Inflation Focus Q2

19 June 2026

Key Points

- Inflation rebounds on higher energy prices, but pass-through to non-energy related components is contained
- Sharply falling oil prices will weigh on inflation in coming months, reducing the risk of a more persistent acceleration
- AI related price pressures are rising, led by surging memory prices, but the impact on CPI inflation should remain modest
- Central banks to stay vigilant and focused on inflation, but prospects for further rate hikes are limited

Oil prices fall sharply on progress on a Middle East peace deal

Energy prices are key for the outlook for inflation. With an US-Iran peace deal and a reopening of the Straight of Hormuz in the offing, oil prices have plummeted, with the Brent down 30% since its recent peak of close to USD 120 per barrel at the end of April. The oil futures curve has fallen back and implies an oil price below USD 80 by the end of the year, only modestly higher compared to where it was trading before the Iran war. While the outlook for oil prices remains highly uncertain and subject to geopolitical maneuverings, recent developments strengthen our conviction that the impact of higher oil prices on inflation should fade over time, with limited pass-through to other costs and prices.

Inflation has rebounded, largely reflecting higher energy prices

Headline CPI inflation has risen since the beginning of the war, up by around 100bps globally. The increase reflects higher energy and transportation costs with limited pass-through to other components. Broader supply-chain disruptions have been avoided and food prices have been benign, despite higher fertiliser prices. Producer prices have snapped higher, but increases outside of energy and energy-intensive industrial goods have been limited. Importantly, wage pressures have been contained, with no evidence of pass-through of higher energy prices to stronger pay, in part reflecting soft labour markets with subdued job growth. At the same time, the higher oil price has been manageable for the global economy, with resilient economic activity, supported by surging AI investments, fiscal expansion, and rising defence spending. So far, developments have been broadly in line with expectations.

Oil price impact on inflation should fade, absent re-escalation

Assuming the price of oil remains at around its current level, the energy impact on monthly inflation rates should diminish quickly, potentially turning negative over the next few months. It will take longer for annual inflation rates to peak. There may also be some lagged effects from supply-chain price pressures that have built up over past months but not yet been passed on to the final consumer. The risk of a further broadening out of inflation has clearly diminished, however. This is also reflected in market pricing of inflation, with a sharp fall in inflation breakeven rates since early June.

AI related price pressures build in the supply chain

Looking through the energy price effects, underlying core measures of CPI inflation are still running a bit above central bank targets in major regions. This largely reflects services while goods pricing (non-energy) is subdued, anchoring overall trends. One component that stands out is autos, where pricing is notably weak, amid booming EV exports from China and subdued global demand, with the glut of supply set to persist for longer. By contrast, AI related price pressures have emerged, with surging memory costs – DRAM prices are up by a factor of six over the past year. The turnaround in pricing is visible across the tech supply chain, with a 20% rise in US producer prices for semiconductors & other electronic components YTD. Similar dynamics are observed in China, where PPI data show strong price gains on high-tech and semiconductor hardware and, in particular, AI related metals. So far, pass-through to consumer prices has been modest, however, with limited impact on tech exposed CPI components such as PCs and smartphones. Going forward, we expect the CPI impact from these components to remain relatively limited, given their small weight in the CPI basket, and the practise of adjusting prices to account for technology improvements. Risk is to the upside, however.

Central banks need to remain vigilant and ready to act

Sharply falling oil prices is good news, as it decreases the risk of a more persistent buildup in inflation and reduces pressure on central banks to tighten policy. While some further rate hikes may be forthcoming, a protracted rate hiking cycle is not expected. That said, central banks need to remain vigilant and focused on inflation, in particular given the changing economic and geopolitical backdrop, which involves fiscal expansion, sharply rising defence and technology investment, and competing demand for key inputs.

US

Inflation spikes on the higher oil prices seen in Q2, but spill-overs remain limited

Inflation has accelerated, driven by the spike in energy prices, but spill-over effects remain limited so far. Headline inflation rose 0.5% MoM in May, which was slightly slower than the month before but still pusched up the annual rate to 4.2% YoY, the highest level in more than three years. Core CPI slowed from 0.4% MoM in April to 0.2% MoM in May. The slowdown was relatively broad-based and not distorted by strong outliers. The Cleveland Fed's trimmed mean CPI measure slowed from 0.43% MoM in April to 0.26% MoM in May, emphasising the broad-based nature of the decline. Households' inflation expectations remain elevated, particularly for the near term, but have receded recently. Meanwhile, market-based breakeven inflation rates have fallen substantially in recent weeks, indicating that investors are not worried about the longer-term inflation impact of higher energy prices.

