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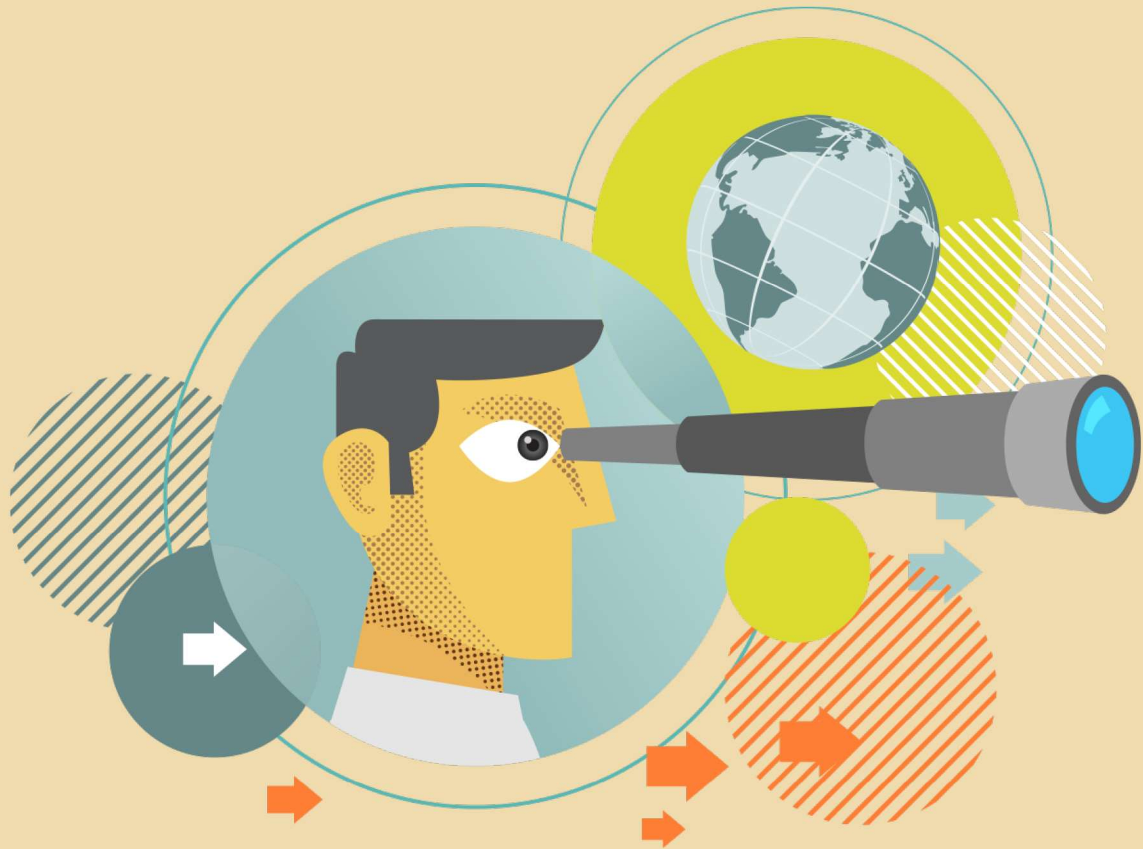

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Special: Who's next? Trump also threatens the EU with tariffs

Analyst: Christian Lips, Chief Economist

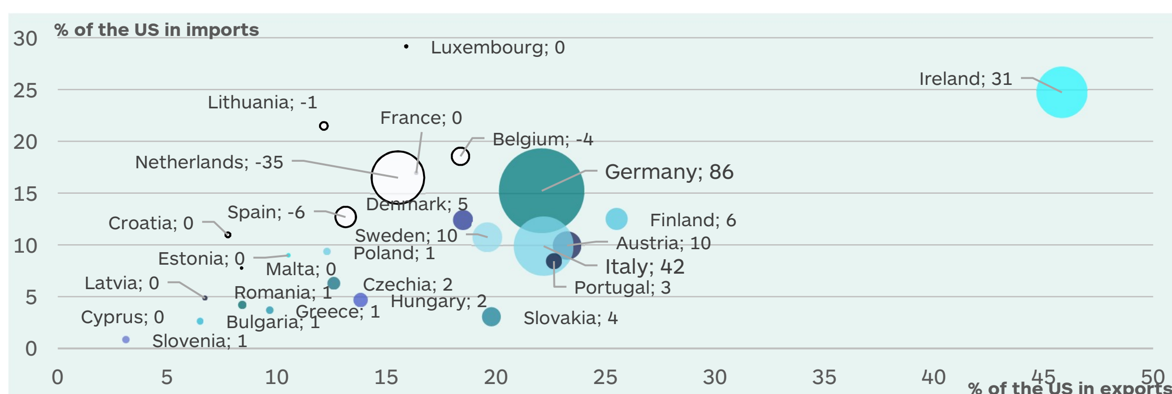
Trump's return: Barrage of executive orders, disruption of the established order
The early weeks of Donald Trump's second term in the White House were marked by a veritable barrage of presidential executive orders, which significantly disrupted both domestic and foreign policy norms, shaking the established order and challenging long-held assumptions. This month, in particular, appears to signal a turning point in the historically close transatlantic partnership. The gravity of the situation became unmistakably clear when the U.S., alongside Eritrea, Belarus, Mali, North Korea, Sudan and Russia, blocked a UN resolution condemning Russia's aggression. Trump's recent comments on Russia's three-year-long war against Ukraine, coupled with Vice President J.D. Vance's remarks at the Munich Security Conference, suggest tectonic shifts in geopolitics with profound implications for Europe's security architecture.
Friedrich Merz, Germany's newly designated chancellor and a staunch transatlanticist, raised eyebrows on federal election night by stating, "The interventions from Washington were no less dramatic, drastic and ultimately outrageous than those we've seen from Moscow." He emphasized that his top priority would be to help Europe "step by step achieve independence from the United States." This underscores the rapid erosion of trust in the U.S. as a reliable partner. At the same time, it highlights the urgent need for a fiscal policy overhaul, a topic now being hotly debated in Germany post-election (see pages 9 & 10).

