

# Emerging Markets Roundtable

How much has the energy shock changed the EM outlook?



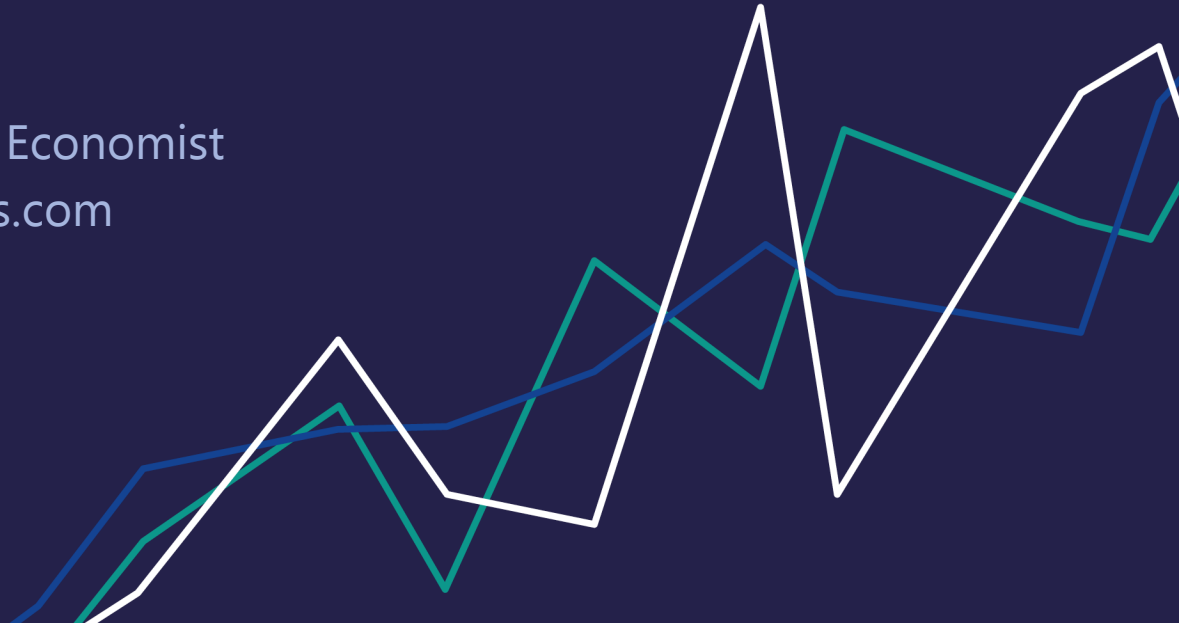
# Agenda

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- How the Iran war is shaping the EM outlook.
- The long-term legacy for the Gulf.
- Shifting demand for China's green tech.

# How the Iran war is shaping the EM outlook

Shilan Shah, Deputy Chief EM Economist  
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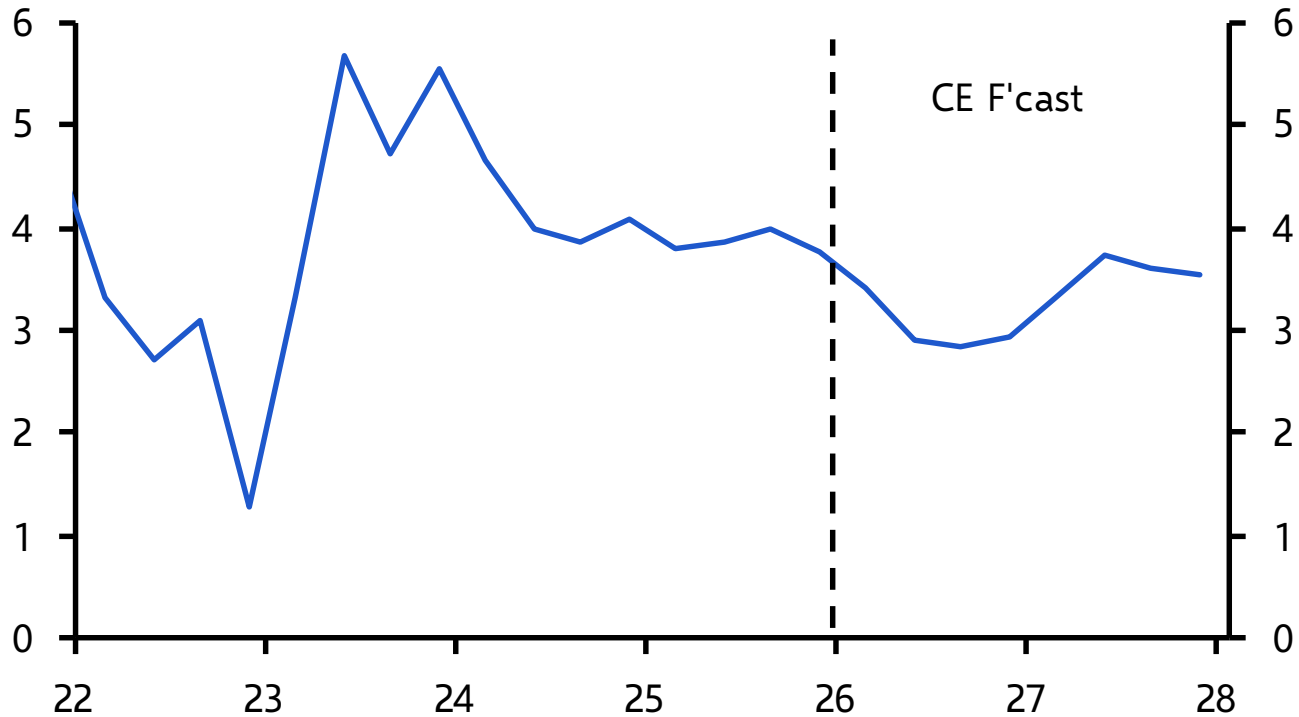


# CE Scenarios for Energy Prices

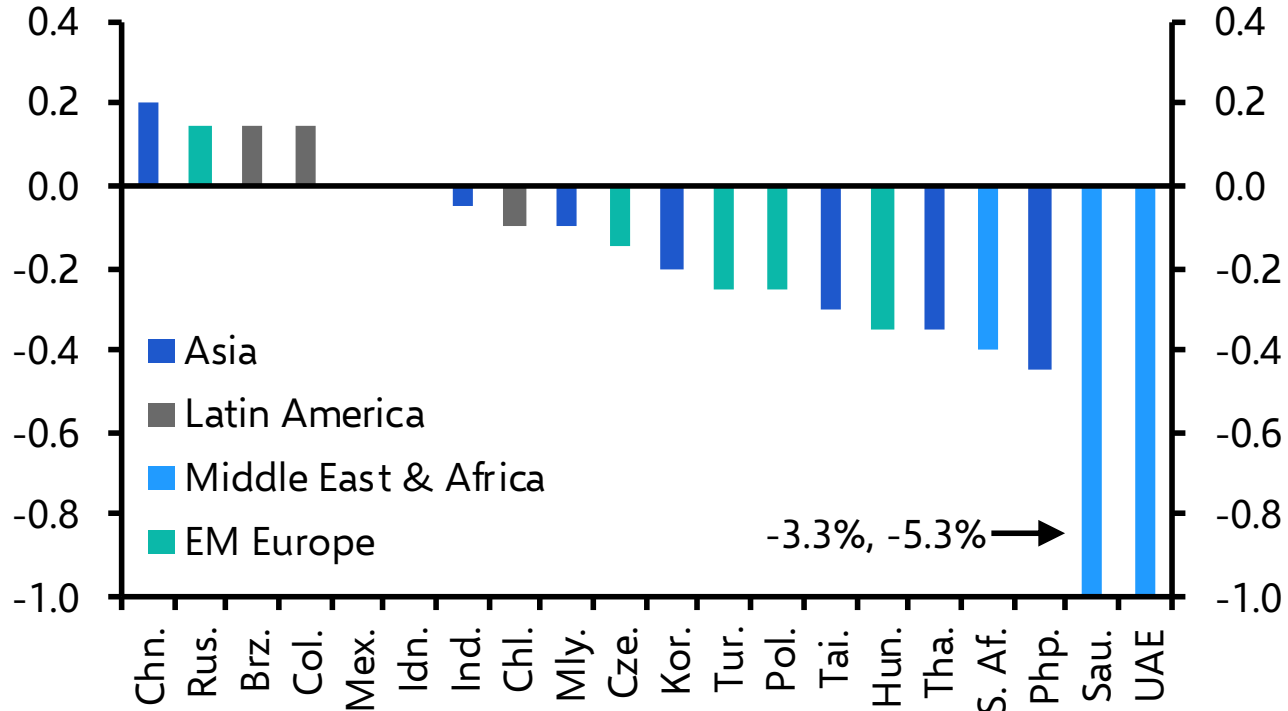
	Baseline	Adverse
<b>Description</b>	Strait of Hormuz gradually re-opens within a few weeks. Damage to energy infrastructure is limited.	Conflict resumes and lasts at least another three months. Lasting and significant damage to energy infrastructure.
<b>Energy market impact</b>	Loss of ~4% of global annual petroleum exports in 2026 and 6% of LNG. Oil exports fully recover by 2027; the recovery in LNG exports is slower.	Loss of ~8.5% of global annual petroleum exports in 2026 and 11% of LNG. Oil and LNG exports recover slowly as infrastructure is rebuilt.
<b>End-26 Brent crude oil (\$/barrel) <i>Pre-war: 50</i></b>	80	120
<b>End-26 EU TTF natural gas (€/MWh) <i>Pre-war: 25</i></b>	50	105
<b>End-26 Asian JKM LNG (\$/Mbtu) <i>Pre-war: 8.5</i></b>	18	38

