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Contents

Special: EU-U.S. customs agreement – not a fair deal, but a costly and imbalanced breather

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Provisional customs agreement between the EU and the U.S.

The joint statement published on August 21st in the trade dispute between the EU and the U.S. confirms the informal agreement on bilateral trade rules reached in July. This statement is not legally binding either, however. Uncertainty therefore remains high as to its actual implementation and potential reinterpretations, along with subsequent amendments.

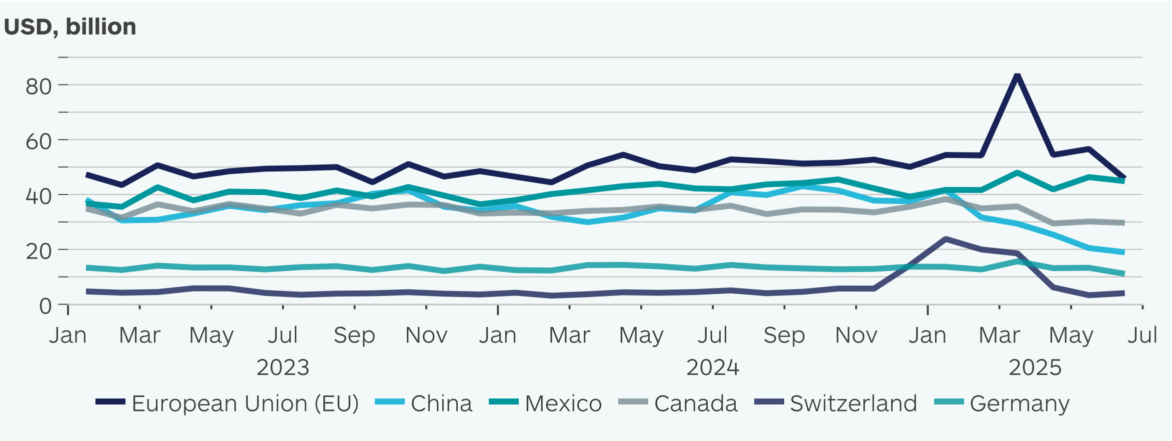
The U.S. and the European Commission have agreed on, among other things, a flat tariff rate of 15 percent for the majority of EU goods exports to the United States. Furthermore, the EU has committed to investing massively in the U.S. (approximately USD 600 billion) and ramping up imports of U.S. energy products – to a value of USD 750 billion by 2028. Originally, a failure of the negotiations would have meant significantly higher tariffs of 30 percent. Other key trading partners have found themselves subject to in some cases more severe scenarios which, after the front-loading effects earlier this year, are already being reflected in the latest bilateral trade data (see chart).

For many sectors, the agreement represents a painful compromise. For instance, no agreement has yet been reached on the removal of U.S. tariffs on European steel and aluminium exports. The parties have at least agreed to jointly seek solutions in this context (e.g. through tariff quotas) to protect the respective markets from overcapacities while at the same time keeping supply chains stable.

The reduction of automobile tariffs from 27.5 to 15 percent is contingent upon the European Commission's pledges – such as largely duty-free access for U.S. industrial goods and cars and greater market opening for U.S. agricultural products – being promptly transposed into European law. The EU has already taken initial steps to expedite implementation.

For the time being, therefore, the previous, significantly higher tariff rates remain in place. In the pharmaceuticals sector, initial interpretations differed, but a 15-percent tariff rate has now been agreed upon in this area, as well as for semiconductors and semiconductor equipment. The digital sector, considered an important bargaining chip for the EU, is excluded for the time being – so-called "digital trade barriers" are to be addressed in the future, but without involving changes to EU digital laws (Digital Markets Act/Digital Services Act). However, the U.S. administration recently again criticized the European regulation of U.S. tech giants, particularly in the sphere of digital tax, accompanied by fresh threats of punitive tariffs and export restrictions for U.S. technology goods.

Chart: Tariffs drive movement in U.S. import value from key trading partners (in USD)



Sources: Macrobond, NORD/LB Macro Research

An agreement with significant imbalance and built-in fragilities

The agreement is ultimately disappointing, even if it has, for now, averted the threat of significantly higher tariffs previously floated by President Trump. However, it should not be mistaken for providing planning certainty. This view misunderstands the universal character of tariffs as an instrument of power for Donald Trump, used to pursue a wide range of political objectives. The reliability of even written agreements with him has been called into question, not least by his dealings with USMCA partners Canada and Mexico. Furthermore, the agreement contains critical elements such as the intention to substantially increase imports of fossil fuels from the U.S. The EU cannot guarantee the fulfilment of this commitment at all, just as it cannot guarantee the promised investments in the U.S., meaning the agreement has several built-in fragilities which could potentially lead to its failure.

From the EU’s perspective, the upside lies in a breathing space, the averting of a short-term escalation with unforeseeable consequences, and a somewhat more advantageous arrangement compared to some other competitors in the U.S. market. Consequently, the net effect on the competitive position of European exporters in the U.S. is less negative than a focus on the higher direct tariffs might suggest. That said, this comes at a high cost, including a significant imbalance in future goods tariffs. The cap of 15 percent for most EU goods is already being partially undermined by the U.S. The American administration has, for example, announced its intention to extend the 50-percent tariff rate on steel and aluminium products to over 400 additional product categories. Should this measure stand, it would heavily burden the mechanical engineering sector and run clearly counter to the spirit of the agreement.

Economic and security dependencies as Achilles' heel of the EU

This, however, appears to be of little concern to Donald Trump. Seemingly out of thin air, the U.S. President continuously generates new bargaining chips, which he then leverages for significant concessions. The EU, by contrast, appears reluctant or unable to employ such tactics. Ultimately, the outcome of the tariff negotiations reflects the unequal balance of power stemming from the EU's economic, technological, and security policy dependencies. In particular the latter has been overtly leveraged by the U.S. administration. Against this backdrop, a tactical concession from the European Commission was understandable. However, it is now imperative for Europe to marshal all its efforts to scale back these dependencies as rapidly as possible, thereby enabling the bloc to negotiate more sovereignly and on an equal footing in the future. The fact that the agreement actually provides for an increase in dependence on U.S. armaments and energy supplies complicates this necessary strategic response from the EU, however.

