

Post #25 on Inflation. Impact of the Hormuz (Iran) oil shock – Part 3. Date 2026-6-8

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This post is an update (part 3) to the previous posts¹ ([Link to part 1](#)) ([Link to part 2](#)) that discuss the impact of the spike in oil prices due to the closure of the strait of Hormuz and the bombing of oil and gas infrastructure in the Gulf states.

Oil prices spiked during March of 2026, from a value of \$64.495/barrel on the 1st of March, to 101.38\$/barrel on the 31st of March, averaging slightly above \$90.84/barrel throughout the month. This led to a YoY CPI reading of 3.256%.

April oil prices finished the month at 108.64 \$/barrel while averaging close to 100.32 throughout the month leading to YoY CPI reading of 3.81% in April. In May WTI oil prices averaged 102.13 \$/barrel which, according to our model, is expected to lead to YoY CPI rising to close to **4.13%** in the next BLS release for May of 2026 (on the 10th of June of 2026).

Due to the ongoing uncertainty in the resolution of the Hormuz conflict, we also examine the expected impact on the CPI of three different scenarios for oil prices.

1. Update of scenario 0 (benign) – Short-term oil shock.

This scenario, shown in Figure 1, represents a short-term shock with moderate impact on oil prices and inflation. The chart shows the evolution of WTI oil prices and overall CPI until the 28th of February of 2026, as well as projected values until April of 2027.

The scenario assumes that average monthly oil prices are \$80 (June), \$70 (July and August) and thereafter hover close to \$65 a barrel. It assumes that the US/Iran conflict will linger on for a few months, with tensions having already peaked during April and May. From September, oil prices would start retreating towards pre-conflict values.

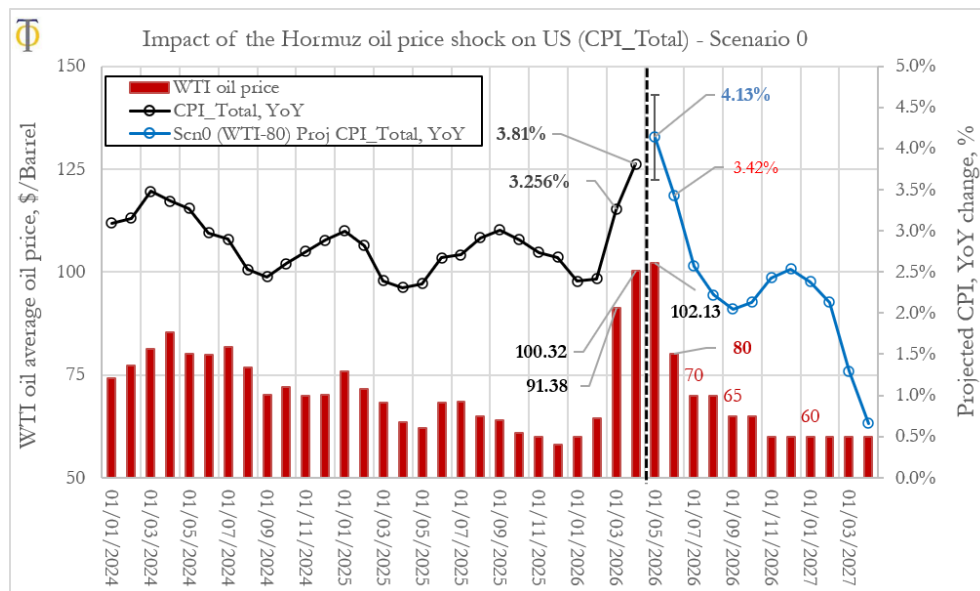


Figure 1 – Scenario 0 (benign) for average monthly WTI oil prices and projected CPI.

¹ Direct Link to the PDFs on our website:

Part 1: https://phinancetechnologies.com/content/2026-4-2_Post-22%20-%20Inflation%20Oil%20shock%20-%20Hormuz%20closure%20v1.pdf

Part 2: https://phinancetechnologies.com/content/2026_5_5_Post-23%20-%20Inflation%20Oil%20shock%20-%20part%202.pdf

As shown in Figure 1, due to the average WTI oil price in May of 2026 of 102.13, we expect to see another rise in YoY CPI in May of 2026 to about **4.13%** with a 95% confidence interval of **[3.61% - 4.66%]**, with the next [BLS release \(on June 10th, 2026\)](#).

Thereafter, if oil prices follow the path delineated in the scenario above, year-on-year CPI is expected to decline sharply reaching a value close to 2% by September. It should be noted that by March of 2027, year-on-year changes in the CPI is expected to decline close to 1%, reflecting the sharp drop in oil prices after peaking in May of 2026 at 102.13\$/barrel.

2. What if the conflict intensifies in June?

The Iran/Israel/US conflict in the Middle East is a highly complex and fluid situation for which the outcome is unpredictable. Public sources of information regarding the conflict are at best incomplete and likely pure disinformation/propaganda from all sides. The age of AI content only exacerbates the confusion.

Notwithstanding, within reasonable possibly bands, one can outlay scenarios for the impact on WTI oil prices and using the model I outlined in [part #1](#), estimate their likely impact on US CPI. In part #1 we already outlined a more extreme scenario for the evolution of the conflict. Fortunately, actual developments were closer to the moderate scenario.

It appears that the conflict has already peaked in intensity and oil markets appear to be pointing towards a resolution in the near future. However, what if there is another flare up? Below we outline 3 scenarios (A, B and C), which all have as a baseline the benign scenario shown above in Figure 1. These scenarios analyse the impact of a flare up of the conflict during June, before its ultimate resolution from July onwards.

Average WTI oil prices in June of 2026:

A – Conflict de-escalates, resolution is closer (base scenario). Oil prices average **80\$/barrel**.

