.18	5.33	5.26	5.35	5.09	5.08	5.13	5.16	5.24	5.24	5.24	5.24	5.24
Total non-OPEC	65.28	68.45	70.40	71.89	65.65	65.36	66.23	67.28	67.65	67.56	68.38	69.73	68.33
OPEC	31.5	31.3	29.3	28.3	25.6	21.1	22.0	23.5	28.9	29.3	29.4	29.6	29.3
Total production	96.76	99.79	99.74	100.15	91.25	86.46	88.23	90.78	96.51	96.82	97.80	99.33	97.62
Balance	-0.75	0.81	0.04	7.48	9.40	-5.64	-7.61	0.14	0.00	0.00	0.00	0.00	0.00

**Note: All numbers presented are from OPEC, while OPEC production number forecasts and the resulting crude oil balance are RHB estimates.*
Source: OPEC (Aug 20), RHB

Figure 5: OPEC+ production cuts for May 2020 through Apr 2022, with 9.7mbpd extended to July

(kbpd)	Oct 18 baseline production	1 May-30 July 2020 Adjust.	Adjust (%)	Voluntary production	1 Aug -31 Dec 2020 Adjust.	Adjust (%)	Voluntary production	1 Jan 2021-30 Apr 2022 Adjust	Adjust (%)	Voluntary production
OPEC 10, participating members										
Algeria	1,057	-234	-22%	823	-186	-18%	871	-140	-13%	917
Angola	1,528	-338	-22%	1,190	-268	-18%	1,260	-202	-13%	1,326
Congo	325	-72	-22%	253	-57	-18%	268	-43	-13%	282
Eq. Guinea	127	-28	-22%	99	-22	-18%	105	-17	-13%	110
Gabon	187	-41	-22%	146	-33	-18%	154	-25	-13%	162
Iraq	4,653	-1029	-22%	3,624	-817	-18%	3,836	-615	-13%	4,038
Kuwait	2,809	-621	-22%	2,188	-493	-18%	2,316	-372	-13%	2,437
Nigeria	1,829	-405	-22%	1,424	-321	-18%	1,508	-242	-13%	1,587
Saudi Arabia	11,000	-2433	-22%	8,567	-1931	-18%	9,069	-1455	-13%	9,545
UAE	3,168	-701	-22%	2,467	-556	-18%	2,612	-419	-13%	2,749
OPEC 10	26,683	-5902	-22%	20,781	-4685	-18%	21,998	-3529	-13%	23,154
Non-OPEC participating members										
Azerbaijan	718	-159	-22%	559	-126	-18%	592	-95	-13%	623
Bahrain	205	-45	-22%	160	-36	-18%	169	-27	-13%	178
Brunei	102	-23	-22%	79	-18	-18%	84	-13	-13%	89
Kazakhstan	1,709	-378	-22%	1,331	-300	-18%	1,409	-226	-13%	1,483
Malaysia	595	-132	-22%	463	-104	-18%	491	-79	-13%	516
Mexico	1,753	-388	-22%	1,365	-308	-18%	1,445	-232	-13%	1,521
Oman	883	-195	-22%	688	-155	-18%	728	-117	-13%	766
Russia	11,000	-2433	-22%	8,567	-1931	-18%	9,069	-1455	-13%	9,545
Sudan	75	-17	-22%	58	-13	-18%	62	-10	-13%	65
South Sudan	130	-29	-22%	101	-23	-18%	107	-17	-13%	113
Total Non-OPEC alliance	17,170	-3798	-22%	13,372	-3015	-18%	14,155	-2271	-13%	14,899
OPEC 10	26,683	-5,902	-22%	20,781	-4,685	-18%	21,998	-3,529	-13%	23,154
Non-OPEC	17,170	-3,798	-22%	13,372	-3,015	-18%	14,155	-2,271	-13%	14,899
OPEC+	43,853	-9,700	-22%	34,153	-7,700	-18%	36,153	-5,800	-13%	38,053

Source: OPEC, RHB

Winners And Losers Around The Region

As the world grapples with how to return to normalcy in the 'new normal', with COVID-19 still prevalent, we believe that crude oil prices will trend in an upward momentum for the rest of the year. Our research teams around the region have compiled the impact of rising oil prices on various sectors, and the winners and losers as follows:

Indonesia

Indonesia likely to benefit from higher oil price. Although Indonesia is a net oil importer, rising oil prices should support prices of other hard commodities (ie coal and CPO), which in turn will improve the domestic economy. Both coal and CPO contribute around 10% of the country's total trade. Historical data show that the JCI movement has a positive correlation with international oil prices. The main beneficiaries are companies in the plantation, mining & energy, auto, industrial estates, property, and poultry sectors (accounting for c.16.5% weightage on the JCI). The losers are likely companies involved in healthcare and transportation & logistics (c.3.2% weightage on the JCI).

