Economic Adviser

Macro Research

July 2025 ♦ Date of issue: 30 June 2025

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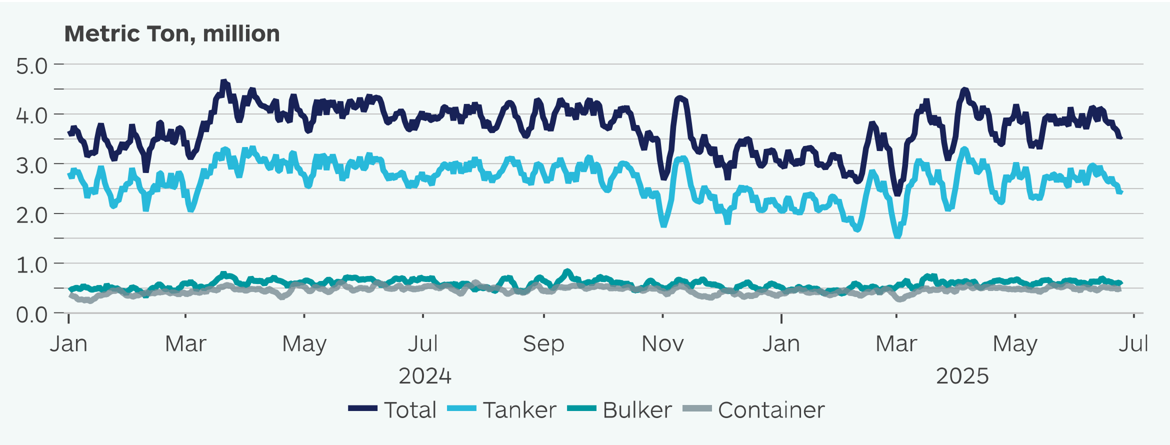
Special: No price shock but a scary moment

Analysts: Thomas Wybierek // Christian Lips, Chief Economist

Threat scenario vs. reality – vital commodity artery stays open

In mid-June, shortly after the start of the Israeli attacks on Iran, the spectre of a blockade of the Strait of Hormuz had reemerged, and not only on the energy markets. This narrow waterway between the Persian Gulf and the Gulf of Oman, with just two shipping lanes each 3 km wide, sees over 20 million barrels of oil transported daily, while 20 percent of global LNG trade depends on this vital trade artery. Though Iran's parliament had called for the waterway's closure in retaliation for the U.S. airstrikes on nuclear facilities, the leadership, as expected, refrained from taking such a step. A blockade would, on the one hand, have had far-reaching consequences for the region's coastal states and an already sluggish global trade environment – likely triggering severe reprisals, not only from the United States. On the other hand, the Iranian regime certainly has no interest in alienating its most important oil importer and ally, China. Moreover, Iran's own imports would be significantly impacted through at least four major transshipment ports, and the regime can ill afford supply shortages that could fuel unrest. Historically, Iran has stopped short of extreme measures – whether during the Tanker War with Iraq in the 1980s or the U.S. embargo in 2012. Aware of the balance of power, it has not gone beyond threats to shut this bottleneck.

Chart: Freight volume in the Strait of Hormuz (capacity, 7-day rolling average)



Sources: IMF, Macrobond, NORD/LB Macro Research

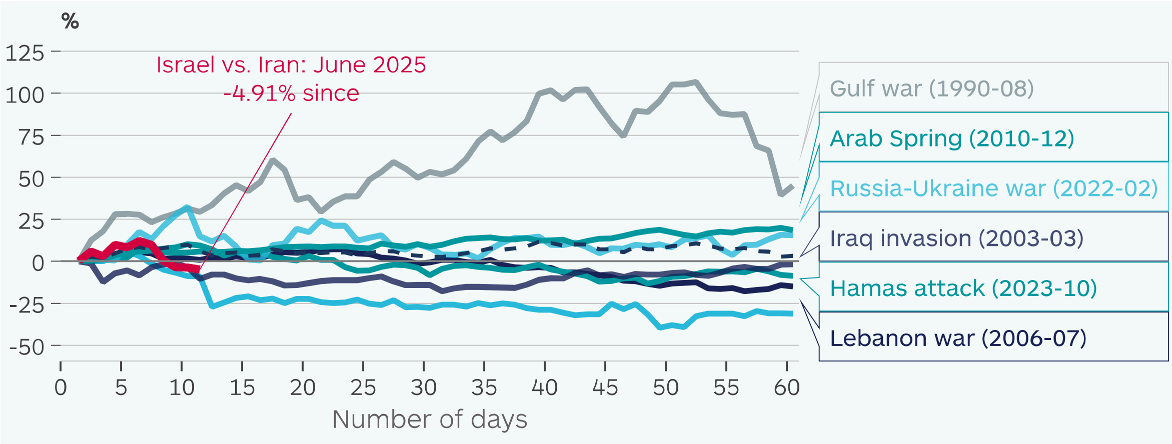
Nevertheless, the effects of the airstrikes between the three involved parties were not without consequences. The Joint Maritime Information Center (JMIC), which monitors maritime security in the region, reported navigation signal interference suspected to have originated from Iran. Several hundred ships were affected even before the U.S. attacks began, with some vessels coming dangerously close to the coast. While it remains unclear who was behind the interference, two tankers already collided – an incident likely to drive up insurance premiums. Caution increased overall. Ships were instructed to wait in the Gulf of Oman until last-minute clearance slots became available. Simultaneously, tracking data showed a marked decline in ship transits, particularly among eastbound laden tankers passing through the Strait of Hormuz.

Oil price reaction merely short-lived

The shockwave across energy markets was brief. While primarily U.S. brokers dusted off their familiar worst-case scenarios predicting oil prices near or above the USD 100/b threshold, Brent crude – apart from intraday fluctuations –failed to even breach the mark of USD 80/b. WTI showed a similar spike above USD 75/barrel but dropped back just as quickly. Overall, the markets remained relatively calm.

There are two simple reasons for this. Starting in April, on the one hand, the OPEC+ alliance began rolling back the temporary production cuts it had put in place in 2023. By the end of July, 1.37 million barrels per day (b/d) – more than half of the original 2.2 million b/d reduction – will already have returned to the market. On the other hand, the global economy is still not back in upswing mode. The ongoing war in Ukraine, the unresolved Middle East conflict, and the Trump administration's erratic tariff policies continue to hinder recovery. The mismatch between oil supply and demand thus persists for now.

