
March 27, 2026

Commentary

Weekly Economic Perspectives

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Global Macro Highlights

Another Spring, Another Global Shock, Another Uncertainty Spike

Recent major shocks to the global economy have all clustered around the March-April timeframe (Covid, Ukraine war, regional bank crisis, tariffs). This complicates the assessment of the economic impact. The trajectory shifts early, so the cumulative effect can be dramatic; but there is also time for corrective action to mitigate the hit.

Arguably, in all these prior instances, the ultimate economic outcomes were less dire than initially feared. Will this again be the case with the Iran war? Possibly, maybe even probably. It is what we are leaning towards for the time being. One reason for this is that widely different geopolitical scenarios can amount to similar economic outcomes. For example, Iran could agree to reopen the Straits of Hormuz after it obtains desired concessions, or the US (and allies) could force it to open militarily. The geopolitical implications are vastly different, the economic ones less so. In any case, there are important lessons to be learned from the Liberation Day experience. Scenarios that are unbearably costly to all parties involved tend not to materialize because nobody truly wants them to. An extended/indefinite closure of the Straits is, in our view, such an unbearably costly scenario. We are unsure of the path to resolution but nonetheless anticipate a less onerous outcome.

Still, there is an undeniable inflationary shock here, and a simultaneous dent to growth. The shorter the conflict, the more the shock is largely inflationary; the longer it is, the more growth takes a hit. Either way, we do not believe that the dramatic hawkish shift in policy rate expectations is warranted. It is fine for central banks to warn about the possibility of rate hikes to combat inflation but the likelihood that they will actually deliver them is still low in our view. Admittedly, the sole inflation mandates that most central bankers operate under argue for earlier tightening outside of the US. Yet the memory of past policy mistakes (especially for the ECB, whose premature tightening during prior downturns proven very ill-advised) should stay most policymakers' hands enough to allow for a diffusion of the conflict. At least we hope so!

Figure 1: Yet Another Spring Shock for the Global Economy



Source: Macrobond, SSIM Economics, IMF World Economic Outlook, as of March 27, 2026

Summary of World Output¹ and Inflation² (Annual percent change)

	Weight	History					Forecast	
	2023	2021	2022	2023	2024	2025	2026	2027
World Growth	100.0	6.6	3.6	3.5	3.3	3.2	2.9	2.8
Advanced Economies	40.5	6.0	2.9	1.7	1.8	1.6	1.4	1.6
US	14.9	6.2	2.5	2.9	2.8	2.1	2.3	2.2
Euro area	11.9	6.4	3.6	0.4	0.9	1.5	1.1	1.5
Germany	3.2	3.9	1.9	-0.7	-0.5	0.4	0.9	1.6
France	2.3	6.8	2.8	1.6	1.1	0.9	1.0	1.0
Italy	1.9	8.8	5.0	1.0	0.6	0.7	0.9	1.0
Japan	3.4	3.7	1.3	0.7	-0.2	1.2	0.6	1.0
UK	2.2	8.5	5.2	0.3	1.1	1.3	0.7	0.9
Canada	1.4	6.0	4.7	2.0	2.0	1.7	1.2	1.8
Australia	1.0	5.4	4.2	2.1	1.0	2.0	1.5	2.0
Developing Economies	59.5	7.0	4.1	4.7	4.3	4.3	3.9	3.7
China	19.1	9.2	3.1	5.4	5.0	5.0	4.6	4.4
Advanced Economy Inflation	40.5	3.1	7.3	4.6	2.6	2.4	2.6	2.0
US	14.9	4.7	8.0	4.1	3.0	2.7	3.0	2.2
Euro area	11.9	2.6	8.4	5.5	2.4	2.2	2.6	1.9
Germany	3.2	3.1	6.9	6.0	2.3	2.2	2.5	2.0
France	2.3	1.7	5.2	4.9	2.0	1.0	2.1	1.7
Italy	1.9	1.9	8.2	5.7	1.0	1.6	2.6	1.6
Japan	3.4	-0.2	2.5	3.3	2.7	3.2	2.0	2.8
UK	2.2	2.6	9.1	7.4	2.5	3.4	3.3	2.7
Canada	1.4	3.4	6.8	3.9	2.4	2.1	2.7	2.1
Australia	1.0	2.9	6.6	5.6	3.2	2.8	4.2	2.8
Developing Economies	59.5	5.8	9.5	8.0	7.7	4.9	5.5	4.9
China	19.1	0.9	2.0	0.2	0.2	0.0	1.0	0.6
Value of World Output (\$ trl)								
At Market Exchange Rates		97.4	101.4	105.7	115.6	126.4	133.3	139.7
At Purchasing Power Parities		155.4	172.3	184.3	201.0	219.1	225.5	231.8

¹ Real GDP; ² Consumer Price Inflation

Weight is the share of world GDP on a purchasing power parity basis (IMF *World Economic Outlook*)

Historical data sources: Oxford Economics, IMF. Forecast: SSGA Global Macro and Policy Research

Politics and Geopolitics

Iran War Will Have Long Term Effects on Global Energy Complex

The macro story of the Iran War has largely already been told. To reiterate, what matters is the duration of the conflict and related energy outage. As of late March, we have not yet seen a material supply shock, largely just a price shock. Moreover, even that has been relatively mild thus far. It remains far below the shock in 2022 but would easily eclipse it if the Hormuz straits are still shut by mid-May. For key raw commodities, below is a quick table comparing today’s prices to peak 2022, showing a milder impact across the board. For refined products, the comparison is consistently at the higher end of the spectrum, in the 0.7-0.8 range, i.e. close to 2022 experience. Some type of fuels, such as jet fuel have already hit the 2022 peak, which is why Fig. 3 shows a strong jump in “prices at the pump”. And this is all just within the benign base case of a relatively short war, so a protracted war still carries large downside potential.

