

OCBC Global Outlook 2H26

The new normal: Global AI investment cycle trumps geopolitical uncertainties?

- Two dominant forces – geopolitical escalation and the global AI-related capex investment cycle were at play in 1H26. With the latest US-Iran memorandum of understanding, Brent is back below the US\$80 per barrel handle. This comes as a relief for energy importing economies, albeit inflation prints will take time to ebb given the lagged effects. Meanwhile, 1Q26 growth cues were also strong, driven by the global AI-related boom.
- Some central banks like the BOJ, RBA, BI, BSP and MAS have begun monetary policy tightening while others have signalled hawkish intentions. The US Federal Reserve kept rates static at 3.5-3.75%, but the dot plot saw 9 members voting for a hike this year. New Fed chair Warsh emphasized a return to “first principles” amid his commitment that the committee will deliver price stability. The upcoming US mid-term elections will be critical for the Trump administration, as a potential loss of the House for example could imply a “lame duck” scenario for passing legislation.
- For 2H26, a moderation in the growth trajectory may be in store, especially since monetary policy stance is leaning increasingly hawkish. For the asset markets, liquidity and funding costs are critical determinants. Expensive market valuations and a high-for-longer interest rate environment is more likely than not to keep financial markets volatile.

Selena Ling
Chief Economist
Head of OCBC Group Research

The first half of 2026 was characterised by the interplay of two dominant forces — geopolitical escalation, namely in the form of a prolonged US-Iran war and a powerful global AI-related capex investment cycle. These two tour de force combined have rewritten global growth dynamics and inflation expectations, as well as reshaping central bank dynamics and fiscal policy priorities.

On the geopolitical front, the US–Iran tensions which began in 1Q26 had reintroduced a sustained risk premium into global energy markets. Oil prices moved materially higher, as the closure of the Strait of Hormuz which accounted for around 20% of global crude oil trade, contributed to reversing the disinflationary impulse seen in prior quarters and directly fed through into headline inflation prints globally. For energy-importing economies, including those in Asia, higher energy costs began to challenge the earlier narrative of a soft growth landing and a smooth return to central bank inflation targets. As a result, monetary policy expectations recalibrated meaningfully, with financial markets repricing towards a “higher-for-longer” interest rate environment. This was most apparent in the US Federal Reserve which started 2026 with widely anticipated interest rate cuts, especially after US president Trump appointed Kevin Warsh as the new Fed chairman, but how the dime has turned – first, the escalating US-Iran geopolitical tensions prompting the futures market to

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price in a 25 basis point hike by end-2026 and another 25 basis point hike by mid-2027 in late May, but this was quickly unwound to just one 25 basis point hike in 1H27.

In parallel, the global AI boom emerged as a powerful cyclical growth catalyst that gave a turbo growth boost to those economies that had hopped on to the AI-related bandwagon. Investment in semiconductors, data centres, and digital infrastructure appeared resilient to the escalation in geopolitical tensions in 1Q26, contributing to robust industrial production and export outperformance across Asia, particularly in North Asia supply chains. The beneficiary economies in the region included South Korea, Taiwan, Singapore and Malaysia. This translated into upside surprises in first-quarter growth as external AI-related demand mostly offset any underlying domestic demand softness and consequently, there were little downward revisions in full-year growth forecast revisions even when the US-Iran war appeared prolonged past 100 days.

The resulting tear between macroeconomic and geopolitical realities saw financial markets responding to this dual dynamic with renewed divergence. Equity markets, particularly in the US and parts of Asia, were supported by strong earnings in AI-linked sectors, while bond markets faced pressure from rising inflation risks and expectations of delayed policy easing. The US dollar remained broadly supported, reflecting both interest rate differentials and its safe-haven status amid geopolitical uncertainty.

The latest US Federal Reserve policy decision was unsurprising as the Fed Funds Target rate was unanimously left unchanged at 3.5-3.75%. However, the new Fed chair Kevin Warsh has instituted some changes by abstaining from the dot plot, leaving exactly half of the 18 members voting for a hike this year (of which 6 see at least 50bps of hikes) while the other half anticipate keeping rates steady (8) or cutting once (1). This potentially means Warsh could be a pivotal tie-breaker in coming FOMC meetings. The FOMC statement was tersely shorter with forward guidance off the radar. While the Summary of Economic Projections (SEP) flagged higher inflation with the headline and core PCE at 3.6% and 3.3% respectively (previously both at 2.7%) in 2026, they quickly subside to 2.3% and 2.5% next year and 2.0% and 2.1% by 2028, implying that the current energy-fuelled inflation is transitory. Interestingly, the growth and unemployment rate forecasts were little changed at 2.2% (previously 2.4%) and 4.3% (previously 4.4%) respectively in 2026 and remain relatively stable through 2027-2028. As for the Federal funds rate forecasts, they were adjusted higher for longer at 3.8% (2026), 3.6% (2027) and 3.4% (2028) versus 3.4% (2026) and 3.1% (for both 2027 and 2028) back in March, the trajectory is still mildly downward – which suggests that any kneejerk hawkish market reactions are probably overdone as the bar to a rate hike this year is still high. In fact, during the press conference, Warsh hinted that the conviction levels for the hawkish members were not high. Our house view is still for no moves this year. In addition, Warsh announced the establishment of five task forces to look at Fed communications, balance-sheet policy, reliability of existing data sources, productivity and jobs and the inflation framework, with recommendations due by year-end. This underpins his return to “first principles” amid his commitment that the committee will deliver price stability.

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Lessons from 1H26: what were the blindspots and opportunities looking ahead?

One complacency in the initial part of 2026 was the underestimation of the persistence of geopolitical risk. Markets initially treated the Iran war with the hopeful optimism that it would be episodic, contained and quickly resolved, akin to Venezuela and the Greenland spats. However, as the war dragged on and tensions escalated with the effective closure of the Strait of Hormuz, alongside damage to some neighbouring energy and other infrastructure, global supply chains and financial markets increasingly reprice risk and supply premiums.

A second blindspot was the increasing concentration of equity market performance. Gains were heavily skewed towards a narrow set of AI-related sectors and mega-cap technology firms, masking weaker earnings breadth across the broader market. This raises questions about the sustainability of valuations should growth broaden less than expected. Consequently, we saw some bouts of nervousness permeating in software companies and where company guidance failed to awe.

A third area of miscalculation was the resilience of inflation. Markets entered the year anticipating a faster disinflation path and earlier rate cuts, but energy dynamics and sticky services inflation forced a reassessment of this outlook.

At the same time, clear opportunities emerged. The AI ecosystem—including semiconductors, power infrastructure, and digital services—continued to generate strong growth momentum. Selected markets benefited from both geopolitical tensions and structural demand linked to electrification and digitalisation. In Asia, export-oriented economies leveraged the technology cycle to offset domestic demand weakness, creating relative outperformance opportunities.

Looking ahead, it is critical to distinguish between cyclical forces, which are likely to evolve over the next few quarters, and structural trends, which will shape markets over multiple years.

Cyclical drivers include the current energy price cycle, driven by geopolitical tensions and supply risks as questions remain as to how fast the Strait of Hormuz will re-open and the global oil trade normalize. Second, the AI-led capex surge, while powerful, could moderate as investment cycles mature. Third, monetary policy adjustments, especially if rate cuts are off the table and some central banks tighten instead, how this would impact liquidity conditions and funding costs. Last but not least, the rapid ramp up in the AI-related semiconductor production, trade and inventory cycles is both a tailwind and a headwind for the electronics and manufacturing industry.

Taking a longer time horizon and a more holistic lens, structural drivers include the digital and AI transformation of the global economy, which is reshaping productivity, capital allocation, and supply chains. Second, geoeconomic fragmentation, including trade realignment and “friend-shoring” strategies will continue to recalibrate trading and supply

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chains for years to come. Even if the US-Iran war ends, the energy transition will continue to underpin long-term demand for renewable energy. Demographic and labour market shifts, particularly in developed economies, will also influence wage dynamics and inflation persistence. The interaction between these cyclical and structural forces is likely to result in more complex and less synchronised global growth outcomes.

What's next for 2H26?

For 2H26, a moderation in the growth trajectory maybe in store, especially since monetary policy stance is leaning increasingly hawkish. Consequently, the financial market landscape may potentially see greater volatility. The United States may see relatively resilient growth, supported by ongoing investment in AI and still stable consumption. However, inflation is likely to remain sticky, which is constraining the ability of the Fed to ease monetary policy as initially hoped for. The mid-term elections due later this year also matter as it is a good proxy to public sentiments and in turn may prove a constraint on the current administration, especially in the area of foreign policy. A potential loss of the House (and even the Senate?) could imply a "lame duck" scenario for passing legislation.

Within the Eurozone, growth remains subdued, with structural weaknesses compounded by energy sensitivity. The European Central Bank rhetoric suggests that elevated energy costs may not fade so quickly and peace in Iran may not suffice to end the energy shock since infrastructure damage from the war implies a lag to production recovery.

Japan is transitioning gradually towards policy normalisation as wage growth improves and inflation becomes more entrenched. This marks a shift away from its longstanding ultra-loose monetary stance. The Bank of Japan has recently hiked 25bp to 1.00% and signals there may be more hikes to come if the anticipated inflation trajectory materialises.

China's growth outlook is stabilising but remains uneven. While external demand linked to the technology cycle is supportive, domestic demand continues to be weighed down by property sector adjustments and cautious consumer sentiment. Policy support is expected to remain less than aggressive.

Across ASEAN, the outlook is closely tied to global trade and technology cycles. Economies with strong electronics exposure, such as Malaysia and Singapore, are likely to continue to benefit from the ongoing upcycle, while broader regional growth remains sensitive to external demand and energy prices.

For the asset markets, liquidity and funding costs are critical determinants. In the foreign exchange market, the US dollar is expected to remain stable due to interest rate differentials and safe-haven demand. The Japanese yen could still see some pressure despite intervention talk and even as monetary policy normalises, while Asian currencies may face intermittent pressure from dollar strength.

Interest rates are likely to be vulnerable to near-term inflation uncertainty and fiscal dynamics. Bond markets are being held hostage, particularly in developed markets and for

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longer tenors due to fiscal concerns. That said, selective opportunities may emerge where stronger disinflation trends emerge over time should crude oil prices stay subdued below US\$80 per barrel.

Equity markets are expected to remain supported by earnings in technology and AI-related sectors, but risks of valuation compression and sector rotation are increasing, particularly if interest rates stay higher for longer.

Commodity markets, particularly energy and metals, are likely to remain supported by a combination of geopolitical risk and structural demand from the AI boom and the energy transition. Gold may continue to attract demand as a hedge against both inflation and geopolitical uncertainty as long-term investors like central banks are still keen to add exposure as a diversification hedge.

Several key milestones/indicators will shape market direction in the second half of the year. These include the sustainability of the US–Iran peace deal and its impact on energy supply and pricing; the durability of the AI investment cycle, particularly in sustaining earnings momentum; inflation dynamics, especially the extent to which energy prices feed into core inflation; central bank policy signals, including the timing and pace of potential rate hikes; China’s domestic policy response and its effectiveness in stabilising demand; and the breadth of equity market performance, as an indicator of underlying economic strength.

In summary, the global economy is inevitably shifting into a more complex environment defined by geopolitical risk, structural transformation, and policy uncertainty. While the AI-driven investment cycle provides a powerful growth engine, policy uncertainties, expensive market valuations and a high-for-longer interest rate environment is more likely than not to keep financial markets volatile

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GDP Growth Rates

% Change YoY	2025	2026F	2027F	2028F
US	2.1	2.2	2.0	1.8
Eurozone	1.4	0.9	1.1	1.1
Japan	1.1	0.7	1.0	1.0
United Kingdom	1.4	1.0	1.1	1.4
Australia	2.0	2.0	1.9	2.0
New Zealand	0.2	1.2	2.0	2.5
China	5.0	4.7	4.5	4.5
Hong Kong	3.6	3.4	2.8	2.5
Taiwan	8.8	8.1	4.2	5.4
India	7.1	7.7	6.5	7.4
Indonesia	5.1	5.0	5.0	5.1
Malaysia	5.2	4.4	4.2	4.3
Philippines	4.4	3.8	4.8	5.3
Singapore	5.0	3.5	2.8	2.5
South Korea	1.1	2.2	2.0	2.0
Thailand	2.4	1.5	2.0	2.0
Vietnam	8.0	7.3	8.0	8.0

Note: India forecasts are based on the fiscal year. FY27 is April 2026 until March 2027.
Source: Bloomberg, OCBC Group Research.

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Inflation Rates

% Change YoY	2025	2026F	2027F	2028F
US	2.7	3.5	2.2	2.2
Eurozone	2.1	3.1	2.5	1.9
Japan	3.2	2.1	2.0	2.0
United Kingdom	3.4	3.1	2.3	2.1
Australia	2.8	4.4	2.9	2.5
New Zealand	2.8	4.0	2.0	2.0
China	0.1	1.5	2.0	2.2
Hong Kong	1.4	1.9	2.2	2.2
Taiwan	1.7	2.1	1.9	1.7
India	4.6	2.0	5.0	3.4
Indonesia	1.9	3.0	2.5	2.6
Malaysia	1.4	2.0	2.1	2.2
Philippines	1.7	5.8	4.5	3.5
Singapore	0.9	2.2	2.1	1.9
South Korea	2.1	2.6	2.2	2.0
Thailand	-0.1	3.8	2.0	1.3
Vietnam	3.3	4.5	4.5	4.5

Note: India forecasts are based on the fiscal year. FY27 is April 2026 until March 2027.
Source: Bloomberg, OCBC Group Research.

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Central Bank Policy Rates

Benchmark Rate %	Current	End-2026F	End-2027F
US Fed Funds Rate	3.75	3.75	3.75
ECB Deposit Facility Rate	2.25	2.50	2.50
BoJ Target Rate	1.00	1.25	1.75
BoE Base Rate	3.75	3.75	3.50
RBA Cash Target Rate	4.35	4.35	3.85
RBNZ Cash Rate	2.25	2.75	3.00
China Loan Prime Rate (1-year)	3.00	2.90	2.90
CBRC Discount Rate	2.00	2.00	2.00
Hong Kong Base Rate	4.00	4.00	4.00
BI Rate	5.75	6.50	6.00
BNM Overnight Rate	2.75	2.75	3.00
BSP Overnight Reverse Repo	4.75	5.50	5.00
RBI Repurchase Rate	5.25	5.25	5.75
Singapore SORA*	0.93	1.40	1.50
BOK Target Overnight Call	2.50	3.00	3.00
BOT Repurchase Rate	1.00	1.00	1.50
SBV Refinancing Rate	4.50	4.50	5.00

*Benchmark risk free rate

Note: These are meant to serve as end-period forecasts. India forecasts are based on the fiscal year. FY27 is April 2026 until March 2027.

Source: Bloomberg, OCBC Group Research.

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Australia

Australia: Soft landing, narrow path

- Growth is slowing but the growth rate should remain positive. We expect GDP growth to ease from 2.0% in 2026 to 1.9% in 2027. Higher interest rates and the energy shock are weighing on households, but population growth and strong business investment are cushioning aggregate activity.
- Inflation is proving stubborn. Underlying inflation remains above the RBA's target and supply-side pressures are slowing the return to 2-3% target. We expect CPI inflation to ease only gradually from 4.4% in 2026 to 2.9% in 2027.
- The policy rate is likely near its peak. Another hike cannot be ruled out, but the RBA is increasingly balancing inflation risks against a softening economy.

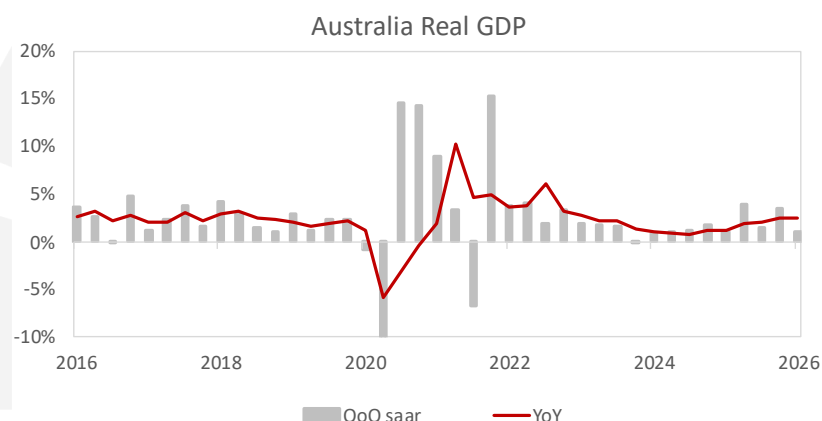
Sim Moh Siong
FX Strategist

The great Australian balancing act

After a strong run in 2025, the Australian economy is entering a period of slower growth and sticky inflation, but a deep downturn still appears unlikely. Our base case is that growth slows through late 2026 and into 2027, unemployment rises modestly and inflation returns only gradually to target against a backdrop of higher interest rates, housing-related Budget changes and oil-related uncertainty.

This broadly aligns with the RBA's latest assessment that the economy will grow below trend for some time while restrictive monetary policy brings inflation under control.

The key tension is that higher interest rates and the energy supply shock are weighing on household demand, while population growth and the data-centre investment cycle are cushioning aggregate activity.



Source: Bloomberg, ABS, OCBC Group Research.

Australia

Growth slows as weaker consumption offsets resilient investment

The Australian economy is slowing but not breaking. GDP grew by only 0.3% QoQ in 1Q26, slightly below expectations, although annual growth remained at 2.5%.

The biggest surprise has been business investment. The rapid build-out of data centres drove the largest increase in machinery and equipment investment in three decades, providing an important source of growth. The boost is not unlimited, however, as a significant share of the equipment is imported, reducing the net benefit to GDP.

Household consumption also contributed to growth, but largely because households reduced their saving rate. Real disposable incomes declined over the quarter as inflation continued to outpace wage growth. We expect GDP growth to soften further through the remainder of 2026. Survey data already point to weaker consumer and business confidence following three consecutive 25bp rate hikes and the outbreak of conflict in the Middle East.

Population growth is playing an increasingly important role in supporting the economy. Strong migration is lifting demand for housing, retail spending and services, while also expanding the labour force. In other words, population growth is supporting total economic activity even as output and spending per person remain weak. This helps explain why Australia has avoided a sharper slowdown despite subdued household fundamentals.

A more divergent economy is likely to emerge. Investment – in areas like defence, the energy transition, mining and data centres – should remain resilient, partly offsetting weaker discretionary spending as higher interest rates and energy costs squeeze household purchasing power.

We also expect the housing market to soften further. Proposed tax changes in the FY27 Budget add to existing headwinds from higher interest rates, weighing on a market that had already begun to slow.

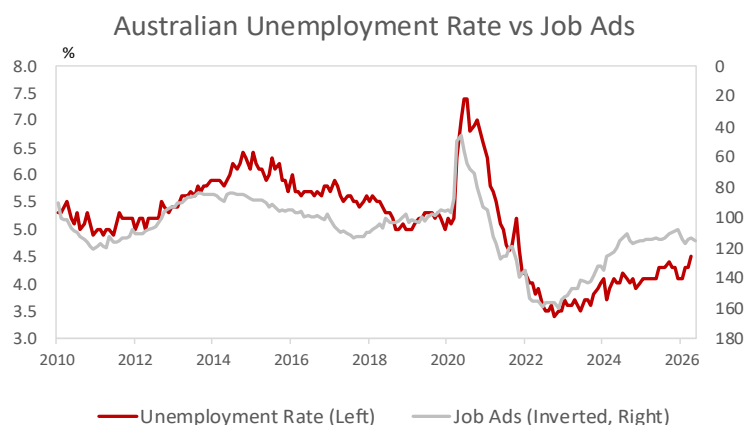
Labour market softens gradually

Labour market conditions are expected to ease but not deteriorate sharply. Unemployment rose to 4.5% in April 2026 and is likely to drift towards the mid-to-high 4% range over the next 12 to 18 months.

Government-related employment should continue to support jobs growth, although at a slower pace, while weaker demand limits private sector hiring. AI adoption could also reduce labour demand in some industries while supporting longer-term productivity growth.

A gradual cooling in the labour market is necessary for inflation to return to target. Slower employment growth, fewer job vacancies and softer hours worked should help moderate wage pressures and services inflation.

Australia



Source: Bloomberg, ABS, OCBC Group Research.

Sticky inflation persists for now

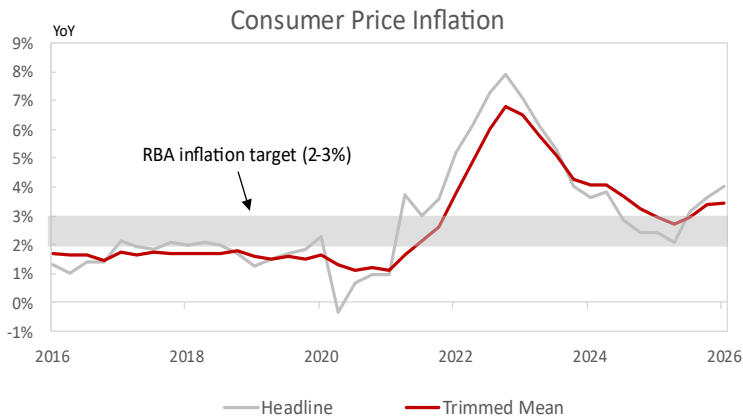
Inflation is easing only gradually. Headline CPI slowed to 4.2% YoY in April from 4.6%, largely reflecting lower petrol and diesel prices after the temporary fuel excise reduction. However, trimmed mean inflation rose to 3.4%, remaining above the RBA's 2-3% target range.

Several factors could keep inflation elevated. The temporary fuel excise reduction expires on 30 June, while the larger-than-expected increase in minimum and award wages of around 4.8% could place additional upward pressure on labour costs. The Fair Work Commission has also signalled a preference for delivering above-inflation wage increases over time to recover earlier declines in real wages.

The energy supply shock is stagflationary. It raises fuel, electricity, transport and logistics costs while reducing household purchasing power. This complicates the RBA's task because inflation is being driven by supply-side factors even as domestic demand slows.

The latest Budget helps cushion households through cost-of-living measures, including lower fuel excise. While this reduces some of the drag from higher interest rates, the overall fiscal stance is expected to be broadly neutral and neither materially support nor weaken economic growth.

Australia



Source: Bloomberg, ABS, OCBC Group Research.

Rates higher for longer

Monetary policy is restrictive, but not clearly restrictive enough. The RBA raised the cash rate to 4.35% in May and its forecasts assume the policy rate rises towards 4.70% by the end of 2026.

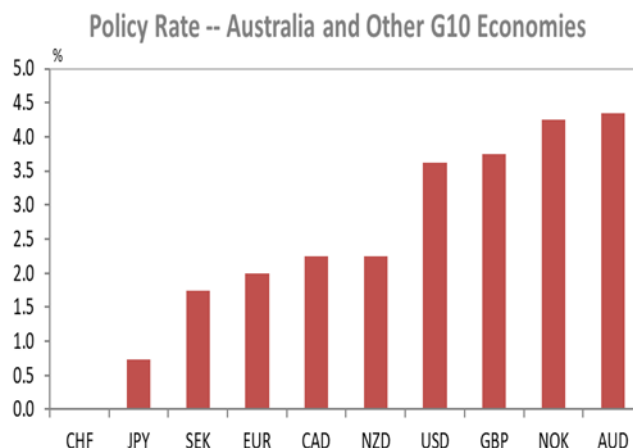
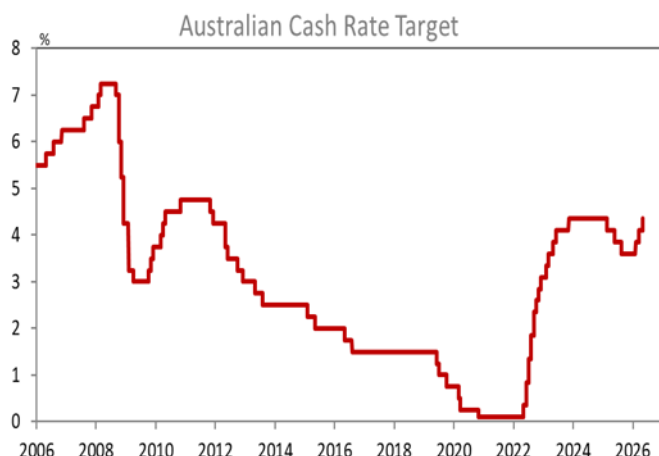
The RBA has noted that policy is now mildly restrictive and that it has greater scope to assess the cumulative effects of earlier tightening while balancing both sides of its mandate.

Our base case is that the cash rate has most likely peaked, although the risk still leans towards one additional hike. Three consecutive 25bp increases this year have fully reversed the shallow easing cycle seen during 2025 and left Australia's policy rate above those of its G10 peers.

The argument for further tightening is that underlying inflation remains above target, non-tradables inflation is sticky, housing costs remain elevated and higher energy prices could feed more broadly into inflation expectations.

The argument against further hikes is that monetary policy works with long lags. Households are already under pressure; unemployment is edging higher and the housing market is softening.

Australia



Source: Bloomberg, OCBC Group Research.

Risks remain two-sided

The balance of risks remains two-sided, although inflation risks appear more prominent for now.

The main upside risks are stronger-than-expected data-centre investment, a more resilient housing market, higher commodity prices, persistent wage growth, elevated energy prices and fiscal policy proving more supportive than expected.

The Middle East conflict remains an important source of uncertainty. The main downside risks are a sharper pullback in household spending, a larger housing correction, financial stress among highly leveraged households and businesses, weaker Chinese demand, lower commodity prices, fuel and supply-chain disruptions, or a slowdown in global AI and data-centre investment.

Australia's economy is likely to avoid recession, but the path back to low inflation will be gradual. Population growth and business investment are cushioning activity, but they are also adding to capacity constraints, making the final stage of the inflation fight more challenging.

Euro Area

Euro Area: Assessing risks

- The euro area outlook has deteriorated following the Middle East conflict, with growth projected to slow to 0.9% YoY in 2026, from 1.4% in 2025. Our long-held forecast is now in line with the European Commission's Spring Economic Forecast, after the EC revised it lower in late May.
- The spillover from weaker growth has so far had a limited impact on the region's labour market. The unemployment rate held steady at 6.3% in April 2026. Notwithstanding, price pressures are now the clear focus for the central bank as ECB officials continue to highlight pipeline pressures. Euro area headline CPI jumped to 3.2% YoY in May, according to preliminary estimates, compared to 3.0% in April. We revise higher our 2026 headline CPI forecast to 3.1% from 2.8%, previously reflecting higher energy prices.
- Following a 25bp hike at the 11 June meeting, our house view is for another 25bp hike from the European Central Bank (ECB), penciled in for the September meeting. This will bring the ECB deposit rate to 2.50%.

Lavanya Venkateswaran
Senior ASEAN Economist

Assisted by Glen Chan

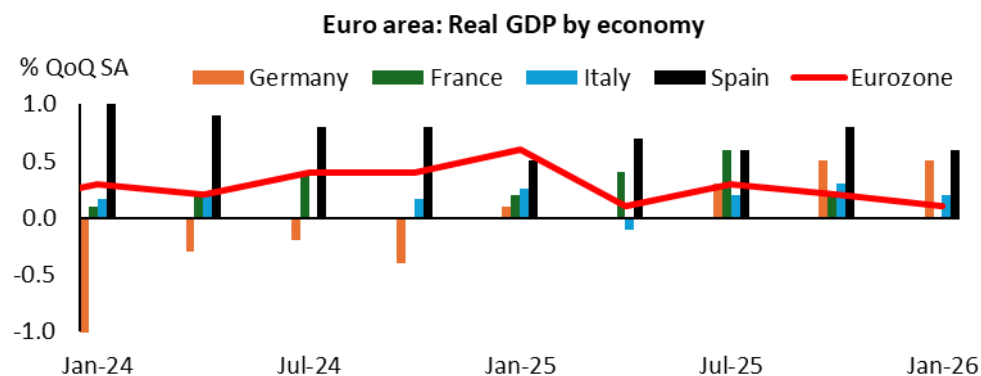
Growth under pressure

ECB President Christine Lagarde has noted on several occasions since the onset of tensions in the Middle East that the global economy is "facing a major shock – the International Energy Agency deems it the largest oil supply disruption in history." For the region, the economic impact will be determined by the duration of the disruption and the pass-through of energy prices to broader inflation. The latter will also be determined by the extent of supply disruptions.

Some of the impact of the energy price shock has started to filter through onto the real economy. The bloc's GDP slowed to 0.3% YoY in 1Q26 from 1.2% in 4Q25, according to the third estimate. On a quarter-on-quarter seasonally adjusted basis, GDP growth contracted by 0.2% QoQ sa from +0.1% in 4Q25. Among the four largest economies, Spain, Germany and Italy registered growth, expanding by 0.6% QoQ, 0.3% QoQ and 0.3% QoQ respectively. Meanwhile, France recorded a -0.1% QoQ growth. The third estimate was revised down sharply compared to previous estimates due to Ireland's 12.1% QoQ sa contraction, i.e. 16.8%YoY drop.

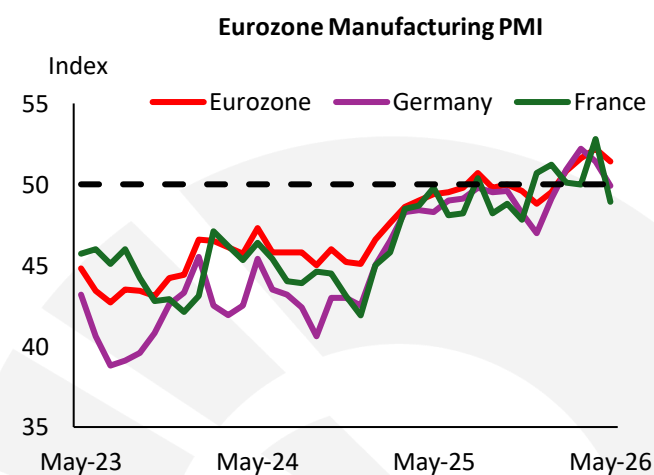
The energy price shock, the potential knock-on impact on tourism and supply disruptions of key inputs for manufacturing in certain sectors will likely lead to slower GDP growth of 0.9% YoY in 2026 compared to our previous forecast of 1.1%. ECB also lowered its GDP growth forecast for 2026 and 2027 by 0.1pp to 0.8% and 1.2%, respectively and raised its 2028 GDP growth forecast to 1.5% from 1.4%. Notably, the risks remain skewed to the downside given the high uncertainty around the duration of the Middle East conflict, with longer delivery times and rising input prices reflecting global supply chain disruptions.

Euro Area

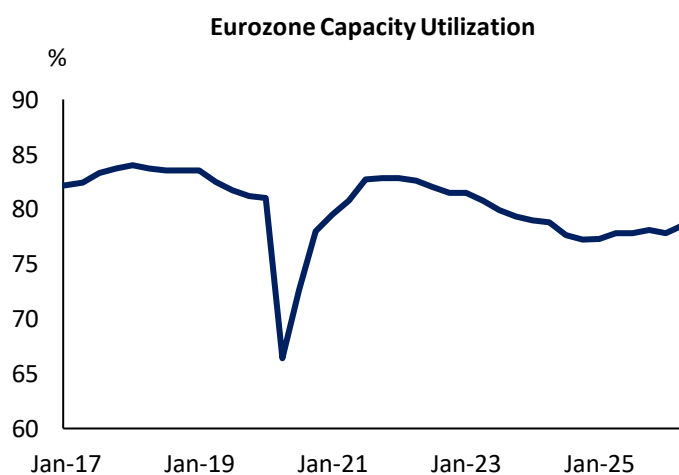


Source: Bloomberg, European Commission, OCBC Group Research.

There is evidence of weaker growth into 2Q26. The Flash Eurozone Composite PMI fell to 47.5 in May from 48.8, marking its lowest since October 2023. This decline to below the 50 line was entirely driven by services activity, signalling the quickest reduction in output as well as a deterioration in new export orders. Meanwhile, manufacturing sector activity remained in positive expansion, with a moderate easing to 51.4 in May 2026 from 52.2 in April, according to preliminary data. The uptick in manufacturing output index could indicate companies across the EU bloc are pre-emptively stockpiling inputs ahead of expected shortages and further price increases. The EU's capacity utilization held steady at 78.5%, primarily due to subdued aggregate demand.



Source: Bloomberg, S&P Global, OCBC Group Research.



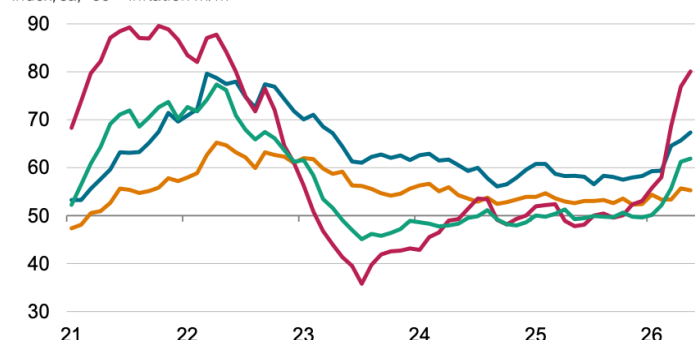
Source: Bloomberg, Eurostat, OCBC Group Research.

The weakening momentum is further corroborated by broader sentiment indicators. For instance, the European Commission's Economic Sentiment Indicator declined markedly in both March and April (96.2 and 93.0 respectively), particularly among consumers (-20.6 vs -16.4 in March), service providers (0.9 vs 4.1) and retailers (-9.9 vs -7.6). On the pricing front, the rise in energy prices was reflected in the PMI input and output prices. Consequently,

Euro Area

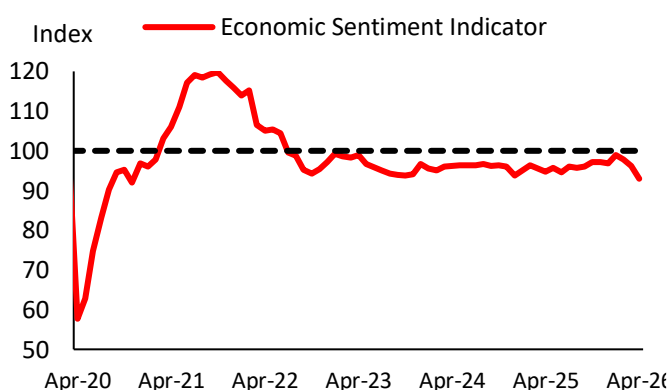
many investment decisions are being postponed, and the impact of global uncertainty have led firms to adopt a “wait-and-see” approach.

■ Services PMI Input Prices
 ■ Services PMI Prices Charged
 ■ Manufacturing PMI Input Prices
 ■ Manufacturing PMI Output Prices
 Index, sa, >50 = inflation m/m



Source: S&P Global PMI. ©2026 S&P Global.

Eurozone Economic Sentiment



Source: Bloomberg, European Commission, OCBC Group Research.

Heightened geopolitical uncertainty has also weighed on global trade flows. Euro area’s trade surplus declined to €7.8bn in March 2026, down from €11.1bn in February 2026 and from a record €34.1bn the previous year. The decline was driven primarily by substantial much smaller surpluses in chemicals and related products (€18.9bn in March 2026 from €41.8bn in March 2025), as well as machinery and vehicles (€9.7bn from €17.6bn). Notably, exports fell 5.5% to €265.3bn following last year’s peak when US consumers rushed to boost foreign purchases ahead of tariffs in April 2025. Exports fell markedly across several key sectors, led by chemicals, which dropped by 31.9%, followed by machinery and vehicles at 2.0% and food and drink at 1.3%. By destination, shipments to the US contracted sharply by 38.8%, while exports to China and Turkey also declined, falling by 4.6% and 9.3%, respectively.

Meanwhile, imports rose by 4.4% to €257.4 billion, largely reflecting increased purchases of fuels and lubricants, up 8.3%, and crude materials, up 5.8%, as energy costs surged amid the US-Israel-Iran conflict. Imports of machinery and vehicles also increased by 6.8%. Most major trading partners recorded higher import flows, with particularly strong gains from Switzerland at 11%, Norway at 8.6%, Japan at 8.9%, and Brazil at 4.6%.

Euro area trade - non seasonally adjusted data (bn €)						
Flows	Mar-25	Mar-26	Growth	1Q25	1Q26	Growth
Extra-EA exports	280.6	265.3	-5.5%	762.6	713.1	-6.5%
Extra-EA imports	246.5	257.4	4.4%	707.2	696.5	-1.5%
Extra-EA trade balance	34.1	7.8	-	55.4	16.6	-
Intra-EA trade	233.8	251.3	7.5%	673.0	685.5	1.9%

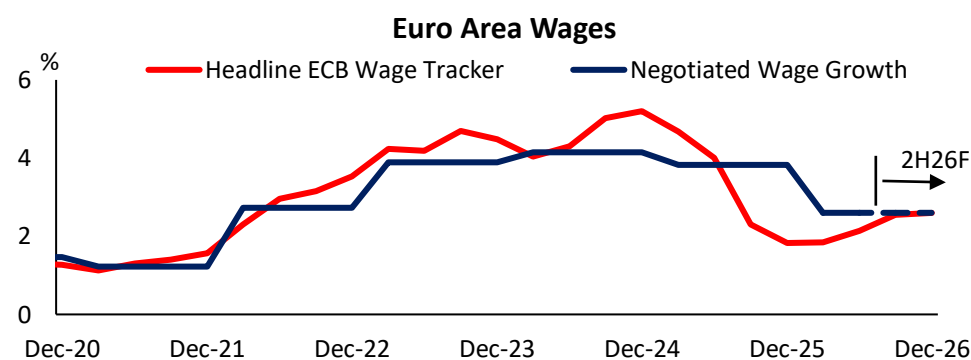
Source: Eurostat, OCBC Group Research.

Euro Area

Overall, the trade surplus narrowed substantially in 1Q26, falling to €16.6 billion from €55.4 billion in the same period of 2025. The euro area exports to the rest of the world fell by 6.5% to €713.1bn in 1Q26 from €762.6bn in 1Q25 while imports fell by 1.5% to €696.5bn from €707.2bn. Within the euro area, intra-euro trade rose by 1.9% to €685.5bn.

Resilient Labour Market

Despite the impending growth slowdown, the impact on the labour market will be more contained and gradual, affording ECB the space to navigate the price shock with higher policy rates. The unemployment rate was stable at 6.3% in April 2026. On a quarterly basis, the number of employed persons increased slightly by 0.1% MoM in 1Q26. Negotiated wage growth experienced a sharp drop to 2.46% in 1Q26, from 2.95% growth in 4Q25, dampening some demand side price pressures. Similarly, forward-looking indicators such as the ECB's wage tracker indicates that wage growth will continue to ease and moderate to 2.6% by the end of 2026.



Source: Bloomberg, ECB, OCBC Group Research.

Nonetheless, despite the Middle East conflict being locked in a stalemate with no clear and definitive end in sight, the labour supply is expected to increase through various EU governments initiatives. For instance, Italy is to issue nearly 500,000 new work visas for non-EU nationals from 2026 to 2028, while Germany's "Work-and-Stay-Agency" aims to centralise and digitalise skilled-worker immigration.

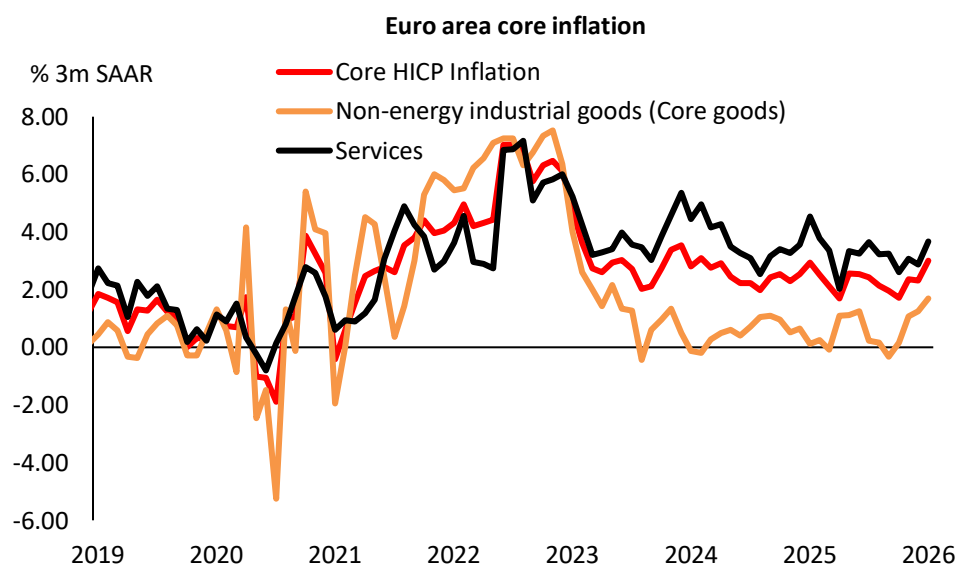
Watching price pressures

Energy prices remain highly volatile following disruptions to shipping through the Strait of Hormuz, with the latest euro area HICP data at 3.0% in April and the highest since September 2023, which is significantly above the European Central Bank's 2.0% inflation target. The increase was driven by energy, particularly fuel prices, up 20% points to 47.7% points, with the levels of gas and electricity price inflation still low at 0.6% and -0.6%. Meanwhile, core inflation declined by 10bps to 2.2% YoY in April 2026, driven by a 0.3% drop in services inflation to 3.0%, while core goods inflation increased by 3bps to 0.8% YoY. The drop in services inflation was largely due to the calendar effect, in which Easter was early this year, which boosted travel price inflation in March relative to April.

Nonetheless, the ECB seasonally adjusted data showed that HICP core prices increased 0.3% MoM in April after a 0.14% MoM gain in March. Therefore, the pass-through from crude oil
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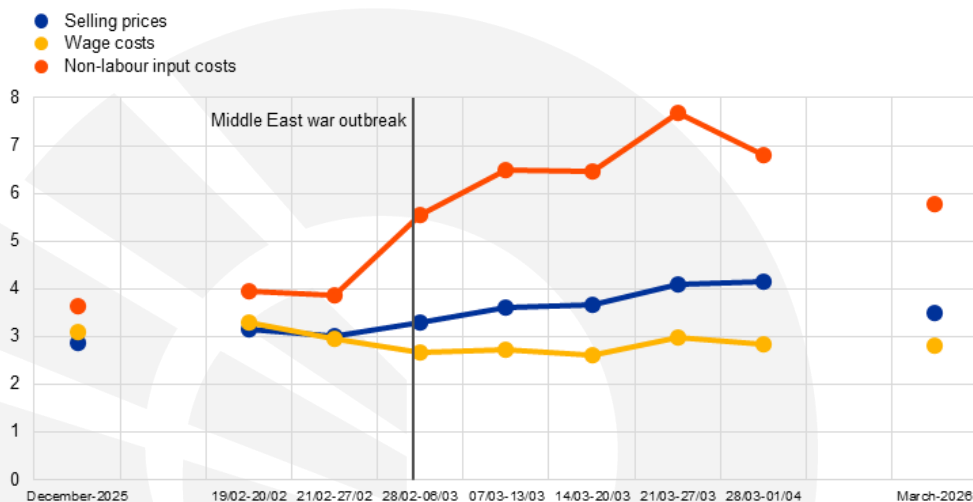
Euro Area

prices to inflation in package holiday prices and accommodation services, gas and electricity prices appears to have been limited, suggesting underlying euro area core prices remain relatively sticky.



Source: ECB, OCBC Group Research.

In terms of inflation expectations, a crucial measure underscoring the persistence and pervasiveness of inflation, the latest round of ECB's Survey on the Access to Finance of Enterprises (SAFE), conducted between 19 February and 1 April, gives us an insight into the way firms' expectations evolved following the outbreak of the war.



Source: ECB's Survey on the Access to Finance of Enterprises (19 February - 1 April).

Note: The chart shows average expectations of firms over the following 12 months, before and after the outbreak of the war in the Middle East. The survey results are aggregated on a weekly basis.

Euro Area

Two weeks prior to the war, firms expected their selling prices and non-labour input costs to increase on average by 3.0% and 3.9% respectively, broadly in line with the previous survey of 2.9% and 3.6%. Following the onset of the Iran war, both selling prices and input costs spiked to a peak of 4.1% and 7.7% respectively, for firms surveyed after 28 February. In contrast, wage cost expectations decline modestly to 2.8% from 3.0%. Notably, firms with high fossil fuel consumption (i.e., construction, transportation sectors) anticipated the sharpest cost increases over the next 12 months.

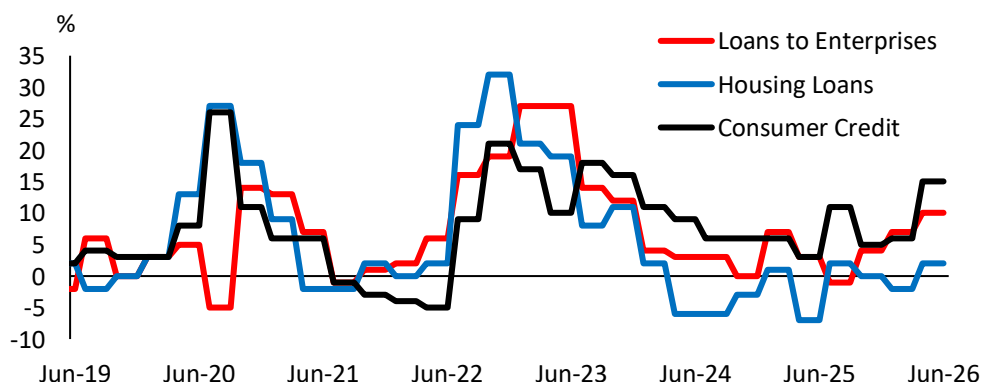
Looking ahead, high energy costs are expected to weigh on real incomes and dampen demand. As such, we revised higher our 2026 headline average forecast to 3.1% from 2.8%. The ECB revised higher its headline inflation forecast to average 3.0% in 2026, 2.3% in 2027 and 2.0% in 2028. For inflation excluding energy and food, the ECB's baseline foresees an average of 2.5% in 2026 and 2027 and 2.2% in 2028.

Tighter Financial Conditions

The impact of the war goes beyond cost and price expectations, undermining short-term expectations for firms' activity and access to finance. Credit conditions are likely to remain a constraint on growth as banks continue to tighten lending standards in response to elevated risk perceptions, geopolitical uncertainty, energy-related pressures and higher funding costs. According to the ECB's April bank lending survey (BLS), banks reported a net tightening of credit standards across all loan categories, driven by heightened risk perception, and is expected to continue tightening into 2Q26 as well.

The demand for loans to firms decreased slightly in the first quarter of 2026 (-2.0% in 2Q26 from 3.0% in 1Q26), particularly for fixed investment, as firms delay or scale back expansion plans amid uncertainty over the economic outlook. At the household level, weakened demand for consumer credit (-11.0% from -2.0%) suggest that private consumption may remain subdued, particularly for interest-sensitive and durable goods spending. Overall, the credit channel could potentially amplify downside risks to activity in 2H26.

Bank Lending



Source: ECB, OCBC Group Research. Note: Bank Lending data was obtained from the April 2026 Bank Lending Survey (BLS), and reflects a 3M forward-looking outlook in 2Q26.

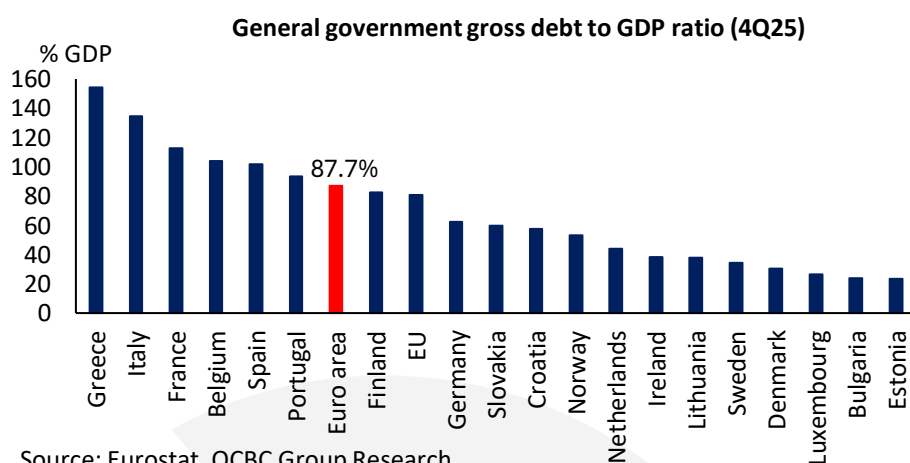
Euro Area

A watchful ECB

The ECB raised its policy rate by 25bp at its 11 June to 2.25%. The official statement noted that “the war in the Middle East is generating inflation pressures, and the decision to raise rates is robust across a range of scenarios mapping out how the shock might evolve and affect the medium-term outlook for the euro area.” Further, ECB President Lagarde added that the hike was not an “insurance” hike, paving the way for further increases. Our house view is for an additional 25bp hike from the ECB, likely to be delivered at its September meeting, taking the policy rate to 2.50%.

Temporary, targeted and tailored fiscal measures

The room for counter-cyclical fiscal policies is idiosyncratic to each economy. We still expect Germany to follow through with its higher expenditure plans. More fundamentally, the general government gross debt to GDP ratio in the euro area remained steady at 87.8% in 4Q25, a slight increase from 87.0% in 4Q24 but a decrease compared with 88.4% at the end of 3Q25. Amongst the four largest EU countries, Italy had the highest debt ratio at 137.1% of GDP, followed by France at 112.6%, Spain at 100.7%, and Germany at 62.2%.



Source: Eurostat, OCBC Group Research.

Many member states within the euro area have adopted policy measures to mitigate the social and economic impact of elevated energy prices on households and businesses. For instance, the German government has implemented a temporary reduction in fuel energy taxes of approximately €0.17 per litre, amounting to a fiscal cost of roughly €1.6 billion. In France, authorities are pursuing fiscal consolidation, with a target to reduce the budget deficit to 5% of GDP by the end of the year. In Italy, the Italian government sets aside €417.4mn to reduce excise duties on fuels by €0.25 per litre on 19 March 2026. While excise duties on diesel and petrol have been broadly reduced, the International Monetary Fund has recommended that such universal measures be “replaced with targeted cash transfers to the most vulnerable households.” Spain has introduced a €5.0 billion support package aimed at assisting around 20 million households and 3 million firms, alongside VAT reductions on petrol that yield savings of about €0.30 per litre, depending on fuel type.

Euro Area

Euro area Fiscal Measures		
Member State	Measure(s) Taken	Announcement / Effective period
Germany	The German government has temporarily cut energy tax on diesel and petrol by about €0.17 <i>per litre, relief worth €1.6bn</i>	Effective 1 May 2026, until June 2026
France	The French government plans to narrow budget deficit to 5% of GDP in 2026, and below 3% by 2029. As such, France slashes €4.0bn from this year's budget to offset war-driven energy subsidies	Announced on 20 April 2026
Italy	The Italian government allocates €417.4mn to reduce excise duties on fuels	First round of temporary cut to excise taxes on fuel was effective 19 March 2026
Spain	The Spanish government unveils €5.0bn package alongside fuel VAT cuts from 21% to 10%	• €5.0bn package: Approved by Spain's parliament on 27 March 2026 • Fuel VAT cuts: 22 March until 30 June 2026

To address the persistent energy prices, the European Commission estimates that the announced budgetary policy measures amount to approximately €5.0 billion. Complementing these fiscal interventions, its AccelerateEU initiative, released on 22 April 2026, sets out a broader framework to strengthen the EU's energy resilience amid ongoing geopolitical and energy security challenges. The strategy focuses on reducing reliance on external fossil fuels while accelerating the transition to a more sustainable and diversified energy mix, notably through expanding renewables, improving energy efficiency, and enhancing cross-border infrastructure. It also emphasises the role of innovation, investment, and coordinated policy action in safeguarding energy affordability and security, reflecting the EU's longer-term commitment to a more resilient and climate-aligned energy system.

The economy is reeling under the impact of geopolitical stresses, which will materially shape the outlook for 2H26. We do expect policymakers to remain nimble responding in accordance with longer-term output, fiscal and monetary objectives.

Japan

Japan: Policy normalization to continue

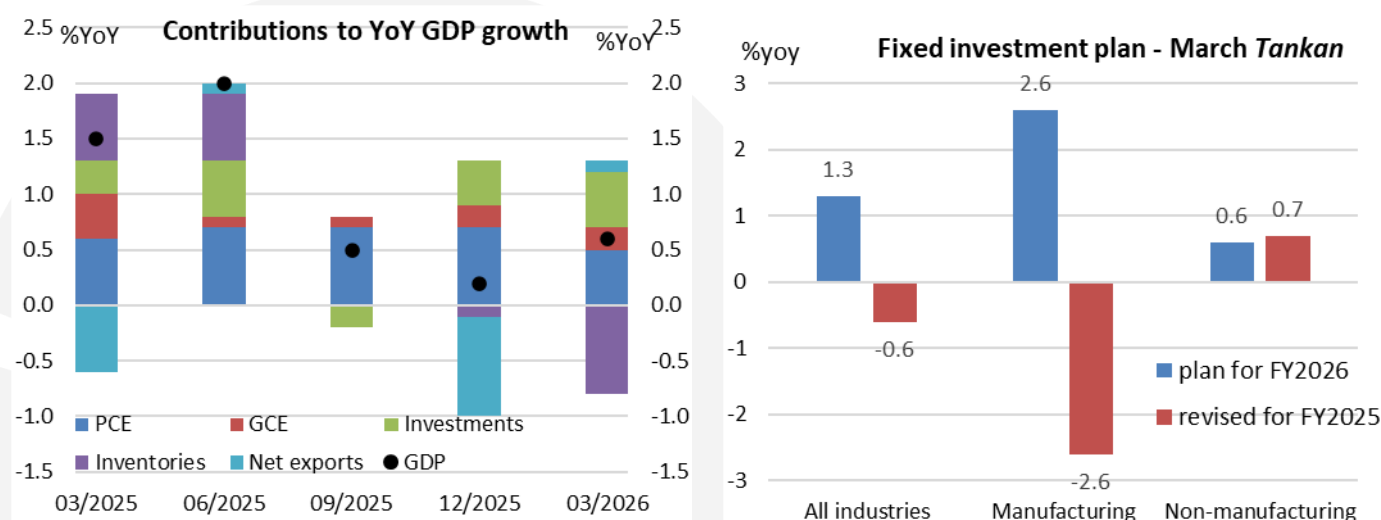
- Economic growth is likely to be moderate in the quarters ahead, with subdued investment plans and worsening terms of trade, to be counteracted by steady consumption, fiscal support, and resilient exports. We expect the economy to expand by 0.7% in 2026, with potential for some pick-up in 2027.
- Business fixed investment plans have turned more cautious in view of heightened uncertainty in global developments. The exports outlook remains supportive amid solid global demand for AI-related products.
- The Bank of Japan (BoJ) is likely to continue with monetary policy normalisation given a tight labour market, pro-active firms' price-setting behaviour, and imported inflation pressure. We expect a total of 50bps of rate hikes before year-end, which will bring the BoJ Target Rate to 1.25%.

Frances Cheung, CFA
Head of FX & Rates Strategy

Assisted by Jessica Wong

"Moderate" is still the word

1Q26 GDP growth improved to 0.6%YoY or 0.5% QoQ SA, versus 0.2%YoY and 0.2% QoQ SA in 4Q25, supported by private consumption expenditure and private non-residential investment. Growth is likely to be moderate in the quarters ahead, with subdued investment plan and worsening terms of trade (through impact on corporate profits and real income), to be counteracted by steady consumption, fiscal support, and resilient exports. We expect the economy to expand by a moderate 0.7% in 2026, with growth potentially picking up to 1.0% in 2027 as the adverse impact of high energy prices dissipates.



Source: Bank of Japan, Cabinet Office, Bloomberg, OCBC Group Research.

Japan

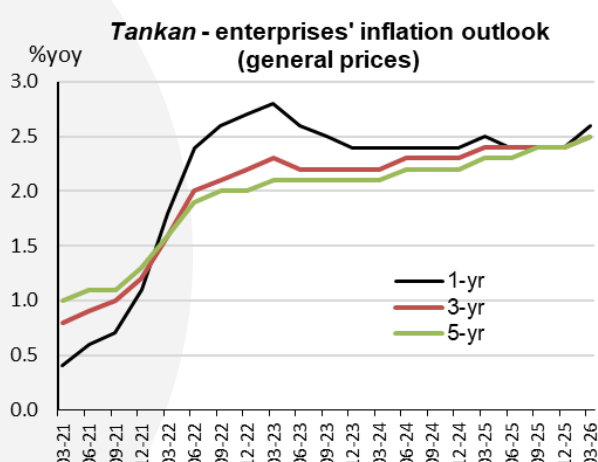
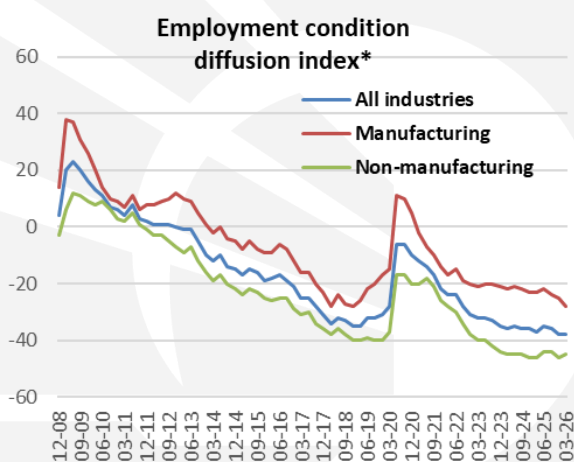
Business fixed investment plans have turned more cautious. The revised fixed investment plan for FY2025 was much weaker than earlier estimates, although we had already expected below one-for-one follow-through from planned to actual investments. The plan for FY2026 under March *Tankan* survey was subdued to start with, especially among non-manufacturing enterprises. That said, other indicators including machinery orders point to a more optimistic outlook. In the same *Tankan* survey, the diffusion indices for business conditions stayed favourable. These suggest that enterprises may simply be holding up investment plans in view of uncertainty surrounding the global environment; there is room to accelerate investment plans if the outlook becomes clearer.

Exports of goods picked up in March and April, partly thanks to demand for automobiles and related goods. On the broader categories, exports of capital goods have held up, including those of semiconductor production equipment and equipment for power facilities. By markets, exports to the US recovered, while external demand was solid across other major destinations. The exports outlook remains supportive amid solid global demand for AI-related products.

Consumption has been a steady contributor to growth and is likely to remain so. The employment and income situation has improved moderately, although high energy prices are having an impact on real income and hence spending momentum in the interim.

Labour market conditions

The labour market has remained tight. The diffusion indices for employment conditions have turned more negative over past *Tankan* surveys, reflecting more enterprises saw labour supply as insufficient. We have had this view that “further increases in the labour force participation of women and seniors – having advanced to a high degree thus far – are likely to be small”. Female labour participation has shown signs of a tapering off. *Shunto* (spring wage negotiation) resulted in another year of solid wage growth. This, combined with the pro-active price setting behaviour among enterprises, is likely to sustain some pass-through of inflation pressure onto consumer price levels. Enterprises’ inflation expectations have edged further up as per latest *Tankan* survey.



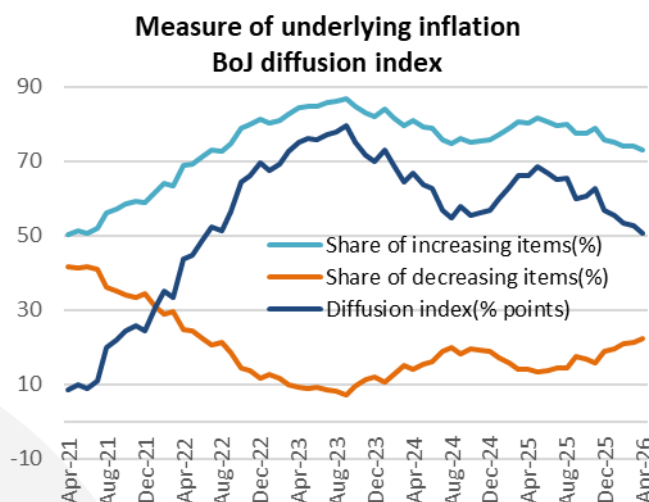
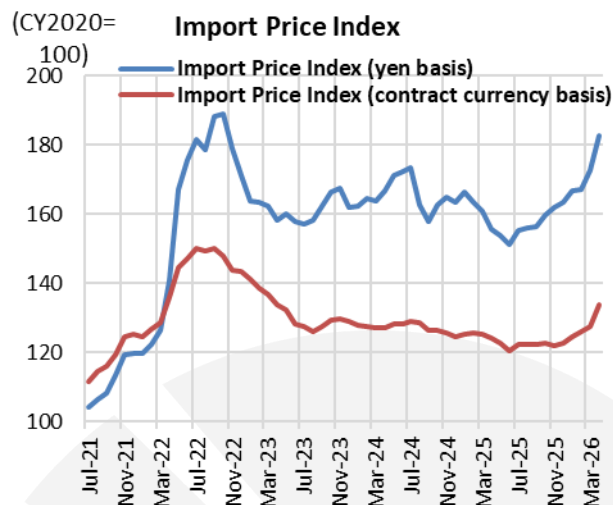
Japan

Source: Bloomberg, OCBC Group Research.

