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Contents

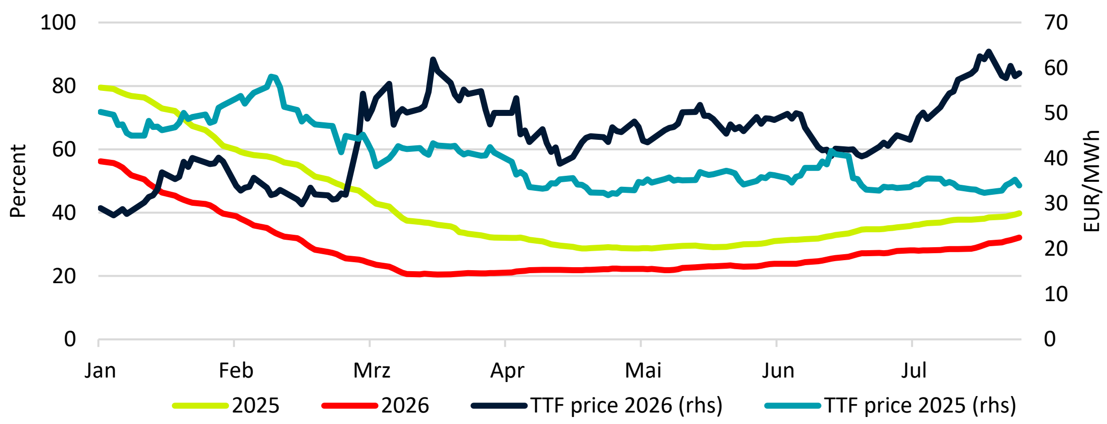
Special: Next crisis on the horizon? - Gas prices hit new highs

Analyst: Thomas Wybierek

Gas storage levels currently no higher than in 2021

EU-wide gas storage facilities stood at just 56.39 percent of capacity shortly before month-end (as of July 30, 2026), with Germany as low as 46.54 percent. Reserves are thus clearly below both year-earlier levels (EU: 68.28 percent; Germany: 60.56 percent) and the long-term averages, instead hovering around the low levels of 2021 (on July 31, 2021, EU gas reserves stood at 56.45 percent, Germany at 49.43 percent). With the onset of the Ukraine war and the loss of Russian gas supplies, prices surged dramatically. The fact that, four years later, injection has been proceeding only very slowly is largely attributed to a new market dynamic. The old pattern – buying cheaply in summer when demand is low and selling at higher prices in winter when demand peaks – has not worked for months. On futures markets, prices remained generally weak well into next year. This eliminated the main incentive for storage operators. Policymakers, meanwhile, point to the expansion and build-out of LNG infrastructure in north-west Europe, which was meant to replace the severed Russian pipelines and safeguard security of supply. Relaxed storage targets have done little to spur greater effort, either: as early as 2025, German storage facilities were required to be only three-quarters full by the 1 November deadline, rather than 90 percent as in previous years. Given that Germany is not only a gas transit country but also accounts for around a quarter of the EU's storage capacity, winter could prove more expensive than anticipated, should the dependence on the global gas market not be cushioned by reserves over a prolonged period.

Chart: Gas price vs. storage levels in Germany



Sources: Bloomberg, Gas Infrastructure Europe, NORD/LB Research

Gas prices not driven by wars alone

The principal driver of prices since March has been the Iran war. The loss of LNG supplies from Qatar – the world's biggest producer of liquefied natural gas after the United States and alongside Australia – weighs all the more heavily the longer fighting continues in the Persian Gulf and the Strait of Hormuz remains blockaded. Beyond that, the damaged production facilities are harder to bring back on line than those for oil. Against this background, Qatar has already partially declared a state of force majeure, meaning that it is unable to meet contractually agreed delivery obligations owing to circumstances beyond its control. Estimates suggest it will take months to restore pre-war conditions. While Europe and Germany continue to obtain the bulk of their gas supplies from Norway, the United States, Mediterranean littoral states, and to some extent still from Russia (though only via LNG deliveries), shifts in global demand make themselves felt quickly, particularly in the LNG market. Some shipments can still be redirected en route, depending on where demand is strongest, with Asia the decisive factor here. Countries such as India, South Korea, Taiwan and Pakistan have covered around 30 percent of their gas requirements with supplies from the Middle East. When that supply is disrupted, demand in Asia for alternative LNG volumes rises sharply. particularly in summer, when much of the region's electricity is used to power cooling and air-conditioning systems. Having very nearly doubled after the outbreak of the Iran war in spring, the TTF price – Europe's key gas benchmark – pulled back at times, notably in tandem with negotiation rounds and temporary ceasefires. With fighting flaring up again, prices not only hit the old highs but surpassed them. In July alone, the market recorded a price rise of more than 40 percent, the sharpest upward movement since the onset of the 2026 energy crisis. It should also be noted, however, that market participants are currently contending not only with the usual seasonal maintenance work in Norway, but also with newly announced restrictions at Freeport, the largest and thus most important US export terminal. Furthermore, with the Houthi militia's entry into the fighting, passage through the Bab-el-Mandeb strait at the entrance to the Red Sea has been called into question. Should disruptions there persist over an extended period, shipping costs will rise further for both oil (westbound) and gas (eastbound) transport, as only the long routes around the Cape of Good Hope (South Africa) or through the Panama Canal would remain open.

Conclusion

The current market situation differs fundamentally, first of all, from the 2022 energy crisis. Back then, heavy dependence on Russian pipeline gas had to be offset on an ad hoc basis, without adequate infrastructure in place – particularly for LNG. Market participants understood both the extent of the dependencies and the level of demand, and prices reflected those fundamentals. However, following sanctions and the severing of supply links, the EU no longer imports Russian pipeline gas as of 2026.

