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GLOBAL INSIGHTS

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SECTION 1:
GEOPOLITICAL EVENTS AND GLOBAL DEVELOPMENTS

Despite an agreement to end the US-Iran conflict, geo-political risks remain high. Aggravating this will be another phase in the trade war.

US-Iran: Partial resolution averts worst-case scenario, but much can still go wrong

Memorandum of understanding ends acute phase of crisis, brings relief to world economy.

With the MoU signed, both sides have followed through on their immediate commitments - to reopen the Strait of Hormuz and for the US to lift its naval blockade. As a result, markets have priced in a significant reduction in downside risk, allowing oil prices to fall sharply and equity markets to surge. However, a lot can still go wrong during the 60-day window for negotiations on unresolved issues. These issues are tricky and likely to defy a quick settlement. Iran is not likely to easily concede to US demands on its Iran's nuclear programme and its support for proxies across the region. Israel does not see the MOU as in its interest and will probably use every opportunity to sabotage the deal.

The settlement's fragility was demonstrated almost immediately after the MoU was signed.

An example of this fragility was in how Tehran re-declared the strait closed on 20 June, citing continued Israeli operations against Hezbollah in Lebanon as a violation of the MoU clause for a ceasefire on all fronts. Having made its point, Iran then proceeded to hold the first round of talks with the US showing that Iran is not willing to scupper the agreement at this point. However, Israel has continued to attack Hezbollah. As Tehran cannot allow itself to be seen as abandoning its proxies such as Hezbollah, and as Israel has little incentive to cease its operations, the Lebanon front will remain a critical risk to the ceasefire.

Moreover, the terms of the MoU are narrow, and interpretive uncertainty may pose risks.

The MoU stipulates that Iran will allow "safe passage of commercial vessels with no charge for 60 days only," followed by negotiations with Oman to "define the future administration" of the waterway. Under the agreement, the US will terminate sanctions and make frozen assets available, while Iran "reaffirms that it shall not procure or develop nuclear weapons," with the mechanism relating to its enriched material stockpile still to be "mutually agreed". Nonetheless, Iran has secured concrete economic gains: a US Treasury sanctions waiver for Iranian crude oil and petrochemical exports was issued on 22 June. A reported Qatar-Iran memorandum facilitates the unfreezing of Iranian assets, with USD 12bn reportedly expected to be released soon.

The physical task of reopening the Strait of Hormuz and re-starting oil/gas production is fraught.

Traffic through the strait has staged a partial recovery but well short of normal volumes since the MoU was signed: 71 confirmed transits were recorded over June 19–21 against a pre-war baseline of 120 to 140 ships per day. Clearing the mines in the central channel will take 40 to 50 days – out of the 60-day period covered by the MoU. Even then, the barriers to a full return to normal shipping will remain.

War-risk insurance premiums currently run at 1 to 4% of a vessel's insured value per single crossing, against below 0.1% pre-conflict: Underwriters will not relent until they have seen sustained, safe and uninterrupted passage.

A new twist in global trade wars approaches as the US steps up trade aggression

A mix of broad-based tariffs and sectoral carveouts implies limits on maximalist tariffs

As President Trump's Section 122 tariffs expire in late July, Washington is hastily rebuilding its tariff architecture. On 2 June, the USTR proposed tariffs of 10% to 12.5% on imports from 60 economies, accounting for over 99% of US imports, on the grounds that all had failed to comply with obligations to prevent forced labour. Trump will not stop there. There are looming tariffs on pharmaceutical scheduled for July and August, a pending excess-capacity investigation covering 16 economies, including several in Asia-Pacific, and a semiconductor probe whose outcome remains uncertain.

The administration has to do this in order to fill the fiscal hole it created with its tax cuts and massive increases in defence spending. But sectoral carve-outs suggest the US administration is balancing the need for revenues against its political need to cushion the domestic costs of its trade policy. Exemptions cover energy, rare earths, certain agricultural products, pharmaceuticals, and aircraft parts.

Separately, trade tensions persist over China's burgeoning export competitiveness. The European Union (EU) is preparing measures to curtail Chinese exports and impose technology transfer requirements on Chinese investments in Europe. China has threatened to retaliate against these planned measures. Although the EU is ready to negotiate with China before going ahead with these protective policies, there is a gulf of misunderstanding between the two trading powers which makes a resolution of their trade dispute difficult to achieve.

