

2020 Oil Crash Impact

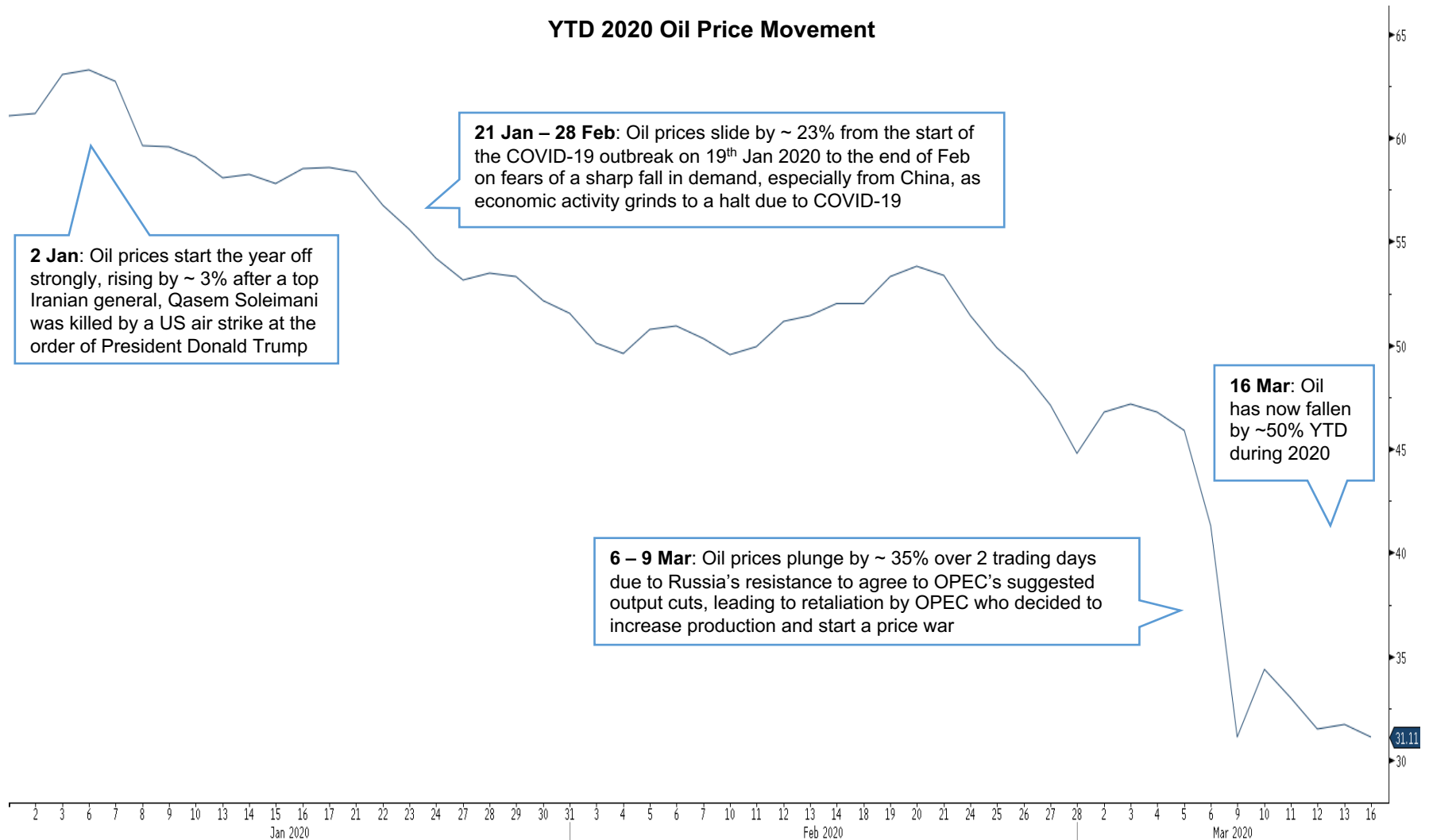
16th March 2020



2020 Oil Price Movement

Oil has had a volatile start to 2020

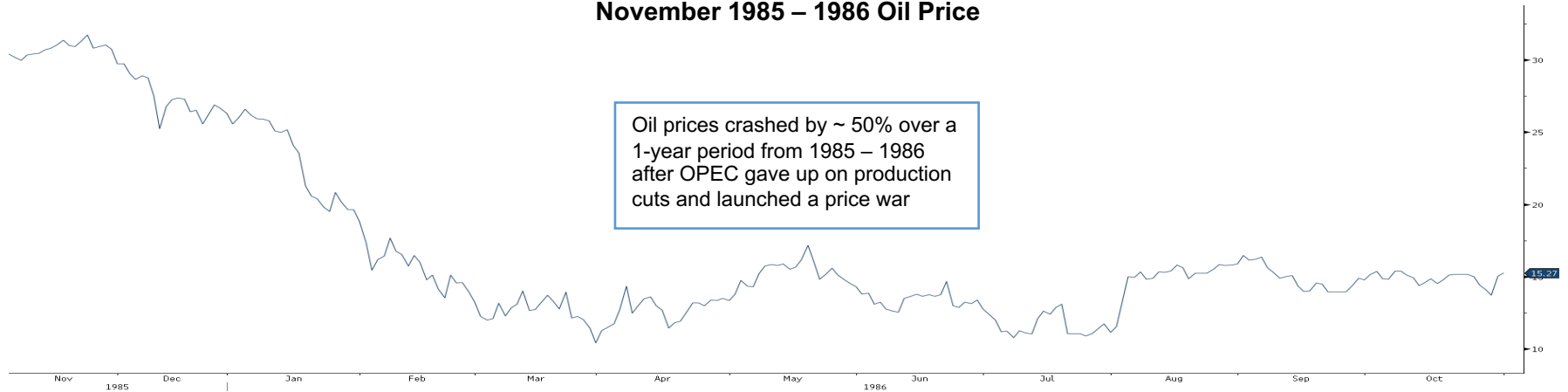
YTD 2020 Oil Price Movement



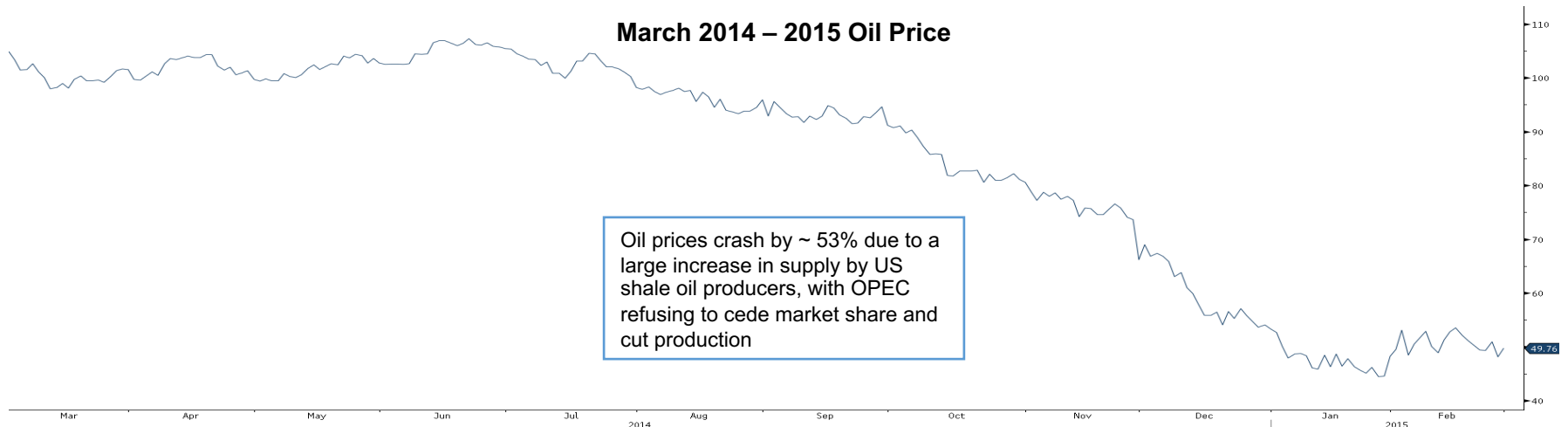
1985 & 2014 Oil Price Crash

The 2020 collapse in oil prices is similar to the events of 1985 and 2014, where an increase in production by OPEC also led to a huge slide in oil prices

