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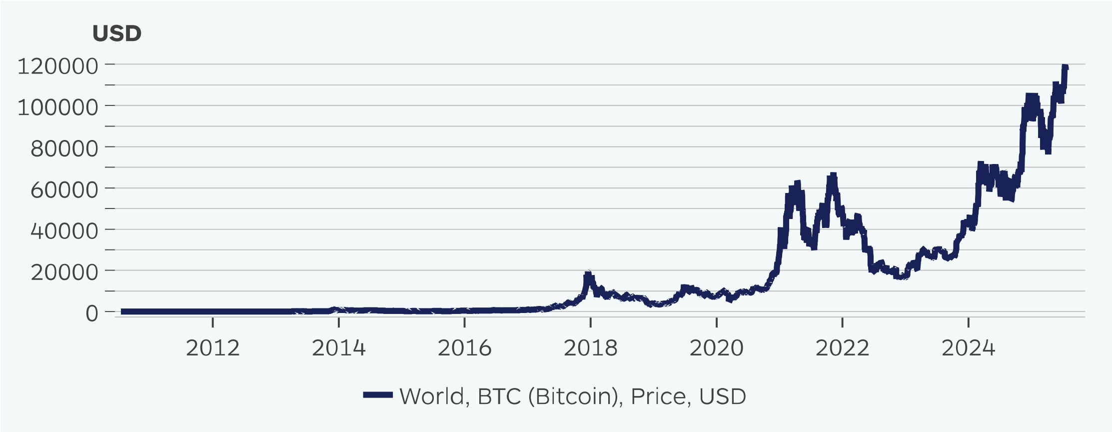
Special: Crypto markets, stablecoins and the U.S. yield curve

Analyst: Tobias Basse

USA as "capital" of the global crypto market

Already during his election campaign, Donald Trump expressed strong support for the bitcoin cryptocurrency – a notable shift from his earlier stance on the subject. The 45th and 47th US president had previously voiced considerable scepticism towards cryptocurrencies. Now, however, he intends to make the United States even more of a central "playground" for the global crypto market than it already is – primarily by eliminating what he deems "unnecessary" regulatory obstacles. Bitcoin has clearly benefited from these new Washington-driven ambitions in recent months. However, this is not the place for a broader debate on bitcoin's merits or drawbacks – an undoubtedly crucial topic that would warrant its own dedicated analysis. Instead, a glance at the chart below reveals a more pressing issue: bitcoin's price volatility, measured in US dollars (or euros), remains strikingly pronounced.

Chart: Bitcoin's volatility (measured in USD)



Sources: Macrobond, NORD/LB Macro Research

The market for stablecoins

This is where the stablecoin comes into play. In the United States, the new administration has decided against the model of central bank-issued electronic money, which is extremely popular in other currency areas. As a result, stablecoins almost inevitably take centre stage as a payment method. These tokens are pegged to financial market benchmarks – such as the U.S. dollar, the euro, or even gold – and must therefore be regarded as stable in value relative to the respective "unit of account". Currently, the U.S. dollar plays a particularly dominant role in this context, and Washington is determined to keep it that way. To that end, the U.S. has established a federal regulatory framework under the Genius Act, ensuring stablecoin reserves are prudently regulated and thus enhancing user security for this financial product. Going forward, dollar-denominated stablecoins will largely be backed by short-term US Treasury securities. The interest income generated from these holdings will accrue to the stablecoin issuers, making token issuance a lucrative business model. Walmart and Amazon too are now rumoured to be exploring plans to become major USD stablecoin providers. Leading retail chains in the United States appear keen to reduce their reliance on credit card networks by advancing corresponding plans. Unsurprisingly, those very same payment providers now seem to be weighing a move into the stablecoin market themselves. For a casual observer of crypto markets, the extent to which stablecoins are already in use in Africa may come as a surprise. Across much of the continent, banking systems remain less developed than in Europe or North America. Practical obstacles – such as limited access to physical bank branches – are compounded by high fees charged by the financial institutions in Africa for payment services, presenting a challenge for economic actors there. Nowhere are the shortcomings more apparent than in cross-border transfers of financial resources. Stablecoins can help remedy this state of affairs (or are already doing so). Many African nations have to contend with what must at least be regarded as potentially unstable local currencies, alongside occasional capital controls. Against this background, USD-denominated stablecoins offer a solution, allowing users to shield their assets from sharp devaluations while enabling far easier international transfers.

Stablecoins and the preferred habitat theory

Especially with a widespread international uptake of USD stablecoins, there could be a further winner – namely the United States itself. The country is currently grappling with high government debt alongside rising Treasury yields. A closer look at the breakdown of US federal spending reveals that the cost of servicing the national debt has in the meantime surpassed defence expenditure. A major global breakthrough for USD stablecoins might even assist Treasury Secretary Scott Bessent in funding the fiscal deficit down the line. In such a scenario, the importance of small savers in Africa as "indirect" creditors of the United States would effectively increase. Based on currently available information, however, the scale of additional demand for short-term U.S. Treasuries to back those tokens ought not to be overestimated. That said, the combined domestic and international demand for USD stablecoins could indeed influence the shape of the U.S. yield curve. This is where the preferred habitat theory becomes relevant: a marked structural shift in demand dynamics on the government bond market that drives investor preference towards shorter-dated securities could very well trigger a sustained steepening of the yield curve in the United States.

