

It takes three to TACO

- With the Iran conflict ongoing and the chance of a ceasefire uncertain, we update our base case for growth, inflation and interest rates
- We assume severe energy disruptions last until the end of May, and this could happen even if the conflict ends relatively soon
- The inflation impact of the energy shock continues to outweigh the growth hit, and central bank responses are therefore likely to tilt hawkish
- We now expect the ECB to hike rates twice in Q2, and the Fed to delay cuts to Q4. Both central banks are expected to cut rates in 2027
- **Regional updates:** The shock is hitting [eurozone](#) countries differently, while in [Germany](#), the recovery is vulnerable despite higher spending
- Despite the energy shock the [Dutch](#) economy is likely to stay resilient
- We expect a passive Fed in response to the rise in [US](#) inflation
- Macro data have been solid in [China](#) but downside risks have risen

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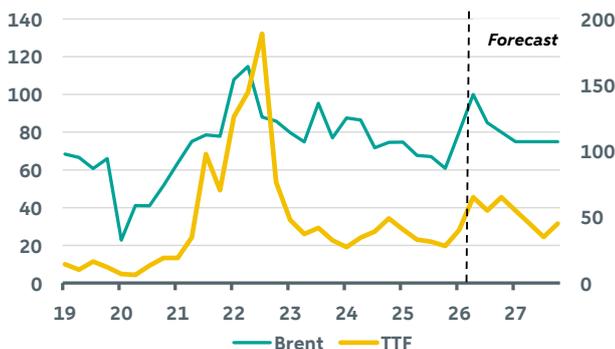
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Global View: Updating our base case

Following the outbreak of the Middle East conflict and resulting energy shock, we set out a number of scenarios (see [here](#)), while not changing our forecasts given the uncertainty. We are now changing our base case, albeit with a low conviction given the extraordinary uncertainty right now. Our new central scenario rests on two pillars. First, we do not take a view on the length of the conflict per se, but rather we assume that the period of severe energy supply disruptions will last for another two months, taking us well into the second quarter (further major damage to energy infrastructure is assumed to be limited). Second, the process of energy prices normalising is gradual and oil and gas prices will settle higher over our forecasting horizon than at the start of the conflict. This scenario implies that the energy price shock will have more limited effects on economic growth than inflation. Indeed, our base case is still for continued expansion, albeit at a slower rate and we do not see a very significant risk of recession. This is helped by the declining energy intensity of the economy as well as signs that positive economic momentum was building going into this crisis (see [here](#)). On the other hand, we have raised our inflation forecasts more significantly, especially for this year. Against this background, we think central banks will pay more attention to upside risks to inflation, and hence we should – and indeed are – seeing a hawkish pivot. We now see moderate tightening from the ECB in Q2, and a more extended pause to rate cuts from the Federal Reserve.

Energy price projections

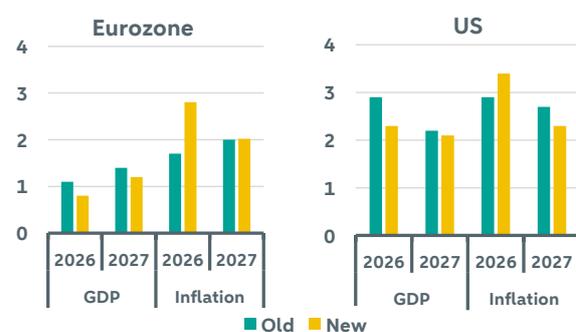
Brent: USD per barrel (lhs); TTF: EUR per MWh (rhs)



Source: ABN AMRO Group Economics

Changes to growth and inflation projections

%



Source: Bloomberg, ABN AMRO Group Economics

Might it take three to TACO this time? - Making assumptions about the length of the conflict and hence the duration and intensity of the energy shock is obviously challenging in this environment. Over the weekend, it looked like the chances of a very negative scenario were heightened as the US gave a 48 hour ultimatum and threatened hits on energy infrastructure. At the start of the week, President Trump backed down, saying that the threat was postponed for a five-day period because of ‘very good and productive conversations’ with Iran about ‘a complete and total resolution’ of hostilities. Iranian officials then denied that talks had even taken place, but softened the denial by saying that there are ‘attempts to reduce tensions’. This episode is certainly encouraging because it reduces the risk to further hits to energy infrastructure and it also suggests that the US administration is desperately looking for an off-ramp. Nevertheless, this situation is different from a classic TACO, in the sense that the President cannot just reach for an on-off button as in the case of tariffs. The Iranian regime sees this as an existential threat (it refers to the conflict as the ‘last war’) and has demanded an end to sanctions as well as security guarantees as part of any agreement. At the same time, Israel’s objectives do not seem to fully align with those of the US, and it continued heavy air strikes on Tehran after Trump’s reversal, while Israeli officials have briefed that the chances of a deal remain ‘very low’.

With all of this said, given the supposedly active negotiations at the time of publication, there remains a distinct possibility of a more positive scenario than that outlined below. At the same time, things could also still get a lot worse from here. Our publication of 11 March outlining more positive and negative scenarios therefore remains relevant.

