Inflation-Linked Markets in Today’s Energy Shock

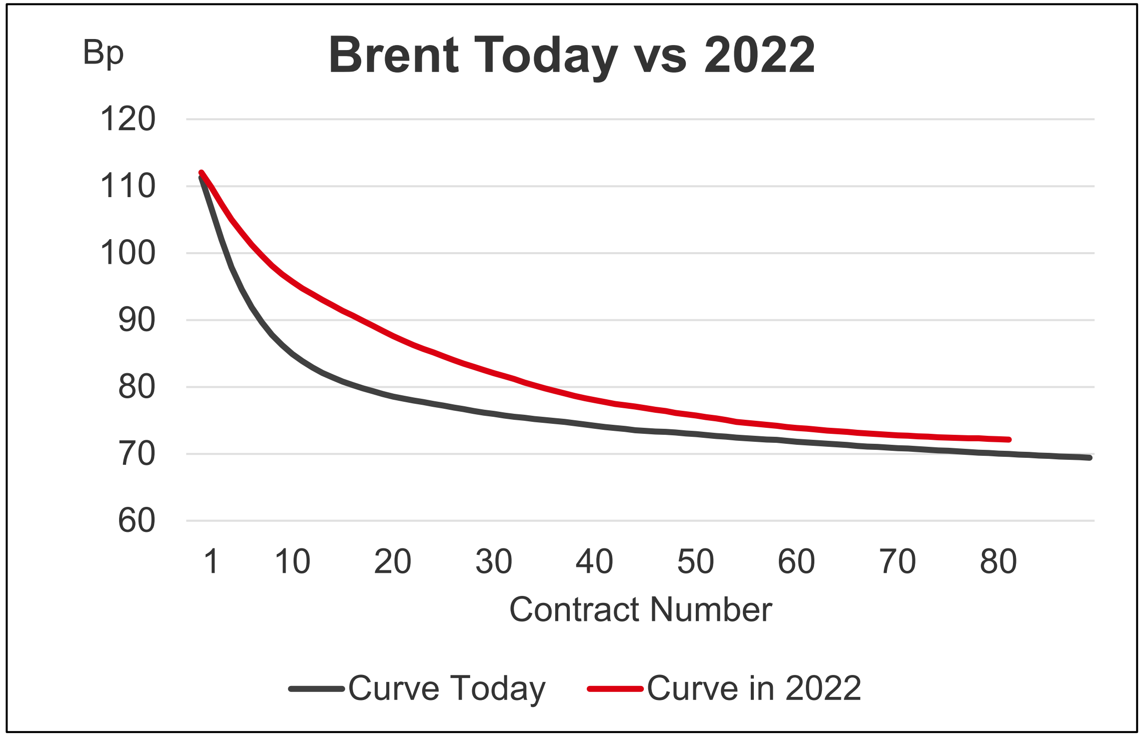
ECB Bond Market Contact Group Meeting

3 June 2026

HSBC

Oil remains a key driver of near-term headline inflation

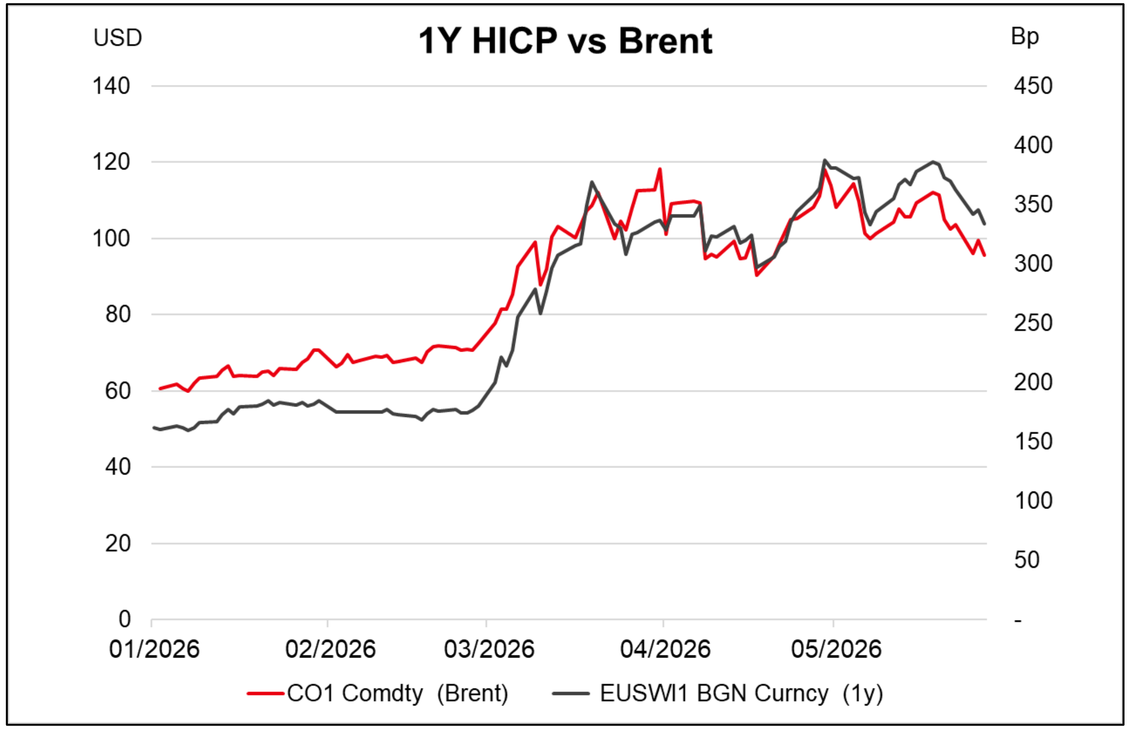
Brent curve: today vs the onset of the Russia-Ukraine conflict



As of 19-May-2022 and 19-May-2026

The Brent curve is more inverted today than at the start of the Russia-Ukraine conflict.

