Global Economic Weekly

Divided Nations

25 September 2026

Economics
Global

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Global Letter: Divided Nations

The long-awaited Trump-Xi summit is ongoing, in a context where the US keeps having many open fronts. China continues to have leverage given its influence on chokepoints, most notably rare earths, while the US has the upper hand on advanced chips. A two-month extension of the trade truce is reportedly confirmed, less than initially expected but enough to extend the status quo into next year. Outside the US, we revised our European forecasts. We now expect one more ECB hike in December and two hikes for the BoE, but we continue to see the market pricing excessive hikes in Europe vs the US.

United States: Sep jobs – Don't fall for the headline

We expect payrolls to rise by a below-consensus 60k in Sep (private: 50k), but we view the weakness as largely driven by payback from Aug's unusually favorable seasonal factors. We expect the u-rate to remain at 4.1% as the LFPR holds steady. However, payback for the jump in HH employment in Aug could push it up to 4.2%. The Sep jobs report shouldn't be a game changer for Oct hike pricing. Markets will focus on CPI.

Euro Area: A tougher winter

We embed higher winter energy prices and tighter financing conditions in our Euro area forecast scenario. Inflation moves most: we now forecast headline at 3.0% in 2026 (+10bp) and 2.5% in 2027 (+30bp). We pencil in an ECB hike in Dec-26. A Mar-27 hike is more likely than Oct-26, neither are base case. Cuts follow in Sep-27.

UK: Hawkish drift

We adjust our macro forecasts to incorporate our new, higher energy forecasts. Inflation moves up to 3.2% (+10bps)/ 3.2% (+60bps)/ 2.0% (-10bps) in '26/'27'28, with peak at 4.2% in Feb'27. We now expect the BoE to hike in Nov '26 and Feb '27 to 4.25%, assuming high energy prices persist followed by three quarterly cuts in '28 to 3.5%.

Japan: The price of Japan's capex boom

Japanese corporates' capex plans remain strong, and nominal spending has largely followed. But higher prices have absorbed much of the increase in physical investment spending. The increasing divergence between strong nominal capex and weak real investment implies that Japan's capital stock is growing relatively slowly.

Emerging EMEA: South Africa – SARB review

Central Bank (SARB) increased the repo rate by 25bp to 7.25%, in line with our expectations and market consensus. The unanimous decision marked a notable shift from the split vote at the July MPC. However, SARB was less hawkish than our central scenario on the need for further tightening.

Latin America: Colombia – Underpromise to Overdeliver

We see high political commitment to reform, a sensible plan on how to do it, and more willingness to engage multilaterals. We are revising our primary deficit forecasts for 2026, 2027, and 2028 to 3.1%, 2.5%, and 1.5% of GDP, respectively.

Global Letter

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Divided Nations

The long-awaited Trump-Xi summit is ongoing, in a context where the US keeps having many open fronts including the Iran war, higher gas prices, higher inflation, and higher rates ahead of the midterm elections. China continues to have leverage given its influence on chokepoints, most notably rare earths, while the US has the upper hand on advanced chips. A two-month extension of the trade truce is reportedly confirmed, somewhat less than expected but enough to extend the status quo into next year.

In markets, US rates kept selling off amid higher oil prices and a surprisingly hot PMI print. The market is now pricing a c 60% probability of a hikes in October and c 80% in December. We continue to expect those hikes to take place, with the Fed holding after that. Outside the US, we revised our European forecasts. We now expect more persistent inflation, and another ECB hike in December, with weaker growth in 2027. In turn, our view for the BoE now features 50bp of hikes.

Our revisions also come on the back of higher oil and natural gas price forecasts from our Commodities team. Nonetheless, we continue to have high conviction that the market is pricing too many hikes in Europe vs the US. Our view remains that Europe's weaker initial conditions vs the US should limit the extent to which hikes are needed.

Deal or no deal?

Alongside the United Nations General Assembly, the long-awaited Trump-Xi summit is currently taking place, with President Xi having arrived to the US on Wednesday night. The summit will conclude today, and takes place in a context where the US keeps having many open fronts including the Iran war, higher gas prices, higher inflation, and higher rates ahead of the midterm elections.

Reportedly, a two-month extension of the existing trade truce will be the outcome of the summit. Considering the incentives and leverage on both sides, we did not expect material escalation around trade. The likely two-month extension of the trade truce is less than initially expected, but it would still serve to preserve the status quo into next year. It remains to be seen if there are any additional potential deliverables after the summit concludes (see Xi-Trump summit preview: The Art of Peace).

It is important to note that China is looking for stability on the trade front in a context where growth continues to be export-driven, and it continues to have leverage given its influence on chokepoints including critical minerals and most notably rare earths. But the US has the upper hand on advanced chip technology.

Some additional commitments around lowering tariffs for certain non-sensitive products or certain purchase commitments could be on the table, but we view any material changes in the most sensitive areas as unlikely. We also think Iran could be part of the conversations in the background, to the extent the Trump administration may potentially see China as an important actor to potentially exert some influence. China's export-based growth should align incentives to prevent worst-case scenarios.

The selloff awakens again

In markets, US rates saw a large selloff of over 10bp amid higher oil prices and a surprisingly hot PMI print—which we don't see as a reliable indicator at high frequency. The market is now pricing a roughly 60% probability of a hikes in October and 80% in December. We expect the Fed to hike in October and December, with a hold thereafter, but the market is pricing almost four additional hikes from here.

In terms of the balance of risks, we see three hikes ahead more likely than just one. This is especially true considering the rise in gas prices and current market pricing for October with a Fed that we think is unlikely to materially underdeliver vs market pricing on the day of the FOMC meeting.

Beyond the short-term triggers, our view remains that high(er) real rates are the path of least resistance. We think that the persistent selloff in longer-term rates is explained by a *level* factor and a *slope* factor. Namely, persistently high US fiscal deficits, and incremental credit demand to finance AI investment competing with the government's financing needs (see Are bondholders from Mars and policymakers from Venus?).

We add hikes to our ECB and BoE expectations

Outside the US, we revised our European forecasts and incorporating our upward revisions to energy prices from our Commodities team, with TTF natural gas ranging from EUR 90-100 and Brent prices around USD 90-100 through the coming winter.

In the Euro area, we revise our inflation forecasts higher to 3% this year (+10bp) and 2.5% next year (+30bp). In turn, we now expect the ECB to deliver an additional hike in December before remaining on hold. After the resiliency this year, we think growth will remain around 1% in 2027 (-10bp). We still see cuts in 2027/28, bringing the depo back below 2%, with core inflation falling to 1.8% in 2028 (see Euro area forecast update: a tougher winter).

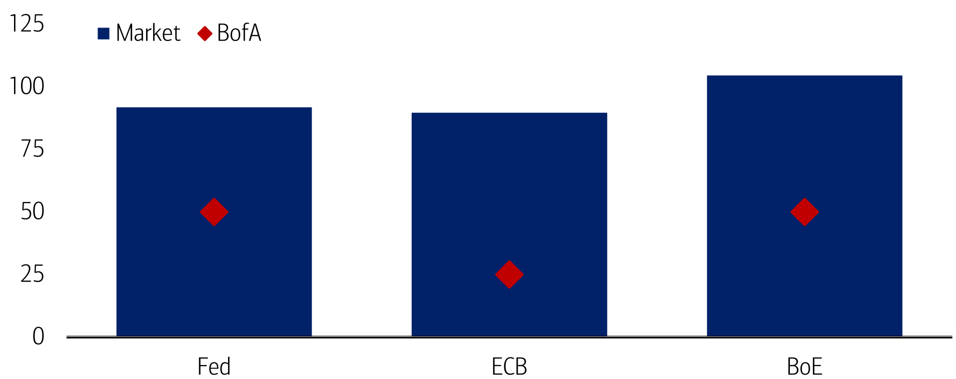
The BoE, in our view, sits somewhere in-between. Policy rates were probably tighter than in the US and inflation tolerance remains greater. We pencil in two rather reluctant hikes from the BoE now (Nov/Feb) to 4.25%, but as soon as inflation is back on a firm downward trend, we expect the central bank to start cutting to 3.50% terminal in 2028 (see UK forecast update: Hawkish drift).

The market keeps overpricing hikes outside the US

We had been flagging these upside risks to our monetary policy forecasts, and the most recent rise in oil prices and the forecast revisions from our Commodities team are in the same direction of the changes in our projections. Nonetheless, we continue to have high conviction that the market is pricing too many hikes in Europe vs the US (Exhibit 1).

Our view remains that Europe's weaker initial conditions vs the US should limit the extent to which hikes are needed. In addition, we should remember that both inflation and growth are harder hit in Europe relative to the US, as the shock is truly a negative terms of trade shock and Europe's share of energy spending is higher (see The economy is more resilient to oil shocks).

Exhibit 1: We continue to think that the market is overpricing rate hikes in Europe vs the US
Additional policy rate hikes priced in by July 2027 vs BofA forecasts (bp)



Source: BofA Global Research, Bloomberg

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US

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Sep jobs: Don't fall for the headline

- We expect payrolls to rise by a below-consensus 60k in Sep (private: 50k), but we view the weakness as largely driven by payback from Aug's unusually favorable seasonal factors. Underlying job growth is resilient at 100k+.
- We expect the u-rate to remain at 4.1% as the LFPR holds steady. However, payback for the jump in HH employment in Aug could push it up to 4.2%.
- The Sep jobs report shouldn't be a game changer for Oct hike pricing. Markets will focus on CPI.

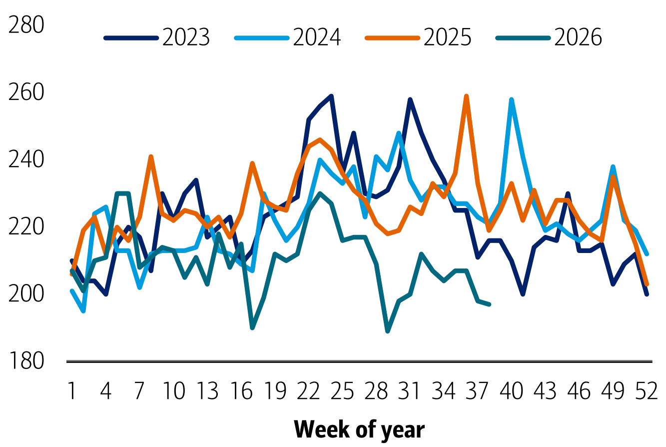
See report: ***US Economic Weekly: Sep jobs preview: Don't fall for the headline 25 September 2026***

Wake me up when seasonals end

We expect payrolls to rise by a below-consensus 60k in September (private: 50k), down from 162k in August. This weakness largely reflects payback from August's unusually favorable seasonal factors. However, benign claims data, improving ADP readings and robust labor market indicators point to continued underlying job growth of around 100k+. We expect the u-rate to remain at 4.1% as the participation rate holds steady. Although, payback for the jump in HH employment in August could push it up to 4.2%. Additionally, TPS visa revocations could be a headwind to September payrolls and LFPR.

