

# Iran–US conflict: What has changed in financial markets so far?



Financial Market Dealers Association (FMDA)

## Summary

The escalation in Iran–US tensions has triggered a broad market repricing, with Brent crude rising about 53% from \$72 to near \$110 per barrel, intensifying inflation expectations. The US dollar strengthened across major currencies, reflecting a shift toward safer assets, while global bond yields rose as investors demanded higher returns. Nigeria was not insulated, as Eurobond yields increased by an average of 0.41 percentage points, signalling tighter external financing conditions. At the same time, capital outflows from emerging markets have accelerated, reinforcing global financial tightening and increasing pressure on risk assets.

## Introduction

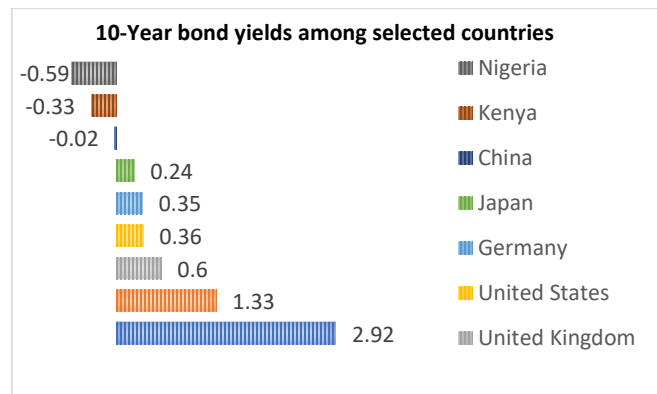
The recent escalation in tensions between Iran and the United States has begun to filter into global financial markets, with early signals emerging across oil prices, exchange rates, and fixed income instruments. While the full impact remains uncertain, initial market movements provide insight into how investors are pricing risk, liquidity, and policy expectations in the near term.

### Investors demand higher yields amid rising inflation expectations

Investors are increasingly demanding higher yields on bonds in anticipation of rising inflation. Soaring oil prices, now above \$100 per barrel since the onset of the conflict, have heightened inflation expectations, particularly as prices of AGO (diesel), PMS, and cooking gas begin to adjust upward.

Brent crude prices have risen from around \$72 per barrel to approximately \$110, representing a 52.78 percent increase. This development has triggered a sell-off across global bond markets, as investors reprice inflation risks.

As a result, 10-year bond yields have increased across major economies including the U.S., U.K., Japan, Germany, as well as emerging markets such as South Africa and Turkey. This reflects growing uncertainty about the real value of future cash flows, prompting investors to demand higher yields as compensation. However, Kenya and Nigeria 10-year bond yields edged lower, signalling resilient amidst global tensions.



Source: FMDQ, investing.com

### US dollar strengthens as capital exits emerging markets

Global currency movements reinforce the shift toward tighter financial conditions. The US dollar strengthened broadly against major currencies, with the euro and pound declining by 2.2 percent and 1.9 percent respectively, while commodity-linked currencies such as the Australian and New Zealand dollars fell more sharply by 3.0 percent and 4.2 percent.

Notably, the dollar also gained against traditional safe-haven currencies, rising by 1.7 percent against the Japanese yen and nearly 4.0 percent against the Swiss franc. This suggests that the current environment is not driven solely by risk aversion, but also by a broader repricing of global interest rates and inflation expectations in favour of the US dollar.

Emerging market currencies have similarly come under pressure, as reflected in the depreciation of the Turkish lira, South African Rand, and Nigeria Naira.

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Overall, these movements point to a strengthening dollar environment, which typically tightens global financial conditions and reduces capital flows to emerging markets.

Currency	27/02/2026	31/03/2026	% change
EUR/USD	1.1814	1.1553	-2.21%
GBP/USD	1.3486	1.3226	-1.93%
USD/JPY	156.06	158.72	1.70%
USD/CAD	1.3645	1.3916	1.99%
AUD/USD	0.7116	0.6901	-3.02%
NZD/USD	0.5997	0.5748	-4.15%
USD/CHF	0.7689	0.7994	3.97%
USD/TRY	43.9254	44.4537	1.20%
USD/ZAR	15.93	17.2	7.97%
USD/Naira	1,363.40	1,386.72	1.71%

Source: CBN, investing.com, WISE, FMDA

## **Eurobond market shows mild pressure despite global sell-off**

Nigeria's Eurobond market has come under pressure since the escalation of tensions, with yields rising across the curve. Data shows a broad-based increase in yields across maturities, with the average yield rising by approximately 0.41 percentage points between late February and end-March.

This upward shift reflects a repricing of risk in global financial markets, as investors demand higher compensation amid rising inflation expectations and heightened geopolitical uncertainty.

The increase in yields implies a decline in bond prices and signals tighter external financing conditions for Nigeria, as higher yields translate directly into increased borrowing costs in the international market.

The parallel upward movement across both short- and long-dated instruments suggests that the sell-off is driven primarily by global factors rather than Nigeria-specific credit concerns.

## **Local fixed income market adjusts upward**

In the domestic market, yields have also edged higher slightly. Average yields in the FGN bond secondary market increased from 15.86 percent in February to 16.30 percent. Similarly, Treasury bill yields have trended upward.

This reflects a combination of:

- Global yield repricing
- Inflation concerns
- Continued tight liquidity conditions

Although early April data shows that yields have started to moderate, they remain higher than February levels.

## **Inflation and monetary policy outlook**

Nigeria's inflation data for February shows a slight moderation in the year-on-year rate to 15.06 percent, although month-on-month inflation rose sharply by 2.01 percent, reversing the -2.88 percent decline recorded in January.

While the current geopolitical tension may not immediately drive inflation higher in March, it introduces upside risks, particularly through energy prices and imported cost pressures which is already surging.

Central Bank of Nigeria Governor, Oluyemi Cardoso, recently noted in an interview with the Financial Times that rising tensions in the Middle East involving the United States, Israel, and Iran could influence the country's interest rate decisions.

## **What this means for Nigeria**

The current conflict introduces a familiar trade-off for Nigeria: while higher oil prices may support FX inflows and fiscal revenues, rising geopolitical risk is simultaneously tightening global financial conditions through higher inflation expectations, elevated sovereign yields, wider credit spreads, and a shift toward safe-haven assets.

These dynamics could increase external borrowing costs and weaken capital flows to emerging markets, including Nigeria, even as oil-related gains provide some short-term support.

