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Deconstructing oil price surprises around OPEC announcements

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Abstract

This paper revisits the identification of oil price shocks using high-frequency surprises around OPEC announcements. While previous studies have used changes in oil futures prices to proxy for supply shocks, recent evidence suggests that these surprises reflect a combination of demand factors. To address this identification challenge, I use a Bayesian structural vector autoregression (VAR) model and identify oil supply, inventory demand, and aggregate demand shocks by imposing sign-restrictions on high-frequency surprises in oil futures, the S&P 500, and the one-year U.S. bond yield. My analysis highlights that the response of bond yields to OPEC announcements may contain important information about the source of the oil shock.

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1 Introduction

Existing research has exploited high-frequency changes in oil futures prices around OPEC policy announcement dates to identify shocks to market expectations about future oil supply (Känzig, 2021). However, Kilian (2024) shows that such price movements reflect a linear combination of storage demand shocks and flow demand shocks, thereby complicating the interpretation of futures-based surprises as oil supply news shocks. The lack of consensus on what oil price surprises around OPEC announcements represent is driven by 1) failing to account for the aggregation bias between daily futures and average monthly prices, and 2) the use of pre-1990 data to generate impulse responses. The latter is important because trading in oil futures markets prior to April 1989 was limited to select dates and maturities, rendering price movements during this period potentially unrepresentative of market expectations (Alquist and Kilian, 2010). While it is possible that high-frequency oil price surprises reflect shifts in demand, they are unlikely to be entirely devoid of information about supply, especially given OPEC’s central role in coordinating production targets and influencing short-run oil supply expectations (Pierru et al., 2020, Pescatori and Nazer, 2022).

All of these concerns necessitate the use of an identification strategy that disentangles oil price surprises around OPEC announcements into underlying supply and demand components, using data starting in 1990. My paper contributes to the literature on this front by employing a Bayesian structural vector autoregression (VAR), à la Jarociński and Karadi (2020), which distinguishes between oil inventory demand shocks, aggregate demand shocks, and oil supply shocks, through the imposition of sign restrictions on multiple high-frequency surprises, i.e., 12-month oil futures, the S&P 500 index, and the 1-year government bond rate.¹ I demonstrate that identification strategies which impose sign-restrictions on asset and oil futures prices but omit the response of bond yields to OPEC announcements generates impulse responses that are inconsistent with prior expectations about oil supply shocks. In contrast, my approach, while accounting for the aggregation bias, produces responses in a standard oil market VAR that are both economically plausible and consistent with the structural interpretation of oil market dynamics. The existing literature, namely Kilian (2009), Kilian and Murphy (2014) and Baumeister and Hamilton (2019), serves as a benchmark for assessing the plausibility of my impulse responses. My analysis highlights that oil surprises around OPEC announcements reflect a linear combination of inventory demand, aggregate demand, and oil supply shocks. The paper proceeds as follows. Section 2 outlines the data and empirical methodology. Section 3 discusses the empirical results, and Section 4 concludes. Additional robustness checks are reported in the Supplement.

2 Data and empirical framework

2.1 Data

I estimate a standard oil market VAR model, as in Känzig (2021) and Bruns and Lütkepohl (2023), with oil prices, world crude oil production, world oil inventories, world industrial production, US industrial production, and US consumer price index. All variables are expressed in log-levels. The sample period starts in October 1990 and ends in December 2019. The end period is chosen to

¹Consistent with Gertler and Karadi (2015), the one-year bond rate is utilized to measure changes in the expected monetary policy stance of the Federal Reserve.

avoid any potential structural breaks due to the unusual boom and bust dynamics associated with the pandemic recession and recovery. This suggestion follows [Lenza and Primiceri \(2022\)](#) and [Gagliardone and Gertler \(2023\)](#) who argue that excluding this period is acceptable for the purposes of estimating parameters. I do, however, show in the Supplement that including data until June 2024 does not qualitatively alter my median estimates. The choice of starting period is dictated by [Bruns and Lütkepohl \(2023\)](#), who show that the effect of oil shocks derived from changes in future contract prices differ substantially after September 1990. An additional advantage of starting the sample in 1990 is that it ensures that the constructed oil surprises are derived from a period with consistently liquid and mature oil futures markets ([Kilian, 2024](#)).

