

MACROECONOMIC RESEARCH

Macroeconomic Report

A global outlook on growth, policy and risk.

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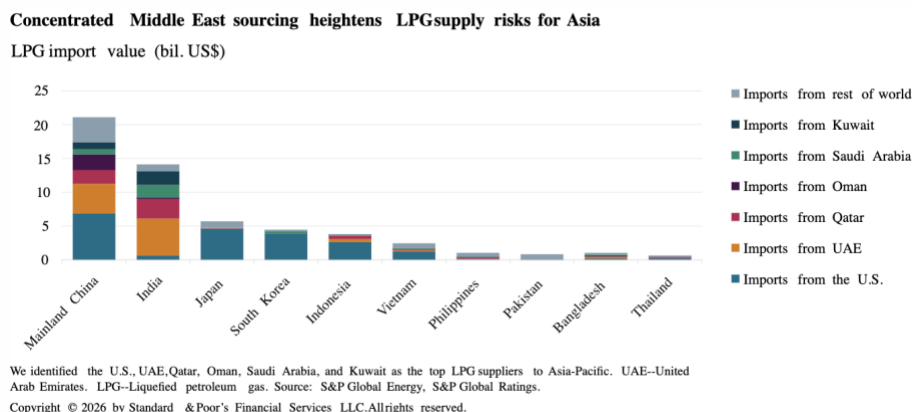
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1. MIDDLE EAST CONFLICT AND GLOBAL OIL MARKET DISRUPTION

Rising fuel prices, driven by instability in the Middle East, have become a global concern affecting policymakers, firms and consumers. The short-term effects are already visible in the markets, with oil rising above \$116 a barrel. Looking towards the medium term, the question remains: what happens next, and how will the global oil market evolve over the coming months and years?

The disruption stems from escalating conflict in the Middle East, particularly affecting key routes such as the Strait of Hormuz. This passage is one of the world’s most important oil transport routes, with roughly a fifth of the world’s oil supply passing through it every day. Any threat to the security of the Strait has immediate consequences for global oil supply.

Output from Kuwait, Qatar and Iraq has either slowed materially or stopped altogether. Strikes and infrastructure damage have significantly reduced capacity, with some estimates suggesting losses of up to 20 mb/d. This is not a temporary issue — it has the potential to reshape who buys oil from where. Asian economies such as China, Japan and South Korea rely heavily on oil imports from Saudi Arabia and its neighbouring countries.



Source: S&P Global Ratings

If supply becomes unreliable, these economies will have little choice but to look elsewhere. With over 9% of the world’s share of oil, Canada is a possible alternative. However, shifting the supply chain is not simple. It involves rerouting and creating new transport links, upgrading systems and renegotiating long-term contracts, all of which makes diversification slow and expensive. Another large source that cannot be ignored is Russia. Since the Ukraine war, Russian oil has been sold at discounted rates to primarily Asian markets. If Middle Eastern supply comes under greater pressure, it is possible that Russian exports

become structurally more attractive. The current situation could improve Russia's position in the global market, undermining the impact of sanctions imposed by Western countries.

Companies such as Shell and BP find themselves in a complicated position. In theory, reduced supply should drive prices upward, increasing potential profits. In practice, however, exposure to unstable regions raises operational risk, increases costs and creates uncertainty for the future of their investments. Damage to infrastructure and disruption to the supply chains they rely on can rapidly counteract any profits made on higher prices. The impact can already be seen in the financial strain faced by major energy firms — Shell, for example, has seen its working capital position fall to a deficit of around \$10–\$15 billion in Q1 2026.

This environment could initiate a strategic shift within the global oil market. Companies are unlikely to want to stay exposed to high-risk regions if conflict continues. This could create opportunities for North American energy producers, as firms operating in more stable regions such as Canada and the US could benefit from increased demand and higher prices. Major energy companies may also consider shifting their operations toward these regions. There may also be increased investment in renewable energy as firms seek to diversify away from reliance on volatile oil-producing regions. In the short term, concerns around energy security might prompt some countries to revert to traditional sources such as coal, despite the environmental cost. The current conflict in the Middle East could therefore trigger a fundamental change in the global oil market, with a much greater and longer-lasting impact than a simple compression of margins. It could weaken the influence of traditional producers and reshape the balance of power within the global energy market.

Instability in the Middle East is likely to have a lasting effect on the global oil market, extending well beyond short-term price increases and supply shortages. Continued disruption is likely to accelerate changes in the global oil market, including supply diversification, shifting geopolitical alliances and heightened uncertainty. These changes are likely to benefit producers in more stable regions and to highlight the importance of alternative suppliers. The current crisis could mark a turning point for the global energy market, with long-term implications for both geopolitical and investment decisions.

