



Asia Insights

Economics - Global

Iran, oil and Asia

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What rising oil prices mean for Asia.

- **Transmission channel:** Higher oil prices are a negative terms-of-trade shock for Asia, but with local fuel prices often regulated, the impact on growth and inflation should be manageable. We see a higher oil import bill as the most potent impact, followed by a higher fiscal burden (on- and off-budget).
- **Winners versus losers:** In Asia, Thailand, India, Korea and the Philippines are the most vulnerable to higher oil prices, due to their high import dependence, while Malaysia would be a relative beneficiary since it is an energy exporter.
- **Fiscal policy:** We expect Asia to use fiscal policy as the first line of defense to protect consumers via domestic price controls, higher subsidies, fuel excise tax cuts and lower import tariffs on crude oil and refined products.
- **Monetary policy:** Higher oil prices solidify the case for central banks to stay on hold, but do not warrant a hike, given it is likely to be a short-term supply shock, and underlying inflation remains benign. Our baseline assumes diverging monetary policy paths (four holds, three hikes and three cuts), but we see a risk that the BSP stays on hold (versus our baseline of another 25bp cut in April).
- **Asia FX:** Watch developments around the Strait of Hormuz; we believe long USD/THB, long EUR/INR, long CNH/KRW (conviction levels: 3/5) and long SGD/IDR (4/5) are positions that could benefit.
- **Asia rates:** Korea and India will likely be the most negatively affected, but we would fade any selloff in Thai rates, given the weak macro environment. Our top trade ideas remain a pay 5y INR and a KRW 2s5s flattener, both with a conviction level of 3/5.
- **Asia equities:** The duration of the conflict and how oil prices move will be key to monitor for stock investors. A sustained move higher in oil prices would clearly be negative for stocks, including Asian stocks. Conversely, if the conflict ends relatively quickly, any negative impact on stocks will likely be short-lived.

Oil on the boil

The US and Israel launched a joint military operation against Iran, targeting Iranian military infrastructure, leadership sites and nuclear-linked facilities. Iran's Supreme Leader was confirmed killed in the airstrikes, marking an unprecedented escalation in tensions. In response, Iran has launched missiles and drones not only at Israeli targets, but also at US bases in multiple Gulf states. At the time of this writing, the likely path from here remains uncertain, but the US-Israel end goal is to permanently cripple Iran's nuclear ambitions, break Iran's regional proxy network and bring about a regime change.

Oil prices have been drifting higher since mid-January, building in a higher geopolitical risk premium. On Friday, Brent closed a shade below USD73/bbl, up from USD60/bbl in early January, and it is expected to trade ~9% higher today. Oil fundamentals appear weak over the medium term, due to soft demand, ample supply, inventory build-up and as OPEC+ has announced a larger-than-planned production hike. However, temporary supply-side shocks can trigger even higher oil prices, if there is a curtailment of Iran's oil exports, damage to Gulf energy infrastructure or if there is vessel traffic shortage or partial disruption in the Strait of Hormuz.

In this note, we discuss the economic impact, policy response, winners and losers, as well as the FX, rates and equity strategy implications for Asia.

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Economic impact

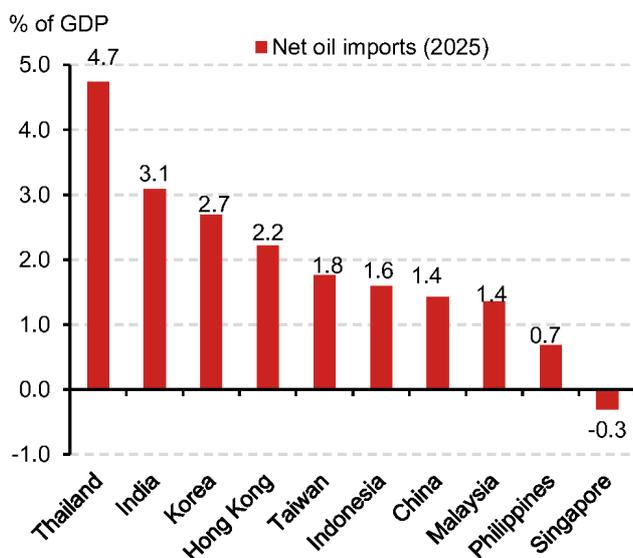
1. Higher import bill is the most potent channel