Chart: Oil price shows merely temporarily increased volatility – no comparison to historical oil price shocks



Sources: Macrobond, NORD/LB Macro Research

All-clear for now for economy and markets – but the conflict remains structurally unresolved
The financial markets reacted with unexpected calm to the June escalation in the Middle East. Neither the U.S. dollar nor traditional safe-haven assets such as Bunds or gold have seen sustained gains. Market participants also welcomed the rapid de-escalation of the heated confrontation between Israel and the U.S. on one side and Iran on the other, with even the few short-lived price spikes being largely smoothed out in the meantime.

Economically, the brief price fluctuations will have no measurable impact. Unlike historical oil price shocks, the duration and scale of this price surge were relatively limited. Additionally, the global economy's dependence on crude oil has declined over the decades. For monetary policymakers, the crucial takeaway is that the rapid stabilization of energy prices has significantly reduced the near-term risk of new price shocks. Attention has now shifted back to other conflicts, such as the U.S. tariff war or Russia's war of aggression in Ukraine.

That said, the decades-long simmering conflict over Iran's nuclear programme is far from resolved. On the contrary, reports indicate that Iran's regime moved nuclear materials to an undisclosed location ahead of the attacks, and there are conflicting accounts about the condition of the centrifuges. Crucially, Iran has announced that technical equipment used to monitor its nuclear programme was destroyed during the airstrikes. In the worst-case scenario, the world could now be flying blind on the progress of Iran's nuclear ambitions. Without a lasting diplomatic solution to the conflict, the militarily successful operations in Iran may therefore prove a Pyrrhic victory in the end. One thing is certain: this protracted conflict will not be resolved by acclamation or a social media post. The Near and Middle East will likely remain a geopolitical powder keg for the foreseeable future.

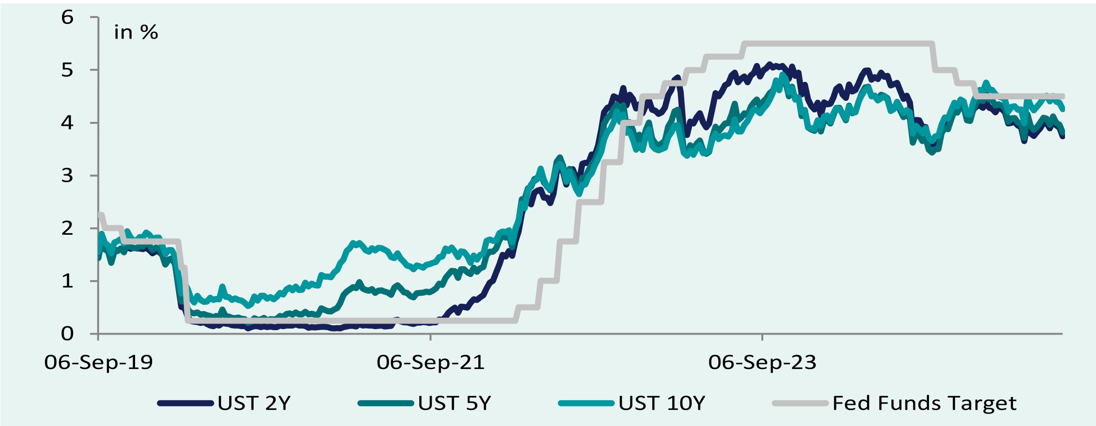
USA: U.S. economy gains significant momentum in Q2

Analysts: Tobias Basse // Constantin Lüer

Markedly stronger economic momentum in Q2

The significant surge in U.S. retail sales in March continues to reverberate. The exceptional strength has now triggered an appreciable rebound effect in May, with preliminary data indicating a month-on-month decline of 0.9 percent. This development comes as no major surprise, however. Washington's new trade policy had prompted consumers to bring forward purchases of motor vehicles, fuelling a boom in March that is now inevitably weighing on consumer demand; auto dealership sales fell accordingly in May. Excluding motor vehicles, the most recent figures show a less pronounced decline in retail sales, at "just" 0.3 percent month-on-month. Indeed, the important "U.S. retail sales control group" metric registered solid month-on-month growth of 0.4 percent in May. This offers encouraging news for the North American economy. The recent robust wage growth certainly appears to be supporting U.S. consumers. After a slowdown at the start of 2025, there is now reason to hope for markedly more positive GD figures in Q2. While the Atlanta Fed's latest data on its GDPNow indicator likely overstate the scale of the now impending recovery, Q2 should see a marked acceleration in economic momentum!

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

NAHB index deteriorates again

Sentiment in the US real estate market remains persistently weak, however, reflected by the NAHB Housing Market Index's decline to just 32 points in June. The key Prospective Buyers Traffic component fell to a mere 21 points, signalling clear demand-side problems. Lower interest rates in the U.S. could provide much-needed support to the North American housing market – a boost that would undoubtedly be very welcome!

FOMC remains in hesitation mode

As expected, the Federal Open Market Committee (FOMC) refrained from cutting U.S. interest rates at its latest meeting. The uncertainty surrounding the future path of inflation data still appears to be simply too high. The U.S. central bankers are clearly opting to act with considerable caution, so it can be safely assumed that the upper bound for the Fed funds target rate will remain at 4.50 percent for the time being. While the rather weak GDP figures at the start of 2025 were distorted by front-loaded foreign goods purchases, monetary policymakers in Washington maintain that the U.S. economy is not yet showing signs of weakness. As previously discussed, GDP growth is expected to improve significantly in Q2, though this will partly represent a rebound from what might naturally be considered artificially weak early-year figures. Against this background, it is now a matter of waiting for fresh data! Fed chair Jerome Powell faces substantial pressure from the White House for rate cuts but requires clearer signs of economic weakening to avoid perceptions of politically motivated rate cuts. Donald Trump has repeatedly criticized Mr. Powell very sharply for this hesitation. Paradoxically, however, the Federal Reserve's cautious stance could actually pave the way for viable rate cuts in the course of 2025. Without significant resistance from Powell, the market for U.S. Treasuries might otherwise face the prospect of persistently higher risk premiums. The confusing geopolitical situation is certainly not making the work of the central bankers in Washington any easier. Most market participants have already viewed U.S. inflation prospects with considerable scepticism, however. Given the relatively moderate rise in inflation in the United States so far, many close observers of the U.S. economy would likely see little need to revise their inflation forecasts – even in the event of renewed turbulence in the crude oil markets. In this environment, there is room for interest rates to trend lower over time. Meanwhile, global political developments are stirring activity in the foreign exchange markets. Amid the ongoing conflict with Iran, for instance, debate has resurfaced over whether the U.S. dollar might, after all, retain its status as a "safe haven" currency.

