WORLD

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ECO
ÉTUDES ÉCONOMIQUES GROUPE

Hoping for a hint of stability...

In an international environment that is still as anxiety-provoking as ever, uncertainties remain, numerous and multifaceted. Nevertheless, hoping that those emanating from US economic policy will calm down (and that at least tariffs will stabilise), the scenario is staying the course. It is characterised by a slowdown without recession in the US, followed by an acceleration in 2026, a continued recovery in the Eurozone thanks to investment support and, while China in the grip of 'involution' is seeing its growth performance erode, an 'emerging universe' that continues to show unprecedented resilience.

In the **US**, the first half of the year was turbulent in terms of both sentiment and growth: after having been lulled by the successes promised by the 'US exception' and the privileges offered by the status of the USD, investors expressed their disaffection at the end of the sensational 'Liberation Day'. From an economic point of view, in anticipation of aggressive tariffs, imports jumped in Q1, before falling sharply: they weighed on growth before providing support. After falling by 0.6% in Q1 (annualised quarterly variation), GDP grew by 3.8% in Q2.

And yet, the broad outlines of our US scenario, based on the foreseeable timetable of the Trump administration's radical economic decisions, have not changed: a slowdown this year (aggressive tariff increases, anti-immigration policy, inflation), then a slight rebound next year (support provided by the One Big Beautiful Bill Act, deregulation). Our scenario thus assumes average annual growth of 1.7% in 2025, down significantly from 2.8% in 2024, before an acceleration to 2% in 2026. The current deceleration is accompanied by a weakening of the labour market. While the pace of job creation is slowing, layoffs remain moderate, as are the upward pressures on the unemployment rate. The latter could reach a peak of around 4.5% by the end of the year.

Despite the still limited adjustment in the labour market, attention has recently focused on the growing vulnerability of employment, to the point of overshadowing concerns about inflation. However, tariffs, at their maximum impact point, would add nearly 80bp to the increase in prices over one year. The impulse would be largely temporary but could drive headline and core inflation towards 3.2% by the end of 2025. Inflation would still significantly exceed the 2% target at the end of 2026: our forecasts place core and headline inflation at around 2.9% and 2.7% respectively. It is therefore bold to assume that the Fed will neglect the inflation component of its mandate in favour of the employment component alone.

In the **Eurozone**, despite the reluctance of consumption and a more unfavourable external environment, the recovery continues. Echoing US behaviour, sustained growth (2.4% in annualised quarterly variation), fuelled by a rebound in exports in Q1, was followed by a sharp cooling, which nevertheless left growth in positive territory (0.4%) and offered a comfortable carryover. Even if the repercussions of tariffs (ultimately less aggressive than feared) continue to weigh slightly on Q3, progress already achieved now allows us to expect GDP growth of 1.3% in 2025, the pace of which should be maintained in 2026.

> ***Hoping that the uncertainties emanating from US economic policy calm down (and that, at the very least, tariffs stabilise), the scenario is staying the course.***

Past resilience is related to domestic demand: it has weakened but is at a slightly higher pace than its long-term trend, and investment, in particular, has weathered uncertainty well. As for the scenario of maintaining growth at its potential pace, it is based, above all, on investment, driven by European funds, defence spending and the German recovery plan. In contrast, the impact of the Turnberry trade agreement, concluded this summer between the EU and the US, would be marginally negative, subtracting 0.1ppt from growth in 2026 compared to our previous scenario.

In a context that should have clearly weakened them, the economies of the '**emerging bloc**' continue to hold up well. They are benefiting from the disaffection with the USD, which is easing pressure on their currencies and interest rates (local and USD), from disinflation and from the good performance of their labour markets. Their growth could thus approach an average of 3.9% in 2025 and 2026: a good performance that should not lead one to underestimate (or even to forget) the fragilities. These economies remain exposed to a potential market shock, they face a downward trend in their average growth and will have to adapt to a new competitive environment while dealing with the Chinese trajectory: the risks linked to the phenomenon of 'involution' go beyond China alone and fuel the fear of deflation exported to Asia.

In **China**, the persistent weakness in consumption, the prolonged correction in the real estate market and overcapacity in various sectors (steel, electric vehicles, solar or electronics) continue to fuel deflationary pressures, particularly visible on producer prices, which could fall by 2.6% in 2025. This phenomenon, called 'involution', is now officially 'denounced' by the authorities, who want to curb excessive price competition and tackle overcapacity. The first impact of the 'anti-involution campaign' was to reduce the fall in producer prices, without any major stimulus effect on demand. Even if support measures are being stepped up, many of them are structural reforms and their positive impact on inflation will not be felt immediately. Inflation is expected to remain almost non-existent at 0.1% in 2025, before rising to 0.6% in 2026. Due to the increase in US tariffs, the persistent weakness of domestic demand and despite various shock absorbers (reorientation of Chinese exports, resilience of global demand, support provided by the policy mix), growth is expected to continue to slow from 5% in 2024 to 4.8% in 2025 and 4.4% in 2026.

On the **monetary policy** side, this is not the time for relaxation. In the US, the resilience of inflation is likely to disillusion the proponents of rapid and massive monetary easing. In the Eurozone, inflation towards target and the recovery, albeit modest, argue in favour of a status quo, followed by tightening, albeit still a long way off. Anxious to avoid second-round effects, the BoE could postpone its next rate cut. As for Japan, while moving away, rate hikes remain on the agenda.

Specifically, in the US, our scenario is for a further cut before the end of the year, lowering the upper bound of the Fed Funds rate range to 4%, at which point the Fed is expected to pause throughout 2026. This scenario is quite far from that of the market (which anticipates 110bp b of cuts by the end of 2026) and considers, in particular, that the checks and balances seem sufficient to allow the Fed to resist the pressure of the Trump administration. As for the ECB, in June it lowered its deposit and refinancing rates to 2% and 2.15% respectively, levels at which it is expected to maintain them before raising them slightly, when the economic improvement poses a risk of inflationary pressures. This increase would only take place after the recovery is over, and therefore not before the end of 2026 at the earliest.

Interest rates are expected to come under moderate upward pressure. In the US, the possible resurgence of inflationary concerns and disappointed hopes of massive monetary easing could result in a modest rise in interest rates coupled with a flattening of the curve. Encouraged by European growth that is more resilient than expected, then supported by fiscal expansion in Germany, this movement is expected to spread to the Eurozone.

In our US scenario, the yield on 2Y Treasury bonds, which has room to rise, is expected to reach 3.70% by the end of 2025. Also at the end of 2025, the 10Y yield on US Treasuries would be at 4.30%, but the 30Y rate (4.85%) would struggle to cross the ‘psychological threshold’ of 5%, thanks to demand from pension funds. The German 10Y yield (Bund) is expected to reach 2.80%. The revamping of the hierarchy between Eurozone sovereigns would continue with a spread against the Bund of 50bpfor Spain, on the one hand, and 75bp for France and Italy, on the other.

Finally, weighed down by a wave of disenchantment in the wake of the sensational ‘Liberation Day’, as well as by certainly exaggerated expectations of monetary easing, the **USD** suffered. While capital inflows to the US have not dried up and the easing is likely to be less than expected, the USD could ‘smile again’. However, patience is needed before the EUR depreciates: our scenario assumes that the EUR against the USD would be close to recent highs at the end of 2025 (1.17), before falling in 2026 (towards 1.10 at the end of the year).

Catherine LEBOUGRE

Focus Geopolitics – Trump accelerates the fragmentation scenario

Accelerated fragmentation is the underlying trend in the global geopolitical scenario. Despite its significance, this phenomenon is not priced into the market, as it is difficult to quantify the risk premium associated with geopolitical risk. However, geopolitical fragmentation increasingly shapes expectations, albeit subtly, especially those of direct investors.

This fragmentation is clearly visible in trade and investment flows, with two key indicators standing out: (1) the pace of progressive decoupling between the US and China; and (2) the development of South-South flows. Geopolitical fragmentation also concretely refers to the risk of fragmentation of normative and legal spaces, as the West – losing soft power – struggles to impose or even promote its standards. Finally, geopolitical fragmentation also has a very important diplomatic dimension, through the increasingly opportunistic behaviour of many states. This shift weakens the notion of alliance, further undermined by US President Donald Trump's policies.

The major beneficiary of fragmentation: realist geopolitics

This is particularly visible within the G20. Now, many countries seek partners 'à la carte', depending on the issue and timing. This plasticity in international relations reflects the rise of 'geopolitical realism', increasingly embraced by Global South countries that tend to prioritise national interest. From this perspective, one country can be in serious conflict with a state on one front, while collaborating closely on another. However, this diplomacy of pragmatism, leading to a strategy of 'multi-alignment', does not align well with 'human rights geopolitics'. The latter implies alliances based not only on common interests but also on shared values. In this context, the term "like-minded countries" – popularised by executive orders under former US President Joe Biden's – has become a recurring feature in strategic documents, discreetly covering the value compromises that geopolitical realism imposes.

The annual summit of the Shanghai Cooperation Organization (SCO), held in Tianjin, northern China, offered a vivid illustration of this complex reconfiguration of the global order. Through carefully orchestrated staging, the SCO was transformed into a platform for strategic political messaging by the Sino-Russian axis – a significant move, given the major role public opinions play in shaping the geopolitical scenario. Beijing and Moscow have clearly grasped this trend, and multiplied symbolic gestures, against the backdrop of adopting Russian and Mandarin as working languages. These gestures targeted four audiences: (1) international public opinion; (2) Central Asian societies; (3) Russian and Chinese populations (whose public opinion is too often forgotten); and of course, (4) a Western world riddled with doubt – implicitly invited to observe that the era of US hegemony is ending.

The Sino-Russian gas agreement was a centrepiece of this staging. Moscow and Beijing signed a memorandum for the construction of the Power of Siberia 2 pipeline, projected to transport up to 50bcm annually via Mongolia by 2030. There was, indeed, a clear reason to include the Mongolian president in the official photo. Additionally, plans were announced to extend the original Siberian pipeline and increase volumes from Sakhalin. While many of the contractual terms (including prices) remain uncertain, and the timeline distant, the political messaging is unmistakable: Russia is positioning itself as China's pivotal supplier; Beijing, in turn, is diversifying and securing its energy supplies; and China demonstrates its ability to redraw energy routes outside Europe.

But in Tianjin, as at the BRICS summit in Kazan, the discourse is carefully crafted to avoid direct appeals to blocs or confrontation with the West. Instead, Russia and China seek alternative levers of influence, and the UN is one. Thus, calls to reform international institutions based on recognition of the diversity of political regimes are becoming more resonant than the geopolitics of human rights – especially in a world where most regimes are now 'hybrid'. Like BRICS, the SCO advocates a return to the spirit of the original UN Charter, and derives legitimacy from it. In this context, UN Secretary General António Guterres's visit to Tianjin is far from neutral.

A smart power takeover[1]

For a long time, Beijing has wanted to 'set the standard' by shaping the technological, financial, digital, and institutional norms of the future. Not through rupture, but through a progressive shift in the global normative centre of gravity. This is literally a 'smart power' takeover. But it is also, for China, about transforming its role as a project provider into that of a global arbiter. Several SCO announcements reinforced this ambition: the creation of a new development bank, an energy and climate platform and an artificial intelligence cooperation centre. Beijing is also opening its BeiDou2 satellite – an alternative to GPS – to Central Asian states.

All this takes on even greater significance in light of drastic cuts to the United States Agency for International Development (USAID), which has had

[1] A concept in international relations that designates an actor's ability to effectively combine different forms of power, coercion and seduction, force and attraction. Term popularised by Joseph Nye and Richard Armitage.

83% of projects cancelled. According to a study in *The Lancet*, these cuts could lead to 14m preventable deaths by 2030. With these figures, one better understands the highway that has opened for the Sino-Russian tandem in terms of influence. Indeed, China has moved swiftly to fill the void, particularly in Asia, with new financing in Cambodia and Nepal, targeting child health, nutrition and sanitation. Beijing is seeking to position itself as a reliable, long-term financier, offering operational resources where Western NGOs and the US government are pulling back. The open question is whether this strategy can overcome the lingering reputational damage caused by the so-called Chinese 'debt trap'.

Beware of secondary effects of the strategic vacuum

The Trump effect will therefore extend well beyond the tariff shock. Several US generals have warned of this 'strategic vacuum' risk – a concern made more pressing as China deploys its influence on four axes: (1) soft power (strengthening targeted aid for health and education); (2) institutional and normative leadership (creation of alternative banks/platforms); (3) regional presence (South Asia, Africa, Central Asia and Latin America); and (4) technological lock-in (sovereign infrastructures like BeiDou).

Furthermore, the war in Gaza has given this discourse of reforming international institutions a new resonance. Gaza has become what the military calls a 'cognitive battlefield', and the accusation of 'double standards' is much more than a slogan. It is one of the drivers of the geopolitical scenario. For example, it is one of the explanations for signals of rapprochement between Malaysia and Moscow (travel by the Prime Minister and the Sultan, a historic first since 1967).

From alliances to platforms?

Like BRICS, the SCO, has thus become in Tianjin a space for visibility and coordination, but it is not a military alliance, as significant tensions persist between members. For instance, New Delhi blocked Azerbaijan's membership due to its close ties with Islamabad. Yet, it is precisely this flexibility that makes the SCO an attractive platform: each member feels free to pursue its own strategic interests. While this inevitably limits the operational capacity of these summits, one must recognise their growing diplomatic effectiveness – especially at a time when Western diplomacy seems, on the contrary, mired in the Ukrainian impasse and asphyxiated by the Trump effect.

Finally, the RIC triangle (Russia, India, China) regained a degree of strategic centrality in Tianjin: Moscow, weakened by the war, is increasingly economically dependent on Beijing, yet seeks to balance this asymmetry by cultivating its historical relationship with New Delhi. The Indo-Russian relationship thus goes well beyond mere economic opportunism; it is an axis of rebalancing against China. As for the Sino-Indian handshake, it gained significance in the context of US tariffs, but Trump only plays the role of accelerator. This rapprochement had already been set in motion, with the BRICS summit in Kazan offering a prior opportunity for the presidents to meet (thus an effective diplomatic platform). The two countries had even reached an agreement on joint patrols along the northern border contact line, facilitating the subsequent resumption of direct flights.

The Sino-Indian relationship is a central point in orienting the global geopolitical scenario.

In fact, there are numerous signals of Sino-Indian rapprochement, but conflictual issues remain – the Dalai Lama's presence in India, India's rapprochement with Taiwan, concerns regarding the Chinese Yarlung Tsangpo dam in Tibet and its impact on water security, rivalry in the Indian Ocean, and, of course, China's alliance with Pakistan. The Sino-Indian relationship remains one of selective rapprochements and structural differences. But India seeks to materialise its status as a geopolitical pivot country into economic gains, as the Sino-Indian relationship has become a central point in orienting the global geopolitical scenario.

While Indo-Pakistani confrontations do not move markets, they are an important 'thermometer' of geopolitical reconfiguration: Islamabad is aligning J10 aircraft, drones and the HQ-9 defence system, designed by China. In response, India is reinforcing its arsenal co-developed with Russia, such as the Brahmos missile. This cross-play reveals a key reality: China is now embedded in the subcontinent's power dynamics, and it is also through the materiality of arms flows that regional balances are being reshaped. The defence agreement that Beijing concluded with the Maldives, India's backyard, follows this line. So does the very recent agreement between Saudi Arabia and Pakistan, which appears to offer Riyadh a nuclear umbrella.

India's multi-alignment policy, however, does not imply turning away from Washington. New Delhi signed a series of military and technological agreements in 2016 that structurally bring it closer to the US. In 2023, the iCET partnership tightened cooperation in semiconductors, artificial intelligence and advanced research. Added to this is the role of the Indian diaspora in the US – more than 5m people – which strengthens a deep societal bond. Above all, India remains one of the key links in the Western containment of China. Moreover, India's PM Narendra Modi's stop in Japan, before going to China, reminds us that the Chinese question is not just a matter for the great powers. Tokyo, in particular, will also play an important role in the geopolitical reconfiguration. The Great Fragmentation is now a multi-player game.

Tania SOLLOGOUB

DEVELOPED COUNTRIES

Hoping for a hint of stability...

USA – Growth to remain subdued through 2025, but could pick up next year

Eurozone – A resilience stress test

United Kingdom – More fiscal pain to come

Japan – Strong domestic demand expansion after trump tariffs, ending structural deflationary stagnation

Hoping for a hint of stability...

