NO. 948, 29 JUNE 2026

Sentiment recovery in the eurozone supported by oil price decrease

- After the signing of the Islamabad Memorandum of Understanding between the Islamic Republic of Iran and the United States of America on 17 June, almost 110 days after the outbreak of the conflict, the roadmap towards the final agreement within the next 60 days was agreed during negotiations that were held on 21-22 June in Bürgenstock, Swiss mountain resort above Lake Lucerne. The agreement reached, despite the fact that traffic through the Strait of Hormuz is far from normal, was enough to trigger a drop in oil prices on the markets – previous week ended at 72 USD/bbl, which is a level last recorded just before the conflict started. Price decrease, but not a return to pre-war levels was also recorded with gas that finished the week at 40 EUR/MWh.

Oil price fell to the pre-war level

Although it is certain that the oil supply normalisation will take some time due to several reasons (in the event of a less smooth implementation of the agreement, it could be further delayed), and gas supply will take even longer given the damage to the infrastructure, price decrease had a positive impact on the June business sentiment surveys. Namely, the June surveys showed a recovery in sentiment in the euro area after the de-escalation of tensions in the Persian Gulf. Progress is visible both with consumers and companies, but improvements are overall modest and the confidence level is still below the pre-crisis levels.

PMI survey points to a rebalancing between the service sector — in which less pessimism is noted after a sharp fall in recent months (increase to 48.9 from 47.7 in May) — and the manufacturing industry, which was slightly revised downwards, but remained in the area of expansion (to 51.3 from 51.6), due to, as we've already been announcing, a partial weakening of the restocking process that supported activity in previous months. Subsequently, composite PMI increased by one point, to 49.5. National surveys also showed modest improvements in business sentiment: IFO in Germany (85.6 from 85), INSEE in France (94 from 93) and IESI in Italy (95.2 from 94.2). Consumer confidence has also improved, indicated by a second consecutive monthly increase of the European Commission index (-17.7 from -19), growth expectations in the ECB CES survey and household sentiment in France (84 from 82); confidence decreased only in Italy (92.4 from 93.4). In short, confidence may have reached the bottom, but the effects of higher prices will likely continue to burden economic activity during the summer quarter, before a more visible recovery consolidates in the autumn months. Encouraging signals are also coming from price PMIs, signalling growth slowdown both in input and output prices.