November 1985 – 1986 Oil Price



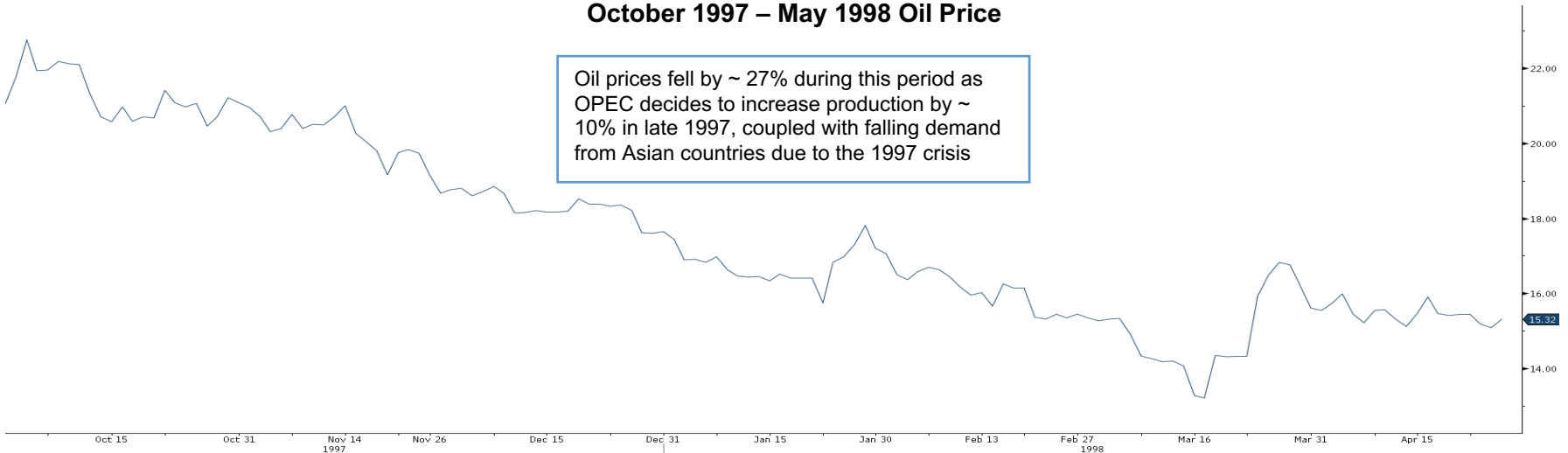
March 2014 – 2015 Oil Price



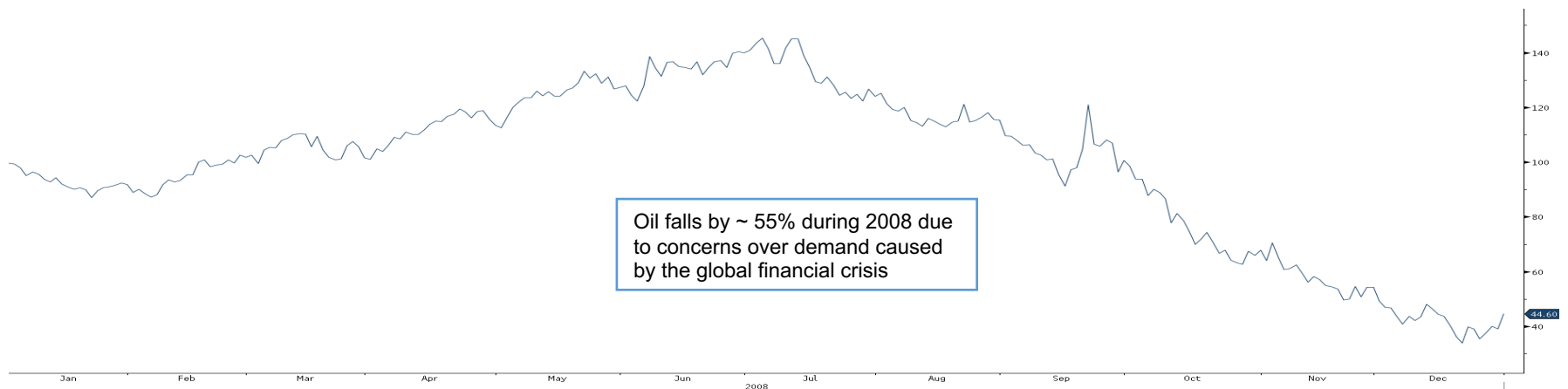
1998 & 2008 Oil Price Crash

1997 is also similar to current conditions with the presence of both a demand shock and an increase in OPEC production, while the fall in oil price during 2008 was driven by the GFC

October 1997 – May 1998 Oil Price



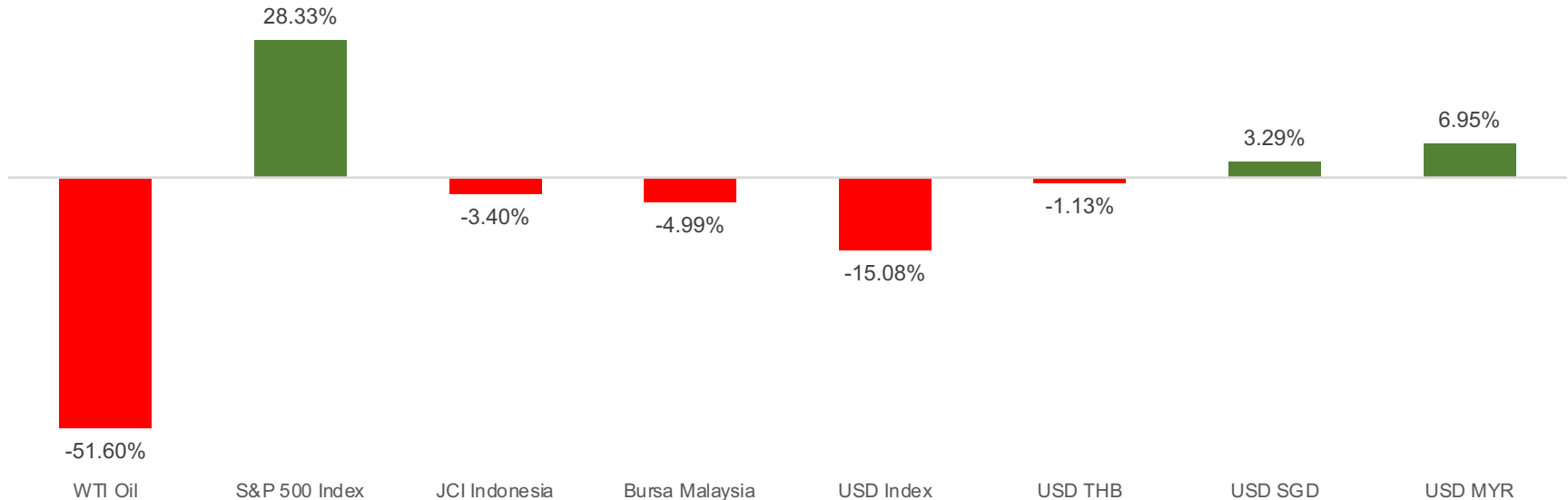
2008 Oil Price



1985 – 1986 Market Returns

The US outperformed, while the ASEAN region suffered during the 1985 – 1986 oil shock

November 1985 – November 1986 Equity Index & Currency Returns



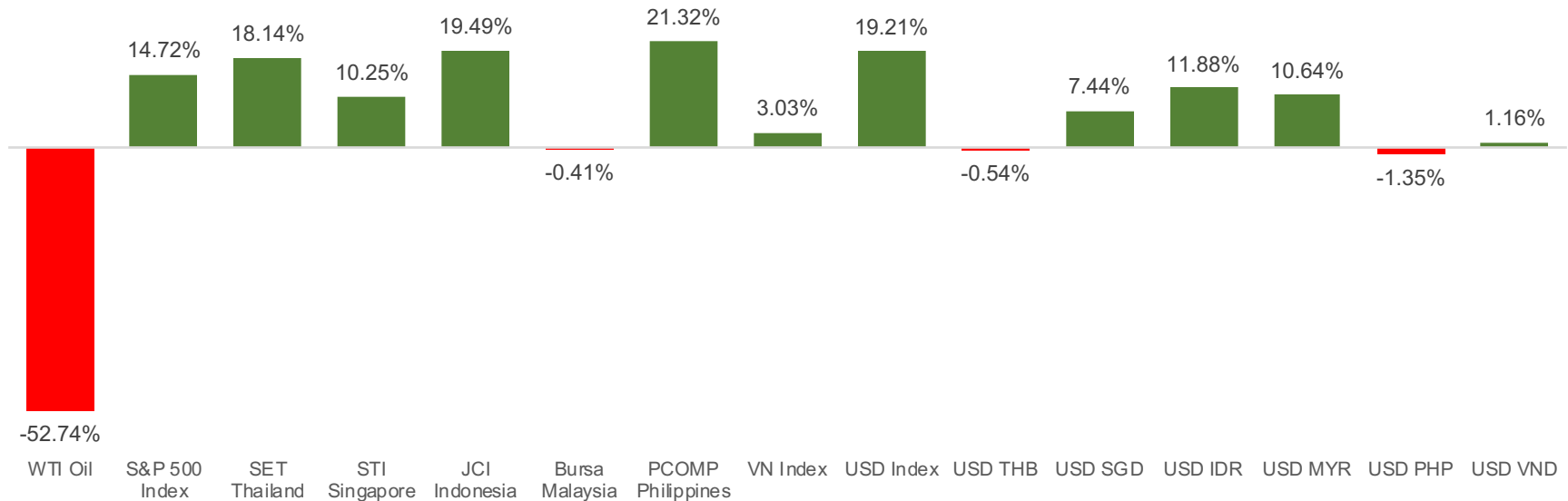
Observations:

