Macro Insights Weekly

What if 2% inflation remains elusive?

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- *US inflation's bumpy ride to 2% has pushed back rate cut expectations substantially. We are less hawkish than the oscillating markets, and see 150bps of rate cuts during 2024/25.*
- *We are revising up our 2024 average US headline inflation forecast by 30bps to 3.3%.*
- *We expect a shallow rate cut cycle, short of a major demand shock in the coming 18 months.*
- *Various measures of inflation converging toward 2.5% would be sufficient for the Fed to ease.*
- *Two rate cuts in 2024 are on the cards, in early 3Q and 4Q.*
- *As growth and inflation slow in 2025, an additional 100bps of rate cuts will follow, in our view.*

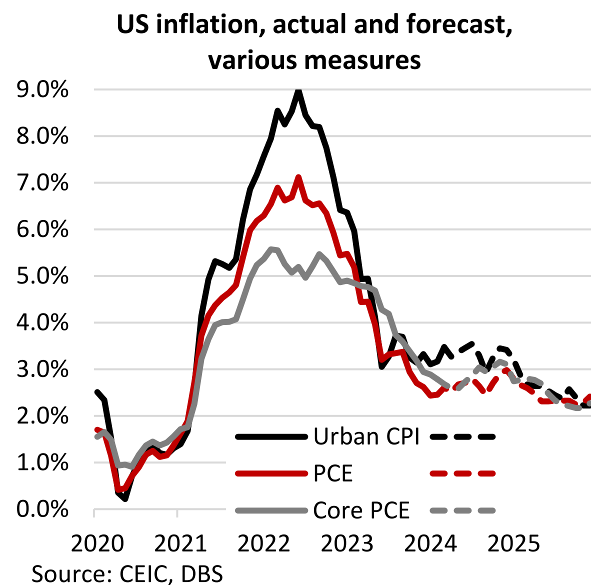
Key data release and events this week:

- *China 1Q GDP is expected to grow by 4.3% YoY, driven by improvements in consumption and exports.*
- *Malaysia 1Q GDP will likely improve to 4.3% YoY, thanks to industrial activity turnaround.*
- *Japan's headline and core CPI will likely remain stable at around 2.8% YoY.*

Chart of the Week: US inflation path

Driven by rebounding shelter and energy prices, US headline inflation moved up to 3.5%yoy in March, a tad higher than expected. While there has been substantial disinflation since the peak of mid-2022, strong demand has kept inflation, headline and core, well above the Federal Reserve's 2% target. Barring supply side shocks, we see inflation stickiness to abate somewhat in 2H24, although even at the end of 2025, our forecasts remain above 2%. Rate cuts would be fewer than previously envisaged, consequently.

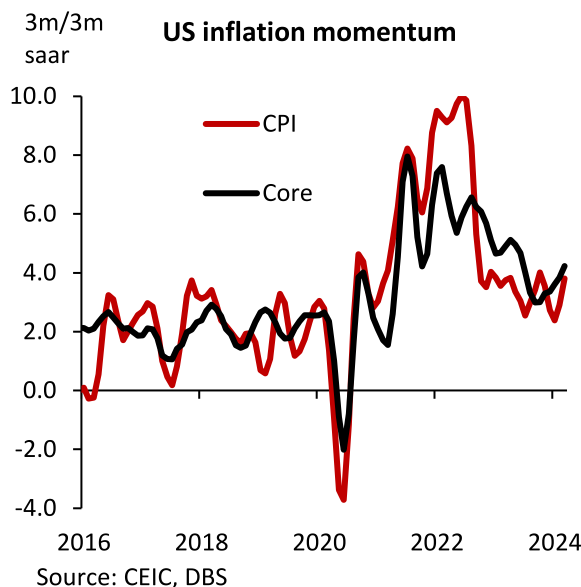
US inflation, actual and forecast, various measures



Source: CEIC, DBS

Commentary: If 2% inflation remains elusive

First things first; considering trade war, tech war, conflicts in Ukraine and the middle-east that threaten supply chains, and the hottest weather in record (month after month, lately), inflation has eased impressively since the middle of 2022. Of course, current headlines are oblivious of that, focusing on the stalling of inflation momentum on the downside. Indeed, the last few inflation prints have not helped the Fed's desired narrative of a steady path toward the 2% inflation target. On the headline reading, energy prices have gone up this year, with nationwide gasoline prices up 11%ytd. At the core inflation end, insurance costs, recreation, and rentals are weighing in largely.



