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Special: Domino effects of the Iran war

Analysts: Constantin Lürer // Thomas Wybierek

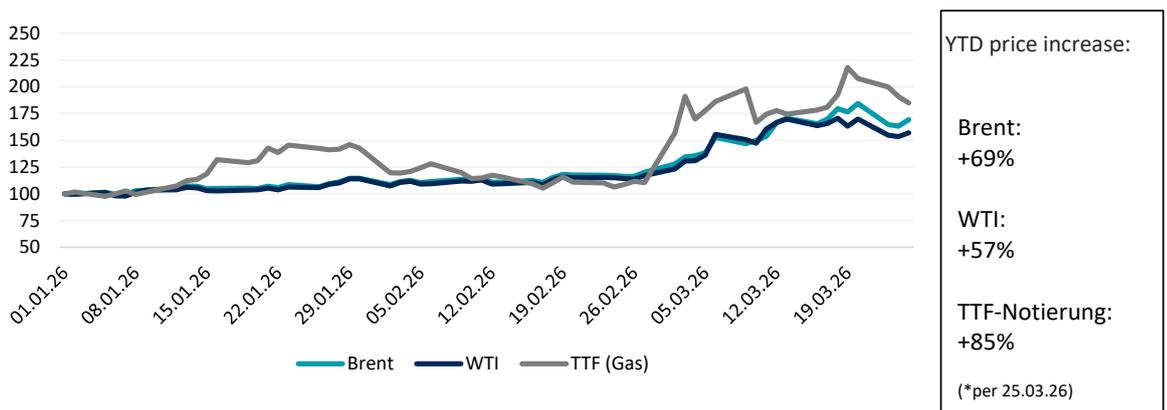
Domino 1: Worst-case scenario has materialized – Iran war leads to blockade of the Strait of Hormuz

The economic expectations across the global economy remain in flux. What just a month ago was widely regarded as a worst-case scenario actually came to pass in early March: Iran responded to Israeli and American military strikes on key nodes of its nuclear and security infrastructure, not merely with attacks on neighbouring states along the Persian Gulf, but by effectively blockading the Strait of Hormuz. In previous conflicts, this scenario had always failed to materialize. However, unlike in the past, in 2026 the regime has its back to the wall and appears determined to go to the extreme. Out of initial caution, less than a handful of vessels transited the narrow strait – only a few kilometres wide – separating the Persian Gulf from the Gulf of Oman on the very first day of the strikes. However, Iranian attacks and the warnings that followed then brought maritime traffic to a standstill altogether. Since then, only a select few ships have been permitted to pass through this critical chokepoint.

Domino 2: World's petrol station currently closed

Under normal circumstances, between 20 and 25 percent of global supplies of oil, petroleum products and liquefied natural gas pass through the strait each day. The Gulf region is not called the "world's petrol station" without reason. In 2025, Saudi Arabia, Kuwait, the UAE, Iraq and Iran together accounted for more than 80 percent of OPEC's oil output – and for more than half of production within the broader OPEC+ grouping. After nearly a month of escalation in the Persian Gulf, and with the energy artery effectively severed, the International Energy Agency (IEA) painted a sombre picture. Compared with past crises, it warned, the situation is now on course to combine two oil shocks and a gas collapse into one. During the two oil crises of 1973 and 1979–80, the global economy had to absorb shortfalls of around five million barrels per day in each case. The IEA now estimates current shortfalls at eleven million barrels per day. But the spread of the war to the Gulf's neighbouring states has affected more than just oil infrastructure. The blockade of shipping has effectively removed Qatar – the world's second-largest LNG supplier – from the market. More damaging still, however, have been the drone strikes on its production facilities and the extension of the war to the South Pars field, the largest known gas reservoir in the world, which Iran also uses on a shared basis. Following extensive damage to its facilities, QatarEnergy has already invoked the force majeure clause in its supply contracts, citing circumstances beyond its control as grounds for failing to deliver contracted volumes. The company has also indicated that restoring pre-war output levels could take between three and five years.

Chart: Oil and gas prices (indexed to 100 as of 1 Jan 2026)



Sources: Macrobond, NORD/LB Macro Research

Domino 3: Basic chemicals growing scarce and expensive

Since the start of the year, crude oil prices have risen by between 60 percent (WTI) and 70 percent (Brent), while European gas prices (TTF) are trading at around 85 percent above their January levels. Indeed, at their peak, prices temporarily more than doubled. Fuel price rises came as no surprise, given that the major refineries in the Gulf and across Asia have been among the primary victims of the waterway blockade. Less widely known to the general public at first, however, is that the Iran war has also disrupted supply chains elsewhere. The petrochemical industry across the Middle East produces a range of chemicals that, measured by the volumes tied to oil and gas output, carry comparable weight for the global economy. For example, Qatar is not only the world's second-largest LNG supplier but also produces a third of the world's helium needs. That, in turn, plays a critical role in the production lines of the tech industry in the spheres of lithography, high-precision manufacturing and cooling systems. Prolonged supply disruptions would hit semiconductor production particularly hard. The consequences of supply-chain breaks at this sensitive juncture are well understood from the post-pandemic period. There are no substitutes, and chipmakers' existing stocks will not last for extended periods – nor should storage conditions be underestimated, since helium atoms are the second-smallest in existence, making containment a persistent challenge. Global nitrogen production is also being disrupted by output shortfalls and the blockade of supplies from Persian Gulf states. Urea and ammonia are key building blocks of fertilisers. The effects of reduced availability combined with higher prices will, however, only become visible with a time lag. The agricultural season has just begun. If less fertiliser is used, the question as to what harvests will look like in autumn answers itself. While the impact may be somewhat less acute in Europe, other regions of the world could ultimately even face the threat of famine. The list of affected commodities and inputs does not end there.