By contrast, several factors are currently at play in combination:

- below-average storage levels,
- foreseeably constrained LNG deliveries from Qatar,
- production outages in Norway and the United States due to maintenance work,
- geopolitical risks along key shipping routes,
- rising demand in Asia driven by heatwaves, and
- heightened activity among financial market participants (speculative build-up of long positions)

All told, little currently points to a near-term correction in prices. This, however, holds only on the assumption that the war in the Persian Gulf continues. Raising the spectre of a gas shortage would be premature at this stage, given that the situation is no longer comparable to 2022 and there is no longer a one-sided dependence on Russia. Gas consumption in Germany has stagnated since 2022, owing both to the recession and to the expansion of renewables. The 'Winter' unknown ultimately remains just that – an unknown. However, several current models are pointing toward a rather mild and wet winter season. Even so, the EU ought not to head into November with storage levels too low. The 75-80 percent storage target is still within reach; the only question is what price will have to be paid for it. Futures on the relevant gas exchange (ICE) are currently trading above the €55/MWh mark all the way into spring 2027 (situation as at 31 July 2026).

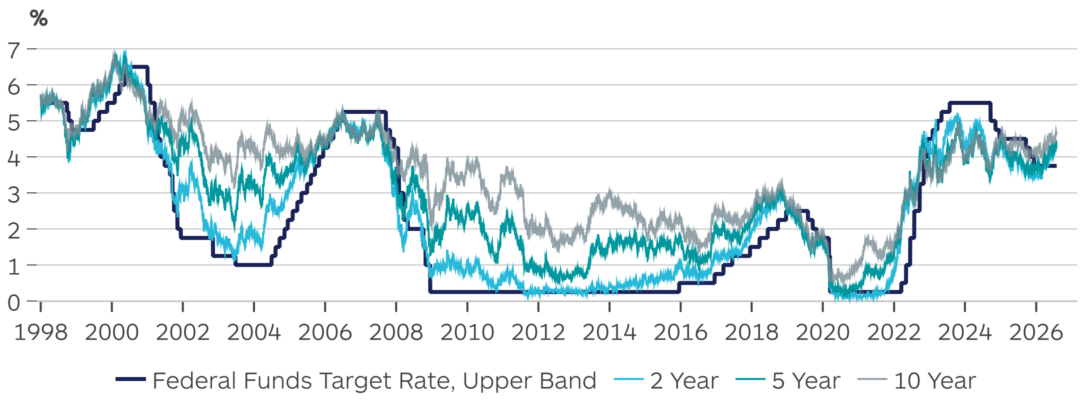
USA: Kevin Warsh's words

Analysts: Tobias Basse // Constantin Lüer

AI and household consumption in focus

According to preliminary figures, the second quarter of 2026 saw America's real GDP grow at an annualized rate of 1.5 percent, not quite keeping pace with the prior quarter. The GDP price deflator rose markedly (by annualized 6.2 percent). The inflation environment was, without question, no easy one for U.S. economic subjects in the first half of 2026. These initial growth figures are highly prone to revision, however, so overly close scrutiny of individual details should still be avoided at this stage. What can already be said, however, is that private investment – fuelled in no small part by the AI sector – continues to provide significant boost to the U.S. economy, a picture unlikely to be materially altered by the data revisions still to come. Moreover, U.S. household consumption – a key pillar of the economy – appears to be holding up very robustly of late. Domestic demand may have benefited to some extent from the football World Cup but, more fundamentally, American consumers recently seem to have shown some appetite for spending again. This is also suggested by the monthly figures on personal consumption expenditures, released in Washington alongside the GDP data, which rose by a solid 0.3 percent month-on-month in June. The latest retail sales data had already provided timely indications to that effect.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Inflation environment remains in flux

The PCE price deflator, meanwhile, showed a month-on-month change of -0.1 percent, putting the year-on-year rate of this time series at 3.7 percent. In real terms, private consumption accordingly rose by 0.4 percent month-on-month in June. Higher oil prices will likely cloud the picture on the U.S. macroeconomic price front again in July, but even so, a truly "major inflation catastrophe" still looks unlikely at this stage. The core rate of the PCE price deflator – to which the Fed is paying particularly close attention – rose by 0.1 percent mom in June as month under review. Recent CPI and PPI data had already pointed clearly, and early, towards easing price pressures. The consumer price figures for June had, as is well known, surprised on the upside with a 0.4 m-o-m percent decline. The y-o-y rate of this time series thus now stands at 3.5 percent, back below the upper bound of the Fed funds target rate, and this without any rate adjustment by the FOMC. Following the clearly anticipated adverse news from the price front in the United States in July, however, a marked easing in inflationary pressures should emerge from the fourth quarter of 2026 onward. This encouraging disinflationary trend is likely to become more firmly established in 2027.

Kevin Warsh's words

The FOMC has refrained from making any rate adjustments of late. Consequently, the upper band of the Fed funds target rate remains at 3.75 percent. The current inflation environment has at any rate allowed this cautious stance. The new man at the helm of the U.S. central bank, Kevin Warsh, is not really a man of many words. After his first press conference as Fed chair, which can fairly be described as a truly successful debut, his second such appearance went considerably less well. Indeed, perhaps too many candid remarks on his part have since become a liability. Many market participants apparently interpreted his performance as an overly emphatic dismissal of the possibility of policy-rate hikes. The new Fed Chair evidently wishes to avoid raising the Fed funds target rate if at all possible. This news weighed on the U.S. dollar. In the FX segment, there had been repeated speculation that the central bankers in Washington might find themselves under considerable pressure to act. Warsh, however, now appears quite intent on playing for time. On the U.S. bond market, concerns have thus arisen over scenarios in which the FOMC could fall far too far "behind the curve". These concerns are likely to gain further relevance with the July inflation data. With easing tendencies on the price front likely to become increasingly evident from Q4/2026, these fears should gradually recede into the background. That would then open the door to discussions in Washington about interest rate cuts. In our view, Warsh is not merely looking to keep the level of U.S. policy rates as stable as possible; indeed, he ultimately aims to push them towards the “target level” apparently favoured by the White House.

