



### Irish CPI inflation likely to rise towards 3.5-4% in March

*Equity markets have seen a fresh sell-off this morning as investors have reacted to President Trump's ultimatum to Iran that he will strike energy infrastructure, should traffic through the Strait of Hormuz fail to resume. At the time of writing most European equity markets are down by at least a further 2%. Despite the conflict escalating futures contracts still point to Brent crude oil prices falling from \$113 per barrel presently, to \$89pb by end-2026. However, the past couple of days has seen marked upward pressure on swap rates, options now implying three hikes from both the Bank of England and ECB by end-2026, most likely starting on April 30th.*

*Turning to Ireland, we estimate the first round impact of higher petrol, diesel and home heating oil prices should be sufficient to push up CPI inflation from 2.7% in February, towards 3.5-4% through March and April. Government action to cut excise duties may dilute some of the upward impact onto CPI inflation next month. Ireland's elevated household savings rate at 12% in Q4 2025 indicates many households will have room to sustain real spending despite energy price hikes. That said, the clear risk to our forecast for Irish consumer spending to grow by 2.3% in real terms in 2026 now lies to the downside, given the pressure on real incomes.*

**Financial markets sell off as Middle East conflict escalates:** President Trump's ultimatum that Iran allow traffic through the Strait of Hormuz, or face strikes against energy infrastructure, yielding threats of retaliation, has led to a fresh sell-off in equity markets this morning. European equity indices have fallen by a further 1-2%; Euro Stoxx 50 (-2%), CAC (-1.9%), Dax (-2.1%). Stock index futures point to losses of 0.6-0.7% for the S&P500 and Nasdaq at the open. German 10-year bond yields have held steady at 3.05%, but UK Gilt yields have continued to rise, now at 5.05%. In the context of risk-off sentiment in markets the euro-dollar exchange rate has remained relatively stable at £1.151.

**Commodity markets still taking benign view of temporary disruption to energy supply:** Brent crude oil is trading at \$113 per barrel (pb) this morning, still below Thursday's peak of \$118pb. Notably, futures contracts for delivery in December 2026 and December 2027, still see oil prices falling to \$89pb and \$80pb - suggesting the disruption to 20% of global oil supply will be temporary (see chart below). The clear risk is that both spot and futures prices for crude oil will move substantially higher should traffic through the Strait of Hormuz not resume in the coming weeks. Dutch 1-month TTF futures have also increased to €62.6 megawatt/hour this morning, up 5% today and from €30 in February.

**Three ECB rate hikes now fully priced in:** Options are now fully pricing in an ECB rate hike on April 30th and the deposit rate to rise to 2.75% by end-2026, with a 45% probability of a further increase to 3%. Similarly, three 25bp Bank of England rate hikes by end-2026 are now fully priced in, to 4.5%, with an 80% probability of a fourth to 4.75%. However, implied market expectations for official Central Bank interest rates are evolving rapidly, in tandem with oil prices themselves. Implied expectations for the December 2026 OIS rate have moved up to 2.8% as Brent crude oil prices have increased to \$113pb (see chart below).

**Textbook view of Central Bank reaction function fails to quell market reaction:** Last week's Bank of England and European Central Bank policy meetings largely gave textbook responses to the oil shock - stressing the uncertain environment and that they might well take action to ward-off second round wage-price effects and to meet the 2% CPI inflation target. These sentiments shouldn't have been a major surprise. Nonetheless, markets moved sharply following the meetings 2-year £ and € swap rates are 4.55% and 2.95%, up 45bps and 25bps respectively.

The adverse reaction reflected the unanimous 9-0 vote (vs 7-2 previously) for the Bank of England and upward revisions to expected UK CPI inflation (3% in Q2) and ECB (2.6% in 2026). A statement from Bank of England Governor Andrew Bailey following Thursday's meeting about firm conclusions on rate hikes seems to have had little impact on market expectations.

