

## Ripple effects from rising Middle East tensions

### What's the story?

Global oil markets have surged as the US-Israel conflict with Iran disrupts traffic through the Strait of Hormuz, which carries about 20% of global oil shipments. Brent crude has climbed over 25% to above \$93 per barrel, while WTI has risen more than 35% past \$91, with both briefly breaking above \$100 as missile and drone attacks halted tanker movement. Dubai crude benchmarks have also spiked sharply reaching \$96 per barrel, reflecting severe supply tightness inside the Gulf as regional exports struggle to move past Hormuz. Analysts warn crude could climb toward \$120 per barrel if disruptions persist.

These global shocks have now triggered the steepest Philippine pump price increases of the year. Beginning March 10, fuel retailers will implement double-digit hikes of Php7.00-Php13.00 per liter for gasoline, Php17.50-Php24.25 for diesel, and Php32.00-Php38.50 for kerosene, rolled out on a staggered, multi-day basis as replacement costs surge. Gasoline prices in Metro Manila had already been hovering near Php62.55 per liter, and diesel around Php56.74, even before the new adjustments fully took effect. Authorities have begun coordinating mitigation measures and are evaluating tax relief options as households brace for further inflation pressures.

### What's the impact?

The oil surge is expected to feed into Philippine inflation as higher crude costs raise transport fares, logistics expenses, electricity rates, and food distribution costs. Historically, each 1% increase in oil adds roughly 0.02 percentage points to inflation, based on our in-house estimates (Table 1). We estimate inflation can average as high as 4.5% this year (Table 2), assuming a bearish case of oil prices staying above \$100 per barrel for 180 days. Peso weakness is compounding these pressures, with estimates suggesting USD/PHP could end the year at the 59.50-60.90 level, especially under a firm US monetary stance scenario. A weaker peso further raises import costs for fuel, food, and industrial inputs.

The Philippines' heavy reliance on Middle Eastern crude, which forms around 95% of total imports, makes it particularly vulnerable to prolonged disruptions in the Strait of Hormuz, especially as refined fuel shortages emerge across Asia. The conflict also threatens overseas Filipino workers across the Gulf, where instability can cause pose risks to remittance flows. These combined pressures of higher fuel costs, a softer peso, and tightening supply chains, are creating a more challenging environment for consumers and businesses.

### What's our view?

We expect market volatility to persist in bond, equities, and foreign exchange markets as geopolitical risks evolve and oil prices remain highly sensitive to further escalation. Crude prices are likely to stay elevated until shipping conditions normalize. For the Philippines, this points to continued pressure on pump prices and inflation, alongside a weakening bias for the peso, which are factors that limit the BSP's ability to cut rates. The Monetary Board could even raise interest rates if headline inflation breaks the upper range of 4.0%. We estimate GDP could take a hit by half a percentage point from 4.5% to 4.0% on the worst-case scenario.

We maintain a disciplined and diversified investment stance, given these current headwinds. Equity exposure should remain selective, focusing on resilient sectors such as power and utilities and banks, that historically weather inflation better. Global equities remain valuable for diversification as regional risks rise. Heightened risk aversion strengthens the case for fixed income as a stabilizing anchor. Most importantly, investors should avoid knee-jerk decisions based on headlines and capitalize on available opportunities. Diversified and defensive portfolios are designed to withstand geopolitical stress, and remain as a reliable strategy in today's uncertain environment.



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**Table 1. Historical sensitivity of PH inflation drivers, Jan 2019 to Mar 2026**

Average % Change YoY	Impact on PH Inflation
1% peso depreciation	0.25%
1% increase in oil prices	0.02%
1% increase in rice prices	0.15%

Source: TIG estimates

**Table 2. Summary of forecasts**

	2023 Actual	2024 Actual	2025 Actual	2026 Base Case	2026 Worst Case
<b>GDP</b>	5.6	5.7	4.4	4.5	4.0
<b>Inflation</b>	6.0	3.2	1.7	3.3	4.5
<b>BSP Policy Rate</b>	6.50	5.75	4.50	4.25	4.75
<b>10yr Peso GS Yield</b>	6.00	6.20	6.07	5.90	7.00
<b>USD-PHP Rate</b>	55.36	57.84	58.79	59.50	60.90
<b>PSE Index</b>	6,450	6,528	6,053	6,500	6,000

Source: TIG estimates