

## Oil-driven inflation surfaces amid highly fluid Middle East conflicts



- Despite a temporary ceasefire in the Middle East, geopolitical uncertainty persists.
- The US labour market rebounded in March.
- The Fed held rates steady, while surging prices reignited headline inflation pressures.

### Geopolitical uncertainty persists despite a temporary ceasefire

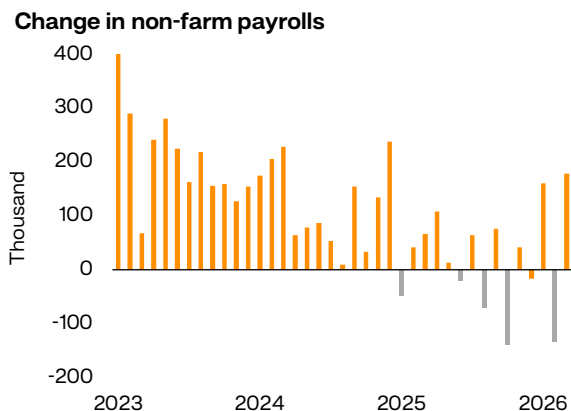
**A temporary ceasefire was agreed, but instability persists.** Recent developments have resulted in a two-week truce in the Middle East, easing immediate fears of further escalation and helping to stabilise oil prices after weeks of acute volatility. For the US, this pause has provided short-term relief for energy markets and financial sentiment, while the underlying risks remain, as the Strait of Hormuz has yet to fully reopen and remains highly vulnerable to renewed disruptions. While diplomatic negotiations are underway, the prospects of securing a mutually agreed solution remains highly uncertain.

Should the ceasefire hold, it would likely alleviate inflationary pressures by lowering fuel and transport costs, thereby providing relief to both households and businesses. However, the fragility of the current geopolitical landscape means the Federal Reserve (Fed) should weigh the risks of renewed supply shocks that could reignite inflation and derail economic expansion. The US economy therefore faces a delicate balance between cautious optimism from the ceasefire and persistent exposure to energy shocks.

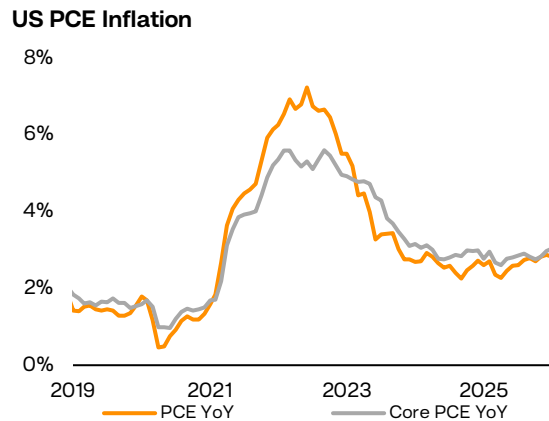
### The US jobs market surprisingly rebounded in March

**March's labour market report recorded a notable rebound in job creation,** with nonfarm payrolls rising by 178,000 in March. However, this headline strength was tempered by net downward revisions in previous months. February's figures were revised downward to reflect a steeper loss of 133,000 jobs, compared to an original estimate of 92,000. Meanwhile, January's job gains were revised up to 160,000 from 126,000. Together, these revisions resulted in a net subtraction of 7,000 jobs from the last report. During March, job gains were concentrated in healthcare, construction,

and manufacturing, while federal government employment continued to contract. Meanwhile, the unemployment rate fell by 0.1 percentage points (ppts) to 4.3%. Though, the reduction can be attributed to a 396,000 decline in the labour force rather than a surge in employment. Wage growth cooled slightly in March, with average hourly earnings rising by 3.5% year-on-year (YoY) and 0.2% month-on-month (MoM) in March, compared to 3.8% and 0.4% in February, respectively. Overall, the report pointed to firmer labour market dynamics, following months of weaknesses. Looking ahead, the US labour market could cool as inflation pressures weigh on real wages and labour force participation, though steady hiring could cushion these headwinds.