For my measure of oil prices, I follow [Kilian \(2009\)](#) and use the refiners' acquisition cost of imported crude oil (deflated by CPI), which is downloaded from the US Energy Information Administration (EIA). Global crude oil production is also recovered from the EIA. I follow [Kilian and Murphy \(2014\)](#) and construct data on crude oil inventories using a measure based on OECD petroleum stocks. World industrial production is recovered from Christiane Baumeister's personal website. Additionally, data on US-specific variables, namely industrial production and consumer price index, are downloaded from the Federal Reserve Economic Database (FRED).

To deconstruct oil price surprises around OPEC announcements into supply and demand components, I start by utilizing the identification strategy proposed by [Degasperis \(2023\)](#), where the shocks are distinguished based on the positive and negative co-movement between 12-month oil futures and asset prices, as measured by S&P 500, on the date of OPEC announcements. The resulting impulse responses indicate that these restrictions are not sufficient to identify oil supply and demand shocks, as these appear to be a combination of inventory demand and aggregate demand shocks. This is followed by the use of the proposed identification strategy, in which movements in the 1-year US government bond rates along with high-frequency changes in oil futures and asset prices are used to disentangle oil shocks.

There is reason to believe that changes in short-term government bond yields on the day of an OPEC announcement might be informative for distinguishing between different types of oil shocks. First, oil shocks are an important determinant of the slope factor of the yield curve, which captures movements in short-term interest rates and also contain predictive information about the evolution of interest rates ([Gupta et al., 2023](#)). Second, [Miyamoto et al. \(2025\)](#) provide evidence of Treasury yields behaving systematically across OPEC announcements, with considering time-variation in its response. Third, central banks are likely to pay close attention to the source of the oil shock, given its markedly different implications for inflation dynamics ([Aastveit et al., 2023](#)) and the corresponding monetary policy response.² Consequently, the varying response of government bond yields following each OPEC announcement may provide useful information for identifying aggregate demand, oil inventory demand, and oil supply shocks. Short-term (1-year) bond yields are used as a measure of the monetary policy stance because they reflect expectations about the path of inflation and future policy actions ([Chun, 2011](#)). It is worth noting that my results are robust to the inclusion of alternative short-term Treasury maturities (3-month and 2-year), which confirms the informational content of yields in identifying oil shocks. These results are presented in the Supplement. The identification assumptions are discussed in the following section.

²[Aastveit et al. \(2023\)](#) show that the pass-through of oil shocks to expected and realized inflation depends on the nature of the oil shock, i.e., supply vs. demand. Specifically, demand-driven oil shocks tend to generate stronger inflationary pressures than supply-driven ones.

2.2 Empirical framework

I estimate a Bayesian structural VAR and use the priors of [Litterman \(1986\)](#), also known as Minnesota prior, in my baseline specification. My model takes the form, ‘

$$\begin{bmatrix} s_t \\ y_t \end{bmatrix} = \sum_{p=1}^P \begin{bmatrix} 0 & 0 \\ B_{YS}^p & B_{YY}^p \end{bmatrix} \begin{bmatrix} s_{t-p} \\ y_{t-p} \end{bmatrix} + \begin{bmatrix} 0 \\ c_Y \end{bmatrix} + \begin{bmatrix} u_t^s \\ u_t^y \end{bmatrix}, \quad \begin{bmatrix} u_t^s \\ u_t^y \end{bmatrix} \sim \mathcal{N}(0, \Sigma). \quad (1)$$