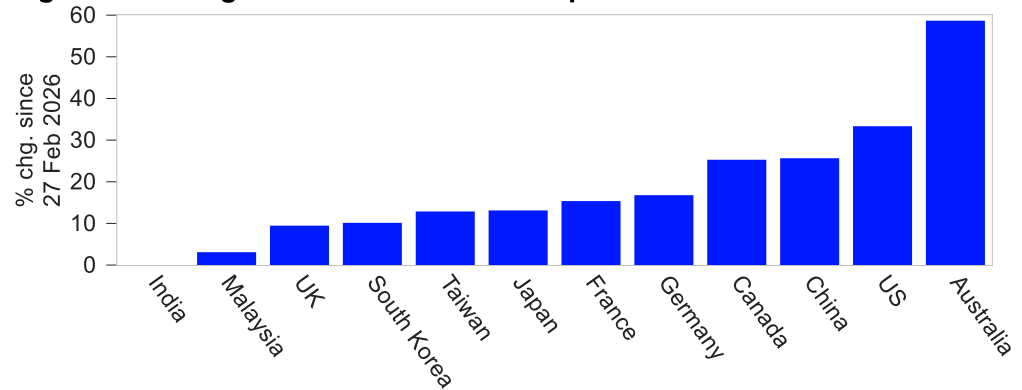
Figure 2: Current Commodity Prices as Fraction of Peak 2022 Price (As Of 24 March)

Commodity	Fraction of Peak 2022 Price
Brent	0.7
EU Gas TTF	0.16
German power prices	0.11
EU Wheat	0.4
US Gas Henry Hub	0.3
Urea	0.7
EU Steel	0.5

Source: State Street Investment Management, Bloomberg, ICE, TTF, CME, MATIF.

Long term, even with a short war, the energy complex will not be returning to normal. First, there will be a permanent risk premium on Gulf energy as Iran risk will not go to zero. Second, there will be higher inventory and redundancy costs globally. Third, capital allocation in energy could actually become more cautious (on a global level, given high share of Middle East energy investment). Fourth, renewed tailwinds for oil/gas alternatives, ranging from nuclear, alternatives and even preserving local coal production. But none of this happens quickly so energy supply becomes much less elastic in the near-term. So, this is basically a mini energy transition shock regardless of outcome, which is a drag on the global supply side of the economy.

Figure 3: Change In Fuel Prices At Pump Since The Iran War Started



Source: State Street Investment Management, Macrobond, Australian Institute of Petroleum, Energy Information Administration (EIA), U.K. Department for Business, Energy & Industrial Strategy, Kalibrate Canada, Inc., Indian Ministry of Petroleum & Natural Gas (MOPNG), China National Bureau of Statistics (NBS), European Commission (DG ENERGY), Japanese Ministry of Economy, Trade & Industry, Korea National Oil Corporation, Chinese Petroleum Corporation (CPC), Malaysian Ministry of Domestic Trade & Consumer Affairs
Updated as of 3/29/2026

*AU-Avg national terminal gate; US-Avg gasoline; UK-ULSP pump; CA-Vol wtd avg gasoline; IN-Gasoline in Mumbai; CN-Gasoline (97# or 95#); GE & FR-Gasoline Super 95; JP-Regular gasoline; SK-Ordinary gasoline; TW-92 Unleaded gasoline; ML-RON 95

Country Macro Highlights

Please see individual country commentaries in respective sections below

US: Relatively More Cushion

Following growth of 2.9% and 2.8%, respectively, in 2023 and 2024, the US economy expanded at a closer-to-trend rate of 2.1% last year. The pullback was broad-based. Household consumption growth moderated three tenths to 2.6%, mostly due to slower services consumption. Private fixed investment slowed 0.7 percentage points (ppt) to 2.7%, largely due to contraction in residential (-2.1%) and structures (-5.3%) investment. These declines partly offset surging equipment (+8.3%) and solid IP investment (+5.7%).

Given the latest geopolitical developments, we anticipate only mildly better performance in 2026 as we look for growth of 2.3%. This marks a two-tenth downward revision relative to our expectations immediately prior to the start of the Iran conflict. Consumer spending moderates further as a result of softer employment conditions and already low savings rate. Private fixed investment growth improves, but the underlying dynamics are unchanged; the drag from residential and structures investment is merely less pronounced. A calmer macro environment and lower long-term rates may have incentivized better outcomes for home sales, residential investment, and consumer spending, but that pickup is now delayed.