The year of tariffs – trade war or deals?
Trump's new tariff threats and decisions must be viewed within the context of these geopolitical shifts. Tariffs, a favourite tool of Trump's, have quickly returned to the forefront of his considerations. He imposed 25 percent tariffs on Mexico and Canada – partners in what he once called the "best trade deal ever," namely the USMCA – only to suspend them shortly afterwards in exchange for concessions such as border controls. Moreover, Trump intends imposing tariffs of 10 or indeed 20 percent on Chinese imports, prompting Beijing to retaliate with counter-tariffs and restrictions on rare-earth exports. He withdrew threats of steep tariffs on Colombia after its government agreed to assist with migrant repatriation. Additionally, Trump has revived the 25 percent tariffs on steel and aluminium imports first introduced during his initial term. The cases of Mexico, Canada, and especially Colombia demonstrate that Trump's tariff threats are not always followed through. Often, they serve as leverage to secure deals with far milder consequences, though the ultimate effectiveness of this strategy naturally remains to be seen. In these instances, tariffs appear to represent the upper limit of demands, which can then be negotiated downwards. China, however, is likely a different story, where initial tariffs of 10 percent may serve as a starting point – and potentially a floor – rather than a ceiling. Given Trump's fixation on bilateral trade deficits, it is almost inevitable that the EU will soon become the next target of his tariff policy. Initial threats of higher tariffs on EU goods in general, specifically vehicles and pharmaceuticals, have already been floated.

EU-US trade: a relationship of mutual interest
The trade relations between the USA and the EU are both extensive and mutually beneficial, yet they risk being undermined by escalating tariffs. The accusation of a large bilateral trade deficit is misleading. While it is true that the EU traditionally runs a surplus in goods trade with the USA – amounting to €158 billion in 2023 – this is offset by a deficit in services trade, however, which stood at over €100 billion in the same year. This gap is rather likely to widen further, given the U.S.'s lead in the field of artificial intelligence. This near-balanced overall trade relationship underscores high complementarity and

refutes claims of unfair trade practices. The average tariff rates in bilateral trade likewise don't indicate any one-sided disadvantages for U.S. companies. While, on average, the EU imposes slightly higher tariffs on agricultural products, the average tariff (MFN) on U.S. industrial exports to the EU – which Trump sees as a particular issue – is somewhat lower than that on EU exports to the USA, however. The often-cited example of vehicle import tariffs (USA:2.5 percent vs. EU: 10 percent is undermined by the U.S.'s 25-percent tariff on light trucks ("chicken tax"), a dominant segment of its market. Moreover, accusations against the EU – specifically the ECB – of currency manipulation to the detriment of the US dollar hold little water at present.
Focussing on individual countries and sectors within the EU's single market makes little economic sense, but could be a tactic by Trump to test European unity. At the country level, Germany, Italy and Ireland would be particularly exposed due to their large bilateral surpluses in (extra-EU) goods trade (see chart). At the product level, pharmaceuticals and vehicles – already in the U.S. administration's crosshairs – are the EU's most significant surplus categories.

Chart: Extra-EU trade – US shares (in %) and bilateral trade balances (in % / EUR bn)



Sources: Eurostat, NORD/LB Macro Research

Trump determines the agenda – how can and should the EU respond to tariff threats?
The EU Commission has considerable legal leeway in decision-making and can react swiftly. That said, it is not even clear whether Trump's potential imposition of tariffs on the EU is driven by (oversimplified) economic arguments or whether underlying political tensions (e.g. Ukraine, defence spending, or relations with China and/or Russia) are the true motivation. This distinction is crucial for crafting successful countermeasures and negotiation strategies, however. The risk of a tariff spiral is high, moreover, especially given Trump's threats of reciprocal tariffs – including his characterization of (import) sales taxes as trade barriers. A more promising approach would therefore be to explore the possibility of a deal. Unified and confident action by the EU is essential; after all, even Trump recognizes the advantages of the vast EU market. In response to tariffs on steel, aluminium, and other economically grounded measures, the EU is likely to impose targeted counter-tariffs on iconic U.S. products like whiskey, peanut butter, and Harley-Davidson, as it has done in the past. Moreover, leverage could also be applied in the realm of services, while there remains room for concessions on specific tariffs affecting U.S. products.
Where politically motivated tariffs are concerned, compromises outside the realm of trade policy may be necessary, but these must not come at the expense of Europe's strategic resilience. The uncertainty surrounding U.S. reliability and the true motives behind a potential tariff dispute with the EU underscores the need for Europeans to address their vulnerabilities (e.g. defence) and boost their strategic autonomy. This could involve pursuing new trade partnerships, advancing free trade agreements, and deepening the integration of the single market. Ultimately, the EU might even consider reviving talks on a bilateral free trade agreement (TTIP) with the U.S. Now it is Trump's move, but the European Union – as long as its member states avoid being divided – is far from defenceless or at the mercy of his decisions.

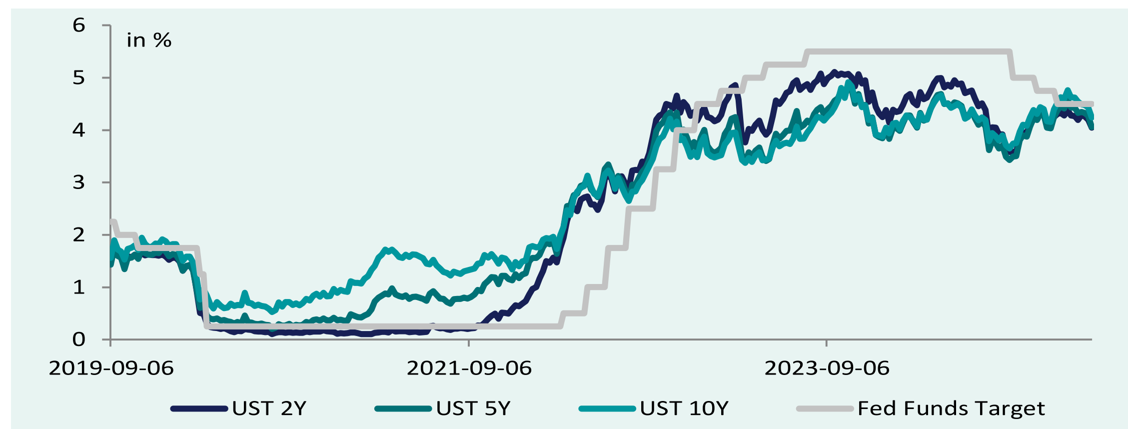
USA: Is a demand slowdown on the horizon?

Analysts: Tobias Basse // Constantin Lüer

Is a demand slowdown on the horizon?