Fundamental forecasts, USA

	2025	2026	2027
GDP	2.1	2.1	2.3
Private consumption	2.6	1.9	2.2
Govt. consumption	1.1	0.9	1.2
Fixed investment	2.0	3.9	3.9
Exports	1.6	3.7	2.4
Imports	2.7	2.3	2.3
Inflation	2.7	3.2	2.1
Unemployment rate[1]	4.3	4.3	4.3
Budget balance[2]	-5.4	-6.3	-6.3
Current acct. balance[2]	-3.8	-3.3	-3.2

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/25	I/26	II/26	III/26	IV/26
GDP qoq ann.	0.5	2.1	1.5	2.4	2.2
GDP yoy	2.0	2.7	2.1	1.6	2.1
Inflation yoy	2.7	2.7	3.9	3.4	2.7

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	30.07.	3M	6M	12M
Fed funds target rate	3.75	3.50	3.00	3.00
3M rate	3.82	3.50	2.95	3.00
10Y Treasuries	4.67	4.15	3.90	3.80
Spread 10Y Bund	152	95	70	50
EUR in USD	1.15	1.16	1.19	1.19

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Macro data point to an ECB rate hike in September

Analysts: Christian Lips, Chief Economist // Christian Reuter

GDP: Growth proves remarkably resilient

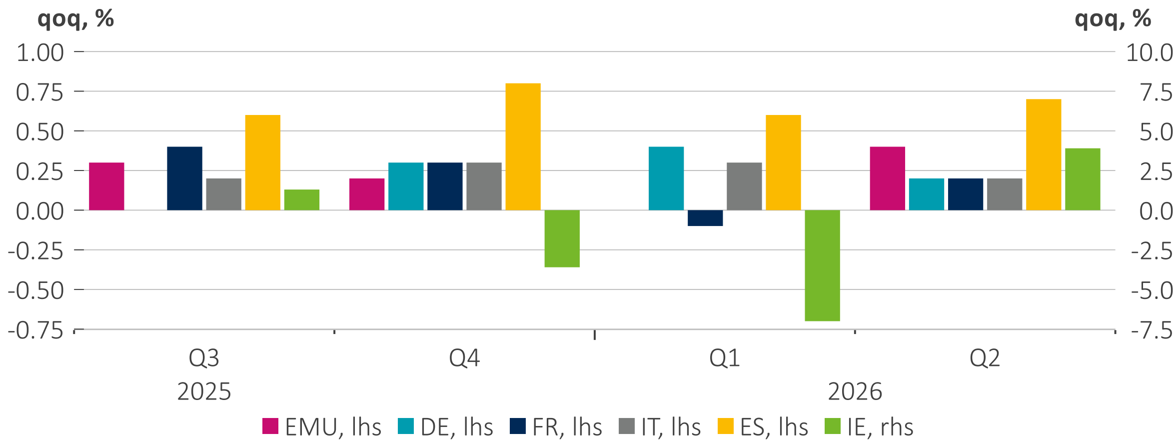
The European economy remained surprisingly robust in the spring despite all headwinds. Real GDP grew by 0.4 percent quarter-on-quarter in Q2, seasonally and calendar-adjusted, lifting the annual rate markedly to 1.0 percent year on year. This remarkable economic resilience is increasingly being reflected in the growth figures registered by the key member states as well. Among the major economies, Spain (+0.7 percent qoq) once again proved the growth engine. But output in France, Italy and Germany also rose more than expected, each by 0.2 percent qoq.

Portugal (+0.8 percent qoq) and Finland (+0.9 percent qoq) also posted robust economic growth. Ireland's GDP rebounded 3.9 percent qoq after recent declines, though this offset less than half of the earlier slump. That suggests there is still considerable scope for further recovery, providing a solid downside cushion for the eurozone's overall growth forecast for 2026.

The Iran war, together with its adverse effects on energy prices and global supply chains, remains the biggest risk to the European economy in the near term. At the same time, looking at the aggregate data, it is striking that the geopolitical crises have left the eurozone economy virtually untouched, at least in the first half of the year. We accordingly expect both the European and German economies to post positive growth this year. Indeed, the unexpectedly positive Q2 figures have prompted us to revise our GDP forecast upward.

Alongside the GDP data, various sentiment indicators had also shown what were in some cases marked upward trends. For the ECB's assessment of the economic situation, the message is clear: so far, there has been little sign of economic weakness stemming from the Iran war. That, in turn, significantly undermines the case for the ECB to exercise restraint on economic grounds. The Iran war undoubtedly remains a risk factor for the second half of the year, but the first six months showed scarcely any sign of an economic drag.

Chart: Solid growth figures for Q2



Sources: Eurostat, Macrobond, NORD/LB Macro Research

Inflation picks up again as upside risks increase further

Preliminary figures show that inflation in the eurozone picked up again in July. Following the unexpectedly favourable reading in the previous month, the pace of price growth increased merely marginally but, at 2.9 percent yoy, remains well above the ECB's price stability target. The main driver was an acceleration in energy inflation to 10.0 percent yoy, as higher oil and gas prices resulting from the Iran conflict left a clear imprint on the inflation data. Services inflation also picked up, with prices rising by 3.3 percent yoy as against the previous month. Price momentum in food and nonenergy industrial goods remains subdued. The outlook is, as before, highly uncertain – much like the course and duration of the Iran conflict. At the same time, the heatwave, wildfires across southern Europe, widespread drought, low river levels and crop failures (not only in Europe, but also elsewhere as a result of El Niño) have further heightened inflation risks.

ECB held off in July – but a rate hike draws closer

The ECB left its policy rates unchanged in July, partly because little had changed relative to the June baseline scenario. The more favourable June price data in the interim made it easier for the ECB to hold rates steady for now. The data simply showed no sign of significant indirect effects, and it is in any case premature to draw conclusions about second-round effects. That should not, however, be read as a signal that the ECB is adopting a more relaxed stance. Attention now turns to the European Central Bank's Governing Council meeting in September, when its regular round of updated macroeconomic projections will also be released. By then, the central bank will have a clearer picture of both geopolitical developments and trends in energy and commodity prices. More information on wage growth will also be available – a key variable the ECB will be monitoring very closely. The inflation upturn in July, the unexpectedly robust second-quarter growth, and the recently upbeat sentiment indicators all point to a further ECB rate hike in September. Indeed, markets are pricing in two additional rate hikes over the coming twelve months. Ten-year Bund yields have accordingly settled above the 3.00 percent mark of late.

