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What the analysts say...

Steven Bell, Morgan Grenfell: With higher oil prices depressing a world economy that was already slowing, does this mean that the UK is heading into a recession? The honest answer is, we simply do not know. So far as we can judge, the UK economy will go through a period of substantial weakness this summer but is likely to recover modestly in the autumn. If, as we expect, wage inflation heads clearly into double figures this autumn but the RPI peaks, the British consumer is likely to begin spending again.

David Roche, Morgan Stanley: There will obviously be a flight to quality. Blue Chips are likely to outperform smaller stocks. Cash, and possibly gold, will outperform equities and bonds in the short term. Equity risk is now rising again and the profit outlook is worsening except in a few sectors. The interest rate outlook is now worse.

Kevin Darlington, UBS Phillips & Drew: We do not believe the Chancellor's anti-inflationary resolve extends to raising interest rates and, on the assumption that the current crisis is resolved quickly, we still envisage that interest rates will start to ease in the first quarter of 1991 in the run-up to the next General Election.

Chris Perry, Gilbert Eliott: Western governments have been keen to play down the potential costs of the oil embargo, pointing to the high stock levels and surplus Opec capacity. However, with stock drawdown already under way and every possibility that there will be some further military conflict, we think that the oil price can still go higher.

Patrick Moon and Andrew Milligan, Lloyds Bank: The pressure [on Saddam] may build over a period, rather than produce an immediate capitulation. The implications for oil suggest a further price hike from October onwards is likely unless the political situation can be pacified before then.

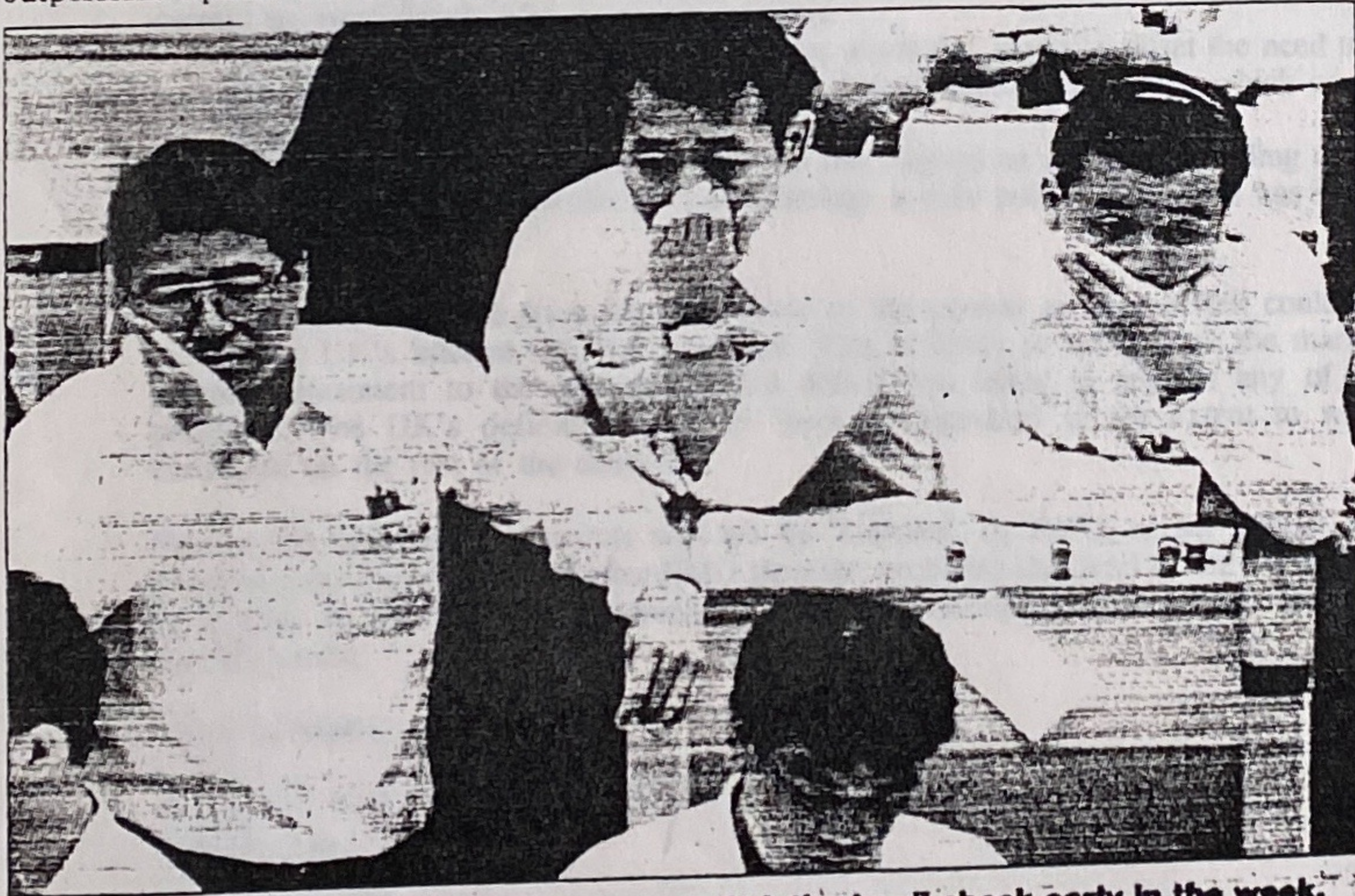
David Smith, Williams de Broe: The higher oil price adds 10,000 to employment by the end of this year, 35,000 by late next year and 74,000 by the end of 1992. The main job losses are in manufacturing, which suffers from higher energy costs and a reduced demand for tradeable goods, where employment is 86,000 lower at the end of 1992 with a higher oil price.

Treasury team, Midland Montagu: The soft UK economy should preclude any tightening of monetary policy, but the greater chance that German rates will be raised complicates the timing of sterling's entry into the ERM and the expected reductions in interest rates. The UK is still likely to enter the ERM this year, perhaps in September, and interest rates will start to be reduced, but the Government could be cautious about easing policy rapidly.

Paul Turnbull, Smith New Court: On a monetarist standpoint, higher oil prices principally represent a change in relative prices. They need not necessarily impact on the overall price level. Accordingly, if oil prices increase and if monetary policies remain unchanged, then higher prices for oil should be counterbalanced by reduced price pressures for other goods and services.

Gerard Lyons and Nicholas Stamenkovic, DKB International: We still expect the US Fed to cut interest rates sharply, as fears of a recession more than outweigh inflationary concerns. UK recessionary worries are likely to increase but the inflationary concerns could delay an interest rate cut, although we would still expect one before the end of this year.

Oil team, Henderson Crosthwaite: At a stroke Iraq has undone the good work of the Opec price doves of the last four years. It has made the consuming world realise that dependence on Opec crude, which increasingly means Middle East crude, is too risky, and that it must explore elsewhere and look to alternative energy sources.



Japan, one of Iraq's largest customers, fell victim to oil shock early in the week.