

Shockwaves from Tehran

What's the story?

Over the weekend, US and Israel launched their most extensive strikes on Iran in decades, hitting command centers across Tehran and reportedly killing Iran's Supreme Leader, a development that has thrown the country's leadership into turmoil. Iran retaliated with volleys of missiles and drones targeting Israel and US bases across the Gulf, while Hezbollah fired its own rockets from Lebanon. Western governments quickly called for restraint as the UN Security Council convened an emergency session. Meanwhile, airspace restrictions across much of the Middle East grounded flights and forced widespread detours, turning a regional conflict into a global disruption almost overnight.

What's the impact?

Oil prices jumped by as much as 13% to around \$82/bbl (Brent), a direct concern for the Philippines, which relies heavily on imported fuel. Higher oil prices typically feed into transport fares, cost of power, and food prices, raising the risk of re-accelerating inflation. Our earlier estimates show that a 1% increase in oil prices leads to an additional 0.02% in Philippine inflation (Fig. 1).

Beyond trade and transport, the broader conflict could also affect the two million overseas Filipino workers (OFWs) in the Middle East. Several OFWs have already experienced flight cancellations or diversions, prompting government agencies to provide emergency assistance and temporary accommodations.

At the same time, heightened geopolitical risk has made investors more cautious, weighing on emerging-market currencies like the peso (USDPHP: -0.4%) and dampening foreign interest in local equities (PSEi: 6,426.83, -2.8%) and bonds (PHP 10Y: -5 bps). Gold climbed by as much as 2% (to over \$5,300/oz), while 10-year US Treasury yields edged down to 4.02% as investors moved toward safer assets.

What's our view?

We expect markets to remain jittery as the conflict continues to flare and cool in uneven cycles. For the Philippines, the most immediate pressure point is oil. Pump prices are already projected to rise by Php1–2 per liter, and the Department of Energy (DOE) has warned that further disruption in the Strait of Hormuz could push costs higher. This comes at a time when the BSP expects 2026 inflation to climb to around 3.6%, above its target midpoint, driven in part by higher global oil prices, food pressures, and elevated electricity charges. While inflation is still within the 2–4% range, the BSP has emphasized that rising fuel and food costs warrant caution, meaning the central bank may have limited room to cut rates further.

A diplomatic breakthrough could ease oil prices, help steady the peso, and take pressure off inflation. But if the conflict escalates, oil could surge again, pushing inflation higher and potentially delaying any further monetary easing.

Against this backdrop, the best approach is to remain invested, stay diversified, and let disciplined portfolio management work through the noise. We continue to monitor developments closely, and are prepared to adjust positioning thoughtfully rather than reactively. For equities we remain constructive but selective, while our favored sectors such as power & utilities and banks continue to be resilient in these times. Global equities remain a valuable tool to diversify from local exposure and regional uncertainties. Lastly, a shift to risk-off sentiment should favor fixed income and anchor portfolio stability in this type of environment.



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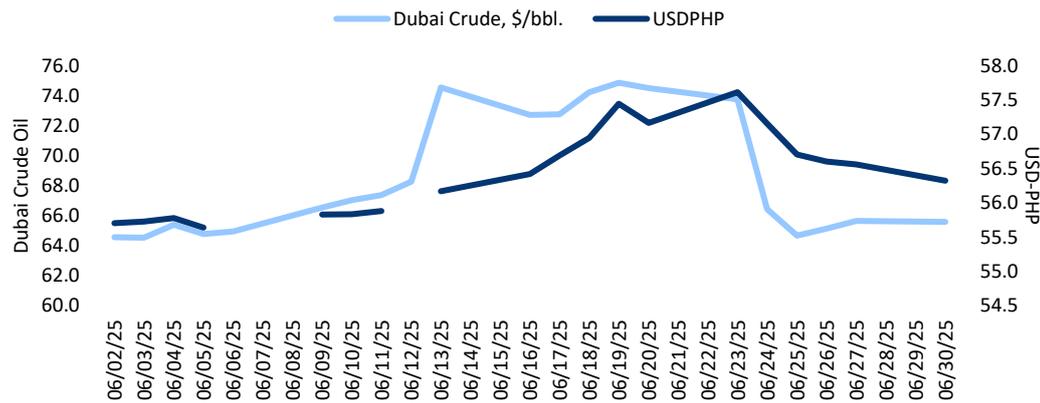
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Fig. 1. Historical sensitivity of PH inflation drivers, Jan 2022 to Mar 2026

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%

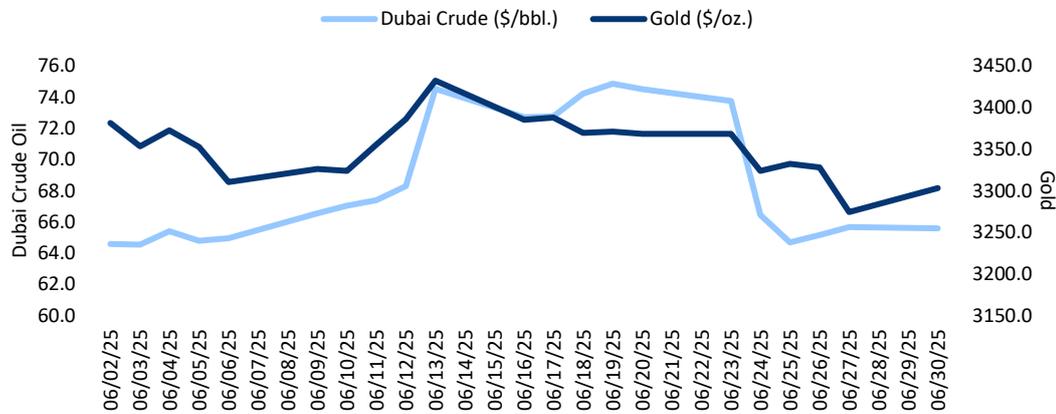
Source: TIG estimates

Fig. 2. Dubai crude oil price vs. USDPHP, previous Iran-Israel conflict, Jun 2025



Source: Bloomberg

Fig. 3. Dubai crude oil price vs. Gold, previous Iran-Israel conflict, Jun 2025



Source: Bloomberg