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Geopolitical Risks Highlight China's Economic Resilience and the Safe-Haven Appeal of Chinese Assets

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Starting from February 28, 2026, the geopolitical situation in the Middle East has escalated sharply. The United States and Israel launched joint attacks on military targets inside Iran, prompting Iran to launch retaliatory strikes against Israel and surrounding regions, and announcing the closure of the Strait of Hormuz. Both the scope of impact and the intensity of resource blockades in this incident are unprecedented in history. In this conflict, all Gulf countries, including Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, have been caught in the crossfire, marking the first time since 1988 that all Gulf nations have been involved in a conflict. The trajectory of the Middle East situation remains highly uncertain; an escalation of hostilities would send shockwaves through the global economy and financial markets that are difficult to quantify. We believe China's economy and financial markets have demonstrated strong resilience facing the conflict, and the conflict's impact on China will be relatively limited.

I. Energy Shocks and Inflation

Iran's announcement to block the Strait of Hormuz marks the first substantial military blockade since the Iran-Iraq conflict in 1988, and the first full-scale blockade in history. The International Energy Agency (IEA) stated that the disruption to global energy supplies caused by Iran's blockade of the Strait of Hormuz is already more severe than any previous energy crisis, describing the current situation as "more serious than the crises of 1973, 1979, and 2022 combined." According to IMF estimates, the Middle East conflict has already caused global oil flows to drop by approximately 13% and liquefied natural gas flows by about 20%. Negative supply shocks will push up energy prices and inflation, thereby suppressing demand. The IMF notes that energy supply shocks will spread globally, but their impact

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will be asymmetric, depending on each country's distance from the conflict, whether the country is an energy exporter or importer, and the size of the country's policy space.

Against this standard, China is expected to suffer less from energy supply shocks in this round of conflicts than most economies worldwide. First, China has no direct connection with the US-Iran conflict. In terms of transportation safety, Iran allows vessels from "friendly countries", including China, Russia, and India to pass safely through the Strait of Hormuz. Second, although China is an energy importer with external dependence on crude oil exceeding 70%, its sources of oil and natural gas imports are diversified, and its reliance on energy imports from the Middle East is relatively low. China's crude oil import sources have expanded to 49 countries, with the share of crude oil imported from any single supplier below 20%. Energy imports from the Middle East account for 44% of China's total oil consumption, far lower than 94% for Japan, 69% for South Korea, and 95% for the Philippines. Third, China's energy import pipelines have effectively mitigated risks. At the moment, China has built three major onshore energy import channels, including the China-Russia crude oil pipeline, the Central Asia-China gas pipeline, and the China-Kazakhstan crude oil pipeline. Onshore pipeline oil deliveries accounted for as high as 38% in 2024, and pipeline supplies from Russia, Turkmenistan, and other countries accounted for nearly 50% of natural gas imports, effectively avoiding risks of extreme supply disruptions through maritime routes such as the Strait of Hormuz and the Strait of Malacca. Only about 6% of China's total energy consumption is directly subject to the Strait of Hormuz, the proportion is significantly lower than in other countries. Fourth, China has taken multiple measures in energy resource layout in recent years. According to Bloomberg estimates, China's total strategic and commercial oil reserves have reached 1.4 billion barrels, sufficient for stable use for 130 to 180 days, well above the 90-day safety line set by the International Energy Agency. This is mainly due to China's timely replenishment of strategic reserves during periods of relatively low international oil prices. In 2025, China imported 578 million tons of crude oil (about 11.55 million barrels per day), representing a year-on-year increase of 4.4%, hitting a record high. Fifth, China's current energy structure is less dependent on oil and natural gas. Oil and natural gas account for nearly 30% of China's primary energy, much lower than 64% in Europe and 59% in Japan and South Korea, mainly thanks to China's high level of electrification and rapidly developing renewable energy. These factors have significantly improved China's energy resilience in geopolitical conflicts, and the impact of soaring international oil and gas prices on China's economy is relatively smaller than on other economies.

