

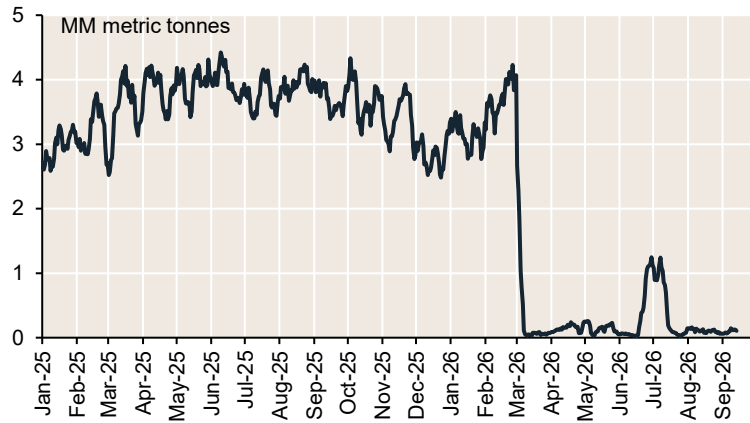
Crude Language: Reassessing the oil and OIS relationship

By Ethan Currie (with contributions from NBC's Commodity Strategist, Daniel Semenjuk)

It's been over six months since our first edition of *Crude Language* ([link](#)), where we assessed the initial recast in central bank pricing across the G7. Since then, the Mideast war has persisted, allowing for energy costs to linger at loftier levels, increasingly threatening price stability. To that end, some policymakers have already responded. The RBA re-ignited tightening with the ECB, Fed, and BoJ all following suit in recent weeks. For Banks yet to deliver a hike, the messaging is clear—inflation risks are paramount—and markets have appropriately priced in eventual action. Notwithstanding a moderation from peak spot oil prices, the pressure for policymakers to respond is only growing with a stickier strip.

Chart 1: Shipping through Hormuz Strait remains offline...

Transit trade volumes through the Strait of Hormuz (7-day moving average)

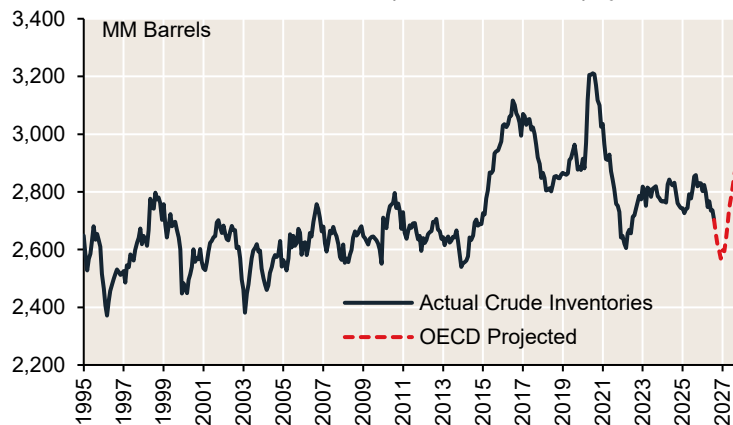


Source: NBC, IMF PortWatch

Despite a glimmer of hope in July when visible traffic through the Strait of Hormuz was *recovering* (but not nearly *recovered*), transit volumes have dropped and been forced into the dark, with current crude volumes still underperforming pre-war levels by as much as half. Re-routed shipments haven't allowed a full offset, either, with supply disruptions stemming from attacks on Saudi tankers and infrastructure, showing the fragility of remaining supply channels. While prompt oil contract trading has been inherently volatile on the back of these headlines, the strip has continued to grind higher, with longer-dated contracts suggesting the price impacts of persistent offline / off-potential supply will linger.

Chart 3: Depleted reserves to keep oil bid in medium term?

