Economic Adviser

Macro Research

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Special: USD 40 Trillion in Debt, Ferguson's Law and Mortgage Rates

Analyst: Tobias Basse // Constantin Lüer

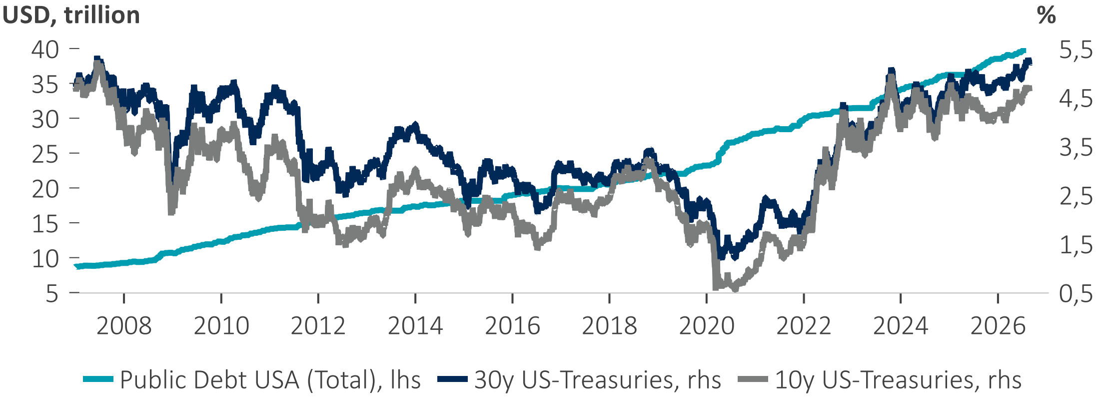
A Look at the Current Situation

The United States' fiscal position has moved firmly into focus in the bond market. Federal debt exceeding the psychologically important threshold of USD 40 trillion has attracted considerable attention. Yet this development is unlikely to have come as a genuine surprise to informed observers. The United States is a large economy and, as such, carries a substantial amount of debt. However, relative to the size of its economy, the country is now on a par with Italy and France, placing it firmly in the "premier league" of sovereign debt.

Interest payments have now surpassed defence spending, prompting renewed debate about "Ferguson's Law". As a rule of thumb, this concept suggests that any major power facing such a situation may be heading for serious difficulties. These concerns are likely to have added further to the recent nervousness among some market participants.

The US Treasury is undoubtedly aware of the problem, and Scott Bessent certainly has some ideas about how to address it. The large-scale international adoption of US dollar stablecoins could unquestionably help the United States finance its debt. Strong economic growth generating additional tax revenues would, of course, also be beneficial. Ultimately, however, these are secondary considerations. Following the midterm elections, the administration in Washington will have to address the fundamental imbalance between government revenue and expenditure.

Chart: US Federal Debt and Selected US Treasuries



Sources: U.S. Department of the Treasury, Macrobond, NORD/LB Research

Fine-Tuning the US Treasury Market

Newswires are currently carrying numerous reports about Scott Bessent's planned measures to fine-tune the US Treasury market. The Treasury is expected to begin buying back a certain volume of long-dated government bonds in the near future. The Treasury Secretary will undoubtedly also be seeking to send a signal to investors.

The volume involved is, of course, far too small to come even close to resolving the United States' sovereign debt problem. Scott Bessent is likely to be well aware of this. His primary objectives probably lie elsewhere. After all, mortgage rates are closely linked to yields on long-dated US Treasuries.

The Housing Market Dilemma

The US residential property market is clearly suffering from high financing costs. The NAHB Housing Market Index has remained in contractionary territory, below the psychologically important threshold of 50 points, for some time. In fact, the index last moved marginally above this threshold in March 2024, and remained there for only two months.

The surveyed homebuilders and property companies have reported a pronounced decline in demand. Increasingly, however, the market is also experiencing a distinct sense of unease on the sellers' side. As prospective buyers have less financing capacity owing to the sharp rise in interest costs, this dynamic has gradually begun to weigh on selling prices as well. If potential buyers can afford "less house", residential property prices must, in theory, fall to allow the market to move towards a new equilibrium. Increasingly, this appears to be borne out by the data.

At the same time, the "lock-in" effect remains evident. Many homeowners secured favourable mortgage rates of around 3% before policy and market interest rates began to rise in spring 2022. These loans subsequently created some friction in the traditionally mobile US labour and housing markets. Far fewer people were willing to give up their favourable financing arrangements to move elsewhere, potentially accepting a less attractive property while also facing considerably higher costs.

The lock-in effect therefore remains in place, although it should naturally diminish over time. Data from the National Association of Realtors likewise point to subdued market conditions. Excluding the subprime crisis of the 2000s, existing-home sales have fallen to levels last seen in the 1990s. Even during the subprime crisis, the downturn that began in 2007 was followed by pronounced rebounds, meaning that the acute phase of the housing market crisis proved comparatively short-lived.

Today's situation is better characterised as a structural weakness in demand caused by excessively high interest rates. The current period of stagnation began at around the same time as the Federal Reserve started raising the federal funds target rate in 2022. Over a period of 16 months, the Federal Open Market Committee increased its key policy rate by 525 basis points. The rate then remained at 5.50% for slightly more than a year.

Although yields on 30-year US Treasuries and average 30-year mortgage rates are partly driven by their own market-specific factors, the US policy rate still has a powerful influence on both. In theoretical terms, the federal funds target rate can be regarded as a floor for much of the interest-rate market.

Exceptional Circumstances Call for Exceptional Measures

Average 30-year mortgage rates temporarily reached 8%, creating a formidable hurdle for today's prospective homebuyers. Interest costs alone would therefore have more than doubled. Purchasing behaviour, which appears particularly sensitive to financing costs in the case of such long-term loans, has so far struggled to adjust.

Mortgage rates have certainly been considerably higher in the past. At the time, however, nominal house prices were also lower. From today's perspective, it is therefore already a step in the right direction that average mortgage rates have fallen to "only" 6.6%.

