Global Economic Outlook

Resilience under pressure: Energy costs and trade tensions weigh on growth

Insights on the world's key economies, GDP growth, commodity prices, interest rates and exchange rates.

EDC Economics
July 2026

CONTENTS

Executive summary

Resilience under pressure: Energy costs and trade tensions weigh on growth

Stuart Bergman
Vice-president and chief economist

The second quarter of 2026 unfolded against the backdrop of the war in Iran, which began at the end of February. The blockage of the Strait of Hormuz cut off roughly one-fifth of the world's traded energy supplies, driving prices sharply higher, reigniting inflationary pressures and raising fresh concerns about global growth. Yet once again, the global economy proved remarkably resilient.

At the time of writing, a first round of talks between the United States (U.S.) and Iran raised hopes for a permanent agreement to end the war and return ship traffic to pre-crisis levels. Despite periodic optimism in financial markets, uncertainty around safe passage persists. In EDC Economics' summer *Global Economic Outlook*, we assume a return to pre-war transit levels only in 2027. International Energy Agency reports of historically low global inventories in May, together with downstream refinery constraints, suggest ongoing supply challenges and energy-related volatility will persist.

Higher energy prices reshape the outlook

As of June 10, we expect global energy prices to remain above pre-conflict levels for the rest of the year, with West Texas Intermediate crude oil averaging around US$96 per barrel in 2026 and nearly US$84 per barrel in 2027. This reflects ongoing uncertainty and efforts to rebuild depleted stocks as a buffer against future flareups.

Beyond the uncertainty surrounding the war, the global economy continues to contend with renewed tariff threats, adding another layer of pressure on the forecast. The U.S. administration announced tariffs of 12.5% on most countries—or 10% on Canadian and Mexican imports that don't comply with Canada-United States-Mexico Agreement provisions—set to take effect in July.

As a net-energy exporter, the U.S. is better positioned to absorb these shocks. While inflation-adjusted wage growth has slowed, at times even flirting with contraction, hiring picked up in the last quarter. This continues to support U.S. consumer spending even as confidence remains historically weak. Meanwhile, business investment still benefits from data centre-related infrastructure spending and capital outlays. Overall, we expect the U.S. economy to grow by 2% in 2026 and 2.1% in 2027.

As in other countries, elevated fuel costs have pushed both producer and consumer prices higher, complicating the outlook for the Federal Reserve under its new chair, Kevin Warsh. After previously eyeing lower interest rates, we now expect the Fed to raise rates by 25 basis points before the end of the year. As inflation eases in the second half of 2027, expect the Fed to once again adopt an easing bias, signalling a greater likelihood of future rate cuts.

The Canadian outlook remains more subdued. Despite a slight contraction in the first quarter of the year, we expect Canada's economy to grow by 1% in 2026, before recovering by 2.1% in 2027. Trade uncertainty, tariff exposure and weak business investment continue to weigh on activity. Consumers remain cautious in the face of these challenges, and recent changes to immigration policy have reversed the beneficial impacts of historically high population growth.

While higher global oil prices benefit oil-producing provinces and boost government revenues, soaring energy costs are squeezing purchasing power and weighing on activity elsewhere. Overall, we expect inflation to average 2.9% in 2026, before easing to 2.3% in 2027. Balancing weaker growth against persistent inflation pressures, we expect the Bank of Canada to keep policy steady through most of 2026 and 2027. As a result, the Canadian dollar is expected to average roughly US$0.73 through the end of our forecast horizon, with volatility likely.

Executive summary

Resilience under pressure: Energy costs and trade tensions weigh on growth

Stuart Bergman
Vice-president and chief economist

The Euro Area faces one of the most challenging near-term outlooks among major advanced economies, given its sensitivity to elevated energy costs and weaker external demand. We expect Euro Area growth of just 0.8% in 2026, rising to 1.3% in 2027.

Germany is expected to underperform, with growth of 0.6% this year and 1.1% next year, supported increasingly by public spending on infrastructure and defence. Weak confidence, soft external demand and higher energy costs continue to constrain private-sector momentum. France is also forecast to expand by 0.6% in 2026 and just 0.9% in 2027. Household spending and business investment remain weak amid inflationary pressures and ongoing political uncertainty ahead of the 2027 presidential elections.

Exports continue to power Chinese growth
China’s economy, meanwhile, continues to grapple with weak domestic demand and ongoing trade frictions, even as exports continue to boost overall growth. We expect gross domestic product (GDP) growth to be within the government’s slightly lower and more flexible range, hitting 4.7% this year. In 2027, expect growth to slow to 4.4%, still solid by global standards but transitioning to a slower, more sustainable growth path. The country managed the Strait of Hormuz crisis by slashing energy imports and instead relying on domestic stockpiles. This helped companies maintain production for exports, while also easing demand on global supplies.

While the war generally pushed commodity prices higher, gold has been an exception. After reaching repeated record highs in 2024 and 2025, gold prices have entered a consolidation phase, driven by profit-taking, tempered expectations for rate cuts and a pause in safe-haven demand as macroeconomic conditions stabilize. While we expect gold to remain elevated by historical standards, averaging US$4,574 per ounce in 2026 and US$4,700 in 2027, its record-breaking run appears to be over for now.

Bottom line: Global growth slows
The global economy has once again absorbed a major shock, but resilience is showing signs of strain. The disruption in the Strait of Hormuz has pushed energy prices higher, renewed inflation pressures and complicated the policy outlook, while tariff threats continue to cloud the global trade environment.

Growth is expected to slow to 2.8% in 2026, with developed markets growing by just 1.5% and developing markets posting growth of 3.7%. Next year, provided no new shocks derail progress, the global economy should gradually regain momentum. We expect global growth to recover to 3.2%, as developing markets return to a more normal post-pandemic pace of around 4.3% and developed market growth inches up to 1.7%.

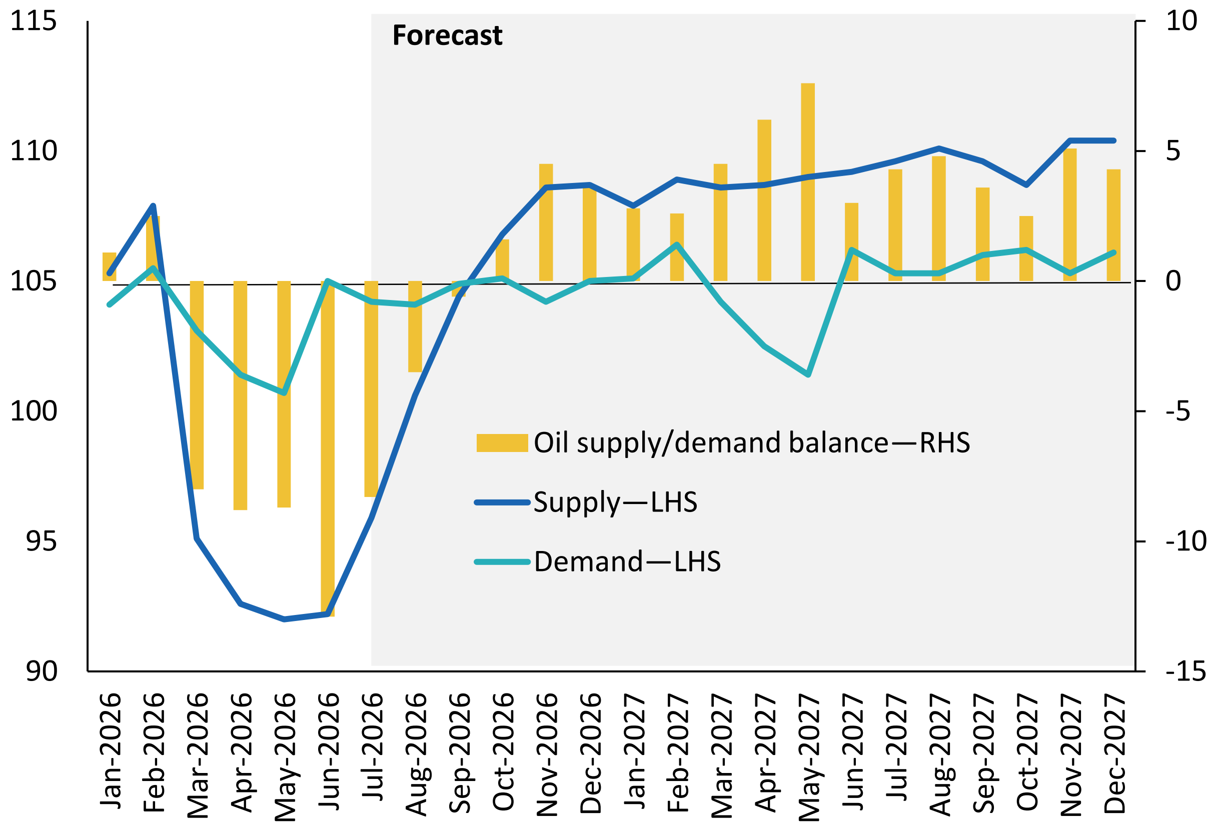
MACROECONOMIC CONTEXT

Shrinking oil inventories leave markets vulnerable

The prolonged closure of the Strait of Hormuz disrupted global energy shipments, turning storage tanks scattered across the globe into the oil market's "marginal producer." Inventories accumulated before the crisis, together with emergency stockpile releases, helped offset reduced activity, but at the cost of inventories falling below seasonal norms. While a permanent agreement to end the war and restore ship traffic to pre-crisis levels would ease constraints, oil markets remain tight and vulnerable to further disruptions and price volatility if geopolitical risks escalate.

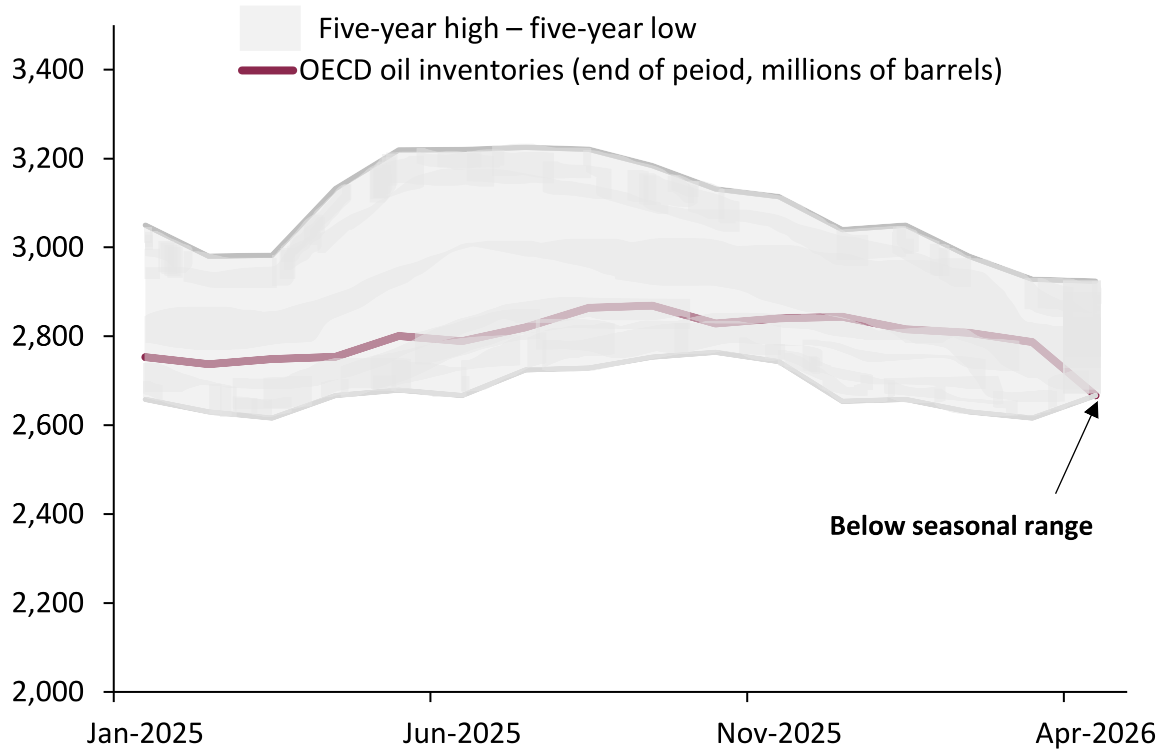
Oil demand is outpacing supply across key regions

Millions of barrels



OECD inventories are falling below historical norms

Millions of barrels



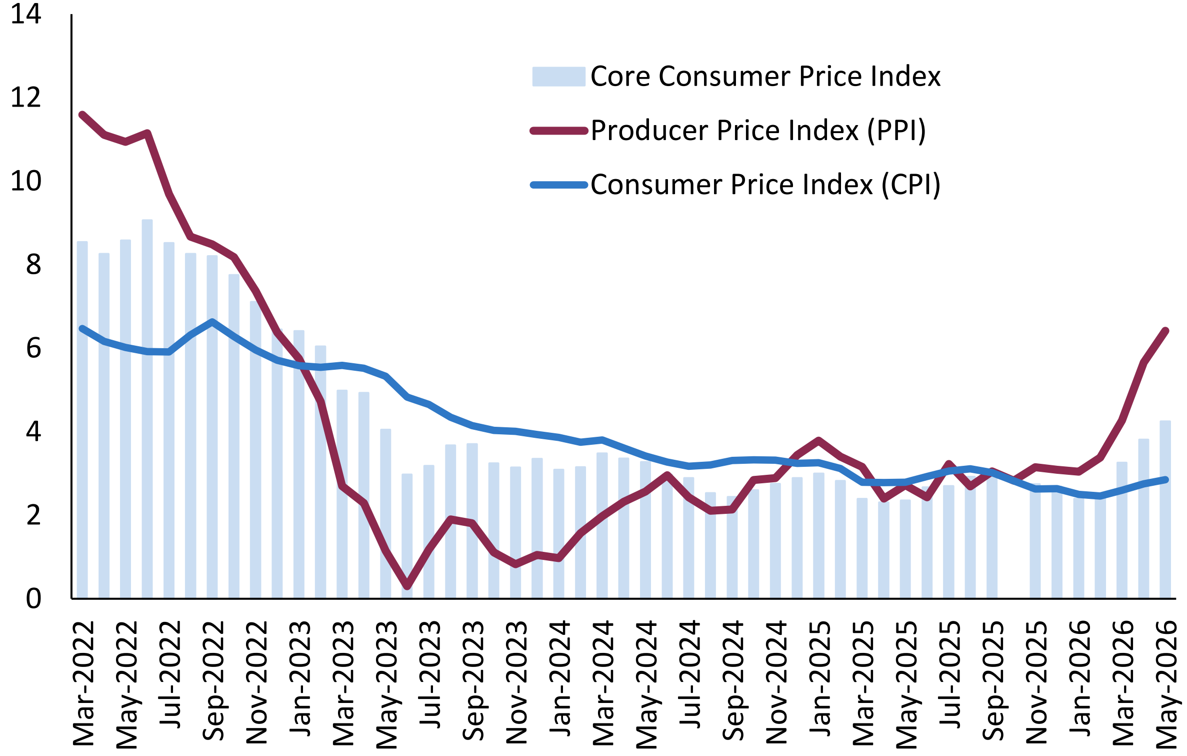
Source: Haver Analytics

Energy prices keep interest rates elevated

Higher energy prices are pushing up producer and consumer costs, reinforcing inflationary pressures in major economies. While the Iran conflict has eased, the energy price shock continues to ripple though supply chains and economic growth, keeping central banks cautious.