Source: CEIC, DBS

We see the markets, belatedly but rightly, realising that short of a major negative shock, it will be hard for Fed to justify substantial rate cuts in this cycle. Additionally, the first rate cut in this cycle won't happen before 2H24, something we have been flagging since June of last year. Of course, as it is prone to do, market pricing has swung mightily in the other direction, with expectations now hovering around barely two cuts this year and less than three cuts next. A shallow rate cycle is the best one can expect, given the strength in demand and lack of a clear pathway to 2% inflation anytime soon.

Why is there still clamour for rate cuts? We think that that stems from notions of fiscal and financial dominance. There is this implicit view that given the large deficit-debt dynamic at the public sector level, and likely balance sheet risk of the financial sector from a prolonged period of relatively high nominal and real interest rates, there is only so long before something destabilising happens.

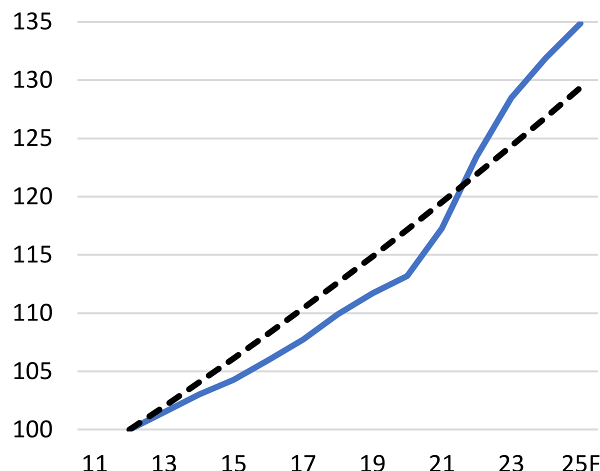
This notion has proven to be incorrect so far. US households and corporations have come across with modest duration risks, having locked into the historically low rates on their debt during the pandemic years. Rising yields have not caused bond market volatility to go up, with substantial private sector demand for US treasuries. Other than a few regional banks, the financial sector has also displayed considerable capacity to absorb the high rates, commercial real estate market stress notwithstanding.

The going has been fine so far, but that is no guarantee for more of the same. Surely Fed officials would not want to sacrifice the cycle by ignoring the disinflation so far and fixating only on the remaining work to be done. **We think evidence of inflation settling around 2.5% will be good enough for the Fed to begin cutting**. Furthermore, we believe the prudent risk management strategy for the central bank would be to cut modestly and gradually, as opposed to by a lot in a short period of time to deal with a recession when it is already too late.

We estimate that in the 2020-25 period, core PCE will have risen by a cumulative 15%, which

translates into an annualised rate of nearly 2.5%. Would such an outcome through a once-in-a-century pandemic and myriad other shocks and disruptive fiscal/structural trends be considered a failure on the part of the central bank? We don't think so. In fact, we think the Fed would look back at the first half of the 2020s with some satisfaction that the inflation spurt of 2021/22 was indeed transitory, and while the journey back to around 2% inflation was bumpy, it took place with no dent on the central bank's credibility, as underscored by well-anchored inflation expectations. Consumer sentiment was hurt greatly when prices jumped, but as inflation eased, it improved long before the 2% goal was achieved. Rising energy prices may be grabbing headlines presently, the fact of the matter is the US household is considerably wealthier today than two decades ago, when pump prices were about the same, in real terms. From an affordability perspective, with wages growing at a faster pace than prices, the recent stickiness of inflation won't cause the economic train to derail, in our view.

Does the 2% inflation target make sense amid deglobalisation, climate change, aging, and anti-immigration sentiments? This question will not get settled any time soon, but central bankers are surely not oblivious to these forces at play. Their communication may remain centred around how to bring back price stability, but a noisy global landscape does not give them the luxury of a narrow focus.



