
Economy Week Ahead

June 14, 2026

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Chief Economist

“Economics is not an exact science. It's a combination
of an art and elements of science.”

Paul Samuelson

After some early pessimism, markets ended the week in an optimistic mood on reports of an imminent deal between Iran and US. While it would not end the war, it would open up the Strait of Hormuz while the thornier issues would be addressed later (see below). Brent oil fell to the lowest level since early March. Whether the buoyant mood carries over into this week will depend on whether the deal is finalized as promised. Meanwhile, US retail sales data this week should provide a timely reminder of the risks to the economic outlook coming from high inflation.

Global central banks will be in focus this week. The BOJ is expected to follow the ECB's lead with a 25 bp hike, while the Fed, BOE, SNB, Norges Bank, Riksbank, and RBA are all expected to deliver hawkish holds. We will be sending out our FOMC preview ahead of the Wednesday decision. In EM, we note that Czech Republic, Indonesia, Pakistan, and Philippines are expected to hike rates, Chile and Taiwan are expected to hold rates, and Brazil is expected to cut rates. Global liquidity will continue to tighten in the months ahead and markets need to be prepared for the impact.

Geopolitics

Reports suggest a Memorandum of Understanding between Iran and the US will be signed in the coming days. The MOU would basically extend the ceasefire by two months and reopen the Strait of Hormuz whilst agreeing to discuss the bulk of the sticking points in future negotiations. President Trump went so far as to say a deal would be signed on Sunday. Other reports suggest that the MOU would be signed ahead of the G-7 meeting that begins Monday in France. As of this writing, there have been no further announcements.

Reports emerged that Iran has not agreed to all the terms in the MOU and that it still needs to be approved by its Supreme Leader. Optimism was stoked by Iran Foreign Minister Araghchi saying Friday that the end of the war "had never been closer." However, the situation remains fluid and made even more difficult by the sporadic fighting between Israel and Hezbollah seen over the weekend.

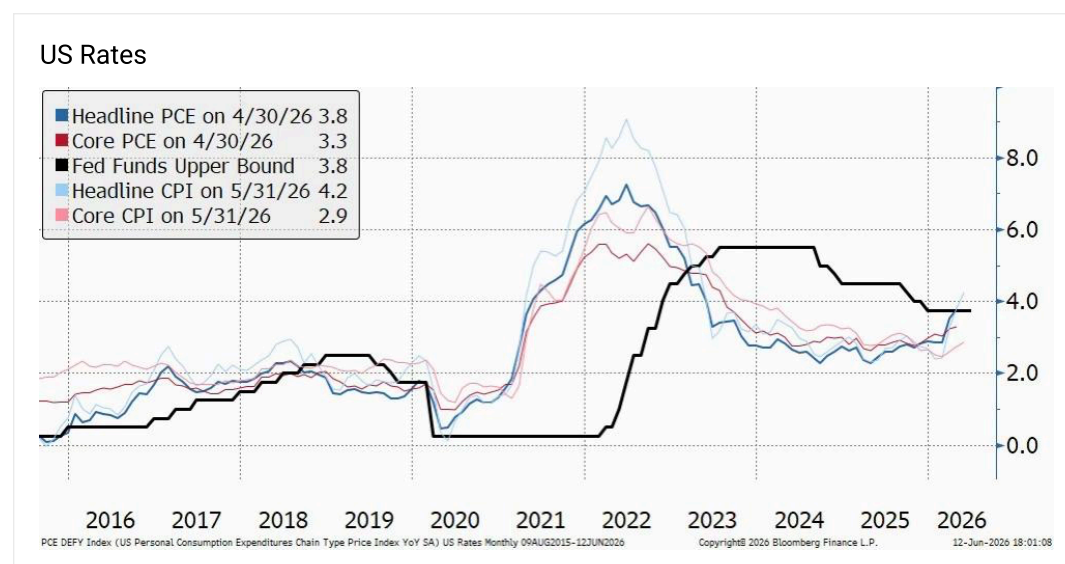
US officials have said no concessions would be given up front just for signing the MOU. Rather, reports suggest Iran's assets would be unfrozen and sanctions lifted in return for turning over its nuclear material and ending its nuclear program. Iran is pushing for the immediate release of frozen funds and so the impasse remains.

Americas

The two-day FOMC meeting ends Wednesday with an expected hold. The easing bias is likely to be removed and we see risks of some dissents in favor of a 25 bp hike. Miran is no longer on the FOMC and so there are no longer risks of a dissent in favor of a 25 bp cut, which he did at his last meeting in April. The policy statement is likely to highlight accelerating inflation risks as well as a stabilizing labor market, which will allow the Fed to focus singularly on its inflation mandate for the time being.

This will be Chair Warsh's meeting and so his post-decision press conference will be very important. Warsh is inheriting a much different situation than what was in place just a couple months ago, with inflation pressures much higher due to the Iran conflict. He will have to acknowledge heightened uncertainty regarding the economic outlook. Given his stated preference for trimmed mean measures of inflation, Warsh may highlight that the Dallas Fed trimmed mean is relatively low at 2.3% y/y in April. Given his stated distaste for forward guidance, we do not expect Warsh to tip his hand on future policy.

