

Impact of Escalating Middle East Tensions on Japan's Economy and Interest Rates

Downward Pressure on Japanese Economy from High Crude Oil Prices Currently Limited

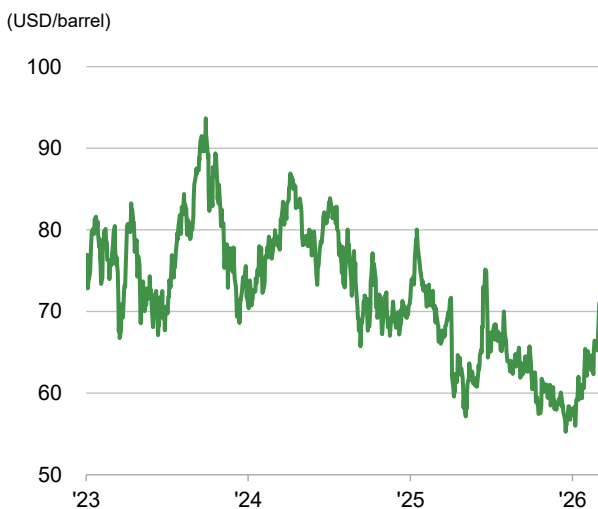
March 2, 2026

Focus on the Persistence of Turmoil Surrounding the Strait of Hormuz and Upward Pressure on Crude Oil Prices

On Saturday, February 28, the US and Israel carried out attacks against Iran. Leading up to the attacks, the US and Iran had held numerous high-level talks over Iran's nuclear development program, but the gap between the two nations remained unbridged, and negotiations had stalled. US President Trump had warned that military action would follow if an agreement was not reached. Under these circumstances, the US launched a military operation dubbed "Operation Epic Fury." In response, Iran launched retaliatory attacks. The Strait of Hormuz, through which approximately 20% of the world's crude oil shipments pass, has been effectively blocked, and turmoil in the Middle East continues.

Amid heightened tensions in the Middle East, WTI crude oil futures prices temporarily saw a price hike to over \$75 per barrel, triggering reactions of risk aversion such as falling stock prices and declining interest rates. For Japan, which relies heavily on imports from the Middle East for its crude oil, higher oil prices could become a downward pressure on the economy through increased energy costs. However, oil prices are currently hovering around \$71 per barrel (as of 2:00 PM on the 2nd). Furthermore, since the escalation of military conflict between Israel and Gaza, some tanker shipments have been rerouted via the Cape of Good Hope, contributing to a gradual stabilization of financial market volatility. However, should tensions in the Middle East escalate further and the turmoil persist, the risk of stagflation intensifies. This scenario involves simultaneous economic downturn and a price hike, driven by further increases in crude oil prices. The immediate focus is on the sustainability of disruptions in the Strait of Hormuz and the upward pressure on crude oil prices.

WTI Crude Oil Futures Price



※Daily data, latest value as of 14:00 on March 2, 2026

Source: Bloomberg; compiled by Daiwa Asset Management

10-Year Government Bond Yield (Feb 27 - Mar 2)



※3-minute chart, previous value used during non-trading periods; latest value at 14:00 on Mar 2

Source: Bloomberg; compiled by Daiwa Asset Management

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