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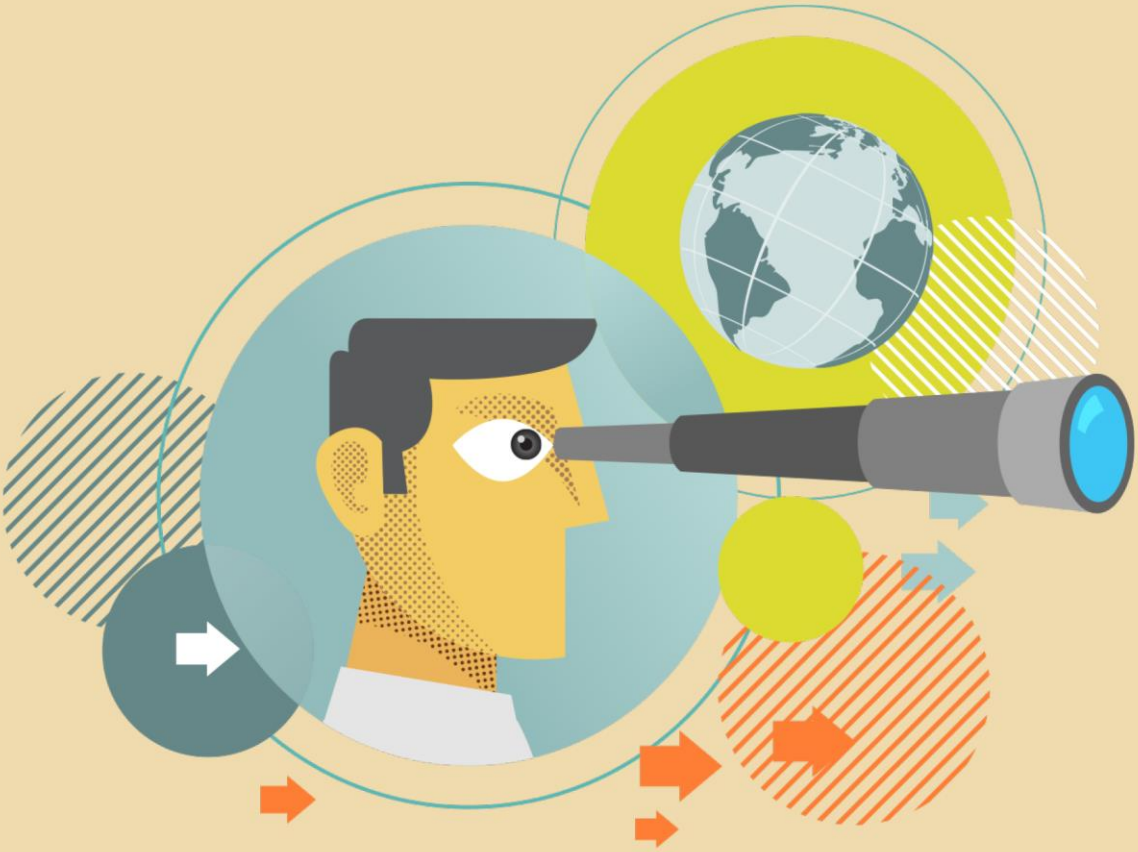

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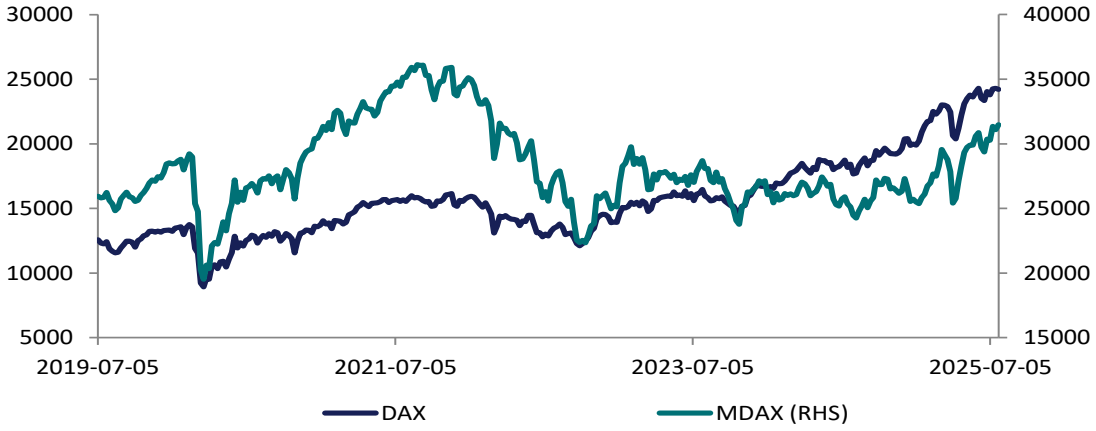
Special: Is the DAX tracking the US stock market's record run?

Analysts: Wolfgang Donie // Tobias Basse

A look at the European stock markets

The stock markets in Germany and Europe – and particularly the DAX – registered an extremely dynamic start to 2025. At its peak in the first quarter, the German blue-chip index was up 17.6 percent. Initial drivers included some signs of economic stabilization, a reporting season that was, at the very least, free of major disappointments, and more attractive valuations compared to the U.S. This was compounded by greater unity within the EU following the political paradigm shift in Washington, along with the prospect of massive investments in infrastructure and defence. U.S. stocks lagged significantly behind. In early April, President Trump's tariff threats escalated, sentiment soured, and the year-to-date gains were erased. Following these disruptions, which also affected bond markets, the White House suspended certain tariffs. The stock markets recovered again, in keeping with the motto: surely things won't be all that bad. The market now began betting on near-term trade deals. Boosted by front-loading effects in foreign trade with the U.S., economic growth in the first quarter proved robust, not only in Germany. On July 9, the DAX hit a new all-time high of 24,549.56 points. Since then, the index of German blue chips has been moving within a volatile sideways channel, which has so far found a lower boundary around the 23,300-point mark. Uncertainties regarding future U.S. trade policy, along with various geopolitical hotspots, are taking their toll. The MDAX, which is more focused on the German domestic market, has performed almost as well year-to-date, albeit with higher volatility and a greater dependence on economic news from Germany.

