

# Prospects

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## ASIA – Charting a course through the fog of Hormuz

**Despite Donald Trump’s declarations and promises, the war with Iran rumbles on, tipping Asia’s economies into an era of uncertainty that is very difficult to manage.**

Of course, the crisis is not affecting all the region’s economies to the same extent: for the time being, the most advanced among them are only experiencing a price shock, while the most fragile are also having to contend with volume issues, which are already triggering shortages or severe restrictions. The same goes for sectors: the extent to which they are affected depends on their energy intensity or how reliant they are on certain specific inputs.

It must be said that the war is striking directly at the heart of Asian growth models, which are built on smooth trading flows and price competitiveness. Available activity indicators for March and April already point to an uptick in producer and consumer price indices, despite measures put in place by national authorities to mitigate the impact of higher commodity prices. Industrial production is also slowing, particularly in China.

As the prospect of a rapid return to “normality” fades following damage to some production facilities, Asian countries face difficult trade-offs on all fronts. What fiscal support should they offer? What monetary policy is needed to support activity, limit currency depreciation, maintain reserves and curb inflation in the face of a supply shock? Which sectors and economic agents should be prioritised, with Asia is exposed on multiple fronts: the agricultural sector through fertilisers; carbon-intensive industries; services including tourism; and purchasing power through inflation or remittances sent home by those working in the Gulf States?

This review of the region’s economies provides an up-to-date overview of measures adopted since the start of the crisis, how resilient each country is, and short- and long-term strategies for adapting to the new global environment.

### Avoiding shortages and finding new suppliers

#### *The uneven impact of shortages*

Asian countries are not all equally affected by the shock: some face potential supply disruptions, while others are mainly impacted through the price channel – for example, those that are energy exporters, have more diversified imports or have larger strategic oil reserves.

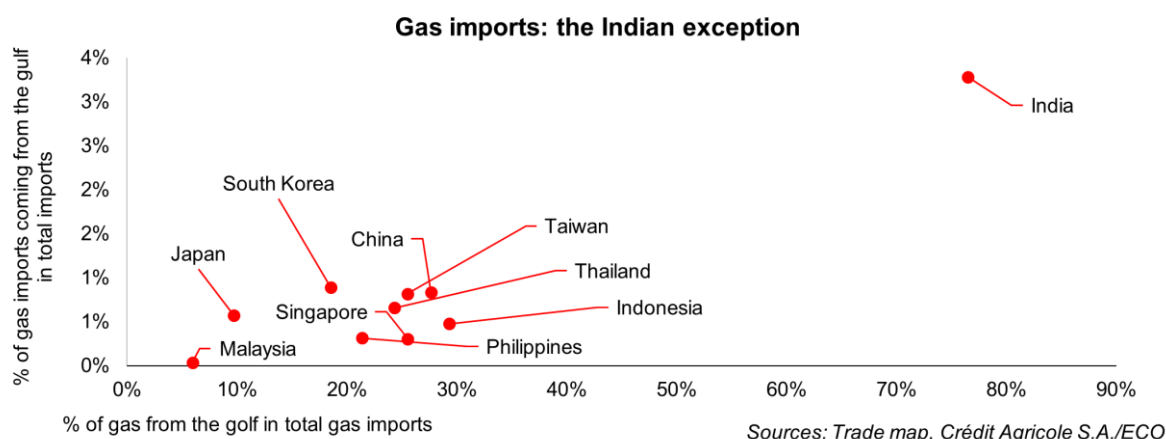
In our previous article (*In the Hormuz Trap*, 20 March 2026<sup>1</sup>), we mapped the region’s main countries based on how reliant they were on the Gulf states for their energy supplies. Unsurprisingly, India, the Philippines and Thailand were among the hardest hit countries. **They combine two key factors: reliance on energy imports from the Gulf and little room for manoeuvre in terms of their import structure, energy consumption, and fiscal action.**

**India has been hit particularly hard because of its reliance on imports of not only gas transiting through the Strait of Hormuz (80% of its total imports of natural gas) but also crude oil (around 50% of total crude oil imports, equating to 22% of total imports).** The availability of natural gas is, for the time being, a bigger issue for the Modi government than oil. To limit the impact on households, the government has

<sup>1</sup> [Asia – In the Hormuz Trap | Economic Research – Crédit Agricole](#)

capped LNG deliveries to the commercial sector at 70% of their usual level and accelerated the rollout of piped natural gas to replace domestic LPG. The government is trying to adopt a reassuring tone in its communications, but soaring cooking gas prices and supply difficulties have already triggered a number of protests in the New Delhi suburbs.

