

## Inflation concerns

## Rates Watch GLOBAL

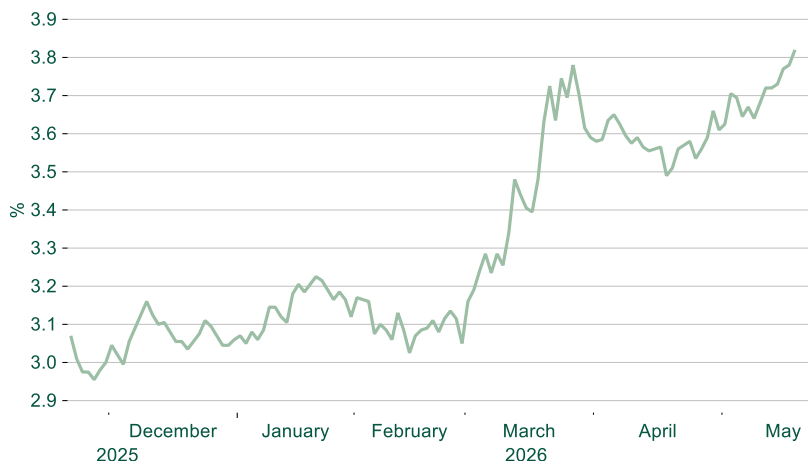
May 2026

- **Inflation concerns are back in the headlines. We expect the Warsh Fed to maintain a wait-and-see stance in the near term, given the uncertain outlook.**
- **China's April data surprised on the downside. However, this is unlikely to be enough to prompt major PBOC easing, given the risk of imported inflation.**
- **HIBOR has rebounded over the past month, supported by improving macroeconomic conditions and fading expectations of near-term Fed rate cuts.**
- **We expect gold to regain momentum later in the year as inflation concerns ease and the policy outlook shifts back towards easing.**

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### Implied US Interest Rates by Dec 2026



Note: data up to late-May 2026  
Source: Macrobond, Hang Seng Bank



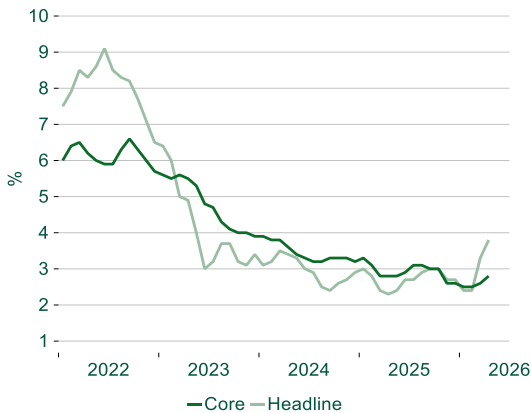
## United States

Major US inflation indicators have risen over the past month, largely reflecting the impact of a spike in energy prices. Headline consumer price inflation climbed to 3.8% in April—the highest since May 2023 (Exhibit 1)—with the energy component alone contributing 1.2 percentage points to the annual rate. Adding to concerns, producer price inflation surged to 6% in April, the largest increase since December 2022. The producer price index (PPI) is often viewed as a leading indicator for consumer prices, as it captures price changes earlier in the supply chain. How much of this pressure passes through to downstream prices will be important to monitor, particularly any spillover into non-energy components.

So far, the pass-through from higher energy prices to other goods and services has remained moderate. Excluding food and energy, core inflation edged up to 2.8% from 2.6%, although part of the increase appears to reflect a statistical distortion linked to issues in housing cost measurement. Beyond core inflation, medium-term inflation expectations have remained broadly stable, helped by a modest easing in geopolitical tensions over the past month (Exhibit 2).

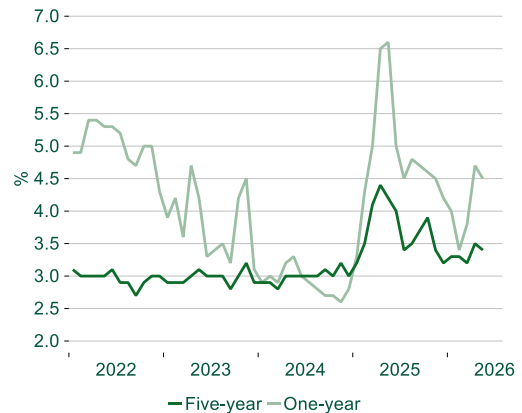
We expect the Warsh Fed to maintain a largely wait-and-see stance in the near term and to avoid signalling a clear policy direction until the inflation outlook becomes more certain.