- Similar to current conditions in 2020, the 1985 oil shock saw OPEC increase production, sending oil prices down by ~ 52% over a 1-year period
- Despite the crash in oil prices, the S&P 500 Index gained ~ 28% during this period
- Malaysia was the worst performer during this period, with the Malaysia Index falling by ~ 5% and the MYR depreciating by ~ 7%; the poor performance of Malaysia was most likely due to Malaysia's reliance on oil revenues
- The THB was the strongest currency vs the USD during this period, strengthening ~ 1%
- The USD was surprisingly weak, declining by ~ 15%
- *Note that data for the SET Index, STI Index, Philippines Index & Vietnam Index are unavailable as of 1985*

2014 – 2015 Market Returns

The 2014 – 2015 period represents the most recent time OPEC increased production and being the most relevant to current conditions in 2020

March 2014 – March 2015 Index & Currency Returns



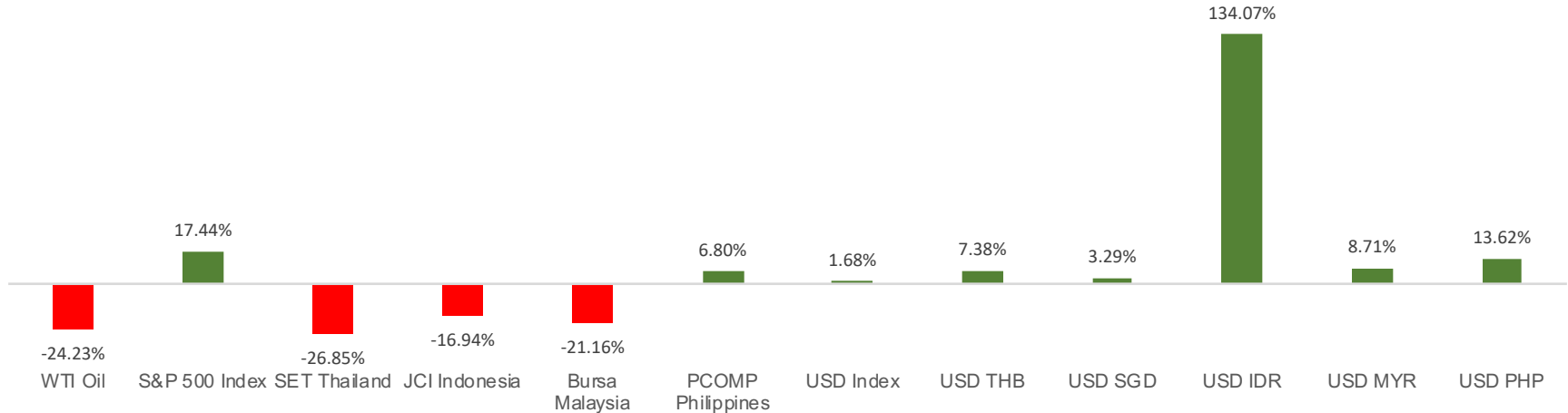
Observations:

- The 2014 – 2015 period is the most recent time OPEC has increased production and therefore the most relevant to current conditions in 2020
- The increase in OPEC supply led to a ~ 53% fall in oil prices, but share price performance remained strong, with the S&P 500 index rising by ~ 15% during this period
- The ASEAN region outperformed the US during this period, due to most countries being net oil importers, leading to lower inflation and higher consumer spending in the country
- The Philippines was the biggest gainer during the 2014 – 2015 period, rising by ~ 21%, while the Peso was also strong, appreciating by ~ 1.4% vs the USD; Thailand was the other major outperformer, with the SET Index rising by ~ 18% and the THB appreciating by ~ 0.5%
- Malaysia, due to its status as a net oil exporter was the biggest loser during this period

1997 – 1998 Market Returns

The 1997 – 1998 period had shocks to both the demand and supply of oil, similar to current conditions in 2020, but the '97 Asian Financial Crisis is unlikely to be repeated in 2020

October 1997 – May 1998 Index & Currency Returns



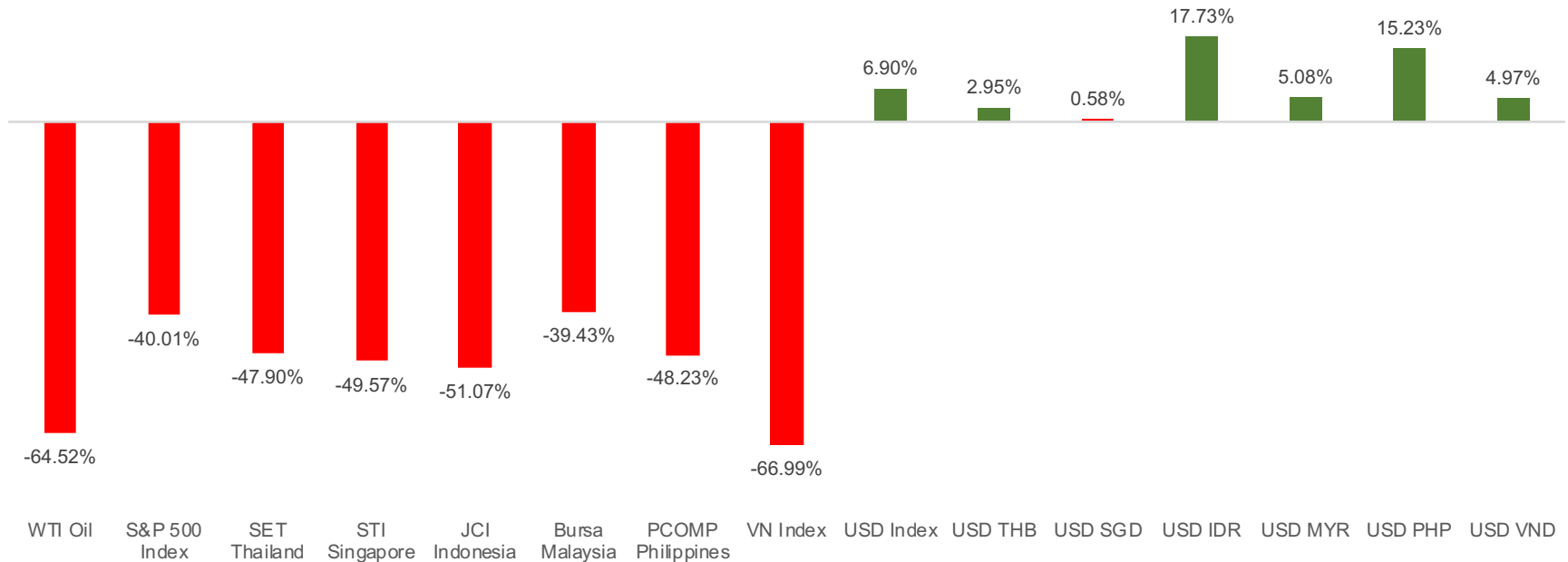
Observations:

- Similar to current conditions in 2020 where the oil market is experiencing a shock to both demand (from COVID-19) and supply (OPEC production increase), 1997 saw both a demand shock (from the Asian Financial Crisis) and a supply shock (from an increase in OPEC production)
- However, the demand shock in 1997 was much less severe than in 2020 due to the smaller economies of the hard-hit ASEAN region, while the supply shock was also less severe than in 2020, leading to a fall of only ~ 24% in oil prices
- All ASEAN markets suffered due to the Asian Financial Crisis during this period, with Thailand the biggest loser, falling by ~ 27%
- The Philippines Index was surprisingly resilient, actually rising by ~ 7% during this period, but seeing its currency depreciate by ~ 13.6% vs the USD
- The S&P 500 Index was largely unaffected by the Asian Financial Crisis and gained ~ 17% during this period
- *Note that there is no information for the Singapore Index, the SGD, the Vietnam Index and the VND*

2008 Market Returns

The 2008 oil crash is the least relevant to current conditions as the 2008 crash was caused by a demand shock due to the Global Financial Crisis

2008 Index & Currency Returns



Observations:

- Oil prices crashed by ~ 64% during 2008 due to a broad sell-off in risk assets caused by the Global Financial Crisis
- Despite the crisis starting in the US, the ASEAN equities experienced a larger sell-off vs US equities
- The USD gained during this period, while all ASEAN currencies weakened vs the USD in a flight to safety
- The events of 2008 are least relevant to present day conditions where a supply shock is the major driver of the plunge in oil prices

Summary of Market Returns During Oil Crashes

Current valuations in the ASEAN region are now near ~ 7-10 year lows, despite the ASEAN region being a beneficiary of low oil prices