The country also faces another risk: **Indonesia, which supplies 90% of India's palm oil imports, is increasingly diverting its palm oil for use in diesel production instead of exporting it.** Palm oil is widely used by Indian households and the catering sector for low-cost cooking. A reduction in imports would thus constitute another shock for these agents, already hit hard by rising gas prices.



**Thailand** is also in a vulnerable position: around 60% of its crude oil imports – 11% of the country's total imports – previously transited through the Strait of Hormuz. Amid sluggish economic growth and a change of government after several months of political instability, the energy crisis is amplifying uncertainty. There have been a number of instances of shortages, but the government has described them as isolated incidents and is calling on the Thai people to behave responsibly so as to avoid a run on service stations and self-fulfilling prophecies. Prime Minister Anutin has affirmed that the country has sufficient reserves. **The Thai government has also put in place an array of measures, though most of them are in the form of incentives:** encouraging remote working and car sharing, mandating that air conditioners be set to no lower than 26°, limiting overseas employee travel and controlling the price of high biofuel petrol so it remains cheaper.

Completing this trio, **the Philippines** appears to be the country most vulnerable to the Hormuz shock, as evidenced by the declaration of an “energy emergency” on 25 May. This vulnerability is down to the fact that the country's crude oil suppliers are not very diversified, concentrated in the Gulf (Saudi Arabia, United Arab Emirates and Iraq).

The Philippines faces both soaring energy prices and supply difficulties, notably as a result of multiple contracts being cancelled by foreign suppliers. The geographical structure of the country, made up of thousands of islands, also makes it difficult to ensure consistent energy coverage nationwide. Compounding the problem, **the country has no strategic oil reserves and no buffer beyond commercial stocks.** The International Energy Agency recommends a strategic reserve of more than 90 days of imports. In April, Thailand had enough strategic reserves to cover around 90 days' consumption, while India had enough for just 6 to 7 days, rising to 60 days if commercial reserves are taken into account. These three countries are among the region's poorest performers by this metric.

The Philippines has also taken a number of steps to mitigate the effects of the crisis and limit energy consumption: a four-day working week for civil servants and restrictions on non-essential travel; free public transport for students and workers in some cities; and reduced fuel consumption for public bodies.

The remaining countries can be divided into two categories: **the most developed economies, which have very large buffers and more room for manoeuvre** (Japan, China, South Korea); and **commodity-producing and energy-exporting countries** (Malaysia and Indonesia), which also have substantial reserves, allowing them to limit the risk of shortages while still leaving them exposed to price effects. Despite these different situations, all the countries mentioned have adopted energy consumption measures similar to those outlined above: travel restrictions, incentives (or, for civil servants, obligations) covering remote working, restrictions on air conditioning, and so on. South Korea has even added a two-day-a-week driving ban for civil servants and a one-day-a-week ban for private vehicles.

### Shock temporarily reshapes energy imports

The temporary unavailability of energy exports from the Gulf states has forced **Asian countries to turn to alternative sources**, chief among them Russia, against which only a few countries (South Korea, Japan and Singapore) had imposed sanctions. Countries that have sought to secure supplies of Russian oil include Thailand, the Philippines, Vietnam and Indonesia. President Prabowo visited Moscow in early April, securing delivery of 150 million barrels at a discounted price. Despite this sudden increase in demand, **Russia alone will not be able to make up the shortfall caused by the closure of the Strait of Hormuz**: the country has been exporting between 3 and 4 million barrels a day since the beginning of the year, not enough to make up for a loss of 20–25 million barrels a day. It should also be noted that Russian oil infrastructure is under constant pressure due to targeted Ukrainian attacks.

As for gas, some countries, including India, have implemented commitments entered into with the United States in the context of trade negotiations over import tariffs<sup>2</sup>. As is the case with Russian oil, however, this is not enough to make up for the reduction in supply caused by the closure of the Strait of Hormuz.

**Asia's poorest countries thus find themselves in competition for supplies** with countries such as China and India, whose far greater needs make them more attractive customers and therefore a higher priority for suppliers: India, for example, imports 6 million barrels a day to meet domestic demand, equivalent to the total consumption of all the ASEAN countries combined.

