Investment Roundup

12 May 2026

RAFFLES
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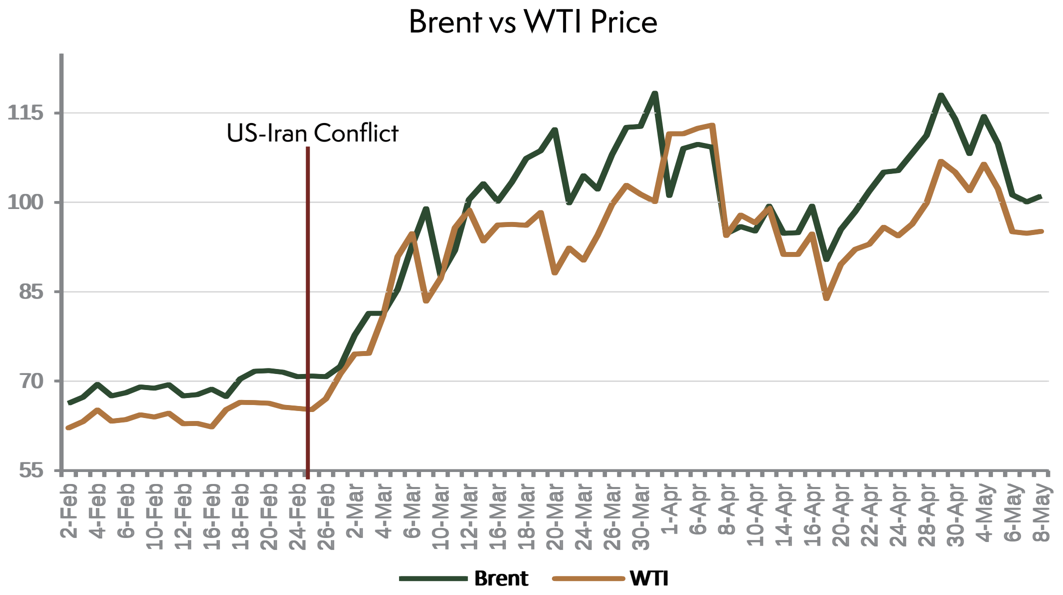
Crude oil: Iran premium fading



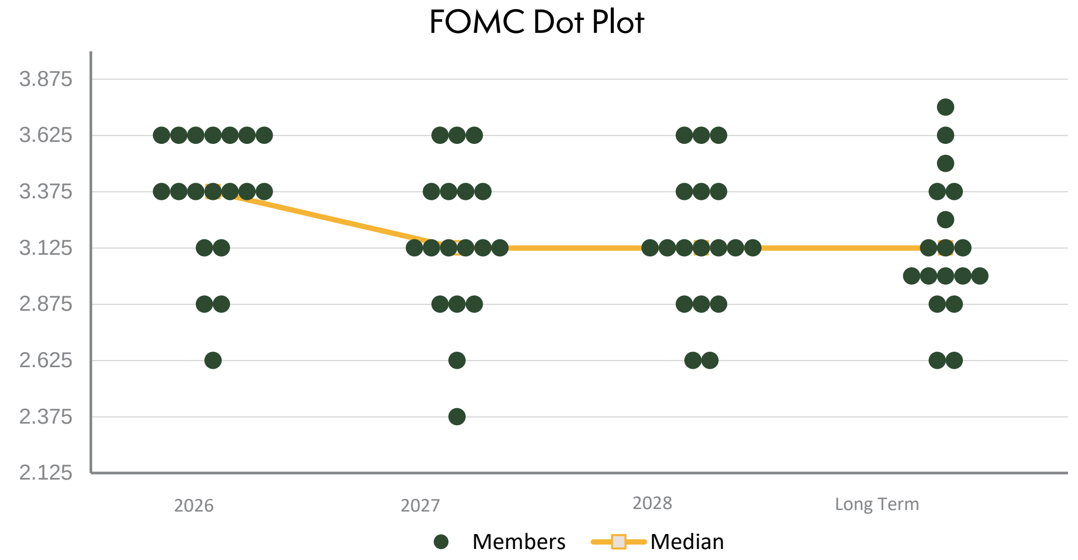
Source: Bloomberg L.P., as of 8 May 2026

The key theme surrounding the global markets remains the US-Iran conflict. In this roundup we discuss how it is reshaping the rates environment globally.

Since oil prices peaked at around $120/barrel in late March, we have since seen about a 15% pullback as ceasefire talks progress, and the risk premium is fading. That's the good news. However, current prices still reflect approximately 60% above pre-US-Iran conflict levels. Even if the Strait of Hormuz fully reopens, we're dealing with backlogged supply chains and damaged regional infrastructure. We should expect oil to remain structurally elevated for some time above its historical average.

The critical question here for markets is duration. Our view remains that unless elevated oil persists beyond six months, the long-term macroeconomic damage is contained and manageable. The near-term rates impact may potentially lead to a Fed response.

FOMC dot plot (Mar 2026)



Source: Bloomberg L.P., as of 8 May 2026

The latest dot plot showed a median at 3.375% for 2026, implying just one cut this year, with long term terminal rate at 3.125%. But the more important signal is the composition of votes. Three Fed members dissented at the April meeting against the overall easing bias, reflecting a split FED navigating an oil shock layered on top of an already-sticky inflation backdrop. June's FOMC will be the next major checkpoint. The Fed may remain cautious unless energy prices stabilize further and inflation data shows clearer signs of moderation.

Different policy paths are also beginning to emerge across major central banks. The divergence here is meaningful for portfolio positioning and geographical exposure.

The Fed remains at 3.75% and is still on hold for now. The internal split discussed earlier suggests that any cuts are likely to be pushed further into H2 2026 at best. Markets will also closely monitor newly appointed Fed Chair Kevin Warsh for any early changes in communication style or policy emphasis.

In Europe, the ECB remains at 2.00% following a unanimous hold at its April meeting. More notably, market consensus now points to little policy movement over the next two years. Inflation risks linked to the conflict have largely taken further easing off the table.

Bank of England is on an "active hold," which is central bank language for "we're watching closely". The Monetary Policy Committee is split 4-4. CPI remains elevated at 3.6% suggesting easing is unlikely, though there are early signs food inflation may have peaked.

BOJ is the outlier with a hawkish direction. Still at 0.75%, but three members dissented in favour of a 25bp hike at the April meeting. BOJ recently revised 2026 core CPI estimates up to 2.8%. Markets are increasingly pricing the possibility of another hike in H2 2026, though Iran and energy volatility remain the swing factor.

Meanwhile, PBOC continues its gradual easing path at around 3.10%, with roughly 20bp of additional cuts and 100bp of RRR reduction expected through 2026. The constraint here isn't willingness, it's overcapacity. Domestic demand remains soft and PBOC can't stimulate its way out of a structural overcapacity problem.

RBA is the most aggressive tightener in the room delivering its third consecutive 25bp hike, now at 4.35%, and remains explicitly open to more hikes. Iran-driven second-round inflation risk is the cited rationale. This remains particularly relevant for portfolios with AUD-denominated exposure

Monetary policy divergence caused by oil-driven inflation, will mean that investors should remain highly selective and nimble. Market conditions may continue favouring assets with stronger fundamentals and resilient cash-flow characteristics, while rates divergence may continue influencing currency movements across major markets.