

Pricing oil risk: Southeast Asia's sovereign markets

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Brent oil prices have whipsawed dramatically since the Iran war began in March, rising from about USD72 at end-February to a peak of USD118 on 31 March, and moving down again to USD102 as of 13 April. As talks to end the conflict drag on, oil and other key commodities have faced supply disruptions due to restricted traffic through the Strait of Hormuz. This has led to supply shortages in many Southeast Asian countries that depend heavily on oil and related products from the region.

In this paper, we gauge the impact of the oil shock via local government bond yields and 5-year CDS spreads since end-February. We also summarise each country's policy responses and discuss key drivers of their CDS spreads and bond yields. To conclude, we apply AFII's Co_2liseum transition analytics to these sovereigns in the context of their bonds and CDS spreads.[1]

Key Takeaways

- Local bond yields and CDS spreads in Indonesia, Philippines, Malaysia, Thailand, and India have largely widened amid this oil shock. The Philippines, Thailand and India have been the most affected and Malaysia the least due to its net energy exporter status.
- Governments have leaned on fuel subsidies and fuel tax relief through the crisis thus far. Malaysia and Indonesia (and to a lesser extent Thailand) have maintained subsidies, adding fiscal strain, while India and the Philippines have focused more on fuel tax cuts.
- Net energy import position is a key driver of sovereign CDS spreads and local government bond yields via the external balance: the Philippines is most exposed given its high net oil import ratio, as well as Thailand and India, while Malaysia is the most resilient.
- AFII's Co_2liseum climate analytics measure issuers' transition performance; applied to these sovereigns, they account for recent CDS moves for India, Thailand and Malaysia, while Indonesia and the Philippines have temporarily traded against their scores, a divergence that underscores the longer-term nature of climate metrics as sovereign risk signals.

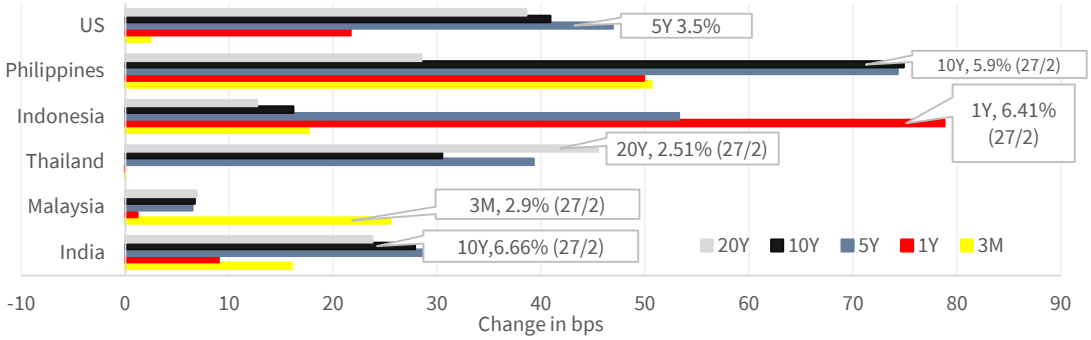
[1] For more details on AFII's Co_2liseum analytics and methodologies please see "Co_2liseum transition analytics for sovereigns".

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Southeast Asia local rates and CDS moves

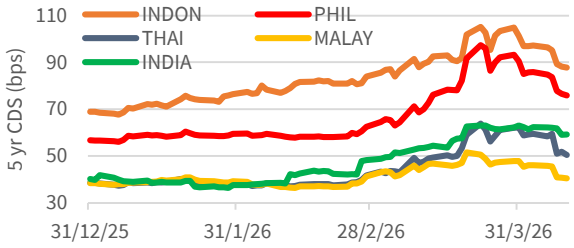
In most Southeast Asian economies, past oil and energy supply shocks have usually led to weaker currencies and wider CDS spreads, plus higher local government bond yields for net oil and energy importers, with the extent of the move varying based on each country's economic and fiscal position. Higher oil and gas prices mainly hit the power/electricity, transportation, and petrochemicals sectors. Rising shipping and insurance costs also make it more expensive to facilitate imports and exports, leading to added inflationary pressure.