US-China Board of Trade signals a structural shift in global economic relations.

Washington also consulted on the formation and operations of the proposed Board of Trade, announced following the Trump-Xi summit in May. The Board would establish a managed trade framework under which each side identifies non-sensitive products and agrees to modify tariffs on goods of equal value, with flows monitored over time. The administration's framing is revealing: the Board is described as an "adapter" between two fundamentally different economies — an explicit concession that the long-standing premise of the WTO framework, that trade engagement would eventually liberalise China, is being retired. What replaces it is a government-to-government quantity-management system that is both discriminatory and conditional, a return to the pre-1947 model of conditional bilateral MFN that the GATT was built to abolish.

Implications for Asia: More trade volatility even if tariffs do not return to maximalist peaks.

For Asian economies, the net effect is greater business uncertainty and eventually a durable rise in effective tariff rates.

A return to the peak tariffs under the initial "Liberation Day" regime is unlikely, but effective tariff rates will rise from around 7% currently to at least 10%. This will rise further once sectoral tariffs on pharmaceuticals, semiconductors, and critical minerals are fully determined.

What is highly uncertain is which countries will face relatively lower tariffs than others. In particular, whether China suffers more from US protectionism will be crucial for the rest of Asia – production relocation out of China to other parts of the world will pick up if it is clear that the US will impose higher rates of protectionism against China.

Economic and military pressure on Russia could precipitate a twist in the Ukraine war

Near-zero frontline gains as recruitment deficit grows.

Over the four weeks to 9 June, Russian forces achieved a net gain of less than 3 km^2 across the entire front — essentially flat after April's net loss of 116 km^2. Whatever gains Russia can secure continue to come at immense personnel cost, with estimated casualties at 35,000 per month. This leads to a growing recruitment deficit: actual intake has fallen to approximately 940 per day, below the 1,150-per-day target set by the Kremlin. Elevated financial inducements to recruits are failing to entice sufficient numbers to sign up, and the government has ramped up recruitment efforts in the country's higher education institutions, a source that was previously left untapped in favour of less politically sensitive segments such as the rural poor and prisoners.

Ukrainian drone strikes deepen, bringing economic and political pressure on Putin

High-profile targets in Moscow have been hit throughout June, most notably the Kapotnya oil refinery, which supplies around 40% of the capital's fuel demand. Other high-value targets that have been hit include the Dubna Space Communications Centre.

a. Militarily, the strikes are forcing Russia to allocate more military assets to the air defence of Moscow, which is geographically distant from the front line. According to open-source intelligence reporting, Russia is constructing air defence installations west of the capital and redeploying equipment from frontline areas to improve coverage of the capital.

b. Economically, the attacks on energy infrastructure are causing a rise in domestic fuel prices and shortages. Petrol stations have introduced purchase restrictions, and residents, particularly in Crimea, are spending hours in fuel queues. The central bank governor made a stark admission that Ukrainian strikes were directly affecting inflation. The Bank, nonetheless, slashed interest rates to sustain war-industry financing.

Both the economic and diplomatic outlook for Russia is set to deteriorate in the coming months.

The fiscal cushion Russia gained from elevated oil prices during the Hormuz crisis is already unwinding. As the Strait of Hormuz reopens and Gulf supply returns to the market, the Urals discount will reassert itself — and the Trump administration is now reportedly considering reimposing Russian oil sanctions that were relaxed during the disruption. Trump's re-engagement is another wildcard factor; the domestic political logic may actually constrain him in Ukraine's favour. Having already absorbed significant criticism over the Hormuz settlement — widely framed in Republican circles as a concession to Tehran — Trump cannot easily afford to be seen handing Putin a similar win. Given continued maximalism in Putin's diplomatic posture, the base case may be that Trump seeks his diplomatic win elsewhere (such as Cuba), allowing Europe and Ukraine to continue their territorial defence.