Impacts on US monetary policy

At the very outset of the conflict, it became apparent that the classic safe-haven assets – namely government bonds issued by the United States and eurozone countries – didn't seem to be the first port of call for investors. The initial beneficiaries were above all the gold price and the US dollar. The greenback appreciated against a broad basket of currencies. The relevant DXY index, which had slid steadily after Trump's "Liberation Day" last April and touched a local low of 96 points in mid-February, surged towards the 100-points mark following the strikes on targets across the Middle East. The global reserve currency also firmed against the euro, with the 1.13 dollars per euro level already in its sights. The market was, in short, in search of liquidity – and found it in the oil-backed US dollar. Given America's substantial domestic oil reserves, it is likely to weather the Hormuz blockade better than countries more dependent on imports. Even so, American consumers are already feeling the conflict in their wallets, initially most acutely at the petrol pump. As in many other countries, inflation expectations have also risen in the land of unlimited opportunity. In its mid-March projections, the Federal Reserve already pencilled in a (slightly) higher inflation rate – with corresponding implications for the possible path of monetary policy. In principle, however, interest rate cuts should remain on the table in the United States this year, even in the event of a prolonged blockade. A temporary uptick in prices is therefore to be expected, but not to a degree that should fundamentally alter the Fed's overall strategy. West Texas Intermediate may serve as a natural hedge, shielding the United States from runaway inflation. Kevin Warsh is likely minded to cut interest rates – the big question is when. Anything that cannot be achieved in the meantime due to price pressures could be made up for by the fourth quarter at the latest. For now, everything hinges on a swift and secure reopening of the Strait of Hormuz and the restoration of supply chains.

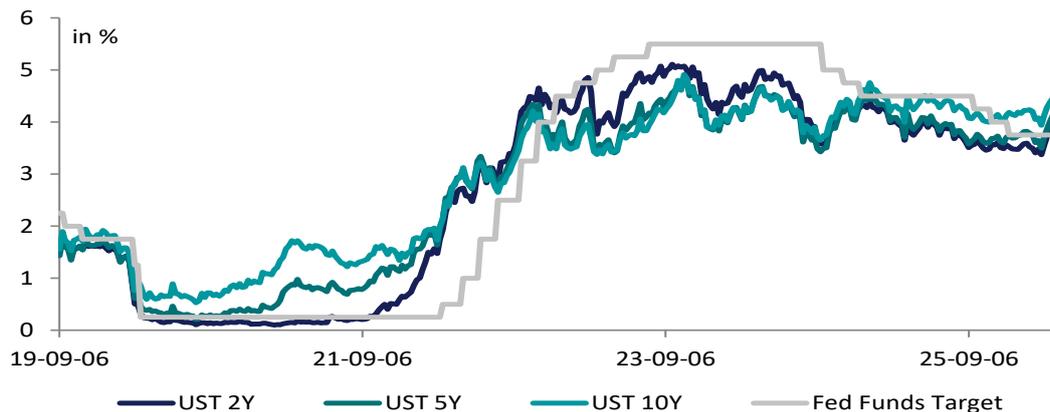
USA: The government shutdown has clearly weighed on growth

Analysts: Tobias Basse // Constantin Lüer

The government shutdown has clearly weighed on growth

The initial data released on American economic growth for Q4/2025 have been revised down sharply – and by more than initially expected. Official U.S. statisticians now report that real economic activity expanded by a meagre 0.7 percent year on year as opposed to an earlier estimate of 1.4 percent. The drag from the government shutdown is unmistakable. As the new year gets under way, some degree of catch-up growth seems likely. That said, the severe cold snap that gripped much of the country in the opening weeks of 2026 has at any rate acted as a disruptive factor. Several different special effects are thus affecting the North American economy at the same time. The conflict in Iran, meanwhile, is adding a further layer of uncertainty. Even so, no material adjustments to our current GDP forecast for the United States appear warranted at this stage.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Inflation is set to pick up

We continue to expect the military conflict to be relatively short-lived. With congressional elections approaching, delivering good news from the Persian Gulf will amount to a political imperative for the White House. Starting from a reading of 2.4 percent in February as month under review, the year-on-year rate of America's consumer price index looks set to move towards the current upper bound of the Fed funds target rate over the next two months. Energy prices can be expected to account for much of this movement. Even so, the real key rate would still fall short of turning sustainably negative. Once the military conflict in the Persian Gulf draws to a close, price pressures in America ought to ease again fairly quickly. The Federal Reserve's own projections, meanwhile, show no signs of serious concern as to a growth drag from the conflict. This suggests that the FOMC is in no rush to deliver rapid "emergency" rate cuts – though developments in the American labour market will naturally need to be very closely monitored in this context. The marked decline in payrolls observed of late is largely attributable to distortions caused by a strike in the healthcare sector. The economic relevance of this development should therefore not be overstated for the time being. The headline U3 unemployment rate rose merely marginally in February, to 4.4 percent. The broader U6 measure actually edged down at the latest reading, bringing it to just below the almost totemic 8.0 percent threshold. Labour market and inflation data naturally remain of paramount importance for the future course of American monetary policy – as they must, given the objectives pursued by the Fed.

When can the Fed act?

A remarkably complex set of political considerations, the precise path of inflation, and the Iran conflict are all making life difficult for the monetary policymakers in Washington – and, by extension, for anyone attempting to forecast near-term American interest rates. If price pressures do indeed subside in the second half of 2026, markets will at least have a clear sense of where new Fed chief Kevin Warsh is likely trying to take policy. Indeed, the "job Interview" with Rick Rieder for the Fed chair likely firmly embedded a 3.0-percent Fed funds target rate as a minimum objective in the back of Donald Trump's mind. That, at minimum, is the degree of monetary easing Kevin Warsh will in all likelihood be expected to deliver by the end of 2026. The inflation backdrop should by then give Warsh the room he needs to act, with the real policy rate in the land of unlimited opportunity moving back into clearly positive territory in the second half of the year. Paradoxically, Rieder's monetary convictions would thus have left a remarkably deep imprint on the future conduct of policy by his erstwhile rival, Warsh!

