



# **WORLD MACRO-ECONOMIC SCENARIO 2025-2026**

**Quarterly – June 2025**

# A nerve-wracking context, some unprecedented resistance

There were already many risks, both economic and geopolitical, influencing our scenario, both in terms of cyclical inflections and structural aspects. Compounding these risks, Israel's attack on Iran on 13 June constitutes an unprecedented escalation in terms of its scale and its severity. This act marks a strategic turning point for the region.

Our scenario, already rocked by recently fickle, unpredictable US economy policy, comes against an increasingly uncertain backdrop where disruptive events (eg, blockage of the Strait of Hormuz, incidents on Gulf infrastructures) cannot be completely ruled out.

*Our scenario, already rocked by recently fickle, unpredictable US economy policy, comes against an increasingly uncertain backdrop where disruptive events cannot be completely ruled out.*

For the **US**, the year began with the refrain of US exceptionalism (above-potential growth, resilience despite interest rates set to rise, the USD's privileged status, unlimited capacity to take on debt and pass on risks to the rest of the world), but markets soon became disenchanted with US assets following the "Liberation Day" tariff announcements. President Donald Trump soon backpedalled, announcing a 90-day pause on the tariffs and a reduction in the so-called "reciprocal tariffs" to 10%, casting serious doubts as to Trump's ability to truly honour his domestic and international commitments. Sentiment has swung wildly between two extremes, negative and positive.

Although our forecasts for 2025 have been revised downwards slightly, our US scenario has remained on course, in line with the timing of the economic policy measures: while avoiding recession, growth is expected to fall back sharply in 2025, with inflation picking up, before recovering in 2026. Even with the recent de-escalation, tariffs remain significantly higher than they were before Trump was elected to his second term. The negative impact of the new trade policy is the main driver of the decline in growth expected in 2025 (1.5% after 2.8% in 2024), while the more growth-favourable aspects (One Big Beautiful Bill, tax cuts deregulation) are expected to contribute to a rebound in growth in 2026 (2.2%). The hypothesis of a recession in 2025 has been ruled out on the grounds of solid fundamentals, including reduced sensitivity to interest rates, solid household finances and a labour market that remains relatively robust, albeit showing signs of deterioration.

Despite the expected slowdown in growth, our inflation forecasts have been revised upwards. The tariffs are expected to increase YoY inflation by around 80bp at

the point of maximum impact. Although this effect is temporary, inflation (as an annual average) would reach 2.9% in 2025 and 2.7% in 2026. It would therefore continue to exceed 2%, with underlying inflation stabilising at around 2.5% by the end of 2026.

Against an unpredictable backdrop marked by conflict, **Europe's** salvation would lie in its domestic demand, which would make it stronger in the face of a global slowdown. We see two potential alternative scenarios, with a delicate balance between them: (1) a resilient Eurozone economy bolstered by an increase in private sector spending and above all in public spending on defence & infrastructure; and (2) a scenario of stagnation in activity due to a combination of negative shocks: competitiveness shocks linked to higher tariffs, an appreciation of the EUR and the negative impact of uncertainty on private sector confidence. We favour the resilience scenario, based on a resilient labour market, a healthy economic & financial situation for the private sector and a favourable impetus from the credit cycle. The actual implementation of additional public spending, particularly the "German bazooka", certainly needs to be confirmed. But this spending could offer the Eurozone growth driven by stronger domestic demand at a time when global growth is weakening. It would offer a kind of exceptionalism, particularly in light of the past decade, which would set Eurozone growth above potential in the medium term. Average annual growth in the Eurozone should accelerate slightly to 0.9% in 2025 and strengthen to 1.3% in 2026. Average inflation should continue to ease, reaching 2.1% and 1.8% in 2025 and 2026 respectively.

This scenario assumes a status quo in the tariff confrontation with the US on 4 June, ie, an across-the-board increase in tariffs to 10%, with the exception of exempted products, 25% on automobiles and 50% on steel. The risks associated with this central scenario are bearish. The stagnation scenario could materialise if the trade confrontation with the US were to intensify, if the competitiveness constraints were to bite further, if private sector confidence were to deteriorate significantly and, finally, if the fiscal stimulus were to be implemented more gradually than anticipated.

In the not-too-distant past, such an uncertain environment, with a global slowdown and shrinking export markets, would certainly have led to an 'underperformance' by **emerging economies**, which were also handicapped by market aversion to risk, rising interest rates and pressure on their currencies. However, despite tariffs (the effects of which will vary greatly from one economy to another), our overall scenario remains rather optimistic for the major



emerging countries. They could show unprecedented resilience, thanks to support that could partially cushion the impact of a lacklustre environment: relatively strong labour markets, solid domestic demand, monetary easing (with rare exceptions) and limited Chinese deceleration. Finally, emerging currencies have held up well, and the risk of defensive rate hikes penalising growth is lower than might have been feared. This relatively positive outlook is, however, accompanied by higher-than-usual secondary risks, due to the unpredictability of US policies.

In terms of **monetary policy**, the end of the easing cycles is approaching. In the US, The Fed is firmly in “wait and see” mode, faced with a scenario of a clear downturn in 2025, a rebound in 2026 and rising inflation that would continue to significantly exceed its target – as well as the degree of uncertainty surrounding this scenario. But in our view, it will still proceed with modest easing followed by a long pause. Our scenario still calls for two cuts in 2025, but shifts them by one quarter (in September and December, vs June and September previously). After these two cuts, we expect the Fed to keep rates unchanged at a maximum upper limit of 4% throughout 2026. As for the ECB, although it refuses to rule out any future rate cuts, it may well have reached the end of its rate-cutting cycle, with growth expected to pick up and inflation on target. Of course, a deterioration in the economic environment would justify further easing: the ECB stands ready to cut rates if necessary.

On the **interest rate** front, US interest rates are feeling pressure from (1) the risk of stubborn inflation and a fiscal path deemed unsustainable; (2) a compromised AAA rating; (3) fickle economic decisions; and (4) heightened investor concerns. Our scenario assumes a 10Y Treasury rate close to 4.70% at end-2025 and 4.95% at end-2026. In the Eurozone, with growth resilient and projected to accelerate, inflation on target and the ECB expected to have almost completed its easing, interest rates are likely to rise slightly and sovereign spreads to stabilise or even tighten. The 10Y Bund rate could thus approach 2.90% at end-2025 and 2.95% at end-2026. Over the same maturity, France’s spread relative to the Bund would hover around 60-65bp, while Italy’s would narrow to 90bp by the end of 2026.

Lastly, the **USD** is continuing to lose some of its lustre. It has been under pressure from (1) Donald Trump’s volatile, unpredictable economic (and other) policies; (2) the deteriorated US budget outlook; (3) speculation about any official intentions to depreciate the currency; and (4) resistance from other economies. However, we continue to think it is too early to call the demise of the USD’s reserve currency status. We expect EUR/USD to reach 1.14 in Q425, before falling to 1.10 in 2026.

**Catherine LEBOUGRE**

## Geopolitics – An escalation of unprecedented scope and severity

Israel's attack on Iran on 13 June marks a **strategic shift for the region**. Depending on the scenario, it could also have an **impact on relations between the US, Russia and China, and therefore an impact on core global geopolitics**. Indeed, Iran is one of the **points of contact between the “Mongol alliance” (Russia, Iran, China) and the Western allies**.

This attack, and the direct confrontations underway, are not comparable to previous episodes of escalation, because **Israel and Iran are now at war**. There has therefore been a **change in the risk universe** for the entire region. **This move up the risk scale makes short-term de-escalation scenarios more difficult**.

**The fog of war and the recent outbreak of events have opened up a wide range of possibilities**, with an array of scenarios now firmly on the table. The probability of extreme scenarios, while still not likely, has increased.

The attack and its consequences **should be seen in the broader context of the reconfiguration of the Middle East**. In this reconfiguration, the attacks of 7 October 2023 were a **strategic accelerator** for Israeli power. Since then, Benjamin Netanyahu's government has become more radical in its determination to annihilate all regional threats perceived as existential to its security. But this radicalisation is also to be understood in the context of a **domestic political crisis, which is pushing Israel's Prime Minister into a headlong rush, as the conflict with Iran is having a powerful political realignment effect**.

**The war is asymmetrical in military and technological terms**, marked by Israeli superiority on several levels: control of the airspace, intelligence, precision of deep strikes and nuclear superiority – which, despite Iran's progress towards a position of threshold power, remains a major strategic reality today. **As a result, most escalation scenarios are unfavourable to Iran**, which since 7 October 2023 has adopted a strategy of restraint to avoid entering into conflict. **Iran is also aware of the existential risk that would be posed by any direct involvement by the US in the war**.

**The choice to wage war with Iran will not be without cost for Israel**, because this time it is no longer an act by a non-state with limited means like Hezbollah, Hamas or the Houthis. However, it should not be forgotten that asymmetry works in Iran's favour in terms of territorial size and demographic power. Moreover,

**Iran's capacity for military strikes is still poorly understood**, especially as, for the past twenty years, Tehran has given total priority to its missile and drone programme, which has already proven its ability to saturate and cross Israel's three interception lines (notably the Iron Dome and Arrow systems, with a risk of gradual exhaustion of interceptor systems, reported by US sources).

The greater the human toll in Israel, the greater the incentive for escalation and direct intervention by the US. **Israel's decision to pay the price of war to defuse the Iranian threat also indicates that a return to negotiations with Iran will no longer be possible on the same terms as before: the situation has become more radical, barring a scenario of regime collapse or capitulation**.

*Israel's attack on Iran on 13 June marks a strategic shift for the region.*

In the short term, despite Israel's military and technological superiority as mentioned above, **the uncertainty of the ‘fog of war’ makes it difficult to form a scenario, as the outcome of the military confrontation is literally unpredictable**. However, there are five key factors to watch over the coming weeks. These decisive factors will guide the possibility of negotiations and rebalancing scenarios: (1) the limits and drivers of military escalation; (2) the risk of direct US intervention; (3) the risk of Iranian chaos; (4) political risk in Israel; and (5) the risk of disruptive events (eg, the Strait of Hormuz, incidents on Gulf infrastructures, leaks on nuclear infrastructures).

In terms of scenarios, as always, **the effects must be differentiated according to their time horizon: a distinction must be made between the immediate impacts** (crisis, uncertainty, volatility), the **medium-term implications** (possible regional strategic repositioning and the ensuing economic & political dynamics) and **long-term implications** (deeper geopolitical dynamics).

**Regional players and major powers have long-term positions and strategic interests at stake in this context of accelerating regional reconfiguration**. Markets, on the other hand, react quickly to potential (and assumed) short-term events and consequences. At this stage, it seems that the markets are not fully aware of the change in the risk universe.

**Tania SOLLOGOUB – Laure DE NERVO**



# DEVELOPED COUNTRIES

## Neither unbridled optimism nor undue despair

USA – Sharp slowdown, but no recession, during a year of shifting narratives

Eurozone – What if exceptionalism were European?

United Kingdom – Trade tariffs weigh on the growth outlook

Japan – On the cusp of breaking out of structural stagnation

# Neither unbridled optimism nor undue despair

The theme of US exceptionalism at the start of the year was supplanted by that of disenchantment with the US, followed by serious doubts about Donald Trump's ability to really deliver on his promises. Our scenario has stayed the course: we still see growth falling back sharply and inflation picking up, but think that a recession will be avoided. Against the backdrop of a global slowdown, we think Europe will stand out by finding strength in its domestic demand.

## USA: SHARP SLOWDOWN, BUT NO RECESSION, DURING A YEAR OF SHIFTING NARRATIVES

It has been a year of wild swings in the narrative concerning the US economy, with sentiment wavering from optimism to despair and back again. However, our own view is that each of these narrative shifts has been taken too far, with periods of overly negative sentiment and periods of overly positive sentiment. Thus, while we have modestly bumped down our 2025 forecast compared to the beginning of the year, we have maintained our overall view of a sharp slowdown, but no recession, in 2025 before some bounce back in 2026.

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Specifically, we now project annual average GDP growth of 1.5% in 2025, before some rebound to 2.2% in 2026. The 2025 projection represents a clear step down compared to 2.8% in 2024 and a downgrade to our 1.9% forecast heading into the year, though again a relatively limited one compared to some other downgrades that we have seen. Still, when combined with our view that inflation will remain relatively sticky, it would mean a period that could be deemed as mild stagflation.

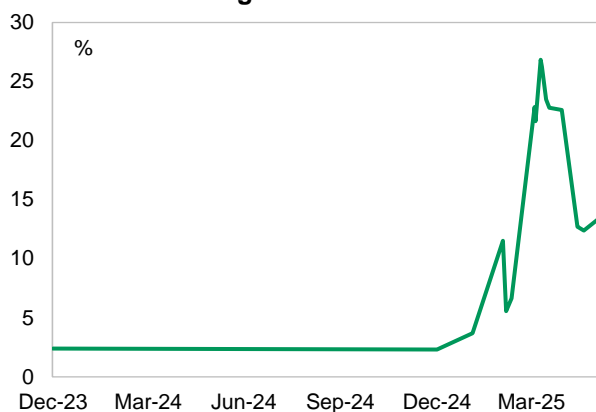
We would characterise the year as having had three phases:

- ✓ **US Exceptionalism:** the year started out with optimism brimming as the market expected another strong year of growth with the US economy continuing to chug along despite promised policy changes from the incoming Trump administration. However, we had been a bit sceptical of the view,

as we thought that many were cherry picking the growth-positive aspects of the Trump agenda while downplaying the more growth-negative aspects. As we had expected some of the growth-negative policies to materialise before growth-positive ones, these views on policy sequencing led us to enter the year with a below-consensus forecast.

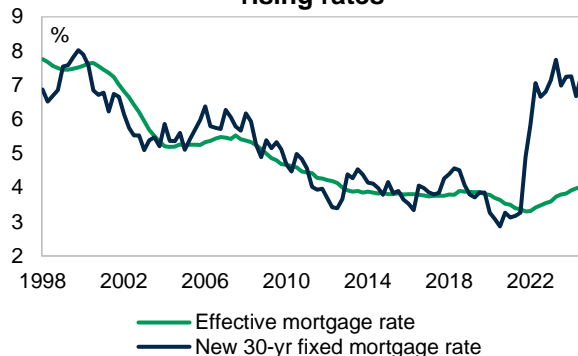
- ✓ **'Sell America':** when this sequencing did play out as anticipated with the Trump administration's early focus squarely aimed at re-making trade policy, optimism quickly gave way to gloom. Not only were downgrades to forecasts ubiquitous, but calls for recession became more and more frequent. Again, however, we think the reaction went too far, this time in a negative direction. While we did bump down our forecast slightly, we were always sceptical that the full extent of Trump's tariff threats would remain in place. As we have highlighted, Trump has taken what we refer to as an *Art of the Deal* style approach to negotiations throughout his career, which involves taking extreme opening positions that leave room for compromise. Thus, we had seen the massive 'Liberation Day' tariff hikes as at least in part a negotiating tactic, and never went as far as introducing a recession into our forecast.
- ✓ **'TACO' (or Trump Always Chickens Out):** after about a week of extreme market turmoil following the 'Liberation Day' announcement, Trump began to partially walk back his threats by announcing a 90-day pause during which reciprocal rates were lowered to a 10% baseline. With further de-escalation following in negotiations with China,

US: average effective tariff rate



Sources: USITC, Bloomberg, CACIB

US: fixed rate mortgages provide households some insulation from rising rates



Sources: BEA, Bloomberg, CACIB



some have extrapolated this into the view that Trump will always ‘chicken out’ and that his various threats can be taken with a grain of salt. That said, we would once again suggest that the new narrative is at risk of going too far, and markets may be overly optimistic given that, even with recent de-escalation, tariff rates are substantially higher than they were prior to Trump 2.0, while little has been done to diminish uncertainty.

**Trying to look through the noise of these narrative shifts, we maintain the view that the economy is in line for a sharp slowdown for 2025, though not severe enough to result in recession.** The main driver would be a drag from policy changes, trade policy in particular, though we continue to expect that the focus of the administration will shift towards the more supportive aspects of its agenda such as tax cuts and deregulation towards the end of the year, helping to set up a rebound in 2026.

**While policy changes represent the main fulcrum on which the economy could pivot, given the high levels of uncertainty that persist in Washington, we actually think that underlying fundamentals are in decent shape.** For one, the economy has become less interest-rate sensitive than it was in previous decades, with numerous households and businesses having been able to lock in low fixed rates for an extended period, thus providing some insulation from the Fed’s most aggressive hiking cycle in decades.

**Additionally, household balance sheets remain extremely healthy, with overall net worth up by more than USD50trn compared to the pre-Covid period.** Admittedly these are aggregate figures and not everyone is in good shape, but it does seem like pockets of weakness had been relatively concentrated among low-income households and small businesses, rather than spread throughout the economy, prior to policy-driven disruptions.


**Additionally, a labour market that has remained relatively healthy has helped to provide support,**

**though we do see signs that further cooling could be in the cards.** For now, it remains in a decent spot, with job gains remaining above 100k per month, which the Fed has cited as the breakeven pace of job creation, the unemployment rate near historically low levels, layoff rates low, job openings continuing to outnumber the unemployed, and wage growth above pre-Covid levels.

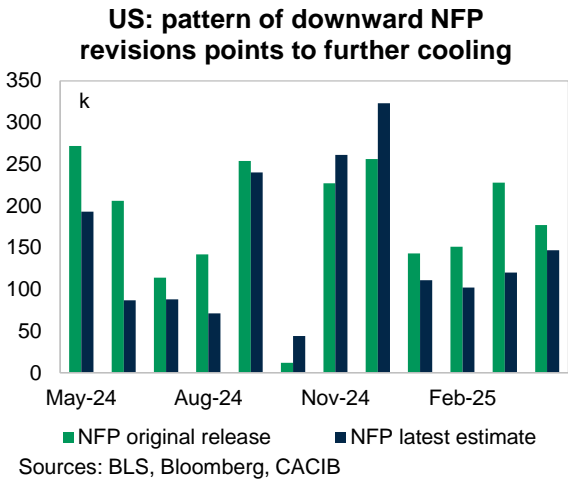
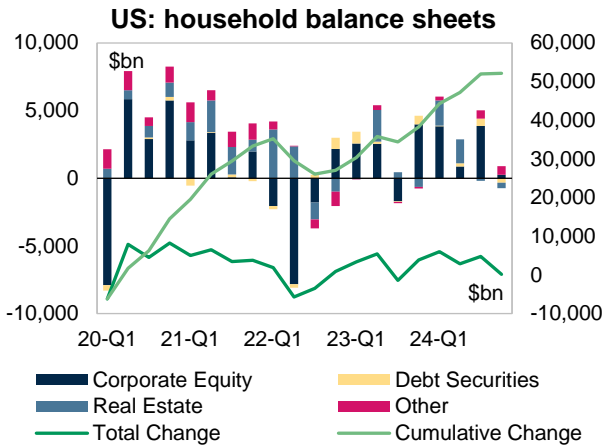
That said, the pace of gains has slowed, downward revisions are becoming more common, and participation did dip last month, pointing towards further cooling in the coming months as policy uncertainty may also be weighing on the labour market. **Consistent with our GDP forecast, however, we look for this cooling to be relatively modest, with the unemployment rate peaking around 4.5%.**

**Despite the expected slowdown in growth, we think the policy mix also leans inflationary, and have raised our inflation forecasts a bit further.** In total, we have now boosted our YoY CPI forecasts by around 80bp due to tariffs, at the point of maximum impact, though it does take some time for this to fully ramp up.