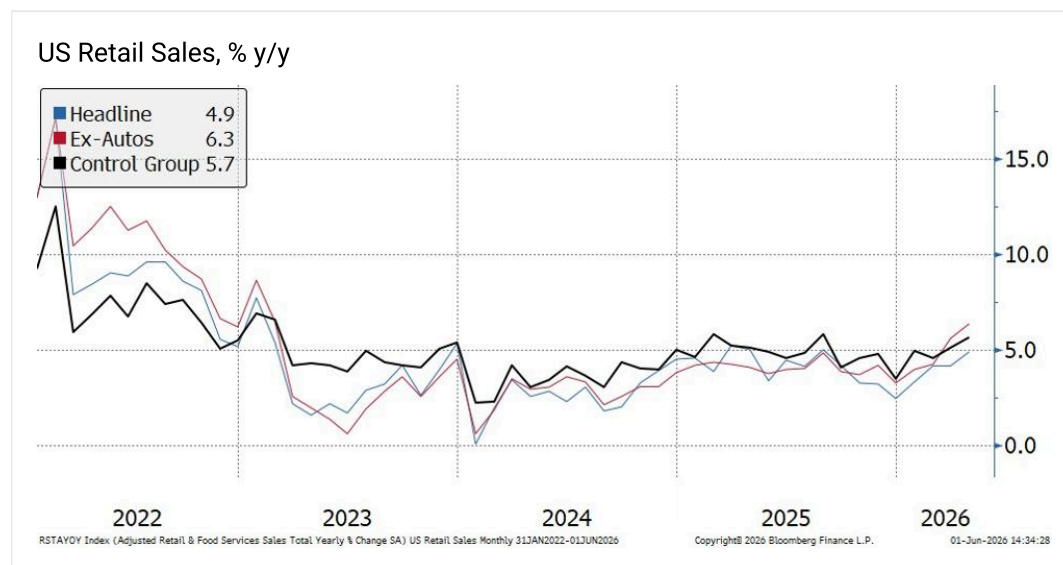
Updated macro forecasts and Dot Plots will be released. With headline and core PCE running well above its March forecasts, we would expect 2026 and 2027 inflation forecasts to be revised upwards. Growth and unemployment forecasts are likely to remain largely unchanged, however. Lastly, we expect a hawkish shift in the 2026 median Dot to show no cuts vs. one seen in March. The 2027 Dot may continue to show one cut, but we see risks of a hawkish shift to no cuts next year as well.



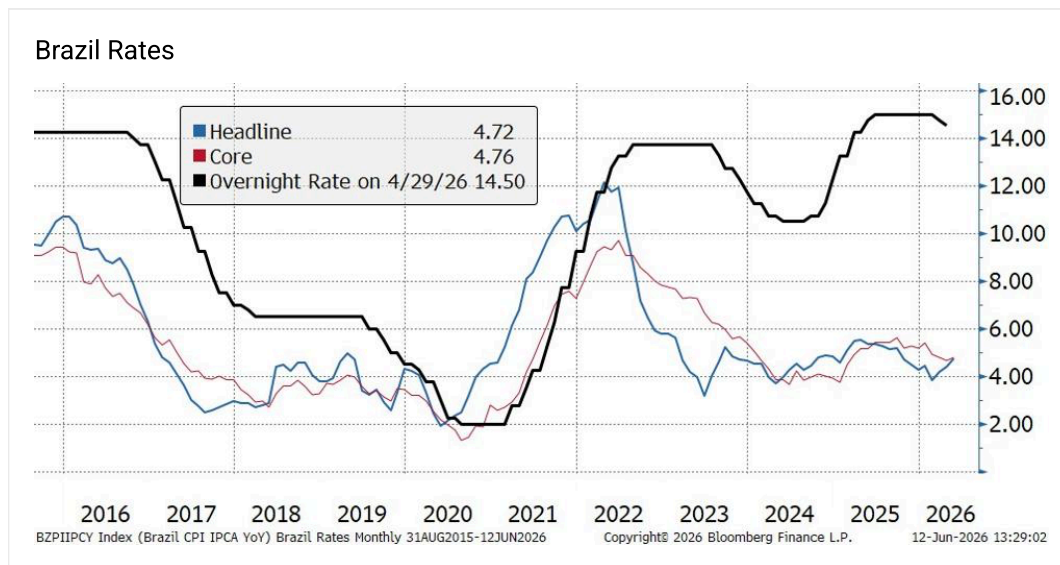
Fed Summary of Economic Projections March 2026 (December)

	2026	2027	2028	Longer Run
GDP Growth	2.4% (2.3%)	2.3% (2.0%)	2.1% (1.9%)	2.0% (1.8%)
Unemployment	4.4% (4.4%)	4.3% (4.2%)	4.2% (4.2%)	4.2% (4.2%)
PCE Inflation	2.7% (2.4%)	2.2% (2.1%)	2.0% (2.0%)	2.0% (2.0%)
Core PCE	2.7% (2.5%)	2.2% (2.1%)	2.0% (2.0%)	n/a (n/a)
Fed Funds Rate	3.4% (3.4%)	3.1% (3.1%)	3.1% (3.1%)	3.1% (3.0%)

US data highlight will be May retail sales Wednesday. Headline is expected to slow a tick to 0.4% m/m, ex-autos is expected to slow three ticks to 0.4% m/m, and ex-autos and gas is expected to slow a tick to 0.4% m/m. The so-called control group used for GDP calculations is expected to slow a tick to 0.4% m/m. We see downside risks after the Chicago Fed Advance Retail Trade Summary (CARTS) preliminary estimate for May retail sales ex-autos came in at -0.3% m/m in nominal terms and -1.3% m/m in real terms. As we have noted before, the ongoing drop in real income is already starting to weigh on consumption and this is likely to continue.



Banco Central do Brasil meets Wednesday and is expected to cut rates 25 bp to 14.25%. The analyst community is nearly unanimous in looking for a cut, but the swaps market sees only around 60% odds. At the last meeting April 29, the central bank cut rates 25 bp to 14.5% but gave no forward guidance because “Uncertainty around those projections has considerably increased, due to the lack of clarity about the duration of the conflicts in the Middle East and their effects on the conditioning variables of the projection models.” Since then, inflation has accelerated and moved above the 1.5-4.5% target range. Looking ahead, the swaps market is pricing in 25-50 bp of total tightening over the next twelve months.



