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# Contents

<b>Special: The new Fed chair plans to convene task forces.....</b>	<b>3</b>
Fewer signals from the Fed? .....	3
Interest rates and the U.S. housing sector – an almost never-ending story .....	3
Conclusion.....	4
<b>USA: Markets pricing in rate hikes (too) aggressively .....</b>	<b>5</b>
Housing market gaining in monetary policy relevance .....	5
FOMC navigating a monetary policy minefield – once again .....	5
The U.S. dollar as safe haven .....	6
<b>Euroland: ECB "one and done"? – Maybe! .....</b>	<b>7</b>
Q1 GDP growth revised sharply down – peace hopes lift sentiment.....	7
Inflation climbs above 3 percent – though the pace of acceleration has already eased .....	7
ECB underscores its readiness to act, signals resolve against Iran war inflation risks .....	8
<b>Germany: At least sentiment is improving .....</b>	<b>9</b>
Industry failing to gain traction – fallout from the Iran war weighs on investment and private consumption .....	9
Sentiment raises hopes in Germany, too .....	9
Import and wholesale price inflation slowing markedly .....	10
<b>Switzerland: Optimism is back – SNB dependent on oil prices .....</b>	<b>11</b>
An end to the growth slowdown is within reach .....	11
SNB gains further leeway – but must hope high energy prices persist .....	11
<b>Japan: A truly persistent weakness of the yen .....</b>	<b>12</b>
Bank of Japan has taken the plunge.....	12
Bank of Japan will have to act in due course .....	12
Japan: A truly persistent weakness of the yen.....	12
<b>China: Industry remains a driving force .....</b>	<b>13</b>
Industry remains a driving force .....	13
Economic policymakers in Beijing remain watchful .....	13
Geopolitics in the spotlight .....	13
<b>Britain: Politics now calling the shots .....</b>	<b>14</b>
Labour goes from hunted to hunter .....	14
Impact of the change of government on the economy.....	14
The MPC's interest rate outlook .....	14
<b>Portfolio strategies .....</b>	<b>15</b>

Yield curve, Euroland .....	15
Portfolio strategies .....	16
International yield curve: 3-month & 12-month horizons .....	16
Portfolio strategies .....	17
Stock market strategy; 3-month, 6-month & 12-month horizons.....	17
Overview of forecasts .....	18

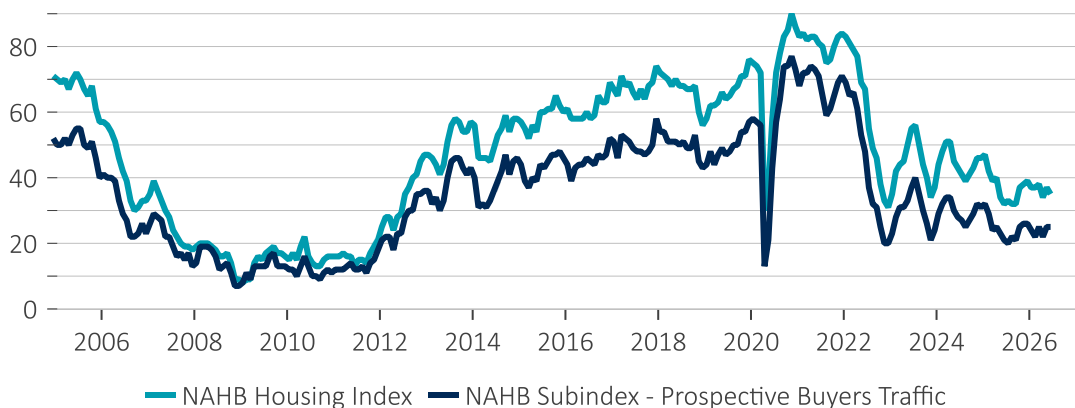
# Special: The new Fed chair plans to convene task forces

Analysts: Tobias Basse // Constantin Lürer

## Fewer signals from the Fed?

Alongside the expected reluctance to announce further adjustments to the Fed's interest rate policy, new central bank chair Kevin Warsh delivered a truly impressive – and highly accomplished – performance at his inaugural press conference. The current inflation environment argues clearly against the further rate cuts the White House would actually like to see, in light of which the upper bound of the Fed funds target rate remains at 3.75 percent. Warsh evidently intends to make profound and lasting changes to the central bank's communication strategy. The Federal Open Market Committee statement has already been markedly shortened and looks set to lose significance as a monetary-policy tool. Warsh also offered no projections of his own. Instead, he plans to set up five task forces to durably adapt the processes that truly matter for U.S. monetary policy to what he sees as a profoundly changed environment. It is, in truth, a very shrewd move on Warsh's part. Given the challenging environment, the new chair is initially opting to buy time, waiting for macroeconomic price pressures in the United States to ease. He can, for a while at least, take the wind out of the sails of critics – both those in the White House and those calling for higher key rates – by pointing to the ongoing work of the Fed's task forces. What's more, Warsh will surely also seek to exert considerable behind-the-scenes influence over the findings and proposals these new task forces come up with. Much remains unclear. In our view, the issue of "shrinking the central bank's balance sheet" ought to be given high priority. The Federal Reserve's communications strategy also appears set for a marked shift. Warsh evidently wants to send fewer signals to the outside world, a move which he believes could help the Fed regain greater latitude in shaping monetary policy when it comes to concrete decisions. Such a shift in strategy could prove especially helpful for the U.S. central bankers in turbulent periods.

## Chart: A demand-side problem in the U.S. housing market?



Sources: Macrobond, NORD/LB Macro Research

## Interest rates and the U.S. housing sector – an almost never-ending story

Sentiment in the U.S. housing industry is poor, as reflected in the fact that the NAHB Housing Market Index has now fallen to just 35 points. This key North American sentiment indicator, also credited with some predictive power for U.S. house prices, is thus moving further away from the near-totemic 50-point threshold. Having fallen to what can truly be described as an exceptionally low reading of just 25 points, the "Prospective Buyers Traffic" component very clearly reveals major (and evidently persistent) problems on the demand side. The combination of ongoing elevated home prices and rising interest rates is nothing short of poison for the U.S. housing market. While Kevin Warsh was largely able to avoid making substantive comments at the press conference following the FOMC meeting, the new Fed chair's

answer to a shrewd question from a journalist does show that the U.S. central bank seems to be very much aware of this fact.