**In detail, we expect headline CPI to rise to around 3.2% and core to reach close to 3.5% by year-end, with tariffs starting to become more noticeable in June.** We do anticipate this impact will be largely temporary, with CPI remaining close to this range in H125 but starting to come back down in H225. However, we do not expect CPI to return all the way to 2%, with core CPI stabilising near 2.5% by end-2026.

 Annual change	2025	2026
GDP	1.5%	2.2%
Inflation	2.7%	2.7%

Nicholas VAN NESS



## EUROZONE: WHAT IF EXCEPTIONALISM WERE EUROPEAN?

We have formed our scenario against an unpredictable backdrop of conflict, where noise blurs any true signals that would inform us about the underlying trajectory of activity. The balances are delicate, and two alternative scenarios are likely to unfold: (1) one of a resilient Eurozone economy based on increasing private and, above all, public defence & infrastructure spending; and (2) one of stagnation in activity under a combination of negative shocks: a competitiveness shock linked to higher tariffs, an appreciation of the EUR and the negative impact of uncertainty on the confidence of private agents.

Our forecast assigns a higher probability to the resilience scenario, against a backdrop of a resilient labour market, a healthy economic & financial situation for private agents and a favourable impetus from the credit cycle. The actual implementation of additional public spending certainly needs to be confirmed. But this spending could lead to growth driven by stronger domestic demand at a time when global growth is weakening. It would offer **a kind of exceptionalism, particularly in light of the past decade, which would set the region's growth above potential in the medium term**. Average annual Eurozone growth is expected to accelerate slightly in 2025, to 0.9%, and then to strengthen to 1.3% in 2026.

This scenario assumes a status quo in the tariff confrontation with the US, with tariffs at their level as of 4 June, ie, an across-the-board increase in tariffs to 10%, with the exception of exempt products, 25% on automobiles and 50% on steel.

**The risks associated with this scenario are bearish, with a possible materialisation of the stagnation scenario if the trade confrontation with the US were to intensify, if the competitiveness constraints were to bite harder, if private sector confidence were to deteriorate significantly and, finally, if the fiscal stimulus were to be implemented more gradually than anticipated.**

*The beginning of 2025 is difficult to decode*

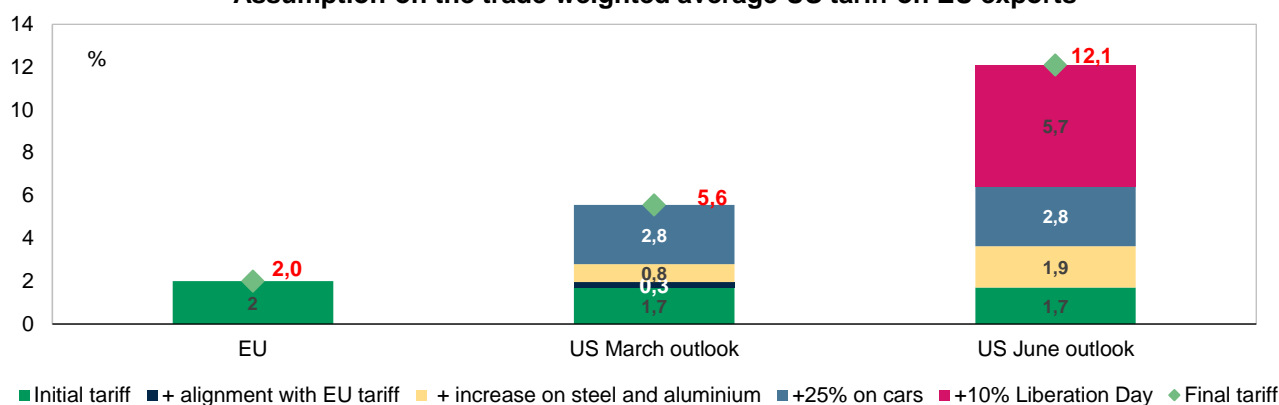
**The growth figures for the start of the year do not completely dispel doubts as to whether the resilience scenario will materialise.** Eurozone growth in Q125 did accelerate (+0.6% over the quarter after +0.3% in Q424), leaving a high carry-over (+1.1%) for average annual growth in 2025.

However, without Ireland's strong growth (+9.7%), GDP growth in the Eurozone would have been 0.3%, with no significant acceleration.

Net foreign demand (0.3ppt) strengthened its contribution to growth thanks to a faster rise in exports of goods and services in volume terms (1.9%) than in imports (1.4%). The change in volume therefore confirms the strong acceleration in exports of goods in value terms during Q125 (7.6% after 0.8%), particularly to the US (+27%). While the increase in sales of machinery and transport equipment across the Atlantic has been notable (6.4%), the increase in sales of chemical products was spectacular (64%). These trends appear to be consistent with the rise in US imports, in line with a logic of anticipating purchases before the actual increase in customs duties. We can therefore expect an equally sharp correction over the next few quarters: an adjustment following the across-the-board 10% increase in tariffs that took effect on 9 April, and the 25% increase on vehicles (on 3 May) and on steel & aluminium (since 3 April), then further raised to 50% on 4 June.

The positive contribution of domestic demand (0.5ppt) for the third consecutive quarter nevertheless seems to confirm **the solidity of the domestic fundamentals of European growth: not spectacular growth, but fairly robust**. Household consumption grew at a modest but positive rate (0.2%), albeit at a slower pace than in H224 (0.5% on average). Public consumption stagnated, but after a year of sustained growth.

Assumption on the trade weighted average US tariff on EU exports



Sources: OMC, Crédit Agricole S.A./ECO



The rebound in investment (1.8% after 0.7%) is due to the strong increase in capital formation in Ireland (+41.1%). Without Ireland, investment would have risen modestly (0.4%), but still broke with a year of annual decline. Investment rose in construction (0.6%), at a similar rate in housing and other construction. This recovery in construction, for the second consecutive quarter, interrupts the downturn that has been underway since the spring of 2023. Productive investment, on the other hand, remains erratic: it fell again in machinery and equipment (-0.4%). It was nonetheless supported by accumulation in transport, although the level remains 1.7% lower than a year earlier. The accumulation of intellectual property also continued at a high rate (7.5%).

Too early to read the impact of the increase in tariffs in Q2

While US demand, in anticipation of higher tariffs, supported Eurozone exports in Q1, these advance purchases could quickly turn into a drag in Q2. **The signals provided by the various indicators available are not very enlightening yet.** The purchasing managers' index for the manufacturing sector, for example, shows a rise in confidence since January, which was not affected by the Liberation Day announcements. It also points to an expansion in production since March, driven by an upturn in exports since April and a sharp rise in production expectations. While the European Commission's ESI survey confirms these developments, it points to a deterioration in confidence in April followed by a recovery in May. The industrial production<sup>1</sup> index recovered spectacularly during Q1, and in March was up by 3.9% YoY. Growth in industrial value added thus contributed 0.4ppt to Eurozone GDP growth in Q125, but this comes after two years in which the sector took 0.2ppt per year off of GDP growth. **This improvement in industry therefore remains fragile, and it would be premature to conclude that it represents a change in trend rather than simply a temporary rebound boosted by purchasing expectations.**

The services sector has been the main driver of growth over the past four years, and it continued to underpin the increase in activity in Q125. Nonetheless, the S&P index has forecast that activity in this sector will contract in May, once again signalling a decline in the number of new contracts won by service providers. This decline in past and future demand is confirmed by the European Commission's ESI survey, which also notes a fall in confidence within the sector.

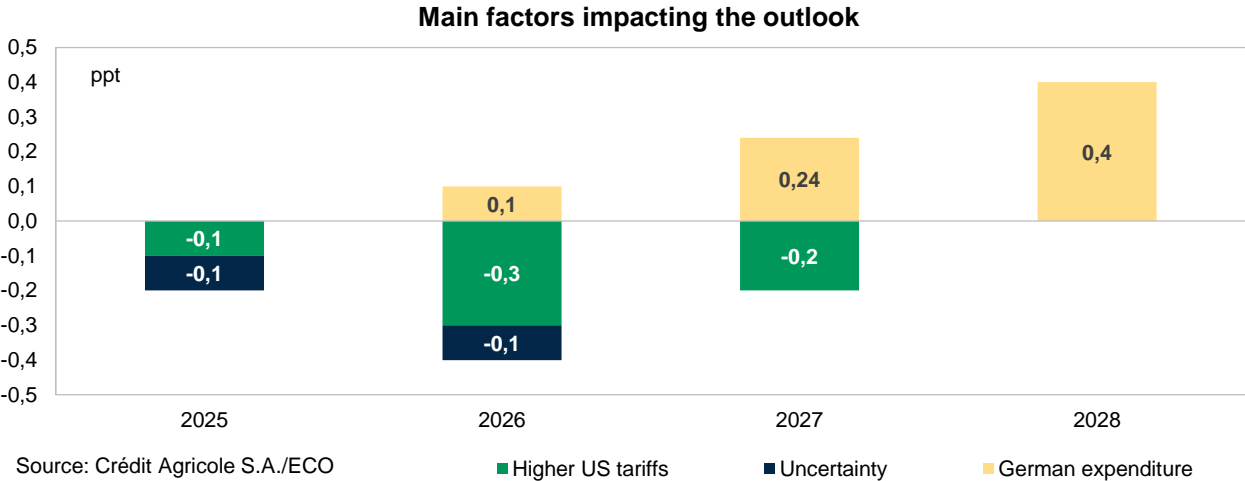
In our scenario, we see a slight drop (-0.3%) in GDP in Q2, which reflects the largely mechanical contraction in exports, the counter-effect of the rebound in US imports, but also the fall in investment, attributable solely to the correction of the "over-investment" recorded by Ireland in Q1.

An international environment less favourable to growth

The dynamic of foreign demand is strongly influenced by assumptions around the outcome of the trade confrontation with the US. Our scenario assumes that the US and the EU will strike an immediate deal on a generalised 10% increase in tariffs on European exports (excluding exempted goods) and a belated one on negotiations on strategic sectors based on a quota system that would allow a reduction in current customs duties on these products.

We expect growth to be driven by stronger domestic demand at a time when global growth is weakening.

In 'operational' terms for our scenario, this means a status quo on 4 June, ie, a weighted average tariff imposed on European goods of 12.2%. The impacts of these measures have been estimated as successive announcements have been made and have already been partially incorporated into our previous scenarios (December 2024 and March 2025). For example, the increase in US tariffs as calculated in our March scenario was expected to subtract 0.1ppt from growth in 2025, 0.3ppt in 2026 and 0.2ppt in 2027. This negative impact was reinforced by the greater



<sup>1</sup> This article does not take into account figures published after 12 June 2025.

uncertainty about the economic environment, which would subtract 0.1ppt from growth per year, via the wait-and-see attitude weighing on investment decisions. The increase in steel tariffs from 25% to 50% now slightly increases the average rate (from 11.1% to 12.2%), with a very limited impact on GDP growth, but reinforced by the EUR's appreciation. These 'depressive' effects could nevertheless be reduced for highly specialised goods, but also by gains in competitiveness, due to the difference between the customs duties imposed on European (12.2%) and Chinese (46%) goods entering the US market.

A better domestic environment

**A number of domestic factors are playing a favourable role, particularly from 2026 onwards.** The resilience of the labour market and the gains still being made in terms of real wages will support the moderate but steady growth of private consumption, which our scenario forecasts at 1.2% in 2025, then 1.1% in 2026 (after 1% in 2024).


**The still-high level of profit margins should also act as a buffer against external shocks.** The anticipated recovery in productivity and the slowdown in wages should lead to an improvement in margins. The full impact of the fall in interest rates on lending costs should partly offset the negative effect of uncertainty on investment. This is already a driving force behind the proven upturn in the mortgage cycle. **The impetus from monetary policy continues to be transmitted to the economy**, but will no longer be fuelled by changes in the monetary stance: our scenario does not anticipate any further cut in key ECB rates, which would stabilise the deposit facility rate at 2% over our forecast horizon.

On the other hand, **a new impetus is expected on the fiscal front.** We have changed the implementation profile of the additional spending linked to the German

infrastructure fund; we now expect more gradual spending and a downward revision of the measures' effect on German GDP in 2025 and 2026 (and an upward revision thereafter). These measures' impact on Eurozone growth would be nil in 2025, positive but limited to 0.1ppt in 2026 and more significant thereafter (0.3ppt in 2027 and 0.4ppt in 2028).

Furthermore, with only 33% of the European Recovery and Resilience Fund used by Italy and 20% by Spain at the end of 2024, the amounts remaining to be spent during 2025 and 2026 amount to 6.2ppt of GDP for Italy and 8.8ppt for Spain if the two countries were to spend the entire envelope allocated. While it is clear that not all of the allocated sums will be requested before the September 2026 deadline, particularly in the loan component in the case of Spain, there remains significant potential for increased investment and public spending over our forecast horizon. **Defence spending is also on the rise.** Eleven Eurozone countries have requested activation of the Stability Pact's safeguard clause, allowing them to deviate from the negotiated spending trajectory by up to 1.5% of GDP over the period 2025-28.

Our scenario therefore assumes that public investment will provide substantial support for the recovery in gross fixed capital formation, which should grow at a rate of 2.5% in 2025 and 3.0% in 2026 after falling by 1.8% in 2024.

 Annual change	2025	2026
GDP	0.9%	1.3%
Inflation	2.2%	1.8%

Paola MONPERRUS-VERONI

## UNITED KINGDOM: TRADE TARIFFS WEIGH ON THE GROWTH OUTLOOK

**The UK/US Economic Prosperity Deal signed on 8 May has maintained the 10% “universal” tariff on most imports of UK goods**, while UK car manufacturers will face 10% tariff on the first 100k cars (compared to 25% for the rest of the world). Furthermore, the two countries engaged in negotiations in order to bring the tariffs on the steel and aluminium industry to 0% (from 25% currently).

**The US is the UK’s second most important trade partner after the EU** with imports of UK goods totalling GBP59.3bn in 2024 (16% of total UK exports of goods, 8.7% of total UK exports of goods and services), of which GBP9bn of cars. Weaker US demand for UK goods and slower global demand resulting from the tariffs will weigh on UK exports, business investment, employment and household consumption.


*Net exports are the main negative contributor to growth in the coming quarters.*

**We have revised downwards sequential growth for the rest of 2025 and 2026** by around -0.10ppt to -0.15ppt per quarter, resulting in a negative revision in annual GDP growth for 2026 to 1.1% vs 1.4% expected previously. Net exports are the main negative contributor to growth in the coming quarters as exports growth is expected to weaken faster than imports.

**While growth will have to be driven increasingly by domestic demand, the fundamentals for household consumption have worsened.** Unemployment is rising, reaching 4.6% in April, a four-year high. Labour market slack will likely continue to grow with the unemployment rate now expected to reach 5% by the end of the year (vs 4.7% expected previously). Wage growth is still high (5.2% in nominal terms, 2.1% in real

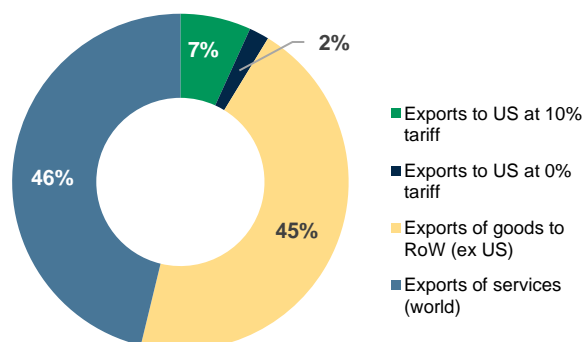
terms) but expected to continue to moderate in the coming quarters as employment falls. In the context of deteriorating labour market conditions and the restrictive fiscal and monetary policy stance, household consumption will likely remain weak, albeit resilient (+1.5% annual growth this year, +1.6% expected next year). Households have been piling up precautionary savings for quite some time now with the savings ratio having reached 11.6% in Q125, its highest since Q221.

**While the UK outlook has deteriorated, our forecast for 2025 annual GDP growth is revised upwards to 1.1% in 2025** (compared to 0.9% two months ago) largely due to a massive upside surprise of GDP growth at the start of the year. The UK economy grew by 0.7% QoQ in Q125 as net exports contributed for 0.4ppt and business investment expanded by almost 6% QoQ. We do not expect such growth rates to be sustained and expect a sharp slowdown to 0.1% QoQ in Q225, with growth to be driven by household and public consumption. Business surveys continue to suggest much weaker underlying demand than actual data and are broadly consistent with stagnating or slightly contracting economy. Risks surrounding our forecasts remain tilted somewhat to the downside given the heightened global trade policy uncertainty.

 Annual change	2025	2026
GDP	1.1%	1.1%
Inflation	3.2%	2.2%

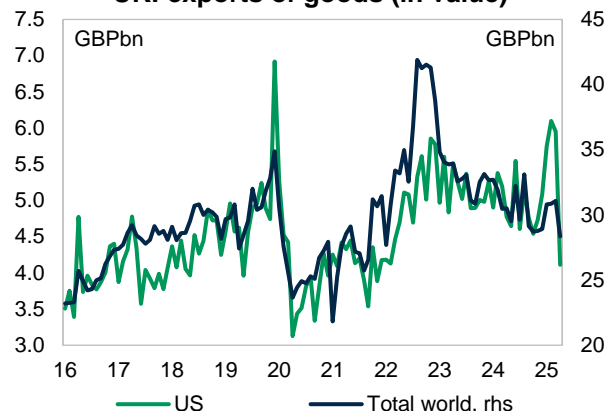
Slavena NAZAROVA

UK: exports, % total G&S, 2024



Sources: ONS, Crédit Agricole

UK: exports of goods (in value)



Sources : ONS, Crédit Agricole S.A./ECO



JAPAN: ON THE CUSP OF BREAKING OUT OF STRUCTURAL STAGNATION

Large-scale economic measures could be delayed until autumn

Real GDP for Q125 was down -0.2% QoQ (annualised -0.7%), the first decline in four quarters. However, the reality may be worse than it appears. Real exports were down -0.6%, weak despite pre-emptive exports ahead of the Trump tariffs, and the effects of the global economic slowdown are being felt. Real consumption was also 0.0% QoQ, but this was technically boosted by revisions such as a change in the data sample for the Service Industry Trend Statistics. Reflecting weak demand, the contribution of real private inventories to real GDP QoQ was +0.3%, and there is evidence of a build-up of inventories. There are concerns that the Trump tariffs and weak demand would cause a drop in growth in Q225. With inventories being drawn down, **real GDP for Q225 is likely to remain weak, at around 0% QoQ**. There is also a risk of two consecutive quarters of negative growth which would be considered a technical recession.