Yields on 30-year US Treasuries have recently climbed above the 5% mark, broadly following a similar trajectory to mortgage rates. Scott Bessent's announcement that the Treasury intends to step up its buybacks of 30-year bonds could therefore indirectly provide some support to the housing market. The buyback programme should have an impact on the long end of the yield curve, although its significance should not be overstated.

There is a clear recognition on Capitol Hill that the domestic housing market must be supported in one way or another to prevent its current weakness from developing into a more serious problem. Homebuilders and buyers have an obvious interest in such support, but so too, evidently, does the US administration.

USA: Inflation Data Remain Highly Relevant to the Fed

Analysts: Tobias Basse // Constantin Lüer

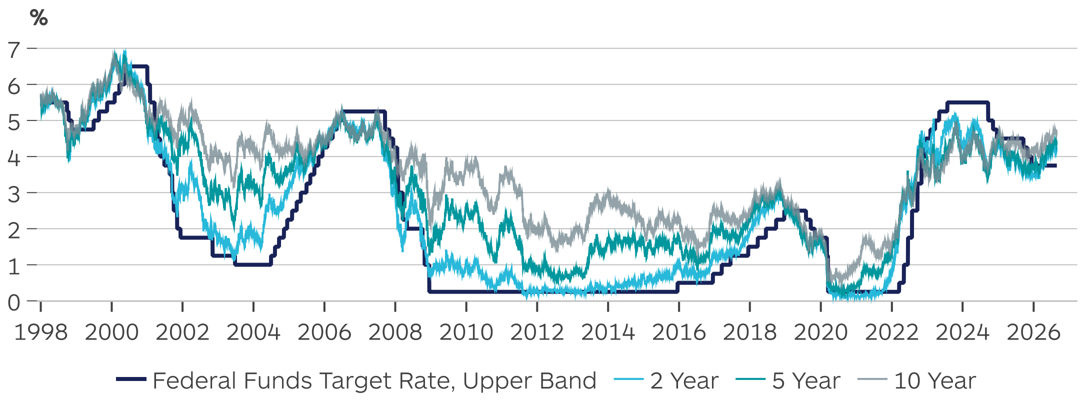
AI and Household Spending Remain in Focus

The first revision of the US GDP figures left the preliminary estimate of aggregate economic growth for the second quarter of 2026 unchanged at an annualised rate of 1.5%. The underlying details, however, point to greater resilience than a cursory glance at the headline growth rate might suggest.

The already encouraging figures for household consumption were revised slightly higher. At the end of the first half of 2026, the US economy was therefore not solely reliant on positive momentum from the AI sector. Consumer spending also provided a noticeable tailwind to the North American economy in the second quarter.

In this context, the latest personal income data are also of considerable interest. Personal income rose by an unexpectedly strong 0.4% m/m in July. The financial position of US households therefore appears to have improved at the beginning of the second half of 2026. Personal spending, however, increased by "only" 0.2% m/m in July.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Inflation Data Remain Highly Relevant to the Fed

The monthly PCE price deflator rose slightly more strongly in July than had generally been expected, increasing by 0.2% m/m. As a result, the annual rate remained at 3.7%.

The core PCE price deflator likewise increased by 0.2% m/m in July, exactly in line with expectations, leaving the annual rate unchanged at 3.3%. As is well known, this indicator is of particular importance to the Federal Reserve.

Against this backdrop, a further increase in the federal funds target rate by the FOMC is unlikely to be necessary. Inflation rates will probably be higher in August, largely owing to developments in energy prices. Nevertheless, the United States is not facing a major inflationary crisis.

A Closer Look at the US Dollar

As discussed in greater detail in our EA Special, Scott Bessent's announcement that the Treasury intends to step up its purchases of long-dated government bonds is likely aimed primarily at supporting the US housing market. In fact, the Treasury's balance-sheet management measures are simply too limited in scale to provide a lasting solution to the United States' sovereign debt problems.

In the foreign exchange market, the announcement of Bessent's plans clearly provided no support to the US dollar. Nervousness in the FX market is currently running high. As a result, news whose implications are initially unclear is often interpreted as potentially negative at first. Some signs of stabilisation have since emerged.

Overall, the FX market continues to price in fairly aggressive rate increases by the FOMC, which is still providing some support to the US currency. These expectations could ultimately be disappointed. In our view, signs of easing inflationary pressures in the United States are likely to become increasingly apparent following the August data. This could bring the almost “magical” threshold of USD 1.20 per EUR into play.

The ECB must, of course, not be overlooked in this context. In any event, monetary policy in Frankfurt and Washington remains a key driver capable of generating significant movements in the euro-US dollar exchange rate.

In the near term, particular attention will now turn to the latest US labour market data. Given the Federal Reserve’s mandate, these figures will undoubtedly be of considerable importance.

Fundamental forecasts, USA

	2025	**2026**	**2027**
GDP	2.1	2.1	2.2
Private consumption	2.6	1.9	2.2
Govt. consumption	1.1	0.7	1.2
Fixed investment	2.0	3.9	3.9
Exports	1.6	3.9	2.3
Imports	2.7	2.5	2.8
Inflation	2.7	3.2	2.0
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	3.3	3.1

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	27.08.	**3M**	**6M**	**12M**
Fed funds target rate	3.75	3.75	3.50	3.00
3M rate	3.76	3.60	3.30	3.00
10Y Treasuries	4.68	4.40	4.20	3.70
Spread 10Y Bund	142	120	100	30
EUR in USD	1.17	1.20	1.19	1.19

