By Global Markets | 9 March 2026

Impact of rising global oil prices

OCBC Group Research

A look at Asia's economy and various asset classes

- Global oil prices rose sharply on 9 March 2026. Our base case still assumes Brent slips below USD70/bbl by mid-year. In a moderately severe scenario—partial flows resuming under military escort—Brent could stay near USD100/bbl through mid-year before cooling toward a well-supplied 2026 equilibrium. In an acute scenario with a prolonged halt, Brent could spike toward USD140/bbl and remain elevated through mid-year.

- We analyse the impact on various macroeconomic variables, from growth to the policy rate, and the implications on various asset classes under our outlined scenarios.

- ***Macroeconomics:*** The Asian region is exposed to shocks from higher global oil prices as the region remains a net oil importer. The economies most exposed to sustained higher oil prices in our region are the Philippines, Thailand, Singapore, Taiwan, South Korea. Singapore has the fiscal space to manoeuvre while Indonesia's is the most limited. We expect rate hikes from Taiwan, South Korea, the Philippines and Indonesia in our 'acute' scenario.

- ***Rates strategy:*** Impact on the rates market has been mainly through higher breakeven, i.e. the inflation channel, thus far. European bonds and gilts are affected to a larger extent than USTs. If oil prices stay elevated for an extended period, then the impact through the growth channel will kick in partially buffering higher breakeven. Long-end US yields can potentially be higher in our moderately severe scenario than in our acute scenario.

- ***FX Strategy:*** The greenback holds firm amid risk-off waves but broadening global momentum points to a gradual USD fade once oil jitters settle. In a more acute scenario, depreciation pressures across AXJ FX could intensify and dispersion across currencies may become more pronounced. AXJs with greater sensitivity to oil prices, USD strength and global risk sentiment such as KRW, INR and THB may underperform more noticeably while CNH, SGD may see comparatively more contained moves. That said, actual FX outcomes will also depend on policy responses, intervention dynamics and broader global financial conditions.

- ***Credit Research:*** For the US, Asia and SGD credit markets, we believe the duration of the conflict will matter more than the initial shock. So far, the initial market reaction has been relatively contained within these credit markets and starting from a multiyear tight spread environment though we expect more pronounced widening in the weeks ahead under a stress scenario where the conflict becomes protracted. Overall, we are staying neutral duration in US credit and have a defensive credit stance, preferring IG over HY for US credit and Asiadollar. Overtime, we expect Asia credit to be relatively resilient within emerging market credits, while we expect SGD credit to be a beneficiary from diversification flows away from other markets. In a stress scenario, it may be hard pressed for credit to post positive total returns and as such we see capital preservation as key.

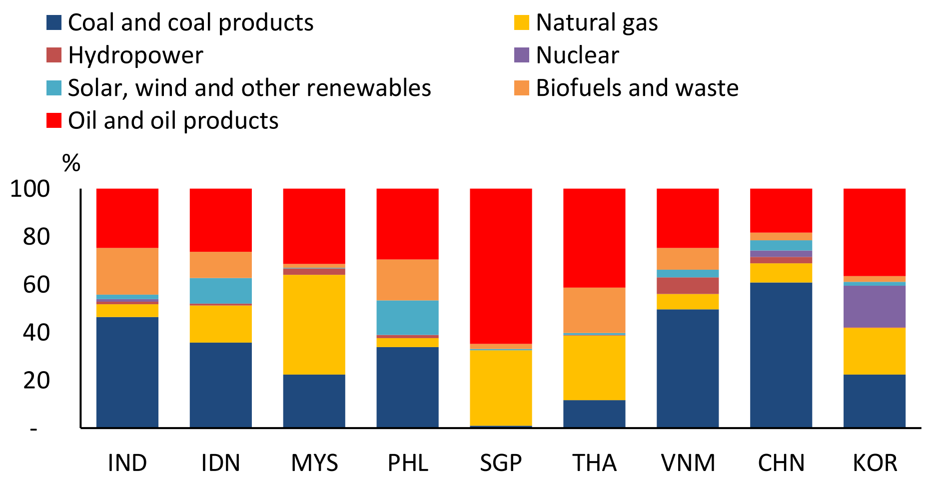
- ***Equity Research:*** Despite near-term volatility and elevated oil prices, the 2022 equity downturn is unlikely to repeat as rate cuts continue, though geopolitical risks and sector-specific impacts warrant close monitoring.

Selena Ling
Chief Economist & Head, OCBC Group Research

Ahmad A Enver
ASEAN Economist

The Asian region is exposed to shocks from higher global oil prices as the region remains a net oil importer. Crucially, higher oil prices reverberating across other commodities especially natural gas further exacerbates the risk from an energy price shock. Data from the International Energy Agency (IEA) shows that the Asia Pacific region was a net importer of crude oil, gas and coal for the decade through to 2023. These economies still use oil, coal and natural gas as key sources of energy.