Where s_t represents a vector of surprises in N_s high-frequency variables observed in month t , y_t is a vector of N_y oil market and macroeconomic variables in month t , and $\mathcal{N}$ denotes the normal distribution with mean 0 and covariance matrix Σ . Eq. (1) in the paper is estimated using 24 lags in one step, with daily surprises s_t and other variables y_t included together. The choice of lag length follows [Kilian and Murphy \(2014\)](#) which shows that allowing for 24 lags is essential to model oil markets. However, my results are unchanged if 12 lags are used, which are available on request. By definition, the surprises s_t do not depend on the lags of s_t or y_t , and have zero mean. Estimation follows [Jarociński and Karadi \(2020\)](#), where the results are based on 2,000 draws from the Gibbs sampler. In the interest of brevity, estimation details and robustness checks related to prior sensitivity are presented in the Supplement.

s_t is constructed following the aggregation method in [Kilian \(2024\)](#). This exercise involves mapping daily surprises into monthly ones after accounting for the number of daily observations in each month and the precise timing of each surprise. The standard approach in the literature is to utilize the daily change in oil futures price around the OPEC announcement date as an instrument for the overall monthly change in oil prices. This method of aggregation implies that a surprise occurring on the first day of the month will have the same effect on the monthly average price of oil as a surprise of the same magnitude that occurred on the last day. Since the monthly price of oil in y_t reflects the average over all trading days, the aggregation of surprises in s_t must also reflect the relative timing and influence of each observation, as pointed out by [Kilian \(2024\)](#). Ignoring this leads to a mismatch between the constructed shock and the outcome variable, potentially biasing the resulting impulse responses.³ Specifically, failing to account for the timing of the surprise causes the estimated impulse responses to identify oil supply news shocks, whereas properly timing the aggregation yields responses that instead capture a linear combination of flow demand and storage demand shocks ([Kilian, 2024](#)).

The construction of the monthly surprise, s_t , is as follows: Suppose an OPEC announcement occurring on trading day d of a month containing T trading days changes the price of oil futures by a magnitude of ε . The contemporaneous impact of this announcement on monthly average futures price is expressed as $\varepsilon \times \frac{(T-d+1)}{T}$. This weighting implies that a surprise occurring early in the month will have a larger impact on the monthly average price than a surprise taking place near the end of the month. A secondary surprise, reflecting the remaining adjustment not incorporated into the first month’s average price, will take place in subsequent month of magnitude, $\varepsilon - \varepsilon \times \frac{(T-d+1)}{T}$.⁴ Surprises for bond yields and the S&P 500 index are also constructed in a similar manner.

³I refer the reader to [Kilian \(2024\)](#) for a detailed discussion of the bias in impulse response functions that may arise when the timing of the surprise is not properly accounted for.

⁴There is a secondary surprise because the monthly VAR uses monthly average prices rather than daily prices. If an OPEC announcement occurs late in the month, only a small portion of the increase in futures prices is reflected in that month’s average price, with the remaining variation attributed to the price of oil in the subsequent month

Table 1: IDENTIFYING RESTRICTIONS IN THE VAR MODEL

Variable	Shock		
	Inventory demand	Aggregate demand	Supply
s_t , high frequency			
Oil futures	+	+	+
Stock index	-	+	-
Bond yields	+	+	•
y_t , low frequency	•	•	•

Note: Restrictions on the contemporaneous response of variables to shocks. + and - represent sign restrictions, whereas • refers to unrestricted responses.

Table 1 outlines the identifying sign restrictions used to distinguish between the three types of oil shocks. Each shock is assumed to generate a distinct pattern of responses in high-frequency financial variables observed around OPEC policy announcement dates. This identification assumes that financial market responses are driven primarily by OPEC-related news. This assumption could be questioned if concurrent macroeconomic announcements occur on the same day, as these events also have the ability to affect oil prices within the event window. While [Känzig \(2021\)](#) demonstrates that accounting for non-oil news does not alter the estimates using a heteroskedasticity-based identification strategy, I provide a more explicit treatment by removing dates from my sample that overlap with FOMC announcements and key macroeconomic data releases (e.g., employment and CPI reports).⁵ The results, which remain robust to the exclusion of these dates, are presented in the Supplement. Overall, dropping these dates marginally improves the statistical significance of my results while yielding qualitatively similar median estimates. Thereby, suggesting that the financial market surprises constructed around these announcements are not contaminated by non-oil factors and can plausibly be attributed to OPEC-related news.

