

Iran War Impact

Cross-Expertise

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Middle East Conflict: Counting the Shocks on the Global Economy and Impact on Financial Markets

It's Day 11 of the war and financial markets have been roiling by the impact of the Iran War, with disruptions to the energy market in focus. For oil and gas, our base case scenario is a two-week disruption, and we project Brent crude averaging \$90/bbl over March and April and European gas (TTF) at €50/MWh, with severe, prolonged outages potentially driving Brent to \$119/bbl and TTF to €108/MWh over the same period. Whilst the magnitude of any oil price spike can be moderated by strategic reserves, gas markets will need to balance via demand destruction. Metals are also affected as supply shocks are driving up aluminum prices and creating significant supply tightness for sulfuric acid, which is crucial for base metal extraction like copper and nickel. While gold initially surged as a safe haven, price will likely return to pre-war levels if the conflict is short, though a prolonged war could lead to renewed price increases due to inflation. Beyond metals, disruption of transportation also threatens freight and air travel demand.

Stagflation risks are on the rise as duration of the conflict drags on, with growth sagging, and terms of trade deteriorating for oil importers. By region, other than the Middle East, Asia is most directly affected, followed by Europe via higher energy prices, and the Americas. Asian economies are vulnerable to a prolonged conflict

through higher energy and food prices, transportation disruptions, reduced remittances, and tighter financial conditions. Europe faces inflation and growth risks, with impacts varying by duration: intermediate ones suggest sustained price hikes and potential rate hikes, while severe, prolonged conflict risks stagflation and economic slowdown requiring tighter monetary policy. For the US, a prolonged conflict would lead to persistent US inflation and a severe growth slowdown, prompting the Fed to implement four rate cuts. Latin America would face weaker growth, higher inflation, and FX depreciation.

Geopolitical shocks are generally short-lived and create more noise than lasting trends for most asset classes. Since the war, US risk assets have outperformed, while Asian and emerging markets (EM) have lagged. If the conflict remains brief, a reversal towards European and EM is expected, with US equities to perform in line with European equities in 2026. In FX, investors sought safe havens, bidding up USD and CHF, but we expect longer-term dollar weakening, favoring EUR/USD recovery and USD/JPY. In rates, we expect widening Eurozone sovereign spreads (France, Italy) and a favored short position in German short-term bonds (Schatz). In real estate, turmoil in the Middle East may favor safe-haven Western European and Asia markets.

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Oil, Gas and Transportation

Oil and Gas – Global Energy Flows Disrupted

We are now in Day 11 of the Iran War, and our base case scenario assumes a two-week disruption to the Strait of Hormuz – this still removes ~6.5mn b/d of oil supply out of our March balances, resulting in a net call-on-inventory at 140mn bbl and an oil price average of \$90/bbl over March and April, with risk premium steadily degrading as transit then resumes. For European natural gas, TTF is forecast to average €52/MWh in March 2026, with Q1-26 at €40/MWh and Q2-26 at €38/MWh. The implications of a more prolonged closure are so bullish for energy prices we assume significant resources will be deployed to restore safe transit and avoid disruption on a longer duration.

A more severe scenario of a three-month Strait of Hormuz outage would significantly increase our price expectations, with theoretical fair values for Brent potentially reaching \$178/bbl or even \$206/bbl based on fundamental modelling and implied demand destruction levels. However, strategic stock releases are expected to moderate these extremes, leading to an average Brent price of \$115/bbl during the outage. For natural gas, TTF could reach monthly highs of €115/MWh during a three-month disruption – with no equivalent strategic gas reserves, European gas prices would need to price for demand destruction. The ongoing conflict in the Middle East is poised to disrupt commodity markets beyond energy, with notable impacts expected on aluminum and sulfuric acid. Aluminum prices have already seen a surge, and further increases are anticipated due to increased shipping costs and potentially higher energy prices, although the market may stabilize around current levels once the conflict subsides.

Metals and Precious Metals: Jolted by the Conflict

As we expected, the ongoing conflict in the Middle East is poised to disrupt commodity markets beyond energy, with notable impacts expected on aluminum and sulfuric acid. Aluminum prices have already seen a surge due to the region producing 8% of the world's output. We think the peak has already been reached but we could see some producers facing higher energy costs .

The tightness in sulfuric acid supply, exacerbated by the conflict (the middle east produces 25% of the world's sulphur) , is critically impacting the processing of base metals like copper and nickel. Sulfuric acid is a vital reagent, and its scarcity, stemming from an already constrained global supply and geopolitical tensions, is increasing operational costs and could potentially reduce output, particularly affecting nickel production from Indonesia.

Gold prices initially rose in response to the conflict, reflecting its status as a safe-haven asset, but have begun to recede as the market processes potential outcomes. While a short-duration conflict suggests gold will return to pre-war levels, a prolonged war could lead to renewed price increases due to inflationary pressures from higher energy costs.

Transportation Disrupted: Ocean, Wind and Fire

The Middle East conflict is significantly disrupting global transport, with uneven impacts on sea and air travel. For shipping, the partial closure of the Strait of Hormuz has unexpectedly benefited bulk carriers and container lines by rebalancing the market and delaying Suez Canal traffic recovery.

Air travel is facing immediate financial strain, particularly for European and Middle Eastern carriers due to airport closures, including in Dubai. Asian airlines, however, are relatively better positioned, as they are less affected by these disruptions and can still utilize Russian airspace for shorter routes. Looking ahead, the prolonged conflict poses a threat to the underlying demand for both freight and air travel, as airlines and shipping companies have limited ability to pass increased fuel costs onto price-sensitive customers.

Tourism is another area of concern, with the region risking reputational damage as a destination. This is particularly worrying for Gulf governments reliant on tourism for economic diversification. Despite this, historical patterns suggest that past periods of instability have typically seen a swift recovery in visitor numbers, as travelers' memories tend to be short and local authorities work to restore confidence. The ultimate impact of the current conflict on tourism remains uncertain.

Joel Hancock

Commodities Research

joel.hancock@natixis.com

Global Energy Flows Disrupted

The base-case in uncertain times – assuming a two-week disruption

We now assume a two-week outage to regular tanker transit via the Strait of the Hormuz in our base-case, which for **crude oil**, equates to an outage of ~5mn b/d over one month when considering the residual 10mn b/d of crude which cannot access alternative egress routes. This is equivalent to supply loss of 155mn bbl over March, compared to our prior assessment of paper fundamentals as long 2mn b/d for that month – or 62mn bbl. This implies a call on inventory ~93mn bbl through March, although this draw would not necessarily occur in key pricing centers across the OECD, with Chinese commercial and strategic stockdraws, as well as drawdown of Iranian and Russia floating storage, likely to absorb some of the call-on-inventory.

Table: Forecast on Oil & Gas Prices amid Protracted US-Iran Conflict

Brent, \$/bbl	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26
Updated baseline scenario (two-week outage)	65	69	90	90	80	75	70	70	70	70	70	70
High-case (three-month outage)	65	69	113	125	108	95	85	85	85	85	85	85
Previous Forecast (04/03/26)	65	69	80	80	75	70	65	65	65	65	65	65
TTF, €/MWh	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26
Updated baseline scenario (two-week outage)	34	32	55	45	35	35	30	30	30	29	29	29
High-case (three-month outage)	34	32	95	115	100	80	60	48	48	55	48	40
Previous Forecast (04/03/26)	34	32	52	40	35	32	27	27	27	29	29	29

Sources: Natixis, Bloomberg

If however, all the call-on-inventory was applied to the OECD, we assess fundamental fair value at \$80/bbl - with half absorbed by the OECD, which we would consider a more realistic assumption, **implied fair value drops to \$71/bbl** (compared to \$64/bbl with no outage). Of course, a full month's outage expands these implied fundamental fair value estimates significantly – a month's outage fully drawn from to OECD stocks implies Brent fair value at \$99/bbl before any geopolitical risk premium and not considering the fact commodity markets supply short at the prompt typically overshoot significantly to the upside.

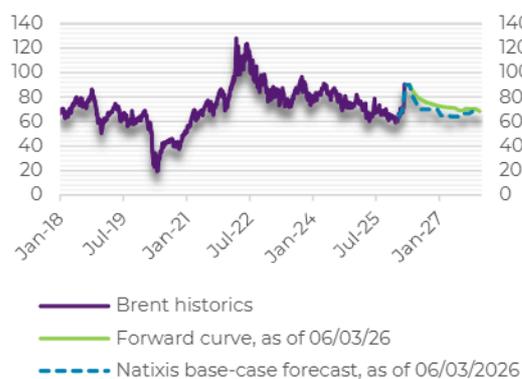
Clearly, the price implications of a long disruption to tanker transit are significant. So why do we take a two-week outage as the base-case? Broadly, we assume that within two weeks, Iran's capabilities are degraded to the extent that the US can shift to a lower operational tempo, which allows assets currently deployed as part of the initial strike force to shift to tanker convoy duties in the Strait of Hormuz. The protection provided by convoys, as well as successful application of US-backed insurance, will boost tanker owner's confidence, unlocking the strait. Broadly, the assessment here is that the Strait of Hormuz is simply too important to block for any significant length of time, with the US and allied forces likely to deploy significant resources to restore safe transit. In our base-case, we assume a two-week period of normalisation, which with a two-week outage removes ~6.5mn b/d out of our March balances, resulting in a net call-on-inventory at 140mn bbl, when prior our prior assessment of oversupply is considered. As such, we assess fair value, based purely on prompt fundamentals at \$75/bbl. Taking the \$15/bbl geopolitical risk premium we assess has been embedded in the market since the war began results in a **March estimate for Brent at \$90/bbl**. Given we assume that transit then resumes, we expect this risk premium to steadily degrade, with **Brent settling at the end of Q2-26 around \$70/bbl**. This is higher than our previous expectations (\$65/bbl) due to avoided inventory builds and an increase in the perceived convenience yield of inventory i.e. we expect a change to market psychology with refiners likely demanding more crude on hand and state-backed

buyers accumulating additional stockpiles to hedge against future outages. The risk highlighted by over-reliance on Persian Gulf supplies will not be long forgotten. This **takes average Brent in 2026 to \$73.3/bbl**, although we return to our prior forecast trajectory by 2027 (\$65.5/bbl average).

For product markets, the Iran contagion is multifaceted – firstly, ~5.5mn b/d of oil products are exported via the Strait of Hormuz (mostly LPG, 1.6mn b/d and naphtha 1.2mn b/d, with gasoil 0.86mn b/d, HSFO 0.54mn b/d and jet 0.38mn b/d making up most of the rest of the volume), and these flows are disrupted with transit via the strait halted. Second, refiners exposed to Middle Eastern crude (predominantly Asian buyers, which take ~85% crude export via the Strait of Hormuz) have reduced runs due to concerns regarding crude availability, with estimates regional run cuts have hit nearly ~2mn b/d. Third, national governments have announced product export bans due to the aforementioned crude availability issues, further tightening product supplies for import-dependant markets. Fourth, regional refineries have been the target of Iranian attacks. Three of these factors are solvable with a return of normal transit via the strait, and with a two-week disruption we assume product cracks will gradually moderate from very high levels. However, in the short-run middle distillate cracks will need to hold near demand destruction levels for the duration of Hormuz disruption.

For **European gas**, a two-week outage implies a further two weeks before Qatari LNG exports are normalised, given the time required to restart operations. A month's outage implies the loss of ~9bcm of LNG from the global market, which will primarily be felt in the market in late-March and April, although if China's gas market can flex in line with market behaviour through 2022, and EM South Asian buyers are priced out at current JKM levels, the headline loss of Qatari volume will overestimate the requirement for replacement spot LNG volume. As such, we expect TTF to price around demand destruction levels associated with the upper fuel switch levels for the duration of transit disruption – we currently assess the 20% and 25% fuel efficiency switch triggers at €52.6/MWh and €60.2/MWh respectively. Given the assumed Asian flex demand response, we expect limited impact on Europe's inventory fill, and as such elevated prices will not spread across the curve. Assuming TTF at the upper fuel switch trigger through the period of outage, with this premium decaying as flows resume, leaves an **average March forecast at €52/MWh, with Q1-26 at €40/MWh** and residual demand destruction pricing pushing Q2-26 to €38/MWh, with the market then returning to our prior forecast trajectory by Q4-26 (we model an average at €29/MWh). **This leaves an average 2026 forecast at €34.1/MWh, with Sum-26 at €34.2/MWh.**

Brent base-case forecast vs curve, \$/bbl



Sources: Natixis; Bloomberg

TTF base-case forecast vs curve, €/MWh



Sources: Natixis; Bloomberg

How bad could this get?

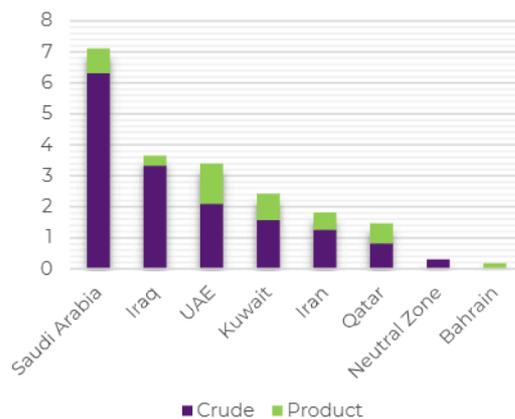
Now we are transitioning beyond the acute stage of the conflict with Iran's missile capabilities continually degraded by US and Israeli strikes (and Iran's recorded missile strikes dropping significantly), the main vector of sustained energy price upside is transitioning from direct strikes on regional energy infrastructure – with drone attacks more easily managed – to a prolonged closure of the Strait of Hormuz, which can be achieved with less sophisticated military action. Energy price implications are relatively severe in the short-run with a two-week outage, although we expect gains to moderate into Q2 and H2-26. **An extended period of disruption provides more opportunity for short-run spikes to be structurally embedded into energy prices due to the drawdown of inventory.** In the following section, we model energy market response to limited energy flow via the Strait of Hormuz **for three months.**

Which countries are exposed the most to Middle East energy flows? Asia is more directly impacted

First, let's assess key vulnerabilities. Around 20mn b/d of oil and products transit the Strait of Hormuz, representing 30% of the global oil trade (85% of the crude flow is exported to Asia) as the primary export route for Saudi, UAE, Kuwait, Qatar, Iran and Iraq. Breaking down flows by product, around 16mn b/d of crude is exported, with 4.5mn b/d for products.

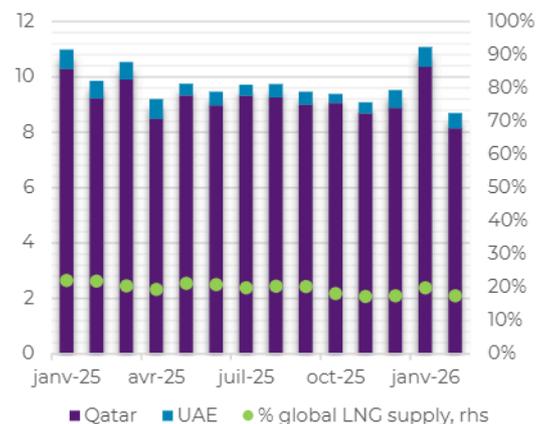
Beyond the outright impact on flows, **a closure would result in the inaccessibility of almost all of OPEC's spare capacity**, a key buffer for the market, and exaggerating any impact of a closure significantly. For crude, spare pipeline capacity to reroute flows around the Gulf accounts for 5.5mn b/d, mainly via Saudi's East-West pipeline (7.0mn b/d total capacity).

Oil and product flows via Strait of Hormuz, mn b/d



Sources: Natixis; Refinitiv, IEA

LNG flow via Strait of Hormuz, bcm

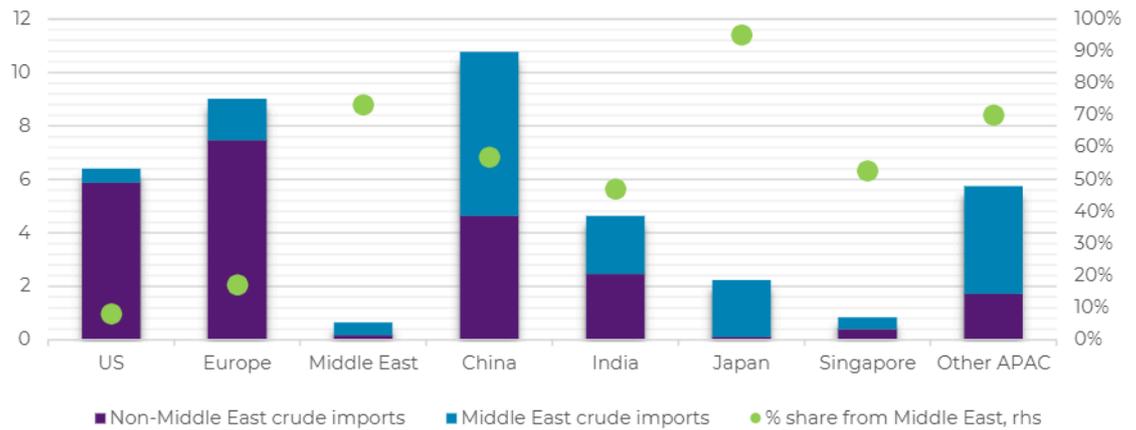


Sources: Natixis; Refinitiv

For crude, the **largest single volumetric exposure is China**, with 6.1mn b/d of Middle Eastern crude imported in 2025 (57% of imports) although the largest percentage exposure is Japan, of which **95% of the country's 2.2mn b/d of crude imports** are sourced via the Strait of Hormuz.

For oil products, gasoil exports via the Strait of Hormuz (0.86mn b/d) predominately flow to Africa (~50%, of which South Africa, Tanzania, Kenya and Egypt accounted for 70% of the volumes) and Europe (35%). Jet fuel exports (0.38mn b/d) predominantly flow to Europe, which took 65% of the total volume in 2025. Europe's middle distillate complex is highly import-dependant from outside the Atlantic Basin following lost access to Russian material, with prices hyper-sensitive to outages and potential disruption to import volumes.

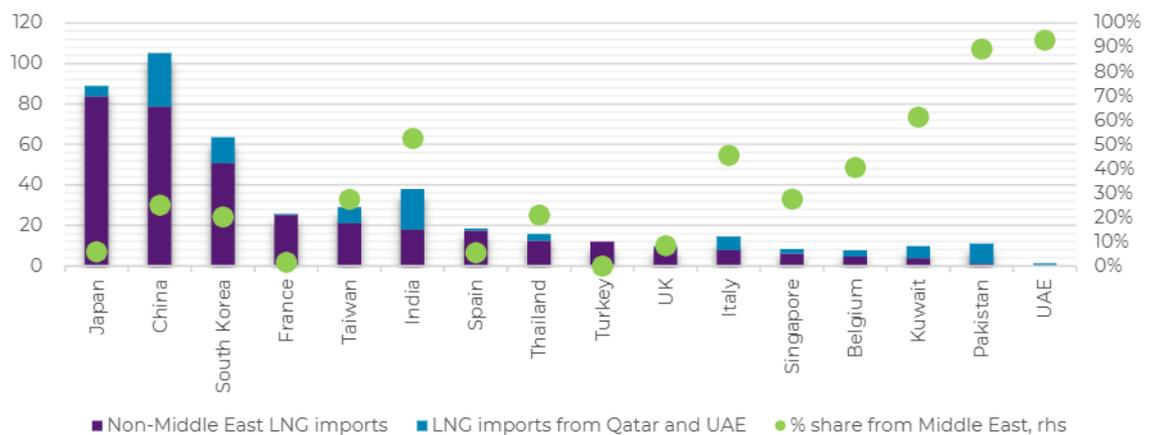
Exposure to crude flow via Strait of Hormuz, mn b/d (lhs) and as a % of total imports (rhs)



Sources: Natixis; Energy Institute

For LNG, Qatar exports ~9bcm per month with the largest volumetric exposures on a monthly average basis in 2025 recorded as China (2.2bcm), India (1.2bcm), Taiwan (0.9bcm), South Korea (0.8bcm), Pakistan (0.7bcm), Italy (0.5bcm), Japan (0.4bcm). The UAE exports ~0.7bcm of LNG. As a share of total imports, **Pakistan (95%) and India (52%) stand out in terms of vulnerability.**

Exposure to LNG flow via Strait of Hormuz, bcm (lhs) and as a % of total imports (rhs)



Sources: Natixis; Energy Institute

Of course, direct exposure to barrels and molecules transited via the Strait of Hormuz is largely irrelevant in liberalized energy markets, as spot-indexation results in benchmark price appreciation feeding into prices for contracted supply. For example, almost all of Europe's Norwegian gas imports are linked to regional hubs (TTF, NBP, THE), meaning higher prices associated with Asian consumers losing access to Qatari term supply will feed into European energy costs.