Notably, the ECB's forecast for HICP inflation to return to target in 2027 is conditioned on the 3-month Euribor rate rising to 2.6% in 2027, implying rate hikes will be required. Comments from anonymous ECB officials given to Bloomberg, and from Bundesbank President Joachim Nagel were interpreted as signalling rate hikes may start in April. An April 30th ECB rate hike is now fully priced-in by options.

**First round impact of energy prices likely to push up Irish CPI inflation towards 4%:** Irish petrol and diesel prices have now both increased to, or above, €2 per litre. Furthermore, home heating oil prices have increased from €490 for 500 litres, to €880 currently. We estimate this is likely to lift Irish CPI inflation by more than 1 percentage point, from 2.7% in February, to 3.5-4.0% range through March and April.

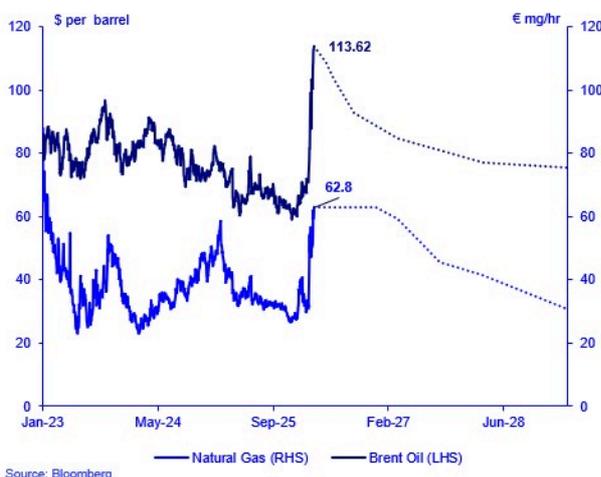
This is before any offsetting government measures on excise duties may be implemented (taxes represent circa 60% of the retail price). Any action here may effect April's CPI inflation figure, but not March's, as the data are collected in the 2nd week of the month. Of course, in time both household energy bills, foods and other prices affected by energy costs and supply-chain disruption may rise too - depending on how events in the Middle East may unfold.

We had forecast Irish consumer spending would grow by 2.3% in real terms in 2026. Clearly, the risk to this projection is to the downside as real incomes may be eroded by higher CPI inflation. That said, potential cuts to Ireland's elevated household savings rate (12% in Q4) and government policy actions may mitigate the impact. Notably, Irish consumer spending expanded by 5% in 2023 and 2.9% in 2024, despite CPI inflation of 6.3% and 2.1% respectively, albeit sustained by pent-up demand coming out of the Covid19 pandemic.

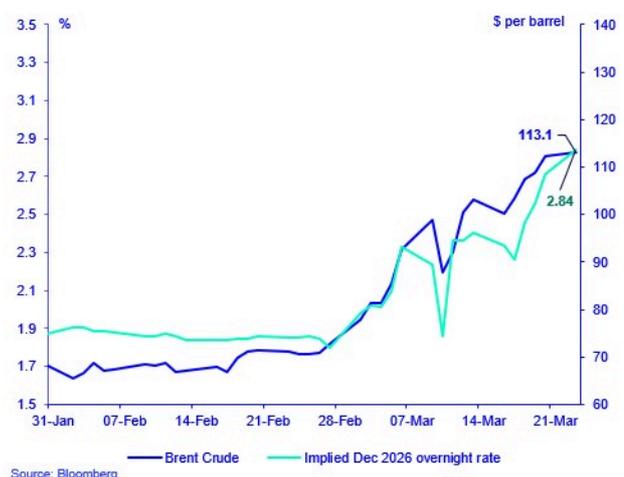
**Group Chief Economist: Conall Mac Coille**

conall.maccoille@boi.com

**Energy Prices and Futures Curves**



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## Contact Us at [economics@boi.com](mailto:economics@boi.com)

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