Figure 6: Indonesia – Impact of higher oil prices on sector prospects

Sector	Impact	Comment
Auto	Positive	High oil prices commonly trigger increased prices of other commodities - such as CPO and coal - which are good for Indonesia's economy, as one of its major income sources is commodities. Higher CPO and coal should also boost vehicle demand. However, high oil prices are likely to drive higher material costs in general, increasing transportation costs.
Industrial Estates	Positive	Positive for industrial estates with heavy reliance on the oil & gas sector such as AKR Corporindo's (AKRA IJ, NR) JIIPE Gresik. Higher oil prices may trigger expansions in production capacity, which will lead to higher marketing sales. Nevertheless, we are of the view that higher oil prices will not impact industrial players in the Cikarang-Karawang area significantly.
Mining & energy	Positive	Higher oil prices are likely to trigger increases in other commodity prices - such as nickel, tin, and coal - which would benefit Indonesia mining companies. The increase in commodity prices should be more than enough to offset increased fuel costs as an impact of higher oil prices.
Plantation	Positive	Higher oil prices may narrow the Palm Oil Gas Oil (POGO) gap, which should provide an upside for palm oil prices. It is also more reasonable for the Government's B30 programme as the cost of production in the palm oil blend will be closer to the cost of buying gas oil.
Poultry	Positive	Upstream poultry feed uses cost-plus business model, and higher raw material costs will be eventually passed on to farmers. Higher oil prices = higher commodity prices, and may lead to better a economy in Indonesia, which could increase chicken consumption. Note that chicken consumption in Indonesia is relatively much lower, given that we are only 4-protein eaters, excluding pork.
Property	Positive	The boom in commodity prices in 2013-2014 had led to higher marketing sales from business owners in the respective sectors, funneling their gains into the property market, as well the spillover to its worker who enjoy higher salaries and bonuses to buy more property when commodity prices increase.
Healthcare	Negative	High oil prices are negative for pharmaceutical companies, as raw materials are oil-linked. Neutral impact for hospital operators. Prolonged high oil prices may lead to higher cost of electricity, but utilities expenses are minimal as compared to the total operational expenses for hospitals.
Cement	Negative	Cement's cost of sales is sensitive to increases in oil prices, as oil is part of energy costs for production, and for transportation costs for distribution. An increase in transportation costs may be passed on to customers. However, to offset the increase in production costs, ASPs need to increase, and may affect supply and demand.
Transportation & logistics	Negative	High oil prices will translate to higher potential of cutting fuel subsidies and increasing non-subsidised fuel prices. Based on our coverage, as of 1H20, Blue Bird (BIRD IJ, BUY, TP: IDR1,600) recorded fuel costs as 25% of its COGS. We may see some further pressure on its GPM if the Government decides to increase fuel prices, in view of higher oil prices.
Banks	Neutral	Higher oil prices may revitalise the oil & gas industry, and its appetite for loans, and could trigger positive sentiment for hard commodity loans. However, banks have been reducing their exposure to commodity loans since the bust of commodity in 2015.
Consumer	Neutral	High oil prices will increase raw material prices in general, as it could drive up other commodity prices. However, this could also boost the Indonesian economy, as the country is still heavily-reliant on commodities. Hence, we should also see higher demand as the economy grows more rapidly.
Infra	Neutral	The impact of high oil prices on the infrastructure sector is neutral, as the sector's cost structure is very small in oil for heavy equipment at project sites. Therefore, it does not have a significant impact on the sector.
Media	Neutral	Relatively small impact as most oil and gas players do not rely heavily on the retail market, and hence, do not need to advertise. Costs are not related to oil prices.
Telco	Neutral	High oil prices = better economy for Indonesia, as the price of other commodities – such as CPO and coal - could increase as well. However, utility expenses may also increase, as prolonged high oil prices may lead to higher electricity production costs.
Utilities	Neutral	IPPs and SPPs generally have fuel pass-through costs in the tariff rates. However, with the assumption that crude oil prices are rising as a result of an improving economy, sales to industrial customers (for SPPs) could be higher.

Source: RHB

Figure 7: Indonesia – Winners of higher oil prices

Companies	Ticker	Rec	TP	Comment
Adaro Energi	ADRO IJ	TRADING BUY	1,360	Higher oil prices should trigger increased coal prices.
Astra Agro Lestari	AALI IJ	BUY	13,700	Higher oil prices should narrow the POGO gap and provide an upside to palm oil prices.
Astra International	ASII IJ	BUY	6,200	Higher oil prices should trigger increased prices of other commodities, such as coal and CPO. ASII subsidiaries UNTR and AALI should benefit from this situation.
Ciputra Development	CTRA IJ	NEUTRAL	690	Higher commodity prices may bring back appetite for property investments, CTRA benefits from its well-distributed land banks nationwide
Indo Tambangraya	ITMG IJ	TRADING BUY	9,100	Higher oil prices should trigger increased coal prices.
Japfa Comfeed Indonesia	JPFA IJ	BUY	1,500	Higher raw material prices can be passed through for its feeds division. Rising commodity prices that support the domestic economy should support chicken consumption demand.
Pakuwon Jati	PWON IJ	BUY	460	Higher commodity prices may bring back appetite for property investments, PWON benefits from its heavy focus in East Java, in landed residential and high rise properties.
PP London Sumatra	LSIP IJ	NEUTRAL	1,070	Higher oil prices should narrow the POGO gap and provide an upside to palm oil prices.
United Tractors	UNTR IJ	BUY	25,000	Higher oil prices should trigger increased coal prices. This should boost demand for heavy equipment.

Source: RHB

Figure 8: Indonesia – Losers of higher oil prices

Companies	Ticker	Rec	TP	Comment
Blue Bird	BIRD IJ	BUY	1,600	Compressed GPM as fuel costs are c.25% of COGS
Garuda Indonesia	GIAA IJ	BUY	725	Compressed margins as fuel costs are c.17% of opex
Indocement Tunggal Prakarsa	INTP IJ	BUY	1,500	Indocement is already expanding its renewable energy and low-energy coal (LCV) portions to its total energy profile, offsetting the potential risks from a hike in oil prices.
Kalbe Farma	KLBF IJ	BUY	1,700	Pressure on GPM as pharmaceuticals contributed 22.1% to sales, and its raw materials are mostly oil-price linked.
Semen Indonesia	SMGR IJ	BUY	11,300	Plant location is more scattered nationally, thus diversifying operational risks - defensive margins with more controlled costs. Impact from oil price fluctuations is minimal.