Higher oil prices will significantly impact Asia's import bill and current account balances due to the region's heavy dependence on oil imports (Figure 1). On average, every 10% rise in the price of oil worsens Asia's current account (CA) balance by ~0.3% of GDP. The top three most vulnerable economies include Thailand (net oil imports are the highest at 4.7% of GDP, and every 10% oil price change worsens its CA by 0.5pp), India (3.1%; 0.4pp) and South Korea (2.7%; 0.3pp). The Philippines also runs a current account deficit, which is likely to be back on a widening path. Two other factors can amplify the impact of oil prices on Asia: first, a weaker currency due to risk aversion can further increase the oil import bill; and second, many governments provide subsidies to shield consumers from price increases, so higher global oil prices do not always lead to a proportional demand reduction. We see a weaker current account as the most potent transmission channel.

2. Inflation pass-through should be limited

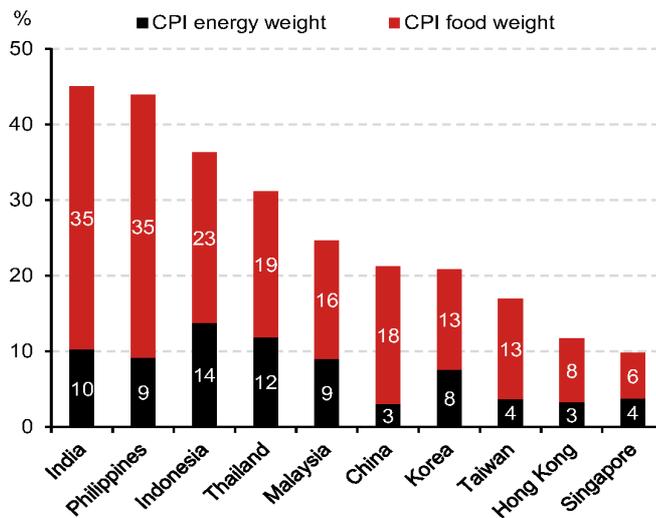
The impact of higher oil prices on Asian inflation is not straightforward. While energy accounts for 3-14% of the CPI basket, and every 10% oil price change, on average, adds 0.2pp to headline CPI inflation, the actual pass-through differs significantly across economies, due to government intervention (Figure 2). EM Asian economies that are most sensitive to the inflationary impact of higher oil prices (India and Thailand) also use price controls and subsidies that limit immediate inflation, with costs absorbed by fiscal authorities or state oil companies. Moreover, the current low inflation starting point provides a cushion. We estimate higher inflation pass-through for countries like the Philippines (0.5pp for every 10% oil price rise) and Korea (0.3pp), which have market-determined fuel prices. We would expect inflationary risks to become a larger threat, if the rise in oil price sustains and spills more broadly into food and other commodities, due to an increase in transportation/freight costs, as that could push up inflation expectations.

Fig. 1: Asia's net oil imports (% of GDP) in 2025



Source: CEIC and Nomura Global Economics.

Fig. 2: Energy and food shares in Asia's CPI basket



Note: Food includes raw food, condiments and processed food, but excludes beverages and dining-out food/prepared meals.
Source: CEIC and Nomura Global Economics.

3. Growth momentum should sustain, even as this is a downside risk to monitor

Higher oil prices are a negative terms-of-trade shock for Asia. The growth impact can occur through multiple channels: higher energy costs squeeze corporate profit margins, higher inflation (if passed) can erode household real disposable incomes and heightened uncertainty and financial market volatility can weaken confidence. However, we expect fiscal intervention to negate some of these adverse effects, and the current backdrop of strong tech and AI demand alongside the lagged effects from past monetary easing suggests Asia's growth momentum should sustain, although this remains a risk to monitor. The commodity exporters in the region (Malaysia, Indonesia) could benefit.

4. Fiscal burden (on- and off-budget) will rise

Higher oil prices create both direct and indirect fiscal pressures across Asia, as governments typically use fiscal policy as a wedge – through subsidies, tax cuts or excise

duty reductions – to shield consumers from energy price increases. This burden is sometimes borne by domestic oil firms, meaning the fiscal impact can be felt either on- or off-budget, and amounts to 0.1-0.2% of GDP for every 10% rise in oil prices. Within Asia, India, Indonesia and Thailand could face an incremental fiscal burden, due to higher oil prices. In India, the marketing margins of oil marketing companies would come under pressure, and they may require government support, if higher oil prices sustain. In Indonesia, a 10% oil price rise could worsen the fiscal balance by 0.2pp via higher subsidy spending, and raise the risk that the 3% ceiling could be breached. Although governments remain committed to their fiscal targets, the longer oil prices stay elevated, the greater the risk to fiscal consolidation plans.