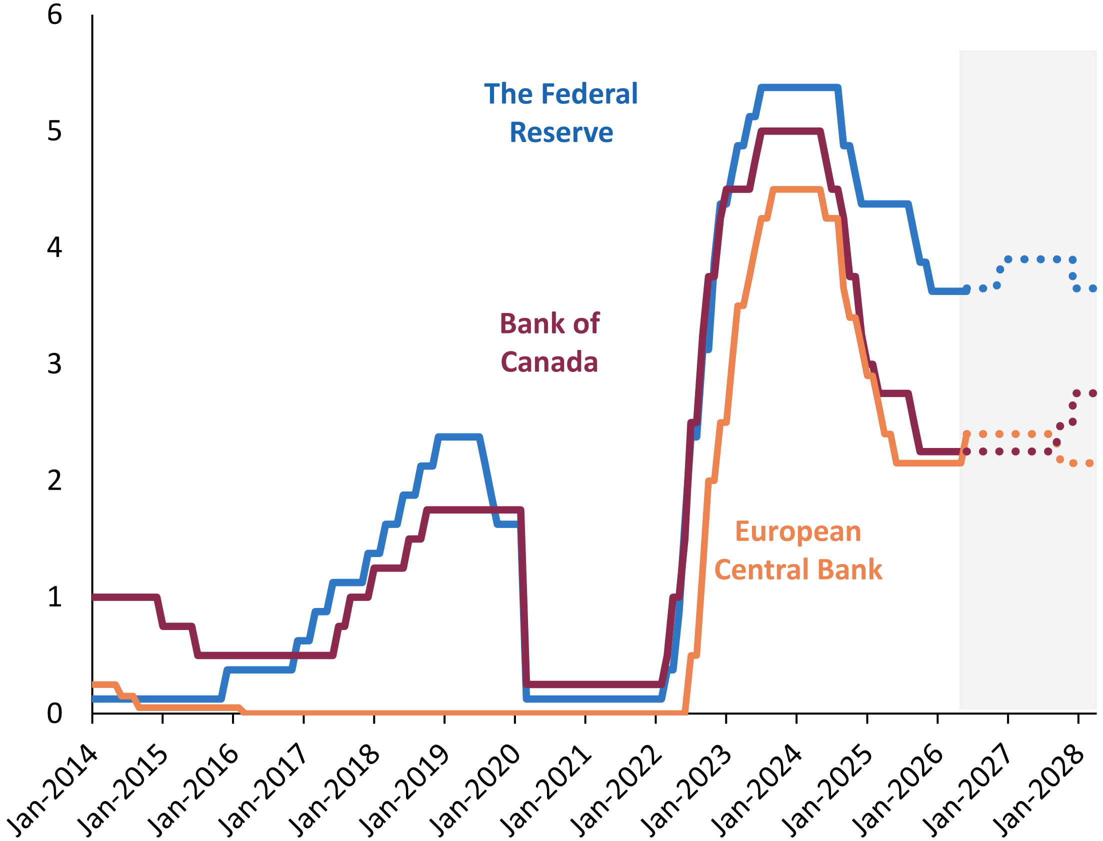
Producer price pressures are leading inflation higher

Percentage, year-over-year



Persistent inflation is keeping interest rates elevated

Percentage



EDC

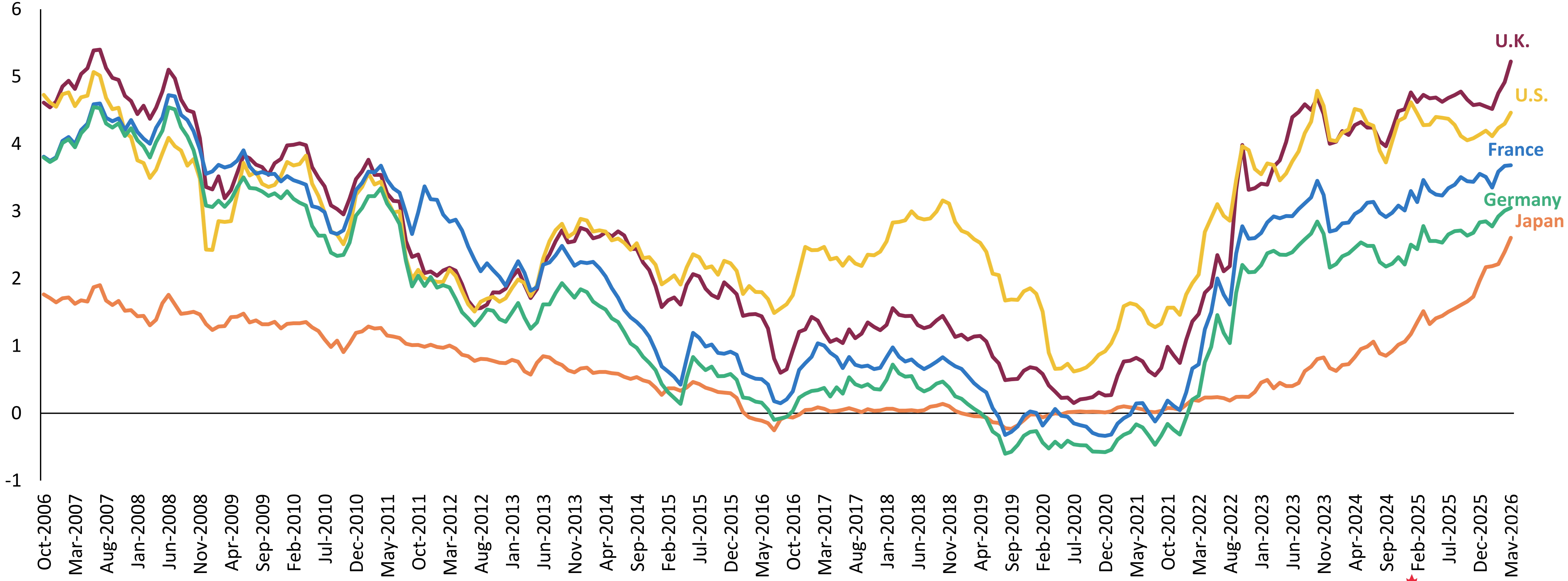
Source: Haver Analytics, EDC Economics,

Inflation and fiscal pressures push government borrowing costs higher

While growth has remained resilient, persistent inflation has kept monetary policy tight. At the same time, rising spending demands—particularly on defence and security—have reduced governments' fiscal flexibility. As a result, borrowing costs have risen, tightening financial conditions for governments, businesses and households.

Higher policy rates are being reinforced by elevated long-term yields

Average annual yield percentage (%)



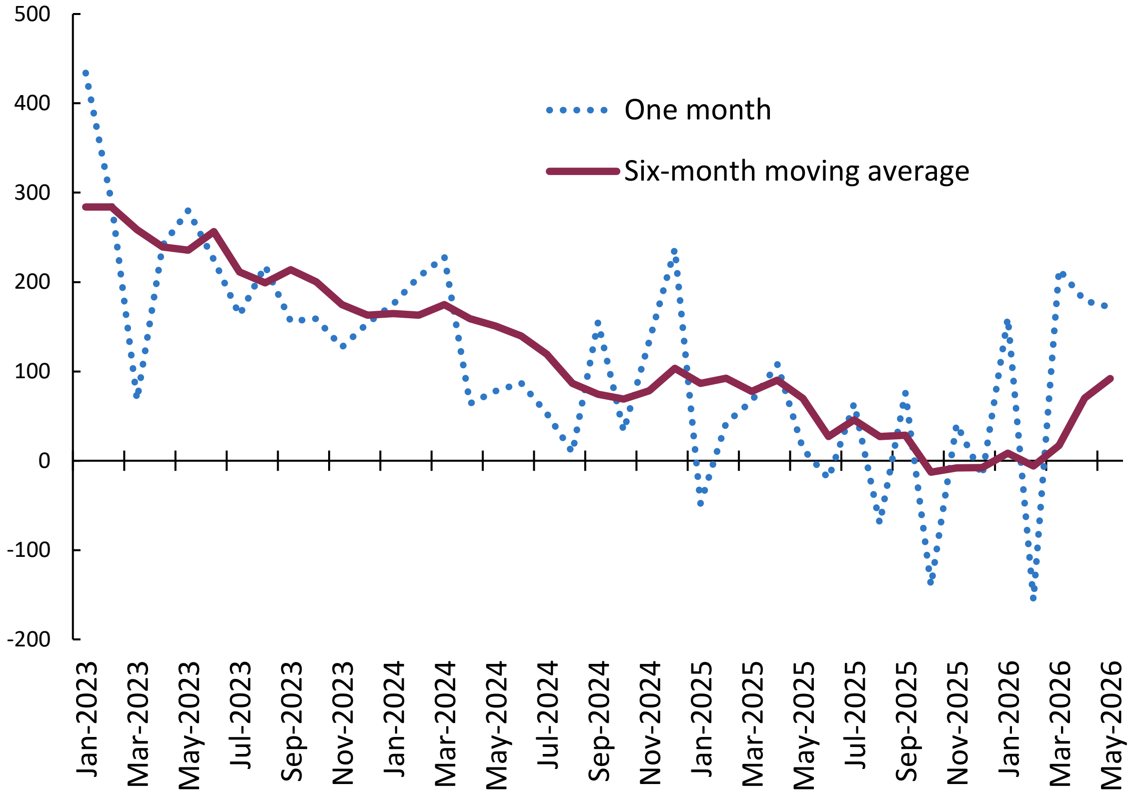
EDC

U.S. hiring warms as wage growth cools

U.S. job growth has picked up in recent months after tepid growth for much of the past year. However, inflation-adjusted wage growth has slowed, at times even flirting with contraction, weighing on household purchasing power and the durability of consumer demand. This divergence points to softer wage-driven inflation pressures, even as the labour market remains resilient.

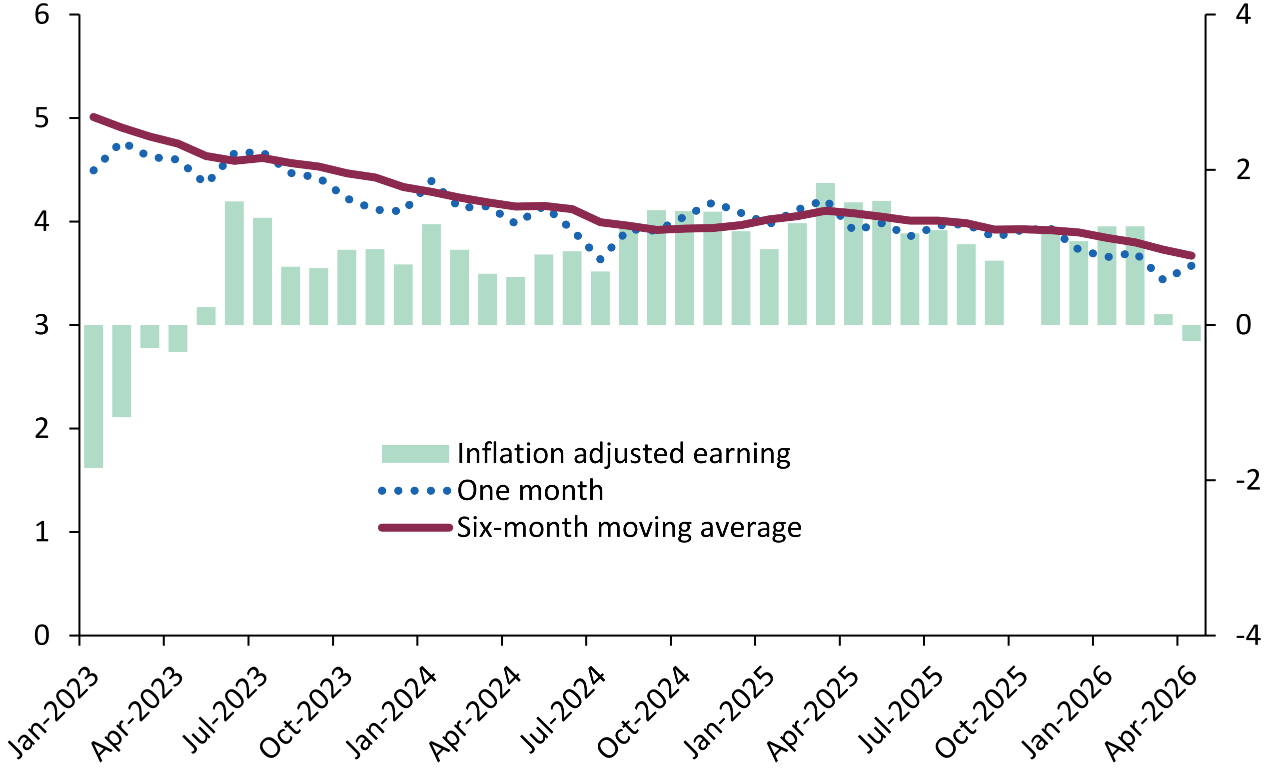
Hiring momentum is improving

Yearly change, thousands



Wage growth continues to slow

Growth rate, year-over-year change, percentage



EDC

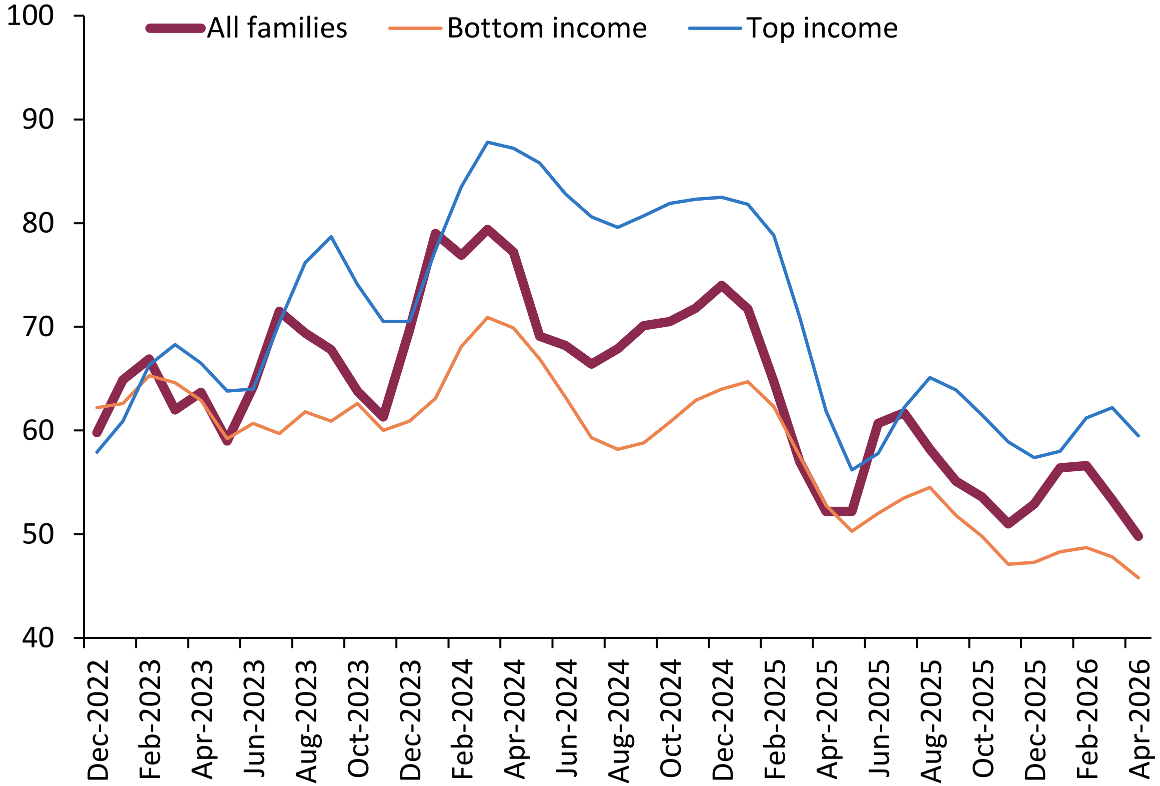
Source: Haver Analytics, EDC Economics

Consumer finances come under pressure

Consumer sentiment has weakened across income groups in the U.S., with lower-income households facing the greatest challenges. Rising delinquencies on credit cards and auto loans point to increasing strain on household finances. These trends suggest tighter financial conditions and a weaker income outlook are weighing on consumers and reducing their ability to manage elevated borrowing costs.

