

Global Economic Weekly

Deal of the week

Global Letter: Deal of the week

Another week, another trade deal. This time Japan. As we approach the August 1st deadline, new deals are likely to be announced. Next week Korea? India? EU? Eventually China? The good news is that uncertainty, even though still high, is gradually receding as the pattern seems clear and in line with our structural assumption since day one: Trump wants to strike country-specific comprehensive deals involving trade, defense, immigration and energy. The bad news is that most of the deals validated a base level of tariffs somewhat higher than initially forecasted. This adds upside risk to our inflation forecast and more volatility to our growth forecast.

United States: July FOMC preview: no hard-hats needed

We expect the Fed to maintain maximal optionality at its July meeting. Powell would prefer to see the July data before potentially guiding the markets for September at Jackson Hole. In the presser, markets will be focused on whether Powell underscores the Fed's desire to cut this year, or remains non-committal. On inflation, we think it would be hawkish if Powell emphasizes the risks of additional tariff pass-through, and dovish if he focuses on the stability of services inflation and expectations.

Euro area: ECB review - wait and watch

No cut, reiteration of data-dependent meeting-by-meeting approach and no pre-commitment. We disagree with the hawkish take. We stick to our call of 25bp cut in Sept. By then we think it will be harder for the ECB to claim to be in a good place.

Australia: Macro exposure amid commodity risks

Australia's growth prospects depend heavily on the iron ore and coal outlook. We consider upside/downside price scenarios. Risks skewed towards lower iron ore and coal prices, suggests downside risk for nominal GDP, the AUD, and govt tax revenue. Fiscal buffer due to conservative budget commodity price assumptions suggests A\$2bn additional tax in 2025-26 in baseline.

Emerging EMEA: Central Asia and Armenia trip feedback

Macro remains very strong on continued reforms in Uzbekistan. Political market risks in Armenia may be overstated, policy/macro remains strong and improving. Kyrgyz growth brings structural improvements but vulnerable to external risks (gold/geopolitics) with no contingency planning.

Latin America: Brazil – 5 Fiscal topics + tariffs

Congress brought to debate many relevant issues recently: the income tax reform, taxation over subsidized investments: precatorios PEC, and IOF decree. Overall balance is mixed, there was positive and negative news for the fiscal.

25 July 2025

Economics
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Global Letter

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Another week, another trade deal. This time Japan. As we approach the August 1st deadline, new deals are likely to be announced. Next week Korea? India? EU? Eventually China? The good news is that uncertainty, even though still high, is gradually receding as the pattern seems clear and in line with our structural assumption since day one: Trump wants to strike country-specific comprehensive deals involving trade, defense, immigration and energy. The bad news is that most of the deals validated a base level of tariffs somewhat higher than initially forecasted. This adds upside risk to our inflation forecast and more volatility to our growth forecast.

What can we learn from the Japan deal?

Japan and the US reached a trade deal encompassing 15% tariffs for Japanese exports to the US, including for autos. This is higher than 10% but lower than the proposed rate that was scheduled to take effect on August 1. In exchange, Japan has agreed to invest \$550bn in the US and to open up their local markets to certain US products including automobiles, trucks, rice, and other agricultural products.

Even though we expect deals to be country-specific, the Japan deal looks like a reasonable blueprint for other auto exporter countries like Korea. Japan and Korea share similar trade characteristics with the US: 1) high current account surplus to the US; 2) high US-bound exports, especially auto exports; 3) less open-up of domestic market in terms of non-tariff measures; 4) being a trading partner with the US.

Both had faced a risk of tariffs of 25% effective from Aug 1. If the negotiation goes smoothly, we see more likelihood that a similar deal could be reached between US and Korea. In such a scenario, reciprocal tariff and auto tariff of about 15% would seem likely. Negotiation teams announced a meeting for July 25, maybe this is the next deal in the pipeline.

Simultaneously, the EU is reportedly readying a retaliation on ~\$100bn of US goods should the 30% reciprocal tariff on the EU become effective. However, a serious retaliation plan from the EU would most likely focus on services (financial or digital) and this has not been officially put on the table yet.

Where are we now?

Based on the composition of imports over the last 12 months, we estimate that the effective rate would rise to nearly 16%, above our initial estimate of 10% after the recent sequence of tariffs increases and deals announced (see [Global Economic Viewpoint: Some unpleasant tariff arithmetic: beware stagflation risks](#)).

A roughly 5pp increase in the effective tariff rate would lower the fiscal deficit by about 50bp, not much for a deficit that remains above 6% of GDP, while posing about 30bp of upside risk to inflation and downside risk to growth. Still, with the stagflationary shock possibly extending into 2026, it becomes more likely that the Fed will remain on hold, in line with our out of consensus call. Next week's FOMC meeting will be important to assess the temperature for the very important September meeting.

The other piece of the puzzle for the Fed is the labor market, which will be the focus next week. We forecast 60k for July and more broadly we expect payrolls to gradually move lower towards an average of 50k in 2H25 and 70k in 2026. However, we don't expect a significant increase in the unemployment rate (up to 4.4% in 4Q25), as we



expect most of the drop in payrolls will be driven by supply rather than demand shocks. We estimate the tightening of immigration to lower equilibrium payrolls to 70k, so lower payrolls will not necessarily be associated with more slack in the economy (see [US Economic Viewpoint: From borders to budgets: Disentangling labor supply and demand shocks](#)).



US

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Hawks in ascendance

Complete report: [US Economic Weekly: July FOMC preview: no hard-hats needed 25 July 2025](#)

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- In the presser, markets will be focused on whether Powell underscores the Fed's desire to cut this year, or remains non-committal.
- On inflation, it would be hawkish if Powell emphasizes the risks of additional tariff pass-through, and dovish if he focuses on the stability of services inflation and expectations.

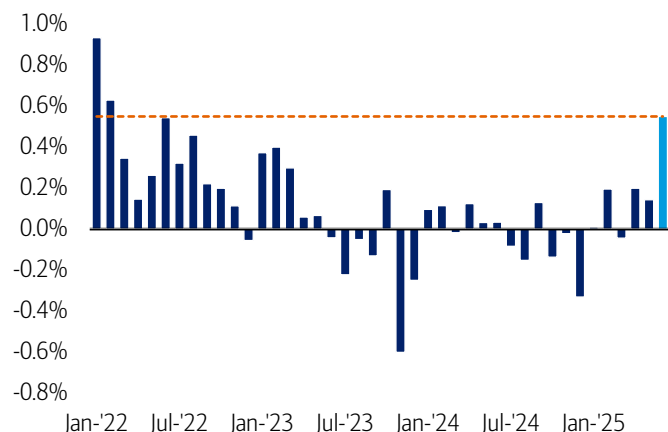
The big picture: on to Jackson Hole

We do not expect any policy changes at the July Fed meeting. Most FOMC participants likely view this meeting as a placeholder. The balance of risks remains the same as in June: to the upside on inflation and to the downside on the labor market. The Fed will have a lot more information on how these risks have evolved by the September meeting. We will get two more jobs reports and CPI/PPI prints, and the preliminary estimate of benchmark payroll revisions, by that time. Therefore, we aren't holding our breath for firm forward guidance in July. Instead we expect Powell to emphasize data dependence and a meeting-by-meeting approach in the press conference.

