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Republic Bank

Main Highlights...

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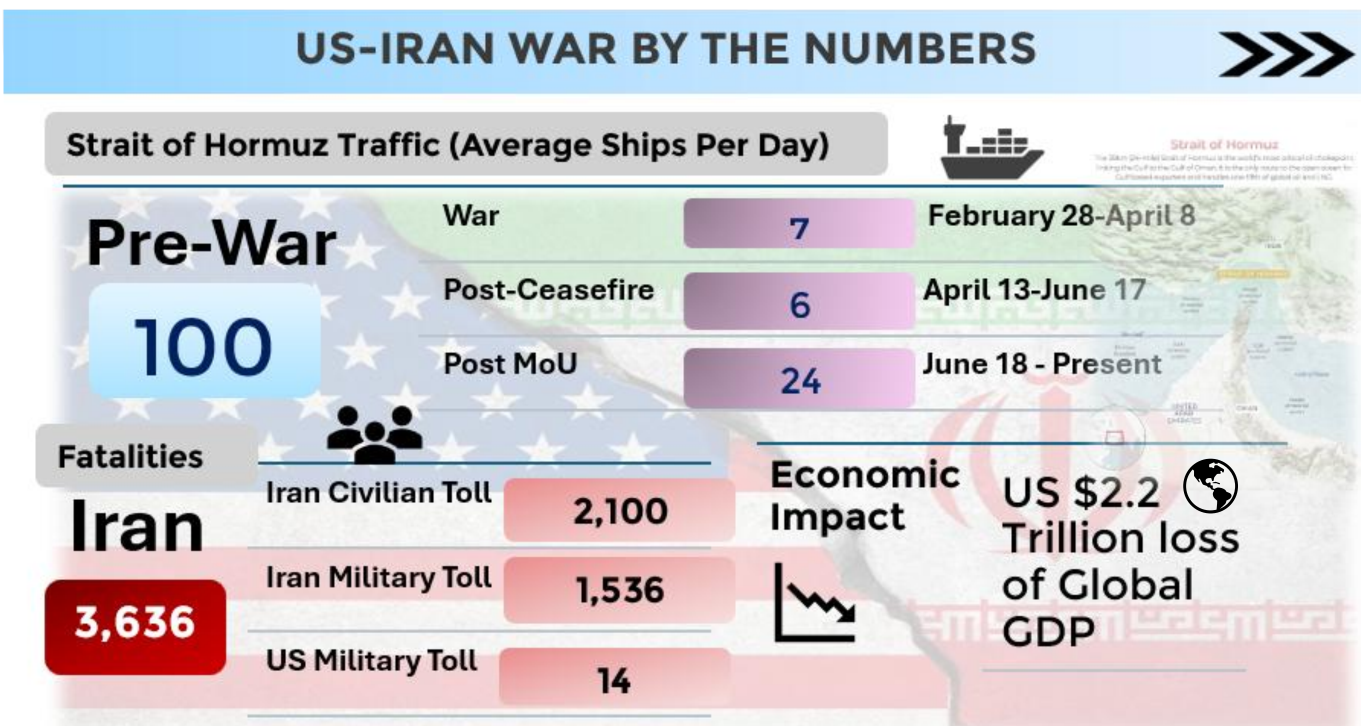
Geopolitics

Middle East: Tenuous US-Iran Ceasefire Agreement

What appeared to be a potential cooling of Middle East tensions between the United States and Iran, quickly deteriorated into a full-scale re-escalation of tensions towards the end of June into early July.

- After the initial two-week truce was announced by President Donald Trump, the ceasefire was indefinitely extended on April 21, 2026.
- Just under one month later, after weeks of negotiations, the US and Iran singed the Islamabad Memorandum, which entailed a 14-point interim plan to extend the ceasefire for 60 days for both parties to negotiate final terms. This agreement ended the US naval blockade in the Gulf and reopened the Strait of Hormuz.
- The US, via the MoU, instituted a waiver on Iranian oil sanctions, thereby immediately allowing Iran to sell oil to the global market.
- On June 25, just over a week after the MoU was signed, Iran launched drone strikes against a commercial vessel traversing the Strait, effectively violating the agreement. The next day, the US attacked multiple targets across Iran, while Iran launched attacks against Bahrain and Kuwait.



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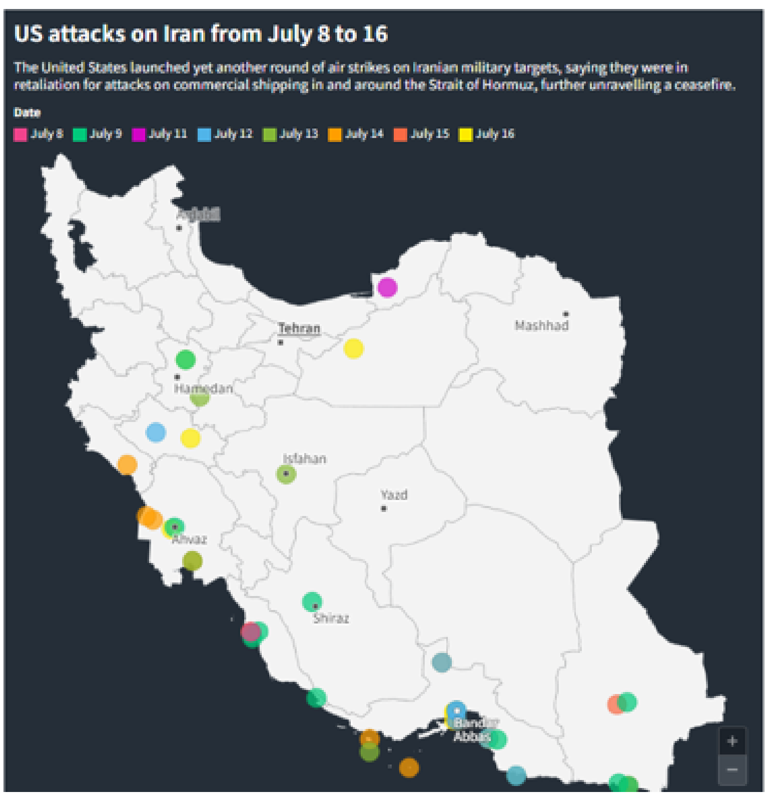
Battle for the Strait Rages

In the weeks following the attack on the container ship 'Ever Lovely' on June 25 by Iranian drones, the US and Iran traded attacks, almost daily. The US bombarded Iran with airstrikes on military sites across Iran's western coast in response to strikes on commercial vessels in the Strait, with several strikes concentrated on the port city of Bandar Abbas (Figure 1). Iran in its retaliatory strikes attacked infrastructure and facilities across Bahrain, Kuwait, Qatar and Jordan. The US Naval blockade on the strait resumed on July 15, with President Donald Trump initially considering a 20 percent toll for ships traversing the waterway but later relaxed that stance as he deemed the US the 'guardian' of the Strait. The Iran Revolutionary Guard Corp (IRGC) rejected any claim the US has over the strategic waterway and warned Gulf States that any logistical support provided to the US military will be considered an act of war against Iran's sovereignty. A top Iranian military spokesperson further warned that the 'flames of war will engulf the region' should the Gulf States choose to cooperate with the US.

Figure 1: US Attacks across Iran in July



Source: Al Jazeera

Israel-Hezbollah Conflict

Following the US-Israeli strikes on Iran on February 28, 2026, Hezbollah directed rocket and drone attacks toward Israel on March 2, their first attack since the US brokered a ceasefire in November 2024. Israel responded with intensified airstrikes across Lebanon and expanded its military presence in Southern Lebanon up to the Litani river. At least 4,200 Lebanese people have been killed since the conflict was re-ignited. Despite the April 16, 23 and May 15 ceasefires, hostilities continue.

