

From the desk of Chief Economist Beth Ann Bovino

Iran and oil: A straight shot of relief?

Promising signs of an interim pact between the U.S. and Iran to reopen the Strait of Hormuz **give me some hope that the U.S. economy could move back toward a pre-war footing**. If the energy pass-through risk fades, the Fed, which is still expected to stay on hold this week, would have more room to ease off its hawkish stance.

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Beth Ann Bovino, chief economist, U.S. Bank

If it holds, **the deal will meaningfully reduce affordability pressures for the private sector and lower recession risk**. The U.S. Bank Economics team has been arguing that the U.S. economy is more insulated than in the 1970s and can absorb higher energy prices without tipping into recession. But sustained West Texas Intermediate (WTI) crude prices above ~\$130 per barrel (with \$150 peaks) would materially raise recession risk. The agreement, if durable, makes that scenario less likely.

That is a big "if," of course. It depends on negotiations holding and evolving into a longer truce.

There are also near-term frictions. Damage to energy infrastructure around the Strait will take time to repair, likely keeping some production offline into the second half of the year.

Meanwhile, pricing pressure from the conflict is still moving through the pipeline. May Producer Price Index (PPI) showed transportation and warehousing costs rising, an early sign that energy and freight pressures are feeding into supply chains. Those effects still need to pass through to consumer prices, which remain above the Fed's 2% target.

Bottom line: The Fed is likely to stay on the sidelines until there's more clarity. But if this holds, the case for further rate hikes looks much weaker..

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