Numerous and multifaceted, uncertainties remain. Nevertheless, with the hope that those emanating from US economic policy will calm (and that, at the very least, tariffs stabilise), the course of our "narrative" is maintained. The scenario is characterised in particular by a slowdown without recession in the United States, followed by acceleration in 2026 and a continuation of the slow recovery in the Eurozone, thanks to the support of investment.

USA: GROWTH TO REMAIN SUBDUED THROUGH 2025, BUT COULD PICK UP NEXT YEAR

After wild swings in the narrative around the US economy dominated much of H125, sentiment has been a bit more stable over the past three months. However, when looking through all of the noise earlier in the year, our own view has been more steady, as we have maintained the view of a clear slowdown but no recession in 2025, followed by a modest bounce back in 2026.

Specifically, we look for annual average GDP growth of 1.7% in 2025, before a rebound to 2.0% in 2026. The 2025 projection represents a clear step down compared to 2.8% in 2024 and a modest upward revision to our prior forecast of 1.5%, though is around the midpoint of the range in which our forecast has hovered throughout the year.

The main driver of our expected path for GDP growth comes down to changes in policy, with the Trump administration introducing much sharper and more abrupt changes compared to most administrations. Additionally, these policy shifts encompass a wide variety of issues, ranging from trade to immigration to fiscal policy, among others.

As we have been highlighting, we think the sequencing of policy changes is key and should contribute to the slowdown this year and rebound next year. For example, we think shifts in trade policy and immigration, led by aggressive tariff hikes and a clamp down on the border, will provide a headwind to growth in 2025. However, the drag may be more concentrated in 2025 compared to 2026, and fiscal support from the One Big Beautiful Bill Act along with progress on the deregulatory agenda can help provide a boost next year. Diminishing uncertainty could also help, though ongoing legal challenges mean that uncertainty is unlikely to completely disappear.

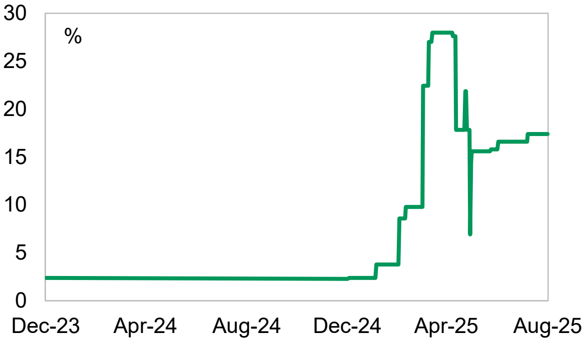
Outside of policy, we think that economic fundamentals remain in decent shape, helping to cushion against the shock from trade policy, in particular. Overall, the economy has become much less interest rate sensitive than it was in past decades, with large swathes of the economy having been able to lock into low fixed rates for an extended period of time, thus providing some insulation from a slow unwind (to this point) of the Fed's aggressive hiking cycle.

The economy has become much less interest rate sensitive than it was in past 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.

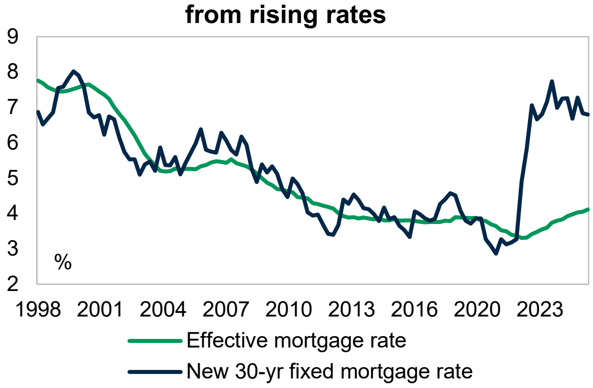
A mostly solid labour market through the early portion of the year was also providing some support, though a clear slowdown suggests rising risks on this front. This slowdown has been most notable in the nonfarm payrolls data, with massive downward revisions and soft recent prints combining to

US: even after de-escalation, average effective tariff rate his risen substantially during Trump 2.0



Sources: USITC, Yale Budget Lab, CA CIB

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



Sources: BEA, Bloomberg, CA CIB

take the three-month moving average below 30k as of August.

We would highlight the caveat that part of this slowdown has likely been influenced by immigration policy, as net immigration that may have come close to a standstill means that the breakeven pace of job creation has slowed sharply and could be below 50k at this point. This has likely helped limit upward pressure on the unemployment rate, which has only ticked modestly higher to 4.3%.

For now, the labour market remains in a low-hiring, but also low-firing, environment. We expect some additional slowdown that takes the unemployment rate up to a peak of around 4.5% by year-end, though this is only a modest amount of cooling overall. That said, we acknowledge that the slowdown in hiring suggests downside risks have become more prominent, making the labour market more vulnerable to a shock moving forward, as hiring is likely not strong enough to offset any pickup in layoffs that were to materialise.

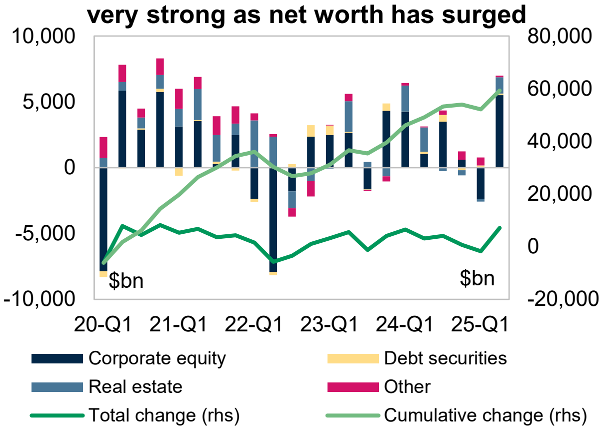
Despite the expected slowdown in growth this year, we think the policy mix also leans inflationary and have maintained our view that inflation will experience some upward pressure in the coming months. In total, we have now boosted our YoY CPI forecasts by around 80bp due to tariffs, at the point of maximum impact, though we have ramped up the impact more gradually than in our previous forecast, even if we still anticipate that it will be largely temporary.

Annual change	2025	2026
GDP	1.7%	2.0%
Inflation	2.8%	2.9%

In detail, we expect headline CPI and core CPI to reach around 3.2% at end-2025, with the tariff impact building up fairly slowly in H225. We then look for both headline and core CPI to hover in the low-3% range through H126 before gradually declining in H226. Still, this decline would take headline to 2.7% and core to around 2.9% by end-2026, keeping both solidly above the 2% target through the end of our forecast horizon.

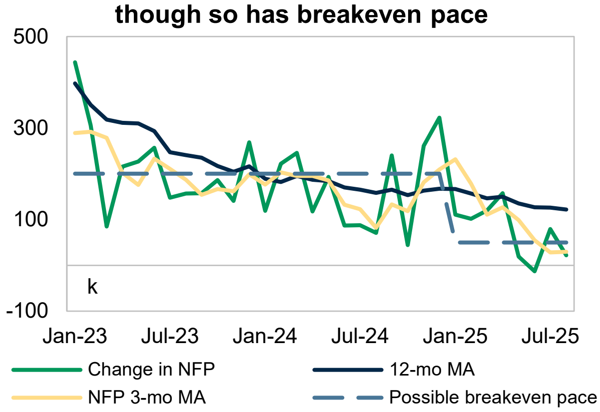
Nicholas VAN NESS

US: household balance sheets remain very strong as net worth has surged



Sources: Federal Reserve, CA CIB

US: NFP growth has slowed sharply, though so has breakeven pace



Sources: BLS, Bloomberg, CA CIB

EUROZONE: A RESILIENCE STRESS TEST

Despite sluggish consumption and a less favourable external environment, the Eurozone recovery continues. Investment would be the driver of growth acceleration, supported by European funds, defence spending and German public expenditure.

Domestic demand returns to its trend growth

After sustained GDP growth in the first quarter of 2025 (+0.6% quarter-on-quarter), fuelled by a rebound in exports in anticipation of tariff increases, **a setback occurred in the second quarter; growth nevertheless remained slightly positive** (+0.1%) **and above our June forecasts** (-0.3%). In response to their sharp rise in the first quarter (particularly for Irish pharmaceutical products), we anticipated a more marked decline in exports to the United States.

The acceleration of domestic demand would support activity in a context of weak foreign demand.

The second-quarter correction did indeed take place: whilst this correction is only partial, it reduces the risk of a brutal adjustment in the third quarter. Supported by the upward revision of fourth-quarter 2024 growth and a dynamic first quarter 2025, second-quarter GDP growth, modest but positive, allows for a statistical carry-over of 1.2% for average growth in 2025. This carry-over is higher than that of our last June forecast (0.8%) and justifies the upward revision of Eurozone growth forecast for 2025. **Our scenario now anticipates GDP growth of 1.3% in 2025 and 2026.**

Excluding distortions related to Irish data on intellectual property investment, in the second quarter, domestic demand growth weakened whilst maintaining a pace slightly above its long-term trend. Including Irish data, domestic demand declined.

Household consumption continued to grow at a modest pace (+0.1%, at the same rate as in Q1), whilst public consumption accelerated (+0.5%, after +0.1%).

investment resists uncertainty

Investment experienced a significant decline (-1.8%) in the second quarter, but this decrease is mainly explained by the sharp fall in Irish investment (-37%), which reduced Eurozone investment growth by 2.1 percentage points. This decline is linked to the downward adjustment (-55.6%) of intellectual property rights investment after its strong recovery in Q1 (+128.7%). Eliminating this "Irish effect", gross fixed capital formation increased by 0.3% in the Eurozone.

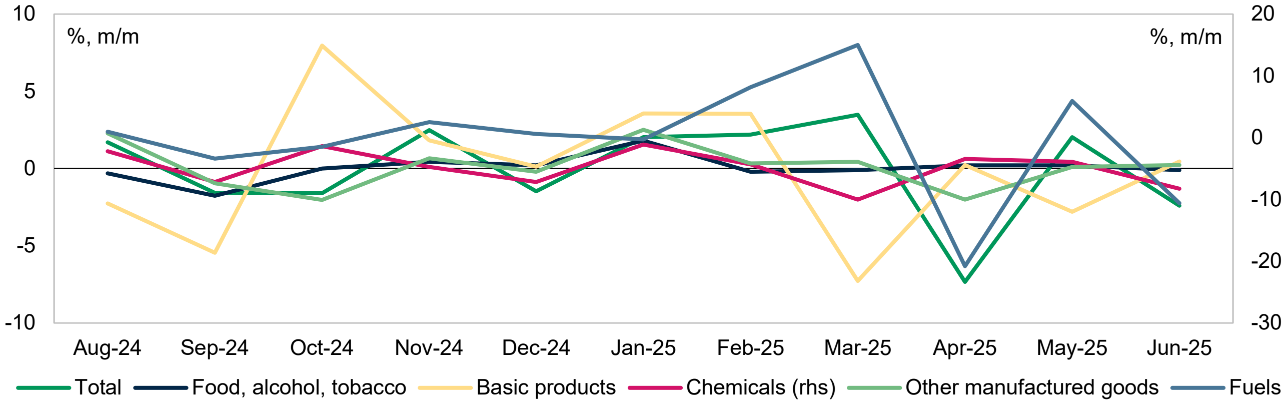
Whilst housing investment declined in the second quarter (-0.1%), its fall has nevertheless tended to slow over the past year; conversely, capital accumulation in construction shows year-on-year growth that remains positive but is weakening.

Gross fixed capital formation (GFCF) in machinery and equipment, on the other hand, **recovered vigorously** (+1.5% quarter-on-quarter) driven by rapid growth in Italy (2%) and Spain (2.8%), whilst it fell in France (-0.2%) and increased more weakly in Germany (+0.2%). As for **investment in transport equipment**, after the strong recovery in the first quarter, it **declined in the Eurozone** (-1.4%) weighed down by a sharp fall in Germany (-7.2%).

Much noise around foreign demand

In the second quarter, **the contribution of foreign demand was slightly negative** (-0.2 percentage points), resulting from a decline in exports (-0.5%) and stable imports. These developments only partially correct the sharp rise in both exports and imports (+2.2%) recorded in the first quarter. Excluding the "Irish effect", the setback suffered by exports is more limited, with stable flows, but the rise in imports is more marked (1%). Excluding Ireland, the contribution of foreign demand to Eurozone GDP growth would have been more negative.

Eurozone: exports in volume extra-Eurozone by product



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

These movements in imports are also reflected in a strong positive contribution from inventory changes (0.5%), without which quarterly growth would have been negative, thus in line with our June forecast (-0.3%). This support from stockbuilding to growth comes after two consecutive quarters of negative contribution.

The sustainability of the summer industrial recovery remains to be proven

The backlash from tariff increases appears less violent than initially expected, even though part of it probably still needs to unfold during the third quarter. Indeed, after the anticipation of Irish pharmaceutical sales to the United States during the first quarter, the second-quarter correction did take place and reduces the risk of a violent adjustment in the third quarter. This dynamic was common to the major Eurozone economies where strong increases in export volumes outside the European Union were recorded, especially in March, with abrupt adjustments from April and May onwards.

Positive signals have been relayed to us by indicators published during the summer. Manufacturing activity continued to grow in the third quarter, with industrial production remaining supported until July and the manufacturing PMI production index above 50 for the seventh consecutive month in September. The sustainability of this nascent industrial recovery remains crucial for short-term prospects, in a context of slowing momentum in private services.

The cost of Turnberry and the long term

Whilst one can assume that the backlash from anticipated foreign sales has largely already occurred and only marginally affects our short-term forecast, in the medium term, **it is the impact of the Turnberry trade agreement, concluded this summer between the EU and the United States, that will unfold**. The impact would be slightly negative and would add 0.1 percentage points in 2026 to the negative impact already factored in in our June forecast (which included a 10% statutory tariff hike).

An investment-driven scenario

Rising domestic demand could support manufacturing activity in a context of declining exports. The end of post-pandemic destocking, investment needs related to electrification, the green transition and defence spending justify an acceleration in investment (+2.2% in 2025 and +1.9% in 2026) and GDP growth that maintains the potential pace over our forecast horizon. With slightly more information on state plans, we anticipate a positive contribution of 0.1 percentage points from additional defence spending to Eurozone growth in 2026.

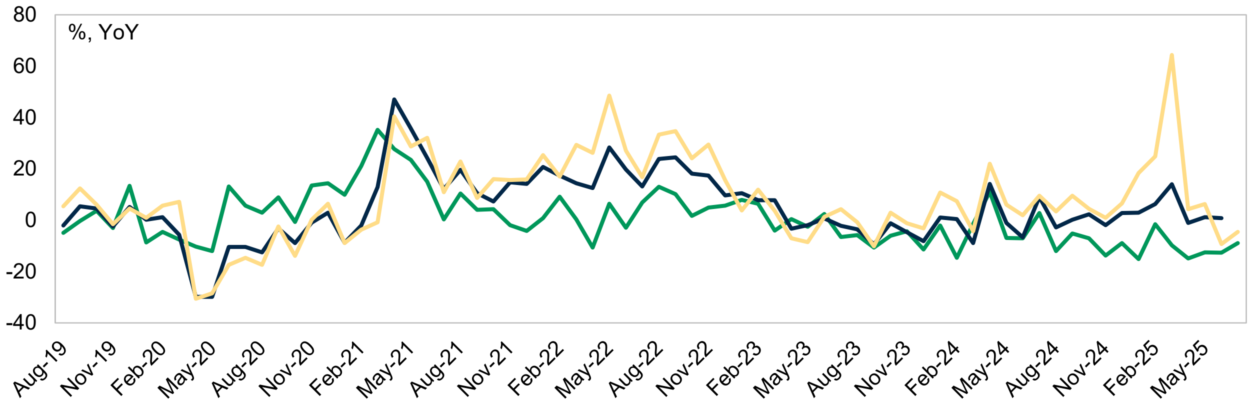
Consumption caution and resilience test for the labour market

Employment grew at a rate of 0.9% year-on-year in the second quarter, less rapidly than GDP (+1.5% year-on-year). Job creation was very dynamic in Spain and France (at rates of 2.4% and 1.5% year-on-year respectively), less vigorous in Italy (+0.8%) and nil in Germany. The unemployment rate stabilised at 6.4% of the active population in the Eurozone, but it resumed its decline in July. Whilst the unemployment rate continued to fall in the second quarter in Spain (standing at 10.5%), it increased in Germany, France and Italy where it stands at 3.7%, 7.5% and 6.7% respectively.