August's Jackson Hole Symposium further reduces the urgency to guide markets next week. The Fed will have an additional month's worth of data by then. With the benefit of hindsight, it is clear that Powell used his Jackson Hole speech last year to signal the 50bp cut in September. This year, Powell will most likely be speaking on the morning of August 22. Although the focus will be on the framework review, we see a strong chance that Powell will also provide a signal on the near-term policy trajectory.

Exhibit 1: Core goods CPI ex-autos had its strongest month in June since Feb 2022

Core goods CPI ex new and used cars (% m/m)

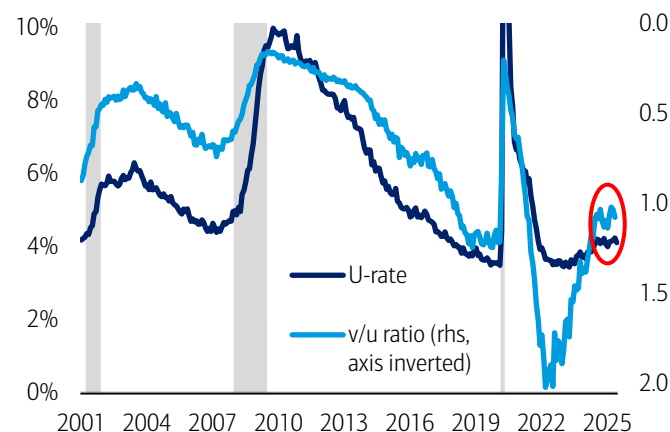


Source: Bureau of Labor Statistics

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Exhibit 2: Since last June, the u-rate has moved from 4.08% to 4.11%, while the v/u ratio has dropped from 1.08 to 1.07

U-rate and v/u ratio



Source: Bureau of Labor Statistics

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Statement: little-to-no change

We don't expect substantive changes to the FOMC statement. Policymakers might choose to simplify the language around uncertainty in the second paragraph to: "Uncertainty about the economic outlook remains elevated." Governor Waller will most likely dissent in favor of a 25bp rate cut. Governor Bowman might dissent as well.

A house divided...

More broadly, we see a growing divide on the committee. Waller and Bowman have tilted dovish, and Daly is still making the case for cutting sooner rather than later. Meanwhile, Williams, Kugler, Bostic adopted a hawkish tone last week, citing evidence of tariff pass-through in the recent inflation data and arguing for the Fed to stay on hold "for some time". Even Goolsbee has been less dovish in recent comments.

...But Powell still controls the message

Besides dissents, we won't get much flavor of the disagreements on the committee at the July meeting until we see the minutes. That's because there is no Summary of Economic Projections this time. Instead, Chair Powell will get to control the message via his press conference.

Will Powell double down or cast doubt on the June dots?

The key question in the presser will be around the near-term rate path. For example, Powell might be asked to validate the median June dot-plot forecast, which showed 50bp of cuts this year. If Powell were to downplay the dots and argue that the Fed is "comfortably on hold" or "in no hurry to cut", markets would view that as hawkish. Powell could use the pickup in PCE inflation in June (with signs of tariff pass-through) and the steady u-rate to support this view. A more dovish answer would be that the committee continues to expect rate cuts to begin this year. Any reference to multiple cuts in this context would be very dovish.

Powell should also get asked, directly or indirectly, about Waller's call to cut in July, particularly if he dissents. In our view, Powell will probably just say that FOMC participants are all entitled to their own views, and diversity of perspectives is healthy. But it would be hawkish if he were to push back against Waller's arguments.

Inflation: glass half full or half empty?

On tariffs, Powell will probably be asked about the pickup in goods inflation (ex-autos) in June. In our view a hawkish response would be to emphasize that he expects more pass-through in coming months (the longer the specified window, if any, the more hawkish the response would be). In a similar vein, Powell might note that the tariffs that have been threatened in the last three weeks create risk of an even more protracted boost to inflation and a longer period of policy uncertainty (which makes it harder for the Fed to act).

A more dovish take on inflation would be that housing inflation is normalizing, inflation in other services remains subdued, and long-term inflation expectations have been stable (with even the UMich survey now looking a bit less concerning). Waller has argued that underlying inflation, ex of tariffs, is close to 2%. We think it's more like 2.5%. But it would be very dovish if Powell were to concur with Waller, as that would make a strong case for imminent cuts.

Labor market: how much slack?

On the labor market, Powell was asked in June about weak hiring and narrowly-based job growth. His response at the time was upbeat/hawkish: he pointed to a low u-rate and decent wage growth. We'd expect a similar response this time around, given that the u-rate fell in June. It will be interesting to see how explicitly Powell discusses supply vs. demand factors in the labor market. Despite slowing job growth, we see little evidence that demand has slowed relative to supply (i.e. that labor slack is increasing, Exhibit 2).



However, it might not be prudent for Powell to lean into this view when the July jobs report is just two days away.

Fed independence: “no comment”

Powell will almost certainly be asked about the reports last week that he might be removed from office. The cost overrun on the renovation of the Fed’s Eccles Building will also probably come up. Powell is likely to refrain from commenting substantively on these issues. Instead we think he will i) reiterate his intention to complete his term, maintaining ambiguity about whether he will step down as a Governor next May, and ii) note that the inspector general is looking into the cost overrun and point to the FAQs that the Fed released on this matter earlier in July.



Euro area

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ECB review: wait and watch

- No cut, reiteration of data-dependent meeting-by-meeting approach and no pre-commitment. We disagree with the hawkish take.
- We stick to our call of 25bp cut in Sept. By then we think it will be harder for the ECB to claim to be in a good place.
- Rates: we think too few rate cuts are priced in. EUR: ECB caution offers some support but little new to see.

Complete report: [Euro Economic Weekly: Wait and watch, 24 July 2025](#)

Still in a (fragile) good place

We had expected the ECB to be on hold this week together with minor fine-tuning in communication. We also thought the ECB would probably want the July meeting to be uneventful and ECB President Lagarde made a good effort at trying to achieve that. Indeed, we did not learn anything new.

But a couple of comments were taken as hawkish by the market. The first was that the ECB is now in wait and watch mode – compared to what we learned from “we are in a good place” back in June. The second was that the ECB would not rule out anything, if the data called for it (when asked about a hike down the line if all goes well on the trade front) – this is the way a central bank operates.

We are left with a central bank that will still be extremely data-dependent, decides meeting-by-meeting and does not pre-commit. And that is why we are still convinced it will end up cutting in September. We think it will be harder by then to claim to be in a good place. The new set of forecasts will likely struggle to keep 2027 inflation at 2% with a stronger currency, real rates that have barely moved after the last cut, and tariffs that are likely to be higher than those included in the ECB projections from June. And, as a reminder, those projections included one more cut and had 2027 inflation barely at 2%.

The December cut will need more than changes in external assumptions, data will need to surprise them. But we still think that, by then, noise in the activity data will have cleared and show plainly an economy that underperforms expectations, as well as revealing weaker core inflation than the ECB expects, leading to another cut.

Trying to get out of a corner

We flag that we were surprised by a few other comments. First, the discussion on the impact of tariffs on inflation took us back a couple of months, when the effect was characterised as clearly uncertain, and the discussion is not fully consistent with the scenarios from the June projections. We would see this week’s comments as an attempt to avoid being cornered ahead of the 1 August deadline, when we are increasingly likely to see higher tariffs than assumed in the ECB’s base case. That would mechanically lead to inflation dropping below 2% in 2027 in the new set of projections in September, based on the scenarios from the June exercise.

