

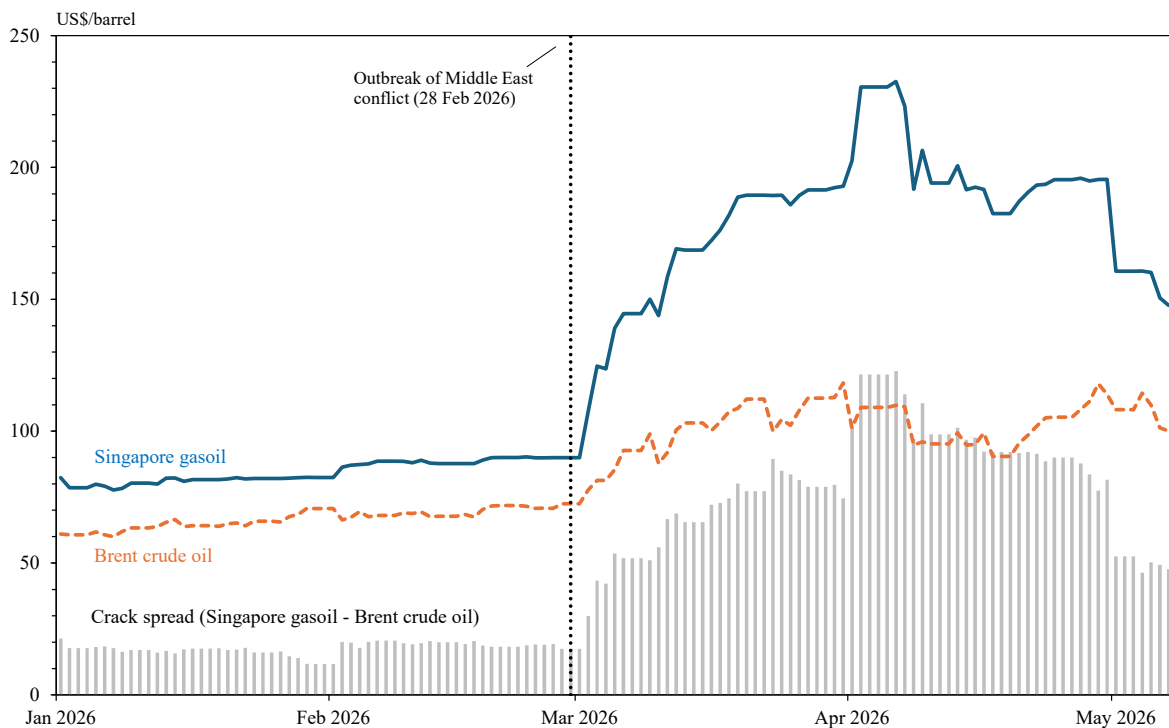
Box 1.1

Geopolitical risks in the Middle East and recent market expectations on international energy prices

The outbreak of the Middle East conflict since late-February has posed a significant shock to the global economy, and its evolution remains highly uncertain. This note outlines the latest views on possible outcomes based on the International Monetary Fund’s (IMF) assumptions, and also prevailing market pricing for the likely path of international energy prices in the coming quarters.

Mixed signals on US–Iran tensions and peace talks keep oil prices volatile. International oil and diesel prices surged in response to the Middle East conflict (*Chart 1*). Brent crude oil prices surged from US\$73 per barrel before the conflict to over US\$110 per barrel in late March, and then stayed elevated trading near US\$110 per barrel in late April. As of 7 May 2026, Brent crude oil was trading at around US\$100 per barrel, reflecting improved market sentiment amid prospect for a diplomatic de-escalation of the conflict. Singapore gasoil prices, a benchmark for diesel in the Asian markets, rose even more sharply due to regional supply constraints. Prices increased from around US\$90 per barrel prior to the conflict to a peak of approximately US\$230 per barrel in early April, implying a crack spread of around US\$120 per barrel. The crack spread subsequently narrowed, but it remained elevated at around US\$80 per barrel in late April. As of 7 May 2026, Singapore gasoil prices was trading at approximately US\$150 per barrel with crack spread at roughly US\$50 per barrel.

Chart 1: Diesel and oil prices reflected by Singapore gasoil and Brent crude oil



Source: Bloomberg data.

Box 1.1 (Cont'd)

The duration, scale and scope of the Middle East conflict could have significant implication for the future path of international energy prices and are pivotal in shaping global and Hong Kong’s economic and inflation outlook. In this context, the IMF, in its World Economic Outlook released in April 2026, outlined three scenarios (*Table 1*). Although no explicit probabilities are assigned, the “reference forecast” is generally interpreted as the baseline, while the “adverse” and “severe” scenarios capture progressively more negative outcomes, contingent on a more prolonged or broader conflict.

According to the IMF, under the “reference forecast”, global growth is revised down in 2026 by 0.2 percentage point to 3.1%, while global inflation is revised up by 0.6 percentage point to 4.4%. Under the “adverse” scenario, global growth is lowered by 0.8 percentage point to 2.5%, while inflation projection is raised by 1.6 percentage points to 5.4%.