Given Fed Chair Warsh's recent comments on labor market resilience, we don't expect the September jobs report to be a game changer for October hike pricing.

Exhibit 2: Initial claims remain in benign territory in September
Initial jobless claims (SA, thous.)



Source: BLS, Haver Analytics

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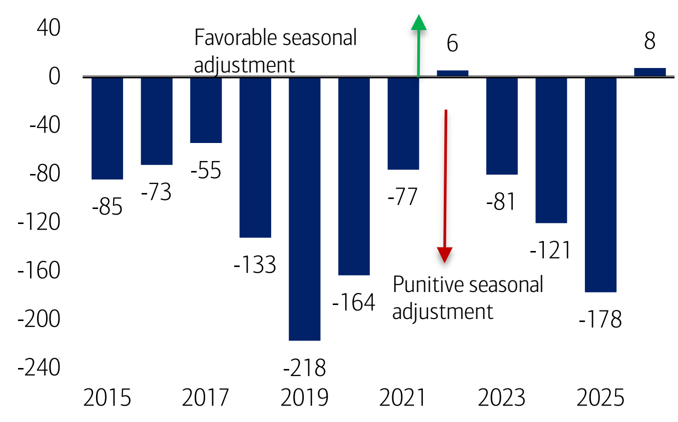
Exhibit 3: The Aug print was boosted by an unusually favorable seasonal adjustment, which could reverse in Sep
Seasonal adjustment to payroll growth in August in initial print (SA minus NSA job growth, thous)



Source: BLS, Haver Analytics

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Underlying job growth to keep broadening across sectors

Private sector payrolls should print at a below consenus 50k in September, down from 127k in August. However, as mentioned above, we think underlying job growth has improved. Initial and continuing claims readings are at historic lows, especially during the survey week of the jobs report. While claims may not fully capture white-collar employment dynamics, the persistently benign readings suggest broader labor market conditions remain healthy (Exhibit 2). Additionally, ADP weekly job growth has been moving up recently after moving sideways in early August.

While much of August's upside surprise was concentrated in leisure & hospitality and local government education, the strength was not confined to those sectors.

In our view, the recent labor-market backdrop points to further broadening in hiring across industries in September, even if the headline payroll figure temporarily understates that improvement.

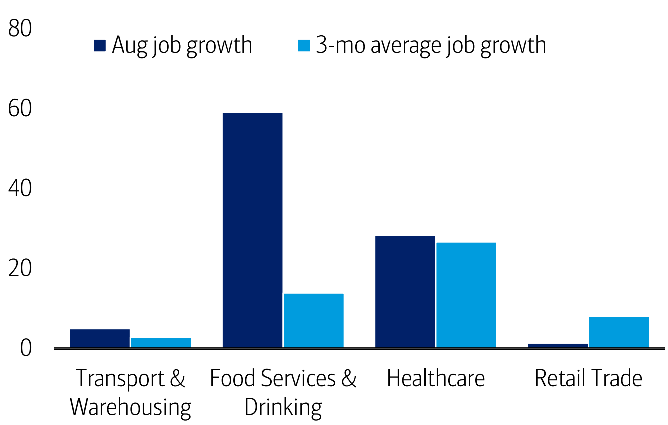
Within goods-producing sectors, construction should post a seventh consecutive monthly gain. Hiring continues to be supported by data-center-related investment, particularly in civil engineering construction and nonresidential specialty trade contractors. Manufacturing employment could also continue to show momentum. Both survey indicators and hard activity data suggest that activity in the sector has picked up this year, likely supported by firm demand, defense spending, reduced tariff uncertainty, and robust AI-related investment

Professional & business services is also showing signs of a more durable recovery. The sector has now added jobs for eight consecutive months after contracting in ten of twelve months during 2025. While part of the improvement reflects gains in temporary help employment, hiring has also strengthened across more technical industries. This is broadly consistent with our view that last year's weakness in white-collar employment primarily reflected normalization following pandemic-era overhiring rather than AI-related displacement alone.

Education & health services should again post steady job gains. AI adoption has been slower in the sector, while demographic trends continue to support labor demand. Trade and transportation employment could also remain positive. The sharp rise in goods imports during 2Q could support labor demand across logistics / transportation sectors.

By contrast, we expect leisure & hospitality and local government education to post relatively softer gains in September after accounting for a significant share of August's upside surprise. In August, restaurants & bars posted a large seasonally adjusted gain after June and July declines likely tied to volatility in summer hiring trends in the sector as well as World Cup impact. Local gov't education also rebounded following July's unusually weak seasonally adjusted print, likely reflecting school calendar distortions. In September, we expect hiring in these sectors to return to a more average pace.

Exhibit 4: Haitian TPS holders have the greatest exposure in food services, healthcare, transport & warehousing and retail trade jobs. Their visa revocation could play out gradually or all at once in Sep.
Job growth: August and 3-month average (monthly, thous, SA)



Source: BLS, Haver Analytics, BofA Global Research

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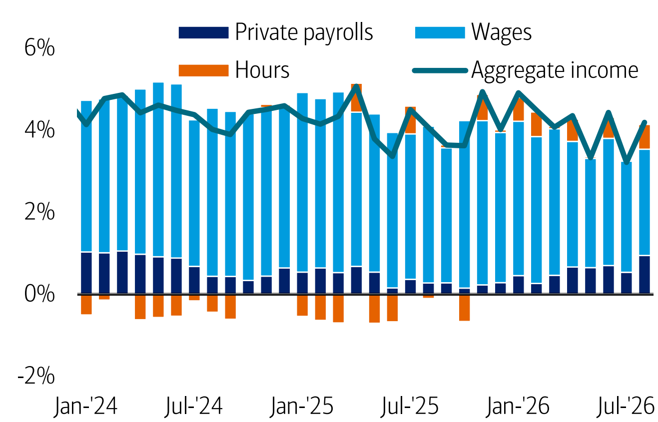
Exhibit 5: Income growth remains supportive of consumption but doesn't look inflationary
Decomposition of growth in the index of aggregate weekly payrolls into its components (% 6m annualized)



Source: Bureau of Labor Statistics, Haver Analytics

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Punitive seaonsal factors in September

August payrolls (162k) benefited from a far more favorable seasonal adjustment than ’25 and ’24 (Exhibit 3). Non-seasonally adjusted job growth was actually lower than in August '25, but the seasonal adjustment was close to zero this year, vs a 178k subtraction in August '25. Hence, most of the underlying NSA gain flowed through to the seasonally adjusted print. One explanation is the survey calendar, with August '26 occurring in a four-week survey interval year vs five weeks in both '24 and '25. This raises the risk of September payback in seasonal factors, which could be more or less punitive than what we are penciling in.

TPS visa revocations could be a headwind

The suspension of TPS-related work authorization for Haitian nationals on July 27 has not yet shown up clearly in the payroll data. Roughly 200k Haitian TPS holders are estimated to have been participating in the US workforce, with the greatest exposure in food services & drinking, healthcare, transport & warehousing and retail trade jobs. Yet Aug payrolls remained stable in most of these sectors (Exhibit 4), suggesting any labor market impact was either delayed or offset by hiring and seasonal adjustment dynamics.

Our base case is that this will play out gradually over a period of months as a mild headwind to payroll growth rather than as a one-time shock. The impact should be cushioned by alternative legal status for some workers, gradual employer adjustment, and persistent labor shortages in several affected sectors. Any effect is likely to show more in payroll growth and labor force participation since foreign born workers tend to participate at higher rates, with little impact on the u-rate. However, there is a downside risk from the impact being felt more significantly than we are expecting in September.

U-rate to remain at 4.1%, with risk of rising to 4.2%

The unemployment rate will be the key focus of the report. We expect it to remain at 4.1% for a third consecutive month. Labor force participation was up two-tenths in August to 61.6%, where we forecast it to remain in September

However, there is a risk the unemployment rate could round up to 4.2%. Household employment surged by 569k in August, after two consecutive declines. We could see a payback in September, which would push up the unemployment rate. However, even a 4.2% print would be consistent with healthy underlying labor market conditions.

Stable wages: supportive of consumption, not inflationary

We think average weekly hours will be unchanged at 34.4. Average hourly earnings should also remain at 0.3% m/m. Stable wage growth on a six-month annualized basis (Exhibit 5) is consistent with a stable labor market and a negative labor supply shock but is not inflationary. This may not last if labor slack diminishes given limited labor supply.

Breakeven: Likely slightly higher than 20k/month

Labor supply constraints tied to a tighter immigration policy remain an important part of the labor market story. Immigration enforcement appears to have softened somewhat at the margin earlier this year. In addition, some immigrants who lost humanitarian protections last year are likely regaining work authorization through asylum-based channels. Even so, recent policy developments suggest immigration will continue to restrain labor supply, albeit to a slightly lesser degree than initially projected.

As a result, the labor market's breakeven pace of job growth may be somewhat higher than our current estimate of 20k per month. But any increase in breakeven would be modest. Therefore, even our below consensus jobs forecast should allow payrolls to still continue to average (3-month average at 80k) comfortably above the breakeven pace.

Sep jobs probably won't be decisive for Oct Fed decision

Following Warsh's hawkish remarks at the September FOMC presser and the recent rise in oil prices, markets are pricing close to 100bp of rate increases over the next year, with nearly a 75% probability of an October hike at the time of this writing. Warsh described the labor market as being near full employment. He emphasized benign claims and a stable u-rate over weak job growth, given the ongoing labor supply shock. Therefore, we think September CPI is likely to be much more important than the jobs report for the Fed's October decision.

Euro area

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Euro area forecast update: a tougher winter

- We embed higher winter energy prices and tighter financing conditions in our Euro area forecast scenario.
- Inflation moves most: we now forecast headline at 3.0% in 2026 (+10bp) and 2.5% in 2027 (+30bp).
- We pencil in an ECB hike in Dec-26. A Mar-27 hike is more likely than Oct-26, neither are base case. Cuts follow in Sep-27.

