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# What the US-Iran peace deal means for Asia

The peace deal and partial resumption of oil flows reduce near-term inflation risks, giving some central banks (notably Taiwan and India) room to delay tightening. However, a broad pivot remains premature, as still-elevated oil prices, rising food price risks, and second round effects keep the policy stance asymmetric and biased towards caution



## Supply relief and sentiment boost

The US-Iran peace deal should come as a significant relief for Asia, given its heavy reliance on imported energy and vulnerability to disruptions in Middle East shipping routes. As details firm up, [our base case](#) assumes around 50% of oil flows through the Strait of Hormuz resume by end-June, with full reopening only by end-2026. Even a partial restoration of flows should meaningfully ease tightness in physical markets and reduce precautionary inventory hoarding. This, in turn, is likely to support a rebound in consumer and business sentiment, particularly in countries where recent supply uncertainties had begun to weigh on confidence and activity.

## Disinflation across Asia, with South-East Asia likely to lead the way

Lower oil prices will also be crucial in easing inflation pressures across Asia, particularly

through food and fuel channels. The Philippines has seen the sharpest rise in the contribution of food and fuel to inflation and should therefore be among the biggest beneficiaries of any sustained decline in oil prices. Meanwhile, economies with high import intensity, such as India and Thailand, are also likely to see meaningful relief as lower energy costs feed through into transport, food distribution and broader price dynamics.

### **Relief coming, but normalisation will lag as input costs are still elevated**

Sectors such as petrochemicals, steel and rubber have borne the brunt of this margin compression, driven by elevated oil prices alongside higher freight and feedstock costs. A de-escalation in US–Iran tensions should bring some relief, particularly via lower energy and naphtha prices, helping to stabilise cost structures. However, the recovery will not be immediate. Supply chains – especially in fertilisers and other commodities, are likely to normalise only gradually, as shipment backlogs and logistical bottlenecks take time to unwind, even as traffic through the Strait of Hormuz improves.

While large economies such as India, China, Korea and Japan were partly insulated from global oil price spikes via subsidies and administrative controls, supply disruptions still pushed up input costs across manufacturing supply chains. Industries faced higher freight charges, longer delivery times and rising feedstock costs during the peak of tensions. Although input cost pressures have eased from their March–April highs, they remain above pre-conflict levels. With output prices adjusting more slowly due to weak pricing power and incomplete pass-through, corporate margins – especially in energy-intensive sectors – continue to face sustained pressure.

### **Rate pivot still premature, though some central banks can delay hikes**

Despite the peace deal, it remains premature to call a turning point in Asia's rate hike cycle. Central banks across the region operate with different policy reaction functions: [the Philippines](#), for instance, focuses heavily on CPI inflation, as seen in its recent policy responses, while [Bank Indonesia](#) places greater emphasis on currency stability as its primary objective.

Even with some easing in energy-driven inflation, policymakers are likely to remain cautious.

First, oil flows are expected to resume only gradually, and the need to rebuild depleted stockpiles could keep upward pressure on demand, leaving uncertainty around the durability of any price correction. We expect Brent to average around USD 87/bbl in 3Q, still roughly 30% above pre-war levels. This could give some room for governments such as the Philippines, which did not heavily subsidise fuel, to roll back part of the earlier hikes. Gasoline prices in the Philippines have risen by around 40% since the start of the conflict; a 10% rollback could lower

CPI by about 50bp, bringing our 3Q inflation forecast to 6.5% – still well above the 4% upper target. As such, a more sustained and deeper decline in oil prices would be needed for the Bangko Sentral ng Pilipinas to reconsider the 75bp of additional rate hikes we have pencilled in for the rest of 2026.

Second, food prices remain vulnerable to weather-related shocks, particularly the rising probability of a strong El Niño—which could keep overall inflation volatile. Food-driven price pressures have already been broad-based: in the Philippines, the contribution of food to inflation has more than doubled, rising to 2.2pp in May 2026 from around 0.6pp earlier in the year.

India, Indonesia, and Thailand have also seen an uptick in food contributions to headline inflation, albeit more modestly at around 0.3–0.45pp. That said, still-moderate inflation levels in these economies and emerging downside risks to growth should give central banks some room to remain patient. For now, a wait-and-watch approach is likely, with policymakers closely monitoring how weather-related disruptions feed through to food and core inflation dynamics.

### **Improved growth prospects firm up the case for rate hikes in Korea and Japan**

Despite heavy reliance on Middle Eastern energy, South Korea and Japan have so far limited the impact on growth and inflation through price caps, subsidies, fiscal support, and energy import diversification from non-Middle East countries. With the latest energy scenario, we see more upside risks for growth and a more limited impact on inflation.

Korea has temporarily restricted exports of petroleum products such as naphtha to secure domestic supply, while Japan released its strategic oil reserves to mitigate the shortage of energy supplies. A peace deal would boost 3Q26 growth slightly more than expected. Improving energy supply should support growth by easing pressure on key industries and lifting confidence. For example, it should allow Korea's petrochemical output and exports to rebound and Japan's auto exports to the Middle East to recover. Restocking energy and critical materials by companies and governments should lift imports as well. More broadly, the AI boom should continue to support both economies, with Korea and Japan benefiting from strong chip exports and potential longer-term gains from post-war reconstruction, renewable-energy investment, and higher defence spending.