**Conclusion**

The international financial markets will now have to wait keenly for the findings of the task forces set up by Kevin Warsh. Barring any truly troublesome news, the activity of the five task forces could also serve to explain – and perhaps even excuse – a fundamentally cautious approach by the U.S. central bank, in other words one not (at least initially) geared towards rapid change. Results from the task forces can be expected in the course of the second half of the year. By then, however, clear signs of easing on the macroeconomic price front in the USA will probably already be fairly evident, which could bring an end to debates over higher key rates. That would undoubtedly be really good news for the U.S. housing market.

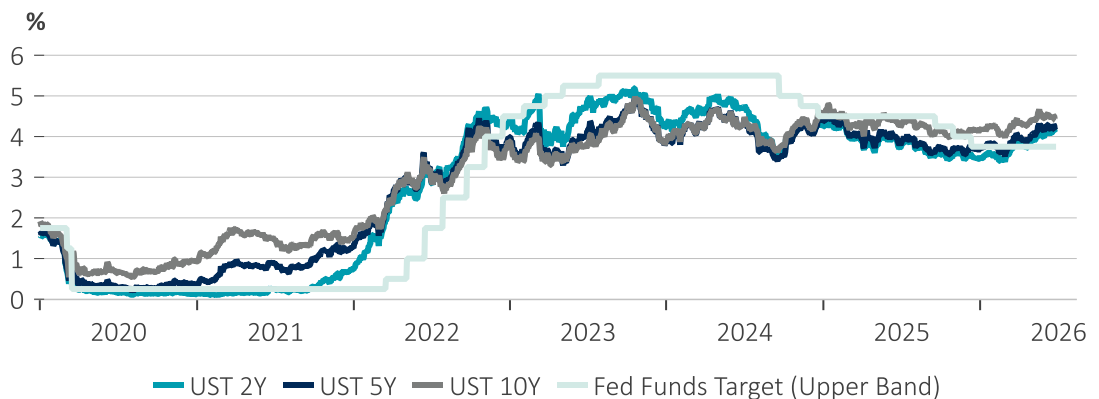
# USA: Markets pricing in rate hikes (too) aggressively

Analysts: Tobias Basse // Constantin Lürer

## Housing market gaining in monetary policy relevance

The U.S. has a problem with the vitality of its domestic housing market, as we outlined in this issue's Special, drawing in part on the NAHB index. Falling home prices driven by high interest rates are unlikely to serve the interests of the White House nor those of the Fed. Residential property is after all more than just a place to live – it has traditionally been a key vehicle for wealth-building across income brackets. Higher rates therefore weigh not only on current demand for housing, but over the longer term on valuations across the real estate sector as well – and that can cut close to the bone. It bears noting that there is no single, unified U.S. market. Rather, each region and city has its own ecosystem, in which supply and demand can evolve in markedly different ways. What they all have in common, however, is the heavy financing burden stemming from the elevated interest rates on property acquisitions. This is a fact that is unlikely to leave policymakers in Washington unmoved – indeed, quite the opposite. The most recent oil crisis, in effect, punishes prospective homeowners twice over: on one hand, surging energy prices temporarily drove up the cost of housing upkeep considerably. At the same time, this makes further key-rate hikes more likely, which would only push financing costs higher still. The Fed has price stability written into its mandate, but Washington is unlikely to knowingly court unnecessary problems that the monetary and fiscal policymakers would, in all likelihood, end up having to resolve themselves!

Chart: Interest rate trend, USA



Sources: Macrobond, NORD/LB Macro Research

## FOMC navigating a monetary policy minefield – once again

The path of U.S. monetary policy currently appears uncertain against this background. Markets are presently pricing in both rate cuts and rate hikes. The tightening scenario really only gained traction following the most recent FOMC meeting, driven above all by the dot plots. In this exercise, policymakers submit projections for the further course of the U.S. economy. Normally, 19 individuals from the Fed's ranks take part in this survey, but the most prominent voice recently declined to participate – namely Kevin Warsh. He thinks very little of this type of forward guidance, as he has repeatedly reaffirmed of late. If it were up to Warsh, this marketing tool should be scrapped as soon as possible – which fits with the pointedly brief statement he gave following his first press conference as the new Fed chair. The implementation of task forces also affords him tactical leeway, which could allow the Fed to avoid raising the Fed funds target rate while still satisfying the FOMC, the market, and certainly Donald Trump as well. Inflationary pressure notwithstanding, the U.S. economy can scarcely afford a rate hike – at least from the standpoint of the housing market. At some point the central bank would indeed have to act, but a short-term, currently slightly negative real interest rate is

unlikely to be enough to tip this difficult trade-off in favour of upward rate adjustments. Market participants currently appear to be pricing in rate hikes simply too aggressively.

### The U.S. dollar as safe haven

The U.S. dollar has once again been able to underscore its safe-haven status during recent market phases. The looming oil supply shortage following the outbreak of the Iran conflict drove increased demand for the greenback, but a similar flight-to-safety pattern was also observed during later risk-off phases. Conversely, the dollar often weakened somewhat whenever signs of easing tensions spread across markets. The interest rate differential between the U.S. and the eurozone is likely to prove a headwind. An interim raising of the ECB's key rates, combined with what we view as a Fed monetary policy that will remain accommodative going forward, is making European interest rates increasingly attractive. Even if inflation should tick up again in the short term, this will, on balance, likely prove a short-lived phenomenon following the start of peace negotiations between the USA and Iran.

### Fundamental forecasts, USA

	2025	2026	2027
GDP	2.1	2.2	2.3
Private consumption	2.6	1.9	2.1
Govt. consumption	1.1	1.0	1.2
Fixed investment	2.0	3.2	3.9
Exports	1.6	3.3	2.1
Imports	2.7	2.1	2.2
Inflation	2.7	3.2	2.0
Unemployment rate <sup>1</sup>	4.3	4.4	4.3
Budget balance <sup>2</sup>	-5.4	-6.3	-6.3
Current acct. balance <sup>2</sup>	-3.8	-3.3	-3.2

Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force; <sup>2</sup> as percentage of GDP

Sources: Macrobond, NORDB/LB Macro Research

### Quarterly forecasts, USA

	III/25	IV/25	I/26	II/26	III/26
GDP qoq ann.	4.4	0.5	2.1	2.4	2.0
GDP yoy	2.3	2.0	2.7	2.3	1.7
Inflation yoy	2.9	2.7	2.7	4.0	3.5

Change as percentage

Sources: Macrobond, NORDB/LB Macro Research

### Interest and exchange rates, USA

	25.06.	3M	6M	12M
Fed funds target rate	3.75	3.75	3.00	3.00
3M rate	3.74	3.60	2.95	3.00
10Y Treasuries	4.39	4.15	3.90	3.80
Spread 10Y Bund	154	95	70	50
EUR in USD	1.14	1.16	1.18	1.19