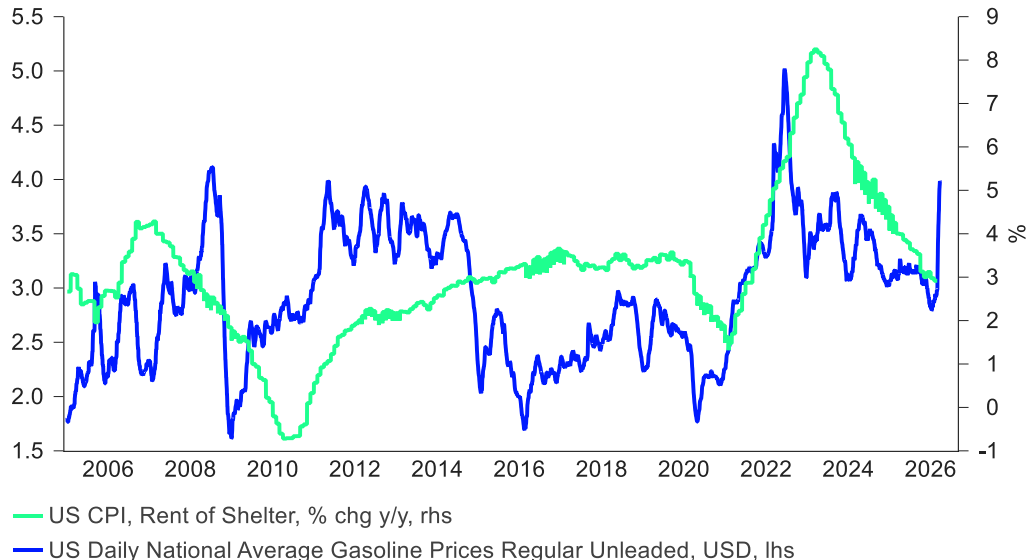
It is difficult to accurately assess the resilience of the labor market at the moment. Unemployment claims have been surprisingly low, and the unemployment rate has eased back slightly from its recent peak, but employment data has been volatile and the trend in job opening points to ongoing softness, as does the “positions not able to fill” metric from the small business NFIB survey. Wage inflation has been well behaved; in fact, average hourly earnings for production and supervisory employees rose just 3.7% y/y in January-February, a level that prevailed right before the

pandemic. Despite persistent immigration restrictions, it does not appear that the labor market is able to generate much in the way of wage inflation. This is an important consideration for the Fed as it considers the appropriate policy path ahead.

For our part, we remain concerned about the (ever growing, in our view) potential for AI-related labor displacement. This force already operates at the margin (new graduates, specific industries such as computer science, etc.) and is bound to intensify over time. Monetary policy (via easing) would certainly not preclude the phenomenon but can offer support to other industries and to consumption, potentially slowing the impact.

Given that national unleaded regular gasoline prices surged about 25% in March, headline inflation is poised to accelerate by about a full percentage point to 3.4% y/y. If our core assumption of a meaningful improvement in Hormuz Strait traffic by end April holds true, the full-year impact should settle in the neighborhood of 0.4 percentage points (3.0% CPI inflation average for the year). The risks are clearly to the upside. Even so, aside from the lack of worrisome wage inflation, it is also important to note ongoing disinflation in shelter costs. A more price sensitive consumer should also help limit second-round price effects from the energy shock.

Figure 4: Another Tug Of War In US Inflation



Source: Macrobond, State Street Investment Management, U.S. Bureau of Labor Statistics (BLS)

Where does this leave the Fed? In a difficult position and with hawkish inclinations, at least until more clarity emerges on the Iran front. We do not believe the door to rate cuts has closed, and we certainly see no reason for a hike (one won't make a difference and even a few won't remedy the cause but could simply worsen labor market dynamics). We have reduced the number of expected rate cuts this year from three to two and pushed back the timing of the first cut to September.

Canada: USMCA Review Is Key Risk

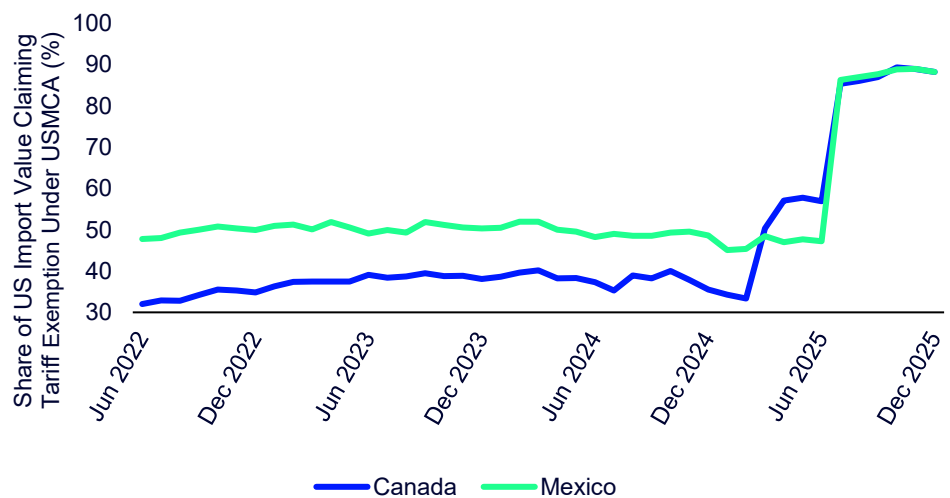
Recent global events, such as tensions between the US, Israel, and Iran, a US Supreme Court ruling on tariffs, and forthcoming USMCA review, have increased uncertainty in the economic outlook. Still, our economic growth forecasts have stayed largely steady. We now anticipate GDP growth of 1.2% for 2026, which is a slight downward revision of 0.2 percentage points from our previous December estimate, but we expect a rebound to 1.8% growth in 2027.

Growth will likely remain subdued through early 2026 because of ongoing US tariffs, continuing trade uncertainties, and a shrinking population. However, consumer spending should pick up mid-year due to new government support programs and federal fiscal initiatives. Business investment and exports are expected to stay weak until late in the year, unless there are major improvements in USMCA negotiations or overall trade conditions.