Fundamental forecasts, USA

	2025	2026	2027
GDP	2,2	2,2	2,4
Private consumption	2,6	2,2	2,3
Govt. consumption	1,1	1,0	1,1
Fixed investment	2,0	2,7	3,1
Exports	1,6	2,0	2,1
Imports	2,7	-0,9	2,0
Inflation	2,7	2,8	2,4
Unemployment rate ¹	4,3	4,4	4,3
Budget balance ²	-5,4	-6,2	-6,4
Current acct. balance ²	-3,8	-3,5	-3,0

Change vs previous year as percentage; ¹ as percentage of the labour force; ² as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, USA

	II/25	III/25	IV/25	I/26	II/26
GDP qoq ann.	3,8	4,4	0,7	1,4	2,6
GDP yoy	2,1	2,3	2,0	2,6	2,3
Inflation yoy	2,4	2,9	2,7	2,6	3,4

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	26.03.	3M	6M	12M
Fed funds target rate	3,75	3,75	3,25	3,00
3M rate	3,70	3,35	3,10	2,95
10Y Treasuries	4,41	3,90	3,80	3,80
Spread 10Y Bund	134	80	70	60
EUR in USD	1,15	1,15	1,13	1,13

Sources: Bloomberg, NORD/LB Macro Research

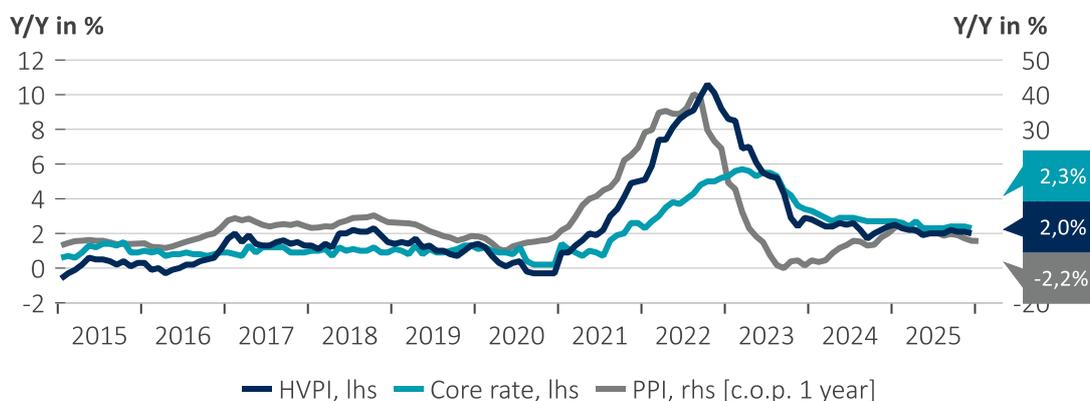
Euroland: Slackening momentum of late

Analyst: Christian Reuter

Weak start to the year – Iran war threatens the upswing

The eurozone's industrial output fell markedly in January, declining by 1.5 percent month on month for the second consecutive month and slipping below its level of a year earlier (–1.5 percent) for the first time in 13 months. Although small Ireland once again made a disproportionate contribution, the decline was broadly based, extending across Germany, Spain and Italy. Accordingly, these hard indicators point to a rather weak start to the current year. The outbreak of the Iran war has since dealt a sharp blow to sentiment as well. The purchasing managers' indices for the eurozone in aggregate signal a slowdown, though at 50.5 points they remain just above the expansion threshold. Unusually, it was service sector managers who struck a more pessimistic note than their counterparts in industry. In light of the current pressures stemming from the conflict in the Middle East, this warrants caution: the services sector, which has hitherto been the principal engine of domestically driven growth, is now showing signs of weakness. On the other hand, manufacturing in particular stands to be a beneficiary of the crisis, gaining from state procurement of defence equipment and other spending tied to the geopolitical threat environment, as well as from Germany's special funds for infrastructure and climate neutrality. This could well account for the relative optimism in that sector and points to a degree of underlying resilience.

Chart: Inflation still within a manageable range



Sources: Macrobond, Eurostat, NORD/LB Macro Research

Rising inflation expectations as risks tilt decisively higher

The slight increase in inflation in February was driven primarily by services and the core rate, explicable by special factors, while energy prices still exerted a dampening influence. That, however, is likely to have been the last month in which the "old" factors played a dominant role. How the emerging energy price shock – and the upward trend in prices for key commodities and intermediate goods that also depend on shipping through the Strait of Hormuz – will ultimately play out remains deeply uncertain. The longer the disruption persists and prices remain elevated or continue to rise, the greater the likelihood that this price shock takes on a character that is more than merely transitory. So far, it is only the near-term inflation expectations that have risen measurably; the medium-term expectations that matter most for forward-looking monetary policy remain anchored.

ECB holds back – the Iran war reshapes the landscape fundamentally – tone hardens in the aftermath

The Iran war has markedly reshaped the macroeconomic landscape for monetary policy, bringing with it upside risks to inflation and downside risks to growth. This shift is also reflected in the ECB's revised

projections for economic developments in the euro area. In the baseline scenario, the central bankers expect a moderate softening of economic activity. The forecast for real economic growth in 2026 has been revised down to 0.9 percent, followed by 1.3 percent for 2027 and 1.4 percent for 2028. The central bank now expects headline inflation to average 2.6 percent in 2026, 2.0 percent in 2027 and 2.1 percent in 2028. The statement signals that the ECB Governing Council assigns greater weight to inflation risks than to risks to growth. Whether the central bankers can look through the direct price shock in energy and basic materials – or must instead lean against it – will hinge on expected second-round effects on core inflation, food prices, and, above all, inflation expectations. The ECB has come to the conclusion that the uncertainty over the path ahead remains too high for the time being, but left its key interest rates unchanged at its meeting on 19th March. The tone has hardened since, however, with the introduction of the word "vigilant" – deployed most recently by President Lagarde. Looming in the background are the ECB's memories of its policy misstep at the outset of the last inflation episode in 2022, even if the macroeconomic starting point today is an altogether different one. At the time, the Governing Council held for too long to the assumption that inflation risks were transitory, and was too slow in responding. The ECB has since overhauled its strategy in light of that experience. The risks of stagflation present the ECB with what is only superficially a dilemma – in our view, the central bankers' priorities are clear: the longer the war drags on, the greater the likelihood of rate hikes, as this time around the central bankers are determined to choke off second-round effects before they take hold. The individual members of the Governing Council appear to be broadly united on this assessment for the time being. The financial markets, which have for some time been pricing in one to two rate hikes for 2026, are not, as we see it, wide of the mark.