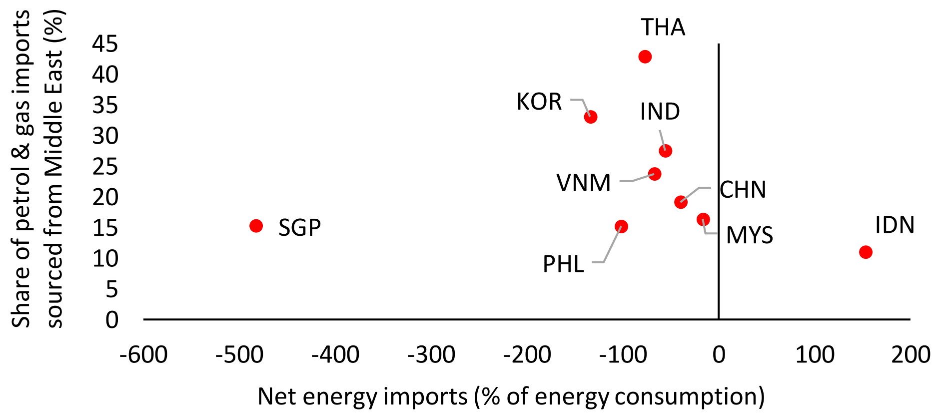
Total Energy Supply (2023): ASEAN-6, India, China & South Korea



Note: Latest data as of 2023, except for South Korea (2024). Total energy supply (TES) includes all the energy produced in or imported to a country, minus that which is exported or stored. Source: IEA, OCBC Group Research.

Importantly, Asia's exposure to the Middle East is not non-negligible for energy import requirements. Singapore, Thailand, Korea, India, and Vietnam, as net importers of energy, import a relatively substantial share of petrol and gas from the Middle East. Indonesia, while classified as a net energy exporter given its status as net coal exporter, still imports 11% of total petrol and gas imports from the Middle East.

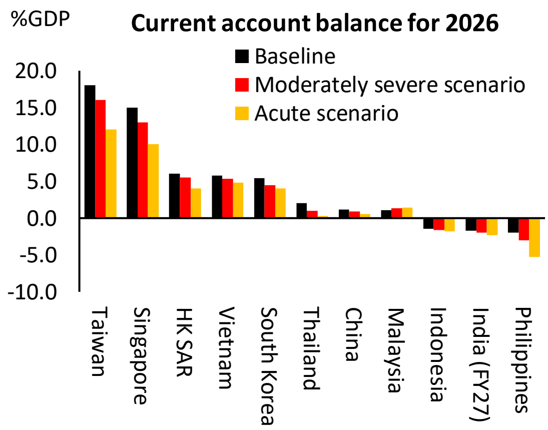
ASEAN-6 & India, China, and SK exposure to Middle East



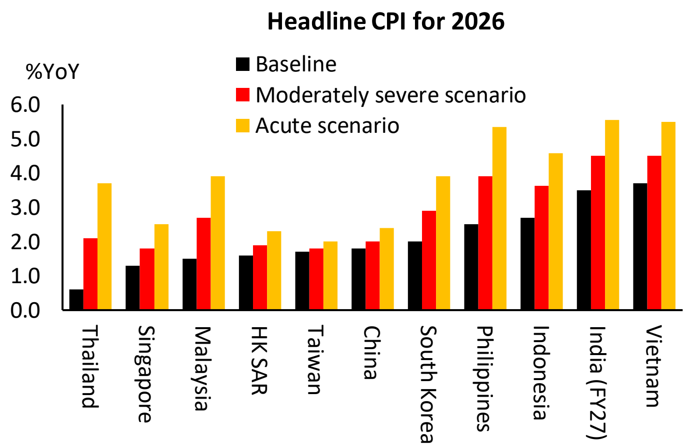
Note: Data as of 2023. The HS codes used in this chart are 2709 (crude oil), 2710 (refined petroleum), and 2711 (natural gas, LNG, and LPG). The Middle Eastern countries included here are Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
Source: IEA, UNComtrade, OCBC Group Research.

Our base case still assumes Brent slips below USD70/bbl by mid-year. In a 'moderately severe' scenario—partial flows resuming under military escort—Brent could stay near USD100/bbl through mid-year before cooling toward a well-supplied 2026 equilibrium. In an 'acute' scenario with a prolonged halt, Brent could spike toward USD140/bbl and remain elevated through mid-year.

The pass-through of sustained higher global oil, and energy prices, will become more visible on the trade balance for Asian economies, as surpluses narrow and/or deficits widen. Inflationary pressures, particularly for economies which do not have retail fuel subsidies, will also rise. These are reflected in our forecasts across the 'moderately severe' and 'acute' scenarios. The trade deficit will likely widen noticeably for the Philippines and India, with headline CPI inflation higher versus our baseline.

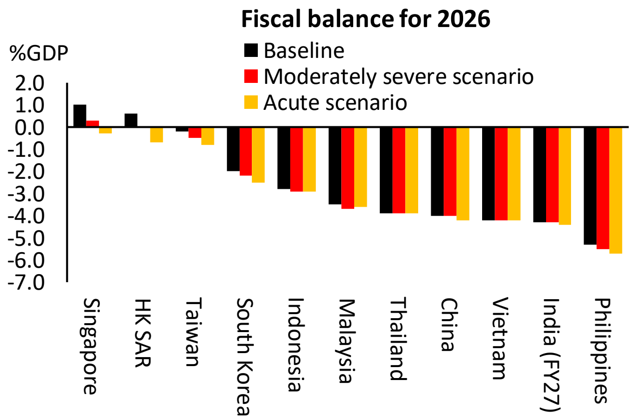


Source: CEIC, OCBC Group Research.



