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Mid-East tensions roil markets

The Star, Malaysia

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Any escalation of conflict in the region will affect energy prices, say experts

COMMODITIES

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KUALA LUMPUR: Risk assets, including equities on Bursa Malaysia, may see subdued sentiment for the time being as the world grapples with a wildcard of further heightened geopolitical tensions in the Middle East.

Analysts are closely monitoring Israel's response to the mass Iranian missile and drone attacks over the weekend.

The United States had reportedly announced that it would not participate in any retaliatory strikes against Iran, but there are lingering concerns of a broader military conflict in the Middle East.

Israel president Isaac Herzog had described Iran's missile attack as a "declaration of war" but said Israel would exercise restraint on the issue.

> "The market is pricing in the fact that there will be no further escalation based on the reactions by the parties or countries concerned at this point in time."
> Vincent Lau

Close to 1,000 counters on Bursa Malaysia ended in the red yesterday, while 230 counters traded higher and 374 stocks remained unchanged.

The FBM KLCI lost 8.51 points or 0.55% to 1,542.53 in line with the decline in other Asian markets.

Among stocks which weighed on the benchmark index were Tenaga Nasional Bhd, which fell 10 sen to RM11.60, Sime Darby Plantation Bhd eased seven sen to RM4.44 and Public Bank Bhd, which declined six sen to RM4.12.

Rakuten Trade's head of equity sales Vincent Lau said the local market yesterday showed a knee-jerk reaction to the situation in the Middle East.

"But it has since simmered down as both sides have reopened their airspace while oil prices have slightly retreated. The market is pricing in the fact that there will be no further escalation based on the reactions by the parties or countries concerned at this point in time," Lau told *StarBiz*.

"It has been a while since we had 1,000 decliners during the trading day on Bursa Malaysia but this had improved slightly to 993 when the market closed. Should there be an escalation in the conflict, oil prices may climb higher but it appears that the Middle East is looking to contain the conflict," he added.

Oil prices fell at the Asian opening yesterday following a rise of above US$90 in the previous week. The Brent Crude Oil last traded at US$89.47 per barrel yesterday.

Moody's Analytics said that an escalation of tensions would pose a significant threat to Asia-Pacific economies due to higher oil prices.

"West Texas Intermediate crude was trading between US$85 and US$90 per barrel last Friday ahead of Iran's attack on Israel which was an estimated US$5 risk

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Higher oil prices likely to be a bane for Asia-Pacific economies

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premium in anticipation of the attack.

"Now that the attack has come to pass, we expect oil prices to add another US$5 per barrel to the risk premium, pushing them the US$90 to US$95 per barrel range.

"There are two possible scenarios. The most likely is a measured and restrained response from Israel that de-escalates tensions, in line with pressure from the Biden administration and wider global community.

"That would see the US$10 per barrel risk premium fade over the next few weeks," it added.

The other scenario would be an escalation in the conflict as Israel forcefully responds to the attack, it noted.

"If this should occur, oil prices could jump to more than US$100 per barrel," Moody's Analytics said.

It noted that higher oil prices come at a particularly bad time for Asia-Pacific economies as they would translate to higher prices of goods.

"The path of disinflation has already stalled in some countries. Higher food and energy prices, as well as a handful of government initiatives, are keeping pressure on prices in Indonesia, South Korea, Singapore, Vietnam and Malaysia," Moody's Analytics said.

"Adding to an oil price shock will exacerbate the challenges.

"Although Malaysia and Brunei could get a revenue boost as oil prices rise, much of this could get washed away by weaker global demand as resurgent inflation globally sends households back into hiding," it added.

Meanwhile, SPI Asset Management's managing partner Stephen Innes said Iran's attack appeared to have had a subdued impact on markets so far.

"The precision and limited lethal impact of Iran's response suggested a strategic approach aimed at minimising damage rather than escalating tensions.

"As a result, the ripple effect on the oil market, a key determinant of global inflation dynamics, are expected to be somewhat muted," Innes said.

"In fact, this calculated move by Iran could temper concerns about supply disruptions and relieve policymakers grappling with inflationary pressures.

"However, the situation remains fluid, and headline risk will likely dominate for a while," he added.