Our outlook for Canada’s economy has shifted only slightly in response to the US-Iran situation. In our base scenario, oil prices are anticipated to stabilize over coming months. Brent crude is forecast at around US\$90 per barrel in the second quarter before falling to about US\$80 by the end of 2026. Rising fuel prices are unlikely to affect consumer spending, as households may continue to reduce savings to maintain spending. Additionally, unless prices stay elevated for an extended period, Canadian’s production and exports will probably remain stable.

The Supreme Court decision has somewhat benefited exports, but Section 232 tariffs on steel, aluminum, automobiles, and other products still apply, creating ongoing uncertainty around trade policy. The upcoming review of the USMCA on July 1 presents notable risks to economic growth. Our main scenario assumes most Canadian goods will keep current protections under USMCA, though selective Section 232 tariffs will remain. However, significant uncertainty persists, as talks could break down, leading to more tariffs and higher trade risks, which would negatively impact exports, investments, and economic performance.

Figure 5: Surge In USMCA Exemptions Post Tariff Hikes



Source: State Street Investment Management, Penn Wharton Budget Model, USITC

Our 2026 inflation forecast has risen from 1.8% to 2.5%. Driven by rising energy prices related to geopolitical conflicts and past carbon pricing changes, the headline CPI inflation is expected to reach 3.1% in Q2. As oil prices fall and tariff pressures ease, inflation should return to close to 2.0% early next year.

The job market is soft, with slow employment growth expected to decline further early this year amid weak demand and persistent trade barriers. Job prospects may improve later if progress is made regarding USMCA negotiations and key geopolitical issues. As the working-age population shrinks, the unemployment rate might fall even without large job gains. We expect unemployment rate to peak at 6.9% before quickly declining.

Our view on Bank of Canada policy remains unchanged. We believe that the temporary spike in inflation from higher oil prices is unlikely to influence monetary policy decisions much in 2026. As the economy strengthens in 2027, we anticipate interest rates will return to the neutral level of 2.75% by midyear.

**UK: Increasing
Upside Risks to
Inflation**

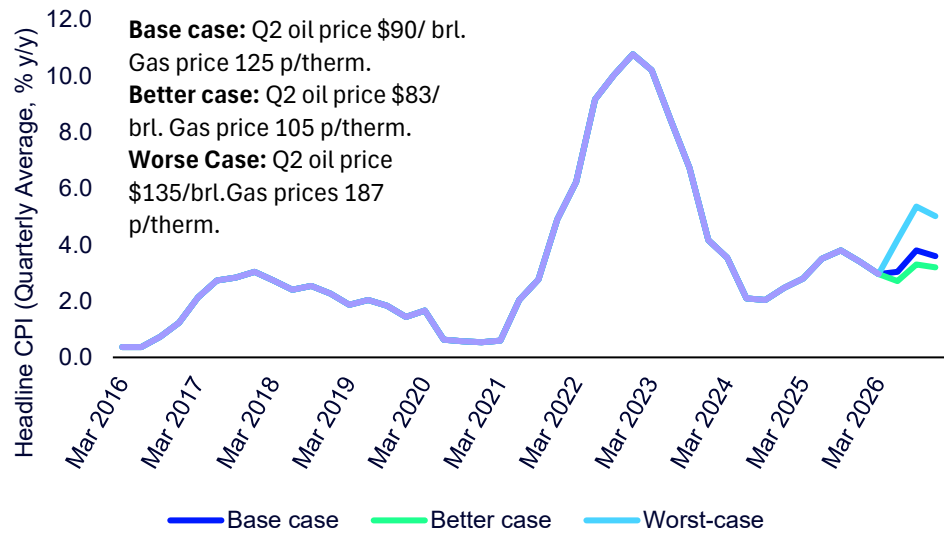
Our latest projection for GDP growth in 2026 is 0.7%, representing a 0.2 percentage point decrease from our December estimate, predominantly attributed to persistent geopolitical tensions in the Middle East. Elevated oil and gas prices are expected to exert significant upward pressure on inflation, consequently reducing consumer purchasing power. Additionally, we anticipate that the Bank of England (BoE) will maintain its current monetary policy stance throughout this year, given ongoing uncertainty surrounding inflation expectations. The future of the conflict between the US, Israel, and Iran is unpredictable in terms of both how long it will last and how severe it might become. At the time of writing, oil prices reached \$113.5 per barrel, and TTF natural gas was €54.5/MWh. Should these prices persist, headline inflation could average 4.2% in Q2. However, our baseline forecast anticipates that disruptions will lessen in the second quarter, causing oil prices to gradually decline to an average of \$85 per barrel in the latter half of the year, while gas prices increase to 125 p/therm for the July–October price cap. Under these conditions, inflation is expected to peak at 3.8% in Q3.

Although fuel prices are likely to respond swiftly to higher oil costs, the impact on domestic energy bills is expected to become apparent from July onwards due to the energy price cap. Increased oil and gas prices are also expected to raise input costs across various sectors. However, due to continued labor market weakness and declining consumer spending, these effects are anticipated to be less pronounced than those experienced in 2022.

Government support measures are also not expected to match the levels seen in 2022, as fiscal constraints and elevated public expenditure demand, particularly in defence, are poised to limit the Treasury's ability to implement substantial additional interventions without resorting to tax increases. The Chancellor has also indicated that targeted measures, rather than universal support, may help alleviate inflationary pressures arising from escalating energy costs.

