

Oil, AI & tariff uncertainty

- ◆ Conflict in the Middle East caused energy prices to surge, stagflation risks to emerge, and has shaken markets...
- ◆ ...at a time when the US Supreme Court’s decision to strike down IEEPA tariffs and some negative AI-related headlines...
- ◆ ...had already taken the shine off what has been a pretty good start to 2026 for global growth and inflation

Global uncertainty surged following the effective closure of the Strait of Hormuz, through which about 20% of global crude oil and LNG transits. The reduced flow of energy trade and output caused the oil price to spike to nearly USD120/bbl until comments by President Trump that the war was “very complete, pretty much” calmed the situation.

Nonetheless, with the next stage of the conflict far from clear, the prospect of prolonged disruption to energy supplies persists. High oil and gas prices **pose upside risks to inflation and monetary policy and downside risks to growth**. Asian economies such as Japan, Korea, India, and mainland China source over half their energy imports from the Gulf and some have already pledged fiscal support.

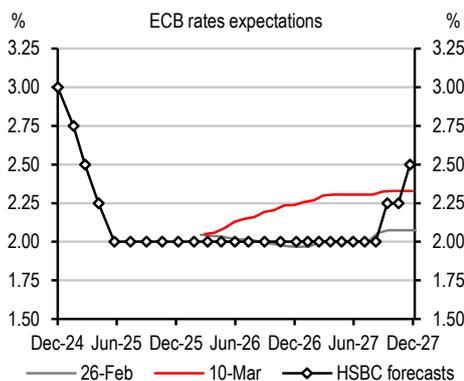
High oil and gas prices may weigh on growth

Upward pressure on interest rates

Despite the oil price easing somewhat, the hawkish repricing for the Bank of England and the European Central Bank triggered by the surge in European LNG futures has not completely reversed, and with USD having rallied, the **prospects for further monetary easing by some emerging markets may have lessened too**. Latam central banks are still set to see the biggest divergence ahead on policy rates.

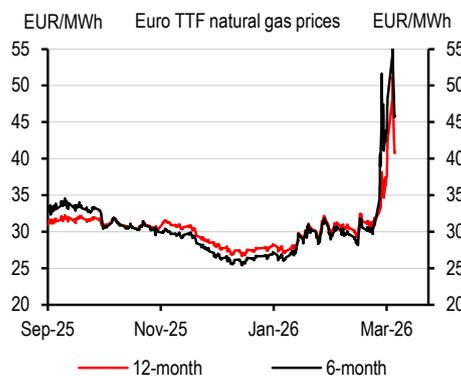
Prospects for monetary easing has lessened

1. Inflation impact of higher energy prices pose hawkish risks for ECB (and others)...



Source: Bloomberg, HSBC forecasts

2. ...as natural gas price futures have soared



Source: Bloomberg. Latest data: 10 March. Note: TTF = Title Transfer Facility



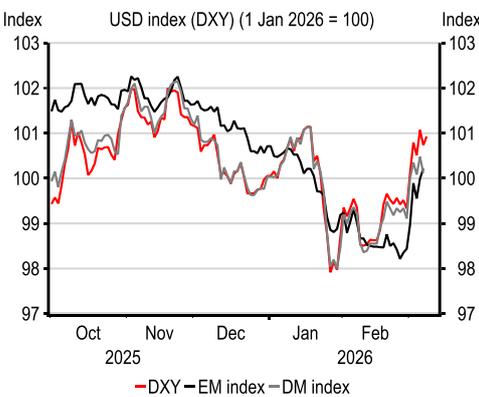
Some large EM regions have improved tariff positions

Tariff rollback

Little more than a week before the Iran conflict began, the US Supreme Court had ruled that the Trump administration's use of emergency powers (IEEPA) to impose tariffs on US imports was illegal. The Trump administration responded by imposing a 10% global tariff (which officials have said would be increased to 15%), **benefitting some large emerging market (EM) regions**, including Brazil, mainland China and Indonesia, and **hitting Europe relatively harder**.