But at the same time, any question about the risks of a persistent inflation undershoot today keeps being answered with the fact that 2027 inflation is at 2%. We can’t help but

feel that even if only by a currency move, those forecasts will help centre minds around a cut then.

We go back to a recurring point. We still think that growing concerns about a persistent inflation undershoot in 2H25, together with weak data and ECB forecasts that struggle to show 2% inflation by 2027, will drive two cuts in September and December this year. The next few months will test the ECB's credibility on being symmetric. As we said last week, some of the inconsistencies we see in market pricing, a persistent inflation undershoot in the next 4-5 years together with ECB hikes, could already be reflecting some doubts on that credibility. These dynamics, if exacerbated, have proved costly before in terms of inflation dynamics and the ECB's ability to deliver inflation around target. Lack of action in the next few months could prove to be very costly again. As we have argued before, the German fiscal package reduces the likelihood of a return to the low inflation equilibrium in the region. Tolerating a persistent inflation undershoot could undo that.

Rates: too few rate cuts priced in

While the decision by the ECB to hold its policy rates was widely expected, the market sold off between 3bp and 6bp across the front-end of the EUR rates curve during President Lagarde's press conference. We believe this reflected the hawkish interpretation of President Lagarde stating 1) a tolerance for small deviations in inflation in 2026, 2) an acceptance of some inflation undershooting, 3) that it is fair to describe the ECB as being "on hold". The market now implies a cumulative 7bp, 9bp, and 19bp of cuts by the September, October, and December 2025 meetings respectively.

We believe the market is significantly under-pricing potential rate cuts by the ECB, especially on a potential negative surprise regarding the US-EU trade deal. Furthermore, we would stress the ECB currently forecasts headline CPI to average 1.9% in 2H25, which is meaningfully higher than the 1.5% forecast by our economists. A sufficiently large downward surprise in the July preliminary headline CPI print next week (1 Aug) could also be a catalyst for a repricing of rate cuts by the market.

FX: ECB caution offers some support but little new to see

The FX market read the ECB press conference as slightly hawkish, given President Lagarde's very cautious tone (e.g. wait and see mode, willingness to look through a potentially small inflation undershoot, etc.). We are somewhat surprised more by the market reaction and much less the ECB's steadily cautious tone. Our economists do lean bearish vs markets but were not anticipating any meaningful changes in the ECB communication this week.

ECB aside, we expect the EUR to be driven by trade developments in the near term: press reports of a potential EU-US trade deal may have, if anything, raised somewhat the bar for positive surprises. We would focus on the EUR crosses rather than EURUSD to express our caution on the trade front (and we do favour EURGBP lower). On the domestic data front, next week's 2Q GDP and July CPI prints will be key.

Beyond the near term, we remain broadly constructive on EUR vs USD, JPY, CHF, partly counting on potentially continued rotation into Europe, higher US asset FX hedging ratios, and the European fiscal push, particularly in Germany – which the FX market still somewhat underestimates, in our view

Australia

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Australia: Rock solid? Macro exposure amid commodity risks

Complete report: [Australia Viewpoint: Rock solid? Macro exposure amid commodity risks](#)

Budget windfall due to conservative price assumptions

Iron ore and met coal prices are currently well above the conservative assumptions embedded in the Federal Budget, which assume iron ore will decline to US\$60/t and met coal to US\$140/t. Our commodity strategist iron ore and coal forecasts imply around A\$2bn additional tax in the current financial year 2025-26, increasing in the coming years as our longer-run price forecasts persistently exceed Budget assumptions. Australia's export base is highly concentrated in resource exports. The largest three goods exports – iron ore (24% of exports in 2024), coal (17%) and natural gas (13%) – account for over half of total goods exports.

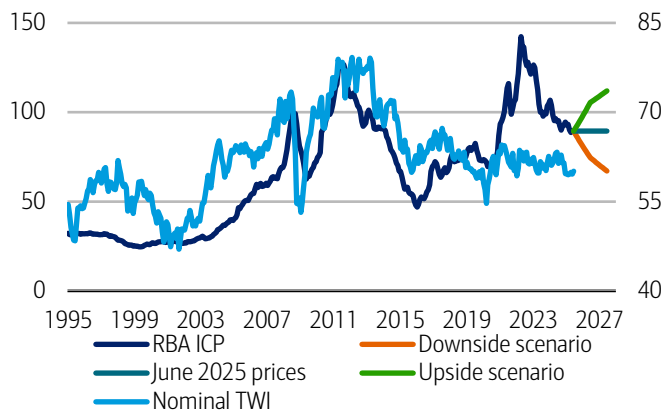
China growth, particularly construction, headwinds pose a downside risk

The global trade shock, particularly spillovers to Chinese crude steel production, pose a downside risk to Australia's exports. Chinese crude steel output declined 9% yoy in May, with some leading indicators, such as excavator production in China, suggesting that output increases are unlikely in the near term.

Construction activity remains the key drag to steel demand, with property sales and new housing starts still declining by 7% and 19% yoy in May. Reduced steel production would dampen iron ore and met coal demand, and poses a downside risk to Australia's key exports.

Exhibit 3: Nominal TWI and commodity price index (export weighted)

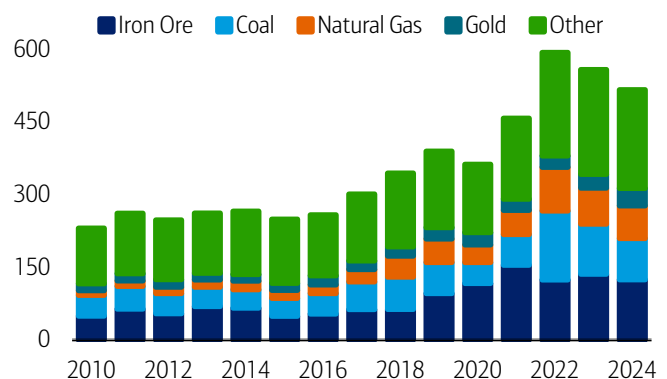
Downside commodity price scenario suggests a fall in the equilibrium TWI



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Exhibit 4: Goods exports (A\$bn)

Iron ore, coal, and natural gas account for around 50% of goods exports



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Iron ore prices remain resilient...

Iron ore prices have been resilient YTD with prices continuing to trade around \$100/t. Our commodity strategists expect increasing surpluses in the global iron ore market will see prices at US\$96/t in 2025 and US\$90/t 2026 (see our Global Metals report [Iron ore withstands tariffs but needs a booster](#)). While we are expecting prices to fall, our forecasts suggest large upside relative to Federal Budget projections which assume iron ore prices decline to US\$60/t by 1Q26 (around 40% below current price levels).



...while coal prices under pressure

Coking coal prices have been under pressure of late and while our commodity strategists expect some support may emerge going into 4Q25 from restocking in India, softer fundamentals should cap potential upside from here, unless significant production cuts are pushed through (see our Global Metals reports [Met coal has a China problem](#)). This also suggests large upside relative to conservative Federal Budget projections which assume met coal prices decline to US\$140/t.