After the FY25 government budget passed the Diet at the end of March, the government was supposed to immediately prepare a supplementary budget for economic measures, support households with tax cuts and subsidies, and avoid a bottoming out of demand and negative growth. However, due to concerns that this would lead to a discussion of lowering the VAT, bold measures were not taken and the government was only able to respond with reserve funds. It seems that large-scale economic measures to promote the recovery of demand would be delayed until the autumn extraordinary Diet session after July's Upper House election. How large the measure would be and whether it would be an active fiscal measure including tax cuts would depend on the opinion of the political party that garnered the most public support in the results of the Upper House election. At present, the LDP is reluctant to cut the VAT, but it is believed that the VAT cut has the support of the public, and **there is a high risk that the LDP-Komeito government would be defeated** by the opposition parties that advocate a VAT cut in the July election.

Structural deflationary pressure still exists

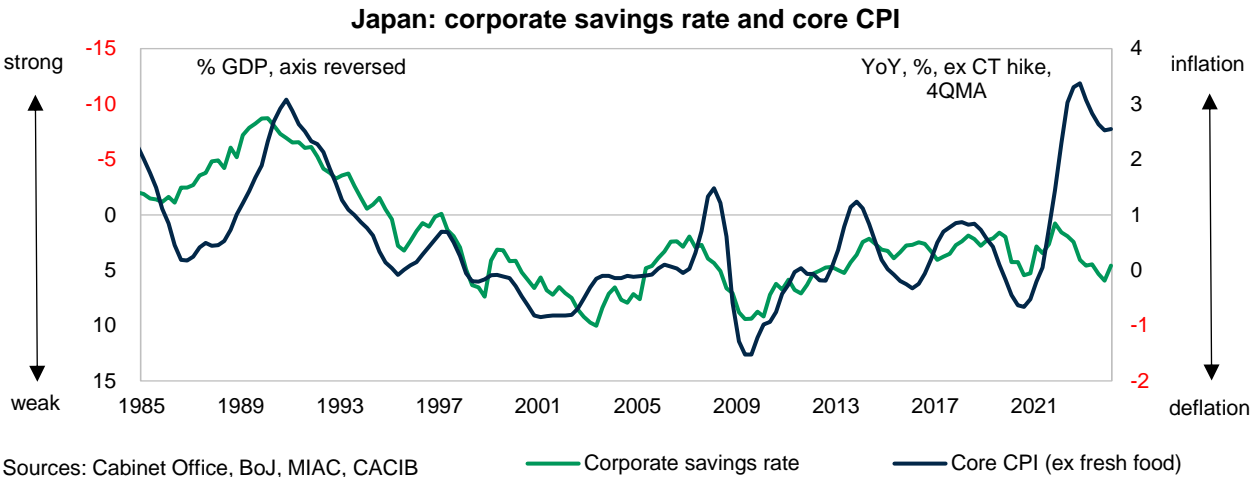
Due to the fall in crude oil prices and the appreciation of the JPY, import prices in April fell sharply, down -7.2% YoY. Financially sound companies should try to take market share from competitors by lowering prices. The current trend of raising prices by companies would reach its peak, and the slowdown in the inflation rate would become more noticeable from H2. Structural deflationary pressure of a positive corporate savings rate, which indicates a lack of spending power by companies, would come to the surface again. **By the middle of next year, core core CPI would slow down to about +1% YoY**. This slowdown in inflation would increase real wages and support the recovery of domestic demand in 2026. A temporary large slowdown in inflation is necessary for domestic demand to recover. The slowdown may be greater than the BoJ expects, which would be the reason for it to stop hiking rates this year.

A temporary large slowdown in inflation is necessary for domestic demand to recover.

After domestic demand recovers from 2026 and inflation slows to about +1%, it would take several years for it to accelerate again toward the BoJ's price stability target of 2%, which would be the phase when deflationary structural stagnation is truly over. In our view, the current strong inflation rate is not due to a recovery in domestic demand, but is artificially raised due to imported inflation.

 Annual change	2025	2026
GDP	0.7%	1.0%
Inflation (ex-fresh food and energy)	2.7%	1.3%

Takuji AIDA – Ken MATSUMOTO





# EMERGING COUNTRIES

## One step after another

Overview – One step after another

China – Gambling on confrontation

Brazil – Non-alignment with Chinese bias

India – Switching to a lower gear

## One step after another

We remain rather constructive on Emerging Markets despite the tariffs, because we identify four buffers that should partly offset the elevated global uncertainty.

It remains particularly difficult to provide expectations about EM economic growth in the coming quarters, due to the prevailing uncertainty of US tariffs. At the time of writing, a de-escalation is taking place between the US and China, but at the same time many parameters remain unclear.

### The cost of tariffs

**Should the “Liberation Day” tariffs ultimately be implemented, the costs for EMs would be highly differentiated.** Asia would be the most exposed, by far. China, even if its exports to the US amount to less than 3% of its GDP, would be relatively exposed, due to the high Liberation Day tariffs it was assigned. A group of countries including Vietnam, Taiwan, and to a lesser extent Thailand, Malaysia, Korea and Singapore would also pay a heavy price (which also fuels a strong incentive for these countries to negotiate with the US). Mexico is also highly exposed on paper due to its strong trade integration with the US, providing – another major incentive to negotiate.

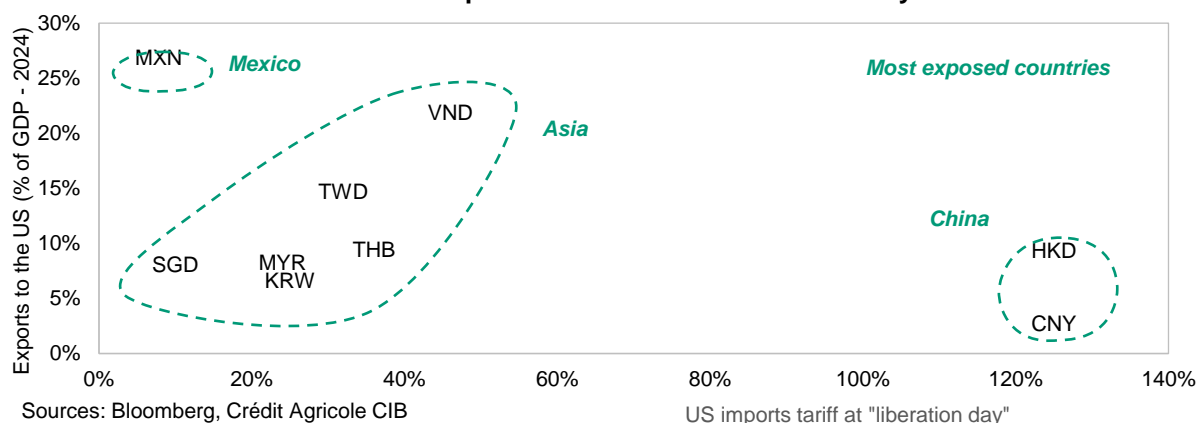
**The future will tell at which level the tariffs will be settled and which countries will cut a deal with the**

**US.** At the time of writing, the pause on tariffs is due to end on 12 August for China and on 9 July for the rest of the world. To us, an intermediate assumption, according to which the tariffs would increase compared with the current 10% blanket tariff, but would eventually remain significantly below the Liberation Day tariffs, would look reasonable. It would avoid overly fuelling US inflation and limit the damages to the stock market (both parameters being politically relevant to the US administration, at two different levels – population and investors).

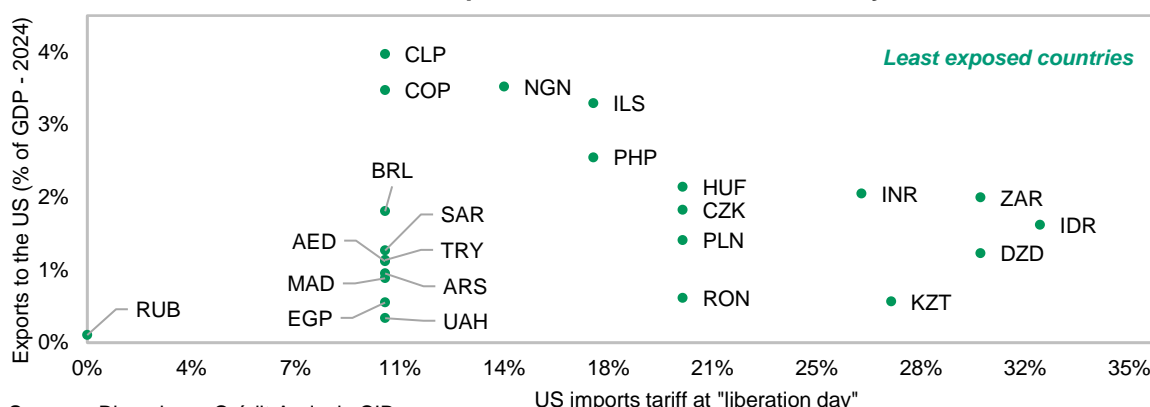
### Domestic demand to help

**EM growth would benefit from the following buffers.** Domestic demand continues to benefit from past disinflation (which supports purchasing power). Central banks have continued to lower interest rates in many countries, and we expect further monetary easing to come in H2. Among the largest EMs we cover, we expect only Brazil's central bank to hike rates further (slightly) in H2. In the rest of our EM coverage, we expect central banks to lower rates by an average magnitude similar to the Fed (plus or minus 50bp) – Turkey and Russia aside.

EM: trade exposure to the US and liberation day tariffs



EM: trade exposure to the US & liberation day tariffs





**Private consumption should also continue to benefit from robust job markets on average in many countries.** In many large EMs, the unemployment rate has increased only marginally since the end of last year. On average for EMs, it remains close to historically low levels, lower than its 2019 pre-Covid level.

*Our relatively constructive outlook comes with side risks that are higher than usual, due to the unpredictability of US policies.*

*US: harsh... and still strong*

**The issue of tariffs is currently clouding the EM export outlook. But, at least, external demand emanating from the developed market is expected to be resilient.** According to our in-house base-case scenario, combined sequential economic growth in the US, Europe and Japan will accelerate from H2. The US, in particular, is expected to avoid recession. It should benefit from Q4 and into next year from a strengthening in investment on the back of gradual clarification on the tariff and budget outlook (“big beautiful” bill and the level and effects of tariffs). Consequently, it makes sense to expect the strength of demand to partly offset the negative effect of tariffs on EM exports.

*Resilient China*

**China’s growth will decelerate, but only to a limited extent, in our view.** China is determined to withstand the US pressure and it has the means to support economic growth. It is far from having achieved a full rebalancing of growth towards private consumption; the property market remains a headwind to growth, while demographics will continue to cap growth.

However, retail sales have finally begun to behave better in recent months. And investment (in infrastructure and energy transition) remains a powerful growth driver. We expect growth to slow somewhat, on US tariffs, in H2. However, overall, we see China decelerating only mildly, from 5.0% in 2024 to 4.6% in 2025 (4.3% in 2026).

Annual change	2025	2026
GDP	3.8%	3.9%
Inflation	4.2%	3.6%

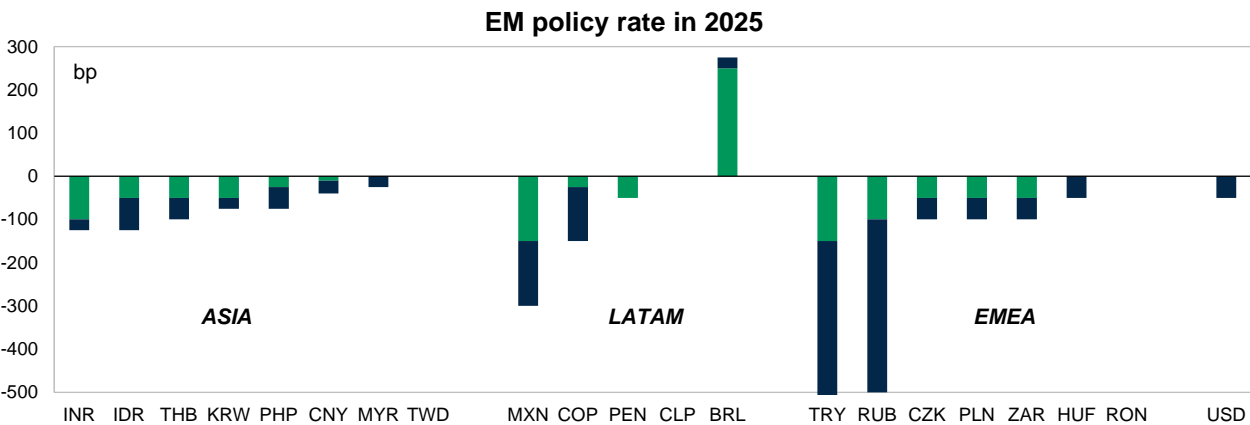
*Limited market stress*

**Also, EM FX has proved more resilient than expected to the global uncertainty in H1.** We elaborate on this in the EM FX section of this publication. From a macroeconomic perspective, this means that the risk of possible defensive rate hikes across EMs (which would possibly penalise growth) is lower than what could have been thought initially.

*Resilience, and risks*

Overall, in a base-case scenario, EM growth would likely be resilient. **In our base-case scenario, we expect a slight slowdown in EM aggregate economic growth, from 4.2% in 2024 to 3.8% in 2025 (and 3.9% in 2026).** But this relatively constructive outlook comes with side risks that are higher than usual, due to the unpredictability of US policies.

Sébastien BARBÉ



Sources : Bloomberg, Crédit Agricole CIB    ■ Change since beg-2025    ■ Change expected during the rest of 2025 (our forecasts)

## CHINA: GAMBLING ON CONFRONTATION

**China has bet on escalation in the global trade war with the US.** By responding to the “reciprocal” tariffs announced by US President Donald Trump on 2 April, China entered into a tug of war, the outcome of which is highly uncertain. Despite all the doubts surrounding the outcome of the negotiations, there are a number of strong assumptions underlying our scenario.

The first is that **if Trump accelerates the trade war, the trade war will continue, as it is one of the few transpartisan issues in the US.** It will likely take a different form and scale, but China and the US – aware of the interdependencies that bind them – will continue to try to move away from each other.

The second is that **customs duties will remain high.** They will probably not reach 145% on the US side and 125% on the Chinese side, but will likely sit between the current 30% and the 60% promised by Trump during the presidential campaign.

The third is that, **in the short term, China seems to be winning the battle.** The escalation strategy has provided it with its own negotiating space, separate from that of other countries, with the same deadline. However, the tariff exemptions it has granted, even before the Geneva agreement of 9 May, have revealed its weaknesses in the strategic semiconductor, advanced medical equipment and aeronautics sectors. In these areas, China faces a real challenge in catching up with technological developments, and has been slowed down by the non-tariff-related barriers put in place by the US.

### What is the impact on Chinese growth?

With foreign trade once again becoming a net contributor to growth, **China cannot afford to lose its access to the US market.** The share represented by foreign trade has certainly fallen since 2018, in relative and absolute terms, but has been more than offset by grey trade chains, particularly via Vietnam and Mexico. It also means that China is going seek to maintain the level of its exports, even if that means seeking new

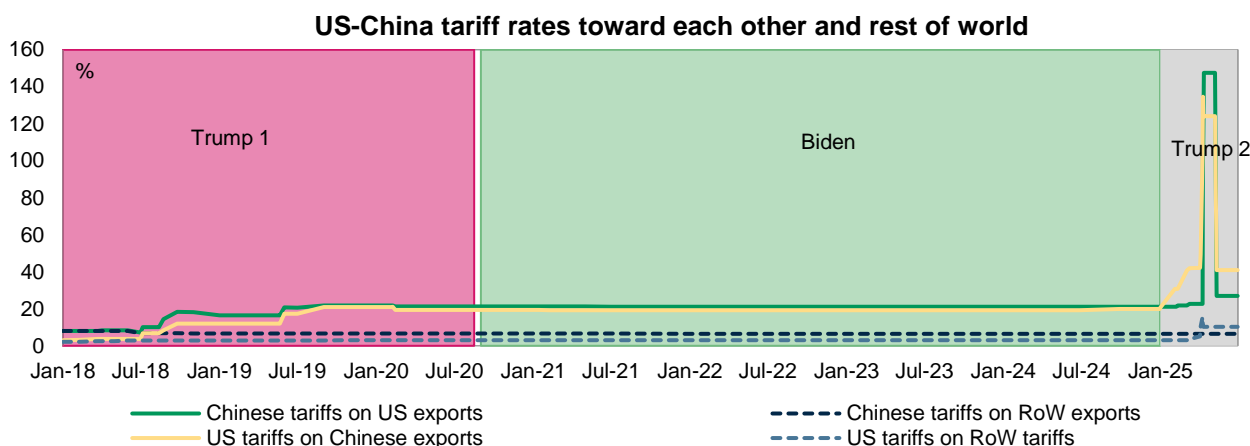
markets, causing the rest of the world to fear becoming the forced recipients of China’s surplus capacity. In the short term, the first test will relate to the steel and aluminium sector.

**The impact of the tariffs is still difficult to measure,** as companies that export to the US market had anticipated that Trump would take a hard line, and significantly increased their exports to the US at the beginning of the year, or made arrangements via third countries, taxed at an additional 10% until 9 July. However, the real impact may be felt in the second half of the year and the end of the 90-day pause, which ends on 12 August.

**So far, growth has held up, and surprised the markets by being positive in Q1 (5.4%).** The policy of subsidies for consumer goods, introduced by Chinese authorities and extended since January, has supported domestic demand. It may be extended to new goods (household appliances) and even services. It shows, however, that Chinese households remain cautious when it comes to spending, and that consumer surplus is only achieved at the expense of the government and businesses, which are still engaged in a price war.