Fundamental forecasts, USA

	2024	2025	2026
GDP	2.8	1.5	1.7
Private consumption	2.8	2.0	1.9
Govt. consumption	3.4	1.6	1.1
Fixed investment	4.0	1.7	2.3
Exports	3.3	1.5	1.4
Imports	5.3	3.8	0.6
Inflation	3.0	3.0	2.6
Unemployment rate[1]	4.0	4.5	4.4
Budget balance[2]	-6.9	-6.4	-6.0
Current acct. balance[2]	-3.9	-3.9	-3.5

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

	III/24	IV/24	I/25	II/25	III/25
GDP qoq ann.	3.1	2.4	-0.5	1.9	1.0
GDP yoy	2.7	2.5	2.0	1.7	1.2
Inflation yoy	2.6	2.7	2.7	2.5	3.3

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	26.06.	3M	6M	12M
Fed funds target rate	4.50	4.25	3.75	3.25
3M rate	4.30	4.05	3.60	3.15
10Y Treasuries	4.24	4.30	4.00	3.60
Spread 10Y Bund	167	180	140	90
EUR in USD	1.17	1.15	1.12	1.10

Sources: Bloomberg, NORD/LB Macro Research

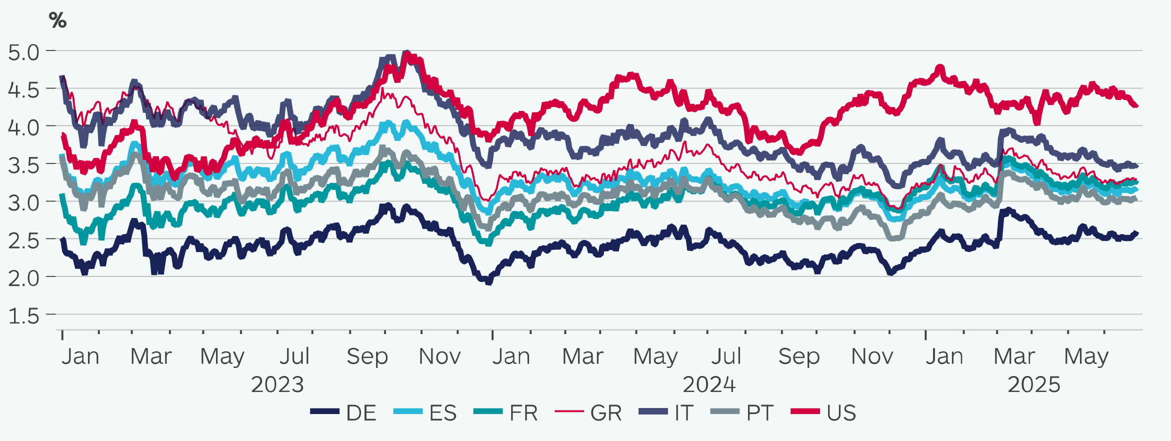
Euroland: ECB shifts to fine-tuning mode

Analysts: Christian Lips, Chief Economist // Christian Reuter

Q1 GDP revised sharply upwards – pull-forward effects overstate economic momentum
Eurostat's final report brought a sharp upward revision of first-quarter economic growth in the eurozone to 0.6 percent quarter-on-quarter. Once again, the main driver was an extraordinary figure for Ireland's GDP, which surged by a seasonally adjusted 9.7 percent quarter-on-quarter – an exceptional increase.
However, pull-forward effects played a significant role in this and, irrespective of the outcome of the EU's tariff negotiations with the USA, this will lead to a rebound in the further course of the year. The industry confidence index, which dropped to -12.0 points in June, already points in this direction. Order books have thinned appreciably due to a sharp deterioration in export demand. Because of this special effect, significantly weaker GDP growth is expected in the near term compared to Q1 before a stronger economic momentum emerges in the medium term.

Wage growth signals easing inflationary pressures
May 2025 saw the disinflationary trend in the eurozone continue: headline inflation fell to 1.9 percent yoy, while core inflation dropped to 2.3 percent yoy. Notably, services inflation eased to 3.2 percent yoy. In April, it had spiked to 4.0 percent yoy due to the late timing of the Easter holidays but has since resumed the downward trend it began in January. The negative energy inflation rate (-3.6 percent yoy) will likely moderate slightly in the coming months. Against this backdrop, wage growth is drawing increased attention from the ECB. Both negotiated wages and the ECB's proprietary Wage Tracker indicate easing wage pressures. The negotiated wages rose by just 2.5 percent yoy in Q1/2025. This wage trend aligns with the ECB's long-term stability objective, as it no longer exceeds the sum of its inflation target and productivity gains.

Chart: 10Y Bund yield bottoms out at 2.50 percent



Sources: Macrobond, NORD/LB Macro Research

ECB nears the end of its easing cycle – 10Y Bund yield bottoms out at 2.50 percent
June saw the ECB cut key interest rates for the seventh consecutive time, as expected, with the decision made in "near-unanimous" agreement. Since mid-2024, the deposit rate has been reduced by a total of 200 basis points to its current level of 2.00 percent, marking the ECB's exit from restrictive territory. The latest decline in inflation had definitively cleared the way for the rate cut, while the ECB also significantly lowered its inflation projections for 2025 (2.0 percent) and 2026 (1.6 percent). With price stability now more or less achieved, the central bank has largely hit its target.

The significantly lower inflation projection for 2026 is likely to keep alive debates about potentially undershooting the inflation target – though the 2.0 percent forecast for 2027 suggests this may ultimately prove to be a "transitory" effect The lower expectations for 2025/26 are primarily due to the strength of the euro (or weakness of the dollar) and the lower energy prices year-on-year.

Despite a gloomier outlook, growth projections remain unchanged thanks to the unexpectedly strong Q1 performance – though even these estimates may prove conservative, given the subsequent marked upward revisions to the final GDP data for the first quarter. However, the looming threat of escalating trade conflicts with the U.S. continues to overshadow the landscape.

In the near term, downside risks dominate the economic and inflation outlook. Over the medium term, however, trade restrictions could pose upside inflation risks, potentially coinciding with a positive demand shock from fiscal policy realignment. The scope for interest rate cuts is therefore likely to be more limited than a straightforward look at the most recent data would suggest – partly due to the typical lag in the effects of monetary policy measures. By 2027, modest rate hikes could even be back on the agenda.

