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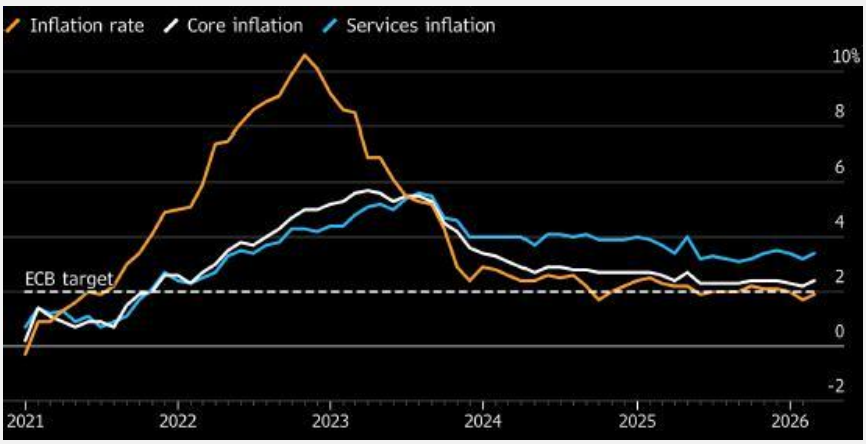
Iran conflict threatens inflation

ECB warns of risks of protracted conflict

Inflation is likely to rise in Europe

- **Philip Lane** warns that a protracted conflict in the Middle East could revive inflation by about 0.5bp and dampen growth by about 0.1bp; with inflation at ~1.7%, a limited peak would not necessarily require an immediate response, but a persistent shock would push the ECB to act.
- **Joachim Nagel** The ECB is closely monitoring the surge in energy costs linked to the war in Iran and will consult the projections to decide at the next Council meeting whether monetary policy needs to be adjusted. The Bundesbank president believes that, with a deposit rate of 2%, the ECB is "well placed" to react, but it is still too early to conclude.
- **Goolsbee** says more rate cuts could happen in 2026 if inflation converges to 2% and evidence backs it up; however, he notes that services inflation remains high and that the Fed has left rates unchanged after three cuts at the end of 2025.
- **Fed** Trump nominated Kevin Warsh to chair the Fed; If confirmed, he would start on May 15, but his appointment could be challenged due to doubts about his political orientation and the independence of the central bank.

Inflation in the Eurozone



Source: Bloomberg 05/03/26

Annual inflation in the euro area reached 1.9% in February 2026, up from the 16-month low in January (1.7%) and above market forecasts (1.7%).
Price pressures were particularly accentuated in services, where inflation rose from 3.2% to 3.4%, while inflation for industrial products excluding energy rose from 0.4% to 0.7%.
Energy prices continued to fall, falling 3.2% compared to a 4.0% decline in January. Inflation for food, alcohol and tobacco remained stable at 2.6%.
Core inflation, which excludes energy, food, alcohol and tobacco, rose to 2.4%, after hitting its lowest level in more than four years in January at 2.2%.

Figure of the week

1,9 %

This is the inflation rate in the euro area at the end of February

Philip Lane

According to the ECB's chief economist, a protracted conflict in the Middle East could revive inflation and dampen growth in the euro zone.
The recent escalation, possible US and Israeli involvement against Iran, strikes in Lebanon and attacks in the Gulf, has already pushed the price of oil up by more than 10%.
A rise in energy prices pushes inflation, especially in the short term, but the extent of the conflict will depend on the duration and extent of the conflict. ECB analyses show that a persistent reduction in supplies would lead to a substantial spike in energy inflation and a sharp drop in output.
A December study estimates that a sustained rise in oil prices of this magnitude would raise inflation by about 0.5 bps and reduce growth by about 0.1 bps. With current inflation at around 1.7%, a limited peak would not require an immediate monetary policy response, but a lasting shock would force the ECB to reassess its response, with consequences for growth and markets.

J.Nagel: The ECB is "very vigilant" about the impact of the war in Iran on inflation

The European Central Bank is closely monitoring the impact of soaring energy costs due to the war in Iran and will look at the projections to decide whether measures are needed, according to Governing Council member Joachim Nagel.

The Bundesbank President recalled the price shock that followed Russia's invasion of Ukraine and stressed that policymakers were determined to avoid second-round effects.

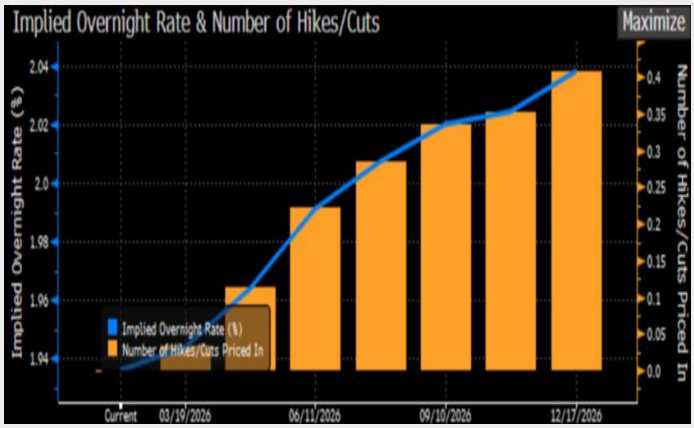
With a deposit rate of 2%, a level seen as neither stimulative nor restrictive for growth, the ECB is "well placed" to respond, he said.