Fundamental forecasts, Euroland

	2025	2026	2027
GDP	1.3	0.8	1.2
Private consumption	1.5	0.9	1.1
Govt. consumption	1.5	2.3	1.6
Fixed investment	3.1	0.8	2.7
Net exports[1]	-0.6	-0.5	-0.3
Inflation	2.1	2.9	2.2
Unemployment rate[2]	6.3	6.3	6.2
Budget balance[3]	-2.9	-3.3	-3.4
Current account balance[3]	1.7	1.5	1.2

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/25	I/26	II/26	III/26	IV/26
GDP sa qoq	0.2	0.0	0.4	0.1	0.3
GDP sa yoy	1.1	0.5	1.0	0.8	0.8
Inflation yoy	2.1	2.0	3.0	3.1	3.4

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	30.07.	3M	6M	12M
Repo rate ECB	2.25	2.50	2.50	2.50
3M rate	2.47	2.50	2.60	2.60
10Y Bund	3.16	3.20	3.20	3.30

Sources: Bloomberg, NORD/LB Macro Research

Germany: A brighter economic picture emerges

Analysts: Christian Lips, Chief Economist // Christian Reuter

GDP: Solid Q2 figures and data revisions brighten the economic picture

The German economy performed markedly more robustly in the first half of the year than expected. Preliminary figures from the Federal Statistical Office show that, seasonally and calendar-adjusted, real GDP grew by 0.2 percent qoq in Q2. First-quarter growth, moreover, was revised up to 0.4 percent qoq. The annual rate accordingly climbed to 0.9 percent yoy at the halfway point of the year. Support came from foreign trade, while private consumption growth was subdued. There was, however, no downturn – due in part to the fuel-price rebate, which cushioned the energy-price shock at the pump. By contrast, investment declined in Q2, weighing on growth. This was likely driven primarily by weaker investment in machinery and equipment, while the robust performance of construction output in Q2 and a weather-related catch-up effect argue against a more pronounced decline in construction investment.

The German economy has thus not only weathered the Iran conflict and the energy price shock better than expected in the first half of the year. Equally significant is the revision to the historical data. The general revision customarily carried out around mid-year has produced what are in some cases substantial upward adjustments to the figures for previous years. While these do not overturn the previous growth picture entirely, they do paint a distinctly more positive trajectory than previously reported. Economic output in 2024, for instance, did not shrink by 0.5 percent yoy but instead stagnated compared with the previous year. Moreover, more recent information and revised calculations have led to further slight upward revisions to growth rates for the years since 2011.

Germany's economic output has now expanded for three consecutive quarters, having last contracted in the spring of 2024. The growth figures published at the end of July send a clear message to the pessimists who had revived the "sick man of Europe" narrative about Germany: the patient is still alive!

Nevertheless, the global environment remains a drag on the German economy, particularly the unresolved Iran crisis and its impact on energy prices and supply chains. At the same time, however, fiscal stimulus is helping to stabilize economic activity. Moreover, the ifo Business Climate Index has now risen for three consecutive months, providing legitimate grounds for optimism that the economy will remain resilient in the months ahead. Against this backdrop, we believe recent developments validate our view that many growth forecasts for 2026 were revised down too aggressively in recent months. Instead, it now appears all but certain that Germany will return to growth in 2026, with year-on-year expansion of a good 1 percent.

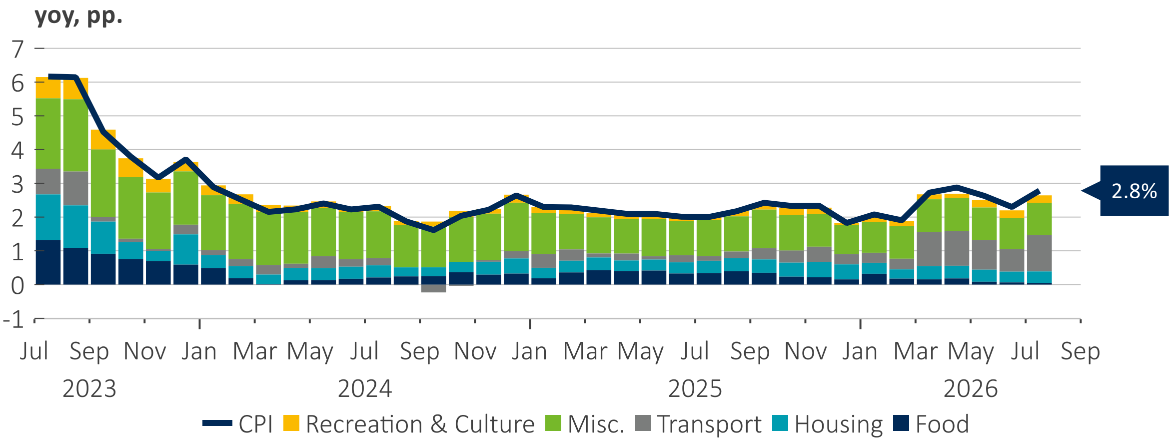
Companies signal optimism – risks are being sidelined

Sentiment indicators from the German economy have signalled rising confidence for some time now, initially underpinned by the conclusion of the framework agreement between the United States and Iran as a basis for peace negotiations. As renewed hostilities soon clouded the picture again, the question arose as to whether the upward movement in the ZEW and Sentix indices reflected "merely" a financial-market bias or a "genuine" improvement in sentiment. The ifo Business Climate index, as a survey drawn from the real economy, was accordingly awaited with particular interest. In July, the sentiment among business leaders brightened markedly. Companies, above all, are once again looking to the future with greater confidence. The business expectations index jumped a substantial 2.4 points to 86.7 points. The improvement signalled by the ifo index is also notable in that it is the third consecutive rise – a milestone traditionally seen as marking a turning point. Sentiment, moreover, has improved across all sectors.

Is everything rosy, then? Fresh hostilities in the Middle East, the renewed closure of the Strait of Hormuz, and the threat to the Bab-el-Mandeb strait and the Gulf of Aden all serve as a warning to exercise caution. The rise in oil and gas prices has so far been cushioned by sales from stockpiles, a strategy that becomes harder to sustain the longer the conflict drags on. Gas storage facilities in Europe are not well stocked, while production capacities in the Gulf have been damaged and cannot be ramped back up immediately. The impact is already evident in both oil and gas markets.

The range of commodities and intermediate goods potentially affected by disruption to these waterways is far broader, however. That this is not making for growing unease among companies is remarkable: materials shortages were, in fact, viewed by companies in July as less of a problem than in the previous month.