	Change in Price					PE Ratio								
	Nov 1985 - 1986	Oct 97 - May 98	2008	Mar 2014 - 2015	YTD 2020	3-Nov-86	1-Oct-97	4-May-98	2-Jan-08	24-Dec-08	3-Mar-14	2-Mar-15	30-Dec-19	9-Mar-20
WTI Oil	-51.60%	-24.23%	-64.52%	-52.74%	-47.36%									
S&P 500 Index	28.33%	17.44%	40.01%	14.72%	-12.49%	16.51	22.81	25.56	17.20	12.91	17.36	18.81	21.43	19.45
SET Thailand	-	-26.85%	-47.90%	18.14%	-20.73%	-	-	-	16.39	7.12	15.26	20.89	19.44	14.74
STI Singapore	-	-	-49.57%	10.25%	-13.65%	-	-	-	-	6.47	13.16	15.12	12.18	10.77
JCI Indonesia	-3.40%	-16.94%	-51.07%	19.49%	-18.46%	-	-	-	18.94	8.44	21.21	23.10	19.92	15.66
Bursa Malaysia	-4.99%	-21.16%	-39.43%	-0.41%	-11.85%	-	12.34	13.68	15.95	9.94	16.88	16.73	18.64	15.92
PCOMP Philippines	-	6.80%	-48.23%	21.32%	-19.23%	-	-	-	15.96	10.00	19.07	22.24	16.95	13.53
VN Index	-	-	-66.99%	3.03%	-13.42%	-	-	-	24.15	7.95	13.95	13.74	15.97	13.00
USD Index	-15.08%	1.68%	6.90%	19.21%	-1.53%									
USD THB	-1.13%	7.38%	2.95%	-0.54%	5.34%									
USD SGD	3.29%	3.29%	0.58%	7.44%	2.59%									
USD IDR	-	134.07%	17.73%	11.88%	3.36%									
USD MYR	6.95%	8.71%	5.08%	10.64%	2.64%									
USD PHP	-	13.62%	15.23%	-1.35%	-0.29%									
USD VND	-	-	4.97%	1.16%	0.13%									

Conclusions:

- The ASEAN equity indices have been one of the hardest hit regions in the world during 2020, with Thailand and Philippines amongst the worst performers
- Oil has fallen by ~ 47% in 2020 due to both demand and supply shocks
- 2008 was the worst period for risk asset returns, where everything was in the red
- There are 2 possible scenarios we see playing out at this stage:
 - A 2014-2015 style market recovery in the face of plunging oil prices, with ASEAN markets being amongst the biggest beneficiaries
 - A 2008 style collapse where global risk-assets sell-off
- While there are currently similarities to 2008 in the oil market, with oil suffering from both a demand and supply shock in 2020 due to a combination of COVID-19 and OPEC production increases, we see a 2014-2015 scenario as the most likely outcome, with a strong recovery expected in 2H20 once fears over COVID-19 die down and businesses return to normal
- However, oil should continue to suffer due to the price war, with the ASEAN region one of the biggest beneficiaries of this; we see a strong rebound in ASEAN markets in 2H20 helped by low oil prices, cheap valuations, strong growth and a return to normal post COVID-19

Key Economic Data During Oil Crashes

We are expecting a strong rebound in 2H20 in the ASEAN region once COVID-19 is contained, supported by lower oil prices

	GDP Growth								
	1985	1986	1997	1998	2008	2009	2014	2015	2019
SPX INDEX	3.00%	2.10%	3.10%	6.70%	-8.20%	3.90%	2.30%	0.10%	2.10%
SET INDEX	4.65%	5.53%	-2.75%	-7.63%	1.73%	-0.69%	0.98%	3.13%	2.40%
STI INDEX	-0.62%	1.34%	8.32%	-2.20%	1.87%	0.12%	3.90%	2.89%	0.70%
JCI INDEX	2.46%	5.88%	4.70%	-13.13%	6.01%	4.63%	5.01%	4.88%	5.00%
FBMKLCI INDEX	-1.03%	1.25%	7.32%	-7.36%	4.83%	-1.51%	6.01%	5.09%	4.30%
PCOMP INDEX	-7.31%	3.42%	5.19%	-0.58%	4.15%	1.15%	6.15%	6.07%	5.90%
VNINDEX INDEX	3.81%	2.79%	8.15%	5.76%	5.66%	5.40%	5.98%	6.68%	7.00%

	Inflation								
	1985	1986	1997	1998	2008	2009	2014	2015	2019
SPX INDEX	3.80%	1.10%	1.70%	1.60%	0.10%	2.70%	0.80%	0.70%	2.30%
SET INDEX	3.47%	1.78%	7.49%	4.32%	0.44%	3.51%	0.60%	-0.85%	0.87%
STI INDEX	0.50%	-1.40%	2.00%	-0.30%	6.60%	0.60%	1.00%	-0.50%	0.60%
JCI INDEX	-	-	-	-	11.06%	2.78%	8.36%	3.35%	2.72%
FBMKLCI INDEX	-	-	2.65%	5.26%	5.43%	0.65%	3.16%	2.10%	0.67%
PCOMP INDEX	24.10%	1.10%	5.60%	9.40%	8.20%	4.30%	3.60%	0.70%	2.50%
VNINDEX INDEX	-	-	-	-	19.89%	6.50%	1.84%	0.60%	5.23%

	Current Account/GDP %								
	1985	1986	1997	1998	2008	2009	2014	2015	2019
SPX INDEX	-2.65%	-3.15%	-1.60%	-2.34%	-4.75%	-2.64%	-2.05%	-2.22%	-2.46%
SET INDEX	-	-	-	-	0.27%	7.92%	2.88%	6.94%	6.84%
STI INDEX	-	-	15.27%	21.55%	14.37%	16.70%	19.32%	17.45%	16.97%
JCI INDEX	-	-	-3.09%	3.43%	0.03%	1.67%	-3.19%	-2.09%	-2.70%
FBMKLCI INDEX	-	-	-	-	17.07%	15.53%	4.44%	2.82%	3.30%
PCOMP INDEX	-	-	-5.70%	1.76%	0.09%	4.92%	3.81%	2.56%	-0.96%
VNINDEX INDEX	-6.29%	-4.37%	-5.68%	-5.04%	-10.98%	-6.50%	4.89%	-0.06%	2.19%

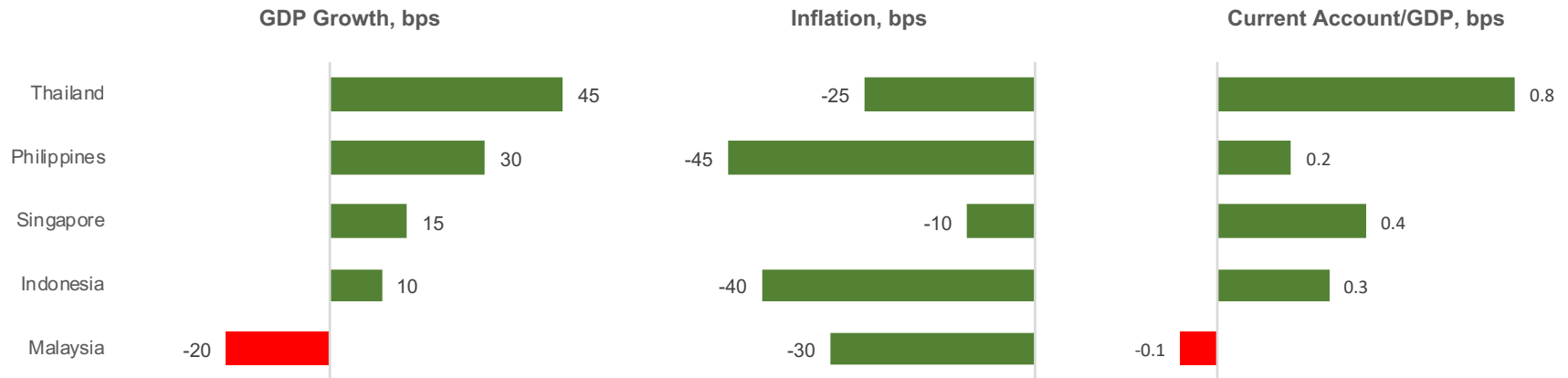
Observations:

- Despite recording relatively decent GDP growth during 2008, ASEAN markets weren't spared from the Global Financial Crisis
- This suggests presents a downside risk to our current base case scenario of a strong rebound in 2H20; if COVID-19 continues to persist and cause damage into 2H20, we may see a 2008 style sell-off in global risk assets
- However, we view a sharp rebound in 2H20 after COVID-19 is contained, while we expect low oil prices to persist throughout the year due to the oil price war
- In this case, we can expect inflation across ASEAN markets to soften in 2020, especially in Thailand and Philippines as seen in prior episodes where oil prices collapsed
- This will lead to higher consumer spending in the ASEAN markets, supporting a strong recovery in 2H20 and robust GDP/EPS growth numbers
- We can also expect an improvement of current account balances in the ASEAN region from lower oil prices, supporting currencies in the region and acting as a further catalyst for a rebound in 2H20
- Malaysia is the only country expected to suffer from lower oil prices

