

Article | 29 May 2026

RATES

Rates Spark: Watch inflation expectations drift higher

Softer US data eases rate pressure, but inflation risks persist. Because even with a deal in sight, oil prices are unlikely to fall much more. Meanwhile, we see that euro inflation swaps are rising over time, more than the correlation with oil would imply. But with the ECB stressing downside growth risks, we don't see an aggressive hiking cycle as likely



We see euro inflation expectations drifting higher as the Middle East conflict lingers

Softer US macro data should increasingly see more attention

Even though the focus remains on oil for now, softer US macro data can also alleviate some of the upward pressure on US rates. The [core PCE deflator came in lower than expected](#) on Thursday, while first-quarter GDP growth was revised downwards. But this doesn't change the broader picture of inflation continuing to rise as the price shock permeates through the economy, and second-round price pressures remain a considerable risk. And even if a final deal were to be struck, we don't think oil prices will have much room to ease lower in the near term after the latest drop.

For US rates to make a material stretch lower, we should see a more dovish pivot from the Fed, something that could already materialise later this year. Yesterday's weak disposable income figures highlighted the deteriorating outlook for US consumers, which should become more of a drag going forward. For now, markets are more focused on the positive news stories. However, a potential deal between the US and Iran is in sight, while US equities are

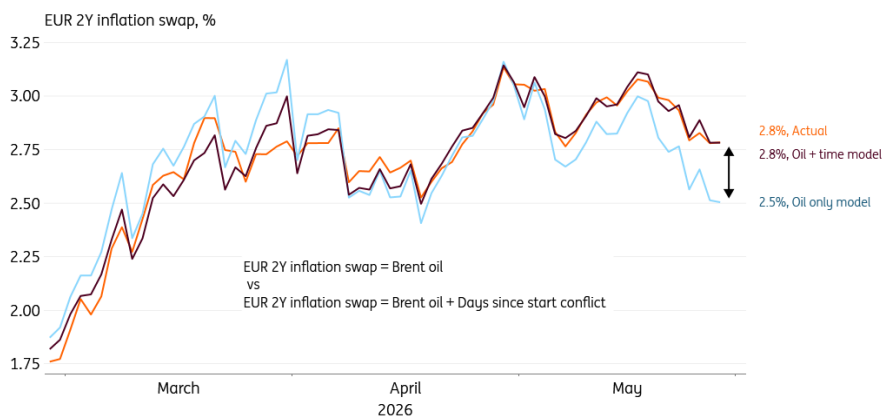
consistently hitting new highs.

All else equal, euro inflation swaps are drifting higher

We've started to notice that euro inflation swaps are slowly drifting higher over time, even when accounting for oil price moves. At first sight, the linear correlation between oil prices and inflation swaps seems to hold firmly since the start of the conflict. But a model with just oil as the independent variable fails to capture the still elevated levels of inflation swaps of late, even as oil prices have come down again. The fit improves significantly when we add a time dimension to the regression. For every day since the start of the conflict, the 2Y inflation swap has been drifting higher by around 1bp. (For robustness, we also tested this setup using differenced data and got similar results.)

Our model suggests that two-year inflation expectations can increase by 30bp for every month the conflict lingers, even if oil prices stay at current levels. This means rates can drift higher, too. But also for Europe, growth dynamics will be important to watch. As the ECB highlighted in its April minutes, risks to the growth outlook are to the downside and have intensified since March. [We therefore don't think the ECB will fight this supply shock at the cost of worsening an economic downturn.](#)

A simple model suggests a c.1bp increase in 2Y EUR inflation swaps for every day the conflict lingers



Friday's events and market view.

The focus will likely remain on updates about a potential deal between the US and Iran. In terms of data, we have French, Spanish, German and Italian inflation figures, which will all be closely watched for the pass-through of higher oil prices. We also have a number of central bank speakers lined up, including Bank of England Governor Andrew Bailey and the ECB's Madis Muller.

Author

Michiel Tukker

Senior UK & Eurozone Rates Strategist

michiel.tukker@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.