

ASEAN-5 & India

Lower oil ≠ instant macroeconomic relief (just yet)

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- The thawing of the relationship between the US and Iran has led to a swift reaction in global oil markets, with oil prices declining sharply. However, the macroeconomic adjustments for India and the ASEAN-5 economies of Indonesia, Malaysia, Philippines, Thailand and Vietnam will be more gradual.
- We expect the implications of the US-Iran conflict to linger into 3Q26 for pipeline price pressures, rebuilding fiscal buffers and external pressures as petroleum imports could increase more sharply in the coming months.
- The combination of sticky price pressures, external pressures and hawkish perceptions of the US Federal Reserve, replacing Middle East tensions, will keep regional central banks on a hawkish bias. We expect policy rate hikes across regional central banks, albeit with some hikes characterised more as normalisation from relatively accommodative monetary policy settings.

Negotiations between the US and Iran are currently underway, with the finer details being worked out. Headlines suggest that the initial agreement and its 14 points include a clause to reopen the Strait of Hormuz (SoH) and extend the ceasefire for 60 days. Notwithstanding, the relief in the oil market was palpable, with Brent prices having fallen nearly 20% since 3 June.

While oil market reaction has been swift, the macroeconomic adjustments for India and the ASEAN-5 economies of Indonesia, Malaysia, Philippines, Thailand and Vietnam will be slower. We expect the implications of the US-Iran conflict to linger into 3Q26 for pipeline price pressures, rebuilding fiscal buffers and external pressures. Should the oil price drop prove durable into 4Q26, we would expect greater macroeconomic relief to materialise.

Watching fiscal balances

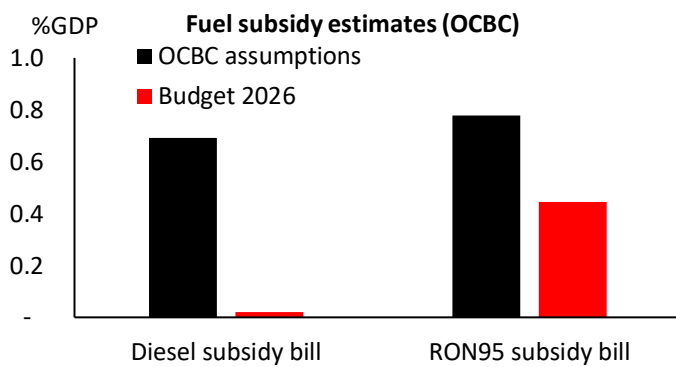
Fiscal pressures have increased for economies with fuel subsidies and quasi-fiscal support mechanisms. Indonesia and Malaysia directly subsidise retail fuel prices, with the expenditure bill rising sharply, while India, Thailand and Vietnam use quasi-fiscal mechanisms such as oil funds or oil marketing companies. With these subsidy mechanisms still likely to remain stretched, the ability for authorities across the region to pass on lower oil prices will be limited for the next three months, in our view.

Malaysia's Ministry of Finance noted on 22 June that the subsidy bill rose to MYR4.7bn in March and MYR4.9bn in April, up from MYR800mn before the onset of Middle East tensions. The cost of fuel subsidies has been increasing steadily through March and April. On 15 April, the MoF noted that RON95 subsidies rose from MYR300mn before the conflict to MYR4bn per month, while diesel subsidies increased from MYR400mn to MYR3bn per month.

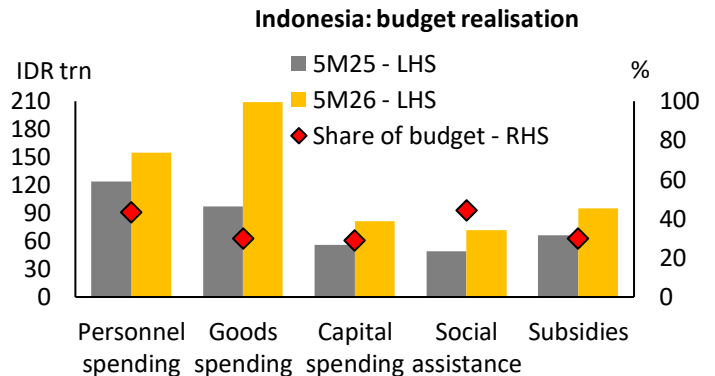
The rising subsidy bill has led the authorities to tweak the Budi Madani Diesel programme, effective 1 July. While retail diesel prices will be capped at MYR2.10/litre using the MyKad mechanism, similar to Budi95, the monthly quota of 200 litres will be shared between Budi95 and Budi Diesel, implicitly imposing a stricter consumption cap on fuel. Moreover, the authorities noted that compensation of MYR400mn under Budi Diesel will no longer be provided. This monthly compensation was raised from MYR200mn to MYR300mn in March and to MYR400mn in April. The government estimated that, for 350,000 Budi individual and Budi Agri-Komoditi recipients, the cost was an incremental MYR35mn per month. On balance, the authorities estimate annual fiscal savings of MYR2bn (0.1% of GDP).

