

Global Economic Weekly

The Fed is passively easing policy

Global Letter: The Fed is passively easing policy

Amid rising inflation and inflation expectations, the Fed is effectively easing monetary policy by not hiking rates, loosening financial conditions. The textbook policy response is to look through supply shocks, but after five years of above-target inflation, and with supply shocks becoming the new normal in a more geopolitically fragmented world, sound risk management for monetary policy may advocate otherwise. Furthermore, the recent decomposition of inflation is bleak. Unless core goods inflation somehow becomes negative, no cuts should be in sight any time soon, even with a deal in Iran.

US: June FOMC preview – park the bus

We expect the FOMC to keep the policy rate at 3.5-3.75% in June and remove the easing bias from its statement. We don't anticipate any dissents. The SEP should show higher inflation, a lower u-rate and no cuts this year. A few policymakers will likely project hikes. We don't think Warsh will submit forecasts. We expect him to lean dovish in the presser, arguing: i) supply shocks are one-offs, ii) the Fed should be forward looking on AI disinflation, iii) trimmed-mean PCE and wage inflation don't look problematic.

Euro area: ECB review – indeed, a short hiking cycle

ECB delivered the first hike (25bp) of what appears a short-hiking cycle - in line with our base case of two hikes. The balance of risks has shifted somewhat, towards a third hike being more likely than "one and done".

UK: Super Thursday

We expect BoE to be on hold (7-2 vote. Relative to current patient approach, risks tilted to somewhat hawkish tone. We expect July and Sept hikes, with risks of one and delays. Makerfield by-election (18 June): we look at scenarios and implications.

Japan: Oil shock – Pipeline pressures set to lift CPI

Oil price increases are likely to feed into CPI, pushing inflation back above 3% from autumn. Faster upstream transmission and more aggressive pricing by firms could further intensify inflation pressures. If inflation expectations overshoot, the BoJ is likely to turn more hawkish.

Emerging EMEA: What we learnt in London Small Talks

Hungary stronger sentiment on EUR commitment. Romania downgrade risks not imminent. Czechia looser fiscal justifies rate hike. SSA credit concerns concentrated in Senegal, Mozambique, with Gabon flagged too. Türkiye reserve pressures seen as manageable.

Latin America: Mexico – Inflation slips below 4%

We **updated our inflation forecasts.** We now expect 4.54% yoy and 4.03% for end-2026 and 2027. Balanced risks ahead. We continue to expect Banxico to hold at 6.5% for the rest of the year, with downside risks given a weak economy.

12 June 2026

Economics
Global

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Claudio Irigoyen
Global Economist
BofAS
+1 646 855 1734
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
+1 646 743 5373
antonio.gabriel@bofa.com

Global Economics Team
BofAS

See Team Page for List of Analysts

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Global Letter

Claudio Irigoyen
BofAS

Antonio Gabriel
BofAS

The Fed is passively easing policy

With rising inflation and inflation expectations, both realized and ex-ante real interest rates are falling. By not hiking rates, the Fed is effectively easing monetary policy and contributing to loose financial conditions and high global liquidity. The textbook policy response is to look through supply shocks, as Team Transitory would argue, 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. Furthermore, the recent decomposition of inflation is bleak. The tailwind from housing will likely fade, leaving core services inflation at elevated levels. Unless core goods inflation somehow becomes negative, no cuts should be in sight from a normative point of view, even with a deal in Iran. We have been arguing that the economy doesn't need further easing since well before the war. However, normative and positive economics do not always meet at the same corner.

Supply shocks are becoming the new normal

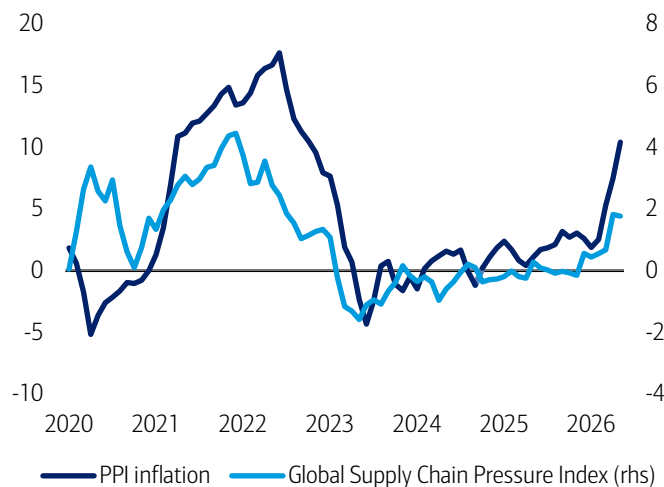
From Covid-related supply chain disruptions to the war in Ukraine, Houthi attacks in the red sea, the trade war, and the Iran war, supply shocks are becoming a perennial story. And in a world of more geopolitical fragmentation, this is unlikely to subside anytime soon. Amid higher global supply chain pressures and rising producer prices, the outlook for inflation is not particularly encouraging (Exhibit 1).

The composition of inflation paints a bleak picture

The truth of the matter is that back in the day, services inflation was persistently above target, but negative goods inflation helped achieve the Fed's price stability target. However, core goods inflation spiked after Covid, and after coming down, Trump tariffs delivered another blow. In the meantime, housing disinflation helped keep a lid on core inflation, but that is likely to subside after its reversal. This leaves the onus for disinflation on core goods (Exhibit 2).

Exhibit 1: Supply chains are becoming strained

US PPI inflation (% yoy) and Global Supply Chains Pressure Index

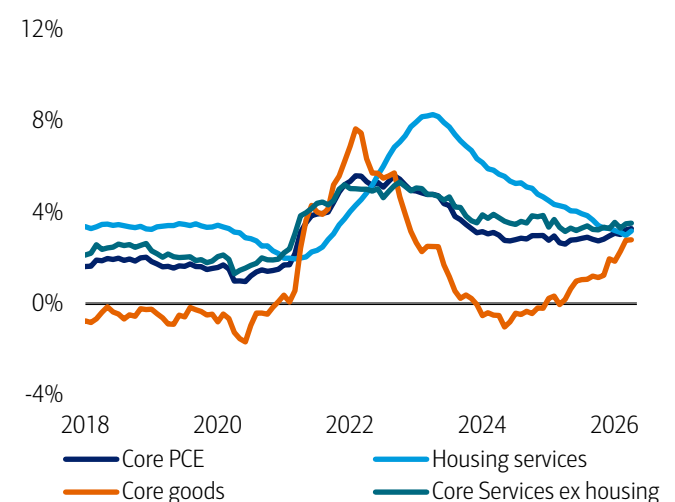


Source: BofA Global Research, Haver

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Exhibit 2: Inflation has been moving further away from the target

PCE Inflation measures (% yoy)



Source: BofA Global Research, Haver

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But while tariff inflation should gradually roll off the yearly inflation figures, any passthrough from the energy shock, the push from the still early phases of AI-related investments, and continued de-risking of global supply chains are likely to keep goods inflation above their pre-pandemic trend. Reaching 2% inflation will not be an easy task.

Not hiking means easing

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.

Short-term inflation expectations should matter after five years

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.

Furthermore, even though longer-term inflation expectation appear relatively well-anchored, short-term expectations should arguably matter after half a decade of above-target inflation. After all, do you know of any company that set prices based on 5y5y inflation expectations? We could be risking a lost decade for inflation, with potentially persistent damage to Fed credibility.

US

Aditya Bhave

BofAS

Jun FOMC preview: park the bus

- We expect the FOMC to keep the policy rate at 3.5-3.75% in June and remove the easing bias from its statement. We don't anticipate any dissents.
- The SEP should show higher inflation, a lower u-rate and no cuts this year. A few policymakers will likely project hikes. We don't think Warsh will submit forecasts.
- We expect Warsh to lean dovish in the presser, arguing: i) supply shocks are one-offs, ii) the Fed should be forward looking on AI disinflation, iii) trimmed-mean PCE and wage inflation don't look problematic.

Complete report: [US Economic Weekly: June FOMC preview: park the bus 12 June 2026](#)

Statement: no defense for easing bias

We expect a few changes in the June FOMC statement. Most importantly, we think the FOMC will drop the easing bias from its forward guidance language. The committee came close to removing the bias at the April meeting, with three dissenting votes in favor of doing so. The data flow since then has been hawkish: large beats on payrolls and elevated inflation. In the intermeeting period, Gov. Waller, a leading dove last year, was explicit that the easing bias must go.

To this end, in our view, the phrase "extent and timing of additional adjustments to the target range" will be edited to omit "additional" and potentially also "extent and timing of". Another option is to refer to "any adjustments". There is also a possibility that Chair Warsh will convince the FOMC to drop that sentence altogether, given his stated objection to forward guidance.

The other major change to the statement should be an upgrade to the language around job growth. We feel it is no longer appropriate to say that job gains have remained low. Instead, the description of labor market conditions could read as follows: "Job gains have picked up and the unemployment rate has been little changed in recent months."

Given Warsh's focus on cutting the balance sheet, the FOMC statement at some point in the near term is likely to announce the Fed's intention to take measures in that direction. But the June meeting is probably too early.

We don't expect any dissents. The hawks who dissented in April should be satisfied with the removal of the easing bias. None of them have called for immediate hikes. The one other dissent in April was from former Gov. Miran, in favor of a cut. Warsh has taken Miran's seat. We think Warsh will lean dovish, but we don't expect him to argue for a cut at this stage.

Finally, we'd note that there is a small risk that Chair Warsh might push through bigger changes to the FOMC statement. However, we doubt there has been enough time since he assumed office for a full overhaul.

