

ASEAN Economics

Wild Card 2026: Inflation Overshoot

Simmering Inflation Pressures

Inflation may be one of the understated and underappreciated risks in 2026. Several factors may lead to higher-than-expected inflation: (1) “silicon price shock” from the AI boom; (2) end of China’s export deflation; (3) positive output gaps in some ASEAN countries, particularly Vietnam and Singapore; (4) rising industrial metal prices; and (5) geopolitical shocks, tariffs and aggressive global fiscal spending.

The “Silicon Shock”

Heavy investments in AI infrastructure and data centers (DC) have supercharged demand for chips, servers and tech components. Prioritization of high-bandwidth memory for DCs have led to shortage of DRAM and NAND chips used in smartphones, PCs and other consumer electronics. Memory chip prices are projected to rise by about +40% in 1Q 2026 and by another +20% in 2Q. Selling prices will likely rise by about +15-20% for PCs and +7% for smartphones in 2026. The share of infocomm goods and services in CPI basket is about 4% in US, and range from 3.5% (Phil) to 6.6% (Msia) in ASEAN.

China’s Export Deflation Ending

The China deflation shock is ebbing, which should reduce the downward pressure from cheap Chinese imported goods. China’s PPI and CPI levels bottomed out in mid-2025. Anti-involution measures to curb excess supply in solar panels, autos and industrial materials have accelerated. China has withdrawn export tax rebates and reduced subsidies. With a record US\$1.2trn trade surplus in 2025, the Chinese RMB is projected to appreciate in 2026, which may increase prices of Chinese exports.

Positive Output Gap in Vietnam, Singapore

Several ASEAN economies have seen their output gaps narrowing due to stronger GDP growth over the past year. If growth continues to exceed potential in 2026, inflation may heat up. We estimate the largest positive output gap in Singapore (1.6%) and Vietnam (1.3%), followed by a modest output gap in Malaysia (0.7%) in 2025. Output gaps remain negative in Indonesia, Philippines and Thailand, suggesting ample slack and muted core inflation pressures. Risk of monetary policy tightening looks the highest in Singapore and Vietnam in 2026. MAS may tighten and steepen the S\$NEER slope in the April or July meeting if growth remains strong and core inflation continues to climb.

Surging Industrial Metal Prices

Industrial metal prices have rallied since July 2025, which may be passed on to some consumer prices. The surge is driven by the spilling of speculative demand from precious metals and rare earths; rising industrial demand; tighter global supplies due to US and China export controls; and stockpiling to counter geopolitical risks. Since Jan 2024, prices have surged for silver (+174%), tin (+64%), copper (+41%) and aluminum (+31%).

Geopolitical Shocks and Fiscal Dominance

Trump’s confrontational policies are fanning geopolitical tensions and raising the risk of energy and tariff shocks. The 8 NATO countries targeted with “Greenland tariffs”, which have been suspended for now, account for 10.5% of US imports and 15.7% of US exports. Brent crude oil prices have ticked up by +7.4% since the start of 2026 on US threats to attack Iran. More developed countries are beefing up defense and fiscal spending despite widening fiscal deficits. Central banks may be pressured to maintain easier monetary policies to fund the fiscal deficits and ballooning debt burden.

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Wild Card 2026: Inflation Overshoot

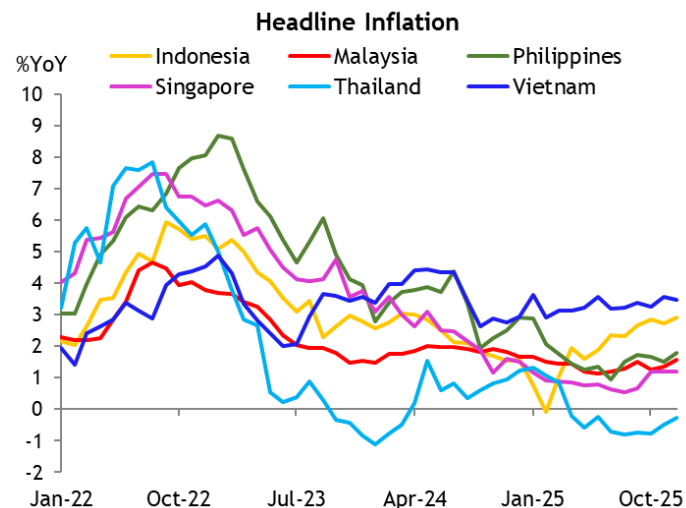
Inflation across the ASEAN economies eased significantly since the peaks in 2022, owing to a combination of easing pandemic supply chain disruptions, declining oil prices, and deflationary pressures from China-made goods. ASEAN-6 inflation fell from a peak of 4.7% in 2022 to 1.6% in 2025. We forecast ASEAN-6 inflation rising to 2.2% in 2026 and 2.5% in 2027, but the risk is tilted to the upside.

Inflation has been turning higher in recent months, albeit still remaining within central bank targets. The upturn has been more visible in Indonesia, where headline inflation hit a 20-month high of +2.9% in December due to elevated food inflation and floods in Aceh and Sumatra, up from the lows of -0.1% in Feb 2025.

Vietnam's inflation picked up slightly to +3.5% in Dec from an average of +3.3% in the first half of 2025. In Singapore, inflation climbed to +1.2% in December from its trough of +0.5% in August, amid an uptick in healthcare services and insurance costs. In Malaysia, inflation has been edging up mildly, from +1.1% in Jun 2025 to +1.6% in Dec 2025.

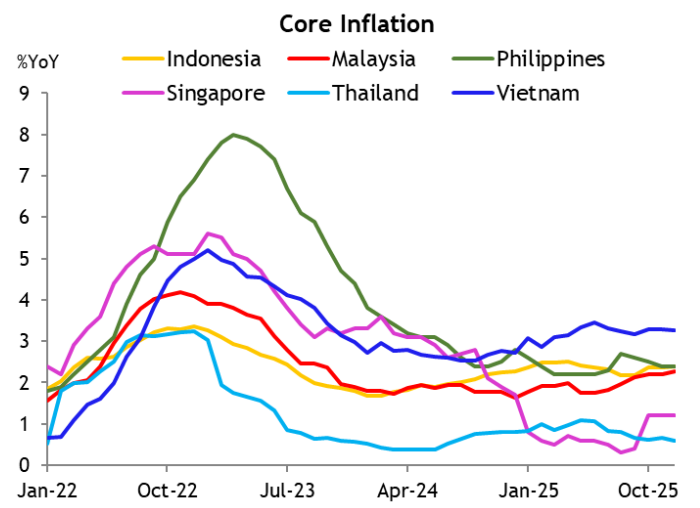
Thailand is the exception, where inflation remains negative, owing to weak domestic demand and declining oil prices.

Fig 1: Headline Inflation Turning Up But Remain Within Central Bank Targets



Source: CEIC

Fig 2: Core Inflation Has Troughed and Remain at Relatively Manageable Levels in 2025



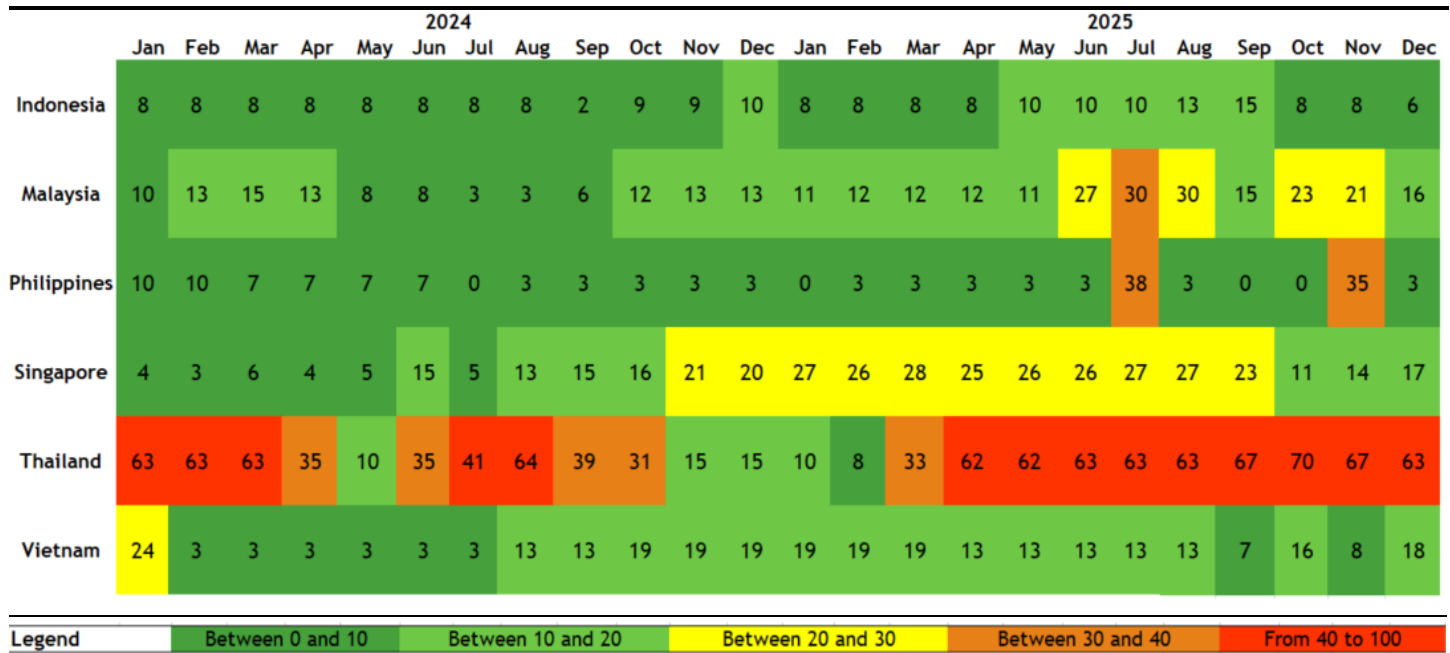
Source: CEIC

The share of each ASEAN country's CPI basket with negative year-on-year inflation has been declining in Singapore, Indonesia and the Philippines in the second half of 2025. Consumer prices continue to fall in about 6% of Indonesia's and 3% of the Philippines' CPI basket in December. Inflation remains negative in about 17% of Singapore's CPI basket in December (vs. 28% in March 2025), including clothing & footwear, utilities, household appliances & tableware, medicines, infocomm and airfares (Fig 3).

