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**Oil, Conflict, and the Risk of  
Renewed Global Inflation**

**By**

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**2 April 2026**

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Table of Contents

Executive Summary .....	Page 3
Fragile Global Inflation Outlook.....	4
The Middle East Conflict: Effects On Inflation.....	4
Interest Rate Expectations.....	5
NOTES .....	6



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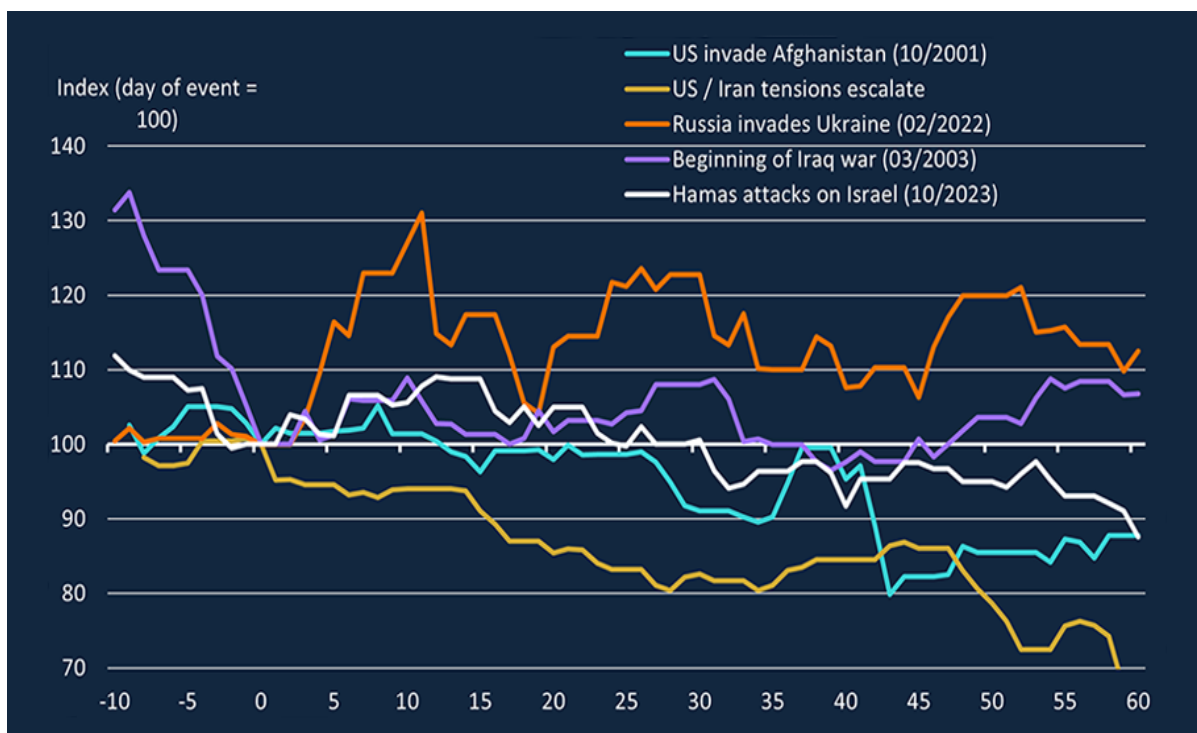
*Oil, Conflict, and the Risk of Renewed Global Inflation*

2 April 2026

**Executive Summary**

- ✦ Global inflation had been expected to gradually decline through 2027, but geopolitical tensions and economic uncertainties could disrupt this outlook.
- ✦ The conflict involving Iran has driven sharp volatility in oil and gas markets, raising fears of supply disruptions and higher global energy prices.
- ✦ Rising energy costs could feed into broader inflation as businesses pass higher production, transport, and heating costs on to consumers.
- ✦ Oil markets have been extremely volatile, with prices spiking over 20% in a day due to fears of disruptions, especially around the Strait of Hormuz, which carries ~20% of global energy supply.
- ✦ The release of strategic oil reserves (around 400 million barrels) helped temporarily stabilise prices, but its impact is limited if geopolitical tensions persist.
- ✦ Rising energy prices have shifted expectations for monetary policy, reducing the likelihood of interest rate cuts and increasing the possibility of tighter policy or higher rates
- ✦ Higher inflation risks are prompting investors and central banks to reconsider interest rate cuts, with some policymakers now expected to keep rates higher for longer.
- ✦ Central banks (Fed, ECB, BoE) now face a trade-off: controlling inflation driven by energy shocks vs. supporting economic growth, with policy paths becoming more uncertain.