We expect the Fed to look through the current spike in inflation rates and keep policy rates on hold. While a new escalation in the Middle East or a substantial tightening of the labour market could provide some upside risks to inflation we expect price pressure to soften over the course of the year as the situation in Iran stabilises and the fiscal tailwind fades.

UK

A substantial fall in energy prices helps to contain headline inflation

Headline CPI inflation slowed from 0.7% MoM in April to 0.2% MoM in May, leaving the annual rate unchanged at 2.8%. Meanwhile, core inflation ticked up from 2.6% YoY to 2.7% YoY. While inflation remains elevated it has undershot consensus expectations for two months in a row. The latest downside surprise was concentrated in core goods with food inflation even slightly negative. Transport inflation fell back to the lowest since January thanks to the recent fall in energy prices, though price pressure in transport services was strong due to some catch-up effects. Given the de-escalation in the Middle East and the substantial fall in the oil price, we expect inflation to remain contained with few signs of spill-overs and second round effects so far. Services inflation is sticky and has to be watched, but both headline and core inflation are running below the Bank of England's forecasts, easing the pressure to tighten its policy. Based on the Monetary Policy Committee's recent votes the BoE still has a tightening bias. However, given the substantial drop in energy prices and the modest growth outlook, we still think it is unlikely that the BoE will hike rates this year.

Eurozone

Pressure to be contained

Eurozone headline inflation rose to 3.2% in May, up from sub 2% readings at the beginning of the year. The ECB has hiked rates in response, taking the deposit rate to 2.25%. Economic activity is weak, and the bargaining power of both labour and firms appears soft. Tighter ECB policy provides an additional headwind, by design. While the market is pricing in two further hikes, we see risks as skewed clearly towards holding rates unchanged from here. In any case, we do not see this as the beginning a larger tightening cycle. The HICP market expects inflation to rise to a peak rate of 3.6% YoY in December. Near-term developments are highly sensitive to energy prices, but the near-term risks to headline inflation look skewed to the downside compared to market pricing in our opinion. This is mainly due to a more benign evolution of energy prices and limited evidence of broader spill-overs. Producer price measures are contained outside of energy and petroleum related products. But upside risks must be considered. A re-escalation of the US-Iran war would lift energy prices further and inflation with it. Core and services inflation have risen to 2.5% and 3.5% YoY respectively. There is good reason to believe that this reflects unfavourable base effects from the timing of Ascension, and the June print will be key here. Consumer survey measures of one- and three-year inflation have risen sharply, but this is in stark contrast to benign market-based measures.

Switzerland

Weak underlying inflation trend

Annual CPI inflation was flat at 0.6% in May, up from 0.1% in February, with the acceleration almost entirely reflecting energy price pressures. Core CPI inflation has fallen further to 0.3%, with broadbased weakness across goods and services. Import prices ex energy are deflationary, while domestic inflation is moving largely sideways at around 0.6% YoY. Producer price data, moreover, show that downward price pressures persist among exporters, with prices of goods destined for export falling at an annual pace of over 3%. While upward pressure on the currency has receded, the franc remains strongly valued and continues to hamper the ability of domestic producers to raise prices and wages. The labour market is soft, with weak job growth persisting. This should limit upward pressure on wages, ensuring that the underlying inflation trend stays subdued. While the energy impact on monthly CPI inflation should fade relatively quickly, annual CPI inflation is likely to rise a bit further before peaking towards the end of the year. This outlook assumes that oil prices remain broadly unchanged from the current level.

While inflation is benign, it has been tracking slightly above the SNB inflation forecast, which was nudged up in the June meeting. As expected, the SNB left policy unchanged, and we do not expect any rate hikes over the coming year

Japan

Fuel subsidies mask underlying price pressures

Japan's National CPI for April and Tokyo's May CPI both surprised to the downside, with core-core inflation slipping below the BoJ's 2% target for the first time since July 2024. Headline CPI rose 1.4% YoY. The softness largely reflects government measures capping education and energy prices. Private high school tuition was made free as of April while gasoline subsidies capped retail prices at JPY170/litre. The near-term outlook, however, points firmly higher. Middle East-driven fuel costs are set to feed through more visibly to households, with major power and gas providers are already announcing price hikes. Japan's above 90% reliance on Middle East petroleum imports leaves it acutely exposed, though substantial oil reserves offer some buffer. We expect CPI to move back above target in H2.