1Y EU HICP vs Brent (YTD 2026)



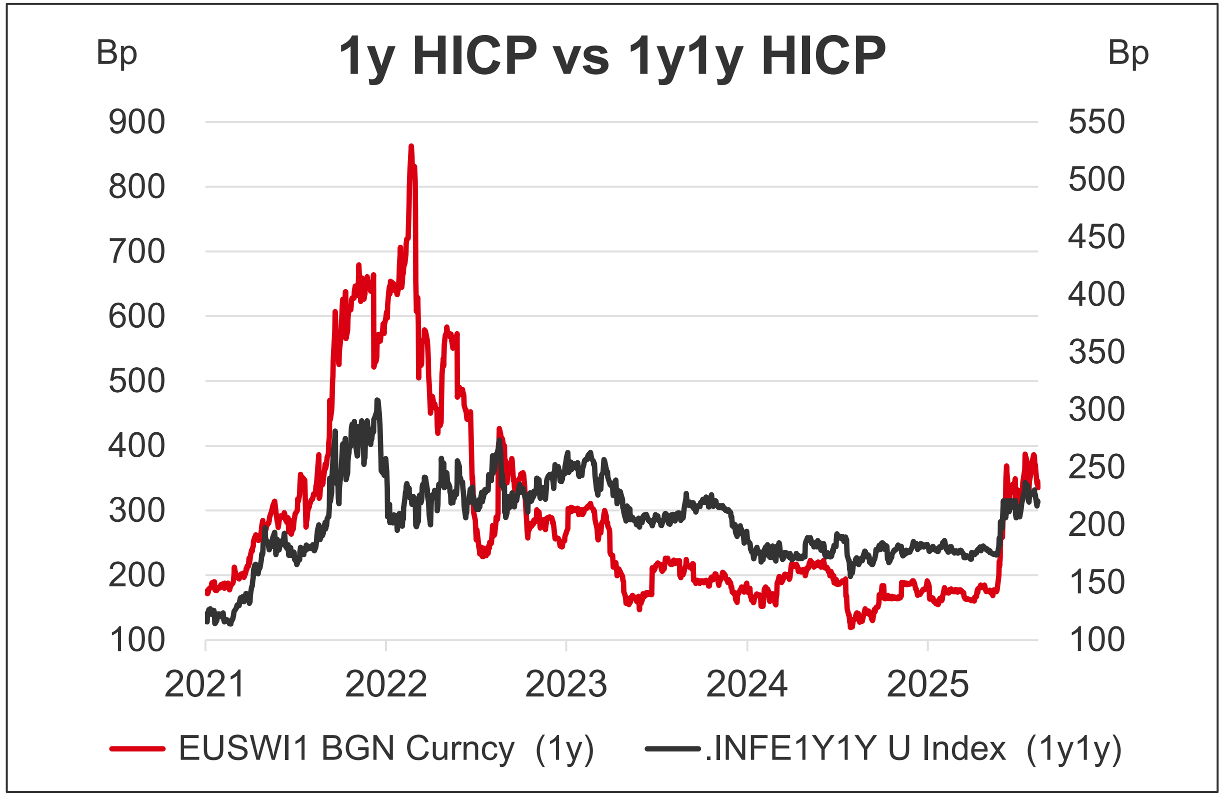
1-year EUR HICP still tracks Brent closely.