**Key Picture: Oil Price Volatility Following Geopolitical Shocks**



Source: [Bank Underground](#)

## Fragile Global Inflation Outlook

According to the IMF's World Economic Outlook, global inflation was projected to decline from about 4.1% in 2025 to 3.8% in 2026 and further to 3.4% in 2027. These forecasts remained broadly consistent with earlier estimates. However, the IMF also highlighted several factors that could alter this outlook, including potential reassessments of productivity linked to artificial intelligence, rising trade tensions, expanding fiscal deficits, and both domestic and geopolitical uncertainties.<sup>1</sup>

Indeed, an inflationary shock resulting from the US–Israel attack on Iran could undermine the fragile global economic recovery that had been expected to strengthen this year. As oil and gas prices surge, despite assurances from Donald Trump about safeguarding tankers passing through the strategic Strait of Hormuz shipping route, central bankers and economists have cautioned that an extended conflict could push up consumer prices worldwide and compel them to revise their growth projections for the year.<sup>2</sup>

A sudden rise in oil and gas prices can quickly feed into higher global inflation because energy is a core input for almost every part of the economy.<sup>3</sup> Businesses then pass these higher costs on to consumers through more expensive food, manufactured products, and services. Higher gas prices also push up electricity and heating costs, especially in regions like Europe, where gas is a major power source.<sup>4</sup> If the rise persists, it can create second-round effects, where workers demand higher wages to keep up with living costs, potentially leading to a broader inflation cycle.<sup>5</sup>

### The Middle East Conflict: Effects On Inflation

International Monetary Fund Managing Director Kristalina Georgieva warned that the conflict in the Middle East poses inflationary risks. She indicated that if oil prices were to rise by about 10% and remain elevated for most of the year, global inflation could increase by roughly 40 basis points.

She also noted that the global economy was once again facing pressure from the renewed conflict in the Middle East, highlighting concerns about its potential economic impact.<sup>6</sup>

In March, oil and gas markets have been extremely volatile. Prices spiked sharply, then fell back somewhat, with the outlook depending heavily on how the Middle East conflict and shipping routes evolve. On 9 March, oil prices jumped more than 20% in a single day, the biggest daily rise in years.<sup>7</sup> This volatility has largely been driven by concerns over potential disruptions to major global energy supply routes.

Oil and liquefied gas shipments from the Middle East have faced significant delays in reaching international markets for nearly two weeks due to the effective closure of the Strait of Hormuz. This narrow maritime route off Iran's coast is a crucial global transit point, with roughly one-fifth of the world's oil and seaborne gas supplies normally passing through it. Brent crude briefly surged above \$100–\$119 per barrel due to fears of supply disruption. On March 11, Brent crude plunged 17 percent to fall below \$80 a barrel, then rebounded to near \$90 after US Secretary of Energy Chris Wright posted on the X platform a claim that the US Navy had escorted an oil tanker through the Strait of Hormuz.<sup>8</sup> As the Strait of Hormuz is one of the most critical oil shipping routes in the world, any signal about its security immediately affects expectations about global supply. As such, even a single report suggesting military escorts can make traders fear that supply could soon be disrupted, causing prices to rebound quickly.