Source: RHB

Malaysia

We acknowledge that higher oil prices will generally benefit the Malaysian economy, as a net energy exporter. Apart from the oil and gas sector being the primary beneficiary, higher oil prices are positive for the plantation (narrowing of the price gap between CPO and gasoil would boost biodiesel demand), and banking sectors (alleviating pressure on asset quality and credit costs), but negative for consumers (increase in transportation costs and lower disposable income), logistics (higher fuel costs), and the rubber gloves sectors (higher raw material costs). For other sectors, the impact may be rather insignificant. Top Picks under the rising oil price momentum are Serba Dinamik (SDH MK, BUY, TP: MYR2.55), Bumi Armada (BAB MK, BUY, TP: MYR0.30), and Malaysia Marine and Heavy Engineering (MMHE MK, NEUTRAL, TP: MYR0.40).

Figure 9: Malaysia – Impact of higher oil prices on sector prospects

Sector	Impact	Comment
Auto	Neutral	While high oil prices might translate to higher cost of vehicle ownership, we do not expect it to affect consumer behaviour materially
Aviation	Neutral	Minimal impact as airlines have already hedged their oil prices. For airports, fuel costs make up a low portion of total cost.
Banks	Positive	Banks' exposure to the O&G sector is low, at less than 2% of total business loans. That said, higher oil prices will alleviate pressures on asset quality and credit costs.
Basic Materials	Neutral	The impact of a potential rise in transportation and freight costs is likely to be manageable
Construction	Neutral	No immediate impact to the sector. High oil prices would mean better job prospects, which would entail higher demand for property. A higher number of new property launches will benefit construction players.
Consumer	Negative	Higher oil prices lead to a rise in transportation costs and lower disposable income, which is negative for consumer spending.
Gaming	Neutral	No significant impact to the sector. While Genting has a segment that does oil & gas exploration, and should benefit from higher oil prices, we note that earnings contribution is minimal (<3% earnings contribution).
Healthcare	Neutral	No significant impact on the sector.
Logistics	Negative	Negative on Westports as fuel costs make up around 15% of their total costs.
Media	Neutral	No significant impact on the sector.
Non-Bank Financials	Neutral	No significant impact on the sector.
Oil & Gas	Positive	Higher oil prices will directly benefit E&P players, churning out higher revenue. Should the higher oil prices be seen to be sustainable, it will prompt oil majors or national oil companies to scale up their spending. This would then translate into higher upstream activities, cascading work flow to the services players. With this, we may see upside earnings risks, coupled with widening margins. The severity will depend on the sub-segments within the value chain. On the other hand, higher oil prices will support petrochemical prices, given their high correlation.
Plantations	Positive	Should oil prices rise, this would mean that the price gap between CPO and gasoil would narrow, thereby making biodiesel more financially feasible. This would help sustain demand for palm oil.
Property	Neutral	There is no direct impact on the property sector. However, high oil prices would mean better job prospects, which would entail higher demand for property.
REITs	Neutral	No direct impact on the REITs sector, but higher oil prices would result in office buildings being heavily tenanted by oil & gas players (Wisma Technip, Menara Shell, Menara Exxonmobil, etc.). They would see sustained occupancy as these players are less likely to downsize.
Rubber Products	Negative	This could lead to higher raw material cost, as nitrile gloves are made from nitrile butadiene which is a petroleum downstream product.
Technology	Neutral	No significant impact on the sector.
Telecoms	Neutral	No significant impact on the sector.
Utilities	Neutral	While crude oil price fluctuations may have some impact on LNG prices, the earnings impact on Tenaga Nasional and the IPPs are expected to minimal under the ICPT mechanism.

Source: RHB

Figure 10: Malaysia – Winners of higher oil prices

Companies	Ticker	Rec	TP	Comment
Bumi Armada	BAB MK	BUY	0.30	Higher work demand for OSVs and construction assets, and potentially more FPSO job tenders.
Serba Dinamik	SDH MK	BUY	2.55	Higher O&M work demand
MMHE	MMHE MK	NEUTRAL	0.40	Higher offshore fabrication jobs
Yinson	YNS MK	BUY	7.77	Potentially more FPSO job tenders
Petronas Chemicals	PCHEM MK	SELL	4.76	Higher oil prices will support the recovery of petrochemical prices
IJM Plantation	IJMP MK	BUY	2.20	Should oil prices rise, this would mean that the price gap between CPO and gasoil would narrow, thereby making biodiesel more financially feasible. This would help sustain demand for palm oil. IJMP, being a pure planter, would benefit greatly from an increase in CPO prices.
Genting Plantation	GENP MK	NEUTRAL	9.35	Should oil prices rise, this would mean that the price gap between CPO and gasoil would narrow, thereby making biodiesel more financially feasible. This would help sustain demand for palm oil. Besides higher CPO prices, GenP would also benefit from higher biodiesel take-up for its biodiesel plant.
SOP	SOP MK	BUY	4.20	Should oil prices rise, this would mean that the price gap between CPO and gasoil would narrow, thereby making biodiesel more financially feasible. This would help sustain demand for palm oil. Besides higher CPO prices, SOP would also benefit from higher biodiesel take-up for its biodiesel plant.

Source: RHB

Figure 11: Malaysia – Losers of higher oil prices

Companies	Ticker	Rec	TP	Comment
Hartalega	HART MK	BUY	21.60	This could lead to higher raw material costs, as nitrile gloves are made from nitrile butadiene which is a petroleum downstream product.
Top Glove	TOPG MK	BUY	33.30	This could lead to higher raw material costs, as nitrile gloves are made from nitrile butadiene which is a petroleum downstream product.
Westports	WPRTS MK	NEUTRAL	3.85	Fuel costs makes up around 15% of their total cost. Hence, earnings should be affected.

Source: RHB

Singapore

A rise in oil prices is expected to have a net negative impact, although a marginal impact on the country's economic growth. This is evident from our assessment on various business sectors in the country, with most sectors expected to see an insignificant impact from a rise in oil prices. The impact will be positive for the offshore and marine sectors, whereby a sustained rise in oil prices may revive the oil drilling business and lead to revival of order books. The impact will also be positive for the plantation sector, whereby the rise in oil prices would mean the price gap between CPO and gasoil would narrow, making biodiesel more financially feasible. This would help sustain demand for palm oil. The impact will be negative for the transport and logistics sector, where energy accounts for a significant portion of operating costs.