Country winners and losers within Asia

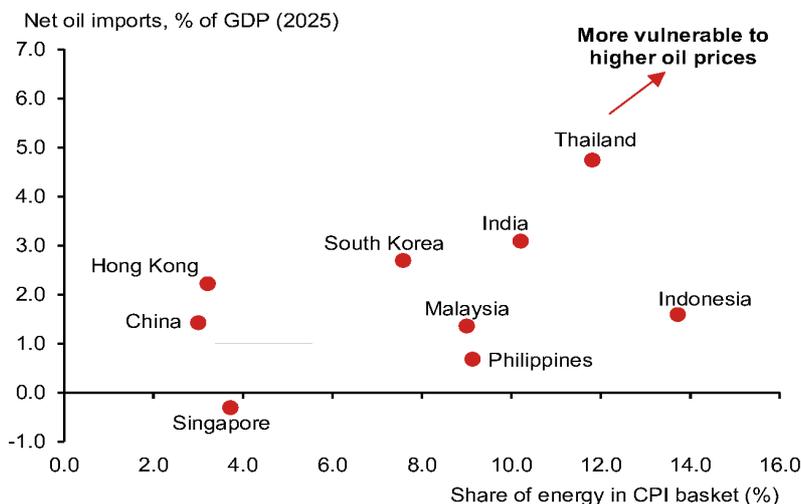
Thailand, India, Korea and the Philippines are most vulnerable

In Asia, Thailand, India, Korea and the Philippines are the most vulnerable to higher oil prices, due to their high import dependence, while we see Malaysia as a relative beneficiary (Figure 3).

In Thailand, current account and inflation pressures should rise, but we are less worried about inflation, amid ongoing deflation and the below-potential growth outlook. In India, we expect a higher import bill and risk-aversion driven portfolio outflows to increase BOP funding pressure in the near term, while higher oil prices will reinforce the RBI's on-hold stance and can add to fiscal risks. In Korea, we believe higher oil prices and resident portfolio outflows are likely to partly offset the gains from the AI boom, sustaining KRW depreciation pressures. Additionally, services inflation remains sticky, and weak FX and higher oil prices can add to goods price inflation. We also see a risk of a much wider current account deficit in the Philippines, due to its high oil import dependence, and some inflation risk from an immediate pass through to consumers, due to the absence of subsidies.

In contrast, Malaysia could emerge as a relative beneficiary, due to its status as a net energy exporter. While Malaysia is a small net crude oil importer, it has become a small net exporter of petroleum products, so we believe the impact of rising crude oil prices on the CA balance has also turned positive.

Fig. 3: Net oil imports versus share of energy in CPI across Asia



Source: CEIC and Nomura Global Economics.

Policy response

The priority of policymakers is to protect the green shoots of growth amid a K-shaped recovery, benign inflation and an oil price rise driven by short-term, supply-side factors. We expect Asia to use fiscal policy as the first line of defense to offset the impact on consumers, but monetary policy responses will likely vary.

Fiscal as the first line of defense

Fiscal policy intervention could include domestic price controls, higher subsidies to consumers or transport operators, domestic fuel excise tax cuts and lower import tariffs on crude oil and refined products.

Monetary policy in wait-and-see mode

On monetary policy, central banks are likely in wait-and-see mode for now, given elevated uncertainty on the duration of any oil price shock, and offsetting effects on growth (lower) and inflation (higher). The ongoing Iran conflict solidifies the case for many central banks to hold rates steady for now. We do not see higher oil prices as a trigger for rate hikes, unless the oil price increase sustains and there are signs that this is broadening into other commodity/food prices and seeping into higher core inflation.

In our baseline, we see divergences in monetary policy paths ahead this year, with four central banks on hold (Thailand, India and Korea), three likely to cut (China, Indonesia and the Philippines), and three likely to hike/tighten (Malaysia, Australia and Singapore). The rise in oil price increases our conviction in BNM hiking rates, but we see a risk that the BSP could stay on hold (versus our baseline of another 25bp cut in April).