Figure 1. Change in local yield curves from 27 Feb to 13 Apr in bps, US Treasuries included for comparison. For context, we have included the yield of the government bond that moved most in each country as of 27 Feb. Source: Bloomberg L.P. Finance, accessed 13 Apr 2026.



As shown in Figure 1, in absolute spread terms, the Philippines and Indonesia have widened the most, while the Malaysian sovereign curve is least affected. Relative to starting levels on 27 February, Thailand's government bond yields have jumped significantly. Malaysia is a net energy exporter, which explains the limited impact of the energy shock on local government bond yields.[2] These countries' local government bond yield curves have historically moved in response to several factors, including the net energy position of the country, external trade balance, fiscal balance (deficits), and inflation expectations. These factors may also widen the risk premium of the CDS of net oil importers.

Figure 2. CDS spread changes from 27 Feb to 13 Apr. Source: Bloomberg L.P. Finance, accessed 13 Apr 2026.



(Bps)	31-Dec	27-Feb	10-Apr	Δ since 31-Dec	Δ since 27-Feb
Indonesia	68.9	83.9	87.2	15.0	3.3
Philippines	56.7	62.4	75.5	5.7	13.1
Thailand	38.5	41.7	50.5	3.1	8.8
Malaysia	38.3	41.3	40.4	2.9	-0.9
India	40.1	48.2	59.1	8.1	10.9

Figure 2 above shows that the Philippines and India CDS spreads moved the most since the end of February, while Malaysia's CDS spread have tightened since February 27 and Thailand's have somewhat widened in absolute terms. The magnitude of Thailand's move is substantial given the starting point of 41.7bps on 27 February. Indonesia's 5yr CDS have not changed much, somewhat inconsistent with the local government bond yield move.

[2] "Malaysia resilient to weather shock as only net energy exporter in Asean", New Straits Times, 23 Mar 2026.

Policy responses

Table 1. Policy responses regarding fuel subsidies and power market.

Country	Fuel subsidy	Fuel tax exemption	Power market intervention	Policy rates
Philippines	State of emergency declared. USD42.7mn disbursed for oil and gas subsidies.	Suspended/reduced excise taxes of petroleum products (12/4). Suspension on LGP/ kerosene excise taxes.	Suspended power spot market operations from Mar 26 to conserve critical fuel inventories and dispatch all available renewables.	No change on Mar 26, rate at 4.25%.
Indonesia	Subsidy to remain unchanged. Implement fuel rationing of 50L/vehicle for consumers and weekly work-from-home for civil servants.	Government temporarily covers 11% Value-added tax on domestic flight tickets and cut VAT on economy fares for two months.	PLN (utility) to hold electricity tariffs steady. Government estimates USD 5.9bn extra energy subsidies this year.	No change on Mar 17, rate at 4.75%.
Thailand	Mar 26 & April 5: the government cut subsidies for diesel, leading across the board fuel price hikes pushing retail diesel from 30baht to over 50 baht/L.	Thai Cabinet approved in principle a plan to reduce fuel excise taxes on Mar 26 but yet to be enacted.	New measures to be taken after swearing in of new Cabinet Apr 7. Measures include electricity price caps and keeping lower charge for May-Aug billing cycle and using clawback funds to help.	BOT cut rates in Feb from 1.25% to 1%. No changes expected.
Malaysia	Maintaining subsidised diesel at the existing prices, thus monthly subsidies jumped from RM700mn to RM3.2bn.	No action.	No new action but usage of ICPT (Imbalance Cost Pass-through) mechanism to let TNB (utility) to pass changes in fuel/generation costs .	March 5, policy rate maintained at 2.75%. No changes expected.
India	No action.	Excise tax on petrol and diesel, and raised export/windfall taxes on petrol, diesel, and aviation turbine fuel.	No new measures.	RBI held repurchase rate at 5.25% on Apr 8.