Meanwhile, the impact on inflation from the peace deal is likely to be limited given that inflation in both countries (3.1% year-on-year in Korea and 1.4% YoY in Japan) has been suppressed by policy measures. These temporary anti-inflation measures will be lifted once global energy prices come down. Thus, the decline of energy prices in coming months is unlikely to be significant. Meanwhile, demand-side pressures are expected to strengthen on the back of strong asset-market rallies, rising labour income, and weak currencies. We expect

CPI to accelerate in the coming quarter, above 3.5% in Korea and 1.9% in Japan.

As stronger growth is likely to feed into inflation, we see an increasing probability that both central banks may accelerate their hiking cycles, moving faster and ultimately further than previously expected. The Bank of Korea may need an additional hike beyond our current 75bp base case, likely in 2027. For the Bank of Japan, its next move could come earlier in October rather than December if the yen weakness and firm underlying inflation persists.

### **Rate hikes in Taiwan could be delayed if peace deal holds**

In Taiwan, we previously made upgrades to our GDP forecast despite the potential for an oil supply shock. Our 10.5% YoY 2026 GDP forecast is already among the highest in the market, and we will maintain this forecast for now. A peace deal removes some of the potential downside risk for growth. Given Taiwan's heavy energy import dependence and limited oil reserves, falling oil prices will have a bigger impact on inflation compared to our previous scenario. We revise down our CPI inflation forecast from 2.1% to 1.9% YoY. The previous scenario of oil prices peaking in 3Q prompted our call for the central bank to hike in 3Q26. We still have this rate hike pencilled in for now after a June hold from the central bank, with a few members already dissenting in favour of a rate hike and Governor Yang commenting that monetary policy should be "slightly hawkish". However, if we do get a lasting peace deal leading to lower energy prices and inflation proves to be under control, the rate hike could well be delayed again, potentially to as far as 2027.

Shifting oil price dynamics may also give India's central bank some room to delay or reconsider further tightening. Nevertheless, we continue to expect Korea and Japan to deliver anticipated rate hikes, with a rising probability of more and sooner. And a pivot away from rate hikes remains unlikely in the Philippines unless food inflation and FX pressures reverse materially. All things considered, monetary policy in Asia is still set to remain tighter for longer than markets anticipate.

### **Asian currencies stabilising but will need more for a turn**

A third factor keeping Asian central banks hawkish is the performance of FX. Indonesia's rupiah, the Indian rupee and the Thai baht have fallen the most against the US dollar this year. These currencies will likely need more than just a softer dollar to stage a sustained recovery, especially in an environment where US inflation remains sticky and the Federal Reserve's recent hawkish pivot limits downside for the dollar.

For a more durable turnaround, stronger local drivers will be crucial. The Indian rupee and Thai baht have been hit by their high exposure to energy imports, with weaker external balances driving much of the depreciation. For this to reverse, a sustained improvement in the terms of trade – via lower oil prices – alongside a rebuilding of capital account positions will be key. Until then, FX vulnerability is likely to remain a constraint on how quickly regional central banks can

pivot away from tightening.

We see relatively more support for the Indian rupee, which still has policy levers at its disposal. Recent capital measures announced by the Reserve Bank of India should help plug the balance of payments gap, leaving us relatively constructive on INR. In contrast, investor concerns around Indonesia's recent policy direction may continue to weigh on sentiment, suggesting IDR could lag its regional peers.

In North Asia, both the KRW and JPY have weakened significantly, though easing geopolitical tensions and a narrower Fed-BoK/BoJ rate gap should provide some relief. For the KRW, USD/KRW is likely to remain above 1,500 in the near term despite Korea's exceptionally large trade surplus, as capital outflows remain sizeable. For the JPY, global dollar moves linked to Fed rate expectations should remain the dominant driver, while the BoJ's gradual hiking pace is unlikely to provide meaningful near-term support. As a result, USD/JPY is likely to stay near 160 for the foreseeable future.

The TWD has been tightly managed and range-bound during the Iran war. Given the backlash after last year's sudden spike, greater care may be taken to smooth out volatility in the TWD, which complicates forecasting. In a vacuum, a successful peace deal should contribute towards a stronger TWD.

### **CNY outperformance could fade if peace deal holds**

Given China's general stability, we are not making substantive changes to the GDP growth forecast of 4.7% because of the peace deal, though the deal does improve the outlook at the margin, and avoids a potential downgrade that may have been necessary in the event of a prolonged supply shock.

Lower oil prices will take some momentum out of the recent reflation momentum. We slightly trim our CPI inflation target from 1.3% to 1.2% YoY. There is also a possible implication on policy support. While the Iran war did not necessarily preclude another rate cut, rising inflation and global central bank tightening may have complicated the equation.

A peace deal and lower oil prices should remove this uncertainty and allow for the People's Bank of China to ease in the second half of the year. Given the marked slowdown of domestic activity data in the second quarter, pressure could pick up to support growth.

The Chinese yuan has been the top performer against the US dollar during the Iran war. While we see it continuing to appreciate against the dollar, its relative outperformance is likely to fade if the peace deal holds, and the CNY trade-weighted basket could decline moving forward as other currencies recover.

## Author

### Deepali Bhargava

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

### Lynn Song

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

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