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ASEAN-6 & India

The gains and pains from sustained higher oil prices

Selena Ling
Chief Economist & Head, OCBC Group Research

Lavanya Venkateswaran
Senior ASEAN Economist

- Global oil prices spiked following an escalation of the conflict in the Middle East over the weekend.

- While our house view remains for oil prices for Brent prices to end 2026 at USD63/barrel, the prospects of persistently higher oil prices will put pressure on some regional economies more so than others.

- Our analysis shows that India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam as net petroleum importers are exposed to a deterioration in trade balances.

- Inflationary pressures were benign in 2025 allowing for a comfortable starting point into 2026. We estimate that even with significantly higher inflation, headline inflation will likely remain within most central banks' inflation target.

- We see most central banks in the region at or near the end of the monetary policy easing cycle. Should global oil prices persist at higher levels through 2026, central banks with a modest easing bias will likely have to reassess the room left for additional rate cuts.

The situation in the Middle East is still very fluid. The succession plan is uncertain; fighting is currently still ongoing and the Straits of Hormuz, which is the choke point for the global energy trade, appears to be effectively out of bounds for now. A geopolitical risk premium and flight to quality is likely in the interim. Businesses that have exposure to the Middle East may have to deal with spillover effects such as trade diversion and/or higher risk premiums until things settle or there is light at the end of the tunnel. Oil prices have already reacted, same with precious metals. Markets opened Monday with a knee jerk reaction to the events over the weekend. The impact on global markets really depends on how prolonged the conflict is.

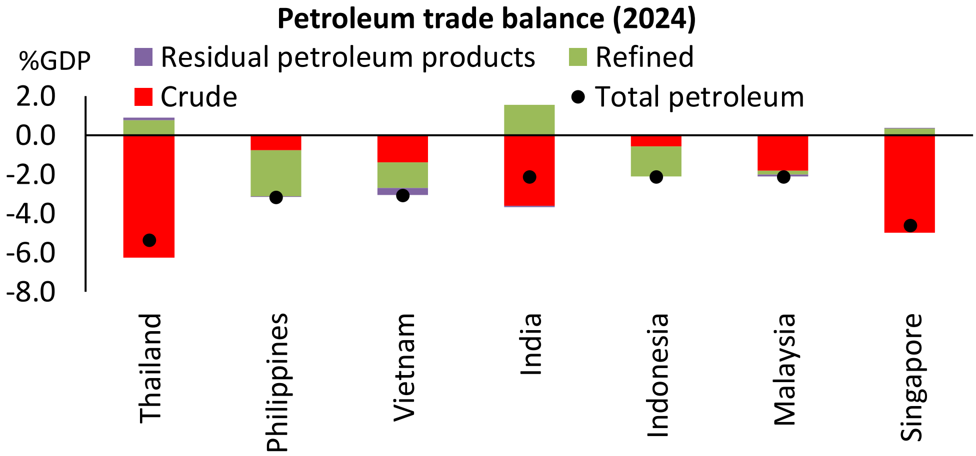
Historically, the impact of Middle East conflicts tends to be sharp and frontloaded, i.e. sell first and ask questions later. During the 1973-1974 Yom Kippur war, there was a production cut, so prices stayed elevated for a long period. The same is true for 1979-1981 Iranian revolution and Iran-Iraq war where there was sustained production loss. However, for the 1990-1991 Gulf war, US-led intervention saw supply fears easing quickly. This is similar for the 2003 Iraq war and the 2019 Saudi Aramco attack. The parallels to historical episodes offer less of a comparison but a complement to assessing the present-day situation.

More fundamentally, for the oil market, dynamics depend on whether there will be an actual production cut and the state of the global demand-supply conditions. The key considerations going forward include whether physical supply is removed from the market and tankers stop passing through the Strait of Hormuz (≈20% of global crude). This could see global oil prices persist at elevated levels for some months instead of weeks. The other consideration is spare capacity. Saudi Arabia and UAE have spare capacity and allowing this into the market could reduce the severity of supply disruption. The global demand backdrop matters and in a weak global growth environment, oil price spikes could fade faster. However, most economies are on a relatively strong growth trajectory into 2026 suggesting some near-term demand resilience. Finally, strategic reserves could be released in a coordinated manner to ease any short-term supply crunch.