Fiscal measures in the wake of the current crisis have varied, with most countries increasing subsidies for diesel and petrol. Thailand is still working on its response given that the new Cabinet was only sworn in on 7 April. Fuel subsidies have been most common in Malaysia, Indonesia, and to a lesser extent in Thailand through its Oil Fuel Fund. Malaysia has estimated that it will need RM3.2 billion in subsidies if Brent oil price were to stay at $100/barrel, versus a RM0.7 billion baseline[3]. If prices remain at this level for three months, this subsidy would equate to about 0.4% of Malaysia's GDP.[4] Indonesia will require an extra subsidy of about 200 trillion rupiah which at current prices equates to 0.8% of GDP.[5] For Indonesia, Thailand, and Malaysia, the oil shock is therefore being largely absorbed by government balance sheets, with implications for each sovereign's fiscal balance. While Malaysia has a relatively strong fiscal position, Indonesia currently holds a negative credit outlook rating from Moody's and Fitch due to fiscal risks and governance concerns. Moody's

[3] "Malaysia's fuel subsidy bill jumps to US$811 million amid Iran war", South China Morning Post, 23 Mar 2026.

[4] Based on Malaysia's 2025 GDP at about MYR 2.2 trillion.

[5] "Energy crisis caused by Iran war reveals a tale of two Indonesias", The Straits Times, 7 Apr 2026.

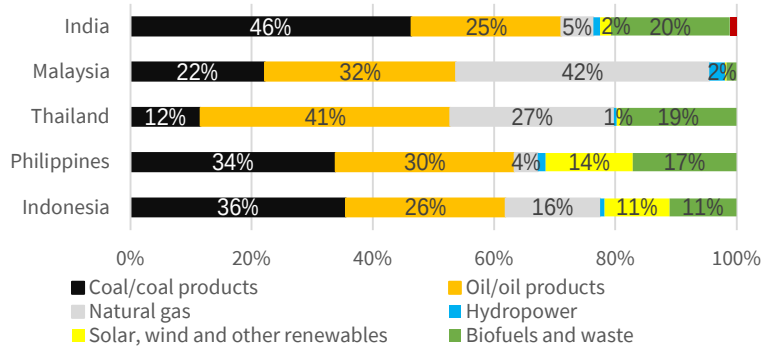
has also put Thailand's ratings on a negative outlook since last year based on concerns for its economic growth and fiscal condition.

India and the Philippines, on the other hand do not usually implement large direct subsidies for consumers, preferring other measures such as tax exemptions instead.

Energy consumption, trade, and current accounts

Energy supply in the analysed countries show India, Indonesia, and the Philippines to be the most dependent on coal, while oil also makes up a significant portion of the energy mix for the majority, especially Thailand and Malaysia. Energy supply in this context covers all energy produced or imported into the country, subtracted by what is exported or stored.

Figure 3. Total energy supply (2023)- energy required to supply end users in the country. Source: International Energy Agency.



Notably, the position of a country's net oil and gas trade generally affects the status of its trade balance and current account in the wake of the energy shock. Thailand and the Philippines show the highest net oil sensitivity, in terms of net oil imports as a % of GDP, with India following at 3.1%.[6] Thailand's stands at 4.7%. The Philippines is almost 100% dependent on imported oil, and net oil imports is estimated to be about 3.5-4% of GDP.[7] In contrast, Malaysia is a net oil and gas exporter, as is Indonesia.[8]

Figure 4. Currency movement since Feb 27 (% change).

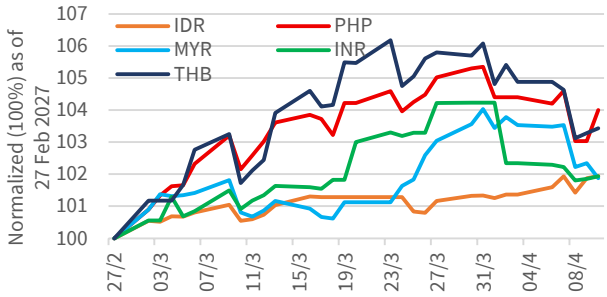


Table 2. Current account balance as a % of GDP. Source: Bloomberg Finance L.P., accessed 9 Apr 2026.

