

Oil's Inflation Tax Meets the Fed-AI Test

- Policy superweek: Fed and BOT likely hold; guidance and US PCE determine rate and FX volatility.
- Brent at US\$116.72/bbl supports upstream earnings but raises Thailand's inflation burden; September exports test recovery breadth.
- We recommend **PTTEP**, **AOT**, **ERW**, **BBL**, and **HANA**.

Market Outlook — Export Strength Meets an Imported Inflation Shock

SET enters at 1,562.67 (–0.66% w-w), despite THB3.01bn net foreign equity buying in four sessions. September exports will test whether August's electronics-led surge is broadening across sectors and translating into stronger domestic value added; that month's trade deficit reached US\$2.48bn. With September CPI at 2.82%, Brent above US\$116/bbl and bank profits still pressured, domestic earnings breadth remains narrow. We favour company-specific earnings and repricing catalysts.

Global Monetary Policy — The Guidance Matters More Than the Hold

Fed (27–28 Oct) is expected to leave rates at 3.75–4.00%; the real catalyst is its tolerance for oil-led inflation and further tightening. US 3Q GDP and September PCE land Thursday, after the decision, and could reprice December expectations. The 10Y Treasury yield at 5.00% constrains long-duration equities; recent declines partly reflect AI-financing concerns, not a benign easing cycle. The BOT (28 Oct) should hold at 1.00%, balancing weak demand against imported inflation and baht pressure. ECB (29 Oct) and BOJ (30 Oct) guidance adds FX volatility. Prefer balance-sheet strength over rate-sensitive beta.

Oil Is an Upstream Opportunity, but a Tax on Domestic Demand

Brent closed at US\$116.72/bbl (+6% w-w) after attacks on Saudi facilities; the IEA warns that Middle Eastern refined-product exports remain below half of pre-war levels, sustaining diesel tightness into 2027. Thailand's Oil Fuel Fund deficit exceeded THB103bn as of 18 Oct, while the THB4/litre refinery discount expires on 31 Oct—raising the risk of further tax, subsidy or refinery pricing intervention. This is a national-income shock, not a uniform energy-sector tailwind: PTTEP gains from higher oil realizations, while transport, consumption and refiners face costs or policy risk. Favour upstream; monitor hedging and volume recovery.

AI Earnings – All Eyes on Cash-Flow Accountability and Guidance

Microsoft and Alphabet report on 28 Oct, Amazon on 29 Oct. The issue is no longer just AI-driven revenue growth, but whether capex converts into sustainable returns. Meta's 3Q26 revenue rose 26% y-y, yet US\$34.91bn capex (including finance-lease principal) coincided with negative US\$2.12bn free cash flow. Investors will scrutinise Azure, Google Cloud and AWS demand against data-centre commitments and financing costs. Resilient cloud orders would support Thai electronics exports, but valuation multiples could still compress if cash conversion disappoints. Maintain selective HANA exposure on recovering IC/PCBA utilisation and emerging AI-related orders, while avoiding indiscriminate technology beta.

Strategy and Recommendations: Earnings Resilience Amid Macro Volatility

We recommend **PTTEP** for oil exposure and a potential 4Q volume rebound; **AOT** for high-season traffic and the THB1,120 outbound-international passenger service charge; **ERW** for hotel high season RevPAR growth and growing HOP INN demand; **HANA** for recovering IC/PCBA utilization and new AI-related orders; and **BBL** for improving loan and NIM trends, scope for lower credit costs, and strong NPL coverage, while fee-income weakness remains a key constraint. The basket balances an energy hedge, travel recovery, technology optionality and bank balance-sheet resilience. Risks are sustained oil-driven travel weakness and any AI-capex reset.

Analyst

Suwat Sinsadok, CFA, FRM, ERP
suwat.s@globlex.co.th,
+662 687 7026

Assistant Analyst

Peerayu Sirivorawong

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Analyst Certification

Suwat Sinsadok, Register No. 020799, Globlex Securities Public Company Limited

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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.