

# Iran – Israel conflict

## Mounting tensions

### Impacts on Vietnam's macro landscape

— KBSV assesses that the escalating conflict between Iran and Israel will unlikely directly affect Vietnam's economy due to limited bilateral trade and FDI flows. Specifically, Vietnam's total import-export turnover with Israel has remained around USD3 billion over the past two years, with no recorded data for trade with Iran. Furthermore, FDI from both countries collectively account for less than 0.1% of Vietnam's total FDI. However, indirect impacts, particularly concerning inflation and exchange rates, are probable:

**Rising inflation risks:** The conflict is situated in a region critical to global oil supply. An intensification could lead to a sharp increase in crude oil prices, subsequently driving up energy and transportation costs and triggering cost-push inflation. This mirrors the scenario observed in 2022 during the Russia-Ukraine war. While the inflationary impact of the Russia-Ukraine conflict was more substantial due to the significant roles of both nations in global energy and food supply, the Iran-Israel tensions, if coupled with a tariff shock, could still present unpredictable risks.

**Exchange rate risks:** Geopolitical instability typically prompts global investors to seek safe-haven assets like gold or the US Dollar (USD). Despite a significant decline in the US Dollar Index (DXY) since the beginning of the year, the USD/VND exchange rate has sharply appreciated, diverging from the general trend of other regional currencies. This rise is attributed to concerns over potential tariff impacts on exports and FDI inflows. Should the DXY rebound in the near term, pressure on the exchange rate could intensify further.

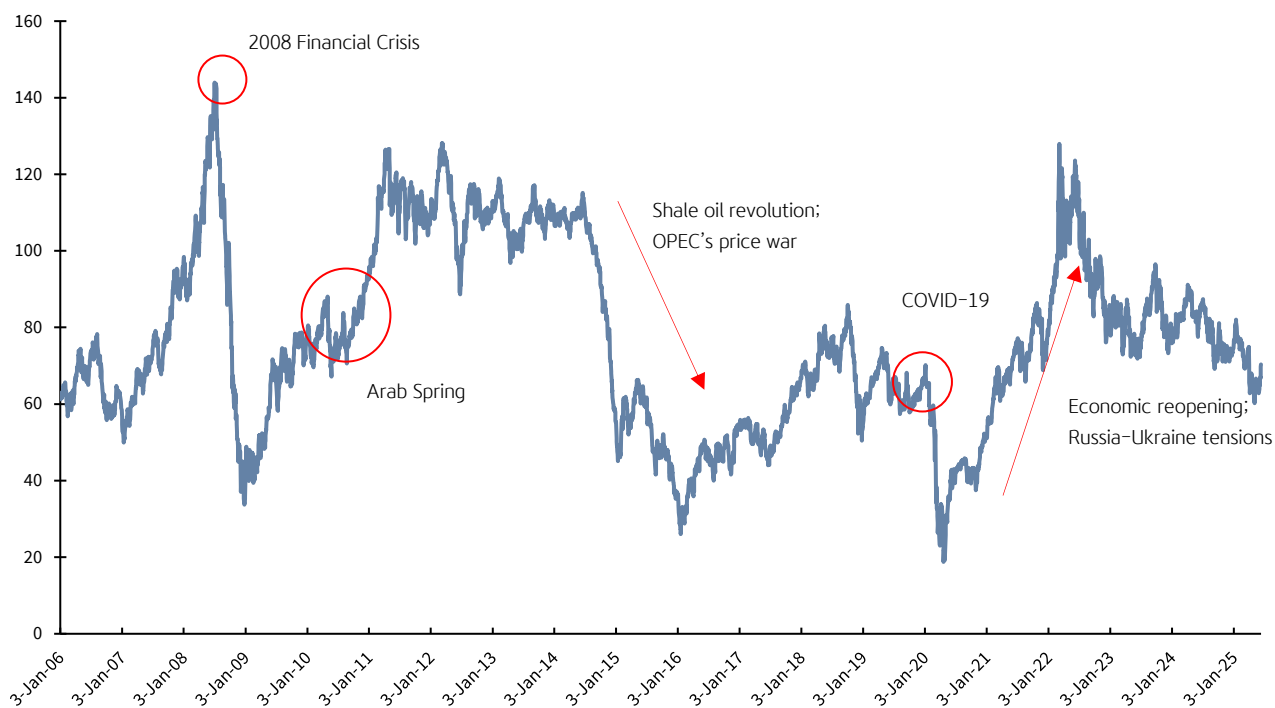
### Impacts on the equity market

— **Short term:** We anticipate the conflict will provoke a negative psychological reaction in global financial markets, leading to corrections across various financial assets. Given Vietnam's strong correlation with global market trends, its stock market will likely experience a negative impact.

— **Medium term:** Assessing the precise effects on inflation and exchange rates will require more time, especially as these factors interact with ongoing tariff negotiations. The trajectory of oil prices warrants close monitoring; if Brent crude surpasses USD90 per barrel, inflationary pressures will become more pronounced.

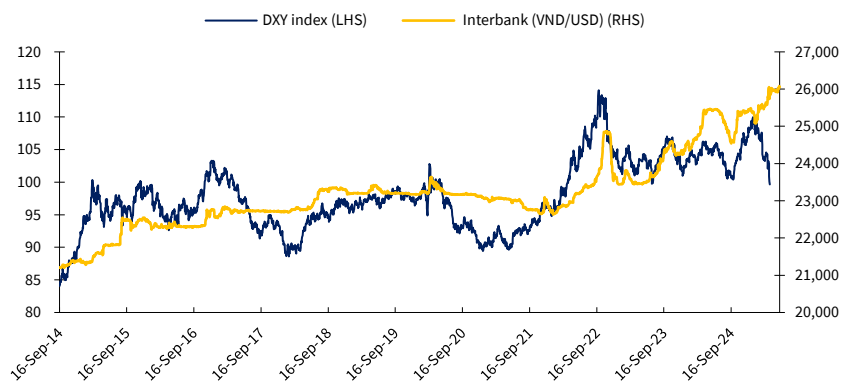
— **Parallels with the Russia-Ukraine war in 2022:** The initial phase of the Russia-Ukraine conflict also caused a significant psychological shock. However, capital flows gradually shifted, leading to strong differentiation among sectors. Funds eventually rotated away from risk-sensitive industries toward those poised to benefit from the conflict. We believe that the **upstream oil & gas** and **maritime shipping** sectors could directly benefit from the Iran-Israel escalation, as both conflicts are centered around critical nodes in global oil production and logistics.

Fig 1. Global – Brent crude oil prices (USD/barrel)



Source: KB Securities Vietnam

Fig 2. US, Vietnam – DXY, interbank USD/VND exchange rate



Source: KB Securities Vietnam

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**Investment ratings & definitions**

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**Investment Ratings for Stocks**

**(Based on the expectation of price gains over the next 6 months)**

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

**Investment Ratings for Sectors**

**(Based on the assessment of sector prospects over the next 6 months)**

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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