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

The first frictions are therefore visible in the Eurozone labour market, particularly in Germany and Italy, due to weak growth. However, the process of reducing excess capacity continues with a decline in the labour market slack, even though we are witnessing a rebound in involuntary part-time employment.

Eurozone: exports in volume by destination



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

The weakening employment dynamics weigh on household confidence and justify our scenario of moderate private consumption growth (+1.2% in 2025 and +1.1% in 2026). This caution is justified by increasingly weak purchasing power gains concentrated on the highest incomes as well as by a stable and still high savings rate.

Paola MONPERRUS-VERONI

UNITED KINGDOM: MORE FISCAL PAIN TO COME

Some good surprises…

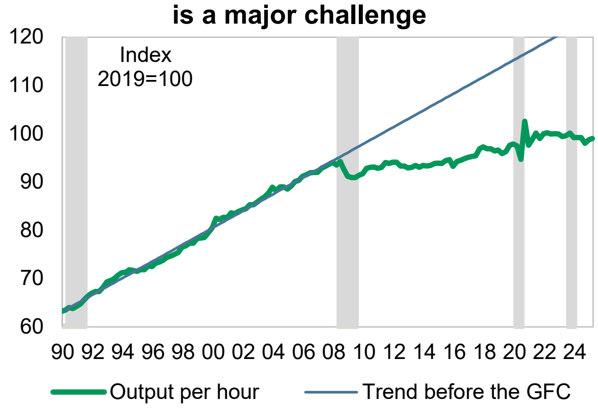
After a very strong 0.7% QoQ increase in Q125, real GDP was again higher than expected in Q225, rising 0.3% QoQ (against +0.1% QoQ expected). Technically, the UK was the strongest performer in the G7 in H125. However, details were less positive, with the government (public consumption and investment) being the main growth driver, while household consumption decelerated sharply in Q2 (+0.1% QoQ) and business investment contracted in Q2 (-1.1% QoQ).

For Q3, we expect GDP growth of 0.3% QoQ, the same as in Q2. GDP was stable in July after a 0.4% increase in June, which leaves a positive carry-over effect for growth in Q3. Growth has been driven by the services sector for the past three months, while industrial production has fallen. Exports rebounded in July after the entry into force of the UK-US trade deal on 30 June with goods exports towards the US up by 20% MoM. The latter remain below their pre-tariff levels though. Business and consumer confidence improved during Q3 as a whole.

But a more challenging outlook

However, we look for a softer end of the year (0.1% QoQ in Q425) due to increased headwinds, given a more challenging domestic political context. The UK monetary and fiscal policy mix is set to be tighter than previously expected. The BoE is expected to pause its monetary policy easing until 2026, keeping its Bank rate at 4% until the end-2025 while continuing its quantitative tightening at a slightly reduced pace. **The government is set to announce more tax rises at its Autumn Budget, potentially inflicting another blow to the fragile business and consumer confidence.**

UK: productivity growth is a major challenge



Sources: ONS, Crédit Agricole S.A. grey zone: recession

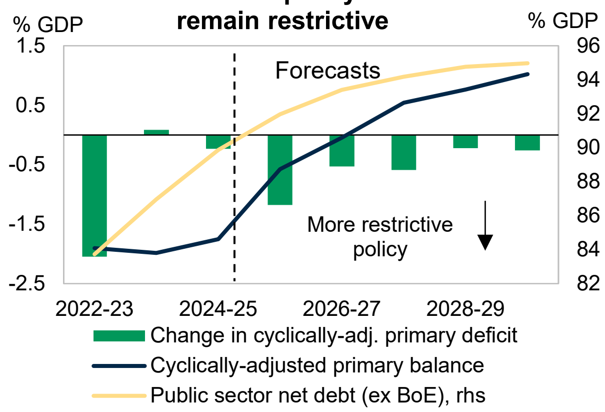
The prospects of fundamentals of household consumption appear therefore more deteriorated. Real disposable income growth is expected to fall sharply due to moderating wage growth, prospects of tax rises and above-target inflation. The labour market is likely to continue to loosen with the unemployment rate expected to rise to 4.9% with both labour supply on the rise and weaker labour demand. Therefore, **households will have to increasingly rely on their stock of accumulated savings or diminish their saving ratio in order to sustain spending**. We continue to expect positive, albeit sluggish growth in household consumption, supported by a decline in the saving ratio from very high levels. Business investment is likely to remain weak given the persistent global uncertainty, the weakness in corporate profitability and the BoE's restrictive monetary policy stance.

> ***The negative impact on total UK exports will be compounded by the ongoing slowdown of the US economy and weaker global demand.***

By far, **net exports remain the biggest drag on growth** in our scenario as the UK now faces average US tariffs of 9% vs 1% prior to Trump 2.0. Even though this is significantly less than the US average tariff to the rest of the world (16%), the increased cost of importing implies a deterioration in UK exports' competitiveness relative to US-produced goods or relative to imports from countries subject to lower tariffs (Mexico, Canada). The negative impact on total UK exports will be compounded by the ongoing slowdown of the US economy and weaker global demand.

The risks around our growth forecasts remain tilted to the downside due to the still uncertain global trade

UK: fiscal policy will remain restrictive



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

environment and the challenging domestic fiscal outlook.

Another painful budget in the autumn, bearing more risks for the gilt market

The Chancellor of the Exchequer Rachel Reeves will deliver the Autumn Budget on 26 November. **The government faces a deteriorated fiscal outlook relative to the Spring statement.** Public sector receipts have been weaker than expected. Inflation has surprised to the upside and there was a surge in gilt rates boosting debt-servicing costs. The government had to reverse its proposal of cuts to disability welfare and winter fuel payments, costing GBP5bn a year. Furthermore, the OBR is likely to revise down its medium-term growth forecasts to take into account the US tariffs which were announced after the Spring statement.

Back in March, the OBR estimated that the fiscal rule (closing the current budget deficit by 2029/30) was met with a very slim margin of error of GBP9.9bn. This headroom has now been largely eroded, and the United Kingdom has also committed within NATO to increase its military spending to 5% of GDP by 2035. **The Chancellor is expected to announce a package of tax hikes of GBP20-40bn** (ie, 0.7-1.4% of GDP) in order to restore or, preferably, build up more headroom relative to its fiscal rule. The estimate of the size of the 'black hole' could be even worse should the OBR revise downwards its upbeat forecasts for productivity growth.

The options for the government are limited due to its commitment not to raise income tax, employees' NICs, VAT and corporate tax, representing 75% of the tax base. One option is to extend the freeze of the income tax threshold beyond FY28. It may also change various duties (on alcohol, tobacco, gambling) and increase the taxation on property and banks.

The government may also decide to breach its commitment to not increase its key taxes. Given the unfavourable political backdrop, Reeves may also prefer a riskier strategy and opt for a change to the government's fiscal targets in order to avoid fiscal tightening and allow more public borrowing instead. However, this strategy comes with heightened risks as it may significantly unsettle the gilt market.

Annual change	2025	2026
GDP	1.5%	1.1%
Inflation	3.4%	2.5%

Slavena NAZAROVA

JAPAN: STRONG DOMESTIC DEMAND EXPANSION AFTER TRUMP TARIFFS, ENDING STRUCTURAL DEFLATIONARY STAGNATION

Weak JPY to mitigate the impact of Trump tariffs

The backlash from the frontloading to produce and export before the Trump tariffs is expected to be felt from Q3 onwards. Companies have responded by significantly lowering export prices, but we expect to see a decline in export volume as prices rise going forward. While prebuy demand for PCs continues, there is a risk that concerns about downward pressure on corporate profits due to increased uncertainty caused by the Trump tariffs and the global economic slowdown would lead to a reduction in capital investment. **Japan's scorching summer heat is likely to discourage people from going out, putting downward pressure on consumer activity.** Housing starts have plummeted as a reaction to the rush to buy before the April revisions to the Building Standards Act and the Energy Conservation Act went into effect. Real GDP for Q3 is likely to show negative growth.

The weak JPY has gone from being a problem to a nest egg in order to mitigate the impact of Trump tariffs. To address Trump's tariffs, the government, working with the BoJ, would likely strengthen its shift from reliance on foreign demand to expanding domestic demand. This is the same scenario that saw a shift from reliance on foreign demand to expanding domestic demand during the excessive JPY appreciation recession following the Plaza Accord in 1985. Resuming rate hikes would require confidence that (1) the global economy would not collapse, (2) economic measures would be effective, and (3) real GDP would return to positive growth from Q4 onward. The next rate hike is expected to occur at the earliest in January 2026.

Transition to an aggressive fiscal policy expected

Regardless of the results in the LDP presidential election, the current fiscal consolidation priority policy is expected to be replaced by an aggressive fiscal policy. In addition to the large-scale economic measures in the extraordinary Diet session in the autumn, the government budget for FY26 should be more expansionary, including tax cuts and an expansion of government growth investment. The difference is that if the next prime minister is a proponent of aggressive fiscal policy, it is likely to be accompanied by a high-pressure economy policy, which would have an impact on the BoJ's delay in raising policy rates. With the expansion of public and private investment, we would expect the capital investment cycle to break through the 17% barrier. The corporate savings rate would return to negative, eliminating structural deflationary pressures and helping the Japanese economy to soon emerge from its prolonged slump.

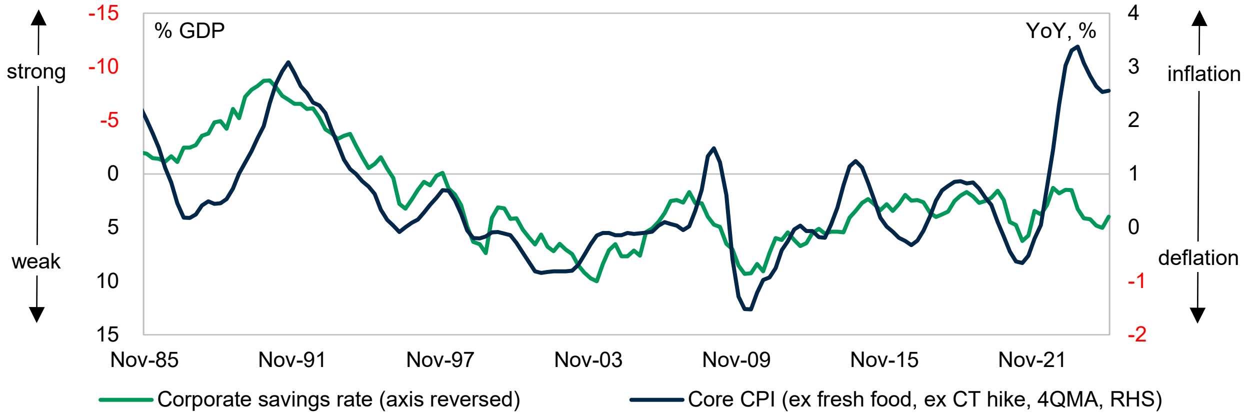
The goal of achieving a primary balance surplus has hindered efforts to expand domestic demand through fiscal policy.

The goal of achieving a primary balance surplus has become even more futile, and discussions of flexible fiscal discipline incorporating macro-economic considerations would likely be held up in preparation for next year's Basic Policies for Economic and Fiscal Management and Reform (Honebuto). The goal of achieving a primary balance surplus has hindered efforts to expand domestic demand through fiscal policy, including tax cuts, and to increase defence spending, which has been one of the reasons behind the stalled negotiations on the Trump tariffs. While the 15% reciprocal tariff and automobile tariffs remain, continuing to exert downward pressure on external demand, sufficient fiscal spending to boost domestic demand would offset the negative impact and reduce the risk of a recession. The weak JPY remains a valuable buffer against rate hikes. **The BoJ's early rate hikes are unlikely to strengthen JPY.**

Annual change	2025	2026
GDP	1.0%	0.6%
Inflation (ex-fresh food and energy)	2.9%	1.6%

Takuji AIDA – Ken MATSUMOTO

Japan: corporate savings rate and core CPI



Sources: Cabinet Office, BoJ, MIAC, Crédit Agricole CIB

EMERGING COUNTRIES
Resilience and vigilance

Resilience and vigilance

Two words can provide a snapshot of the emerging markets: resilience and vigilance. Resilience due to their solid labour markets, disinflation and robust banks. Vigilance because of three threats: a 'normalisation' in trade when the frontloading effects of expected tariffs fade, the trend of slower growth compared to past decades, and the trajectory of China. In this context, how emerging countries adapt to tariffs will be crucial.

With 3.9% growth expected in 2025 and 2026, EMs as a whole appear resilient. Their growth trajectory is still higher than that of advanced countries, with momentum driven by Asia. However, there are questions as to their performance in 2025 given the major disruption caused by US tariffs.

Several factors have cushioned the shock. First, the staggered schedule of bilateral negotiations. Paradoxically, this even had a positive effect in Q1, with an acceleration in frontloading deliveries, which supported the external balance of countries such as Mexico, for example. Vietnam's exports to the US also jumped 26% over eight months. In addition, according to Standard & Poor's, tariff exceptions still account for one-third of EM exports to the US. Finally, in the two major countries targeted by prohibitive rates for political reasons – Brazil and India – the share of trade relative to GDP remains low. Tariffs will therefore have more of an impact by sector (Indian textiles) than on the overall growth rate.

Resilience in labour markets and disinflation

In addition, there are factors of resilience specific to EMs, in particular their **solid labour market, with an overall unemployment rate of around 5%, according to the ILO**. Mexico even set a record low of 2.7% in June; Brazil posted a record low of 5.8% and Poland is at 5.4%. This near-full employment, coupled with disinflation (emerging Asia is expected to record 2% inflation in 2025, according to the Asian Development Bank), is driving purchasing power in many countries. In Latin America, real wages have also benefited from consumer spending support programmes from left-wing governments. Chile is the only regional exception where unemployment is higher than before the pandemic.

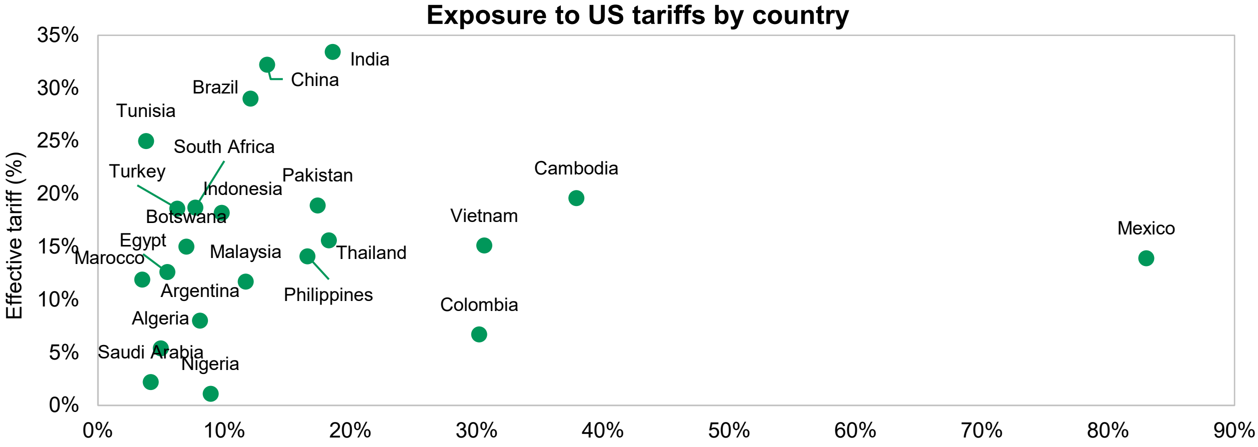
In Asia excluding China, disinflation is benefiting from the rise of currencies against the USD but also from the stability – or even decline – of certain commodity prices, particularly energy. In two countries, Thailand and Indonesia, disinflation is also due to weak domestic demand. Many central banks therefore still have room to cut rates, but this will obviously depend on the Fed's policy. There are, however, some exceptions. In Brazil and Colombia, inflation remains quite high, with real rates among the highest in the world.

> *there are questions as to their performance in 2025 given the major disruption caused by US tariffs.*

Hungary and Romania also continue to face high inflation and are pursuing restrictive monetary policies – although in Hungary, the pre-election period could encourage new measures to support purchasing power. Central Europe is mainly waiting for the effects of the German stimulus plan, which is proving slow to materialise, but could boost certain value chains, particularly in the rail and electricity sectors.

