By Global Markets | 9 March 2026

Greater China – Week in Review

Highlights: China is less sensitive to the Iran War than many Asian peers

Tommy Xie Dongming
Head of Asia Macro Research

Keung Ching (Cindy)
Hong Kong & Macau Economist

WTI has surged from the mid-$60s to above $100 per barrel within barely a week, reflecting a sharp supply-shock repricing following the blockade of the Strait of Hormuz. Given that roughly half of China's crude oil imports originate from the six Gulf producers whose exports pass through the Strait, the disruption inevitably raises concerns over China's energy security.

Nevertheless, we believe China may be less sensitive to a prolonged closure of the Strait of Hormuz than many of its Asian peers for several reasons. First, early reports suggest that some Chinese-linked vessels have been able to transit the Strait without disruption. In addition, **China has accumulated one of the world's largest strategic and commercial crude reserves**, which should help buffer the economy against short-term supply shocks.

Second, oil and natural gas play only a limited role in China's electricity generation. Together they account for roughly 4% of China's power mix, significantly lower than the average 40–50% share observed in many ASEAN economies. In comparison, Japan, South Korea, and much of Southeast Asia face roughly ten times the direct electricity-sector exposure to an oil and gas price shock relative to China. China's power system is primarily supported by coal, hydropower, solar, wind, and nuclear energy, none of which are directly affected by disruptions in Middle Eastern oil supply.

Third, China's rapid transition toward electric vehicles and renewable energy provides an additional structural hedge. With road fuel demand already showing signs of peaking and renewable capacity expanding rapidly, China's sensitivity to oil price fluctuations is declining on a YoY basis. Over time, the electrification of transportation and the expansion of renewable power generation will further insulate the economy from oil-related shocks.

That said, China's industrial sector is not immune. Petrochemical feedstock prices remain closely linked to crude oil. Higher oil prices therefore translate into higher input costs for plastics, synthetic materials, fertilizers, and a wide range of chemicals that feed into China's manufacturing supply chains. However, petrochemical demand is relatively more flexible. Unlike electricity consumption, which is critical for immediate economic functioning, petrochemical demand can be partially deferred through project delays, inventory drawdowns, or substitution via alternative feedstocks such as coal-to-chemicals, an area in which China has invested heavily.

In short, China is less exposed to the first-order "lights-out" risks typically associated with an energy crisis. However, it remains vulnerable to second-order effects through higher input costs and inflationary pressure if elevated oil prices are sustained. **China's energy structure provides resilience, but not immunity.**

Interestingly, the Iran war could also provide an unexpected boost to China's reflation efforts. China's PPI basket carries a significant weight in sectors such as raw materials processing and chemical manufacturing, where crude oil serves as a key upstream input. Historically, crude oil prices have exhibited 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 may help push China's PPI—and subsequently the GDP deflator—back into positive territory sooner than previously expected. This would be particularly meaningful given that China's nominal GDP growth slowed to around 4% last year amid persistent deflationary pressures.

Recent comments from the head of the National Development and Reform Commission (NDRC) also provide an important reference point for policymakers' nominal growth expectations. The NDRC indicated that this year's GDP increment is expected to exceed RMB6 trillion. When viewed alongside the fiscal deficit ratio of around 4% and an absolute deficit size of RMB5.89 trillion, these figures offer a useful benchmark for assessing the government's nominal growth assumptions.

In our view, the numbers implicitly suggest that policymakers are expecting nominal GDP growth to recover to around 5% this year, broadly consistent with the 4.5%–5% real GDP growth target outlined in the Government Work Report. By implication, this also indicates that policymakers expect the GDP deflator to return to positive territory, signalling that reflationary pressures may gradually re-emerge in the Chinese economy after a prolonged period of subdued price dynamics.

China has lowered its 2026 GDP growth target from "around 5%" to a range of 4.5%–5%. The 4.5% lower bound can be interpreted as the minimum growth rate required during the 15th Five-Year Plan (2026–2030) to keep China broadly on track toward the 2035 goal of doubling per capita GDP relative to 2020. One of the key highlights of this year's Government Work Report is the introduction of a comprehensive fiscal–financial coordination package aimed at boosting domestic demand. As part of this initiative, authorities have established a RMB100 billion special fund to support demand expansion through coordinated fiscal and financial policy tools. The programme will combine interest subsidies, financing guarantees, and risk-sharing mechanisms to improve credit accessibility and encourage private sector participation in domestic demand-related activities.