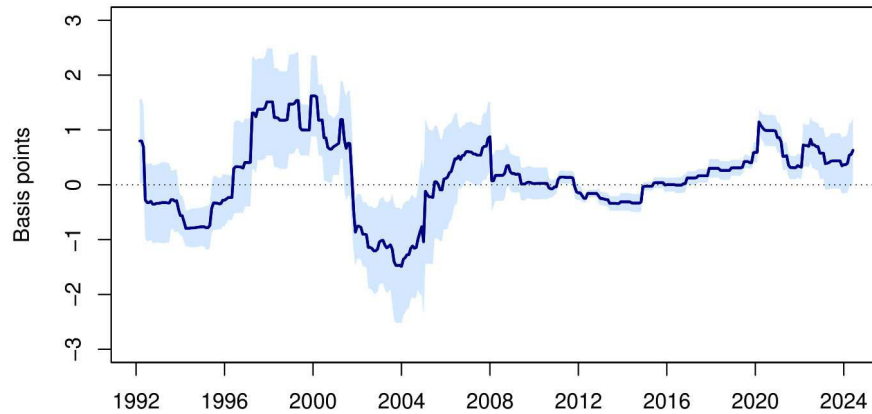
The key contribution of the paper relies on using bond yield reactions as an additional sign-restriction to identify the impulse response functions. This assumption is only plausible if Treasury yields respond systematically to OPEC announcements. I follow [Miyamoto et al. \(2025\)](#) and present evidence in favor of this proposition by analyzing the sensitivity of 1-year Treasury yields to OPEC announcements in a rolling-regression model.^{6,7} The resulting point estimates and corresponding confidence bands are presented in Figure 1. The results indicate that change in the price of oil futures around OPEC announcements has a statistically significant impact on yields, with the point estimate exhibiting substantial variation over time. For example, bond yields show a strong response starting in the early part of the sample up until the mid-2000s. This is followed by a muted response around the Great Recession and the time period corresponding to subsequent recovery. The response does, however, become stronger in the latter part of the sample. The key takeaway from this exercise is that bond yields respond systematically to OPEC announcements, although the nature of this response exhibits considerable time variation. This heterogeneity suggests that bond market participants do not interpret all OPEC announcements in the same way. Consequently, the variation in bond yield responses may contain useful information for distinguishing between different types of oil shocks.

⁵A list of all macroeconomic announcement dates is provided in the Supplement.

⁶My results are robust to the use of alternative maturities and are available on request.

⁷The rolling regression model allows me to capture the time-varying response of bond yield to the price of oil futures across the sample. The 36-month window for the model is consistent with [Miyamoto et al. \(2025\)](#).

Figure 1: TREASURY YIELD SENSITIVITY TO OIL PRICE SURPRISES AROUND OPEC ANNOUNCEMENTS



Note: Response of one-year bond yield to a 1% change in oil futures prices following an OPEC announcement. Each point is the estimate for a sample of 36 months that end in the month on the horizontal axis. Change is measured in basis points (hundredths of a percentage point). The corresponding shaded regions indicate the 90% bootstrapped confidence bands.

The following paragraph discusses how this variation can be exploited for identification purposes.

For all shocks, oil futures prices are assumed to rise, reflecting an increase in expected oil prices. Inventory demand shocks, often associated with precautionary motives, are expected to depress stock prices (Kilian and Park, 2009), while bond yields increase. The restriction on bond yields is consistent with Kilian and Lewis (2011) who shows that oil shocks driven by precautionary motives are followed by monetary tightening in the short run. Support for this assumption can also be found following Anzuini et al. (2015), who show that these shocks tend to be inflationary in nature, which might prompt an inflation-targeting central bank to raise the policy rate. In contrast, an aggregate demand shock is characterized by increases in both stock prices and bond yields. This assumption follows Plante (2014), who show that the Fed responds to an aggregate demand shock by pursuing a contractionary policy. An oil supply shock, typically associated with disruptions in oil production, is identified by a rise in oil futures and a fall in stock prices (Kilian and Park, 2009), while leaving the response of bond yields unrestricted to allow ambiguity in the response of monetary policy. Ambiguity in the monetary policy reaction is motivated by the potential stagflationary nature of oil supply shocks, i.e., output and inflation moving in the opposite direction. Monthly macroeconomic variables are included in the system but are not subject to sign restrictions, which follows Jarociński and Karadi (2020), and allows the use of high-frequency data to anchor structural identification.