Source: CEIC, OCBC Group Research.

Conversely, for economies with fuel subsidies such as Indonesia and Malaysia, the impact on the fiscal balance is clearer. We expect that higher oil prices will lead to wider fiscal deficits for both economies. For economies such as China and the Philippines, the impact on the fiscal balance is more muted. Thailand and Vietnam have a cross-subsidy oil fund that helps cushion the fiscal impact in the near-term.



Source: CEIC, OCBC Group Research.

Policy rate, % (end year)	Current	Baseline	Moderately severe scenario	Acute scenario
China	3.00	2.90	3.00	3.00
HK SAR	4.00	3.75	3.75	4.00
Taiwan	1.8	1.80	1.80	2.00
South Korea	2.50	2.50	2.75	2.75
India (FY27)	5.25	5.00	5.25	5.25
Indonesia	4.75	4.25	4.75	5.00
Malaysia	2.75	2.75	2.75	2.75
Philippines	4.25	4.00	4.25	4.5
Thailand	1.00	0.75	1.00	1.00
Singapore	n.a.	n.a.	n.a.	n.a.
Vietnam	4.50	4.50	4.50	4.50

Source: 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.

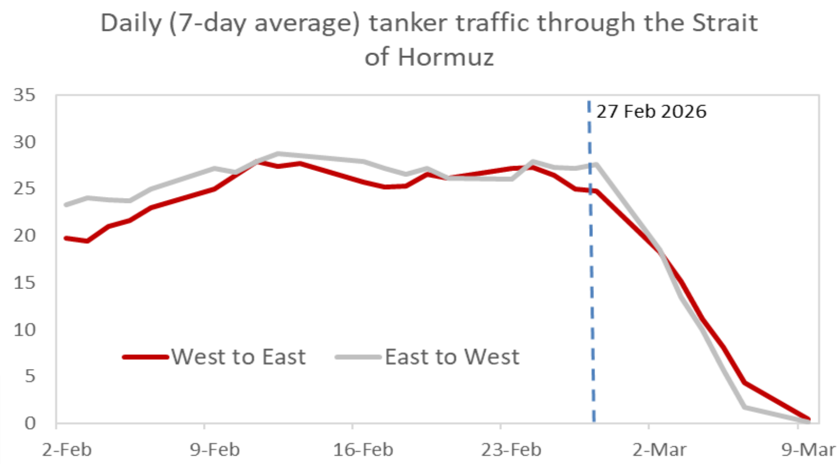
Should global oil prices persist at higher levels through 2026, central banks with a modest easing bias will likely have to reassess the room left for additional rate cuts. If anything, the benign global commodity price picture that underpinned MAS' expectations that imported costs will be contained this year may be at risk, and if this is sustained, it may mean MAS may tighten monetary policy earlier rather than later.

Focusing on Oil

Sim Moh Siong
FX Strategist (G10 & oil)

Maritime traffic through the Strait of Hormuz has largely ground to a halt since the US-Israel strike on Iran over a week ago. Insurers have stepped back, security risks have slashed tanker movements, and freight rates are surging. The effective shutdown of the world's most critical oil chokepoint remains the dominant market risk.

Strait of Hormuz tanker flows have grounded to a halt as security risks surge

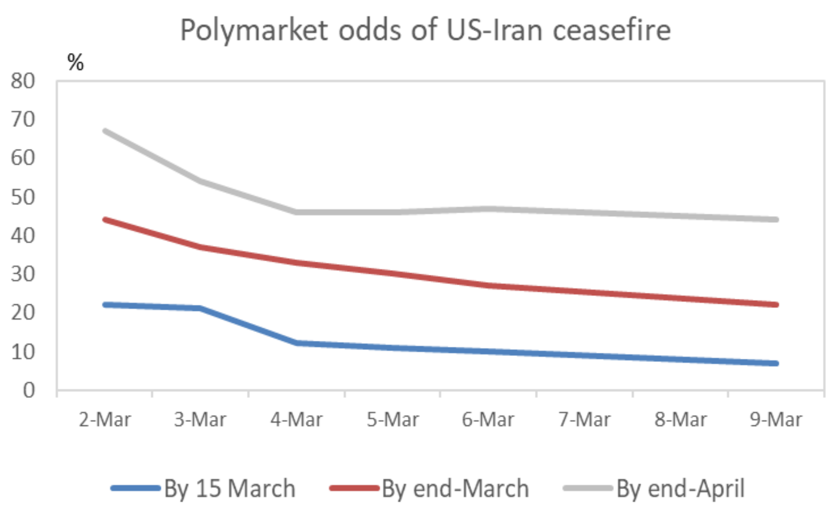


Source: Bloomberg, OCBC Group Research.