Energy is **c.9%** of the EUR HICP basket, with oil **c.4%.**

Source: Bloomberg, HSBC

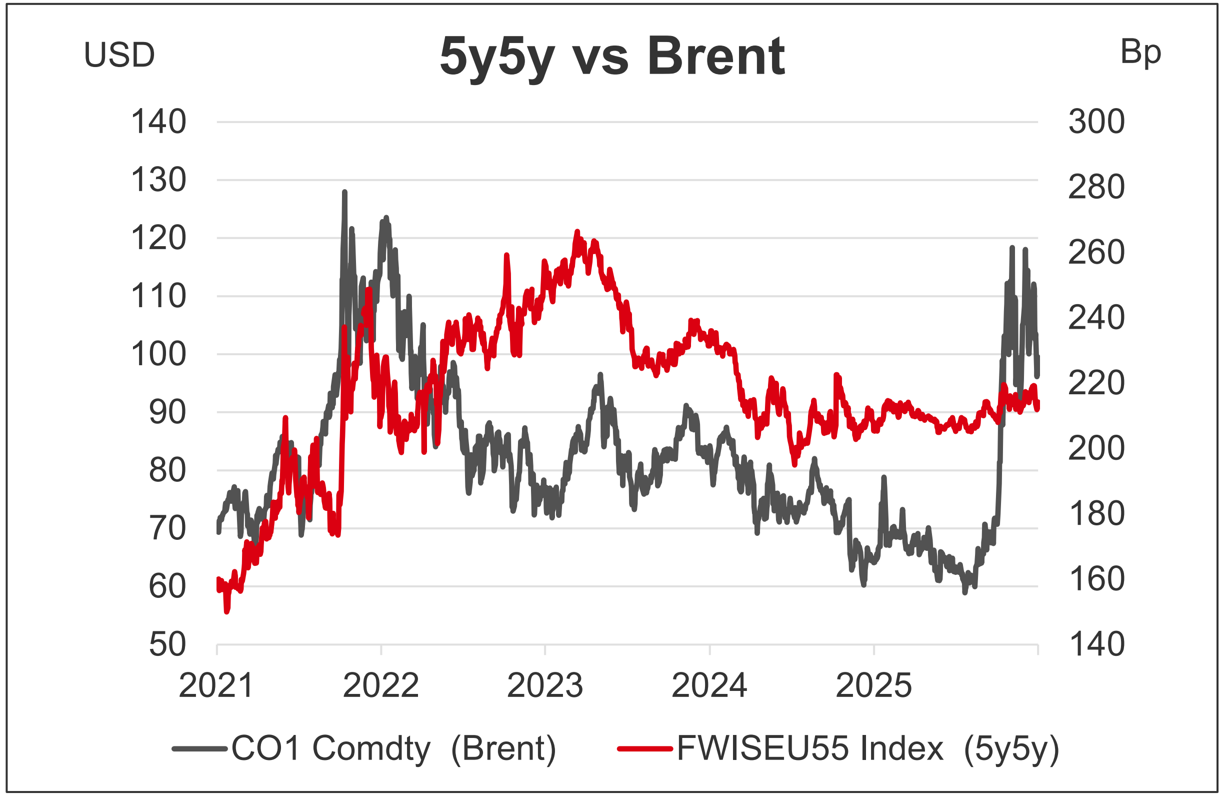
Front-end inflation has repriced more than long-dated forwards

EU HICP: 1y spot vs 1y1y forward



1-year EU HICP has moved more than the 1y1y forward, indicating that the shock remains concentrated in the near term.

5y5y inflation vs Brent (5-year horizon)



Forward inflation is repricing higher, but less aggressively than during the 2022 energy shock.

5y5y EU HICP still tracks Brent, with a lower beta.

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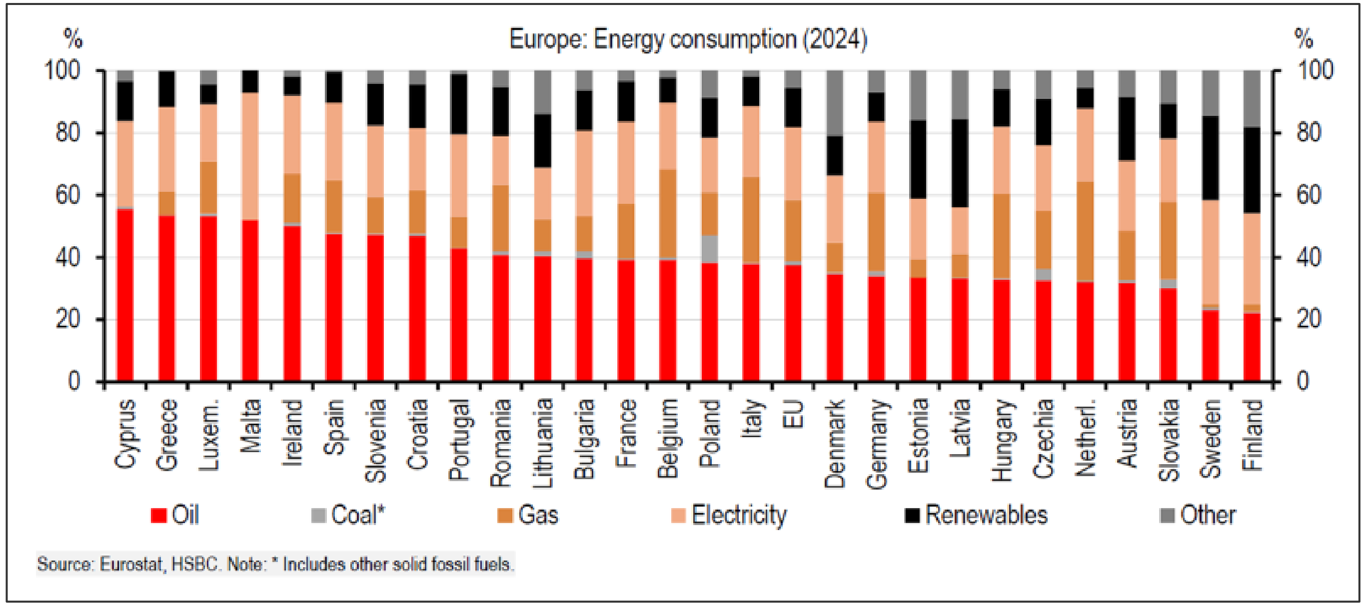
Source: Bloomberg, HSBC