Chart: Inflation picks up again in July as expected



Sources: Destatis, Macrobond, NORD/LB Macro Research

End of the fuel-price rebate and rising energy costs drive inflation markedly higher in July

Inflation in Germany rose markedly again last month, as expected, with the expiry of the fuel-price rebate. Inflation climbed to 2.8 percent yoy in July, the chief contributor being the energy component, up 8.3 percent yoy. Compounding matters, energy prices rose sharply again over the course of July as the Iran conflict escalated once more. The core rate, by contrast, edged down slightly to 2.4 percent yoy, thanks to somewhat lower services price inflation (2.9 percent yoy). Overall, then, the inflation data give no cause for an all-clear – though alarmism would likewise be misplaced.

Fundamental forecasts, Germany

	2025	2026	2027
GDP	0.2	1.2	1.3
Private consumption	1.3	0.6	1.1
Govt. consumption	1.5	3.6	2.5
Fixed investment	-0.2	0.2	3.3
Exports	-0.9	1.9	2.0
Imports	3.1	1.4	3.4
Net exports[1]	-1.5	0.2	-0.5
Inflation[2]	2.3	2.7	2.3
Unemployment rate[3]	6.3	6.4	6.3
Budget balance[4]	-2.7	-3.8	-3.9
Current account balance[4]	4.5	4.4	3.9

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/25	I/26	II/26	III/26	IV/26
GDP sa qoq	0.3	0.4	0.2	0.1	0.2
GDP nsa qoq	0.5	0.8	0.9	1.1	2.0
Inflation yoy	2.3	2.3	2.6	2.9	2.8

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: Economy withstands geopolitical headwinds – SNB gains leeway

Analyst: Christian Reuter

July brings further upturn in sentiment as the economy appears to withstand geopolitical headwinds

The Swiss economy appears to be consolidating its moderate growth trajectory, judging by both the (as yet scarce) hard data available and sentiment indicators. Real retail sales, for example, rose 1.5 percent year-on-year in June. The external sector had a somewhat bumpier month, however, with exports down by 6.0 percent month on month in real terms, and imports showing a real decline of 1.6 percent mom. Even so, the second quarter as a whole registered real growth of 0.6 percent qoq in exports and 1.5 percent qoq in imports.

The sentiment indicators published in July can all be interpreted as an improvement. While the manufacturing PMI fell from 57.3 to 54.3, it remains comfortably in expansionary territory. Moreover, the decline was driven largely by respondents' assessments of input prices, which evidently eased following the drop in energy prices – a development that is hardly bad news. The KOF Economic Barometer also climbed for a fifth consecutive month in July, exceeding all expectations and reaching 103.5 points, its highest level since February 2026. Consumer sentiment likewise rose, by 2.3 points to -35.8. The weekly economic activity index published by SECO also recorded a nine-week upturn, rising from -3.2 points at the beginning of March to 3.7 points in mid-June, the highest level since "Liberation Day" in April 2025.

SNB welcomes franc depreciation and widens its policy leeway

The Swiss franc has weakened markedly further over the past four weeks, recently hitting its lowest level against the euro since January; against the dollar, it fell to its weakest since May 2025. Unlike other major central banks, the SNB still has no inflation problem – quite the opposite, in fact. Swiss consumer prices held steady in June, standing just 0.5 percent higher than a year earlier. Core inflation (excluding fresh and seasonal products as well as energy and fuel) likewise held steady, while import prices fell once again (-0.4 percent mom; 0.3 percent yoy) and domestic goods prices rose just 0.1 percent on the previous month (0.5 percent yoy).

The yield spread on two-year government bonds relative to their euro (and US dollar) counterparts has widened and was recently at its largest since 2002. As other central banks are expected to raise rates rather than cut them, markets had at times priced in fairly aggressive SNB rate hikes. In a highly unusual move, the SNB has now signalled its intention to stick with its zero-interest-rate policy until year-end 2027. Given its underlying interests – the lowest inflation and interest rates among the major Western reserve currencies, and a desire to stimulate growth without having to venture back into "negative territory" – it was already clear that a certain depreciation of the franc suited the SNB just fine. Now, that has become all but "official". Carry traders have taken note too, with the franc increasingly seen as a more attractive funding currency than the yen.

Fundamental forecasts*, Switzerland

	2025	2026	2027
GDP	1.4	1.0	1.7
Inflation (CPI)	0.2	0.4	0.3
Unemployment rate[1]	2.9	3.1	3.0
Budget balance[2]	0.6	-0.2	-0.3
Current account balance[2]	7.1	4.3	3.8

* 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

	30.07.	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	0.41	0.40	0.40	0.45
Spread 10Y Bund	-274	-280	-280	-285
EUR in CHF	0.93	0.93	0.94	0.95

Japan: Interventions, the central bank and the yen

Analyst: Tobias Basse

Bank of Japan to proceed cautiously for now

The Bank of Japan has opted not to raise key-rate levels for the time being, thus holding its policy rate unchanged at 1.00 percent. At its June meeting, the central bankers in Tokyo had ventured a cautious rate increase. Now, however, they appear to have reverted to a more hesitant stance. The country's prime minister is said to take a sceptical view of key-rate hikes, seemingly regarding such monetary tightening as a threat to her fiscal plans. Long-term interest rates in Japan – arguably the more relevant benchmark in this context – have, however, risen markedly in recent times. The Bank of Japan's latest policy decision, too, failed to secure unanimous support, though only one member dissented. Risks to price stability in any case remain firmly in the central bankers' sights. Japan's annual consumer inflation rate rose as expected to 1.7 percent in June as month under review, which in itself does not yet pose any major problem.

The central bankers may soon be forced to take action

The pronounced weakness of the Japanese currency at present could yet become a serious challenge for the monetary policymakers, given the trajectory of inflation in the country. The yen has breached the psychologically important level of 160.00 against the US dollar. Many market participants now appear to expect at least a test of the next psychological threshold of JPY 165.00 per USD. Indeed, some observers are declining to completely rule out a move towards the mark of JPY 170.00/USD. The upshot is that Japan's currency is now in a rather battered state. Looking ahead, the central bank will likely have little choice but to take action.