Amid persistent economic policy uncertainty, there are strong arguments for the ECB to proceed cautiously, making decisions on a meeting-by-meeting basis. While the easing cycle is not yet fully over, our base scenario foresees just one more rate cut in the second half of the year, likely in September. ECB president Lagarde also hinted that the central bank's focus is now on fine-tuning as the rate-cutting cycle nears its end. Against this monetary policy backdrop, the yield on 10-year Bunds has bottomed out at 2.50 percent, which has held even during recent spikes in geopolitical tensions. Medium-term, we expect a gradual rise in long term government bond yields.

Fundamental forecasts, Euroland

	2024	**2025**	**2026**
GDP	0.8	1.2	1.1
Private consumption	1.1	1.3	1.6
Govt. consumption	2.5	1.6	2.4
Fixed investment	-1.8	2.8	4.0
Net exports[1]	0.5	-0.6	-1.3
Inflation	2.4	2.0	1.7
Unemployment rate[2]	6.4	6.2	6.1
Budget balance[3]	-3.1	-3.3	-3.4
Current account balance[3]	2.8	2.5	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

	III/24	**IV/24**	**I/25**	**II/25**	**III/25**
GDP sa qoq	0.4	0.3	0.6	0.1	-0.1
GDP sa yoy	0.9	1.2	1.5	1.4	0.9
Inflation yoy	2.2	2.2	2.3	2.0	1.7

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	26.06.	**3M**	**6M**	**12M**
Repo rate ECB	2.00	1.75	1.75	1.75
3M rate	1.98	1.75	1.75	1.80
10Y Bund	2.57	2.50	2.60	2.70

Sources: Bloomberg, NORD/LB Macro Research

Germany: Economic expectations for 2026 on the rise

Analysts: Christian Lips, Chief Economist // Christian Reuter

Labour market shows no signs of easing yet – recovery still pending

The situation in the labour market has continued to deteriorate. According to Germany's Federal Employment Agency, the number of unemployed stood at 2.96 million, seasonally adjusted, in May, marking a steady increase since January 2023. The renewed uptick in May was also attributable to a reduced use of labour market policy measures. Underemployment, which, besides unemployment, also includes short-term incapacity for work and labour market policy measures, fell by 2,000 to 3.602 million people in May, seasonally adjusted. The weak spring revival suggests that a turnaround remains elusive and will largely depend on the start of an economic recovery.

Inflation rate at 2.1 percent in May – service prices still rising strongly

May 2025 saw Germany's consumer price inflation (HICP) rise moderately by 0.2 percent month-on-month but ease slightly to 2.1 percent year-on-year. The main drivers were once again services (+3.4percent), particularly in healthcare, insurance, and mobility. Food prices also increased significantly, while falling energy prices (-4.6 percent) and cheaper electronics and airfares provided some relief. Core inflation (i.e. excluding energy and food) remained elevated at 2.8 percent, still above the headline rate. Particularly worthy of note is the persistently high services inflation rate. In this context, it remains to be seen how significantly past high nominal wage agreements have contributed to this.

Chart: Leading indicators signal growing confidence

Sources: ifo, ZEW, sentix, Macrobond, NORD/LB Macro Research

Growing confidence among financial market experts and businesses

At mid-year, a growing sense of optimism regarding Germany's economic outlook for the coming year has emerged. Survey-based sentiment indicators reflected a notable brightening in forward-looking expectations in June, particularly among financial market experts and businesses. However, despite slight improvements, the current situation continues to be assessed as predominantly weak. While the Q1 growth figures were unexpectedly revised upward to +0.4 percent quarter-on-quarter, the underlying economic momentum was likely overstated due to pull-forward effects in anticipation of Donald Trump's tariff policies, however.

The ZEW Economic Sentiment Index saw an unexpectedly sharp improvement in June, rising to 47.5 points – its highest level since Russia's invasion of Ukraine in February 2022, excluding a brief spike in March. The tariff chaos triggered by the U.S. president had initially led to an unprecedented plunge in ZEW expectations in April. Since then, sentiment has rebounded markedly, partly due to the U.S. administration's interim backtracking (tariff pause).

Compared to our calculated ZEW economic sentiment, the ifo Business Climate Index continues to show significantly less volatility, consistent with past phases (see chart). German corporate sentiment continued its steady rise in June, with the ifo Business Climate Index climbing for the sixth consecutive month to a current level of 88.4 points, driven by markedly more optimistic future expectations. However, assessments of the current business situation showed little improvement.
Businesses are demonstrating notable resilience, with forward-looking optimism increasing significantly for the coming year. The improving economic sentiment continues to withstand geopolitical headwinds and increasingly points to an impending cyclical turning point. Even the temporary spike in oil prices had no notable impact on sentiment – though it's also worth noting that the economy has become significantly less sensitive to oil prices since the major crises of the 1970s to 1990s. Moreover, both the economy and financial markets appear to have developed a degree of resilience against geopolitical disruptions. Additional positive factors include the ECB's rate cuts and, crucially, Germany's recalibrated fiscal policy.
Despite the emerging positive sentiment, the significant downside risks should not be underestimated, however. Potential negative developments in the coming weeks could still prove this sentiment recovery to be premature. The EU-USA tariff dispute remains unresolved, and simmering geopolitical conflicts could escalate at any time. That said, the strengthening confidence for the coming year is unmistakable, as reflected in the substantial forecast upgrades by leading economic research institutes. We are maintaining our 2025 growth forecast of +0.2 percent but anticipate pronounced economic acceleration to +1.4 percent in 2026.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.2	0.2	1.4
Private consumption	0.2	1.1	1.5
Govt. consumption	3.2	1.6	3.2
Fixed investment	-2.7	1.5	4.7
Exports	-1.8	0.3	2.0
Imports	-0.7	3.1	5.8
Net exports[1]	-0.5	-1.0	-1.4
Inflation[2]	2.5	2.2	1.9
Unemployment rate[3]	6.0	6.3	6.2
Budget balance[4]	-2.8	-2.9	-3.6
Current account balance[4]	5.7	4.3	3.7

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
Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Germany

	III/24	IV/24	I/25	II/25	III/25
GDP sa qoq	0.1	-0.2	0.4	0.0	0.1
GDP nsa yoy	0.1	-0.4	-0.2	-0.3	0.3
Inflation yoy	2.2	2.5	2.6	2.1	2.1