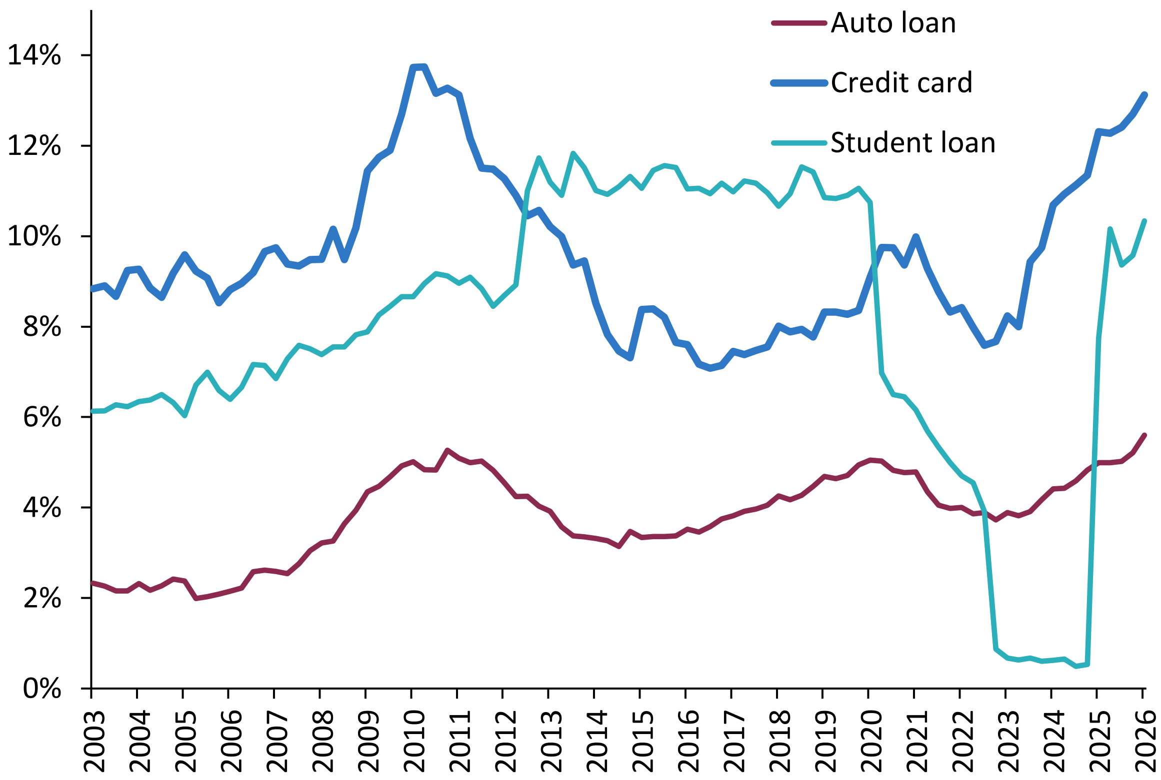
Sentiment is weakening, especially among lower-income households

All families and three-month moving averages for income terciles



The share of credit card balances that are 90-plus days delinquent is rising, signalling growing financial stress

Percentage of balance



Sources: University of Michigan/Haver Analytics, FRBNY Consumer Credit Panel/Equifax/Haver Analytics.
Note: Sentiment index income terciles are divided by bottom third, middle third and top third. Dates represent date of survey.

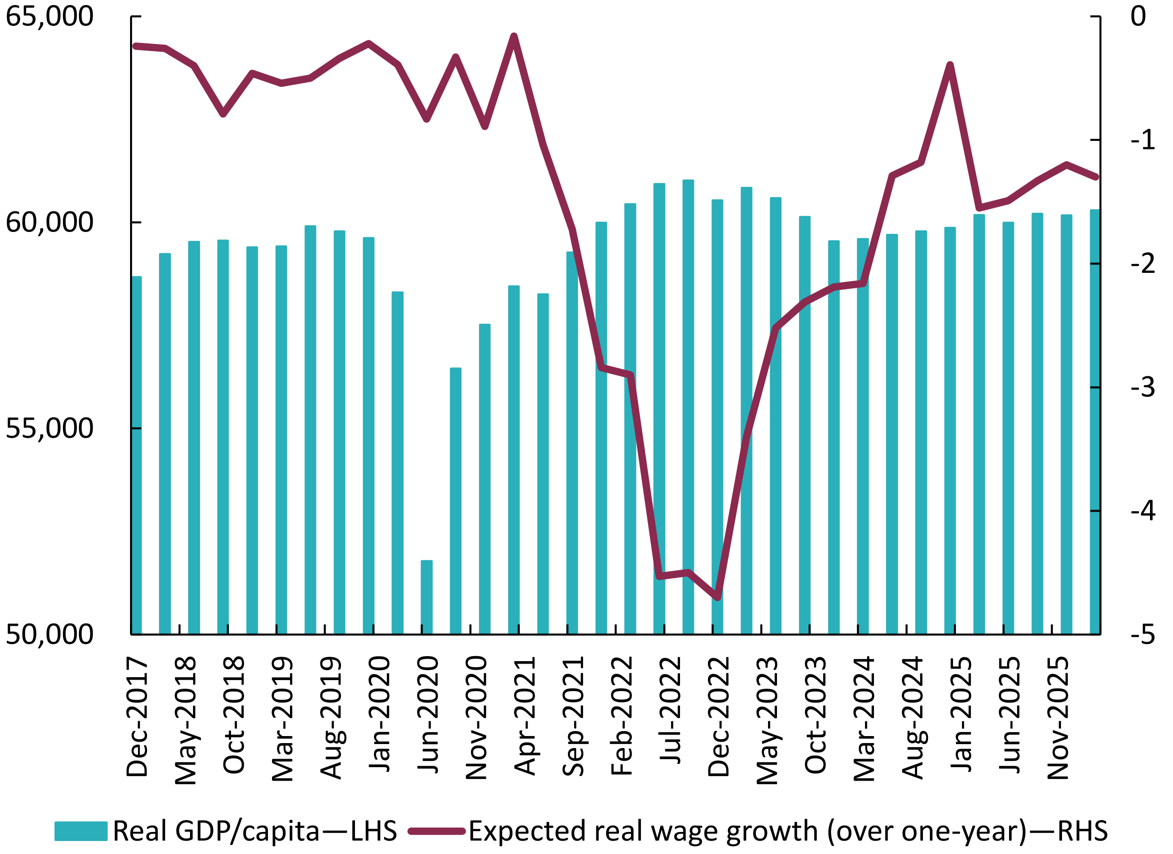
EDC

Canada's near-term growth outlook remains subdued

Real GDP per capita has been showing improvement largely due to population adjustment, but weak wage growth expectations suggest household demand will remain fragile over the year ahead. Business investment in machinery and equipment continues to slip due to global uncertainty, weighing on productivity and near-term growth.

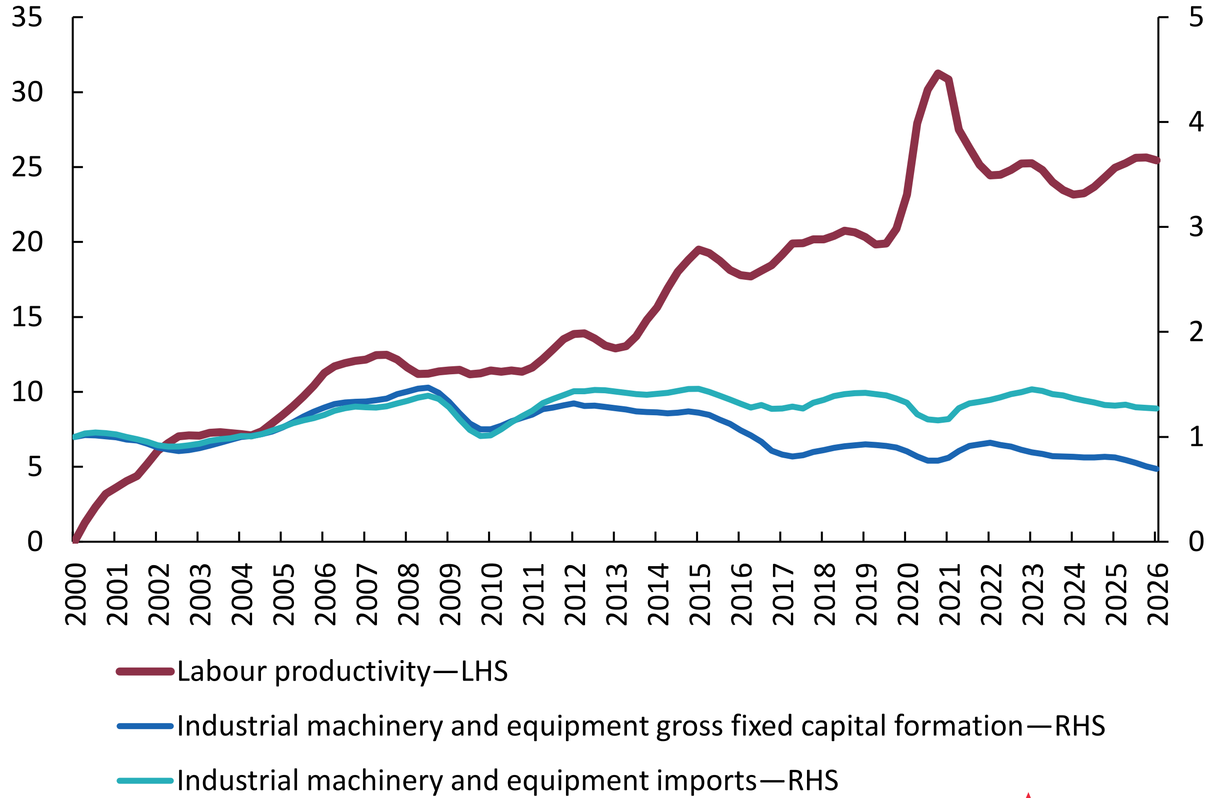
Weak wage expectations point to fragile demand

LHS: Real GDP per capita (chained 2017 C$, annualized), RHS: Percentage



Weak investment is weighing on productivity

One-year moving average, indexed 2000=100



EDC

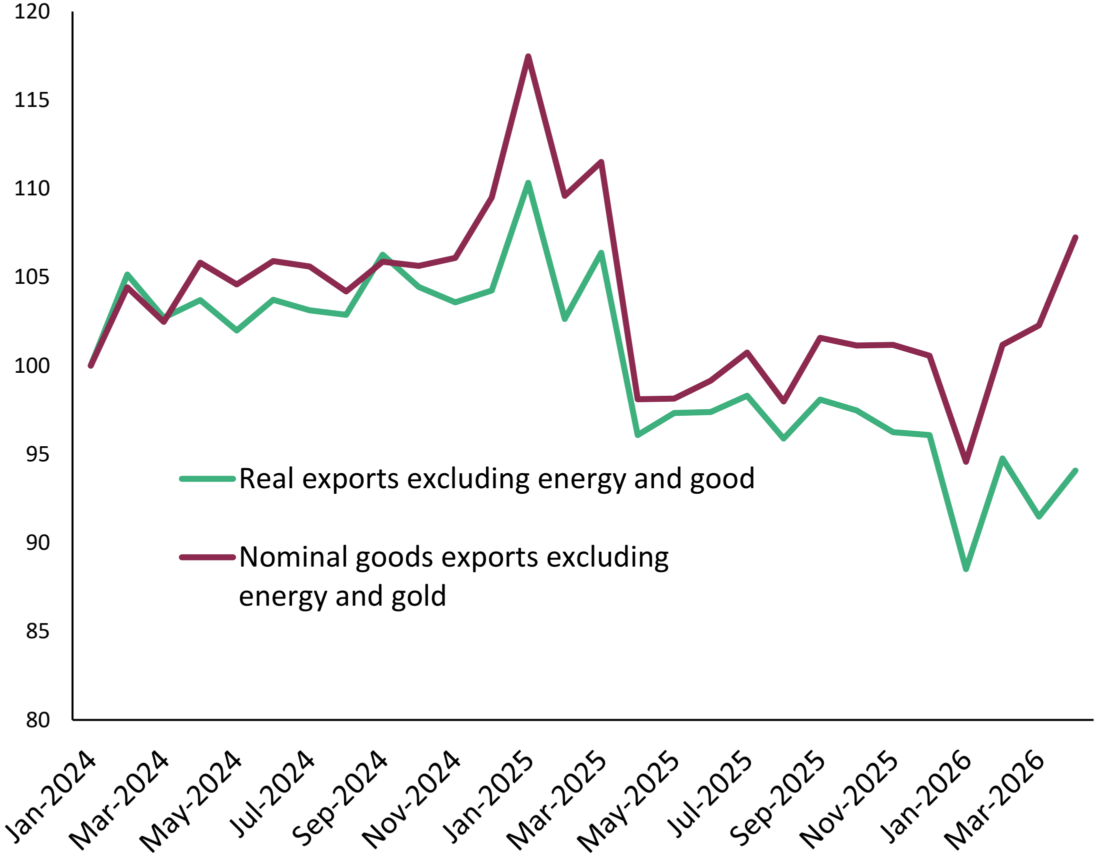
Source: Bank of Canada, Haver Analytics, EDC Economics

Goods exports are holding up, but growth remains narrow

Canada’s export performance is being supported by strong energy and gold shipments, which are masking weakness elsewhere. While nominal exports have remained resilient, price-adjusted shipments remain soft. Export gains are also concentrated in a few products, with broader gains struggling to take hold in the current global environment. At the same time, stronger performance in select non-U.S. markets, particularly in energy and gold, have helped offset softer performance across several categories in the U.S.