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2. SOUTH KOREA — KOSPI CRASH

South Korea entered 2026 as one of the strongest-performing equity markets globally, following a dramatic re-rating in 2025 driven by corporate governance reforms and the global AI boom. The benchmark KOSPI had surged nearly 70% over 2025 and continued its rally into early 2026, briefly approaching 6,000 after more than doubling from April 2025 levels. This rapid appreciation was underpinned by strong inflows into semiconductor giants such as Samsung Electronics and SK Hynix, as investors positioned for a prolonged AI-driven memory supercycle. The pace of gains, however, left valuations stretched and market positioning increasingly crowded.

The turning point came in early March 2026, when the KOSPI recorded a historic 12% single-day decline — one of the sharpest crashes in its history. The immediate catalyst was a sharp escalation in the Iran conflict, which triggered a broad risk-off move across global markets. South Korea was particularly vulnerable due to its structural dependence on external energy, importing roughly 70% of its oil from the Middle East. The resulting spike in energy prices raised concerns over input costs, inflation and the sustainability of the AI-led equity rally.

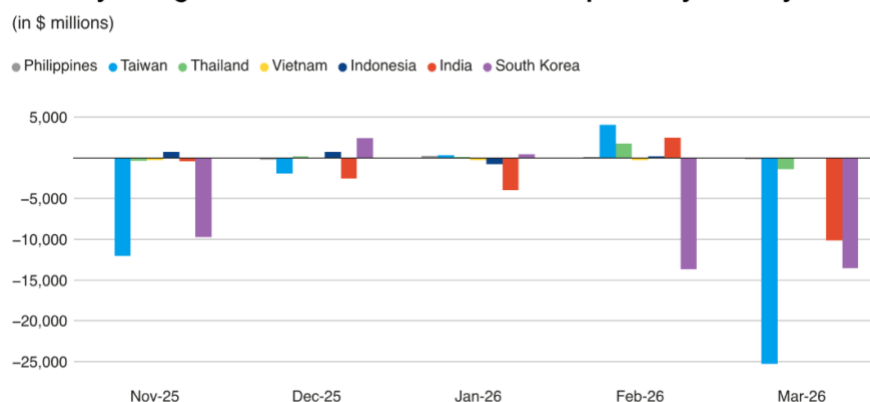


Source: Financial Times

Market dynamics amplified the sell-off. Foreign investors led significant outflows, particularly from the large-cap technology stocks that had driven year-to-date gains, accelerating the decline. At the same time, the Korean won depreciated sharply, breaching the psychologically significant 1,500 per dollar level for the first time in 17 years, further exacerbating capital flight and investor anxiety. The scale of the

correction was reflected in market breadth, with nearly all listed stocks declining and total market capitalisation falling by over 800 trillion won.

Monthly foreign investment flows into Asian equities by country



Source: Reuters

Leverage and market structure explain why the sell-off was so sudden and severe, and reflect how quickly gains can unwind in an overcrowded, externally exposed market. High retail participation and widespread use of margin trading meant that falling prices triggered margin calls, forcing rapid liquidation regardless of fundamentals. This self-reinforcing cascade was compounded by thin liquidity and algorithmic trading, which magnified price moves and created sharp gaps. When geopolitical risk prompted foreign investors to pull capital, the concentrated rally in a handful of large-cap stocks left little room for negative shocks, and forced selling pushed the market into a rapid, broad-based crash.

After the March correction, the KOSPI staged a sharp 10% rebound. The index is currently trading around 5,200, reflecting a partial recovery, and remains up 28% year-to-date. Volatility remains elevated, with swings driven by geopolitical uncertainty and foreign flows. While the crash was driven by external shocks rather than a fundamental deterioration in earnings, it underscores the sensitivity of South Korea's open, tech-heavy market — and suggests that periods of rapid gains are likely to be punctuated by sharp, momentum-driven corrections.

3. JAPANESE VOLATILITY

Japan's markets entered March in a tense macro environment. At its March policy meeting, the Bank of Japan held its policy rate at 0.75% but reiterated a hawkish bias, with internal debate continuing over the timing of the next move amid mixed inflation signals. Minutes showed several policymakers favouring further hikes as underlying price pressures build. Japan's core CPI (February) slowed to +1.6% YoY, below

the 2% target, although broader inflation measures excluding food and fuel remain elevated at 2.5%, complicating the policy outlook.