Source: CEIC, DBS

We think that 100bps of rate cuts in 2H24 are still on the cards, but no longer in the centre of the probability distribution. With growth and inflation both running above trend, it will become increasingly hard for the Fed to cut month after month. **A signal that policy has room for normalisation would likely be provided with a 25bps rate in July, in our view, but the next cut will have to wait till 4Q**.

After 50bps of cuts in 2024, we think the Fed will continue with quarterly cuts next year, taking the policy rate down to 4% by the end of 2025. Stretching the definition of "higher for longer," communication would be provided that the terminal rate of the cycle, along with the so-called nominal neutral rate or r* is at least 3%, if not higher.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Apr 15 (Mon)		
India: exports (Mar)	-7.0% y/y	11.9% y/y
- imports	-8.0% y/y	12.2% y/y
- trade balance	-USD17bn	-USD18.7bn
Apr 16 (Tue)		
China: GDP YoY (1Q)	4.3% y/y	5.2% y/y
- industrial production (Mar)	5.6% y/y	7.0% y/y
- retail sales	5.1% y/y	5.5% y/y
- fixed asset investment	4.2% y/y ytd	4.2% y/y ytd
Apr 17 (Wed)		
Singapore: non-oil domestic exports (Mar)	-5.3% y/y	-0.1% y/y
Japan: exports (Mar)	7.6% y/y	7.8% y/y
- imports	-6.7% y/y	0.5% y/y
- trade balance (adj)	JPY560bn	- JPY451.6bn
Apr 19 (Fri)		
Malaysia: GDP (1Q, A)	4.3% y/y	3.0% y/y
Malaysia: exports (Feb)	3.2% y/y	-0.8% y/y
- imports	13.4% y/y	8.4% y/y
- trade balance	MYR17.0bn	MYR10.9bn
Japan: CPI (Mar)	2.8% y/y	2.8% y/y

Forthcoming data releases

China: 1Q GDP growth is expected to be at 4.3% YoY, backed by improved consumption sentiment and regional electronic downcycle bottoming out. Retail sales growth is expected to slow mildly from 5.5% in January-February to 5.1% in March. This slowdown is largely driven by the base effect, as the same period last year saw a 10.6% growth following the pandemic. Improved consumption sentiment is evidenced by stronger subway passenger volumes and an increase in the number of domestic flights, both YoY and MoM. Industrial production is anticipated to decline from 7.0% YoY in January-February to 5.6% in March due to weakened trade activities on a monthly basis. Exports, however, grew 1.5% YoY in 1Q overall amid external demand improves. Additionally, the contracted Producer Price Index indicates subdued domestic demand. Fixed asset investment remained steady at 4.2% YoY YTD in March, reflecting government initiatives focused on equipment renewal in strategic sectors like advanced manufacturing and tech hardware.

Japan: March inflation data will be released this week. Both headline and core CPI will likely remain stable at around 2.8% YoY, while core-core CPI may see a slight ease of 0.2ppt to 3.1% YoY. The current trajectory suggests that the former two indicators could dip below the 2% mark in 3Q/4Q, reducing the urgency for the Bank of Japan to raise rates in the near term. However, with the recent depreciation of the JPY against the USD and the resultant rise in imported inflation, there's a likelihood that CPI will hover around 2% for a prolonged period, potentially prompting the BOJ to consider a rate hike around the October meeting.

Malaysia: We expect Malaysia's 1Q24 advance real GDP growth to improve to 4.3% YoY from 4Q23's 3.0% YoY. Growth was likely supported by a turnaround in industrial activity, with high frequency data showing a bounce in manufacturing to expansion, while mining growth strengthened. Services growth likely stayed resilient, amid continued employment and wage gains, as well as further foreign tourism recovery. Construction likely sustained its eighth straight quarter of expansion, given progress in public and private multi-year projects.

Singapore: Singapore's non-oil domestic exports (NODX) likely stayed volatile, with an extended decline in March 2024. We expect March 2024's NODX to shrink by 5.3% YoY, dropping further from February's marginal 0.1% YoY decline. The decline was likely due to last year's higher base across electronics and non-electronics products. Even with March 2024's fall, 1Q24 NODX likely returned to growth from 4Q23's contraction. Such dynamics reflected improving external demand, but also the fragile nature of the export recovery, given downside

risks such as lingering geopolitical tensions that could disrupt supply chains.

