

The Hormuz clock is ticking

- The US and Iran seem close to a deal to reopen the Strait of Hormuz
- But even with a full reopening, energy prices are likely to stay well above pre-war levels over the coming quarters
- In the absence of a deal, the continued rundown of oil inventories poses the risk of nonlinear price spikes
- Still, we expect the growth impact to stay contained thanks to the underlying resilience and flexibility of the global economy
- **Spotlight:** What to expect from the Warsh Fed
- **Regional updates:** Recent solid underlying growth in the eurozone and Germany is starting to see some cracks
- Momentum is slowing in Netherlands, partly on rising uncertainty
- Producer prices in the US are sending warning signals on inflation
- China's summit with the US lowered, but not eliminated, tail risks

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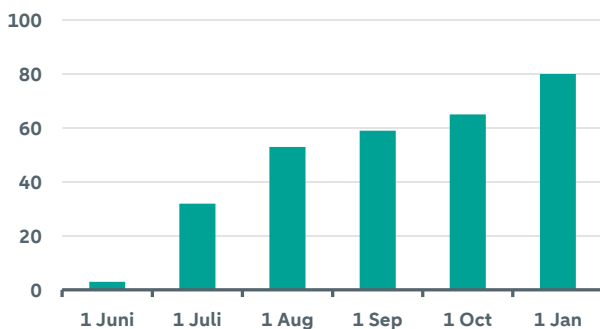
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Global View: A deal seems closer, but energy prices are likely to stay higher for longer

Markets continue to be stuck in a state of headline roulette, buffeted by the undulating probabilities of a near-term deal between the US and Iran to re-open the Strait of Hormuz. We have long sought to look through the noise of day-to-day headlines and, rather than take a view on when a deal might be struck, we focus our base case on outcomes: when energy flows are likely to fully normalise in a way that brings prices down on a sustained basis. What has become clear as the stalemate has dragged on is that, even with a full reopening of Hormuz, it will take time for energy flows to normalise, for energy infrastructure to be fully up and running again, and demand is likely to continue to outstrip supply for many months yet as depleted inventories are refilled. This means that, although markets will no doubt be relieved when a deal is finally struck, the reality of a prolonged tight energy market is likely to reassert itself and keep prices well above pre-war levels probably at least until the end of the year. Moreover, the longer the Hormuz standoff drags on, the higher the risk that inventories hit critical levels that trigger more severe energy shortages – of the type that triggers non-linear price rises. At the same time, our view is not entirely pessimistic, and we also acknowledge the remarkable flexibility and resilience of the global economy to respond to price signals and to adapt to what the IEA has called the worst energy shock in history. As the old adage goes: the cure for high prices is high prices. For this reason, while inflation is expected to stay higher for longer, our base case still sees advanced economies avoiding physical energy shortages and dodging recession.

Hormuz is expected to reopen over the summer...

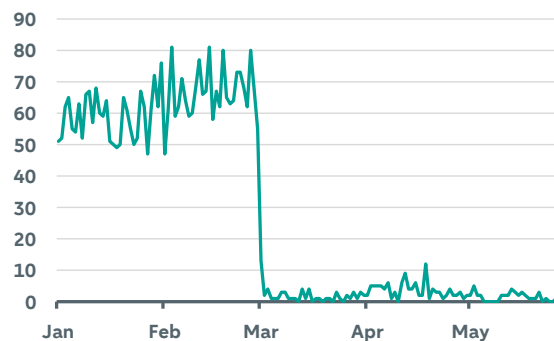
Hormuz fully reopened by... % betting market probability



Source: Kalshi, ABN AMRO Group Economics

...while traffic still remains a trickle for now

Daily vessel numbers passing the Strait of Hormuz



Source: Bloomberg, ABN AMRO Group Economics

Higher for longer: Energy prices and inflation to stay elevated this year...

In the base scenario we originally set out in March ('It takes three to TACO' – see [here](#)), we assumed that severe energy disruptions would last until the end of May, and that this could happen even if the conflict ends relatively soon. This led us to project Brent averaging USD 100 p/b in Q2 and declining thereafter to average USD 86 for the year as a whole. With Hormuz taking longer to re-open, we have extended the period of severe energy disruption into Q3 and have raised both the Q2 average and the 2026 average by USD 10. Although we assume that there will be an agreement that leads to a re-opening of the Strait in the next few weeks, the period of disruption would in any case sustain well into Q3, for a number of reasons. First, the re-opening might be gradual at first, with shippers and insurers likely to be cautious until they can be sure of the durability of any deal and the safety of passage. Second, oil production will also take time to normalise, as up to a third of wells are shut in, and a significant number of them will take months to be fully up and running again. Third, there has been considerable damage to energy (and reportedly shipping) infrastructure, especially to LNG and refining facilities. Finally, inventories have been run down sharply, and there will likely be eagerness to restore these given that any deal could prove initially fragile. All of this is against the backdrop of peak summer demand. Taken together, while energy prices are currently falling, we expect prices to bounce back again given that the supply relative to demand is likely to remain tight probably at least for the remainder of the year. Continued elevated oil and gas prices also means that inflation is expected to stay higher for somewhat longer. In the eurozone, we raised our annual average inflation forecast by 0.2pp in 2026, with inflation now expected to stay well above the ECB's target until next March. For the US, the quarterly profile has also increased by about 0.1pp over 2026, further confirming the picture of elevated inflation beyond 2027.

...but the growth impact is expected to stay manageable

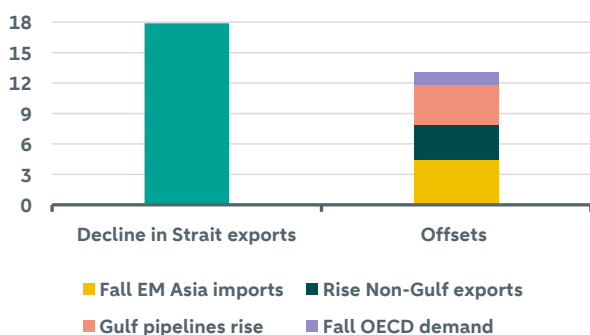
While we have raised our inflation forecasts, we keep our growth forecasts broadly unchanged from the forecasts we made at the outset of the conflict. The hit to real incomes from higher energy prices is weighing on consumption, but the real income shock is far smaller than what was observed among European households in the 2022-23 energy shock, and even this much smaller shock is in some countries being cushioned by government support measures (see [here](#)). Still, eurozone growth is expected to stay below trend over the coming quarters, despite tailwinds such as Germany's defence spending drive and the rush of recovery fund spending in southern Europe ahead of the September cutoff for disbursements. US growth is expected to hold around trend, as hits to consumption are offset by the ongoing AI investment boom, as well as some stimulus to the oil & gas sector and higher energy exports.