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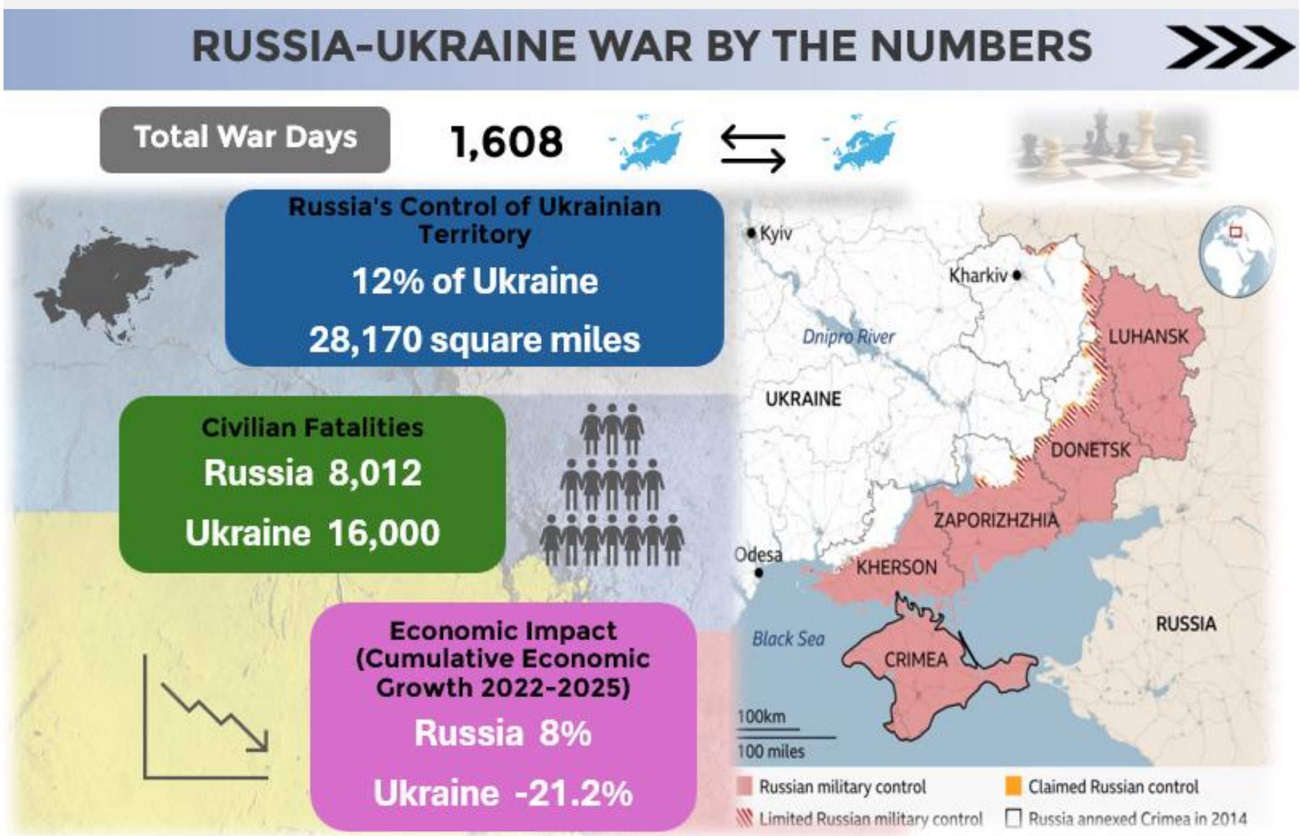
Europe: The Russia-Ukraine Stalemate

On February 22, 2026, the Russia-Ukraine conflict entered its fifth year, with hostilities continuing amid failed diplomatic efforts. Recent weeks have seen an intensification of fighting, including Ukrainian strikes on Russian energy infrastructure and commercial assets such as the retail giant Wildberries, alongside Russian attacks on civilian buildings and critical infrastructure in Kyiv. Attempts at mediation and a negotiated settlement have largely stalled, as Russia remains committed to retaining territories seized from Ukraine, while Ukraine continues to reject any territorial concessions. As a result, the conflict has become protracted, with neither side securing a decisive advantage and no clear resolution in sight. Additionally, domestic political tensions emerged in Ukraine following protests in Kyiv over the dismissal of popular Defence Minister Mykhailo Fedorov on July 16, 2026.



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Africa: The War in the Shadow of War

- The Sudanese Civil War is entering a new phase with a major shift from ground forces to airborne drone warfare. With Turkey's support, the Sudanese Armed Forces (SAF) acquired drones such as the Bayraktar TB2s, a low-cost model which can fly for long periods and carry explosives. The Rapid Support Forces (RSF) have also expanded their drone operations using Chinese-made FH-95 drones capable of long-range strikes. Some of the munitions provided to the RSF have been linked to suppliers in the United Arab Emirates (UAE) according to the United Nations (UN) Security Council.
- Usually, during Sudan's rainy season, flooding disrupts the movement of ground troops, heavy weapons and supplies. However, drones are unaffected by the weather and can keep operating when ground forces have slowed. Therefore, both sides are continuing to use drones, and over longer ranges, bringing the war further into civilian areas. These developments have impacted the pace of the conflict.
- Towards the end of June 2026, more than 11,000 people including 5,500 children fled the city of El-Obeid, the capital of North Kordofan state. The city, currently under the control of the SAF, is considered strategically important for trade and aid as it links key supply chains from central Sudan to Kordofan.
- Over 500,000 residents in and around El-Obeid remain at risk if the violence continues to escalate, in what is already considered the world's worst humanitarian crisis by the UN.
- Experts noted that continued drone warfare is being financed by revenues from Sudan's natural resources (gold, livestock and gum Arabic).

Geopolitics

Technology and Artificial Intelligence (AI): A New Geopolitical Frontier

The Fight for Global Dominance: At the start of the current decade, geopolitical risk rose markedly across the global economy. All key regions recorded increased geopolitical risks compared to the previous decade (Figure 2). A key contributor to global risks has been US-China tensions. These tensions have frequently manifested in trade disputes and export controls. Underpinning many of these developments are increasingly complex global supply chains and competition for dominance in critical technologies, particularly rare earth magnets, semiconductors and artificial intelligence (AI), which have become central to both economic competitiveness and national security objectives.

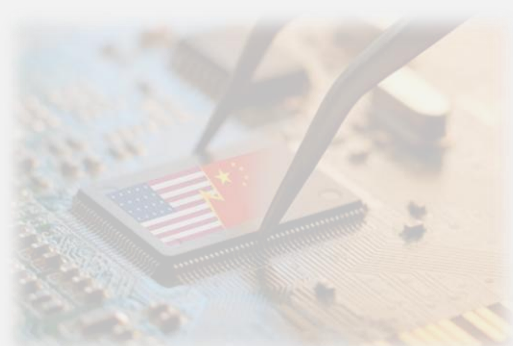
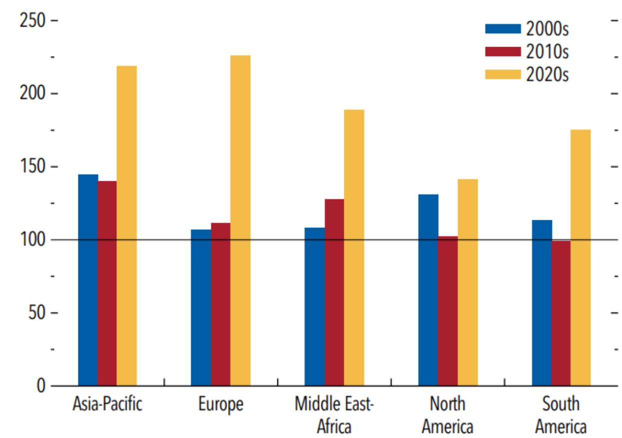


Figure 2: Regional Geopolitical Risk



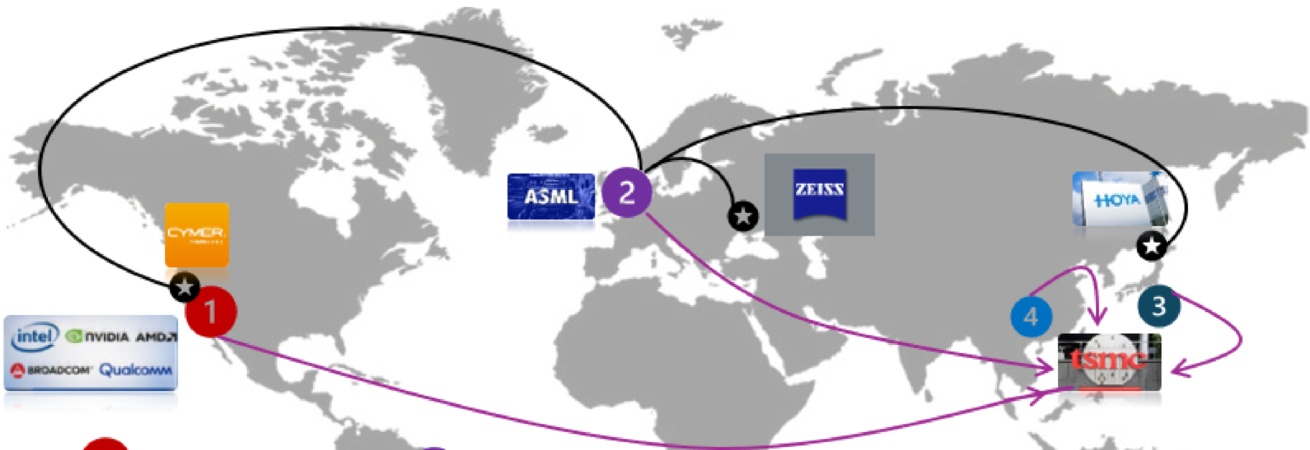
Source: IMF WEO April 2026

China's Rare Earths Dominance: China owns, processes, refines and sells 91 percent of the global rare earth supply. As such, the entire supply chain is concentrated around Beijing and since rare earths are utilised in the production of most of modern technology, this dominance gives China global strategic leverage. As such, rare earths can be viewed as China's trump card against US tariffs and sanctions.