In the Gulf states, the impact of lower oil prices is a key variable for growth, but this impact varies between countries: Bahrain is very vulnerable, while the Emirates, Qatar and Kuwait are less sensitive. Saudi Arabia has offset part of the price effect with a volume effect. Crucially, it has fiscal leeway to cope with a period of lower prices. Growth momentum is not under threat in the short term as projects in progress

Exposure to US tariffs by country



Source : US Center for Global Development will continue to provide support for two or three years to come.

Finally, the assessment of EMs is also reassuring in financial terms: according to Standard and Poor's, nearly 85% of the rating outlooks for EM banks are stable. This limits systemic risks at a time when public debt is rising. All in all, investors continue to perceive the EM universe as resilient in the short term, but they also know that these countries would be the first affected in the event of a market shock.

Vigilance over the longer term

The picture is less rosy in the long term: growth in EMs is gradually declining and the risk is quietly rising for the weakest economies, especially those that combine high debt and an external deficit. The World Trade Organization forecasts that global trade growth will slow to 1.8% in 2026, from 2.5% in 2025, due to the gradual lifting of exemptions and the results of section 232 tariff investigations carried out in the spring targeting pharmaceuticals and semiconductors. These investigations could lead to a broader readjustment of tariffs, with a potential sectoral contagion effect. A slowdown in international trade would weaken industrial output, particularly in Asia, leading to significant job losses.

As well as all this, there is the question of China. The consumer price index, which was in negative territory this summer, is fuelling fears that China will export deflation to Asia. The Chinese "involution" is extending beyond the national economy: overcapacity in steel, electric vehicles, solar and electronics is leading to volume and price competition, and this momentum is putting pressure on margins across the region. While ASEAN countries are benefiting from the relocation of certain factories (China+1 strategy), they are also suffering from price erosion and the contraction in Chinese demand. In the region, Beijing is both the problem and the solution.

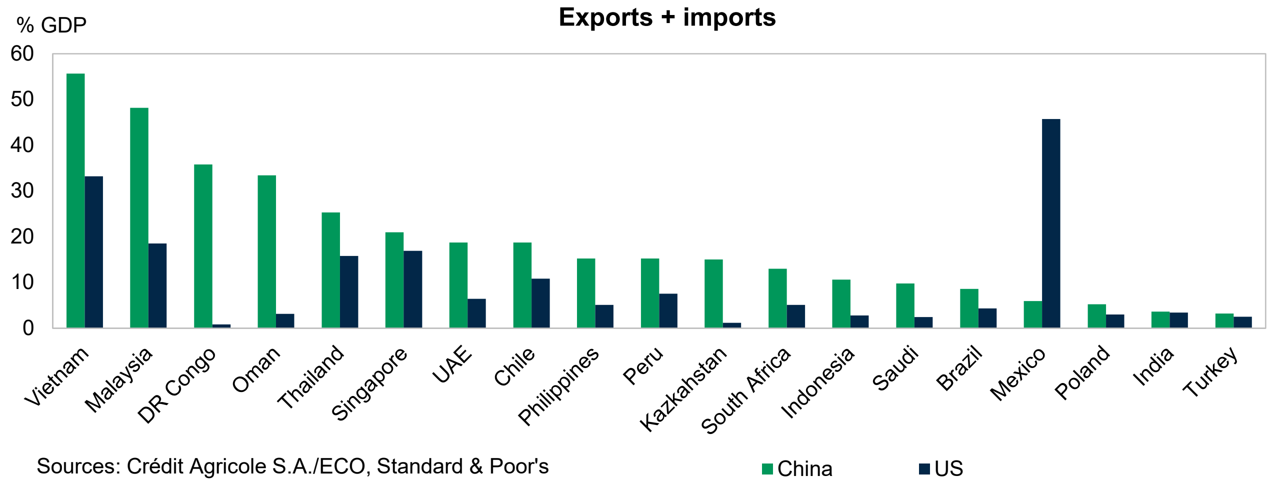
The social divides of the Asian summer

Lastly, **this summer's social tensions serve as a reminder that a country cannot be assessed based on its GDP growth rate alone.** In Indonesia, workers and students marched together to condemn parliamentary privileges. In Malaysia, the cost of living has put thousands of citizens on the streets demanding the prime minister's resignation. In the Philippines, corruption linked to flood control projects has sparked widespread national outrage. All this dissent comes from the urban heart, the educated middle classes, who were once the embodiment of stability. But today, real wages are stagnating, the cost of housing and energy is rising, and prospects for social advancement are fading.

The gap between macroeconomic solidity and a sense of social injustice is therefore widening, fuelled by the privileges of the elite, corruption and dwindling purchasing power. The economy might be holding up, but the social contract is showing cracks. The tension is not being spurred by official inflation figures, but by 'visible' prices – the price of petrol at the pump, of a metro ticket, a kilo of rice: these symbolic products serve as political thermometers. In addition, the hyper-connected Gen-Z is radicalising the phenomenon. In Indonesia and Malaysia, viral hashtags have brought movements of dissent together in just a few days. In the Philippines, anger is spreading via TikTok.

What adaptation strategies are available? Negotiate, diversify, evade

In this increasingly fragile context, the ability to adapt to tariffs – with targeted industrial policies, the upscaling of value chains or diversification of sales outlets – **will become a determining factor.** In reality, the Trump shock is not so much that of a rapid contraction in GDP, but that of a gradual reorganisation of trading flows, value chains and a rise in the cost of complying with rules regarding the origin of products.



Sources: Crédit Agricole S.A./ECO, Standard & Poor's

Asia, where growth models are more open, is on the front line in terms of tariffs. For the time being, the interest rate differential between countries is low (between 15% and 20% overall, excluding India) and this should not lead investors to change their positions. The sectors most at risk are those with the highest price elasticity, such as textiles and small electronics, which can be more easily relocated. The threat for the least developed countries is therefore clear: the risk of getting stuck in a low value-added chain that is vulnerable to competition and compressed prices.

More generally, reaching a trade deal involves giving ground in terms of opening up markets in order to preserve vital sectors, and promising to make purchases and investments on US soil. This is the strategy adopted by South Korea, which is seeking to reduce automotive tariffs. Vietnam will have to show it can extricate itself from its dependence on Chinese inputs and is threatened by 40% tariffs on transhipments. Malaysia, which attracted record direct investment in the first half of the year, wants to remain a focal point for China+1 strategies. Indonesia's exports of sensitive products will be taxed at 19% instead of 32%, in exchange for opening up the domestic market to US companies.

While trade agreements do not stop US pressure, they provide a vital respite, which will be used to diversify economies and reduce dependencies. In Latin America, Brazil is accelerating its investments in digital sovereignty and green sectors via its "*nova industria Brasil*" plan. Others are relying on infrastructure. The Gulf countries are ramping up their investments in Africa: USD2.5bn in 2025 by DP World. Kazakhstan and Uzbekistan are accelerating rail projects with China, while Azerbaijan is developing the port of Alat to capture freight from the Middle Corridor, which links China to Europe.

From now on, the difference between winners and losers will depend on countries' ability to adapt and the stability of their institutions. In a more politicised and fragmented global economy, success is no longer about producing at a low cost, but about negotiating quickly, diversifying partners and building financial and logistical buffers.

Annual change	2025	2026
GDP	4.0%	3.9%
Inflation	4.4%	3.6%

Tania SOLLOGOUB

CHINA: CHALLENGES AND BREAKTHROUGHS

Modest growth slowdown on tariff hits

We expect further growth moderation in China in Q425 and 2026, on continued domestic demand weakness, higher US tariffs and payback of front-loading exports and previous fiscal subsidies. That said, still resilient global demand, China's export diversity and targeted policy easing would help cushion China's growth slowdown. China's latest AI development and significant breakthroughs in multiple emerging industries help China to mitigate its structural challenges and maintain its long-term economic growth better than previously expected, even if strong downside risks remain.

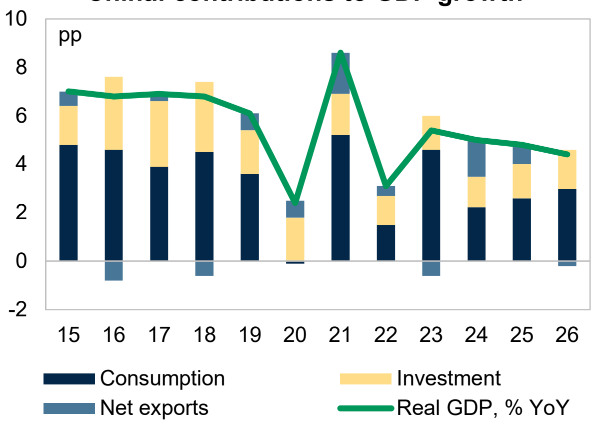
We expect real GDP growth to slow to 4.8% in 2025 and 4.4% in 2026 from 5.0% in 2024. Nominal GDP growth is likely to edge down to 3.9% in 2025 from 4.2% in 2024 before rebounding to 4.6% in 2026.

Mild reflation on targeted easing and anti-involution

Deflationary pressures have lingered in China, due to continued weakness in consumer demand, prolonged property market correction and overcapacity in various sectors. It has prompted increasing policy emphasis on anti-involution to rein in excessive price competition and tackle overcapacity. The campaign has showed its initial impact in narrowing PPI deflation, though a major demand stimulus is still absent. We expect policy follow-ups to intensify in the coming months. That said, as the emphasis has been on market-oriented measures and structural reforms, it could take time to show its overall positive impact on inflation, while it could be a short-term negative on investment, credit supply and to a lesser extent industrial production.

CPI inflation will likely remain muted at 0.1% in 2025 and then edge higher to 0.6% in 2026, on mild demand support, while PPI deflation should narrow gradually to -0.4% in 2026 from -2.6% in 2025. The GDP deflator could finally turn positive in mid-2026 to average at 0.2%, vs -0.9% in 2025.

China: contributions to GDP growth



Sources: CEIC, CA CIB

Tariff uncertainty after the trade truce deadline

The US-China trade truce deadline has been extended to 10 November, with average US tariffs on China around 41% (an additional 30% in 2025). The US and China have recently intensified high-level talks and bilateral dialogues, sending a positive signal of more managed US-China relations for potential stability.

> ***The US and China have recently intensified high-level talks and bilateral dialogues, sending a positive signal of more managed US-China relations for potential stability.***

We think both sides have strong incentives to reach a major deal and therefore there is potential to lower the US tariffs on China, however, the timeline and tariff rates remain uncertain. The key areas for negotiation could include China's purchases of US goods (agriculture, energy products, aircraft, etc), supply of rare earths and tech, and entrants to China markets.

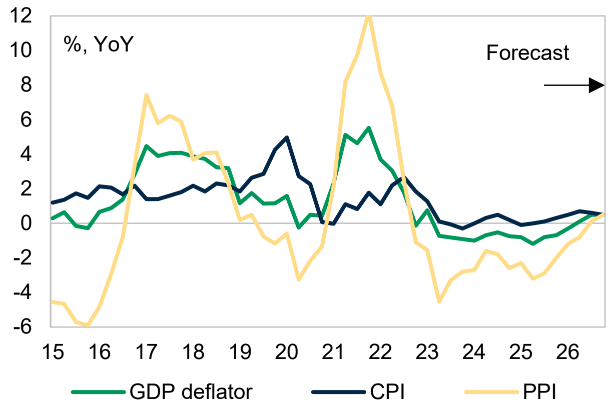
Likely managed fiscal boost

The continued growth slowdown will likely prompt further fiscal policy easing, though the probability of a major fiscal stimulus remains relatively low for the rest of 2025. We expect targeted and measured fiscal easing in the coming months, including social welfare subsidies, expansion of consumption support, better fiscal and quasi-fiscal funding support to national strategic projects and property, as well as a step-up in efforts to tackle local government implicit debt. The central government's balance sheet remains healthy, though China will likely use its fiscal policy room with caution concerning long-term fiscal sustainability.

PBoC to continue easing with a focus on targeted areas

The PBoC remains on the path of easing, while US Fed rate cuts would offer greater room for monetary policy easing in China. The easing focus could be on expanding structural credit tools to targeted areas, such as consumption, tech innovation,

China: likely a gradual reflation ahead



Sources: Bloomberg, CA CIB

services and the property market. We think the PBoC has moderate room to cut policy rates further (including a 10bp cut in Q425), though it would be mindful of the timing and not to fuel an overly rapid stock market rally.

CNY outlook supported despite mixed fundamentals

Weakness in the USD has sent USD/CNY to a new 2025 low lately. CNY sentiment has also been more supported by the onshore equity market rally and optimism around US-China trade talks. The PBoC has shown more signs of tolerating CNY flexibility. In our view, the improvement in the onshore equity market could be supportive to fund flows and improve CNY demand. US Fed rate cuts and a more controlled PBoC easing will likely lead to reduced pressure on the CNY from the rate gap perspective. A weakening in the USD and generally positive seasonality into year-end should help with modest CNY gains ahead.

Increasing values for rates after correction

The market has been retreating from China duration (best trades in 2024) **since July** on improved equity market sentiment and reflationary expectation amid the anti-involution policies, while reinstatement of VAT and concerns over tax reforms have further weighed on sentiment. The PBoC's likely policy rate cut and resumption of CGB trading in Q4 would help anchor the short end of the curve. The 10Y CGB yield (old issue) could test 1.85% before easing again in Q4, without major fiscal stimulus.

Risk to watch

US-China trade talks and the tariff impact will be the most important risk factors to watch. China still has some modest policy room for potential adjustment if needed.

Annual change	2025	2026
GDP	4.8%	4.4%
Inflation	0.1%	0.6%

Xiaojia ZHI

BRAZIL: FINALLY, WILLING TO SLOW DOWN

The economy is cooling off

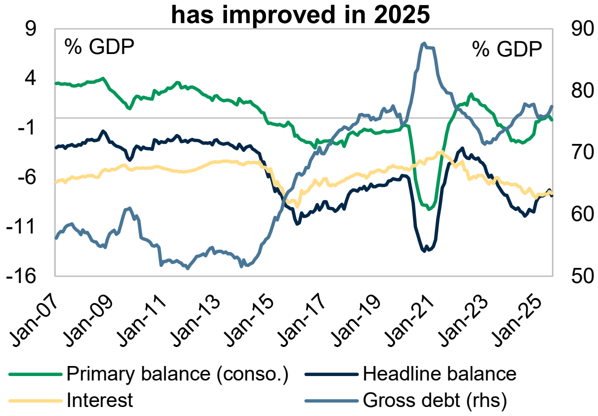
After three years of c. 3% real growth, the Brazilian economy is finally slowing down due to contractionary monetary policy and less expansionary fiscal policy. Inflation has started to decelerate but remains above the target (3.0%) and the upper bound of the target band (4.5%). We thus expect the central bank to keep the Selic rate at 15% until end-2025.

The economy has been slightly more resilient than what we expected at the beginning of the year. We have upgraded our growth expectation to 2.3% for this year (from 1.9%) and nudged up our year-end inflation forecast to 5% (from 4.8%) Despite the cooling economy, we expect the current account to remain wide, due to a slower deceleration in imports given still-resilient domestic demand, the impact of US tariffs and reduced central bank estimates of income from reinvested earnings.

Fiscal risks subside in the near term

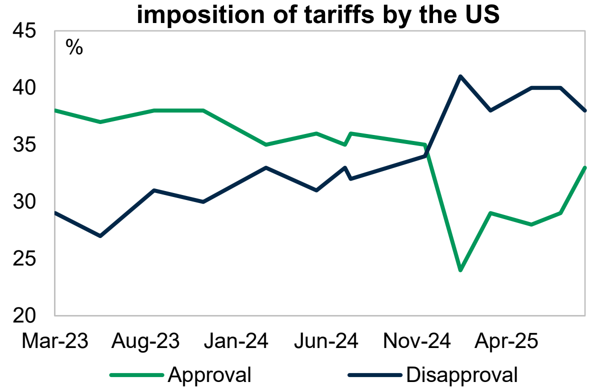
On the fiscal front, we continue to expect that the government will comply with the fiscal rule parameters this year (-0.6% of GDP primary deficit after accounting for exceptions and the allowed tolerance band). The fiscal accounts are being supported by extraordinary revenues and the resolution of the dispute with congress over the IOF tax, largely upheld by the Supreme Court. The government submitted the 2026 budget; as of now, meeting the lower limit of the target of 0.4% of GDP (after accounting for exemptions and the lower

Brazil: primary budget balance has improved in 2025



Sources: BCB, CA CIB

Brazil: presidential approval rating recovered following imposition of tariffs by the US



Sources: Datafohla, CA CIB

tolerance band) appears achievable. Admittedly, the government continues to rely on a high proportion of extraordinary revenues and measures that require congressional approval, while structural spending rigidities persist.