The impending adjustments to the Budi Diesel mechanism are timely and necessary. That said, we still believe that the risks of fiscal slippage have increased. We estimate that the diesel subsidy bill will increase by MYR7bn (0.3 % of GDP) for the remainder of the year, should Brent oil prices average USD85/barrel in 2026. Taken together with RON95 subsidies, the fuel subsidy bill could amount to 1.5% of GDP in 2026. This is significantly higher than the budget estimate of 0.5% of GDP, based on our calculations. Notwithstanding reductions from household compensation, some part of the slippage

of ~1% of GDP could be offset by additional dividend payouts from Petronas, which is budgeted at MYR20bn for 2026. This could be increased to MYR32bn, similar to 2024 and 2025. We still, however, see rising risks of fiscal slippage. We had pencilled in fiscal slippage of 0.1% of GDP for 2026 as early as March 2026, but the risk now is that the slippage could be higher, closer to 0.2% of GDP.

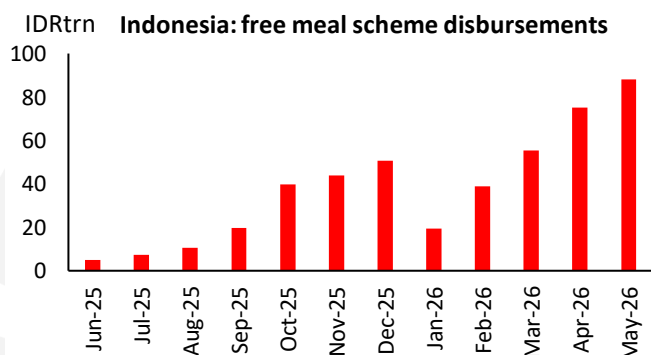


Source: Budget 2026; Ministry of Finance Malaysia, OCBC Group Research.

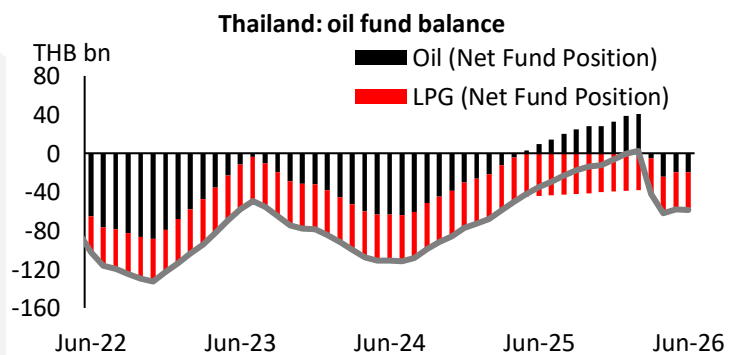


Source: MoF, OCBC Group Research.

Indonesia's fuel subsidy bill increased by 43.4% YoY for the period of January-May 2026, with monthly compensation to households also rising sharply. The consumption of subsidised fuel increased by 8.6% YoY during the same period, suggesting that demand remains relatively inelastic, given the limited price changes. The fuel subsidy bill adds to already expensive flagship expenditure projects such as the free meal scheme, for which expenditures rose to IDR88.15trn in May 2026, with cumulative spending at IDR277trn for Jan-May. We expect significant expenditure cutbacks in 2H26 for the authorities to be able to meet the legal fiscal deficit limit of 3% of GDP (OCBC: 2.9% of GDP); this will also limit the ability of the authorities to adjust retail fuel prices lower. With revenue growth improving in recent months, the fiscal run rate narrowed to 2.8% of GDP as of end-May.



