



Gauging the economic impact of events in the Middle East

Recent days have seen sharp declines in equity markets, risk aversion and fears on inflation driving significant moves in financial markets. For now, commodity markets see disruption to Middle East energy supply to likely be temporary, futures contracts for oil and natural gas falling back through 2026. However, bond markets have taken a less sanguine view, 3-year swap rates rising by 15-20bps in recent days, with expectations for Central Bank rate cuts pared back markedly. Notably, options prices now imply a 20% probability the ECB will hike rates once by end-2026. However, with markets in flux these views may quickly change as events unfold.

The key issue is how long the period of political uncertainty, military action and disruption to energy supply in the Middle East persists. The Middle East represents 2% of Irish merchandise goods exports and 3% of imports. However, higher energy prices may lead us to revise up our forecast for CPI inflation slightly, hurting real incomes, but with high savings likely utilized to sustain consumer spending. Many firms could be affected by supply-chain issues, or higher costs, especially if Asian imports are affected by disruption to the Strait of Hormuz. That said, both Ireland and the global economy have proved resilient to the range of geo-political uncertainties presented by the Trump Presidency, including the imposition of tariffs.

Markets judge commodity price impact will be temporary: Brent crude prices are currently trading at \$84 per barrel (pb), up from \$71 last week, reflecting the threat to energy infrastructure across the Middle East. The news Qatar had shut down Liquefied Natural Gas (LNG) facilities, representing 20% of global LNG supply, accentuated the impact. The Netherlands TTF natural gas 1-month forward price is now €54.86 per megawatt hour (mg/hr), down from a €64 peak yesterday, but up from €31 last week. However, futures curves indicate commodity markets see only temporary disruption to supply. The Brent crude oil and natural gas futures contracts for December 2026 are \$71 and €44 respectively (see chart below) and fall back further for 2027.

Risk of broader inflationary pressures leads to swap rates re-pricing: However, the risk of inflationary pressure is not only linked to commodity prices. Disruption to the Strait of Hormuz threatens not only the 20% of global oil and LNG trade, but also broader supply-chain disruption via higher insurance and freight costs. Hence, markets are pricing-in near-term inflationary pressure. The 2-year breakeven inflation rate on US Treasuries has increased by 11bps this week, to 2.91%. Similarly, 3-year swap rates for the euro, dollar and sterling have all increased by 15-20bps in recent days to 2.37%, 3.31% and 3.62% respectively.

Expectations for Central Bank rate cuts pared back: Options prices now imply the ECB's next move will be most likely upward, roughly a one-third likelihood of one 25bp hike to 2.25% by end-2026. Whereas a March 19th Bank of England rate cut had been seen as almost a certainty, it is now perceived to be a remote possibility, with just a 21% likelihood. Just one 25bp Bank of England rate cut to 3.5% is now fully priced by end-2026. However, two rate cuts from the Federal Reserve are still seen as likely, one cut fully priced by September (most likely in June, or July) with a 75% probability of a second cut to the 3.0-3.25% range by end-2026.

Equity indices see sharp losses as dollar benefits from risk-off moves: Equity market valuations looked stretched, with risk premia at historically low levels, so the sharp losses following the events in the Middle East are less surprising. The S&P500 (-0.94%) and Nasdaq (-1.0%) fell sharply Tuesday, but with most European indices seeing declines exceeding 3%. Following a 3% drop yesterday, the Stoxx Europe 600 is still up 2.2% year-to-date, but has eroded gains earlier in 2026. To some extent US assurances it will protect traffic the Straits of Hormuz have helped the partial 1-2% rebound in European equity indices this morning.

The euro/dollar exchange rate is also trading at \$1.162 this morning, up from a trough \$1.153 yesterday, benefitting from safe-haven flows and frustrating many forecasts that it would eventually push through \$1.20, from levels close to \$1.18 last week. Sterling has also benefitted, the exchange rate against the euro falling below 87p this morning, for the first time since mid-February.

What are the implications for Ireland's economy: The key consideration is how long the period of political volatility and military action persists in the Middle East and associated disruption to energy supply. The rise in Brent crude oil prices will be passed-through quickly to consumer prices for petrol. The link between wholesale natural gas, and retail prices, is less clear. Irish energy (and other) companies lock-in energy costs via futures contracts, so may wait before raising prices for consumers. A key point is that the €55mg/hr natural gas price is similar to that in February 2025 and well short of the €350 peak recorded in 2022 following Russia's invasion of Ukraine.