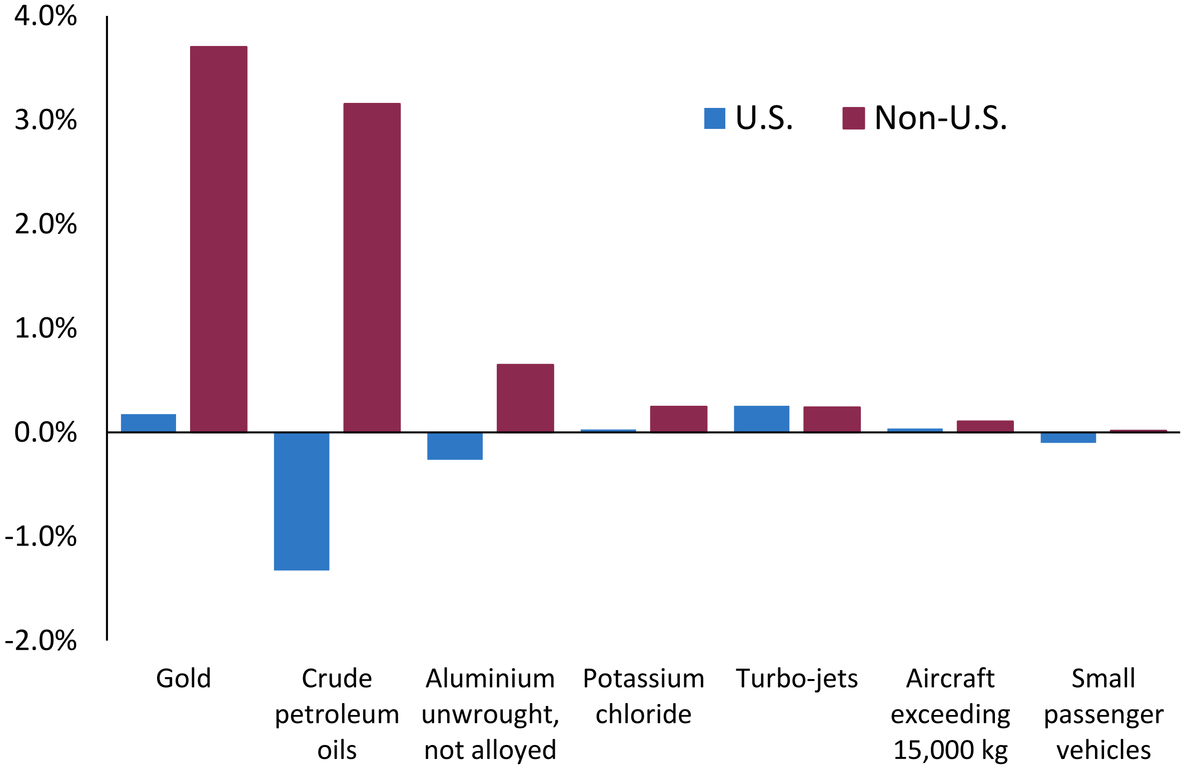
Nominal exports are holding up, but real volumes are weaker outside energy

Seasonally adjusted, indexed in 2024=100



Gold and energy drove increases in Canada's non-U.S. export mix

Change in exports as a share of Canada’s total exports, 2024 to 2025 (percentage points)



Source: Haver Analytics, EDC Economics

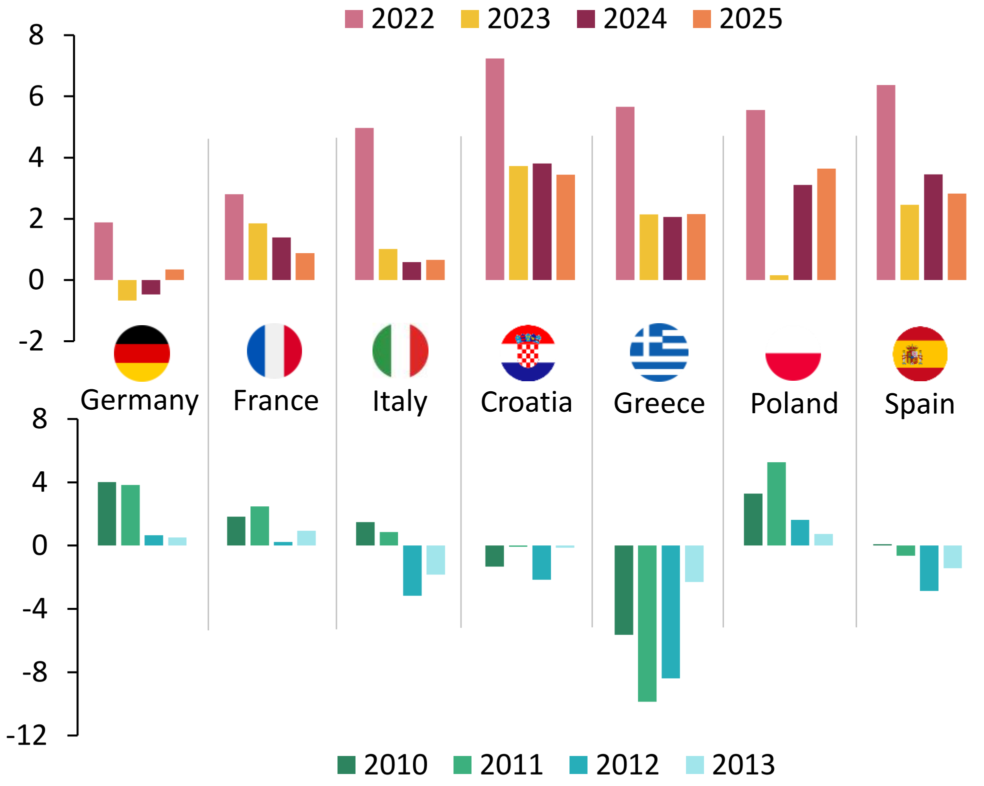
EDC

Europe's growth leaders are changing

Since the 2008 global financial crisis and the European sovereign debt crisis around 2011, Europe's growth pattern has shifted Italy, Greece and Spain have taken steps to reduce imbalances, strengthen financial systems, improve competitiveness and restore confidence. These changes, combined with stronger tourism, EU-funded investment, employment growth, resilience in the face of geopolitical shocks and deeper integration into European supply chains, have pushed their growth rates to the top of the table.

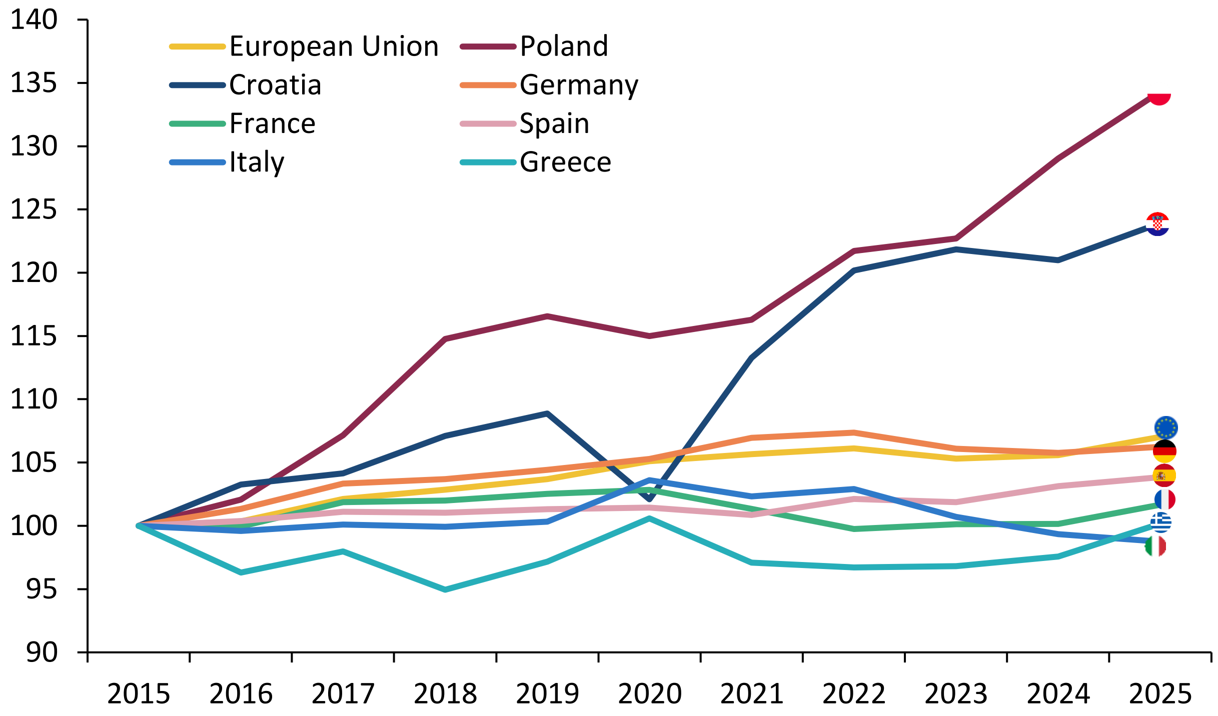
Growth leadership has shifted across Europe

Real GDP, year-over-year change, percentage



Productivity gaps continue to widen across Europe as major economies stagnate

Index, 2015=100



EDC

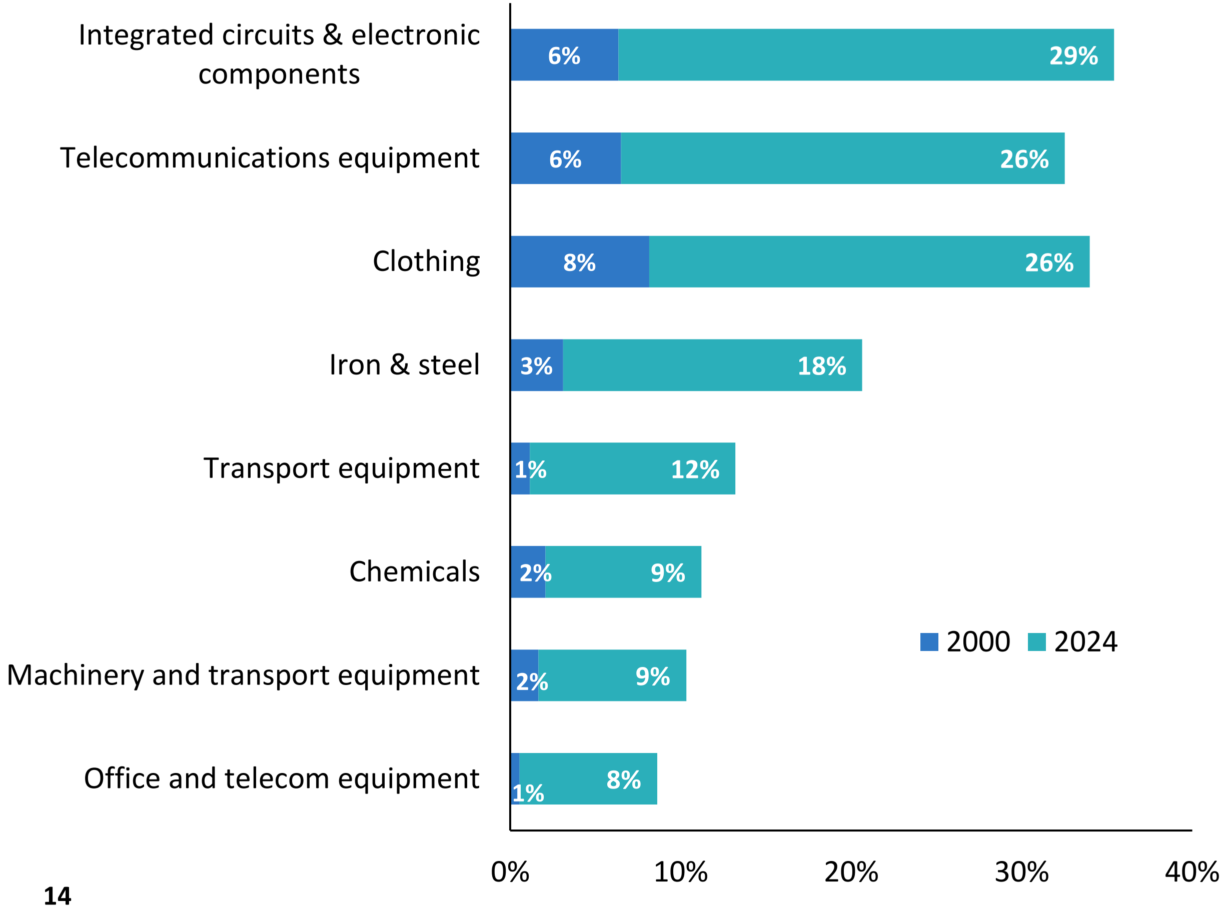
Sources: Haver Analytics, Eurostat

China's share of global exports has surged and shifted

China's global export footprint has expanded significantly as the country has moved up value chains. This has increased competitive pressure on producers and exporters worldwide while reinforcing China's reliance on exports as a driver of economic growth. As the global trade environment evolves, China's rotating toward non-U.S. markets, reflecting stronger demand across ASEAN and other emerging economies, as well as investment aimed at navigating tariff-related challenges.

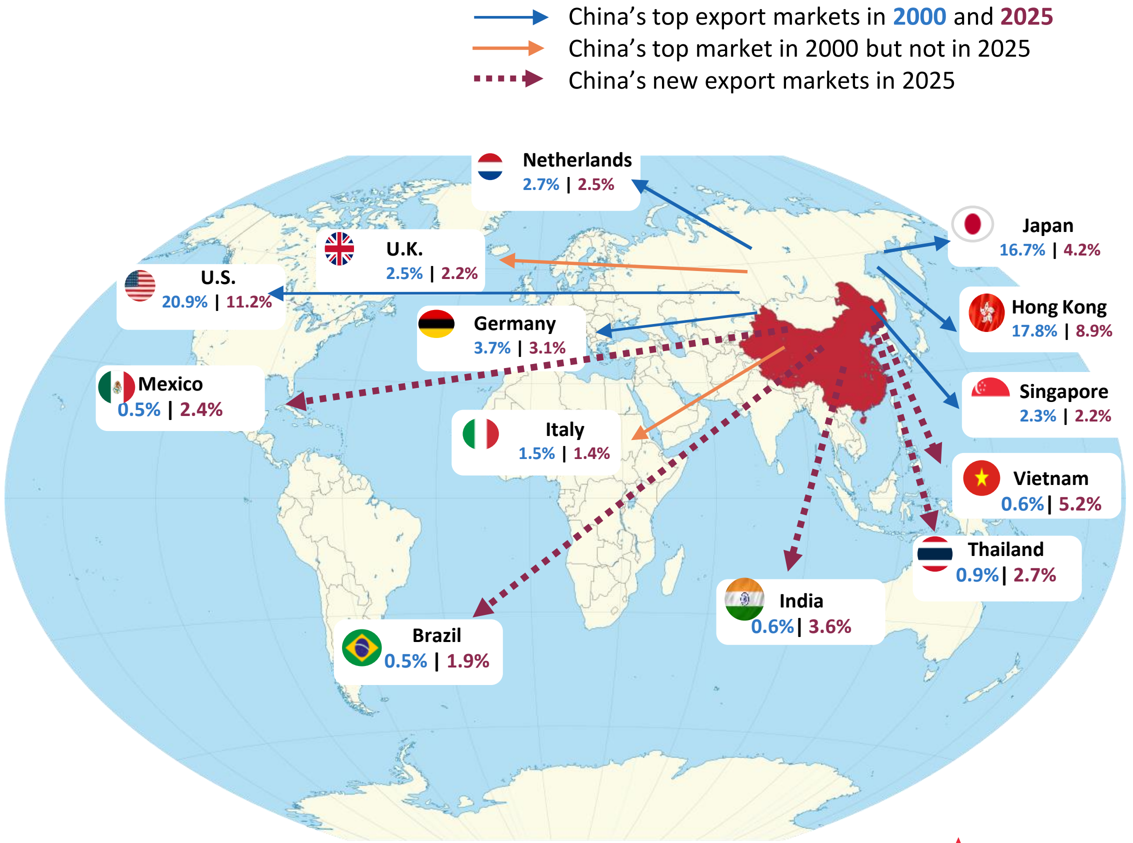
China has gained market share across sectors