Why isn't the growth impact bigger?

For what has been called the 'mother of all supply shocks' and 'the worst energy shock ever', the economic fallout is remarkably contained. As we have discussed in previous publications, the chief reason for this is the myriad offsets to Hormuz energy flow disruptions. In the below chart, we update our assessment of these offsets. Aside from the now well-known alternative Gulf pipelines, the biggest change from our previous assessment of offsets is the surprise jump in US exports; previously, it was thought that non-OPEC producers would not be able to raise exports that much, but the US and other countries have been able to export considerably more – albeit partly by running down inventories. The second big surprise has been the sharp drop in EM Asian imports. A big chunk of this is China leaning on its massive inventories that were built up prior to the outbreak of the conflict. But there has also been considerable demand destruction in other much more price sensitive emerging markets. This demand destruction has been much greater than in the less price sensitive advanced economies, consistent with our view that the more vulnerable EMs would bear the brunt of the supply shock.

Hormuz disruption is seeing significant offsets

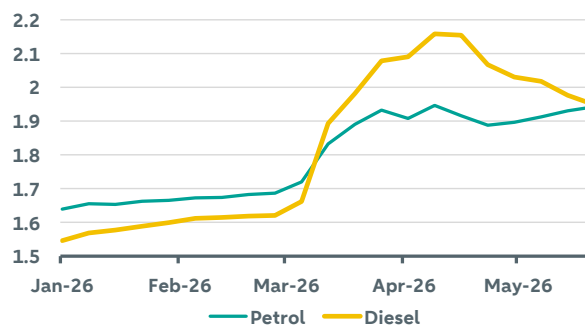
Oil flows, Million barrels per day



Source: IEA, ABN AMRO Group Economics

Diesel prices have fallen back towards petrol prices

Eurozone average pump price inc taxes, EUR per litre



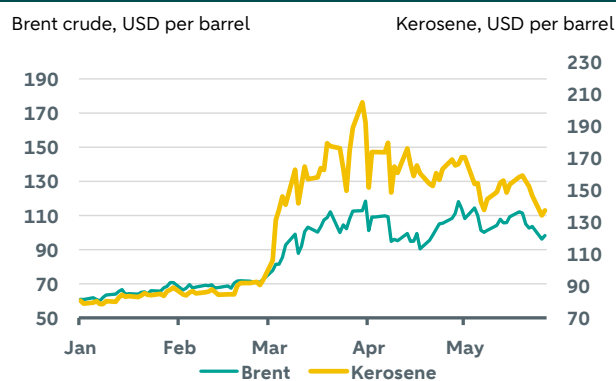
Source: Bloomberg, ABN AMRO Group Economics

Also surprising is how flexible refineries have been in adapting to the shortages in jet fuel and diesel, which in the early phase of the energy shock saw price rises far in excess of crude oil benchmarks. The gap between European diesel and petrol pump prices has since largely closed, while the ability of refineries to produce much more jet kerosene domestically in Europe has helped avert a shortage over the busy summer holiday season. This has also led to a fall in jet kerosene prices, with the gap between crude and kerosene now having fallen from a peak of \$92 per barrel on 30 March to around \$40 as of 26 May (compared with the pre-war average of \$18).

Central banks to keep a hawkish bias

With the growth impact manageable but inflation already well above central bank targets and likely to remain so for the foreseeable future, central banks have clearly tilted more hawkish in their communications, with the ECB the most explicit so far in guiding towards rate hikes. While rate rises cannot offset the supply shock, they can help to anchor inflation expectations, which even on a longer-term basis have risen sharply recently (see below). Our base case sees the ECB hiking twice over the June and July meetings, taking the deposit rate to 2.5%. For the Fed, with policy already still in somewhat restrictive territory and with arguably a more dovish reaction function than the ECB, we expect rates to stay on hold, with a risk tilted towards a later resumption of rate cuts (our base case is for a December cut).

Brent-kerosene gap has got much smaller



Source: Bloomberg, ABN AMRO Group Economics

Longterm inflation expectations have jumped



Source: Bloomberg, ABN AMRO Group Economics

What if the growth impact proves bigger?

With uncertainty still high, there are naturally considerable risks to our view. As with most economists and market participants (clear from buoyant equities), we expect the growth impact of the energy shock to be relatively mild. But it could prove to be bigger, and we are seeing some so far isolated signs of this. For instance, some airlines and booking websites have [reported](#) that consumers have held off from booking holidays or are choosing to holiday domestically, out of fear of flight cancellations on the back of jet fuel shortages. Confidence indices have generally softened in advanced economies, but particularly in France, which has lacked the fiscal space to implement meaningful support measures for households, in contrast to Germany and Spain for instance, where taxes have been cut at the petrol pump. We do not view these signs of weakness as reason to change our growth outlook yet, but European economies might be particularly vulnerable to a bigger pullback in demand, with the memory of the last energy shock still likely weighing heavily for households, and many may be fearful of a repeat of the massive real income shock seen in 2022-23. This certainly would explain the still elevated savings rates of European households. While not our base case, the risk of a bigger growth hit bears close watching.

Or what if Hormuz talks fail/deal collapses – could we approach key tipping points?

Perhaps the main risk however is that a deal between Iran and the US to restart energy flows through Hormuz collapses, and that flows fail to meaningfully resume. Inventory drawdown has continued at a rapid pace, and at the current rate, OECD inventories would fall to historic lows likely in July. At a certain level of inventories, drawdown could start becoming problematic. For instance, storage tanks and pipelines require minimum volume to maintain structural integrity, making it impractical to fully withdraw unless in a true emergency scenario. Another reason is that as inventories fall, the variety of crude grades declines, meaning a higher likelihood of mismatches with refineries. It is difficult to assess looking at aggregate inventory volumes where a tipping point might be reached, but what is clear is that if supply disruptions persist into the summer, we will be entering historically uncharted territory, and the risk of more severe supply disruptions is likely to increase. This could have nonlinear price effects, even if advanced economies themselves do not face physical supply disruptions.

OECD inventories are seeing a steep drawdown

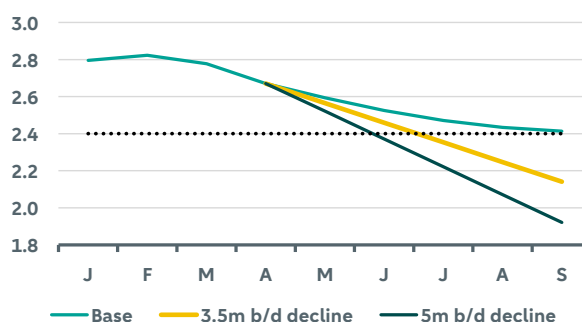
OECD oil inventories, bn barrels



Source: IEA, ABN AMRO Group Economics

At current pace, critical levels could be reached in July

OECD oil inventories, bn barrels



Source: IEA, ABN AMRO Group Economics

What about more negative scenarios?