* “excessive – insufficient”

Inflation

While we remain of the view that the conditions are mostly met for the Bank of Japan to continue with monetary policy normalization, recent inflation developments may complicate the central bank’s decision making. Monthly YoY CPI inflation was at sub-1.5% level in February, March and April; core CPI inflation eased as well, albeit at higher levels than headline. The subdued inflation was partly due to easing fresh food prices and energy subsidies. Still, according to BoJ’s diffusion index, the share of items in the core CPI basket which saw YoY increases in prices has decreased over the past months, while the share of items which saw YoY decreases in prices has increased. On the other hand, impact of imported inflation may start to be reflected on the broader consumer level. The divergence between contract-currency-based import price index and yen-based import price index has widened further. Yen-based import price index jumped by 17.5%YoY in April. Imported inflation, combined with wage pressure, likely point to an upward bias to inflation especially from the last levels.



Source: Bank of Japan, OCBC Group Research.

Monetary policy normalisation to continue

Our base-case remains for a total of 50bps of rate hike this year, with one 25bp hike expected at June meeting and another 25bp hike expected in 4Q26, which will bring the policy target rate to 1.25% by year end. Bank of Japan raises rates to normalise monetary policy, as the policy rate has stayed negative in real term.

Bank of Japan’s summary of opinions for April meeting sent a strong rate hike signal, saying “it is quite possible that the Bank will raise the policy interest rate from the next MPM onward, even if the future course of the situation in the Middle East remains unclear”. BoJ remained of the view that “underlying CPI inflation is likely to increase gradually, as the

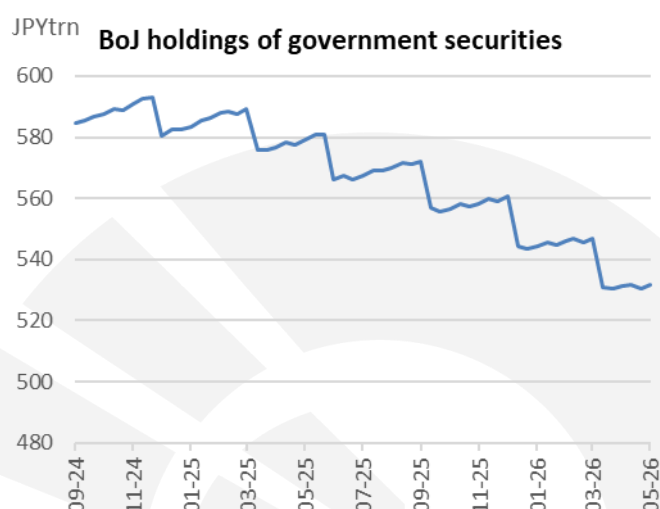
Japan

mechanism in which wages and prices rise moderately in interaction with each other is expected to be maintained”.

Interest rates forecasts	2Q26	3Q26	4Q26	1Q27	2Q27
BoJ Target rate	1.00	1.00	1.25	1.25	1.50
JPY TONAR	0.98	0.98	1.23	1.23	1.48
1M JPY TIBOR	1.10	1.10	1.35	1.35	1.60
3M JPY TIBOR	1.30	1.30	1.45	1.45	1.70

Source: OCBC Group Research.

The BoJ is also due to conduct an interim assessment of its QT plan at the June MPM. The current plan is to reduce JGB purchases in a gradual manner, by about JPY200bn per month after each quarter; the purchase amount is JPY2.7bn per month for the current quarter, which will be reduced to JPY2.1bn per month for 1Q-2027. We expect the BoJ to continue with its QT. At the margin, the bank can increase the purchases of JGBs of tenors > 25Y while further reducing the purchases of JGBs of other tenors. A more notable tweak would be to keep JGB purchase amounts unchanged, i.e. do not go ahead with further reduction. The bank has said “in the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases”, and “the Bank is prepared to amend the plan at the MPMs, if deemed necessary”.



Source: Bloomberg, OCBC Group Research.

United Kingdom

United Kingdom: Downside risk to growth

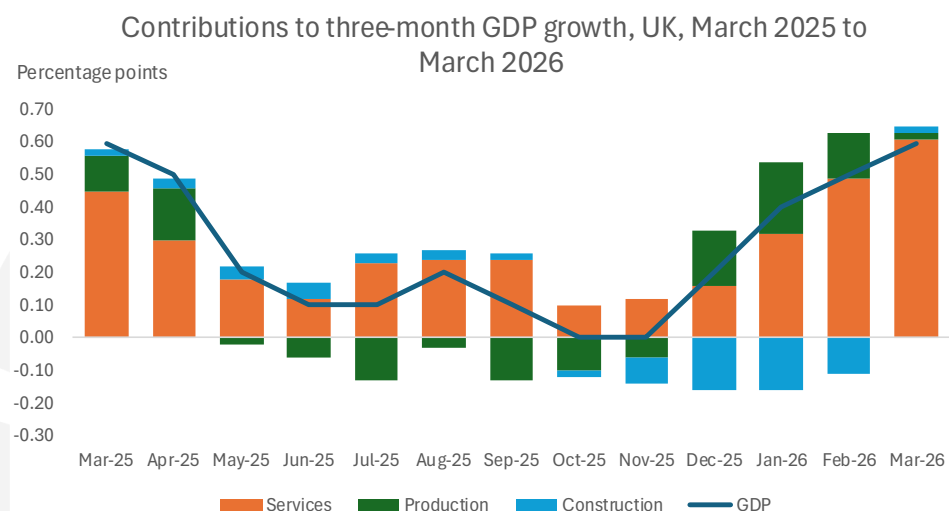
- Economic growth is likely to moderate in the quarters ahead, as the energy supply shock weighs on economic activities, when the labour market has already been softening. We forecast 2026 GDP growth at 1.0%, with risk to the downside.
- CPI inflation may re-accelerate in 3Q26 upon expectedly higher energy prices cap, but the soft labour market is likely to mitigate second-round inflation impact. On balance, we expect 2026 CPI inflation at 3.1%.
- Room for BoE to hike rates is limited, given where Bank Rate is and the slow growth momentum. We expect the central bank to keep Bank Rate unchanged at 3.75% through this year as the default option. Risk is for a more hawkish BoE policy response function should second-round inflation impact become prominent.

Frances Cheung, CFA
Head of FX & Rates Strategy

Assisted by Jessica Wong

Headwinds ahead

GDP growth accelerated to 0.6%QoQ in 1Q26 versus the 0.2%QoQ in 4Q25, which was almost entirely supported by the services sector. Production output and construction output grew modestly. Looking ahead, we expect growth to moderate, as the energy supply shock could weigh on GDP growth via both the demand and supply channels. We forecast 2026 GDP growth at 1.0%, with risk to the downside.



Source: UK ONS, OCBC Group Research.

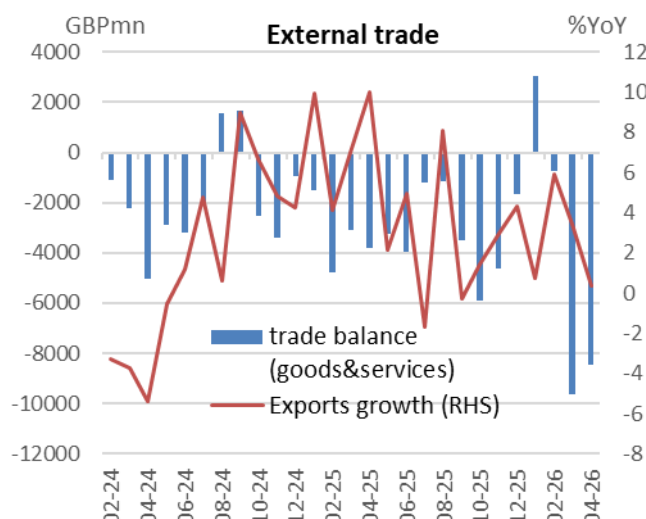
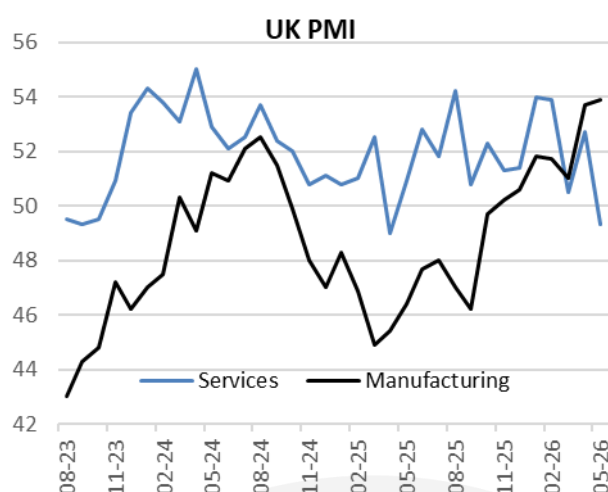
May services PMI dipped below the 50-point threshold, to 49.3 points, albeit not as weak as the initial readings of 47.9 points. The weaker sentiment but upward revision from initial readings precisely shows business sentiment fluctuates amid the fluid geopolitics

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United Kingdom

development. Manufacturing PMI held up, but the services sector is the main pillar to growth. The impact on growth depends on the scale and the duration of the supply shock. In the interim, postponement of some investment projects is likely given heightened uncertainty surrounding the economic outlook.

On the household side, higher energy prices will weigh on purchasing power. In addition, mortgage rates have risen recently on hawkish repricing of BoE policy outlook, which is likely to further constrain consumer spending. Real wage growth is still positive but is expected to slow potentially into negative territory given the prospect of mildly slower nominal wage growth and upside inflation risks. A restrictive monetary environment and subdued spending sentiment had led to higher household savings. Some purchasing power may be released from the elevated household savings as real wage growth slows to a low to negative level, buffering some of the downside risk to growth.



Source: Bloomberg, OCBC Group Research.

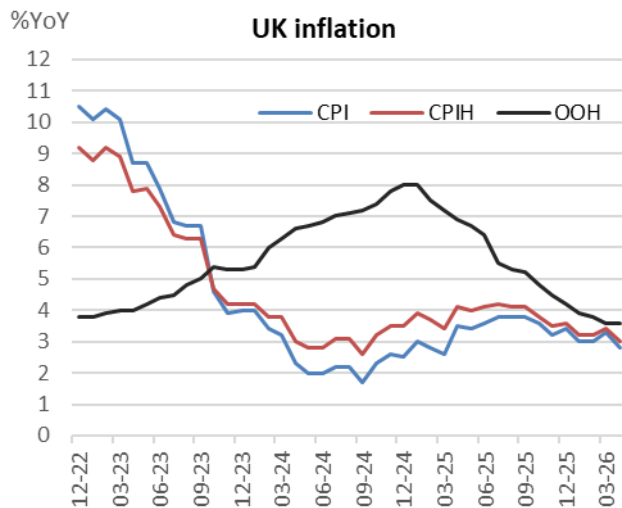
Inflation pressures

Headline and core CPI inflation eased to 2.8%YoY and 2.5%YoY in April, versus the 3.3% and 3.1% in March, respectively, partly thanks to a lower energy cap for the April-June quarter. Ofgem announced that the energy price cap for 1 April to 30 June 2026 would fall by £117 from the previous quarter, to £1,641 per year for a typical direct debit household; this represents a YoY drop of 11%. This should provide some near-term relief to household energy bills. However, CPI inflation may re-accelerate as a higher Ofgem price cap of £1862 has been set for the following quarter, with uncertainty for 4Q26. There may also be potential passthrough of energy-related costs onto other consumer items.

Nevertheless, the soft labour market is likely to mitigate second-round inflation impact. Compared with the energy shock in 2022, Bank of England noted weaker demand and a looser labour market currently. In addition, according to a recent ONS survey, nearly 60% of firms reported having a fixed-price contract for gas and similar numbers report the same for

United Kingdom

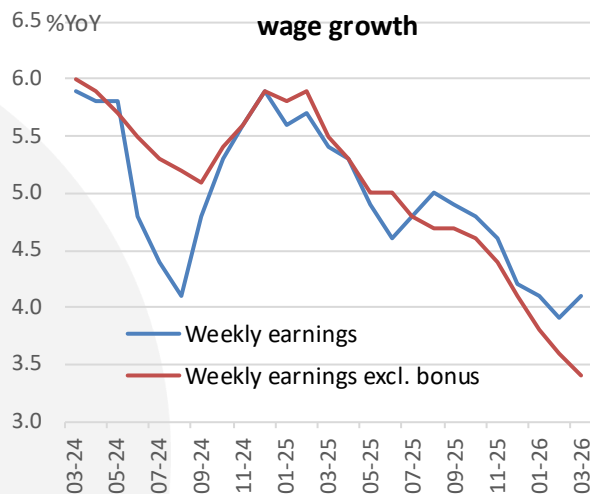
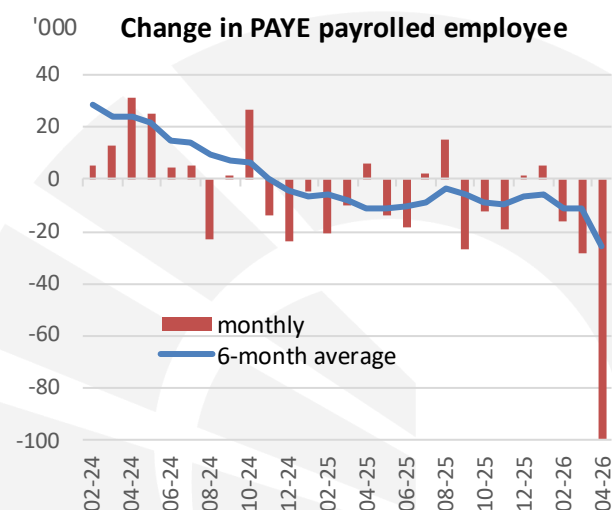
electricity; these shares are higher than in 2022. On balance, we forecast 2026 CPI inflation at 3.1%, with risk to the upside should energy prices stay elevated for longer.



Source: Bloomberg, CEIC, OCBC Group Research.

Labour market softness may mitigate second-round inflation impact

The labour market backdrop has softened further. PAYE payrolled employee unexpectedly fell by almost 100K in April. The unemployment rate edged up to 5.0% in March (3-month rolling), after the transient dip to 4.9% in February, notwithstanding the mildly lower labour force participation. Job vacancies declined to 705k in April, the lowest level since April 2021. The unemployment-to-vacancy ratio nevertheless stayed at 2.5 for the Jan-Mar 2026 period, after more steady increases from mid-2022 to mid-2025.



Source: Bloomberg, OCBC Group Research.

Wage growth has continued to moderate gradually, in line with our expectations. Regular earnings (AWE excluding bonus) growth was 3.4%YoY in the three months to March, slowing

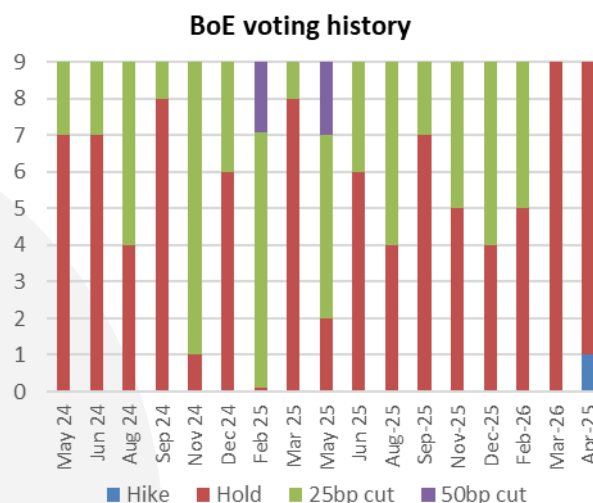
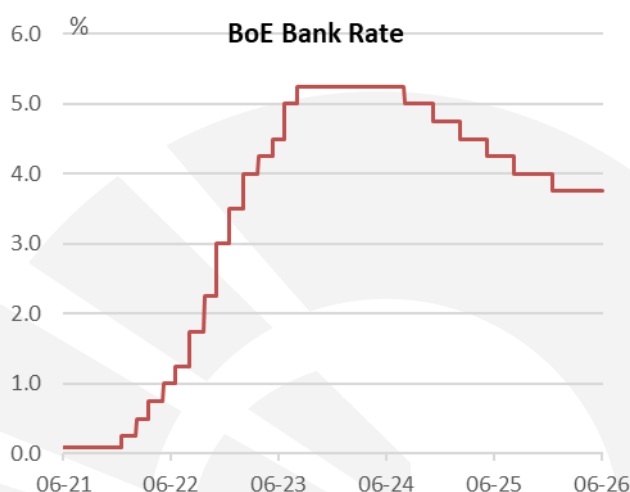
United Kingdom

from the 3.6%YoY in the three months to February. Wage growth has been easing in both the private and the public sectors. Looking ahead, we expect labour market slack to increase further as the slower growth momentum and higher energy costs weigh on labour demand. The looser labour market backdrop should help limit the pass-through from supply-side inflation pressure onto wages and the broader consumer price level.

BoE “active hold” as the default option

The Bank of England maintained Bank Rate at 3.75% at its April meeting by an 8-1 vote, with one member voting for a 25bp hike. While the vote split and inflation scenarios reflected lingering inflation concerns, policymakers characterised the decision as an “active hold”, with the Committee stating that it “stands ready to act” if needed. The BoE also highlighted the risk of material second-round effects, while noting that weaker growth and tighter financial conditions could help contain inflation pressures.

We however are of the view that room for the BoE to hike rates is limited, given where Bank Rate is and the downside risk to growth. More recently, Governor Bailey expressed willingness to be patient, opining “tolerating temporarily above target inflation to provide some support for the real economy is an appropriate way to approach the trade-off”. On balance, we expect the central bank to keep Bank Rate unchanged at 3.75% through this year as the default option. Policy direction further down the road hinges much on how temporary the inflation pressure would be, which in turn depends on the scale and duration of the energy price shock. We note risk is for a more hawkish BoE policy response function should second-round inflation impact become prominent.



Source: Bank of England, Bloomberg, OCBC Group Research.

United States

United States: Fine equilibrium

Tommy Xie Dongming
Head of Asia Macro Research

- While the oil shock is a genuine drag on real disposable income, the OBBBA-driven combination of refund-led consumption support in 2Q26, accelerated business investment in 2H26, and continued labour-income growth should help keep the US economy on a resilient growth path of around 2%.
- The US labour market continues to hold up, which remains in a “low-hire, low-fire” equilibrium.
- Inflation is likely to peak in 2Q26 and moderate in 2H26. The disinflation process should be supported by fading energy base effects, potential mean reversion in the oil risk premium, lagged shelter disinflation, and the delayed drag from still-restrictive monetary policy. Is it a time to rethink Fed’s inflation gauge under the new leadership?

The BEA revised US real GDP growth for 1Q26 down to 1.6% QoQ SAAR from the 2.0% advance estimate. The downgrade reflects three main factors.

First, consumer spending softened. PCE growth slowed to 1.6% in 1Q26 from 1.9% in 4Q25, suggesting that the renewed inflation acceleration is increasingly weighing on low- and middle-income households. With headline CPI rising to 3.8% YoY in April, partly driven by the Iran-related oil shock, and average hourly earnings growth running at 3.6% YoY, real wage growth has mechanically turned negative.

Second, the 1Q26 print continued to be distorted by a surge in capital-goods imports linked to the AI and factory capex cycle. While imports subtract from GDP arithmetically, the increase in capital-equipment imports also points to resilient underlying investment demand.

Third, inventory drawdown was deeper than initially reported. Inventories had been rebuilt aggressively in 4Q25 ahead of Iran-related supply-chain risks, and this pull-forward unwound in 1Q26.

Overall, the 1Q26 downgrade points to a genuine softening in domestic demand, partially masked by capex import distortions and inventory swings. Growth is likely to rebound mechanically to above 3% QoQ SAAR in 2Q26 on net-export reversal, but the Iran war remains a clear headwind for the US economy.

The labour market continues to hold up. Nonfarm payrolls increased by 172k in May, above the consensus forecast. The YTD-2026 average monthly payroll gain was around 114k, slightly below the 2024 monthly average of 122k and well below the 2023 pace of around 250k. The decline in labour-force participation points to some underlying softening.

United States

Job-market tightness has eased materially from post-pandemic extremes. The ratio of job openings to unemployed workers fell below 1 in March 2020 for the first time since the post pandemic recovery. However, job openings rebounded by 731k to 7.62mn in April 2026, the highest level in nearly two years and well above market expectations of 6.88mn, lifting the ratio back above 1. That said, hiring activity weakened. Total hires fell by 419k to 5.12mn, with the hires rate declining to 3.2% from 3.5%. Quits also fell by 183k to 2.98mn, the lowest level since August 2020, while the quits rate eased to 1.9% from 2.0%. The decline in voluntary job switching suggests wage pressures remain contained, offering some reassurance to the Federal Reserve.

Chart 1: Job-market tightness has eased but the ratio of job opening per unemployed person rebounded back above 1 in April.



Overall, the US labour market remains in a “low-hire, low-fire” equilibrium. It looks stable on the surface, with the unemployment rate anchored at 4.3% and weekly initial claims running around 210k–215k, close to historic lows.

Consumption remains positive, but signs of strain are becoming more visible. Retail sales rose 0.5% MoM in April after a strong March gain, although part of the increase reflected higher gasoline prices rather than stronger real demand. Meanwhile, the University of Michigan Consumer Sentiment Index fell to a final reading of 44.8 in May, an all-time low, down from 48.2 earlier in the month and below market expectations.

Inflation concerns have intensified. The PCE price index rose to 3.8% YoY in April, the largest increase since May 2023, while core PCE inflation edged higher to 3.3% YoY from 3.2% in March. At the same time, the personal saving rate fell to 2.6% from 3.2% in March, the lowest level since June 2022.

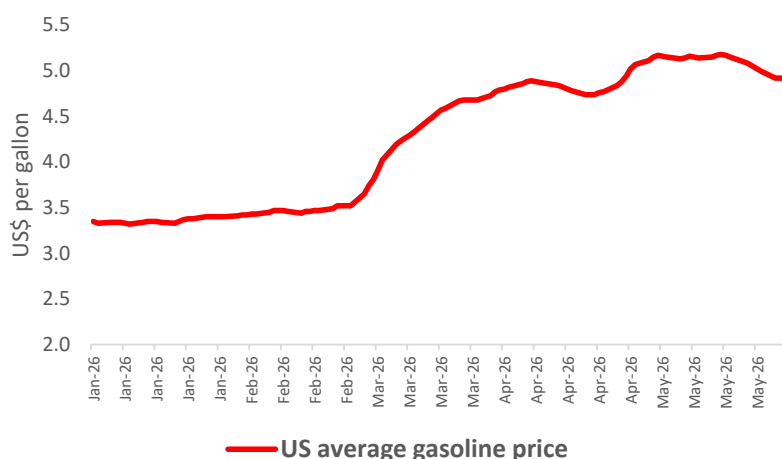
Headline CPI exceeded 4% YoY in May due to the oil shock. However, looking ahead, inflation is likely to peak in 2Q26 and moderate in 2H26. The disinflation process should be supported

United States

by fading energy base effects, potential mean reversion in the oil risk premium, lagged shelter disinflation, and the delayed drag from still-restrictive monetary policy.

We expect headline CPI to trend lower to around 3.2% by end-2026, averaging around 3.5% for 2026. The key risk is that if oil prices remain above USD100/bbl or services inflation stays sticky, headline CPI may decline more slowly while core CPI remains above the Fed's comfort zone.

Chart 2: US gasoline price eased slightly



Fiscal policy should provide an important cushion to growth in 2H26. The One Big Beautiful Bill Act, if implemented broadly in line with current proposals, would extend and expand key tax provisions, provide additional incentives for business investment, and support household disposable income.

The estimated USD150bn tax refund for households in early 2026 should already be feeding through to consumer spending in 2Q26, providing a direct cash-flow buffer against gasoline price pass-through and helping to stabilize discretionary spending into 3Q26. On the business side, 100% bonus depreciation and immediate expensing of qualified production property should incentivize a pull-forward of capex into 2H26, particularly in reshoring-related manufacturing, semiconductors, and energy infrastructure.

While the oil shock is a genuine drag on real disposable income, the OBBBA-driven combination of refund-led consumption support in 2Q26, accelerated business investment in 2H26, and continued labour-income growth should help keep the US economy on a resilient growth path of around 2%. As such, we keep our 2026 US growth forecast unchanged at 2.2%.

Time to rethink the Fed's inflation gauge?

Kevin Warsh took over as the new Fed Chairman in May. On inflation, Warsh has repeatedly emphasized the need to distinguish between “trend inflation” and “short-term noise.” As he noted during his confirmation hearing, the key question is not whether prices fluctuate because of one-off factors such as geopolitics or beef prices, but rather: “What is the

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United States

underlying rate of inflation?” He was equally blunt in his criticism of existing measures, arguing that “the data currently used to assess inflation are imperfect. I prefer using so-called trimmed averages.” This helps explain his preference for trimmed-mean inflation indicators.

Trimmed-mean inflation measures are not new. The Federal Reserve Bank of Dallas, for example, has been publishing its Trimmed Mean PCE inflation series for decades. Unlike core inflation, which mechanically excludes food and energy prices, trimmed-mean inflation removes the components experiencing the largest price increases and declines each month, regardless of category, before calculating a weighted average of the remaining items. In the Dallas Fed's methodology, roughly 177–178 PCE components are ranked according to their monthly price changes, after which a predetermined share of weights is trimmed from both tails of the distribution before the average inflation rate is computed.

However, the Dallas Fed's methodology contains an important asymmetry. Specifically, it trims approximately 24% of the weight from the lower tail and 31% from the upper tail. Historically, this approach was justified because the distribution of US price changes tended to be left-skewed. Extreme price declines exerted a larger influence on the average than extreme price increases, requiring a heavier trim on the upside to prevent the mean from persistently understating the underlying inflation trend.

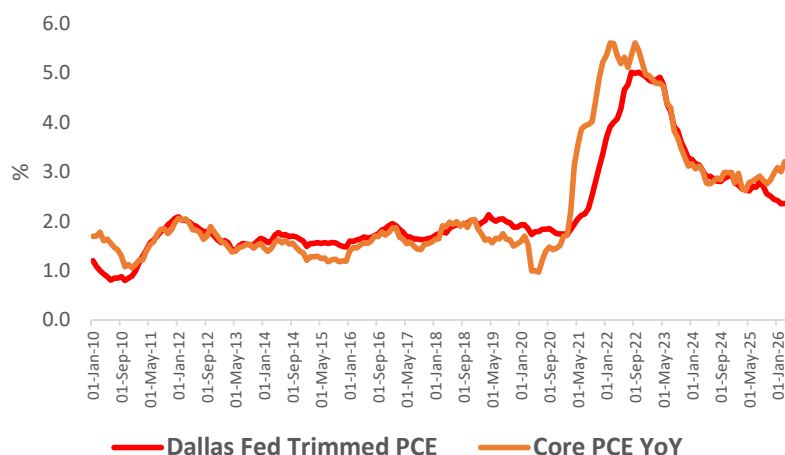
The question is whether this historical relationship still holds. Since 2020, the US economy has been hit by a succession of supply-side shocks, including the pandemic, the Russia-Ukraine war, tariff disruptions, and most recently the Iran conflict. These shocks have altered the distribution of price changes, making inflation outcomes increasingly symmetric and, at times, even right-skewed. If that is indeed the case, continuing to apply an asymmetric trimming methodology may inadvertently introduce a systematic downward bias into measured inflation.

This is not merely an academic issue. In March this year, the Dallas Fed's Trimmed Mean PCE stood at just 2.36%, nearly 80bps below the core PCE reading of around 3.2%. A gap of that magnitude is large enough to influence policymakers' assessment of underlying inflation pressures.

The broader concern is that by continuously trimming away the upper tail of the inflation distribution, policymakers may also be trimming away the very signals that matter most. Tariffs, energy shocks and geopolitical disruptions are often treated as temporary noise. Yet when such shocks occur repeatedly and reshape inflation expectations, they cease to be mere statistical outliers and become part of the inflation regime itself. Excluding them may produce a cleaner measure from a statistical perspective, but not necessarily a more useful one for monetary policy.

United States

Chart 3: Dallas Fed trimmed PCE vs. Core PCE



In that sense, the debate is no longer simply about which inflation gauge is more accurate. It is about whether the inflation process itself has fundamentally changed. If the post-2020 world is characterized by recurring supply shocks, fragmented supply chains and greater geopolitical volatility, then the assumptions underpinning traditional trimmed-mean measures may need to be revisited. Otherwise, policymakers risk smoothing away precisely the risks they are trying to understand.

In his first FOMC meeting as Chair, Kevin Warsh announced the establishment of five independent task forces to conduct a comprehensive review of the Federal Reserve's operating framework. The reviews will focus on: (1) communications, including the role and effectiveness of the SEP, dot plot, press conferences, meeting calendar, and minutes; (2) balance-sheet policy, with a reassessment of the ample-reserves framework and the composition of Fed assets; (3) data sources and methodology, examining the economic indicators and statistical measures used in policymaking; (4) the monetary policy strategy and inflation framework, as part of the Fed's periodic review process; and (5) productivity and labour market dynamics, including the impact of AI and other general-purpose technologies on the economy. Warsh indicated that the task forces will begin work within weeks and are expected to conclude by end-2026, after which he intends to put forward recommendations for reform.

Fed to stay put

Given uncertainty to both the inflation and labour market outlook, the default option for the Fed is probably a status quo. We expect FOMC to keep the target range for the Fed funds rate unchanged at 3.50-3.75% this year. The bar for a rate hike remains somewhat high, but we note that the median 2026 dot shifted higher to 3.8% from 3.4% in March, effectively eliminating the easing bias embedded in the March SEP and showing less patience to see through supply-side inflation pressure. The Fed funds rate path ahead depends much on the degree of inflation pass-through.

China

China: K-shape growth

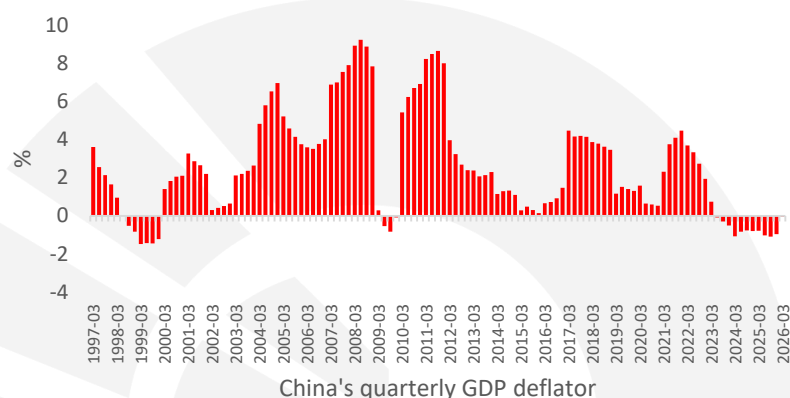
- Despite the energy shock in March, the economy delivered a solid start to the year. Resilient demand for AI-related products remained an important structural tailwind for exports.
- There is a widening divergence between old-economy sectors, which remain under pressure from property and weak domestic demand, and new-economy sectors, which continue to benefit from structural upgrading and external demand.
- The combination of cost-push reflation and a stronger-than-expected start reduces the urgency for near-term easing. That said, we continue to expect a 10bps policy rate cut, likely delayed to 2H26.

Tommy Xie Dongming
Head of Asia Macro Research

Economic growth reaccelerated to 5% YoY in 1Q26 from 4.5% in 4Q25, coming in above market expectations. Despite the energy shock in March, the economy delivered a solid start to the year, supported primarily by the earlier transmission of macro policy support, which helped offset still-fragile domestic consumption.

In addition, reflation dynamics are beginning to gain traction. Nominal GDP growth accelerated to 4.94% YoY in 1Q26, marking the fastest pace since 2Q23. More importantly, after 12 consecutive quarters of contraction, the GDP deflator is likely to turn positive in 2Q26, signalling a meaningful inflection in the price cycle.

Chart 1: China's GDP deflator may return to positive for the first time in 13 quarters in 2Q



Source: Wind, OCBC

The improvement in nominal growth carries broader macro significance. Stronger nominal GDP growth should translate into a recovery in industrial profits and an improvement in fiscal revenues. This could help partially offset the negative impact of the energy shock,

China

particularly by easing pressure on corporate margins and stabilizing government revenue streams.

The first wave of the Iran war's impact on China has emerged through inflation, with PPI accelerating to 2.8% YoY, up from 0.5% in March. However, the breakdown suggests that the PPI rebound was driven mainly by supply-side and imported factors, as prices of production goods rose 2.1% MoM. By contrast, prices of consumer goods continued to decline by 0.1% MoM, indicating that upstream-to-downstream price transmission remains weak.

CPI showed signs of a mild recovery in April, edging up to 1.2% YoY. The moderate CPI reading was partly flattered by the negative contribution from the pork-price downcycle. Meanwhile, the pass-through from higher international oil prices has started to emerge. In April, transport & communications and other goods & services saw notable YoY improvements, contributing around 0.66ppt and 0.32ppt to headline CPI, respectively.

However, indirect pass-through through the manufacturing cost chain remained modest, as overcapacity, weak end demand, and government price controls continued to absorb cost pressures. While low-capacity utilisation will take time to resolve, it has also helped cushion the inflation impact.

PPI exceeded CPI for the first time since July 2022, reopening the “scissors gap” between upstream and downstream prices. This suggests that part of the imported inflation shock will likely be absorbed by corporate margins rather than fully passed on to consumers. The focus in the coming months will be mainly the passthrough effect.

K-shape growth

However, the growth data slowed again across the board in April. April data told a similar K-shaped story with four factors that are worth highlighting.

First, real estate remained the key drag. Real estate development investment fell 13.7% YoY in January-April, with the decline widening from 11.2% in 1Q. This suggests that the property sector remains in a deep adjustment phase, as developers are still constrained by weak investment appetite and limited funding capacity. The weakness also continued to spill over into the broader supply chain. Cement output declined 10.8% YoY in April, underscoring sluggish construction activity and the persistent drag from the property downturn on upstream materials and heavy industry.

Households remained reluctant to add leverage. Household loans fell by RMB340.8bn in April, with medium- to long-term household loans declining RMB225.0bn more than a year earlier, suggesting that property demand remains weak.

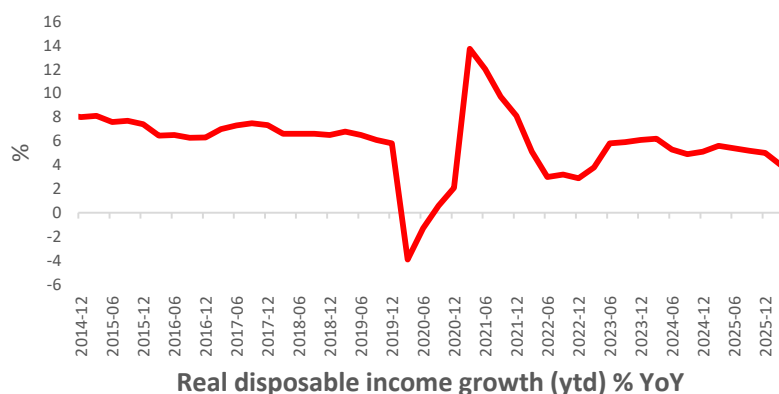
Second, autos were another major drag. Nationwide passenger vehicle retail sales fell by more than 20% YoY to around 1.42mn units in April, while automobile output declined 2.6% YoY. The sector faced multiple headwinds, including the restoration of the new energy

China

vehicle purchase tax from 0% to 5%, a high base from last year's trade-in subsidy programme, and increasingly cautious household sentiment. Longer decision cycles for big-ticket purchases also weighed on auto demand.

The recovery in consumption remains uneven and uncertain. Income growth has softened, with nominal disposable income rising 4.9% YoY (vs. 5% in 2025) and real income growth slowing more notably to 4% (from 5%).

Chart 2: Both nominal and real disposable income growth decelerated



Source: Wind, OCBC

Third, slower fiscal support in 2Q26 likely added pressure on fixed asset investment. The strong investment performance in 1Q26 was supported by three temporary factors: the early deployment of fiscal carryover funds from 2H25, the lingering impact of the RMB500bn in new policy-based financial instruments launched in 4Q25, and front-loaded fiscal support this year. As these effects faded in early 2Q26, and amid a higher base, April-May became a relatively tight funding window for investment. This was reflected in survey data, with the construction PMI falling to 48.0% in April and the construction new orders index dropping to 41.6%, both near the lower end of their ranges for the same period over the past five years.

Fourth, elevated raw material costs, partly linked to the Iran war, continued to squeeze margins for mid- and downstream manufacturers. This margin compression likely weakened corporate willingness to expand production, especially in sectors with limited pricing power.

That said, high-tech manufacturing remained the key bright spot. Integrated circuit output surged 22.1% YoY in April, broadly consistent with the resilience in technology-related exports. AI-related manufacturing, semiconductor production, and technology exports continued to provide an important growth cushion for the broader industrial sector.

Structural tailwinds

April trade data remained positive. Exports accelerated sharply to 14.1% YoY from 2.5% in March, while imports surged 25.3% YoY. Notably, exports to the US returned to positive

China

growth, rising 11.3% YoY in April ahead of Trump's China visit. This was partly driven by a favourable base effect, as US-bound shipments had fallen into deep contraction after reciprocal tariffs took effect in early April last year.

Beyond base effects, resilient demand for AI-related products remained an important structural tailwind for exports. Imports also beat expectations, mainly supported by strong demand for integrated circuits. IC imports surged 54.7% YoY in April, with the monthly import value reaching a record high, underscoring the strength of the AI supply chain. Meanwhile, higher crude oil prices linked to the Iran war lifted the import bill. Although crude oil import volume fell 20% YoY, import value still rose 13.2% YoY.

Looking ahead, the AI supply chain should remain a key source of resilience, further supporting exports of mechanical and electrical products. Elevated oil prices may also strengthen China's relative competitiveness in energy-intensive goods. Compared with more energy-import-dependent economies, China benefits from a more complete and stable supply chain, as well as relative energy cost advantages. This could allow China to capture additional export substitution demand.

Mixed impact of Iran war

The Iran war is increasingly emerging as a double-edged sword for China's economy. On the one hand, supply-side disruptions are becoming visible. On the other hand, substitution effects are beginning to kick in. Coal-chemical production is gaining cost competitiveness, while structurally higher oil prices are accelerating the energy transition—supporting NEV penetration, renewables, and energy storage deployment.

Looking ahead to 2Q26, growth momentum may moderate at the margin. Infrastructure investment could soften as the initial wave of front-loaded fiscal support fades and bond issuance normalizes. In addition, local government debt constraints and weak land sale revenues continue to cap investment appetite. As such, whether infrastructure can remain a reliable growth stabilizer will increasingly depend on stronger central government support.

Against this backdrop, we expect growth to ease to around 4.7% in 2Q. Nevertheless, the economy remains broadly on track to achieve the official 4.5–5% target for the year, and we maintain our full-year growth forecast at 4.7%.

On monetary policy, the combination of cost-push reflation and a stronger-than-expected start reduces the urgency for near-term easing. That said, we continue to expect a 10bps policy rate cut, likely delayed to 2H26. In our view, ongoing efforts to repair banks' net interest margins will be a key precondition, ultimately creating room for further easing to consolidate growth and buffer against rising external uncertainties.

Hong Kong

Hong Kong: Sustaining the cyclical upswing

Cindy Keung

Hong Kong and Macao Economist

- Real GDP grew at the fastest pace in the first quarter since 2021, demonstrating resilience to risks stemming from the Middle East conflict. Growth has become increasingly domestically anchored, with consumption, investment, and credit demand strengthening in tandem. Reflecting the strong start and supportive macro backdrop, we have revised up our full-year 2026 GDP growth forecast to 3.4%. Inflation remains contained but is gradually broadening amid imported cost pressure. Inflation is expected to rise modestly to 1.9%. Meanwhile, labour market slack is likely to widen slightly, with unemployment projected at 3.8%.
- HKD rates rose across tenors from March low, taking cues from the global markets with a mild underperformance against USD rates. Looking forward, HKD liquidity will likely tighten further, as the market prepares liquidity for dividend payment and quarter-end settlement. For the rest of the year, we see limited downside for HKD rates as the Fed is expected to hold rate unchanged in periods ahead.
- We expect to see a broad and durable upcycle in housing market. The magnitude of price increase in 2026 will, however, hinge on the interest-rate trajectory and dynamics of market sentiment. Our baseline forecast is upgraded to 8.5% YoY rise in the overall residential price index and a milder 3.5% YoY rise in rent index, consistent with the drivers already in place—improved affordability, positive carry, supportive policy mix, and steady demographic tailwinds.

Fastest pace of growth since 2021

The economy continued to play cyclical catch-up in 2026, supported by easing financial conditions, resilient external demand, and a revival in capital market activities. Real GDP grew at the fastest pace in the first quarter since 2021, demonstrating resilience to risks stemming from the Middle East conflict. Growth has become increasingly domestically anchored, with consumption, investment, and credit demand strengthening in tandem.

Reflecting the strong start and supportive macro backdrop, we have revised up our full-year 2026 GDP growth forecast to 3.4%, while acknowledging that external risks remain tilted to the downside should geopolitical tensions intensify or persist. Inflation remains contained but is gradually broadening amid oil shocks. Inflation is expected to rise modestly to 1.9%, with second-round effects remaining a key risk. Meanwhile, labour market slack is likely to widen slightly, with unemployment rate projected at 3.8%.

Hong Kong

Chart 1: Fastest pace of growth since 2021

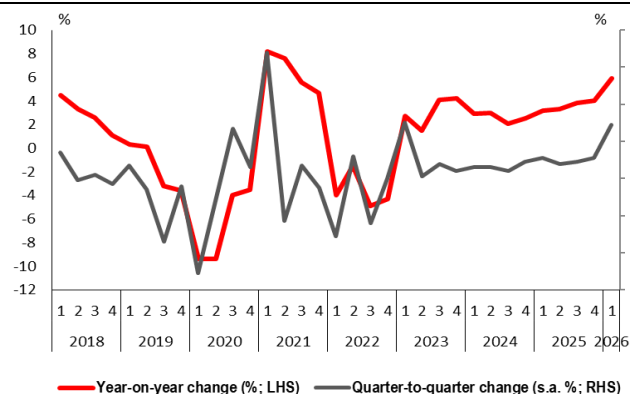
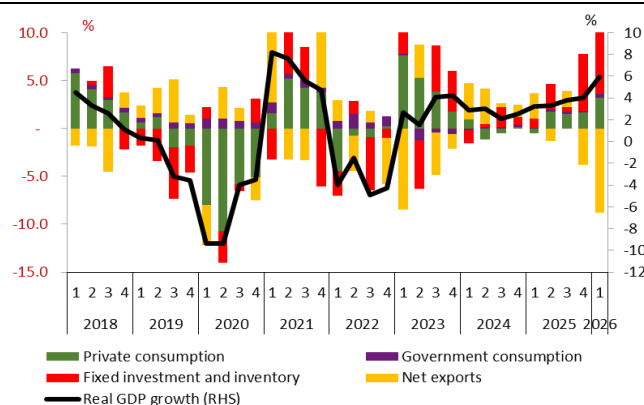


Chart 2: Domestic demand broadly strengthened



Broad-based strengthening in domestic demand

Real GDP growth accelerated to 5.9% YoY in 1Q26, up sharply from 4.0% in 4Q25 (**Chart 1**). On a seasonally adjusted basis, the economy grew by 2.9% QoQ (4Q25: 1.1% QoQ). The upside surprise was primarily driven by a broad-based strengthening in domestic demand, led by private consumption and fixed investment (**Chart 2**).

During the quarter, domestic demand showed signs of an entrenched recovery. Private consumption and gross domestic fixed capital formation expanded at a brisk pace of 4.9% YoY and 17.7% YoY (4Q25: 2.5% YoY and 11.7% YoY), respectively. Together, these two components contributed approximately 3.2 percentage points (pp) and 2.7pp respectively, to headline growth (excluding inventory changes), accounting for the bulk of the output expansion. This reflects improved household balance sheets, rising asset prices, and stronger business sentiment.

By contrast, external trade detracted materially from growth. Goods and services exports grew by 23.7% YoY and 3.5% YoY respectively, while imports rose by 29.8% YoY and 4.2% YoY respectively. As a result, the contribution of net exports turned sharply negative, subtracting 8.8pp from GDP growth in the quarter. Meanwhile, government consumption growth paced up to 3.0% YoY, though its contribution to overall growth remained modest at 0.4pp.

Warmer consumption sentiment

Domestic consumption has undergone a remarkable recovery so far this year, with high-end consumption/discretionary items benefiting disproportionately. Retail sales rose sharply by 11.3% YoY in the first four months of the year (**Chart 3**), marking the strongest growth since 2023. Even after accounting for the temporary spike in sales of “motor vehicles and parts” ahead of the expiry of electric private car first-registration tax concessions at the end of March, retail sales growth was still healthy and robust. Solid underlying economic fundamentals, further recovery in tourism, positive wealth effect and ongoing promotion campaign are expected to carry forward and support retail activities for the rest of the year. At the same time, higher fuel costs and a stronger Renminbi are likely to discourage

Hong Kong

outbound travel, helping to contain the retail spending leakage. We expect retail sales to register a mild increase of around 4–6% in 2026.

Public infrastructure and AI-driven capex

Investment was another key contributor to headline growth this year, with public investment being the major anchor (+29.1% YoY in 1Q26), and private investment playing cyclical catch-up (+8.8% YoY in 1Q26). The recent strength in public investment is primarily underpinned by increased public infrastructure spending, particularly for projects linked to the Northern Metropolis. Public works expenditure was expected to remain elevated, at around HK\$128 billion (around 3.8% of nominal GDP in 2025), for the next five years (**Chart 4**). Meanwhile, private investment was primarily focused on machinery, equipment and intellectual property products (including computer software, databases, and research and development). The solid pipeline of infrastructure projects and the associated investment spending will likely serve as a guardrail for the growth in the next couple of years.

Chart 3: Retail sales saw entrenched recovery

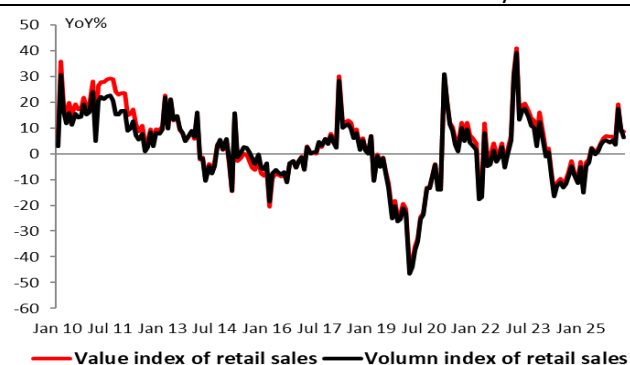
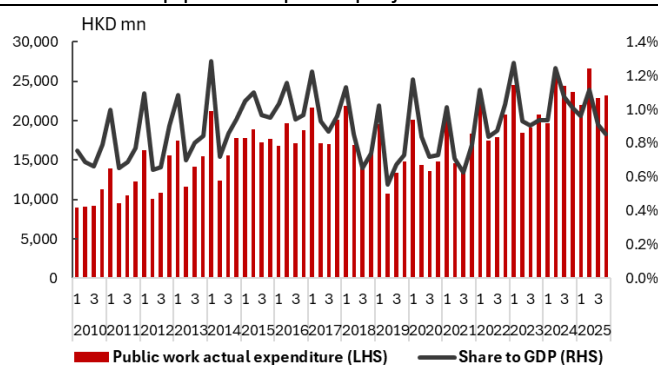


Chart 4: Solid pipeline of public projects



Sources: HK Census and Statistics Department, OCBC Group Research.

Energy shocks pose manageable risks

Judging from the sources of energy imports and structure of energy demand, Hong Kong is exposed to, but relatively less sensitive to, the energy supply shock. First and foremost, oil and oil products, which is acutely affected by the ongoing conflict, only account for around 27% of the primary energy mix (**Chart 5**). Meanwhile, natural gas and coal/coal products take up more than 70% of the mix and almost all of the electricity production (**Chart 6**). Added to that, majority of energy-related imports (including petroleum oil and natural gas) originate from Mainland China instead of the Middle East (**Table 1**). However, the interconnected nature of global energy markets means Hong Kong is not entirely insulated.

We also found that oil intensity is among the lowest in the world, with energy use per output as low as 25 (kg of oil equivalent of energy use per constant PPP GDP) (**Chart 7**). Meanwhile, energy efficiency in Hong Kong continues to improve over time. Domestic energy consumption grew at a relatively slow pace (at 0.6% p.a. in 2014–2023), as compared to the growth of real GDP (1.4% p.a.) during the same period (**Chart 8**).

Hong Kong

Chart 5: Energy mix as of 2023

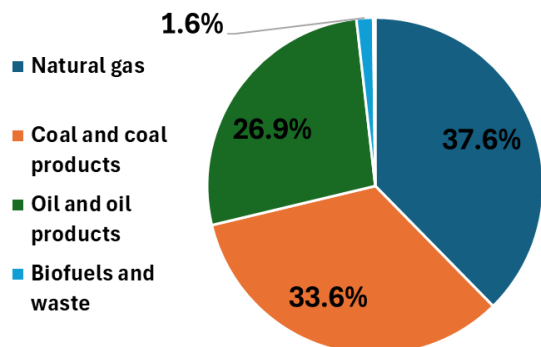


Chart 6: Electricity mix as of 2023

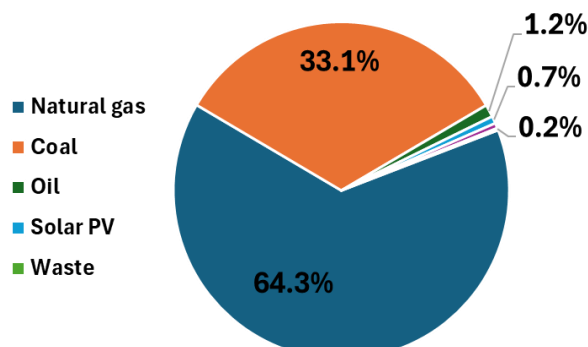


Chart 7: Energy intensity of selected economies

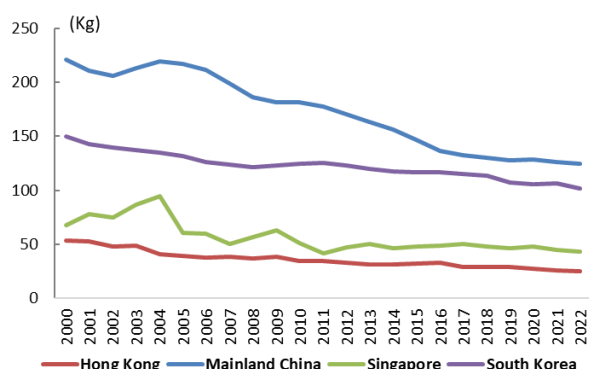
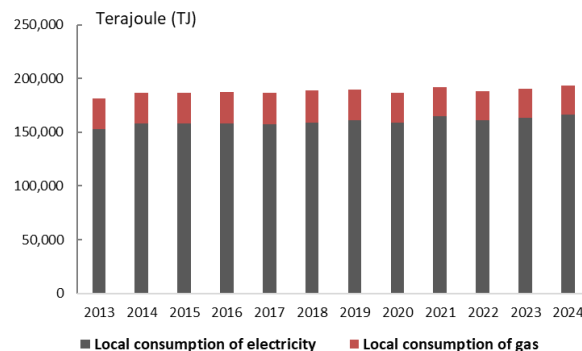


Chart 8: Energy consumption in 2013-2024



Sources: IEA, Hong Kong Census and Statistics Department, OCBC Group Research

Table 1: Energy related imports in 2025

	Total import	
	Nominal value (HK\$ Mn)	Share to total
Petroleum oil (SITC: 334)	77,520	79.9%
Mainland China	39,750	41.0%
Singapore	13,595	14.0%
Qatar	2,650	2.7%
Natural gas (SITC: 343)	16,708	17.2%
Mainland China	13,087	13.5%
Qatar	1,795	1.9%
Nigeria	1,640	1.7%
Coal (SITC: 321)	2,776	2.9%
Indonesia	2,009	2.1%
US	586	0.6%
Canada	107	0.1%
Total	97,003	100%

Sources: Hong Kong Census and Statistics Department, OCBC Group Research

Riding the AI boom

For the first four months of 2026 as a whole, the value of merchandise exports and imports rose by 35.0% YoY and 38.9% YoY respectively (4Q25: 20.9% YoY and 22.4% YoY) (**Chart 9**), on the back of strong global demand for AI-related electronic products. A visible trade deficit of HKD198.0 billion, equivalent 8.4% of the value of imports of goods, was recorded during

Hong Kong

this period. We note that imports of petroleum and petroleum products surged by 83.5% YoY in March-April. This sharp increase was driven by higher energy prices and precautionary stockpiling amid expectations of prolonged disruptions to energy supplies from the Middle East. We revise up the growth forecast of merchandise exports and import to 20% and 22% respectively for this year, with AI-driven trade cycle being the key growth driver.

Mild acceleration in inflationary pressure

Energy-sensitive components take up a relatively small, combined share of around 10% of the CPI basket in Hong Kong, hence limiting the degree of pass-through to the overall price pressure. However, second-round effects—via wages and services inflation—remain a key risk.

Composite CPI and underlying CPI (netting out the effect of government one-off relief measures) rose by an average 1.6% YoY and 1.4% YoY respectively in the first four months this year (**Chart 10**). Breaking down, price increases were most pronounced in “miscellaneous services” (+4.2% YoY), “electricity, gas and water” (+4.0% YoY), and “transport” (+3.5% YoY), underscoring the pass-through from higher energy and operating costs. In contrast, the “housing” component rose at a relatively modest pace (+1.1% YoY), helping to anchor the overall inflation. Reflecting the implications of higher oil prices on imported inflation and domestic cost structures, we have raised our full-year 2026 inflation projection for Hong Kong to 1.9%.

Chart 9: Growth in exports accelerated

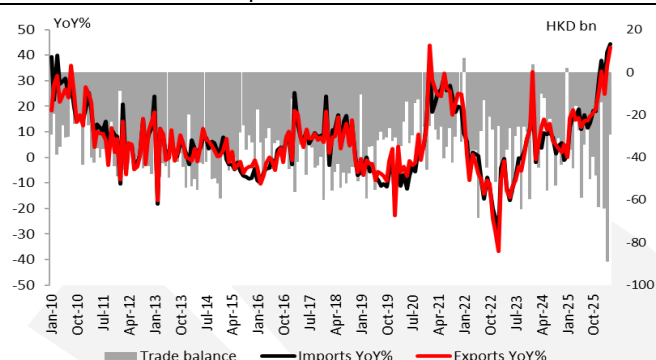


Chart 10: Modest pickup in inflationary pressure

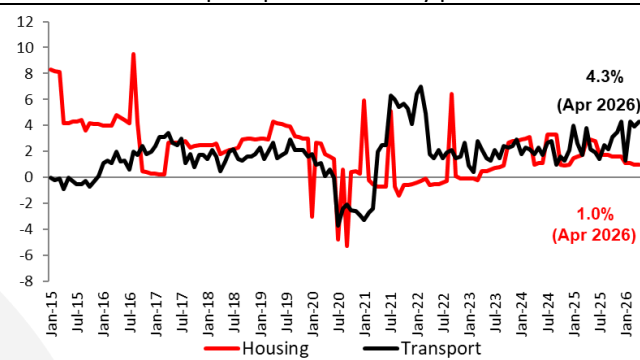


Chart 11: Labour market still stable

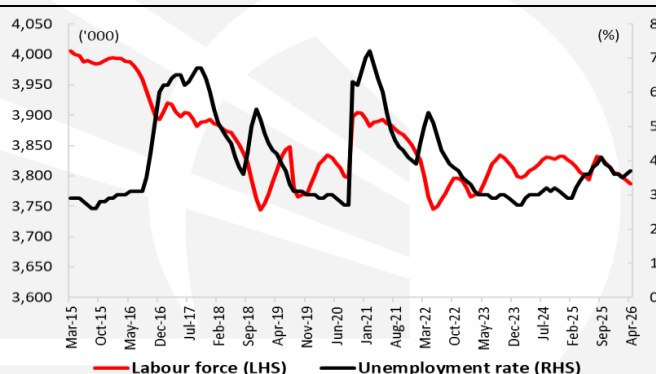
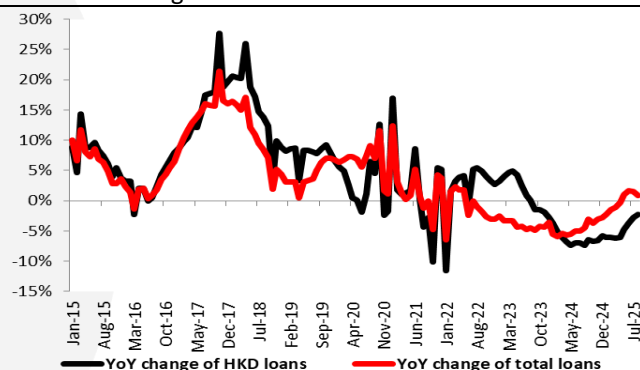


Chart 12: Mild growth in loan demand



Sources: HK Census and Statistics Department, HKMA, OCBC Group Research.

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Labour market faces structural constraints

The labour market tightened somewhat, with the seasonally adjusted unemployment rate edging down to 3.7% in February – April 2026 (**Chart 11**). The extent of improvement was, however, masked by the sustained decline in labour force participation rate and contraction in labour supply. The labour force participation rate declined to a new record low of 56.3%, on the back of aging population and lower labour participation among younger age cohorts. Meanwhile, labour force shrank to 3.787 million—its lowest level since early 2023. We expect to see mild softening in the labour market in periods ahead, particularly in import and export trade sectors, as the persistent oil supply shock poses downside risks to growth momentum and corporate hiring. We project the full-year unemployment rate forecast at 3.8%.

Mild growth in loan demand

The looser monetary condition, the ongoing property market upcycle, and broader economic recovery lent some support to loan demand, albeit momentum stayed modest. In the first quarter, increase in loans for use in Hong Kong (including trade finance) rose by 3.0% QoQ (0.2% QoQ in 4Q25) (**Chart 12**). The increase in loans for use during the first quarter was mainly led by loans to financial concerns and trade finance. Total loans and advances are expected to see mild growth at around 5% in 2026. We still expect to see the bottoming out of the HKD loan-to-deposit ratio (**Chart 13**), though likely delayed to late 2026 or early 2027.

Chart 13: Loan-to-deposit ratio close to inflection point

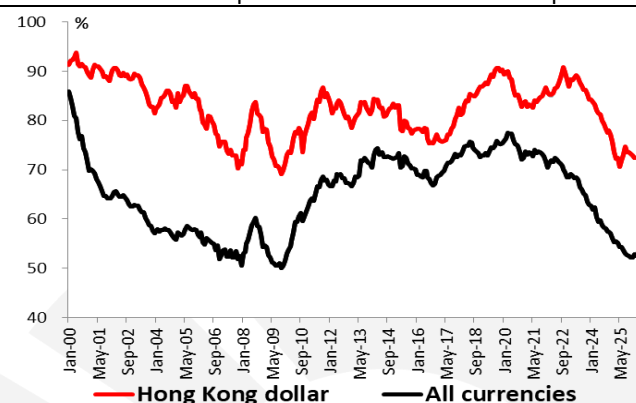
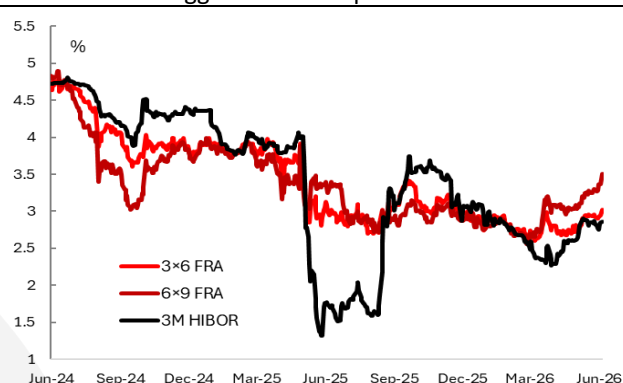


Chart 14: FRAs suggested more upside for HIBORs



Sources: HK Census and Statistics Department, HKMA, OCBC Group Research.

The up-and-coming funding hotspot

Fund-raising activity picked up notably in 2026, underpinned by ample market liquidity, lower funding costs (as compared to USD funding), favourable tax treatment, and the growing recognition of the Hong Kong dollar as a safe-haven currency with proxy-USD characteristics. Foreign supranational issuers—including the World Bank and the Asian Infrastructure Investment Bank—issued a record volume of HKD-denominated bonds (i.e. wonton bonds) during the year, alongside issuances by Hong Kong government and quasi-government entities. Similarly, activities in equity capital markets stayed buoyant. The IPO pipeline was robust, with more than 400 applications awaiting regulatory approval. In 1Q26, total funds raised via initial public offerings reached HK\$110 billion, ranking Hong Kong as

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Hong Kong

the world's top IPO venue over the period. Issuer sentiment was supported by improved valuations, generally strong post-listing performance and broader risk-on environment.

Limited downside for HKD rates

HKD rates rose across tenors from March low, taking cues from the global markets with a mild underperformance against USD rates. Looking forward, HKD liquidity will likely tighten further, as the market prepares liquidity for dividend payment and quarter-end settlement. FRAs remained generally higher than the benchmark 3-month HIBOR, with spread between 6x9 FRA and 3-month HIBOR widened to above 65bps (**Chart 14**). For the rest of the year, we see limited downside for HKD rates as the Fed is expected to hold rate unchanged in periods ahead. Should there be any triggering of FX intervention, we expect to see abrupt tightening of HKD liquidity and more room for HKD-USD rate spread compression. We pitch one-month and three-month HIBORs at 2.80% and 2.95% respectively at end-2026.