Mines to main street: commodity price transmission

In addition to driving nominal incomes, the ToT (terms of trade) are a fundamental determinant of the AUD over the medium/long term. When the ToT rise, Australia receives more income for the same volume of exports, which increases demand for AUD and thereby supports the exchange rate.

The relationship between the AUD and commodity prices has shifted over time and depends on the source of the underlying shock. When commodity prices are driven by persistent shifts in demand which are more likely to flow through to investment decisions, this tends to flow through to the AUD.

Macro sensitivity to export price shocks

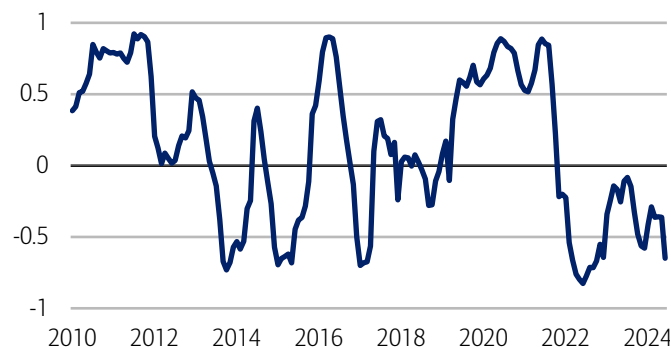
We consider three scenarios to analyze the AUD and government tax sensitivity to an export price shock:

- **Downside:** 25% fall in export prices through to mid-2027. This would continue the trend in export prices observed since mid-2022 and bring export prices to around their pre-pandemic level.
- **Upside:** 25% rise in export prices through to mid-2027, which would see export prices return to early 2023 levels.
- **June 2025 prices:** assume export prices remain at current levels.

The RBA's TWI model suggests a 25% export price fall would lower the equilibrium real AUD TWI around 10%, and vice versa for an export price rise (assuming no change in yield differentials).¹ The lower AUD in response to a downside commodity price shock plays a key role absorbing the shock and supporting the economy.

Exhibit 5: Rolling 12-month correlation between iron ore prices and global trade

There is no clear-cut relationship between iron ore and global trade

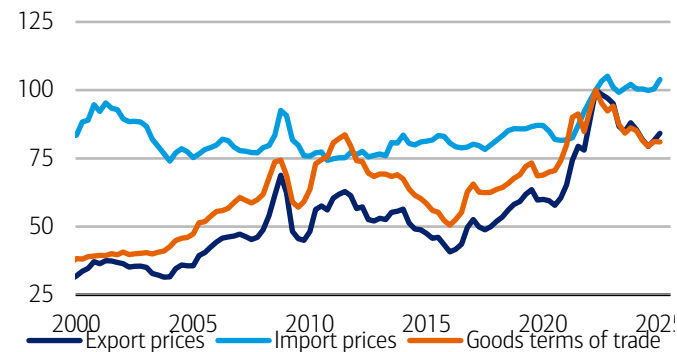


Source: Bloomberg

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Exhibit 6: Goods trade deflators and terms of trade (index)

Export prices drive most variation in the terms of trade



Source: ABS

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Budget buffer in the short-term masks longer-term challenges

While conservative commodity price assumptions often lead to short-term upside surprises, they can reduce the pressure on governments to pursue fiscal consolidation to

¹ <https://www.rba.gov.au/publications/bulletin/2018/dec/pdf/a-forward-looking-model-of-the-australian-dollar.pdf>



address underlying structural deficits. We expect fiscal sustainability will become increasingly important given structural trends – productivity, demographics, geopolitics, climate change – underway skew medium-term risks towards larger deficits and debt.

Emerging EMEA

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Kyrgyzstan, Uzbekistan & Armenia trip feedback – growth and some reforms

Complete report: Emerging Insight: CIS: Central Asia & Armenia trip feedback – growth and some reforms 24 July 2025

CIS in focus: Central Asia and Armenia trip feedback

We visited Kyrgyzstan, Uzbekistan and Armenia last week to talk to government and Central Bank officials, local and foreign experts as well as to the main issuers. All three are showing robust growth, although due mainly to supportive external factors. Much higher UZS volatility may be an important new feature of the Uzbekistan macro/market case as a step towards a more market-based FX regime. (Geo)political market risk remains highest in Armenia, although maybe not as high as we earlier thought. The main concern in Kyrgyzstan is the lack of contingency planning for the eventual reversal of external support factors. Approaching elections may further narrow the room for fiscal consolidation.

Uzbekistan: ratings and UZS on the move

The feedback from Uzbekistan remains consistently positive with continued robust economic growth and fairly credible reform momentum. Both these factors continue to improve the overall market case by limiting fiscal risks and increasing resilience to potential shocks. We also note rising UZS volatility as a sign of a long-awaited shift towards greater exchange rate flexibility, which we view such as one of important structural reforms as well. All of this, we think, should keep the country on a steady rating-upgrade path, at least in the near future.

Economy well into overheated territory

Uzbekistan reported strong 7.2% yoy real GDP growth in 1H25, whereas most of the experts during the trip argued that potential is around 6%. With rather resilient core inflationary pressures, this does seem to indicate that the economy is now running above potential. Most experts expect growth to slow in the near future, which should bring general normalization and inflationary pressures. However, current growth rates will most likely continue to keep the policy rate around its current level at least for now.

Fiscal policy: proper adjustment unlocks resources

The energy tariff reform initiated from 2023 is widely viewed as highly successful, which keeps energy tariffs on track for full cost recovery. The deadline for the latter is set for 2030 but is most likely to be reached within 2-3 years. The reform has helped to drastically reduce the level of state energy subsidies, which freed up substantial fiscal resources and allowed for broader fiscal consolidation. Thus, the budget deficit is expected to stay around 3% of GDP target over the next several years, as the risk of a potential fiscal slippage declines.

Gold: enough for decades to come

Uzbekistan's key producing asset is reported to have enough reserves to produce at the current level for over 30 years, as production has room to rise further over the next several years. Metal production also remains the core source of income, as the budget consolidates the bulk of sectoral profits through royalties, corporate profit tax as well as dividends from the state's stake.

Some cushions are in place

High fiscal dependence clearly keeps the entire Uzbekistan macro case quite vulnerable to hypothetical correction in gold prices. However, we also note that average production costs of the key asset are less than \$1,000/tr. oz., whereas the budget persistently uses



a very cautious gold price assumption (i.e. \$2,250/oz) for budgeting in an attempt to reduce such dependence. As a result, the country appears to have a notable cushion against the potential correction of the latest gold price rally.

Ratings: IG goal renewed

With most critical fiscal issues largely dealt with through energy tariff reform, the officials are now quite focused on improving sovereign ratings. The achievement of an investment-grade rating by 2030 was mentioned as an official target for the country during the trip. Fitch raised the country's rating to BB last month, while two other agencies raised the rating outlook earlier in the year – S&P in May and Moody's in June. We agree that Uzbekistan's macro remains consistent with a much higher credit rating vs its current BB-/Ba3/BB and we expect a full rating upgrade to BB within the next several quarters. However, further upgrades will likely require notable progress with the implementation of structural reforms, with an aim to improve effectiveness of governance and institutional quality, etc.