Pricing mechanisms to balance a long-term supply outage

It is difficult to see how the market could physically balance a three-month outage of flow via the Strait of Hormuz, assuming the loss of ~10mn b/d of crude, ~9.6bcm of LNG and 5.5mn b/d of oil products (plus additional products lost as refiners cut runs significantly due to difficulties sourcing crude oil), **without a significant price response**. Logistically, with the energy market largely a just-in-time system, a three-month export halt implies major shut-ins across Middle Eastern oil producers as storage capacity is exhausted, with ~3mn b/d of Iraqi crude already shut-in. As crude transitions from simply being backed-up at storage terminals (still produced, and theoretically on-the market) to production being cut, we are entering supply-loss territory, with deep inventory draws in consumption centres subsequently required to balance the market. Deeper refinery run cuts would also be required as Asian refiners balance available crude supply.

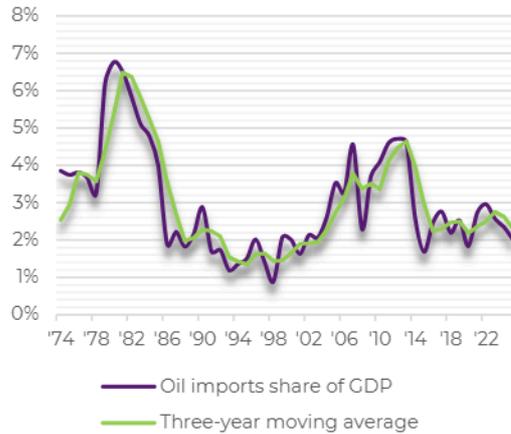
For the oil market, this implies the loss of an incredible 900mn bbl of crude from the global market, which assuming was half met by OECD stocks (and considering our prior view of balances over the coming three months) **would imply fair value for Brent around \$178/bbl**, according to our models. Of course, a major response from i) demand destruction and ii) the release of government stockpiles would occur before prices hit these levels, which would act to deflate prices.

Price levels required to trigger meaningful consumption reductions are poorly constrained, with estimates of oil demand elasticities varying significantly in the literature. One universally agreed point however is that **oil consumption is price inelastic in the short run, requiring strong relative price moves to trigger a demand response**. Indeed, the absolute price level is less relevant than the relative change in prices compared to the prior baseline – as such, the acute upside oil price move observed so far, and we would expect in a long-duration scenario, (which will feed into US gasoline prices more aggressively in Europe, given lower tax rates) will likely trigger some discretionary reduction in consumption. For example, through May-22, a six-week period where the monthly average percentage change in gasoline's share of the US consumer basket averaged 5% triggered a ~0.25mn b/d reduction in US gasoline demand over H2-22. Gasoil demand is found in the literature to be more elastic (with commercial consumers more able to adjust demand patterns, compared to gasoline where demand is essentially captured, particularly in the US) with current product prices currently at levels which typically trigger a demand response in Europe. However, ultimately **end-user product demand is more sensitive to general economic conditions (GDP growth, employment rates) rather than relative prices**, with a sustained recessionary period likely required to balance a long-lasting, extreme supply outage.

Shifting focus to crude oil, disrupted logistics would do some of the work to balance the market, assuming a three-month outage, with demand for crude meaningfully reduced by refinery run cuts. We estimate 2mn b/d has already been cut and we would assume this would deepen if crude access from the Middle East was disrupted for any length of time. Moreover, as outlined above, consumers are **exposed to oil product prices rather than oil prices**, so with oil product cracks currently so elevated, a greater share of demand destruction pricing can be baked into the crack, rather than the outright Brent price. Attempting to quantify potential upside via a simple model, we derived a Brent-price based demand destruction level using an oil burden approach - what maximum share of global GDP spent on oil imports has the global economy been able to tolerate through previous periods of severe supply restrictions?

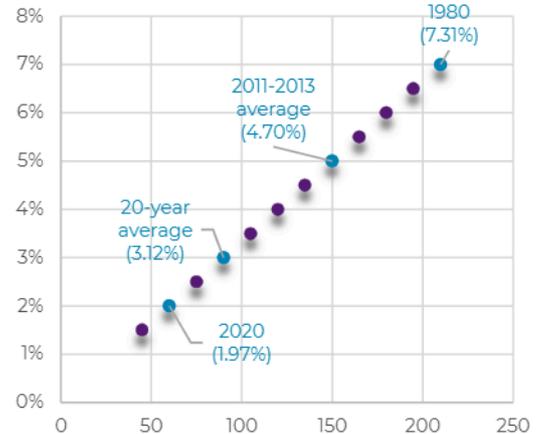
Through the 1979-80 oil crisis oil imports accounted for a record high of 6.7% of global GDP - if we use that number and apply it to the present, a similar oil burden would imply Brent at \$206/bbl. Reaching 4.7% (2008-2011 average) **would imply ~\$139/bbl.**

Oil imports as a share of global GDP, %



Sources: Natixis, World Bank, Bloomberg

Brent vs oil share of GDP, historic



Sources: Natixis, World Bank, Bloomberg

So, fundamental fair value at \$178/bbl, or demand destruction at \$139/bbl? **It is highly unlikely oil prices would get anywhere close to these levels on a monthly average basis.** Instead, governments would step in to deploy strategic oil and product stocks to deflate prices. Global stock draws are coordinated by the IEA, although countries often take unilateral action, as well. As part of IEA membership, countries are required to hold stocks equivalent to 90-days of net imports, with significant discretion applied as to the distribution of stocks between crude and oil products, and government or company stocks (via enforced stock holding mandates). Within the OECD, it is estimated total stocks are equivalent to ~1.8bn bbl, of which 0.5bn are products (predominantly middle distillate, for which government-held stocks are ~200mn bbl). The IEA last triggered a stock release in March and April 2022 in response to the Russian invasion of Ukraine as concerns about Russian supply loss dominated the market. A total of 182mn bbl was released as part of coordinated action, topped up to 240mn bbl when considering additional US SPR releases. Through Mar-22, through the acute phase of the outage, crude and product supply releases averaged ~2mn b/d. We think significantly higher release rates are feasible.

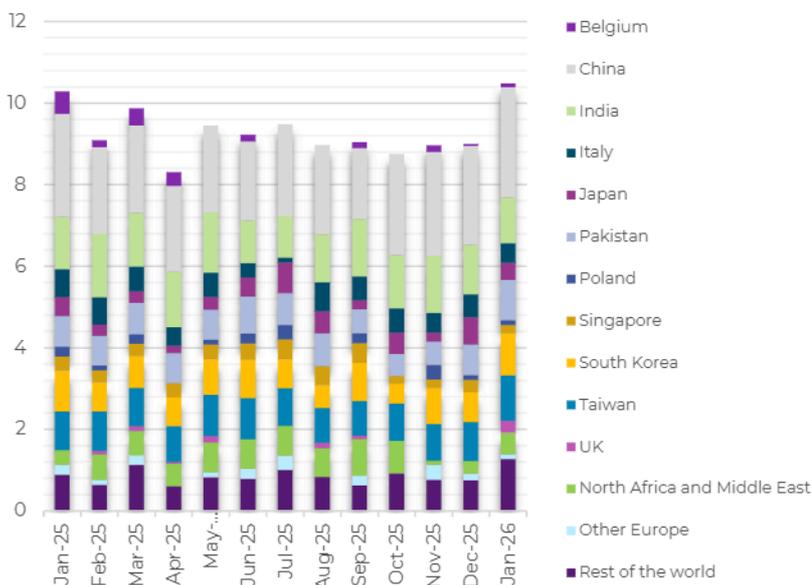
Beyond the IEA, China has built substantial crude stockpiles in recent years, with an estimated ~1.9bn of strategic and commercial crude stocks held. China holds a unique place in the oil market, acting as a *swing buyer* – modulating imports based on prevailing market prices, and with access to substantial volumes of sanctioned supply. As such, we consider it highly likely China would sanction a significant stock release to buffer any period of supply outage through Hormuz, with Chinese demand for replacement barrels far lower than implied by the headline supply loss figure.

Moderated by strategic stock releases, we think it is likely oil prices will avoid theoretical targets implied by fundamental models and demand destruction levels. However, prices would still remain elevated in this scenario, with the logistical efficiency of a market balanced by strategic stock releases substantially lower than the business-as-usual system. Pockets of tightness will exist and keep benchmarks well-bid, whilst prices will need to maintain high to keep the incentive for further releases.

As such, **we would expect Brent to average \$115/bbl over the duration of a three-month outage**, with prices normalising as transit then resumes, with risk premium steadily degrading. Of course, we would expect upside excursions through this period on headline newsflow. However, the post-conflict price level is higher than our base-case, with the market psychology impact (increase in the perceived convenience yield of inventory) outlined exacerbated and the greater need to replenish stock draws, with a much greater call on inventory through a three-month outage.

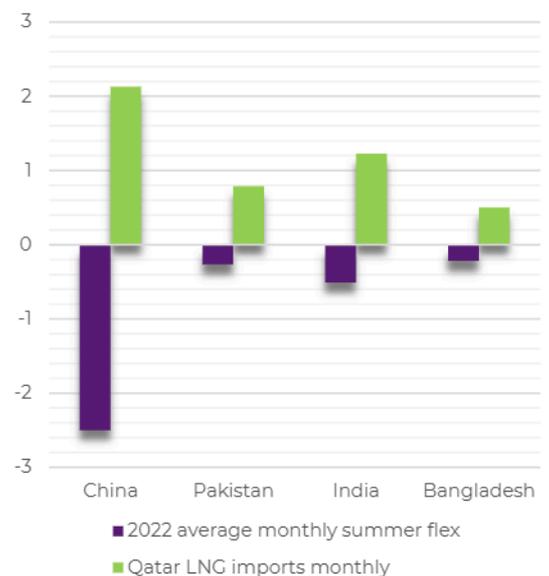
For the **natural gas market**, it is critical to remember that there is no equivalent “strategic gas reserve” which was a lesson learned in 2022 – balancing the global gas market will require demand destruction. Thankfully, as a broadly substitutable commodity across its consumption niches, natural gas demand is far more elastic than crude oil (although in recent years consumption has become less elastic). Current gas stock levels in Europe are low, at around ~30%, a fact that traders have been relatively relaxed about when considering the oversupplied market expected in 2026 as new LNG export capacity enters the market. However, our base-case assumes a market just 10bcm long, whilst a three-month outage implies the loss of ~27bcm of Middle Eastern LNG supply. Balancing this will require a demand response greater than implied in our base-case, with EM South Asian demand fully turned down and China incentivised to flex both supply and demand sources, in-line with 2022 (China’s LNG imports dropped 20bcm year-on-year in response to the energy crisis).

Qatari LNG exports by country, total, bcm



Sources: Natixis; Refinitiv

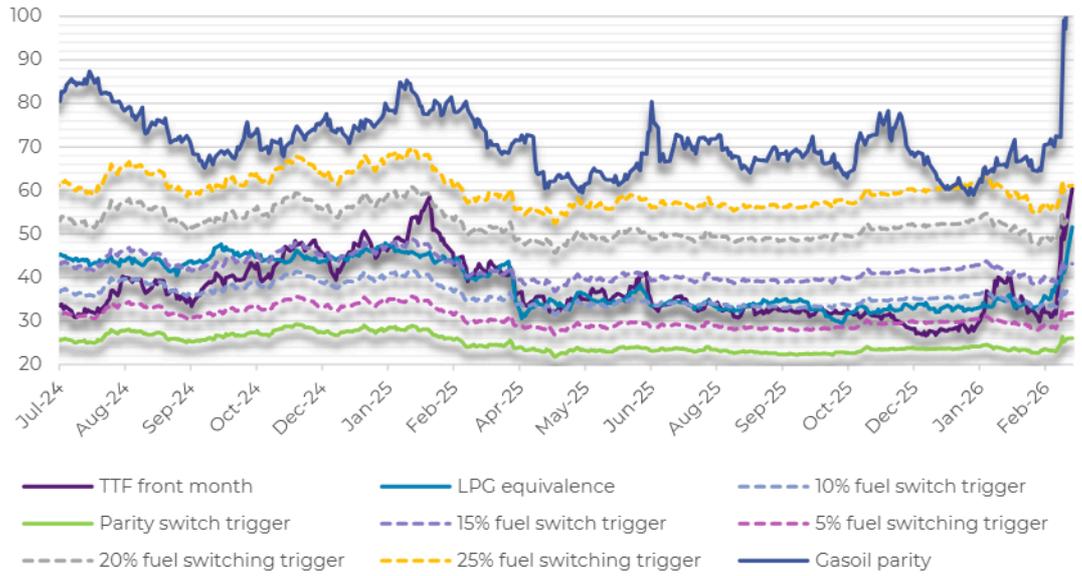
Key Asia flex markets. 2025 Qatari imports (Sum-25 average) vs average monthly 2022 injection season demand reduction, bcm



Sources: Natixis; Refinitiv

In this scenario we assume TTF would price at the top of our fundamental switching channel, with price formation set at diesel parity. At current diesel cracks we assess this level around ~€105/MWh currently (although this price level has been very volatile).

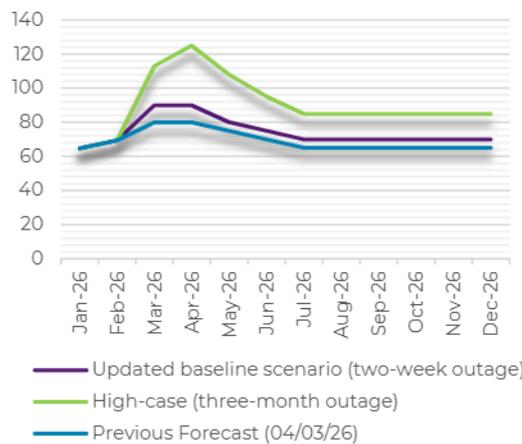
Relevant switching levels, European gas market, €/MWh



Sources: Natixis; Bloomberg, Refinitiv

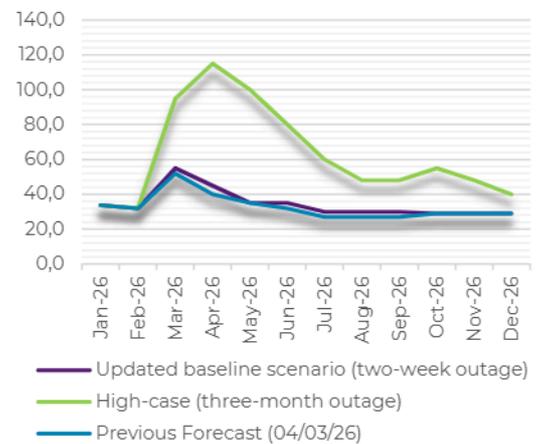
Of course, the risk of contagion is naturally higher in the natural gas market given the dependence on steady inventory builds through the summer ahead of the winter withdrawal period. Gas availability, as well as extreme backwardation, would impact fill rates through the early part of the injection season, spreading risk premium well beyond the tenor of the three-month disruption. Whilst the elevated risk premium would decay as flows resume, we think TTF would need to price for demand destruction for longer, with prices set between the 15% and 20% fuel switch trigger between €43/MWh and €53/MWh through the injection season to ensure adequate inventory builds in Europe. Assuming an adequate fill rate and normal weather, we would then assume this additional risk premium would degrade into the withdrawal season, returning to our prior forecast trajectory by Q1-27. **This leaves an average forecast of €103/MWh over the three-month average period, with an average Sum-26 TTF forecast at €75.1/MWh, with 2026 on average at €63/MWh.**

Natixis Brent price scenarios, \$/bbl



Sources: Natixis; Bloomberg

Natixis TTF price scenarios, \$/bbl



Sources: Natixis; Bloomberg

Bernard Dahdah

Commodities Analyst

bernard.dahdah@natixis.com

Metals and Precious Metals Disrupted

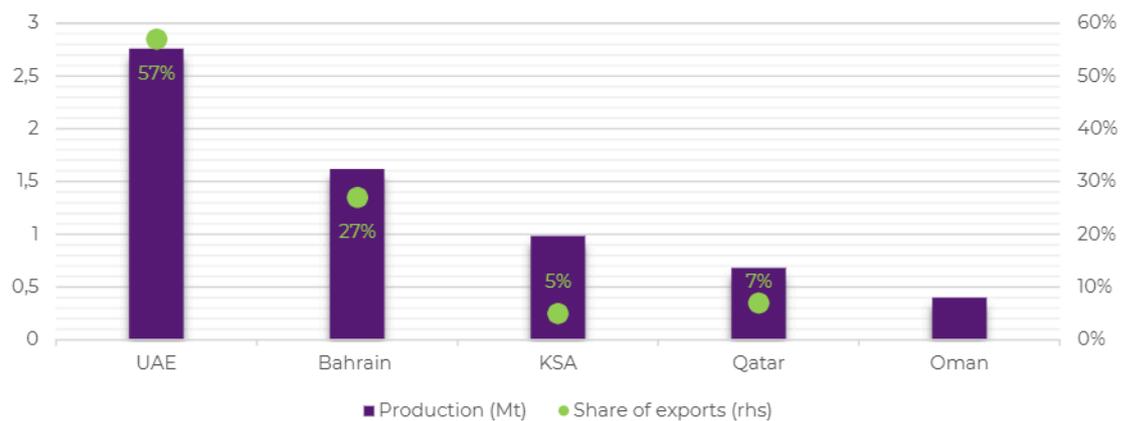
Aluminium – Some space for price to increase further

We had expected the war to jolt aluminium prices as the Middle East region produces around 8% (6.5Mt) of global primary aluminium and exports 4.6Mt of that amount (chart 02) ([click here](#)). As a result of the war, spot aluminium prices have so far risen to a high of \$3,493/t, a 12% increase and well within our forecasted range. Meanwhile European premiums have jumped by \$45/t to just over \$400/t.

Going forward, we think that there is still some space for aluminium prices, along with European premiums, to continue rising over the coming days. Although there is still some global spare capacity (as we mentioned in our 19 Feb report) that could cover GCC production losses, the longer distances to Europe will increase shipping costs. Finally, to some extent, higher energy prices could also lead to higher aluminium prices.

We think that this has now been considered by the market and that going forward prices are likely to go sideways and range around \$3,500/t. Prices could then quickly come off and return to pre-war levels once the war ends.

GCC aluminium primary aluminium production (y2024, Mt) and share of exports



Sources: Natixis; Various

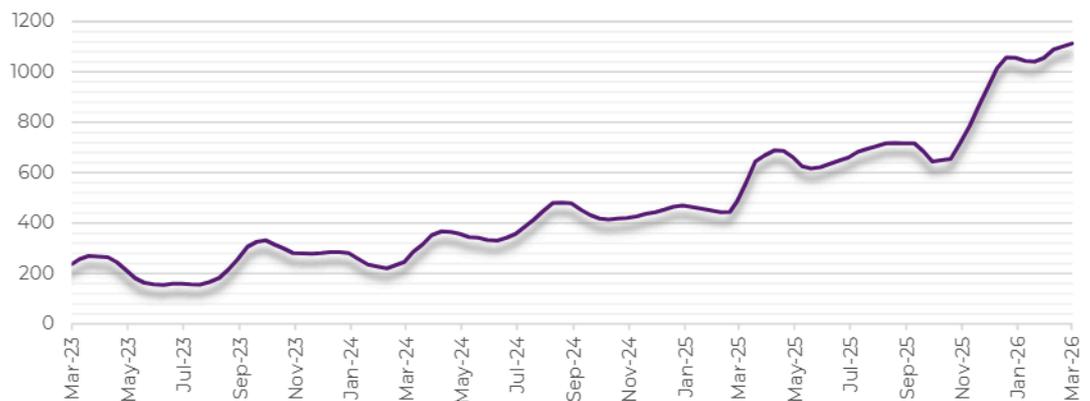
Sulphuric acid tightness impacts extraction of metals

Sulphuric acid is particularly important for the base metals market. It is a key reagent in hydrometallurgy and leaching, **particularly for extracting metals such as copper, nickel, uranium and REE.**

Sulphuric acid is mainly produced from elemental sulphur (the feedstock) which mostly comes from oil and gas refining along with gas processing. Over the past two and half years prices have risen by around 500% mainly due to a surge in nickel HPAL.