Energy prices and financing conditions limit growth

We update our Euro area forecasts to incorporate higher energy prices through the winter, tighter financing conditions and a more hawkish ECB. Our commodities colleagues now expect TTF at EUR 90-100 and Brent at USD 90-100 in 4Q26 and 1Q27, before correcting towards EUR 40 and USD 74 again by end-27. That lifts our inflation forecasts to 3.0% for 2026 (+10bp) and 2.5% for 2027 (+30bp). We keep core inflation at 2.3% this year, but raise it to 2.3% in 2027 (+20bp), driven by indirect energy price effects and German healthcare reform. We see headline and core at or below 2% by end-27 again, with headline and core inflation averaging 1.8% in 2028 (unch).

Our growth forecasts move to 1% in 2026 (+20bp due to Irish growth revisions in 2Q). But higher energy prices and even tighter financial conditions constrain growth through the winter – we cut sequential growth to c 0.2% qoq (-10bp). We expect 1.0% growth in 2027 (-10bp) and 1.1% in 2028 (unch). We are not oblivious to 1H26 growth surprises, but we find noise in the data almost everywhere. That makes us very reluctant to extrapolate; we prefer to remain cautious.

ECB guided to a Dec-26 hike, Mar-27 not so obvious

We change our ECB call and embed a Dec hike in the base case. We still think the ECB is unlikely to go further. An Oct-hike is not impossible, but would require central bank panic and big surprises – not our base case. Relatively speaking, the risk of a fourth hike is greater in Mar-27, but that would not be easy either. Wholesale energy prices should be lower after the end of the heating season, while headline inflation would be about to drop on base effects, and we think core would be below the ECB's expectations then. Growth could still look ok, but it would likely be less robust than today, and we doubt meaningful second-round effects would have emerged.

We still see ECB cuts in 2H27

We stick to our call that quarterly cuts will follow in 2H27 (Sep, Dec). We still see the depo rate dipping below 2% in 2028 again. The exact energy price profile will determine when headline (and core) can fall back to – and below – 2% again, but the macro narrative is unchanged: chronic demand insufficiency and tight policy make for an inflation undershoot, eventually (we were moving in that direction in early 2026, too).

The quest for non-linearities

We are frequently asked what level of energy prices would trigger a recession or when we should expect growth resilience to fade. A short lived spike might still be less difficult than a very long plateau at current prices, we think. So far, energy prices have been on a rollercoaster, with episodes of relief on hopes of a peace deal. If prices remain at current levels well beyond the winter, they may take their toll on sentiment and growth. That would put us closer to the ECB's adverse scenario, and raise risks of a fourth hike (not more), but with weaker growth, we think. Consequently, we still expect a cutting cycle to start in 2027, but perhaps at a swifter pace than we currently assume.

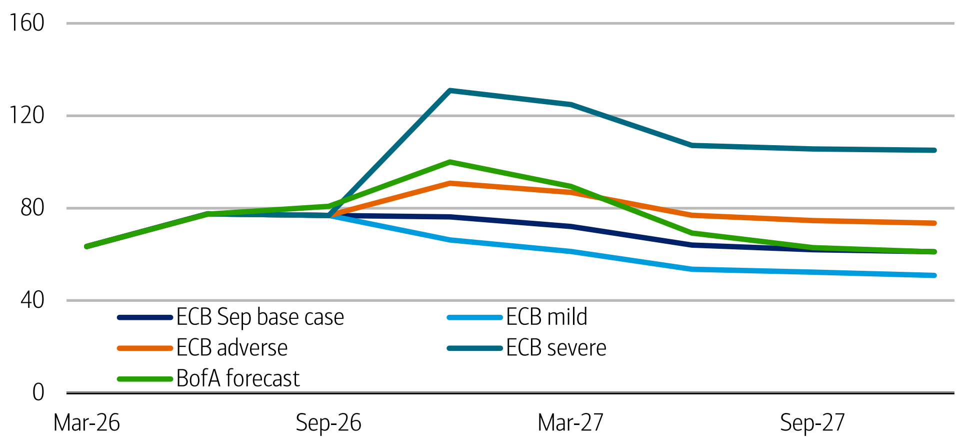
Related to that, there are other non-linearities that are key for an ECB October move and, hence, why we don't see it happening. For an October move we would need to see a sense of urgency and/or that the central bank feels too far from the endpoint (the desired terminal rate of the hiking cycle). Going back to Lagarde's speech at the Watchers conference the ECB would need to perceive that we are now in the scenario that requires a forceful adjustment. Recent ECB speak, including from Lagarde herself, suggests we are still in the measured adjustment scenario.

Can we move there before the October meeting? That would require a sense that non-linear dynamics are being triggered or a much higher probability that they will be triggered- To us that would require at least one of two ingredients. One way we could find ourselves there is with a persistent move in energy prices (ie spot and forwards). True, energy prices have moved higher but they are not as persistent as in the ECB's adverse scenario (still consistent with a measured adjustment) and far from the severe scenario (a clear case of a forceful adjustment needed, see exhibit).

Alternatively, we would need to see a very bad surprise in the next inflation print when it comes to core and, particularly, services inflation.

Exhibit 6: Our Commodities team new energy price forecasts are close to the ECB adverse scenario this winter, back to base case mid-27.

This is still very far from the "severe" scenario that would perhaps call for a "forceful" policy response. We continue to view market pricing of the ECB as too hawkish.



Source: BofA Global Research

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UK

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UK forecast update: Hawkish drift

- We adjust our UK macro forecasts to incorporate our new, higher energy forecasts. Inflation moves up to 3.2% (+10bps)/ 3.2% (+60bps)/ 2.0% (-10bps) in '26/'27'28, with peak at 4.2% in Feb'27.
- Growth moves to 1.3% (+10bps)/ 1.0% (-20bps)/ 1.4% (-10bps) in '26/'27/'28.
- We now expect the BoE to hike in Nov '26 and Feb '27 to 4.25% to guard against risks of second round effects, assuming high energy prices persist. Risks to our view are balanced. We then expect three quarterly cuts starting in Q1'28 to 3.5%.

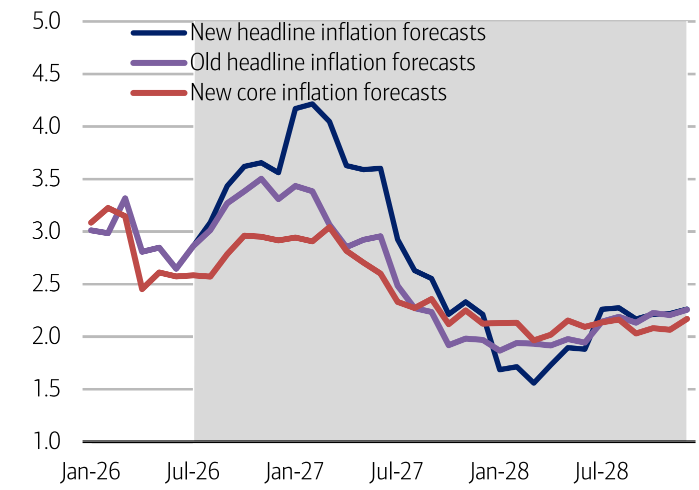
We incorporate higher oil/ gas prices in our outlook

We adjust our UK macro forecasts to incorporate our commodities strategists new, higher oil and natural gas price forecasts in our scenario along with the BoE's hawkish shift in communication. Our commodities strategists increased their 2H26 Brent forecast to $95/bbl from $83/bbl and their 2027 Brent forecast to around $80/bbl from $75/bbl (see Global Energy Weekly: A deepening geopolitical schism 21 September 2026). Continued skirmishes into year-end is now seen as our most likely scenario. Our commodities team have also raised their winter TTF forecast from EUR 65/ MWh to EUR 100/MWh, yet expect prices to fall to EUR 40/MWh by H2 2027 (see Global Energy Weekly: Praying for El Niño is not a TTF strategy 15 September 2026)

Higher inflation profile with peak at 4.2%

On the back of higher energy prices, headline inflation moves higher to 3.2% (+10bps) in '26, 3.2% (+60bps) in '27 and to 2.0% (-10bps) in '28. Headline inflation is expected to pick up from here, with the peak now expected at 4.2% in Feb'27 vs. 3.5% before in Nov' 26. Core inflation moves to 2.8% (unch), 2.5% (+20bps) and 2.1% (unch) in '26/27/28 (Exhibit 7 and Exhibit 8).

Exhibit 7: Higher peak and greater persistence in our inflation forecasts
UK headline inflation (%y/y)



Source: ONS, BofA Global Research

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Exhibit 8: We expect UK inflation at 3.2%/3.2%/2.0% in '26/27/28
UK inflation forecast by category

	Headline CPI	Core	Core goods	Services	Food	Energy	RPI
	y/y%						
Aug-26	3.1	2.6	0.9	3.4	1.3	13.8	3.4
Sep-26	3.4	2.8	1.1	3.7	1.7	15.9	3.8
Oct-26	3.6	3.0	1.2	3.9	2.0	15.3	4.2
Nov-26	3.7	3.0	1.2	3.9	2.5	14.5	4.4
Dec-26	3.6	2.9	1.3	3.8	2.8	13.5	4.4
Jan-27	4.2	2.9	1.2	3.9	2.8	24.4	5.2
Feb-27	4.2	2.9	1.2	3.8	3.2	24.9	5.2
Mar-27	4.0	3.0	1.4	3.9	3.0	19.9	4.9
Apr-27	3.6	2.8	1.3	3.6	3.0	15.6	4.8
May-27	3.6	2.7	1.3	3.5	3.1	16.2	4.7
Jun-27	3.6	2.6	1.3	3.3	3.0	18.2	4.4
Jul-27	2.9	2.3	1.0	3.0	2.9	9.7	3.9
Aug-27	2.6	2.3	1.0	2.9	2.8	5.5	3.5
Sep-27	2.6	2.4	1.0	3.1	2.5	3.7	3.3
Oct-27	2.2	2.1	1.0	2.7	2.8	0.4	2.8
Nov-27	2.3	2.3	1.1	2.8	2.9	0.3	3.0
Dec-27	2.2	2.1	1.0	2.7	2.7	0.4	2.9

Source: ONS, BofA Global Research

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Higher oil and gas prices bring persistence in our profile with the Jan Ofgem price cap likely rising by more than 25%. Inflation stays above 3% until mid-2027 in our forecasts and undershoots target in early 2028 temporarily due to energy driven base effects. There are risks that the return to target sustainably is delayed.