Interventions, the central bank and the yen

The FX interventions by Japan's economic policymakers have had merely tactically relevant effects of late. The measures taken in the recent past have thus proved unsustainable; one is almost inclined to call them a flash in the pan. In the meantime, the policymakers in Tokyo appear to be continuing discussions on plans to more aggressively encourage the country's larger pension funds to step up purchases of Japanese government bonds and equities in order to support the yen. This proposition smacks of near-helplessness; indeed, an even more aggressive touting of the idea could conceivably become something of a burden for the Japanese currency. The monetary policymakers would need to take markets by surprise to create scope for a near-term appreciation of the yen. For now, however, the central bank does not appear ready to do so – or at least not yet.

Fundamental forecasts*, Japan

	2025	2026	2027
GDP	1.1	0.7	1.0
Inflation	3.2	2.1	2.1
Unemployment rate[1]	2.5	2.6	2.5
Budget balance[2]	-1.4	-2.9	-2.8
Current account balance[2]	4.8	4.8	4.5

* 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

	30.07.	3M	6M	12M
Key rate	1.00	1.25	1.25	1.50
3M rate	1.46	1.40	1.45	1.55
10Y	2.81	2.60	2.40	2.35
Spread 10Y Bund	-34	-60	-80	-95
EUR in JPY	184	186	187	180
USD in JPY	160	160	157	151

China: Latest GDP figures came as a surprise on the downside

Analyst: Tobias Basse

The latest GDP figures came as a surprise on the downside

Following the economy's robust performance in the first quarter of 2026, a certain slowdown in growth had already been expected in China. Even so, the GDP figures now released for Q2 came as a mild surprise on the downside, with year-on-year growth reported at just 4.3 percent. Combined with the fairly upbeat Q1 data, the first half of 2026 as a whole can still be described as broadly unproblematic – the year-to-date rate stands at a respectable 4.7 percent – yet China's economy looks to be in need of fresh impetus. The economic policymakers in Beijing will accordingly find themselves under still closer scrutiny from international financial markets. The country's industrial sector continues to function as something of an anchor of economic stability, having benefited without question from the Middle Kingdom's global strength in the tech sector in the first half of 2026. Although June's retail sales figures surprised to the upside, domestic consumption clearly remains something of a problem for the Chinese economy – one that is also creating challenges in certain industrial sectors. Interestingly, the CLFP Manufacturing PMI fell to just 49.2 points in July, thus below the "magical" mark of 50.

Beijing's economic policy in focus

The economic policymakers in Beijing thus find themselves confronted with certain concerns at present. Fiscal policy, above all, is coming into focus. Premier Li Qiang has recently made comments that could be read as pointing towards possible further government measures to support the country's economy. The central bank in Beijing, for its part, still appears content to stay on the sidelines for now, continuing to monitor the situation closely without major action of its own.

Heightened concerns over cyberattacks in Taiwan

The geopolitical environment, too, continues to warrant close attention from the international financial markets. Taiwan remains deeply concerned about the mainland's political intentions. In Taipei, there is evidently growing concern about possible cyberattacks. As part of the annual civil defence drill in August, the authorities therefore intend to improve preparedness for such scenarios. In addition to the mobility restrictions on conventional transport usually imposed during the drill, mobile phone networks are to be scaled back drastically for 30 minutes – a measure likely to make internet access in public spaces largely impossible. The aim is to encourage Taiwan's population to prepare more thoroughly for a potential breakdown in modern communications technology. The measure will undoubtedly make for economic strains in Taiwan, and has already sparked controversial debate over how the costs are to be distributed. The largest opposition party has calculated, as a worst-case scenario, that the 30-minute communication restrictions could cost the economy in the region of USD 92m.

Fundamental forecasts*, China

	2025	2026	2027
GDP	5.0	4.5	4.4
Inflation	0.1	1.2	1.1
Unemployment rate[1]	5.2	5.1	5.1
Budget balance[2]	-5.1	-5.5	-5.6
Current account balance[2]	3.8	3.1	3.0

* Change vs previous year as percentage

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

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	30.07.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.43	1.45	1.40	1.40
10Y	1.72	1.70	1.70	1.70
Spread 10Y Bund	-144	-150	-150	-160
EUR in CNY	7.79	7.89	8.03	8.03
USD in CNY	6.75	6.80	6.75	6.75

Britain: Between a new beginning and budgetary constraints

Analyst: Daniel Weiss

New prime minister, old challenges

With Andy Burnham, the United Kingdom has a new prime minister who already signalled a more expansionary economic policy course shortly after taking office. A case in point is the next £8.4bn funding tranche for the Dreadnought submarine programme. Burnham is deliberately linking defence spending to the country's reindustrialization, a stronger role for British firms in public procurement, and improved job prospects for young people. At the same time, the new government is seeking to reassure capital markets through its commitment to sound fiscal rules and the appointment of John Healey as Chancellor of the Exchequer. This political fresh start, however, comes against a difficult backdrop: a higher-than-expected budget deficit, public debt of around 95 percent of GDP, and as-yet-unresolved funding gaps in planned defence spending all significantly constrain the government's leeway in terms of economic policy. Accordingly, investors are already turning their attention to the autumn budget, which will have to show whether Burnham can strike the right balance between growth-oriented industrial policy and fiscal discipline. Politically, the governing Labour party has regained the initiative with the change in leadership, but economically its room for manoeuvre remains limited.

Burnham's balancing act: economy caught between stabilization and headwinds

The British economy is proving remarkably resilient despite an increasingly challenging environment. Modest GDP growth, a stable unemployment rate and unexpectedly strong retail sales all point to ongoing resilience in domestic demand. At the same time, however, warning signs are mounting: demand for labour is easing, wage growth is losing momentum, and unemployment among 16- to 24-year-olds has climbed to 16.4 percent — its highest level in a decade. Burnham accordingly intends to use defence and procurement policy more forcefully as a lever for the labour market. At the same time, an intensifying global trade conflict and rising energy prices stemming from the US-Iran conflict are weighing on the outlook. On balance, however, the United Kingdom looks set to continue on its moderate growth path for the time being.