Overall, our baseline forecasts indicate an average CPI inflation rate of 3.8% in Q3, with a modest decrease anticipated in Q4. On an annual basis, we expect headline CPI inflation to average 3.3% in 2026, before declining to 2.7% in 2027.

Figure 6: Impact of Higher Energy Prices on UK Inflation



Source: State Street Investment Management, ONS.

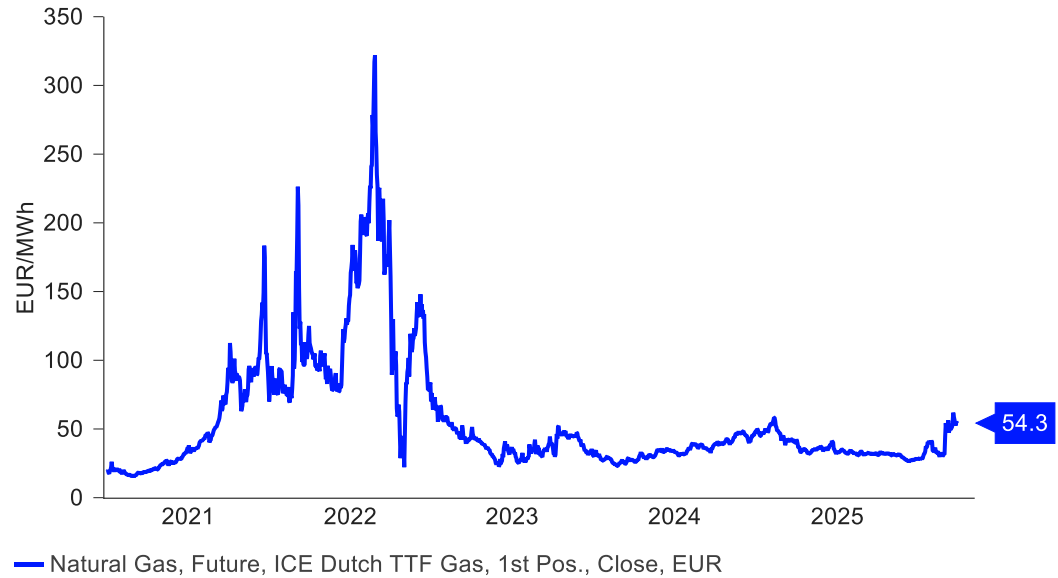
Growth in real household income has softened, reflecting subdued wage growth and rising unemployment rates. Ongoing inflation is likely to exacerbate these challenges, resulting in an estimated 0.6% reduction in real incomes by 2026. However, with inflationary pressures projected to ease in 2027, conditions should support a gradual recovery in GDP growth in subsequent years.

Current market pricing for the Bank of England remains notably elevated, reflecting expectations of three rate hikes this year, although these projections may be influenced by limited liquidity within the swaps market. Given prevailing labor market conditions, we do not find adequate justification for the BoE to deliver rate hikes. While we cannot rule out rate hikes if energy prices spike further, our base case is that the BoE will maintain stable policy rates through 2026, with potential reductions commencing in early 2027.

Eurozone: Another Vulnerability Reminder

Each of the many global shocks of the last few years have reiterated an unpleasant reality for Europe: the region is considerably more vulnerable than the US. The German debt brake deal last spring was one of the most meaningful attempts to correct for this challenge—and investors responded quite positively—yet before the new fiscal spending could truly filter through the economy, the region is now facing yet another shock from the Iran war. It is not ready for this one, either. But it is better prepared than it was when the Ukraine war broke out, having greatly diversified its energy imports since. For example, more than half of Europe’s LNG imports now come from the US, with about 10% coming from Qatar. This is a hit, but not nearly as severe as it could have been. And certainly, less severe than the Ukraine war impact.

Figure 7: European Gas Futures



Source: Macrobond, State Street Investment Management, Intercontinental Exchange (ICE)

Still, it is a frustrating set-up. The cautious European consumers are unlikely to open their purse strings during a geopolitical event, so we look for consumer spending to grow a tepid 1.3% in 2026, a bit less than last year. Fixed investment should sustain a faster pace of about 2.4% given that the benefits of increased defense spending will increasingly trickle through. We expect some disruption and subsequent lumpiness to inventory accumulation with may render quarterly GDP growth more volatile than usual, but we are reluctant to assume the worst at this stage and see two-sided risks to our 1.1% real GDP growth forecast.

Inflation will inevitably accelerate, but there are two helpful aspects to keep in mind. Unlike the US, eurozone inflation had essentially already returned to target, and the less direct passthrough from oil prices to inflation (partly due to high proportion of taxes in final price) will likely slow the transmission mechanism to some extent. Most importantly as the ECB considers options for the path of policy, wage inflation as measured by the ECB indicator of negotiated wages currently sits at a very comfortable 1.9% y/y. Unless the conflict is protracted or there is substantial damage to energy productive capacity that cannot be offset globally, it is far to early to fear an inflationary wage price dynamic of the kind that prevailed post Covid. As such, we see no reason for the ECB to rush rate hikes. Our baseline expectation remains that of an extended hold, though if the conflict extends beyond May, this could change.