Trade impact will be the biggest channel of impact

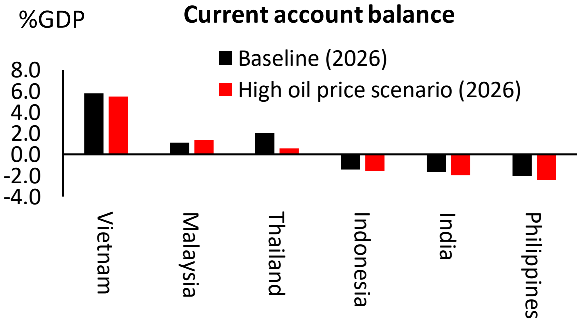
For the ASEAN-6 and India region, the clearer channels of impact from a sustained increase in global oil prices are trade, inflation and the fiscal balance.

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.

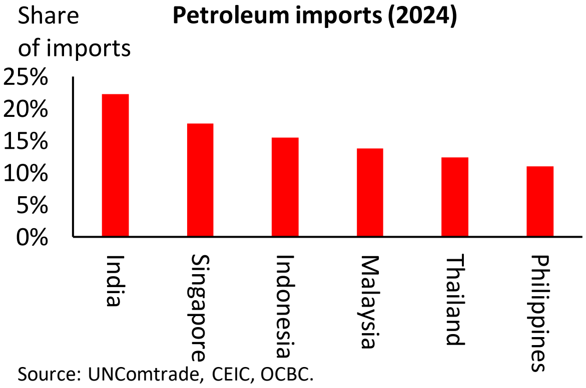


Source: UNComtrade; OCBC Group Research.

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. For India, we refer to FY27.



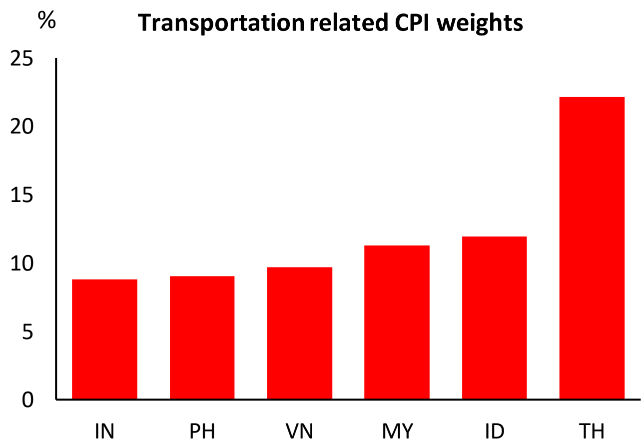
Source: UNComtrade, CEIC, OCBC.

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. 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.

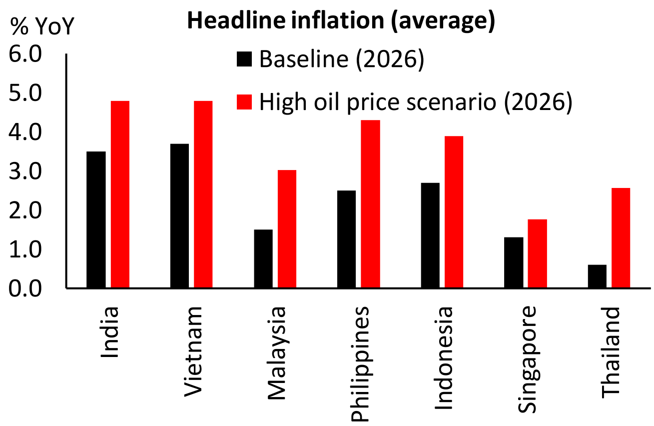
Inflation impact cushioned by the presence of subsidies

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.

That said, inflationary pressures were benign in 2025 and the start point is low. Hence, even with a 2.0pp increase in headline inflation, Thailand's inflation would average 2.6% versus our baseline of 0.6% for 2026. This is still very manageable and within BoT's 1.0-3.0% target range. Similarly, headline inflation is expected to remain central bank target ranges, or in line with long term averages, even accommodating for a persistent spike inflationary pressures for the remainder of the year.



Source: CEIC; OCBC Group Research.