We expect the passthrough of the energy shock to domestic inflation and second round effects to remain somewhat contained, but risks are on the upside given the high inflation peak. Core inflation is likely to hover around 3% for the next few months and reach closer to target in early '28.

Growth to slow after being firmer than expected

Growth moves higher in 2026 to 1.3% (+10bps) as the economy is weathering the energy shock better than expected so far, driven by household consumption and business investment. We increase our estimate of Q3 growth to 0.4%, given the upside surprise in July GDP, some of which seems to be potentially driven by AI related investment. At the same time, household savings are potentially helping to buffer the shock, boosted further by the warm weather and the World Cup

But we expect higher inflation, tightening of financial conditions, policy uncertainty ahead of the Autumn Budget along with our expectation of BoE hikes to lower growth in 2027 to 1.0% (-20bps) and in 2028 to 1.4% (-10bps). We think GDP outperformance is unlikely to last with higher inflation and tighter financial conditions squeezing real incomes and weighing on consumption/investment. As a result, we lower sequential quarterly growth into the winter to 0.2%. But risks are titled to the upside.

We expect the unemployment rate to peak at around 5.2% mid-next year, with balanced risks and don't expect a sharp labour market deterioration. Most survey indicators of employment growth point to some signs of stabilization.

Fiscal policy also poses a risk. We don't think a large package in the Autumn Budget is likely, given the government's commitment to stick by the fiscal rules. Higher yields, inflation and Bank Rate expectations have likely already halved the pre-measures headroom from £23.6bn in March. We expect fiscal rules to be met, but some flexibility could be used within the debt rule to increase borrowing on investment in a limited manner (see UK Watch: Huffin' and PuFin' 22 July 2026). Limited cost of living measures, spending on infrastructure/housing by using flexibility within the debt rule and spending to fund Starmer's defence plan are possible, some of which could be financed by tax rises. It is still not clear whether the Chancellor will restore all the lost headroom via tax rises. But we think tough decisions on additional defence spending. social care and welfare are likely to be delayed.

BoE to hike in Nov and Feb, with balanced risks

We change our BoE call- we now expect the BoE to hike twice in Nov '26 and Feb '27 to 4.25% to guard against the risks of second round effects, assuming high energy prices are sustained into early next year and barring big downside surprises in data. We then expect three quarterly cuts starting in Q1 '28 (Feb, Apr and July) to our terminal of 3.5% (vs. our previous call of no hikes and a cut in Nov. '27 to 3.5%). Our terminal remains the same, but we expect to reach it later.

Risks to our view are balanced. A meaningful drop in energy prices due to a lasting deescalation or big downside data surprises can weaken the case for tightening and allow for one or no hike. At the same time, a meaningful worsening of the energy shock, upside data surprises or strong evidence of second round effects materializing can open the door to a third hike. Beyond that, risks are tilted to earlier cuts if disinflation late next year moves faster than we expect.

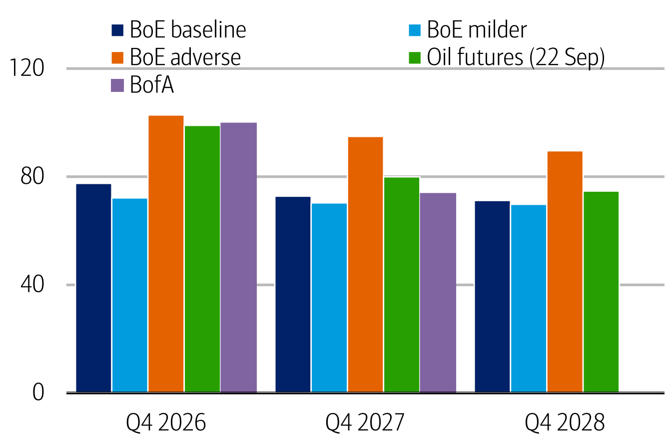
The change in our BoE call is driven by the move higher in our inflation forecasts showing a higher peak and greater persistence which can increase risks of second round effects, stronger than expected growth so far along with the hawkish shift in the BoE's communication.

We expect headline inflation to rise to 4% early next year and stay persistently high for a few months, which can increase risks of threshold and second round effects (4% is where the BoE has previously warned about risks of threshold and non-linear effects, whereby attentiveness to inflation rises). Our energy price forecasts and futures (even with the recent declines) are close to the BoE's adverse scenario in the near term (with gas higher), even if our forecasts/ futures don't point to the same persistence (Exhibit 9 and Exhibit 10) and second round effects remain limited. In this scenario we think it would be difficult for the BoE to hold out from raising rates. The tightening would be seen as insurance/risk management to guard against the risks of material second round effects, especially ahead of and around 2027 pay settlements being set. We also think that insurance tightening would serve as a signal that the BoE is serious about guarding against upside inflation risks and is not behind the curve, especially in the context of other central banks raising rates. Moreover, stronger growth so far lowers the inflation growth trade-off for the BoE.

At the same time, the BoE moved decisively hawkish in the Sept. meeting and looked more open to hiking to guard against the risks of second round effects, if high energy prices persist. The BoE is looking increasingly nervous to sit out the energy shock. In September, the BoE noted inflation risks were titled further to the upside vs. July and there is possibility of a less stark trade-off between growth and inflation. It noted that risks of material second round effects have increased since July and it was not appropriate to wait too long for evidence of such effects before responding. More importantly, swing voters (Lombardelli, Bailey, Ramsden, Breeden) moved more hawkish and looked closer to a hike. Governor Bailey noted that if conflict persists and the risk of second-round effects emerging increases, it is likely that policy may have to tighten.

Exhibit 9: Our oil forecasts/ futures are close to the BoE's adverse scenario, though not as persistent

Oil prices ($ per barrel)



Source: BoE, Bloomberg, BofA Global Research

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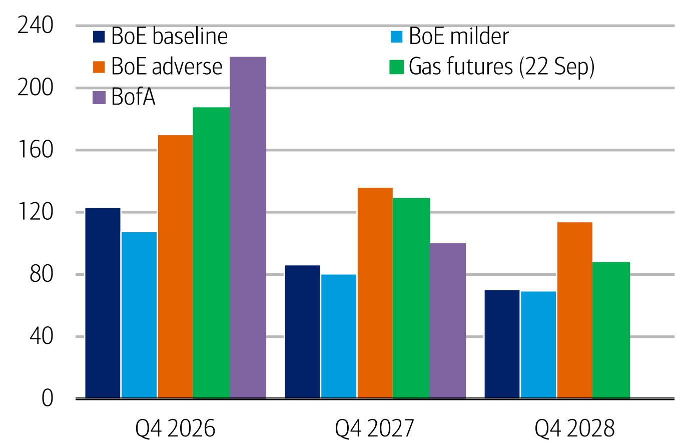
Exhibit 10: Our gas forecasts/futures are higher than the BoE's adverse scenario, but not as persistent

Gas prices (Pence per therm)



Source: BoE, Bloomberg, BofA Global Research

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But we expect the tightening to be insurance/risk management rather than the start of prolonged hiking cycle. Second-round effects have been limited so far in the midst of a soft labour market, the energy shock is not yet broadening to domestic inflation, rates are restrictive and financial conditions have tightened. We don't think we are in the adverse scenario yet, because that scenario assumes much greater persistence in energy prices and materially higher second round effects (peak of 1pp) than we expect. Even Huw Pill (who has voted for a hike since April) has noted that the BoE could lift rates without kickstarting a prolonged and aggressive series of increases.

So we don't think rates will reach the peak of 4.75% (unless things materially worsen), which the optimal policy path under the adverse scenario points to and which the markets are pricing. We do view the market pricing of close to four hikes as excessive.

The MPC has also implicitly pushed back slightly on the excessive market pricing of close to four hikes, saying some of it reflects risk premia. Governor Bailey has also highlighted that they didn't discuss the prospect of raising rates four times.

A move lower in inflation towards target, along with higher interest rates weighing on growth/core inflation, can allow the BoE to reverse the hikes in ‘28 and cut to our terminal of 3.5%. We expect three quarterly cuts starting in Q1‘28 (Feb, Apr and July) to our terminal of 3.5%. The BoE would want to wait for clear evidence that underlying inflation is slowing sustainably before cutting rates.

Japan

Izumi Devalier
BofAS Japan

Takayasu Kudo
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See full report: Japan Viewpoint: The price of Japan's capex boom

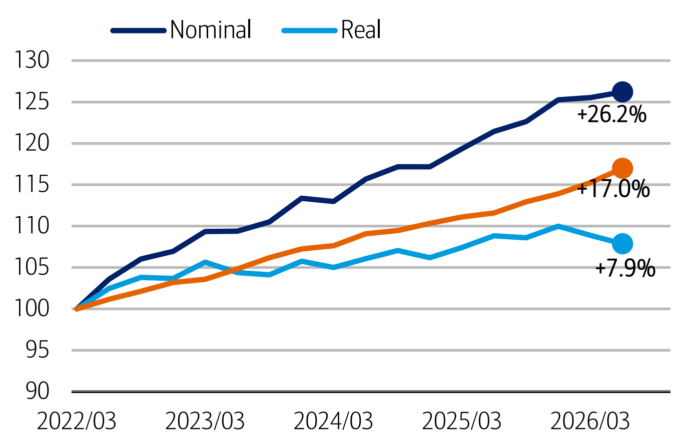
The price of Japan's capex boom

Japan's real GDP rose 1.45% QoQ SAAR in 2Q CY26, marking the third consecutive quarter of expansion. Yet business investment has been a soft spot, contracting two quarters in a row in real terms. The weakness is not for lack of corporate willingness to invest. According to the BoJ Tankan, capex plans remain strong, and nominal spending has largely followed. What stands out instead is the gap between nominal investment and real capital formation. From 1Q CY22 to 2Q CY26, nominal business investment rose 26.2%, while the rise in real business investment was limited to 7.9%. The difference is the investment deflator, which rose 17.0%. In other words, most of the nominal increase reflected higher prices rather than additional real investment.

Higher prices constrained growth in machinery and construction

Real investment in Intellectual Property Products (IPP), which includes R&D and software spending, has shown the clearest uptrend. Together with Transport Equipment, it accounts for almost all of the increase in real gross fixed capital formation since 2022. In contrast, both "Other Machinery and Equipment" and "Non-Residential Construction" have barely grown in real terms. Investment in Other Machinery and Equipment rose 23.6% in nominal terms, but only 4.0% in real terms, with the deflator up ~19%. Non-residential construction rose 20.5% in nominal terms and 2.9% in real terms, with the deflator up ~17%.