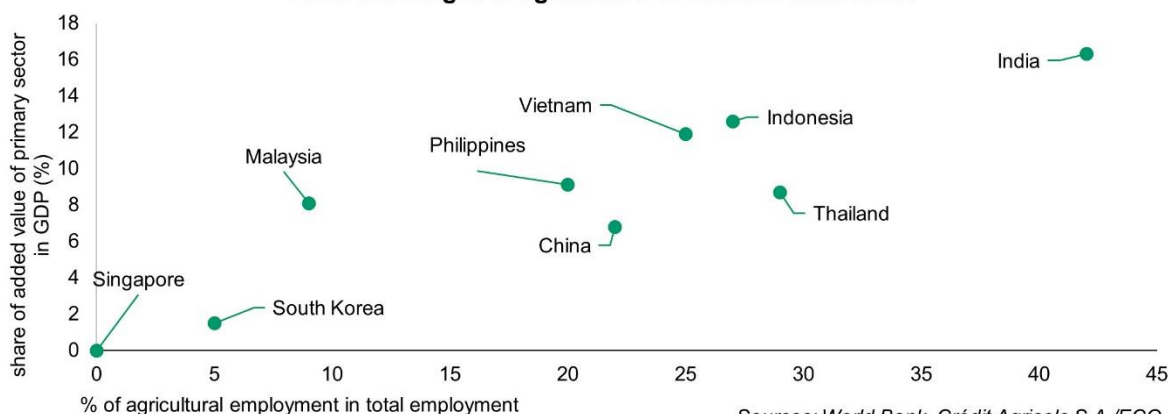
### Value chains: cascading direct and indirect effects

#### Agriculture: at the forefront of the shock

The agricultural sector was one of the first to be affected, mainly through higher prices of inputs transiting through the strait (e.g. urea, ammonia and sulphur). Asia is both the world's largest consumer and its largest producer of fertilisers, primarily for agricultural use. This means the sharp increase in input costs directly increases fertiliser production and selling costs, since margins in the sector are relatively low. The blockade has resulted not only in higher prices but also supply disruption for some countries mainly sourcing their supplies from China: Vietnam (55% of fertiliser imports), Myanmar (45%), the Philippines (37%), Indonesia (25%), Malaysia and Thailand (around 20% each). Indeed, China announced that it was suspending fertiliser exports as soon as the conflict began.

Asian countries play a different role in global agricultural value chains. **Thailand, Vietnam, Indonesia and India are major producers and exporters, particularly of rice, mainly for other countries in the region such as Malaysia, the Philippines, China and South Korea, which are less food self-sufficient.** Exporting countries are also the ones whose economies are most reliant on agriculture, with agricultural employment accounting for a large share of total employment (42% for India, 29% for Thailand, 26% for Indonesia and 25% for Vietnam) and agricultural value added accounting for a significant share of GDP (16.3% for India, 12.6% for Indonesia and 11.9% for Vietnam).

Asia: the weight of agriculture in national economies



<sup>2</sup> Many countries committed to increase their purchases of LNG as part of negotiations to lower so-called reciprocal tariffs.

Producers in the most exposed countries (Thailand and Vietnam) must therefore **choose between protecting their profits and maintaining the quantities they plant**, with the risk that the shock might persist into next year through **lower harvests, with further implications for inflation and purchasing power**.

**For producing and importing countries, such as the Philippines, the shock is even twofold**, with the risk of reductions in both domestic production and imports. At times of scarcity or constrained supply, authorities are quick to implement export control measures, jeopardising the food security of their usual customers. Some countries in the region have tried to secure Russian fertiliser supplies, but these would arrive too late in the agricultural cycle.

On top of this worrying situation is **a new aggravating factor: the El Niño phenomenon** – predicted to be one of the most violent of recent years – poses an additional threat to the agricultural output of affected countries (the Philippines, Thailand, Indonesia, Vietnam and Malaysia). This phenomenon involves abnormal warming of equatorial Pacific surface waters, triggering droughts, floods, tropical storms and climate disruption. While it is still too early to anticipate the impact of these combined effects on food security in Asian countries, as of now the agricultural sector looks to be one of the main victims of the closure of the Strait of Hormuz.



