



## CONSUMERS ARE FEELING THE EFFECT OF WAR IN IRAN ALREADY

This week the cost of Donald Trump's Iranian adventures has become more apparent. In addition to the lives lost throughout the Middle East, the financial cost of the US attack on Iran is starting to filter through. Oil and gas prices have risen sharply and remain very volatile as Iran has identified where the US is most vulnerable. The selection of Mojtaba Khamenei as supreme leader makes Iran less likely to fold under the pressure of continued air strikes, so the duration of the conflict seems more likely to be determined by sentiment from the White House.

Consumers are already seeing prices rise. In the UK, average petrol prices are up around 7p a litre since the war began and diesel prices are up even more. Average US petrol prices have increased from \$2.94 a month ago to \$3.63 a gallon. Oil markets are pricing in an extended disruption but still see a long conflict as unlikely, as the spot price is much higher than contracts for future delivery. The longer the conflict lasts the more general prices will rise, so the question for markets is how much inflation Donald Trump is willing to tolerate in return for his geopolitical aims.

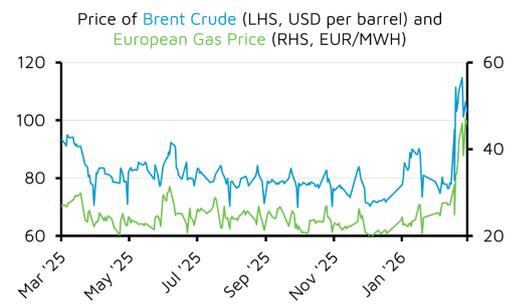
### THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-1.50%	-1.95%	-3.37%	-1.24%	-0.27%	+0.11%	+0.18%	+16.35%	+0.17%	-0.27%	-0.54%

#### IRAN: OUTLOOK FOR CONFLICT SENDS OIL AND GAS PRICES ON A WILD RIDE

The price of oil has fluctuated wildly. Brent Crude spiked to almost \$119 a barrel as Iran attacked oil and gas production facilities in the Arabian Gulf and the closure of the Strait of Hormuz has cut off oil and gas exports from the region. The price fell back to \$88 after US President Donald Trump indicated that the US led-attack could end soon. Although G7 countries failed to agree the release of some strategic reserves, the International Energy Agency agreed to release 400 million barrels of oil from its reserves.

However, prices rose again after Iran attacked cargo ships near the Strait of Hormuz and three oil tankers were severely damaged in attacks further north in the Arabian Gulf. Gas prices have been less volatile but have remained near their recent highs as the UK government considers financial assistance for household energy bills. Meanwhile the EU is considering capping gas prices to insulate households and businesses from the spike in energy costs.



#### US: ENERGY AND SHIPPING COSTS SOAR AS WAR ENGULFS THE GULF



US CPI inflation was unchanged at 2.4% for the 12 months to January. Core inflation, excluding volatile energy and food costs, was also unchanged at 2.5%.

US unemployment increased slightly in January to 4.4% as the US economy unexpectedly lost more than 90,000 jobs. This would normally generate speculation about interest rate cuts. However, the conflict in the Middle East has revived concerns of rising inflation as investors consider the potential for interest hikes from the Federal Reserve. US petrol prices have already started rising and some projections expect US inflation to rise to 2.9% in March if war with Iran drags on for even a few more weeks.

Shifting expectations for interest rates have caused US and global government bonds to fall as yields have been pushed up steeply. The potential for rising interest rates has helped the rise of the US dollar as investors unsettled by the war with Iran look for some element of safety.

US Dollar Index (LHS) and US 10-Year Treasury Yield (RHS, %)



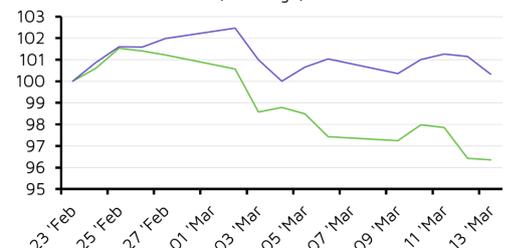
#### CHINA: EQUITIES HOLD UP AS OFFICIAL GROWTH TARGET TRIMMED



China's target for GDP growth has been scaled back as the country struggles to kick-start its domestic economy. Last year's target was "around 5%", but this has been set as 4.5% in 2026 as the Chinese government gave geopolitical risk, slower global growth and threats to free trade as reasons for the lower target. China's trade surplus jumped in February as a big increase in monthly exports exceeded a sizeable increase in imports. In contrast, domestic demand remains weak. CPI inflation picked up from 0.3% in January to 1.3%, but February was boosted by the lunar new year celebrations. Average house prices have fallen steadily since 2021 and consumer confidence also remains low.

However, Chinese domestic equity markets have avoided a lot of the volatility seen in international markets as the country's large oil reserves, government intervention in financial markets and limits on sending cash overseas mean the Shanghai Composite Index has been one of the better performing global equity markets in recent weeks.

FTSE World Index and Shanghai Composite Index (% change)



Data sourced from FE Analytics, St Louis Federal Reserve and Investing.com

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