Fundamental forecasts, Euroland

	2025	2026	2027
GDP	1,5	1,0	1,4
Private consumption	1,5	1,1	1,3
Govt. consumption	1,6	2,2	1,5
Fixed investment	3,1	1,8	3,5
Net exports ¹	-0,6	-0,5	-0,3
Inflation	2,1	2,4	2,0
Unemployment rate ²	6,3	6,1	6,0
Budget balance ³	-3,2	-3,3	-3,4
Current account balance ³	1,8	1,7	1,5

Change vs previous year as percentage, ¹ as contribution to GDP growth; ² as percentage of the labour force; ³ as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Euroland

	II/25	III/25	IV/25	I/26	II/26
GDP sa qoq	0,1	0,3	0,2	0,2	0,2
GDP sa yoy	1,6	1,4	1,2	0,9	0,9
Inflation yoy	2,0	2,1	2,1	2,1	2,6

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	26.03.	3M	6M	12M
Repo rate ECB	2,00	2,25	2,25	2,50
3M rate	2,14	2,40	2,40	2,60
10Y Bund	3,07	3,10	3,10	3,20

Sources: Bloomberg, NORD/LB Macro Research

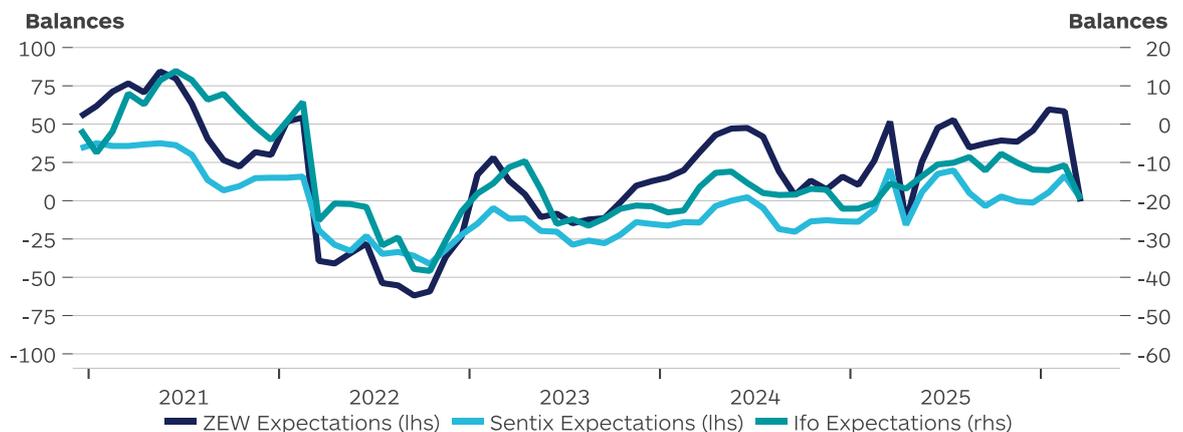
Germany: Slump in sentiment

Analyst: Valentin Jansen

Leading indicators: Iran war dominates the economic outlook

Germany's monthly sentiment indicators lost significant momentum in March. The Iran war and the sharp surge in market volatility have, for now, reversed the cautious optimism that had built up since the start of the year. Particular attention has fallen on the timeline along which the military escalation will play out and safe navigation of the Strait of Hormuz will be restored. Against this backdrop, the Ifo Business Climate Index has fallen to 86.4 points, its lowest reading since February 2025. While the current business situation held broadly steady, there was a sharp deterioration in the expectations for the months ahead. The financial market experts surveyed by the ZEW institute responded in much the same way, with their economic expectations plunging to a historic low of -0.5 balance points. A sentiment deterioration of this magnitude in the ZEW survey has only been recorded during periods of acute crisis in recent decades. Meanwhile, the expectations components of both the Sentix survey and the purchasing managers' indices pointed to a broadly based loss of confidence spanning multiple sectors. The risks posed by the Iran conflict, rising energy prices and uncertainty over the duration of hostilities are the central drivers behind the sharp reassessment now underway in the economic outlook. The picture that emerges for March is thus a consistent one. The leading indicators paint a uniform picture of an environment in which the news flow and assessments of how long the escalation will last are the dominant forces shaping concerns about the outlook.

Chart: Expectations prove acutely sensitive to the Iran war



Sources: Ifo, Sentix, ZEW, Macrobond, NORD/LB Macro Research

Warning signal, but no stop sign as yet

What stands out in the March array of monthly sentiment indicators is the divergence between expectations and assessments of the current situation. The latter, as measured by the Ifo survey, came in unchanged from the previous month, while the financial market experts polled by ZEW were actually somewhat less pessimistic than in February – despite the energy price shock. In our view, too, it would be premature at this juncture to conclude that Germany's underlying economic trend has been broken. On the one hand, initial effects of the shift in fiscal policy are already becoming visible in the aggregate economic data, a dynamic that will likely intensify as spending ramps up over the course of the year. On the other hand, the situation in the Persian Gulf remains highly fluid. Some de-escalatory efforts recently emanating from Washington will have largely fallen outside the Ifo survey window – signals that had at times prompted a marked stabilization in the markets. The picture could therefore brighten again quite quickly, should hopes of progress in the Iran conflict and the restoration of safe passage through the Strait of Hormuz continue to solidify.

Order intake: Fiscal policy supports outlook despite slump in January

After the unusually strong run in German industrial order intake over recent months – driven heavily by large and special orders – the momentum gave way at the start of the year to the setback that had been a matter of when, not if. New orders fell 11.1 percent year on year in January, recording their first decline since August. Excluding large orders, the decline amounted to just 0.4 percent. Over the less volatile three-month period from November 2025 to January 2026, total order intake remained 7.4 percent above the preceding three months, or 1.5 percent higher excluding large orders. This increase suggests that the underlying trend continues to point upwards despite the recent setback, and that industry has entered the new year with a reasonable cushion of orders in hand.

Taken as a whole, the January setback comes as no great surprise. The exceptionally high order intake recorded previously was driven largely by bulk orders in the manufacture of other transport equipment segment – a pace that was never likely to be sustained indefinitely. At the same time, domestic orders in particular suggest that the first impulses from the federal government's shift in fiscal stance are already beginning to show up in real economy data. Increased defence spending is likely to have contributed to this, with its effects spreading broadly across a wide range of industries.

With the further ramp-up of the funds made available, there is much to suggest that industrial production in Germany will continue to receive support from this side in the coming quarters. Since the substantial order surplus accumulated over recent months can only be worked through gradually, the outlook for industrial activity this year has brightened at least on this count – and may indeed prove more constructive than the current proliferation of scenarios surrounding the situation in the Persian Gulf would suggest.