Inflation has started to decelerate but remains above the target (3.0%) and the upper bound of the target band (4.5%).

The recent improvement in the execution of fiscal accounts and the government's efforts to deliver on the primary budget targets reduce fiscal risks in the near term. Meanwhile, the BRL offers the highest real carry within EM FX and the highest nominal carry among countries with comparable fundamentals. In this context, the BRL should remain resilient in the near term, and we have revised the BRL forecast stronger. We expect USD/BRL at 5.50 at end-2025 and at 5.70 at end-2026, the latter subject to revisions in the context of the political cycle that will begin to dominate the price action next year.

Limited impact from US tariffs

Explicitly referencing the Supreme Court trial of former president Jair Bolsonaro on coup charges, **the US administration has recently imposed an additional 40% tariff on imports from Brazil**. The extra tariff comes on top of the existing 10% tariffs, lifting the headline rate to 50%, one of the highest imposed by the US on a trading partner. The US administration subsequently introduced exemptions from the highest rate that cover approximately 45% of Brazil's exports, which brought the effective tariff rate to about 30%. On the political front, **the US administration's hardline stance seemed to have an unintended consequence of actually boosting the popularity of president Luiz Inácio Lula da Silva**.

Meanwhile, given Brazil's relatively limited dependence on trade, low exposure to the US (about 12% of exports) and a diversified set of export products, we expect the economic impact to be minor at around 0.2% of GDP.

Annual change	2025	2026
GDP	2.3%	1.7%
Inflation	5.0%	4.3%

Olga **YANGOL**

RUSSIA: THE LEEWAY IS NARROWING

Growth slowdown is confirmed

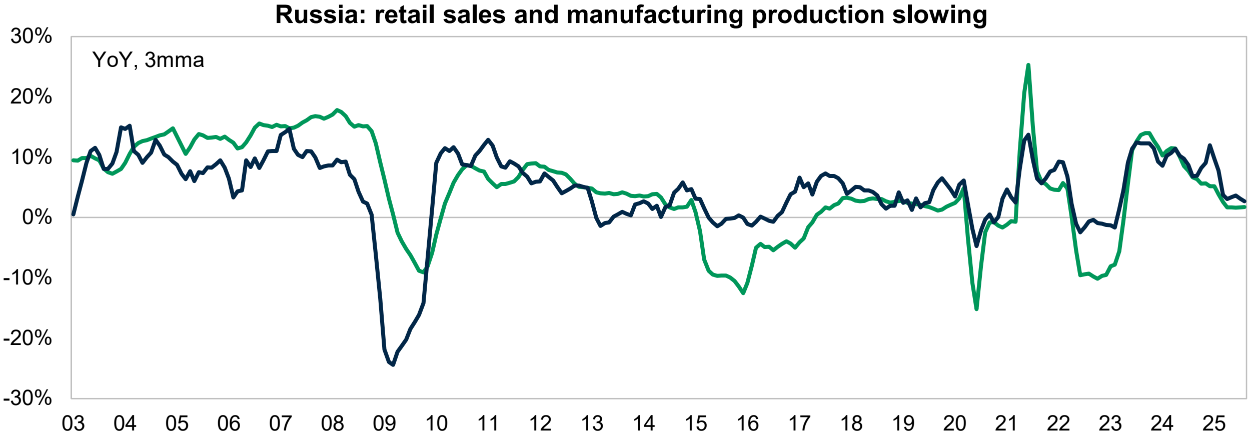
Economic growth has consistently slowed in 2025. This makes a sharp contrast with the strong growth performance recorded since the beginning of the war in Ukraine. After having grown by 4.1% and 4.3% in 2023 and 2024, GDP grew by 1.4% and 1.1% respectively in Q1 and Q2, and by only 0.4% YoY in July. The slowdown has been broad-based, with both consumer demand and industrial production having significantly lost momentum.

The decline in the global price of oil and gas has not helped. Moreover, following the sanctions, Russia has redirected its hydrocarbon exports out of Europe and to other destinations, including China and India, but at lower prices.

The government's financial leeway has not been exhausted, but it is definitely narrowing.

More broadly, **the morphing of the economy into a war economy produced a strong booster effect on**

Russia: retail sales and manufacturing production slowing



Sources: Bloomberg, Crédit Agricole CIB

economic growth in 2023 and 2024, but the bulk of it has now been seen.

Crowding out

On top of it, **the war economy is crowding out other sectors**, such as on the job market (the unemployment rate remains historically low, at 2.2%), as well as when it comes to public spending and investment.

Hawkish interest rate cuts

In reaction to the economic slowdown, the central bank has begun to ease monetary policy. It has lowered its key rate by 400bp since June, to 17%. However, the last cut was seen as a hawkish one by the market: only -100bp instead of the -200bp expected by the market. The CBR is currently constrained by persisting inflation pressure. **Inflation has moderated, but remains relatively high, at 8.1% in August.** Sequential inflation was low in Q2 but has re-accelerated since July. The depreciation of the RUB since July also fuels the CBR's reluctance to ease more quickly.

Reduced financial leeway

The government's budget leeway has narrowed. The government deficit has strongly widened. It reached RUB3.9trn in August – already wider than last year's annual deficit. Heavy military expenditure and lighter tax receipts from hydrocarbon exports represent a challenge for the government. The government debt ratio remains rather low compared to other large countries.

Annual change	2025	2026
GDP	1.0%	1.4%
Inflation	8.7%	6.0 %

So while the government's financial leeway has not been exhausted, it is definitely narrowing. In response, the government is planning to increase the VAT rate from 20% to 22% – despite President Vladimir Putin's commitment not to raise taxes before 2030. As a consequence, the government's reduced leeway will lead to increased pressure on the population. This could contribute to eroding support for the war. But for the moment, Putin and the government's approval ratings remain very high, suggesting that political leeway remains elevated.

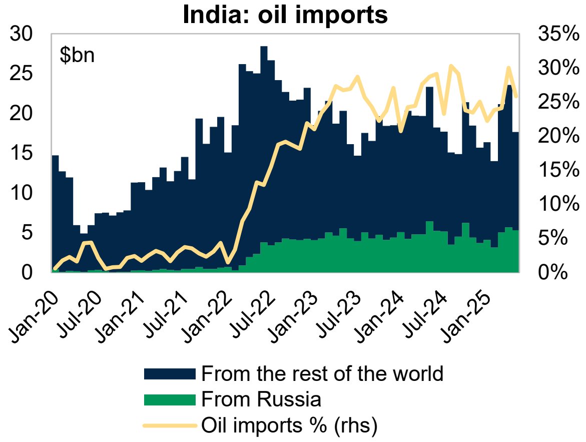
Sébastien BARBÉ

INDIA: OIL AT THE ROOT OF DISCORD

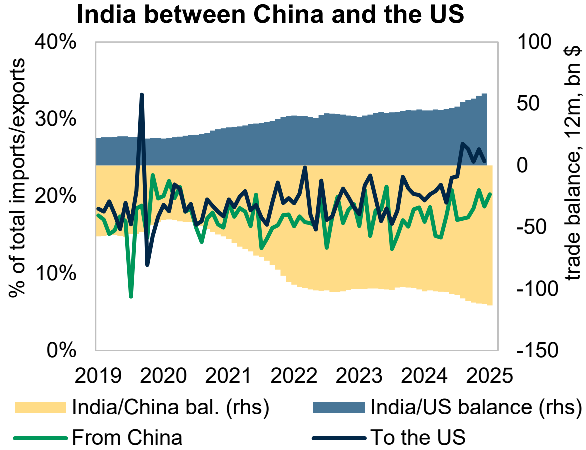
By imposing 50% tariffs on India, US President Donald Trump dealt a direct blow to India's PM Narendra Modi, who had boasted of having excellent relations with the US president and being able to reach a trade deal quickly. The impact on growth is likely to be limited: India is a protectionist country – which is precisely what Trump dislikes – and its exports to the US represent only 2.2% of GDP. What Modi's failure reveals, however, runs much deeper.

Agriculture – the eternal sticking point

India was one of the first countries to seek negotiations with the US, and very high-level discussions were launched in February. Trump described Modi as: "A much tougher negotiator than me"; India is indeed one of the countries in Asia with the highest tariffs. **A recurring sticking point in the negotiations is the agricultural sector.** Agriculture is of particular importance not only economically, but also politically. In a country where the urbanisation rate remains below 50%, agriculture still provides the main



Sources: Global Tracker, Crédit Agricole S.A./ECO



Sources : Customs, Crédit Agricole S.A./ECO income for more than half of the population. Indian authorities are concerned that India's small family farms will not be able to compete with foreign agricultural multinationals.

Agriculture still provides the main income for more than half of the population.

Indian farmers have a strong capacity for mobilisation, as shown on several occasions during protests against reforms to minimum grain prices. In addition, food accounts for more than 45% of the consumer goods basket and agricultural price trends are therefore closely monitored. While inflation has fallen in recent months and is expected to reach 3.6% in 2025 – within the central bank's target range – it is mainly because good harvests have brought food prices down.

The timid emergence of the manufacturing sector

Although tariffs are not expected to have a major impact on Indian economic growth in 2025, some sectors are more exposed, starting with the textile sector (45m jobs). The main risk is that investors will turn away from India and prefer countries with lower tariffs, such as Vietnam (20%). The question of the Indian growth model and its ability to create sufficient jobs to integrate new entrants into the labour market, in particular via the manufacturing sector, remains pertinent. While India has undertaken significant public investment in infrastructure to develop the country's connectivity, a change in the strategy of companies in the main exporting sectors (textiles and electrical appliances in particular) would be a hard blow to manage.

The uncertain future of multi-alignment

The tariffs imposed by the US reflect reciprocal tariffs due to India's bilateral trade surplus (USD49bn)**, for half the amount, while the other half is due to India's oil purchases from Russia.** As part of this oil is refined and then re-exported (mainly to Europe), the US accuses India of "feeding the Russian war machine". But India, which is highly energy-dependent, has no intention of avoiding Russian oil. Instead, at the Tianjin Summit, Modi vaunted his agreement with China's leader Xi Jinping and Russia's Vladimir Putin.

India's relations with China are complex and unbalanced, with India running a trade deficit of more than USD100bn with China. India wants to be a player in the "Global South" and it will not allow China alone to seize control, but it must also preserve its trade relations with the West, in particular the US, where its main clients and investors are located. **Although he feels betrayed by his "friend" Trump, Modi still hopes to reach a more favourable deal.** Otherwise, and if India were to remain the target of particularly high tariffs, Modi's entire multi-alignment strategy would be called into question.

What about the rest?

The new tariffs are being imposed in an unfavourable economic environment: growth has slowed in recent months, and this is reflected in activity indicators (industrial production and sales). The central bank, taking advantage of a more favourable inflation environment, cut its key rate in June (to 5.5%) and could make a further 25bp cut before the end of the year in a bid to further support activity. The watchword is uncertainty, which is never the most auspicious of environments.

Annual change	2025	2026
GDP	6.3%	6.7%
Inflation	3.6%	4.7%

Sophie WIEVIORKA

SECTORS

Oil – Stability before a possible rise in oil prices

Gas – End of the shortage in 2026

Automotive – “China Inside”

Metals – The US faces the consequences

Container shipping – Changing course

Oil – Stability before a possible rise in oil prices

The increase in OPEC+ production has not destabilised oil prices. Led by Saudi Arabia, OPEC+ production should continue to grow in the near term. However, underinvestment in the oil exploration and production sector could push up oil prices going forward.

Despite fears of a production surplus following successive announcements of production increases by OPEC+, oil prices have not collapsed. They have even remained relatively stable at around USD68/bl on average since May. Several factors explain this stability.

OPEC+ production increased by less than announced between April and August 2025. The cartel's output increased by 1.2m barrels per day (bpd), about 500k less than expected. Fears of a major crisis in the Middle East and the decline in oil production in the UK and Norway in June supported prices.

US crude oil production was also relatively stable. According to the US Energy Information Administration (EIA), it has been stable at between 13.3-13.5m bpd since May. Drilling is still not picking up in the US. Producers are continuing to draw on drilled but uncompleted wells to keep production costs down. The number of these drilled wells is at its lowest level since the EIA began monitoring this indicator.

Current oil prices will not encourage US producers to invest in new drilling rigs.

The oil production surplus has certainly allowed OECD countries to maintain their crude oil inventories. Generally, in spring and summer, crude oil stocks fall, as refineries produce as much as possible to build up the fuel stocks needed for the summer's driving season.

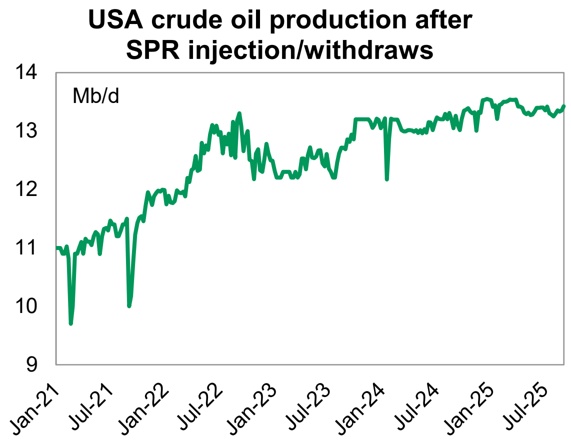
China increased its oil imports and refining activities by 1m bpd in June and July compared to last year. Perhaps motivated by the crisis in the Middle East, as it would have been particularly hard hit by the closure of the Strait of Hormuz, it is likely that China took advantage of relatively weak oil prices to build up additional inventories of petroleum products.

Our scenario is based on low demand growth of less than 1m bpd in 2025 and 2026. Current oil prices will not encourage US producers to invest in new drilling rigs. Some have even announced significant staff cuts. While US oil production is set to remain stable, OPEC+ production, particularly that of Saudi Arabia, should continue to increase.

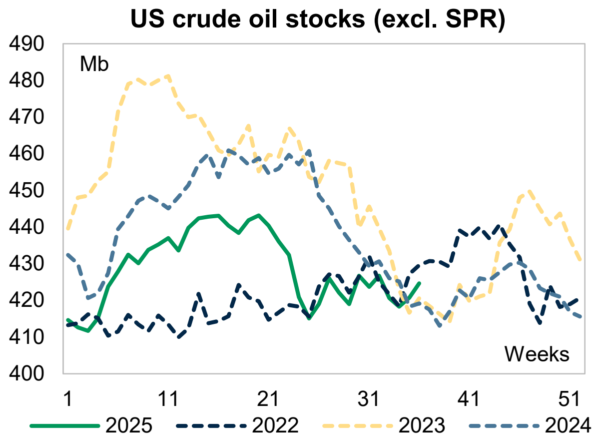
Saudi Arabia's oil production could reach 10m bpd by the end of 2025, up from 9.7m in August. Oil prices could ease slightly in late 2025 and early 2026 and fall below USD65/bl. Low inventories will limit the decline in oil prices. However, underinvestment in the US in particular could lead to a new market imbalance, this time due to a supply deficit. **Our scenario expects a supply deficit to emerge from the end of 2026, with a slight rise in oil prices.**

	Average oil price (barrel)
Q4 25	63$
2025	69$

Stéphane FERDRIN



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



Sources: EIA, Crédit Agricole SA / ECO

Gas – End of the shortage in 2026

The withdrawal of Asian buyers from the liquefied natural gas (LNG) market has once again enabled the European Union to fill its inventories to a satisfactory level before the winter. The new liquefaction capacity expected to come on line in 2026 will continue to ease tension in the market, and will allow Europe to stop buying Russian LNG.

Despite the loss of 13bcm of Russian gas flowing through Ukraine and with natural gas stocks at the end of the winter below average and below last year's level, the natural gas market has not panicked. Prices have remained stable thanks to LNG imports and controlled storage refilling. LNG imports have remained above 10bcm per month. The flexibility granted by the EU on natural gas storage refilling rules allowed players to spread out their injections.