SEP: hawks on the attack

Game still on, but Warsh likely to boycott

Will there even be a SEP in June? We think so. Warsh doesn't like forward guidance and it appears he wouldn't need a formal vote to get rid of the SEP, in theory. But when the Fed concluded its review of communications last year, Powell said that there weren't any proposed changes that the majority of the FOMC supported. So if Warsh were to do away with the SEP entirely, he would risk antagonizing most of his colleagues.



Instead, the path of least resistance for Warsh would be to decline to submit his own forecasts. He could argue that he simply didn't have enough time to work with the staff to build out a forecast, given that he was only sworn in on May 22. But we think he will be more direct, stating that he doesn't plan to submit SEP forecasts because he doesn't believe in forward guidance. This could be a "win-win" for Warsh – he could undermine the SEP without potentially upsetting the rest of the committee by abolishing it.

Exhibit 3: We expect the SEP to show higher inflation, lower unemployment and no cuts this year

Summary of Economic Projections

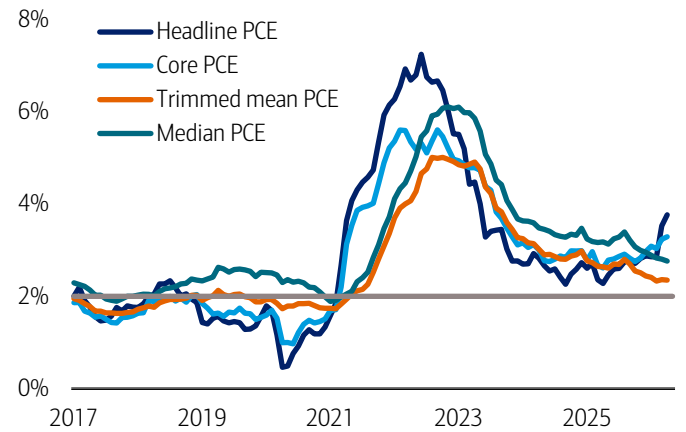
	2026	2027	2028	Longer Run
Change in real GDP (% 4Q/4Q)				
June (p)	2.1	2.3	2.1	2.0
March	2.4	2.3	2.1	2.0
Unemployment rate (%)				
June (p)	4.3	4.2	4.2	4.2
March	4.4	4.3	4.2	4.2
PCE inflation (% 4Q/4Q)				
June (p)	3.4	2.2	2.0	2.0
March	2.7	2.2	2.0	2.0
Core PCE inflation (% 4Q/4Q)				
June (p)	3.1	2.3	2.0	
March	2.7	2.2	2.0	
Federal funds target rate (midpoint)				
June (p)	3.625	3.375	3.125	3.125
March	3.375	3.125	3.125	3.125

Source: Federal Reserve Board, BofA Global Research

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Exhibit 4: Chair Warsh will likely continue to emphasize measures like trimmed mean and median inflation

PCE inflation (% y/y)



Source: BEA, Cleveland Fed, Dallas Fed

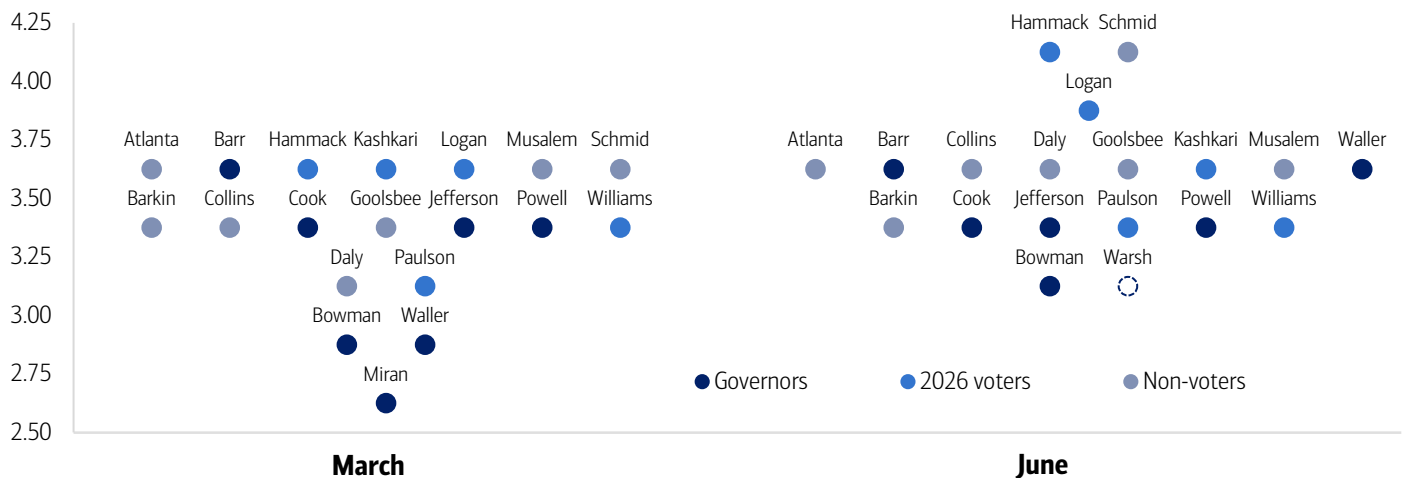
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Dots: moving up the field

We expect the median 2026 dot to show that policy will be on hold for the rest of the year. In March, seven of the 19 FOMC participants expected to stay on hold for the rest of the year. Given the hawkish shift in the data since then, it's likely that at least another three policymakers will shift to a projection of no cuts. A common theme in recent Fed speak has been unwillingness to keep looking through inflation shocks, after overshooting the target for five years. Exhibit 5 shows our best guess of how the 2026 dots will pan out, including who's who. The risk relative to our estimate is that even more policymakers will shift to a neutral stance for the year.

Exhibit 5: We anticipate a substantial hawkish shift in the 2026 dots

BofA estimates of which policymakers correspond to the 2026 dot plot forecasts from March, along with projections for June (%)



Source: Federal Reserve Board, BofA Global Research. Note: we don't expect Chair Warsh to submit SEP projections. But if he does, we think he'll project two cuts this year.

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Perhaps the more interesting question is, who wants to hike this year? Our base case is that there will be three dots showing 25-50bp of hikes in 2026: Hammack, Logan and Schmid. But it's possible that others, such as Kashkari, Musalem and Goolsbee, might also project hikes, either this year or next.

In terms of the rest of the dots, we think the longer run median will stay at 3.125%. The direction of travel is upwards, and we think the Fed is probably still a bit too low on r^* . But the median barely moved up in March, so we wouldn't expect another shift in June. In our view, the Fed has to show that it will hit its targets by 2028. This means the 2028 median should be unchanged at 3.125%, in line with the longer-run median.

If we are correct on the above, the medians would have to show 50bp of cuts in 2027-28. We don't have a lot of conviction on how those cuts will be distributed. We're penciling in one cut in each year. This would mean the 2027 median rises by 25bp to 3.375%.

Macro projections: upsets unlikely

We expect the 2026 macroeconomic projections to be marked to market. Growth should get revised down from 2.4% to 2.1%, reflecting the weakness in 1Q. Inflation, particularly headline, will get marked up significantly. We think the u-rate could get revised down a tenth to 4.3%, though this is a close call. There might be enough lingering concerns among policymakers about downside risks to labor and unfavorable seasonality in the summer for the 2026 median to stay at 4.4%.

We don't anticipate major changes in the out-year forecasts. We'll be watching the 2027 inflation projections most carefully. Given growing concerns about inflation persistence, we think y/y core could get marked up by at least a tenth. Headline should be softer than core, on the assumption that oil prices normalize by end-2027.

Press conference: Warsh substitution a game changer?

Fed Chair transitions are rare events. This makes the June press conference the most significant one in recent history. We will learn about not only Warsh's policy stance but also his preferred style of communication. For example, will he take fewer questions? Will he make opening remarks? Will they be longer or shorter than Powell's?

Our base case remains that Warsh will lean dovish. We think he will say that the Iran conflict doesn't affect underlying inflation (it only has a one-off effect on price levels) so the Fed should look through it, particularly given recent news on a resolution. He'll also reiterate that the Fed should be forward looking about the disinflationary AI productivity shock. Still, the data flow doesn't allow him to argue credibly for near term cuts, and he likely recognizes that. So we expect him to just make a case for patience and note that there could be room for cuts later this year, once the Iran conflict has been resolved.

As he did in his nomination hearing, we think Warsh will emphasize the Dallas Fed trimmed mean, which is running at 2.35%, nearly 100bp below core PCE (Exhibit 4). Another way to push back against inflation concerns would be to repeat his comments that policymakers need to do a better job of measuring inflation. Warsh might also highlight research by former Gov. Miran suggesting that goods PCE inflation might be overstated due to measurement issues in computer software accessories, which have a much larger weight in PCE. But if we're wrong and Warsh concedes that inflation is becoming problematic, markets will become more strident about pricing in hikes.

Warsh doesn't tend to talk much about labor, but we think that will need to change if he wants to make a compelling dovish argument. He said at his nomination hearing that the labor market is close to full employment. Given the upside surprises in payrolls since then, it will be hard to take a more dovish stance. But Warsh would probably push back against hikes by noting that the stability of the u-rate and tepid wage inflation suggest



the labor market isn't overheating. Given his focus on AI, he might also cite the risk of labor displacement as adoption picks up in coming quarters.

Warsh will likely also field questions about the balance sheet. We expect him to say that it is imperative to reduce the Fed's footprint in markets. In our view, it is too early for him to announce specific measures to this end. Warsh will probably note that changes to balance sheet policy will be made slowly and deliberately, so as not to disrupt markets.