Source: Capital Economics

# Aggregate EM GDP (% y/y)

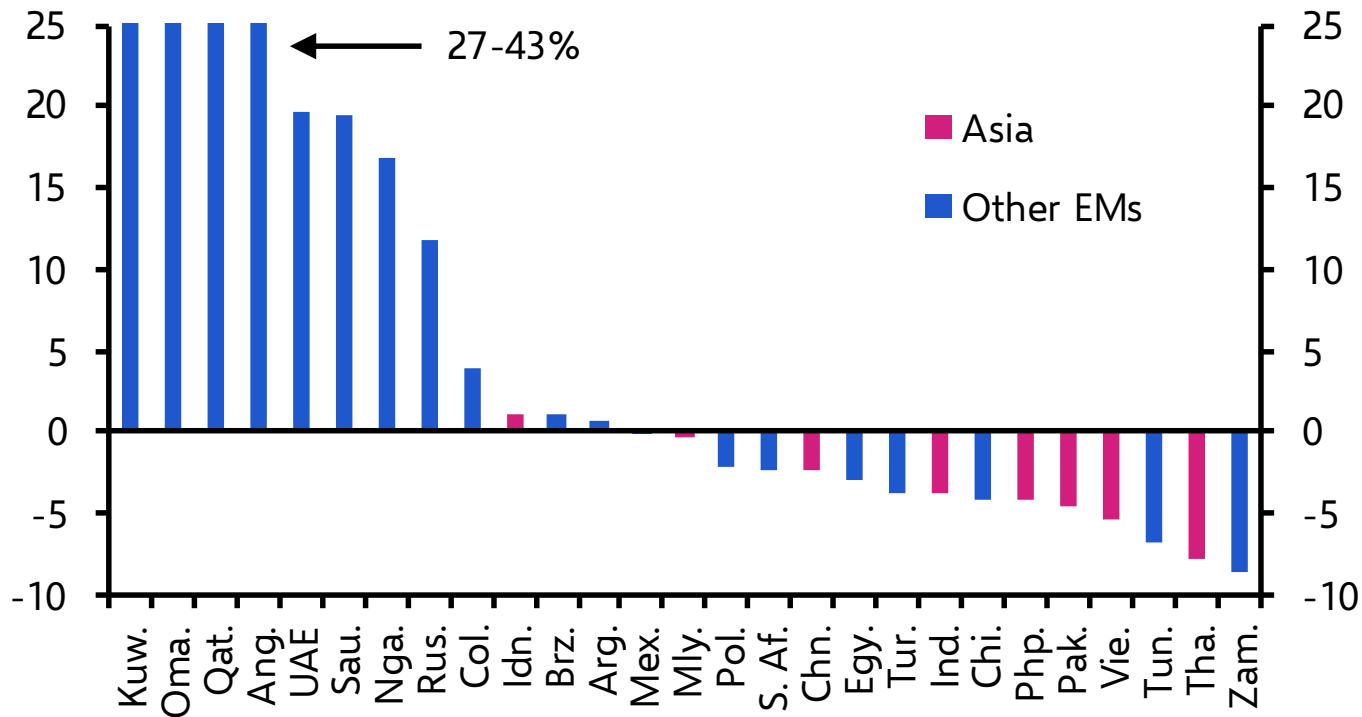


# Change in CE 2026-27 Growth Forecasts (vs. Pre-War, %-pts)



Sources: LSEG, Capital Economics

# Net Energy Exports (% of GDP, Latest)

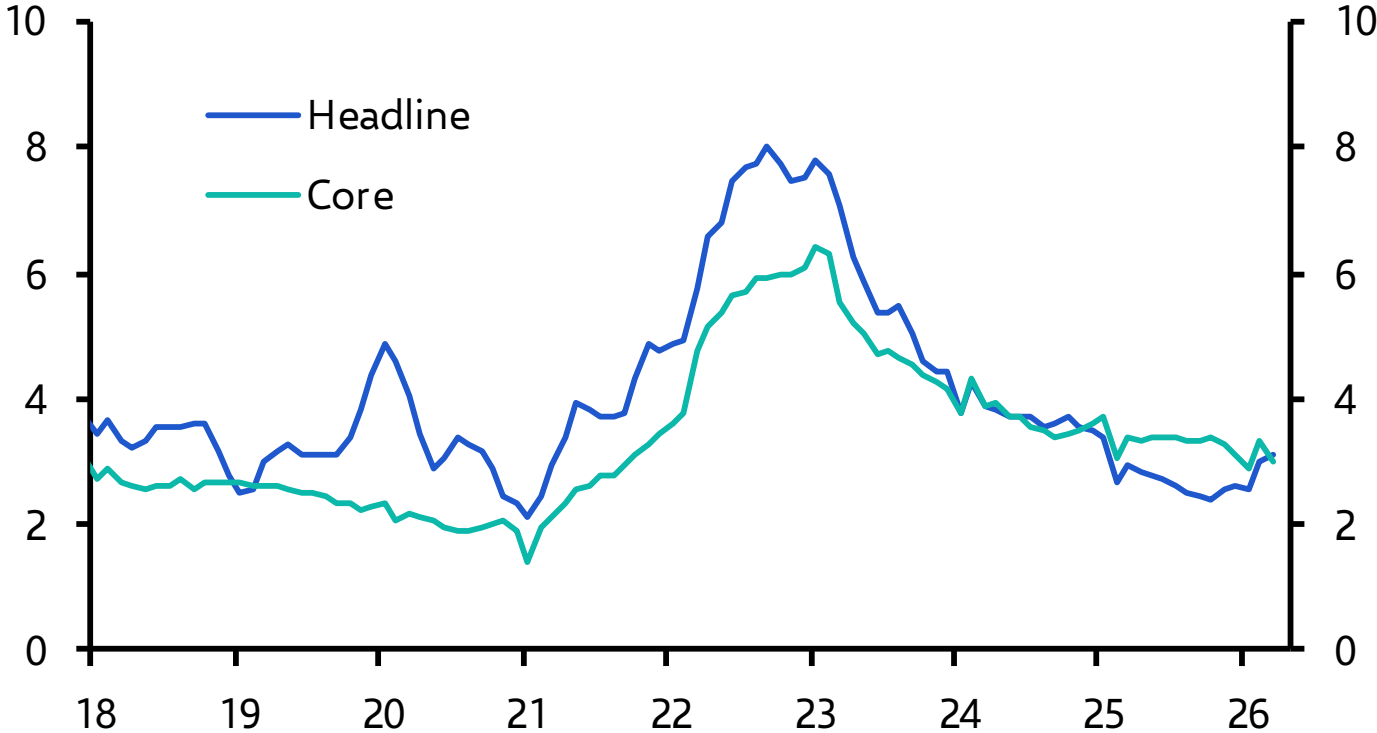


# Non-energy goods shortages

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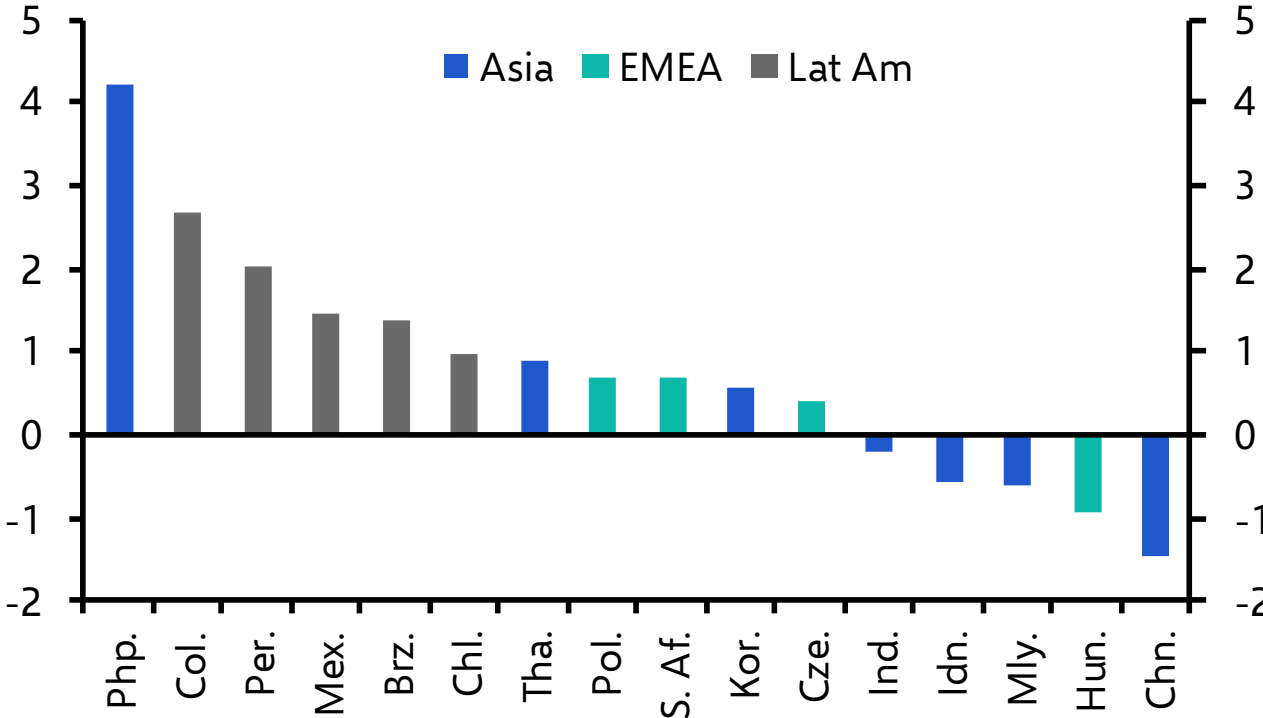
- Strategic reserves and alternative sources provide buffers against shortages of helium – semiconductor boom likely to continue.
- Shortages of plastics and synthetic rubber are more acute – manufacturers in Asia at risk.
- Shortages of sulphur and fertiliser will be felt most in lower-income EMs, particularly Africa and South Asia.