Europe’s energy mix still matters for inflation transmission

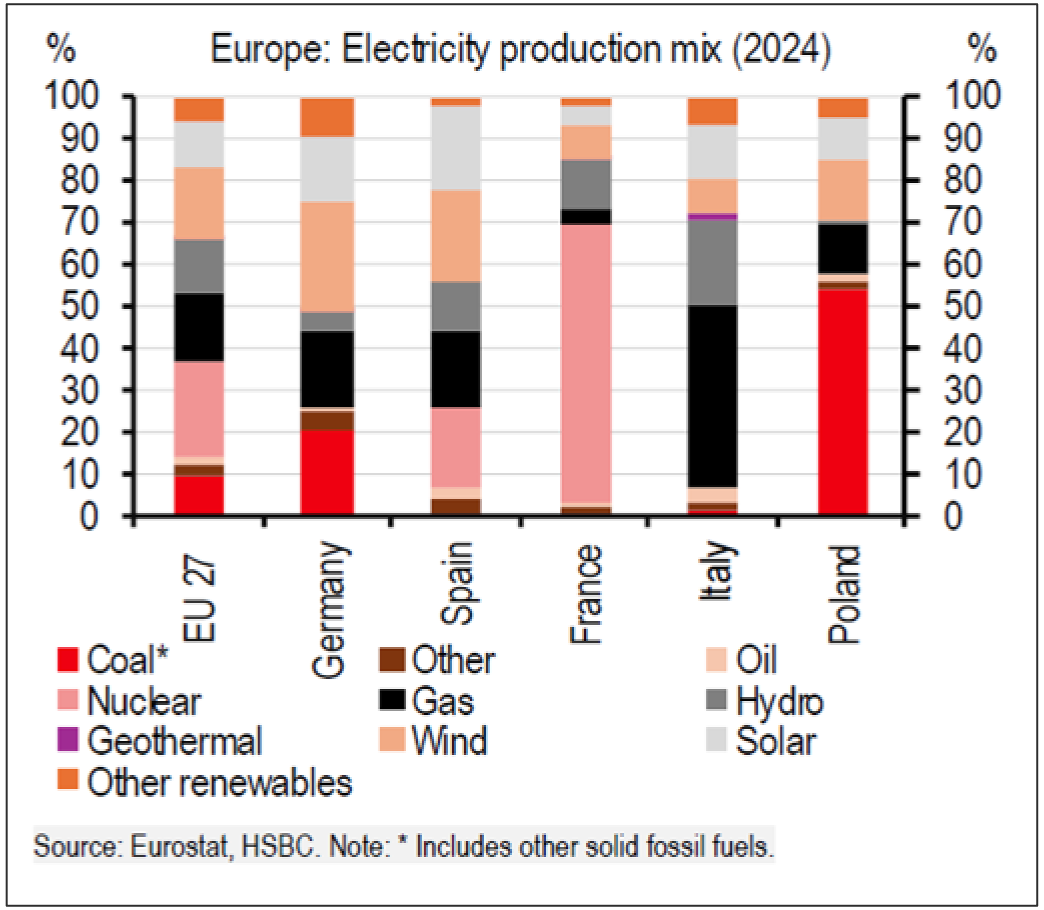
Energy consumption mix by country, 2024



Oil remains Europe’s largest energy source, so Brent still matters for euro area inflation.

Countries with greater fossil fuel exposure are more sensitive to energy-driven inflation.

Electricity generation mix by country, 2024

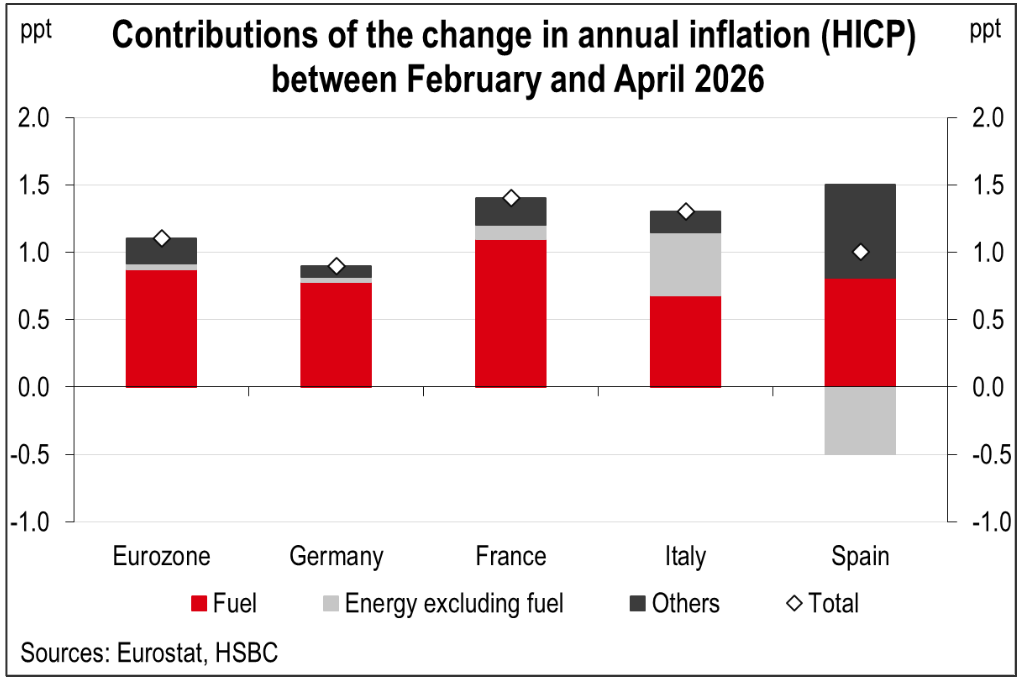


Most countries are now less reliant on gas for power generation, reducing the inflation passthrough from gas prices. Italy is the main exception.