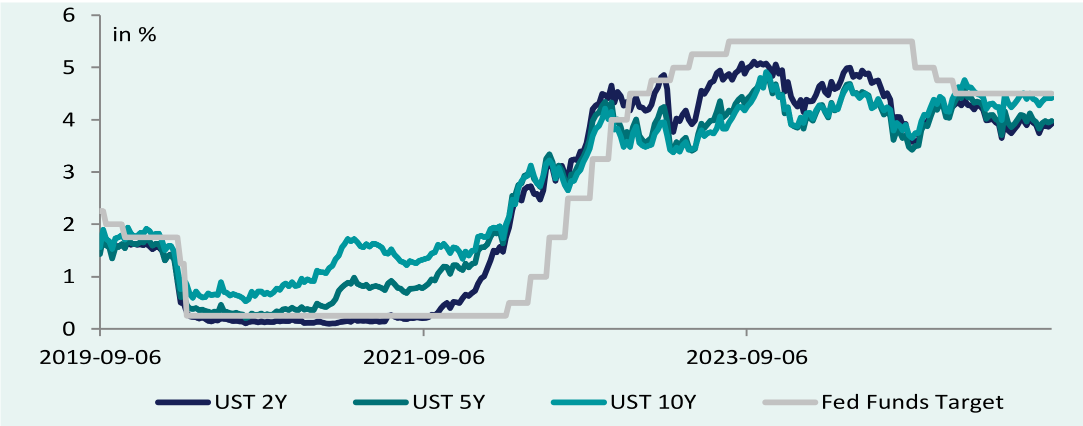
USA: No rate cuts for now

Analysts: Tobias Basse // Constantin Lüer

U.S. economy with no signs of weakness in Q2

U.S. retail sales surprised on the upside in June, posting a month-on-month increase of 0.6 percent. After weak April and May figures, the automotive sector at last provided supportive momentum again, with car dealership revenues rising by an impressive 1.2 percent mom. Data from industry circles had not necessarily pointed in this direction beforehand. Excluding automobiles, there was a month-on-month increase of 0.5 percent in June. The control group of retail sales, which is of key relevance for the GDP survey in the United States, similarly registered growth of 0.5 percent mom in June. These figures suggest little immediate cause for any great concern about U.S. consumers. After the weak start to the year, distorted by special effects, the real economy in the land of unlimited opportunity looks poised for some rebound effect in Q2, with annualized growth likely approaching the psychologically significant 2 percent threshold. That sad, the new administration – also mindful of debt sustainability – clearly seeks stronger economic acceleration. This puts Fed monetary policy squarely in focus.

Chart: Interest rates in the U.S.



Sources: Macrobond, NORD/LB Macro Research

NAHB Housing Market Index registers ongoing weakness

High interest rates are, without question, posing a significant challenge to the U.S. housing market. Sentiment among builders remains downbeat. In July, the NAHB Housing Market Index edged up merely marginally to 33 points. Indeed, the key component "Prospective Buyers Traffic" weakened further and now stands at just 20 points. Demand-side challenges persist, with the combination of elevated home prices and mortgage rates acting as a veritable "sentiment killer". As a result, the US property market is contributing little in the way of support to overall economic growth.

Fed holds off on rate cuts for now

The US housing market in particular could benefit from FOMC rate cuts. Jerome Powell appears hesitant to act for now, however, so a reduction in the Fed funds target rate is not to be expected at the present time. The inflation trend currently appears quite unproblematic. While Washington's new trade policy will still make for a marked surge in prices, we expect the annual average to remain below the "magical" 3 percent mark in 2025. As consumer inflation expectations continue to ease, the prospect of key-rate cuts is likely to move up the agenda for the Washington central bankers in the second half of the year. The U.S. President's public statements will likely contribute to this shift. The current – and still preliminary – July figures on the 1-year inflation expectations polled by the University of Michigan provide clear evidence in this direction, having fallen significantly of late and now standing at "just"

4.0 percent. This time series is thus gradually approaching the levels observed in the New York Fed's data for some time now – a development that is in any event of significant importance for the monetary policymakers in Washington. The general uncertainty surrounding the new U.S. administration's economic policies continues to reverberate through currency markets, driving pronounced weakness in the U.S. currency. While trade deals should theoretically prove dollar-positive in the medium term, the currency failed to benefit from the announcement of the results of the negotiations between Washington and Tokyo, however. Some observers appear to be maintaining their view of the greenback as a forex safe haven, which may explain this market behaviour. In the medium-term, greater economic policy stability in Washington should ultimately benefit the U.S. currency, however. We are at any rate sticking to our assessment that the administration in Washington would like a weaker – but not persistently weak – U.S. dollar!

Fundamental forecasts, USA

	2024	2025	2026
GDP	2.8	1.5	1.7
Private consumption	2.8	2.1	1.9
Govt. consumption	3.4	1.4	1.1
Fixed investment	4.0	1.8	2.3
Exports	3.3	1.6	1.4
Imports	5.3	3.9	0.6
Inflation	3.0	3.0	2.7
Unemployment rate[1]	4.0	4.3	4.4
Budget balance[2]	-6.9	-6.4	-6.0
Current acct. balance[2]	-4.1	-4.1	-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

	24.07.	3M	6M	12M
Fed funds target rate	4.50	4.25	3.75	3.25
3M rate	4.31	4.05	3.60	3.15
10Y Treasuries	4.40	4.30	4.00	3.60
Spread 10Y Bund	169	170	130	80
EUR in USD	1.17	1.15	1.12	1.10