The yen weakened sharply, trading around ¥160 per USD — close to multi-month lows — as global risk aversion and safe-haven dollar demand intensified on geopolitical tensions. Equally, wide interest rate differentials (BoJ 0.75% vs. U.S. 3.75%) drove carry trades and dollar strength. A weaker yen raises the cost of Japan's energy and commodity imports, putting upward pressure on domestic and import prices.

The Nikkei 225 has weakened through March, with the index down around 8% over the month after sliding from recent record highs. Despite bouts of relief and stock-specific rallies, broader risk-off sentiment tied to energy and FX has dampened market performance. Japan depends on the Middle East for approximately 95% of its crude oil — a structural vulnerability as the Strait of Hormuz disruption persists. In response, Japan announced its largest-ever release (80 million barrels) to blunt supply tightness.

Looking ahead, the Bank of Japan faces a delicate balancing act. With rising oil costs from the Iran war adding inflationary pressure to an economy already seeing steady price and wage increases, the BoJ may raise rates to cool the economy and prevent inflation from accelerating. Conversely, keeping rates unchanged would support growth and market stability. Analysts see a high probability of a rate hike by June, possibly as early as April, as the BoJ balances cooling inflation pressures against the need to support growth amid volatile FX and equity markets.

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4. THE EU–MERCOSUR TRADE AGREEMENT: OPPORTUNITIES, RISKS AND IRISH EXPOSURE

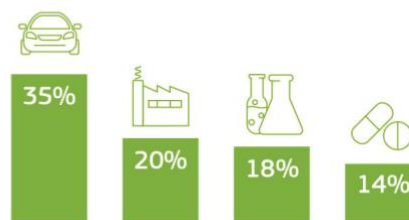
After more than twenty years of intermittent and intense negotiations, the European Union and the four-nation Mercosur bloc — Brazil, Argentina, Uruguay and Paraguay — reached a finalised trade agreement in December 2024. The deal would create a free trade zone covering roughly 700 million people and a combined GDP of around €19 trillion, making it one of the largest trade agreements ever concluded.

Crucially, the EU has announced that the trade pillar of the agreement will enter into provisional application from May 2026, meaning the core tariff reductions and market access commitments can begin taking effect from then, ahead of full parliamentary ratification. For investors and policymakers, this accelerated timeline makes the agreement’s sector-level implications more immediately pressing than its lengthy negotiating history might suggest.

The commercial logic behind the deal is straightforward. EU exporters currently face average tariffs of around 10% when selling into Mercosur markets, with duties on cars, machinery and chemicals reaching as high as 35% in some cases. Under the agreement, these barriers would be phased out on roughly 91% of EU goods, while Mercosur countries would gain improved access to European markets for agricultural products including beef, poultry, sugar and ethanol. The European Commission estimates the deal could increase EU exports to the region by up to €45 billion a year. European manufacturers, particularly in Germany and Italy, stand to be among the clearest winners, as would financial services firms seeking to expand into fast-growing Latin American markets.

KEY BENEFITS FOR EU COMPANIES

- Removing high Mercosur tariffs will enable EU exporters to save over four billion euros in customs duties per year;
- Easier and simpler customs procedures facilitate exporting;
- EU firms will be able to bid for public contracts on equal terms with Mercosur companies;
- Exclusive preferential access to some critical raw materials and green goods;
- Current tariffs: car parts (35%), machinery (20%), chemicals (18%) and pharmaceuticals (14%).



Source: European Commission

The deal also reflects broader strategic thinking on both sides. For the EU, deepening ties with South America is partly about reducing dependence on China for critical raw materials and diversifying supply chains following the disruptions of the COVID-19 period, as well as an intentional counterweight to the recently turbulent US trade policy environment. For Mercosur nations, closer ties with Europe provide an economic counterbalance to China, which absorbed over 30% of the bloc’s exports in 2023.

For Ireland, the most pressing concern centres on the beef sector. Ireland is one of Europe’s largest beef exporters, with the industry generating approximately €2.5 billion in export revenue annually and supporting tens of thousands of jobs in rural communities. The agreement would allow Mercosur countries to export up to 99,000 tonnes of beef into the EU each year at a reduced tariff rate, with Brazil — the world’s largest beef exporter — accounting for the majority of that quota. Brazilian cattle farming operates at a significantly lower cost base than Irish production, benefiting from vast land availability, cheaper feed and lower labour costs. Irish farmers and industry bodies, including the Irish Farmers’ Association (IFA), have warned that even a modest increase in South American beef on European

supermarket shelves could put downward pressure on prices and squeeze margins for domestic producers already operating on tight returns. The agreement does include safeguard clauses that would allow the EU to restrict imports if volumes surge unexpectedly, but critics argue these thresholds are set too high to offer meaningful protection.