Commercial inventories of crude oil and liquid fuels: Actual vs. projected



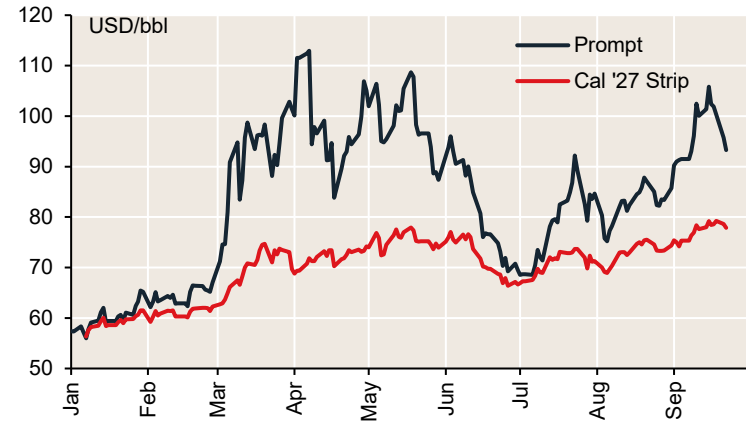
Source: NBC, Bloomberg

However, more impactful have been shortfalls in refined products which have driven soaring cracks spreads, showing up as record prices at the pump. Vital global supplies of gasoline and diesel from the Mideast and Russia remain choked off, while other refining hotspots are either fully utilized and unable to meaningfully add more supply (as is the case in the U.S.) or are struggling from crude availability issues. Even worse are potentially upcoming refinery turnaround seasons which could cut supply at the time it is needed most, supporting run-ups in prices. There's no easy solution to rectify shortfalls either—even if supply was restored, it could take years for inventories to fully normalize, a development that could mean higher prices for longer.

We use this *Market View* to examine developments in, and drivers of oil pricing, with a view to how global inflation dynamics are shaping up and, importantly for bond investors, what that means for policy rate trajectories. In this regard, we have reassessed our own rates outlook, with more details in our latest *Fixed Income Monitor* ([link](#)). In Canada, we've pulled tightening closer on our expected timeline, but still expect the BoC to be sidelined in October as economic momentum is threatened and slack remains. Stateside, September's hike reaffirms the likelihood of additional and immediate (i.e., October) tightening, in our view.

Chart 2: ...as crude strip reflects 'higher-for-longer' outlook

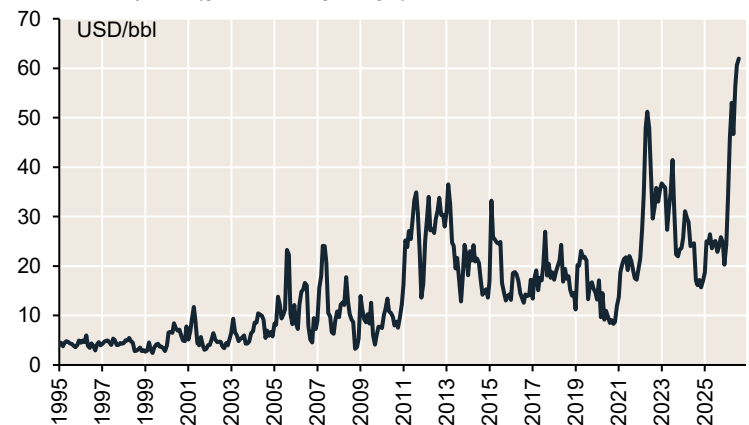
WTI oil futures contract pricing: Prompt vs. calendar 2027 average ('strip')



Source: NBC, Bloomberg

Chart 4: Refined product pricing shows the real CPI threat

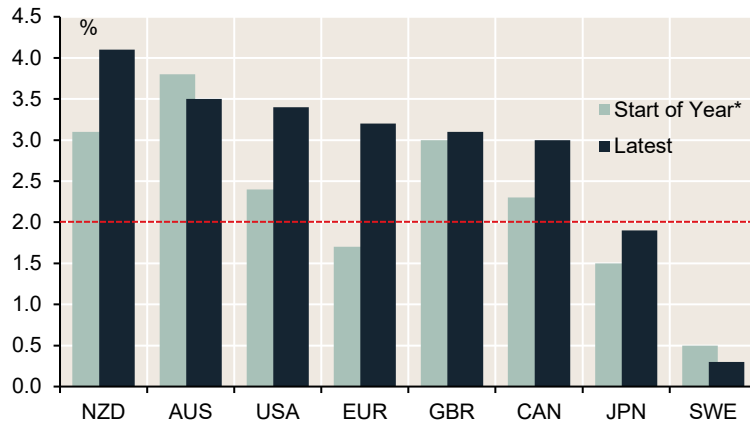
3-2-1 crack spread (gross refining margin)