Current account balance (% GDP)	31/12/2025	31/12/2022
Indonesia	-0.10%	1.05%
Philippines	-3.41%	-4.74%
Thailand	2.80%	-3.43%
Malaysia	1.57%	3.19%
India	-0.40%	-2.41%

As the price of imported energy and related goods go up, the current account position of net energy importers will shift.[9] Table 2 above shows current account balances from 2022, the time of the previous energy shock triggered by the Russia-Ukraine war, to the present. Past data shows that the Philippines', Thailand's and India's current account balances have experienced larger deficits. Thailand's current account balance today has turned positive.

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[6] "Iran War, Oil Price Shock Negative for Oil-Dependent Asia Countries", Nomura, Mar 2026.
[7] Philippines' 2023 nominal GDP was at USD440-450bn, and the net import bill was at USD16.7 bn in 2023, figures from Statista (https://www.statista.com/statistics/1265343/philippines-net-import-bill-of-oil/)
[8] "Asia's outlook under higher oil prices", ING THINK, 2 Mar 2026.
[9] The current country reflects the country's flow of money in and out of the country as measured by value of imports and exports. A current account deficit can create external vulnerability for an emerging market country.

Given the net oil sensitivity data, the Philippines appears most exposed to the current energy shock, a picture reinforced in the currency movement data (Figure 4), local government bond curve data (Figure 1) and CDS spread change (Figure 2). Thailand is the next most sensitive, and then India, as reflected jointly in the bond yield and currency moves together. Local government bond yields show Indonesia and Thailand are experiencing large moves, although CDS spread changes for Indonesia are limited. Malaysia again looks the most resilient given its net energy exporter position.

Inflationary measures captured by headline CPI (Consumer Price Index) data are impacted by volatile food and fuel prices and tend to show up within 1-2 months. A rough estimate of energy components including fuel, electricity, and transport fuel as a part of the CPI basket comes to around 8-12% for these economies.[10] Thus, it is likely April-June data will reflect the impact of higher energy and food prices.

Co_2liseum scores and implications

In this section, we apply AFII's Co_2liseum transition analytics to the analysed sovereigns and connect their scores to the recent performance of their local government bonds and CDS to see how climate risks are reflected during the current energy shock.

Table 3. Co_2liseum scores. Source: AFII.

	Co_2liseum score
Indonesia	9
India	7
Malaysia	6
Philippines	6
Thailand	7

Co_2liseum is a portfolio strategy and analytical system for fixed income professionals to help manage the climate performance of credit portfolios. Co_2liseum transition analytics applies a quantitative scoring methodology. It can combine multiple climate data sources, including forward-looking indicators.
The approach for sovereigns builds on multiple independent transition data sources to assess how aligned countries are with the global net zero transition.
The scoring methodology combines the following respective datasets: 1) ASCOR 2) Climate Action Tracker (CAT) and 3) Ember data. These datasets provide a comprehensive picture of sovereign-level climate performance, from quantitative emissions metrics to qualitative policy ambition to transition progress in the power sector.
For each country, the methodology issues a score of 1 to 9, with lower scores indicating a higher degree of climate transition alignment. Co_2liseum currently scores 62 countries, selected for their presence in relevant bond indices. Countries which are not part of the universe will receive a middle score of 4. For a more detailed discussion, please see AFII's "Co2liseum transition analytics for sovereigns."

Indonesia has the weakest rating, driven by high absolute emissions and LULUCF-related (Land Use, Land-Use Change and Forestry) emissions, as well as poor performance in domestic climate policy implementation and fair-share alignment with global pathways.