In September of last year, Ukraine successfully targeted Russia's Astrakhan processing gas plant. As Russia stopped the export of sulphur, prices almost doubled by the end of 2025. **The war between the US/Israel and Iran has exacerbated the tightness in supply as the Middle East accounts for almost a quarter (around 84 Mt) of the world's sulphur production.**

China market price of sulphuric acid 98% (Yuan/t)



Sources: Natixis; Bloomberg

Indirect impact on copper markets

Copper ore can be separated into oxide and sulfide ore. The processing of both types of ores differs; Copper oxide ores first go through heap leaching with sulphuric acid, this is then followed by solvent extraction and finally electrowinning. This is known as the SX-EW process and for each tonne of copper produced through this process, around 2 to 4 tonnes of sulphuric acid can be used (even 5 tonnes in some low-grade copper ores). **Through this process, acid tends to be the largest cost component and can account for anywhere between 20 and 35% of operating costs.**

The SX-EX process accounts for around 20% of the world's copper production, mainly in the Americas such as Chile, Peru, the US and the DRC. Higher costs of acid or simply the inability of access can impact output.

Nevertheless, **it is to be noted that sulphuric acid can also be byproduct of sulphide ore mining.** Smelters processing the ore will be benefiting from the current price rally in the reagent. Others will simply be allocating the byproduct to SX-EX operations: for instance, FQM noted that its operations in Zambia would be unaffected because the company sources its acid from its own smelters.

It has been reported that sulphuric acid can now account for more than half of a smelter's revenue (other than TC/RCs) up from around third. With the collapse in TC/RCs, Chinese smelter profits are now increasingly reliant on sulphuric acid production (ie the by-product).

Indirect impact on nickel markets

Nickel ore can be separated between low grade laterite ores (such as those found in Indonesia) and high-grade sulfide ores.

Sulphuric acid is essential in the processing of laterite nickel ores, mainly through the High Pressure Acid Leach (HPAL). The HPAL process is an essential part in upgrading nickel laterite into battery grade nickel. Such plants can consume around 4.5 to 10 tonnes of acid per tonne of nickel produced. **The share of operating cost can range anywhere between 35% and even up to 50%.**

Indonesian producers will be particularly sensitive to middle east exports problems as they import around 75% of their sulphur from the region. This can be an even bigger problem for the nickel market than for copper as the country accounts for over half of the world's production of the metal. It has recently been reported that sulphur stockpiles in the country's HPAL plants average only one to two months of consumption.

Indirect impact on copper and nickel prices

With Trump keen on having the shortest war possible, we think that most consumers of sulphuric acid will be able to withstand a few weeks' worth of shortages.

If we do go by a scenario where middle eastern sulphur is completely shutout for months, we think that copper prices will be much less impacted than nickel.

This is because only 20% of copper production is reliant on sulphuric acid, most copper oxide being in the Americas means that they are unlikely to be sourcing most of their sulphur from the middle east. As for nickel, the story is quite different given that Indonesia produces 50% of the world's nickel and import 75% of their sulphur needs from the Middle East. That said, it would only be high grade nickel prices that would be impacted rather than the whole nickel metal product complex

Gold – Easing of conflict will lead price to drop back to pre-war levels

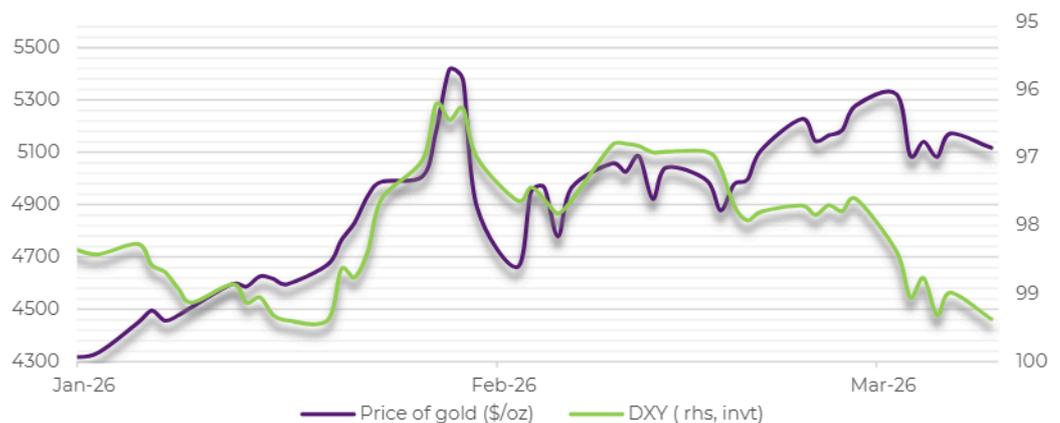
We had expected that gold price would rise in our 20 February report ([click here](#)) anywhere between 11% and 15% from the date of the attack and after which, we expect that prices would start coming off as the market has visibility of the implications and adapts. We based this conclusion mainly on the evolution of the price of gold during the Gulf War.

As a result of the war that started on Saturday 28 February, prices have so far risen to a high of \$5,416/oz (Monday March 2,). Just 1.5% off from the lower range of our forecast (\$5,500/oz). Since then, prices have come off and are currently at around \$5,100/oz. Prices came down as the market was able to see the implications of the worst-case scenario (closure of Hormuz strait, targeting oil and gas facilities). There could also have been some profit taking place to cover loss-making positions or margin call in equity market investments. Also, the USD was used as a safe haven, with the DXY rising by 1.7% since the start of the war (chart 01)

Once the war ends, we think that prices could drop back to their pre-war level of around \$4,600/oz. Effectively we think that the market is currently pricing in around \$450/oz of Iran war related cost. So far, the total impact on gold prices (market expectation of war + reaction to war) has been as much as \$750/oz.

That said, should war drag on for more than two weeks, we do not think that gold prices will continue to go sideways. This is because of the inflationary impact that higher energy prices could have on the global economy and the resulting higher gold prices. In such a case we could see prices creeping up again towards the \$5,500 - \$5,800/oz range.

DXY vs. Gold



Sources: Natixis; Bloomberg

Valentin MORY

Transportation & Mobility

valentin.mory@natixis.com

Transportation Interrupted: Ocean, Wind and Fire

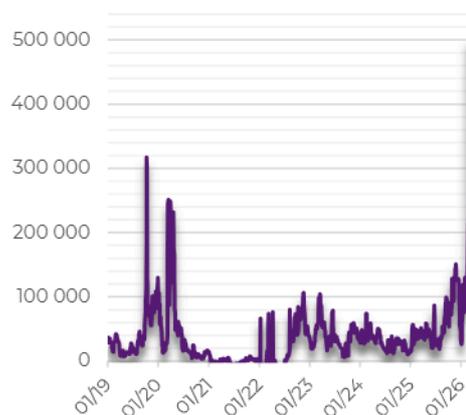
The conflict convulsing the Middle East is striking at the heart of global transport networks. Both sea freight and air travel have taken an early hit, though the initial impact has been strikingly uneven, reflecting the sharply different dynamics at play across each mode and industry.

For shipping, the trimmed outflow of oil and LNG exports through the strait of Hormuz is the central issue. The turmoil is proving a perverse boon for bulk carriers and container lines alike. By delaying the odds of a full traffic recovery through the Suez Canal, the spiking risks have helped rebalance a market that had been suffering from an unfavorable excess of supply over demand. **The sky, however, tells a darker story.** The full or partial closure of some of the world’s busiest airports — Dubai’s among them — is inflicting an immediate cash hit on European and Middle Eastern carriers. Asian airlines, by contrast, are emerging as relative beneficiaries: those routing Europe-Asia traffic through their own hubs face no such disruption, while others retain access to Russian airspace and the shorter polar corridors it affords.

Looking further ahead, the more consequential question is what a prolonged conflict would do to the underlying demand for freight and air travel. Here the stakes are high, and the room for maneuver limited: both container shipping lines and airlines have little pricing power with which to pass on higher fuel costs to customers already sensitive to price. **The wild card, as ever, is demand itself.**

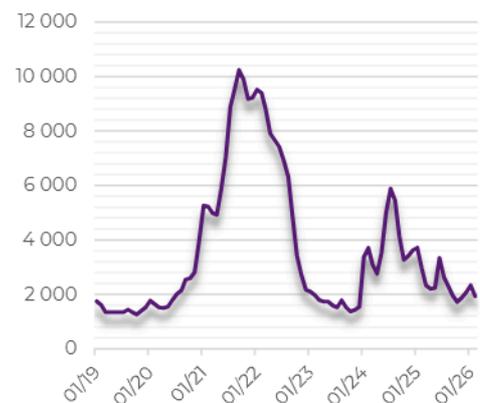
Tourism presents a separate concern. The region’s appeal as a destination could suffer reputational damage — a risk that governments in the Gulf have particular cause to take seriously, given how central travel and hospitality have become to their economic diversification strategies. Yet history offers some reassurance. Past bouts of regional instability have typically been followed by a swift recovery in visitor numbers, as travelers’ memories prove shorter than we could have feared, and as local authorities move quickly to restore confidence. Whether this conflict proves the exception remains, for now, an open question.

OCEAN: Oil tankers - VLCC (Very Large Crude Carrier) Arab Gulf to China rates (in \$/day)



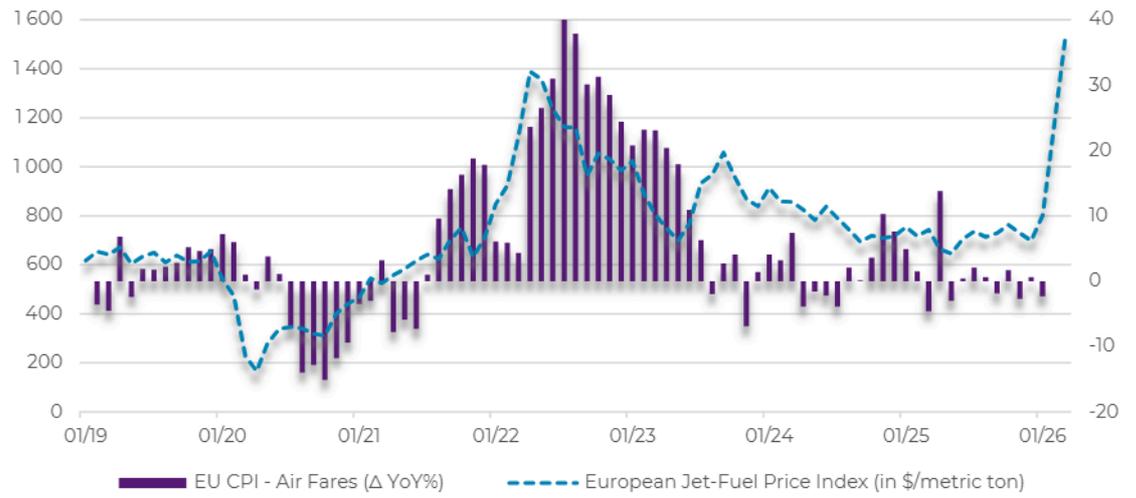
Source : Bloomberg

OCEAN: Containers - WCI Freight Rates Composite (in \$/FEU)



Source : Bloomberg

AIR – European Jet Fuel Prices vs. Air Fares



Sources : Bloomberg, Eurostat / NB: fuel typically accounts for 30% of the cost base of an airline.



Macroeconomic impact

Iran War Impacts Asia Negatively via Higher Costs of Imports, Disrupted Trade Flows, Softer Remittances and Tourism, as well as Financial Shocks

Asian economies are vulnerable to a prolonged Middle East conflict through higher energy prices, transportation disruptions, reduced remittances, and tighter financial conditions. Thailand, Singapore, South Korea, and Taiwan are most exposed to energy cost increases, while the Philippines faces heightened risks from food and energy import dependence, remittances, and tourism. India is also significantly affected by remittances and energy costs. These nations face worsening current accounts, rising inflation, and potential trade protectionism, leading Asian central banks to shift towards more hawkish monetary policies. Despite current account surpluses, Thailand and South Korea may see larger GDP impacts due to heavy reliance on imported energy, while the Philippines is considered the most vulnerable to sustained shocks overall.

Impact on China is Negative but Limited

The economic impact on China is expected to be limited, provided the conflict concludes within a few months, due to China's relatively small bilateral trade with Iran and ample strategic petroleum reserves. While official trade figures appear marginal, with Iran being China's third-largest crude oil supplier through indirect channels, a prolonged disruption would necessitate costly pivots to alternative sources like Russia. China's substantial investment pledges in Iran under a 25-year agreement have seen negligible actual capital expenditure, largely due to sanctions and financial hurdles, thus limiting direct investment exposure. Macroeconomic pressures, such as potential CPI increases from oil price spikes, are likely to be manageable given China's current disinflationary environment and its regulated fuel pricing mechanism, though a prolonged conflict would necessitate a recalibration of China's long-term Middle East strategy.

Japan: A New Wave of Cost Push Inflation From the Middle East Conflict?

Japan faces heightened inflation risk due to the Middle East conflict, driven by rising oil prices and a weakening Yen, which will increase import costs and curb consumer spending, despite substantial oil reserves acting as a short-term buffer. The Bank of Japan's policy response will hinge on the Yen's strength: a weakening Yen (above 155 JPY/USD) may trigger interest rate hikes to combat inflation, a move potentially supported by the Prime Minister. If the Yen stabilizes, rates may hold, with the government likely providing energy subsidies. The risk of a protracted conflict and stagflation looms, pressuring the BoJ to balance rate hikes with government relief and carefully consider bond purchases.

Middle East: Short-run Shock to Oil Sectors With Medium-Term Risk to all Else

The Middle East countries are clearly the biggest victim of this conflict. With the Strait of Hormuz effectively closed, their petroleum and LNG shipment is largely disrupted, with Qatar and Kuwait mostly exposed with export loss of over 90%. Countries with pipeline infrastructure, such as Saudi Arabia and UAE, are relatively buffered as rerouting lowers their exposure to 40%. Though still impacted, the elevated prices should provide some respite for shipment loss. The market reaction so far has been refrained, with 5Y CDS rising only 19bps at the time of writing. However, if the conflict drags on for months, the supply-chain premium and fiscal consolidation will feed into non-oil sectors, brewing greater shock to overall growth.

Europe is not Directly Affected by Energy Supply Disruptions, but Higher Prices Could Affect Growth and Inflation Outlooks

Europe faces potential cost-push inflation and slower growth due to the Middle East conflict, with the impact heavily dependent on the conflict's duration. A mild scenario would see transitory energy price spikes with minimal economic effects and unchanged monetary policy. An intermediate scenario would lead to sustained higher energy prices, impacting inflation and confidence, possibly prompting proactive policy and central bank rate hikes. A severe, prolonged conflict could cause stagflation, forcing tighter monetary policy for longer and dampening growth significantly.

For the Eurozone, the baseline scenario forecasts slightly elevated but moderating energy prices, with a modest impact on inflation and GDP, though upside risks remain. The ECB is expected to hold rates unless the conflict escalates severely, in which case a rate hike is possible. The UK, with high energy import dependency, could register in theory a temporary inflation increase of 0.2-0.3 percentage points from energy price spikes. But the Ofgem's energy price cap and the £150 reduction in household energy bills adopted by the government will limit the impact on inflation in case of short-lived conflicts. Sustained high prices (around one year) could raise inflation further and prompt the Bank of England to hold rates or even hike them, balancing inflation concerns with a weakening labor market.

Impact on the Americas: Sustained Disruption Would Lead to Stagflation and a Wider Deficit

The Middle East conflict presents the Americas with significant economic uncertainty, categorized into three scenarios: short-term disruption, sustained disruption, and a tail risk of a broader war. The immediate market reaction has already been more severe than expected, indicating a potentially prolonged development. In the short term, a limited military action and energy flow disruption would likely see oil prices rise temporarily before settling back down, with minimal US inflation and modest growth slowdown, allowing the Fed to proceed with two rate cuts and Latin America to see limited impact

However, a more sustained disruption would embed a structural risk premium in oil, leading to persistent US inflation and a significant growth slowdown, prompting the Federal Reserve to implement around four rate cuts in 2026. This scenario would also challenge Latin America with weaker global growth, higher inflation, and currency depreciation. The most severe implication stems from the tail risk of a broader war, which would trigger widespread global supply chain disruptions beyond energy, leading to oil prices over \$120, sharp corporate margin compression, and a US recession with significant GDP contraction and rising unemployment, necessitating aggressive monetary easing and fiscal support. This would translate to severe GDP contraction, high inflation, and significant currency depreciation across Latin America.

Trinh NGUYEN

Senior Economist,
Emerging Asia

trinh.nguyen@natixis.com

Kelvin Tong

Junior Economist,
Asia Pacific

kelvin.tong-ext@natixis.com

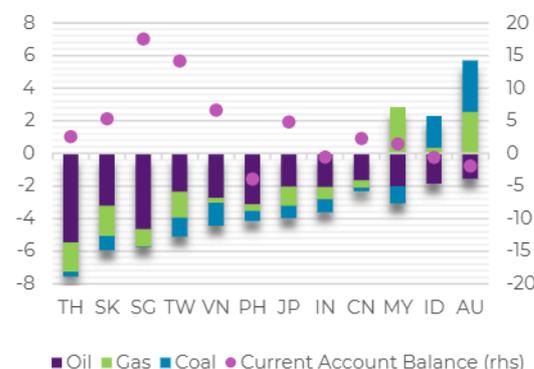
Impacts Asia Negatively via Higher Costs of Imports, Disrupted Trade Flows, Softer Remittances and Tourism, as well as Financial Shocks

Asian assets are having indigestion absorbing the reality that the Iran War, which is widening to a regional conflict, may last longer than days. The Strait of Hormuz remains largely closed and most airlines in the region are not operational. In the event of a prolonged conflict, there are four key channels of transmission for Asia: oil and gas imports, transportation, remittances from workers based in the Middle East and finally financial risk averse sentiment persists to lead to tighter financial conditions.

Asia is most exposed to Middle East oil and gas. The shortages have already led to higher prices in oil and gas and increasingly coal. Every Asian country is a net importer of oil (**Chart 1** shaded in purple), with Thailand having the highest exposure as a share of GDP. Higher prices pass through first through the current account to raise import costs, which are then either passed on to the economy either through higher prices or the government will need to pay for it via subsidies. It's not just oil that is affected by the shutdown of the Strait of Hormuz but also gas as Qatar gas is affected and Asia is the key buyer. Given the supply shock of oil and gas, coal prices are also gradually rising as it is a key substitute to oil and gas.

In Asia, every country except Australia, Indonesia and Malaysia are net energy importers and thus this shock would negatively impact not just the current account via the import channel but also through how that is passed on to the economy. Australia and Indonesia have trade surpluses in coal and gas while negative in oil. Malaysia is a net importer of both coal and oil but has a net surplus in gas, neutralizing its vulnerability. Inversely, Thailand, Singapore, South Korea, Taiwan, the Philippines are most exposed to oil and gas price increase. The only respite is that many of these economies are also current account surplus countries that have savings to absorb shocks. Still, it is a negative shock to the current account that will lead to erosion of profit margins and purchasing power if passed through to the economy. If the government absorbs the costs, then fiscal deficits will rise, and debt levels will increase.

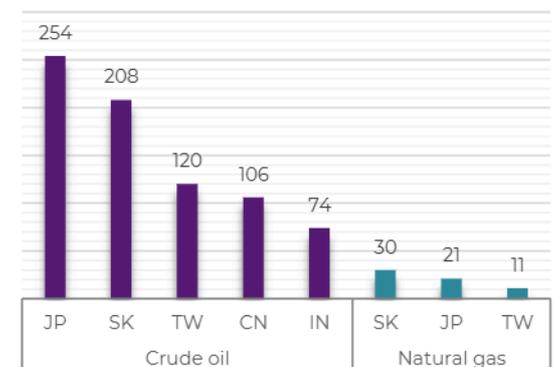
Chart 1: Asia: Net Energy Trade (% GDP)



Source: Natixis, UN Comtrade

N.B. Data is based on 2024 trade data. HS product classification is used. HS 2709, 2710 for Oil; HS 2711 for Gas; HS 2701 for Coal.

Chart 2: Estimate Number of Days to Cover



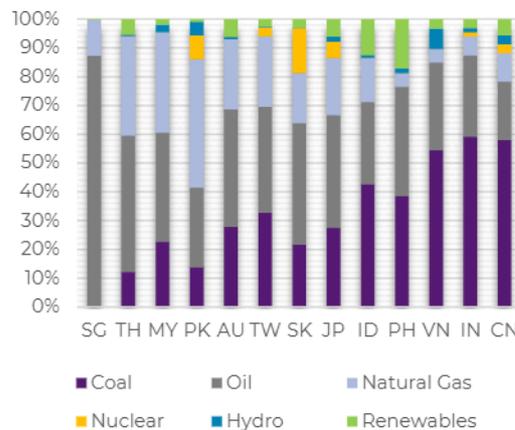
Source: Natixis, Various Government Announcements, US Energy Information Administration (EIA), Chung-Hua Institution for Economic Research

N.B. Latest data available.