The storage filling rate is not uniform in European countries.

Storage levels are now lower than last year, but they should reach the required 90% on 1 November if injections continue at the current pace. The storage filling rate is not uniform in European countries. While countries with significant regasification capacities such as France have already reached the 90% filling obligation, this is not the case for more landlocked countries such as Hungary or Slovakia, which depended on gas flows from Russia, which have ceased since 1 January 2025.

Large Asian LNG buyers (Japan, China and India) have once again withdrawn from the market and reduced their LNG imports, allowing Europe to increase its LNG purchases without triggering a sharp increase in natural gas prices this summer. In contrast, China continues to increase domestic production and pipeline gas imports from Russia.

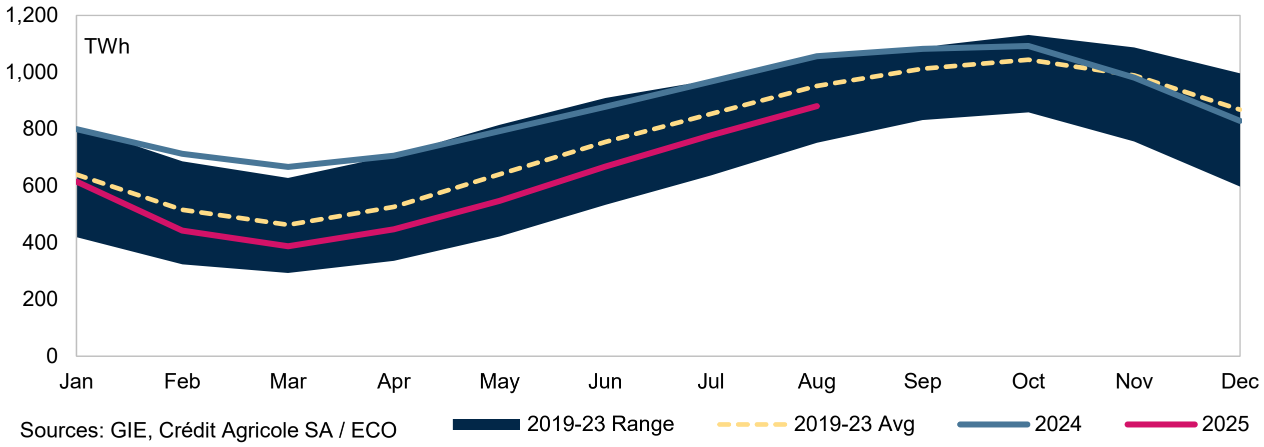
In 2026, the natural gas market is expected to see its supply increase significantly in particular due to new liquefaction capacities in the US and Qatar. This increase in supply is certainly pushing the US to put pressure on the EU to cease its imports of Russian LNG by 2026 and not by 2027 as the EU had planned.

The new capacity should be able to offset the 14bcm per year of Russian LNG (c. 12% of total EU LNG imports) **that the EU continues to import.** Giving in to US LNG requirements is probably a lesser evil compared to US President Donald Trump's demand to impose sanctions on countries that import Russian oil, including India. India has increased its imports of Russian oil, but has also increased its exports of petroleum products, thus ensuring the equilibrium of the oil market.

	EU: LNG imports
Q2 25	35.8 bcm

Stéphane FERDRIN

EU: natural gas underground storage



Sources: GIE, Crédit Agricole SA / ECO

Automotive – "China Inside"

There has been a notable improvement in terms of tariffs, but the transition to EVs has yet to have an impact.

The signing by the US of bilateral agreements with the EU, Japan and Korea improves visibility

The global automotive sector has been severely disrupted by the tariff reform. The tariffs negotiated with Europe, Japan and Korea have been set at 15% since 1 August 2025, compared with an effective rate of 25% in Q225, which is clearly an improvement. However, tariffs on components imported from Mexico and Canada remain at 25% (with a dispensation for parts with more than 40% of US content origin under the US-Mexico-Canada Agreement – USCMA), meaning uncertainties remain.

While the massive disruptions and significant cost increases on components did not have the expected effect on automotive production in H125, which turned out to be much higher than expected, as manufacturers refused to raise their prices in Q225. Consumers therefore brought forward their purchases, expecting tariffs to impact retail prices in the second half of the year.

In a sample of the top seven North American and European manufacturers (BMW, Ford, GM, Mercedes, Renault, Stellantis and Volkswagen), margins fell by 41% in the first half of the year, while revenues fell by only 4.8%.

... Uncertainties remain high

European consumers' purchasing power is too low in relation to the high-end product offering currently available on the market. After a decline of 3.8% YoY in H125, European automotive production is expected to stabilise at its current level throughout 2025, with a decline of 3.7% YoY.

After a YoY decline of 6% in 2024, **battery electric vehicle (BEV) sales in the five largest European countries picked up again in early 2025** (30% YoY) to reach a market share of 15%. However, BEV sales in France were down by around 2% in the first eight months of the year.

The European average is still quite far from the 25% penetration rate required to meet the requirements of European regulations in 2027.

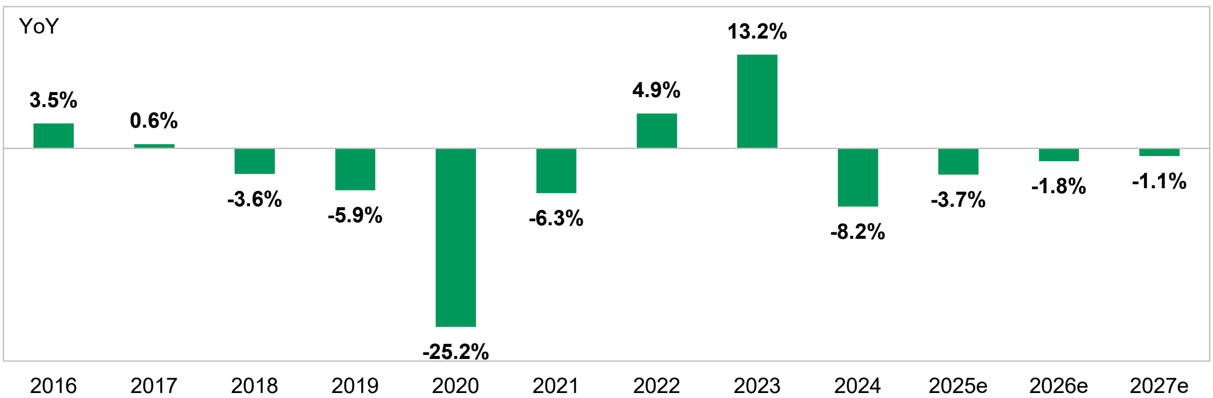
EV sales were better than expected in Spain, Germany and the UK. The average penetration rate is 17.3% in Spain, 15.8% in Germany and 22.5% in the UK. In France, the penetration rate to 19%. The European average is still quite far from the 25% penetration rate required to meet the European regulations in 2027. Only BMW has achieved this target to date. On average, the shortfall is still more than 10% for all manufacturers, and nearly 17% for Stellantis.

We maintain our forecast of a stabilisation in BEV sales in 2026-27 and **t**otal production is expected to remain down 1.8% and 1.1% YoY respectively in Europe, although BEV sales are expected to accelerate by around 36% in 2026-27, according to BNEF.

The easing of sanctions on vehicle manufacturers will support the production of internal combustion engine models in the short term. In the current environment, some manufacturers are putting hybrid and petrol engine models back on the market rather than electric vehicles, as this is favourable to margins. The political landscape has become less encouraging, mainly favouring entry-level electric vehicles.

Going forward, European car manufacturers will also have to cope with low annual growth rates in the North American region (-2% in 2025 and -3.2% in 2026), **in addition to the rapid decline in their**

Western Europe: trends in automotive production



Source: Crédit Agricole S.A./ECO

market share in China, which has fallen from 34% to 17% in 18 months. These two regions have traditionally been very profitable for European manufacturers.

The future of the automotive sector remains linked to the take-up of electric vehicles and requires the adoption of a business model based on Asian batteries

The transition to BEVs will be long and turbulent, and vehicle manufacturers are still in the early stages of this difficult transition, the pace of which remains uncertain given the evolution of incentives, government subsidies and technology. **Automakers need to produce at a large scale to absorb the costs of developing electric vehicles.**

Slower adoption is therefore likely to damage corporate profits and solvency. More affordable models, especially for the general public, will support BEV volume growth, but not margin growth.

	EV penetration rate in Europe
January-July 2025	15%

In the long run, demand for electric vehicles will prevail sooner or later, as electric vehicle technologies are simpler, more modular and therefore cheaper. This disruption is fundamental and even if manufacturers that continue to produce internal combustion engine vehicles are more profitable in the short term, we believe their technological lag will be detrimental. However, the challenge remains access to the latest battery technology, an area in which Chinese manufacturers clearly have the upper hand.

Véronique VIGNER

Metals – The US faces the consequences

Rare earths: defence takes priority

Chinese export restrictions, which came into force in April 2025, **are part of a long-term key strategy for Beijing of controlling dual-use goods.** The policy is reflected in the list of rare earths subject to the restrictions, which includes more elements essential for high-performance technologies, especially military uses, than civilian-use components of the magnet value chain. The US response included the acquisition by the Department of Defence (DoD) of a direct stake in MP Materials, the only integrated rare earths **producer in the US.**

> *Canada is redirecting its production from the US market, to Europe, while US foundries are capturing recyclable waste, and this is currently impacting European supplies.*

This support contributes to two major objectives: to ensure the company's financial viability as it is obliged to cease exports to China – which has until now purchased most of its production – **and to accelerate the development of separation capacities for rare earths essential to the defence industry**, which are not currently produced on US soil. At the same time, securing foreign resources is becoming important. However, there are few truly credible sources, with the notable exception of Brazil, which will no doubt attract much interest.

Aluminium tariffs: between a rock and a hard place

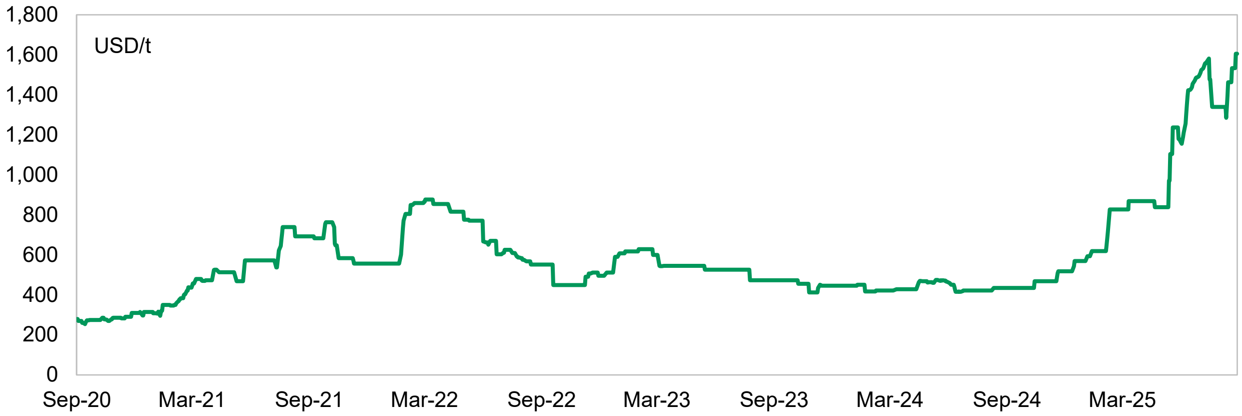
The US extended its tariffs in August 2025, and they now apply to several hundred products derived from aluminium and steel. This measure is continuing to disrupt the market and, in turn, is having spillover effects on other regions.

Canada is redirecting its production from the US market, which has a structural capacity shortage, to Europe, while US foundries are capturing recyclable waste, overlooked by the tariffs policy, and this is currently impacting European supplies. A European policy response cannot be ruled out and would amplify the supply shock.

The US is likely to continue have a capacity shortage in the medium term, with uncertainty over the sustainability of tariffs and energy prices discouraging investments. In addition, upward pressure on domestic prices can only be partially passed on downstream without potentially destroying demand. In this context, a return to the Russian aluminium market could well provide an unexpected solution.

Guillaume STECHMANN

Aluminium: US Midwest Premium



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

Container shipping – Changing course

Container shipping has so far resisted the trade war, which is reshaping global trade in favour of emerging markets. But traffic is beginning to feel the effects of tariffs.

Despite the rise in US protectionism, the world's major ports posted unexpected growth of more than 4% in the first half of the year, after an already strong year in 2024. In an environment of high volatility in trans-Pacific volumes in line with tariff announcements, **advance storage increased container imports in US ports by 3% over eight months**. China remains by far the largest supplier to the US, but it has lost ground to ASEAN countries and India, reflecting the ongoing reconfiguration of supply chains.

Although they are declining in the US, Chinese exports to EMs are accelerating. In particular, exports to sub-Saharan Africa are rising sharply due to the continued diversion of Asia-North Europe routes around Africa as Houthi attacks resumed this summer in the Red Sea. The leading operator MSC has redeployed its largest ships from the North Asia-Europe corridor to routes serving Africa and the Mediterranean via India, further supporting South-South trade. European imports from Asia have also benefited from the strong EUR, while exports in the opposite direction declined.

The strength of Chinese exports to ASEAN countries is fuelling suspicions that it is circumventing tariffs via countries such as Vietnam, which has been hit by 40% duties on transhipments from third countries.

After a brief mid-year jump, freight rates from Asia are now falling and are nearing the cycle low reached in 2023, pointing to a deceleration in demand. Operators are likely to suffer losses if they fail to reverse the downward trend by limiting supply, while container ship orders are breaking all records.

The full delayed effect of reciprocal tariffs and the addition of new trade barriers are obscuring the outlook for container shipping in 2026. The final level of tariffs was agreed in early August for most countries, with negotiations continuing with China. But US President Donald Trump is again using tariffs to force his "partners" to align with his geopolitical and ideological views, as shown by the additional tariffs imposed on India and Brazil. Despite the agreement reached in July, the EU is itself threatened with additional tariffs in response to its regulation of tech giants. In addition, new trade barriers are likely to emerge outside the US, such as the tariffs imposed by Mexico on some of its imports from China.

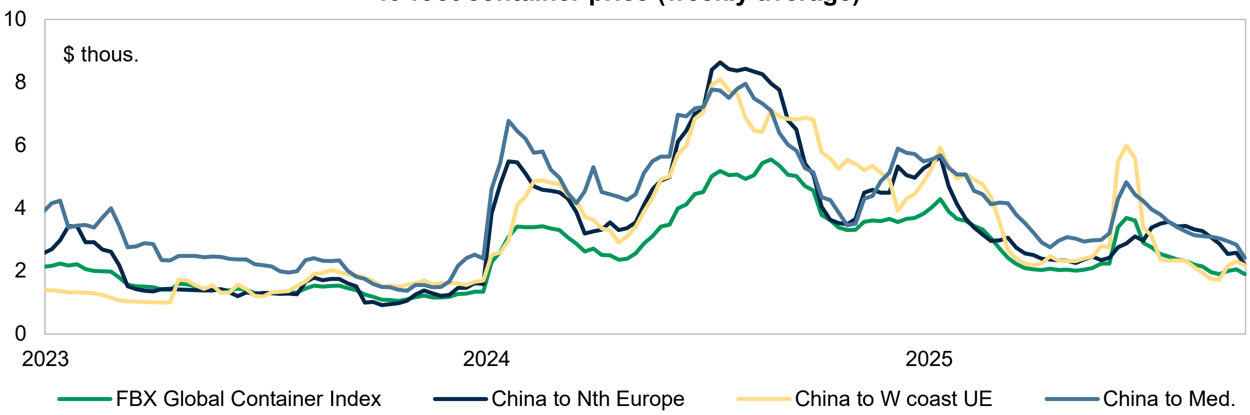
Trump is again using tariffs to force his "partners" to align with his geopolitical and ideological views.

The maritime sector has not been spared: the upcoming port call fees for Chinese-built vessels will lead them to re-route to other regions. Trump is also seeking to counter efforts to decarbonise the sector by threatening retaliation against countries that back a landmark international agreement to tax shipping emissions due to be signed in October.

Overall, global container traffic is expected to increase by around 3% this year under the effects of frontloading ahead of tariff deadlines and the Chinese trade offensive. However, growth will likely slow significantly next year as protectionist measures take full effect.

