Weekly Roundup - Reopening the Strait won't be enough

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This Weekly Roundup highlights our analysis on how earnings will keep powering the AI rally, why expectations are misplaced for oil flows to return to normal quickly, the growing risks facing the Bank of Japan and more.

1.

Nvidia's latest earnings report may have failed to set the market alight, but the broader picture is of ramped-up earnings growth that is showing few signs of letting up. There are reasons for caution, but the bottom line is that the AI-driven earnings boom is set to slow **rather than turn to bust**.

2.

An agreement to reopen the Strait of Hormuz wouldn't mean an instantaneous return to energy market normality; it's about restoring shipping assets, oil production and refining capacity. Prices may fall initially on news of a reopening, but a sustained decline depends on supply and demand in the market returning to balance, and it is increasingly looking as though that **may not happen until well into 2027**.

3.

As investors sift through the embers of the latest bond market sell-off, Japan still stands out. The 10-year JGB yield hit a three-decade high and the curve steepened far more sharply than elsewhere, hinting at a deeper shift in inflation expectations and growing questions about whether the Bank of Japan is **behind the curve.** Further rises in oil prices could yet force policymakers to signal faster hikes or risk an even steeper curve. The Bank's **June meeting** will be one to watch.

4.

A closer look at how the energy shock is affecting euro-zone inflation shows pricing expectations among energy-intensive firms are already shifting, while the signals point to **stronger food inflation later this year.** But these effects remain largely indirect. The **"second-round" pressures** that would most concern ECB policymakers are likely to take much longer to emerge, suggesting there is still little case for significant tightening at this stage.

5.

Bank Indonesia's surprise 50-basis-point rate hike this week helped support the rupiah, but the calm is unlikely to last as the government doubles down on interventionist policies. A new state-owned trading company is aimed at capturing commodity export revenues and feeds investor worries about the **deterioration in policy credibility.** All eyes are on an MSCI decision due next month about whether Indonesia should be downgraded from emerging- to frontier-market status.