Chart: DAX and MDAX



Sources: Macrobond, NORD/LB Research

What's next for the DAX and MDAX?

We are maintaining our expectation of a moderately positive trajectory for the DAX. This outlook is based on the ongoingly solid growth of the global economy (the DAX is broadly diversified internationally), expectations for an economic recovery in Germany and Europe in the years ahead, and valuations that remain more attractive compared to the U.S. stock markets. Our forecast for year-end 2025 stands at 24,200 points, which would equate to an annual performance of 21.6 percent. Looking at the next 12 months, we currently see the German benchmark index reaching a level of 26,000 points. Medium to long term, the slightly more attractively valued MDAX could even modestly outperform the DAX, depending on a pickup in the German economy. Our forecasts see levels of 30,800 points by year-end 2025 and 33,800 over the 12-month horizon.

A look at the international stock markets

The recent record-breaking rally on U.S. stock markets – which appears to have lifted dividend stocks in other regions as well – is largely being driven by investor hopes for further interest rate cuts by the U.S. central bank. The FOMC recently announced its first key-rate cut of 2025, and investors are now betting on additional monetary policy measures aimed at cautiously bolstering the North American economy. The U.S. employment situation appears to justify further cuts in the Fed funds target rate. That said, the inflation trajectory in the United States will likely to a great extent limit the scope for aggressive rate cuts by the FOMC. Consequently, the new local minimum for the Fed funds target rate may not be reached until the second half of 2026. In his first official speech following the post-FOMC meeting press conference, Fed Chair Jerome Powell refrained from sending unambiguously clear signals regarding the central bank's future plans, prompting a degree of nervousness in the stock markets. All in all, the future course of monetary policy in Washington is at any rate likely to be broadly supportive of the global stock markets. In Japan, the central bank likewise plays a significant role for the Tokyo stock exchange. The unexpected announcement of plans to scale back the Bank of Japan's holdings of ETFs and REITs initially unsettled the Japanese stock market. However, the central bank's governor, Kazuo Ueda, emphasized that the policymakers in Tokyo intend to proceed with extreme caution in this area. This approach likely also applies to the potential interest rate hikes now looming as well, against which background really strong monetary headwinds for the Japanese stock market appear to be a not very likely scenario.

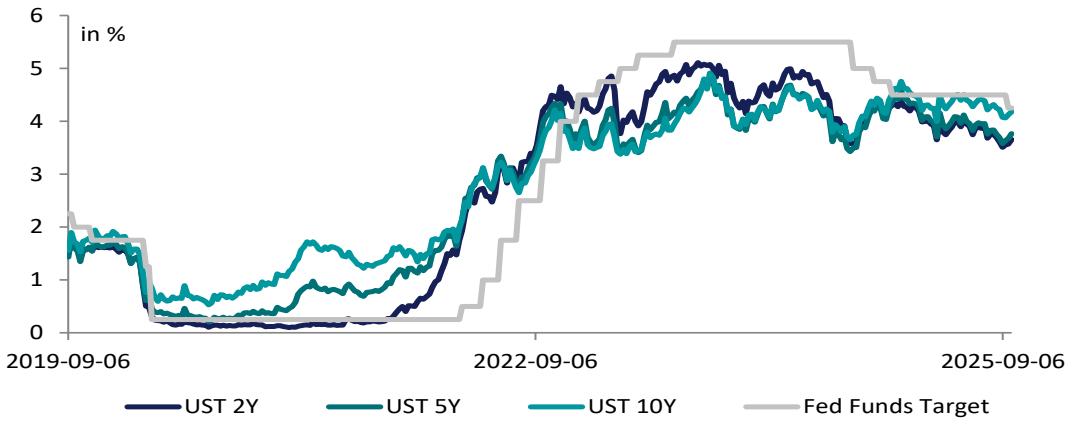
USA: Further rate cuts ahead!

Analysts: Tobias Basse // Constantin Lüer

After the strong growth figures

As is widely recognized in the meantime, the strong growth figures for Q2 were distorted to some extent by the very factors that had posed significant headwinds at the start of 2025 (now, of course, operating in the opposite direction). Consequently, a marked slowdown in growth is in our view to be expected in the second half of the year. At least in the short term, the significantly shifted course of U.S. economic policy is now likely to gradually start putting more sand in the gears of the American economy. Indeed, we anticipate a clearly slower pace of growth as early as Q3. That said, the Atlanta Fed's GDPNow indicator is not currently signalling such a scenario, instead indicating essentially unchanged strong growth rates for now. Against this background our current perspective on the U.S. economy may well be somewhat too sceptical. Of course, this is more a matter of nuance, however – especially when factoring in the considerable political uncertainty prevailing in Washington. We do not forecast a recession for 2025 (and have not done so in the past); we merely anticipate weaker growth in the second half of the year.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

U.S. consumer still a mainstay of North America's economy

August saw notable month-on-month expansion of 0.6 percent in U.S. retail sales – news that comes a surprise on the upside. Given the strong gains already registered in the two preceding months, describing the latest figures as genuinely robust would hardly be a sign of excessive optimism. The control group of retail sales, a component of some importance for the U.S. GDP, posted a pleasing month-on-month growth rate of 0.7 percent in August. The consumer thus remains a mainstay of the economy of the United States, North America and the world. Consumer sentiment has recently deteriorated again, however. The fear of job loss appears to be hovering like a sword of Damocles over the financial situation of many U.S. households.

Further rate cuts ahead!