Oil Price Sensitivity Analysis

Thailand and the Philippines are expected to be the biggest beneficiaries of lower oil prices, while Malaysia will face the most pain

Impact of 10% *Fall* in Oil Prices



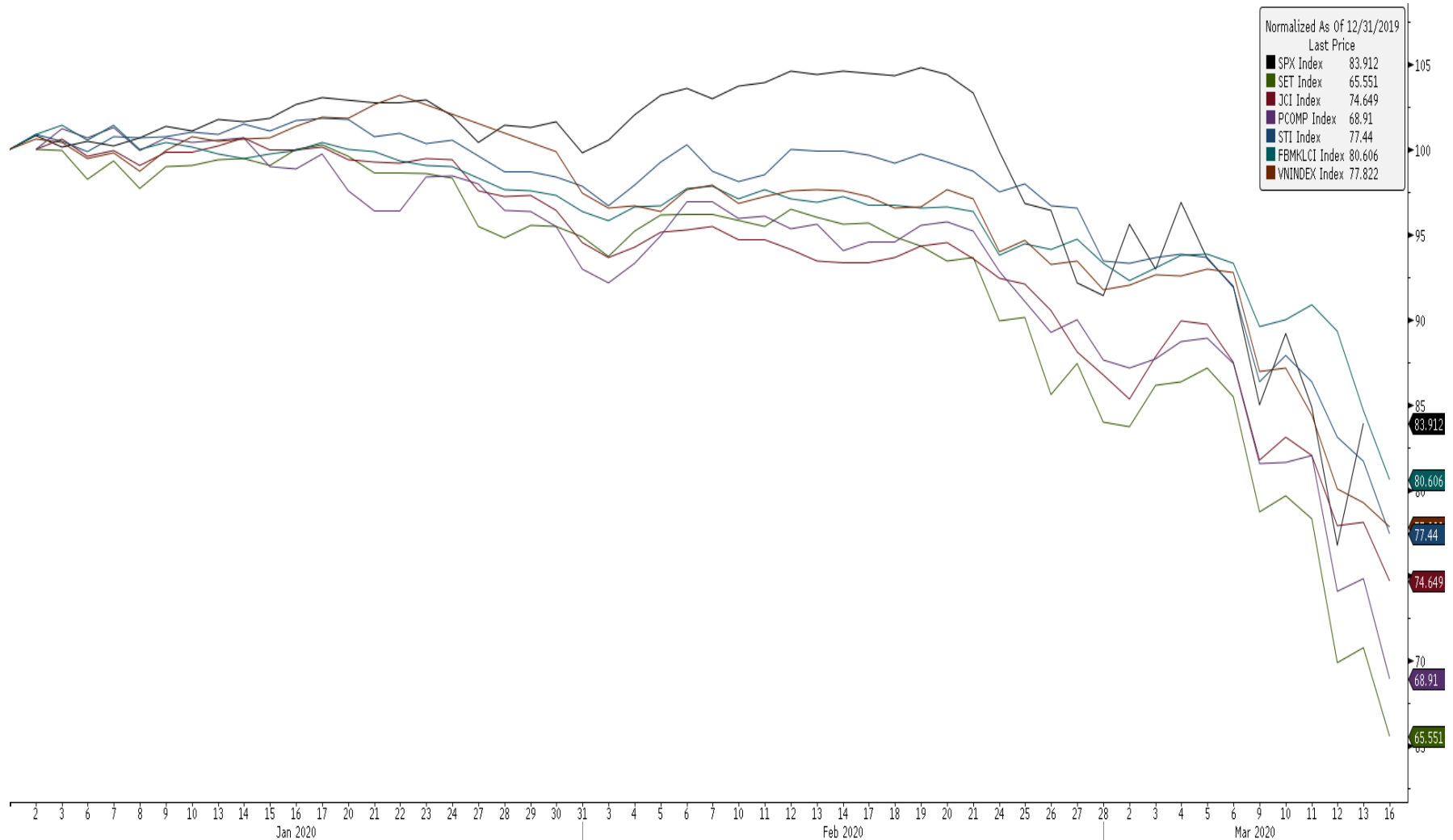
Observations:

- A fall in oil prices will see Thailand and Philippines as the big winners due to the positive impact lower oil prices will have on GDP, inflation and current account balances, while Malaysia will be the biggest losers due to their status as a net oil exporter
- With oil prices plunging by ~ 47% YTD during 2020, ASEAN (excluding Malaysia), will see a timely boost to economic conditions in 2020
- We expect the Philippines to be the biggest winners from the plunge in oil prices due to a softening of inflation in the country (where high inflation has been an issue since 2018), positive demographics leading to a large bump in consumer spending, and a positive impact on the Philippine Peso, which has been one of the weaker ASEAN currencies over the past decade
- Vietnam, not a part of this scenario analysis, will also benefit due to its status as a net oil importer, lower inflation (where inflation has threatened to surge on the back of rising pork prices) and strong demographics supporting accelerating consumer spending
- RVC's portfolio is currently has outsized weightings in Thailand, the Philippines and Vietnam, all the countries expected to be the major beneficiaries of lower oil prices

Appendix

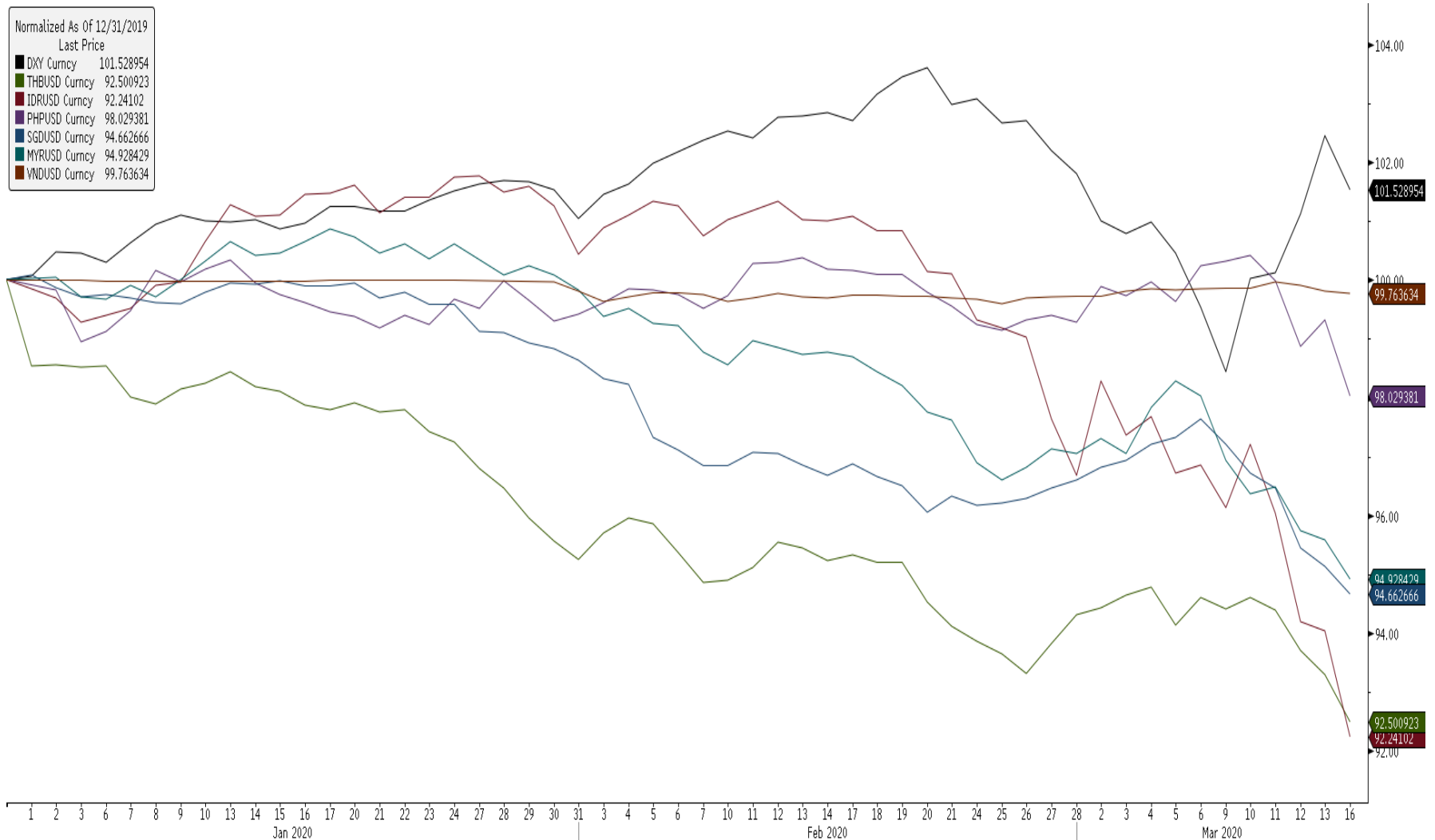
2020 YTD Equity Returns

The ASEAN index has taken the brunt of the 2020 sell-off, with Thailand and Philippines the worst performing markets this year