Source: Eurostat, HSBC

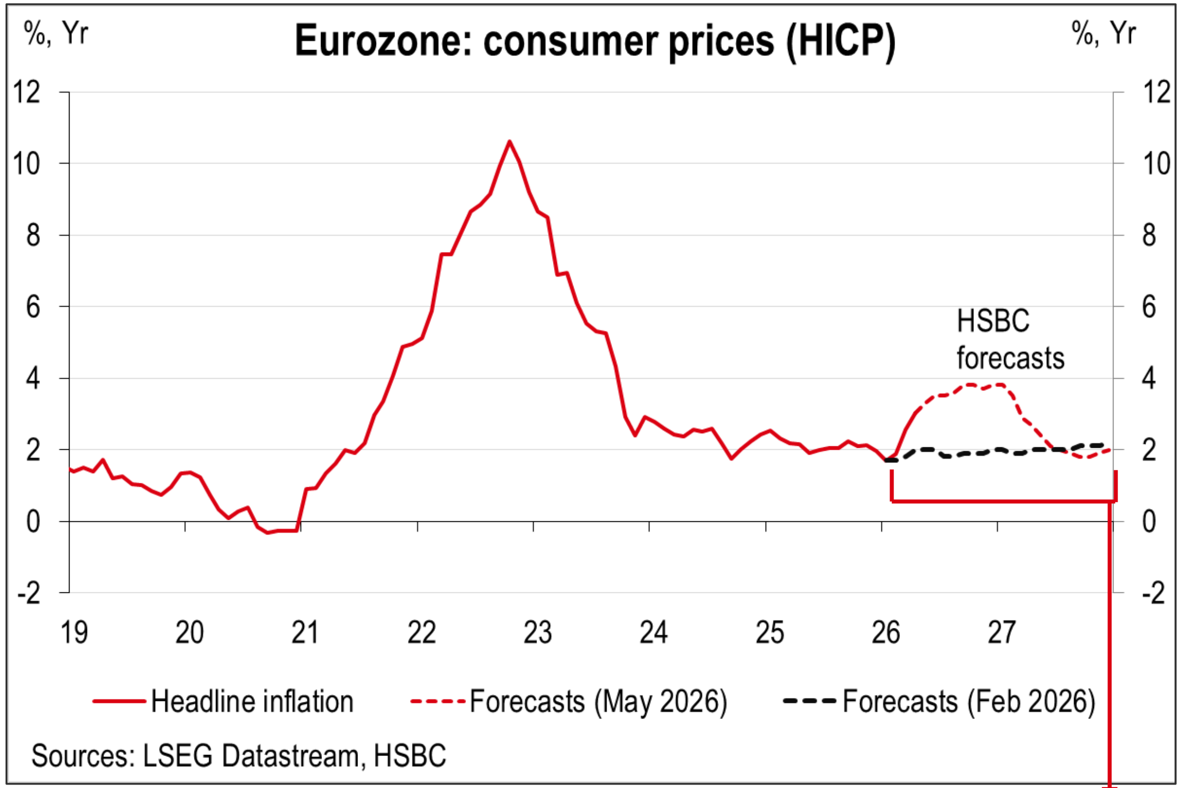
Inflation forecasts have risen sharply

Energy's contribution to inflation at the start of the conflict

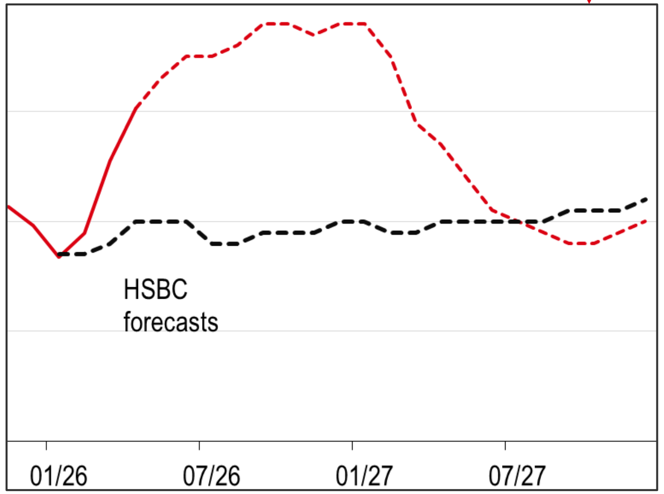


Oil has been the main driver of the recent rise in energy prices.

