Global Economic Weekly

Is oil volatility inflationary?

24 July 2026

Economics
Global

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Global Letter: Is oil volatility inflationary?

Volatility in oil prices is more related to impaired traffic of oil rather than the instability of the Middle East in itself. The indirect impact of volatility in oil prices and the asymmetric response to prices add to the stickiness in core components of any inflation metrics. Should central banks respond to oil price shocks? The textbook policy response is to look through supply shocks, waiting for the temporary increase in inflation to dissipate. However, after five years of above-target inflation, and supply shocks that are becoming more frequent and persistent amid rising geopolitical tensions, sound risk management for monetary policy may advocate otherwise.

United States: Twist in the tale

Our base case is that the Fed will stay on hold at 3.5-3.75% in July. But the spike in oil prices has made it a close call. With markets now pricing nearly 10bp of hikes in July, Chair Warsh faces a difficult choice. Not hiking could challenge the Fed's credibility on inflation. But raising rates would go against his framework of looking through supply shocks. We think July is Warsh's call as he has enough votes either way. He has strategic incentives to hike soon. We still expect three 25bp hikes, in Sep, Oct & Dec.

Euro Area: ECB review – yes, see you in September

The ECB kept its calm. Policy rates were kept on hold, communication was fairly neutral. We still expect a second hike in Sep, though risks of a third one are up again. Our bigger conviction remains that 2027 cuts will follow to bring policy rates back to, or below, 2%.

UK: BoE preview – On hold, on watch

We expect BoE on hold (7-2, high risks of 6-3). Balanced tone with door open to a hike, but not a strong signal on an imminent hike. Risks are tilted to a hawkish tone given recent escalation. We expect the BoE on hold this year, but the risk of a hike is rising.

Asia: India – RBI navigates a three-circuit policy path

As things stand, the immediacy of policy imperatives have declined for the Reserve Bank of India, but the fog of economic ambiguity stays intact at a distance. The RBI still needs to navigate new headwinds, to ensure there is no policy slippage or error.

Emerging EMEA: Kazakhstan – highly energized issues

Muted impact of export disruptions likely reflects expected quick resolution. It is likely given scale of potential impact. $5bn fine can cover bulk of FX shortfalls. NBK to stay on hold in Jul but remains well on track to cut up to 300bp this year.

Latin America: Brazil – elections are coming

Brazil's 2026 election cycle is underway, with party conventions beginning July 20 and candidate registration due by August 15. Fiscal policy is the central economic issue, as rising public debt requires significant adjustment, but fiscal consolidation is challenging.

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Global Letter

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Is oil volatility inflationary?

At the risk of sounding like a broken record, we have been on the camp of expecting persistent oil volatility as we interpreted the Iran deal as very fragile in nature given the incentives of the main parties involved. Brent above $100 per barrel goes in line with our core view on Middle East conflict and a credible and sustainable reopening of the Strait of Hormuz. Equally important is the lack of two-way fluid transit through the Bab el-Mandeb strait. In other words, volatility in oil prices is more related to impaired traffic of oil rather than the instability of the Middle East in itself.

Not surprisingly, the market is repricing central bank hikes. Our US team expects the Fed to hike 3 times this year, though the call does not rest necessarily in an oil spike. Persistent and sticky services inflation is the main rationale for the Fed to hike while the labor market remains robust and in line with solid consumption and investment dynamics. But the indirect impact of volatility in oil prices and the asymmetric response to prices add to the stickiness in core components of any inflation metrics.

Should central banks respond to oil price shocks?

The textbook policy response is to look through supply shocks, waiting for the temporary increase in inflation to dissipate. Facing a temporary supply shock, monetary policy should react only if inflation expectations de-anchor or second round effects kick in, potentially contributing to the de-anchoring of inflation expectations. But in a world of more frequent supply shocks, their transitory nature becomes increasingly questionable.

After five years of above-target inflation, and supply shocks that are becoming more frequent and persistent amid rising geopolitical tensions, sound risk management for monetary policy may advocate otherwise.

What matters for monetary policy is the real interest rate. The most important coefficient of the Taylor rule can testify: raise the nominal policy rate more than one-to-one relative to inflation. With rising inflation and inflation expectations, both realized and ex-ante real interest rates are in fact falling. This means that by not hiking rates in face of recurrent supply shocks, the Fed is effectively easing monetary policy. This easing in financial conditions can in turn contribute to global liquidity, worsening inflation dynamics including via wealth effects in the K-shaped economy.

Yes, oil price volatility can be inflationary

Of course, inflation is always and everywhere a monetary phenomenon and real shocks can only alter relative prices, unless monetary (and fiscal) policy accommodate those shocks. In theory, an increase in oil prices need not be inflationary in the sense of increasing the overall level of prices. If the price of oil goes up and triggers increases in other prices, the price of other goods and services not impacted by the shock can go down to compensate for the initial shock. In other words, only relative prices are affected.

However, in practice, inflation measures go up when oil prices increase because prices are sticky, in particular to the downside. The change in relative prices to restore equilibrium occurs, at least in the short run, with some oil-related prices going up and other prices staying at the pre-shock level. Measured inflation goes up.

If we apply the same argument to oil prices that go up and down without necessarily changing on average, that is, if oil prices become more volatile, the same effect takes place. It can be argued that the analogy is not good because gasoline prices, which capture the main direct effect of oil shocks, are very flexible, going up and down with oil prices. However, other indirect effects of oil prices, which impact other goods and services, can create more persistent inflation if oil prices become more volatile and contaminate core measures of inflation more persistently. These are prices that are impacted by oil prices but downward rigid, going up with oil prices but not reversing down when oil prices fall.

In that case, oil price volatility adds another argument for central banks to consider a more hawkish monetary policy stance. Markets are reacting to oil prices by repricing hikes in direct proportion to oil shocks, but it may be the volatility of oil shocks that really matters for monetary policy in a world where supply shocks are becoming the rule rather than the exception.

US

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July FOMC preview: It's Warsh's call

- Our base case is that the Fed will stay on hold at 3.5-3.75% in July. But the spike in oil prices has made it a close call.
- With markets now pricing nearly 10bp of hikes in July, Chair Warsh faces a difficult choice. Not hiking could challenge the Fed's credibility on inflation. But raising rates would go against his framework of looking through supply shocks.
- We think July is Warsh's call as he has enough votes either way. He has strategic incentives to hike soon. We still expect three 25bp hikes, in Sep, Oct & Dec.

Complete report: July FOMC preview: It's Warsh's call 24 July 2026

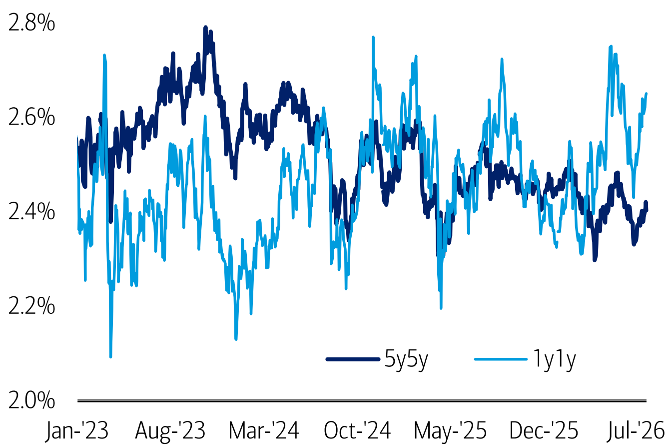
Twist in the tale

Dovish jobs and inflation data since the June meeting had the Fed comfortably on track to stay on hold in July. The spike in oil prices has made things more complicated. At the time of this writing, markets are pricing nearly 10bp of hikes at the July meeting. It doesn't help that WTI is up more than 10% since the start of the blackout period. So markets are truly flying blind. Our base case is still a hold in July, but it's a much closer call than we could have imagined after last week's soft June inflation data.

A hold could be costly for Fed credibility…

Arguably this setup is exactly what Warsh wants: markets are responding to data and geopolitical developments without any guidance from the Fed. Yet he's left with a difficult choice. If the Fed stays on hold, Warsh risks sending a signal that nothing has really changed at the Fed because it still only surprises markets in the dovish direction. Is that what he wants to convey, after touting a "sea change" under his leadership?