**Will Santa come this year?**

This is not such a silly question: **the petrochemical industry is directly affected by higher oil prices** and the reduced availability of naphtha, a petroleum derivative essential to the manufacture of plastics. **Industry experts estimate that around 50% of normal supply is at a standstill, constrained or directly affected, either because production sites (in particular those that produce ethylene and propylene) are located in the Gulf states (Saudi Arabia and the United Arab Emirates), because they depend on inputs that transit through the Strait of Hormuz to operate or because higher prices mean they are operating at a loss.**

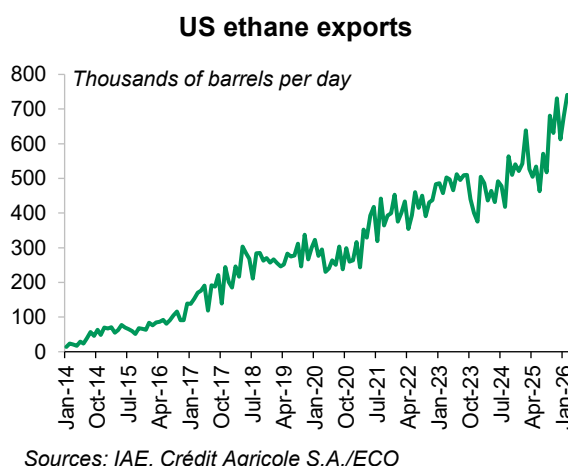
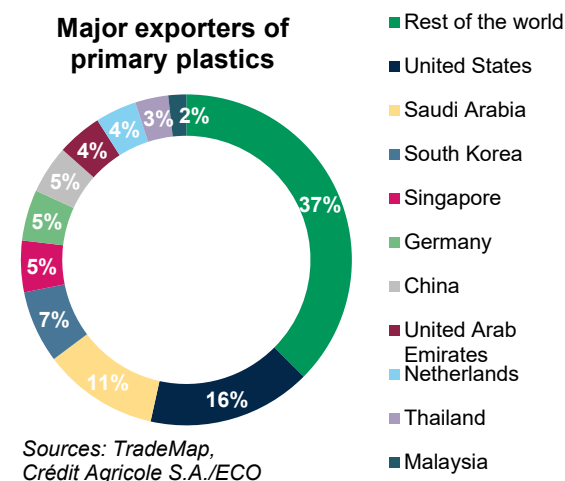
Asia’s leading petrochemical firms (Chandra Astri in Indonesia, Mitsubishi and Mitsui in Japan and Formosa Petrochemical in Taiwan) have invoked force majeure as grounds for switching their production facilities to short-time working. The knock-on impacts affect the entire value chain, from Chinese toy factories in Guangxi, owned by Wah Shing Toys, one of Hasbro’s and Mattel’s suppliers, to plastics used in packaging, necessary in the agri-food industry in particular, not forgetting cosmetics, pharmaceuticals and medical equipment. For example, the price of a tonne of ABS, a polymer heavily used in manufacturing Lego bricks, rose by more than 50% in China between February and May. **With the US importing around 75% of its toys from China and Vietnam, Chinese manufacturers pointed out that higher input costs, freight**

**costs and US import tariffs would necessarily lead to higher prices for US consumers.** Lastly, higher input prices have a less expected consequence: the quickening pace of automation in factories and the development of black factories, which are fully automated and operate in the dark.

Indonesia has already announced that it has lifted tariffs on polypropylenes and high-density polyethylene and is diversifying its supply sources (to include India, Latin America and Africa); authorities have advised packaging firms to switch to paper and cardboard to avoid shortages.

In South Korea, the concern is more the pharmaceutical industry, which fears shortages of some single-use plastic-wrapped items, such as syringes. Rumours of stock shortages have led to panic buying, raising fears of self-fulfilling prophecies.

**Countries in the region are also turning to substitute materials such as ethane**, a cheap alternative derived from natural gas and produced in large quantities by the US. While the US administration had restricted its exports of ethane to Asian countries – particularly China – in 2025 amid trade tensions, the situation is now easing. US ethane exports hit a record high in March, approaching 800,000 barrels a day, a year-on-year increase of 47%, driven by Chinese demand.