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

Switzerland: Monetary balancing act

Analyst: Christian Reuter

The first quarter of 2025 remains an exception – economic slowdown expected
Switzerland's exceptionally strong economic growth in the first quarter of 2025 can be chalked up as an outlier. Like many other export-driven economies, it was fuelled by front-loading effects linked to the U.S. tariff dispute. Foreign trade has since slowed, with declines already recorded in April and now in May as well. The challenges facing the Swiss economy are underscored by downward revisions to growth forecasts for 2025 and 2026 from key institutions, including the KOF, SECO, and the Swiss National Bank (SNB), despite the robust Q1 performance. Progress in the tariff dispute remains merely nominal so far. Although the early July deadline for negotiations has recently been downplayed, the Swiss Federal Council hopes the U.S. will acknowledge Bern's "good intentions" and maintain the current 10-percent tariff rate until talks conclude. In a hostile move, however, the U.S. Treasury has added Switzerland to its currency manipulator watchlist – a decision that severely constrains the SNB's monetary policy flexibility just when it may need room to manoeuvre against shocks, the tariff dispute being only one of them.

SNB behind the curve and in the dilemma of price stability and the strength of the franc
As expected, the Swiss National Bank found itself compelled to cut its policy rate again by a further 0.25 percentage points to a current level of 0.00 percent and to leave the discount of 0,25% on sight deposits above a certain threshold. For those, interest rates are negative from now. The move aims to deter foreign capital inflows without fully diving into negative territory. On price stability, however, the fact is that the central bankers are clearly behind the curve. Weak economic momentum and imported deflation pushed year-on-year inflation below zero in May, prompting the SNB to trim its conditional year-on-year inflation forecast to just 0.2 percent yoy for this year and 0.5 percent yoy for 2026. Bond markets were unfazed by all this, and – to the SNB's dismay – so was the currency market. By late June, the franc had edged higher again, indeed hitting fresh all-time peaks against the USD. The central bank's hopes for a weakening of the Swiss currency have thus been dashed. However, the central bank is likely to watch and wait for now, as it has no intention of hastily venturing into clearly negative territory – and would prefer to avoid it altogether. This is supported not only by the fact that the effects of U.S. tariff policy on price levels are currently difficult to assess and may only have a short-term deflationary impact. Additionally, the exchange rate also depends on what other central banks do. As things currently stand, other central banks are also on an easing path, however. This means the interest rate differential is more likely to narrow further. Ultimately, the Swiss franc's strength is primarily a reflection of U.S. dollar weakness – and with the current policy tune playing in Washington, the interest rate spread is merely background noise.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	0.9	1.4	1.5
Inflation (CPI)	1.1	0.2	0.5
Unemployment rate[1]	2.5	2.9	3.0
Budget balance[2]	0.6	0.4	0.3
Current account bal.[2]	5.1	4.9	5.0

Interest and exchange rates, Switzerland

	26.06.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.06	0.00	0.00	0.10
10Y	0.38	0.35	0.40	0.50
Spread 10Y Bund	-219	-215	-220	-220
EUR in CHF	0.94	0.92	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: Central bank holds steady for now

Analyst: Tobias Basse

Bank of Japan holds steady for now

As expected, the Bank of Japan once again left its monetary policy unchanged, maintaining its key interest rate at 0.50 percent. However, the central bankers did announce their decision to scale back government bond sales, starting in April 2026.

Central bank opts for caution

Current inflation trends continue to exert appreciable pressure on the Bank of Japan to take action. Rising rice prices are not the only concern – in May, the annualized rate of consumer price inflation stood at 3.5 percent, with core inflation even edging up to 3.7 percent year-on-year. Despite the recently announced ceasefire, the Bank of Japan remains watchful of developments in Iran. Significant new turbulence in the crude oil market, leading to a sharp rise in prices for "black gold", would undoubtedly pose a major challenge for Japan's central bankers. Even without such developments, Tokyo's key decision-makers will eventually need to raise interest rates further, though they are likely to proceed with extreme caution. This approach is reinforced by a look at the long end of Japan's yield curve. For the heavily indebted country, elevated capital market rates are certainly problematic. In response to this development, Japan's Finance Ministry has now announced plans to scale up the issuance of shorter-term fixed income securities. The Bank of Japan's decision to exercise greater caution in its upcoming bond sales may indeed fit into this context. With key-rate hikes becoming an item on the BoJ's agenda in the coming months, the central bankers appear keen to avoid compounding pressure on the fixed-income market by fuelling fears of "excessive" quantitative tightening (QT).

The yen and the Bank of Japan

The prospect of future rate hikes in Tokyo should, in principle, support the yen. That said, the forex market seems to be pricing in a very realistic outlook for the Bank of Japan's monetary policy. Given Japan's reliance on oil imports, the yen has even shown some depreciation tendencies against the U.S. dollar amid the heightened geopolitical tensions surrounding the Iran conflict.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	0.2	0.8	0.9
Inflation	2.7	3.3	2.0
Unemployment rate[1]	2.5	2.5	2.4
Budget balance[2]	-2.2	-3.5	-3.2
Current account bal.[2]	4.8	4.5	4.3

* 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, Japan

	26.06.	3M	6M	12M
Key rate	0.50	0.50	0.75	1.00
3M rate	0.77	0.80	0.90	1.10
10Y	0.66	1.50	1.55	1.60
Spread 10Y Bund	-191	-100	-105	-110
EUR in JPY	169	163	156	151
USD in JPY	144	142	139	137

China: Mixed economic signals

Analyst: Valentin Jansen

Mixed economic signals in May

The economic data in May delivered a mixed picture. Buoyed by Beijing's consumption incentives and affected by a major national online shopping event, retail sales rose unexpectedly strongly by 6.4 percent yoy. The stimulus measures appear to be translating into real economic activity, particularly in the subsidized categories such as home appliances (+53.0 percent yoy) and consumer electronics (+33.0 percent). By contrast, the negative trend in real estate prices persisted. Prices for new (-0.2 percent month-on-month) and existing homes (-0.5 percent) recorded their steepest declines in seven months. The number of cities with stable or rising prices continued to shrink, pushing the hoped-for recovery further out of reach for now. Industrial output gave a robust showing in May, with year-on-year growth of 5.8 percent, especially in the high-tech segments, initially sustained by front-loaded purchases on the part of U.S. firms. This tailwind is expected to weaken significantly in the coming months, however. This is also reflected in the latest Caixin Manufacturing PMI, which fell unexpectedly sharply to 48.3 points in May (April: 50.4), signalling contraction in export-oriented manufacturing activity for the first time in eight months. Qualitative feedback points to weaker demand and heightened geopolitical uncertainty as contributing factors.