*By responding to the “reciprocal” tariffs announced by US President on 2 April, China entered into a tug of war, the outcome of which is highly uncertain.*


Despite the figures for Q1 and the economic data, which continues to hold up – even though the growth of industrial production has slowed – **China continues to face structural challenges:** successfully emerging from the real estate crisis and, above all, the deflationary environment that is taking hold. Now perceived as a long-term phenomenon, the authorities have even incorporated a negative GDP deflator in calculating their growth target, still set “around” 5% for 2025.



In this uncertain environment, the Chinese central bank is also looking to stabilise the CNY, so that monetary factors are not a source of additional complaints in the negotiations with the US. For the time being, it has managed to keep the exchange rate at around RMB7.2 per USD, below the 7.35 peak seen at the beginning of the year. It is also expected to continue with its monetary easing policy, with further rate cuts expected in a number of segments (key rates and reserve requirements). Bond issues could accelerate in the second half of the year, particularly in the event of a marked slowdown in growth, moving very close to the 5% target.

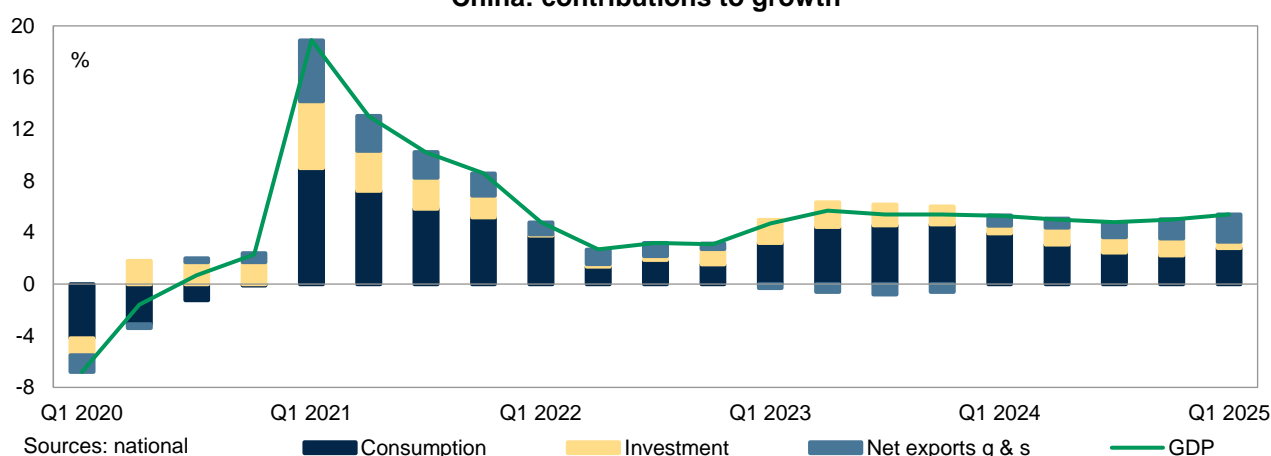
We continue to expect growth of around 4.6% in 2025, below the official target, factoring in a risk of a

decline or even a reversal in the contribution of foreign trade and domestic demand still affected by households switching to precautionary savings.

 Annual change	2025	2026
GDP	4.6%	4.3%
Inflation	0.1%	0.6%

Sophie WIEVIORKA

China: contributions to growth



## BRAZIL: NON-ALIGNMENT WITH CHINESE BIAS

Against the backdrop of the continuing budgetary saga (a theme that continues to permeate the scenarios, albeit in a less dramatic fashion), growth has once again proved robust, while inflation finally seems to be easing.

In Q1, satisfactory GDP growth (1.4% QoQ on an annualised basis, 2.9% YoY) benefited from the strengthening of private domestic demand. After its QoQ contraction at the end of 2024, household consumption picked up and investment accelerated despite an unfavourable environment (international uncertainties, monetary tightening, tight financial conditions). Net exports had a negative contribution to growth due to the sharp rise in import volumes. Although growth is no longer as dynamic, it is resilient and validates a scenario of around 2% for the year. More so as inflation finally seems to be slowing.

After rising slightly above 5.5% YoY in April, largely due to the resilience of service prices, inflation eased in May. At 5.3% YoY, it is still above the central bank's target range (BCB:1.5-4.5%), but the central bank now seems calmer, or at least prepared to wait. At its last


monetary policy meeting (COPOM on 18 June), the BCB raised its key rate (Selic) by 25bp to 15% but signalled a pause in its rate hike cycle. It intends to examine the impact of the adjustment already implemented, while emphasising that it remains vigilant. In a nutshell, this means that the cumulative tightening (450bp since September 2024) has brought interest rates to a sufficiently restrictive level for the decline in inflation to continue and for inflation expectations to calm down. Inflation expectations are still too high, at 5.2% in 2025 and 4.5% in 2026. The Selic should therefore remain on this high plateau for some time to come.

*If Brazil intends to pursue its strategy of non-alignment, the strengthening of ties with China is obvious.*

Lastly, the trade surplus narrowed in the first four months of the year because of value effects (fall in the prices of exported raw materials) and volume effects (sustained Brazilian imports), but without

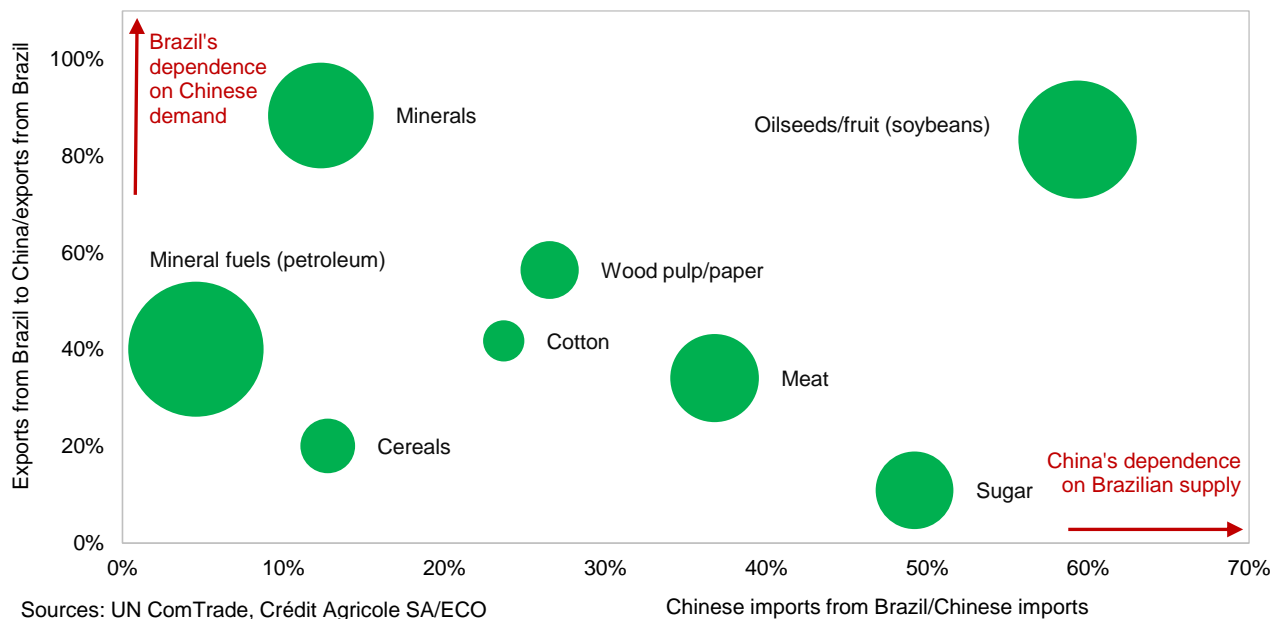


widening the current account deficit<sup>2</sup> . **The trade surplus with China fell**, due notably to Brazil's import of a floating oil rig manufactured in China. **In May, when Beijing hosted the leaders of CELAC** (the Community of Latin American and Caribbean States), **President Lula's visit ended with the signing of bilateral trade and partnership agreements in various sectors**, from agriculture and energy to infrastructure and biotech. Despite being courted by Beijing, Brazil refused to join the Silk Road in 2024. While Brazil intends to pursue its strategy of non-alignment, the strengthening of ties with China is obvious, and takes the form of decisive mutual dependencies.

 Annual change	2025	2026
GDP	1.9%	1.7%
Inflation	4.8%	4.2%

Catherine LEBOUGRE

Brazil-China trade: strong mutual dependencies



## INDIA: SWITCHING TO A LOWER GEAR

**India's growth is set to slow from 6.8% in 2024 to 6.3% in 2025.** Higher living costs and restrictive monetary policy are weighing on consumption and private-sector investment, and along with slowing global growth will all be a drag on growth in 2025. There are several positives that will support GDP growth in the coming year, however, leaving India outperforming its EM Asian peers.

**First, investment will pick up in 2025.** Significant public infrastructure spending remains in place post India's general election. And, having lagged public investment for several years, private investment potentially faces a strong year in 2025. Business optimism was heading higher into the general election in 2024 and has recovered to pre-election levels post

the BJP's loss of its parliamentary majority. Importantly, private companies have been engaging in record levels of equity and debt capital raisings suggesting this optimism is encouraging investment.

*Private companies have been engaging in record levels of equity and debt capital.*

**The Southern Oscillation and Indian Ocean Dipolar indexes are close to La Nina territory indicating above-average rainfall for India in the coming six months.** This will be positive for India's agricultural output as well as rural incomes, jobs and consumption. Weaker industrial commodity prices along with stronger agricultural exports are forecast to restrict growth in India's current account deficit to 1.6% in 2025

<sup>2</sup> According to cumulative data for the first four months of 2025, the trade surplus reached USD15bn (compared with USD24bn in 2024), but the current account deficit (-USD21.4bn, compared with

-USD14.1bn) suffered less thanks to the fall in net income paid. The current account deficit widened to 3.1% of GDP, covered by gross direct investment (3.9% of GDP).

from 1.4% of GDP in 2024. India's growth outperformance relative to its trading partners maintains the upward pressure on its current account deficit.

### *RBI switching to supporting growth*

**Improving crop yields will lower food price inflation**, thus taking pressure off household finances and supporting consumption which will allow RBI to begin its rate cutting cycle and also help boost consumption and investment. Indian core inflation has been running below 3% for much of 2024, so food price inflation has been holding RBI back from cutting rates. **We forecast headline inflation in India to fall from 4.5% in 2024 to the centre of RBI's 2-6% tolerance band and 4% in 2025.** RBI's new Governor, Sanjay Malhotra, while potentially less hawkish than former Governor Shaktikanta Das, is expected to take a pragmatic approach to monetary policy and begin the central bank's rate cutting cycle in February. We forecast RBI lowering its Repurchase Rate from 6.50% to 5.75% in 2025 and to the upper end of its estimate of neutral. This would match the fall in rates we expect from the Fed, limiting the downward pressure on the INR from RBI's policy easing.


### *India has advantages in global trade wars*

**Weaker global trade due to rising trading tensions will weigh on Indian growth.** Having a large domestic economy and relatively low exposure to global trade means India will not experience as much of a drag on growth from global trade wars as other EM Asia economies. A key area to watch for India in the coming year(s) will be PM Narendra Modi's relationship with President-elect Donald Trump. Modi was one of the first foreign leaders to call and congratulate Trump and the PM and President-elect both said the conversation was great. Trump has been critical of India's tariffs on US exports in the past, but India's gradual pivot towards the west and away from China and Russia as well as India's growing geopolitical heft means Modi could earn favour with Trump and reduce the impact of any US tariffs.

**India could also continue to benefit from further diversification of supply chains away from China and other US trading partners that fall out of favour with Trump.** Key areas to watch on the US-India tariff front will be the technology and pharmaceutical sectors as well as the US's H1B visa regulations for the millions of Indians working and studying in the US. India's diaspora are a significant source of remittances and foreign investment in their home country.

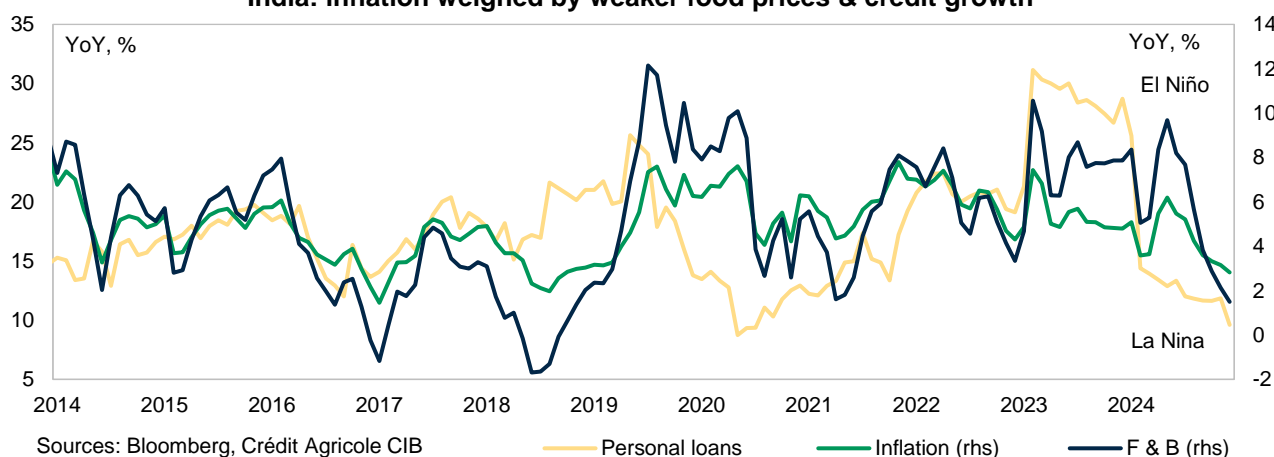
### *INR to remain under downward pressure*

**India's large domestic economy and relatively low exposure to global trade leaves the INR with the lowest correlation in EM Asia with the CNY.** The INR is not immune to the USD strength, however, especially given that we expect RBI to begin gradually cutting rates in February. Foreign investor outflows from India's equity market are also weighing on the currency. RBI continues to heavily manage the exchange rate acting as a brake on USD/INR appreciation. With USD700bn in FX reserves or nearly 10X monthly imports coverage, RBI has significant reserves to support the INR. RBI also recently announced that it is raising the cap on interest rates local banks can offer Indian non-residents on deposits. Banks can now offer rates up to the Overnight Alternative Reference Rate (ARR) plus 400bp on bank deposits with maturities between one and three years. For deposits of three-to-five years, the interest rate ceiling has been raised to Overnight ARR plus 500bp, up from 350bp. We think such efforts will only slow INR depreciation and not turn the trend and forecast USD/INR to peak at 85.00 in 2025.

 Annual change	2025	2026
<b>GDP</b>	<b>6.3%</b>	<b>6.7%</b>
<b>Inflation</b>	<b>3.6%</b>	<b>4.7%</b>

David FORRESTER

**India: inflation weighed by weaker food prices & credit growth**





# SECTORS

Oil – Saudi Arabia ready to open the tap in the midst of the Middle East crisis

Gas – Europe's LNG needs continue to increase in a tense geopolitical context

Automotive – What strategies should the sector implement to deal with unpredictability?

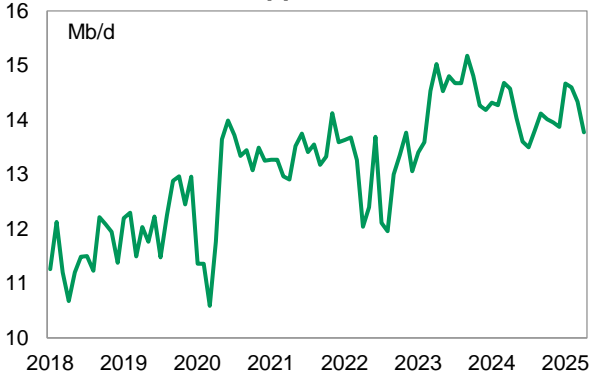
Containers – One last roller coaster ride?

# Oil – Saudi Arabia ready to open the tap in the midst of the Middle East crisis

With serious threats to oil supplies from the Middle East, Saudi Arabia is preparing to gradually regain its market share. Growth in demand will not be enough to absorb the increase in supply: oil prices could fall in H225.

Before the Israeli attack on Iran, oil prices had reacted little to OPEC+’s latest announcement that it would increase production by 411,000 bpd in July. The market had apparently already factored in this increase or was not convinced by the announcement itself and ultimately did not fear a significant increase in production. The market has become accustomed to OPEC and OPEC+ members producing more than they should. According to figures from the International Energy Agency, the eight countries that participated in the voluntary cuts to production in 2023<sup>3</sup> produced nearly 1.5m bpd in excess of their quotas. In March 2025, OPEC+ approved a gradual increase in production in the eight countries up until September 2026. Production in some countries is, however, already close to, or even exceeds (eg, in Kazakhstan), the quotas set for the end of 2026. This does not, however, necessarily mean that future increases will be lower than announced. It is unlikely that the overproducing countries will agree to reduce their production to compensate for the months in which they overproduce. **These flaws in OPEC+’s discipline and cohesion may therefore cause Saudi Arabia to increase its production in order to regain its market share.**

China: oil apparent demand



Source: Cr dit Agricole S.A./ ECO

**Unlike the majority of other OPEC+ members, Saudi Arabia has always complied with its quotas.** Between May and July 2025, Saudi Arabia is authorised to increase its production by 500k bpd. However, it may be the case that other countries, such as Russia and the UAE, will also seek to offset the loss of income resulting from a fall in oil prices by increasing production, which will also cause prices to fall.

**The risk of a prolonged conflict between Israel and Iran could, of course, completely alter the balance of**

**the oil market, especially if Iran’s production capacity were to be affected by Israeli strikes.** For the time being, Israel seems to be sparing Iran’s oil production & export capacity and focusing more on its refining capacity & distribution infrastructure. Even partial destruction of Iran’s oil production and export capacity would cause oil prices to rise, which is not necessarily what the Trump administration wants.

Today, despite sanctions, Iran is OPEC’s third-largest producer, with just over 3.4m bpd. While the current exchange of fire has caused oil prices to rise, in the medium-to-long term, it is easy to imagine that the conflict could exacerbate oversupply. In the short to medium term, if the current regime is not overthrown, Iran will undoubtedly seek to increase its revenues very quickly in order to finance both its army and imports of petroleum products following the destruction of stocks and refineries. If, on the other hand, Israeli strikes succeed in overthrowing the Islamic regime and a new regime proves more open to the international community’s demands on Iran’s nuclear programme, then the international community will have no choice but to ease or lift sanctions on Iranian oil trade. In such a scenario, aided by foreign investment and drawing on its vast oil reserves, Iran could substantially increase its oil exports in the medium to long term.

