



of its crude oil consumption. A large share of its imports from the Middle East flow through the Strait of Hormuz.

However, China can fall back on larger oil stockpiles and pressure refineries to suspend exports as it protects supplies. It also has the potential to turn to Russian imports. The stronger dollar that has followed the start of the US attacks could also alleviate some appreciation pressure on the renminbi.

Big energy exporters such as Norway and Canada will see “more unambiguously positive” effects as they capitalise on higher prices while avoiding the threats to production and revenue that Middle Eastern suppliers such as Qatar face, said analysts at Capital Economics.

The shale revolution transformed the US into an energy superpower over the past two decades, making it the biggest producer of oil and gas in the world.

That means American producers are set to reap the rewards of higher prices, especially if the conflict drags on and prices remain elevated.

US equities have come under less pressure than some markets in Europe and Asia since the conflict started, suggesting some investors are betting on less of a drag on GDP for North America than in other major economies.

High US production partially shields consumers, notably in natural gas, where the global market is somewhat fragmented. While European and Asian natural gas prices surged last week, US prices only inched up. A lack of spare LNG liquefaction and export capacity will limit US producers’ ability to export gas to other markets, helping to keep a lid on American gas prices, said David Oxley at Capital Economics, describing the US as a “gas island”.

But in oil, where the market is more global, American consumers are likely to be squeezed. West Texas Intermediate, the US crude benchmark, last week notched its biggest weekly rise in records stretching back to 1983.

That has fuelled a jump in US petrol prices, which hit \$3.32 per gallon on Friday, according to the AAA, up from \$2.98 a week earlier and marking their highest level since 2024.

Goldman Sachs has warned that unless there is an improvement in the situation in the Gulf, crude prices would probably top \$100/barrel this week. If the crisis drags on throughout March, it said prices would “likely” exceed their 2008 and 2022 peaks when Brent surpassed \$147/barrel and petrol blew past \$5/gallon, respectively.

The price surge poses a risk for Trump and threatens to worsen an affordability crisis that has become his biggest liability with voters ahead of November’s critical midterm elections.

Economic textbooks suggest that central bankers can “look through” surges in energy prices, on the basis that they trigger a temporary upsurge in consumer prices, but this would subside if household inflation expectations are well anchored. By eating away at household budgets, energy cost increases ultimately lead to softer demand that can help restrain inflation.

Investors now not only see the Bank of England keeping rates unchanged at its announcement on March 19, but they are no longer fully pricing a single further cut from 3.75 per cent before the end of the year. Before the conflict, swaps contracts were fully pricing two quarter-point reductions this year.

Meanwhile, in the Eurozone, investors are already beginning to price in the possibility of a rate increase by the European Central Bank in response to the new inflation threat, even though policymakers insist that it is too early to draw conclusions.

In the US, Federal Reserve chair Jay Powell indicated that the central bank was likely to keep rates on hold in the near term — a position the potential for an inflationary surge is likely to reinforce. Rate cut predictions in the futures market have fallen, with traders betting on one to two cuts this year rather than two to three, with the first expected in September instead of July.