ASEAN-5 & India

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ASEAN-5 & India: Dealing with volatile oil prices

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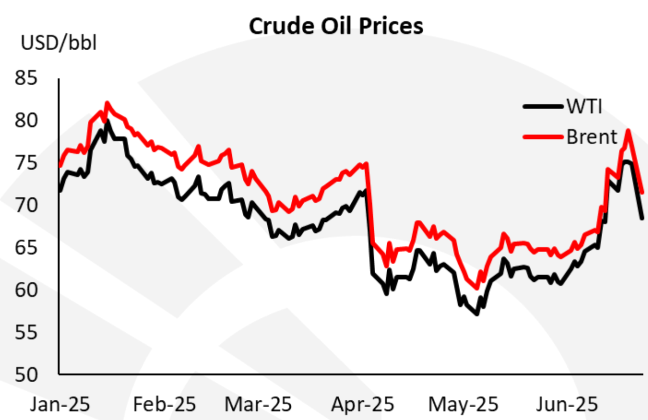
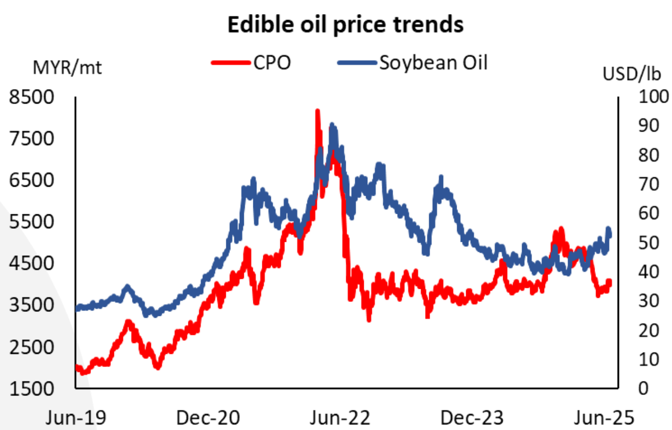
- It has been a rollercoaster for oil prices over the last 48 hours. Although oil prices have dipped, risks of a rebound persist. Our scenario analysis, with Brent spiking to USD120/barrel and subsequently settling at USD100/barrel for the remainder of 2025, suggests that India, Indonesia, Malaysia, Philippines, Thailand and Vietnam could see further deterioration in the current account balance as net petroleum importers.
- Higher oil prices will likely directly pass through onto headline inflation in the Philippines but be buffered by the presence of subsidies in Indonesia and Malaysia and quasi subsidies in India, Thailand and Vietnam. The fiscal deficits will, however, widen for Malaysia and Indonesia, absent subsidy policy changes.
- The impact on GDP growth will be less clear cut but higher oil prices will further obfuscate the picture for central banks. This risk is that central bank could hold back on further rate cuts if oil price pressures persist.

It has been a rollercoaster for oil prices over the last 48 hours. Brent prices oscillated more than 15%, hitting a high of over USD80/barrel to low of below USD68/barrel. Although a cease fire was negotiated for Israel and Iran, the geopolitical atmosphere remains tense and uncertain.

The implications for oil prices hang in the balance. While Brent prices have not hit above USD100/barrel since August 2022, we assume under our worse-case scenario, that Brent oil prices will rise to USD120/bbl for a month, before stabilising at ~USD100/barrel. This implies an increase of 35.5% YoY from July to December 2025, compared to -14.9% year-to-24 June 2025.



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC.

The persistence and magnitude of the oil price shock are crucial determinants of its impact on an economy's macroeconomic variables including the current account balance, inflation, fiscal position, and GDP growth. The spillovers from higher oil prices onto other commodity prices such as LNG, coal, rubber, or nickel will also have economic implications for this region. However, for the purpose of our analysis, we look mainly at petroleum prices.