There are few mitigating factors in the short-term. Strategic reserves are one, and reserves for oil are biggest than gas (**Chart 2**). Another is alternative sources of energy. Across Asia, diversification of energy supply has increased but fossil fuel remains a key driver of Asian economies. China remains coal, oil and natural gas based even if renewables and nuclear have increased. That said, it has the lowest oil and gas share of total energy supply in the region. At the opposite spectrum, Singapore is most exposed to oil and gas as a source of energy, followed by Thailand (**Chart 3**). Nuclear is increasingly key for South Korea (2.1% of total) while the Philippines liberalization of renewable investment has led to an increase of 17% of total supply to renewable. Despite such efforts, alternative sources of energy remain low and thus this shock would still be felt by countries more dependent on imported oil and gas as well as coal for consumption. Thailand and China announced that they will restrict exports of oil.

Beyond oil and gas, another immediate worry for the region is the global fertilizer trade where near-term supply is at risk due to shipping disruptions. Nitrogen-based fertilizer disrupts global food supply. The reduction of fertilizer output will likely lead to higher price hikes of fertilizer that may lead to higher food prices. In Asia, the Philippines is most vulnerable to both the hike of food and energy costs as it has a net trade deficit for both (**Chart 4**). Meanwhile, Thailand, despite having the largest trade deficit as a share of GDP for energy imports, has the largest surplus of food exports in the region, mitigating some of the impact.

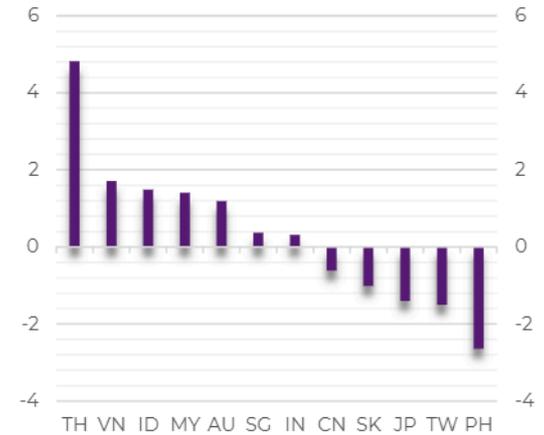
Chart 3: Total Energy Supply by Fuel



Source: Natixis, Energy Institute. Data as of 2024.

N.B. Data is as of 2024.

Chart 4 Asia: Net Food Trade (% GDP)



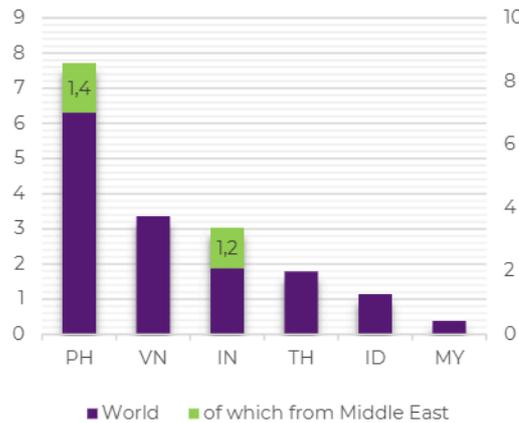
Source: Natixis, UN Comtrade

N.B. 2024 trade data is used. HS 01-04, 07-13, 15-22, 33 for food.

Remittances are another concern should the conflict widen (**Chart 5**). In Asia, India is most exposed to the Middle East by value of remittances (USD45bn). Nine million Indians work in the Middle East, sending home 1.2% of GDP in remittances. The decline of which due to a protracted conflict would lead to a deterioration of the current account both through higher import costs and slower income flows via remittances. The Philippines is most exposed in Asia in terms of share of GDP dependency on Middle East remittances, at 1.4% of GDP. With high energy and food import deficit, the slowdown of this will add to the current account pressure for the Philippines.

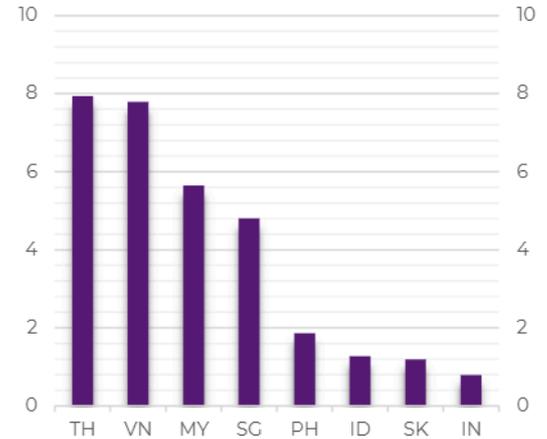
Disrupted air transport will add to further pressure. So far, jet fuel prices have soared and air tickets have increased due to Middle East disruption. Should the energy price hike sustained and air transport disruption persists, Asian economies more dependent on tourism will be impacted by demand destruction. Those are Thailand, Vietnam, and a few Southeast Asian economies (**Chart 6**).

Chart 5: Total Remittances Received (% GDP)



Source: Natixis, World Bank, Bangko Sentral ng Pilipinas, Reserve Bank of India. N.B. Data is as of 2024. Remittances from middle east is only available for India and the Philippines.

Chart 6: Travel Inflow (% GDP)



Source: Natixis, CEIC, Vietnam National Administration of Tourism. N.B. Data is as of 2025. Vietnam's data is estimated by tourism receipts as travel inflow is not available. N.B. Latest data available.

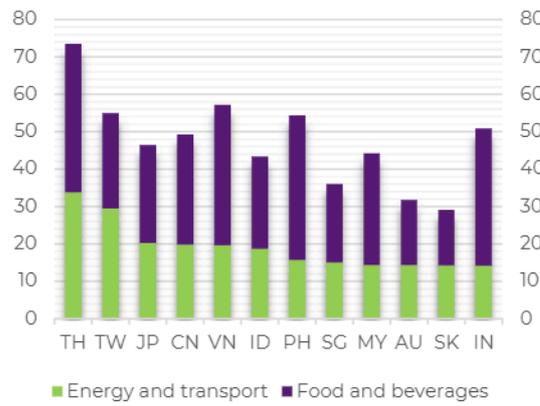
Policy Response – Rate Cut Cycle Over with Inflation Risks Rise and Protectionism

With specter of higher energy, food and transportation costs, inflationary pressures are likely to put central banks in Asia in a cautious mode. So far, they have used FX as a first line of defense to let it be a shock absorber. The rate cut cycle is over in Asia with central banks likely to adopt a more hawkish language and eventually rate hikes as well as adopt non-monetary measures to smooth volatility and help. Trade protectionism for affected sectors will likely increase. Already China and Thailand started curbing exports of diesel and gas. This will likely widen across the region to secure supply. Should the food shock hit, food exporting countries will like also to resort to protectionism, impacting those more vulnerable, leading them to face higher imported inflationary costs (**Chart 7**).

Monetary policy rate cut window is ending with hikes are coming, tightening financial conditions. Risk-off sentiment also will likely impact capital flows (**Chart 8**) at the same time as the current account is worsening, especially for countries more vulnerable such as those with current account deficits.

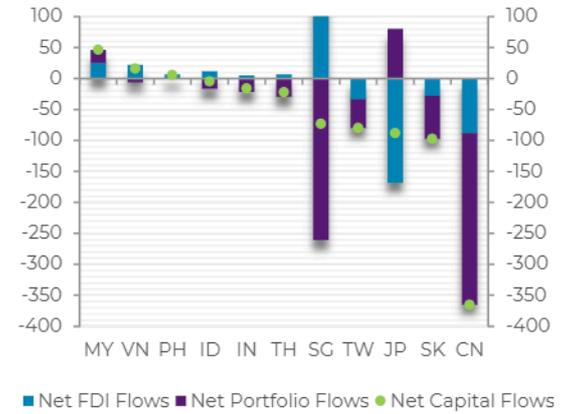
Putting together energy trade deficits, remittances, tourism exposure, and inflation, current account deficit vulnerability to capital outflows, we believe the Philippines most vulnerable to sustained shocks, followed by India and a much lesser extent. That said, the impact to GDP of prolonged conflict will likely be larger for Thailand and South Korea given larger share of the economy exposure to imported oil and gas even if their current account surpluses shield them from balance of payment shocks.

Chart 7 Asia: Weights in CPI Basket (% of Total)



Source: Natixis, CEIC, IMF

Chart 8 Asia: Net Capital Flows (USD bn)



Source: Natixis, CEIC

N.B. Data is as of Q3 2025. Balance of Payments data is used. 2025 data is the sum of past four quarters.

Jianwei XU

Senior Economist,
Greater China

jianwei.xu@natixis.com

Geopolitical Tensions in Iran and Implications for the Chinese Economy

Recent escalating geopolitical volatility in Iran has sparked global concern. Given China's strong ties with Iran, markets are closely monitoring the potential economic repercussions for China. While a comprehensive assessment is premature given the uncertainties associated with the war, as the impact will vary significantly based on the war's duration and scope, we will offer a preliminary analysis covering both a swift resolution scenario and a prolonged conflict scenario.

First impact: China's trade exposure to Iran

Iran's overall share in China's global trade remains marginal. China's official customs data indicates that bilateral trade between China and Iran totaled approximately \$9.96 billion in 2025, a 25.6% year-on-year decline from 2024 and currently representing less than 0.3% of China's total exports and under 0.2% of total imports. China's exports to Iran primarily focuses on machinery, automotive units, and electronics to Iran, but imports are almost exclusively crude oil.

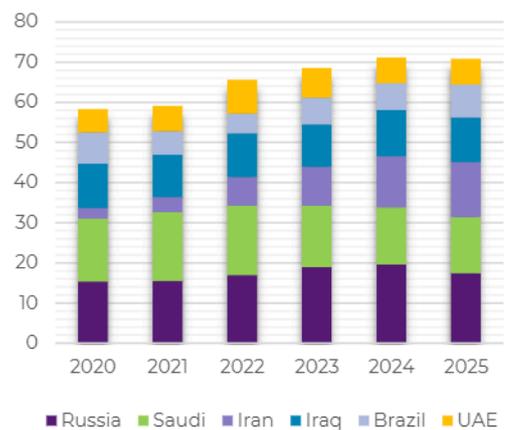
While official Chinese data suggests crude imports from Iran decreases sharply in recent years and constitutes less than 5% of China's current total oil intake, but actual trade is often obfuscated via re-exportation through third-party hubs to circumvent secondary sanctions. Data from Kpler indicates that in 2025, China imported approximately 1.38 million barrels per day of Iranian crude, which accounts for 13% of China's total seaborne crude imports. This positions Iran as China's third-largest supplier, trailing only Russia and Saudi Arabia.

Chart 1: Iran's share in China's total exports and imports (%)



Source: Natixis, CEIC

Chart 2: China's Crude Import by Source (%)



Source: Natixis, General Administration of Customs

N.B. Iran data include rerouting through Malaysia and Indonesia

Therefore, with disruption in the Strait of Hormuz, China will be mostly concerned about oil supply. In the short run, the effect is expected to be limitedly as China possesses sufficient strategic petroleum reserves, estimated at a level equal to 220 days of imports through the Strait of Hormuz (assuming China onshore crude stocks are at 1.2 billion barrels, volume of crude oil transported through the Strait of Hormuz to China is 5.4 million b/d, 1200/5.4 is about 222 day), to buffer the shock.

In a protracted war scenario, China will need to battle with rising energy cost

However, in a more bearish scenario, if prolonged instability persists for the whole year, Chinese imports may be forced to pivot toward Russian or Brazilian oils, incurring higher logistical premiums, which will sharply push up China's overall import cost. The cost will likely translate into elevated production cost, which potentially affect China's corporate profits, which were already diminishing amid the deflationary pressure.

According to the calculation offered by China's National Bureau of Statistics, a 10% increase in oil prices would raise China's CPI by roughly 0.3 percentage points. If Brent crude were to rise from 60 to 120 (an increase by 100%, China's CPI could increase by about 3 percentage points. This is a major move, but given China's CPI is only 0.8% (as of February 2026), this will push China's inflation rate to a high but still tolerable one (3 to 4%), other things being equal. In other words, as China is still struggling with disinflationary pressures, a "cost-push" from energy prices is unlikely to trigger a systemic inflation crisis.

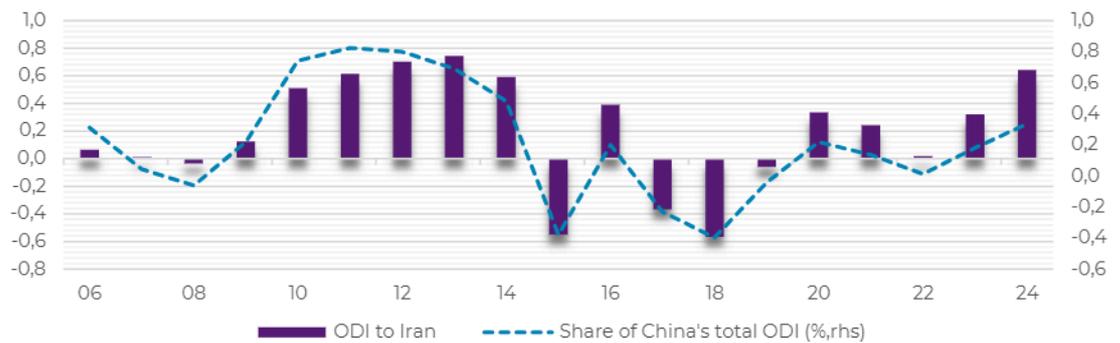
However, Chinese government may take several measures to battle with the rising energy cost. The most immediate and obvious action is to fully use the strategic reserves as we mentioned above. Besides, China could also fully utilize the existing fuel pricing mechanism. This mechanism allows domestic gasoline and diesel prices to be adjusted only after international crude oil prices shift exceeding a certain amount, and it specifies price floors and ceilings to cushion the effects of extreme volatility in the global market. In a more severe situation, China may need to ramp up coal production, accepting the trade-off of increased pollution, to fill the immediate energy gap. The nation's vast coal production capacity offers a viable way to largely offset these rising costs. Therefore, the ultimate energy shock to China's consumer price is likely more tolerable than the initial calculation.

That said, despite these measures to combat rising costs, China's cost of production may still rise comparing to before. Besides global economic slowdown becoming more severe and the cost of purchasing goods increasing, the demand for Chinese products from abroad is also poised to wane. This anticipated slackening in demand will undoubtedly temper China's trade surplus, which has been a critical component for China's economic growth the past few years. Moreover, the uncertainties associated with the duration of the war will make the incentive for production and investment more cautious. The only bright spot, though, could be the green-related goods which could seek more market opportunities amid surging oil price.

China's overseas investment exposure

Another key point to worry is China's investment benefits in Iran. However, while China and Iran have signed a 25-year Comprehensive Cooperation Agreement in 2021, and committed a \$400 billion investment in energy, petrochemicals, and infrastructure, the actual capital expenditure remains negligible. From 2021 to 2024, Chinese FDI in Iran totaled only \$1.2 billion, and only 0.17% of China's total overseas FDI.

Chart 3 China's Outbound Direct Investment in Iran (USD, bn)



Source: Natixis, CEIC

Primary obstacles for China to implement its comprehensive agreement include the threat of US secondary sanctions, financing hurdles within the SWIFT-restricted banking environment, and local execution risks. Further escalation of regional conflict will likely freeze pending projects, rendering the actual economic impact of an Iranian downturn far smaller than contractual figures suggest.

Therefore, China's existing investment benefits in Iran is likely limited. This, however, does not fully take into consideration the long-term roadmap of China-Iran relationship after the war, especially within the context of a shifting US-involved Middle East strategy.

Conclusion

The impact of the Iran situation on China, largely transmitted through trade and investment, is expected to be limited if the conflict concludes within a few months. Given China's very low inflation rate, short-term inflation risks will also be minimal. Besides, China's existing investment value in Iran is also small, so direct foreign exposure to the Iran war is also limited.

However, a prolonged conflict would exert upside pressure on energy cost in China, potentially raising cost of production in China. While the elevated inflationary impact is still likely tolerable for Chinese consumers given the low inflation rate now, such pressure will still hurt Chinese corporates' profitability. This may trigger Chinese government to take further actions, such as using price ceiling or encouraging coal production, to mitigate the negative impact. Still, the cost of production will rise. What will make the situation even more concerning is the slowing global demand amid deteriorated economic outlook, reducing Chinese export growth and, thus, narrows trade surplus.

Finally, the recent Iran conflict introduces significant uncertainty to the Chinese economy. Regardless of its duration, the world will likely prioritize strategic reserves like oil as a critical security concern. This will compel China to emphasize building a resilient economy, even if it means sacrificing more efficiency.

**Alicia GARCIA
HERRERO**

Chief Economist,
Asia Pacific

alicia.garciaherrero@natixis.com

Kohei IWAHARA

Economist
Japan & Pacific

kohei.iwahara@natixis.com

Japan: A New Wave of Cost Push Inflation From the Middle East Conflict?

The US-Israel war with Iran could trigger a new wave of cost push inflation in Japan (**Chart 1**). While Japan has been highly dependent on foreign energy¹, Brent oil prices surged from USD 66.3 per barrel on February 2nd to USD 82.1 per barrel after the US-Israel attack on February 28th. Higher oil prices could be compounded by a weak Yen which has rapidly depreciated from 115.4 in January-22 to USDJPY=157.2. These developments are expected to lift import costs, which will be eventually transferred to consumers. Hence, weak real wage growth is expected to contain private consumption (**Chart 2**).

Chart 1 Japan: Import Prices (YoY, %)



Source: Natixis, INDB

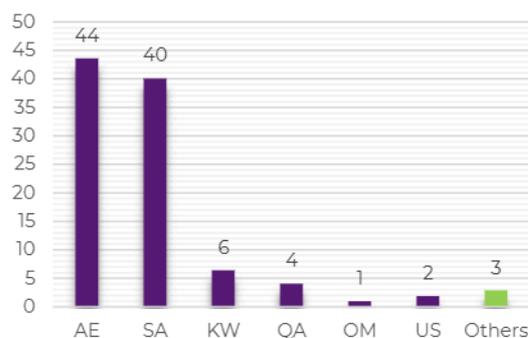
Chart 2: Japan: Regular Wages (% YoY)



Source: Natixis, INDB

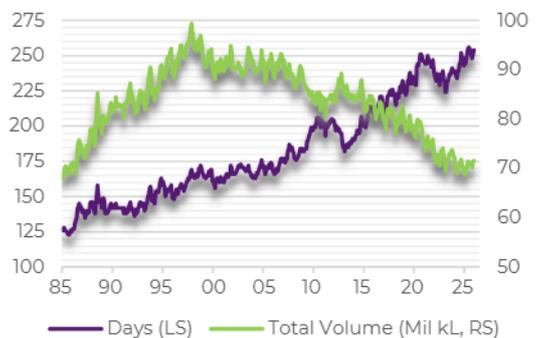
The impact of the middle east crisis on Japan will largely depend on how long the war would last. On the one hand, Japan has been highly exposed to the middle east with 95% of crude oil imported from the region (**Chart 3**). Moreover, crude oil flows through the Strait of Hormuz with an exposure of 65% in 2024, the highest in the world. Because Iran announced to close the Strait, Japan is highly vulnerable to the conflict in the middle east. On the other hand, Japan is shielded from 254 days of oil reserves. This is well above the 90-day requirement by International Energy Agency (IEA), which aims to respond to severe oil supply disruption (**Chart 4**). While President Trump stated that the attack on Iran could last more than four to five weeks, the oil supply disruption could be contained, if a prolonged warfare is avoided.

Chart 3: Japan: Crude Oil Import by Region (Share, %, FY24)



Source: Natixis, METI

Chart 4: Japan: Oil Reserves



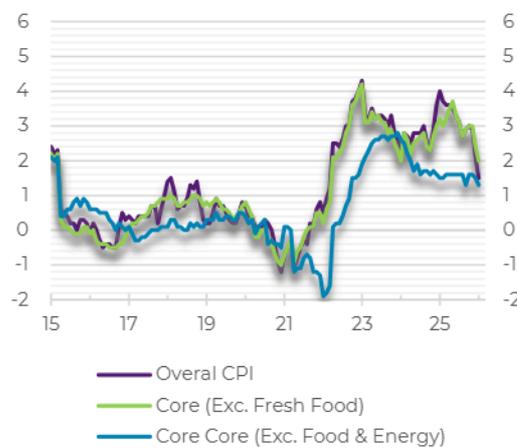
Source: Natixis, INDB

¹ Japan's dependency on overseas market for energy: 85% in 2023.

