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ADVANCED ECONOMIES

UNITED STATES

Inflation hits multi-year highs, but consumer sentiment stabilises.

In May, CPI headline rose to 4.2% y/y (up 0.4pp m/m), in line with expectations but the fastest pace since March 2023. It was driven largely by energy prices (up 40.6% y/y). Core CPI rose to 2.9% y/y, up 0.1pp with the monthly increase (0.2% m/m) softer than expected thanks to a decline in core goods inflation. Meanwhile, producer prices surged – the PPI index rose to 6.5% y/y (up 0.8pp), well above consensus, and its highest reading since 2022. The PPI index excluding food, energy, and trade services was particularly strong too, at 5.1% y/y (up 0.7pp), suggesting further inflationary pressures to come to retail prices and mechanically increasing core PCE inflation (the Fed's preferred target), which we expect will accelerate to 0.4% m/m (from 0.2 in April) and 3.4% y/y. Separately, in June, the University of Michigan's consumer sentiment index rose by 4.1 pts, breaking a 3-month streak of decreases, albeit it remains historically low and below the pre-war level. Inflation expectations edged down at 1-year (-0.2pp to 4.6%) and 5-10 year (-0.5pp to 3.4%). This week's FOMC meeting will be the first chaired by Kevin Warsh. We expect the Committee to drop its easing bias, meaning the next move could be a hike as well as a cut.

EUROPEAN UNION

Progress in trade and defence despite setbacks. China abruptly cancelled a high-level EU-China meeting due to take place later this month. The EU has signed two separate trade agreements with South Korea and four African nations (Comoros, Madagascar, Mauritius, and Seychelles), both covering services among others. The EU has approved measures to simplify and accelerate defence procurement, including faster permit decisions (42-day deadline), easier cross-border transfers of defence products, and streamlined access to the European Defence Fund. The reforms address industry demands for reduced bureaucracy and clearer regulations, aligning with the 2030 defence strategy. Less positively, German Chancellor Merz officially pulled the plug on FCAS (the Franco-German-Spanish joint advanced fighter jet project).

France. Inflation spreads to construction. Construction producer prices increased by 3.5% y/y in April (vs. 2.3% in February) for buildings and 7.3% y/y in April (0% in February) for civil engineering.

Germany. Construction rebound amid tepid growth. Industrial production hit its highest level since December 2025 in April, rising +0.4% m/m, and the first positive print since the Middle East conflict began. The primary driver was construction, which reached its highest level since March 2024. April manufacturing output was flat against March, reducing the y/y decline (-1.8% in April vs. -4.9% in March). Imports surged to their highest level since November 2022: +2.8% y/y YTD. The Bundesbank on Friday downgraded Germany's 2026 GDP growth forecast to 0.5% (vs. 0.8% according to our forecasts), with GDP expected to stagnate in Q2 before a slight Q3 recovery. The 2027 forecast was cut to 0.8%, while 2028 was raised to 1.4% on the back of fiscal stimulus. Inflation forecasts were revised upward. German company insolvencies rose 16.1% y/y in March, a sharp acceleration from near-flat readings in January and February.

EUROZONE

ECB hikes policy rates by 25bps. The decision to raise the deposit facility rate to 2.25% was expected and unanimous. Being the first major central bank to raise interest rates and facing criticisms of policy

mistake, President Lagarde stressed that the decision was not an insurance hike but a necessary step that was "robust across all scenarios" and that no alternative proposals were discussed in the meeting. The ECB president reaffirmed that decisions will be made on a meeting-by-meeting basis, based on available data, without a pre-set rate trajectory. The ECB now expects headline inflation to rise to 3.0% in 2026 (up from 2.6%) and 2.3% in 2027 (up from 2.0%). We expect greater stickiness. The ECB's downward revisions to GDP growth projections were more subdued (-0.1pp for both 2026 and 2027, to 0.8% and 1.2%, respectively). We expect another rate hike, most likely in September. Italian Deputy Prime Minister Antonio Tajani publicly criticized the ECB's rate hike, saying it "doesn't help anyone" and arguing that credit access should be made easier even in difficult times.

JAPAN

Higher producer-price inflation. In May, the PPI index stood at 6.3% y/y (up 1.0pp, consensus: 5.5%) amid higher energy prices compounded by a weak-JPY. It gives the BoJ an additional reason to raise its policy rate to 1% this week. Markets will be attentive to hints about the pace of additional rate hikes, as the yen remains under pressure owing to perceptions that the BoJ is behind the curve in normalizing policy

UNITED KINGDOM

Stagflation vibes require BOE balancing act. GDP contracted for the first time in eight months in April. Permanent staff placements dropped the most in 10 months in May (REC/KPMG survey) and potential layoff notices surged to over 37,000 in the four weeks to May 24 – up 62% y/y and the highest since 2020. More positively, like-for-like retail sales rose 3.4% y/y in May, a sharp reversal from -3.4% in April. The BOE's quarterly Inflation Attitudes Survey showed UK households expect inflation to reach 4% over the next year – up from 3.2% in February and the highest reading since November 2022. Longer-term expectations also rose. Separately, a BOE Decision Maker Panel survey showed firms plan to raise prices by 4% in the coming year, the highest reading since February 2025. These circumstances require a tough balancing act from the BOE, which we expect will keep its policy rate unchanged at 3.75% this week while restating vigilance and willingness to act to curb inflation. We expect 2 hikes in H2.

