Box 6.1

Inflation outlook in selected economies: near-term upside risk

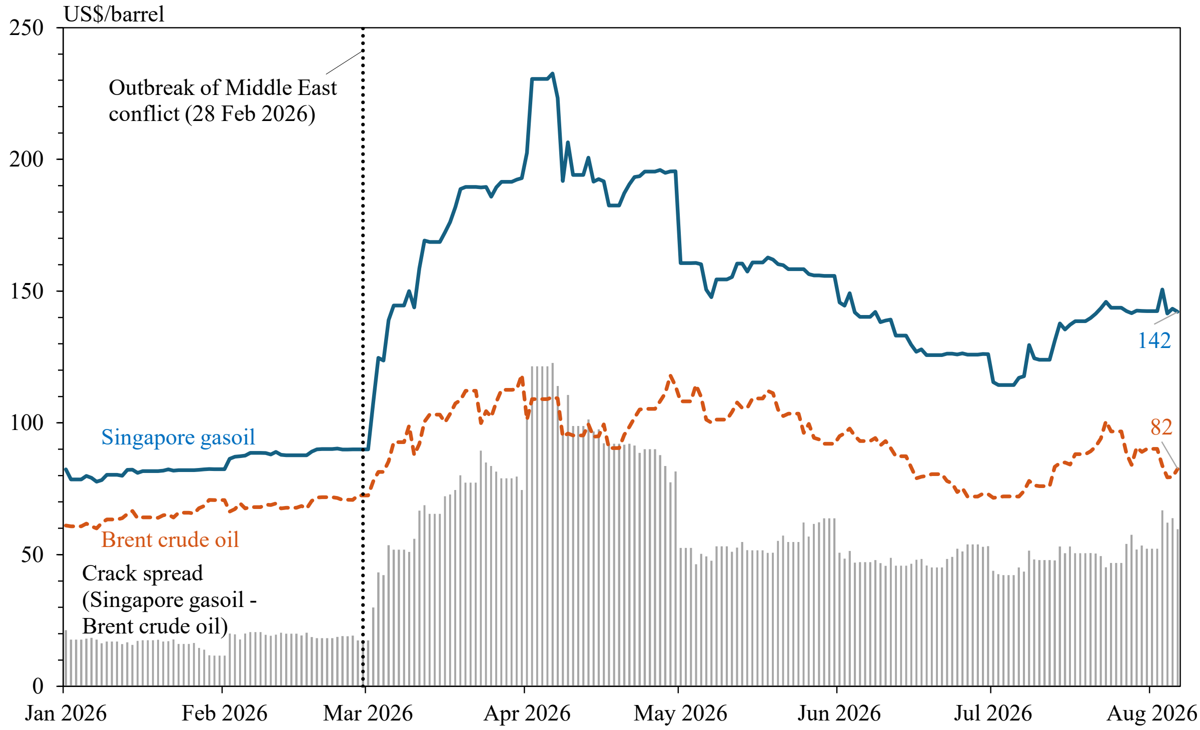
This box article reviews movements in international oil prices since the outbreak of the Middle East conflict and assesses their implications for inflation outlook in selected economies [(1)].

Global oil prices: retreated from their peak, and partial rebound

Global oil prices surged in the early second quarter of 2026, then eased as geopolitical tensions temporarily subsided, and rebounded in the early third quarter amid renewed escalation. Brent crude oil rose to above US$110 per barrel in late March and peaked at around US$125 in late April, before retreating to about US$70 by end-June (***Chart 1***). Prices subsequently rebounded to around US$100 in July, before easing slightly to the range of around US$80 – 90 in August. As of 6 August 2026, Brent crude oil traded at around US$82.

A similar pattern was observed in Singapore gasoil prices, a benchmark for Asian diesel markets. Prices declined from about US$230 per barrel in early April to around US$115 in early July, before rebounding to approximately US$142 as of 6 August 2026. The crack spread narrowed to about US$60 per barrel, well below the early April peak of about US$120, but above the 2026 pre-conflict average.

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



Source: Bloomberg data.

(1) Including Hong Kong, the Mainland, the United States, the euro area, Singapore, Korea, Taiwan, Malaysia, Thailand, Indonesia, the Philippines, India and Vietnam.

