The Flow-Starved Oil Proxy & War Premium Persistence

- Geopolitical hostilities reintroduce a structural war premium, pushing Brent crude.
- Energy heavyweights act as a structural floor, though a lack of foreign liquidity.
- We recommend **PTTEP, PTT, TOP, SPRC, BCP, and BBL**.

The Entrenched War Premium

Global markets remain entirely captive to the escalating Middle East conflict, rendering traditional macroeconomic data secondary. With hostilities threatening major supply choke points, the "war premium" is now a structural feature, pushing Brent decisively above $90 per barrel. For global allocators, this transforms the landscape from a debate over monetary policy into a scramble for supply-side hedging. The upcoming US CPI print will likely be overshadowed by this oil-driven stagflation risk, keeping developed market equities defensive and highly volatile.

SET Impact: A Floor, Not A Catalyst

The SET Index is currently consolidating near 1410, and we must adopt a highly conservative stance. While Thailand's massive Energy weighting technically makes it an emerging market "oil proxy," the reality of the tape is that foreign fund flows are actively bypassing the Thai market. The mechanical bidding up energy heavyweights acts as a structural floor that prevents a severe breakdown, but the severe lack of broad liquidity means the index lacks the fuel to rally. It is a cushion, not a catalyst.

Domestic Reality: The Stagflation Squeeze

Domestically, sustained $92 Brent crude acts as a structural tax on Thailand's economic recovery. As a heavy net energy importer, the surging import bill directly threatens the Current Account, placing severe depreciatory pressure on the Thai Baht. This FX vulnerability effectively boxes in the Bank of Thailand; policymakers cannot comfortably execute the rate cuts the market previously priced in while defending the currency from imported inflation. State capital will inevitably be diverted into the Oil Fuel Fund to cap retail diesel prices, effectively shrinking the fiscal space available for broad consumption handouts or the accelerated infrastructure disbursement the market was hoping for.

Defensive Energy & Yield

Without foreign inflows to lift the broader market, sector selection must be highly defensive and thematic. We are extending our holding horizon on the Energy Complex as "higher for longer" crude solidifies, providing the only reliable earnings visibility. Upstream producers and complex refiners capture unhedged margins and inventory gains. Conversely, this environment is disadvantages for downstream operators. Aviation and petrochemicals face inescapable margin destruction from soaring feedstock costs, and without broad market liquidity, any attempt to "buy the dip" in these vulnerable sectors is highly risky.

Strategy and Recommendations: Non-Bank, Tourism, and Election Plays

To navigate the flow-starved SET at 1410, we recommend a strictly conservative "Energy and Defense" portfolio. Hold PTTEP and PTT to capture the $90 Brent crude reality, alongside refiners TOP, SPRC, and BCP to monetize inventory windfalls. Maintain Banking (BBL) as a defensive, high-yield anchor to weather the lack of market liquidity and delayed rate cuts. We maintain negative avoidance on Aviation, petrochemical, and US-exposed Exporters, and strongly caution against chasing any broad market rallies until foreign flow reversals are confirmed.