Middle East developments highlight China's energy dependence

The military escalation between Israel and Iran, along with U.S. intervention, has been watched with deep concern in Beijing due to the Persian Gulf's strategic importance for China's energy security. While China sharply condemned the U.S. airstrikes on Iranian nuclear facilities and called for de-escalation, its support for Tehran remained largely rhetorical. The Chinese leadership is likely greatly relieved that the feared blockade of the Strait of Hormuz failed to materialize despite Iranian threats in that direction. A complete halt in Iranian oil supplies, which officially account for 14 percent of China's crude imports, would have dealt a severe blow not only to the Chinese economy amid the still unresolved tariff dispute with the U.S.

Geopolitical easing tendencies alleviate pressure on the renminbi

In June, the PBOC kept benchmark interest rates unchanged after a round of monetary easing the previous month. The balancing act of bolstering the economy while at the same time avoiding additional downward pressure on the renminbi remains highly challenging, especially given the already wide interest rate gap with the U.S. That said, the turmoil in the energy markets due to Middle East tensions may have also prompted caution, given the risk of inflationary spillovers. However, as geopolitical tensions eased, the resulting market calm provided some relief to the renminbi, which had come under pressure. The currency has approached the 7.17 USD/CNY mark again.

Fundamental forecasts*, China

	2024	2025	2026
GDP	5.0	4.4	4.0
Inflation	0.1	0.4	1.0
Unemployment rate[1]	5.1	5.1	5.1
Budget balance[2]	-7.4	-5.5	-5.7
Current account bal.[2]	1.4	1.4	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

	26.06.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.63	1.60	1.50	1.50
10Y	1.65	1.65	1.60	1.60
Spread 10Y Bund	-92	-85	-100	-110
EUR in CNY	8.39	8.40	8.18	7.99
USD in CNY	7.17	7.30	7.30	7.26

Britain: Economy in a state of shock

Analyst: Constantin Lüer

Inflation on a roller coaster ride

Inflation has been quite volatile so far this year, fluctuating between a negative reading in January (-0.1 percent month-on-month) and a notable increase of 1.2 percent mom in April. Historically, January month-on-month readings in any case tend to be negative due to statistical factors – but April’s spike, too, was largely attributable to a special effect. By May, consumer price momentum had returned to a "normal" level at 0.2 percent mom. Unsurprisingly, these inflation trends related to the trade conflict with the USA and, at times, with phases of easing tensions. The UK even managed to become the first country to strike a deal with the USA, securing an initial streamlined trade agreement. While this early move averted a drastic inflation surge, recent developments suggest that rising inflationary risks are back on the radar.

Labour market and economy feel tariff impact

It goes without saying that Trump's "Liberation Day", along with its consequences, also made itself felt in terms of the economic environment. After robust qoq growth of 0.7 percent in Q1, the UK’s initial estimate for April indicated mom contraction of 0.3 percent – erasing some of the earlier gains, though this preliminary data warrants cautious interpretation. A slowdown was expected after three strong months, as Trump's tariffs began weighing on GDP figures for the first time. This development was also clearly felt in the labour market, with payrolls dropping by over 109,000 jobs mom in May alone. For context, the period between April 2024 and April 2025 had seen a payroll decline of just 115,000. In the meantime, trade-related uncertainty likely led businesses to pause hiring and wait for political developments to unfold.

Rate cuts likely on the horizon

With real interest rates still restrictive, the Bank of England has gradually trimmed the Bank Rate in recent times. Judging by their recent voting patterns and public remarks, the monetary policymakers are at any rate largely in agreement that further cuts in the key rate are needed. Though the labour market falls outside the MPC’s core mandate, its current weakness won’t go ignored among the UK's central bankers. Over the longer term, a rate-based stimulus could help give the economy a bit of a boost. Should inflation remain moderate, additional Bank Rate cuts can at any rate not be ruled out and may well be back on the agenda at the MPC's next meeting.

Fundamental forecasts*, Britain

	2024	**2025**	**2026**
GDP	1.1	0.9	1.2
Inflation (CPI)	2.5	3.0	2.3
Unemployment rate[1]	4.6	4.6	4.6
Budget balance[2]	-5.2	-4.1	-3.5
Current account bal.[2]	-2.7	-2.7	-2.6

* Change vs previous year as percentage

Interest and exchange rates, Britain

	26.06.	**3M**	**6M**	**12M**
Repo rate	4.25	4.00	3.75	3.50
3M rate	4.12	3.90	3.70	3.50
10Y	4.47	4.45	4.35	4.25
Spread 10Y Bund	190	195	175	155
EUR in GBP	0.85	0.85	0.86	0.87
GBP in USD	1.37	1.35	1.30	1.26

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Australia: Haven of stability in the Pacific

Analyst: Constantin Lüer

Price stability achieved, labour market robust

Australia made noteworthy progress in taming inflation in the first half of 2025, according to the data available to date. Consumer prices rose just 2.1 percent year-on-year in May – below expectations and down from 2.4 percent in Q1 – placing inflation at the lower end of the Reserve Bank of Australia's (RBA) target corridor. The trimmed-mean inflation rate – defined similarly to the core inflation measure used here – also fell, to 2.4 percent yoy. This is welcome news not only for households but also for the monetary policymakers in Sydney. Equally encouraging is the continued stability of the labour market. Unemployment has held at 4.1 percent for five consecutive months, though initial signs of cooling are emerging, particularly in the construction and retail sectors. Nevertheless, labour force participation remains high, and wages are rising at a moderate pace – signs of a healthy labour market dynamic.

Australia appears to have come off lightly in the trade conflict

The domestic economy has held up well despite global turbulence. Private consumption remained resilient amid tariff uncertainties, buoyed by real income gains and a stable employment situation. Investment sentiment in Australia held firm – a trend attributable, at least in part, to government stimulus programmes. Exports continue to drive growth, though Australia stands to benefit long-term from diversifying its trade partners, especially as China remains the dominant buyer of its commodities. In our view, with a combination of solid domestic demand and a relatively shock-proof export sector, the economy looks set for stable expansion.