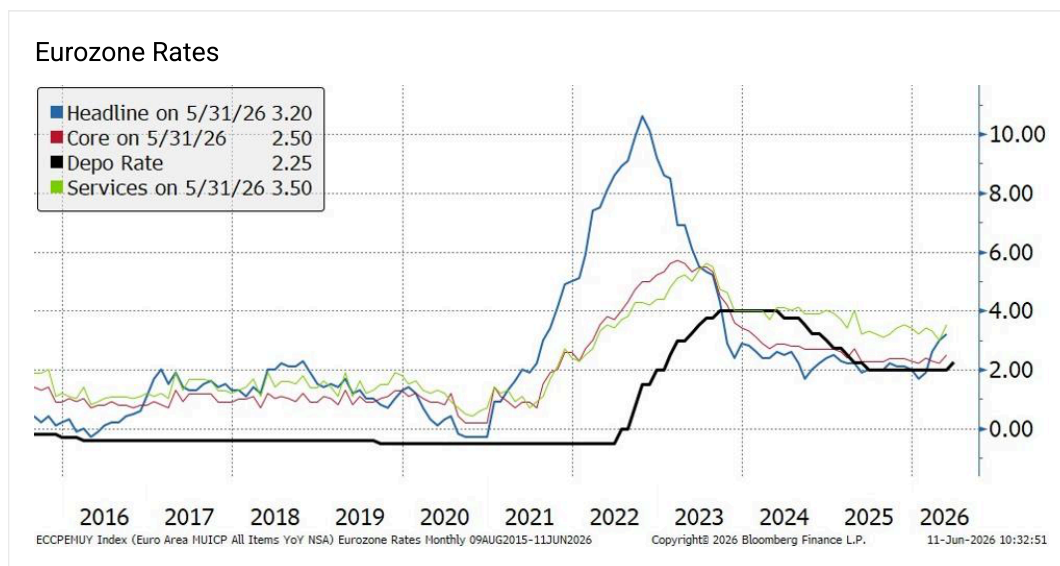
Europe

Markets are still digesting the European Central Bank’s 25 bp hike last week. It updated its macro forecasts and scenarios, adding what it called a “milder” scenario to the baseline, adverse, and severe ones. The bank stated that “The war in the Middle East is generating inflation pressures, and the decision to raise rates is robust across a range of scenarios mapping out how the shock might evolve and affect the medium-term outlook for the euro area.” With regards to future policy, the bank noted that “With today’s decision, the Governing Council remains well positioned to navigate the uncertainty caused by the war.”

In her press conference, President Lagarde said the decision was unanimous and that there was no discussion of any other proposals. She said it was not an “insurance” move, suggesting this was the first in a series of hikes. Surprisingly, Lagarde said that eurozone growth was “not under significant threat.” We disagree. There are clear downside risks to eurozone growth, much more than what the US is facing from the Iran conflict. This nonchalance was mirrored in the one tick downward revisions to the 2026 and 2027 growth forecasts for its baseline scenario. We would have preferred a much more realistic assessment of the downside risks.

After the decision, we got a series of leaks from unnamed officials. The first leak suggested that a pause was likely at the next meeting July 22-23. Shortly thereafter, the second leak suggested that a hike was possible as soon as July. Clearly, the second group of leakers didn't like the first group of leakers talk about a pause and suggests that there is a big split at the ECB. The market sees nearly 40% odds of a hike in July but then becomes fully priced in for the September 9-10 meeting.

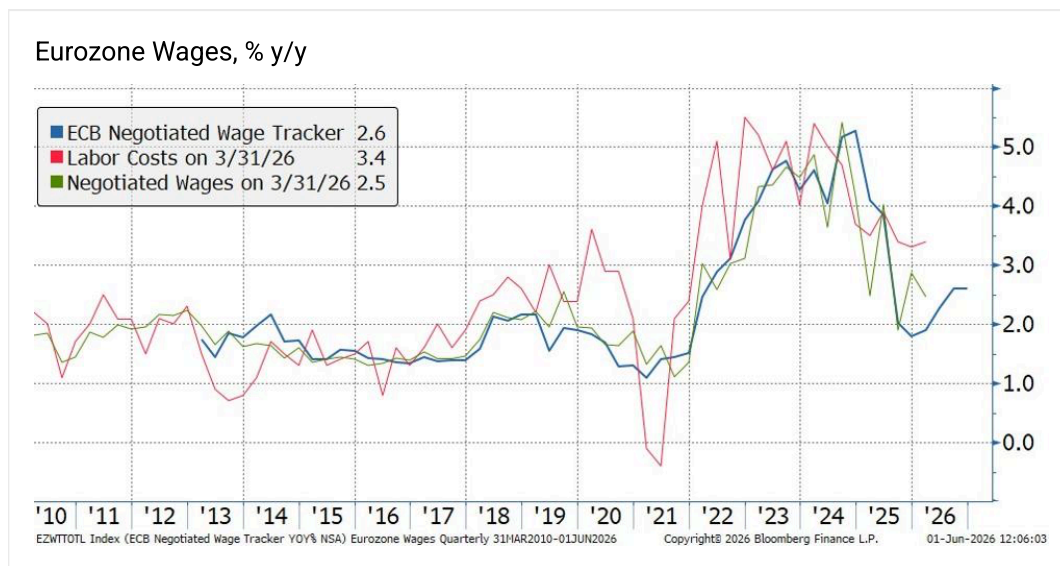
ECB speakers will spread the word this week. Nagel, Lagarde, Cipollone, Pereira, and Kocher speak Monday. Escriva, Lane, and Sleijpen speak Tuesday. Sleijpen speaks Wednesday. Kocher, Nagel, Cipollone, Lane, and Escriva speak Thursday. Lane (twice), Escriva, and Cipollone speak Friday. We expect the comments this week to reflect the split at the ECB regarding a July hike.