DEFENDING THE INTERESTS OF EU FARMERS

The partnership agreement defends the interests of European farmers and food producers, while making it easier for them to make the most of new opportunities in Mercosur.

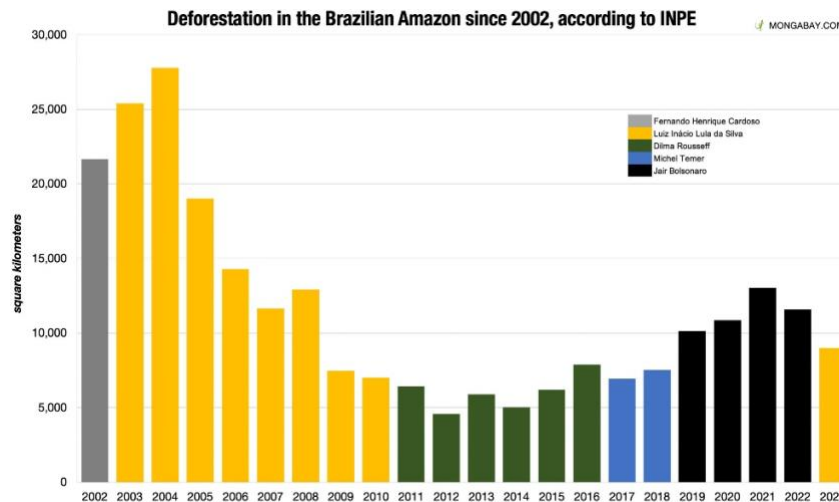
This will be achieved by:

- Boosting EU exports by removing high tariffs for the EU's main export products;
- Preventing imitation of 344 EU traditional food products, recognised as Geographical Indications;
- Making food safety procedures clearer, more predictable and less cumbersome for EU exporters;
- Granting very limited access to the EU market for sensitive agri-food products like beef, poultry or sugar;
- Current tariffs: dairy products (28%), chocolate and confectionery (20%), spirits (35%) and wines (27%).



Source: European Commission

Environmental concerns have been a consistent obstacle to the deal’s progress, and they remain politically sensitive. The worry is that opening EU markets to more Brazilian agricultural products could incentivise further deforestation in the Amazon and Cerrado regions, as farmers clear land to meet rising export demand. Brazil recorded the loss of approximately 11,568 square kilometres of forest in 2022 alone, according to the country’s own monitoring agency. In response to these concerns, the revised 2024 agreement includes a dedicated sustainability annex committing both parties to Paris Agreement targets and establishing a joint monitoring framework. Whether these provisions carry enough legal weight to influence behaviour on the ground remains a genuine uncertainty, and environmental groups have signalled their intention to challenge the deal through the EU’s ratification process.



Source: Mongabay / INPE

The path to full ratification is likely to be lengthy and politically difficult. Complete implementation requires approval from the European Parliament and, depending on how the deal is legally classified, potentially all 27 national parliaments as well. France has been the most vocal opponent, citing risks to its agricultural sector and concerns over environmental standards, while Austria and Poland have also raised objections. To navigate these obstacles, the EU has pursued a split ratification approach, separating the core trade provisions — which can be approved at EU level, and which are set to enter into force on a provisional basis from May 2026 — from the broader political and cooperation elements requiring national sign-off. On the Mercosur side, political instability in Argentina, where economic policy has shifted sharply between governments in recent years, adds a further layer of uncertainty to the longer-term timeline.

In conclusion, the EU–Mercosur trade deal represents one of the most consequential shifts in the global trade landscape in a generation, and its implications will be felt across a broad range of economies, sectors and asset classes. For the macro investor, the deal’s provisional entry into force from May 2026 brings the timeline into sharp focus. European automakers, particularly German and Italian manufacturers, should benefit most directly, as the removal of Mercosur’s 35% car tariffs opens a large and virtually untouched market; names with significant Latin American exposure could see a structural re-rating. European logistics and freight operators should also benefit as bilateral trade volumes expand, while EU retailers and consumer goods companies gain improved access to a combined consumer market of over 270 million people. In the short term, investors should closely monitor how manufacturing equities such as Volkswagen Group and EU-based shipping and logistics firms perform following any progress on the EU–Mercosur trade deal. While the agreement may improve long-term trade flows, short-term share price movements will likely depend more on investor sentiment and global capital allocation. Recent geopolitical uncertainty in the Middle East and the US could lead to shifts in capital towards newly opportunistic markets, including Europe and parts of South America. If this shift coincides with improved sentiment around firms well positioned to benefit from increased EU–Mercosur trade, selected equities may experience strong rallies, although this is not guaranteed.