EU HICP forecasts before and after the conflict



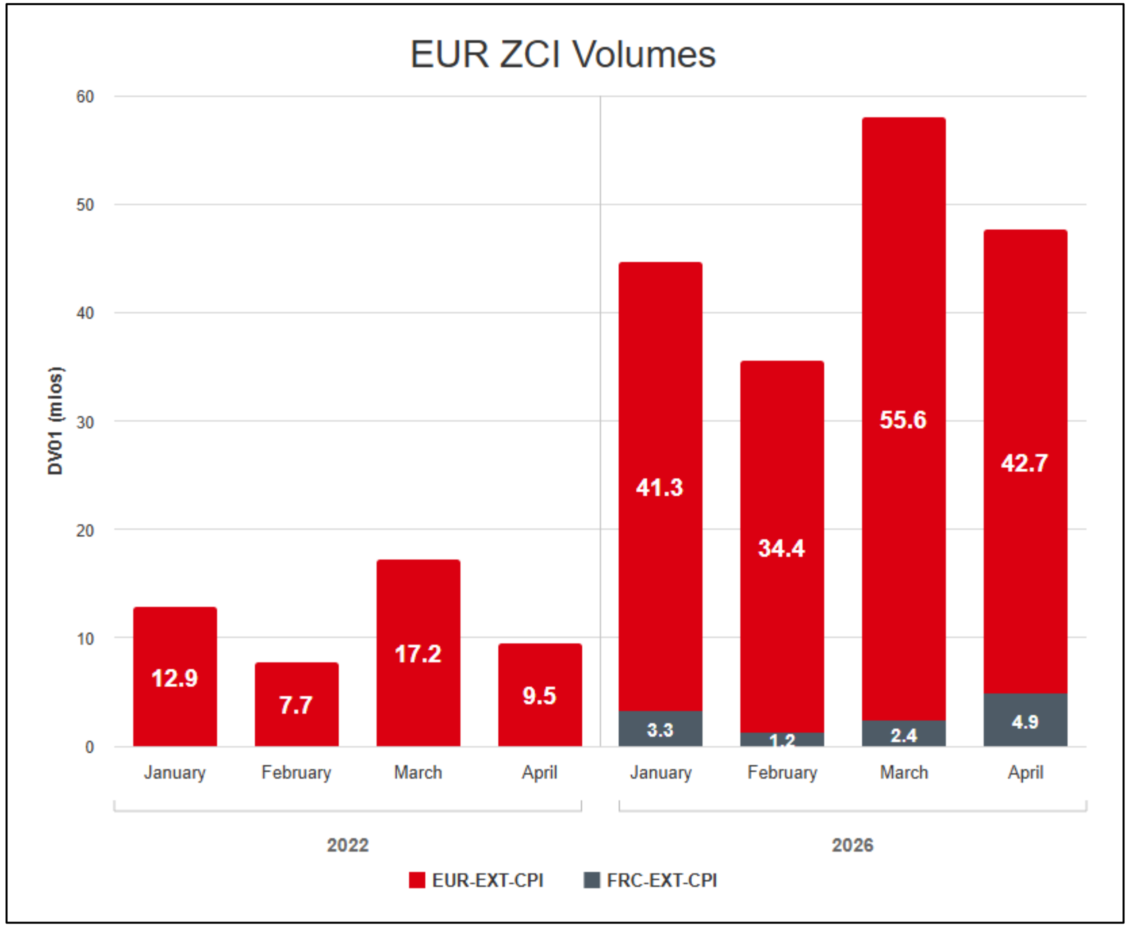
The upward revision is mainly near term and reflects higher energy prices. Inflation is still expected to return to 2% by mid-2027.