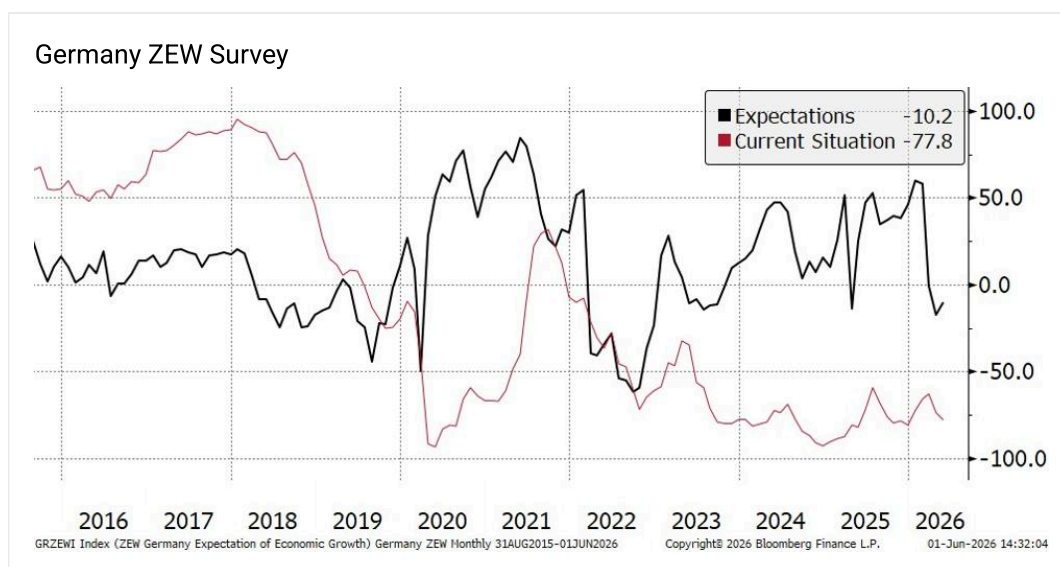
ECB Baseline Scenario June 2026 (March)

	2026	2027	2028
GDP Growth	0.8% (0.9%)	1.2% (1.3%)	1.5% (1.4%)
CPI Inflation	3.0% (2.6%)	2.3% (2.0%)	2.0% (2.1%)
Core Inflation	2.5% (2.3%)	2.5% (2.2%)	2.2% (2.1%)

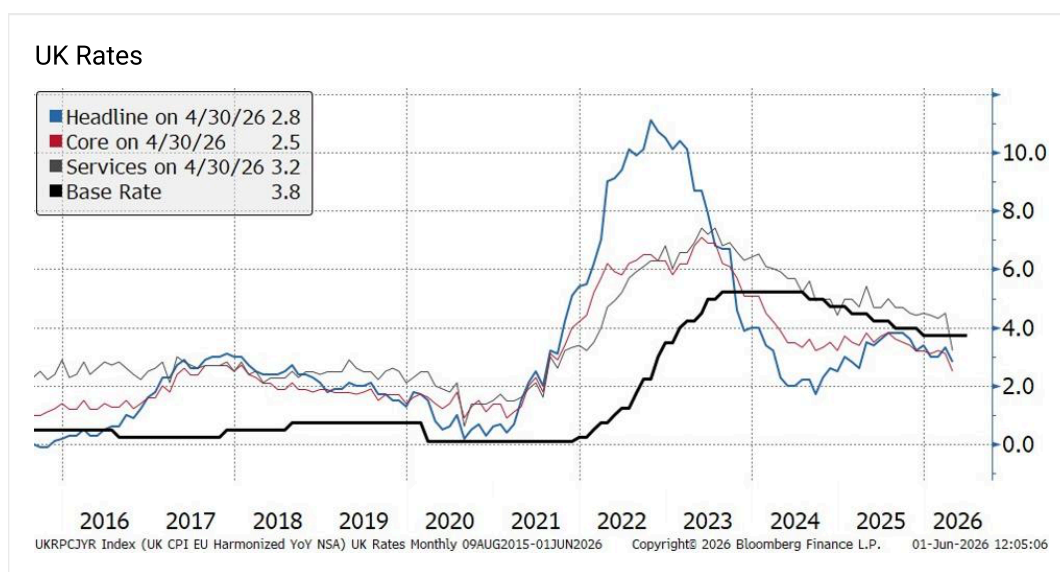
ECB reports its wage tracker Wednesday. Lagarde noted after last week’s decision that wage growth should ease over the course of the year.



Germany ZEW survey for June will be reported Tuesday. Expectations are expected at -5.8 vs. -10.2 in May and current situation is expected at -78.0 vs. -77.8 in May. As we noted in our recent [Weekly Economic Flash](#), “the ZEW surveys investment and finance professionals and measures market sentiment and so it is a better predictor of German financial market performances. On the other hand, the ifo surveys executives at actual firms and measures developments in each sector and so it is a better predictor of German economic activity.” The June ifo survey will be reported next Wednesday.



