

Inflation reawakens

- ◆ Despite ongoing peace talks, traffic through the Strait of Hormuz has yet to pick up...
- ◆ ...meaning the risk of shortages is rising and energy prices are staying elevated...
- ◆ ...rippling into inflation data, and eventually into growth

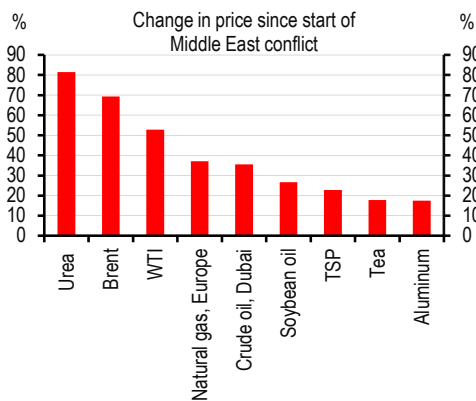
The Middle East conflict has now dragged on for more than two months, and the **ripples into the global economy continue to build**. The US is maintaining a naval blockade in the Strait of Hormuz, and traffic remains limited. Equity markets have recovered, but bond markets are still pointing to higher rates in the coming months.

Clearer impacts

That said, the economic impact is starting to be clearer. Oil and gas prices remain high and volatile, while Asian economies, such as India, Thailand, and the Philippines, are seeing government policy focusing on limiting energy usage. It's not just energy, either. Prices for a range of commodities, including fertilisers, urea, sulphur, aluminium, and copper, are also rising, which is making life harder for both industry and consumers. For now, much of this is in supply chains, but the risks are clear for **filtering through into consumer prices** as well.

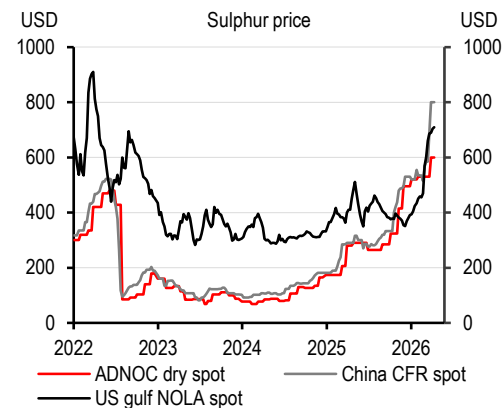
Elevated energy costs risk pushing up consumer prices

1. We have seen a sharp increase in the prices of urea, oil, and gas



Source: World Bank. Latest data April 2026. Note: TSP = Triple Superphosphate

2. Sulphur prices are up, impacting fertiliser production and metal processing



Source: Bloomberg. Latest data 17 April. Note: ADNOC = Abu Dhabi National Oil Company; NOLA = New Orleans, Louisiana; CFR = Cost and Freight

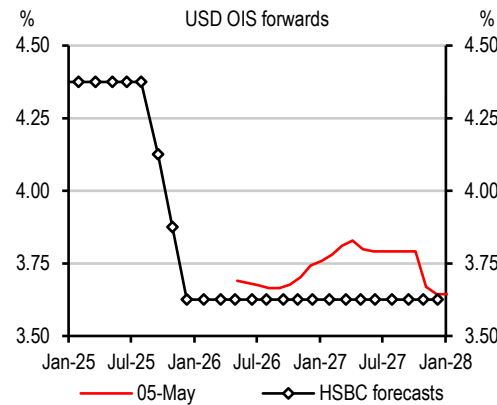
Some of this is already showing up in the CPI data. March and April CPI prints point to a **sharp rise in headline inflation**, driven by higher energy costs. While some countries are providing fiscal support for retail energy prices, that is not an easy lever for policymakers to pull, especially with public debt already high.

Higher prices may keep rates steady in many economies

On hold

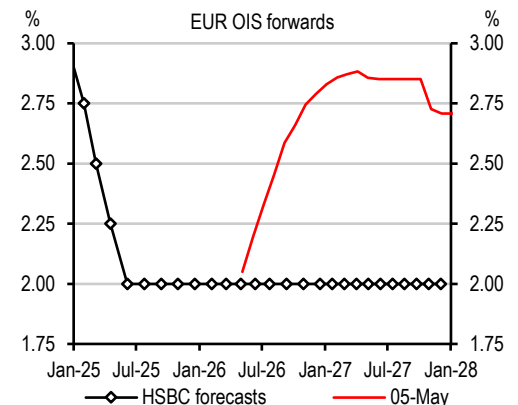
All of this complicates the policy mix. With fiscal ammunition more limited, central banks are largely in a wait-and-see mode. **Higher price pressures have taken rate cuts off the table for now**, but rate hikes also look unlikely in most economies, given that this kind of price shock is likely to weigh on activity as well.