The Philippines and Malaysia score best among the five countries. The Philippines has stronger GDP-intensity metrics and better performance across domestic climate policy implementation, overall climate policy strength, and fair-share alignment, while Malaysia benefits from lower absolute emissions and stronger momentum for clean energy growth rate, despite scoring the worst of the set for its GDP-intensity metrics.

[10] There are no explicit sub-categories that breaks out energy-related components in CPI baskets in these countries, but we base our estimates on fuels, electricity, gas, and transport fuel reported.

Table 4. Co_2liseum scores and metrics. The metrics are scaled between 0-1 where closer to 1 is better. Source: AFII.

Country	India	Indonesia	Malaysia	Philippines	Thailand
GDP/Emissions intensity (1)	0.98	0.95	0.84	0.98	0.93
Absolute emissions (1)	0.16	0.30	0.44	0.47	0.43
Clean energy share (2)	0.22	0.18	0.20	0.22	0.15
Clean energy growth/momentum (2)	0.19	0.19	0.23	0.20	0.21
Domestic Policy implementation (3)	Highly insufficient	Critically insufficient	NA	Almost sufficient	Insufficient
Climate policy strength (3)	Insufficient	Highly insufficient	NA	Almost sufficient	Critically insufficient
Final Co2liseum Score	7	9	6	6	7
Change in CDS level	13.7	5.3	-0.4	15.4	9.3

(1) Data from ASCOR.[11]
(2) Data from EMBER.[12]
(3) Data from Climate Action Tracker (CAT).[13]

Amidst the most recent energy shock, interest rate and CDS spread performance may have some links to climate performance. However, the main driver of spreads currently is net energy trade balance, which in turn could influence the currency and inflation expectations of a country. Any sustained energy shock will likely result in tighter monetary policy, driving yield curves higher.

But in this case the climate scoring may not reflect the sovereigns' energy resilience as it stands now, with Indonesia's and the Philippines' CDS spreads behaving contrary to their rankings. Notably, Indonesia and the Philippines have seen their local bond yields move in a similar fashion, despite Indonesia having the worst score. At the same time, India's, Thailand's, and Malaysia's scoring does appear to somewhat reflect the local government bond yield curve and currency performance so far.

Climate scoring offers a more nuanced, longer-term perspective by incorporating forward-looking metrics. This makes sense as energy transition and energy security are likely to gain relevance over time. Co_2liseum could help investors evaluate how countries are positioned for the energy transition.

[11] "ASCOR methodology and dataset", accessed 13 Apr 2026.
[12] "Climate Action Tracker" (© Climate Analytics and NewClimate Institute, 2026), accessed 13 Apr 2026.
[13] "Ember yearly electricity dataset", accessed 13 Apr 2026.

Conclusions

Local interest rates and CDS spreads in Southeast Asia mostly widened at the onset of the current oil shock, with Thailand and the Philippines being most affected, while Malaysia is the least impacted given its net energy export position.

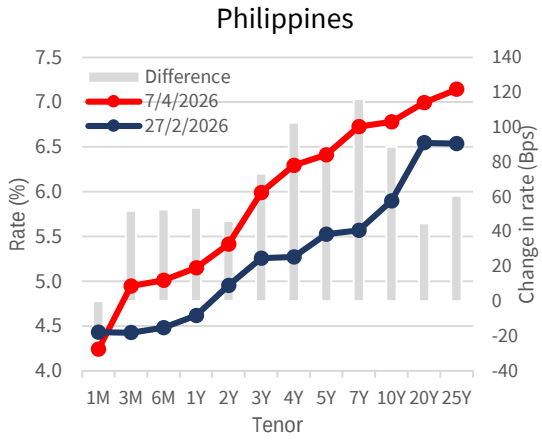
Policy responses in the region include fuel subsidies and fuel tax exemption. Malaysia and Indonesia (and Thailand to a lesser extent), have increased fuel subsidies, potentially straining fiscal balances, especially in the case of Indonesia and Thailand. India and the Philippines have responded mainly with tax cuts on fuel.