On March 11, the International Energy Agency announced the largest release of strategic oil reserves in its history in an effort to stabilise markets following the surge in oil prices. The agency stated that all 32 member countries unanimously agreed to release around 400 million barrels of emergency crude oil, representing roughly one-third of their combined government reserves and more than twice the size of any previous coordinated release.<sup>9</sup> Releasing such a large amount of oil increases the short-term supply in global markets, which can help bring prices down and reduce extreme volatility caused by fears of supply disruptions.<sup>10</sup> This has

historically shown to have the potential to ease pressure on fuel costs, transport expenses, and overall inflation.<sup>11</sup>

However, because strategic reserves are limited, the impact is typically temporary - if geopolitical tensions or supply disruptions continue, oil prices could rise again once the additional reserves are absorbed by the market. Indeed, on March 12, oil prices rose above \$100 per barrel again, after three cargo ships were attacked in the Gulf and Iran's new supreme leader pledged to continue blocking the crucial Strait of Hormuz shipping lane.<sup>12</sup>

Thus, overall, we could face several scenarios depending on political developments, such as whether the conflict stabilises or escalates, as well as the length of the shipping disruption.

### Interest Rate Expectations

Earlier in the year, investors expected several central banks to start cutting interest rates in 2026, but rising energy prices have made this less certain. The surge in oil prices has increased fears that inflation could rise again, leading traders to scale back bets on rate cuts.<sup>13</sup> Investors are increasingly expecting central banks to adopt tighter monetary policy as the conflict involving Iran raises concerns about renewed inflation.<sup>14</sup>

Many analysts were expecting the Bank of England to reduce interest rates on 19 March. However, this outlook has shifted significantly following the outbreak of the war with Iran. Some experts anticipate that interest rates could still be reduced twice this year. In contrast, other analysts suggest that rates may instead rise.<sup>15</sup>

The National Institute of Economic and Social Research estimates that if oil and gas prices rose by around 30% and 50% respectively for a year, inflation could increase through 2026 and 2027 and push the Bank of England base rate to about 4.5%, assuming rates remain at 3.75% rather than falling as previously expected. Some economists say a rise above 4% cannot be ruled out. However, other forecasts still point to potential rate cuts: Deutsche Bank outlines scenarios ranging from two cuts this year if energy prices fall, to just one cut in the second half of 2026 if oil exceeds \$100 a barrel. Analysts at ING expect inflation to peak around 3.5% if energy prices remain near current levels and still consider further easing more likely than not, with a possible rate cut in April. Meanwhile, some economists, including those at Natixis and Rabobank, suggest the Bank of England may keep rates unchanged this year if higher oil prices continue to feed into inflation and weigh on economic growth.<sup>16</sup>

Investors have also reduced their expectations for policy easing by the Federal Reserve, with futures markets now anticipating only one quarter-point cut this year instead of the two previously expected.<sup>17</sup> The Federal Reserve is expected to delay rate cuts because rising oil and energy costs could slow progress toward its 2% inflation target, although analysts still anticipate around 50 basis points of cuts later in the year, likely pushed back to September and December.<sup>18</sup>

Meanwhile, the European Central Bank (ECB) is unlikely to cut rates in the near term.<sup>19</sup> The ECB's vice president Luis de Guindos has announced it is still too soon to reach firm conclusions but cautioned that a prolonged and broader war could increase both current and expected inflation. The ECB's next policy meeting is scheduled for April, and this will be the time to test the resolve of central banks in keeping inflation expectations in check.

## NOTES

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<sup>2</sup> Phillip Inman and Kalyeena Makortoff, “Why an Iran war inflation shock could wreck global economic recovery”, *The Guardian*, accessed 11 March 2026, <https://www.theguardian.com/business/2026/mar/08/iran-israel-us-war-inflation-interest-rates-global-economy-middle-east>.

<sup>3</sup> Jorge A Alvarez and Thomas Kroen, “The Energy Origins of the Global Inflation Surge”, International Monetary Fund, accessed 11 March 2026, <https://www.imf.org/en/publications/wp/issues/2025/05/09/the-energy-origins-of-the-global-inflation-surge-566804>.

<sup>4</sup> Andrea Pescatori and Martin Stuermer, “From Abundance to Thirst”, F&D Magazine, accessed 11 March 2026, <https://www.imf.org/en/publications/fandd/issues/2022/12/from-abundance-to-thirst-pescatori-stuermer>.