### *In services, air transport is struggling*

Bearing the brunt of higher energy prices, **Asian airlines are already struggling**. Kerosene accounts for around 30–40% of the operating costs of China’s main airlines (Air China, China Eastern and China Southern). Since the 2008 crisis<sup>3</sup>, Chinese airlines no longer hedge their fuel purchases. **Tightly regulated by the state, they have limited scope to pass on higher costs through ticket prices, particularly on domestic flights**, and are heavily exposed to competition from China’s high-speed rail network. May saw record numbers of domestic flights cancelled in China. While all Asian airlines (Singapore Airlines, Korean Airlines, Japan Airlines, ANA Holdings) have come under attack on stock markets, Chinese airlines have suffered the heaviest losses.

**Furthermore, those Asian countries that are most open to foreign tourism, notably from Europe (the Philippines and Thailand in particular), are affected by the slowdown at the Persian Gulf’s major hubs** (Dubai and Doha in particular), which serve as traditional connecting hubs for travellers. Thai authorities estimate that the conflict could cost them 5 million visitors a year, equating to 15% of total annual tourist numbers.

<sup>3</sup> Oil prices peaked at \$140 a barrel in June 2008 before slumping to \$40 a barrel in January 2009. This unexpected reversal caused each of these three airlines to lose more than CNY 6 billion (around US\$900 million at 2008 exchange rates), prompting the Chinese government to abandon hedging policies and instead focus on strengthening strategic reserves and other price-smoothing measures.

## Multiple transmission channels

### *Uneven growth momentum*

First-quarter growth figures in Asia reveal an uneven picture across the region, shaped by national developments.

Economies underpinned by the positive AI cycle (Malaysia, Taiwan, Singapore and, to a lesser extent, South Korea) continue to be driven by exports, as does Vietnam, which continues to benefit from its role as a China-US trading hub.

In the rest of Asia (India, Indonesia, Philippines, Thailand and Singapore), the picture is more mixed. These countries already appear to be experiencing the initial effects of the war on tourism (the Philippines and Thailand), domestic consumption (all countries) and exports due to price competitiveness issues (Thailand). These trends are sometimes compounded by local factors, creating more uncertainty and penalising investment expectations: examples include stock market concerns affecting the Indonesian currency and the political crisis in the Philippines.

Lastly, while Chinese growth has slightly exceeded consensus expectations, domestic demand indicators – whether in real estate sector or retail sales – remain very weak and April's industrial production index points to a sharp slowdown.

### *Limited success for fiscal support policies*

The Iran crisis is unfolding against a different economic backdrop in each of the region's countries. The hardest hit countries are also those already experiencing challenging economic conditions, and thus face **a double squeeze: a slowing economy coupled with a need for greater fiscal support to limit the price shock.**

**Oil-producing countries (Indonesia and Malaysia) have historically used fuel subsidies as a core pillar of their social policy**, but consecutive shocks (Covid-19, Ukraine and now the closure of the Strait of Hormuz) have forced them to gradually rationalise such programmes. Following a 50% hike in diesel prices in 2024, Malaysia opted not to raise prices again but introduced a cap of 200 litres a month per household with effect from 1 April. Expenditure on these subsidies since the beginning of the crisis is already close to \$1 billion.

After reducing its fuel subsidies in 2022 and 2025, Indonesia also introduced a cap on subsidised fuel consumption of 50 litres a day for four-wheel vehicles with effect from 1 April, but is not planning an across-the-board reduction in subsidies in 2026. Despite this cap, significant fiscal support will be required if subsidies remain at their current level for the rest of the year.

**These two countries have relatively sound public finances** (Malaysia had a 3.8% budget deficit in 2025, compared with 4.1% in 2024; Indonesia's was 2.9% in 2025) **but little room for manoeuvre given the issue's social sensitivity.** Cutting subsidies too quickly could trigger a public backlash – something the authorities are keen to avoid at all costs.

**Meanwhile, Vietnam and Thailand use their sovereign wealth funds to cushion the impact of higher energy prices during periods of market tension.** This method revealed its limitations at the end of March, when the Thai Oil State Fund failed to effectively cushion the shock. During March, the Fund spent nearly 3 billion baht (€79 million) a day subsidising prices at the pump before funds ran out and prices soared. Meanwhile, Vietnam adopted a mixed approach, scrapping its environmental fuel duty until 30 June 2026 and activating a \$200 million energy stabilisation fund last used in 2023. While this approach proved more effective, it required substantial fiscal support.