Sources: Bloomberg, NORD/LB Macro Research

Euroland: Resilient Economy Clears the Way for an ECB Rate Hike

Analysts: Christian Lips, Chief Economist // Christian Reuter

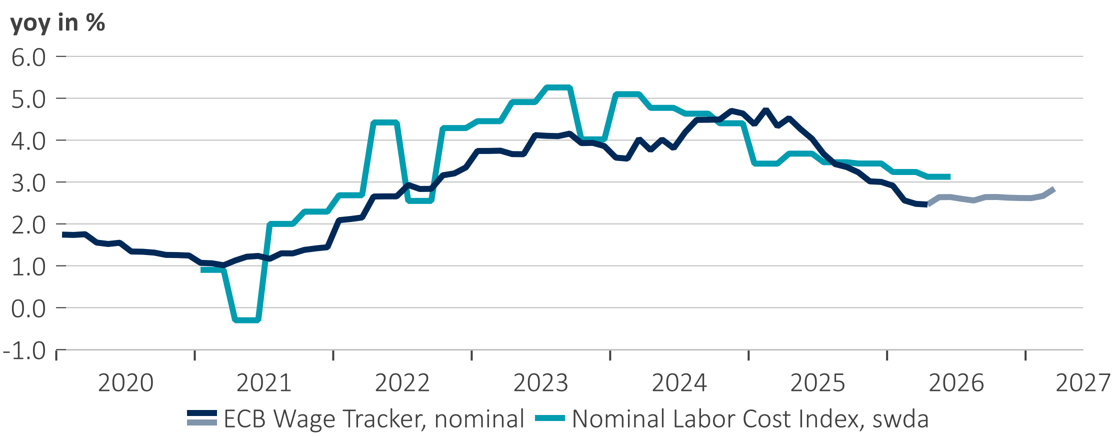
Sentiment Continues to Improve, While Real Wage Growth Loses Momentum

The euro-area economy is likely to have made a solid start to the third quarter. In August, the European Commission's Economic Sentiment Indicator rose by 1.3 points to 98.4, bringing it closer to its long-term average. Confidence improved particularly among businesses in industry, services and retail, while sentiment in the construction sector and among consumers remained virtually unchanged. Overall, the survey data confirm that the upward trend remains intact.

At the same time, wage growth continued to moderate. Negotiated wages rose by 2.4% y/y in the second quarter, following 2.6% in the previous quarter. The ECB's forward-looking wage tracker points to wage growth of 2.3% in 2026 and 2.7% in the first quarter of 2027. Wage settlements therefore continue to provide no evidence of a wage-price spiral triggered by the energy price shock. With inflation most recently standing at 2.9%, however, current wage growth is insufficient to fully offset the loss of purchasing power.

The broader labour cost index also indicates easing wage pressures. Both total labour costs and the wages and salaries component rose by 3.0% y/y in the second quarter, representing a slower pace of growth than previously. The downside is a considerably weaker recovery in real wages this year.

Chart: Nominal Wage Growth Moderates Slightly



Sources: ECB, Macrobond, NORD/LB Macro Research

Labour Market Remains Stable, While Hiring Intentions Improve

The labour market remains a stabilising pillar of the euro-area economy. The seasonally adjusted unemployment rate remained unchanged at 6.3% in June, close to its historical low. Employment still increased by 0.1% q/q in the second quarter, although the pace of job creation slowed. While Spain recorded further improvements, unemployment remained broadly unchanged in Germany and increased in France and Italy. The job vacancy rate also declined in the second quarter, falling from 2.3% to 2.1%. It therefore remained well below its 2022 peak of 3.3%, continuing to constrain employees' bargaining power. More recently, however, there have been some initial signs of improvement. The European Commission's Employment Expectations Indicator for the euro area rose by 1.5 points to 98.9 in August. Companies appear to be increasingly willing to consider expanding their workforces. Nevertheless, given that the indicator remains below its long-term average, it is still too early to speak of robust employment growth.

ECB Rate Hike in September Appears All but Certain, but the Subsequent Path Remains Unclear

The case for another ECB rate hike in September has strengthened. Euro-area inflation remained well above the price stability target at 2.9% y/y in July, primarily owing to the sharp rise in energy prices. Inflation is likely to move back well above the 3% mark in August. At the same time, the economy proved resilient in spring, while the latest sentiment indicators point to continued economic robustness. This allows the ECB to focus more closely on the upside risks to inflation. Following its pause in July, the central bank is likely to raise the deposit facility rate by 25 basis points to 2.50% in September. This assessment has received considerable support from recent comments by ECB Executive Board member Isabel Schnabel. In her view, inflation is unlikely to return to target over the medium term at the current level of interest rates, making further monetary tightening necessary. Owing to high energy costs, inflation is expected to remain above 2% for an extended period. Monetary policy cannot wait for the energy price shock to feed through into higher wages, as this would risk leaving the ECB behind the curve. In her view, the continuing conflict with Iran and the resilient economy are adding further to the upside risks. Beyond the September meeting, however, the path for interest rates is considerably less certain. So far, there are no clear signs of pronounced second-round effects. Further developments will depend largely on the duration of the conflict with Iran and on the response of energy prices, wages and inflation expectations. Accordingly, Isabel Schnabel did not specify the overall extent of the monetary tightening that may ultimately be required. Within the Governing Council there appears to be limited appetite to signal further moves beyond September. Although markets are pricing in additional rate increases, a prolonged series of hikes is by no means a foregone conclusion. Following the likely move in September, the ECB can therefore be expected to proceed cautiously, with subsequent decisions remaining firmly dependent on incoming data.

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	0.9	2.8
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	0.2	0.3
GDP sa yoy	1.1	0.5	1.0	0.8	0.9
Inflation yoy	2.1	2.0	3.0	3.1	3.4

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	27.08.	3M	6M	12M
Repo rate ECB	2.25	2.50	2.50	2.50
3M rate	2.56	2.60	2.60	2.60
10Y Bund	3.25	3.20	3.20	3.40

Sources: Bloomberg, NORD/LB Macro Research

Germany: Here Comes the Sun as Economic Sentiment Brightens

Analysts: Christian Lips, Chief Economist // Christian Reuter

Revisions and Solid First-Half Growth Likely to Prompt Significant Forecast Upgrades

