Faysal Asset Management

Research Note – Serious Syria

September 04, 2013

On the 6th day of March, 2011, nearly a dozen boys under the age of 15 were arrested for graffiti in the rural city of Daraa. They had spray painted a common slogan of the Arab uprisings: “The people want to topple the regime” and it marked the start of the Syrian Crisis (commonly referred to as the ‘Syrian uprisings.’) More than two years have passed and over 100,000 people have been killed and yet the crisis stays unresolved. Regional tensions have peaked with international forces voicing their displeasure vociferously now.

Superpower’s Tug-of-War

USA has time and again warned that the use of chemical weapons would be a red line for the Syrian Government and will result in ‘enormous consequences,’ if crossed. Likewise, France and the United Kingdom have also made similar claims and have warned of a massive and blistering response against such attacks.

Recent Chemical Attacks in Syria proved to be the last straw. On Saturday, Obama announced that an action is warranted in Syria, however, he decided to ask the US Congress to support a strike punishing Syrian President Bashar-al-Assad’s regime for the alleged use of chemical weapons. President Obama recently pushed for a congressional backing by winning critical support from House Speaker John Boehner, Former Secretary of State Hilary Clinton and House Majority Leader Eric Cantor.

Members of Senate Foreign Relations Committee will vote on Wednesday to authorize a military action in Syria albeit with some limits. The offensive will be limited for a 60-day period with the condition to bar any ‘boots on the ground.’ Moreover, the mission could be extended by 30-days, if President Obama comes to Congress with a request for an extension. It is increasingly likely that the Obama Administration will secure congressional support for Syrian offensive when the US Congress meets on September 9th to discuss and vote upon the use of American forces against Syria.

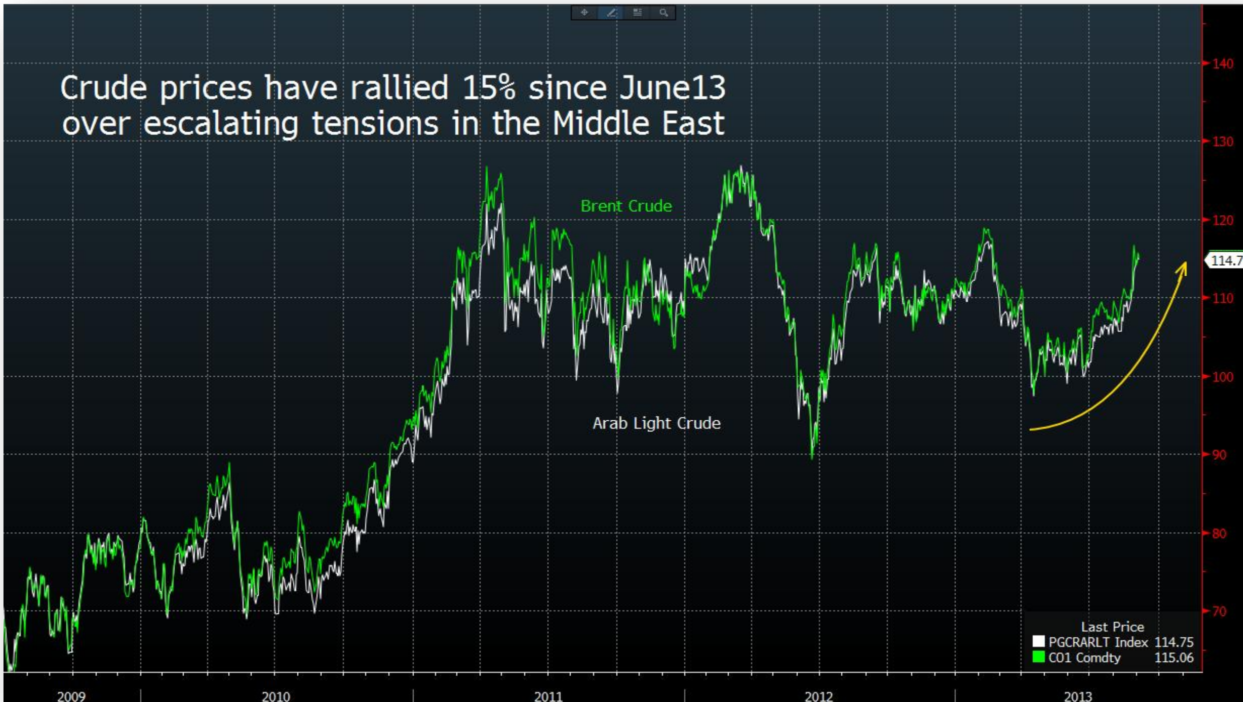
Initially United Kingdom also showed its allegiance with the US however, participation found no backing by the House of Commons and the Brits which opposed any military involvement against the Syrian regime. On the contrary, France has emerged as the only European ally supporting military strikes against Syria.

Russia has reiterated that no concrete proof has been found against the Syrian regime and it won’t support US until concrete evidence is discovered. President of Russia, Vladimir Putin has staunchly backed Assad’s regime since the start of this crisis and has recently ordered deployment of naval warships to the Mediterranean, asserting confidence in the Syrian establishment.

Similarly, China has also warned US to refrain from an attack on Syria as it does not want to reprise what happened in Libya. The foreign Office of China has said that foreign countries should not meddle in Syria’s internal affair and a political solution should be reached.

Impact on Global Commodities

The global energy market is reined by geopolitics. With tensions persistent in Egypt, Libya, Iran, and Syria now added to the mix, things are looking shaky in the Middle East. When there is the threat of trouble in the Middle East, the price of oil usually starts to climb.



WTI Crude Oil October futures settled at USD 108.50 a barrel after hitting its two-year high of USD 112.02 as the traders were worried about what looked like the ever-more-probable chance of military action against Syria. Since June'13, Brent Crude and Arab Light Crude prices have rallied by approximately 15% and are likely to trend higher.

Moreover, concerns surrounding the oil supply triggered a safe-haven run to the yellow metal which surged to a three and a half month high of USD 1,433.50 a troy ounce on August 28.

What lies ahead?

Historically, Oil prices have rallied on account of geopolitical conflicts and ease off once production and supply disruption fears disseminate. Although Middle East accounts for 35% of global oil supply, Syria is not a major producer or exporter of Oil. This suggests that any military incursion on Syria is unlikely to have a significant bearing on oil prices in the longer tenure unless the conflict spills into neighboring countries. However, any disruption in the global oil supply in the short term caused by the ongoing Syrian crisis is expected to raise the International oil prices.

Pakistan relies heavily on oil imports in order to meet its fuel needs. For FY13, Oil imports constituted 35% of its import bill or USD 14.1bn. Any rise in the international oil prices will not only deepen the current account deficit but will also induce further inflationary pressure on an already fragile economy.