Durable upswing in housing prices

Entering 2026, the early-cycle recovery has evolved into a more durable uptrend in housing prices, with end-user demand improving alongside a gradual return of speculative interest. The official property price and rental index rose cumulatively by 5.7% and 1.4% respectively in the four months of 2026 (**Chart 15**), accompanied by a notable pickup in transaction activities. Property developers had also been more aggressive in pricing and land acquisition strategy. Our baseline forecast is upgraded to 8.5% YoY rise in the overall residential price index and a milder 3.5% YoY rise in rent index, consistent with the drivers already in place—improved affordability, positive carry (**Chart 16**), supportive policy mix, and steady demographic tailwinds.

Increase in housing prices outpaced that of rents in 2026, suggesting demand leakage from the leasing market, enabled by compression in the rent-own spread. Rental index in the Class A and B segments (units with area less than 69 m²), which are typically dominated by first-time buyers and upgrader households transitioning from rental accommodation, rose cumulatively by 0.5%-1.5%. By contrast, rental indices for larger units in Class D and E segments (units with area 100 m² or above) rose more sharply, by 3.9%.

While we expect to see a broad and durable upcycle in housing market, the magnitude of price increase in 2026 however will hinge on the interest-rate trajectory and dynamics of market sentiment. We expect to see limited downside for one-month HIBOR this year. Hence, mortgage rate should be capped at P-1.75% level for most of the year. Another key challenge is the inventory overhang. Total potential supply in the coming 3-4 years was estimated at 104k as of end-2025. Dividing by the annual unit take-up (20-year average at 13.4k), it will take approximately 7.8 years to fully digest the supply.

Hong Kong

Chart 15: Housing market upcycle

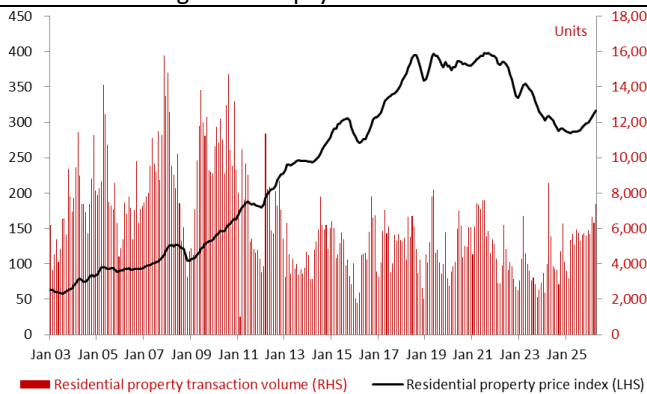
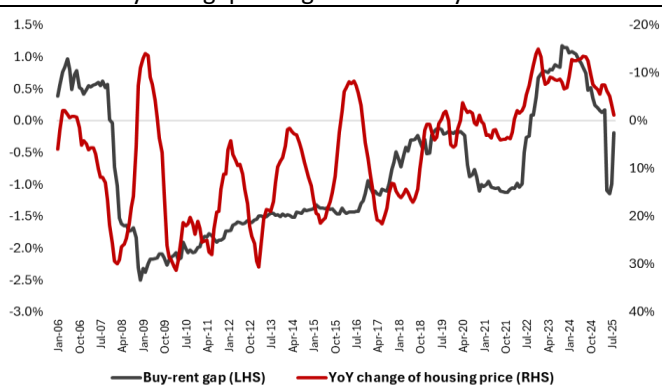


Chart 16: Buy-rent gap in negative territory



Sources: HK Rating and Valuation Department, HKMA, HK Census and Statistics Department, OCBC Group Research.

India

India: In the firing line

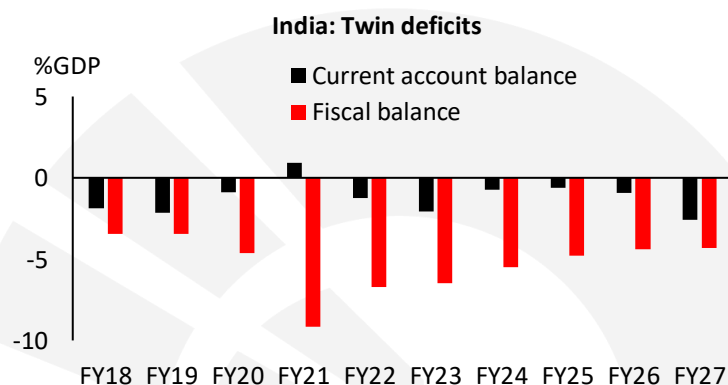
- The economy is in the firing line in dealing with higher global oil prices, given its vulnerability from 'twin deficits' on the current account and fiscal balances.
- We expect the current account deficit to widen to 2.0% of GDP, headline CPI to average 5% and GDP growth to slow to 6.5% in FY27.
- We believe the RBI needs to move to the next line of defence in raising the policy rate by a cumulative 50bp in FY27, starting in 3Q26 with a subsequent increase in 4Q26/1Q27.

Lavanya Venkateswaran
Senior ASEAN Economist

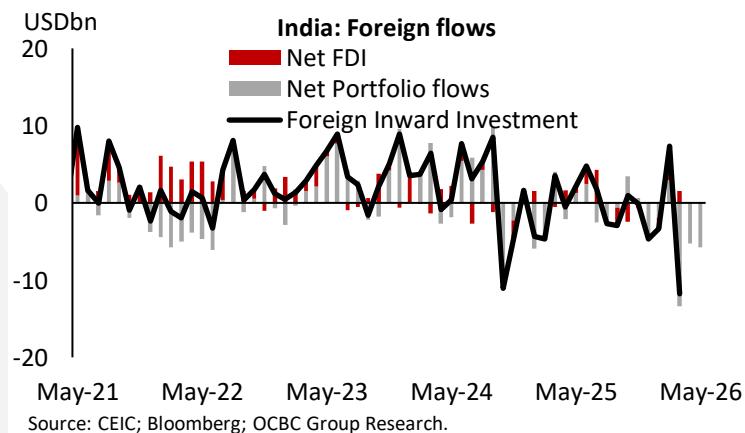
Vulnerable to energy shocks

We assess that higher global oil prices are the most harmful for India and the Philippines within the ASEAN-6 and India region. Fuel imports account for ~25% of India's import bill with retail fuel prices heavily subsidised. This dynamic has exacerbated the 'twin deficit' concerns of widening current account and fiscal deficits.

More so, the capital and financial accounts of the balance of payments have become more complex considering global risk aversion amid geopolitical uncertainties. The economy experienced net portfolio outflows of USD23.2bn until end-May, with FDI inflows at USD4.6bn for 1Q26. A combination of these structural and cyclical factors has manifested in exchange rate pressures, with INR significantly underperforming regional peers for most of 1H26.



Source: IMF WEO, CEIC, OCBC Group Research.



Source: CEIC; Bloomberg; OCBC Group Research.

The authorities stepped up action in the immediate aftermath of the closure of the Straits of Hormuz. PM Modi's appeal to the nation on 11 May further cemented official concerns regards the energy situation. He urged families to reduce purchases of gold, limit fuel consumption, skip foreign travel, work-from-home and reduce the usage of cooking oil. He also encouraged farmers to reduce dependence on imported fertilisers and adopt solar powered irrigation pumps.

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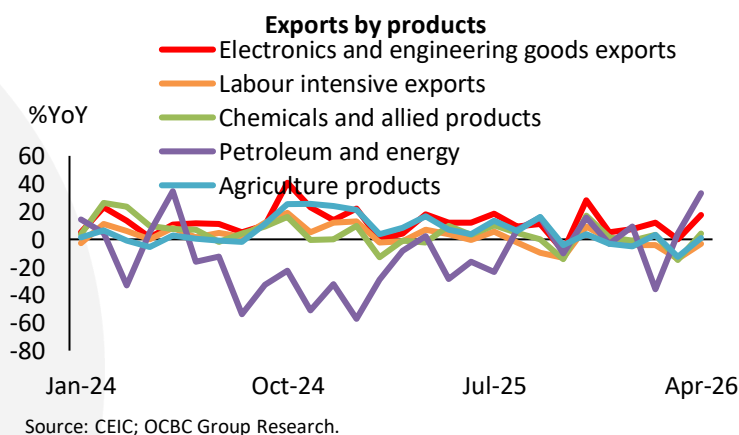
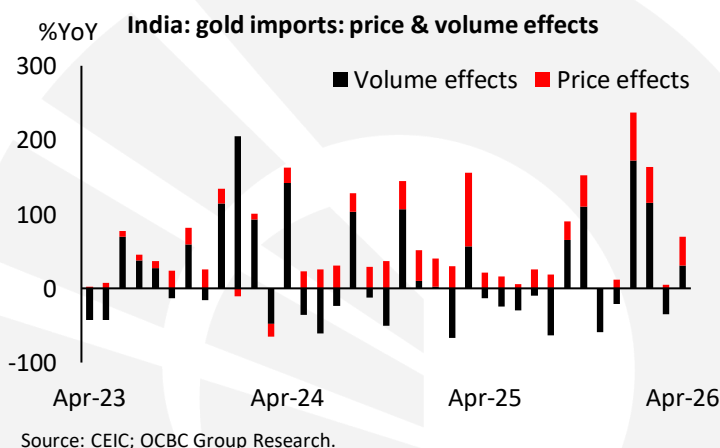
India

Current account deficit likely to widen

Much of the pressures alluded to PM Modi's appeal can boil down to external balance and fiscal pressures. The trade deficit widened to USD28.4bn in April from USD20.7bn in March, even as crude petroleum imports dropped in March and April to -35.9% YoY and -10%, respectively. We suspect much of this decline is due to the limited availability of supply rather than reduced demand.

Gold and silver imports, however, remained high resulting in the government imposing a 10% basic customs duty and 5% Agriculture Infrastructure and Development Cess on these imports. These raise the effective import duty to 15% from 6% previously. This will likely have some dampening effect on demand combined with seasonally reduced demand ahead of less auspicious months of gold buying. That said, the demand for gold is more structural and unlikely to be completely deterred.

There is still some buffer for the administration. The current account balance shifted to a surplus of USD7.1bn in 1Q26 from a deficit of USD15.5bn in 4Q25, driven by a wider surplus in the services (USD60.4bn from USD57.5bn in 4Q25) and secondary income (USD41.3bn from USD35.2bn in 4Q25) accounts. The export side of the equation remains less convincingly than most regional peers that continue to benefit from the upcycle in global semiconductor cycle. While electronics and engineering goods exports have picked up in recent months, it has not convincingly lifted overall export growth. Higher global oil prices can lift refined petroleum exports through better terms of trade effects in the coming months, but potential supply shortages for crude petroleum could become more binding. The services account surplus will likely remain supported by information technology exports while tourist inflows remain lacklustre. For FY26, the current account deficit remained unchanged at 0.6% of GDP compared to FY25. We forecast it the deficit will widen to 2.0% of GDP in FY27.

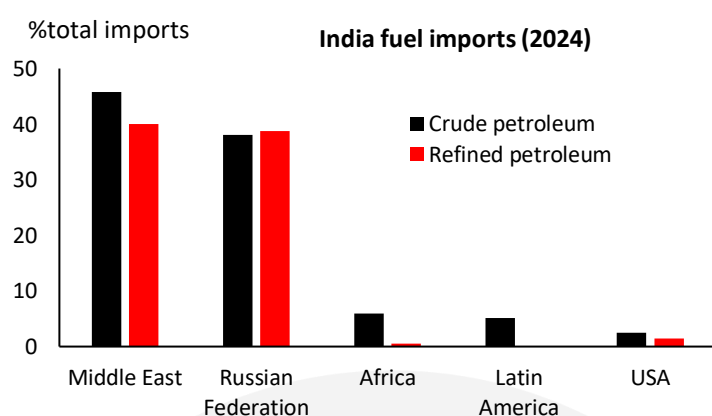


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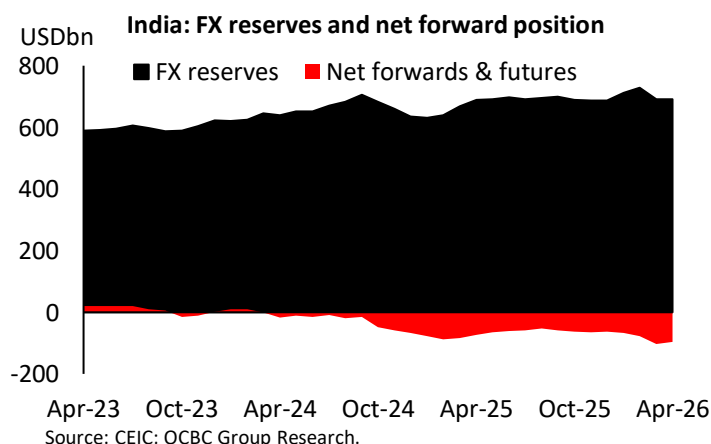
Capital flows under pressure

The wider current account deficit puts pressures on capital flows for funding. Capital flows have been volatile in 1H26, with portfolio outflows exacerbated by macroeconomic vulnerabilities to higher global oil prices. Outflows were recorded on from debt and equity instruments since March 2026, i.e., the onset of geopolitical tensions. Indeed, the local currency, INR, was the worst performing currency in EM Asia (after IDR) despite domestic growth and reform momentum remaining well supported. Reflecting this, the financial account recorded net outflows of USD8.7bn, partly reversing inflows from USD16.7bn in 4Q25. While the economy recorded net FDI inflows of USD4.2bn compared to net outflows of USD3.7bn in 4Q25, net portfolio outflows intensified to USD12.0bn versus outflows of USD0.2bn in 4Q25 led by equity outflows.

RBI net sold USD9.8bn in March while FX reserves stood at USD682.3bn as of 29 May, with the import cover of 11 months¹. The net forward and futures position show an outstanding of USD95.3bn as of end-April versus USD103.0bn in March. The pressure on the currency, however, suggests that RBI will continue to lean against sharper depreciation forces.



Source: UNComtrade; OCBC Group Research.



Source: CEIC; OCBC Group Research.

RBI and the government, in a strong coordinated effort, announced measures to combat INR depreciation on 5 June. RBI reintroduced for a minimum tenor of 3 years and maximum of five years. Importantly, RBI will absorb the hedging costs from banking associated with USD deposits, allowing banks to offer higher FNCR-B deposit rates. RBI noted its in its official gazette that the Swap Facility will be operated daily on all working days in Mumbai (except Saturdays and holidays) and a bank can avail of the swap facility only once in a week. The Swap Facility was effective on 8 June and will remain open up to 16 October for deposits mobilized between 8 June and 30 September. Domestic banks have since announced FNCR-B rates 3.00-7.10% depending on the tenor and the bank.

The RBI also announced that a facility of a concessional forex swap will be provided till 30 September 2026 to incentivize ECBs by PSUs. This, along with a facility of concessional forex

¹ Forex reserve at healthy \$682 billion, adequate to provide import cover for 11 months: RBI Governor, The Hindu, 5 June 2026.

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swap to incentivize External Commercial Borrowings (ECBs) by PSUs, could raise significant capital inflows². In the press conference following the decision, the RBI Governor was non-committal on assessments of potential inflows. He did, however, note that he expected a “much better BoP”. The government, for its part, removed restrictions on short term investment limits, and tax exemptions for holding government securities.

Measures to attract capital inflows announced on 5 June	
Measure	OCBC view
First, for government securities under the Fully Accessible Route (FAR), we are expanding the universe of ‘specified securities’ by including all new issuances of 15-, 30- and 40-year tenor G-secs. In addition, limits pertaining to short-term investment, concentration and individual securities on FPI investment under the General Route are being removed.	These measures by RBI were complemented by the government’s measures. The government removed the three restrictions, on short-term investment limit, concentration limit and the security-wise limit for investments by foreign portfolio investors in government securities. The quantitative investment limit of 6% of the outstanding stock of the CG securities and 2% of the SG securities is maintained. The Government will also exempt such investments from income tax on any interest or capital gain.
Second, the limits for investment by NRIs and OCIs in equity instruments traded on the stock market without SEBI registration are being increased. Further, the same facility is being extended to all individual Persons Resident Outside India (PROIs) at par with NRIs and OCIs.	The investment limit will be increased for an individual PROI under this scheme from 5% to 10% in any company, with an overall investment limit for all individual PROIs to 24%, from the current 10%.
Third, a facility of concessional forex swap will be provided till 30th September 2026 to incentivize ECBs by PSUs.	This will allow banks to raise foreign currency funds as RBI ‘subsidies’ the cost of hedging. Reuters reported on 25 May that banks viewed USD50bn could be raised through the concessional forex swap and RBI absorbing the hedging costs.
Fourth, a similar facility for bearing the full hedging cost shall be provided till 30th September 2026 to AD banks for raising fresh 3–5-year FCNR (B) deposits.	The FCNR-B facility was previously in place in 2013. NRI deposits from August 2013 until May 2014 were up by USD39.6bn, providing a credible backstop to further backsliding of INR versus USD in that period.
Fifth, it is proposed to restore the time for realisation of export proceeds to nine months.	This has been reduced from 15 months and could require exporters to adjust near-term cash flows.
Sixth, the government removed taxes incurred on holding government bonds.	The government has cut the interest income on G-Secs (20% to 0%) and capital gains on G-Secs (12.5% LTCG to 0%) to attract bond inflows.

Source: RBI, Reuters, Indian Express; OCBC Group Research.

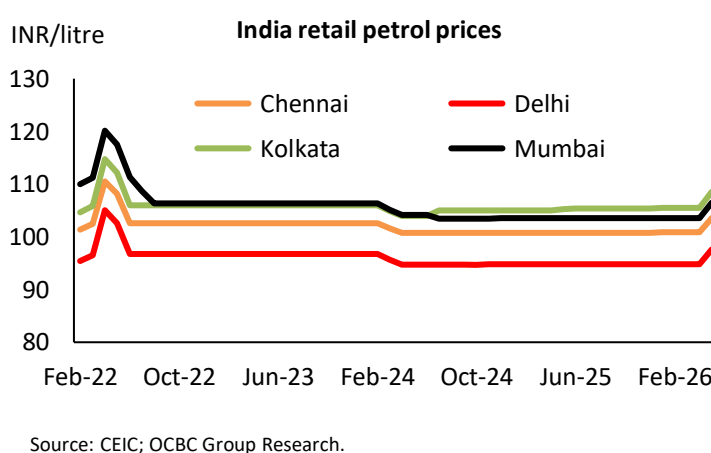
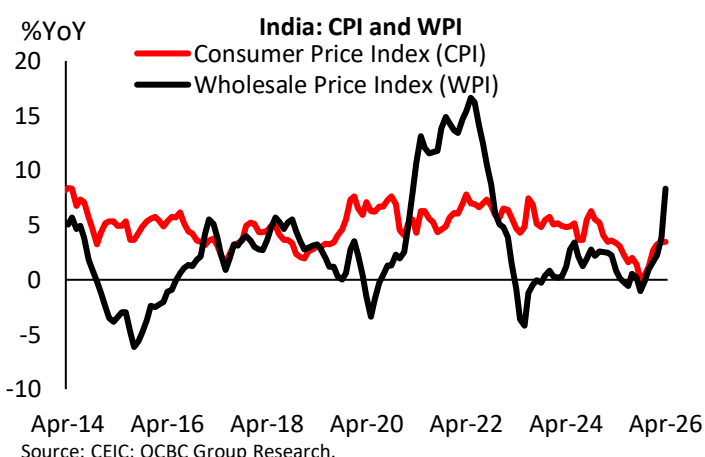
Price pressures are rising

RBI is an inflation targeting central bank, with the headline CPI target range wider than most central banks at 2-6%. Headline CPI is still below the mid-point but rising modestly to 3.5% YoY in April from 3.4% in March. The wholesale price index (WPI) jumped by 8.3% YoY in April versus 3.9% in March. Admittedly, the relationship between CPI and WPI is not entirely straightforward considering various price passthrough considerations including buffers from corporate margins and producer willingness to absorb higher production costs.

² Reuters noted a figure of USD50bn. Indian banks seek hedging cost subsidy from RBI to raise dollar funding, sources say, 25 May 2026, Reuters.

India

Notwithstanding, we believe inflationary pressures will rise in the coming months. Imported inflation pressures, higher fertiliser prices, upward adjustments to retail fuel prices, temperamental monsoon outcomes and El Nino risks are key factors that have shifted the balance of risks for headline CPI to the upside. Moreover, we assume that retail petrol and diesel prices will be adjusted more than in the past leading to greater pass-through of higher global oil prices onto retail fuel prices. As such, we forecast headline CPI to average 5.0% in FY27 compared to 2.1% in FY26. Meanwhile, RBI raised its FY27 headline CPI forecast to 5.1% YoY from 4.6%, which is still within the target range but signs of inflation expectations and prices rising sharply and broadly will trigger a response from RBI.



RBI to hike rates

While sentiment will likely stabilise in the near-term given RBI's measures, the growth-inflation-external balance fundamentals will still justify policy rate hikes. The RBI's statement was clear that inflation risks are to the upside, with the focus is now on second-round effects from higher retail fuel prices. Food inflation risks have also risen considering the "uncertainty about the spatial and temporal distribution of the south-west monsoon and El Niño conditions."

The combination of higher inflation and still existent balance of payment pressures will require RBI to shift from the second line of defence in terms of FX intervention to policy rate hikes. As such, we still see still forecast that the RBI will raise its policy rate by a cumulative 50bp in FY27, starting in 3Q26 with a subsequent increase in 4Q26 or 1Q27.

Quasi-fiscal pressures are building

Assessing the mounting central government fiscal pressures has become more complicated by the role of Oil Marketing Companies in underwriting losses from subsidising retail fuel prices. OMCs noted that daily losses of INR1000crore as 10 May. The pressure on OMCs was evident with retail fuel price hikes at the pumps on several occasions since 15 May, resulting in a cumulative ~8% increase in prices. These prices increases have helped narrow the daily losses for OMCs to INR600crore per day, but these remain massive, nonetheless. The mechanism of compensation for these OMCs from the central government is less clear cut,

India

implying that the fiscal deficit could still be maintained at 4.3% of GDP for FY27 (i.e. April 2026 to March 2027) while quasi-fiscal pressures increase.

On the revenue front, RBI transferred INR2.87trn in dividends for FY26 to the central government, which was slightly lower than the expected INR3trn, but sizeable, nonetheless. This is the highest transfer on record while GST revenue collections have also been strong, reaching an all-time high of INR2.42trn in April 2026, kicking off FY27 on a strong note. The outlook for revenue collections, however, is bumpier considering the potential impact on growth from the energy crisis stemming from the Middle East (Indian authorities refer to the region as West Asia).

Growth subject to downside risks

Despite the continued geopolitical constraints, the incoming activity data has been broadly resilient. GDP rose by 7.8% YoY in 1Q26 from 8.0% in 4Q25, driven by solid investment spending (10.8% YoY versus 8.2% in 4Q25) and government consumption (4.9% from 4.6%) more than offsetting slower household spending (7.1% versus 8.2%). Domestic final demand contributed 8.1pp to headline GDP growth from 7.8pp in 4Q25 while the contribution of net exports shifted to +0.4pp from -0.4pp in 4Q25. For FY26, the economy 7.7% YoY from 7.1% in FY25.

The incoming data for 2Q26 showed signs of resilience. Passenger vehicle sales growth jumped to 25.4%YoY in April compared to 16% in March while two-wheeler sales growth was 28.4% YoY in April compared to 19.3% in March, pointing to rural demand holding up well. Trade data was also strong as was credit growth for the major sectors.

That said, the resilience of growth is unlikely to hold up considering that retail fuel price hikes are a proxy tax on consumers. With private consumption expenditures accounting for ~55% of GDP growth, slower consumption spending will have a noticeable effect on growth momentum. Furthermore, we expect some cutback in government spending in the coming months to accommodate for the rising subsidy bill for items such as fertilizers and food based on INR depreciation and higher inputs. This will limit the ability of the government to provide counter-cyclical policies to mitigate against downside risks to growth. Finally, we do not see exports given the product mix providing a material benefit to growth, albeit with monthly fluctuations remaining high. Imports, however, will remain resilient based on energy and metals demand. As such, we forecast GDP growth to slow to 6.5% in FY27 (RBI: 6.6%).

The economy is in the firing line in dealing with higher global oil prices, given its vulnerability from 'twin deficits' on the current account and fiscal balances. We expect the current account deficit to widen to 2.0% of GDP, headline CPI to average 5% and GDP growth to slow to 6.5% in FY27. We believe the RBI needs to move to the next line of defence in raising the policy rate by a cumulative 50bp in FY27, starting in 3Q26 with a subsequent increase in 4Q26/1Q27.

India

Summary of Economic Forecasts	FY23	FY24	FY25	FY26	FY27F	FY28F	FY29F
GDP (% YoY)	7.6	7.2	7.1	7.7	6.5	7.4	7.5
Goods and services exports (% YoY)	14.3	0.1	6.0	4.6	-1.1	10.9	17.6
Goods and services imports (% YoY)	18.0	-4.3	7.3	6.5	9.1	10.3	15.0
Current Account Balance (% of GDP)	-2.1	-0.7	-0.6	-0.6	-2.0	-1.5	-0.6
Fiscal Balance (% of GDP)	-6.5	-5.5	-4.8	-4.4	-4.4	-4.2	-4.1
Headline CPI (% YoY)	6.6	5.4	4.6	2.0	5.0	3.4	2.8
RBI repo rate (% eop)	6.50	6.50	6.25	5.25	5.75	5.25	5.25

Source: OCBC Group Research.

Indonesia

Indonesia: Policy shifts

- We maintain our GDP growth forecasts at 5.0% for both 2026 and 2027. This implies slower growth in the coming quarters as perceived domestic policy risks rise, external risks remain rife and fiscal support narrows. Bank Indonesia hiked its policy rate by 25bp on 18 June, following a 25bp intermeeting hike on 9 June and a 50bp hike at its 20 May meeting, marking a firm shift toward rupiah defence mode. We now expect a cumulative 75bp of rate hikes from BI through to end-2026, taking the policy rate to 6.50%.
- The room for fiscal policy to support growth is narrowing constrained by a binding legal fiscal deficit limit of 3% of GDP, a higher fuel subsidy bill, priority programme commitments and a narrow revenue base. External pressures are also rife. We expect the current account deficit to widen to 1.6% of GDP in 2026 from -0.1% in 2025, with the financing of the balance of payments remaining a clear focus for investors. Credit rating agencies are also on standby following downgrades to the sovereign outlook from Moody's and Fitch Ratings in early 2026. We do not rule out further deteriorations in the credit ratings outlook/ratings.
- Policy shifts are further obfuscating the economic landscape for investors. The government's decision to create PT Danantara Sumberdaya Indonesia to manage selected commodity exports marks a significant shift in Indonesia's natural-resource governance framework. Its implementation will be key to preserving private-sector incentives and investment confidence.

Lavanya Venkateswaran
Senior ASEAN Economist

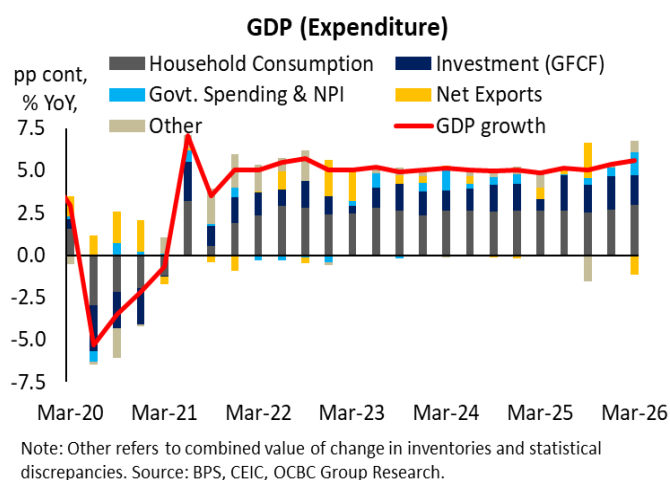
Ahmad A Enver
ASEAN Economist

Resilient start but hard to replicate for rest of the year

Real GDP growth accelerated to 5.6% YoY in 1Q26 from 5.4% in 4Q25, the strongest print since 3Q22. The headline outturn was encouraging, but the composition suggests that the first-quarter acceleration was supported by several favourable tailwinds, including higher public spending, festive consumption during Ramadan and Eid, and stable administered energy prices.

Government consumption was the clearest driver, surging 21.8% YoY in 1Q26 from 4.6% in 4Q25, supported by higher personnel spending, festive bonus disbursements and faster implementation of priority programmes, including the Free Nutritious Meals Programme. Household consumption also strengthened to 5.5% YoY from 5.1%, its fastest pace since 2Q22, helped by festive spending and the decision to keep subsidised fuel prices unchanged. Investment remained resilient, with gross fixed capital formation growing 6.0% YoY, broadly steady from 6.1% in 4Q25.

Indonesia



% YoY	1Q25	2Q25	3Q25	4Q25	1Q26
GDP	4.9	5.1	5.0	5.4	5.6
Household	4.9	5.0	4.9	5.1	5.5
Non-PISH	3.1	7.8	3.8	5.9	6.3
Government	-1.2	-0.3	5.7	4.5	21.8
Investment (GFCF)	2.1	7.0	5.0	6.1	6.0
Export of G&S	5.9	10.1	9.1	3.3	0.9
Imports of G&S	3.6	11.1	0.9	4.0	7.2
Agriculture, F&F	10.5	1.7	4.9	5.1	5.0
Construction	2.2	5.0	4.2	3.9	5.5
Manufacturing ind.	4.5	5.7	5.5	5.4	5.0
Mining & Quarrying	-1.2	2.0	-2.0	-1.3	-2.1
Transport & storage	9.0	8.5	8.6	9.0	8.0
W&R trade; auto	5.0	5.4	5.5	6.1	6.3

Source: BPS, CEIC, OCBC Group Research.

However, we would be cautious about extrapolating the 1Q26 pace for the full year. Fiscal support has played an important role in sustaining growth, but fiscal room is becoming more constrained. At the same time, the external sector is turning less supportive, with imports accelerating to 7.2% YoY while export growth slowed to 0.9%, resulting in net exports subtracting 1.2ppt from headline growth.

On the production side, the picture was broadly positive but uneven. Accommodation and food services posted the strongest growth at 13.1% YoY, supported by the festive period and stronger food-related demand from public programmes. Wholesale and retail trade grew 6.3%, while transportation and warehousing remained robust despite easing to 8.0%. Construction improved to 5.5%, helped by infrastructure and programme-related activity. By contrast, manufacturing growth eased to 5.0% YoY from 5.4% in 4Q25, while mining and quarrying contracted 2.1% YoY, deeper than the 1.3% decline in 4Q25.

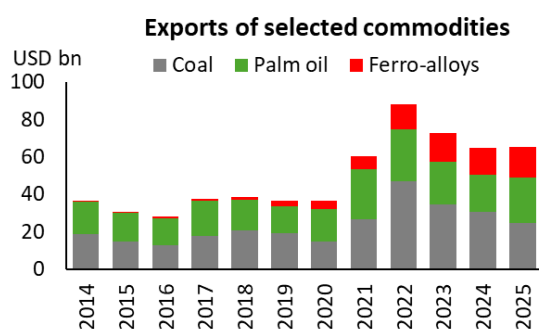
Looking ahead, we maintain our GDP growth forecasts at 5.0% for both 2026 and 2027. The strong 1Q26 outturn provides a favourable starting point, but we would be cautious about extrapolating this pace for the full year. The fiscal room to manoeuvre is narrow and the onus is now on the Prabowo administration to convince private sector investors that crowding out risks from the public sector will be monitored. The policy environment and the runway to deliver new changes on the commodity export framework will be crucial to the outlook for exports. Commodity exports, which constitute the lion's share of exports at over 50%, could potentially benefit from higher global prices. However, much depends on the new framework under Danantara. Household spending could also be impacted by higher policy rates. As such, we expect GDP growth to slow to 4.9% from 2Q26-4Q26.

Commodity export governance enters a new phase

Following the creation of Danantara in February 2025, President Prabowo Subianto's latest regulation marks a further shift in the governance of selected natural-resource exports, initially covering coal, palm oil and ferroalloys. These commodities accounted for around

Indonesia

23.3% of total 2025 exports. Under the new framework, their exports will be overseen by PT Danantara Sumber Daya Indonesia, a state-owned enterprise under Danantara.



Note: HS codes 1511 (palm oil and its fractions, whether or not refined, but not chemically modified), 2701 (coal; briquettes, ovoids, and similar solid fuels manufactured from coal), and 7202 (ferro-alloys) were used in this chart.

Danantara Sumber Daya Indonesia (PT DSI) - Timeline		
Date	Milestone	Description
19 May 2026	Official Registration	PT DSI is incorporated under PT Danantara Investment Management.
20 May 2026	Presidential Mandate	President Prabowo mandates a single-gate export policy to curb revenue leakage.
21 May 2026	Leadership Appointment	Luke Thomas Mahony is appointed as the President Director of PT DSI.
1 June 2026	Phase 1 Launch	Operations begin with mandatory export transaction reporting and pricing screening.
June – Dec 2026	Transitional Evaluation	System adjustment period takes place alongside transition into full BUMN status.
1 January 2027	Phase 2 Enforcement	Full single-gate rules begin, making PT DSI the sole legal exporter.

Source: UN Comtrade, Hukumonline, Kompas, Bisnis, CNN Indonesia, Jakarta Globa, Tempo, President Speech (20 May 2026), OCBC Group Research.

The policy objective is to strengthen oversight of strategic commodity exports. President Prabowo cited concerns over under-invoicing, transfer pricing and the handling of foreign-exchange proceeds, which he said had reduced the state's ability to fully capture the value of natural resources. The transition period to export through the new entity is set at three months, but can be extended to one year, with the commodity list to be reviewed every three months.

If implemented well, the policy could improve export governance, support revenue collection and strengthen onshore FX liquidity at a time when the rupiah remains under pressure. However, implementation risks are material. The final impact will depend on the implementing regulation, including the exact commodity coverage, pricing mechanism, transfer of proceeds to exporters and treatment of existing contracts.

The broader state role in natural-resource exports could support better governance and revenue capture, but its success will ultimately depend on execution. The authorities will need to ensure that private-sector participants remain incentivised to trade, invest and generate export earnings. Perceived risks of crowding out private-sector activity will need to be mitigated through transparent implementation, consistent dialogue and policy adjustments where needed.

Keeping more export earnings onshore

The government has also adjusted FX regulation requirements for commodity exporters. These rules have been revised several times in recent years to bolster onshore foreign-currency liquidity, allow the authorities to better monitor export earnings from natural resources, support reserves and stabilise the rupiah.

The latest adjustment requires all natural-resource exporters to keep their entire export revenues in state-owned banks from 1 June 2026. The minimum holding period is three months for oil and gas exporters and 12 months for non-oil and gas exporters, while up to

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Indonesia

50% of these earnings must be converted into rupiah. The government is also expanding exemptions for DHE placement at non-SOE banks originating from trading partner countries that have trade cooperation agreements or MoUs with Indonesia.

The authorities are tightening the screws on monitoring commodity earnings to provide a stronger buffer for domestic FX liquidity. Past iterations of this policy have had mixed results. It remains to be seen if the stricter regulations will catalyse commodity exporters into bringing back export earnings onshore.

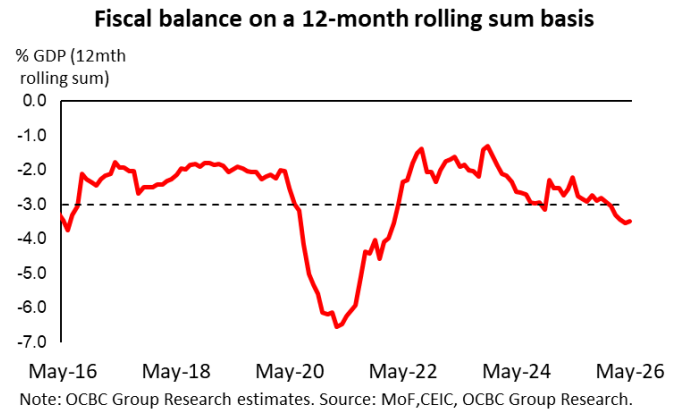
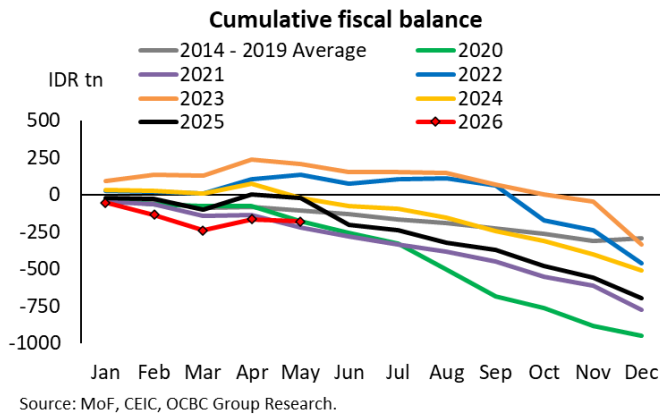
Effective Date	10-Jan-19	01-Aug-23	01-Mar-25	01-Jan-26	01-Jun-26
Repatriation requirements	Mandated exporters of natural-resource sectors (mining, plantations, forestry, and fishery) to repatriate forex export earnings to Indonesia.	Mandated exporters of natural-resources sector (mining, plantations, forestry, and fishery) to repatriate forex export earnings to Indonesia and keep 30% of its proceeds onshore for a minimum period of three months. The regulation will be applicable to export proceeds with a minimum of USD 250k or equivalent.	Mandated exporters of natural-resources sector (mining, plantations, forestry, and fishery) to repatriate 100% of their export earnings within Indonesia's financial system for at least one year, targeting exports valued at USD250k or more.	Exporters can convert only 50% of repatriated funds into IDR; remaining will stay in foreign currency (mostly USD).	Natural resources exporters are mandated to keep 100% of FX earnings in state-owned banks. Up to 50% of these earnings must be converted into IDR.
Mechanism	Export proceeds must be deposited in the Special Account no longer than three months after the filing of relevant customs export notification (Pemberitahuan Pabean Ekspor - PPE)	Export proceeds must be deposited in the Special Account no longer than three months after the filing of relevant customs export notification (Pemberitahuan Pabean Ekspor - PPE).	Exporters are allowed to use the retained funds for specific purposes, including converting to IDR at the same foreign exchange bank, payments in foreign currency for tax and non-tax state revenue.	The government will require many natural-resource companies to deposit their export earnings solely in state-owned banks.	The government is also expanding the exemption for DHE placement at non-SOE banks originating from trading partner countries that have trade cooperation agreements or MoUs with Indonesia.

Source: BI, Antara news, Kontan, Jakarta Globe, OCBC Group Research.

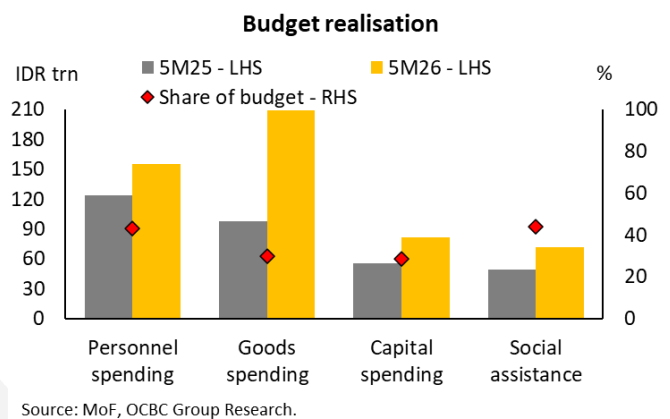
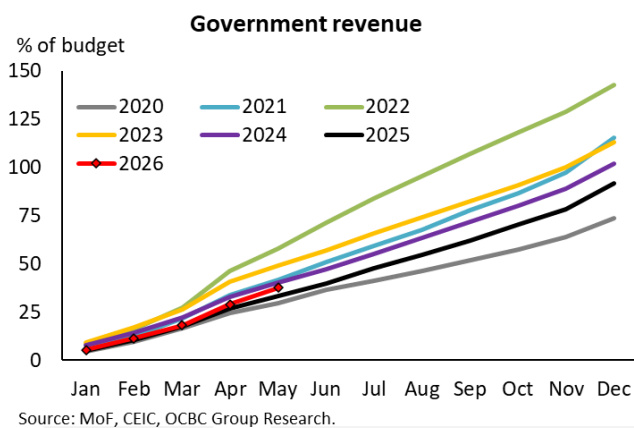
Fiscal policies remain the main lever of growth

The strong start to 2026 was supported in part by a sizeable fiscal impulse, but the scope to sustain this pace of support is becoming increasingly constrained. As of end-May, the fiscal deficit stood at 0.70% of GDP, widening slightly from 0.64% in April but remaining well below the full-year 2026 budget target of 2.68% of GDP. The annualised fiscal run-rate stood at 2.8% of GDP in May, compared to -2.6% in April and -3.7% in March. Government revenue rose by 19.1% YoY year-to-May, equivalent to 37.6% of the full-year target, while expenditure growth remained elevated at 34.4% YoY year-to-May, at 35.5% of the target.

Indonesia



On a monthly basis, revenue growth accelerated sharply to 44.2% YoY in May from 18.4% in April. This was supported by a notable improvement in tax revenue growth, which rose to 41.6% YoY in May from 12.6% in April. But there are some base effects to this and 1Q26 prints as we have pointed to previously given the implementation of Coretax in 1Q25. Meanwhile, non-tax revenue growth remained strong at 56.1%YoY, broadly unchanged from 56.2% in April. Historically, non-tax revenues tend to improve alongside higher commodity prices.



The bigger pressure point remains expenditure. Spending growth continued to stay elevated, albeit moderating slightly to 34.5% YoY in May from 44.1% in April, led by higher subsidies, capital expenditure, social assistance, and material spending. Subsidies will be a key variable to watch in 2H26. With subsidised fuel prices kept unchanged, inflationary pressures should remain contained, however, the fiscal burden could rise if oil prices stay elevated or if the rupiah remains weak. We estimate that the fuel subsidy bill could widen to 0.9% of GDP in 2026, from the budgeted 0.4% of GDP, if oil prices average USD100/bbl.

Indonesia

	2026 Budget	2027 budget framework macro assumption
GDP Growth (%)	5.4	5.8 – 6.5
Inflation (%)	2.5	1.5-3.5
10yr IndoGB yield (%)	6.9	6.5 – 7.3
USDIDR	16,500	16,800 – 17,500
Indonesia Crude Price (USD/bbl)	70	70-95
Oil Lifting (thousand bbl/day)	610	602 – 615
Natural gas lifting (MBOEPF)	984	934 – 977
Revenue (% GDP)	-	11.82 – 11.4%
Expenditure (% GDP)	-	13.62 – 14.80%
Budget deficit (% GDP)	-2.68	1.80 – 2.40%

Source: President Speech, 20 May 2026.

The authorities remain committed to keeping the fiscal deficit below the 3% of GDP legal ceiling. This was also reflected in the 2027 budget framework, where President Prabowo set a narrower deficit target of 1.8-2.4% of GDP, alongside a relatively ambitious GDP growth assumption of 5.8-6.5%, inflation of 1.5-3.5%, USD/IDR at 16,800-17,500, and Indonesia Crude Price at USD70-95/bbl.

The details of the 2027 Budget will likely be forthcoming in the months ahead to better understand the authorities' estimates for expenditures, revenues and continued fiscal consolidation. However, achieving this consolidation path will depend on expenditure discipline, subsidy management and measures to broaden the tax base. In our view, fiscal policy will remain growth-supportive, but the trade-off between supporting demand and preserving fiscal credibility will become more binding into 2H26.

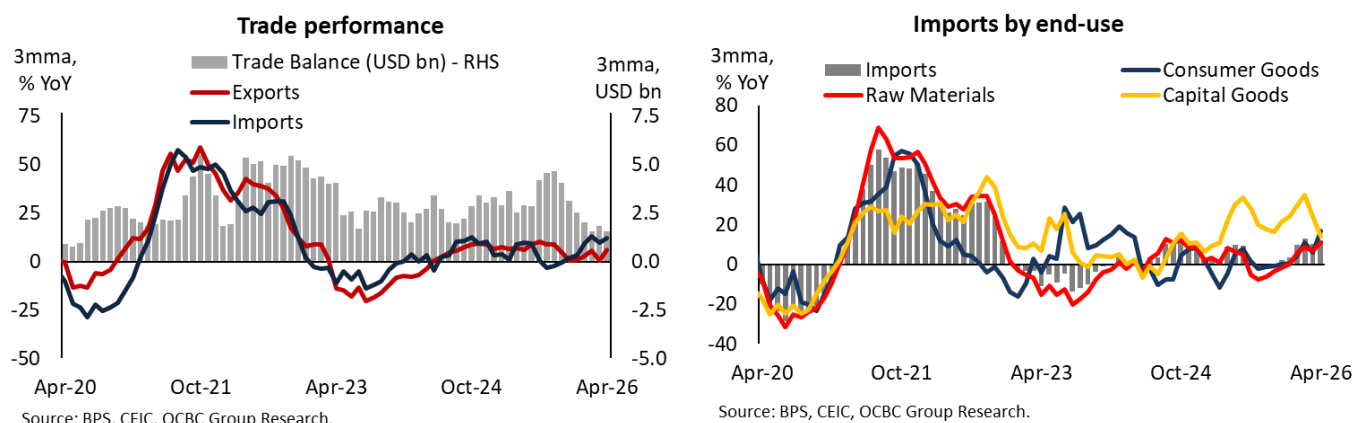
Credit rating agencies are also on standby following downgrades to the sovereign outlook from Moody's and Fitch Ratings in early 2026. We do not rule out further deteriorations in the credit ratings outlook/ratings. The main rationale for the outlook change by Fitch Ratings is to reflect "increasing policy uncertainty and erosion of Indonesia's policy mix consistency and credibility amid growing centralisation of policymaking authority. This could weaken the medium-term fiscal outlook, undermine investor sentiment, and put pressure on external buffers." For Moody's, it noted "reduced predictability and coherence in the policy making process, alongside less effective policy communication". This has "raised risks to Indonesia's policy credibility among investors, as reflected in increased equity and foreign-exchange market volatility".

Watching the external balance

The trade surplus narrowed sharply to USD0.1bn in April from USD3.3bn in March, with oil&gas imports rising 82.5%YoY (albeit from a low base). Export growth was strong at 22% YoY versus -3.1% in March while import growth was up 22.5% YoY from 1.5% in March. The current account deficit has widened to USD4.0bn, or 1.1% of GDP in 1Q26 from USD2.5bn (0.7% of GDP) in 4Q26, marking the weakest outturn since 4Q19. We believe the current account deficit will widen in 2026 to 1.6% of GDP from -0.1% of GDP. BoP financing, as a result, will continue to be watched closely.

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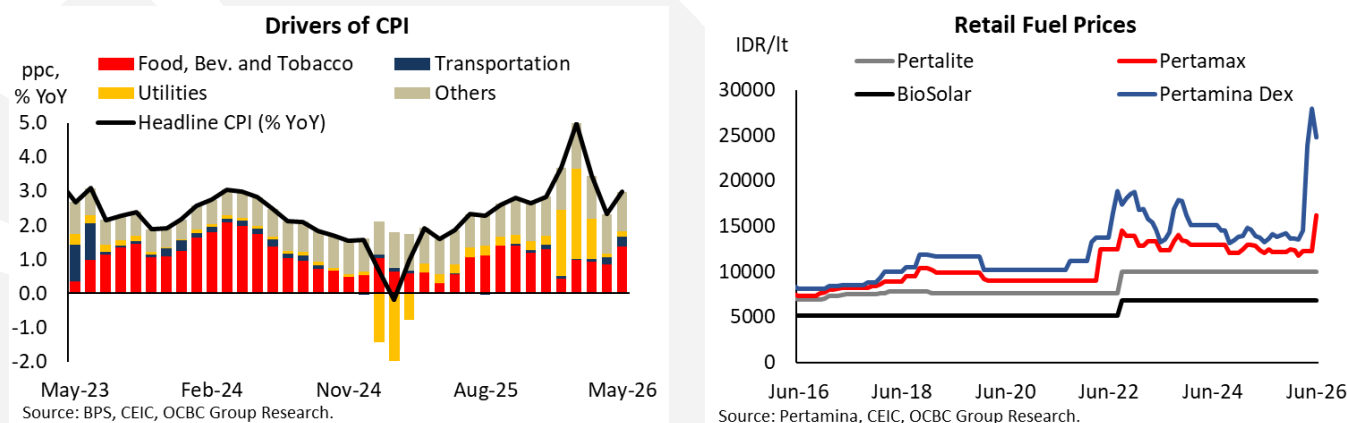
Indonesia



Yields on SRBI instruments have been pushed higher to 7.12% for the 6-month tenor, 7.33% for the 9-month tenor, and 7.59% for the 12-month tenor, in a bid to attract capital inflows. The authorities appear to view SRBI as the key instrument for attracting capital inflows and supporting the IDR. Despite net SRBI inflows of USD4.6bn from January to April 2026, depreciation pressures on the IDR have not abated. Gross FX reserves stood at USD144.9bn in May, while net FX reserves, excluding short positions, stood at ~USD120.8bn in April. Import cover eased to 5.4 months of imports in May, compared with six months in April.

Price pressures building

Simultaneously, inflationary pressures are building. Headline CPI rose to 3.1% YoY in May versus 2.4% in April, with food CPI up 4.9% from 3.1% in April. Transportation CPI was up 2.3% YoY from 1.6% despite retail fuel prices remaining unchanged, pointing to second-round effects on inflation. Core CPI was up 2.6% YoY from 2.4% in April. We maintain our 2026 inflation forecast at 3.0%, with the balance of risks skewed to the upside. The outlook is supported by the government's reiterated commitment to keeping subsidised retail fuel prices unchanged through year-end, which should limit direct pass-through from elevated global energy prices to households.



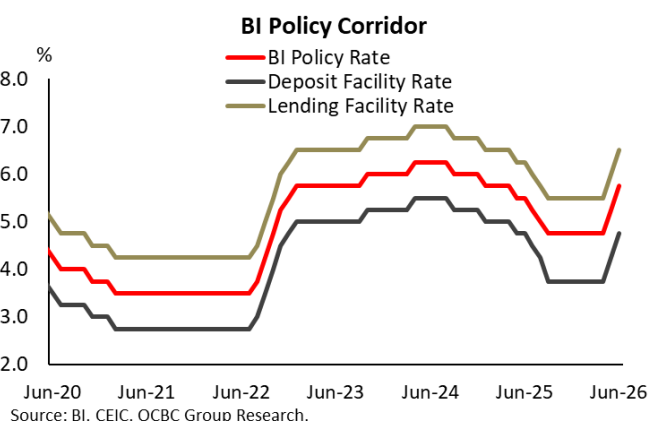
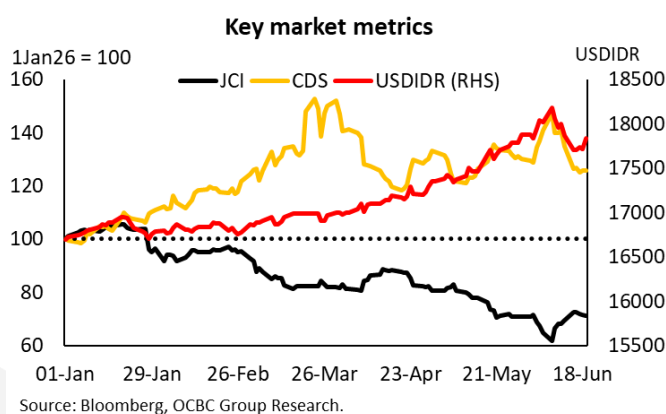
Indonesia

Bank Indonesia shifts firmly to rupiah defence

Bank Indonesia (BI) hiked its policy rate by 25bp on 18 June to 5.75%, following a 25bp intermeeting hike on 9 June and a 50bp hike at its 20 May meeting. We now expect a cumulative 75bp of rate hikes from BI through end-2026, taking the policy rate to 6.50%. This will also take the policy rate to the highest since 2015, tightening financial conditions. BI noted in its statement that the increase in policy rate is a further step to strengthen the stability of the IDR against the impact of high global volatility stemming from the war in the Middle East. It also characterised the hike as a pre-emptive measure to maintain inflation in 2026 and 2027 within the target range of $2.5 \pm 1\%$.

BI also took additional measures aimed at bolstering capital inflows. These include increasing the interest rate structure of SRBI across all 6-, 9-, and 12-month tenors, introducing a 10% reduction in the hedging swap rate for foreign investors and reopening the repo instrument auction window for 3-, 6-, 9-, and 12-month tenors for banks to ensure adequate liquidity in the money and banking markets.

To sustainably backstop the recent slide in sentiment further follow through will be required from the government and BI. The recent policy shifts (see *Indonesia: Policy shifts*, 21 May 2026) including the setting up of PT Danantara Sumberdaya Indonesia have led to heightened perceived uncertainties. Policy backstops from the government could include materially cutting back on flagship expenditures, providing longer timelines and constructive discussions on the recently announced export policies.



The policy direction has taken for the more uncertain, weighing on investor sentiment. Domestic policy direction is being exacerbated by external energy shocks. The onus is on the authorities to mitigate domestic and external risks, providing comfort to investors that are perceived to have become more sceptical.

Indonesia

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	5.0	5.0	5.1	5.0	5.0	5.1
Exports (% YoY)	1.7	6.9	7.0	4.4	7.8	7.1
Imports (% YoY)	-1.2	8.1	4.8	8.6	8.2	7.3
Current Account Balance (% of GDP)	-0.1	-0.6	-0.1	-1.6	-1.6	-1.6
Unemployment Rate (% aop)	5.3	4.9	4.9	5.0	5.0	5.0
Fiscal Balance (% of GDP)	-1.6	-2.3	-2.6	-2.9	-2.9	-2.9
Headline CPI (% YoY)	3.7	2.3	1.9	3.0	2.5	2.6
BI Rate (% eop)	6.00	6.00	4.75	6.50	6.00	5.50

Source: OCBC Group Research.

Macao

Macao: Late-cycle normalisation

Cindy Keung

Hong Kong and Macao Economist

- The economy is entering a late-cycle normalisation phase characterised by uneven, two-speed growth dynamics. On one hand, the gaming-entertainment hybrid model continued to be a formula of success, bringing in a record number of visitors and tourism spending. On the other hand, domestic demand continued to lag due to structural headwinds. Services exports are expected to remain the primary growth driver, although growth in visitor arrivals and gross gaming revenue (GGR) is likely to moderate. 2026 real GDP growth is tipped at 4.2%, reflecting a balance between continued external strength and domestic softness.
- The labour market strengthened entering 2026, with unemployment rate at a record low and median employment income of residents reaching a new high. We tip the full-year unemployment rate at 1.7% for 2026, but caution that growing disparity in labour market will constrain consumption growth. Separately, inflationary pressure remained contained, despite climbing to a two-year high. We expect to see limited pass-through of higher energy cost to various consumer items and pitch the full-year inflation at 1.1%.
- We hold on to the view that the ongoing property market downtrend is likely a structural, multi-year correction, and tip the decline of housing prices at 5.5% YoY for 2026. While transaction volumes picked up, this appeared to reflect the release of pent-up demand rather than a sustained improvement in market conditions.

Late-cycle normalisation

The economy is entering a late-cycle normalisation phase characterised by uneven, two-speed growth dynamics. On one hand, the gaming-entertainment hybrid model continued to be a formula of success, bringing in a record number of visitors and tourism spending so far this year, and defying the impact of energy supply shock. On the other hand, domestic demand continued to lag due to structural headwinds. Subdued credit expansion, cautious consumer behaviour, and a prolonged property market downturn pointed to fragile domestic fundamentals. This underscored Macau's continued reliance on external demand, with limited spillover effects into the broader domestic economy.

Looking ahead, services exports are expected to remain the primary growth driver, although growth in visitor arrivals and gross gaming revenue (GGR) is likely to moderate. Riding on the sustained strength in external demand, 2026 real GDP growth is tipped at 4.2% YoY, reflecting a balance between continued external strength and domestic softness.

Macao

Chart 1: Solid pace of growth

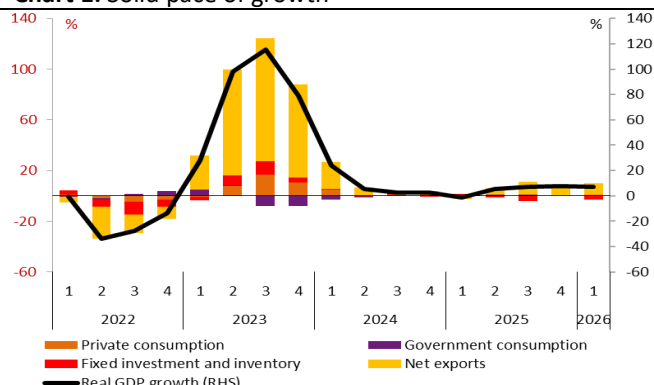
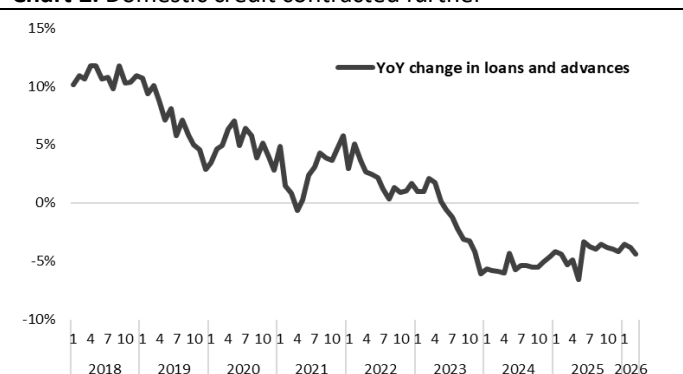


Chart 2: Domestic credit contracted further



Sources: DSEC, DICJ, OCBC Group Research.

Two-speed growth mode

Real GDP grew by 7.1% in 1Q26 from the low base last year (**Chart 1**), bringing the total economic output back to 90.3% of its 2019 level. Breaking down, total exports of services and private consumption expenditure grew at faster paces during the quarter, while government consumption expenditure and gross fixed capital formation recorded notable contraction.

Total exports of services increased by 12.8% YoY in the first quarter, with other tourism services and gaming services expanding by 17.5% YoY and 13.0% YoY respectively. Private consumption expenditure rose by 3.4% YoY, though not from a very strong base. Breaking down, growth in household consumption in markets abroad (+13.0% YoY) continued to outpace that in domestic market (+1.8% YoY). On the other hand, government consumption expenditure and gross fixed capital formation contracted by 2.8% YoY and 21.0% YoY respectively. The weakness in investment was broad-based, with both private and public investment in construction and equipment contracting (-24.3% YoY and -13.2% YoY respectively).

The stronger-than-expected momentum in tourism and gaming sectors so far this year, has prompted an upward revision of our full-year 2026 growth forecast to 4.2% from the previous estimate of 2.8%.

Lagged recovery in domestic demand

While the overall output edged closer to 2019 levels, the recovery of domestic consumption and investment remained lagging. The ongoing downturn in the property market continued to exert negative wealth effects on households, while weak credit demand reflected subdued business investment appetite. Consumers stayed cautious in consumption decision, due to fragile income expectations. The increase in the total retail sales (23.0% YoY) in 1Q26 was largely attributed to the increase in tourism spending. Separately, domestic credit to private sector contracted further, albeit at a moderated pace. Total loans and advances fell by an average 3.9% YoY in 1Q (-4.3% YoY in 2025) (**Chart 2**). By sector, credit extended to the wholesales/ retail and personal loans contracted by 17.4% YoY and 6.1% YoY respectively. The loan-to-deposit ratio continued to fall, indicating still weak credit appetite.

Macao

Visitor arrivals surpassed pre-Covid levels

The booming tourism sectors continued to witness strong visitation and high hotel occupancy, after having invested heavily in enriching the non-gaming offerings (i.e. mega-events, pop star concerts etc). Visitor arrivals surged by 13.1% YoY in the first four months this year to 14.7 million (**Chart 3**), surpassing the pre-Covid levels, and on track to meet the official forecast at 42 million this year. Moreover, per-capita spending (excluding gaming expenses) of tourists visiting Macao rebounded mildly to MOP2,179 in 1Q26 (**Chart 4**), despite the challenges of weak consumption sentiment in Mainland China (which is the single largest source of tourists). This highlighted Macao's growing competitiveness as "leisure-and-gaming" tourism hub. Correspondingly, tourists' non-gaming spending set a new quarterly record at MOP 24,430 million in the first quarter this year (**Chart 5**). Based on the ongoing trend, we revised the full-year arrivals growth forecast to 9-12% YoY, from earlier estimate of 6-9% YoY.