Sources: Bloomberg, NORD/LB Macro Research

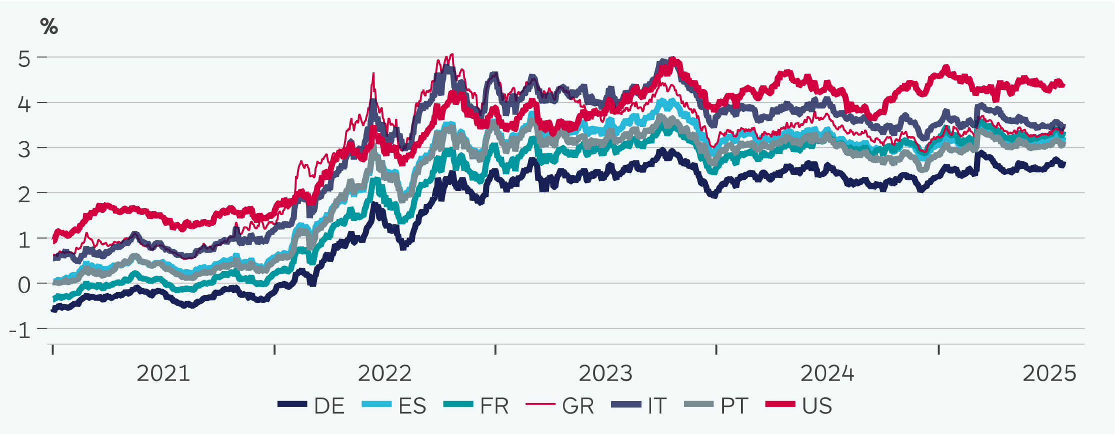
Euroland: Economy comes across resilient

Analysts: Christian Reuter // Valentin Jansen

Impacts of the tariff conflict becoming more apparent – domestic economy lacks momentum
External economic headwinds have weakened growth in the eurozone, while domestic economic signals appear more on the negative side. Although industrial output grew by 1.7 percent month-on-month in May (price- and seasonally-adjusted) despite the tariff conflict, the bulk of this growth stemmed from Ireland and was primarily driven by the pharmaceutical sector – an industry that holds a special position in the tariff conflict and faces the threat of significant trade barriers. It is quite possible that this still reflects front-loaded demand, suggesting the uptick may prove short-lived rather than sustainable. Moreover, the construction sector suffered a setback, with output down by a seasonally and calendar-adjusted 1.6 percent mom. Exports from the eurozone fell again in May, seasonally adjusted, though the month-on-month decline of 0.5 percent was less than in the preceding month. Imports fell by 1.0 percent mom in the month under review, with no signs yet of trade diversion effects materializing.

Sentiment points to remarkable resilience
Given the general consensus among economists that tariffs and uncertainties are detrimental to the economy, the upward shift in sentiment since Trump's "Liberation Day" in March is quite striking. The key sentiment indicators have recovered from their dip, consistently confirming the improvement up to the present moment. Both expectations and situation assessments have been revised upward. Given the buoyant performance of equity markets, this positive outcome in financial market-based surveys comes as little surprise. July's PMIs now corroborate this trend – albeit with smaller gains over the preceding month. The composite index edged up to 51.0 points, having consistently signalled expansion in economic activity since the beginning of the year. The service sector evidently remains the mainstay of growth, while the purchasing managers in industry are still mostly rather sceptical, albeit marginally less so than in the previous month and despite the tariff conflict. Since the surveys were conducted before the announcement of Trump's deal with Japan, there may even be additional upside here!

Chart: 10Y Bund yield bottoms out at 2.50 percent



Sources: Macrobond, NORD/LB Macro Research

Inflation within target band – risks evenly balanced, but uncertainty exceptionally high
As expected, eurozone inflation rose slightly in June as month under review, with prices increasing 0.3 percent month on month. At 2.0 percent year on year, however, the inflation rate remained within the ECB's target band. The renewed acceleration in services inflation to an annualized rate of 3.3 has been

offset by slower wage growth and rising labour productivity. A stronger euro and lower energy prices compared to a year earlier have helped absorb the upward pressure. Given that the ECB's current projections already factor in inflation falling below target, an overly strong euro could make for downside risks. On the other hand, policymakers must anticipate potential inflationary pressures ahead. On the other hand, policymakers must reckon with potential inflationary pressures ahead. These could stem from both fiscal measures (Germany's infrastructure package; military spending) and the medium-term effects of higher tariffs. Economists unanimously agree that tariffs, ceteris paribus, reduce productivity in equilibrium – an inherently inflationary effect. However, the actual impact remains contingent on additional factors, particularly how policymakers respond to trade diversion effects.

ECB wants more information – tariff conflict's repercussions currently unquantifiable
As expected, the ECB held its key interest rates unchanged at its July meeting in a unanimous decision. The central bankers rightly expressed satisfaction with their current approach. Their data-dependent, "meeting-by-meeting" decision-making process has proven effective thus far. The central bank will now adopt a watch-and-wait stance until it gains sufficient clarity as to what the Trump administration's economic policy experiment means for the eurozone. While growth risks appear tilted to the downside, the inflation outlook remains less certain. In this context the ECB's policy statement included the wording that the central bankers will assess the inflation outlook "*and the risks surrounding it*," reflecting the conclusions of the recently completed strategy review. When the central bankers will have obtained adequate information – and what implications this will have for monetary policy – remains uncertain. The ECB President made it abundantly clear that, at present, no definitive judgment can be made. Whether sufficient clarity will have emerged by the next meeting in September remains possible but far from certain.