Proportion of the CPI basket in deflation is slightly higher in Malaysia (16% in Dec) and Vietnam (18%). Vietnam's deflation is concentrated in fuel, food, and telecommunications. Malaysia's deflation is more broad-based, led by utilities, infocomm goods and household appliances.

Thailand remains in severe deflation, with prices still falling in 63% of the CPI basket, including certain foodstuffs, tobacco & alcoholic beverages, apparel & footwear, transport & communication and medical & personal care.

Fig 3: Share of CPI Basket in Negative Inflation in ASEAN, 2024-2025



Source: CEIC, Maybank IBG Research

We expect ASEAN-6 headline inflation to climb to +2.2% in 2026, from the multi-year low of +1.6% in 2025. Inflation will likely remain within the target and comfort zones of most central banks in 2026, allowing several central banks - Indonesia, Philippines and Thailand - to ease monetary policy and cut policy rates further.

Table 1: ASEAN Inflation Ticked Up in 4Q But Remained Within Central Banks' Target Range

	1Q25	2Q25	3Q25	4Q25	Sep	Oct	Nov	Dec	2024	2025	2026F	2027F
Indonesia	0.6	1.8	2.4	2.8	2.7	2.9	2.7	2.9	2.3	1.9	2.8	2.5
Malaysia	1.5	1.3	1.3	1.4	1.5	1.3	1.4	1.6	1.8	1.4	1.7	1.9
Philippines	2.2	1.4	1.4	1.7	1.7	1.7	1.5	1.8	3.2	1.7	2.2	3.3
Singapore	1.0	0.8	0.6	1.2	0.7	1.2	1.2	1.2	2.4	0.9	1.4	1.5
Thailand	1.1	-0.3	-0.7	-0.5	-0.7	-0.8	-0.5	-0.3	0.4	-0.1	0.4	1.0
Vietnam	3.2	3.3	3.3	3.4	3.4	3.2	3.6	3.5	3.6	3.3	3.7	4.1
ASEAN-5 (ex-SG)	1.4	1.5	1.7	1.9	1.9	1.9	1.9	2.1	2.3	1.7	2.3	2.5
ASEAN-6	1.4	1.4	1.6	1.9	1.8	1.8	1.8	2.1	2.3	1.6	2.2	2.5
US	2.7	2.5	2.9	2.7	3.0		2.7	2.7	2.9	2.8	3.0	2.5
China	-0.1	-0.03	-0.2	0.6	-0.3	0.2	0.7	0.8	0.2	0.0	1.1	1.5

Source: CEIC, Maybank IBG Research

Several factors may drive inflation higher in 2026-27.

First, the AI investment boom is driving up semiconductor chips and electronics device costs. Second, positive output gaps in some ASEAN countries, including Vietnam, Singapore and Malaysia, could foreshadow a buildup of demand-side price pressures. Third, export deflation is ending in China. Fourth, an industrial metals price rally and race to secure supplies of critical minerals could add to manufactured input costs. Fifth, geopolitical shocks and rising global fiscal and defense spending could drive up inflation and oil prices.

[1] The “Silicon” Shock

“There’s going to be issues around semiconductor supplies, and it’s going to affect everyone. Prices are going up even as we speak. Obviously, we don’t want to convey that burden to the consumers, but we are going to be at a point where we have to actually consider repricing our products.”

- Wonjin Lee, President and Head of Global Marketing at Samsung Electronics on how the company expects memory chip supply shortages to raise prices across the electronics industry, Jan 2026¹

Aggressive investments in data centers and AI infrastructure have supercharged demand for chips, servers and other electronic components. The surge in data center-related orders has prompted chipmakers to allocate factory resources away from other use cases. Supply may be slow to respond due to the long 3 to 4 year lead times required to build new fabrication plants.

In the memory market, DRAM and NAND supplies used in smartphones, PCs and other consumer electronics are becoming increasingly tight, as chip suppliers prioritize producing high-bandwidth memory (HBM) for data centers.

Table 2: Memory Price Increases Ripple Across DRAM, NAND, OSATs and PCs

Sector	Company	Price Hike
Server DRAM	Samsung	Q1 server DRAM prices reportedly up 60-70%
	SK Hynix	
NAND	Sandisk	High capacity 3D NAND for eSSD set to rise >100% in Q1
Memory OSAT	Powertech Technology	Memory chip testing & packaging reportedly up 30% recently
PC Makers	Lenovo	Mid-to-high notebooks up 10-30%
	Dell	Reportedly seeing 10-30% hikes
	Asus	Reportedly seeing 15-20% hikes

Source: Hankyung, The Register, Tom’s Hardware, Nomura Securities, Business Insider, Mirror Daily, hznews, TrendForce²

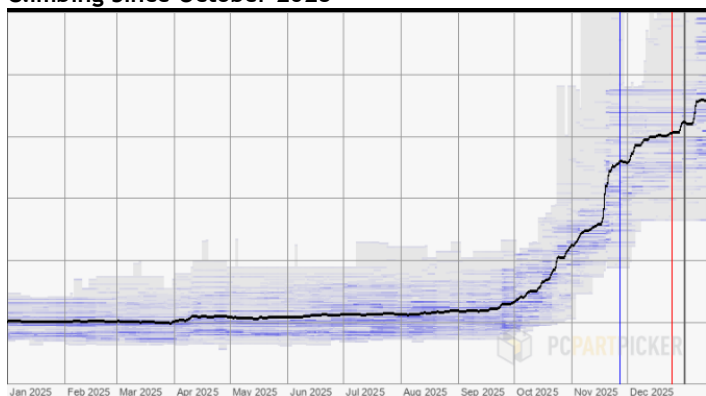
Counterpoint Research, a leading global tech researcher forecasts a +40% surge in memory prices in the first quarter of 2026, followed by another +20% increase in the second quarter³. Samsung and SK Hynix have reportedly hiked their server DRAM prices for hyperscale cloud providers by 60%-70% compared to the fourth quarter of 2025.

¹ The Edge Malaysia, “Samsung warns of price hikes as rising memory costs affect all”, 7 Jan 2026.

² TrendForce News, “Memory OSAT prices reportedly jump 30%, led by Powertech, Micron’s key supplier”, 12 Jan 2026

³ Counterpoint Research, “Memory Prices Soar by 50% in Q4, Rally to Continue in 2026”, 7 Jan 2026

Fig 4: High-end Memory Chip DDR5-6000 2x32GB Prices Climbing Since October 2025



Note: Thick black lines represent the average price for parts in the given category. Gray banding represents the minimum / maximum price range. Individual part prices are displayed as light blue points within the gray banding, creating an intensity graph of the price distribution. Dips in the lower price bound typically correspond to sales, or in extreme cases merchant pricing mistakes. Price data includes promos, coupons, rebates, and shipping costs (when available).

Last snapshot as of 23 Jan 2026

Source: PCPartPicker⁴, memory price trends

Fig 5: Budget Memory Chip DDR4-3200 2x8GB Similarly Saw a Pickup in Prices Since October 2025

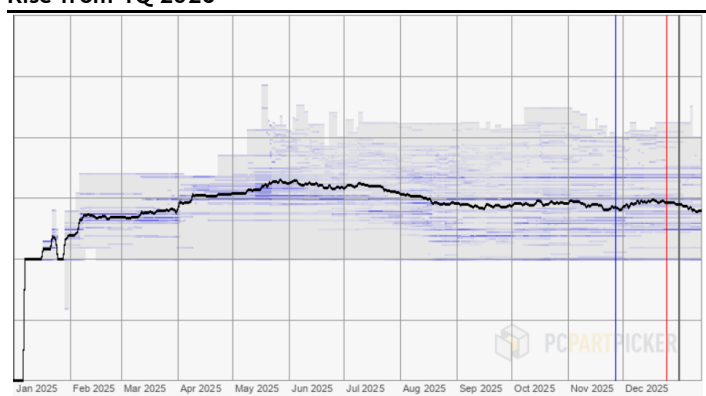


Snapshot as of 23 Jan 2026

Source: PCPartPicker (refer to footnote 3), memory price trends

Both NVIDIA and AMD are planning phased price hikes for their consumer GPUs in the first quarter of 2026, due to rising memory prices. The price of NVIDIA's flagship GeForce RTX 5090 could climb to as high as US\$5,000 after the hike (vs. an upper bound of about US\$4,000 currently).