Macroeconomic effect manageable – trade policy uncertainty remains high

The customs agreement is certainly not advantageous for the EU, although we had already anticipated tariff developments of this magnitude at the end of last year. The overall macroeconomic effect will likely remain within limits, resulting in a slight loss in growth momentum and a short-term disinflationary impact. The agreement's downstream consequences are more severe, however. The EU's bowing to U.S. pressure in the trade dispute contributes to the erosion of the existing multilateral world trade framework, which the EU had previously always sought to defend. The granting of zero tariffs for U.S. industrial goods without extending them to other WTO members on a most-favoured-nation (MFN) basis likely contravenes WTO rules. It remains unclear how the EU intends to handle this situation. Although the WTO's original appellate body for dispute settlement is inoperative, the EU, like China, has signed the "Multi-party Interim Appeal Arbitration Arrangement" (MPIA). Consequently, third countries could now exert pressure on the EU through regular channels.

Moreover, geostrategic rivals are, in turn, likely to feel encouraged by the EU's capitulation to put pressure on Europe themselves. Indeed, China, with its quasi-monopoly on many rare earths and strategic inputs, possesses an additional lever due to the EU’s dependency. The effectiveness of this weapon has already been proven in the conflict with the U.S. Against this backdrop, the trade conflict is far from over for Europe; it has most likely only just begun.

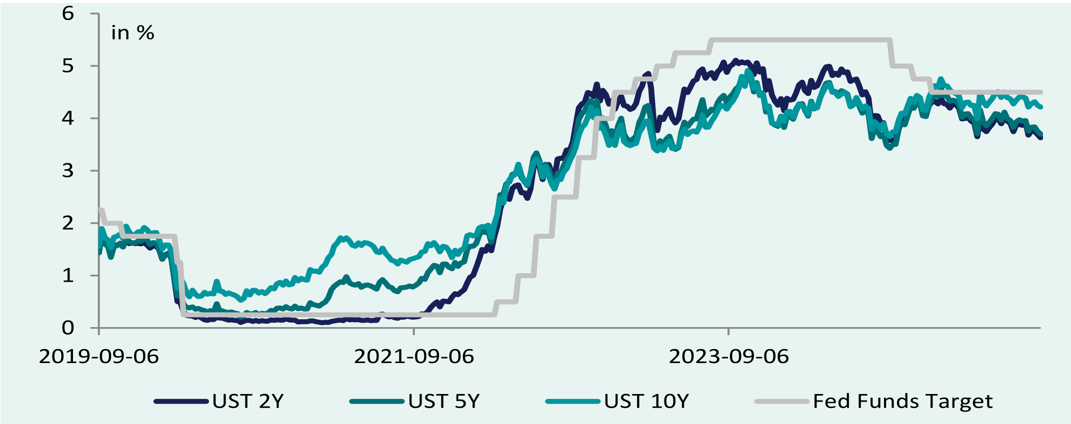
USA: Jerome Powell's shift in stance

Analysts: Tobias Basse // Constantin Lüer

What comes after Q2's strong GDP figures

Further encouraging data on U.S. retail sales was reported for July, with preliminary figures indicating month-on-month growth of 0.5 percent. The growth in this sector was again driven by stimulative impulses from the motor vehicles segment. Excluding automobiles, the gain for July was a more modest 0.3 percent mom. The control group of retail sales, which is very helpful for U.S. GDP forecasts, advanced in step with the headline rate by 0.5 percent mom. The U.S. consumer thus remains a pivotal mainstay for the North American economy for now. A separate, second data release showed annualized GDP growth of 3.3 percent for Q2. However, these favourable figures are, of course, largely the result of a rebound effect from the first quarter's weakness, which itself was partly induced by data distortions. In this respect, weaker figures are already to be reckoned with again in the second half of the year, though we still see no likelihood of the U.S. economy heading for a truly catastrophic downturn.

Chart: Interest rate trend in the USA



Sources: Macrobond, NORD/LB Macro Research

The housing affordability crisis continues

Subdued buyer sentiment in the U.S. private housing market remains a persistent problem for the industry. The NAHB Housing Market Index registered a further decline, this time to 32 points. While past lows in this index typically occurred in the context of major shocks, such as the subprime crisis or the Covid-19 pandemic, the current weakness on the private housing front is primarily a problem of high interest rates. The lack of dynamism in the sector is also to some extent dampening the mobility of the U.S. workforce, further exacerbating the problem. The Prospective Buyers Index, a component of the NAHB survey, at any rate continues to signal a wait-and-see attitude among potential homebuyers. Seller sentiment likewise remains depressed, due in no small part to the continued, albeit gradual, decline in average home prices, as suggested by data from the Federal Housing Finance Agency. According to this data, home prices have been declining steadily since an all-time high in February of this year, diminishing the prospect of lucrative transactions. These sales are often used to pay off existing mortgages, typically to purchase a new property. With declining home prices, sellers would be penalized twice when the mortgage lock-in effect is considered. For some homeowners, it is simply unattractive to give up their old, low-rate mortgages and seek a new, more expensive financing arrangement.

Jerome Powell's shift in stance

The Jackson Hole conference brought fresh signals as to the future course of U.S. monetary policy. Indeed, Jerome Powell appears to have undergone a certain shift in stance. While inflation risks remain in the Federal Reserve's sights, the central bank now also sees a degree of potential threat from a possible deterioration in the employment situation. In this context, the Fed chair emphasized that long-term inflation expectations among key economic actors now appear to be anchored at a reasonable level. Consequently, Powell likely no longer stands in the way of interest rate cuts. Interestingly, this news has also caused the yields on 10-year Treasuries to fall, which, in terms of the Fed's credibility, can at any rate be viewed as positive news. This time series fell back relatively clearly below the 4.30 percent mark immediately after the Fed chair's speech. The forex market had evidently been hoping for a rather hawkish appearance from Powell in Jackson Hole, however. Just before the event, the exchange rate for Europe's common currency was quoted below 1.1600 USD per EUR and then – virtually with Powell's words – literally leapt over the 1.1700 USD per EUR mark. Fundamentally, the interest rate levels still favour the U.S. dollar, but fears of various risks are currently weighing clearly on the greenback. The risk premiums priced in by the FX market for a currency pair are quite clearly a relative phenomenon, however.

