

MASHREQ GLOBAL DIGEST

UK

May 10 – May 16



This edition of the Market Digest highlights UK's latest macroeconomic and financial developments, alongside recent deals and key trends influencing the country's economic outlook.

Macroeconomic News

UK Economy Grows 0.6% in Q1 2026

The UK economy grew 0.6% in Q1 2026, supported by stronger activity in services, production, and construction. However, economists warned that the data mainly reflects the period before the Iran war significantly impacted the global economy, with rising energy prices, inflation pressures, weaker business confidence, and falling job vacancies expected to weigh on growth in the coming months. Political uncertainty has also increased after Prime Minister Keir Starmer faced growing pressure following weak local election results, adding further concerns over the UK's economic outlook.



Reference: [CNBC](#)

UK Inflation Rises to 3.3% in March 2026

UK inflation increased to 3.3% in March 2026, rising above the Bank of England's 2% target as fuel prices, food costs, and airfares continued to climb. Economists say the Iran war has added major pressure on global energy markets, increasing concerns that inflation could remain elevated for longer and potentially delay future interest rate cuts. The Bank of England even warned inflation could reach as high as 6% in a worst-case scenario if oil prices continue surging and supply chain disruptions intensify.



Reference: [BBC](#)

UK House Prices Fall 0.1% in April 2026

UK house prices declined by 0.1% in April 2026 for the second consecutive month as the Iran war and rising interest rate concerns weakened buyer demand. Annual house price growth also slowed sharply to 0.4%, the weakest increase since December, while higher energy prices and borrowing costs continued to pressure the housing market. Analysts warned that political uncertainty and expectations of further rate hikes could create additional pressure on UK property prices in the coming months.



Reference: [Reuters](#)

UK Consumer Spending Falls 0.1% in April 2026

Barclays data showed UK household spending fell at the fastest pace in 16 months, with card spending down 0.1% in April as consumers became more cautious amid fears over the economic fallout from the Iran war. Travel spending dropped 5.7%, airline spending declined 8.3%, while fuel spending surged 10.4% due to higher energy prices, raising concerns over a renewed cost-of-living crisis in the UK.



Reference: [The Guardian](#)

UK Consumer Energy Debt Could Exceed \$9.5B in 2026

Britain is facing a growing energy debt crisis, with consumer energy arrears expected to exceed £7 billion (\$9.5 billion) by the end of 2026 as the government delays a planned relief scheme for vulnerable households. The postponement comes as energy bills are expected to rise again in July, increasing pressure on families already struggling with the cost of living. Industry experts warned that without urgent support measures, rising debt and higher energy costs could deepen financial stress across UK economy.



Reference: [Reuters](#)

Heathrow Passenger Traffic Falls 5% Amid Iran War Fallout

London Heathrow reported a 5% annual decline in passenger traffic in April 2026 as the Iran war disrupted global travel demand. Around 6.7 million passengers traveled through the airport during the month, while transit traffic rose 10% as travelers rerouted flights through Heathrow instead of Middle Eastern hubs like Dubai and Doha.

Reference: [The Guardian](#)

UK Plans \$24B Defense Spending Increase

UK Prime Minister Keir Starmer is expected to approve an £18 billion (\$24 billion) increase in defense spending, marking one of Britain's biggest military spending boosts since the Cold War. The move is driven by rising global security tensions linked to the Iran war and Russia's invasion of Ukraine, although concerns remain over how the government will fund the increase amid rising borrowing costs and political uncertainty.

Reference: [Reuters](#)

Financial News

UK Tightens Rules on £300B Money Market Fund Sector

The UK plans to introduce tougher rules on its £300 billion money market fund sector by the end of 2026 as regulators seek to reduce risks during periods of financial stress. Authorities want funds to hold more liquid assets after the Bank of England warned that sudden investor withdrawals could trigger market instability and amplify broader economic shocks. The move is part of wider efforts to strengthen the resilience of Britain's non-bank financial system amid ongoing global market volatility.

Reference: [Reuters](#)

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UK Regulator Tightens Oversight on \$3.5T Private Credit Market

UK regulators are preparing stricter reporting rules for the \$3.5 trillion private credit industry as concerns grow over risks in the fast-expanding and opaque market. The Financial Conduct Authority may require firms to disclose more detailed data, while the Bank of England warned that limited transparency could trigger a broader loss of market confidence. The move comes as some major private credit managers have already capped investor redemptions for certain funds amid rising market stress and inflation concerns.

