

## The Week Ahead: Brent above USD100 p/b; global stagflation concerns rise

### ► Global: Energy shock fuels stagflation concerns

The global economy enters the week facing a stagflation shock, as the ongoing Iran conflict and disruptions to MENA energy exports have driven a sharp surge in oil and gas prices, significantly raising inflation risks and complicating monetary easing. The Brent price surged by over c.29.0% to a high of USD119.5 p/b earlier today, marking the largest intra-day move since April 2020. However, Brent has moderated to c.USD108 p/b at the time of publishing. Major producers are curbing output amid mounting storage constraints, with the effective halt of transit through the Strait of Hormuz. Iraq began temporarily reducing output at its largest southern fields last week, while Qatar declared force majeure across LNG and LPG exports following the shutdown of Ras Laffan. Kuwait Petroleum Corporation (KPC) declared force majeure on crude oil and refined product exports over the weekend, while reducing production. These developments have sharply tightened global oil and gas balances. So far, there is no indication of how long this conflict could last, adding risks of further energy supply disruptions. The UAE and Saudi Arabia have alternative export routes that avoid the Strait of Hormuz, albeit with more limited capacity. Please see our report **MENA Economic Update - Reviewing transmission channels - duration and intensity critical**, published on 4 March 2026. Oman's ports and crude export terminals are on the Gulf of Oman, outside the Strait.

Risk-off sentiment has swept through global markets, pulling equities sharply lower, while Treasuries saw only limited and short-lived support as rising inflation risks weighed on bond demand. Central banks across advanced and emerging economies are expected to turn more cautious, with higher energy prices threatening to stall the disinflation trend seen from 2023, constraining the scope for near-term rate easing. The US has proposed providing insurance coverage for commercial shipments through the Strait of Hormuz and Navy escorts, as in the Tanker War of 1987-88. However, these assurances have not yet had any material impact, with freight and insurance rates still elevated and most insurance majors still refraining from offering coverage. The Trump administration granted India a 30-day sanctions exemption to import Russian crude, which should marginally ease supply constraints in global oil markets.

### ► US: February NFP shows labour market losing momentum

The February NFP delivered a sharp downside surprise, signalling a clear loss of momentum in the labour market. Payrolls fell by 92K against expectations of a 55K gain, reversing much of January's strength and confirming that earlier upside did not mark a reacceleration in hiring. The February NFP losses were amplified by temporary one-off factors, notably a healthcare strike, adverse weather, and the updated birth-death methodology of the Bureau of Labour Statistics (BLS). Nevertheless, the overall data points to a material and more durable cooling in labour-market momentum. There was also a 69K downward revision to the December and January prints, and the six-month job additions are now effectively flat (six-month average: c.1K). In the last six months, hiring outside healthcare was subdued, underscoring weak breadth

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across sectors. Private-sector job growth is running at only a modest pace, while government employment provided little offset following earlier federal job losses, leaving overall employment momentum fragile.

The unemployment rate edged up to 4.4%, moving slightly above the FOMC's longer-run estimate (December FOMC: 4.2%), marking a key point of concern for the Fed. The labour force participation rate dropped to 62%, the lowest level in over four years, as the BLS updated annual population adjustments to the household survey estimates. At the same time, wage growth stayed firm, with average hourly earnings growth steady at 0.4% m-o-m, while edging up on an annual basis to 3.8% y-o-y (January: 3.7%). Overall, the data points to a labour market that is cooling toward stall speed, but not weakening sharply (i.e. limited job losses), though the Fed's ability to cut rates is constrained by the higher inflation outlook.

► **US: Softening retail sales; tariff refunds**

January retail sales were expectedly soft, with headline sales contracting by 0.2% m-o-m. The weakness was partly weather-related (snowstorms), which weighed on in-store activity. However, control group sales were stronger, accelerating to 0.3% m-o-m, in line with expectations, while there was an upside revision to the December core print (0.0% vs -0.1% earlier), signalling a still-solid household spending backdrop. The January retail data is consistent with gradual moderation rather than an abrupt pullback in consumption.

Meanwhile, the US Court of International Trade has ordered Customs and Border Protection (CBP) to issue refunds on all International Emergency Economic Powers Act (IEEPA) tariffs. The absence of a clear CBP repayment mechanism means refunds will be slow, legally complex and likely of limited macroeconomic relevance in the near term. The US administration has outlined plans to lift the universal global tariffs to 15% this week (current 10%), underscoring a clear policy intent to preserve trade protection.