Bertrand GAVAUDAN

40-foot container price (weekly average)



Sources: Datastream, Freightos, Crédit Agricole S.A.

MARKETS

Monetary policy – Not the time for easing

Interest rates – Moderate upward pressures

Exchange rates – Waiting for the dollar to smile again

Monetary policy – Not the time for easing

In the United States, persistent inflation risks are likely to disillusion proponents of rapid and substantial monetary accommodation. In the Eurozone, inflation moving towards target and even modest recovery argue in favour of maintaining the status quo, followed by tightening, albeit still distant. Concerned about second-round effects, the BoE might defer its next rate cut. As for Japan, while rate hikes are becoming less imminent, they remain on the agenda.

FEDERAL RESERVE EASING MAY BE LIMITED BY STICKY INFLATION

After nine months on hold to start the year, the Fed delivered its first cut of 2025 with a 25bp move at the September FOMC. That said, the path ahead remains murky, with the latest dot plot indicating some clear divisions on the Committee, and while we do expect some modest additional easing, we continue to believe that market pricing is too aggressive.

Specifically, we expect one more cut before year-end to bring the upper bound to 4.00%, before the Fed then embarks on an extended pause by leaving rates unchanged at this 4.00% level throughout 2026. Our current base case has an additional 2025 cut in December, though we would not be surprised by an October cut. We believe that risks are tilted towards lower rates and would not rule out the Fed cutting in both October and December, though even if this were to happen we think the Fed may end up being less aggressive next year than a market pricing four to five more cuts by end-2026.

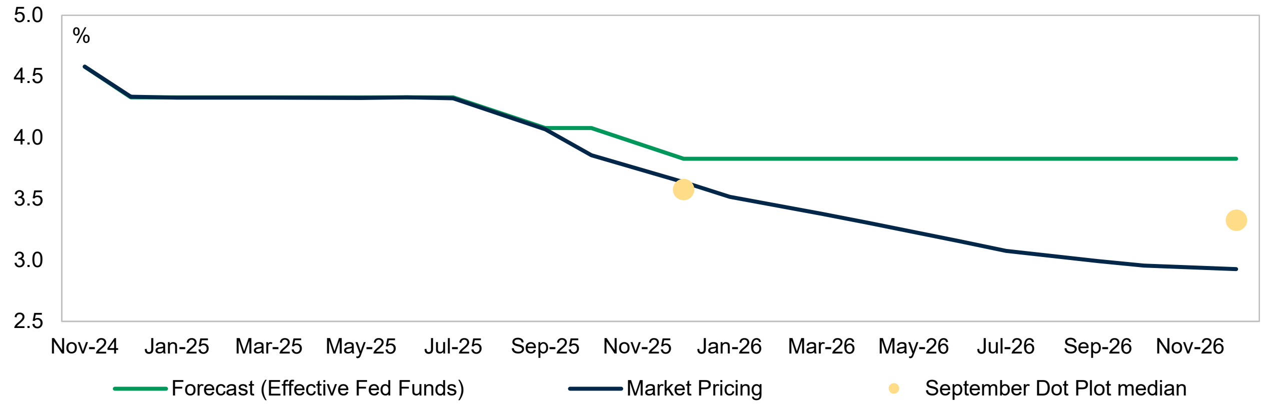
In the near term, we agree that the employment side of the mandate has gained the upper hand, with rising downside risks to the labour market driving a recalibration in the policy rate. However, we think there is a risk that some are downplaying the inflation side of the mandate a bit too much. With YoY core inflation at a similar level to where it was in February, progress has largely stalled this year, despite a relatively limited tariff impact to the point. As such, we continue to expect that the inflation side of the mandate will regain the upper hand, limiting the amount of easing that the Fed delivers.

There are enough checks and balances in place for the Fed to largely withstand the pressure.

Questions around threats to Fed independence complicate the picture, and while the Trump administration's attempts to gain influence over monetary policy decisions are unlikely to stop, we continue to lean toward the view that there are enough checks and balances in place for the Fed to largely withstand the pressure. That said, the persistence and variety of attacks by the administration indicate that risks are clearly rising.

Nicholas VAN NESS

Our Fed forecast remains more hawkish than the market



Sources: Bloomberg, Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: RATES KEPT ON HOLD AMID QT

The normalisation of inflation – which is expected to move towards 2% then remain marginally below this target over the next two years – as well as the expected recovery in growth in the Eurozone should confirm the ECB's **decision to keep its monetary policy unchanged**.

The ECB cut its deposit rate to 2% in June and has since indicated that it considers its rate "in a good place" to face the uncertainties ahead. This announcement led financial markets to re-price interest rate trajectories. Swap rates are no longer expecting further cuts.

There is a residual risk of a rate cut, insofar as inflation will be below target in 2027. In this context, even a slight deterioration in the economic outlook could encourage the central bank to be marginally more accommodative. But this is a risk rather than our base scenario.

We expect the next rate move to be an increase, once the economic recovery has materialised and the improvement in economic conditions puts inflationary pressure on the Eurozone. Any rate hike would only occur after this recovery and, therefore, **not before end-2026 at the earliest**.

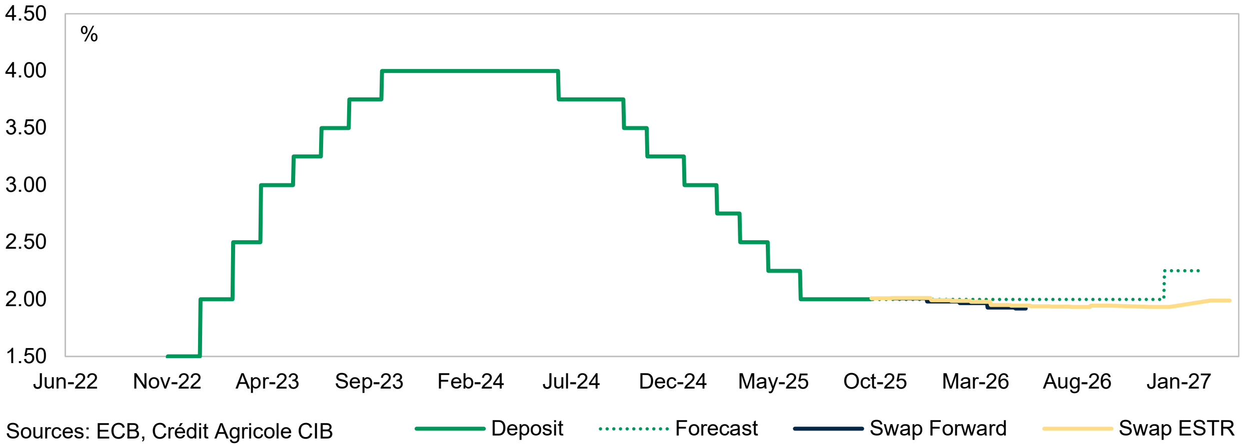
In parallel with its decisions on rates, the ECB is continuing to reduce its balance sheet as part of its quantitative tightening. It is not selling securities, but since 2024 it is no longer reinvesting the bonds on its balance sheet as they mature. As a result, its balance sheet is shrinking by around EUR40bn per month.

In parallel with its decisions on rates, the ECB is continuing to reduce its balance sheet as part of its quantitative tightening.

The reduction in assets is reducing bank liquidity (on the liabilities side of the ECB's balance sheet). This liquidity remains in surplus, at more than EUR2,600bn. However, the continued reduction in the ECB's balance sheet has led to a contraction in this liquidity (which exceeded EUR4,500bn in 2022). In the coming years – starting in 2027 – bank liquidity will be too scarce, forcing credit institutions to replenish it by borrowing directly from the ECB.

Louis HARREAU

ECB: rates stabilise after a long decline



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: WE NO LONGER EXPECT A RATE CUT IN NOVEMBER, NEXT CUT DELAYED TO 2026

The BoE has cut its Bank rate by 25bp a quarter since the summer of 2024 to 4%. We continue to expect two more rate cuts in this cycle to a terminal rate of 3.50% but we postpone the next rate cut to February 2026 from November 2025 in our previous forecasts. Indeed, with the current acceleration of inflation, the BoE has become more worried about the possibility of a renewed risk of second-round effects to prices and wages and therefore the risk of persistence in domestic inflationary pressures. At its monetary policy meeting in September, it maintained a hawkish stance noting that "upside risks around medium-term inflationary pressures remained prominent in the Committee's assessment".

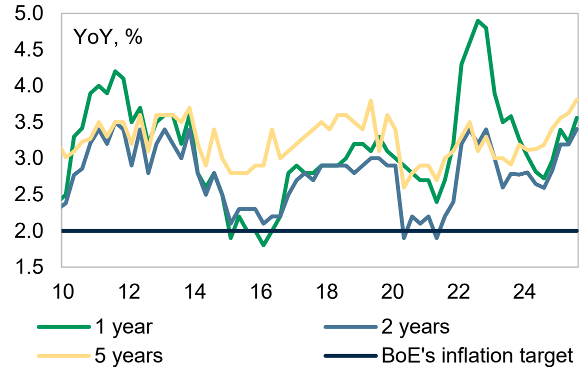
With the current acceleration of inflation, the BoE has become more worried about the possibility of a renewed risk of second-round effects to prices and wages.

CPI inflation surprised generally to the upside in recent months. It reached 3.8% YoY in July, before stabilising in August, due to sticky core inflation and rising energy and food inflation. We now forecast a peak of CPI inflation at 4% YoY in September – in line with the BoE's forecast, double its 2% target. We continue to expect a relatively rapid easing in inflation to 3.6% in Q425 and 2.3% in Q426. Indeed, strong base effects should drive down inflation from spring 2026 as the April 2025 hikes in regulated household energy and water bills will drop out of the 12-month comparison and the effects of April's increase in employers National Insurance Contributions (NIC) and the National Living Wage (NLW) will dissipate.

The labour market has loosened further in the past three months with vacancies down 45% from their peak in May 2022 and the unemployment rate progressing from a low of 3.6% to 4.7%. Employment data has been difficult to read over the past year due to statistical issues such as a low response rate to the labour force survey. While the LFS data shows steady employment growth (+1.9% YoY in July), payrolled employees have been falling (-0.4% YoY). Business surveys show that job losses are partly due to the large rises in the NLW and the employer NIC. Meanwhile, the labour supply has been improving with the participation rate (16+) having increased to 63.9% in Q225, up by more than 1ppt since its lowest level reached in early 2024. Given that upward trend in labour supply and the prospect of weak near-term GDP growth, we continue to expect the unemployment rate to increase going forward to a peak of 4.9% by the end of the year. The deteriorating labour market and slower wage growth are expected to ultimately feed into lower services inflation and core inflation, allowing **the BoE to pursue its monetary easing cycle in the course of next year**. Meanwhile, we continue to expect the tariffs' impact to be mildly disinflationary due to lower oil prices and lower imported inflation.

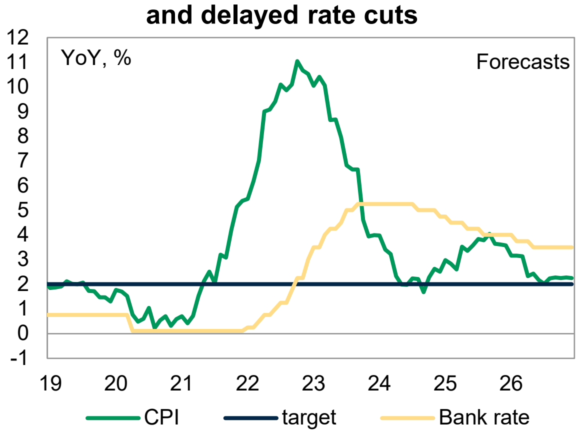
Slavena NAZAROVA

UK: a worrying rise in household inflation expectations



Sources: BoE Inflation Attitude Survey, Crédit Agricole S.A.

UK: temporary rise in inflation and delayed rate cuts



Sources: ONS, Crédit Agricole S.A.

BANK OF JAPAN: RATE HIKES LIKELY TO BECOME MORE DISTANT DEPENDING ON NEW ADMINISTRATION

We expect the rate hike to resume from January 2026 at the earliest. The BoJ continues to express caution, stating that the pace of growth is "likely to moderate" due in part to the impact of the Trump tariffs. The index of industrial production and the Ministry of Economy, Trade and Industry's forecast index have been "fluctuating indecisively" due to a decline in demand caused by the global economic slowdown and a frontloading to produce before the Trump tariffs were imposed, but there are concerns that there would be some backlash once the tariffs are imposed.

The BoJ, which does not want to extinguish rate hikes which it calls "financial normalisation", seems to be cautious about using the term "rate cut", but in reality, it is considering both a rate hike and a rate cut as its next move. Deputy Governor Shinichi Uchida also stated, "we need to adjust the policy to the most neutral position possible against both upside and downside risks". Our current main scenario is that neither domestic nor foreign demand would fall significantly, the economy would not fall into a deep recession, and rate hikes would resume from January 2026, at the earliest. We believe the reason why BoJ officials still hint at continued rate hikes is to prevent Governor Kazuo Ueda's regular press conferences after meetings in which no rate hikes were announced from being interpreted as dovish.

The BoJ has revised modestly upward its real GDP growth forecast for FY25 from +0.5% to +0.6%. If real GDP growth from Q2 onwards is +0.1% (+0.4% annualised), the real GDP growth rate for FY25 would be +0.6%. The BoJ's forecast implies a weak growth trend below the potential growth rate of around +0.5%. If real GDP growth in Q225 turns negative, a positive recovery in Q325, which would be released in November, would be necessary. The earliest rate hikes could resume would be January 2026. If the Trump administration's reciprocal tariffs cause a decline in exports and production and downward pressure on domestic demand, resulting in a negative real GDP growth in Q325, a positive figure of Q425 would need to be confirmed in February 2026. In that case, rate hikes would resume in April 2026. If domestic demand collapses and real GDP for Q425 turns negative, the risk of a sharp slowdown in inflation in 2026 and a significant drop below the BoJ's 2% inflation target would likely be high, leading to a rate cut.

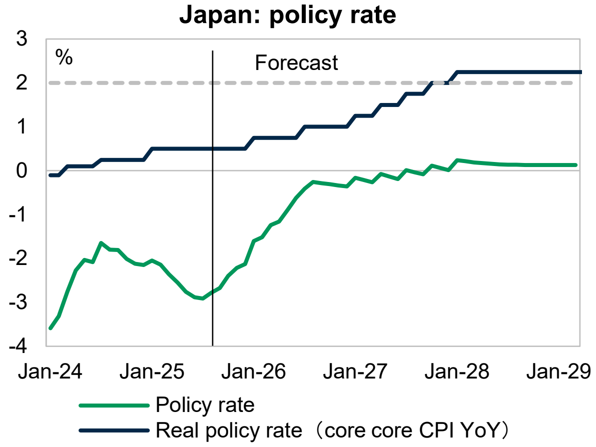
The LDP-Komeito government suffered a defeat in the Upper House election, resulting a resignation of Ishiba administration. Unless it shifts from its previous policy of prioritising fiscal consolidation to an aggressive fiscal policy in order to alleviate the hardships facing the people, the LDP-Komeito government would no longer be able to last. A shift to an aggressive fiscal policy would require the continuation of accommodative monetary policy, which is a prerequisite for stabilising the government bond market, making it difficult for the BoJ to resume rate hikes soon. The government is expected to implement large-scale economic measures at the autumn extraordinary Diet session.

A change in the government's basic economic policy guidelines would have a significant impact on the BoJ's monetary policy.

At a time when the government is trying to boost the economy, it would be difficult for the BoJ to hike rates, which would depress the economy. The BoJ Act states, the BoJ "shall, taking into account the fact that currency and monetary control is a component of overall economic policy, 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 shall be mutually compatible". Naturally, a change in the government's basic economic policy guidelines would have a significant impact on the BoJ's monetary policy.

To mitigate the impact of Trump tariffs, JPY depreciation has gone from being a problem to a 'nest egg'. If the new administration's economic policy guidelines include a high-pressure economy in addition to an aggressive fiscal policy, the BoJ's rate hikes would become even more distant. To deal with Trump tariffs, the government, working with the BoJ, would likely strengthen its efforts to shift from a reliance on foreign demand to expanding domestic demand.