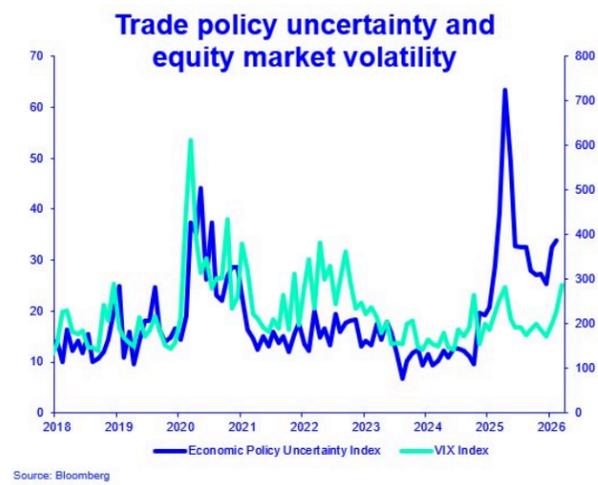
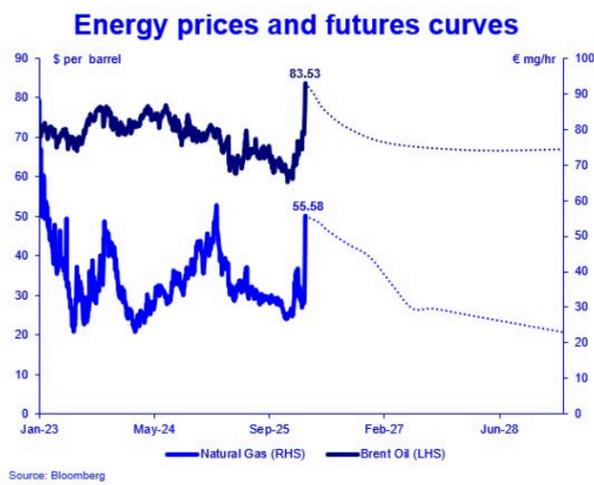
Nonetheless, we may in time need to revise up our forecast for 2.3% Irish CPI inflation in 2026 slightly, embodying a small hit to households' real incomes. However, the Irish household savings rate was still elevated at 14.75% in Q3 2025, suggesting some room for consumers to cut savings in response to higher energy prices. That said, higher energy prices will be more of a challenge for households on lower incomes, with smaller savings buffers.

Middle Eastern countries accounted for just €5bn of merchandise exports in 2025, or 1.9% of €260bn total - and also €5.6bn of merchandise imports, or 3.1% of the total. These are clearly small shares. However, the supply-chain effects are more likely to reflect disruption through the Straits of Hormuz, to goods imports shipped from China and Asian countries and via elevated freight and shipping costs. The Middle East is also an important shipping route for agri-food commodities. Even should the immediate threat to shipping dissipate, insurance costs may remain high.

Ireland will also be affected by tighter financial market conditions, and any subsequent hit to global consumer and business confidence. However, the European and US economies have proved remarkably resilient to the range of geo-political uncertainties presented by the Trump Presidency and the imposition of tariffs on trade. That said, it is striking that equity market volatility has picked-up this time around (see chart below), whereas it had remained contained in 2025. Part of the story here may be that strong gains in AI-technology stocks seen in 2025, are no longer compensating for elevated trade and geo-political uncertainties, giving way to concerns on stretched valuations.

Group Chief Economist: Conall Mac Coille

conall.maccoille@boi.com



Contact Us at economics@boi.com

Disclaimer

This document has been prepared by the Economic Research Unit at The Governor and Company of the Bank of Ireland ("BOI") for information purposes only and BOI is not soliciting any action based upon it. BOI believes the information contained herein to be accurate but does not warrant its accuracy nor accepts or assumes any responsibility or liability for such information other than any responsibility it may owe to any party under the European Union (Markets in Financial Instruments) Regulations 2017 as may be amended from time to time, and under the Financial Conduct Authority rules (where the client is resident in the UK), for any loss or damage caused by any act or omission taken as a result of the information contained in this document. Any decision made by a party after reading this document shall be on the basis of its own research and not be influenced or based on any view or opinion expressed by BOI either in this document or otherwise. This document does not address all risks and cannot be relied on for any investment contract or decision. A party should obtain independent professional advice before making any investment decision. Expressions of opinion contained in this document reflect current opinion as at 4th March 2026 and is based on information available to BOI before that date. This document is the property of BOI and its contents may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of BOI. Bank of Ireland is regulated by the Central Bank of Ireland. In the UK, Bank of Ireland is regulated by the Central Bank of Ireland and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Governor and Company of the Bank of Ireland is incorporated in Ireland with limited liability. Registered Office 2 College Green, Dublin, D02 VR66. Registered Number C1.