Fundamental forecasts, Germany

	2025	2026	2027
GDP	0,2	0,9	1,7
Private consumption	1,6	1,1	1,4
Govt. consumption	1,3	3,2	2,6
Fixed investment	-0,2	1,9	5,1
Exports	-0,4	0,0	2,2
Imports	3,6	2,8	3,9
Net exports ¹	-1,5	-1,1	-0,6
Inflation ²	2,3	2,5	2,1
Unemployment rate ³	6,3	6,3	6,1
Budget balance ⁴	-2,7	-3,5	-3,7
Current account balance ⁴	4,6	4,1	3,4

Change vs previous year as percentage, ¹as contribution to GDP growth; ²HICP; ³as percentage of the civil labour force (Federal Employment Office definition); ⁴as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Germany

	II/25	III/25	IV/25	I/26	II/26
GDP sa qoq	-0,2	0,0	0,3	0,1	0,1
GDP nsa qoq	0,0	0,3	0,6	0,2	0,5
Inflation yoy	2,1	2,1	2,3	2,3	2,7

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: SNB under no immediate pressure

Analyst: Christian Reuter

Vulnerability to energy price shocks relatively contained

The Swiss economy is entering the current crisis from a position of relative strength. Growth in the fourth quarter of 2025 proved unexpectedly robust, underpinned by domestic drivers – low inflation, rising real wages and supportive interest rates. On the external front, conditions were not without their difficulties, but held up better than feared. Sentiment indicators at the most recent reading – that is, before the outbreak of hostilities – had continued to improve. The energy price shock now in prospect will be cushioned, in part, through the franc's appreciation in its role as a safe-haven currency. Moreover, Swiss consumer prices are both less sensitive to fossil fuel costs and more heavily influenced by import prices – franc strength matters here – than is the case in other advanced economies. The inflationary impulse in Switzerland can therefore be expected to come in more modestly, widening the gap in price dynamics between Switzerland and its trading partners. The real appreciation of the franc will, in turn, be smaller than the nominal figure suggests. As a result, the competitive position of Swiss exporters looks set to improve rather than deteriorate, leaving Switzerland's monetary policymakers under less pressure to act in support of the broader economy. That said, the global slowdown now widely anticipated is unlikely to pass the Alpine republic by entirely without leaving its mark. Much will depend on how the conflict unfolds and on the shape of any eventual peace settlement. For a small, highly open economy, it is not only the terms of trade that matter but also the volume of demand. Uncertainty risks spreading to consumers as well and weighing on domestic demand. A dramatic collapse in economic output is not at this stage anticipated by anyone.

SNB pushes back against franc appreciation and holds key rates steady

At the very outset of the Iran war, the SNB declared its intention to resist any excessively rapid or pronounced appreciation of the franc, signalling its readiness to intervene in foreign exchange markets accordingly. For the first time in two years, it revised its conditional inflation forecast upward, albeit only in the near term and without coming anywhere close to threatening its price stability objective. In the short run, then, there is no inflationary pressure compelling the central bankers to act – if anything, quite the opposite: the risk of deflation, which might have necessitated a return to negative key rates, has receded. Over the medium term the picture could shift once again. The central bankers expect that franc strength and base effects in energy prices will push inflation back down from 2027 onwards, bringing the rate closer to zero again. Overall, Bern still seems concerned about the downside risks of an overly strong franc and a drift towards deflation. Markets have followed the global shift in monetary policy pricing. Whether that judgment holds for Switzerland remains to be seen.

Fundamental forecasts*, Switzerland

	2025	2026	2027
GDP	1,4	0,8	1,5
Inflation (CPI)	0,2	0,5	0,2
Unemployment rate ¹	2,9	3,0	2,9
Budget balance ²	0,7	0,3	0,6
Current account bal. ²	3,7	4,7	5,6

* Change vs previous year as percentage; ¹ as percentage of the labour force, ² as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Switzerland

	26.03.	3M	6M	12M
SNB policy rate	0,00	0,00	0,00	0,00
3M rate	-0,05	0,00	0,01	0,10
10Y	0,38	0,30	0,40	0,50
Spread 10Y Bund	-270	-280	-270	-270
EUR in CHF	0,92	0,92	0,92	0,93

Japan: Waiting for higher key interest rates

Analyst: Tobias Basse

Waiting for higher key interest rates

The Bank of Japan decided in March, as widely expected, to leave its monetary policy stance unchanged, holding the key interest rate at 0.75 percent for the time being. The decision was again short of absolute consensus: Hajime Takata, a senior central banker, voted in favour of raising Japan's policy rate without delay, citing inflation risks that he believes warrant a swift response. Rate hikes thus remain firmly on the agenda for the monetary policymakers in Tokyo – though the Bank of Japan will also be looking to proceed with great caution in the near term as well.

Bank of Japan set to tread quite carefully

The current prime minister would, given her current economic policy priorities, prefer key rates in Japan to remain where they are for now. In the light of the country's debt position and the possible fiscal measures Tokyo may be contemplating, higher bond yields are, broadly speaking, the last thing anyone needs. The additional uncertainty generated by the Iran conflict is hardly making the task of Japan's monetary policymakers any easier either – and, on balance, argues for a more restrained approach in the near term. Over the course of the year, however, the Bank of Japan will have no choice but to raise rates. The yen's fundamental weakness – which, taken in the round, remains excessive – is also plainly relevant in this context. A degree of appreciation in the domestic currency would indeed be one way to bring inflation in the Land of the Rising Sun under more lasting control. That said, the economic policymakers in Tokyo will be equally keen to avoid triggering excessive turbulence in the forex market.

The yen remains in focus

At the press conference following the BoJ's policy meeting, the central bank's governor Kazuo Ueda once again highlighted a number of relevant issues. He stressed, among other things, that the bank must now monitor very closely the impact of yen weakness on inflation in Japan. In his view, the current price trend essentially provides grounds for higher key interest rates in the future. Ueda's remarks were, taken as a whole, not excessively hawkish – but they did give the yen at least some modest support.