What if the conflict ends up re-escalating? And what could a realistic worst-case scenario look like? Below we outline how more negative scenarios could pan out. A key take is that while these negative scenarios would be much worse than our base case in terms of outcomes, the scale of the inflation shock would still be much smaller than we saw in 2022-23.

Negative scenario – In this scenario, vessel traffic through the Strait of Hormuz remains well-below normal levels for a prolonged period – for the remainder of this year. There is more damage to energy infrastructure. Brent crude prices jump to an average of around \$130 per barrel over Q2, and on an intraday basis prices could spike as high as \$150. European gas prices would jump to an average €120 per megawatt hour by Q4 with intraday spikes up to €180/MWh. Some energy rationing in Europe would be needed, particularly of jet fuel, leading to more meaningful disruption of activity. Inflation would peak at 4.5-5%, the ECB would hike rates by 100bp to take the deposit rate to 3%, while the Fed would also probably be pushed to hike in this scenario. Growth would be weaker than our base case but we would still expect advanced economies to avoid a recession.

Severe (reasonable worst-case) scenario – The energy supply blockade extends from Hormuz to the Red Sea, choking off a key offset to the current supply disruptions. At the same time, damage to energy infrastructure is even more severe and widespread, making largescale quick restarts more difficult, even once the conflict subsides. Brent crude prices jump to an average of over \$180 per barrel over Q2-Q3, and stay at very elevated levels for longer. Inflation would peak around 6.5%, and the combination of energy rationing, the confidence shock and central bank tightening would push the eurozone into a mild recession. The US would still avoid a recession but growth would be very weak. The ECB would be expected to hike yet further, by 150bp in total, taking the deposit rate to 3.5%, while the Fed would hike 75bp taking the upper bound of the fed funds rate to 4.5%.

	Base	Negative	Severe
Oil 2026 average	97	108	145
Peak Average Quarterly oil ~	110	130	188
US GDP	Recovery	Modest growth	Weak growth
US PCE	Peak >3.5%	Peak ~5%	Peak ~6.5%
Eurozone GDP	Recovery	Weak growth	Mild recession
Eurozone HICP	Peak >3%	Peak ~4.5%	Peak ~6.5%
Fed	25bp cut in Dec	25bp hike	75bp hikes
ECB	50bp hikes	100bp hikes	150bp hikes

Source: ABN AMRO Group Economics

Spotlight: The Warsh era begins

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- Kevin Warsh has been sworn in as the new Chairman of the Federal Reserve
- Warsh's first moves are likely on communication strategy, rather than on rate or balance sheet policy
- Warsh inherits an unfinished inflation fight and his views suggest a risk of inflation complacency

This is a shortened version of a [previous article](#) on the day of his inauguration.

Kevin Warsh has been sworn in as Chairman of the Federal Reserve. The transition took place against an unusually political backdrop. At a time when the Fed's independence remains under scrutiny, the ceremony was held at the White House rather than at the Fed. This break with tradition is symbolic for the White House's apparent aim to bend Fed policy to their will. We think there's little room for new Chair to move in that direction any time soon.

Outgoing Chair Jerome Powell leaves behind a significant legacy. His tenure covered an exceptional period, from late-cycle normalization to the pandemic response and the subsequent inflation surge. The Fed's reaction to Covid was swift and effective in stabilizing markets and supporting the economy. This turned into a blight on his record when the Fed held too long to the view that inflation would prove transitory. Once inflation became entrenched, the Fed tightened policy aggressively. Despite the sharpest hiking cycle in decades, the economy proved more resilient than expected. Growth held up, labour market weakening remained limited, and recession did not materialize. Powell hands over an economy that was set for that miraculous soft landing. However, [policies](#) by the Trump administration shifted the economy of course. With inflation still well above target, and a new surge starting as we speak, there hasn't been any landing at all. That is the key feature of the economy point Warsh inherits.

This creates a difficult policy setting. Inflation is still above target and monetary policy remains mildly restrictive, with substantial political pressure to ease of that restrictiveness. That leaves Warsh little room. If advocates to keep policy tight, he risks disappointing those expecting an earlier easing cycle. If he moves too quickly, he risks undermining the Fed's credibility before the job is finished and reigniting inflation.

Warsh has already indicated that he sees the medium-term outlook differently from Powell. In particular, he has argued that rates should be lower because AI-driven productivity gains will raise supply capacity and reduce inflation pressure. That may prove correct over time, but it is a high-risk assumption for current policy, and does not appear to be one shared by the rest of the FOMC. Indeed, while productivity gains remain uncertain in timing and scale, the investment and spending associated with AI may spur demand sooner.

For that reason, we don't see much room for Warsh to act on his views on the policy rate or the Fed's balance sheet. Rather, to put his stamp on the new Fed, actions are likely to come in the form of changes to communication channels. He has repeatedly argued that the Fed has become too "hyper-talkative", with too many speeches and too much emphasis on the shifting views of individual policymakers. A change in the communication framework is one of the only areas where he can move quickly. In practice, that could mean fewer public interventions by FOMC members, tighter discipline around market-sensitive remarks, and greater emphasis on the chair's message as the core policy signal. The quarterly Summary of Economic Projections, including the dot plot, could also come under review. Over time, Fed communication has become part of the policy transmission mechanism itself. There is a potential case that the current framework creates too much noise, especially when comments from individual policymakers move markets without reflecting a committee consensus. At the same time, a more restrained approach would reduce transparency and could increase the impact of the moments when the Fed does speak. The likely result would be fewer signals, but potentially larger market reactions. Warsh may also seek to reinforce the sense of a regime change through a broader institutional review. He has been critical of the Fed's expanded footprint and may support a reassessment of the policy framework used during the pandemic and inflation overshoot. That would be consistent with both his reform-minded positioning and the wider political demand for accountability.

Powell leaves his post with inflation not fully defeated, and Warsh inherits that unfinished task. Regardless of the views of the Fed chair, we see an FOMC intent on finishing that fight. But if the ultimate framework relies too heavily on a favourable productivity story, also with implications for the labour market, the risk is that the Fed is once again too passive in handling the inflation impulse.

