

Growth likely to remain resilient

Geopolitical risk premiums have eased following the US-Iran MOU, helping lower crude oil prices as maritime traffic through the Strait of Hormuz gradually normalises. However, negotiations remain fragile, and risks persist.

Elsewhere, markets have been shaped by hawkish Fed repricing, with futures now fully pricing in a 25bp rate hike by year-end as Fed Chair Warsh retreats from forward guidance.

Concerns over AI valuations and capex sustainability have also added to volatility. Despite this, US equities recorded their strongest quarterly gain in six years.

Meanwhile, USDJPY touched a four-decade high as interest-rate differentials became a less reliable driver of the exchange rate, keeping intervention risks in focus. Longer term, reserve managers are expected to gradually diversify away from the US dollar towards the Euro, Yuan and Gold, according to the Official Monetary and Financial Institutions Forum (OMFIF).

It remains unclear whether policymakers will look through the 2Q26 energy-price shock, which is still feeding through to a broader range of goods and services. Inflation may not peak until 3Q26. At the same time, growth has remained surprisingly resilient, supported by strong AI-related investment and the unwinding of Liberation Day tariffs.

United States

We maintain our 2026 growth forecast at 2.2%, with growth expected to rebound to above 3% QoQ in 2Q26 from 2.1% in 1Q26, driven by a recovery in net exports.

We expect inflation to peak in 2Q26 before moderating in 2H26, supported by fading energy-related effects and a decline in the oil risk premium. Our 2026 inflation forecast remains at 3.5% YoY, up from 2.7% in 2025.

Following the FOMC meeting, markets briefly priced in earlier rate hikes, pushing Treasury yields higher. However, a sharp decline in oil prices to pre-war levels by end-June eased inflation concerns, leading investors to partially reverse the move.

New Fed Chair Warsh has also launched a strategic review of the Federal Reserve's operating framework, covering communications, balance sheet policy, data methodology, the inflation framework, and labour-market assessment, with completion targeted for end-2026. Reduced reliance on forward guidance could increase market uncertainty.

Euro-Area

The euro area outlook has weakened following the Middle East conflict, with growth expected to slow to 0.9% YoY in 2026 from 1.4% in 2025. Our forecast, unchanged for some time, is now aligned with the European Commission's Spring Economic Forecast after its downward revision in May.

The impact on the labour market has been limited so far, with unemployment holding steady at 6.3% in April 2026. However, inflation remains the ECB's primary concern as policymakers continue to highlight persistent pipeline price pressures. Headline CPI rose to 3.2% YoY in May from 3.0% in April, prompting us to raise our 2026 inflation forecast to 3.1% from 2.8%, mainly due to higher energy prices.

Following the 25bp rate hike in June, we expect the ECB to deliver one additional 25bp hike in September, taking the deposit rate to 2.5%.

Japan

The BOJ raised its policy rate from 0.75% to 1.00% at its June meeting, in line with expectations. Inflation continued to firm, with Tokyo core CPI rising to 1.6% YoY in June from 1.3% in May, although it remained below the BOJ's 2% target for a fifth straight month. Core-core inflation (excluding fresh food and energy) increased to 1.9% YoY from 1.6%, pointing to a broader pass-through of higher energy costs.

Domestic demand remains resilient. Retail sales grew 5.3% YoY in May, up from a revised 2.8% in April and well above expectations, supported by strong wage growth and government subsidies.

Against this backdrop, we maintain our 2026 GDP growth forecast at 0.8% and headline CPI forecast at 2.5%.

China

Recent data point to a further slowdown in China's growth momentum. While high-tech manufacturing and AI-related sectors continue to support activity, weakness in consumption, the property sector, manufacturing investment, and infrastructure spending suggests the broader economy remains under pressure.

We expect GDP growth to moderate to around 4.5% YoY in 2Q26, reflecting China's ongoing K-shaped recovery. Nevertheless, the economy remains broadly on track to meet the official 4.5–5.0% growth target, and we maintain our 2026 growth forecast at 4.7%.