Fundamental forecasts, USA

	2024	2025	2026
GDP	2.8	1.7	1.7
Private consumption	2.8	2.1	1.5
Govt. consumption	3.4	1.4	1.0
Fixed investment	4.0	1.8	1.8
Exports	3.3	1.1	1.2
Imports	5.3	3.5	0.2
Inflation	3.0	3.0	2.8
Unemployment rate[1]	4.0	4.3	4.4
Budget balance[2]	-6.9	-6.4	-6.1
Current acct. balance[2]	-4.1	-4.3	-3.7

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

	IV/24	I/25	II/25	III/25	IV/25
GDP qoq ann.	2.4	-0.5	3.3	1.0	1.4
GDP yoy	2.5	2.0	2.1	1.6	1.3
Inflation yoy	2.7	2.7	2.5	3.1	3.6

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	28.08.	3M	6M	12M
Fed funds target rate	4.50	4.00	3.75	3.25
3M rate	4.17	3.75	3.45	3.10
10Y Treasuries	4.20	4.10	4.00	3.70
Spread 10Y Bund	151	140	130	80
EUR in USD	1.17	1.15	1.13	1.11

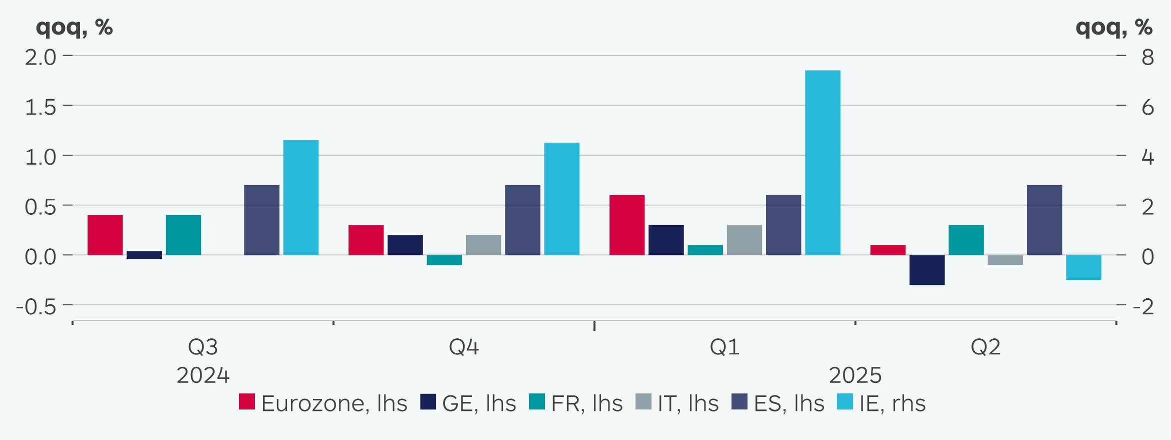
Sources: Bloomberg, NORD/LB Macro Research

Euroland: ECB in no rush – focus shifts to effects of the customs agreement

Analysts: Christian Lips, Chief Economist // Christian Reuter

Reversal of front-loading effects dampens GDP growth in spring – sentiment weakens
Economic momentum in the eurozone slowed significantly in the second quarter, as expected. Based on data released to date by Eurostat, real gross domestic product, adjusted for seasonal and calendar effects, grew by just 0.1 percent quarter-on-quarter, after a strong increase of 0.6 percent qoq in Q1. The annualized growth rate at mid-year correspondingly stands at +1.4 percent. Regional divergences in economic growth across the eurozone remain high (see chart). Among the major economies, Spain once again recorded the highest momentum, with qoq growth of 0.7 percent. France's economy surprised on the upside with a growth figure 0.3 percent qoq. By contrast, the two industrial and export powerhouses, Germany (-0.3 percent qoq) and Italy (-0.1 percent qoq), registered downturns in real economic output.
The supportive front-loading effects in foreign trade seen in the first quarter have, as anticipated, reversed in the spring. In anticipation of Donald Trump's tariff policy, export activity received a temporary boost at the start of the year, but this has created a gap for the remainder of the year. Moreover, a large number of companies now face burdens from higher U.S. import tariffs. The agreement between the European Commission and the U.S. is, in any case, extremely disappointing and could generously be described as one-sided (see Special).
Against this backdrop, economic sentiment deteriorated merely slightly in August. The Economic Sentiment Indicator fell to 95.2 points, remaining well below its long-term average. The decline was therefore rather moderate. The Manufacturing PMI actually climbed to 50.5 points in August, marking its first reading above the expansion threshold in quite some time.

Tariff-related front-loading effects distort GDP growth in the first two quarters



Sources: Eurostat, Macrobond, NORD/LB Macro Research

Inflation rate remains within target range at 2 percent – domestic price pressures easing
The inflation rate in the eurozone remained unchanged in July, stagnating at 2.0 percent year-on-year. The core rate, which excludes volatile food and energy prices, likewise held steady, at 2.3 percent yoy. Here, a rise in the annual rate for non-energy industrial goods (0.8 percent yoy) was offset by a further decline in services inflation (3.1 percent yoy). This latter development is a particularly positive signal for monetary policy, as it indicates that the downward trend in domestic inflation has continued.

The gradually easing wage dynamics are having an increasingly dampening effect. While the annual rate of negotiated wages in the eurozone rose in Q2 as expected, to 4.0 percent yoy, a significant special effect from one-off payments in Germany during the spring quarter distorts the underlying picture, though. The forward-looking ECB wage tracker points to a further slowdown in wage dynamics, suggesting a continuation of the disinflationary trend in services.