Finally, we expect Warsh to reduce the cadence of press conferences to once per quarter. There is a decent chance he will announce this change at the June presser



Euro area

Ruben Segura-Cayuela

BofA Europe (Madrid)

ECB review: Indeed, a short hiking cycle

Complete report: [Europe Economic Weekly: Leading the pack of hawks 12 June 2026](#)

- ECB delivered the first hike (25bp) of what appears a short-hiking cycle - in line with our base case of two hikes.
- The balance of risks has shifted somewhat, towards a third hike being more likely than "one and done".
- Rates: Relief rally, as door to 4th hike remains closed for now. EUR: limited impact, measured would be good.

One and more soon

We expected the ECB to hike all three policy rates by 25bp. And that is what we got. The ECB delivered the well-telegraphed hike this week. And that came, also as expected, with no pre-commitment on the trajectory, a data-dependent approach, but still an implicit steer that absent very good news (on energy prices) or very bad news (on the economy), they're not done here.

Indeed, Lagarde took us back to the watchers speech when she described three broad scenarios depending on the size and the persistence of the shock. And she implied that we are in a scenario that needs a measured response (not a forceful one). That, together with forecasts that include more than one hike, while still having inflation back at target, means they are likely not done yet.

That means a short hiking cycle in line with our base case of two hikes, but a third one is possible if there are additional surprises in the data. We still feel comfortable with our call for 50bps in total. Even the adverse scenario could be consistent with a total of 50bp needed to bring inflation back to target by the end of 2028. But the balance of risks has shifted somewhat.

A small change in the balance of risks

Indeed, the balance of risks is shifting towards a third hike being more likely than "one and done". For starters, one could argue that even in the mild scenario from the ECB you still need two hikes to bring inflation back to target by the end of 2028. And, while above we argue that the adverse scenario could be seen as consistent with two hikes also, it's not a clear case and a third could be needed.

More importantly, we would push back on the idea of the ECB doing a "one and done" or an "insurance" hike. Lagarde also pushed back against that this week. "One and done" is not unthinkable, but this is a scenario they would arrive at by accident, not something they have in mind today. If they were to skip July and things evolved very positively in the run-up to the September meeting (probably more than in the milder scenario), they could be done at that point.

Where do we go next?

As a reminder, our expectation, with low conviction, is that they will deliver another hike in July. And the conclusion from today is that July is live, but it will depend on the urgency generated by energy prices when we get there, otherwise they will deliver in September. At the same time, the latest inflation print increases the odds of July if some of the move in Services proves not to be temporary.



Cuts will need to follow, eventually. 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 still implies ECB policy rates returning to current levels at most by end-27 (depo at 1.75% in our base case).

Rates: relief rally in rates

The rates market rallied on the back of the ECB's press conference. President Lagarde repeated her analysis on the different types of energy price shocks and the differences in response they necessitate (look through, measured, forceful). Her emphasis on "measured" being the right response left the market reassured that the three hikes currently priced are likely a maximum. Lagarde also flagged the rather optimistic wage growth assumptions underpinning the ECB's forecasts which also suggest that the chance of cuts in 2027 may be higher than previously priced. The money market curve inverted slightly further and Bunds outperformed USTs, in line with our view.

EUR: limited impact, measured would be good

The ECB meeting's EUR impact was limited, with the FX price also somewhat affected by Iran headlines and the US PPI numbers. Most clients perceive ECB hikes as either risk management or a policy mistake, which has been in line with the downward move in belly real rates since the start of the war. Balanced guidance and a measured response would be the "sweet spot" for the EUR.

UK

Sonali Punhani
MLI (UK)

Ruben Segura-Cayuela
BofA Europe (Madrid)

BoE preview: Hold to assess

Link to the full report: [UK Watch: BoE preview: Hold to assess 11 June 2026](#)

We expect the Bank of England (BoE) to keep the Bank Rate on hold at 3.75% at its meeting next week. Dovish inflation/labour market data, lack of explicit guidance on June and MPC's patient approach is likely to mean a hold. The dovish data should reduce the urgency for the BoE to act, especially with swing voters not showing a rush to hike. So far, the MPC is taking comfort from the tightening in financial conditions which they say can give them time to assess and gather evidence on whether to hike or not.

Data since April has been somewhat dovish

Data since April has been somewhat dovish with a 100K fall in April payrolls, rise in unemployment to 5.0%, softer PMIs, softer private pay growth at 3.0% and weaker than expected inflation. We would argue that the data was less dovish than it appears at face value. We would be cautious in overinterpreting the downside surprise in April services inflation/ big fall in April payrolls, given erratic components driving some of the fall. Payrolls tend to be revised often and in April revisions are normally large. But nonetheless it should reduce the urgency for the BoE to act. Data next week would be key to see if the volatile weakness in inflation/ labour market reverses to some extent.

The DMP showed a further small pick-up in near term inflation expectations/ business own price expectations in May on a three-month basis, while the single month print showed a small moderation. Medium-term inflation expectations remained unchanged while wage expectations looked benign for now. We think DMP was not alarming enough for the BoE to hike in June (especially with the fall in single month), but the longer energy prices remain high, bigger risks of elevated inflation expectations persisting. Household expectations softened from the highs in March, but are still much higher than pre-war levels (short term at 4.7% in May vs pre-conflict levels of 3.3% and long term at 4.0% vs pre-conflict levels of 3.6%)

At the same time on the hawkish side, price pressures dominated in the PMIs- input costs rose at the second fastest pace since November 2022 and output price inflation was the second highest since February 2023 (exceeded only by April). The big acceleration in input and output prices/elevated firms inflation expectations would give weight to the argument that there are risks of second round effects materializing through firms pricing power.

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

We expect the MPC to vote 7-2 for a hold, with Pill and Greene voting for a hike. Pill voted for a hike in April while Greene has recently argued that the case for hikes is growing and noted that risk of acting is less severe than that of failing to act. We think there are risks for a 6-3 with potentially Mann (or Lombardelli) voting for a hike, though the guidance from her has been less explicit. Mann's paragraph was hawkish in April where she said she expected greater additional second round effects than in the scenarios and continued rising inflation outturns/expectations can tilt her to a hike. But she has also pointed to tighter financial conditions. 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.

Somewhat hawkish risks vs. current patient approach

The message is likely to be balanced, with the door open to modest hikes and the MPC to say that aggressive tightening is unlikely. Given the uncertainty we don't expect an explicit pre-commitment/guidance for a hike. We also expect it to continue to rule out



near term cuts even if energy prices fall. The BoE is likely to keep guidance unchanged that “It stands ready to act as necessary to ensure that CPI remains on track to meet the 2% target in the medium term.

But relative to the current patient approach, we think risks are tilted to a somewhat hawkish tone as the energy shock prolongs. Recent BoE speech from Bailey/Breeden signals less urgency. Bailey noted that tolerating inflation temporarily above 2% is appropriate, given uncertainty and weakness in the economy, while Breeden noted we don’t need to respond in June or July. But the BoE has also repeatedly noted that while continued weakness in activity/labour market could mean second round effects are modest, risks of them being stronger would rise the larger and more persistent the rise in global energy prices is. Tolerance would reduce if second round effects begin to emerge, which are likely to be stronger, the larger and more persistent the shock is.

With elevated energy prices for almost four months, the Committee could move towards considering a scenario with more persistent energy prices vs. what they had in Scenario A or B. The oil futures curve shows that spot oil prices are lower than the levels in April, but the oil futures are now pricing in a somewhat more persistent shock vs. the BoE’s Scenario A or B. This can open the door to acknowledging that risks of second round effects are rising, as the shock is getting more prolonged. We also think the BoE would want to validate the market pricing for hikes in order to maintain the tight financial conditions. Finally, if the data next week does reverse the weakness somewhat, as we expect, it would also likely push the MPC to sound a bit more hawkish.

Overall, we think risks are tilted towards the BoE showing a little less patience vs. now in order to sound credible in terms of delivering hikes.

We expect two hikes with risks of one and delays

We expect two hikes in July and September (with risks of one) to guard against second round effects. We expect energy prices to remain high through the year and we think this elevated shock can raise risks of second round effects, especially given above-target inflation in the past few years, consumer sensitivity to high inflation and already elevated inflation/wage expectations. Moreover, the BoE is currently taking some comfort from the tightening in financial conditions weighing on inflation, but the BoE actually needs to credibly deliver on the hikes priced in to maintain those tight financial conditions. We then expect three quarterly cuts from Q2 2027 to 3.5%, with risks of 3.25% and earlier cuts.

Risks are tilted towards delays. But we do worry that the more the BoE delays, greater the risks are that 1) market pricing for hikes reduces, undoing some of the tightening of the curve which is currently doing the work for them 2) second round effects begin to materialize. 3) Moreover, by July it would be hard to argue in our view that the shock is not persistent enough to worry about risks of second round effects (especially as July would require an update of scenarios on energy prices and inflation forecasts) if energy prices are still high.

But we do see some merit in the argument for a delay to September as September is when the MPC will have data on July inflation which is when the Ofgem price cap resets higher. Perhaps evidence on direct and indirect impacts and inflation expectations become stronger when households see their gas bills rise in July. As a result, we highlight risks of delays to our call of hikes in July and September. Moreover, a lasting deal which meaningfully reduces oil prices sustainably or labour market worsening materially would increase the risks of a look-through scenario for the BoE. Either way risks of look through are higher than more than 50 bps of hikes.

Back to fiscal

Link to the full report: [Liquid Insight: UK: Gearing up for super Thursday. 11 June 2026](#)



Potential scenarios in the upcoming Makerfield by-election

The upcoming by-election in Makerfield on 18 June is the next key event for UK's political and fiscal outlook. There are many scenarios, but if Andy Burnham were to win, he would be eligible to stand in a Labour leadership contest, in which a Survation poll indicates he is favourite to win. A loss for Burnham could mean either status quo or a leadership challenge with an alternative candidate standing from the soft left.