Chart 3: Visitor arrivals exceeded pre-Covid levels

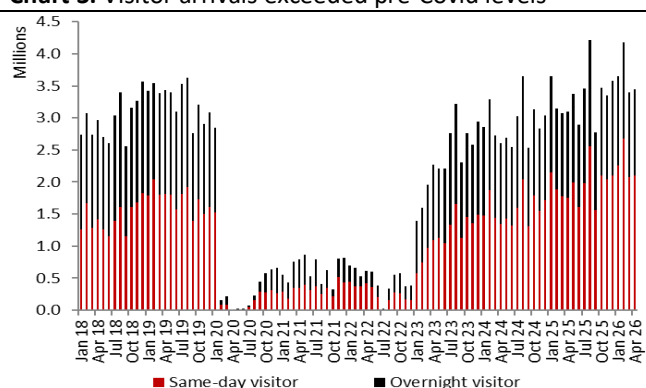


Chart 4*: Per-capita tourism spending rebounding

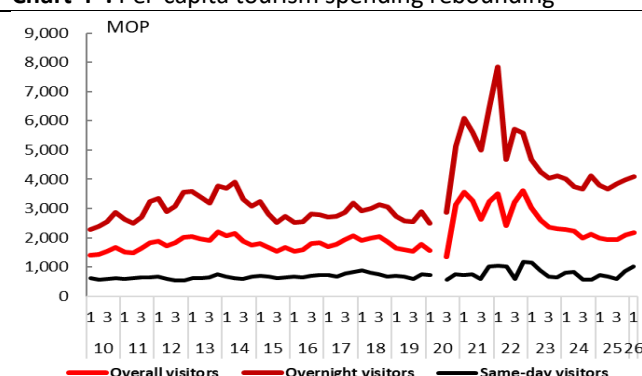


Chart 5*: Record high non-gaming tourists spending

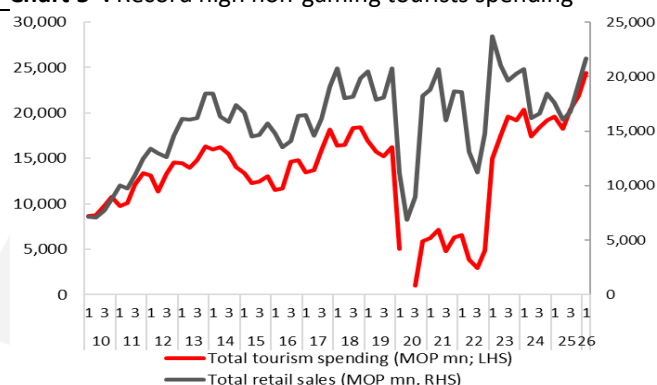
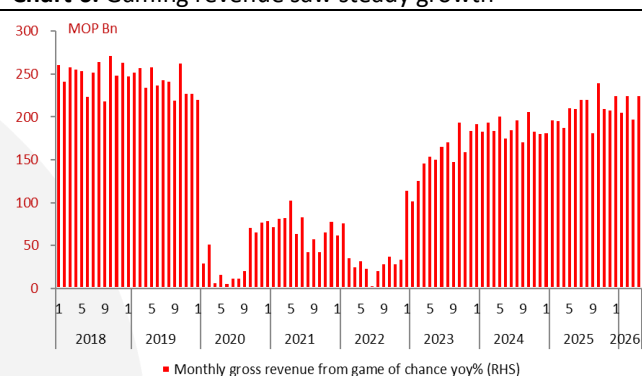


Chart 6: Gaming revenue saw steady growth



Source: DSEC, Macao Tourism Office, OCBC.

* Excluding gaming.

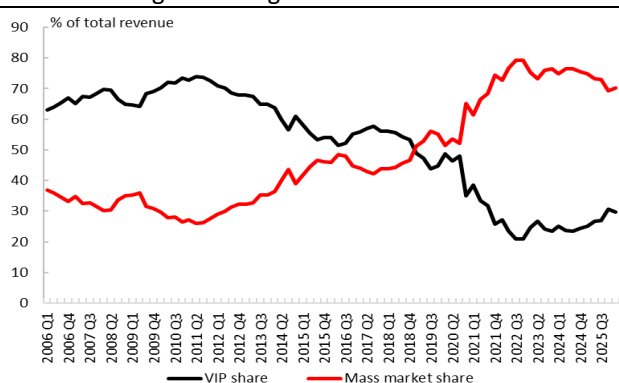
Still solid momentum in gaming sector

Reflecting the solid momentum in the gaming sector, GGR (averaging at MOP21.7bn per month) grew by 10.9% YoY in the first five months of the year (**Chart 6**), led by the sustained growth of the VIP segment which rose by a whopping 35.4% YoY in 1Q26. As a result, the share of VIP segment climbed to 29.7%, though still within recent ranges (**Chart 7**). While

Macao

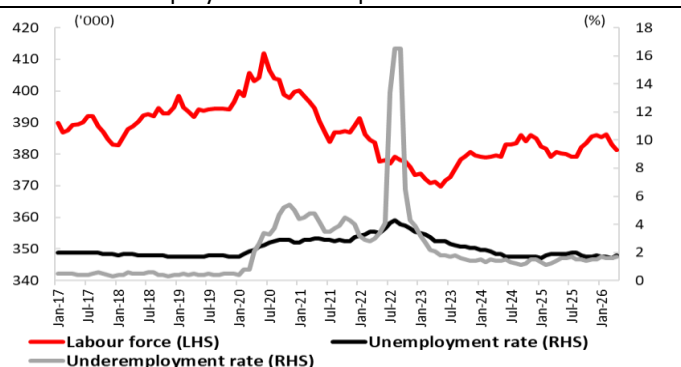
overall traffic and gaming demand of VIP segment did not return to 2019 levels, their gaps are closing. Despite the strong performance so far this year, growth in GGR will likely slow in coming months, due to the higher base, external demand uncertainties, and seasonal headwinds from the World Cup, which may divert casino foot traffic. We tip the year-on-year growth of GGR at 8% for 2026, with policy and regulatory developments in Mainland China remaining a key source of uncertainty for the sector.

Chart 7: VIP segment led gains



Sources: DSEC, DICJ, OCBC Group Research.

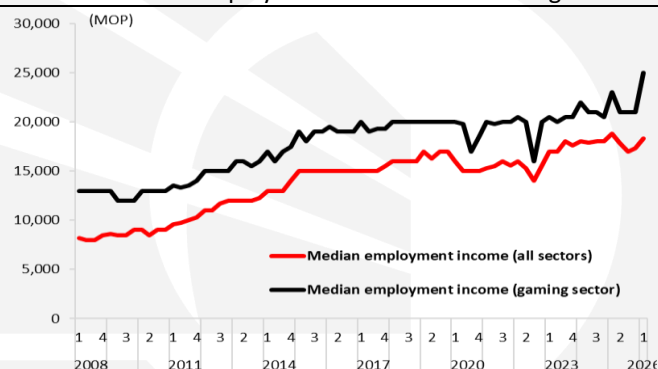
Chart 8: Unemployment rate at pre-Covid level



Labour market strengthened somewhat

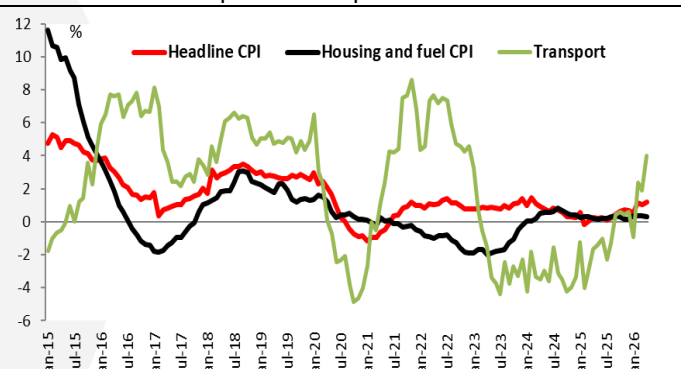
The labour market strengthened entering 2026, with unemployment rate at pre-Covid level and median employment income of residents reaching new high. The overall unemployment rate and local resident unemployment rate were 1.8% and 2.3% respectively (**Chart 8**) in the three-month ending April 2026. The median employment income of total labour force and residents in the labour force rose 5.8% QoQ and 10% QoQ to MOP18,300/month and MOP22,000/month respectively in 1Q26 (**Chart 9**). Nine out of 12 surveyed sectors reported increases in median incomes, while two others reported declines. Within the total, the financial, health and social welfare, and gaming sectors reported the sharpest increases in income. While the labour market was generally tight, the strength varied across sectors. We tip the full-year unemployment rate at 1.7% for 2026, and caution that growing disparity in labour market will constrain consumption growth.

Chart 9: Median employment income at record high



Sources: DSEC, OCBC Group Research.

Chart 10: Notable spike in transport inflation



Macao

Mild acceleration in cost-push inflation

Inflationary pressure remained contained, despite climbing to two-year high at 1.2% in April 2026 (**Chart 10**). Costs of “miscellaneous goods and services” (+3.6% YoY) and “transport” (+4.0% YoY) have seen notable spikes during the month, attributable mostly to supply-side factors. To relieve the pressure on cost of living, Macau authorities had already rolled out two-month subsidy programmes for diesel, liquefied petroleum gas and petrol, offering discounts of MOP3.3/litre on diesel, MOP2.55/kg on LPG and MOP1.5/litre on petrol.

On the other hand, inflationary pressures for other major components remained modest, in the absence of a sustained rally in rent or a meaningful recovery in domestic demand, hence limiting the upside of price pressures. In the first four months this year, the average composite CPI increased by 1.0% YoY, above the average of 0.3% in 2025. Looking ahead, we expect to see limited pass-through of higher energy costs to various consumer items and pitch the full-year inflation forecast at 1.1%.

The structural, multi-year correction in the housing market

The property market continued to undergo a deep and prolonged structural adjustment, despite the rollout of targeted policy supports late last year (including a stamp duty waiver for properties valued at up to MOP6 million and a relaxation of mortgage loan-to-value limits to as high as 80%). In the first four months, the official property price index declined cumulatively by 2.7% YoY (**Chart 11**). Compared to its peak in 2018, the price index was down by more than 31%. On the other hand, average rent showed tentative signs of peaking, as growth of non-resident workers stagnated (**Chart 12**).

Housing transactions staged a meaningful rebound, jumping by 119% QoQ to a monthly average of 538 in 1Q. While transaction volumes picked up, this appeared to reflect the release of pent-up demand rather than a sustained improvement in market conditions. Developers are responding by scaling back new supply and adjusting pricing strategies to support sales.

We hold on to the view that the ongoing property market downtrend is likely a structural, multi-year correction, and expect housing prices to decline by 5.5% YoY for 2026. Limited housing demand in the medium term will pose challenges to the absorption of both public and private residential properties.

Chart 11: Ongoing correction in the housing prices

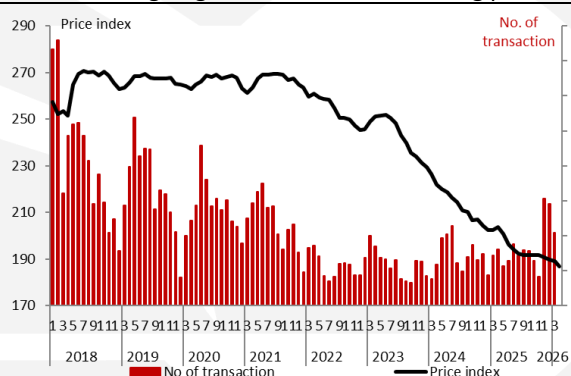
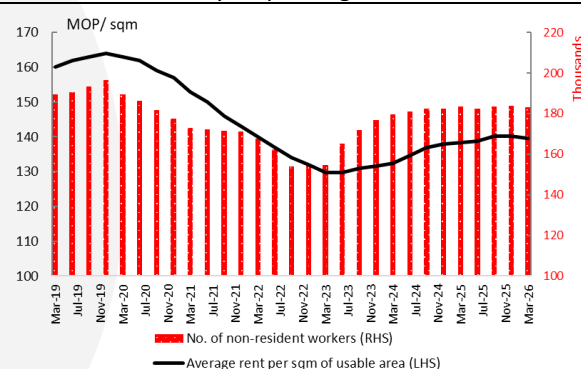


Chart 12: Rent may be peaking



Sources: DSEC, AMCM, OCBC Group Research.

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Malaysia

Malaysia: Resilient but not immune

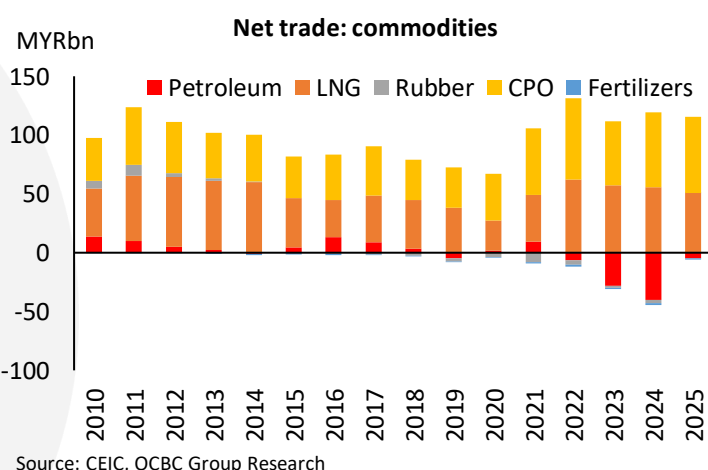
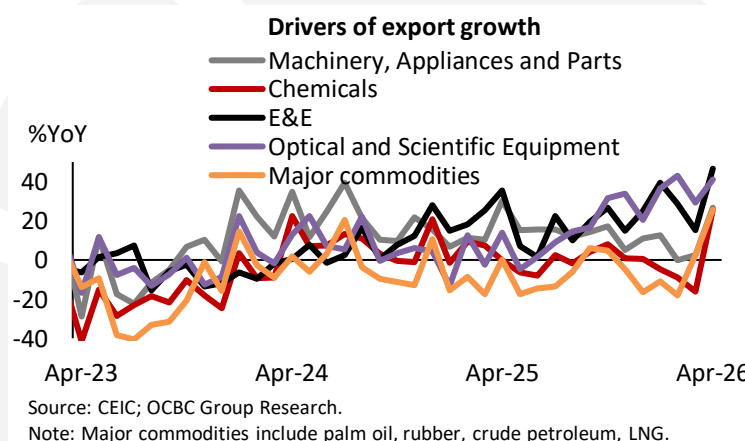
- Our 2026 GDP growth forecast remains 4.4%. The balance of risks remains skewed to the downside depending on geopolitical developments.
- The vulnerabilities from higher global energy prices are on the fiscal side – we expect the fiscal deficit to be wider than budgeted for 2026.
- While our base case remains for Bank Negara Malaysia (BNM) to keep in place the insurance cut from July 2025, we see higher inflation pass through during this energy price episode. This leaves room for BNM to normalise its policy rate to 3.00% in 2H26 or 2027.

Lavanya Venkateswaran
Senior ASEAN Economist

In pole position

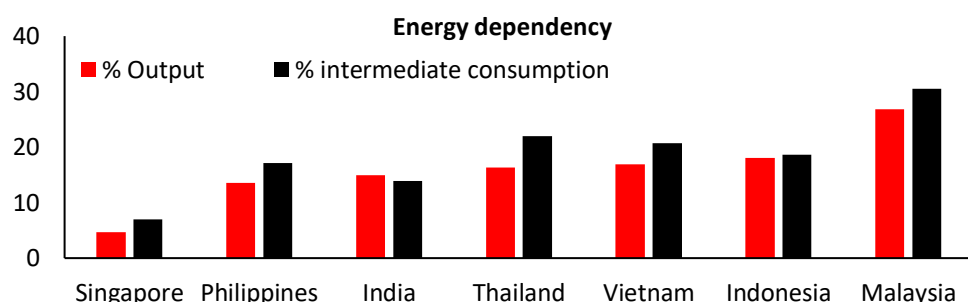
The economy has handled the energy shock relatively better than most regional peers, powering through on past reforms to boost the manufacturing sector, attract FDI investments and remain steadfast with fiscal consolidation. Moreover, export growth remains well supported by the electronics and electrical appliances (E&E) sector – which registered growth of 46% YoY in April. The outlook for these exports remains strong, buoyed by the global semiconductor upcycle.

The authorities set up the Crisis Management Task Force (PPPK) to navigate the situation in the Middle East. The various measures undertaken include raising the monthly cash assistance for eligible individual from MYR200 to MYR300 for BudiDiesel, reducing the monthly quota for Budi95 from 300 litres to 200 litres and helping the agriculture sector along with MSMEs (micro, small and medium enterprises). BNM also introduced a MYR5bn SME Stabilisation Relief Facility and targeted financial assistance to help businesses navigate disruptions and cash-flow pressures caused by the Middle East conflict.



Malaysia

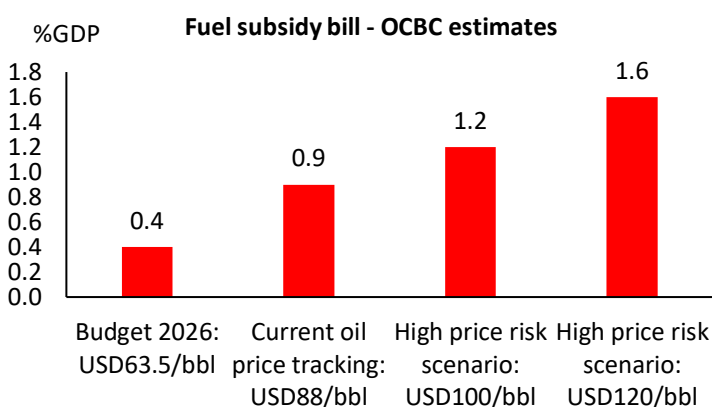
We have identified Malaysia as one of the more energy dependent economies in the region and flag the risk of a slowdown in 2H26 should the energy situation morph from a price to a volume shock. Our analysis shows that over ~27% of the economy is energy dependent across the agriculture, manufacturing and services sectors. Indeed, anecdotal evidence shows that input prices for petroleum, LNG and petrochemicals are rising with supplies becoming tighter.



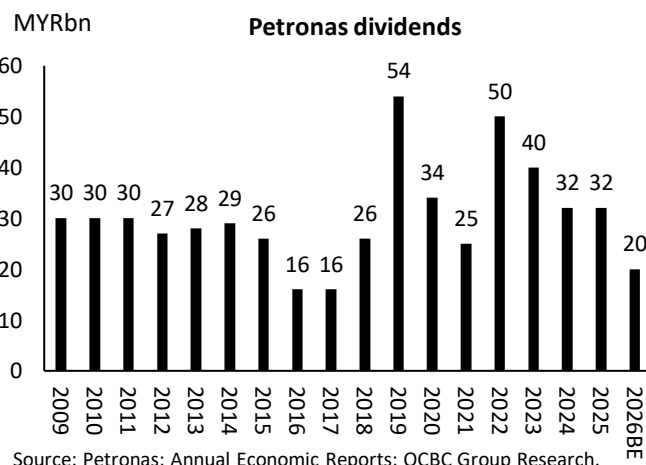
Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Vulnerabilities are on the fiscal side

The key vulnerability for the economy is on the fiscal side considering the presence of near-blanket RON95 subsidies. We estimate ~80% of the population is still paying only MYR1.99/litre, which is the lowest in the ASEAN-6 region. The subsidy bill, as a result, has already risen to MYR7bn (0.3% of GDP) in April from MYR700mn (0.003%) in March. We estimate that if global oil prices average USD100/barrel for 2026, we estimate that the fuel subsidy bill will rise to 1.2% of GDP.



Source: Bloomberg; CEIC; OCBC Group Research.



Source: Petronas; Annual Economic Reports; OCBC Group Research.

There is some potential offset from higher Petronas dividends, which were expected to be reduced to MYR20bn in 2026 from MYR32bn in 2025. However, we expect that the dividend transfer will be higher than budgeted in order to help plug the rising subsidy bill. For Petronas itself, it is less straightforward whether higher global oil prices improve or worsen its cash position and balance sheet. Notwithstanding, we do expect some additional revenue support through higher dividends from GLCs. Even with this, we estimate that the fiscal

Malaysia

deficit target will be missed, albeit marginally, to 3.6% of GDP from 3.5% of GDP. Our house view is that the financing of this fiscal deficit remains comfortable. The risk, however, is for a wider deficit depending on the state of global geopolitics and the continued closure of the Straits of Hormuz.

Election noises increasing

The room to raise retail fuel prices for even certain sections of the population will be closely tied to the political calendar. Domestic noises have increased around the timing of the general elections. To be sure, general elections need to be called before February 2028 at least but can be advanced to as early as late 2026 or early 2027. There are three crucial state elections lined up in the coming 12-18 months including Sarawak, Melaka and Johor.

Johor state assembly was dissolved on 1 June. The next election will need to be held within 60 days, at the discretion of the Election Commission (EC) of Malaysia. Johor's state election is a strategic contest with implications for national politics, economic policy continuity, and investor confidence. While political competition is expected to intensify, policy continuity—particularly in growth-supporting initiatives—remains the central expectation. At a broader level, the election serves as an early indicator of Malaysia's political trajectory as the country approaches the next general election amid rising economic and geopolitical uncertainties (see *Malaysia: Politics in the limelight*, 2 June 2026).

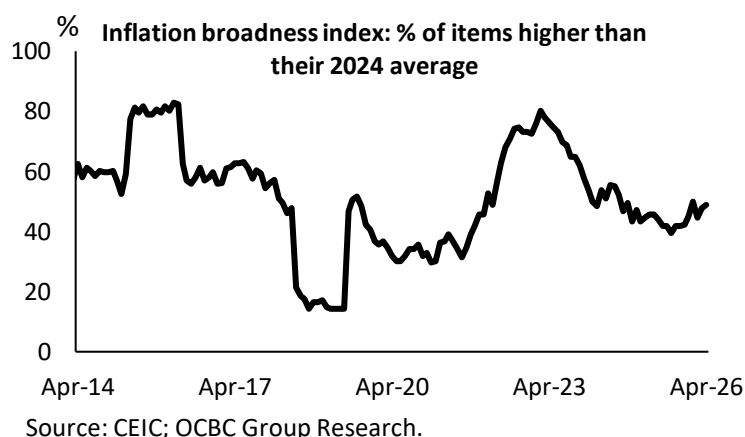
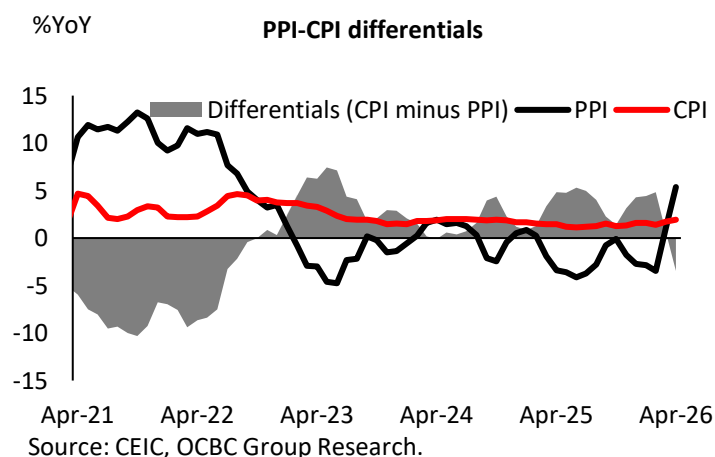
Upcoming state and national elections			
State/National	Date of previous state /national election	Last date for state assembly/parliament dissolution	60 days after last date of dissolution
Johor	12-Mar-22	1-June-26	31-Jul-26
Melaka	20-Nov-21	27-Dec-26	25-Feb-27
Sarawak	18-Dec-21	14-Feb-27	15-Apr-27
Malaysia general elections	19-Nov-22	19-Dec-27	17-Feb-28

Source: Election Commission of Malaysia; OCBC Group Research.

Inflation pass-through greater this time

The pass through from building price pressures, despite the presence of retail fuel subsidies, will be higher this round compared to previous rounds of elevated energy prices. The authorities have undertaken numerous subsidy rationalisation measures in recent years to allow for greater price transparency and pass through including for chicken eggs, electricity and water. Headline CPI rose to 1.9% YoY in April from 1.7% in March, while core inflation remained at the 2% handle. The inflation broadness index, which measures the 1% of items which experience YoY CPI above their 2024 average, is rising to ~49% of the CPI basket. The producer price index also jumped 5.4% YoY in April from 1.1% in March following 12 months of contraction. That said, there are limited signs to suggest that inflation expectations can become unanchored in the near-term. We will continue to assess the risks of inflation becoming pervasive and persistence in the coming months.

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BNM normalisation cannot be ruled out

While our base case is still for BNM to hold true to the 25bp rate cut it delivered in July 2025 citing increased global uncertainties, we do not rule out the removal of this additional accommodation. This would be classified more of a normalisation rather than an outright shift towards a tighter policy stance. We expect BNM to remain nimble in terms of assessing incoming data and the potential timing of any rate changes. As such, we see room for BNM to normalise the policy rate back to 3.00% either in 2H26 or 2027.

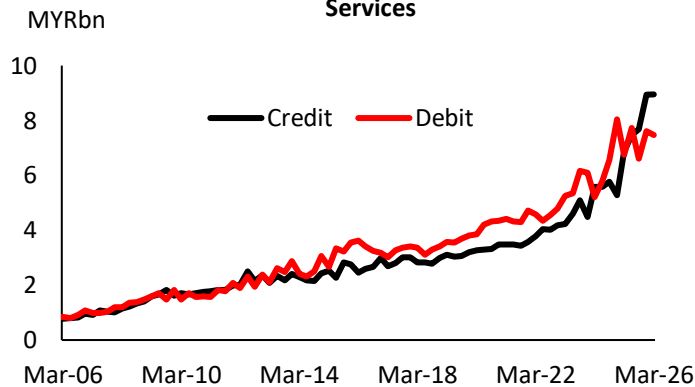
Financial conditions have so far remained accommodative. The local currency, MYR, was amongst the more resilient regional currencies year-to-date buoyed by domestic growth prospects. Notwithstanding political noises, our house view remains for the continued resilience amid a softer USD backdrop into 2H26.

Closer look at the external balances

The external balance, which is a stress point for regional peers such as India and Indonesia, is more comfortable for Malaysia. We expect the current account to remain in a surplus of 1.1% of GDP. The export of services of information, technology has also risen in recent quarters supported by the build out of data centres. We are, however, closely watching the flows picture. While net portfolio inflows of 1.9% of GDP were recorded in 1Q26 along with stabilising new FDI inflows of 3.0% of GDP, the errors and omissions subtraction recorded was MYR26.2bn, one of the biggest on record suggesting additional monitoring of the balance of payments remains warranted.

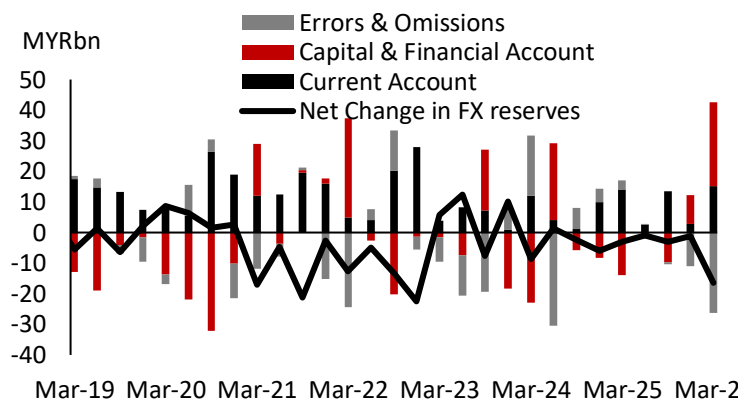
Malaysia

Current account balance: Telecom, Comp & Info Services



Source: CEIC; OCBC Group Research.

Balance of Payments



Source: CEIC; OCBC Group Research.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	3.6	5.2	5.2	4.4	4.2	4.3
Goods exports (% YoY)	-14.5	7.9	3.8	1.2	3.9	5.6
Goods imports (% YoY)	-11.7	11.0	5.0	3.5	6.0	7.7
Current Account Balance (% of GDP)	1.1	1.4	1.6	1.4	1.6	1.9
Unemployment Rate (% aop)	3.4	3.2	3.0	3.0	3.0	3.0
Fiscal Balance (% of GDP)	-5.0	-4.1	-3.7	-3.6	-3.4	-3.3
Headline CPI (% YoY)	2.5	1.8	1.4	2.0	2.1	2.2
OPR (% eop)	3.00	3.00	2.75	2.75	3.00	3.00

Source: OCBC Group Research.

Philippines

Philippines: Heightened vulnerabilities

- The economy is most susceptible to stagflation risks as indicated by the early strains in the 1Q26 GDP growth outturn. As a result, we have sharply revised our GDP growth forecast downward to 3.8% YoY in 2026, amid a significantly higher inflationary environment. We expect headline CPI to average 5.8% YoY in 2026, implying that inflation will remain elevated and stay above the 6% handle for the remainder of the year. This reflects an oil-driven cost shock that will be pass through to consumer prices.
- We expect Bangko Sentral ng Pilipinas (BSP) to step up against rising price pressures. We expect a cumulative 75bp of rate hikes over the rest of 2026, bringing the policy rate to 5.50% by year-end.
- The political noise remains high as the Duterte and Marcos feud continues to fuel headlines. These risk distracting from growth and price mitigation priorities at a time of heightened domestic and external vulnerabilities.

Lavanya Venkateswaran
Senior ASEAN Economist

Jonathan Ng
ASEAN Economist

Heightened vulnerabilities

The economy is most susceptible to stagflation risks from a combination of limited domestic energy sources, heightened political tensions, and corruption scandal fallouts domestically, overlaid with uncertainty on the timeline of the re-opening of Straits of Hormuz. The authorities' response has so far been focused on cushioning households, protecting fuel supply and preventing food inflation from worsening. Regarding energy supply security, the Department of Energy has activated a PHP20bn emergency fund to bolster fuel availability³. Complementing this, Malacañang has directed all government agencies to implement strict energy conservation measures, including reduced official travel, expanded use of virtual meetings, and a four-day onsite work arrangement⁴. On the fiscal front, the House of Representatives has approved a bill to authorise the President to suspend or reduce the excise taxes on petroleum products⁵. President Ferdinand Marcos Jr., under R.A. 12316, has removed the excise tax levied on LPG and kerosene for three months to provide direct relief to households amid the ongoing crisis⁶.

Food security measures have also moved in tandem. Most notably, the Philippines and Vietnam have agreed to establish a rice trade mechanism aimed at ensuring a stable supply and price stability through April 2027. Under the agreement, the Philippines will receive uninterrupted shipments of 1.5mn metric tons of Dai Thom 8 rice from Vietnam at a fixed price of USD450/mt⁷. Taken together, these measures can soften the immediate blow to

³ Gov't sets P20-B emergency fund to procure up to 2M barrels of fuel. Philippine News Agency, 26 March 2026.

⁴ Palace to gov't agencies: Strictly adopt energy conservation protocols. Philippine News Agency, 6 March 2026.

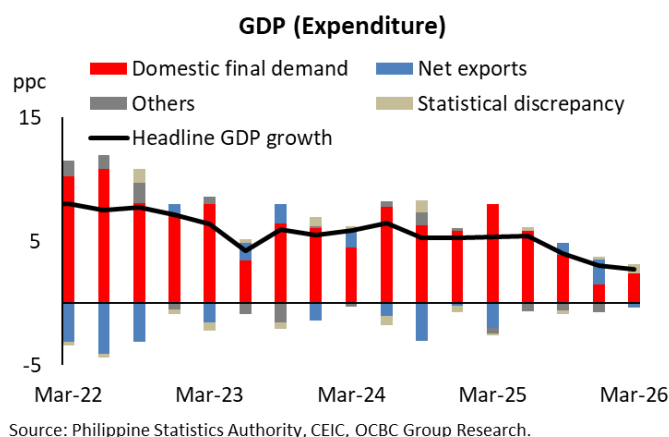
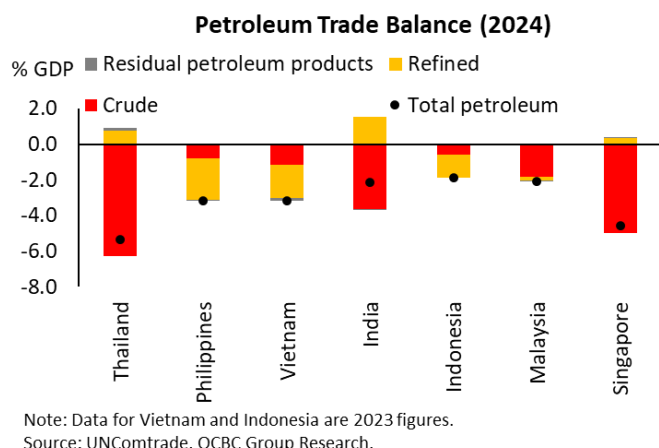
⁵ House equips PBBM with stronger tools vs. fuel price shocks. Philippine News Agency, 17 March 2026.

⁶ Marcos lifts excise tax on LPG, kerosene. Philippine News Agency, 13 April 2026.

⁷ PH, Vietnam rice deal ensures stable supply until April 2027. Philippine News Agency, 8 May 2026.

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consumers and businesses, but they cannot fully offset the underlying terms-of-trade shock from sustained higher energy and food prices.

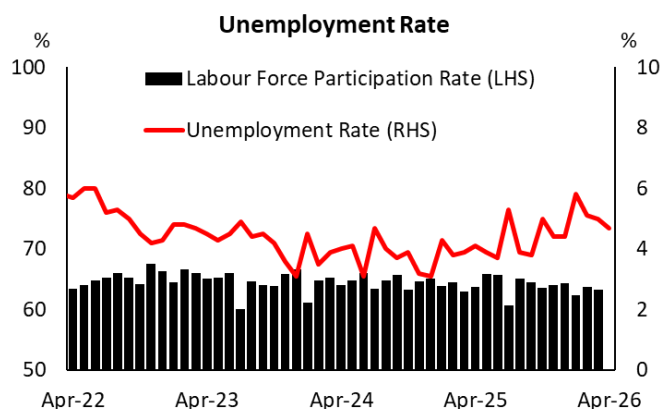


The early strain from this compound shock was already visible in the 1Q26 GDP growth outturn. GDP growth slowed further to 2.8% YoY in 1Q26 from 3.0% in 4Q25, despite a higher contribution from domestic final demand at 2.4 percentage points (pp) in 1Q26 compared to 1.5pp in the previous quarter. While there were encouraging signs of a pickup in government spending in 1Q26, household consumption continued to slow. The drag on household consumption reflected the erosion of purchasing power due to rising food and energy prices. Meanwhile, the contraction in investment spending narrowed, reflecting a more cautious rollout of infrastructure disbursements amid increased scrutiny of public fund usage. In contrast, the contribution of net exports shaved off 0.2pp from headline GDP growth after adding 2.0pp in 4Q25.

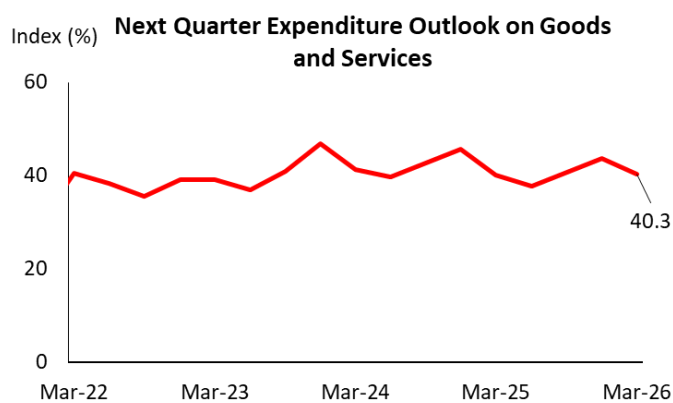
Growth to slow sharply in coming quarters

We downwardly revise our GDP growth forecast to 3.8% YoY in 2026 from 4.8%, previously. This implies slower growth compared to 4.4% in 2025. We do, however, forecast better GDP growth momentum of 4.1% YoY in 2Q-4Q26, compared to 2.8% in 1Q26. Household consumption spending is, however, projected to remain soft, growing at 3.3% YoY in 2Q-4Q26, compared to 3.0% in 1Q26. Household consumption is likely to stay subdued due to several persistent headwinds, including a cooling labour market — the unemployment rate rose to 5.2% in Jan-Apr 2026, up from 4.0% a year earlier. Additionally, elevated inflation continues to erode real household incomes, limiting purchasing power and constraining discretionary spending. This is also reflected in subdued consumer confidence.

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Source: Philippine Statistics Authority, CEIC, OCBC Group Research.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC Group Research.

Onus on the government

Government spending should remain an important driver of growth in 2H26, partially offsetting the anticipated softness in household consumption. We expect government spending to accelerate by 7.3% YoY in 2Q-4Q26, up from 4.8% in 1Q26. Indeed, the authorities have signalled their intent to regain growth momentum by accelerating expenditure⁸, with social services being a key channel of this fiscal support composition. The Department of Social Welfare and Development (DSWD) is set to implement stronger welfare initiatives and new programs aimed at supporting vulnerable families and improving overall social services. The department's budget has been raised by 22.5% YoY to PHP264.5bn this year, to bolster social welfare, development, and disaster response efforts⁹.

That said, the fiscal support will be targeted rather than broad-based to maintain credibility of fiscal stance. This is well-suited to mitigate the current supply shock without compromising medium-term fiscal sustainability. The Development Budget Coordination Committee (DBCC) maintained the medium-term fiscal targets for FY26-30 on 9 December 2025 meeting, with the fiscal deficit projected to narrow further to 3.1% of GDP in 2030, from 5.6% in 2025.

We expect some adjustments to these numbers to reflect the realities of the Middle East conflict and its impact to the domestic economy. Indeed, Malacañang confirmed this. Citing Budget Secretary Kim Robert C. de Leon, Palace Press Officer Clarissa A. Castro revealed that a meeting between DBCC and President Ferdinand Marcos Jr. resulted in an adjustment in targets¹⁰.

⁸ Philippines downplays stagflation risk, vows to boost spending. The Business Times, 8 May 2026.

⁹ DSWD unveils stronger social welfare initiatives under higher 2026 nat'l budget. Presidential Communications Office, 12 January 2026.

¹⁰ DBCC adjusts fiscal targets, Palace says. BusinessWorld, 1 June 2026.

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PHP bn	Actual	Projections				
	FY25	FY26	FY27	FY28	FY29	FY30
Revenues (revised)	4453.4	4823.7	5122.1	5568.3	6075.2	6633.5
% of GDP	15.9	15.8	15.6	15.7	15.8	16.0
Revenues (previous)		4983.4	5366.4	5914.8		
% of GDP		16.2	16.0	16.3		
Disbursements (revised)	6030.3	6434.8	6711.5	7108.9	7510.8	7939.3
% of GDP	21.5	21.1	20.5	20.0	19.6	19.1
Disbursements (previous)		6630.0	6970.2	7466.4		
% of GDP		21.5	20.8	20.6		
Deficit (revised)	-1577	-1,611.1	-1,589.4	-1,540.6	-1,435.5	-1,305.8
% of GDP	-5.6	-5.3	-4.8	-4.3	-3.7	-3.1
Deficit (previously)		-1646.6	-1603.7	-1551.6		
% of GDP		-5.3	-4.8	-4.3		

Note: As of February 2026.

Source: Development Budget Coordination Committee, OCBC Group Research.

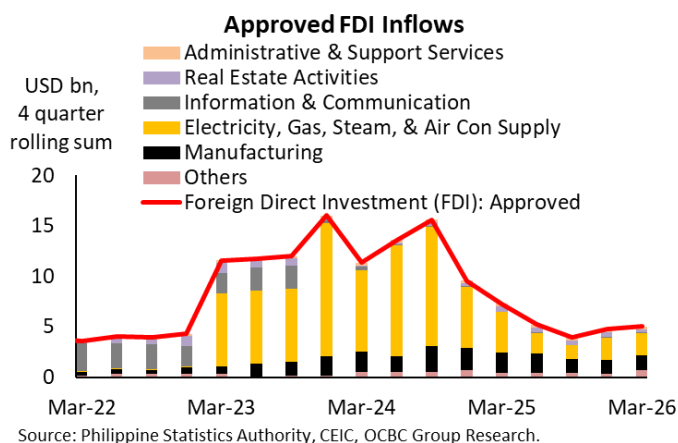
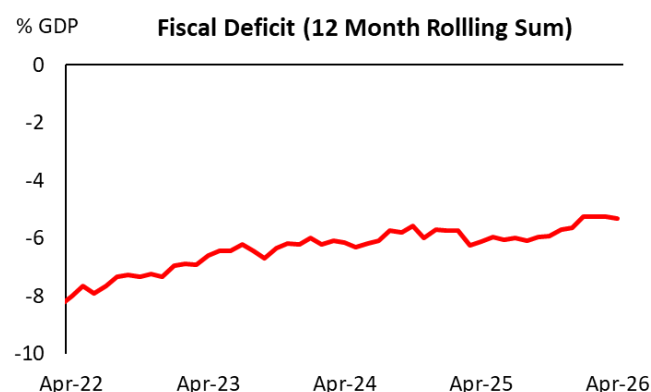
The fiscal developments for the first four months of 2026 are largely in line with FY26 outlook. On a 12-month rolling basis, the deficit has narrowed to 5.3% of GDP from 5.6% in 2025. Revenue growth rose by 10.0% YoY in Jan-Apr 2026 from 0.8% in 2025. The acceleration was mainly driven by sharp rebound in non-tax revenues while tax revenue slowed to 3.5% in Jan-Apr 2026. Meanwhile, expenditure growth was more moderate, rising by 5.1% YoY in Jan-Apr 2026 owing to lower capex. We expect there will be continued normalisation of government consumption expenditures, with the priority given to capex.

Investment spending to stabilise

We expect investment spending to average 3.2% YoY in 2Q-4Q26, compared to -2.7% in 1Q26. The main challenge lies in the pace of recovery following the normalisation of public disbursement. According to the Department of Budget and Management, “the implementation of various capital outlay projects is seen to pick up this second quarter following the release of allotments in the earlier months, particularly in March, thereby enabling line agencies to conduct bidding activities and obligate funds. Infrastructure departments are, likewise, expected to take advantage of the summer season to expedite construction activities. This will hopefully build up spending momentum and help the recovery of infrastructure spending towards the second half of the year.”¹¹

¹¹ National Government Disbursement Performance (March 2026). Department of Budget and Management, 30 April 2026.

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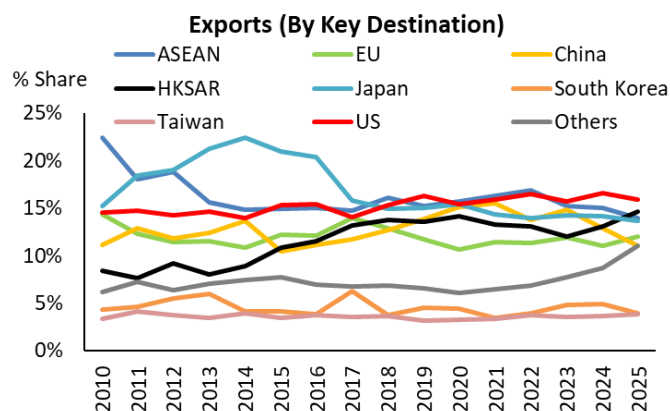


That said, subdued approved FDI inflows suggest that a big turnaround in investment spending remains elusive. On a 4-quarter rolling basis, approved FDI declined by 30.7% YoY to USD5.0bn in 1Q26, up slightly from USD4.8bn in 4Q25. This marks six consecutive quarters of double-digit YoY contraction. Uncertainties in the geopolitical environment, higher input costs, and tightening monetary policy will also dampen risk appetite, further constraining the growth of business loans and investments. Several governance and fiscal reforms are in the pipeline, including the Right to Information Act, the Independent People's Commission Act, and the Progressive Budgeting for Better and Modernized Governance Act. These new priorities seek to improve public-sector management by strengthening public governance and improving perception. As a result, the recovery in investment spending is expected to be gradual rather than abrupt, likely materialising once the investment atmosphere improves.

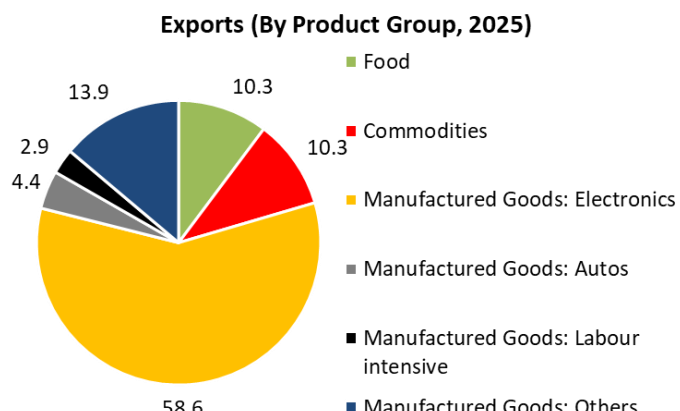
Divergent trends in goods and services exports

The external demand picture is mixed, with a divergence in the growth of goods and services exports. Growth in goods exports slowed to 13.3% YoY in 1Q26, down from 14.9% in 2025. This slowdown followed a period of frontloading activities to the US ahead of anticipated tariff hikes. Since then, the tariff backdrop has shifted materially following a US Supreme Court ruling against the US administration's tariff policy under IEEPA, replacing it with a 10% baseline rate under Section 122. Given the uncertainty that the Trump administration may seek to reimpose higher tariffs under alternative statutes, the 10% baseline rate should be viewed with caution as a temporary floor rather than a settled equilibrium.

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Source: Philippine Statistics Authority, CEIC, OCBC Group Research.



Source: Philippine Statistics Authority, CEIC, OCBC Group Research.

By contrast, services exports are expected to remain more resilient, supported by the twin pillars of IT-Business Process Outsourcing (IT-BPO) and tourism. The IT-BPO sector continues to benefit from sustained global demand, with the outlook anticipated to be broadly stable and structurally underpinned by resilience. Indeed, the IT and Business Process Association of the Philippines (IBPAP) expects industry revenue growth to remain broadly stable at ~5%, generating ~USD42bn in revenues by 2026¹².

Tourist arrivals are stabilising with total tourist arrivals at 83.4% of 2019 levels as of April 2026, which is higher compared to the same period last year. The rebound in tourist arrivals from China (incl. HK SAR) is the dominant driver of this the strong growth. Year-to-April 2026, Chinese tourist arrivals averaged 30.4% from 2019 levels, up from 19.7% during the same period last year. The reintroduction of the e-Visa program for Chinese tourist arrivals in November 2025¹³, followed by the 14-day visa-free arrangement in January 2026¹⁴, supported by new direct routes between China and the Philippines (i.e., Chongqing-Manila, Quanzhou-Cebu) and additional flights currently in the pipeline¹⁵ has eased travel friction into the country. However, despite the positive momentum from Chinese tourists, the overall recovery in arrivals may be hindered by uneven arrivals across source markets. Long-haul arrivals from key markets such as the US and Europe could be negatively affected by the surge in airfares, stemming from elevated fuel costs and increased flight times due to flight restriction over key airspaces.

We forecast that the current account deficit will widen to 4.0% of GDP in 2026 from 3.3% in 2025, in line with BSP's forecast¹⁶. The risk is that the current account deficit would be wider as elevated global oil prices on a sustained period drives higher import bills, while the reimposition of higher tariffs under alternative statutes would compound pressure on the current account deficit.

¹² PH IT-BPM industry cautiously optimistic for 2026. GMA News Online, 28 January 2026.

¹³ PH eVisa processing resumes in China. Philippine News Agency, 1 November 2025.

¹⁴ PH grants 14-day visa-free entry to Chinese tourists. Philippine News Agency, 15 January 2026.

¹⁵ PH sends biggest tourism mission to China since pandemic. Philippine News Agency, 13 May 2026.

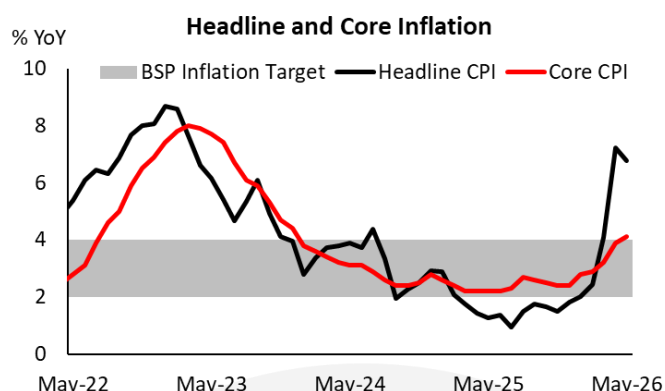
¹⁶ PH's BOP seen under pressure until 2027 – BSP. Philippine News Agency, 1 April 2026.

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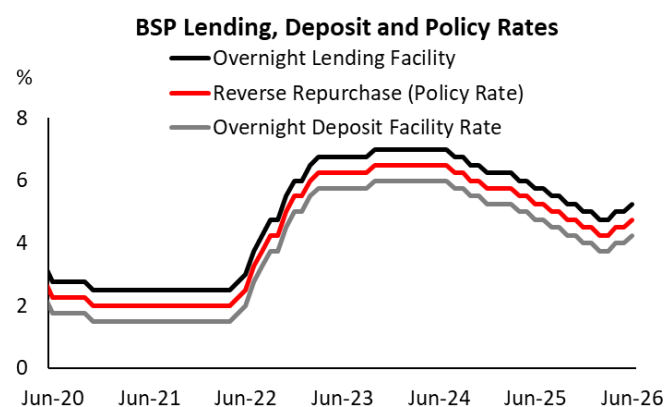
Price pressures clear and rising

The supply shock is very clearly feeding into the inflation dynamics, potentially leading to more persistent and pervasive price pressures. Headline CPI averaged 4.5% YoY in Jan-May 2026 compared to 1.7% in 2025, breaching the upper end of the BSP's 2-4% target range. Similarly, core inflation (Jan-May 2026) also pickup to an average of 3.4% YoY versus 2.4% in 2025.

We expect headline CPI to average 5.8% YoY in 2026, implying that inflation will remain elevated and stay above the 6% handle for the remainder of the year. This reflects an oil-driven cost shock that will be passed through to consumer prices. The transmission channels are now visible — utility prices have risen in tandem with the spike in global energy costs. Transport fare adjustments were expected to work their way through the system as operators pass through fuel cost increases, but these were suspended by President Ferdinand Marcos Jr., who introduced measures to help commuters, operators, and drivers cope with high oil prices¹⁷. Energy costs will remain the dominant driver to the inflation profile through 2H26, continuing to exert upward pressure on prices.



Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, CEIC, OCBC Group Research.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC Group Research.

Food prices are also facing upside pressures. Rice inflation accelerated to 15.6% YoY, up from 13.7% in April. This comes after 14 consecutive months of YoY declines between January 2025 and February 2026. Rice accounts for close to 9% of the CPI basket. This reversal reflects the spike in fertilizer and natural gas costs driven by supply chain disruptions stemming from the shipping disruption through the Strait of Hormuz. Moreover, the rising probability of El Nino conditions further clouds the supply picture, adding another layer of cost-push pressure to the inflation outlook.

A further amplifying factor is the Philippine peso depreciation. The peso has depreciated 2.9% against the US dollar, last seen at 60.590 per dollar as of the close on 18 June 2026, making it one of the region's underperformers. Given that the Philippines is a net importer of both energy and food, imported inflation risks are rising. Moreover, inflation expectations

¹⁷ Fare hike suspension, fuel subsidies ease burden on commuters. Presidential Communications Office, 25 March 2026.

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are building, suggesting that the price spiral risks becoming more vicious and entrenched in the coming months absent policy resolutions.

Shift in monetary stance

BSP delivered its second 25bp hike this year at its 18 June meeting, taking cumulative rate hikes to 50bp year-to-date. At the meeting, BSP indicated that it remained vigilant about inflation risks. BSP's latest headline CPI forecast, projects higher headline CPI at 6.4% and 4.5% for 2026 and 2027, respectively, from the previous forecasts of 6.3% and 4.3% at its April meeting. We now anticipate a further cumulative 75bp of rate hikes over the rest of 2026: one 25bp hike pencilled in for each of the remaining three meetings on 27 August, 22 October, and 17 December. This will take the policy rate to 5.50% by year-end. The balance of risks is skewed towards more, rather than fewer hikes, given that BSP will not risk allowing inflation expectations to become de-anchored.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	5.5	5.7	4.4	3.8	4.8	5.3
Exports (% YoY)	1.3	3.2	8.2	6.4	8.3	5.2
Imports (% YoY)	1.0	4.3	5.0	5.0	5.1	2.6
Current Account Balance (% of GDP)	-2.8	-4.0	-3.3	-4.0	-3.0	-3.0
Unemployment Rate (% aop)	4.4	3.8	4.2	5.0	4.8	4.5
Fiscal Balance (% of GDP)	-6.2	-5.7	-5.6	-5.3	-4.8	-4.3
Headline CPI (% YoY)	6.0	3.2	1.7	5.8	4.5	3.5
BSP Rate (% eop)	6.50	5.75	4.50	5.50	5.00	4.50

Source: Bangko Sentral ng Pilipinas, Development Budget Coordination Committee, Philippines Statistics Authority, CEIC, Bloomberg, OCBC Group Research.

Singapore

Singapore: Will 2026 be a replay of 2025?

Selena Ling

Chief Economist & Head, OCBC Group Research

- 1Q26 GDP growth surprised on the upside due to the AI-related momentum that benefitted manufacturing and trade activities. The larger than expected upward revision to 6.0% YoY (1.0% QoQ SA) marked the fastest quarterly YoY growth since 3Q24 (7.0% YoY).
- MTI kept the official full-year 2026 GDP growth forecast unchanged at 2-4% YoY in May, after indicating a review was underway after the outbreak of the US-Iran war. This suggests renewed confidence that with a strong start to the year, even if accompanied by a moderation in growth momentum in 2H25, the downside risk to undershoot the 2% floor of the forecast range is limited. We concur that 2026 growth is likely to come in the upper end of the official 2-4% YoY forecast range – our forecast is 3.5% given the 1Q26 outperformance and the robust leading economic indicators for 2Q26.
- MAS tightening monetary policy in April 2026 by steepening the S\$NEER slope and upgraded its 2026 headline and core inflation forecast range to 1.5-2.5% from 1-2% previously. With the Iran war, global energy and related costs have already risen and the pass-through to a wide range of imported goods and services are likely to sustain in the months ahead. That said, the hurdle for a further policy tightening is dependent on further upside surprises for core inflation. Meanwhile, fiscal policy is likely to remain supportive, with ~SGD1bn support package introduced on 7 April 2026 as an emergency intervention to cushion households, workers and businesses against rising energy and logistic costs due to the Iran war and closure of the Strait of Hormuz. The Economic Strategy Review (ESR) final recommendations were released on 13 May 2026 focused on Singapore's long-term economic strategy, urging "bold, risky bets".

AI boost had more than offset the 1H26 drag from the Iran war.

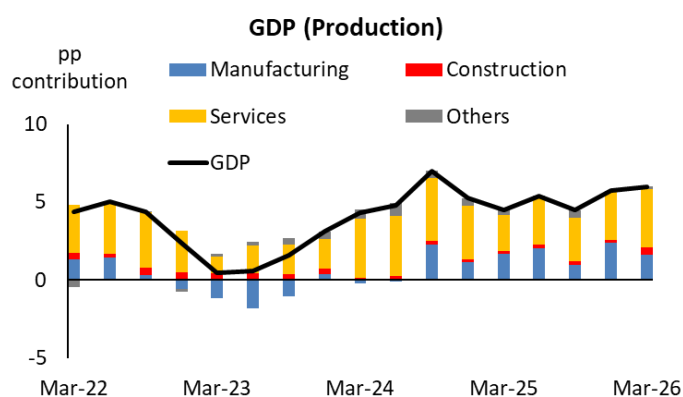
Singapore's economy entered 2026 carrying enormous cyclical momentum from 2025 when it expanded 4.8% YoY, which was well above trend growth and also the strongest print since 2021. That said, 1Q26 GDP growth momentum continued to surprise positively on the upside, with the advance estimate of 4.6% YoY being subsequently revised up more than expected to 6.0% YoY – this pace exceeded the 5.7% expansion seen in 4Q25. On a sequential basis the economy expanded 1.0% QoQ SA, which reversed the initial estimate of a 0.3%QoQ SA contraction, albeit a moderation from the 1.3% QoQ SA clip seen in 4Q25.

The game-changer since the start of 2026 was the abrupt deterioration of the external risk environment – the US-Iran war saw a rapid escalation of geopolitical risk as the Strait of Hormuz effectively shut down, putting nearly a fifth of the global oil trade at risk. Coupled with the global supply chain disruption risk for a whole slew of related products ranging from petrochemicals to fertilizers to helium, what began the year 2026 as a benign AI capex-led growth thesis was quickly overshadowed by the rising spectre of stagflation. MTI

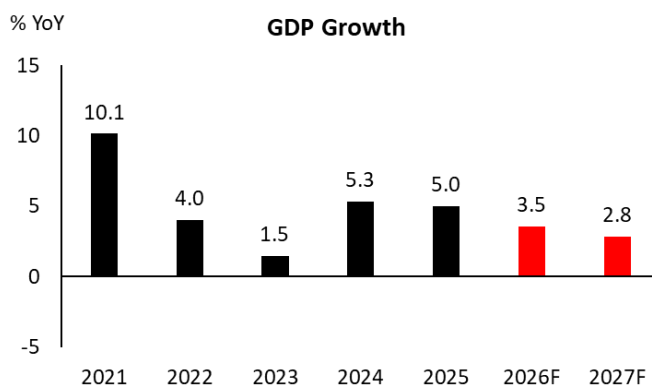
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explicitly noted that "downside risks to Singapore's economic outlook have risen significantly" as a result, even as it maintained the 2026 GDP forecast at 2.0–4.0% thanks to the 1Q26 outperformance.



Source: MTI, Singstat, CEIC, OCBC Group Research.



Note: Forecasts are OCBC estimates.

Source: Singstat, CEIC, OCBC Group Research.

Similarly, while we had pencilled in potential downside risks from a prolonged Iran war on business and consumer confidence, the uplift from the 1Q26 performance was too large to ignore, especially with the April-May economic indicators such as industrial production, non-oil domestic exports (NODX) and Purchasing Managers Indices (PMIs) still coming in red-hot at this juncture. We are now looking at 3.5% for full-year 2026 growth even with an anticipated 2H26 moderation, partly due to high base effects for manufacturing in 2H25.

That said, there is still upside risk to inflation, given that the Middle-East driven energy passthrough is still being under-priced due to some lag effects. For instance, the household utility costs are likely to see a sharper acceleration from July 2026 onwards, while the public transport costs are also seeing pipeline pressures. Staring pay for new local bus captains will rise by \$450 with government funding, while sign-on bonuses for new Singaporean and permanent resident bus drivers will be raised by \$2000 from 1 January 2027 and existing bus captains will see a one-time salary adjustment as well. Still, bus fares will not be increasing due to such wages increases as LTA clarified that fare increases are decided by the Public Transport Council based on a fare adjustment formula. Still, oil product stockpiles have fallen for a second week by 6.1 million barrels to 38.1 million barrels in the week to 3 June, the lowest since October 2024, according to government data.

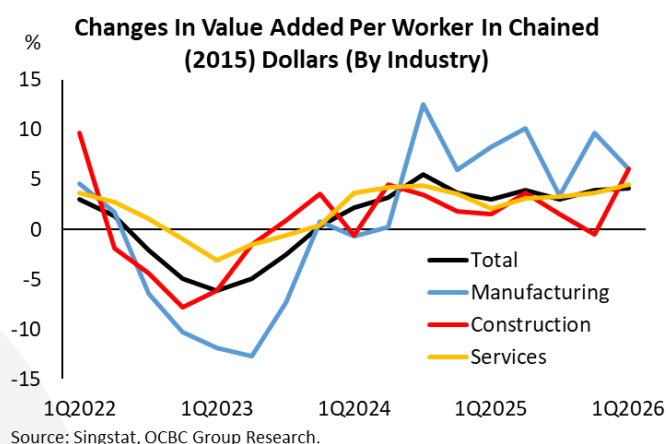
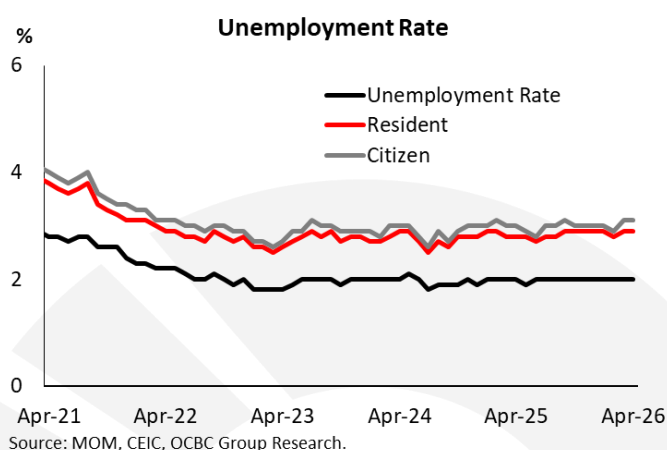
With the uncertainties of weather changes and fertiliser shortages on agriculture crop yields, food inflation is also on the inflation radar, albeit the more diversified food import sourcing should help to mitigate the impact of cost increases in the near term. For instance, the Singapore Food Agency (SFA) has accelerated approvals for essential protein and egg sources from safer logistical corridors like Lithuania, Greece and Paraguay, while importers have also scaled up fresh produce, leafy greens and seafood from diversified sources spanning Australia, Thailand, Vietnam, India and the Netherlands. In addition, Singapore has signed a Memorandum of Cooperation with Cambodia to secure alternative direct rice trade pipelines.

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In fact, as part of the Singapore Food Story 2 enhancements announced in late 2025, there has been a shift in focus to building immediate shock buffers – this includes diversifying imports to 180+ global source regions accredited to bypass bottlenecks, targeting local production of 20% fibre and 30% protein by 2035 to cushion raw shortage, and strategic government-backed stockpile buffers for essential staples (albeit specific capacities are confidential for national security purposes). SFA permits also allow for operational farming flexibility for existing domestic farms to swiftly alter their production mix to match shifting market gaps. This holistic medium-term planning strategy will benefit food security and help enhance another pillar of economic resilience.

