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FX Focus

Oil shock and AXJ FX: Framing the impact of escalation

Christopher Wong
FX Strategist

With assistance from Jessica Wong

- *The Israel/US strikes on Iran have triggered a joint oil and risk shock, lifting Brent, strengthening the USD and weighing on sentiment, with dispersion rather than uniform weakness seen across AXJ FX.*
- *Historical episodes show that the duration and scale of oil production losses can determine whether FX moves are tactical and reversible or more longer lasting.*
- *Our oil- and risk-beta framework suggests KRW and PHP can be more exposed if disruption proves prolonged, but de-escalation could see sharp reversals.*

Oil shock hits AXJ FX

The recent Israel and US strikes on Iran have reintroduced a geopolitical risk premium into energy markets, with markets focused on potential disruption to oil supply flows through the Strait of Hormuz. Brent crude oil rose sharply in the immediate aftermath, repricing both supply risk and shipping constraints. At the same time, the USD firmed while Asian currencies had weakened. Volatility has risen noticeably across emerging market FX with EMFX vol catching up sharply to G7 FX vol, underscoring how oil shocks tend to disproportionately affect net oil importing FX. The initial reaction reflects two overlapping forces: a higher oil price acting as a terms-of-trade shock for net oil importer FX, and a broader risk-off impulse favouring USD liquidity.

Oil shocks disproportionately affecting net oil importer FX

Source: Bloomberg, OCBC Group Research

Bloomberg FX Forecast Ranking (4Q 2025)
By Region:
No. 1 for Asia FX

By Currency:
No. 1 for HKD
No. 2 for SGD, THB, CNH
No. 3 for PHP
No. 4 for MYR

(3Q 2025)
By Region:
No. 2 for Asia FX

By Currency:
No. 1 for THB, CNH
No. 2 for CNY, MYR
No. 3 for PHP, HKD
No. 4 for SGD, TWD

Duration of oil supply disruption can affect AXJ impact

One of the key considerations is the duration factor. Markets may be able to absorb a short-lived spike in oil prices, particularly if physical flows remain intact. What tends to generate more durable FX repricing is sustained disruption that translates into tangible production losses.

Historical supply shocks illustrate this clearly. Episodes such as the early phases of Russia-Ukraine war in 2022 initially saw about 3.5mbpd of peak supply loss (but later revised to 1 – 1.5mbpd) while 2019 attack on Saudi infrastructure saw peak supply loss at 5.7mbpd. The current episode in Iran is the worry of closure of Straits of Hormuz, which could potentially see supply loss of up to 20%. This has yet to happen at time of writing (5 Mar).

The fear of tighter global oil supply can keep oil prices elevated in the interim and when oil price spikes are prolonged, they tend to be inflationary and growth-negative, reinforcing USD strength and weighing on AXJ FX.

Peak production loss in past geopolitical oil shock episodes since 2000

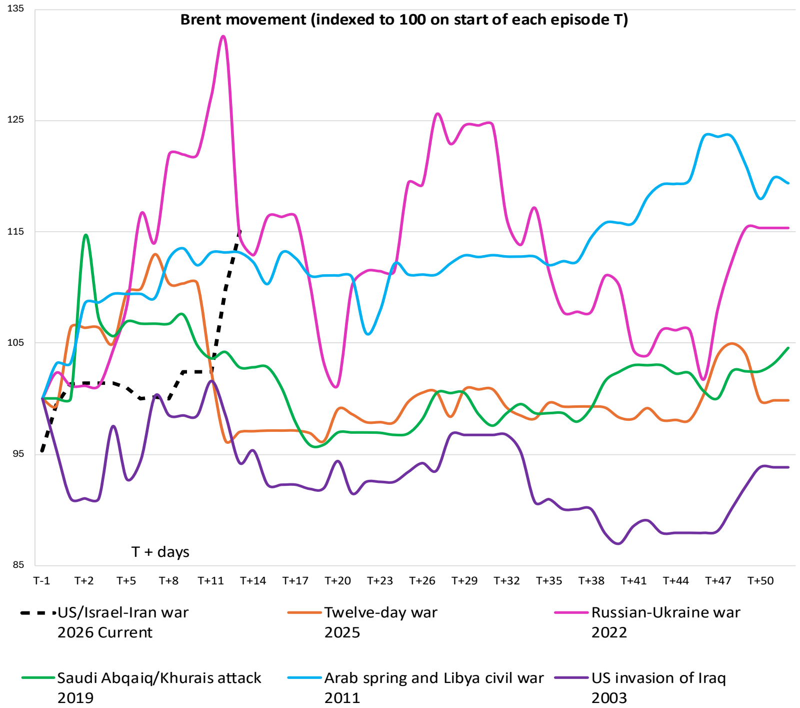
Start	Episodes	Peak supply loss (mbpd)
Feb-2026	US/Israel-Iran war	up to 20 est
Jun-2025	Twelve-day war	1.6
Feb-2022	Russian-Ukraine war	1 - 1.5
Sep-2019	Saudi Abqaiq/Khurais attack	5.7
Feb-2011	Arab spring and Libya civil war	1.5
Mar-2003	US invasion of Iraq	2.3
Dec-2002	Venezuela strike	3