Our new base case also allows for a range of outcomes – These include a messy end to the conflict, where the US might withdraw, leaving some form of lower level conflict between Iran and Israel continuing, and only a partial resumption of Hormuz energy flows. For instance, Iran at present is saying that it will allow vessels not aligned with the US to pass through. Even if the conflict entirely ends soon (within weeks, say), another way that disruptions could persist is that it is likely to take time to repair damaged infrastructure and to fully resume shipments. QatarEnergy, for instance, has said that 17% of its LNG capacity will take 3-5 years to fully repair. We are therefore far from convinced that the end of severe energy disruption is imminent. Even when supplies are fully restored, the need to replenish strategic and commercial stocks, alongside some residual risk premium, could keep prices high. On the other hand, we note that there are various offsets to the current disruptions, such as the east-west Yanbu pipeline transporting oil via the Red Sea, as well as demand destruction resulting from the conflict. We set out the full set of assumptions behind our energy price forecasts in more detail a separate note (see [here](#)).

Eurozone & ECB – We have made significant downgrades to our growth forecasts due to the energy shock, reflecting the combination of weaker household and business confidence and higher near-term interest rates, but much more significant upgrades to our inflation outlook (see chart above for a summary of changes). Inflation is now expected shoot well above the ECB’s 2% target already from March, and to peak above 3% over the coming months as higher energy prices continue to pass through. An additional source of upward pressure is likely to come from higher food prices, driven by higher fertiliser prices¹, and higher energy-intensive goods prices.

Negative scenario also pales compared to 2022-23

Eurozone HICP inflation in different scenarios, % y/y



Source: LSEG, ABN AMRO Group Economics

Fertiliser bears watching for food price impact

%



Source: Bloomberg, ABN AMRO Group Economics

In response to this, we expect the ECB to raise rates already at the April and June Governing Council meetings, taking the deposit rate to 2.50%, in order to pre-empt any de-anchoring of inflation expectations. We have more conviction in the April

¹ We note however that fertiliser is but one of many inputs into food production costs, making up 5-15% of the final retail price. Moreover, a big reason for the food inflation surge of 2022-23 was a shortage of agri food commodities such as sunflower oil and wheat out of Ukraine. We do not face such shortages this time around.

hike than the June hike, given the ongoing uncertainty of the conflict. It could well be the case that with the conflict ending and energy prices quickly normalising, the Governing Council gains enough visibility on the inflation outlook that it holds off from hiking in June. Policy tightening would be aimed at preventing second round effects from the energy shock spilling over to the labour market specifically – something we saw in the aftermath of the 2022 energy shock, which coincided with a relatively tight labour market and therefore encouraged workers to demand pay rises to compensate for the real income shock. This ultimately fed back into services inflation, setting off a short-lived wage-price spiral. The combination of a smaller initial inflation shock, pre-emptive ECB tightening and a higher starting point for interest rates, as well as a looser labour market, should prevent such a dynamic from taking hold this time around. With that said, we do expect some limited second round effects that will offset some of the drag from falling energy prices that we expect in 2027. This will keep inflation from moving significantly below the ECB’s target. Still, 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%.

Why is the growth impact so much smaller than the 2022-23 energy crisis? While growth is weaker than in our prior base case, we note that the shock is much smaller than the 2022-23 energy crisis, when the economy stagnated for five quarters. There are three reasons for this. First, the sheer magnitude of the price shock (even in a negative scenario, see chart above) is much smaller and less broad-based than in the previous crisis, with inflation set to peak at around 3.5% compared with the double digits we saw in 2022. Part of the reason for this is that the gas price shock is having a much smaller impact on electricity prices this time around, thanks largely to Europe’s renewables buildout – although the extent of the gas price decoupling varies considerably per country (see this month’s [Eurozone](#)). This means the real income shock and the knock-on hit to consumption is also much lower. The second reason the growth hit is likely much lower is that there is less scope for pain in energy-intensive industry than in 2022-23. Back then, there was a significant adjustment following the energy crisis, with much of it either closing/relocating or adapting to become more energy efficient. This led to a sharp decline in the energy intensity of GDP in the years following the crisis (see chart below). Third, the extent of the monetary policy response is also much lower. Then, the ECB raised rates by 450bp in a little over a year, the ECB’s steepest policy tightening on record. Now, the ECB is expected to raise rates by only 50bp, and even in a negative inflation scenario, by just 100bp.

