

# The Middle East Conflict: Key insights

We're continuing to support client decision-making during the Middle East conflict with comprehensive but concise analysis and daily online briefings. All of our key analysis on the crisis can be found [here](#). Below are some highlights from our coverage on Friday, 13<sup>th</sup> March.

## 1. Macro & market scenarios

Our scenarios – covered by the Financial Times, Wall Street Journal, among others – outline three potential conflict pathways and their global macro and market implications.

1. [\*\*Modelling the scale of the energy market disruption\*\*](#)
2. [\*\*Scenarios for the Iran war & the macro impact\*\*](#)
3. [\*\*Market implications of three scenarios for the conflict\*\*](#)

## 2. How markets are holding up

The nightmare scenario for energy markets has been reflected in historic volatility and significant uncertainty about the price outlook. Reopening the Strait of Hormuz is key. In contrast, financial markets have been relatively calm.

1. [\*\*Russian sanctions relief and IEA releases can't compensate for a closed Strait of Hormuz\*\*](#)
2. [\*\*Our measure shows a ~20% chance of \\$100 oil in three months, but uncertainty is huge\*\*](#)
3. [\*\*Big tech has outperformed since the war began; our base case is a short war and continued AI enthusiasm favouring these sectors.\*\*](#)
4. [\*\*The war has lifted market volatility, but core money markets remain stable; private credit shows strain but little systemic risk.\*\*](#)

## 3. A busy week in central banking

Central banks will (mostly) stand pat at this coming week's meetings, though their communications around the energy shock will be telling. We're holding Drop-Ins on the [\*\*Bank of Japan\*\*](#) and on the [\*\*Fed, ECB and Bank of England\*\*](#).

1. [\*\*Fed on hold as it waits for more clarity\*\*](#)
2. [\*\*ECB to stress readiness to respond to energy shock\*\*](#)

3. [Bank of Japan will hike rates again in April](#)
4. [Bank of England: Delayed cuts, cancelled cuts or interest rate hikes?](#)
5. [The RBA will deliver back-to-back hikes in March and May](#)

4. How economies will fare

How economies emerge from this crisis will largely depend on whether they are net energy exporters or importers – unless they are directly involved in the conflict.

1. [The US could weather a world of \\$100 oil, but the Fed would have to respond](#)
2. [China can withstand the crisis better than its status as the world's top oil importer implies](#)
3. [The UK economy is already coming under stagflationary pressure](#)
4. [The Gulf economies will see negative growth this year under all three of our scenarios](#)
5. [Asia is most exposed to the energy shock; governments that can't cushion it will have to let prices rise.](#)

5. And in other news...

1. [Private credit risks are material but manageable for the US](#)
2. [We're holding a briefing on Tuesday about China's new Five-Year Plan](#)
3. [Australia's mining sector is enjoying its last hurrah.](#)

## Contact

**Email** [sales@capitaleconomics.com](mailto:sales@capitaleconomics.com)

**Visit** [www.capitaleconomics.com](http://www.capitaleconomics.com)

---

### Disclaimer

While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

### Distribution

Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.