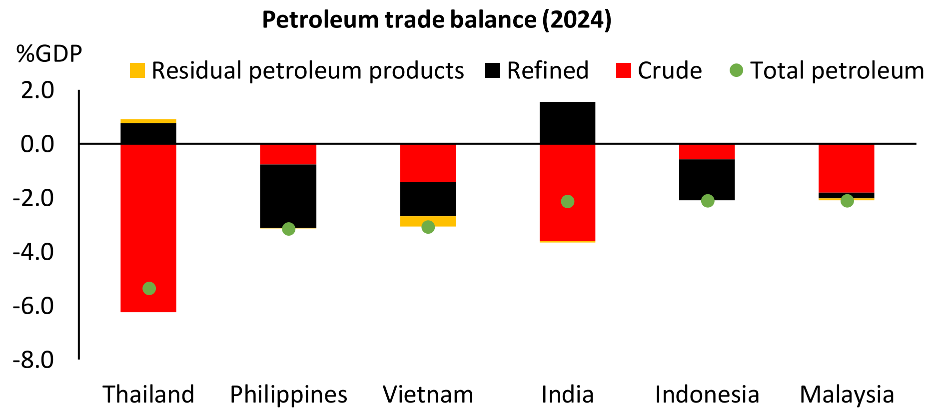
Notwithstanding, it worth noting that crude palm oil (CPO), the world's most consumed edible oil, and its close substitute, soybean oil, have reversed earlier declines. Month-to-date (23 June), CPO has risen by ~5.0%, while soybean oil has surged by 13.3%, supported by renewed demand interest and higher energy prices. Indeed, the increase in edible oil prices reflects not only rising production costs but also renewed interest in biofuels as alternative energy sources, with both palm and soybean oils serving as key feedstocks.

Adding to the price momentum is the US Environmental Protection Agency (EPA)'s proposal to raise the 2026 biofuel blending mandate to 24bn gallons, surpassing industry expectations and signals stronger biofuel demand ahead. In Indonesia, GAPKI Chairman Eddy Martono noted that Indonesia's biodiesel drive may reduce palm oil exports to 20mn tons by 2030 from nearly 30mn tons in 2024. Looking ahead, we believe the oil market shock, expanded US biofuel mandates, and Indonesia's rising domestic consumption are reinforcing price support for CPO beyond short-term crude-driven volatility.

Trade impact will be the biggest channel of impact

The economies of India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam are net petroleum importers. The largest net petroleum importer in 2024 was Thailand, relative to the size of the economy, followed by the Philippines, Vietnam, India, Indonesia, and Malaysia.

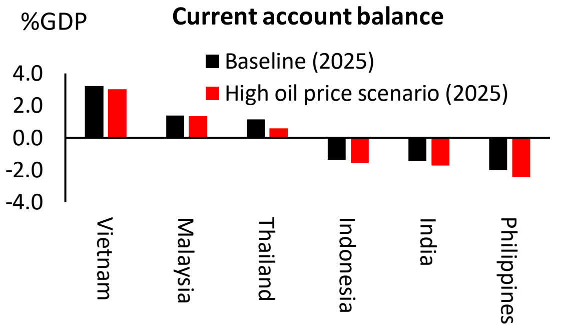
Amongst these economies, Thailand and India are net exporters of refined petroleum but significant crude petroleum importers. Interestingly, Malaysia has oscillated between being a net refined petroleum exporter and importer since 2020 and has been a net crude petroleum importer since 2022.



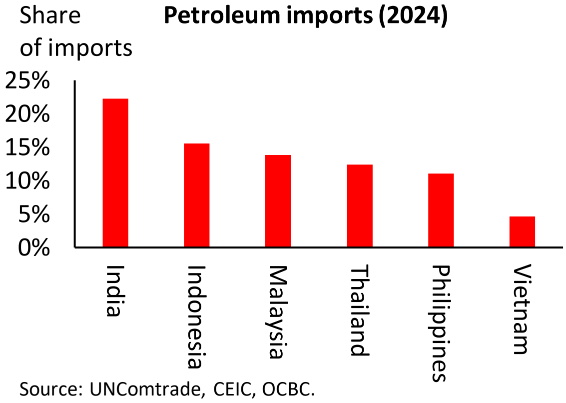
Source: UNComtrade; OCBC.