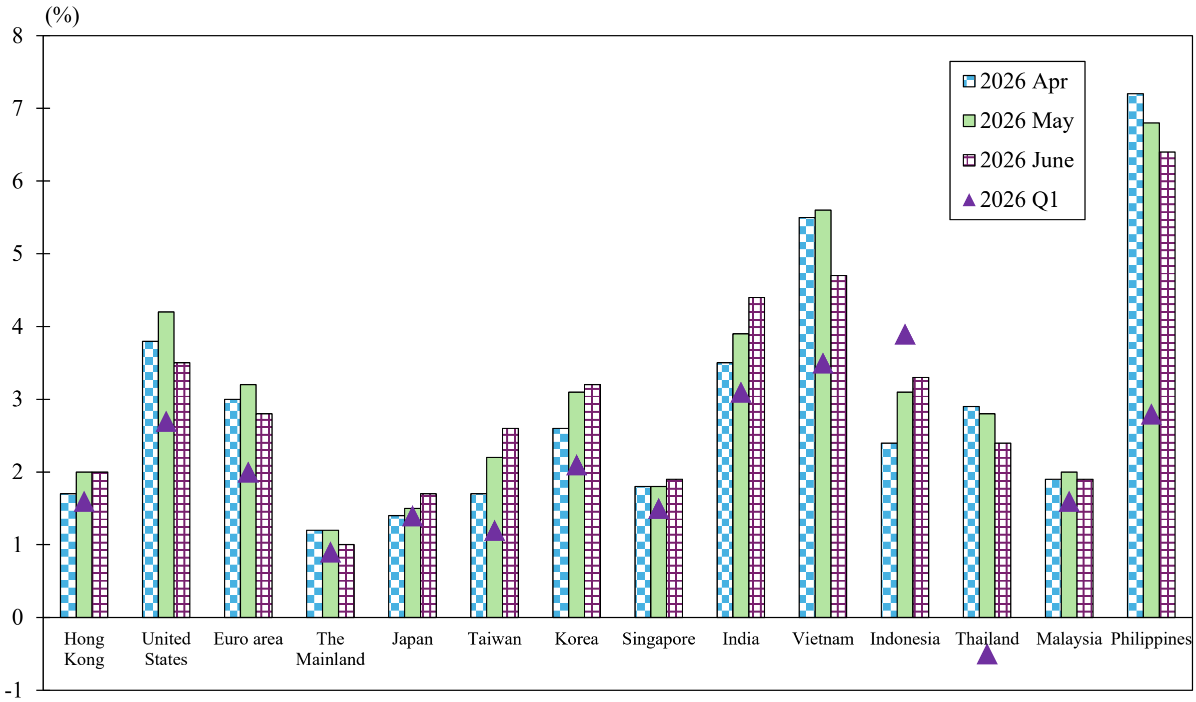
Box 6.1 (Cont'd)

Inflation: broad-based firming across most economies

Headline CPI inflation accelerated across most selected economies from March and remained elevated in recent months (***Chart 2***). In the second quarter of 2026, inflation reached multi-year highs in the Philippines (6.8%) and Vietnam (5.3%). In the United States, CPI inflation rose to 3.9%, while PCE inflation rose to 3.8%, both well above the Federal Reserve (Fed)'s 2% target. Thailand also returned to mild inflation after 12 consecutive months of deflation.

Inflation in the Mainland and Japan rose moderately and remained contained, reflecting the impact of mitigating policy measures such as energy subsidies and price controls. Indonesia recorded a moderation in inflation in the second quarter compared with the first quarter due to base effects. Nonetheless, its inflation rate in the second quarter (2.9%) remained above the annual averages in 2024 and 2025 (2.3% and 1.9% respectively).

Chart 2: Headline consumer price inflation in selected economies



Sources: Census and Statistics Department (C&SD) and CEIC.

Drivers: energy-led inflationary pressures with spillovers

In the second quarter of 2026 across most economies, energy and transport components were the primary contributors to inflation, reflecting higher fuel prices (***Table 1***). Food prices also exerted upward pressures through input costs (e.g. spillover effects from higher fertiliser costs) and supply chain channels, albeit with variations across economies. For example, strong grain harvests helped moderate food inflation in the euro area.

In response to rising inflationary pressures, several economies revised upward their 2026 inflation forecasts. Notably, the Philippines' central bank raised its full-year forecast from 3.6% in February to 6.4% in June, while Thailand increased its projection from 0.5% in February to 2.0% in July. Earlier in May, Hong Kong also raised its official forecast on the full-year headline consumer price inflation from 1.8% to 2.6%.

Box 6.1 (Cont'd)

Table 1: Contribution to the change in headline CPI inflation in the second quarter over the first quarter of 2026

	Energy and transport		Food		*Change in headline CPI inflation in Q2 over Q1 (% pt)*
	Weighting (%)	**Contribution (% pt)**	**Weighting (%)**	**Contribution (% pt)**	
Philippines	15.8	2.0	37.7	1.4	3.9
Thailand	24.4	3.1	39.6	0.2	3.2
Vietnam[#]	10.0	0.8	35.8	0.2	1.7
United States	19.7	1.1	13.7	*	1.2
Taiwan	13.6	0.7	24.9	0.2	1.0
Euro area	20.5	1.0	15.4	-0.1	0.9
Korea	14.3	0.9	14.2	-0.1	0.9
India	14.2	0.2	36.8	0.5	0.8
Singapore	15.1	0.5	20.4	0.1	0.4
Malaysia	14.4	0.5	29.8	*	0.4
Hong Kong	**10.1**	**0.2**	**25.3**	**-0.1**	**0.3**
The Mainland[#]	14.3	0.8	17.2	-0.4	0.2
Japan	15.8	0.3	25.1	-0.1	0.1
Indonesia	18.7	-1.3	24.7	0.4	-1.0

Sources: C&SD, CEIC and internal calculation.

