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Why the Hormuz disruption matters for **Asia's economies**



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The closure of the Strait of Hormuz is emerging as a major external test for Asia, with the consequences defined not by the initial shock but by how long it lasts. Because Asia's reliance on Middle Eastern energy differs sharply across economies, the fallout for growth and policy will be uneven.

The closure of the Strait of Hormuz has become one of the most important external risks facing Asia. Although the immediate impact has been rising oil and liquefied natural gas (LNG) prices, the real challenge lies in how long the disruption persists. A prolonged outage would hit Asia through three main channels: supply risks, terms-of-trade deterioration, and inflation pressures.

Key takeaways

- Asia's weakest links lie in energy supply dependence, with economies such as the Philippines, India, Singapore, Thailand and Taiwan most exposed to crude oil or LNG shortages if the disruption endures.
- Higher energy prices would widen trade deficits and pressure currencies, particularly in Thailand, South Korea, India and Taiwan, while Malaysia and Australia may benefit due to their LNG surplus positions.
- Inflation and policy risks would rise with duration, constraining central banks' ability to ease and increasing macro volatility, while markets remain cautious until supply routes normalise.

WHY THE HORMUZ DISRUPTION MATTERS FOR ASIA'S ECONOMIES

Across all three channels, Asia's exposure varies widely – and so do the potential implications for growth, currencies and policy decisions.

1. Supply disruption: the biggest near-term risk

Asia relies heavily on the Middle East for both crude oil and LNG. Several economies are directly exposed to a sustained closure of Hormuz, particularly those with limited inventories:

- The Philippines is the most vulnerable on crude oil, sourcing over 95% of imports from the Hormuz-7¹ countries but holding only around 30 days of reserves.
- India is the most exposed on LNG, importing around two-thirds of its LNG from Hormuz-7 – but with only six days of LNG inventory. The risk of actual power shortages is lower because India relies heavily on coal for electricity generation.
- Singapore, Thailand and Taiwan face the highest electricity-generation risk due to their reliance on LNG: 94% for Singapore, 64% for Thailand and around 40% for Taiwan. Supplies are diversified, but a prolonged outage would still tighten the system.

The vulnerability is not simply about energy supply: it is about how quickly inventories run down and how easily supplies can be replaced. While global LNG markets are more flexible than a decade ago, they cannot fully compensate for a sustained outage at Hormuz.

2. Terms of trade: widening deficits for several economies

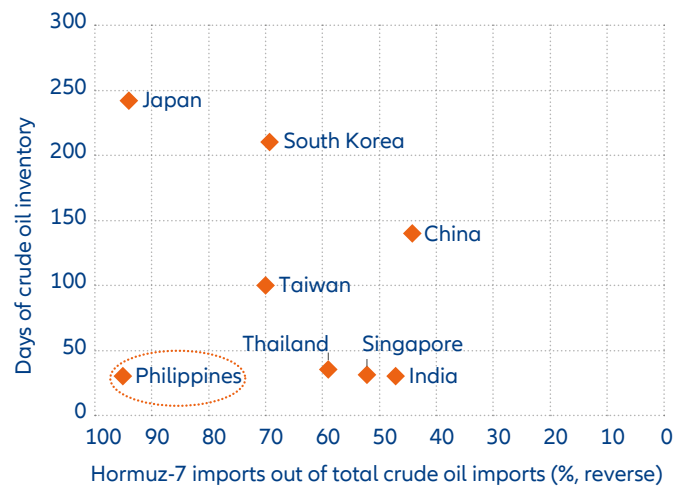
A prolonged disruption would widen energy-import bills across the region – with sharp differences across countries:

Most exposed to negative terms-of-trade effects are Thailand, South Korea, India and Taiwan, which each run sizeable crude oil and LNG trade deficits (between 3% and 5.5% of GDP).

