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Contents

Special: AI boom in the USA and other hot topics from the tech sector

Analysts: Constantin Lüer // Tobias Basse

The administration first needs to be fully staffed and ready to function

The rhetoric surrounding the new U.S. administration's announcements ahead of the official inauguration on 20 January 2025, was anything but restrained. Even before Donald Trump formally took office, his administration was already making waves. One of the key messages was to highlight the USA as an attractive destination for foreign investors. Among the most prominent examples was the tech-savvy SoftBank and its founder and CEO, Masayoshi Son. He had already committed to investing USD 100 billion in the USA over the next four years. Under pressure from Trump, he even pledged on live television to double that amount – or at least try to make that possible. Joint ventures like Stargate further underscore these ambitious plans. However, for now, more mundane matters take priority: the administration must first be fully staffed and ready to function. The appointment of cabinet members and other key personnel follows a formal, often lengthy process, with no guarantee that all of Trump's preferred candidates will ultimately be confirmed. At least one key decision has gone smoothly: Mike Johnson was re-elected for a second term as Speaker of the House for the 119th Congress, a development that will certainly make life a bit easier for the 47th president. However, Trump had to exert significant behind-the-scenes pressure to secure this outcome. Additionally, Scott Bessent was sworn in as Secretary of the Treasury on 28 January. Meanwhile, Howard Lutnick is expected to play a significant role in shaping trade policy, though his confirmation process could take another week or two.

AI boom gains momentum, spurred by growing competition

For those with a passion for cinema, the word "Stargate" might evoke images of space exploration and intergalactic travel. However, the newly announced initiative bearing this name has nothing to do with Trump’s goal of planting the "Stars and Stripes" on Mars, as mentioned in his inaugural speech. Instead, it represents a massive investment of USD 500 billion aimed at further advancing artificial intelligence (AI) as a key technology. The Stargate joint venture will initially launch with $100 billion in capital, with OpenAI (led by Sam Altman), Oracle, and Japan’s SoftBank forming the core of the project. However, the race for dominance in this crucial future market isn’t just about massive financial resources or cutting-edge technology – as recent developments on the financial markets have shown. On Monday, reports surfaced that the Chinese AI company DeepSeek has reached near-parity with U.S. market leaders, despite operating with a fraction of the development costs and using more limited technology. U.S. export controls imposed under the previous administration had meant that China could only import less advanced chips, yet this has not prevented significant progress. As a result, U.S. stock markets suffered notable losses. This serves as a clear reminder: the competition isn’t sleeping either. While the initial shock was substantial, the potential benefits (far) outweigh the risks – not least because the Chinese counterpart is based on open-source technology, meaning its code is not kept secret. As the saying goes, competition is good for business, fostering synergies, creativity and a certain Darwinian competitive drive in the sense of "survival of the fittest". The developers of DeepSeek have demonstrated that scarcity leads to ingenuity. One thing is certain: artificial intelligence has become an increasingly vital factor for the U.S. economy. Beyond investments in AI infrastructure – such as data centres and energy supply – job creation is also a major focus. However, the many strategic partners in Trump’s camp are in some cases not exactly short on ego, making conflicts inevitable. In particular Sam Altman and Elon Musk are coming into the spotlight in this context, holding, to put it mildly, differing views not only on AI.

Bitcoin (in USD)

Sources: Macrobond, NORD/LB Research

The TikTok case as blueprint for future Chinese diplomacy

Trump cannot be said to have a particularly harmonious relationship with China's leadership, yet there are signs of a partial thaw. A recent law mandated that TikTok be banned in the USA unless sold to a new owner within a certain deadline. Specifically, a significant stake in the company needed to be divested so that neither its Chinese parent company, ByteDance, nor any other Chinese entities or individuals could maintain a controlling interest in the app, which is immensely popular in the USA. The concern behind this measure was the potential for the Chinese government to use TikTok as a tool to influence American citizens and affairs. A federal law introduced under Joe Biden's administration sought to mitigate this risk through forced divestiture. Accordingly, TikTok was shut down just before Trump's inauguration. However, only 12 hours later, Trump reversed the ban via executive order. This move suggests that he may not be solely focused on confrontation but is instead more open to mutually beneficial solutions than widely assumed – as long as the USA also stands to gain from them. The extension of the deadline for divestiture could be interpreted as a goodwill gesture toward Xi Jinping. The two leaders reportedly discussed the matter in a phone call before Trump took office. Xi's invitation to Trump's inauguration further underscores the continuation of the "buddy diplomacy" seen during Trump's first term.

Bitcoin and Ripple compete for strategic reserve status

Turning to the U.S. technology sector, another significant development is the plan to establish a strategic reserve of the Bitcoin cryptocurrency, to be "filled" by, in particular, refraining from selling confiscated Bitcoins. Moreover, some voices in Washington are calling for active government purchases. However, this proposal is controversial even within the "cryptocurrency industry". Behind the scenes, Ripple advocates, for example, are lobbying to have their preferred "currency" included in any such official reserve. Ultimately, the U.S. government may opt for a sort of diversified basket of cryptocurrencies. Since Trump's election, Bitcoin has repeatedly hit record highs. For its holders, his victory has already proven to be highly profitable.

