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FX RATES UNITED STATES

US strikes on three nuclear facilities in Iran: What it means for macro and markets

While the broader impact of the US strikes on Iran's nuclear facilities remains uncertain, markets have so far responded with caution. What is clear, however, is that the strikes are likely to heighten economic uncertainty and put upward pressure on oil prices



Satellite image of damage after US strikes on Iran's nuclear facilities

On Sunday morning, the conflict in the Middle East escalated further with the US bombing three nuclear facilities in Iran. US President Donald Trump called the strikes “very successful” and US Defence Secretary Pete Hegseth claimed that the US had “obliterated” the facilities, while Iran reported only limited damage. This leaves us with the all-too-familiar sense that we understand far less than we thought we did this morning.

Along with uncertainty regarding the immediate impact of the US strikes, the longer-term consequences are also unclear at this point in time. Over the last 24 hours, the military reaction by Iran has been limited, fuelling the narrative that Iran doesn't have or doesn't want to use military means to react. Also, the US strike should not (yet) be seen as a 'boots on the ground' step by President Trump. It rather appears that the strikes were a “one and done mission” from the US - perhaps comparable to Trump's assassination of Iranian general Qasem

Soleimani in 2020. Let's not forget that the right to declare war sits with Congress and not in the Oval Office. At the same time, it's unlikely at this juncture that Trump would want to declare war, especially as he was elected partly on a mandate for the US to be less involved in global wars. Whether this approach is sustainable and realistic is a different matter.

Financial markets are currently waiting for Iran's response. There appear to be four main options: full escalation, potentially drawing in other nations such as China or Russia; disruption of the Strait of Hormuz; active or passive support for terrorist attacks in the US and Europe; or, alternatively, taking no action at all. We will abstain from speculating about the next steps and instead conclude that the most likely economic consequences from the US strikes will be on general uncertainty and on the price of oil. This analysis builds directly on our earlier assessment of [the situation](#).

Impact on oil market

With recent events, our more severe scenario has become more likely: disruption in shipping through the Strait of Hormuz, a crucial choke point for global oil and LNG flows, with a quarter of seaborne oil trade moving through the strait. Roughly 20% of global LNG trade also moves through the strait.

And even if there's scope for some flows to be diverted, an effective blocking of the Hormuz would lead to a dramatic shift in the outlook for oil, pushing the market into deep deficit. Spare OPEC production capacity wouldn't help in this situation, as the bulk of it sits in the Persian Gulf. So, these flows would also have to go through the Strait of Hormuz.

While higher oil prices would see a boost in US drilling activity, it will take time for this additional supply to come to market. And the volumes will not be sufficient to offset losses through the Hormuz. Under a successful blockade, we would expect to see Brent trade up to \$120/bbl in the short term. A prolonged outage (until the end of 2025) would likely see prices trading above \$150/bbl to new record highs.

However, let's not forget that even if Iran feels it needs to retaliate, blocking the Hormuz might be a step too far. Given the potential impact on oil flows and prices from such action, there would likely be a swift response from the US and others. Also, with more than 80% of oil flows through Hormuz ending up in Asia, the impact on the region would be larger than that on the US. Therefore, Iran would want to be careful not to upset the likes of China by disrupting oil flows. In addition, Iranian oil moves through the Hormuz, too. Blocking the strait would have an impact on these flows. Read more on this [here](#).

Economic impact for US, eurozone and central banks

It's probably also a sign of the times we are living in that a US strike on nuclear facilities has not immediately led to fire sales and panic in financial markets. It seems we've all grown

accustomed to just how volatile and unpredictable the world has become.

Along with the threat stemming from higher oil prices, uncertainty at elevated levels is another dampening factor for economic activity in the US and eurozone. As if we haven't had enough of this uncertainty recently. The new spike in oil prices threatens to disrupt the current narrative of more disinflationary than inflationary pressures in both the US and the eurozone, despite the expected inflationary impact of US tariffs.

Regarding the US and the Federal Reserve, inventory buffers may have allowed firms to put off decisions about raising prices, but that won't be the case for much longer. We expect to see bigger spikes in the month-on-month inflation figures through the summer. The Fed's recent Beige Book cited widespread reports of more aggressive price increases within the next three months. Rising oil prices only reinforce that outlook. At the same time, any disruption in the Strait of Hormuz would likely inflict only limited damage on the US economy. The US is a net energy exporter, with less than 10% of its oil imports coming from the Persian Gulf. Still, higher global oil prices would weigh on US consumers and businesses, though they might also boost the appeal of new domestic drilling projects.