Semiconductors and the AI Boom: Semiconductors are essential inputs in advanced AI chips and the data centres that power the global AI boom. Reflective of the strong growing demand for this resource, Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest chipmaker, recorded its fifth consecutive quarter of record profits in the second quarter of 2026. Beyond AI applications, semiconductors are embedded in a wide range of products, including smartphones, laptops, automobiles, household appliances, and defence systems, underscoring their critical role in global supply chains and daily economic activity.

Geopolitics

The Chip War: The Supply Chain that can Undermine the Global Economy



1. Advanced Chips (like AI Chips) are designed in the United States.

2. The most sought-after chip making machinery is built in the Netherlands.

3. Raw silicon wafers are produced in Taiwan and Japan.

4. Rare earths from China used in the production of semiconductor components.

The global semiconductor industry is projected to generate more than US$1 trillion in revenue in 2026, driven largely by the rapid expansion of AI infrastructure. Beneath this growth, however, lies an intensifying race for technological dominance between the United States and China, centred on longstanding geopolitical tensions surrounding Taiwan.

Taiwan occupies a pivotal position in the global semiconductor value chain through Taiwan Semiconductor Manufacturing Company (TSMC), which produces more than 90 percent of the world's most advanced chips. The industry's supply chain is also highly concentrated and interconnected. For example, Advanced Semiconductor Materials Lithography (ASML) in the Netherlands manufactures the advanced lithography machines required for chip production, relying on critical components from suppliers such as Cymer in the United States and Zeiss in Germany. This interconnectedness has provided the United States with strategic influence over the semiconductor ecosystem, reflected in export controls that restrict China's access to ASML's advanced chipmaking equipment - extreme ultraviolet lithography (EUV).

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At the same time, key inputs such as silicon wafers are produced primarily in Japan and Taiwan, further concentrating supply risk. As a result, the global semiconductor supply chain remains vulnerable to geopolitical disruptions. According to Bloomberg, if a conflict were to erupt involving China, US and Taiwan, the potential global revenue loss will be close to US$10 Trillion.

Implications

- In the near term, tensions between the US and Iran are expected to continue until a permanent ceasefire can be achieved. Energy prices are expected to remain elevated as ships and oil tankers are attacked in the Strait and the Red Sea, renewing fears of rising global inflation, disrupted global trade and increasing global uncertainty.
- Following Russian attacks on Ukraine's Black Sea ports, shipping companies have suspended their operations at the facility, impacting Ukrainian exports of corn, wheat, vegetable oil, colza and sunflower seeds. This can fuel price increases for these commodities and thus stoke global food inflation.
- The imminent threat of attacks on El-Obeid has stoked fears of a worsening humanitarian crisis in Sudan. In addition, given the city's strategic logistical location to support aid efforts by the UN, this can further hinder aid administration across Kordofan and Darfur.
- Despite recent diplomatic engagement between the US and China, tensions are expected to continue as the US enforces export controls on China's tech and AI industry. Further, there is no clear stance on the part of the US whether they will intervene if tensions escalate between China and Taiwan.

Trade

Global Trade

Global trade is estimated to have expanded by US$2 trillion in the first half of 2026, putting it on track to reach a record annual level.

- During the first half of 2026, global goods trade totalled approximately US$13.7 trillion, which represents a 12.5 percent rise when compared to January – June 2025.
- Services trade grew by 10.5 percent, markedly slower when compared to the first half of 2025, but still a solid performance.

Trends in Major Economies

In the first quarter of 2026, East Asian economies outperformed other major economies in goods trade growth. On the export side, the Republic of Korea led with a 20 percent quarter-on-quarter (q-o-q) increase, followed by China (11 percent), while Japan also registered a solid performance. Outside of Asia, South Africa and the United States posted strong exports growth of 9 percent each. In contrast, India saw a sharp 8 percent decline in exports. In terms of imports, China recorded the largest rise at 13 percent, followed by the Republic of Korea. Brazil and Japan registered 3 percent increases, while most of the other major economies experienced marginal changes in imports compared with the previous quarter (Figure 1).

Figure 1: Merchandise Trade in Major Economies (Q1 2026)

East Asian economies outperformed in goods trade in Q1-2026

Goods (Q1 2026)	Imports growth		Exports growth	
	QoQ	T4Q	QoQ	T4Q
Brazil	3%	4%	0%	5%
China	13%	7%	11%	8%
India	-1%	7%	-8%	1%
Japan	3%	2%	4%	5%
Republic of Korea	6%	3%	20%	13%
Russian Federation*	-2%	4%	-2%	-1%
South Africa	1%	5%	5%	9%
United States	-1%	-5%	7%	9%
European Union	2%	8%	0%	5%

Source: UNCTAD estimates based on national statistics.
Note: Trailing four quarters (T4Q) growth measures the change in a variable over the last four quarters (Q2-2025 to Q1-2026) compared to the previous four quarters (Q2-2024 to Q1-2025). Quarterly growth (QoQ) is the quarter-over-quarter growth rate between Q4-2025 and Q1-2026. Data are seasonally adjusted. Growth figures are based on nominal trade values. Data exclude intra-European Union trade. * denotes estimates.

Trade

There were mixed performances among the major economies as it relates to services trade during the first quarter of 2026. On the import side, India, the Republic of Korea, and the Russian Federation recorded q-o-q declines, while Brazil and the European Union (EU) registered increases. Regarding exports, the Republic of Korea led with a 9 percent expansion, followed by the Russian Federation and the EU, whereas Brazil experienced a decline. For most other major economies, services trade did not change substantially when compared with the previous quarter (Figure 2).

Figure 2: Services Trade in Major Economies (Q1 2026)

Services trade growth was uneven across major economies in Q1-2026

Services (Q1-2026)	Imports growth		Exports growth	
	QoQ	T4Q	QoQ	T4Q
Brazil	4%	1%	-5%	13%
China	0%	2%	-1%	13%
India	-5%	3%	1%	9%
Japan	1%	8%	1%	7%
Republic of Korea	-2%	9%	9%	7%
Russian Federation*	-3%	18%	7%	11%
South Africa[1]	4%	9%	0%	12%
United States	1%	8%	1%	6%
European Union	5%	12%	6%	12%

Source: UNCTAD estimates based on national statistics.
Note: Trailing four quarters (T4Q) growth measures the change in a variable over the last four quarters (Q2-2025 to Q1-2026) compared to the previous four quarters (Q2-2024 to Q1-2025). Quarterly growth (QoQ) is the quarter-over-quarter growth rate between Q4-2025 and Q1-2026. Data are seasonally adjusted. Growth figures are based on nominal trade values. Data exclude intra-European Union trade. * denotes estimates.[1] data are for Q4-2025.

World merchandise trade growth exceeded expectations in the first quarter of 2026 as surging trade in electronic components related to artificial intelligence (AI) offset the negative impact of the conflict in the Middle East, which began on February 28.

Global Trade Inflation

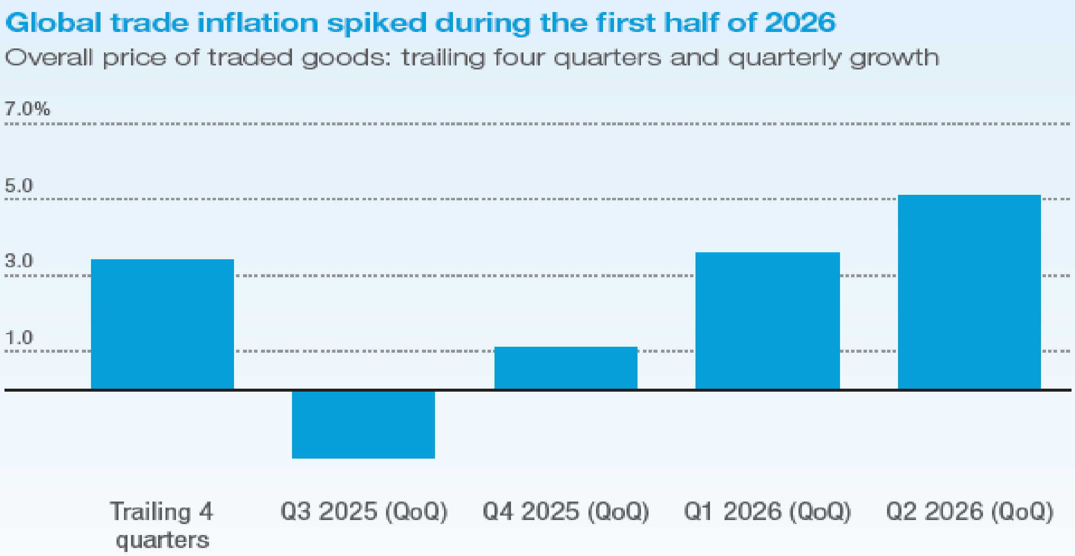
Shipping disruptions through the Strait of Hormuz, together with damage to the energy infrastructure of Middle East energy producers stoked global inflationary pressures as they:

- ✓ drove up global energy prices and
- ✓ increased transportation, logistics and production costs.