# Aggregate EM Inflation (%)



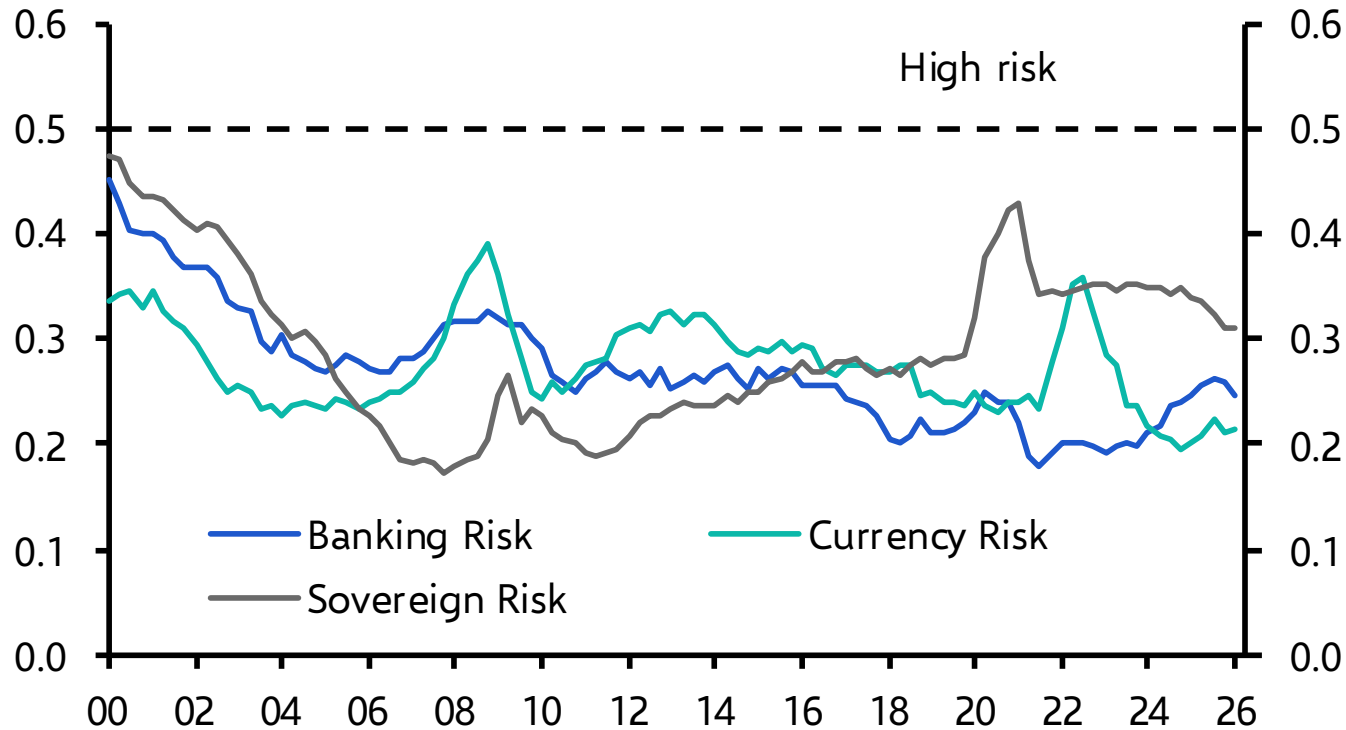
Sources: LSEG, Capital Economics

# Inflation Less Central Bank Target (%-pt, April)



Sources: LSEG, Capital Economics

# CE EM Financial Risk Indicators



Sources: LSEG, Capital Economics

# The long-term legacy for the Gulf

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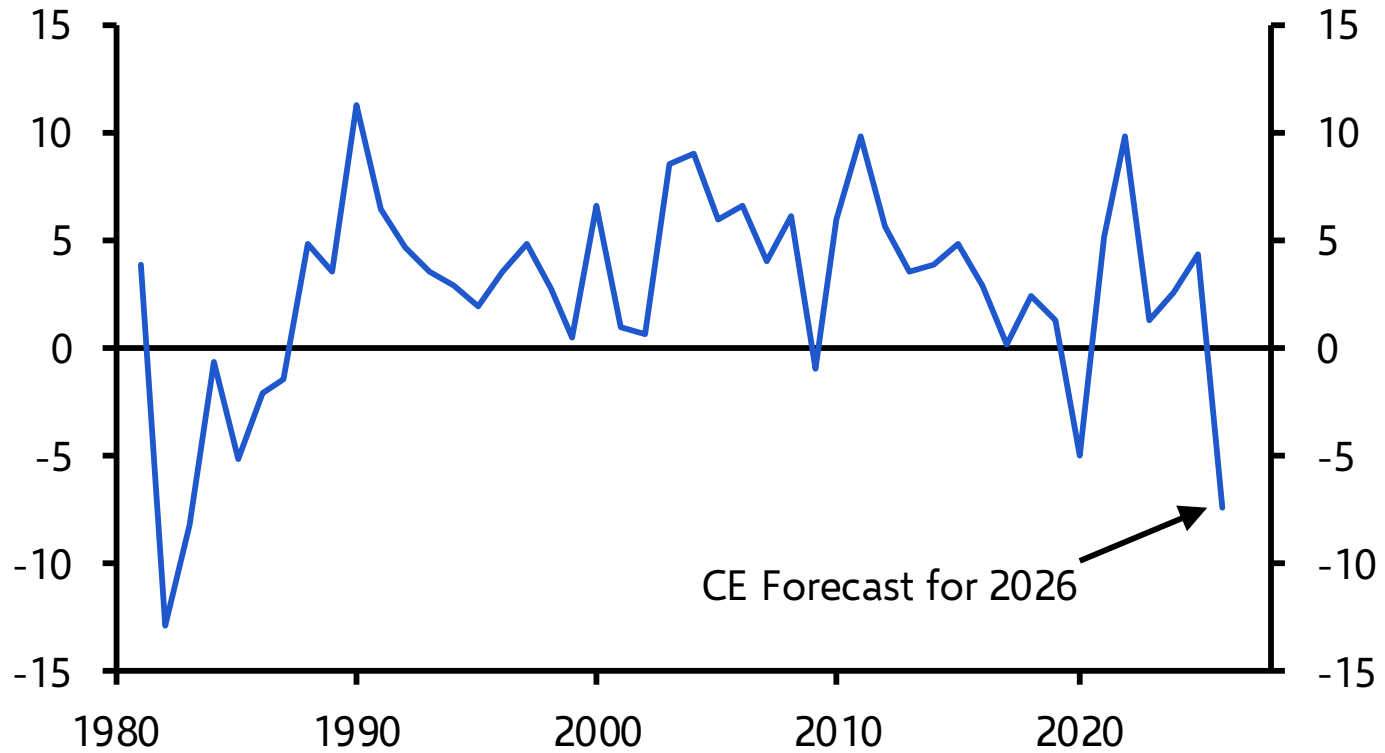


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- Judging the war's near-term impact.
- How will the war affect energy policy?
- Are the Gulf's diversification plans at risk?
- What will be the war's geopolitical implications?

# Gulf GDP (% y/y)



CE Forecast for 2026

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# The Iran War and Gulf Energy Policy

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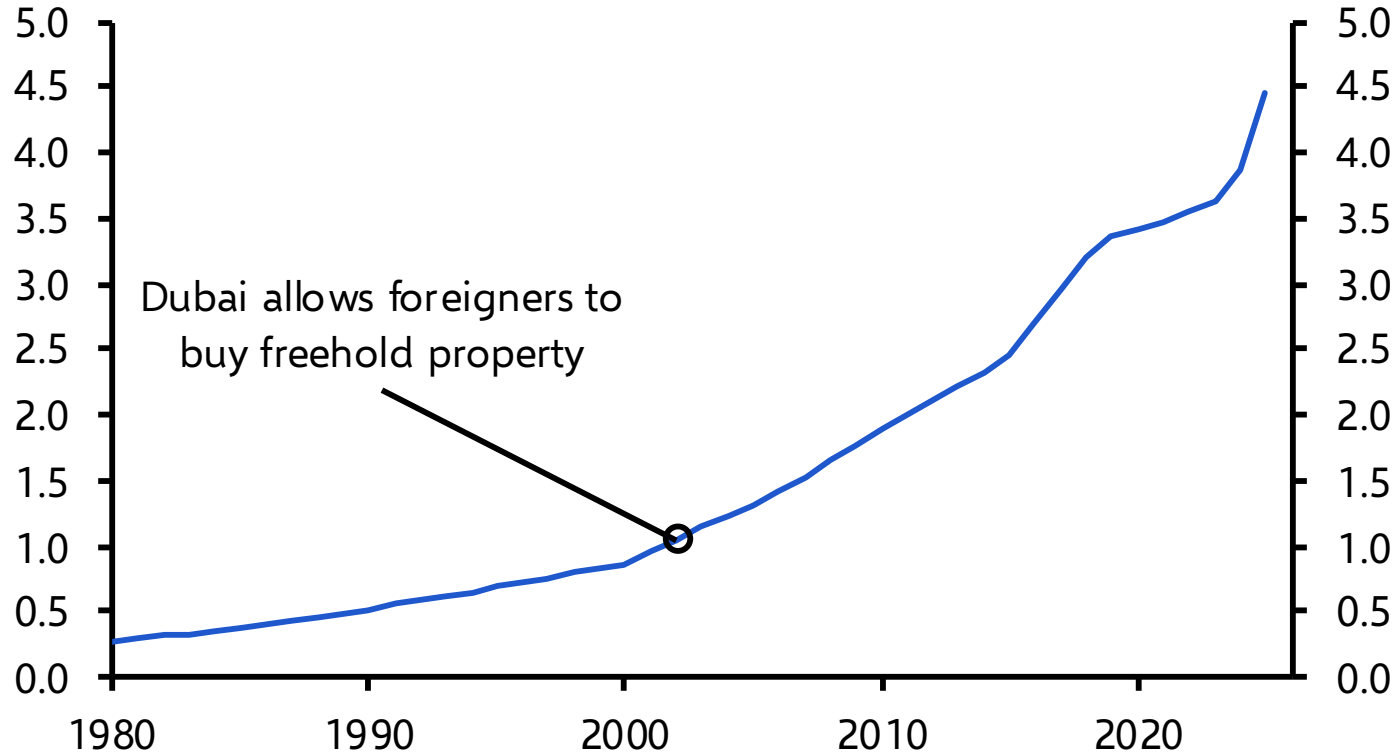
- Closure of the Strait will accelerate efforts to circumvent the waterway.
- Rest of the world will seek energy efficiency gains, potentially bringing forward peak oil demand.
- That could be to the benefit of China's green tech industry.
- Gulf likely to ramp up oil output. UAE's OPEC exit is a step in this direction.