Prime Minister Takaichi has ordered a supplementary budget to extend fuel subsidies and resume electricity and gas subsidies from July to September. While this should cushion headline CPI in the near term, it comes at the cost of greater fiscal strain, upward pressure on JGB yields, and a weaker JPY, which in turn risks intensifying import-driven inflation. We expect the BoJ to stay on its policy normalisation path, lifting the policy rate to 1.25% by year-end.

China

Resilient to the oil shock

China's May inflation data suggest the energy price shock is showing up in producer prices, but with limited pass-through to consumers. Headline CPI held steady at 1.2% YoY. Annual PPI inflation, by contrast, accelerated from 2.8% to 3.9%, driven by oil-intensive sectors including energy, mining, and chemicals. Strong global AI demand continued to lift prices for high-tech and semiconductor hardware, as well as AI-beneficial metals. So far, anti-involution measures played a smaller role overall, though sectors such as solar panels and lithium-ion batteries saw higher prices amid capacity curbs and sustained energy-transition demand.

All told, the limited CPI pass-through reflects weak pricing power in an economy still grappling with overcapacity and subdued demand. The growing dominance of China's EV sector mutes the impact of higher fuel prices on consumers while substantial domestic oil reserves provide a further buffer. We expect this pattern to persist, with energy pressures concentrated in PPI rather than CPI, leaving the PBoC comfortably on hold and positioning China as Asia's most resilient economy to the current oil shock.

Australia

Inflation pressures will keep the RBA on guard

The latest inflation data from Australia reinforced the trend of rising price pressures. The preferred trimmed mean measure rose 3.4% YoY in April, well above the RBA's 2–3% target band. While much of the recent volatility reflects the energy price shock, a temporary waiver of the fuel surcharge has provided some short-term relief. This fuel excise cut is set to expire at the end of June, which will likely lift headline inflation further despite a recent ease in oil prices. Underlying pressures persist: shortages of fertiliser and urea are weighing on winter crop planting, pointing to lower output and higher food prices ahead. Meanwhile, rents, a key component of the inflation basket, have picked up noticeably following the government's removal of investor incentives for property ownership, adding further upward pressure.

On the policy front, markets are currently pricing in one additional rate hike over the remainder of the year, taking the cumulative tightening to 75bp and lifting the RBA cash rate to 4.6%.

EM Asia

Uneven impact of the energy shock

India's CPI rose to 3.9% YoY in May 2026, up from 3.5% in April, marking the second consecutive increase and the highest reading under the new CPI series, though still marginally below the RBI's 4% medium-term target. The uptick was primarily driven by food and fuel prices. India's core inflation remained relatively contained at around 3.8–3.9%, suggesting that underlying demand-side pressures have yet to become a significant concern.

In ASEAN, headline inflation shows a strong rise, with the fastest pass-through in Vietnam and the Philippines, while the rest of the region experience a rather modest pickup as government subsidies continue to shield consumers from the full oil price shock. Looking ahead, while softer global commodity prices could offer some relief, the pass-through of higher oil prices to CPI may become more evident, though it is expected to remain contained. Meanwhile, weather-related disruptions and an evolving El Niño pattern could keep food prices volatile in the region. We expect rate hikes in India, Indonesia, and the Philippines this year.

Brazil

The BCB's easing cushion is tested as inflation expectations drift higher

The BCB entered 2026 with a record restrictive monetary stance, which initially created room to start the easing cycle. However, the first rate cut in March coincided with the eruption of the Middle East conflict, lifting global oil prices and renewing energy-cost pressures just as Brazil's inflation backdrop was turning more benign. Headline inflation has accelerated from 3.8% YoY in February's CPI print to 4.7% YoY in May, moving above the upper bound of the BCB's target range. This occurred even as Brazil's status as a major net oil exporter allowed for targeted fuel subsidies that helped to partially contain direct fuel pass-through. Still, core inflation has remained sticky, especially in services, as domestic demand proved more resilient than anticipated amid fiscal impulse from income-tax relief and credit-support measures.