OVERVIEW OF REGIONAL DEVELOPMENTS

Country	Regional Developments
China	• China abruptly cancelled two diplomatic meetings with the EU as tensions build over China's soaring bilateral trade surplus. • Russia and China agree to expand key cross-border rail gateway in the Far East, setting up potential China-Europe freight link. • Beijing ordered Meta to reverse its acquisition of Manus AI over national security concerns, the first incidence of such a ruling. • China's central bank cut its 7-day reverse repo rate, alongside other policy measures to inject more liquidity into banks.
India	• First BRICS major gathering under India's chairmanship held in New Delhi; cross-border payment framework piloted. • Modi held two visits to Europe across May and early June as India makes concerted push to deepen EU-India relations. • India hosted Myanmar's top leader, reviving plans for the India-Myanmar-Thailand trilateral highway and pledging deeper trade. • India's central bank held rates steady at 5.25%, but raised its inflation forecast while lowering growth expectations.
Singapore	• The final update of Singapore's Economic Strategy Review was released, providing a sharper diagnosis of the underlying problems but less decisive policy measures to rectify them. • Singapore eased the requirements to set up family offices, aiming to capture capital outflows from the Middle East.

Country	Regional Developments
Malaysia	• Putrajaya delivered a public rebuke to Oslo and is seeking compensation of USD 250mn over Norway's cancellation of contract for naval strike missiles to Malaysia. • Malaysia enacted reciprocal restrictions on Thailand's seafood exports following Thai restrictions to protect local fishermen.
Indonesia	• President Prabowo fired the head of his flagship free meals (MBG) programme following an anti-graft probe and numerous concerns about the programme's viability. • Government's proposal of a centralised export body spooked investors and businesses over concerns of government overreach and corruption before being partially reversed. • Bank Indonesia held a surprise off-cycle rate hike of 25bps in early June, followed by another 25bps at their scheduled mid-June meeting.
Thailand	• Prominent Thai Princess Bajrakitiyabha passed on after more than three years in coma, complicating the monarchy's succession plan. • Thailand intensifies efforts to clinch trade deal with the EU, while announcing its interest in joining the OECD and CPTPP. • Government moves ahead with THB 400bn emergency borrowing plan aimed at support package to alleviate cost of living pressures, despite court challenge.
Vietnam	• Vietnam continued its extensive diplomatic outreach, most notably affirming its strategic partnerships with Thailand and the Philippines, seeking cooperation across defence and trade. • President To Lam delivered the opening address at the 2026 Shangri-La Dialogue summit, the first for a Vietnamese leader.

Country	Regional Developments
Philippines	• The Philippine defence chief was sanctioned by China, after his strong criticism of Beijing's behaviour in the South China Sea. • A separate magnitude 6.2 earthquake hit southern Philippines on 16 June, roughly one week after a devastating 7.8 earthquake caused damages of over USD 250mn. • The Philippine central bank hiked rates by 25bps in June, as inflation eased slightly but remained elevated at 6.8% in May.
South Korea	• South Korea asked for Trump's assistance to resolve tensions with North Korea, while jointly stating with the EU that they would not recognise North Korea as a nuclear-armed state. • Ruling Democratic Party dominated local elections, but lost Seoul to conservatives, giving President Lee stronger support. • Korea's central bank maintained its policy rate at 2.5% on signs of growth recovery and higher inflation from the Iran conflict.
Taiwan	• President Lai publicly rebuked Trump's changing posture on Taiwan, warning that it sacrifices "sovereignty and democracy."

SECTION 2:
ECONOMIC DEVELOPMENTS IN ASIA

Energy prices eased, but supply and price normalisation will be slow

The prospect of the Strait of Hormuz reopening following the US-Iran MoU has driven a sharp correction in global energy prices in June. Brent crude fell below USD 76 per barrel on 17 June, down roughly 40% from the conflict peak and the lowest level since early March. Other oil derivatives such as gasoline, heating oil, and naphtha have also retreated from their highs, though still above pre-conflict levels.

However, we assess that the market has priced in the de-escalation faster than the restoration of physical supply. Mine-clearing, infrastructure repair, and the repositioning of oil tankers currently stranded in the Gulf will each take weeks to months before commercial traffic returns to pre-war volumes. The damage to Gulf oil production facilities will take an even longer time to be restored.

More concerning is that the prolonged conflict has drawn down global oil inventories at a record pace, leaving little buffer even as flows begin to resume. Within Asia, oil markets are nearing minimum operating levels, and signs of stress are emerging. Singapore oil inventory has fallen to near a 13-year low. South Korea eases refiners' crude stockpiling mandate from 40 to 20 days to ease supply disruption. Stockpiles in Japan and India are similarly reported at a 10-year seasonal low. Regional naphtha and LPG supplies have also been hit hard. Even as energy-import-dependent economies including the Philippines, Thailand, South Korea, and Taiwan might begin to see relief in import costs, the pass-through to consumers will be gradual, and the depleted inventory position leaves the region more exposed to any disruption to the reopening timeline.