Jerome Powell used the Fed conference in Jackson Hole as occasion to send clear signals indicating forthcoming U.S. interest rate cuts. The first small step downward has in the meantime been taken. The favourable retail sales data for August have likely curtailed discussions regarding the magnitude of the rate cut to be implemented in the immediate term. New Fed governor Stephen Miran was alone in pressing for a "jumbo-sized" cut. Consequently, the upper limit of the Fed funds target rate now stands at 4.25 percent. Additional cuts are likely to follow, and we anticipate further key-rate reductions totalling 50 basis points over the course of 2025. The employment situation in the US has now moved more

decisively into the Fed's focus. While inflation trends in the United States are likely to prevent the FOMC from delivering aggressive rate cuts in the near term – consumer prices in the land of the free are indeed expected to rise noticeably – signs of easing on the macroeconomic inflation front should begin to emerge in the second half of 2026. This could ultimately pave the way for a reduction in the upper bound of the Fed Funds target rate to 3.00 percent. U.S. long-term interest rates also warrant close investor attention, particularly given their relevance to sectors such as the real estate market. The yield on 10-year Treasuries has edged slightly higher and now stands just above the 4.10 percent level. Significant concerns in global bond markets as to the Federal Reserve's independence would likely drive long-end yields markedly higher.

Fundamental forecasts, USA

	2024	2025	2026
GDP	2.8	1.8	1.8
Private consumption	2.9	2.1	1.7
Govt. consumption	3.8	1.4	1.0
Fixed investment	3.0	2.2	2.0
Exports	3.6	0.9	1.2
Imports	5.8	2.9	0.0
Inflation	3.0	2.9	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	-4.4	-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	3.8	1.1	1.4
GDP yoy	2.5	2.0	2.1	1.6	1.4
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

	25.09.	3M	6M	12M
Fed funds target rate	4.25	3.75	3.50	3.00
3M rate	4.00	3.60	3.35	3.00
10Y Treasuries	4.17	4.00	3.80	3.65
Spread 10Y Bund	140	130	110	75
EUR in USD	1.17	1.15	1.13	1.11

Sources: Bloomberg, NORD/LB Macro Research

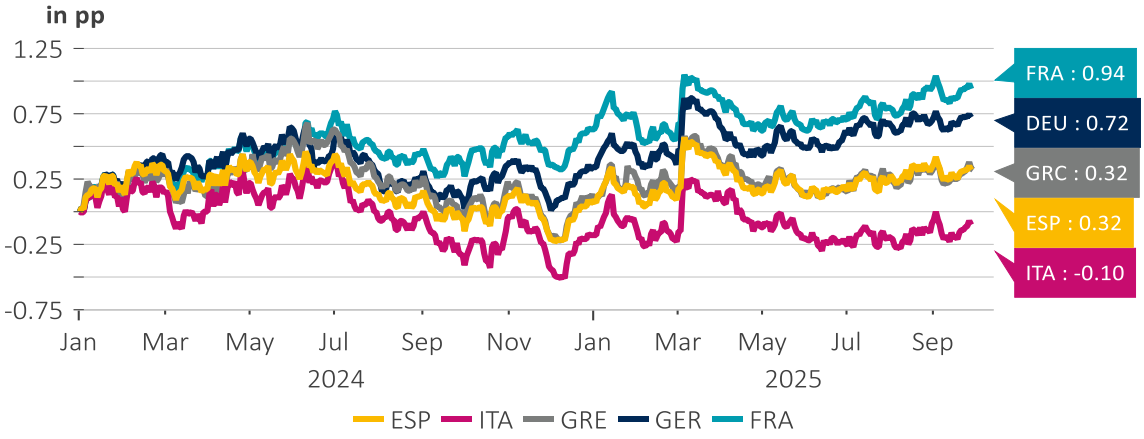
Euroland: France in crisis, ECB dampens expectations

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Budget dispute in France: deadlock instead of fiscal consolidation

Following the failure of the austerity budget and the fall of Prime Minister Bayrou, President Macron decided to appoint Sébastien Lecornu as the fifth prime minister in just two years. Once again, the focus is on the strained budgetary situation. The budget deficit remains at an unhealthy level, projected at approximately 5.5 percent of GDP, while public debt already stands at around 114 percent of GDP. The ambitious austerity pursued by Lecornu's predecessor, Bayrou, which envisaged planned savings of €44 billion, failed due to resistance in the National Assembly. Like his predecessors, Lecornu now faces the task of securing workable majorities for the budget. This is unlikely to succeed without concessions to the Socialists – such as higher social spending or tax increases – or to the conservative Républicains, who demand spending discipline. Against this backdrop, concrete steps towards serious fiscal consolidation in France have once again remain elusive.

Chart: Cumulative change in yield on 10Y government bonds



Sources: Macrobond, NORD/LB Macro Research

Markets and rating agencies gradually losing patience with France's politics

The yield spread of 10-year French OATs over German Bunds has widened noticeably since mid-August amid the ongoing political crisis. However, the Bund spread remained just short of its previous record peak from December 2024, when the preceding government crisis reached its climax. Market participants had quite evidently priced in the change of government in advance but were not anticipating a further escalation.

The grounds for the crisis are of a purely idiosyncratic nature, and the market reactions, too, have remained clearly confined to France. Potential spillover effects have not only failed to materialize; since Macron's near-disruptive decision to call snap elections in the summer of 2024, yield spreads between many countries and France have narrowed significantly. While 10-year Italian BTPs are yielding slightly less than at the start of 2024, French OATs have seen an increase of nearly one percentage point over the same period. The persistent political crisis is thus intensifying the pressure for fiscal action. Rating agencies, too, are gradually losing patience with France, given its lack of political capacity to act. Fitch, for example, has already downgraded France's credit rating from AA- to A+. It would be hardly surprising should other rating agencies follow suit. In September, the ECB made its customary reference to the TPI instrument. However, its activation is envisaged only in the case of unjustified, disorderly market dynamics that disrupt the monetary policy transmission mechanism. This cannot be said to apply in the current situation.