This time is different: Electricity and gas decouples

Index, 100 = prior quarter average



Source: Bloomberg, ABN AMRO Group Economics

This time is different: Energy intensity has gone down

Kilograms of oil equivalent per thousand euros EU GDP



Source: Eurostat, European Commission, ABN AMRO Group Economics

US & Fed – On the US side, we predominantly see an inflation impact. Changes to our growth forecasts are concentrated in the first quarter, and are largely based on incoming data, rather than the energy shock. The new inflation impulse adds to still elevated inflation which we expected to persist throughout the year. At the same time, if one worries about second round effects, it is relatively benign excess inflation in the sense that it is mostly supply driven; mechanical through tariffs and more fundamentally because of tightness in certain labour markets due to immigration policy. There is a demand-driven component, but it is quite narrow and mostly associated with the AI buildout. Upper income households, supported by wealth effects, also provide some demand pressure. The current constellation therefore presents a completely different background from the set of circumstances that allowed for the post-pandemic inflation wave, and we have limited concern about inflation escalating out of control. We believe the Fed will settle on a similar conclusion, meaning that we do not think the Fed will raise rates in response, but rather responds passively by holding the current, marginally restrictive, policy rate for longer. There are two wildcards. The first is the change of the guard at the Fed, and the second is the potential for broad fiscal support in anticipation of the midterms. We think incoming Fed Chair Warsh will not drastically alter the FOMC’s charted course, which will not see any room for easing in the near term. At the same time, the Fed will also likely refrain from hiking, because of a limited need, and a fear that a severe tightening of financial conditions could trigger a sharp downturn in activity. Wider fiscal support has the potential to create the demand that might accelerate inflation beyond our base case,

and could be a catalyst for inflation expectations de-anchoring. In such a scenario, the risk to both inflation and policy rates is tilted to the upside. (Nick Kounis, Bill Diviney, Rogier Quaedvlieg)

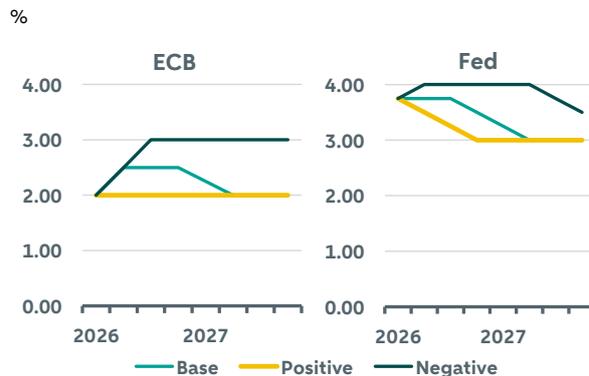
Market pricing for policy rates has shifted sharply

End-2026 market-based expectations for policy rates (ECB=lhs, Fed=rhs)



Source: Bloomberg, ABN AMRO Group Economics

Central bank policy rates in different scenarios



Source: Bloomberg, ABN AMRO Group Economics

Eurozone: An energy shock like nobody's ever seen before

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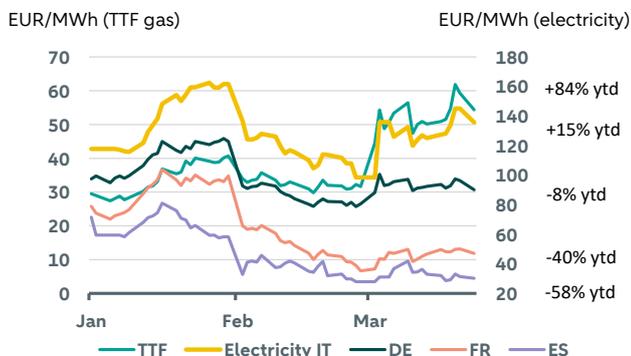
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- Europe faces a renewed energy shock, just when the remnants of the last one were finally fading
- Still, as with most things emanating from *Trumpworld*, this shock is likely to hit differently to the last one
- This time, we are seeing a sharp divergence in electricity prices among eurozone countries
- ECB looks set to at least do an insurance hike – and probably another – to contain inflation expectations

In this Monthly we made the first changes to our base case following the outbreak of the Iran conflict almost a month ago. While much remains uncertain over the final extent and length of the energy shock that is unfolding, two things are clear, at least for Europe: 1) the shock is unlikely to be nearly as large as the 2022-23 energy crisis that resulted from Russia's invasion of Ukraine, and 2) it will not hit eurozone economies as uniformly as back then. The clearest indication of this is in the reaction in electricity prices to the rise in natural gas prices. While gas prices have risen some 80% year to date, average wholesale electricity prices for the 5 biggest eurozone economies have barely moved since the conflict broke out, and are still some 14% lower year-to-date (largely due to the collapse in the carbon price).

This decoupling of electricity from gas – despite the latter still acting as the key marginal supply source – is thanks to Europe's renewables buildout that accelerated since 2022, and because France's vast nuclear fleet is running at full capacity again, in contrast to the outages that were an unfortunate coincidence to the 2022 crisis. However, the stable eurozone average belies a sharp divergence between countries that has opened up, reflecting that some countries remain much more dependent on gas than others, and that European power grids remain fragmented. To compare the two outliers, Spain currently enjoys a wholesale electricity price less than one quarter that of Italy's, while in the middle, France's power price is half that of Germany's (see chart). As well as business competitiveness implications, the divergence means the hit to consumer confidence and real incomes is likely to be smaller in countries less vulnerable to the energy shock, especially in France and Spain. It will also limit the propagation of the shock through the economy.