Trade

Trade-related inflation surged to 3.6 percent q-o-q in the first quarter of 2026. UNCTAD's projections indicate that price pressures are likely to intensify further, with an estimated 5.1 percent increase in the second quarter (Figure 3). Over the past year, trade inflation averaged 3.4 percent, underscoring the persistence of elevated costs in global trade.

Figure 3: Global Trade Inflation



Source: UNCTADstat; UNCTAD estimates based on national statistics.
Note: Trailing four quarters (T4Q) growth measures the change in a variable over the last four quarters (Q3-2025 to Q2-2026) compared to the previous four quarters (Q3-2024 to Q2-2025). Quarterly growth (QoQ) is the quarter-over-quarter growth rate of seasonally adjusted values. Growth figures are based on nominal trade values. Figure for Q1-2026 is preliminary. Q2-2026 is a nowcast as of 7 July 2026. Data exclude services.

Recent Trade Agreements

EU-US Trade Deal

The EU–US trade deal, which was secured in July 2025 was formalised on July 1, 2026, after approval by the European Parliament and Council. It sets a US tariff ceiling of 15 percent for most EU exports, grants zero or near-zero tariffs for key product groups, and includes safeguards to protect EU metals from unfair competition. The deal also liberalises mutually beneficial US exports into the EU, reduces non-tariff barriers, and establishes cooperation on economic security. In shaping the short-term trade outlook, the agreement emphasises improved access to critical energy resources and future-oriented supplies, positioning EU–US trade as a stabilising force amid global volatility.

Trade

India-UK Free Trade Agreement

The India–UK Free Trade Agreement, which came into force on July 15, 2026, significantly reduces trade barriers between the two countries. India will gradually cut tariffs on whisky from 150 percent to 40 percent over ten years and lower tariffs on automotives to 10 percent under a quota from the current 100 percent, while Britain will reduce tariffs on goods such as clothes, footwear, and certain food items. According to UK government estimates, the deal is expected to boost Britain's GDP by £4.8 billion (US$6.5 billion) and increase bilateral trade by £25.5 billion in the long run, marking a major step in deepening economic ties between the two nations.

Recent Developments

- **High-level coordination:** On July 7, the heads of the IEA, IMF, World Bank, and WTO met to strengthen joint responses to the energy, trade, and economic fallout from the Middle East conflict. They committed to working together and closely monitoring these developments, to improve their readiness to act if needed and offer support to countries as the situation evolves. That includes helping them build greater energy, food, trade, and economic resilience.
- **Fertiliser trade disruption**: WTO data shows a severe disruption in urea and phosphate fertiliser trade due to the Middle East conflict. Consequently, vulnerable economies in Africa and Asia are confronted by shortages and increased prices. Reopening the Strait of Hormuz will undoubtedly ease these frictions and stabilise markets.
- **New US global tariffs:** The White House imposed tariffs of **10–12.5 percent** on goods from **60 of its trading partners**, covering **99.4 percent of US imports**. The new tariffs include numerous product exemptions such as oil, gas, fertiliser, certain food items, autos, steel, aluminum, copper, aircraft, and critical minerals. These tariffs were imposed under **Section 301 of the Trade Act of 1974,** citing failure of partners to curb imports made with **forced labour**.
- **Brazil–US trade dispute**: Brazil requested WTO consultations with the US on July 30, challenging additional duties imposed under Section 301 of the Trade Act. Brazil argues that the duties exceed normal tariff schedule rates.

Trade Outlook

World trade is projected to slow in 2026 after a stronger-than-expected expansion in 2025 and two consecutive quarters of growth in the first half of 2026. Last year, global goods and services trade grew by 4.7 percent, outpacing world GDP growth of 2.9 percent. In 2026, both trade and GDP are expected to grow at roughly the same pace - 2.7 percent for trade and 2.8 percent for GDP. Services trade growth is projected to moderate from 5.3 percent to 4.8 percent, then rise again to 5.1 percent in 2027. Under the WTO's baseline scenario, growth in merchandise trade volumes is expected to ease from 4.6 percent in 2025 to 1.9 percent in 2026, before increasing to 2.6 percent in 2027.

Trade

Implications

While weaker than 2025, the growth in global trade is still projected to be stronger than earlier projections, suggesting continued resilience in the face of systemic shocks (tariffs, conflicts, supply disruptions).

Given slower growth, export-driven economies (China, India, ASEAN) may register weaker economic performances due to a deceleration in global merchandise trade.

The Caribbean's reliance on services (tourism, financial services) may auger well for the region's ability to weather the slowdown in global trade, with services trade expected to slow only marginally compared to goods trade. However, the regions tourism sector could face reduced visitor spending due to global economic softness.

Banking and Finance

Monetary Policy

- The Federal Reserve (Fed) maintained the federal funds rate target range at 3.50–3.75 percent in its July 2026 Federal Open Market Committee (FOMC) meeting, citing that inflation remains above its 2 percent target despite resilient economic activity and a strong labour market. The Fed indicated that its decisions in the coming months will be data-driven as it monitors inflation, economic conditions and geopolitical risks.

- In June 2026, the European Central Bank (ECB) raised its policy rates by 25 basis points to the 2.25-2.65 percent range, citing increased inflationary pressures stemming from the Middle East conflict and higher energy prices. While the Governing Council remains committed to ensuring inflation returns sustainably to its 2 percent medium-term target, it also acknowledged a weaker growth outlook and heightened uncertainty for the euro-area economy.

- The Bank of Japan (BoJ) maintained its short-term policy rate at 1 percent in July 2026, following its June decision to raise rates to a 31-year high. While the policy rate was left unchanged, the BoJ warned for the first time that underlying inflation could exceed its 2 percent target, signalling that further rate hikes remain possible. As the BoJ maintains its gradual approach to policy normalisation, it continues to closely monitor global economic conditions, geopolitical developments, and financial market risks.

- The Reserve Bank of India (RBI) maintained the repo rate at 5.25 percent in June 2026, noting that robust domestic demand continues to support economic growth. The RBI, however, remains cautious about inflation risks arising from higher oil prices and global uncertainty.

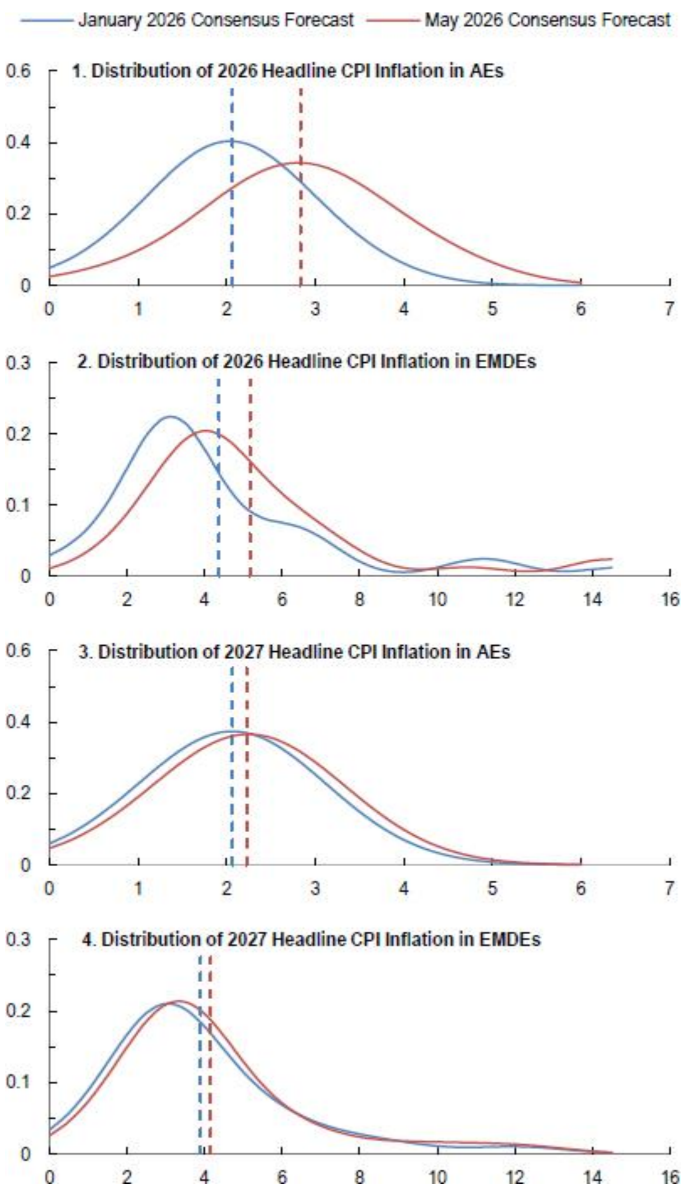
- The Bank of England (BoE) kept the bank rate unchanged at 3.75 percent in July 2026, seeking to strike a balance between subdued economic growth and above-target inflation. The BoE highlighted the impact of higher energy costs on price levels and expressed concerns that the ongoing war in the Middle East is making it difficult to make forecasts. Inflation eased to 2.8 percent in June, but policymakers expect price pressures to remain elevated in the coming months.