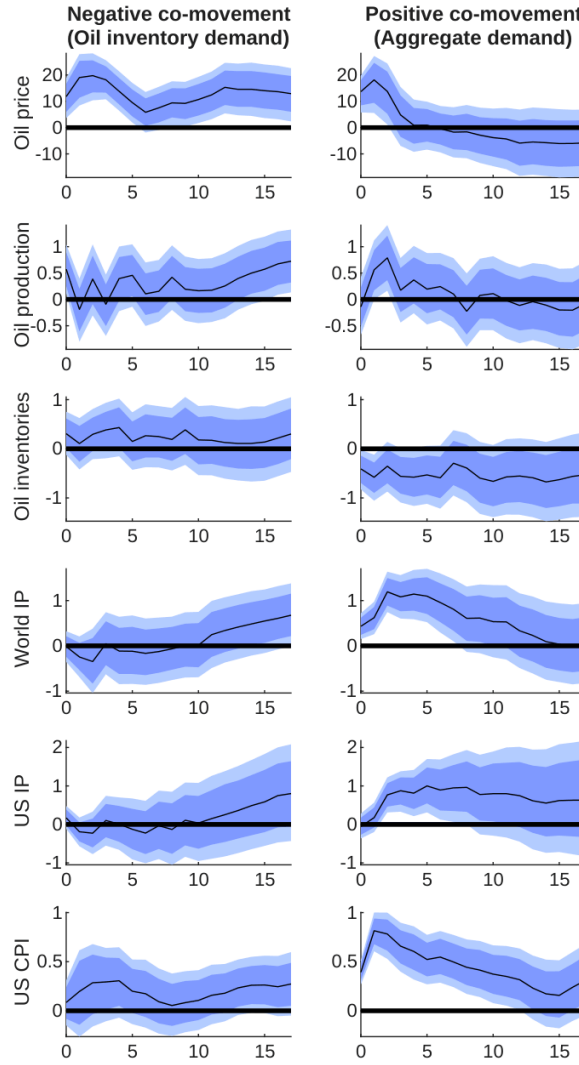
3 Empirical results

3.1 Oil shocks identified through asset price and futures co-movements

I begin by generating impulse responses using the identification strategy of Degasperis (2023). This exercise serves as a baseline for motivating the need to impose additional restrictions to disentangle supply and demand components in oil futures movements around OPEC announcements.

Figure 2 presents the median impulse responses to the identified oil shocks, together with the 50% and 68% confidence intervals. The use of less stringent credible intervals is a standard practice

Figure 2: IMPULSE RESPONSES TO A 10% OIL SHOCK, VAR(24)



Note: The solid lines represent the median estimates to an oil inventory (negative co-movement between assets prices and oil futures) and aggregate demand (positive co-movement between assets prices and oil futures) shocks. The corresponding light and dark shaded regions indicate the 25-75 (50% credible intervals) and 16-84 (68% credible intervals) posterior percentiles, respectively.

in highly parameterized models, like the Bayesian VAR (Chudik and Fratzscher, 2012; Kilian and Murphy, 2014; Almansour et al., 2015; Feldkircher and Siklos, 2019; Bruns and Lütkepohl, 2023). Because the Bayesian VAR incorporates 6 endogenous variables and 24 lags, it requires estimating a substantial number of parameters, which inherently introduces high estimation uncertainty. Under such conditions, the use of more stringent (and wider) confidence bands, such as 90%, increases the risk of Type II error. Utilizing 50% and 68% bands mitigates this distortion by filtering out the extreme tails of the estimation noise, and providing a reasonable approximation of the uncertainty around the median estimates. This practice can also be justified following Sims and Zha (1999), who suggest that bands corresponding to 50% and 68% posterior probability are more useful than 95% or 99% bands for characterizing the uncertainty around point estimates in highly parameterized models.

