

Iran & AXJ: Optimism, Not Absolution

In a Nutshell:

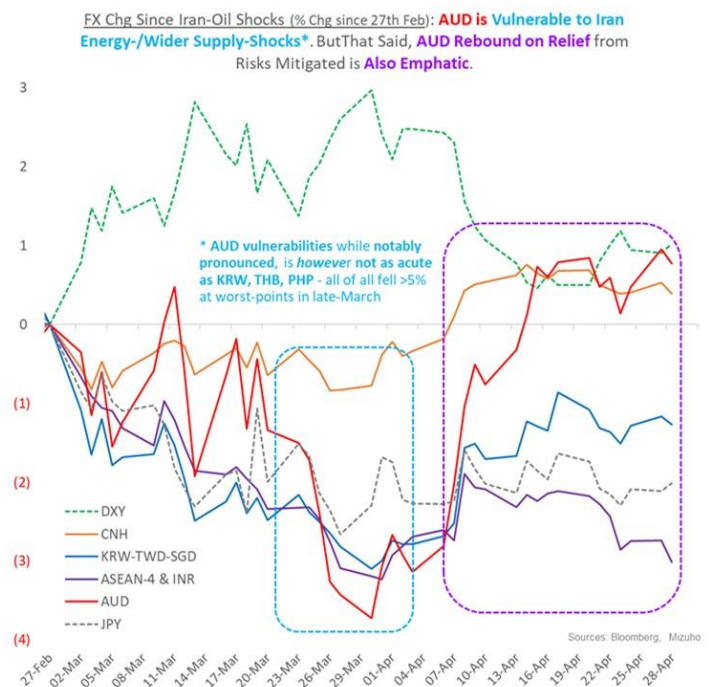
- **AXJ relief** from with regards to (a resolution of) US/Israel-Iran war risks being **premature** given *persistent uncertainty amid fluid tail risks*.
- Crucially, (these premature) **optimistic bets on a US-Iran deal will need to be checked**.
- Fact is, *lagged and lingering energy (and wider cost) shocks* pose a more prolonged and **non-linear risk for Asian economies/AXJ**.
- Especially given **Asia's disproportionate dependencies** on energy and other critical goods from the Straits of Hormuz.
- In any case, **unpredictable Middle East crisis dynamics fraught by mis-aligned interests /incentives** (of multiple actors) warn of a **prolonged pain** and **bumpy path to a resolution**.
- Accordingly, **AXJ recovery** are **liable to be** may remain **highly uneven** and **mostly incomplete**.
- Especially as *double whammy of cost-shocks*, and *demand destruction* are **exacerbated by interim policy dilemmas** and **pipeline binary risks**.
- Upshot: *Even if a deal is struck*, **Asia remains exposed to lingering/lagged war-induced shocks**, with **AXJ risks accentuated** by **central bank dilemma** and **mounting fiscal pressures**.
- AXJ: And *recovery from negative industrial multiplier effects* (KRW, TWD, THB etc.) may be *better-placed than for "stickier" fiscal-dependency* (e.g. PHP, INR. **AUD**) **most solidly poised so long as AI shake-down is averted**.

"Presume nothing." – **Sherlock Holmes**, The Hound of Baskervilles

- Premature, Partial & Uneven Relief ...: **AXJ relief** from with regards to (a resolution of) US/Israel-Iran war risks being **premature** (unrelenting uncertainties), **partial** (as aspects of supply shocks linger) and **highly uneven** (given differentiated vulnerabilities/sensitivities).
- ... as Uncertainty Persists: Notably, as **elevated, multi-dimensional geo-political uncertainties** persist as *highly fluid volatile truce negotiations* interact with *evolving policy/diplomatic responses* elsewhere.
- Optimism, Not Absolution: Crucially, **optimism about** a pathway to *truce/ceasefire*, **should not be mistaken for an absolution from pipeline economic pain** inevitably inflicted *via lagged and lingering energy (and wider cost) shocks*.
- Justifiable Off-Ramp Hopes: Arguably, **emerging optimism about US-Iran truce is justifiable**. Especially **given** convincing evidence of **mutual** (US and Iranian) **desire for an off-ramp**.
- Subject to Fraught Negotiations: Nonetheless, such *nascent optimism* is inevitably *subject to wild mood swings* between **hopes of an enduring compromise** and **fears of a breakdown in talks**.