Economics Team

South Korea: BOK meeting review and forecast adjustment

The Bank of Korea (BOK) kept the benchmark repo rate steady at 3.50% during the April 12 meeting, signaling a stance of patience before implementing rate cuts. The BOK expressed concerns about the uncertainty surrounding headline inflation, citing the recent geopolitical developments and the increase in global oil prices. Meanwhile, it also conveyed increased confidence in the growth outlook, citing the faster-than-expected recovery in exports, supported by the upswing in the global semiconductor/electronics sector. Regarding monetary policy, the BOK reiterated that it's premature to expect inflation to converge with the 2% target. However, the governor noted the possibility of rate cuts if inflation significantly slows in the second half of the year.

We are adjusting our forecast, pushing back the projection for the first BOK rate cut to 3Q from 2Q. We are revising down the magnitude of expected rate cuts for this year to 50 bps from 75 bps. As such, the benchmark repo rate is now expected to decrease from 3.50% to 3.00% by year-end, as opposed to the previous forecast of 2.75%.

This adjustment is primarily driven by increased uncertainties surrounding headline inflation. We are revising the full-year CPI forecast to 2.8%, compared to 2.4% previously. Factors such as rising oil prices and the depreciation of the KRW against the USD are contributing to inflation uncertainties. With global Brent oil prices surpassing USD 90/bbl due to escalating geopolitical tensions in the Middle East, South Korea, being a net oil importer, faces heightened energy inflation risks. Moreover, the KRW has weakened beyond 1350 against the USD amid broad-based USD strength, fueled by postponed Fed rate cut expectations. This may exacerbate imported inflation pressures on South Korea. Sustained rebounds in imported energy and food prices could elevate domestic inflation expectations and spill over into core inflation items in the coming months.

We still expect the BOK to adjust its policy stance before the US Fed. South Korea's inflation momentum remains relatively subdued compared to that of the US. On a MoM basis, headline CPI in South Korea moderated to 0.1% in March from 0.4-0.5% in January-February, while core CPI also decelerated to 0.1% in March from 0.3-0.4% in Jan-Feb. Although headline CPI has remained around 3% YoY, core CPI has steadily declined to 2.5% for three consecutive months. Conversely, in the US, both headline and core CPI have maintained 0.4% MoM, with YoY rates above 3%. The relatively subdued inflation momentum in South Korea reflects weaknesses in its consumer and property markets, associated with the high household debt burdens and sensitivity to interest rate increases. With a higher probability of inflation returning to the 2% target in South Korea compared to the US, the BOK is expected to cut rates before the Fed within this year.

Ma Tieying

Impact of US growth resilience on Asia

ASEAN-4: Malaysia, Thailand, Philippines, Vietnam (Han Teng Chua and Radhika Rao)

Out of the ASEAN-4 economies, Vietnam is the most exposed to external final demand from the US, followed by Malaysia, Thailand, and the Philippines. The US alone accounts for ~30% of Vietnam's overall goods exports, and therefore, US growth resilience and any upside surprises are likely to have the most positive spill-over impact onto Vietnam's cyclical growth recovery. Vietnam's overseas shipments to the US have returned to expansion in 1Q24 and outperformed. A sustained recovery should propel 2024 real GDP growth to our 6.0% full-year forecast, from 1Q24's 5.7% YoY. US growth resilience is already seen as supporting Malaysian and Thai goods exports, and therefore, further improvement would depend on other markets, including stabilisation and bottoming out to China. Thailand's growth would also depend on support from private consumption and tourism, and rebound in weak public activity. US is also amongst the Philippines' largest export markets, with strong demand likely to be favourable for the country's shipments. Some of this boost might, however, be offset by softer domestic growth, pushing us to maintain our full year 2024 growth forecast at 5.3%. We also keep our 2024 growth forecasts for Malaysia and Thailand unchanged at 4.8% and 2.8%. A firm US dollar arising from US growth resilience and potential paring back of Fed rate cut expectations would bode negatively for ASEAN-4 currencies. The Thai baht is already the region's weakest currency year-to-date, due to outflows given weak sentiment over the sluggish economic performance. This would reduce room for the authorities to reduce the policy rate to shore up the Thai economy. The Malaysian ringgit, Philippine peso, and the Vietnamese dong could see weakening pressures beneath their lows, necessitating greater intervention to prevent a one-sided move and smooth volatility.