China's market share in percentage



China's export markets have diversified since 2000

Total share of China's exports, percentage change



Sources: World Bank, Haver Analytics, Innovation, Science and Economic Development Canada

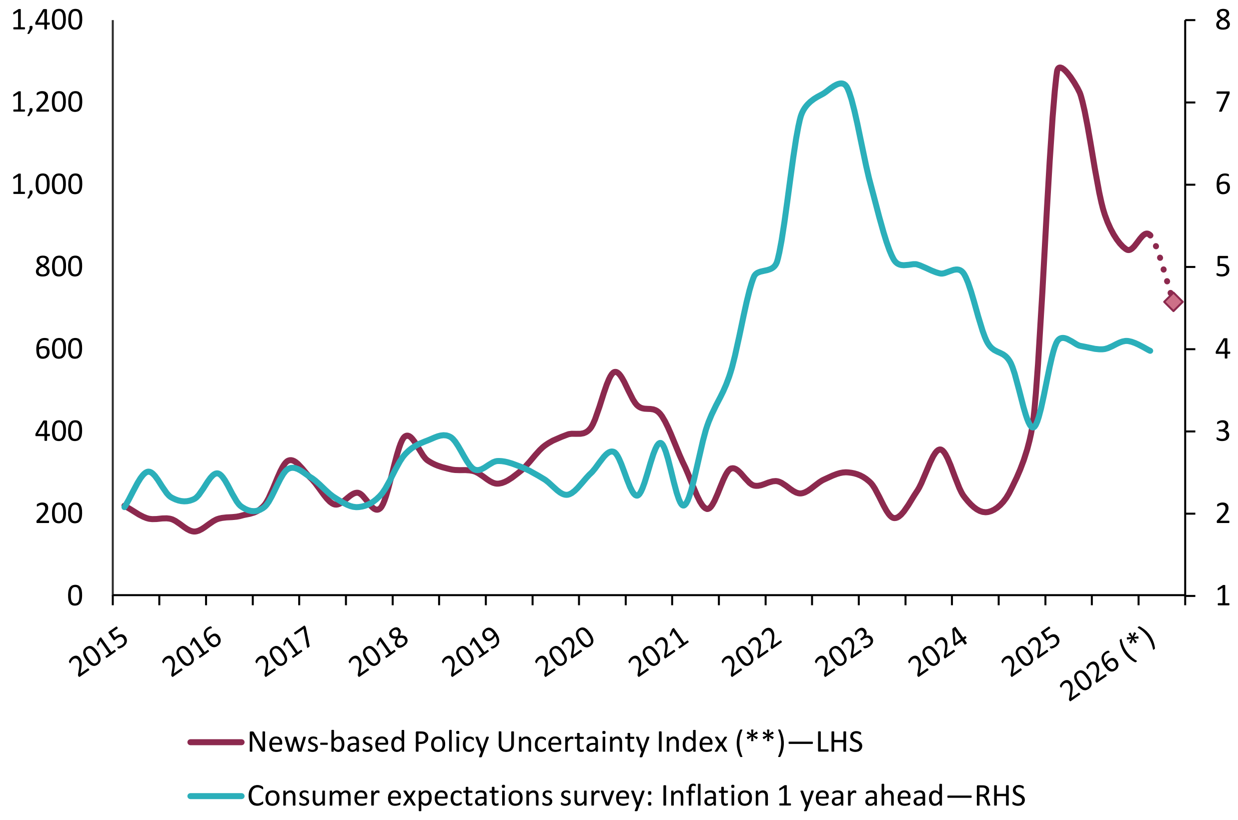
COUNTRY OUTLOOKS

Canada

Daniel Benatuil, senior country risk analyst

Inflation and policy uncertainty will restrain domestic demand

LHS: Index, RHS: Percentage change from year ago



Canada's economy contracted slightly in the second quarter of 2026. While this has sparked discussion about a possible recession, we don't believe that characterization reflects the broader economic picture. Growth has slowed amid persistent trade uncertainty and weaker population growth, but we expect the economy to expand by 1% in 2026 before strengthening to 2.1% in 2027 and 2.2% in 2028.

Domestic demand will remain under pressure from inflation concerns, policy uncertainty and geopolitical risks. Core inflation, which excludes food and energy, remains contained. However, higher gasoline prices stemming from the Middle East conflict and resulting energy shock will weigh on households and heighten concerns about future price increases. Even if a ceasefire provides temporary relief, energy-related inflation pressures are likely to persist as shipping routes and commodity flows adjust. As a result, inflation is expected to weigh on consumer spending through year-end.

Uncertainty around the Canada-United States-Mexico Agreement (CUSMA) review will also keep businesses cautious about major capital investments. Although most Canadian good exports to the U.S. are CUSMA-compliant and therefore exempt from tariffs, several key sectors—including autos, steel and aluminum, copper and forestry—continue to face challenges. Despite these headwinds, Canadian trade has continued to grow through the first half of the year, supported by higher gold and energy prices and the reduction of Chinese tariffs on many agricultural products.

We expect business investment to strengthen in 2027 as tax and policy changes take effect and several large energy, resource and trade-enabling infrastructure projects advance. Although the labour market remains volatile due to population shifts and retirements, we expect conditions to improve and support a recovery in household spending. Even so, excess capacity is likely to be absorbed only gradually, keeping the Bank of Canada from adjusting its policy rate until late 2027.

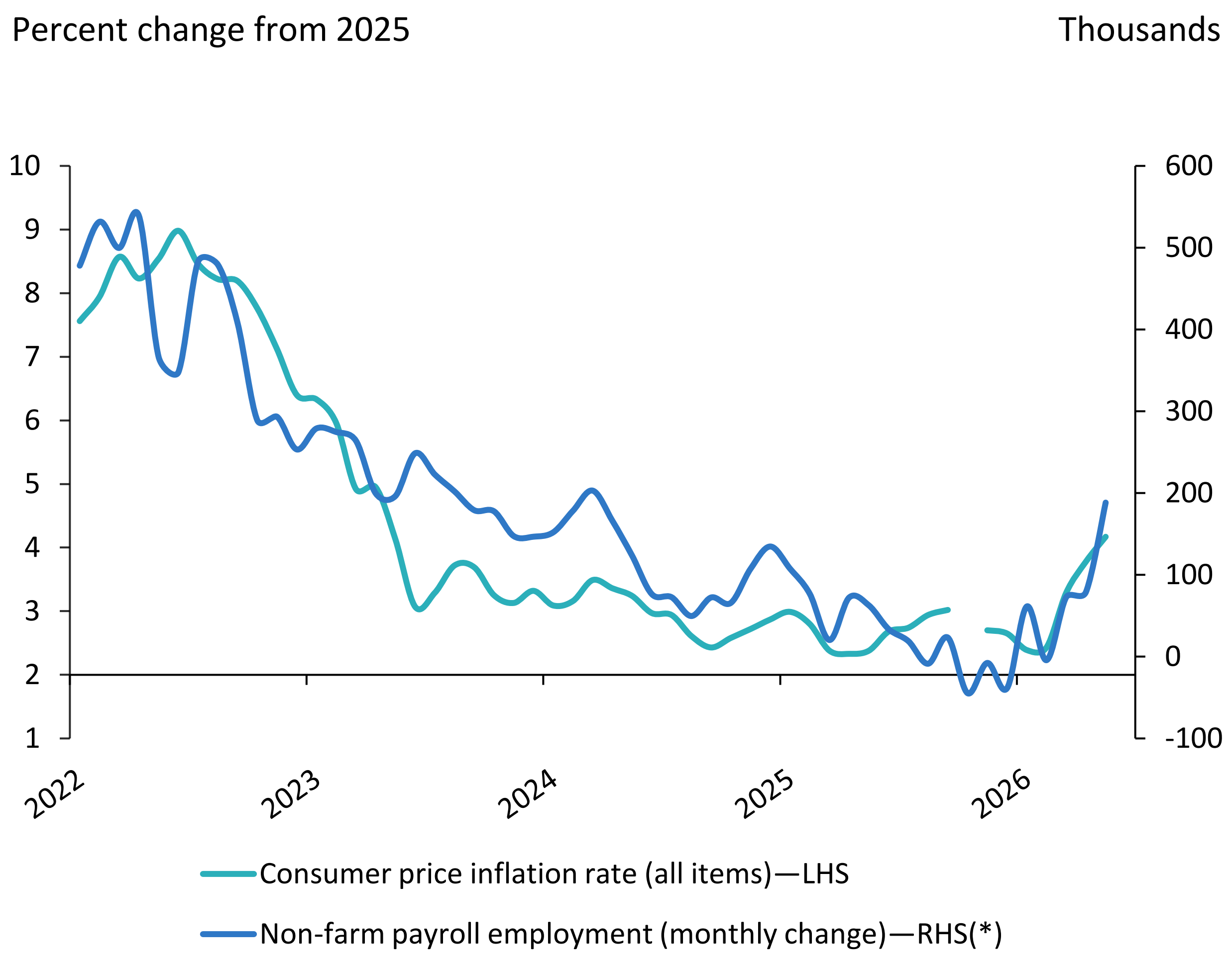
Sources: Bank of Canada, PU (Policyuncertainty.com), Haver Analytics, EDC Economics

Notes: (*): Index value for the second quarter is based on the quarter-to-date average for April and May.
(**) An index value of 100 refers to the historical average prior to 2011.

United States

Daniel Benatuil, senior country risk analyst

Inflation and labour market strength support higher rates



Sources: Bureau of Labor Statistics, Haver Analytics, EDC Economics
Notes: (*): Values are based on the three-month moving average.

We forecast that the U.S. economy will continue to outperform most other advanced economies, with growth of 2% in 2026, 2.1% in 2027 and 2.4% in 2028. Despite higher inflation stemming from the Middle East conflict and resulting energy-price shock, consumers remain resilient and business investment continues to advance.

Despite a “low-hire, low-fire” labour market to start 2026 and historically weak consumer confidence, U.S. consumers continue to spend. Unemployment remains near historic lows, while a large share of mortgage holders remain locked into long-term mortgages at low interest rates, helping offset weaker sentiment. With signs that hiring may be accelerating—even as wage growth moderates—the economy appears poised to remain resilient.

Business investment continues to surge, increasing nearly 11% quarter-over-quarter at annualized rates in the first quarter to almost $4.5 trillion on a seasonally adjusted annual basis. Much of this growth has been driven by investment related to artificial intelligence (AI). Excluding spending on data centres, servers and related infrastructure, business investment grew more modestly. However, with companies announcing significant investment plans and raising substantial capital to fund them, we expect this momentum to continue over the next several years and drive overall economic growth.

Stronger domestic resilience and rising inflation pressures have led us to reassess our interest rate forecast. We now expect the Federal Reserve to keep the Fed Funds rate unchanged until December 2026, when we expect a 25-basis-point increase, followed by a prolonged pause through 2027.

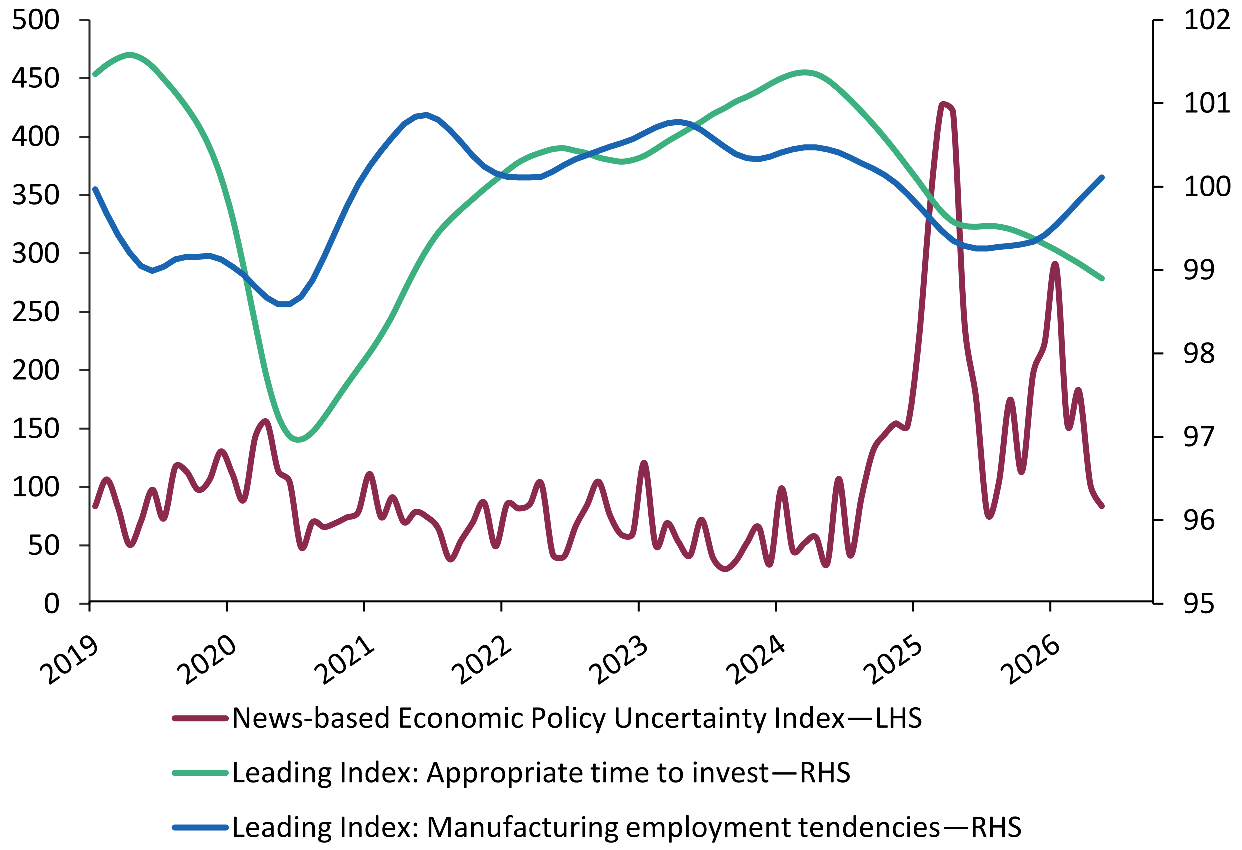
Risks to our forecast include a renewed conflict in the Middle East that drives energy prices higher, a setback to AI-related investment that weakens business spending, or a market correction that reduces household wealth, weighs on consumer spending and slows overall economic activity.

Mexico

Daniel Benatuil, senior country risk analyst

Easing uncertainty supports a modest growth rebound

LHS: Indexed in January 1996-December 2016 = 100, RHS: Long-term average = 100



Mexico's economy is now expected to grow by just 0.9% in 2026 after shrinking unexpectedly in the first quarter. Growth should improve to 2.1% in 2027 and 2028 as uncertainty eases, but deeper structural challenges will likely keep the recovery modest.