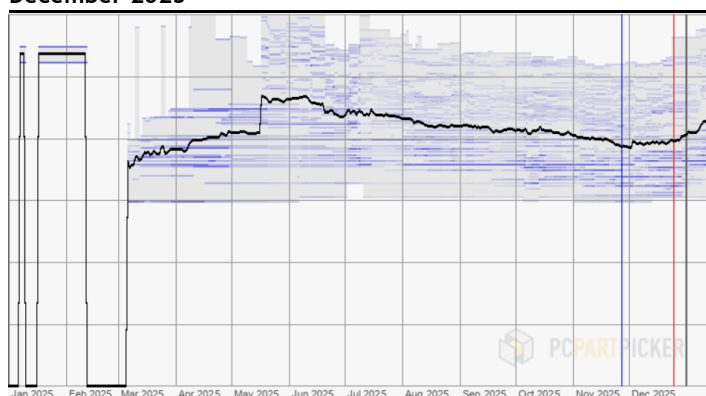
Fig 6: NVIDIA GeForce RTX 5090 Prices Still Stable But Will Rise from 1Q 2026



Snapshot as of 23 Jan 2026

Source: PCPartPicker

Fig 7: AMD Radeon RX 9070 XT Prices Ticking Up Since Late December 2025



Snapshot as of 23 Jan 2026

Source: PCPartPicker

Memory accounts for about 15%-20% of materials costs ("total bill of materials (BoM)") for mid-range smartphones and 10%-15% for high-end flagship handsets⁵. Counterpoint Research estimated in December that low, mid and high-end smartphone BoM costs have already risen by around +25%, +15% and +10% respectively due to DRAM price hikes. With memory prices climbing a further +40% through the second quarter, BoM costs could rise by another 8%-15% in the first half of 2026⁶.

Higher chip costs are being passed on to end-users, with major smartphone and PC brands warning of price hikes. Counterpoint expects smartphone average selling prices (ASP) globally to rise by +6.9% year-on-year in 2026. Leading tech market intelligence firm International Data Corporation (IDC) expects a 3%-5% hike in the

⁴ PCPartPicker, Memory Price Trends, accessed on 23 Jan 2026

⁵ IDC, "Global Memory Shortage Crisis: Market Analysis and the Potential Impact on the Smartphone and PC Markets in 2026", 18 Dec 2025

⁶ Counterpoint Research, "2026 Smartphone Shipment Forecasts Revised Down as Memory Shortage Drives BoM Costs Up", 16 Dec 2025

‘moderate’ scenario, and 6%-8% price increase in the ‘pessimistic’ scenario. Price hikes will be higher in the lower end of the market due to tighter margins.

South Korean media claimed that Samsung is reportedly weighing a price hike of between 44,000 won (US\$31) to 88,000 won (US\$62) for the upcoming 256GB Galaxy S26 lineup⁷, despite being one of the world’s largest memory chipmakers.

For PCs, IDC is projecting a 4%-6% hike in ASPs in 2026 in a moderate scenario, and by 6%-8% in a pessimistic scenario. Some PC vendors like Dell and Lenovo are however guiding for 15%-20% price hikes.

Rising prices of semiconductor chips and electronic devices will add to inflation pressures in ASEAN, although the direct contribution to overall CPI may be moderate. Infocomm equipment as a share of the CPI basket accounts for between 0.9% (Singapore) and 1.5% (Indonesia). Thailand and Vietnam do not publish disaggregated weights for electronic devices. Infocomm accounts for about 4% of the CPI in Thailand and Vietnam, but this includes services like digital subscriptions and telco packages.

In the US, electronic goods account for about 0.9% of the CPI basket, which is dwarfed by the infocomm services weight of 3.2% (mainly mobile telco & broadband services).

Table 3: Estimated % Share of Infocomm Goods & Services in CPI Basket

	Overall	Goods	Services
Malaysia	6.6	1.2	5.4
Indonesia	6.3	1.5	4.1
Thailand	4.1		
Singapore	3.8	0.9	2.9
Vietnam	3.7		
Philippines	3.5	1.2	2.3
US	4.0	0.9	3.2

Note: Snapshot as of Dec 2025, except for Malaysia and Singapore as of Nov 2025

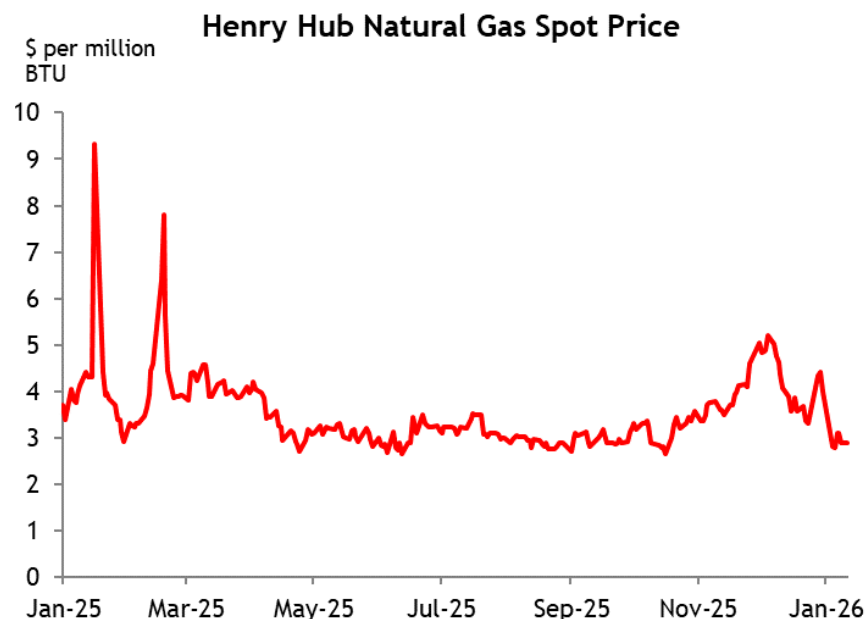
Source: CEIC, Maybank IBG Research

The AI data center boom has been contributing to higher electricity prices in some regions, including parts of the US. The impact on electricity prices in ASEAN is low so far, partly due to falling global oil prices, but may increase as more data centers are completed. AI data centers tend to be highly power-intensive, with a 100MW data center consuming electricity equivalent to the power for about 80,000 homes. Transmission grid upgrades and the construction of new power plants will be necessary to supply this additional power, raising capital and operational costs.

The demand surge from electricity-hungry data centers has increased wholesale power prices in parts of the US. Data center power demand may also increase natural gas prices (as the fuel accounts for more than 40% of US power generation), although supply growth from new capacity additions are expected to cool down price hikes. US natural gas prices rallied from late October to early December, but has since cooled due to warmer weather forecasts and strong US production.

⁷ PCMag, “Samsung Reportedly Considering Price Hike for Galaxy S26 Phones”, 5 Jan 2026
January 23, 2026

Fig 8: US Natural Gas Spot Prices Rallied from Oct to Dec 2025, Although Prices Have Since Cooled Due to Warmer Weather Forecast and Strong US Production



Snapshot as of 12 Jan 2026

Note: Henry Hub natural gas spot price is a benchmark for North American gas traded on NYMEX

Source: Bloomberg

Electricity price hikes will be more muted and gradual in ASEAN, due to the presence of regulated electricity markets. In Singapore, only large businesses and industrial users with high consumption buy electricity directly from the wholesale market. Most households and businesses purchase power from electricity retailers at regulated prices, updated quarterly based on oil prices and network costs.

Peninsular Malaysia also operates on a regulated tariff structure, with provisions made for monthly fuel cost pass-through. Thailand and Indonesia operate on a single-buyer electricity model with tariffs set by the government, while Vietnam's state utility EVN functions as a fully regulated state monopoly.

Electricity inflation in the ASEAN countries remains below zero in Singapore (-4.5% in Dec), Malaysia (-9.6%) and Thailand (-4.1%) into late 2025. Indonesia's electricity, gas & other fuel inflation came in at +0.6% in December. Philippines is the exception with electricity inflation accelerating to between 4 and 5% in Nov-Dec, due to higher transmission charges and an increase in feed-in-tariff allowance (to cover renewable energy costs).

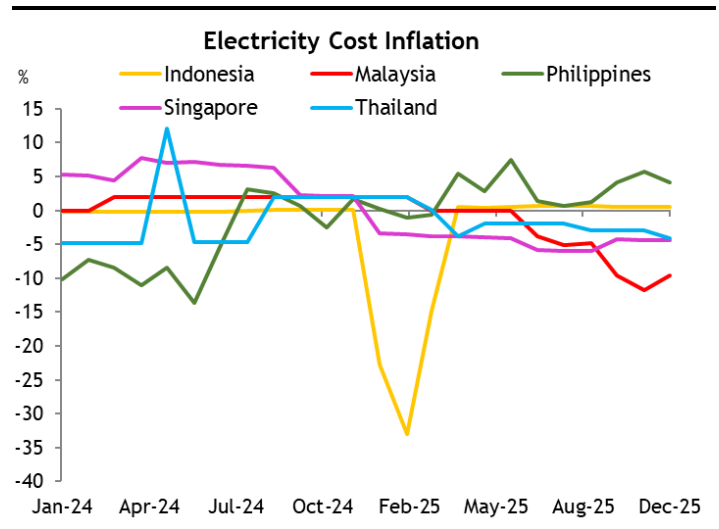
Table 4: Electricity as % Share of CPI Basket

Country	Electricity Weight
Indonesia	4.9
Philippines	4.6
Malaysia	2.7
Singapore	1.8

Note: Electricity weights are not available for Thailand and Vietnam

Source: CEIC

Fig 9: Electricity Inflation in Most of ASEAN-6 Remains Benign



Note: Denotes electricity, gas and other fuel for Indonesia. No disaggregated electricity inflation series available for Vietnam.