ECB: No rate cuts for now – Lagarde declares disinflationary process over

In September, the ECB left key interest rates unchanged, as expected. The central bank's decision to hold rates steady is understandable, as current macroeconomic data exert no immediate pressure to act from either an inflation or growth perspective. The adjustments to its projections were accordingly of a minor nature. The ECB now expects inflation of 2.1 percent (2025), 1.7 percent (2026), and 1.9 percent (2027). Its economic growth forecast for the current year was also revised slightly upwards, to 1.2 percent. However, the medium-term growth outlook is now somewhat more subdued. The prospect of inflation falling slightly below target for two consecutive years technically keeps the door open for a further rate cut. This argument should not be overstated, however – especially given that the projected undershoot of the 2-percent target in 2027 is only marginal. Attention will now turn to the first inflation forecast for 2028, due in December, which will be closely watched.

ECB President Christine Lagarde surprised markets by declaring the disinflationary trend over during the press conference following the monetary policy meeting. This effectively amounted to a pre-commitment against further rate cuts – at least for this year, the ECB appears unlikely to take further action. However, uncertainty regarding the overall economic outlook remains high. A final rate cut by the ECB as an "insurance measure" therefore remains an option. Potential triggers would be macroeconomic data worse than the ECB expects or a renewed escalation of the trade conflict. For instance, Trump's reaction to the fine imposed on Google by the European Commission demonstrates that the tariff agreement is not set in stone. It is quite possible that Lagarde may have overcommitted this time.

Fundamental forecasts, Euroland

	2024	2025	2026
GDP	0.8	1.3	1.1
Private consumption	1.2	1.3	1.5
Govt. consumption	2.3	1.7	2.4
Fixed investment	-2.1	2.3	3.8
Net exports[1]	0.4	-0.6	-1.1
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	0.6	0.1	0.1	0.2
GDP sa yoy	1.3	1.6	1.5	1.2	1.0
Inflation yoy	2.2	2.3	2.0	2.1	1.9

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	25.09.	3M	6M	12M
Repo rate ECB	2.00	2.00	1.75	1.75
3M rate	1.98	2.00	1.90	1.85
10Y Bund	2.77	2.70	2.70	2.90

Sources: Bloomberg, NORD/LB Macro Research

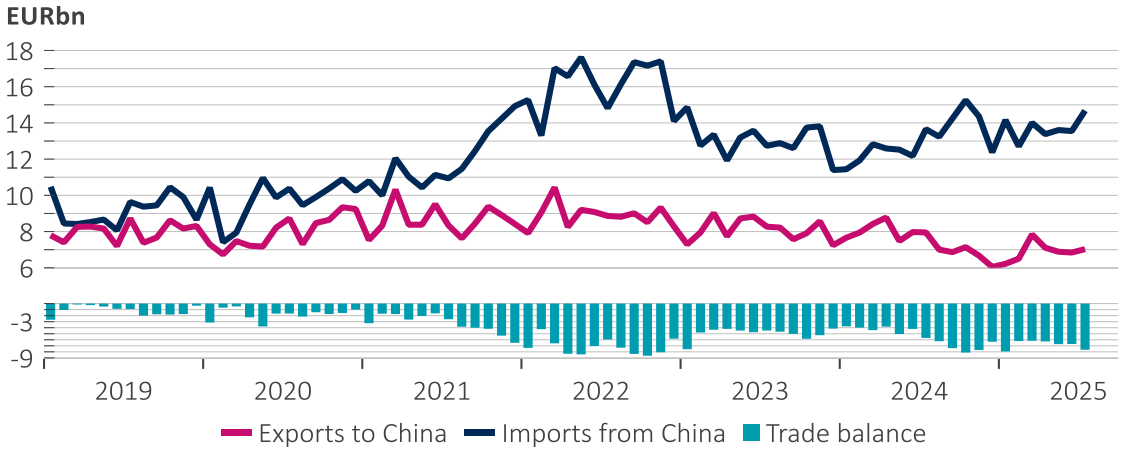
Germany: Autumn blues for German companies

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Disturbing trend in foreign trade with China

The trend in German foreign trade with China is becoming increasingly disturbing. While Germany's overall exports stagnated between January and July 2025, remained broadly unchanged with 0.1 percent year-on-year growth, exports to China registered a severe decline: on a year-to-date basis, the volume of goods delivered to China fell by 13.8 percent. Germany's key industries were particularly affected, including the automotive industry, mechanical engineering, metal products, and the manufacture of electrical equipment. In contrast, imports from China rose significantly by 10.3 percent year-on-year over the same period. Imports of metal products, machinery and pharmaceutical products saw particularly strong growth.

Chart: Foreign trade with China – competition is becoming increasingly fierce and unfair



Sources: Destatis, Macrobond, NORD/LB Macro Research

China's unfair trade practices pose a challenge for EU trade policy

A key factor behind the growing shift in Germany's trade dynamics with China is the loss of competitiveness, exacerbated by exchange rate effects. Chinese companies benefit from extensive state subsidies. Looking ahead, U.S. trade policy is likely to further aggravate China's overcapacity issues – resulting in more Chinese goods being diverted to European markets.

In addition, the yuan has weakened against the euro, giving Chinese exports an added price advantage. According to Germany's Cologne-based IW economic institute, Chinese competitors were already offering products last year at prices more than 30 percent below those of German suppliers. Such price disparities are increasingly leading companies in Germany and across Europe to replace domestic inputs with lower-cost imports from China in order to remain competitive.

The European Union's political leeway *within* the WTO framework is limited. While it is possible to take action against unfair trade practices, such procedures are protracted and subject to strict evidentiary requirements. Consequently, calls are growing in the EU to better protect the domestic market and industrial value chains from cheap imports – even if this means departing from multilateral trade rules. Reports suggest that protective tariffs on steel and aluminum, as well as a potential "Buy European" clause, are currently under discussion in Brussels.

The success of such protectionist industrial policies is by no means assured, however. Entailed risks include negative price effects, retaliatory measures, and a further escalation of trade tensions. On the other hand, Europe cannot stand by idly while other players increasingly flout the "common" rulebook

with their industrial and trade policies. In the end, any EU trade policy measures in the aforementioned direction would represent an act of self-defence aimed at reestablishing a level playing field.