Iranian strikes have now hit energy infrastructure across the Gulf. Kuwait and the UAE have begun shutting in production – following similar moves in Iraq – as storage fills up with tanker liftings stalled. Energy disruptions are escalating faster than expected. Brent has broken above USD100/bbl, while European gas (TTF) has pushed past EUR50/MWh. Brent now sits nearly 70% above its 2025 average (USD68/bbl), and TTF is almost 50% above last year's EUR36/MWh. President Trump's announcement of US naval escorts and transit insurance support has yet to restore meaningful export flows.

Our base case still assumes Brent slips below USD70/bbl by mid-year (see Commodity Compass: Oil Risks Resurface, 27 February 2026). Washington is unlikely to tolerate an extended conflict that keeps energy prices elevated in a mid-term election year. This view relies on potential buffers: possible OPEC+ supply increases, pipeline diversion through Saudi Arabia and the UAE, China's large crude stockpiles, material volumes in floating storage, and a willingness to release strategic reserves. But OPEC's 4–5mbd of spare capacity may offer only limited relief if most of it remains inaccessible due to reliance on Hormuz.

Polymarket odds of US-Iran ceasefire



Source: Bloomberg, OCBC Group Research.

Prediction markets currently assign an 7% probability of a US-Iran ceasefire within a week, 23% by month-end, and 44% by end-April.

Tail risks from a sustained Hormuz stoppage remain in play, shifting the potential energy shock closer in scale to the 2022 Russia-Ukraine episode. In a moderately severe scenario – partial flows resuming under military escort – Brent could stay near USD100/bbl through mid-year before cooling toward a well-supplied 2026 equilibrium. In an acute scenario with a prolonged halt, Brent could spike toward USD140/bbl and remain elevated through mid-year. Longer-lasting consequences could include renewed appetite for energy-security buffers via larger strategic stockpiles, which may lift the long-term price floor above our current base-case assumptions.

China: Moderate scenario could be mildly net-positive for the outlook

Tommy Xie
Head of Asia Macroeconomics Research

Based on historical experience, a US$10 increase in oil prices could potentially shave around 0.1–0.2pp off China's GDP growth, primarily through higher input costs for manufacturing and transportation, as well as reduced household purchasing power. That said, the growth drag today is likely smaller than in previous episodes. China's structural dependence on oil has gradually declined, supported by the rapid penetration of electric vehicles, increased substitution through coal-to-chemicals feedstock, and a power generation system that is largely insulated from oil price fluctuations. As a result, we estimate the growth impact to be around 0.1pp under a moderate scenario and about 0.3pp under an acute scenario.

Elsewhere, the impact on China's fiscal position should remain limited. As a major oil importer, higher oil prices imply a transfer of wealth abroad, which could in principle weigh on fiscal dynamics. However, this effect is likely to be partly offset by stronger tax revenue, including higher VAT receipts, resource taxes, and increased upstream SOE profits. In addition, the nominal GDP base effect associated with higher prices would mechanically support tax revenue across most categories. Under our moderate scenario, we expect no meaningful change to the fiscal deficit, while under the acute scenario the deficit could widen modestly by around 0.2pp of GDP, reflecting potential additional fiscal measures deployed to cushion the oil shock.

The external account is where the impact will be most visible. We estimate that China's current account surplus could narrow by around 0.3pp of GDP under the moderate scenario and 0.6pp under the acute scenario, reflecting the higher import bill for energy. Interestingly, the Iran conflict could also deliver an unexpected boost to China's reflation dynamics. China's PPI basket carries significant weight in sectors such as raw materials processing and chemical manufacturing, where crude oil is a critical upstream input. Historically, crude oil prices have shown one of the strongest correlations with China's PPI among major macro variables. As oil prices rise, upstream producer prices typically respond quickly, suggesting that the recent surge in crude could help push PPI—and subsequently the GDP deflator—back into positive territory earlier than expected. This would be particularly meaningful given that China's nominal GDP growth slowed to around 4% last year amid persistent deflationary pressures.

Putting these factors together, the moderate scenario could in fact be mildly net-positive for China's macro-outlook. The growth drag appears manageable, the reflation impulse through PPI is meaningful and politically welcome, CPI inflation remains below target, and the fiscal impact is broadly neutral.

ASEAN-6 & India: More pain from sustained higher oil prices

Lavanya Venkateswaran
Senior ASEAN Economist

The most direct impact of a scenario of higher global oil prices is on trade. 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.

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' underrecovery 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.

Indonesia's fiscal policies in focus

For economies with direct fuel subsidies in place, the impact of higher oil prices will be absorbed by the fiscal balance. For Indonesia, there will be a need to adjust retail fuel prices if global oil prices remain elevated. The budget assumption for 2026 is USD70/barrel for Indonesia Crude Price. The subsidised fuel (perlatile) is still 15-25% below market prices, with the fuel subsidy bill estimated at ~0.4% of GDP in 2026. If global oil prices rise remain at USD100/barrel, we estimate fuel subsidy bill will rise to 0.8% of GDP. If the government wishes to stick to the 3% of GDP fiscal deficit limit, there will likely be a need to raise retail fuel prices. For Malaysia, we see expenditures rising by 0.2% of GDP for Malaysia compared to the baseline with a USD10/barrel increase in global oil prices for the year. We estimate 0.1% of GDP in incremental revenues, which means on balance the fiscal deficit could widen by 0.1-0.2% of GDP depending on the oil price scenario.

