European Market Wrap - 12th May 2026

- **European bourses extended lower amidst higher energy prices, with Brent +3.5%.**
- **DXY gained on geopolitics & CPI, JPY possibly subject to a rate check/intervention.**
- **GBP & Gilts hit as ministers continue to put pressure on PM Starmer.**

EQUITIES

- **European bourses (STOXX 600 -0.9%)** followed on from Monday's losses, largely driven by the higher energy prices. An end to the Iran war doesn't seem to be nearing, with Iranian Parliament Speaker Ghalibaf stating Iran's proposal was one of the Iranian people and there is no alternative but to accept it, while Iranian Parliamentary spokesperson said 90% enrichment is an option in the event of another attack. Recent comments by President Trump stated that we do not have to rush anything, and it is just a question of time.
- **Sectors** finished broadly in the red, as **Food, Beverages & Tobacco** topped the sector pile, with **Compass** extending gains following its positive Q1 earnings on Monday. On the flip side, **Retail** was hit the hardest. **UK Banks** also suffered as UK political uncertainty persists.
- Key movers included **Intertek**, as EQT increased its offer to GBP 61.077/shr (prev. GBP 58/shr) and was then later supported by shareholder Harris; **Delivery Hero**, announcing that the CEO is to step down from his role by March 2027; **BMPS**, which reported strong Q1 earnings in which net profit and revenue beat estimates.
- **US equity futures** began the cash session entirely in the red. US-listed ADRs of **JD,com** rose pre-market, and opened in the green, after delivering Q1 EPS and revenue beat and commented that it remains confident in its FY trajectory.

FX

- **Snapshot**: **DXY** was buoyed by ongoing geopolitical woes, and then took a leg higher after the region's CPI report. **GBP** was the clear underperformer amidst domestic political turmoil, whilst the **JPY** reacted to potential intervention/rate check in early morning trade, and comments from Bessent following his meeting with the Japanese PM. They reportedly discussed the financial market situation, including forex, while reaffirming close cooperation. Elsewhere, **EUR** was unreactive to **better-than-feared ZEW metrics** – analysts cite growing expectations of the Iran war ending soon.
- **DXY** looks set to end the European session at the upper end of a 97.95-98.34 range; the high for the day topped its 21-DMA at 98.31. Initial strength stemmed from geopolitics, whereby **President Trump reiterated that the Iran proposal is unacceptable, whilst adding that the ceasefire is on "life support"**. Thereafter, a report suggested that Israel intercepted a drone, which some suggest could have come from Iran, Iraq, or Yemen. Domestically, the **US CPI report broadly topped expectations**, albeit modestly so. Thus far, **second-round effects** are yet to materially pass through into the US economy.
- **GBP** underperformed as it digested domestic politics. In brief, PM Starmer told his Cabinet that he intends to remain in leadership and will not schedule an exit – a move which essentially invites a leadership challenge. There are a few key factors that markets will eye, but perhaps most pertinent are: **a) Burnham announcing his intention to become an MP, or b) Streeting starting a leadership challenge**. Traders will also be watching for further ministerial-level resignations, as some aim to pressure Starmer into leaving; Jess Philips is the latest to resign. **Cable** is set to end the European session at the bottom end of a 1.3502-1.3614 range. Sell-side analysts are broadly in consensus on the dire situation in the UK political landscape; Mohit Kumar of Jefferies suggests that any replacement to Starmer "would likely be left-leaning and be negative for the long end of the curve and the currency". As such, the bank maintains its short-sterling position.