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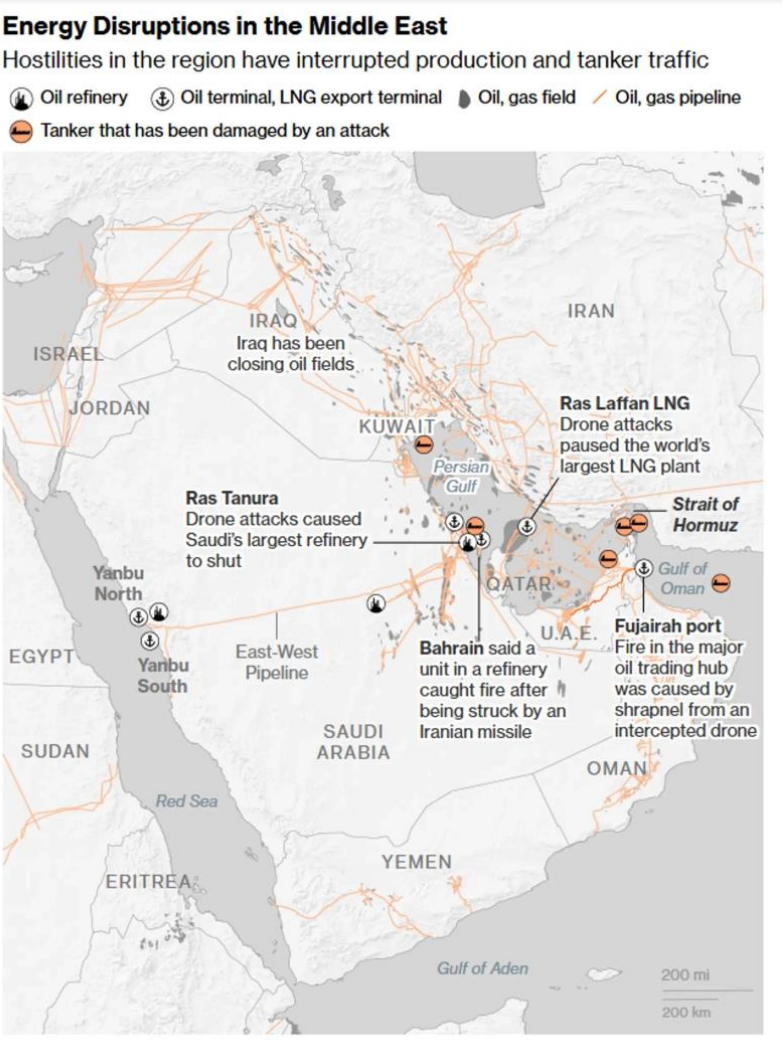
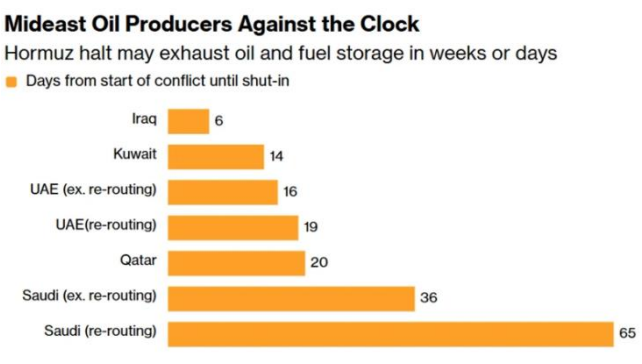
Exhibit 1: Recent Attacks on Middle East Oil and LNG Infrastructure



Sources: Institute for the Study of War and AEI's Critical Threats Project; US Central Intelligence Agency; US Department of Energy

Sources: Bloomingbit

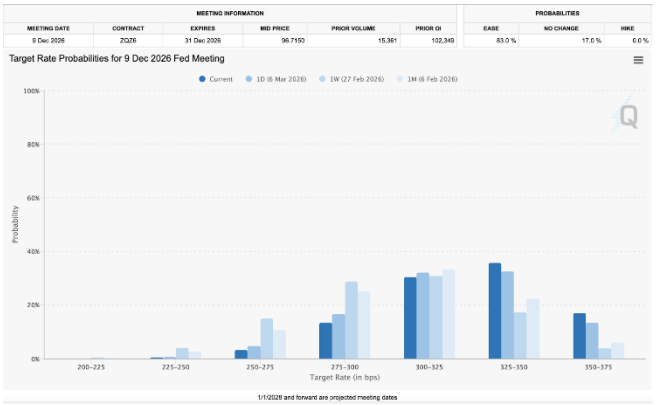
Exhibit 2: Oil Export Vulnerability Under a Strait of Hormuz Disruption



Note: Re-routing denotes where Saudi Arabia and UAE have alternative options to partially by-pass Strait of Hormuz
Source: JPMorgan

Sources: Bloomingbit

Exhibit 3: Market-Implied Fed Policy Rate Distribution for the December 2026 FOMC Meeting



Sources: CMEgroup

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Analyst Certification

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.