

Contributors

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Chart 1

History of Oil Futures During Key Events

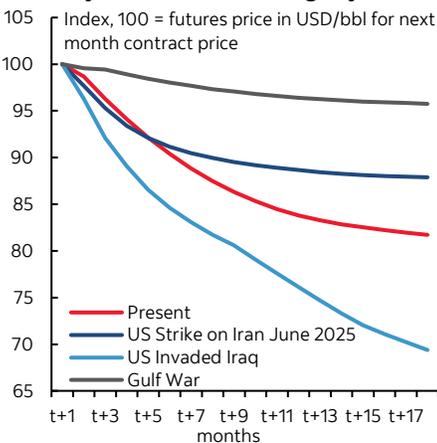
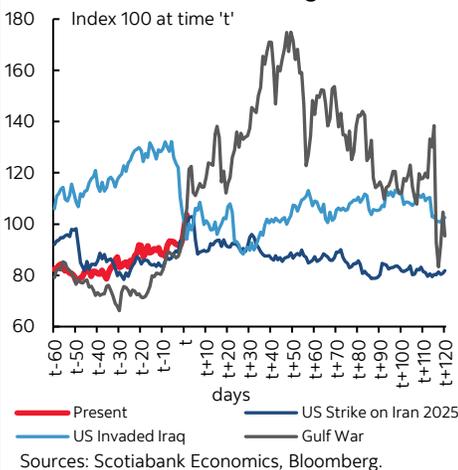


Chart 2

WTI Price Movements During The Events



On Deck for Wednesday, March 4th

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-04	07:00	MBA Mortgage Applications (w/w)	Feb 27	--	--	0.4
US	03-04	08:15	ADP Employment Report (000s m/m)	Feb	40	50.0	22.0
CA	03-04	08:30	Productivity (q/q a.r.)	4Q	-0.3	-0.1	0.9
US	03-04	10:00	ISM Non-Manufacturing Composite	Feb	54.0	53.5	53.8
CA	03-04	10:30	Bank of Canada Governor Tiff Macklem Speaks in Toronto				
US	03-04	14:00	Fed Releases Beige Book				

KEY POINTS:

- **Markets are a touch more optimistic on a weak rumour**
- **Oil futures markets don't think this is the Gulf War again**
- **What past oil shocks did to US macro variables and which one might apply to today**
- **Australian Q4 GDP growth ties for fastest in three years**
- **China SOE-heavy PMIs went nowhere...**
- **...but the private sector PMIs accelerated**
- **US vehicle sales surprise higher**
- **Canadian vehicle sales slip to fourth highest of last year**
- **BoC's Macklem to speak—Q&A may be the key**
- **US to refresh ADP, ISM-services**

The broad tone across global markets is a bit more positive this morning. Oil prices are up by either side of 1% for WTI and Brent, but slight optimism shines elsewhere. US equity futures are marginally positive, TSX futures more so, and European equity cash markets are up by 1%+ except London that's up ½%. US Treasury and Canadian yields are up by only 1–2bp or so, while small rallies are occurring across short-dated gilts and EGBs that are picking up from rallies in JGBs and Australian bonds. The dollar is broadly softer against most of the majors; CAD is little changed, just as it has been throughout.

It seems the catalyst for a little more optimism is on shaky foundations. A rumoured Iranian offer to talk was batted away by the US administration for not being serious. Attacks continued in both directions overnight. Other developments were light and will be covered next before getting into how this geopolitical oil shock compares to others in the past four decades or so and what lessons can be learned from doing so.

Careful With Hasty Forecast Revisions on Middle East Developments

As businesses, markets, investors and economists grapple with the implications of the war with Iran, there is a temptation to invoke wholesale forecast revisions. Some revisions are necessary, especially to the nearer term, but the temptation to rewrite narratives over the medium- and longer-terms should be resisted. A lot could change from tentative developments thus far, but a comparison of this geopolitical-driven oil shock to ones of the past four decades is useful toward downplaying more extreme concerns about the implications for the outlook.

A key distinction between today and the worst oil shock of the past three decades is shown in chart 1. Oil futures markets are not signalling the elevated prices throughout future monthly contracts that was the case when the Gulf War struck. Today's futures curve is suggesting that the price surge will be much more temporary. There are multiple caveats and additional points to make about this.