Inflation pressure intensifies as second-round effects show

Inflation readings across the region continued to rise through May and into June, consistent with the lagged pass-through of energy prices into logistics, food production, and utilities. Headline inflation breached central bank target bands in several economies, including the Philippines, South Korea, and Vietnam. The Philippines' inflation remained the highest in the region, despite marginally easing from 7.2% in April to 6.8% in May, while Vietnam's headline inflation of 5.6% in May reflects an economy that was already running hot ahead of the supply shock.

Core inflation has so far remained relatively contained compared to headline readings but is increasing. Most of the region's inflation uptick was driven by food and energy prices—visible in the sharp rise in utilities and transport fuel categories, while other categories remained relatively contained. The more concerning signal is that core inflation is slowly rising across the region, signalling that second-round effects are beginning to take hold as higher energy and transport costs feed into broader production costs.

This strong cost-push inflation is reflected in the PPI uptick. Singapore's domestic supply price index jumped 31.6% in April—the highest reading since records began in 1975. Meanwhile, China, Malaysia, Thailand, and Taiwan's PPI inflation has recorded positive readings after consecutive negative growth in 2025, reaching the highest level since 2022. This suggests that the price pressure is building its way from the upstream supply chain and will continue to intensify as the lagged effect comes.

Business activity and confidence recovered modestly

Global business activity remained in expansion territory in May but with deteriorating underlying conditions. Across Asia, most economies recorded expansions in manufacturing output, with Singapore, Taiwan, South Korea, India, Vietnam, and Thailand all posting solid headline manufacturing PMI, driven by semiconductor and electronics demand. Nonetheless, many firms are aware that current order books are being sustained in part by forward demand ahead of anticipated price increases and supply shortages rather than underlying demand growth. Input cost inflation rose sharply across all economies, and firms largely passed higher costs to consumers, resulting in output price inflation at a multi-year high across the region. Employment similarly was in net contraction, with firms holding back on capacity expansion amid elevated uncertainty.

Consumer confidence provided a partial offset. The Global Consumer Confidence Index recovered modestly in May after April's sharp decline, with the forward-looking expectation sub-index rising, suggesting households are beginning to price in some energy price relief. Malaysia and South Korea both recorded notable improvement in their national index scores.

Chinese economy deteriorated significantly in May

China's cyclical indicators weakened sharply in May, adding a fresh source of strain to the regional outlook. Retail sales fell 0.6% year-on-year—the first decline since December 2022—while urban fixed-asset investment contracted 4.1%, steepening from a 1.6% drop in the first four months of the year, dragged by a 16.2% fall in real estate investment and the first contraction in manufacturing fixed-asset investment since the pandemic. Industrial output was the lone bright spot, rising 4.5%, supported by exports that grew at a double-digit pace in April and May as renewables and AI-related demand offset the drag from the conflict.

This structural overcapacity, however, carries a direct spillover risk for the rest of Asia. With domestic consumption contracting and industrial output still growing steadily, China's manufacturers are increasingly reliant on exports to absorb output that the domestic market cannot. The risk is that China's surplus capacity is increasingly directed at ASEAN markets that remain relatively open, posing competition to the region's traditional manufacturing base.

Global trade remained resilient amid AI upcycle, but financial conditions are tight

Global trade volumes and investment remained broadly resilient through June, anchored by the ongoing AI infrastructure buildout. Exports in Asian economies generally held up in May, driven by resilient semiconductor shipments. Imports of capital goods and export orders in semiconductor-reliant economies remained robust, suggesting a strong outlook in the AI upcycle in the upcoming months as firms expand their capacity.

However, the export gains are concentrated in a narrow range of sectors. Traditional manufacturing sectors outside the semiconductor and electronics supply chain face simultaneous pressures from the influx of low-priced Chinese exports, supply disruptions and high energy costs. The trajectory for the export sector will be a continued widening divergence between the technology sector and traditional manufacturing sectors.