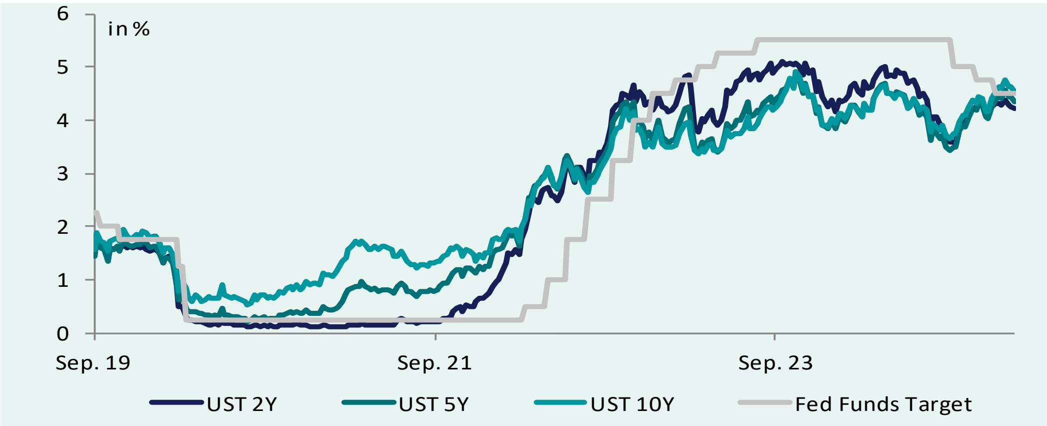
USA: Donald Trump and the Fed

Analysts: Tobias Basse // Constantin Lüer

Private consumption remains in focus

The initial figures on GDP growth in the fourth quarter of 2024, showing an annualized growth rate of 2.3 percent, indicate a slight slowdown—though the economy remains far from weak. This news, however, came as no great surprise either. As is well known, preliminary U.S. GDP data is highly susceptible to revisions, making a detailed analysis of recently published figures somewhat premature. What stands out, though, is the clear supportive role played by household consumption. This fundamental insight is unlikely to be altered by future data revisions. Recent reports on the control group of retail sales had already hinted at such newsflow. While the headline U.S. retail sales index for December 2024 rose by "just" 0.4 percent month on month, the control group saw a more impressive increase of 0.7 percent mom. This reaffirms the U.S. consumer as a highly reliable pillar of the North American economy.

Chart: Interest rates USA



Sources: Macrobond, NORD/LB Macro Research

The construction sector and interest rates

The widely followed NAHB Index rose slightly in January to 47 points, bringing the "magic" threshold of 50 points into closer view. Sentiment in the U.S. construction sector is improving, though it remains far from optimistic. The recent rise in long-term interest rates could now pose a challenge, however. The FOMC is well aware of this. The central bankers in Washington are evidently scrutinizing economic and inflation data with particular care, and are actually minded to lowering benchmark interest rates. However, the data must also justify such a monetary move.

Donald Trump and the Fed

At the start of 2025, the Federal Reserve opted not to cut U.S. benchmark interest rates further for the time being. Current inflation figures have evidently prompted the central bank to adopt a cautious stance for now. While Fed officials see themselves as on the right track in their fight against the excessively elevated inflation rates of recent years, they are hesitant to act too aggressively and are awaiting additional data to confirm their point of view. Fed Chair Jerome Powell has stated that U.S. monetary policy remains relatively restrictive – though no longer excessively so. The central bankers are therefore under no particular time pressure. Turning to the situation on the macroeconomic price front, Powell expressed hope that developments in housing costs, a key component of inflation, could contribute to easing price pressures. This assessment from such a well-qualified source is in our opinion well-founded. On the impact of the new administration's tariffs on U.S. inflation, Powell remained tight-lipped. Within the Fed, both optimistic and pessimistic scenarios are being considered. Powell has also been notably evasive on the possibility of a rate cut in March. However, with supportive inflation data, a modest 25 basis point reduction could still be on the table. In our view, the likelihood of this happening is just slightly above the "magic" 50-percent threshold, however. As previously suggested, the Fed's broader intention is, as already signalled, to lower benchmark interest rates further. However, this hesitation has not gone down well with Donald Trump, who has been openly critical and is pushing for more aggressive rate cuts from Jerome Powell. The new president's public statements on this matter will need to be closely monitored. Highly contentious debates could damage the Fed's reputation – a scenario neither the White House nor the FOMC actually desire. Moreover, a potential increase in risk premiums for U.S. Treasury bonds, triggered by such developments, would undoubtedly pose new challenges for the Treasury Department in Washington.

Fundamental forecasts, USA

	2024	2025	2026
GDP	2.8	2.0	1.7
Private consumption	2.8	2.3	1.9
Govt. consumption	3.4	1.6	1.1
Fixed investment	4.0	2.7	3.0
Exports	3.2	2.5	2.1
Imports	5.4	3.5	2.2
Inflation	3.0	2.5	2.4
Unemployment rate[1]	4.0	4.6	4.3
Budget balance[2]	-6.9	-6.0	-5.8
Current acct. balance[2]	-3.6	-3.5	-3.3

Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, USA

	II/24	III/24	IV/24	I/25	II/25
GDP qoq ann.	3.0	3.1	2.3	1.8	1.7
GDP yoy	3.0	2.7	2.5	2.5	2.2
Inflation yoy	3.2	2.6	2.7	2.4	2.5

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	30.01.	3M	6M	12M
Fed funds target rate	4.50	4.25	4.00	3.50
3M rate	4.29	4.00	3.70	3.20
10Y Treasuries	4.52	4.40	3.90	3.50
Spread 10Y Bund	200	200	150	90
EUR in USD	1.04	1.03	1.05	1.08

Sources: Bloomberg, NORD/LB Macro Research

Euroland: ECB maintains its easing strategy and heads towards neutral interest rates