Tariffs and fiscal package dilution dampen sentiment – hope for recovery in 2026

Business sentiment among German companies suffered an unexpectedly sharp setback in September, with the ifo Business Climate Index falling for the first time since April to a current level of 87.7 points. The surveyed companies assessed both their future business expectations and the current situation more pessimistically, dealing a blow to hopes for a swift economic recovery.

The data suggest that the negative effects of U.S. tariff policy are gradually starting to have an impact. Many firms without significant direct business in the U.S. are also being indirectly affected – primarily due to intensified competitive pressure in other markets, particularly from Chinese imports. Moreover, disappointment over the implementation of the government's fiscal programme, along with low expectations in regard to the so-called "autumn of reforms", has likely added to the overall negative sentiment.

Expectations for interest rate cuts have not intensified despite the weaker sentiment data, since the current economic signals remain too mixed. Indeed, significant uncertainty remains around the underlying trend, as it is difficult to distinguish meaningful signals from market noise in the current environment. In September, the main sentiment indicators sent what were in some cases highly conflicting signals.

Nevertheless, the prospect of an economic recovery in the coming year remains intact from today's perspective. That said, there is a risk that the fiscal programme's implementation will fail to unlock its full potential for sustainable growth. The criterion of additionality in investments is particularly crucial for the long-term success of this fiscal policy shift. To achieve the maximum possible growth effect, policymakers would be well-advised to make decisive improvements to budget and investment planning, along with the accompanying measures. This would also very likely improve economic sentiment – a key prerequisite for a self-sustaining recovery.

Fundamental forecasts, Germany

	2024	2025	2026
GDP	-0.5	0.2	1.2
Private consumption	0.5	1.3	1.4
Govt. consumption	2.6	2.3	3.4
Fixed investment	-3.3	-0.3	3.8
Exports	-2.1	0.2	2.0
Imports	-0.6	4.3	5.6
Net exports[1]	-0.7	-1.6	-1.3
Inflation[2]	2.5	2.1	1.8
Unemployment rate[3]	6.0	6.3	6.2
Budget balance[4]	-2.7	-2.9	-3.6
Current account balance[4]	5.8	4.6	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

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	1.9

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: Now pharmaceuticals too?

Analyst: Christian Reuter

Tariffs with isolated effects so far – full impact not yet felt

Despite external headwinds and elevated uncertainty, the Swiss economy has so far proven broadly resilient. Contributing factors include a stable labour market and low inflation, which is driving real income growth for households. In addition, the low-interest rate environment remains accommodative, underpinning corporate investment and the construction sector. Additionally, the rebound following the strong first quarter has evidently been less severe than feared. Exports to the U.S. have declined significantly, but gains in trade with other regions more than compensated for that. Indeed, exports registered real-term growth of 2.4 percent month on month in August. Notably, shipments to Canada surged 67 percent – a remarkable gain albeit from low baseline – which may indicate that tariffs can in fact be circumvented. Nevertheless, the situation is likely to deteriorate markedly in the quarters ahead. This is consistent with the news from the U.S. of a planned 100-percent tariff on pharmaceutical products protected by patents and trademarks. This unfolds a scenario that was previously considered a worst-case situation. Pharmaceuticals are the most important component of Swiss exports to the U.S. and represent a key sector for the Swiss economy as a whole. A recession now no longer seems out of the question. Much will depend on the extent to which the negative impulse from the directly affected sectors spreads to other parts of the economy. So far, the indirect effects have been surprisingly limited, a factor which had made for some degree of optimism lately. Furthermore, discussions are reportedly still ongoing between Bern and Washington, with the Swiss side hoping to get its tariff rate reduced from 39 percent to the EU's 15-percent level and secure an exemption for pharmaceutical products. Whether this is a realistic outcome remains to be seen.

SNB demonstrates composure and keeps its powder dry

At its September meeting, the Swiss National Bank left its policy rate unchanged at 0.00 percent. The 0.25 percent interest surcharge on excess reserves held by banks that exceed 18 times their minimum reserve requirement likewise remains in place. The decision had been widely anticipated by both analysts and market participants. Throughout September, money markets had increasingly priced out the prospect of a negative policy rate, pushing expectations for such a move to the end of the first half of 2026. As regards the Swiss franc, the prevailing view solidified that while the currency is highly valued, the true phenomenon lies in the weakness of the US dollar. Indeed, since "Liberation Day," the dollar has depreciated against the franc similarly to its decline against other currencies, while the franc's exchange rate against the euro has remained roughly stable. Given that the euro is more important for Swiss exporters than the USD, this is a situation the SNB can tolerate. That said, the options to lower the policy rate below zero and to intervene in the FX market remain on the table. The central bank aims to buy time and assess the impact of tariffs on price levels.

Fundamental forecasts*, Switzerland

	2024	2025	2026
GDP	1.0	1.4	0.8
Inflation (CPI)	1.1	0.2	0.4
Unemployment rate[1]	2.5	3.0	3.3
Budget balance[2]	0.6	0.6	-0.3
Current account bal.[2]	7.7	4.0	3.8

Interest and exchange rates, Switzerland

	25.09.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.04	-0.05	-0.05	0.00
10Y	0.18	0.20	0.30	0.50
Spread 10Y Bund	-259	-250	-240	-240
EUR in CHF	0.93	0.95	0.94	0.94

* 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: Waiting for the new prime minister

Analyst: Tobias Basse

Waiting for the new prime minister

Prime Minister Shigeru Ishiba recently announced his resignation. Consequently, Japan, already facing considerable challenges, must now also contend with elevated political uncertainty. The name of the future head of government will not become known until early October. This decision by the ruling LDP party carries significant economic implications across a wide range of sectors – and will also be a pivotal moment for the central bank in Tokyo. Should the new prime minister not be overly "dovish", a cautious key-rate hike by the Bank of Japan is potentially to be reckoned with in October or December. Furthermore, the monetary policymakers in Tokyo will also need to keep a very close eye on the new government's fiscal plans. In this regard, the LDP's impending personnel decision is expected to be particularly consequential for future developments.