2020 YTD Currency Returns

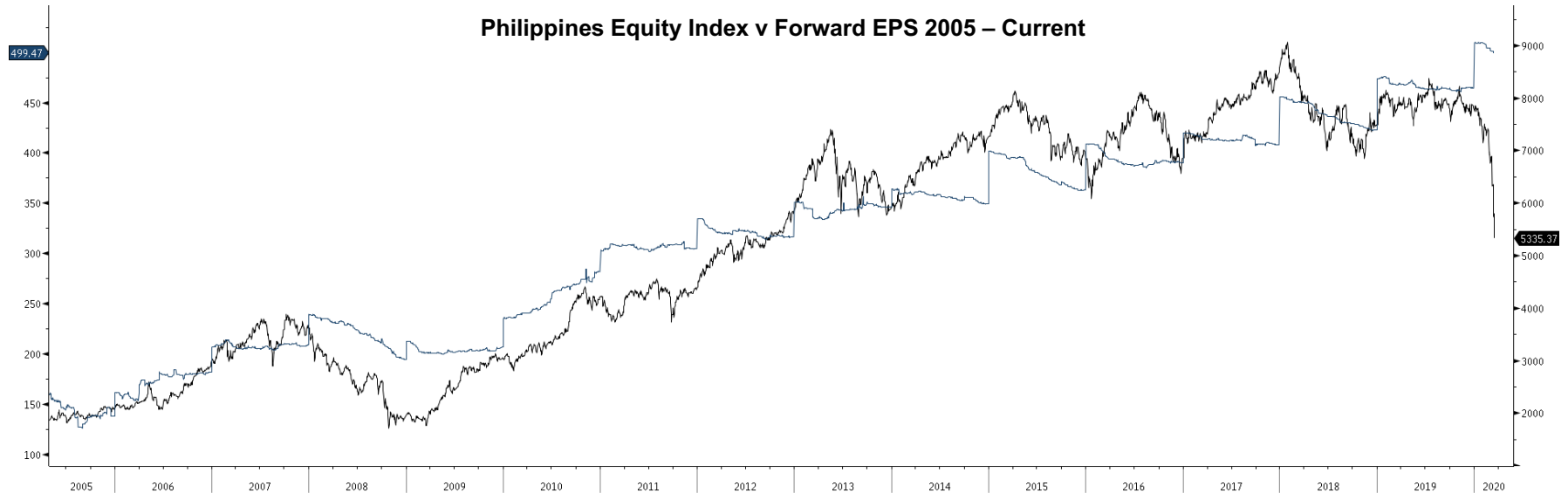
The IDR has been the worst performing currency this year due to its current account deficit and large foreign holdings of its bonds



Philippines Updated Valuations

The Philippines has not traded at these valuations since the 2008 – 2009 lows

Philippines Equity Index v Forward EPS 2005 – Current



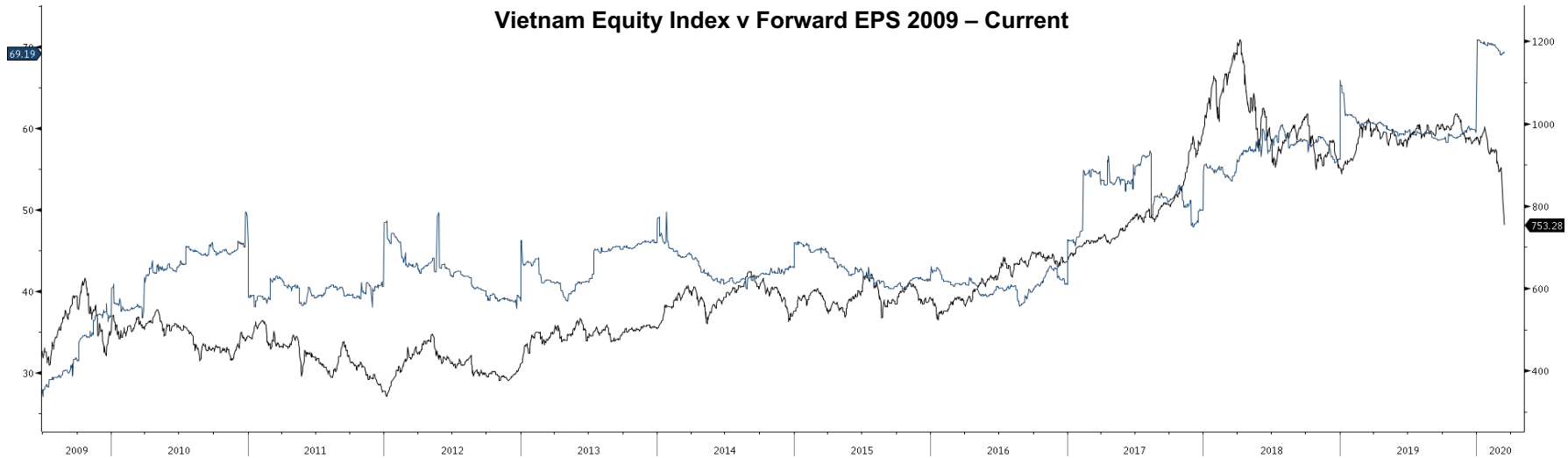
2005 – Current Philippines Equity Index PE Components