Analysts: Christian Lips, Chief Economist // Christian Reuter

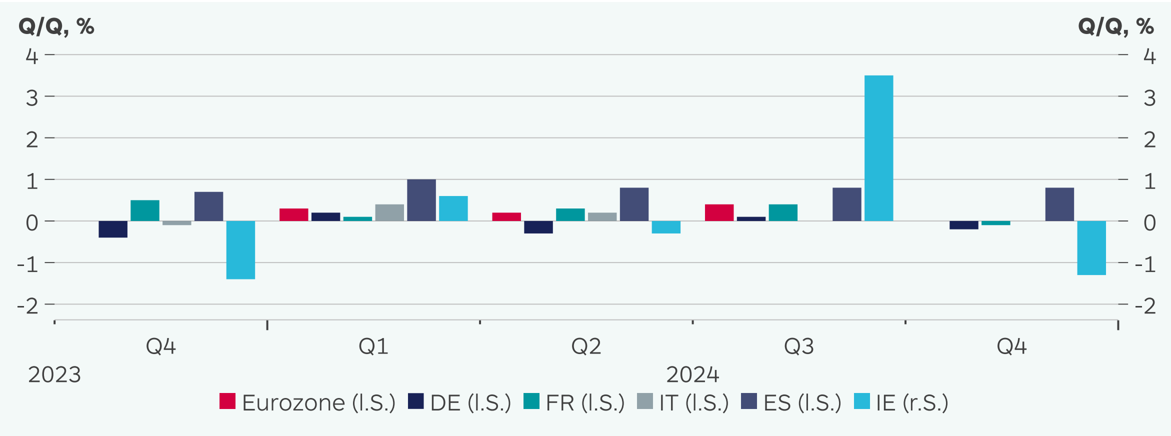
Stagnation in Q4 – strong momentum in Southern European countries

The eurozone economy lost momentum in the fourth quarter of 2024. According to preliminary data from Eurostat, real seasonally adjusted GDP stagnated (0.0 percent, quarter on quarter), while the annual growth rate remained unchanged at 0.9 percent yoy compared to the previous quarter. Data already available from individual member states reveal that the eurozone economy continues to grow at varying speeds. Southern European countries remained the growth engines in Q4. Spain, for instance, surprised on the upside once again with quarter-on-quarter growth of 0.8 percent, driven primarily by consumption but also supported by investments and construction activity. Portugal's growth accelerated to 1.5 percent qoq, significantly exceeding expectations.

However, growth in the eurozone as a whole faces headwinds from multiple geopolitical risks, which are fostering caution among households and businesses. In the eurozone's two largest economies, France and Germany, domestic political instability has added to the challenges. Both countries are also structurally vulnerable to the ongoingly weak global industrial demand, which has further weighed on their performance. As a result, they lagged behind all the other eurozone economies in terms of growth in the fourth quarter; the French economy contracted by 0.1 percent qoq, while Germany's economic output indeed declined by 0.2 percent qoq.

At least on a more positive note, recent leading and sentiment indicators have provided some encouraging signals. The PMI for the eurozone narrowly surpassed the 50-point mark in January, indicating expansion. Sentiment in the services sector remained in positive territory, while pessimism in the industrial sector eased, particularly in Germany and France. Similarly, the European Commission's sentiment indicators showed a slight improvement in January, with a notable uptick in industrial morale.

Chart: Economic growth grinds to a halt in Q4



Sources: Macrobond, NORD/LB Macro Research

Anticipated rise in inflation at the turn of the year

In December, the inflation rate edged up marginally to 2.4 percent yoy, slightly above the ECB's stability target. This increase was, however, primarily due to the fading of favourable base effects and was therefore not unexpected. Based on data available to date from member states, inflation is unlikely to have risen further in January. The ECB views the disinflation process as broadly on track, and we too expect inflation to gradually decline toward the critical 2-percent mark over the course of the year.

However, domestic price pressures, particularly in services, need to ease further. This is likely to occur with a certain delay as wage dynamics gradually normalize. In the medium term, however, inflation risks could increase again, for example due to new trade conflicts.

ECB maintains its easing strategy and heads towards neutral interest rates
As expected, the ECB lowered its key interest rates in January for the fifth time in the current cycle. This marks a seamless continuation of its easing strategy into the new year, although, in light of various risks, the central bankers are sticking to their proven course of gradual adjustments. The key deposit rate was cut by 25 basis points to 2.75 percent, with the decision taken unanimously by the Governing Council.
The ECB also hinted at further rate cuts in 2025, signalling a move toward a neutral stance in its monetary policy. Against the backdrop of political uncertainties, the central bank remains committed to its data-dependent approach and has not predefined a specific rate path. Reading between the official lines, it appears the ECB is keen to exit the restrictive phase of its monetary policy swiftly, albeit through gradual and measured rate cuts. Escalating trade conflicts could pose a dilemma for the ECB however, forcing it to balance weak economic growth against resurgent inflation. Against this background, we do not expect any strongly expansionary alignment of monetary policy, so the room for further cuts to the deposit rate this year will be very limited around the 2.00-percent mark.

Fundamental forecasts, Euroland

	2024	**2025**	**2026**
GDP	0.7	0.9	1.3
Private consumption	0.9	1.4	1.6
Govt. consumption	2.3	1.5	1.4
Fixed investment	-2.0	2.4	3.7
Net exports[1]	0.5	-0.7	-0.4
Inflation	2.4	2.2	1.9
Unemployment rate[2]	6.4	6.4	6.3
Budget balance[3]	-2.9	-3.0	-2.8
Current account balance[3]	2.8	2.3	2.0

Change vs previous year as percentage, [1] as contribution to GDP growth; [2] as percentage of the labour force; [3] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Euroland

	II/24	**III/24**	**IV/24**	**I/25**	**II/25**
GDP sa qoq	0.2	0.4	0.0	0.2	0.3
GDP sa yoy	0.5	0.9	0.9	0.9	1.0
Inflation yoy	2.5	2.2	2.2	2.2	2.3

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	30.01.	**3M**	**6M**	**12M**
Repo rate ECB	2.75	2.25	2.00	2.00
3M rate	2.61	2.20	2.10	2.10
10Y Bund	2.52	2.40	2.40	2.60