**Exhibit 1: US CPI inflation**



Note: data up to Apr 2026  
Source: Macrobond, Hang Seng Bank

**Exhibit 2: US Michigan inflation expectations**



Note: data up to May 2026  
Source: Macrobond, Hang Seng Bank



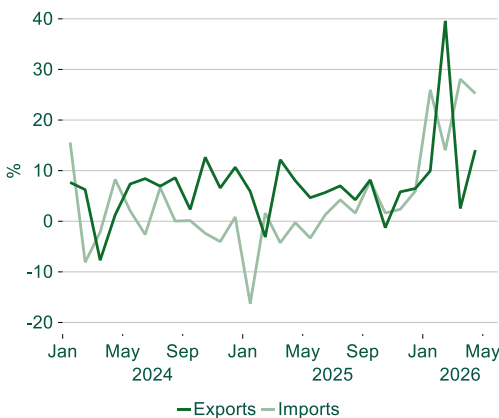
## China

China’s economic performance continues to diverge between the external and domestic sectors. External trade rebounded strongly in April, with export growth accelerating to 14.1% year-on-year from 2.5% in March (Exhibit 3). Robust global demand for electronics and machinery—supported by AI-related investment—has underpinned the strength of China’s external sector, and we expect this tailwind to persist through the year.

By contrast, momentum in domestic sectors has been more subdued. The latest data point to a broad-based loss of pace in April. Retail sales rose just 0.2% year-on-year, the weakest reading since early 2023, as the effects of earlier consumption subsidies faded (Exhibit 4). Fragile consumer sentiment remains a key headwind, further weighed down by geopolitical tensions and inflation concerns linked to higher energy prices. Looking ahead, domestic activity is likely to remain a near-term drag as household and business confidence stays weak, leaving the external sector to do more of the heavy lifting for overall growth.

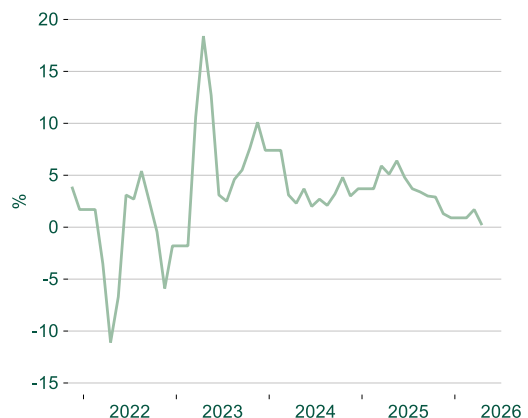
Despite weak domestic demand, we do not expect the PBOC to deliver major monetary stimulus in the near term. While inflation has remained benign in recent months, the risk of imported inflation is likely to keep the central bank cautious about taking steps that could ignite price pressures. That said, if domestic weakness persists, the PBOC may be pushed to act in Q3, once inflation pressures have eased.

**Exhibit 3: China external trade, y/y**



Note: data up to Apr 2026  
Source: Macrobond, Hang Seng Bank

**Exhibit 4: China retail sales, y/y**



Note: data up to Apr 2026  
Source: Macrobond, Hang Seng Bank



## Hong Kong

Hong Kong dollar interest rates have been gradually rising since April, with one-month HIBOR reaching 2.6% in May, up from below 2% in March (Exhibit 5). This rebound is not surprising. As noted previously, the decline in HIBOR during the first quarter widened the Hong Kong–US interest rate differential to a level that has not been historically sustainable.

Looking ahead, we continue to see limited downside risk for HIBOR. First, the US Federal Reserve is likely to remain on hold, with inflation once again the key concern, leaving little scope for an imminent rate cut. Second, a recovery in domestic sentiment and improving asset markets should support demand in the loanable funds market. Recent macro data have been encouraging, with GDP rising 5.9% year-on-year in the first quarter. Hong Kong dollar loan growth has also returned to positive territory after more than two years of contraction, although favourable base effects did play a role. Improving household and business sentiment should further underpin funding demand.