Sources: Bloomberg, NORDB/LB Macro Research

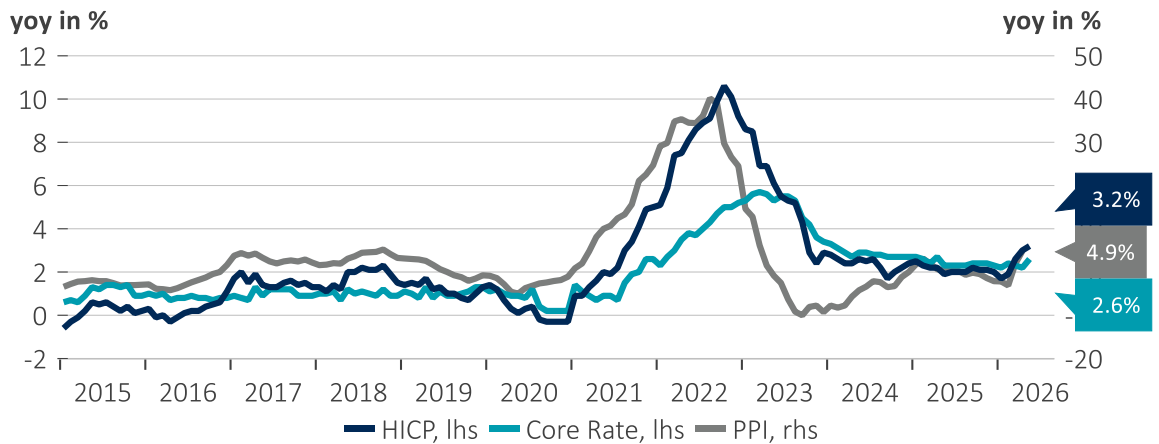
# Euroland: ECB "one and done"? – Maybe!

Analyst: Christian Reuter

## Q1 GDP growth revised sharply down – peace hopes lift sentiment

Economic growth in the eurozone was unexpectedly revised down for the first quarter of 2026, with the euro area economy now estimated to have contracted by 0.2 percent quarter-on-quarter. The revision is admittedly attributable to the notoriously volatile Irish data and should therefore not be overinterpreted. However, because it concerns the first quarter of the year, it nevertheless has implications for expected full-year growth. Moreover, it was, for all intents and purposes, still a "peace quarter" – meaning the euro area is entering a difficult period from a position of underlying weakness. The first immediate effects of the Iran war and the closure of the Strait of Hormuz have now begun to show up in the macro data. Even so, the limited hard data available so far for Q2 are by no means uniformly negative: industrial output, for instance, rose by 0.1 percent month-on-month in April. Retail sales fell by 0.5 percent in real terms month-on-month, though this was to be expected given higher fuel prices. More surprisingly, foreign trade continued to pick up, with both exports (3.2 percent mom) and imports (3.7 percent mom) rising. Business and consumer sentiment also proved remarkably resilient, having responded clearly and positively to signs of de-escalation in the Iran war.

## Chart: Inflation still rising – but at a slower pace



Sources: Macrobond, NORD/LB Macro Research

## Inflation climbs above 3 percent – though the pace of acceleration has already eased

Eurozone inflation climbed further in May, as expected, and inflation rates are now closer to 4.0 percent year on year than to 3.0 percent in the majority of eurozone member states. With a rise from 3.0 to 3.2 percent year-on-year, the rate of price increase in the eurozone now marks its highest level since September 2023. Energy remains the main driver of prices across the bloc, with an annual rate of 10.9 percent. However, the pace of acceleration here slowed compared to the previous month. This is partly due to a somewhat more favourable trend in crude oil prices towards the end of the month, which, at the aggregate level, kept the month-on-month price rise to a modest 0.1 percent. That said, the core rate – excluding energy, food, alcohol and tobacco – climbed from 2.2 to 2.6 percent yoy, its highest level in 12 months. Upward price pressure came from the services sector, where the annual rate leapt from 3.0 to 3.5 percent yoy. This can largely be seen as a normalization, since the April rate had been temporarily dampened by a base effect tied to the early timing of Easter this year. All the same, the heightened price momentum in services is a warning sign for the ECB that elevated energy prices could gradually feed through into other price components as well. Early signals from business surveys pointing to a marked increase in shortages – stemming from the now several-months-long closure of the Strait of Hormuz – are likewise a warning of potential further price increases yet to come.

**ECB underscores its readiness to act, signals resolve against Iran war inflation risks**

The ECB raised its key interest rates by a quarter percentage point at its June meeting. The decision had been signalled by comments from ECB officials in recent weeks, and markets and economists alike had widely expected a move of this magnitude. As the macroeconomic picture has drifted further and further away from the ECB's March baseline scenario over recent weeks amid the lengthening conflict, the central bank was compelled to update its quarterly baseline projections. The ECB now expects inflation rates of 3.0 percent in 2026, 2.3 percent in 2027, and a return to 2.0 percent in 2028. At the same time, the central bank's growth outlook was revised slightly lower. ECB experts now project real growth rates of 0.8 percent in 2026, 1.2 percent in 2027, and 1.5 percent in 2028. The unexpectedly sharp downward revision to eurozone growth in the first quarter is likely not yet reflected in these figures yet. The central bank currently finds itself walking a narrow tightrope: the inflation risks call for a measured but convincing response – but only to head off second-round effects. It is not only the weaker economic outlook that argues for a degree of caution. Over the coming months, favourable base effects alone are expected, mathematically, to reduce inflationary pressure and make for disinflationary tendencies. Falling energy prices will further reinforce this effect. That is why the ECB Governing Council, while signalling its readiness for further rate moves, continues to avoid committing in advance to any particular monetary policy path. Depending on how energy prices evolve, we still consider one further rate hike possible, likely in September. If energy prices remain as low as they currently are – Brent back at pre-war levels of late – discussions could soon even shift back to interest-rate cuts. Against this backdrop the June move can certainly not be read as the opening salvo of an aggressive cycle of rate-hikes.