- The People's Bank of China (PBoC) left the 1-year Loan Prime Rate unchanged at 3 percent in July 2026, extending its pause for a 14th consecutive month. Despite slower economic growth, policymakers have thus far in 2026 relied more on targeted fiscal support and liquidity measures than on broad interest-rate cuts, although some analysts believe additional monetary easing could still occur later in the year if growth weakens further.

Banking and Finance

- The South African Reserve Bank (SARB) held its repo rate at 7 percent in July 2026, while inflation remained within its 3–6 percent target range. However, the Bank warned that exchange rate volatility, higher fuel costs, and global uncertainty continue to pose upside risks to inflation.

Figure 1: Inflation Expectations Rise, but Mostly in the Short Term (Density)



- The IMF's July 2026 World Economic Outlook Update projects global inflation to average 4.7 percent in 2026, up from 4.1 percent in 2025, reflecting higher energy prices, geopolitical tensions, and supply-chain disruptions. The Fund noted that the global disinflation trend has stalled and stressed the importance of maintaining price stability through prudent monetary policy and clear central bank communication. (Figure 1)

Sources: Consensus Economics; and IMF staff calculations. Note: Dashed vertical lines mark the cross-country simple means per vintage. The sample includes 34 AEs and 33 EMDEs in the Consensus Forecast. AEs = advanced economies; CPI = consumer price index; EMDEs = emerging market and developing economies.

Banking and Finance

Financial Fragmentation: A New Era of Global Banking

For decades, the global financial system moved in one direction, towards greater integration. Banks expanded across borders, capital flowed more freely, and businesses benefitted from increasingly connected financial markets. Today, that trend is beginning to shift.

As geopolitical tensions, trade disputes and national security concerns have intensified, many countries are placing greater emphasis on protecting their own economies (Figure 2). Rather than relying solely on global financial networks, governments are investing more in domestic financial systems and strengthening regional partnerships. This growing shift towards financial localisation is reshaping the way banks operate and how money moves around the world.

Figure 2

Scenario 1:

Low Fragmentation

Countries restrict capital and trade flows only in certain sensitive areas and encourage unimpeded activity in all other parts of the economy.

Scenario 2:

Moderate Fragmentation

Countries introduce economic statecraft restrictions on all economic exchanges between the three blocs, with less severe measures between Neutrals and the other two blocs.

Scenario 3:

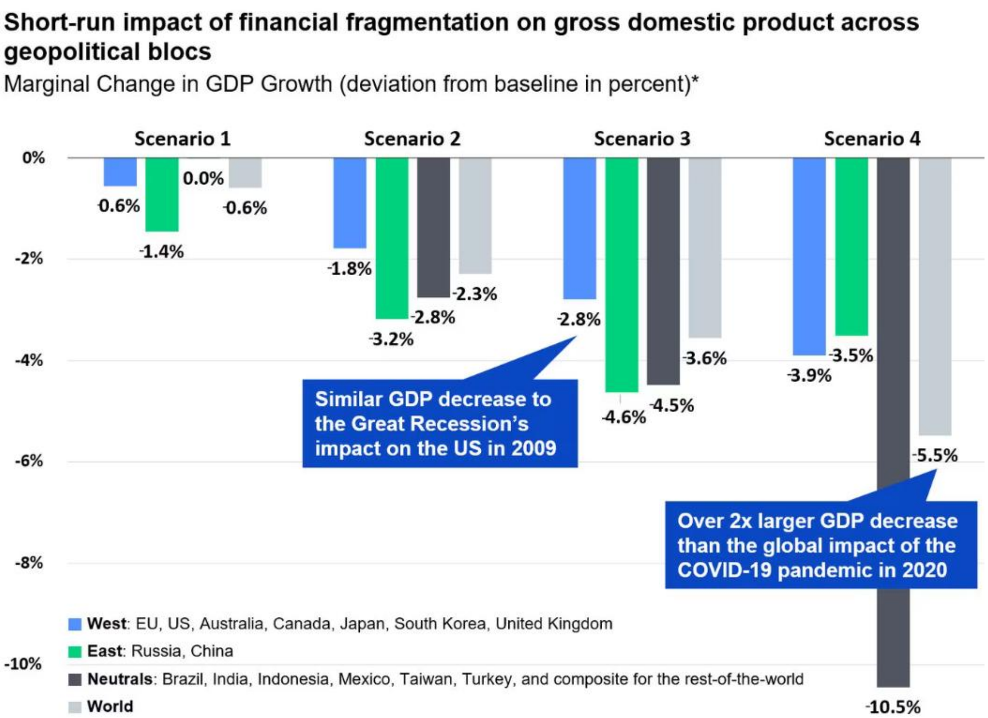
High Fragmentation

Eastern and Western blocs cease all economic exchanges. Neutral countries are subject to moderate restrictions but maintain their financial linkages and supply chains with the East and West.

Scenario 4:

Very High Fragmentation

All financial and economic activity stops between East and West, and the Neutrals are compelled to choose the side of their largest trading partner.



*NERA analysis based on multi-country multi-sector model of Baqaee and Farhi (2024). Data from 2013 World Input-Output Database and Asian Development Bank's 2023 Input-Output Tables. Short-run impact is defined as the impact measured one year after the shocks. Short-run impact is based on applying the 1-year to 10-year trade elasticity ratio found in Boehm et al. (2023) to the elasticities in Baqaee and Farhi (2024), as in Bolhuis et al. (2023).

Source:
Navigating Global Financial System Fragmentation
(Part of Centre for Financial and Monetary Systems)

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Banking and Finance

Financial Fragmentation in Action

China is expanding its Cross-Border Interbank Payment System (CIPS) to support RMB-based cross-border payments and reduce reliance on traditional global payment networks.

India has imposed payment data localisation rules, requiring payment system data to be stored in India.

Nigeria has used foreign exchange controls and managed FX reforms to stabilise its currency market and manage shortages.

Russia has developed and promoted SPFS, its domestic financial messaging system, as an alternative to SWIFT after sanctions and disconnection risks.

Table 1 – The Economic Costs of Fragmentation

US$213-307 billion	**Estimated reduction in global GDP from current financial and trade fragmentation**
0.2-0.3 percentage points	**Estimated increase in global inflation**
US$6.9 trillion	**Potential global GDP loss under a severe fragmentation scenario**

Source: World Economic Forum - Deepening Divides: The Cost of a More Fragmented Financial System Insight Report - June 2026

Caribbean Perspective

For Caribbean economies, which rely heavily on international trade, investment and correspondent banking relationships, financial fragmentation presents both risks and opportunities. While global uncertainty could raise financing costs and increase market volatility, stronger regional collaboration, digital payment solutions and more diversified financial partnerships could help improve long-term financial resilience.

Outlook for 2027

Financial fragmentation is likely to remain a key global risk, with finance becoming more regionalised, costly, and complex due to geopolitical tensions, trade-policy uncertainty, sanctions, regulatory divergence, and competing payment systems. Although the IMF projects global growth of 3.4 percent in 2027, risks remain uneven, especially for emerging markets and small open economies exposed to capital-flow shifts, higher borrowing costs, and payment-system disruptions. Building resilience will therefore depend on sound fiscal management, strong financial regulation, diversified financing channels, and regional cooperation.