Rates

Fed funds futures turned more hawkish following the June dot plot, with nine FOMC members signalling at least one rate hike before year-end. Market pricing has remained hawkish despite lower oil prices and benign May PCE inflation data. We continue to expect the Fed to keep rates unchanged at 3.50 - 3.75% through 2026, although the risk of a hike remains. This tightening risk is likely to keep short-dated Treasury yields relatively elevated, even if any additional hike is eventually followed by rate cuts in 2027.

We expect the BOE to keep its Bank Rate unchanged at 3.75% through 2026, given its already restrictive stance and soft growth outlook. Governor Bailey struck a balanced tone at the June MPC meeting, noting that bringing inflation back to target too quickly could create unnecessary volatility in growth. While two MPC members voted for a rate hike as a risk-management measure, their stance appeared cautious rather than conviction-driven. Meanwhile, weakening demand and labour market conditions should help limit second-round inflation pressures. Reflecting this backdrop, market expectations for further tightening have eased significantly.

We expect the ECB to deliver one additional 25bp rate hike in 3Q26, as inflation is likely to remain above target through most of 2027. However, we do not foresee a more aggressive tightening cycle. The ECB has signalled that the current inflation shock is significant but not persistent enough to warrant a stronger policy response, supporting a measured and gradual approach to further rate increases.

The June RBA meeting minutes and current economic conditions support our view that the cash rate will remain at 4.35% through 2026. The RBA continues to adopt a wait-and-see approach, noting that it will take time to assess the full impact of past policy tightening on the economy. Consistent with this cautious stance, markets are pricing in only a modest chance of a further hike, with cash rate futures implying around 11bps of tightening by year-end.

Growth & Inflation Forecast

(% YoY)	GDP			Inflation		
	2025	2026F	2027F	2025	2026F	2027F
United States	2.1	2.2	2.0	2.7	3.5	2.2
Euro Area	1.4	0.9	1.1	2.1	3.1	2.5
Japan	1.1	0.7	1.0	3.2	2.1	2.0
United Kingdom	1.4	1.0	1.1	3.4	3.1	2.3
Australia	2.0	2.0	1.9	2.8	4.4	2.9
New Zealand	0.2	1.2	2.0	2.8	4.0	2.0
China	5.0	4.7	4.5	0.1	1.5	2.0
Hong Kong	3.6	3.4	2.8	1.4	1.9	2.2
Macau	4.7	4.2	3.3	0.3	1.1	1.1
Taiwan	8.8	8.1	4.2	1.7	2.1	1.9
South Korea	1.1	2.2	2.0	2.1	2.6	2.2
India	7.1	7.7	6.5	4.6	2.0	5.0
Indonesia	5.1	5.0	5.0	1.9	3.0	2.5
Malaysia	5.2	4.4	4.2	1.4	2.0	2.1
Philippines	4.4	3.8	4.8	1.7	5.8	4.5
Singapore	5.0	3.5	2.8	0.9	2.2	2.1
Thailand	2.4	1.5	2.0	-0.1	3.8	2.0
Vietnam	8.0	7.3	8.0	3.3	4.5	4.5

Source: OCBC Group Research, 1 July 2026

US interest rate forecasts

	3Q2026	1Q2026	1Q20267	2Q2027	3Q2027
Federal Funds Rate*	3.75	3.75	3.75	3.75	3.75
2Y US Treasury Yield	4.15	4.05	4.00	4.00	3.95
5Y US Treasury Yield	4.25	4.20	4.15	4.15	4.15
10Y US Treasury Yield	4.55	4.45	4.45	4.45	4.40
30Y US Treasury Yield	5.10	5.10	5.15	5.15	5.15

* Upper Limit of Target Range

Source: OCBC Group Research, 1 July 2026

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