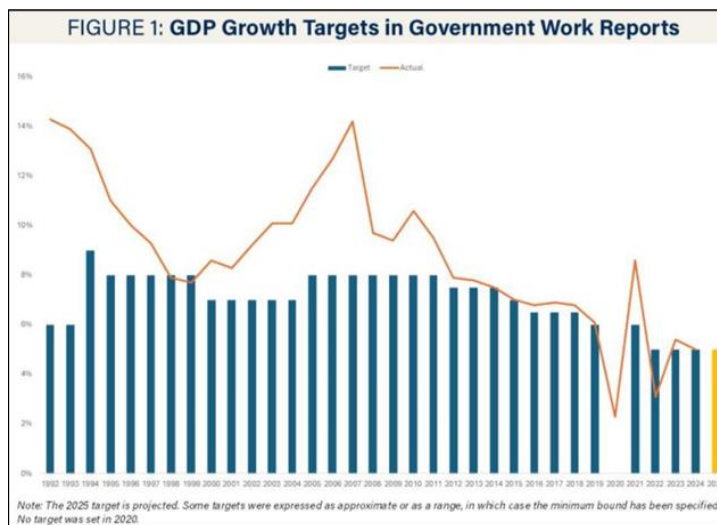
On the currency side, a sustained pick-up in EU goods exports to the region could provide modest upward support for the euro, while the Brazilian real and Argentine peso may face near-term pressure as domestic agricultural sectors adjust to greater competition. For Ireland specifically, the deal’s impact on agricultural and food-production competitiveness will require close monitoring by stakeholders and policymakers alike, given the sector’s outsized role in the national economy. The deal will likely prove beneficial in aggregate terms, but the distribution of gains and losses across economies, sectors and communities is likely to be uneven.

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5. CHINA’S GROWTH SLOWDOWN FOLLOWING THE NPC AND ECONOMIC OUTLOOK

China’s macroeconomic outlook following the 2026 National People’s Congress (NPC) reflects a transition toward slower but more sustainable growth. The government announced a GDP growth target of 4.5–5% for 2026 — the lowest in decades — signalling a sensible shift in expectations amid both domestic and global pressures. In contrast to the roughly 5–6% targets that dominated the past decade in the chart below, the 2026 range marks a clear downward shift and the first sustained move below the 5% threshold.



Source: Chinese National Bureau of Statistics

Al Jazeera reported that this marks “the first time the target has been set below 5%,” highlighting policymakers’ recognition of structural constraints (Al Jazeera, 2026). Similarly, China Briefing has noted that the use of a range indicates increased policy flexibility, where “any outcome within the band is acceptable,” rather than strict adherence to a single growth figure (China Briefing, 2026). The Five-Year Plan placed heavy emphasis on technological self-sufficiency, prioritising sectors such as semiconductors,

artificial intelligence and advanced manufacturing, alongside continued investment in green energy and industrial upgrades to support more sustainable, innovation-driven growth.

Several structural and cyclical factors underscore this slowdown. According to the International Monetary Fund (IMF), growth is projected to moderate to around 4.5% in 2026, with “deflationary pressures persisting” due to subdued domestic demand and excess capacity (IMF, 2026). The IMF further identifies long-term challenges including a shrinking labour force, declining productivity growth and diminishing returns on capital investment. Domestically, the NPC work report acknowledged supply and demand imbalances and fiscal stress among local governments, reinforcing concerns about the sustainability of current growth drivers (Observing China, 2026).

Externally, geopolitical tensions and weaker global demand continue to weigh on China’s outlook. The IMF highlights that trade frictions and tariffs are expected to reduce net export contributions, while Reuters reports that policymakers must balance growth support with inflation risks linked to global commodity volatility (Reuters, 2026).

Policy responses emphasise rebalancing toward consumption and innovation. Consumption is still a relatively weak pillar of China’s growth model, with household consumption accounting for only around 40% of GDP in 2025, well below levels in advanced economies (Reuters, 2025). Fiscal expansion, alongside priorities in the upcoming Five-Year Plan, aims to support the green transition and technological upgrading. However, as noted by Deutsche Bank (2026), boosting consumption will likely be gradual given weak consumer confidence and labour market uncertainty.

Overall, China’s post-NPC outlook is characterised by slower but more sustainable growth. While near-term risks are tilted to the downside, particularly from the property sector and external demand, the policy emphasis on structural reform suggests a long-term transition toward a more balanced and resilient economic model.

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