Sharp divergence opens up in eurozone energy



Source: Bloomberg, ABN AMRO Group Economics

Wage growth has only just normalised



Source: Bloomberg, ABN AMRO Group Economics

Another big difference with 2022-23 is that the fiscal response is also likely to be more limited. So far, among large economies only Spain – ironically among the least affected – has announced meaningful measures, for instance halving the rate of VAT on most energy sources, including petrol, gas and electricity. We expect fiscal support to remain limited, for three reasons. First, because the hit to real incomes will be much smaller this time around. While motorists will see a sharp rise in petrol pump prices, this pales in comparison to the broader based shock to home energy bills and food prices in 2022-23. Second, governments are more fiscally constrained and more wary of jittery bond markets than they were back then. And third, governments are now more conscious of the risk of fuelling second round inflation effects that comes with non-targeted fiscal support. Indeed, ECB president Lagarde warned precisely against such support in last week's post-Governing Council meeting press conference, urging governments to only adopt measures following the 'Three Ts': Temporary, Targeted, and Tailored.

The containment of such second round effects from the energy shock will be the key goal of any monetary policy tightening by the ECB. Our base case now sees the ECB hiking twice over the coming months. Raising rates will do nothing to restore energy supplies lost to the conflict, but it will help to keep inflation expectations anchored, at a delicate moment when wage growth has only just returned to levels consistent with the 2% target.

Germany: Cautious recovery pressured by geopolitical uncertainty

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- A tentative recovery remains vulnerable as energy and geopolitical uncertainty weigh on the outlook
- The sharp rise in factory orders at the end of 2025 has yet to translate into higher industrial production
- Still, the allocation of special defence, infrastructure, and climate funds is gathering momentum

The German economy showed early signs of improvement at the start of the year. Sentiment indicators of the IFO and ZEW rose in the first 2 months but retraced in March due to geopolitical turbulence. The composite PMI came in at 51.9 in March, remaining firmly above the 50 threshold, typically an indication of growth. The key question is whether this momentum can be sustained in light of the escalation of the war in the Middle East. Higher energy prices and increased uncertainty could be yet another blow to Germany’s energy intensive industry which already faced relatively high energy prices and will likely hamper the fragile cyclical recovery. We now expect the economy to grow by 0.7% this year and 1.2% next year, compared with earlier forecasts of 1.0% and 1.3%. Despite improving sentiment, hard data for the manufacturing sector were disappointing in January. Factory orders fell by 11% month on month, though this was distorted by exceptionally large orders in late 2025. Industrial production also declined by 2.5%. The strong surge in orders at the end of 2025 has not yet fed through into higher production, as many of these orders were for the defence sector, where spare capacity is limited. However, defence spending is likely to provide a cyclical tailwind to industry going forward (see [here](#)). In contrast, other sectors still have ample room to expand, with average capacity utilisation at a relatively low 77.5%. Consequently, investment in machinery and equipment remains roughly at the same level as ten years ago. Meanwhile, the annual number of bankruptcies has risen to its highest level in a decade. Weakening competitiveness is weighing on export growth, while stronger domestic demand is pushing up imports, resulting in a shrinking trade surplus.

Extra government spending supports expectations

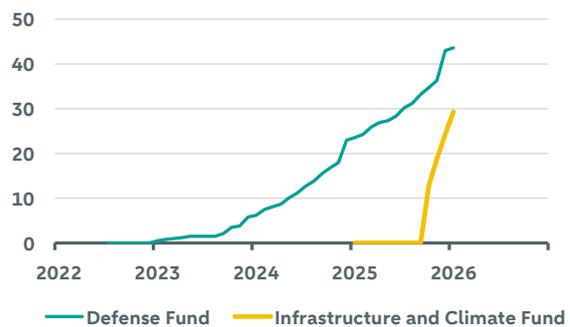
Index, 2015 = 100



Source: LSEG ABN AMRO Group Economics

Allocation of special funds is getting traction

EUR (bn)



Source: Destatis, ABN AMRO Group Economics

Consumer confidence remains subdued, despite a slight improvement in early 2026. This is reflected in modest retail sales and weak car sales. Indeed, inflation fell to 1.9% year on year in February but is expected to rise again in the coming months due to higher energy prices, putting renewed pressure on purchasing power. The labour market is also softening, with vacancies declining and unemployment is rising, while trade unions have lowered their wage demands to 5-7%. Rising real incomes will support private consumption over the course of 2026 and promote GDP growth. One bright spot for households is the rise in house prices, which strengthens homeowner balance sheets and boosts transaction volumes. Growth is particularly visible in existing home sales, as supply constraints continue to limit the new-build segment. Construction activity remains sluggish due to lengthy permitting procedures and high material and labour costs. Since the approval of the 2026 federal budget, more government funds have begun flowing into the economy. Allocations from the defence fund increased from EUR 35 billion in October to EUR 44 billion in January, contributing to higher public investment in equipment and transport vehicles. Additionally, allocations from the Infrastructure and Climate Fund jumped from zero in September to EUR 29 billion in January. These funds should support civil construction activity, although delays in planning and approvals, capacity bottlenecks, and the diversion of funds to core spending areas may slow progress. Public finances are deteriorating due to rising expenditures and, to a lesser extent, tax cuts. While some taxes are being reduced, the overall burden of taxes and social security contributions on companies and households rose to 42% of GDP in 2025 and is expected to increase further.