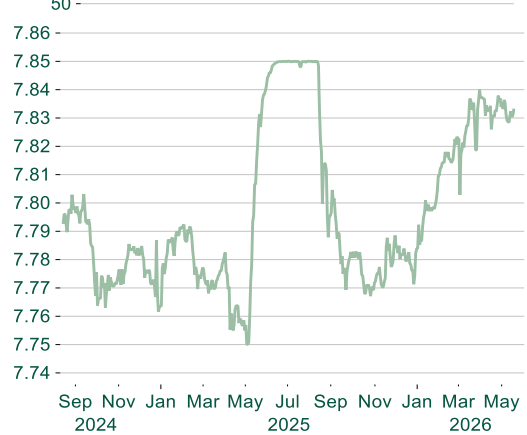
A narrower Hong Kong–US interest rate differential should also reduce carry-trade incentives that previously weighed on the currency, helping to stabilise the Hong Kong dollar and ease upward pressure on the USD/HKD exchange rate (Exhibit 6).

**Exhibit 5: 1-month HIBOR Rate**



Note: data up to late-May 2026  
Source: Macrobond, Hang Seng Bank

**Exhibit 6: USD/HKD**



Note: data up to late-May 2026  
Source: Macrobond, Hang Seng Bank



## Gold

Gold has seen a notable pullback over the past month, retreating from highs above USD 4,700 to around USD 4,500 (Exhibit 7). The decline largely reflects a shift in the macro backdrop, driven by inflation data and changing interest-rate expectations.

Hotter-than-expected inflation prints over the past month have led markets to fully price out the prospect of early rate cuts by the Fed. Traders are now even assigning a meaningful probability that the Fed could raise rates before year-end. In addition, while geopolitical tensions in the Middle East remain elevated, the initial wave of panic buying that lifted gold earlier in the year has faded.

Although near-term sentiment is focused on sticky inflation and rate hikes possibility, we think gold could regain upward momentum later in the year if inflation concerns ease and softer growth shifts the policy outlook back towards easing.

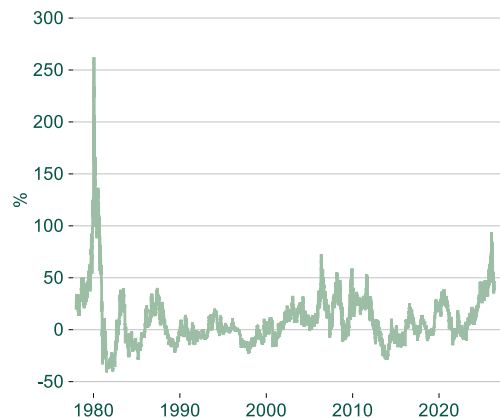
Importantly, despite the recent decline, we don't believe the structural drivers behind gold's multi-year rally have disappeared. Central banks continue to accumulate physical gold to diversify reserves. Elevated global debt, persistent fiscal deficits, and fragile geopolitical alliances suggest gold will remain in demand as a hedge against systemic risk.

Exhibit 7: Gold price



Note: data up to late-May 2026  
Source: Macrobond, Hang Seng Bank

Exhibit 8: Gold price, y/y



Note: data up to late-May 2026  
Source: Macrobond, Hang Seng Bank



### Central Bank Policy Rates Forecasts

(end period)	Apr 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
<b>North America</b>					
US	3.50 – 3.75%	3.50 – 3.75%	3.50 – 3.75%	3.25 – 3.50%	-
Canada	2.25%	2.25%	2.25%	2.25%	-
<b>Europe</b>					
Eurozone	2.00%	2.00%	2.00%	2.00%	-
UK	3.75%	3.75%	3.75%	3.75%	-
<b>Asia Pacific</b>					
China	1.40%	1.40%	1.30%	1.30%	-
Japan	0.75%	1.00%	1.00%	1.25%	-
Australia	4.10%	4.35%	4.35%	4.35%	-
New Zealand	2.25%	2.25%	2.25%	2.25%	-

### Exchange Rates Forecasts

(end period)	Apr 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
<b>North America</b>					
USD / CAD	1.36	1.35	1.35	1.36	-
<b>Europe</b>					
EUR / USD	1.17	1.18	1.19	1.18	-
GBP / USD	1.36	1.35	1.36	1.35	-
<b>Asia Pacific</b>					
USD / CNY	6.82	6.75	6.75	6.85	-
USD / JPY	156.59	152.00	150.00	148.00	-
AUD / USD	0.72	0.71	0.72	0.72	-
NZD / USD	0.59	0.60	0.60	0.59	-