China (Nathan Chow and Mo Ji)

Stronger US economic expansion will buoy foreign demand, supporting China's ongoing recovery. Potential delays in Federal Reserve interest rate cuts could further strengthen the dollar versus the yuan, augmenting China's export competitiveness against increasingly dovish central banks outside the US. This alongside improving domestic activities may help counteract pressures from slowing property and lingering debt problems, fueling a broader-based recovery. While higher commodity costs from robust US growth and a softer yuan could increase China's import bills, inflation pressures will remain contained given China's currently benign price environment. PBOC is poised to maintain its accommodative policy stance to underpin steady growth. However, risks remain. A weaker yuan could exacerbate capital outflows and increase the likelihood of offshore bond defaults by Chinese property developers, heightening concerns over unfinished housing projects and further dampening fragile homebuyer sentiment. A widening US trade deficit with China might invite increased scrutiny of trade practices from Washington. As the US presidential election nears, rhetoric and protective measures against China like anti-dumping probes may intensify as candidates engage in "China bashing" for political gain. On balance, we see upside potential to our projected 2024 GDP growth rate of 4.5%. Yet prudent policies are warranted to carefully manage potential financial stresses

and escalating trade tensions that could undermine recovery momentum.

Hong Kong (Byron Lam)

The foremost concern of a stronger US growth momentum on Hong Kong is the potential delay of Fed Fund Rate cut cycle. HKD rates could stay elevated under the peg system, thereby strengthening the HKD exchange rates. This could in turn encourage outbound travel and erode Mainland tourists' spending power. The allure of high fixed deposit rates also prompted consumers to save. Asset markets, in particular real estate, bear the brunt of high rates. Although rental yields are improving alongside decreasing property prices, they remain far below risk-free fixed deposit rates. The incentive for property investment is thus diminishing. Elevated effective mortgage rates are also dampening homebuyers' affordability. As negative carry extends, real estate developers continue to offer aggressive discounts to liquidate unsold units despite property curbs lifted. Trading activities in the equity market would also remain tepid. After all, a sustained rebound in Hang Seng Index would requires more supports from Beijing such as rate cuts, which is restrained by high USD rates. On a brighter note, the weakened CNY will enhance China's export competitiveness. The stronger US demand will also boost Chinese outward shipments, thereby rendering support Hong Kong's re-export. Meanwhile, the strong HKD is preserving Hong Kong's purchasing power on imported goods.

Singapore (Han Teng Chua)

Singapore’s external oriented economy is highly exposed to global economic conditions, including that of the US. The US is Singapore’s major export destination, alongside other major economies such as China and Europe. The trend of Singapore’s overall exports to the US, on a three-month moving average basis (3mma), has improved since October 2023’s contraction and trough, rebounding to single-digit expansion of 3.7% YoY (3mma) as of February 2024. US growth resilience and any upside surprises are likely to bode positively for Singapore’s trade-related sectors. Yet, a buoyant US labour market may slow down the path of disinflation, resulting in uncertainties surrounding the timing and magnitude of US interest rate cuts. Given Singapore’s exchange rate centred monetary policy and open capital markets, domestic interest rates are mainly determined by global interest rates and Singapore dollar appreciation expectations. Delayed or shallower Fed rate cuts would result in high-for-longer SGD rates and could dampen the pace of recovery in Singapore’s financial services real output and credit demand. Elevated interest rates would curb residential property activity, while households remain well placed to manage the burden, given prudent macroprudential policies. Considering these dynamics, our Singapore real GDP forecast for 2024 remains unchanged at 2.2%, which marks an improvement from 2023’s muted 1.1%.