Sources: Bloomberg, NORD/LB Macro Research

Germany: Yet another year of stagnation

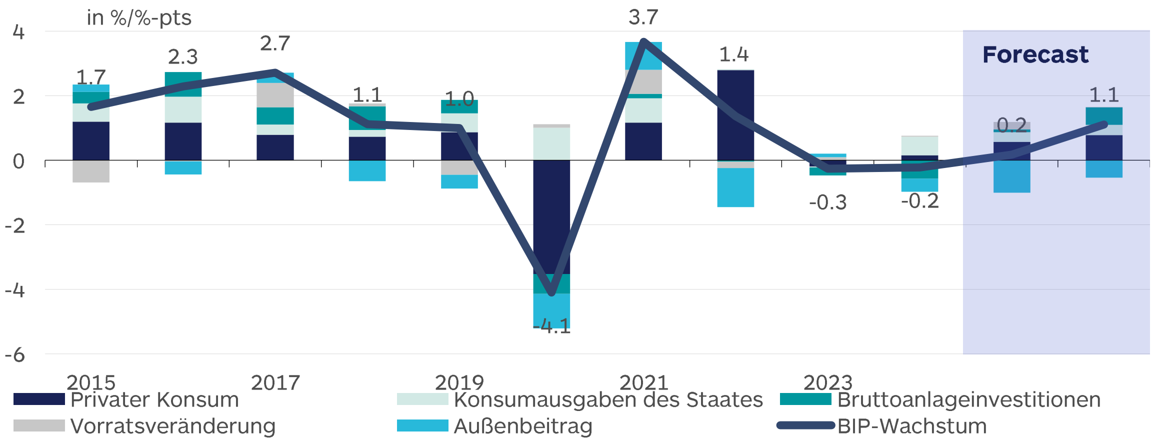
Analysts: Christian Lips, Chief Economist // Valentin Jansen

Germany's real economic output down by 0.2 percent in 2024

For yet another year, cyclical and structural headwinds – geopolitical tensions, deglobalization, economic transformation, demographic shifts, weak demand, and an investment backlog – have further delayed Germany's broader economic recovery. According to the Federal Statistical Office, the country's real economic output contracted by 0.2 percent yoy in 2024 as a whole. This marks the second consecutive year of decline, following a 0.3 percent contraction in 2023.

The development of real value added varied markedly across the sectors of the economy in 2024, with industry remaining the main cause for concern. Notable declines were recorded in manufacturing (-3.0 percent yoy and construction (-3.8 percent yoy), largely due to restrictive interest rate conditions and soaring construction costs. Energy-intensive industries, such as chemicals and metals, continued to operate at low production levels after a sharp drop in 2023 triggered by the energy price shock. In this subdued environment, the services sector at any rate provided a glimmer of hope, posting modest growth of 0.8 percent. Meanwhile, price-adjusted private consumption (+0.3 percent) delivered less of a boost than many had hoped for throughout much of 2024, as persistent economic concerns and political uncertainty weighed heavily on savings behaviour, buying propensity, and overall consumer sentiment. On the external trade front, weak global demand led to a 0.8 percent decline in real exports, while imports saw a slight price-adjusted increase of 0.2 percent.

Chart: Contributions to real GDP growth (incl. forecast)



Sources: Macrobond, NORD/LB Macro Research

Renewed GDP decline in Q4 – consumption fails to compensate for weak exports

Q4/2024 saw seasonally adjusted real GDP contract by 0.2 percent qoq. While real private and public consumption expenditures showed positive trends, the strong drag from net exports – adjusted for price, seasonal, and calendar effects – could not be offset. Regarding investment the available indicators point to a more or less sideways trend, with industrial capacity remaining significantly underutilized, though the decline has at least stabilized of late. Given the ongoing economic weakness and structural challenges, a swift turnaround in investment activity is unlikely.

Political uncertainties weigh heavily – no advance laurels for the next federal government

The extreme level of political uncertainty is an even more critical factor behind the investment reluctance. The return of Donald Trump, upcoming federal elections in Germany, and rising support for right-wing populists in opinion polls have left German businesses grappling with heightened uncertainty and growing concerns about the country's economic prospects. Thus, as 2025 begins, the economic outlook for Germany remains bleak. The ZEW Economic Sentiment Index deteriorated markedly in January, while the current situation continues to be assessed as poor. Business sentiment among German companies improved slightly at the start of the year, however, with the ifo Business Climate Index rising to 85.1 points. While the current-situation component nevertheless improved to its best level since August, expectations remained pessimistic due to significant uncertainties. The subdued economic sentiment suggests that neither financial market experts nor business leaders are about to hand out advance laurels to the next federal government at the moment.

The sluggish economic performance will likely continue in the near term. In particular, Germany continues to lag significantly behind the broader eurozone's economic trajectory. Both fiscal and monetary policies remain overly restrictive at present, though the ECB must base its decisions on the macroeconomic developments in the eurozone as a whole. While the central bankers in Frankfurt will cut the key interest rates further, German's economic policymakers shouldn't count on any strongly expansionary monetary stimulus – especially since structural issues cannot be resolved through monetary measures alone. Against this background we anticipate yet another year of economic stagnation. Reviving economic activity to any stronger degree will require a shift in the prevailing negative sentiment. While the geopolitical setting (Putin, Trump) will remain challenging and unlikely to change quickly, it is crucial that a stable majority emerges within the democratic spectrum after the elections. The German economy urgently needs to break free from its pessimism trap, and the policymakers must contribute by reducing uncertainty and enhancing planning security. The last thing Germany needs now is political instability akin to that seen in France or indeed in Austria following its federal elections.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.2	0.2	1.1
Private consumption	0.3	1.1	1.5
Govt. consumption	2.6	1.3	1.4
Fixed investment	-2.8	0.4	2.8
Exports	-0.8	-0.9	1.4
Imports	0.2	1.7	2.9
Net exports[1]	-0.4	-1.0	-0.5
Inflation[2]	2.5	2.3	2.0
Unemployment rate[3]	6.0	6.3	6.1
Budget balance[4]	-2.6	-2.3	-2.1
Current account balance[4]	5.9	5.6	5.3

Change vs previous year as percentage, [1]as contribution to GDP growth; [2]HICP; [3]as percentage of the civil labour force (Federal Employment Office definition); [4] as percentage of GDP

Quarterly forecasts, Germany

	II/24	III/24	IV/24	I/25	II/25
GDP sa qoq	-0.3	0.1	-0.2	0.2	0.2
GDP nsa yoy	0.1	0.1	-0.4	-0.4	-0.3
Inflation yoy	2.6	2.2	2.5	2.6	2.2