ECB extends its rate-cut pause – customs agreement makes for disinflationary effects
Inflation appears to have been subdued for now, but risks persist, primarily from U.S. tariff policy and the effects of the global trade conflicts. Should the framework agreement between the EU and the U.S. hold for the time being, the downside risks are likely to dominate for the eurozone in the near term. The subsequent effects of the other trade conflicts cannot be accurately predicted, however, as they could lead to trade diversions but also pose a threat to existing trade and value chains. Given that the overall effect remains unclear, the ECB will likely extend the rate-cut pause it initiated in July. The minutes of the last monetary policy meeting also confirm that after July's pause the ECB feels no urgency to make further rate cuts. The ECB is set to release new projections in September, but these are not expected to provide the necessary impetus for a rate cut.
The focus in the coming months, however, is likely to shift increasingly to the effects of U.S. tariff policy. While the EU/U.S. trade talks may have prevented worse outcomes for now, the result still may result in additional burdens for the European economy. This supports the arguments of those Governing Council members who favour a further rate cut to bolster the weak economy. Even though markets now view further interest-rate adjustments by the ECB with some caution, we believe that for economic reasons a further easing of monetary policy late this year is both likely and warranted.

Fundamental forecasts, Euroland

	2024	2025	2026
GDP	0.9	1.2	1.2
Private consumption	1.1	1.3	1.6
Govt. consumption	2.5	1.5	2.4
Fixed investment	-1.9	3.6	4.2
Net exports[1]	0.5	-0.6	-1.2
Inflation	2.4	2.1	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	2.0	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

	IV/24	I/25	II/25	III/25	IV/25
GDP sa qoq	0.4	0.5	0.1	0.0	0.3
GDP sa yoy	1.4	1.6	1.4	1.0	0.9
Inflation yoy	2.2	2.3	2.0	2.1	1.9

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	28.08.	3M	6M	12M
Repo rate ECB	2.00	2.00	1.75	1.75
3M rate	2.05	1.95	1.85	1.85
10Y Bund	2.70	2.70	2.70	2.90

Sources: Bloomberg, NORD/LB Macro Research

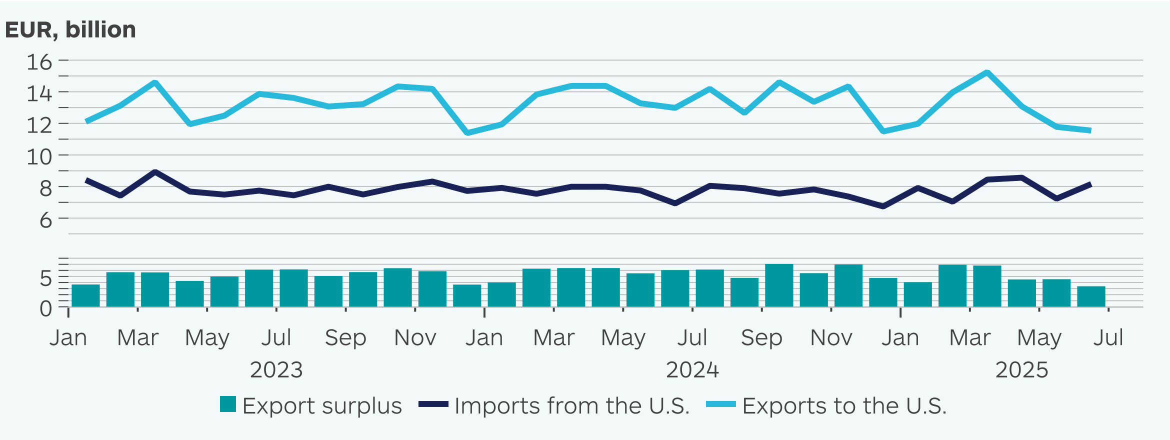
Germany: "Tariff deal" disappoints, hopes turn to fiscal programme

Analysts: Christian Lips, Chief Economist // Valentin Jansen

First half-year with stagnation in economic output

Germany's recent hard economic data have been disappointing, most notably the latest figures on the trend in gross domestic product. Revised results from the Federal Statistical Office show that Germany was deeper in recession in 2023 and 2024 than originally reported. These in some cases significant revisions have substantially altered the timeline of GDP development, particularly since 2022. A recovery in the second half of 2024 is now shown to have offset the deeper downturn in the prior years, with the result that GDP in Q1/2025 is nearly identical to its pre-revision level. This shift in the timeline also affects the statistical carryover for 2025, which now stands slightly positive at +0.1 percentage points. Moreover, the decline in economic growth in the second quarter came in steeper– at -0.3 percent quarter on quarter – than initially reported in the flash estimate at the end of July. Concerns over Washington's new tariff policy triggered front-loading effects in exports in Q1 (see chart), thereby boosting growth, but the subsequent gap created by this front-loading already had a strongly dampening effect in the spring. Exports to the U.S. fell sharply, and the goods trade surplus with the United States accordingly shrank to its lowest level since August 2021. Overall, the German economy was in a state of stagnation in the first half of the year.

Chart: Foreign trade with the U.S. in the first half-year in the grip of the new U.S. tariff policy



Sources: Destatis, Macrobond, NORD/LB Macro Research

Political momentum builds for the "Infrastructure and Climate Neutrality" special fund (SVIK)

The German government is accelerating its efforts to establish the "Infrastructure and Climate Neutrality" special fund (SVIK). The initiative aims to address massive investment backlogs in key areas such as transport, education, and digital infrastructure, thereby strengthening the competitiveness of Germany as business location. Legislation has advanced significantly in recent weeks, with an initial €37.2 billion already allocated in the 2025 budget. Based on a projected average annual disbursement of €40-50 billion over the fund's twelve-year lifespan, the first tangible stimuli for the real economy are expected as early as next year.

However, the implementation is ambitious, requiring a substantially increased volume of investment to be deployed efficiently and purposefully without causing economic overheating or misallocation. This could quickly lead to noticeable capacity bottlenecks in the construction sector and public administration. Additional risks stem from protracted planning and approval procedures.

The real-economic impact risks being diluted if the investments are not truly additional but rather if the new funds are used as a form of budgetary reshuffling for expenditures in the regular budget. In this regard, it is problematic that additionality has been firmly anchored only for the federal share of the special fund, while the required minimum investment quota in the core budget – 10 percent – has been set at a very low level. It is a positive development that several federal states have voluntarily committed to additionality as well as to a minimum municipal share.

