The Week Ahead: Iran conflict weighing on global sentiment; US NFP in focus this week

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Contents

Global: Widening conflict lifts energy and metal prices

Oil prices rose further this morning, as Iran-backed Houthis in Yemen entered the Middle East war over the weekend, heightening fears that a widening conflict will intensify disruptions to energy markets. Houthi involvement raises the risk of disruption to Red Sea shipping via the Bab el-Mandeb Strait, compounding current supply-chain stress from the virtual closure of the Strait of Hormuz and adding upside risks to energy, freight and insurance costs. US President Donald Trump also raised the prospect of taking control of Iran's oil infrastructure, including Kharg Island, a move that would significantly increase geopolitical risk premia. An expanded US military presence in the region has reinforced concerns that the conflict could become more prolonged. Brent crude surged to USD115 p/b, taking the month-to-date gains to c.59%, a record. Separately, strikes at major aluminium plants in the UAE and Bahrain over the weekend raise upside risks for aluminium prices, as restarts are typically slow and operationally complex. Prolonged outages could tighten supply and push up global premiums, as the two countries alone account for c.6-8% of global aluminium supply.

Early indications of a stagflation shock are emerging, with flash global PMI indicators moderating across the board, and inflation expectations rising across major economies (page 2). Fuel shortages are already leading to rationing and other demand-conservation measures in some Asian economies, such as the Philippines and Pakistan. The OECD has sharply raised its 2026 inflation forecast for the G20 economies to c.4%, vs 2.8% pre-war, warning of a renewed price surge if oil and gas disruptions persist.

US: Sentiment weakens further; March NFP in focus

The March nonfarm payrolls report is due this week (3 April) and is critical for gauging economic momentum amid mounting global headwinds. Consensus expects a tepid rebound in payrolls to 60K (February: -92K), largely reflecting a return of workers following strike disruptions and improved weather conditions. The unemployment rate is expected to remain steady at 4.4%, with some risks of edging higher to 4.5%, amid new market entrants. The market will watch for any potential pockets of tech job cuts related to being replaced by AI. Wage growth is expected to edge down to 3.7% (February: 3.8%), albeit still above levels consistent with reaching the 2% inflation target.

February retail sales data is also due this week and is expected to show a strong rebound in consumer sentiment (January: -0.2%; consensus: 0.5% m-o-m), though it is likely to be largely discounted as it reflects a pre-war outlook. Indeed, survey-based indicators for March, such as University of Michigan consumer sentiment, dipped to a three-month low of 53.3 (February: 55.5), with two-thirds of the survey period covering post-war developments (17 February to 23 March). The 1Y ahead inflation expectation jumped to 3.8% y-o-y (February: 3.4%), the biggest increase since April 2025, largely reflecting the rise in domestic gasoline prices.

UK: Steady February CPI is the calm before the energy storm

Headline inflation likely bottomed out in February, ahead of the global energy shock stemming from the Iran conflict. Headline CPI held at 3% y-o-y — with the last two months the lowest since 2024 — though underlying pressures remained firm. Core inflation edged up to 3.2% y-o-y from 3.1%, driven by services printing higher than anticipated (4.3% y-o-y vs consensus at 4.2%). This signals persistent price pressures even prior to the energy shock. Price rises in food and goods were benign in February, though they are set to accelerate from March on higher transportation and energy costs, with the UK heavily reliant on natural gas imports. A shortage in fertilisers should also feed into higher food prices in the coming months. We now expect headline CPI to re-accelerate to around 3.5% y-o-y by April, rather than moving towards the 2.0% target as anticipated prior to the Iran-related shock.

The Monetary Policy Committee delivered a decisively hawkish hold earlier this month and signalled its readiness to act if inflation risks intensify. The incoming data also points to a weakening growth backdrop. The March PMI surveys showed a slowdown in activity and further job losses in both manufacturing and services, while the manufacturing input price index recorded its largest single monthly rise since 1992 (Black Wednesday), highlighting an emerging stagflationary scenario. However, in their speeches last week, a majority of MPC members cast doubt on the need for imminent rate hikes, citing softer demand, rising labour market slack, and more subdued growth than during the 2022 energy shock. Reflecting this, market expectations of a 25 bps rate hike at the April meeting have eased to around 60%, from roughly 78% at the start of last week.

Eurozone: PMI points to emerging stagflation pressures

The March flash PMIs also pointed to rising stagflation risks, with signs of building price pressures as activity softened. The EU composite PMI fell to 50.5 from 51.9, below the 51 consensus estimate. The decline was driven by services, which dropped to 50.1 (February: 51.9). Manufacturing activity was more resilient at 51.4, partly reflecting precautionary inventory building, though upcoming headwinds were visible in the input cost component. Indeed, price pressures rose sharply with input prices jumping to their highest level in over three years, reflecting higher energy costs, and they are expected to rise further with lengthening delivery times and renewed supply-chain strains linked to the Middle East conflict. Overall, the PMIs strengthen the case that the Iran-related energy shock is complicating the path ahead for the ECB.