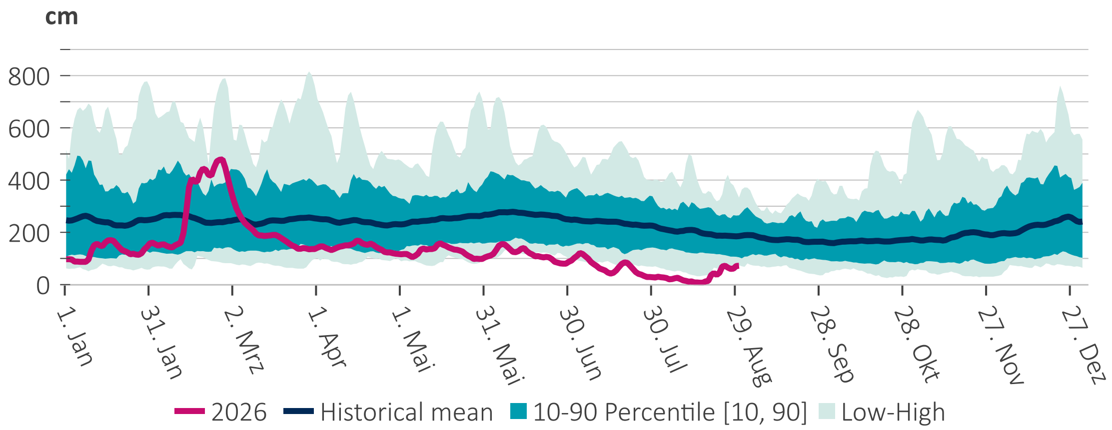
The German economy performed considerably more robustly than expected in the first half of the year. Real gross domestic product even increased by 0.3% q/q in the second quarter on a seasonally and calendar-adjusted basis. Combined with the already strong growth of 0.4% q/q recorded in the first quarter, this paints a surprisingly solid economic picture. The German economy has now expanded for three consecutive quarters, defying the headwinds from the war with Iran, the surge in energy prices and persistently high geopolitical uncertainty.

Growth was driven primarily by foreign trade. Exports rose by 2.0% q/q and therefore more strongly than imports. Household and government consumption each increased by just 0.1% q/q. Investment remained a weak spot, with investment in machinery and equipment falling by 1.4% q/q. Growth is therefore not yet underpinned by broad-based domestic demand, but it has nevertheless proved remarkably resilient.

The revisions to the data were also particularly significant, as they now present a less negative picture of the German economy in recent years. Most notably, according to the new calculations, real GDP stagnated in 2024, whereas a contraction of 0.5% had previously been reported. This puts the widely held narrative of a protracted recession into a different perspective. Economic output last declined in spring 2024 and has since returned to a growth trajectory, albeit at a still moderate pace.

The combination of upward revisions, solid growth rates in the first half of the year and more encouraging leading indicators is likely to prompt many forecasters to raise their previously very cautious growth projections substantially. We had already pointed out at an early stage that some forecasts for 2026 had been revised down too sharply in the spring. We expect real GDP to expand by 1.3% in both 2026 and 2027. Fiscal stimulus is supporting economic activity, while high energy costs, persistently weak investment, bureaucracy and international competitive pressures remain structural headwinds.

Chart: Record Low Water Levels on the Rhine in Summer 2026, with the Kaub Gauge Shown in Historical Comparison



Sources: German Federal Waterways and Shipping Administration, Macrobond, NORD/LB Macro Research

Climate Change as an Economic Factor: Summer Heat and Low Water Levels Temporarily Weigh on Momentum

Alongside geopolitical risks, weather- and climate-related pressures played an important role during the summer. Heat, drought and wildfires disrupted economic activity across large parts of Europe. In Germany, attention focused primarily on the exceptionally low water levels on the Rhine. At the Kaub gauge, water levels temporarily fell into single-digit territory in mid-August. Freight transport was therefore possible only with substantially reduced loads, driving up costs and making it more difficult to supply energy- and raw-material-intensive industries along the Rhine. Higher transport costs and regional supply bottlenecks also had some impact on fuel prices, particularly diesel.

Although comparisons with the severe low-water episode of 2018 are understandable, the overall economic impact is likely to be smaller this time. Many companies have adapted their logistics operations, developed alternative transport routes and built up additional buffers. Moreover, capacity utilisation in German industry is currently well below its 2018 level. Deliveries delayed by temporary bottlenecks are likely to be made up relatively quickly. The change in weather conditions since mid-August also points to a gradual easing of the situation. While low water levels may weigh modestly on growth during the summer, they do not alter the fundamentally positive medium-term economic outlook.

Sentiment Indicators Point to Growing Economic Optimism

The key sentiment indicators are now sending a remarkably consistent signal. Both the ZEW survey and the Business Climate Index showed a sharp increase in economic optimism in August, with assessments of the current situation and expectations improving significantly in each case. The improvement is also becoming increasingly broad-based across sectors.

In manufacturing, assessments of the current business situation improved considerably, while expectations also brightened. Broad-based gains were recorded in the services and retail sectors. Transport and logistics, by contrast, remained under pressure, with the effects of higher energy prices and the disruption caused by low water levels particularly evident. In the construction sector, previously very pessimistic expectations became less negative.

The contours of an economic recovery are therefore becoming increasingly clear. Persistently weak private investment and elevated geopolitical risks still warrant a degree of caution. Nevertheless, the German economy is proving considerably more resilient than many had expected. As fiscal stimulus gathers pace, public investment increases and private investment gradually begins to recover, growth is likely to become more broad-based over the coming quarters.

The message is clear: Germany has returned to a growth trajectory, and the improvement in economic sentiment is being supported by an increasingly broad foundation in the real economy.