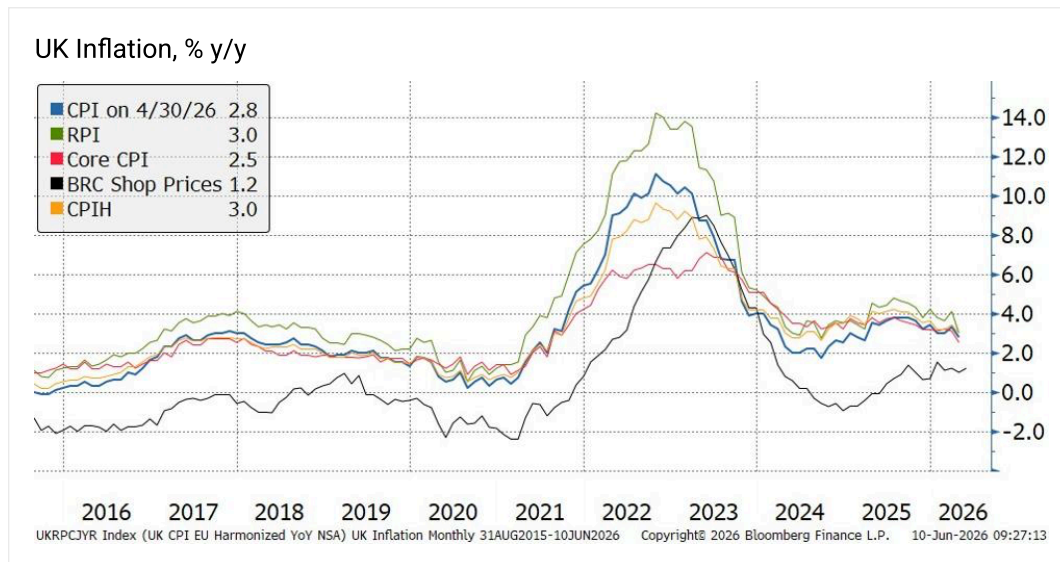
Bank of England meets Thursday and is expected to keep rates steady at 3.75%. At the last meeting, the bank kept rates steady by an 8-1 vote, with Chief Economist Pill dissenting in favor of a 25 bp hike to 4.0%. Governor Bailey noted that “It is not the case that we’re sort of giving some slightly clandestine message that interest rates are going to go up,” but added that “it would be a mistake to wait to see second round effects before acting because then it would be too late.” The bank set forth three scenarios for the Iran conflict and energy prices. While most of the MPC viewed scenario B as most likely, all three suggested that rates would have to rise. The market sees around 33% odds of a hike at the next meeting July 30, rising to 70% September 17 and becomes fully priced in for the November 5 meeting. Looking ahead, the swaps market is pricing in 50 bp of total tightening over the next twelve months.



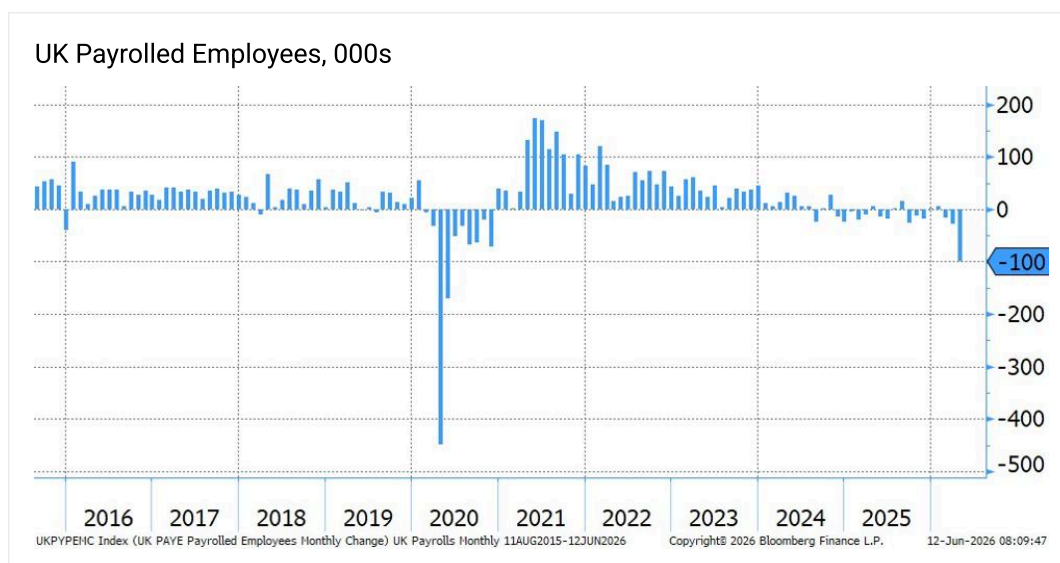
BOE Scenario B May 2026 (Scenario A)

	Q2 2026	Q2 2027	Q2 2028	Q2 2029
GDP Growth	0.7% (0.7%)	0.8% (0.8%)	1.7% (1.7%)	1.7% (1.8%)
Unemployment	5.1% (5.1%)	5.5% (5.5%)	5.4% (5.4%)	5.2% (5.1%)
CPI Inflation	3.1% (3.1%)	3.2% (2.9%)	2.0% (1.5%)	2.0% (1.7%)

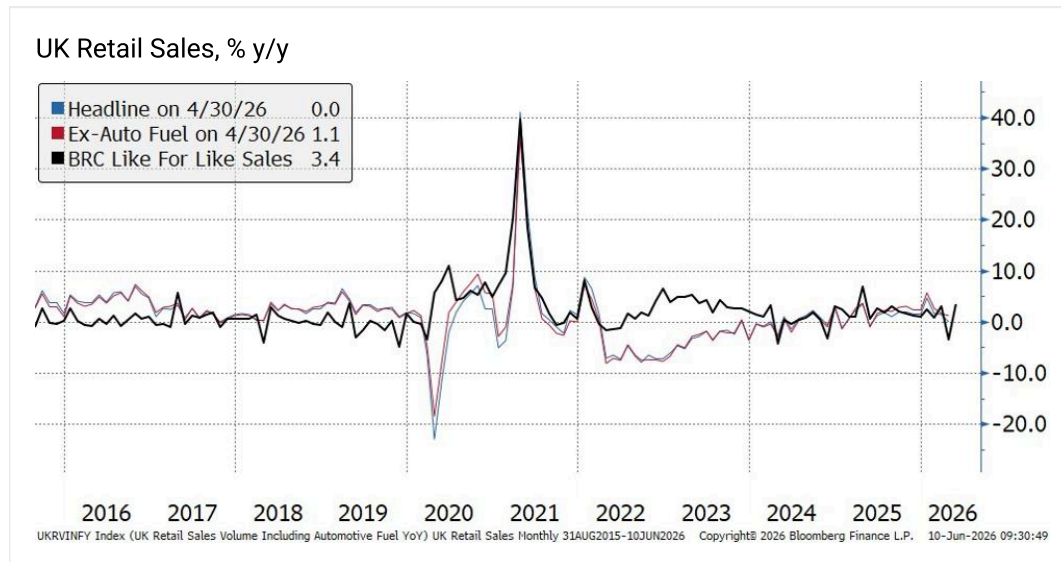
Ahead of the decision, the UK reports May CPI data Wednesday. Headline is expected to pick up two ticks to 3.0% y/y, core is expected to pick up two ticks to 2.7% y/y, and CPIH is expected to pick up one tick to 3.1% y/y. Of note, CPI services is expected to pick up half a point to 3.7% y/y. Inflation has not spiked as much as many feared and so the BOE is likely to maintain a cautious approach to hiking.