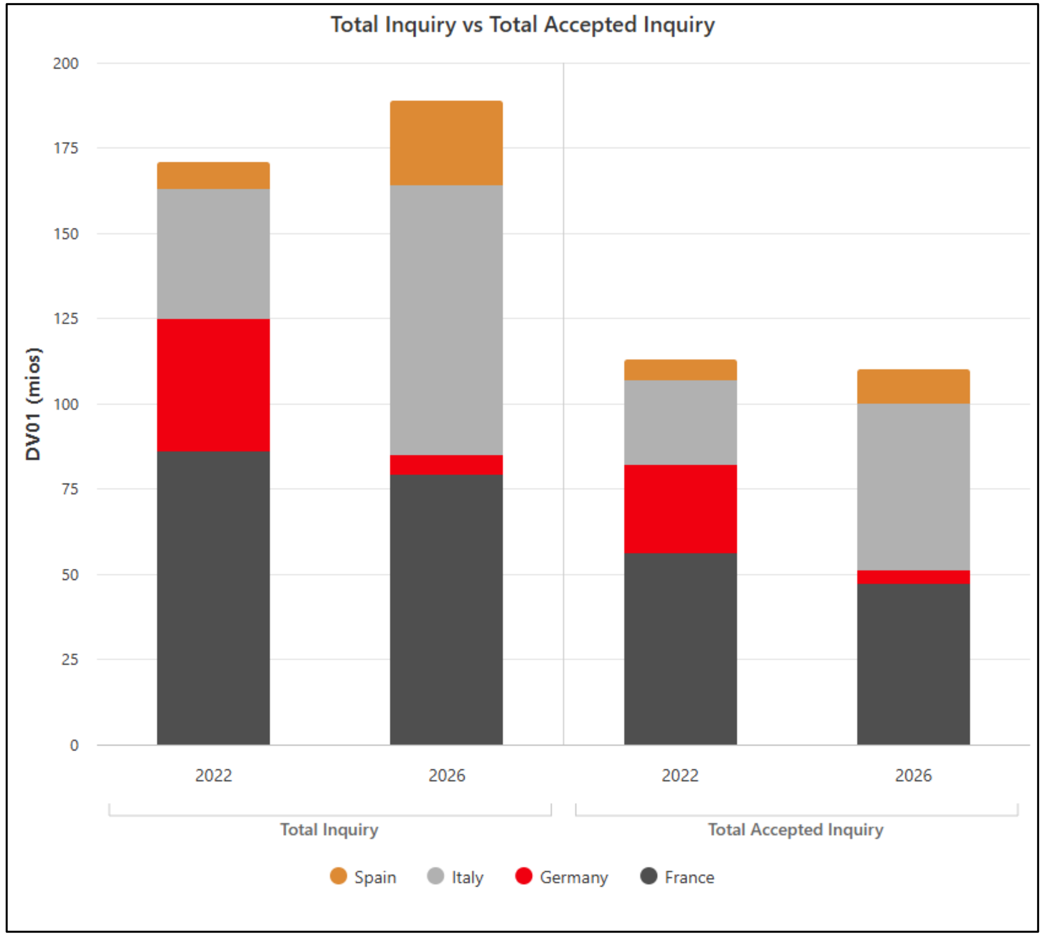
Source: LSEG Datastream, HSBC, Eurostat

Trading Volumes

Traded DV01 on EUR inflation swaps – 2022 YTD vs 2026 YTD



Inquiries on EGB linkers – 2022 YTD vs 2026 YTD



Activity: Traded DV01 in EGB linkers is broadly unchanged, but EUR inflation swaps volumes are much higher.

Focus: Investor interest has shifted from core to peripheral EGB linkers.

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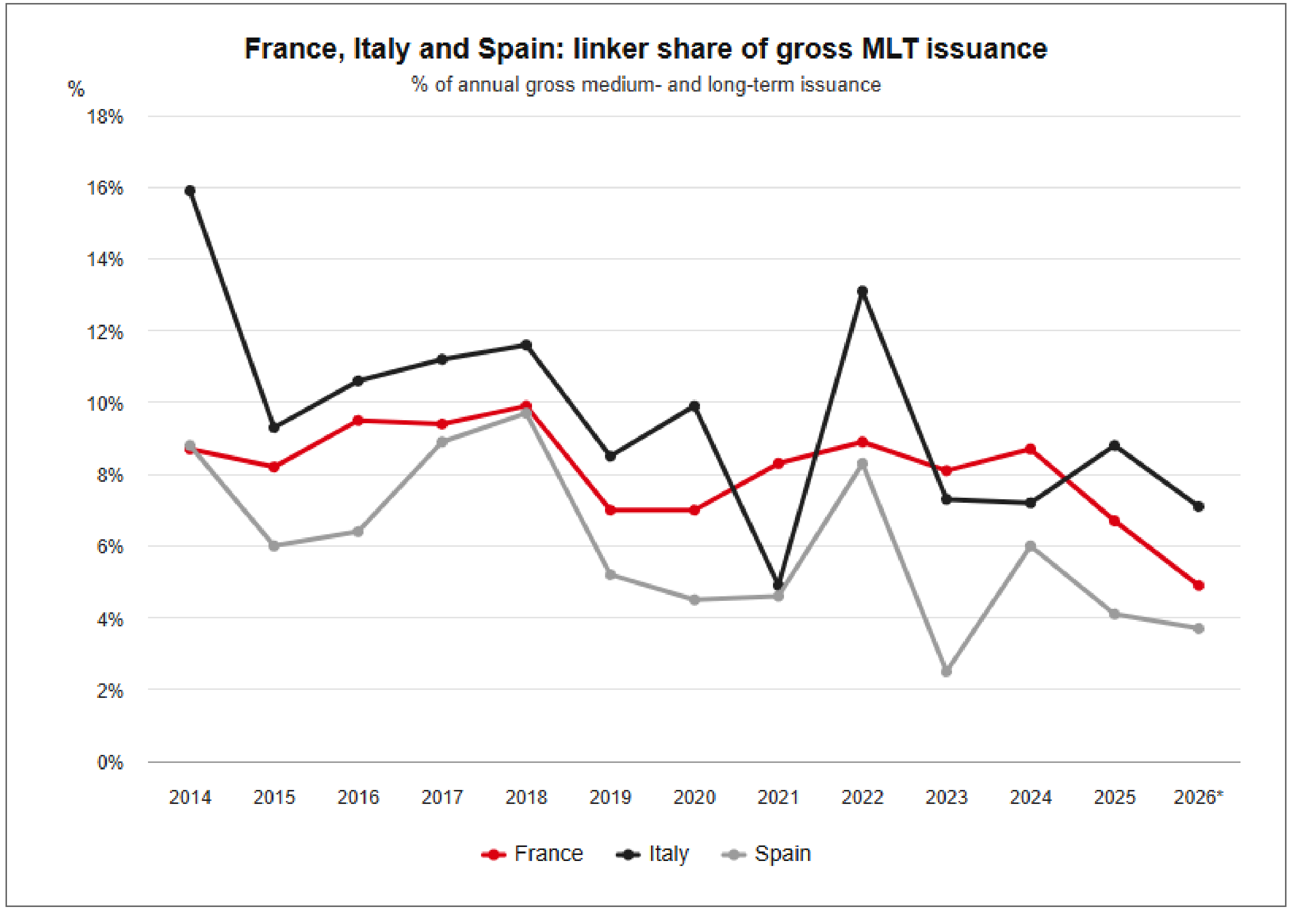
Source: TradeWeb, HSBC