Change as percentage

Sources: Feri, NORD/LB Macro Research

Switzerland: Setback in growth momentum

Analyst: Christian Reuter

Swiss exports hit record high in 2024 – chemicals and pharmaceuticals stabilize

The Swiss economy appears to have navigated Q4/2024 relatively well, with positive news coming from foreign trade. Exports registered quarter-on-quarter growth of 7.2 percent in real, seasonally adjusted terms, contributing significantly to overall growth. For 2024 as a whole, foreign trade again proved a cornerstone of the Swiss economy. Exports grew by 2.5 percent yoy in real terms, while imports fell by 1.6 percent yoy. Switzerland benefited from a record trade surplus of CHF 60.6 billion (nominal) – a substantial increase of CHF 12.0 billion compared to the previous year. Notably, this growth was almost entirely driven by the chemicals/pharmaceutical sector, while other goods categories experienced significant declines.

The leading research institutes have since revised down their growth expectations for Switzerland. In the KOF consensus forecast, the forecasters lowered their GDP growth projections for 2024 to just 1.0 percent and for 2025 to 1.5 percent yoy. Economic sentiment in Switzerland improved slightly in January, with the KOF Economic Barometer rising by two points to 101.6, slightly above its long-term historical average. Consumer sentiment improved significantly in December, reaching -30 points. While still deep in negative territory, this marks the best reading in nearly three years. Real, calendar-adjusted retail sales rose by 2.6 percent in December, hitting their highest level in three years. Private consumption is increasingly becoming a pillar of the Swiss economy, providing the basis for much of the hopes for 2025. Price stability, rising real incomes, and a robust labour market form a solid foundation for this outlook.

Inflation continues downwards – SNB sees the exchange rate as a tool of monetary policy

Prices measured by the national index fell by 0.1percent mom in December 2024. The annual rate dropped by 0.1 percentage points to 0.6 percent, bringing the average inflation rate for 2024 to 1.1 percent. The core rate remained unchanged during the month under review, while the downward trend in import prices accelerated slightly to -0.5 percent mom. The Swiss National Bank (SNB) likely feels validated in its sharp rate cut in December. Speaking at the World Economic Forum in Davos, SNB Chairman Schlegel stated that he is "not uncomfortable" with the current level of consumer-price growth. He emphasized that, in addition to interest rates, the SNB considers the exchange rate as a tool to ensure price stability in Switzerland. Around the same time, U.S. President Trump mentioned the existence of a list of countries allegedly manipulating their exchange rates, though it remains unclear whether Switzerland is on it. In reality, the pressure on the SNB to act has eased, with the Swiss franc having weakened slightly against the euro since mid-December 2024, standing back at around EUR 0.94 by the end of January. The currency showed little reaction to the recent decisions by the Fed or the ECB.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	1.0	1.5	1.7
Inflation (CPI)	1.1	0.3	0.4
Unemployment rate[1]	2.4	2.7	2.8
Budget balance[2]	0.4	0.4	0.3
Current account balance[2]	7.0	6.5	7.0

Interest and exchange rates, Switzerland

	30.01.	3M	6M	12M
SNB policy rate	0.50	0.25	0.00	0.00
3M rate	0.34	0.20	0.00	0.10
10Y	0.42	0.25	0.25	0.40
Spread 10Y Bund	-210	-215	-215	-220
EUR in CHF	0.95	0.93	0.92	0.92

* Change vs previous year as percentage; [1] as percentage of the labour force, [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Japan: Donald Trump could now become a focus of attention for the BoJ

Analyst: Tobias Basse

Bank of Japan makes a cautious benchmark-rate hike

Right at the onset of the new year, the Bank of Japan (BoJ) raised the benchmark interest rate in the Land of the Rising Sun by 25 basis points. While there had been earlier signals from the central bank indicating a more hesitant approach, likely in order to await further data on wage developments, recent comments by senior BoJ officials ultimately pointed quite clearly in the direction of a January rate hike. The announced decision therefore comes as no great surprise. The vote was not unanimous, however, with one policymaker, Toyoaki Nakamura, advocating for a more cautious approach and preferring to wait for new data on the profitability of the companies in Japan.

A look at the yen and consumer prices

The latest inflation figures for Japan will likely reinforce the central bankers' belief in the need for a slightly less accommodative monetary policy, with the annual consumer price inflation rate having risen by 3.6 percent in December 2024. While an unfavourable trend had been anticipated, the extent of the upward price movement still came as quite a surprise to the majority of interested observers. The current weakness of the yen also presents an argument in favour of higher benchmark rates. Nevertheless, the Bank of Japan is expected to proceed with caution.

Donald Trump could now become a focus of the BoJ's attention

With its rate hike now implemented, the central bank has significantly reduced the risk of facing accusations from the new U.S. administration of deliberately weakening the yen through an overly accommodative monetary policy. The central bankers are thus already manoeuvring themselves out of Donald Trump's line of fire early on. In export-oriented Japan, there are growing concerns about the potential realignment of U.S. trade policy. In this context, the central bank is keen to avoid becoming a target of Washington's attention. Recent remarks by BoJ Governor Kazuo Ueda make it abundantly clear that the Bank of Japan is paying extremely close attention to the developments in the United States.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	-0.2	1.3	1.1
Inflation	2.7	2.4	1.9
Unemployment rate[1]	2.5	2.4	2.2
Budget balance[2]	-4.0	-3.6	-3.0
Current account balance[2]	4.2	4.0	3.9

* Change vs previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	30.01.	3M	6M	12M
Key rate	0.50	0.50	0.75	0.75
3M rate	0.77	0.70	0.80	0.90
10Y	0.66	1.20	1.30	1.40
Spread 10Y Bund	-186	-120	-110	-120
EUR in JPY	160	156	153	150
USD in JPY	154	151	146	139

China: Stimuli and exports drive GDP to the 5% target

Analyst: Valentin Jansen

Stimuli and export frontloading effects drove GDP growth to the 5-percent threshold in 2024

Official data indicate that China's GDP grew by 5.0 percent in 2024, up from 4.6 percent in 2023, and that growth in Q4 reached 5.4 percent qoq, driving the annual rate to precisely the targeted level. The relatively strong performance in the closing quarter was primarily driven by two key effects. First, expectations of a more restrictive U.S. trade policy led to significant frontloading effects in Chinese exports. Overall, net exports, with growth of 5.0 percent in 2024, once again proved a pillar of the economy. However, these pull-forward effects are already showing clear signs of fading, as also evidenced by January's downward trend in the official PMI data. Second, the stimulus measures put in place by Beijing to boost consumer spending, including reductions in the interest burdens on private households and trade-in programs for home appliances, electronic devices, and electric vehicles, have positively impacted domestic consumption.