Exhibit 11: Higher prices have widened the cumulative nominal-real investment gap
Trends in nominal and real private non-residential investment (1Q22 = 100)



Source: BofA Global Research; CAO

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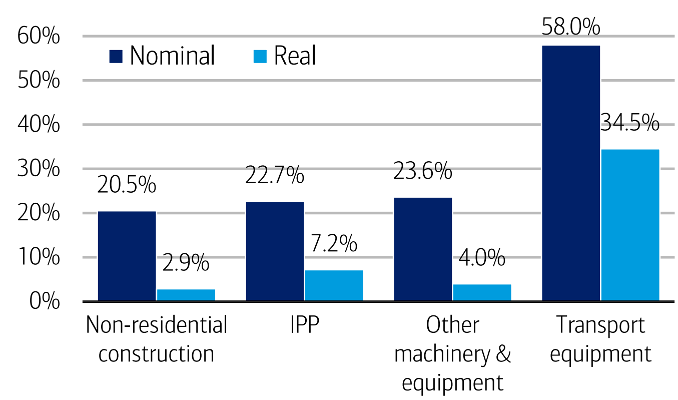
Exhibit 12: Higher prices absorbed much of the increase in physical-investment spending
Cumulative change in GFCF by asset since 1Q22 (%)



Source: BofA Global Research; CAO
Note: This shows total GFCF, as asset-level data are only available on that basis. Total GFCF includes public alongside private investment. Residential investment is not shown.

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Machinery prices exposed to foreign costs, weaker JPY

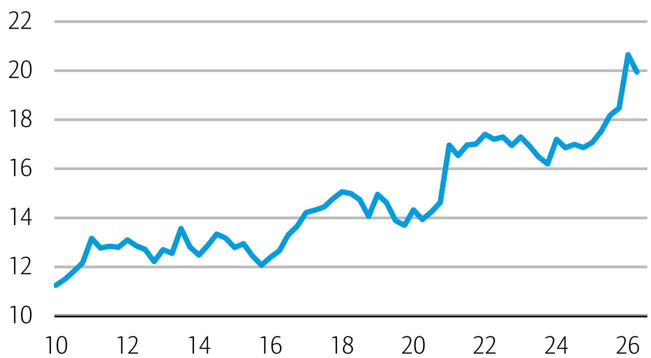
One of the common drivers of soaring prices for the two physical investment categories is rising foreign costs, amplified by the weakening of the yen since 2022. However, this was likely a much larger factor for machinery investment, which has much higher import exposure than construction.

Our analysis shows that 32.7% of final demand for conventional machinery accrues to imports, including 20.7% directly and 12.0% through imported inputs. The figure rises to 44.4% for broad machinery including electrical & ICT. Between 1Q CY22 and 2Q CY26, yen-based import prices for general, production and business machinery rose around 42%, versus 18% on a contract-currency basis. In other words, yen depreciation since 2022 nearly doubled the price increase that Japanese machinery purchasers faced. Given machinery's high import content, imported cost inflation, amplified by the weaker yen, was likely a meaningful driver of the ~19% rise in the machinery deflator.

Construction faces a domestic cost & capacity constraint

The story is somewhat different in non-residential construction. With no direct import channel, foreign costs explain less of the increase in construction prices than they do for machinery. Instead, the pressure has come from domestic costs. Construction costs for steel-frame buildings in Tokyo are up 24-28% since 1Q CY22. Labor shortages are a significant constraint: the job openings-to-applicants ratio for structural construction workers rose to 7.94x in July 2026, compared to 1.18x for all industries. Construction order backlogs have risen from around 14 months of work pre-pandemic to 20 months today. As with machinery, the weakness in real construction investment is not a demand problem. Projects are being commissioned. But they are taking longer and becoming ever more costly to complete.

Exhibit 13: Construction order backlogs have climbed to ~20 months
Construction order backlogs (months)



Sources: BofA Global Research; CAO; MLIT
Notes: Figures for construction orders = outstanding orders at quarter-end ÷ average sales of the preceding 12 months.

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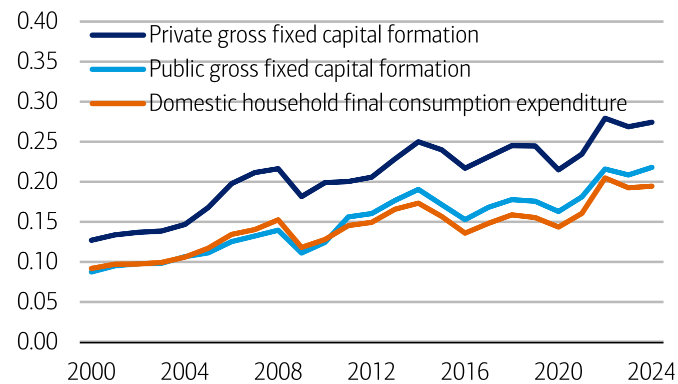
Exhibit 14: Private investment now generates substantially more import demand than two decades ago
Trend in import inducement coefficient



Source: BofA Global Research; CAO

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Weaker capital deepening, more import leakage

The increasing divergence between strong nominal capex and weak real investment implies that Japan's capital stock is growing more slowly than the headline spending figures imply. Moreover, the limited growth in real investment has been concentrated in software and R&D rather than the machinery and structures that expand physical productive capacity. There are also implications for Japan's external accounts. The import inducement coefficient for private gross fixed capital formation has risen from 12.7% in 2000 to 27.4% in 2024. In other words, JPY100 of private investment generates JPY27 of import demand.

This has implications for Prime Minister Takaichi's investment agenda, which is concentrated in categories that have a high reliance on imports. Where there is no domestic alternative, imported capex might be worthwhile if it translates into an expansion in productive capacity. But the build-out phase will raise import demand while acting as a marginal headwind for the yen. Finally, the constraints that we discussed are largely on the supply side. Higher capital goods prices and a shrinking construction workforce are not problems that more nominal spending can fix. If anything, pushing more money into a capacity-constrained construction sector will raise prices rather than output, raising the importance of supply side measures to address the bottlenecks.

Emerging EMEA

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South Africa: SARB hikes as inflation risks outweigh near term growth concerns

Complete report: South Africa Watch: SARB hikes as inflation risks outweigh near term growth concerns 24 September 2026

Fuel shock drives SARB to tighten further by 25bp

SARB increased the repo rate by 25bp to 7.25%, in line with our expectations and market consensus. The unanimous decision marked a notable shift from the split vote at the July MPC. The statement adopted a more hawkish tone, highlighting growing concerns about persistent inflation, elevated inflation expectations and second-round effects. However, SARB was less hawkish than our central scenario on the need for further tightening.

Fuel shock to lift SARB's inflation path above 5%

The MPC revised its inflation forecasts higher, primarily reflecting the sharp rise in global oil prices. Headline inflation is now expected to average 4.4% in 2026, up from 4.0%, and 4.0% in 2027, up from 3.8%. SARB expects headline CPI to exceed 5% in late 2026 and remain close to that level in early 2027, peaking at 5.7% in November 2026. These forecasts are broadly aligned with our base case.

Inflation persistence and second-round risks move centre stage

SARB highlighted growing concern about inflation persistence, with long-term inflation expectations remaining around 4%, well above its 3% objective. Alternative scenarios indicated that higher inflation expectations and stronger wage growth could require one to two additional rate hikes relative to the baseline. Compared with July, the focus has shifted from oil-price uncertainty to the risks associated with higher global interest rates, elevated inflation expectations and stronger wage pressures

Food inflation risks remain contained for now

SARB stressed that the increase in inflation is largely fuel-driven rather than demand-driven. Food inflation remains relatively benign in the near term, supported by favourable agricultural conditions and high dam levels. However, it is expected to rise in 2027, reflecting higher global food prices and fertiliser costs. SARB continues to view El Niño risks as manageable and has not incorporated a material domestic agricultural shock into its baseline.

Growth forecast lowered, recovery still expected

SARB lowered its 2026 GDP growth forecast to 1.2% from 1.4%, following the contraction in Q2. Despite weaker activity, the Bank still expects growth to recover in the second half of the year, although risks remain skewed to the downside. The medium-term outlook remains relatively optimistic, with growth projected to rise towards 1.7%-2.0% over the forecast horizon, conditional on global stabilisation and continued domestic reforms. 2026 growth forecast of 1.2% is aligned with BofA. However, we are more downbeat in 2027 forecasting 1.4% compared to SARB's 1.7%.

Inflation persistence and second-round risks move centre stage

A key message from the MPC was its growing concern about inflation persistence. Long-term inflation expectations remain around 4%, well above SARB's preferred 3% objective. SARB noted that market-based measures of inflation expectations have risen recently, increasing the risk that an external supply shock could feed into broader inflation through wage- and price-setting behaviour.

SARB devoted considerable attention to the risk of second-round effects. Its alternative scenarios assessed the impact of higher inflation expectations and stronger wage growth. Both scenarios produced a materially tighter policy path, requiring one to two additional hikes relative to the baseline. While evidence of building wage pressure remains partly qualitative and informed by business engagement, policymakers clearly signalled growing concern that inflation could become more entrenched.

The September scenarios mark an important shift from July. Whereas the July MPC focused heavily on oil-price uncertainty and considered both favourable and adverse outcomes, the adverse scenario has now effectively materialised. SARB's focus has consequently shifted towards higher global interest rates, elevated inflation expectations and stronger wage growth.

Deteriorating global conditions amplifies domestic inflation risks

The global backdrop has deteriorated noticeably since July. SARB highlighted:

- Intensifying disruptions through the Strait of Hormuz.
- Interruptions to Saudi oil exports linked to the conflict in Yemen.
- Continued Russia-Ukraine-related supply disruptions.
- A resumption of Federal Reserve tightening.
- Rising global bond yields amid larger fiscal deficits and persistent inflation concerns.

These developments have increased global inflationary pressures and are being transmitted domestically through higher fuel prices, sticky services inflation and persistently elevated inflation expectations.