In the sections that follow, our Asia country economists provide more detailed estimates of the impact of rising oil prices on their economies (Figure 4), and our strategy team assess the implications for financial markets.

Fig. 4: Impact of rise in oil prices on Asian economies

| | Impact of every 10% rise in oil prices | | | | Nomura's 2026 baseline projections (Assuming Brent crude oil price of US\$65.1/bbl in 2026) | | |
|-------------|--|---------------------|----------------------------|---------------------------|--|-------------------------|----------------------------|
| | GDP growth (pp) | CPI inflation* (pp) | Current account (% of GDP) | Fiscal balance (% of GDP) | Real GDP (% y-o-y) | CPI inflation (% y-o-y) | Current account (% of GDP) |
| China | 0.00 | 0.10 | -0.20 | -0.01 | 4.3 | 0.4 | 3.8 |
| Hong Kong | 0.00 | 0.07 | -0.07 | -0.01 | 3.3 | 1.6 | 7.3 |
| India | -0.15 | 0.50 | -0.40 | -0.05 | 6.9 | 3.9 | (0.9) |
| Indonesia | 0.05 | 0.10 | -0.20 | -0.20 | 5.0 | 2.6 | (1.2) |
| Malaysia | 0.04 | 0.22 | 0.02 | 0.00 | 5.2 | 2.0 | 2.0 |
| Philippines | -0.07 | 0.50 | -0.37 | 0.00 | 5.3 | 2.5 | (3.7) |
| Singapore | 0.01 | 0.14 | 0.03 | 0.00 | 3.7 | 1.9 | 17.6 |
| South Korea | -0.05 | 0.30 | -0.30 | -0.10 | 2.3 | 2.1 | 8.2 |
| Thailand | -0.08 | 0.30 | -0.50 | -0.20 | 1.8 | (0.2) | 2.7 |

Note: *For Singapore, we calculate the impact on MAS core inflation.

Source: Bloomberg and Nomura Global Economics.

Country impact

China (Ting Lu, Jing Wang, Harrington Zhang and Hannah Liu)

We estimate a 10% rise in oil prices from current levels would increase China's PPI inflation by ~1.0pp, while the impact on CPI inflation would be much smaller at ~0.1pp, given crude oil's small weighting in the CPI basket and highly regulated retail petroleum prices. China is the world's largest crude oil importer, with its oil import dependence elevated at ~73%. Higher oil prices should increase China's imports in value terms and narrow its current account surplus (CAS), which has widened materially to 3.7% of GDP in 2025 (2024: 2.2%), on the substantial imbalance between domestic and external demand. We estimate a 10% oil price shock would increase China's annual imports by 1.0%, but narrow the CAS by 0.2% of GDP.

Apart from higher oil prices, Iran is a major supplier of some petrochemical and agricultural goods to China, including primary polyethylene, frozen hairtail and pistachios, according to data from China Customs. Still, the overall direct impact on China's trade could be limited, as Iran only accounted for 0.18% and 0.12% of China's total exports and imports, respectively, in 2025.

On policies, a sharp, sustained rise in global oil prices could push up China's inflation, while we believe the PBoC will likely maintain its supportive policy stance amid sluggish domestic demand. We continue to expect one 10bp policy rate cut and a 50bp RRR cut in

Q2 2026, and we do not expect any further cuts to either the policy rate or the RRR thereafter.

India (Sonal Varma and Aurodeep Nandi)

India imports more than 85% of its domestic oil needs, and latest vessel tracking data suggest around half of its crude oil imports currently transit through the Strait of Hormuz (source: *Kpler*). In FY25, Iraq, Saudi Arabia, UAE and Kuwait (in the Persian Gulf) cumulatively comprised close to 46% of India's annual crude oil imports, underlining the importance of this chokehold for India's energy security. Additionally, pressure from the US has led to a sharp drop in India's crude oil shipments from Russia, versus a 35% share in *FY25* (see *India and US seal the deal*, 3 February 2026). That said, a regime change in Iran could lead to a dismantling of its sanctions, and India could benefit from the increase in global supply of crude oil as a consequence over time.