Source: CEIC

[2] China's Export Deflation Ending

"China has a vast territory, and the imbalances between regions and between urban and rural areas remain significant. There is no one-size-fits-all solution for high-quality development ... Otherwise, we would end up with identical cities and a cycle of 'involution' that leads nowhere."

- People's Daily editorial on 7 Jan 2026

The "China deflationary shock" that spilled over to cheaper imported goods in ASEAN economies is ebbing.

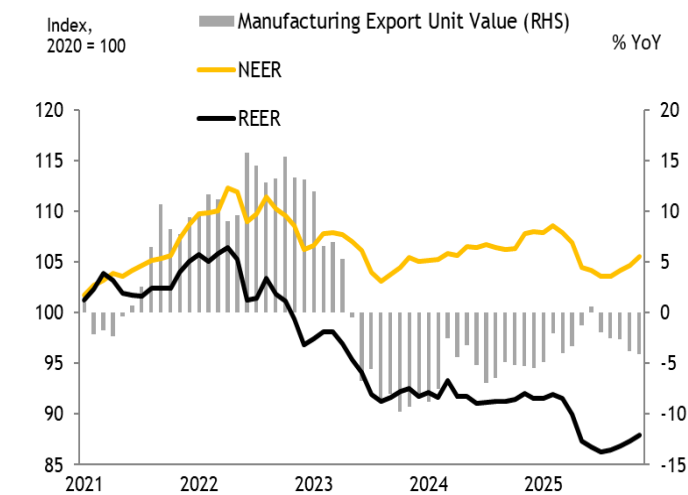
The Chinese economy has faced deflationary pressures since 2023, largely due to an excess of productive capacity, amidst sluggish domestic demand. Price weakness had been concentrated in the heavy industrial sectors related to property. But the phenomenon is also noted in consumer goods industries facing intense competition or "involution". Consequently, the PPI posted y-o-y drops for 37 months, while the CPI was flat in 2025.

As China's exporters sought new markets to offset effects of US tariffs, a larger share of those goods was sold to ASEAN. Since 2023, ASEAN had become the top destination for China's exports, overtaking the US and EU as sources of Chinese export demand. Export unit values of Chinese goods fell by a cumulative -10.4% over three years in 2023-2025.

The period of export price deflation coincided with growing reliance on Chinese imports by ASEAN economies. In 2025, Chinese goods rose to account for at least 30% of total imports in Vietnam (41%), Indonesia (36%) and Thailand (31%) (Fig 11).

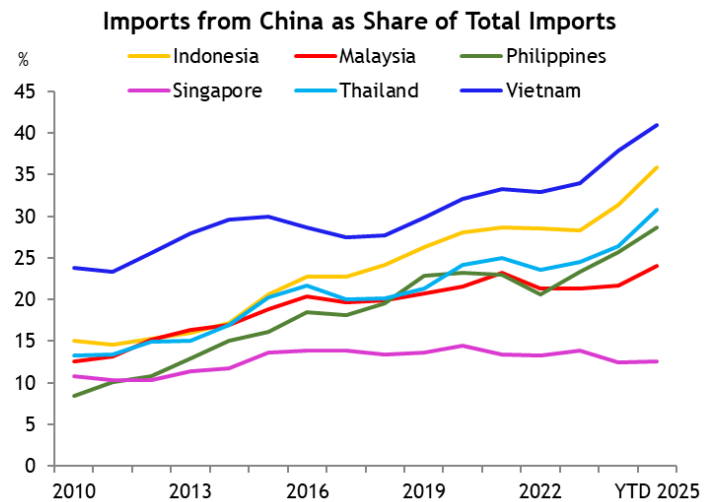
The declining trade-weighted exchange rate of the RMB led to the real exchange rate tumbling by -15.8% from its peak in April 2022 to end-2025 (Fig 10). This imparted a "China deflationary shock" to ASEAN economies.

Fig 10: RMB's REER Fell -15.8% from its Peak in April 2022, as China's Export Unit Value Plunged Alongside the Yuan



Source: CEIC

Fig 11: Share of China Goods Rose to More Than 30% of Total Imports for Vietnam, Indonesia and Thailand in 2025



Note: YTD 2025 data for Vietnam covers the full year 2025, while covering first 11 months of 2025 for other countries

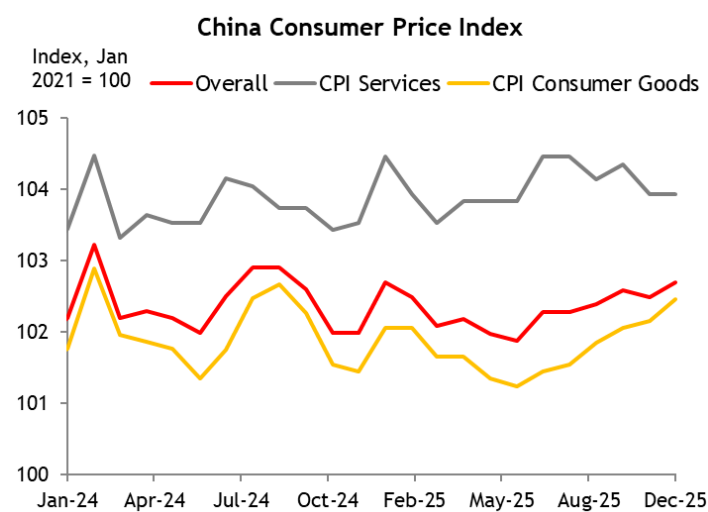
Source: CEIC

However, there are signs of deflation ending in China - with PPI levels bottoming since Jul 2025 and CPI levels climbing since Jun 2025 (Figs 12 and 13). We forecast headline inflation to rise to +1.1% in 2026 from zero in 2025, and PPI inflation to edge up to -1% from -2.2% in the previous year. Measures to curb excess supply in sectors such as solar panels, automobiles and industrial materials, combined with policies to lift domestic demand, are gaining momentum.

First, ending “involution” has become a policy priority of the leadership, as price wars have impinged on company profits and employment. In Dec 2025, the State Administration for Market Regulation announced draft guidelines barring carmakers from pricing vehicles below production costs, and offering rebates that effectively lower car prices below cost price. In the solar panel space, nine top Chinese polysilicon manufacturers banded together to remove outdated capacity, resulting in a recovery in photovoltaic prices.

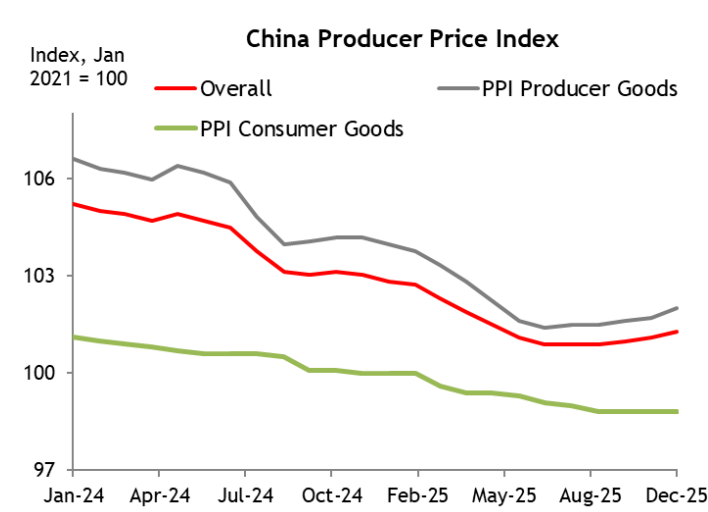
Second, Beijing is taking steps to address growing pushback by other countries about supply gluts exacerbated by state subsidies. In Jan 2026, China announced the withdrawal of export tax rebates for 249 products, including solar cells in April. It will also phase out export tax rebates on 22 battery-related goods. Such rebates have been blamed for incentivizing Chinese producers to cut prices to sell more goods abroad.

Fig 12: China's Consumer Price Index Has Recovered Since June 2025, Led by Consumer Goods



Source: CEIC

Fig 13: China's Producer Price Index Bottomed Out in July 2025, as Producer Goods Prices Picked Up



Source: CEIC

[3] Positive Output Gaps in Vietnam and Singapore

“Standard theory of monetary policy rests on a simple premise: a stable relationship between inflation and the output gap. This is the logic behind the Phillips curve, which, in its most common form, relates inflation to a measure of economic slack, expected inflation and supply shocks.”