Source: Various sources including EIA, IEA, Energy.gov, AP, OCBC Group Research estimates

Lessons from past geopolitical oil shocks

Looking across past geopolitical events, three patterns stand out. First, oil typically spikes immediately on headline escalation, but the persistence of that rally varies considerably depending on whether production losses materialise. Saudi Abqaiq 2019 and twelve-day war in 2025 saw sharp spikes within days but fully retraced about 2-3 weeks later as output was quickly restored. Iraq war in 2003 saw brent eased after invasion because prices were already elevated from pre-invasion risk premium. Libya 2011 saw brent spike and stay elevated because loss in output lasted for months while oil market then was already tight. Russia-Ukraine war that started in 2022 saw double price spike (geopolitical risk premium persisted amid sanctions, re-routing delays, etc.) before prices eased off after several months later.

Oil price spikes can fade if production loss is brief



Source: Bloomberg, OCBC Group Research

Third, Asia FX performance is dispersed rather than uniform. Currencies with high external energy dependence or strong risk sensitivity tend to underperform more, while relatively defensive currencies show greater resilience. Historical evidence suggests that FX weakness in oil-importing economies has tended to persist when oil price spikes are sustained and coincide with broader risk-off conditions, rather than when oil price moves prove short-lived.

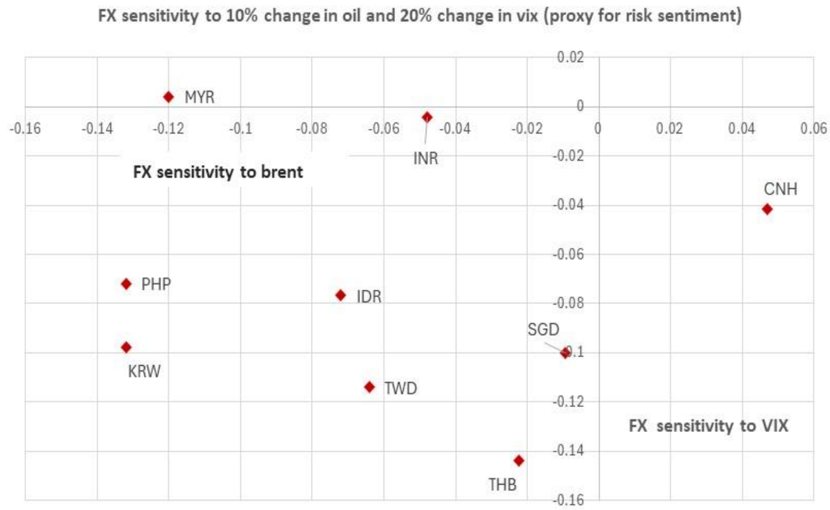
AXJ FX moves (% vs USD) in past geopolitical-led oil shock episodes