Economic and fiscal policy implications of a potential leadership change

Political uncertainty increases near term policy uncertainty and somewhat tighter financial conditions, which could weigh on growth. Sentiment data has weakened somewhat on the back of both global and domestic political uncertainty. The key question remains: What would the path of fiscal policy be post a potential leadership change? There is a large amount of uncertainty on this front.

1) Scenario 1- Starmer remains as PM or Streetering wins.

Markets are likely to price in broad policy continuity in this scenario. Commitment to fiscal rules is likely. But fiscal pressures are high even in this scenario on energy (we expect targeted temporary support to low-income households costing low single digit billions), public services (current plans imply real-terms cuts to unprotected day-to-day spending from 2028/29) and defence spending pressures. And in any case the fiscal space has reduced- we estimate that since March, the headroom has been reduced by close to £10bn from £23.6bn. The government has recently flagged risks that defence spending is likely to cost an additional £13-15bn over next four years, potentially capital heavy and possibly funded by cuts in other capital spending or taxes. Overall, we think spending pressures are likely to be met by cuts in other spending, higher taxes or near-term borrowing followed by medium term tightening (i.e. within confines of fiscal rules).

2) Scenario 2- A soft left candidate wins.

So far commentary from soft left is that fiscal rules are likely to be met, which we would expect in the near term to avoid a negative market reaction. But it may get more complicated in the medium term.

Several unconfirmed media reports (Financial Times) note that Burnham was looking at ways – within PSNFL – to boost investment in social housing (for example by using the National Housing Bank to provide cheap funding to housebuilders or National Wealth Fund, which currently is capitalized upto £27.8bn to provide seed funding to new regional banks that can attract private investment into social housing). The headroom within the PSNFL/debt rule is around £27bn (which likely has reduced given recent moves), which gives the government some space. This space could be increased if instruments used to boost capital spending include some financial assets (loans and equity stakes) that can be netted against PSNFL rule. But delivering subsidised social housing can still require upfront money and even if fiscal rules are met, the plans could raise gilt issuance. Also interest on extra debt issued would count in the stability rule.

Suggestions from soft left Tribune Group call for sticking to fiscal rules in the near term but have suggested reforms such as moving to a ten-year horizon to meet the debt target once current fiscal rules are met, which can increase risks of a rise in borrowing.

Public private partnerships, more public control in utilities, tax reform, investment in social care/housing or infrastructure and sectoral taxes are all potential policy choices that could be adopted if there were to be a left leaning Labour leader. On tax, Andy Burnham has previously floated the idea of increasing tax on land and property. Angela Rayner has signalled commitment to fiscal rules but suggested that OBR should better recognise benefits of higher public spending in its forecasts. She has previously suggested £3-4bn of tax rises and led reform on workers' and renters' rights.

Japan

Takayasu Kudo
BofAS Japan

Izumi Devalier
BofAS Japan

Pass-through from higher oil prices to CPI to intensify from autumn

See complete report: [Asia Economic Weekly: Japan: Oil shock: Pipeline pressures set to lift CPI from autumn 12 June 2026](#)

As a net resource importer, Japan faces additional cost-push pressure from higher import prices. Import prices and PPI rebounded in April-May, and the effect should feed into CPI, which has recently been moderating.

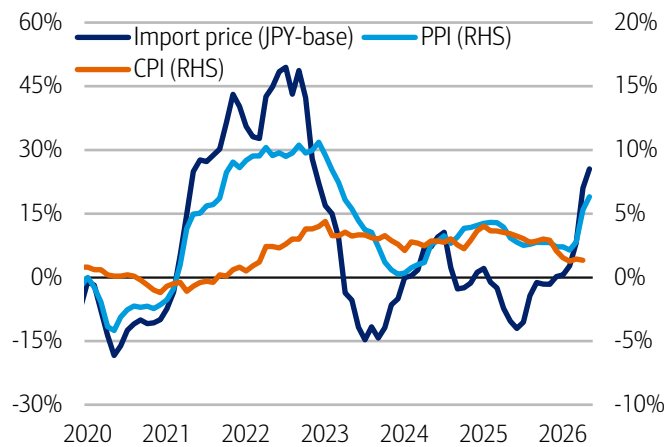
Based on autoregression (VAR) analysis, a 10% rise in oil prices lifts gasoline prices from the following month. Electricity follows with a lag of about six months. By contrast, ex-energy BoJ core CPI rises more gradually. The impact peaks about one year after the shock and then persists at a similar pace for roughly another year.

In the near term, energy CPI will face upward pressure. But government subsidies should sharply limit the rise. Together with negative food base effects, CPI yoy should continue to moderate through the summer.

Even so, cost pressures will continue to spread to non-energy items. Broad-based price increases should lift BoJ core CPI. Our estimates suggest a 1.3–1.4ppt boost to Japan-style core CPI in early 2027, implying a move from below 2% to above 3%.

Exhibit 6: Import prices and PPI have rebounded; CPI to follow

Import prices, PPI, and CPI (yoy%)

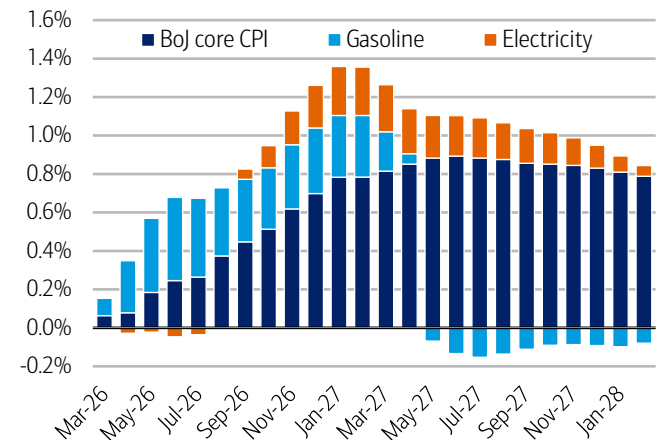


Source: BofA Global Research, MIAC, BoJ

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Exhibit 7: CPI impact of oil shock to build from autumn

Impulse-based contribution to core CPI (oil at \$100/bbl scenario)



Source: BofA Global Research, MIAC, Ministry of Health, Labour and Welfare (MHLW), Bloomberg
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Further upside risks: faster upstream transmission

Risks to this reacceleration are tilted to the upside. The factors below point to both faster and larger transmission than in the past.

First, price pressures have already moved from upstream to midstream sectors. Japan's crude import price rose 63% in May from February, but naphtha prices in the PPI rose 100%, while basic petrochemicals such as ethylene and propylene rose 59% on average, reflecting shortages of petrochemical intermediates. If those shortages persist, the impact on CPI could be larger.



Firms are pricing more aggressively

Pass-through from import prices to CPI has strengthened in recent years, likely due to both rising import penetration and more active pricing by firms than in the past.

Some food producers and other firms have already announced price hikes from September in response to higher oil prices, and others are likely to follow. This raises the risk of a fresh round of price increases from autumn.

The shift is also evident in the analysis. Re-estimating the VAR using data since 2015, the CPI response to a 10% rise in oil prices is about 1.5 times larger. This suggests that the current roughly 50% oil price shock could lift CPI by around 2ppt.

Longer term, inflation expectations are key

CPI is likely to reaccelerate following the current oil shock. As a temporary supply shock, the medium-term outlook depends on how inflation expectations among firms and households respond.

Our BofA inflation expectations indicator shows that expectations, after falling during COVID, rose sharply following the Ukraine shock and subsequent inflation pickup, and have continued to rise. This could amplify the impact of the current energy shock, as firms pass through costs more actively.

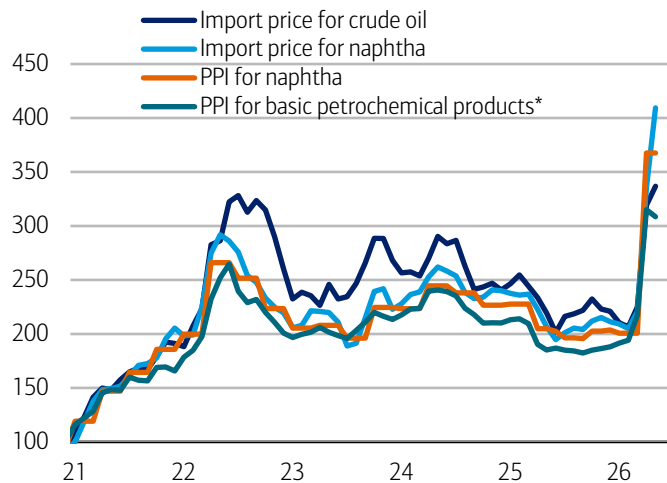
Inflation expectations are already near 2%. If inflation rises from here, adaptive dynamics raise the risk of an overshoot above 2% that persists.

Some BoJ Board members have expressed concern that expectations may continue to rise rather than stabilize at 2%. Depending on how expectations evolve, the BoJ may shift to a more restrictive policy stance.

In that case, the BoJ could move to a faster pace of rate hikes, a higher terminal rate, and more hawkish communication.