# Agenda

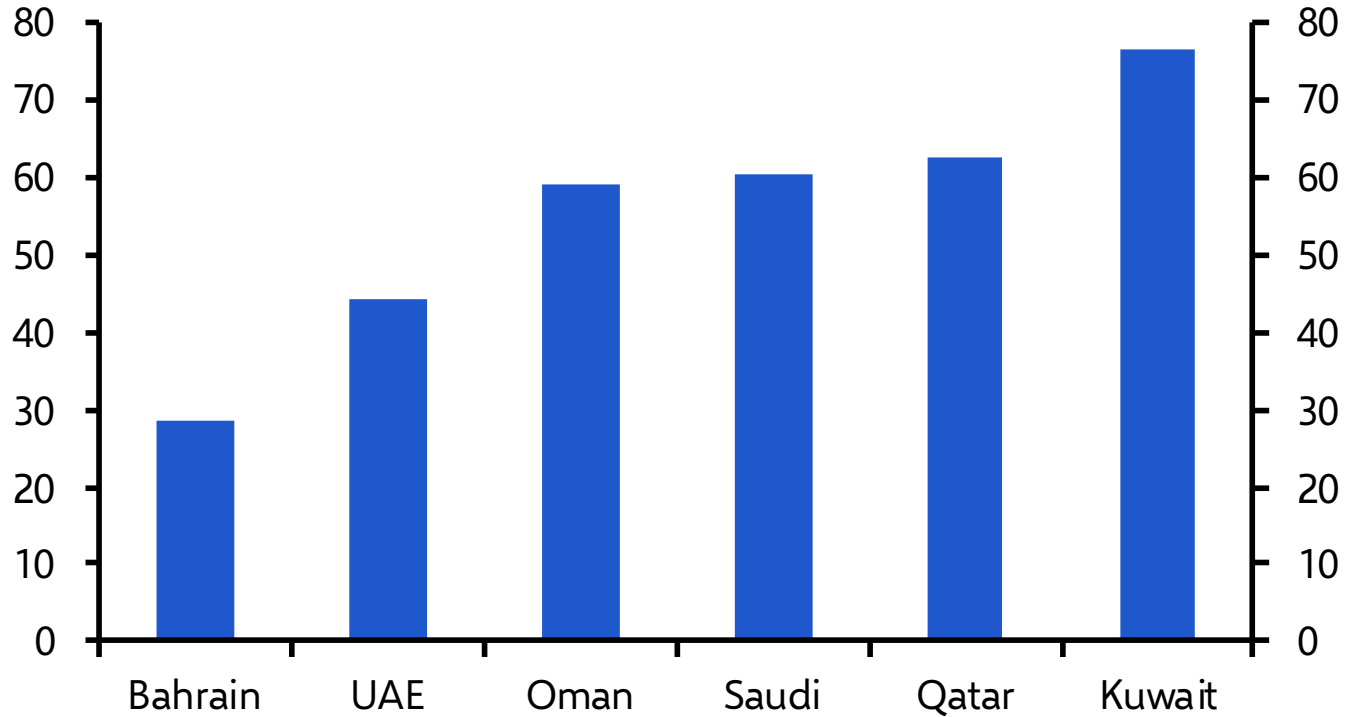
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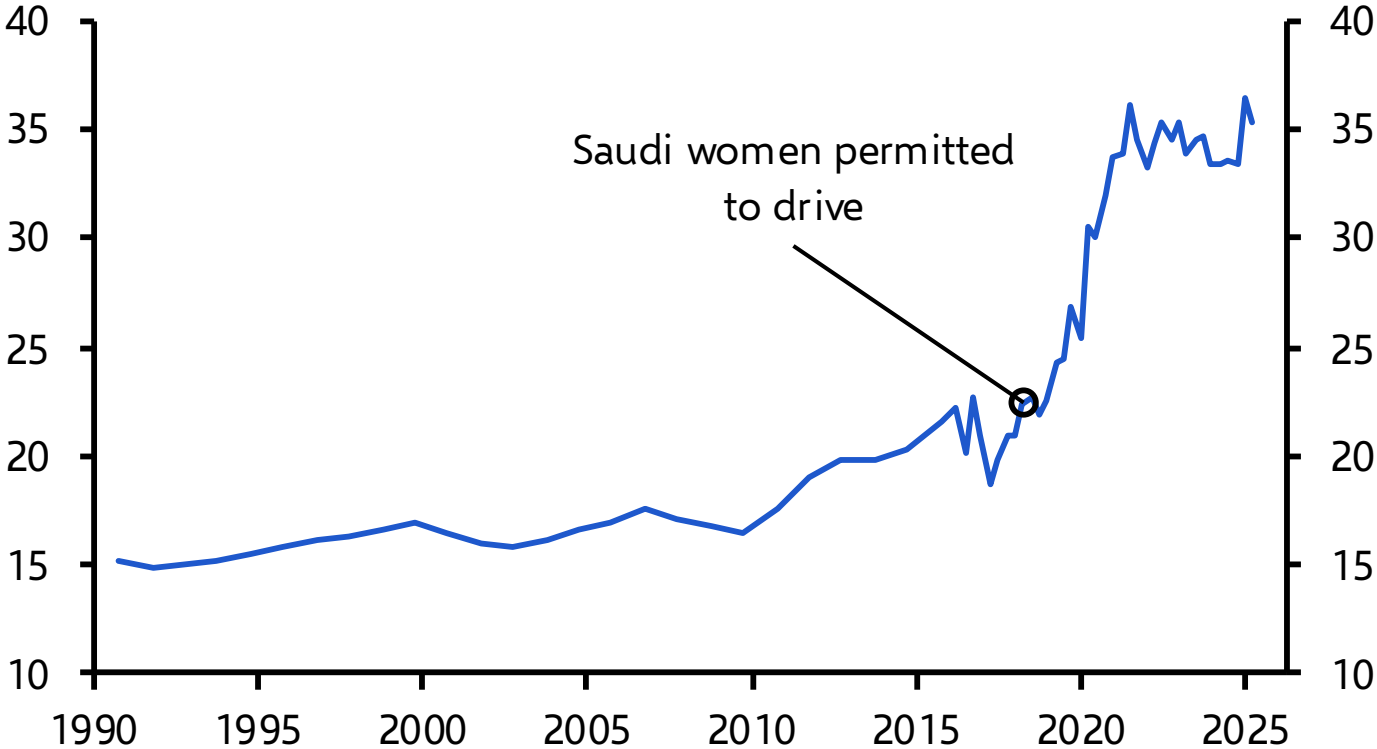
# Dubai Population (mn)



# Hydrocarbons Share of Exports (%)



# Saudi Female Participation Rate (%)

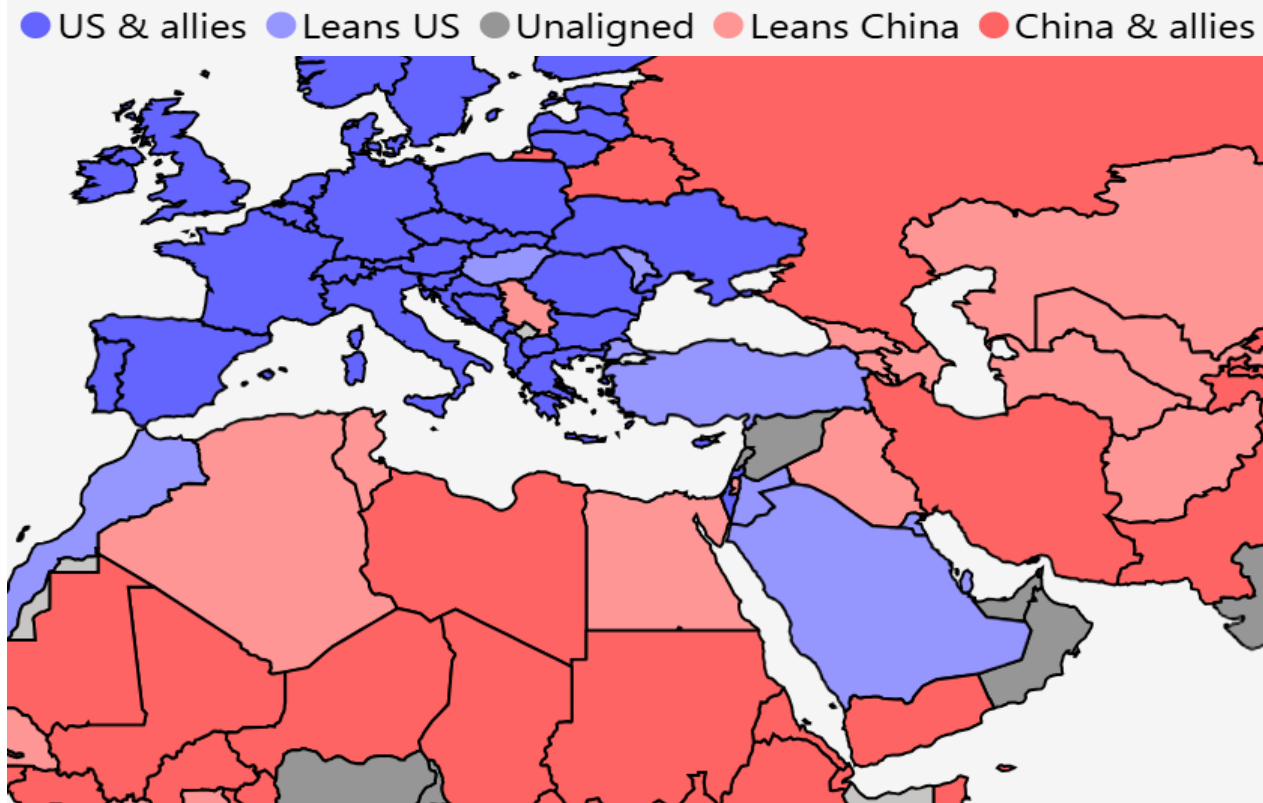


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# CE Classification of Geopolitical Alignment (2026)

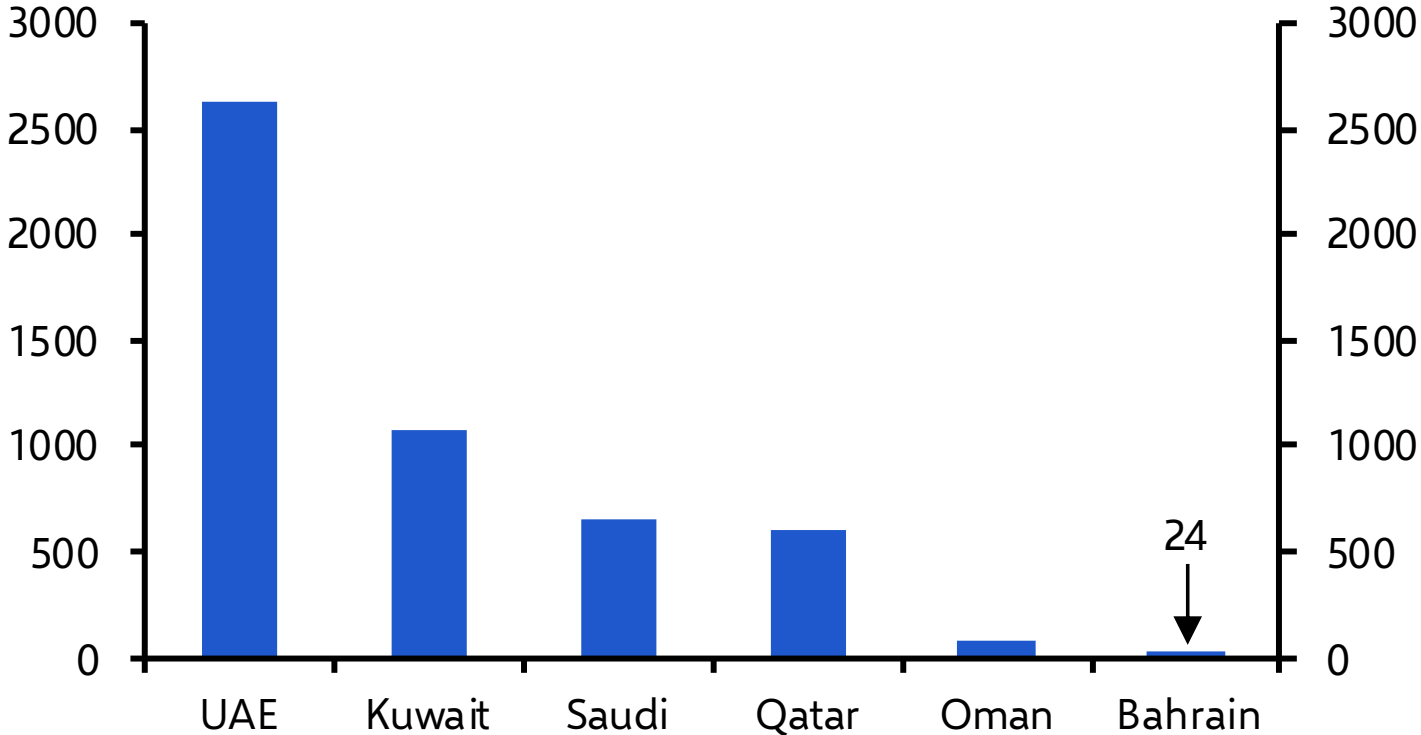


# What are the geopolitical implications?

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- UAE appears to be going all in with its relations with the US, and Israel too.
- But many are uneasy about the war; close US ties made them targets.
- Those countries are likely to seek to hedge their geopolitical bets.