Fundamental forecasts, Euroland

	2024	2025	2026
GDP	0.9	1.1	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	6.3	6.1
Budget balance[3]	-3.1	-3.3	-3.4
Current account balance[3]	2.6	2.2	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	0.5	0.1	-0.1
GDP sa yoy	1.1	1.3	1.5	1.3	0.8
Inflation yoy	2.2	2.2	2.3	2.0	1.8

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	24.07.	3M	6M	12M
Repo rate ECB	2.00	1.75	1.75	1.75
3M rate	1.95	1.75	1.80	1.90
10Y Bund	2.70	2.60	2.70	2.80

Sources: Bloomberg, NORD/LB Macro Research

Germany: Economic sentiment grows more cautious

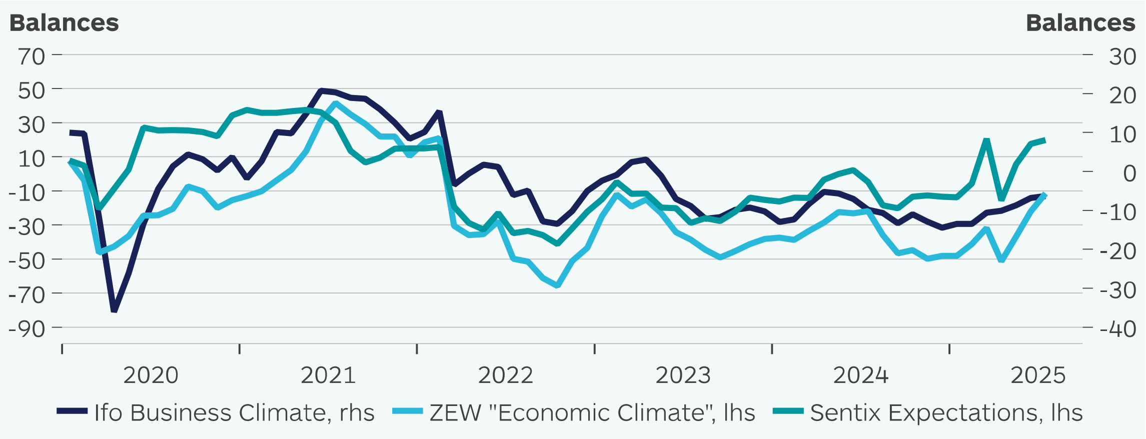
Analysts: Valentin Jansen // Christian Reuter

Industry: divergence between current production dynamics and order outlook

The preliminary real May data for Germany's manufacturing sector showed a month-on-month increase of 1.2 percent (1.0 percent yoy), partially offsetting the previous month's decline. Strong contributions came from the automotive industry (+4.9 percent) and energy generation (+10.8 percent). A further sector contributing positively with double-digit growth was pharmaceuticals, which had previously driven marked front-loading effects in spring and remains a focus of the ongoing negotiations with Washington. Indeed, real industrial output as a whole – excluding energy and construction – registered month-on-month growth of 1.4 percent, seasonally and calendar-adjusted.

On the other hand, a look at order intake (May: -1.4 percent mom; without large-scale orders even -3.1 percent), calls for caution. The recent divergence between current production dynamics and order outlook is partly due to distorting effects from large-scale orders. However, the tailwind for the manufacturing sector – which had supported GDP growth particularly in spring through increased industrial activity driven by front-loaded orders from U.S. importers – is likely to continue fading. The simmering trade conflict with the U.S. continues to weigh on the export outlook for Germany's industrial companies. Since March 2025, higher tariffs on steel and aluminium products have been in place, which were further tightened in June. The steel industry is particularly affected, with its exports to the U.S declining sharply of late. At the same time, foreign trade data show a marked drop in overall exports (-1.4 percent mom; April: -1.6 percent), while shipments to the U.S. fell by 7.7 percent mom (-13.8 percent yoy). Exports to the eurozone and China also trended downwards. As a result, Germany's industrial economy continues to drive by sight and, particularly in the second half of the year, will remain reliant on domestic demand. Any setbacks in the negotiations with the U.S. would also significantly impact the fragile industrial economy.

Leading indicators – the air is getting thinner after a surge in optimism



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

Uptrend in sentiment indicators becomes more cautious

Economic confidence in Germany continued to strengthen in July. Financial market experts surveyed by the ZEW institute revised their economic expectations upwards for the third consecutive time. In numerical terms, the index reached 52.7 points, its highest level in over two years. The assessment of the current situation also improved significantly (+12.5 to -59.5 points), reflecting stabilizing tendencies in the broader economic environment.

Business sentiment among German corporate leaders also brightened further in July. The slightly improved situation assessment lifted the ifo Business Climate Index from 88.4 to 88.6 points, marking its highest level in over a year. By contrast, business expectations, after a strong upward trend over the past three months, failed to climb further. Concerns ahead of August 1 over a potential escalation in the trade disputes with Washington likely played a key role in this development.
The latest ifo Institute survey fits into the pattern of positive sentiment-based leading indicators. However, the expectation components already show a loss of momentum compared to the previous two months, which is also reflected in last Friday's ifo figures. A further dampener came from last Thursday's release of the July survey among purchasing managers in Germany, according to which overall business activity grew merely marginally and weakened slightly compared to June.
Given the persistent geopolitical and trade tensions, the sustained optimism in the German economy has been remarkable for some time now. From a European or German perspective, the situation has hardly eased – yet the ifo Business Climate Index has now risen for the seventh consecutive month. In more economically stable times, this would be a clear signal of an impending trend reversal. However, the tariff conflict with the U.S., most recently exacerbated by a European agreement on potential countermeasures should talks fail, remains a key risk for the German economy.
Markets increasingly appear to interpret the actions of the U.S. government as part of a strategic negotiating tactic – a perception that has recently fuelled hopes of a last-minute agreement. At the same time, it is becoming apparent that the economic policy signals from Berlin – and increasingly from the private sector ("Made for Germany") – are supporting the long-awaited improvement in sentiment within the German economy. Despite this fundamentally positive development, the outlook should still be viewed with caution. It remains to be seen whether the accumulated expectations of recent months can translate into sustainable economic recovery. For the second half of the year, domestic economic demand will be particularly crucial.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.2	0.2	1.4
Private consumption	0.2	1.0	1.5
Govt. consumption	3.2	1.6	3.2
Fixed investment	-2.7	1.3	4.7
Exports	-1.8	-0.5	1.7
Imports	-0.7	2.2	5.5
Net exports[1]	-0.5	-1.0	-1.4
Inflation[2]	2.5	2.1	1.7
Unemployment rate[3]	6.0	6.3	6.3
Budget balance[4]	-2.8	-2.9	-3.6
Current account balance[4]	5.7	5.1	4.4