The revised GDP figures for the fourth quarter of 2024 held no major surprises. With an annualized growth rate of 2.3 percent, the real increase in economic growth in the USA is, as expected, somewhat weaker as against the preceding quarter, but the signs are that the country's economic activity will continue its upward trend. Private household consumption had a markedly positive effect as growth driver. Darker clouds are now gathering on the horizon, however. Indeed, preliminary January retail sales data came in unexpectedly weak, with the headline index plummeting by 0.9 percent month on month. While a rebound was expected after strong gains in previous months, the magnitude of the decline came as a surprise on the downside. The actually less volatile control group registered a marked month-on-month decline of 0.8 percent. There have undoubtedly been distortions due to the fires and weather disruptions, and a certain degree of caution is always called for when interpreting January data on retail sales, but without a clear countermovement in February (or a marked upward revision of the January data) we would find ourselves under pressure to adjust our GDP forecast for Q1/2025. The U.S. construction sector also warrants close attention in this context.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

10-year US Treasury yields move into focus

The real estate market continues to struggle, too, as evidenced by the January NAHB Housing Market Index. By mechanistic interpretation, all components were below the expansion threshold, so the problem is no longer confined to the demand side alone. Sellers are also reluctant to list properties, fearing they could lose potential profit if they sell their properties now in a softening market. Against this background, the new Treasury Secretary Scott Bessent could emerge as a beacon of hope for the U.S. real estate market. In a recent interview, he stressed the growing importance of 10-year Treasury yields. He naturally has an interest in declining yields because this would reduce the cost of refinancing the national budget. Bessent emphasized that, for the Treasury, long-term market rates are far more important than the Fed's monetary policy, as central bankers in any case have limited control over them without quantitative easing (QE) or tightening (QT). Indeed, recent trends suggest that the trajectory of the Fed Funds Target Rate appears to have decoupled from that of capital market interest rates. Rather, in Bessent's view, investor confidence is the decisive factor. At the same time, growth expectations for the economy remain key drivers of U.S. Treasury yields. For the construction sector, the link to mortgage loans for potential homeowners is naturally of utmost importance, given that yields

in the long-term government bond market and the 30-year mortgage rates generally appear to move in lockstep. A decline in Treasury yields could also quickly translate into lower mortgage rates, potentially revitalizing the housing market as well at last.

The Fed plays for time

Against this backdrop the Federal Reserve is playing for time, making adjustments to the benchmark interest rate unlikely in the near term. The inflation environment is currently prompting some degree of concern among the central bankers, who are evidently waiting for further data before making their next move. The FOMC, however, continues to believe that its monetary policy stance is restrictive, suggesting the next rate move will be a renewed cut – just not in March. Once the FOMC meeting concludes, Donald Trump will likely share his thoughts on the Fed's strategy almost instantly via his social media channels. Fed Chair Jerome Powell can brace himself for another round of sharp criticism!

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	1.8	1.1
Fixed investment	4.0	2.7	2.8
Exports	3.2	2.5	2.1
Imports	5.4	3.5	2.2
Inflation	3.0	2.6	2.4
Unemployment rate[1]	4.0	4.5	4.4
Budget balance[2]	-6.9	-6.1	-5.9
Current acct. balance[2]	-3.6	-3.5	-3.4

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

Sources: Macrobond, 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	2.6	2.2
Inflation yoy	3.2	2.6	2.7	2.7	2.6

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	27.02.	3M	6M	12M
Fed funds target rate	4.50	4.50	4.25	3.75
3M rate	4.32	4.10	3.85	3.40
10Y Treasuries	4.26	4.35	4.15	3.70
Spread 10Y Bund	185	195	165	110
EUR in USD	1.04	1.04	1.05	1.07

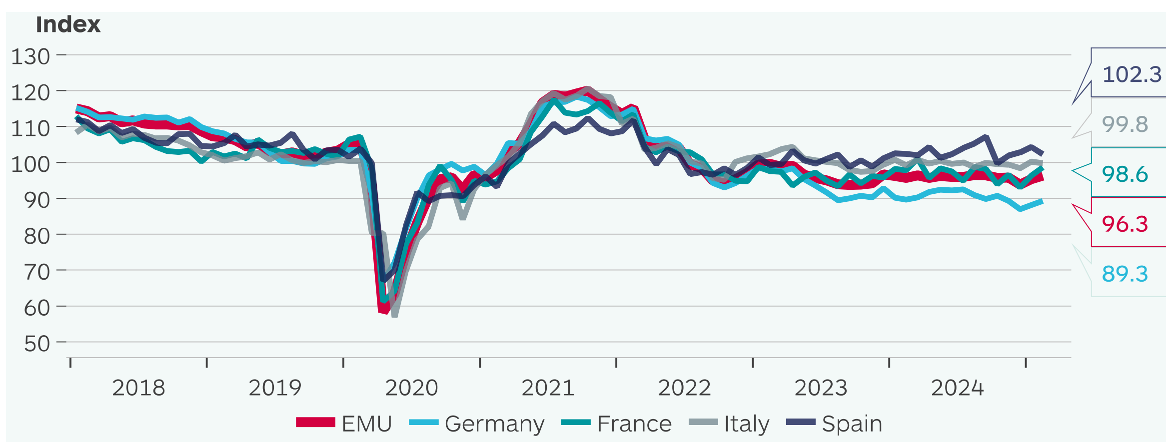
Sources: Bloomberg, NORD/LB Macro Research

Euroland: Debates in the ECB's Governing Council intensify

Analysts: Christian Lips, Chief Economist // Christian Reuter

Moderately improved economic sentiment – pressures mount for France's services sector
February saw economic sentiment in the eurozone with moderate improvement. The European Commission's Economic Sentiment Indicator (ESI) rose by 1.0 points to 96.3 points, though remaining below its long-term average. The modest recovery in February as month under review was primarily driven by industry and improved consumer confidence. While the ESI rose in most countries, it continues to signal subdued economic activity. Spain stands out positively, however, with sentiment indicators remaining firmly in expansionary territory despite a slight dip.
Sentiment in the services sector weakened marginally, however. The corresponding indicator edged down to 6.2 points, still suggesting growth but at a slower pace. This trend is not uniform across the eurozone. In France, purchasing managers signalled a near-dramatic contraction in services activity, with the sector's index plunging by 3.7 points to 44.5 points, firmly inside the contraction zone. This is noteworthy in that the political uncertainty in France has, at first glance, diminished. Prime Minister Bayrou succeeded where his predecessor Barnier failed, invoking Article 49.3 of the French constitution to pass the 2025 budget and subsequently surviving a no-confidence vote. That said, one swallow doesn't make a summer, and French companies evidently still perceive the government as too unstable.