► **US: February CPI to show near-term calm; upside risks loom**

A key data focus this week will be the February CPI and the January PCE print, ahead of looming upside risks from higher energy prices and a broader rise in input costs (e.g., higher fertiliser prices). Higher freight and global shipment costs will also eventually add to import costs. Consensus expects headline (2.4% y-o-y) and core (2.5%) CPI to have remained steady, with softer goods prices and a deceleration in shelter to keep core inflation in check, counterbalancing a rise in limited core services. The delayed January core PCE — the Fed's preferred inflation gauge — is due on Friday and is expected to edge up to 3.1% y-o-y (December: 3%), reflecting start-of-year price resets as firms pass higher costs on to consumers. Regulatory changes that pushed up healthcare costs are also likely to be evident in the January PCE print. Market attention is firmly on the expected surge in inflation, including the response of household inflation expectations. Early signals on consumer perceptions of rising fuel, transportation and imported goods prices will come from the University of Michigan's March inflation expectations data — a key area of focus for the Fed for gauging the second-round risks. The bond market expects the Fed's first rate cut of the year in September, with only 38bps priced for the full year.

► **UK: Spring statement sticks to the script**

Chancellor Rachel Reeves's Spring Statement last week adhered to a clear "no surprises" approach, with no major new tax or spending measures beyond those already announced. This was consistent with her earlier commitment to confine substantive fiscal policy changes to a single annual event, the Autumn Statement. The Office for Budget Responsibility (OBR) upgraded its near-term public finance outlook, estimating an increase in fiscal headroom to GBP23.6 billion, up from

GBP21.7 billion at the November Autumn Budget. This primarily reflects lower interest costs and provides the chancellor with a larger buffer to absorb potential shocks. Public Sector Net Borrowing is also expected to narrow from 4.3% of GDP in FY2025-26 (April-March) to 2.9% by FY2029-30, driven by rising tax intake following the freeze on personal income tax thresholds and the increase in employer National Insurance Contributions (NIC). However, the updated forecasts also underscored emerging macro challenges. The OBR revised down its GDP growth projection for 2026 to 1.1% (from 1.4% previously), reflecting a sharper-than-expected slowdown in net migration and its impact on labour supply and potential growth. The OBR also cautioned that its projections do not yet incorporate the risks stemming from ongoing Middle East tensions. It warned that a prolonged conflict represents a “very significant” downside risk, with a sustained oil price shock or a deterioration in confidence likely to weigh on UK growth, while simultaneously increasing government debt-servicing costs. UK 10-year gilt yields rose by 40bps over the past week to 4.63%. If sustained, higher borrowing costs would substantially erode the government’s fiscal headroom, potentially constraining the scope for future discretionary policy easing.

► **EU: February CPI ticks up; upside risks diminish scope for ECB cuts**

Eurozone inflation edged higher in February, marking the first uptick since September 2025. The flash estimate showed headline February HICP rising to 1.9% y-o-y from 1.7%, above consensus forecasts of 1.7%. Food inflation was unchanged at 2.6% y-o-y, while energy prices remained in deflation (-3.2% y-o-y), though narrower than in the previous month. Core CPI rebounded to 2.4% y-o-y after hitting a multi-year low in January (2.2%), signalling that underlying price pressures have not fully dissipated. The pickup was led by services inflation, which accelerated to 3.4% y-o-y. Alongside the sharp rise in energy prices, this reduces the scope for any further ECB cuts. Natural gas prices in Europe remain particularly susceptible to disruptions, with the benchmark Dutch TTF price surging by c.66% over the past week, though still well below the highs seen in 2022. We expect the ECB to remain on hold at next week’s meeting, while acknowledging upside to inflation risks. We acknowledge the risk that a sustained and prolonged war could create substantial upside to Europe’s inflation trajectory, forcing the ECB to hike rates.

► **China: NPC signals pragmatic easing and targeted support**

The annual National People’s Congress (NPC) signalled a pragmatic shift in China’s policy framework. As expected, the government’s 2026 GDP growth target was lowered to “around 4.5-5%” from 5% for 2025, reflecting weak household demand and a conservative policy stance. The authorities have targeted a modest 2% inflation rate in 2026, the lowest in decades, down from the previous target of 3%. This is after consumer price inflation was effectively zero in 2025 (core CPI averaged just 0.7%). The focus points to a shift towards “quality-first” economic management, prioritising stability and structural adjustment over headline growth. Policymakers continue to favour cautious easing and targeted support rather than a return to aggressive growth-at-all-costs stimulus. Fiscal policy will remain mildly expansionary. The central government deficit is maintained at c.4% of GDP (near historical highs), with an emphasis on targeted stimulus. Beijing will authorise CNY4.4 trillion in local special bonds and CNY1.3 trillion in special central government bond issuances (unchanged from 2025) to fund infrastructure spending and support indebted regions. The NPC also set an urban employment goal of 12 million new jobs and an official jobless rate target of c.5.5% (vs 5.2% last year), signalling a focus on labour market stability. To underpin growth, the PBoC affirmed an “appropriately accommodative” monetary stance, hinting at possible interest rate cuts or lower reserve requirements if needed.

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