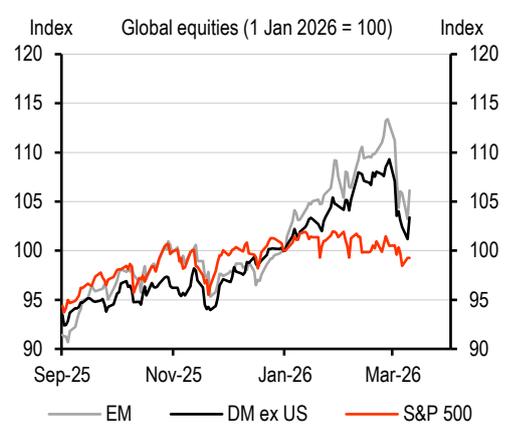
While the ruling is causing uncertainty over tariff refunds, future tariffs, and existing and future trade deals, the market reaction before the Iran conflict had stemmed from some negative AI-related headlines, which **had caused equity markets to undergo a rotation** away from financials and software towards 'real economy' stocks.

3. USD firmed, after a weak start to the year



Source: Macrobond, Latest data: 9 March. Note: EM = emerging markets, DM = developed markets

4. Global equities gave up part of their YTD gains but US S&P500 is now down



Source: Bloomberg, Latest data: 10 March Note: EM = emerging markets, DM = developed markets

PMIs increased in February, US jobless claims are low

Robust data

The conflict started at a time when the **recent hard data had been quite solid**. Global manufacturing and services PMIs (and particularly the US services ISM) increased in February even as the US labour market data continues to paint a mixed picture. January's upside surprise in payrolls (+126k) was followed by a large drop in February (-92k) but jobless claims are low. Globally, inflation was little changed, although core inflation was up to 2.4% in the Eurozone in February and US core Personal Consumption Expenditures (PCE) was 3% in December.

In Asia, **mainland China's Jan-Feb trade data surged** and attention has been on the 15th Five-Year Plan, which targets a slightly lower range of 4.5-5.0% growth for 2026, supported by fiscal policy. Policy priorities include boosting domestic demand and stepping up the anti-involution campaign, while balancing trade.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
18 Feb	UK	CPI (% y-o-y)	Jan	3.0	3.0	3.4	→
2 Mar	US	ISM manufacturing (Index)	Feb	52.4	51.5	52.6	↑
3 Mar	Eurozone	HICP (% y-o-y)	Feb, flash	1.9	1.7	1.7	↑
4 Mar	Mainland China	PMI-Manufacturing (Index)	Feb	49.0	49.2	49.3	↓
4 Mar	Mainland China	Non-manufacturing PMI (Index)	Feb	49.5	49.7	49.4	↓
6 Mar	US	Non-farm payrolls, monthly change (000s)	Feb	-92	60	126	↓
6 Mar	US	Unemployment rate (%)	Feb	4.4	4.3	4.3	↓
10 Mar	Mainland China	Exports (% y-o-y)	Jan-Feb	21.8	7.2	6.6	↑
10 Mar	Mainland China	Imports (% y-o-y)	Jan-Feb	19.8	7.0	5.7	↑

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
16 Mar	Mainland China	Retail sales	Feb
19 Mar	UK	Bank of England interest rate announcement	-
19 Mar	Eurozone	European Central Bank interest rate announcement	-
19 Mar	US	Federal Reserve interest rate announcement	-
20 Mar	Mainland China	People's Bank of China interest rate announcement	-
24 Mar	EU / UK / US	PMIs	Mar
25 Mar	UK	CPI	Feb
27 Mar	UK	Retail sales	Feb
31 Mar	Mainland China	NBS manufacturing PMI	Mar
31 Mar	UK	National accounts	Q4
31 Mar	Eurozone	HICP	Mar
3 Apr	US	Non-farm payrolls	Mar
10 Apr	Mainland China	PPI / CPI	Mar
10 Apr	US	CPI	Mar

Source: LSEG Eikon, HSBC

Disclosure appendix

Important disclosures

Additional disclosures

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