Moderate rate cuts ahead, positive outlook for the AUD

The Reserve Bank of Australia currently maintains a wait-and-see stance in terms of monetary policy but has signalled a potential rate cut in Q3/2025 as inflation recedes. The cash target rate currently stands at 3.85 percent, with the markets expecting further easing measures by the end of the year. The Australian dollar (AUD) recently edged up to 0.65 against the U.S. dollar, marking a modest recovery after coming under pressure in April. We expect it to hover around AUD 0.64 per U.S. dollar through 2025, though geopolitical risks and U.S. interest rate policy could once again make for movement in the market. Longer term, rising commodity exports and steady capital inflows may lend support – particularly if Australia succeeds in strengthening its role as safe haven in a volatile global environment.

Fundamental forecasts, Australia

	2024	2025	2026
GDP	1.1	1.8	2.2
Inflation)	3.2	2.5	2.6
Unemployment rate[1]	4.0	4.2	4.3
Budget balance[2]	-1.4	-1.0	-1.3
Current account bal.[2]	-2.0	-2.0	-2.5

* Change vs previous year as percentage

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

Interest and exchange rates, Australia

	26.06.	3M	6M	12M
Cash target rate	3.85	3.60	3.35	3.35
3M rate	3.62	3.70	3.55	3.35
10Y	4.00	4.20	4.15	4.10
Spread 10Y Bund	143	170	155	140
EUR in AUD	1.79	1.77	1.74	1.69
USD in AUD	0.65	0.65	0.66	0.68

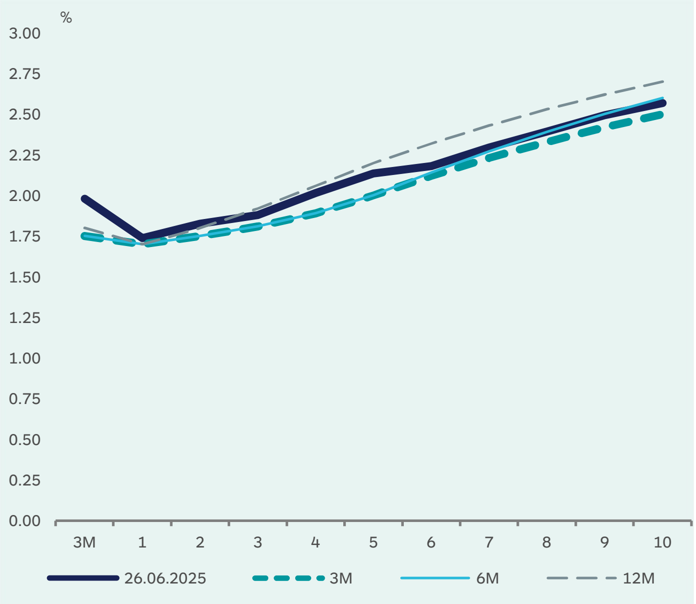
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	**NORD/LB forecasts for horizons...**		
	26.06.2025	**3M**	**6M**	**12M**
3M	1.98	1.75	1.75	1.80
1Y	1.74	1.70	1.70	1.70
2Y	1.83	1.75	1.75	1.80
3Y	1.88	1.81	1.81	1.92
4Y	2.02	1.89	1.89	2.06
5Y	2.13	2.00	2.00	2.20
6Y	2.18	2.12	2.14	2.32
7Y	2.29	2.23	2.27	2.43
8Y	2.39	2.33	2.39	2.53
9Y	2.49	2.42	2.50	2.62
10Y	2.57	2.50	2.60	2.70
2Y (Swap)	1.97	1.90	1.90	1.95
5Y (Swap)	2.24	2.10	2.10	2.30
10Y (Swap)	2.57	2.50	2.60	2.70

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



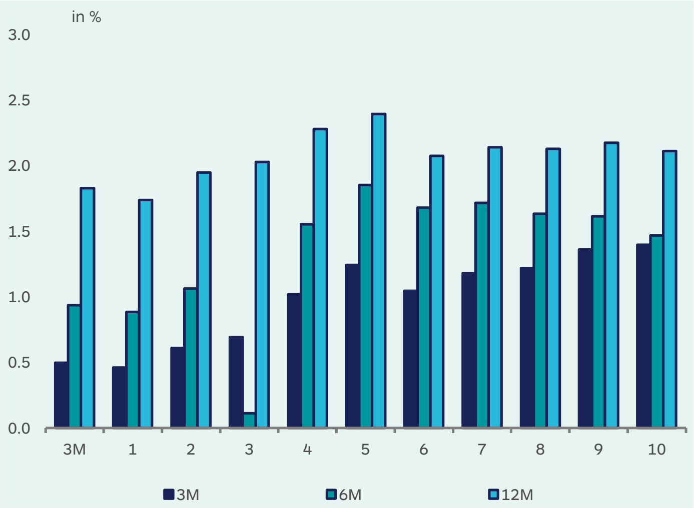
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.50	0.93	1.83
1Y	0.46	0.88	1.74
2Y	0.61	1.06	1.95
3Y	0.69	0.11	2.03
4Y	1.02	1.55	2.28
5Y	1.24	1.85	2.39
6Y	1.05	1.68	2.07
7Y	1.18	1.71	2.14
8Y	1.22	1.63	2.13
9Y	1.36	1.61	2.17
10Y	1.40	1.47	2.11

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	0.5	2.8	1.1	3.8	1.8
2Y	0.6	2.5	1.3	3.9	1.8
3Y	0.7	2.4	1.0	3.6	1.8
4Y	1.0	2.3	0.8	3.7	2.0
5Y	1.2	2.3	0.5	3.9	2.0
6Y	1.0	3.4	0.6	3.8	2.0
7Y	1.2	2.5	0.2	4.0	2.1
8Y	1.2	2.5	0.7	3.8	2.0
9Y	1.4	2.5	1.2	3.9	2.3
10Y	1.4	2.5	1.4	3.7	2.4

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.0	0.9	0.1	0.0
2Y	0.8	1.0	-0.1	0.0
3Y	0.6	0.7	-0.1	0.0
4Y	0.6	0.5	0.0	0.2
5Y	0.5	0.2	0.2	0.2
6Y	1.6	0.4	0.1	0.2
7Y	0.7	-0.1	0.3	0.3
8Y	0.7	0.5	0.1	0.2
9Y	0.7	0.9	0.2	0.5
10Y	0.7	1.1	0.0	0.6