Fundamental forecasts, Germany

	2025	2026	2027
GDP	0.2	1.3	1.3
Private consumption	1.3	0.4	1.1
Govt. consumption	1.7	3.1	2.4
Fixed investment	-0.6	-0.1	3.2
Exports	-0.9	3.3	2.3
Imports	2.9	2.7	3.8
Net exports[1]	-1.5	0.3	-0.5
Inflation[2]	2.3	2.7	2.3
Unemployment rate[3]	6.3	6.4	6.3
Budget balance[4]	-2.6	-3.8	-3.8
Current account balance[4]	4.5	4.5	4.0

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	0.3	0.1	0.2
GDP nsa qoq	0.5	0.8	1.0	1.2	2.1
Inflation yoy	2.3	2.3	2.6	2.9	2.8

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: Economy Expands, Outlook Remains Positive

Analyst: Christian Reuter

Second-Quarter Growth Surge, with No Signs of a Setback in the Third Quarter So Far

According to preliminary figures, the Swiss economy expanded by 1.5% q/q in the second quarter, its strongest quarterly growth rate since 2021 and well above expectations. In addition, the regular revision of the national accounts resulted in slight upward adjustments to the growth rates for 2023 and 2024. The revised annual data show that the contributions from industry on the production side and from exports on the expenditure side were higher than previously estimated. Overall, the Swiss economy continues to benefit from solid domestic demand. Growth was underpinned by a 2.0% y/y increase in total employment, excluding agriculture, in the second quarter and a 2.7% y/y rise in reported job vacancies. The strong figures materially alter the economic outlook for the year as a whole. We now expect average annual growth of 1.7%, even if the economy were to suffer a setback in the third quarter. So far, there are no concrete indications of such a slowdown. The broad-based nature of the expansion instead points to a continuation of the current trend. The only reason for caution is the industrial sector's heavy dependence on the chemicals and pharmaceuticals industries. July brought encouraging news from foreign trade, with Switzerland recording a record trade surplus. Unsurprisingly, exports had weakened since mid-2025, placing a noticeable drag on net trade. With nominal exports rising by 13.8% m/m, the months-long period of stagnation may have been overcome for the time being. Once again, the chemicals and pharmaceuticals industries made a major contribution. Notably, the sharp rise in exports was achieved despite declining shipments to North America. At least in the short term, this points to a degree of geographical diversification and resilience among Swiss exporters in the face of headwinds from their US business. Sentiment indicators also continue to improve. At 53.2 points, the Purchasing Managers' Index remained comfortably above the expansion threshold in July. SECO's composite "Swiss Economic Sentiment" indicator, which is closely correlated with GDP, climbed to its highest level since 2022, while the KOF Economic Barometer rose to 106.7 points, its strongest reading since 2021. Consumer sentiment improved for the fourth consecutive time. From a sentiment perspective, the economic expansion therefore appears to be on a firm footing.

No Need for SNB Action: Inflation Remains Low, while the Swiss Franc Shows Signs of Weakening

Inflation declined again in July. Consumer prices were 0.4% higher than a year earlier but fell by 0.1% m/m. This was attributable to lower energy prices and particularly aggressive summer discounting in the clothing and footwear segments. The coordinated intervention by the US and Japan to support the yen increased the risk associated with yen-funded carry trades. This enhanced the appeal of the Swiss franc as an alternative funding currency, adding to its tendency to depreciate. The Swiss National Bank is likely to pay somewhat closer attention to the exchange rate again. Ahead of the SNB's forthcoming monetary policy assessment, the key question is likely to be how growth will affect its conditional inflation forecast and the direction of monetary policy. Overall, neither inflation nor the exchange-rate environment provides any reason for a change in the monetary policy. For the SNB there is no need for action at present.

Fundamental forecasts*, Switzerland

	2025	2026	2027
GDP	1.4	1.7	1.8
Inflation (CPI)	0.2	0.4	0.3
Unemployment rate[1]	2.9	3.1	3.0
Budget balance[2]	0.7	0.0	0.1
Current account balance[2]	7.1	6.5	6.9

* 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

	27.08.	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	0.36	0.40	0.40	0.45
Spread 10Y Bund	-289	-280	-280	-295
EUR in CHF	0.94	0.94	0.95	0.95

Japan: Tokyo and Washington

Analyst: Tobias Basse

The Bank of Japan Remains in Focus

The Bank of Japan will no longer be able to avoid raising its policy rate in the near future. The weakness of the yen has simply become too pronounced and is exacerbating Japan's inflationary pressures. Japan's interventions in the foreign exchange market have recently lost their impact rather quickly, while the subsequent coordinated measures with Washington also failed to deliver the desired lasting effect.

Against this challenging backdrop, economic policymakers now appear to have finally put the country's longstanding fears of deflation firmly behind them. For what felt like an eternity, Tokyo's central bankers sought to provide the government with the most favourable possible financing conditions for its expansionary fiscal policies by maintaining a highly accommodative monetary stance. Although the key policy rate was recently raised cautiously to 1.00%, further increases will almost certainly be necessary.

According to media reports, fiscal policymakers in Tokyo now appear to have largely abandoned their vehement opposition to higher policy rates. Nevertheless, the central bank is still likely to proceed with considerable caution. The Bank of Japan should therefore not be expected to set any new speed records when it comes to monetary tightening. As a result, any meaningful support for the yen is unlikely to materialise quickly.

Monetary Policy Remains Too Accommodative

Inflation developments in Japan are also making an increasingly compelling case for further policy rate increases by the Bank of Japan. The consumer price index rose to 1.9% y/y in July. Given the still low level of interest rates, the macroeconomic inflation environment is therefore sending an increasingly clear signal that more decisive action is required from the Bank of Japan, which may have responded somewhat too cautiously in the past.

Tokyo and Washington

Following the coordinated foreign exchange intervention, FX market participants will now need to keep a close eye on both Tokyo and Washington. The United States' decision to support Japanese policymakers was, however, unlikely to have been entirely selfless. Scott Bessent appears increasingly concerned about the prospect of "disorderly" sales of US Treasuries by Tokyo. The US housing market, in particular, can ill afford a further increase in long-term interest rates at present.

Fundamental forecasts*, Japan

	2025	2026	2027
GDP	1.1	0.7	0.9
Inflation	3.2	2.0	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	4.6

* 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

	27.08.	3M	6M	12M
Key rate	1.00	1.25	1.25	1.50
3M rate	1.54	1.45	1.50	1.55
10Y	2.91	2.60	2.40	2.35
Spread 10Y Bund	-35	-60	-80	-105
EUR in JPY	186	191	187	179
USD in JPY	159	159	157	150

China: AI as the Engine of Growth

Analyst: Tobias Basse

AI as the Engine of Growth

Following the release of the second-quarter GDP figures, which disappointed many observers with growth of “only” 4.3% y/y, international financial markets are now taking a somewhat more sceptical view of the economic situation in China. The robust growth recorded in the first quarter is, of course, still providing some support. As a result, GDP growth for the first half of 2026 came in at a respectable 4.7% year to date. However, the 5.0% y/y increase recorded at the beginning of the year may already prove to have been the high-water mark for China’s annual GDP growth in 2026.