# Sovereign Wealth Fund Assets and Official FX Reserves (\$bn)



# Conclusions

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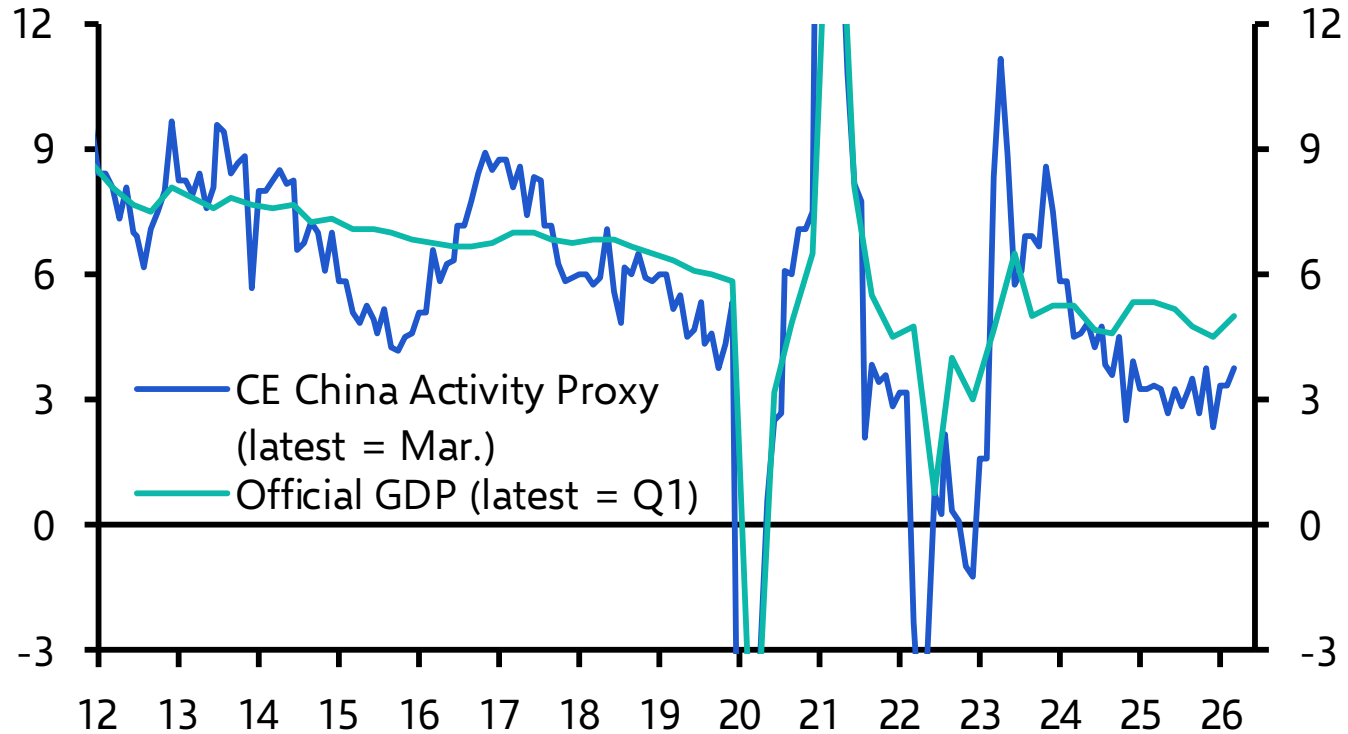
- Oil prices could end up lower than might otherwise have been the case.
- War could change diversification plans to a more reform-focused approach.
- Gulf may question ties with US and hedge their geopolitical bets. But talk of petrodollar's demise is overdone.

# Shifting demand for China's green tech

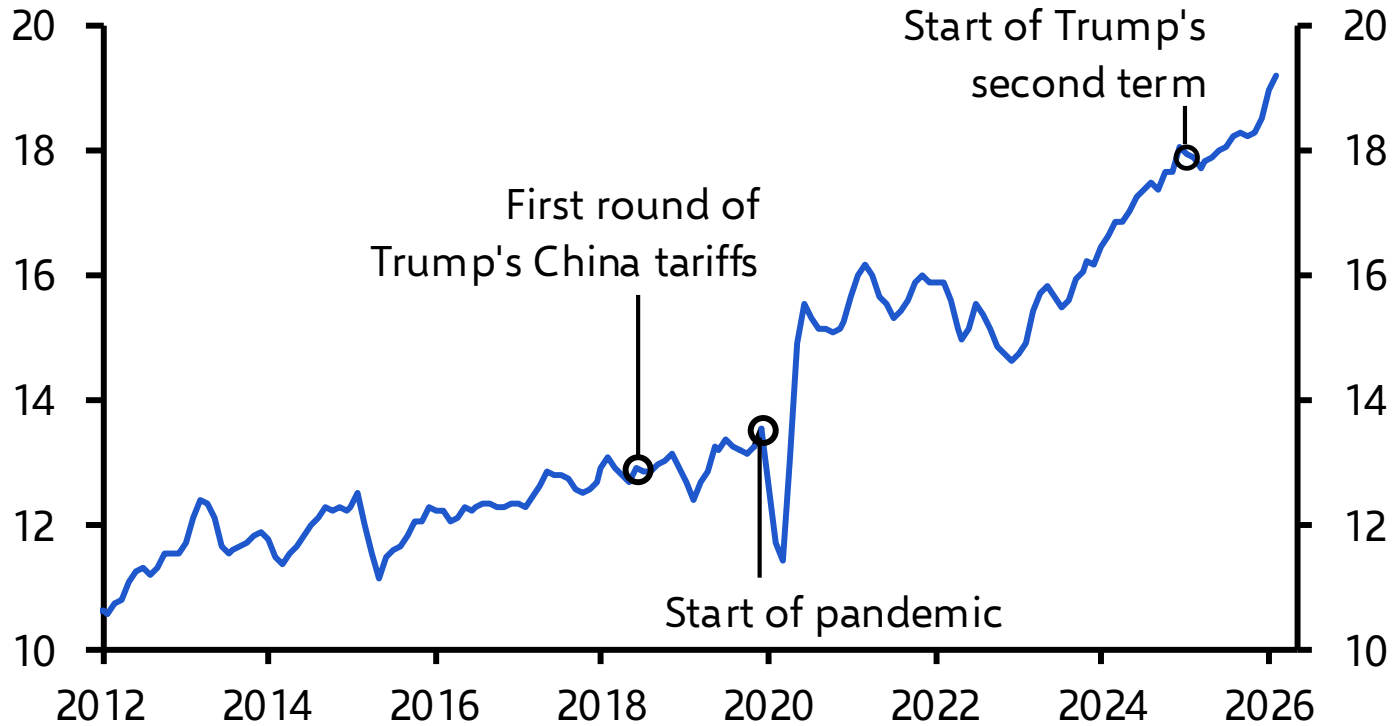
Leah Fahy, Senior China Economist  
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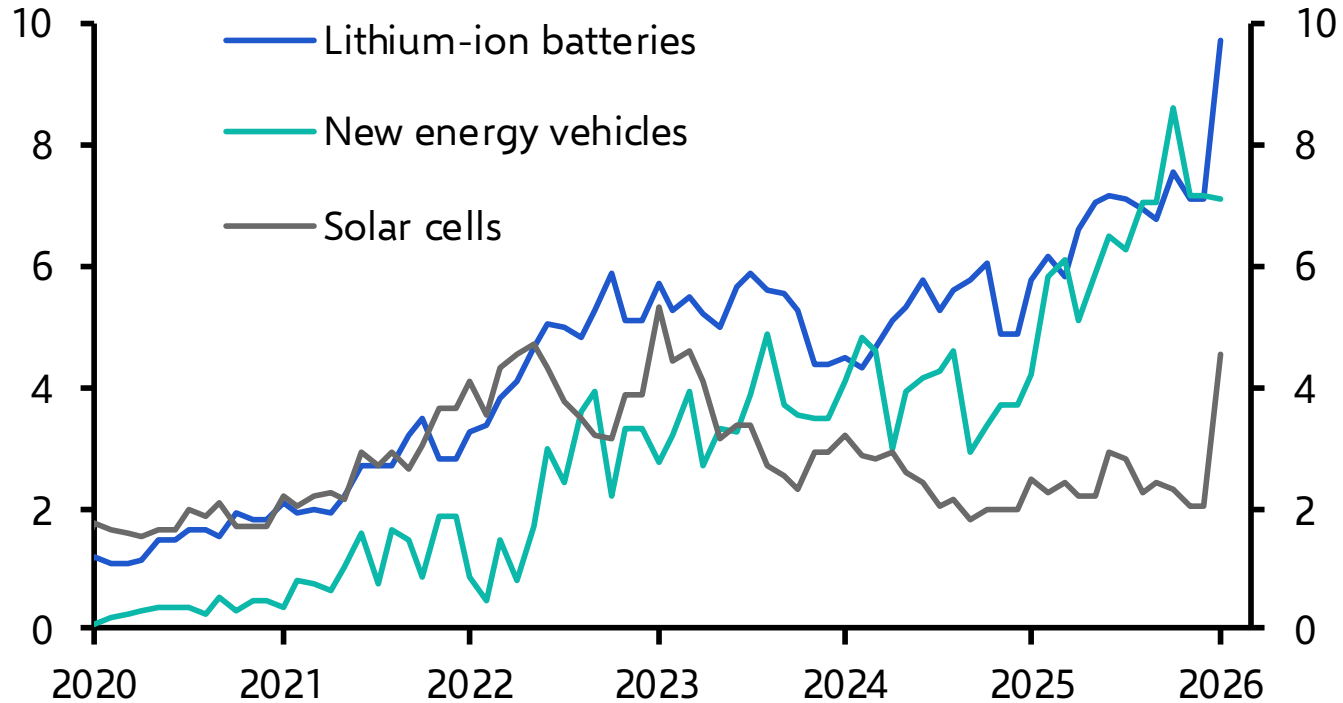
# Capital Economics China Activity Proxy & Official GDP (% y/y)