Exhibit 1: Medium-term inflation expectations have picked up sharply this month
5y5y and 1y1y inflation swap rates (%)



Source: BofA Global Research, Bloomberg

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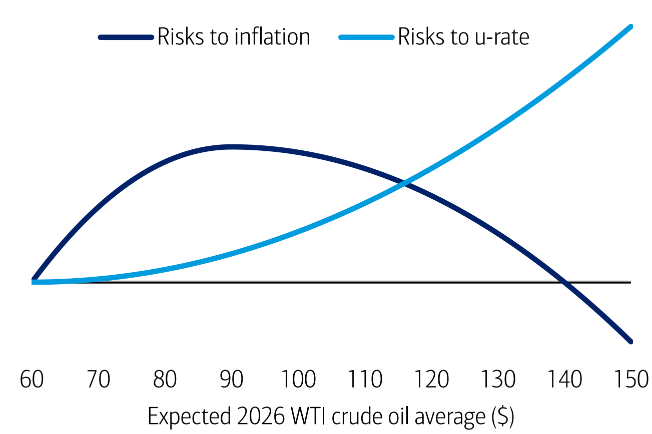
Exhibit 2: Hikes are most plausible if WTI averages $80-100
Stylized representation of risks to the Fed's dual mandate, as a function of WTI crude oil prices



Source: BofA Global Research

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Moreover, if the Fed doesn't raise rates, markets will probably take hikes out from the entire path (they're currently pricing 60bp of hikes by next June). Does the Fed really want to ease meaningfully relative to what's priced? Warsh puts a lot of emphasis on credibility. At Sintra, he noted that inflation expectations were contained. With expectations now moving up (Exhibit 1), what would it say about Fed credibility if he delivers a dovish surprise?

…But would Warsh hike in response to oil?

It isn't an easy choice to hike either. If the Fed hikes in July, the optics could be that the market forced Warsh's hand, even though the intra-meeting data were supportive of a hold. Warsh has also said that the Fed should look through supply shocks and focus on "underlying inflation". Hiking in response to oil would contradict this framework. It could cause markets to reassess their view of Warsh's reaction function (especially since he refuses to convey it) and price in a much higher policy path.

Three reasons a hike is highly plausible

We think there are sound arguments for responding to the oil shock (though to be clear, Warsh hasn't embraced them). For one, volatility in oil alone arguably creates upside risks to the core. Firms that pass through cost increases when oil surges might be less willing to lower their prices when oil declines, due to concerns that there will be another upside shock in short order. Indeed, it appears quite likely that airfares won't retrace their surge at the start of the conflict anytime soon.

For another, as we argued back in March, $80-100 is likely the most hawkish outcome for crude (Exhibit 2). It's a large enough shock to create upside risks to core, but not so large that the Fed would worry about major downside risks to the labor market. Each bout of escalation increases the probability that we will land in this range, on average, in the next few quarters.

We also see strategic incentives for Warsh to push for a hike. There is a narrow window (say, a few months) in which he can absolve himself of any blame for the inflation overshoot. Hiking in that period would differentiate him from Powell and allow him to claim credit for any disinflation down the line, even if it's mechanical (e.g., a decline in energy prices due to de-escalation with Iran, or tariffs rolling off y/y inflation).

Therefore, while we are sticking with our call for a hold, further increases in oil prices and July hike pricing could tip the scales in favor of a 25bp hike. There's also a risk of de-escalation in the Middle East by next Wednesday. In that case, it should be an easier decision to stay on hold.

Statement: not much left to change

The FOMC statement was gutted in June, so there isn't much scope for changes in July. We think the language around balance sheet policy - "The Committee reaffirmed its policy of maintaining ample reserves in the banking system" - should be omitted as it doesn't need to be repeated.

And if the Fed doesn't hike, we anticipate two dissents, from Hammack and Logan. Both policymakers were clear that they want to raise rates in their most recent comments (which were made when oil prices were much lower than they are now). Hammack: "I'm hearing from businesses who say they think we need to take action to curb inflation." Logan: "Modestly higher interest rates would better balance the outlook and risks for the FOMC's dual mandate goals."

One can reasonably ask why Hammack and Logan were so hawkish after not having dissented in June, given that the data flow in the inter-meeting period has been dovish. In our view, they didn't dissent in June because they were willing to accept the removal of the easing bias at that meeting. They might also have decided to extend Warsh a courtesy by not dissenting at his first meeting.

Meanwhile, we don't anticipate any dissents if the Fed hikes. We view Williams, Paulson and Bowman as the three most dovish voters. And we doubt any of them feel strongly enough about staying on hold to dissent against the Chair. Waller indicated that he would be okay staying on hold if the June inflation data were soft (which they were). But he was hawkish about risks of energy price pass-through into core inflation at the start of the conflict. This should give him cover to support a hike.

Our view that there will be limited dissents in either direction leads us to the conclusion that the July decision is really Warsh's call. Investors should focus on his incentives and framework, which we have discussed above. The rest of the committee still matters down the line, but Warsh is the swing factor for the July decision.

Presser: either short or frustrating

At the July presser, Warsh is likely to repeat his message from his Congressional testimony: the Fed is committed to taming inflation, the labor market is solid and productivity is picking up. In our view, the extent of his stated concerns about inflation will depend on the policy decision. For example, he's more likely to mention trimmed-mean PCE and make a distinction between underlying inflation and supply shocks if the Fed doesn't hike.

Taken at face value, Warsh's comments will probably sound hawkish. But clients are split into two camps on Warsh. One is of the view that he is only talking tough to gain credibility and keep financial conditions in check, but has no intention of raising rates. This group will feel vindicated if the Fed doesn't hike. The other camp thinks Warsh is either inherently or strategically hawkish. This view will gain traction if there is a hike.

Either way, Warsh probably won't provide any clues on the future policy path. He's also unlikely to answer questions about the economic outlook or his reaction function, since he views any such commentary as forward guidance, which he staunchly opposes. Given Warsh's unwillingness to communicate his views, we think it would make sense for him to do a much shorter press conference (even if the Fed hikes), with very limited Q&A. But if he chooses to field as many questions as he did in June, investors should be prepared for a lot of non-responses.

Finally, in terms of the task forces, Warsh mentioned in his testimony that they would give initial briefings to the FOMC in September. We doubt there is anything new to add at this stage.

Euro area

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ECB review: Yes, see you in September

- The ECB kept its calm. Policy rates were kept on hold, communication was fairly neutral.
- We still expect a second hike in Sep, though risks of a third one are up again.
- Our bigger conviction remains that 2027 cuts will follow to bring policy rates back to, or below, 2%.

Hoping for a quiet summer

The ECB left policy rates unchanged this week. Communication remained broadly unchanged, too. The statement and the press conference were quite neutral because, we would argue, they didn't want to rock the boat given renewed uncertainty. A key message in both the statement and the press conference was that we are back to the baseline in June after recent developments. To us, that means a few important things: first, it's an implicit nod to some more tightening to come. But it's also a reference to there likely not being much more. This is reinforced by the lack of explicit reference to being closer to a scenario that needs a forceful response, the anchor of a short hiking cycle remains in place.

Where do we go from here? We still think a hike in September is likely unless there are a lot of dovish surprises. More tightening beyond September would require hawkish news, in either the data or on energy price developments. But the move in energy prices matters if it persists or deteriorates further. We are where we were right after the June meeting. The balance of risks has shifted towards a third hike being more likely than "one and done". The arguments will sound familiar: for starters, one could argue that even in the ECB's mild scenario two hikes would still be needed to bring inflation back to target by the end of 2028. And, while the adverse scenario could also be seen as consistent with two hikes, it's not a clear case and a third could be needed.

Our bigger conviction remains that cuts will follow in 2027, bringing the ECB deposit rate to or below 2% by end-27 again. The timing of those cuts would crucially depend on whether a third hike gets delivered or not.

Not a lot of news relative to June

The outlook was close to what we had in June, while noting the slightly better performance of both activity and inflation that we expected. The balance of risks was also unchanged, with downside risks to growth and upside risks to inflation. The ECB remains extremely data-dependent, deciding meeting-by-meeting, and not pre-committing. But there were a few marginal changes in the text and the press conference worth noting.

First, a relevant addition to the statement was that "the outlook for energy prices, while highly volatile, currently stands close to the baseline of the June Eurosystem staff projections ". That, to us, is as close to a "keep calm, and carry on" message as it gets. In other words, the ECB – with the next meeting still a long time off and uncertainty having increased once again – was probably eager not to rock the boat and be as neutral as possible as developments unfold.

Second, the reference to "uncertainty remains high and the full inflationary impact of the energy shock has yet to play out" is a gentle reminder that there may be more to come. That, together with being back to the baseline (which included 60bp of tightening) is a clear signal that, absent very dovish surprises, it will be hard for the ECB not to hike in September.

Crucially, nothing this week indicated that the ECB is getting closer to a scenario that requires a more forceful response (i.e. more than a short hiking cycle) given where we are today in terms of energy prices and Middle East developments. Again, energy price developments take us back to the baseline, and further deterioration could push us towards the adverse scenario. That is important, as both scenarios are consistent with a short hiking cycle, which acts as an anchor for the market. And the absence of second-round effects, for now, keeps us away from more "forceful" scenarios.

One hike, perhaps two, but then cuts

Our strong conviction here is that, irrespective of whether the ECB hikes once or twice this year, policy rates at the end of 2027 will be, at most, 2%. Why? We still think inflation will prove a lot less persistent than the central bank fears. The shape of the current energy price shock is nowhere near as severe as that of 2022.

By early 2027, it should be clear that the indirect and second-round effects of inflation are smaller than feared, so there will be little reason not to take policy rates back to neutral (we have two cuts in March and June of 2027). After that, our macro view holds firm: the path to sub-2% inflation is delayed, but all macro ingredients remain in play: a shallow recovery at unspectacular levels, with a very fragile and non-inflationary labour market, suboptimal fiscal policy, and central bank policy that always errs on the tight side. That means policy rates slightly below 2% well into 2028.