The latest foreign trade data continue to highlight the country’s strong dependence on its technology sector. Much like in the United States, substantial investment in artificial intelligence appears to be providing a powerful boost to economic growth in Asia’s largest economy. Domestic demand, however, is becoming an increasingly serious problem for Beijing. Household consumption rose by just 0.6% y/y in July, a figure that must be regarded as a clear downside surprise. Signs of weak consumer appetite are particularly evident in urban areas. The urban unemployment rate climbed to 5.2% in July. China’s economy is therefore facing a pronounced weakness outside the technology sector.

China’s Technology Sector Supports Industrial Activity

A closer look at economic activity in the Chinese industry paints a similar picture. Industrial production rose by “only” 4.5% y/y in July, a rather disappointing result. Industrial robots, the semiconductor sector and electric vehicles were among the segments providing clear support. By contrast, many of China’s more traditional industrial sectors are currently showing considerably less momentum, if at all.

Against this backdrop, the CFLP Manufacturing PMI fell to a rather weak 49.2 points in July, dropping below the psychologically important 50-point threshold. The forward-looking new orders component declined from 51.2 to 48.5 points. The RatingDog Manufacturing PMI also weakened markedly in July, although at 50.2 points it managed to remain just above the critical 50-point mark.

Beijing’s Economic Policymakers Remain in Focus

Against this backdrop, Beijing’s economic policy remains firmly in focus. Fiscal policy, in particular, is likely to continue attracting close attention from market participants. So far, however, policymakers have provided no clear indication that additional stimulus through higher government spending is forthcoming. China’s central bankers also appear to favour a wait-and-see approach.

Fundamental forecasts*, China

	2025	2026	2027
GDP	5.0	4.5	4.4
Inflation	0.1	1.1	1.1
Unemployment rate[1]	5.2	5.1	5.1
Budget balance[2]	-5.1	-5.4	-5.5
Current account balance[2]	3.8	3.3	3.1

* 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

	27.08.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.43	1.45	1.40	1.40
10Y	1.71	1.70	1.70	1.70
Spread 10Y Bund	-154	-150	-150	-170
EUR in CNY	7.83	8.16	8.03	8.03
USD in CNY	6.72	6.80	6.75	6.75

Britain: Burnham Must Focus on the Budget

Analyst: Constantin Lüer

Energy Boost Has a Stronger Impact on Consumer Prices

UK inflation rose in July for the first time since March, reaching 2.9% y/y after 2.6% in June. The increase was primarily driven by higher gas and electricity prices following the adjustment to Ofgem's energy price cap. At the same time, core inflation remained unchanged at 2.6%, while services inflation eased to 3.4%.

The rise in headline inflation has therefore largely been attributable to energy and selected goods components. For the time being, the July data provide no evidence of a renewed acceleration in domestic price pressures. For the Bank of England, the key question remains the extent to which higher energy costs will feed through into other prices and wages.

Economy Remains Resilient but Has Recently Lost Momentum

According to the preliminary estimate, the UK economy expanded by just 0.4% q/q in the second quarter, following growth of 0.6% in the previous quarter. The services sector provided the main positive contribution, while the production sector stagnated overall.

Business investment offered a more encouraging signal, rising by a provisional 1.7% q/q, although this does not yet point to a broader acceleration in economic activity. Following the marked slowdown recorded in recent quarters, wage growth has stabilised at 3.5% y/y. Together with an unemployment rate that has risen to 4.9% and a declining number of job vacancies, this suggests that the labour market is becoming less tight, which should gradually ease domestic price pressures.

Meanwhile, retail sales volumes fell by 0.5% m/m in July but remained 1.1% higher on a three-month comparison. The economy is therefore continuing to expand, although there is no evidence of firmly established upward momentum as yet.

Andy Burnham Faces Fiscal Challenges

With the Budget scheduled for 28 October, the sustainability of the public finances is moving increasingly into focus. Prime Minister Andy Burnham's "No10 North" initiative is aimed at strengthening regional decision-making powers and creating more favourable conditions for investment. Given the limited fiscal headroom, however, the government will need to demonstrate how this growth agenda can be reconciled with the existing fiscal rules.

For capital markets, this increases the importance of a credible funding strategy that aligns the government's economic policy objectives with its fiscal framework. The Bank of England is likewise maintaining a data-dependent approach in view of the upside risks to inflation. At the same time, the 6-3 vote to leave Bank Rate unchanged shows that three members of the Monetary Policy Committee had already favoured an increase.

Fiscal credibility and the monetary policy outlook therefore remain key drivers of gilts and sterling.

Fundamental forecasts*, Britain

	2025	2026	2027
GDP	1.3	1.2	1.1
Inflation	3.4	3.1	2.6
Unemployment rate[1]	4.8	5.2	5.2
Budget balance[2]	-4.9	-3.8	-3.3
Current account balance[2]	-3.1	-2.9	-3.0

* 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

	27.08.	3M	6M	12M
Repo rate	3.75	3.75	3.50	3.25
3M rate	3.80	3.75	3.40	3.30
10Y	5.03	4.75	4.50	4.30
Spread 10Y Bund	178	155	130	90
EUR in GBP	0.86	0.86	0.87	0.88
GBP in USD	1.36	1.40	1.37	1.35