In theory, higher crude oil prices should lead to higher retail prices of fuel products and increased inflation. The RBI estimates that a 10% increase in global crude oil prices leads to a ~0.15pp drop in GDP growth and ~0.3pp increase in inflation, but this is based on the old inflation series, while the new one has doubled the combined weightings of petrol and diesel (to 4.8% from 2.3%), which should also raise the sensitivity of CPI inflation to oil price changes, if fully passed. That said, retail prices of petrol and diesel are unofficially pegged, with oil marketing companies (OMCs) absorbing the impact through their balance sheets. Therefore, we see a much lower impact of ~0.1pp on inflation and GDP growth. Our oil analyst, Bineet Banka, *estimates* the marketing margins of OMCs are currently at INR10/ltr for petrol and INR4.0/ltr for diesel, which suggests there is a buffer to absorb the crude oil price shocks before the government needs to consider a fiscal hit to make up for under-recoveries.

On the external front, India's current account deficit (CAD) is currently well balanced, and by our estimate should average ~0.9% of GDP in FY26 and 0.8% of GDP in FY27, which is low by historical standards. This assumes global crude oil prices average ~USD65/bbl over the year, and every 10% increase in crude oil prices typically widens the CAD by ~0.4% of GDP. India's major external sector risk though, is not from its current account, but from the capital account, where a sharp drop in foreign investment flows is leading to a large balance of payments deficit in FY26. A combination of a widening CAD and FII outflows due to global risk aversion could accentuate rupee weakness.

ASEAN (Euben Paracuelles, Nabila Amani, Yiru Chen)

Indonesia: We see a limited impact on headline inflation, as fuel and electricity subsidies have been maintained, but consequently higher oil prices will likely *worsen the twin deficits*. If oil prices rise by 10%, the upside risk to this year's fiscal deficit will be around 0.2% of GDP, by our estimate, via higher subsidy spending that offsets a more marginal increase in non-tax revenues. Given our baseline forecast for a fiscal deficit of 2.9% of GDP this year, above the budget's 2.7%, the risk that the 3% ceiling could be breached will likely rise and will therefore remain an overhang for investors, which could also add to *pressures on balance of payments and credit ratings*. Given Indonesia is a net oil importer, a 10% rise in oil prices should also widen the CAD by 0.2% of GDP, and we already expect it to widen to 1.2% in 2026 from 0.1% in 2025. On monetary policy, the risk from higher oil prices support our view of a more backloaded trajectory of rate cuts by BI: we maintain our forecast for another 50bp of rate cuts this year to 4.25%, *but we recently pushed back the timing to June and September*. BI remains focused on promoting FX stability and will likely turn more cautious in the face of rising geopolitical tensions in Iran.

Malaysia: We estimate every 10% increase in crude oil prices will result in a modest 0.22pp rise in headline CPI inflation, with the more widely consumed Ron95 petrol still subsidized despite some recent reforms and thus limiting the pass-through. Still, our CPI forecast of 2.0% this year is already at the upper end of the official forecast range of 1.3-2.0%, underpinned by strong domestic demand and buoyant labour market conditions. We think higher energy prices are somewhat positive for growth (Malaysia is an energy exporter), which further supports our *above-consensus 2026 GDP growth forecast of 5.2%*, driven by robust domestic demand and the tech upcycle. Our forecast also exceeds the government's forecast of 4.0-4.5%. All of these factors, alongside signs of a buildup in financial imbalance risks, underpin our out-of-consensus forecast for *BNM to hike its overnight policy rate by 25bp in Q4* to a more neutral 3%. While Malaysia is a small net crude oil importer, it has become a small net exporter of petroleum products (with an even larger surplus if we add LNG net exports), so we believe the impact of rising crude oil prices on the current account balance has also turned positive, even if minimal. On the

fiscal front, we think higher oil prices will increase government revenues, but we expect a proportionate increase on the expenditure side, as Ron95 prices remain subsidized, resulting in a neutral impact on the fiscal deficit.

Philippines: With no fiscal subsidies, the impact on the budget deficit, which has been declining recently due the *fiscal contraction from the ongoing corruption scandal*, will be limited. Still the pass-through to domestic retail fuel prices will be significant and quick, exerting substantial upward pressure on headline CPI inflation. By our estimates, every 10% rise in oil prices could add about 0.5pp to CPI inflation, which suggests headline inflation could return to the upper end of BSP's 2-4% target this year, instead of averaging at 2.5% as our forecasts envisage. With BSP's orthodox inflation targeting framework, the monetary board could turn more cautious on the inflation outlook, *putting at risk our expectation of another 25bp cut* to 4.0% at the next meeting in April. We also believe BSP has recently changed its stance on FX policy, with a shift to a more interventionist approach to prevent PHP weakness instead from its earlier laissez-faire approach. The country's relatively large net energy imports suggest an increase in oil prices could put the CAD back on a widening path, exerting currency pressures and adding to the likelihood of unchanged BSP policy rates. We think the bar to BSP considering rate hikes, however, remains fairly high, given the *output gap remains wide*, which should still help keep inflation within target.