Central bank remains under pressure to act

At its most recent monetary policy meeting the Bank of Japan once again held its monetary policy unchanged, as expected, so that the policy rate remains steady at just 0.50 percent. This decision by the central bankers in Tokyo was not unanimous, however. Indeed, two of the Policy Board's members, namely Hajime Takata and Naoki Tamura, voted in favour of a rate hike! Even more unexpected was the announcement of plans to gradually scale back the bank's holdings of ETFs and REITs. These intended sales are at any rate a clear signal of the Bank of Japan's fundamental desire to pursue a less expansively oriented monetary policy strategy in the future. As such, these plans can certainly be interpreted as an indication of impending key-rate hikes.

Kazuo Ueda explains the recent decisions in more detail

At the press conference following the central bank meeting, Governor Kazuo Ueda discussed the plans for ETF sales in greater depth, emphasizing that the BoJ intends to proceed with a great deal of caution in this context. As regards the inflation developments in Japan, Ueda now anticipates a calming trend. He also highlighted the trade deal with Washington as a significant beacon of hope.

Fundamental forecasts*, Japan

	2024	2025	2026
GDP	0.1	1.2	0.9
Inflation	2.7	3.0	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	4.6	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

	25.09.	3M	6M	12M
Key rate	0.50	0.75	0.75	1.00
3M rate	0.80	0.80	0.90	1.10
10Y	0.66	1.60	1.60	1.70
Spread 10Y Bund	-211	-110	-110	-120
EUR in JPY	175	168	159	152
USD in JPY	150	146	141	137

China: Foreign trade loses traction

Analyst: Valentin Jansen

Slowdown in exports, domestic market remains a particular concern

August saw China's export growth slow significantly. Overseas shipments rose by just 4.4 percent year-on-year, falling short of many analysts' expectations (July: 7.2 percent yoy). Exports to the United States in particular continued to decline sharply (-33.1 percent yoy), while deliveries to Southeast Asia (+22.5 percent) and Europe (+10.4 percent yoy) posted solid gains. Both the trend in key sales markets and the recent progress on the China-ASEAN Free Trade Agreement (CAFTA 3.0) highlight how Beijing is increasingly responding to shifting conditions in global trade by diversifying its commercial relationships. The domestic picture remains challenging on the inflation front. Consumer prices fell by 0.4 percent yoy in August, driven mainly by a steep drop in food prices (4.3 percent yoy). Core inflation edged up slightly to 0.9 percent yoy, suggesting tentative signs of stabilization, though overall demand remains weak. Producer prices remained in deflationary territory at -2.9 percent yoy, though the pace of decline eased somewhat compared with July. Overall, China's economic momentum remains subdued. While foreign trade remains a mainstay of the Chinese economy, the weakness in the domestic economy shows few signs of abating. Against this backdrop the central government continues to rely on targeted measures to bolster consumption and industry, though broader fiscal stimulus is not expected until the run-up to the Fourth Plenary Session of the 20th Central Committee of the Chinese Communist Party.

Rapprochement between Washington and Beijing ahead of presidential meeting

The recent phone call between President Trump and President Xi served primarily as preparation for the planned presidential meeting at the APEC summit in late October. Both sides emphasized the constructive tone of the talks, though few concrete results were disclosed. The focus has shifted to stabilizing bilateral relations and laying the groundwork for further dialogue formats. Progress in the TikTok case has for some time been seen as a gauge of future cooperation between Washington and Beijing. This precedent illustrates the extent to which the two governments are in fact capable of reaching pragmatic solutions.

PBOC expected to proceed cautiously with further easing

Despite ongoing concerns about the economy, the People's Bank of China once again left its key interest rate framework unchanged. Meanwhile, the recent rate cut by the Federal Reserve has, as expected, eased the pressure on the Chinese currency. With this in mind, the PBOC is likely to move cautiously with any further monetary easing over the remainder of the year, as exchange rate stability remains a top priority for Beijing. Expectations of additional Fed rate cuts, coupled with the PBOC's firm policy management, point to a stable to slightly stronger yuan in the months ahead.

Fundamental forecasts*, China

	2024	2025	2026
GDP	5.0	4.7	4.2
Inflation	0.1	0.2	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	1.9	1.4

* Change vs previous year as percentage

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

Interest and exchange rates, China

	25.09.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.57	1.50	1.55	1.50
10Y	1.89	1.60	1.53	1.51
Spread 10Y Bund	-88	-110	-117	-139
EUR in CNY	8.32	8.18	8.02	7.83
USD in CNY	7.14	7.11	7.10	7.05

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Britain: Waiting for new inflation data

Analysts: Tobias Basse // Constantin Lüer

After the central bank meeting

At its last meeting the Bank of England's Monetary Policy Committee voted to hold the Bank Rate unchanged at 4 percent, at least for the time being. This rather unspectacular news came as no great surprise to the international financial markets. As a matter of fact, the current inflation environment left the central bank in London with virtually no real leeway for rate cuts. The decision, however, was not unanimous, with two dissenting votes.

What happens next?

Two senior policymakers, Swati Dhingra and Alan Taylor, voted in favour of a "modest" 25 basis point rate cut. Compared to the highly turbulent August meeting, however, the most recent session seemed almost consensual. Nevertheless, there appear to be persistent concerns within the Bank of England regarding the UK's employment situation. Ultimately, the voting pattern of Dhingra and Taylor came as no great surprise, since neither are considered to be hawks. At the August meeting Taylor had, as is known, initially voted for a substantial 50 basis point cut before moderating his position to enable a reduction in the Bank Rate of at least 25 basis points.