Japan: Learnings From the Past Bear Fruit

Japan is one of the most exposed advanced economies to global energy disruptions, due to the Iran war and the closure of the Strait of Hormuz. Nearly 90% of Japan's crude oil imports originate from the Middle East, with Saudi Arabia and the UAE each supplying approximately 40% of total volumes. Although Japan's liquefied natural gas (LNG) imports from the region are relatively limited, around 10%, global LNG prices have surged, with spot prices for Japan reaching approximately \$18 per

million British thermal units (MMBtu). These developments raised concerns about inflationary pressures and energy security. However, Japan's historical experience with oil shocks, combined with structural reforms and strategic policy responses, has helped mitigate the economic fallout.

The foundation of this resilience lies in the lessons learned from past oil crises. The 1973 oil shock, triggered by the OPEC embargo, exposed Japan's vulnerability as it relied on imported oil for 97% of its energy needs. This resulted in inflation spiking 25% in 1974, and subsequently the first postwar economic contraction, which prompted a comprehensive policy overhaul. In the short term, the government implemented fuel rationing and launched energy conservation campaigns. Over the longer term, Japan diversified its energy mix by investing in nuclear power, LNG, and coal. By 1985, nuclear energy accounted for approximately 20% of electricity generation. Simultaneously, Japanese industries adopted energy-efficient technologies, particularly in manufacturing and transportation, which significantly reduced energy consumption and enhanced competitiveness.

These reforms continued through subsequent shocks, including the 1979 oil crisis and the 1990 Gulf War. By the early 1990s, Japan's energy intensity had declined substantially, and the economy demonstrated greater resilience to external energy shocks. Today, Japan uses approximately 50% less energy per unit of GDP than it did in the 1970s. This structural improvement has been instrumental in buffering the economy against the current disruptions in global energy markets.

In the current conflict, Japan benefits from the activation of alternative supply routes by its key energy partners. Saudi Arabia has increased utilization of its East-West Pipeline (Petrolina), which transports crude oil from eastern production hubs to the Red Sea port of Yanbu. Similarly, the UAE has relied on the Habshan–Fujairah pipeline, which bypasses Hormuz by delivering oil to the Gulf of Oman. While these pipelines cannot fully replace the disrupted maritime flows through Hormuz, they have enabled a partial continuation of oil exports to Japan. Saudi Arabia, for example, has ramped up exports from Yanbu to over 4 million barrels per day, with Japanese refiners among the recipients. These logistical adjustments have helped alleviate concerns about a full-scale supply crisis. However, this arrangement for imports from Saudi Arabia has material exposure to a potential escalation as the Bab el-Mandeb Strait—through which all Saudi Red Sea exports must pass—is now within striking range of Houthi missiles, drones, and naval threats. This is a risk case for our forecasts.

Domestically, the Japanese government has taken proactive measures to stabilize energy markets and contain inflation. Prime Minister Takaichi's administration authorized the release of 80 million barrels from strategic petroleum reserves, equivalent to 45 days of domestic consumption. This release, combined with targeted price control measures, has helped dampen the pass-through of global energy price increases to consumers. Additionally, Japan's diversified LNG supply portfolio, particularly its strong import relationship with Australia, has provided a buffer against volatility in the global gas market.

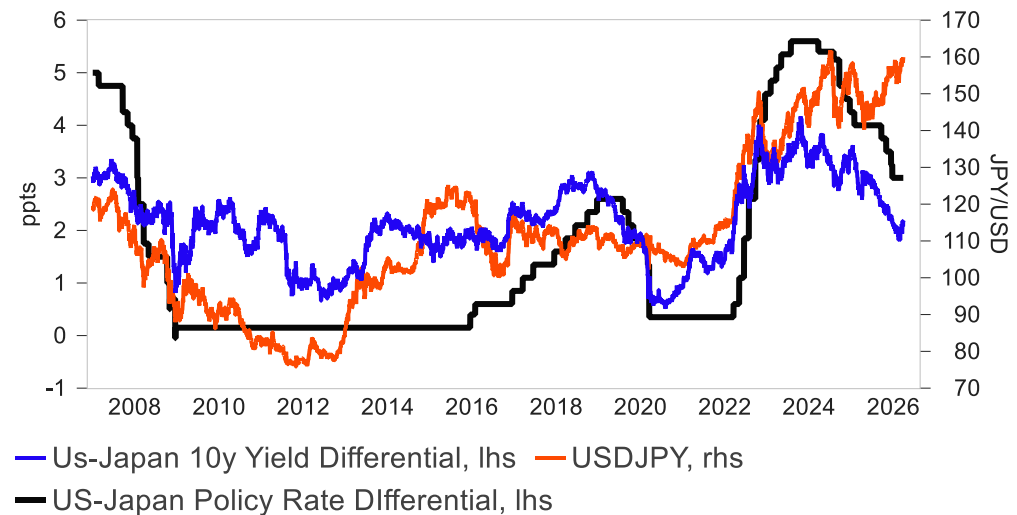
As a result of these combined efforts, inflationary pressures have remained contained. Average CPI is projected to rise to 2.0% in 2026, up from 1.8% in December 2025. In 2027, CPI is expected to increase further to 2.8%, reflecting both

lagged effects of current price increases and base effects from the ongoing disinflation in energy. While inflation remains within a manageable range, economic growth is expected to slow more significantly. Our growth model shows that avoiding an adverse price spike will lead to a nominal GDP growth of 2.6% in 2026, down from 3.9% last year. We forecast real GDP growth at 0.6% in 2026, which recovers to 1.0% in 2027. These projections represent a relatively optimistic scenario, assuming global crude oil prices average \$85 per barrel in the second half of 2026.