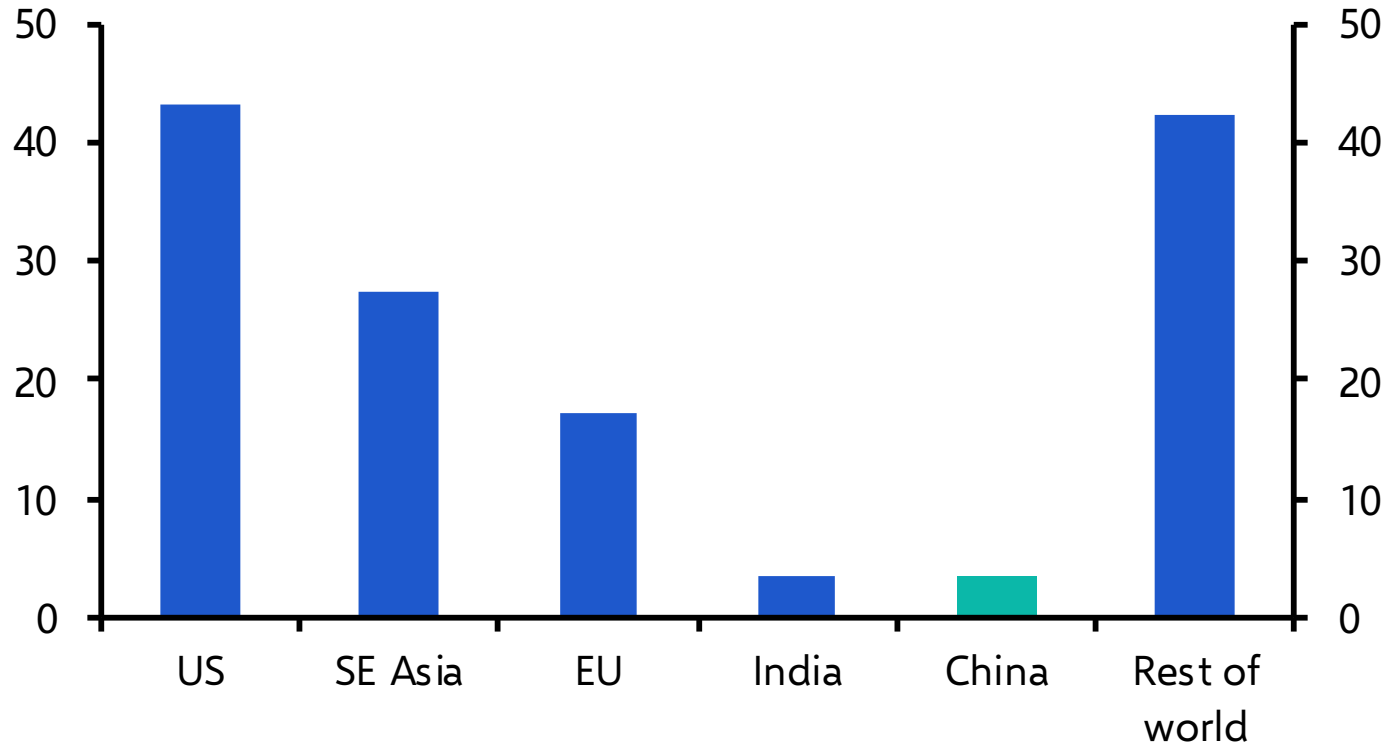
# China Share of Global Exports (% , 3m average)



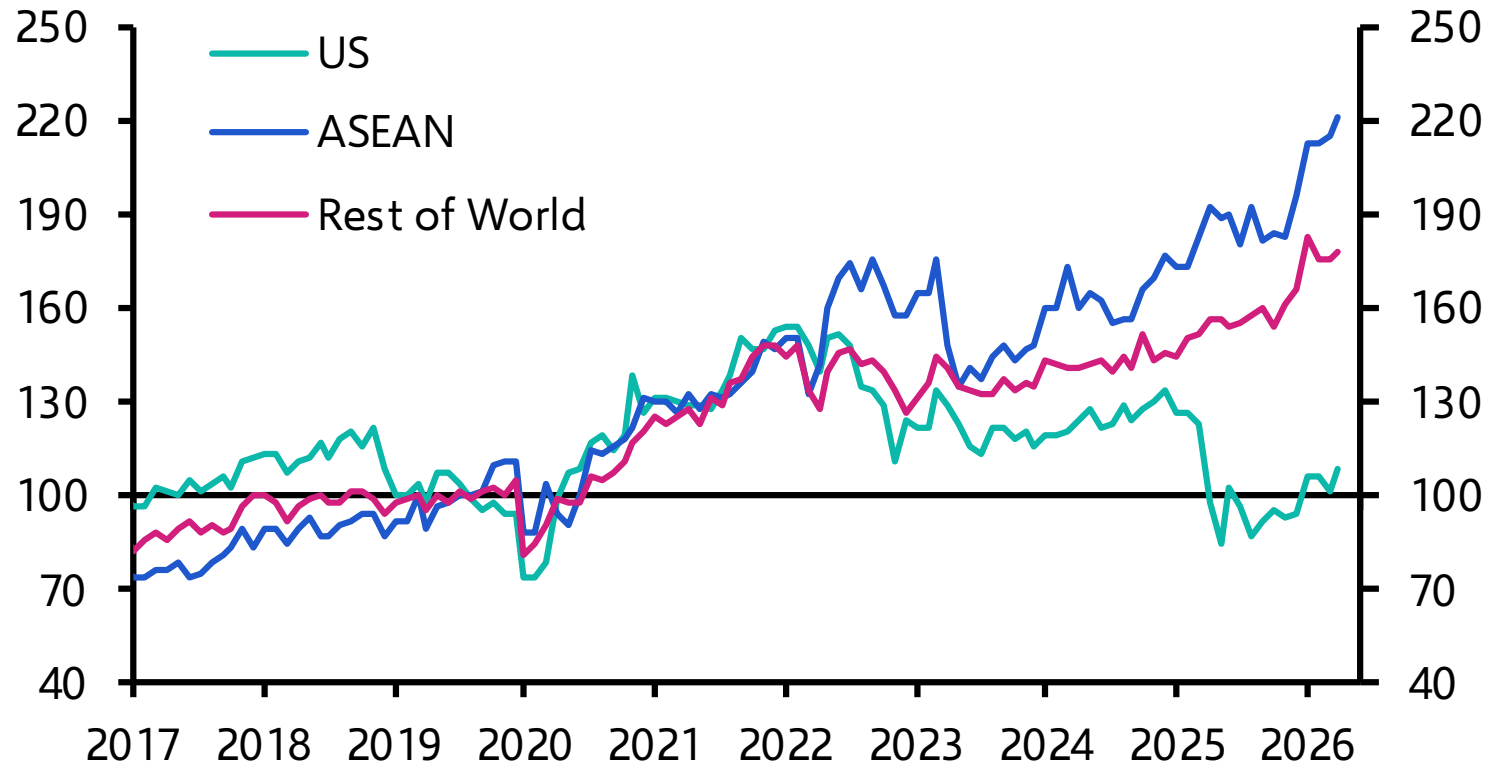
# China Green Tech Exports (\$bn)



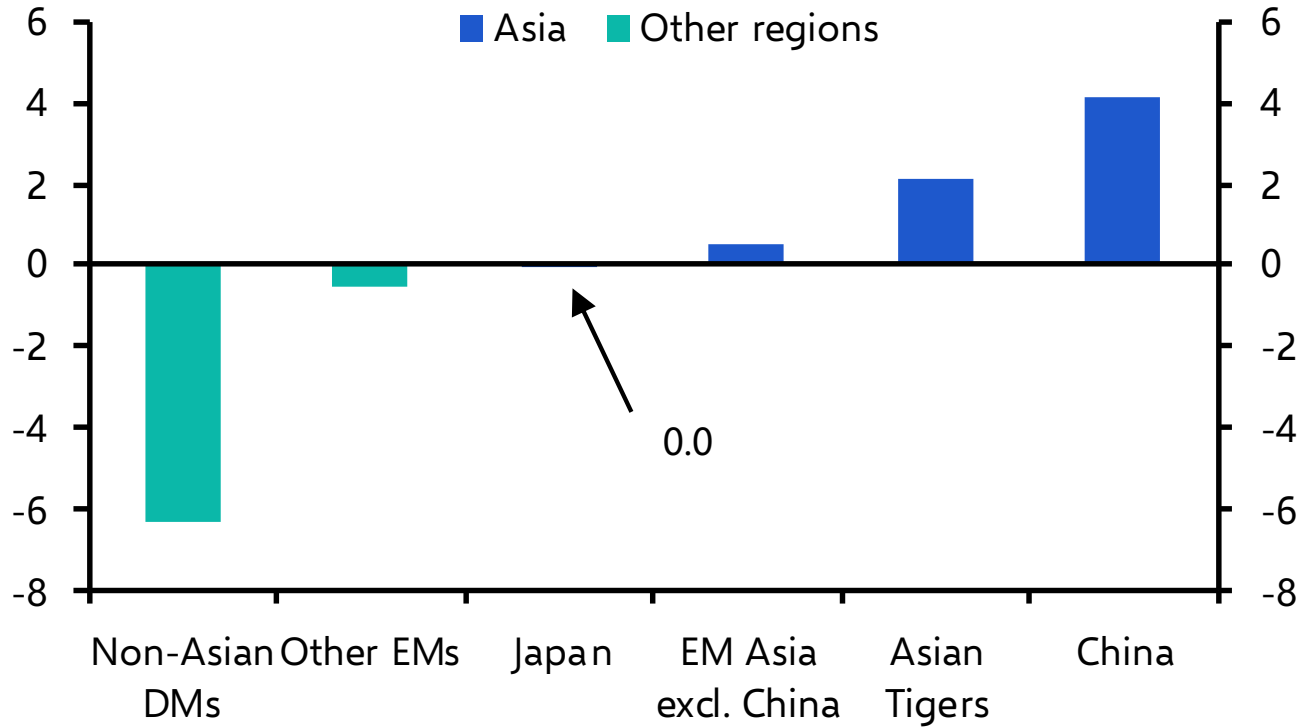
# Oil & Gas Share of Electricity Generation (% , 2024)