Source: NBC, Bloomberg

**Chart 5: Tracking loftier rates of headline inflation...**

Headline CPI by country: Latest and at beginning of 2026

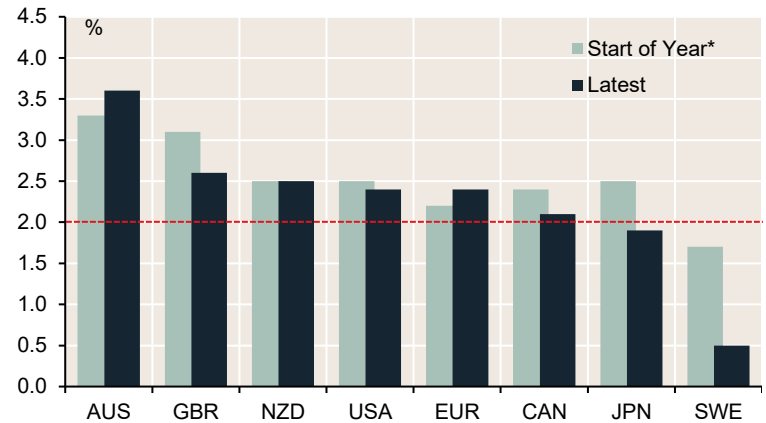


Source: NBC, Bloomberg | Note: *In some cases (NZD), quarterly data (SoY is Q4:2025)

Some economies entered the shock on a stronger footing from a price stability perspective (strictly speaking and not considering relative output gaps). In most jurisdictions (especially in the Eurozone), headline CPI is tracking higher. For now, core inflation hasn't become disjointed, though broadening price pressures remain top-of-mind for policymakers with their finger on the tightening trigger.

Chart 6: ...while monitoring for signs of 'spillover'

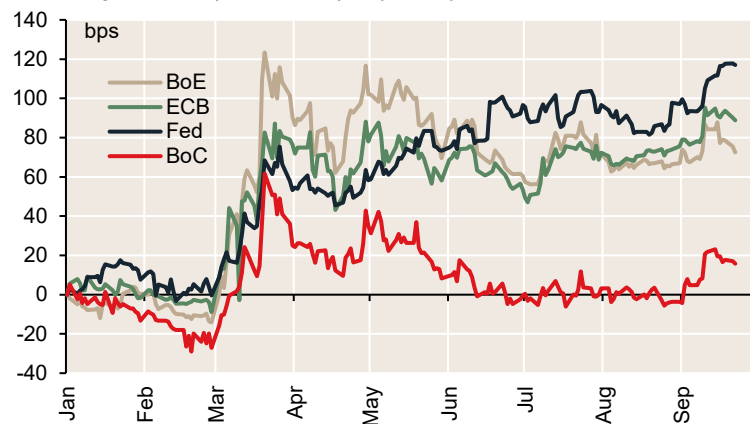
Core CPI (ex. food and energy) by country: Latest and at beginning of 2026



Source: NBC, Bloomberg | Note: *In some cases (NZD), quarterly data (SoY is Q4:2025)

Chart 7: Central bank pricing has been sharply recast...

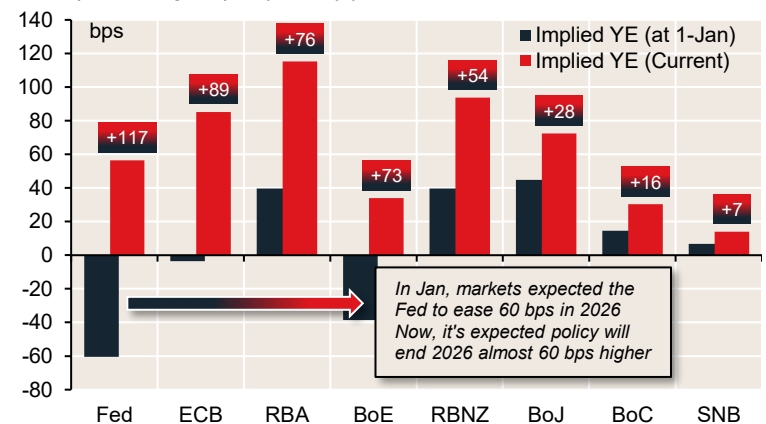
YTD change in OIS-implied Dec-26 policy rate by central bank, indexed to 1-Jan