Business sentiment brightens despite disappointment over the "tariff deal"
German business sentiment has unexpectedly continued to improve over the summer. The ifo Business Climate index rose in August for the sixth consecutive time, reaching 89.0 points, its highest level in over a year. The brightening of business expectations is particularly encouraging. In contrast, the assessment of the current situation registered a slight decline to 86.4 points.
The companies' almost stoic composure is remarkable, considering the disappointing customs agreement between the EU and the U.S. (see Special) and the predominantly weak economic indicators of late. Initial sentiment surveys among financial market experts immediately after the announcement of the U.S.-EU customs agreement had yielded a significantly more sceptical assessment. The business leaders surveyed by the ifo Institute have, however, decoupled from this view. The prevailing assessment of the "tariff deal" among many of them appears to be "not as bad as feared."
The steady, if slow, upward trend in the Business Climate Index since the beginning of the year shows that companies are accurately contextualizing the distorting effects of recent months while keeping a firm eye on the emerging domestic stimulus. Capital goods manufacturers and the construction industry, in particular, are likely to benefit from infrastructure programmes and flanking measures such as the investment booster. Accordingly, business expectations have brightened most significantly in these sectors.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.5	0.2	1.2
Private consumption	0.5	1.4	1.5
Govt. consumption	2.6	2.2	3.3
Fixed investment	-3.3	-0.3	3.8
Exports	-2.1	0.1	1.9
Imports	-0.6	4.3	5.6
Net exports[1]	-0.7	-1.6	-1.4
Inflation[2]	2.5	2.1	1.7
Unemployment rate[3]	6.0	6.3	6.3
Budget balance[4]	-2.7	-2.9	-3.6
Current account balance[4]	5.6	4.8	4.2

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

	IV/24	I/25	II/25	III/25	IV/25
GDP sa qoq	0.2	0.3	-0.3	0.1	0.2
GDP nsa yoy	-0.4	0.0	-0.2	0.3	0.7
Inflation yoy	2.5	2.6	2.1	2.0	1.8

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

Switzerland: Hope dies last

Analyst: Christian Reuter

U.S. administration's unyielding stance towards Switzerland – tariffs have consequences
Switzerland has so far achieved little in the tariff negotiations and now faces a prohibitive tariff rate of 39 percent for its industrial products – the highest among the industrialized nations. As a small economy, the Swiss have historically relied on cooperation and reliability, opening themselves economically and, among other things, abolishing tariffs on industrial goods in 2024. They had already capitulated to the U.S. long before Trump and abandoned the fabled Swiss banking secrecy. In the negotiations with Trump, there is now little left to bargain with, aside from friendly words and sound arguments. The negotiations currently under way therefore involve issues that touch on domestic policy and, by extension, national sovereignty. Among them the regulation of the domestic pharmaceuticals market, protection of agriculture (supply security; costly production in the mountains, similar to Japan), and foreign-policy neutrality (the Trump administration is evidently looking to position Switzerland against China). The pressure on Swiss negotiators is immense, not least because the talks also involve fine chemicals and the pharmaceutical industry, which are subject to separate negotiation with more far-reaching U.S. demands. Trump would like more from these crown jewels, together with the globally lowest prices for the U.S. Yet Swiss pharma companies are already active in the U.S. with multinational corporations with relevant local production and research facilities there. Without luck, the worst-case scenario looms: should negotiations fail, the KOF Swiss Economic Institute has calculated a GDP decline in excess of 1 percent (Swiss exports to the U.S. equate to 6.7 percent of GDP, with pharmaceuticals alone accounting for 3.5 percent). Despite everything, Switzerland is sticking to its conciliatory negotiation strategy. In domestic politics, this course is scarcely contested, with business associations also on board. Tough times are being declared, with talk of pulling together and tightening belts. Unfortunately, luck does not form part of our base-case scenario. Moreover, since the leeway for monetary policy (see below) appears extremely limited, GDP will have to bear the brunt of the adjustment.

SNB's leeway shrinks further
Despite these developments, financial markets' confidence in Switzerland as a safe haven remains unbroken. One might think the franc should have depreciated – after all, it has not appreciated further, at least not against the euro (the USD has tended to weaken across the board this year). A strong franc exacerbates the export industry's predicament and imports deflation. Due to the low inflation, interest rates are already near zero, and the policy rate is already dipping its toe into negative territory. While interventions in the FX market are repeatedly mentioned by the SNB, the likelihood of actually executing them has become even more remote given the tensions with Trump ("unfriendly currency manipulation"). The latter have also likely raised the bar for a cut in policy rates further into negative territory. The SNB's dilemma has thus intensified further, with few clear policy options readily apparent.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	0.9	1.2	0.3
Inflation (CPI)	1.1	0.3	0.6
Unemployment rate[1]	2.5	3.0	3.5
Budget balance[2]	0.6	0.6	-0.3
Current account bal.[2]	5.1	1.8	0.0

* 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, Switzerland

	28.08.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.06	-0.15	-0.10	0.00
10Y	0.26	0.35	0.35	0.45
Spread 10Y Bund	-243	-235	-235	-245
EUR in CHF	0.94	0.95	0.95	0.94

Japan: Central bank under pressure to act

Analyst: Tobias Basse

Pleasing GDP figures for Q2

Japan has reported unexpectedly positive GDP figures for the second quarter, revealing an annualized increase of a notable 1.0 percent. Some market participants had apparently feared some headwinds from private consumption, given the inflationary trends observed in the recent past. Such a scenario has now failed to materialize, with the Japanese economy currently performing more than robustly. Whether the trade deal with the U.S. can provide further supportive impulses for the economy of the Land of the Rising Sun remains to be seen, however. The domestic political situation in Tokyo remains rather difficult and could yet lead to strains. Recent press speculation as to a near-term resignation of Japan's Prime Minister Ishiba has receded somewhat into the background, however. The election defeat in July is without question still resonating. The environment for the prime minister therefore remains difficult, though his approval ratings have since improved noticeably. Indeed, some sources now report data suggesting that public opinion may even favour Ishiba remaining at the helm of the Japanese government.