If the conflict risk in the Middle East eases and the Strait of Hormuz returns to normal operation, international oil prices will fall from high levels, and the impact on China's economy and inflation is expected to be limited and temporary in this scenario. If the conflict drags on, becomes stalemated, and the two blocs enter a long-term low-intensity confrontation, the Strait of Hormuz is only open to limited conditions, international oil prices will remain high, pushing up China's PPI. Crude oil prices can be transmitted directly or indirectly to many parts of the industrial supply chain, including oil extraction, petrochemical processing, and end industrial products. In March 2026, China's PPI turned from a year-on-year decrease of 0.9% in February to an increase of 0.5%, achieving the first rise after 41 consecutive months of decline. International imported factors led to a sharp rise or narrowed decline in prices of upstream energy and raw material industries. For example, prices in the oil and natural gas extraction industry turned from a year-on-year decrease of 12.9% in February to an increase of 5.2%; prices in the processing of petroleum, coal, and other fuels, and in the manufacture of chemical raw materials and chemical products fell by 4.5% and 0.3% year-on-year respectively, with the declines narrowing by 7.5 and 3.4 percentage points from the previous month. Rising international oil prices boosted profitability in upstream industries such as oil, natural gas, chemicals,

and petrochemicals. From January to February 2026, profits of industrial enterprises above the designated size in the raw material manufacturing industry increased by 88.3% year-on-year. Higher prices significantly boosted production willingness in the oil, natural gas, and chemical industries, encouraging related sectors to increase energy and raw material supplies. Profit margins of some midstream and downstream enterprises may be squeezed by rising raw material costs; however, China has implemented policies to curb excessive competition, thereby improving the overall profitability of enterprises.

Based on the above, the sharp volatility in international oil prices caused by the US-Iran conflict is expected to have limited impact on Mainland China's Consumer Price Index (CPI), mainly for the following reasons. First, the transmission chain from upstream material prices to downstream consumer prices through the cost side is long and not necessarily direct. Some midstream and downstream enterprises absorb part of the cost pressure instead of fully passing it on to consumers. Some midstream and downstream enterprises use various types of production materials in production, smoothing the overall upward cost range. Second, the CPI measures the price level of consumer goods and services, among which the service industry has no strict upstream-downstream relationship with the industrial sector, and the cost transmission mechanism is not direct. The US-Iran conflict led to a sharp rise in international crude oil prices. The National Development and Reform Commission adopted temporary control measures on domestic refined oil prices. After regulation, gasoline prices rose by 11.1% in March. However, gasoline accounts for about 2.8% of the CPI weight, contributing about 0.11 percentage points to the March CPI year-on-year increase and about 0.31 percentage points to the month-on-month increase. In addition, the popularity of new energy vehicles may reduce overall consumer demand for refined oil. Driven by specific market mechanisms amid the US-Iran conflict, international gold prices fell instead of rising, with a decline of about 10% in March, dragging down domestic gold jewelry prices. These factors further offset the impact of rising oil prices on the CPI. Third, China's refined oil pricing mechanism (with floor and ceiling price limits) will effectively curb the spillover effects of sharp fluctuations in international oil prices on downstream industries and household consumption. In March 2026, despite a more than 50% surge in international oil prices amid the US-Iran conflict, gasoline prices in China only rose by 11.1% after regulation, reflecting that macro policy controls have effectively curbed extreme imported inflation. In March 2026, China's CPI rose by 1.0% year-on-year, down 0.7% month-on-month. Due to the lag in the adjustment mechanism, this data does not yet fully reflect the impact of the surge in international oil prices. Accordingly, although the Middle East situation will push up international oil prices in 2026, China's CPI is expected to maintain a moderate upward trend. The impact of imported inflation on China's CPI is limited and controllable, which will not significantly increase residents' living costs, but will also provide sufficient room for the People's Bank of China to implement a "moderately accommodative" monetary policy.

As PPI turns positive and CPI rises moderately, the gap between China's nominal GDP growth and real GDP growth is narrowing. In recent years, China's prices have remained low. Since the second quarter of 2023, the GDP deflator has been in negative territory, meaning nominal GDP growth has been lower than real GDP growth, leading to a deviation between micro-level data such as residents' income, corporate revenue, and fiscal revenue and real GDP growth. US-Iran Conflict has driven prices up through imported factors. Price rebounds have improved micro-level entities' income and expectations significantly. However, it should be noted that the current price rebound is mainly driven by the supply side, not the demand side, and domestic demand still needs to be boosted to form a virtuous cycle of "wage-price."

II. Supply Chains and Trade

The Strait of Hormuz is not only an oil channel: approximately 30% of global fertilizer trade, 1/3 of helium (a key material for high-tech manufacturing), and nearly 1/2 of sulfur trade pass through this strait. Helium plays an irreplaceable role in chip manufacturing, and fertilizers are closely related to global food production. If navigation is continuously disrupted, the shock to the global supply chain will extend beyond the energy sector, affecting industrial and agricultural production and creating a "stagflation" environment of simultaneous inflation and output decline.