The Netherlands: A new energy shock while still digesting the former

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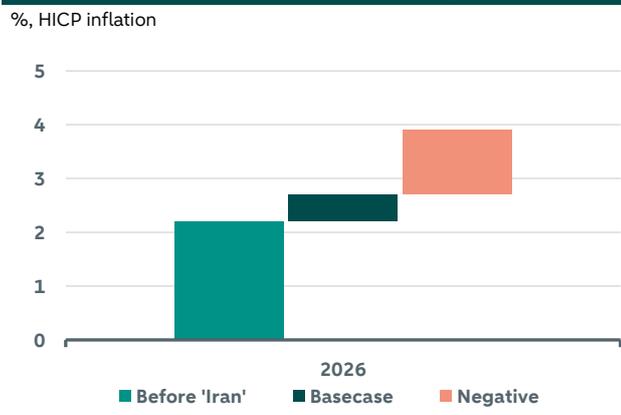
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- The fallout from the war in the Middle East means we have adjusted our forecasts. We have slightly downgraded our 2026 growth forecast, while upgrading our inflation forecast.
- We now expect growth in 2026 to average 1.5% (was 1.6%), and 1.2% in 2026 (was 1.4%)
- The uncertainty around inflation is high with an upgraded forecast of 2.8% in 2026 (was 2.2%)
- While the timing of the energy shock is unfavourable the economy is resilient

The developments in the Middle East cast a shadow over the outlook and lead to new uncertainty. The Dutch economy entered 2026 with solid underlying momentum but our new base case, including the fallout from the war, reflects lower growth and higher inflation for 2026. The forecasts show that the inflation impact is larger because of the direct effect of higher energy prices and the indirect pass through to other (energy intensive) goods and services. The growth impact is expected to be more limited, at least in the near term, in part because of solid economic momentum and resilience (see below). In more severe scenarios, we expect a larger effect on inflation and growth. Zooming out, with CLA-wage growth at an elevated 4.5% in February, the Dutch economy is still digesting the second-round effects of the 2022 energy shock. Together with the still tight labour market this means the risk of more pronounced second-round effects due to the rise in energy prices is higher in the Netherlands compared to Eurozone peers.

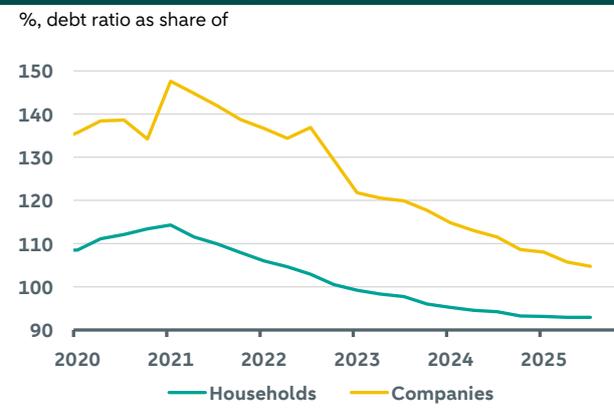
With petrol prices roughly 20% higher than a year ago, the price rises have already led to calls for additional support by the government. Indeed, 'Iran' puts the Dutch government in front of a dilemma. Before the war, purchasing power increases this year were considerable, which would be skimmed by higher taxation in the Coalition Agreement from next year onwards to fund, among other things, defence spending. Now the increase this year might be eroded already by higher inflation. Together with other sensitive reforms such as the pension age, wealth taxation and labour-market adjustments the calls for support add to an already crowded agenda and strained budget for the minority cabinet which is dependent on opposition support to pass legislation.

Our new base case sees inflation rising to 2.8%



Source: CBS, ABN AMRO Group Economics

Dutch economy has gained resilience in recent years



Source: LSEG, ABN AMRO Group Economics

When assessing the impact, it is important to acknowledge that the Dutch economy has had solid economic momentum while the private sector has gained resilience in recent years. Whether it is the labour market, where unemployment in February ticked up to 4.2% but remains historically low, or declining business and household debt ratios (see graph above), or high household savings levels, probably caused by uncertainty. The prudence of recent years can be seen as a sign of strength going forward. This is one factor why we see a relatively small downgrade of the 2026 GDP forecast from 1.6% to 1.5%.

Going forward, inflation will change considerably from the February inflation print of 2.3% (HICP). Energy inflation, mostly petrol, will push up inflation while higher gas prices only slowly make their way into the CPI. 54% of Dutch households have a fixed contract. In our new base case we expect inflation to average 2.7% in 2026. In more negative scenarios inflation rises to nearly 4%. Uncertainty is high but the macroeconomic starting position; higher inflation compared to the eurozone, high wage growth and a tight labour market mean the risk of second-round effects is large.