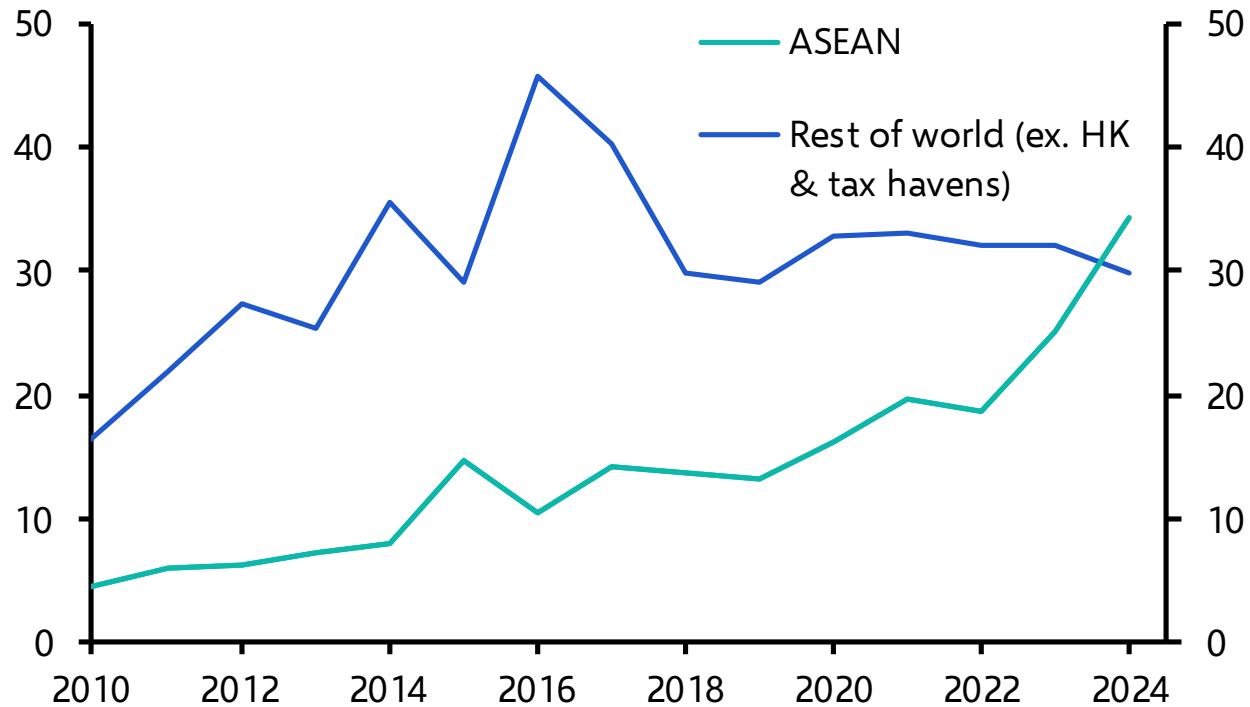
# China Goods Exports by Destination (\$ value, 2019 = 100)



# Change in Global Export Market Share (%-pt, Jan 2026 vs 2022 avg.)



# China Overseas Direct Investment by Region (flow, \$bn)



# Conclusions

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- The energy shock is boosting China's export growth.
- China's economy will remain resilient – we're pushing *up* our growth forecast for this year.
- For some EMs, China's export strength will help rather than hinder growth.

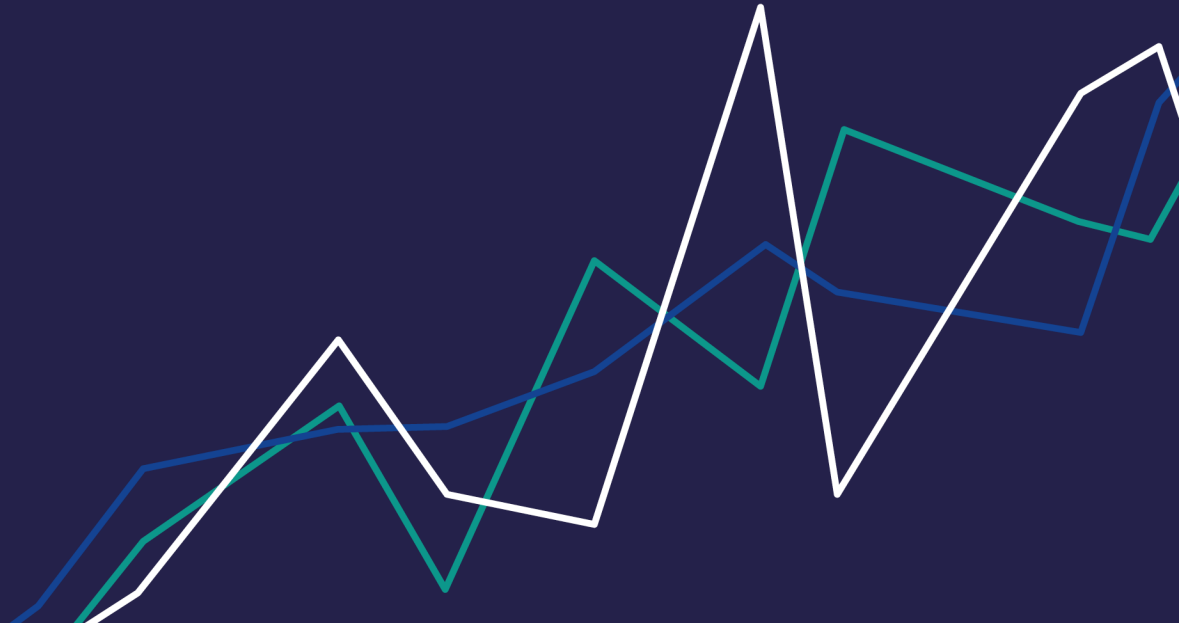
# Key Messages

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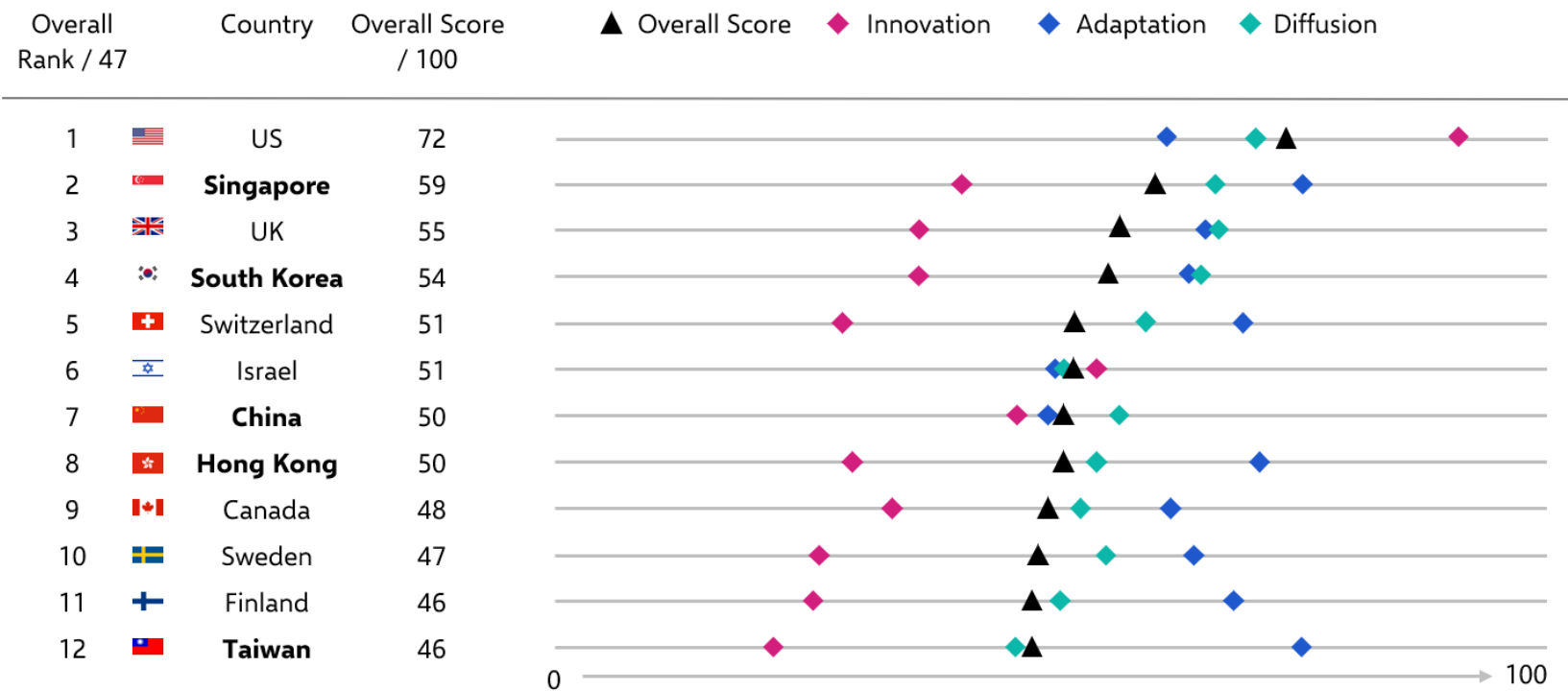
- Asian EMs among the worst affected by the energy shock. Most central banks set for a long pause. EM crisis risks look low.
- The war is accelerating demand for green tech. For China, this boost outweighs the cost of higher energy imports.
- For the Gulf, this will spur efforts to raise oil supply more quickly (once it can), which may result in *lower* prices.