Within our coverage universe, we see China Aviation Oil (CAO SP, NEUTRAL, TP: SGD0.95), CSE Global (CSE SP, BUY, TP: SGD0.60), First Resources (FR SP, NEUTRAL, TP: SGD1.45) and Keppel Corp (KEP SP, BUY, TP: SGD7.30) as the key winners, while ComfortDelGro (CD SP, BUY, TP: SGD1.55) and Singapore Airlines (SIA SP, NR) would see most negative impact from higher oil prices.

Figure 12: Singapore – Impact of higher oil prices on sector prospects

Sector	Impact	Comment
Banks / NBFCs	Neutral	Rising oil prices will strengthen lending to and improve asset quality of offshore & marine companies. However, companies that use oil for manufacturing/services could be adversely affected.
Consumer & gaming	Neutral	No significant impact.
Healthcare	Neutral	No significant impact.
Offshore & Marine	Positive	Offshore & marine companies could see orderbook improvements if oil prices move higher.
Plantations	Positive	Should oil prices rise, this would mean the price gap between CPO and gasoil would narrow, thereby making biodiesel more financially feasible. This would help sustain demand for palm oil.
Property	Neutral	No significant impact.
REITs	Neutral	No significant impact.
Technology & Manufacturing	Neutral	No significant impact.
Telecoms	Neutral	No significant impact.
Transport & Logistics	Negative	A rise in oil prices will be bad for transport and logistics companies, as it will add to operating cost pressures, especially in the current economic environment of weak demand, where the revenue outlook remains bleak.

Source: RHB

Figure 13: Singapore – Winners of higher oil prices

Companies	Ticker	Rec	TP	Comment
China Aviation Oil	CAO SP	NEUTRAL	0.95	CAO is Asia's largest jet fuel trading and supply company. Everything else being equal, higher oil prices are generally indicative of higher demand for oil and jet fuel. This would imply higher jet fuel trading and supply volumes, and thus higher revenues for CAO. Profits will also be higher for the cost plus jet fuel supply business in China.
First Resources	FR SP	NEUTRAL	1.45	Should oil prices rise, this would mean that the price gap between CPO and gasoil would narrow, thereby making biodiesel more financially feasible. This would help sustain demand for palm oil. Besides higher CPO prices, FR would also benefit from higher biodiesel take-up for its biodiesel plant.
Keppel Corp	KEP SP	BUY	7.30	Higher oil prices will help to drive the orderbook for Keppel's offshore & marine business. It could therefore see this segment incurring lower losses or even turn profitable.
CSE Global	CSE SP	BUY	0.60	CSE would be a beneficiary of a rise in oil prices, as it is likely to secure more orders from the oil majors as the latter looks to ramp up production during the high oil price environment.

Source: RHB

Figure 14: Singapore – Losers of higher oil prices

Companies	Ticker	Rec	TP	Comment
ComfortDelGro	CD SP	BUY	1.55	A rise in oil prices will be bad for ComfortDelGro's rail business, where the revenue is already weak due to lower-than-expected ridership.
Singapore Airlines	SIA SP	NOT RATED	na	Although a rise in oil prices will lower the MTM losses for previously hedged expensive jet fuel, it will delay any potential recovery in its earnings that is already impacted by COVID-19.

Source: RHB

Thailand

Thailand is a net importer of crude oil, which represents 14% or THB840bn (c.5% of GDP) of the total country's imports each year between 2007 and 2019. Excluding FX concerns, a rise in oil prices could be a major threat to the economy, as oil accounts for 15% of total manufacturing costs, 10% for the construction industry, and 30-40% of total costs in the transportation sector (sea and air). In the capital market, oil & refinery stocks will see a boost, and they command 9.4% of the total SET market cap. According to our calculations, if these stocks rise by 10%, it could deliver a positive impact of 0.95% to the SET index. Top Picks under the rising oil price momentum: PTT Exploration & Production (PTTEP TB, BUY, TP: THB108), PTT (PTT TB, BUY, TP: THB44.90), and PTT Global Chemical (PTTGC TB, NEUTRAL, TP: THB52.00).

Figure 15: Thailand – Impact of higher oil prices on sector prospects

Sector	Impact	Comment
Auto	Neutral	Relatively small impact on vehicle purchasing power as there are alternative fuels
Aviation	Negative	A significant impact on operating costs as oil contributes around 30-40%
Banks	Neutral	No direct impact
Basic Materials	Negative	Diesel used in logistics account for 10% of overall costs, while natural gas – with the price direction lagging oil price by 3 months – used in production, accounted for 20-25% of overall production costs. Impact on Siam Cement (SCC TB, BUY, TP: THB440) and Dynasty Ceramic (DCC TB, SELL, TP: THB2.10)
Construction	Negative	Usually, diesel costs account for 10% of overall construction costs. It will affect only under-construction projects while the oil price factor can be passed on to clients for future projects. Impact on CH Karnchang (CK TB, BUY, TP: THB 22.50) and Sino-Thai Engineering & Construction (STEC TB, BUY, TP:THB17.50)
Consumer	Neutral	Consumer product manufacturers may be able to pass on the rising energy costs to end-users. Meanwhile, retailers' logistics costs may be affected by the oil price hike, but its contribution is unlikely to material, compared with a company's total operating expense.
Healthcare	Neutral	Even though Middle East patients are the major contributor to TH medical tourism revenue, we believe there will be no direct impact from the change in oil price.
Logistics	Negative	Oil contributes around 30-40% of total operating costs for marine & air logistics.
Media	Neutral	No direct impact.
Non-Bank Financials	Neutral	No direct impact.
Oil & Gas	Positive:	Higher crude oil prices in general, indicate a stronger global economy, and demand. This will benefit the upstream oil & gas players (PTTEP), refineries and petrochemicals companies (BCP, IRPC, TOP, PTTGC and SPRC) as well as integrated players (PTT).
Agriculture	Positive	Relatively positive to the rise of palm oil price for United Palm Oil industry (UPOIC TB, N/A), Univanich Palm Oil (UVAN TB, N/A), Global Green Chemicals (GGC TB, N/A), and Vichitbhan Palmoil (VPO TB, N/A), and rubber price for companies like Sri Trang Agro Industry (STA TB), and rubber product prices for companies like Sri Trang Gloves Thailand (STGT TB, N/A).
Property	Neutral	No direct impact.
REITs	Neutral	Among REITs in Thailand, only REITs relating to warehousing services should benefit indirectly from an oil price rise. REITS with this underlying asset type include WHART, FTREIT, AIMIRT, and M-STOR.
Technology	Neutral	There is no direct impact from a change in oil prices.
Telecoms	Neutral	There is no direct impact from a change in oil prices.
Utilities	Neutral	IPPs and SPPs generally have fuel pass-through costs in the tariff rates. However, with the assumption that crude oil prices are rising as a result of the economy improving, sales to industrial customers (for SPPs) could be higher.