	US/Israel-Iran war 2026	Twelve-day war 2025			Russian-Ukraine war 2022			Saudi Abqaiq and Khurais attack 2019			Arab spring and Libya civil war 2011			US invasion of Iraq 2003			Venezuela strike 2002		
	1-day	1-day	5-days	30-days	1-day	5-days	30-days	1-day	5-days	30-days	1-day	5-days	30-days	1-day	5-days	30-days	1-day	5-days	30-days
KRW	-3.05	-0.49	-1.30	-1.51	0.71	0.04	-1.24	-0.45	-1.31	-0.44	-1.04	-0.40	-0.01	-0.25	0.06	3.49	-0.38	-0.70	1.60
TWD	-0.97	-0.15	0.03	1.00	0.13	0.04	-2.04	0.09	-0.24	1.01	-0.57	-1.18	-0.66	0.00	-0.17	-0.35	0.21	0.21	-0.03
CNH	-0.82	-0.22	-0.29	0.00	0.13	0.06	-0.95	-0.21	-0.78	-0.49	-	-	-	-	-	-	-	-	-
MYR	-1.32	-0.63	-0.55	-0.72	0.04	0.21	-0.59	-0.17	-0.50	-0.50	-0.52	-0.43	0.49	0.00	0.00	0.00	0.00	0.04	0.04
IDR	-0.50	-0.37	-0.29	0.15	0.11	0.32	0.23	-0.96	-0.99	-1.35	-0.27	0.24	1.60	0.59	1.22	3.43	-0.06	-0.17	0.81
SGD	-0.94	-0.26	-0.58	-0.10	0.15	-0.16	-0.14	-0.16	-0.43	0.16	-0.43	0.19	1.16	-0.28	-0.21	-0.09	0.07	0.35	1.58
THB	-1.73	-0.07	-0.63	-0.19	0.56	-0.24	-2.57	-0.11	-0.16	0.21	-0.30	-0.30	0.89	0.00	0.43	0.86	0.09	0.31	1.18
PHP	-1.31	-0.69	-1.58	-1.22	-0.02	0.08	-1.75	-0.76	-0.72	0.62	-0.48	-0.43	-0.02	-0.54	1.09	3.80	0.05	0.27	0.16
INR	-0.55	-0.57	-0.75	-0.24	0.52	-0.56	-1.24	-0.91	-0.50	-0.66	-0.63	-0.74	0.53	0.00	0.00	0.48	0.05	0.14	0.43
VND	-0.48	-0.16	-0.14	-0.30	0.01	0.05	-0.17	-0.02	0.02	0.06	-0.21	-0.17	-0.26	0.00	-0.01	0.04	-0.04	-0.04	-0.10
DXY	1.48	0.27	0.92	-0.07	-0.54	0.28	1.70	0.36	0.02	0.03	0.10	-0.53	-2.62	0.84	-0.61	-1.85	0.02	-0.93	-3.17
GOLD	-3.60	1.37	0.06	-0.90	-0.76	2.17	2.83	0.67	0.71	-0.51	-0.52	0.30	1.71	-1.87	-0.60	-1.90	0.91	2.64	8.87
BRENT	12.31	7.02	10.22	1.44	-1.16	5.94	20.14	14.61	6.94	-2.46	0.04	6.05	9.44	-4.51	-0.82	1.49	0.90	-0.62	14.87
WTI	11.25	7.26	9.99	0.60	-1.31	11.42	21.04	14.68	5.98	-3.72	8.55	13.55	22.51	-5.94	0.07	6.78	0.22	-1.14	16.92

Source: Bloomberg, OCBC Group Research

Quantifying AXJ sensitivities to oil and risk sentiment

To move beyond anecdote, we estimate FX sensitivities to oil prices and risk sentiment using OLS regressions. Oil sensitivity is estimated by regressing daily log changes in FX-USD pairs on Brent crude prices, while controlling for global equity performance (MSCI equities) and broad USD movements (DXY). Risk sensitivity is estimated by regressing daily log changes in FX-USD on VIX as a proxy for global risk sentiment. The sample uses daily data from March 2023 to March 2026 capturing recent market dynamics and volatility regimes. This framework allows us to isolate two distinct transmission channels: (1) a terms-of-trade channel through oil prices, and a (2) sentiment channel through equity volatility. For ease of interpretation, the estimated coefficients are scaled to reflect the FX response to a 10% change in Brent prices and a 20% change in the VIX.



Note: The scatter highlights relative sensitivities and directional tendencies across currencies. It should not be interpreted as a mechanical relationship, where a given oil move implies a fixed FX response. Actual FX outcomes will also depend on broader USD dynamics, risk sentiment and policy reactions.
Source: Bloomberg, OCBC Group Research estimates

The regression results show that amongst AXJs, KRW and PHP exhibited greater negative oil and risk beta, suggesting they tend to weaken more when oil prices rise and when global volatility increases. This combination reflects the dual pressures faced by many oil-importing economies during geopolitical shocks which saw higher energy import costs alongside deteriorating risk sentiment.

INR and IDR also displayed negative oil sensitivities, indicating that higher crude prices can weigh on these currencies through the import bill channel, though their sensitivity to risk sentiment appears somewhat more moderate in comparison.