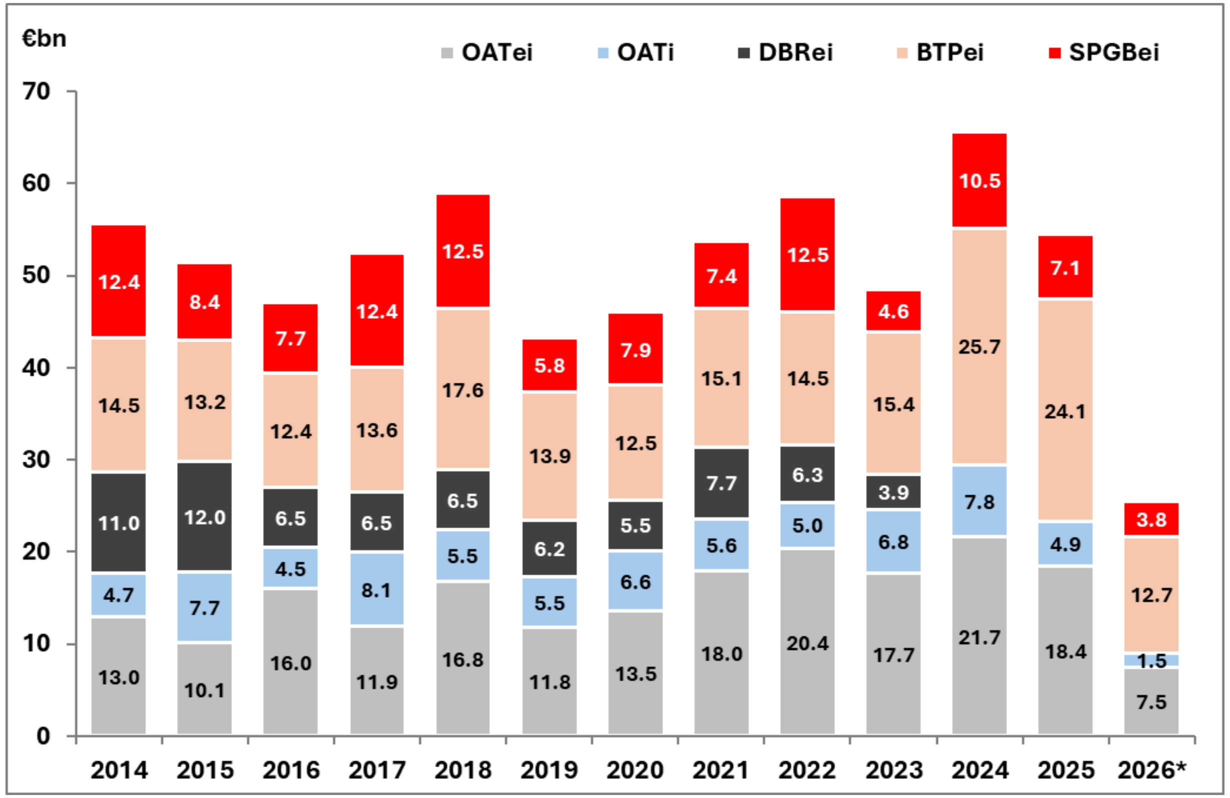
DMO linker issuance trends

Linker issuance as a share of total DMO issuance



2026* as of 31-May-2026

Linker issuance volumes by DMO since 2014



<u>ILB supply outlook</u>

Base case: overall supply remains **broadly stable**.

France: steady core issuer; changes more likely in the **tenor mix** than in size.

Italy: continuity likely; **BTP€i broadly steady**, with **BTP Italia** supporting the retail channel.

Spain: tactical rather than structural; changes more likely in **timing and reopenings** than in total issuance.

Overall: any adjustment is likely to be in **composition, not direction**.

Source: AFT, MEF, Tesoro, HSBC

Market Conditions

- Positioning moved from mildly short pre-conflict to long after the shock, driven mainly by macro hedging demand from hedge funds and real-money accounts.
- Dedicated inflation investors showed limited conviction and did not maintain outright long positions.
- The first two weeks of March were particularly challenging, with flows overwhelmingly one-way; a few investors tried to fade the move, but most exited quickly.
- By late March, liquidity and market functioning had largely normalised, aside from brief episodes of intraday volatility linked to oil.

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Key Questions

- Are euro inflation forwards still underpricing the risk of repeated energy shocks, or are current breakevens already rich relative to the growth outlook?

- How much of the move in inflation-linked markets reflects genuine inflation risk, and how much is simply oil beta and short-term, flow-driven repricing?

- Will real-money investors increase the hedging of inflation exposure, and over what investment horizon?

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