Eurozone: Solid underlying growth seeing some cracks

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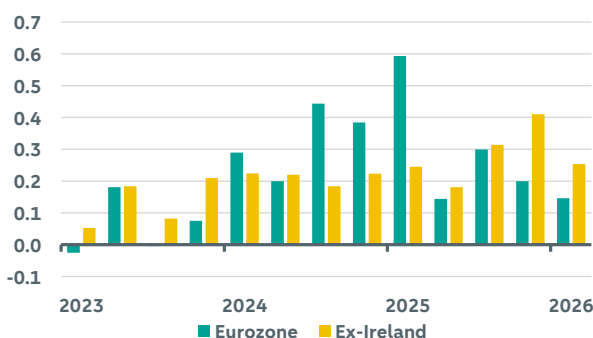
- Underlying momentum going into the energy shock has been solid in the eurozone overall
- But France has become more of a worry amid weak growth and confidence
- The ECB is still expected to hike at coming meetings in order to anchor inflation expectations

GDP growth surprised to the downside in Q1, with the eurozone eking out just 0.1% q/q. While this was a clear slowdown from Q4, the weakness was exaggerated by – you guessed it – Ireland, where output plunged 2% q/q. Just as the frontloading of Irish exports to beat US tariffs was inflating eurozone growth in early 2025, the unwind of that frontloading is now a distortionary drag on activity. Taking Ireland out of the equation, growth actually accelerated towards the end of last year, and while there was still a slowdown in Q1, it was more modest than headline GDP suggests. The chief driver of this strength in underlying activity has been Germany, which is finally growing again after years of stagnation. And while growth risks are clearly mounting from the energy shock, the surge in defence spending that drove growth around the turn of the year is likely to remain a support going forward.

Alongside Germany, growth also remains solid in southern Europe – especially in booming Spain. But in France, the eurozone’s 2nd biggest economy has made a notable turn southwards. The French economy stagnated in Q1, and the latest confidence indicators point to a possible contraction in Q2. The composite flash PMI plunged in May to well below the contraction mark. And although the PMIs have not been a reliable predictor of activity (for instance, they pointed to a recession in 2023 when the economy was expanding solidly), the latest reading is corroborated by INSEE’s more reliable business confidence index, which fell to a 5 year low in May. According to the PMI, the impact of the Iran conflict and high energy prices were cited as the main drivers, while INSEE’s report showed a particular weakening in retail trade and in the employment subindex. France has been less willing and fiscally able to offset the energy shock, and confidence is probably still weighed by political uncertainty due to the fragile minority government. Moreover, as discussed in this month’s Global View, there are signs that the impact of the Iran war might be having a bigger impact on growth than we currently foresee in our base case, and this bears close watching over the coming months.

Underlying growth has been solid in recent quarters...

GDP growth, % q/q

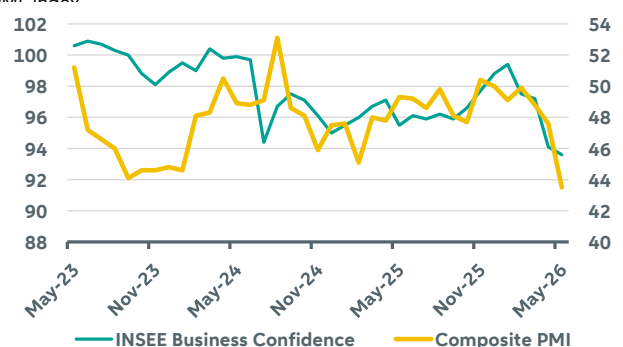


Source: LSEG, ABN AMRO Group Economics

...but France has become more of a worry

INSEE business confidence, index

Flash composite PMI index



Source: Bloomberg, ABN AMRO Group Economics

ECB’s inflation focus keeps it on course to hike in June and July

But for now at least, the inflation impact continues to clearly dominate, and this is keeping the ECB on a hiking path. While supply shocks that impact both growth and inflation adversely complicate decision making, there is no doubt where the central bank’s priority is. At the 30 April meeting, the Governing Council re-asserted its commitment to set ‘monetary policy to ensure that inflation stabilises at the 2% target in the medium term’. Indeed, the ECB President also revealed that the Council debated a rate hike already at this meeting and that she knew where the ECB is ‘headed’ on interest rates directionally. For an institution that has moved away from forward guidance, this is as close to a signal of a coming rate hike as you are going to get. President Lagarde was quite open in signalling that the June meeting would be the moment. She noted that it would be the ‘right time to assess’ developments, given the central bank would have more data, the new projections as well a better understanding of where the conflict was heading. Our base case is that the ECB will raise its deposit rate by 25bp at the June and July Governing Council meetings taking it to 2.5%.

Germany: Weaker outlook amid rising risks and political uncertainty

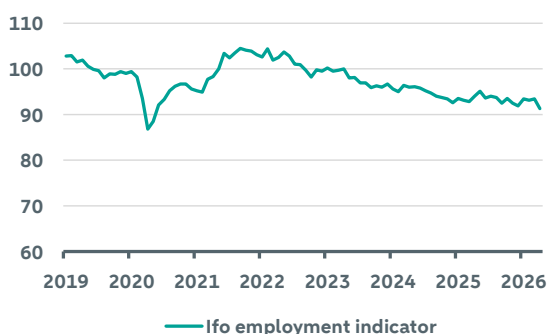
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- Q1 GDP rose 0.3% q/q in Q1. Leading indicators signal ongoing but slowing momentum
- We have downgraded our forecast from 0.8% to 0.7% this year and from 1.2% to 1% next year
- Increasing inflation and softening labour market conditions will affect purchasing power
- Limited reform progress and growing political fragmentation add uncertainty to the economic outlook

GDP grew by 0.3% quarter-on-quarter in the first quarter, a stronger-than-expected headline figure that overstates the underlying momentum of the economy. Domestic demand remained stagnant, while the increased contribution from exports was likely boosted by temporary factors such as frontloading. The war in Iran weighed only modestly on economic activity, but the negative impact of higher energy prices is expected to intensify in the coming quarters, leading to a slowdown in growth momentum. As a result, we have revised down our GDP growth projections for 2026 and 2027. We now expect growth of 0.7% in 2026 (down from 0.8%) and 1.0% in 2027 (down from 1.2%). While this still represents an improvement from 2025 (0.3%), the rebound is weaker than anticipated at the start of the year. That said, some positive developments are likely to support stronger growth compared with last year. Government spending—particularly on defence—is feeding through into higher industrial demand. For now, however, leading indicators point to a slowdown. The manufacturing PMI fell to 49.9 in May, just below the 50 threshold that signals contraction. Similarly, the Ifo business expectations index declined from 90.3 in February to 83.8 in May. Notably, these weaknesses predate the Iran crisis: industrial production has been stagnating again since early 2026. There are, however, some encouraging signs. According to the [Ifo Institute](#), three-quarters of value added in manufacturing now comes from sectors whose product portfolios are largely composed of fast-growing products. This suggests that the German manufacturing sector is undergoing productivity-enhancing restructuring. Hence, the German economy appears better positioned to benefit from rising global demand than in recent years. At the same time, low capacity utilisation and tighter bank lending conditions are weighing on corporate investment, while households are becoming more cautious. Inflation rose from 2.0% in March to 2.9% in April, driven by higher energy prices. Despite temporary tax reductions on energy, further upward pressure on prices is likely as higher energy costs feed through into other categories. Labour market conditions are also becoming less favourable. Wage growth is slowing, and unemployment is rising, partly due to corporate restructuring.