Fundamental forecasts*, Japan

	2025	2026	2027
GDP	1,2	0,9	1,0
Inflation	3,2	2,1	2,0
Unemployment rate ¹	2,5	2,5	2,4
Budget balance ²	-1,4	-3,0	-3,0
Current account balance ²	4,8	4,5	4,3

* Change vs previous year as percentage;

¹ as percentage of the labour force; ² as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	26.03.	3M	6M	12M
Key rate	0,75	0,75	1,00	1,25
3M rate	1,28	1,15	1,20	1,30
10Y	2,28	2,05	2,05	2,10
Spread 10Y Bund	-79	-105	-105	-110
EUR in JPY	184	178	171	165
USD in JPY	160	155	151	146

China: Spring uptick buys some breathing room

Analyst: Valentin Jansen

Decent start to the year – but the darkening outlook is already casting its shadow

The Chinese economy entered the year on a stabilizing footing in the January–February reporting period. China aggregates its economic data for the first two months of the year to smooth out distortions caused by the shifting date of the Lunar New Year and associated holiday effects. The resulting figures indicate that industrial output rose 6.3 percent year on year, buoyed by robust export activity, while private consumption likewise gathered some momentum, with retail sales climbing 2.8 percent yoy. Investment activity also staged a modest recovery after a very weak prior year, rising 1.8 percent. Yet the overall picture remains uneven: the beleaguered property sector continues to contract sharply. Real estate investment fell by around 11 percent yoy, and residential property sales declined in value terms as well. All told, the start to the year has come in ahead of most analysts' and economists' expectations – but without additional policy stimulus, translating that momentum into a sustained upward trend is likely to prove difficult. Developments around the Persian Gulf are already casting a shadow over the outlook for the months ahead. The conflict has sharply raised volatility across the energy and commodity markets – delivering a terms-of-trade shock that is already being felt in the near term and threatening to create more serious headwinds over the medium term for China's energy-intensive industrial sector and its foreign trade.

"Continuity over confrontation" is the watchword – now more than ever

The White House has attributed the roughly six-week postponement of the planned presidential summit between Washington and Beijing to the current situation in Iran. The decision comes on the heels of what had been broadly constructive trade talks in Paris – a sequencing that will likely have caused some quiet irritation in Beijing. Adding to this, Japan set its own priorities during the recent visit of its head of government to Washington, a move that Beijing is watching closely given existing areas of tension. Officially, however, Beijing received the delay with studied calm. For China's economic outlook, "continuity over confrontation" remains, now more than ever, an absolutely central imperative.

PBOC leaves lending rates unchanged for a tenth consecutive month

The People's Bank of China held lending rates steady in March for the tenth month running. The one-year benchmark rate for bank loans was kept at 3.0 percent, and the five-year rate at 3.5 percent. The decision had been broadly expected. The unexpectedly strong economic data for the combined January–February period suggested little urgency for a move, and volatility in energy markets following developments in the Persian Gulf also argued for holding steady. Against this backdrop, safe-haven demand for the dollar has briefly put the USD/CNY exchange rate mark of 6.95 back in focus.

Fundamental forecasts*, China

	2025	2026	2027
GDP	5,0	4,5	4,1
Inflation	0,0	0,7	1,3
Unemployment rate ¹	5,2	5,1	5,0
Budget balance ²	-5,1	-5,7	-5,8
Current account bal. ²	3,8	2,8	2,6

* Change vs previous year as percentage

¹ as percentage of the labour force, ² as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	26.03.	3M	6M	12M
Deposit rate	1,50	1,50	1,50	1,50
3M SHIBOR	1,51	1,55	1,53	1,50
10Y	1,82	1,75	1,70	1,70
Spread 10Y Bund	-125	-135	-140	-150
EUR in CNY	7,97	7,88	7,72	7,68
USD in CNY	6,91	6,85	6,83	6,80

Britain: The inflation spectre

Analyst: Constantin Lüer

UK also hit by the Iran conflict

The blockade of the Strait of Hormuz is making its presence felt across all major economies, including the United Kingdom. Inflation is set to rise here too, though any forecasts come with a short shelf life. Members of the Monetary Policy Committee ventured a rapid estimate for March at their most recent meeting; the regular update is not due until April. Based on energy prices as of 16 March, the Bank of England projected a March inflation rate of 3.5 percent year on year – half a percentage point above its February forecast. What might initially appear to be just another swing as part of the volatility seen in recent months is, however, beginning to look like a more sustained bout of price pressure – one that the central bankers will have to contend with for some time to come. While the February forecast report projected year-on-year inflation of 2.1 percent yoy by the end of the second quarter, that figure may well be revised up to 3.0 percent. Several weeks remain, however, before the MPC members release their next set of projections – and a great deal of water may flow under the bridge between now and then. With any luck, rather more oil tankers will also be passing through the Strait of Hormuz, bound for Western Europe.

What could the future interest rate trajectory look like?

The initially pessimistic outlook would, if sustained, have consequences for the broader trajectory of interest rates. A series of step-by-step cuts to the Bank Rate over the course of this year had come to be regarded as a near-certainty. While the real interest rate would still leave some room for cuts in the scenarios outlined, persistently elevated inflation readings are nonetheless likely to make for a meaningful delay. For the United Kingdom, as elsewhere, the economic outlook hinges squarely on how long the Iran conflict drags on: the longer it does, the deeper the damage. In our view, and all else being equal, a more defensive stance is warranted for the time being – pencilling in fewer rate cuts rather than more. On this basis, any reduction in rates should not be expected before Q4, not least because the inflation spectre is likely still fresh in the minds of the MPC's members.

The UK as a strategic base

Like many other European countries, the United Kingdom is offering passive support to the United States in its campaign against Iran, with American forces granted use of Britain's geographically well-positioned territories for logistical purposes. While Keir Starmer has recently found himself in difficult political waters, the current situation may have afforded him a degree of breathing room on that front. The economic consequences of the Iran conflict, however, are once again confronting the government in London with fresh challenges – ones that will need to be addressed in the very near term.