Notes: (#) For the Mainland and Vietnam, weighting for energy-related items is not available. Thus, the figures under "energy and transport" for the Mainland and Vietnam refer to transport-related items only.

(*) Change within ±0.05% pt.

Policy responses: fiscal support and monetary tightening bias

Governments across many economies have implemented targeted fiscal measures, including subsidies and temporary tax relief to mitigate the impact of higher energy prices.

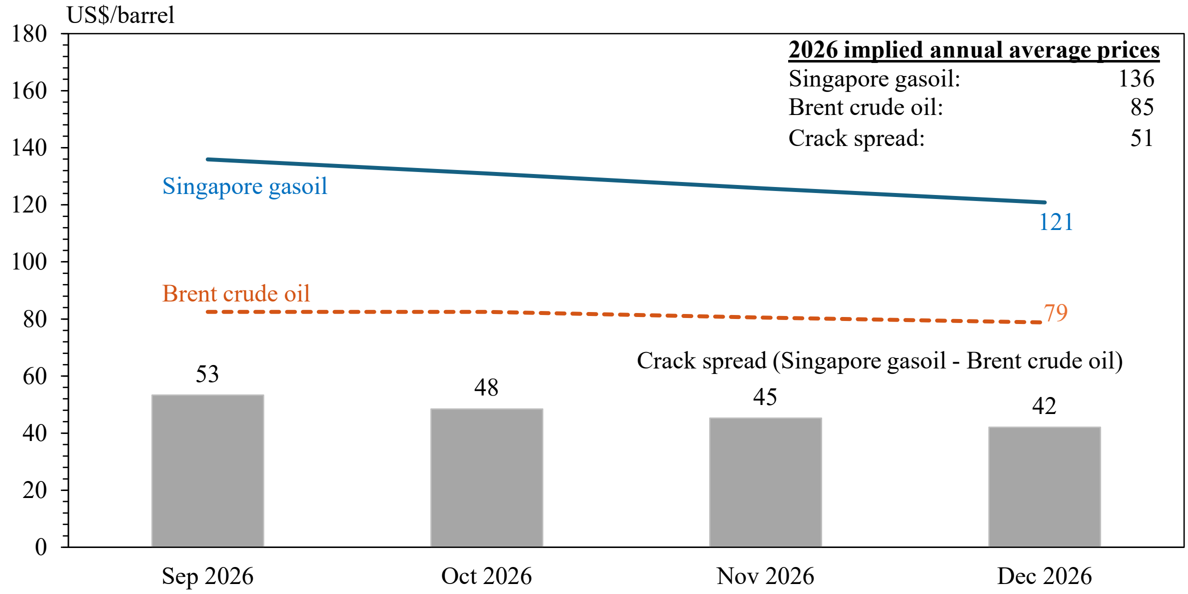
Monetary policy has generally shifted towards tightening. Some central banks – including those in the Philippines, Indonesia, Korea, the euro area, and Japan – have raised their policy rates. Singapore tightened its monetary policy via its exchange-rate based framework. In the United States, the Fed has kept the federal funds rate unchanged so far this year, but persistently higher inflation has shifted market expectations from no rate change to at least one 25-basis-point interest rate hikes by year-end.

Outlook: persistent but moderating pressures

Looking ahead, although the United States and Iran once reached a memorandum of understanding in mid-June, uncertainty surrounding peace negotiations remained notable. Nonetheless, futures market (as of 6 August 2026) points to a gradual easing in oil prices, with Brent crude oil expected to decline to around US$79 per barrel by end-2026 (***Chart 3***). Singapore gasoil prices are also expected to fall to about US$121, with crack spread narrowing. However, oil prices are likely to remain above pre-conflict averages.

Box 6.1 (Cont'd)

Chart 3: Futures contracts of Singapore gasoil and Brent crude oil - as of 6 August 2026



Source: Bloomberg data.

Notes: Singapore gasoil prices are a key benchmark of diesel 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 6 August and average expected price in following months as indicated by the futures contracts.

Near-term inflation pressures are expected to persist, reflecting ongoing pass-through from energy costs and lagged supply chain effects. While market expectations of international oil prices remain relatively anchored, they are subject to significant geopolitical uncertainty. The IMF (July 2026 World Economic Outlook Update) highlights that the energy shock is still in its early transmission phase and will continue to weigh on global growth and inflation dynamics. Overall, inflation in most of the selected economies is likely to remain elevated in the near-term, with risks tilted to the upside.