Source: Indonesia Ministry of Finance; OCBC Group Research.



Note: As of 14 June 2026. Source: Oil Fuel Fund Office, OCBC Group Research.

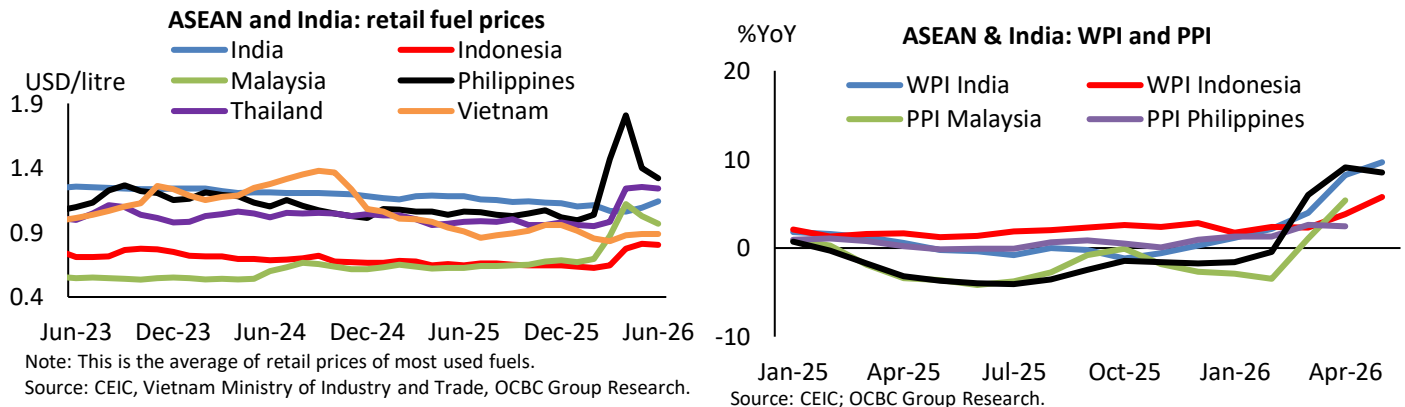
For **India**, the loss incurred by Oil Marketing Companies (OMCs) is still reportedly INR600crore per day even after four rounds of retail fuel price increases¹. For **Thailand** and **Vietnam**, the quasi-fiscal cross-subsidy mechanisms have been noticeably depleted.

¹ After 4 rounds of fuel price hike, oil marketing companies still 'losing around Rs 600 cr each day', *The Print India*, 25 May 2026.

The Thai Oil Fund recorded a deficit of THB58.5bn as of 14 June 2026 while the Vietnam Petroleum Stabilisation Fund balance narrowed to VND195.9bn as of end-1Q26 from VND5.6trn at the start of the quarter.

Inflation: Moving from first-round to second-round effects

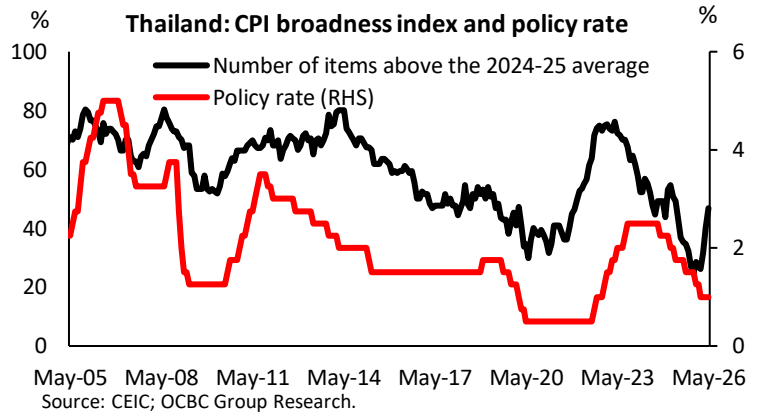
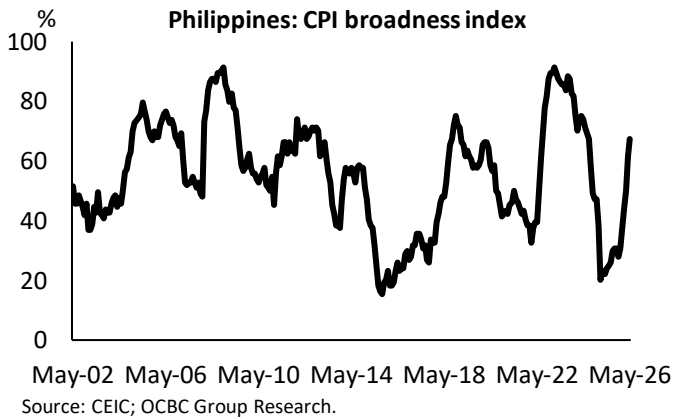
Given the discernible fiscal and quasi-fiscal impacts from higher global oil prices thus far, the path to lower retail fuel prices will not be uniform. Retail fuel prices were raised across the region in April and May to differing degrees, with increases in some economies limited to non-subsidised fuels. The trajectory for reversal is less clear. Moreover, there has been a pass-through onto wholesale and/or producer prices across the region. These pass-through effects could prove more persistent and slower to reverse.