Chart: Economic sentiment remains subdued despite slight improvement



Sources: EU Commission, Macrobond, NORD/LB Macro Research

Inflation holds above 2.0 percent in January – slowdown in wage growth
January as month under review saw the inflation rate remain unchanged at 2.5 percent yoy, and the core rate likewise stagnated at 2.7 percent yoy. Inflation in the services sector remains particularly persistent, with a year-on-year rate of 3.9 percent (previous month: 4.0 percent yoy) – a key concern for the ECB, given the sector's high labour cost share. With a certain time lag, there are currently a host of factors providing good reason to expect a slowdown in wage growth, which will gradually ease upward price pressures in core inflation. This is reflected in the fact that the ECB's negotiated wage growth indicator fell to 4.1 percent yoy in Q4/2024, significantly down from a level of 5.4 percent yoy in Q3.

ECB to continue easing in March – first cracks in the Governing Council's unity

We expect the ECB to continue its monetary easing in March, with a renewed 25 basis points cut to the key interest rates. The accounts of the January policy meeting revealed broad agreement that rates remain restrictive even after the most recent rate cut. However, as expected, the almost demonstrative unity in the Governing Council over a long period of time is beginning to show initial cracks as the key rates approach neutral territory. Isabel Schnabel, a rather hawkish member of the ECB's Executive Board, has floated the idea of soon pausing or slowing the pace of cuts, arguing that, as she sees it, rates may no longer be considered restrictive after the March decision. This is based on the wide range of estimates for the so-called neutral rate (r*), currently placed between 1.75 and 2.25 percent in nominal terms. Accordingly, the upper end of this range would soon be reached. However, Greek Governing Council member Stournaras promptly contradicted a number of Schnabel's key arguments.
So, what happens next? The uncertainty around the neutral rate on the one hand supports a gradual approach to rate cuts, thus aligning with the ECB’s current strategy. On the other, it also highlights the limitations of relying on the theoretical concept of the neutral rate for real-time monetary policy decisions. Against this background, it is advisable for the ECB to continue aligning interest rate policy to the macroeconomic data that becomes available from one meeting to the next. The further path will also depend on Trump's tariff strategy and potential changes in fiscal policy. In this respect, the discussion among the Governing Council's members suggests that there are two conceivable possibilities: either a slight slowing down of the pace of interest rate cuts from March (fading out), or maintaining the current pace. By autumn, however, the deposit rate will likely have reached its terminal level of 2.00 percent in any case.

Fundamental forecasts, Euroland

	2024	2025	2026
GDP	0.7	1.0	1.3
Private consumption	1.0	1.6	1.6
Govt. consumption	2.3	1.5	1.4
Fixed investment	-2.1	2.3	3.7
Net exports[1]	0.4	-1.0	-0.5
Inflation	2.4	2.3	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: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Euroland

	II/24	III/24	IV/24	I/25	II/25
GDP sa qoq	0.2	0.4	0.1	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	2.4	2.4

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	27.02.	3M	6M	12M
Repo rate ECB	2.75	2.25	2.00	2.00
3M rate	2.49	2.10	2.00	2.00
10Y Bund	2.41	2.40	2.50	2.60

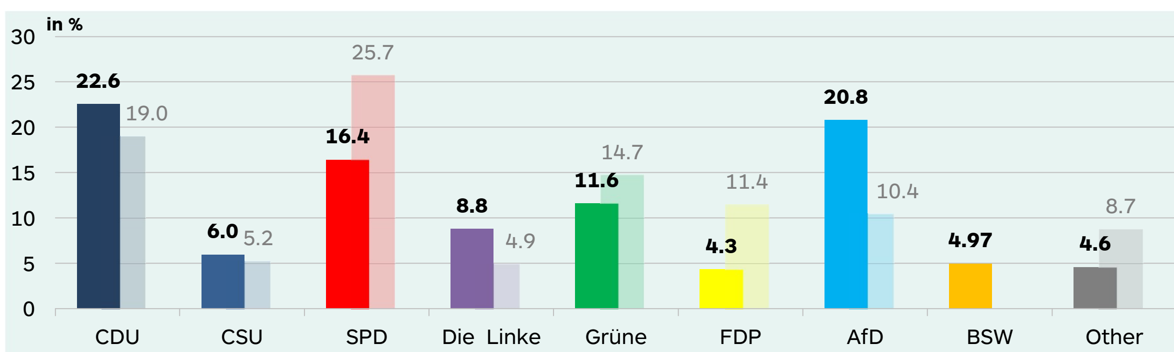
Sources: Bloomberg, NORD/LB Macro Research

Germany: The election campaign is over!

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Federal elections: Signs are that CDU/CSU and SPD will form a coalition
The outcome of Germany's federal elections on February 23rd came as little surprise. With the exception of a last-minute surge by the Left Party (Die Linke), the results closely mirrored pre-election polls. While the so-called "traffic light" coalition parties – the Social Democrats (SPD), Greens, and Free Democrats (FDP) – each saw significant drops in support, with the FDP even failing to clear the 5-percent threshold for parliamentary representation for the second time since 2013. The conservative alliance of Christian Democratic Union (CDU) and Christian Social Union (CSU) gained ground and emerged victorious. Friedrich Merz, the CDU leader, now needs only one coalition partner to secure the chancellorship. However, the SPD remains his sole realistic option, necessitating a high degree of compromise in negotiations. Although the new Bundestag will be comprised of just five parliamentary groups, the fragmentation of the political landscape has intensified further (see chart). Of particular concern is the deepening polarization, underscored by the far-right Alternative for Germany (AfD) doubling its share of the vote compared to 2021. This trend not only narrows the political leeway for the centrist parties but could also bind the future coalition closer together in pursuit of a comprehensive reform agenda.

Chart: 2025 federal election results (proportions of second votes) – fragmentation and polarization



Sources: The Federal Returning Officer (2025), NORD/LB Macro Research

Fiscal situation presents the incoming federal government with daunting decisions
In 2024, the general government deficit rose to €118.8 billion, marking an increase of €15 billion compared to the previous year. This pushed the deficit ratio to 2.8 percent of GDP, up from 2.5 percent in 2023. In contrast to the trend at the federal level, the deficits of Germany's states tripled to €27.3 billion, and municipal deficits swelled to €18.6 billion. The incoming government will take office amid a challenging fiscal environment, tasked with closing a significant budget gap for 2025 while addressing pressing investment needs in infrastructure and defence, exacerbated by shifting geopolitical realities and years of underinvestment. This implicit government debt (consumption bias), built up over years, has not been prevented by the current debt brake rules, underscoring the fundamental need for reform.

