

## The Week Ahead: Fragile ceasefire keeps markets volatile; IMF flags stagflation risks

### ► Global: Stop-start US-Iran tensions; Warsh confirmation eyed

Markets experienced renewed volatility last week as US-Iran developments drove sharp swings in risk sentiment. Optimism peaked on Friday after signals that a provisional understanding could be within reach. This triggered a sharp risk-on move: Brent fell c.8-9% to a low of USD86 p/b and US equities surged to fresh record highs. However, optimism faded over the weekend following renewed tensions — including the US seizure of an Iranian vessel and fresh disruptions in the Strait of Hormuz — prompting a pullback in equities and a partial rebound in oil prices. The USD index has weakened by c.2% in April, unwinding all of the gains made since the conflict began. Even so, Brent has remained below USD100 p/b over the past two weeks, suggesting markets are pricing in cautious optimism that negotiations could yet yield a deal or a ceasefire extension, with further talks scheduled this week. With the current ceasefire due to expire by Wednesday, markets remain highly sensitive to any breakthrough. Even if hostilities end, any reopening of the Strait is likely to be gradual, as physical damage and logistical constraints delay a return to pre-conflict export capacity. Oil shipments through the Strait remain severely curtailed amid the effective dual blockade by both Iran and the US.

Beyond geopolitics, attention turns to a heavy slate of US earnings, with guidance from large-cap tech and banks crucial for assessing the durability of the recent risk rally amid still-tight financial conditions. The focus is also on the nomination of Kevin Warsh as the next Fed chair. The Senate Banking Committee hearing is scheduled for Tuesday, with the aim of securing confirmation before Chair Jerome Powell's term ends on May 15, although procedural delays have already brought some timing risk.

### ► Global: IMF WEO presents a stagflation message

The IMF World Economic Outlook cut its 2026 global GDP growth estimate to 3.1%, down from 3.3% in its January forecast, attributing the downgrade to spillovers from the Iran conflict. Crucially, the IMF noted that absent the conflict, global growth would have been revised higher to 3.4%, underscoring that geopolitics — rather than cyclical weakness — is now the dominant drag on the outlook. Under an adverse scenario of more persistent energy price pressures, global growth slows to 2.5% with inflation rising to 5.4%. A severe scenario involving deeper damage to regional energy infrastructure sees growth falling to 2% — close to the IMF's recession threshold — with inflation climbing to 5.8%. The IMF emphasised that the impact would be uneven, with energy-importing economies and countries with weak fiscal buffers most exposed. Growth downgrades were modest for the US, Eurozone and China, but more pronounced for the UK. MENA real GDP growth is forecast to slow to 1.1% from 3.9%, with Iraq, Qatar and Kuwait expected to slip into outright GDP contraction. MENA GDP growth is projected to rebound to 4.8% in 2027, conditional on energy and shipping route normalisation. The IMF also warned that persistent energy-driven inflation could force global central banks to prioritise price stability over growth support, sharpening the stagflation trade-off in 2026 and increasing the risk of tighter financial conditions.

#### Economics Team

##### Sri Virinchi Kadiyala

Senior Economist

+971 (0)2 697 3582

[Srivirinchi.Kadiyala@adcb.com](mailto:Srivirinchi.Kadiyala@adcb.com)

##### Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

[Monica.Malik@adcb.com](mailto:Monica.Malik@adcb.com)

► **US: March PPI softer than feared despite energy shock**

Producer price inflation rose to a three-year high of 4% y-o-y in March (February: 3.4%), though this was softer than consensus expected (4.6% y-o-y). The acceleration was driven by an 8.5% m-o-m surge in energy goods prices, while services prices remained flat. Core PPI (excluding food, energy and transport services) rose marginally to 3.6% y-o-y (February: 3.5%), suggesting limited second-round pass-through so far, consistent with the March CPI print. A key data release this week will be March retail sales, with consensus expecting a strengthening (consensus: 1.4% m-o-m; February: 0.6%) driven largely by higher gasoline prices and firm auto sales. Momentum is likely to cool in 2Q2026 as rising inflation weighs on consumer sentiment.

► **India: March CPI contained; limited energy pass-through**

India's CPI edged higher in March, though it remains broadly benign, reflecting limited pass-through from higher international energy prices. Headline inflation rose to 3.4% y-o-y (Feb: 3.2%), driven by an acceleration in food inflation. Core inflation remains contained (3.7% y-o-y), pointing to muted underlying demand pressures. The relatively modest CPI response so far reflects the government's decision to hold retail motor fuel prices unchanged, supported by an INR10/litre excise duty cut in March, effectively absorbing the energy shock at the fiscal level. However, this insulation is unlikely to be durable. Prolonged fuel tax cuts imply a deteriorating fiscal balance, which could itself prove inflationary over the medium term. Moreover, the risk of eventual domestic fuel price adjustments rises if elevated international prices persist, particularly after the conclusion of key state elections in May (West Bengal and Bihar). Upside risks to inflation are further compounded by weather-related factors: the Indian Meteorological Department (IMD) forecasts a "below-normal" southwest monsoon (June to September) for 2026. If a rainfall shortfall materialises, it could push food inflation higher. If headline Inflation remains within the 4+/-2% target band, the RBI's reaction would likely be driven less by near-term inflation prints and more by financial stability considerations amid heightened global volatility. We maintain our forecast of a prolonged pause by the RBI, though we acknowledge the risk of a hike if energy disruptions intensify.

► **China: Solid 1Q2026 GDP data masks fragile domestic momentum**

China's 1Q2026 GDP data indicated a tentative stabilisation in growth, though the composition continues to reflect fragile domestic momentum. Real GDP growth surprised to the upside, strengthening to 5.0% y-o-y in 1Q2026 (4Q2025: 4.5%; consensus: 4.8%). However, expansion remained driven by supply-side strength and external demand rather than a durable recovery in consumption. Industrial production outperformed, led by export-oriented and high-tech sectors, reflecting earlier front-loading and policy support for industrial upgrades. Services growth provided only a modest cushion and remained closely linked to trade and industry, while household demand stayed weak amid low confidence. Fixed-asset investment weighed on growth, constrained by subdued private investment and the ongoing property downturn, reinforcing China's reliance on manufacturing and exports.

Trade remains a key near-term buffer. Exports remained firm over the quarter, supported by earlier front-loading and resilient demand from non-US markets. However, trade momentum softened in March, suggesting the initial boost from tariff relief and seasonal factors is fading. Imports remain weak, reflecting slack domestic demand, even as energy import costs have risen, raising concerns about margin pressure for downstream manufacturers. As a result, China's growth mix appears increasingly skewed toward supply-side strength, leaving the recovery vulnerable should external demand weaken. Despite stronger headline growth, weak consumption and investment point to a continued easing bias, with policy support likely to remain targeted rather than broad-based.

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