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	1.9

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: Companies remain optimistic

Analyst: Christian Reuter

Swiss economy remarkably resilient – tailwind from domestic demand

Despite global uncertainties and the unresolved tariff dispute with the USA, Swiss companies appear to be remaining optimistic. Indeed, the PMI for the manufacturing sector registered a significant uptick in June, from 42.1 to 49.6 points. While still below the expansion threshold of 50 points, this marks the third-strongest monthly increase since the index began and brings it back to roughly the level before the onset of the tariff conflict. The improvement was broad-based across industries, but the turnaround in order intake was particularly striking, with the relevant sub-index surging by 14.5 points to the 50.4 mark. One reason for optimism apparently lies in inventory levels, which purchasing managers report have continued to decline, while delivery times have lengthened; both trends have been in evidence for some months now. The drag from high post-pandemic inventories now appears sustainably overcome, indicating a relatively robust domestic economy. That said, the upbeat sentiment among Switzerland's purchasing managers contrasts with growing concerns over trade barriers. The proportion of companies anticipating an increase in protectionist measures over the next 12 months climbed from 50 to 60 percent in June. Negotiations between the governments remain tough, according to sources close to the talks. Bern hopes to secure an exemption at least for the chemical and pharmaceutical industry, but the Trump administration's erratic approach offers no clear outline of a possible agreement as yet.

June saw an unexpected upturn in foreign demand. Seasonally adjusted exports in the month under review rose by 6.1 percent month-on-month. Given that the main driver was once again chemical and pharmaceutical products, it can be speculated that this reflects further front-loading effects from the tariff conflict. After two weak months in April and May, however, the Federal Office for Customs and Border Security reported an overall decline in foreign trade for Q2. Exports to the USA plummeted nearly 30 percent quarter-on-quarter, reverting to Q4/2024 levels.

Inflation unexpectedly back in the picture – franc remains broadly supported

The Swiss National Bank (SNB) will likely have welcomed June's 0.1 percent year-on-year rise in inflation with some relief. However, it may view with concern a trend that further reinforces the Swiss franc's status as a safe-haven currency. According to IMF data, foreign exchange reserves held in francs surged from USD 20 billion to 88 billion in Q1 – the sharpest increase on record. While this amount is not particularly significant from a global perspective, it could pose challenges for the small country that is Switzerland, however. Against this background, speculation persists that the SNB may revert to negative interest rates and interventions in FX markets.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	0.9	1.4	1.5
Inflation (CPI)	1.1	0.3	0.6
Unemployment rate[1]	2.5	2.9	3.0
Budget balance[2]	0.6	0.4	0.3
Current account bal.[2]	5.1	4.3	3.7

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

Interest and exchange rates, Switzerland

	24.07.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.07	0.00	0.00	0.05
10Y	0.42	0.40	0.45	0.55
Spread 10Y Bund	-229	-220	-225	-225
EUR in CHF	0.93	0.93	0.93	0.93

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Japan: Trade deal with the USA finally in place

Analyst: Tobias Basse

The results of the Upper House elections make for political pressure

Japan's Upper House elections delivered another setback for embattled Prime Minister Shigeru Ishiba, with the ruling coalition losing its majority in the chamber. As is usually the case, various factors appear to have shaped the election outcome: the surge in rice prices at any rate emerged as a key influence.

Trade deal with the USA now in place

Ishiba, facing mounting pressure after the electoral defeat, swiftly reaffirmed his intention to remain in office to bring the negotiations on resolving the trade dispute with the United States to a successful conclusion. The deal has now been announced, leading to immediate rumours in the press that Ishiba would be stepping down in the near future. These rumours also triggering mild turbulence in the FX market, for example. The prime minister promptly denied the press reports, however. Following the election, dissent appears to be mounting within the Liberal Democratic Party, with some politicians reportedly pushing behind the scenes for a near-term leadership change in the government. Japan's automakers undoubtedly needed the trade deal with the United States – and exerted significant pressure on Ishiba behind closed doors. Among the public, however, some engaged observers argue the terms of the deal could have been more favourable for Japan. The country's current prime minister is unlikely to be envied by many for his job at the moment. The political situation in Tokyo is indeed far from straightforward. International financial markets will be closely monitoring further developments.