Against this fiscal backdrop, the incoming administration faces tough choices. The strained budgetary situation leaves little leeway for the tax cuts pledged by the CDU/CSU during the election campaign, which, if fully implemented, would result in additional revenue shortfalls of €90-100 billion. Shortly after the election, the CDU/CSU reportedly initiated talks with the SPD, Greens, and FDP about, among other topics, establishing a new €200 billion special fund for defence expenditure, equating to around 4.6 percent of GDP. Such a fund would be difficult to manage within the limits of the current budget. However, creating a special fund or amending the constitutional debt brake will be harder in the new legislative period, as CDU/CSU and SPD, even with the Greens' support, will lack the required two-thirds

majority in the new Bundestag. This would also necessitate the support of the Left Party (which is opposed to any increase in military spending). That said, the idea of pushing through a special fund with the outgoing Bundestag is fraught with complications. On the one hand, the likely future coalition partners could come under pressure from a democratic theory standpoint if, after the elections, the current Bundestag were to quickly take far-reaching decisions that had been previously rejected by CDU/CSU before the elections. On the other hand, the SPD is aware of its strong negotiating position and, from a game-theoretical perspective, is unlikely to see any reason to clear the table of key issues and thus, as it were, of bargaining chips before the coalition negotiations have even begun. While the Left Party is not likely to give its consent to a special fund for the German Armed Forces in the new Bundestag, there is likely to be resistance in parts of the Union to a reform of the federal debt brake. Against this background, a plausible scenario could involve a special fund for infrastructure investment and a relaxation of the debt brake at the state level, thus also freeing up federal resources for higher defence spending. Simultaneously, incentives towards expanding production capacities would be crucial.

Economic sentiment – companies (still) in wait-and-see mode
The survey-based leading indicators in February did not yet reflect the outcome of the federal election. While the sentix and ZEW surveys, as well as the PMIs, suggested a slight uptick in economic momentum, the ifo Business Climate Index remained unchanged at 85.2 points in February, though the expectations component improved marginally.
The election results present an ambivalent outlook for economic sentiment. While a CDU/CSU-SPD coalition points to a stable government for the full legislative term, the opposition is dominated by strengthened parties on the extreme Right and Left of the political spectrum, whose support would indeed be needed for constitutional changes. No matter what measures it seeks to implement, the new government will face populist crossfire from both the AfD and the Left Party, making life difficult for the incoming administration. Against this backdrop, a swift boost in sentiment and economic activity appears unlikely in the near term.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.2	0.2	1.1
Private consumption	0.3	0.9	1.5
Govt. consumption	3.5	1.9	1.4
Fixed investment	-2.7	0.3	2.7
Exports	-1.1	-1.3	1.4
Imports	0.2	2.8	2.9
Net exports[1]	-0.5	-1.6	-0.6
Inflation[2]	2.5	2.3	2.0
Unemployment rate[3]	6.0	6.3	6.1
Budget balance[4]	-2.8	-2.6	-2.2
Current account balance[4]	5.8	5.3	5.0

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	2.7	2.2

Change as percentage
Sources: Macrobond, NORD/LB Macro Research

Switzerland: Economy posts solid growth in Q4

Analyst: Christian Reuter

Swiss economy grows by 0.9 percent in 2024 – moderate growth expected to continue

Switzerland's GDP grew by 0.5 percent qoq in Q4/ 2024 (real, seasonally and sport-event adjusted). This makes for a growth figure of 0.9 percent yoy for 2024 as a whole – falling short of the previous year's 1.2 percent yoy and remaining below potential. Growth was driven roughly equally by the industrial and services sectors, with both consumption and investment contributing on the expenditure side. In the industrial sector, the chemical and pharmaceutical industry stands out as a key growth driver, particularly buoyed by a significant expansion in exports. In contrast, other manufacturing sectors continued to struggle with stagnation, a trend now in its second year. Revenue in typically cyclical industries, such as metals and machinery, remained weak while, on the other hand, growth in the services sector was broadly distributed, with tourism once again emerging as a key engine. Overnight stays reached record levels in 2024, with a complete recovery in the number of foreign visitors after the COVID-induced slump, surpassing the pre-pandemic level in 2019. Presently available data are not pointing to any acceleration in economic growth for the current quarter. The Swiss Economic Sentiment Index and the KOF barometer continued their sideways movement around or slightly below the zero mark in January. The industry PMI fell to 47.5 points, moving further away from the 50-point growth threshold. Moreover, KOF survey results revealed that 60 percent of industrial companies reported underutilized capacity at the start of the year, up from early 2021 levels. In foreign trade, January saw a rebound in exports of chemical and pharmaceutical products, continuing the erratic trends of 2024. Exports of machinery, electronics, and watches posted gains, though these may reflect pull-forward effects ahead of potential US tariff policy changes. Sentiment in the services sector is somewhat brighter. The current low inflation rate, a sound labour market and the recovery in consumer sentiment provide good reason to expect domestic demand to remain a mainstay of the economy. Barring the persistently high geopolitical risks, the Swiss economy looks set to continue its gradual upward trajectory.

Inflation continues to recede

Inflation appears to be stabilizing at low levels. The national consumer price index (LIK) fell by 0.1 percent mom in January, with the annual rate up by 0.4 percent yoy. Core inflation, excluding fresh and seasonal products, energy and fuels, accelerated somewhat from 0.7 to 0.9 percent yoy. The SNB appears somewhat uneasy about the recent figures. It once again addressed its monetary policy tools, emphasizing the role of the exchange rate and reaffirming its commitment to price stability. The central bank signalled its readiness to even push the policy rate into negative territory if necessary, with a particular focus on the exchange rate of the Swiss franc. While having stabilized at around 0.94 against the euro since the beginning of the year, it remains historically high, especially as safe-haven effects are expected to intensify amid the looming international trade war.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	0.9	1.5	1.6
Inflation (CPI)	1.1	0.2	0.4
Unemployment rate[1]	2.4	2.7	2.8
Budget balance[2]	0.4	0.4	0.3
Current account bal.[2]	6.9	6.0	6.0

Interest and exchange rates, Switzerland

	27.02.	3M	6M	12M
SNB policy rate	0.50	0.25	0.00	0.00
3M rate	0.24	0.00	0.00	0.10
10Y	0.43	0.40	0.35	0.45
Spread 10Y Bund	-198	-200	-215	-215
EUR in CHF	0.94	0.93	0.93	0.93

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Japan: Is the yen already turning the corner?

Analyst: Tobias Basse

Is the yen already turning the corner?