Implications

Persistent inflation pressures and cautious monetary policy are expected to keep global banking conditions tight, as elevated interest rates raise funding costs, credit risk and balance sheet pressures. At the same time, geopolitical tensions, cyber risks, regulatory divergence and data localisation requirements are encouraging countries to strengthen domestic payment infrastructure and oversight. For banks, this means higher compliance and operational costs, more complex cross-border transactions, and greater investment needs into digital infrastructure, cybersecurity and payment resilience. These trends underscore the importance of international cooperation to limit financial fragmentation, preserve stability and maintain efficient global financial services.

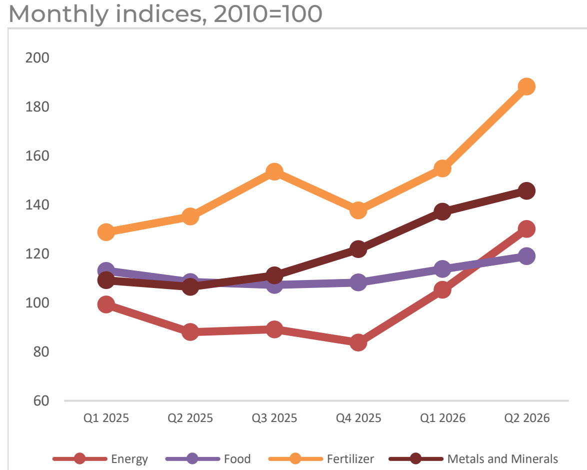
Commodities

Broad-based Gains in Q2 2026

Global commodity price indices recorded broad-based gains in the second quarter of 2026, although movements within each category varied considerably as geopolitical tensions, supply disruptions and changing demand conditions affected each market differently (Figure 1). Energy prices recorded the largest increases following disruptions to oil and gas flows through the Strait of Hormuz, while higher natural gas prices and production costs pushed fertiliser prices upward. Base metals quotes also rose, supported by supply constraints and continued infrastructure-related demand, whereas precious metals fell from their first quarter 2026 levels. Commodity food prices rose modestly overall, although movements differed considerably across individual commodity groups.

Figure 1: Quarterly Average Global Commodity Price Indices (Q1 2025 -Q2 2026)

Monthly indices, 2010=100



Source: World Bank Commodity Price Data

Oil Market

The closure of the Strait of Hormuz resulted in one of the largest disruptions to global oil markets in decades. Brent crude averaged US$104.4 per barrel in the second quarter of 2026, an increase of 29.7 percent from the previous quarter, while West Texas Intermediate (WTI) prices rose by 29.4 percent to US$93.2 per barrel. The price increase was most pronounced in April, when Brent averaged US$120.4 per barrel. Prices subsequently eased as demand weakened and tanker traffic began to recover following the interim US-Iran agreement in June. Nevertheless, oil prices remained substantially above their first quarter 2026 averages.

Average Crude Oil Prices (US$/bbl)

Brent Crude

Q2 2026
US$104.4
+29.7%
Q1 2026
US$80.5

WTI Crude

Q2 2026
US$93.2
+29.4%
Q1 2026
US$72.0

April
Conflict Escalates in the Middle East

Brent Avg.
US$120.4/bbl
Prices spike

May
Supply disruption continues

Brent Avg.
US$107.5/bbl

June
US-Iran MOU & ceasefire

Brent Avg
US$85.4/bbl
Shipping Resumes

July Update

*Middle East tensions intensified again, with renewed US-Iran hostilities and Houthi attacks on Saudi oil tankers in the Red Sea. Brent surpassed **US$100/bbl on 23 July**, before easing as diplomatic efforts resumed.*

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Commodities

How the Market Absorbed the Shock

Despite the scale of the disruption, oil prices did not remain at the extreme levels many analysts initially feared. Three factors helped the market absorb the initial shock: higher prices resulted in reduced demand, producers outside the Gulf increased supply, and commercial and strategic inventories were drawn down to cover the remaining shortfall. These adjustments limited the immediate price increase, but did not permanently replace the lost Gulf supply.

Shock absorbers

Lower Demand

Higher prices reduced consumption, particularly in Asia, while some users shifted towards alternative energy sources, such as coal and renewables.

Additional Non-Gulf Supply

Output outside the Gulf rose by nearly 2 million barrels per day above 2025 levels, led by the United States, with additional supply from Venezuela, Guyana and Russia.

Inventory Drawdowns

Commercial inventories and government emergency reserves were used to cover much of the remaining supply shortfall.

Inventory Buffers are Running Low

Commercial stockpiles were used to offset supply shortages, while governments released oil from strategic reserves. According to the US Energy Information Administration (EIA), global oil inventories fell by an average of 5.1 million b/d in April-June 2026 and is expected to fall by an additional 2.2 million b/d in the third quarter. In the United States, crude oil held in the Strategic Petroleum Reserve fell to approximately 316 million barrels by July 2026, its lowest level since 1983. Similar inventory drawdowns were observed across other major economies, including China.

As inventories decline, markets are moving closer to minimum operating levels; the volume of oil that must remain in storage tanks, pipelines and other infrastructure to keep the system functioning. This includes "tank bottoms", the oil near the bottom of storage tanks that cannot be easily withdrawn. As a result, the volume of readily available oil is shrinking, reducing the market's ability to absorb future disruptions. Consequently, a renewed supply shock could trigger a faster and more pronounced increase in prices.

Commodities

Commercial Inventories

Oil stocks were drawn down to offset disrupted supplies

Strategic Petroleum Reserves

Countries, including the US, China and some OECD countries released emergency reserves to cover the supply shortfall

Reduced Usable Oil

As inventories approach minimum operating levels, the amount of usable oil diminishes

Smaller Shock Buffer

Smaller oil in inventories reduces the markets capacity to absorb future shocks

Natural Gas Market

The closure of the Strait of Hormuz created a major shock for global LNG markets during the second quarter of 2026. As Middle Eastern LNG exports tightened, prices in Europe and Asia increased. In contrast, US Henry Hub prices declined as strong domestic production and easing winter demand protected the North American market, to some extent, from international supply pressures.

Selected Natural Gas Prices, Q1-Q2 2026

Quarterly averages, US$/MMBtu

	US Henry Hub	Europe	Asia
Q1 2026	US$4.75	US$13.64	US$11.4
Q2 2026	US$2.95	US$15.58	US$13.79
q-o-q	- 37.9%	+14.3%	+20.8%

United States

US prices declined as winter heating demand eased, and domestic production increased.

Europe

European prices increased as disruptions to LNG shipments through the Strait of Hormuz reduced global supply and intensified competition for alternative cargoes.

Asia

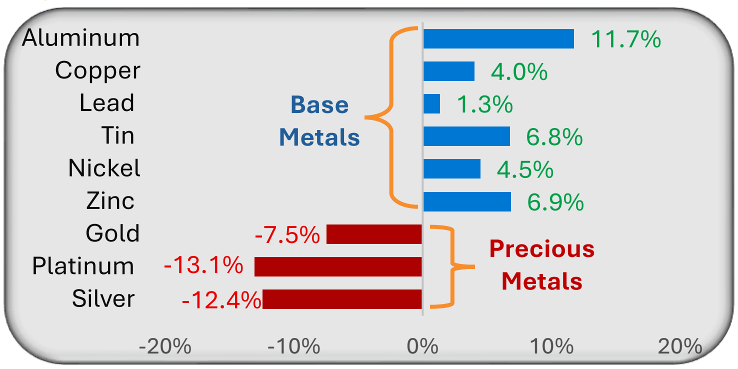
Asian prices rose sharply as disruptions to Gulf LNG exports reduced available supply and increased competition for alternative cargoes.

Commodities

Metals Market

Metals markets displayed diverging trends during the second quarter of 2026 (Figure 2). Base metals continued to trend upward, supported by supply disruptions, processing bottlenecks and firm demand from infrastructure, renewable energy and data centre projects. In contrast, precious metals fell from their record first quarter 2026 highs amid profit-taking (sales due to price increases), easing safe-haven demand, higher US interest rates expectations and a stronger US dollar.

Figure 2: Metals Price Movements (% Q-o-Q)



Source: World Bank Commodity Price Data, EIU Calculations

Factors impacting prices

Base Metals ⬆

- Supply disruptions
- Higher production and energy costs
- Strong demand from renewables, EVs and data centres

Precious Metals ⬇

- Profit-taking after record Q1 highs
- Stronger US dollar and interest rate expectations
- Easing safe-haven demand

Base metals

Base metal prices rose broadly during the second quarter as supply constraints and resilient demand tightened market conditions. Aluminum led gains, supported by disruptions to production and shipping in the Gulf region, while copper benefited from tight concentrate supplies and processing constraints. Supply concerns also supported zinc and tin prices, while production controls in Indonesia contributed to volatility in nickel markets. Demand remained firm, driven by investment in renewable energy, electricity grids, electric vehicles and data centre infrastructure.