From rate cuts to rate hikes

The room for rate cuts will close rapidly if global oil prices remain elevated and importantly, higher global oil prices feed through into inflation expectations. Rate cuts will effectively be off the table for the central banks of India, the Philippines, Indonesia and Thailand. Under an acute scenario, we have pencilled in 25bp rate hikes from Bangko Sentral ng Pilipinas (BSP) and Bank Indonesia (BI). For BSP, the reaction function has been titled towards supporting economic growth but a sharp escalation in inflation will see a shift in priority towards inflation. For BI, should retail fuel prices increase and there is a knock-on impact on inflation expectations, we expect a 25bp hike from BI. BNM and BoT have historical shown patience in waiting through supply side shocks.

Rates Strategy

Frances Cheung, CFA
Head of FX and Rates Strategy

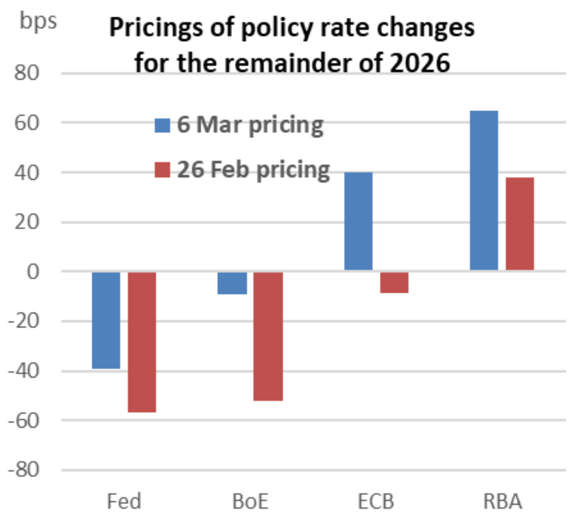
Impact on rates mainly through the inflation channel thus far

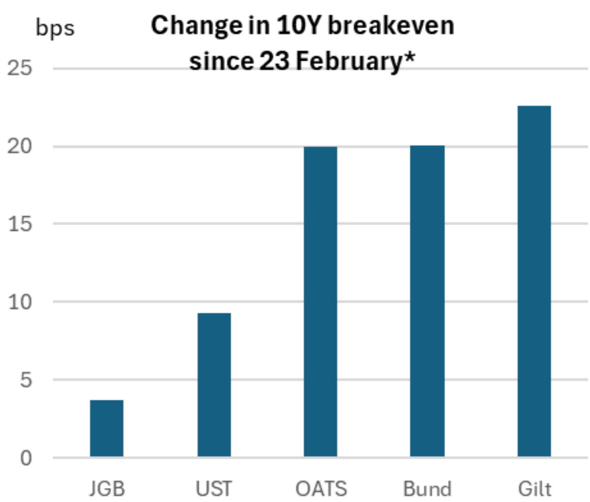
Impact of high oil prices on the rates market has been mainly reflected in higher breakeven, i.e. through the inflation channel thus far. From the recent lows attained on 23 February, the 10Y breakeven has risen by cumulative 23bps in gilt and by around 20bps in both Bund and OATS. In comparison, inflation concerns are contained in the UST market, reflecting the net trade positions in oil productions. The increase in the 10Y JGB breakeven has also been contained as the domestic central bank agenda is to keep inflation at target as opposed to being below it. We expect the relative performances in

[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.

long-end breakeven to be maintained, i.e. 10Y US breakeven is likely to stay better-behaved.

That said, short-term inflation expectation has risen to a larger extent across markets. Markets have pared back rate cuts expectations or added to rate hikes expectations. Again, the change in central bank policy expectation was more notable for ECB and BoE than for the Fed. EUR OIS priced 40bps of hikes for this year as of writing, versus some chance of a rate cut being priced in late February. GBP OIS almost priced out rate cuts, last pricing in only 9bps of a cut versus two cuts priced in late February. In comparison, Fed funds futures mildly pared back rate cut expectation to 39bps versus more than two cuts priced in late February. Still, the UST breakeven curve has become more inverted as short-term inflation was impacted more.





Source: Bloomberg, OCBC Group Research
*as of 6 March close; 23 Feb marked the recent lows in 10Y breakeven for most markets

What if oil prices stay elevated for an extended period?

In the scenario where oil prices stay elevated on a sustained period, then the impact through the growth channel will likely kick in. Downside risk to growth may partially buffer the inflation impact, mainly through potentially lower real yields. Therefore, we expect long end US yields to be higher in our moderately severe scenario than in our acute scenario. These are meant to be stress scenarios, not our base-case.

Acute scenario. Our acute scenario has oil price (Brent) at USD140/bbl for the next four months followed by a slow downward trajectory, resulting in oil price averaging USD100/bbl for the full year. Under this scenario, we assume the FOMC to keep Fed funds rate on hold this year, reflecting a balanced decision between inflation concern and downside risk to growth.