The timing of those cuts could change if a third hike is delivered, but some easing in 2027 is still unavoidable even in that case, we think.

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BoE preview: On hold, on watch

- We expect BoE on hold (7-2 vote, high risks of 6-3), given limited evidence of second round effects.
- Balanced tone with door open to a hike, but not a strong signal on an imminent hike. Risks are titled to a hawkish tone given recent escalation.
- We expect the BoE on hold this year, but the risk of a hike is rising

Hold given limited evidence of second round effects

We expect the Bank of England (BoE) to keep the Bank Rate on hold at 3.75% at its meeting next week. The uncertainty on energy prices has risen, with energy prices moving higher again after touching post-conflict lows early in the month. Oil prices were lower than BoE's Scenario A/B over the past few weeks, but oil futures at the time of writing are higher than Scenario A/B in the near term and closer to Scenario A further out, while refined product prices are also rising. Gas futures are higher than Scenario A/B in the near term and closer to Scenario B further out. The levels are still quite far from Scenario C. Uncertainty exists on whether these levels will persist.

But so far there is no strong evidence yet of the passthrough of the energy shock to core inflation and wage growth, given the soft labour market/growth backdrop. Food inflation, which is salient to household inflation expectations, has been benign. Inflation outturns have been weaker than expected. At the same time, the Bank Rate being restrictive and tightening in financial conditions gives the BoE time to assess the situation. Minutes from the June meeting and Governor Bailey's comments also suggest that majority of the Committee is in no rush to act.

7-2 vote for a hold, with two votes for a hike (high risks of a 6-3)

We expect the MPC to vote 7-2 for a hold with Pill and Greene voting for a hike. While not our base case, there is a high risk that Mann joins Pill and Greene as well and votes for an activist hike (potentially 50bps) given the recent rise in energy prices. But our read of her speech suggests she would want to wait for more evidence of a pickup in inflation and inflation expectations in the second half of the year to determine its impact on 2027 wage negotiations. Moreover, financial markets have tightened again which should allow Mann more time to assess. But we have low conviction on Mann's vote and think there is a high risk she joins the two hawks in voting for a hike. We think there is a smaller risk of Lombardelli voting for a hike yet. Uncertainty on duration of the conflict as well as size/ persistence of the energy shock would likely mean that none of the doves vote for a cut.

Data since June has been somewhat dovish, but higher energy prices pose a risk

Data since June has been somewhat dovish but not entirely. Inflation and wage growth has been weaker; inflation expectations have pared back while activity has been a bit stronger. At the same time, this data is backward looking, and higher energy prices pose a material risk to future inflation readings.

CPI inflation fell more than expected to 2.6%, 50bps below the BoE's forecast with core flat at 2.6% (10bps below the BoE's forecast) and services inflation down to 3.6% (in line with the BoE's forecast). Food inflation at 1.7% is 1.9pp below the BoE's forecast. Private wage growth was 2.9% in three months to May, vs BoE's forecast of 3.0% in Q2.

At the same time, growth and labour market has been a bit better than expected. Monthly GDP suggests an upside risk to BoE's Q2 growth forecast of 0.2%, while unemployment at 4.9% in the three months to May is lower than the BoE's forecast of 5.1% in Q2.

The latest Yougov/Citi survey showed a fall in inflation expectations with year-ahead expectations down from 4.7% to 3.8% and five-year ahead expectations down from 4.0% to 3.9% in June. The DMP showed that business own price expectations held at 4.0% while one year CPI expectations fell from 3.7% to 3.3% in June. Medium term inflation expectations were unchanged at 2.9% and wage expectations were slightly up to 3.5% and overall haven't seen a big impact from the conflict. We get another set of DMP and Agents survey before the BoE meeting, which will be closely monitored.

But this data is backward looking and reflect the fall in energy prices to post-conflict lows post the US/Iran MoU. Gas bills are due to rise in July, which implies inflation is likely to pick up again, even without the recent escalation. We expect inflation to peak at 3.3% later in the year, assuming lower energy prices in H2. Moreover, following the recent re-escalation, energy prices are moving higher again, which pose upside risks to our inflation forecasts if sustained, even if the 5% VAT cut in electricity bills tempers slightly some of these upside risks.

Door kept open to a hike, but not a strong signal on an imminent hike

We expect the overall message to be balanced. We expect the MPC to keep the door kept open to a hike, but we don't expect it to give a strong signal about a imminent hike either, given the uncertainty and limited second round effects so far. Having said that the recent rise in energy prices imply that risks are tilted to a hawkish tone.

Guidance that "The Committee stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term" is likely to remain. We expect the BoE to note that evidence so far confirms their expectation that the energy shock is not leading to strong second round effects, given soft labour market/economy and that they are willing to tolerate above target inflation as long as second round effects are contained. At the same time, Bank Rate being restrictive and tightening in financial conditions is also weighing on second round effects and giving them time to assess.

But we expect it to note that it is not out of the woods. It is likely to continue to say that risks of second round effects are likely to be stronger, the larger and more persistent the shock is. There is uncertainty of whether the recent rise in energy prices will persist. But rising energy prices if they persist or worsen keeps risks of second round effects alive and we expect the MPC to note that it will respond promptly to any signal that an extended period of high energy prices could be leading to stronger second round effects, keeping the door open to a hike.

Risks are tilted to a more hawkish tone, with the recent escalation. But we also think Governor Bailey could push back against market pricing in the press conference, which is currently pricing close to three hikes. In the past we have seen the MPC get uncomfortable at market pricing at similar levels.

Forecasts can show peak inflation of 3.3%/3.6% in mild/moderate scenario

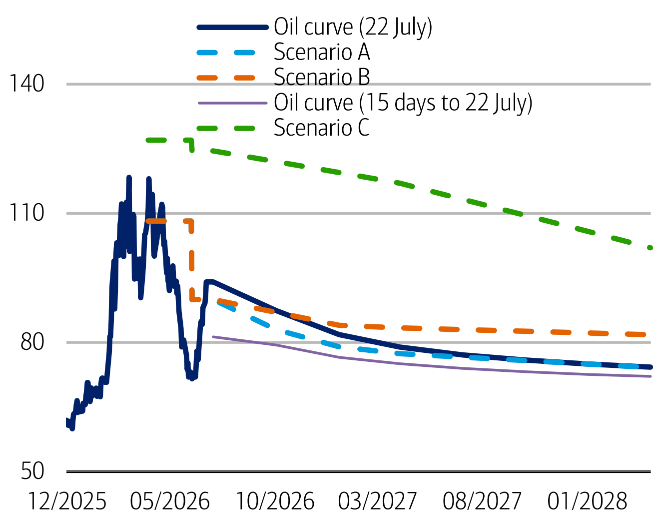
It is possible that the BoE doesn't publish base case forecasts and continue to rely on scenarios instead, given the uncertainty. We expect an update to the scenarios (named mild and moderate for ease along with a severe scenario), but it is difficult to second guess the key assumptions behind the scenarios.

Oil futures at the time of writing are higher than Scenario A/B in the near term and closer to Scenario A further out. Gas futures are higher than Scenario A/B in the near term and closer to Scenario B further out. The levels are still quite far from Scenario C.

The mild scenario could relate to energy prices in the 15 days upto 22 July (which is the regular cut off for energy prices). That creates an energy path slightly lower than Scenario A for oil and slightly higher for gas. At the same time, Bank Rate path reflects somewhat lower rates in the near term and higher rates in the medium term, relative to April, though the near-term path has risen in recent days. Given lower inflation outturns we expect the peak in the mild scenario to be closer to 3.3% vs 3.6% in April, with medium term inflation closer to 1.7%.

