



## Revised rate expectations may give UK housing market a reprieve

*This morning's Rightmove data showing asking prices falling by 0.6% in June, down 0.5% year-on-year, highlights the fragile state of the UK housing market. They follow last week's RICS survey showing a large net majority of UK estate agents reporting falling prices (-35%), new buyer enquiries (-34%) and sales (-37%). The catalyst for the recent deterioration in housing market sentiment has been the events in the Middle East, the rise in oil prices above \$100 per barrel and expectations the Bank of England might raise rates three times to 4.5%.*

*However, the news over the weekend that a more durable US/Iran ceasefire is at hand has pushed Brent crude oil prices down to \$82 per barrel this morning. Similarly, just one 25bp Bank of England rate hike is now fully priced in by markets, pushing UK 2-5 year swap rates down towards 4%. Growing confidence in any peace deal and further falls in oil prices could well persuade markets Bank of England rates are more likely to stay on hold in 2026, helping the UK housing market in the second half of the year.*

### Rightmove index flags further weakness in UK house prices to come

This morning's Rightmove data highlight the fragile state of the UK housing market. Asking prices saw an unusually sharp 0.6% month-on-month fall in June, down 0.6% year-on-year, to £376,000 on average, with the annual inflation rate now at -0.5%. Rightmove attributed this to demand being down 10% on the year, with vendors adjusting their expectations amid more price-sensitive buyers.

The Rightmove data follow weak readings from the key measures of transaction prices. The Nationwide index fell by 0.6% in May, although it remains up 1.7% year-on-year. The Halifax index has fallen for three consecutive months, down 0.1% in May and up just 0.5% year-on-year. Despite these weak data, the UK Treasury's May survey of external forecasts still pointed to 1.5% house price growth through 2026.

### RICS survey also painted a subdued picture for the near-term outlook

Last week's Royal Institution of Chartered Surveyors (RICS) survey for May suggested the UK housing market will remain subdued in the near term. A substantial net majority of estate agents reported falling prices (-35%), new buyer enquiries (-34%), new instructions to sell (-8%), agreed sales (-37%), and three-month sales expectations (-25%).

Notably, the average reported time to complete a sale rose to 21.5 weeks, the longest duration since the data were first collected in 2017. The only apparent silver lining was that most of the headline readings, while negative, showed no deterioration from April's survey. Additionally, 12-month expectations for sales (+2%) and prices (+6%) were more sanguine.

### Expectations for Bank of England rate hikes have hurt housing demand

The clear catalyst for the recent deterioration in UK housing market sentiment has been events in the Middle East, the rise in Brent crude oil prices above \$100 per barrel (pb), and expectations that the Bank of England would be forced to raise rates two or three times towards 4.5%. As a result, 2-year and 5-year sterling swap rates rose above 4.4% in May, pushing average quoted 2-year and 5-year fixed mortgage rates (for 75% loan-to-value mortgages) above 5% (see chart below) and clearly hurting demand from would-be buyers.

### But news of a Middle East peace deal has seen interest rate expectations pared back

However, news over the weekend that a durable US/Iran ceasefire may be at hand has led to a sharp fall in Brent crude oil prices to \$82 per barrel. Rate expectations have also been revised. Just one 25bp hike to 4% is now fully priced from the Bank of England by end-2026. Of course, many commentators, including Bank of England Governor Andrew Bailey, have intimated that rates may well stay on hold at 3.75% this year.

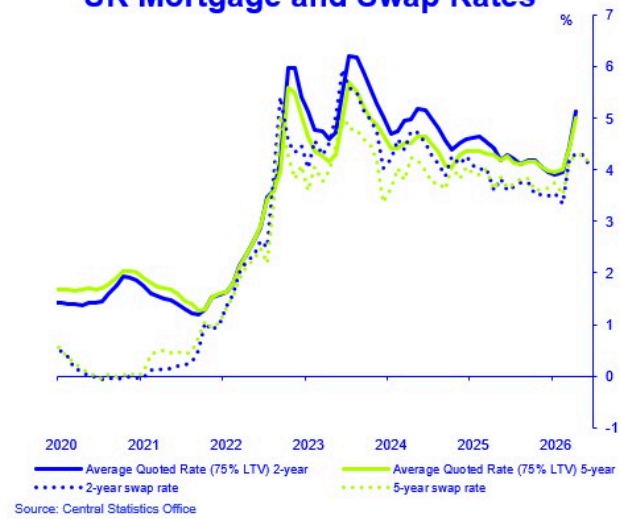
In any case, UK swap rates have already fallen back and are now trading in the 4.0–4.1% range this morning, and could fall further if progress towards a fully completed peace deal continues this week. If so, this could alleviate upward pressure on retail mortgage interest rates, helping the UK housing market in the second half of 2026.

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### UK House Price Inflation



### UK Mortgage and Swap Rates



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