MPC more hawkish than the QPM implies

The QPM remains relatively dovish compared with the tone of the MPC. The baseline path now projects a 2026 year-end repo rate of 6.98%, compared with 6.79% in July's baseline forecast, and still envisages eventual easing as inflation returns towards 3%. Nevertheless, the decision to hike despite weaker growth suggests SARB are assigned greater weight to inflation risks than implied by the model's baseline path. In July MPC, SARB spent considerable time reflecting on the weak economy as one of the key drivers to hold policy rate unchanged.

The September hike should therefore be viewed as an insurance move aimed at preventing a fuel-price shock from becoming embedded in inflation expectations, wage formation and broader pricing behaviour. While the tone of the statement was materially more hawkish than in July, the MPC also stressed that future decisions remain data dependent. As a result, the hurdle for another immediate hike appears relatively high, although SARB is clearly signalling greater concern about inflation persistence and its commitment to returning inflation towards its 3% objective over time.

SARB validates our call, but stops short of signalling more

The September MPC largely validated our pre-meeting thesis that higher oil prices, renewed Federal Reserve tightening, elevated inflation expectations and growing second-round risks would force SARB to tighten policy. The rate increase, revised inflation forecasts and greater emphasis on inflation persistence were broadly consistent with our pre-meeting assessment.

The main shift relative to July is that the adverse oil-price scenario has effectively materialised. SARB's focus has consequently moved from evaluating alternative oil-price outcomes to assessing the implications of higher global interest rates, elevated inflation expectations and stronger wage growth. This shift closely mirrors the risks highlighted in our pre-MPC analysis.

The principal difference between our pre-meeting view and the MPC outcome is the forward policy path. While we correctly anticipated the September hike and continue to see risks skewed towards further tightening, the QPM baseline remains relatively dovish and still envisages eventual easing as inflation returns towards 3%. The MPC has signalled a willingness to tighten further if inflation expectations deteriorate, but it stopped short of pointing to another near-term hike.

Our baseline views and forecasts remain unchanged. See our earlier note here Emerging Insight: South Africa: higher oil prices drive a renewed inflation upswing 20 September 2026.

Latin America

Carlos Capistran
BofAS

Turning more bullish on the Colombia story

Complete report: *Emerging Insight: Colombia fiscal: Underpromise to Overdeliver. 22 September 2026*

High political commitment to deliver fiscal adjustment

President de la Espriella seems very supportive of the fiscal consolidation agenda. Even though he describes the fight against insecurity as his top priority, tackling the fiscal deficit also ranks high among his priorities. It's a core part of his discourse. In the presidential campaign, Abelardo de la Espriella (ADLE) proposed to cut the size of the government by 40%. On his Inauguration Day speech, he announced budget cuts/freezes.

Policymakers say primary deficit is "mother of problems"

Colombian policymakers refer to the primary fiscal deficit as the "mother of problems" in the economy. They argue the harmful effects of the elevated primary deficit (estimated at 4.5% of GDP in the inertial/passive scenario of the 20027 budget) are contaminating macroeconomic conditions in several ways. They divert private savings to fund the government's deficit, reducing private investment; exert upward pressure on inflation and interest rates; alter the balance between savings and investment; inter alia. Exhibit 2 shows our own interoperation of the economy that ADLE inherited from Petro.

Exhibit 15: Macroeconomic conditions that de la Espriella inherited from Petro; simplification in four main quadrants
Not only there is deterioration across all quadrants, but each one shows negative spillovers from fiscal policy

Economic activity - Shift to undesirable growth drivers (government spending and consumption stimulated by minimum wage policy). - Collapse of investment rate, lowest since 1975. - From sectoral perspective, depressed construction and oil & gas (from demand perspective, investment and exports).	Inflation and monetary policy - 2026 will be the sixth year in row in which inflation exceeds the tolerance range of the central bank. - Central Bank blames global supply shocks, but also expansionary fiscal policy and 75% increase in minimum wage between 2022 and 2026. - Substantial increase in neutral interest rate, mainly because of drop in government savings and increase in risk premium.
Fiscal accounts and public debt - Inertial fiscal deficit for 2027 estimated at 9.4% of GDP (budget bill), much higher than in pandemic (7.8%). - COP 60tn (2.9% of GDP) in undisclosed expenditures. More than half coming from interest expenditures (primarily explained by short-term debt rolled over at high rates). - New government forced to do fiscal reform, amid tax fatigue.	Balance of payments - Large drop in foreign direct investment (to 2.5% of GDP, from ~4%) makes financing of current account deficit less stable. - Large increase in borrowing costs damages external sustainability. - Petro's pension reform poses downward risk for national savings in long-term (current/pension expenditures financed with private savings).

Source: BofA Global Research

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Ruling coalition has majority in Senate and Lower House

In Colombia, at the beginning of each period, all parties in Congress must declare themselves in favor of the government (part of the ruling coalition), in opposition, or independent. Notably, almost all traditional parties have declared themselves "in favor" providing the ruling coalition with 63 seats (out of 103) in the Senate, and 120 (out of 177) in the Lower House. The only exceptions are Pacto Historico (Petro's party) as opposition, and the Green Party as independent.

Majority coalition should facilitate passage of reform

This bodes well for the chances of approval of the fiscal adjustment bill (aka "rescue law") that the government will submit to Congress in October. In our view, the "crowding out" argument – that is, primary deficits absorbing the pool savings and leaving less funds available for private investment – may be persuasive to nudge Congress. The ruling coalition doesn't necessarily vote in an aligned way. But they do have an incentive to do so.

Exhibit 16: Fiscal adj. bill ("Rescue Law") effects on the primary balance, according to government
The plan begins with large expenditure cuts in 2027, and revenue measures kicking-in in 2028

	2027	2028	2029	2030
Total primary balance adjustment (= 1 - 2 + 3)	2.1	4.5	4.6	4.7
1) Net effect revenues	-0.1	1.3	1.3	1.3
2) Net effect expenditures	-2.1	-3.1	-3	-2.8
3) Other macroeconomic effects	0	0.1	0.3	0.6

Source: Ministry of Finance (Hacienda), BofA Global Research

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Plan is 4.7pp of GDP over four years (true effort 4.1pp)

Exhibit 3 shows a summary of the government's projections. The total proposed adjustment is 4.7pp of GDP over years, although 0.6pp comes from benign macroeconomic effects, so the true effort is only 4.1pp. The plan is heavily tilted towards expenditure cuts. It is consistent with the stabilization of central government debt at ~60% of GDP, the government says.

2027 will be the key year to set in motion the reform

2027 is key, in our view, because it represents the launch of the reform and over half of the true effort. 2.1pp out of 4.1pp in four years (without considering the "other macro effects" written in Exhibit 3). On the day the 2027 budget bill was announced (see "2027 budget: transparency yes, fiscal adjustment not yet") the government stated that, complementary, there would be a fiscal adjustment bill (aka "rescue law") aiming for a 2.2pp of GDP narrowing of the primary deficit in 2027. The latest guidance indicates the aim has been revised down slightly, to 2.1pp.

Mix of reform: 70% spending cuts, 30% revenue measures

Among the expenditure cut measures under discussion are: i) transfers to "special funds" (also mentioned in the presidential campaign, see "Colombia Trip Notes: More clarity on the outlook," 03 June 2026); ii) over 250 items in "other transfers" category; iii) containment in the increase of public sector wages; iv) better targeting of social spending (FEPC fuel subsidies, but also utilities). On the revenue side: i) reduction/elimination of exemptions on social security contributions (such as SENA and ICBF) that benefit employers; ii) measures to expand the tax base (rather than tax rates); and iii) some margin to increase personal income tax and consumption taxes.

Different approach to fiscal reform than previous govts.

In Colombia, for the past decades, the standard of fiscal reform has been to increase taxes. This is how governments used to spend their political capital. But this model of reform seems to have entered crisis. Petro got a tax reform in 2022, but later Congress rejected multiple attempts to increase taxes. The previous president, Ivan Duque, suffered severe social protests and political backlash in 2021 when trying to pass a tax reform that eliminated value added exemptions. ADLE wants to do something different: slash expenditures, under the argument that government profligacy has gone too far.

Expenditures cuts are friendlier for GDP than tax hikes

We like the current government's fiscal recipe better than the past adjustments. It is healthier for economic growth. Most empirical evidence across the world shows that expenditure-driven fiscal consolidations tend to have mild effects on output, whereas tax-based adjustments are usually conducive to deeper and longer recessions. With the current strategy, business confidence is likely to rebound (in fact, Davivienda's PMI has jumped to highest level since 2019), interest rates will fall (yield on TES 2030 already down more than 300bp compared to May 2026), and the real exchange rate is supposed to depreciate (at least in the theory of the books, holding everything else constant).

Multi-annual reform, with some measures in the NDP

As shown in Exhibit 3, the fiscal adjustment bill (aka "Rescue Law") is a multi-annual plan. It's not just a 2027 adjustment. We think revenue measures are being pushed back to 2028 because they will need to think about how to deliver compensation to vulnerable groups of society. Moreover, it is likely that some of the revenue measures get excluded from the "Rescue Law" and, instead, are defined in the "National Development Plan".

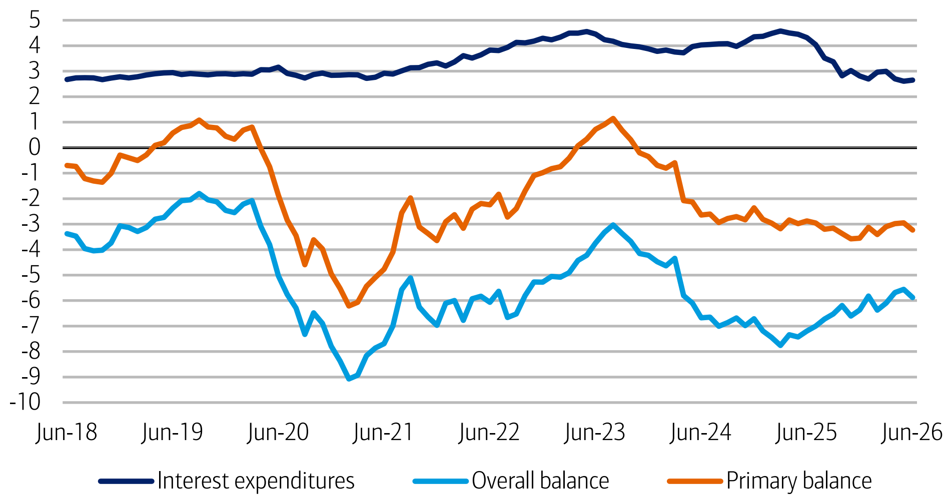
Revising our fiscal forecasts, to a more benign scenario

As we mentioned in the introductory paragraph of the report, we think the bar for a positive surprise on fiscal accounts is low. The starting point described by the government may be extra conservative. We are revising our fiscal deficit forecasts for 2026 (to 7%, from 7.2%), 2027 (to 7%, from 7.5%), and 2028 (to 6%, from 6.3%). This new scenario is consistent with primary deficits of 3.1%, 2.5%, and 1.5% for 2026, 2027, and 2028, respectively.