Labour market sentiment deteriorates

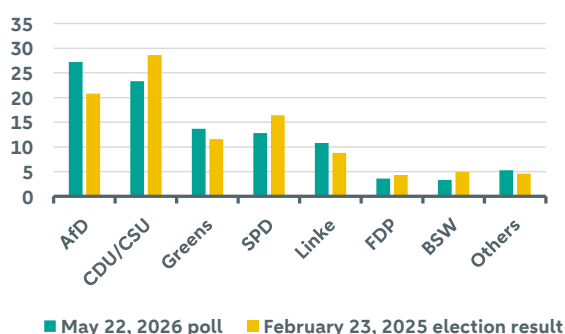
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Source: ABN AMRO Group Economics

Polls suggest coalition would lose its majority

%



Source: ABN AMRO Group Economics

The German economy continues to require structural reforms, which remain difficult to implement. Within the governing coalition, tensions persist over the distributional effects of income and inheritance tax reforms, and disagreements extend to pension reform. Some progress has been made in healthcare, where current proposals aim to better align expenditure and revenues. Nevertheless, the political environment remains challenging. Weak results in recent state elections have deepened divisions between the centrist and left wings of the SPD and further weakened Chancellor Merz's already limited authority. With state elections scheduled this autumn in Berlin, Mecklenburg-Western Pomerania, and Saxony-Anhalt, uncertainty is likely to increase. In the latter two eastern states, the far-right AfD is leading in the polls. A strong electoral performance could weigh on the business climate and investment. Any decision by the local CDU to consider cooperation and lift the cordon sanitaire would mark a significant political shift.

The Netherlands: Momentum eases after strong run

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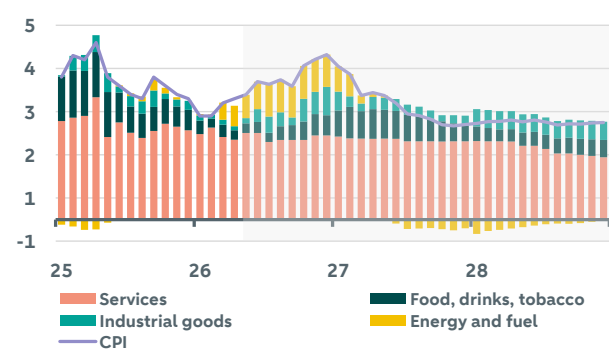
- Growth slowed to 0.1% q/q at the start of the year, with increased uncertainty dampening growth
- We have downwardly revised our growth forecasts to 0.9% for 2026 and 1.1% for 2027
- HICP inflation forecasts are upgraded to 3.0% for 2026 and 2.6% for 2027

Economic growth [slowed](#) to 0.1% q/q at the start of the year: a weaker figure than expected. The economy is losing momentum after a strong 2025, while we expect the impact of the conflict in the Middle East to become visible later. Increased uncertainty and US trade tariffs may be hampering Dutch exports, as well as the return of supply chain disruptions, such as longer delivery times. This has caused Dutch companies to [stockpile](#). Households appear to have also become more cautious in their spending; which is likely partially driven by weather effects (such as snowfall) and a behavioural change to higher fuel prices. Still, despite these factors, household savings remain a source of strength for the near future, with much of the impact of the war in Iran yet to materialise. On the back of this lacklustre start of the year and our new Iran scenario (see [Global View](#)), we have downgraded our growth forecasts to 0.9% for 2026 (was 1.5%) and 1.1% for 2027 (was 1.2%). Still, the Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers in recent years.

Our HICP inflation forecasts have been upgraded to 3.0% for 2026 (was 2.8%) and 2.6% for 2027 (was 2.1%). The key factor behind this upward revision is the expected persistence of elevated energy prices and pass-through to other goods and services. So far, the impact has been mostly visible in fuel costs, but price rises are expected to broaden gradually. Since 54% of households still have fixed energy contracts, the price increases are slower to affect them. Still, although the gas price shock is much smaller than in 2022-23, energy bills will rise in the coming months, likely with a quicker pass-through than before, due to a currently lower share of fixed contracts. Additionally, higher energy costs are expected to feed through to a wider range of goods and services, starting with energy-intensive products. Industrial producer prices are already rising, an early sign of broader price pressures. Similarly, nearing the end of 2026 we expect food inflation to be affected by higher energy costs; of which the peak is expected in the first half of 2027. This renewed inflation shock comes at a delicate moment as the Dutch economy was still adjusting from the previous inflation shock. The key question for the coming quarters is whether the rise in inflation will have a renewed impact on wage growth. The looser labour market will likely be a dampening factor in this regard. Still, as short-term household inflation expectations have already risen significantly, wage growth will be the indicator to watch.

Inflation: A high risk of second round effects

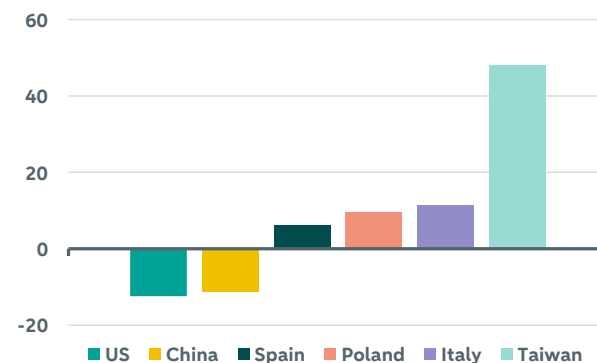
Pp contribution to % y/y CPI inflation



Source: CBS, ABN AMRO Group Economics

Global AI boom affects Dutch trade flows

% export growth of Dutch made products (2024-25)



Source: CBS, ABN AMRO Group Economics

The global increase in demand for AI-related products has been a contributing factor in Dutch exports performance in 2025. Strong AI related investment, for instance in data centres, semiconductor production and energy infrastructure in the US has had knock-on effects to global activity. This is best visible in economies with a strong footing in the semiconductor supply-chain such as Taiwan and Vietnam. This has trickled down further to suppliers to these countries and thus export demand for the Netherlands. Dutch exports to Taiwan have risen by more than 40% between 2024-25. Despite geopolitical tensions clouding the outlook for global trade, AI investments are likely to remain a tailwind for Dutch exports in 2026 as well, with key companies such as ASML recently [upgrading](#) their expectations for 2026.