US: Actions have consequences

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- Outside direct and indirect effects of the AI boom, the US economy grew at near stall speed in 2025
- Low labour supply growth led to near-zero job creation, but also prevented unemployment from rising
- With tariff inflation yet to dissipate, the Iran conflict generates another policy-induced inflation shock

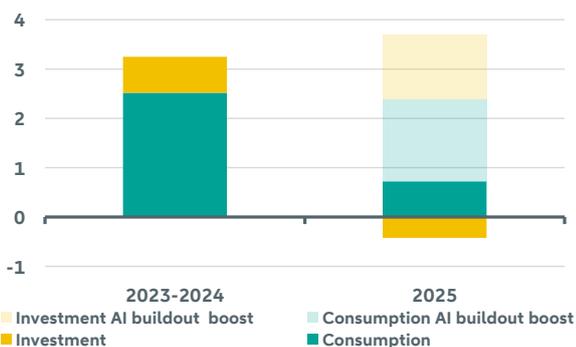
In the latest FOMC press conference, Chair Powell noted that the US economy created zero private-sector jobs in the last half year. Recent San Francisco Fed research finds a ‘one-for-one causal effect of unauthorized immigration worker flows on employment growth.’ While Stephen Miran touted record employment gains for native-born workers (based on a misinterpretation of the data), the reality is that job growth has stalled in its totality. GDP for Q4 was revised down to 0.7% from an initial estimate of 1.4%. Growth in private demand came in at 2.4% over the full year, compared to an average of 3.2% in the two years prior. We estimate that private demand would have grown by less than half a percent, had the AI investment boom not coincided with Trump entering office. Quarterly contractions would have been likely. Almost all of that deterioration is directly attributable to policy and policy uncertainty of the Trump administration.

Inflation was set on course to return to the 2% target, but tariffs led to a lack of disinflation. Inflation is now set to rise again due to rising oil prices. We’ve updated our base case to reflect these developments, as described in more detail in this month’s [Global View](#). Based on our assumptions on oil price developments, we expect PCE inflation to rise to 3.6%, peaking in the second quarter of this year. We have [limited concern](#) about second order effects from the energy shock, given the [K-shaped economy](#), and the abovementioned slowdown. Any second round effects will however be difficult to identify, given already re-accelerating inflation, with recent PPI readings showing significant price pressures throughout the economy. These are mostly supply-driven due to tariffs and labour shortages in select sectors, but there is a demand component attributable to the investment and consumption patterns associated with the AI build out.

We therefore expect a passive Fed, which does not fully ‘look-through’ the inflation, and refrains from the easing as it were poised to do before the conflict started. Chair Powell, in principle, has one meeting left in which he is unlikely to deviate from course, and his successor, Kevin Warsh, is likely to steer for consensus on not hiking. We now see the Fed on hold until December of this year, when the fog starts to clear and the FOMC has convinced itself of limited second order effects. We subsequently see further policy normalization with two quarterly 25 bps cuts in March and June 2027.

Without the AI boom, 2025 would have looked very

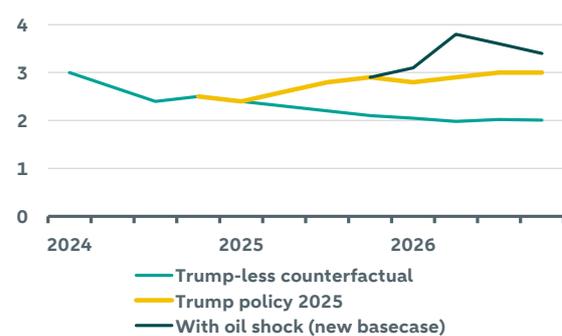
Decomposed final demand, shaded region is contribution from AI boom



Source: LSEG, ABN AMRO Group Economics

Inflation could have been at target

Headline PCE inflation, counterfactuals and new basecase, %



Source: LSEG, ABN AMRO Group Economics

Will the US economy prove resilient? In our base case, the AI build-out continues to drive healthy headline figures for the US, at least in terms of growth. AI infrastructure is more dependent on electricity than on oil directly, and US electricity prices have seen little movement beyond the usual variability. The downgrade of our forecast for this first quarter is partly due to the oil shock, but predominantly on the back of incoming data. Headline inflation will rise substantially due to elevated oil prices, but we also slightly upgraded core inflation, which we expect to make little progress over the rest of the year. The labour market shows no sign of revival, and we expect a minor increase in the unemployment rate. Risks for core inflation are tilted to the upside, especially in the case of a prolonged Iran conflict, and potential fiscal stimulus before the mid-term elections. Risks to growth are tilted to the downside, and predominantly triggered in a scenario where the Fed would steeply tighten in response to de-anchoring inflation expectations.

China: Reviewing our forecasts on the Iran conflict

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- Macro data have gotten more ‘bullish’ just before Middle East escalation
- Slight adjustment of our growth forecasts for 2026 and 2027 on Iran conflict
- Despite excess supply, cost-push pressures from energy price spike lead to higher inflation forecasts