The policy response by the BoJ would be highly sensitive to the Yen level. On the positive side, the headline CPI softened from +2.1% YoY in December to +1.5% YoY in January, driven by lower energy prices (**Chart 5**). Energy made the largest negative contribution of -0.42%, as the government introduced a permanent tax cut on gasoline from December 31st, 2025. However, the temporary subsidies on electricity which was introduced in January will be removed from April. With this background, inflation could pick up once again, if the Yen remains above USDJPY=155 (**Chart 6**). A weaker Yen could be compounded with surging oil prices into higher import prices. For these reasons, the BoJ is expected to respond by raising the policy rate. Prime Minister (PM) Takaichi is anticipated to endure a rate hike, because alleviating elevated households' living expenditure is one of the important policy goals.

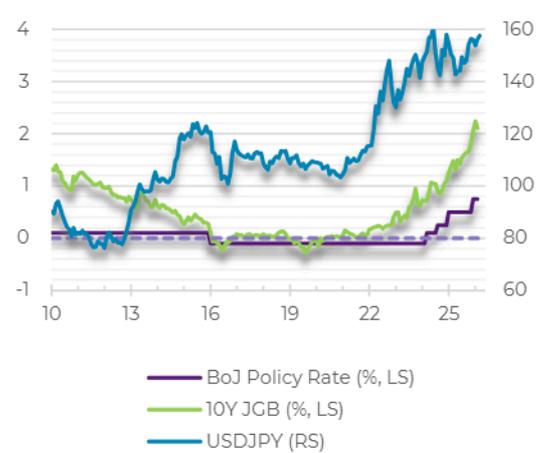
On the other hand, the BoJ could remain on hold if the Yen stabilizes as the Fed eases to support the labor market. As a background, the economic recovery in Japan after the US tariff hike has been weaker than expected. In fact, GDP increased only by +0.1% QoQ in Q4-25 from -0.7% QoQ in Q3-25, because of soft private consumption and business investments. To make matters worse, global uncertainties have increased from the war in the middle east and political tension with China. On top of this, PM Takaichi was reportedly against the BoJ to further normalize at the meeting with the Governor Ueda on February 16th. Hence, the BoJ is expected to be cautious in raising the policy rate further, while the government could respond to higher oil prices with additional subsidies or tax cuts on energy.

Chart 5: Japan: Nationwide CPI Inflation (% YoY)



Source: Natixis, INDB

Chart 6: Japan: Financial Markets



Source: Natixis, INDB

Increasing risk of protracted conflict in the middle east

The appointment of Mojtaba Khamenei as the Supreme Leader of Iran on March 9th signals hardliners against the US are in charge of the country Iran. These developments go against President Trump's belief that Washington should have an influence on the nomination of the new leaders in Iran. For these reasons, military actions in the middle east are likely to have larger market disruption and longer economic consequences.

Through a new wave of cost push inflation from surging oil prices, the Japanese economy could suffer from stagflation. On the one hand, the government could expand targeted relief measures such subsidies on energies or aid to vulnerable households. On the other hand, the BoJ could speed up the rate hike to stabilize the Yen and import prices. Furthermore, Governor Ueda could face more pressure to purchase more government bonds as higher policy rate and inflation would naturally lift the bond yield at the longer end of the curve. Still, additional bond purchase should be the last resort for the BoJ. This not only goes against monetary policy normalization after the termination of the yield curve control in March-24 but also could be regarded as fiscal repression which could ultimately lift inflation in the long term.

Conclusion

All in all, the conflict in the middle east is expected to increase downside risk on the Japanese economy with higher inflation driven by higher oil prices. The policy response will be highly sensitive to the development in the Yen. If the currency remains above the current level of USDJPY=157, the weak Yen could be compounded with surging oil prices into higher import inflation. For this reason, the BoJ is expected to hike to alleviate households' elevated living cost, which would be tolerated by PM Takaichi. On the other hand, if the Yen strengthens, the BoJ is likely to remain on hold, while the government could respond to elevated oil prices with additional subsidies for energy or tax cuts. Therefore, the BoJ would probably prefer a cautious approach until global uncertainties stabilize, because the economic recovery from the US tariff hike has been weak.

At the same time, the risk of protracted conflict in the middle east has recently increased. Through a new wave of cost push inflation from surging oil prices, the Japanese economy could suffer from stagflation. While the government could expand targeted relief measures, the BoJ could speed up the rate hike to stabilize the Yen and import prices. Furthermore, Governor Ueda could face pressure to purchase more government bonds, which should be the last resort for the BoJ. This not only goes against monetary policy normalization after the termination of the yield curve control in March-24 but also could be regarded as fiscal repression ultimately lifting inflation in the long term.

Haoxin MU

Economist,
Asia Pacific

haoxin.mu@natixis.com

Jeremy JI

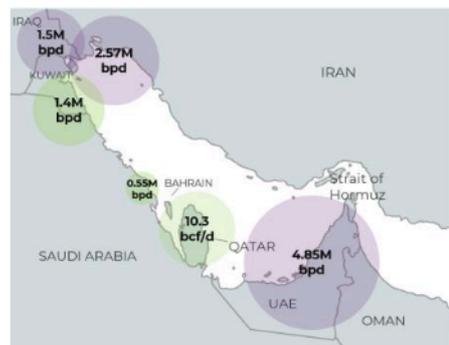
Junior Economist,
Asia Pacific

jeremy.ji-ext@natixis.com

Middle East: Short-run Shock to Oil Sectors with Medium-Term Risk to All Else

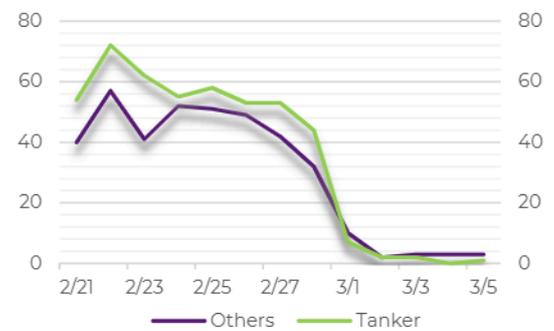
The IRGC has been continuously attacking regional energy infrastructure and vessels passing through the Strait of Hormuz (**Chart 1**). As of March 5, the IMF's tracker suggests barely any traffic through this waterway, which has effectively wiped out 20% of the global supply for petroleum liquids and LNG (**Chart 2**). In the meanwhile, as storage facilities are running out in the region, major oil fields and refineries have started shutting in, with Qatar closing the Ras Laffan liquefaction plant on March 4, followed by Iraq and Kuwait later in the week. At the time of writing, Saudi Arabia, Kuwait, Iraq and UAE have announced a joint production cut of 6.7 million barrels per day. This may slow down the supply resumption even if the Strait is reopened as energy infrastructure takes 1~2 weeks to reboot.

Chart 1: Regional Energy Infrastructure Affected by Iranian Attack



Source: Natixis. Purple for crude and green for refinery and liquefaction.

Chart 2: Shipping Traffic Through the Strait of Hormuz (Number of Ships)



Source: Natixis, IMF Portwatch

The economies in the region are heavily reliant on oil revenue not only as GDP but also for fiscal revenue. Among all, Oman appears least affected as its major ports are located outside of the Strait of Hormuz. Saudi Arabia and UAE are also relatively better positioned as their crude oil pipelines allow for rerouting to bypass the Strait, reducing their dependence on the chokepoint to 40%. Although still impacted, this offers them some respite as they could partly recover the oil revenue from elevated prices. That said, there is greater downside risk to non-oil sectors if supply chain and regional traffic remain disrupted for longer, which may impose further pressures on Bahrain and UAE whose non-oil GDP is biggest. (**Chart 3**)

Chart 3: GCC Countries' Exposure to Oil Shock

Country	Dependence on Hormuz (% of total)		Dependence on oil sectors (% of total)		Production shut-in	Non-oil trade balance
	Crude oil	LNG	GDP	Fiscal revenue	% of total	% of GDP
Qatar	92	90	36	78	100	-7
Kuwait	91	/	43	84	~30	3
Bahrain	/	/	14	48	/	-8
UAE	63 -> 40	82	25	53	/	-27
Saudi Arabia	85 -> 38	/	45	55	16 (refinery)	-11
Oman	/	/	27	67	/	0

Source: Natixis, EIA, IEA, IMF, SWF, local authorities. Data last updated on March 10.

Marketwise, the region appears still resilient with limited selloff in the bond market and mostly driven by HY. The CDS has spiked but it's quite moderate compared to previous geopolitical events (**Chart 4**). The short-term pressure remains manageable as non-energy trades have lower exposure to maritime logistics, with consumption staples standing at 3-6 months of inventory and easier to reroute via roads and rails (**Chart 5**). However, as the loss of fiscal revenue from oil sectors accumulates over time, the domestic demand may brace for more shocks on top of the decreased travelers and imported inflation, adding more risks to the economy if the disruption drags for months.

Chart 4: GCC Aggregate 5Y CDS and Brent Price



N.B. Data as of March 9, 2026

Source: Natixis, LSEG

Chart 5: GCC Countries' Non-Energy Trade by Transportation



*Source: Natixis, UNCTAD. * Air data unavailable for KW.*

Alain DURRE

Chief Economist for EMEA

alain.durre@natixis.com
Patricia FLOREZ CABRA

 Inflation, Macroeconomic
 Modeller

patricia.florezcabra@natixis.com
Sylwia HUBAR

UK, Nordics, Real Estate

sylwia.hubar@natixis.com
Eric RABARISON

Database

eric.rabarison@natixis.com
Iyed DAMMAK

Assistant Economist

iyed.dammak@natixis.com

Europe is Not Directly Affected by Energy Supply Disruptions; Higher Prices Could Affect the Growth and Inflation Outlooks

Since the start of March, the Americano-Israeli offensive in the Middle East have pushed up energy prices anticipating a supply chain disruption in light of the blockage in the strait of Hormuz.

Brent crude now trades at around \$87/bbl, approximately 30% above the Jan-Feb average, largely reflecting a higher geopolitical risk premium. The response of natural gas prices to geopolitical tensions has also led to upward pressures. TTF has risen to €50/MWh (with a peak up to €55), or 54% above its Jan-Feb average. On net, our consumption-weighted energy price index has also risen in the same proportion from the Jan-Feb average, well above its Q1 2025 average level.

What are the possible economic developments in theory?

supposed a short-lived war, removing relatively quickly the blockade in the strait of Hormuz and the supply disruptions in the neighboring countries like the Emirates; (b) an intermediate scenario in which the conflicts last for months but without severe decreases in the provision of energy products; and (c) a severe scenario in which the conflicts last for long and the supply chain disruptions are important. Each of these scenarios are likely to lead to different policy reactions from the central bank.

Mild scenario

In this scenario, the recent spikes in energy prices are transitory and the consequent volatility has no meaningful impact on both the economic growth and inflation outlooks. Therefore, after the spike in March, energy prices renew with the scenario anticipated by our commodities strategists prior to the Iran war, namely around \$69/bbl for brent and €33/MWh for gas by the end of 2026.

In such scenario, both the impact on inflation and growth will be marginal as the short-lived spike in energy prices would not be meaningfully transmitted to gasoline prices at the pump and other heating costs.

Intermediate scenario

In this scenario, we would have a sustained increase of energy prices until the end of 2026 as the conflicts last and the supply of oil and gas are moderately reduced, despite a partial compensation by the OPEC production.

In such a scenario, the energy price shock would impact primary and most immediately inflation. However, the impact to core inflation remains limited as expectations of continued production persist. The impact on growth will be greater than in the mild scenario as the increased energy prices will weigh on consumer and business confidence. However, in such a scenario, governments and the central bank would probably be proactive to preserve the purchasing power of households and to limit the erosion of profits for firms as it happened in the 2022 crisis.

Severe scenario

In this scenario, the prolonged rise in energy prices beyond one year is accompanied by severe supply disruptions or expectations of such disruptions as the conflicts last. In this case, the energy price shock is the primary and most immediate channel. Disruption, or the perceived risk of disruption, to oil and natural gas production and transport will drive up global energy prices. This translates directly into higher petrol prices for consumers and increased input costs for businesses.

Supply chain disruptions will occur as the conflict is likely to affect key shipping lanes, such as the Suez Canal and the Strait of Hormuz, which is not offset by an increase of other oil producers (as OPEC and the US). This would lead to a spike in freight and insurance costs, increasing the landed cost of imported goods from Asia and delaying deliveries.

In such a scenario, the sustained energy and goods price shock will begin to feed into core inflation. Businesses facing higher energy, transport, and component costs will seek to pass these on to consumers, which could in turn trigger second-round effects via wage negotiations.

These developments would thus generate stagflationary pressure. The persistently higher inflation will therefore erode substantially the financial situation of both firms and households. Even though energy provision is based on medium-term contracts, increased oil and gas costs for a sustained period of time act as production inputs, directly undermining firms' profitability. To offset reduced profits, businesses may cut back on employment and investment, leading to a slowdown in GDP growth. At the same time, firms will likely attempt to pass these higher costs to consumers, contributing to inflation, and thus weighing on household purchasing power. In turn, the erosion of household real incomes will squeeze private consumption. They will likely seek corresponding wage increases which will deteriorate firms' profits further, leading ultimately to cut on hiring, if not to layoffs.

Given that each of the above scenarios would have different repercussions for growth and inflation, it is likely that central banks will treat them differently. In the first scenario, given the transitory effect of energy price increase, there is no reason to change the monetary policy stance. In the second scenario, there is more uncertainty as the lengthening of the conflicts could increase perceptions of more persistent inflation above the central bank's target, with the risk to lead to a deanchoring of inflation expectations. In that case, it is likely that the central bank will hike its policy rate.

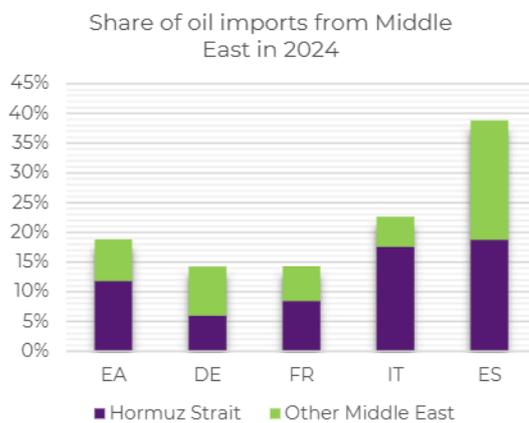
By contrast, in the last and more severe scenario, the central bank will be forced to adopt a tighter monetary policy stance for longer than previously anticipated to anchor inflation expectations and prevent a wage-price spiral from taking hold. This means higher interest rates persisting even as growth falters. The full effect of a sustained period of higher interest rates will filter through to the economy, dampening the housing market, raising the cost of corporate debt, and constraining investment and credit growth. Then, the stimulus would then rely on the possible actions from the government to avoid a prolonged period of recession.

What is the realistic scenario in practice for which impact?

The euro area

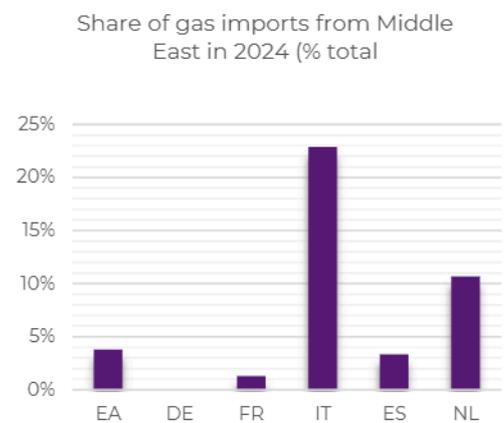
At this stage, it seems highly speculative to determine precisely the duration of the conflicts given the volatility in official statements in opposite direction by the various stakeholders. That said, our base scenario at this stage is that the most likely scenario is the intermediate one mentioned above. The supply disruptions due to a reduction of the shipping lanes in the strait of Hormuz are likely to keep energy prices higher than anticipated at the start of this year. However, the euro area should be less impacted as their limited dependence on imports of energy products (**Charts 1 and 2**) from the Middle East and given the high level of strategic reserves (**Charts 3 and 4**).

Chart 1: Euro area imports of oil



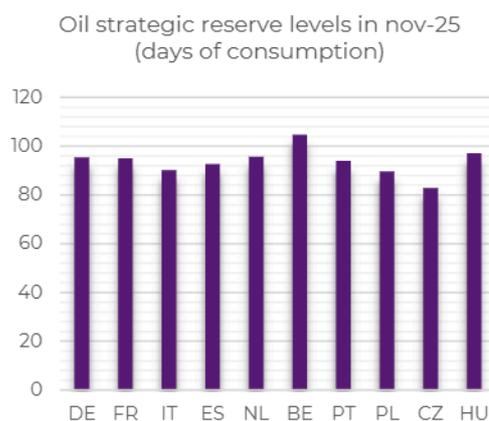
Hormuz Strait = imports from Saudi Arabia, Qatar, Iran, Kuwait, UAE, Bahrain, Iraq. Source : Eurostat

Chart 2: Euro area imports of gas



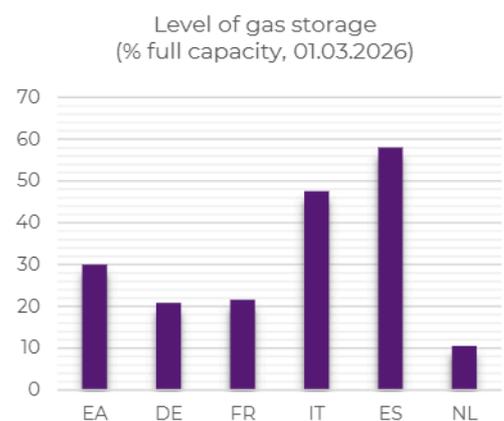
Source : Eurostat

Chart 3: Oil strategic reserves in Europe



Source : Eurostat

Chart 4: Euro area oil strategic reserves

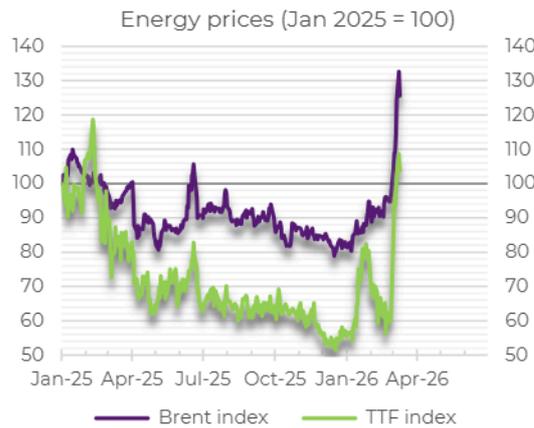


Source : Eurostat

Under this base case, we see Brent crude oil and TTF prices declining respectively to USD 70/bbl and €30/MWh by year-end. This would reflect a total supply loss of 155mn bbl over March with a call on inventory ~93mn bbl through this month. So, if all the call-on-inventory is applied to the OECD, the price-inventory models from our commodities strategists imply a fundamental fair value at \$80/bbl - with half absorbed by the OECD, which we would consider a more realistic assumption, implied fair value drops to \$71/bbl.