Exhibit 8: Petrochemical prices have surged earlier and by more

Oil and petrochemical prices (2020=100)

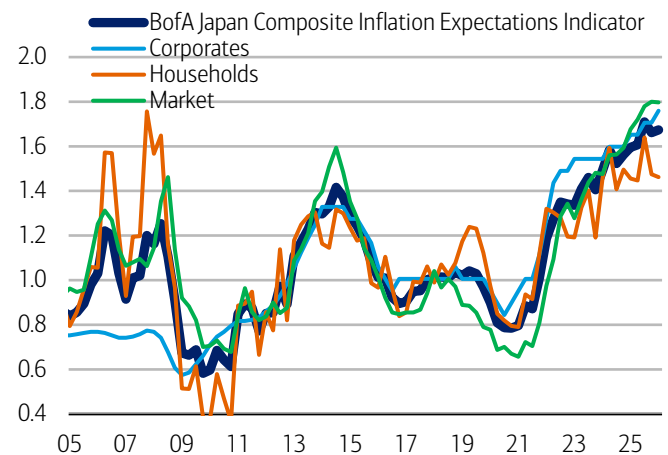


Source: BofA Global Research, BoJ *weighted average price of Ethylene, Propylene, Benzene and Xylene

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Exhibit 9: Inflation expectations are already near 2%, with upside risk of overshoot

BofA composite inflation expectations (%)



Source: BofA Global Research, Bank of Japan, Cabinet Office, QUICK *We extracted the medium- and long-term inflation expectations of households, companies and market experts from, respectively, the BoJ Opinion Survey on the General Public's Views and Behavior, the BoJ Tankan, and the QUICK Bond Market Participant Survey, which are outlined in the trend lines.

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Emerging EMEA

Jean-Michel Saliba
MLI (UK)

Mai Doan
MLI (UK)

Tatonga Rusike
MLI (UK)

Loic Porte
MLI (UK)

Hande Kucuk
MLI (UK)

Mikhail Liluashvili
MLI (UK)

Vladimir Osakovskiy >>
Merrill Lynch (DIFC)

London Small Talks: what did we learn for EM?

Complete report: [Emerging Insight: London Small Talks – what did we learn for EM? 10 June 2026](#)

The second edition of our London Small Talks Symposium took place over 3-5 June. We hosted high-profile speakers, government and former government officials, rating agencies, geopolitics, energy and country experts across 52 roundtable sessions covering both Developed Markets (DM) and Emerging Markets (EM). Unless indicated otherwise, the views expressed in this note are to be attributed to the speakers. The takeaways reflect our understanding of discussions and remarks, as well as our views where stated.

Emerging Europe, Middle East and Africa

Central and Eastern Europe (CEE): constructive backdrop, rising divergence

Hungary stands out, with the administration's commitment to European Exchange Rate Mechanism (ERM2) entry as soon as possible reinforcing positive market sentiment and a stronger medium-term ratings story. Near-term rate cuts are likely, but the National Bank of Hungary (NBH) will be cautious and data dependent. Romania's 2026 fiscal picture is much better than expected, with the deficit tracking well below 6%, helping to cushion near-term political uncertainty. However, forming a government before end-June is critical to avoid a significant loss of European Union (EU) funds. 2027-28 remains the real test. In Czechia, an extended period of high energy prices and looser fiscal trends argue for a more hawkish the Czech National Bank (CNB). We now expect further rate hikes, potentially to 4% by end-26, although market pricing beyond that looks excessive.

South Africa: tight monetary policy and improving fiscal credibility

South African Reserve Bank (SARB): measured hike, cautious path

SARB hiked 25bp as expected in May, with the decision focused around managing second round inflation risks following the energy shock. Within SARB's Monetary Policy Committee (MPC), the debate narrowed to hold versus a 25bp hike (with 50bp discussed but ultimately unnecessary).

This reflects that, unlike the 2022 cycle, real rates are already restrictive, reducing the need for aggressive tightening. The inflation outlook is shaped more by price pressures than supply constraints for now. However, risks could build if elevated diesel and fertiliser costs lead to a low planting season, raising the risks of higher food inflation in 2027, compounded by potential El Niño weather disruptions. In the near term, services inflation remains elevated, driven mainly by housing and medical insurance costs, but has not yet broadened into a generalised second round dynamic. Inflation expectations are still relatively well anchored (peaking at c3.5%), and wage pressures remain contained overall.



Sub-Saharan Africa

LIC DSA reform: towards a more holistic framework

Discussions around the reform of the International Monetary Fund (IMF)'s Low-Income Country Debt Sustainability Analysis (LIC DSA) point to a shift toward a more integrated approach to debt risks, although key parameters remain under consultation. The IMF and the World Bank published the Background Note on Friday 2nd of June 2026.

The reform will introduce a more holistic framework, closer to the Middle-Income Countries' Sovereign Risk and Debt Sustainability Framework (SRDSF). The revised framework appears to add a stronger layer on domestic debt while maintaining the emphasis on external debt. The framework would drop one external debt burden indicator, Present Value (PV) of debt-to-exports, and introduce new overall public debt indicators including Gross Financing Needs to Gross Domestic Product (GFN-to-GDP) and interest-to-revenue excluding grants. This revamp is meant to reflect a structural shift in LIC debt profiles, which were predominantly external a decade ago but are now increasingly domestic. As a result, countries where domestic debt has risen sharply could face stronger risk signals under the revised framework. This is particularly relevant for several frontier markets where domestic financing has expanded rapidly, including Senegal, parts of Economic and Monetary Community of Central Africa (CEMAC), and Kenya.

Türkiye: Geopolitics delays disinflation, FX stability holds

The tone on Türkiye was cautious, with the disinflation process increasingly challenged by geopolitical developments, even as the monetary stance remains tight in response to rising inflation risks. Higher oil prices linked to the Middle East conflict are feeding into energy and food inflation, pushing headline prints higher and weighing on expectations, with risks tilted to the upside amid potential second round effects. At the same time, moderating domestic demand and easing inertia across services subgroups suggest that disinflation could resume once the energy shock dissipates, albeit at a slower pace than envisaged pre-conflict.

Georgia: strong fundamentals, but oil shock complicates the outlook

Georgia remains a small, open BB-rated economy with a consistently business-friendly framework, underpinned by low taxation and strong growth dynamics. Rapid expansion has driven a doubling in GDP per capita over the past five years, reinforcing the country's convergence story and investor appeal.

Middle East – North Africa (MENA): Iran war tremors

The fog of the Iran war continues to cloud the economic outlook of the MENA region. Rating agencies are adopting a wait-and-see stance given geopolitical uncertainty. In our view, they are more likely to reassess ratings in 2H26, once underlying assumptions can be confronted to developments and accordingly reviewed for implications.

Iran: Hormuz for Hormuz deal – so close, yet so far

Opposition among key domestic stakeholders as well as recent tit-for-tat between Israel/US and Iran could push the timeline for conclusion of US-Iran negotiations further out. This could also harden the Iranian negotiation position. Differences remain in regard to linking regional ceasefires, nuclear matters, sanctions relief and status of Hormuz Strait/Hormuz blockade in a potential phased deal. The US position appears to have softened in comparison to initial demands. Iranian leadership pronouncements suggest a desire to maintain deterrence and prevent a repeat of the war.

The market consensus appears to be relatively benign, with an agreement and Hormuz re-opening over the summer once market pressures re-assert themselves and push parties, particularly the US, to compromise. The better-than-expected behavior of oil prices reflects the drawdown of commercial and government inventories in the developed and developing world (particularly China), reduced Chinese crude oil imports,



higher US crude oil exports, General Licenses (GLs) on Russian and Iranian oil-at-sea, as well as some demand destruction. In the absence of acute market pressure, both parties are likely to continue running down the clock at the risk of going over the oil cliff.

Lebanon: dynamics could outlast Iran war

The continued Hezbollah-Israel conflict could complicate Lebanon political reforms and make it difficult to secure financing assurances for an International Monetary Fund (IMF) program. Hence, an IMF program is unlikely to be assured near-term. In the absence of extreme political outcomes, gradual political reforms would be more likely than abrupt ones and would need to be accompanied by economic reforms to secure financing assurances within a potential IMF reform.

Egypt: IMF in the cards but not beyond 2026

Authorities are optimistic a Staff-Level Agreement (SLA) on the seventh review of the International Monetary Fund (IMF) Extended Fund Facility (EFF) soon, with a potential IMF board-level meeting to follow in mid-July. The eighth IMF EFF review has been pushed back to December 2026 alongside the extension of the maturity of the program to year-end. However, authorities' official pronouncements indicate no interest in a successor IMF program in 2027.

Latin America

Carlos Capistran
BofAS

Mexico: Inflation slips below 4%

Headline inflation decelerated in May...

Headline inflation was below expectations at 3.94% yoy (E. 4.03%, BofA 4.03%) in May, down from 4.45% in April (Exhibit 10, Exhibit 11). On a monthly basis, headline inflation was -0.21% mom nsa, reflecting a sharp fall in fruits and vegetables and in energy prices (-3.18 and -2.98% mom, respectively). The former was largely driven by a -28.3% decline in tomato prices, while the latter partly reflected lower electricity prices (-17.9%).