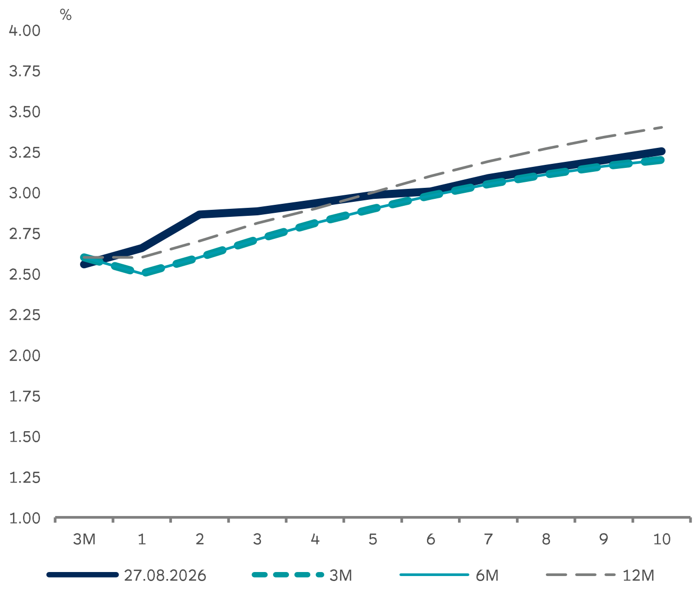
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for horizons...		
	27.08.2026	**3M**	**6M**	**12M**
3M	2.56	2.60	2.60	2.60
1Y	2.66	2.50	2.50	2.60
2Y	2.86	2.60	2.60	2.70
3Y	2.88	2.71	2.71	2.81
4Y	2.93	2.81	2.81	2.90
5Y	2.98	2.90	2.90	3.00
6Y	3.01	2.98	2.98	3.10
7Y	3.09	3.05	3.05	3.19
8Y	3.15	3.11	3.11	3.27
9Y	3.20	3.16	3.16	3.34
10Y	3.25	3.20	3.20	3.40
2Y (Swap)	3.07	2.80	2.80	2.90
5Y (Swap)	3.13	3.05	3.05	3.15
10Y (Swap)	3.29	3.25	3.25	3.45

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



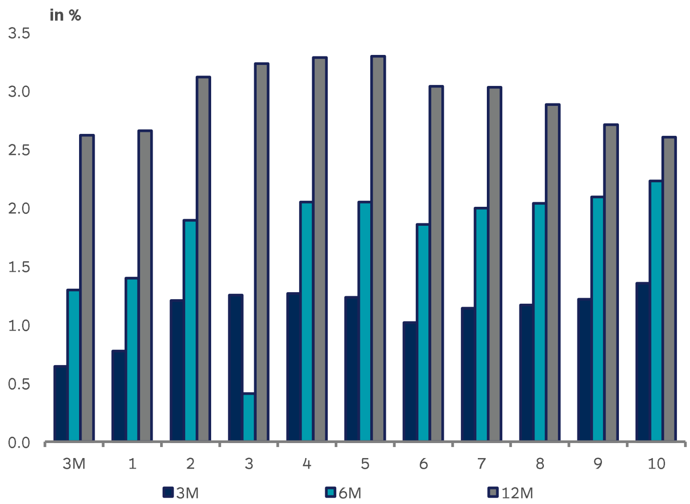
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.64	1.30	2.62
1Y	0.77	1.40	2.66
2Y	1.21	1.89	3.12
3Y	1.25	0.41	3.23
4Y	1.27	2.05	3.28
5Y	1.24	2.05	3.29
6Y	1.02	1.86	3.04
7Y	1.14	2.00	3.03
8Y	1.17	2.04	2.88
9Y	1.22	2.09	2.71
10Y	1.36	2.23	2.60

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	0.8	-1.8	1.0	-2.2	-0.3
2Y	1.2	-1.3	1.8	-1.9	-0.3
3Y	1.3	-1.0	2.4	-1.5	-0.2
4Y	1.3	-0.7	2.8	-0.7	-0.2
5Y	1.2	-0.5	3.1	-0.8	-0.2
6Y	1.0	-1.9	3.3	0.6	-0.1
7Y	1.1	-0.2	3.7	1.0	-0.2
8Y	1.2	-0.1	4.2	1.6	-0.3
9Y	1.2	0.1	4.3	0.9	-0.1
10Y	1.4	0.3	3.9	0.7	-0.2

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies

	USD	GBP	JPY	CHF
1Y	1.1	1.3	0.5	0.0
2Y	1.7	2.1	1.3	0.2
3Y	1.9	2.8	1.3	0.2
4Y	2.2	3.1	2.2	0.2
5Y	2.5	3.5	2.0	0.1
6Y	1.0	3.6	3.5	0.2
7Y	2.8	4.1	3.9	0.1
8Y	2.9	4.5	4.5	0.0
9Y	3.1	4.7	3.8	0.2
10Y	3.3	4.2	3.6	0.1

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro

	EUR	USD	GBP	JPY	CHF
1Y	2.7	1.9	1.4	5.3	-1.4
2Y	3.1	3.3	2.7	5.8	-1.3
3Y	3.2	4.7	3.9	6.5	-1.2
4Y	3.3	5.8	4.8	7.1	-1.2
5Y	3.3	6.8	5.5	7.3	-1.1
6Y	3.0	6.1	6.0	9.7	-1.1
7Y	3.0	8.6	6.9	11.0	-1.1
8Y	2.9	9.3	7.7	12.6	-1.2
9Y	2.7	10.0	8.2	12.6	-1.1
10Y	2.6	10.4	8.6	12.7	-1.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies

	USD	GBP	JPY	CHF
1Y	4.0	4.1	1.5	0.0
2Y	5.5	5.4	2.0	0.1
3Y	7.0	6.7	2.6	0.2
4Y	8.0	7.5	3.2	0.2
5Y	9.0	8.3	3.4	0.2
6Y	8.3	8.8	5.7	0.3
7Y	10.9	9.7	7.0	0.3
8Y	11.6	10.6	8.5	0.1
9Y	12.4	11.1	8.5	0.3
10Y	12.8	11.5	8.6	0.1