*In March 2025, OPEC+ approved a gradual increase in production in the 8 countries up until September 2026.*

**Our scenario is based on (1) a short Israeli-Iranian conflict with no impact on Iranian oil export capacity and (2) Saudi Arabia’s desire to regain market share, although its ambition will have an impact on some of its partners, such as Russia, whose revenues remain highly exposed to the oil price.** This increase in supply will not be offset by an increase in demand, which is suffering as a result of weak growth, particularly in China. Oil prices are therefore expected to come under downward pressure in H225. The impact of the current conflict between Israel and Iran will mainly be felt in Q325. This fall in prices will weigh on North American producers’ investments and oil production.

	Average oil price (barrel)
Q3 2025	70 \$
2025	69 \$

St phane FERDRIN

<sup>3</sup> Saudi Arabia, UAE, Kuwait, Iraq, Algeria, Oman, Kazakhstan and Russia.



## Gas – Europe's LNG needs continue to increase in a tense geopolitical context

With imports of Russian gas through Ukraine suspended and restocking requirements higher this year, Europe needs to increase its supplies of liquefied natural gas (LNG), while the current conflict between Israel and Iran is threatening the free movement of LNG tankers through the Strait of Hormuz. The drop in China's and India's LNG imports, combined with the commissioning of new liquefaction terminals, is limiting the rise in natural gas prices.

**Natural gas needs for this year are higher than last year, due to two factors: (1) Russian gas imports by pipeline were suspended on 1 January; and (2) the winter was colder and less windy.** To cope with rising demand, Europe increased both LNG imports in Q125 (+12%) and withdrawals from its stocks. On 1 April, which marks the start of the replenishment period, EU stocks were only one-third full. The EU was forced to withdraw 23bcm more from its stocks than last year, a volume that it will have to source on the LNG market between April and October. To fill its stocks to 90% capacity by 1 November and to offset the loss of Russian gas imports that were still transiting through Ukraine in 2024, **the EU will need to import around 12bcm of LNG each month**, vs 8.4bcm on average a year ago. Based on the initial estimates, the EU imported 12bcm of LNG in April and May 2025, meaning that gas stocks could be replenished at a satisfactory pace. If this replenishment rate is maintained, stocks of natural gas should reach the 90% target by 1 November.

**While LNG imports increased by 40% in April and May 2025 compared to the same period in 2024, natural gas prices in Europe increased by only 15%.** Currently, the price of natural gas in Europe is relatively stable at around EUR35/MWh, down from the prices observed in Q125 (EUR46.8/MWh).

**Additional LNG supplies from the US liquefaction terminal, Plaquemines, have certainly helped to ease the natural gas market.** A decrease in LNG imports by China and India at the start of the stock replenishment period in Europe has also helped to

ease pressure on the market by freeing up volumes for Europe.

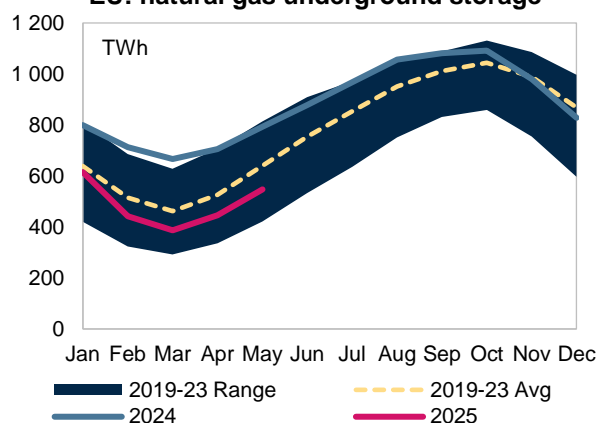
*The upcoming commissioning of new liquefaction terminals in the US and Qatar should continue to ease pressure on the natural gas market.*

The upcoming commissioning of new liquefaction terminals in the US and Qatar should ease pressure on the natural gas market provided that the movement of LNG tankers from Qatar through the Strait of Hormuz is not affected by the conflict between Israel and Iran. Nearly 125bcm of new capacity is expected between 2025 and 2027. Provided that Asia's demand for natural gas does not rise sharply, then these capacities will allow the EU to gradually stop importing Russian LNG (between 15-17bcm per year) by 2027.

**It may be the case, however, that natural gas prices will temporarily increase this summer.** Maintenance operations are often scheduled during the summer period and may therefore temporarily reduce the supply of natural gas.

In the long term, in the event of a regime change in Iran, the Israeli attack could also disrupt the natural gas market. The lifting of sanctions in exchange for a renunciation of nuclear weapons by a possible new regime would encourage investment in liquefaction terminals in Iran, which has the world's second largest natural gas reserves. Such a scenario could then lead to a long-term gas surplus, but this would come too late for European industries that are heavy consumers of natural gas, such as petrochemicals and fertilisers.

EU: natural gas underground storage



Sources: GIE, Crédit Agricole SA / ECO



EU LNG imports

Q1 25

32.6 bcm

Stéphane FERDRIN

## Automotive – What strategies should the sector implement to deal with unpredictability?

### TARIFFS ARE IMPACTING THE AUTOMOTIVE EQUATION

Unless automotive-specific tariffs are reduced or abolished, which we now consider to be unlikely, the sector's profitability will fall by -20-30% in 2025 and 2026.

Due to the unpredictability of US trade policies, if the current 25% tariffs imposed by the US on the automotive sector remain in place, it is likely that the sector's global growth will slow down.

During the last five months, combined sales of the largest European markets fell by -1% to 3.8m units, with the two largest markets, Germany (-2.4%) and France (-8.2%), continuing to fall, while Italy (-0.5%), the UK (+2.8%) and especially Spain (+13.6%) recovered.

European production in Q125 is now estimated to have fallen -6%. For 2025, production is expected to fall by 6% YoY, with the global market broadly stable at 88.1m units.

*The automotive sector's profitability will fall by -20-30% in 2025 and 2026.*

In fact, we expect global automotive production to fall by 1.2m units (-1.4%) in 2025, although the range of potential outcomes is broad, and with an even larger fall in 2026. We expect North America to be the hardest hit region, down -8% YoY in 2025, but other regions such as Europe will also be affected by lower exports and a lower GDP outlook.

Consequently, as the automotive sector is a capital-intensive sector, margins may fall even further and over a more sustained period, reaching their lowest point at

the end of 2026, and could even fall below the levels seen in 2020 (the year of Covid). This underperformance may also impact investments and will weigh on cash flows.

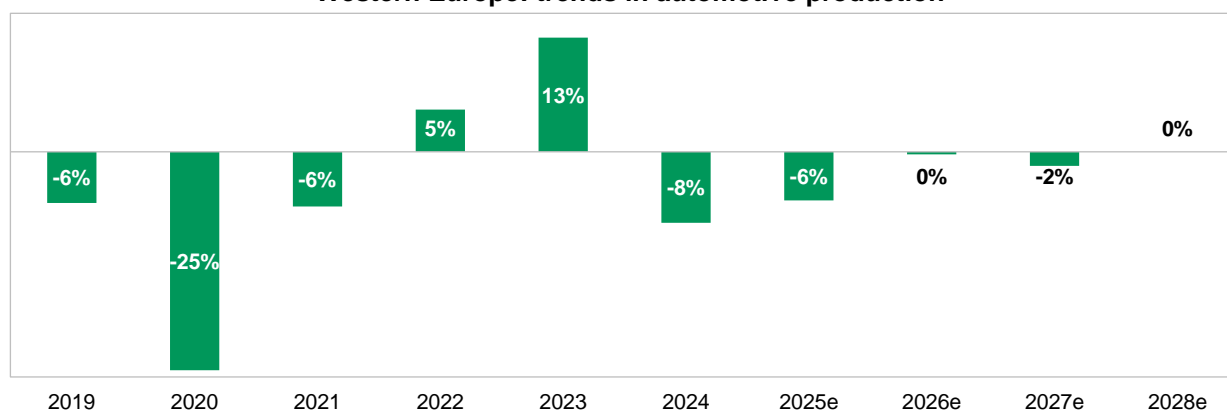
We expect profitability challenges to continue until 2028. Although auto parts suppliers quarterly results for Q125 continued to be satisfactory, they were buoyed by advance purchases counting on pass-through contractual clauses that, in principle, pass the tariffs onto manufacturers.

### INTENSIFICATION OF THE CRISIS IN A SECTOR ALREADY MARKED BY PROFOUND TECHNOLOGICAL DISRUPTIONS

The fall will probably be exacerbated in 2025 as a result of five key trends:

- ✓ Stagnating volumes in Europe, with prices remaining high, even though a fall in interest rates could slightly increase purchasing power;
- ✓ The slowdown in the adoption of battery electric vehicles (BEVs), partly driven by the easing of rules on emissions in Europe;
- ✓ Rising automation costs with increasing demand from customers for Advanced Driver Assistance Systems (ADAS) and connectivity features;
- ✓ The increased economic and competitive pressures in China, a region of the world with significant overcapacity, which is distorting competition in Europe, where Chinese plug-in electric vehicles already account for 4% of the market;
- ✓ The resurgence of geopolitical tensions and global trade barriers with its implication on the supply chain, in particular strategic metals and rare earth

Western Europe: trends in automotive production

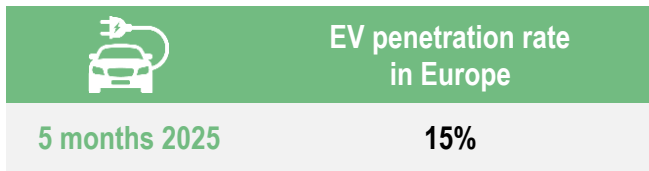


Source: Crédit Agricole S.A./ECO

minerals that are needed to manufacture electric motors.

In addition, the industry is under increasing cost pressure as a result of lengthy technological transformations.

Even before the imposition of the tariffs, we were expecting the industry to start recovering in 2026 but we now expect this to happen by 2028, with the start of a new cycle.



To mitigate the potential impact of tariffs, the industry will need to raise prices (already reflected in the prices

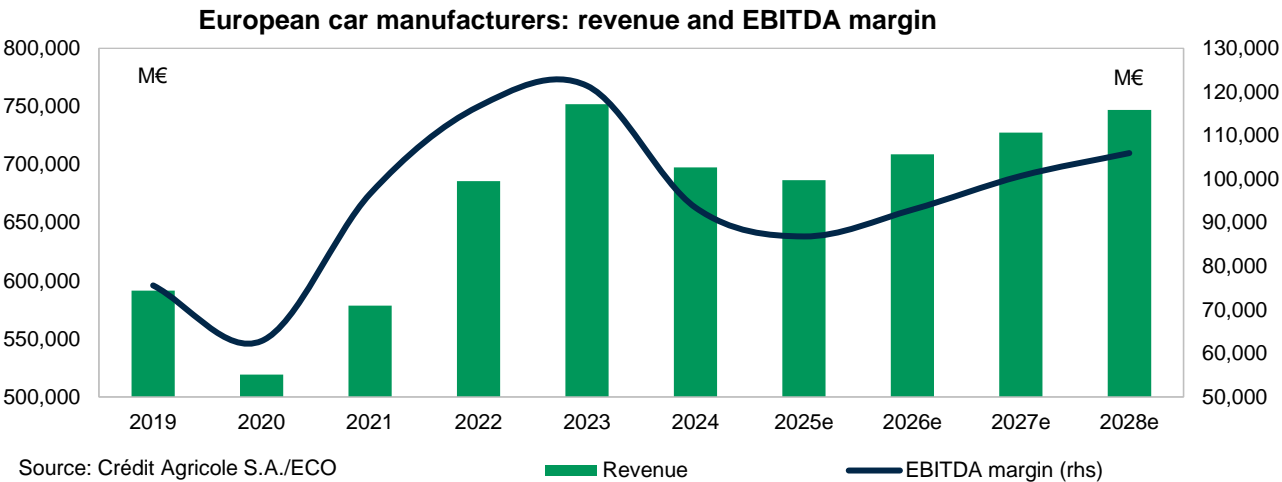
of used cars in the US). Our assumption is that an average price increase of 8% will impact volumes.

At the same time, car manufacturers are considering relocating their industrial capacity to the US, but this could take a number of years.

INTENSIFICATION OF THE PROCESS TO TRANSFORM THE SECTOR

In essence, the European automotive industry urgently needs to transform business models that have been in place for decades. To remain competitive in today's dynamic automotive landscape and prepare for the future, all stakeholders in the industry are working on optimising their portfolios through partnerships, streamlining their product offerings and focusing on strategic technologies.

Véronique VIGNER



## Containers – One last roller coaster ride?

The White House's reversals continue to make waves. The temporary suspension of exorbitant 'reciprocal' duties on China has opened up a window of opportunity that shippers are jumping at. This has led to a new surge in freight rates, which may not last.

The US strategy is generating unprecedented instability, with major anticipatory movements and wide variations in the deployment of capacity. Over the first four months of the year, this resulted in a wave of restocking in the US, which added to global traffic still buoyed by the strength of Chinese exports to other continents.

While the much-feared 'reciprocal' tariffs were suspended for most countries, **the application of 145% tariffs to China caused Transpacific bookings to plummet** in April (with US West Coast port traffic down 16% year on year in May), forcing carriers to reduce their services and redeploy ships and containers to other routes.

**The trade truce on 11 May, which reduced these duties to 30% for 90 days, reversed the trend and revived demand on a Transpacific route with reduced capacity.** In the absence of sufficient alternative sources of supply, US importers are rushing to replenish their stocks from China, while carriers are repatriating vessels to this route, which has become a priority once again.

**Freight rates**, which were halved between January and April due to rapidly increasing supply, **are now soaring again on the Transpacific routes and increasing on Asia-Europe** as a result of capacity transfers.

**The "deal" reached with China on 11 June, presented as a status quo on tariffs, could nevertheless change the situation** by allowing Chinese imports to be deferred at no extra cost. In addition to the still substantial ship deliveries expected this year, other supply constraints are also showing signs of easing.

**The pause in Transpacific traffic in May helped ease port congestion**, which had been aggravated since the start of the year by the deployment of new alliances, increases in activity, and other factors still at work in Europe (industrial disputes, low water levels in the Rhine).

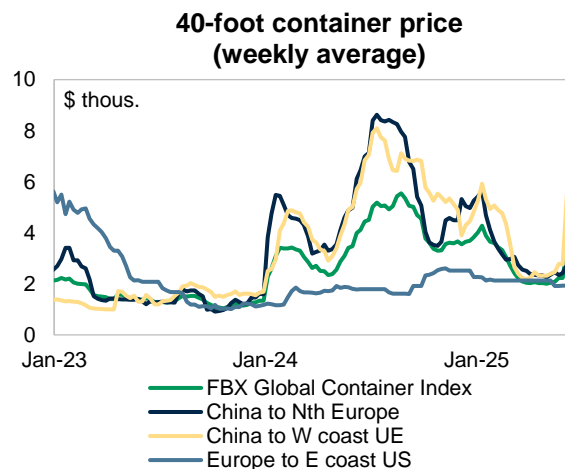
**Pressure has also eased on the plan to impose fees on Chinese-built vessels and operators calling to US ports.** Its entry into force has been postponed until mid-October, and its content has been significantly

watered down, sparing small ships in particular and limiting taxation to one stop per voyage.

Conversely, the resumption of transit in the Red Sea, which could cause freight rates to plummet, is still not in sight despite Donald Trump's announcement in May that the route would be reopened after two months of bombing and a fragile commitment from the Houthis. **The escalation of the conflict between Israel and Iran, which so far does not affect container ship traffic, could increase threats or even restrict access to the Strait of Hormuz without necessarily weighing on the global transport supply.**

All in all, the Trump shock, which has so far been mostly postponed, is likely to affect traffic from the summer onwards. **Barring further setbacks, the June agreement with China and the end of the 90-day reprieves should dry up anticipated stockpiling movements in the US, significantly reduce US imports and reverse the upward trend in freight rates despite the foreseeable increase in fuel costs.** However, the negative impact on world traffic should be offset by robust growth on other routes from Asia, with uncertainty regarding traffic to the Persian Gulf.

Finally, while the recent geopolitical shocks have been overcome thanks to the large ship deliveries of recent years, a latent overcapacity has built up which could soon become apparent again.



**Bertrand GAVAUDAN**





# MARKETS

Monetary policy – Monetary easing cycles drawing to a close

Interest rates – A variety of risks and upward pressure

Exchange rates – The dollar is losing its lustre

# Monetary policy – Monetary easing cycles drawing to a close

The Fed is firmly in “wait and see” mode, faced with a scenario of a clear downturn in 2025, a rebound in 2026 and rising inflation that would continue to significantly exceed its target – as well as the degree of uncertainty surrounding this scenario. But in our view, it will still proceed with modest easing followed by a long pause. As for the ECB, although it refuses to rule out any future rate cuts, it may well have reached the end of its rate-cutting cycle.

## FEDERAL RESERVE: STILL NOT WAVERING FROM ‘WAIT-AND-SEE’

The Fed has shown no sign of wavering from its ‘wait-and-see’ stance quite yet, continuing to preach patience as it awaits further clarity on the policy outlook and how this will pass through into the economy. Taking this into account, we still expect some modest additional easing to materialise later in the year, but we have pushed back the timing of cuts until later in the year.

**Specifically, we still see two cuts in 2025, but now expect those to arrive in September and December as opposed to June and September previously.** Following those two cuts, however, we look for the Fed to then embark on an extended pause, holding rates steady with the upper bound at 4.00% throughout 2026. Our forecast is consistent with market pricing for 2025, but we remain more hawkish than the market when looking into 2026. Here, the market prices an additional two cuts on top of the two that are expected in 2025, meaning that our terminal rate is around 50bp higher than that of the market.