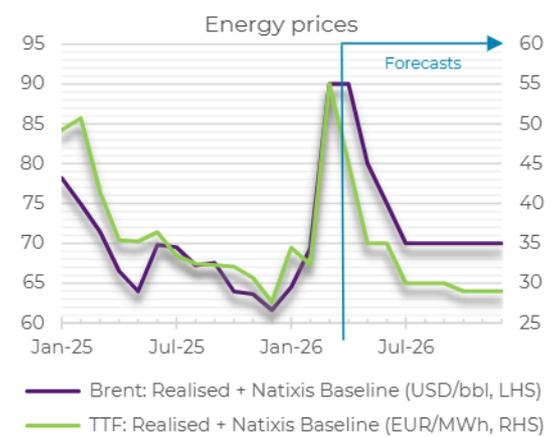
Of course, risks are clearly on the upside as the evolution of supply and inventory will affect substantially the evolution of energy prices. An extended period of disruption provides more opportunity for short-run spikes to be structurally embedded into energy prices due to the drawdown of inventory. In a scenario where supply from the region would fall sharply, our commodity strategists see Brent could peak up to \$178/bbl (**Chart 6**).²

Chart 5: Oil and gas prices



Sources: Bloomberg, Natixis

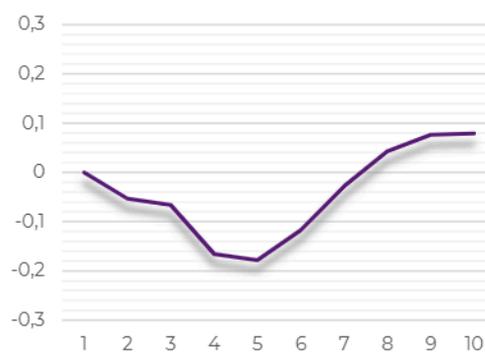
Chart 6: Euro area oil strategic reserves



Source: Eurostat

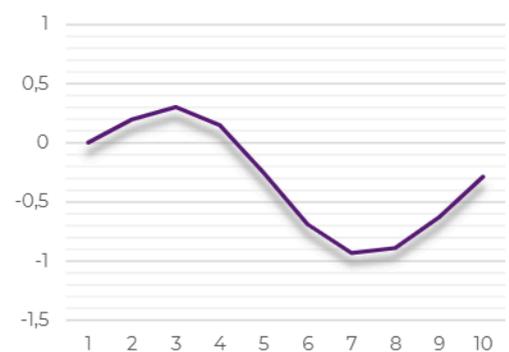
To estimate the potential impact of higher energy prices – if maintained at that levels – we run a simple (unrestricted) vector autoregressive (VAR) model, which jointly models euro area GDP growth and energy prices in addition to inflation, the real effective exchange rate, and economic policy uncertainty indicator – to quantify the reaction of growth (**Chart 7**) and inflation (**Chart 8**) to a 10% increase of the energy price index.³

Chart 7: Euro area GDP response



Source: Natixis CIB Research

Chart 8: Euro area inflation response



Source: Natixis CIB Research

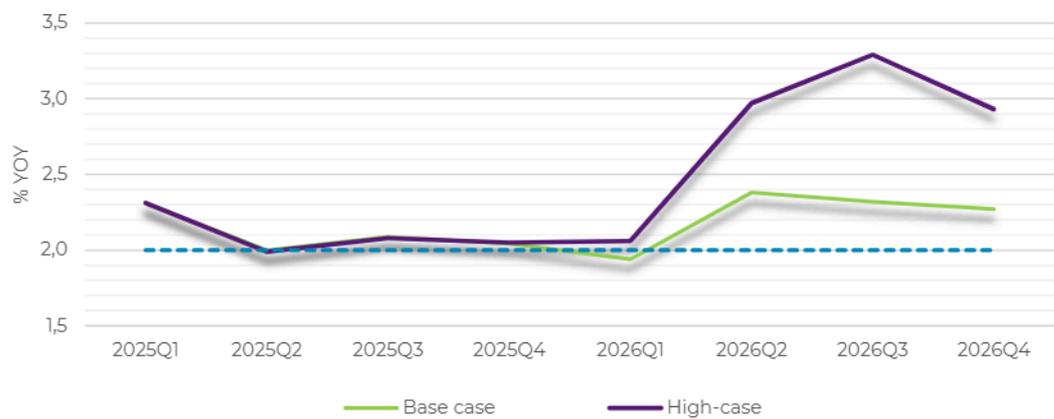
² A possible tail-risk scenario might be a three-month outage of flow via the Strait of Hormuz, assuming the loss of ~10mn b/d of crude, ~9.6bcm of LNG and 5.5mn b/d of oil products (plus additional products lost as refiners cut runs significantly due to difficulties sourcing crude oil), without a significant price response. See the chapter on energy in this report.

³ In practice, we estimate a VAR model with quarterly data from Eurostat through 2025 Q4. We then run impulse reaction functions over 10 quarters for an energy price shock of 10% ahead using Cholesky decomposition with the following order of the variables: real GDP growth, headline inflation, the energy price index, the real effective euro exchange rate and the economic uncertainty indicator. assuming flat energy prices for the rest of the horizon.

Based on this framework, we find that a positive 10% shock to our energy index depresses euro area annual GDP growth of around 0.2pp after one year whereas this shock translates into around 0.3pp of upside to year-over-year headline inflation after one year. Then, the feedback effects of this shock on the level of the effective exchange rate – which depreciates – and of the economic uncertainty – which tend to increase – tend to gradually invert the dynamics of both economic growth and inflation after seven quarters.⁴

We also feed our commodity strategists' scenarios into our inflation model to gauge the incremental implications if energy prices were to rise further (**Chart 9**).

Chart 9: Impact of higher energy prices on the euro area inflation (YoY, %)



Source : Natixis CIB Research

Chart 9 shows our base case assumptions (two-week outage): Brent crude at \$90/bbl and TTF gas at €55/MWh on average in March. This leads to average prices of \$75/bbl for Brent and €40/MWh for TTF in Q1 2026. By the end of 2026, Brent is projected at \$74/bbl and TTF gas at €34/MWh. Whereas the high-case scenario (three-month outage) envisages Brent crude on average at \$90/bbl and TTF at €63/MWh in 2026. The base case leads to headline inflation of 2.2% yoy, while the high case suggests inflation will be higher at 2.8% yoy.

⁴ For analysis with a more analytical framework, see for the US in particular Kilian, L. (2009), "Not All Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market", American Economic Review, Vol. 99 (3), pp. 1053–69 and, for Europe, Haertel, Th., Hamburg, B. and Kusin, V. (2022), "The macroeconomic model of the Bundesbank revisited", Deutsche Bundesbank Technical Paper, No. 1/2022.

What could the ECB reaction be?

Clearly, the ECB decision will depend on how lasting the energy shock is. Until now, economic growth is resilient, but we think that the balance of risks remains on the downside. First, we did not see yet the negative impact of US tariffs on exports. Second, labour market conditions soften while wage growth decelerates. Third, the growth momentum is dampened by a subdued private consumption. Amid increased uncertainty on the intensifications of tensions in the Middle East and political fragility within most euro area countries, it is likely that households will prefer to save more despite an already historically high level of savings rate.

In the first two scenarios (mild and intermediate), we believe that the ECB will not alter the current monetary policy stance. Keeping unchanged its policy rate would avoid to strengthen the possible short-term drop in GDP growth as illustrated above (Chart 7). Such approach would be facilitated by highlighting the “medium-term orientation” concept that the ECB has reintroduced with force in its revised monetary policy strategy released in June 2025. By contrast, in the above risk scenario, the ECB will have to increase its policy rates by 25 basis points by Q3 2026.

The United Kingdom

The UK's reliance on energy imports remains high and has increased. In 2024, net import dependency stood at 43.8% of final energy consumption, up from 40.3% in 2023. Over 90% of these energy imports consist of oil and gas, with Norway as the primary supplier.

According to the latest available data for 2024, the United States has overtaken Norway to become the leading exporter of crude oil to the UK, accounting for over a third of total crude imports. Norway was thus the second-largest source, providing 31% of UK crude imports, while OPEC countries supplied 20%.

By contrast, Norway continued to be the UK's largest source of natural gas imports (pipeline), contributing around 75% of the total in 2024. Liquefied Natural Gas (LNG) imports were primarily sourced from the US (17%) and Qatar (1.9%). Overall, the UK's reliance on the Middle East for energy provision is minimal.

While direct energy imports from key suppliers like Norway and the US are not expected to be obstructed, sustained high global oil and gas prices due to prolonged conflict could however have significant implications for UK inflation and GDP growth through the price channel.

Brent Crude oil prices rose to \$84 per barrel, hovering around \$80 per barrel currently. Meanwhile, UK gas prices spiked to approximately 140 GBp/therm (an increase of almost 80%), before easing to around 130 GBp/therm by March 5th.

Our central scenario: transitory spike in energy prices

Yet, our view is that if recent volatility in energy prices vanishes rapidly, no major impact on the UK economic is expected. By contrast, if the current level of energy prices are maintained over a prolong period of time (one year or longer), the economic implications could be a larger significance.

Hence, we analyze two potential scenarios: the first assumes a transitory impact with energy prices returning to normal within one quarter, while the second anticipates these effects persisting for approximately one year before a more gradual normalization.

Utility and transport costs comprise about 27% of the inflation basket. With higher energy prices also impacting other product prices, we estimate that approximately half of the inflation basket will be directly affected by the energy price rise.

A temporary surge in energy prices would likely add 0.2 to 0.3 percentage points to inflation, primarily passed through via higher transport costs. The Ofgem price cap which is fixed through Q2 would not be largely affected in the coming quarters in the transitory (our central) scenario. Notwithstanding a negligible short-term impact on GDP growth (under 0.1%), pervasive business uncertainty could intensify existing job cuts, which were previously reported following an increase in employment costs.

Overall, under a transitory scenario, the BoE would likely look past the immediate impact. Still, considering the MPC Committee's significant divisions, it is probable that interest rates will be held unchanged in March and possibly in April, as the MPC seeks assurance that the energy price spike is not sustained and is not influencing household and business inflation expectations. And as the impact of energy price increases is transitory, the BoE's priority will likely shift towards addressing the continued loosening of the labour market. Hence, once reassured about controlled inflation expectations and the absence of a wage-price spiral, the BoE is expected to continue its monetary policy easing by implementing two rate cuts this year, scheduled for August and November.

Also, it's worth noting that some government measures are set to notably dampen inflation. Specifically, the £150 reduction in household energy bills this year and the freezing of rail fares are expected to bring inflation down by 0.4 percentage points.

Adverse scenario: a sustained energy price shock lasting approximately one year

Conversely, a more sustained shock, lasting approximately one year, could push inflation higher by around 0.7 to 1.2 percentage points. Importantly, the Ofgem price cap, fixed through Q2, is expected to increase in Q3, if global energy prices remain elevated.

Past experience from the post-COVID energy crisis offers context. In late 2020, oil prices were just over \$40 per barrel, rising to over \$60 in 2021 and exceeding \$100 in early 2022, before stabilizing around \$80 for the rest of 2022. UK gas prices also saw significant volatility, spiking through 2021 to over 300 GBp/therm by late 2021, with further peaks at around 450 GBp/therm in March 2022 and 600 GBp/therm in August 2022. Against this backdrop, the current spike to 130 GBp/therm seems manageable for now.

During the post-pandemic crisis, Ofgem's price cap saw a 54% increase in April 2022, followed by another hike in October. Government intervention limited the latter increase to 27%, a figure significantly lower than the originally projected 80%.

Specifically, elevated global energy prices could meaningfully disrupt the UK's disinflationary progress. This, in turn, could risk entrenching second-round effects next year, such as sticky inflation expectations, which could then drive higher wage settlements. Such a scenario would question both the pace and scale of anticipated rate cuts.

If the energy price shock persists for a year or longer, driving consumer inflation above 3% and impacting inflation attitudes, the Bank of England might maintain current interest rates throughout the year.

A greater concern over secondary effects from higher energy costs could prompt the Bank of England to hike the Bank Rate to 4%. However, given the gradual loosening of the labour market, with unemployment at 5.2% and vacancies having normalised from elevated levels, alongside GDP growth below potential, an aggressive interest rate hike is unlikely. Also, the high energy prices would negatively affect corporate profits and household real incomes, consequently hindering hiring and investment.

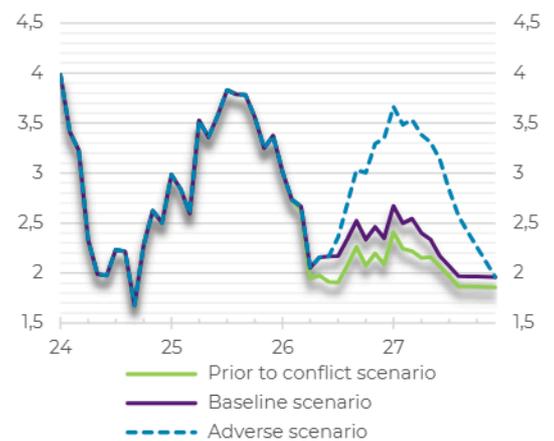
While the short-term impact on GDP growth is almost negligible (under 0.1%), prolonged price volatility and uncertainty could shave between 0.2% and 0.4% off GDP growth. The implications for GDP could be of greater magnitude if the Bank of England enacts more interest rate hikes in a prolonged high energy scenario. Overall, the Bank of England would face a difficult dilemma if high global energy prices were to sustain.

Chart 10: UK Composite PMI components



Source : Thomson Reuters, Natixis

Chart 11: UK headline inflation forecasts (baseline vs adverse scenario)



Source : Thomson Reuters, Natixis

In Chart 10, we show that business sentiment has been negatively impacted by high input costs, largely driven by increased employment costs that took effect in April of last year. This has dampened employment growth, a trend that could be further exacerbated by spikes in energy prices. Our overall inflation forecasts for the baseline and adverse scenarios are presented in Chart 11.

Conclusion

In our baseline scenario, elevated energy prices are expected to be transitory, lasting about a quarter. This would result in a negligible impact on GDP growth (under 0.1%) and an inflation increase of up to 0.3 percentage points, mainly driven by higher transport costs. The Ofgem price cap would only see a slight increase in this scenario. Given this, the BoE is likely to adopt a wait-and-see approach through Q2, with rate cuts expected to resume in July.

Benito BERBER

Chief Economist, Americas

benito.berber@natixis.com

Christopher HODGE

Head US Economist

christopher.hodge@natixis.com

John BRIGGS

Head of US Rates Strategy

john.briggs@natixis.com

Impact of the Conflict on the Americas

The Middle East conflict opens doors to a wide variety of outcomes. These developments are taking place amid concerns about the current administration’s policy direction and ongoing shocks. Given we are days into what will, according to the administration, be weeks’ worth of military strikes, it is difficult to predict the end game at this juncture or in the next days.

However, once the initial market reaction occurs, we do think it is useful to look at three scenarios upon which to make some high level assumptions: one where the military action and market disruption are more limited, a second one where Iran remains hostile to the West (and now other nations in the Middle East), with ongoing disruptions to oil production and export through the Straits of Hormuz, and third a tail risk scenario, where the conflict broadens and we have larger-scale supply chain disruptions.

The Near Term: Larger than expected

Needless to say, the ongoing situation in Iran is in a great degree of flux, and uncertainties remain high. Still, it is our view that the military strikes by Israel and the US, and the Iranian response, are much more severe than expected by global markets, despite the fact that the Friday prior to the attacks saw a 3%+ rise in Brent crude, lower risk assets, and US Treasuries closing the week on their highs. To be clear, this is not a Venezuela-type of military intervention.

Additionally, given President Trump’s statement that military strikes are likely to continue for weeks—and his earlier indication of the possibility (unfortunately already realized) of service member casualties—the overall signal is that this could be a more prolonged and consequential development than widely anticipated.

The Long Term: Beyond the ‘how far and how long’

Clearly the ultimate resolution of this latest geopolitical event is impossible to forecast. Instead, we choose to model three potential broad outcomes and what each could mean for the economy, the Fed, US rates, Latin America and markets. We know that the eventual outcome is unlikely to be this simple but merely seek to provide a framework from which to navigate as we face the days and potentially weeks ahead. The focus of this exercise is primarily to indicate the likely direction of the shock’s impact and to begin outlining its potential magnitude on key macro variables and market prices. We will ‘mark-to-market’ our macro and market forecasts as visibility on the post-war equilibrium becomes less cloudy.

US-Iran Scenarios

	GDP	Unemployment	PCE Defl	Fed Rate	Oil	2yr	10yr	2s10s (bp)	LATAM GDP	LATAM FX	LATAM Rates
Current Forecast	2,40%	4,40%	2,70%	3,25%	\$65	3,50%	4,60%	110	2,00%	appreciation	rate cuts (1)
Short-Term Disruption	2,10%	4,50%	2,80%	3,25%	\$60-80	3,25%	4,00%	75	1.5-2.0%	appreciation	current pricing (2)
Sustained Disruption	1,00%	4.7-5%	3.0-3.5%	2,75%	\$80	2,75%	3,60%	85	0.0-1.0%	depreciation	less cuts
Broader War	0-(1.00)%	5.0-5.5%	3.0-3.5%	<2.75%	\$120+	2,00%	3,25%	125	recession	depreciation+	more cuts

Notes: (1) Excluding BanRep, which we expect to hike 100-200 bps. (2) Rates by Dec '26: BCB at 12.00%, Banxico at 6.25%, BCCCh at 4.25%, BanRep at 11.50-12.50% and BCRP at 4.0%. Source: Natixis, Bloomberg.

Scenario 1: A Short-Term Disruption

In this more sanguine outcome, in relatively short order it becomes clear that the remaining Iranian regime has limited military capability or desire to strike back and disruptions to energy flows or supply chains are limited. In this scenario, we see oil rise to \$80 as geopolitical risk premia build, but the price move fades as it becomes clear that prolonged risks are not likely. The Strait of Hormuz re-opens and shipping continue without sustained impairment, and oil prices come back down in the \$60s.

The inflation impulse for the US is largely confined to headline measures with no meaningful shock to growth. Gasoline prices move higher for a time, pushing headline PCE above 3% temporarily. Core inflation drifts modestly above baseline as energy costs filter into transportation and certain intermediate goods, but the pass-through is limited. By late 2026, core PCE remains near 2.8–2.9%, only marginally above our 2.7% starting point.

Growth slows, but only modestly. Higher gasoline prices reduce real disposable income at the margin, acting as a mild tax on consumers. Real GDP growth moderates from 2.4% to roughly 2.1–2.3%. The labor market softens slightly, with unemployment drifting toward 4.5%.

The Federal Reserve views this correctly as a temporary supply shock that dampens demand rather than fuels overheating. Policy normalization proceeds, and two cuts are still delivered in 2026. Financial conditions tighten briefly but normalize. This is a volatility event, not a macro regime shift.

In this case, we think within a few weeks the risk premium in the market will fade, and US Treasuries will more or less return to pre-conflict levels, with 2s keeping a small bit of additional risk premium (settling in near ~3.45-3.50%), and 10s returning to its ~4.10%-4.20% range. Thus we think the curve will end up steeper, reflecting some residual uncertainty for the economy that has a skew to weaker outcomes after the conflict rather than before, and thus a bias for more Fed rather than less, even as we still see two cuts for 2026. For the long end, inflation will weigh, but not deter the Fed. Market inflation rises in the near term, ~10-15bps, before stabilizing at new, higher levels.

For LATAM, GDP growth trends would remain broadly intact, with only limited disruption from weaker global growth. We expect dollar weakness to resume as concerns about U.S. policy move back into focus, supporting a renewed appreciation trend in LatAm FX. The inflation shock appears moderate and temporary, so we do not anticipate changes to our monetary policy outlook: Brazil's BCB lowering the Selic to 12.00–12.25% by year-end; Mexico's Banxico cutting to a terminal rate of 6.25%; Chile and Peru's central banks cutting to terminal rates of 4.25% and 4.00%, respectively; and Colombia's BanRep hiking to 11.50–12.50%.

Scenario 2: A More Sustained Disruption

In this scenario, disruption risk persists, keeping a structural risk premium embedded in crude markets even if outright supply losses do not occur. Oil rises toward \$80 and remains elevated through much of 2026. Congress authorizes additional war funding, and deficits widen toward roughly 7% of GDP.

In this environment, inflation dynamics shift. Headline PCE rises decisively above 3% and remains elevated through year-end 2026. Core PCE drifts above 3%, likely into the 3.0–3.5% range by late 2026, reflecting sustained input cost pressures across transportation, logistics, and manufacturing. This is not demand-driven inflation, but it is persistent enough to complicate the policy outlook.

Growth slows significantly, but the economy avoids falling into recession. Elevated energy prices weigh on households and compress corporate margins. Tighter financial conditions and heightened uncertainty slow business investment. Real GDP growth trends to 0.5–1.5% in 2026. Unemployment rises toward 4.8–5.0%. This represents a clear downshift, though not an outright contraction.

Importantly, in this scenario the Federal Reserve still eases policy. The growth slowdown ultimately dominates the inflation impulse. Around four cuts are delivered over 2026 as policymakers attempt to cushion the drag from sustained energy costs and weaker demand. The inflation profile is uncomfortable, but the underlying impulse is supply-driven rather than demand-driven, giving the Fed room to respond. The result is a slower-growth, above-target-core environment with wider deficits and easier monetary policy — a mild stagflationary mix, but not recession.

For US markets, once it becomes clear that the conflict is set to persist, the additional Fed easing is priced in relatively quickly: 2s rally to 3.00% once the Fed signals additional easing is in store. The long end lags given inflationary concerns, with the prior “transitory” period still fresh in mind from 2022 and as the Fed makes a similar (and this time reasonable) argument. Still, 10yr yields fall to 3.70%–3.75% in the near term before settling in closer to 3.60% once the Fed completes its fourth cut, putting 2s10s at ~75bps. Market-based inflation expectations surge here led by shorter maturities, we could see ~15–20bps added in the near term if the rise in oil prices is sustained.

For LATAM, this would be a challenging scenario because it implies weaker global growth and higher inflation. Copper and iron ore prices are expected to correct down on concerns of a global slowdown, therefore there is a negative terms-of-trade shock to some of the countries. Regional GDP, which we currently project at 2.0%, would drop to 0.0–1.0%.

Inflation would rise by about 1.0–2.0%, as higher oil prices are exacerbated by weaker currencies. Currencies would depreciate by 5–10%, and central banks would cut policy rates by less than markets are currently pricing in. In this environment of currency weakness, the inflation shock outweighs the growth shock. Oil-producing countries such as Colombia, Brazil, and Mexico, and their currencies, would perform relatively better than net oil importers such as Chile and Peru.