Source: NBC, Bloomberg

Chart 8: ...with Fed repricing the most aggressive

OIS-implied change to policy rate by year-end: At 1-Jan vs. latest

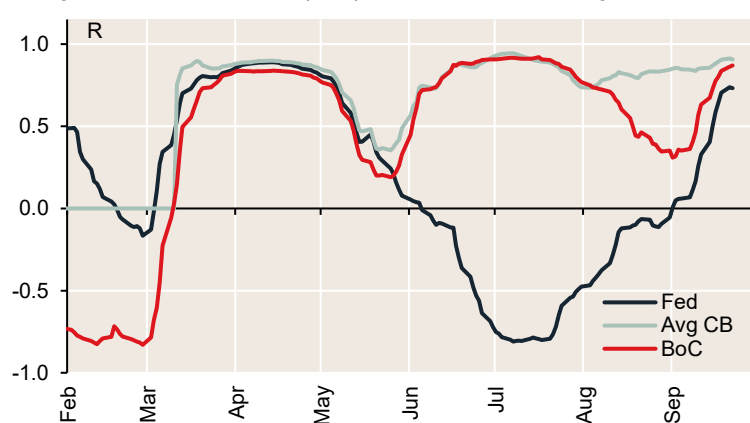


Source: NBC, Bloomberg

Since the March rates selloff, a tightening bias has lingered across most advanced economies, though unevenly. In Canada, slack and trade uncertainty have pushed expected hikes further out—aside from a brief reversal after Macklem's hawkish September presser. The biggest repricing has come in the U.S., where expectations have shifted from 2-3 cuts in 2026 to 2-3 hikes.

Chart 9: It's more about oil (again) for the Fed & BoC

Rolling 50D correlation between prompt WTI and Dec-26 meeting OIS

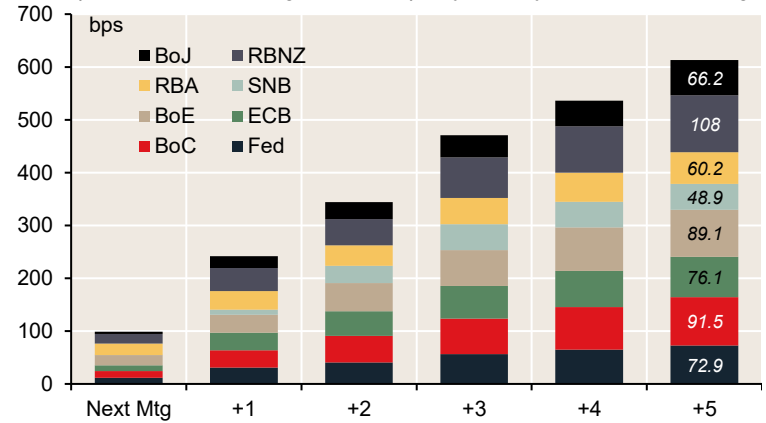


Source: NBC, Bloomberg | Note: Average CB is a simple average of Dec-26 OIS pricing for BoC, Fed, BoE, ECB, RBA, RBNZ, SNB, BoJ

Despite market volatility, policymakers have been consistent—a lingering supply shock threatens second-round effects on inflation. As such, CB pricing has been closely tied to crude (even if that relationship faded this summer for the Fed). ~300 bps of tightening from the Fed, BoC, ECB, and BoE over the next ~9 months is expected—slightly overextended for the Fed and BoC, in our view.

Chart 10: Visualizing anticipated hikes in upcoming meetings

OIS-implied cumulative change to current policy rates by central bank meeting



Source: NBC, Bloomberg | Note: For example, OIS imply ~4 hikes from the BoC by Jun-26



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