The **Philippines**, which does not provide any retail fuel price subsidies for petroleum and diesel, could see the sharpest drops in retail fuel prices if the current downward momentum of global oil prices is sustained. Retail diesel and RON prices jumped by as much as ~119% YoY and ~50% in April, respectively, before rising again in May, as the pass-through from global oil prices onto retail fuel prices is quite direct. However, with global oil prices falling sharply, we could see headline CPI ease in the coming months if the decline in oil prices is sustained. It could still take until late 3Q26/4Q26 to reach 5.5% levels. This implies an asymmetric path to lower CPI compared to the sharper increases seen in April and May. We continue to forecast average headline CPI at 5.8% YoY in 2026. Our measure of CPI broadness shows that headline CPI is already higher for 67.3% of the basket compared to its 2024-25. Specifically, the price of key food items such as rice (close to 10% of the CPI basket) is rising and the impact of El Nino may prove critical for rice production and imports. As such, the second-round effects could prove sticky and challenging for Bangko Sentral ng Pilipinas (BSP).

Retail fuel prices also jumped sharply in Thailand in May and June, albeit on a more ad-hoc basis compared to the Philippines. The authorities will have limited room to cap or reduce retail fuel prices in the near term as losses on the Oil Fund need to be recouped. Furthermore, our measure of CPI broadness has risen to 47% (i.e. the average YoY inflation for 47% of the CPI basket is above its 2024-25 average), from as low as 26% in

February 2026. With retail fuel prices unlikely to adjust lower, we expect headline CPI to average 3.8% YoY in 2026, above BoT 1-3% target range.



Retail fuel prices in Vietnam jumped 54% YoY and 62% in April and May, respectively, as the balance in the petrol price stabilisation fund was reduced to VND195bn at the end of 1Q26 from VND5.6trn on 1 January 2026. The authorities will be unlikely to have fiscal space in the near term to reverse the retail price increases especially if they choose to build medium-term fiscal buffers. This suggests that inflationary pressures will persist through 3Q26. We expect headline CPI to average 4.5% in 2026 versus 3.3% in 2025, in line with the government's target.

Malaysian authorities maintained the RON95 price for 80% of the population at MYR1.99/litre, while prices for RON97 and diesel were up 56% YoY and 100% in April. Headline CPI gradually rose to 2.0% YoY in May from 1.9% YoY in April, averaging 1.7% year-to-date. PM Anwar Ibrahim announced on 21 June that the authorities will cap the price of retail diesel at MYR2.10/litre using the MyKad mechanism. This will allow citizens to receive the subsidy while foreigners will have to pay the unsubsidised price. We estimate this will bring down headline inflation 0.1 percentage points for 2026 and suggests modest downside risks to our full year headline CPI forecast of 2.0%.

For **Indonesia**, the fuel subsidy bill will likely become more manageable for the rest of the year provided global oil prices remain at current levels. However, investor sentiment remains fragile. The onus remains on the authorities to provide further confidence around recently announced policies with regards to commodities exports; fiscal risks associated with the administration's flagship programmes and volatile capital flows that remain idiosyncratic to Indonesia's economy (see *BI and BSP each deliver 25bp rate hikes*, 18 June 2025).

