Source : www.livemint.com Date : 2022-03-13

# HERE’S HOW OIL’S HISTORIC SURGE IS IMPACTING ASIA STOCK MARKETS

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

The historic surge in oil is reshaping the outlook for Asian equity and currency markets, as the specter of prolonged high prices exposes the vulnerability of energy-dependent countries.

Risks of a rise in consumer prices and disruption to current-account balances have triggered strong foreign outflows from equities in markets like India and South Korea in recent days, spurring weakness in their currencies.

A few resources-rich nations, like Australia and Indonesia, are among the beneficiaries as their markets are holding up amid the downturn since Russia invaded Ukraine. Sanctions against Russian oil pushed the price of Brent crude to as high as $139 a barrel earlier in the week.

“There couldn’t be a more appropriate time than now for investors to remain well-diversified across assets," said David Chao, global market strategist for Asia Pacific ex-Japan at Invesco Ltd. “It makes sense to be overweight in natural resources and those countries that are the biggest commodity exporters in energy, agriculture and metals."

**Australia**

The country is a world leader in producing and exporting metals and minerals, including coal, iron ore and gold. Oil and natural gas account for more than 15% of Australia’s export earnings, according to RBC Europe Ltd.

The benchmark S&P/ASX 200 Index, where material firms account for a quarter of the weighting, has declined 2% since Feb. 23, the day before Russia’s invasion into Ukraine. That’s versus a more than 7% slide for the MSCI Asia Pacific Index. Miners like Cimic Group Ltd. and Whitehaven Coal Ltd. have surged at least 27% during the period, while the Australian dollar was up more than 1% against the greenback as of late Friday in Asia.

**India**

In India, which imports about 85% of its oil needs, foreigners are selling stocks at a record pace and the exodus has sent the rupee to a record low. The benchmark S&P BSE Sensex is down 2.9% since Feb. 23, with buying by domestic funds amid a retail-trading frenzy helping limit equity losses.

Still, the risk of an inflation shock poses a challenge for the central bank and financial markets in a country that’s likely the most vulnerable to the surge in Brent crude. Earlier this month, Credit Suisse Group AG double-downgraded Indian stocks to underweight in their Asia allocation, while upgrading Australia.

**Indonesia, Malaysia**

Indonesia and Malaysia are the world’s top two exporters of palm oil, a status that has helped attract investors amid a global stock rout. The Jakarta Composite Index has held its own while the rupiah is the sole gainer among Asian currencies since the Ukraine invasion.

Investors Punished by Selloff Find Rare Haven in Malaysia Assets

A resilient ringgit has supported foreign inflows into Malaysian stocks. Down a little more than 1% since Feb. 23, the local equity benchmark is faring better than the regional market.

“It’s the classic inflation hedge," said Wai Ho Leong, a strategist at Modular Asset Management in Singapore. “I’d be looking for Malaysia assets to buy on the cheap," he said, adding the currency is still “fundamentally undervalued."

**South Korea**

Another big oil importer, South Korea is also witnessing a foreign selloff that’s contributed to the weakness in its currency. The won is down about 3% against the greenback since the invasion of Ukraine, the second-worst performer in Asia.

The Kospi Index, which was the region’s biggest 2022 loser among national equity benchmarks before the war began, is down almost 11% year-to-date as rising yields threaten to erode earnings for its tech heavyweights. The outlook has slightly improved as the new president-elect Yoon Suk-yeol is expected to be more business friendly than his predecessor.

**China**

The dynamics are slightly different for Chinese markets, where regulatory concerns have been hammering share prices. China imports about 15% of its oil from Russia and may be able to pay lower prices for those imports due to reduced demand from the U.S. and Europe, according to Jian Chang, Barclays Plc’s chief China economist. A wealth of policy tools also means Beijing can order state-owned oil refiners to cut profit to cap fuel prices.

**Thailand**

Soaring fuel costs are threatening a nascent recovery in Thailand’s tourism-dependent economy, just as the nation started opening up to international travel. The likely loss of Russian tourists, the largest group of travelers in January, would deal another blow to the economy.

The baht is Asia’s worst performing currency since the invasion of Ukraine, while the SET Index has fallen more than 2%.

**END**