The Japanese yen has in the meantime come under significant pressure, with the currency actually nearing the mark of JPY 160 per USD mark at the start of 2025. This sharp depreciation has sparked various concerns in Tokyo, one of which being that the yen's marked weakness against the US dollar could embolden Donald Trump to adopt a more aggressive tariff policy towards Japan, posing a substantial challenge for the country's export-driven economy. The Bank of Japan raised its benchmark interest rate by 25 basis points right at the start of the new year, a move likely aimed at addressing these concerns. Donald Trump recently held what appears to have been a highly productive meeting with Japan's Prime Minister, Shigeru Ishiba. Following the talks, Ishiba appeared almost remarkably confident in the possibility of reaching a mutually beneficial solution with Washington. Most recent press reports from Japan suggest that Tokyo is, for example, considering significant purchases of US military equipment. The meeting between Ishiba and Trump apparently included specific discussions about Tokyo ordering military transport aircraft, likely involving the C-17, the production of which was discontinued by Boeing in 2015, however.

The BoJ's cautious approach to key-rate hikes

Japan's once-notorious deflation fears have clearly receded into the background. In fact, financial markets are now expressing some concerns about inflation rates already being too high. A slightly stronger yen could naturally help in this regard as well. Consequently, the central bankers in Tokyo will be looking to raise the key rate further, albeit very cautiously.

Words over deeds

Against this background we are not reckoning with any concrete rate adjustments in March. In the interests of supporting the yen, the central bankers will likely restrict themselves to fairly hawkish rhetoric for the time being. Only after very clear indications in the direction of imminent rate hikes can we expect to see the BoJ ultimately take concrete action. In the coming months, therefore, the BoJ's strategy may well be characterized by an abundance of talk and a scarcity of action. The central bank will inevitably need to adjust interest rates upward, however, though there should be no expectations at this point of that taking place all too aggressively – a view the FX market appears to quite clearly share at the present time.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	0.1	1.2	1.0
Inflation	2.7	2.8	2.1
Unemployment rate[1]	2.5	2.4	2.3
Budget balance[2]	-2.4	-3.6	-3.0
Current account bal.[2]	4.8	4.2	4.0

Interest and exchange rates, Japan

	27.02.	3M	6M	12M
Key rate	0.50	0.50	0.75	1.00
3M rate	0.79	0.80	0.90	1.10
10Y	0.66	1.40	1.50	1.60
Spread 10Y Bund	-175	-100	-100	-100
EUR in JPY	156	156	152	149
USD in JPY	150	150	145	139

* Change vs previous year as percentage;

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

China: Trade collision course gains momentum

Analyst: Valentin Jansen

Industrial economy slows amid the growing frictions with Washington

January saw China's industrial economy suffer a renewed setback, with the Caixin Manufacturing PMI dropping to 50.1 points, marking the second consecutive setback. This places the index just barely in expansionary territory at the start of the year. The predominantly export-oriented companies in southern China represented in the index had benefited before the turn of the year from pull-forward effects in foreign trade with the USA, which made for an unexpectedly strong boost to GDP growth in Q4/2024. However, these one-off effects have come to an abrupt halt amid the deteriorating relations between Washington and Beijing since Donald Trump took office. Moreover, they are expected to weigh on 2025 growth statistics. The officially conducted PMI, which primarily reflects state-guided sectors in northern China, fell to 49.1 and thus back below the expansion threshold after three months of upward momentum, further underscoring the slowdown in China's industrial economy.

'Two Sessions' meeting in March with likely focus on the domestic market and fiscal leeway

In early March, China's National People's Congress and the Chinese People's Political Consultative Conference will, as is customary, convene their meetings in separate sessions, known collectively as the 'Two Sessions' meeting. Government circles have already set priorities in the run-up to the event. Given the escalating tensions with the USA, the topic of bolstering the domestic market will move centre stage. We therefore expect to see measures to stimulate household consumption, similar to those introduced in the second half of 2024, maintained or even expanded. This comes as weak domestic demand has kept price growth subdued for nearly two years, with inflation in 2024 barely above zero. Against this backdrop, the Two Sessions meeting is expected to signal a shift away from Beijing's previous – and largely missed – 3-percent inflation target. Meanwhile, the growth target of "around 5 percent" is unlikely to change significantly, as Beijing will be looking to signal economic stability, particularly in this pivotal year. Moreover, policymakers will be looking to expand their fiscal leeway by way of a higher deficit target (effectively increasing borrowing capacity) to make for much-needed growth stimuli and capacities to cushion the impact of potential trade disruptions with the United States.

PBOC maintains its support for the renminbi

With interest rate differentials between the USA and China likely to widen further this year, the renminbi faces a certain degree of structural depreciation pressure. In response to Washington's trade policy plans, which favour a stronger dollar, the People's Bank of China has signalled its ongoing support for the renminbi. In February, the central bank oriented itself more closely to the mark of 7.17 to the USD in the daily yuan fixing. Additionally, the issuance of offshore yuan-denominated bonds, which had already taken place in January, was repeated in February with a volume equivalent to USD 8.2 billion to counter the depreciation pressure on the offshore yuan.

Fundamental forecasts*, China

	2024	2025	2026
BIP	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]	-7.4	-5.5	-5.7
Current account bal.[2]	1.4	1.3	1.0

* Change vs previous year as percentage

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	27.02.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.89	1.50	1.45	1.45
10Y	1.80	1.70	1.65	1.65
Spread 10Y Bund	-61	-70	-85	-95
EUR in CNY	7.59	7.64	7.77	7.92
USD in CNY	7.29	7.35	7.40	7.40

Britain: For now, it's "business as usual"

Analyst: Constantin Lüer

Positive new year boost for the CPI

January saw inflationary momentum ease as expected, with the headline rate declining by 0.1 percent month-on-month. While the annual rate literally leapt from 2.5 to 3.0 percent yoy, this spike is largely insignificant. As we had previously anticipated, this is merely a statistical effect resulting from the low January 2024 figure of -0.6 percent mom dropping out of the calculation. A similar pattern will occur in February and March, when the in each case high month-on-month rates of 0.6 percent from the previous year also fall out of the annual comparison. As a result, the annual inflation rate – critical for monetary policy – is expected to decline again, though it may experience a temporary uptick around mid-year. Worthy of note is the trend in the core inflation rate, which in January fell more sharply than the headline rate, dropping by 0.3 percent mom. For the Bank of England, these figures at any rate provide no immediate reason to delay cutting interest rates.