Bank of Japan likely to remain cautious for now

The additional uncertainty for Japan's economy triggered by Washington's new trade policy had clearly been a key factor behind Tokyo's hesitant monetary policy adjustments in the recent past. The newly announced deal will likely make it considerably easier for the Bank of Japan to raise interest rates in the future. In the short term, the central bankers are expected to take a closer look at the specific details of the agreement with Washington – and to proceed with restraint for now. Cautious rate hikes ought to be possible in the course of the year, although no rapid moves are to be expected either.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	0.2	0.8	0.9
Inflation	2.7	2.9	1.9
Unemployment rate[1]	2.5	2.5	2.4
Budget balance[2]	-2.2	-3.5	-3.2
Current account balance[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

	24.07.	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	1.70
Spread 10Y Bund	-204	-110	-115	-110
EUR in JPY	173	164	156	151
USD in JPY	147	143	139	137

China: Economy to weaken in the second half-year

Analyst: Valentin Jansen

Strong GDP growth driven by exports, but economic risks mount

China's GDP grew by 5.2 percent year-on-year in Q2/2025 (Q1: 5.4 percent), bringing growth in the first half-year as a whole to 5.3 percent. At first glance, this keeps Beijing's growth target of "around 5 percent" for 2025 formally within reach. Despite simmering trade tensions, exports proved surprisingly resilient: while shipments to the U.S. plunged by roughly one-third in April and May, gains in other markets more than offset the decline, lifting total Q2 exports by 0.8 percent quarter-on-quarter. Industrial output likewise registered robust growth in June (+6.8 percent yoy), with high-tech manufacturing output expanding by 9.7 percent yoy, driven by key focus industries in Beijing's industrial policy – such as the automotive sector, electrical engineering and the semiconductor industry. However, cracks are widening in key domestic sectors. Retail sales growth slowed to 4.8 percent year-on-year in June (May: 6.4 percent), suggesting that the boost from Beijing's short-term consumer stimulus measures is already fading. Real estate prices fell for a third consecutive month, further dampening consumer sentiment given real estate's outsized role in the financial well-being of private households. Looking ahead to the second half of the year, however, the economic risks for the domestic economy and the uncertain foreign trade landscape are significantly increasing.

U.S. trade agreements with other partners make for added pressure on the export sector

Beyond the temporary compromise in the tariff conflict with the USA and the ongoing negotiations, China's export industry is grappling with Washington's trade agreements with other trade partners. These increasingly include regulations aimed at Chinese inputs, such as stricter rules of origin or tiered tariff rates (e.g., in the agreement with Vietnam), where products with a high proportion of Chinese components are subject to higher tariffs. Such clauses squeeze China's indirect exports via third countries and threaten to further constrain foreign trade's critical growth contribution in 2025. Nevertheless, this reinforces Beijing's need to increasingly focus on a stronger domestic market orientation.

PBOC maintains cautious stance as first-half GDP growth eases pressure

As expected, the PBOC held benchmark interest rates unchanged in July following its May easing. The decision reflects Beijing's delicate balancing act: supporting an economy strained by trade tensions with Washington while avoiding additional downward pressure on the yuan, which has already faced significant strain not least from a widening interest rate differential with the USA. With GDP growth of 5.3 percent in the first half of the year, the immediate pressure on the PBOC to act appears to have eased somewhat – at least in the short term. The exchange rate remained relatively stable in July around the mark of USD 7.17/CNY.

Fundamental forecasts*, China

	2024	2025	2026
GDP	5.0	4.5	4.2
Inflation	0.1	0.3	1.1
Unemployment rate[1]	5.1	5.1	5.1
Budget balance[2]	-7.4	-5.5	-5.7
Current account bal.[2]	1.4	1.9	1.4

* 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

	24.07.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.55	1.60	1.50	1.50
10Y	1.74	1.65	1.60	1.60
Spread 10Y Bund	-96	-95	-110	-120
EUR in CNY	8.42	8.26	8.01	7.81
USD in CNY	7.15	7.18	7.15	7.10

Britain: Dark economic clouds likely to lift

Analyst: Constantin Lüer

Economy falters for the second consecutive month

The British economy continues to drag its feet. After already shrinking 0.3 percent month-on-month in April, GDP declined a further 0.1 percent mom in May – raising the likelihood of a negative second quarter unless June surprises on the upside. The tariff conflict with the USA thus continues to resonate, with the negative effects of this brief interlude cascading through various economic data. Looking ahead, a major upswing has yet to materialize, though a prolonged risk of recession does not appear likely. This risk has admittedly increased slightly, and market participants currently estimate it at 30 percent. Much like the chance of rain predicted in a weather report, this risk assessment suggests Britain can probably leave its economic umbrella at home.

Labour market in crisis – or maybe not?

If we stick to meteorological allegories, the Office for National Statistics has been making for dense fog for several weeks now, meaning that the economic policymakers and the Bank of England are thus navigating by sight through the economy in some areas. The ONS's payroll data initially showed significant job losses over the past two months, only to be substantially revised upward later. For instance, May's reported loss of 109,000 jobs was corrected to just 25,000 – roughly in line with April's revised figure, the initial forecast of which had likewise been drastically overstated (70,000). This pattern suggests June's reported decline of 41,000 jobs should be interpreted with caution. The root causes are twofold: the ONS appears underfunded, while low survey response rates undermine data reliability. The problem is at any rate being addressed politically, though a solution is still a long way off. Yet the unemployment rate's rise to 4.7 percent lends credence to the view that the labour market is indeed cooling.

Rate cut likely in August

Nevertheless, the Bank of England will likely resolve to lower interest rates at its next MPC meeting in August, even in the face of slightly higher inflation. The central bankers appear to view the current price dynamics as sufficiently subdued to justify such a move, with the most recent data suggesting moderation after April's spike. The U.S.-induced economic shock already mentioned continues working its way through the UK's economic data. Yet the prevailing outlook now suggests Britain's economic skies are most likely to clear in the months ahead.