India (Radhika Rao)

Strength in India’s domestic catalysts, particularly investments, has been a key counterweight for sluggishness in trade on the back of slower global demand. With US growth surprising on the upside, this bodes well for India’s goods and services trade, as North America is the largest export market, including for segments like electronic components as well as software exports. The combination of firm onshore momentum and better-than-expected trade adds to our conviction that India’s growth

is likely to be closer to 6.8-7% in FY25 compared to our current forecast at 6.5%. The undercurrents that face the RBI monetary policy committee (MPC) are similar to the US Fed. Strong domestic growth momentum has allowed the central bank to stay focused on steering inflation back towards the target. Supply-side shocks nonetheless are the key risk on the anvil for domestic inflation, while strong growth limits the need for additional support from monetary policy levers for the time being. A delay in the timing of the start of the US Fed rate hike will add to the MPC's preference to keep policy rates on hold at least until 3Q24. A risk to monitor is US' crude oil production, with a surge in supply likely to help cap global prices and thereby benefiting India's inflation trend. If the US dollar benefits from a cautious Fed tone, the USDINR is likely to maintain a 'buy on dips' tone, staying north of 83.00. Intervention risks will help reign in rupee bears, while the authorities mop up strong foreign inflows into debt and equities to prevent one-sided move in the currency.

Indonesia (Radhika Rao)

The dominant role of domestic engines is expected to shield Indonesia's growth this year, helped also by a clear outcome at the February election. After garnering more than 58% of the votes, the incumbent Defence Minister Prabowo will assume Presidency at the official inauguration in October, with the leadership change likely to mark policy continuity and political stability. To provide support to growth, the outgoing government has extended social assistance programs and frontloaded capital expenditure for remaining part of their term. On the global front, signs of a stronger US growth will provide some relief to Indonesia's trade, even as US' share has moderated from 10.6% in 2019 to 9% last year, while China's jumped from 16.7% to 25% in the same period. Indonesia's exposure to the final demand from the US' is least amongst the ASEAN-6 peers, showing relatively limited spillover impact. In light of these linkages, we maintain our full-year growth forecast at 5%, factoring in a more pronounced negative impact of lower non-oil commodities on external trade. A firm USD will continue to be a risk for the rupiah, just as local drivers also provide limited comfort. The erstwhile strong trade surpluses have whittled down, by extension expected to widen the current account shortfall this year vs -0.1% of GDP in 2023. Portfolio inflows into debt have also reversed out, necessitating the central bank's support. As rupiah stability takes precedence as a policy mandate, indications of a shallower rate cut cycle from the US Fed is likely to keep the BI from switching gears to a dovish bias in a hurry.

Japan (Ma Tieying)

The downside risks to Japan's growth outlook may be contained if the US economy outperforms expectations, bolstering Japan's exports. Presently, we project 0.8% growth for Japan in 2024, slightly higher than the consensus of 0.6%. Notably, the US stands as Japan's largest export market, constituting a 20% share. Japanese automakers such as Toyota, Honda, and Nissan actively participate in the US automobile market, ranking among the top 10 car sellers. Increased US demand, coupled with yen weakness against the dollar, is expected to facilitate Japanese manufacturers' expansion in the US market.

The Bank of Japan concluded its negative interest rate policy and yield curve control at the March meeting, signalling an intention for

further policy normalization. Current trends suggest that CPI inflation will decelerate to below the 2% mark from 3Q onwards, reducing the urgency for the BOJ to raise rates or shrink its balance sheet within this year. However, if the yen continues to decline due to resilient US rates and a strong US dollar, it could sustain inflation around the 2% level in 2H, prompting the BOJ to consider further rate hikes around the October meeting.

South Korea (Ma Tieying)

We maintain confidence in our annual growth projection of 2.4%, surpassing the consensus estimate of 2.1%. The US stands as South Korea's second largest export market, constituting nearly 20% of exports. In particular, the stronger-than-expected demand from the US is poised to benefit South Korea's semiconductor and automobile sectors. Samsung and SK Hynix play pivotal roles as suppliers of memory chips to American firms seeking to enhance their AI infrastructures. Additionally, Hyundai has secured the No.4 position in the US automobile sales market, trailing only behind GM, Toyota, and Ford.

The Bank of Korea has kept monetary policy unchanged with an easing bias at the April meeting. Based on current trends, CPI inflation is expected to ease to around 2.5% YoY from 3Q onwards, providing leeway for the BOK to cut rates by 50bps from the current level of 3.50%. However, if the KRW continues to weaken against the USD due to delayed expectations for Fed rate cuts, it could elevate imported inflation, potentially keeping CPI numbers around the 3% mark in 2H. This scenario might prompt the BOK to hesitate in implementing rate cuts within this year.