1. The evidence on how futures predict spot oil prices is mixed at best. Some research shows that the current spot price is the best predictor of future spot prices and not a terribly good one. Some research shows that futures add some explanatory power to forecasts in addition to spot prices. I'll come back to why I think today's futures curve is telling us something different than the curves during the Gulf War in the early 1990s when President Bush Sr led the invasion of Iraq to repel its attack on Kuwait.

2. Large industrial buyers of oil may not be experiencing the same price shock as retail buyers. Large buyers with constant needs—or anybody who wishes to hedge or speculate—are able to commit to futures contracts at lower than spot prices. That wasn't the case in the Gulf War. This observation limits the nature of the oil shock today. It's a caution to forecasters not to just focus upon the macro effects of the surge in spot prices.

Another perspective is shown in chart 2 that looks at what happened to spot oil prices in each of the geopolitical oil shocks since 1990. Most of them saw oil prices come right back down in short order. Again, the Gulf War was the exception, but even the damage to energy infrastructure back then gave way to pre-war prices within about four months after peaking within two months.

So now the question is how much damage to infrastructure is happening today and how bad it may get. For that, we need to monitor ongoing developments. What we can say is that today seems more like targeted and limited damage versus the Gulf War's more profound effects on oil prices and the economy. Iraqi forces torched an estimated 80–90% of Kuwait's oil fields and destroyed vast amounts of energy infrastructure that amounted to the worst oil driven environmental disaster on record. That's not what we're dealing with so far today and it's not even close.

In terms of macroeconomic outcomes of past oil shocks, charts 3–10 (next page) trace GDP, inflation, core inflation and the unemployment rate leading up to and after each of the shocks. Again, the Gulf War was the exception because of the vast damage that was done to energy infrastructure, how long it took to bring back—measured in many months with years of clean up—and because this meant elevated oil futures prices for an extended period. There were also other drivers of a weakening US economy at the time.

Then again, a lot has changed today versus back in the early 1990s. The US economy uses less oil (chart 11), and has swung from being heavily dependent upon imported oil and natural gas toward being a net exporter of both (charts 12, 13). That translates into a modestly positive income shock to the overall economy on net from higher energy prices this time. You might even get away with saying that the US has a perverse incentive to cause oil shocks today and to the benefit of its energy companies though voters would strongly disagree. Strategic oil reserves held by countries like the US and China are also much bigger today.

Chart 11

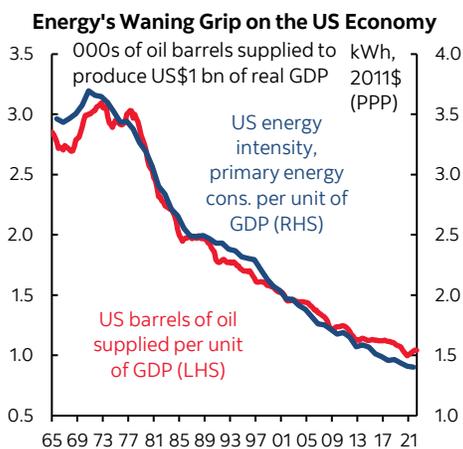


Chart 12

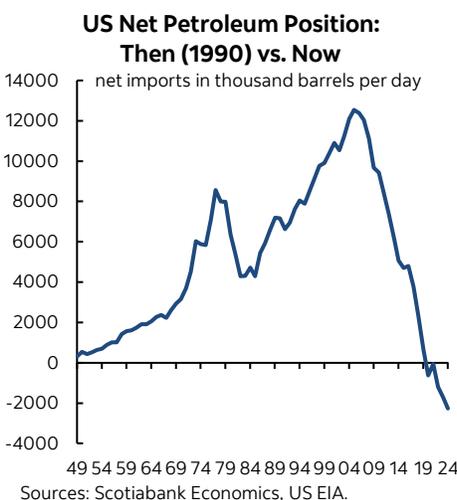
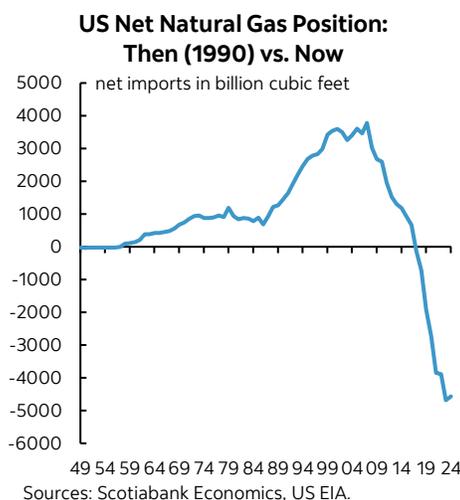