**Fundamental forecasts, Euroland**

	2025	2026	2027
GDP	1.5	0.4	1.2
Private consumption	1.5	0.7	1.1
Govt. consumption	1.4	2.3	1.6
Fixed investment	3.2	0.8	2.7
Net exports <sup>1</sup>	-0.5	-0.7	-0.3
Inflation	2.1	2.9	2.2
Unemployment rate <sup>2</sup>	6.3	6.3	6.3
Budget balance <sup>3</sup>	-2.9	-3.3	-3.4
Current account balance <sup>3</sup>	1.7	0.9	1.2

Change vs previous year as percentage, <sup>1</sup> as contribution to GDP growth; <sup>2</sup> as percentage of the labour force; <sup>3</sup> as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

**Quarterly forecasts, Euroland**

	III/25	IV/25	I/26	II/26	III/26
GDP sa qoq	0.3	0.2	-0.2	0.2	0.1
GDP sa yoy	1.4	1.3	0.3	0.5	0.3
Inflation yoy	2.1	2.1	2.0	3.1	3.1

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

**Interest rates, Euroland**

	25.06.	3M	6M	12M
Repo rate ECB	2.25	2.50	2.50	2.50
3M rate	2.29	2.40	2.50	2.60
10Y Bund	2.86	3.20	3.20	3.30

Sources: Bloomberg, NORD/LB Macro Research

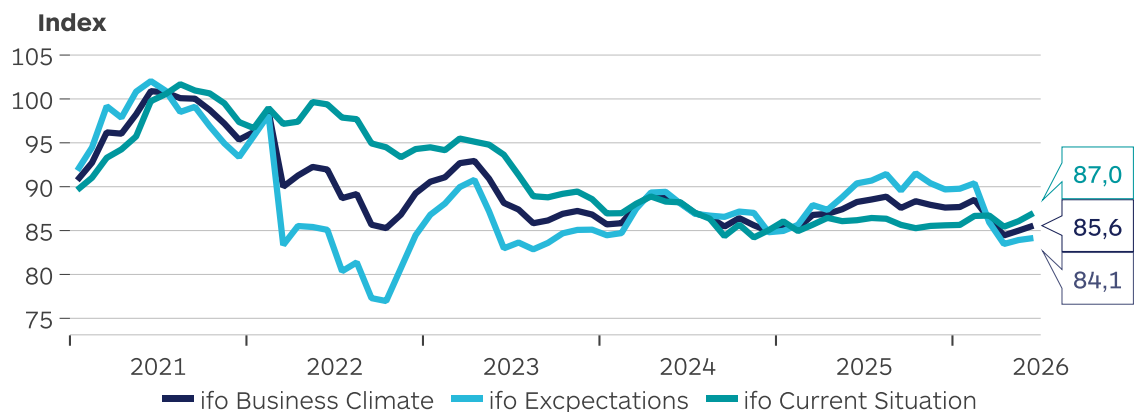
# Germany: At least sentiment is improving

Analyst: Christian Reuter

## Industry failing to gain traction – fallout from the Iran war weighs on investment and private consumption

The start of the second quarter looks set to be a bumpy one. After an unexpectedly strong first quarter, the question now is whether the signs of weakness are more pronounced than would normally have been expected. Industrial demand suffered a setback in April, with order intake slumping 3.8 percent month-on-month, disappointing across the board. All sub-components – from automotive to intermediate goods – registered declines, in some cases substantial, and foreign orders were also down month on month. Following the strong prior month, which had likely benefited considerably from front-loading effects tied to the Iran war, this was not entirely unexpected. But even the less volatile three-month moving average shows a decline of 3.1 percent, period-on-period. Industry did ramp up output by 0.4 percent mom but, after a decline of over one per cent in March, this is rather disappointing, especially since it translates into a year-on-year contraction of 2.1 percent. Moreover, at least part of the momentum came from the construction sector (+2.4 percent), which had some catching up to do after the cold winter and therefore offers little insight into the underlying trend; April's order intake does not yet point to any acceleration. Supply-chain stress at least stopped worsening in May, but remains at a level last seen in July 2022. Initial figures on foreign trade were nevertheless surprisingly positive, with both exports (0.9 percent mom) and imports (1.2 percent mom) picking up again. Elevated energy prices weighed on consumption in April as well, as reflected in the fact that real, seasonally adjusted retail sales continued to decline, though the 0.3 percent drop was likely exaggerated by frugality at petrol stations, where real turnover slumped by 4.0 percent. The hospitality sector was similarly hit, with turnover stagnating month-on-month and now standing 7.1 percent down in price-adjusted terms on the previous year's level. Looking ahead, the consequences of the Iran war are set to further dampen what is already weak corporate investment and place additional pressure on private consumption. As a result, the anticipated economic recovery will depend increasingly on government consumption spending, at least this year. While that source of support is largely "secure", a self-sustaining recovery is likely to be pushed further into the future.

**Chart: ifo Business Climate – German companies are more optimistic again**



Sources: ifo, Macrobond, NORD/LB Macro Research

## Sentiment raises hopes in Germany, too

Much as in other economies, June's sentiment indicators in Germany also point quite clearly to an upturn in optimism. The expectations components showed an almost euphoric leap in some cases, particularly among investors and financial-market analysts, though this can also be explained by the degree of pessimism registered in the previous two months. Importantly, the expectations components of these indicators are now back in positive territory. Consistent

with this are the results of the ifo Institute's survey of German business leaders in June. However, some inconsistencies may emerge in the details, underscoring the hope-driven nature of the current sentiment picture. There is relief over the cost side, with gas and oil prices having come down again, easing fears of rising inflation and interest rates. Combined with hopes for a de-escalation in the Middle East conflict, this has driven up the expectations component of the ifo barometer. At the same time, however, both the manufacturing and the construction industries are complaining about a lack of orders. Since there can be no upturn without an increase in orders, the improvement in sentiment is based on hope alone.

#### Import and wholesale price inflation slowing markedly

In Germany, unlike in the rest of the currency union, the inflation rate edged down slightly in May, to 2.7 percent year-on-year. This is attributable to the tax relief on fuel – the so-called *Tankrabatt* (tank discount) – that has been in effect since 1 May for two months. Despite all the dire warnings, this measure led to very immediate and widespread relief at the pump for end-consumer prices in May. The downside is that when the measure expires, the reverse effect will set in – and that could come as early as July. This should not be overinterpreted either, however. Energy prices barely increased in May and have already fallen sharply again so far in June. While uncertainty about the outlook indeed remains high, there is currently little to suggest that prices will return to the levels seen in May. The easing in inflationary pressure was also evident in the leading indicators of import and wholesale prices, which, in the most recent reporting month of May, increased year-on-year solely as a result of base effects.