Singapore: We estimate the pass-through from a 10% increase in crude oil prices to 2026 core inflation would be significant at around 0.14pp, mainly via direct effects from upward adjustments with a one-quarter lag in household utility costs (e.g., gas and electricity rates). Despite the lower-than-expected outturn in January, *we maintained our 2026 core inflation forecast of 2.1%*, above the latest MAS forecast of 1-2%, because the main source of downside surprise (i.e., lower education inflation) will likely be offset by emerging upside risks from higher oil prices, alongside other factors such as the tobacco tax hike, surging chips prices, *tight labor markets* and second-round effects from other adjustments. In our view, higher oil prices will further drive an increase in MAS vigilance on the inflation outlook. Meanwhile, Singapore shifted to become a small net exporter of crude oil and petroleum products last year, and so – assuming this shift is not temporary – the impact on the current account balance is now positive but still very small compared to the size of the overall surplus (we forecast 16.9% of GDP this year).

Thailand remains the largest net oil importer of the region, and we estimate a 10% increase in crude oil prices would have a sizeable, negative impact on the CAS at around 0.5% of GDP versus our forecast of 2.7% for 2026. Similarly, with the significant weighting of energy in the CPI basket, the upside risk to headline inflation is around 0.3pp, which could bring the full-year average to slightly above 0% (instead of our forecast of -0.2%). This is still relatively low and below the BOT's 1-3% target, dragged by weak core inflation and subdued demand-side conditions. We see the new government, *which has a populist stance*, likely maintaining some fiscal support measures to help vulnerable sectors cope with the higher cost of living, such as reduced excise taxes on diesel and maintaining electricity tariffs, which suggests a fiscal impact. On monetary policy, we continue to think the *BOT's cutting cycle has reached its end* and forecast an unchanged policy rate at 1.0% for the rest of the year. With the BOT's recent concerns about FX strength, easing THB appreciation pressures as a result of high oil prices would also likely reduce the need for further rate cuts.

South Korea (Jeong Woo Park)

As the BOK assumed 2026 Brent oil price at USD64/barrel, the oil price surge is likely to increase upside risks to its inflation outlook. We estimate every 10% increase in oil prices translate into a 0.3pp rise in headline inflation, marginally more than our previous estimate of 0.2pp, due to the weaker KRW. In a weaker KRW environment, we expect headline inflation to become more sensitive to oil price shocks. Thus, we see upside risks to our 2026 inflation forecast of 2.1%. On growth and the current account, however, we see a marginal impact, as rising chip prices can offset higher oil prices. We maintain our above-consensus 2026 GDP growth forecast of 2.3%. Despite higher oil prices, and amid the chip price surge, we see upside risks to our 2026 CAS forecast of 8.5%.

On monetary policy, we believe supply-led inflation does not warrant rate hikes. Specifically, given the BOK's cautious outlook on a domestic demand recovery, we expect the BOK to downplay inflationary pressures from higher oil prices. We maintain our view of an extended hold through end-2027. We expect fiscal policy to play a more important role in mitigating the downside risks to the growth outlook and the upside risks to the inflation

outlook. The government can extend the fuel tax cut beyond April, if oil prices continue to rise and remain elevated at higher levels, which can partly offset the oil shock to the domestic economy. At the same time, if the oil shock increases the probability of growth undershooting the government's 2026 GDP growth forecast of 2.0%, we believe the government can implement a supplementary budget, although we assign only a 10% probability to a supplementary budget at the moment.

Asia FX strategy

The market's initial reaction to the US-Israel strikes on Iran was as expected: risk negativity with a slight USD bid (relative "safe haven" FX stronger). However, the initial moves lower in EUR/USD, US equities and bitcoin (gold higher) have been largely faded, with the exception of the move up in oil (largely sustained; ~9% higher at the point of writing), based on markets over the weekend. There remains a relatively high level of near-term uncertainty, particularly with regard to the Strait of Hormuz. Until there is greater clarity on trade flows through the strait, we **lean cautious in FX markets**. This suggests **potential support for USD and outperformance of relative "safe haven" currencies**.

