

Macro Insights

Risks of a fragmented Iran

March 2, 2026



Taimur Baig
Chief Economist
taimurbaig@db.com



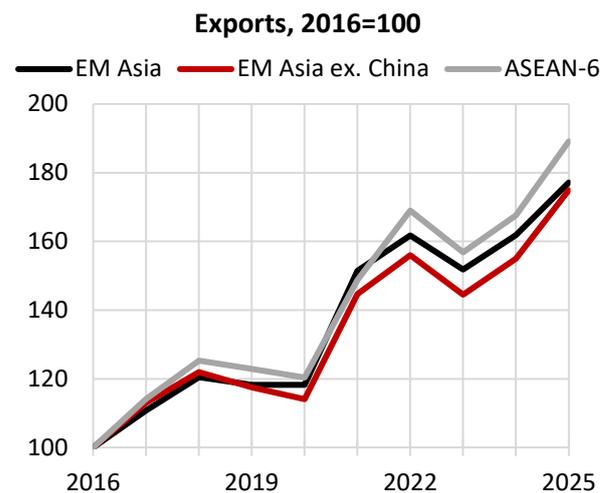
Chang Wei Liang
FX & Credit Strategist
weiliangchang@db.com

For Alliance Bank clients, please direct your enquiries to Malaysia Research +603 2604 3915 general@alliancedbs.com

- *The scale of the attack on Iran and its retaliation, the damage already inflicted, the heightened uncertainty about what comes next, are all rather extensive in scope. We consider some key risks.*
- *Market implications are perhaps to the most linear.*
- *Higher oil price and safe haven flows to USD and gold are on the cards.*
- *But the conflict's fallout goes well beyond the short term.*
- *A protracted conflict will be damaging to a large part of the Middle East.*
- *Civil conflict within Iran has multiple international dimensions; spillover risks are substantial.*

Chart of the Week: A strong year for exports

Asian (ex-Japan) exports have risen by 77% in the past decade. Asean-6 have done even better, up 89%. Given the latest PMI readings, we think that another year of around double-digit growth is in store for Asia's exporters. One exception, a large one at that, is China, which has started the year on a somewhat of a weak footing owing to the authorities' attempts to rein in excess production capacity. Producers in S Korea, Taiwan, Thailand, and Vietnam are the most bullish. This is a testament to the region's role as the global manufacturing hub.



Source: CEIC, DBS. Exports in USD value, with 2016 set to equal 100

Commentary: Risks of a fragmented Iran

Ongoing attacks by Israel and the US on Iran are at once expected and yet astonishing. The scale of the attack and retaliation, the damage already inflicted, the heightened uncertainty about what comes next, are extensive in scope.

All this makes for a particularly testing time for risk managers and market participants. We have the following considerations:

First, Iran is not remotely capable of matching the firepower of Israel and the US, but its ability to engage in asymmetric warfare is substantial. Unlike say Venezuela, where President Maduro had a weak chain of command, Iran is structured in a more decentralized manner. The clergy, the military, the Revolutionary Guard, and the intelligence service form multiple centres of power, all of which can survive attacks on their leadership. Beyond command and control, there is the issue of military hardware. Presently, Iran is launching drones and missiles, but their effectiveness is limited and the supplies are constrained. However, even after drone and ballistic missile stocks run out, low intensity but highly disruptive attacks can continue inside and outside of Iran.

Take the issue of the Straits of Hormuz, bordering Iran to the east, through which 20% of the world's oil and LNG supplies flow. The Iranian Navy's warships may not be able to do much there, as they are in the process of being decimated by US air attack. But the ability to drop mines along the waters of the Straits, using small subs or fast boats, is considerable, and very difficult to neutralise. If the US has to help oil and LNG tankers navigate through the mines, the pace of shipment would slow significantly. The implication for energy price, shipment cost, and insurance charge is obvious.

Second, there are the regional geopolitical dimensions. Many Iranians oppose the present government; those opposing the regime have been receiving substantial support from Israel, US, and the diaspora. The movement will surely gather strength in the coming days as attacks on the regime continue. But at the same time, there will be fears of what comes next. The regime, in power for 37 years, is entrenched in the society, with the ability to create major friction even when out of power. This risk could be compared with the Iraqi civil war after the demise of the Saddam Hussein-led Ba'athist regime in 2003. We are worried that the risk could well be more as there doesn't appear to be any appetite for ground level involvement by the US, as was the case in Iraq. With Kurds in the north and Baluchis in the south, regime change may coincide with wars of secession, dragging in several countries in the region, from Turkey to Iraq.

Beyond energy and shipping costs, here are some financial market implications:

- Safe haven currencies to rally, from the USD to JPY.
- Equity market sentiments, already fragile lately, would exacerbate.
- Gold to rally.
- Spreads, sovereign and corporate, to widen.
- Monetary policy to stay put in the near term, unless market selloff is severe. If energy prices remain elevated for months, then the narrative for further accommodation would be challenged.