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**	
	27.08.2026	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	26,367.24	25,629.24	24,490.41	2.88%	7.66%
MDAX	32,947.28	31,980.52	30,617.67	3.02%	7.61%
EuroSTOXX50	6,424.73	6,358.01	5,791.41	1.05%	10.94%
STOXX50	5,441.59	5,454.39	4,918.02	-0.23%	10.65%
STOXX600	651.85	649.19	592.19	0.41%	10.07%
Dow Jones	53,569.44	52,485.03	48,063.29	2.07%	11.46%
S&P 500	7,730.99	7,489.72	6,845.50	3.22%	12.94%
Nikkei	66,131.98	64,362.02	50,339.48	2.75%	31.37%

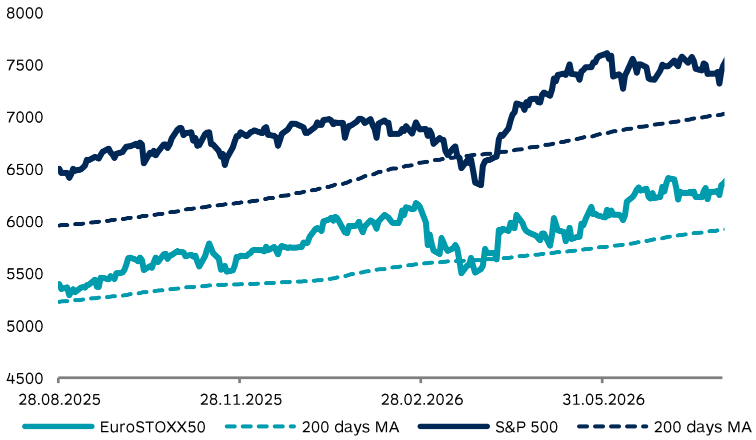
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	**NORD/LB forecast for the horizons ...**		
	3M	**6M**	**12M**
DAX	25,800	26,700	27,300
MDAX	32,100	34,100	35,200
EuroSTOXX50	6,350	6,550	6,650
STOXX50	5,400	5,600	5,700
STOXX600	650	675	690
Dow Jones	53,000	54,000	55,000
S&P 500	7,550	7,850	7,950
Nikkei	65,000	68,000	71,000

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, 28 August 2026.**

The next English issue of Economic Adviser will be appearing on **25 September 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	2.2	2.7	3.2	2.0	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	1.3	1.3	2.3	2.7	2.3	6.3	6.4	6.3	-2.6	-3.8	-3.8
Britain	1.1	0.7	0.9	3.2	2.0	2.1	2.5	2.6	2.5	-1.4	-2.9	-2.8
Switzerland	1.3	1.2	1.1	3.4	3.1	2.6	4.8	5.2	5.2	-4.9	-3.8	-3.3
Germany	1.4	1.7	1.8	0.2	0.4	0.3	2.9	3.1	3.0	0.7	0.0	0.1
China	5.0	4.5	4.4	0.1	1.1	1.1	5.2	5.1	5.1	-5.1	-5.4	-5.5

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 %	27.08.26	3M	6M	12M
USD	3.75	3.75	3.50	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…	27.08.26	3M	6M	12M
USD	1.17	1.20	1.19	1.19
JPY	186	191	187	179
GBP	0.86	0.86	0.87	0.88
CHF	0.94	0.94	0.95	0.95
CNY	7.83	8.16	8.03	8.03

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	27.08.	3M	6M	12M	27.08.	3M	6M	12M	27.08.	3M	6M	12M	27.08.	3M	6M	12M
USD	3.76	3.60	3.30	3.00	4.23	3.90	3.40	2.90	4.40	4.10	3.45	3.20	4.68	4.40	4.20	3.70
EUR	2.56	2.60	2.60	2.60	2.86	2.60	2.60	2.70	2.98	2.90	2.90	3.00	3.25	3.20	3.20	3.40
JPY	1.54	1.45	1.50	1.55	1.70	1.50	1.50	1.55	2.16	1.90	1.85	1.85	2.91	2.60	2.40	2.35
GBP	3.80	3.75	3.40	3.30	4.36	3.80	3.45	3.35	4.58	4.10	4.00	3.75	5.03	4.75	4.50	4.30
CHF	-0.05	-0.05	0.00	0.01	0.07	0.10	0.12	0.16	0.20	0.22	0.23	0.26	0.36	0.40	0.40	0.45

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	27.08.	3M	6M	12M	27.08.	3M	6M	12M	27.08.	3M	6M	12M	27.08.	3M	6M	12M
USD	121	100	70	40	137	130	80	20	142	120	55	20	142	120	100	30
JPY	-102	-115	-110	-105	-117	-110	-110	-115	-82	-100	-105	-115	-35	-60	-80	-105
GBP	124	115	80	70	149	120	85	65	159	120	110	75	178	155	130	90
CHF	-261	-265	-260	-259	-280	-250	-248	-254	-279	-268	-267	-274	-289	-280	-280	-295

Sources: Bloomberg, NORD/LB Macro Research

Annex

Contacts at NORD/LB

Christian Lips
Chief Economist
Head of Macro Research
+49 172 735 1531
christian.lips@nordlb.de

Tobias Basse
Macro Research
+49 511 361-2722
tobias.basse@nordlb.de

Christian Reuter
Macro Research
+49 152 0412 9316
christian.reuter@nordlb.de

Constantin Lüer
Macro Research
+49 157 8516 4838
constantin.lueer@nordlb.de

Thomas Wybierek
Sector Research
+49 511 361 - 2337
thomas.wybierek@nordlb.de

Other contacts

Sales

Institutional Sales
+49 511 9818-9440

Sales Sparkassen &
Regional Banks
+49 511 9818-9400

Sales MM/FX
+49 511 9818-9460

Sales Europe
+352 452211-515

Sales Asia
+65 64 203136

Origination & Syndicate

Origination FI
+49 511 9818-6600

Origination Corporates
+49 511 361-2911

Treasury

Liquidity Management
+49 511 9818-9620
+49 511 9818-9650

Trading

Covereds/SSA
+49 511 9818-8040

Financials
+49 511 9818-9490

Governments
+49 511 9818-9660

Federal States/Regions
+49 511 9818-9550

Frequent Issuers
+49 511 9818-9640

Corporate Sales

Corporate Customers
+49 511 361-4003

Asset Finance
+49 511 361-8150

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