3. Most central banks remain in a wait-and-see mode, including the Federal Reserve...



Source: Bloomberg. Latest data: 5 May 2026. Note: OIS = overnight index swap

4. ...but market pricing is more hawkish for the European Central Bank...



Source: Bloomberg. Latest data: 5 May 2026

The growth impact may take some time to be seen. In the US, Q1 GDP accelerated to 2.0% q-o-q (annualised), partly reflecting a rebound in government expenditure after the government shutdown in Q4 2025 and strong AI-driven investment. In Asia, Q1 GDP in mainland China surprised to the upside, while eurozone GDP saw a slowdown.

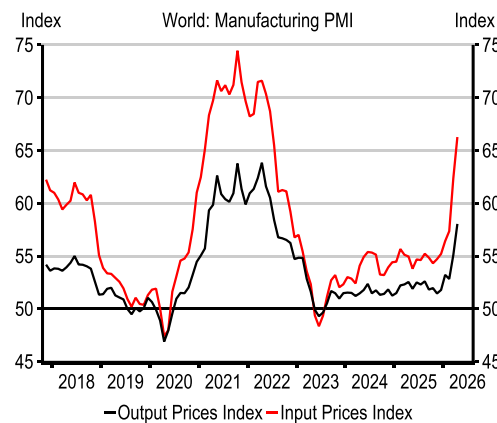
Price hikes

However, the PMI surveys, our first tell on the global data, are painting a painful picture of what is to come. While we may have seen some better headline data on the manufacturing front, services PMI data have been much softer. **Pricing indices are up across the board**, and it may take time for the inflationary shock to filter through to household and business decision-making, and with it, the hard economic data on inflation and activity.

The risk is, however, that the longer the Strait of Hormuz is closed, **the greater the chance of acute shortages or price shocks** – something the global economy is ill-prepared for.

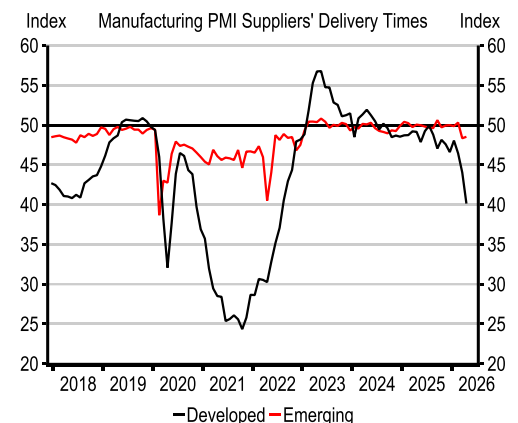
PMIs are indicating higher prices across the board

5. There are signs of rising PMI input prices rippling into output prices...



Source: S&P Global Latest data: April 2026

6. ...and delivery times lengthening in some parts of the world



Source: S&P Global Latest data: April 2026

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
16 Apr	Mainland China	GDP (% y-o-y)	Q1	5.0	4.8	4.5	↑
16 Apr	Mainland China	Retail sales (% y-o-y)	Mar	1.7	2.4	-	↓
21 Apr	US	Retail sales advance (% m-o-m)	Mar	1.7	1.4	0.7	↑
22 Apr	UK	CPI (% y-o-y)	Mar	3.3	3.3	3.0	→
29 Apr	US	FOMC rate decision (%)	-	3.50-3.75	3.50-3.75	3.50-3.75	→
30 Apr	Eurozone	GDP (% y-o-y)	Q1, 1 st release	0.8	0.9	1.2	↓
30 Apr	US	Real GDP (% q-o-q, annualised)	Q1, 1 st release	2.0	2.3	0.5	↓
1 May	US	ISM manufacturing (Index)	Apr	52.7	53.2	52.7	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
8 May	US	Non-Farm Payrolls	Apr
9 May	Mainland China	Exports / Imports	Apr
12 May	US	CPI	Apr
13 May	Eurozone	GDP	Q1
14 May	US	GDP	Q1
14 May	US	Retail Sales	Apr
18 May	Mainland China	Retail Sales	Apr
20 May	Mainland China	People's Bank of China interest rate announcement	-
21 May	EU/UK/US	PMIs	May
22 May	UK	Retail Sales	Apr
31 May	Mainland China	NBS Manufacturing PMI	May
1 Jun	US	ISM Manufacturing PMI	May
2 Jun	Eurozone	HICP	May

Source: LSEG Eikon, HSBC

Disclosure appendix

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