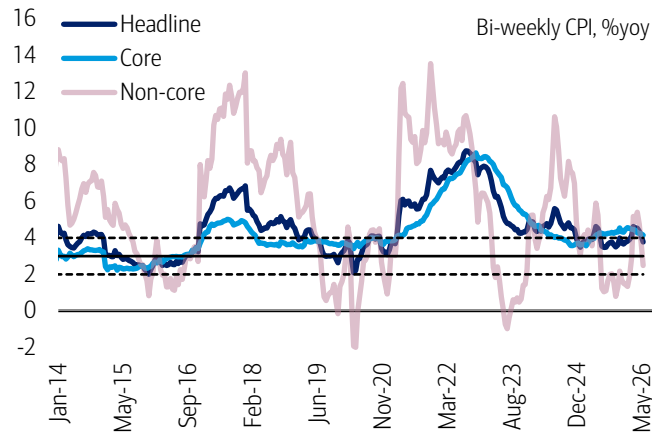
Complete report: [Mexico Watch: Inflation slips below 4%, but not for long 09 June 2026](#)

...with core inflation easing but still above 4.0%

Core inflation also was below expectations at 4.19% yoy (E. 4.19%, BofA 4.22%), down from April's 4.26% print (Exhibit 12). Services inflation accelerated to 4.57% yoy from 4.52%, despite a weak economy but maybe impacted by the FIFA World Cup, while merchandise inflation fell to 3.78% yoy from 3.99%, helped by a strong currency. Our measure of domestic inflation eased to 3.90% yoy (from 3.93%) (Exhibit 13).

Exhibit 10: Headline and core fell to 3.94% and 4.19% respectively in May

Headline, core, and non-core inflation (%yoy) (2014-2026)

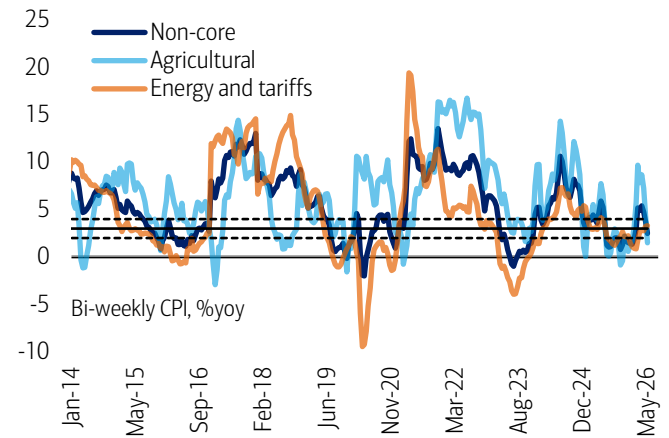


Source: BofA Global Research, INEGI

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Exhibit 11: Non-core at 3.10% in May is helping headline inflation

Bi-weekly non-core inflation (%yoy) (2014-2026)



Source: BofA Global Research, INEGI

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Forecast update: lower end-2026 inflation

We incorporate May data and persistently higher oil prices following the Iran conflict, though the situation remains fluid. The impact on inflation is contained, as the government uses oil revenues to offset gasoline excise taxes (IEPS) and keep pump prices stable. We now forecast headline inflation at 4.54% by end-2026 (from 4.60%) and 4.03% by end-2027 (from 3.96%). We expect core at 4.24% by end-2026 (from 4.40%) and 3.99% by end-2027 (from 4.01%). Risks are balanced: upside from the World Cup and Middle East tensions, and downside from weak activity and a relatively strong peso.

Banxico: Steady at 6.50%, downside bias

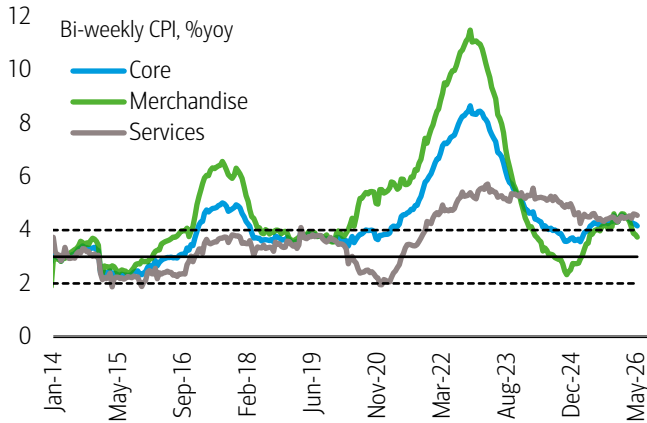
We expect Banxico to keep the policy rate at 6.50% through the rest of 2026. This print brought headline inflation below 4% which will likely keep Banxico on the dovish side in



the context of a negative output gap and a relatively strong peso. While higher oil prices, persistent inflation, or tighter Fed policy pose upside risks, the bar for hikes over the next year is high given Banxico's tolerance for above target inflation (Exhibit 14, Exhibit 15).

Exhibit 12: Merchandise helped ease core in May

Bi-weekly core inflation (%yoy) (2014-2026)

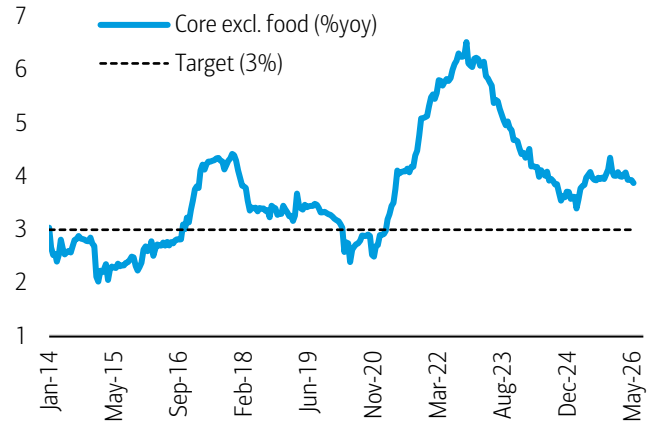


Source: BofA Global Research, INEGI

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Exhibit 13: Core ex-food eased to 3.90% in May

Bi-weekly core inflation excl. food (%yoy) (2014-2026)

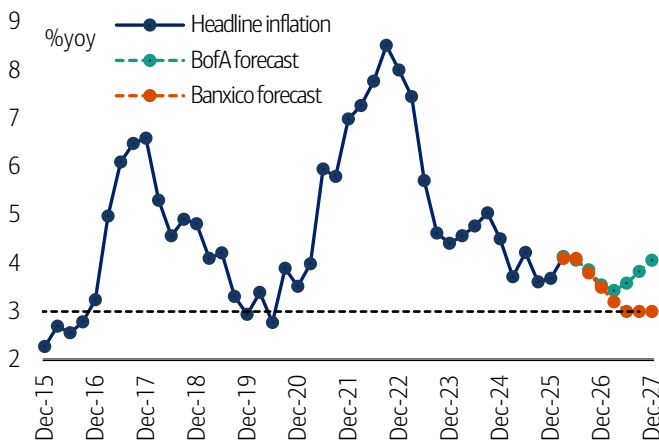


Source: BofA Global Research, INEGI

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Exhibit 14: We expect headline inflation above Banxico's forecasts

Headline inflation forecasts (%yoy) (2015-E2027)

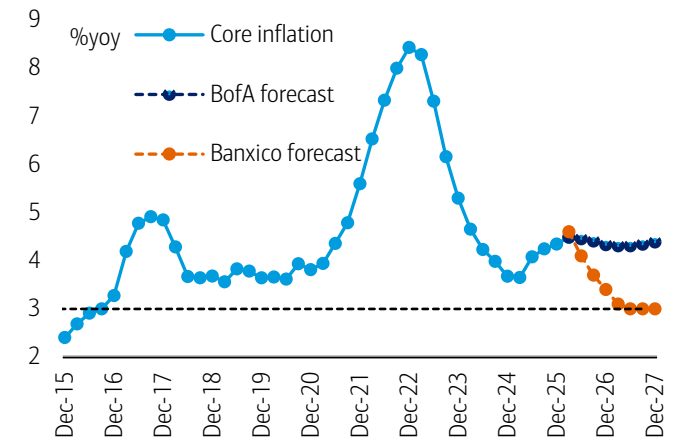


Source: BofA Global Research, Banxico

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Exhibit 15: We expect core inflation to stay above Banxico's target

Core inflation forecasts (%yoy) (2015-E2027)



Source: BofA Global Research, Banxico

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Key forecasts

Exhibit 16: Economic forecasts

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

Economic forecasts

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F
Global and Regional Aggregates, %												
United States												
Real GDP growth ¹	0.5	1.6	2.5	1.9	1.9	2.2	2.3	2.5	2.4	2.1	2.1	2.2
CPI inflation	2.7	2.7	4.0	3.7	3.6	2.8	1.8	1.9	1.9	2.7	3.5	2.2
Policy Rate (EoP)	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.13	3.13	3.63	3.63	3.13
Euro area												
Real GDP growth ¹	0.8	0.6	0.4	0.6	1.3	1.4	1.4	1.3	1.1	1.5	0.7	1.2
CPI inflation	2.1	2.0	3.2	3.3	3.2	2.9	1.9	1.5	1.2	2.1	2.9	1.9
Policy Rate (EoP)	2.00	2.00	2.25	2.50	2.50	2.50	2.25	2.00	1.75	2.00	2.50	1.75
China												
Real GDP growth ²	4.5	4.5	4.5	4.6	4.5	4.5	4.5	4.4	4.4	5.0	4.5	4.5
CPI inflation ³	0.6	0.9	1.2	1.2	0.9	1.0	0.6	0.7	0.7	0.0	1.0	0.8
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	1.40
Japan												
Real GDP growth ¹	0.8	2.1	0.4	0.4	0.8	0.7	0.4	0.8	0.8	1.1	0.6	0.6
CPI inflation	2.7	1.4	1.9	2.4	2.7	3.6	3.0	2.3	1.3	3.2	2.1	2.6
Policy Rate (EoP)	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75	0.75	1.25	1.75
Global Aggregate ⁴												
Real GDP growth										3.5	3.1	3.4
CPI inflation										2.5	3.2	2.5
Policy Rate (EoP)										3.72	3.78	3.46
Emerging Markets Aggregate ⁴												
Real GDP growth										4.7	4.2	4.6
Real GDP growth (ex-China)										4.6	4.0	4.7
CPI inflation										2.4	3.3	2.7
Policy Rate (EoP)										4.40	4.30	4.05