Scenario 3: Broader War and Supply Chain Disruption

The tail scenario assumes the conflict broadens regionally, with spillovers into global trade routes and supply chains beyond energy. Oil remains above \$120, but the shock is no longer confined to crude. Shipping lanes are disrupted, insurance costs spike, and global production networks are impaired.

Under these conditions, the transmission mechanism widens significantly. Input shortages extend beyond energy. Firms face both higher costs and logistical bottlenecks and corporate margins compress sharply. Credit spreads widen and equity markets reprice geopolitical risk. The negative wealth effect compounds the direct cost shock to households. Essentially this outcome requires both sustained energy disruption and meaningful global supply chain impairment and represents a recessionary scenario driven by external shocks rather than domestic imbalance.

Real GDP contracts across multiple quarters. Full-year 2026 growth falls to zero or modestly negative. Unemployment rises above 5.5%. Headline inflation spikes initially due to energy and goods disruptions, while core inflation proves sticky early in the shock. As demand weakens and slack builds, inflation pressures eventually recede.

Monetary policy responds decisively to the deterioration in growth and labor markets. At least four cuts are delivered over 2026, with risks skewed toward more if financial conditions tighten aggressively. Fiscal dynamics shift more meaningfully: beyond war funding, automatic stabilizers engage and additional fiscal support is passed. The deficit widens beyond 7% of GDP as revenue softens and outlays increase.

Markets will quickly move to price in likely additional accommodation from the Fed, while also remaining slightly concerned about the longer term inflationary and fiscal outlook. Over time as the conflict broadens, we could see 2yr yields falling below 2.50% perhaps more (depending on severity and duration of the shock), and 10yr yields falling to 3.50%, steepening the curve (the long end retains residual concerns about inflation, even as the demand destruction for this event will outweigh). On market inflation, we could see a rise of ~20-25bps depending on the severity of the global disruption to supply chains outside of oil, and a rise that is more sustained over time.

In LATAM, this scenario would be characterized by GDP contraction across the board. Inflation would rise during the remainder of 2026 but is expected to decline again next year. The widening output gap would put downward pressure on other prices but still inflation would increase due to significantly higher energy prices and currency depreciation. Currencies would sell off significantly, depreciating by 10% to 20%.

Governments would likely introduce subsidies to contain the impact of higher oil prices, leading to wider fiscal deficits by an additional 1% to 3% of GDP. Despite the increase in inflation, central banks would probably cut rates by more than markets currently have priced in to contain the growth shock.



Financial impact

[Iran War brings US exceptionalism back again](#)

If history is any guide, geopolitical shocks tend to be brief with temporary effects on risk assets and noisy impacts on most other asset classes. That said, the greater the impact on oil prices, the stronger the impact on the equity market tends to be. Although the current situation's effect on energy, interest rates, and inflation breakevens appears less significant than that of the 2022 Russian invasion of Ukraine, the market has reacted discriminately. Currently, U.S. risk assets are performing well, while those in Asia and emerging markets are lagging, with those in Europe positioned in the middle. This divergence is due to varying degrees of vulnerability to energy supply disruptions and prior market positioning.

If the conflict remains short-lived, the analysis suggests a potential reversal, with Europe and emerging markets seeing improved performance. The event also reinforces the concept of "U.S. exceptionalism" due to the U.S.'s lower vulnerability to energy shocks compared to Europe and China. Consequently, the outlook is that U.S. equities will perform similarly to European equities by 2026. It also suggests that persistent inflation and bond risk premia should be anticipated. However, we caution that trading based on these geopolitical shocks generally carries more risk than potential benefit.

[Global Forex: How the Iran war is redrawing the global monetary map](#)

The conflict has pushed the US dollar higher as investors look for safe havens from the crisis, though structural weaknesses may limit its long-term appreciation. EUR/USD is expected to remain volatile, with short-term downside risks potentially pushing it to 1.14 amidst high oil prices, but a medium-term recovery towards 1.20 is anticipated on dollar weakening. Japan's yen faces continued weakness due to energy import costs, while the British pound is pressured by stagflation fears and political uncertainty. The Swiss franc has surged as a haven, with central bank intervention possible. Commodity-linked currencies like the Australian dollar are currently pressured by risk aversion, but expect medium-term gains. Latin American currencies show divergence, with some facing significant losses due to fiscal and inflation concerns, while others with stronger fundamentals are more resilient. Asian currencies are heavily impacted by energy dependence and a strong dollar, leading to sustained downward pressure in the short term, though a medium-term recovery is possible. CEEMEA and African currencies are also under pressure due to inflationary shocks from energy prices, curtailing monetary easing prospects.

We look for medium-term opportunities to unwind dollar strength, anticipating a rebound for EUR/USD and a retreat in USD/JPY. GBP faces downside risks against the EUR, while the CHF is likely to remain strong short-term. AUD/USD is expected to recover medium-term, and select Latin American currencies may prove more resilient. Asian and CEEMEA currencies are expected to face continued short-term weakness, but a potential medium-term recovery exists if geopolitical tensions de-escalate.

EUR rates: Middle East Tensions Squeeze Iran and Steepening

The Middle East conflict is significantly impacting Eurozone interest rates, driving short-term rates higher due to inflation shock fears and leading markets to price in an ECB rate hike by December 2026. This has caused a bear-flattening of Euro curves, particularly impacting the front and middle segments, as the long end shows more resilience, suggesting the market views the current inflation as primarily a short-term, energy-driven phenomenon. A moderate oil price rise may be manageable for the ECB through guidance or a single rate hike, but prolonged shortages would force rapid rate cuts to combat demand destruction.

Strategically, the outlook favors shorting the Schatz (German short-term bonds) due to strong momentum and upside yield risk, while cautioning against new steepening positions, especially on the long end. Sovereign spreads are expected to widen, particularly for French and Italian bonds, due to heightened geopolitical concerns and funding costs. Volatility has increased, concentrated in short-term interest rate options, reflecting uncertainty about near-term central bank policy rather than a fundamental shift in long-term inflation or monetary policy.

CRE market impacts: Opportunities for safe havens

The Middle East conflict is significantly disrupting regional real estate markets, particularly in Dubai and Doha, primarily impacting hospitality, office, and luxury residential sectors due to reduced tourism, potential expatriate outflows, and a reassessment of regional risk by wealthy investors. This is expected to redirect capital towards traditional safe-haven markets like New York, London, and Hong Kong. Indirectly, global real estate faces challenges from volatile energy prices, increased operational and construction costs, and potential central bank policy responses that raise discount rates.

However, the crisis also creates opportunities for emerging safe havens. Southern European hospitality markets (Spain, Italy, Greece) and established Western European and Asia-Pacific markets (UK, Germany, France, Italy, Japan, South Korea, Australia) are likely to attract increased investment due to their stability and predictable environments. This capital reallocation extends to logistics, benefiting from nearshoring trends. Strategically, investors should diversify geographically away from the Middle East, favor defensive property types in uncertain regions, and carefully consider policy uncertainties in markets like North America in favor of more stable European and Asia-Pacific alternatives for better risk-adjusted returns.

Florent POCHON

Investment Strategies
Cross-Asset

florent.pochon@natixis.com

Emilie TETARD

Investment Strategies
Cross-Asset

emilie.tetard@natixis.com

Iran War Brings US Exceptionalism Back Again

Following the air strikes of US and Israel on Iran starting on Feb 28th, we look at past episodes of geopolitical shocks. If history is any guide, geopolitical shocks tend to be rather short lived and tend to have temporary effects on risk assets. That said, the greater the impact on oil, the stronger the impact on the equity market tends to be. For most other asset classes, geopolitical shocks generate more noise than trends.

Our key points are:

- ▶ So far, it is worth noting that the magnitude of the impact on energy, rates and inflation breakeven remain significantly smaller than what was observed during the Russian invasion of Ukraine in 2022.
- ▶ The market has been reacting but not panicking with strong discrimination. US risk assets are so far the winners, Asia/EM the losers, and Europe lies in between. This reflects both fundamental vulnerability to the energy supply shock and also the strong RoW vs US positioning / momentum before the war began.

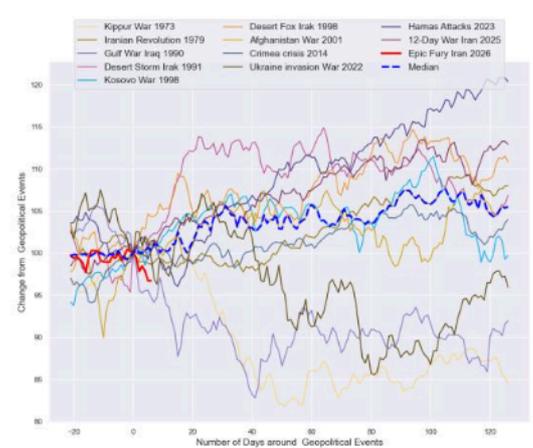
Assuming our baseline view of a conflict lasting a couple of weeks holds true (see Joel's [view](#)), we will see some reversals towards Europe and emerging markets (EM). From a purely asset-allocation-based point of view, we believe that trading geopolitical shocks poses more risk than benefits. Such an episode also reminds us that US exceptionalism is still alive because the US are less vulnerable to energy shocks than Europe and China. This reinforces our view that, beyond the trend of diversification away from the US by global investors, US equities will perform at par with European equities in 2026. Finally, it also reinforces our view that inflation and bond risk premia are not about to fade.

Following the air strikes of US and Israel on Iran starting on Feb 28th, we look at past episodes of geopolitical shocks. If history is any guide, geopolitical shocks tend to be rather short-lived and tend to have temporary effects on risk assets. Equities tend to suffer into escalations but most negative effects fade quickly (1 month). The exceptions are the Kippur War, the Gulf War and the Ukraine War, with prolonged adverse effects on stock markets.

S&P500 around key geopolitical escalation episodes



MSCI World ex US (\$) around key geopolitical escalation episodes



Source : Bloomberg, Natixis

Note that during those episodes, the dispersion in the crude oil price reaction (3-month after the shock) was significant. Oil is up in 60% of the episodes, with average return of 17% vs median return of 7%. Moreover, we observe that the greater the impact on oil, the stronger the impact on the equity market tends to be.

Across asset classes, results are not as clear cut, with a lot of dispersion across episodes. US dollar (DXY), US rates tend to increase, the US curve tends to steepen modestly, and US inflation breakeven tend to increase. US Dollar and inflation B/E display the best hit ratios. Gold on the contrary has not a great hit ratio.

Reactions of asset 3-month (63-business days) after the geopolitical shocks; for the current Epic Fury episode data are up to March 6th.

	S&P500	MSCI World	MSCI World ex US	Brent	DXY	Gold	EM FX	10y UST	US 2/10	Bund	Bund 2/10	US HY OAS	10y US B/E inflation
Kippur War 1973*	-11.1	-13.6	-19.2	64.2	9.3	3.6		8					
Iranian Revolution 1979*	12.8	10.9	5.5	33.4	-3.2	63.4		43	59				
Gulf War Iraq 1990	-13.5	-9.7	-7.9	56.0	-5.4	-1.8		30	39	28			
Desert Storm Irak 1991	18.2	14.1	12.0	-1.3	7.4	-4.7		-10	19	-47	16		
Kosovo War 1998	4.1	3.8	3.5	0.4	0.3	-1.8		-4	-2	-7	-21	11	
Desert Fox Irak 1998	12.5	9.4	5.3	14.2	4.7	-3.0		61	7	14	30	-40	51
Afghanistan War 2001	7.8	5.7	3.9	-2.9	2.7	-4.2		66	18	30	1	-178	21
Crimea crisis 2014	2.4	1.4	0.6	-0.3	0.1	-3.2	3.0	-19	-21	-27	-21	-19	5
Ukraine invasion War 2022	-8.1	-7.8	-5.0	14.6	4.9	-2.0	1.0	79	-11	80	0	109	-1
Hamas Attacks 2023	9.2	9.5	10.0	-7.5	-3.3	11.4	3.1	-88	-13	-86	-14	-71	-10
12-Day War Iran 2025	9.3	8.3	5.4	-9.1	-0.4	6.1	-0.3	-35	5	12	2	-34	6
Epic Fury Iran 2026 **	-2.0	-3.3	-6.3	42.3	1.8	-3.5	-2.7	22	1	24	-13	5	13
Median	5.9	4.8	3.7	7.3	1.0	-1.9	1.0	15	5	13	0	-26	6
Mean	3.5	2.4	0.6	17.0	1.6	5.0	0.8	13	9	2	-2	-27	12
%>0	0.67	0.67	0.67	0.58	0.67	0.33	0.60	0.58	0.64	0.60	0.56	0.38	0.71

Source : Natixis, Bloomberg, rates/slopes/spreads are in bps. *Brent shocks for 1973 and 1979 are estimated using monthly crude oil prices.

S&P500 vs Brent reaction 3-month following the geopolitical shocks



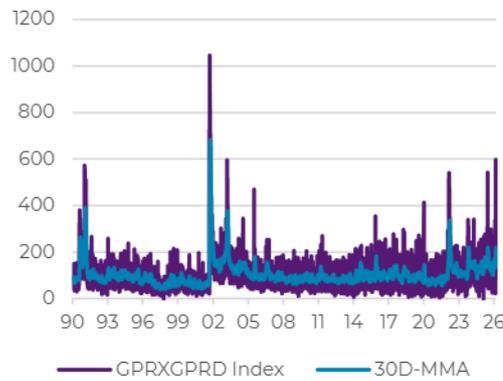
Source : Natixis, Bloomberg, rates/slopes/spreads are in bps. Brent shocks for 1973 and 1979 are estimated using monthly crude oil prices.

All told, geopolitical shocks tend to quickly be absorbed by equities but generate more noise than trends for most asset classes; but strong shocks duly impact negatively equity markets.

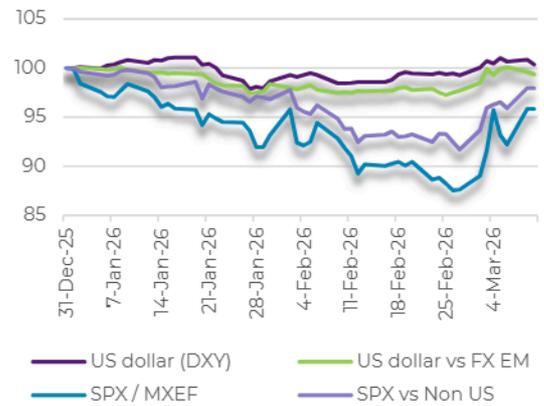
Current crisis take away

Now the key question remains how long will the war last and how long and how far the energy rally can run?

Geopolitical risk index: shocks tend to be spikes



US risk assets are the Winners so far



Source : Bloomberg, Natixis. The GPRXGPRD Index is the Caldara Iacoviello Geopolitical Risk (GPR) Uncertainty Daily (1985:2019=100): it measures the occurrence of impactful geopolitical events/threats/conflicts since 1985 by counting the keywords used in the press.

Our key points are the following:

- ▶ So far, it is worth noting that the magnitude of the impact on energy, rates and inflation breakeven remain smaller than what was observed during the Russian invasion of Ukraine in 2022.
- ▶ The market has been reacting but not panicking with a strong discrimination. US risk assets are so far the winner, Asia/EM the loser and Europe lies in between.

Deleveraging momentum trades: early 2026 winners turned the loser since the War began (as of March 9th 2026)



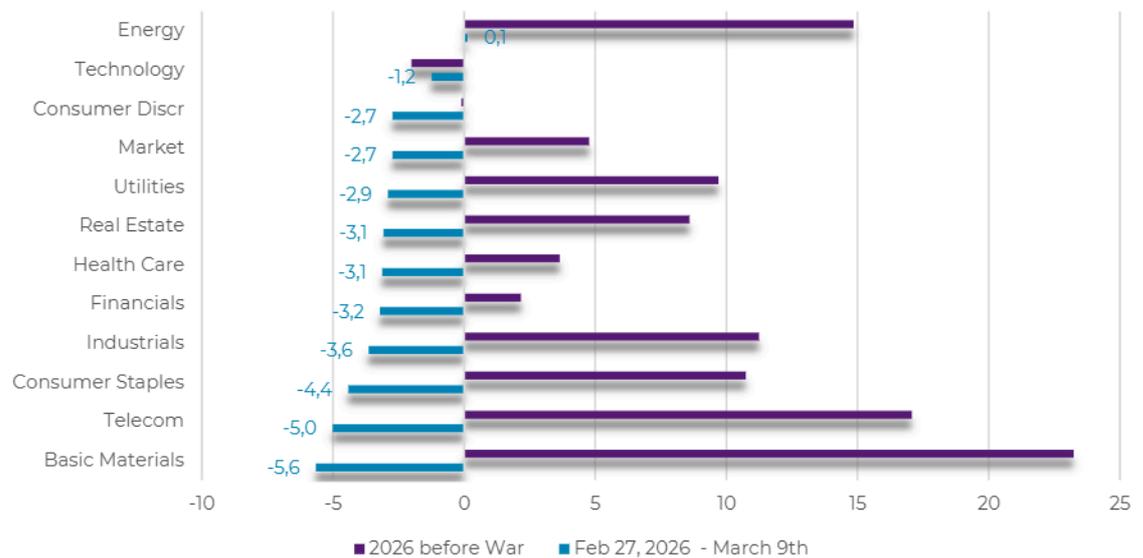
Source: Natixis, Bloomberg

This has a clear fundamental leg, the energy supply disruptions from the Strait of Ormuz primarily impact Asia and to a much lesser extent Europe, while the US is more immune (US gas is uncorrelated to European gas + US net exporter of crude oil).

As the energy sector was the only winner during the sell off of Monday and Tuesday, equity markets with heavier energy weightings outperformed (CA, Brazil, UK vs Japan China, Spain).

But the outperformance of US risk assets also reflects the global investor positioning before the outbreak of the conflict, which was heavily skewed towards non-US markets, as the rest of the world was experiencing its strongest period of outperforming the U.S. in years. Key trades were long Kospi vs Mag7, long EM and Europe vs US equities, long US Value vs Growth, long EM FX high yielders (LatAm).

Equity Sector performance before and after Feb 27 (as of March 9th), World Datastream index



Source: Natixis, Refinitiv/ Datastream.

What's next?

Obviously, the key factor remains the duration of the war and therefore of the potential disruption in energy supply. The longer disruption, the more the shock will turn stagflationary for Asia and to a lesser extent to Europe, the longer the US premium of US risk assets will continue. The key risk in the short run for the US equity market is the rate risk, as the US term premium continues to build (more inflation premium, more military spending + ongoing tax refund).

Assuming our baseline view of a conflict lasting a couple of weeks holds true (see [Oil Market Update – Balancing a Sustained Outage to Tanker Transit via the Strait of Hormuz](#)), we will see some reversals towards Europe and emerging markets (EM). From a purely asset-allocation-based point of view, we believe that trading geopolitical shocks poses more risk than benefits. Such an episode also reminds us that US exceptionalism is still alive because the US is less vulnerable to energy shocks than Europe and China. This reinforces our view that, beyond the trend of diversification away from the US by global investors, US equities will perform at par with European equities in 2026. Finally, it reinforces our view that inflation and bond risk premia are not about to fade.

Nordine NAAM

FX strategist

nordine.naam@natixis.com

How the Iran War is Redrawing the Global Monetary Map

The war between the US/Israel and Iran, which began on February 28, 2026, has triggered a global supply shock. The threat of closing the Strait of Hormuz has pushed Brent crude up to \$84/b and TTF gas to 60 Eur/MWh, creating a stagflationary environment. This has resulted in a resurgence of risk aversion, penalizing both equity and bond markets, and favoring traditional safe-haven assets like gold and the dollar.

The US dollar: safe haven strength with structural weaknesses ahead

Even before the war in Iran, the dollar was on the rise, supported by improving US growth and inflation persisting above the Fed's target. The conflict in Iran has accentuated its appreciation, lifting the DXY index above 99 in early March, as the United States is also less dependent on energy from the Middle East. However, this dollar strength could be temporary. Uncertainty over US trade policy, particularly following the invalidation of certain tariffs, will weigh on the currency in the medium term. A 50-bps cut in the Fed Funds rate is still anticipated this year, with a first reduction expected in June and another in September. Furthermore, structural factors such as high public debt, persistent budget deficits, and distrust of US policy should eventually weaken the dollar, despite temporary spikes due to geopolitical crises.