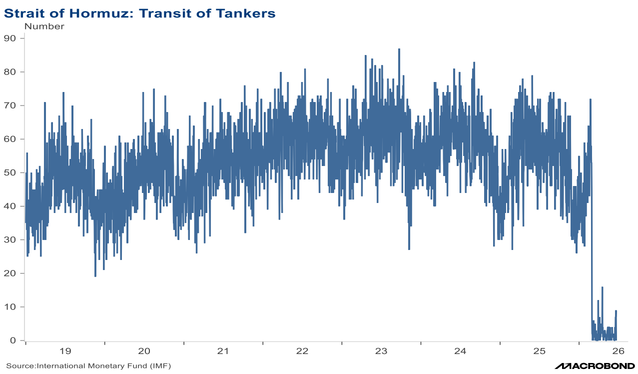
Bottoming out sentiment

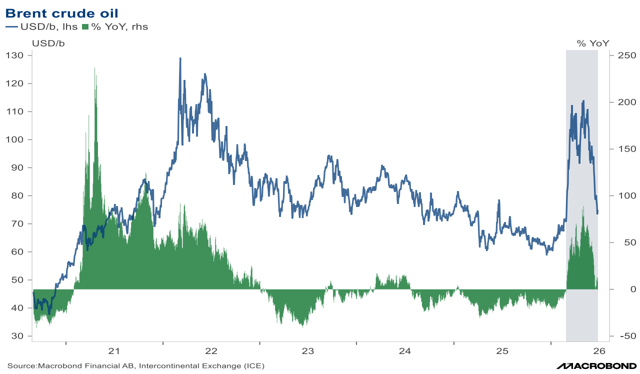
Still, although the peak of direct impact of the energy shock on overall inflation has likely passed, the spillover to non-energy goods and services' prices in the euro zone will likely follow. Namely, price trends of petroleum products at gas stations will also depend on the pace of withdrawal of state interventions (tax reductions) that countries have introduced in the last two months, while the impact on electricity and gas prices is usually delayed by about several months (for now, the impact on the growth of electricity prices is visible only in Italy). The spillover of rising prices of fertilizers and energy products to food prices has a similar and somewhat longer delay, while for services the delay is even longer depending on the degree and type (electricity or gas) of energy dependence. However, while a potential transfer should not be underestimated, the current weakness of demand in the euro area and consequently reduced pricing power of companies are less favourable for a high degree of transfer. Consequently, the Research Department of our parent bank Intesa Sanpaolo is expecting for the average inflation rate in the euro area to be around 2.9% this year, peaking in October (3.6%), while remaining above 3% in the period from August this year to next year's February. Core inflation rate should be 2.5% on average and should also peak in October (2.7%). Accordingly, our baseline scenario still foresees reference interest rate increase to 2.50% in September, with a possible third step in March 2027 - however, we feel that this latest interest rate hike could be deemed unnecessary if, in the meantime, the expansion of price pressures is shown to be less pronounced than feared. Only in the now less probable case of negotiations breakdown and a new blockade of the Strait of Hormuz the target level of official interest rate would be reached quicker and could exceed 3%. (Source: Macroeconomic Outlook, June 2026, Intesa Sanpaolo SpA Research Department)

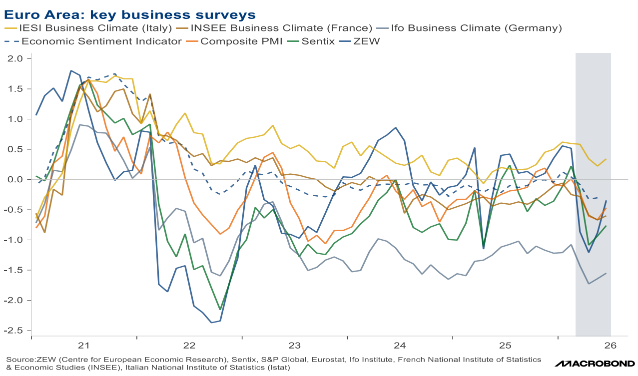
Price increase transfer limited by weak demand

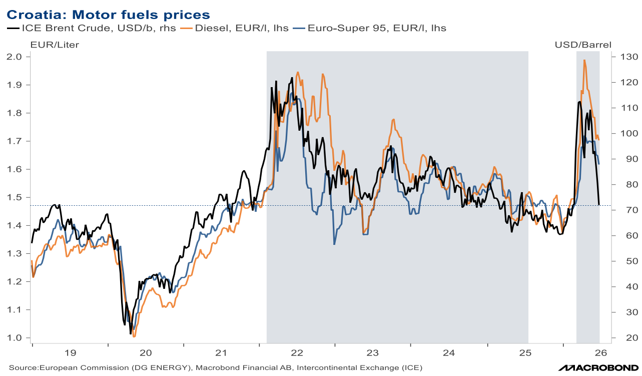
Regarding the trends on the domestic market, we will have inflation flash estimate for June on Wednesday, and it should bring a further weakening of the contribution of energy, i.e., motor fuels to the overall inflation considering that Euro-super 95 joined the decline in diesel prices in June, which was not the case in May. The next day, on Thursday, we will also learn how the residential real estate prices moved in this year's Q1. We recall that the price growth in last year's Q4 was 3.4% q-o-q, i.e., 16.1% y-o-y.