Source: RHB

Figure 16: Thailand – Winners of higher oil prices

Companies	Ticker	Rec	TP	Comment
PTT Exploration & Production	PTTEP TB	Buy	108	We expect a pick-up in 2H20 sales volumes from 2Q20's lows, while 4Q20 should see the Sabah-H natural gas project enter (+20kboepd to 4Q20F volume). Crude oil prices should trade at the USD40.00-50.00/bbl band, which should help alleviate the softer natural gas prices towards the end of the year.
Bangchak Corp	BCP TB	Neutral	21.30	Higher oil price generally indicates a strong global economy and crude oil demand. This, in turn, should benefit the refineries and petrochemicals companies, as prices and spreads generally trend higher. At the moment, demand for refined products remain under pressure due to the resurgence of the COVID-19 pandemic, leading to rolling lockdowns in cities across the world. Most of the stocks under coverage have now reached our TP for the moment.
IRPC	IRPC TB	Neutral	2.70	
Star Petroleum Refining	SPRC TB	Buy	7.30	
Thai Oil	TOP TB	Neutral	39.80	
PTT Global Chemical	PTTGC TB	Neutral	52.00	
PTT	PTT TB	Buy	44.9	2H20F should see a recovery, with most of its gas separation plants running at optimal levels and its oil retail business picking up from 2Q lows. We expect peak earnings in 4Q20. PTT's long-awaited listing of its PTT Oil & Retail Business subsidiary within the next 12 months should also provide some positive momentum.
Electricity Generating	EGCO TB	Buy	347	Utilities companies are mostly defensive stocks to hold during economic slowdowns, as earnings are generally stable. Demand for electricity has mostly been unfettered by the pandemic. At current prices, dividend yields are at c.2-4%
Global Power Synergy	GSPC TB	Buy	80	
Ratch Group	RATCH TB	Neutral	75	

Source: RHB

Figure 17: Thailand – losers of higher oil prices

Companies	Ticker	Rec	TP	Comment
Thai Airways International	THAI TB	N/A	N/A	Not under coverage
Sahviriya Steel Industries	SSI TB	N/A	N/A	Not under coverage
Thoresen Thai Agencies	TTA TB	N/A	N/A	Not under coverage

Source: RHB

The Oil Impact On Regional Economies

Our regional economists provided us with their views on the impact of oil on the economies around the region. The following represents these views.

Overall, the impact to a country's macro economy varies substantially. Malaysia, being the only net exporter among the four nations featured below, is set to benefit the most. However, for the net importers, any impact to their domestic economies can be managed to some extent.

In Indonesia, a price rise in other commodities – such as coal and CPO – benefits its other sectors, while the Indonesian Government may increase fuel subsidies to limit the impact to consumption. For Singapore, despite eating away at consumers' purchasing power, higher prices bring benefits to its oil & gas industries. The most vulnerable of the four is Thailand, although the improvements in refineries and the E&P sector partly mitigate these repercussions.

Indonesia: Rising fuel prices complicates economic woes

Although a large net oil importer, a high oil price environment is a mixed bag for this nation. The Indonesian Government earns more in revenue from oil & gas, which can be channelled towards subsidising fuel costs – in turn, this helps keep consumption afloat and inflation manageable. Additionally, a rise in other commodity prices – such as coal and CPO – benefits the other segments of the economy.

However, concerns come from the weakening exchange rate, as the current account deficit deteriorates. Additionally, rising fuel prices and higher subsidy commitments could complicate the Indonesian Government's struggle with the continued rise in the number of COVID-19 cases, as well as the declining domestic economic momentum.

Fiscal. There is a positive relationship between oil prices and government oil & gas revenue. Based on our estimates, an increase in oil price to USD40.00 per bbl from USD30.00 per bbl is expected to raise oil & gas revenue to IDR100trn from IDR77trn – growth of almost 30%. This estimate assumes the exchange rate level remaining constant.

On the flip side, higher oil prices can also increase the Indonesian Government's subsidies burden. Energy subsidies amounted to IDR95.6trn under Budget 2020, of which half was estimated to be for oil & gas subsidies. However, on balance, as the Indonesian Government earns more in revenue from oil & gas than it spends on subsidies, higher oil prices effectively increase its bottomline.

Current account and exchange rates. As a sizeable net importer, rising oil prices weaken its terms of trade and deteriorates the trade balance. Efforts have been undertaken to reduce the reliance on oil imports, such as the use of domestically produced palm biodiesel. However, any implications so far have been marginal. Overall, we could expect a mild widening in the current account deficit to a range between 1.5% and 2% of GDP in 2020. Alongside the deterioration of the current account, the IDR could also face some weakening, as more funds flow out of the country.