In this context, inflation expectations have moved further away from the BCB's 3% target, while El Niño-related pressures on electricity tariffs and food prices keep risks tilted to the upside. Although monetary policy remains restrictive, resilient activity and rising inflation expectations increase the likelihood of an earlier-than-expected pause in the easing cycle as the BCB may be less willing to ease aggressively until inflation shows clearer progress.

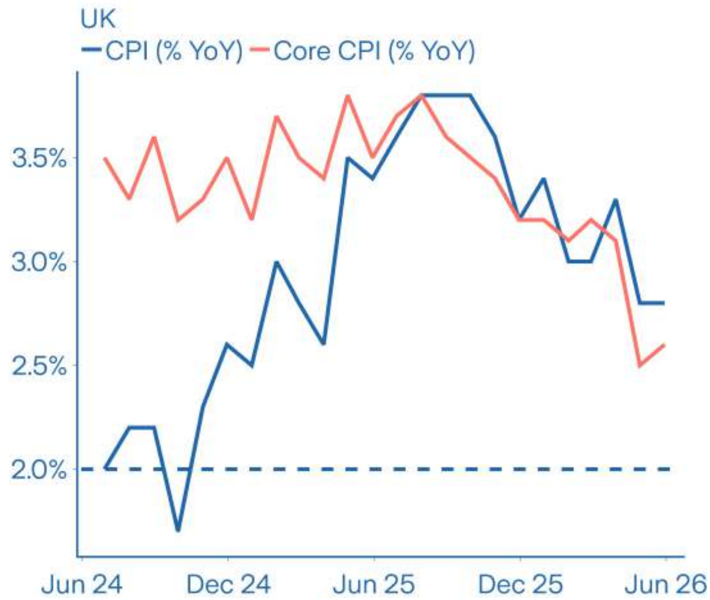
LatAm

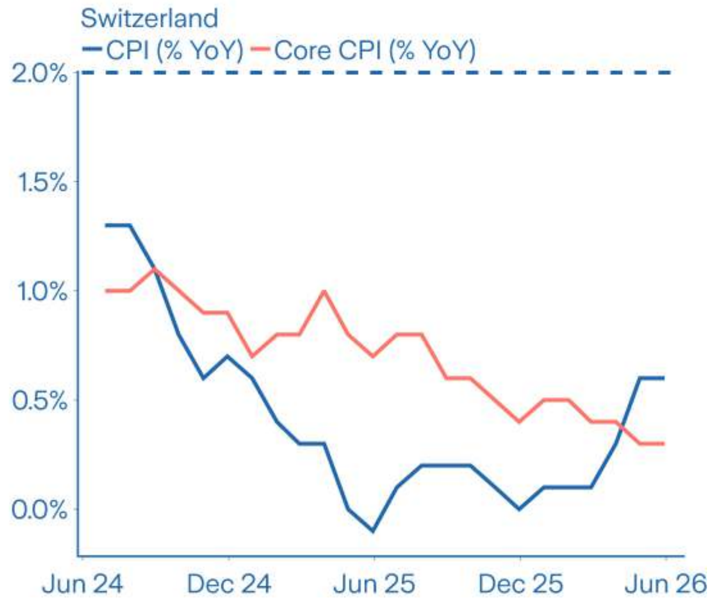
CPI relief supports central banks staying on hold through year-end

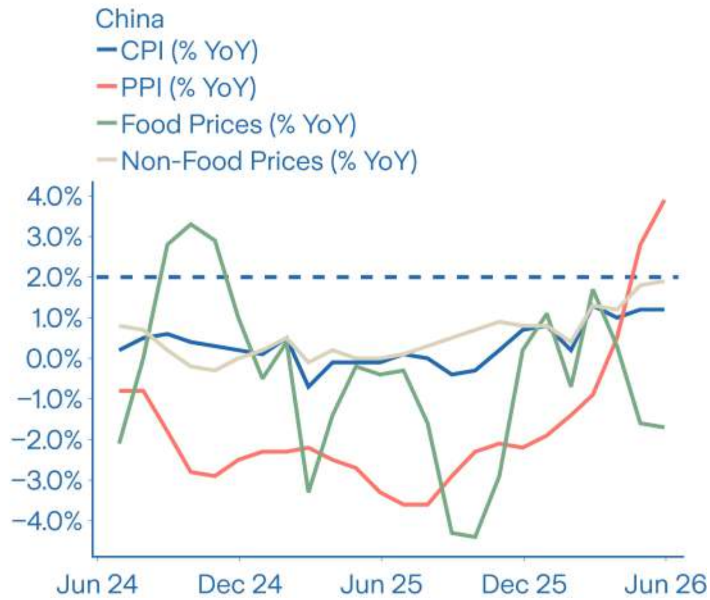
Mexico's disinflation halted by the end of Q1, with headline inflation accelerating above Banxico's upper tolerance band in March at 4.6% YoY, despite fuel subsidies helping to contain direct energy pass-through. Inflation then eased to 4.5% in April and 3.9% in May, but the latest downside surprise was largely driven by non-core and seasonal factors, including electricity subsidies and lower fresh food prices. Core inflation remained above target, with services inflation sticky. Looking ahead, risks are skewed to the upside, particularly given an expected rebound in non-core prices and a partial reversal of fuel subsidies. Against this backdrop, we expect Banxico to stay cautiously on hold this year.