For MYR, the picture is somewhat nuanced. While the regression shows a negative oil beta, Malaysia's position as a net commodity exporter means that higher oil prices can potentially also support the broader commodity complex and improve terms of trade. This can provide some offset to MYR during periods of oil-driven market stress, even though the currency may still soften in broader risk-off environments given its exposure to global sentiment and portfolio flows.

TWD and THB displayed relatively stronger sensitivity to global risk sentiment compared to oil prices. TWD's larger negative risk beta highlights its sensitivity to global equity cycles and portfolio flows. In episodes where global equities correct sharply, TWD underperformance can exceed what oil fundamentals alone would imply. THB also displayed high sensitivity to risk sentiment, suggesting that THB can potentially weaken more noticeably when VIX rises. This may also reflect THB's exposure to swings in tourism demand.

SGD exhibits comparatively modest oil sensitivity but slightly more negative beta to risk sentiment. While SGD may not be as directly affected by oil price swings, its currency can still respond to broader shifts in risk sentiment and the USD. For SGD, the transmission from oil prices tends to operate less through the external balance channel and more through inflation and monetary policy expectations. Energy prices historically have implications for Singapore's inflation outlook, both directly through fuel and utilities costs and indirectly through transportation, logistics and broader supply chains.

This relationship is highlighted in MAS's Special Feature in the October 2022 Macroeconomic Review[1] and BIS paper[2] found that increases in global energy and agricultural prices accounted for more than two-thirds of MAS Core Inflation pressures in mid-2022, underscoring the significant role of imported cost pressures in Singapore's inflation dynamics.

Past policy episodes illustrate how shifts in global energy prices can influence monetary policy for Singapore. In January 2015, when global oil prices collapsed (about 60% in 2H 2014) and weakened the inflation outlook, MAS took an unexpected off-cycle decision to reduce the slope of the S$NEER policy band, effectively easing policy. Conversely, during the 2021–2022 tightening cycle, MAS tightened policy multiple times as inflation surged amid rising global commodity prices, supply chain disruptions and strong domestic demand.

[1] Monetary Authority of Singapore (MAS) (2022): "Effects of higher global input costs on prices in Singapore", Macroeconomic Review

2 BIS Papers No. 142 (2023): Inflation and labour markets

Looking further back, MAS also tightened policy during 2010–2011 as inflation accelerated amid strong economic growth, rising domestic costs and higher global commodity prices, including oil (brent surged to >$120/bbl in 2011).

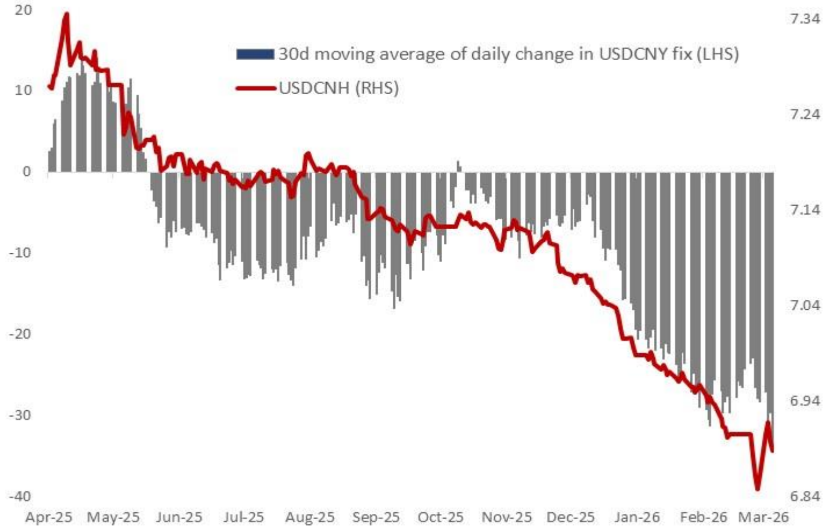
Today, global oil markets appear less structurally tight, although the risk of sustained price increases cannot be ruled out if geopolitical tensions lead to supply disruptions. At this stage, it may still be early to assess the full implications for Singapore's inflation outlook. However, a more persistent rise in energy prices could eventually influence inflation expectations and, by extension, the monetary policy stance may even see adjustments via the S$NEER policy band (not base case for now but not ruling out the risk).