B – Conflict uncertainty proceeds as in April and May. oil prices average **100\$/barrel**.

C – Conflict intensifies in June. Oil prices average **130\$/barrel**.

For each of the scenarios above, oil prices from July onwards follow the same path, as shown in Figure 1 (baseline scenario). The expected CPI readings that would result from each of the scenarios are shown in Figure 2.

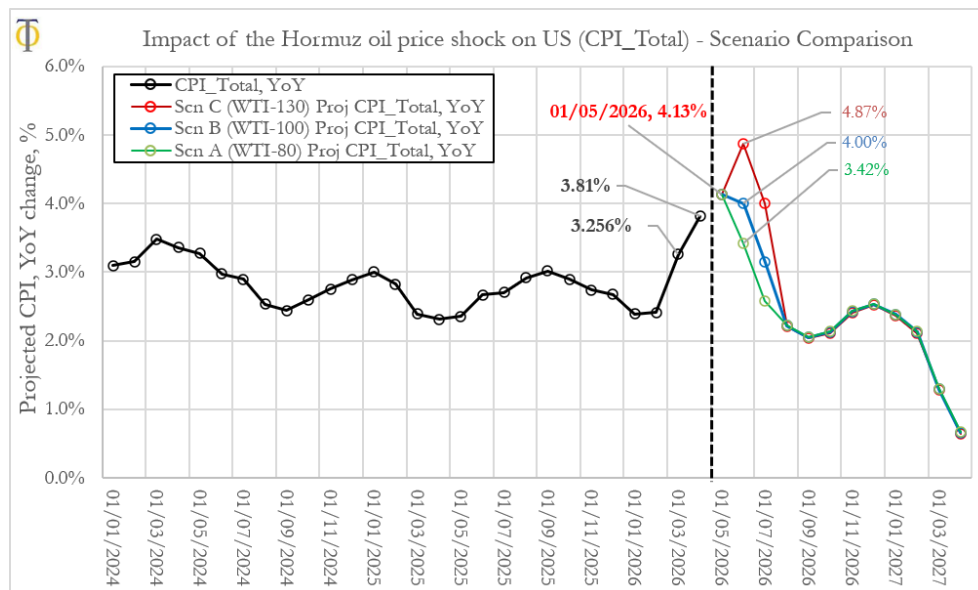


Figure 2 - Scenarios 0 (benign) for average monthly WTI oil prices and projected CPI.

The model estimates that under the worst scenario (C), YoY CPI would peak below 5% in June, which would not be catastrophic for global bond markets, in particular as markets have not panicked so far, even after the rise in inflation from about 2.5% in February to 3.81% in April.

In June, WTI oil prices hovered close to 90\$/barrel so far (as of the 8th of June), as global markets hope for a conflict resolution. If the actual outcome is closer to scenario A, then we can expect CPI to drop to about 3.4% in June. If the conflict remains in a stalemate (scenario B), then we expect to see CPI remain at a level close to 4%.

3. Summary and key points to monitor going forward.

Based on the analysis shown above, what can we expect for the upcoming [Bureau of Labor Statistics](#) CPI release on June 10? And how can one assess inflation risks for a medium-term time frame of about 12 months ahead?

- The May 2026 CPI release.

We estimate that the next US Consumer Price Index (CPI) data for May 2026, which is scheduled to be released by the [Bureau of Labor Statistics](#) on **June 10, 2026**, will result in overall CPI rising to about 4.1% (YoY) from its previous reading of 3.81% (YoY) in April.

- Core-CPI under pressure going forward.

The EII model (see [part #2](#)) for estimating future changes in core-CPI is pointing to a strong disinflationary trend for the year ahead. The changes are expected to be manifested as a slow decline over the next year.

In this context, we expect that the next US Consumer Price Index (CPI) data for May 2026 will result in core-CPI to remain stable or decline slightly.

- Further disinflationary risks (economic crisis).

The spike in oil prices arrives at a period when underlying disinflationary trends were already working on the economy, as we describe in our report on the [outlook for the US economy in 2026](#)². We identify the ongoing risks to the US economy which are both internal and external.

Internally, the weak housing market which has been sustained by the large inflow of illegal migrants from 2020 to 2024 is showing weakness and disinflationary trends. Additionally, the stock market appears to be in a bubble akin to the 2000 bubble, led by AI, which is showing signs of popping in the private credit market. Finally, externally, the impact of the [ongoing real estate crisis](#) in China appears to be developing into a full-blown economic crisis.

Our report on the [outlook for the China's economy in 2026](#)³ explains the scope and scale of China's problems, and why China is on the verge of entering an acute stage of its crisis. Due to China's size, the spillovers across the globe would be profound.

² https://phinancetechnologies.com/Product_USEconomyOutlook2026.htm

³ https://phinancetechnologies.com/Product_ChinaEconomy_Outlook2026.htm



- Monitoring core CPI is key going forward.

If the situation in the gulf of Arabia is resolved in June, as outlined in scenario A above, we expect that the rise in oil prices will be quickly forgotten by markets, but YoY inflation numbers will continue to reflect the temporary spike in energy prices during the next 12 months, particularly from March 2027 onwards.

Consequently, going forward (until mid-2027), **core CPI** should be the preferred measure to assess inflation trends. We believe this will be the key metric policy makers will be monitoring.

- Action plan.

In our opinion the most reasonable course of action would be to keep a “wait and see” stance for a few more months and monitor closely **core-CPI** while playing down the headline CPI measure. At that time, the underlying disinflationary trends in the form of the economic risks to the US and Chinese economies mentioned before would become clear. Additionally, the geopolitical situation in the middle east could be resolved.

Thank you for reading. I hope this post helped clear up the noise instead of adding to it.