Table 2: IMPACT RESPONSES OF ANNOUNCEMENT SURPRISES TO SHOCKS

	Inventory demand		Aggregate demand		Oil supply	
	Mean	(16 ^{pct} , 84 ^{pct})	Mean	(16 ^{pct} , 84 ^{pct})	Mean	(16 ^{pct} , 84 ^{pct})
12-month oil futures	2.88	(0.79, 6.31)	6.44	(3.47, 8.90)	5.51	(2.49, 8.24)
S&P 500	-2.17	(-3.49, -0.76)	3.23	(1.88, 4.11)	-1.35	(-2.69, -0.44)
1-year bond yield	8.64	(3.57, 13.22)	4.67	(1.65, 9.06)	-11.27	(-14.56, -6.29)

Note: Posterior means and 16-84 posterior percentiles. Oil futures and S&P 500 are measured in %, whereas 1-year bond yield is expressed in basis points (bps).

The results have been normalized to represent a 10% increase in the real price of oil. The first column shows the impulse responses to an oil shock that generates a negative co-movement between asset prices and oil futures. This shock is associated with a 6.72% increase in 12-month oil futures and 2.99% drop in the S&P 500 index on the same day. The response of low-frequency variables is loosely consistent with an oil inventory demand shock, although the confidence bands for most of them indicate statistical insignificance. Crude oil prices rise, with the effect significant for most forecast horizons. World oil inventories increase on impact, whereas crude oil production shows a weak positive response. Industrial production in both the world and the US exhibits a short-term decline, although it recovers after 10 months.

The second column presents the responses to a shock, interpreted as an aggregated demand shock, that results in a positive co-movement across both high-frequency surprises. Specifically, the shock is associated with a 7.18% increase in oil futures and 3.26% increase in the S&P index on the day of the announcement. Oil prices rise on impact, although the increase is not persistent. Crude oil production rises temporarily, with the response being partially statistically significant. An aggregate demand shock is followed by a decline in oil inventories, as the world draws down its existing crude oil stocks to meet higher demand. This response is also significant for the first few months. This shock also generates a statistically significant increase in output and prices.

The results in this section suggest that the sign restrictions proposed in the literature, à la [Degasperì \(2023\)](#), are insufficient to disentangle the supply components embedded in oil futures movements around OPEC announcements using post-1990 data. The said assumption yields an impulse response inconsistent with an oil supply shock.⁸ One potential reason for the divergence from [Degasperì \(2023\)](#) is the failure to account for aggregation bias, as well as the influence of the 1984-1989 subsample, during which trading in oil futures markets was generally limited to select dates and maturities, making it unsuitable to construct oil surprise measures, as highlighted by [Kilian \(2024\)](#).

3.2 Decomposing oil shocks with yields, futures, and asset prices

Figure 3 plots the impulse responses to the oil shocks identified following the sign-restrictions presented in Section 2.2. If, contrary to the hypothesis, government bond yields are not informative about the effect of OPEC announcements on the oil market, then the resulting impulse responses of the low-frequency variables in y_t would not differ from the results reported in Figure 2.

⁸An oil supply shock is characterized by a reduction in crude oil production and corresponding increase in the price of oil.

Table 2 reports the impact responses of each surprise to the identified oil shocks. By construction, the contemporaneous responses satisfy the sign restrictions. An inventory demand shock is characterized by a 2.9% increase in oil futures, 2.2% drop in the S&P 500 index, and 9 basis points (bps.) increase in the 1-year bond yield on the day of the OPEC announcement. For an aggregate demand shock, all surprises move in the same direction. Whereas, for an oil supply shock, a 5.5% rise in oil futures is followed by a simultaneous drop of 1.3% and 11.2 bps. in the S&P 500 index and bond yield, respectively.