2026 budget cut, between 0.7pp and 1.1pp of GDP

For 2026, the new government is implementing a decree that will cut expenditures by around 0.7pp to 1.1pp of GDP. Most of it (2/3) will be capex cuts, and 1/3 lower current expenditures. Meanwhile, the latest fiscal data show a primary deficit of 3.3% of GDP in the rolling twelve months ended in June 2026 (see Exhibit 4), a mild improvement compared to full-year 20025 (3.5%).

Exhibit 17: Central government balances (rolling 12 months, % of GDP)
Interest expenditures have fallen temporarily (because of TRS), but primary deficit remains elevated



Source: BofA Global Research, Ministry of Finance (Hacienda), Statistics Agency (DANE)

BofA GLOBAL RESEARCH

Market should not penalize govt. for earthquake spending

The impact of the earthquake that happened in August (revenues down, expenditures up), nevertheless, will probably eat away part of the savings generated by the 2026 budget cut. Looking ahead, reconstruction spending will probably increase. But we believe it will be moderate and gradual. In any case, our view is that markets would likely penalize the government for higher current expenditures, but not for some temporary and moderate reconstruction spending associated with the August 2026 earthquake.

Five main changes in the financial strategy

Switching topics to the financial strategy of the new government, we highlight four main changes compared to the Petro administration.

I) Everything will be put on the table

Financing needs will probably be large in the first years (around 10% of GDP), but in a truthful manner. In contrast with the Petro administration which – according to the new government – concealed COP 60tn (2.9% of GDP) of expenditures in the draft of the 2027 budget that it sent to Congress earlier in the year. Moreover, the previous government's exercise of funding needs & sources for 2027 showed misleadingly low amounts because it assumed ex-ante that amortizations would decrease because of liability management operations. In other words, they underestimated debt service. Without transparency to investors. Without even telling them that was the assumption.

II) Weight of external financing will increase

During the Petro administration, the government was borrowing 3/4 from domestic markets and 1/4 from external creditors. This is why TES yields were over 15% in May 2026. The new government will go back to what used to be Colombia's historical mix of financing: 2/3 domestic, 1/3 external.

III) Larger role for multilateral financing, and bilateral creditors

It's a no-brainer, considering this is the cheapest and longest type of financing. World Bank, IDB, CAF, maybe IMF (program is not ruled out), among other multilateral institutions. Bilateral loans, perhaps from US agencies, are also a growing possibility.

IV) Stepping away from the Cuellar approach

The previous government's total return swap and associated liability management operations seemed to have been conducted under the objective of generating (one-off) accounting gains by buying bonds below par; and thus, creating the illusion of more space to run expansionary fiscal policy. Instead, the ADLE administration will focus on improving the debt maturity profile.

V) Use short-term bonds (TCOs) to manage liquidity, not to fund budget

The Petro administration issued an excessive amount of TCOs. By 2026, there were twelve different references/maturities for TCOs, three times more than in 2021. In the new months (30 September, 22 October, 19 November), the government will swap 2026s and 2027s for 2027s and 2028s.

Exhibit 18: Summary of macroeconomic forecasts for Colombia

Fiscal is the crux of the macro adjustment

COLOMBIA	2018	2019	2020	2021	2022	2023	2024	2025	2026F	2027F	2028F
Nominal GDP (US$ bn)	334	323	271	314	346	369	420	459	599	671	662
GDP growth (%)	2.6	3.2	-7.2	10.8	7.3	0.8	1.5	2.6	2.5	2.9	3.1
Inflation (%, end-of-period)	3.2	3.8	1.6	5.6	13.1	9.3	5.2	5.1	7.1	4.9	3.7
Exchange rate (USDCOP, end-of-period)	3,250	3,277	3,430	4,080	4,853	3855	4406	3,778	3,150	3,350	3,700
Monetary policy rate (%)	4.25	4.25	1.75	3.00	12.00	13.00	9.50	9.25	13.00	12.00	9.00
Central government primary balance (% of GDP)	-0.3	0.4	-5.0	-3.6	-1.0	-0.3	-2.4	-3.5	-3.1	-2.5	-1.5
Central government overall balance (% of GDP)	-3.1	-2.5	-7.8	-7.0	-5.3	-4.2	-6.7	-6.4	-7.0	-7.0	-6.0
Central government gross debt (% of GDP)	49.3	50.3	65.0	63.0	60.8	56.3	61.3	64.4	63.3	65.6	68.9
Current account balance (% of GDP)	-4.2	-4.6	-3.4	-5.6	-6.0	-2.3	-1.7	-2.4	-2.6	-2.7	-3.0

Source: BofA Global Research, Ministry of Finance (Hacienda), Statistics Agency (DANE), Central Bank (BanRep)

BofA GLOBAL RESEARCH

Key forecasts

Exhibit 19: 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]	1.6	2.4	2.3	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
CPI inflation	3.8	3.4	3.5	2.7	2.6	2.3	2.5	2.7	3.3	2.5	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]	2.6	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.0	1.0	1.1
CPI inflation	3.0	3.3	3.5	3.5	2.8	2.1	1.5	2.1	3.0	2.5	1.8
Policy Rate (EoP)	2.25	2.50	2.75	2.75	2.75	2.50	2.25	2.00	2.75	2.25	1.50
China											
Real GDP growth [2]	4.5	4.3	4.3	4.1	4.2	4.2	4.1	5.0	4.5	4.2	4.0
CPI inflation [3]	1.1	0.5	0.6	0.6	0.2	0.9	0.4	0.0	0.8	0.5	0.0
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]	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
CPI inflation	1.5	2.0	2.6	3.3	1.6	1.4	0.6	3.2	1.9	1.7	1.7
Policy Rate (EoP)	1.00	1.25	1.50	1.75	1.75	2.00	2.00	0.75	1.50	2.00	2.00
Global Aggregate [4]											
Real GDP growth								3.5	3.3	3.4	3.3
CPI inflation								2.5	3.0	2.6	2.2
Policy Rate (EoP)								3.74	3.99	3.85	3.64
Emerging Markets Aggregate [4]											
Real GDP growth								4.7	4.5	4.5	4.4
Real GDP growth (ex-China)								4.6	4.6	4.7	4.6
CPI inflation								2.6	3.0	2.4	2.0
Policy Rate (EoP)								4.42	4.38	4.19	4.03

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

BofA GLOBAL RESEARCH

Exhibit 20: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)							
EUR/USD	1.14	1.15	1.17	1.19	1.20	1.20	1.22
USD/JPY	158	149.00	149.00	148.00	146.00	145.00	145.00
USD/CNY	6.71	6.60	6.60	6.50	6.50	6.50	6.50
GBP/USD	1.32	1.37	1.39	1.42	1.45	1.45	1.47
Interest rates (% EoP)							
US 10yr	5.18	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.60	3.40	3.25	3.10	2.90	2.80	2.50
Japan 10yr	3.10	3.00	3.10	3.10	3.15	3.05	2.95
Commodities [1]							
Oil - WTI ($/bbl)	93.1	96.0	84.0	75.0	70.0	67.0	NA
Oil - Brent ($/bbl)	105.7	100.0	89.0	81.0	77.0	74.0	NA
Gold ($/oz)	4268	4250	4750	5000	5000	4500	4000
Equities (EoP)							
S&P 500	7704					7100	
Stoxx 600	636	530				565	