Precious metals

Precious metals retreated from record highs during April-June 2026. Gold prices declined 7.5 percent from its first quarter peak of $4876.3 to $4512.0 in the succeeding quarter, as investors reduced holdings and safe-haven demand moderated, although strong central bank purchases and continued demand for bars and coins helped support prices. Silver prices also declined during the quarter, although prices remained elevated, supported by tight supply conditions and demand from renewable energy technologies and semiconductor production. Platinum prices eased as improved mine output and recycling supply reduced concerns about physical shortages. Weaker investment demand and profit-taking following the early-year rally also weighed on prices. Despite the pullback across precious metals, prices remained well above their 2025 levels.

Commodities

Food

International food prices increased moderately during the second quarter of 2026, although movements varied across commodity groups. The United Nations Food and Agriculture Organisation's (FAO) Food Price Index averaged 130.7 points in the second quarter of 2026, up 3.7 percent q-o-q, led by higher vegetable-oil, meat and cereal prices.

VEGETABLE OILS

+8.5%

Palm and rapeseed oil prices were pushed up by firm biofuel demand, reduced Indonesian exports and unfavourable planting conditions in Australia and Canada.

MEAT

+3.3%

Strong import demand and tighter supplies lifted poultry and ovine quotations. The index reached a record high in June, although pig and bovine meat prices declined.

CEREALS

+2.8%

Improved Black Sea harvest prospects and ample South American maize supplies lowered wheat and maize prices, while rice prices increased due to increased Asian demand.

SUGAR

+1.7%

Lower ethanol prices encouraged greater sugar production in Brazil, while strong exports placed additional downward pressure on international prices.

DAIRY

-1.4%

Improving milk production in the EU and US increased export availability, while weak Chinese import demand placed further downward pressure on prices.

Commodities

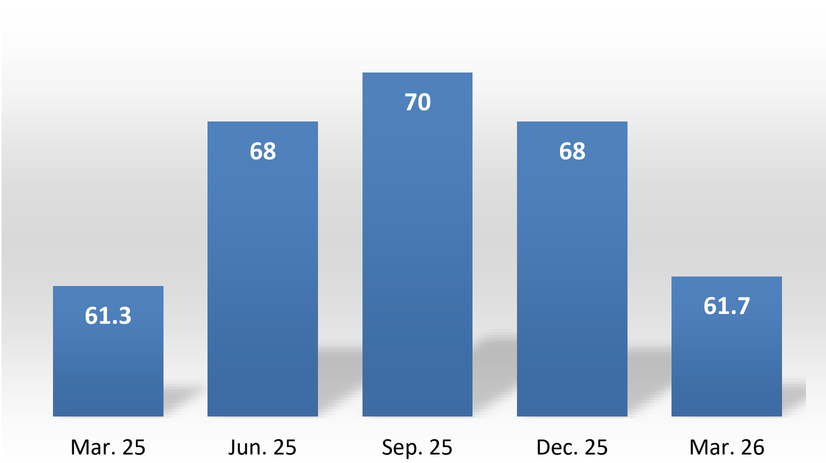
Implications

- Commodity markets are likely to remain volatile during the second half of 2026. The widening Middle East conflict, including renewed US-Iran hostilities and Houthi threats to shipping in the Red Sea could cause further supply disruptions and push energy prices higher. At the same time, depleted oil inventories will need to be rebuilt, as the current low levels leave the global market with less protection against future supply shocks. Base metals prices should be supported by solid demand related to infrastructure upgrades and the global energy-transition, while food prices remain vulnerable to higher fertiliser costs and adverse weather conditions.
- For the Caribbean, higher energy and food prices could increase inflation and place added pressure on foreign exchange reserves. However, energy exporters such as Trinidad and Tobago and Guyana could benefit from stronger export earnings and government revenues.

Tourism

- Global tourist arrivals expanded by 1.8 percent in the first quarter of 2026, with 307 million tourists travelling during the period (UN Tourism). This was six million more than the same period in 2025.
- Unfortunately, the outbreak of the US, Israel-Iran war on February 28, 2026, caused arrival growth to slow in March. Air passenger demand for that month contracted by 1 percent after growing by 6 percent in the previous two months and 7 percent in 2025. The International Air Transport Association (IATA) uses Revenue Passenger Kilometres (RPK) as an indicator of demand in the airline industry. It is calculated by multiplying the number of paying passengers by the distance travelled.
- UN Tourism now expects the war to cause international arrivals to fall 1 to 2 percentage points below its initial projections of 3 – 4 percent growth for all of 2026. This is because security concerns have suppressed activity in the Middle East's air travel industry and rising fuel prices have driven up global travel costs, constraining demand in the process.
- In the first three months of 2026, international hotel occupancy rates were 61.7 percent, marginally above the figure (61.3 percent) recorded in the same period a year earlier (Figure 1).

Figure 1: Global Hotel Occupancy Rates (%)



Source: UN Tourism

Africa

Arrivals
Up 4.2%

Hotel Occupancy
58.3% (Up 4.7%)

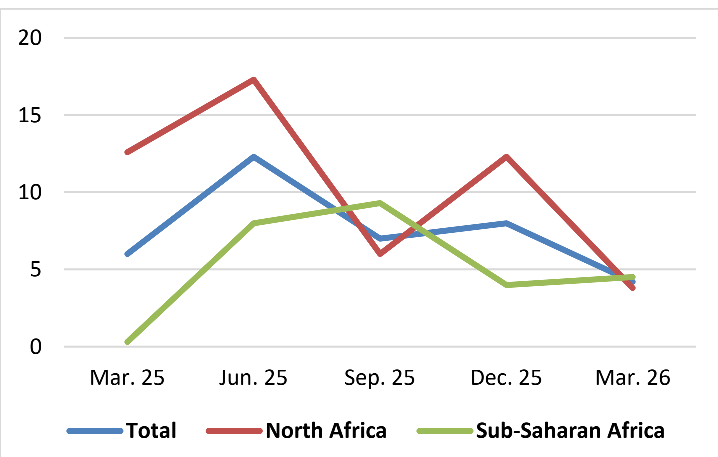
Passenger Demand
Up 13%

Airline Seat Capacity
Up 7%

Tourism

- The African continent registered the fastest tourist arrival growth of all major regions during the first quarter 2026. The region hosted 4.2 percent more tourist when compared to the same period in 2025 (Figure 2).
- This performance was largely driven by a 4.5 percent expansion in arrivals recorded by Sub-Saharan Africa, although the 3.8 percent growth recorded by North Africa was also a solid performance.
- The region's tourism sector was supported by a 4.7 percent rise in hotel occupancy and growth in both international passenger demand (13 percent) and airline seat capacity (7 percent).
- In other developments, Africa's largest airline, Ethiopian Airlines, recorded a 20 percent rise in revenue for the financial year ended July 2026. This is reflective of the solid demand that bolstered the continent's tourism sector during the period.
- The US is seeking to participate in the construction of Ethiopian Airlines' airport project in Addis Ababa. The project, which began in January 2026, is scheduled to be completed in 2030 and is set to be established as a major aviation hub in the region. The US indicated that its involvement could extend to the supply of aircrafts and engines.

Figure 2: Tourists Arrivals in Africa (% Change)



Source: UN Tourism

Europe

- Tourist arrivals grew by 4 percent in the first quarter of 2026, with increases recorded in all sub-regions (Table 1). This was slightly below the average 5 percent expansion the region experienced in all of 2025.
- The Central and Eastern Europe sub-region registered the fastest rate of expansion (6.2 percent) during the period, while the 2.1 percent increase posted by Western Europe was the slowest.

Tourism

- Hotel occupancy rates in Europe averaged 61.3 percent in the January-March period and were led by Northern Europe's 68 percent. This represented a slight uptick from first quarter 2025 levels.
- The region also recorded a 5 percent rise in international seat capacity and a 7 percent rise in passenger demand.
- Preliminary data suggest that the solid arrival growth continued in the second quarter, with many European resorts hitting their maximum capacity earlier than usual. The unfortunate consequence of the upbeat demand is the additional strains being placed on the countries that were already contending with overtourism, such as Spain. Spain is on course to receive a record-breaking 100 million tourists in 2026.
- Part of the growth in arrivals can be attributed to the ongoing conflict in the Middle East, which has caused some tourist to avoid trips to Egypt, Türkiye and Cyprus, to the benefit of Western and Central Europe.