Fundamental forecasts*, Britain

	2025	2026	2027
GDP	1,4	0,9	1,4
Inflation	3,4	2,9	2,1
Unemployment rate ¹	4,8	5,0	4,9
Budget balance ²	-4,5	-3,7	-3,3
Current account balance ²	-1,8	-2,4	-2,4

* Change vs previous year as percentage

² as percentage of GDP

Interest and exchange rates, Britain

	26.03.	3M	6M	12M
Repo rate	3,75	3,75	3,75	3,50
3M rate	3,87	3,55	3,50	3,35
10Y	4,97	4,30	4,20	4,20
Spread 10Y Bund	190	120	110	100
EUR in GBP	0,86	0,87	0,87	0,88
GBP in USD	1,33	1,32	1,30	1,28

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Portfolio strategies

Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for horizons...		
	26.03.2026	3M	6M	12M
3M	2,14	2,40	2,40	2,60
1Y	2,55	2,30	2,30	2,40
2Y	2,72	2,40	2,40	2,60
3Y	2,73	2,49	2,49	2,71
4Y	2,77	2,59	2,59	2,81
5Y	2,81	2,70	2,70	2,90
6Y	2,83	2,79	2,79	2,98
7Y	2,91	2,87	2,87	3,05
8Y	2,97	2,95	2,95	3,11
9Y	3,03	3,03	3,03	3,16
10Y	3,07	3,10	3,10	3,20
2Y (Swap)	2,93	2,25	2,35	2,38
5Y (Swap)	2,99	2,60	2,70	2,75
10Y (Swap)	3,13	2,90	3,00	3,15

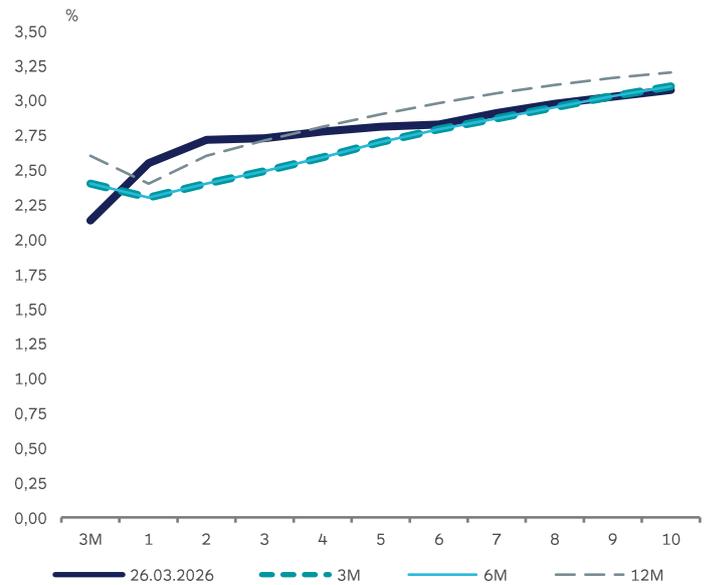
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0,53	1,13	2,38
1Y	0,77	1,34	2,50
2Y	1,18	1,81	2,94
3Y	1,30	0,50	2,90
4Y	1,39	2,12	2,90
5Y	1,33	2,11	2,81
6Y	1,07	1,89	2,50
7Y	1,20	2,03	2,59
8Y	1,21	2,07	2,60
9Y	1,09	1,98	2,56
10Y	0,95	1,85	2,55

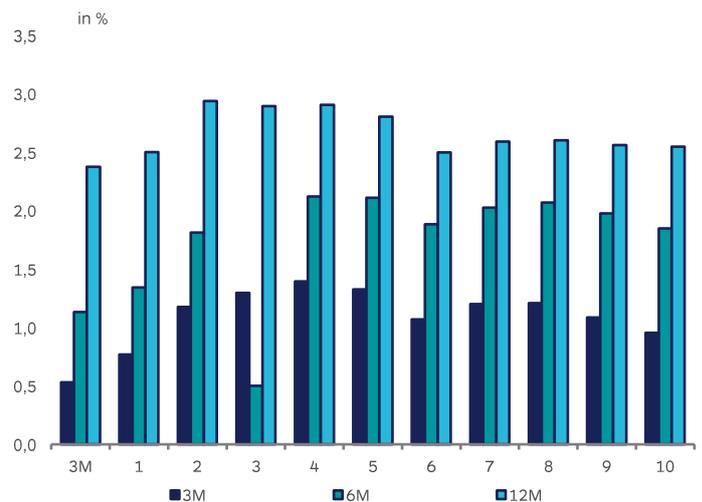
Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies

International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	0,8	1,3	1,4	3,9	0,1
2Y	1,2	2,1	2,3	4,4	0,0
3Y	1,3	2,8	2,9	4,9	0,0
4Y	1,4	3,3	3,3	5,5	-0,1
5Y	1,3	3,9	3,8	5,8	0,0
6Y	1,1	4,2	4,1	6,9	0,2
7Y	1,2	5,1	4,9	6,8	0,2
8Y	1,2	5,1	5,6	6,6	0,4
9Y	1,1	5,4	5,7	7,1	0,6
10Y	1,0	5,4	6,1	7,2	0,6

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1,2	1,7	0,2	0,1
2Y	2,1	2,5	1,2	0,0
3Y	2,7	3,2	1,2	0,0
4Y	3,2	3,5	1,8	0,0
5Y	3,8	4,0	2,0	0,1
6Y	4,2	4,4	3,1	0,2
7Y	5,0	5,1	3,1	0,3
8Y	5,0	5,9	2,9	0,4
9Y	5,4	6,0	3,3	0,6
10Y	5,4	6,3	3,5	0,6

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2,5	5,7	2,9	13,0	-1,1
2Y	2,9	6,8	4,0	13,5	-1,1
3Y	2,9	7,9	5,0	14,0	-1,3
4Y	2,9	8,9	5,7	15,0	-1,5
5Y	2,8	10,1	6,5	15,3	-1,5
6Y	2,5	11,1	7,0	17,0	-1,7
7Y	2,6	12,1	7,9	17,6	-1,7
8Y	2,6	12,5	9,2	17,8	-1,8
9Y	2,6	12,4	9,7	17,7	-1,7
10Y	2,5	12,6	10,0	17,8	-1,8