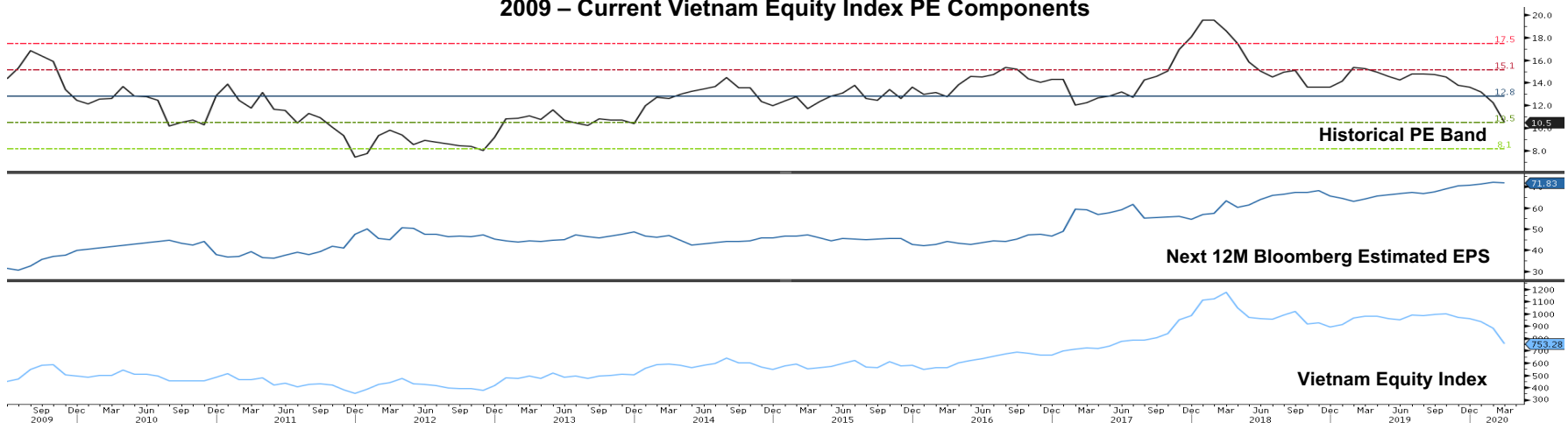
Vietnam Updated Valuations

Vietnam continues to sell-off despite strong EPS numbers

Vietnam Equity Index v Forward EPS 2009 – Current



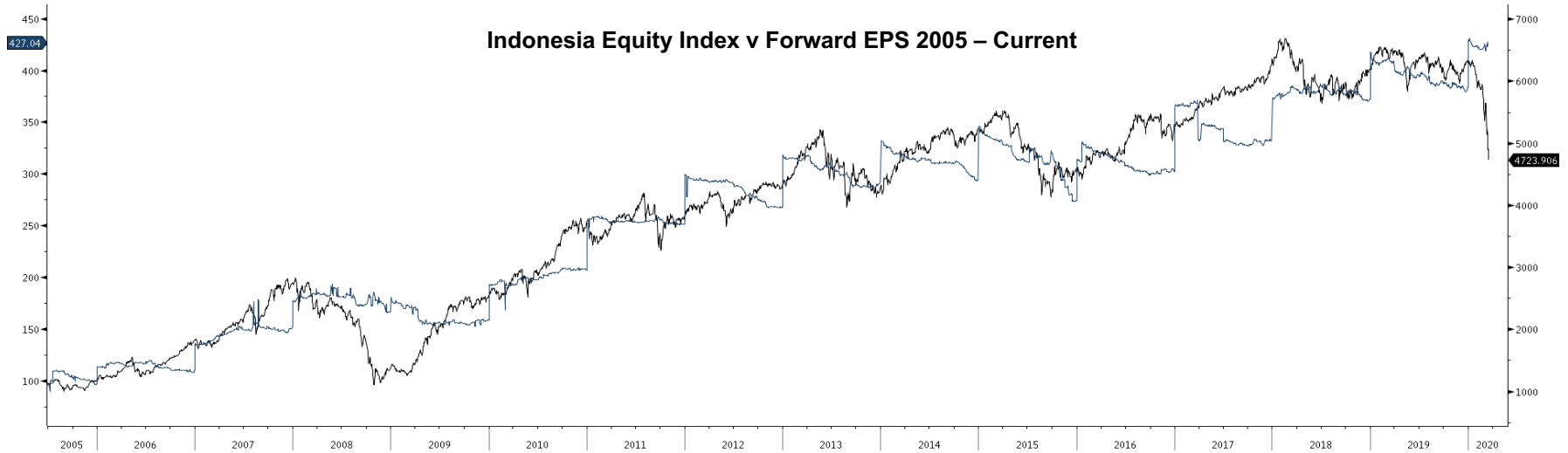
2009 – Current Vietnam Equity Index PE Components



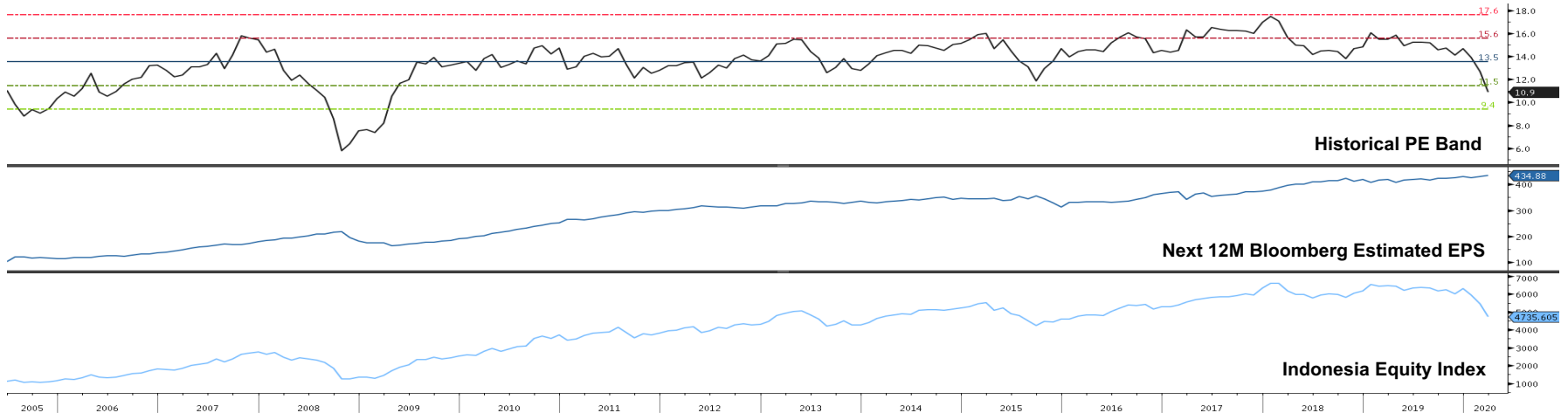
Indonesia Updated Valuations

Indonesia hasn't traded at these trough valuations since the 2008 – 2009 period

Indonesia Equity Index v Forward EPS 2005 – Current



2005 – Current Indonesia Equity Index PE Components



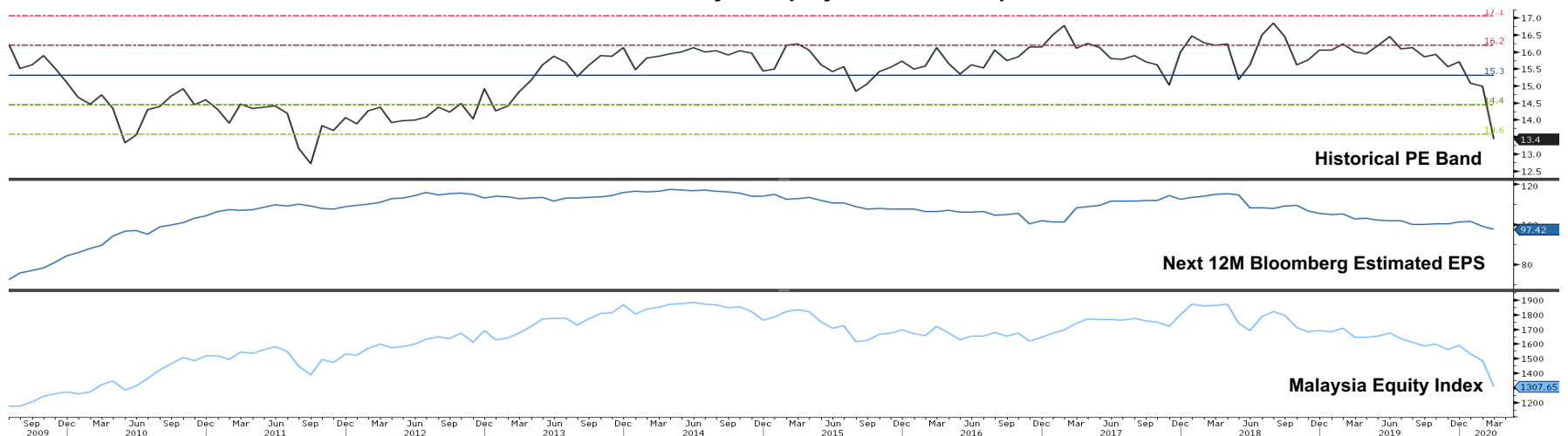
Malaysia Updated Valuations

Malaysia hasn't traded at these valuations since 2011, but EPS numbers continue to be revised lower

Malaysia Equity Index v Forward EPS 2009 – Current



2009 – Current Malaysia Equity Index PE Components



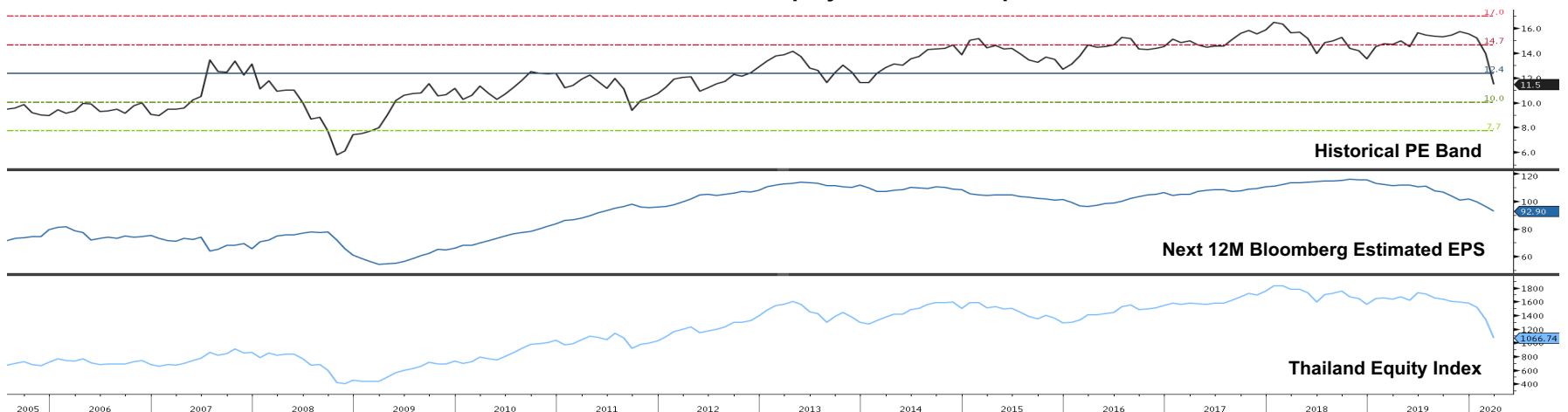
Thailand Updated Valuations

Despite the recent sell-off, valuations in Thailand remain near average levels due to the large hits taken by the energy and tourism sectors