#### Fundamental forecasts, Germany

	2025	2026	2027
GDP	0.2	0.4	0.9
Private consumption	1.5	0.2	0.7
Govt. consumption	1.5	3.9	2.6
Fixed investment	0.0	0.3	3.0
Exports	-0.9	0.7	1.6
Imports	3.2	2.0	3.6
Net exports <sup>1</sup>	-1.5	-0.5	-0.7
Inflation <sup>2</sup>	2.3	2.7	2.3
Unemployment rate <sup>3</sup>	6.3	6.4	6.4
Budget balance <sup>4</sup>	-2.7	-3.8	-3.9
Current account balance <sup>4</sup>	4.5	3.7	3.2

Change vs previous year as percentage, <sup>1</sup>as contribution to GDP growth; <sup>2</sup>HICP; <sup>3</sup>as percentage of the civil labour force (Federal Employment Office definition); <sup>4</sup> as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

#### Quarterly forecasts, Germany

	III/25	IV/25	I/26	II/26	III/26
GDP sa qoq	0.0	0.2	0.3	-0.2	0.1
GDP nsa qoq	0.3	0.5	0.5	0.3	0.6
Inflation yoy	2.1	2.3	2.3	2.8	3.0

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

# Switzerland: Optimism is back – SNB dependent on oil prices

Analyst: Christian Reuter

## An end to the growth slowdown is within reach

The final figures on Swiss GDP growth in Q1 were revised down from 0.5 to 0.4 percent quarter-on-quarter (0.4 percent yoy); nonetheless, the acceleration compared with the previous quarter's growth (0.2 percent qoq) remains notable. The underlying data present a mixed picture. Services growth developed sluggishly, and private consumption stagnated. Investment in machinery and equipment declined, and construction investment was held back by the severe winter weather. By contrast, manufacturing provided an unexpected boost, expanding by 1.5 percent qoq. There are also encouraging developments on the latest readings. The weaker franc supported exports in May, which posted their largest increase since 2021, with a real gain of 5 percent mom after having stagnated in April. Since imports rose by just 0.2 percent, foreign trade generated a notable impetus via the trade balance. Particularly noteworthy was the strong performance of chemical and pharmaceutical exports, which surged 27 percent mom. By region, exports to Switzerland's traditional markets rose unexpectedly, increasing 18.5 percent to Europe and 11.5 percent to the United States. Sentiment, too, showed clear improvement. May brought a considerable surprise on the upside on the PMI front: in the industrial sector, the index rose from 54.5 to 57.3 points; in the service sector, too, the respondents were more optimistic, with an increase from 54.8 to 56.0 points. Among the sub-indices, not even input prices clouded the picture: their PMI reading, at 82.7 points, remains very high but unchanged from the previous month. Overall, one might almost speak of euphoria. Hopes for an end to the Iran war reached consumers as well, whose sentiment brightened in May for the second month running. The latest forecasts from the relevant research institutes don't quite fit this picture, though the inevitable lag in their preparation puts that into perspective. Uncertainty undoubtedly remains elevated and rather skewed to the downside, but the picture nonetheless points to an acceleration in growth.

## SNB gains further leeway – but must hope high energy prices persist

The upward inflation trend already eased back again in May, from 0.3 to 0.2 percent month-on-month (0.6 percent yoy); import goods even generated a negative impulse (-0.1 percent mom). Calculations by the KOF institute illustrate just how unusual Switzerland's position is in this context: in its worst-case scenario, in which oil prices rise to USD 180/b (!) by year-end, the institute projects inflation climbing to just 1.3 percent yoy in 2026 and 0.9 percent yoy in 2027. This resilience has both advantages and drawbacks for the SNB. On the one hand, it can keep its policy rate at zero – and thus maximally expansionary – without running the risk of having to move into negative territory. Moreover, the widening interest rate differential relative to other currency areas also gives the SNB leeway to weaken the franc through rhetoric alone – for example, by reiterating that it stands ready to intervene in the forex market if necessary – and thereby counter the safe-haven-driven tendency for the currency to appreciate too rapidly and too sharply amid heightened global uncertainty. On the other hand, the discussion about negative interest rates will come back when energy prices fall again. As things currently stand, that may not be too far off.

### Fundamental forecasts\*, Switzerland

	2025	2026	2027
GDP	1.4	0.9	1.7
Inflation (CPI)	0.2	0.5	0.3
Unemployment rate <sup>1</sup>	2.9	3.0	2.9
Budget balance <sup>2</sup>	0.6	-0.2	-0.3
Current account balance <sup>2</sup>	7.1	4.3	3.8

\* Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force, <sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Switzerland

	25.06.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.05	-0.05	0.00	0.01
10Y	0.25	0.33	0.35	0.43
Spread 10Y Bund	-261	-287	-285	-287
EUR in CHF	0.92	0.93	0.94	0.95

# Japan: A truly persistent weakness of the yen

Analyst: Tobias Basse

## Bank of Japan has taken the plunge

At its June meeting the Bank of Japan raised its key interest rate by 25bp, as had been expected: the benchmark rate now stands at 1.00 percent. Having literally crept towards a renewed rate increase in recent months, the central bankers in Tokyo at last announced a concrete monetary-policy move. In the recent past, individual senior BoJ officials had already voted in favour of a key-rate increase, pointing to medium-term risks to price stability. That view has now finally won majority support. Wage developments in particular are likely to be a key focus of the monetary policymakers in Tokyo at present.

## Bank of Japan will have to act in due course

The decision to raise the key interest rate was nonetheless not unanimous. Concerns over the economy prompted Toichiro Asada to argue for keeping the rate unchanged for the time being. There was also no entirely unified view as to ending the central bank's bond purchases. Monetary-policy hawk Naoki Tamura called for greater boldness on this front. Prime Minister Sanae Takaichi, for her part, in any case views the Bank of Japan's plans with scepticism. She appears to be primarily concerned about yield levels in the government-bond market, which the government considers excessively high; a more restrictive tilt in Tokyo's monetary policy could push yields even higher. That said, Japanese monetary policy currently appears to be already running "behind the curve"; cautious rate hikes would therefore not necessarily have to push capital-market yields higher – indeed, the opposite could by now hold true.

## Japan: A truly persistent weakness of the yen

The Japanese yen has remained persistently weak in recent weeks, bringing the prospect of currency intervention back into sharp focus for market participants. Tokyo and Washington have evidently held intensive discussions about the yen's pronounced depreciation tendencies. As a result, the possibility of coordinated intervention by two global economic powers hovers over the forex market like a sword of Damocles. That said, the yen's current weakness likely also reflects some renewed strength of the U.S. dollar. Participants in the FX segment are hoping for perhaps even near-term key-rate hikes by the Fed. In our view, inflation numbers from the United States are unlikely to warrant such monetary policy measures. At the same time, the Bank of Japan is expected to raise interest rates further, albeit only very gradually. The Japanese monetary policymakers are thus unlikely to be able to trigger supportive stimuli that could make for near-term movement in the FX market. For the time being, the yen therefore remains a fundamentally undervalued currency!