Table 1: Tourist Arrivals in Europe (% Change)

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Total	0.7	5.3	4.3	6.0	4.0
Northern Europe	-8.0	-3.0	6.0	3.7	4.1
Western Europe	-0.7	9.0	5.0	6.0	2.1
Central & Eastern Europe	5.0	6.7	7.0	9.7	6.2
Southern & Mediterranean Europe	3.3	4.7	3.0	5.7	4.3

Source: UN Tourism

Asia and the Pacific

- The region experienced a 2.9 percent increase in arrivals (Table 2), led by a 9.2 percent expansion in Oceania. There were also positive performances in North-East Asia (4.7 percent) and South-East Asia (1.1 percent).
- While arrivals in South Asia fell by 1.3 percent during the quarter, there was a 27 percent contraction in March 2026, reflecting the severe impact of conflict-related disruptions at several Middle Eastern airports, which serve as major transit hubs for tourists heading to South Asia.

Arrivals

Hotel Occupancy
63% (Up 0.5%)

Passenger Demand
Up 8%

Airline Seat Capacity
Up 4.7%

Tourism

- Hotel occupancy in Asia and the Pacific grew marginally (0.5 percent) in the first quarter of 2026 and was accompanied by improved passenger demand and seat capacity.

Table 2: Tourist Arrivals in Asia and the Pacific (% Change)

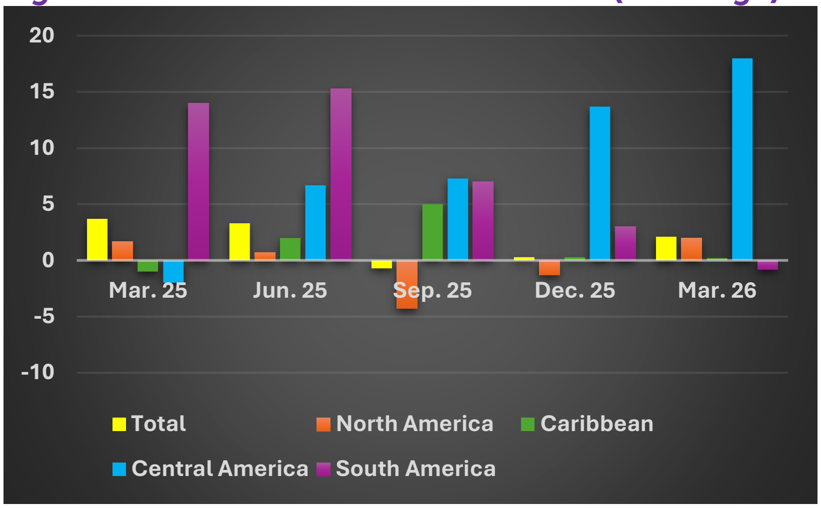
	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Total	10.0	9.0	6.3	6.7	2.9
North-East Asia	14.3	17.0	14.7	11.3	4.7
South-East Asia	8.0	2.0	0.0	0.7	1.1
Oceania	-0.3	5.0	10.3	11.3	9.2
South Asia	-5.6	-1.0	11.7	5.0	-1.3

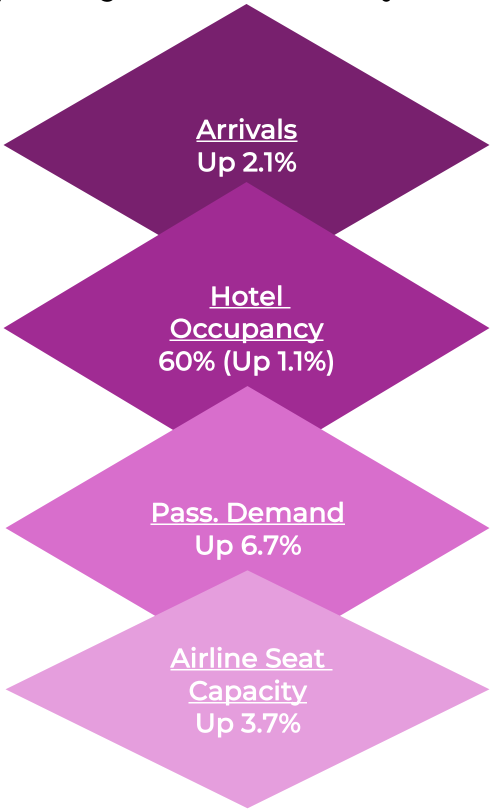
Source: UN Tourism

Americas

- The Americas experienced a 2.1 percent increase in arrivals led by Central America (18 percent) and North America (2 percent). Meanwhile, the Caribbean posted a weak 0.2 percent expansion and arrivals in South America declined by 0.8 percent (Figure 3).
- The number of arrivals in North America increased in the second quarter of 2026, with Mexico, Canada and the US co-hosting the 2026 FIFA World Cup.
- Occupancy rates in the Americas averaged 60 percent during the first quarter of 2026, slightly above first quarter 2025 levels (59.3 percent), while passenger demand rose by 6.7 percent.

Figure 3: Tourist Arrivals in the Americas (% Change)



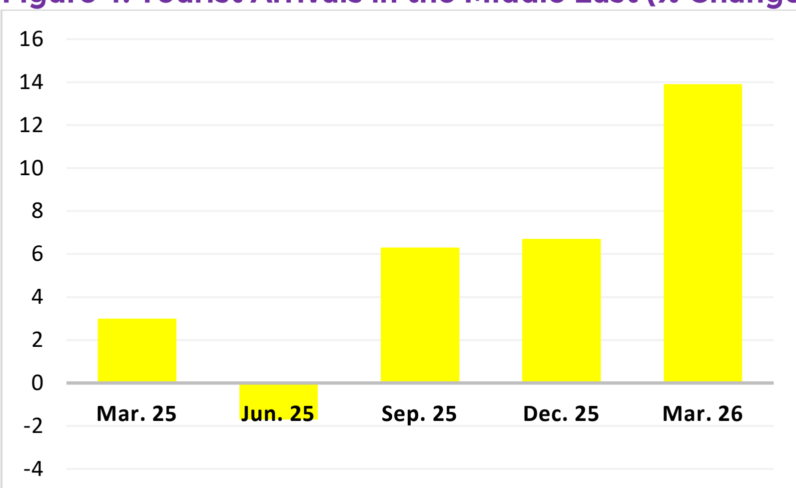


Republic Bank

Tourism

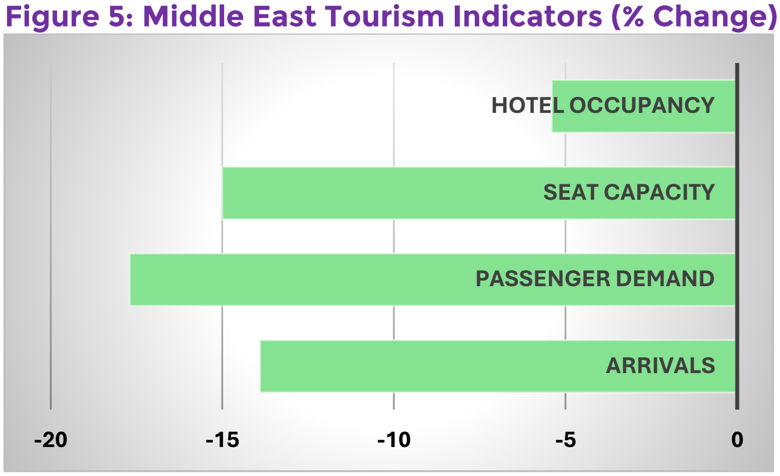
- Following the onset of the war in Iran on the last day of February 2026, tourist arrivals in the Middle East plummeted by 37 percent in March, bringing the average decline for the quarter to 13.9 percent (Figure 4). The plunge was by no means a surprise considering the troubling developments that followed February 28, 2026.
- Naturally, the fall in tourist arrivals was accompanied by a major contraction in passenger demand (17.7 percent) and airline seat capacity (15 percent) as the operations of the region's air carriers were disrupted and international airlines suspended services to the region.
- The region's hotel occupancy rates fell by 18.6 percent in March 2026, but by a comparatively tame 5.4 percent for the entire quarter.

Figure 4: Tourist Arrivals in the Middle East (% Change)



Source: UN Tourism

Figure 5: Middle East Tourism Indicators (% Change)



Source: UN Tourism

Tourism

Implications

Global tourist arrivals are expected to grow in the second half of 2026, given still encouraging demand. However, there are major risks facing the sector, including the ongoing conflict in the Middle East and the rise of global trade uncertainty, due to another round of widespread tariffs by the US. For as long as the US and Iran fail to secure a lasting ceasefire agreement, the war will continue to impact global tourism by suppressing arrivals in the Middle East and stoking airline ticket price pressures, through rising fuel prices. Regarding the new tariffs imposed by the US, this could erode disposable incomes in key tourism source markets, which could negatively affect global tourism demand.