FIXED

- **Gilts lag as the mood music around UK PM Starmer remains bleak** and the growing assessment is, despite him pledging to fight on, that his time as PM is coming to an end.
- In brief, Starmer has vowed to remain in position but has already started to see ministerial-level resignations, with tally opposing him passing 81 MPs (though, somewhat symbolic given the division). As it stands, we await an update from Burnham re. his path to Parliament, Streeting on whether he will launch a contest and for any resignations or signs of them from the top level of his cabinet.
- Amidst all this, **Gilts made a contract low of 85.45 with downside of 130 ticks.** Action that lifted the **10yr yield to a 5.13% YTD peak**, firmer by just over 9bps. For markets, as any likely replacement is to the left of Starmer, a leadership contest would spark further pressure in UK assets, particularly if the candidate(s) indicated they would also replace Chancellor Reeves. Note, Nomura expects markets to favour Streeting over Burnham.
- **USTs and Bunds directionally in-fitting throughout the day** , with pressure also emanating from energy upside. For USTs, they waited for the **April CPI series** which came in slightly hotter than expected on a core and headline Y/Y level, though the in-line M/M was seemingly enough to allow USTs a few ticks of upside. **Up to 110-09, before then fading and reverting to a 110-02 trough**.
- **Bunds lower** given the above. Also, awaiting any update out of Germany as divisions remain between the CDU and SPD on the pension system, among other points. A lack of progress on this subject could add to the pressure Chancellor Merz is already under, and pressure Bunds. As it stands, **look to end the European day at a 124.71 base, lower by just over 50 ticks** .

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- **Germany sold EUR 4.630bln vs exp. EUR 6bln 2.50% 2028 Schatz: b/c 1.4x (prev. 1.7x), average yield 2.70% (prev. 2.47%), retention 22.8%.**
- **UK sold GBP 4bln 4.125% 2031 Gilt: b/c 3.36x (prev. 3.33x), average yield 4.651% (prev. 4.228%), tail 0.2bps (prev. 0.3bps).**
- **The Netherlands** sold EUR 2.745bln vs exp. EUR 2-3bln 2.75% 2036 DSL: average yield 3.209% (prev. 2.955%).

COMMODITIES

- **Crude futures** rose as geopolitical tensions escalated and optimism for a near-term US–Iran deal faded. Trump signalled Iran's proposal is unacceptable, and the ceasefire is "on life support", while military options are back on the table. More recently, Trump said there is no rush for an Iran deal, but is just a question of time. **WTI** gained ~4% to the upper end of a USD 98.00–102.13/bbl range, while **Brent** rose ~3.9% within USD 104.23–108.32/bbl.
- **Dutch TTF** was firmer by ~1.4%. Price action was choppy overall but trading around EUR 47/MWh, tracking broader energy strength.
- **Spot gold** softened amid USD strength driven by higher energy prices, hovering around USD 4,700/oz and within a USD 4,679–4,773/oz range. Little move was seen on the US CPI.
- **Base Metals** were mixed, initially pressured by cautious risk sentiment at the time, alongside a firmer USD. Copper held within a USD 13,831.70–13,994.00/t range.
- **China has reportedly** raised fuel surcharge for domestic flight from May 16th.
- **Indian banks resume gold and silver imports after paying a 3% tax, sources say.**
- **Indian Oil Minister** said LPG production has increased.

EUROPEAN DATA

- **EU ZEW Economic Sentiment Index (May) -9.1 vs. Exp. -20 (Prev. -20.4).**
- **German** ZEW Current Conditions (May) -77.8 vs. Exp. -77.5 (Prev. -73.7, Low. -80.0, High. -68.0).
- **German ZEW Economic Sentiment Index (May) -10.2 vs. Exp. -20.5 (Prev. -17.2, Low. -35.0, High. -10).**
- **German Inflation Rate MoM Final (Apr) M/M 0.6% vs. Exp. 0.6% (Prev. 1.1%, Low. 0.6%, High. 0.6%).**
- **German Inflation Rate YoY Final (Apr) Y/Y 2.9% vs. Exp. 2.9% (Prev. 2.7%, Low. 2.9%, High. 2.9%).**
- **Italian** Industrial Production YoY (Mar) Y/Y 1.5% (Prev. 0.5%).
- **Italian** Industrial Production MoM (Mar) M/M 0.7% vs. Exp. 0% (Prev. 0.1%).