Our analysis suggests that a USD10/barrel increase in global oil prices will drag the current account balance by 0.5% of GDP for Thailand, followed by 0.4% of GDP for the Philippines, 0.3% of GDP for India, 0.2% of GDP for Indonesia, Malaysia and Vietnam. Essentially, this would be reflected in narrower current account surpluses or wider deficits.

In addition, there is a relatively high dependency on petroleum across the region. The share of petroleum imports in 2024, as a proportion of total imports, was the highest for India at 22.2% followed by Indonesia (15.5%), Malaysia (13.8%), Thailand (12.3%), the Philippines (11.0%) and Vietnam (4.6%).



Source: CEIC; OCBC. Note: High oil price scenario where oil prices spike to USD120/barrel in July 2025 and settle at USD100/barrel for rest of 2025.



Source: UNComtrade, CEIC, OCBC.

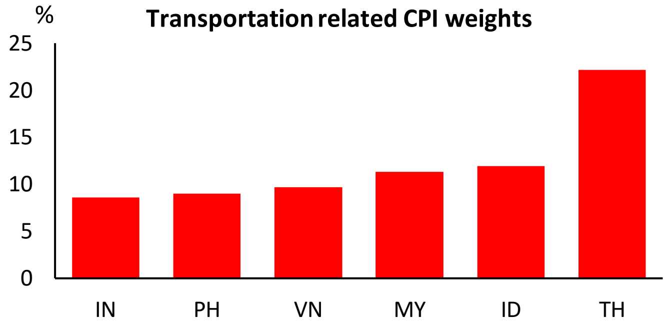
The caveat, however, is that the above forecasts do not account for higher overall commodity prices such as CPO, LNG, rubber, coal or nickel. Historical precedence suggests that higher oil prices tend to exert some upward momentum on broader commodity prices. This would have implications mainly for Malaysia and Indonesia, the net commodity exporters but oil importers in the region of ASEAN-5 and India. As such, if commodity prices rise by a similar amount to oil prices, the impact on the current account balance would be broadly neutral for Malaysia and Indonesia.

Inflation impact cushioned by the presence of subsidies

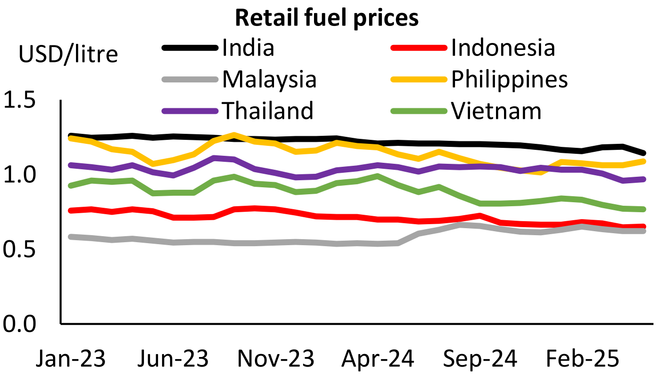
The inflation impact will be more mixed due to the presence of subsidies in certain countries. Intuitively, higher global oil prices pass through onto retail fuel prices, raising inflationary pressures. The direct impact of a 10% increase in global oil prices, based on the weight of petroleum and petroleum related items in the CPI basket, will push up annual headline inflation by 0.6-0.8pp for Thailand, 0.5-0.7pp for the Philippines and India, 0.4-0.6pp for Malaysia, Indonesia, and Vietnam.