In this context, the BoJ is expected to remain on hold for most of the year, given the complex policy environment marked by geopolitical uncertainty and tepid domestic growth; however, should the Iran conflict de-escalate by mid-April, a rate hike at the April 28 meeting, potentially the first of two this year to bring the policy rate to 1.25%, remains a plausible scenario, especially if aligned with fiscal support from the Takaichi administration, while a prolonged conflict could see the BoJ delaying further tightening until late 2026, as it is important that the BoJ looks past rigid timings to ensure policy is normalized.

However, the key will still be how markets react; if the war prolongs with spillover effects into the bond market and the yen, then the Ministry of Finance and the BoJ may have more work to do to mitigate those impacts. As such, yields have been aggressively being repriced, but the yen still remains on a weakening bias as capital flies to safety in the US. We still see the yen trending over 150, a level that helps Japan maintain export resiliency while ensuring some positive spillovers into underlying inflation.

Figure 8: The Yen Remains Critical For Japan's Outlook



Source: Macrobond, State Street Investment Management, Bank of Japan (BOJ)

In a risk case of higher oil prices in a prolonged conflict, the secondary effects of inflation are an acute risk, especially in food as gas shortages are expected to lift fertilizer prices. Food accounts for over 26.26% of Japan's CPI weightage and influence public sentiment. It is noteworthy that higher rice prices led to higher inflation in the last two years.

In conclusion, Japan's current energy and inflation outlook is shaped by a combination of historical preparedness, strategic diversification, and timely policy interventions. While the country remains structurally exposed to Middle Eastern energy supplies, its ability to adapt through alternative logistics and domestic policy has helped mitigate the worst effects of the current crisis. Continued coordination between fiscal and monetary authorities, along with a flexible policy stance, will be essential to navigating the evolving global energy landscape and preserving economic stability.

Australia: Vulnerable, But Manageable?

Australia is once again facing a surge in inflation, driven by the ongoing Middle East conflict that has disrupted global oil flows and pushed energy prices sharply higher. Under our baseline assumption of a de-escalation by April and oil prices averaging US\$85 per barrel, we expect inflation to average 4.2% in 2026, with a peak of 4.8% likely in the next quarter. While the direct impact of higher fuel prices is expected to add around one percentage point to inflation, we see material upside risks, particularly if the conflict persists or escalates further.

Australia's experience with past oil shocks has repeatedly exposed its vulnerability to global energy disruptions. The 1973 OPEC oil embargo was the first major wake-up call, triggering fuel rationing, long queues at service stations, and a sharp rise in inflation. Although Australia was less dependent on imported oil at the time due to domestic production from the Bass Strait, the global price surge still had a significant impact on household budgets and industrial costs. The 1979 Iranian Revolution and subsequent Iran-Iraq War further tightened global supply, reinforcing the need for strategic reserves and diversified sourcing. These events led to the establishment of the International Energy Agency (IEA), of which Australia became a member, committing to hold 90 days' worth of net oil imports in reserve—a target it has consistently failed to meet since 2012.

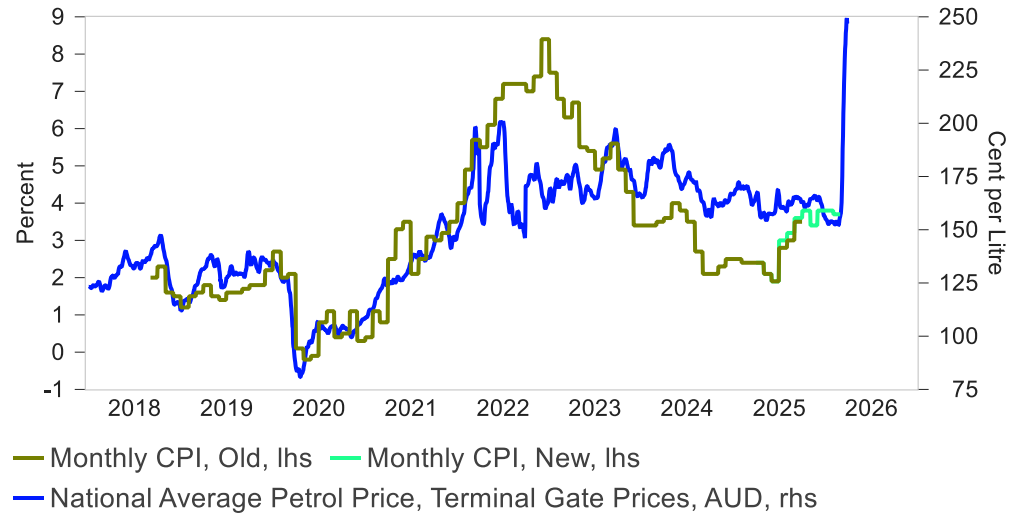
More recently, the 2022 Russia-Ukraine war reignited concerns about energy security. Although Australia was not directly reliant on Russian oil, the global supply shock pushed up prices and exposed the fragility of just-in-time fuel logistics. The government responded by participating in the IEA's coordinated stock release and purchasing 1.7 million barrels of crude for storage in the US Strategic Petroleum Reserve. However, these measures were largely symbolic, as Australia lacked sufficient domestic storage and refining capacity to meaningfully buffer against prolonged disruptions. Each of these episodes has underscored a recurring theme: while Australia may be geographically distant from conflict zones, its economic exposure to global oil markets remains acute.

With domestic production in long-term decline and refining capacity hollowed out, the country's ability to withstand the current shock depends heavily on timely policy responses, international coordination, and the resilience of its supply chains.