Chart 13



China's State PMIs Underwhelmed, Private PMIs Accelerated

China's state purchasing managers' indices were little changed in February but the private sector versions strengthened. The state composite PMI is more skewed toward SOEs and was statistically unchanged (49.5, 49.8 prior) with the manufacturing and non-manufacturing PMIs also little changed at similar readings. The private composite PMI jumped by nearly four points to 55.4, signalling quicker growth with pick-ups in services (56.7, 52.3 prior) and manufacturing (52.1, 50.3 prior). Chart 14.

Chart 3

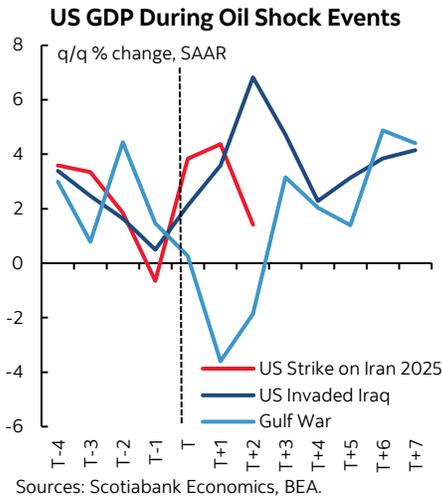


Chart 4

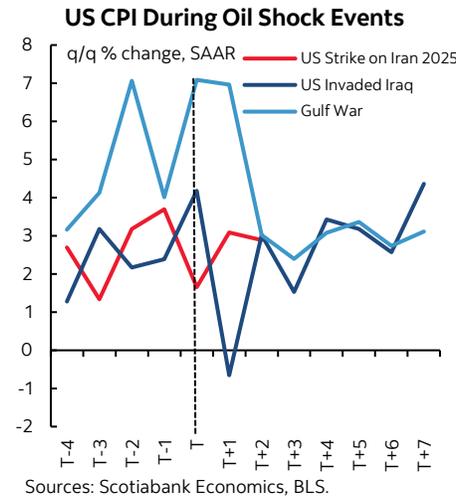


Chart 5

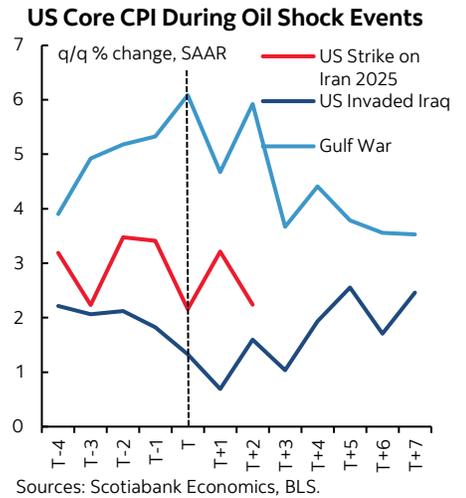


Chart 6

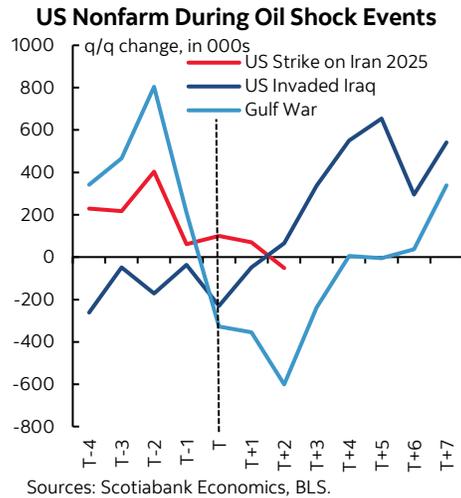


Chart 7

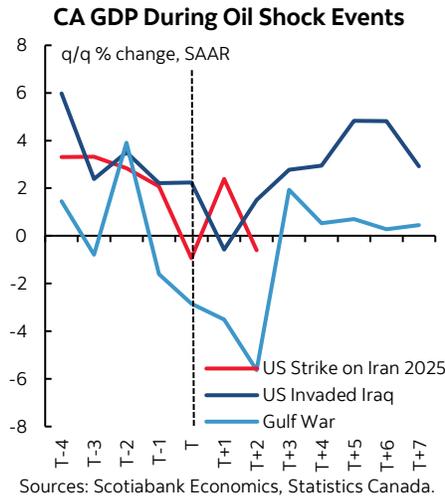


Chart 8

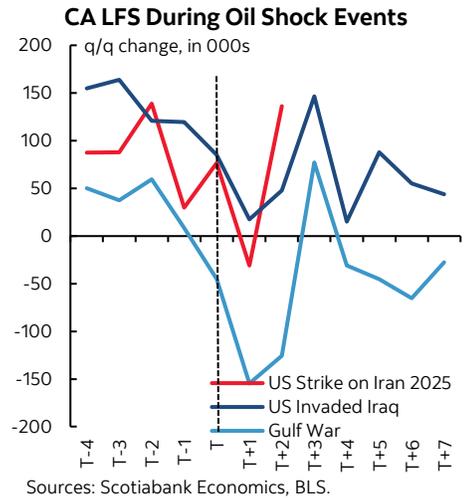


Chart 9

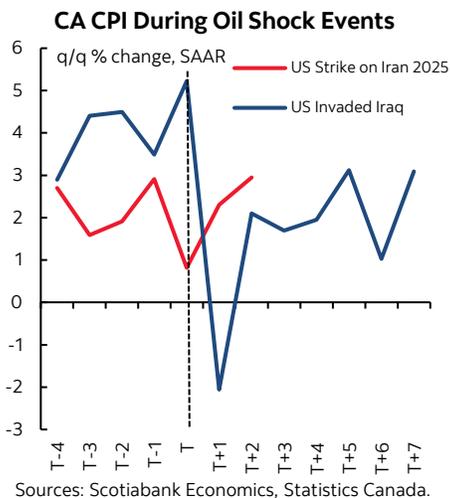
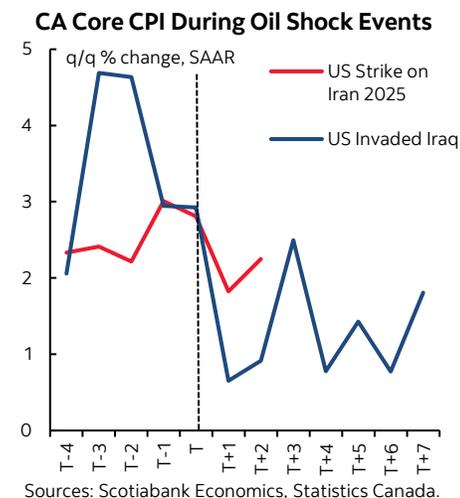


Chart 10



Australia Posts Fastest Growth in Three Years

Australia’s GDP beat including revisions has little noticeable impact on Australian rates or the A\$. Q4 GDP grew by 0.8% q/q SA, matching consensus, but was revised up a tick to 0.5% in Q3. Q4 matched Q2 net of revisions for the quickest quarterly growth since 2022Q4. (chart 15) with the drivers of Q4 GDP growth shown in chart 16.

Canada-US Economic Indicators

Last evening’s US vehicle sales surprised higher at 15.75 million units at a seasonally adjusted and annualized rate (15.37 consensus) from 14.85 million in January (chart 17). This is a solid contribution to retail sales.

Last evening’s Canadian new vehicle sales slipped a touch to still post the second highest number since February of last year (chart 18). Canadian vehicle sales are tracking about a 25% q/q annualized gain in Q1 which should support consumption growth.

The US updates ADP private payrolls (8:15amET) that are expected to be in the 40–50k range in m/m terms based on weekly tracking, and ISM-services (10amET) that is expected to be little changed but watch to see if prices paid jumps as much as it did for the ISM-manufacturing report.

BoC’s Macklem to Speak on Stability — May Broach Oil

BoC Governor Macklem speaks on ‘financial stability risks and vulnerabilities.’ How appropriate, but they set the speech topic long before the attacks on Iran. The speech embargo lifts at 10:20amET and there will be audience Q&A and a fireside chat but no press.

Watch for any comments from Macklem on oil price effects on Canada given the over US\$20 rise in WTI and US\$16 rise in the lagging WCS heavy crude benchmark since January. See Monday morning’s [note](#) for more on this.