**Our more hawkish terminal rate forecast has two main drivers, in our view.** For one, as outlined in the US macro section earlier, we are more optimistic than the consensus about the 2026 outlook, expecting a stronger bounce back in growth after the trade war and general policy uncertainty weigh on 2025. Second, we

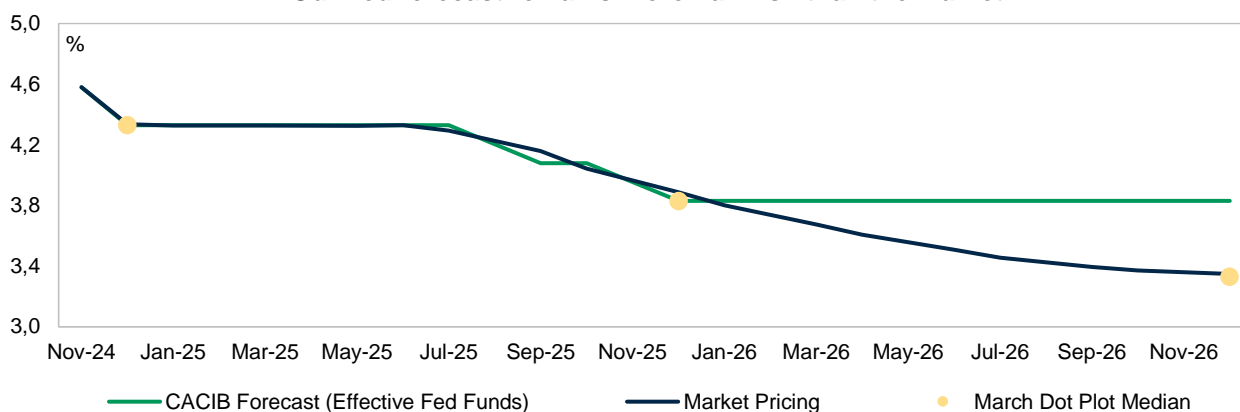
also think that the Fed’s reaction function may end up prioritising the inflation side of the mandate over the employment side as various FOMC members have stressed that a strong labour market is not possible without price stability, while also citing the 1970s as a cautionary tale. This does not prevent further easing, in our base case, but does limit the magnitude. That said, uncertainty is high and the Fed may face a difficult environment in which the two sides of its dual mandate are in tension.

*Various FOMC members have stressed that a strong labour market is not possible without price stability.*

**On the balance sheet, with the March FOMC meeting bringing a further slowdown in the pace of QT, balance sheet run-off could now continue into 2026.** Reserve balances are the key balance sheet line-item to watch concerning this decision, with the Fed targeting a ratio of reserves to GDP of around 10-11%, according to comments from FOMC members. As such, we think run-off will conclude with reserve balances in the USD3trn range and the total balance sheet in the mid-USD6trn range.

Nicholas VAN NESS

Our Fed forecast remains more hawkish than the market



Sources: Bloomberg, Federal Reserve, CACIB

## EUROPEAN CENTRAL BANK: THE END OF A CYCLE

**The ECB is reaching the end of its rate-cutting cycle**, according to Christine Lagarde. Although the central bank is logically refusing to rule out any future rate cuts, we believe that **the cut in June will be the last in this cycle**.

The June update of the macroeconomic projections is likely to reassure investors about the economic outlook and, more interestingly, about how the ECB sees the future.

**In its central scenario, the ECB is expecting growth of 0.8% in 2025, 1.1% in 2026 and 1.3% in 2027.** Christine Lagarde herself acknowledges that any changes to these projections are likely to be on the upside. In a scenario that includes high tariffs with the US, growth would remain firmly in positive territory, albeit at a lower level.

**Core inflation would fall to slightly below 2% during 2026**, but would remain close to the ECB's target until the end of the projection horizon, in all scenarios.

**In this context, a further rate cut does not seem justified:** the ECB has probably already moved into accommodative territory, and the expected recovery in

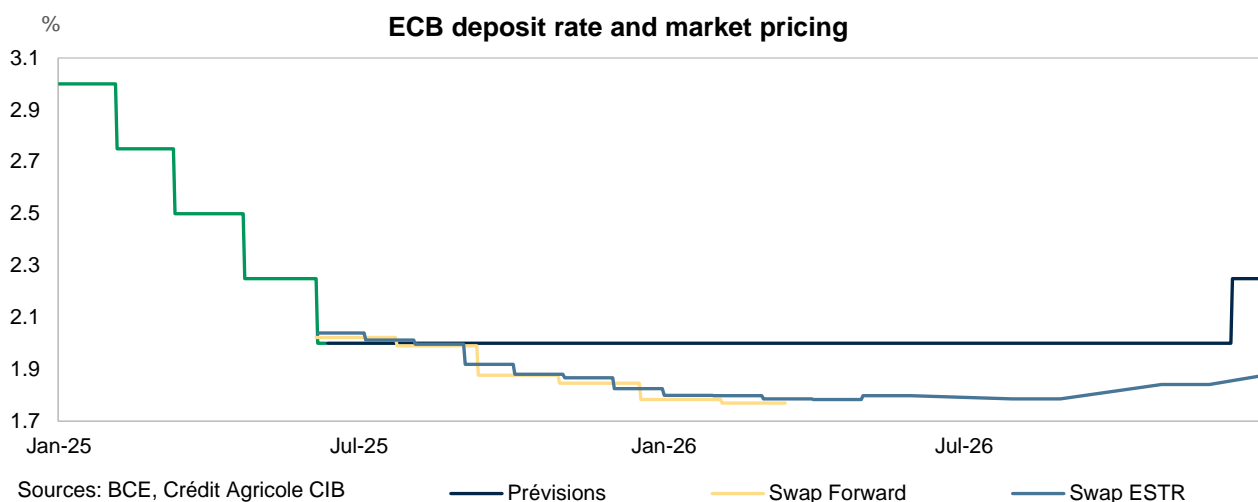
the Eurozone keep inflation at around 2% over the long term.

Evidently, **a deterioration in the economic environment would justify further easing, and the ECB is prepared to cut rates if necessary**. However, if the central scenario materialises, further rate cuts would not be justified.

*It is unlikely that the ECB will hike interest rates before the end of 2026.*

Against this backdrop, while the implementation of the German fiscal plan could accelerate growth in the coming years, **the ECB will have to consider tightening monetary conditions at some point in the future**. This should not be an issue until at least H226, and we believe that it is unlikely that the ECB will hike interest rates before the end of 2026. However, although the rate-cutting cycle is coming to an end and the economic outlook should improve over the next few years, the next movement in interest rates could be an increase, which could happen as early as the end of 2026.

**Louis HARREAU**



## BANK OF ENGLAND: SLIGHTLY LOWER BANK RATE FORECASTS

The US trade policy and related uncertainty are expected to weigh on the UK growth and inflation outlook, prompting a slight downward revision to our forecasts for the BoE's key policy rate (-25bp for 2026). GDP growth is likely to be below potential in the coming quarters and labour market slack is likely to continue expanding. The tariffs' impact is expected to be mildly disinflationary due to lower oil prices, lower imported inflation, GBP past appreciation and weaker prospects for domestic demand. As a result, we expect inflation to fall below target in the middle of 2026.

**The BoE cut its key policy rate by 25bp to 4.25% at its May monetary policy meeting in line with our and consensus expectations.** However, the decision was far from unanimous. The MPC was split three ways: two members voted to reduce Bank Rate by 50bp to 4%, two members preferred to maintain Bank Rate at 4.5%, five members voted for a 25bp cut. The main reasons for this split were the continued inflationary pressures and firming household inflation expectations, on the hawkish side, while the recent global developments alongside weaker domestic demand and emerging labour slack, were the main dovish arguments for those who voted for a larger rate cut.

Since the May MPC meeting, there have been two sets of data of key importance for the MPC: CPI inflation for April and the May labour market statistics. The first surprised massively to the upside, while the latter came out on the weaker side. CPI inflation surged to 3.5% YoY in April from 2.6% YoY in March (vs 3.3% expected by us and the consensus), largely due to temporary factors, such as hikes to utility bills and vehicle excise duty, as well as Easter airfare and holidays prices. Furthermore, there was likely some pass-through from April increases of employer NICs (national insurance contributions) and NLW (national living wage) to prices, especially in restaurant and hotels, where monthly price increases remain above historical averages. As a result, services inflation was unexpectedly strong in April (5.4% YoY vs 4.7% in

March) and core inflation hit 3.8% YoY in April (3.4% YoY in March).

**Regarding the labour market, recent developments point to increasing labour market slack as vacancies have continued to fall and the unemployment rate has continued to increase** (reaching 4.6% in April, a four-year high) on the back of the rising participation rate. Employment intentions have declined. Crucially for the MPC, pay growth (5.2% in the three months to April) surprised to the downside. Therefore, while there is likely to be some additional pass-through from April increases of employer NICs to prices in the coming months, the key channel of transmission of the increase in labour costs looks to be weaker employment. As a result, the labour market slack is likely to continue rising (we expect the unemployment rate to reach 5% by the end of the year), pushing down on pay growth and ultimately on services inflation.

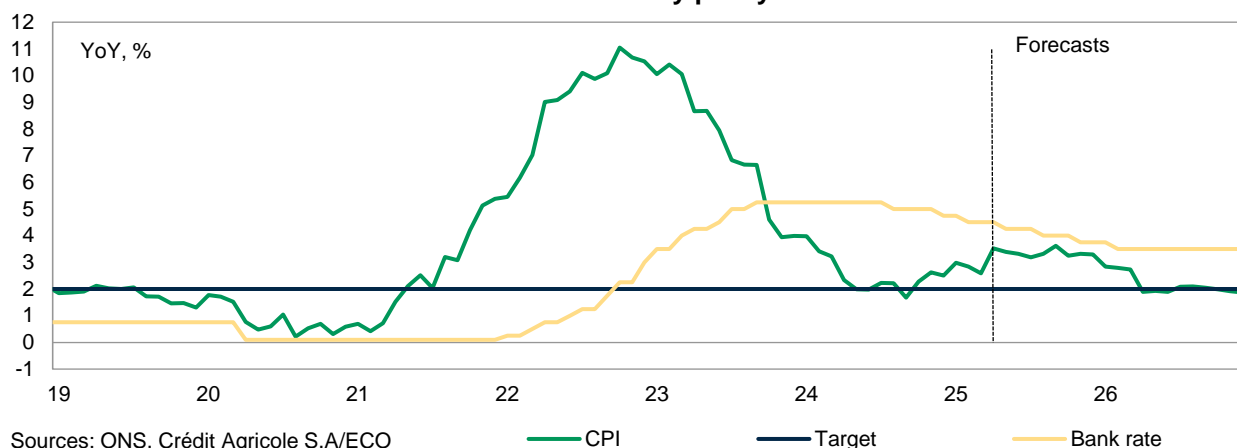
### Pay growth surprised to the downside.

Stronger-than-expected April inflation data would automatically have resulted in upward revision in our forecasts for CPI inflation for the coming year if it were not for the welcome news that the Ofgem would lower its energy prices cap by 7% for July to September and the downward revisions to our global oil forecasts. **We now expect CPI inflation to average 3.4% in Q225 and Q325** (vs a peak at 3.6% in Q325 previously) **and to fall to target towards the middle of next year.**

**We continue to expect two more rate cuts of 25bp each this year (next moves in August and November) as still elevated inflation will likely warrant continued prudence from the BoE.** However, accounting for the weaker growth and inflation outlook, we have added one rate cut in early 2026 which would bring the Bank rate to 3.50%.

Slavena NAZAROVA

UK: CPI inflation and key policy rate





## BANK OF JAPAN: THE EARLIEST THE BOJ CAN RESUME RAISING RATES WOULD BE IN JAN 2026

**The BoJ's monetary policy**, which led to the lifting of the negative interest rate policy in March last year, the rate hike in July, and another rate hike in January this year, **was a failure**, in our view. The stock market has continued to stagnate due to the multiple rate hikes and concerns about future increases in mortgage rates have grown, slowing consumer activity, with real consumption in 2024 decreasing by -0.0% YoY. SMEs are also concerned about future rate hikes. This has dampened wage increases and capital investment at SMEs. There is a sense of slowdown in the wage increase and capital investment growth at SMEs. As a result, the real GDP growth rate in 2024 was almost zero at +0.2%, and Q125 would also see negative growth QoQ. As the rate hikes have suppressed the recovery of domestic demand, the level of real private domestic demand is still weak, nearly the same level (+0.2%) compared to the 2019 average before Covid. Without the expansion of domestic demand, there is no room to mitigate the downward pressure on stagnant external demand caused by the Trump tariffs.

The BoJ's forward-leaning stance of prioritising the “normalisation” of monetary policy over the “normalisation” of the economy, while ignoring the weakness of domestic demand below pre-Covid levels, is problematic, in our view. This forward-leaning stance is also reflected in the BoJ's view of the economy and inflation that justifies the rate hike.

*The BoJ's forward-leaning stance of prioritising the “normalisation” of monetary policy over the “normalisation” of the economy, while ignoring the weakness of domestic demand below pre-Covid levels, is problematic.*

The BoJ points out that the reason for the need for rate hikes due to continued strong inflation despite the small supply-demand gap is the serious labour shortage and the inability to operate facilities. The interpretation is that there is a surplus of capital that cannot be operated due to the labour shortage, and the supply-demand gap is estimated to be small, but strong inflation increases would continue.

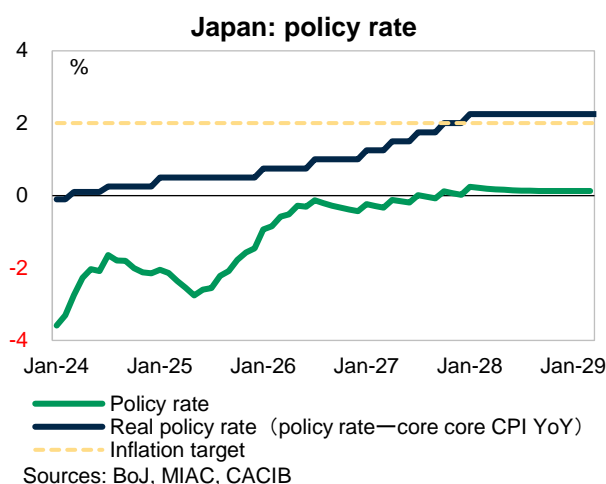
**If the BoJ is correct, in order to stabilise inflation amid a labour shortage, investment must be promoted to replace capital that does not rely on labour.** Furthermore, to strengthen the substitutability of capital and labour, the predictability of companies with sustained nominal GDP expansion must be increased. In order to increase that predictability, policy authorities would need to commit to continuing an accommodative policy mix. Since the substitutability of capital and labour is weak, labour shortages lead to strong inflation increases, so raising rates is contradictory. The BoJ has justified rate hikes by using the reasons for rate cuts. As a result, it has slowed down investment activities in non-manufacturing

industries and SMEs, which would bring about increased labour productivity that leads to an increase in real wages. Real private non-residential investment in Q1 was up 1.4% QoQ, still strong, but a slowdown is expected going forward, including in the manufacturing industry.

**The BoJ has independence in its monetary policy means.** However, the BoJ Act states that “Taking into account the fact that currency and monetary control is a component of overall economic policy, the Bank of Japan must always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy are mutually compatible”. This independence ensures that monetary policy is not run solely by the BoJ's logic and that the opinions of the people are not heard.

**At the April Monetary Policy Meeting, the government made its economic policy direction clear**, saying, “The government will pay close attention to developments in tariff negotiations with the United States and to the impact of U.S. tariff measures on Japan's export industries, on small and medium-sized firms and regional economies affected by those tariffs, and on people's daily lives. The government will do its utmost to provide necessary support, such as for financing”. The BoJ, which is expected to manage monetary policy in a way that is consistent with the government's economic policy guidelines, can no longer continue a possible mistake of making it difficult for companies to raise funds by hiking rates this year and putting downward pressure on domestic demand.

**We believe the earliest the BoJ can resume raising rates would be in January 2026**, when it confirms that GDP for Q325, which would be released in November, has not fallen out, and then reviews its economic and inflation scenarios in its outlook report.



**Ken MATSUMOTO – Takuji AIDA**

## Interest rates – A variety of risks and upward pressure

US interest rates are being weighed down by the risk of stubborn inflation and a fiscal path deemed unsustainable; a compromised AAA rating; fickle economic decisions; and heightened investor concerns. In the Eurozone, resilient growth that is expected to accelerate, on-target inflation and the projected end of the ECB's easing cycle all argue in favour of a slight rise in interest rates and a tightening of sovereign spreads.

### USA: FROM TARIFF WORRIES TO DEFICIT CONCERNS

Rates market sentiment has gone through various phases since the start of the year, from US exceptionalism initially to tariff angst in April, to recent fiscal concerns. Although trade tensions have de-escalated for now, Fed officials have reiterated their wait-and-see approach on monetary policy due to heightened economic uncertainty. Potential trade deals and delayed tariffs have brought buyers back to risk assets. Financial conditions have improved and Treasury yields have risen (see chart below).

We forecast modestly higher long-end rates, especially if the GOP House bill clears the Senate in the coming weeks, which would provide positive momentum to growth in late 2025 and 2026. Moody's downgrade on the US to Aa1 from Aaa on 16 May as well as the House bill have revived deficit concerns.

**Moody's downgrade highlighted the unsustainable fiscal trajectory** by citing that "Successive US administrations and Congress have failed to agree on measures to reverse the trend of large annual fiscal deficits and growing interest costs." The House bill adds USD3.0trn to the deficit over the next decade, including the additional debt-service costs, taking the debt-to-GDP ratio to 124% in 2034 from 117% in the current baseline, according to the Congressional Budget Office (CBO). That ratio could worsen to 129% if Congress ultimately extends the temporary provisions in the bill, based on an estimate by the Committee for a Responsible Federal Budget.

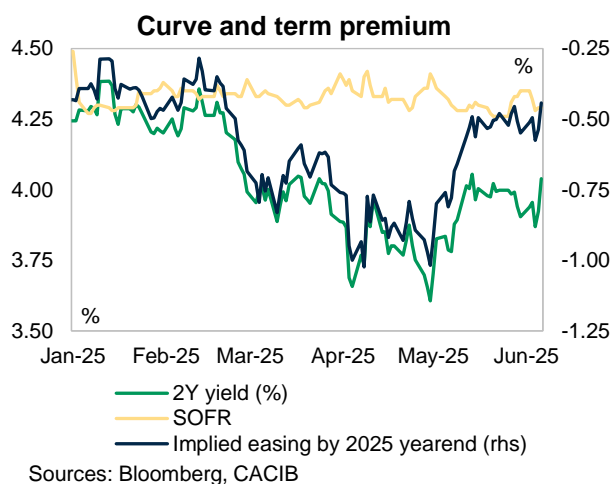
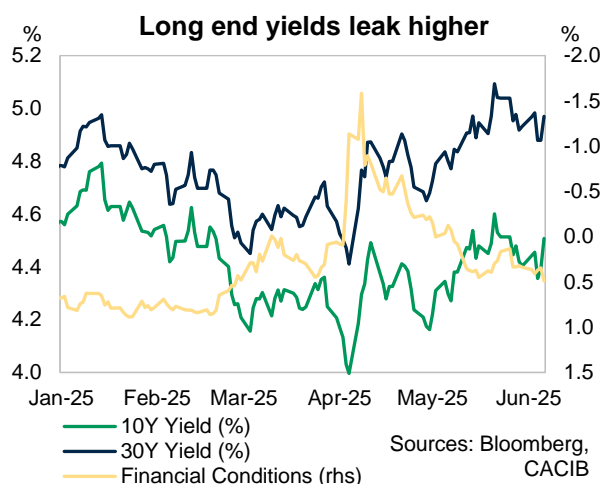
The Treasury will need to increase coupon issuance to fund tax cuts and spending, which likely puts upward pressure on term premium. Since the start of the year, 5-30Y Treasury curve has steepened over 50bp, and the 10Y ACM term premium has widened 25bp, both reflecting heightened concerns on the fiscal outlook. Hence, modestly higher long-end rates in our forecast. We expect the fiscal stimulus to push 10Y and 30Y Treasury yields towards 4.70% and 5.20% by year-end, respectively, and continued rising rates in 2026.