UZS: regime change after all

We think the surprising increase in UZS volatility in 2Q25 is the most interesting new feature of the Uzbekistan macro. We always viewed controlled gradual UZS depreciation as one of the biggest vulnerabilities of the entire Uzbek macro case. Thus, this policy keeps the regulator engaged with the FX market, which distorts local debt and money market valuations, while also keeping currency vulnerable to arbitrary policy changes. Therefore, we think steps towards greater currency flexibility could bring a number of structural benefits, like more market-based UZS, local debt and money market valuations, normalization of UZS liquidity flows with the resulting stabilization of inflationary pressures, as well as a broader deepening of the national financial system.

Done with the long-term 4-5% trend?

We also think the currency will likely remain under Central Bank control, at least until it is the main buyer of the country's gold output. The scale of associated UZS inflows and related FX sales will likely continue to dominate the market even if the Bank were to fully shift to a flexible exchange rate regime. Nevertheless, the UZS should now be driven more by fundamental factors than directional policy. In the conditions of high gold prices and continued corporate issuance, we think that it could allow the currency to stay away from its historical 4-5% annual depreciation trend, at least for some time. Thus, the domestic consensus is that UZS valuations are now close to levels justified by the market/macro.

Reforms: a lot of work in progress, but credibility is high and rising

Structural reforms remain at the core of the Uzbekistan macro and market case as they are still the key drivers of economic growth as well as rating improvements. The country continues to be vulnerable to underlying issues like the legacy asset quality problem in the banking sector, contingent government liabilities, low efficiency, and poor corporate governance as the energy shortage is widely quoted as the key growth constraint. However, most of these issues are now increasingly being addressed, as their importance/urgency fades with high growth. Thus, apart from energy tariffs and notable changes in the FX regime, we note that despite major delays in the banking sector, the country continues its privatization program through the sale of other assets. The regulator is also intensifying pressure for a gradual internalization of the legacy asset quality issue in the banking sector, with greater recognition of problem assets, etc.

Latin America

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Brazil: 5 Fiscal Focus Fronts (+ bonus topic)

Complete report: [Emerging Insight: Brazil: 5 Fiscal Focus Fronts \(+ bonus topic\)](#)

Brazil's fiscal policy landscape is currently shaped by a combination of domestic reforms, legal disputes, and external trade developments. Here we present an overview of the five most critical fiscal topics under discussion in Congress and across branches of government. These issues have the potential to significantly affect the fiscal balance, public spending dynamics, and investor confidence in the months ahead.

The administration is not expected to revise down the 2026 fiscal target (of a surplus of 0.25% of the GDP) when submitting the budget to congress at the end of August. The economic team will try to stretch fiscal room to avoid the need for spending cuts in an election year. In his favor, President Lula's leverage in congress is aided by a recovering approval rating, driven by an effective "tax the rich" campaign, falling food inflation, and a nationalistic surge following tariffs introduced by US President Donald Trump.

1. Income Tax Reform (PL 1087/2025)

Deemed the main priority for Lula's administration, the income tax overhaul advanced a key stage a couple of weeks ago when, Arthur Lira, the rapporteur of the income tax reform bill, published his report of the bill (1087/2025). The centerpiece of the proposal is an increase in the monthly exemption threshold from R\$2,640 to R\$5,000, effectively removing millions of taxpayers from the tax base. Additionally, a simplified deduction mechanism would apply to those earning up to R\$7,350. The bill also restored relief for high-income earners when combined corporate and personal income tax rates exceed 34 percent, maintained a 10 percent levy on dividends sent abroad (with exceptions for foreign governments, sovereign wealth funds, and foreign pension funds), preserved a 10 percent tax on dividends received by individuals who earn more than R\$ 50,000 per company, and sustained the exclusion of incentivized securities from the high-income tax base.

This reform is both fiscally and politically relevant. It is expected to carry a short-term revenue cost—estimated at R\$18–25 billion— to be partially offset by dividend taxation. Politically, it fulfills a campaign promise and is seen as a key deliverable ahead of the 2026 elections. The proposal was approved by a special committee last week (16) and is likely to be voted on by the full Lower House in August, with implementation potentially starting in 2026. If approved, the reform would have clear implications for personal consumption, savings, and fiscal redistribution.

2. IOF Legal Dispute

On July 16th, Supreme Court (STF) Justice Alexandre de Moraes validated most of the IOF decree issued by Lula on June 11th, with the exception of forfeit ("risco sacado") operations. With rules beginning to be effective immediately, the IOF over credit and currency operations, as well as large contributions to VGBL private pension funds, increased. As such, the administration will retain most of the anticipated revenue from the updated IOF, with projected receipts of R\$12 billion in 2025 and R\$31 billion in 2026. These amounts will be included in the bimonthly budget report on 22 July, lessening pressure for further budget freezes or reductions.



On one hand, the removal of the risk of IOF over forfeit was positive for the productive sector. On the other hand, the validation of the tax over other transactions is negative, as it steers Brazil away from the good taxation practices according to the OECD.

Moraes' decision needs to be validated by the court, but decisions made by solo ministers are rarely challenged by the rest of the court. The voting will take place after the mid-year recess of the STF, which ends on July 31st.

The ruling strengthens President Luiz Inácio Lula da Silva's position in negotiations on Provisional Measure 1303.

3. Provisional Measure 1303/2025

In an effort to compensate for the (then) failed attempt to raise the IOF tax, Lula's administration introduced Provisional Measure (MP) 1,303 as a new fiscal package to boost revenue. The measure includes a combination of tax increases and spending cuts aimed at improving Brazil's fiscal outlook, particularly in 2026.

MP 1,303 includes a series of tax measures estimated to generate R\$ 10.6 billion in 2025 and R\$ 20.9 billion in 2026, mainly through:

- Limiting tax compensation credits: Immediate fiscal impact (R\$ 10 billion/year), but likely to face legal challenges;
- Raising the CSLL (Social Contribution on Net Profit) rate for financial institutions (R\$ 1.7 billion in 2026);
- Increasing taxation on fixed-odds betting from 12% to 18%;
- Eliminating deductibility of interest on equity (JCP);
- Ending tax exemptions on fixed-income securities, such as LCAs and LCIs.

Despite the significant revenue potential, congressional opposition-particularly from the agricultural and construction caucuses-makes the removal of fixed-income exemptions highly unlikely. These sectors argue such instruments are vital to sectoral financing and economic development, and the resistance is shared broadly across Congress.

The government will likely need to negotiate carve-outs or soften the scope of certain measures to secure passage before the MP expires in October (provisional measures have to be voted in Congress in up to 120 days after publishing). The outcome will determine whether the fiscal trajectory can remain credible without further expenditure cuts or tax increases. If the MP is materially diluted or rejected, market confidence in the 2026 fiscal target could deteriorate.

4. Court-Ordered Payments Reform (PEC 66/2023)

President Luiz Inacio Lula da Silva's administration reached an agreement with congressional leaders on a new provision to Constitutional Amendment Proposal 66/2023, challenging Congress' schedule in the last working week before recess.

The proposal institutes more favorable debt payment rules for subnational entities, such as states and municipalities. Most importantly, lawmaker Baleia Rossi included in his latest report a solution for court-ordered debt payments (precatorios) rising cost for federal government starting in 2027, and reducing fiscal risks in the near term by removing any provision that would artificially allow for more spending in 2026.