Fundamental forecasts*, Britain

	2024	2025	2026
GDP	1.1	1.0	1.2
Inflation (CPI)	2.5	3.1	2.4
Unemployment rate[1]	4.3	4.7	4.6
Budget balance[2]	-5.2	-4.3	-3.6
Current account bal.[2]	-2.7	-2.9	-2.7

* Change vs previous year as percentage

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

[2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	24.07.	3M	6M	12M
Repo rate	4.25	4.00	3.75	3.50
3M rate	4.02	3.90	3.75	3.50
10Y	4.62	4.45	4.35	4.25
Spread 10Y Bund	192	185	165	145
EUR in GBP	0.87	0.85	0.86	0.87
GBP in USD	1.35	1.35	1.30	1.26

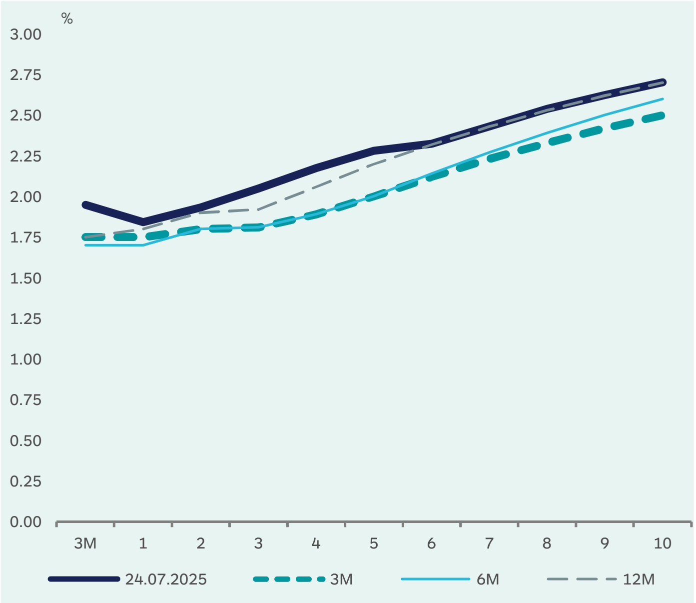
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for horizons...		
	24.07.2025	**3M**	**6M**	**12M**
3M	1.95	1.75	1.70	1.75
1Y	1.84	1.75	1.70	1.80
2Y	1.93	1.80	1.80	1.90
3Y	2.05	1.81	1.81	1.92
4Y	2.17	1.89	1.89	2.06
5Y	2.28	2.00	2.00	2.20
6Y	2.32	2.12	2.14	2.32
7Y	2.43	2.23	2.27	2.43
8Y	2.54	2.33	2.39	2.53
9Y	2.62	2.42	2.50	2.62
10Y	2.70	2.50	2.60	2.70
2Y (Swap)	2.06	1.90	1.95	2.05
5Y (Swap)	2.34	2.10	2.20	2.40
10Y (Swap)	2.67	2.60	2.70	2.80

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



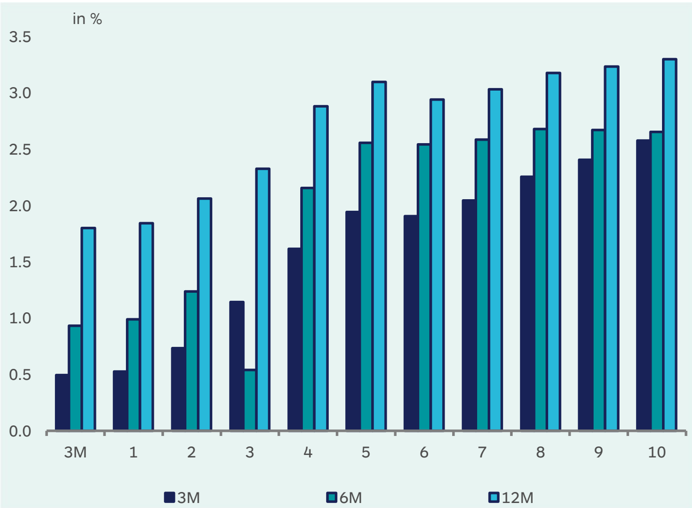
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.49	0.93	1.80
1Y	0.53	0.99	1.84
2Y	0.73	1.24	2.06
3Y	1.14	0.54	2.32
4Y	1.61	2.15	2.88
5Y	1.94	2.56	3.10
6Y	1.90	2.54	2.94
7Y	2.04	2.58	3.03
8Y	2.25	2.68	3.18
9Y	2.40	2.67	3.23
10Y	2.58	2.65	3.30

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	3.3	3.2	5.5	0.4
2Y	0.7	3.3	3.5	5.7	0.4
3Y	1.1	3.3	3.3	5.7	0.5
4Y	1.6	3.4	3.3	6.0	0.7
5Y	1.9	3.5	3.0	6.4	0.7
6Y	1.9	3.9	3.4	6.7	0.7
7Y	2.0	3.9	3.1	7.2	0.9
8Y	2.3	4.0	4.0	7.2	0.7
9Y	2.4	4.1	4.5	7.2	1.1
10Y	2.6	4.2	4.8	7.0	0.9

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.1	0.9	0.2	-0.1
2Y	1.1	1.1	0.3	0.0
3Y	1.1	1.0	0.3	0.0
4Y	1.2	0.9	0.6	0.2
5Y	1.3	0.7	1.0	0.2
6Y	1.7	1.0	1.3	0.2
7Y	1.7	0.8	1.8	0.4
8Y	1.8	1.7	1.8	0.2
9Y	1.9	2.1	1.8	0.6
10Y	2.0	2.5	1.6	0.4

