

Key Views Global Monthly August 2026

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The global economy remains resilient in the face of a succession of shocks. While the energy shock is back with a vengeance, its effects are more idiosyncratic now, and much more impactful for Europe than the US. Meanwhile, a capex troika centred around AI, defence and the energy transition are continuing to drive growth, which is expected to hold roughly around trend rates in advanced economies. The global investment surge is also supporting growth in China, although imbalances there continue to fan trade tensions with the EU. Against this backdrop, inflation will remain somewhat elevated over the coming months, and this should keep central banks leaning hawkish, with the ECB expected to raise rates further in September, and a risk that the Fed has to tighten policy. Our base case sees both central banks resuming rate cuts in 2027.

Head Macro Research / senior economist eurozone

Eurozone

The resurgent energy shock is driving a renewed rise in inflation. Goods inflation is also firming, linked not only to pass-through from energy price rises but more broadly to a rise in global supply bottlenecks. Second round effects are so far limited, but risks have risen. Underlying growth (ex-Ireland) meanwhile has been holding up, helped by the ongoing pickup in German defence spending, while consumption has stayed resilient, helped by the switch to EVs. Higher energy prices are likely to be a renewed headwind to the recovery in consumption, however, limiting any upside risks to the outlook.

The Netherlands

The first half of 2026 ended stronger than expected, given geopolitical uncertainty and higher inflation. We expect growth to moderate somewhat in H2, with temporary factors disappearing. The Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers. With higher energy prices gradually filtering through to other inflation categories, we expect inflation to stay elevated. The first Budget Day of the minority Jetten Cabinet is an important indicator of the coalition's political strategy going forward.

UK

The government led by newly-installed PM Andy Burnham is more popular with the public than the Starmer administration, but fiscal constraints prevent it from taking bold measures to support growth. We expect next month's budget to include tax rises to maintain the government's commitment to its fiscal rules. Meanwhile, though inflation is expected to stay elevated over the coming months, the much looser labour market means that a renewed pickup in wage growth looks much less likely than in 2022-23.

US

Headline growth and private demand remain solid, predominantly on the back of the AI investment boom. The labour market is showing payback for strong frontloaded acyclical hiring. Overall tepid labour demand is in balance with a declining labour force, amplified by declining participation. The disinflation process continues but loses pace. Energy and food inflation remain elevated for some time. Inflation is

projected to get within reach of the 2% target in Q2 of 2027 before gradually picking up somewhat.

China

The prolongation of the energy crisis hit growth momentum in July, although August PMIs show an improvement. While supply- demand imbalances worsen, foreign trade remains solid as China continues to benefit from the global AI boom. Despite rising risks to the 2026 growth target (4.5-5.0%) and brewing trade tensions, Beijing still takes a cautious support stance, relying on implementation of existing measures rather than adding fresh stimulus. New US sanctions/tariffs are unlikely to derail the fragile tariff/chokepoint truce, in the run-up to a (potential) Trump-Xi meeting later this month. The EU is working on a tougher stance versus China.

ECB

Following its rate hike at the June meeting, we expect the Governing Council to raise rates again in September, taking the deposit rate to 2.50%. This is in order to keep inflation expectations well anchored, with headline inflation moving higher again, raising risks of second round effects. Ultimately, we expect second round effects to be contained, and by early 2027 we expect the ECB to be confident enough in the inflation outlook to gradually bring rates back to its estimate of a neutral policy setting. Still, the ECB could be forced to tighten further if the situation around energy supply does not improve by year-end.

Fed

Warsh's communication style means the future path of the Fed's policy rate is surrounded by more uncertainty than usual. We still do not see a majority on the FOMC willing to raise rates, awaiting further evidence on the disinflationary trend. Upward surprises on inflation are both a sufficient and necessary condition for the Fed to start hiking. In our base case, the Fed keeps rates on hold for an extended period of time. We see them gradually easing at a 25bps per quarter pace starting in the second quarter of next year, to arrive at 2.75-3.00% by the end 2027, the lower end of neutral estimates.

Bank of England

We continue to think the MPC will keep rates on hold through the renewed energy shock, but the risk of rate hikes has risen. Our base case currently sees the MPC resuming rate cuts in 2027, and we expect two rate cuts taking Bank Rate down to 3.25% by the end of the year. A focus of the new Burnham government could be on potential changes to the BoE's mandate. Even if there are changes, we expect the impact on monetary policy to be limited in practice given that the MPC is already not fully focused on its inflation objective.

Bond yields

As the Middle East conflict drags on, markets have increasingly priced a higher-for-longer ECB policy path, reflecting concerns that persistent energy-related inflation could trigger second-round effects. We still expect one final 25bp hike in Q3, followed by two cuts in 2027, while the Fed is likely to remain on hold through 2026 before delivering three cuts in H1 2027. As inflation pressures ease and markets move closer to our policy outlook, front-end yields should decline and yield curves steepen, although likely only once concerns about inflation and second-round effects subside. Long-end yields are likely to fall less as elevated term premia continue to support longer maturities.

FX

Recent comments from Fed Chair Warsh are taken as hawkish. This has resulted in higher short-term interest rates and a higher dollar. Higher short-term interest rate expectations generally support the dollar. However, higher government bond yields do not automatically strengthen the currency, especially when they reflect a higher risk premium. If the Fed does not raise rates, the dollar could quickly give back its recent gains and EUR/USD. If at the same time US Treasury yields also increase because of a higher risk premium, dollar weakness could be more substantial. We maintain our views of a higher EUR/USD towards the end of 2026 with our forecast of 1.18 at the end of the year.

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