Macro data have gotten more ‘bullish’ just before Middle East escalation

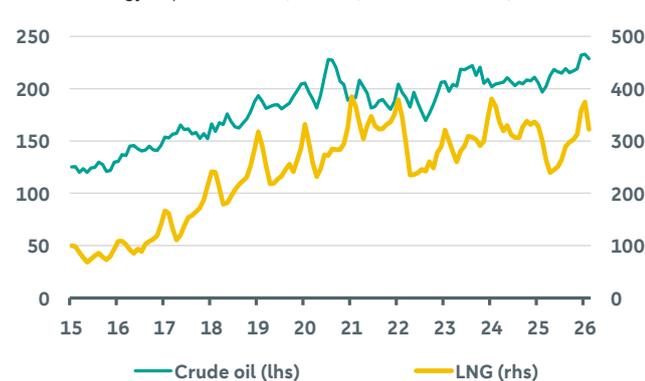
China’s economy started the year on a strong footing (also see our recent China Macro Watch, [On Iran, Trump-Xi, NPC and bullish data](#)). The biggest improvement came from fixed investment, which turned back to growth in January/ February (+1,8% y/y) compared to a contraction of -3.8% in 2025. This turnaround was led by infrastructure spending, driven by local government bond issuance, but also by faster manufacturing investment and an easing slump in property investment. (Note, however, that China’s investment data are one of the least reliable, given all kinds of reporting issues.) The supply side keeps outperforming the demand side, amidst record external surpluses (see [here](#)). Industrial production accelerated to 6.3% y/y. Retail sales also picked up – partly helped by solid LNY spending, and despite falling car sales – but at 2.8% y/y remains relatively subdued. Earlier, the February PMIs showed a renewed divergence between the official survey (focus on large state firms) and the export-leaning RatingDog survey, with the export component of the latter jumping to a 5.5 year high. That was a prelude to the strong export growth reported for January/February (+21.8% y/y), partly driven by a firmer global business cycle – led by tech/AI – in the run-up to the Iran conflict.

Slight adjustment of our growth forecasts

As the world’s largest energy importer and the key destination of energy shipments crossing the Strait of Hormuz, China is impacted by the Iran conflict. We still think there are various cushioning factors (e.g. high oil buffers, access to Russian energy – see [here](#)) that will mitigate the impact. However, downside risks have risen due to the conflict, taking into account direct effects, and also indirect ones such as the hit to global demand. Meanwhile, other geopolitical/geo-economic risks (e.g. trade relations with West, Taiwan) remain. We do not think the delay of the Trump-Xi meeting, originally planned for end-March/early April, is a prelude to a (sharp) escalation in US-China tensions, despite the US launching a fresh Section 301 survey into China and other countries post SCOTUS-ruling. We still think that both countries have clear incentives to extend the fragile tariff/chokepoint truce, amongst an increasingly complex global geopolitical landscape. All in all, we tweaked our quarterly GDP growth profile somewhat (stronger Q1, weaker Q2), and as a result slightly cut our annual growth forecast for 2026, to 4.6% (from 4.7%) – within the government’s target zone of ‘between 4.5% and 5%’, as announced earlier this month. We slightly raised our 2027 growth forecast to 4.5%, from 4.4%.

China’s stockpiling in 2025 added to energy buffers

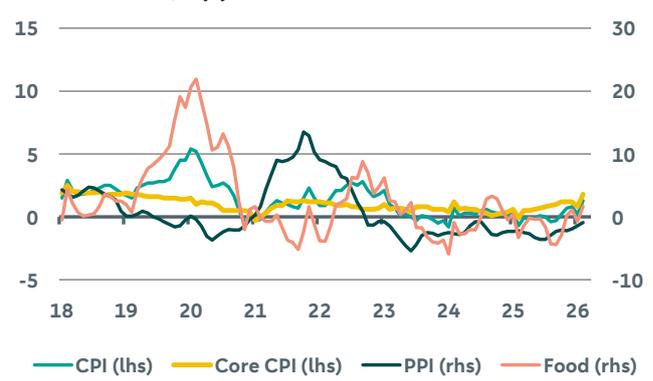
Chinese energy import volumes, indices, Jan-2015 = 100, 3mma



Source: ABN AMRO Group Economics, Bloomberg

Cost pressures from energy spike will ‘help’ reflation

Inflation measures, % y/y



Source: ABN AMRO Group Economics, LSEG, Bloomberg

Reflation likely to continue in short term, as cost-push pressures rise on Iran conflict

Despite ongoing domestic excess supply, the spike in energy prices will lead to higher (cost-push) inflation in the coming months, even though the impact is cushioned. Before the conflict erupted, CPI inflation rose to a two-year high of 1.3% y/y in February, driven by LNY spending, food prices and base effects. Core inflation jumped to a seven-year high of 1.8% y/y, while annual producer price deflation eased further. We expect CPI inflation to pick up in Q2-26, before easing again later in the year. We raised our annual CPI forecasts for 2026 and 2027 to 1.2% and 1.4% (from 0.9% and 1.2%). We think this firmer inflation path will delay further additional (piecemeal) monetary easing steps to some extent.