EMERGING ECONOMIES

Not immune to global headwinds. The World Bank has revised down its [growth outlook](#) for EMDEs to 3.6% in 2026—0.4pp below its January projections. Weak growth is making the jobs challenge even more urgent in EMDEs, where 1.2 billion young people are expected to enter the workforce over the next decade. Separately, according to IIF estimates, non-resident portfolio investments in the main EMs turned negative in May (USD -26.6 bn vs. +70.6 bn in April including China, USD -45 bn vs. USD +14.7 bn excluding China). The reversal was concentrated in equities, while debt flows remained positive. Besides, EM Asia accounted for more than the total EM outflow, driven by large equity selling in Korea and India. The reversal is not a sudden stop episode; in the sharper stress episodes, debt and equity outflows tend to reinforce each other.

AFRICA & MIDDLE EAST

South Africa: Real GDP growth accelerates slightly to 0.5% q/q in Q1 2026, beating market consensus expectations (0.3%). Activity was not yet affected by the rise in fuel prices, which the government began



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implementing in April. Resilient GDP growth in Q1 means that the fiscal deficit for FY25/26 shrunk to 3.9% of GDP (vs. 4.5% of GDP in the prior year).

ASIA

China: Surging trade and producer prices. Exports surged in May (+19.4% y/y) supported by both volume growth and a slight uptick in export prices, while the rise in total import value (+27.5% y/y) was probably driven mostly by prices rather than volumes. China's imports from the EU slumped by 1.3% in May, widening the bilateral trade imbalance and increasing friction with the bloc. Factory gate prices rose by 3.9% y/y, the fastest in 4 years, while China's CPI held at 1.2% y/y in May, with a 16% plunge in pork prices weighing on consumer prices. The divergence between PPI and CPI signals that higher input costs are not yet passing through to consumers, squeezing corporate margins. Separately, Beijing is reportedly pursuing a \$295 billion AI investment plan. The World Bank trimmed its 2026 China growth forecast to 4.2% (vs. 4.6% in our forecast), citing weaker growth in domestic demand, a decline in consumer confidence, property sector adjustment, and labor force decline.

India: Headline inflation hit a 15-month high of 3.9% y/y in May (vs. 3.5% in April), driven by rising fuel (+2%) and food prices (4.8% y/y), with further increases expected due to heatwave impacts and supply disruptions. So far, the RBI has kept its policy rates unchanged, but the likelihood of a rate hike at the next Monetary Policy Committee meeting in August has increased significantly.

Indonesia: Unexpected rate hike to support the rupiah. This move is unlikely to be sufficient, however, as investors are increasingly concerned about fiscal discipline and the decline in the quality of governance.

South Korea, Taiwan: No slowdown in booming export growth. This is due to both a positive price effect and the continued rise in export volume resulting from global AI expansion (total export value in May: +52% y/y in Taiwan, +53% in South Korea).

EMERGING EUROPE

Türkiye: Monetary status quo. The Central Bank of the Republic of Türkiye (CBRT) left its policy rate unchanged at 37.0%, in line with market expectations, while maintaining the overnight lending rate at 40.0%. The CBRT noted that the underlying trend of inflation, which had accelerated in April due to energy-related factors, moderated somewhat in May. Besides, real GDP quasi stagnation in Q1 (+0.1% qoq) and leading indicators suggest that economic activity continues to slow down, supporting the ongoing disinflation process.

LATIN AMERICA

Mexico: Headline inflation came in lower than expected in May (3.9% y/y, down from 4.5% in April), due to a significant decrease in the inflation rate of agricultural products.

Peru: As expected, the central bank kept its policy rate at 4.25% for the 9th consecutive month. CPI inflation in Lima eased to 3.9% y/y in May (from 4% in April). However, inflationary pressures persist (core inflation was 4.5% in May), and the central bank has indicated its readiness to tighten policy if necessary. Meanwhile, the presidential runoff between Keiko Fujimori and Roberto Sánchez remains too close to call. Electoral authorities now expect to announce the final results in July.

COMMODITIES

On the news that the US and Iran have reached an interim agreement, expected to be signed on Friday 19th, **Brent oil prices have reached their lowest level since the beginning of March, at 83 \$/b.** This agreement should extend the ceasefire for 60 days and allow the progressive reopening of the Strait of Hormuz.

Oil demand down, solar takes off. Both OPEC+ and the US Energy Information Administration revised down their world oil demand growth forecasts for 2026. OPEC+ reduced its forecast by 0.2 mb/d for the second time since the start of the conflict to 106.13 mb/d, pointing out global uncertainty weighing on consumption. The EIA now estimates global oil demand to decline by 1.1 mb/d to 102.86 mb/d while it anticipated an increase in its previous reports. OPEC+ still expects global oil demand growth of 1 mb/d y/y for 2026. Meanwhile, solar overtook coal in US power generation in May; it is the first time the renewable source bested the fossil fuel in a calendar month. Solar and storage together made up 91% of new US capacity installed in Q1 2026.