- Hijacking Hope: In the **worst-case scenario**, a **path to peace is hijacked** by an *unwillingness to compromise amid misaligned (US-Israel) war objectives exploits the inability to compromise* due to **geo-political miscalculations**.
- Unfettered Passage ...: Above all, the **specific trigger for markets to durably re-price risks** hinges on an **unfettered re-opening of the Straits of Hormuz (SoH)** and the attendant **passage of energy and critical goods**.
- ... Not Merely (Interim) Peace: **Not simply an interim peace/truce**. Especially one **that falls short of restoring the flow of energy/goods**, leaving uncertainty intact.
- Alleviation of Supply Shocks: Point being, **enduring relief** may only be derived from, and is **highly dependent on**, the **alleviation of tyrannical supply shocks/disruptions**.
- Acute AXJ-Asia Pain: Notably, **AxJ is acutely vulnerable to non-linear shocks and underperformance on SoH supply disruptions**. as *Asia (outside of the Middle East) bears the brunt of the economic pain from the war's collateral damage*.
- On Disproportionate Dependence: Specifically, from **disproportionate dependence on adversely affected flow of energy fertilizer (feeding into food) and other critical industrial inputs exacerbated by industrial multipliers**.
- Shocks that Conflict, But Don't Cancel (Out): Moreover, economic pain is arguably amplified as the **coincidence of conflicting inflation shocks and demand destruction threats do not harmlessly cancel out**.
- Posing a Double Whammy: **Instead**, the **simultaneous impact** from war-induced **price surge and curtailed passage/access** (of goods) ends up **posing a tyrannical a double whammy** of
 1. *cost shocks* (squeezing margins, inflaming inflation, thereby sharply driving down real returns), and;
 2. *activity* inevitably *arrested* by the choked supply chains that force scale-backs or worse, shutdowns.
- Compounded by Policy Dilemma: *Worse*, **despite the economic double-whammy**, policymakers will initially be forced to grapple with *accentuated* and *mounting interim policy dilemma that stymies scope for timely policy buffer*.
- Binary Risks: What's more, **interim tensions between inflation or demand destruction** are set to be **displaced by amplified binary risks down the line**. *Clarity on which remains shrouded in the fog of war*.
- Too Little, Too Late: And so, the **Iran/SoH crisis sets the stage for too little too late policy risks** – *whether inflation or demand shocks eventually overwhelm* – threatening to **compound** and **prolong resultant economic pain** that is *inadvertently inflicted*.
- Welcome Relief (from Dire Straits): To be sure, **any relief from the dire Straits of Hormuz supply shocks** will be **desperately welcome by Asian economies**, are likely to be **reflected in (measured) AxJ recovery** from earlier sell-off.
- But Lagged & Incomplete Recovery: **But beware of lagged and incomplete economic recovery regardless of the deal/truce reached**.
- Elusive (Full) Reversion: Consequently, **even as oil/energy prices ease**, a **full, front-loaded reversion** (recovery) of **AXJ may be impeded for most**, and **elusive for some** on account of:

- a. **Hysteresis**: Aspects of **demand destruction** during the price/delivery shocks that are **not fully recovered**.
 - b. **“Stickiness”**: **Lingering shortfall** from impacted access as *supply restoration/logistics takes time* alongside *tendencies for strategically (over-)replenishing stockpiles*.
 - c. **Lags from Long Pipelines**: **Lagged price shocks** given the transmission **from upstream** (e.g. energy, urea, helium) **to downstream** production (food, petrochemicals, AI/tech) with feedback to demand.
 - d. **Policy Pain**: Protracted drag from earlier **policy tightening** that compounds pain as it depresses depressing income/demand.
- **Asymmetric Pain Relief**: What’s more, **pain relief** could prove **highly asymmetric** across Asia/AXJ given **variations in**:
 - i. *pre-existing primary (SoH) dependencies*;
 - ii. *secondary/downstream reliance* (via elsewhere in Asia) **that could remain compromised** even after a truce;
 - iii. *wider industrial exposures/offsets* and;
 - iv. *further deterioration from pre-existing fiscal vulnerabilities*.