It’s too early to hear anything on the BoC’s policy stance toward an oil shock, and he won’t signal anything material just yet and if anything is likely to say they expect the rise to be temporary. Still, if pressed on the issue, he may say that the longer an oil price shock goes on—which in turn partly depends upon how much damage is done to the energy infrastructure—the more likely the BoC could ultimately pivot. He could go textbook and remind folks how the BoC views material and sustained oil price increases/decreases as a terms of trade shock that, for a net energy exporter, serves as a positive/negative income shock with trickle down effects throughout the economy that add to inflation risk. I doubt he’ll even say that at this point though given it’s early and extremely tentative. Further, I would fully expect him to rightly say that the broad effects on financial market conditions have been pretty modest. Macklem will also be guarded ahead of next Friday’s Canadian jobs for which I’ve gone with a drop.

Chart 14

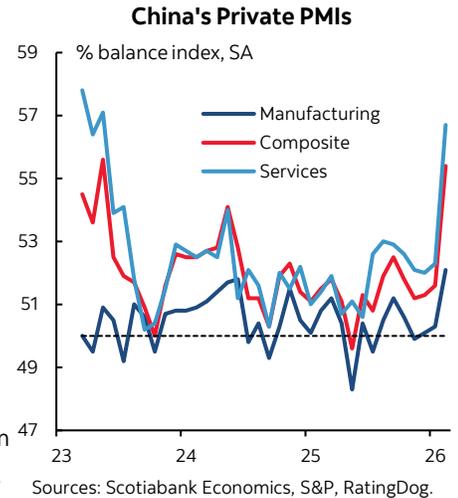


Chart 15

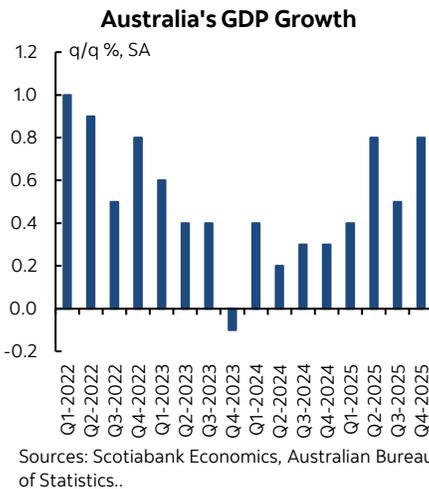


Chart 16

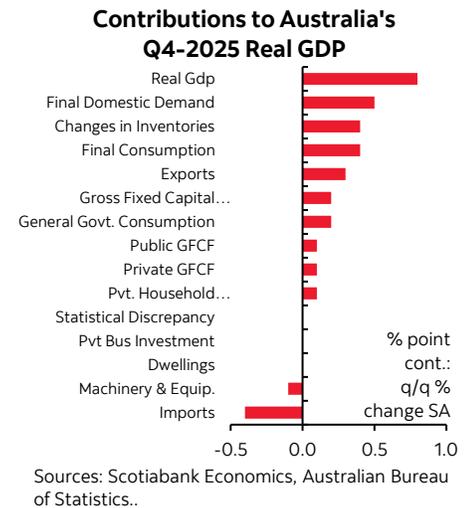


Chart 17

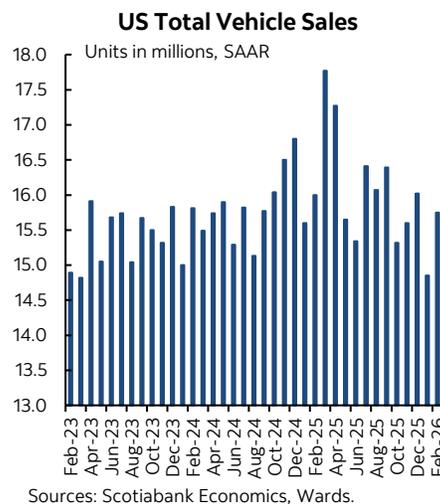
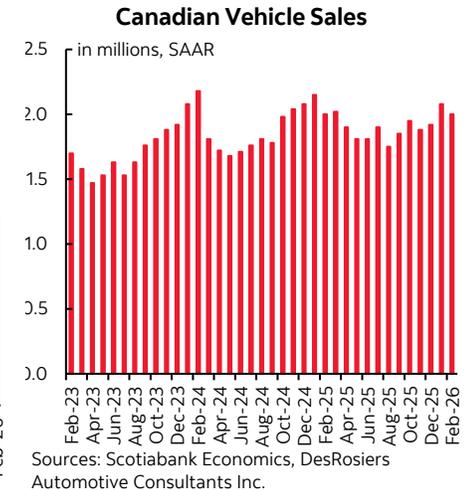