Thailand Equity Index v Forward EPS 2005 – Current



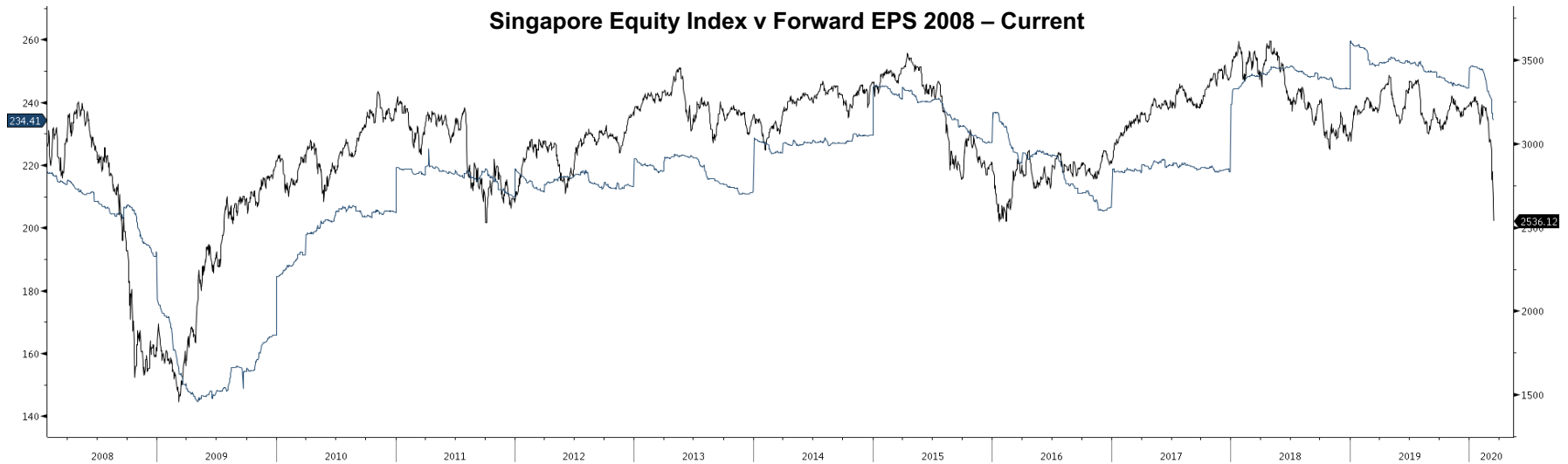
2005 – Current Thailand Equity Index PE Components



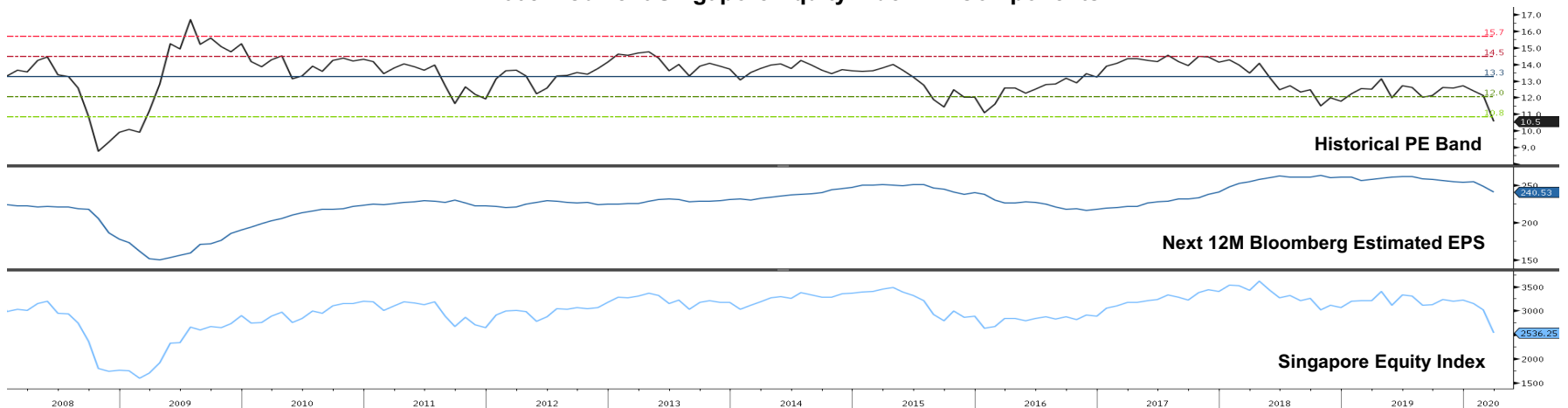
Singapore Updated Valuations

Singapore hasn't traded at these low valuations since the 2008 – 2009 period, but has seen recent EPS forecast downgrades

Singapore Equity Index v Forward EPS 2008 – Current

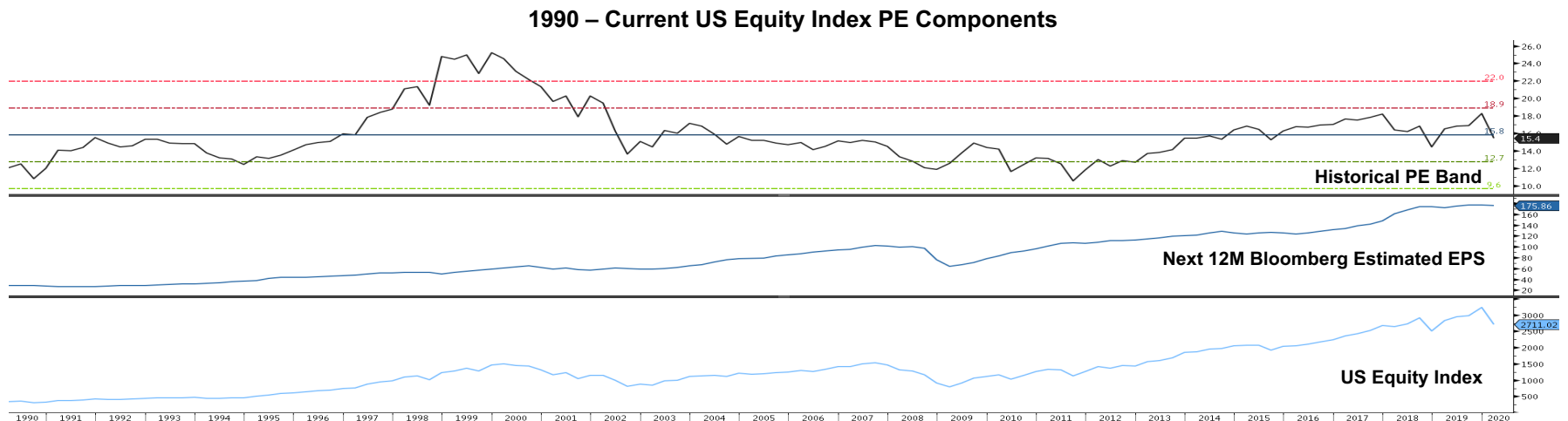
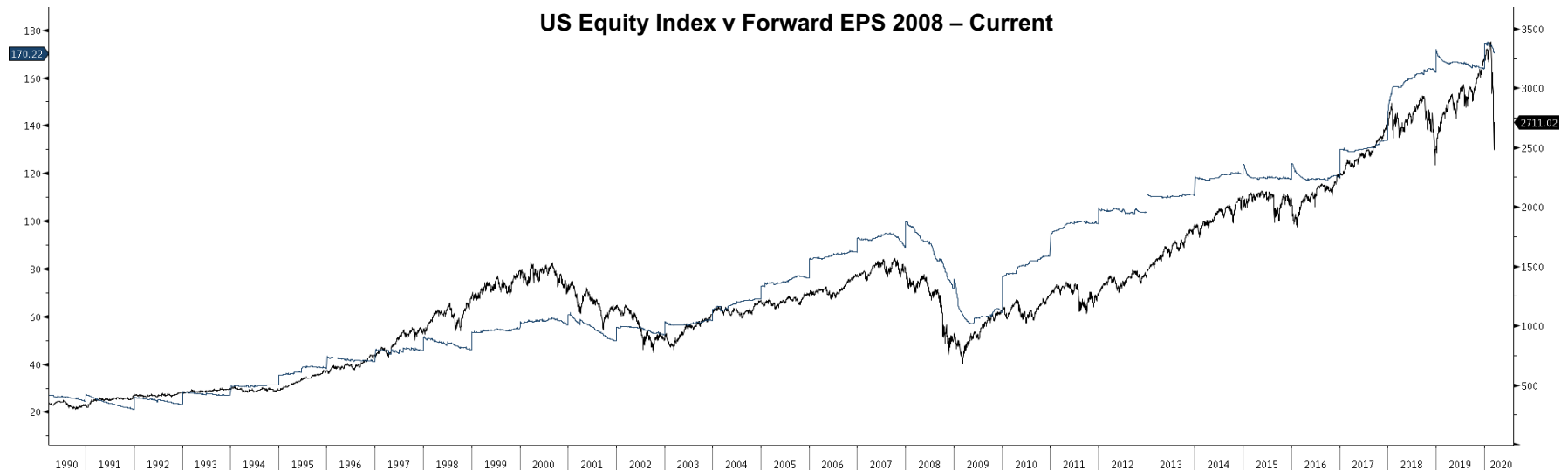


2008 – Current Singapore Equity Index PE Components



US Updated Valuations

The S&P 500 Index is now trading at average PE valuations after the recent sell-off, but still above valuations seen during previous crises



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