Consumer confidence also softened markedly in March, especially in Germany, Italy, and Spain. The pattern suggests confidence has weakened first, with growth (downside) and inflation (upside) risks likely to follow. Initial evidence of the price shock could come from next week's March consumer price index (CPI) report, which would be the first full inflation print reflecting the energy shock. Consensus expects CPI to rise to 2.6% y-o-y in March, from 1.9% in February.

Japan: Shunto wage gains support BoJ normalisation; risks remain

Annual spring wage negotiations (Shunto) are delivering another year of strong pay gains, reinforcing the case for further Bank of Japan (BoJ) policy normalisation, though stagflation risks complicate the BoJ's outlook. The Japanese Trade Union Confederation (Rengo) reported an average 5.26% wage increase for 2026, the third consecutive year of c.5%+ rise, led by large manufacturers and major firms. This is an important signal for the BoJ, given its focus on wages outpacing inflation. The key risk is whether this momentum broadens to small and medium-sized enterprises (SMEs), many of which conclude negotiations in April and face weaker pricing power, potentially limiting economy-wide gains in income and consumption. Moreover, rising inflation is likely to significantly erode real wage growth, with the ongoing Iran conflict adding upside price risks via higher energy costs and imported inflation amid a weaker JPY.

After holding rates in March, Governor Kazuo Ueda said that the BoJ is closely monitoring wages and underlying inflation. He noted that if the oil shock proves transitory, another hike could be considered as early as April. However, the risk of a quasi-stagflationary backdrop argues for caution. Overall, we expect the BoJ to remain cautious but tilt hawkish, leaning towards gradual policy normalisation rather than accelerating the pace of rate hikes. Meanwhile, the JPY found some support on Monday after Vice Finance Minister for International Affairs Atsushi Mimura warned currency speculators that authorities may take decisive action in FX markets if current weakness persists. The remarks followed a brief USD:JPY breach of the 160 level this morning — the first since the July 2024 intervention. Subsequently, the JPY strengthened to c.159.8 against the USD, retracing from an intraday high of 160.5. The episode underscores rising official discomfort with JPY weakness and suggests that tolerance for further depreciation has diminished, even as structural pressures on the JPY persist, reflecting wide rate differentials, higher oil prices and elevated global risk premia. The bond market continues to price in the first full 25 bps rate hike in July, despite the JPY falling c.4.6% against the USD.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Qatar	GDP Constant Prices, y-o-y	4Q	2.9%	
	Egypt	GDP Constant, q-o-q	4Q	1.2%	
	Egypt	GDP Current Prices, q-o-q	4Q	28.5%	
Monday, 23 March					
16:00	Germany	CPI, m-o-m	Mar P	0.2%	1.1%
16:00	Germany	CPI, y-o-y	Mar P	1.9%	2.7%
16:00	Germany	CPI EU Harmonized, m-o-m	Mar P	0.4%	1.2%
16:00	Germany	CPI EU Harmonized, y-o-y	Mar P	2.0%	2.9%
Tuesday, 31 March					
3:30	Japan	Tokyo CPI, y-o-y	Mar	1.5%	1.6%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Mar	1.8%	1.8%
3:30	Japan	Tokyo CPI ex-Fresh Food, Energy, y-o-y	Mar	2.5%	2.3%
3:30	Japan	Jobless Rate	Feb	2.7%	2.7%
3:50	Japan	Industrial Production, m-o-m	Feb P	4.3%	-2.0%
5:30	China	Manufacturing PMI	Mar	49.0	50.1
10:00	UK	GDP, q-o-q	4Q F	0.1%	0.1%
10:00	UK	GDP, y-o-y	4Q F	1.0%	1.0%
13:00	Eurozone	CPI, y-o-y	Mar P	1.9%	2.6%
13:00	Eurozone	CPI, m-o-m	Mar P	0.6%	1.3%
17:45	US	MNI Chicago PMI	Mar	57.7	54.6
18:00	US	Conf. Board Consumer Confidence	Mar	91.2	88.0
	Saudi Arabia	SAMA Net Foreign Assets SAR	Feb	1695.7B	
Wednesday, 1 April					
4:30	Japan	S&P Global Japan PMI Mfg	Mar F	51.4	
5:45	China	RatingDog China PMI Mfg	Mar	52.1	51.5
11:55	Germany	S&P Global/BME Germany Manufacturing PMI	Mar F	51.7	51.7
12:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Mar F	51.4	51.4
12:30	UK	S&P Global UK Manufacturing PMI	Mar F	51.4	51.4
15:00	US	MBA Mortgage Applications	27-Mar	-10.5%	
16:15	US	ADP Employment Change	Mar	63K	40K
16:30	US	Retail Sales Advance, m-o-m	Feb	-0.2%	0.5%
16:30	US	Retail Sales ex-Auto, m-o-m	Feb	0.0%	0.3%
16:30	US	Retail Sales ex-Auto and Gas	Feb	0.3%	0.3%
16:30	US	Retail Sales Control Group	Feb	0.3%	0.3%
17:45	US	S&P Global US Manufacturing PMI	Mar F	52.4	52.4
18:00	US	ISM Manufacturing	Mar	52.4	52.4
Thursday, 2 April					
16:30	US	Trade Balance	Feb	-54.5B	-59.4B
16:30	US	Initial Jobless Claims	28-Mar	210K	212K
	Egypt	Lending Rate	02-Apr	20.0%	
	Egypt	Deposit Rate	02-Apr	19.0%	19.0%
Friday, 3 April					
8:15	UAE	S&P Global United Arab Emirates PMI	Mar	55.0	
16:30	US	Change in Nonfarm Payrolls	Mar	-92K	60K
16:30	US	Unemployment Rate	Mar	4.4%	4.4%
17:45	US	S&P Global US Services PMI	Mar F	51.1	51.1
17:45	US	S&P Global US Composite PMI	Mar F	51.4	
Saturday, 4 April					
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Mar	56.1	
8:15	Qatar	S&P Global Qatar whole economy PMI	Mar	50.6	