<sup>5</sup> Harun Alp, Matthew Klepacz, and Akhil Saxena, “Second-Round Effects of Oil Prices on Inflation in the Advanced Foreign Economies”, Board of Governors of the Federal Reserve System, accessed 11 March 2026, <https://www.federalreserve.gov/econres/notes/feds-notes/second-round-effects-of-oil-prices-on-inflation-in-the-advanced-foreign-economies-20231215.html>.

<sup>6</sup> “IMF's Georgieva warns Middle East conflict could push global inflation higher”, Reuters, accessed 11 March 2026, <https://www.reuters.com/world/middle-east/imfs-georgieva-warns-middle-east-conflict-could-push-global-inflation-higher-2026-03-09/>.

<sup>7</sup> “Markets latest: Oil prices tumble after biggest single-day spike in six years”, Sky News, accessed 11 March 2026, <https://news.sky.com/story/markets-latest-oil-suffers-biggest-one-day-gain-in-six-years-as-stocks-plunge-13517143>.

<sup>8</sup> Jillian Ambrose and Lauren Aratani, “US stock markets close on high after Iran war drove oil prices above \$100 a barrel”, *The Guardian*, accessed 11 March 2026, <https://www.theguardian.com/business/2026/mar/09/iran-war-drives-oil-price-above-100-a-barrel-for-first-time-since-2022>.

<sup>9</sup> Jillian Ambrose and Joanna Partridge, “IEA orders largest ever release of stockpiled oil to reduce crude price”, *The Guardian*, accessed 11 March 2026, <https://www.theguardian.com/business/2026/mar/11/international-energy-agency-release-oil-stockpile-iran-war>.

<sup>10</sup> Jason Bordoff, “The Strategic Petroleum Reserve: A Policy Response to Oil Price Volatility?”, Center on Global Energy Policy, accessed 11 March 2026, <https://www.energypolicy.columbia.edu/publications/strategic-petroleum-reserve-policy-response-oil-price-volatility/>.

<sup>11</sup> Benjamin Harris and Catherine Wolfram, “The Price Impact of the Strategic Petroleum Reserve Release”, U.S. Department of Treasury, accessed 11 March 2026, <https://home.treasury.gov/news/featured-stories/the-price-impact-of-the-strategic-petroleum-reserve-release>.

<sup>12</sup> Osmond Chia and Dearbail Jordan, “Oil price back above \$100 despite deal to release record amount of reserves”, BBC, accessed 13 March 2026, <https://www.bbc.co.uk/news/articles/c1w5141vx53o>.

<sup>13</sup> Yoruk Bachelil and Amanda Cooper, “Big European investors bet against swings in ECB, BoE rate expectations”, Reuters, accessed 11 March 2026, <https://www.reuters.com/sustainability/sustainable-finance-reporting/big-european-investors-bet-against-swings-ecb-bank-england-rate-expectations-2026-03-10>.

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<sup>14</sup> Sam Fleming, Ian Smith, and Olaf Storbeck, “Investors reverse bets on central bank rate cuts as oil crisis deepens”, *The Financial Times*, accessed 11 March 2026, <https://www.ft.com/content/4e9160b1-62ae-41f8-b73e-7727ad018032>.

<sup>15</sup> Rebecca Gamble, “Will the Bank of England cut interest rates on 19 March 2026? Latest interest rate predictions explained”, accessed 11 March 2026, <https://hoa.org.uk/news/interest-rate-predictions-2/>.

<sup>16</sup> Ibid.

<sup>17</sup> Sam Fleming, Ian Smith, and Olaf Storbeck, “Investors reverse bets on central bank rate cuts as oil crisis deepens”, *The Financial Times*, accessed 11 March 2026, <https://www.ft.com/content/4e9160b1-62ae-41f8-b73e-7727ad018032>.

<sup>18</sup> James Knightley, Carsten Brzeski, James Smith, and Min Joo Kang, “Our latest views on the major central banks, ING, accessed 11 March 2026, <https://think.ing.com/articles/our-latest-views-on-the-major-central-banks-march-2026>.

<sup>19</sup> Ibid.