### Fundamental forecasts\*, Japan

	2025	2026	2027
GDP	1.2	0.7	1.0
Inflation	3.2	2.2	2.0
Unemployment rate <sup>1</sup>	2.5	2.6	2.5
Budget balance <sup>2</sup>	-1.4	-2.9	-3.0
Current account balance <sup>2</sup>	4.8	4.6	4.3

\* Change vs previous year as percentage;

<sup>1</sup> as percentage of the labour force; <sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Japan

	25.06.	3M	6M	12M
Key rate	1.00	1.25	1.25	1.50
3M rate	1.41	1.30	1.40	1.55
10Y	2.63	2.65	2.35	2.25
Spread 10Y Bund	-22	-55	-85	-105
EUR in JPY	184	183	183	180
USD in JPY	162	158	155	151

# China: Industry remains a driving force

Analyst: Tobias Basse

## Industry remains a driving force

China's economy gave an encouragingly robust showing in the first quarter of 2026, registering year-on-year growth of 5.0 percent. On this front, industry remains the key driving force, with industrial output in the Middle Kingdom up by 4.5 percent yoy in May. The latest PMI data point in the same direction. The RatingDog China Manufacturing PMI eased slightly in May after April's positive figures but, at 51.8 points, held comfortably above the so-called "magical" threshold of 50 points that carries particular significance for many market participants. Industrial firms are clearly benefiting from strong overseas demand for Chinese goods. Domestic demand, by contrast, continues to give a less encouraging showing. Retail sales surprised the majority of interested observers on the downside in May, coming in at only -0.6 percent yoy; around May 1st, however, signs of a pickup appear to have emerged on this front. In addition, the RatingDog China Services PMI recently climbed to a notable 54.4 points, which does raise some hope.

## Economic policymakers in Beijing remain watchful

Beijing's economic policymakers nonetheless appear to be remaining watchful. As expected, the central bank refrained from making any adjustments to interest rate policy in its latest decision. The monetary policymakers are likely to maintain their watch-and-wait stance for now. The Iran conflict was a potentially serious threat to China's economy. Hopes that geopolitical uncertainty will recede following the talks in Switzerland are now undoubtedly easing the pressure on the fiscal and monetary policymakers in Beijing to take action.

## Geopolitics in the spotlight

Geopolitics, however, remains in focus. In response to extensive exercises by the People's Republic of China's air force around Taiwan, the Ministry of National Defense in Taipei has now launched a large-scale manoeuvre of the island state's military forces. The move is clearly intended to demonstrate Taipei's own strength to Beijing. Concern over a potential Taiwan conflict is palpable almost everywhere, not only in Asia. International financial markets, too, appear to genuinely fear such a military confrontation. Recently, for instance, the International Institute for Strategic Studies – a London-based think tank – warned of just such a conflict. More broadly, military build-up is becoming a central political issue in many of China's neighbouring countries. The Philippines, for example, is locked in a dispute with the People's Republic over Beijing's claims to the Scarborough Shoal. Manila therefore intends to develop additional military capabilities and, in this context, is planning to acquire six older warships from Japan – vessels that Tokyo commissioned in the late 1980s and early 1990s and is now looking to replace with newer units having enhanced combat capabilities.

### Fundamental forecasts\*, China

	2025	2026	2027
GDP	5.0	4.7	4.4
Inflation	0.0	1.2	1.1
Unemployment rate <sup>1</sup>	5.2	5.1	5.0
Budget balance <sup>2</sup>	-5.1	-5.5	-5.6
Current account balance <sup>2</sup>	3.8	3.1	2.9

\* Change vs previous year as percentage

<sup>1</sup> as percentage of the labour force, <sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, China

	25.06.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.44	1.45	1.40	1.40
10Y	1.73	1.75	1.75	1.70
Spread 10Y Bund	-113	-145	-145	-160
EUR in CNY	7.73	7.90	8.02	8.03
USD in CNY	6.80	6.81	6.80	6.75

# Britain: Politics now calling the shots

Analyst: Constantin Lüer

## Labour goes from hunted to hunter

22 June saw Keir Starmer appear before the press to announce his resignation as Britain's prime minister. He was urged towards this decision by his party, but also received backing for it from his wife. The trigger for this was his sagging popularity – driven in part by the Mandelson affair. In that episode, the diplomat newly appointed by Starmer turned out to have a business history with Jeffrey Epstein, which proved difficult to reconcile with an official government post. Above all, though, it was Andy Burnham's victory in a by-election in Makerfield that ramped up pressure within the Labour Party for an early succession plan. This win was particularly noteworthy in that Burnham achieved it in a constituency where the right-wing Reform UK party had recently been polling strongly. The result of the by-election for the parliamentary seat speaks for itself: 54.8 percent (Labour) versus 34.5 percent (Reform UK). Labour went from hunted to hunter, so to speak.

## Impact of the change of government on the economy

For now, we expect the current domestic political situation to have a limited impact on the economy. Any shifts in Labour's strategic direction are likely, if they come at all, to be gradual for the time being. Since Burnham, in the event of his election as Labour leader, has already requested a kind of grace period for an orderly transition of power, the hand-over can be expected to be marked by a certain degree of continuity. Traditionally, in the United Kingdom, the party leader also becomes prime minister, provided they can command a majority of votes. This naturally applies to mid-term changes as well, as the Tories have demonstrated on several occasions. Nigel Farage reflexively called for a snap election – as any good opposition figure would likely do in this situation. That this will actually happen, however, is fairly unlikely.

## The MPC's interest rate outlook

It goes without saying that the conflict in the Middle East, with its blockade of key trade routes, has become a headwind for the United Kingdom as well. On the whole, though, the economy appears to have come through relatively unscathed, as the latest inflation figures suggest. Whereas inflation accelerated by 0.7 percent month on month in both March and April in direct response to energy supply shortages, May already saw a sharp disinflationary shift, with the month-on-month rate slowing to 0.2 percent. Despite base effects, the annual rate of price increase – currently at 2.8 percent – is unlikely to rise much further, and the 3-percent threshold will not pose any great monetary policy hurdle. Looking ahead, a hike in the Bank Rate is now becoming less likely again.