MPC interest rate outlook: a pause, not a turning point

The Bank of England (BoE) can point to initial progress in its fight against inflation: with the inflation rate at 2.6 percent and wage pressures easing, the conditions for monetary easing have generally improved. Moreover, the latest inflation data have come in below the central bank's earlier projections, while pronounced second-round effects have yet to materialize. Even so, the BoE has stuck to its wait-and-see approach, leaving the Bank Rate at 3.75 percent. The background here lies in renewed heavy volatility in energy prices stemming from the geopolitical tensions in the Middle East, which could drive inflationary pressure higher again in the months ahead. Unless a sustained easing emerges on this front, the BoE is likely to steer by sight and leave the Bank Rate at 3.75 percent.

Fundamental forecasts*, Britain

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

* Change vs previous year as percentage

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

[2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	30.07.	3M	6M	12M
Repo rate	3.75	3.75	3.50	3.25
3M rate	3.79	3.75	3.40	3.30
10Y	4.98	4.70	4.50	4.30
Spread 10Y Bund	183	150	130	100
EUR in GBP	0.86	0.86	0.87	0.88
GBP in USD	1.35	1.35	1.37	1.35

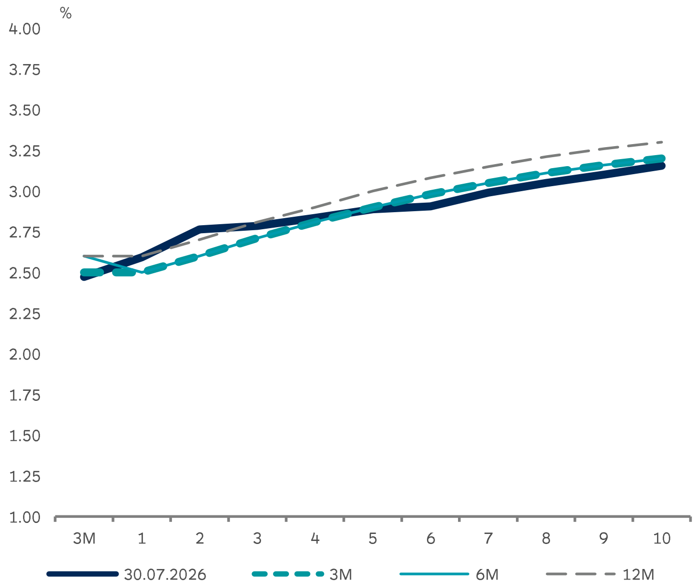
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons...		
	30.07.2026	**3M**	**6M**	**12M**
3M	2.47	2.50	2.60	2.60
1Y	2.59	2.50	2.50	2.60
2Y	2.76	2.60	2.60	2.70
3Y	2.79	2.71	2.71	2.81
4Y	2.84	2.81	2.81	2.90
5Y	2.89	2.90	2.90	3.00
6Y	2.91	2.98	2.98	3.08
7Y	2.99	3.05	3.05	3.15
8Y	3.05	3.11	3.11	3.21
9Y	3.10	3.16	3.16	3.26
10Y	3.16	3.20	3.20	3.30
2Y (Swap)	2.96	2.75	2.75	2.90
5Y (Swap)	3.01	3.00	3.00	3.15
10Y (Swap)	3.18	3.20	3.20	3.35

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



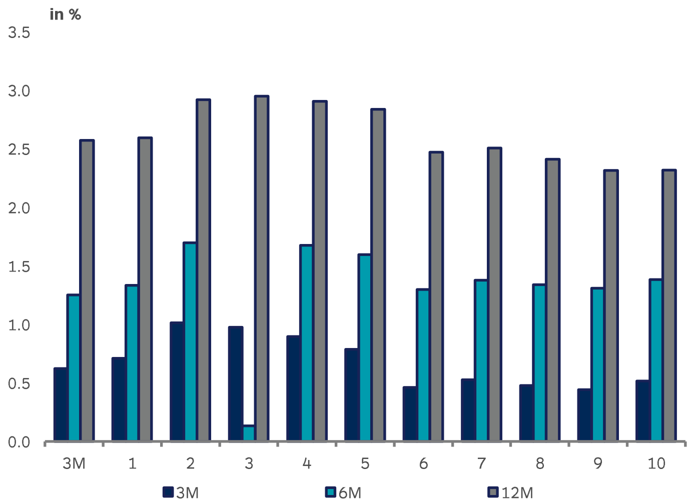
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.62	1.25	2.57
1Y	0.71	1.33	2.59
2Y	1.01	1.70	2.92
3Y	0.97	0.13	2.95
4Y	0.90	1.67	2.90
5Y	0.79	1.60	2.84
6Y	0.46	1.30	2.47
7Y	0.53	1.38	2.51
8Y	0.48	1.34	2.41
9Y	0.44	1.31	2.31
10Y	0.52	1.38	2.32

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	0.7	0.6	0.8	-0.8	-0.2
2Y	1.0	1.3	1.6	-0.5	0.0
3Y	1.0	1.8	2.2	0.0	0.1
4Y	0.9	2.4	2.5	0.5	0.0
5Y	0.8	3.0	2.8	0.3	-0.1
6Y	0.5	1.7	3.0	1.4	0.0
7Y	0.5	4.0	3.3	1.7	0.0
8Y	0.5	4.3	3.7	2.2	0.1
9Y	0.4	4.6	3.9	1.5	0.3
10Y	0.5	4.8	3.7	1.2	0.2

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies

	USD	GBP	JPY	CHF
1Y	1.2	1.3	0.3	0.0
2Y	2.0	2.1	1.1	0.3
3Y	2.5	2.7	1.1	0.3
4Y	3.0	3.0	1.7	0.2
5Y	3.6	3.3	1.5	0.2
6Y	2.3	3.4	2.6	0.2
7Y	4.7	3.8	2.9	0.2
8Y	5.0	4.2	3.4	0.3
9Y	5.3	4.4	2.6	0.5
10Y	5.5	4.2	2.4	0.4