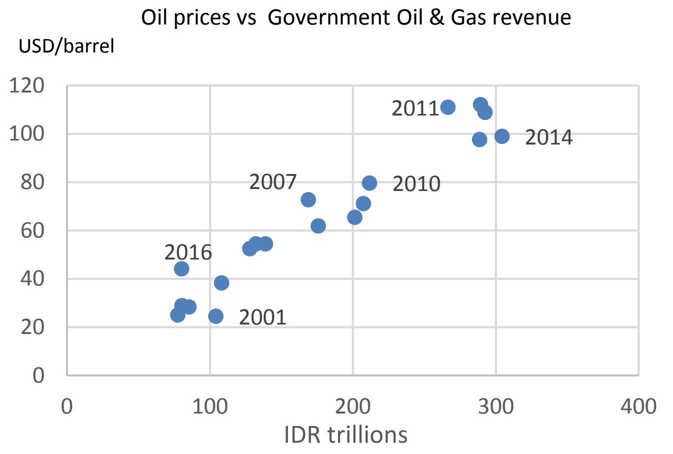
Inflation and monetary policy. Despite the fall in global oil prices so far in 2020, subsidised retail fuel prices have not fallen in tandem, causing inflation growth to remain positive so far. As a result, we suspect that a rebound in oil prices is unlikely to cause much increase in retail fuel prices, with any surge compensated by a rise in the Indonesian Government's energy subsidies.

Conditions could change, however, if oil prices increase higher than what the Indonesian Government is willing to cover, leading to an upwards revision in retail fuel prices and – subsequently – inflationary pressures. On the monetary policy front, we believe the Government's focus remains towards growth in the short run by keeping the interest rates low as it battles the COVID-19 pandemic.

GDP growth. Higher oil prices act as an additional burden to the domestic economy, as it takes a toll on consumption. However, this could be partly offset by higher subsidy spending. In addition, a rise in oil prices often comes with an increase in the price of other commodities like coal and palm oil, which are major economic generators. This may partly offset any adverse impact that oil prices have on the economy – the bigger concern could come from a weakening exchange rate as the current account deficit deteriorates.

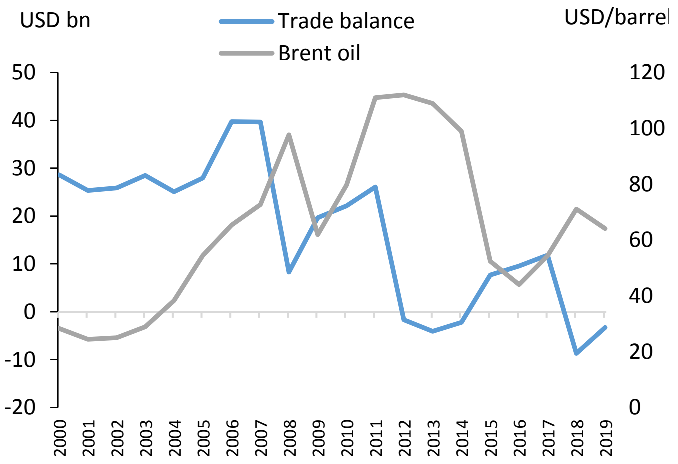
Additionally, rising fuel prices and higher subsidy commitments could complicate the Government's struggle with a continued rise in the number of COVID-19 cases, as well as the declining domestic economic momentum. So far we maintain our outlook for GDP growth at -1% YoY, pricing in a slow recovery in 2H20.

Figure 18: Higher average oil prices lead to better government revenues



Source: CEIC, RHB

Figure 19: Oil prices and trade balance have an inverse relationship



Source: CEIC, RHB

Malaysia: Price rebound a boon to economic recovery

Any upward shift in oil prices will tilt the Malaysian economy towards a higher growth potential. Being a net energy exporter, the Malaysian Government's revenue and current account is expected to improve, lending support for a better economic recovery – although there is a risk of higher inflation and weakening consumption. These, however, are likely to be manageable and can be mitigated through higher fuel subsidies and support for the low income group, if need be.

Fiscal. Excluding the special dividend of MYR30bn, which is a one-off, oil revenue accounts for 20% of total government revenue in 2019. It is estimated that every USD1.00 increase in average global oil prices for the year should translate into an additional fiscal revenue of about MYR300m for the Malaysian Government. The rise in revenue collection as a result of higher oil prices could help lower the fiscal deficit burden, currently estimated at 5.8-6% of GDP in 2020 – according to the Ministry of Finance – and also allows for higher spending to be channelled into productive investments.

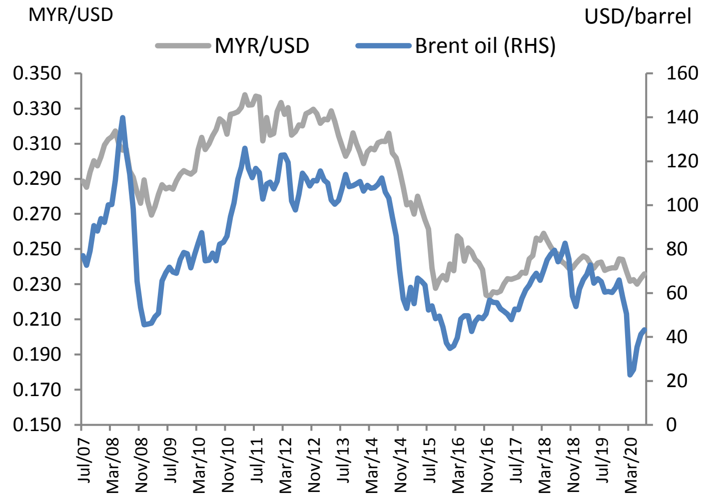
Current account and exchange rates. As a net oil exporter, the country could expect to see an improvement in the trade balance on account of higher oil price, which should supplement the current account surplus – this is estimated at 1.5% of GDP in 2020. In this regard, the MYR could also see a better value against the USD following the increased inflow of funds via higher FX earnings.

