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Middle East Situation Enters a New Phase; Persistently High Crude Oil Prices Likely to Expand the Outflow of Income Overseas

Easing Semiconductor Supply–Demand Tightness and Weak External Demand Will Likely Become Factors that Further Increase Downward Pressure on Future Trading Losses

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Summary

- The US and Iran announced that they had agreed to a memorandum. In response, crude oil prices fell, but they have remained above pre-attack levels, and it may take time for oil supply to recover in earnest. If crude oil prices stay elevated, there is concern that real income will flow overseas due to the deterioration of terms of trade (ToT).

- The average ToT in April–May 2026 were down 5.1% compared with immediately before the outbreak of the conflict (Q4 2025), which is a smaller deterioration than during Russia's invasion of Ukraine (down 9.3% in Q2 2022 versus Q4 2021). This is largely because temporary factors have been providing support—such as rising export prices for petroleum products due to tight supply–demand conditions in neighboring countries and rising memory semiconductor prices amid growing data center demand.

- Looking ahead, these supporting factors are expected to run their course. Moreover, if supply constraints keep crude oil prices high, net exports may worsen due to sluggish overseas demand and a recovery in import volumes driven by progress in alternative procurement, potentially gradually strengthening downward pressure on real gross domestic income (GDI). Continued vigilance is needed regarding the impact of developments in the Middle East, including spillovers to corporate profits and employee income.