**Philequity Corner (November 1, 2021)**
**By Wilson Sy**

## Oil prices hit 7-year high

In a previous article, we wrote about the worst energy crunch the world has faced in decades. One of the reasons for this crisis is the sizeable supply-demand deficit in crude oil. One-third of the world's primary energy comes from crude. As the Covid-19 vaccination rate increased and economies worldwide reopened, the improved mobility and eased restrictions sparked a surge in oil demand. The global oil supply remains tight, with the OPEC+ producers electing to boost oil output ever so slowly. Meanwhile, oil demand is likely to rise higher into the winter heating season.

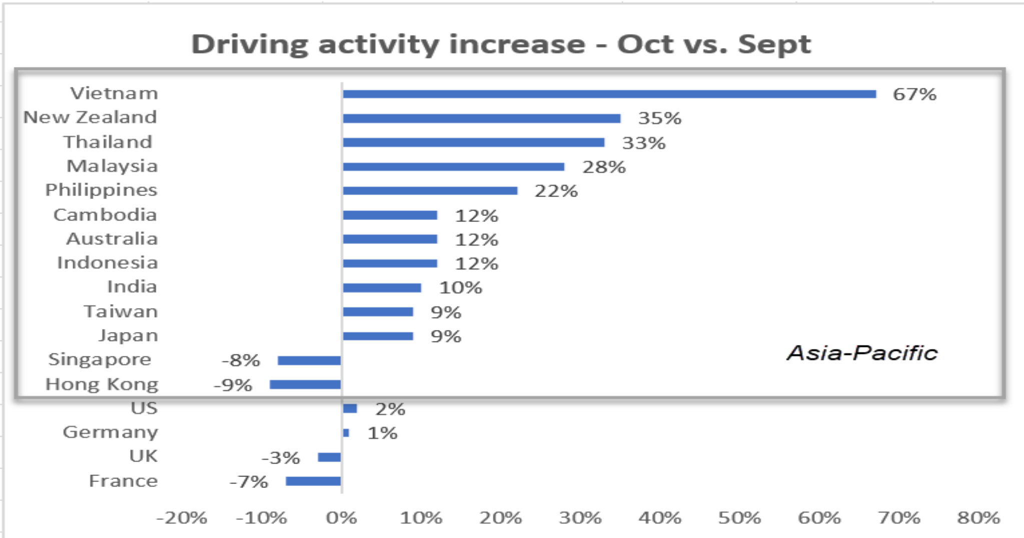
## 65% higher year-to-date

Crude oil prices hit a 7-year high last week boosted by supply concerns and soaring demand. West Texas Intermediate (WTI) prices hit $81.79 per barrel last week, while Brent crude surged to $84.00 per barrel. Likewise, Philippine benchmark Dubai crude jumped to $81.55 per barrel. On average, these contracts are up more than 65% year-to-date and 90% year-on-year.


*Source: CME*

## Road fuel rebounds on rising mobility

Rising mobility and eased restrictions support crude oil demand. The demand for gasoline and diesel rebounded strongly as motorists and travelers returned to the road. The data compiled by Apple Inc. show driving activity in October increased the most in Asia-Pacific after mobility restrictions eased in the region. Except for Singapore and Hong Kong, which showed reduced driving activity in October, the rest of the Asia-Pac countries averaged a 20% increase compared to the previous month. Meanwhile, driving activity in US and Germany was primarily flat over the same period, while UK and France showed declines.




*Source: Apple.com, Wealth Securities Inc.*

**Jet fuel rises as travel bans lifted**

Similarly, the demand for jet fuel soared following the lifting of travel bans in the US and across the Asia-Pacific region. Countries like Australia, Singapore, and Thailand reopened by allowing vaccinated people to travel. Indonesia reopened Bali to tourists this month. Similarly, Malaysia, Vietnam, and Cambodia plan to reopen certain islands and tourist spots to foreign visitors. The Philippines is likewise preparing to open Boracay to international tourists.

**Gas-to-oil switching & winter seasonality**

The ongoing energy crisis has prompted a switch to oil in order to preserve gas and coal ahead of the winter season. For example, despite the recent regional power outages in China, oil demand was high because of switching to diesel-powered generators. Similarly, industries and households in Europe and the US are likely to rely on local diesel generators just as they did in the past when power cuts occurred in previous winters.

**G20 leaders to confront energy crisis**

Leaders of the Group of 20 (G20) countries, which met in Rome over the weekend, waged an intense campaign to persuade OPEC+ to speed up its production. Japan, China, India, and other oil-consuming countries have joined the US in calling for OPEC+ to boost output faster than its current modest pace of 400,000 BPD a month.

**Philippines remains vulnerable**

According to the Bangko Sentral ng Pilipinas, last month's successive oil price hikes may cause the inflation rate to accelerate as high as 5.3% in October. Average inflation for January to September was already 4.5%. This is already way above BSP's target inflation rate of 2% to 4% this year.

Unless the world leaders can convince OPEC+ to increase production, crude oil prices could remain elevated until 2022. Such a trend would further add inflationary pressures on oil-importing countries like the Philippines and ultimately impact the country's economic recovery.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email ask@philequity.net.*