Key views on a page

The Iran conflict is triggering a new global energy shock. It remains uncertain how long the disruptions to energy supplies will go on for, but our new base case assumes severe disruptions last until the end of May. The inflation shock will outweigh 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 will 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 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 now expect rate rises at the April and June meetings, taking the deposit rate to 2.50%. For the second rate hike we have a lower conviction, given the uncertainty over how prolonged energy supply disruptions – and therefore the inflation rise – will be. 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 – We have slightly downgraded our growth forecasts and upgraded our inflation forecasts for the Netherlands on the back of the war in the Middle East. We now expect growth to average 1.5% (was 1.6%) for 2026 and see inflation averaging 2.8% (was 2.2%). The Dutch economy is more prone to second-round effects on wages due to the starting point of inflation and the tight labour market. Still, the Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers over the past quarters.</p>	<p>Fed – The Fed held rates at the 3.50-3.75% target range in the March 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 moderately 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 will lead 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 the second round effects. While we have downgraded our growth forecasts, the impact is expected to be manageable, and our base case sees the economy continuing to gradually recover over the coming year. This will be helped by reduced fiscal uncertainty, with government finances in a less precarious state.</p>	<p>Bank of England – The MPC struck an unexpectedly hawkish tone in its March communication. We now expect the BoE to do an insurance rate hike at the April meeting, and to signal further moves if energy prices remain elevated at that point. Ultimately though we expect the MPC to pivot back to a wait-and-see approach, assuming energy supplies gradually normalise from June. 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. The recent oil shock increases (headline) inflation, but has a marginal 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, and demand effects from stimulus. Unemployment continues a gradual, but not dramatic increase, as limited demand matches the strong decline in supply due to immigration measures.</p>	<p>Bond yields – Yield curves have drastically bear flattened since the onset of the war in Iran, driven by the pricing in of interest rate hikes (ECB) and the pricing out of rate cuts (Fed). Influenced by reports regarding the conflict, volatility has risen significantly and is expected to persist until a resolution appears on the horizon. Markets are currently pricing-in three rate hikes for the ECB and no rate cuts by the Fed, while our base case is of a less bearish view. Consequently, we anticipate that both the 2s10s Bund and UST curves will steepen in 2026.</p>
<p>China – The economy started 2026 on a strong footing, with investment returning to growth, and exports surging on the back of a strong global tech cycle. As a large energy importer, China will be hit by the Iran conflict, but there are cushioning factors. We modestly changed our growth forecasts on the conflict, to 4.6% (from 4.7%) for 2026 and 4.5% (from 4.4%) for 2027. Despite ongoing excess supply, the spike in energy prices will bring higher (cost-push) inflation in the near term. We raised our inflation forecasts a bit, and think higher inflation will bring some delay to further piecemeal monetary easing.</p>	<p>FX – We updated our forecasts based on our new base scenario. The updated forecasts anticipate a modest decline in the euro against the US dollar in the coming months due to persistent high oil and gas prices, favourable US real interest rate differentials. However, a recovery is expected later in 2026 and into 2027 as energy prices ease and focus shifts towards the US, supporting the euro. The EUR/USD forecast is now set at 1.20 by the end of 2026 and 1.25 by the end of 2027, both slightly lower than previous estimates.</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	1.9	1.5	1.2	3.2	3.0	2.8	2.1				
Germany	-0.5	0.4	0.7	1.2								
UK	1.1	1.3	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	2.3	2.1	2.6	2.6	3.4	2.3	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	20/03/26	26Q2	2026	2027	Energy	2025	23/03/26	26Q2	2026	2027
US Treasury	4.17	4.39	4.25	4.20	4.15						
German Bund	2.85	3.04	3.00	3.00	2.95	Brent - USD/bbl*	60.85	99.94	100	86	75
EUR/USD	1.17	1.15	1.14	1.20	1.25	WTI - USD/bbl*	57.42	88.13	95	81	70
USD/CNY	6.99	6.91	6.85	6.80	6.70	TTF Gas - EUR/MWh*	27.28	45.73	65	56	45
GBP/USD	1.35	1.33	1.34	1.40	1.45						

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

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (q/q)												
Eurozone	0.6	0.1	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Netherlands	0.3	0.3	0.5	0.5	0.4	0.2	0.3	0.2	0.4	0.2	0.4	0.3
US (saar)	-0.6	3.8	4.4	0.7	2.5	2.3	2.1	2.0	2.1	2.1	2.0	2.1
China (y/y)	5.4	5.2	4.8	4.5	4.8	4.6	4.6	4.6	4.3	4.6	4.6	4.5
Inflation												
Eurozone	2.3	2.0	2.1	2.1	2.1	3.2	3.0	2.8	2.6	1.8	1.8	1.9
Netherlands	3.3	3.2	2.6	2.8	2.7	3.0	2.7	2.7	2.1	1.6	1.8	1.6
US (PCE)	2.6	2.4	2.7	2.8	2.3	3.6	3.4	3.3	2.6	1.9	2.1	2.1
China	-0.1	0.0	-0.2	0.6	1.0	1.8	1.1	1.0	1.1	1.1	1.6	1.7
Unemployment												
Eurozone	6.3	6.3	6.3	6.3	6.4	6.4	6.4	6.3	6.3	6.2	6.2	6.2
Netherlands	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.3	4.3	4.3	4.3	4.3
US	4.1	4.2	4.3	4.5	4.5	4.6	4.7	4.7	4.6	4.6	4.6	4.6
Policy rate												
Eurozone	2.50	2.00	2.00	2.00	2.00	2.50	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	4.00	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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