US: Supply chain pressures are mounting

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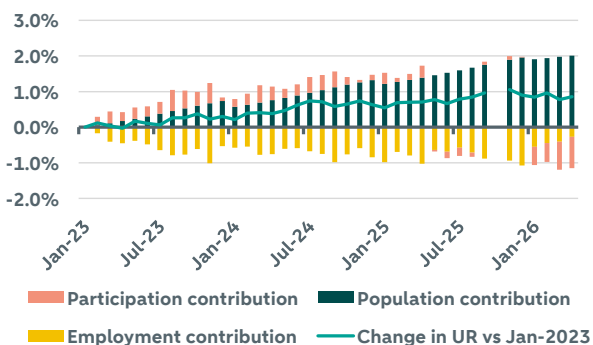
- The labour market remains stable, but the unemployment rate is flattered by a decline in participation
- Producer prices show initial signs of the energy shock cascading through the economy

April job creation was strong, with non-farm payrolls increasing by a solid 115k. Despite that, the unemployment rate increased from 4.26 to 4.34%, still substantially lower than its high of 4.54% in November of last year. Since then, the apparent improvement has reflected labour-force changes more than employment gains, making the labour market harder to read. Labour supply is being constrained not only by weaker immigration, but also by falling participation. This decline is partly due to the baby boomer generation retiring early, but there is also a notable decrease in the population of prime working age men, who usually have a high participation rate. The decline in the unemployment rate is therefore partly a ‘bad news decline,’ at least in terms of economic growth. An uptick in the unemployment rate might be welcomed if it’s due to increasing participation.

Meanwhile, Inflation continues to rise. Headline CPI rose 0.6% m/m in April, with a 0.3 pp contribution from energy prices. The y/y rate now stands at an uncomfortable 3.8%. Core came in at 0.4% (2.8% y/y), which reflects the final impact of last year’s government shutdown on inflation. Because of the way shelter inflation is calculated over six months, April partly reflected a catch-up for October’s missed increase. The most remarkable aspect of the report was a higher than expected food inflation, coming at 0.5% m/m, contributing almost 0.1 pp to the overall headline number. While always volatile, the worry is that the food inflation reflects an initial sign of pass-through of the energy shock to other categories. Unfortunately, the rise in the New York Fed’s Global Supply Chain Pressure index, and this month’s Producer Price index (PPI) report suggests we are indeed starting to see pressures building throughout the supply chain.

Unemployment steady due to decreasing participation

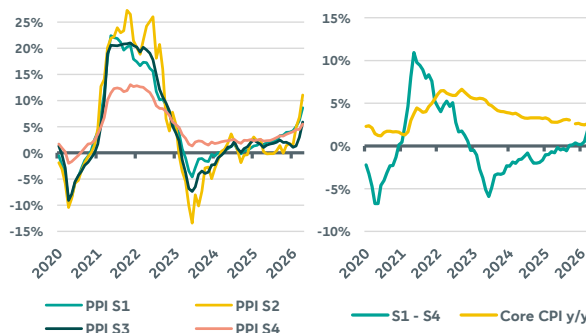
Decomposed change in unemployment rate, adjusted for 2025 population



Source: LSEG, ABN AMRO Group Economics

Supply chain pressures are building

lhs: PPI y/y%. rhs: PPI and CPI, y/y %



Source: LSEG, ABN AMRO Group Economics

What can we learn from the PPI report? Headline PPI came in at 1.4% m/m, which was a significant surprise compared to the 0.5% consensus expectation. The y/y rate rose to 6.0%, and the ‘core’ measure excluding food and energy also rose significantly to 5.2%. But the richness of the PPI data allows us to dig deeper. There is significant granularity in the data, such that we can track prices through four stages of the supply chain: raw extraction, refining, intermediate manufacturing, and near-final producers. The energy shock may well raise all stages simultaneously, so rising prices in all stages is not necessarily a sign of transmission of the shock through the supply chain. The chart above shows that all four categories are indeed rising sharply, but the interesting, and somewhat worrying, datapoint is that price rises in Stage 3 have just surpassed those in Stage 4 for the first time since 2022. When price pressure in intermediate production exceeds that of near-final producers, it suggests cost pressure is still moving downstream rather than fading before reaching consumers. Past episodes suggest this crossover can mark broader downstream transmission of the shock through the supply chain. Our analyses of the predictive power of the PPI stage-spread indicates that there is limited pass-through of PPI to CPI in ‘normal’ times, but that the pass-through to CPI increases substantially when S3 exceeds S4. That analysis also suggests non-linear amplification effects when the gap between the two rises. In short, we will be keeping an eye on PPI data as an early sign of the energy shock’s transmission through the economy. We’ve already put in a moderate update of our inflation path, with further risks to the upside.

On balance, signs of rising inflation beyond the energy category decrease the likelihood of the Fed rate cuts by year end currently in our base case. At the same time, the apparently benign unemployment rate masks labour-market fragilities that could be a prelude to a faster deterioration. The Fed has made it clear that the employment mandate carries more weight in their collective view. Warsh’s entry as the new chair will only tilt that balance further.

China: Protecting the fragile US-China truce

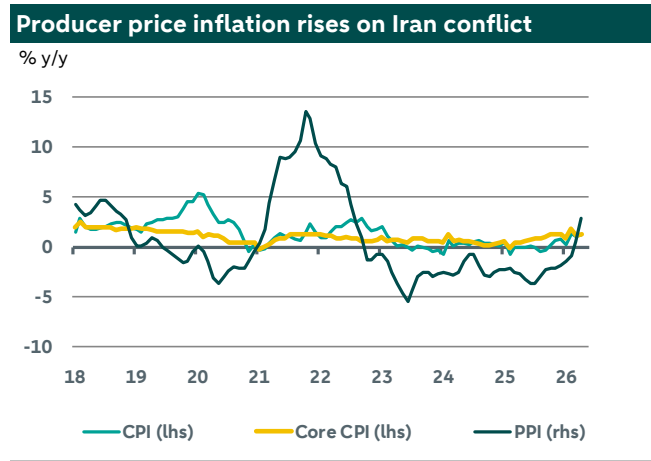
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- Notwithstanding solid Q1 GDP and ongoing strong foreign trade...
- ...April macro data are a reminder that China is cushioned, but not immune to the Iran conflict
- US-China presidential summit reduces (but not fully takes away) tail risks