Source: Macrobond, Bloomberg, Hang Seng Bank

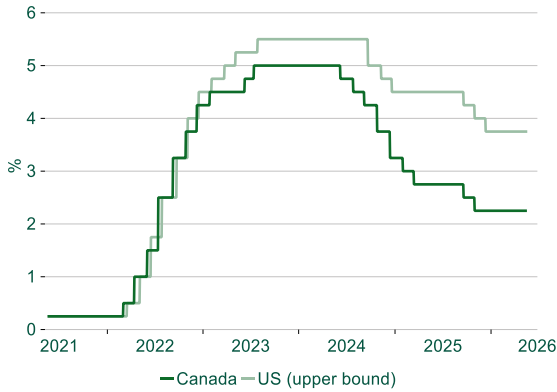
Note 1: China's policy rate refers to 7-day reverse repo rate

Note 2: forecasts by Global Markets, Hang Seng Bank

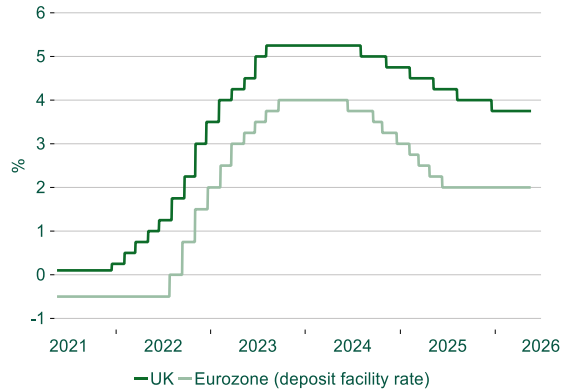


Central Bank Policy Rates

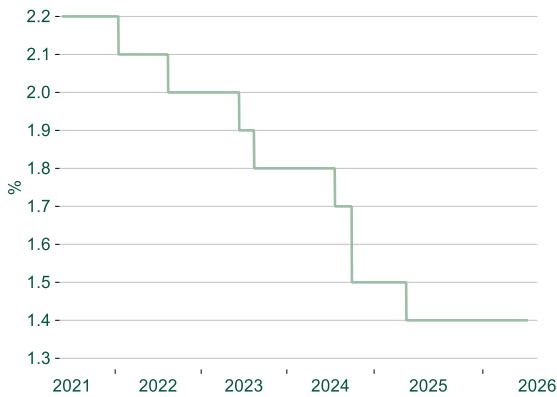
North America



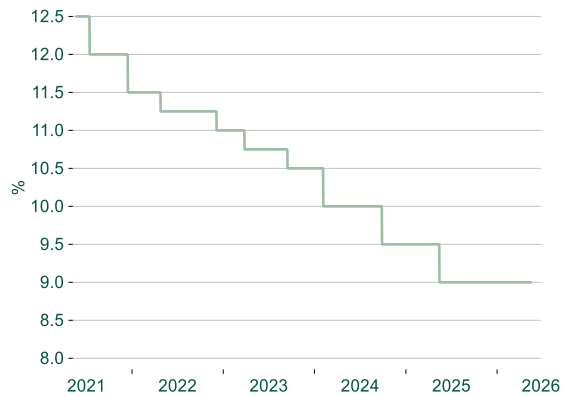
Europe



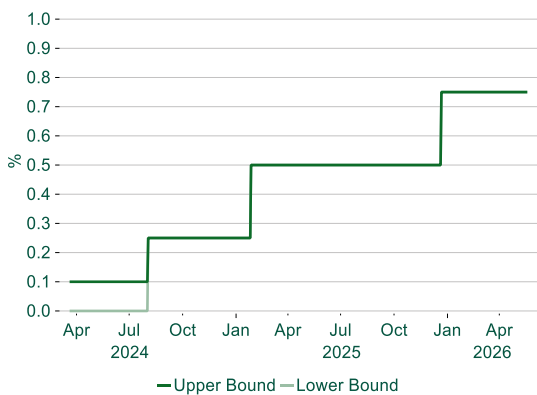
China, 7-Day Reverse Repo Rate



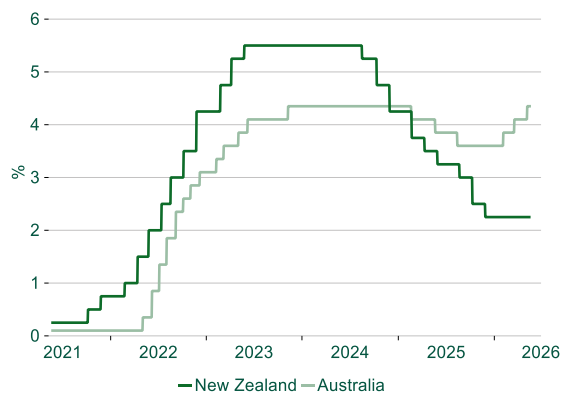