Source: BofA Global Research

BofA GLOBAL RESEARCH

Detailed forecasts

Global economic forecasts

Exhibit 21: Global Economic Forecasts
Global GDP growth expected at 3.3% in 2026, 3.4% 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	3.3	3.4	3.3	2.5	3.0	2.6	2.2	3.82	3.99	3.85	3.64
Global ex US	3.8	3.6	3.6	3.6	2.4	3.0	2.7	2.2	3.81	3.91	3.74	3.50
Global ex China	3.1	3.0	3.1	3.1	3.2	3.8	3.3	2.9	4.54	4.77	4.58	4.32
Developed Markets	1.7	1.5	1.5	1.5	2.6	3.0	2.4	2.0	3.04	3.38	3.28	3.00
Emerging Markets	4.7	4.5	4.5	4.4	2.4	3.1	2.8	2.3	4.34	4.38	4.19	4.03
Emerging Markets ex China	4.6	4.6	4.7	4.6	4.0	4.6	4.3	3.8	6.14	6.21	5.91	5.63
Europe, Middle East and Africa (EMEA)	2.1	1.6	2.1	2.0	4.6	4.2	3.6	2.8	4.63	4.82	4.30	3.69
European Union	1.5	1.2	1.3	1.4	2.5	3.0	2.5	1.9	2.78	2.99	2.52	1.86
Emerging EMEA	3.5	2.5	4.0	3.2	9.7	7.2	5.8	4.8	8.09	8.14	7.25	6.74
Emerging Asia	5.4	5.4	5.1	5.0	0.9	2.1	2.0	1.7	2.79	2.88	2.98	2.92
ASEAN	5.0	5.0	5.0	5.2	1.6	3.4	2.9	2.6	3.98	4.00	4.05	3.62
Latin America	2.4	2.0	2.0	2.3	3.7	4.6	4.1	3.5	8.23	8.13	7.36	7.06
G6												
US	2.1	2.1	2.2	1.9	2.7	3.3	2.5	2.3	3.875	4.375	4.375	4.375
Euro area	1.3	1.0	1.0	1.1	2.1	3.0	2.5	1.8	2.50	2.75	2.25	1.50
Japan	1.2	0.8	0.8	0.7	3.2	1.9	1.7	1.7	1.25	1.50	2.00	2.00
UK	1.3	1.3	1.0	1.4	3.4	3.2	3.2	2.0	3.75	4.00	4.25	3.50
Canada	1.9	1.0	1.6	2.0	2.1	2.8	2.2	2.0	2.25	2.25	2.25	2.75
Australia	2.0	2.0	1.6	2.0	2.9	3.7	2.5	2.5	4.35	4.60	4.10	3.60
Euro area												
Germany	0.3	1.0	1.0	0.9	2.3	2.6	1.9	1.8	2.50	2.75	2.25	1.50
France	0.9	0.4	0.8	1.0	0.9	2.3	1.5	1.5	2.50	2.75	2.25	1.50
Italy	0.7	0.8	0.6	0.8	1.6	2.8	1.7	1.6	2.50	2.75	2.25	1.50
Spain	2.8	2.6	1.6	1.4	2.7	3.5	1.6	1.8	2.50	2.75	2.25	1.50
Netherlands	1.6	1.3	1.2	1.3	3.0	2.8	2.2	1.8	2.50	2.75	2.25	1.50
Belgium	1.0	0.6	1.0	1.0	3.0	3.6	2.1	1.5	2.50	2.75	2.25	1.50
Austria	1.0	0.8	1.2	1.5	3.6	3.1	2.2	2.0	2.50	2.75	2.25	1.50
Greece	2.2	1.8	1.7	1.7	2.9	3.6	2.3	2.1	2.50	2.75	2.25	1.50
Portugal	1.9	2.1	1.6	1.8	2.2	3.0	2.0	1.8	2.50	2.75	2.25	1.50
Ireland	8.1	-6.1	4.7	2.6	2.1	3.2	1.8	1.7	2.50	2.75	2.25	1.50
Finland	0.8	1.2	1.0	1.3	1.8	2.5	1.7	1.7	2.50	2.75	2.25	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.4	2.3	2.0	2.75	3.00	3.00	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	4.50	4.50	4.00	3.75
Sweden	1.6	2.7	2.3	1.9	2.6	1.2	2.0	2.2	1.75	2.00	2.25	2.00
Emerging Asia												
China	5.0	4.5	4.2	4.0	0.0	0.8	0.5	0.0	1.40	1.40	1.40	1.40
India	7.3	7.7	7.5	7.7	2.1	4.4	4.9	4.6	5.25	5.50	5.75	5.75
Indonesia	5.1	5.3	5.5	5.7	1.9	3.3	3.0	2.8	5.75	5.75	5.75	4.75
Korea	1.0	3.6	2.5	2.1	2.1	2.6	2.2	2.0	3.00	3.25	3.50	3.50
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	2.5	2.7	2.4	-0.1	1.8	0.5	0.8	1.00	1.00	1.00	1.25
Malaysia	5.2	5.2	4.5	4.6	1.4	1.8	2.0	2.2	2.75	2.75	3.00	3.00
Philippines	4.4	2.5	3.5	4.5	1.7	6.7	4.9	3.5	5.00	5.00	5.00	4.25
Singapore	5.0	5.1	2.7	2.7	0.9	2.0	2.2	1.7				
Hong Kong	3.5	4.0	3.5	2.6	1.4	2.0	2.2	2.0	4.25	4.75	4.75	4.75
Vietnam	8.0	8.2	8.4	8.4	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 22: Global Economic Forecasts (continued)
Global GDP growth expected at 3.3% in 2026, 3.4% 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	1.8	0.9	1.7	4.3	5.0	4.7	3.5	13.75	13.25	11.25	11.25
Mexico	0.7	1.4	1.6	1.3	3.7	3.6	3.7	4.2	6.50	6.50	6.50	6.50
Argentina	4.5	2.0	3.3	3.5	31.5	30.0	18.1	12.0				
Colombia	2.6	2.5	2.9	3.1	5.1	7.1	4.9	3.6	12.00	13.00	12.00	9.00
Chile	2.5	0.4	3.0	3.0	3.4	4.5	3.2	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.0	4.5	1.5	4.5	3.2	2.0	4.25	4.50	4.75	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	1.5	2.0	2.5	3.7	4.4	4.5	4.6	5.75	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	1.0	3.0	3.0	3.00	2.75	2.75	2.75
Dominican Republic	2.1	4.0	3.9	3.5	5.0	6.0	4.8	4.0	5.25	5.25	5.25	5.25
Panama	4.4	4.7	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	4.0	3.2	3.2	0.9	3.1	2.0	1.7				
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	2.6	4.1	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	13.0	10.0	23.00	24.50	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	2.7	2.5	3.6	3.0	2.8	2.5	3.75	3.75	3.25	3.25
South Africa	1.1	1.2	1.4	1.6	3.2	4.3	4.4	4.1	7.25	7.50	7.00	6.50
Romania	0.6	0.0	2.5	2.5	7.3	8.5	4.4	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.0	2.5	1.9	2.5	2.0	3.75	4.00	4.00	3.50
Israel	2.9	3.6	4.5	4.0	3.0	2.0	2.1	2.0	3.25	3.75	3.25	3.25
Hungary	0.4	1.9	3.0	2.5	4.4	1.6	2.5	2.5	5.50	5.25	4.50	4.00
Saudi Arabia	4.5	0.6	6.1	2.9	2.0	2.4	2.0	2.0	4.50	3.50	3.50	5.00

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 23: Real GDP growth, qoq annualized %
Global GDP growth expected at 3.3% in 2026, 3.4% 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	1.6	2.4	2.3	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
Euro area	2.6	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.0	1.0	1.1
Japan	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
UK	1.7	1.4	0.6	0.8	1.0	1.2	1.2	1.3	1.3	1.0	1.4
Canada	3.3	2.1	1.3	1.6	1.4	1.2	1.3	1.9	1.0	1.6	2.0
Australia	1.7	1.2	2.0	1.6	1.6	1.6	1.6	2.0	2.0	1.6	2.0
G6 Aggregate	2.0	1.5	1.4	1.5	1.6	1.5	1.5	1.7	1.5	1.5	1.5
Emerging Markets											
China	3.6	3.9	4.4	4.6	4.0	3.8	4.1	5.0	4.5	4.2	4.0
India	6.8	7.2	6.6	9.5	8.3	5.9	4.8	7.3	7.7	7.5	7.7
Indonesia	4.4	4.1	6.6	6.6	4.9	4.5	6.1	5.1	5.3	5.5	5.7
South Korea	2.5	2.8	2.6	2.4	2.3	2.4	2.4	1.0	3.6	2.5	2.1
Thailand	-0.7	2.9	5.4	2.5	0.7	2.3	5.5	2.4	2.5	2.7	2.4
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	5.1	2.7	2.7
Hong Kong	-2.5	-3.6	6.1	12.5	2.3	-2.2	-2.3	3.5	4.0	3.5	2.6
Brazil	1.9	0.6	1.3	0.9	1.7	1.2	2.3	2.3	1.8	0.9	1.7
Mexico	5.8	0.6	0.1	1.9	2.1	1.3	1.2	0.7	1.4	1.6	1.3
Colombia	5.2	1.6	0.0	4.1	4.1	2.8	3.2	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	0.4	3.0	3.0
Peru	-0.4	10.4	4.9	0.0	5.3	4.5	4.5	3.4	3.5	4.0	4.5
Türkiye	4.6	6.7	6.4	3.2	3.4	3.6	2.9	3.7	2.6	4.1	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.2	1.4	1.6

Source: BofA Global Research

BofA GLOBAL RESEARCH

Monetary policy forecasts

Exhibit 24: Monetary policy forecasts

End of period

Central Banks	Current	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27	Jul-27	Aug-27
Developed Markets													
Fed (upper bound)	4.00	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00
BoJ	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	2.00	2.00
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	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
Norges Bank	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75	3.75	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	4.10
RBNZ	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
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	5.50	5.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75
South Korea	3.00	3.00	3.00	3.25	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Taiwan	2.00	2.125	2.125	2.125	2.25	2.25	2.25	2.375	2.375	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	5.00	5.00	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	13.75	13.75	13.75	13.50	13.25	13.00	13.00	12.75	12.50	12.50	12.25	12.25	12.00
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00	5.00	5.00
Colombia	12.00	12.00	12.50	12.50	13.00	13.00	13.00	12.75	12.75	12.75	12.50	12.50	12.50
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	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Emerging EMEA													
Czech Republic	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Hungary	5.50	5.50	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50
Israel	3.25	3.50	3.50	3.25	3.25	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	36.00	36.00	36.00	36.00	36.00	35.00	34.00	34.00	33.00	32.00	32.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 25: Quarterly forecasts

End of period

	Spot	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts							
G6							
EUR-USD	1.14	1.15	1.17	1.19	1.20	1.20	1.22
USD-JPY	158	149	149	148	146	145	145
EUR-JPY	180	171	174	176	175	174	177
GBP-USD	1.32	1.37	1.39	1.42	1.45	1.45	1.47
USD-CAD	1.41	1.40	1.40	1.40	1.38	1.38	1.36
AUD-USD	0.70	0.74	0.73	0.73	0.73	0.72	0.72
Asia							
USD-CNY	6.71	6.60	6.60	6.50	6.50	6.50	6.50
USD-INR	95.9	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	17944	18000	18100	18200	18200	18200	18200
USD-KRW	1362	1410	1400	1400	1380	1380	1380
Latin America							
USD-BRL	5.19	5.00	5.00	5.00	5.00	5.00	5.00
USD-MXN	17.73	17.50	17.75	18.00	18.25	18.50	19.00
Emerging Europe							
EUR-PLN	4.38	4.37	4.32	4.28	4.23	4.20	4.10
USD-TRY	48.96	51.70	53.80	55.90	57.90	60.00	73.20
USD-ZAR	16.43	16.40	16.30	16.00	15.80	15.60	15.30
Rates forecasts							
2yr							
US 2-year	4.90	5.00	4.95	4.90	4.85	4.75	4.50
Germany 2-year	3.33	3.20	3.00	2.80	2.55	2.30	1.85
Japan 2-year	1.95	1.95	2.20	2.20	2.35	2.30	2.20
UK 2-year	4.91	4.80	4.95	5.00	4.75	4.50	3.75
Canada 2-year	3.43	3.55	3.65	3.70	3.75	3.80	3.80
10yr							
US 10-year	5.18	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.60	3.40	3.25	3.10	2.90	2.80	2.50
Japan 10-year	3.10	3.00	3.10	3.10	3.15	3.05	2.95
UK 10-year	5.38	5.20	5.25	5.25	5.25	5.25	5.25
Canada 10-year	4.00	4.00	4.05	4.05	4.10	4.10	4.20
Commodities forecasts							
WTI Crude Oil - $/bbl	93.1	96.0	84.0	75.0	70.0	67.0	NA
Brent Crude Oil - $/bbl	105.7	100.0	89.0	81.0	77.0	74.0	NA
Gold $/oz	4269	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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