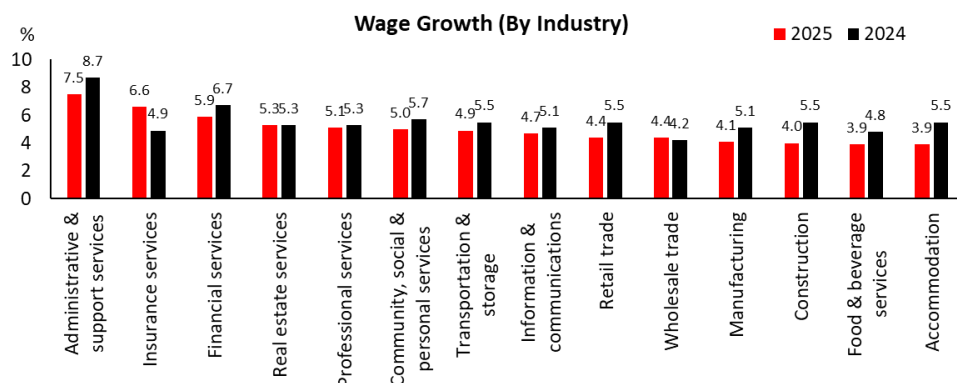
Domestic labour market remains very resilient. 2026 wage growth is tipped to average around 4% - low mid-4% region, according to major remuneration surveys, aided by a still tight domestic labour market and employers' willingness to pay a skill premium for selected niches even though firms are generally adopting a more cautious approach to fresh hiring. Some of the niche where labour demand is still resilient are in growth areas like cybersecurity, AI and life sciences, whereas traditional sectors like energy and non-AI related manufacturing are likely to lag in terms of employment creation and wage increments. Notably, businesses are prioritizing talent retention and AI-enabled productivity gains. In fact, employee retention was cited as the most common reason for raising wages. That said, there is a wide dispersion in terms of wage growth by industry in the last two years of 2024-2025.



In real terms after factoring in inflation (MAS headline and core inflation forecast currently stand at 1.5-2.5%), real wage growth is likely to be more subdued compared to the strong real wage growth of 4% in 2025 (2024: 3.2%). The National Wages Council (NWC) had also recommended that lower-wage workers receive 5.5-7.5% (or a minimum of \$105-\$125) to support the Progressive Wage Model and keep pace with the local qualifying salary requirements. The Ministry of Manpower opined that 2026 real wage growth is expected to remain positive, although firms are expected to remain more measured in their wage increases amid geopolitical uncertainties and inflationary pressures, and over the longer term, sustaining real wage growth will depend on the economic outlook, productivity improvements, workforce upgrading as well as wage-setting practices.

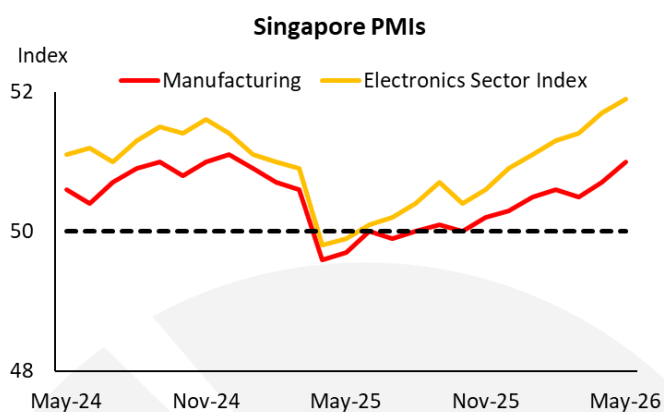
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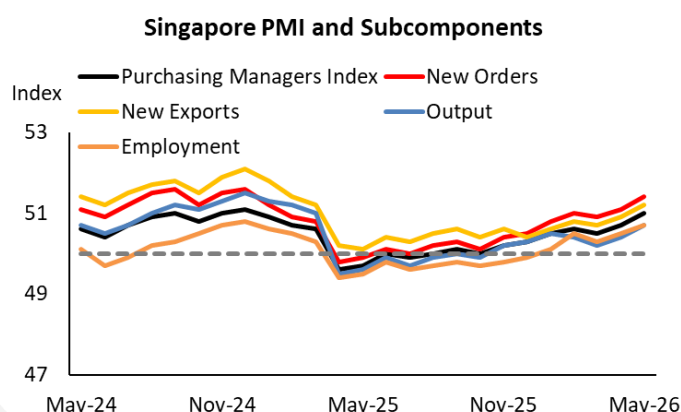


Source: Ministry of Manpower, OCBC Group Research.

The manufacturing and electronics PMIs climbed further in May to 51.0 (+0.2point) and 51.9 (0.2 point), respectively and were the highest since December 2024 and August 2018. These readings marked the 10th and 12th consecutive months of expansion, respectively and were supported by improvements in new orders, new exports, factory output, input purchases and employment gauges.



Source: SIPMM, Bloomberg, OCBC Group Research.



Source: Bloomberg, SIPMM, OCBC Group Research.

For the manufacturing PMI, the supplier deliveries index fell for the 5th straight month due to extended lead times and ongoing supply chain constraints. In addition, input prices also rose and the finished goods index eased, putting pressures to margins and operational efficiency. Nevertheless, the order backlogs and future business gauge also strengthened, suggesting that manufacturing optimism remains undeterred from the demand side perspective for now. In particular, the future business index has been expanding for the 7th consecutive month, suggesting that the AI-related momentum continues to sustain.

The outperformance of the electronics PMI was again likely attributable to the AI-related boom, but faced similar challenges with the supplier deliveries and input prices as a result of persistent supply chain disruptions and extended lead times. Notably, the finished goods index has reverted to contractions, which imply that inventory drawn down is underway

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despite the rising imports index, and there may be a real supply constraint on future activity pipelines if the sourcing of intermediate components cannot keep pace with the demand conditions. This means that notwithstanding the sustained momentum in new orders, export orders and stock of input purchases indices, electronics manufacturer may hit a real crunch if things do not improve on the supplier delivery side in coming months even if they are willing to match rising input prices. Anecdotally, some companies are warning of an AI-fuelled memory crunch. At this juncture, the May PMIs for South Korea and Taiwan continued to ride on the AI-related demand boom, and Singapore is also likely to be on the bandwagon.

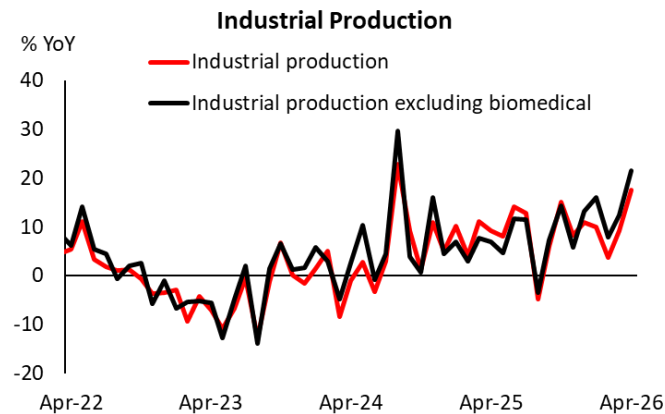
The private sector PMI also posted a strong 56.7 in May 2026, with private firms reporting an influx of fresh contract wins and surging consumer bookings. However, accompanying the strong order book was also cost pressures in terms of record high raw material overheads and wage inflation that are squeezing corporate profit margins. There was reportedly a sharp drop in the deployment of temporary and part-time staff as well as an uptick in full-time voluntary leavers exiting companies due to likely poaching by competitors. Some of the wage inflation is likely policy driven, as illustrated by the bus captain example above in addition to the Progressive Wage Model adjustments. Consequently, while sentiments remain bullish, with roughly 50% of surveyed firms predicting a substantial output increase, the ensuing labour strain has contributed to the aggregate business confidence level retreating from April's historic peak.

The other external risks, apart from geopolitics, is the still volatile trade landscape. The Office of the US Trade Representative (USTR) has proposed double-digit tariffs on 60 countries citing "forced labour" on 2 June, using Section 301 of the Trade Act of 1974 as the legal basis. This comprised of 10% tariffs on imports from Canada, EU, UK, Indonesia, Mexico, Pakistan, Argentina, Bangladesh, Cambodia, El Salvador, Guatemala, Malaysia and Taiwan, whilst the remaining 45 countries which includes Singapore, China and India amongst others will face higher tariffs of 12.5%. This tariff is expected to replace the 10% global tariff that is set to expire in late July.

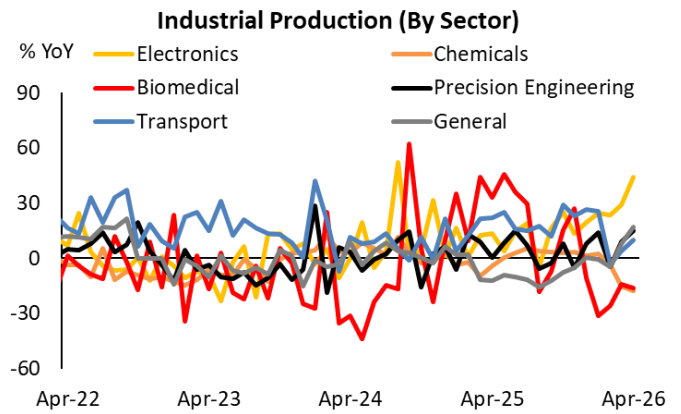
Manufacturing is the key beneficiary of the AI/Electronics Supercycle

The AI-related boom has been the tail wagging the dog, providing velocity to a small and open economy that was traditionally expected to be vulnerable to the oil price shock. Manufacturing has been a defining driver of Singapore's robust 1H26 performance. The sector expanded 7.9% YoY in 1Q26, extending the 11.4% surge of 4Q25, driven by electronics, precision engineering, transport engineering and general manufacturing — even as biomedical and chemicals contracted.

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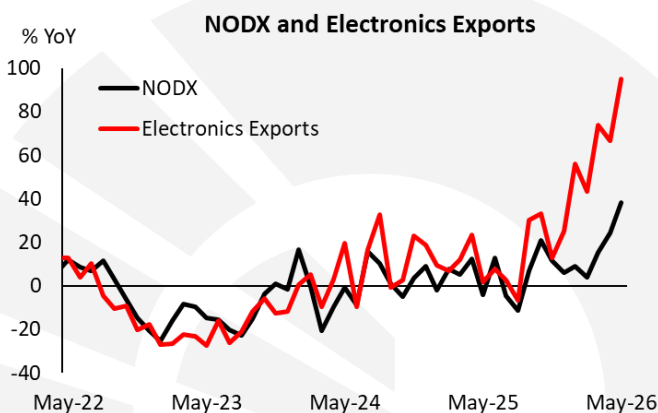


Source: EDB, CEIC, OCBC Group Research.

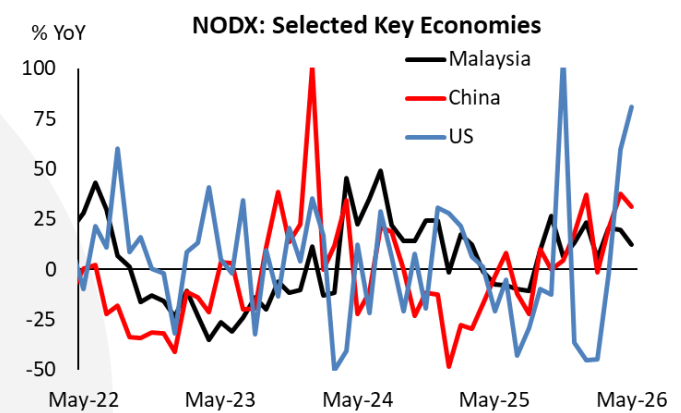


Source: EDB, CEIC, OCBC Group Research.

We see NODX remaining a "dominant growth engine" in the near term. Electronics exports have far outperformed overall NODX growth for the year-to-date. While the high base effects from 2H25 may imply a moderation in the NODX growth momentum in 2H26, nevertheless the final outcome will depend on the sustainability of the global AI capex narrative. For now, we still see some upside risk to its 2026 NODX forecast. Singapore has benefited from Southeast Asia's AI infrastructure funding, and domestic AI hub ambitions suggest that the global AI capex theme goes beyond a cyclical tailwind into a durable physical-asset story with datacentre build-out, advanced packaging and the precision engineering supply chain anchored to it. The three key NODX markets – US, China and Malaysia, continue to see resilient NODX growth momentum notwithstanding the evolving US tariff story. Even with the recent correction in the global AI equity market players, the committed investment capex may not mean the rug is immediately pulled out from beneath the feet.



Source: Enterprise Singapore, CEIC, OCBC Group Research.



Source: Enterprise SG, CEIC, OCBC Group Research.

Besides, the growth pillars are more broad-based than electronics or manufacturing. The construction & some services sectors also see some resilience. Construction grew 11.8% YoY in 1Q26, sharply accelerating from 4.6% in 4Q25, supported by both public infrastructure

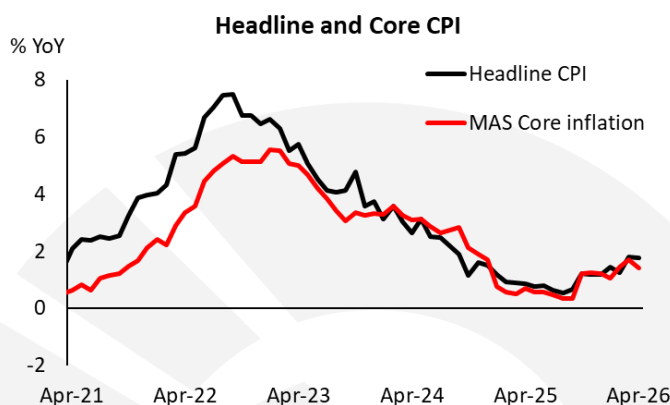
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(BTO pipeline, Cross Island Line, T5) and private project starts. This counter-cyclical pillar is critical because it cushions the economy as trade-related modern services moderate.

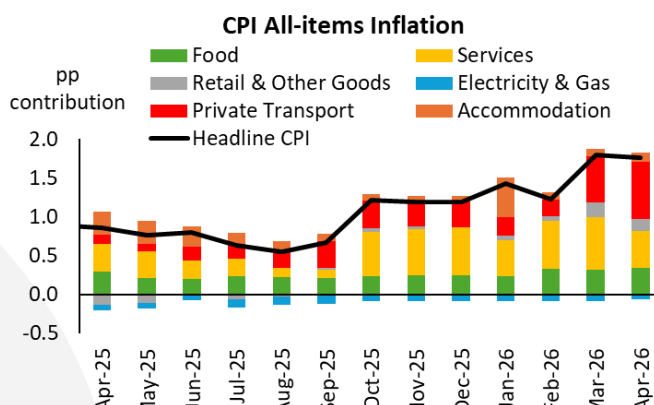
The services sector is more bifurcated. The services sector posted 4.7% YoY growth in 1Q26, but the dispersion within is widening wholesale trade and financial services (lending, capital markets activity) remained firm, but consumer-facing services such as retail and food & beverage (F&B) are softer, with MTI warning of weaker consumer sentiment as locals shifting spend overseas. While some domestic-oriented services sector have felt some chills from the geopolitical uncertainties exerting a dampening effect on business and consumer confidence, some other areas like financial services and wealth management have actually capitalized asymmetrically from the Middle East conflict as portfolio flows, particularly from ultra-high-net-worth (UHNW), seek to diversify to a geopolitically neutral, stable safe haven. This in turn has created greater demand for professional services like legal, governance and family office advisory.

Headline inflation calm may be masking a building energy shock

April 2026 readings deliver a misleading first impression: headline CPI held at 1.8% YoY (vs 2.0% consensus), and core inflation eased to 1.4% YoY from 1.7% in March, on lower services and retail goods inflation. Headline CPI even contracted 0.3% MoM NSA, but this is largely a lag artefact. MAS-MTI explicitly warned that "as higher energy and other input costs arising from the developments in the Middle East pass through global supply chains, they will raise production and transport costs for a wider range of Singapore's imported goods and services".



Source: Singstat, MAS, CEIC, OCBC Group Research.



Source: Singstat, CEIC, OCBC Group Research.

Already, transport CPI rose to 7.0% YoY in April (from 6.0% in March), and private transport inflation hit a 30-month high of 6.6% YoY in March (vs 2.4% in February) on petrol passthrough MAS in April raised both headline and core CPI forecasts to 1.5–2.5% from 1.0–2.0%. This inflation re-rating translated directly into policy action as MAS tightened monetary policy in mid-April by steepening the S\$NEER policy slope.

We see 2026 headline and core forecasts likely to hug at or slightly above the 2% handle. This assumes that: (a) Cooking oil/processed food is vulnerable as palm oil shipments rotate
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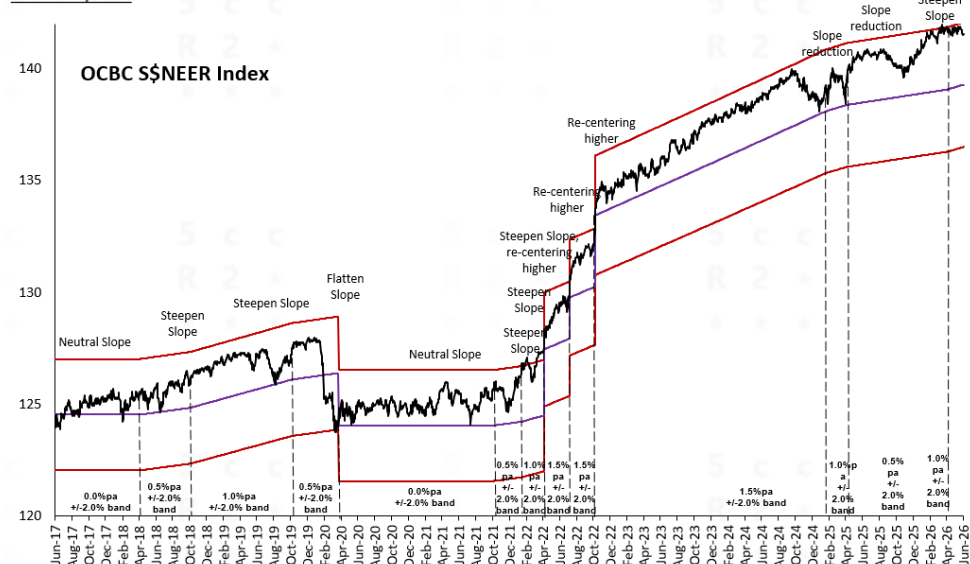
from food toward biodiesel use if Brent stays sustained above US\$100; (b) Diversified food sourcing (Australia, China, Peru) cushions but does not eliminate import-cost pressure. A partial offset comes from softer services unit labour costs as labour demand cools, and from more cautious domestic consumer spending under elevated uncertainty.

While the official narrative emphasises the direct energy passthrough, our concern is that second-round effects through food and intermediate goods may have a longer lag, albeit the mitigating policy offsets are faster and more generous fiscal stimulus such as the earlier disbursement of the \$500 CDC vouchers, the utilities rebates given to HDB households as well as the commitment by supermarket chains like Fairprice Group to hold prices for over 500 essentials till August 31, 2026 to help Singaporean households manage rising living costs amid lingering global supply chain disruptions and geopolitical volatility.

Monetary Policy: A mid-cycle S\$NEER tightening in response to an imported cost shock

At the January 2026 MPS, MAS had held the prevailing S\$NEER appreciation slope as core CPI was projected to "normalise" at 1.0–2.0%. By April 2026 MPS (post-Iran conflict), MAS had pivoted to a policy tightening by increasing the rate of appreciation of the S\$NEER band with no change to width or mid-point, and also hiked inflation forecasts to 1.5–2.5%. This was MAS' first tightening in roughly three years. The S\$NEER mechanism is doing the heavy lifting to combat imported goods and energy costs. The S\$ NEER continues to sustain in the upper half of the appreciating band.

Chart of S\$NEER



Going into 2H26, the focus turns to the upcoming July MPS. The Focus Economics consensus survey expects a second monetary policy tightening this year, but the timing is split between July and October calls being purely data-dependent on (a) energy passthrough velocity and (b) the path of the Middle East conflict. The MAS Macroeconomic Review dated April 2026 also explicitly states that GDP growth will slow over the year as the energy shock spills over,

Singapore

with the output gap forecast to average around zero for 2026 — implying that the policy stance can re-tighten without triggering a hard landing because the starting point is positive.

Fiscal Policy outlook: More policy support to come beyond Budget 2026?

Budget 2026, titled "Securing Our Future Together in a Changed World", was delivered by PM Lawrence Wong on 12 February 2026. This was framed around "a more fractured, contested and dangerous" global environment and focused on cyclical cost-of-living support plus reinforcing Singapore's structural competitiveness.

Notwithstanding the tentative ceasefire, the Middle East conflict continues to pose downside risks to the near-term outlook, with the overall impact hinging on the length and intensity of the war. In response, cyclical/cost-of-living measures was pulled forward in response to the Middle East shock. The government unveiled a substantial new support package valued at close to SGD1bn to cushion the impact on households and businesses. This comprised of:

- SGD500 CDC vouchers brought forward to June 2026 (originally January 2027) — a direct response to the Strait of Hormuz-driven oil shock;
- SGD400–600 Cost-of-Living Special Payment in September 2026 (enhanced from SGD200–400);
- SGD200 cash relief for platform workers, private hire drivers and taxi drivers from April 2026 — explicitly targeting fuel-cost-exposed workers;
- Up to SGD570 U-Save rebate to HDB households (~1.5× regular support), partly to offset the simultaneous carbon tax increase to SGD45/tonne.

Complementing these demand-side measures, the government also introduced enhanced support to strengthen firms' capacity to operate in the challenging environment. The more structural / competitiveness-related measures comprised of:

- Corporate Income Tax rebate raised to 50% for YA 2026 (min SGD2,000, cap SGD40,000);
- 400% tax deductions on up to SGD 50,000 of qualifying AI expenditures for YA 2027 and 2028 — directly subsidising adoption that aligns with Singapore's AI infrastructure dominance positioning;
- Enhanced Market Readiness Assistance (MRA) grant — support level to 70% of eligible costs, SGD100,000 cap, removal of "new to target market" criterion in 2H26;
- Implementation of OECD Pillar Two (15% global minimum tax) — definitively confirmed;
- Higher CPF contribution rates for senior workers (35.5% for ages 55–60; 26% for ages 60–65) from January 2027, with a one-year transition offset for employers;
- Tobacco duties raised 20% with effect from 12 February 2026.

The fiscal stance combines targeted demand stabilisation (vouchers, fuel relief) with supply-side scaffolding (AI tax breaks, internationalisation grants, energy efficiency). Critically, the new Pillar Two regime is being deployed to recycle the additional tax revenue into Singapore's investment-promotion toolkit, preserving the country's effective competitiveness for high-value MNCs.

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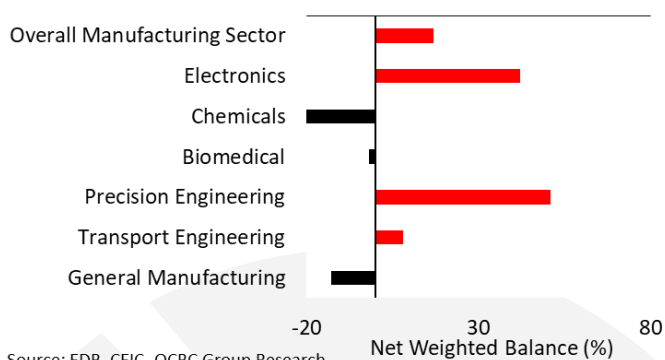
The mixed sectoral 2H26 outlook

Manufacturing remains relatively resilient, driven by the AI boom, particularly electronics and semiconductors. However, services sentiment has turned weaker, with a net 4% of firms expecting a less favourable Apr–Sep 2026 outlook, led by pessimism in F&B, transport & storage, retail, finance & insurance, accommodation and real estate.

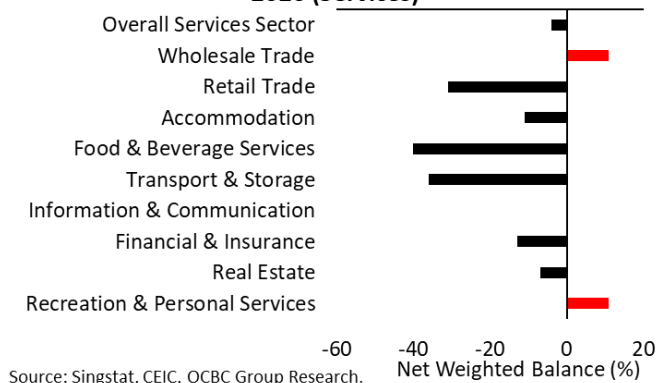
Prolonged geopolitical tensions, especially the Middle East conflict, have triggered energy shocks and supply chain disruptions, heightening stagflation risks — reflected in higher business cessations compared to a year ago. In particular, the construction sector is under strain from higher material, labour, energy and freight costs (with subcontractors particularly exposed under fixed-price contracts), while F&B, retail, transport, and petroleum-related industries face similar cost and demand pressures.

Looking ahead, the industries that are more resilient will be those tied to the AI boom, namely the electronics and precision engineering (both machinery & systems as well as precision modules & components).

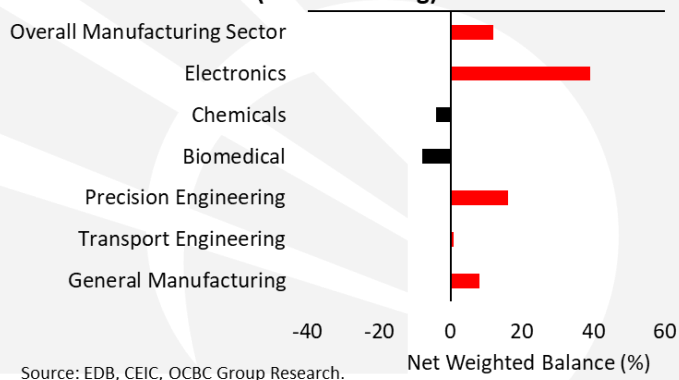
General Business Outlook for April - September 2026 (Manufacturing)



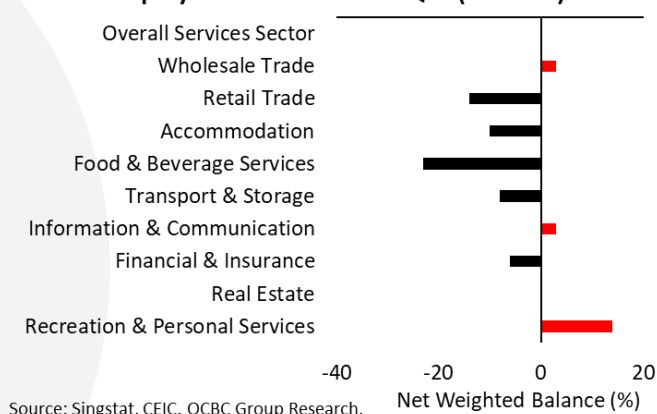
General Business Outlook for April - September 2026 (Services)



Employment Forecasts for 2Q26 (Manufacturing)



Employment Forecast for 2Q26 (Services)



Singapore

Financial Services: Wealth management AUM growth remains the central narrative. Singapore banks are generally perceived as best positioned to capture trading uplift from Middle East-driven volatility, while having limited exposure to Middle East.

Consumer-facing services such as retail and F&B are most exposed to confidence shocks. That said, the CDC voucher pull-forward to June 2026 and the enhanced Cost-of-Living (COL) Special Payment are explicitly designed to cushion this segment.

For the property sector, the construction tailwind continues from the public pipeline of key infrastructure projects while the private residential segment remains supported by new launches.

The known unknown: geopolitical shaping & structural shifts

The US–Israel–Iran conflict is the defining geopolitical event in the global landscape. For Singapore, three transmission channels matter:

1. **Energy passthrough:** Singapore imports nearly all of its energy. The longer the Iran conflict and closure of Strait of Hormuz continue, the elevated oil price will feed directly into electricity, gas, transport, and intermediate goods over a 2–6 months lag.
2. **Shipping disruption:** Strait of Hormuz blockade affects not just oil but fertiliser, aluminium, and palm oil logistics — extending the inflation problem beyond energy.
3. **Confidence channel:** Weaker consumer/investor sentiment hits the modern services and retail sectors most acutely.

A second, less acute but structurally important development is the return of US tariff risk, and this was explicitly cited by MTI as a 2H26 item to watch, particularly for pharmaceuticals and semiconductors. Singapore's bilateral US relationship has provided partial insulation, but sector-specific tariffs in pharmaceuticals and/or semiconductors, or fresh additional tariffs could meaningfully reduce 2H26 NODX run-rate.

That said, Singapore's AI hub ambition is taking flight. Capital is concentrating in Singapore, particularly for the capture rate of regional AI infrastructure funding. This is a durable, multi-year structural advantage rather than a cyclical one and should provide a significant tailwind for the Singapore economy beyond the immediate future.

2H26 outlook: not quite in the bag but 1H26 provides a strong buffer

Our base case assumes the US-Iran peace settlement will gradually progress and global crude oil prices will stabilise over time into a USD80–90 range by year-end. In this scenario, Singapore's 2026 GDP growth will likely land in the upper half of MTI's 2–4% range, headline and core CPI averages ~2.2% and 2.0% respectively, MAS may deliver one additional monetary policy tightening (likely through a steepening of the S\$NEER slope) in July or October 2026. At the sectoral level, the financial sector and electronics/AI infrastructure clusters continue to dominate.

Singapore

The downside scenario assumes a sustained Strait of Hormuz disruption, prompting Brent prices to potentially exceed US\$110 handle, while fresh US tariffs (including potential sectoral tariffs) loom and possibly re-exert. Another trigger could be global AI-related market volatility when its capex sustainability is called into question. Consequently, Singapore's 2026 GDP growth may slip to the lower end (~2.0–2.5%), while inflation moves to 2.5–3.0%. Therefore, MAS may need to embark on a more aggressive S\$NEER slope move, or even a double-barrel move including a band widening in the event of elevated market volatility. Consumer services and SMEs may require expanded fiscal cushioning under such a scenario.

Conversely, the upside scenario where there is rapid de-escalation of geopolitical uncertainties (for example a peace deal for US-Iran or even Russia-Ukraine) which would quickly lift animal spirits, coupled with an AI capex re-acceleration, or even a US-China tariff truce. Under these auspices, Singapore's 2026 GDP growth could potentially exceed 4% YoY. Should MAS hold monetary policy static in October 2026, the SGD is likely to still strengthen further, and SG equities could re-rate.

While it is still premature to say with high conviction whether the downside or upside risk scenarios would play out, the single most consequential change since the start of 2026 is that Singapore's policy mix has rotated from "neutral and watchful" to "tightening on the S\$NEER policy while deploying targeted fiscal cushions". The geopolitical risk premium will not go away in 2H26, but Singapore's combination of strong fiscal reserves, an unparalleled regional AI positioning, and a credible MAS reaction function makes it one of the better-positioned economies in Asia to navigate it.



South Korea

South Korea: Resilient amid growing headwinds

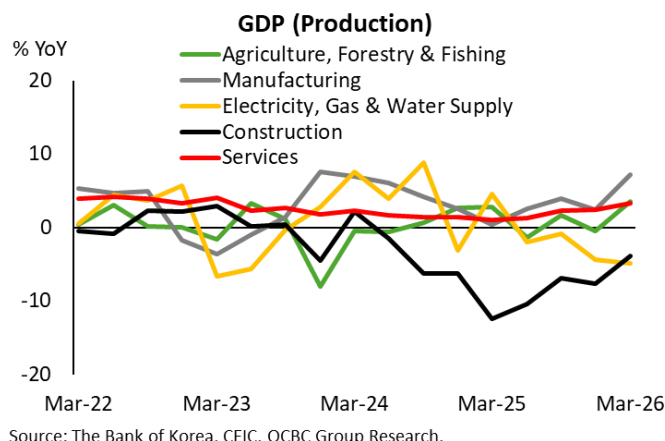
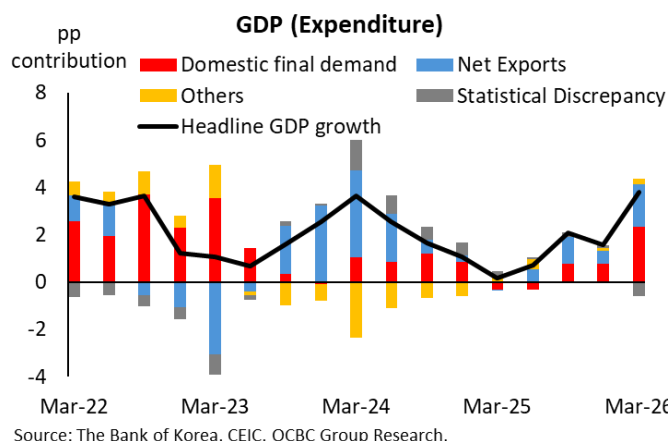
Jonathan Ng
ASEAN Economist

- The economy started the year on a stronger footing. Nonetheless, headwinds are growing. Our growth profile indicates a moderation in the quarters ahead. This deceleration reflects our conservative stance on the adverse impact of elevated energy costs on domestic demand. For 2026, we maintain our GDP growth forecast at 2.2% YoY, up from 1.1% in 2025. We recognise that the risk to our growth forecast is skewed to the upside, as the semiconductor-led exports are proving more resilient than anticipated. The outlook for the manufacturing and export sectors remains broadly positive, underpinned by solid global demand for AI-related products. This is expected to keep overall export growth on a positive trajectory.
- Inflation has decisively broken above the Bank of Korea's (BoK) 2% target, with some signs that that inflationary pressures are broadening. However, the risk lies in the removal of government's fuel measures, as prolonged curbs to contain elevated oil prices increasingly strain public finances. Consequently, this could heighten the risk of a more pronounced acceleration in headline CPI, with potential spillover effects into core inflation.
- We expect BoK to prioritise inflationary pressures. Our base case is for two 25bp hikes: one hike each in 3Q26 and 4Q26. This would bring the policy rate to 3.00% by year-end. Beyond this, we expect the BoK to enter a period of an extended hold as it assesses the durability of the inflation trajectory.

Momentum stayed positive

The economy started the year on a stronger footing, with preliminary estimates indicating that GDP growth accelerated to 3.8% YoY in 1Q26, up from 1.6% in 4Q25. On a sequential basis, GDP growth expanded by 1.8% QoQ SA in 1Q26, up from a -0.1% in the previous quarter. The details show that economic growth was driven by improvements in private consumption, investments, and exports. Meanwhile, growth in government spending eased to 3.1% YoY. On the supply side, key sectors such as agriculture, forestry & fishing (3.5% YoY), manufacturing (7.2%), and services (3.2%) recorded growth. In contrast, utilities (-5.0%) and construction (-3.9%) declined, with the construction sector marking its eight consecutive quarter of YoY decline.

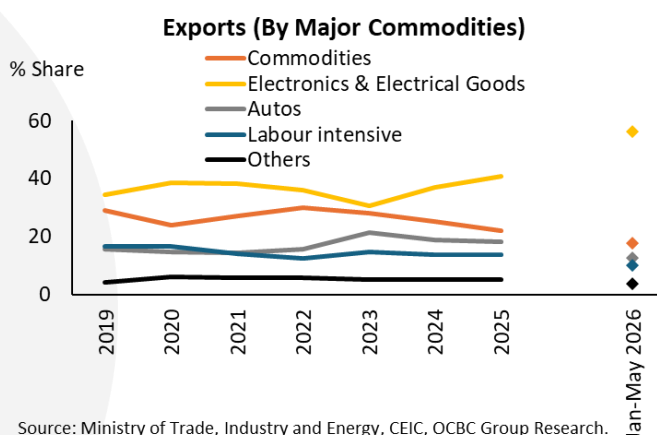
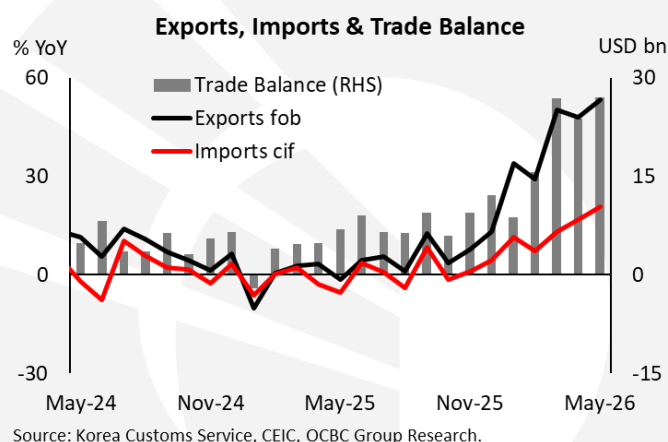
South Korea



Looking ahead, we maintain our GDP growth forecast and expect the economy to expand by 2.2% YoY in 2026, up from 1.1% in 2025. However, this forecast is more conservative than the BoK's updated growth forecast of 2.6% YoY¹⁸. Our growth profile indicates a moderation in the quarters ahead, with growth averaging 1.8% YoY from 2Q-4Q26, compared to 3.8% in 1Q26. This deceleration reflects our conservative stance on the adverse impact of elevated energy costs on domestic demand. Nonetheless, we recognise that the risk to our growth forecast is skewed to the upside, as semiconductor-led exports are proving more resilient than anticipated.

Tailwinds in AI-related demand remain intact

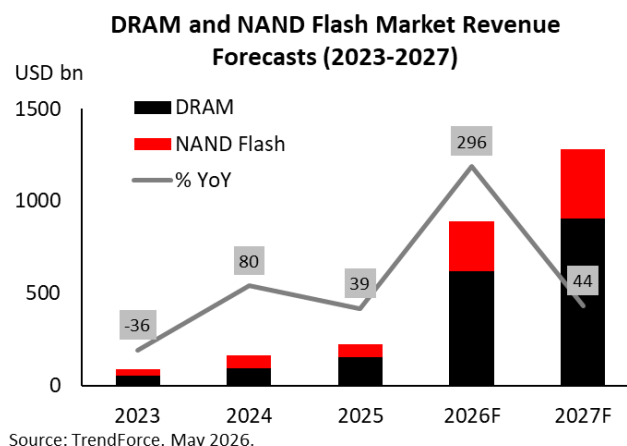
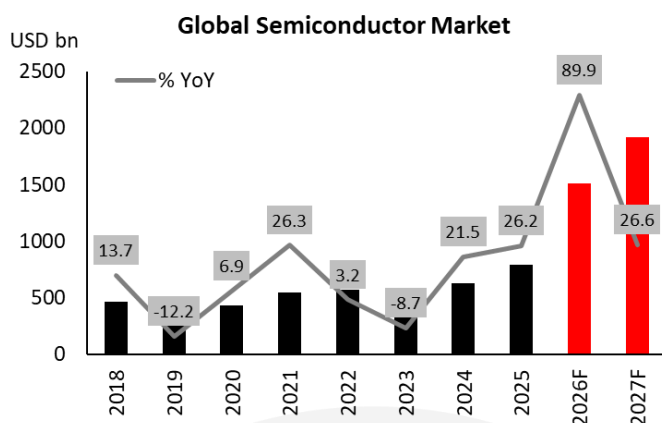
The outlook for the manufacturing and export sectors remains broadly positive, underpinned by solid global demand for AI-related products. Total goods exports surged by 43.4% YoY in Jan-May 2026 compared to 3.8% in 2025. The decisive driver is semiconductor shipments, which have contributed 37.4% of total goods export in the same period, underscoring the robust momentum of the chip cycle. Exports of automobile and petroleum products followed, contributing 7.4% and 6.1 of total shipments, respectively.



¹⁸ Monetary Policy Decision & Opening Remarks to the Press Conference. Bank of Korea, 28 May 2026.

South Korea

Looking ahead, solid global chips demand is expected to hold up for the rest of the year and is expected to keep export growth on a positive trajectory. Indeed, industry experts have raised their projects for 2026. In June, the World Semiconductor Trade Statistics (WSTS) raised its 2026 growth forecast for the global semiconductor market to 89.9% YoY, up from 26.3% in its prior forecast, for which this is “overwhelmingly driven by the Memory segment”. Additionally, WSTS noted that, “continued strong demand for AI infrastructure, high-bandwidth memory (HBM), and accelerated computing platforms remains the primary growth catalyst for the semiconductor industry. Logic is expected to remain another major contributor, growing 37 percent in 2026.¹⁹” Likewise, market research firm TrendForce lifted its revenue forecasts for memory chips in May, with DRAM and NAND revised up to 302.8% YoY (previous: 144.0% YoY) and 280.6% (previous: 111.3%), respectively. According to TrendForce, “the shift in AI development from large-scale model training toward inference-centric Agentic AI applications is driving a structural expansion in memory demand.” They anticipate the resulting supply deficit to persist in the short-term, leading to further price increases²⁰.



With semiconductors serving as a major driver of goods exports, the export sector is expected to remain a key growth engine, supporting a continued current account surplus. The BoK revised higher its current account surplus for 2026, estimating the surplus at USD250bn, up from its previous forecast of USD170bn. This revised figure is ~2 times the surplus in 2025. Indeed, the cumulative current account balance reached USD102.7bn in Jan-Apr 2026, a sharp increase from USD24.0bn during the same period last year.

Firm chips, soft everything else

On the domestic demand side, investment spending was an unexpected contributor to headline growth in 1Q26, following seven consecutive quarters of YoY contraction. The main challenge lies in the sustainability of this recovery as the early-year impulse fades. To that end, our assessment is that investment spending should remain soft in the coming quarters, expanding by 1.1% YoY in 2Q-4Q26, compared to 1.5% in 1Q26.

¹⁹ Global Semiconductor Market Surges Beyond USD 1.5 Trillion in 2026 Driven by Extraordinary Memory Expansion. WSTS, 2 June 2026.

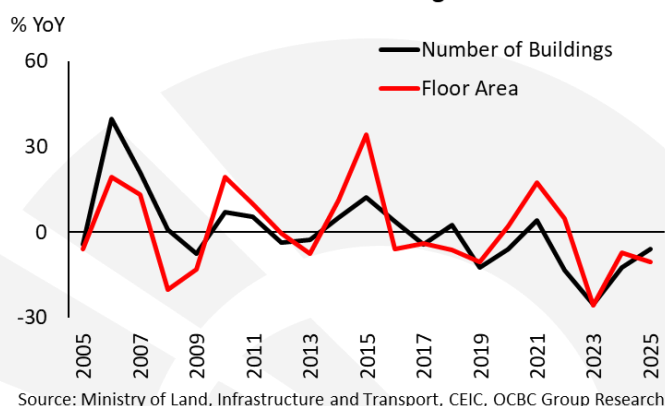
²⁰ Agentic AI Drives Structural Expansion in Memory Demand, Global Memory Market Projected to Reach US\$1.28 Trillion by 2027, Says TrendForce. TrendForce, 29 May 2026.

South Korea

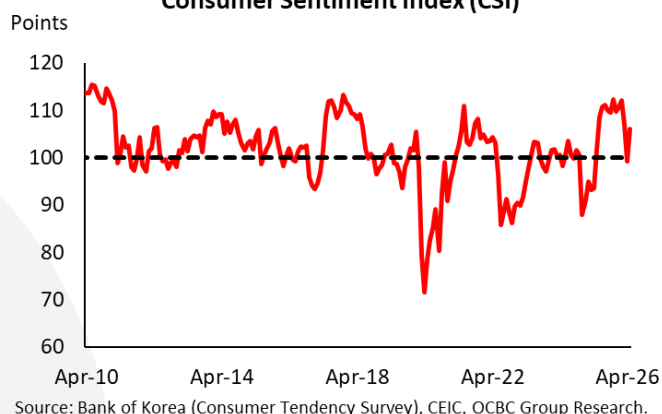
Under the hood, construction investment will likely remain subdued, reflecting continued sluggishness in residential construction. The construction sector has been in severe contraction, declining by 3.9% YoY in 1Q26, compared to -7.6% in 4Q25. This marks eight consecutive quarters of YoY contraction. The construction industry is expected to grow only marginally, by 0.2% in real terms this year, with the sluggishness attributed to a weak housing market and falling building permits. Total construction permits and the average gross floor area issued declined by 6% and 10.5% respectively, in 2025²¹. However, the sluggishness in construction investment may be partially offset by increased AI-related investments into semiconductor and data centres projects, along with the government's expansion of social overhead capital (SOC).

In contrast, growth in facilities investment is expected to remain robust. This is driven by the IT manufacturing sector, particularly in AI semiconductor-related facilities. Additionally, government support for advanced industries provides another significant tailwind. The Ministry of Trade, Industry and Resources announced an investment programme targeting small and midsize companies engaged in the production of advanced strategic materials, parts and equipment. This year, the government has allocated KRW100bn in national funding, an increase of KRW30bn from last year. When combined with contributions from local governments, total support is projected to reach approximately KRW170bn (USD113.3mn). The programme offers eligible companies assistance covering 30-50% of new domestic facility investments²². Likewise, growth in investment in intellectual property products is anticipated to remain solid, in part driven by the government's increased support to R&D²³.

Permits Authorised for Building Construction



Consumer Sentiment Index (CSI)



On the domestic demand side, private consumption, which accounts for almost half of the economy, is projected to ease to 1.6% in 2Q-4Q26, compared to 2.7% in 1Q26. This reflects potential headwinds from the spillover effects of the Middle East conflict, such as the

²¹ South Korea Construction Industry Report 2026: Marginal Growth of 0.2% this Year Driven by Public Investments in Healthcare, Renewable Energy, and Manufacturing Projects - Forecast to 2030. Research and Markets, 7 April 2026.

²² Gov't to invest \$113.3 mil. in strategic materials firms. The Korea Times, 17 May 2026.

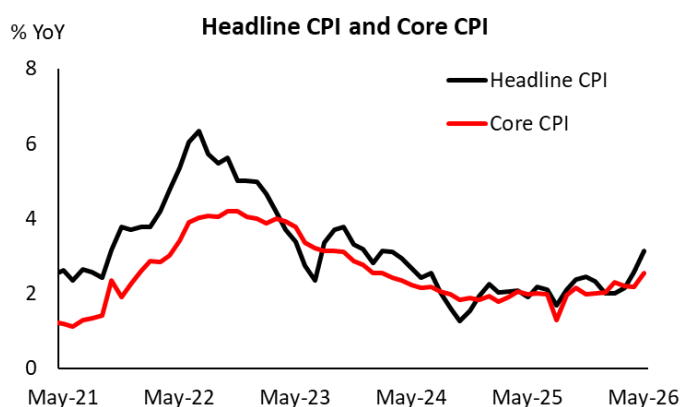
²³ South Korea Invests 15.7 Billion Won to Commercialize Top Scientists' Patents. DongA Science, 10 February 2026.

South Korea

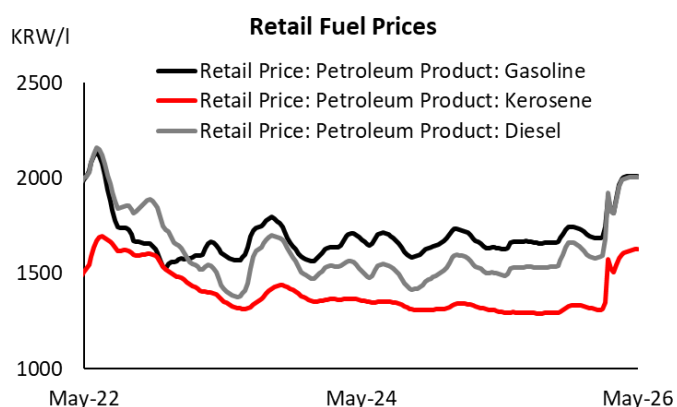
erosion of real household incomes due to rising inflation which limits purchasing power and constrains discretionary spending. Momentum will materially taper in 2H26, with 2Q26 expected to remain robust, driven by the disbursement of the government's supplementary budget of KRW26.2trn at end-April to mitigate the energy shock on the domestic economy. The package includes cash assistance which seeks to handout payments between KRW100,000-600,000 per person for those in the bottom 70% of income earners, as well as spending to maintain fuel price caps²⁴.

Energy shock keeps risks skewed to the upside

Developments in domestic consumption and government support measures are closely tied to the evolving inflationary pressures triggered by the outbreak of conflict in the Middle East, which have significantly affected global energy prices, with ripple effects into the real economy.



Source: Statistics Korea, CEIC, OCBC Group Research.



Source: Petronet, CEIC, OCBC Group Research.

Price pressures remained largely stable at the start of the year, with headline CPI averaging 2.0% YoY in Jan-Feb 2026, compared to 2.1% in 2025. However, the war in the Middle East has sharply altered inflation dynamics: headline inflation averaged 2.4% YoY in Jan-May 2026. The decisive break from the previously contained inflation regime was driven by an energy shock. Rising oil prices, fuelled by supply disruptions and heightened geopolitical risks have pushed up transportation costs. The average price of gasoline, kerosene, and diesel rose by 22.9% YoY, 24.5% YoY, and 33.5% YoY, respectively, in May. Nonetheless, the surge in fuel prices would have been significantly more severe if not for the government's ongoing gasoline price cap, extended fuel tax cut measures, and other supportive measures. As a result, fuel prices in May currently stand at ~1.2-1.3x of the prewar average levels observed in February. Meanwhile, core CPI (CPI excluding food and energy) was higher, at 2.2% in Jan-May 2026, after printing 1.9% in 2025.

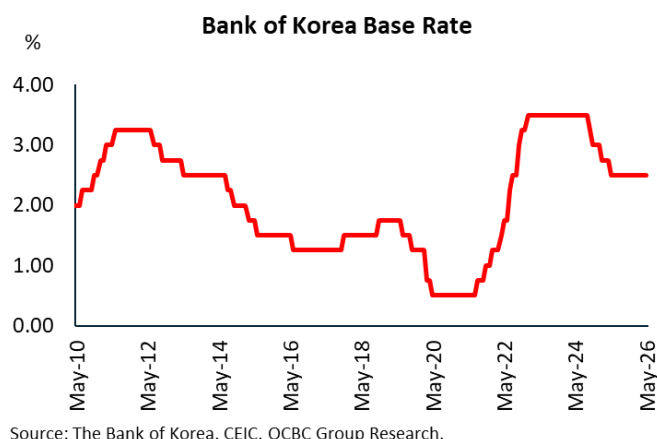
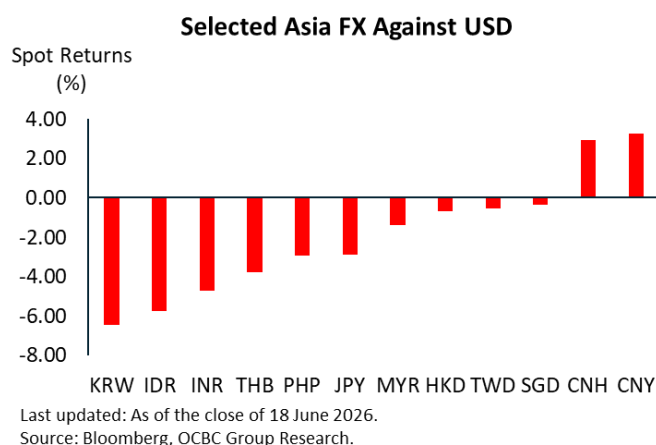
Looking ahead, we expect headline CPI to average 2.6% in 2026, implying a further acceleration for the remainder of the year. This projection reflects the impact of elevated energy prices and the potential extent of cost pass-through. Indeed, there are some signs

²⁴ Nat'l Assembly passes \$17.7 bil. extra budget bill to mitigate fallout from Mideast war. The Korea Times, 10 April 2026.

South Korea

that inflationary pressures are broadening: core inflation jumped higher to 2.5% YoY in May, after remaining broadly stable at 2.2% in March and April. However, the risk lies in the removal of government's fuel measures, as prolonged curbs to contain elevated oil prices would increasingly strain public finances. Consequently, this could heighten the risk of a more pronounced acceleration in headline CPI, with spillover effects into core inflation.

A further amplifying factor is the depreciation of the Korean Won (KRW). The KRW has depreciated 6.5% against the US dollar, last recorded at 1539.30 per dollar as of the close on 18 June 2026, making it one of Asia's underperformers. If this depreciation intensifies or remains elevated, it could significantly amplify imported inflation across all energy and commodity categories. This inflationary pressure is, therefore, likely to pass through to consumer prices, leading to higher living costs and potentially dampening domestic demand if wages do not keep pace with rising expenses.



A hawkish pivot

At its most recent Monetary Policy Board meeting on 28 May, the BoK kept its policy rate unchanged at 2.50%. The decision was not unanimous, as two members called for a 25bp rate hike to 2.75%. Importantly, there was a shift in the BoK's median dot, providing yet another clear signal of a hawkish pivot. In the May dot-plot, the 2026 median dot indicated two 25bps of hikes over a six-month horizon, projecting the policy rate at 3.00%, compared to the February estimate of one 25bp hike. In its press release, the BoK commented that it continues to expect CPI to rise further as projected, but noted that "the future path of inflation is judged to be subject to high uncertainties..."

Our base case is for two 25bp hikes: one hike each in 3Q26 and 4Q26. This would bring the policy rate to 3.00% by year-end. Beyond this, we expect the BoK to enter an extended hold period as it assesses the durability of the inflation trajectory.

Taiwan

Taiwan: Domestic demand joins the growth drivers

Herbert Wong
Economist

- The composition of growth is broadening, suggesting that expansion is becoming more internally reinforced rather than purely export driven. We have raised our 2026 GDP growth forecast to 8.1% YoY from 6.5% previously, based on the strong 1Q26 outturn.
- While the world-leading semiconductor industry provides powerful economic leverage and facilitates key security partnerships, it also exposes Taiwan to significant pressures especially from the United States, which seeks greater onshoring of advanced manufacturing, and China, driven by escalating geopolitical rivalry. Notwithstanding, there was an unprecedented simultaneous spike in both inward and outward FDI in March 2026.
- GDP growth is expected to remain above-trend growth, but with increasing reliance on structural drivers rather than cyclical tailwinds, suggesting a more balanced yet externally sensitive expansion profile in 2H26.

Domestic demand joins the growth drivers?

Growth momentum strengthened in 1Q26, with GDP expanding by 13.69% YoY driven predominantly again by external demand. It was supported by export orders, which rebounded strongly across major markets—particularly the US and ASEAN—while the manufacturing sector transitioned from a cyclical recovery into a phase of more sustained expansion. Export-oriented sectors, led by electronics (which accounted for over 40% of export share), continued to anchor activity, benefiting from resilient global tech demand and supply chain realignment.

While net exports (+9.62 ppt contributions to headline GDP growth) remain the dominant growth driver, contributions from private consumption (+2.23ppt), government consumption (+0.46ppt), and gross capital formation (+1.39 ppt) were also meaningfully higher compared to the previous quarter. The broad-based pickup in domestic demand alongside the continued dominance of net exports suggest growth is becoming more internally reinforced rather than purely externally driven. Firmer household confidence and income support is likely underpinned by a stronger labour market and wealth effects linked to the tech/export cycle. Meanwhile, ongoing fiscal support and re-acceleration in investment activity are also implying that the economy is entering a more balanced growth phase. We have revised higher our 2026 GDP growth forecast to 8.1% YoY from 6.5% previously.

Taiwan

Table 1: Taiwan advance estimate of 1Q26 GDP (Percentage Contribution, by Expenditure)

Component	2025	1Q25	2Q25	3Q25	4Q25	1Q26 (a)	2026F DGBAS	2026F CBC
Domestic Demand	2.32	5.75	2.1	0.86	0.86	4.83	4.1	
-Private Expenditure	1.46	1.43	0.17	0.72	3.45	4.89	2.51	
-Public Expenditure	1.22	0.7	3.25	0.32	0.75	3.91	5.32	
-Gross Capital Formation	4.37	16.72	4.77	1.41	-3.39	5.2	4.08	
External Sector								
-Exports	31.82	20.66	36.26	30.63	38.81	35.25	12.68	
-Imports	26.75	25.31	32.99	24.21	24.59	27.07	9.06	
Real GDP	8.68	5.54	7.71	8.42	12.65	13.69	7.71	7.28

Source: DGBAS, OCBC Group Research.

Chart 1 : Taiwan's GDP growth accelerated significantly from the 2H25, driven largely by net exports

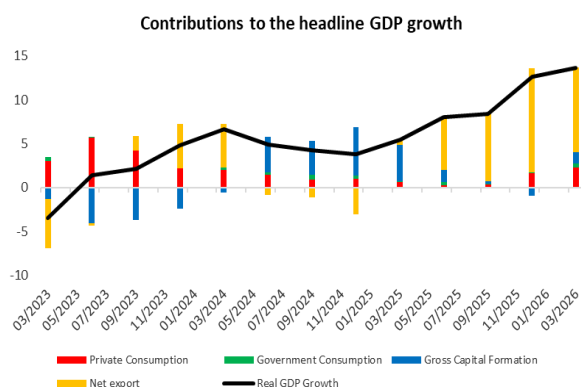


Chart 2 : Taiwan manufacturing shifted from cyclical recovery to expansion

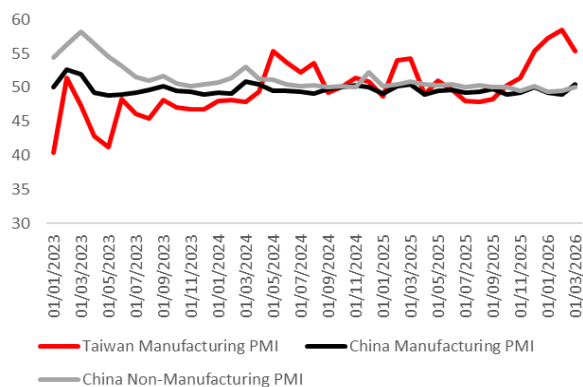
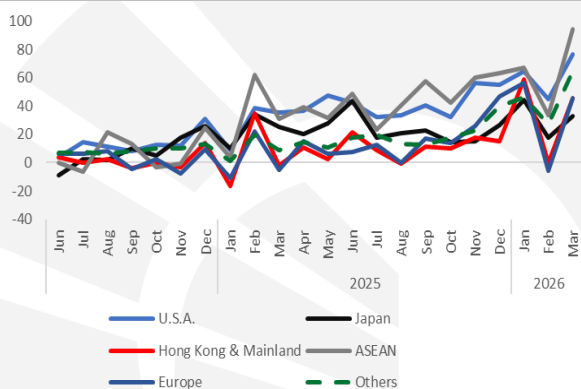
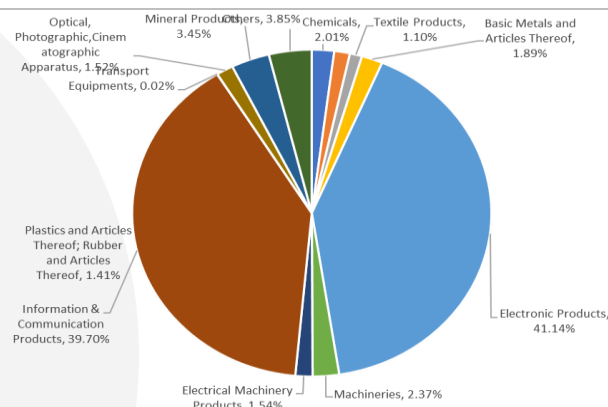


Chart 3 : Export orders across all major regions move sharply higher into early 2026, with ASEAN and US seeing the strongest growth



Source: DGBAS, MoEA, OCBC Group Research.

Chart 4 : Breakdown of Taiwan's Export Share to ASEAN Countries (Mar 2026)



Taiwan

Massive spike in FDI inflow and outflow

There was an unprecedented simultaneous spike in both inward and outward FDI in March 2026. Approximately USD5bn of inward FDI were coming from Asia (ex-Mainland China) into manufacturing. The inward manufacturing surge from other Asian economics (including Japan, South Korea, and other ASEAN countries) suggests strong confidence in the manufacturing base- possibly related to semiconductor supply chains expansion, “China +1” diversification strategies, or geopolitical supply chain shifts.

In contrast, outbound FDI—totalling around USD 30bn—was largely driven by Taiwan-based financial institutions, including banks, insurers, and investment vehicles. These funds were predominantly allocated to the United States. Such flows likely reflect portfolio reallocation into US financial assets, overseas business expansion, and cross-border treasury or balance sheet management. In other words, Taiwanese financial institutions drove the March outflow, rather than driven by manufacturing corporates or other sectors.

The overall FDI picture reinforces the dual nature of Taiwan’s role as the dominant producer of advanced chips. While the world-leading semiconductor industry provides powerful economic leverage and facilitates key security partnerships, it also exposes Taiwan to significant pressures – from the United States, which seeks greater onshoring of advanced manufacturing, and China, driven by escalating geopolitical rivalry.

Chart 5: Mar 26 shows a massive spike in total approved inward FDI from Asia (ex Mainland China), with nearly US\$5 billions

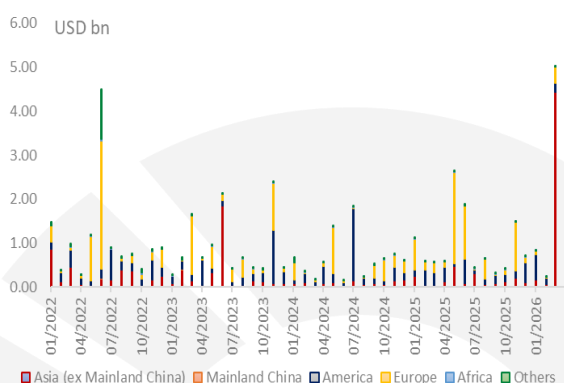
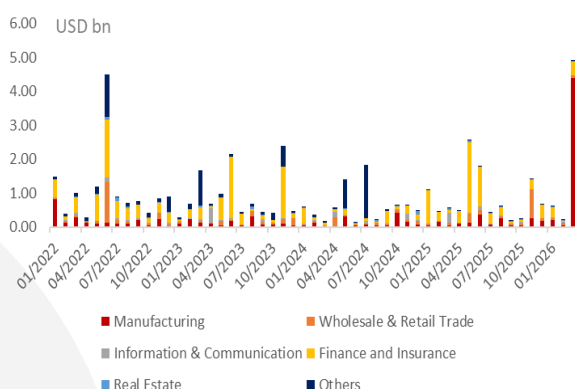


Chart 6: Manufacturing accounts for the largest share of the Mar 26 inward FDI spike, towering over US\$4 billions



Taiwan

Chart 7: Taiwan's outward FDI recorded an exceptional surge in Mar 26, driven predominantly by the US

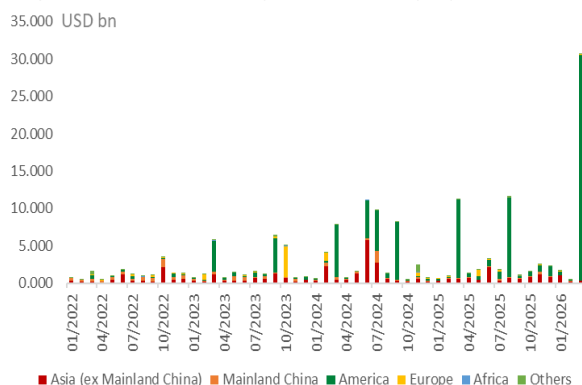
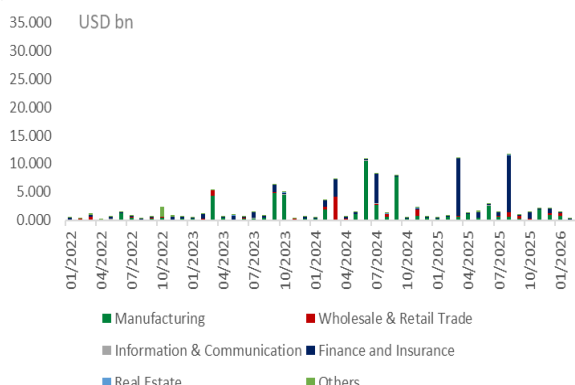


Chart 8: Finance and Insurance accounts for a very large portion of the Mar 26 outflow



Source: CEIC, OCBC Group Research.