Trade conflicts with the USA remain a pivotal point

The feared additional tariffs of up to 60 percent on Chinese exports as threatened by Donald Trump have not yet materialized. The focus of the first trade policy initiatives appears to have shifted primarily towards the neighbouring countries of the USA for now, though federal agencies have been instructed to investigate U.S. trade deficits and the trade practices of its partners. We continue to assume that the trade deficit with China remains a considerable thorn in the side of the U.S. administration, against which background we expect it to make for greater tensions compared to those with the neighbouring countries or Europe. At the same time, however, the communication between the Chinese and U.S. president, along with recent statements by Chinese officials, underscores China's willingness to cooperate in avoiding a trade war. Moreover, Trump has granted Chinese social media platform TikTok a 75-day respite to find a solution that would allow it to continue operating in the USA. With over 150 million U.S. users daily, the negotiation with TikTok's parent company, ByteDance, could prove an indicator of how the relationship with China might develop during Trump's second term in office.

Absence to date of new tariffs on China helps bolster the renminbi – at least in the short term

With interest rate differentials between the USA and China expected to diverge further in 2025, the depreciation pressure on the renminbi has increased of late. In the run-up to Trump's inauguration, the offshore yuan temporarily hit the outer limit of its tolerated fluctuation range around the PBOC's daily fixing rate, approaching the psychologically important mark of 7.35 with highs of 7.33 USD/CNY – the weakest level tolerated by the PBOC since 2007. With Washington's threated measures in terms of foreign trade with China seemingly on hold, the pressure on the RMB has eased a bit, though the Chinese currency remains above the mark of 7.2 – a level not fallen below since the U.S. election results.

Fundamental forecasts*, China

	2024	2025	2026
GDP	5.0	4.5	4.3
Inflation	0.2	0.8	1.3
Unemployment rate[1]	5.1	5.1	5.1
Budget balance[2]	-7.1	-5.5	-5.7
Current account bal.[2]	1.7	1.3	1.0

* Change vs previous year as percentage

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	30.01.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.70	1.55	1.50	1.50
10Y	1.63	1.70	1.65	1.65
Spread 10Y Bund	-89	-70	-75	-95
EUR in CNY	7.54	7.60	7.77	7.99
USD in CNY	7.25	7.38	7.40	7.40

Britain: "Double whammy" the British way

Analyst: Constantin Lüer

CPI trend better than expected

December 2024 saw the inflation rate rise by 0.3 percent mom, and thus less sharply than the market had on average expected. Core inflation registered the same rate, which indeed can be considered a surprise on the upside. This means that the annual CPI rate now stands at 2.5 percent yoy and, when excluding the energy, food, tobacco, and alcohol components, at just 3.2 percent yoy. What Fed Chair Powell brought up last Wednesday – that a weakening in the so-called owners' rent equivalent would be necessary before interest rates could be lowered – appears to already be a reality in the United Kingdom. Housing costs and household-related services increased by just 0.2 percent mom, having at most a minimal impact on the headline rate as things currently stand. The primary price driver came from the transport sector, where prices rose by 1.0 percent mom in December, largely due to fuel prices, which are crucial for this sector.

In February, close attention will need to be paid to the January inflation data, as a statistical effect is expected to cause a sharp rise in both the annual headline and core rates. Even if the monthly data align with inflation expectations, the extremely low January 2024 figures will not be considered in the overall calculation for the year. The removal of -0.6 percent mom for the CPI and -0.9 percent mom for the Core CPI (both January 2024) will thus make for a distorting effect.

Positive inflation trend benefits His Majesty's Treasury

Chancellor of the Exchequer Rachel Reeves is likely to be highly pleased with the inflation data. Before these positive figures were reported from both the USA and the UK, government bonds had in some cases hit their highest levels since 2008. Such situations always have implications for countries' borrowing and, ultimately, their government budget plans, and the Keir Starmer administration, too, is facing a challenging situation. The reports were therefore exactly what Ms Reeves needed.

Deregulation and investments in infrastructure as recipe for prosperity

In a speech in Oxfordshire, Reeves announced that low growth "is not our destiny", making reference to investments in accumulated infrastructure measures and projects. Plans are in place to quickly give the "green light" to these initiatives. For example, London Heathrow Airport is planned to be given its long-awaited third runway, pending approval. After imposing higher taxes on businesses, the government is now seeking ways to regain trust and attract investors. To achieve its self-proclaimed goal of the highest economic growth among the G7 nations, the government is also not least promoting deregulation.