- **Negative Industrial Multipliers Better Paced ...**: **AXJ hobbled by negative industrial multipliers*** from surging **prices/compromised** are arguably better placed to rebound on relief from supply disruptions.
- **... Than Stickier Fiscal-Dependency Vulnerabilities**: Compared to AXJ with **greater domestic energy import dependencies**, accentuating **fiscal vulnerabilities**** are **liable to lingering currency drag** from **stickier fiscal-monetary-FX dynamics**.
- **Starker AXJ Differentiation**: This is consistent with KRW, TWD and to a lesser extent **THB** poised for stronger rebound. Whereas some remnant weakness could linger to a greater in PHP, INR and *even IDR*.

- **Accentuated by AI:** As war-induced supply shocks dissipate, the **AI boost** – underpinned by exceptional AI capex buildout – **remaining intact** ought *to amplify* any *rebound in KRW and TWD*. Some, **spill-over MYR boost** – *via downstream semiconductor channels* – **could also come through**.
- **AUD Out-performance:** While not obvious at first glance, *AUD is arguably set to be a standout performer* (since the US/Israel-Iran war). Especially if **AI bulls, unfettered by supply shocks, lean into commodity boost and RBA hawks** – *as we have recently reiterated*[^].

* Rising energy (and wider) input costs, impeded production and dampened demand hurting exports and top line.

** Fiscal deterioration on subsidy burdens (to offset the war-induced energy-/wider-supply shocks) could linger as a currency drag via “twin deficit”, credit ratings and growth “crowd out” channels.

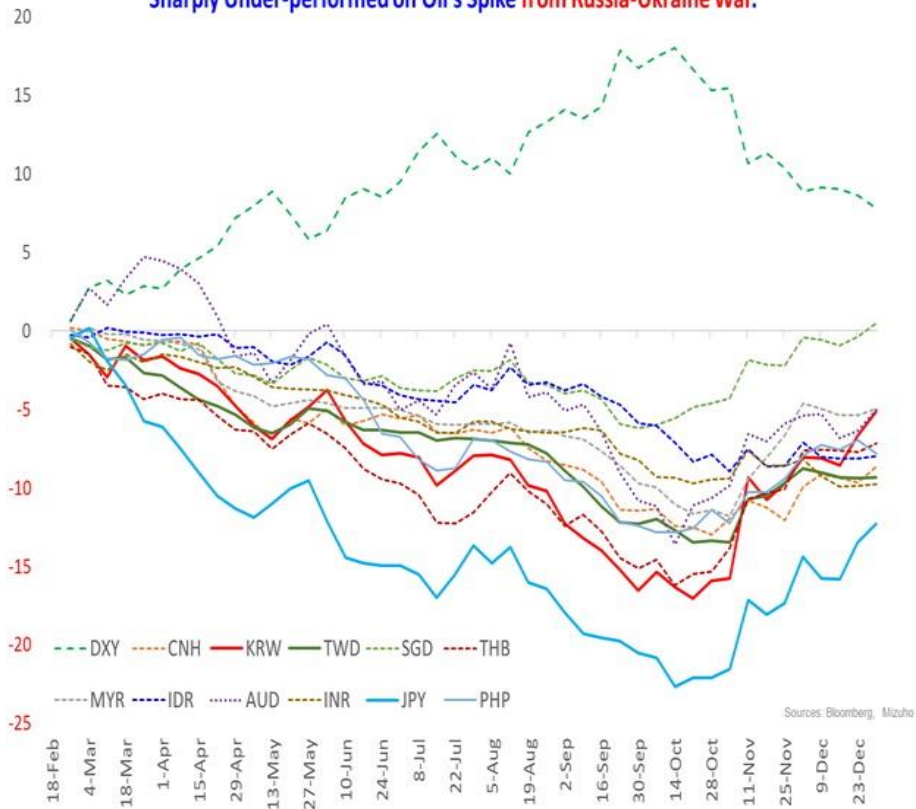
[^] See the full publication here by AI [[Mizuho Chart Speak: 22 April 2026: AUD & Iran Risks: Turbulent, Not Terminal, Bullish Path](#)]