# Emerging Markets Roundtable

Appendix: Additional Charts

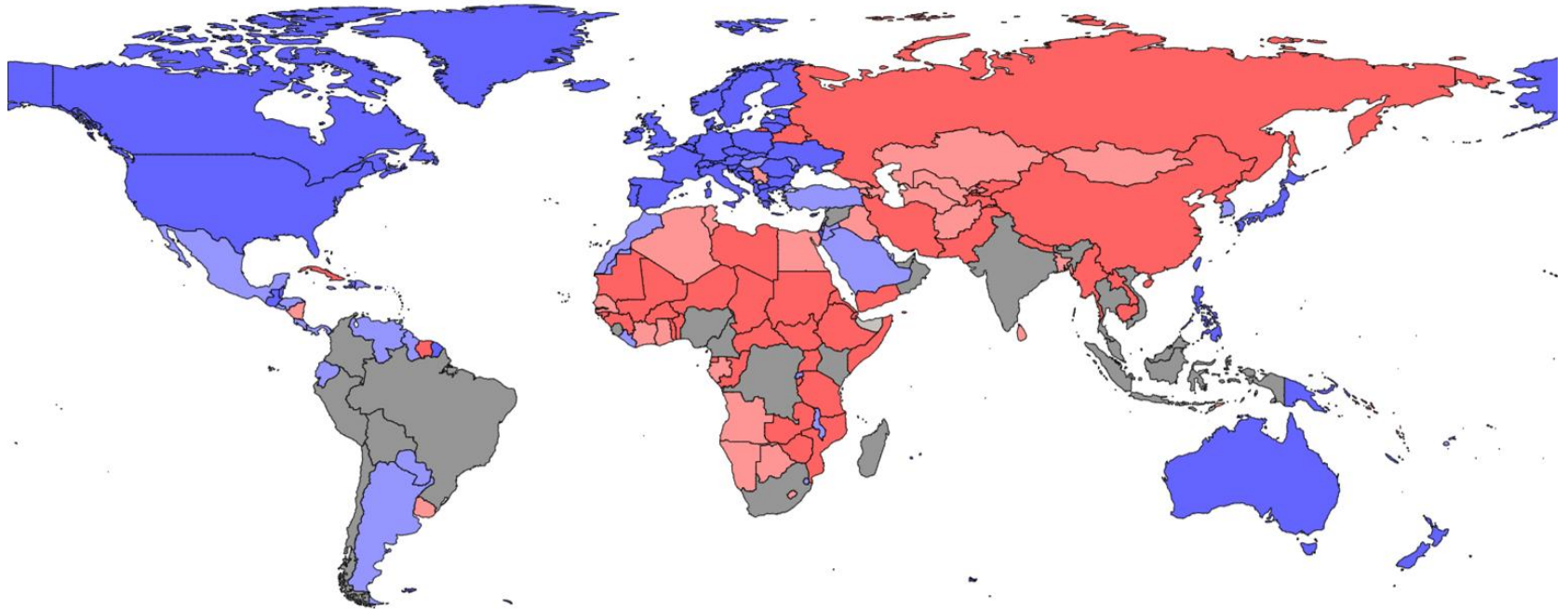


# Capital Economics AI Economic Impact Index



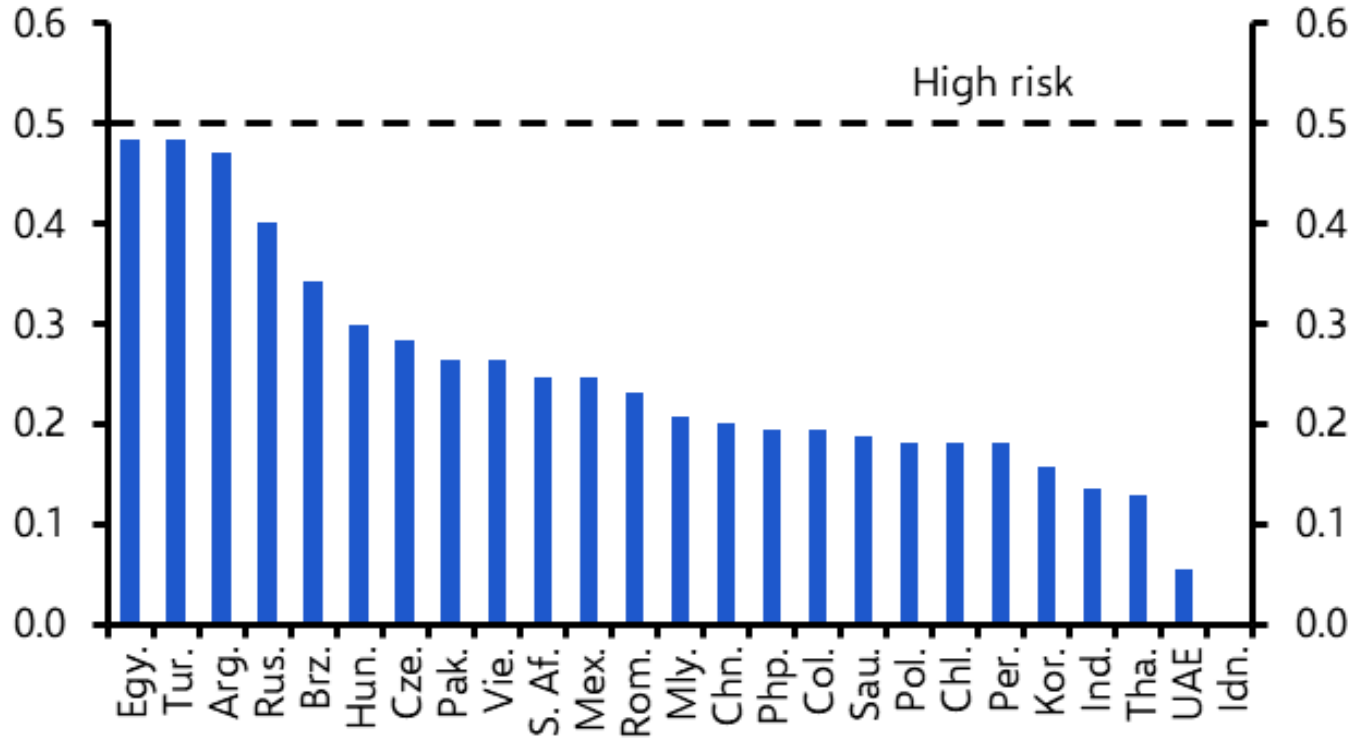
# Capital Economics Classification of Global Alignment in 2026

● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



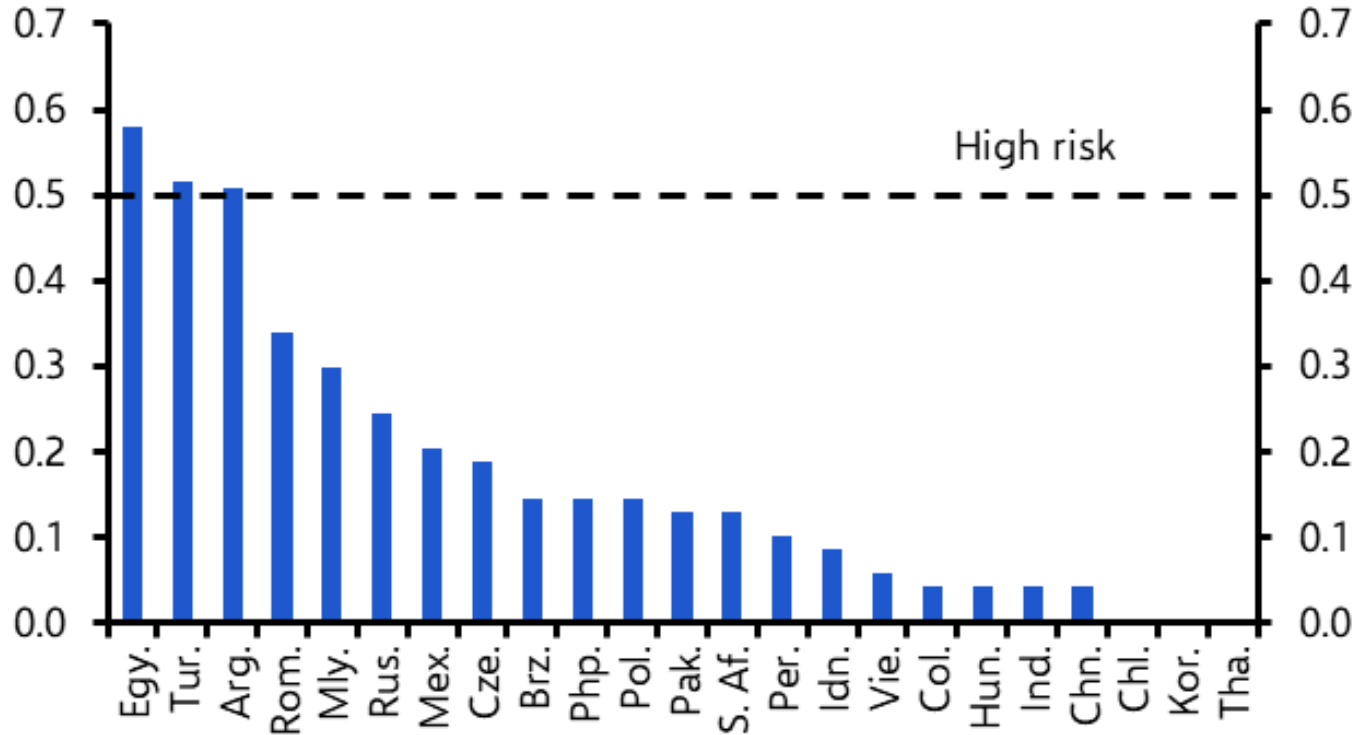
Sources: World Bank, Capital Economics

# CE EM Banking Crisis Risk Indicator (Latest)



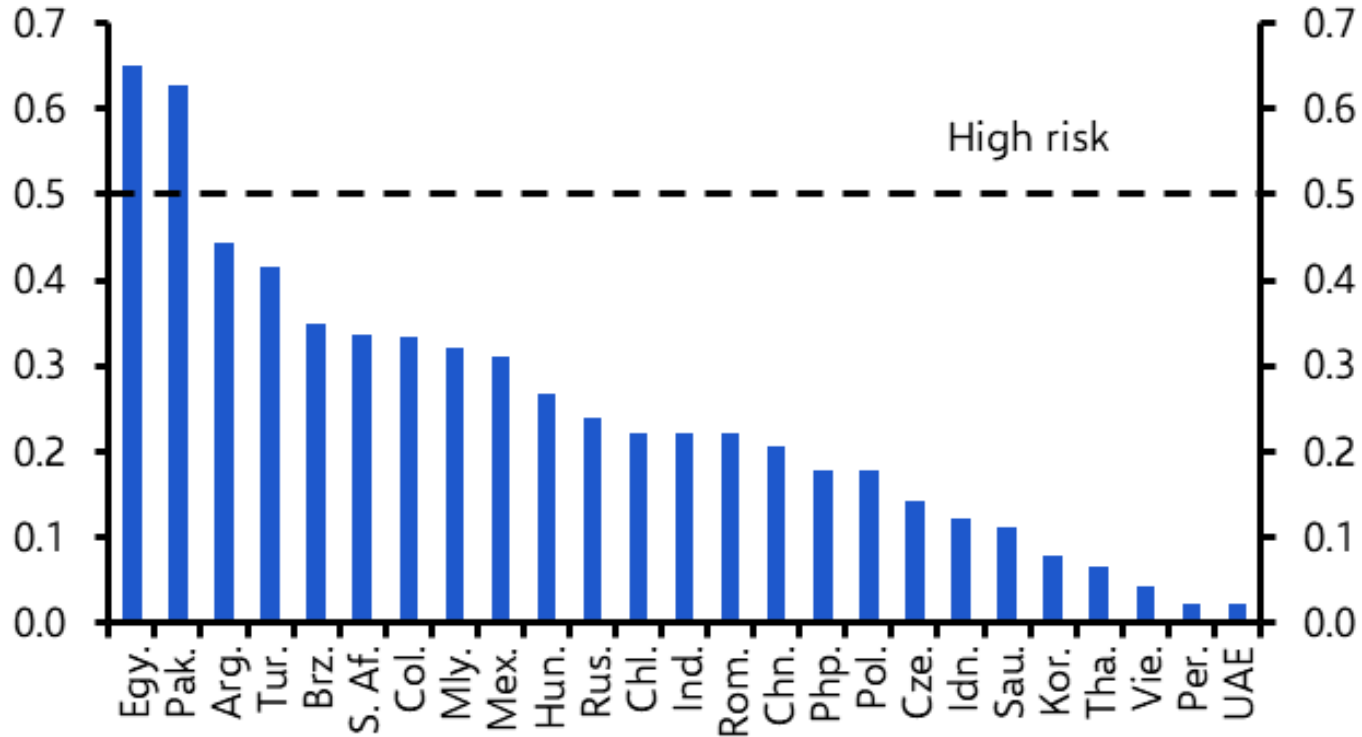
Sources: LSEG, Capital Economics

# CE EM Currency Crisis Risk Indicator (Latest)



Sources: LSEG, Capital Economics

# CE EM Sovereign Debt Crisis Risk Indicator (Latest)



Sources: LSEG, Capital Economics

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