Chile had been one of the region's strongest disinflation stories until February, with headline inflation already below the 3% YoY target. However, its heavy reliance on imported oil and limited subsidies amplified the energy shock, with CPI rising 1.0% MoM in March and 1.3% MoM in April. Still, broader pass-through has remained contained, with May CPI surprising to the downside at 0.2% MoM and 3.9% YoY. Alongside a weaker activity backdrop and easing global energy prices, this should keep inflation below the 4% upper tolerance band by year-end and allow the Central Bank to remain on hold through the rest of 2026.

Current and historic inflation

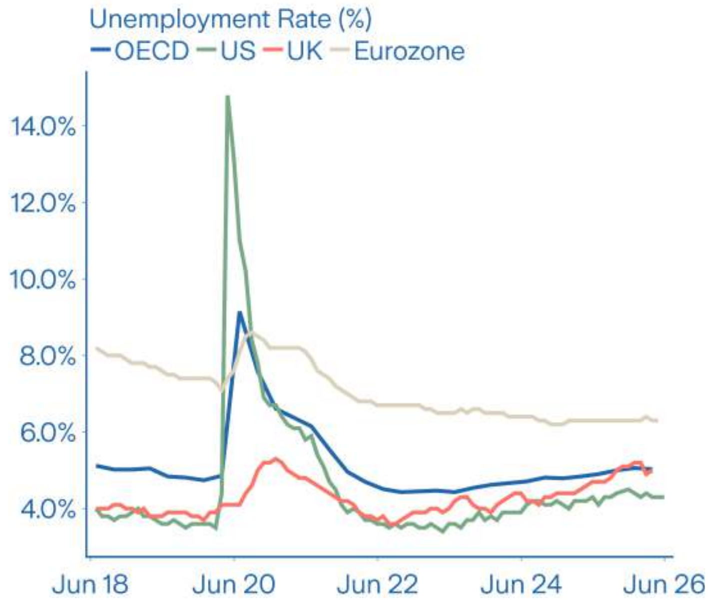


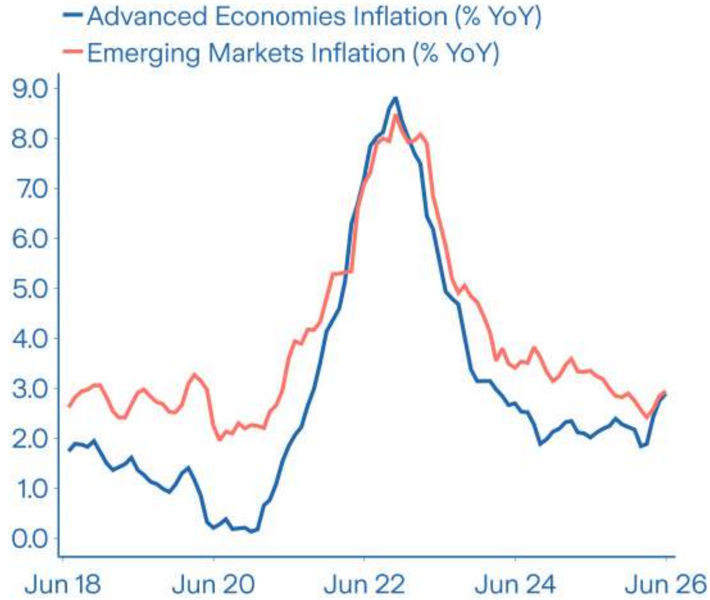


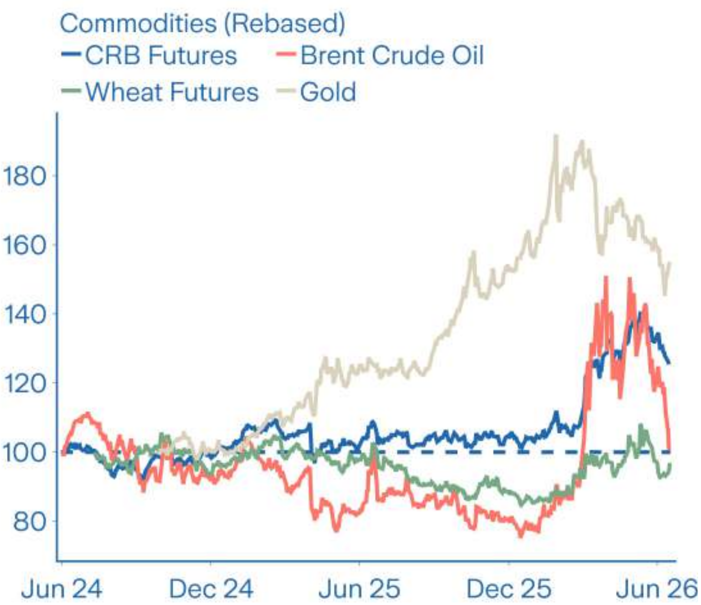


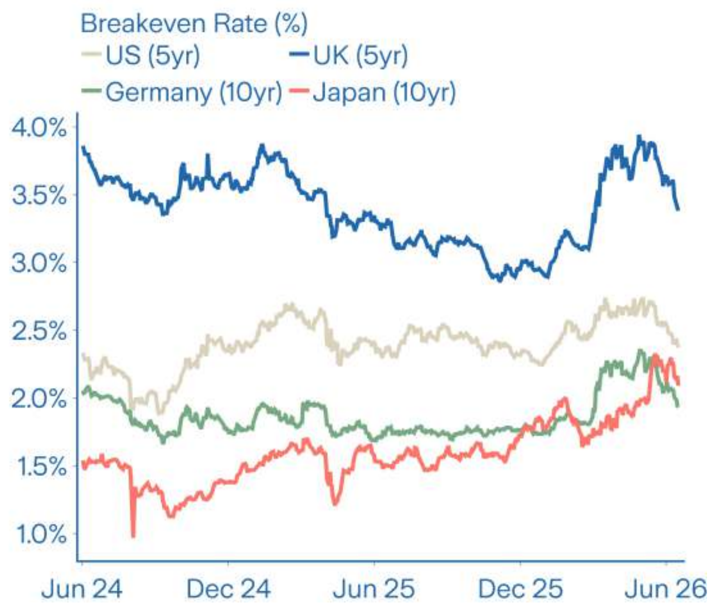
Source: Bloomberg, ZIG

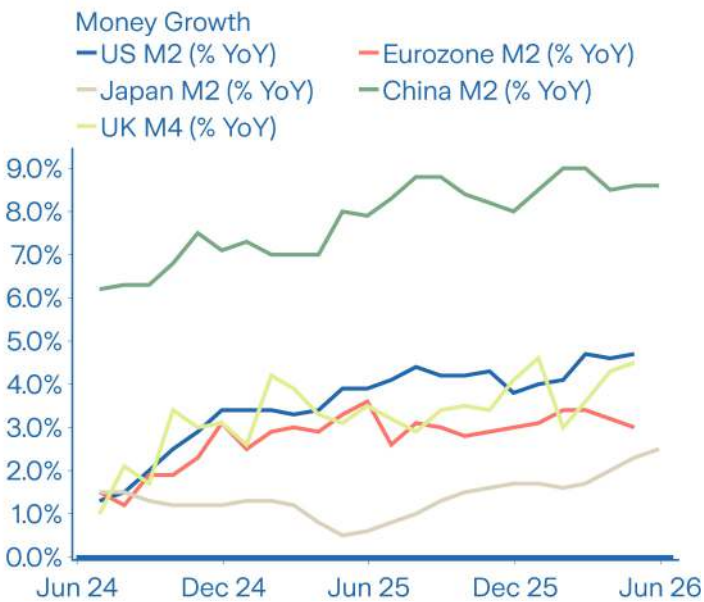
Key Indicators











Source: Bloomberg, ZIG

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