FX Forecast

	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27
USD/CNH	6.84-6.994	6.68-6.92	6.57-6.91	6.45-6.90	6.40-6.90	6.38-6.89
	6.89	6.80	6.75	6.65	6.65	6.62
USD/HKD	7.7843-7.8415	7.77-7.84	7.76-7.83	7.75-7.82	7.76-7.83	7.76-7.83
	7.84	7.81	7.80	7.78	7.80	7.80
USD/INR	89.7-95.2	92.5-97.5	91.6-96.2	91.5-94.5	90.5-94.5	89.4-93.9
	94.5	95.5	93.5	93.8	92.8	93.3
USD/KRW	1419-1520	1360-1580	1360-1520	1350-1530	1340-1520	1340-1510
	1519	1520	1490	1470	1450	1440
USD/SGD	1.258-1.294	1.251-1.305	1.249-1.298	1.245-1.295	1.242-1.295	1.242-1.295
	1.287	1.268	1.264	1.258	1.261	1.262
USD/TWD	31.2-32.2	28.8-33.1	28.8-32.8	28.7-32.6	29.1-32.5	29.1-32.5
	32.0	32.1	31.9	31.4	31.3	31.3
USD/IDR	16690-17015	16950-17600	17000-17600	17000-17450	16900-17250	16800-17200
	16995	17300	17200	17200	17150	17100
USD/MYR	3.88-4.08	3.87-4.06	3.82-4	3.79-3.96	3.8-3.92	3.78-3.96
	4.05	3.93	3.90	3.86	3.88	3.84
USD/PHP	57.4-60.83	59.8-62.3	59.7-61.9	59.5-61.3	58.9-60.8	58.8-60.6
	60.7	61.5	61.0	60.6	60.3	59.9
USD/THB	30.8-33.06	30.9-34.1	30.5-33.8	30.6-33.5	30.2-33.5	30.2-33.5
	33.0	33.1	32.5	32.1	31.9	31.8
USD/VND	25870-26363	25300-27200	25300-27200	25500-27000	25500-27000	25500-27000
	26340	26750	26550	26550	26600	26550
AUD/USD	0.663-0.7187	0.681-0.735	0.686-0.738	0.68-0.745	0.685-0.748	0.705-0.76
	0.690	0.715	0.720	0.736	0.730	0.745

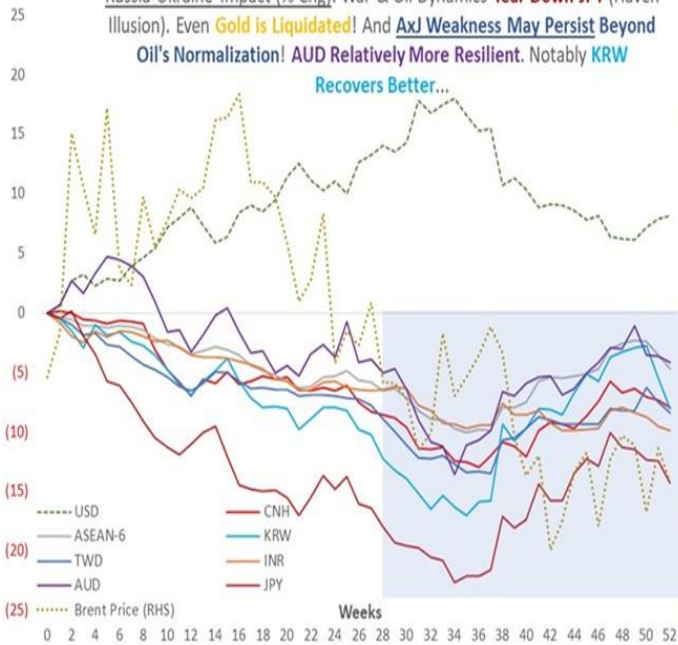
Note: For FX forecasts, level in parentheses pertains to period end forecasts, and the period's range precedes this.

FX Shifts (% Chg since start of Ukraine War, 24 Feb 2022): **In 2022, Asian Currencies Sharply Under-performed on Oil's Spike from Russia-Ukraine War.**