The financial conditions sustaining the AI upcycle are also showing early signs of strain. While supersized equity raises by major technology firms have been absorbed, the market's capacity to absorb them cannot be taken for granted. At the same time, Japanese institutional repatriation — driven by the Bank of Japan's policy normalisation pushing JGB yields above 2.6% — is adding a gradual drain on the global liquidity pool underwriting AI capital spending.

Rate hold maintained, with selective tightening

Asian central banks either maintained or hiked their policy rates through June, facing the dilemma of simultaneous upside inflation pressure and downside growth risk. The most notable development was Bank Indonesia's off-cycle rate hike, delivered at a weekly governor's meeting one week before the scheduled monetary policy meeting. The decision, which came alongside yield increases and a reduction in hedging swap costs for foreign investors, signalled urgency at the central bank regarding the rupiah's sustained weakness and the erosion of its credibility following the passage of the revised financial sector law. The Philippines also hiked its rate by 25 bps to 4.75%, marking a second consecutive increase as the central bank flagged rising core inflation and the risk of further second-round effects. Other central banks which face less acute inflationary and currency pressure, including Taiwan's Central Bank and Bank of Korea, maintained their policy rates.

Facing sustained pressure on their currencies, most Asian central banks have continued actively intervening in foreign exchange markets to defend their currencies, drawing down reserves further. The Indonesian rupiah, Indian rupee, and Philippine peso remain the most exposed, given their reliance on energy imports and the consequent strain on financial buffers and policy space..

‘SECTION 3: THE KEY TAKEAWAYS

While the Middle East conflict has paused for now, the lagged effects of the disruptions it wrought are showing up in a wave of inflation across Asia and globally, forcing central banks to keep monetary conditions tighter than planned even in the face of impending economic weakness.

The data on economic growth is mixed. First quarter GDP releases revealed a number of two-speed economies supported principally by tech exports. Escalation of US trade aggression will weigh on the region. In response, diplomatic engagements have focused on diversifying trade and investment partnerships, but parallel arrangements in defence cooperation have proliferated.

Macroeconomy:

Commodity markets & inflation

While energy markets remain disrupted, countries have adapted through a combination of energy rationing measures, accelerating the buildout of alternative sources and setting up fuel reserve funds, which have helped to keep the lights on, albeit at higher costs. Price pressures have broadened beyond the primary channel of fuel inflation, with food prices emerging as a second, potentially greater concern as fertiliser disruptions are compounded by an anticipated severe El Nino and other supply shocks.

Growth

While the focus remains on combatting inflation, worries over growth have begun to surface more prominently, led in part by China's weaker-than-expected first quarter, which has spillover effects on the rest of Asia. Several governments have rolled out support packages, but the starting point of the region's economies varies significantly — several were already struggling with lacklustre domestic demand prior to the outbreak of the conflict, blunting the efficacy of fiscal support through subsidising consumption.

Geopolitics

US-China relations

Following the May summit between the two nations' leaders, tensions have cooled modestly, with China opting not to provoke the US after gaining concessions from the latter on Taiwan and to a lesser extent, trade. However, Taiwan has called out its perceived abandonment by the US, potentially inflaming both cross-strait and US-China tensions once again.

Diplomatic visits

Following the high-water mark in April-May, diplomatic engagements continued at a slower cadence for most countries, except notably Vietnam. A patchwork of arrangements in defence cooperation is emerging amongst the maritime states in Asia, borne out of concerns over the US's perceived waning commitment to Asia-Pacific and China's steadily rising maritime presence.

ASEAN

In the face of escalating US trade policy, a unified response remains far from materialising despite the inherent advantages in collective regional bargaining. Meanwhile, the Myanmar issue continues to be a strain on ASEAN unity following the group's May summit, with the Burmese pseudo-civilian government remaining excluded from official ASEAN forums but engaging bilaterally with several members. The Thai-Cambodia conflict saw diplomatic escalation to international arbitration, though physical fighting remained muted, while other smaller-scale disputes like the Thailand-Malaysia seafood trade row were symbolic of the lack of ASEAN unity.

Relative positioning of countries in May:

Given the current landscape, here is the outlook for the region as of end-May:

Country	Domestic Macro	External Demand	Domestic Politics	International Position
China				↑
India	↓			
South Korea				
Taiwan				
Singapore		↑		
Malaysia		↑	↓	
Indonesia	↓		↓	↓
Thailand				
Vietnam	↓	↓		
Philippines			↓	

Note: ↑=improvement from previous month, ↓=deterioration from previous month

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