Since mid-2024, Mexico has faced several domestic and external challenges, including a change in government, investor concerns about reforms, trade-policy uncertainty and broader geopolitical risks. Together, these factors have made businesses and households more cautious and will continue to weigh on growth this year.

Some of these risks are still unresolved. While the Canada-United States-Mexico Agreement (CUSMA) remains in force and no major near-term changes are expected, trade-policy uncertainty continues to weigh on business sentiment and investment decisions. The Middle East conflict and related energy-price shock are another risk. However, Mexico's role as an energy producer gives it some protection because higher energy prices can boost government revenues and exports.

As households and businesses adjust to these conditions, uncertainty is beginning to ease. Inflation and interest rates remain elevated, but stronger wages and improved formal employment prospects should help support consumer spending.

Business investment remains weak because of concerns about governance and the rule of law. Still, confidence in manufacturing is improving in both Mexico and the U.S., which could support more hiring and production. Planned government infrastructure spending should also help support a modest recovery later this year.

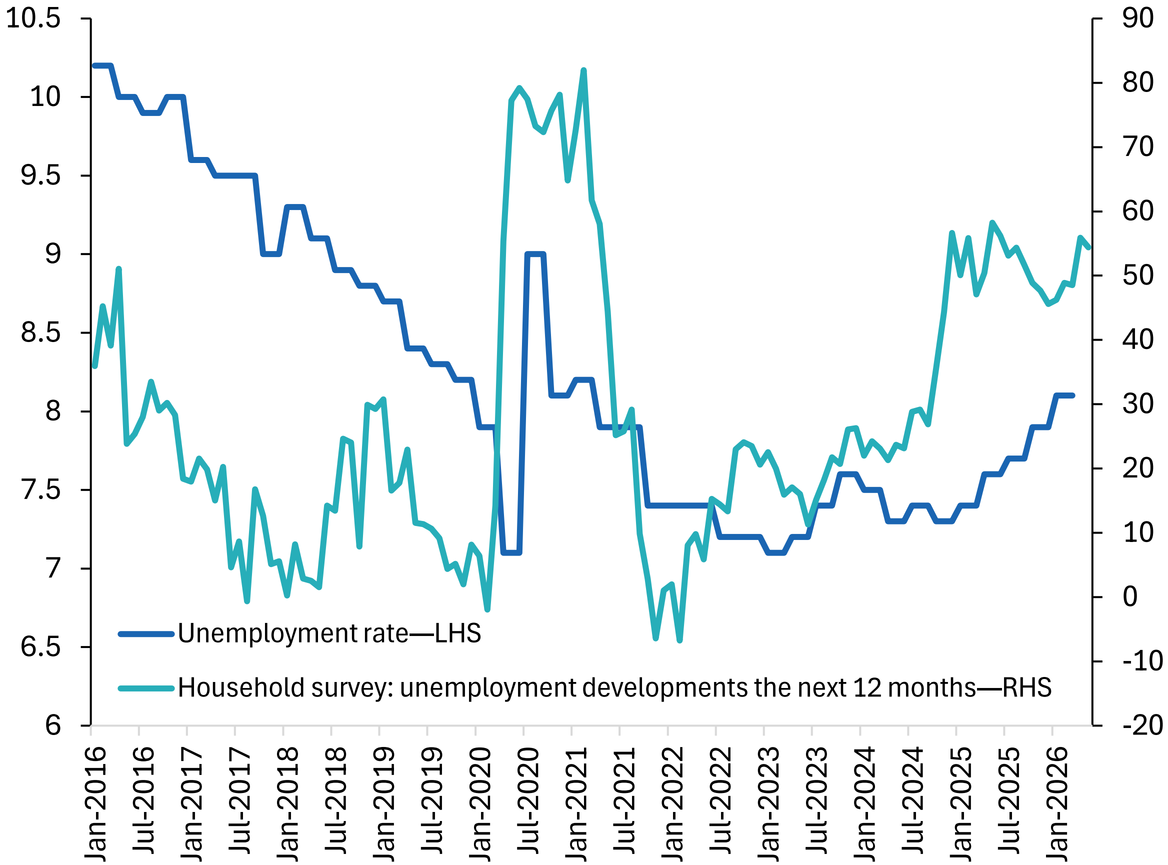
Sources: INEGI, PU (Policyuncertainty.com), Haver Analytics, EDC Economics

France

Sasan Fouladirad, country risk analyst

Labour market weakness weighs on household demand

Seasonally adjusted, LHS: Percentage, RHS: Percentage balance



France's economy entered 2026 weaker than expected. Real gross domestic product (GDP) fell 0.1% in the first quarter, reversing a 0.2% increase at the end of 2025. The decline reflected weak domestic demand and a 3.5% drop in exports, partly due to fewer aircraft deliveries. With another soft quarter expected, growth has been revised down to 0.6% in 2026, before improving to 1.1% in 2027 and 1.3% in 2028.

Household conditions are also deteriorating. Consumer confidence fell to 82 in May, near levels typically associated with significant declines in spending. The savings rate rose to 17.9% in the first quarter, suggesting households remain cautious. The labour market is also weakening, with unemployment rising to 8.1%, its highest level since 2021. Meanwhile, inflation accelerated to 2.4% in May, driven by higher energy prices, slowing real income growth. With limited fiscal room, government support has been targeted at the most affected sectors. While this should provide some relief, it's unlikely to materially change the broader outlook.

Business conditions are weakening as well. The business climate index fell to 93.6 in May, its lowest level since 2015 outside the pandemic, while the composite PMI dropped to 44.9, signalling a broad contraction across services and manufacturing. New orders are declining, and firms report weaker demand and rising input costs. Financing conditions have also tightened, while fiscal policy is adding pressure through higher corporate taxes and reduced public investment support. As a result, private investment is expected to remain weak through 2026, with limited improvement ahead of the 2027 election as firms delay spending amid ongoing uncertainty.

Defence spending and Germany's fiscal expansion remain the main supports to growth. Higher defence procurement is expected to add about 0.2 percentage points to French GDP growth in 2026. Germany's fiscal stimulus should contribute a further 0.2 percentage points across 2026 and 2027 through stronger trade demand.

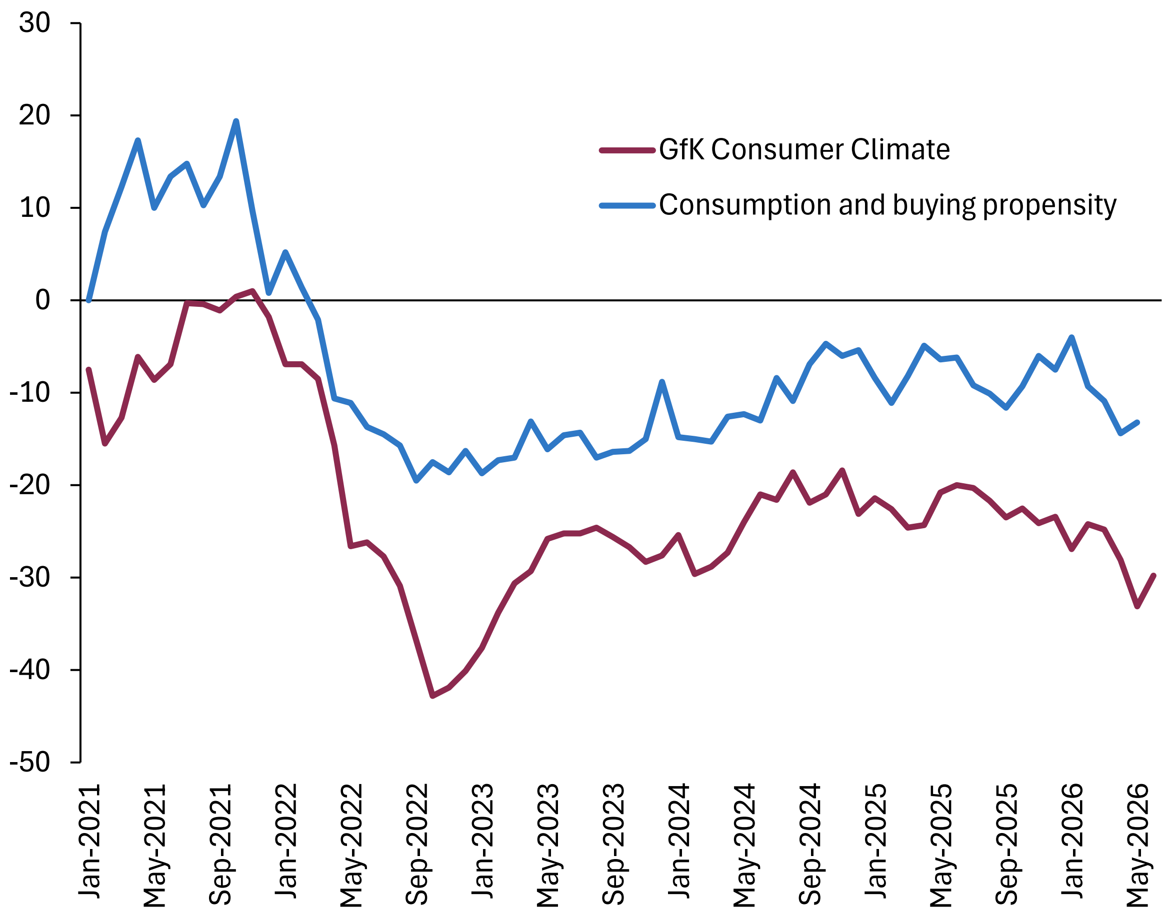
Sources: Institut National de la Statistique et des Etudes Economiques, Haver Analytics

Germany

Sasan Fouladirad, country risk analyst

Consumer confidence remains deeply negative

Percentage balance



Sources: GfK, Ifo, Haver Analytics

Germany's economy is improving, but only gradually. The economy grew by 0.3% in the first quarter of 2026 compared with the previous quarter, supported primarily by stronger exports of chemicals, pharmaceuticals and metals. Government spending also contributed to growth, but household and business spending remained weak. We expect growth of 0.6% in 2026, rising to 1.1% in 2027 and 1.3% in 2028.

Business conditions appear to be stabilizing, but there's still little sign of a strong rebound. Manufacturing orders increased in the first quarter after excluding unusually large contracts, suggesting demand is beginning to improve. Business confidence has also edged higher. Even so, recent PMI surveys indicate that activity remains weak, especially in services. Overall, the downturn appears to be easing, but a broader recovery is unlikely before late 2026.

Consumers remain cautious. Consumer confidence improved in June, but remains very low, suggesting many households continue to limit spending. Inflation eased in May, helped by lower energy-price pressures, but services inflation remained elevated. The Middle East conflict and the related energy-price shock remain key risks and could continue to weigh on household budgets. As a result, many households may choose to save income gains rather than increase spending.

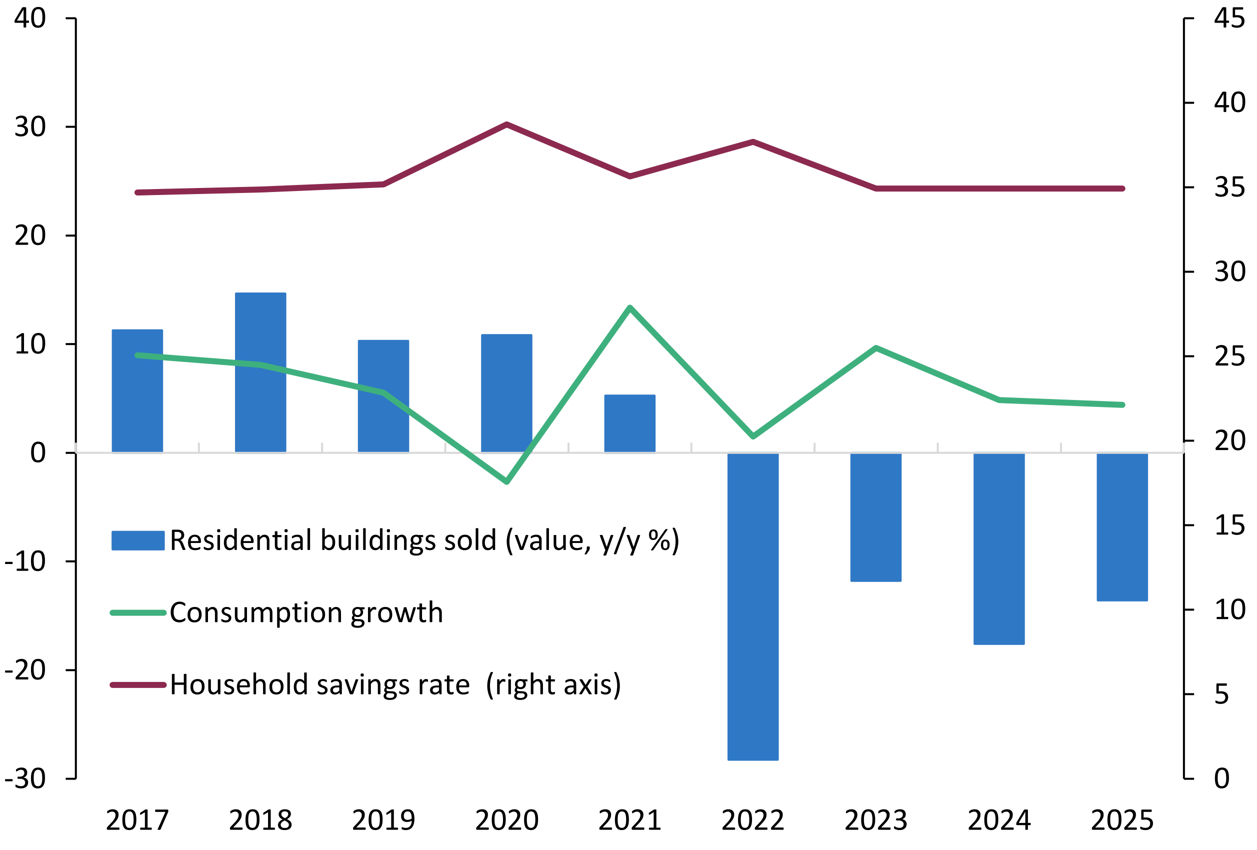
Government spending is expected to be the main driver of stronger growth over the next few years. Higher defence spending is beginning to support demand, while the €500-billion (C$810 billion) infrastructure fund should boost by supporting construction, public purchasing and investment. The extent of this support will depend on how quickly planned projects move from approval to execution.

China

Susanna Campagna, principal country risk analyst

High savings, real estate downturn weigh on domestic demand

LHS: Growth in percentage, RHS: Savings rate (% of income)



Source: Haver

China set a 4.5%–5% growth target for 2026, giving policymakers greater flexibility amid tariff uncertainty and geopolitical headwinds. The Middle East conflict and related energy-price shock are expected to have only a modest impact on near-term growth, thanks to China's large strategic petroleum reserves and diversified energy mix. The export outlook has also remained resilient, with first quarter and early second-quarter data exceeding expectations, supported by frontloaded orders and market diversification. As a result, we have revised our 2026 GDP growth forecast up to 4.7% from 4.6%, before easing to 4.4% in 2027.