Lastly, **the Philippines appears once again to have been the country least prepared for the sharp increase in fuel prices and has had to urgently mobilise substantial fiscal resources**, which will weigh on the country's public accounts. Instead of subsidising fuel prices like its neighbours, the country has focused on securing supplies to avoid shortages. At the end of March, the government launched a \$333 million emergency fund to finance crude oil purchases, as well as targeted subsidy programmes aimed primarily at commercial drivers, fishermen, farmers and public transport. While the public deficit stood at 5.6% in 2025, fiscal austerity came at the cost of a sharp rise in fuel prices for the entire population.

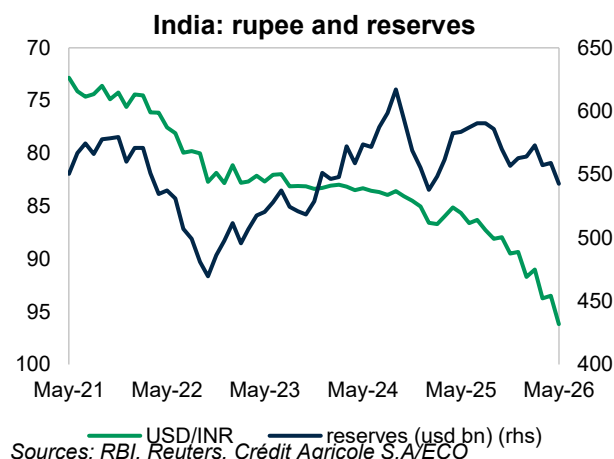
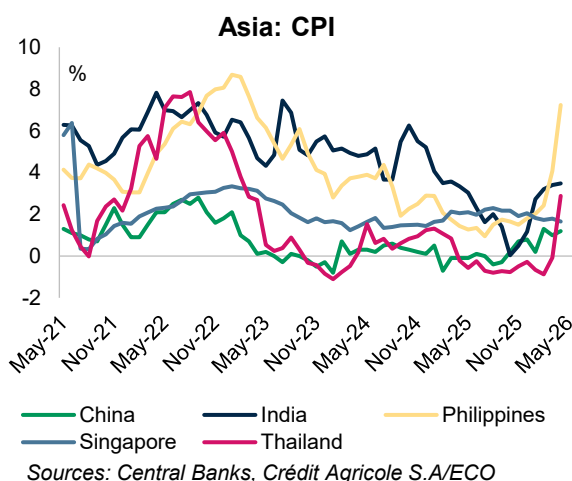
### Difficult trade-offs for central banks

Inflation has begun to pick up right across Asia. This dynamic is not at all surprising: the same trends were seen when the war in Ukraine started, triggering a sharp rise in commodity prices. The key difference being that this was a passing shock for Asian countries: since most did not impose sanctions on Russia, they only experienced price effects, with little fear of potential shortages.

**Unsurprisingly, the countries most exposed to rising consumer prices are those that import commodities: they are bearing the full brunt of imported inflation at a time when their currencies are depreciating.**

India looks to be particularly exposed. While consumer price inflation remained relatively contained in March and April (3.5% YoY), the Reserve Bank of India (RBI) has had to intervene several times in recent weeks to stabilise the rupee, which has fallen to an all-time low of around 97 to the dollar and is gradually nearing the psychological threshold of 100 to the dollar. The RBI reportedly sold \$5 billion-worth on 21 May alone and is thought to be considering the possibility of adopting new exceptional measures to support its currency.

President Modi has also called on Indians to delay purchases of gold (a traditional gift given at weddings and religious ceremonies) and decided to raise import tariffs on gold and silver from 6% to 15%. Gold is the second most imported commodity after oil and a major contributor India's trade imbalance. The hike in import tariffs is aimed at curbing dollar outflows, with the central bank needing its reserves to support the rupee and settle priority purchases (oil, gas and fertilizer).



The next meeting of the RBI's Monetary Policy Committee, scheduled for 5 June, could be brought forward to urgently raise interest rates by 25 or 50 basis points (bps). Indonesia and the Philippines, also facing currency depreciation and quickening inflation, have already raised interest rates by 50 bps and 25 bps respectively, bringing them to 5.25% and 4.5%. However, since inflation is mainly driven by a supply shock stemming from imported goods with volatile prices, raising interest rates is not a particularly effective response and instead risks weighing on domestic activity.