NOTABLE HEADLINES

- **UK PM Starmer** said in the "cabinet that he won't discuss the elections or his leadership, and that he will only speak to cabinet ministers about that individually", Times' Kendix reported; after the meeting he refused to meet them individually.
- **UK PM Starmer has asked the Cabinet to come and see him individually, Bloomberg sources state.**
- **UK Cabinet Minister McFadden said no one directly challenged PM Starmer during the cabinet meeting; Kendall said Starmer has her "full support"; Kyle said Starmer provides "steadfast leadership".**
- **"[UK PM] Starmer did not give his critics any chance to speak against him in this morning's meeting", Telegraph's Diver reported.**
- **UK PM Starmer "is reportedly looking for a dignified way of ending all this. But he doesn't want to be seen to be forced out", Mail on Sunday's Hodges reported.**
- **UK Labour Minister Davies-Jones has resigned (the 3rd minister to do so). called on PM Starmer to outline a timetable for his departure.**
- **UK Safeguarding Minister Jess Phillips has resigned from PM Starmer's Government.**
- **UK Labour insiders expect additional ministerial-level resignations today, Daily Mail's Groves reported.**
- **UK Junior Minister Fahnbulleh resigns (the first Ministerial level resignation) and called on PM Starmer to set a timetable for a transition.**
- **Allies of UK Greater Manchester Mayor Burnham state that a timetable of a new Labour leader/PM by end-September would provide Burnham with enough time to return to the House of Commons, Sky's Rigby reported.**
- **UK Transport Secretary Heidi Alexander** is backing plans for Andy Burnham to return to parliament, The Times' Maguire reported.
- **UK Greater Manchester Mayor Burnham has been spotted on a train to London, CityAM's Alencar reported.**
- **UK Greater Manchester Mayor "Burnham's allies say a seat has been lined up for him to stand - with an announcement aimed possibly today", The Times' Kendix reported.**
- **Over 81 Labour MPs have now called for UK PM Starmer to resign, Politics UK reported; "This is officially enough to launch a leadership challenge if they unite behind a single candidate".**
- **Four people with knowledge of conversations involving the UK Cabinet believe some ministers will move today, Politico Playbook reported. As many as six ministers could ask for the PM to outline his exit plans at the Cabinet meeting.**

CENTRAL BANKS

- **Fed's Goolsbee (2027 voter) said April CPI report was worse than expected, worst part is the services inflation.**
- **ECB's Elderson "Boosting prosperity through deeper integration".**
- **ECB's Patsalides said there are scenarios in which the ECB may avoid raising interest rates.**
- **ECB's Nagel said ECB mandate requires to act if inflation expectations de-anchor; "we'll see in June"; baseline includes two rate hikes.**

GEOPOLITICS

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RUSSIA-UKRAINE

- **Russia's President Putin** said work on the Poseidon and Burevestnik systems is in its final stages.
- **Russia has successfully tested a sarmat missile and will be deployed be the end of 2026, IFX reported.**
- **Russian Defence Ministry** said Russian forces continue the Special Military Operation as the ceasefire with Ukraine expired, RIA reported.