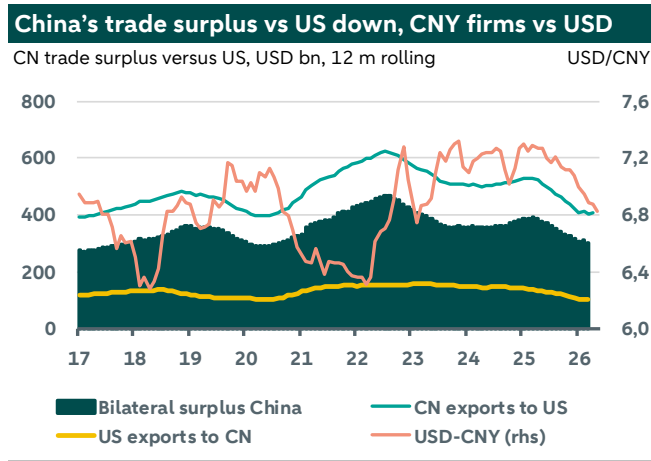
April data are a reminder China is cushioned, but not immune to the Iran conflict

Due to its relatively high oil reserves, access to Russian energy imports, and large availability of home-produced energy sources like coal, China is relatively well-positioned to weather the Iran energy shock. However, as we already flagged in our previous Monthlies, China is not immune to it. Despite resilient GDP and export growth in Q1, March data already showed some impact of the Iran conflict. The April data brought additional evidence of this. Most striking is the further acceleration of producer price inflation, to a 45-month high of 2.8% y/y. Headline and core inflation picked up moderately, but remain quite low at just above 1% y/y, reflecting ongoing domestic demand weakness. In terms of growth, April activity data signalled a broad weakening. Industrial production slowed to 4.1% y/y and 0.1% m/m sa, weighed by declines in oil refinery output. The spike in commodity prices may also have contributed to the turnaround in fixed investment, which fell back into contraction territory. This also shows the government's push to boost infrastructure investment is fading, while property investment also continues to shrink. Meanwhile, retail sales growth fell to a post-pandemic low of 0.2% y/y, and contracted by 0.5% m/m sa, with sales of cars and home appliances also impacted by the expiration of subsidy programmes. April data also brought some rays of light, with home sales bottoming out, the unemployment rate falling, and foreign trade solid despite the Iran conflict driven by the global tech/AI boom.

All in all, the Iran conflict exposes China to the drawbacks of its imbalanced growth, with a slowdown of global demand the main risk stemming from a (prolonged) energy crisis. Should this materialise, we expect Beijing to come with additional stimulus, while maintaining a cautious approach. In our base case, we anticipate weaker growth in Q2 due to the conflict. We already adjusted our growth and inflation forecasts in March, and leave them unchanged for now.



Source: Bloomberg, LSEG



Source: ABN AMRO Group Economics, LSEG

US-China presidential summit reduces (but not fully takes away) tail risks

On 14-15 May, US and Chinese delegations led by presidents Trump and Xi, met in Beijing. Most important at the summit was to stabilise US-China relations, and prevent tensions from getting out of control again, in an ever more complex geopolitical landscape. This goal looks to have been met. Although an extension of the truce on tariffs and chokepoints reached in late 2025 was not formalized 'on paper', according to a Chinese statement countries agreed to reduce tariffs for some products and ease certain import restrictions, while boards of investment and trade will be installed to discuss bilateral concerns. For the US, which travelled with a big delegation of business leaders to Beijing, trade commitments made by China (farm products, airplanes) are concrete results from the summit. The US also claimed China is eager to step up purchases of US energy, although China is securing energy imports from Russia (Putin visited Beijing one week after Trump). For China, next to the stabilisation of bilateral ties, trying to get the US to gradually soften its support for Taiwan was a key objective. In the run-up to the meeting, the PBoC tolerated a further appreciation of the Chinese yuan versus the US dollar, while China's bilateral goods trade surplus versus the US has come down significantly. The summit could help stem the decline in bilateral trade, although strategic decoupling in sensitive sectors is likely to continue.

Key views on a page

The Iran conflict has triggered a global energy shock. It remains uncertain how long the disruptions to energy supplies will last, but our base case assumes severe disruptions last well into Q3. The inflation shock is outweighing the growth shock, and this is leading to a hawkish pivot by central banks. The ECB is expected to hike rates while the Fed is expected to delay further rate cuts. Still, advanced economies are expected to stay resilient and to avoid recessions, and ultimately we expect central banks to lower rates again once the inflation shock has dissipated. Against this backdrop, US tariffs remain a dampener on global trade, but the AI boom is continuing, German fiscal spending is driving a cyclical eurozone recovery, and China continues to take modest measures to lift demand while keeping its manufacturing growth model intact.