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro

	EUR	USD	GBP	JPY	CHF
1Y	2.6	0.8	1.3	3.4	-2.3
2Y	2.9	2.2	2.5	3.8	-2.1
3Y	2.9	3.5	3.9	4.4	-2.0
4Y	2.9	4.8	4.5	5.5	-2.0
5Y	2.8	5.9	5.2	5.9	-2.0
6Y	2.5	5.4	5.6	7.6	-2.1
7Y	2.5	8.3	6.5	8.9	-2.0
8Y	2.4	8.6	7.3	9.7	-2.0
9Y	2.3	8.7	7.8	9.7	-1.8
10Y	2.3	8.8	8.2	9.7	-1.9

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies

	USD	GBP	JPY	CHF
1Y	4.0	4.1	1.2	0.0
2Y	5.5	5.4	1.5	0.2
3Y	6.9	6.8	2.1	0.4
4Y	8.2	7.4	3.2	0.4
5Y	9.3	8.1	3.6	0.3
6Y	8.8	8.6	5.3	0.2
7Y	11.8	9.5	6.5	0.3
8Y	12.1	10.3	7.3	0.3
9Y	12.2	10.8	7.3	0.6
10Y	12.3	11.2	7.4	0.5

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	
	30.07.2026	Prev. month	Start of year	Prev. month	Start of year
DAX	25,612.03	24,995.81	24,490.41	2.47%	4.58%
MDAX	32,216.66	31,809.10	30,617.67	1.28%	5.22%
EuroSTOXX50	6,344.40	6,328.09	5,791.41	0.26%	9.55%
STOXX50	5,459.40	5,415.93	4,918.02	0.80%	11.01%
STOXX600	649.95	641.73	592.19	1.28%	9.75%
Dow Jones	51,594.14	52,319.20	48,063.29	-1.39%	7.35%
S&P 500	7,316.15	7,499.36	6,845.50	-2.44%	6.88%
Nikkei	61,867.43	64,362.02	50,339.48	-3.88%	22.90%

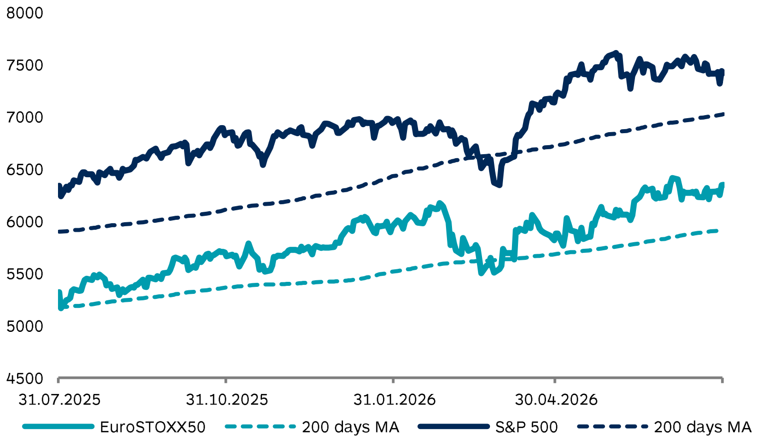
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	25,200	26,700	27,300
MDAX	32,100	34,100	35,200
EuroSTOXX50	6,200	6,400	6,600
STOXX50	5,350	5,500	5,700
STOXX600	640	665	685
Dow Jones	51,400	53,400	54,000
S&P 500	7,250	7,700	7,900
Nikkei	64,000	67,000	70,500

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday, 31 July 2026.**

The next English issue of Economic Adviser will be appearing on **31 August 2026**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
USA	2.1	2.1	2.3	2.7	3.2	2.1	4.3	4.3	4.3	-5.4	-6.3	-6.3
Germany	1.3	0.8	1.2	2.1	2.9	2.2	6.3	6.3	6.2	-2.9	-3.3	-3.4
Japan	0.2	1.2	1.3	2.3	2.7	2.3	6.3	6.4	6.3	-2.7	-3.8	-3.9
Britain	1.1	0.7	1.0	3.2	2.1	2.1	2.5	2.6	2.5	-1.4	-2.9	-2.8
Switzerland	1.4	0.8	1.2	3.4	3.3	2.4	4.8	5.2	5.2	-5.0	-3.9	-3.3
Germany	1.4	1.0	1.7	0.2	0.4	0.3	2.9	3.1	3.0	0.6	-0.2	-0.3
China	5.0	4.5	4.4	0.1	1.2	1.1	5.2	5.1	5.1	-5.1	-5.5	-5.6

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 %	30.07.26	3M	6M	12M
USD	3.75	3.50	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…	30.07.26	3M	6M	12M
USD	1.15	1.16	1.19	1.19
JPY	184	186	187	180
GBP	0.86	0.86	0.87	0.88
CHF	0.93	0.93	0.94	0.95
CNY	7.79	7.89	8.03	8.03

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	30.07.	3M	6M	12M	30.07.	3M	6M	12M	30.07.	3M	6M	12M	30.07.	3M	6M	12M
USD	3.82	3.50	2.95	3.00	4.25	3.70	2.90	2.95	4.39	3.80	3.15	3.10	4.67	4.15	3.90	3.80
EUR	2.47	2.50	2.60	2.60	2.76	2.60	2.60	2.70	2.89	2.90	2.90	3.00	3.16	3.20	3.20	3.30
JPY	1.46	1.40	1.45	1.55	1.49	1.40	1.45	1.50	2.03	1.85	1.75	1.75	2.81	2.60	2.40	2.35
GBP	3.79	3.75	3.40	3.30	4.33	3.80	3.35	3.25	4.53	4.10	4.00	3.75	4.98	4.70	4.50	4.30
CHF	-0.05	-0.05	0.00	0.01	0.13	0.07	0.08	0.15	0.29	0.30	0.31	0.35	0.41	0.40	0.40	0.45

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	30.07.	3M	6M	12M	30.07.	3M	6M	12M	30.07.	3M	6M	12M	30.07.	3M	6M	12M
USD	135	100	35	40	148	110	30	25	150	90	25	10	152	95	70	50
JPY	-101	-110	-115	-105	-127	-120	-115	-120	-86	-105	-115	-125	-34	-60	-80	-95
GBP	131	125	80	70	157	120	75	55	164	120	110	75	183	150	130	100
CHF	-252	-255	-260	-259	-264	-253	-252	-255	-260	-260	-259	-265	-274	-280	-280	-285

Sources: Bloomberg, NORD/LB Macro Research

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