For major Asian economies, disruptions in the supply of crude oil and other industrial and agricultural raw materials may force these countries to reduce capacity in related industrial chains, leading to a significant drop in the global supply of some finished products. This may create new opportunities for China's exports, as China is the only economy in the world with all industrial categories under the UN Industrial Classification System, boasting a complete industrial system and strong supply chain advantages. Compared with other Asian economies, China has lower exposure to Middle East energy, enabling it to maintain stable supply when the global supply chain is disrupted. The resilience of China's industrial supply chain can not only meet domestic demand in times of crisis but also create opportunities for substitution effects on exports to other countries. However, if the energy crisis caused by the Middle East situation worsens, slowing global economic growth and trade expansion, and high energy and transportation costs persist, there may still be downward pressure on China's exports.

The energy crisis caused by the US-Iran conflict may force countries around the world to reduce their reliance on traditional energy sources, accelerating the pace of the green transition. This will benefit China's exports of new energy products. China has formed the world's largest and most complete new energy industrial chain, with new energy vehicles, lithium batteries, and photovoltaic products – the "new three" – becoming key drivers of China's export growth. Since the outbreak of the US-Iran conflict, China's exports of new energy passenger vehicles have reached 349,000 units, up 139.9% year-on-year, with monthly growth of 29.6%. New energy passenger vehicle exports accounted for 50.2% of China's total passenger vehicle exports, 13.7 percentage points higher than the same period last year. If energy prices remain high, more global consumers and businesses will be encouraged to actively switch to green products, and exports of China's "new three" products are expected to maintain strong growth momentum.

The US-Iran conflict has also pushed up China's import costs. In US dollar terms, China's imports rose 27.8% year-on-year in March 2026, exceeding general market expectations, mainly driven by price factors. The Middle East conflict has pushed up the prices of upstream commodities such as crude oil, copper ore, and natural gas, while also causing supply disruptions in crude oil and natural gas. China's crude oil imports fell by 2.8% year-on-year in March, and natural gas imports fell by 9.8% year-on-year. Copper ore and its concentrate import value rose 61.1% year-on-year in March, reflecting that the US-Iran situation has driven industrial metal prices up sharply. Rising commodities prices have also been transmitted to downstream industries such as integrated circuit products. China's integrated circuit imports rose 54.1% year-on-year in March, significantly faster than the January-February pace. This is not only because the expansion of AI spending has boosted computing power demand but also because the global capacity shortage caused by the

US-Iran situation has pushed up semiconductor import prices, with the year-on-year increase in integrated circuit import prices exceeding 30% in March.

If the US-Iran situation has limited impact on the global economy and demand, it may help consolidate China's dominant position in the global industrial chain, and Chinese exports are expected to benefit. However, if the US-Iran situation leads to global stagflation, it may slow China's export growth still. Import values may surge driven by price increases, narrowing the trade surplus and weakening support for the RMB exchange rate.

III. Financial Markets and Consumption

The Middle East situation has weakened the outlook for global economic growth and heightened inflation risks. Against this backdrop, investors' risk appetite has declined, leading to falls in global stock markets. Rising inflation expectations have pushed up expectations of hawkish global central bank policies, at which point the safe-haven function of government bonds often fails, as inflation erodes the purchasing power of fixed interest income, reducing the real yield of government bonds and their appeal to investors. Government bond yields in overseas markets such as the United States, Germany, and Japan have risen significantly, putting pressure on bond prices. The Middle East situation has also exacerbated liquidity risks in financial markets. In this round of conflict, risk aversion in the market has triggered panic selling of various assets, leading to sharp volatility in stock and bond prices. Leveraged operations by investors can magnify losses in accounts, resulting in account net asset values falling below maintenance margin requirements, triggering forced liquidations. At this time, due to margin calls, client redemptions, or risk control requirements, investors are forced to sell high-quality assets including gold, US Treasuries, Euro, and Japanese Yen to obtain US dollar cash to supplement margins to avoid larger losses or meet client redemption requests. Risk aversion and the "US dollar shortage" have pushed up the US dollar index, putting pressure on other non-US currencies.