The week brings the publication of June inflation flash estimate and residential real estate price index in 1Q26

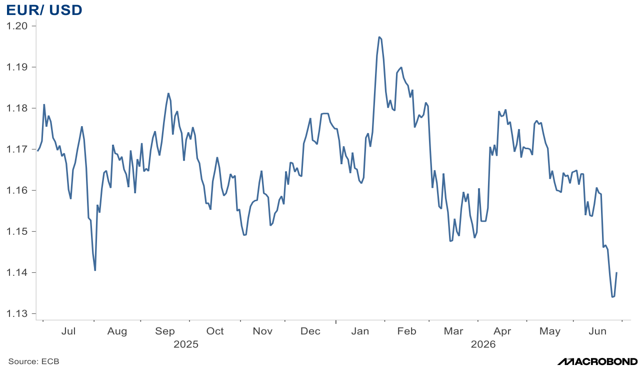


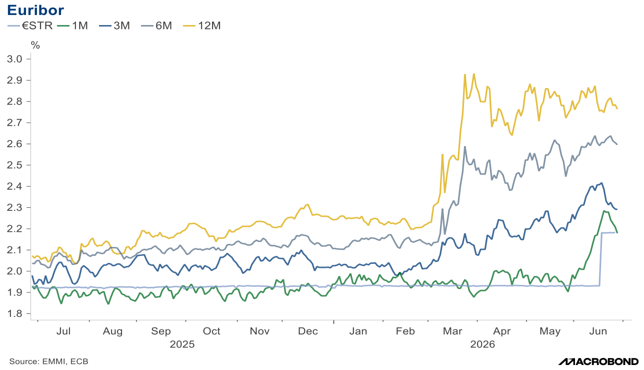


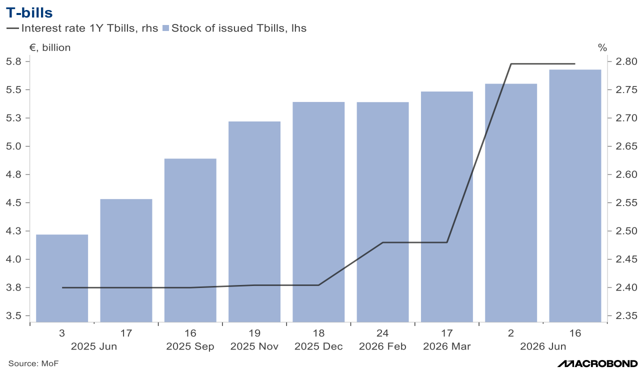


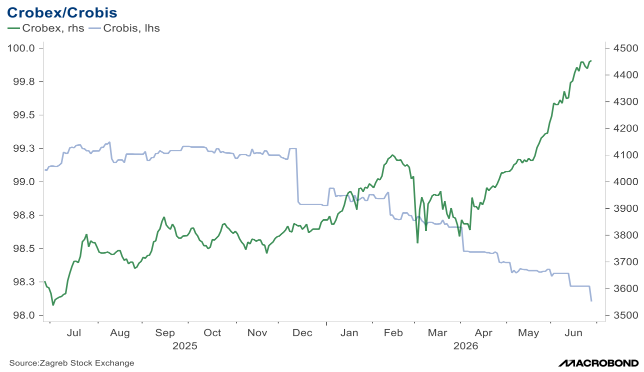


- After the EUR/USD exchange rate fell to its lowest level in the last thirteen months mid-week (1.13 dollars per euro), the dollar slightly weakened towards the end of the week, but despite that, the third consecutive week finished with the US currency up by 0.6% w-o-w, i.e., the exchange rate was 1.14 dollars to the euro.
- Compared to Friday the week before, 3M Euribor finished the week at 2.29%, i.e. -4 bps, while 6M Euribor finished the week at 2.60% and 12M at 2.76% (both -3 bps w-o-w).
- Crobex finished the week at 4,454 points, i.e., +0.1% w-o-w, whereas CROBEXturist, CROBEXkonstrukt and CROBEXtransport recorded growth of 2.8% (to 5,968), i.e., 4.1% (to 1,421, i.e., 1,581), while CROBEXnutris and CROBEXindustry declined by 1.0%, i.e., 0.8% to 851, i.e., 4,052 points.









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