In **Asia FX**, markets will likely focus on a few key factors, such as oil exposure, positioning risk and economic/policy vulnerabilities. **Overall, we believe the Asian currencies most vulnerable to these factors (and a further spike in oil prices) include THB, INR and KRW**. Our **current recommendations** for those currencies include (conviction levels at 3/5) **long USD/THB, long EUR/INR and long CNH/KRW**. We also see support for **long SGD/IDR (4/5)** and incrementally less support for our short USD/CNH recommendation (reduced to 4 from the maximum 5/5 **on 27 February**).

On oil exposure, Thailand (THB), India (INR) and Korea (KRW) are the largest net importers of oil (relative to GDP) at 4.7%, 3.1% and 2.7%, respectively; and this spike in oil prices will hit current account positions. **On FX positioning risk**, CTAs could be forced to unwind their long THB positions (despite higher gold prices), because onshore demand for USD and foreign portfolio outflow risks could dominate the moves in THB (towards depreciation) and lead to a break in CTA models. Risks to short USD/CNH positions have increased incrementally, with the market still positioned for RMB appreciation, but we see relative RMB outperformance as still likely (especially over a multi-month period). The **vulnerabilities** of some FX in the region may be exacerbated by the current global backdrop. In this case, IDR appears vulnerable, given concerns over BI independence, fiscal prudence (higher oil is another source of fiscal pressure; see economics section), potential negative foreign portfolio flows and **BI's limited FX reserves** (FX reserves adequacy ratio based on 4 regimes average 95%; average 76% if FX were to be consistently held stable). KRW is also vulnerable through the global equity/risk channel, with Korea also vulnerable from relatively low FX reserves (FX reserves adequacy ratio based on 4 regimes average 80%; average 64% if FX were to be consistently held stable).

Asia rates strategy

In Asia rates, we expect Korea and India to be the most negatively affected. Not only due to their large oil imports, which negatively impact, the currency and inflation, but as both markets have rallied significantly over the past two weeks. Thailand is also likely to be affected by the oil move; however, given its weaker macro fundamentals, we would look to fade any selloff in Thai rates. Finally, for SGD/HKD markets, which have a higher beta to US rates, we expect them to move in sync with the US curve. However, given the large moves we have seen in the US recently, we believe the market has somewhat priced in increased uncertainty. Our top trades remain a pay 5y INR and a KRW 2s5s flattener, both at a conviction level of 3/5.

Asia equity strategy

Historically, **beyond initial short-term reaction, markets have tended to look through geopolitical tensions. In the most recent episode, during the ‘*twelve-day war*’ between Iran and Israel in June 2025, US stocks were largely unscathed even when oil prices spiked by ~USD10bbl when Israel attacked Iran’s nuclear facilities.**

Notably, tensions had already been rising ahead of that event with oil prices already up ~USD4bbl (see Fig 1 of report [here](#)). **How long this conflict lasts and how oil prices react to these events, we think, will be the key to monitor for risk sentiment.** At the time of this writing, bitcoin (as a gauge for risk) has already rebounded after the initial selloff, when Israel/US announced the attack on Iran.

Any *sustained* rise in oil prices (due to supply disruptions) will be negative for Asian equities, in our view, which are mostly net-energy importer countries. Most vulnerable equities in the region are likely to be India, Indonesia and the Philippines – all twin deficit countries. There may be some short-term profit taking from equities in Korea (where momentum is strong and positioning appears stretched), if tensions meaningfully escalate from here, but we do not expect lasting damage. In contrast, countries less dependent on energy imports like Malaysia (and with current account surplus to help) might prove to be more resilient. In the case of Hong Kong/China equities, we think the outlook will depend on whether there is any sustained impact on oil imports from the region.

Conversely, if the conflict ends relatively quickly, alongside the fall of the Iranian regime (which the *Trump administration appears to be targeting*), any negative impact on stocks would likely be short-lived. **If this also results in structurally lower oil prices over time (due to improved perceptions of Middle-East “stability”), we think that would be an additional positive for equities.** US equity markets have been somewhat jittery in recent weeks, in our view, with a *significant rotation and dispersion due to AI fears*. While Asian equities have been relatively more resilient, these developments, in our view, could still trigger some short-term profit-taking in the very near term.

Appendix A-1

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STOCKS

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