- Isabel Schnabel, ECB Executive Board Member in a speech at the Hoover Monetary Policy Conference, 10 May 2025⁸

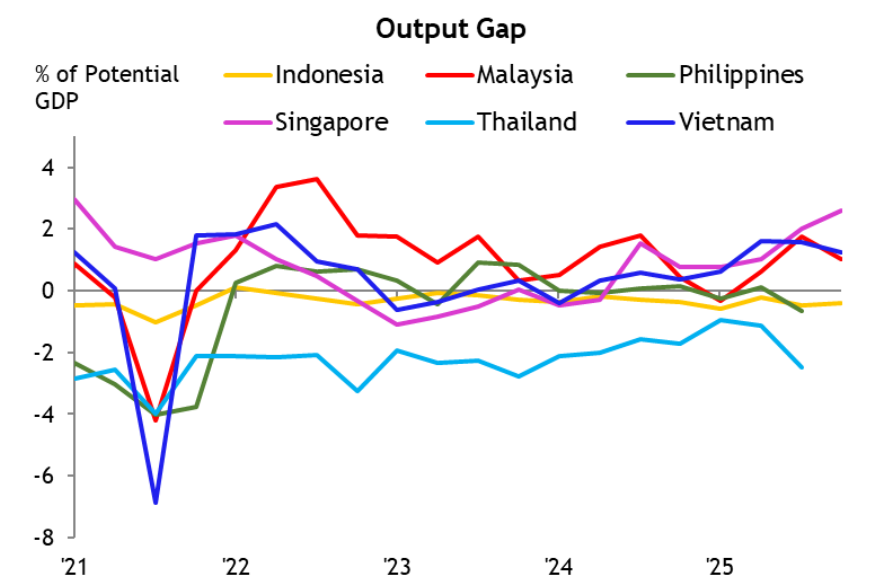
Several ASEAN economies have seen large positive output gaps emerge after strong GDP growth in 2025. If GDP growth continues to exceed potential output growth in 2026, the economy could run ‘hotter’, bidding up demand-side price pressures.

Singapore’s output gap averaged a positive 1.6% of potential GDP in 2025, rising from 0.4% in 2024, by our estimates. The output gap began to widen in the second half of 2025, with real GDP growth accelerating to a 16-quarter high of +5.7% in the fourth quarter. The growth momentum looks strong in early 2026. Singapore’s core inflation was 1.2% in November, rising from its trough of 0.5% in July 2025.

Vietnam’s output gap averaged 1.3% of potential GDP in 2025, widening from 0.2% in 2024. GDP growth rose to +8.5% in 4Q 2025 and averaged +8% in 2025 (vs. +7.1% in 2024). The Vietnamese government is targeting GDP growth of +10% in 2026. Core inflation rose to +3.3% in the fourth quarter, from +3% in 1Q 2025 and +2.7% in 2024.

⁸ “Keeping a steady hand in an unsteady world”, Speech by Isabel Schnabel, Member of the Executive Board of the ECB, at Hoover Monetary Policy Conference “Finishing the Job and New Challenges”, Stanford University, 10 May 2025

Fig 14: Output Gap Positive in Singapore, Vietnam and Malaysia; and Negative in Philippines, Indonesia and Thailand



Note: Output gap estimated based on HP filter with discretionary adjustments to potential GDP for plausibility

Source: CEIC, Maybank IBG Research estimates

Malaysia's output gap is estimated to be positive but small at 0.8% of potential GDP in 2025. This represents a narrowing from the 1% in 2024, with GDP growth cooling to a still resilient 4.9% in 2025 (vs. 5.1% in 2024).

Price pressures will be more muted in Indonesia, Thailand and the Philippines, with output gaps still negative, an indication of economic slack. Output gap averaged -0.4% for Indonesia in the first 9 months of 2025, widening from -0.3% in 2024. In the Philippines, the output gap widened to -0.3% of GDP in Jan-Sep 2025 (from 0% in 2024), as GDP growth weakened on the back of slowing investment.

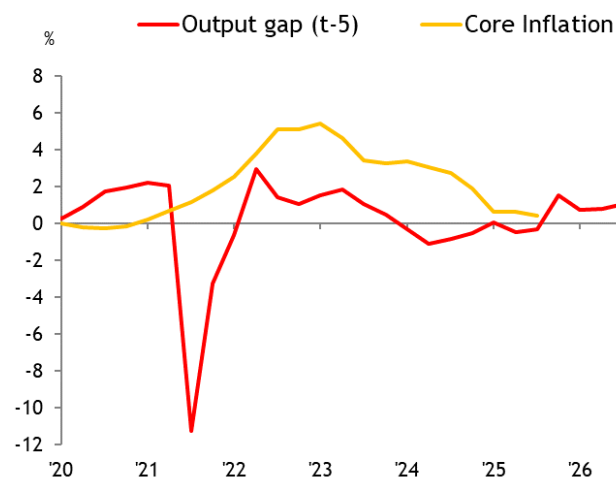
The negative output gap remains the widest for Thailand at -1.5% in Jan-Sep 2025 (vs. -1.9% in 2024), given weak domestic demand and GDP growth.

Positive output gaps tend to foreshadow higher inflation with several quarters of lag (Figs 15-20). The lag time differs for each country, generally at around 2 to 5 quarters.

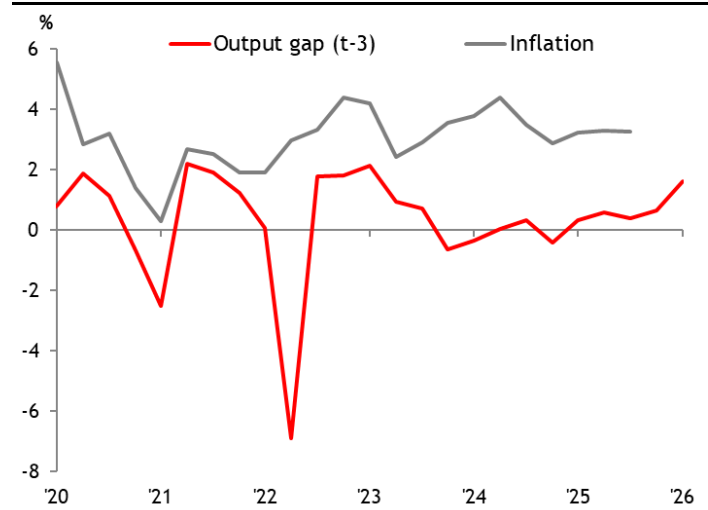
Our base case is for Singapore and Vietnam to stand pat on monetary policy, but the risk is tilted towards tightening given the prospect of higher inflationary pressures and wide output gaps. The MAS may steepen the S\$NEER slope in the April or July meeting if growth remains strong and core inflation continues to climb.

The modest output gap for Malaysia indicates that actual GDP is largely in line with its potential, with the investment upcycle in recent years boosting economic capacity. Our base case is that Malaysia will keep monetary policy unchanged this year amid a resilient domestic economy and manageable inflation.

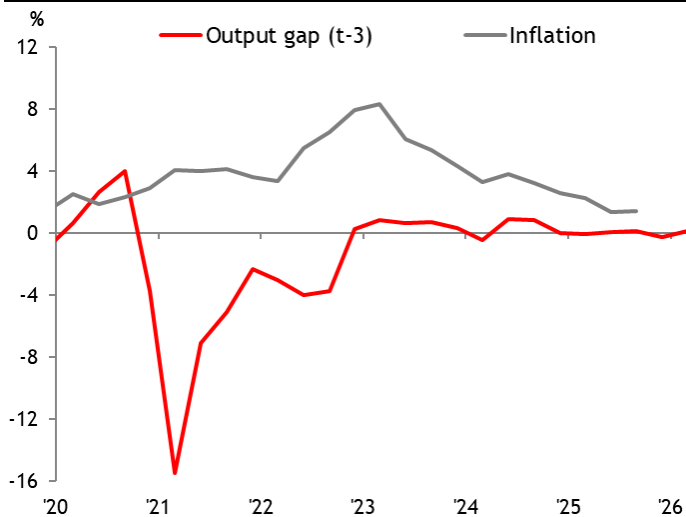
We expect rate cuts in Indonesia (-75bps), Philippines (-50bps) and Thailand (-25bps). Negative output gaps in these economies indicate economic slack and weak domestic demand.

Fig 15: Singapore's Output Gap Leads Core Inflation by 5 Quarters

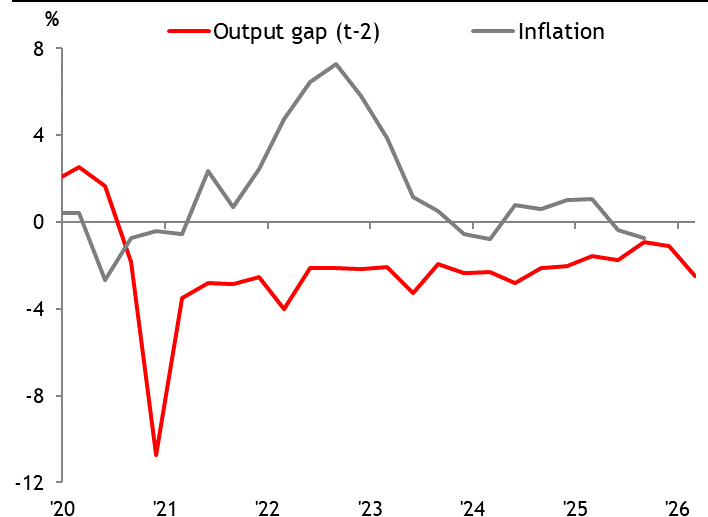
Source: CEIC, Maybank IBG Research estimates

Fig 16: Vietnam's Output Gap Leads Inflation by 3 Quarters

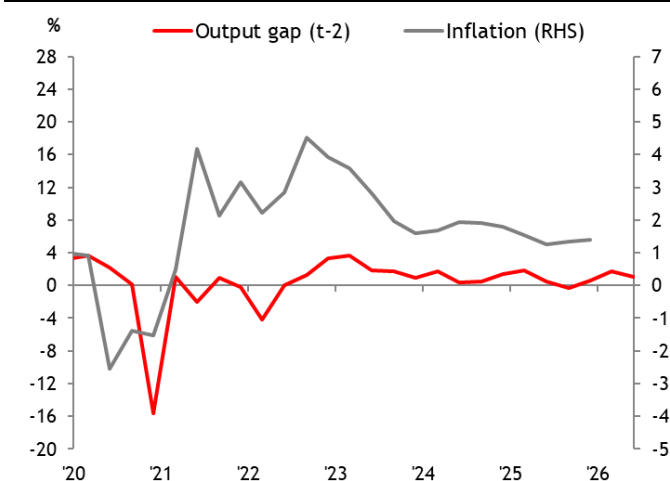
Source: CEIC, Maybank IBG Research estimates