Taiwan (Ma Tieying)

We maintain confidence in our Taiwan GDP growth forecast of 3.5%, surpassing the consensus estimate of 3.3%. GDP growth could potentially reach the 4% mark this year, buoyed by the upgraded US growth forecast. The US is Taiwan's largest export market, accounting for approximately 30% of export orders and nearly 20% of export shipments. The robust performance of the US economy strengthens expectations for Taiwan's semiconductor sector recovery. While the US focuses on chip design, semiconductor equipment, and raw materials, Taiwan specializes in chip manufacturing and assembly/testing. American semiconductor giants such as Nvidia and AMD typically engage Taiwan's TSMC for chip foundry services.

Taiwan's central bank has resumed tightening, raising the benchmark rate by 12.5 bps to 2.00% during the March meeting. The CBC has indicated that this rate hike aims to mitigate inflation expectations resulting from electricity price hike, and further rate hikes are unlikely unless annual inflation exceeds 3%. We are not concerned about annual inflation surpassing 3% and triggering additional rate hikes. However, there is a possibility that the optimism in stock and property markets will be further bolstered as economic sentiment improves, raising concerns about asset price overheating and necessitating non-rate measures in response.

FX: More volatility from central bank guidance amid Mideast tensions

We have revised our currency forecasts favouring the USD's recovery, extending from 1Q into 2Q 2024. Due to sticky inflation and a tight labour market in the US, we now see the Federal Reserve lowering interest rates by 50 bps instead of 100 bps in 2H24. Between 4Q and 3Q 2023, the monthly average for US nonfarm payrolls increased to 276k from 212k, while CPI core inflation firmed to 0.4% MoM from 0.3%. Assuming the PCE deflator on April 26 mirrors the CPI, **fewer Fed officials will back the base scenario of three rate cuts this year before next week's blackout period**. On March 20, nine of the 19 Fed officials predicted two or fewer cuts in the dot plot. Hence, we cannot rule out the Fed reducing its projection from three to two rate cuts in June.

That said, history has demonstrated that **when the US inflation gauges**, especially the PCE deflators, **resume their downward path** towards the 2% target amid a gradual rise in the unemployment rate, **the Fed will turn dovish again**. Hence, we have maintained the profile for the greenback to depreciate after 2Q24 based on our forecast for the Fed to lower rates every quarter from 3Q24 through 2025. We do not rule out the first reduction taking place earlier in July vs. the September cut discounted by the interest rate futures. To do so, the next monthly US jobs and inflation reports will need to disappoint for the Fed to prepare for such a move at the June meeting.

Meanwhile, **IMF** Managing Director Kristalina Georgieva **cautioned central banks against easing policy too early and risk a resurgence in inflation** and a fresh bout of tightening. Hence, we **expect more volatility** from other central banks tempering their rate cut guidance, wary that markets are keen to see who would lower rates before the Fed.

Last week, the **Bank of Canada** warned that lowering rates too soon could jeopardize the progress to bring inflation to target despite not wanting rates to stay this restrictive longer than needed. Having noted that other central banks were cautious about easing monetary policy, the **Reserve Bank of New Zealand** wanted to keep its official cash rate restrictive for a sustained period to return CPI to target this year. Although the **Reserve Bank of Australia** shifted from a tightening to a neutral bias, it did not rule "anything in or out" on rates. The **European Central Bank** was unwilling to pre-commit beyond the rate cut expected on June 12, a decision that still hinges on the next two monthly inflation readings maintaining its downward trajectory.

Global central banks and financial markets will pay close attention to the impact on oil prices from the latest escalation in the tit-for-tat **attacks between Israel and Iran**. After bottoming at USD72.30 per barrel in mid-December, crude prices surged 25% to USD90 in April. Iran fired hundreds of drones and missiles in response to the attack on its Syrian embassy on April 1, its first direct attack on Israel after decades of shadow war. The US, the UK, and France helped to intercept the missiles. Turkey, Kuwait, and Qatar refused the US to use their airspace for retaliatory attacks on Iran. The United Nations warned that the Middle East was on the brink of a wider war.

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