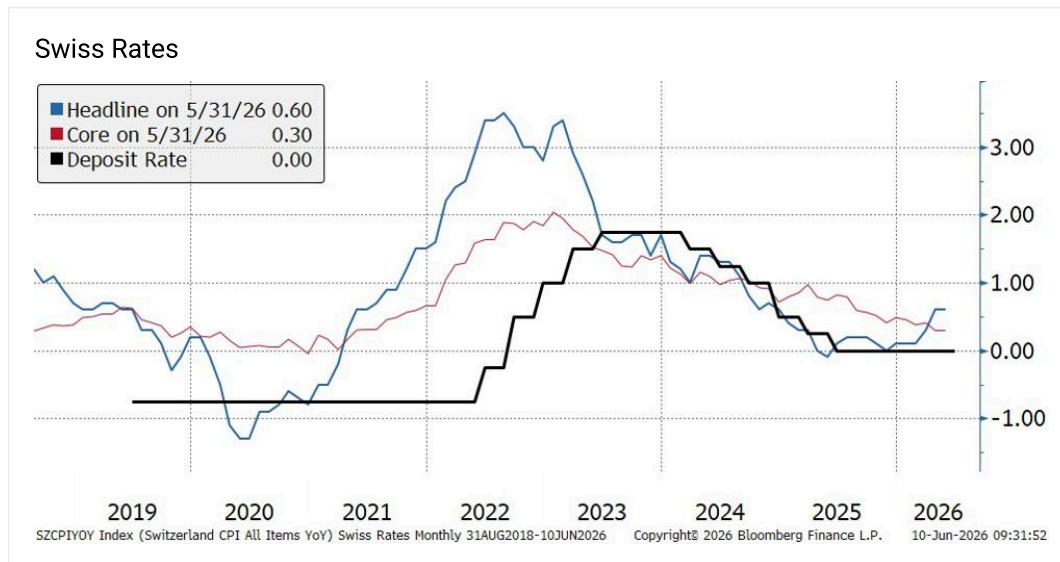
Labor market data will be reported ahead of the BOE decision Thursday. Payrolled employees are expected to fall -20k after -100k in April. If so, it would be the third straight drop and could put upward pressure on the unemployment rate. Average weekly earnings for the three months ending in April are expected to slow a tick to 4.0% y/y, while earnings ex-bonus are expected to slow two ticks to 3.2% y/y. Private sector earnings ex-bonus are expected to slow a tick to 2.9% y/y, while the unemployment rate is expected to remain steady at 5.0%.



UK reports May retail sales data Friday. Headline is expected to pick up nearly two percentage points to 1.8% y/y, while ex-auto fuel is expected to pick up over two percentage points to 3.3% y/y. The jump will be due in large part to low base effects. Still, with the labor market softening and the household budgets getting squeezed by high fuel prices, consumption is unlikely to remain robust in the coming months.



Swiss National Bank meets Thursday and is expected to keep rates steady at 0.0%. At the last meeting March 19, the bank kept rates steady as President Schlegel stressed that there remains a “high threshold” to take rates negative whilst stressing that “if necessary, we are always prepared to use this instrument again to fulfill our mandate.” Looking ahead, the swaps market sees 50% odds of a 25 bp hike over the next twelve months. While possible, a hike seems unlikely given ongoing deflationary risks and the strong franc.



SNB Monetary Policy Assessment June 2026 (March)

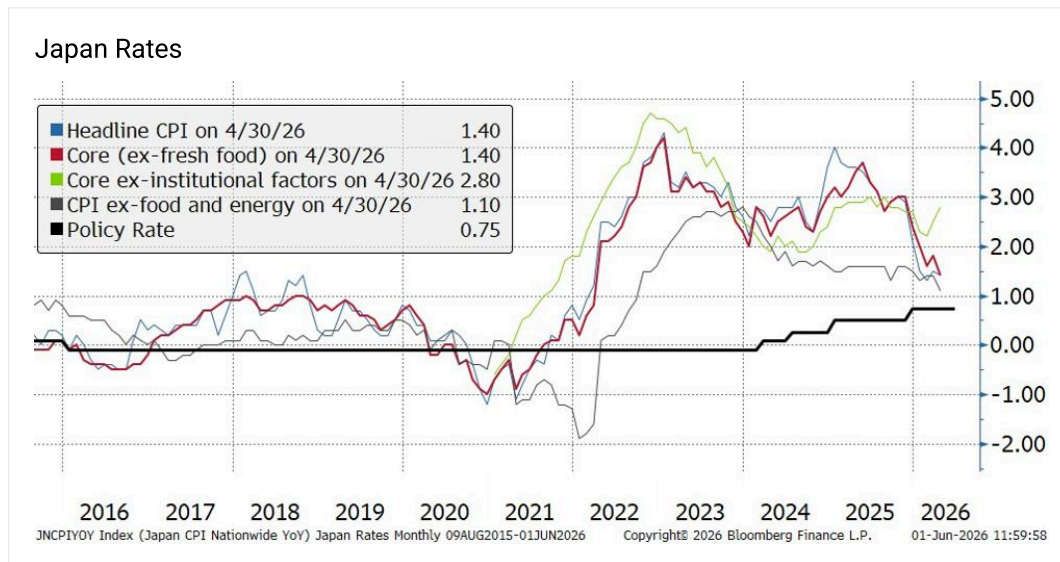
	2026	2027	2028
GDP Growth	1.0% (1.0%)	1.5% (n/a)	(n/a)
CPI Inflation	0.5% (0.5%)	0.5% (0.5%)	0.6% (n/a)

Two other central banks also meet this week. Sweden’s Riksbank meets Wednesday and Norway’s Norges Bank meets Thursday. Neither are expected to hike rates now but looking ahead, the market sees both hiking rates by November.