Fig 17: Philippines' Output Gap Leads Inflation by 3 Quarters

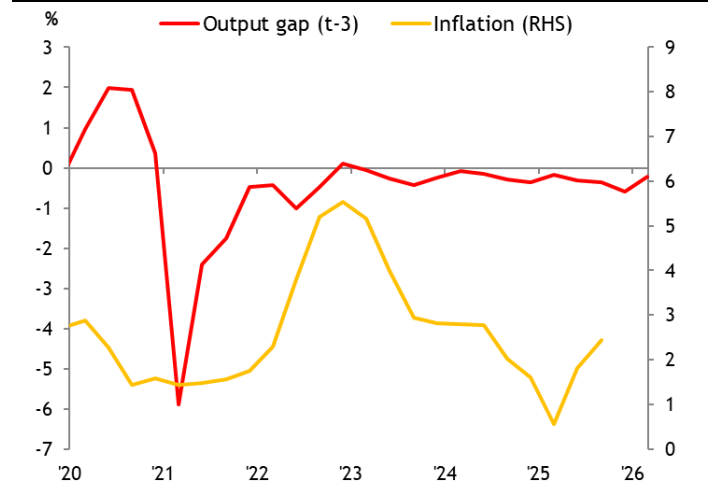
Source: CEIC, Maybank IBG Research estimates

Fig 18: Thailand's Output Gap Leads Inflation by 4 Quarters

Source: CEIC, Maybank IBG Research estimates

Fig 19: Malaysia's Output Gap Leads Inflation by 2 Quarters

Source: CEIC, Maybank IBG Research estimates

Fig 20: Indonesia's Output Gap Leads Inflation by 3 Quarters

Source: CEIC, Maybank IBG Research estimates

[4] Industrial Metals Rally Add to Input Costs

“This is not good. Silver is needed in many industrial processes.”

- Elon Musk, responding on social media platform X to record-high silver prices and concerns about the impact on manufacturing, amid China implementing a new export licensing system for silver from 1 Jan 2026

Industrial metal prices have been on an upturn since Jul 2025 (+24%), after fluctuating at relatively low levels in the prior two years (Fig 22). The recovery is driven partly by spill-over speculative demand from precious metals and rare earths; tightening global supplies aggravated by US and China export controls; and stockpiling to counter geopolitical risks.

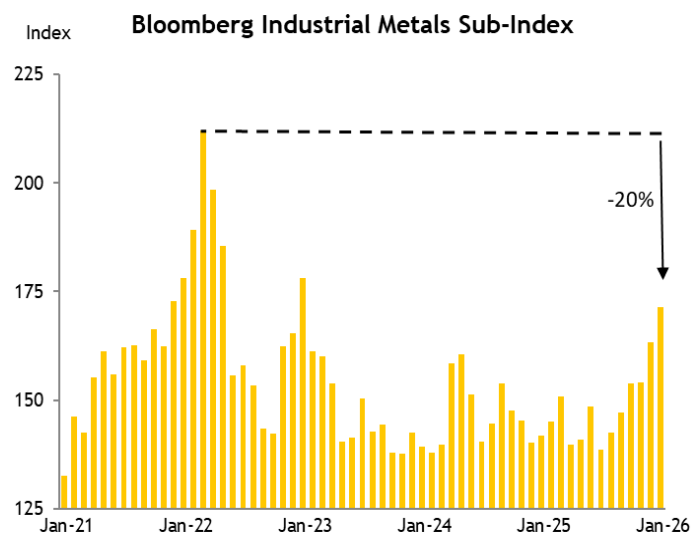
Since Jan 2024, the Bloomberg Industrial Metals Index, comprising 1-month futures prices of aluminum, copper, lead, nickel and zinc, has risen by +23% (Fig 21). Nonetheless, the index remains 20% below its peak in March 2022. The rise since Jan 2024 is milder than the surge in gold (+110%) and silver (+172%) prices over the same 2-year period. Among base metals, tin (+64%) and copper (+41%) posted the strongest price increases in the past two years, while nickel prices dropped 8%.

Gold and silver - trace amounts of which are inputs in consumer electronics and solar panels - benefited from the “debasement trade” as institutional buyers including central banks sought “safe haven” assets amidst dollar uncertainty by stocking up precious metals as stores of value.

Speculative demand for base metals has surged since late-2025, fueled largely by trading activity in China. According to Bloomberg, open interest in derivatives of six base metals on Shanghai Futures Exchange surged to records in mid-Jan 2026.

Mining and export restrictions in key producers have also led to supply tightness for tin, copper and aluminum. Copper is facing supply shortfalls given rising structural demand from electronics and renewable energy industries. Mining disruptions in key copper producers Indonesia and Chile are weighing on supplies. At the same time, inventories are being run down by stockpiling as firms rush to secure supplies amidst Trump’s threats to impose tariffs on refined products.

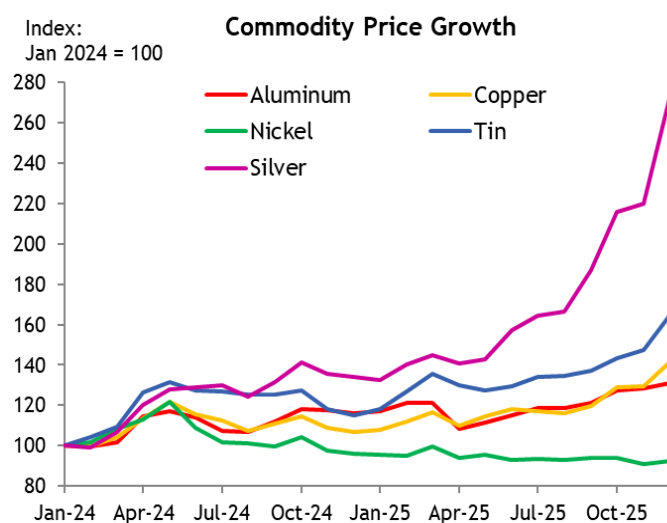
Fig 21: Bloomberg Industrial Metals Futures Index Rallied by 23% Since Mid-2025, But Remains 20% Below Jan 2022 Peak



Note: The index is composed of 1 month futures for aluminium, copper, lead, nickel and zinc. It reflects the return of underlying commodity future price movements.

Source: Bloomberg

Fig 22: Silver Prices Surged +172% Since Jan 2024, While Base Metals Such as Tin (+64.2%) and Copper (+41.3%) Followed



Source: CEIC, World Bank

The rally in industrial metals prices, if sustained, could feed into the cost of manufactured goods including mobile phones and solar panels. According to Bloomberg NEF, the near-tripling of silver prices has led to the metal accounting for 29% of the cost of a solar panel from 2.3% in 2023 and 14% in 2025.

Beyond industrial metals, geopolitical rivalry is fueling a race to secure supplies of critical minerals. On 12 Jan 2026, the US government is convening a meeting with allied countries to work towards a deal to strengthen supply chains for critical minerals. The move comes amidst steps by China, which controls some 90% global rare earth processing, to control the export of such minerals. In addition, The US last year added 10 commodities to its Critical Minerals list, including copper, lead, potash, silver and silicon (Table 5). These developments could fuel further stockpiling of the relevant minerals, putting upward pressure on prices.

Table 5 : Critical Minerals Lists in the US and China

List of Minerals Deemed Critical ¹ by US			List of Critical Minerals Subject to Export Controls by China	
Aluminium	Hafnium	Rhodium	Bismuth	Terbium
Antimony	Holmium	Rubidium	Cerium	Thulium
Arsenic	Indium	Ruthenium	Dysprosium	Tritium
Barite	Iridium	Samarium	Erbium	Tungsten
Beryllium	Lanthanum	Scandium	Europium	Ytterbium
Bismuth	Lead	Silicon	Gadolinium	Yttrium
Boron	Lithium	Silver	Gallium	
Cerium	Lutetium	Tantalum	Germanium	
Cesium	Magnesium	Tellurium	Holmium	
Chromium	Manganese	Terbium	Indium	
Cobalt	Metallurgical Coal	Thulium	Lanthanum	
Copper	Neodymium	Tin	Lutetium	
Dysprosium	Nickel	Titanium	Magnesium	
Erbium	Niobium	Tungsten	Molybdenum	
Europium	Palladium	Uranium	Neodymium	
Fluorspar	Phosphate	Vanadium	Praseodymium	
Gadolinium	Platinum	Ytterbium	Promethium	
Gallium	Potash	Yttrium	Samarium	
Germanium	Praseodymium	Zinc	Scandium	
Graphite	Rhenium	Zirconium	Tellurium	

Note: China successively added minerals to its list in April and October 2025.

The latest revision for the United States' list was issued in November 2025.

¹ Critical minerals are defined by the United States as materials that are essential to economic or national security, vulnerable to supply chain disruptions and perform an essential role in the manufacturing of products.