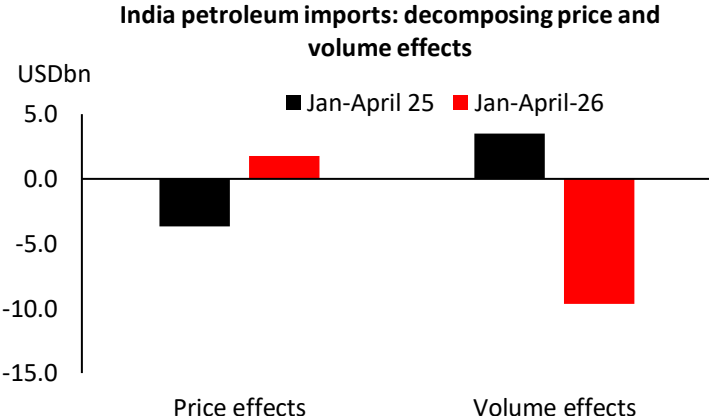
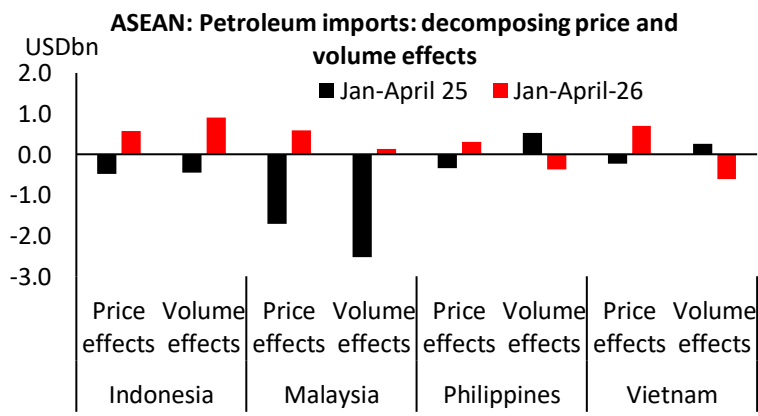
The authorities in **India** delivered ad-hoc fuel price increases in May, which led to 7-7.5% increases across major cities. Similar to Thailand and Vietnam, reversing these increases could prove challenging in the near-term because Oil Marketing Companies (OMCs) have borne significant losses from March to May and the authorities remain incentivised to maintain retail fuel prices to help recoup some of these losses. In addition, food price pressures are building - the progress of the monsoons has been halting with the rainfall

deficit at 40% suggesting that sowing for the kharif crop season could be underwhelming. We forecast headline CPI to average 5.0% in FY27 compared to 2.1% in FY26.

Mixed impact on petroleum imports

The onset of tensions in the Middle East and higher oil prices suggested that there would likely be a deterioration in the terms of trade for most petroleum importing nations. However, the outcomes were more mixed, and we attribute this to the closure of the Strait of Hormuz.

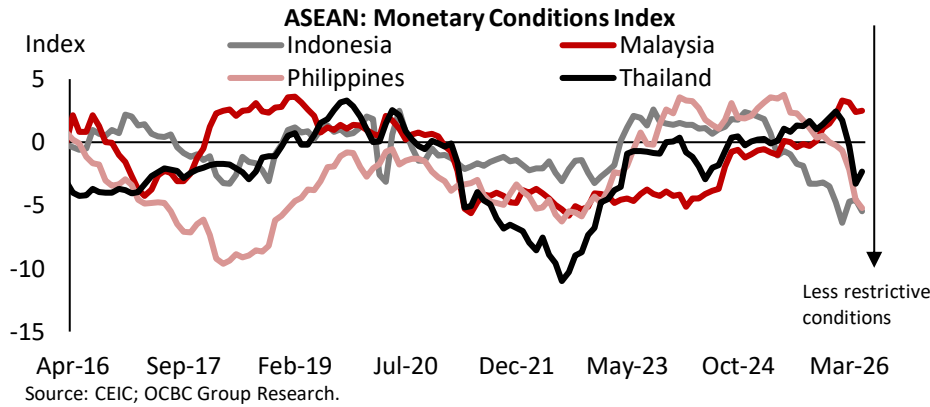
The number of ships that have crossed the waterway since the end of February has been limited. This likely explains the low to negative volume effect, i.e. the change in imports explained by changes in volumes, for crude petroleum and petroleum products. Import volumes dropped sharply for India, Vietnam and the Philippines from January to April 2026 but was slightly higher for Indonesia and Malaysia. The price effects, however, were clearly more positive across the region explained by higher global oil prices. On balance, the petroleum imports actually dropped for most of the region in Jan-April 2026, with the exception of Indonesia.