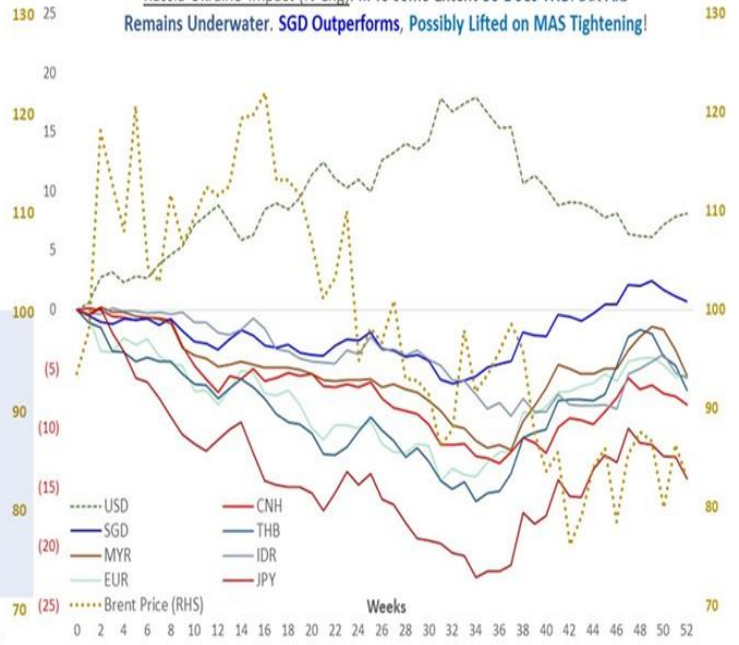


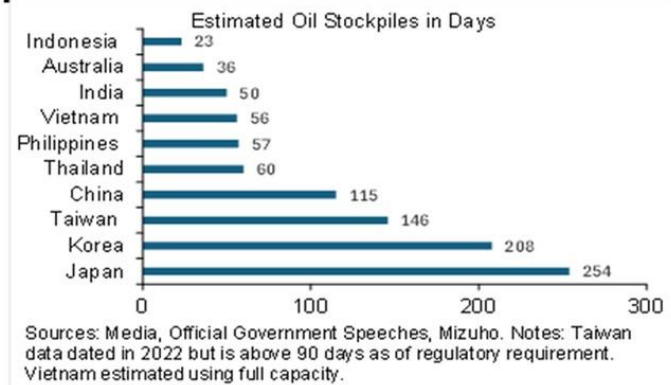
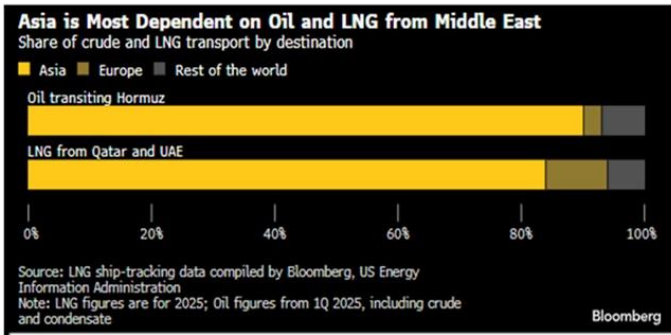
Sources: Bloomberg, Mizuho

Russia-Ukraine Impact (% Chg): War & Oil Dynamics **Tear Down JPY** (Haven Illusion). Even **Gold is Liquidated!** And **AxJ Weakness May Persist Beyond Oil's Normalization!** AUD Relatively More Resilient. Notably **KRW Recovers Better...**



Russia-Ukraine Impact (% Chg): ... **To some Extent So Does THB.** But **AxJ Remains Underwater.** **SGD Outperforms, Possibly Lifted on MAS Tightening!**





Country	Measures	Oil Stockpile (in days)
Japan	1. Instructed oil storage bases to make preparations for release of oil reserves 2. Considering cap on gasoline price 3. Taking steps to expand crude oil procurement sources	254
Korea	1. Working to introduce cap on fuel price this week 2. Considering expanding fuel tax cuts 3. May consider fuel export controls if situation prolongs	208
Taiwan	1. Weekly cap on domestic fuel price increase to 5%. 2. Potential freezing of electricity tariffs 3. Increase purchase of non-Middle Eastern Oil	146
Thailand	1. Suspended oil exports 2. Oil traders' mandated increase stockholdings from 1 to 3% 3. Diesel price freeze for 15 days.	60
Philippines	1. Proposed to suspend excise tax on oil imports 2. Philippines companies in talks to source oil and lock in orders from the Americas, Australia and Africa.	57
Vietnam	1. Tariff cut for diesel, fuel oil, jet fuel and kerosene from 7% to 0%, unleaded motor gasoline and blending parts from 10% to 0%	56
India	Importing oil from Russia	50
Australia	Monitoring of Price Gouging	36
Indonesia	Warned of possible increase in subsidised fuel price	23
Malaysia	Hold subsidised price of RON95 petrol at RM1.99 till May 2026.	Data not available

