

## Where we stand

**Geopolitical headlines continued to dominate narratives in March as the conflict between the United States, Israel and Iran escalated, resulting in volatile moves in oil, gold, foreign exchange (FX) and rates. Saudi Aramco closed the region’s largest oil refinery, Kuwait cut oil production and the Iranian Revolutionary Guard Corps (IRGC) threatened to close the Strait of Hormuz. The threat to oil supply resulted in WTI crude topping USD100/bbl, and both US yields and the US dollar (USD) squeezed higher in the month as markets priced in inflationary effects from higher energy prices. The resulting uncertainty left most G10 central banks on hold during their March meetings as bankers take a wait-and-see approach while acknowledging the potential need to raise rates if the conflict persists.**

On March 11, Iran’s Khatam al-Anbiya warned they are moving to “continuous strikes” and prepared markets to see USD200/bbl oil, which was followed by multiple vessel strikes in and around the Arabian Gulf, the Strait of Hormuz and the Gulf of Oman. IEA members agreed to strategically release 400 million barrels of oil over time to stabilize the markets, but global market consumption at around 100 million barrels of oil a day may see this strategy have a minimal effect on oil prices. The shock to energy prices prompted policymakers to announce measures to combat the rising prices, such as waiving the Jones Act, while reports also surfaced that the Japanese Finance Ministry contacted oil trading desks for potential intervention in futures markets.

Adding to the uncertainty, the US administration eased Russian oil sanctions, a policy shift that could indirectly finance Russia’s ongoing war effort in Ukraine. March 23 saw Trump attempt to wind down hostilities, citing conversations between the US and Iran, and later a 15-point proposal was received by Iran through Pakistani mediators. Iran staunchly rejected the points in the proposal, but the sudden backpedaling from the US administration rocked markets, sending oil, yields and the USD sharply lower on the day.

**Treasury Secretary Scott Bessent confirmed plans to hike global tariffs to 15% under Section 122 of the Trade Act after the initial raise of 10% was actioned.** Section 122 levies implemented last 150 days, which means US trade authorities must implement other legislation if they intend to extend tariffs beyond the allowed timeframe. **Trump will also be traveling to Beijing to meet with Xi Jinping around May 14-15 after original plans to meet in March were postponed due to the conflict in the Middle East.**

**February US nonfarm payrolls were soft, coming in at –92,000 versus market expectations of 55,000 and brought the unemployment rate up to 4.4%.** Beneath the surface, jobs in government, hospitality and healthcare were weak, with healthcare jobs dropping by 28,000 due to strikes after a large initial rise in January. Some of the weaker data could be attributed to the colder winter weather. **On March 11, US CPI was released in line with expectations, with month-over-month core CPI rising 0.2%, but headline PPI figures came in at 0.7% while markets expected a 0.3% increase**—a concerning development as the data was prior to the shock in oil prices.

**Canada’s labour market lost 108,400 full-time workers but gained 24,500 part-time workers, resulting in a net loss of 83,900 jobs for the month of February**—a further reduction from the 24,800-loss in January. **The unemployment rate rose to 6.7% from 6.5%,** and the outlook for the labour market worsened as job losses were driven by both full-time employment and private-sector work. **Canadian CPI for the month of February printed weaker than consensus estimates at 0.5% month-over-month, with year-over-year headline inflation seeing 1.8%.** The fall in the yearly figures from the prior 2.3% January print come as base effects from the end of the temporary sales tax measures roll off from last February.