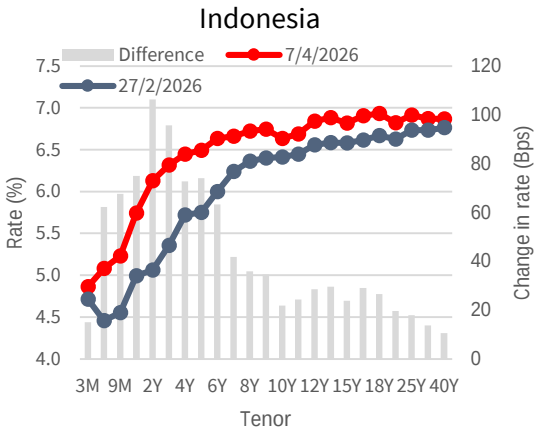
One of the key drivers of sovereign spreads is the net energy trade balance which affects countries' current account balances and currency movements. The Philippines is the most sensitive to the energy shocks on this basis given its reliance on oil from the Middle East. It is followed by India and Thailand. Thailand is also vulnerable as it has the highest net oil import ratio. Malaysia is the most resilient.

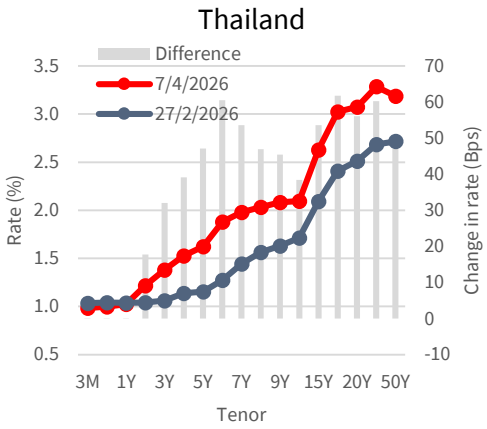
AFII's Co_2liseum analytics offer a methodology to manage the climate performance of issuers within a fixed income portfolio. When the methodology is applied to these sovereigns, Indonesia and the Philippines local government bond spreads behave contrary to their climate scores in reaction to the latest energy shock, while India, Thailand and Malaysia's scores help to explain spread behaviour. Climate scoring could offer a longer-term view for sovereigns as climate policies have long term impact.

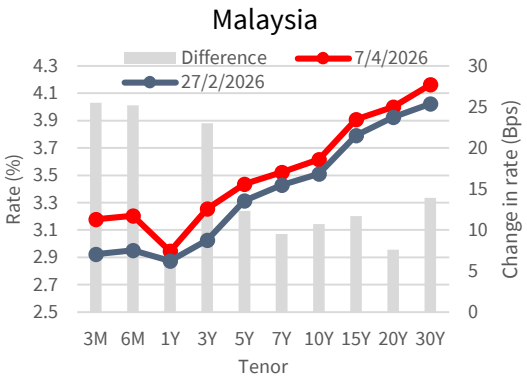
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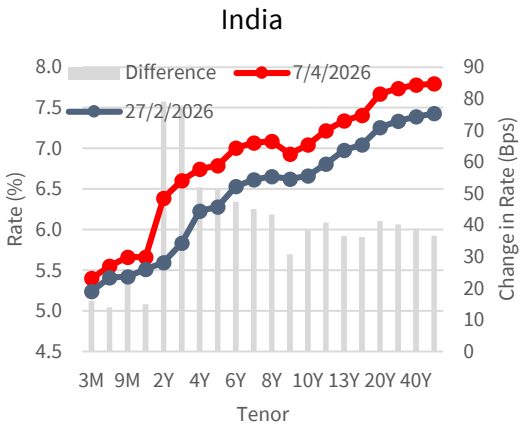
Figure 5. Movement of local government bond yield curves until 7 Apr, the day which showed some of the most extreme moves since 27 Feb. Source: Bloomberg Finance L.P. accessed Apr 7, 2026.











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