China, Required Reserve Ratio for Large Banks



Japan



Australia & New Zealand

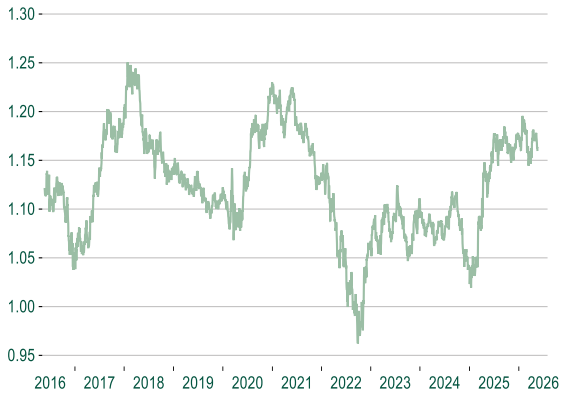


For charts above:  
Source: Macrobond, Hang Seng Bank  
Note: data up to late-May 2025



Exchange Rates

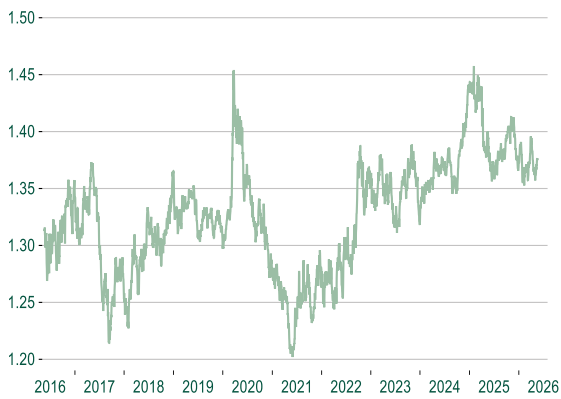
EUR/USD



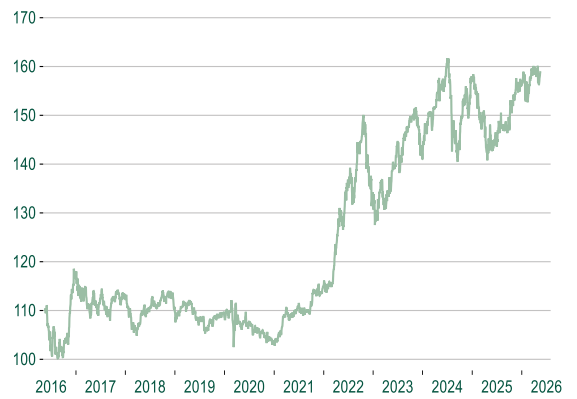
GBP/USD



USD/CAD



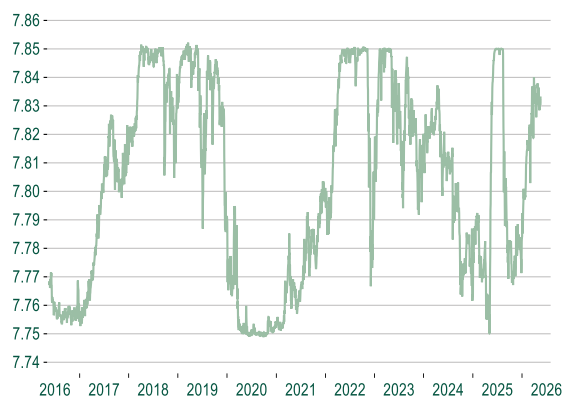
USD/JPY



USD/CNY



USD/HKD



For charts above:  
Source: Macrobond, Hang Seng Bank  
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