For these economies, higher energy prices would weaken external balances and add pressure to currencies. India is particularly exposed given its current account deficit of

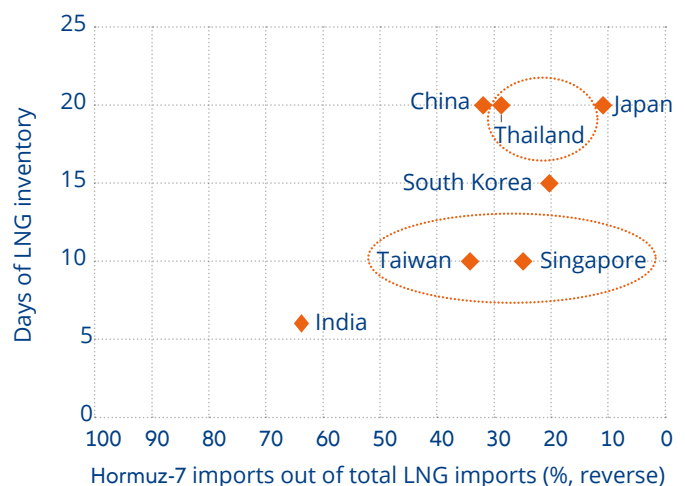
around 1% of GDP, while Thailand is vulnerable because its outsized crude oil and LNG trade deficit (-5.5% of GDP) sits alongside a relatively modest current account surplus of 2-3% of GDP.

Exhibit 1: Asia's crude oil supply disruption vulnerability



Source: Macrobond, Customs data, UN Comtrade, International Energy Agency, Ministry of Energy, EPPO Thailand, ESDM, PPAC, Statistical Review of World Energy, CLSA, Morgan Stanley, AllianzGI Global Economics & Strategy, as of March 2026.

Exhibit 2: Asia's LNG supply disruption vulnerability



Source: Macrobond, Customs data, UN Comtrade, International Energy Agency, Ministry of Energy, EPPO Thailand, ESDM, PPAC, Statistical Review of World Energy, CLSA, Morgan Stanley, AllianzGI Global Economics & Strategy, as of March 2026.

1. Hormuz-7 refers to the seven key Middle Eastern exporters whose shipments typically transit the Strait of Hormuz: Saudi Arabia, Qatar, the United Arab Emirates, Iraq, Oman, Kuwait and Bahrain.

Meanwhile, potential beneficiaries include Malaysia and Australia, which run net LNG surpluses large enough to offset crude-oil deficits. Malaysia, in particular, would see a modest boost to growth and its current account from higher LNG prices.

For high-deficit economies, a sustained oil price above USD 100 would erode purchasing power and dampen growth prospects.

3. Inflation risk: rising cost pressures, uneven transmission

Inflation sensitivity varies significantly across Asia. The Philippines and Thailand are among the most sensitive to rising oil prices, where a 10% rise in crude oil prices could lift consumer price indexes (CPI) by 0.8 percentage points and 0.5 percentage points respectively.

Indonesia and Malaysia are more insulated, because subsidies and administered prices slow the pass-through from global to domestic markets. Electricity-heavy CPI baskets in Hong Kong and Singapore mean they are more sensitive to power costs than fuel prices.

This uneven transmission complicates the policy outlook: some central banks may need to raise interest rates, while others can maintain support.

Policy implications: fewer cuts, more caution

With growth slowing, inflation firming and currencies under pressure, Asian central banks face a difficult trade-off. As a result:

- Only three central banks (China, the Philippines, Indonesia) are still expected to cut rates this year.
- Five are likely to stay on hold (Thailand, India, Korea, Taiwan, Vietnam).
- Three may need to raise rates (Malaysia, Australia, Japan).

In summary, the longer the disruption persists, the more policy space narrows.

Market implications: cautious now, constructive once Hormuz reopens

A prolonged outage increases market volatility across Asia, especially in economies with high LNG exposure. For now, we remain:

- Constructive but cautious on Asian equities until Hormuz reopens.
- Positive on China, Japan, India, Australia, Malaysia, Taiwan and Korea – economies supported by domestic demand or by the global AI investment boom.
- More cautious on Thailand, Indonesia and the Philippines due to weaker investment momentum and policy concerns.
- Constructive on Asian currencies and fixed income under a structurally bearish US dollar view.

Conclusion: duration is the decisive factor

In our view, Asia can absorb temporary volatility in oil and gas markets. What matters – for supply chains, for inflation, for currencies and for monetary policy – is how long the Strait of Hormuz remains disrupted. A short-lived shock is manageable; a prolonged one becomes a macro event.

Understanding these distinctions helps identify where the real vulnerabilities lie – and where opportunities re-emerge once regional energy flows normalise.



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