Stable core, but energy exposure keeps inflation risks skewed to the upside

CPI dynamics remain relatively contained but show early signs of renewed pressure. Headline inflation is hovering around ~2% YoY, with core CPI broadly stable in the ~1.8–2.5% range, suggesting underlying price momentum remains firm but is not accelerating sharply. The latest breakdown indicates that services, housing and education/entertainment continue to drive inflation, while food price pressures appear to have moderated lately. However, transportation and communication remain a key swing factor, reflecting sensitivity to energy costs. This is particularly important given the heavy reliance on imported energy—where petroleum still plays a dominant role in the energy mix—and concentrated crude sourcing from key Middle East-linked suppliers alongside the US.

Against this backdrop, the US–Iran conflict introduces an upside risk to inflation via the oil channel. Given oil accounts for a substantial share of energy consumption and import dependence is high, any sustained disruption to Middle East supply or risk premium in oil prices is likely to feed through to transportation costs and, with a lag, broader CPI components.

While recent inflation trends suggest limited broad-based second-round effects so far, a prolonged geopolitical shock would raise the risk of re-acceleration in headline CPI, with spillovers into core via services and utility costs. In this sense, the inflation outlook remains highly sensitive to external energy shocks, even as domestic demand-driven pressures stay relatively contained.

Our 2026 CPI forecast has been revised slightly higher to 2.2% (from 2.0%), as our commodity strategists expect oil prices to remain elevated for longer, reflecting infrastructure damage and precautionary stockpiling. Consequently, Brent is now projected to end the year near USD 80/bbl, up from the previous USD 70/bbl assumption.

Taiwan

Chart 9 : Energy/base effects are still masking underlying price pressures

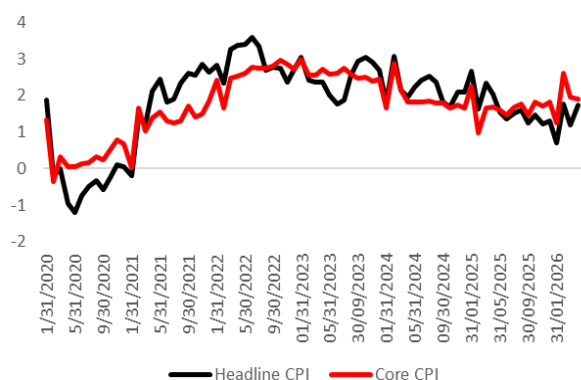


Chart 10 : Education & entertainment, services, and transportation remained the strongest contributors, pointing to persistent service inflation

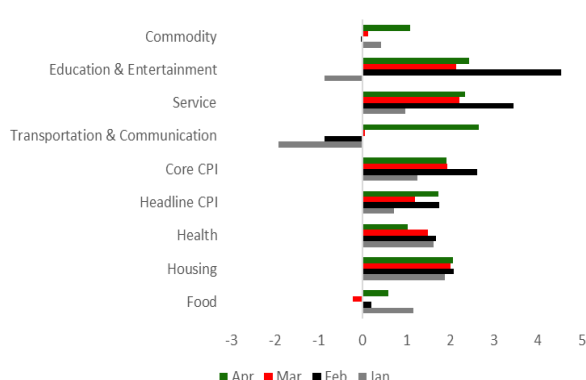


Chart 11 : Petroleum accounts for ~45% of total energy consumption in Taiwan

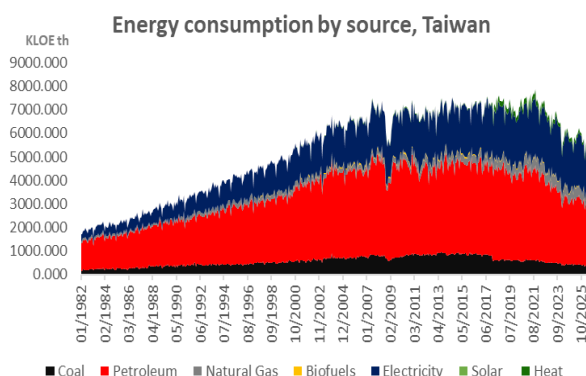
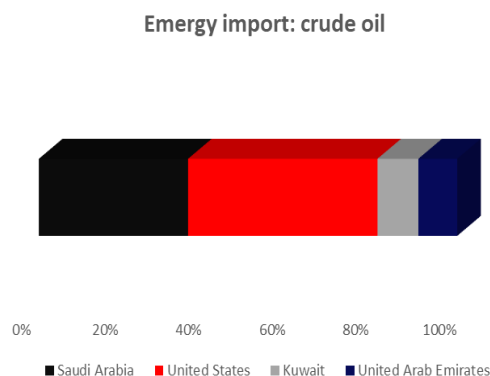


Chart 12 : Taiwan imports most of its oil from Saudi Arabia and the United States



Source: DGBAS, CEIC, OCBC Group Research.

CBC holds steady, but signals a less dovish stance

In March, Taiwan's central bank (CBC) kept policy rates unchanged, though the overall tone was not overtly dovish. The central bank acknowledged strengthening growth momentum, supported by robust exports, private investment, and AI-related demand. At the same time, inflation forecasts were revised slightly higher to 1.8% but remained below the 2% threshold. Governor Yang also signalled that policy could tilt tighter should Middle East tensions persist and energy prices remain elevated.

While the risk of second-round inflation effects—and a corresponding policy tightening—cannot be ruled out if oil prices stay elevated for longer, we expect the CBC to keep the policy rate unchanged at 2% throughout the year.

Taiwan

Chart 13: TWD remains resilient, but structural outflows from lifers may lead to underperformance against MYR, SGD, and RMB

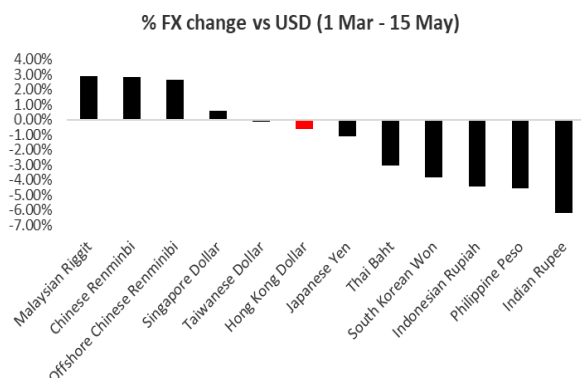


Chart 14: OCBC's latest AxJ forecasts

USD-AXJ FX	Sep-26	Dec-26	Mar-27	Jun-27
USD-SGD	1.27	1.26	1.26	1.25
USD-CNY	6.80	6.78	6.76	6.74
USD-CNH	6.80	6.78	6.76	6.74
USD-THB	32.50	32.10	31.80	31.60
USD-IDR	17100	17000	16900	16800
USD-MYR	3.92	3.86	3.83	3.81
USD-KRW	1460	1450	1430	1410
USD-TWD	31.50	31.40	31.20	31.10
USD-HKD	7.80	7.78	7.78	7.78
USD-PHP	61	60	60	60
USD-INR	95	96	96	97
USD-VND	26000	26000	25800	25900

Chart 15: Taiwan's FX reserves remain on a structural uptrend

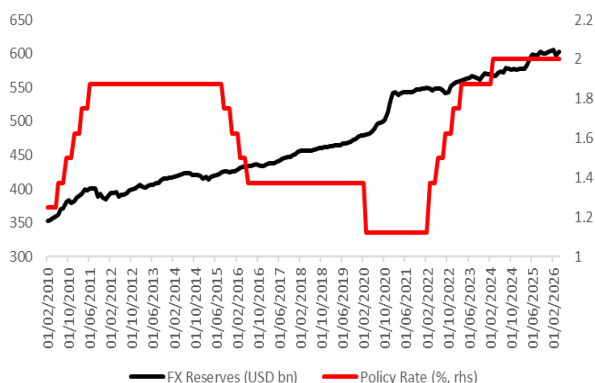
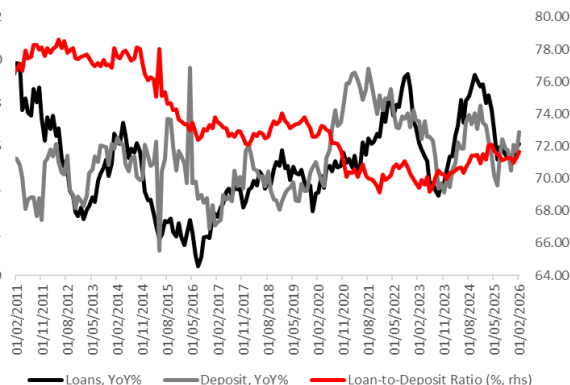


Chart 16: The recent uptick in LDR suggests loan growth is stabilising



Source: Bloomberg, CEIC, OCBC Group Research.

From cyclical boost to structural support

Looking ahead to 2H26, the growth trajectory is likely to remain constructive but increasingly hard to predict. The strong external impulse seen in early 2026 should persist, supported by supply chain reconfiguration (China + US +1), government industrial policy, semiconductor super cycle dynamics, and firm export linkages with the US and ASEAN. Meanwhile, the sharp rise in both inward manufacturing FDI and outward financial flows highlights Taiwan's dual positioning—benefiting from strategic supply chain inflows while simultaneously facing capital reallocation pressures toward the US.

Overall, Taiwan is expected to maintain above-trend growth, but with increasing reliance on structural drivers rather than cyclical tailwinds, suggesting a more balanced yet externally sensitive expansion profile in the second half of the year. Risks into 2H26 are tilted in both directions: upside could come from a sustained tech upcycle and further capacity expansion in advanced manufacturing, while downside risks stem from geopolitical uncertainty, potential external demand and global growth softening.

Thailand

Thailand: Growth constrained

- We expect 2026 GDP growth of 1.5% YoY versus 2.4% in 2025, reflecting external headwinds but also constrained household consumption and slower investment spending. The upside is that Prime Minister (PM) Anutin Charnvirakul has a strong mandate, with scope for more reform-oriented policies to take root. The near-term challenges include dealing with sharply higher inflation pressures. To that end, we revised higher our 2026 headline CPI to average 3.8% YoY (previous: 3.4%), implying a further acceleration for the remainder of the year.
- Fiscal policy is less flexible considering that public debt to GDP is hitting close to the self-imposed limit of 70% of GDP. The authorities have announced fiscal stimulus aimed at bolstering household spending amid higher energy prices. The fiscal deficit is projected to remain wide at 3.9% of GDP in FY27 compared to 4.4% in FY26.
- Our baseline is for the Bank of Thailand (BoT) to maintain the policy rate at 1.00% through 2026, but we do not rule out some normalisation in 2H26 particularly if inflationary pressures remain high. We nonetheless forecast rate hikes in 2027, taking the policy rate to 1.50%.

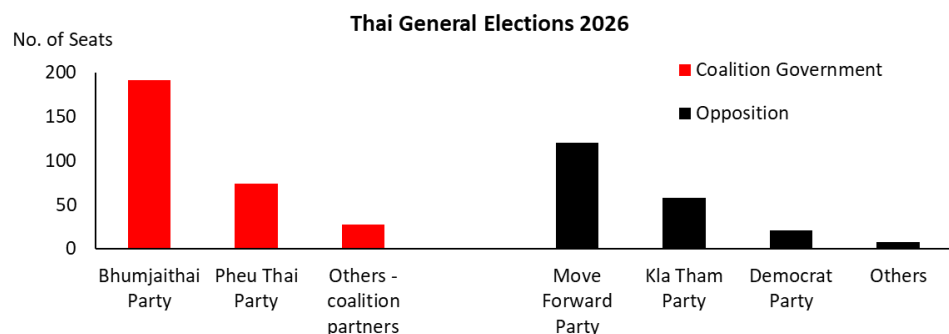
Lavanya Venkateswaran
Senior ASEAN Economist

Jonathan Ng
ASEAN Economist

Clear political outcomes

The 2026 snap election concluded on 8 February 2026 against a backdrop of domestic political fragility, cross-border disputes, and heightened geopolitical tensions. The election had long been anticipated as it was a condition for the People's Party's support of the Bhumjaithai party's government formation in September 2025. Additional conditions included the Bhumjaithai Party remaining a minority government and holding a referendum on constitutional amendments. Official results from the Election Commission of Thailand revealed that the Bhumjaithai Party secured 191 seats in the lower house. Although the party did not achieve an outright majority, the political outcome was clear. It led to the removal of any near-term political overhang on policies related to economics, social issues, and foreign affairs. Additionally, this result provided PM Anutin Charnvirakul with a strong platform to form the next government, which was established relatively swiftly.

Thailand



Note: With 499 sitting MPs, PM Anutin secured 293 votes. 292 votes came from his coalition, with the additional vote from the People's Party, according to local media reports.

Source: Election Commission of Thailand, Thai PBS, OCBC Group Research.

The Bhumjaithai Party struck a coalition deal with the Pheu Thai Party and several smaller parties, while the People's Party remained outside of government, assuming the role of the largest opposition in the lower house. PM Anutin secured 293 votes in the House of Representative, allowing him to be re-elected as Prime Minister on 19 March. A 35-member coalition cabinet, comprising 32 from Bhumjaithai and 9 Pheu Thai, received royal endorsement on 31 March and were sworn in on 6 April. Importantly, the composition of the new cabinet suggests broad policy continuity, with Ekniti Nitithanprapas, Suphatee Suthumpun, and Sihasak Phuangketkeow retaining their positions of finance minister, commerce minister and foreign minister, respectively. Economic policies can improve under a stable, durable government, enabling authorities to implement much-needed structural reforms that boost medium-term economic growth.

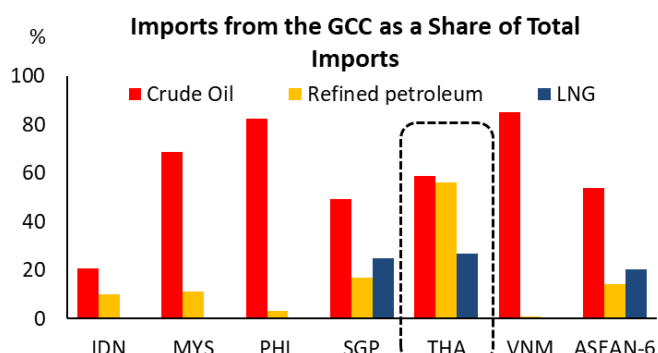
The stabilisation in domestic politics was fortuitous considering the conflict in the Middle East erupted shortly after the elections. The economy is the largest net petroleum importer in the region and among the most exposed economies to the conflict in the Middle East. Based on 2024 data, over half of its energy imports — both crude and refined petroleum — pass through the Straits of Hormuz. The supply chain has also been disrupted through disruptions to fertilizers and petrochemical products. The government maintains that the domestic supply of fertilizer remains ample and that scheduled shipments will ensure sufficient supply until August²⁵. Despite this, domestic urea prices have risen²⁶. Combined with higher energy prices and other input costs, this has drastically impacted farmers' finances and could lead them to reduce planting, which would lower agriculture yields²⁷.

²⁵ Thailand's fertilizer supply ample as war continues. Argus Media, 6 March 2026.

²⁶ Fertiliser prices rise amid Middle East tensions. Bangkok Post, 8 March 2026.

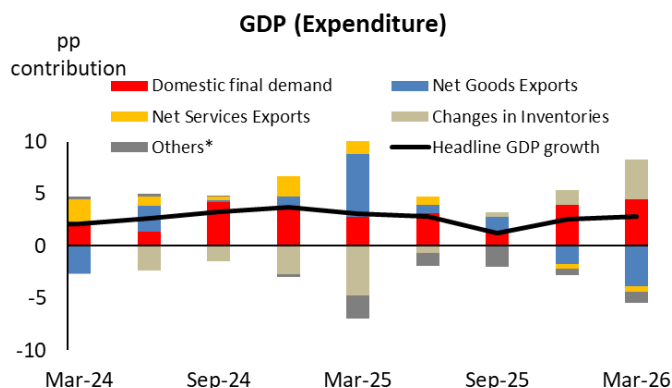
²⁷ Thai and Vietnamese farmers may stop planting rice because of the Iran war. Here's why. The Business Times, 27 April 2026.

Thailand



Note: Data are based on 2024 figures, except for Vietnam and ASEAN-6, which use 2023 data. HS codes used are 2709 (crude oil), 2710 (refined petroleum), and 271111 (LNG).

Source: UN Comtrade, OCBC Group Research.



Source: Office of the National Economic and Social Development Council, CEIC, OCBC Group Research.

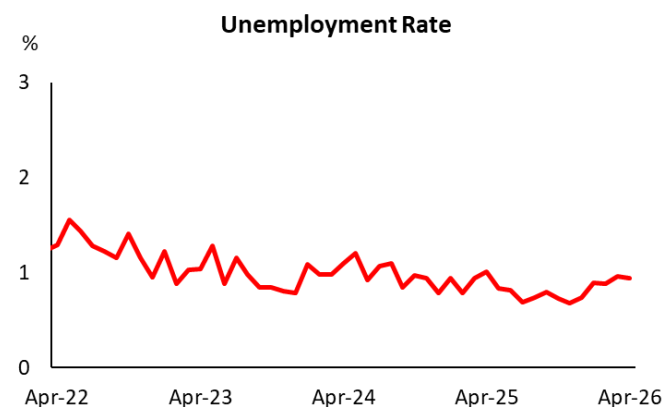
Notwithstanding, GDP growth improved to 2.8% YoY in 1Q26 from 2.5% in 4Q25. The details show that domestic demand was the main driver, contributing 4.5 percentage points (pp) in 1Q26 from 4.0pp in 4Q25. Within domestic demand, government and investment spending were the main drivers, growing by 3.4% YoY and 9.9% YoY, respectively, compared to 1.3% and 8.1% in 4Q25. By contrast, private consumption growth remained broadly stable at 3.2% YoY, slightly down from 3.3% in 4Q25. The negative contribution from net exports widened, shaving off 4.4pp from headline GDP growth.

Looking ahead, we maintain our 2026 GDP growth forecast of 1.5% YoY in 2026 compared to 2.4% in 2025. Our GDP growth profile indicates a sharper slowdown to 1.0% YoY in 2Q-4Q26, down from 2.8% in 1Q26. This deceleration is primarily attributed to weakening private consumption alongside slower investment spending.

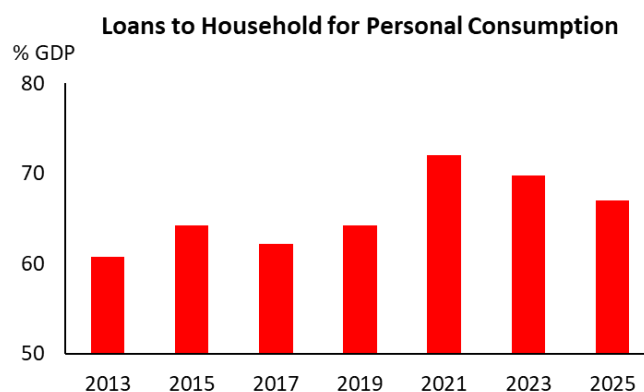
Private consumption growth, which accounts for more than half of real GDP, is expected to remain soft, averaging 1.9% in 2Q-4Q26. First, the spike in inflation driven by the energy shock will erode real disposable income, thereby squeezing real purchasing power and potentially amplifying the drag on aggregate demand. Second, the labour market is showing signs of softening. The unemployment rate rose to 0.91% in 1Q26, up from 0.71% in 4Q25 (1Q25: 0.89%). According to Labour Minister Treenuch Thienthong, “ongoing tensions in the Middle East and a slowing global economy could weigh on Thailand’s job market, with layoffs continuing to rise.”²⁸ As such, should businesses respond to rising cost by trimming working hours, slowing hiring, or laying off workers, the income channel supporting private consumption would weaken further. Third, and most structurally, persistently elevated household debt continues to constrain both the capacity and willingness of consumer spending. Household debt peaked at 94.7% of GDP in 2021 and moderated to 86.7% in 2025. More importantly, household debt geared towards personal consumption is high, accounting for 67.0% of total household debt in 2025, down from 72.0% in end-2021. Indeed, high-frequency indicators continue to reflect weak underlying demand: the private consumption index slowed to 0.8% YoY in April, down from 4.4% in March (April 2025: 1.8%).

²⁸ Labour Ministry Prepares Job Support Amid Global Pressures. NBT World, 24 March 2026.

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Source: National Statistical Office, CEIC, OCBC Group Research.



Source: Bank of Thailand, CEIC, OCBC Group Research.

The room for broad-based counter cyclical fiscal policies is limited, in our view. The fiscal cash balance deficit has widened to 5.2% of GDP on a 12-month rolling basis until April 2026, up from 4.8% of GDP for FY2025 (i.e., October 2024 to September 2025). The FY26 fiscal deficit target is 4.4% of GDP. Under the hood, expenditure growth slowed to 7.1% YoY in Oct 2025 – Apr 2026, due to a normalisation of government expenditure: current and capital expenditures stood at 76.2% and 37.0%, respectively, of the government budget during the same period. On the revenue front, revenue collection growth remained broadly stable at 4.8% YoY for the period from Oct 2025 – Apr 2026, compared to 4.7% in the same period last year: the revenue collection rate stands at 51.2% of the FY26 target.

Nevertheless, the government has rolled out a multi-layered policy package structured across three key areas, beginning with immediate relief measures designed to alleviate urgent financial pressures, the Cabinet approved a ~THB7.7bn relief package to provide allowances for low-income welfare cardholders, assist transport operators, and implement nationwide cost-of-living initiatives benefiting farmers and small businesses²⁹.

For targeted credit and structural support, state banks are offering soft loans for households to install solar panels or purchase electric vehicles, low-interest green home mortgages, and subsidized loans to help farmers purchase fertilizers and seeds. To support SMEs, the government has allocated THB20bn to reduce debt burdens through principal and interest relief and will provide affordable green technology loans and online training programs aimed at helping businesses upgrade skills and transition toward a sustainable, green economy³⁰.

Given these fiscal constraints, the conventional fiscal channels for additional stimulus have been stretched. According to Finance Minister Ekniti Nitithanprapas, only THB20bn in uncommitted FY26 budget funds and ~THB20bn in the central budget are available to mitigate the economic impact. Moreover, the deficit-financing ceiling for the year has been

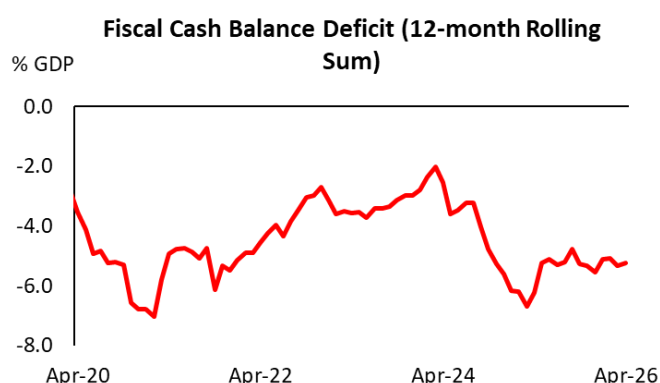
²⁹ Cabinet Approves Over 7.7 Billion Baht to Ease Impact of Rising Energy Costs. The Government Public Relations Department, 11 April 2026.

³⁰ Thai Cabinet Unveils Multi-Billion Baht Stimulus to Counter Middle East Crisis Volatility. The Nation Thailand, 11 April 2026.

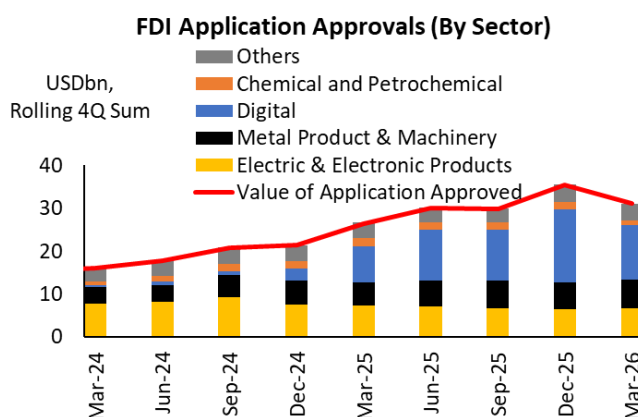
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reached, further limiting the government's ability to deploy additional fiscal measures³¹. This constraint is the rationale for the Cabinet's approval of the emergency borrowing decree of THB400bn: THB200bn will be diverted to immediate relief to ease cost-of-living measures for vulnerable groups, and the remaining THB200bn will be used to finance and accelerate the country's green energy initiatives³².

This nonetheless raises concerns that the borrowing will push public debt close to the 70% ceiling over the next two years. Public debt to GDP stood at 66.7% of GDP, as of April 2026. The Constitutional Court will hear a challenge to the emergency borrowing plan, which could complicate ongoing efforts to address the energy shock, and add to the fiscal uncertainty.



Source: Fiscal Policy Office, CEIC, OCBC Group Research.



Source: Board of Investment, CEIC, OCBC Group Research.

Meanwhile, investment spending is expected to slow to 4.3% YoY in 2Q-4Q26, compared to 9.9% in 1Q26. On a 4-quarter rolling basis, foreign direct investment (FDIs) inflows, as measured by the value of applications approved, slowed to 17.6% YoY in 1Q26, down from 65.9% in 4Q26. The slowdown was mainly driven by lower investments in the digital sector. The digital sector accounted for 48.5% of investment applications in 2025 but only 40.6% in 1Q26. FDI approvals for the more traditional sectors, such as metal products & machinery strengthened to 23.7% in 1Q26, up from 11.3% in 4Q25.

External sector set to soften

On the external front, the export sector recovered in 1Q26, with good exports being the standout surprise, expanding by 15.5% YoY after a sharp slowdown in 2H25. The strength was mainly driven by strong demand for electronics & electrical appliances. Our baseline anticipates that the momentum of goods export will moderate, expanding by 7.8% YoY in 2Q-4Q26, compared to 15.5% in 1Q26.

Services exports are anticipated to only improve modestly, expanding by 1.1% YoY in 2Q-4Q26, compared to 1.0% in 1Q26. Tourism, which has traditionally been an engine of growth, has weakened. Year-to-April 2026, total tourist arrivals averaged 87.8% of 2019

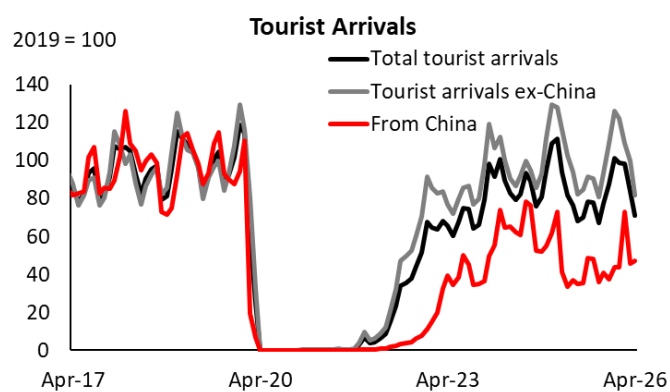
³¹ Ekniti says 'sick' economy needs emergency funds. Bangkok Post, 15 May 2026.

³² Understanding emergency debt decrees. Bangkok Post, 9 May 2026.

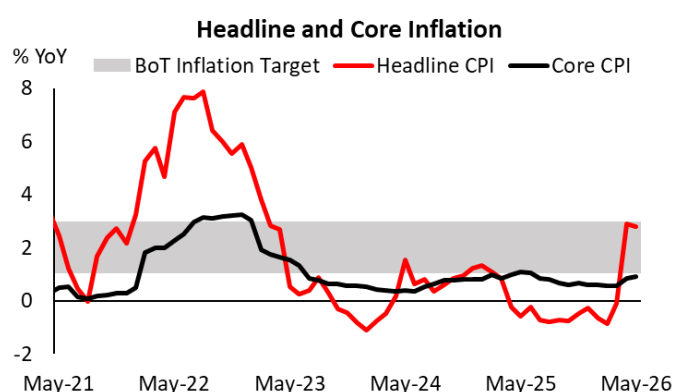
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levels, slightly lower than the same period last year due to weaker foreign tourist arrivals, particularly from the Middle East and Europe. By contrast, there has been a slight recovery in Chinese tourist arrivals: year-to-April 2026, Chinese tourist arrivals averaged 52.5% from 2019 levels, up from 46.1% in the same period last year. Nevertheless, we anticipate the recovery of the tourism sector to remain sluggish due to higher fuel costs that potentially discourages long-haul travels. Additionally, the government's recent rollback of its 60-day visa-free entry programme for tourists from 93 countries and territories may undermine efforts to revive the tourism industry. The government's latest official forecast for tourist arrivals has been revised lower to 32mn, down from its previous estimate of 35mn³³.

Consequently, the current account balance is set to come under significant pressure in 2026. The current account balance flipped into a surplus of USD3.2bn in 1Q26 but was ~3.7 times smaller compared to the same period last year. Our anticipation of softer good exports and a much slower recovery of the tourism sector will likely weigh on the current account surplus. We expect it to narrow sharply to 0.5% of GDP in 2026 from 2.7% of GDP in 2025.



Source: Bank of Thailand, Ministry of Tourism and Sports, CEIC, OCBC Group Research.



Source: Bank of Thailand, Trade Policy and Strategy Office, CEIC, OCBC Group Research.

Inflation on an uptrend

Headline CPI averaged 0.8% YoY in Jan-May 2026, compared to -0.1% in 2025. For much of the preceding year, headline CPI remained in negative territory for twelve consecutive months through March 2026. The turning point came abruptly in April, with headline CPI surging to 2.9% YoY from -0.1% in the previous month. Compounding the effects, adverse weather and higher fertilizer costs added a supplementary supply-side impulse. Similarly, core inflation rose from 0.6% in March to 0.8% in April, and continued to edge higher to 0.9% in May.

The oil fuel fund balance shifted from a surplus to a deficit in March 2026 due to the government's decision to cap domestic oil prices following the spike in global oil prices. Since then, the authorities have abandoned the fuel price cap on 25 March³⁴, as continued subsidisation has proven unsustainable, with the deficit widening further in tandem with

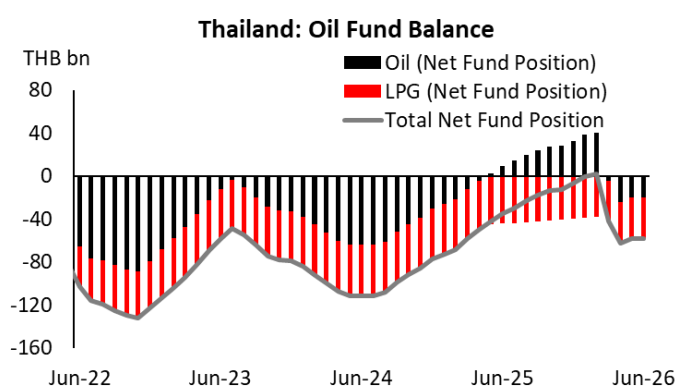
³³ Thailand ends 60-day visa-free stay. Bangkok Post, 19 May 2026.

³⁴ Thailand abandons fuel price caps. Bangkok Post, 25 March 2026.

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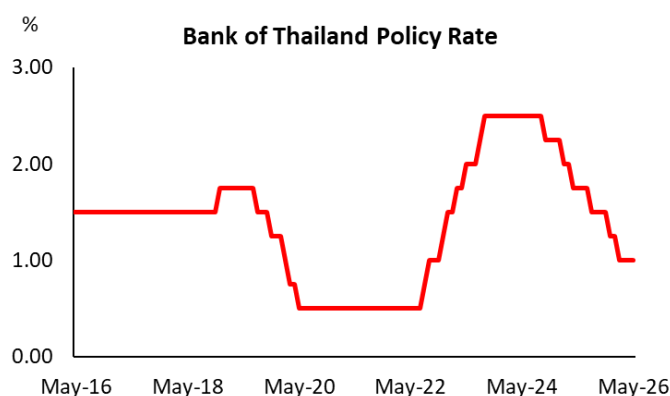
higher global oil prices. Instead, targeted support measures were deployed for vulnerable groups affected by high oil prices.

Looking ahead, we revised higher our 2026 headline CPI to average 3.8% YoY (previous: 3.4%), implying a further acceleration for the remainder of the year. This reflects the impact of elevated energy prices and the potential extent of cost pass-through. Our house view is for Brent crude to average USD85.8/bbl in 2026, up from an average of USD68.2/bbl in 2025.



Note: As of 14 June 2026.

Source: Oil Fuel Fund Office, OCBC Group Research.



Source: Bank of Thailand, CEIC, OCBC Group Research.

Staying vigilant

The BoT delivered a 25bp in rate cut at its 25 February meeting, lowering the policy rate to 1.00%. The decision was attempted to rein in the THB strength. However, since the onset of Middle East tensions, THB has depreciated versus USD in line with regional peers. However, unlike most regional peers, this trajectory for the currency will likely be a welcome change.

Our baseline is for the BoT to maintain the policy rate at 1.00% through 2026. However, with headline CPI rising sharply, BoT will be vigilant of the risks of inflation expectations becoming de-anchored. We do not rule out the possibility for BoT to reverse the 25bp from February later in the year, particularly if price pressures proved persistent and pervasive, in 2H26. We nonetheless forecast rate hikes in 2027, taking the policy rate to 1.50%.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	2.2	2.9	2.4	1.5	2.0	2.0
Exports (% YoY)	2.7	7.5	9.3	9.0	4.3	6.4
Imports (% YoY)	-2.5	5.7	6.8	13.9	3.3	9.6
Current Account Balance (% of GDP)	1.7	2.2	2.7	0.5	1.8	2.0
Unemployment Rate (% aop)	1.0	1.0	0.8	1.0	1.0	1.0
Fiscal Balance (% of GDP)	-3.3	-4.0	-4.8	-4.4	-3.9	-3.3
Headline CPI (% YoY)	1.2	0.4	-0.1	3.8	2.0	1.3
BoT Rate (% eop)	2.50	2.25	1.25	1.00	1.50	1.50

Source: Bank of Thailand, Fiscal Policy Office, Office of the National Economic and Social Development Council, Trade Policy and Strategy Office, CEIC, Bloomberg, OCBC Group Research. The fiscal year is from October to September. For example, FY26 is from October 2025 until September 2026.

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Vietnam: Rising constraints

- Vietnam has entered a new political cycle marked by continuity in leadership and policy. To Lam, as the President, armed with a technocratic cabinet is pushing administrative streamlining, growth-oriented governance, and deeper regional integration.
- We maintain our 2026 GDP growth forecast at 7.3%, lower than official estimates, as higher energy prices and supply disruptions weigh on growth, combined with still elevated uncertainty from US trade actions. The situation remains fluid, and a renewed escalation of tensions would put further downward pressure on our forecast.
- The State of Bank of Vietnam (SBV) will be closely watching rising inflation, which has remained above target alongside a local currency that has been weakening versus USD. With growth still the focus for the authorities, we expect the policy rate to remain on hold at 4.50% in the near term, albeit with the risk of policy rate hikes rising.

Lavanya Venkateswaran
Senior ASEAN Economist

Ahmad A Enver
ASEAN Economist

New leadership, policy continuity expected

Vietnam entered a new political cycle in 1H26, as the 16th National Assembly elected To Lam as State President for 2026-2031, while he continues to serve as General Secretary of the Communist Party of Vietnam. This marks a consolidation of authority at the top of the country's political system. The leadership transition was also accompanied by the election of Le Minh Hung as Prime Minister, with unanimous support from all 495 deputies present. A former State Bank of Vietnam governor, Le Minh Hung brings technocratic and institutional experience to the role, reinforcing expectations of policy continuity, macroeconomic discipline and continued focus on long-term structural upgrading.

Early policy signals remain firmly growth oriented. The government continues to target at least 10% GDP growth in 2026 and average growth of at least 10% over 2026-2030. This ambition reflects the government's broader development agenda, which seeks to move beyond low-cost manufacturing toward productivity gains, technology adoption, continued infrastructure upgrading and a larger role for the private sector.

President To Lam's early diplomatic agenda is notable. China was his first overseas visit as state president, underscoring China's central role in Vietnam's production network, investment flows, trade linkages and infrastructure connectivity. This is unlikely to change, even as it creates exposure to trade-policy scrutiny, in our view. Subsequent visits to India and Sri Lanka point to the country's effort to widen trade and investment partnerships beyond its core markets. Meanwhile, engagements with Thailand, Singapore and the Philippines, alongside To Lam's keynote speech at the Shangri-La Dialogue, highlight Vietnam's more visible regional role. This more active diplomatic posture will be worth monitoring in 2H26, particularly as the country balances high-growth ambitions with a more complex external environment.

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President To Lam's recent diplomatic visits		
Date	Destination	Main focus
14-17 Apr 2026	China	Railways, infrastructure connectivity, trade, investment, agriculture, aviation, 5G, green energy and other strategic sectors. The visit produced 32 cooperation agreements.
5-7 May 2026	India	Enhanced Comprehensive Strategic Partnership, trade, energy, critical minerals, rare earths, technology and business cooperation. India targeted USD25bn bilateral trade with Vietnam by 2030.
7-8 May 2026	Sri Lanka	Elevation of ties to a Comprehensive Partnership, with focus on trade, investment, tourism, logistics connectivity and cargo transshipment.
27-29 May 2026	Thailand	Official visit during the 50th anniversary of diplomatic relations, with both sides seeking stronger and more dynamic cooperation.
29-31 May 2026	Singapore	State visit to Singapore and keynote address at the Shangri-La Dialogue, where To Lam highlighted peace, stability and development amid global uncertainty.
31 May-1 Jun 2026	Philippines	State visit focused on trade, security and maritime cooperation, with the relationship elevated to an enhanced strategic partnership.

Source: Government news website, Vietnam+, Fulcrum, Reuters, Bloomberg.

Growth to moderate from a high base

Growth momentum remains firm, although GDP growth is starting to moderate from a high base. Real GDP expanded by 7.8% YoY in 1Q26, easing from 8.5% in 4Q25, though still close to the average 8.0% growth in 2025. The slowdown in 1Q26 was broad-based across major sectors, including services (8.2% from 8.8%), industry and construction (8.9% from 9.7%), and agriculture, forestry and fisheries (3.6% from 3.7%). Manufacturing remained a notable bright spot, with output growth still close to double digits (9.7% from 10.6%), signalling sustained momentum in industrial production.

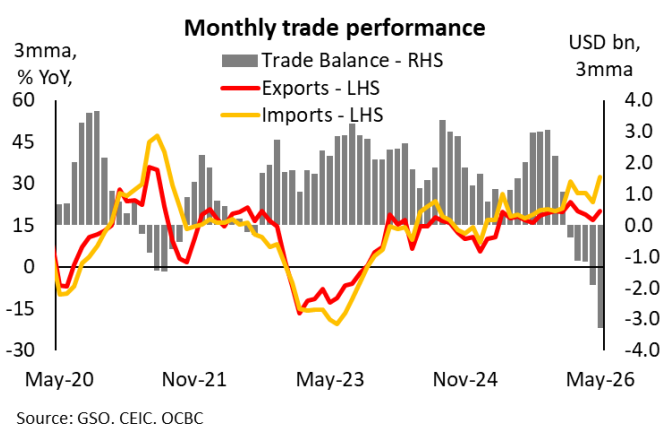
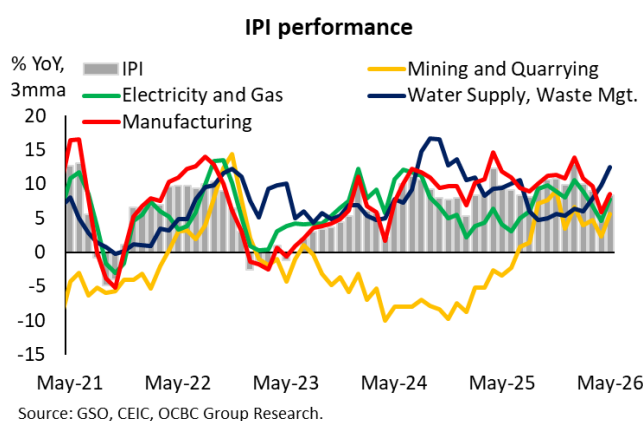
% YoY, unless stated	2023	2024	2025		Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP	7.0	8.0	7.3		7.0	8.2	8.3	8.5	7.8
Agriculture, Forestry and Fishery	3.6	3.8	3.0		3.8	4.0	3.7	3.7	3.6
Industry and Construction (IC)	8.0	8.9	7.7		7.6	8.8	9.4	9.7	8.9
Industry	8.1	8.8	8.1		7.2	8.3	9.4	9.9	9.0
Manufacturing	9.6	10.0	8.5		9.3	10.2	9.6	10.6	9.7
Construction	7.6	9.6	7.7		9.3	10.9	9.2	9.2	8.4
Services	7.4	8.6	8.3		7.8	9.0	8.7	8.8	8.2
Wholesale, Retail Sales & Motor Vec.	8.0	8.5	8.2		7.4	8.5	8.9	9.2	9.6
Transportation & Storage	10.8	11.0	6.7		10.4	11.0	11.8	10.8	8.9
Accommodation & Food Service Act.	9.8	10.0	5.1		10.2	9.7	10.2	10.0	7.5
Financial, Banking & Insurance Act.	6.9	7.8	6.0		6.6	7.1	7.8	9.3	7.7
Real Estate Activities	3.3	4.6	4.9		4.4	4.4	5.3	4.5	4.7

Source: GSO, CEIC, OCBC Group Research.

Recent activity data suggest that underlying momentum held up into May. The industrial production index (IPI) growth eased slightly to 8.8% YoY in May, from 9.3% in April. Encouragingly, the softer prints broadly reflect lower readings in mining & quarrying (6.0% in May from 8.4% in April), electricity & gas (8.5% from 10.3%), and water supply and waste

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management (8.7% from 16.5%), while manufacturing IPI remained robust at 9.0% (from 9.1%). Looking at recent trade trends, exports and imports rose by 19.4% YoY and 30.1% YoY, respectively, in the first five months of 2026, compared to 14.2% and 17.4% during the same period last year. As a result, the trade balance recorded a deficit of USD12.7bn, compared to a USD5.1bn surplus in 5M25. Against this backdrop, we continue to expect the current account surplus to narrow to 5.3% of GDP in 2026, down from 6.7% in 2025.

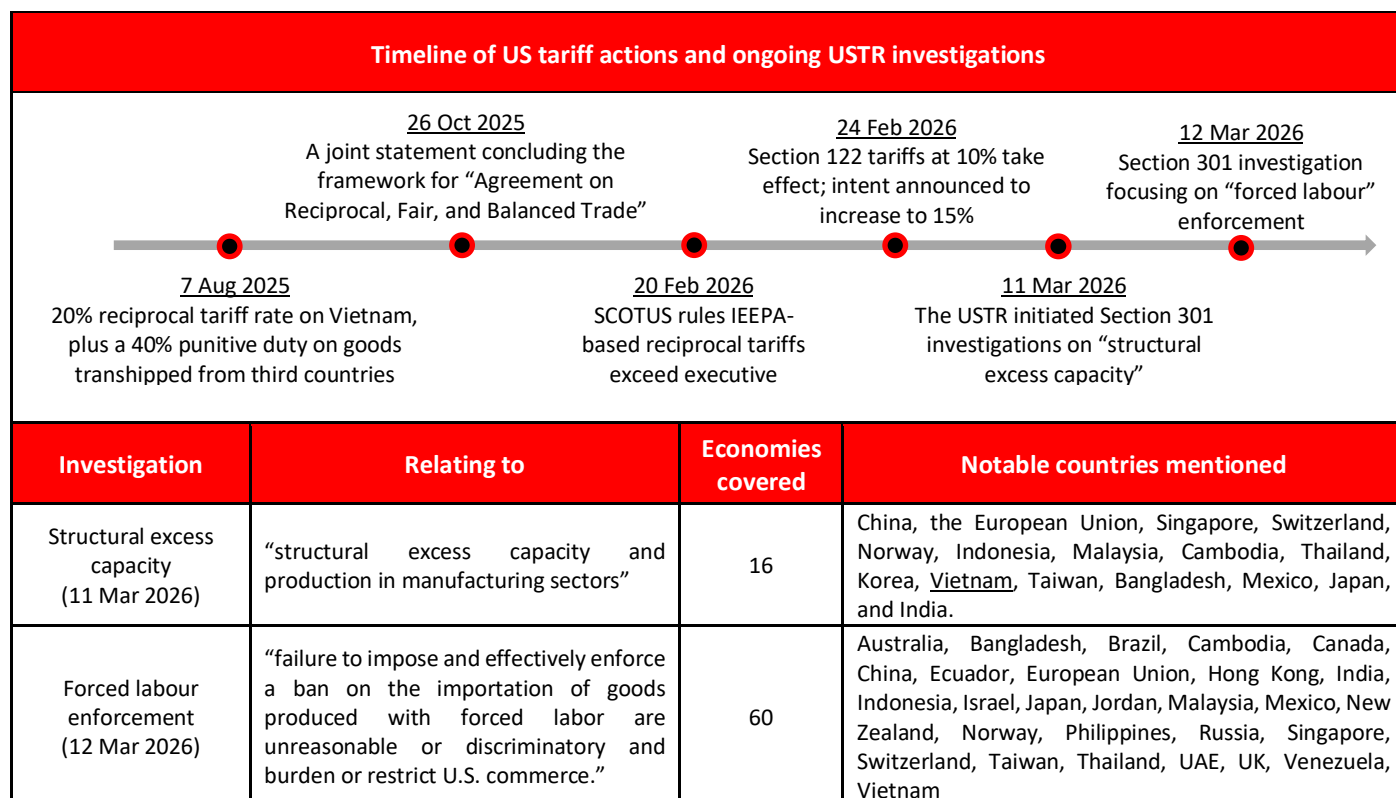


Looking ahead, we maintain our 2026 GDP growth forecast at 7.3%, down from 8.0% in 2025. Slower household consumption on account of higher energy prices, rising demand for intermediate imports used in downstream manufacturing, and limited fiscal space for aggressive counter-cyclical policies suggests that a modest slowdown is more likely than not. Moreover, we see net trade as becoming a less supportive growth driver in 2026 compared 2025 as witnessed by sharply higher import growth. Fundamentally, however, FDI policies, a strong public infrastructure pipeline and increasingly better-diversified exports should keep Vietnam among ASEAN's fastest-growing economies. This is even if achieving the government's 10% target proves challenging amid higher energy costs, US trade-policy uncertainty and a less supportive external balance.

Trade policy uncertainty remains a key risk

The trade picture, while continuing to point to robust growth, is increasingly shaped by policy uncertainty from the US. The issue is not only the tariff rate applied to Vietnamese goods, but also the broader direction of US trade enforcement. Following the Feb 2026 Supreme Court ruling that weakened the legal basis for IEEPA-based reciprocal tariffs, the US has shifted toward other trade-policy tools, including Section 122 surcharges and Section 301 investigations.

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USTR launched Section 301 investigations covering structural excess capacity and forced-labour enforcement, both of which include Vietnam. Subsequently, the US Trade Department noted on 3 June that 10-12.5% tariff rates will be imposed on 60 economies including Vietnam. The details and timeline of implementation are still pending. The USTR will hold hearings on the proposed action on 7 July 2026.

USTR initiated a separate Section 301 investigation into Vietnam's intellectual property protection and enforcement, after identifying Vietnam as a Priority Foreign Country in the 2026 Special 301 Report on 28 May. The China precedent is relevant. The USTR's 2017 investigation into China's technology-transfer and IP practices led to additional tariffs on around USD50bn of Chinese imports in 2018, before later actions expanded coverage further.³⁵ The precedent is useful mainly as a reminder that Section 301 investigations can move from legal process to tariff action if the issues remain unresolved.

Vietnam's vulnerability to US trade policy remains significant, given that the US accounts for ~30% of total exports. This exposure is compounded by a production base that is deeply integrated into regional and China-linked supply chains. Market diversification through CPTPP, RCEP and prospective bilateral FTAs provides a useful buffer, but cannot readily substitute for the scale and depth of US market access. As such, the more immediate risk

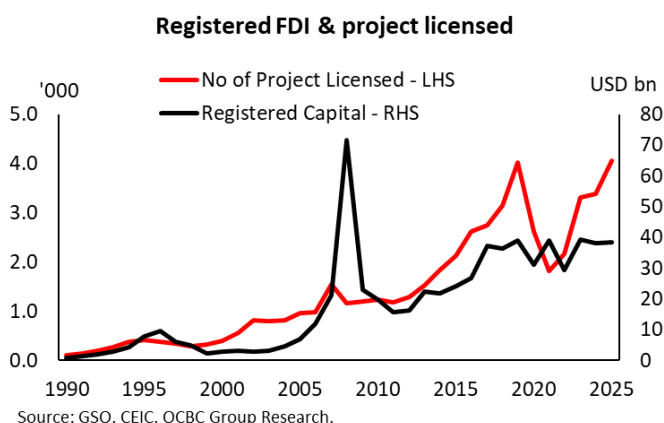
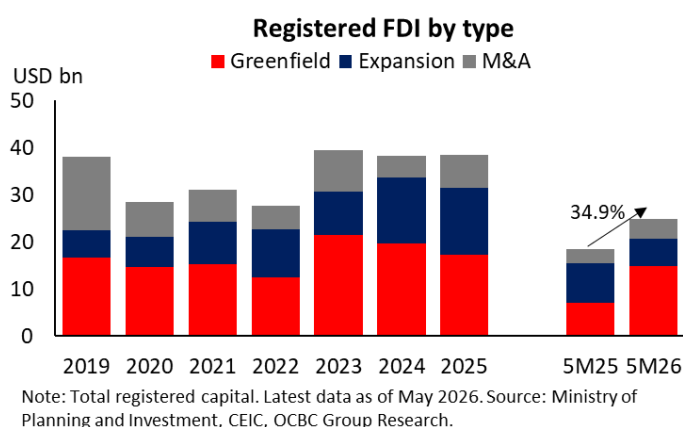
³⁵Office of the United States Trade Representative, "Investigation: Technology transfer, intellectual property, and innovation," n.d., ustr.gov; Office of the United States Trade Representative (USTR), "Investigation: Technology Transfer, Intellectual Property, and Innovation," n.d., ustr.gov; USTR, "Section 301 Fact Sheet," March 2018, ustr.gov.

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from the current investigations is not so much near-term tariff action, but rather the uncertainty, higher compliance costs, and a more cautious investment stance they create.

FDI resilience despite external headwinds

Despite a more complex global trade policy backdrop, Vietnam's FDI momentum remains robust. Total registered FDI reached USD24.8bn in the first five months of 2026, up 34.9% YoY, while disbursed FDI increased 9.6% YoY to USD 9.8bn, marking the highest January–May level in recent decades. Singapore remained the largest source in the first four months of 2026 with more than USD7.4bn, accounting for 39.9% of the total. This is followed by South Korea with more than USD4.8bn, or 25.7%, Indonesia (USD1.7bn), Hong Kong (USD1.2bn) and China (USD1.1bn).



Manufacturing remains at the core of the FDI story, attracting USD14.5bn (58.5%) of registered investment in 5M26, up 39.6% YoY. The quality of inflows continues to improve alongside scale. Samsung Electronics announced plans to invest USD4bn in chip packaging facilities in Thai Nguyen province (with an initial phase of USD2bn). Hong Kong-based Accelerated Infrastructure Capital (AIC) signed an MoU to develop a USD2.1bn AI mega data centre in Ho Chi Minh City, while the G42–FPT consortium committed USD2bn to a hyperscale AI data centre. Meanwhile, BYD has announced a joint-venture EV battery plant in Hue, further broadening technology and clean energy investments into the economy. This is consistent with the authorities' broader ambition to move up the manufacturing value chain, while deepening domestic supplier linkages remains important.

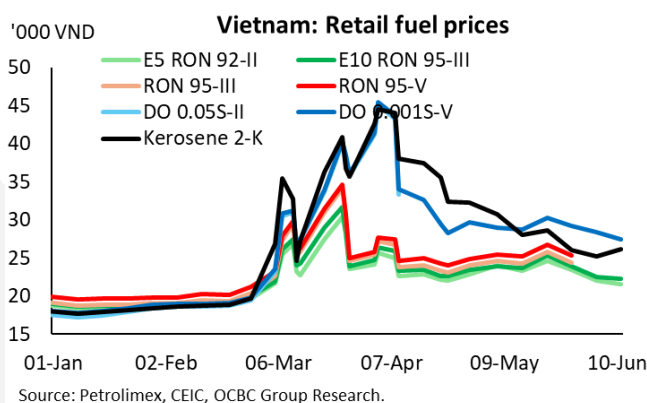
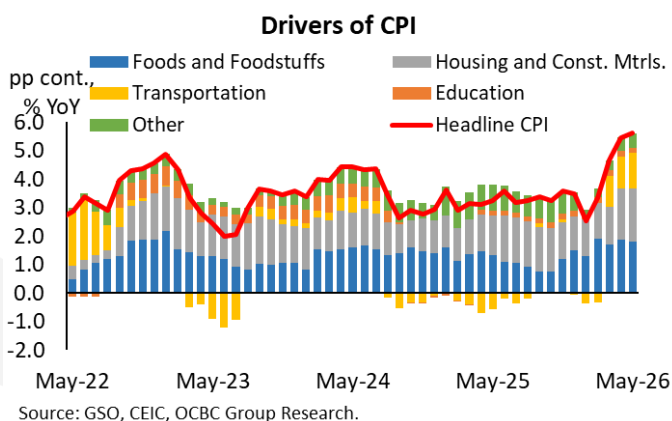
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Notable investment announcements in 2026 (ytd)			
Company	Investment Value	Date Announced	Investment Details
Samsung Electronics	USD4bn	9 Apr 2026	Building a chip packaging plant in Thai Nguyen province to be implemented in several phases, with the first phase consisting of USD2bn.
AIC	USD2.1bn	11 Mar 2026	Accelerated Infrastructure Capital signed an MoU with Ho Chi Minh City to invest USD2.1bn in Ho Chi Minh City's first AI mega data centre, to be built at Tan Phu Trung Industrial Park with partners and fully disbursed by 1Q27.
G42 & FPT Consortium	USD2.0bn	9 Feb 2026	Framework agreement to build a hyperscale AI data center in Ho Chi Minh City and two other locations.
BYD	~USD130mn	27 Jan 2026	EV battery plant in Hue city with Kim Long Motor, to be developed in two phases with maximum designed capacity of 6 GWh per year.

Source: VIR, The Investor, VietnamPlus, Bloomberg.

Oil price impact warrants vigilance

On the domestic front, inflation has become a more pressing concern. Headline CPI rose sharply to 5.6% YoY in May 2026, exceeding the government's 4.5% annual target. The increase was primarily driven by a surge in transportation inflation, which accelerated to 12.5% YoY (from 11.1% in April and -3.2% in February, prior to the escalation in Middle East tensions). Similarly, housing and construction costs remained elevated at 8.2% YoY (from 7.9% in April), while food inflation moderated slightly to 5.0% (from 5.2%), providing a partial offset. Core CPI was largely unchanged at 4.7% YoY, remaining close to its highest level since March 2023.



Fuel price management has become a central policy challenge. The Petroleum Price Stabilisation Fund (PPSF) absorbed significant pressure from mid-March, with balances declining sharply from approximately VND5.6trn at end-3Q25 to a critical level of around VND320bn as of late March 2026. The government consequently pivoted to fiscal measures, suspending environmental protection tax, VAT and the special consumption tax on key fuels. An emergency VND8trn budget injection was made in early April to replenish the PPSF, while the National Assembly unanimously extended fuel tax relief through 30 June 2026.

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Key Petrol Price & Policy Announcements (Mar–Apr 2026)	
Date Announced	Investment Details
06 Mar 2026	MOIT and MOF adjusted retail petrol and oil prices using the Petroleum Price Stabilization Fund (PPSF) to cushion global price volatility.
11 Mar 2026	PPSF drawdowns applied across major fuel products (gasoline, diesel, kerosene, mazut) to limit price increases.
09 Mar 2026	Government amended fuel tax policies, cutting the special consumption tax on petrol to 0% and allowing flexible adjustments if risks persist.
16–18 Mar 2026	Vietnam held high-level calls with Algeria and Angola to secure crude oil and gas supplies and strengthen energy cooperation for diversification.
26 Mar 2026	Emergency measures took effect eliminating environmental protection tax and VAT on key fuels to stabilize domestic petrol prices.
28 Mar–01 Apr 2026	Government approved use of budget surplus to replenish stabilization funds and reinforced diplomatic outreach focused on oil and gas cooperation.
11 Apr 2026	National Assembly unanimously approved extension of fuel tax relief measures until 30 June 2026.

Source: Various news sources, OCBC Group Research.

While these measures could keep headline CPI broadly within target in the near term, the stabilisation framework is becoming increasingly stretched. We expect headline CPI to average 4.5% in 2026 versus 3.3% in 2025, implying higher inflation in the coming months from elevated fuel price pressures. The risks remain tilted to the upside, particularly if global crude oil prices stay elevated.

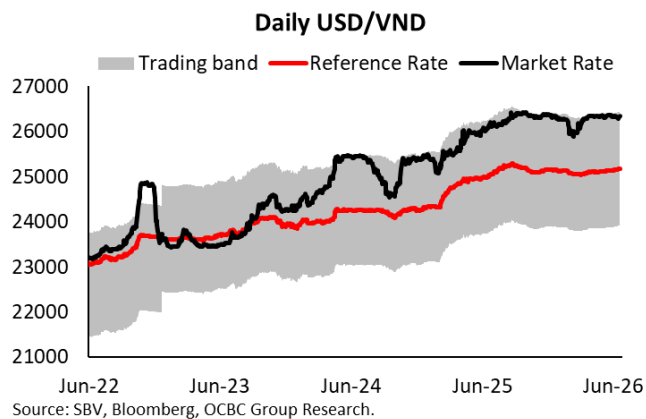
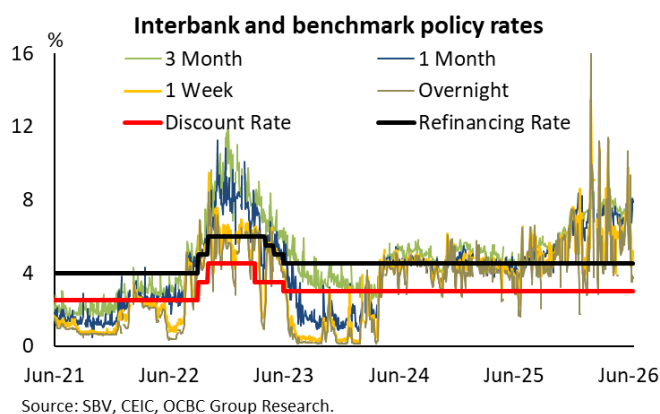
SBV to stay pat but watchful of risks

The recent inflation overshoot has not yet triggered a significant shift in monetary policy. Following a meeting chaired by SBV Governor Pham Duc An on 9 April, commercial banks agreed to lower deposit and lending rates in line with SBV and government guidance. Rising competition for deposits had pushed up funding and borrowing costs, prompting authorities to respond through administrative measures rather than policy rate adjustments. This was reinforced by the 15 May enactment of Circular 08/2026/TT-NHNN, which allows banks to count 20% of State Treasury deposits toward their funding base, helping ease funding pressures.

We expect the policy rate to remain unchanged at 4.50% in 2026, as the authorities remain focused on growth supportive measures. We are, however, expecting SBV to hike its policy rate by a cumulative 50bp in 2027 before reversing these in 2028.

The local currency, VND, has also done better than regional peers depreciating less than 0.65% versus USD since the onset of tensions in the Middle East until 4 June. Even so, the spot rate has consistently traded near the upper end of the permitted band. Without persistent and pervasive inflationary pressures, we do not expect SBV to be triggered into action. We will, however, continue to watch incoming data particularly given that the geopolitical situation remains highly fluid.

Vietnam



Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	5.1	7.1	8.0	7.3	8.0	8.0
Current Account Balance (% of GDP)	6.0	6.6	6.7	5.3	3.6	1.6
Unemployment Rate (% aop)	2.3	2.2	2.2	2.2	2.2	2.2
Fiscal Balance (% of GDP)*	-1.7	-1.5	-3.6	-3.5	-3.6	-3.7
Headline CPI (% YoY)	3.3	3.6	3.3	4.5	4.5	4.5
SBV Refinancing rate (% eop)	4.50	4.50	4.50	4.50	5.00	4.50

Note: *Excluding unallocated expenditures and following Government Finance Statistics.

Source: World Bank, OCBC Group Research.