Waiting for new inflation data

The central bankers in London will now be looking to monitor the inflation trajectory very closely. In principle majorities in favour of cautious downward adjustments to the Bank Rate could still become possible under certain conditions. Once price data permit corresponding action, for example, further adjustments to the interest rate could well take place in London as well. In this context, the employment situation is, of course, likewise of significant importance. Should weaker data emerge from the labour market, the view currently championed by Swati Dhingra and Alan Taylor could quickly attract broader support. In short, the debate over interest rate cuts is far from over.

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

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

[2] as percentage of GDP

Interest and exchange rates, Britain

	25.09.	3M	6M	12M
Repo rate	4.00	3.75	3.50	3.25
3M rate	3.97	3.80	3.65	3.30
10Y	4.76	4.45	4.30	4.20
Spread 10Y Bund	198	175	160	130
EUR in GBP	0.87	0.86	0.86	0.87
GBP in USD	1.33	1.34	1.31	1.28

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

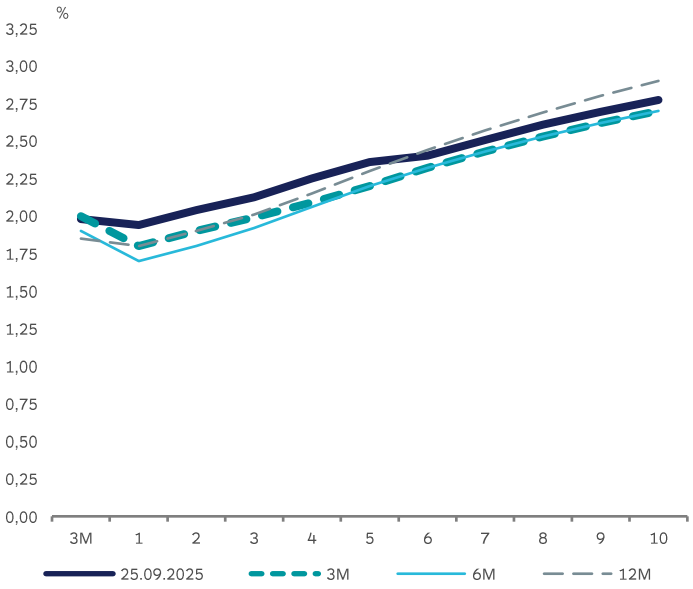
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)	NORD/LB forecasts for horizons...		
	25.09.2025	**3M**	**6M**	**12M**
3M	1.98	2.00	1.90	1.85
1Y	1.94	1.80	1.70	1.80
2Y	2.04	1.90	1.80	1.90
3Y	2.12	1.99	1.92	2.01
4Y	2.25	2.09	2.06	2.15
5Y	2.36	2.20	2.20	2.30
6Y	2.40	2.32	2.32	2.44
7Y	2.51	2.43	2.43	2.57
8Y	2.61	2.53	2.53	2.69
9Y	2.69	2.62	2.62	2.80
10Y	2.77	2.70	2.70	2.90
2Y (Swap)	2.17	2.05	1.95	2.05
5Y (Swap)	2.43	2.30	2.30	2.40
10Y (Swap)	2.73	2.70	2.70	2.90

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



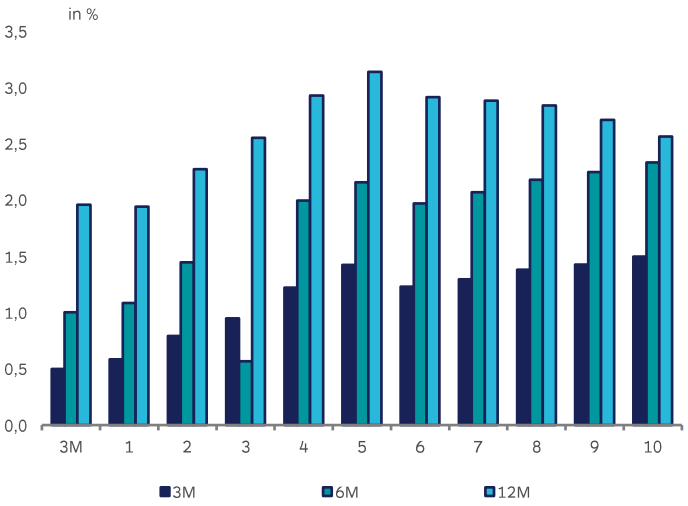
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.50	1.00	1.96
1Y	0.59	1.08	1.94
2Y	0.79	1.45	2.27
3Y	0.95	0.57	2.55
4Y	1.22	1.99	2.93
5Y	1.42	2.16	3.14
6Y	1.23	1.97	2.91
7Y	1.29	2.07	2.88
8Y	1.38	2.18	2.84
9Y	1.43	2.25	2.71
10Y	1.50	2.33	2.56

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	2.4	2.7	4.2	-1.8
2Y	0.8	2.6	3.1	4.4	-1.8
3Y	0.9	2.6	3.2	4.4	-1.8
4Y	1.2	2.8	3.3	4.8	-1.7
5Y	1.4	3.1	3.3	4.8	-1.8
6Y	1.2	4.5	4.0	4.9	-1.8
7Y	1.3	3.5	3.7	5.3	-2.0
8Y	1.4	3.5	5.3	5.6	-1.9
9Y	1.4	3.6	5.5	5.2	-1.9
10Y	1.5	3.9	5.3	5.1	-2.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	1.0	1.1	0.2	0.0
2Y	1.1	1.5	0.4	0.0
3Y	1.2	1.5	0.4	0.0
4Y	1.4	1.6	0.8	0.1
5Y	1.6	1.6	0.8	0.1
6Y	3.1	2.3	0.8	0.0
7Y	2.0	2.1	1.2	-0.2
8Y	2.1	3.5	1.5	-0.1
9Y	2.1	3.8	1.2	-0.1
10Y	2.4	3.6	1.0	-0.2