The precatorios were removed from the spending limit, and the cap was reduced by the total value of precatorios that were removed. In theory, this should generate no fiscal room for more expenses. However, due to specific wording in the law, there was the opening of R\$12bn for mandatory expenses to be incorporated in the 2026 budget.

With respect to the primary target, starting in 2027, only 10% of the amount spent with the payment of precatorios will be accounted for in the primary result. This will increase

by 10% each year, leading to their full incorporation to the primary result in 2036. In 25' and 26', about half of the precatorios' values were accounted for in the primary result.

PEC 66 creates adverse incentives for subnational entities' public finances and delayed the solution for the precatorios issue. At the same time, it reduces the uncertainty that large and volatile precatórios introduce into public accounts, by smoothing payment flows and reducing the likelihood of fiscal shocks. The approval of the PEC could open additional space for discretionary spending and investment in priority areas in the years to come. Nonetheless, if approved, it would represent a significant step toward modernizing Brazil's liability management framework and increasing fiscal predictability.

5. VAT Regulation (PLP 108/2024)

As part of the broader tax reform passed in 2023, Brazil is transitioning to a dual VAT model comprising the CBS (federal contribution) and IBS (state and municipal tax). PLP 108/2024 is the enabling legislation that provides the critical operational framework for these taxes, including credit mechanisms, transition rules, incidence norms, and intergovernmental transfers.

The bill was approved by the Lower House in June 2025 and is now under review in the Senate. Its approval is essential to keep the implementation schedule on track - with the dual VAT system scheduled to begin operating in parallel with the current system starting in 2026 and a full transition by 2033.

From a fiscal standpoint, this legislation has far-reaching implications. It defines the allocation of tax revenues across different levels of government and sets the basis for the new compensation and equalization mechanisms between states and municipalities. The reform also aims to reduce tax complexity and litigation, improving transparency and compliance. In the medium term, this could enhance revenue collection and support more stable intergovernmental fiscal relations.

6. (Bonus topic) U.S. Tariffs on Brazilian Exports

In an unexpected development with geopolitical and fiscal ramifications, US President Donald Trump announced a 50% tariff on all Brazilian exports as part of a broader "America First" trade policy platform. The move, framed under Section 301 of U.S. trade law, accuses Brazil of unfair trade practices and is scheduled to take effect on August 1, 2025.

Although the direct fiscal impact of the tariffs is expected to be modest in the short term-most affected exports are commodity-based and subject to relatively low domestic taxation-there are broader risks. Prolonged disruption in trade flows could reduce customs revenues and weigh on GDP growth. If Brazil opts for retaliatory measures, such as suspending U.S. intellectual property protections, the conflict could escalate and harm cross-border investment and tax receipts from multinationals operating in both countries.

At this stage, the strategy is to contain immediate damage while preserving room for negotiation. However, if diplomatic efforts fail, the government may need to revise macro and fiscal projections to reflect a less favorable external environment.



Key forecasts

Exhibit 7: Economic forecasts

GDP growth, inflation and policy rate forecasts for the major economies

Economic forecasts

	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2025F	2026F	2027F
Global and Regional Aggregates, %											
United States											
Real GDP growth ¹	-0.5	2.3	1.0	1.6	1.6	1.7	1.7	1.8	1.6	1.6	1.9
CPI inflation	2.7	2.5	2.9	2.8	2.4	2.6	2.2	2.1	2.7	2.3	2.3
Policy Rate (EoP)	4.38	4.38	4.38	4.38	4.38	4.38	3.88	3.38	4.38	3.38	3.38
Euro area											
Real GDP growth ¹	2.5	-1.0	0.1	0.5	1.3	1.5	1.6	1.5	0.9	0.9	1.4
CPI inflation	2.3	1.9	1.6	1.4	1.2	1.5	1.7	1.7	1.8	1.5	1.8
Policy Rate (EoP)	2.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	2.00
China											
Real GDP growth ²	5.4	5.2	4.5	4.0	4.1	4.1	4.5	4.4	4.7	4.3	4.1
CPI inflation ³	-0.1	-0.2	-0.5	0.0	0.5	0.7	0.9	1.0	-0.2	1.0	1.5
Policy Rate (EoP)	1.50	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Japan											
Real GDP growth ¹	-0.2	-1.1	-1.7	1.1	1.3	1.6	1.6	0.5	0.4	0.8	0.7
CPI inflation	2.8	3.1	2.3	1.7	1.8	2.1	2.6	2.7	2.7	2.3	2.0
Policy Rate (EoP)	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	0.50	1.00	1.50
Global Aggregate ⁴											
Real GDP growth									3.0	3.0	3.3
CPI inflation									2.4	2.6	2.6
Policy Rate (EoP)									3.9	3.5	3.5
Emerging Markets Aggregate ⁴											
Real GDP growth									4.2	4.2	4.3
Real GDP growth (ex-China)									4.0	4.1	4.4
CPI inflation									2.4	3.0	2.9
Policy Rate (EoP)									4.7	4.2	4.1

Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only.

Source: BofA Global Research

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Exhibit 8: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2025Q3	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4
Exchange Rates (EoP)							
EUR/USD	1.18	1.16	1.17	1.17	1.18	1.19	1.20
USD/JPY	147.1	152	155	152	148	148	148
USD/CNY	7.15	7.10	7.10	7.00	6.90	6.80	6.80
GBP/USD	1.35	1.38	1.41	1.43	1.44	1.49	1.52
Interest rates (% EoP)							
US 10yr	4.40	4.40	4.50	4.50			4.50
Bunds 10yr	2.70	1.95	2.05	2.05			2.00
Japan 10yr	1.61	1.40	1.50	1.65	1.70	1.80	1.85
Commodities ¹							
Oil - Brent (\$/bbl)	69.2	61.0	66.0	68.0	70.0	70.0	72.0
Oil - WTI (\$/bbl)	66.1	57.0	62.0	64.0	66.0	66.0	68.0
Gold (\$/oz)	3369.3	3500	3750	3750	4000	3750	3500
Equities (EoP)							
S&P 500	6363		5600				
Stoxx 600	552		500				

Source: BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 9: Global Economic Forecasts