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	1.8	11.2	3.7	15.1	0.3
2Y	2.1	11.8	4.2	15.2	0.1
3Y	2.3	12.5	4.4	15.2	0.0
4Y	2.9	13.3	4.8	15.5	0.0
5Y	3.1	14.2	5.1	15.8	0.1
6Y	2.9	15.5	5.8	16.1	0.0
7Y	3.0	16.3	5.6	16.6	0.0
8Y	3.2	17.1	7.0	16.7	-0.2
9Y	3.2	17.8	7.4	16.6	0.0
10Y	3.3	18.5	7.7	16.6	0.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.1	3.8	0.7	-0.2
2Y	4.7	4.2	0.8	-0.4
3Y	5.3	4.4	0.7	-0.5
4Y	6.1	4.8	1.0	-0.4
5Y	6.9	5.1	1.2	-0.4
6Y	8.1	5.8	1.5	-0.4
7Y	8.8	5.7	1.9	-0.4
8Y	9.6	7.0	2.0	-0.6
9Y	10.3	7.4	1.9	-0.4
10Y	10.9	7.7	2.0	-0.4

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 24.07.2025	Status Prev. month	Status Start of year	Performance since Prev. month	Performance since Start of year
DAX	24,295.93	23,909.61	19,909.14	1.62%	22.03%
MDAX	31,633.56	30,483.50	25,589.06	3.77%	23.62%
EuroSTOXX50	5,355.20	5,303.24	4,895.98	0.98%	9.38%
STOXX50	4,528.68	4,454.06	4,308.63	1.68%	5.11%
STOXX600	551.55	541.37	507.62	1.88%	8.65%
Dow Jones	44,693.91	44,094.77	42,544.22	2.08%	5.80%
S&P 500	6,363.35	6,204.95	5,881.63	2.48%	8.11%
Nikkei	41,826.34	40,487.39	39,894.54	3.31%	4.84%

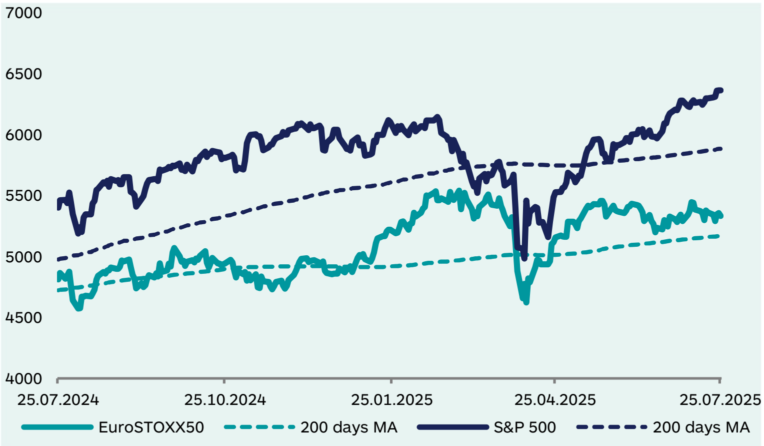
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ... 3M	6M	12M
DAX	23,000	24,500	25,000
MDAX	30,300	32,000	33,000
EuroSTOXX50	5,080	5,400	5,550
STOXX50	4,300	4,580	4,675
STOXX600	525	555	570
Dow Jones	41,000	43,500	44,000
S&P 500	5,800	6,200	6,300
Nikkei	41,000	41,800	44,000

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, 25 July 2025.**
The next English issue of Economic Adviser will be appearing on **1 September 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	2.7	4.0	4.3	4.4	-6.9	-6.4	-6.0
Euroland	0.9	1.1	1.1	2.4	2.0	1.7	6.4	6.3	6.1	-3.1	-3.3	-3.4
Germany	-0.2	0.2	1.4	2.5	2.1	1.7	6.0	6.3	6.3	-2.8	-2.9	-3.6
Japan	0.2	0.8	0.9	2.7	2.9	1.9	2.5	2.5	2.4	-2.2	-3.5	-3.2
Britain	1.1	1.0	1.2	2.5	3.1	2.4	4.3	4.7	4.6	-5.2	-4.3	-3.6
Switzerland	1.2	1.4	1.5	2.1	0.3	0.6	2.0	2.9	3.0	0.2	0.4	0.3
China	5.0	4.5	4.2	0.1	0.3	1.1	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 %	24.07.25	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...	24.07.25	3M	6M	12M
USD	1.17	1.15	1.12	1.10
JPY	173	164	156	151
GBP	0.87	0.85	0.86	0.87
CHF	0.93	0.93	0.93	0.93
CNY	8.42	8.26	8.01	7.81

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	24.07.	3M	6M	12M	24.07.	3M	6M	12M	24.07.	3M	6M	12M	24.07.	3M	6M	12M
USD	4.31	4.05	3.60	3.15	3.92	3.80	3.55	3.10	3.96	3.90	3.70	3.20	4.40	4.30	4.00	3.60
EUR	1.95	1.75	1.80	1.90	1.93	1.80	1.80	1.90	2.28	2.00	2.00	2.20	2.70	2.60	2.70	2.80
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	1.70
GBP	4.02	3.90	3.75	3.50	3.86	3.78	3.68	3.59	4.03	4.18	3.95	3.85	4.62	4.45	4.35	4.25
CHF	-0.07	0.00	0.00	0.05	-0.10	-0.10	0.02	0.17	0.13	0.10	0.15	0.30	0.42	0.40	0.45	0.55

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	24.07.	3M	6M	12M	24.07.	3M	6M	12M	24.07.	3M	6M	12M	24.07.	3M	6M	12M
USD	237	230	180	125	198	200	175	120	168	190	170	100	169	170	130	80
JPY	-118	-95	-90	-80	-188	-100	-85	-90	-202	-100	-95	-100	-204	-110	-115	-110
GBP	208	215	195	160	193	198	188	169	175	218	195	165	192	185	165	145
CHF	-202	-175	-180	-185	-203	-190	-178	-173	-216	-190	-185	-190	-229	-220	-225	-225

Sources: Bloomberg, NORD/LB Macro Research

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Editorial deadline: Juily 25th 2025, 14:00