MIDDLE EAST

- **US President Trump said 100% we get Iran's nuclear dust.** Fully confident Iran will abandon uranium enrichment and any path toward a nuclear weapon, despite stalled talks with Tehran. US is in direct contact with Iranian officials and is in no rush to reach a deal, while tensions remain high after he called the fragile ceasefire "on life support.". China's strong, but US is stronger than them militarily. Not in a rush for an Iran deal, but is just a question of time.
- **US Pentagon Official** said the Iran war cost is at USD 29bln.
- **US Secretary of War Hegseth** said US has a plan to escalate in Iran, if needed.
- **Satellite monitoring of the ships shows that the tanker carrying Iraqi oil, which had transited the Strait of Hormuz with Iran's permission, has been returned by the US Navy, Fars reported.**
- **Iran State Department spokesperson** said can assure you that its armed forces are prepared for any scenario.
- **"Israeli Channel 12: Estimates in Israel that Houthis [Yemen] launched two drones towards Eilat, Israel", Al Jazeera reported.**
- **"Israeli army: Interception of a drone in the skies over Eilat launched from the eastern direction", Al Hadath reported; Israeli Journalist Kai suggests the launch could've come from Iran, Iraq, or Yemen.**
- **Iranian Foreign Ministry spokesperson said Iran insists on ending the war and reopening the Strait of Hormuz before any nuclear negotiations, ISNA reported.**
- **Iran's ambassador to China said Tehran views its strategic partnership with China as key to countering US pressure and advancing demands for a lasting ceasefire, IRNA reported.**
- **IRGC Navy official Akbarzadeh said Iran has significantly expanded its definition of the Strait of Hormuz strategic zone to include the coasts of Jask and Siri beyond the main islands, Al Mayadeen reported.**
- **Iranian Parliamentary spokesperson said "One of Iran's options in the event of another attack could be 90 percent enrichment. We will review it in the parliament.".**
- **US President Trump posted "No Republican has ever spoken to me about Cuba, which is a failed country and only heading in one direction - down! Cuba is asking for help, and we are going to talk!!! In the meantime, I'm off to China! President ".**
- **QatarEnergy signs MoU for oil and gas exploration offshore Syria; agreement covers technical review by the partners to evaluate the potential of Block 3, offshore Syria.**
- **Taiwan President thanks the US for helping Taiwan strengthen defence capabilities, and said democracy is Taiwan's most precious asset.**
- **Vessel traffic continues under IRGC supervision, IRIB reported; has been about 100 hours since calm was restored in the Strait of Hormuz and no clashes were reported during these four days.**
- **Iranian Foreign Ministry spokesman Baghaei** said "Our armed forces are prepared for any scenario", Al Mayadeen reported.
- **"Kuwaiti media: Infiltrators from the [Iranian] Revolutionary Guard tried to enter the country via the sea", Al Arabiya reported; "intended to carry out hostile acts against the country".**
- **Qatar orders ships at its LNG port to "go dark" under new safety measures.**
- **IRGC Navy deputy said in a recent case, Iranian forces fired warning shots after an American frigate showed "provocative behaviour" in the Strait of Hormuz, prompting it to change course, Fars reported.**

NOTABLE NORTH AMERICAN NEWS

- **US Treasury Secretary Bessent** said he made no request to PM Takaichi regarding monetary policy; in very close contact with Japan's finance ministry and the relationship with it is working well; both believe FX volatility is undesirable. Japan's economic fundamentals are strong and resilient, and that will be reflected in exchange rates. Expects inflation to be a short-term and transient blip. Has great confidence BoJ Governor Ueda will guide the Bank to a very successful monetary policy. PM Takaichi did not make requests about China.

NORTH AMERICAN DATA

- **US CPI Core Goods & Services April (M/M SA, Y/Y NSA) + Supercore.**
- **US Inflation Rate YoY (Apr) Y/Y 3.8% vs. Exp. 3.7% (Prev. 3.3%, Low. 3.3%, High. 3.9%), Unrounded 3.811% M/M.**
- **US Inflation Rate MoM (Apr) M/M 0.6% vs. Exp. 0.6% (Prev. 0.9%, Low. 0.4%, High. 0.9%); Unrounded: 0.640% M/M.** The index for energy rose 3.8% in April, accounting for over 40% of the monthly all items increase.
- **US Core Inflation Rate MoM (Apr) M/M 0.4% vs. Exp. 0.3% (Prev. 0.2%, Low. 0.2%, High. 0.5%), Unrounded: 0.376% M/M.**
- **US Core Inflation Rate YoY (Apr) Y/Y 2.8% vs. Exp. 2.7% (Prev. 2.6%, Low. 2.6%, High. 2.9%); Unrounded: 2.750%.**
- **US ADP Employment Change Weekly 33.0K (Prev. 39.25K).**

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