However, this direct impact of higher global oil prices on retail fuel prices is buffered by the presence of subsidies (i.e., Indonesia and Malaysia) and quasi-fiscal subsidies (i.e., oil marketing companies' under-recovery costs in India, oil stabilisation fund in Thailand & Vietnam). These differences, along with local taxes and pricing mechanisms, are reflected in different retail fuel prices[1] across the region. Persistently higher oil prices into 2H25 will likely have only a modest impact of 0.1pp on our average 2025 CPI forecast for Malaysia and Indonesia, with the biggest impact to the Philippines by 0.5pp. Thailand, Vietnam and India's CPI forecast could be pushed up by 0.3pp.

[1] For the retail fuel price chart, we use the following data: India: average of petrol prices in Chennai, Delhi, Kolkata, Mumbai; Indonesia: average of gasoline 90 & 92 and high-speed diesel; Malaysia: average of RON95, 97 and diesel (PM); Philippines: average of diesel and gasoline prices; Thailand: average of gasohol 95 (E10, E20, E85) from PTT, Esso, Bangchak, Caltex; Vietnam: average of E5 RON92, RON-III petroleum and diesel.

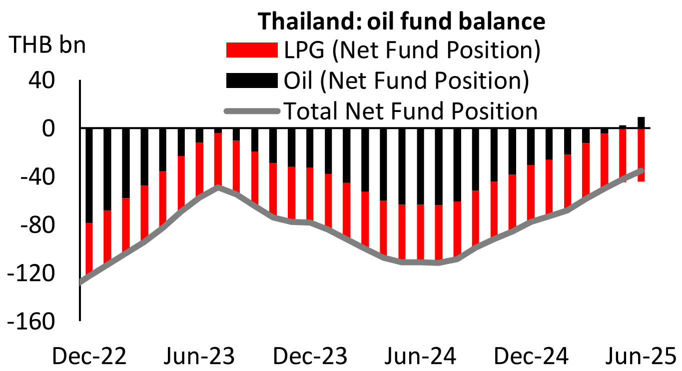


Source: CEIC; OCBC. For India and Thailand, weights are transportation and telecoms

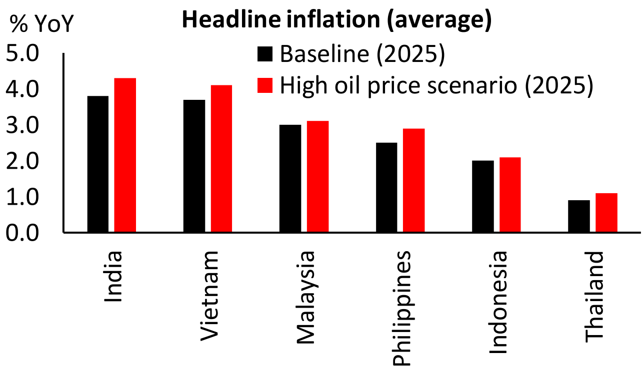


Source: CEIC, Vietnam Ministry of Industry and Trade, OCBC.

Specifically, for Thailand, the oil fund is in black for petroleum but red for LPG. We, nonetheless, expect it will be activated to buffer the impact of higher oil prices. Similarly, in Vietnam, while the authorities have not trigged the stabilisation fund for any fuel categories, we do not rule it out if oil prices rise sharply and remain at those levels. For India, retail petrol prices have been broadly stable through 2025 implying that prices are not being adjusted in accordance with global oil prices. This suggests that there is room to keep retail prices sheltered from global oil price shocks.



Note: As of 22 June 2025. Source: Oil Fuel Fund Office, OCBC.