Inflation and monetary policy. With negative inflation growth for four consecutive months (June: -1.9% YoY), any improvements in oil prices should tilt inflation back towards normalcy. This, together with the improvement in demand-pull pressures, will likely lead to higher price pressures in 2H20. In any case, higher oil prices and rising inflation are unlikely to shift Bank Negara Malaysia's easing stance in the short term, given that the current key priority should be on strengthening recovery.

GDP growth. The impact of higher oil prices is expected to be uneven across the economic segments. Primarily, consumption will be negatively affected, as higher pump prices and inflation eats away at disposable income. However, sharply rising oil prices could trigger the Malaysian Government to impose an upper limit on retail fuel prices, effectively transferring the burden towards itself instead, as it has done so before. The Malaysian Government could also increase fiscal support – especially towards the low income group – to mitigate any adverse impacts.

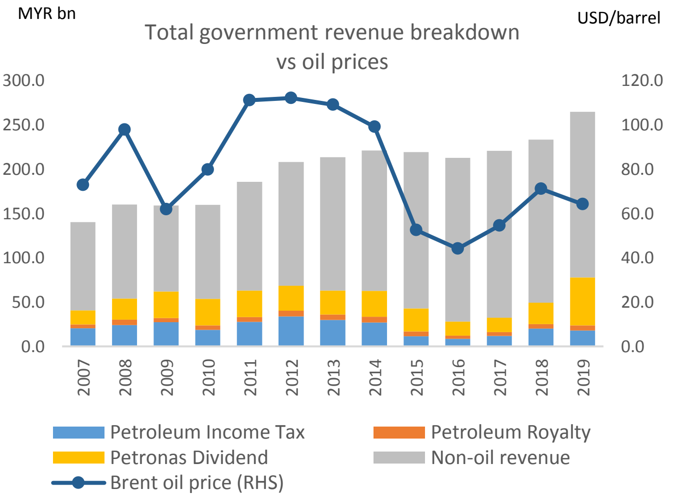
On the positive side, the better performance of energy-related industries and a higher trade surplus could improve wage growth, which trickles down to the rest of the economy. The investment outlook is also likely to improve in the medium term following improvements in capacity. On a net basis, assuming an effective distribution of oil revenues across economic sectors, GDP growth is likely to trend higher.

Figure 20: MYR and oil prices tend to move together



Source: CEIC, RHB

Figure 21: Excluding special dividends, petroleum-related revenue accounted for 20% of total revenue in 2019



Source: CEIC, RHB

Singapore: A double-edged sword as oil prices rebound

A hike in oil prices should be net negative for Singapore's economy. Despite the potential for improvements in the oil & gas industries, a rebound in oil prices is likely to drag Singapore's growth, as costly imports and higher costs to consumers are likely to dampen private consumption expenditure. However, the impact of changes in oil prices to the economy will likely be marginal and can be mitigated, following the city state's market-based policies and efficient distribution of risk.

Fiscal. Imports and excise duties for petroleum account for about 1.5% of the city state's total operating revenue. Additionally, the corporate tax revenue generated from the oil & gas sector should add towards additional fiscal income, although the industry accounts for 4% of GDP. Hence, the hike in oil price should reflect an increase in tax revenue from petroleum, but it will only reflect a minimal change in the country's fiscal position.

Current account and exchange rates. Singapore maintains a net deficit in oil & gas, considering its use in domestic consumption as well as downstream processing. An increase in oil prices should result in costlier imports and is likely to narrow the trade balance, as oil roughly accounts for 18.7% of total trade.

Consequently, we would expect a fall in the current account surplus following a slight decrease in the goods account. However, on currencies, higher oil prices tend to lead to an appreciation of the SGD. This stems from the Monetary Authority of Singapore's (MAS) policy to manage currency as a means of lowering domestic fuel prices.

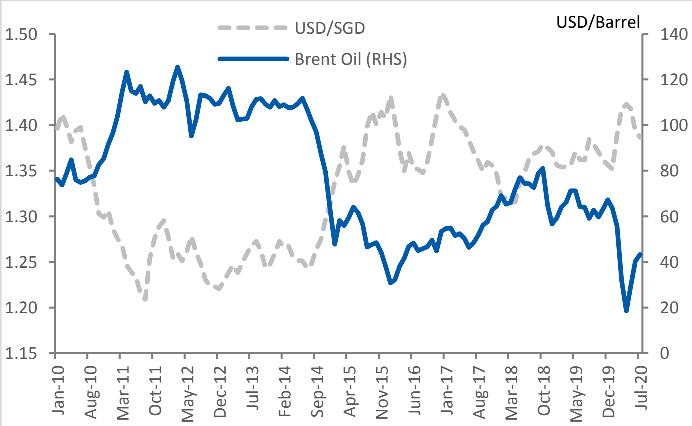
Inflation and monetary policy. Cost-push pressures are likely to impact inflation following a rise in oil prices, as private transport costs and energy-related components of the Consumer Price Index (CPI) basket are expected to trampoline upwards. However, the weight of energy-related CPI components only account to 3.9% of the CPI basket, hence a direct effect should be marginal, although second-round effects to other CPI components could be present.

An upward trajectory in inflation could trigger MAS to appreciate the SGD to tame imported prices. However, we expect the authority to maintain its neutral stance in Oct 2020, as there is some degree of resilience in the domestic economy against higher oil prices. There is also the need to support forward growth.

GDP growth. A hike in oil prices benefits oil-related industries, as they account for 4% of GDP. Sectors to benefit include marine & offshore engineering, wholesale trade, and transportation & storage of crude oil and fuels. On the flip side, with the absence of fuel subsidies, the higher oil prices should dampen private consumption expenditure. This may complicate the Singaporean Government's recovery efforts, as COVID-19 support measures begin to taper off.

