



After the Iran deal – all good again?

Following the agreement between the U.S. and Iran, oil prices have plummeted. We show that the situation in the oil market, as well as with regard to the economy and inflation, will ease only over the medium term.

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Oil prices are falling but will remain well above pre-war levels for a long time

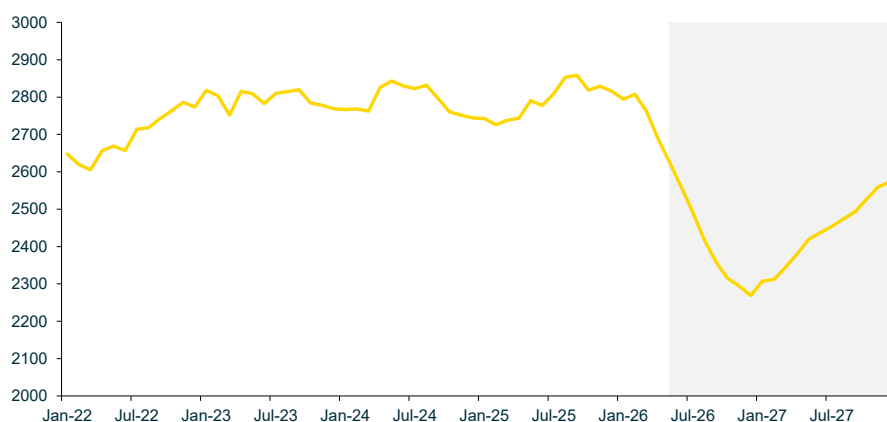
Market participants have reacted very positively to the framework agreement between the U.S. and Iran. The price of a barrel of Brent crude has recently fallen to just under \$80 (see title chart). In fact, according to the text of the agreement circulating in the media, Trump appears to have made significant concessions to Iran. For instance, Iran is set to receive at least \$300 billion through a planned private “Reconstruction and Development Fund.” Furthermore, the U.S. intends to lift all sanctions against Iran once a final agreement is reached. Apparently, Trump wants peace at any cost to improve his party’s chances in the U.S. midterm elections. Given these concessions by the U.S., the Iranian regime would have much to lose if the conflict were to continue, which argues against a resurgence of the war and a renewed closure of the Strait of Hormuz. We therefore no longer expect an average oil price of \$100, but rather \$85, for our two-month transition scenario (through the end of July). We have lowered our year-end forecast from \$85 to \$80.

But we must not become overconfident; it will likely take until the middle of next year for the oil price to return to its pre-war level of just under \$70 ([see also this Commerzbank study](#)):

- **Slow Resumption of Production:** With the reopening of the Strait of Hormuz, more ships will once again pass through the strait. However, it is likely to take quite some time before shipping traffic – and thus oil exports from the Gulf region – return to their pre-war levels. For example, the complete clearance of sea mines could take several months. Only then are insurers likely to be willing to insure ship passages under acceptable terms. According to estimates by the International Energy Agency (IEA), it could take another two to three months after the clearance for logistics to run smoothly again and for export volumes to normalize.
- **Restocking:** So-called commercial inventories (mostly at refineries) are likely to continue falling in the coming months, albeit not quite as sharply as the EIA had recently expected (Chart 1). Afterward, the depleted inventories will need to be replenished. This will increase demand for oil, especially since the countries most severely affected by the supply disruption are likely to aim for higher inventory levels in the future.
- **Spare capacity barely utilized:** Not all countries with spare capacity will or can utilize it to increase production. For example, the U.S. is likely to reimpose sanctions on the Russian oil sector as soon as the situation in the Gulf has eased. Furthermore, Saudi Arabia, which has the highest spare capacity, has an interest in a high oil price to stabilize its national budget.

Chart 1 - Oil inventories to decline until the end of the year

OECD commercial crude oil inventories in millions of barrels; EIA forecasts starting in May



Source: EIA, Commerzbank Research

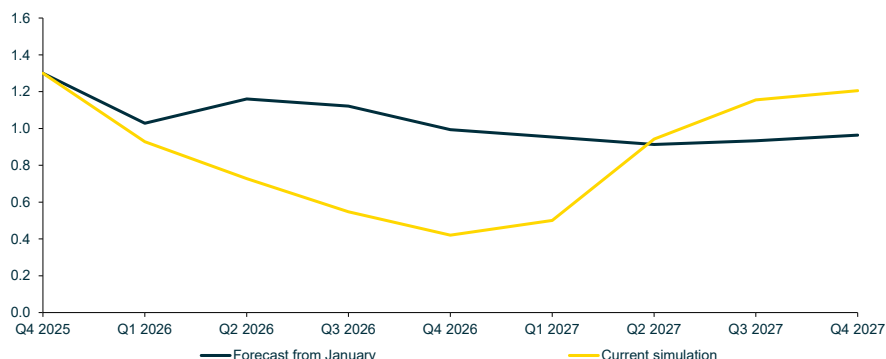
Economy: Recovery will come later

The reopening of the Strait of Hormuz is, of course, good news for the economy. The risk of an oil-price-driven recession in the eurozone this year has decreased significantly. However, our model-based simulation suggests that the recent rise in oil prices is likely to continue to weigh on economic growth through the end of the year (Chart 2). All in all, we are confirming our growth forecasts for Germany and the eurozone of 0.6% each for this year and 1.0% each for 2027. 2