### Fundamental forecasts\*, Britain

	2025	2026	2027
GDP	1.4	0.8	1.2
Inflation	3.4	3.3	2.4
Unemployment rate <sup>1</sup>	4.8	5.2	5.2
Budget balance <sup>2</sup>	-5.0	-3.9	-3.3
Current account balance <sup>2</sup>	-2.4	-2.9	-2.6

\* Change vs previous year as percentage

<sup>1</sup> as percentage of the labour force as per ILO concept

<sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Britain

	25.06.	3M	6M	12M
Repo rate	3.75	3.75	3.50	3.25
3M rate	3.77	3.75	3.40	3.30
10Y	4.70	4.70	4.50	4.30
Spread 10Y Bund	184	150	130	100
EUR in GBP	0.86	0.86	0.87	0.88
GBP in USD	1.32	1.35	1.36	1.35

# Portfolio strategies

## Yield curve, Euroland

### Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for horizons...		
	25.06.2026	3M	6M	12M
3M	2.29	2.50	2.60	2.60
1Y	2.44	2.50	2.50	2.60
2Y	2.53	2.60	2.60	2.70
3Y	2.53	2.71	2.71	2.81
4Y	2.56	2.81	2.81	2.90
5Y	2.60	2.90	2.90	3.00
6Y	2.62	2.98	2.98	3.08
7Y	2.69	3.05	3.05	3.15
8Y	2.75	3.11	3.11	3.21
9Y	2.80	3.16	3.16	3.26
10Y	2.86	3.20	3.20	3.30
2Y (Swap)	2.73	2.75	2.75	2.90
5Y (Swap)	2.74	3.00	3.00	3.15
10Y (Swap)	2.92	3.20	3.20	3.35

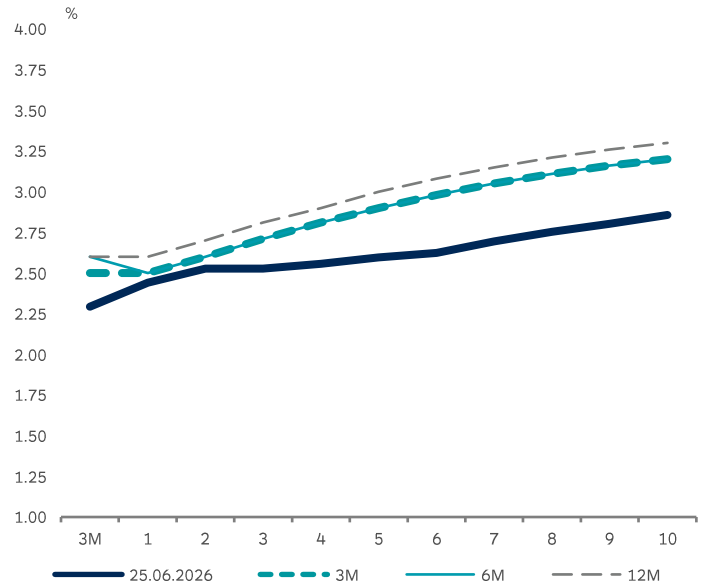
Sources: Bloomberg, NORD/LB Macro Research

### Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0.57	1.20	2.52
1Y	0.56	1.18	2.44
2Y	0.56	1.24	2.46
3Y	0.23	-0.61	2.19
4Y	-0.15	0.62	1.84
5Y	-0.56	0.24	1.47
6Y	-1.23	-0.40	0.76
7Y	-1.35	-0.51	0.60
8Y	-1.64	-0.79	0.26
9Y	-1.88	-1.03	-0.05
10Y	-2.00	-1.15	-0.24

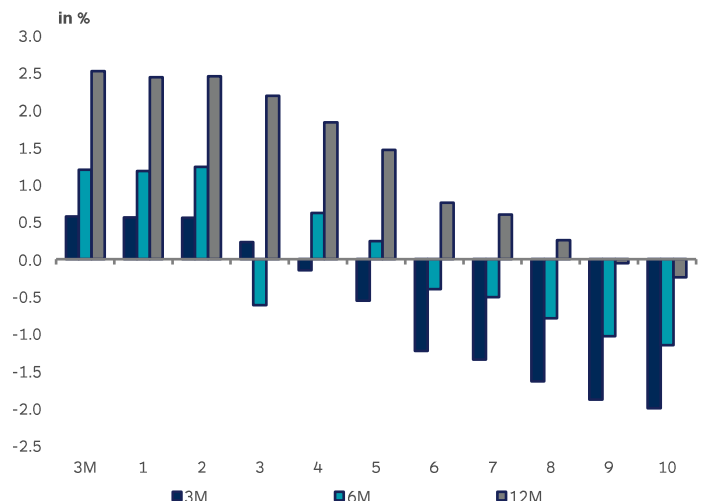
Sources: Bloomberg, NORD/LB Macro Research

### Yield curve forecasts (Bunds)



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	-0.9	1.4	0.8	-1.0
2Y	0.6	-0.5	1.8	1.0	-1.0
3Y	0.2	-0.2	2.0	1.3	-1.0
4Y	-0.1	0.1	2.0	1.6	-1.1
5Y	-0.6	0.5	2.0	1.3	-1.1
6Y	-1.2	0.3	2.0	2.2	-1.1
7Y	-1.3	1.2	2.1	2.6	-1.1
8Y	-1.6	1.1	2.3	2.2	-1.3
9Y	-1.9	1.1	2.3	1.6	-1.3
10Y	-2.0	1.2	1.9	1.0	-1.5

Sources: Bloomberg, NORD/LB Macro Research

	Expected total returns (as percentage) in national currencies			
	USD	GBP	JPY	CHF
1Y	1.1	1.2	0.3	0.0
2Y	1.5	1.6	0.7	0.0
3Y	1.8	1.8	0.7	0.0
4Y	2.1	1.8	1.1	-0.1
5Y	2.6	1.8	0.8	-0.1
6Y	2.4	1.7	1.6	-0.1
7Y	3.2	1.9	2.0	-0.2
8Y	3.1	2.1	1.7	-0.3
9Y	3.2	2.1	1.1	-0.3
10Y	3.2	1.7	0.5	-0.6

Sources: Bloomberg, NORD/LB Macro Research

### 12-month horizon

	Expected total returns (as percentage) in euro				
	EUR	USD	GBP	JPY	CHF
1Y	2.4	-0.7	1.9	3.4	-1.0
2Y	2.5	0.5	2.7	3.6	-1.0
3Y	2.2	1.6	3.7	4.0	-1.0
4Y	1.8	2.6	4.0	5.0	-1.1
5Y	1.5	3.5	4.4	5.2	-1.1
6Y	0.8	3.9	4.6	6.8	-1.2
7Y	0.6	5.3	5.2	8.4	-1.3
8Y	0.3	5.3	5.8	8.5	-1.5
9Y	-0.1	5.2	6.1	8.5	-1.6
10Y	-0.2	5.1	6.3	8.5	-1.7