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	3,7	4,4	1,1	0,1
2Y	4,9	5,5	1,5	0,0
3Y	5,9	6,4	2,0	-0,2
4Y	7,0	7,2	2,8	-0,4
5Y	8,1	8,0	3,1	-0,4
6Y	9,1	8,5	4,6	-0,5
7Y	10,1	9,4	5,2	-0,6
8Y	10,5	10,7	5,3	-0,7
9Y	10,4	11,2	5,3	-0,6
10Y	10,5	11,5	5,3	-0,7

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies

Stock market strategy; 3-month, 6-month & 12-month horizons

Levels and performance

Index	Level as at	Status		Performance since	
	29.03.2026	Prev. month	Start of year	Prev. month	Start of year
DAX	22.300,75	25.284,26	24.490,41	-11,80%	-8,94%
MDAX	27.655,45	31.560,34	30.617,67	-12,37%	-9,67%
EuroSTOXX50	5.505,80	6.138,41	5.791,41	-10,31%	-4,93%
STOXX50	4.807,93	5.294,26	4.918,02	-9,19%	-2,24%
STOXX600	575,30	633,85	592,19	-9,24%	-2,85%
Dow Jones	45.166,64	48.977,92	48.063,29	-7,78%	-6,03%
S&P 500	6.368,85	6.878,88	6.845,50	-7,41%	-6,96%
Nikkei	53.373,07	58.850,27	50.339,48	-9,31%	6,03%

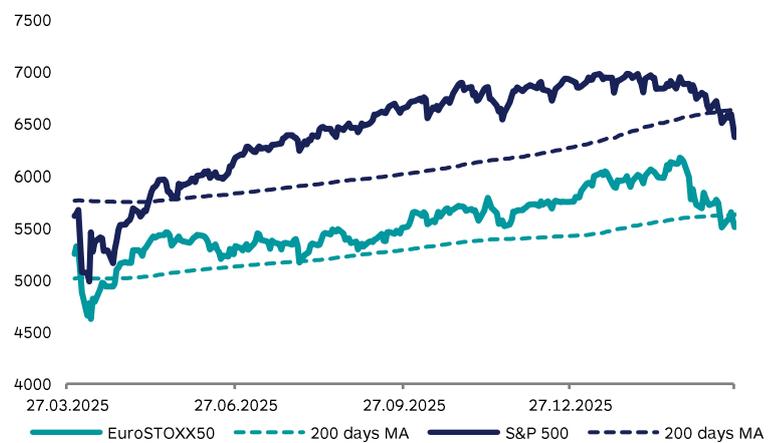
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	24.500	25.500	26.800
MDAX	30.800	32.500	34.200
EuroSTOXX50	5.950	6.150	6.400
STOXX50	5.100	5.300	5.500
STOXX600	610	635	660
Dow Jones	48.700	50.500	51.500
S&P 500	6.800	7.100	7.200
Nikkei	54.500	59.000	60.500

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday, 27 March 2026**.

The next English issue of Economic Adviser will be appearing on **27 April 2026**.

Overview of forecasts

Fundamental forecasts

In %	GDP growth			Rate of inflation			Unemployment rate ¹			Budgetary balance ²		
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
USA	2,2	2,2	2,4	2,7	2,8	2,4	4,3	4,4	4,3	-5,4	-6,2	-6,4
Euroland	1,5	1,0	1,4	2,1	2,4	2,0	6,3	6,1	6,0	-3,2	-3,3	-3,4
Germany	0,2	0,9	1,7	2,3	2,5	2,1	6,3	6,3	6,1	-2,7	-3,5	-3,7
Japan	1,2	0,9	1,0	3,2	2,1	2,0	2,5	2,5	2,4	-1,4	-3,0	-3,0
Britain	1,4	0,9	1,4	3,4	2,9	2,1	4,8	5,0	4,9	-4,5	-3,7	-3,3
Switzerland	1,4	0,8	1,5	0,2	0,5	0,2	2,9	3,0	2,9	0,7	0,3	0,6
China	5,0	4,5	4,1	0,0	0,7	1,3	5,2	5,1	5,0	-5,1	-5,7	-5,8

Change vs previous year as percentage; ¹ as percentage of the labour force (Germany: as per Federal Employment Office definition); ² as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Key interest rates

In %	26.03.26	3M	6M	12M
USD	3,75	3,75	3,25	3,00
EUR	2,00	2,40	2,40	2,65
JPY	0,75	0,75	1,00	1,25
GBP	3,75	3,75	3,75	3,50
CHF	0,00	0,00	0,00	0,00
CNY	1,50	1,50	1,50	1,50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	26.03.26	3M	6M	12M
USD	1,15	1,15	1,13	1,13
JPY	184	178	171	165
GBP	0,86	0,87	0,87	0,88
CHF	0,92	0,92	0,92	0,93
CNY	7,97	7,88	7,72	7,68

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	26.03.	3M	6M	12M	26.03.	3M	6M	12M	26.03.	3M	6M	12M	26.03.	3M	6M	12M
USD	3,70	3,35	3,10	2,95	3,99	3,25	3,00	2,90	4,09	3,45	3,20	3,00	4,41	3,90	3,80	3,80
EUR	2,14	2,40	2,40	2,60	2,72	2,40	2,40	2,60	2,81	2,70	2,70	2,90	3,07	3,10	3,10	3,20
JPY	1,28	1,15	1,20	1,30	1,35	1,15	1,20	1,30	1,74	1,45	1,45	1,50	2,28	2,05	2,05	2,10
GBP	3,87	3,55	3,50	3,35	4,53	3,60	3,60	3,40	4,56	3,85	3,80	3,66	4,97	4,30	4,20	4,20
CHF	-0,05	0,00	0,01	0,10	0,16	0,10	0,20	0,25	0,24	0,20	0,30	0,40	0,38	0,30	0,40	0,50

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	26.03.	3M	6M	12M	26.03.	3M	6M	12M	26.03.	3M	6M	12M	26.03.	3M	6M	12M
USD	157	95	70	35	127	85	60	30	128	75	50	10	134	80	70	60
JPY	-85	-125	-120	-130	-136	-125	-120	-130	-107	-125	-125	-140	-79	-105	-105	-110
GBP	173	115	110	75	181	120	120	80	175	115	110	76	190	120	110	100
CHF	-218	-240	-239	-250	-256	-230	-220	-235	-258	-250	-240	-250	-270	-280	-270	-270

Sources: Bloomberg, NORD/LB Macro Research

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