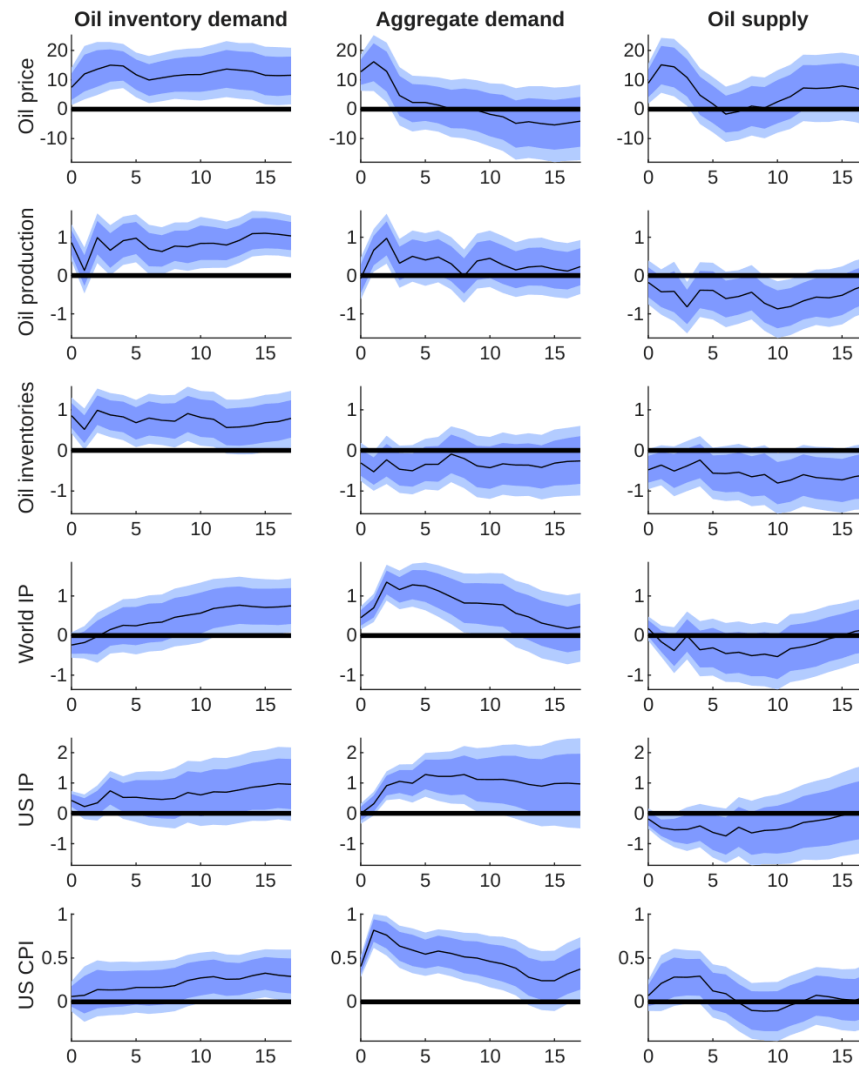
I find that an inventory demand shock results in a statistically significant increase in crude oil inventories, oil prices, and production, consistent with [Baumeister and Hamilton \(2019\)](#). The increase in oil prices driven by precautionary motives is highly persistent, echoing the findings of [Kilian \(2009\)](#) and [Kilian and Murphy \(2014\)](#). Firms build up stocks as a buffer against expected future supply disruptions, and producers respond to higher prices or anticipated shortages by increasing crude oil production in the short run. Notably, these impulse responses are statistically significant compared to the ones presented in Figure 2, indicating that the inclusion of bond yields sharpens the identification of the underlying shock. World output posts a marginal decline on impact; however, output recovers after 3 months. Additionally, both US output and prices exhibit a persistent increase. The expansionary response of U.S. output is consistent with recent findings in the literature ([Sardar and Sharma, 2022](#)), which suggest that precautionary demand shocks have generated beneficial effects for the U.S. economy in recent decades. Specifically, during zero lower bound (ZLB) episodes (2008–2015 and 2020–2022), the bout of inflation from an oil inventory demand shock lowers the real rate of interest due to constrained monetary policy, and provides a stimulus to the economy that outweighs the traditional costs of higher oil prices. Furthermore, the shale revolution transformed the U.S. into a major oil producer in the early 2010s, and significantly improved its net exporter position in the latter part of the sample. Consequently, higher oil prices would yield a net positive effect for the U.S. economy, as the gains to domestic oil producers offset the harmful effects to consumers, as noted in [Thorbecke \(2019\)](#) and [Melek and Vigfusson \(2021\)](#).