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 17: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
Exchange Rates (EoP)								
EUR/USD	1.16	1.17	1.17	1.20	1.22	1.23	1.24	1.25
USD/JPY	160	159	154	152	150	148	146	145
USD/CNY	6.77	6.90	6.80	6.70	6.70	6.70	6.60	6.60
GBP/USD	1.34	1.35	1.39	1.43	1.45	1.46	1.49	1.51
Interest rates (% EoP)								
US 10yr	4.47	4.35	4.30	4.25	4.25	4.25	4.25	4.25
Germany 10-year	3.03	3.05	3.00	2.95	2.85	2.75		2.70
Japan 10yr	2.65	2.70	2.73	2.90	3.00	3.03	3.10	3.05
Commodities ¹								
Oil - WTI (\$/bbl)	86.1	94	88	88	84	77	70	62
Oil - Brent (\$/bbl)	90.4	103	95	94	89	82	75	67
Gold (\$/oz)	4208	4500	5250	5750	5200	5000	5000	4500
Equities (EoP)								
S&P 500	7394			7100				
Stoxx 600	622	530		565				

Source: BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 18: Global Economic Forecasts

Global GDP growth expected at 3.1% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Global and regional aggregates										
Global	3.5	3.1	3.4	2.5	3.2	2.5	3.75	3.72	3.78	3.46
Global ex US	3.8	3.3	3.7	2.4	3.2	2.5	3.78	3.75	3.81	3.52
Global ex China	3.1	2.6	3.1	3.2	3.9	3.0	4.44	4.41	4.49	4.08
Developed Markets	1.7	1.4	1.6	2.6	3.1	2.1	2.80	2.70	2.97	2.51
Emerging Markets	4.7	4.2	4.6	2.4	3.3	2.7	4.37	4.40	4.30	4.05
Emerging Markets ex China	4.6	4.0	4.7	4.0	4.8	4.1	6.17	6.21	6.06	5.66
Europe, Middle East and Africa (EMEA)	2.2	1.5	2.3	4.6	4.2	3.1	4.59	4.56	4.47	3.57
European Union	1.7	1.1	1.5	2.5	3.1	2.0	2.51	2.33	2.71	2.06
Emerging EMEA	3.4	2.8	4.1	9.7	7.0	5.6	8.19	8.42	7.36	6.05
Emerging Asia	5.5	4.9	5.1	0.9	2.4	2.1	2.74	2.70	2.89	2.93
ASEAN	5.1	4.3	4.6	1.6	3.5	2.8	3.82	3.56	3.80	3.59
Latin America	2.4	2.1	2.5	3.7	5.0	3.9	8.44	8.59	8.33	7.88
G6										
US	2.1	2.1	2.2	2.7	3.5	2.2	3.63	3.63	3.625	3.125
Euro area	1.5	0.7	1.2	2.1	2.9	1.9	2.25	2.00	2.50	1.75
Japan	1.1	0.6	0.6	3.2	2.1	2.6	0.75	0.75	1.25	1.75
UK	1.4	1.0	1.1	3.4	3.3	2.4	3.75	3.75	4.25	3.50
Canada	1.9	0.6	1.5	2.1	2.4	1.9	2.25	2.25	2.25	2.25
Australia	2.0	2.0	1.7	2.9	4.2	2.6	4.35	3.60	4.35	3.85
Euro area										
Germany	0.3	0.6	1.1	2.3	3.2	2.2	2.25	2.00	2.50	1.75
France	0.9	0.7	1.1	0.9	2.2	1.5	2.25	2.00	2.50	1.75
Italy	0.7	0.4	0.7	1.6	2.9	1.7	2.25	2.00	2.50	1.75
Spain	2.8	2.1	1.5	2.7	3.0	2.1	2.25	2.00	2.50	1.75
Netherlands	1.8	0.7	1.1	3.0	2.7	2.2	2.25	2.00	2.50	1.75
Belgium	1.0	0.6	1.1	3.0	3.8	2.0	2.25	2.00	2.50	1.75
Austria	0.7	0.6	1.3	3.6	3.5	2.4	2.25	2.00	2.50	1.75
Greece	2.2	1.8	1.8	2.9	4.1	2.9	2.25	2.00	2.50	1.75
Portugal	1.9	1.6	1.6	2.2	2.7	1.8	2.25	2.00	2.50	1.75
Ireland	12.4	-3.3	3.6	2.1	3.8	1.9	2.25	2.00	2.50	1.75
Finland	0.2	0.7	1.2	1.8	2.7	1.4	2.25	2.00	2.50	1.75
Other developed economies										
New Zealand	0.2	1.0	2.8	2.8	3.8	2.6	2.25	2.25	2.75	2.75
Switzerland	1.3	0.8	1.4	0.2	0.8	0.7	0.00	0.00	0.00	0.00
Norway	1.8	1.2	1.0	3.0	3.6	2.4	4.25	4.00	4.25	3.75
Sweden	1.8	2.0	1.9	2.6	1.8	1.4	1.75	1.75	2.00	2.00
Emerging Asia										
China	5.0	4.5	4.5	0.0	1.0	0.8	1.40	1.40	1.40	1.40
India	7.5	6.2	7.5	2.1	4.7	4.6	5.25	5.25	5.75	6.00
Indonesia	5.1	5.2	5.4	1.9	2.9	2.8	5.50	4.75	5.25	4.75
Korea	1.0	3.1	2.0	2.1	2.7	2.2	2.50	2.50	3.00	3.00
Taiwan	8.7	7.2	4.0	1.7	2.0	1.7	2.00	2.00	2.25	2.375
Thailand	2.4	1.9	2.1	-0.1	3.0	0.3	1.00	1.25	1.00	0.75
Malaysia	5.2	4.2	4.5	1.4	1.8	2.2	2.75	2.75	2.75	2.75
Philippines	4.4	2.0	3.0	1.7	7.3	5.3	4.50	4.50	5.00	5.00
Singapore	5.0	2.5	2.5	0.9	2.1	1.9				
Hong Kong	3.5	2.3	2.5	1.4	2.1	2.0	4.00	4.00	3.50	3.50
Vietnam	8.0	7.0	7.0	3.3	4.5	4.0	4.50	4.50	4.50	4.50

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period

Source: BofA Global Research

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Exhibit 19: Global Economic Forecasts (continued)

Global GDP growth expected at 3.1% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Latin America										
Brazil	2.3	2.3	2.0	4.3	5.5	4.0	14.50	15.00	14.25	13.25
Mexico	0.8	0.8	1.5	3.7	4.5	4.0	6.50	7.00	6.50	6.50
Argentina	4.4	2.5	4.0	31.5	31.9	15.5				
Colombia	2.6	2.5	2.9	5.1	6.5	4.6	11.25	9.25	12.25	11.25
Chile	2.5	1.6	2.9	3.4	4.2	3.2	4.50	4.50	4.50	5.00
Peru	3.4	3.5	4.4	1.5	4.4	2.6	4.25	4.25	4.25	4.25
Ecuador	3.7	3.2	2.7	1.9	2.4	2.3				
Uruguay	1.8	1.5	2.0	3.7	3.9	4.5	5.75	7.50	6.00	7.00
Costa Rica	4.6	3.7	3.9	-1.2	2.5	3.5	3.25	3.25	3.25	3.25
Dominican Republic	2.1	2.7	3.9	5.0	6.0	4.8	5.25	5.25	5.25	4.50
Panama	4.4	3.8	4.9	0.4	2.8	3.1				
El Salvador	3.9	3.1	3.2	0.9	2.4	1.8				
Guatemala	4.1	3.6	3.6	1.7	3.3	3.7	3.50	3.75	3.50	3.50
EEMEA										
Türkiye	3.7	2.8	4.9	34.9	31.2	26.6	37.00	38.00	37.00	30.00
Nigeria	3.9	4.2	4.0	23.0	14.0	12.0	26.50	27.00	21.00	16.00
Egypt	4.4	4.4	4.5	20.4	13.2	10.0	19.50	20.50	19.00	15.00
Poland	3.7	3.0	2.7	3.6	3.2	2.7	3.75	4.00	3.75	3.75
South Africa	1.1	1.3	1.5	3.2	4.3	4.0	7.00	6.75	7.25	6.25
Romania	0.6	0.4	2.7	7.3	8.3	3.8	6.50	6.50	6.50	5.50
Czech Republic	2.6	2.0	2.4	2.5	2.4	2.8	3.50	3.50	3.50	3.50
Israel	2.9	3.6	4.5	3.0	2.2	2.1	3.75	4.25	3.75	3.50
Hungary	0.4	1.2	2.5	4.4	2.5	3.0	6.25	6.50	5.50	4.50
Saudi Arabia	4.5	0.6	5.8	2.0	2.4	2.0	4.25	4.25	3.50	3.50
Ukraine	2.5	7.0	6.0	12.7	5.0	5.0	15.00	15.50	11.00	9.00

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period.