Chart 2 - Oil price to weigh on growth through year-end

Eurozone GDP, change over previous year in %, current simulation: oil price of 85\$ until end of July, decline to 80\$ until year-end



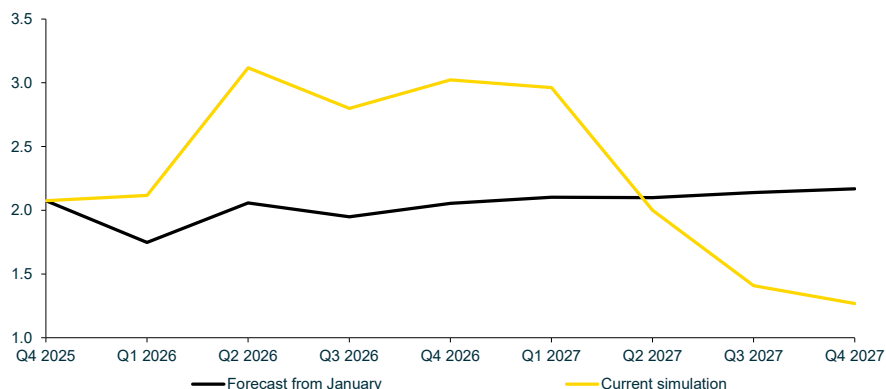
Source: Bloomberg, Commerzbank-Research

Inflation: Still at 3% through the end of the year

The reopening of the Strait of Hormuz is also helping to curb inflation. While our inflation model – based on previous oil price forecasts – had expected the eurozone inflation rate to hover around 3 1/4% for the rest of the year, it now appears more likely to hover around the 3% mark. Ultimately, however, the conclusion remains that inflation should not decline significantly until after the turn of the year (Chart 3). Patience is required here as well.

Chart 3 - Eurozone inflation to decline only next year

Headline inflation in the euro area in %, current scenario: 85\$ until end of July, decline to 80\$ by year-end



Source: Bloomberg, Commerzbank-Research

ECB: Not yet done with rate hiking

The agreement between the U.S. and Iran and the decline in oil prices have reduced the need for further key interest rate hikes by the ECB. Futures markets have priced out more than one rate hike looking ahead to spring 2027.

But monetary tightening is not completely off the table. Like us, the markets continue to expect a 25-basis-point rate hike at the meeting two sessions from now in September. Even ECB Chief Economist Philip Lane, who is considered a dove, has indirectly advocated for such a rate hike. There are good reasons for this. According to surveys, companies have reacted to the recent rise in energy prices and are passing the higher costs on to their customers. Surveys also indicate that consumers' longer-term inflation expectations have risen slightly above the ECB's 2% target. Furthermore, core inflation – excluding energy and food – is likely to pick up in the coming months.

Fed: Interest rate hikes off the table

Thanks to the framework agreement, the likelihood of an interest rate hike by the Federal Reserve has fallen further. However, the sharp rise in oil prices over the past three months is likely to keep U.S. inflation above 3% until next spring. Accordingly, we do not expect lower inflation and interest rate cuts by the Fed until after that (to 3.0% by the end of 2027).

Bond markets: fully priced in

The prospect of the Strait of Hormuz reopening has caused yields on German government bonds to fall significantly. In the short term, yields may continue to fall as the Middle East conflict gradually recedes into the background. But looking ahead to the next six to twelve



months, the scope for further declines in yields is limited. This is because the prospect of key interest rate cuts in the second half of next year is largely offset by budget deficits that are far too high in most countries.

Dollar continues to weaken

The dollar has depreciated slightly following reports of an agreement. EUR/USD rose accordingly. In the coming quarters, EUR/USD is likely to trend upward, primarily because the independence of the U.S. Federal Reserve is expected to gradually erode under new Fed Chair Kevin Warsh.

Equities: Overweight

Our outlook for equities remains cautiously optimistic, as the agreement between Iran and the U.S. has reduced both economic risks and the likelihood of a rate hike in the U.S. So far this year, companies – particularly in the U.S. – have managed to boost their earnings by more than 20%.



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