Taimur Baig

FX: Immediate implications of the Iran conflict

The Asian trading session is opening under pressure this Monday morning. **Brent crude oil prices opened 13% higher to USD82/barrel** on the de facto closure of the Strait of Hormuz following the escalation of conflict between the US/Israel and Iran over the weekend. The EU and UK reported that the Iranian Revolutionary Guards have sent VHF messages to vessels in the Gulf stating that no ship is allowed to pass the strait. **Major global shipping firms have suspended all vessel transits through the strait until further notice. Dow futures look to open 500 points lower**, reflecting downside risks to the global economy. Investors are seeking **haven primarily in gold and the USD**, with the export-oriented CHF struggling to do the same amid negative spillovers into the EUR and GBP. This year's top performer, AUD, should give up some of its pro-cyclical strength. Elevated oil prices could upset the MYR's rally by keeping the Fed vigilant on inflation and rendering the IDR vulnerable to fiscal slippage risk.

The current conflict between the US/Israel and Iran represents a significant break from the "proxy war" and "managed escalation" patterns seen in 2023-2025 into direct confrontation in 2026. Following the death of Iran's Supreme Leader, Ali Khamenei, the objective of the US/Israel has shifted from deterrence to regime change in a nuclear-capable nation. The current strikes demonstrated that there are no longer red lines regarding direct attacks on sovereign territory and central government figures.

The unilateral nature of US President Trump's "Operation Epic Fury" has created a constitutional flashpoint in Washington. Democratic lawmakers have pushed for a War

Powers Resolution vote to halt further unauthorized hostilities. The President must notify Congress in writing within 48 hours of committing troops to a conflict. Armed forces are forbidden from remaining for more than 60 days without a formal declaration of war or specific statutory authorization. If none is granted, the President has an additional 30 days to safely withdraw the troops. Congress passed the War Powers Resolution of 1973 to avoid another undeclared conflict like the Vietnam War. Even if the lower and upper houses pass the resolution, they will fall short of the two-thirds majority needed to override an anticipated presidential veto.

The Iranian conflict has cast doubt on President Trump's scheduled visit to China (March 31-April 2), where he hoped to transition the temporary trade truce into formalizing a more permanent trade agreement. While the Supreme Court's ruling against Trump's tariffs under IEEPA weakened his bargaining leverage, the Iranian crisis has increased great power rivalry, which could postpone or cancel his trip. Meanwhile, focus will turn to the National People's Congress, which officially convenes on March 5. As Beijing prepares to unveil its 15th Five-Year Plan, Chinese leaders are expected to signal economic resilience in the wake of the US tariff ruling. The gathering will also be a platform for China to address the escalating Middle East conflict, with officials already vowing to "resolutely safeguard" their trade interests and energy security against any new US sanctions or military spillover. **China may slow or halt the CNY's appreciation** after guiding the USD/CNY daily fixing lower by 2.7% since October.

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.

Chief Economist

Global

taimurbaig@dbs.com

Wei Liang CHANG

FX & Credit Strategist

Global

weiliangchang@dbs.com

Byron LAM

Economist

China/HK SAR

byronlamfc@dbs.com

Radhika RAO

Senior Economist

Eurozone, India, Indonesia

radhikarao@dbs.com

Nathan CHOW

Senior Economist

China/HK SAR

nathanchow@dbs.com

Violet LEE

Associate

Publications

violetleeyh@dbs.com

Amanda SEAH

Credit Analyst

USD, SGD, AUD

amandaseah@dbs.com

Han Teng CHUA, CFA

Senior Economist

Asean

hantengchua@dbs.com

Tracy Li Jun LIM

Credit Analyst

USD, SGD

tracylimt@dbs.com

Daisy SHARMA

Analyst

Data Analytics

daisy@dbs.com

Ian Haan CHUI

Credit Analyst

USD

ianchui@dbs.com

Teng Chong LIM

Credit Analyst

USD, SGD, AUD

tengchonglim@dbs.com

Joel SIEW, CFA

Credit Analyst

USD, SGD, AUD

joelsiew@dbs.com

Dexter CHUN

Credit Analyst

USD

dexterchun@dbs.com

Eugene LEOW

Senior Rates Strategist

G3 & Asia

eugeneleow@dbs.com

Mervyn TEO

Credit Analyst

USD, SGD, AUD

mervynteo@dbs.com

Iris GAO

Credit Analyst

USD

irisgao@dbs.com

Lilian LV

Credit Analyst

USD

lilianlv@dbs.com

Samuel TSE

Rates Strategist

Asia

samueltse@dbs.com

Mo Ji, Ph.D.

Chief Economist

China/HK SAR

mojim@dbs.com

Tieying MA, CFA

Senior Economist

Japan, South Korea, Taiwan

matieying@dbs.com

Philip WEE

Senior FX Strategist

Global

philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates & Digital Asset)

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited and distributed by AllianceDBS Research Sdn Bhd (ADBS), a subsidiary of Alliance Bank Malaysia Berhad (ABMB) (each and/or collectively, the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report. This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 23rd Floor, Menara Alliance Bank, 159 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.

Virtual currencies are highly speculative digital "virtual commodities", and are not currencies. It is not a financial product approved by the Taiwan Financial Supervisory Commission, and the safeguards of the existing investor protection regime does not apply. The prices of virtual currencies may fluctuate greatly, and the investment risk is high. Before engaging in such transactions, the investor should carefully assess the risks, and seek its own independent advice.