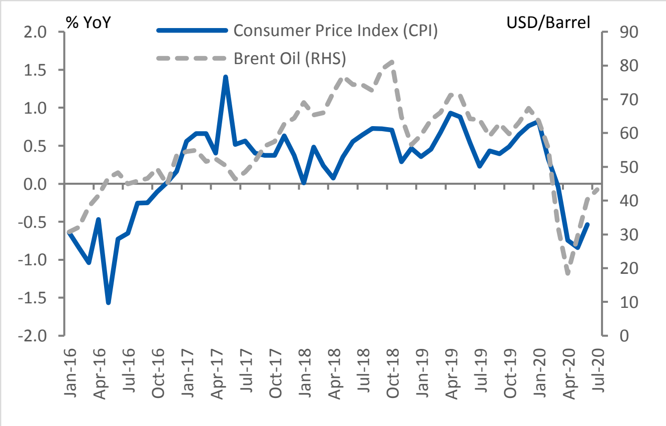
Overall, a rise in oil prices is net negative for the economy. However, given its market-based policies and efficient distribution of risk, any adverse impact can be mitigated. For now, we maintain our 2020 GDP growth outlook at -5.6% YoY.

Figure 22: USD/SGD appreciates with higher oil prices



Source: CEIC, RHB

Figure 23: Inflation follows the pattern of oil prices



Source: CEIC, RHB

Thailand: Price rebound adding pressure on recovery

As a large net oil importer nation, a rebound in oil prices is likely to have an overall net negative impact on the economy. However, the impact is likely to be manageable, given that the marginal increase in oil price is not significant.

Rising fuel prices could lead to inflationary pressures, which could have a negative impact on domestic demand – the latter is already struggling due to COVID-19. However, an uptick in oil prices should benefit the refineries and E&P sectors, which could help to soften the impact on the economy.

Fiscal. Oil revenue accounts for 2.8% of total government revenue in 2019 – an increase from the 1.4% level in 2017. This follows the enactment of the Petroleum Act and Petroleum Income Tax Act (No. 7) on 22 Jun 2017, which introduced production sharing agreements and service contracts as instruments that can be used by petroleum E&P companies to invest in the country. The increase in oil prices is unlikely to have a significant impact on the fiscal position of the Thai Government for FY20.

Current account and exchange rates. As a net oil importer, the country could expect to see its trade balance surplus narrow when oil prices improve. Over the last 10 years, Thailand entered into a trade deficit (2011-2014) when the Brent crude oil averaged at above USD90.00 per bbl. When oil prices plummeted in 2016, the trade surplus widened to USD21.2bn.

With services, primary and secondary income expected to see a deterioration amidst the absence of foreign tourists in most parts of 2020, we think the current account surplus could narrow further when oil prices increase – this is as the trade balance surplus is likely to narrow. While this should taper some of the THB's strength, stronger oil prices also mean a weaker USD. Overall, we think the local currency will still strengthen slightly towards the end of this year.

Inflation and monetary policy. With negative inflation growth over the last five consecutive months and a 6-month average of -1.5%, improvements in oil prices should tilt inflation back towards positive territory. However, inflation is likely to remain weak, as recovery in demand is likely to stay gradual amidst the lingering effects of the pandemic.

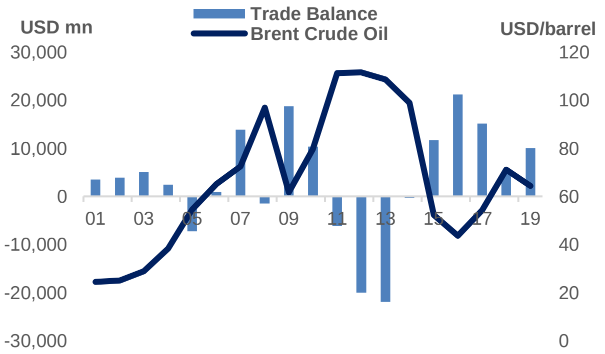
Cost-push pressures, however, should be able to help inflation return to the Bank of Thailand's inflation target of 1-3% next year. We think the central bank is likely to stay put on its monetary policy stance despite rising inflation, as economic growth remains weak.

GDP growth. The impact of higher oil prices is expected to weigh on the post-pandemic economic recovery, as fragile domestic demand is likely to be dampened further by an increase in oil prices. Given that international borders are likely to remain closed until the end of this year, Thailand's services industry will need rely more on domestic consumption.

Aside from that, the manufacturing sector – which is starting to see improvements following the easing of lockdown measures – should also be affected by the increase in raw material prices and electricity costs. On a positive side, higher oil prices are likely to lift demand for some of the refinery players and the E&P sector.

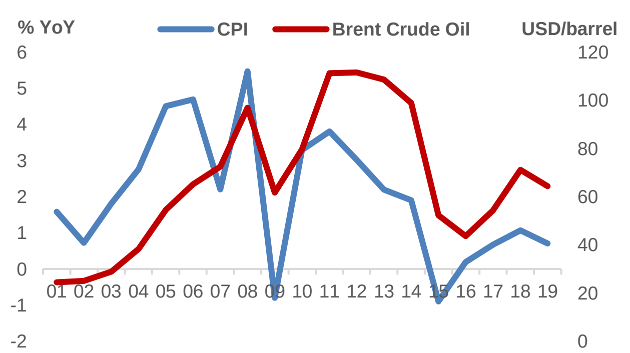
On a net basis, the impact on GDP growth is likely to be biased towards the downside, given the impact on domestic consumption, which is already struggling following the effects of COVID-19 and lockdown measures imposed to combat the spread of the pandemic.

Figure 24: Trade balance turns into deficit when oil prices breach USD90.00 per bbl



Source: Ministry of Commerce, US Energy Information Administration (EIA)

Figure 25: Inflation is likely to strengthen when oil prices increase



Source: CEIC, EIA

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