Current 2Y UST yield at 3.6% level is already relatively hawkish compared to Fed funds futures pricing. Taking the present value of a steady Fed funds rate trajectory and applying a wider premium to reflect potential market expectation for some monetary policy tightening, we see upside to 2Y UST yield at 4.00%.

At the longer end, we use year 2022 as a reference, when Brent hit a high of USD128/bbl (market close level) and averaged USD99/bbl for the full year. Year 2022 saw multiple spikes in 10Y breakeven, in March, April and June. 10Y breakeven averaged 2.78% in Mar-Jun 2022 period, and 2.54% in 2022. 10Y real yield averaged -0.07% in the Mar-June period and 0.41% in 2022 - these average real yield levels may not provide an appropriate comparison as real yield underwent rapid normalization during 2022. We therefore use end-2022 level of 1.58% as a reference point. There is still the term premium at play, which may mostly be fed through into real yield. To illustrate some stresses, we apply the bigger upside to 10Y breakeven and further discount the milder downside to 10Y real yield given resilient US growth thus far. We see upside to 10Y UST yield at 4.55%.

Moderately severe scenario. We remove the growth impact on the 10Y yield in our moderately sever scenario, but term premium may be slightly lower than in extremely severe scenario. Upside to 2Y UST yield is still seen at 4.00%, while upside to 10Y UST yield is seen at 4.65%, under this scenario.

FX Strategy

Sim Moh Siong
FX Strategist (G10 & oil)

Christopher Wong
FX Strategist (Asia & precious metals)

Impact on DM FX

The energy shock has overturned the 2026 pro-cyclical consensus — short USD, rotate from US to non-US equities as part of diversification tilt into EM, stay long gold versus short oil, and run EM carry via BRL, MXN and ZAR. US has been a net energy exporter since 2019 and is now the world's largest LNG exporter, having surpassed Qatar and Australia since early 2026. As a major energy exporter, the US remains far less exposed than energy-importing Asia and Europe. The USD remains the preferred haven. Our base case for modest USD weakness in 2026 assumes Brent slips below USD70/bbl by mid-year. But the conflict in the Middle East has the clear potential to upend the picture by:

- Fuelling further USD and CAD outperformance.
- Weighing on European currencies, with EUR currently hardest hit by surging TTF after Qatari LNG flows halted. EURUSD could decline to 1.13-1.12 in a moderately severe oil shock scenario. A further decline to 1.10 or slightly below is possible if the acute oil shock scenario materialises. Despite the relief from initial short positioning unwind, GBP may also start to struggle if energy prices stay elevated.
- Pushing EURCHF further below 0.90, risking SNB intervention. JPY is a poor hedge in energy shocks given Japan's import dependence; USDJPY could retest the 160–162 levels that triggered BoJ/MoF action in 2024. It is tough to pin down indicative levels for USDJPY under our moderately severe and acute oil shock scenarios given the uncertainty from intervention risks and US yields will

respond to the stagflation risk given the diverging pull from lower growth and higher inflation risks.
- Challenging the relative stability of INR and TRY despite tight central bank management, given their oil import exposure.

Impact on AXJ FX

To illustrate the potential impact of a prolonged oil shock, we consider two scenarios where brent prices remain elevated and the USD strengthens amid broader risk-off conditions. These scenarios incorporate the oil, USD and sentiment sensitivities derived from our regression framework exercise in an earlier report, *FX Focus: Oil shock and AXJ FX: Framing the impact of escalation*, published on Fri (6 Mar).

Under a moderately severe scenario, AXJ FX may face gradual depreciation pressures, though moves are likely to remain relatively contained. In this case, USDCNH could trade in the range of 6.90–7.00, USDSGD could trade in 1.278–1.29 range while USDMYR may remain stable in 3.95–4.00 range.

In a more acute stress scenario, where brent prices spike toward the $130–$140/bbl range alongside a stronger USD and deeper risk-off sentiment, depreciation pressures across AXJ FX could intensify and dispersion across currencies may become more pronounced. Currencies with greater sensitivity to oil prices, USD and global risk sentiment such as KRW, INR and THB may underperform more noticeably, with USDKRW potentially rising toward 1510–1560 and USDINR rising into 93 – 94 range. Meanwhile, currencies with relatively more balanced sensitivities including CNH, SGD may see comparatively more contained moves. These ranges should be interpreted as stress-test scenarios rather than precise forecasts or base case, as actual FX outcomes will also depend on policy responses, intervention dynamics and broader global financial conditions. Policymakers across the region have already signalled readiness to stabilise FX markets, which may help slow the pace of depreciation even if oil prices remain elevated.

To add, the extent to which these stress scenarios materialise will depend importantly on how persistent the oil price shock proves to be. As highlighted earlier, the key variable for markets is not just how high oil prices spike, but how long they remain elevated. When global oil markets are relatively balanced and supply disruptions prove short-lived, price spikes tend to retrace as production recovers and risk premia fade.

However, if supply disruptions occur against a tighter oil market backdrop, crude prices can remain elevated for longer. In such circumstances, sustained energy price increases can reinforce inflation pressures, weaken growth prospects and amplify risk-off dynamics, leaving net energy-importing Asian currencies more vulnerable to prolonged depreciation pressures.