*UAE time
Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Jan	3.0%		
	Qatar	Trade Balance Month	Feb	12111M		
	Bahrain	CPI, y-o-y	Feb	1.3%		0.5%
Monday, 23 March						
18:00	US	Construction Spending, m-o-m	Jan	0.8%	0.1%	-0.3%
19:00	Eurozone	ECB's Cipollone Speaks in Brussels				
20:00	Eurozone	ECB's Lane Speaks in Frankfurt				
Tuesday, 24 March						
3:30	Japan	Natl CPI, y-o-y	Feb	1.5%	1.5%	1.3%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Feb	2.0%	1.7%	1.6%
4:30	Japan	S&P Global Japan PMI Composite	Mar P	53.9		52.5
4:30	Japan	S&P Global Japan PMI Mfg	Mar P	53.0		51.4
4:30	Japan	S&P Global Japan PMI Services	Mar P	53.8		52.8
9:00	India	HSBC India PMI Composite	Mar P	58.9		56.5
9:00	India	HSBC India PMI Mfg	Mar P	56.9		53.8
9:00	India	HSBC India PMI Services	Mar P	58.1		57.2
12:30	Germany	S&P Global Germany Services PMI	Mar P	53.5	52.5	51.2
12:30	Germany	S&P Global Germany Composite PMI	Mar P	53.2	52.2	51.9
12:30	Germany	S&P Global/BME Germany Manufacturing PMI	Mar P	50.9	49.5	51.7
13:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Mar P	50.8	49.6	51.4
13:00	Eurozone	S&P Global Eurozone Services PMI	Mar P	51.9	51.1	50.1
13:00	Eurozone	S&P Global Eurozone Composite PMI	Mar P	51.9	51.0	50.5
13:30	UK	S&P Global UK Services PMI	Mar P	53.9	52.9	51.2
13:30	UK	S&P Global UK Manufacturing PMI	Mar P	51.7	50.0	51.4
13:30	UK	S&P Global UK Composite PMI	Mar P	53.7	52.8	51.0
17:45	US	S&P Global US Manufacturing PMI	Mar P	51.6	51.5	52.4
17:45	US	S&P Global US Services PMI	Mar P	51.7	52.0	51.1
17:45	US	S&P Global US Composite PMI	Mar P	51.9	51.9	51.4
18:00	US	Richmond Fed Manufact. Index	Mar	-10.0	-8.0	0.0
Wednesday, 25 March						
11:00	UK	CPI, m-o-m	Feb	-0.5%	0.4%	0.4%
11:00	UK	CPI, y-o-y	Feb	3.0%	3.0%	3.0%
11:00	UK	CPI Core, y-o-y	Feb	3.1%	3.1%	3.2%
13:00	Germany	IFO Business Climate	Mar	88.4	86.3	86.4
15:00	US	MBA Mortgage Applications	20-Mar	-10.9%		-10.5%
16:30	US	Current Account Balance	4Q	-239.1B	-208.5B	-190.7B
Thursday, 26 March						
13:00	Eurozone	M3 Money Supply, y-o-y	Feb	3.2%	3.2%	3.0%
13:30	UK	BoE Deputy Governor Sarah Breeden Speaks				
16:30	US	Initial Jobless Claims	21-Mar	205K	210K	210K
16:30	US	Continuing Claims	14-Mar	1851K	1849K	1819K
Friday, 27 March						
11:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Feb	2.0%	-0.7%	-0.4%
11:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Feb	4.8%	2.1%	2.5%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Feb	2.2%	-1.0%	-0.4%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Feb	5.9%	2.7%	3.4%
18:00	US	U. of Mich. Sentiment	Mar F	55.5	54.0	53.3

*UAE time
Source: Bloomberg, ADCB Economic Research

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