As China has built a systematic and diversified energy security and industrial resilience shield, and China's policy layout is both forward-looking and flexible, with relatively low foreign ownership of Chinese stocks and bonds, the international financial market turmoil caused by the US-Iran conflict has limited spillover effects on China's capital markets, making Chinese assets a "safe haven" for international capital, demonstrating unique allocation value for global investors. In a month since the outbreak of the US-Iran conflict, the decline and maximum drawdown of China's stock market have been smaller than those of major European and Asian markets. In March, the CSI 300 Index and the Hang Seng Index both fell by about 7%, while major European markets, South Korean stocks, Japanese stocks, and Indian stocks recorded declines of about 10%, 18%, 15%, and 14% respectively. Despite rising market inflation expectations pushing up government bond yields in most major economies, the yield of China's 10-year government bond has remained stable, even slightly declining. Although the US-Iran situation once strengthened the US dollar, the RMB has performed relatively steadily compared with other Asian currencies, effectively offsetting the impact of imported inflation.

Although the global financial market turmoil caused by the US-Iran conflict has also spilled over to China's capital markets and may weaken residents' consumption willingness through the wealth effect, data shows that Chinese residents' financial assets account for less than 50% of their total assets, which is significantly lower than the over 60% in the United States and Japan during the same period. From the perspective of allocation structure, time deposits account for more than 30% of Chinese residents' financial assets, significantly higher than 7.7% in the United States and 16% in Japan, highlighting a strong low-risk preference. Therefore, the US-Iran conflict is unlikely to affect Chinese consumption through wealth effect. China's consumption performance still relies on a series of policies to expand domestic demand and boost consumption. As the sensitivity of international financial markets to the US-Iran situation gradually decreases and market risk appetite recovers, it is expected that the key factors affecting Chinese assets in the future will still be China's economic fundamentals, policies introduced by China, corporate profitability, and market expectations, rather than the Middle East situation.

In conclusion, the US-Iran situation has highlighted China's unique advantages in energy security, industrial chain resilience, and policy foresight and flexibility, making international investors willing to pay a certain "safety premium" for Chinese assets during geopolitical crises, the value of long-term investing becomes apparent.

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主要經濟指標 (Key Economic Indicators)

一、本地生產總值 GDP	2023	2024	2025/Q3	2025/Q4
總量 (億港元) GDP(HKD 100million)	29,812	31,868	8,577	8,821
同比增長率 (%) YoY change(%)	3.2	2.6	3.7	3.8
二、對外商品貿易 External merchandize trade			**2026/2**	**2026/1-2**
外貿總值 (億港元) Total trade(HKD 100million)				
總出口 Total exports	45,317	41,774	4,088	9,283
總進口 Total imports	49,275	46,450	4,729	10,073
貿易差額 Trade balance	-3,958	-4,676	-641	-790
年增長率 (%) YoY Growth(%)				
總出口 Total exports	-8.6	-7.8	24.7	29.6
總進口 Total imports	-7.2	-5.7	29.9	34.1
三、消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.9	2.1	1.7	1.5
四、零售市場 Retail market				
零售額同比升幅 (%) Change in value of total sales YoY(%)	-0.9	16.2	19.3	11.8
五、訪港遊客 Visitors				
總人數 (萬人次) Total arrivals(10 thousands)	60.5	3,400.0	514.2	995.3
年升幅 (%) YoY change(%)	561.5	5,523.8	40.2	18.4
六、勞動就業 Employment			**2025/12-2026/2**	**2026/1-2026/3**
失業人數 (萬人) No. of unemployed(10 thousands)	16.3	11.3	13.5	13.7
失業率 (%) Unemployment rate(%)	4.3	2.9	3.8	3.7
就業不足率 (%) Underemployment rate(%)	2.3	1.1	1.7	1.6
七、住宅買賣 Domestic property sales and price index			**2026/1**	**2026/2**
合約宗數 (宗) No. of agreements	45,050	43,002	5,669	6,669
住宅售價指數 (1999=100) Domestic price index	369.7	337.4	302.8	307.6
八、金融市場 Financial market			**2026/2**	**2026/3**
港幣匯價 (US$100=HK$) 期末值	780.8	781.1	782.5	783.9
HKD exchange rate (US$100 = HK$), end of period				
銀行體系收市總結餘 (億港元) 期末值	962.5	449.5	539.0	537.7
Closing aggregate balance(HKD 100million), end of period				
銀行總存款升幅 (%)	1.7	5.1	0.9	-
Change in total deposits(%)				
銀行總貸款升幅 (%)	-3.0	-3.6	1.6	-
Change in total loans & advances(%)				
最優惠貸款利率 (%) 期末值	5.6250	5.8750	5.0000	5.0000
Best lending rate (%), end of period				
恒生指數 Hang Seng Index	19,781	17,047	26,631	24,788