MPC comfortable with rate cuts

The Bank of England's Monetary Policy Committee, too, anticipates a temporary rise in inflation. Recent forecasts suggest inflation could climb to 3.7 percent yoy by Q3/2025. Despite this, the MPC resolved to cut the benchmark interest rate – the Bank Rate – by 25 basis points in its February meeting. Overall, the committee's members view the BoE's current strategy as sufficiently restrictive, with the prospective real interest rate level leaving ample room for further cuts, even if inflation rises temporarily – with potential trade disruptions already factored in. There are namely grounds for optimism that the UK may be largely spared from punitive tariffs.

Warm words for the British

While Elon Musk's sharp attacks on PM Starmer backfired, sparking a dispute with his political opponents, Trump says that he and Starmer get along well. The US president noted that there is "a very good chance" that his country and the UK would reach an agreement. Trump is also likely to be receptive to Britain's ambitions in security policy. While warm words should not be mistaken for concrete policy, the signs look relatively favourable for the UK. If trade disputes in Europe remain confined to the EU and do not spill over to Britain, the UK economy could quite well stand to benefit. Given that the US administration's concerns are primarily focused on manufacturing sectors, the service-oriented UK economy might escape unscathed – a possibility hinted at by several high-ranking voices in recent months.

Fundamental forecasts*, Britain

	2024	2025	2026
GDP	0.9	1.1	1.4
Inflation (CPI)	2.5	2.7	2.3
Unemployment rate[1]	4.3	4.5	4.6
Budget balance[2]	-4.5	-3.8	-3.4
Current account bal.[2]	-2.6	-2.9	-2.9

* Change vs previous year as percentage

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	27.02.	3M	6M	12M
Repo rate	4.50	4.25	4.00	3.75
3M rate	4.42	4.10	3.95	3.65
10Y	4.51	4.40	4.25	4.10
Spread 10Y Bund	210	200	175	150
EUR in GBP	0.83	0.83	0.83	0.83
GBP in USD	1.26	1.25	1.27	1.29

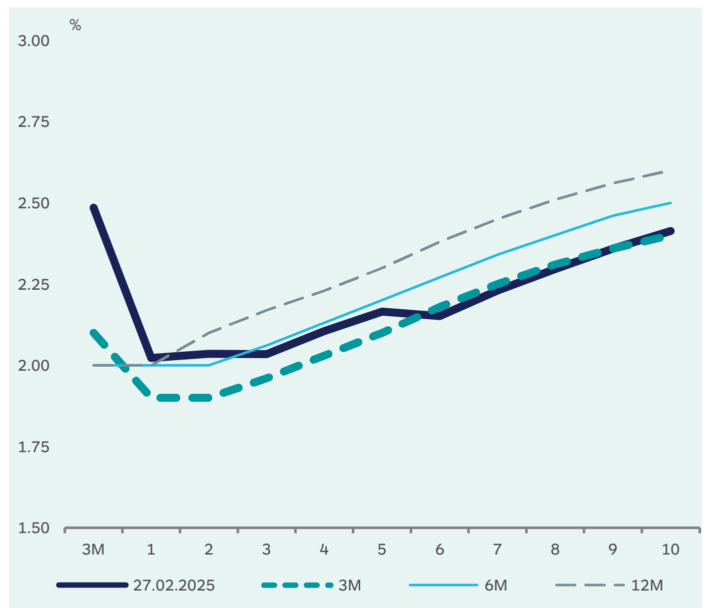
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons...		
	27.02.2025	3M	6M	12M
3M	2.49	2.10	2.00	2.00
1Y	2.02	1.90	2.00	2.00
2Y	2.04	1.90	2.00	2.10
3Y	2.03	1.96	2.06	2.17
4Y	2.11	2.03	2.13	2.23
5Y	2.17	2.10	2.20	2.30
6Y	2.15	2.18	2.27	2.38
7Y	2.23	2.25	2.34	2.45
8Y	2.30	2.31	2.40	2.51
9Y	2.36	2.36	2.46	2.56
10Y	2.41	2.40	2.50	2.60
2Y (Swap)	2.16	2.05	2.15	2.25
5Y (Swap)	2.22	2.20	2.30	2.40
10Y (Swap)	2.35	2.40	2.50	2.60

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



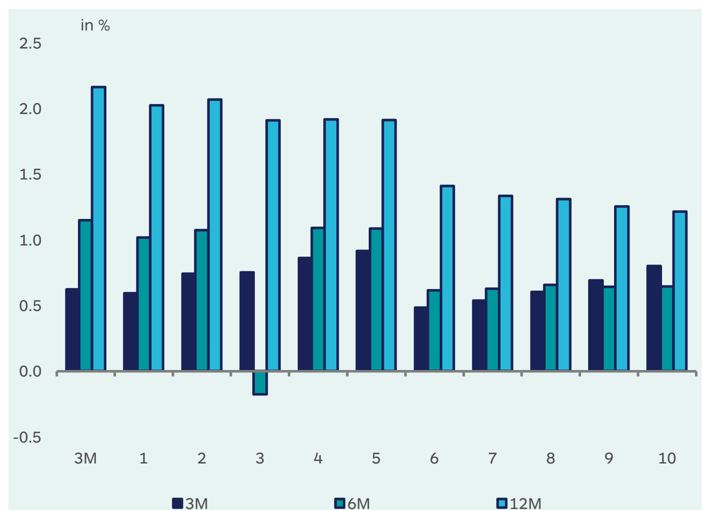
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0.62	1.15	2.16
1Y	0.59	1.02	2.02
2Y	0.74	1.07	2.07
3Y	0.75	-0.18	1.91
4Y	0.86	1.09	1.92
5Y	0.91	1.09	1.91
6Y	0.48	0.61	1.41
7Y	0.54	0.63	1.33
8Y	0.60	0.66	1.31
9Y	0.69	0.64	1.25
10Y	0.80	0.64	1.22

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	1.0	0.7	-0.7	0.6
2Y	0.7	1.0	0.7	-0.6	0.7
3Y	0.8	1.0	0.2	-0.8	0.9
4Y	0.9	1.0	0.2	-0.6	1.1
5Y	0.9	1.1	0.8	-0.5	1.2
6Y	0.5	1.0	0.6	-0.3	1.4
7Y	0.5	1.0	1.1	0.0	1.8
8Y	0.6	0.9	1.4	0.0	1.7
9Y	0.7	0.8	1.5	-0.1	2.3
10Y	0.8	0.6	1.4	-0.5	2.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.1	1.3	0.1	0.0
2Y	1.0	1.3	0.0	0.3
3Y	1.0	0.8	0.0	0.3
4Y	1.1	0.8	0.2	0.5
5Y	1.1	1.4	0.3	0.6
6Y	1.1	1.2	0.5	0.8
7Y	1.1	1.7	0.7	1.2
8Y	0.9	2.0	0.8	1.1
9Y	0.8	2.1	0.7	1.7
10Y	0.6	2.0	0.3	1.7