Fundamental forecasts*, Britain

	2024	2025	2026
GDP	0.9	1.3	1.4
Inflation (CPI)	2.5	2.6	2.2
Unemployment rate[1]	4.3	4.4	4.5
Budget balance[2]	-4.5	-3.8	-3.3
Current account balance[2]	-2.8	-2.8	-2.8

* Change vs previous year as percentage

[1] as percentage of the labour force as per ILO concept

[2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	30.01.	3M	6M	12M
Repo rate	4.75	4.50	4.25	3.75
3M rate	4.48	4.35	4.05	3.65
10Y	4.56	4.40	4.25	4.10
Spread 10Y Bund	204	200	185	150
EUR in GBP	0.84	0.83	0.83	0.83
GBP in USD	1.24	1.24	1.27	1.30

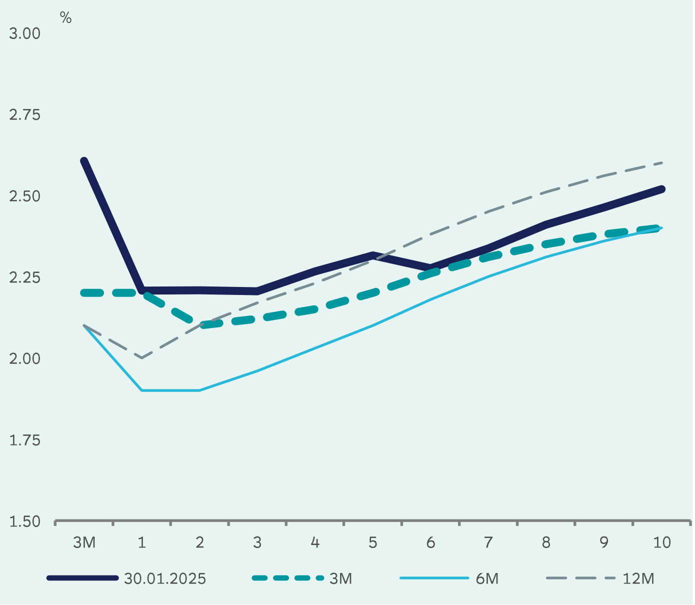
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons...		
	30.01.2025	**3M**	**6M**	**12M**
3M	2.61	2.20	2.10	2.10
1Y	2.21	2.20	1.90	2.00
2Y	2.21	2.10	1.90	2.10
3Y	2.21	2.12	1.96	2.17
4Y	2.27	2.15	2.03	2.23
5Y	2.32	2.20	2.10	2.30
6Y	2.28	2.26	2.18	2.38
7Y	2.34	2.31	2.25	2.45
8Y	2.41	2.35	2.31	2.51
9Y	2.46	2.38	2.36	2.56
10Y	2.52	2.40	2.40	2.60
2Y (Swap)	2.35	2.25	2.05	2.25
5Y (Swap)	2.39	2.30	2.20	2.45
10Y (Swap)	2.47	2.40	2.40	2.70

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



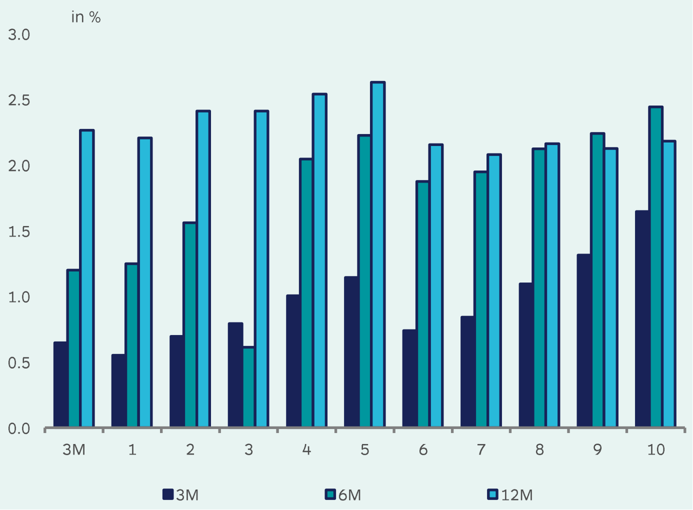
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.65	1.20	2.27
1Y	0.55	1.25	2.21
2Y	0.70	1.56	2.41
3Y	0.79	0.61	2.41
4Y	1.01	2.05	2.54
5Y	1.14	2.23	2.63
6Y	0.74	1.87	2.16
7Y	0.84	1.95	2.08
8Y	1.10	2.12	2.16
9Y	1.31	2.24	2.13
10Y	1.65	2.44	2.18

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	0.6	2.6	2.0	2.8	1.6
2Y	0.7	2.3	1.8	3.0	1.7
3Y	0.8	2.9	1.3	2.9	1.8
4Y	1.0	3.3	1.4	3.1	2.0
5Y	1.1	1.6	2.1	3.3	2.1
6Y	0.7	4.4	2.0	3.2	2.3
7Y	0.8	4.2	2.5	3.4	2.7
8Y	1.1	4.4	2.7	3.6	2.7
9Y	1.3	4.7	3.1	3.4	3.3
10Y	1.6	0.4	3.1	3.7	3.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.7	1.2	0.0	0.0
2Y	1.4	1.0	0.2	0.2
3Y	2.0	0.5	0.2	0.2
4Y	2.4	0.6	0.3	0.4
5Y	0.7	1.3	0.5	0.5
6Y	3.5	1.2	0.4	0.7
7Y	3.2	1.6	0.6	1.1
8Y	3.5	1.9	0.8	1.0
9Y	3.7	2.2	0.7	1.6
10Y	-0.5	2.2	0.9	1.6

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.2	0.8	5.2	7.5	2.9
2Y	2.4	1.2	5.7	7.4	2.9
3Y	2.4	1.6	5.7	7.2	3.0
4Y	2.5	2.0	6.3	7.1	3.2
5Y	2.6	2.5	7.4	7.2	3.5
6Y	2.2	4.0	7.8	6.8	3.3
7Y	2.1	3.7	9.0	6.8	3.7
8Y	2.2	4.1	9.6	6.7	3.8
9Y	2.1	4.7	9.6	6.7	4.2
10Y	2.2	5.1	9.6	7.2	3.6

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.8	4.4	0.5	0.1
2Y	5.2	4.8	0.5	0.1
3Y	5.6	4.9	0.3	0.3
4Y	6.1	5.5	0.2	0.5
5Y	6.6	6.5	0.3	0.7
6Y	8.1	7.0	-0.1	0.6
7Y	7.7	8.1	-0.1	0.9
8Y	8.2	8.8	-0.2	1.1
9Y	8.8	8.7	-0.2	1.4
10Y	9.2	8.7	0.3	0.8