Source: China Ministry of Commerce, US Geological Survey, US Department of the Interior

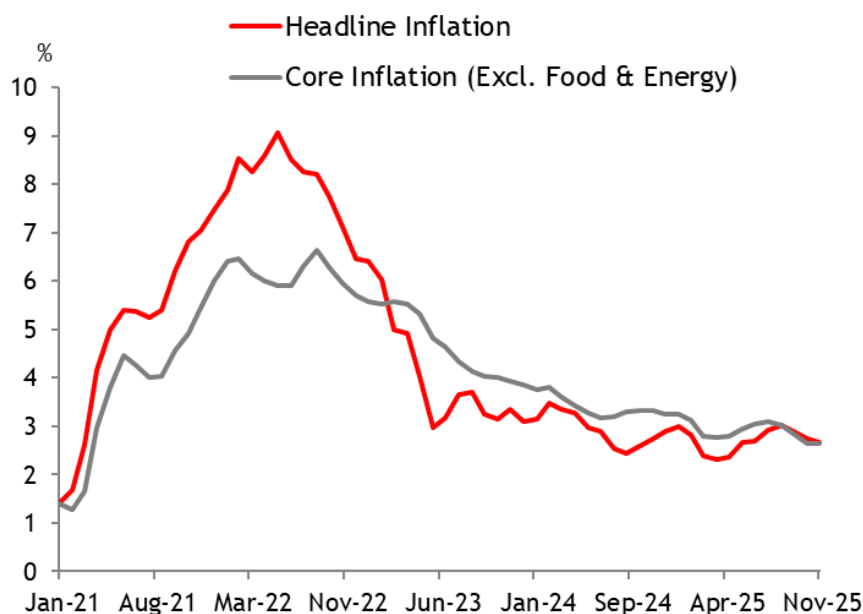
[5] Geopolitical Shocks and Fiscal Pressure

“This will allow us to build the ‘Dream Military’ that we have long been entitled to and, more importantly, that will keep us SAFE and SECURE, regardless of foe.”

- US President Donald Trump, calling for America’s defence budget to be hiked by more than 50% to US\$1.5tn in 2027, 7th Jan 2026

There are other drivers that may fuel inflation globally. The impact of Trump’s reciprocal tariffs on US inflation has so far been modest with US CPI inflation at +2.7% in December 2025, similar to the first half average of +2.6%. Nonetheless, delayed pass-through of the 2025 tariff hikes could put upward pressure on inflation in 2026, as companies phase in price hikes amid firm consumer demand and depleting inventories.

Fig 23: US Inflation Steady in 2025 Despite Higher Tariffs, With Headline Inflation at 2.7% and Core Inflation at 2.6% in December



Source: US Bureau of Labor Statistics

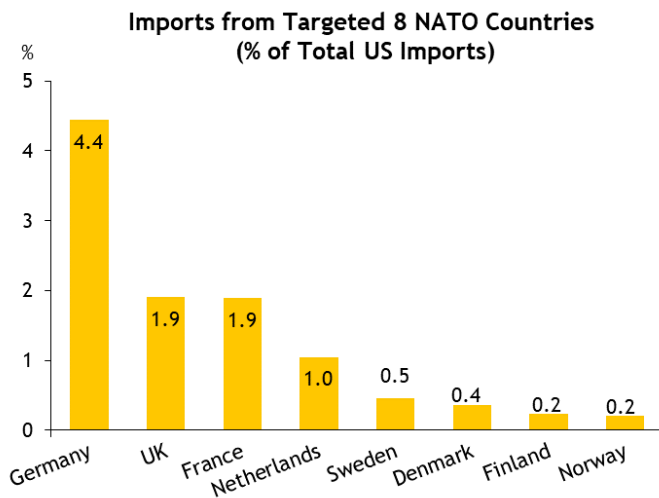
Fresh tariff shocks could increase US inflation pressures, with tariff threats a preferred tool for President Trump to achieve geopolitical goals. The US has threatened to slap tariffs on eight NATO member countries starting at 10% on 1 Feb 2026 and rising to 25% on 1 June over their opposition to American control of Greenland, although the hikes have since been shelved. The 8 NATO countries targeted include Denmark, Finland, France, Germany, Norway, Sweden, the Netherlands and the UK.

The 8 NATO countries targeted with US “Greenland tariffs” account for 10.5% of US goods imports and 15.7% of US exports in the first 9 months of 2025. Germany (4.4% of total), UK (1.9%), France (1.9%) and the Netherlands (1%) are the largest sources of US imports (Fig 24). The Netherlands (4.4% of total), UK (4.2%), Germany (3.8%) and France (2.4%) are the largest markets for US exports (Fig 25).

The top US imports vary by country, but broadly include autos; pharmaceuticals; industrial, electrical, specialized and power generating machinery; alcoholic beverages (e.g. wines); and energy products (Tables 6-9). Trump also threatened 200% tariffs on French wine and champagne, after France was reportedly unwilling to join his “Board of Peace” on Gaza.

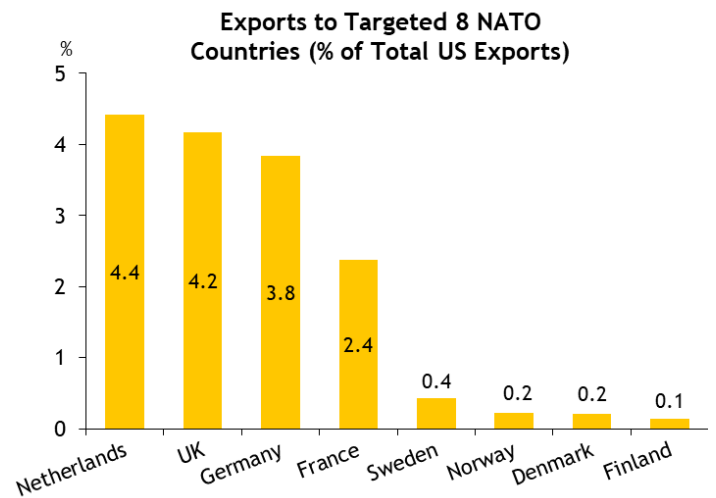
The top US exports to the targeted NATO countries are largely energy products, pharmaceuticals and transport equipment (Tables 6-9).

Fig 24: The 8 NATO Countries Targeted with “Greenland Tariffs” Account for 10.5% of US Imports



Source: CEIC, IMF

Fig 25: Netherlands, UK, Germany and France are Among the Top Destinations Within Europe for US Exports



Source: CEIC, IMF

Table 6: US - France Top Traded Products

US-France Trade						
Rank	Commodity	Value of US Imports (USD bn)	Share of US Total Imports (%)	Commodity	Value of US Exports (USD bn)	Share of US Total Exports (%)
1	Medicinal and Pharmaceutical Products	8.7	17.8	Other Transport Equipment	10.9	28.6
2	Miscellaneous Manufactured Articles	4.8	9.8	Gas, Natural & Manufactured	3.5	9.3
3	Power Generating Machinery & Equipment	4.2	8.6	Petroleum, Petroleum Products	3.3	8.7
4	Other Transport Equipment	3.4	6.9	Miscellaneous Manufactured Articles	2.4	6.3
5	Beverages	3.4	6.9	Medicinal and Pharmaceutical Products	2.2	5.7
6	Essential Oils & Resinoids & Perfume Materials	3.0	6.2	General Industrial Machinery & Equipment	1.6	4.2
7	General Industrial Machinery & Equipment	2.1	4.4	Gold, Nonmonetary Excluding Gold Ores	1.5	4.0
8	Electrical Machinery	1.9	3.9	Electrical Machinery	1.4	3.6
9	Inorganic Chemicals	1.5	3.0	Professional Instruments	1.2	3.1
10	Professional Instruments	1.4	3.0	Chemical Materials and Other Products	1.1	2.8

Source: CEIC, US Census Bureau

Table 7: US - Germany Top Traded Products

US-Germany Trade						
Rank	Commodity	Value of US Imports (USD bn)	Share of US Total Imports (%)	Commodity	Value of US Exports (USD bn)	Share of US Total Exports (%)
1	Road Vehicles	19.8	17.2	Medicinal and Pharmaceutical Products	9.4	15.1
2	Medicinal and Pharmaceutical Products	17.5	15.2	Other Transport Equipment	8.6	13.9
3	General Industrial Machinery & Equipment	9.8	8.5	Road Vehicles	6.6	10.7
4	Electrical Machinery	9.0	7.8	Electrical Machinery	3.5	5.6
5	Specialized Machinery	7.1	6.2	Professional Instruments	3.5	5.6
6	Professional Instruments	6.3	5.4	Gas, Natural & Manufactured	2.8	4.5
7	Power Generating Machinery & Equipment	5.8	5.0	General Industrial Machinery & Equipment	2.7	4.3
8	Miscellaneous Manufactured Articles	4.2	3.6	Miscellaneous Manufactured Articles	2.3	3.7
9	Nonferrous Metals	2.6	2.3	Petroleum, Petroleum Products	2.2	3.5
10	Other Manufactures of Metals	2.5	2.2	Chemical Materials and Other Products	1.9	3.0