While China's exports continue to perform well, the domestic economy remains weak. Consumer spending is subdued, partly because the property crisis that began in mid-2021 continues to weigh on growth. With home prices falling and job prospects uncertain, households are saving rather than spending, keeping the savings rate elevated at about 35% of income. Beyond strong state-led investment, particularly in advanced manufacturing and technology, domestic demand remains limited and may not be sufficient to offset a potential export slowdown. China's 15th Five-Year Plan highlights the need to boost consumption, but it lacks clear numerical targets.

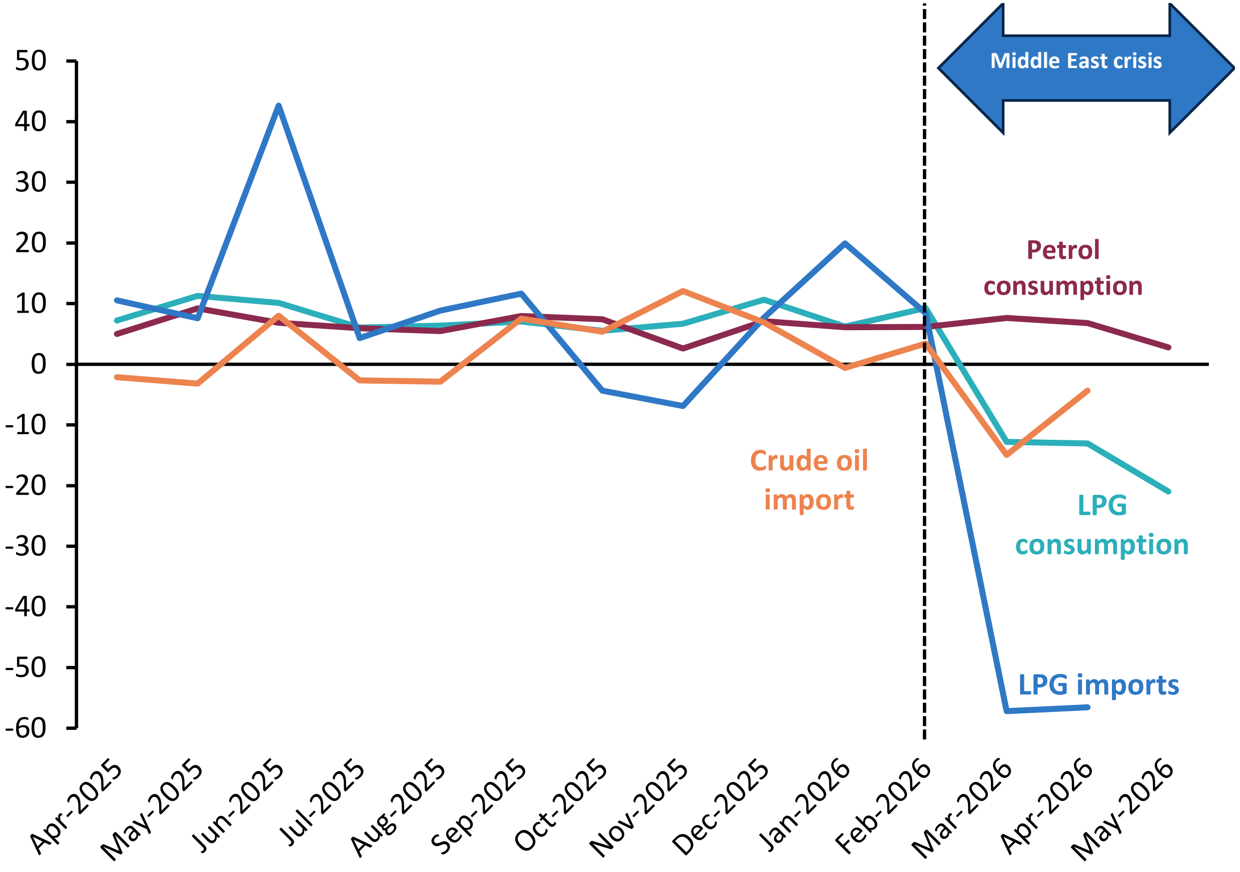
Upside risks to our forecast include lower trade-policy uncertainty and a rapid easing in energy prices. More significant downside risks include a prolonged Middle East conflict and related energy-price shock, persistent tariff pressures, new commodity or sector-specific export restrictions against China and potential spillovers from the property sector into the financial system.

India

Nadeem Rizwan, senior economist

Energy shock, Middle East conflict slows India's growth

Quantity growth, year over year, %



Source: Petroleum Planning and Analysis Cell, EDC Economics

India's economy has grown strongly, but external pressures are expected to slow the pace. We have lowered our forecast to 6% growth in fiscal year 2026–2027 (FY27) and 6.5% in fiscal year 2027–2028 (FY28).

Growth remained strong in the fourth quarter of FY26, bringing full-year growth to 7.7%. Household spending was the main driver, while public infrastructure investment continued to support growth.

Growth is expected to slow in FY27 as spillovers from the Middle East conflict and related energy-price shock affect the domestic economy. Consumer spending is losing momentum as energy costs rise. Liquefied petroleum gas (LPG) consumption has fallen sharply because of supply constraints, while petrol demand growth is slowing and likely to weaken further following retail price increases. Agriculture also faces risks from lower rainfall and uneven access to inputs such as fertilizer. Inflation is expected to rise because of higher energy and food prices and global supply disruptions, but remain within the central bank's target range.

Government capital spending should continue to support activity, but policy and geopolitical uncertainty, along with higher input costs, are likely to keep private investment subdued. Weak demand from key export markets, combined with elevated commodity prices, could keep imports growing faster than exports. The exchange rate is expected to depreciate in an orderly way, supported by strong foreign exchange reserves and proactive central bank action.

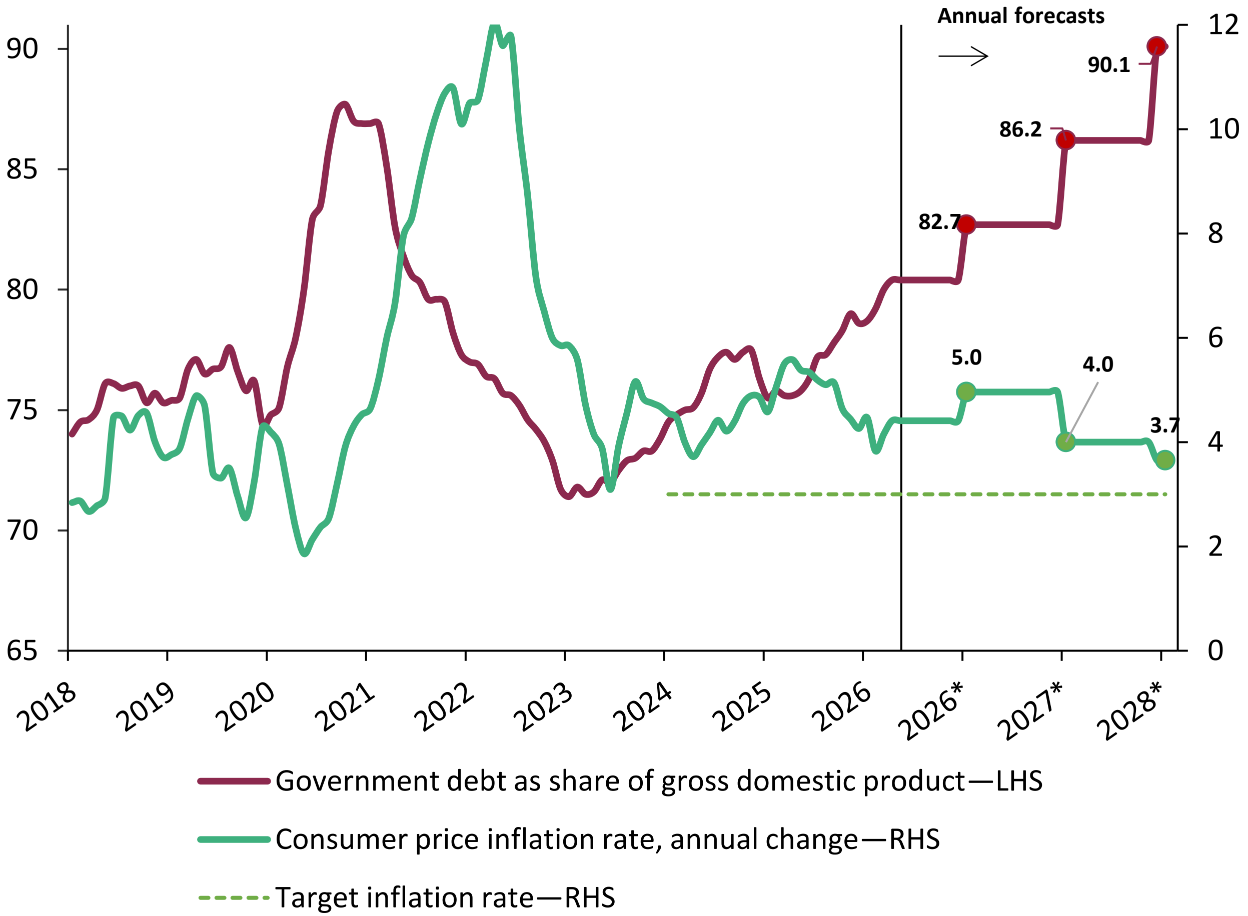
Downside risks include a prolonged Middle East conflict and related energy-price shock, worse-than-expected weather and renewed tariff uncertainty. A rapid easing of geopolitical tensions and energy disruptions would improve the outlook.

Brazil

Daniel Benatuil, senior country risk analyst

Inflation and fiscal pressures keep borrowing costs elevated

LHS: Percentage, RHS: Percentage change from year ago



Brazil's economic forecast is broadly unchanged from our spring outlook. Growth in 2026 has been revised up slightly to 2.1%, supported by solid consumer spending and increased fiscal measures. Activity is expected to ease to 1.8% in 2027 and stabilize at 2% in 2028 as high inflation and interest rates restrain demand and the post-election fiscal boost fades.

A tight labour market and a growing set of fiscal and para-fiscal measures in an election year are supporting strong consumer spending. These measures are helping households remain resilient despite fragile balance sheets and persistent inflation. The government is using higher fiscal revenues from elevated crude oil prices tied to the Middle East conflict and related energy-price shock to ease fuel-related inflation pressures. However, fiscal and monetary policies are working at cross-purposes. With inflation expectations above target, the central bank will likely need to maintain a hawkish stance, pause its rate-cutting cycle early and keep interest rates higher for longer. As fiscal risks rise, the next government will need to adjust its fiscal stance to reassure markets and reduce the risk of asset-price volatility.

As a result, economic activity is expected to settle into a more moderate pace through next year. Brazil's investment rate remains subdued, weighed down by tight financial conditions and policy uncertainty ahead of highly polarized general elections in October. Still, favourable commodity prices, expanding capacity in agriculture, energy and mining and a strong pipeline of projects and concessions should support modest investment growth over the outlook.

Brazil's worsening fiscal outlook remains the main downside risk, as it raises inflation and borrowing costs while weighing on demand and long-term growth. Key external risks include a severe El Niño weather event and potential fertilizer shortages if the Strait of Hormuz faces prolonged disruptions.

Sources: Brazil Central Bank (BCB), Institute of Geography and Statistics (IBGE), Independent Fiscal Institution (IFI), Haver Analytics, EDC Economics
Notes: Inflation target is set by the BCB. (*): Data points refer to annual forecast values. Government debt forecasts are based on IFI's Relatório de Acompanhamento Fiscal (May 2026). Inflation rate forecasts are based on the BCB's Focus Market Readout survey.

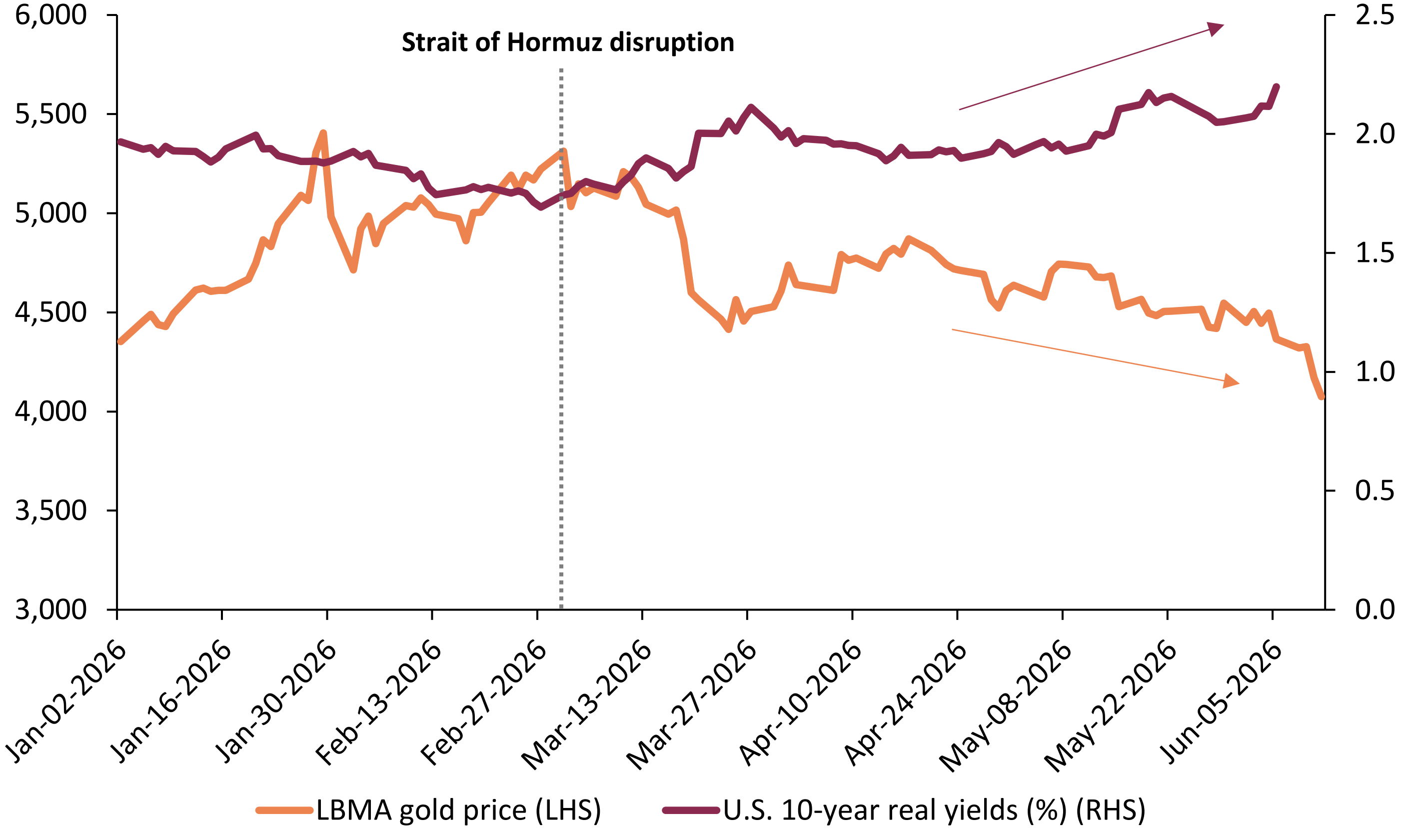
COMMODITY OUTLOOKS

Gold

Karicia Quiroz, economist

Rising real yields weigh on gold prices

LHS: US$ per troy ounce; RHS: U.S. 10-year TIPS yield (%, p.a.)