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies
Stock market strategy; 3-month, 6-month & 12-month horizons

Levels and performance

Index	Level as at 30.01.2025	Status Prev. month	Status Start of year	Performance since Prev. month	Performance since Start of year
DAX	21,727.20	19,909.14	19,909.14	9.13%	9.13%
MDAX	26,732.51	25,589.06	25,589.06	4.47%	4.47%
EuroSTOXX50	5,282.21	4,895.98	4,895.98	7.89%	7.89%
STOXX50	4,597.05	4,308.63	4,308.63	6.69%	6.69%
STOXX600	538.84	507.62	507.62	6.15%	6.15%
Dow Jones	44,882.13	42,544.22	42,544.22	5.10%	5.10%
S&P 500	6,071.17	5,881.63	5,881.63	2.68%	2.68%
Nikkei	39,513.97	39,894.54	39,894.54	-0.95%	-0.95%

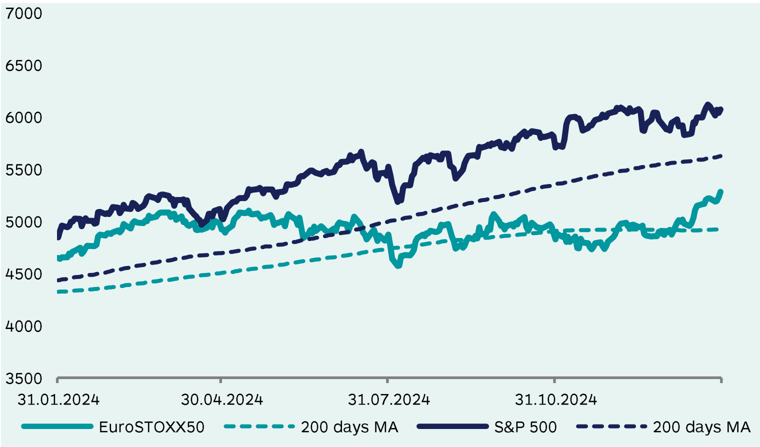
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ... 3M	6M	12M
DAX	20,500	21,000	22,000
MDAX	25,000	25,500	27,000
EuroSTOXX50	5,000	5,050	5,400
STOXX50	4,350	4,500	4,750
STOXX600	500	520	550
Dow Jones	43,500	44,500	46,000
S&P 500	5,950	6,000	6,600
Nikkei	38,000	39,500	41,000

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday, 31 January 2025.**
The next English issue of Economic Adviser will be appearing on **3 March 2025**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
USA	2.8	2.0	1.7	3.0	2.5	2.4	4.0	4.6	4.3	-6.9	-6.0	-5.8
Euroland	0.7	0.9	1.3	2.4	2.2	1.9	6.4	6.4	6.3	-2.9	-3.0	-2.8
Germany	-0.2	0.2	1.1	2.5	2.3	2.0	6.0	6.3	6.1	-2.6	-2.3	-2.1
Japan	-0.2	1.3	1.1	2.7	2.4	1.9	2.5	2.4	2.2	-4.0	-3.6	-3.0
Britain	0.9	1.3	1.4	2.5	2.6	2.2	4.3	4.4	4.5	-4.5	-3.8	-3.3
Switzerland	1.2	1.5	0.0	2.1	0.3	0.0	2.0	2.7	0.0	0.2	0.4	0.0
China	5.0	4.5	4.3	0.2	0.8	1.3	5.2	5.1	5.1	-7.1	-5.5	-5.7

Change vs previous year as percentage; [1] as percentage of the labour force (Germany: as per Federal Employment Office definition); [2] as percentage of GDP
Sources: Feri, NORD/LB Macro Research

Key interest rates

In %	30.01.25	3M	6M	12M
USD	4.50	4.25	4.00	3.50
EUR	2.75	2.25	2.00	2.00
JPY	0.50	0.50	0.75	0.75
GBP	4.75	4.50	4.25	3.75
CHF	0.50	0.25	0.00	0.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	30.01.25	3M	6M	12M
USD	1.04	1.03	1.05	1.08
JPY	160	156	153	150
GBP	0.84	0.83	0.83	0.83
CHF	0.95	0.93	0.92	0.92
CNY	7.54	7.60	7.77	7.99

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	30.01.	3M	6M	12M	30.01.	3M	6M	12M	30.01.	3M	6M	12M	30.01.	3M	6M	12M
USD	4.29	4.00	3.70	3.20	4.21	3.90	3.30	3.10	4.32	4.10	3.70	3.20	4.52	4.40	3.90	3.50
EUR	2.61	2.20	2.10	2.10	2.21	2.10	1.90	2.10	2.32	2.20	2.10	2.30	2.52	2.40	2.40	2.60
JPY	0.77	0.70	0.80	0.90	0.06	0.70	0.85	0.95	0.26	0.85	1.02	1.12	0.66	1.20	1.30	1.40
GBP	4.48	4.35	4.05	3.65	4.26	4.29	4.03	3.63	4.25	4.15	3.98	3.58	4.56	4.40	4.25	4.10
CHF	0.34	0.20	0.00	0.10	0.16	0.10	0.10	0.10	0.27	0.15	0.15	0.20	0.42	0.25	0.25	0.40

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	30.01.	3M	6M	12M	30.01.	3M	6M	12M	30.01.	3M	6M	12M	30.01.	3M	6M	12M
USD	168	180	160	110	200	180	140	100	200	190	160	90	200	200	150	90
JPY	-184	-150	-130	-120	-215	-140	-105	-115	-206	-135	-108	-118	-186	-120	-110	-120
GBP	187	215	195	155	205	219	213	153	194	195	188	128	204	200	185	150
CHF	-226	-200	-210	-200	-205	-200	-180	-200	-205	-205	-195	-210	-210	-215	-215	-220

Sources: Bloomberg, NORD/LB Macro Research

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