The moderate scenario could incorporate the higher energy futures that we see currently in the near-term vs Scenario B and a similar path thereafter. Lower inflation outturns get compensated by higher near-term path for gas/oil prices compared to Scenario B. We expect the peak in moderate scenario to be closer to 3.6% vs 3.7% in April, with medium term inflation closer to 1.9%

Exhibit 3: Oil futures are now higher than Scenario A/B in the near term and closer to Scenario A further out
Oil prices ($/barrel)



Source: Bloomberg, BofA Global Research

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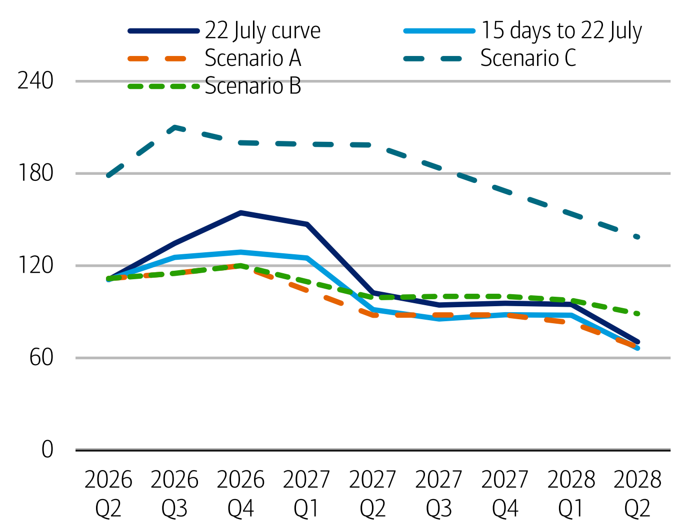
Exhibit 4: Gas futures are higher than Scenario A/B in the near term and closer to Scenario B further out.
Gas prices (pence/therm)



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 5: Forecasts can show peak inflation of 3.3%/3.6% in mild/moderate scenario
BofA forecast for July MPR (Apr MPR figures in parentheses)

	BofA forecast for July MPR (Apr MPR figures in parentheses)			
	Moderate scenario vs Scen B		Mild scenario vs Scen A	
	GDP % yoy	Inflation	GDP % yoy	Inflation
2026 3Q	1.1 (0.7)	3.3 (3.3)	1.2 (0.7)	3.2 (3.3)
2024 4Q		3.6 (3.7)		3.3 (3.6)
2027 3Q	1.2 (1.1)	2.6 (2.8)	1.3 (1.1)	2.1 (2.3)
2028 3Q	1.4 (1.7)	2.0 (2.0)	1.5 (1.8)	1.6 (1.6)
2029 3Q	1.7	1.9	1.8	1.7

Source: BoE, BofA Global Research

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We expect unchanged rates this year, but the risk of a hike is rising

Based on our expectation of lower energy prices in H2 and given soft growth/ labour market, BoE's high bar for action, limited second round effects so far and restrictive rates, we expect the BoE on hold through the year.

Soft growth and labour market and restrictive rates should help in containing strong second round effects and the BoE is showing no rush to act with its reaction function suggesting that it will act if evidence emerges on signs of strong second round effects, risk of which it judges is higher the longer higher energy prices persist. Even with some second-round effects, the MPC has kept the option of holding rates for longer open (instead of hiking) in this paragraph in the June MPC minutes- "However, there would be a more challenging trade-off if higher energy prices appeared to be feeding into more persistent domestic inflation. In that event, the weight placed on output stabilisation would be likely to diminish, and policy would need to remain restrictive for longer, or become more restrictive."

But it is becoming a closer call than before, given the recent reescalation and the risk of a hike is rising. There is uncertainty on whether these high energy prices will persist. But if the recent rise in energy prices is sustained or worsens and the shock becomes prolonged, risks of second round effects can increase and raise risks of a hike. September, November and December remain live meetings. We also think that the cut to our terminal of 3.5%, which we expect in November 2027, won't be easy.

QT review to provide hints on QT pace

The July MPR will contain a box reviewing the impact of QT on the yield curve and the economy, ahead of the September decision on the planned QT pace from October 2026-September 2027. The box will likely provide hints on the MPC's thinking on QT pace.

The BoE's official stance has been that QT runs in the background. The analysis by Bank Staff in the August 2025 Monetary Policy Report suggested that QT has likely raised long term gilt yields by 15-25bps since QT started. The impact on GDP and inflation was estimated to be small: 10bps increase in yields would be associated "with a negative impact on GDP and inflation of less than 0.2% and 0.1 percentage points respectively".

If the BoE shows a slightly larger impact, that can set the stage for a QT pace slowdown such that active sales are unchanged, which looks likely to becoming consensus. A slowdown or stopping of QT (active) sales look unlikely given Governor Bailey's comments in the Times "It is argued that slowing or stopping QT sales will shield against losses. This is a misconception."

Asia

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India: RBI navigates a three-circuit policy path

As things stand, the immediacy of policy imperatives have declined for the Reserve Bank of India, but the fog of economic ambiguity stays intact at a distance. While the external pressures, especially from global commodity prices have moderated, the RBI still needs to navigate new headwinds, and cross new rivers by feeling the stones, to ensure there is no policy slippage or error.

First circuit: Prioritize growth or prioritize inflation?

The first issue that we believe needs to be determined is whether RBI should prioritize growth, or should it be concerned about inflation? Indeed, since the previous policy meeting, commodity prices have declined, rupee has modestly appreciated, and growth indicators appear resilient. Still, inflation passthrough, especially considering the prospects of a weaker monsoon and higher fuel costs, needs to be navigated as well. For now, we believe RBI will be slightly more driven by growth concerns given re-escalation of tensions in West Asia, but inflation too is quite important in the policy framework.

Second circuit: How much should Fed policy matter?

The other complication for the RBI will be the impact of rate hikes being priced in US, and if the Fed was to raise rates in coming months as our US economists expect, the policy choice set, especially considering the stability of capital flows and its impact of rupee will be an important, but not the most critical determinant. Indeed, in the last policy meeting, RBI had delinked its FX policy from interest rates, but an environment where US rates are rising will create some challenges to circumvent.

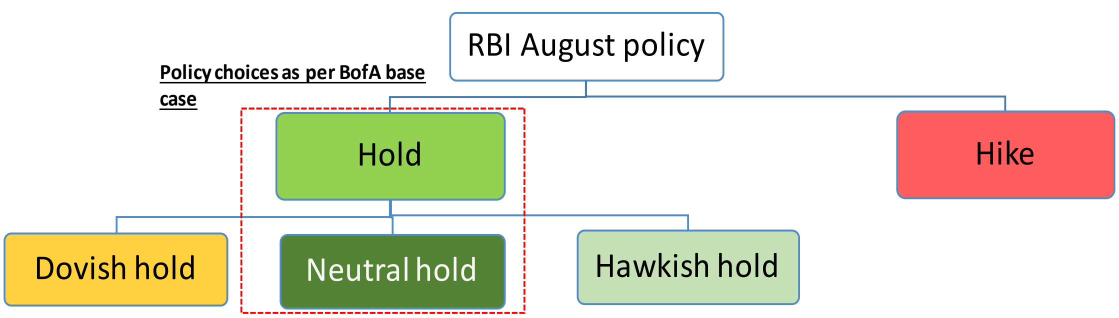
Third circuit: Should time lag determine policy choices?

The third headwind for the RBI is managing these issues, especially from a temporal trade off, which exists between growth and inflation. The potential for growth is not particularly weak and for inflation to rise over the medium term appears reasonably high, and we believe the fine balancing act of setting policy for near term, but acknowledging the longer term risks, is what RBI could attempt in its upcoming meeting. As such*, we see a hold, and messaging to emphasize risks on inflation management over the medium term, while waiting for clarity on growth in the near term.*

Exhibit 6: RBI decision tree: factors considered by the RBI MPC in the policy resolution

MPC is likely to maintain a neutral hold in August guiding towards emerging risks from monsoon citing data dependence and wait and watch on how monsoon evolves