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.0	1.2	3.8	5.2	1.8
2Y	2.1	1.8	4.1	5.2	1.9
3Y	1.9	2.4	4.2	5.1	2.1
4Y	1.9	3.1	4.9	5.2	2.2
5Y	1.9	3.7	5.9	5.1	2.5
6Y	1.4	4.2	6.2	4.9	2.4
7Y	1.3	4.7	7.3	4.7	2.8
8Y	1.3	5.2	7.9	4.6	2.9
9Y	1.3	5.4	7.8	4.7	3.2
10Y	1.2	5.6	7.9	4.6	2.6

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.1	4.4	0.6	0.1
2Y	4.7	4.7	0.7	0.2
3Y	5.4	4.8	0.5	0.4
4Y	6.1	5.5	0.6	0.5
5Y	6.7	6.5	0.5	0.8
6Y	7.3	6.9	0.3	0.7
7Y	7.8	8.0	0.2	1.0
8Y	8.2	8.6	0.1	1.2
9Y	8.4	8.4	0.1	1.4
10Y	8.6	8.6	0.0	0.9

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	Status		Performance since	
	27.02.2025	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	22,550.89	21,732.05	19,909.14	3.77%	13.27%
MDAX	28,558.19	26,730.94	25,589.06	6.84%	11.60%
EuroSTOXX50	5,472.56	5,286.87	4,895.98	3.51%	11.78%
STOXX50	4,761.84	4,607.74	4,308.63	3.34%	10.52%
STOXX600	557.11	539.53	507.62	3.26%	9.75%
Dow Jones	43,239.50	44,544.66	42,544.22	-2.50%	2.09%
S&P 500	5,861.57	6,040.53	5,881.63	-1.40%	1.27%
Nikkei	38,256.17	39,572.49	39,894.54	-3.33%	-4.11%

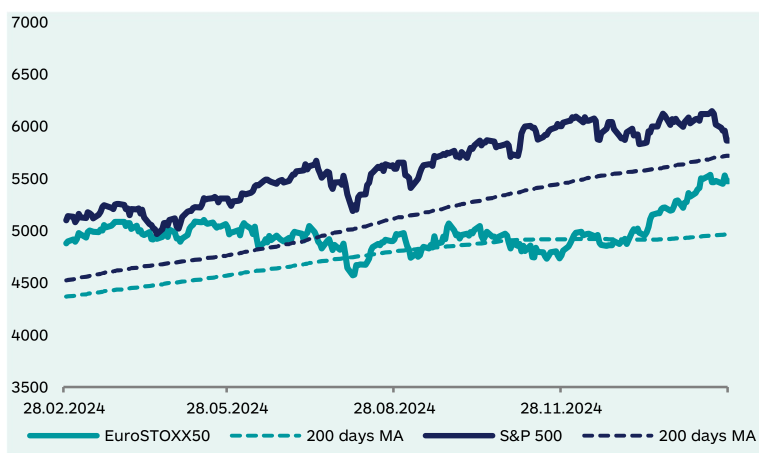
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	**6M**	**12M**
DAX	20,500	21,000	22,000
MDAX	25,000	25,500	28,000
EuroSTOXX50	5,000	5,050	5,300
STOXX50	4,450	4,550	4,750
STOXX600	510	520	550
Dow Jones	43,000	44,500	45,500
S&P 500	5,850	5,950	6,400
Nikkei	37,500	39,000	40,000

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, 28 February 2025 .**
The next English issue of Economic Adviser will be appearing on **31 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	2.6	2.4	4.0	4.5	4.4	-6.9	-6.1	-5.9
Euroland	0.7	1.0	1.3	2.4	2.3	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	-2.8	-2.6	-2.2
Japan	0.1	1.2	1.0	2.7	2.8	2.1	2.5	2.4	2.3	-2.4	-3.6	-3.0
Britain	0.9	1.1	1.4	2.5	2.7	2.3	4.3	4.5	4.6	-4.5	-3.8	-3.4
Switzerland	1.2	1.5	1.6	2.1	0.2	0.4	2.0	2.7	2.8	0.2	0.4	0.3
China	5.0	4.5	4.3	0.2	0.8	1.3	5.2	5.1	5.1	-7.4	-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: Macrobond, NORD/LB Macro Research

Key interest rates

In %	27.02.25	3M	6M	12M
USD	4.50	4.50	4.25	3.75
EUR	2.75	2.25	2.00	2.00
JPY	0.50	0.50	0.75	1.00
GBP	4.50	4.25	4.00	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...	27.02.25	3M	6M	12M
USD	1.04	1.04	1.05	1.07
JPY	156	156	152	149
GBP	0.83	0.83	0.83	0.83
CHF	0.94	0.93	0.93	0.93
CNY	7.59	7.64	7.77	7.92

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	27.02.	3M	6M	12M	27.02.	3M	6M	12M	27.02.	3M	6M	12M	27.02.	3M	6M	12M
USD	4.32	4.10	3.85	3.40	4.05	4.05	3.65	3.30	4.07	4.05	3.85	3.40	4.26	4.35	4.15	3.70
EUR	2.49	2.10	2.00	2.00	2.04	1.90	2.00	2.10	2.17	2.10	2.20	2.30	2.41	2.40	2.50	2.60
JPY	0.79	0.80	0.90	1.10	0.06	0.85	0.95	1.00	0.26	1.00	1.05	1.20	0.66	1.40	1.50	1.60
GBP	4.42	4.10	3.95	3.65	4.18	4.04	3.84	3.53	4.19	4.10	3.95	3.55	4.51	4.40	4.25	4.10
CHF	0.24	0.00	0.00	0.10	0.15	0.10	0.10	0.10	0.26	0.20	0.15	0.20	0.43	0.40	0.35	0.45

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	27.02.	3M	6M	12M	27.02.	3M	6M	12M	27.02.	3M	6M	12M	27.02.	3M	6M	12M
USD	183	200	185	140	202	215	165	120	191	195	165	110	185	195	165	110
JPY	-169	-130	-110	-90	-198	-105	-105	-110	-191	-110	-115	-110	-175	-100	-100	-100
GBP	194	200	195	165	214	214	184	143	202	200	175	125	210	200	175	150
CHF	-225	-210	-200	-190	-189	-180	-190	-200	-191	-190	-205	-210	-198	-200	-215	-215

Sources: Bloomberg, NORD/LB Macro Research

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