Central bank under pressure to act

The basic trade deal with Washington, still apparently being worked out in detail, together with the encouraging GDP figures for Q2, has increased the pressure on the Bank of Japan to take action. The BOJ is likely to see the need for a further key-rate hike before year-end 2025, though the central bankers will probably want to proceed cautiously. Japan's chronic fear of deflation is increasingly fading from view, but related concerns can still be observed here and there.

Yen a touch stronger

The yen is likely to benefit from the prospects of further rate hikes in Japan. But one fact is certainly clear to the FX market, however: Japan's central bankers will prefer to proceed cautiously. The yen's recent slight appreciation was due more to weakness of the U.S. currency. Donald Trump's announcement that he intends to dismiss senior Federal Reserve official Lisa Cook contributed to this dynamic. As a result, the yen continues to serve as a safe haven in the global currency markets.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	0.1	1.2	0.9
Inflation	2.7	2.9	1.9
Unemployment rate[1]	2.5	2.5	2.4
Budget balance[2]	-2.2	-3.4	-3.2
Current account bal.[2]	4.8	4.5	4.4

* 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, Japan

	28.08.	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	1.55	1.60	1.70
Spread 10Y Bund	-204	-115	-110	-120
EUR in JPY	172	167	158	152
USD in JPY	147	145	140	137

China: Domestic economy continues to cool

Analyst: Valentin Jansen

Foreign trade bolsters growth while domestic demand continues to cool

Chinese exports grew by 7.2 percent year-on-year in July (June: 5.9 percent), reaching their highest level since April. Declining exports to the United States were more than offset by increased exports to Europe and Asia. That said, the overall picture is likely still distorted by a mix of front-loading and trade diversion effects, as the US government's plans for tariffs on goods imported from China via third countries remain a major factor of uncertainty. By contrast, the domestic economy is continuing to cool. Retail sales grew by just 3.7 percent year-on-year in July (June: 4.8 percent), increasing concerns that the effect of Beijing's spring consumption support measures appears to be fading for the second consecutive month. Industrial output likewise lost momentum, weakening to 5.7 percent yoy after 6.8 percent the previous month. The Caixin Manufacturing PMI had already signalled this trend, falling back into contractionary territory at 49.3 points. The overall economy thus experienced a setback this summer despite stimuli and robust exports. Moreover, inflation remained at 0.0 percent yoy in July, while producer prices fell again by a substantial 3.6 percent. Against this backdrop, Beijing has already signalled further support measures. Initial small steps have already been announced, including subsidies for consumer loans and expressed dissatisfaction with the heated competition in primarily state-directed sectors. More extensive fiscal stimulus is expected to be announced in October during the fourth plenary session of the Central Committee.

Tariff truce extended – Washington "satisfied with the status quo"

The extended tariff truce between the US and China has, for now, prevented a "re-escalation" of the trade dispute between the world's two largest economies. US Treasury Secretary Bessent expressed satisfaction with the status quo, this being beneficial in terms of China's contribution to US tariff revenues. At the same time, Washington is increasing pressure by expanding controls on Chinese imports, citing international labour and human rights standards. Beijing, for its part, has, among other things, stopped publishing reports on production quotas for rare earths. Against the backdrop of a potential summit between Trump and Xi, it remains unclear whether any significant progress can be achieved.

Fed signals ease pressure on PBOC

As expected, the People's Bank of China left its key interest rate structure unchanged in August following the last round of easing in May. The current cautious stance is due to the balancing act of supporting the domestic economy amid the trade conflict with Washington while simultaneously avoiding further downward pressure on the renminbi. The prospect of interest rate cuts, recently signalled by Fed Chair Powell, is expected to ease the prevailing pressure from wide interest rate differentials. This would, on one hand, reduce the acute pressure for immediate action from the PBOC and, on the other, afford China's central bank somewhat greater leeway in its monetary policy.

Fundamental forecasts*, China

	2024	2025	2026
GDP	5.0	4.7	4.2
Inflation	0.1	0.2	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

	28.08.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.55	1.50	1.55	1.50
10Y	1.79	1.55	1.53	1.53
Spread 10Y Bund	-91	-115	-117	-137
EUR in CNY	8.33	8.22	8.07	7.88
USD in CNY	7.13	7.15	7.14	7.10

Britain: Rate cuts as stimulus for growth?

Analyst: Constantin Lüer

Growth unlikely to remain quite as buoyant in the second half of the year

The UK economy has, in aggregate, weathered the first half of the year relatively well as compared with other countries. That said, quarter-on-quarter growth rates of 0.7 percent in Q1 and 0.3 percent in Q2 are not necessarily sustainable, as economic momentum in the second quarter was primarily stimulated by government expenditure. Private household demand has hardly shifted, which could drag on growth in some areas. This consumer reticence is partly also politically driven, stemming from household concerns over potential tax increases. Furthermore, global demand has not yet fully recovered from the headwinds from Washington's tariff policy. We are nevertheless maintaining our expectations of positive growth rates over the next two quarters. Monetary stimulus may have a helping role to play, as the Bank of England's Monetary Policy Committee is naturally keeping a close eye on the economy.

Labor market situation to remain strained for now

The labour market is a source of concern for some central bankers. While the UK, too, has experienced problems at its national statistics office, and in hindsight the labour market has cooled more sharply than initially thought – similar to the U.S. – no heads have rolled, as the saying goes. Nevertheless, labour costs increased in April due to a rise in employees' national insurance contributions, which must be paid by employers, resulting in reduced demand for workers. This shock is expected to be absorbed in the coming months, however, which should also lead to a stabilization of the labour market. Certain pressures persist, though, not least because wage growth remains relatively high, albeit on a declining trend.

Divergence of views among the members of the BoE's Monetary Policy Committee of late

In a noteworthy vote, the Bank of England's Monetary Policy Committee resolved to cut the Bank Rate by 25 basis points at its August meeting – noteworthy in that this was the first time in the Bank of England's entire history that a second round of voting had taken been necessary. The key question now is whether this shift to easing will set a precedent for the committee's next decision in September. Concerns over a deteriorating economy are creating room for a degree of forward guidance. For instance, Catherine Mann, to date rather known as a hawk, stated that she now considers the restrictive strategy appropriate while simultaneously ruling out a rate hike. On the contrary, she signalled a readiness to cut rates sharply should domestic demand weaken and associated risks materialize. This logic is likely to be shared by other central bankers on the committee.