Indicators (% yoy)	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Trend
Global growth																
Geopolitical Risk Index	-14.0	27.8	95.5	45.3	-1.4	-2.8	18.2	-19.0	-6.9	48.9	-12.5	88.1	80.5	22.0	-21.5	Ease in uncertainty
Economic Policy Uncertainty	268.6	179.7	113.1	79.3	79.1	52.5	96.6	30.8	3.0	22.5	6.6	-5.1	-44.9	-36.5	-23.9	
Global Manufacturing PMI	49.8	49.5	50.4	49.7	50.9	50.7	50.8	50.5	50.4	50.9	51.8	51.3	52.6	52.7	52.2	
Global Services PMI	50.9	52.1	51.8	53.5	53.4	52.9	53.5	53.2	52.4	52.8	53.4	50.8	51.2	51.3	51.7	
Global energy prices	-19.8	-18.1	-11.2	-13.5	-14.1	-8.2	-13.7	-13.0	-14.1	-10.3	-6.9	37.3	66.9	59.2	19.3	
Global agriculture prices	-0.5	2.0	-1.1	-1.1	1.3	-1.1	-3.8	-4.7	-8.3	-8.7	-10.4	-5.7	-3.6	-1.5	-0.3	
Metals and mineral prices	-5.9	-8.4	-1.7	3.3	6.3	7.3	7.9	11.8	19.3	30.2	23.8	23.1	38.1	39.3	33.0	
Domestic growth																
PMI Manufacturing Index	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.9	54.7	55.0	54.2	Some impact visible
Core infra index	1.4	0.5	1.1	3.2	6.2	3.1	0.8	3.5	5.6	5.2	3.2	2.9	2.7	3.2	5.0	
Domestic air traffic	8.4	1.9	3.0	-2.9	-1.4	-2.9	2.7	6.9	-4.2	3.7	-0.4	-1.2	-3.5	9.5	0.9	
Two-Wheeler Sales	-16.7	2.2	-3.4	8.7	7.1	6.7	2.1	21.2	39.4	26.2	35.2	19.3	28.4	14.9	18.7	
PV sales	3.9	-0.8	-7.4	-0.2	-8.8	4.4	17.2	18.7	26.8	12.6	10.6	16.0	25.4	27.3	24.1	
Non-food credit	10.2	8.8	9.3	9.9	9.9	10.2	11.1	11.4	14.4	14.4	14.3	16.9	16.3	17.4	18.3	
Inflation																
Headline CPI	3.34	3.03	2.31	1.62	2.01	1.41	0.04	0.49	1.17	2.73	3.21	3.40	3.48	3.94	4.38	Pass through of higher crude
Food inflation	3.10	2.78	1.22	0.56	1.63	0.25	-2.11	-1.18	-0.33	2.12	3.35	3.71	4.01	4.54	5.06	
Core CPI	3.77	3.55	3.31	2.57	2.67	2.55	1.73	1.92	2.61	3.65	3.69	3.67	3.71	3.91	3.90	
Core ex gold & silver	3.38	3.27	3.40	3.04	3.03	2.96	2.46	2.35	2.33	2.09	2.05	2.11	2.24	2.35	2.50	
WPI	0.60	-0.20	-0.40	-0.79	0.00	-0.20	-1.18	-0.59	0.30	1.19	2.18	3.98	8.36	9.68	9.87	
Output PPI	0.80	0.10	-0.10	-0.50	0.20	0.00	-0.69	-0.29	0.59	1.38	2.28	4.17	8.26	9.38	9.57	
Trade																
Goods exports	-3.8	-1.2	-1.3	13.3	5.7	6.0	-12.5	18.6	1.1	0.4	-0.8	-7.4	13.8	18.0	15.5	Normalising
Goods imports	20.0	-1.3	-3.4	9.1	-9.6	17.7	17.9	-1.5	10.3	19.8	25.0	-6.2	10.0	20.6	31.0	
Trade Balance (USD bn)	-27.1	-22.6	-19.1	-27.9	-27.2	-33.0	-42.6	-25.1	-26.2	-34.8	-27.1	-20.7	-28.4	-28.2	-30.4	
Services surplus (USD bn)	15.9	15.8	16.2	16.4	15.6	18.8	17.4	17.4	22.7	21.5	17.8	21.0	18.6	15.7	15.1	
Markets																
Banking liquidity (INR trn)	-1.73	-1.98	-2.60	-1.78	-1.60	-1.11	-1.12	-1.79	-1.29	-1.15	-3.73	-2.99	-3.74	-1.98	-1.43	Improving
Call money rate	5.86	5.80	5.29	5.55	5.45	5.57	5.58	5.45	5.43	5.34	5.09	5.37	5.19	5.38	5.36	
Median MCLR	9.00	8.95	8.90	8.75	8.60	8.60	8.55	8.50	8.45	8.40	8.45	8.40	8.55	8.65	8.50	
10Y Gsec yields	6.40	6.22	6.37	6.42	6.64	6.64	6.63	6.60	6.66	6.78	6.71	7.08	7.08	7.03	6.74	
Real rate	2.66	2.97	3.19	3.88	3.49	4.09	5.46	5.01	4.08	2.52	2.04	1.85	1.77	1.31	0.87	
USD/INR	85.58	85.25	85.88	86.17	87.57	88.32	88.37	88.84	90.04	90.90	90.75	92.82	93.48	95.53	94.96	
FX reserves	688.4	691.3	698.1	690.1	695.4	700.1	689.7	687.9	687.7	711.5	728.5	691.1	690.7	686.3	668.6	
RBI MPC June policy view vs August policy expectations	June: RBI delivered a neutral hold given the uncertainties due to the West Asia conflict along with announcement of the FX related measures.							August: As the West Asia has de-escalated, the focus is likely to shift to emerging risks from a weak monsoon. We expect a Neutral hold in August MPC meeting								Neutral Hold



Source: Haver, CEIC, BofA Global Research; The red to green in the heatmap indicates performance across indicators with green indicating improvement while red indicating worsening. The color code in the decision tree indicates the probability of the RBI's decision in the upcoming policy with green indicating high probability awhile red indicating low probability

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Emerging EMEA

Vladimir Osakovskiy >>
Merrill Lynch (DIFC)

Kazakhstan: highly energized issues

A very big deal, in fact

Last weekend, Kazakhstan stopped crude shipments through the Caspian Pipeline Consortium (CPC) network until further notice, following a series of drone attacks on tankers transporting CPC oil. The official statement did not report any damage to CPC infrastructure itself. The CPC operator tried to resume shipments on Sunday, only to be interrupted by yet another drone attack. Bloomberg reported that, if crude flows through CPC remain suspended until the end of the week, Kazakhstan may be forced to reduce its oil output significantly given lack of storage capacity.

No room for mitigation

We note that only a small fraction of CPC volumes can be rerouted. In 2025, Kazakhstan exported some 78.7M tons of crude, of which 64.8M tons were shipped through CPC. This represents roughly 40M bbl in oil exports per month (about $3.5bn at current $90/bbl), although small part of these volumes can be re-routed through other routes. We also note that, unlike the late 2025 disruptions, when CPC throughput was reduced by damage to only one mooring the current episode involves the full suspension of shipments, which could have a much bigger impact on production.

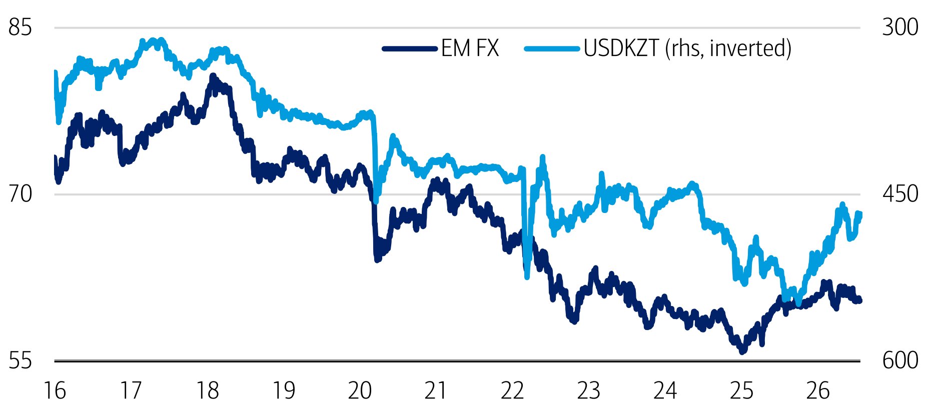
Market resilience = expected swift resolution

Despite the potentially devastating macro impact, the market reaction has been rather limited – at least so far. We note that such market resilience is similar to previous episodes of CPC/oil production disruption and is likely due to prevailing expectations of a quick resolution. As a result, should export flows resume over the next few days, the disruption of production and any major export/tax revenue losses can largely be avoided.

Resolution needed ASAP

We agree that the importance of the CPC export route for Kazakhstan's economy should force a resolution of the issue in the nearest future. Full suspension of supplies is not sustainable without a massive broad-based negative impact throughout the economy. Therefore, the authorities at all levels will likely be pressured to restore normal flows.

Exhibit 7:USDKZT is more driven by local factors than EM FX in 2026
EM FX and USDKZT



Source: Bloomberg

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$5bn "cherry" on top of the story

Kazakhstan may start to receive some $5bn in additional proceeds, which could cover at least part of any potential foregone tax/royalty revenues as a result of the suspension.

This week, Kazakhstan stated it would seek to enforce collection of a KZT2.356tn (around $5bn) environmental fine from the company operating a major Kashagan oil project. The move defies an earlier ruling by the UN Commission on International Trade Law (UNICTRAL), which blocked enforcement until completion of international arbitration.

We also believe that such large-scale KZT flow to the Treasury would not have a material impact on the local FX market, as any resulting KZT demand would likely be tightly managed by the National Bank.

Macro weakness => inflation weakness

We note that potential macro headwinds from export constraints may further undermine economic growth, effectively reducing any concerns on renewed overheating of the economy. 1Q26 real GDP slowed to just 3% yoy from 6.5% in 2025, mainly as a result of oil production disruption. Renewed disruption would likely further constrain the recovery in economic growth, which should support the expected disinflation trend. We also note that the latter continues to be driven mainly by the favourable base effect.

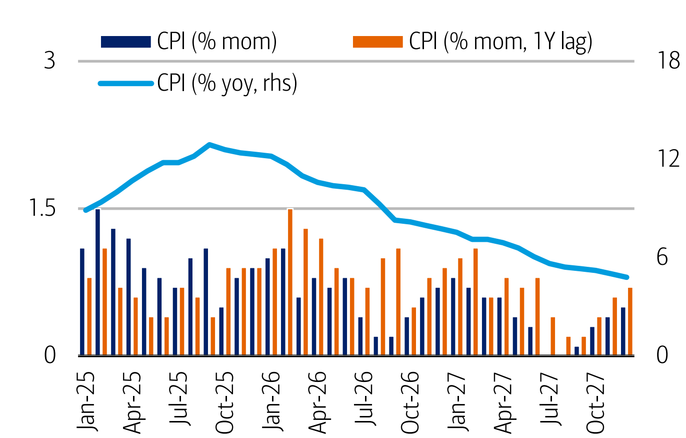
Disinflation/easing outlook is well in place

As a baseline, we think the National Bank may abstain from another rate cut this week given sticky headline and lingering inflationary risks. However, we reiterate our view that Kazakhstan National Bank will likely deliver up to 300bp in rate cuts this year. In the absence of any major new inflationary shocks, inflation will likely slow towards 8% by the end of the year on the back of a supportive broader macro due to a much tighter fiscal policy and stable KZT liquidity flows.