**The Reserve Bank of Australia raised its cash rate by 25 bps to 4.10%, marking its second consecutive hike and aligned with market expectations.** Despite the hawkish move, the narrow 5–4 split decision to hike saw the AUDUSD decline to session lows. The divergence in voting reflects the uncertainty created by Middle East tensions, which have elevated fuel prices and raised inflation risk. A

### HEADLINES

- US unemployment rises to 4.4%
- Canada unemployment tops 6.7%
- RBA hikes by 25 bps
- BoC holds rates steady
- Fed holds rates steady
- BoJ holds rates steady
- BoE holds rates steady
- ECB holds rates steady

hawkish hold may have been seen as more prudent, allowing time to assess the impact and resulting in the close vote. Governor Michele Bullock stated that the economy faced stronger growth pressures even before recent geopolitical developments and emphasized the board's disagreement was over the timing of the hike rather than whether one should occur. Bullock's view is that a higher cash rate in turn strengthens AUD and helps cool inflation pressures.

**The Bank of Canada (BoC) held the policy rate at 2.25%, matching estimates, and stated its current position to look through the immediate impact of the conflict while acknowledging the potential inflation and economic impacts of a lasting conflict.** Governor Tiff Macklem further reasserted growth concerns as exhibited in Q4 and early 2026 metrics, citing a Canadian economy in excess supply with a weak housing market.

**The FOMC left rates unchanged at the March meeting in an 11–1 vote, with only Stephen Miran dissenting for a cut.** The DOTs revealed Fed members' expectations for one rate cut in 2026 followed by one in 2027, but Fed Chair Jerome Powell downplayed the projections due to ongoing uncertainty. The summary of economic projections revealed both higher GDP and inflation projections at 2.4% and 2.7%, respectively, versus the December projections of 2.3% and 2.4%. Powell acknowledged increased near-term inflation expectations due to tariffs and energy inflation but highlighted that the effects from this conflict are still largely unknown to the Fed.

**The Bank of Japan (BoJ) held the overnight call rate at 0.75% in an 8–1 split, with Hajime Takata being the sole dissenting voter—advocating to hike to 1%.** Takata believed the price stability target of 2% has already been achieved, with upside risks emerging from secondary effects of overseas conflicts and rising energy costs. The majority's decision to hold rates, however, allows time to monitor the impact of the conflict in the Middle East and the economic risks attached. BoJ projections anticipate core inflation declining below 2% due to energy subsidies in the near term, but the long-term expectations see inflation back to target, especially if robust growth is exhibited in the spring wage negotiations.

**The Bank of England kept rates unchanged at 3.75% in a unanimous 9-0 vote, a notable shift from the previous 5–4 split decision to cut.** Despite the hold, the committee's message reflected evolving perspectives suggesting potential further holds, and Mann signaled a possible hike in the future if the conflict creates sustained economic headwinds. Overall, the markets interpreted the meeting as more hawkish than expected, which saw GBP rally throughout the day and sent yields on 10Y gilts surging to their highest level since 2008.

**The European Central Bank (ECB) maintained its key interest rate at 2% in a unanimous decision.** President Christine Lagarde noted that although the Middle Eastern conflict has an impact on near-term inflation, the long-term implications remain contingent on the duration of the conflict and its effect on energy prices and consumer pricing dynamics. Core inflation remains aligned with the 2% target, but inflation risks are to the upside. Lagarde also emphasized the economy has shown resilience, and they will continue to use a data-dependent approach to help set monetary policy. This decision reflects a broader pattern among central banks to maintain current policy settings while monitoring the evolving geopolitical situation and economic impact.






## On the horizon

**The conflict in the Middle East has caused whiplash in central bank pricing as bets for cuts were quickly reversed, causing gyrations in rate markets and subsequent large FX intraday moves.**

**Money markets are now looking to the ECB to hike in 2026,** with swaps pricing in three quarter-point hikes as worries higher energy prices will feed into inflation. The March ECB meeting also provided more color from the bank, with Nagel suggesting a hike as early as April may be required. Prior to the shock to natural gas and oil prices, Overnight Index Swaps (OIS) were biased toward modest easing from the ECB for 2026.