Table 1: Summary of IMF’s scenario analysis

	Reference forecast	Adverse scenario	Severe scenario
Broad situation	Assumed the conflict to be short-lived with gradual recovery afterwards, such that production activities in the region normalise by around mid-2026	Assumed sharp increase in energy price to continue in the second quarter, before falling back closer to baseline in 2027	Assumed more severe and persistent shock so that energy prices stay elevated throughout this year and for a while beyond
2026 oil price forecast*	US\$82/barrel (+21% year-on-year)	US\$100/barrel (+47% year-on-year)	US\$110/barrel (+66% year-on-year)
2026 global growth forecast^	+3.1% (-0.2%pt.)	+2.5% (-0.8%pt.)	+2.0% (-1.3%pt.)
2026 global inflation forecast^	4.4% (+0.6%pt.)	5.4% (+1.6%pt.)	5.8% (+2.0%pt.)

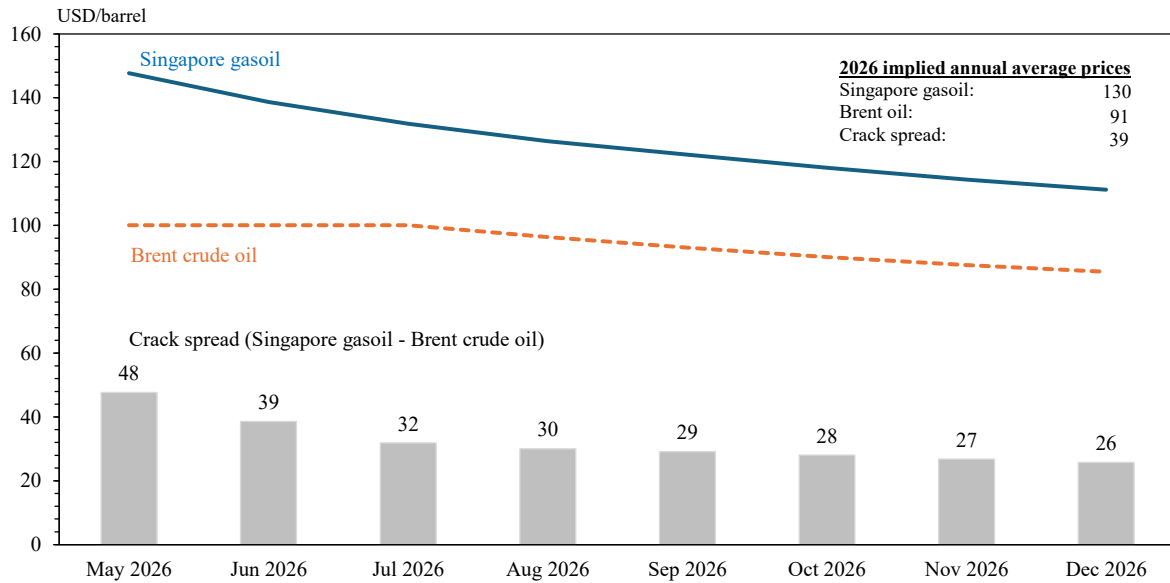
Notes: (*) The projected levels refer to the estimated average petroleum spot price index for 2026 published by the IMF in the latest World Economic Outlook released in April 2026. The year-on-year rate of change is calculated against the Brent crude oil price.

(^) Figures in bracket refer to the differences against IMF’s forecast in January 2026.

Futures market currently indicate a notable decline in oil prices around mid-year. The IMF baseline oil price assumptions are broadly consistent with current futures pricing, which indicate that oil prices are expected to start easing from around mid-2026. As of 7 May 2026, Brent futures curves point to a notable decline in crude oil prices by around mid-year, and a gradual easing to around US\$85 per barrel by end-2026 (*Chart 2*). For Singapore gasoil prices, futures market pricing indicates that the crack spread will narrow sharply in May to July, before declining in tandem with Brent crude oil, and bringing the gasoil prices to about US\$111 per barrel by year-end. That said, uncertainty remains elevated, and the evolution of the Middle East conflict continues to pose upside risks to international energy prices if tensions prove more prolonged or escalate.

Box 1.1 (Cont'd)

**Chart 2: Futures contracts of Singapore gasoil and Brent crude oil
- as of 7 May 2026**



Notes: Singapore gasoil prices are a key benchmark of diesel oil in the Asian markets and are assessed by S&P Global Platts. The chart above shows the futures contracts of Singapore gasoil and Brent crude oil in the remainder of 2026, based on market pricing for the expected future settlement prices in each month. For months that do not have a future settlement price, price of the nearest month is adopted for illustration. The bars show the crack spread, i.e. the price difference between the Singapore gasoil and Brent crude oil. The 2026 implied annual average is estimated based on the actual performance up to 7 May and average expected price in following months as indicated by the futures contracts.

Source: Bloomberg data.