Macro	Central Banks & Markets
<p>Eurozone – The inflation jump from the new energy shock will outweigh the hit to growth. However, we expect a much narrower and manageable rise in inflation compared to the 2022-23 shock. This is because the magnitude of gas price rises is much lower, but also because electricity markets have largely decoupled from gas. Still, because the ECB will need to get ahead of any second round inflation effects, growth will be dampened by a tightening of financial conditions. At the same time, the cyclical recovery is expected to broadly continue, helped by higher German fiscal spending.</p>	<p>ECB – The Governing Council has shifted to a tightening bias, and we expect rate rises at the June and July meetings, taking the deposit rate to 2.50%. Lagarde herself sent a strong signal that June would be a good moment to adjust policy. The tightening bias is further supported by the recent rise in longer term inflation expectations. Ultimately, we expect second round effects to be contained, and by early 2027 we expect the ECB to be confident enough in the inflation outlook to gradually bring rates back to its estimate of a neutral policy setting. We expect one rate cut each in Q1 and Q2 2027, bringing the deposit rate back to 2%.</p>
<p>The Netherlands – On the back of a lacklustre start of the year, with GDP growth slowing to 0.1% q/q, and our new Iran scenario, we downgraded our growth forecasts to 0.9% for 2026 and 1.1% for 2027. Still, the Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers. Our HICP forecasts have been upgraded on the back of expected persistence of elevated energy prices. The Dutch economy is prone to second-round effects on wages due to the starting point of inflation and the tight labour market.</p>	<p>Fed – The Fed held rates at the 3.50-3.75% target range in the April meeting. They signalled that the FOMC saw no consensus to ease before goods (i.e. tariff) inflation starts to abate. With the added impact of the oil shock on energy and headline inflation, we expect the Fed to remain on hold for longer than previously anticipated, waiting until December to convince themselves of limited second round effects. We then see a dovish Fed gradually easing, despite elevated headline, and elevated core inflation, with quarterly 25bps cuts to end up at 2.75-3.00% by the June of next year, the lower end of neutral estimates.</p>
<p>UK – The energy shock is leading to a new inflation surge at a time when inflation expectations are already unanchored. Still, the labour market is much looser than it was when the last energy shock hit, and this should help to contain second round effects. The growth impact is expected to be manageable, and our base case sees the economy continuing to gradually recover. Uncertainty over the leadership could start to weigh on growth in the event of a prolonged contest. See our Q&A on the UK's political turmoil here for more.</p>	<p>Bank of England – The MPC has struck a more dovish tone following its hawkish communication at the March meeting. We still expect the BoE to do an insurance rate hike over the summer, but with a lower conviction. Ultimately we expect the MPC to pivot back to a wait-and-see approach, assuming energy supplies gradually normalise in Q3. This reflects that rates are already in restrictive territory, and the MPC's historically volatile but ultimately dovish bias. We expect rate cuts to resume from late 2026 onwards.</p>
<p>US – The final quarter of 2025 saw some stalling momentum, partly due to the government shutdown, while the first quarter of 2026 was solid, even if mostly AI-driven. The recent oil shock increases inflation but has a limited impact on growth. We still expect decent headline growth figures due to the positive impulse of AI investments, and monetary and fiscal easing. Core inflation remains elevated, due to the final pass-through of tariffs, demand effects from stimulus, and spillovers from energy inflation. Unemployment continues a gradual increase, with limited demand matching the strong decline in supply.</p>	<p>Bond yields – The ongoing uncertainty in the Middle East has intensified concerns about inflation due to the significant decline in oil supply. As a result, bond yields increased further, with the market pricing in more than two rate hikes by the ECB and nearly one by the Fed for this year.</p> <p>As the market anticipates more rate increases in both Europe and the US compared to our base case scenario, we expect yield curves to re-steepen again, driven by the short end. Meanwhile, LT rates will lag the decline in front end yields, owing to increased term premiums caused by the deteriorating fiscal situation.</p>
<p>China – Despite foreign trade remaining solid on the back of the global tech/AI boom, the economy is not immune (though cushioned) to the Iran conflict. April data showed quite a broad weakening. Producer price inflation has risen sharply, but (core) CPI inflation remains low reflecting weak domestic demand. We keep our growth/inflation forecasts unchanged for now, after having tweaked them in March. A slowdown in global demand still is the biggest risk from the conflict. The recent Trump-Xi meeting helps to stabilise US-China relations, with their tariff/chokepoint truce extended. Still, risks related to trade, tech and wider geopolitics (incl. Taiwan) remain.</p>	<p>FX – EUR/USD has moved volatile within a range depending on optimism about reaching an agreement to reopen the Strait of Hormuz. Even if a deal is reached, we think will take time for the supply to normalise. Therefore, we think oil prices will remain elevated. It is likely that this will weigh on EUR/USD in the coming months as the euro is dependent on energy imports. So, in the near-term EUR/USD could move towards 1.14. Later in the year we expect lower energy prices. This and a more hawkish ECB compared to the Fed should support EUR/USD higher. We still expect the EUR/USD rate to be 1.20 by the end of 2026.</p>

Main economic & financial market forecasts												
	GDP				Inflation				Policy rate			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Eurozone	0.9	1.5	0.8	1.2	2.4	2.1	2.8	2.0	3.00	2.00	2.50	2.00
Netherlands	1.1	1.8	0.9	1.1	3.2	3.0	3.0	2.6				
Germany	-0.5	0.3	0.7	1.0								
UK	1.0	1.4	0.8	1.3	2.5	3.4	3.7	2.1	4.75	3.75	3.75	3.25
US	2.8	2.1	2.2	2.1	2.6	2.6	3.4	2.5	4.50	3.75	3.50	3.00
China	5.0	5.0	4.6	4.5	0.2	0.1	1.2	1.4	3.10	3.00	2.90	2.70

Note: Annual average for GDP and inflation, end of period for the policy rate

	2025	26-05-26	26Q2	2026	2027	Energy	2025	22-05-26	26Q2	2026	2027
US Treasury	4.17	4.49	4.50	4.30	4.15						
German Bund	2.85	2.98	3.00	3.00	2.80	Brent - USD/bbl*	60.85	103.54	110	97	80
EUR/USD	1.17	1.16	1.14	1.20	1.25	WTI - USD/bbl*	57.42	96.60	100	88	75
USD/CNY	6.99	6.79	6.85	6.80	6.70	TTF Gas - EUR/MWh*	27.28	37.41	50	51	45
GBP/USD	1.35	1.35	1.34	1.40	1.45						

* Brent, WTI: active month contract; TTF: next calendar year

GDP (q/q)	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0.6	0.1	0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Netherlands	0.4	0.3	0.5	0.4	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4
US (saar)	-0.6	3.8	4.4	0.5	2.0	2.5	2.0	1.9	2.1	2.2	2.2	2.1
China (y/y)	5.4	5.2	4.8	4.5	5.0	4.6	4.5	4.5	4.4	4.6	4.6	4.6
Inflation	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.3	2.0	2.1	2.1	2.0	3.1	2.9	3.1	2.8	1.9	1.8	1.6
Netherlands	3.3	3.2	2.7	2.8	2.4	2.9	3.1	3.6	3.2	2.7	2.3	2.1
US (PCE)	2.6	2.4	2.7	2.8	3.1	3.7	3.5	3.4	2.8	2.3	2.5	2.6
China	-0.1	0.0	-0.2	0.6	0.8	1.6	1.3	1.1	1.3	1.3	1.4	1.6
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.3	6.3	6.3	6.3	6.2	6.4	6.4	6.3	6.3	6.2	6.2	6.2
Netherlands	3.8	3.8	0.0	0.0	4.0	4.1	4.2	4.3	4.3	4.4	4.4	4.4
US	4.1	4.2	4.3	4.5	4.3	4.4	4.6	4.7	4.7	4.6	4.6	4.6
Policy rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.50	2.00	2.00	2.00	2.00	2.25	2.50	2.50	2.25	2.00	2.00	2.00
US	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.50	3.25	3.00	3.00	3.00
UK	4.50	4.25	4.00	3.75	3.75	3.75	4.00	3.75	3.50	3.25	3.25	3.25
China	3.10	3.00	3.00	3.00	3.00	3.00	2.90	2.90	2.80	2.80	2.70	2.70

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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