Source: OCBC Group Research. For India, we refer to FY27.

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.

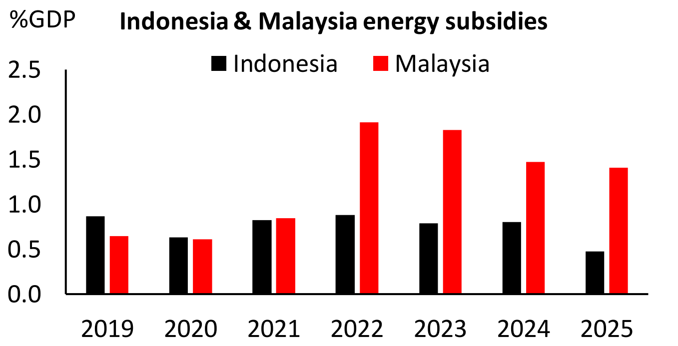
Persistently higher oil prices into the remainder of 2026 will likely have a material impact on inflationary pressures in the region. The biggest impact will likely be to the Philippines, where we estimate inflation could be pushed up 0.6pp. This will be followed by Singapore, India, and Vietnam. Thai authorities have some room to cushion against inflationary pressures using the oil fund, while the presence of fuel subsidies in Indonesia will help buffer the impact. For Malaysia, the RON95 price mechanism, effective since 22 September 2025, suggests that inflationary pressures will likely pick up more perceptibly compared to previous episodes of oil price shocks.

[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.

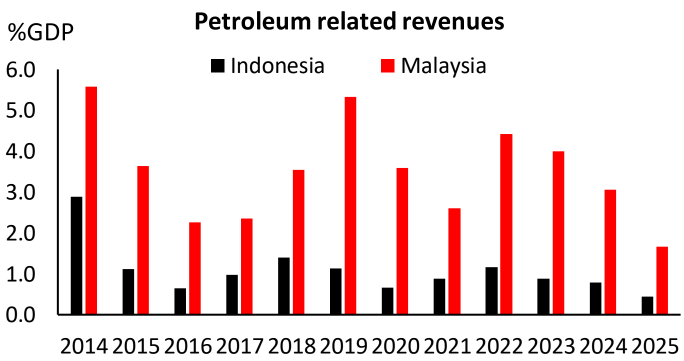
Fiscal policy will be a shock absorber

For economies with direct fuel subsidies in place, the impact of higher oil prices will be absorbed by the fiscal balance. This pertains mainly to Indonesia and now to lesser extent 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 0.2% of GDP increase for Malaysia on an annual basis.

The budget assumptions for 2026 are USD70/barrel for Indonesia Crude Price and USD60-65/barrel for Malaysia, with the average Brent price for January and February 2026 at USD67/barrel. 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 0.3% of GDP for Indonesia and 0.2% for Malaysia compared to the baseline with a USD10/barrel increase in global oil prices for the year.



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



Source: CEIC;Budget documents; OCBC Group Research.

For Singapore, the fiscal position is the most flexible. The FY2025 fiscal surplus was a whopping 1.9% of GDP and the planned FY2026 fiscal position is for a surplus approximating 1% of GDP, notwithstanding that the full-year 2025 GDP growth has been upgraded earlier from 1-3% YoY to 2-4% YoY. Whether the current Iranian conflict changes the calculus going forward or not, Singapore does have the fiscal resources to mitigate any potential fallout to households or businesses if the need arises, either through more generous S&CC rebates to cope with rising utilities costs or additional assistance for SME impacted by higher logistics or business costs arising from the higher oil prices.

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

We see most central banks in the region at or near the end of the monetary policy easing cycle. We have pencilled in another cumulative 50bp in rate cuts for Bank Indonesia, 25bp for Reserve Bank of India, Bangko Sentral ng Pilipinas and Bank of Thailand. We see Bank Negara Malaysia and State Bank of Vietnam on a prolonged hold through 2026. Should global oil prices persist at higher levels through 2026, central banks with a modest easing bias will likely have to reassess the room left for additional rate cuts. If anything, the benign global commodity price picture that underpinned MAS' expectations that imported costs will be contained this year may be at risk, and if this is sustained, it may mean MAS may tighten monetary policy earlier rather than later.

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