Fundamental forecasts*, Britain

	2024	2025	2026
GDP	1.1	1.1	1.2
Inflation (CPI)	2.5	3.2	2.4
Unemployment rate[1]	4.3	4.7	4.7
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

Interest and exchange rates, Britain

	28.08.	3M	6M	12M
Repo rate	4.00	3.75	3.50	3.25
3M rate	3.97	3.80	3.65	3.30
10Y	4.70	4.35	4.30	4.20
Spread 10Y Bund	200	165	160	130
EUR in GBP	0.86	0.86	0.86	0.87
GBP in USD	1.35	1.34	1.31	1.28

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

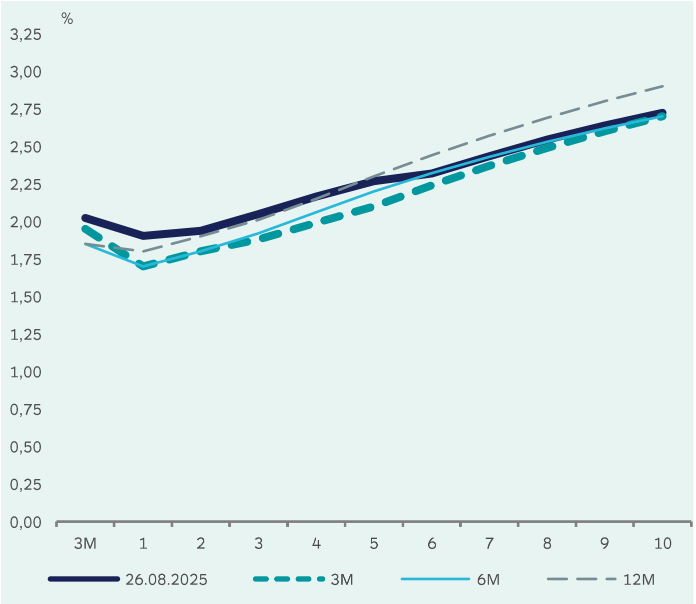
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for horizons...		
	28.08.2025	**3M**	**6M**	**12M**
3M	2.05	1.95	1.85	1.85
1Y	1.90	1.70	1.70	1.80
2Y	1.93	1.80	1.80	1.90
3Y	2.04	1.88	1.92	2.01
4Y	2.15	1.99	2.06	2.15
5Y	2.24	2.10	2.20	2.30
6Y	2.29	2.24	2.32	2.44
7Y	2.41	2.37	2.43	2.57
8Y	2.52	2.49	2.53	2.69
9Y	2.61	2.60	2.62	2.80
10Y	2.70	2.70	2.70	2.90
2Y (Swap)	2.06	1.95	1.95	2.05
5Y (Swap)	2.31	2.20	2.30	2.40
10Y (Swap)	2.65	2.70	2.70	2.90

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



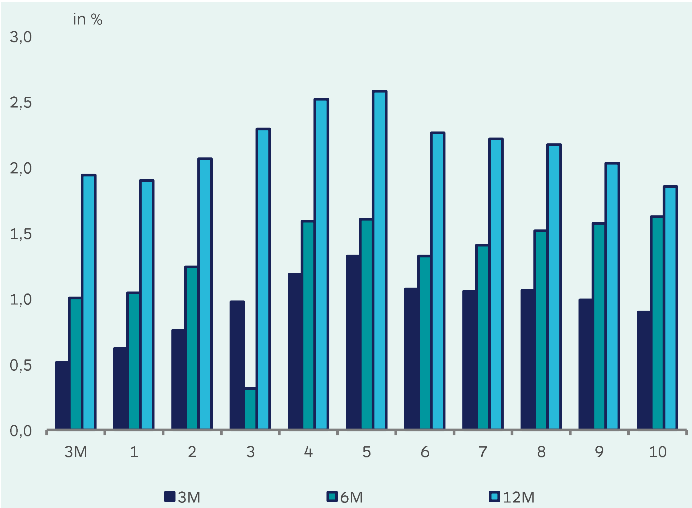
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.52	1.01	1.94
1Y	0.62	1.04	1.90
2Y	0.76	1.24	2.07
3Y	0.98	0.31	2.29
4Y	1.19	1.59	2.52
5Y	1.32	1.60	2.58
6Y	1.07	1.33	2.26
7Y	1.06	1.41	2.22
8Y	1.06	1.52	2.17
9Y	0.99	1.57	2.03
10Y	0.90	1.63	1.85

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

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

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

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	0.6	2.7	1.6	3.0	-1.5
2Y	0.8	2.5	1.9	3.1	-1.5
3Y	1.0	2.1	2.0	3.1	-1.4
4Y	1.2	1.8	1.9	3.4	-1.5
5Y	1.3	2.3	1.9	3.2	-1.6
6Y	1.1	4.1	2.6	3.4	-1.7
7Y	1.1	2.9	2.3	3.5	-1.6
8Y	1.1	3.3	3.9	3.7	-1.8
9Y	1.0	3.4	4.2	3.8	-1.9
10Y	0.9	3.5	4.4	3.8	-2.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	1.1	1.1	0.2	-0.1
2Y	0.9	1.4	0.3	0.0
3Y	0.5	1.4	0.3	0.0
4Y	0.2	1.4	0.5	-0.1
5Y	0.7	1.4	0.4	-0.1
6Y	2.4	2.0	0.6	-0.2
7Y	1.3	1.8	0.7	-0.2
8Y	1.6	3.3	0.9	-0.4
9Y	1.8	3.6	0.9	-0.5
10Y	1.9	3.9	1.0	-0.5

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	1.9	9.3	3.2	13.7	-0.6
2Y	2.1	9.6	3.8	13.8	-0.7
3Y	2.3	10.0	4.1	13.8	-0.9
4Y	2.5	10.6	4.5	14.1	-0.7
5Y	2.6	11.2	4.8	14.3	-0.7
6Y	2.3	13.4	5.7	14.6	-0.8
7Y	2.2	12.9	5.6	15.0	-0.5
8Y	2.2	13.2	7.2	14.9	-1.1
9Y	2.0	14.0	7.7	15.1	-1.5
10Y	1.9	14.6	8.1	15.1	-1.7