"It is still too early to draw monetary policy conclusions from this volatile situation. At the ECB Governing Council meeting in two weeks' time, we will discuss the latest data and projections.

On this basis, we will then decide whether the current monetary policy stance remains appropriate or whether measures need to be taken. »

> *We are following the global situation very closely in order to understand what might be the economic consequences*
>
> *Christine Lagarde (ECB), 02 March 2026*

ECB



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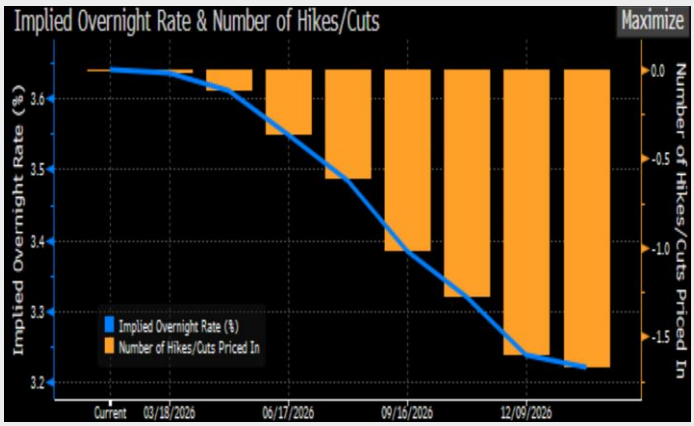

Source: Bloomberg 05/03/26

Forecasts for interest rate developments have changed in recent days following the outbreak of the conflict in Iran.

Indeed, if until last week, favoured by the positive data on inflation, still below the ECB's 2% target, expectations had remained stable and agreed on the fact that no change in cuts would be decided before the end of the year, there were still some probabilities, but with a view to cuts.

Today, the trend has been reversed.

Risks related to rising energy prices, which could easily impact inflation, are leading to a slight expectation in markets of rate hikes by the end of the year (current 40% probability).

On the U.S. side, the trend is not as visible, but there is a slight slowdown in declines, where certainty and a 60% probability are now expected.

The evolution and especially the duration of the conflict in Iran will be crucial in the coming days or weeks to better understand the evolution of central banks' monetary policies.

GOOLSBEE: NEW RATE CUTS FOR THE FED

If inflation continues to fall towards the Fed's 2% target, there could be more interest rate cuts this year. This was stated on Monday by Chicago Fed President Austan Goolsbee.

While warning that services inflation remains high, Goolsbee also said that if tariff-related price hikes were an isolated event, it could give policymakers some breathing room.

"I think if it turns out to be transitory and we can demonstrate that we're on track to get back to 2% inflation, I think there will be several more rate cuts in 2026, but we have to see."

Fed officials kept interest rates unchanged at their meeting last month, following three cuts in the final months of 2025 to support the labor market.

I want evidence that we're heading towards 2%, and then I think rates can go down further," Goolsbee said.

Kevin Warsh named Fed Chair

President Donald Trump has officially forwarded to the Senate the candidacy of Kevin Warsh, former governor of the Fed, to take over as chairman.

The move is part of the White House's desire to appoint a more rate-cutting official to head the central bank, after Trump repeatedly criticized Powell for his refusal to ease monetary policy.

If the Senate confirms Warsh, he will begin a four-year term as chairman at the end of Powell's term on May 15, while also securing a 14-year term on the Board of Governors.

The position currently held by Stephen Miran: his term expired at the end of January, but he can remain in office until a successor is appointed.

A former banker at Morgan Stanley and a Fed governor in the early 2000s, Warsh is now a visiting scholar at Stanford's Hoover Institution and enjoys strong support in Republican circles.

However, his confirmation in the Senate is not a given: the process could be difficult if some elected officials question his political orientation and the independence of the central bank.

Kevin Warsh, Fed

The battle in the Senate will determine whether the White House will succeed in steering the Fed towards a more accommodative policy. A development that would have significant repercussions for the markets and the American economy.

News

- **United States** | The ISM falls less than expected at the end of February (52.4 vs. 52.6 the previous month)
- **Germany** | The manufacturing PMI back into positive territory at the end of the year. February (50.9 vs 49.1)

Agenda

- **11 March** I Publication of the inflation rate in Germany and the United States at the end of February
- **13 March** I Inflation rate released in France at the end of February

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