Source: CEIC



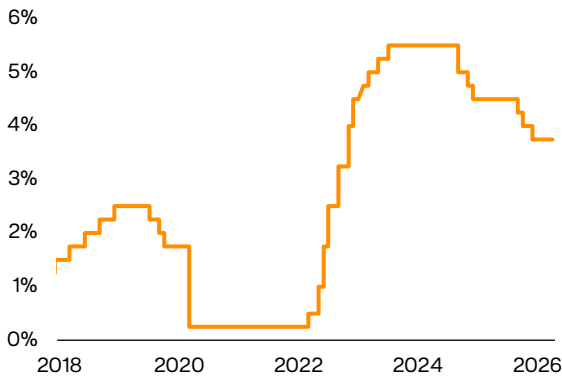
Source: Bloomberg, data as of 10/04/2026

**March's CPI report ticked higher amid soaring energy prices.** CPI inflation accelerated to 0.9% MoM and 3.3% YoY in March. The uptick was fueled by energy shocks, with gasoline and fuel oil prices up by 21.2% and 30.7% MoM, respectively. That said, core CPI inflation remained stable at 0.2% MoM and 2.6% YoY, indicating that domestic price pressures remain anchored. Meanwhile, the February PCE inflation index advanced 0.4% MoM and 2.8% YoY, with core PCE at 0.4% MoM and 3.0% YoY. While the PCE readings were little changed from January, elevated core PCE inflation highlighted the persistence of sticky service-sector inflation. Together, these indicators suggest that inflationary pressures remain uneven but persistent. Such an uncertain inflation outlook would present a highly complex environment for future monetary policy decisions.

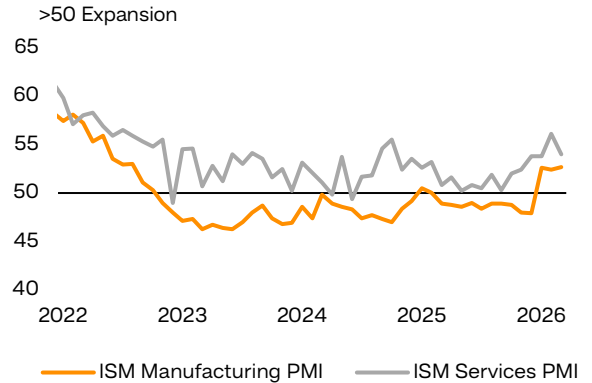
### The Fed held rates steady in March amid uncertainty surrounding outlook

**The Fed voted 11:1 to keep interest rates unchanged at 3.50–3.75% in March, marking the second consecutive pause this year.** Fed Governor Stephen Miran continued to be the dissenting voice, advocating for a 25-basis-point cut. The post-meeting statement acknowledged a cooling labour market and emphasised the uncertain economic implications of Middle Eastern developments. Overall, the decision reflected a cautious stance to stay on hold.

**March's dot plot revealed a wide range of views among FOMC members.** Despite the cautious tone of the FOMC statement, the underlying economic projections delivered a mixed message. The median forecast suggested just one rate cut per year through 2027, accompanied by significant divergence regarding the interest rate trajectory. Long-term neutral rate projections were also revised upward to 3.125%. Additionally, GDP growth and inflation forecasts were revised upward, with optimism tied to AI-driven productivity gains and higher energy prices posing near-term inflation risks. Overall, the Fed's upcoming rate path remains highly uncertain, as policymakers wrestle with the dual threats of heightened geopolitical tensions and energy-driven inflation.

**US Fed Funds Rate (Upper)**


Source: Bloomberg

**ISM Manufacturing and Services PMI**


Source: Bloomberg, data as of 13/04/2026

### Business confidence was uneven in March

**Business surveys in March indicated an increasingly uneven economic landscape.** The Institute of Supply Management (ISM) manufacturing PMI edged higher to 52.7 in March, marking a third consecutive month of growth, supported by stronger new orders and production. The ISM services PMI moderated to 54.0 in March, remaining firmly in expansionary territory albeit retreating from February's 56.1, with robust new orders offsetting contracting employment. Meanwhile, the S&P Global manufacturing PMI rose to 52.3 in March, reflecting solid factory activity amid resilient domestic demand. In contrast, the S&P Global services PMI slipped to 49.8 in March, its first contraction in over three years, as new business growth weakened and sentiment deteriorated under the weight of rising energy costs. Collectively, these surveys suggest that US manufacturing momentum is holding up, but the services sector is showing early signs of strain, highlighting uneven pressures that could shape the trajectory of Q2 growth.

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