Ezien Hoo
Credit Research Analyst

Aleen Lee
Credit Research Analyst

Chin Meng Tee
Credit Research Analyst

Credit Research

US Credit: For the US credit market, we believe the duration of the conflict will matter more than the initial shock. Going by the Russia-Ukraine playbook, supply bottlenecks, surging inflation and the resulting monetary tightening have had a more meaningful impact on credit than the outbreak of hostilities itself. So far, the initial market reaction for US credit has been relatively contained, but we expect more pronounced widening in the weeks ahead under a stress scenario where the conflict becomes protracted, especially given tighter energy supply, persistent inflation pressures and the risk of delayed Fed easing. Against this backdrop, we maintain a defensive stance, favouring Investment Grade over High Yield. While spreads have already moved wider, we see scope for further widening. Our preferred positioning is as follows: Stay neutral on duration. The front end remains volatile as markets pare back rate-cut expectations, while the long end remains exposed to inflation concerns. We also advocate a defensive credit stance and prefer IG over HY. Within IG, oil & gas should benefit from elevated energy prices, while cyclical and growth sectors—such as TMT, petrochemicals, real estate and consumer discretionary—could underperform as growth slows and cost pressures increase. Banks typically benefit from higher rates, but sentiment remains fragile given ongoing concerns around private-credit exposures.

Asiadollar Credit View: Asiadollar spreads have started to widen amidst the start of the US-Iran war, although starting from a multiyear tight spreads environment and relatively contained so far. That said, further widening of credit spreads in Asiadollar is expected and assuming the spike in oil prices is a multi-month affair under a stress scenario, credit spreads are likely to remain highly volatile and susceptible to inflationary fears as well as negative growth impact which may result in further periods of spread widening even if it subsides after the initial shock. Given the threat of higher inflation and likelihood for a slower growth in emerging markets, we advocate a defensive credit stance and prefer IG over HY. Industrial, agency and financial services issuers make up a high percentage of Asia IG. The agency and financial services sectors are likely to remain relatively resilient, with some issuers linked to the strength of the state. China, a key segment within Asia credit has stockpiled on strategic reserves of oil while the economy was going through a deflationary environment which may limit inflationary pressures from an oil shock. Overtime, we expect Asia credit to be relatively resilient within emerging market credits.

SGD Credit View: Risk aversion has set into the SGD credit market amidst escalation of the US-Iran war, although we observe that investor interest has typically recovered over time after the initial shock. W/w, total return was only marginally lower at 0.05% (change from 27 February 2026 to 6 March 2026) though we may see further price falls in the coming weeks. We expect the SGD credit market to be a beneficiary from diversification flows away from other markets. However, should the conflict be protracted and inflation becomes a significant threat under a stress scenario, it may be hard pressed for the SGD credit market to post positive total returns and as such we see capital preservation as key. Our preferred positioning is as follows: Stay neutral duration and for bullet bonds, we prefer to take refuge in the short end when the market starts stabilising and remove our preference for belly and longer end. We are also no longer selectively overweight corporate perpetuals although we continue to expect bank capital instruments AT1s to be called at first call. Main industry sectors that make up the SGD credit market include Statutory Boards, Financial Services, Real Estate Investment Trusts and Real Estate and these sectors are likely to be resilient. We continue to be comfortable with crossover issuers within the SGD credit market, although amidst the current high uncertainty, we advocate an issuer-by-issuer selection.

Table: Spread movements in Credit Markets

	Asia USD IG	Asia USD HY	DM IG	DM HY	Global Contingent Capital Statistics
Credit Spread (bps) as of 6 March 2026	61	365	83	296	241
Credit Spread (bps) Changes from 27 February to 6 March 2026	-0	16	-1	+3	+6

Source: Bloomberg; OCBC Group Research.

Equity Research

Carmen Lee,
Head of Equity Research

Andy Wong, CFA
Senior Equity Research Analyst

Ada Lim
Equity Research Analyst

Chu Peng
Equity Research Analyst

The previous time when oil prices spiked above USD100/barrel was in March 2022, and this coincided with the start of the Fed's rate hike cycle during the same month. Global equities, based on the MSCI ACWI Index, delivered total returns of -18.0% in 2022. While oil prices may stay elevated in the near-term, our base case scenario is for a normalisation in oil prices by the end of the year. Furthermore, we are currently still in a rate cut cycle by the Fed. As such, we believe the weak performance of global equities in 2022 may not necessarily be repeated in this current climate, although the situation requires close monitoring for any possible changes to our base case scenarios. Historically, equity markets tend to recover from the initial knee-jerk reaction caused by geopolitical events, barring any prolonged oil shock impact.

For the week of 2 to 6 March, the MSCI ACWI Index fell 3.7% (total returns basis). Performance of the S&P 500 Index was relatively more resilient among major equity indices, with a decline of 2.0%, followed by Europe (-5.5%), Japan (-5.7%) and Asia ex-Japan (-6.4%). Within Asia ex-Japan, although Singapore equities are generally perceived as being more defensive in nature given the relatively higher dividend yield, the Straits Times Index (STI) was not spared from the ongoing market volatility. The STI fell 2.9% over the past week, but was a relative outperformer as compared to the 6.4% decline in the MSCI Asia ex-Japan Index as highlighted earlier.