On top of that, the country should see a very strong base effect from an inflationary 2H25, which will likely continue to push down annual inflation, despite lingering risks. We emphasize that current inflation (10.3% in July) includes close to a 3.6pp impact from the VAT hike (from 12% to 16%) from Jan 1, 2026, which should be fully priced out through the base effect by the end of 1Q27. We also believe the bulk of the inflationary impact from the VAT hike has already been priced into inflation from 3Q25 (see our report: What is next? 11 February 2026). This creates a large-scale base effect for the 2H26 inflation path, which should be sufficient to put downward pressure on headline CPI, despite lingering inflationary risks from tariff indexations or potential fuel price hikes.

Exhibit 8: VAT hike create large base effect for 2H26 disinflation

Current headline includes cc 3.6pp in VAT hike to be fully priced out by 1Q27



Source: National Statistical Service, BofA Global Research estimates

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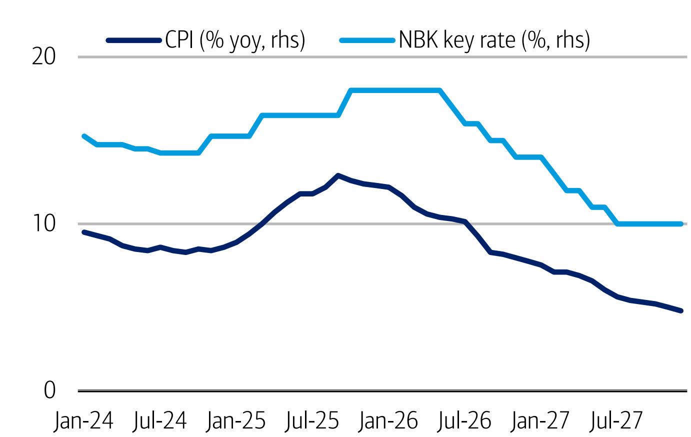
Exhibit 9: Inflation slowing into single digits to support more easing

We see up to 300bp in cuts this year on top of another 400bp in 2027



Source: National Statistical Service, NBK, BofA Global Research estimates

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Latin America

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Merrill Lynch (Brazil)

Brazil Elections will be held in 75 days

In October 2026, Brazil will hold general elections. The first round of elections will take place on the first Sunday of the month (Oct 4th), and the second round will take place on the last Sunday of the month (Oct 25th). Brazilians will head to the polls to elect members of the executive and legislative branches, on a national level and on a state-level as well (Exhibit 2).

Complete report: ***[Emerging Insight: Brazil: elections are coming 21 July 2026]***

Exhibit 10: October elections will change the composition of both Executive and Legislative Branches
Politicians to be elected according to branch of power and region

	Executive Branch	Legislative Branch
National level	President Vice-President	513 Federal Deputies 54 Senators (2/3 of the senate)
State level	26 State and 1 district Governor 26 State and 1 Vice-Governor	1035 State and 24 District Deputies

Source: TSE

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Party conventions window has started

According to the Brazilian Electoral Justice, political parties' conventions are a mandatory step in the electoral race. The conventions are events in which the candidates are defined and officialized by each party. This year, conventions will be held between July 20 and August 5. Flavio Bolsonaro is expected to be the first pre-candidate to officialize his candidacy, on the 25th, followed by Ronaldo Caiado (26 July), Romeu Zema (27 July), Renan Santos (1 Aug), and President Lula (2 Aug).

Candidates registration is the next milestone

After candidates are defined and announced in the party conventions, they need to be registered in the Supreme Electoral Court (TSE). The deadline for this process is August 15th. This means that only then we will become aware who will be the Vice-President (VP) candidate chosen to run alongside Bolsonaro and Lula. According to political consultants, Lula is likely to choose Geraldo Alckmin, currently in office as VP. Bolsonaro, on the other hand, has a less clear choice. Political consultants think it is likely that he chooses a woman as a VP to try gain support among the female electorate, a demographic in which he is not very popular.

Exhibit 11: Party conventions are being held soon
Key upcoming dates for 2026 elections

Month	Day	Description
July 2026	20	Start of the period for party conventions and candidate registration
August 2026	5	Deadline for party conventions
	15	Deadline for candidate registration
	16	Start of official campaign advertising
October 2026	1	Last day for rallies and debates
	4	First round of elections
	25	Second round of elections (if applicable)

Source: Eurasia group

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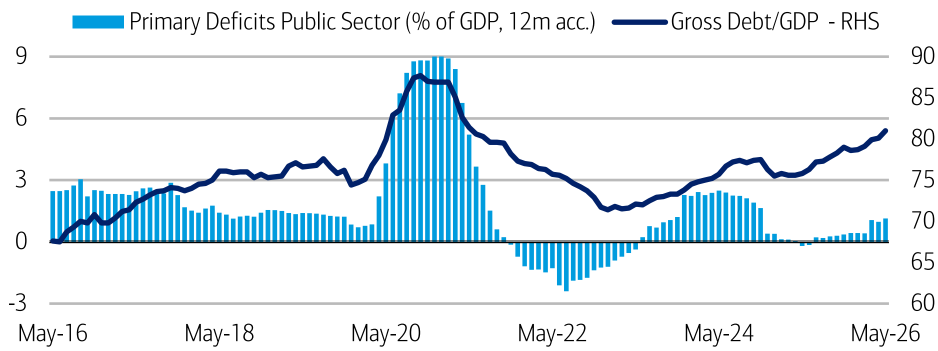
The key issue for this election is fiscal

From the economic perspective, fiscal is the most pressing issue to be addressed by the next president. In Lula's third term, gross debt/GDP is expected to increase by more than 10p.p.. It was at 71.4% when Lula took office (Exhibit 12), and we expect it to end 2026 at 83.1% of GDP. Despite the relatively small fiscal deficit, the high level of both debt and interest rates make the debt/GDP trajectory concerning. The debt-stabilizing primary result is currently around 3% of the GDP, which means that a fiscal effort of close to 3.5p.p. of the GDP will have to be carried out to stabilize the public debt.

Exhibit 12: Debt/GDP has increased almost 10p.p. since the beginning of Lula III
Debt/GDP and primary balance (% GDP)



Source: Brazilian Central Bank (BCB)

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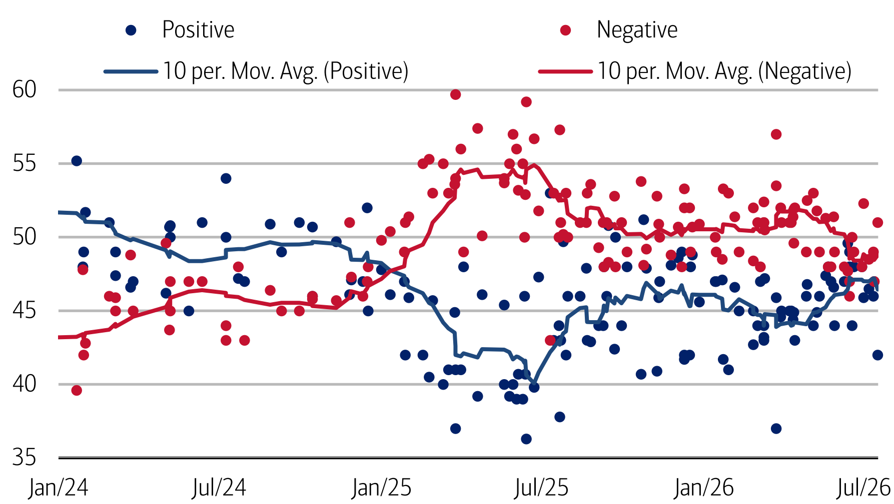
Composition of expenditure makes the adjustment more challenging

When looking solely at the fiscal effort necessary to stabilize the debt, a 3.5p.p. of GDP adjustment may not seem a difficult challenge. In Argentina, for instance, the Milei administration conducted an almost 5p.p. of GDP adjustment (see: Argentinopedia: Reforms showtime, section 1.4), mainly via expenditure cuts (4.3% of GDP). However, in Brazil, the government's spending structure is very rigid, with more than 90% of the expenses being considered mandatory. In practice, this means that some expenses are very hard to cut (pensions, for instance), and other expenses would need congressional approval (the change of bills or even the constitution) to be reduced. Therefore, a more feasible fiscal adjustment would be reducing the pace of growth of expenses. In this strategy, economic growth, and, with it, revenue growth, would outpace the growth of outlays, improving the country's primary balance. One key measure in this sense is the de-linkage of pensions and social benefits from the minimum wage. For more details on the Brazilian fiscal outlook see: Dear Next President, fiscal patience is over.