Asia

Japan highlight will be revised Q1 GDP data Monday. Growth is expected to be marked down to 0.3% q/q vs. 0.5% preliminary, driven largely by a downward revision in business spending to -0.9% q/q vs. 0.3% preliminary. While there are growing headwinds to the economy, the outlook remains solid. Of note, Japan’s composite PMI fell over a point to 51.1 in May but remains above 50, which suggests the economy is still growing modestly in Q2.

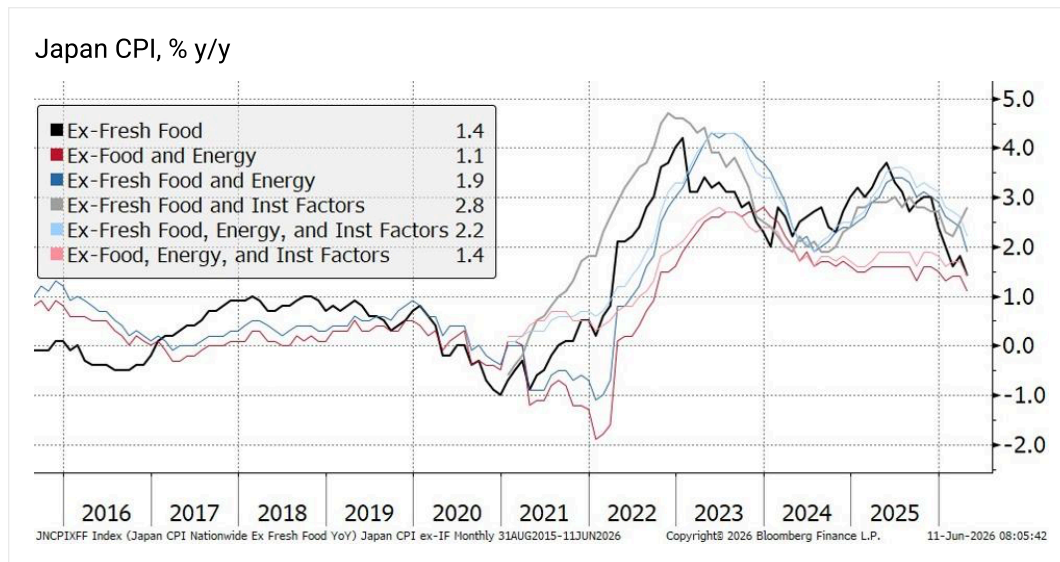
Of note, Governor Ueda will not be attending due to his hospitalization last week. Reports suggest he will express his views at this meeting in a statement but will refrain from voting on policy. Deputy Governor Himino will serve as acting chair for this meeting and reports suggest Ueda plans to attend the July 30-31 meeting after an expected two weeks in the hospital to treat an infection.



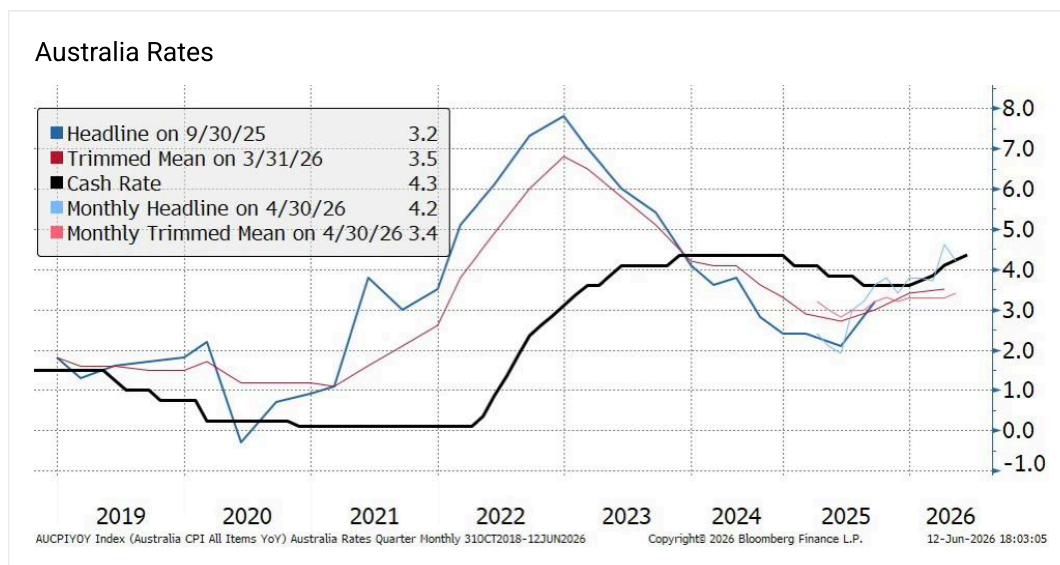
BOJ Outlook Report April 2026 (January)

	FY26	FY27	FY28
GDP Growth	0.5% (1.0%)	0.7% (0.8%)	0.8% (n/a)
Core CPI Inflation	2.8% (1.9%)	2.3% (2.0%)	2.0% (n/a)
Core Ex-Energy	2.6% (2.2%)	2.6% (2.1%)	2.2% (n/a)

Japan data highlight will be May national CPI Friday. Headline is expected to pick up a tick to 1.5% y/y, core (ex-fresh food) is expected to remain steady at 1.4% y/y, and core ex-energy is expected to fall a tick to 1.8% y/y. While this looks rather benign, we know the BOJ is now looking at inflation measures that strip out so-called “institutional factors.” This new series is reported two business days after the standard CPI data and we note that core inflation ex-institutional factors accelerated to 2.8% y/y in April.