From a sectoral perspective, beneficiaries of a prolonged period of geopolitical conflict would be defence, upstream energy and high beta energy plays, and defensive sectors such as gold related plays. On the other hand, sectors that will be impacted adversely include aviation, downstream energy and consumer discretionary. The aviation sector has been the most directly hit as airspaces have been closed and flights cancelled, coupled with potentially higher fuel costs depending on the hedging policies in place. Should the spike in oil prices become prolonged and lead to inflationary concerns and consequently a push back in rate cut or even rate hike concerns, this will also negatively affect the interest rate sensitive real estate sector.

The impact of affected Singapore-listed aviation counters under our coverage is challenging to quantify at this time given that the situation is still evolving rapidly with knock-on impact across the global network. Higher oil and insurance prices will likely result in greater margin pressure for carriers like **Singapore Airlines [SIA SP; FV: SGD6.88]**. Prolonged closure of Middle Eastern airspace may result in longer flight times as planes are re-routed. If the conflict persists, dampened consumer sentiment and macroeconomic uncertainty may also weigh on travel demand and passenger volumes. We believe **SATS Ltd [SATS SP; FV: SGD4.32]** is a name that investors can consider accumulating on weakness. SATS's presence in the Middle East is largely in Saudi Arabia and Oman. In the near term, given airspace closures, there will likely be a build-up of inventory across the global cargo network as various players re-assess trade routes and the evolving situation. In the medium to long run, prolonged disruption to sea freight movement due to the closure of the Strait of Hormuz may result in a shift from sea to air cargo – especially for time-sensitive shipments – supporting an increase in air freight rates. While SATS is unlikely to benefit directly from such increases, we maintain that trade flows are likely to be redirected rather than disrupted entirely. The company's geographically diversified footprint and extensive network should allow it to capture re-routed trade flows.

We continue to like upstream players like **SIA Engineering [SIE SP; FV: SGD4.05]** as we do not see recent geopolitical developments derailing the ongoing maintenance, repair, and overhaul (MRO) upcycle.

Structurally, even if such geopolitical conflicts are resolved quickly, a more fragmented world order is likely to underpin structurally higher defence spending. This, in turn, is likely to support order book growth and revenue visibilities for defence-related companies under our coverage such as **ST Engineering [STE SP; FV: SGD12.50]** and **Nordic Group [NRD SP; FV: SGD0.60]**.

Table: Total returns by time period following start of selected geopolitical events

		MSCI ACWI Index			S&P 500 Index			MSCI Asia ex-Japan Index			Straits Times Index		
Event	Start date	3M	6M	12M	3M	6M	12M	3M	6M	12M	3M	6M	12M
Yom Kippur War	06 Oct 1973	N.A.	N.A.	N.A.	-9.1%	-13.8%	-40.9%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Iran hostage crisis	04 Nov 1979	N.A.	N.A.	N.A.	13.1%	5.9%	32.8%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Soviet invasion of Afghanistan	24 Dec 1979	N.A.	N.A.	N.A.	-6.6%	10.0%	33.1%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
First Gulf War	02 Aug 1990	-10.2%	-6.8%	-0.4%	-10.4%	-0.6%	14.0%	-23.8%	-18.2%	-4.7%	N.A.	N.A.	N.A.
9/11 attacks	11 Sep 2001	5.0%	8.7%	-11.4%	4.4%	7.7%	-15.5%	13.1%	26.7%	11.3%	5.6%	18.9%	-6.8%
Iraq War	20 Mar 2003	17.1%	24.5%	39.8%	14.2%	19.3%	28.9%	15.6%	32.5%	62.5%	18.1%	22.9%	39.6%
Arab spring (Egypt)	25 Jan 2011	4.6%	3.8%	-3.4%	3.9%	4.6%	4.9%	5.6%	2.9%	-9.5%	0.7%	1.1%	-6.4%
Russian invasion of Ukraine	24 Feb 2022	-7.5%	-5.6%	-5.8%	-7.7%	-2.7%	-5.9%	-11.8%	-13.1%	-12.4%	-0.7%	2.0%	4.4%
Israel-Hamas war	07 Oct 2023	9.8%	19.8%	31.7%	9.4%	21.7%	34.1%	4.8%	10.3%	33.1%	1.0%	2.9%	19.7%
Israel-Iran airstrike	01 Oct 2024	-0.2%	-0.8%	19.1%	3.4%	-0.7%	19.1%	-7.5%	-5.1%	18.5%	6.5%	12.1%	26.8%
US intervention in Venezuela	03 Jan 2026	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Average returns (%)		**2.7%**	**6.2%**	**10.0%**	**1.4%**	**5.1%**	**10.5%**	**-0.6%**	**5.1%**	**14.1%**	**5.2%**	**10.0%**	**12.9%**
Median returns (%)		**4.6%**	**3.8%**	**-0.4%**	**3.6%**	**5.2%**	**16.5%**	**4.8%**	**2.9%**	**11.3%**	**3.3%**	**7.5%**	**12.1%**

Source: Bloomberg, OCBC Group Research

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