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	1.7	10.6	1.6	12.5	0.6
2Y	1.9	11.0	1.9	12.5	0.4
3Y	2.0	11.5	2.1	12.3	0.2
4Y	2.3	12.2	2.2	12.3	0.2
5Y	2.4	12.9	2.4	12.3	0.2
6Y	2.1	14.9	3.0	12.3	0.2
7Y	2.1	14.6	2.7	12.4	0.1
8Y	2.1	15.3	3.6	12.2	0.0
9Y	2.2	15.9	4.0	12.5	0.1
10Y	2.1	16.6	4.1	12.6	0.1

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.0	3.7	0.6	-0.1
2Y	4.3	4.0	0.5	-0.3
3Y	4.8	4.2	0.3	-0.5
4Y	5.5	4.4	0.3	-0.5
5Y	6.1	4.6	0.4	-0.5
6Y	8.0	5.1	0.3	-0.5
7Y	7.8	4.8	0.5	-0.6
8Y	8.4	5.7	0.3	-0.7
9Y	9.0	6.1	0.5	-0.6
10Y	9.6	6.2	0.6	-0.6

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	
	26.06.2025	Prev. month	Start of year	Prev. month	Start of year
DAX	23,649.30	23,997.48	19,909.14	-1.45%	18.79%
MDAX	30,100.76	30,594.39	25,589.06	-1.61%	17.63%
EuroSTOXX50	5,244.03	5,366.59	4,895.98	-2.28%	7.11%
STOXX50	4,419.80	4,532.10	4,308.63	-2.48%	2.58%
STOXX600	537.48	548.67	507.62	-2.04%	5.88%
Dow Jones	43,386.84	42,270.07	42,544.22	1.69%	1.03%
S&P 500	6,141.02	5,911.69	5,881.63	3.05%	3.58%
Nikkei	39,584.58	37,965.10	39,894.54	4.27%	-0.78%

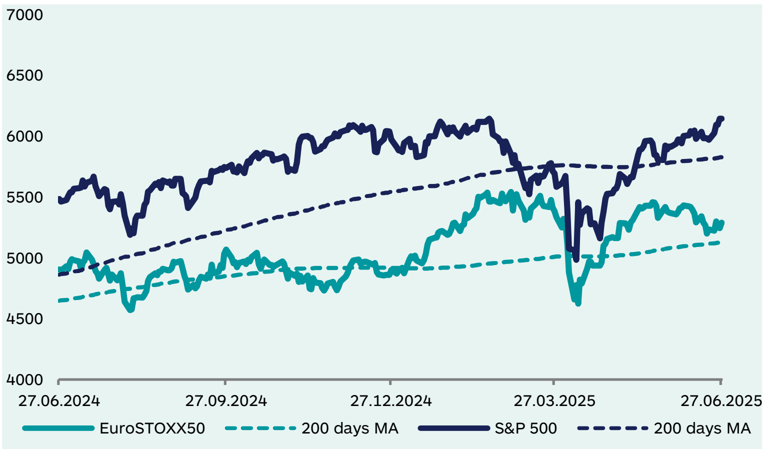
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	22,500	23,800	25,000
MDAX	28,000	30,100	32,000
EuroSTOXX50	5,050	5,300	5,550
STOXX50	4,275	4,500	4,675
STOXX600	510	545	570
Dow Jones	40,000	42,800	44,000
S&P 500	5,650	6,050	6,250
Nikkei	38,000	39,500	42,500

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, 27 June 2025**

The next English issue of Economic Adviser will be appearing on **28 July 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	1.5	1.7	3.0	3.0	2.6	4.0	4.5	4.4	-6.9	-6.4	-6.0
Euroland	0.8	1.2	1.1	2.4	2.0	1.7	6.4	6.2	6.1	-3.1	-3.3	-3.4
Germany	-0.2	0.2	1.4	2.5	2.2	1.9	6.0	6.3	6.2	-2.8	-2.9	-3.6
Japan	0.2	0.8	0.9	2.7	3.3	2.0	2.5	2.5	2.4	-2.2	-3.5	-3.2
Britain	1.1	0.9	1.2	2.5	3.0	2.3	4.6	4.6	4.6	-5.2	-4.1	-3.5
Switzerland	1.2	1.4	1.5	2.1	0.2	0.5	2.0	2.9	3.0	0.2	0.4	0.3
China	5.0	4.4	4.0	0.1	0.4	1.0	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 %	26.06.25	3M	6M	12M
USD	4.50	4.25	3.75	3.25
EUR	2.00	1.75	1.75	1.75
JPY	0.50	0.50	0.75	1.00
GBP	4.25	4.00	3.75	3.50
CHF	0.00	0.00	0.00	0.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	26.06.25	3M	6M	12M
USD	1.17	1.15	1.12	1.10
JPY	169	163	156	151
GBP	0.85	0.85	0.86	0.87
CHF	0.94	0.92	0.93	0.93
CNY	8.39	8.40	8.18	7.99

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	26.06.	3M	6M	12M	26.06.	3M	6M	12M	26.06.	3M	6M	12M	26.06.	3M	6M	12M
USD	4.30	4.05	3.60	3.15	3.72	3.80	3.55	3.10	3.80	3.90	3.70	3.20	4.24	4.30	4.00	3.60
EUR	1.98	1.75	1.75	1.80	1.83	1.75	1.75	1.80	2.13	2.00	2.00	2.20	2.57	2.50	2.60	2.70
JPY	0.77	0.80	0.90	1.10	0.06	0.80	0.95	1.00	0.26	1.00	1.05	1.20	0.66	1.50	1.55	1.60
GBP	4.12	3.90	3.70	3.50	3.83	3.78	3.67	3.60	3.95	4.18	3.95	3.85	4.47	4.45	4.35	4.25
CHF	-0.06	0.00	0.00	0.10	-0.11	-0.10	0.02	0.20	0.10	0.10	0.15	0.30	0.38	0.35	0.40	0.50

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	26.06.	3M	6M	12M	26.06.	3M	6M	12M	26.06.	3M	6M	12M	26.06.	3M	6M	12M
USD	232	230	185	135	189	205	180	130	166	190	170	100	167	180	140	90
JPY	-121	-95	-85	-70	-177	-95	-80	-80	-188	-100	-95	-100	-191	-100	-105	-110
GBP	214	215	195	170	200	203	192	180	182	218	195	165	190	195	175	155
CHF	-204	-175	-175	-170	-193	-185	-173	-160	-204	-190	-185	-190	-219	-215	-220	-220

Sources: Bloomberg, NORD/LB Macro Research

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Editorial deadline: May 26th 2025, 11:53