Chart 18



Fixed Income	Government Yield Curves (%):												Central Banks	
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate	
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk		
U.S.	3.52	3.51	3.47	3.66	3.64	3.62	4.08	4.06	4.05	4.73	4.71	4.70	Canada - BoC	2.25
CANADA	2.52	2.51	2.46	2.80	2.79	2.74	3.26	3.24	3.20	3.74	3.72	3.69	US - Fed	3.75
GERMANY	2.15	2.16	2.05	2.38	2.38	2.31	2.76	2.75	2.71	3.40	3.39	3.38	England - BoE	3.75
JAPAN	1.24	1.26	1.22	1.59	1.60	1.59	2.12	2.14	2.14	3.37	3.35	3.38		
U.K.	3.73	3.73	3.58	3.95	3.96	3.76	4.47	4.47	4.32	5.19	5.17	5.13		
	Spreads vs. U.S. (bps):													
CANADA	-100	-100	-101	-86	-86	-88	-83	-82	-85	-99	-99	-100	Euro zone - ECB	2.15
GERMANY	-137	-135	-143	-128	-126	-132	-132	-131	-135	-133	-132	-132	Japan - BoJ	0.75
JAPAN	-228	-225	-225	-207	-204	-203	-196	-192	-192	-136	-135	-132		
U.K.	21	22	11	30	32	14	39	41	26	46	47	43	Mexico - Banxico	7.00
Equities	Level						% change:							
	Last	Change		1 Day		1-wk		1-mo		1-yr				
S&P/TSX	33785	-756.3		-2.2		-0.5		3.7		37.5		Australia - RBA	3.85	
Dow 30	48501	-403.5		-0.8		-1.4		-2.0		14.1		New Zealand - RBNZ	2.25	
S&P 500	6817	-65.0		-0.9		-1.1		-1.0		18.0				
Nasdaq	22517	-232.2		-1.0		-1.5		-1.7		23.1				
DAX	24161	370.6		1.6		-4.0		-1.8		8.2				
FTSE	10545	60.6		0.6		-2.4		1.4		20.4				
Nikkei	54246	-2033.5		-3.6		-7.4		-0.1		45.3		Canada - BoC	Mar 18, 2026	
Hang Seng	25249	-518.6		-2.0		-5.7		-6.0		10.1		US - Fed	Mar 18, 2026	
CAC	8188	83.8		1.0		-4.3		-0.9		1.7				
Commodities	Level						% change:							
	Last	Change		1 Day		1-wk		1-mo		1-yr				
WTI Crude	74.79	0.23		0.3		14.3		14.8		9.6		England - BoE	Mar 19, 2026	
Natural Gas	3.01	-0.05		-1.5		1.3		-13.2		-30.9		Euro zone - ECB	Mar 19, 2026	
Gold	5195.92	107.09		2.1		0.6		4.7		78.1		Japan - BoJ	Mar 19, 2026	
Silver	81.31	-13.32		-14.1		-7.7		-7.1		157.9				
CRB Index	326.30	5.75		1.8		5.3		4.3		8.3				
Currencies	Level						% change:							
	Last	Change		1 Day		1-wk		1-mo		1-yr				
USDCAD	1.3660	-0.0020		-0.1		-0.1		-0.0		-5.1		Mexico - Banxico	Mar 26, 2026	
EURUSD	1.1638	0.0025		0.2		-1.5		-1.4		9.5				
USDJPY	157.18	-0.5600		-0.4		0.5		0.2		4.9		Australia - RBA	Mar 16, 2026	
AUDUSD	0.7054	0.0018		0.3		-1.0		0.8		12.5				
GBPUSD	1.3380	0.0022		0.2		-1.3		-2.0		4.6		New Zealand - RBNZ	Apr 07, 2026	
USDCHF	0.7805	-0.0015		-0.2		1.0		0.4		-12.2				

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