Global GDP growth expected at 3.0% in 2025

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	Current	2025F	2026F	2027F
Global and regional aggregates												
Global	3.2	3.0	3.0	3.3	3.1	2.4	2.6	2.6	5.20	3.93	3.49	3.55
Global ex US	3.3	3.3	3.3	3.5	3.1	2.4	2.6	2.6	5.39	3.84	3.51	3.58
Global ex China	2.7	2.5	2.7	3.0	4.0	3.2	3.1	2.9	5.82	4.71	4.14	4.23
Developed Markets	1.6	1.2	1.3	1.6	2.7	2.4	2.0	2.1	3.03	2.84	2.45	2.67
Emerging Markets	4.3	4.2	4.2	4.3	3.4	2.4	3.0	2.9	6.88	4.71	4.21	4.14
Emerging Markets ex China	3.9	4.0	4.1	4.4	5.5	4.2	4.3	3.9	9.32	6.95	6.11	6.01
Europe, Middle East and Africa (EMEA)	1.4	1.6	1.9	2.2	5.4	4.0	3.2	3.0	7.65	4.53	3.96	4.01
European Union	1.1	1.2	1.3	1.8	2.6	2.1	1.8	1.9	2.38	1.97	1.84	2.29
Emerging EMEA	2.3	2.8	3.3	3.4	12.9	8.7	7.0	5.9	17.60	10.64	8.79	7.98
Emerging Asia	5.2	4.9	4.7	4.8	1.7	1.1	2.2	2.3	3.64	2.82	2.79	2.92
ASEAN	5.0	4.5	4.6	4.6	2.3	1.9	2.4	2.5	4.20	4.00	3.77	3.75
Latin America	2.1	2.2	2.1	2.3	4.3	4.5	3.7	3.6	10.58	10.33	8.45	8.06
G6												
US	2.8	1.6	1.6	1.9	3.0	2.7	2.3	2.3	4.4	4.38	3.38	3.38
Euro area	0.9	0.9	0.9	1.4	2.4	1.8	1.5	1.8	2.0	1.50	1.50	2.00
Japan	0.1	0.4	0.8	0.7	2.7	2.7	2.3	2.0	0.5	0.50	1.00	1.50
UK	1.1	1.2	1.3	1.5	2.5	3.2	2.2	2.0	4.3	3.75	3.50	3.50
Canada	1.5	1.4	1.5	2.2	2.4	2.0	1.9	2.1	2.8	2.00	2.00	2.00
Australia	1.0	1.6	2.2	2.3	3.2	2.6	2.8	2.5	3.9	3.35	3.35	3.60
Euro area												
Germany	-0.2	0.1	0.7	1.5	2.5	2.2	1.5	1.7	2.0	1.50	1.50	2.00
France	1.1	0.4	0.7	1.3	2.3	0.9	1.2	1.7	2.0	1.50	1.50	2.00
Italy	0.7	0.5	0.7	0.9	1.1	1.7	1.4	1.8	2.0	1.50	1.50	2.00
Spain	3.2	2.3	1.6	1.4	2.9	2.5	1.4	1.7	2.0	1.50	1.50	2.00
Netherlands	1.0	1.2	1.2	1.6	3.2	2.9	2.1	2.3	2.0	1.50	1.50	2.00
Belgium	1.0	0.9	0.9	1.4	4.3	2.5	1.3	1.8	2.0	1.50	1.50	2.00
Austria	-1.2	0.0	0.8	1.3	2.9	3.0	1.6	1.7	2.0	1.50	1.50	2.00
Greece	2.3	1.7	1.7	1.9	3.0	2.5	1.8	1.9	2.0	1.50	1.50	2.00
Portugal	1.9	1.9	1.8	1.7	2.7	2.1	1.8	1.9	2.0	1.50	1.50	2.00
Ireland	1.2	6.5	-0.9	3.2	1.3	1.7	1.7	1.8	2.0	1.50	1.50	2.00
Finland	-0.1	0.6	1.1	1.5	1.0	1.5	1.2	1.6	2.0	1.50	1.50	2.00
Other developed economies												
New Zealand	-0.5	1.2	3.0	2.5	2.9	2.5	2.0	2.0	3.3	2.50	2.50	3.00
Switzerland	1.3	1.1	1.3	1.6	1.1	0.2	0.6	0.7	-0.8	0.00	0.00	0.00
Norway	2.1	1.3	1.5	1.5	3.1	2.9	2.1	2.1	4.3	3.75	3.25	3.25
Sweden	1.0	0.9	1.6	1.8	2.0	2.3	1.6	1.8	2.0	1.75	1.75	2.00
Emerging Asia												
China	5.0	4.7	4.3	4.1	0.2	-0.2	1.0	1.5	3.0	1.40	1.40	1.40
India	6.5	6.8	6.8	7.3	4.7	3.3	5.0	4.3	5.5	5.50	5.50	6.00
Indonesia	5.0	4.9	5.1	5.3	2.3	1.8	2.6	2.7	5.3	5.00	4.50	4.50
Korea	2.0	1.0	1.6	2.1	2.3	1.9	1.8	1.8	2.5	2.00	2.00	2.00
Taiwan	4.3	3.5	2.0	3.0	2.2	1.5	1.4	2.0	2.0	1.88	1.75	1.75
Thailand	2.5	1.7	2.0	2.0	0.4	0.7	0.8	1.0	1.8	1.50	1.25	1.00
Malaysia	5.1	4.4	4.2	4.0	1.8	2.1	2.1	2.2	2.8	2.75	2.75	2.75
Philippines	5.7	5.5	5.6	5.5	3.2	2.1	3.3	3.3	5.3	5.00	4.50	4.50
Singapore	4.4	1.8	2.0	2.2	2.4	1.1	1.8	1.5				
Hong Kong	2.5	1.8	2.0	2.2	1.7	1.7	1.9	1.8	1.8	4.75	3.75	3.75
Vietnam	7.1	6.9	6.5	6.3	3.6	3.5	3.5	3.5	4.5	4.00	4.50	4.50

Source: BofA Global Research

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Exhibit 10: Global Economic Forecasts (continued)

Global GDP growth expected at 3.0% in 2025

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	Current	2025F	2026F	2027F
Latin America												
Brazil	3.4	2.5	2.0	1.8	4.4	5.4	4.5	4.0	15.00	14.50	11.25	10.50
Mexico	1.5	-0.2	1.0	1.8	4.7	4.6	3.5	4.2	8.00	7.75	6.75	6.75
Argentina	-1.7	5.0	3.5	3.0	219.9	27.8	16.7	12.0	29.00	29.00	23.00	17.00
Colombia	1.7	2.6	2.7	2.8	6.6	4.7	3.5	3.0	9.25	8.50	7.00	6.50
Chile	2.6	2.2	1.8	2.0	3.9	3.8	3.2	3.0	5.00	4.50	4.25	4.25
Peru	3.3	3.1	2.6	3.0	2.4	1.8	1.9	2.0	4.50	4.50	4.00	4.00
Ecuador	-2.0	2.6	2.2	2.3	1.5	1.3	1.8	1.8	0.00	8.50	8.50	8.50
Uruguay	3.1	2.0	1.8	2.0	4.9	4.2	4.5	4.5	9.00	9.25	9.00	9.00
Costa Rica	4.3	3.5	3.7	4.0	-0.4	1.1	2.5	2.5	3.75	3.75	3.75	4.00
Dominican Republic	5.0	3.4	4.2	4.5	3.3	4.1	3.9	4.0	5.75	5.75	5.75	5.00
Panama	2.9	3.4	3.5	4.0	0.8	1.3	1.7	1.5	0.00			
El Salvador	2.6	2.6	2.7	2.7	1.0	0.9	1.6	2.0	0.00			
Guatemala	3.7	3.5	3.7	3.7	2.9	3.1	2.9	3.0	4.50	4.50	3.50	3.50
EEMEA												
Türkiye	3.2	2.5	3.6	4.0	58.5	34.2	21.5	16.2	43.00	38.00	24.00	20.00
Nigeria	3.4	3.2	3.0	3.0	33.2	20.0	17.0	17.0	27.50	25.00	23.00	23.00
Egypt	2.4	4.0	4.0	4.5	33.3	20.5	15.0	10.0	24.50	24.00	18.00	13.00
Poland	2.9	3.3	3.0	3.2	3.7	4.0	3.0	2.5	5.00	4.50	3.75	4.25
South Africa	0.6	0.8	1.2	1.3	4.4	3.5	4.3	4.3	7.25	7.00	6.75	6.75
Romania	0.9	0.9	1.7	2.8	5.6	4.8	3.8	3.0	6.50	6.50	4.50	4.50
Czech Republic	1.1	1.9	2.3	2.0	2.4	2.5	2.3	2.2	3.50	3.50	3.50	4.00
Israel	0.9	3.3	4.2	4.0	3.1	3.1	2.5	2.2	4.50	4.00	3.25	3.25
Hungary	0.5	0.8	2.7	3.0	3.7	4.2	3.2	3.0	6.50	6.50	5.50	5.00
Saudi Arabia	1.3	3.6	3.7	2.7	1.7	1.9	2.0	2.0	4.50	5.00	4.00	4.00
Ukraine	3.5	2.5	7.0	6.0	6.5	13.4	5.0	5.0	15.50	14.50	11.00	9.00