For the Fed, this combination of potentially higher oil prices, new geopolitical uncertainty, and the still looming tariffs and ongoing trade tensions should strengthen the current wait-and-see stance. We expect the first Fed cut in the fourth quarter, potentially starting with a 50 basis-point cut in December

For the eurozone, the impact of higher oil prices on economic activity would be limited. According to a European Central Bank scenario, a 20% spike in energy prices could cut growth by 0.1pp in both 2026 and 2027. While this is a model-based outcome, the recent memory of elevated energy prices among consumers and businesses suggests that the actual impact of a renewed oil price shock could be even greater.

But it's not just consumers and corporates who still vividly recall the surge in energy prices. The ECB and other major central banks also bear the scars of that episode. The term 'transitory' has effectively been erased from the ECB's vocabulary. Simply applying today's oil prices to the ECB's own June macro projections would lift inflation by 0.3pp this year and 0.6pp next year. Say goodbye to fears of inflation undershooting and hello to renewed inflation concerns. A rate cut in July is now clearly off the table, and even the September decision could prove more contentious than anticipated after the decision in June.

Return of the dollar?

In this morning's trading session, the dollar staged an expected rebound. The demonstration of US military strength, as well as the fear of higher oil prices, weakened the euro. Looking ahead, one of the key questions is whether US involvement in the conflict could restore the dollar's safe-haven appeal. Here, a crucial factor will be the duration of any potential Strait of Hormuz

blockade. The longer such a blockade lasts, the higher the likelihood that the value of safe-haven alternatives like the euro and yen is eroded, and the dollar can enjoy a decent recovery.

If Iran's retaliation is contained, the US does not follow through with more attacks, and the oil spike proves temporary, support for the dollar should vanish quite rapidly. The market continues to prefer strategic dollar shorts even at expensive levels, so a temporary geopolitical shock may simply see markets sell the USD at more attractive entries. Read more [here](#).

No safe-haven effect, yet

What has been remarkable so far has been the lack of flight-to-safety in bonds. Right from the initial strikes through to 12-13 June, the market reaction showed minimal movement into traditional safe havens - neither Treasuries, Bunds, nor rates markets more broadly saw significant inflows. Bond markets quickly moved on. Should things turn dramatically more sinister in the coming days, there must be a route for this to flip, and for cash to fly out of risky assets and into core bonds.

If yields were to lurch lower in the near term, it could reflect a growing market discount for significant risks to the broader global macroeconomic outlook. We have two sizeable wars ongoing, with minimal expectation for containment. That, plus the negatives coming from the tariff tax wedge in the US, has a feedback loop that absolutely can result in a flight out of risky assets and into bonds.

That said, and given what we know, market rates will likely be primed to discount two things. First, a "positive" outcome, in the sense that a so-called bad actor has had its nuclear bomb-making capability severely downsized. Second, even on such an outcome, the rates market will fret about any inflation sting in the tail through upward pressure on energy prices amid wider regional angst. Given that, the dominant reaction should be some curve steepening pressure, likely from the long end. Professional investors can read [more here](#).

Credit unmoved, for now

Credit markets continue to be unaffected by the growing geopolitical tensions, for now. A further, more drastic escalation may result in a risk-off modus. Credit spreads opened up this morning unchanged in both CDS and cash. Meanwhile, the primary markets remain open and see plenty of deals coming through. Spreads are sitting in the bottom half of the trading range, but still have 6-10bp of tightening potential to the bottom end. At those tighter levels, the relative value between credit and other asset classes (Govies and SSAs) becomes very limited, and thus, asset allocation comes into question.

For now, credit is still supported by the large demand and cash readily available. Whilst technicals, on paper, look less strong (higher supply, slower inflows, ECB maturities), the credit

space remains well bid and highly demanded, as evidenced by the tight spreads, and the very low NIPs and well-oversubscribed books in the primary market.

The growing tensions and potential economic impacts (for example, energy price impacts) add to the growing list of volatility drivers in the complicated credit cocktail. But we remain in the Goldilocks fairytale for now.

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