Exhibit 13: Lula 3 administration's approval rate picked up significantly since May
Positive and negative evaluation rates of presidential performance



Source: AtlasIntel, Futura, Nexus, Meio Ideia, DataFolha, Quaest, PoderData, Real Time Big data, Ipec, BofA Global Research

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Key forecasts

Exhibit 14: Economic forecasts
GDP growth, inflation and policy rate forecasts for the major economies

	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F	2028F
Global and Regional Aggregates, %											
United States											
Real GDP growth [1]	2.5	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.3	2.2	1.9
CPI inflation	3.8	3.4	3.1	2.2	2.0	1.8	2.3	2.7	3.3	2.1	2.3
Policy Rate (EoP)	3.63	3.88	4.38	4.38	4.38	4.38	4.38	3.63	4.38	4.38	4.38
Euro area											
Real GDP growth [1]	0.6	1.4	1.5	1.3	1.2	1.1	1.1	1.5	0.5	1.3	1.1
CPI inflation	3.0	2.8	2.6	2.2	1.4	1.5	1.5	2.1	2.6	1.7	1.8
Policy Rate (EoP)	2.25	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.50	2.00	1.50
China											
Real GDP growth [2]	4.6	4.5	4.4	4.3	4.4	4.6	4.5	5.0	4.5	4.5	4.3
CPI inflation [3]	1.3	1.3	0.8	0.9	0.4	0.6	0.7	0.0	1.0	0.6	1.2
Policy Rate (EoP)	1.40	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]	0.7	0.4	0.6	0.5	1.4	0.6	0.8	1.1	0.6	0.7	0.7
CPI inflation	1.5	1.8	2.2	3.1	1.2	0.8	0.1	3.2	1.7	1.3	1.4
Policy Rate (EoP)	1.00	1.00	1.25	1.50	1.50	1.50	1.75	0.75	1.25	1.75	1.75
Global Aggregate [4]											
Real GDP growth								3.5	3.2	3.5	3.3
CPI inflation								2.5	3.0	2.4	2.5
Policy Rate (EoP)								3.74	3.98	3.80	3.64
Emerging Markets Aggregate [4]											
Real GDP growth								4.8	4.4	4.6	4.4
Real GDP growth (ex-China)								4.6	4.4	4.7	4.5
CPI inflation								2.6	2.8	1.9	2.0
Policy Rate (EoP)								4.42	4.44	4.23	4.06

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 15: Markets forecasts
Forecasts for FX, interest rates, commodities and equities

	spot	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)								
EUR/USD	1.14	1.12	1.15	1.16	1.18	1.19	1.20	1.22
USD/JPY	164	156.00	152.00	150.00	148.00	146.00	145.00	145.00
USD/CNY	6.78	6.80	6.70	6.70	6.70	6.60	6.60	6.60
GBP/USD	1.33	1.32	1.37	1.38	1.40	1.43	1.45	1.47
Interest rates (% EoP)								
US 10yr	4.70	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany 10-year	3.20	2.90	2.90	2.75	2.70	2.70	2.60	2.50
Japan 10yr	2.81	2.65	2.85	3.00	2.95	2.90	3.00	2.80
Commodities [1]								
Oil - WTI ($/bbl)	91.8	75.0	69.0	68.0	63.0	65.0	66.0	NA
Oil - Brent ($/bbl)	100.4	79.0	73.0	72.0	67.0	69.0	70.0	NA
Gold ($/oz)	4028	3900	4250	4750	5000	5000	4500	4000
Equities (EoP)								
S&P 500	7408						7100	
Stoxx 600	639		530				565	

Source: BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 16: Global Economic Forecasts

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Global and regional aggregates												
Global	3.5	3.2	3.5	3.3	2.5	3.0	2.4	2.5	3.78	3.98	3.80	3.64
Global ex US	3.8	3.4	3.7	3.6	2.4	3.0	2.4	2.5	3.82	3.90	3.69	3.50
Global ex China	3.1	2.8	3.2	3.0	3.2	3.7	3.0	2.9	4.49	4.75	4.53	4.33
Developed Markets	1.7	1.4	1.7	1.5	2.6	2.8	1.9	2.0	2.83	3.26	3.12	2.95
Emerging Markets	4.8	4.4	4.6	4.4	2.4	3.2	2.7	2.7	4.41	4.44	4.23	4.06
Emerging Markets ex China	4.6	4.4	4.7	4.5	4.0	4.6	4.1	3.7	6.26	6.30	5.96	5.69
Europe, Middle East and Africa (EMEA)	2.2	1.3	2.3	2.0	4.6	4.0	3.0	2.8	4.66	4.77	4.10	3.63
European Union	1.6	0.7	1.5	1.3	2.5	2.7	1.9	1.9	2.57	2.79	2.34	1.85
Emerging EMEA	3.5	2.6	4.0	3.2	9.7	7.2	5.6	4.8	8.51	8.38	7.26	6.70
Emerging Asia	5.5	5.2	5.2	5.1	0.9	2.3	2.0	2.3	2.77	2.88	2.94	2.94
ASEAN	5.0	4.8	4.6	5.0	1.6	3.5	2.8	2.6	3.95	4.10	3.92	3.45
Latin America	2.3	2.1	2.2	2.1	3.7	4.8	4.1	3.5	8.42	8.31	7.87	7.35
G6												
US	2.1	2.3	2.2	1.9	2.7	3.3	2.1	2.3	3.625	4.375	4.375	4.375
Euro area	1.5	0.5	1.3	1.1	2.1	2.6	1.7	1.8	2.25	2.50	2.00	1.50
Japan	1.1	0.6	0.7	0.7	3.2	1.7	1.3	1.4	1.00	1.25	1.75	1.75
UK	1.4	1.1	1.3	1.5	3.4	3.1	2.3	2.1	3.75	3.75	3.50	3.50
Canada	1.9	0.6	1.5	2.1	2.1	2.7	2.2	2.0	2.25	2.25	2.25	2.75
Australia	2.0	1.8	1.7	2.0	2.9	4.0	2.3	2.5	4.35	4.35	3.85	3.60
Euro area												
Germany	0.3	0.8	1.2	0.9	2.3	2.8	2.0	2.0	2.25	2.50	2.00	1.50
France	0.9	0.6	1.1	1.0	0.9	2.0	1.4	1.5	2.25	2.50	2.00	1.50
Italy	0.7	0.6	0.7	0.8	1.6	2.5	1.5	1.6	2.25	2.50	2.00	1.50
Spain	2.8	2.3	1.7	1.5	2.7	2.8	2.0	2.1	2.25	2.50	2.00	1.50
Netherlands	1.8	1.0	1.2	1.3	3.0	2.6	1.8	1.9	2.25	2.50	2.00	1.50
Belgium	1.0	0.7	1.2	1.0	3.0	3.1	1.5	1.7	2.25	2.50	2.00	1.50
Austria	1.0	0.9	1.4	1.5	3.6	3.0	2.1	2.2	2.25	2.50	2.00	1.50
Greece	2.2	1.7	1.8	1.7	2.9	3.9	2.5	2.2	2.25	2.50	2.00	1.50
Portugal	1.9	1.7	1.8	1.8	2.2	2.8	1.8	1.8	2.25	2.50	2.00	1.50
Ireland	12.4	-12.9	3.7	2.3	2.1	3.2	1.8	1.9	2.25	2.50	2.00	1.50
Finland	0.8	1.2	1.2	1.3	1.8	2.5	1.4	1.8	2.25	2.50	2.00	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.4	2.3	2.0	2.50	2.75	2.75	3.00
Switzerland	1.4	1.0	1.4	1.6	0.2	0.5	0.7	0.7	0.0	0.00	0.00	0.00
Norway	1.7	0.8	0.7	1.2	3.0	3.2	2.6	2.4	4.25	4.25	3.75	0.00
Sweden	1.7	1.9	2.2	2.0	2.6	1.0	1.7	2.6	1.75	2.00	2.00	2.00
Emerging Asia												
China	5.0	4.5	4.5	4.3	0.0	1.0	0.6	1.2	1.40	1.40	1.40	1.40
India	7.5	7.0	7.5	7.5	2.1	4.2	4.8	4.5	5.25	5.50	5.75	6.00
Indonesia	5.1	5.3	5.4	5.8	1.9	3.3	2.9	2.8	5.75	6.00	5.50	4.50
Korea	1.0	3.1	2.2	2.0	2.1	2.6	2.1	2.0	2.75	3.00	3.25	3.25
Taiwan	8.8	12.0	7.0	5.0	1.7	2.0	1.7	1.8	2.00	2.25	2.38	2.38
Thailand	2.4	2.1	2.2	2.0	-0.1	2.4	0.1	0.7	1.00	1.00	1.00	1.00
Malaysia	5.2	4.6	4.5	4.5	1.4	2.0	2.2	2.0	2.75	2.75	2.75	2.75
Philippines	4.4	2.5	3.5	4.5	1.7	6.7	4.9	3.5	4.75	5.00	5.00	4.25
Singapore	5.0	4.5	2.3	2.7	0.9	2.0	2.2	1.7				
Hong Kong	3.5	3.5	3.0	2.6	1.4	2.1	2.0	2.0	4.00	4.00	3.50	3.50
Vietnam	8.0	8.0	7.0	7.2	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 17: Global Economic Forecasts (continued)