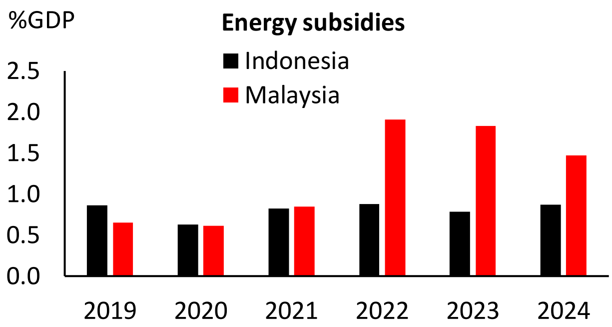


Source: CEIC; OCBC. Note: High oilprice scenario where oil prices spike to USD120/barrel in July 2025 and settle at USD100/barrel

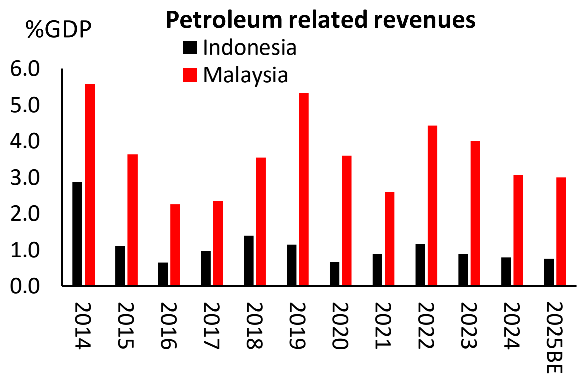
Fiscal policy will be a shock absorber

For economies with direct fuel subsidies in place, the impact of higher oil prices will be absorbed by the fiscal balance. This pertains to Indonesia and Malaysia. We estimate that USD10/barrel increases in global oil prices will lead to 0.2% of GDP increase in fuel subsidy expenditures for Indonesia and 0.3% of GDP increase for Malaysia on an annual basis. That said, for 2025, the subsidy bill is running below budget for both these economies given that average oil prices are tracking well below the respective budget estimates. This gives the authorities more flexibility to manoeuvre in the near-term.

In addition, there is an offset from higher petroleum related revenues, wherein a USD10/barrel increase in oil prices leads to 0.1% of GDP incremental revenues in Malaysia and less than 0.1% of GDP for Indonesia. On balance, all else remaining equal, the fiscal deficits will likely widen by 0.2% of GDP for Indonesia and Malaysia compared to the baseline with a USD10/barrel increase in global oil prices.



Note: We estimate Malaysia's energy subsidy bill based on the the automatic pricing mechanism. Source: CEIC; OCBC.



Source: CEIC;Budget documents; OCBC.

For economies with quasi-fiscal support, the fiscal impact is not easily discerned within a certain time period. For example, the Thai authorities can keep the oil fund in a deficit until such time that global oil prices are low enough to replenish the oil fund. For India, the case is even less straightforward as oil market companies tend to absorb some of these costs as under recoveries, which can be sustained over a period of time.

GDP growth impact is less straightforward

The impact of persistently higher oil prices on economic growth is not straightforward considering the various mitigating factors including subsidy buffers to reduce inflationary pressures, benefits to net petroleum exporting sectors, and potential spillovers onto other commodity prices. On balance, we see consistently higher oil prices as marginally negative for GDP growth in Thailand, the Philippines, Vietnam, and India while it will likely be more neutral for Indonesia and Malaysia.

Monetary policy easing bias will be put to the test

Central banks in the India and ASEAN-5 have broadly been lowering policy rates in 2025. Although the State Bank of Vietnam and Bank Negara Malaysia have not reduced the policy rate this year, BNM did sound more dovish at its 8 May meeting, in our view. We have pencilled in another 25bps in rate cuts from Bangko Sentral ng Pilipinas, Bank of Thailand and Bank Indonesia for the rest of this year. We expect cumulative 50bps in rate cuts from SBV, BNM and Reserve Bank of India (RBI) for the remainder of 2025.

Persistently higher oil prices, however, will compound the uncertainties that central banks are already dealing with in terms of tariff negotiations with the US and concomitant growth risks. Furthermore, our FX strategist sees THB and PHP as vulnerable to further depreciation risks likely adding to the central banks' caution. This could delay rate hikes pencilled in for 2H25, until oil price risks have subsided.

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