Sources: Bloomberg, NORD/LB Macro Research

	Expected total returns (as percentage) in national currencies			
	USD	GBP	JPY	CHF
1Y	3.9	4.0	1.2	0.0
2Y	5.2	4.9	1.4	0.0
3Y	6.4	5.9	1.8	0.0
4Y	7.4	6.2	2.7	-0.1
5Y	8.3	6.6	2.9	-0.2
6Y	8.7	6.8	4.5	-0.3
7Y	10.2	7.4	6.1	-0.3
8Y	10.3	8.1	6.2	-0.6
9Y	10.1	8.3	6.2	-0.6
10Y	10.0	8.5	6.2	-0.8

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	
	25.06.2026	Prev. month	Start of year	Prev. month	Start of year	
DAX	24,994.83	25,104.70	24,490.41	-0.44%	2.06%	
MDAX	31,972.64	33,352.83	30,617.67	-4.14%	4.43%	
EuroSTOXX50	6,267.53	6,050.54	5,791.41	3.59%	8.22%	
STOXX50	5,374.68	5,190.62	4,918.02	3.55%	9.29%	
STOXX600	640.21	626.00	592.19	2.27%	8.11%	
Dow Jones	51,848.90	51,032.46	48,063.29	1.60%	7.88%	
S&P 500	7,358.22	7,580.06	6,845.50	-2.93%	7.49%	
Nikkei	72,366.34	66,329.50	50,339.48	9.10%	43.76%	

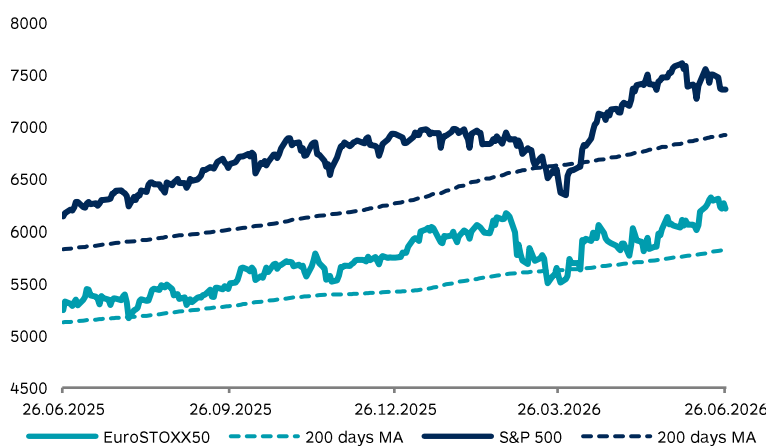
Sources: Bloomberg, NORD/LB Macro Research

### Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	24,800	26,200	26,800
MDAX	32,100	33,300	34,500
EuroSTOXX50	6,200	6,350	6,600
STOXX50	5,300	5,400	5,600
STOXX600	630	645	670
Dow Jones	51,400	52,800	54,000
S&P 500	7,250	7,600	7,900
Nikkei	67,000	70,500	72,000

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, 26 June 2026**.

The next English issue of Economic Adviser will be appearing on **3 August 2026**.

# Overview of forecasts

## Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate <sup>1</sup>			Budgetary balance <sup>2</sup>		
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
USA	2.1	2.2	2.3	2.7	3.2	2.0	4.3	4.4	4.3	-5.4	-6.3	-6.3
Euroland	1.5	0.4	1.2	2.1	2.9	2.2	6.3	6.3	6.3	-2.9	-3.3	-3.4
Germany	0.2	0.4	0.9	2.3	2.7	2.3	6.3	6.4	6.4	-2.7	-3.8	-3.9
Japan	1.2	0.7	1.0	3.2	2.2	2.0	2.5	2.6	2.5	-1.4	-2.9	-3.0
Britain	1.4	0.8	1.2	3.4	3.3	2.4	4.8	5.2	5.2	-5.0	-3.9	-3.3
Switzerland	1.4	0.9	1.7	0.2	0.5	0.3	2.9	3.0	2.9	0.6	-0.2	-0.3
China	5.0	4.7	4.4	0.0	1.2	1.1	5.2	5.1	5.0	-5.1	-5.5	-5.6

Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force (Germany: as per Federal Employment Office definition); <sup>2</sup> as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

## Key interest rates

In %	25.06.26	3M	6M	12M
USD	3.75	3.75	3.00	3.00
EUR	2.25	2.50	2.50	2.50
JPY	1.00	1.25	1.25	1.50
GBP	3.75	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...	25.06.26	3M	6M	12M
USD	1.14	1.16	1.18	1.19
JPY	184	183	183	180
GBP	0.86	0.86	0.87	0.88
CHF	0.92	0.93	0.94	0.95
CNY	7.73	7.90	8.02	8.03

## Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	25.06.	3M	6M	12M	25.06.	3M	6M	12M	25.06.	3M	6M	12M	25.06.	3M	6M	12M
USD	3.74	3.60	2.95	3.00	4.12	3.85	2.90	2.95	4.17	3.80	3.15	3.10	4.39	4.15	3.90	3.80
EUR	2.29	2.40	2.50	2.60	2.53	2.60	2.60	2.70	2.60	2.90	2.90	3.00	2.86	3.20	3.20	3.30
JPY	1.41	1.30	1.40	1.55	1.42	1.35	1.39	1.45	1.89	1.85	1.68	1.69	2.63	2.65	2.35	2.25
GBP	3.77	3.75	3.40	3.30	4.12	3.80	3.35	3.25	4.25	4.10	4.00	3.75	4.70	4.70	4.50	4.30
CHF	-0.05	-0.05	0.00	0.01	0.00	0.02	0.03	0.07	0.08	0.12	0.15	0.20	0.25	0.33	0.35	0.43

Sources: Bloomberg, NORD/LB Macro Research

## Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	25.06.	3M	6M	12M	25.06.	3M	6M	12M	25.06.	3M	6M	12M	25.06.	3M	6M	12M
USD	145	120	45	40	159	125	30	25	157	90	25	10	154	95	70	50
JPY	-88	-110	-110	-105	-111	-125	-121	-125	-70	-105	-122	-131	-22	-55	-85	-105
GBP	148	135	90	70	159	120	75	55	166	120	110	75	184	150	130	100
CHF	-235	-245	-250	-259	-252	-258	-257	-263	-252	-278	-275	-280	-261	-287	-285	-287

Sources: Bloomberg, NORD/LB Macro Research

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