Bank of England MPC pricing has also ratcheted higher, with overnight index swaps initially looking for 18 bps of hikes through 2026. Following the hawkish BoE meeting and higher inflation projections on March 19, markets began pricing in three quarter-point hikes through the end of the year. As energy prices continue to rise, the question may soon shift to whether an economic slowdown manifests as demand destruction takes place, which may question the feasibility of aggressive central bank tightening.

The markets expect the BoC to join their European counterparts in looking for rate hikes, as the first full increase has been moved forward from December to September. OIS pricing had extended to over 60 bps worth of hikes from the BoC for 2026 before leveling off to lower levels. Following the FOMC, traders had also temporarily priced Fed hikes for 2026 before paring those bets as concerns arose that the US economy is slowing down.

KEY UPCOMING EVENTS	
DATE	EVENT
APR 28	 BoJ rate decision
APR 29	 BoC rate decision
APR 29	 Fed rate decision
APR 30	 BoE rate decision
APR 30	 ECB rate decision

## Emerging markets

**Emerging market currencies got hit as risk reduction took place across Asia and Latin America as conflict wages in the Middle East and higher oil prices weighed on the prospects of oil-importing countries.** Asian currencies depreciated heavily amid USD strength, which seemed to resume its role as a safe-haven asset. The region's significant trade links to the Middle East, heavy reliance on oil imports and low fuel reserves expose Asian economies to risk and have led to weakening of currencies such as PHP, KRW and TWD. As such, policymakers have begun to act, with Korean authorities weighing intervention to stabilize the won, and the Reserve Bank of India has asked local banks to cap their net open positions on the onshore rupee market.

**On March 8, Colombian Senator Paloma Valencia won the primaries in a landslide, making her the favourite for Colombia's next president.** Valencia vows to act against drug-trafficking gangs and aims to lower business taxes and eliminate the wealth tax, while left-wing President Gustavo Petro currently looks to raise wealth taxes on companies. Elections taking place in May are currently between left-leaning Senator Gustavo Petro, Senator Paloma Valencia and lawyer Abelardo de la Espriella.

Banco Central do Brasil (BCB) Monetary Policy Director Nilton David confirmed the BCB's intention to cut rates at the March meeting, but markets correctly took recent geopolitical events and higher CPI as cautious reasons to expect 25 bps of cuts instead of 50 bps. At the March meeting, **the BCB unanimously cut the Selic rate by 25 bps to 14.75% in a more conservative move due to higher 2026 inflation forecasts of 3.9%. Brazil Finance Minister Fernando Haddad resigned to run for São Paulo Governor, with his replacement rumored to be Finance Secretary Dario Durigan.** The conflict in the Middle East has also bled into central bank expectations, with economists now looking for the benchmark Selic rate to end 2026 at 12.5%, up from prior estimates of 12.25%, as inflation expectations rise.

© Copyright Royal Bank of Canada 2026. RBC Investor Services™ is a global brand name operating primarily through the following companies: Royal Bank of Canada and RBC Investor Services Trust and their branches and affiliates. In the United Kingdom (UK), RBC Investor Services operates through RBC Investor Services Trust, UK Branch, authorized and regulated by the Office of the Superintendent of Financial Institutions of Canada. Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available on request. RBC Offshore Fund Managers Limited is regulated by the Guernsey Financial Services Commission in the conduct of investment business. Registered company number 8494. This document is provided for general information only and does not constitute financial, tax, legal or accounting advice, and should not be relied upon in that regard. RBC Investor Services makes no representation or warranty of any kind regarding the accuracy or completeness of any information contained or referred to in this document. To the full extent permitted by law, neither RBC Investor Services nor any of its affiliates or any other person accepts any liability whatsoever for any direct, indirect or consequential loss or damage arising from any use of the information contained herein by the recipient or any third party. Links to external websites are for convenience only. RBC Investor Services does not review, endorse, approve, control or accept any responsibility for the content of those sites. Linking to external websites is at your own risk. ® / ™ Trademarks of Royal Bank of Canada. Used under licence.