Gold prices reached a record annual average of US$3,435 per troy ounce in 2025, up nearly 44% from 2024. The rally continued into early 2026, with prices averaging US$4,875 in the first quarter and topping US$5,000 in February as investors sought a safe haven amid rising geopolitical tensions.

But the late-February 2026 escalation in the U.S.–Iran conflict, including disruptions in the Strait of Hormuz, marked a turning point. The disruption shifted the factors driving gold prices.

Higher oil prices raised inflation concerns, reducing expectations that the U.S. Federal Reserve would cut interest rates. As rate expectations moved higher, real yields and the U.S. dollar rose, making gold less attractive because it doesn't pay interest. With investment demand making up roughly 43% of total gold demand, weaker investor interest put downward pressure on prices. Gold's decline alongside rising real yields suggests that interest rate expectations are once again the primary driver of prices, outweighing geopolitical risk.

Gold prices have since stabilized. They are expected to average US$4,574 per ounce in 2026, a softer outlook than previously expected, reflecting a possible Fed rate hike later in the year and only a partial easing of disruptions in the Strait of Hormuz by year-end. Prices are forecast to average US$4,700 in 2027, before easing to about US$4,606 in 2028 as rate cuts take effect and market conditions gradually normalize.

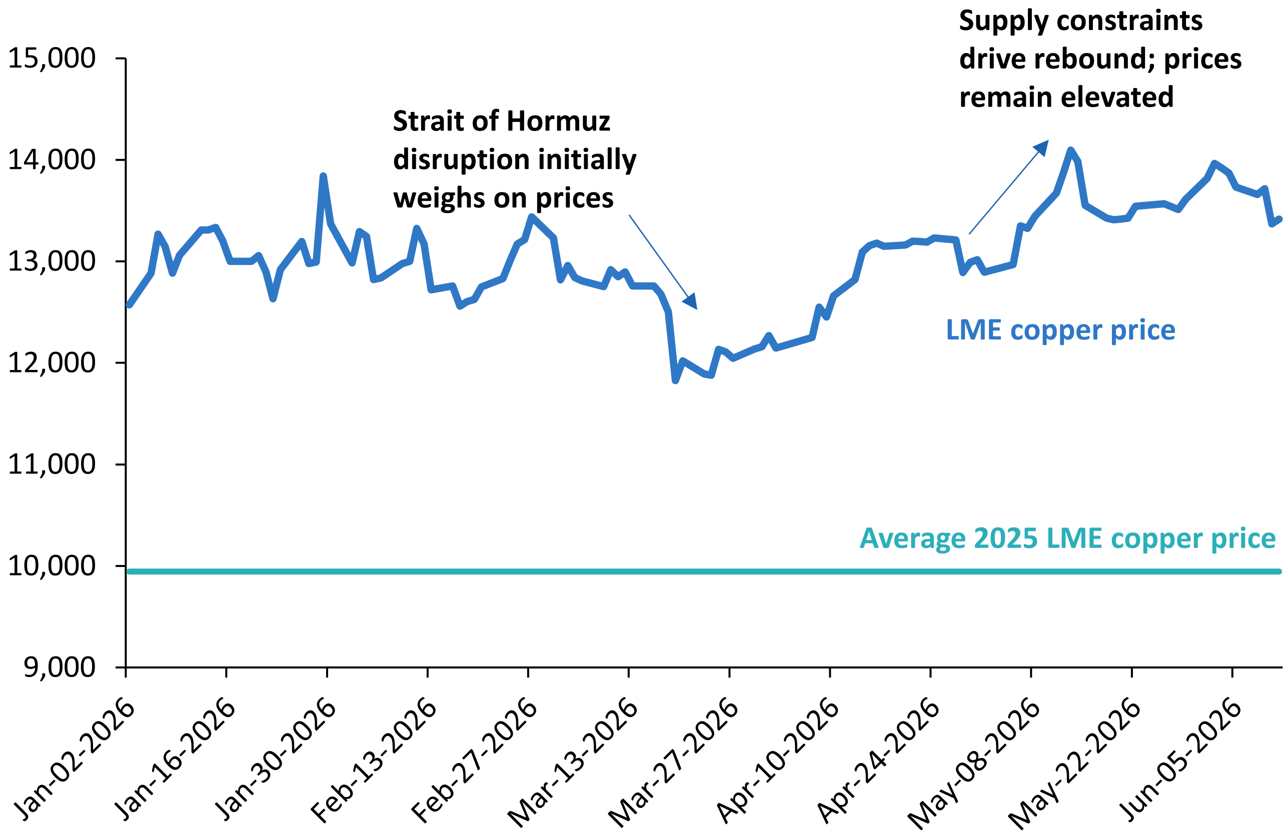
Sources: Federal Reserve Board, Haver Analytics, EDC Economics.

Notes: LBMA = London Bullion Market Association. p.a. = per annum. U.S. real yields are proxied by the 10-year Treasury Inflation-Protected Securities (TIPS) yields.

Copper

Karicia Quiroz, economist

Copper prices elevated amid supply constraints and market volatility
US$ per metric tonne



Copper prices have reached record highs, with the average 2025 price at US$9,938 per tonne—the highest annual level on record—as supply tightens and global demand rises.

Copper prices remained high in 2026, supported by supply disruptions and strong U.S. demand ahead of the June 30 copper tariff review. Prices averaged US$12,844 per tonne in the first quarter, up 16% from the previous quarter and 38% from a year earlier—the highest quarterly average on record. Although tensions in the Strait of Hormuz briefly pushed prices lower in March by raising inflation and recession concerns, prices rebounded soon after. The recovery was driven by U.S. stockpiling ahead of possible tariffs and continued worries about limited supply. In May, copper reached US$13,506 per tonne, setting a new monthly record.

Supply remains constrained by disruptions at major mines, including Grasberg and Kamoa-Kakula, the world's second- and third-largest copper mines. These operations aren't expected to return to full capacity until 2028, reducing available supply and lifting price expectations. U.S. demand has also strengthened ahead of the tariff review, with U.S. copper inventories rising above 582,000 tonnes—about 2% of global refined copper supply in 2025.

Copper prices are expected to average US$13,379 per tonne in 2026 and US$13,450 in 2027. Slower growth in China, the world's largest copper consumer, is expected to limit further price gains next year. Prices are then projected to ease to US$12,979 per tonne in 2028 as mine supply recovers and market conditions improve.

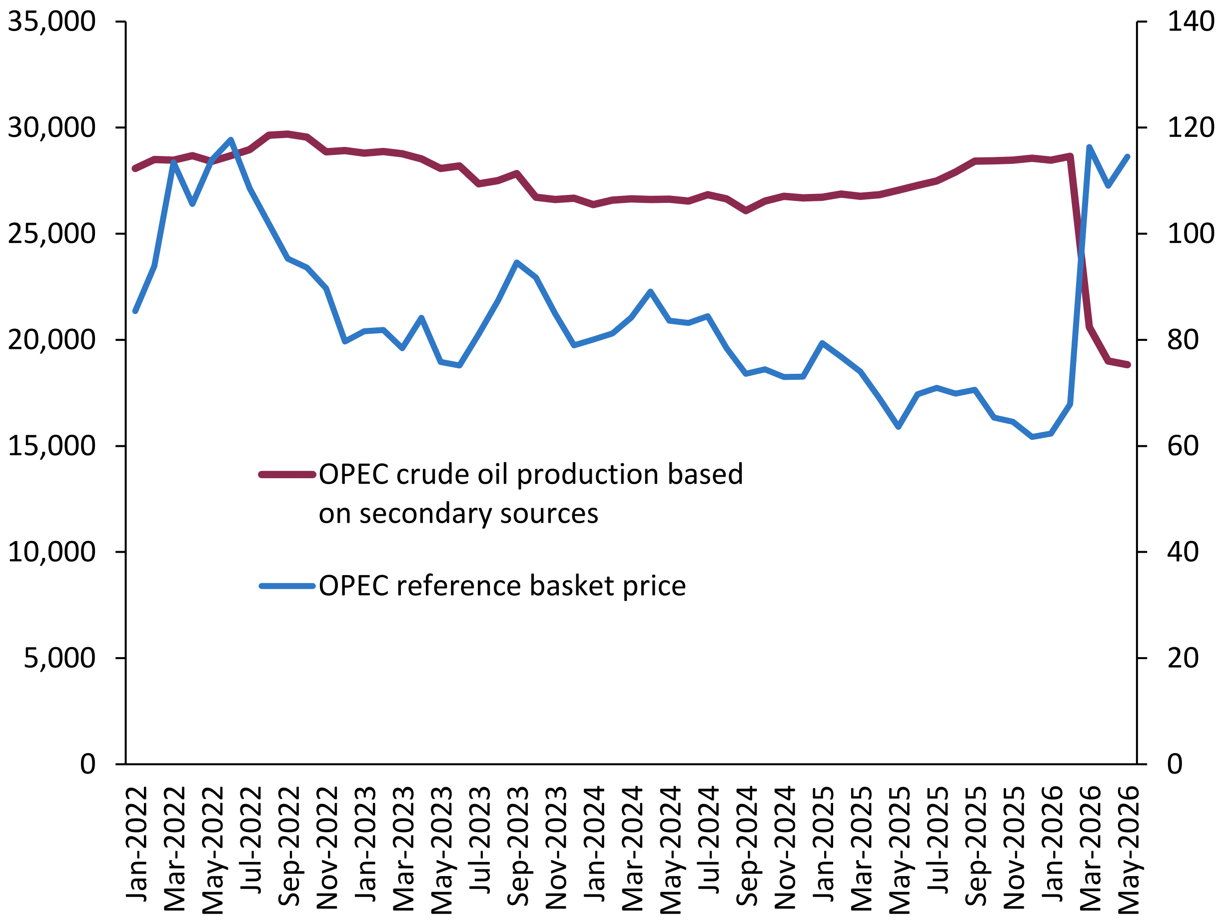
Sources: Financial Times/Haver Analytics, EDC Economics.
Notes: LME = London Metal Exchange. U.S. copper inventories are on-exchange only, referring to the total warehouse stocks reported in the U.S.-based Commodity Exchange (COMEX) at the end of May 2026.

Oil

Zhenzhen Ye, economist

OPEC supply losses put upward pressure on oil prices

LHS: Production—thousand barrels per day; RHS: Oil price—US$ per barrel



Source: Haver Analytics; EDC Economics.

As the war in the Middle East entered its fourth month and the Strait of Hormuz remained effectively closed, oil supply disruptions across the Organization of the Petroleum Exporting Countries (OPEC) continued to worsen. By May, OPEC production was down 10 million barrels per day (MMb/d) from pre-war levels, equal to about 10% of global supply. This was the third straight monthly decline, following shut-ins of eight MMb/d in March and 9.6 MMb/d in April.

So far, the loss of Gulf oil hasn't fully shown up in the market, largely because of an unprecedented release of global strategic petroleum reserves (SPR) and commercial inventories. Non-OPEC producers have also added supply. The International Energy Agency (IEA) estimates that non-OPEC exports have risen by 3.5 MMb/d since the war began, led by the United States, Kazakhstan, Russia and Venezuela. Still, these gains are small compared with OPEC's supply losses. With the summer driving season approaching and the IEA-led SPR release expected to end in the third quarter, oil prices are likely to face further upward pressure.

The United Arab Emirates' surprise exit from OPEC, announced on April 28, adds uncertainty. Before the war, the UAE was OPEC's third-largest crude producer, at about 3.6 MMb/d, after Saudi Arabia and Iraq. With the Strait of Hormuz effectively closed, the near-term market impact is likely limited because the UAE can't fully produce or export its spare capacity. Over the medium to long term, however, the decision raises new questions about OPEC unity and weakens the group's ability to co-ordinate oil supply policy.

EDC FORECASTS

Annual real GDP growth

Global Economic Outlook (Annual % change)	2025	2026[F]	2027[F]	2028[F]
Developed countries	**1.9**	**1.5**	**1.7**	**2**
Canada	1.9	1	2.1	2.2
United States	2.1	2	2.1	2.4
Eurozone	1.5	0.8	1.3	1.5
Germany	0.3	0.6	1.1	1.3
France	0.9	0.6	0.9	1.3
Developing countries	**4.4**	**3.7**	**4.3**	**4.4**
China	5.0	4.7	4.4	4.3
India	7.8	6	6.5	6.5
Brazil	2.6	2.1	1.8	2
Mexico	0.7	0.9	2.1	2.1
World	**3.4**	**2.8**	**3.2**	**3.4**

Note: [F] denotes the forecast period. India's forecasts are based on the fiscal year (FY runs from Q2 to Q1 of the following year; e.g., FY 2026=Q2 2025–Q1 2026).
Source: EDC Global Economic Outlook

Currencies and interest rates

Global Economic Outlook		2025	2026F	2027F	2028F
Currencies	**Exchange rate**				
U.S. dollar	US$ per C$	$0.72	$0.73	$0.73	$0.74
Euro	US$ per EUR	$1.13	$1.18	$1.18	$1.18
Euro	C$ per EUR	$1.58	$1.62	$1.61	$1.59
Interest rates, annual average					
Bank of Canada *(Overnight target rate)*		2.71	2.25	2.30	2.73
U.S. Federal Reserve *(Fed funds target rate–mid-point)*		4.25	3.64	3.88	3.57
European Central Bank *(Policy interest rate)*		2.41	2.29	2.36	2.15

Note: F denotes the forecast period.
Source: EDC Global Economic Outlook

Commodity prices

Global Economic Outlook	2025	2026[F]	2027[F]	2028[F]
Brent Crude Spot, *US$/barrel (bbl)*	$69.10	$96.30	$86.30	$73.80
West Texas Intermediate, *US$/bbl*	$64.80	$96.20	$83.60	$69.80
Western Canada Select, *US$/bbl*	$53.90	$75.50	$69.30	$56.80
Gold, *US$/troy ounce*	$3,435	$4,574	$4,700	$4,606
Copper, *US$/tonne*	$9,938	$13,379	$13,450	$12,979

Note: [F] denotes the forecast period.
Source: EDC Global Economic Outlook

Disclaimer

This document is intended as an overview only and isn't meant to provide specific advice. No action or decision should be taken without detailed independent research and professional advice on the subject matter.

Export Development Canada (EDC) has made reasonable commercial efforts to ensure the information in this document is accurate, but EDC doesn't represent or warrant its accuracy, timeliness or completeness. This document, or any part of it, may become obsolete at any time. Users are responsible for verifying any information contained herein before relying it.

EDC isn't liable for any loss or damage caused by or resulting from any inaccuracies, errors or omissions in the information contained in this document. It doesn't constitute legal or tax advice. For legal or tax advice, please consult a qualified professional.

EDC owns trademarks and official marks. Any use without written permission is strictly prohibited. All other trademarks appearing in this document are the property of their respective owners. The information presented is subject to change without notice. EDC assumes no responsibility for inaccuracies contained herein.

Media inquires

1-888-222-4065
media@edc.ca

TAKE ON THE WORLD

UN MONDE À CONQUÉRIR