Source: CEIC, US Census Bureau

Table 8: US - Netherlands Top Traded Products

US-Netherlands Trade						
Rank	Commodity	Value of US Imports (USD bn)	Share of US Total Imports (%)	Commodity	Value of US Exports (USD bn)	Share of US Total Exports (%)
1	Medicinal & Pharmaceutical Products	6.9	25.4	Petroleum, Petroleum Products	19.3	27.0
2	Petroleum, Petroleum Products	3.2	11.9	Medicinal & Pharmaceutical Products	7.5	10.5
3	Specialized Machinery	3.0	10.9	Gas, Natural & Manufactured	5.7	8.0
4	Organic Chemicals	1.3	4.7	Professional Scientific Instruments	5.6	7.8
5	General Industrial Machinery & Equipment	1.1	4.1	Office Machinery & ADP Equipment	5.3	7.4
6	Electrical Machinery Apparatus & Other Appliances	1.1	3.9	Miscellaneous Manufactured Articles	3.9	5.5
7	Beverages	0.8	2.9	Organic Chemicals	2.8	3.9
8	Inorganic Chemicals	0.7	2.6	Electrical Machinery Apparatus & Other Appliances	2.7	3.7
9	Iron & Steel	0.5	1.8	Telecomm, Sound Record & Reproduce Equipment	2.3	3.2
10	Coffee, Tea & Cocoa	0.5	1.8	Other Transport Equipment	1.8	2.5

Source: CEIC, US Census Bureau

Table 9: US - UK Top Traded Products

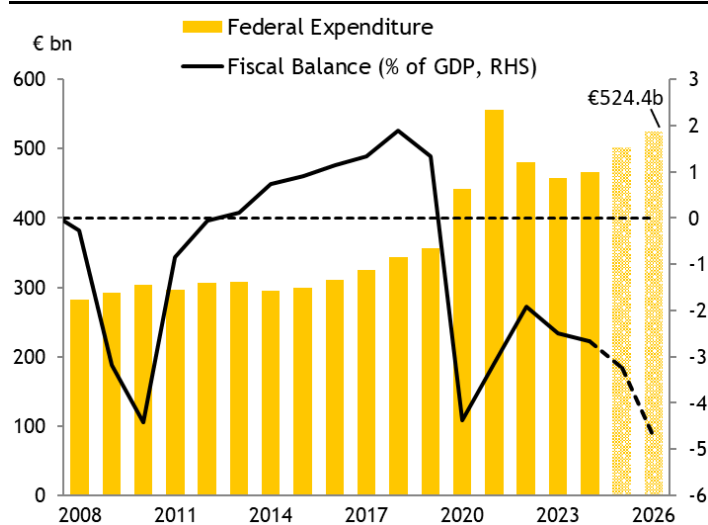
US-UK Trade						
Rank	Commodity	Value of US Imports (USD bn)	Share of US Total Imports (%)	Commodity	Value of US Exports (USD bn)	Share of US Total Exports (%)
1	Road Vehicles	6.2	12.6	Gold, Nonmonetary Excluding Gold Ores	15.5	22.9
2	Power Generating Machinery & Equipment	4.7	9.5	Other Transport Equipment	9.7	14.4
3	Medicinal and Pharmaceutical Products	4.2	8.6	Miscellaneous Manufactured Articles	8.7	12.9
4	Miscellaneous Manufactured Articles	4.2	8.5	Petroleum, Petroleum Products	6.5	9.6
5	General Industrial Machinery & Equipment	2.9	6.0	Nonferrous Metals	4.6	6.8
6	Petroleum, Petroleum Products	2.3	4.7	Medicinal and Pharmaceutical Products	3.2	4.7
7	Professional Instruments	2.0	4.1	Electrical Machinery	2.8	4.1
8	Electrical Machinery	2.0	4.0	General Industrial Machinery & Equipment	2.7	4.1
9	Other Transport Equipment	1.9	3.9	Office Machines & ADP Machines	2.1	3.2
10	Specialized Machinery	1.4	2.9	Gas, Natural & Manufactured	1.9	2.8

Source: CEIC, US Census Bureau

Rising defense spending is increasing government expenditures across the EU (led by Germany) and Japan. Germany's budget deficit is targeted to rise to 4.8% of GDP in 2026, from 2.7% in 2024 on the back of higher outlays on defence, infrastructure and social programs. In the US, President Trump is intent on sending every American household US\$2,000 tariff rebate checks ahead of the mid-term elections, even though funding remains vague.

High and rising government debt-to-GDP ratios globally raise the risk of “fiscal dominance”. National debt exceeds the size of the economy in the US, Canada, UK, France, Italy and Japan. The US debt to GDP ratio exceeds 120%. Net interest expense on the US national debt ballooned to US\$970bn in FY2025, nearly tripling from US\$345bn in FY2020, with the Committee for a Responsible Federal Budget projecting that interest payments could double to US\$1.8tn by 2035⁹.

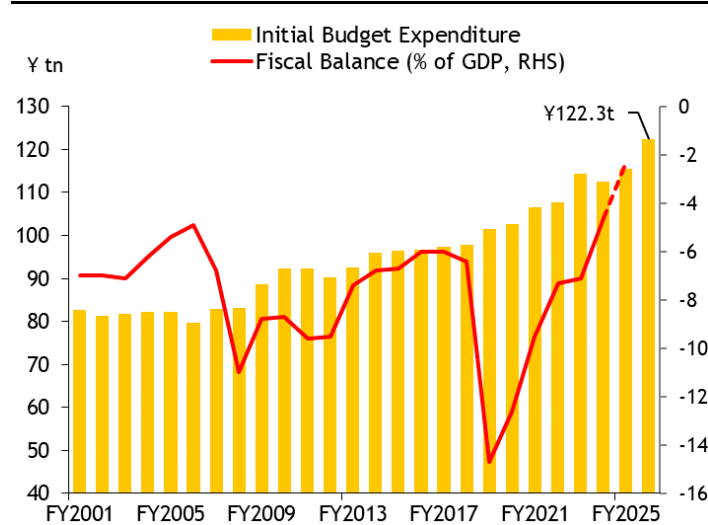
Fig 26: Germany's Budget Expenditure Rising to €524.5bn in 2026, Widening Fiscal Deficit to 4.8% of GDP



Note: 2025, 2026 data refers to Budget, other figures are actual data.

Source: CEIC, Germany Ministry of Finance, Maybank IBG Research

Fig 27: Japan's Budget Expenditure Expanded to ¥122.3tn in FY2026, Up +6.2% from FY2025 Budget



Note: 2025 fiscal balance refers to Budget, while other figures are actual data.

Source: CEIC, Japan Ministry of Finance, Maybank IBG Research

Governments could be tempted to inflate away their debt burden. An erosion of central bank independence may de-anchor inflation expectations. President Trump has been pressuring the Fed to ease monetary policy, with the Department of Justice launching a criminal investigation into Chair Powell. Under political pressure and a pliant new Chairman, the Fed could pursue ultra-accommodative monetary policy despite above-target inflation or embark on a QE-style financing of government debt, triggering a global inflation wave.

⁹ Committee for a Responsible Federal Budget, “Trillion-Dollar Interest Payments Are the New Norm”, 16 Dec 2025.

Fig 28: US Inflation Expectations Have Cooled from 2025 Peaks, But Remain Elevated

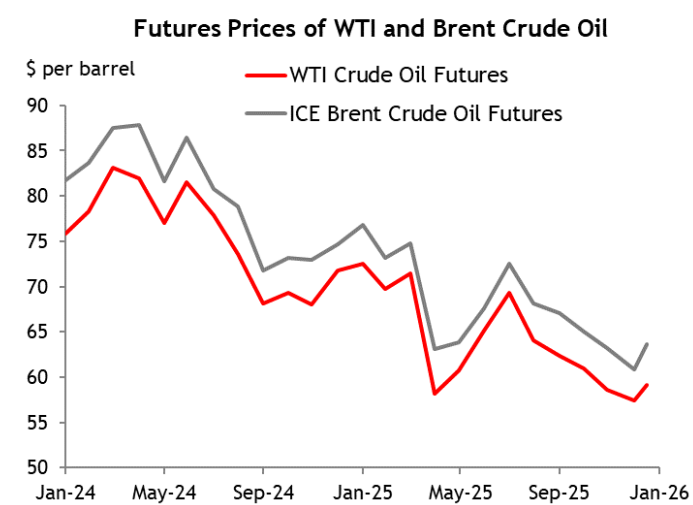


Source: CEIC, University of Michigan

Increasing geopolitical conflicts as the US pursues a more muscular and aggressive foreign policy may increase crude oil and global energy prices, although the upside is somewhat capped by growing supply.

Global oil prices have ticked higher since the start of 2026 on fears of supply disruptions, particularly from the threatened US military attacks on Iran. Brent crude oil prices have risen by +7.4% and WTI crude oil by +5.9% since 1 Jan 2026. Iran accounts for about 4% of global oil production and 2-4% of global oil exports. Oil prices have been on a sustained decline over the last 2 years, having fallen by around 30% since 2024, given weaker demand from China and ample supplies. Risk for energy prices may be on the upside in 2026 given the lower base and rising geopolitical shocks.

Fig 29: Oil Prices Have Ticked Higher in 2026 After Falling By 30% Over Past Two Years



Snapshot as of 16 Jan 2026

Source: Bloomberg

Table 10: Energy (Fuel and Utilities) Weights in CPI Basket

	Energy	Transport Fuel	Utilities
Thailand	11.9	7.4	4.5
Indonesia	11.5	4.8	6.7
Philippines	9.1	2.4	6.7
Malaysia	9.0	5.9	3.1
Singapore	3.8	1.8	2.0
Vietnam		10 *	

Note: Vietnam data refers to transport weight in CPI basket

Transport fuel includes diesel, gasoline, oil/lubricant, utilities includes electricity, gas and other fuels

Source: CEIC

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