*Taiwan data dated in 2022 but is above 90 days as of regulatory requirement. Vietnam estimated using full capacity

Central Bank Policy Rate Outlook

Country	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27
China	1.40%	1.40%	1.40%	1.30%	1.20%	1.20%	1.20%
India	5.50%	5.25%	5.25%	5.25%	5.50%	5.50%	5.50%
Korea	2.50%	2.50%	2.50%	2.75%	3.00%	3.00%	3.00%
Singapore	M: Hold	M: Hold	M: Hold	M: Hold	M: Upward Recentering	M: Hold	M: Hold
	S: 1.0%	S: 1.0%	S: 1.0%	S: 1.5%	S: 1.5%	S: 1.5%	S: 1.5%
	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold
Taiwan	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Indonesia	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
Malaysia	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Philippines	5.00%	4.50%	4.25%	4.75%	4.75%	4.75%	4.75%
Thailand	1.50%	1.25%	1.00%	1.00%	1.00%	1.00%	1.00%
Vietnam	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Australia	3.60%	3.60%	4.10%	4.35%	4.60%	4.60%	4.60%

*The MAS conducts monetary policy via FX. Specifically, it adopts a trade-weighted SGD appreciation at "modest and gradual" pace (estimated at 2% per annum as default).

S: Slope (expressed as per annum % appreciation), M: Mid Point, W: Width of S\$NEER

GDP Forecast (% YoY)

	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	2024	2025	2026
China	5.2	4.8	4.5	5.0	4.6	4.4	4.5	5.0	5.0	4.6
Hong Kong	3.2	3.7	3.8	2.7	3.4	3.4	2.6	2.6	3.5	3.0
India	6.7	8.4	7.8	6.7	5.9	6.1	6.2	6.7	7.1	6.2
Korea	0.6	1.8	1.6	3.6	2.8	2.0	1.9	2.0	1.1	2.6
Singapore	4.6	4.6	5.7	4.6	5.4	3.2	1.6	4.4	4.8	3.7
Taiwan	7.7	8.4	12.7	12.1	9.7	7.8	2.5	5.3	8.7	7.8
Indonesia	5.1	5.0	5.4	5.0	4.6	4.4	4.6	5.0	5.1	4.6
Malaysia	4.4	5.4	6.3	5.3	5.1	4.7	4.3	5.1	5.2	4.9
Philippines	5.5	3.9	3.0	3.5	3.2	4.4	5.4	5.7	4.4	4.2
Thailand	2.8	2.0	2.5	2.5	2.6	3.6	2.0	2.5	2.4	2.7
Vietnam	8.0	8.2	8.5	7.8	7.4	7.6	7.7	7.1	8.1	7.5
Australia	1.8	2.1	2.6	2.5	2.1	1.9	1.4	1.1	1.8	1.9

Inflation (% YoY)

	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	2024	2025	2026
China	0.0	-0.2	0.6	0.8	1.0	1.1	0.9	0.2	0.1	1.0
Hong Kong	1.8	1.1	1.3	1.7	2.1	2.0	2.0	1.8	1.4	2.0
India	2.9	1.7	0.6	3.1	4.3	4.9	5.9	4.9	2.2	4.5
Korea	2.1	2.0	2.4	2.1	2.9	2.7	2.3	2.3	2.2	2.5
Singapore	0.8	0.6	1.2	1.7	2.6	2.5	2.4	2.4	0.9	2.3
Taiwan	1.7	1.5	1.3	1.2	2.8	2.7	2.4	2.2	1.7	2.3
Indonesia	1.8	2.4	2.8	3.9	3.3	3.7	3.8	3.7	1.9	3.7
Malaysia	1.3	1.3	1.4	1.6	1.7	1.8	2.2	1.8	1.4	1.8
Philippines	1.4	1.4	1.7	2.8	5.6	6.6	6.8	3.2	1.7	5.5
Thailand	-0.4	-0.7	-0.5	-0.5	0.5	0.7	0.8	0.4	0.1	0.4
Vietnam	3.3	3.3	3.4	3.4	4.4	4.2	3.9	3.6	3.3	4.0
Australia	2.1	3.2	3.6	3.9	4.6	3.8	3.7	3.2	2.8	3.8

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