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	3.9	3.9	0.7	-0.2
2Y	4.1	4.4	0.8	-0.3
3Y	4.5	4.8	0.8	-0.5
4Y	5.1	5.1	1.0	-0.3
5Y	5.6	5.4	1.2	-0.3
6Y	7.8	6.3	1.5	-0.4
7Y	7.2	6.2	1.9	-0.1
8Y	7.6	7.9	1.8	-0.6
9Y	8.3	8.4	1.9	-1.1
10Y	8.9	8.7	1.9	-1.3

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	
	28.08.2025	Prev. month	Start of year	Prev. month	Start of year
DAX	24,039.92	24,065.47	19,909.14	-0.11%	20.75%
MDAX	30,358.46	31,004.40	25,589.06	-2.08%	18.64%
EuroSTOXX50	5,396.73	5,319.92	4,895.98	1.44%	10.23%
STOXX50	4,581.75	4,468.34	4,308.63	2.54%	6.34%
STOXX600	553.67	546.11	507.62	1.38%	9.07%
Dow Jones	45,636.90	44,130.98	42,544.22	3.41%	7.27%
S&P 500	6,501.86	6,339.39	5,881.63	2.56%	10.55%
Nikkei	42,828.79	41,069.82	39,894.54	4.28%	7.36%

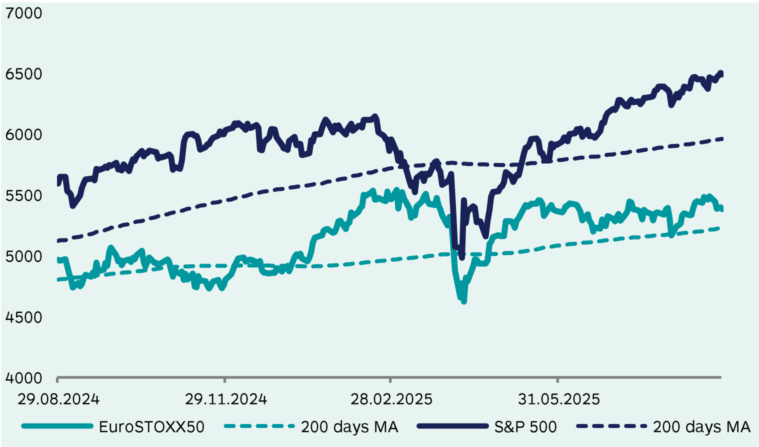
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	23,500	25,000	26,000
MDAX	30,300	32,500	33,800
EuroSTOXX50	5,250	5,600	5,850
STOXX50	4,450	4,725	4,950
STOXX600	540	580	605
Dow Jones	43,500	46,500	48,000
S&P 500	6,200	6,600	6,850
Nikkei	41,000	44,100	46,000

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, 29 August 2025.**
The next English issue of Economic Adviser will be appearing **29 September 2025**.

Overview of 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	1.7	1.7	3.0	3.0	2.8	4.0	4.3	4.4	-6.9	-6.4	-6.1
Euroland	0.9	1.2	1.2	2.4	2.1	1.7	6.4	6.3	6.1	-3.1	-3.3	-3.4
Germany	-0.5	0.2	1.2	2.5	2.1	1.7	6.0	6.3	6.3	-2.7	-2.9	-3.6
Japan	0.1	1.2	0.9	2.7	2.9	1.9	2.5	2.5	2.4	-2.2	-3.4	-3.2
Britain	1.1	1.1	1.2	2.5	3.2	2.4	4.3	4.7	4.7	-5.2	-4.3	-3.6
Switzerland	1.2	1.2	0.3	2.1	0.3	0.6	2.0	3.0	3.5	0.1	0.6	-0.3
China	5.0	4.7	4.2	0.1	0.2	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 %	28.08.25	3M	6M	12M
USD	4.50	4.00	3.75	3.25
EUR	2.00	2.00	1.75	1.75
JPY	0.50	0.50	0.75	1.00
GBP	4.00	3.75	3.50	3.25
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...	28.08.25	3M	6M	12M
USD	1.17	1.15	1.13	1.11
JPY	172	167	158	152
GBP	0.86	0.86	0.86	0.87
CHF	0.94	0.95	0.95	0.94
CNY	8.33	8.22	8.07	7.88

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	28.08.	3M	6M	12M	28.08.	3M	6M	12M	28.08.	3M	6M	12M	28.08.	3M	6M	12M
USD	4.17	3.75	3.45	3.10	3.63	3.60	3.50	3.10	3.69	3.70	3.40	3.25	4.20	4.10	4.00	3.70
EUR	2.05	1.95	1.85	1.85	1.93	1.80	1.80	1.90	2.24	2.10	2.20	2.30	2.70	2.70	2.70	2.90
JPY	0.77	0.80	0.90	1.10	0.06	0.85	0.95	1.00	0.26	1.15	1.15	1.20	0.66	1.55	1.60	1.70
GBP	3.97	3.80	3.65	3.30	3.94	3.70	3.60	3.50	4.10	4.05	3.90	3.80	4.70	4.35	4.30	4.20
CHF	-0.06	-0.15	-0.10	0.00	-0.15	-0.15	-0.05	0.10	0.04	0.10	0.10	0.20	0.26	0.35	0.35	0.45

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	28.08.	3M	6M	12M	28.08.	3M	6M	12M	28.08.	3M	6M	12M	28.08.	3M	6M	12M
USD	212	180	160	125	170	180	170	120	145	160	120	95	151	140	130	80
JPY	-127	-115	-95	-75	-188	-95	-85	-90	-199	-95	-105	-110	-204	-115	-110	-120
GBP	193	185	180	145	200	190	180	160	185	195	170	150	200	165	160	130
CHF	-211	-210	-195	-185	-208	-195	-185	-180	-220	-200	-210	-210	-243	-235	-235	-245

Sources: Bloomberg, NORD/LB Macro Research

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Editorial deadline: August 29th 2025, 15:00