Central banks' objective in raising interest rates is thus primarily linked to concerns around external balances, enabling them to signal both their credibility and their monetary discipline to the rest of the world in an effort to limit capital outflows and currency volatility. This is particularly true of Indonesia, where financial markets are currently under pressure. The country faces the threat of being downgraded to the "frontier market" category by MSCI (from its current "emerging market" status) as a result of equity market governance concerns (a lack of transparency and suspicions of overvaluation) and has been assigned a negative outlook by two rating agencies due to its fiscal trajectory (credibility of fiscal consolidation and allocation of spending). Its central bank is thus trying to carefully manage its monetary policy to prevent the prevailing volatility from intensifying further.

Lastly, the Philippines' central bank is also worried that the slowdown in remittances from overseas workers (10% of GDP) will put more pressure on the peso, which has depreciated more sharply against the dollar

since the start of the conflict than any other currency in the region. Here again, hiking interest rates, while unlikely to resolve the inflation issue, is aimed at protecting the currency as far as possible.

**Having substantially eased their monetary policy since 2024 in the wake of the Fed's rate cuts, Asian countries have some leeway to tighten rates if necessary.** Where possible, either because inflation remains under control or because external pressures are less severe, they will no doubt wait a little longer with the aim of supporting domestic activity, in the hope that the conflict will ease.

### *The case of China*

**For the time being, China does not seem to be facing supply difficulties.** Although just over 40% of its imported oil comes from the Gulf states, and notably Iran, of whom it was by far the largest customer, China is able to turn to other suppliers, at least in the short term, such as Russia. **The country also has just over three months' worth of strategic reserves and the authorities have announced the suspension of exports of refined oil so as to maintain their reserves.**

In the longer term, however, the issue of Iranian oil could become a problem. **Some of China's refineries have prospered by buying discounted Iranian crude oil transiting through Malaysia and fuelling a Chinese industrial model based in part on price competitiveness.**

**In the short term, the impact of the war is already reflected in producer prices,** which have begun to rise (up 2.8% YoY) for the first time since September 2022. We can thus conclude that it has taken a shock of the magnitude of the closure of the Strait of Hormuz for China to emerge from deflation. On paper, this is rather good news: deflation is very bad for economies, plunging them into a vicious cycle that often leads to a decline in investment, job losses and a loss of production capacity.

**However, such an analysis ignores the fact that this deflation is the result of sluggish domestic demand and, above all, an intense price war among businesses, sharply squeezing their margins and profits.** Despite economic growth of 5% in 2025, industrial companies grew their profits by just 0.6% over the same period.

This phenomenon of "involution" – a form of unbridled and excessive competition that results in this kind of profitless growth – has not yet run its course, despite "campaigns" run by the authorities, notably because consolidation has yet to take place in the hardest hit sectors (electric vehicles, solar panels, batteries), where there is still excess production capacity.

**China's emergence from deflation thus has nothing to do with the rebalancing of supply and demand through adjustments to production volumes; rather, it is driven by higher production costs.** This means the latter are likely to feed through into prices and, above all, penalise economic activity.

Consumer prices have not yet been affected by the rise in energy costs (up 1.2% YoY in April), notably because of the stabilisation in food prices. **Higher producer and consumer prices are also mitigated by the yuan's appreciation against the dollar.** Since the beginning of the year, the Chinese currency has fallen to less than 7 yuan to the dollar and is now trading at around 6.8 to the dollar, a level not seen since January 2023, helping curb imported inflation slightly.

**✓ Our opinion** – *As we said, the ongoing conflict adds to a long list of shocks affecting Asia since Covid-19 and exacerbates certain structural weaknesses (such as reliance on fossil fuels and their derivatives). Faced with a shock transmitted through multiple channels, including prices, value chains and the availability of certain inputs, Asian countries are forced to make sometimes difficult trade-offs, notably in the area of fiscal and monetary policy. How can we support the most vulnerable economic actors without putting too much pressure on public finances, how effective might such support be, and how long should it be maintained? In formulating their strategy, how should central banks balance monetary orthodoxy, support for their currencies and external balances, and the need to maintain economic activity? Faced with this crisis, Asian countries are once again confronting problems typically associated with emerging economies: balance of payments issues, depreciation weighing on foreign currency debt, and an inflationary spiral. While they are now better equipped to deal with these challenges, the longer the conflict persists, the greater the risk of such vulnerabilities crystallising in the most vulnerable or exposed countries.*

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