Reference: [Reuters](#)



UK 30-Year Bond Yield Hits 5.82%, Highest Since 1998

UK 30-year government bond yields surged to 5.82%, their highest level since 1998, while 10-year yields climbed above 5.15%, reflecting growing investor concerns over Britain's economic and political stability. Markets are increasingly worried about rising borrowing costs, long-term debt pressures, higher inflation linked to surging oil prices and the Iran war, as well as ongoing political uncertainty surrounding Prime Minister Keir Starmer. Analysts warned that UK bond markets are becoming increasingly fragile, with fears that continued instability and slower economic growth could put even more pressure on the economy in the coming months.

Reference: [Reuters](#), [Bloomberg](#), [CNBC](#)

Nearly 40% of Economists Expect UK Rate Hike by End-2026

The Bank of England is expected to keep interest rates at 3.75% this year, although a growing number of economists now expect possible rate hikes as the Iran war pushes energy prices and inflation higher. UK inflation is forecast to reach 3.6% later this year, with nearly 40% of economists expecting at least one rate increase by the end of 2026.

Reference: [Reuters](#)

Deals

India-UK Trade Deal Faces New Steel Hurdle Before Rollout

India's free trade agreement with the UK has hit new challenges ahead of its expected rollout, mainly due to Britain's stricter steel import curbs. The UK plans to reduce tariff-free steel quotas and impose higher duties starting July 2026, raising concerns that Indian steel exporters could lose some of the benefits expected from the trade deal. Both countries are now working on a "creative solution" to resolve the issue and move the agreement forward.

Reference: [Reuters](#)

UK Plans New Legislation to Strengthen EU Ties

Britain plans to introduce new legislation aimed at strengthening economic and political ties with the European Union as Prime Minister Keir Starmer pushes to rebuild relations with Europe. The proposed "European Partnership Bill" would help implement future UK-EU agreements on areas such as trade, energy, and regulations, while still keeping Britain outside the EU single market and customs union. The move comes as Starmer faces growing political pressure and seeks to boost economic growth amid rising instability and global economic challenges.

Reference: [Reuters](#)

Markets

Market Dashboard

- US markets ended the week mixed as rising oil prices, higher Treasury yields, and inflation fears linked to the Iran war increased pressure on equities. The S&P 500 recorded its seventh consecutive weekly gain despite Friday's 1.24% decline, while the Nasdaq and Dow closed lower for the week, with the Nasdaq snapping a six-week winning streak. Markets were also impacted by growing expectations of a possible Federal Reserve rate hike later this year as inflation concerns continued to rise.
- Bitcoin fell below \$80,000 on Friday, trading near \$79,000 as rising US bond yields, higher oil prices, and inflation fears triggered a broader selloff in risk assets. Markets were also pressured by nearly \$1 billion in weekly outflows from US spot Bitcoin ETFs, including \$290 million on May 15 alone, raising concerns that institutional investors may be reducing exposure to crypto.
- Gold prices fell more than 3.7% during the week, hitting a one-week low as rising US Treasury yields and a stronger dollar reduced demand for the precious metal. Spot gold dropped to around \$4,540 per ounce as investors grew increasingly concerned that surging oil prices linked to the Iran war could fuel global inflation and force central banks to keep interest rates higher for longer. Markets also reduced expectations for US rate cuts this year, putting additional pressure on gold prices despite ongoing geopolitical tensions.
- Brent crude oil rose 7.87% during the week to settle at \$109.26 per barrel, while WTI surged 10.48% to \$105.42, as fears of renewed US-Iran escalation increased concerns over supply disruptions in the Strait of Hormuz. Markets remained focused on the risk of further attacks on shipping routes and the possibility of tighter global oil supplies if tensions continue to escalate.
- The US dollar recorded its fifth consecutive daily gain and its strongest weekly performance in two months as rising Treasury yields and inflation fears increased expectations of possible Federal Reserve rate hikes. The dollar index rose around 1.5% during the week, supported by higher oil prices and growing concerns that the Iran war could keep inflation elevated for longer.

Indicators	8-May-26	15-May-26	% Change
S&P 500	7,398.93	7,408.50	0.13%
Bitcoin	80,186.77	79,065.68	-1.40%
Gold	4,714.89	4,540.07	-3.71%
Crude Oil	101.29	109.26	7.87%
EUR/USD	1.1732	1.1631	-0.86%

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