Although Australia now sources most of its crude oil from the Asia-Pacific region, particularly from countries such as Malaysia, Indonesia, Brunei, and Vietnam, it also imports from the Middle East, including the UAE and Kuwait, as well as from the United States and West Africa. However, Australia is not insulated from the inflationary effects of the conflict in the Middle East. Refining margins on Australia's

benchmark have surged to US\$30 per barrel—the highest in four years, driving fuel prices to the equivalent of US\$10 per gallon, nearly triple US levels, and prices at pump have already risen substantially in Australia compared to its peers. These elevated prices are expected to persist through the first half of the year, keeping inflationary pressures high.

Figure 9: Strong Upside Risks For Australia's Inflation



Source: Macrobond, State Street Investment Management, Australian Institute of Petroleum, Australian Bureau of Statistics

The Reserve Bank of Australia (RBA) has responded with a proactive tightening cycle as we warned. Having already delivered a second hike in March, we expect at least two more rate increases this year, likely in May, and then H2. The RBA appears determined to avoid a repeat of the COVID-era supply shock, where it was criticized for being behind the curve. With inflation risks skewed to the upside, the central bank is likely prepared to slow the economy further if needed to anchor expectations. We maintain our forecast for the peak unemployment rate of 4.8% by Q4 as growth slows under tighter financial conditions. We expect GDP growth to average 1.5% in 2026 and 2.0% in 2027, though the trajectory toward these outcomes may involve periods of materially weaker activity, with the possibility of sequential contractions, particularly if external shocks weigh more heavily on domestic demand.

The government, for its part, has shifted into crisis-management mode. In response to emerging fuel shortages, it has authorized the release of 762 million liters of petrol and diesel from mandated reserves and temporarily relaxed fuel quality standards to allow higher-sulfur imports. A national fuel coordinator has been appointed to manage distribution and logistics, and efforts are underway to replace canceled shipments with alternative supplies from the US, Southeast Asia, and other partners. These measures are designed to stabilize supply and prevent a full-blown fuel crisis.

However, the risk scenario remains concerning. If the conflict drags on or intensifies, fuel shortages could worsen, leading to demand destruction. This would not only weigh on household consumption but also disrupt freight, agriculture, and industrial activity, sectors heavily reliant on diesel. Australia's limited refining capacity and low onshore reserves amplify this vulnerability. Crude oil output is now just a tenth of its

2000 level, and stockpiles are trending lower, with some estimates suggesting effective reserves were close to 30 days when accounting for oil still in transit.

The government's ability to avert a deeper crisis hinges on its capacity to maintain supply continuity. While recent emergency measures have helped ease immediate pressures, they are not a substitute for structural resilience. The potential for second-order effects—such as broader cost pass-throughs, wage pressures, and supply chain disruptions—is higher in Australia than in many peer economies due to its capacity constraints and limited buffers.

On the external front, Australia's position as a major LNG exporter offers some cushion, but we do not expect a material boost to growth from exports. Capacity constraints limit the ability to ramp up volumes, and any gains are likely to come from price effects rather than expanded output. As such, the net contribution to GDP is expected to be modest.

In sum, while the government and RBA have acted swiftly to contain the fallout, Australia remains exposed to a prolonged energy shock. The risk of demand destruction looms large if fuel shortages persist, and the economy could face a sharper slowdown than currently projected. Continued policy agility, diversified sourcing, and transparent communication will be critical to navigating the months ahead. The worst may yet be avoidable, but only if the current crisis response proves both timely and effective.

Week in Review

Our summary of the key global data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, March 23					
JN	Natl CPI (Feb, y/y)	1.5%	1.3%	1.5%	New upward pressures from energy.
Tuesday, March 24					
UK	Services PMI (Mar prelim)	52.9	51.2	53.9	Expansion continues.
UK	Manufacturing PMI (Mar, prelim)	50	51.4	51.7	Better than expected.
GE	Manufacturing PMI (Mar, prelim)	49.5	51.7	50.9	Welcome.
FR	Manufacturing PMI (Mar, prelim)	49.5	50.2	50.1	Tepid.
JN	Manufacturing PMI (Mar, prelim)	n/a	51.4	53	Modest.
Wednesday, March 25					
UK	CPI (Feb, y/y)	3.0%	3.0%	3.0%	No surprise.
GE	IFO Business Climate (Mar)	86.3	86.4	88.4 (↓)	Likely to deteriorate.
JN	Leading Index Cl (Jan, final)	n/a	112.1	112.4	At risk from Iran conflict.
AU	CPI (Feb, y/y)	3.8%	3.7%	3.8%	RBA still hawkish.
Thursday, March 26					
US	Initial Jobless Claims (Mar 21, thous)	210	210	205	Low.
US	Continuing Claims (Mar 14, thous)	1848	1819	1857	Surprisingly low.
GE	GfK Consumer Confidence (Apr)	-27.3	-28	-24.7	First hit from Iran conflict.
IT	Consumer Confidence Index (Mar)	95.6	92.6	97.4	First hit from Iran conflict.
Friday, March 27					
US	U. of Mich. Sentiment (Mar, final)	54	53.3	55.5	
UK	GfK Consumer Confidence (Mar)	-24	-21	-19	Weak.
UK	Retail Sales Inc Auto Fuel (Feb, m/m)	-0.7%	-0.4%	2.0% (↑)	Likely to soften.

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*This figure is presented as of March 31, 2025 and includes ETF AUM of \$1,553.58 billion USD of which approximately \$106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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