*The House bill adds USD3.0trn to the deficit over the next decade according to the CBO.*

With the market slashing Fed easing expectations to around 50bp by year-end, we expect front-end rates to trade in a range. There is a reduced scope for the 2Y yield volatility amid a limited easing prospect (see chart below). Markets have not only adjusted rate cut expectations by year-end from a peak of 100bp in April to 50bp currently, but also delayed the next Fed rate cut until either the September or the October FOMC meeting.

**The Fed is walking a tightrope between forward guidance and policy commitment.** Officials have reiterated that they are in no hurry to adjust rates, with the economy still in a solid position despite uncertainty and a labour market at or near maximum employment.

Alex Li



## EUROPE: END OF EASING CYCLE

**The decline of Eurozone inflation from 10% in late 2022 to its 2% target has hit few obstacles along the way**, enabling ECB rate cuts to proceed quickly now within its own neutral level assessment between 1.75-2.25%. While there is a wide country-level dispersion, the latest Eurozone GDP print of 1.2% YoY is synonymous with trend growth and the unemployment rate of 6.3% stuck at its lowest level ever observed. More importantly, we expect this to increase to 1.5% next year as Germany's fiscal expansion kicks in. Therefore, markets will be faced with a situation of inflation at target, no labour market slack and a fiscal boost, aimed at infrastructure and defence, pushing growth above potential.

**Under this scenario, and the prospects of higher UST yields in our view, we think much lower EGB yields are not realistic.** With the end of the ECB easing cycle, there will be a number of quarters with policy rates on hold while QT proceeds. To us, this points to further EGB spread compression in the months ahead as investors look for yield. Fiscally driven growth, led by Germany, should argue for investors going down the credit curve rather than higher up the yield curve for duration. Stable funding rates with reduced money market volatility should push investors into carry trades given a backdrop of zero if not negative real policy rates established by the ECB.

**Given their yield advantage, BTPs, OATs and Bonos should be favoured by investors given their carry advantage relative to Bunds.** Toward the end of this year, we believe Germany's funding plans for next year should be announced, leading to higher levels of net issuance. Meanwhile, low unemployment

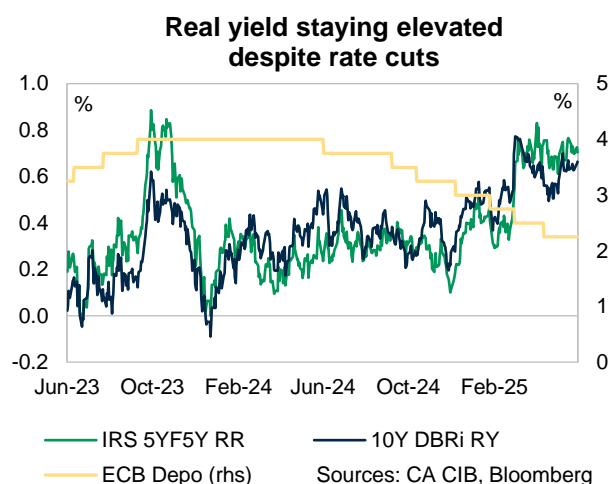
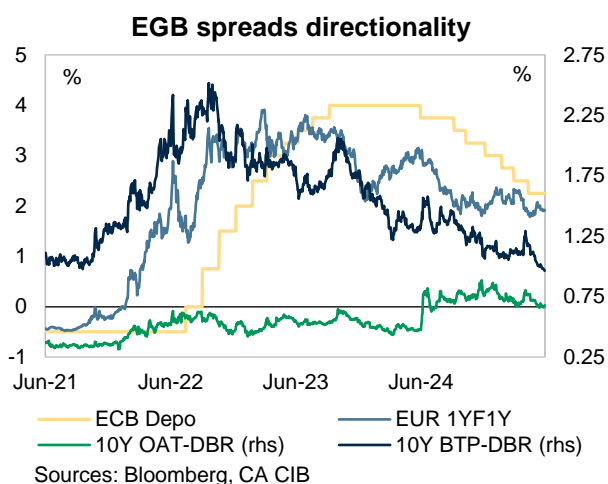
and reasonable growth will support Italy and Spain that should imply credit rating upgrades.

**For OATs, we would argue prices already reflect negative ratings prospects and political uncertainty has kept buyers away.** Political concerns are sure to resurface closer to 2027 presidential elections but in the meanwhile we have technical tailwinds and the prospects of France benefitting from increased German demand. Hence, we expect further spread compression toward Germany, albeit likely lagging Italy which has a more stable political outlook.

*With the end of the ECB easing cycle, there will be a number of quarters with policy rates on hold while QT proceeds.*

As implied, **policy rates at 2% suggest we do not see much value in 5Y Bunds at 2.05%.** To us, fiscally driven growth with a background of QT argues in favour of higher real yields. Within our forecast horizon, we think markets will start pricing in the next ECB rate cycle, which should be for higher rates given the macro background. Hence, we envisage the 5-30Y segment to start flattening due to higher growth being priced into the belly of the curve. Recall that policy easing is associated with steeper curves, while tightening generally implies flatter curves. At some point, we think 10Y Bund yields should get closer to 3% albeit dependent on what happens to UST yields, driven by higher real yields rather than inflation expectations.

**Bert LOURENCO**



## Exchange rates – The dollar is losing its lustre

The USD has been under pressure from Donald Trump's volatile, unpredictable economic (and other) policies; the deteriorated US budget outlook; speculation about any official intentions to depreciate the currency; and resistance from other economies. However, we continue to think it is too early to call the demise of the USD's reserve currency status.

### DEVELOPED COUNTRIES: ANOTHER USD-OUTLOOK DOWNGRADE

We downgrade our USD outlook yet again to take into account:

- ✓ The damage done to the US economy and USD-denominated assets by the policies of the Trump administration that could lead to further portfolio rebalancing out of the US and increase of short-USD hedges;
- ✓ Fears about the US fiscal outlook and fiscal dominance over the Fed as well as speculation about a 'Mar-a-Lago accord' to cheapen the USD that have aggravated de-dollarisation concerns;
- ✓ The resilience of other G10 economies in the face of the US-led global trade war that could fuel further repatriation flows out of the US and back into Europe and Japan as well as smaller G10 asset markets.

Unlike many of our peers, however, **we do not expect a USD collapse**. We think that reports about the USD's 'demise' as a reserve currency are exaggerated. We further think that market speculation about a Mar-a-Lago accord to cheapen the USD would not materialise, with the US likely to stick with its strong-USD policy for now. We also expect that President Donald Trump's policies would ultimately pave the way to a robust US economic recovery. This should allow the Fed to hold off on any aggressive policy easing, especially if US inflation remains sticky. In our updated FX forecasts, we therefore see frontloaded USD weakness that should be followed by a gradual recovery in 6-12M.

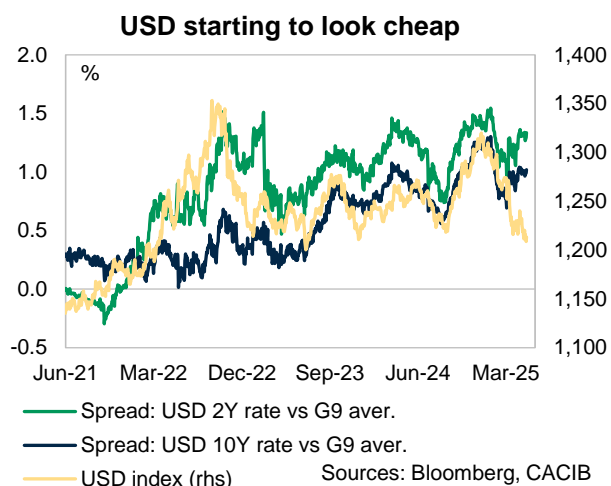
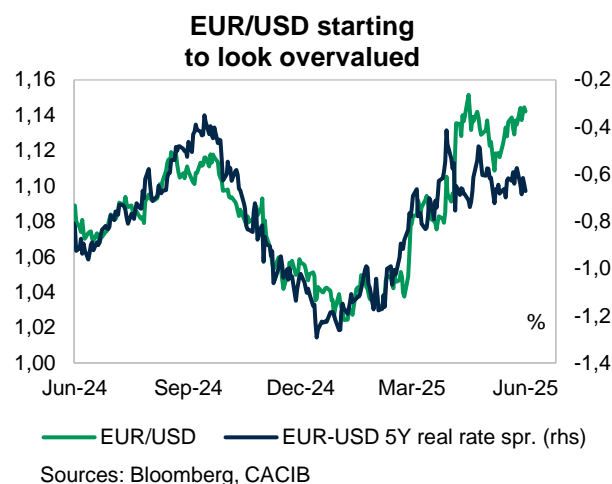
We upgrade our EUR/USD forecast profile and now see it at 1.14 in Q425 before reversing some of its gains in 2026. The EUR should continue to benefit from

repatriation flows and a revival of the Eurozone animal spirits ahead of the fiscal stimulus rollout. In the long term, the Eurozone growth outlook could once again lag behind the US, however, while the relatively more dovish ECB could keep the EUR at a rate disadvantage. We expect the GBP to continue to outperform both the EUR and USD in 2025 given that the UK economy could benefit from abating trade/Brexit tensions with the US and the EU, respectively. Following the upgrade of the EUR forecasts, we now see GBP/USD at 1.38 in Q425 and 1.36 in Q426.

*We expect the GBP to continue to outperform both the EUR and USD in 2025.*

**The JPY will benefit from investors continuing to diversify away from US assets as well as being a good hedge against stagflation risks in the US.** CHF strength may cool more gradually than previously thought, as negative rates prospects are yet to rein in demand for safe havens. Investor concerns about a global trade war have peaked leaving the AUD and NZD on an upward path. They will also benefit from investors diversifying away from US and towards Asian assets as well as markets being too aggressively priced for further local rate cuts. The CAD's near-term fate remains uncertain, although threats have seemingly receded on the back of warmer US-Canada relations. This year's SEK outperformance could be cemented by a higher EUR/USD profile, while in contrast our constructive NOK view is tamed by recent weakness in global energy markets.

Valentin MARINOV





## EMERGING COUNTRIES: EMERGING COUNTRIES: RESILIENT DESPITE STRONG HEADWINDS

**EM currencies have been surprisingly resilient in H1, despite the increased global uncertainty since Donald Trump became President of the US again.** Looking forward, we expect such resilience to last, limiting EM FX weakness, despite persisting global tensions, particularly on tariffs.

*Tariffs*

On US tariffs the darkest version of the tariff nightmare has not materialised... so far. Just after “Liberation Day” (2 April), EM currencies weakened. However, a pause was announced by Trump a few days later, and this led to a rebound in EM currencies.

**Looking ahead, the issue of tariffs remains central. It is obviously difficult to make precise assumptions on what will eventually happen** (timing, levels, perimeters). According to what we think is a balanced base-case assumption, the pause on tariffs will likely end during the summer and average tariffs on US imports will increase significantly. They may not return to the “Liberation Day” levels, though, and they will be differentiated, depending on whether the US trade partners have managed to secure deals.

**Within the EM world, combining trade openness, exposure to the US and bilateral trade positions, Asia is the region that should pay the largest part of the bill**, although other smaller economies should also be impacted.

However, Asia is also the EM region with the strongest macro balance sheets, on average (sovereign profile and balance of payments). Also, it has benefited from lower oil prices (although what happens next for oil depends on the rising Middle East tensions).

*USD, still a safe haven?*

**EM FX resilience also reflects the partial erosion of the safe-haven status of the USD.** To be sure, the USD remains central, still highly rated, providing a large amount of liquid and low risk assets. It remains by far the most obvious reserve currency in the world.

Still, the versatility of the US governance, and doubts about the sustainability of the US debt trajectory (particularly with the vote on the “Big Beautiful” bill and Moody’s downgrade), have capped market appetite for the USD. This has contributed to softening the USD, and buffering EM FX against depreciation.

*The partial erosion of the USD safe-haven status tends to fuel EM FX resilience.*

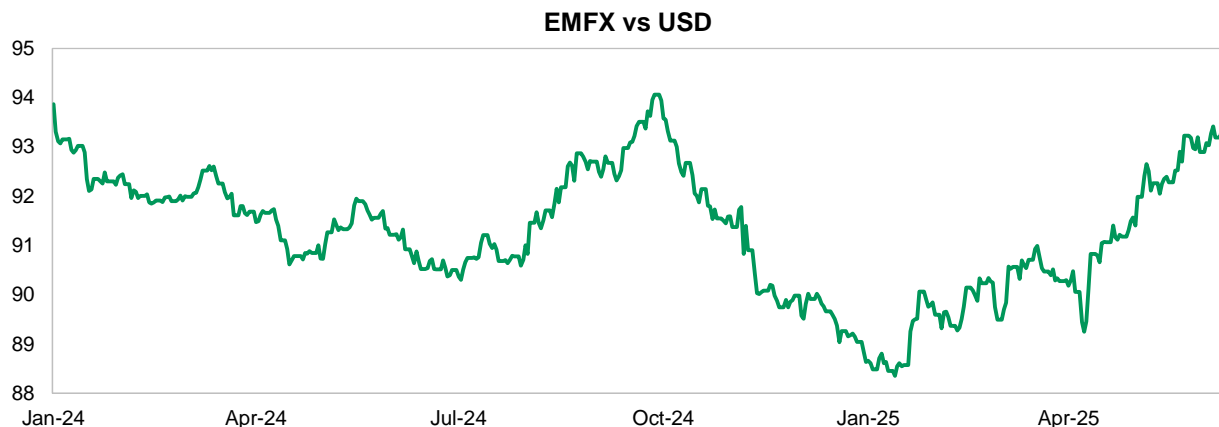
**In our view, this factor will remain at work in H2, as there are many areas where the versatility of the US policy making could last** (not only tariffs, but also the fiscal policy, interactions between the Trump administration and the Fed). EM FX should also be buffered by the reasonably resilient growth outlook, still high interest rates in some EMs and, decent trade positions (see the dedicated EM macro section of this publication).

*EM FX profile*

**As a whole, our EM FX forecast displays a fairly resilient profile.** Considering a basket of EM currencies vs USD, we expect some (limited) depreciation in the short term which would reflect the absorption of the tariff increase by the market. Then into the autumn and winter, we would expect broad stability, with a slight risk to the upside, given the resilience factors mentioned above.

On a region-by-region basis, we expect **Latam currencies to weaken**, but mostly on idiosyncratic factors (including sovereign profiles). **CE4 FX and ZAR should be resilient or appreciate slightly; the TRY should continue to depreciate at a controlled pace.** Asia FX should weaken on tariff announcements, but then prove resilient on average during the rest of the year. **The CNY may soften gradually during the rest of the year for the same reason**, but only in to a limited extent.

Sébastien BARBÉ



Sources: Bloomberg, Crédit Agricole CIB



# ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

## ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price * (yoy, %)			Current account (% of GDP)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
United States	2.8	1.5	2.2	2.9	2.7	2.7	-3.9	-3.6	-3.5
Japan	0.2	0.7	1.0	2.4	2.7	1.3	4.7	2.5	2.0
Eurozone	0.8	0.9	1.3	2.4	2.2	1.8	2.6	2.0	1.9
Germany	-0.2	0.1	1.2	2.5	2.3	2.2	5.7	5.2	5.0
France	1.1	0.6	1.2	2.3	0.9	1.3	0.4	-0.1	0.0
Italy	0.7	0.6	0.7	1.1	1.6	1.3	0.9	1.8	1.7
Spain	3.2	2.3	2.0	2.6	1.9	2.0	3.0	1.0	1.6
Netherlands	1.0	1.4	1.4	3.2	2.4	2.0	9.9	10.4	10.5
Belgium	1.0	1.1	1.3	4.3	2.9	1.8	-0.9	-1.1	-1.3
Other advanced									
United Kingdom	1.1	1.1	1.1	2.5	3.2	2.2	-2.7	-2.9	-3.3
Canada	1.6	1.1	1.5	2.4	2.0	2.1	-0.5	-0.8	-1.0
Australia	1.2	2.1	2.2	3.3	3.3	3.0	-0.9	-1.1	-1.3
Switzerland	1.3	0.8	1.6	1.1	0.3	0.5	5.1	4.6	7.2
Sweden	0.9	1.9	2.1	2.8	1.1	2.0	7.4	6.8	6.6
Norway	0.6	1.7	1.9	3.1	2.6	2.1	16.9	14.6	12.5
Asia	5.2	4.6	4.7	1.7	1.4	1.9	2.0	1.5	1.2
China	5.0	4.6	4.3	0.2	0.1	0.6	2.2	1.6	1.1
India	6.8	6.3	6.7	4.9	3.6	4.7	-1.4	-1.6	-1.7
South Korea	2.0	0.8	2.3	2.3	2.0	2.0	5.3	4.8	4.9
Indonesia	5.0	4.7	4.9	2.3	2.0	2.2	-0.6	-1.0	-1.2
Taiwan	4.6	2.6	2.5	2.2	1.9	1.8	14.3	13.0	12.2
Thailand	2.5	2.2	2.3	0.4	1.0	1.2	2.2	2.8	3.2
Malaysia	5.1	4.2	4.3	1.8	2.3	2.2	1.7	2.0	2.5
Singapore	4.4	1.7	2.0	2.4	1.2	1.6	17.5	16.6	17.5
Hongkong	2.5	2.3	2.2	1.8	2.5	2.2	11.3	10.7	10.0
Philippines	5.6	6.0	6.1	3.2	2.0	3.2	-3.5	-3.5	-2.9
Vietnam	7.1	6.1	6.0	3.6	3.2	3.3	4.5	5.6	4.1
Latin America	2.4	2.3	2.4	3.7	3.1	2.7	-1.3	-1.6	-1.8
Brazil	3.4	1.9	1.7	4.4	4.8	4.2	-2.8	-2.5	-2.0
Mexico	1.2	0.0	1.2	4.7	3.8	3.3	-0.3	-0.5	-0.8
Emerging Europe	3.2	2.1	2.3	20.9	13.7	7.8	0.6	0.3	0.2
Russia	4.1	1.5	1.5	8.4	6.8	5.5	3.0	2.2	2.1
Turkey	3.0	3.0	3.2	60.1	36.0	17.0	-1.5	-1.5	-1.5
Poland	2.9	3.1	3.3	3.6	3.5	2.7	0.1	0.2	0.1
Czech Republic	1.0	2.0	2.1	2.5	2.4	2.2	1.8	1.2	0.6
Romania	0.8	1.5	2.3	5.6	4.8	3.5	-8.3	-7.0	-6.5
Hungary	0.5	1.0	2.5	3.7	4.5	3.5	2.1	1.5	1.0
Africa, Middle East	1.4	2.7	2.7	12.3	10.4	9.2	2.8	1.6	1.1
Saudi Arabia	1.3	3.9	3.7	1.7	2.3	2.1	-0.5	-1.8	-2.1
United Arab Emirates	3.8	4.5	4.7	1.7	2.2	2.0	9.1	8.8	8.3
South Africa	0.6	1.5	1.3	4.4	3.8	4.5	-0.6	-1.5	-1.8
Egypt	2.4	3.9	4.3	33.2	21.0	15.6	5.4	5.8	4.2
Algeria	3.2	2.9	2.9	4.1	5.0	5.3	-0.7	-2.7	-3.2
Qatar	2.4	2.5	5.2	1.3	1.7	2.0	18.0	12.5	13.9
Koweit	-2.8	3.1	2.2	2.9	2.3	2.2	29.1	21.2	19.2
Morocco	3.2	3.8	3.5	0.9	2.1	2.5	-1.5	-1.9	-2.2
Tunisia	1.4	1.6	1.5	7.0	6.0	6.5	-1.7	-2.5	-2.8
Total	3.0	2.7	2.9	4.3	3.4	2.9	0.8	0.4	0.2
Advanced economies	1.5	1.1	1.6	2.5	2.3	2.0	0.0	-0.4	-0.4
Emerging countries	4.2	3.9	3.9	5.7	4.2	3.6	1.5	1.1	0.8