Source: BofA Global Research

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Exhibit 20: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.1% in 2026 and 3.4% in 2027

	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027
Developed Markets												
US	0.5	1.6	2.5	1.9	1.9	2.2	2.3	2.5	2.4	2.1	2.1	2.2
Euro area	0.8	0.6	0.4	0.6	1.3	1.4	1.4	1.3	1.1	1.5	0.7	1.2
Japan	0.8	2.1	0.4	0.4	0.8	0.7	0.4	0.8	0.8	1.1	0.6	0.6
UK	0.6	2.5	0.6	0.2	0.2	1.8	1.8	1.4	1.4	1.4	1.0	1.1
Canada	-1.0	-0.1	1.8	1.6	1.2	1.5	1.5	1.5	1.5	1.9	0.6	1.5
Australia	3.2	2.0	0.8	1.4	2.0	1.6	1.6	2.0	2.0	2.0	2.0	1.7
G6 Aggregate	0.7	1.3	1.4	1.2	1.5	1.7	1.7	1.8	1.7	1.7	1.4	1.6
Emerging Markets												
China	4.9	4.5	4.2	4.8	4.6	4.3	4.5	4.4	4.5	5.0	4.5	4.5
India	7.1	2.2	-0.3	18.2	8.6	4.0	1.9	16.0	7.5	7.5	6.2	7.5
Indonesia	6.3	5.7	4.3	4.1	6.2	5.3	6.6	3.2	7.0	5.1	5.2	5.4
South Korea	-1.1	6.9	1.5	2.0	2.0	2.7	1.8	1.7	0.7	1.0	3.1	2.0
Thailand	7.6	2.7	-4.4	1.7	8.1	2.9	0.7	-6.3	12.0	2.4	1.9	2.1
Singapore	5.2	-1.3	0.8	1.6	2.4	2.8	2.8	2.8	2.8	5.0	2.5	2.5
Hong Kong	4.1	2.2	4.6	-0.3	-1.8	5.8	4.2	2.1	2.1	3.5	2.3	2.5
Brazil	0.6	3.6	2.7	1.1	3.8	4.5	-2.6	4.1	2.1	2.3	2.3	2.0
Mexico	3.5	-3.2	2.5	1.6	1.4	1.6	1.7	1.0	1.0	0.8	0.8	1.5
Colombia	0.5	2.0	2.4	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.5	2.9
Chile	2.3	-0.5	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	1.6	2.9
Peru	1.5	3.6	2.4	4.9	4.9	4.1	4.5	4.5	4.5	3.4	3.5	4.4
Türkiye	4.9	3.4	1.3	4.5	1.1	7.9	5.2	4.5	3.1	3.7	2.8	4.9
South Africa	1.1	1.3	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.3	1.5

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 21: Monetary policy forecasts

En of period

Central Banks	Current	Jun-26	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	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
ECB (deposit rate)	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25
BoJ	0.75	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	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00
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	2.25
Riksbank	1.75	2.00	2.00	2.00	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	0.00
Norges Bank	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.25	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	4.35
RBNZ	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50
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	1.40
India	5.25	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	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Taiwan	2.00	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	0.75	0.75	0.75	0.75	0.75	0.75	0.75
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	2.75
Philippines	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.00	5.00	5.00
Latin America														
Brazil	14.50	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	4.75	5.00
Colombia	11.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.00	12.00	12.00	11.75
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	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	4.25
Emerging EMEA														
Czech Republic	3.50	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	6.25	6.00	5.75	5.75	5.75	5.75	5.75	5.50	5.5	5.5	5.25	5.25	5.25	5.00
Israel	3.75	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.50
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	3.75
Romania	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	6.50
South Africa	7.00	7.00	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.00	7.00
Türkiye	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	36.00	36.00	35.00	34.00	34.00	34.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 22: Quarterly forecasts

End of period

	Spot	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
FX forecasts								
G6								
EUR-USD	1.16	1.17	1.17	1.20	1.22	1.23	1.24	1.25
USD-JPY	160	159	154	152	150	148	146	145
EUR-JPY	185	186	180	182	183	182	181	181
GBP-USD	1.34	1.35	1.39	1.43	1.45	1.46	1.49	1.51
USD-CAD	1.40	1.38	1.37	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.70	0.72	0.74	0.74	0.74	0.74	0.73	0.73
Asia								
USD-CNY	6.77	6.90	6.80	6.70	6.70	6.70	6.60	6.60
USD-INR	95.8	96.0	97.0	98.0	98.5	99.0	99.0	99.0
USD-IDR	17993	17800	17900	18000	18100	18200	18200	18200
USD-KRW	1520	1490	1440	1395	1380	1365	1350	1335
Latin America								
USD-BRL	5.10	5.00	5.00	4.95	4.90	4.85	4.80	4.75
USD-MXN	17.26	17.50	17.50	17.50	17.75	18.00	18.25	18.50
Emerging Europe								
EUR-PLN	4.25	4.23	4.21	4.17	4.15	4.15	4.15	4.15
USD-TRY	46.25	46.90	49.30	51.70	53.60	55.60	57.60	59.60
USD-ZAR	16.30	16.60	16.50	16.00	15.40	15.70	16.00	16.00
Rates forecasts								
2yr								
US 2-year	4.07	4.00	3.95	3.90	3.80	3.70	3.60	3.50
Germany 2-year	2.68	2.80	2.70	2.45	2.30	2.15		1.90
Japan 2-year	1.42	1.45	1.50	1.75	1.95	2.00	2.15	2.10
UK 2-year	4.34	4.60	4.40	4.25	4.05	3.90	3.80	3.70
Canada 2-year	2.78	2.75	2.75	2.75	2.80	2.90	3.00	3.00
10yr								
US 10-year	4.47	4.35	4.30	4.25	4.25	4.25	4.25	4.25
Germany 10-year	3.03	3.05	3.00	2.95	2.85	2.75		2.70
Japan 10-year	2.66	2.70	2.73	2.90	3.00	3.03	3.10	3.05
UK 10-year	4.91	5.00	5.00	5.00	4.85	4.75	4.60	4.50
Canada 10-year	3.41	3.50	3.60	3.65	3.70	3.75	3.75	3.75
Commodities forecasts								
WTI Crude Oil - \$/bbl	86.1	94.0	88.0	88.0	84.0	77.0	70.0	62.0
Brent Crude Oil - \$/bbl	90.4	103.0	95.0	94.0	89.0	82.0	75.0	67.0
Gold \$/oz	4208	4500	5250	5750	5200	5000	5000	4500
Copper, \$/mt	13483	13000	13500	14000	15000	15000	16000	16000
Copper, c/t	612	590	612	635	680	680	726	726

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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Research Analysts

Global Economics

Claudio Irigoyen
Global Economist
BofAS
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
antonio.gabriel@bofa.com

North America Economics

Aditya Bhave
US Economist
BofAS
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
stephen.juneau@bofa.com

Shruti Mishra
US Economist
BofAS
smishra44@bofa.com

Developed Europe Economics

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
ruben.segura-cayuela@bofa.com

Evelyn Herrmann
Europe Economist
BofASE (France)
evelyn.herrmann@bofa.com

Chiara Angeloni
Europe Economist
BofA Europe (Milan)
chiara.angeloni@bofa.com

Alessandro Infelise Zhou
Europe Economist
BofASE (France)
alessandro.infelise_zhou@bofa.com

Asia Economics

Helen Qiao
China & Asia Economist
Merrill Lynch (Hong Kong)
helen.qiao@bofa.com

Rahul Bajoria
India & ASEAN Economist
BofAS India
rahul.bajoria@bofa.com

Takayasu Kudo
Japan Economist
BofAS Japan
takayasu.kudo@bofa.com

Anna Zhou
China & Asia Economist
Merrill Lynch (Hong Kong)
anna.zhou@bofa.com

Jojo Gonzales ^^
Research Analyst
Philippine Equity Partners
jojo.gonzales@pep.com.ph

Pipat Luengnaruemitchai
Emerging Asia Economist
Kiatnakin Phatra Securities
pipat.luen@kkpfg.com

Benson Wu, CFA
China & Korea Economist
Merrill Lynch (Hong Kong)
benenson.wu@bofa.com

Ting Him Ho, CFA
Asia Economist
Merrill Lynch (Hong Kong)
tinghim.ho@bofa.com

Yvonne He
China & Asia Economist
Merrill Lynch (Hong Kong)
yvonne.he@bofa.com

Nick Stenner, CFA
Australia & NZ Economist
Merrill Lynch (Australia)
nick.stenner@bofa.com

Johnny Liu, CFA
Australia & NZ Economist
Merrill Lynch (Australia)
johnny.liu2@bofa.com

Smriti Mehra
India Economist
BofAS India
smriti.mehra@bofa.com

Kai Wei Ang
ASEAN Economist
Merrill Lynch (Singapore)
kaiwei.ang@bofa.com

EEMEA Economics

Jean-Michel Saliba
EEMEA Econ Head/MENA Economist
MLI (UK)
jean-michel.saliba@bofa.com

Mai Doan
CEE Economist
MLI (UK)
mai.doan@bofa.com

Vladimir Osakovskiy >>
EM Sovereign FI/EQ strategist
Merrill Lynch (DIFC)
vladimir.osakovskiy@bofa.com

Hande Kucuk
Turkey & Israel Economist
MLI (UK)
hande.kucuk@bofa.com

Tatonga Rusike
Sub-Saharan Africa Economist
MLI (UK)
tatonga.rusike@bofa.com

Loic Porte
Sub-Saharan Africa Economist
MLI (UK)
loic.porte@bofa.com

Latin America Economics

Carlos Capistran
LatAm and Canada Economist
BofAS
carlos.capistran@bofa.com

David Beker >>
Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)
david.beker@bofa.com

Pedro Diaz
Caribbean Economist
BofAS
pdiaz2@bofa.com

Gustavo Mendes
Brazil Economist
Merrill Lynch (Brazil)
gustavo.mendes@bofa.com

Alexander Muller
Andean(ex-Ven) Carib Economist
BofAS
alexander.muller@bofa.com

Natacha Perez
Brazil Economist
Merrill Lynch (Brazil)
natacha.perez@bofa.com

Sebastian Rondeau
Southern Cone & Venez Economist
BofAS
sebastian.rondeau@bofa.com

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