This may also explain why SGD's oil sensitivity in the regression results appeared relatively contained, as oil price shocks tend to influence the currency primarily through inflation expectations and potential MAS policy adjustments, rather than through the direct terms-of-trade channel seen in many regional peers.

CNH displayed a slightly different profile compared with many regional peers. The regression shows a small positive sensitivity to oil prices, suggesting the currency can even see modest benefit when crude rises, potentially reflecting spillovers from the broader commodity complex and China's trade structure. At the same time, CNH also exhibited a negative sensitivity to global risk sentiment, indicating that the currency tends to weaken when volatility rises. Overall, the magnitude of both sensitivities appears relatively modest compared with other Asia FX. This likely reflects the more managed nature of the exchange rate regime, where policy guidance can dampen volatility.

While RMB may therefore move less sharply during global shocks, its direction still plays an important signalling role for the region. RMB stability can partially mitigate against broader AXJ stress, while RMB weakness can amplify it. There were initially some suspicion that policymakers maybe sending signals of moderating the pace of RMB appreciation after PBOC's decision to cut risk reserve ratio for forward FX sales to zero (27 Feb 2026). However, the subsequent fixing this week shows a slight pick-up in setting a stronger RMB fix instead. 30d rolling average change in the USDCNY fix rose to -33pips (vs. -27 pips a month ago). Continued trend in maintaining a strong fix should bring in relative stability in RMB, and that should help to partially mitigate against AXJ softness.

Slight pick-up in setting a stronger CNY fix in recent sessions



Source: Bloomberg, OCBC Group Research

AXJ FX remains differentiated

Overall, the results suggest that the impact of an oil-driven geopolitical shock on Asia FX is likely to be heterogeneous rather than uniform. Currencies such as KRW, PHP can be more exposed to twin oil and sentiment shocks, TWD and THB may be more driven by shifts in risk sentiment while RMB, SGD may display more balanced responses to oil and risk shocks.

The dominant transmission channel whether through oil prices and shifts in sentiment will likely determine the degree of performance dispersion across AXJ FX.

A contained shock that sees minimal oil supply shock and risk sentiment stabilising would likely result in two-way FX trade and partial retracement of initial losses. By contrast, prolonged disruption leading to material production losses would reinforce the dual oil-and-risk shock dynamic, leaving AXJs with negative oil and negative risk betas more exposed.

Conclusion

Developments remain fluid and the outlook for AXJ FX will largely depend on how the geopolitical situation evolves. A key consideration is the duration and scale of potential oil supply disruption. If tensions in the Middle East ease and risks to shipping routes and production remain contained, the oil risk premium could unwind relatively quickly. In such a scenario, some of the recent weakness in higher-beta Asian currencies could reverse as risk sentiment stabilises.

Conversely, a deeper escalation that materially disrupts oil production or shipping flows through the Strait of Hormuz could keep crude prices elevated for longer. A sustained supply shock would reinforce pressure on net energy-importing Asian economies through growth, inflation and sentiment channels, weighing on regional currencies.

Beyond geopolitics, the global monetary policy backdrop remains another important driver. A stronger USD environment could add further pressure on regional currencies, particularly if US rates remain higher for longer. On the other hand, clearer signs of Fed easing or stabilisation in global financial conditions could help anchor sentiment across AXJ FX.

At the same time, policymakers across the region have moved quickly to reassure markets. Authorities from Korea to Indonesia have signalled readiness to stabilise FX markets through communication and liquidity measures. Some central banks including the RBI and Taiwan's CBC have indicated leaning against excessive currency volatility, while Korean policymakers have highlighted a KRW100tn market stabilisation programme aimed at supporting financial markets and easing liquidity stress if needed. Such proactive steps can help offset some of the near-term pressures on AXJ FX. This morning, BSP Governor Remolona told Bloomberg TV (6 Mar) that *oil prices at $100 per barrel may cause inflation rate to rise and breach BSP's "tolerance range" of up to 4%*. He added that *oil prices, at 10% higher than before, remain manageable but if oil prices rise 50%, "then that's going to be something we have to deal with more strongly"*.

Overall, FX moves in geopolitical episodes are rarely linear. An earlier-than-expected de-escalation could see oil prices retrace and allow some of the recent FX weakness to reverse. Ultimately, the severity and persistence of the conflict and whether it translates into sustained physical supply disruption will remain one of the key determinants for AXJ FX.

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