\* HICP for euro area countries, CPI for others

	2024				2025				2026			
Real GDP growth, QoQ %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA (annualised)	1.6	3.0	3.1	2.4	-0.2	1.5	1.2	1.9	2.5	2.5	2.4	2.4
Japan	-0.3	1.0	0.2	0.6	0.0	-0.1	0.1	0.2	0.3	0.3	0.4	0.4
Eurozone	0.3	0.2	0.4	0.3	0.6	-0.3	0.1	0.3	0.5	0.4	0.5	0.4
Germany	0.2	-0.3	0.1	-0.2	0.4	-0.3	0.1	0.1	0.7	0.3	0.3	0.4
France	0.1	0.2	0.4	-0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3
Italy	0.2	0.2	0.0	0.2	0.3	0.2	0.0	0.1	0.2	0.1	0.3	0.2
Spain	1.0	0.8	0.7	0.7	0.6	0.6	0.3	0.3	0.5	0.6	0.6	0.7
United Kingdom	0.9	0.5	0.0	0.1	0.7	0.1	0.2	0.2	0.3	0.3	0.4	0.4

	2024				2025				2026			
Consumer prices, YoY %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	3.2	3.2	2.6	2.7	2.8	2.4	2.7	2.9	2.8	2.7	2.6	2.6
Japan	3.2	2.2	2.0	2.3	2.7	3.1	2.8	2.1	1.5	1.1	1.2	1.4
Eurozone	2.6	2.5	2.2	2.2	2.3	2.1	2.2	2.1	1.7	1.9	1.7	1.8
Germany	2.7	2.6	2.2	2.5	2.6	2.2	2.2	2.3	2.2	2.2	2.1	2.2
France	3.0	2.5	2.1	1.7	1.2	0.7	0.8	0.8	1.0	1.3	1.5	1.5
Italy	1.0	0.9	1.2	1.3	1.8	1.9	1.5	1.2	0.9	1.4	1.4	1.4
Spain	3.2	3.6	2.3	2.4	2.7	2.2	2.9	2.7	1.9	1.9	1.8	1.8
United Kingdom	3.5	2.1	2.0	2.5	2.8	3.4	3.4	3.3	2.8	1.9	2.1	1.9

	2024				2025				2026			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	3.8	4.0	4.2	4.1	4.1	4.3	4.5	4.4	4.3	4.3	4.2	4.1
Japan	2.6	2.6	2.5	2.5	2.5	2.6	2.7	2.7	2.6	2.6	2.6	2.6
Eurozone	6.5	6.5	6.4	6.2	6.3	6.3	6.3	6.2	6.2	6.1	6.1	6.1
Germany	3.3	3.4	3.5	3.4	3.6	3.5	3.5	3.4	3.3	3.3	3.3	3.3
France	7.5	7.3	7.4	7.3	7.4	7.6	7.7	7.7	7.7	7.7	7.7	7.7
Italy	7.1	6.8	6.3	6.1	7.1	6.8	6.3	6.1	7.1	6.8	6.3	6.1
Spain	11.8	11.6	11.3	10.8	10.8	10.4	10.2	10.0	9.8	9.6	9.4	9.3
United Kingdom	4.4	4.2	4.3	4.4	4.5	4.7	4.9	5.0	5.0	5.0	5.0	5.0



	GDP (b)	Private consumption (b)	Public consumption (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
<b>Eurozone</b>								
2024	0.8	1.0	2.4	-1.8	1.0	0.1	0.5	0.1
2025	0.9	1.2	1.1	2.5	1.2	2.7	-0.6	0.2
2026	1.3	1.1	1.0	3.0	2.0	2.5	-0.2	0.3
Q1 2025	0.6	0.2	0.0	1.8	1.8	1.4	0.3	0.1
Q2 2025	-0.3	0.2	0.2	-0.9	-0.7	0.5	-0.6	0.3
Q3 2025	0.1	0.3	0.1	0.7	0.0	0.4	-0.2	0.3
Q4 2025	0.3	0.3	0.2	0.7	0.5	0.6	0.0	0.3
<b>Germany</b>								
2024	-0.2	0.2	3.2	-2.5	-1.7	-0.6	-0.5	0.0
2025	0.1	0.7	1.5	1.9	-1.3	1.6	-1.2	0.2
2026	1.2	0.4	1.8	5.6	1.0	2.2	-0.5	-0.1
Q1 2025	0.4	0.5	-0.3	0.9	3.2	1.1	0.9	-0.9
Q2 2025	-0.3	-0.3	0.4	0.9	-1.8	0.2	-0.9	0.4
Q3 2025	0.1	0.1	0.4	0.9	0.2	0.3	0.0	-0.2
Q4 2025	0.1	0.1	0.4	0.9	0.2	0.3	0.0	-0.2
<b>France</b>								
2024	1.1	1.0	1.4	-1.3	2.4	-1.3	1.2	-0.7
2025	0.6	0.7	0.8	0.0	-0.9	1.9	-0.9	0.8
2026	1.2	1.1	0.3	1.7	2.0	1.8	0.1	0.0
Q1 2025	0.1	-0.2	0.2	0.0	-1.8	0.5	-0.8	1.0
Q2 2025	0.1	0.2	0.2	0.2	0.2	0.3	0.0	-0.1
Q3 2025	0.2	0.3	0.1	0.3	0.4	0.4	0.0	0.0
Q4 2025	0.3	0.3	0.1	0.3	0.6	0.5	0.0	0.0
<b>Italy</b>								
2024	0.5	0.4	1.1	0.0	-0.3	-1.5	0.3	-0.2
2025	0.6	0.8	0.1	2.0	2.3	3.6	-0.3	0.0
2026	0.7	0.8	0.3	1.3	-0.3	-0.1	-0.1	-0.1
Q1 2025	0.3	0.2	-0.3	1.6	2.8	2.6	0.1	-0.3
Q2 2025	0.2	0.2	0.0	-0.2	0.9	1.0	0.0	0.1
Q3 2025	0.0	0.2	0.0	0.1	-0.9	-0.7	-0.1	0.0
Q4 2025	0.1	0.2	0.1	0.2	-0.1	-0.2	0.0	-0.1
<b>Spain</b>								
2024	3.2	2.9	4.1	3.0	3.1	2.4	0.3	-0.2
2025	2.3	2.6	1.9	4.3	2.1	3.1	-0.2	-0.1
2026	2.0	2.1	1.1	3.5	2.0	2.5	-0.1	0.0
Q1 2025	0.6	0.4	0.2	1.1	1.0	0.7	0.1	-0.1
Q2 2025	0.6	0.5	0.2	0.6	0.7	0.4	0.1	0.0
Q3 2025	0.3	0.5	0.2	0.8	0.1	0.5	-0.1	0.0
Q4 2025	0.3	0.4	0.2	0.6	0.4	0.8	-0.1	0.0
<b>Portugal</b>								
2024	1.9	3.2	1.1	3.1	3.3	5.0	-0.8	0.0
2025	1.6	2.2	1.1	2.1	1.7	3.4	-0.9	0.5
2026	2.3	2.0	0.9	5.7	2.6	3.1	-0.3	0.4
Q1 2025	-0.5	-1.1	0.4	-2.5	-0.4	1.0	-0.7	0.0
Q2 2025	0.0	0.3	0.2	1.8	1.3	0.8	0.2	0.4
Q3 2025	1.2	0.5	0.1	2.3	0.6	0.4	0.1	0.3
Q4 2025	0.9	0.5	0.1	2.0	0.4	0.6	-0.1	0.3
<b>Netherlands</b>								
2024	1.0	1.0	3.6	-0.5	0.1	0.0	0.1	-0.4
2025	1.4	2.0	1.8	0.7	0.8	1.1	-0.1	0.1
2026	1.4	1.9	1.3	2.8	2.0	2.5	-0.2	-0.1
Q1 2025	0.1	-0.2	0.5	-2.2	-0.8	-0.1	-0.6	1.1
Q2 2025	0.3	1.1	0.1	0.1	0.5	0.6	0.0	-0.2
Q3 2025	0.3	0.6	0.1	0.5	0.5	0.6	0.0	0.0
Q4 2025	0.3	0.4	0.1	1.0	0.5	0.6	0.0	-0.1
<b>United Kingdom</b>								
2024	1.1	0.6	3.0	1.5	-1.2	2.7	-1.3	0.2
2025	1.1	0.9	1.1	2.3	0.3	6.8	-2.3	0.3
2026	1.1	1.2	2.4	3.0	1.8	5.1	-1.3	0.2
Q1 2025	0.7	0.2	-0.5	2.9	3.5	2.1	0.4	-0.4
Q2 2025	0.1	0.3	0.5	-2.0	-2.5	2.0	-1.5	-0.1
Q3 2025	0.2	0.2	0.6	0.8	1.0	1.5	-0.2	0.0
Q4 2025	0.2	0.2	0.6	0.8	0.6	1.0	-0.2	0.0

(a) contribution to GDP growth (% , q/q)

(b) q/q, %

## INTEREST RATES

Short-term interest rates		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Etats-Unis	Fed funds	4.50	4.25	4.00	4.00	4.00	4.00	4.00
	Sofr	4.31	4.07	3.82	3.82	3.82	3.82	3.82
Japon	Call rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Eurozone	Refinancing	2.15	2.15	2.15	2.15	2.15	2.15	2.40
	Deposit	2.00	2.00	2.00	2.00	2.00	2.00	2.25
	€str	1.92	1.93	1.93	1.93	1.93	1.93	2.18
	Euribor 3m	2.04	1.96	1.97	1.98	1.99	2.00	2.25
United-Kingdom	Base rate	4.25	4.00	3.75	3.50	3.50	3.50	3.50
	Sonia	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Sweden	Repo	2.25	2.25	2.25	2.25	2.00	2.00	2.00
Norway	Deposit	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Canada	Overnight	2.75	2.50	2.50	2.50	2.50	2.50	2.50

10Y rates		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USA		4.39	4.55	4.70	4.80	4.90	4.90	4.95
Japan		1.42	1.50	1.60	1.90	1.95	2.20	2.25
Eurozone (Germany)		2.50	2.73	2.92	2.97	3.00	2.94	2.95

Spread 10 ans / Bund		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
France		0.74	0.65	0.60	0.55	0.60	0.60	0.65
Italy		1.01	1.00	0.95	0.90	0.90	0.85	0.90
Spain		0.70	0.60	0.60	0.55	0.55	0.55	0.50

Asia		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
China	7d reverse repo rate	1.40	1.30	1.10	1.10	1.00	1.00	1.00
Hong Kong	Base rate	5.50	5.50	5.25	5.25	5.25	5.25	5.25
India	Repo rate	5.50	5.00	4.75	4.75	4.75	4.75	4.75
Indonesia	7D (reverse) repo rate	2.50	2.25	2.25	2.00	2.00	2.00	2.00
Korea	Base rate	3.00	3.00	2.75	2.75	2.50	2.50	2.50
Malaysia	OPR	5.50	5.00	5.00	5.00	5.00	5.00	5.00
Philippines	Repo rate	1.81	2.20	2.15	2.15	2.15	2.10	2.10
Singapore	O/N SORA	2.00	2.00	2.00	2.00	1.88	1.88	1.88
Taiwan	Redisc	1.75	1.25	1.25	1.25	1.25	1.25	1.25
Thailand	Repo	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Vietnam	Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Latin America								
Brazil	Overnight/Selic	5.00	5.00	5.00	4.50	4.50	4.50	4.50
Mexico	Overnight rate	0.00	4.50	4.50	4.50	4.50	4.50	4.50
Emerging Europe								
Czech Rep.	14D repo	6.50	6.25	6.00	5.50	5.25	4.75	4.50
Hungary	Base rate	0.00	4.75	4.75	4.25	4.25	4.25	4.25
Poland	7D repo	6.50	6.50	6.50	6.25	6.00	5.50	5.25
Romania	2W repo	20.00	18.00	16.00	15.00	14.00	12.00	12.00
Russia	1W auction rate	7.25	7.00	6.75	6.75	6.75	6.75	6.75
South Africa	Repo	46.00	41.00	36.00	33.00	29.00	26.00	24.00

## EXCHANGE RATES

## USD Exchange rate

Industrialised countries		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Euro	EUR/USD	1.15	1.13	1.14	1.13	1.12	1.11	1.10
Japan	USD/JPY	145.4	143.0	142.0	145.0	146.0	147.0	148.0
United Kingdom	GBP/USD	1.34	1.36	1.38	1.38	1.37	1.36	1.36
Switzerland	USD/CHF	0.82	0.85	0.85	0.86	0.88	0.88	0.89
Canada	USD/CAD	1.37	1.40	1.38	1.37	1.36	1.35	1.35
Australia	AUD/USD	0.65	0.66	0.68	0.68	0.69	0.70	0.70
New Zealand	NZD/USD	0.60	0.60	0.61	0.62	0.62	0.64	0.64

## Euro Cross rates

Industrialised countries		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Japan	EUR/JPY	167	162	162	164	164	163	163
United Kingdom	EUR/GBP	0.85	0.83	0.83	0.82	0.82	0.81	0.81
Switzerland	EUR/CHF	0.94	0.96	0.97	0.97	0.98	0.98	0.98
Sweden	EUR/SEK	11.06	10.90	10.80	10.70	10.60	10.50	10.50
Norway	EUR/NOK	11.55	11.40	11.20	11.00	10.80	10.60	10.50

Asia		19-juin	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
China	USD/CNY	7.19	7.23	7.25	7.26	7.28	7.27	7.26
Hong Kong	USD/HKD	7.85	7.80	7.78	7.76	7.76	7.77	7.77
India	USD/INR	86.72	85.00	84.50	84.00	83.50	83.25	83.00
Indonesia	USD/IDR	16390	16500	16400	16400	16300	16400	16500
Malaysia	USD/MYR	4.26	4.25	4.20	4.25	4.30	4.30	4.30
Philippines	USD/PHP	57.4	56.0	55.5	56.0	56.3	56.5	56.5
Singapore	USD/SGD	1.29	1.30	1.29	1.29	1.30	1.31	1.31
South Korea	USD/KRW	1379	1390	1380	1370	1360	1360	1370
Taiwan	USD/TWD	29.6	30.2	30.0	30.0	30.2	30.3	30.4
Thailand	USD/THB	32.8	34.5	35.0	35.5	36.0	35.8	35.6
Vietnam	USD/VND	26123	25700	25600	25400	25300	25500	25500
Latin America								
Brazil	USD/BRL	5.49	5.75	5.80	5.85	5.90	5.95	5.90
Mexico	USD/MXN	19.04	20.50	20.75	21.00	21.00	21.00	21.00
Africa								
South Africa	USD/ZAR	18.09	17.70	17.50	17.40	17.40	17.60	17.70
Emerging europe								
Poland	USD/PLN	3.72	3.79	3.75	3.78	3.80	3.83	3.85
Russia	USD/RUB	78.37	80.00	83.00	86.00	87.00	88.00	88.00
Turkey	USD/TRY	39.48	40.50	41.20	41.80	42.20	42.60	43.00
Central Europe								
Czech Rep.	EUR/CZK	24.82	24.60	24.40	24.20	24.10	24.00	23.90
Hungary	EUR/HUF	403	395	385	380	370	368	365
Poland	EUR/PLN	4.28	4.28	4.28	4.27	4.26	4.25	4.24
Romania	EUR/RON	5.03	5.10	5.10	5.10	5.10	5.10	5.10

## COMMODITIES

Av. quarter price		19-juin	2025			2026			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	78	66.0	70	63.0	60.0	65.0	70.0	72.0

Av. quarter price		19-juin	2025			2026			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	3,364	3,200	3,300	3,500	3,300	3,200	3,100	3,000

## PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2024	2025	2026	2024	2025	2026
United States	-6.5	-6.8	-6.6	99.5	101.9	104.0
Japan	-4.5	-3.5	-2.5	232.4	223.3	215.3
Eurozone	-2.9	-2.5	-2.4	87.9	88.5	89.1
Germany	-2.8	-1.3	-1.4	62.4	62.4	62.2
France	-5.8	-5.6	-5.1	113.2	117.2	119.0
Italy	-3.2	-3.4	-2.9	135.6	136.8	139.4
Spain	-3.1	-2.9	-2.8	102.3	102.1	103.2
Netherlands	-0.9	-2.2	-2.8	43.4	46.4	49.9
Belgium	-4.5	-5.4	-5.6	104.7	104.7	106.4
Greece	-1.2	-1.0	-0.7	156.8	148.4	145.4
Ireland	4.3	2.2	1.0	40.9	35.5	34.7
Portugal	0.3	0.4	0.4	96.0	92.1	88.1
United Kingdom	-6.0	-4.7	-4.0	101.3	103.0	104.3

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