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	1.9	9.0	4.4	15.8	-0.9
2Y	2.3	9.7	5.0	16.0	-1.1
3Y	2.6	10.3	5.4	16.1	-1.3
4Y	2.9	10.8	5.9	16.4	-1.2
5Y	3.1	11.5	6.2	16.7	-1.4
6Y	2.9	13.8	7.1	17.2	-1.5
7Y	2.9	13.3	7.0	17.9	-1.5
8Y	2.8	13.4	8.6	17.7	-1.7
9Y	2.7	14.0	9.1	17.7	-2.1
10Y	2.6	14.5	9.5	17.5	-2.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	3.7	3.9	0.7	-0.2
2Y	4.3	4.5	0.9	-0.3
3Y	4.9	4.9	1.0	-0.5
4Y	5.4	5.4	1.3	-0.5
5Y	6.1	5.7	1.5	-0.6
6Y	8.3	6.6	1.9	-0.8
7Y	7.8	6.5	2.5	-0.8
8Y	7.9	8.1	2.4	-1.0
9Y	8.5	8.6	2.4	-1.3
10Y	9.0	8.9	2.2	-1.5

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	
	25.09.2025	Prev. month	Start of year	Prev. month	Start of year
DAX	23,534.83	23,902.21	19,909.14	-1.54%	18.21%
MDAX	30,034.59	30,286.90	25,589.06	-0.83%	17.37%
EuroSTOXX50	5,444.89	5,351.73	4,895.98	1.74%	11.21%
STOXX50	4,569.38	4,554.67	4,308.63	0.32%	6.05%
STOXX600	550.22	550.14	507.62	0.01%	8.39%
Dow Jones	45,947.32	45,544.88	42,544.22	1.27%	8.41%
S&P 500	6,604.72	6,460.26	5,881.63	2.75%	12.86%
Nikkei	45,754.93	42,718.47	39,894.54	7.11%	14.69%

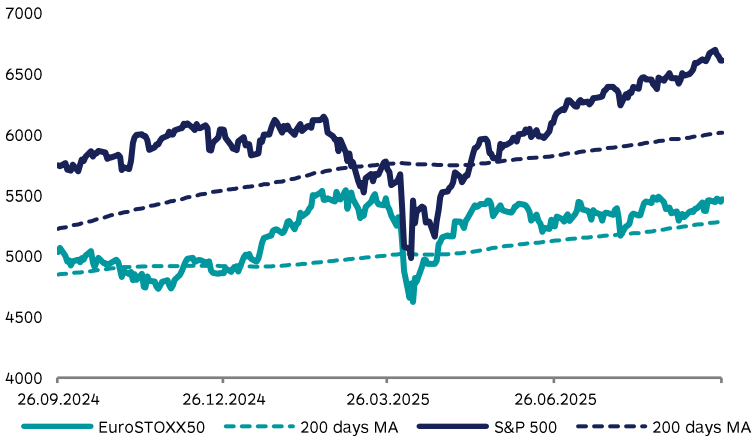
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	24,100	25,000	26,000
MDAX	30,600	32,500	33,800
EuroSTOXX50	5,550	5,700	5,900
STOXX50	4,675	4,800	4,975
STOXX600	565	580	605
Dow Jones	46,500	47,000	48,000
S&P 500	6,700	6,800	6,950
Nikkei	46,200	47,500	48,800

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, 26 September 2025.**
The next English issue of Economic Adviser will be appearing on **17 November 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	1.8	1.8	3.0	2.9	2.8	4.0	4.3	4.4	-6.9	-6.4	-6.1
Euroland	0.8	1.3	1.1	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	1.8	6.0	6.3	6.2	-2.7	-2.9	-3.6
Japan	0.1	1.2	0.9	2.7	3.0	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	1.4	0.8	2.1	0.2	0.4	2.0	3.0	3.3	0.1	0.6	-0.3
China	5.0	4.7	4.2	0.1	0.2	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 %	25.09.25	3M	6M	12M
USD	4.25	3.75	3.50	3.00
EUR	2.00	2.00	1.75	1.75
JPY	0.50	0.75	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...	25.09.25	3M	6M	12M
USD	1.17	1.15	1.13	1.11
JPY	175	168	159	152
GBP	0.87	0.86	0.86	0.87
CHF	0.93	0.95	0.94	0.94
CNY	8.32	8.18	8.02	7.83

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	25.09.	3M	6M	12M	25.09.	3M	6M	12M	25.09.	3M	6M	12M	25.09.	3M	6M	12M
USD	4.00	3.60	3.35	3.00	3.66	3.55	3.30	3.00	3.76	3.60	3.40	3.15	4.17	4.00	3.80	3.65
EUR	1.98	2.00	1.90	1.85	2.04	1.90	1.80	1.90	2.36	2.20	2.20	2.30	2.77	2.70	2.70	2.90
JPY	0.80	0.80	0.90	1.10	0.06	0.90	0.95	1.00	0.26	1.15	1.15	1.20	0.66	1.60	1.60	1.70
GBP	3.97	3.80	3.65	3.30	4.02	3.70	3.60	3.50	4.18	4.05	3.90	3.80	4.76	4.45	4.30	4.20
CHF	-0.04	-0.05	-0.05	0.00	-0.14	-0.20	-0.10	0.10	0.00	0.00	0.05	0.20	0.18	0.20	0.30	0.50

Sources: Bloomberg, NORD/LB Macro Research

Spreads (Bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	25.09.	3M	6M	12M	25.09.	3M	6M	12M	25.09.	3M	6M	12M	25.09.	3M	6M	12M
USD	202	160	145	115	162	165	150	110	140	140	120	85	140	130	110	75
JPY	-118	-120	-100	-75	-198	-100	-85	-90	-210	-105	-105	-110	-211	-110	-110	-120
GBP	199	180	175	145	198	180	180	160	182	185	170	150	198	175	160	130
CHF	-202	-205	-195	-185	-218	-210	-190	-180	-236	-220	-215	-210	-259	-250	-240	-240

Sources: Bloomberg, NORD/LB Macro Research

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