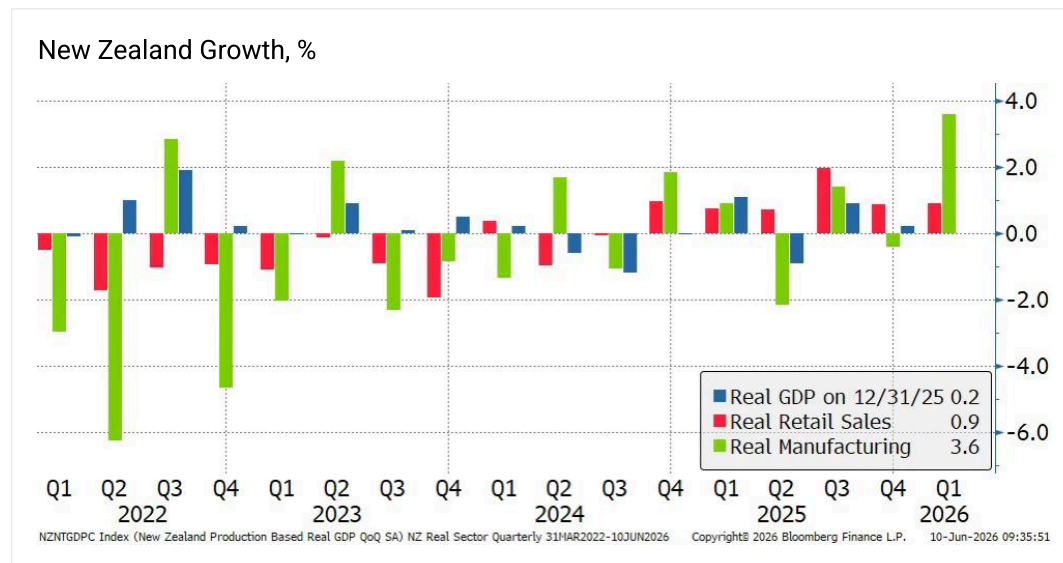
Reserve Bank of Australia meets Tuesday and is expected to keep rates steady at 4.35%. At the last meeting May 5, the Reserve Bank of Australia hiked rates 25 bp for the third straight meeting but signaled a pause as Governor Bullock noted “One reason to increase interest rates was to give ourselves space now to sit and see what happens. We feel we’re now in a position where we’ve got space, to be alert now to both sides of the risks to inflation - upside and downside.” The market sees around 50% odds of one last hike in Q1 2027.



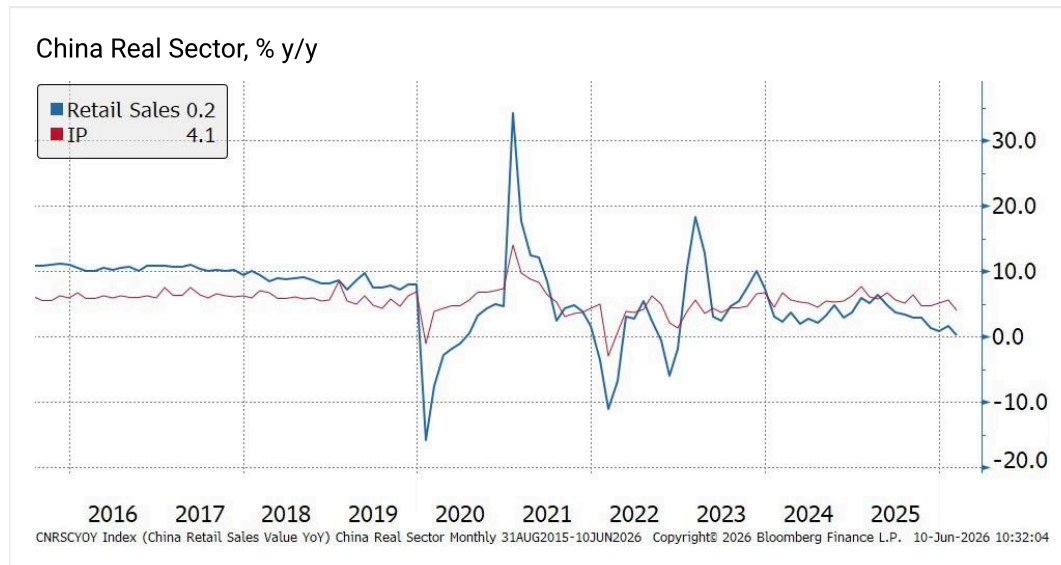
RBA Statement on Monetary Policy May (February)

	2026	2027	Jun-28
GDP Growth	1.3% (1.8%)	1.4% (1.6%)	1.4% (1.6%)
Unemployment	4.3% (4.3%)	4.6% (4.5%)	4.7% (4.6%)
CPI Inflation	4.0% (3.6%)	2.4% (2.7%)	2.5% (2.6%)
Trimmed Mean	3.5% (3.2%)	2.6% (2.7%)	2.5% (2.6%)
Cash Rate	4.7% (4.2%)	4.7% (4.3%)	4.7% (4.2%)

New Zealand reports Q1 GDP data Thursday. Growth is expected at 0.7% q/q vs. 0.2% in Q4, while the y/y rate is expected at 0.9% vs. 1.3% in Q4. In its May Monetary Policy Statement, the RBNZ cut its 2026 growth forecast two ticks to 0.7% and cut its 2027 forecast by over a point to 1.7%. With risks to growth building, we are skeptical that the RBNZ will hike rates as much as the market expects. Swaps market is pricing in 100 bp of total tightening over the next twelve months, with nearly 85% odds of a hike at the next meeting July 8.



China reports May real sector data Tuesday. Retail sales are expected at -0.3% y/y vs. 0.2% in April, IP is expected at 4.3% y/y vs. 4.1% in April, and fixed investment is expected at -2.5% YTD vs. -1.6% in April. The economy is clearly slowing but we suspect that policymakers will wait to better gauge the overall impact of the Iran conflict before injecting stimulus.



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