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ASEAN-6 & India: A closer look at energy dependency

Lavanya Venkateswaran
Senior ASEAN Economist

- The Strait of Hormuz ('SoH') has remained closed for over three months with geopolitical tensions still running high. The lack of a clear path forward complicates the energy equation of the economies of India and ASEAN-6. Our analysis shows that the trade at risk is higher for Thailand, Singapore, India, and Malaysia while the energy dependency (sectors for which energy inputs are more than 10% of basic output as well as intermediate consumption) are higher for Malaysia, Indonesia, Vietnam, and Thailand.
- The price shock (higher oil prices) and volume shock (potentially lower supplies) could have a durable impact on economic output. We estimate that growth at risk could be 0.4-0.6 percentage points across 2026-2028 depending on the economy. The most exposed to a slowdown would be Vietnam, Malaysia, Indonesia, India where 0.5-0.6pp of growth could be shaved if energy dependent output growth is halved. The impact for Philippines and Thailand is estimated to be lower. This, however, reflects lower baseline growth forecasts, which inherently already reflects the impact of the conflict.
- We see central banks more primed to raise rates considering the duration of the Middle East conflict. We expect additional rate hike from BSP, BI and RBI. For BoT, BNM and SBV, our baseline is no change for now, but the probability of rate hikes is rising.

Introduction

The closure of the Strait of Hormuz ('SoH') is starting to extract an economic toll on the ASEAN-6 economies of Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam as well as India. The net energy importer status of most of the economies (except Indonesia and Malaysia) have exposed vulnerabilities not just to the directly impacted energy sector but also across the supply chain for various sectors that depend on energy inputs.

The first-round impact of the SoH closure has hit trade flows between the Middle East, India and the ASEAN-6 economies. This impact in turn is morphing into a challenging combination of a price and volume shock. The price shock is manifesting through higher global oil prices and the ripple of these prices through the input and output cost channels. The second impact, equally consequential, is the volume effect, where physical shortages could become a risk especially if trading channels remain closed. This underscores energy security considerations and fuel reserves.

SoH closures starting to hit close to home

The SoH is an important waterway for regional economies, with a significant proportion of regional crude oil flows passing through this crucial artery. For example, 40% of Malaysia's crude oil imports pass through the SoH. The figure is similar for Thailand.

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Economy	Importance of SoH	Reported, as of
Indonesia	20% of crude oil imports from Middle East go through SoH	29-Mar-26
Malaysia	40% of crude oil imports are through SoH	22-Mar-26
Philippines	98% of crude oil comes from Middle East suppliers	03-Apr-26
Singapore	More than half of total crude oil imports comes from the Middle East; 9% of natural gas imported from Qatar prior to Middle East conflict	07-Apr-26
Thailand	Around 40% of Thailand's energy imports are transported through the Strait of Hormuz	06-Mar-26

Source: Jakarta Post; Malaysia PMO, Philippines DOE, Singapore MHA, The Nation Thailand; OCBC Group Research.

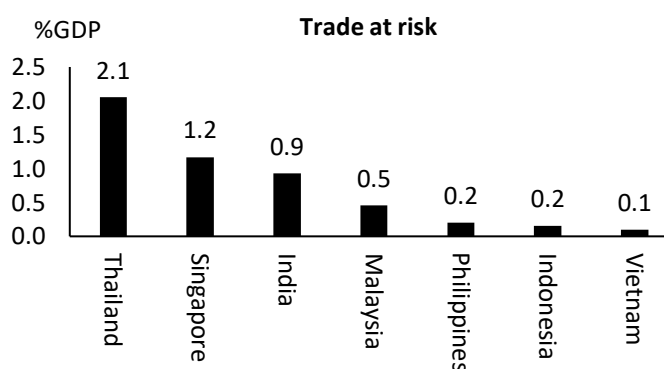
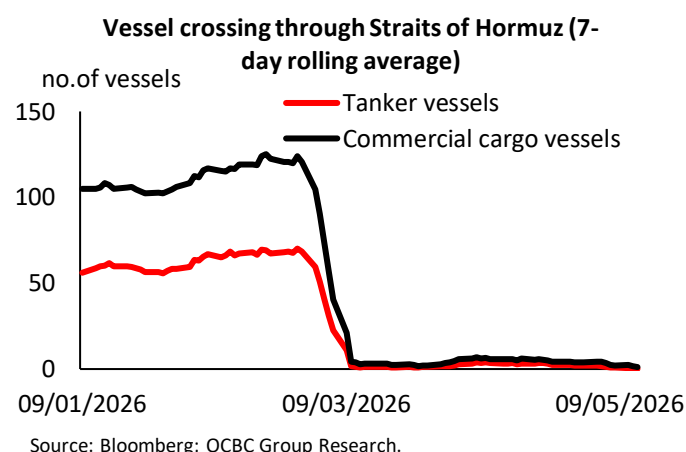
While most ports are reported to be operational across Oman, UAE, Kuwait and Qatar, the flow of traffic through the SoH is limited. The timelines around reopening this crucial waterway are far from clear considering the geopolitical complications arising from US-Iran negotiations.

Port status for key ports requiring passage through SoH, as of 12 May 2026			
Port name	Country	Status	Comments
Salalah	Oman	All terminal operations normal, fully operational.	Bunkering operations resumed at anchorage
Duqm	Oman	Partial disruptions: operations fully resumed.	Vessels calling the port of Duqm must submit an official letter stating that they are not carrying any dangerous goods on board. Vessels carrying dangerous goods must seek approval from Omani government.
Mina Al Fahal	Oman	All terminal operations normal, fully operational.	
Port Sultan Qaboos, Muscat	Oman	All terminal operations normal, fully operational.	
Port of Sohar	Oman	All terminal operations normal, fully operational.	
Umm Qasr	Iraq	All terminal operations normal, fully operational.	Basra Oil Terminal has requested a 100% production reduction due to a shortage of available tankers
Shuwaikh Port	Kuwait	Partial disruption: Permits for foreign vessels arriving from Iraqi ports are temporarily suspended until further notice	
Kuwait Port	Kuwait		
Mesaieed	Qatar	All terminal operations normal, fully operational.	
Halul Island Terminal	Qatar	All terminal operations normal, fully operational.	
Hamad	Qatar	All terminal operations normal, fully operational.	
Al Shaheen Terminal	Qatar	All terminal operations normal, fully operational.	
Bahrain Port	Bahrain	Partial disruption - operations resumed but limited	
Dammam (King Abdulaziz)	Saudi Arabia	All terminal operations normal, fully operational.	
Ras Tanura	Saudi Arabia	All terminal operations normal, fully operational.	Attacked on 2 March, incident contained.
Ruwais	UAE	All terminal operations normal, fully operational.	
Fujairah	UAE	Partial disruption.	Fujairah Oil Terminal is mostly operational. Berth 6 is offline and under maintenance. Berths 4 & 5 are reserved for bulk carriers. Vopak Terminal is operational. Incidents of intermittent GPS signal spoofing and jamming in offshore areas reported.
Khor Fakkan	UAE	All terminal operations normal, fully operational.	Incidents of intermittent GPS signal spoofing and jamming in offshore areas reported.
Ras Al Khaimah Ports	UAE	All terminal operations normal, fully operational.	
Sharjah Ports	UAE	All terminal operations normal, fully operational.	
Jebel Ali	UAE	All terminal operations normal, fully operational.	
Abu Dhabi	UAE	All terminal operations normal, fully operational.	

Source: Lloyd's List; OCBC Group Research.

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The trade at risk for the ASEAN-6 economies and India from disruptions to ports in Qatar, Oman, UAE, Kuwait and Bahrain is significant. The trade at risk is the highest for Thailand, Singapore, India and Malaysia and less so for Indonesia, Philippines and Vietnam. This, however, is not to say that the impact on growth will be limited to trade channels.



Source: IMFPort; OCBC Group Research.

Note: We use daily trade at risk and multiply into 250 working days to get annual figures.

Supply chain impacts are more discernible

The supply chain will be impacted as underscored by the trade flows at risk across the various sectors. The impact on the trade of mineral products is fairly straightforward considering the direct impact on energy trade. Although the data suggests that flows at risk for Vietnam are lower compared to regional peers, trade data reaffirms that 85% of Vietnam's crude oil imports were from the GCC economies in 2023 (latest available data) while only 1% of refined oil was from the region. Notwithstanding, sectors such as chemicals and allied industries, metals, plastics, rubber and leather, prepared foodstuffs and machinery and electrical equipment are also shown to be vulnerable from disruptions at ports in the aforementioned GCC economies.

Trade flows at risk from port disruptions at ports in Oman, UAE, Kuwait, Bahrain and Qatar							
USDbn, annual	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Animal & Animal Products	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Chemical & Allied Industries	3.6	0.1	0.1	0.0	0.2	0.2	0.0
Machinery & Electrical Equipment	0.2	0.0	0.0	0.0	0.2	0.1	0.1
Metals	0.8	0.2	0.1	0.0	0.1	0.1	0.0
Mineral Products	31.2	1.4	1.7	0.9	7.1	11.1	0.1
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plastics, Rubber, Leather	1.0	0.1	0.1	0.0	0.1	0.1	0.1
Prepared Foodstuffs & Beverages	0.2	0.3	0.2	0.0	0.0	0.1	0.1
Stone & Glass	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Textiles & Footwear	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Vegetable Products	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Vehicles & Equipment	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Wood & Wood Products	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Source: IMFPort; OCBC Group Research. We use daily trade at risk and multiply into 250 working days to get annual figures.

Note: The colour coding uses green to refer to less vulnerable sectors while red refers to higher vulnerabilities.

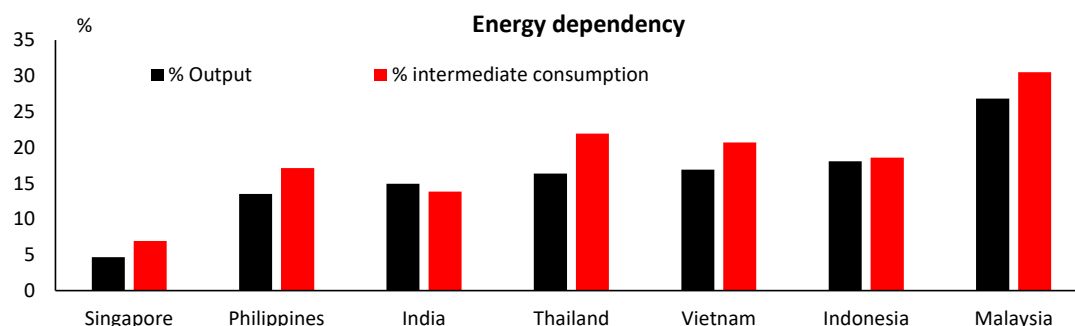
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Input-output tables confirm deep industrial correlations

The impact of trade is likely only one aspect of the multi-faceted impact of the energy price shock that we are witnessing. We overlay the input-output table to better understand the sectoral impact from potential energy price and volume disruptions.

We use the individual country, industry-by-industry OECD input-output tables for 2022. The energy input sectors are 'mining of coal and lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply'. We define energy dependent sectors as those whose inputs from these three sectors account for more than 10% of total output or total intermediate consumption. The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

The output is measured at basic prices while the intermediate consumption is at purchasers' prices. Intermediate consumption is the goods and services used in the production of an industry's output. Output is intermediate consumption plus the value-added component from compensation of employees, other taxes and consumption of fixed capital. We provide the energy input requirements for intermediate consumption and output to allow for a more wholistic picture.



Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Agriculture and mining sectors: exposures are limited to a few economies

We estimate that within the agriculture and mining space, Indonesia and Malaysia are most exposed to higher energy intensity requirements. This is not surprising considering these economies are net commodity exporters.

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Agriculture and mining sectors, % output	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Forestry and logging	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Fishing and aquaculture	0.0	0.0	0.5	1.2	0.0	0.7	0.0
Mining of coal and lignite	0.3	0.0	0.0	0.3	0.0	0.0	0.6
Extraction of crude petroleum and natural gas	0.0	3.2	5.2	0.0	0.0	0.0	0.2
Mining of metal ores	0.0	1.1	0.1	0.0	0.0	0.0	0.0
Other mining and quarrying	0.0	0.9	0.2	0.0	0.0	0.3	0.2
Mining support service activities	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Energy dependent share of output	0.3	5.2	7.3	1.4	0.0	1.0	1.0

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Energy usage for intermediate consumption is higher for Indonesia, Malaysia and Thailand. Indonesia's energy intensity production sectors include fishing and aquaculture, mining of coal and lignite and mining of ores, apart from the extraction of crude petroleum and natural gas.

Agriculture and mining sectors, % intermediate consumption	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture and hunting	0.0	0.0	0.8	0.0	0.0	2.2	0.0
Forestry and logging	0.0	0.1	0.5	0.0	0.0	0.0	0.0
Fishing and aquaculture	0.1	0.1	0.2	0.5	0.0	0.3	0.0
Mining of coal and lignite	0.1	0.4	0.2	0.1	0.0	0.0	0.5
Extraction of crude petroleum and natural gas	0.0	1.6	3.4	0.1	0.0	0.6	0.1
Mining of metal ores	0.3	0.4	0.1	0.1	0.0	0.0	0.0
Other mining and quarrying	0.1	0.3	0.1	0.0	0.0	0.1	0.2
Mining support service activities	0.0	0.1	0.3	0.0	0.0	0.0	0.1
Energy dependent share of intermediate consumption	0.5	3.1	5.5	0.8	0.0	3.3	0.8

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Manufacturing sectors are more exposed

The energy intensity of the manufacturing sector is high across the region. The energy input requirements are particularly high for output generation in the coke and refined petroleum sectors, chemical and chemical products and utilities sectors.

Manufacturing sector, % output	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Paper products; printing and reproduction of recorded media	0.0	0.0	1.0	0.0	0.0	0.8	0.0
Coke and refined petroleum products	0.0	3.4	6.2	1.6	2.7	0.0	2.8
Chemical and chemical products	2.7	2.3	3.4	3.3	0.0	2.9	3.1
Other non-metallic mineral products	1.5	0.9	1.1	0.5	0.0	1.5	2.7
Basic iron and steel	3.9	0.4	1.1	0.4	0.2	0.7	0.0
Basic precious and other non-ferrous metals	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Electricity, gas, steam and air conditioning supply	2.4	2.1	2.0	3.2	0.9	4.9	3.6
Water supply; sewerage, waste management and remediation activities	0.0	0.2	0.5	0.4	0.0	0.3	0.4
Energy dependent share of output	10.5	9.4	15.8	9.4	3.8	11.0	12.6

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

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For intermediate production, the energy requirements are even higher for the aforementioned sectors but also stretch to the manufacture of wood, paper, basic iron and steel, non-metallic minerals and waste management.

Assumption	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Wood and products of wood and cork	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Paper products; printing and reproduction of recorded media	0.0	1.2	0.8	0.2	0.0	0.6	0.8
Coke and refined petroleum products	2.7	2.4	4.8	1.3	2.4	0.0	2.6
Chemical and chemical products	2.2	1.7	2.7	2.1	2.6	1.9	2.7
Other non-metallic mineral products	1.1	0.7	0.9	0.3	0.1	1.1	2.2
Basic iron and steel	3.1	0.1	0.9	0.3	0.2	0.5	0.0
Basic precious and other non-ferrous metals	0.0	0.2	0.4	0.2	0.1	0.2	0.0
Electricity, gas, steam and air conditioning supply	1.4	1.5	1.4	1.7	0.5	3.6	2.7
Water supply; sewerage, waste management and remediation activities	0.4	0.2	0.2	0.2	0.3	0.2	0.3
consumption	10.8	8.0	12.1	6.3	5.9	8.2	11.1

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Services sector impact is also material

The energy intensity of the services sector for output generation is low but higher for intermediate production, suggesting that these sectors could also be energy dependent. Specifically, the energy requirements for land, water and air transport are high across most economies along with warehousing, postal and courier services.

Services sectors, % output	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wholesale and retail trade; repair of motor vehicles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land transport and transport via pipelines	3.9	1.9	0.9	1.7	0.0	2.3	1.2
Water transport	0.0	0.6	0.6	0.3	0.0	0.9	0.5
Air transport	0.2	1.0	0.8	0.7	0.9	1.1	0.7
Warehousing and support activities for transportation	0.0	0.0	1.2	0.0	0.0	0.0	0.8
Postal and courier activities	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Other service activities	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Energy dependent share of output	4.1	3.5	3.8	2.7	0.9	4.3	3.3

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

The energy requirements for intermediate inputs are significantly higher across the services sectors. This extends to accommodation and food services for Thailand, real estate activities for Vietnam, and public administration services across most of the region along with education and healthcare services.

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Services sectors, % intermediate consumption	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Construction	0.0	0.0	3.7	0.0	0.0	0.0	0.0
Wholesale and retail trade; repair of motor vehicles	0.0	3.0	3.7	5.7	0.0	2.6	3.8
Land transport and transport via pipelines	1.7	0.6	0.6	0.7	0.3	1.4	0.9
Water transport	0.0	0.4	0.4	0.1	0.0	0.6	0.4
Air transport	0.2	0.4	0.6	0.5	0.8	0.9	0.6
Warehousing and support activities for transportation	0.0	0.1	0.7	0.4	0.0	0.1	0.5
Postal and courier activities	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Accommodation and food service activities	0.0	0.0	0.0	0.0	0.0	2.4	0.0
Real estate activities	0.0	0.3	0.0	0.0	0.0	0.0	0.7
Administrative and support services	0.0	0.3	0.5	0.0	0.0	0.0	0.0
Public administration and defence; compulsory social security	0.0	1.2	0.4	1.4	0.0	0.7	0.7
Education	0.3	0.6	0.8	0.3	0.0	0.8	0.5
Human health and social work activities	0.0	0.1	0.9	0.0	0.0	0.3	0.0
Arts, entertainment and recreation	0.0	0.0	0.4	0.5	0.0	0.1	0.4
Other service activities	0.3	0.6	0.1	0.3	0.0	0.3	0.2
Energy dependent share of intermediate consumption	2.5	7.6	12.8	9.9	1.0	10.4	8.8

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Singapore: The main energy dependent sectors include the manufacturing of chemicals and chemical products, manufacturing of coke and refined petroleum products along with utilities and air transport. These results show slightly lower exposure compared to with the MAS estimate; MAS estimates that 9.8% of 2025 nominal GDP is energy intensive. Within this, petroleum, gas & electricity, air transport, petrochemicals, and basic chemicals were cited as the top energy dependent industries along with land transport, water transport and water & waste³⁶. Importantly, MAS notes that “the indirect impact is estimated to be most pronounced for the wholesale trade sector, which comprises 19% of GDP.”

Singapore: energy dependent sectors	% output	% intermediate consumption
Coke and refined petroleum products	2.7	2.4
Chemical and chemical products	0.0	2.6
Other non-metallic mineral products	0.0	0.1
Basic iron and steel	0.2	0.2
Basic precious and other non-ferrous metals	0.0	0.1
Electricity, gas, steam and air conditioning supply	0.9	0.5
Water supply; sewerage, waste management and remediation activities	0.0	0.3
Land transport and transport via pipelines	0.0	0.3
Air transport	0.9	0.8
Total	4.7	6.9

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

³⁶ MAS Macroeconomic Review, Volume XXV Issue 2, April 2026.

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Philippines: We estimate close to 13.5% of the economy's output is energy dependent in production, with the chemical manufacturing, utilities and land transportation sectors requiring higher energy inputs. A higher share of intermediate consumption is energy dependent at 17%, with the services showing higher energy dependency.

Philippines: energy dependent sectors	% output	% intermediate consumption
Fishing and aquaculture	1.2	0.5
Mining of coal and lignite	0.3	0.1
Extraction of crude petroleum and natural gas	0.0	0.1
Mining of metal ores	0.0	0.1
Paper products; printing and reproduction of recorded media	0.0	0.2
Coke and refined petroleum products	1.6	1.3
Chemical and chemical products	3.3	2.1
Other non-metallic mineral products	0.5	0.3
Basic iron and steel	0.4	0.3
Basic precious and other non-ferrous metals	0.0	0.2
Electricity, gas, steam and air conditioning supply	3.2	1.7
Water supply; sewerage, waste management and remediation activities	0.4	0.2
Wholesale and retail trade; repair of motor vehicles	0.0	5.7
Land transport and transport via pipelines	1.7	0.7
Water transport	0.3	0.1
Air transport	0.7	0.5
Warehousing and support activities for transportation	0.0	0.4
Postal and courier activities	0.0	0.1
Public administration and defence; compulsory social security	0.0	1.4
Education	0.0	0.3
Arts, entertainment and recreation	0.0	0.5
Other service activities	0.0	0.3
Total	13.5	17.1

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

India: Our analysis shows that ~15% of output requires energy inputs and could be susceptible to some form of rationalisation or production cutbacks if energy supply shortages start to bite more significantly. These include the more directly impacted energy related sectors but also key manufacturing sectors such as chemicals and chemical products along with services sectors such as land transport. Official data corroborates our findings. The Ministry of Energy data shows that coal is largely consumed by industry including iron and steel and construction, while oil products are consumed by industry, transport and households. Electricity consumption is high for household and industries.

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India: energy dependent sectors	% output	% intermediate consumption	Figures in peta joule, FY23-24	Coal	Lignite	OilProducts	NaturalGas	Electricity	Total
Fishing and aquaculture	0.0	0.1	Final consumption	8,413	66	9,993	1,662	5,556	25,690
Mining of coal and lignite	0.3	0.1	Industry	8,413	66	2,197	56	2,322	13,055
Mining of metal ores	0.0	0.3	Iron and steel	1,959	1	31	0	0	1,991
Other mining and quarrying	0.0	0.1	Chemical and petrochemical	18	0	490	0	0	508
Coke and refined petroleum products	0.0	2.7	Non-ferrous metals	0	0	10	0	0	10
Chemical and chemical products	2.7	2.2	Machinery	0	0	5	0	0	5
Pharmaceuticals, medicinal chemical and botanical products	0.0	0.0	Mining and quarrying	0	0	63	0	0	63
Rubber and plastics products	0.0	0.0	Paper, pulp and print	23	10	0	0	0	33
Other non-metallic mineral products	1.5	1.1	Construction	206	5	24	0	0	236
Basic iron and steel	3.9	3.1	Textile and leather	4	9	23	0	0	36
Electricity, gas, steam and air conditioning supply	2.4	1.4	Non-specified (industry)	6,203	41	1,551	56	2,322	10,174
Water supply; sewerage, waste management and remediation activities	0.0	0.4	Transport	0	0	2,296	597	119	3,012
Land transport and transport via pipelines	3.9	1.7	Road	0	0	1,778	522	0	2,300
Air transport	0.2	0.2	Domestic aviation	0	0	368	0	0	368
Education	0.0	0.3	Rail	0	0	63	0	119	182
Other service activities	0.0	0.3	Pipeline transport	0	0	0	75	0	75
Total	14.9	13.8	Domestic navigation	0	0	88	0	0	88
Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.			Non-specified (transport)	0	0	0	0	0	0
			Other	0	0	5,500	44	3,115	8,659
			Residential	0	0	1,253	0	1,350	2,603
			Commercial and public service	0	0	3	0	450	453
			Agriculture/forestry	0	0	21	5	918	945
			Non-specified (other)	0	0	4,224	39	396	4,658

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Indonesia: We estimate that 18% of output are more energy dependent including the extraction of crude petroleum and natural gas, coke and refined petroleum products, utilities, land transport and airport transport. Energy requirements for intermediate consumption are also high, closer to 19% and includes wholesale and retail trade.

Indonesia: energy dependent sectors	% output	% intermediate consumption
Forestry and logging	0.0	0.1
Fishing and aquaculture	0.0	0.1
Mining of coal and lignite	0.0	0.4
Extraction of crude petroleum and natural gas	3.2	1.6
Mining of metal ores	1.1	0.4
Other mining and quarrying	0.9	0.3
Mining support service activities	0.0	0.1
Paper products; printing and reproduction of recorded media	0.0	1.2
Coke and refined petroleum products	3.4	2.4
Chemical and chemical products	2.3	1.7
Other non-metallic mineral products	0.9	0.7
Basic iron and steel	0.4	0.1
Basic precious and other non-ferrous metals	0.0	0.2
Electricity, gas, steam and air conditioning supply	2.1	1.5
Water supply; sewerage, waste management and remediation activities	0.2	0.2
Wholesale and retail trade; repair of motor vehicles	0.0	3.0
Land transport and transport via pipelines	1.9	0.6
Water transport	0.6	0.4
Air transport	1.0	0.4
Warehousing and support activities for transportation	0.0	0.1
Postal and courier activities	0.0	0.1
Real estate activities	0.0	0.3
Administrative and support services	0.0	0.3
Public administration and defence; compulsory social security	0.0	1.2
Education	0.0	0.6
Human health and social work activities	0.0	0.1
Other service activities	0.0	0.6
Total	18.1	18.5

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

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Vietnam: We estimate that ~17% of output is energy dependent across the services, manufacturing and agriculture sectors. Energy requirements for output production are high for coke and refined petroleum products, chemical and chemical products, utilities and land transport. Energy requirements for intermediate consumption are higher at ~21% including wholesale and retail trade.

Vietnam: energy dependent sectors	% output	% intermediate consumption
Mining of coal and lignite	0.6	0.5
Extraction of crude petroleum and natural gas	0.2	0.1
Mining of metal ores	0.0	0.0
Other mining and quarrying	0.2	0.2
Mining support service activities	0.0	0.1
Paper products; printing and reproduction of recorded media	0.0	0.8
Coke and refined petroleum products	2.8	2.6
Chemical and chemical products	3.1	2.7
Other non-metallic mineral products	2.7	2.2
Electricity, gas, steam and air conditioning supply	3.6	2.7
Water supply; sewerage, waste management and remediation activities	0.4	0.3
Construction	0.0	0.0
Wholesale and retail trade; repair of motor vehicles	0.0	3.8
Land transport and transport via pipelines	1.2	0.9
Water transport	0.5	0.4
Air transport	0.7	0.6
Warehousing and support activities for transportation	0.8	0.5
Postal and courier activities	0.1	0.1
Real estate activities	0.0	0.7
Public administration and defence; compulsory social security	0.0	0.7
Education	0.0	0.5
Human health and social work activities	0.0	0.0
Arts, entertainment and recreation	0.0	0.4
Other service activities	0.0	0.2
Total	16.9	20.7

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Malaysia: Our calculations suggest that numerous sectors are energy dependent, accounting for ~27% of total output and 30.5% of intermediate consumption. Energy dependency is high for the extraction of crude petroleum and natural gas, coke and refined products, chemical and chemical products. Intermediate consumption of energy inputs is high for the construction, wholesale and retail trade and warehousing sectors. That said, economic growth was resilient in 1Q26 coming in at 5.4% YoY versus 6.2% in 4Q25, slightly higher than the advance estimate of 5.3%. We expect economic growth to moderate in the coming quarters averaging 4.4% for 2026, within BNM's 4-5% forecast range. PM Anwar noted on 15 May that the economy's fuel supplies remain

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stable, with no need for rationing and restrictions³⁷. We do not, however, rule out potential adjustments to the Budi95 program considering the rising fuel subsidy bill.

Malaysia: energy dependent sectors	% output	% intermediate consumption
Agriculture and hunting	0.0	0.8
Forestry and logging	0.7	0.5
Fishing and aquaculture	0.5	0.2
Mining of coal and lignite	0.0	0.2
Extraction of crude petroleum and natural gas	5.2	3.4
Mining of metal ores	0.1	0.1
Other mining and quarrying	0.2	0.1
Mining support service activities	0.5	0.3
Paper products; printing and reproduction of recorded media	1.0	0.8
Coke and refined petroleum products	6.2	4.8
Chemical and chemical products	3.4	2.7
Other non-metallic mineral products	1.1	0.9
Basic iron and steel	1.1	0.9
Basic precious and other non-ferrous metals	0.5	0.4
Electricity, gas, steam and air conditioning supply	2.0	1.4
Water supply; sewerage, waste management and remediation activities	0.5	0.2
Construction	0.0	3.7
Wholesale and retail trade; repair of motor vehicles	0.0	3.7
Land transport and transport via pipelines	0.9	0.6
Water transport	0.6	0.4
Air transport	0.8	0.6
Warehousing and support activities for transportation	1.2	0.7
Postal and courier activities	0.1	0.1
Administrative and support services	0.0	0.5
Public administration and defence; compulsory social security	0.0	0.4
Education	0.0	0.8
Human health and social work activities	0.0	0.9
Arts, entertainment and recreation	0.0	0.4
Other service activities	0.2	0.1
Total	26.8	30.5

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Thailand: We estimate that ~16% of total output is energy dependent, with chemical and chemical products, utilities and land transport among the bigger sectors. Intermediate consumption shows that accommodation and food services, wholesale and retail trade as well as public administration and education services are also energy dependent.

³⁷ Country's fuel supply still stable with no need for rationing, says PM, The Star, 15 May 2026.

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Thailand: energy intensive sectors	% output	% intermediate consumption
Agriculture and hunting	0.0	2.2
Forestry and logging	0.0	0.0
Fishing and aquaculture	0.7	0.3
Mining of coal and lignite	0.0	0.0
Extraction of crude petroleum and natural gas	0.0	0.6
Mining of metal ores	0.0	0.0
Other mining and quarrying	0.3	0.1
Mining support service activities	0.0	0.0
Wood and products of wood and cork	0.0	0.2
Paper products; printing and reproduction of recorded media	0.8	0.6
Coke and refined petroleum products	0.0	0.0
Chemical and chemical products	2.9	1.9
Pharmaceuticals, medicinal chemical and botanical products	0.0	0.0
Rubber and plastics products	0.0	0.0
Other non-metallic mineral products	1.5	1.1
Basic iron and steel	0.7	0.5
Basic precious and other non-ferrous metals	0.0	0.2
Electricity, gas, steam and air conditioning supply	4.9	3.6
Water supply; sewerage, waste management and remediation activities	0.3	0.2
Construction	0.0	0.0
Wholesale and retail trade; repair of motor vehicles	0.0	2.6
Land transport and transport via pipelines	2.3	1.4
Water transport	0.9	0.6
Air transport	1.1	0.9
Warehousing and support activities for transportation	0.0	0.1
Postal and courier activities	0.0	0.1
Accommodation and food service activities	0.0	2.4
Public administration and defence; compulsory social security	0.0	0.7
Education	0.0	0.8
Human health and social work activities	0.0	0.3
Arts, entertainment and recreation	0.0	0.1
Other service activities	0.0	0.3
Total	16.3	21.9

Note: Energy intensive sectors are defined as those for which energy inputs, 'mining of coal & lignite', 'coke and refined petroleum products' and 'electricity, gas, steam and air conditioning supply', are more than 10% of output/intermediate expenditures. Source: OECD Input-Output Table; OCBC Group Research.

Note: The colour coding uses green to refer to less energy dependent sectors while red refers to the higher energy dependent sectors.

Authorities continue to be watchful of physical stocks and price risks

A significant proportion of output and intermediate consumption is energy dependent across the region, which suggests that price shock (higher oil prices) and volume shock (potentially lower supplies) could have a durable impact on economic output. We estimate that growth at risk could be 0.4-0.6 percentage points across 2026-2028 depending on the economy. The most exposed to a slowdown would be Vietnam, Malaysia, Indonesia, India where 0.5-0.6pp of growth could be shaved if energy dependent output growth is halved. The impact for Philippines and Thailand is estimated to be lower. This, however, reflects lower baseline growth forecasts, which inherently already reflects the impact of the conflict.

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Governments across the region will likely continue to focus on rationalisation measures while central banks will be keeping a close eye on second-round effects from higher price pressures along with external pressures, which has increasingly become more differentiated. We have continued to see various measures being announced including rationalisation of fuel, reduce/eliminating/postponing fuel related duties and actively seeking alternative fuel supplies. Alternatively, authorities have raised retail fuel prices across India, Thailand, Vietnam. Retail prices tend to adjust in tandem with global oil prices for Singapore and the Philippines. We do not rule out price adjustments for Indonesia and Malaysia should the situation persist.

	Official acknowledgement of economic risks	Work-from-home/travel contingency measures	Petroleum rationalisation	LNG rationalisation	Alternative sources of energy imports	Changes to fuel related duties	Fiscal support
India	✓	✓	x	✓	✓	✓	✓
Indonesia	✓	✓	✓	x	✓	✓	✓
Malaysia	✓	✓	✓	x	✓	x	✓
Philippines	✓	✓	✓	✓	✓	✓	✓
Singapore	✓	x	x	x	✓	✓	✓
Thailand	✓	✓	✓	✓	✓	✓	✓
Vietnam	✓	✓	✓	✓	✓	✓	✓

Source: Local newspapers, Bloomberg, Reuters, OCBC Group Research.

Rate hikes clearly back on the table

We see central banks more primed to raise rates considering the duration of the Middle East conflict. We expect additional rate hike from BSP, BI and RBI. For BoT, BNM and SBV, our baseline is no change for now, but the probability of rate hikes is rising. Much depends on how long the SoH is closed given that energy import volumes are at risk of becoming constrained.

Thematic Report 2

Looking into the K-shaped economy of Hong Kong

Cindy Keung

Hong Kong and Macao Economist

- The post-pandemic economic performance has been increasingly characterised by a K-shaped pattern, where different sectors, income groups, and labour cohorts experience sharply divergent trajectories. While aggregate indicators suggest a broadly improving macroeconomic backdrop, a closer examination reveals deepening structural bifurcation. This divergence is shaped by sectoral exposure, integration into global capital and technology cycles, skill set mismatch, as well as concentration of asset ownership.
- The recovery of services sector remained uneven, with growth of retail and tourism sectors trailing that of IT and financial sectors. The structural shift toward less labour-intensive sectors, increases in labour productivity, and technological advancement (digitalisation, automation and AI) have paradoxically driven expansion in overall output and scaled back employment.
- The recent listing record and pipeline composition, as well as secondary market activities clearly demonstrates a shift toward a technology and innovation-centric capital market. However, the performance of tech stocks has lagged global peers so far this year, due to limited participation in the global semiconductor supply chain or tech ecosystem.

The K-shaped pattern

The post-pandemic economic performance has been increasingly characterised by a K-shaped pattern, where different sectors, income groups, and labour cohorts experience sharply divergent trajectories. While aggregate indicators suggest a broadly improving macroeconomic backdrop, a closer examination reveals deepening structural bifurcation. That said, this is not unique to HK. Other economies also face challenges arising from less inclusive growth and structural softness in mass-market segments.

At its core, this divergence reflects differences in sectoral exposure, integration into the global capital and technology cycles, skill set mismatches, as well as concentration of asset ownership. The “upper arm” of the K is high-income households and sectors linked to finance, technology and innovation, which have benefited from asset price appreciation, abundant global liquidity, and the largest tech capex cycle in history. On the other hand, the “lower arm” is lower-income households, labour-intensive sectors, whose recovery has been uneven and constrained by structural and cyclical headwinds.

The widening divide between the new and old economy

The increasing divergence between business sentiment and overall growth highlighted the divide between sectors in the higher arm and lower arm of the K-shaped economy. According to the Quarterly Business Tendency Survey (**Chart 1**), the proportion of large enterprises expecting their business situation to improve in the 1Q26 compared with the

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previous quarter was smaller than that of the proportion expecting it to worsen by 3 percentage points, though above the levels seen for most of last year. Yet, during the quarter, the real economy grew by the fastest pace (+5.9% YoY) since 2021. This apparent disconnect points to sectoral polarisation, whereby growth is concentrated in a narrow set of industries. Only a small number of sectors reported improving business conditions, while the majority remained pessimistic. (Table 1).

Aside from sentiment indicators, business receipts data also told the same story. Business receipts of the tourism, convention and exhibition services sector in 4Q25 were 37.2% below the levels in 4Q18 (Chart 2). Structural challenges—including a stronger Hong Kong dollar, intensified regional competition and shift in consumption patterns—continue to suppress business revenue. Similarly, challenges such as outbound spending leakage are also weighing on the retail, wholesale and food services sectors. In contrast, business receipts of computer and information technology services sectors set a record high in 4Q25, up by 348.9% compared with levels in 4Q18, on the back of rapid digitalisation and artificial intelligence (AI) -related investment. Meanwhile, banking, insurance and financial sectors also flourished, amid sharp equity market rallies and wealth management boom.

Taken together, these trends highlight an economy in which traditional, consumption-driven sectors lag behind high-value, capital-intensive industries.

Chart 1: Business sentiment and real GDP growth

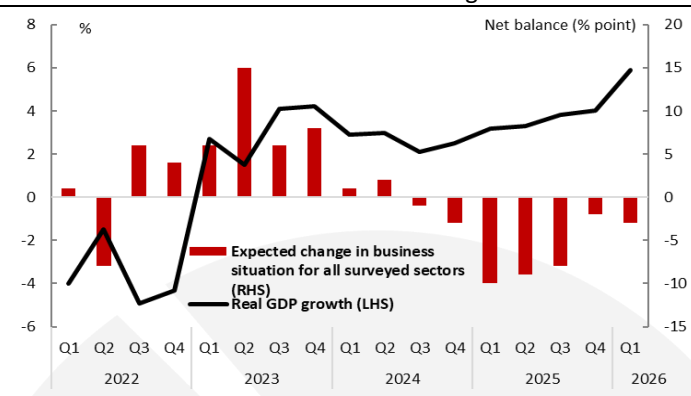
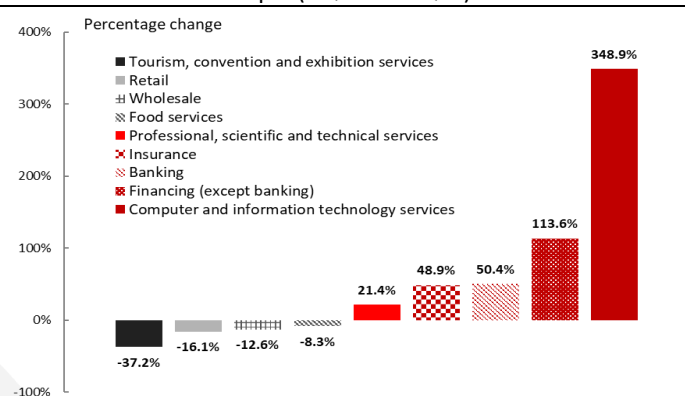


Chart 2: Business receipts (4Q25 vs. 4Q18)



Sources: HK Census and Statistics Department, OCBC Group Research.

Table 1: Business outlook across sectors in Hong Kong

	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Manufacturing	-22	-20	-2	-15	-15	0
Construction	-14	-16	-22	-24	-23	-21
Import/export trade and wholesale	-15	-19	-18	-11	-12	-9
Retail	-31	4	-14	14	-1	-3
Accommodation and food services	-36	-37	-16	10	-22	-35
Transportation, storage and courier services	-27	-25	-31	-11	-13	-24
Information and communications	-11	-17	-9	-16	-8	-16
Financing and insurance	10	8	11	13	21	12
Real estate	-15	-11	3	7	-4	9
Professional and business services	-8	-6	-14	-9	-12	2
All sectors above	-10	-9	-8	-2	-3	-5

Sources: HK Census and Statistics Department, OCBC Group Research.

Thematic Report 2

The paradox of jobless growth

Despite robust expansion in high-growth sectors, employment gains have been limited. In February to April 2026, the number of employed persons in “information and communication” industry was down by 5.8% as compared to similar levels in 2019 (**Chart 3**). Similarly, the number of persons employed in “financing and insurance” industry was down by 2.8%. Needless to say, “retail, accommodation and food services” sectors witnessed even sharper contraction in employment, with number of employed persons down by 22.6%.

This reflects a broader structural shift toward less labour-intensive growth models. Rising productivity, automation, and AI adoption have enabled firms to expand output without a commensurate increase in labour demand. Productivity gains in technology and finance sectors have significantly outpaced the broader economy, reducing the need for additional hiring. Compared with levels in 2019, total labour productivity in “information and communication” and “financing and insurance” rose cumulatively by 13.0% and 11.4% respectively in 2024, outpacing that of the overall economy (at 8.2%)(**Chart 4**).

Chart 3: No. of employed persons by sector

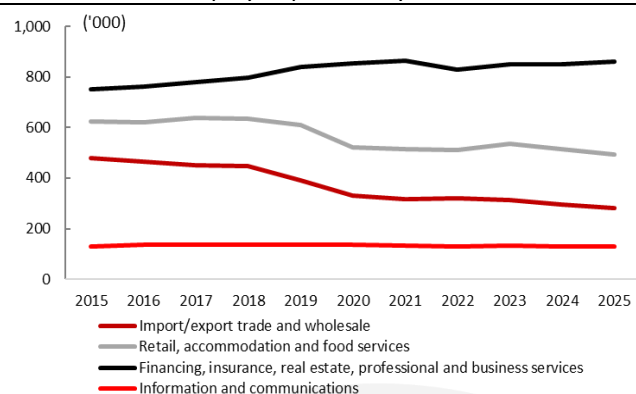
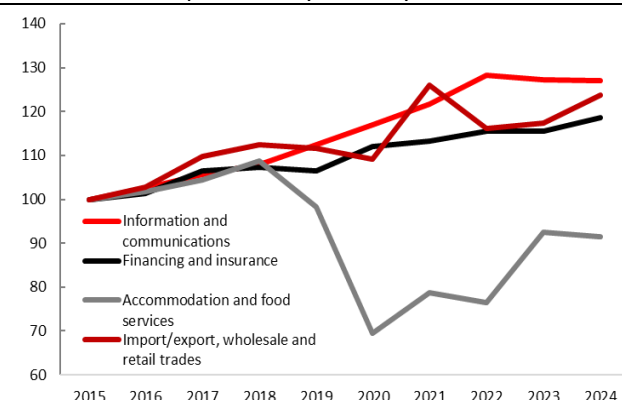


Chart 4: Labour productivity index by sector



Sources: HK Census and Statistics Department, OCBC Group Research.

Chart 5: Labour participation rate by age

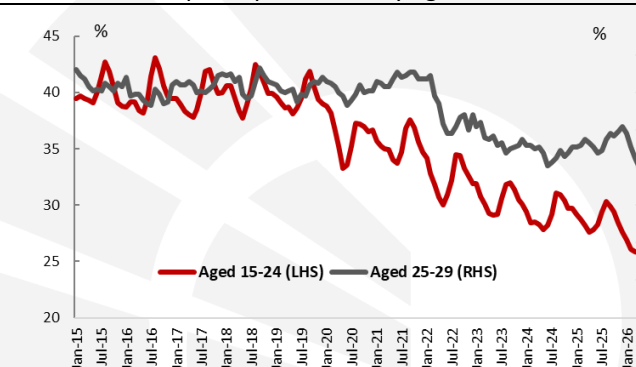
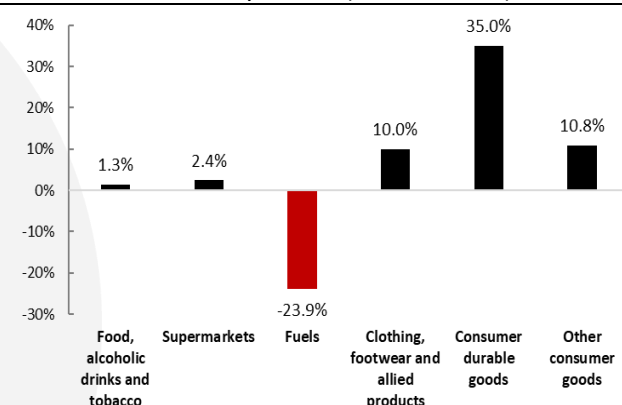


Chart 6: Retail sales by outlets (1Q26 vs 1Q25)



Sources: HK Census and Statistics Department, OCBC Group Research.

Thematic Report 2

Polarisation of the labour market

The labour market is becoming increasingly polarised, and technological change is amplifying this trend. The polarisation was manifested as fewer entry-level positions, hence potentially widening the income gap between the young and the elder labour force cohorts. Full-time job vacancies for graduates fell to a five-year low of 30,798 in 2025. The declines were most notable in industries which have heavily automated roles in IT, analysis, administration, and customer service. There are also concerns that the emergence of agentic AI will accelerate the process of replacing junior-level white-collar jobs.

Labour force participation rate for younger cohorts (aged 15-24) of labour force was already on steady decline (now at record low at 25.8% in February to April 2026) (**Chart 5**), reflecting structural demographic changes and potential discouragement effects. Meanwhile, labour participation rate for persons aged 55 or above was on steady uptrend. Overall, the labour market is evolving in a way that favours experience and specialised skills while reducing entry points for new workers.

Two-speed growth of retail sales

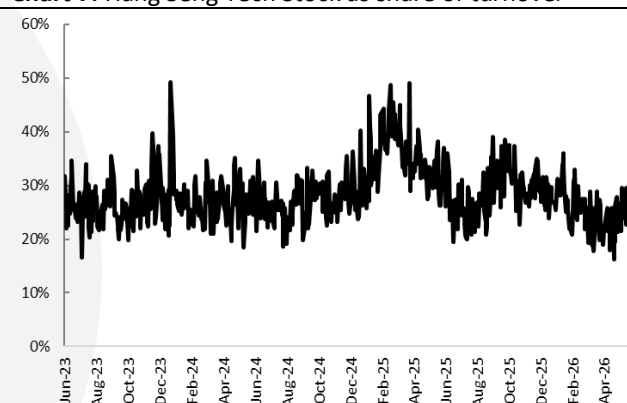
The bifurcation is also evident in consumption patterns. Recent retail sales trends were also characterised by a two-speed dynamic: a stronger momentum in tourism-dependent, luxury segments alongside weak performance in the mass-market retail segments. The recovery in inbound tourism, together with increased spending by higher-income households, has supported sales in retail outlets such as electrical goods/consumer durables, motor vehicles, jewellery and watches, clothing and footwear (**Chart 6**). In contrast, mass-market segments have faced persistent weakness, with categories such as food and supermarkets still seeing subdued growth in recent months. In the first quarter of 2026, retail sales of consumer durable goods rose by a whopping 35.0% YoY, while that for consumer staples (i.e. food, drinks and supermarket items) only grew marginally.

This divergence is also reflected spatially: prime retail locations have stabilised, while secondary locations continue to face weak demand, elevated vacancies, and rental pressure.

Table 2: Grade A office vacancy (April 2026)

Area	Office vacancy (%)
Central	9.2%
Wanchai/ Causeway Bay	10.4%
Hong Kong East	13.3%
Tsim Sha Tsui	6.9%
Kowloon East	20.7%
Overall	13.5%

Chart 7: Hang Seng Tech Stock as share of turnover



Sources: JLL, Bloomberg, OCBC Group Research.

Thematic Report 2

Diverging trend in commercial real estate

Similar to that of retail spaces, rent and vacancy of office spaces are also showing diverging trends across segments and locations. Financial institutions, professional services firms and large tech companies have been driving improved demand for office space, in particular in prime locations, since the second half last year. In that connection, space take-up started to match that of supply, capping the upside room for office vacancy rate in prime locations (**Table 2**). According to JLL, overall office rents rose by 1.2% MoM in April, with offices in prime locations (i.e. Central) leading the growth (+2.1% MoM), while offices in tier-two areas (i.e. Wanchai and Causeway Bay) trailed (+1.2% MoM).

Tech-heavy capital market

The recent listing record and pipeline composition, as well as secondary market activities clearly demonstrates a shift toward a technology and innovation-centric capital market. Out of the top ten IPOs and secondary listings (ranked by the amount of proceeds) so far this year, eight are in high-tech sectors, including AI companies, IT services providers, semiconductor manufacturers, and robotics/ electronics manufacturers (**Table 3**). The surge in listings of high-tech companies not only reflects China's catchup on AI development, but also the increasing fund allocation and investors' interest.

Moreover, technology firms are also capturing a growing share of market liquidity and trading activity. Major tech companies listed on Main Board (constituting the Hang Seng Technology Index) are taking a lion share of daily trading volume and market liquidity, of around 28% in the past three years (**Chart 7**). Separately, the average daily trading volume of stock options, which are heavily concentrated in large-cap tech names, also saw a drastic increase of 22% YoY in 2025. However, the performance of tech stock has lagged global peers so far this year, due to limited participation in the global semiconductor supply chain or tech ecosystem.

Table 3: Top high-tech IPO and secondary listings in Hong Kong

Sectors	Issuers	Proceeds (HK\$ mn)
Semiconductors	Montage Technology	8,099
	Shanghai Biren Technology	6,420
	Shenzhen Han's CNC Technology	5,558
	GigaDevice Semiconductor	5,387
	Ominivision Integrated Circuits Group	5,318
	Shanghai Iluvatar CoreX Semiconductor	3,677
	Axera Semiconductor	2,992
Software and IT services	Minimax Group	5,540
	Knowledge Atlas Technology	5,000
Electronics/ computer and peripherals	Victory Giant Technology	23,135
	Huaqin Co	5,232

Sources: HKEX, OCBC Group Research.

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A different playbook

All in all, the K-shaped recovery underscores a pattern of increasingly non-inclusive growth and a market environment characterised by rising concentration risks. This warrants a shift away from broad-based stimulus toward more targeted and calibrated policy support for households and sectors on the “lower arm” of the K, which continue to face constrained job creation, weak earnings visibility and persistent structural headwinds. In this context, policy efforts should also adopt a more holistic and forward-looking approach to labour market challenges, with a stronger emphasis on reskilling, enhancing workforce adaptability, and improving entry-level employment opportunities.

From a market perspective, the observed divergence reinforces a structural tilt toward “new economy” sectors—particularly technology and innovation—which are increasingly dominant in capital allocation and market activity. This bifurcation is even more pronounced in the commercial real estate sector, where assets in prime locations continue to benefit disproportionately from “upper-K” demand. As a result, the divergence is likely to drive further dispersion in property valuations, rental performance, and investment returns across locations and asset classes.

Thematic Report 3

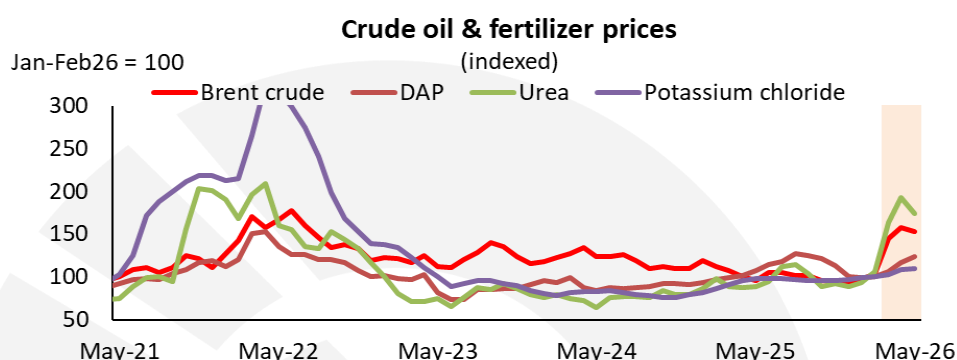
Mapping Asia's agricultural vulnerability

Ahmad A Enver
ASEAN Economist

- Asia's agriculture faces a dual shock: Middle East tensions are adding pressure to energy and fertiliser markets, while El Nino raises the risk of hotter and drier conditions across parts of Southeast Asia.
- Fertiliser exposure is uneven across the region. Thailand has the clearest direct reliance on GCC plus Iran supply, Japan and South Korea are net importers, while China's export stance matters for regional replacement supply.
- The risk is not an immediate Asia-wide food shortage, but a gradual build-up of pressure through higher input costs, squeezed farm margins, weather sensitive yields and potentially rising import needs.

The dual shock

Asia's agricultural supply chain is heading into a more difficult operating environment as two pressures converge. The conflict in the Middle East has disrupted shipping through the Strait of Hormuz, adding pressure to energy and fertiliser markets across the region. At the same time, El Nino conditions are now present and expected to strengthen into late 2026, raising the risk of hotter and drier weather, with Southeast Asia among the key areas to watch. Where food prices remain politically sensitive and many farmers operate on thin margins, the interaction between these shocks deserves close attention.



Note: DAP = diammonium phosphate. Urea, DAP and potassium chloride proxy nitrogenous, phosphate-related and potassic fertilisers, respectively. Shaded area refers to the post-Feb26 conflict period.
Source: World Bank, OCBC Group Research.

The risk from the Middle East extends beyond fuel costs. The Strait of Hormuz is also a key route for fertiliser trade, with roughly one third of global seaborne fertiliser trade at risk under disrupted shipping conditions.³⁸ The shock is most visible in urea and DAP, two widely traded fertiliser products with direct implications for crops such as rice, maize, sugarcane and oil palm, where yields depend heavily on timely fertiliser application. If fertiliser and

³⁸ Food and Agriculture Organization (FAO) of the United Nations, "Global Agrifood implication of the 2026 conflict in the Middle East", 15 March 2026.
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fuel costs remain elevated while El Nino conditions intensify, farmers will face both higher production costs and greater uncertainty over yields. The impact on food prices may not be immediate, but the pressure can build once higher input costs begin to affect farm margins, fertiliser application and output.

Across the economies we cover in this analysis, ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam) and North Asia (China, Japan and South Korea), the exposure is uneven. ASEAN sits closest to the full dual shock, facing both the fertiliser channel and the heavier weather risk. Japan and South Korea are net fertiliser importers and economies that depend on food imports, although rice remains a highly protected domestic staple. China has a larger domestic production base and is itself a major fertiliser exporter, making its policy response important for regional supply. Recent tightening of China's fertiliser export controls could limit replacement supply for import dependent economies and add to regional cost pressures.³⁹

The fertiliser channel

The clearest transmission from the Middle East conflict to Asia's agriculture is through fertiliser imports. In this analysis, fertiliser refers to HS31, specifically HS3101 to HS3105. These categories cover organic, nitrogenous, phosphatic, potassic and NPK or complex fertilisers. They are trade classifications rather than a full agronomic taxonomy, but they provide a useful way to map how different fertiliser products support crop production and where supply exposure may arise.

HS code	Fertiliser category	Main function for crops	Common crop relevance
HS3101	Organic fertilisers	Add nutrients gradually and help improve soil structure, often from animal or vegetable materials	Used across mixed farming systems, vegetables, fruit crops and smallholder plots
HS3102	Nitrogenous fertilisers	Support leaf growth, crop vigour and yield formation; urea is the key example	Rice, maize, sugarcane and oil palm, especially during vegetative growth
HS3103	Phosphatic fertilisers	Support root development, early crop establishment, flowering and seed formation	Rice, maize, sugarcane, cassava, vegetables and plantation crops
HS3104	Potassic fertilisers	Support water regulation, stress tolerance, fruit quality and crop resilience	Oil palm, fruits, vegetables, cassava, sugarcane and other potassium-demanding crops
HS3105	NPK/complex fertilisers	Combine two or three major nutrients (N, P, K) in one product	Widely used across rice, maize, sugarcane, oil palm, vegetables and horticulture
Note: Practical guide only. Actual fertiliser use varies by crop, soil and farming practice. Source: World Customs Organization, Food and Agriculture Organization, International Fertilizer Association, OCBC Group Research.			

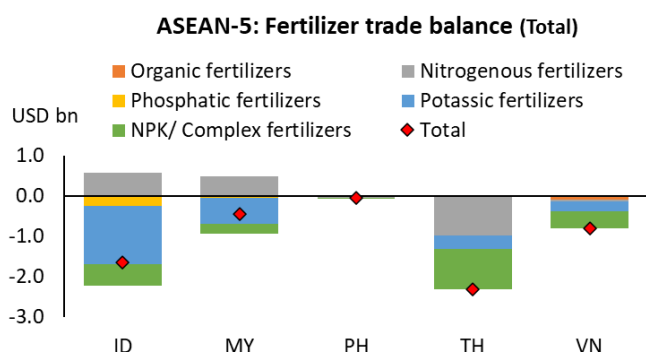
Using this classification, ASEAN-5 was largely a net fertiliser importer. Across these five economies, total HS31 imports reached about USD8.7bn, while exports stood at around USD3.4bn.⁴⁰ The aggregate trade deficit was therefore about USD5.3bn, led by Thailand at

³⁹ Reuters, "China tightens border inspections for fertilizer exports, sources say," 28 April 2026.

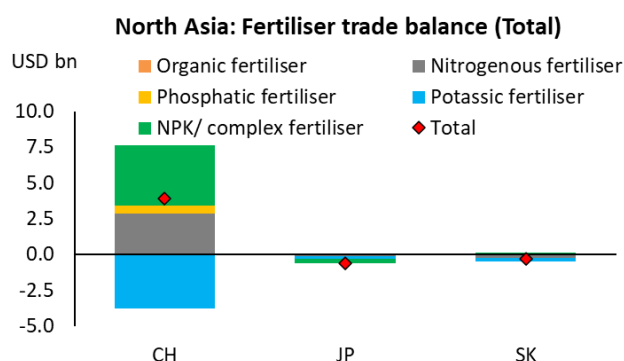
⁴⁰ Fertiliser trade data are based on the latest available UN Comtrade data for HS3101 to HS3105. Vietnam uses 2023 data. Indonesia and Malaysia use 2025 data. All other economies use 2024 data.

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USD2.3bn, Indonesia at USD1.7bn and Vietnam at USD792mn. The exposure is also broad based across products, with NPK and complex fertilisers, potassic fertilisers and nitrogenous fertilisers accounting for most ASEAN-5 imports.

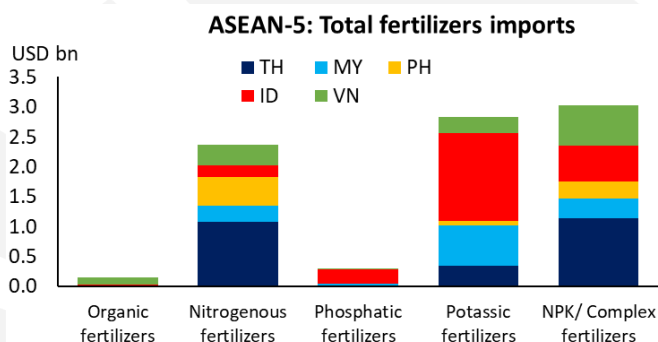


Note: HS 3101–3105. Based on the latest available data (2025 for Indonesia and Malaysia; 2024 for the Philippines, Singapore, and Thailand; and 2023 for Vietnam). Source: UN Comtrade, OCBC Group Research.

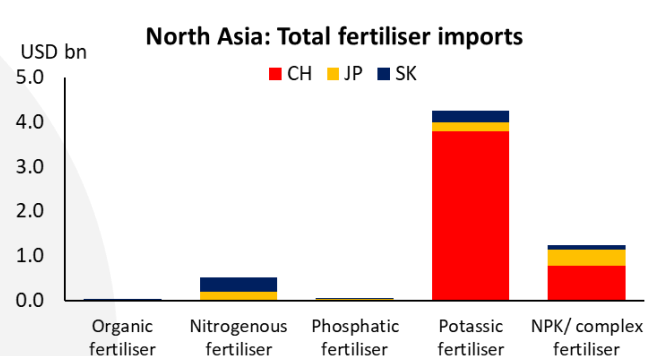


Note: HS 3101–3105. Based on the latest available data. Source: UN Comtrade, OCBC Group Research.

North Asia adds a different layer to the fertiliser channel. China was a sizeable net HS31 exporter, with a surplus of around USD3.9bn, while Japan and South Korea were small net importers, with deficits of around USD601mn and USD312mn, respectively. This contrasts with ASEAN-5's large net import position. The product breakdown adds an important nuance. China recorded large surpluses in nitrogenous, phosphatic and NPK or complex fertilisers, but remained a net importer of potassic fertilisers. Japan was a net importer across the main nutrient categories, while South Korea imported nitrogenous and potassic fertilisers but ran a surplus in NPK or complex fertilisers. Potassic fertilisers are the common import exposure, as all three North Asian economies were net importers of the product, similar to the gap seen across ASEAN. China's surplus also makes it a swing supplier for the region. It sent ~29% of its fertiliser exports to ASEAN in 2024, so its export policy shapes regional replacement supply when Gulf cargoes become more costly or delayed.



Note: HS 3101–3105. Based on the latest available data (2025 for Indonesia and Malaysia; 2024 for the Philippines, Singapore, and Thailand; and 2023 for Vietnam). Source: UN Comtrade, OCBC Group Research.



Note: HS 3101–3105. Based on the latest available data. Source: UN Comtrade, OCBC Group Research.

The product mix matters because not all fertilisers transmit the Middle East shock in the same way. The most direct product channel is nitrogenous fertilisers, especially urea,

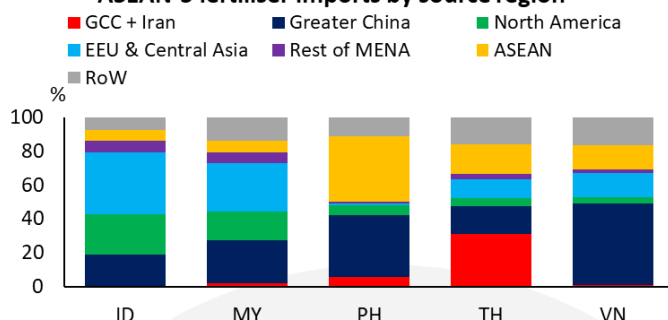
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because nitrogen production is energy intensive and closely tied to natural gas.⁴¹ A prolonged Strait of Hormuz disruption would tighten Asia's access to Gulf nitrogen supply by delaying cargoes, raising freight and replacement costs, and narrowing delivery windows during the planting season. Fertiliser is usually purchased early in the planting cycle, when cash flow constraints are most binding. A sharp increase in import costs can change planting economics quickly, especially for smallholders that cannot hedge prices or buy in bulk. The immediate adjustment may come through delayed purchases or lower application rates. The pass through to food prices, if it materialises, would come later through weaker yields, tighter domestic supply or higher import demand.