China's fiscal impulse remained largely stable, slightly below market expectation. The broad fiscal deficit ratio is estimated at 8.1%, representing a decline of 0.3ppt from last year. For further details on the fiscal framework and policy implications, please refer to the report we published last Thursday.

Hong Kong's retail sales continued to see steady growth in January, increasing by 5.5% YoY in value terms and 3.4% in volume terms, despite the fact that Chinese New Year fell on February this year instead of January last year. Looking ahead, stronger underlying economic fundamentals, a solid recovery in the tourism sector, and ongoing sales promotion initiatives are expected to provide further support to retail activities. We expect retail sales to register a mild increase of around 4–6% in 2026, reflecting a gradual but broad-based recovery in domestic consumption.

Key Events	
Facts	**OCBC Opinions**
▪ WTI has surged from the mid-$60s to above $90 per barrel within barely a week, reflecting a sharp supply-shock repricing following the blockade of the Strait of Hormuz. Given that roughly half of China's crude oil imports originate from the six Gulf producers whose exports pass through the Strait, the disruption inevitably raises concerns over China's energy security.	▪ Neveretheless, we think china may be less sensitive to the prlonged closur of straits of Hormuz than many Asian peers for a few reasons. First, it was reported that some of Chinese ships managed to pass the straits untouched. Meanwhile, China has accumulated one of the world's largest reserves which will help China weather any short term shock. ▪ Second, oil and gas have very limited role in China's power generation with the comibined ratio accounted for only about 4%. This is much smaller than ASEAN's 40-50%. Japan, South Korea, and Southeast Asian economies face 10x the direct electricity-sector exposure to an oil/gas price shock compared to China. China's grid runs on coal, hydro, solar, wind, and nuclear -- none of which are significantly affected by the Iran war. ▪ Third, China's EV/renewables transition provides an accelerating hedge. With road fuel demand already in structural decline and renewables growing exponentially, China's oil sensitivity is declining year over year. Every quarter, the grid becomes more insulated and the transport fleet becomes less oil-dependent. ▪ Having said that China's industries are not immune. Petrochemical feedstock prices are directly indexed to crude oil. Higher oil prices raise input costs for plastics, synthetic materials, fertilizers, and chemicals -- products that permeate every manufacturing supply chain in China. Nevertheless, Petrochemical exposure is deferrable. Unlike electricity (where disruption causes immediate social/economic damage), petrochemical demand can be partially deferred -- projects can be delayed, inventory can be drawn down, and alternative feedstocks (coal-to-chemicals, which China has invested heavily in) can partially substitute. ▪ In summary, China is less vulnerable to the first-order "lights-out" risk of an energy crisis, but equally vulnerable to the second-order inflationary and industrial cost transmission of a sustained oil price shock. The grid insulation buys resilience, not immunity.

Key Economic News	
Facts	**OCBC Opinions**
▪ Hong Kong's retail sales continued to see steady growth in January, increasing by 5.5% YoY in value terms and 3.4% in volume terms, despite the fact that Chinese New Year fell on February this year instead of January last year.	▪ Analyze by retail outlet, performance was generally mixed in January, due to difference in the timing of the Chinese New Year. Sales of "jewellery, watches and valuable gifts" and "consumer durables" recorded the strongest expansion, at 31.1% YoY and 32.7% YoY respectively. Meanwhile, sales of "fuels", "department store" and "food, alcoholic drinks and tobacco" saw notable declines. During the month, the city recorded 4.81

	million visitor arrival, marking a 1% YoY increase. ▪ Looking ahead, stronger underlying economic fundamentals, a solid recovery in the tourism sector, and ongoing sales promotion initiatives are expected to provide further support to retail activities. We expect retail sales to register a mild increase of around 4–6% in 2026, reflecting a gradual but broad-based recovery in domestic consumption.

Disclaimers

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Additional disclosures and disclaimers applicable only to clients of Bank of Singapore Limited

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) ("BOS") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). BOS and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by BOS' or OCBC Bank's wilful default or gross negligence.

The DIFC Branch of BOS has not conducted or produced any research contained in this material and is acting solely as a conduit in forwarding it to you.

For BOS clients in the United Kingdom:
This research has been prepared by OCBC Bank and made available to BOS. It is intended solely for informational purposes and does not constitute investment advice, a personal recommendation, or an offer or solicitation to buy or sell any financial instruments. Any payments or non-monetary benefits received or paid will be fully disclosed in accordance with applicable regulations, promptly and transparently, and will not influence the advice or services offered to you. If you would like more information about any inducements received, please contact your Relationship Manager.

Cross Border Disclaimer and Disclosures
Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.