Source: BofA Global Research

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Exhibit 11: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.0% in 2025

	3Q 2025	4Q 2025	1Q 2026	2Q 2026	3Q 2026	4Q 2026	2025	2026	2027
Developed Markets									
US	1.0	1.6	1.6	1.7	1.7	1.8	1.6	1.6	1.9
Euro area	0.1	0.5	1.3	1.5	1.6	1.5	0.9	0.9	1.4
Japan	-1.7	1.1	1.3	1.6	1.6	0.5	0.4	0.8	0.7
UK	1.3	1.2	1.4	1.4	1.4	1.6	1.2	1.3	1.5
Canada	0.3	0.6	2.0	2.2	2.4	2.6	1.4	1.5	2.2
Australia	-	-	-	-	-	-	1.6	2.2	2.3
G6 Aggregate	0.4	1.1	1.4	1.5	1.6	1.6	1.2	1.3	1.6
Emerging Markets									
China	2.8	4.6	5.3	3.8	4.2	4.5	4.7	4.3	4.1
India	1.8	12.4	7.9	4.9	2.5	14.3	6.8	6.8	7.3
Indonesia	3.2	5.7	5.3	5.7	3.6	6.1	4.9	5.1	5.3
Korea, Republic Of (South)	6.4	4.5	-3.7	0.6	3.3	2.0	1.0	1.6	2.1
Thailand	-0.6	0.3	1.8	3.9	4.7	2.9	1.7	2.0	2.0
Singapore	-2.0	1.2	2.4	2.4	2.8	2.8	1.8	2.0	2.2
Hong Kong	10.2	6.7	-0.7	-0.5	0.0	-0.1	1.8	2.0	2.2
Brazil	2.4	3.2	3.6	0.0	2.0	2.5	2.5	2.0	1.8
Mexico	-0.6	0.5	1.5	1.7	1.9	2.0	-0.2	1.0	1.8
Colombia	1.6	1.2	2.0	4.1	4.5	4.1	2.6	2.7	2.8
Chile	1.6	1.8	1.8	1.8	2.2	2.4	2.2	1.8	2.0
Peru	1.6	1.6	1.6	2.0	6.1	4.9	3.1	2.6	3.0
Türkiye	-0.6	3.3	6.5	6.2	1.0	0.9	2.5	3.6	4.0
South Africa	1.4	1.6	1.8	2.0	2.0	2.0	0.8	1.2	1.3

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 12: Spring has sprung

End of period

Central Banks	Current	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Developed Markets													
Fed (upper bound)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.00	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50
BoJ	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75
BoE	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
BoC	2.75	2.75	2.75	2.50	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Riksbank	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norges Bank	4.25	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.25
RBA	3.85	3.85	3.60	3.60	3.60	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
RBNZ	3.25	3.00	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Emerging Asia													
China (lending rate)	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
India	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Indonesia	5.25	5.50	5.25	5.25	5.25	5.00	5.00	5.00	4.75	4.75	4.75	4.75	4.75
South Korea	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	1.88	1.88	1.88	1.75	1.75	1.75	1.75
Thailand	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America													
Brazil	15.00	15.00	15.00	15.00	15.00	15.00	14.50	14.00	14.00	13.50	13.50	13.00	12.50
Chile	5.00	5.00	5.00	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.25
Colombia	9.25	9.00	9.00	8.75	8.75	8.75	8.50	8.25	8.25	8.00	7.75	7.75	7.50
Mexico	8.00	8.00	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Peru	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Emerging EMEA													
Czech Republic	3.50	3.50	3.50	3.50	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	6.00	6.00
Israel	4.50	4.50	4.50	4.25	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50
Poland	5.00	5.25	5.25	5.00	5.00	4.75	4.75	4.50	4.50	4.25	4.25	4.00	4.00
Romania	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	5.75	5.50	5.50
South Africa	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Türkiye	43.00	44.00	44.00	42.00	40.00	40.00	38.00	36.00	36.00	34.00	32.00	32.00	30.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 13: Quarterly forecasts

End of period

	Spot	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
FX forecasts							
G6							
EUR-USD	1.18	1.16	1.17	1.17	1.18	1.19	1.20
USD-JPY	147	152	155	152	148	148	148
EUR-JPY	173	176	181	178	175	176	178
GBP-USD	1.35	1.38	1.41	1.43	1.44	1.49	1.52
USD-CAD	1.36	1.38	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.66	0.66	0.68	0.69	0.69	0.70	0.71
Asia							
USD-CNY	7.15	7.10	7.10	7.00	6.90	6.80	6.80
USD-INR	86.4	84.5	84.0	83.0	83.0	83.0	83.0
USD-IDR	16287	16100	16000	16000	15900	15800	15700
USD-KRW	1372	1360	1340	1320	1300	1280	1260
Latin America							
USD-BRL	5.52	5.50	5.50	5.60	5.65	5.70	5.75
USD-MXN	18.55	19.50	20.00	20.25	20.50	20.75	21.00
Emerging Europe							
EUR-PLN	4.26	4.20	4.15	4.15	4.15	4.15	4.15
USD-TRY	40.56	41.00	42.00	44.00	45.50	46.50	48.00
USD-ZAR	17.63	17.80	17.70	17.70	17.60	17.60	17.50
Rates forecasts							
2yr							
US 2-year	3.92	3.80	3.75	3.75	3.75	3.75	3.75
Germany 2-year	1.93	1.80	1.80	1.90	1.90	1.95	2.05
Japan 2-year	0.85	0.70	0.80	1.05	1.08	1.25	1.30
UK 2-year	3.86	3.70	3.75	3.75	3.75	3.85	3.85
Canada 2-year	2.84	2.50	2.50	2.50	2.50	2.50	2.50
10yr							
US 10-year	4.40	4.40	4.50	4.50	4.50	4.50	4.50
Germany 10-year	2.70	2.45	2.50	2.60	2.60	2.65	2.75
Japan 10-year	1.61	1.40	1.50	1.65	1.70	1.80	1.85
UK 10-year	4.62	4.60	4.65	4.65	4.65	4.70	4.75
Canada 10-year	3.55	3.05	3.10	3.15	3.20	3.25	3.30
Commodities forecasts							
WTI Crude Oil - \$/bbl	66.2	57.0	62.0	64.0	66.0	66.0	68.0
Brent Crude Oil - \$/bbl	69.2	61.0	66.0	68.0	70.0	70.0	72.0
Gold \$/oz	3370	3500	3750	3750	4000	3750	3500

Note: Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period.

Source: BofA Global Research, Bloomberg.

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