EUR/USD: geopolitical shock vs. medium-term recovery

EUR/USD, after consolidating around 1.18 in February, retreated sharply below 1.16 in early March under the effect of the war in Iran. Until then, the euro was supported by an improving European economic situation, justifying the ECB's status quo. However, the conflict in the Middle East led to risk aversion, strengthening the dollar and the unwinding of long euro positions, exacerbated by the rise in oil and gas prices. In the short term, the direction of EUR/USD will depend on the duration of the conflict, which is fueling inflationary pressures. The pair is expected to trade between 1.15 and 1.17 in the coming weeks, with a downside risk to 1.14 in case of escalation (Brent at \$100/b). In our main scenario of de-escalation, EUR/USD should gradually rise back towards 1.20 by year-end, notably due to the anticipated weakening of the dollar.

JPY: vulnerable importer in an energy shock

The yen was very volatile in February, with USD/JPY oscillating between 152 and 158. The currency reacted to announcements related to the future fiscal direction of Sanae Takaichi and the BoJ's monetary policy, following the appointment of two members considered "dovish" to the board, which dampened expectations for rate hikes in Japan. The surge in energy prices further accentuated the yen's weakness, as Japan is a major importer. In the short term, USD/JPY will primarily depend on the duration of the war in Iran and whether oil remains at high levels. It is expected to remain near 156 in the immediate term, before beginning a gradual retreat towards 150 in the coming months.

GBP: stagflation fears and political risk weigh on sterling

The pound sterling declined in February, penalized by a still-sluggish UK economy, a rather dovish tone from the Bank of England, and domestic political uncertainties. In early March, the surge in energy prices revived stagflation risks, which led markets to reduce their rate cut expectations while increasing downward pressure on the currency. In the short term, EUR/GBP could move back above 0.88, especially ahead of the local elections on May 7, which risk adding another layer of political uncertainty.

CHF: safe-haven surge and SNB's response

In February, the Swiss franc appreciated sharply, with EUR/CHF falling to a low of 0.9025 in early March in the wake of the outbreak of war in Iran. With the resurgence of risk aversion, the CHF fully played its safe-haven role. This strong rise prompted the SNB to react, indicating that it stood ready to intervene in the foreign exchange market if necessary to limit its appreciation. As long as fears of an energy crisis remain high, the euro could continue to be under pressure in favor of the Swiss franc. Therefore, EUR/CHF will remain around 0.90 in the short term.

AUD: commodity support vs. risk aversion

AUD/USD posted a recent high at 0.714 in mid-February, driven by expectations of a rate hike by the RBA, which were themselves supported by robust growth, a solid labor market, and above-target inflation. The strong rise in commodity prices also provided significant support to the currency. However, the war in Iran revived risk aversion, weighing on the AUD, which retreated towards 0.695 in early March. In the short term, the currency is expected to remain under pressure towards 0.69, especially if the Chinese economy also feels the shock of soaring oil prices. In the medium term, we remain bullish on AUD/USD towards 0.72.

Latin America: diverging fundamentals amid global risk-off

Most emerging market currencies were up in February before correcting in early March in reaction to the US attack on Iran. In Latin America, the COP and CLP were the rare currencies down in February and have extended their losses since the beginning of March. Despite the sharp rise in oil prices and the increase in policy rates, the COP is facing fiscal concerns, political uncertainties ahead of the March 8 elections, and the rebuilding of foreign exchange reserves by the central bank. Despite support from high copper prices, the CLP is facing vulnerability as an energy importer, accelerating inflation, and a growth slowdown that could force the central bank to suspend its rate-cutting cycle. The BRL and MXN will also remain poorly oriented in the short term, but their stronger fundamentals with credible monetary policy, improving growth prospects, and the absence of acute fiscal or political crises should allow them to correct less than other LatAm currencies.

Asia: currencies hit by energy dependence and a strong dollar

Asian currencies are under severe pressure following the conflict in Iran, due to the region's heavy reliance on hydrocarbon imports and the concurrent strength of the dollar. This double shock pushed the Indian rupee (INR) to a historic low (92.29), as rising oil prices worsen its current account deficit and inflationary pressures. Similarly, the South Korean won (KRW) briefly crossed the psychological threshold of 1500 to the dollar before strengthening on the announcement of a massive stabilization plan. China made a notable reversal on the yuan (CNY). After trying to curb its rapid appreciation, the PBoC abruptly strengthened its fixing rate to counter the oil shock and the rising dollar. In the short term, downward pressure on Asian currencies is expected to persist. However, a recovery is plausible in the medium term, assuming a normalization of the geopolitical situation in the Middle East.

CEEMEA and Africa: inflation shock limits monetary easing

Within CEEMEA currencies, the HUF and PLN are experiencing the sharpest declines. Highly dependent on energy imports, these countries are facing an inflationary shock that calls into question the policy rate cutting cycle. This trend is similar in South Africa, where the slide of the rand (ZAR) has shifted expectations from a rate cut to a rate hike. Elsewhere, the Egyptian pound (EGP) has crossed the 50-to-the-dollar mark. In the short term, the region's currencies will therefore remain under pressure, as the surge in energy prices wipes out the prospects for rate cuts and forces central banks to maintain a restrictive monetary policy.

EUR Rates: Middle East Tensions Squeeze Iran and Steepening

Benoît Gérard

Rates strategist

benoit.gerard@natixis.com

For more details: [Rates weekly: Middle East Tensions Squeeze Iran and Steepening Trades](#) and [Market Insights Rates: Middle East tensions: repricing ECB risk and EUR rates](#)

A strong move on the front-end of the curve

After roughly one week of conflict, the market still believes that the conflict will be short-lived. It would take a clever person to predict who will win the battle for history: the technical and effective heavyweight boxer in the first two rounds, or the middleweight with stamina and the ability to take a beating for 12 rounds. Iran's plan to slowly strangle aggressors with their grip on the energy flow through the Strait of Ormuz is going as expected. For now, the conflict's impact on rates is mainly driven by the front-end of the curve: a collapse in short-term real rates due to an inflation shock (-30 bp), and an anticipated reaction from central banks (1 x 25bp rate hike now priced in for the ECB by December 2026). The 2Y Schatz rose sharply over last week (**chart 1**), trading above 2.25%, while the 10Y Bund moved back toward the 2.85-2.90% area. The repricing was particularly violent in money markets: Euribor contracts sold off aggressively and the market swung from pricing further ECB easing to assigning a meaningful probability of rate hikes in the coming year.

Eya Chammakhi

Rates strategist

eya.chammakhi@natixis.com

Théophile Legrand

Rates strategist

theophile.legrand@natixis.com

Euro curves bear-flattened (chart 2) throughout most of the week as the front end reacted to the surge in inflation expectations while the long end proved comparatively more resilient. The 2s10s curve compressed steadily to 40 bps, extending a flattening streak that at one point reached its longest run since 2019. The move was even more pronounced further out the curve: the 10s30s segment flattened sharply as volatility surged and investors unwound steepener positions, now heading toward the 10-bps area. While long-end yields also moved higher during the sell-off, the adjustment remained significantly smaller than in the front and belly of the curve. This relative resilience reflects both limited outright paying interest in ultra-long maturities and the perception that the inflation shock is primarily a front-loaded energy-driven phenomenon.

The real difficulty of the situation now stems from the non-linearity of its macroeconomic impact. As far as the euro is concerned, a moderate rise in oil prices (in real terms) could be addressed by the central bank through signaling / forward guidance, possibly by effectively raising rates in 2026 as the market expects, to remain credible and keep inflation expectations anchored in the eurozone. Such a rate hike would not yet tip the eurozone into a phase of monetary tightening: at 2.25% for the DFR, the ECB remains at the upper end of the neutral rate estimate range.

Nevertheless, a more significant rise in oil prices, reflecting fears of prolonged shortages, would inevitably have a detrimental impact on the cycle since, beyond the troubles of accessing energy or switch to other energy sources, the need to satisfy relatively inelastic energy demand would lead to a reduction in demand for other goods and services from domestic production. In such a situation, demand destruction would compel the central bank to finally cut rates quickly below neutral to enter in easing mode.

Chart 1: 10Y Bund & Schatz (bps)



Source: Bloomberg, Natixis CIB

Chart 2: EUR 2s10s & 10s30s (bp)



Source: Bloomberg, Natixis CIB

In summary, a moderate rise in oil prices remains manageable for the central bank, while a more significant rise, forcing the central bank to take stronger action in the short term, becomes a problem for the cycle. The longer the energy market reflects stress, the more likely we are heading towards a “stop (to prevent inflation to burst again) and go (to contribute to the restart of the machine)” situation for the ECB. Here again, the duration of the conflict will be key to assess where we will finally stand in this highly non-linear situation.

What are our main tactical views?

Directional: in the pre-conflict environment, we believed arguments for going long on the 10Y Bund were scarce. All the more so today as the short duration momentum is getting strong. and we don't want to fade the move for now. Unless we get some significant trigger, like an earlier end of the conflict, a short Schatz position in such a volatile environment makes the most sense, with an asymmetric distribution of outcomes, skewed to the upside in terms of yield. The evolution of prices (and second derivative of this) in the energy market will be key to assess how far the ECB is expected to move and beware the non-linearity here.

Curves: The curve, especially the very long end, was struggling going through the 35bp ceiling for the 10s30s. A new situation and capitulation of steepening supported by anticipation of paying flows from Dutch pension funds later, the 10s30s now trades close to 13bps (a -20bps flattening move, driven mostly by the 10y tenor). Therefore, this part of the curve is highly directional so we remain highly cautious around initiating new steepening positions at this stage. Part of our caution rests on the prospective evolution of the equity market. Stock market (and especially the US stock market) is a decent allocation of Dutch pension funds holdings, meaning the evolution of the stock market will be key, as a potential trigger to stop paying in the long end. One potential driver of weakening US equity market would be Gulf countries trying to raise cash to balance budgets, especially if oil and gas revenues fade significantly. With no support, the very long end might as well flatten further.

Sovereign spreads: French political situation is clearly down from investors' top of mind. The destiny of the OAT-Bund spread is wedded to the evolution of BTP-Bund, with SPGB lagging the widening move, on stronger macro for now. Expect more carry unwind, especially on the belly of the curve, where low volatility and somewhat steep curve was a nice macro background for carry. The world has switch to geopolitical concerns and higher rates at the start of the fiscal year is necessarily weighing on the cost of funding of France and Italy, with the highest debt load of the Eurozone. We think the risk-off and higher rates environment warrants wider spreads for now: we see the 10Y OAT-Bund spread back to its average level since June 2024 (~75bps) as a short-term target.

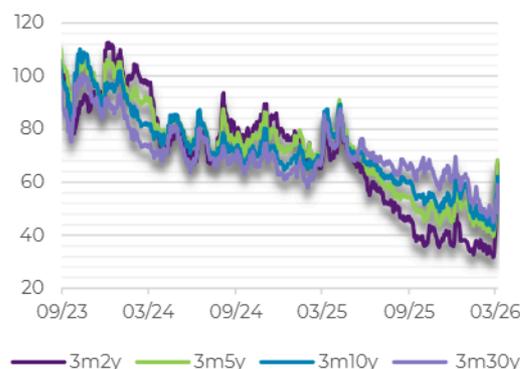
Rates volatility: Upper-left repricing reflecting policy uncertainty

The repricing observed in rates markets has also been reflected in the volatility surface, although in a very concentrated manner. **The rebound in implied volatility has been largely confined to the upper-left corner of the swaption grid**, i.e. short expiries on short tails, which are the most sensitive to uncertainty around the near-term policy path. Across both EUR and USD matrices, this segment of the surface has moved higher over the past week, with the adjustment particularly pronounced in EUR. On average, the upper-left sector of the EUR grid has risen by roughly 30-40 NV ([chart 4](#)), while the move in USD has been more contained but directionally similar ([chart 5](#)).

This pattern is consistent with the macro dynamics currently driving rates markets. The spike in energy prices and the associated repricing in inflation expectations have increased uncertainty around central bank reaction functions, particularly for the ECB. **As a result, market participants have been paying for protection against short-term policy volatility rather than positioning for a structural shift in the long-term inflation regime.** Importantly, the repricing fades quickly further out on the volatility surface. Longer expiries and longer tails have moved only marginally, suggesting that the market is not yet embedding a persistent inflation shock or a durable rise in long-term term premium. Instead, **the options market is primarily pricing near-term policy calibration risk, reflecting the highly uncertain and potentially non-linear macroeconomic impact of the energy shock.**

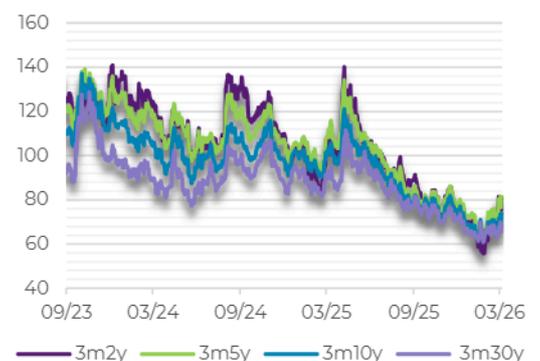
In that sense, the behavior of the volatility surface reinforces the broader narrative currently dominating rates markets: heightened uncertainty around the short-term policy outlook, but no clear signal yet of a structural regime shift in inflation or monetary policy.

Chart 3: EUR Implied Volatilities (bps)



Source: Bloomberg, Natixis CIB

Chart 4: USD Implied Volatilities (bps)



Source: Bloomberg, Natixis CIB

Thierry CHEREL

Real Assets Analyst

thierry.cherel@natixis.com

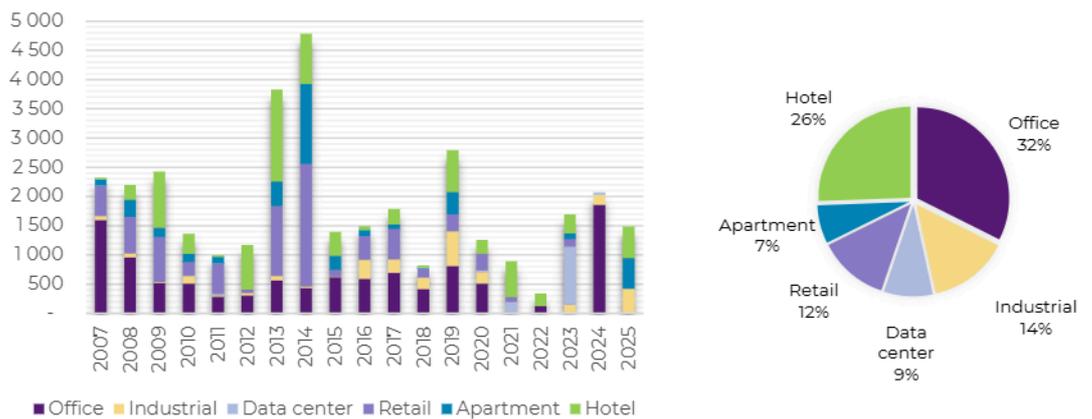
CRE Market to Favor Safe Havens

The escalation of geopolitical tensions in Iran and the broader Middle East region presents significant macro-financial transmission channels affecting global real estate markets. While direct operational exposure remains limited for portfolios outside the region, indirect impacts through energy markets, monetary policy shifts, and investor sentiment require strategic portfolio evaluation and proactive risk management.

Middle East regional weaknesses and Global transmission effects

The current geopolitical crisis creates substantial headwinds for Middle East real estate markets, particularly affecting the region's flagship destinations of Dubai and Doha. These markets, which previously demonstrated robust fundamentals including high office occupancy rates, strong retail footfall, and accelerating residential price growth, now face a confluence of challenges that threaten their competitive positioning.

Middle East investment volume by sector and 10-year average market shares



Sources: MSCI, Natixis CIB

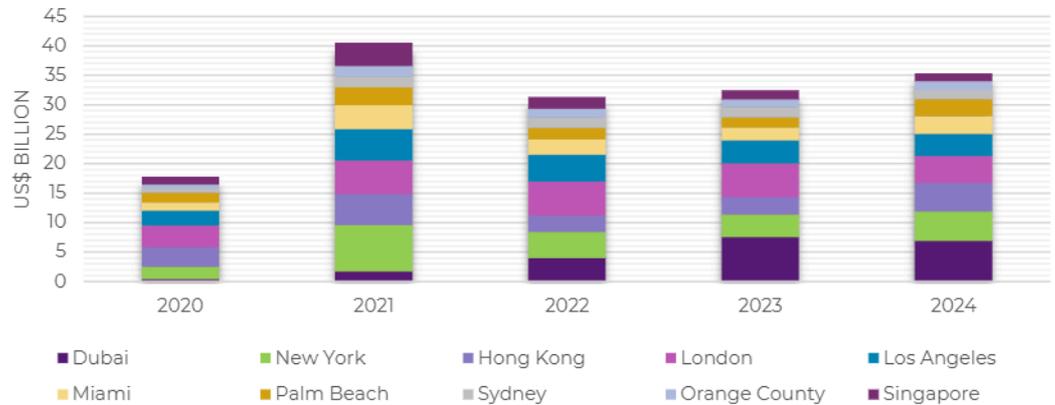
The hospitality and office sectors emerge as the most vulnerable, as expatriate workforce repatriation and tourism demand destruction create immediate operational pressures.

Dubai's status as the world's second-busiest airport amplifies these risks, as reduced passenger traffic cascades through interconnected hospitality, retail, and logistics sectors.

The luxury residential segment faces pressure as high-net-worth individuals might reassess their exposure to the region, potentially ending the double-digit price appreciation cycle that characterized recent years.

This capital flight threatens Dubai's position as a leading luxury residential market, with traditional safe-haven destinations like New York, London, and Hong Kong poised to recapture market share.

Top 10 cities for 10M\$+ residential sales (2020 - 2024)



Sources: Knight Frank, REIDIN, Natixis CIB

Beyond direct regional impacts, global real estate markets experience transmission effects through energy price volatility, which creates multiple valuation pressures via operating cost (heating, cooling, IT...) and construction cost inflation and central bank policy responses that increase discount rates across all property sectors. As seen in the recent inflation hike in 2022 and 2023, the least affected markets have been the one with the strongest pricing power, i.e. the more favorable demand-supply balance (e.g. Prime office, industrial, residential and hotel properties).

The uncertainty surrounding the duration and intensity of the conflict compounds these challenges.

Even in optimistic scenarios where disruptions to the Strait of Hormuz remain limited, investor sentiment toward Middle East real estate will likely remain depressed throughout 2026. Cross-border investors and multinational corporations are expected to defer expansion plans and reassess existing commitments, reducing transaction volumes and creating downward pressure on asset valuations across the region's commercial property markets.

Beneficiary destinations and capital reallocation

The geopolitical crisis creates significant opportunities for alternative destinations as capital and demand flows redirect toward perceived safer markets.

Southern European hospitality markets emerge as primary beneficiaries, with Mediterranean destinations including Spain, Italy and Greece destinations positioned to capture diverted tourism demand. These markets benefit not only from immediate demand substitution but also from potential infrastructure investment as operators seek to expand capacity in stable regions.

Western European real estate markets experience positive capital flight effects as investors prioritize established legal frameworks, currency stability, and political predictability.

The United Kingdom, Germany, France, Spain, and Italy are likely to see increased foreign direct investment, premium compression due to capital inflows, and enhanced liquidity in commercial real estate transactions.

Mediterranean Sea map



Sources: Oceano, Natixis CIB

Similarly, developed Asia-Pacific markets including Japan, South Korea, and Australia benefit from their perception as stable alternatives, with Japan's monetary policy consistency and Australia's commodity-linked economic resilience providing additional appeal to international investors.

The luxury residential sector in these safe-haven markets stands to gain significantly as wealthy individuals and families reassess their geographic exposure. Traditional luxury markets in New York, London, and Hong Kong are positioned to recapture market share previously lost to Middle East destinations, while emerging luxury markets in stable regions may experience accelerated development and appreciation.

This capital reallocation extends beyond residential to encompass commercial real estate, namely logistics markets in beneficiary regions experiencing increased demand from companies relocating operations (nearshoring).

Defensive repositioning managing risk and opportunities

The current environment demands a sophisticated approach to portfolio management that balances defensive positioning with opportunistic capital deployment.

Geographic diversification becomes critical, requiring investors to reduce concentration in Middle East markets while increasing exposure to beneficiary destinations that offer both stability and growth potential.

This rebalancing must consider sector rotation strategies, favoring defensive property types in uncertain markets while identifying sectors positioned to benefit from demand redirection.

North American markets present a complex investment case despite their traditional safe-haven status. Policy uncertainty under the Trump administration, particularly regarding trade and immigration policies, introduces variables that may limit their appeal relative to other developed markets.

This uncertainty suggests that European and Asia-Pacific alternatives may offer superior risk-adjusted returns during the current cycle, particularly as currency volatility and policy unpredictability affect cross-border investment flows.

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