Source: CEIC; OCBC Group Research.

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Looking ahead, there could be a sharper pick-up in petroleum imports across the region, with import volumes rising for India, Vietnam and the Philippines. The pace of reopening of the Strait of Hormuz and the passage of ships through this important waterway will be an important factor for the ASEAN-5 economies and India. Three Indian-flagged tankers carrying more than 860,000 metric tons of oil reportedly transited the Strait safely on 20 June. Notwithstanding the strong tailwinds from the global semiconductor upcycle, the energy import bill will likely need to be monitored closely into 2H26 along with potential pressures on the trade and current account balances. This is particularly relevant for India, Indonesia, Vietnam and Philippines, in our view.



Hawkish regional central banks

The combination of sticky price pressures, external pressures and hawkish perceptions of the US Federal Reserve replacing Middle East tensions will keep regional central banks on a hawkish bias. We expect policy rate increases from all regional banks, albeit with some policy rate increases being characterised more as a normalisation from relatively accommodative monetary policy settings.

For **Bangko Sentral ng Pilipinas (BSP)** and **Bank Indonesia (BI)**, we see monetary policy conditions become significantly tighter to rein in price pressures and bolster macroeconomic stability, respectively. We continue to forecast a cumulative 75bp hike from Bangko Sentral ng Pilipinas (BSP) and Bank Indonesia (BI) in 2026. This will take the policy rate to 6.50% for Indonesia and 5.50% for the Philippines.

While **Bank of Thailand (BoT)** has looked through supply side shocks in the past, monetary policy conditions are relatively accommodative. Pipeline price pressures together with the current relatively accommodative monetary policy conditions suggests that BoT may have room late in 2H26 to reverse the 25bp cut from February this year. As such, we remain comfortable with our forecast for BoT to raise its policy rate by a cumulative 50bp in early 2027.

We expect the **Reserve Bank of India (RBI)** to raise its policy rate by a cumulative 50bp in FY27, starting in 3Q26 with a subsequent increase in 4Q26 or 1Q27. The pace of the rate hiking cycle will be measured, in response to inflationary pressures but also to mitigate INR depreciation pressures. While the measures announced by the RBI at its 5 June meeting will likely prove effective in stabilising sentiment, we continue to expect policy rates to mitigate broader inflationary pressures (see *India: RBI on hold; authorities unleash FX support*, 5 June 2026).

For **Bank Negara Malaysia (BNM)**, we see the growth-inflation mix as supporting a normalisation of the policy rate back to 3.00% in early 2027. Our monetary conditions index (MCI) suggests some tightness in conditions on account of MYR appreciation (on a REER basis) however, recent MYR depreciation (versus USD) suggests a slight easing of conditions. The incoming activity data has pointed to a resilient start to 2Q26, with

export growth rising 45.3% YoY in May from 36.9% in April and industrial production growth at 8.2% YoY in April versus 3.1% in March. Although the dichotomy between domestic and external demand based widen into 2H26 and 1H27 with external demand solid but domestic demand somewhat softer, we still see the output gap as largely closed, allowing room for policy normalisation (see *Malaysia: Solid data mix*, 19 June 2026). Our 2026 GDP growth forecast remains 4.4% from 5.2% in 2025.

For **State Bank of Vietnam (SBV)**, 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. Headline inflationary pressures, and potential second-round effects from higher retail fuel prices, will keep SBV vigilant. Although the authorities remain squarely focused on supporting economic growth, we expect a cumulative 50bp in rate hikes from SBV in early 2027.

Benchmark Rate %	Current	End-2026F	End-2027F
RBI Repurchase Rate	5.25	5.25	5.75
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
BOT Repurchase Rate	1.00	1.00	1.50
SBV Refinancing Rate	4.50	4.50	5.00

Source: Bloomberg; OCBC Group Research. For India, we refer to fiscal year, i.e. FY26 is year ending March 2026.



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