The second column shows the response to an aggregate demand shock, which is consistent with my findings in the preceding section. World and US output increase, which drives up the price of oil. Crude oil production increases, while inventories decrease as firms rely on their existing stock to meet elevated demand. A similar conclusion was reached by [Kilian and Murphy \(2014\)](#) and [Baumeister and Hamilton \(2019\)](#). The increase in US prices is highly persistent and statistically significant, echoing the findings of [Aastveit et al. \(2023\)](#).

My results in the third column indicate that the additional restriction on bond yields is informative in disentangling the supply components embedded in oil futures movements following an OPEC announcement. Crude oil production decreases on impact, and the effect is partially significant. These supply disruptions generate an increase in oil prices. Crude oil inventories decrease as existing stocks are drawn down to smooth production of refined products, consistent with [Kilian and Murphy \(2014\)](#) and [Baumeister and Hamilton \(2019\)](#). An oil supply shock is followed by a decline in output for both the world and US. Moreover, US prices increase with the caveat that the effect is not persistent, consistent with [Kilian \(2009\)](#), and dies out after 5 months.

The response of U.S. output and prices to an oil supply shock supports the identifying assumption that the bond yield response should be left unrestricted. This reflects the potential ambiguity in the monetary policy reaction, as central banks may face a trade-off between stabilizing inflation and supporting output in the face of adverse supply shocks. In contrast, for inventory demand and aggregate demand shocks, this trade-off is less severe since both output and prices

Figure 3: IMPULSE RESPONSES TO A 10% OIL SHOCK WITH ADDITIONAL SIGN-RESTRICTIONS, VAR(24)



Note: The solid lines represent the median estimates to a 10% oil shock. The corresponding light and dark shaded regions indicate the 25-75 (50% credible intervals) and 16-84 (68% credible intervals) posterior percentiles, respectively.

move in the same direction, allowing for a more predictable and coordinated policy response. The results from this section indicate that the negative co-movement between asset prices and oil futures contains information not just about precautionary demand but also about changes in the supply conditions, and the restriction on bond yields allows me to disentangle that component. The resulting impulse responses for each type of shock are in line with [Kilian \(2009\)](#), [Kilian and Murphy \(2014\)](#) and [Baumeister and Hamilton \(2019\)](#), reinforcing the validity of my identifying assumptions.

4 Conclusion

This paper addresses the challenge of identifying oil supply and demand shocks by analyzing high-frequency changes in oil futures around OPEC announcements. The primary motivation for this research stems from the existing literature's difficulty in isolating these shocks through the co-movement of futures and equity prices alone. By augmenting these high-frequency surprises with movements in short-term U.S. Treasury yields, my analysis highlights that bond yields provide important information about the underlying nature of oil shocks. These findings suggest that financial market participants and policymakers would benefit from monitoring the response of bond yields following OPEC announcements to better discern their implications for both the crude oil market and the global macroeconomy.

Furthermore, instead of treating oil price shocks as a monolithic threat, policymakers can utilize signals from the bond market to discern the underlying nature of a shock and calibrate the appropriate monetary response. For instance, traditional oil supply disruptions may not necessitate the same degree of tightening to anchor inflation expectations due to its stagflationary nature, as oil price increases driven by robust global growth or speculative demand. This distinction is even more important in the current environment as conflict in the Middle East frequently triggers simultaneous shifts in supply expectations and precautionary demand. As a result, the bond market can serve as an anchor in helping craft the appropriate policy response.

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