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Latin America												
Brazil	2.3	2.3	1.3	1.0	4.3	5.5	4.7	3.5	14.25	14.00	13.00	12.00
Mexico	0.7	0.8	1.5	1.3	3.7	4.0	4.0	4.2	6.50	6.50	6.50	6.50
Argentina	4.4	2.5	3.5	3.5	31.5	30.1	18.1	12.0				
Colombia	2.6	2.5	2.9	3.1	5.1	6.5	4.6	3.6	12.00	12.00	11.00	9.25
Chile	2.5	1.2	3.0	3.0	3.4	4.0	3.2	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.4	4.5	1.5	4.3	2.6	2.0	4.25	4.25	4.25	4.25
Ecuador	3.7	3.2	2.7	3.0	1.9	2.4	2.3	2.0		0.00	0.00	0.00
Uruguay	1.8	2.0	2.0	2.5	3.7	4.3	4.5	4.6	5.75	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	2.5	3.5	3.0	3.25	3.25	3.25	3.25
Dominican Republic	2.1	3.5	3.9	3.5	5.0	6.0	4.8	4.0	5.25	5.25	5.25	5.25
Panama	4.4	4.2	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	3.2	3.2	3.2	0.9	2.5	1.8	1.5				
Guatemala	4.3	3.9	3.7	3.8	1.7	2.9	2.7	2.8	3.50	3.50	3.50	3.50
EEMEA												
Türkiye	3.7	2.8	4.2	3.3	34.9	31.2	27.1	30.0	37.00	36.00	31.00	34.00
Nigeria	4.0	4.1	4.3	4.0	23.0	16.0	12.0	10.0	26.50	26.50	22.00	19.00
Egypt	4.4	4.4	4.5	4.5	20.4	13.2	10.0	8.0	19.50	19.00	16.00	14.00
Poland	3.7	3.2	2.8	2.5	3.6	2.7	2.5	2.5	3.75	3.75	3.75	3.25
South Africa	1.1	1.3	1.5	1.7	3.2	4.1	4.0	4.0	7.00	7.25	6.25	6.00
Romania	0.6	0.0	2.5	2.5	7.3	8.0	4.3	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.0	2.5	2.0	2.4	2.0	3.75	4.00	4.00	3.50
Israel	2.9	3.6	4.5	4.0	3.0	2.0	1.9	2.0	3.50	3.75	3.25	3.25
Hungary	0.4	1.9	3.0	2.5	4.4	2.0	2.5	2.5	5.75	5.25	4.50	3.50
Saudi Arabia	4.5	0.6	6.1	2.9	2.0	2.4	2.0	2.0	4.25	3.50	3.50	5.00

Source: BofA Global Research

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Exhibit 18: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027	2028
Developed Markets											
US	2.5	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.3	2.2	1.9
Euro area	0.6	1.4	1.5	1.3	1.2	1.1	1.1	1.5	0.5	1.3	1.1
Japan	0.7	0.4	0.6	0.5	1.4	0.6	0.8	1.1	0.6	0.7	0.7
UK	0.6	0.6	1.0	1.6	1.8	1.4	1.4	1.4	1.1	1.3	1.5
Canada	1.8	1.6	1.2	1.5	1.5	1.5	1.5	1.9	0.6	1.5	2.1
Australia	0.8	1.2	2.0	1.6	1.6	2.0	2.0	2.0	1.8	1.7	2.0
G6 Aggregate	1.5	1.7	1.8	1.6	1.7	1.5	1.5	1.7	1.4	1.7	1.5
Emerging Markets											
China	3.8	3.9	4.5	4.9	4.5	4.4	4.3	5.0	4.5	4.5	4.3
India	-1.2	15.9	7.7	8.1	0.8	13.6	6.8	7.5	7.0	7.5	7.5
Indonesia	4.3	4.1	6.2	5.3	6.6	3.2	7.0	5.1	5.3	5.4	5.8
South Korea	2.5	0.2	0.6	3.4	2.7	2.8	2.5	1.0	3.1	2.2	2.0
Thailand	-3.1	1.2	7.1	3.3	1.0	-4.9	8.9	2.4	2.1	2.2	2.0
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	4.5	2.3	2.7
Hong Kong	-16.3	11.4	15.2	0.8	1.5	-2.1	-2.1	3.5	3.5	3.0	2.6
Brazil	2.5	0.8	1.7	0.9	1.7	1.8	-0.1	2.3	2.3	1.3	1.0
Mexico	2.5	1.7	1.4	1.6	1.7	1.0	1.0	0.7	0.8	1.5	1.3
Colombia	2.4	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.5	2.9	3.1
Chile	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	1.2	3.0	3.0
Peru	2.4	4.9	4.9	4.1	4.5	4.5	4.5	3.4	3.5	4.4	4.5
Türkiye	2.4	4.2	4.5	4.5	4.1	4.1	4.1	3.7	2.8	4.2	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.3	1.5	1.7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Monetary policy forecasts

Exhibit 19: Monetary policy forecasts
End of period

Central Banks	Current	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27
Developed Markets													
Fed (upper bound)	3.75	3.75	3.75	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00
BoJ	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.50
BoE	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
BoC	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Riksbank	1.75	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
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	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75
RBA	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
RBNZ	2.50	2.50	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Emerging Asia													
China 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	5.25	5.25	5.25	5.25	5.25	5.25	5.50	5.50	5.75	5.75	5.75	5.75	5.75
South Korea	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25
Taiwan	2.00	2.00	2.00	2.125	2.125	2.125	2.25	2.25	2.25	2.375	2.375	2.375	2.375
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Philippines	4.75	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America													
Brazil	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00
Colombia	12.00	12.00	12.00	12.00	12.00	12.00	12.00	11.75	11.75	11.75	11.50	11.50	11.50
Mexico	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Peru	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Emerging EMEA													
Czech Republic	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Hungary	5.75	5.75	5.50	5.50	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50
Israel	3.50	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Poland	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Türkiye	37.00	37.00	37.00	37.00	36.00	36.00	36.00	36.00	36.00	35.00	34.00	34.00	33.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 20: Quarterly forecasts

End of period

	Spot	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts								
G6								
EUR-USD	1.14	1.12	1.15	1.16	1.18	1.19	1.20	1.22
USD-JPY	164	156	152	150	148	146	145	145
EUR-JPY	186	175	175	174	175	174	174	177
GBP-USD	1.33	1.32	1.37	1.38	1.40	1.43	1.45	1.47
USD-CAD	1.41	1.44	1.43	1.42	1.40	1.38	1.38	1.36
AUD-USD	0.70	0.70	0.71	0.72	0.72	0.73	0.73	0.73
Asia								
USD-CNY	6.78	6.80	6.70	6.70	6.70	6.60	6.60	6.60
USD-INR	96.5	97.0	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	17978	17900	18000	18100	18200	18200	18200	18200
USD-KRW	1465	1550	1560	1540	1520	1500	1500	1500
Latin America								
USD-BRL	5.08	5.00	5.00	5.00	5.00	5.00	5.00	5.00
USD-MXN	17.50	17.50	17.50	17.75	18.00	18.25	18.50	19.00
Emerging Europe								
EUR-PLN	4.33	4.33	4.28	4.25	4.22	4.18	4.15	4.10
USD-TRY	47.34	49.30	51.70	53.80	55.90	57.90	60.00	73.20
USD-ZAR	16.81	16.80	16.50	16.30	16.00	15.80	15.60	15.30
Rates forecasts								
2yr								
US 2-year	4.36	4.50	4.50	4.40	4.35	4.30	4.25	4.00
Germany 2-year	2.89	2.60	2.55	2.25	2.15	2.10	2.05	1.85
Japan 2-year	1.52	1.40	1.65	1.85	1.83	1.80	2.00	1.95
UK 2-year	4.49	4.15	4.05	3.95	3.85	3.75	3.60	3.60
Canada 2-year	2.96	2.75	2.75	2.85	2.90	2.95	3.00	3.00
10yr								
US 10-year	4.70	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany 10-year	3.20	2.90	2.90	2.75	2.70	2.70	2.60	2.50
Japan 10-year	2.81	2.65	2.85	3.00	2.95	2.90	3.00	2.80
UK 10-year	5.10	5.00	5.00	4.85	4.75	4.60	4.50	4.50
Canada 10-year	3.64	3.50	3.50	3.55	3.60	3.60	3.65	3.75
Commodities forecasts								
WTI Crude Oil - $/bbl	91.8	75.0	69.0	68.0	63.0	65.0	66.0	NA
Brent Crude Oil - $/bbl	100.4	79.0	73.0	72.0	67.0	69.0	70.0	NA
Gold $/oz	4029	3900	4250	4750	5000	5000	4500	4000

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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