Uneven fertiliser exposure across Asia

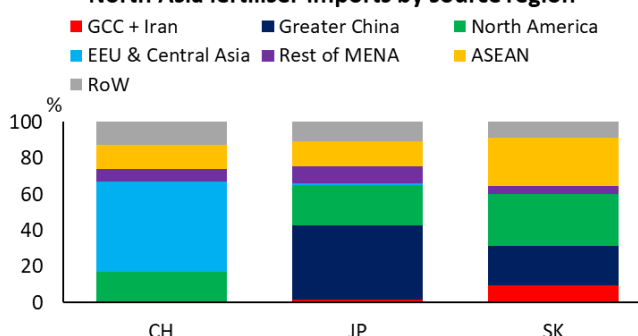
The regional numbers hide a more uneven exposure map. Based on the latest available HS31 import data, GCC plus Iran supplied around 10% to 13% of ASEAN-5 fertiliser imports by value, but the direct exposure was concentrated in Thailand. Around 31% of Thailand's fertiliser imports came from GCC plus Iran, compared with around 6% for the Philippines, 3% for Malaysia, and near zero for Indonesia and Vietnam. In value terms, Thailand imported close to USD796mn of fertilisers from GCC plus Iran, far above the Philippines at USD48mn and Malaysia at USD30mn.

ASEAN-5 fertiliser imports by source region



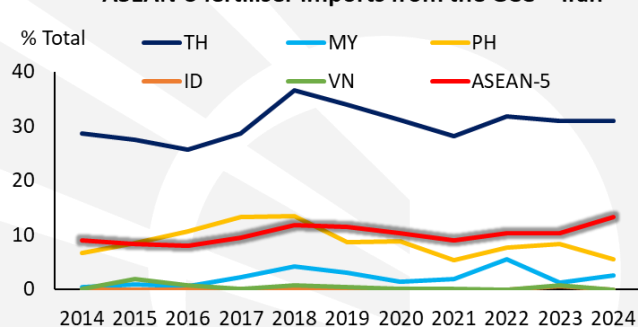
Note: Fertilizer refers to HS31. Based on the latest available data (2025 for Indonesia and Malaysia; 2024 for the Philippines, Singapore, and Thailand; and 2023 for Vietnam). Source: UN Comtrade, OCBC Group Research.

North Asia fertiliser imports by source region



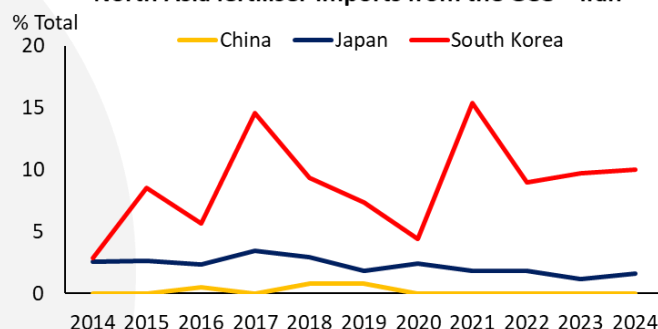
Note: Fertilizer refers to HS31. Based on the latest available data. Source: UN Comtrade, OCBC Group Research.

ASEAN-5 fertiliser imports from the GCC + Iran



Note: USD basis, HS31. Based on the latest available data - Vietnam data through 2023. Source: UN Comtrade, OCBC Group Research.

North Asia fertiliser imports from the GCC + Iran



Note: USD basis, HS31. Based on the latest available data. Source: UN Comtrade, OCBC Group Research.

⁴¹ Global Agriculture, "Why LNG Matters for Urea Production: Understanding the Energy Foundation of Nitrogen Fertilizers," 12 March 2026.

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The Gulf channel has also become a logistics issue, not only a pricing issue. Some Gulf fertiliser producers have already shifted cargoes by land to ports outside the Strait of Hormuz, while eastern UAE ports have taken on a larger role as trade routes inside the Gulf became more difficult.⁴² These workarounds help keep product moving, but they also add handling, freight and storage costs. For Thailand, the exposure is material because its imports from GCC plus Iran were dominated by nitrogenous fertilisers, at around USD719mn, with another USD76mn in NPK and complex fertilisers. The issue is therefore not only whether supply can be replaced, but also whether replacement cargoes can arrive at the right cost and within the planting window.

North Asia shows a different source-exposure profile. Japan and South Korea are net fertiliser importers, but their direct reliance on GCC plus Iran is similar to ASEAN (with the exception of Thailand). China sits on the other side of the trade flow. Its direct import exposure to the Gulf is less important than its role as a regional supplier, especially because ASEAN absorbed around 29% of China's fertiliser exports in 2024. This makes China's export stance important for regional replacement supply when Gulf cargoes become more costly or delayed.

The exposure map therefore points to both direct and indirect risks. Thailand faces the clearest direct exposure to Gulf fertiliser supply, while other import-dependent economies face a secondary risk through replacement costs and supplier availability. China's role is central to that second channel. Its exports can help offset disrupted Gulf supply, but tighter export controls would narrow options for import dependent economies and add to regional cost pressures.

A closer look at ASEAN

The crop map makes ASEAN-5's fertiliser exposure more consequential. This section focuses on rice, maize, sugar and cassava, given their roles in food security, feed demand and agro industrial activity. Rice remains the most politically sensitive staple, while maize links the shock to feed costs. Sugar and cassava are also relevant through processed food, starch, feed, industrial use and rural incomes.

⁴² Financial Times, "UAE fertiliser giant resort to trucks to shift product out of Gulf," 4 May 2026.
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Crops	Country	2024 (Prod., mn tons)	2024 (Prod., mn tons)	2026			
				(Prod., mn tons)	% share ASEAN	vs 2025 % YoY	SSR
Rice	ASEAN	128.8	134.7	136.1	100.0	1.0	123.6
	Indonesia	34.0	38.7	39.3	28.8	1.6	126.2
	Malaysia	1.3	1.3	1.4	1.0	1.0	47.0
	Philippines	13.2	12.7	12.8	9.4	0.4	73.2
	Thailand	21.8	23.1	23.0	16.9	-0.5	207.9
	Vietnam	28.2	28.4	29.3	21.5	3.2	136.3
Maize	ASEAN	36.9	38.6	39.2	100.0	1.5	71.1
	Indonesia	15.1	16.5	16.7	42.7	1.6	102.2
	Malaysia	0.0	0.0	0.0	0.0	31.7	0.2
	Philippines	8.2	8.2	8.3	21.1	0.6	83.3
	Thailand	4.9	5.3	5.5	14.1	4.2	58.6
	Vietnam	4.4	4.5	4.5	11.5	0.0	28.6
Sugar	ASEAN	15.8	17.5	17.5	100.0	0.1	103.6
	Indonesia	2.5	2.7	2.7	15.5	2.0	38.4
	Malaysia	0.0	0.0	0.0	0.0	-	0.0
	Philippines	1.6	1.6	1.6	9.3	-1.0	81.4
	Thailand	9.1	10.5	10.5	59.6	-0.3	425.3
	Vietnam	1.3	1.3	1.3	7.5	2.0	65.2
Cassava	ASEAN	81.7	79.0	77.7	100.0	-1.6	155.3
	Indonesia	16.7	15.7	17.0	21.9	8.5	97.1
	Malaysia	0.0	0.0	0.0	0.1	1.2	89.9
	Philippines	2.5	2.4	2.5	3.2	6.2	94.1
	Thailand	28.6	27.0	25.6	32.9	-5.2	269.7
	Vietnam	10.5	10.7	11.0	14.1	2.0	140.9

Note: 2026 AFSIS estimate, SSR = Self-sufficiency ratio. Source: AFSIS, OCBC Group Research.

Thailand's fertiliser exposure should be read as broader than rice. It is not ASEAN's largest rice producer by volume, but it remains a major contributor, accounting for 16.9% of regional production, and is highly self-sufficient in rice. Its regional role is more prominent in sugar and cassava, where it accounts for 59.6% and 32.9% of ASEAN output, respectively. Higher input costs or supply disruption could therefore extend to sugar, starch, feed and agro-industrial supply chains. Malaysia and the Philippines present a different profile. Both have weaker rice self-sufficiency than the regional average, at 47.0% and 73.2%, respectively, leaving them more exposed to import needs if regional rice conditions tighten. Meanwhile, Indonesia and Vietnam have limited direct reliance on Gulf fertiliser supply, but both have large agricultural bases and sizeable fertiliser trade deficits, leaving them exposed to global repricing and procurement pressures.

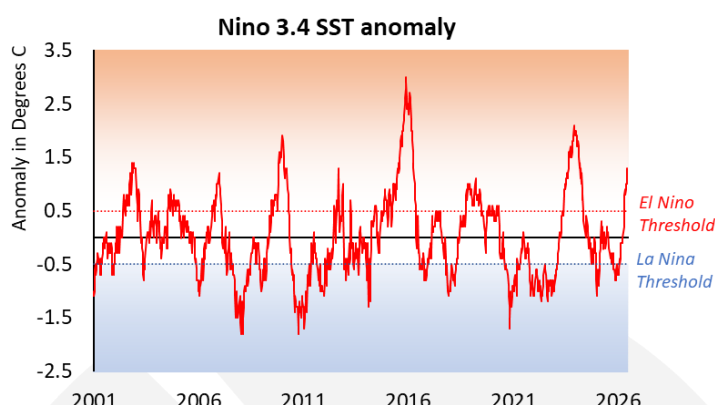
At the regional level, ASEAN is broadly self-sufficient in rice, sugar and cassava, with self-sufficiency ratios of estimated at 123.6%, 103.6% and 155.3%, respectively. The main structural shortfall is maize, where the self-sufficiency ratio stands at 71.1%. As maize is a key feed input, production or import cost pressure can pass through indirectly to livestock, poultry and egg prices.

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Recent discussions suggest that policymakers within ASEAN are also giving food security its due importance. At the 48th ASEAN Summit in May 2026, leaders discussed a regional fuel stockpile and a standby arrangement for food security, while Philippine President Ferdinand Marcos Jr called for practical cooperation to safeguard energy supply.⁴³ Although the proposals are still preliminary, they signal a broader policy response where ASEAN's resilience depends not only on domestic production capacity but also on coordinated access to critical inputs such as fertiliser, fuel and food risks increasingly overlap.

El Nino, the second stress point

El Nino adds a physical production risk to the fertiliser shock. Fertiliser affects the cost and timing of production, while El Nino affects growing conditions. In its latest update, the US National Oceanic and Atmospheric Administration (NOAA) indicated that El Nino conditions are already present and expected to strengthen into the Northern Hemisphere winter of 2026 to 2027.⁴⁴ The main concern is a higher probability of hotter and drier conditions, lower rainfall and water stress, although the impact will differ by country, irrigation coverage, crop type and planting calendar. ASEAN remains the more direct focus for the weather risk channel, as El Nino has a clearer association with dry conditions and crop stress across parts of Southeast Asia, while the impact in North Asia is less uniform due to interactions with the East Asian monsoon



Crop	El Nino significance
Rice	Water-intensive and politically sensitive
Maize	Feed input, with ASEAN structurally short
Sugarcane	Dryness can affect cane yield and sugar production
Cassava	Relatively resilient, but exposed to prolonged dryness
CPO	Weather impact often appears with a lag
Source: FOA, AFSIS, MPOB OCBC Group Research.	

Rice is the first crop to watch because it is politically sensitive, water intensive and central to the food basket. The region enters this period with a stronger rice buffer than in recent years, with AFSIS forecasting the beginning stock to utilisation ratio to rise from 27.4% in 2024 to 49.2% in 2026, alongside a self-sufficiency ratio of 123.6%. Still, historical production data show how quickly risks can emerge during severe El Nino episodes. During the 2015-16 episode, ASEAN-5 rice production fell 3.2% YoY in 2015 and another 6.9% in 2016, leaving output 9.8% below its 2014 level. The International Food Policy Research Institute (IFPRI) also notes that rice yields fell 4-11% below trend during previous El Nino episodes since 2000 due to low rainfall⁴⁵, with Indonesia and Vietnam among the most affected countries in a

⁴³ Channel News Asia, "ASEAN mulls sharing fuel, food resources as fears of prolonged disruptions grow," 8 May 2026.

⁴⁴ Climate Prediction Center, NOAA, "El Niño/Southern Oscillation (ENSO) Diagnostic Discussion," 11 June 2026.

⁴⁵ International Food Policy Research Institute (IFPRI), "Rice markets in South and Southeast Asia face stresses from El Niño, export restrictions," May 2023.

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2023 study.⁴⁶ Sugar cane also weakened during the 2015-2016 El Nino period, with ASEAN-5 output down 7.5% YoY in 2015 and 8.4% lower in 2016 than in 2014. Maize and cassava were more mixed at the aggregate level, although country-level stress was still visible in parts of the region. The production impact is therefore unlikely to be uniform, with the severity shaped by rainfall timing, irrigation coverage, crop type and planting calendar.

ASEAN-5 crops production during 2015-16 El Nino Episodes								
mn tons	ID	MY	PH	TH	VN	ASEAN-5*	% vs 2014	ASEAN-5
Rice								
2014	59.1	2.8	19.0	35.9	45.0	161.8		0.0
2015	61.0	2.7	18.1	29.7	45.1	156.7		-3.2
2016	54.0	2.7	17.6	28.3	43.1	145.9		-9.8
2017	55.3	2.6	19.3	31.6	42.8	151.4		-6.4
Maize								
2014	19.0	0.0	7.8	4.8	5.2	36.8		0.0
2015	19.6	0.0	7.5	4.7	5.3	37.1		1.0
2016	23.6	0.0	7.2	4.4	5.2	40.4		9.9
2017	25.2	0.0	7.9	4.8	5.1	43.0		16.9
Cassava								
2014	23.4	0.1	2.5	30.0	10.2	66.3		0.0
2015	21.8	0.1	2.7	32.4	10.7	67.7		2.1
2016	20.3	0.1	2.8	31.2	10.9	65.1		-1.7
2017	19.1	0.0	2.8	30.5	10.3	62.7		-5.4
Sugarcane								
2014	27.1	0.0	25.0	103.7	19.8	175.7		0.0
2015	27.0	0.0	22.9	94.1	18.3	162.4		-7.5
2016	28.0	0.0	22.4	94.1	16.3	160.9		-8.4
2017	28.0	0.0	29.3	93.1	18.4	168.8		-3.9
Note: *ASEAN-5 maize production excludes Malaysia (MY) due to data unavailability.								
Source: FAO, OCBC Group Research.								

CPO also deserves attention because Indonesia and Malaysia dominate global palm oil production. Unlike these staple crops, the palm oil impact often appears with a lag, as drought stress can reduce fresh fruit bunch yields months after the weather shock. Khor et al. (2021) found that very strong El Nino events caused oil palm yield losses of around 3.5 t/ha in Malaysia during 2015/16, with losses lasting several months depending on event severity.⁴⁷ This creates a delayed risk to edible oil prices, export earnings and rural incomes.

El Nino can make timely fertiliser use more crucial for protecting yields, but also harder to justify when input costs are higher and rainfall becomes less reliable. If fertiliser and fuel costs remain elevated, farmers may respond by reducing application, delaying planting or cutting crop maintenance, even when weather stress argues for more timely input management.

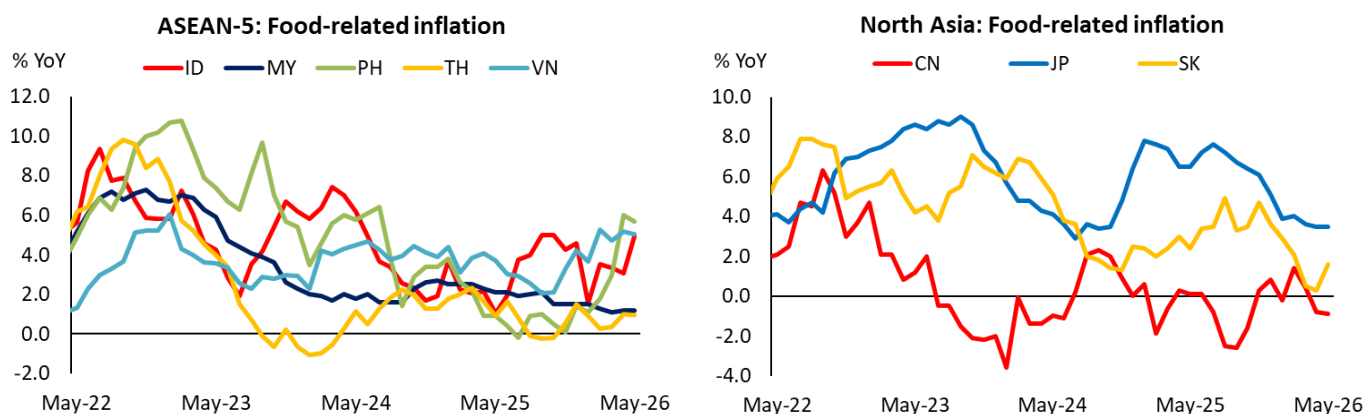
⁴⁶ Cao, J., Zhang, Z., Tao, F., et al., "Forecasting global crop yields based on El Niño Southern Oscillation early signals," *Agricultural Systems*, Vol. 205, 2023.

⁴⁷ Khor, J. F., Ling, L., Yusop, Z., et al., "Impact of El Niño on Oil Palm Yield in Malaysia," *Agronomy*, Vol. 11, No. 11, 2021.

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From input costs to food prices

The pass through from higher fertiliser and fuel costs, alongside weather risk, to food related inflation is unlikely to be immediate, but early pressure points are beginning to appear in parts of the region. Food related inflation remains uneven across ASEAN-5. In May 2026, the Philippines, Vietnam and Indonesia recorded the highest readings at 5.7% YoY, 5.0% and 4.9%, respectively, while Malaysia and Thailand stayed contained at 1.2% and 1.0%. North Asia presents a more divergent picture. Japan recorded the firmest reading among the three at 3.5% YoY, though down from around 6.5% a year earlier, while South Korea was more contained at 1.6% and China remained in mild food related deflation, with a reading of minus 0.9%.



Note: Series refer to the closest available food and beverage-related CPI sub-index for each economy. Definitions differ by country and may include alcohol or tobacco for some economies. The comparison should be read directionally. Source: Bloomberg, CEIC, OCBC Group Research.

Policy responses also differ by country. In the Philippines, authorities have relied on imports, tariff adjustments and buffer stock releases to manage domestic rice prices, reflecting the political and household sensitivity of the staple. Thailand's policy focus is more preventive, with the Agriculture Ministry reportedly rolling out a five-point water management plan to prepare for possible El Nino linked droughts. Indonesia shows another part of the transmission, as fertiliser subsidies can shield many farmers from the full rise in international prices, but shift the cost to the fiscal account, procurement system and distribution capacity.

The risk is therefore not an immediate food shortage across the region, but a gradual build-up of pressure through higher input costs, squeezed farm margins, weather sensitive yields and rising import needs. For ASEAN, the larger concern remains the overlap between fertiliser availability, climate sensitive production and uneven food buffers. For Japan and South Korea, the channel would more likely come through imported food, feed and fertiliser costs, while China is more insulated given its larger domestic production base and net fertiliser export position.

Building input resilience

The region's policy agenda is already moving toward stronger agricultural input resilience. For ASEAN, agriculture ministers have reaffirmed the need to keep essential goods flowing, including food, fertilisers and agricultural inputs, while the ASEAN Food, Agriculture and

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Forestry Sectoral Plan 2026 to 2030 places resilience, sustainable agriculture and climate adaptation within the region's medium-term priorities. The recent push for stronger energy and food security coordination amid the Middle East conflict reinforces the same direction.

The near-term task is to keep fertiliser and fuel available during planting windows, supported by timely procurement, effective distribution and targeted support for farmers facing higher working capital needs. For North Asia, the policy challenge is somewhat different. Japan and South Korea need to manage imported food, feed and fertiliser costs, while China's fertiliser export stance remains important for regional replacement supply. Over time, more diversified fertiliser sourcing, stronger local nitrogen capacity where feasible, and better fertiliser use efficiency can reduce vulnerability. The broader takeaway is that food security cannot be measured by harvest volumes alone. It also depends on whether farmers can access critical inputs at the right cost and at the right time.

Thematic Report 4

Platinum & palladium: Between precious metals, autos & energy transition

- PGMs are high-beta precious metals with industrial DNA. Platinum and palladium sit within the precious-metals universe, but their price behaviour is shaped heavily by autos, supply concentration, liquidity, positioning and broader precious-metals sentiment.
- Supply tightness remains a key anchor. PGM supply is concentrated and slow to respond, leaving prices sensitive to disruptions in South Africa, Russia-linked flows and recycling dynamics. Platinum's persistent deficits and lower stock buffers make it more responsive to incremental demand or supply shocks.
- The energy transition cuts both ways. BEV adoption is a structural headwind for autocatalyst demand, especially palladium, but hybrids and still-large ICE fleets provide a near-term buffer. For platinum, hydrogen-related technologies add longer-term optionality, though not yet a near-term price anchor.
- Outlook: Constructive on platinum but more tactical on palladium. Platinum should remain better supported on dips given tighter balances, lower stock buffers and broader demand channels, though price action may stay choppy. Palladium may still spike on supply or positioning shocks, but rallies may be harder to sustain without stronger end-demand. Our forecasts for platinum and palladium have further been calibrated lower at \$2000 and \$1500, respectively for end-2026.

Christopher Wong
FX Strategist

Ong Shu Yi
ESG Analyst

Assisted by Jessica Wong

Precious metals diverge

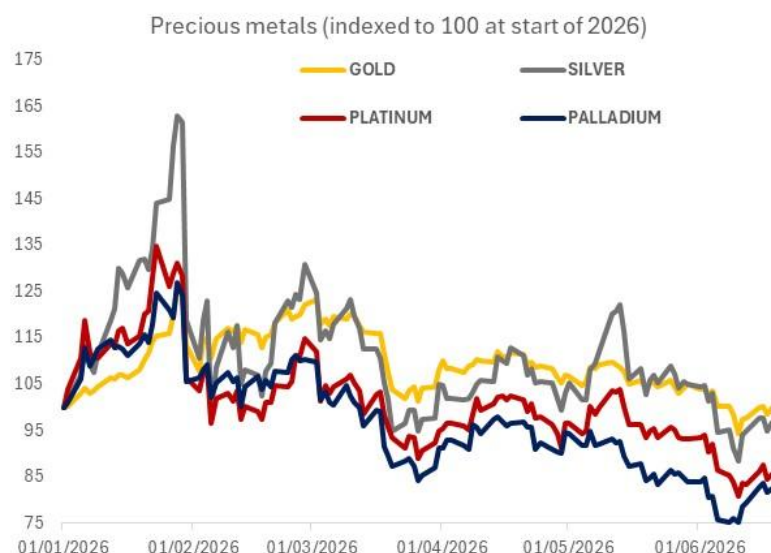
Gold and silver have dominated the dramatic price action in precious metals, but platinum and palladium are becoming harder to ignore. Platinum is back in focus as persistent deficits draw down inventories, while palladium's earlier premium (over platinum) has faded on substitution (back into platinum), recycling supply and longer-term autocatalyst concerns.

The key point is differentiation. Platinum is no longer the cheaper cousin of palladium, and palladium is no longer the unquestioned winner of the autocatalyst cycle. Both are more volatile and cyclical than gold.

Here, we look at platinum group metals (PGMs), in particular platinum and palladium as these high-beta precious metals with industrial DNA are shaped by autos and supply concentration but increasingly viewed through the lens of energy-transition risk and platinum's hydrogen optionality.

Thematic Report 4

Precious metals returned YTD gains with PGM leading declines



Source: Bloomberg, OCBC Group Research.

PGM 101: Precious Metals with Industrial DNA

Platinum and palladium are rare precious metals within the platinum group metals (PGM) complex, but their demand drivers are more industrial than gold-like. Both are heavily linked to the automotive sector, where they are used in catalytic converters to reduce vehicle emissions. In particular, **platinum is mainly used in diesel vehicles** and **palladium in petrol/gasoline vehicles**, although this traditional split is evolving as automakers adjust catalyst designs in response to relative prices, emissions standards and supply considerations.

Beyond autos, **platinum has a broader demand base** across jewellery, investment and industrial uses, including chemical and petroleum catalysts, electronics, and hydrogen-related technologies. This gives platinum a more diversified demand profile than palladium.

One Complex, Two Stories

With these demand channels in mind, the key point is that platinum and palladium should not be treated as interchangeable. They share common uses and supply risks, but the market is increasingly differentiating between the two.

Thematic Report 4

Palladium's earlier premium over platinum has faded

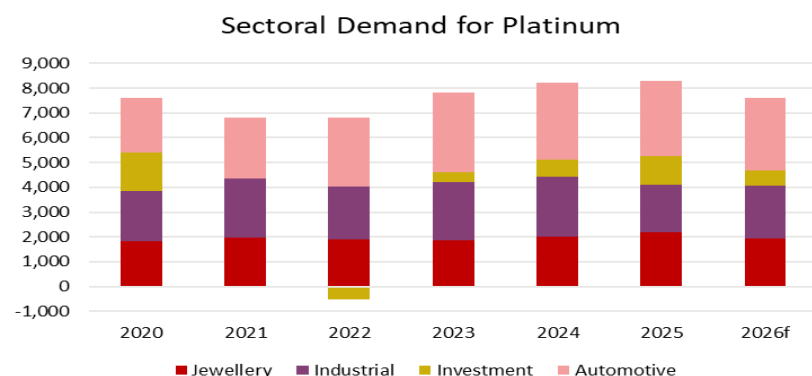


Source: Bloomberg, OCBC Group Research.

The shift reflects changing relative fundamentals. Palladium is being reassessed against substitution, rising recycling and longer-term autocatalyst demand risks while platinum's relative story has improved on tighter balances and broader demand base. That distinction matters when looking at price behaviour, volatility and longer-term demand trends.

Demand Dynamics: Autos Dominate, but the Mix is Changing

Autos remain the largest demand channel for PGMs. Catalytic converters are still required in internal combustion engine and hybrid vehicles, which means the energy transition is not a straight-line negative for platinum and palladium in the near term. Battery electric vehicles reduce autocatalyst demand over time, but hybrids and still large ICE fleets continue to support PGM usage.



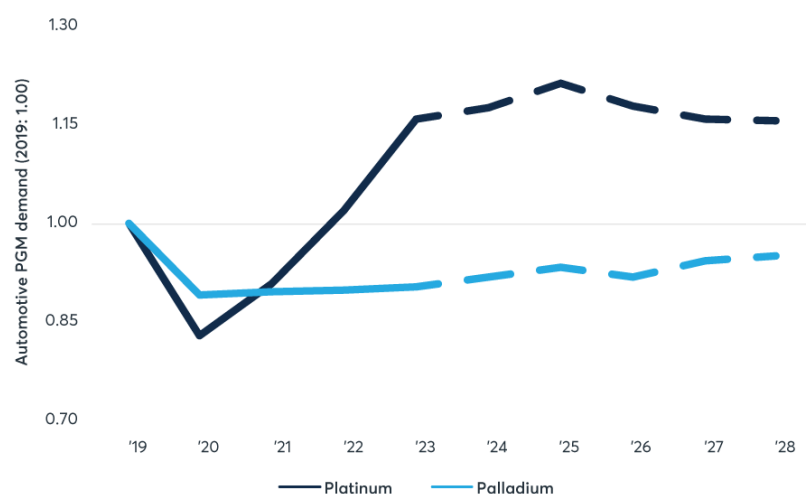
Source: Metals Focus, World Platinum Investment Council, OCBC Group Research.

The more immediate shift has been within the autocatalyst mix. Palladium's earlier premium encouraged automakers to increase platinum loadings where technically feasible. This substitution trend does not reverse overnight, given the long lead time for catalyst redesigns and regulatory approvals. However, the economics have become less compelling than

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before with the XPD/XPT ratio falling to around 0.70, reversing the earlier palladium-premium regime.

Platinum for palladium substitution has supported relative automotive platinum demand growth ahead of palladium since 2019



Source: CME Group.

This leaves demand more nuanced than a simple “EVs are bad for PGMs” narrative. **Palladium remains more exposed to long-term autocatalyst demand erosion**, while **platinum has additional demand channels outside autos**. Hydrogen-related applications add another long-term angle for platinum, but this is better treated as optionality rather than a near-term replacement for autocatalyst demand. We return to this in the ESG section.

Supply Dynamics: Tight, Concentrated and Inelastic

PGM supply is highly concentrated and slow to respond to price signals. **South Africa dominates mined platinum supply**, while **palladium supply is more exposed to Russia and South Africa**. This concentration creates vulnerability to power shortages, labour disruptions, logistics bottlenecks, sanctions, trade restrictions and financing constraints.

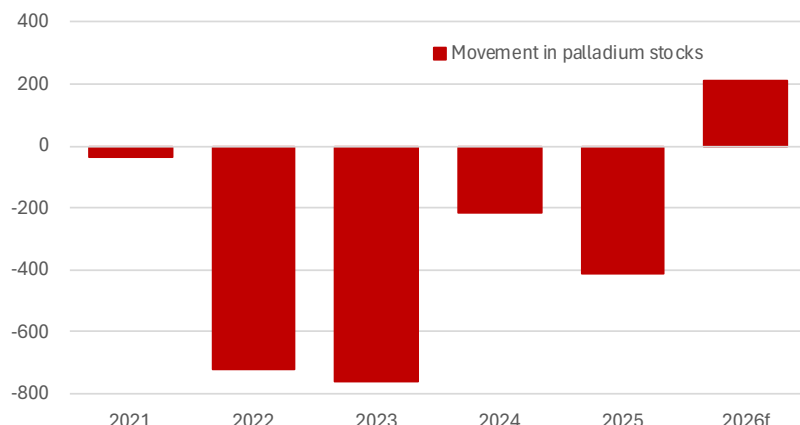
Supply elasticity is also limited. PGM mines are capital-intensive, long-cycle assets, and production decisions are complicated by multi-metal revenue streams. Even when prices rise, new supply cannot be brought on quickly.

Recycling provides an important buffer, especially for palladium, but scrap availability, collection rates, financing conditions and processing capacity limit how quickly secondary supply can fill market deficits.

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Palladium's potential transition to a surplus market is primarily underpinned by rising recycled supply

Palladium market balance



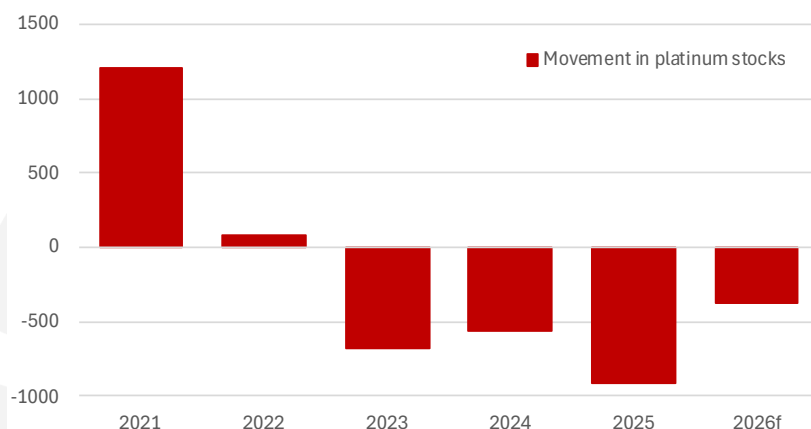
Source: Johnson Matthey PGM Market Report (May 2026).

This is why platinum deficits matter. Repeated deficits have drawn down above-ground stocks and left the market more sensitive to incremental demand improvement or supply disruption.

For palladium, the picture is more mixed: supply risk remains relevant, especially around Russia-linked flows, but rising recycling and softer structural demand make the medium-term balance less supportive than platinum.

Platinum: Forecasted to be in sustained deficits through to 2028f

Platinum market balance



Source: Johnson Matthey PGM Market Report (May 2026).

Understanding PGM's Market Characteristics

PGMs sit within the precious-metals universe, but their price behaviour is not the same as traditional precious metals such as gold. Gold is still the cleaner monetary and safe-haven metal.

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Platinum and palladium, by contrast, carry more industrial cyclicality, thinner liquidity and greater sensitivity to supply shocks and positioning. This makes them higher-beta expressions of the precious-metals complex rather than outright defensive assets.

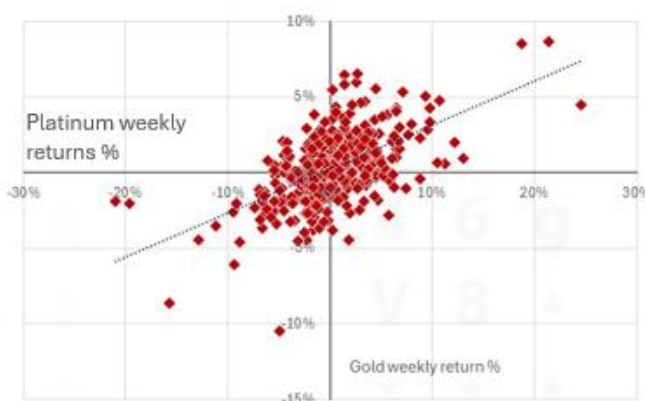
Weekly %change correlations matrix (2017 to 2026)

	Platinum	Palladium	Gold	Silver	Copper	Brent	DXY	Real Yields	S&P 500	Auto Index
Platinum	1.00	0.62	0.58	0.73	0.47	0.14	-0.43	-0.15	0.37	0.30
Palladium	0.62	1.00	0.45	0.51	0.37	0.16	-0.27	-0.17	0.32	0.25
Gold	0.58	0.45	1.00	0.78	0.33	0.05	-0.45	-0.23	0.20	0.15
Silver	0.73	0.51	0.78	1.00	0.45	0.13	-0.42	-0.20	0.32	0.25
Copper	0.47	0.37	0.33	0.45	1.00	0.22	-0.38	-0.12	0.36	0.32
Brent	0.14	0.16	0.05	0.13	0.22	1.00	-0.03	-0.04	0.22	0.14
DXY	-0.43	-0.27	-0.45	-0.42	-0.38	-0.03	1.00	0.23	-0.38	-0.36
Real Yields	-0.15	-0.17	-0.23	-0.20	-0.12	-0.04	0.23	1.00	-0.21	-0.12
S&P 500	0.37	0.32	0.20	0.32	0.36	0.22	-0.38	-0.21	1.00	0.69
ZAR/USD	0.39	0.26	0.32	0.39	0.41	0.11	-0.50	-0.10	0.38	0.37
Auto Index	0.30	0.25	0.15	0.25	0.32	0.14	-0.36	-0.12	0.69	1.00

Source: Bloomberg, OCBC Group Research.

The data supports this distinction. Based on weekly % returns since 2017, **platinum has had a stronger relationship with silver than with gold**, reinforcing its hybrid precious-industrial profile. That matters because platinum can participate in broader precious-metals rallies, but its price action is also shaped by industrial demand, auto-sector trends and supply constraints.

Platinum has stronger relationship with silver than gold

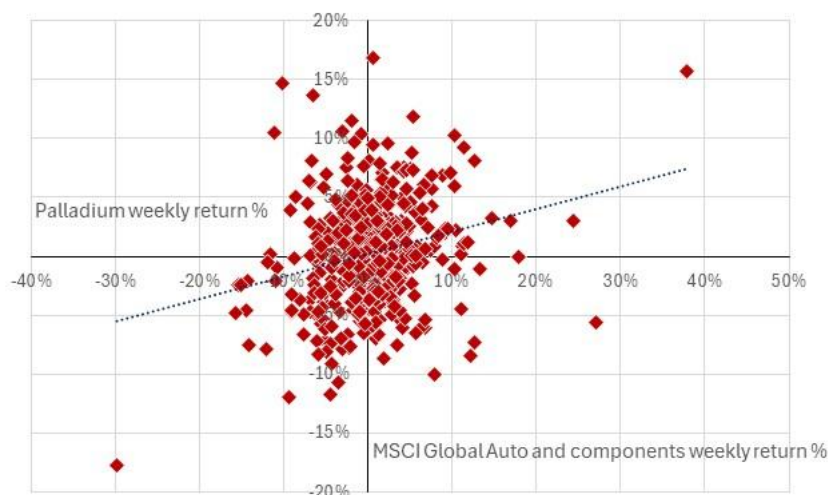


Source: Bloomberg, OCBC Group Research.

Palladium is more idiosyncratic. Its demand base is heavily auto-linked, but its market price is not simply an auto-equity proxy. The relationship with global auto and components equities is positive but modest, suggesting that substitution, recycling, Russia-linked supply risks, thin liquidity and positioning can dominate short-term price action, even when the broader auto sector is moving in a different direction.

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Positive but modest relationship between palladium and autos

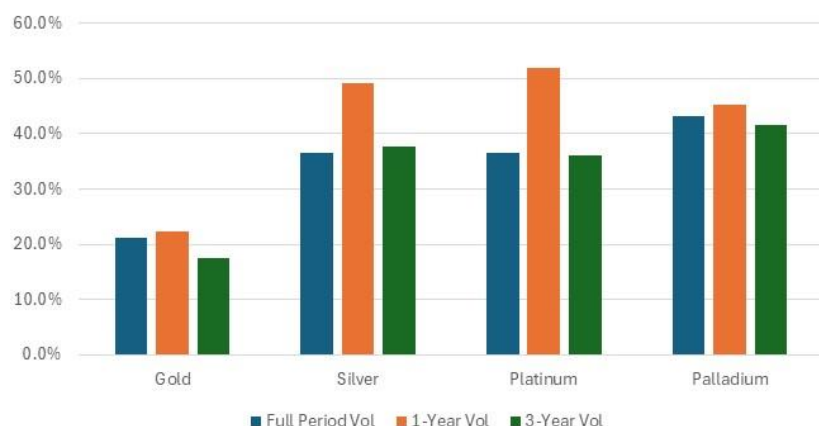


Source: Bloomberg, OCBC Group Research.

The **relationship is also regime-dependent**. In periods of broad precious-metals rallies or commodity supply shocks, PGMs can temporarily move more closely with gold, silver and other cyclical commodities. But in stress periods where safe-haven demand benefits gold while industrial demand weakens, platinum and palladium can decouple sharply. The 2020 pandemic shock was a clear example of this safe-haven versus cyclical split, while the 2022 commodity shock briefly pulled correlations higher across the metals complex. This shift in relationship is important as PGM correlations are useful guideposts, not fixed relationships.

Volatility reinforces the point. Platinum's realised volatility has been closer to silver and global autos, while palladium's volatility has been closer to Brent. This higher volatility cuts both ways: PGMs can rally sharply when supply tightness, investor flows and softer USD conditions align, but they can also correct quickly when growth fears, USD strength or positioning unwinds dominate.

Realized Volatility Comparison



Source: Bloomberg, OCBC Group Research.

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Market structure: China adds a new liquidity channel. Platinum and palladium have traditionally traded through OTC physical markets, futures exchanges and investment products, with London and New York serving as the more established centres for physical pricing, hedging and futures liquidity. GFEX adds a new China-linked liquidity channel. The launch of RMB-denominated platinum and palladium futures and options give domestic industrial users and investors a local tool to hedge or express views on PGMs.

The development is useful for market access and price discovery, especially given China's role as a major physical consumer of PGMs. But early activity should not be read as a signal of end-demand. Trading limits and margin adjustments after launch suggest speculative intensity as well. For now, GFEX is best viewed as a market-structure positive, not a demand driver.

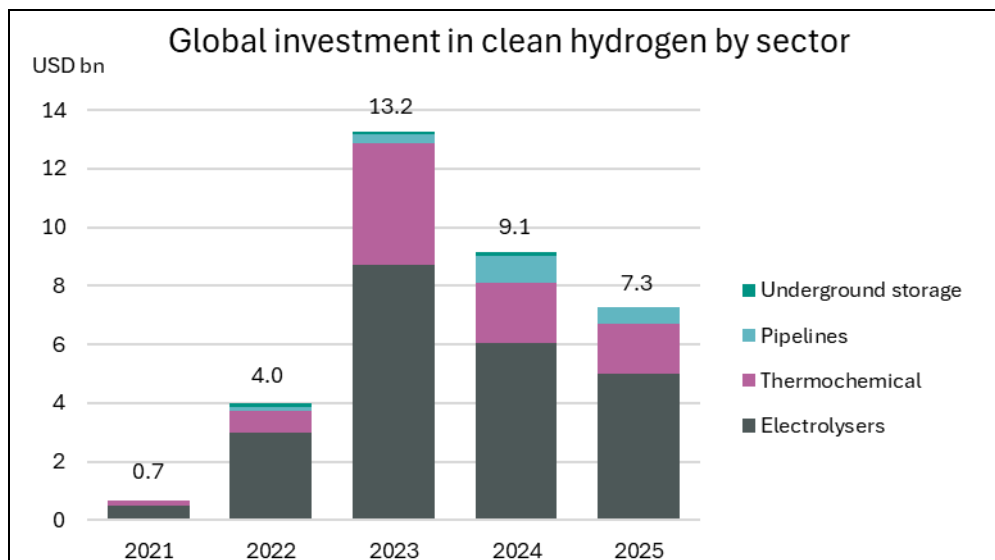
Sustainability lens: PGM and clean energy applications

Platinum has applications in the low-carbon hydrogen economy, including hydrogen-fuelled fuel-cell electric vehicles (FCEVs). Hydrogen vehicles utilise fuel cell technology, and in the case of Proton Exchange Membrane Fuel Cells (PEMFCs), a specific amount of platinum is needed to catalyse the reaction at the electrodes. The transition to electric vehicles is underway, albeit slower and more uneven than initially expected. Supportive policies to decarbonise the transport sector globally may increase long-term demand for platinum in hydrogen-fuelled FCEVs, expected to eventually offset the long-term decline in automotive demand for platinum from catalytic converters. The World Platinum Investment Council (WPIC) estimates that supportive hydrogen policies could drive FCEV demand for platinum to match current automotive demand by 2039. Widespread commercial adoption of FCEVs could accelerate this timeline to 2033.

Platinum, alongside iridium, are important catalysts in Proton Exchange Membrane (PEM) electrolyzers that produce green hydrogen from renewable energy. Markets for platinum-based PEM technology are expected to grow in the long term, as many economies look to green hydrogen as a key enabler in meeting global net-zero ambitions. However, investment in clean hydrogen fell by 21% to USD7.3bn in 2025, due to consistently high costs, uncertain demand and slow infrastructure development that have made it difficult for developers to reach final investment decisions on hydrogen projects.

Nonetheless, energy shocks from the Middle East conflict could see government resolve strengthen in accelerating green hydrogen projects, among other investments in clean energy to reduce dependence on Middle Eastern oil and gas imports. China recently announced plans to establish a national fund for its low-carbon transition, to provide direct financial support for the development of domestic green hydrogen and green fuels. Large-scale green hydrogen applications and green fuel production is also one of the core industry levers of China's 15th Five-Year Plan. As the driving force in electrolyser deployment and manufacturing at present, China accounted for 79% of hydrogen investment in Asia in 2025, with the Xinjiang Hydrogen Energy Tacheng Shawan Electrolyser project (valued at approximately USD0.47bn), accounting for the largest share of this investment. China is also home to nearly 60% of global electrolyser manufacturing capacity.

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Source: BloombergNEF, OCBC Group Research.

Despite the recalibration of industry plans amid low-carbon hydrogen project cancellations and delays, a strong expansion by 2030 is still in sight, according to the International Energy Agency (IEA). Supportive policies and innovation are seeing progress, with a record number of technologies across the hydrogen value chain showing significant advancements over the past year. Southeast Asia is also emerging as a significant and growing hydrogen market, where the pipeline for low-emissions hydrogen production shows considerable promise but needs to mature. Based on announced projects, low-emissions hydrogen production could reach 480 ktpa by 2030, highly concentrated in Indonesia and Malaysia. This growth could further support regional demand for PGM in the long term.

Market Outlook: Platinum and Palladium

The sharp rally in PGMs from 2025 into early 2026 was not driven by one single factor. It reflected a mix of tight physical balances, elevated lease rates, precious-metals spillover and macro/geopolitical hedging. Platinum was the clearer beneficiary. Beyond its persistent market deficit, the rise in platinum lease rates pointed to a shortage of readily available physical metal in London/Zurich, not just bullish investor sentiment. As lease rates rose, end-users had less incentive to rely on borrowed metal and more reason to secure outright ownership, reinforcing the tightness in the spot market. That helped turn platinum into not just a deficit story, but also an inventory-security story.

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Spike in lease rate was a reflection of supply deficits



Note: 1m platinum lease rate = SOFR 1m – Platinum 1m forward rate

Source: Bloomberg, OCBC Group Research.

The broader macro backdrop also helped. The sharp rally in gold and silver through 2025 and early 2026 saw spillover effects onto the wider precious-metals complex as markets looked for relatively “cheaper” precious-metal exposure. Geopolitical risks, including the Iran conflict and oil-price volatility, also added to hedging demand at times. However, the same oil shock has complicated the outlook. Higher oil prices raised inflation concerns, keep bond yields elevated while markets unwound expectations in Fed easing. These are factors that can weigh on non-yielding precious metals. While the PGM story is still constructive, it now needs to navigate a less friendly rates environment. Recent weeks have seen a hawkish repricing in rates markets amid stronger-than-expected US data and persistent inflation concerns. Reflecting this shift, we have updated our PGM forecasts to incorporate our revised house view that the Fed remains on hold through 2026, rather than deliver one rate cut.

Forecasts table

Platinum	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Revised forecasts	1833	1917	2000	2025	2091
Previous	2000	2109	2237	2294	2368

Palladium	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Revised forecasts	1389	1452	1500	1519	1528
Previous	1428	1506	1511	1519	1528

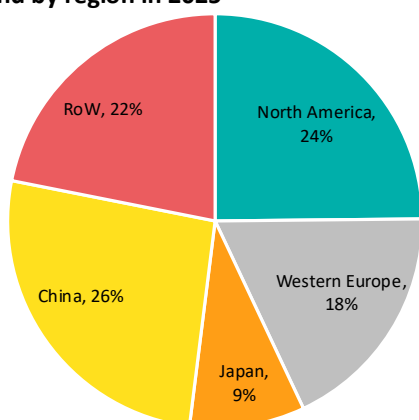
Another development worth monitoring is the growing role of the Guangzhou Futures Exchange (GFEX), which launched platinum and palladium futures in December 2025. China accounts for around 30% of global platinum demand, and the contracts provide domestic participants with a dedicated venue for hedging and price discovery. Since launch, platinum

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prices on GFEX have periodically traded at a premium to international benchmarks, suggesting firm domestic demand and highlighting the importance of Chinese market conditions. Looking ahead, proposals for a night trading session may further strengthen market liquidity and participation. While London and New York remain the dominant pricing centres, GFEX could play an increasingly important role in reflecting regional demand dynamics within the global PGM market.

Platinum demand by region in 2025



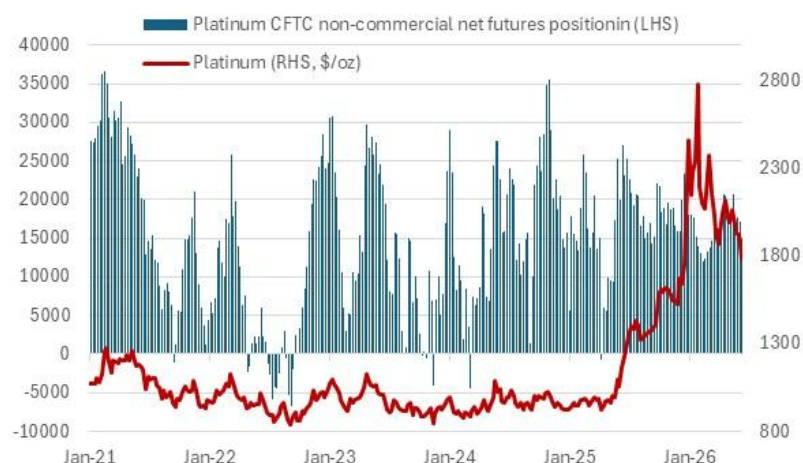
Source: WPIC, OCBC Group Research.

Platinum: Constructive, but likely choppy

The medium-term outlook remains constructive, although the path is unlikely to be one-way after the sharp run-up. The market is still fundamentally tight. Projections from WPIC show that platinum to remain in deficit in 2026, marking a 4th consecutive annual deficit, even if the shortfall is smaller than in 2025. Above-ground stocks have already been drawn down, leaving the market with less buffer against supply disruptions or stronger-than-expected demand.

In the near term, platinum should remain better supported on dips, but price action may still be very much 2-way. CFTC positioning shows non-commercial remains net long platinum, although the latest weekly change was less encouraging as net longs were trimmed. That suggests investors are still constructive, but the long trade lacks conviction. The near-term risk is that the US-Iran standoff persists, keeping oil prices elevated and inflation concerns alive. In that scenario, markets may continue to price a more cautious Fed, keeping real and nominal yields firm. That would be a headwind for gold, silver and platinum, even if geopolitical uncertainty remains supportive. Platinum's physical tightness may limit downside, but it may still struggle if broader precious-metal sentiment turns more negative. An environment of softer USD, lower yields or renewed strength in gold and silver would help platinum extend gains.

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Source: Bloomberg, OCBC Group Research.

Over the **next 3–6 months**, platinum may still have a stronger case over palladium. Its demand base is more diversified across autocatalysts, industrial uses, jewellery and investment demand. It also has longer-term optionality from hydrogen-related demand and other industrial uses, even if these are not yet the dominant price drivers.

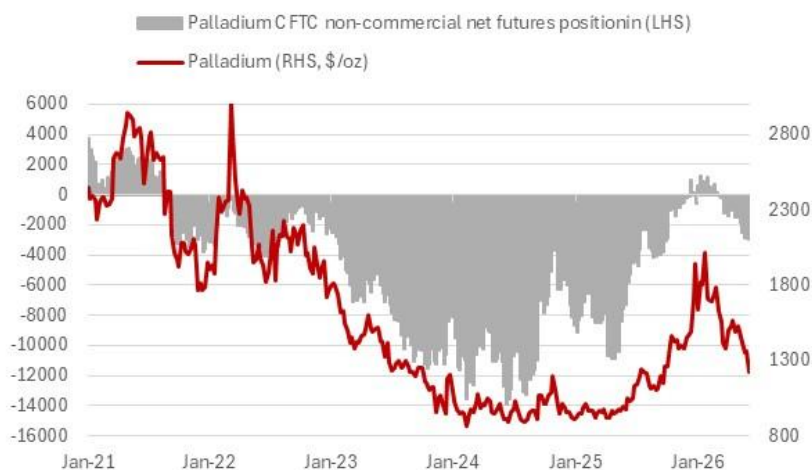
The key risk is global growth. Platinum is still partly an industrial metal, so a sharper slowdown in manufacturing or autos would weigh on sentiment. Even then, the tighter balance and lower stock buffer suggest platinum can still keep prices supported. Geopolitical de-escalation or an eventual shift back toward Fed easing, lower yields and renewed strength in gold and silver would likely reinforce platinum's upward trajectory.

Palladium: Risk of short covering but structural headwinds remain

Palladium's outlook is skewed mixed to downside bias. It has earlier benefited from the broader precious metals rally, supply concerns and occasional short-covering, but its fundamental story is less compelling. Palladium remains heavily tied to gasoline autocatalysts, leaving it more exposed to EV penetration, substitution, thrifted loadings and the global auto cycle. That makes its medium-term demand profile more challenged, even if prices may still rebound in the short term.

In the **near term**, there may be room for palladium to rebound. CFTC positioning shows net non-commercial **net short palladium** as of 9 Jun 2026. That short positioning may leave the metal vulnerable to sharp squeezes if there are supply headlines, stronger precious-metals sentiment or broader risk relief. Russia-related supply risks also remain relevant, given its role in global palladium supply. But any price rebound may be harder to sustain unless they are matched by stronger end-demand. Unlike platinum, where the deficit story is more persistent, palladium is more vulnerable to the perception that rallies are supply-led or positioning-led rather than demand-led.

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Source: Bloomberg, OCBC Group Research.

Over the **next 3–6 months**, palladium is likely to lag platinum. The key issue is not that palladium lacks upside catalysts, but that the quality of those catalysts is less durable. Supply headlines and short-covering can produce sharp rallies, but the structural demand picture remains challenged by the auto-sector transition and substitution narrative. Palladium would need either stronger global growth, more resilient internal-combustion/hybrid vehicle demand, or clearer evidence of new industrial demand to rebuild a more convincing medium-term bull case.

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Stress tests on the impact of fuel shortage scenario on China's economy

Tommy Xie Dongming
Head of Asia Macro Research

- Fuel shortages would transmit to export volumes through three distinct channels rather than one. The largest risks are physical capacity losses at private and SME factories, as well as port-operation bottlenecks.
- The 2021 energy crunch provides a useful benchmark for assessing the potential second-round effects of a prolonged closure of the Strait of Hormuz. The key lesson from 2021 is that energy shortages affect economic activity primarily through industrial production rather than exports.
- We estimate the drag on China's GDP growth would likely be closer to 0.4 percentage points—modestly below the impact experienced during the 2021 Dual-Control energy crunch.

Three months into the Iran war, markets have largely priced in the first-order crude oil price shock. The economy has already felt the initial impact through cost-push inflation. However, we believe markets have not yet fully priced in the risk of a refinery-throughput and product-distribution shock if the closure of the Strait of Hormuz lasts longer than expected. Although the economy has shown resilience, supported by high crude inventories, economic electrification and diversified oil supply sources, this report stress-tests China's economy under a possible fuel shortage scenario, with a particular focus on diesel.

Diesel is uniquely embedded into the export production function, as it sits at three bottlenecks simultaneously. Upstream as diesel supports inland freight, including trucks and barges that move inputs to coastal factories. Midstream as it supports factory operations, including backup generators, forklifts and cogeneration systems. Downstream as it supports port operations and bunker fuel for outbound vessels.

A diesel shortage could affect China's economy through three key transmission channels.

First, it would raise trucking operating costs. Diesel typically accounts for around 30–35% of total operating costs for long-haul trucking companies in China, making fuel prices a key determinant of freight profitability. Export goods typically touch trucks two to five times across inbound components and outbound shipments to ports. According to CFLP estimates, every 10% rise in diesel prices adds around 3.5% to long-haul trucking operating expenses. Higher domestic transportation costs would further compress already thin margins for exporters, with price-sensitive and low-margin goods likely to be hit first. Based on the current diesel price shock, we estimate that this channel could shave up to 2% off China's exports.

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Second, port fuel shortages could create throughput bottlenecks. Container terminals consume diesel across yard tractors, forklifts and rail-mounted gantry cranes. A refinery-throughput cut would therefore affect both port operations and bunker fuel availability at the same time. During the 2022 Shanghai lockdown, Shanghai port throughput fell by around 20% YoY as local logistics and energy supply disruptions intensified. Our estimates suggest that a sustained 5% decline in port diesel availability for more than seven days could eventually reduce container throughput by around 2–3%, as inventory buffers are depleted and lower-priority operations are curtailed. While minor shortages can be absorbed by operational buffers, a critical shortage of more than 15–20% could trigger a disproportionate decline in throughput due to gridlock and vessel idling.

Third, refinery run cuts aimed at preserving diesel yield could reduce naphtha output. Naphtha is a key feedstock for ethylene, polyethylene and polypropylene, which are widely used in packaging films and injection-moulded parts. A second-phase refinery crunch would therefore add another layer of pressure by pushing packaging and intermediate input costs higher.

Overall, fuel shortages would transmit to export volumes through three distinct channels rather than one. The largest risks are physical capacity losses at private and SME factories, as well as port-operation bottlenecks. Both channels are likely to scale non-linearly once fuel availability falls meaningfully, suggesting that a prolonged disruption could have a much larger impact than implied by crude prices alone.

Case Study: China's 2021 Dual-Control Energy Crunch

To assess the potential economic impact of a fuel shortage stemming from a prolonged closure of the Strait of Hormuz, it is useful to revisit China's energy crunch in the second half of 2021. While the current risk originates from a geopolitical supply shock, the 2021 episode provides a valuable stress test of how fuel and energy constraints can propagate through the Chinese economy. Importantly, the 2021 diesel shortage was not caused by an insufficient crude oil supply or a lack of refining capacity. Instead, it was largely a policy-induced supply shock linked to China's **"Dual Control of Energy Consumption"** (能耗双控) framework.

The Dual-Control policy targets both total energy consumption and energy intensity, serving as a key instrument in achieving China's carbon emissions peak and carbon neutrality objectives. The policy took on particular urgency in 2021. In August that year, the National Development and Reform Commission (NDRC) released its Barometer of Progress on Energy Dual-Control Targets, showing that a large number of provinces had failed to meet their energy-intensity reduction goals. Nine provinces and regions were placed under the highest-level warning, while another ten received secondary warnings.

The report triggered an aggressive nationwide push to reduce energy consumption in 3Q21 and 4Q21, as local governments rushed to meet annual targets. In many provinces, this translated into abrupt production curbs, power rationing and restrictions on fuel consumption.

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In some regions, diesel stations imposed sales limits, trucks queued for hours or even days to refuel, construction projects experienced fuel shortages, and mining and industrial users were instructed to reduce diesel consumption. Although the policy was designed to control energy usage, it effectively became a de facto fuel-consumption control measure.

Impact on industrial production

The industrial sector displayed a clear "strong first half, weak second half" pattern in 2021, with the turning point closely aligned with the tightening of the Dual-Control policy.

Following the NDRC's nationwide warning in August, the year can be broadly divided into two phases: a relatively accommodative period between January and August, and a tightening phase from September to December.

During the tightening phase, growth in industrial value-added output of enterprises above designated size slowed sharply to an average of 3.7% YoY, compared with an average of 13.7% YoY in the first eight months of the year. This represented a deceleration of 10 percentage points. The slowdown was most evident in September, when industrial production growth dropped from 5.3% YoY in August to 3.1% YoY, marking the weakest pace since the initial COVID recovery period in 2020.

The impact was highly concentrated in energy-intensive industries, which were the primary targets of production restrictions. As a result, industrial performance became increasingly polarized. Output in energy-intensive sectors contracted significantly more than overall industrial production, while non-energy-intensive industries remained comparatively resilient. Equipment manufacturing growth moderated only modestly, while electronic and information technology manufacturing even recorded a slight improvement during the tightening period.

Industry Category	Policy Relaxation Period (Jan–Aug) Avg Growth (%)	Policy Tightening Period (Sep–Dec) Avg Growth (%)	Change in Growth Rate
Total Industrial Output	13.7	3.7	-10
Ferrous Metal Smelting & Processing (Steel)	4.2	-9.1	-13.3
Chemical Raw Materials & Chemical Products	8.2	0.3	-7.9
Petroleum, Coal & Other Fuel Processing	3.0	-5.3	-8.3
Non-Ferrous Metal Smelting & Processing	3.5	0.2	-3.3
Electricity & Heat Supply	9.7	9.4	-0.3
Equipment Manufacturing	13.8	11.2	-2.6
Electronic Information	12	12.2	0.2

This highlights the structural nature of the shock. The direct impact was largely confined to energy-intensive sectors, while technology-intensive and lower-energy-consuming industries were relatively insulated. Nevertheless, given that energy-intensive industries account for roughly 30% of China's industrial output, the sharp slowdown was sufficient to exert a meaningful drag on overall industrial activity.

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Impact on GDP Growth

The macroeconomic impact became increasingly visible in the second half of 2021. China's real GDP growth decelerated sequentially from 18.9% YoY in 1Q21 to 7.9% YoY in 2Q21, 4.9% YoY in 3Q21 and 4.5% YoY in 4Q21. Among the major sectors, the secondary industry—which was directly affected by the Dual-Control policy—experienced a substantially sharper slowdown than the overall economy and became the primary drag on growth.

Growth in secondary industry value-added fell from 24.9% YoY in 1Q21 to 6.7% YoY in 2Q21. Following the intensified implementation of dual-control measures in 3Q21, growth slowed further to 3.9% YoY before easing to 2.5% YoY in 4Q21. Both the timing and magnitude of the slowdown closely coincided with the peak period of policy tightening.

In our view, the Dual-Control policy exerted a significant negative impact on economic activity, with the bulk of the drag concentrated in the third and fourth quarters. The weakness in 3Q21 was primarily driven by the sharp slowdown in industrial production during September, while the softness in 4Q21 reflected the continued implementation of production restrictions and their lagged transmission through broader supply chains.

Overall, we estimate that the Dual-Control policy reduced China's full-year GDP growth by approximately 0.5 percentage points in 2021.

Implications for a Strait of Hormuz Disruption

The 2021 energy crunch provides a useful benchmark for assessing the potential second-round effects of a prolonged closure of the Strait of Hormuz. The key lesson from 2021 is that energy shortages affect economic activity primarily through industrial production rather than exports.

In the current scenario, the transmission mechanism would likely be similar. Industrial production would remain the primary channel of impact, particularly if diesel shortages disrupt freight transportation, factory operations and logistics networks. Export demand itself may not weaken materially, but shipping and port bottlenecks could still reduce effective export volumes. Based on our earlier estimates, export losses could reach around 2% under a severe diesel shortage scenario.

The 2021 experience suggests that a broad-based energy shock can reduce GDP growth by approximately 0.5 percentage points. However, we believe the impact of a Strait of Hormuz disruption would likely be somewhat smaller.

Energy resilience has improved materially since 2021. The share of renewable energy in the power mix has increased, electrification has deepened across multiple sectors, and strategic energy security has been strengthened. In addition, China's crude oil import sources have become increasingly diversified, reducing dependence on any single region or shipping route.

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As a result, while a prolonged disruption would still weigh on economic activity, we estimate the drag on China's GDP growth would likely be closer to 0.4 percentage points—modestly below the impact experienced during the 2021 Dual-Control energy crunch.

In short, the 2021 episode demonstrated that energy shortages can generate meaningful macroeconomic costs. While today's China is structurally more resilient than it was five years ago, a prolonged fuel shortage would still create significant headwinds through industrial production, logistics and supply-chain channels, making it an important downside risk to growth.

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