Japan: policy rate



Sources: BoJ, MIAC, Crédit agricole CIB

Ken MATSUMOTO – Takuji AIDA

Interest rates – Moderate upward pressures

In the US, a possible resurgence of inflationary concerns and disappointed hopes for substantial monetary easing could translate into a slight rise in interest rates, coupled with a flattening of the yield curve. Favoured by European growth proving more resilient than anticipated, then supported by fiscal expansion in Germany, this movement would propagate to the Eurozone.

USA: MODESTLY HIGHER RATES & A FLATTENING CURVE

We expect modestly higher rates, a flattening yield curve and low rate volatility, given our house view that the Fed will cut another 25bp by year-end and then stop easing in 2026. Our house view is more bearish than the market, where 110bp easing is priced by end-2026. Fed officials have recently emphasised rising downside risks to the labour market over upside risks to inflation, and the shifting balance of risks warrants additional rate cuts.

Due to the Trump administration's immigration and economic policies, the labour market "is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers", according to Fed Chair Jerome Powell. As a result, there is an increasing focus among policymakers on labour slack measures, such as the unemployment rate, job openings and quits rates, rather than the headline figure. Headline payroll numbers have declined, along with the BLS reporting 911,000 fewer jobs in the one-year period that ended in March 2025 in its preliminary revision.

We target the 10Y yield at 4.30% by year-end, while the 2Y yield has a bit more room to rise given our curve flattening view. There is a tight correlation between the 2Y yield and market-implied easing. We think the Fed has limited room to cut rates, which are closer to the neutral level now than they were before the easing cycle began in 2024. More importantly, **although the labour market has shown signs of weakness, it is not weak enough to make consecutive cuts**, as a portion of the FOMC remains concerned with the inflation side of the dual mandate.

If President Donald Trump succeeds in replacing Lisa Cook as Fed Governor, there will be a majority of Fed Governors who could advance the administration's lower rates agenda. Curve twist-steepening put Treasury 5-30Y at 123bp and swaps 5-30Y at 75bp early September, the highest levels since 2021, before reversing course. Still, the curve appears too steep relative to forward rates, such as 1Y1Y swap. As a result, the intermediate sector looks rich. We believe risk/reward favours fading the richness in the intermediate sector.

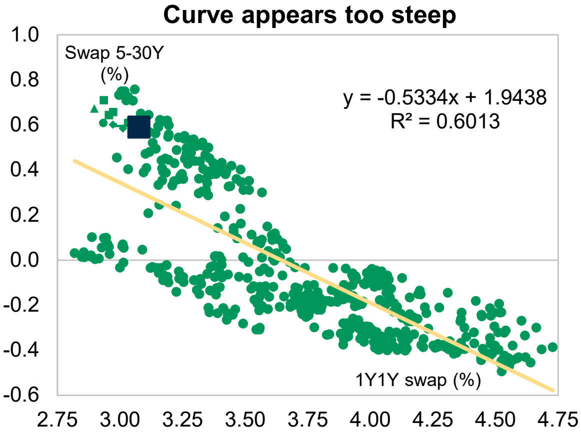
Tariff-induced inflationary pressure is working its way into the economy and could become persistent.

Markets price in 24bp easing at the 29 October FOMC meeting, a total of 110bp by end-2026. Our house view is that the Fed will cut 25bp only in December, and that it will embark on an extended pause afterwards. While the labour market might be weakening, tariff-induced inflationary pressure is working its way into the economy and could become persistent. YoY core PCE, the Fed's preferred inflation metric, is at 2.9%, the highest since February – not ideal for a central bank that has resumed rate cuts.

The 30Y yield rises in our forecast as well but struggles to go over 5.00%, thanks to potential pension demand, in our view. There has been active stripping of bonds, eg, USD6.9bn Treasuries were net stripped in August, among the highest monthly net stripping volume YTD. Twist steepening in August made the long end attractive, as the 30Y bond yield tried to test the psychological level of 5.00% at month-end. **Strong stock prices have further improved pension fund status.** The Milliman 100 Pension Funding Index increased to 106.2% in August.

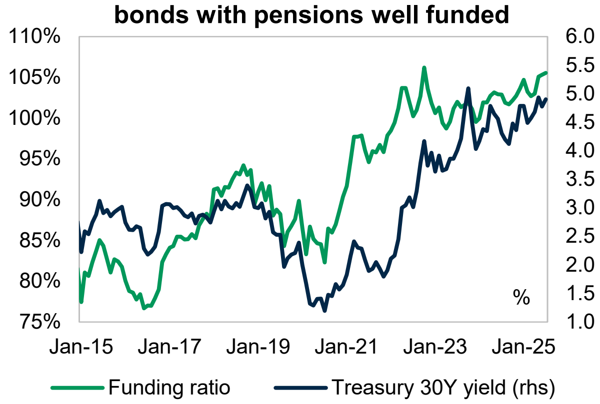
Alex LI

Curve appears too steep



Sources: Bloomberg, CA CIB

There is demand for long duration bonds with pensions well funded



Sources: Bloomberg, CA CIB

EUROPE: A MIXED PICTURE FOR EGBS

In aggregate, the EZ economy is in a good spot, though there is a lot of dispersion in data on a country-by-country basis. At contrasting ends, the Bank of Spain raised its 2025 growth forecast to 2.6% while France can barely muster 0.7%, which accounts for the fundamentally driven outperformance of Bonos. The EZ unemployment at 6.3% remains exceedingly low by historical standards, and GDP of 1.5%, above an average of 1.2%, is clearly higher than potential estimates of the past.

Hence, **there is no reason to expect the ECB to cut rates further;** yet money market rates still have some probability of a cut. With the ECB on hold at 2% we expect money market rates to rise further but with no moves anticipated from the ECB the drop of money market segment volatility should be sustained. Absent large macro data surprises, particularly on the inflation front, we do not see reasons for an increase in volatility across the EUR term structure which has consequences for the curve shape and EGB spreads as low volatility will contribute to their compression given some issuers' carry advantage.

A standout market feature over the last few weeks has been the divergence of EUR and USD money market rates. Were this not the case, our sense is that EUR rates would be much closer to our higher-level forecasts. Our macro team's view on the Fed remains for no cuts next year, therefore the risk of USD money market rates repricing, with follow-through to global curves, is significant. In our view, we should have some resumption of upward pressure on EUR rates based on USD rate correlation as well as the better EZ growth outlook, led by Germany's fiscal expansion.

The EUR curve shape should be primarily driven by our anticipation of the next ECB move being a hike, in what should be a shallow tightening cycle. Generally, markets try to time policy rate moves at least six to nine months in advance, which is why initial money market steepening is followed through with flattening once tightening becomes the market's base case. The extent of the increase in global term premium (5-30Y) over the last few months has been a bit of a surprise to us, but we expect it to dissipate towards the end of our forecast horizon now that the long end might appeal to premia-driven allocators rather than matching the needs of liability-driven investors.

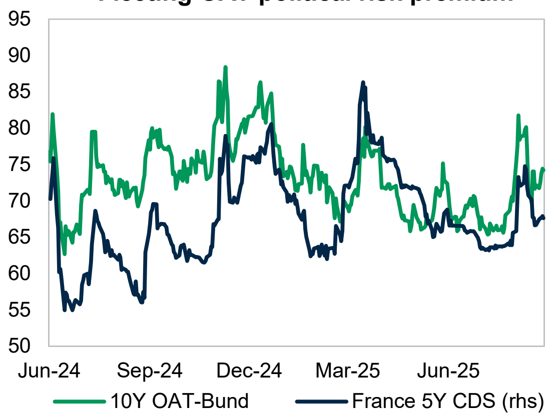
With no moves anticipated from the ECB the drop of money market segment volatility should be sustained.

For Bunds, we continue to be of the opinion that supply will weigh on the curve as ASW spreads. Hence, we still forecast more cheapening of Bunds vs swaps, especially on the 10Y and 30Y areas despite our expectations of a smaller impact of the Dutch pension funds transition than what is currently priced in. To us, Dutch pension fund paying flow potential has been overplayed. Therefore, we still think Buxl ASW should cheapen most on the curve, on supply and rebalancing flows and possibly the unwinding of paid positions around the 30Y sector.

And finally, **the topic of French politics has come back, a bit ahead of schedule, prompting a new Prime Minister, with the task of pushing through unpopular budget cuts**. As this was anticipated by market participants and no general election has been called, the impact was short lived and shallow. In our view, it will be harder for the 10Y OAT-Bund spread to compress below 65bp as fiscal inertia is yet to be resolved, and who knows how long before yet another PM may be needed to be appointed by President Emmanuel Macron. This implies that the higher yielding shorter end of the OAT curve should be attractive to investors, but caution remains warranted for the very long end due to headline risks on the budgetary front.

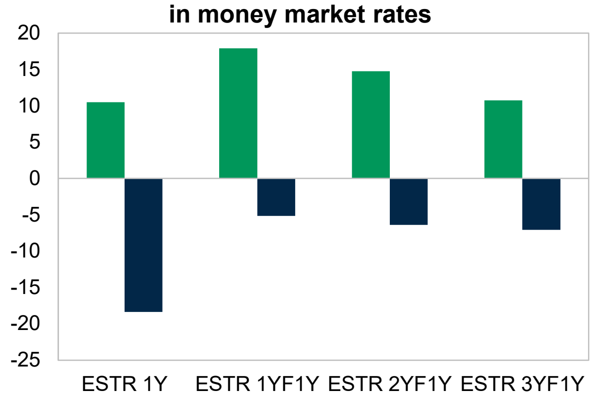
Bert LOURENCO

Fleeting OAT political risk premium



Source: Crédit Agricole CIB

Three- & six-month changes in money market rates



Sources: Bloomberg, CA CIB

Exchange rates – Waiting for the dollar to smile again

Weighed down by a wave of disaffection in the wake of the sensational "Liberation Day", as well as by certainly exaggerated expectations of monetary accommodation, the USD has suffered. As capital inflows to the US have not dried up and easing is likely to be less than anticipated, the USD could "regain its smile".

DEVELOPED COUNTRIES: DEBUNKING THE USD-REBALANCING TRADE

The 'Sell America' trade proponents have tried to link the USD selloff in the wake of Liberation Day (2 April) to foreign portfolio outflows from the US. They further theorised that there has been a structural breakdown in the traditionally positive correlation between the currency on the one hand and higher UST yields and/or weaker global equities, on the other. These are well-established historic relationships that form the backbone of the so-called 'USD smile' – an analytical construct that has helped investors understand FX price action over the years. Recent portfolio data has suggested that the US was able to attract record equity and fixed income capital inflows in the first seven months of 2025, however, and in effect has debunked the 'Sell America' trade. The data has further suggested that **the 'USD smile' remains the dominant FX market template**.

The return of the USD smile is still to put a smile on the USD's face, however. In particular, the USD remains the worst performing G10 currency this year and continues to trade close to its lows of the year across the board and thus close to the bottom of the 'USD smile'. The USD is weighed down by a build-up of Fed rate cut expectations that erode its rate and yield appeal and further make short USD hedges more attractive. The growing use of FX hedges by foreign investors can explain the discrepancy between the USD underperformance and the US stock market outperformance that has been fuelled by foreign portfolio inflows in recent months. The conclusion is further confirmed by our US stock-market ETF tracker, which suggests that more than 80% of all foreign purchases have been hedged.

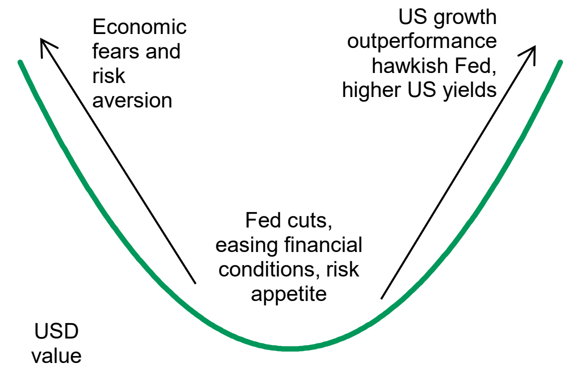
The above being said, **we note that US rates markets are pricing in c. 45bp of Fed easing in 2025, followed by another c. 70bp in 2026**, at the time of writing. This is an excessively dovish outlook in our view and suggests that many negatives are already in the price of the USD. In particular, our US economist expects the US economy to recover and US inflation to remain sticky in 2026, resulting in a shallower Fed easing cycle than priced in by the US rate markets. This could lift US rates, give the rate appeal of the USD a boost and help the currency climb up the 'USD smile' once again. The UST yield curve could flatten again as well and render FX hedging costs too expensive, thus discouraging short-USD hedging.

The USD remains the worst performing G10 currency this year.

As a result, **we expect the USD to trade close to recent lows in the next 3-6M but regain some ground going into 2026**, on the back of the recovering US economy and an earlier end of the Fed easing cycle. A continuation of portfolio inflows as well as intensification of FDI inflows into the US should support the currency as well, in our view. **In the case of EUR/USD, we forecast a peak close to recent highs in the coming months before a renewed downtrend towards 1.10 in 2026.**

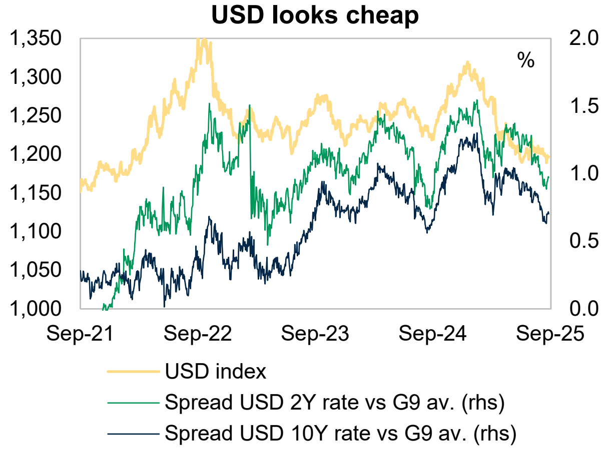
Valentin MARINOV

The USD smile



Sources: Bloomberg, CA CIB

USD looks cheap



Sources: Bloomberg, CA CIB

EM FX LIKELY FLATTISH VS USD, CAPPED BY THE TARIFFS EFFECT

EM currencies have performed relatively well vs the USD since the beginning of the year despite the challenge of US tariffs. But the first three quarters of the year can be divided in two parts: (1) during H1 a basket of the main EM currencies appreciated vs the USD; and (2) since July (confirmation of the US tariffs), it has been flattish.

In our view, the rest of the year should be similar to Q3. There are many constructive factors supporting EM FX, but the negative effect of the tariffs will have to be absorbed and this should cap exchange rates.

Supportive factors

The economic growth outlook is decent – this is FX-supportive. We expect quasi-stable growth in 2025-26. Based on our forecasts, EM GDP growth is at 3.9% in 2025 and the same in 2026. Private consumption should remain decent, benefiting from lower inflation (almost back to pre-Covid levels on average for EMs), which supports the population's purchasing power. Lower inflation should also allow EM central banks to lower interest rates where required. For many EM central banks, we expect the scope of monetary easing to be similar to what the Fed will do.

The decent performance of EM exports in H1 was partly artificial, due to a frontloading of exports before the tariffs are implemented.

EM exporters should also benefit from sustained demand emanating from developed countries (this may help partly offset the effect of tariffs). Indeed, according to our in-house view, sequential aggregated GDP growth for the US, Europe and Japan will accelerate consistently in the coming five quarters, largely because of public spending (including the US 'Big Beautiful Bill' and the German spending boost).

Also, **EM carry remains decent**. Partly thanks to US Fed easing since September 2024, the average interest rate gap between EM currencies and the USD has stabilised above 200bp in Q3 (this is excluding China, Russia and Turkey). This is not as favourable as what prevailed until 2021, before the Fed monetary tightening, but it is higher than the levels seen a year ago. Additionally, the perspective of further Fed easing is inciting EM fixed investors to look at EM bonds.

Facing the challenge of tariffs

On the negative side, **tariffs will impact EMs negatively**. EM exports have performed relatively well during the first half of the year. However, this is partly because exporters have frontloaded a portion of planned exports in order to limit the tariffs impact. There should be some payback going forward. Besides Mexico, the countries that are the most exposed to US demand are the Asian economies.

The politisation of tariffs also introduces additional uncertainty for some large countries. This is the case for Brazil, India and South Africa, which face high US tariffs, at least partly for political reasons. The sectoral tariffs will also weigh on some exporters' performance.

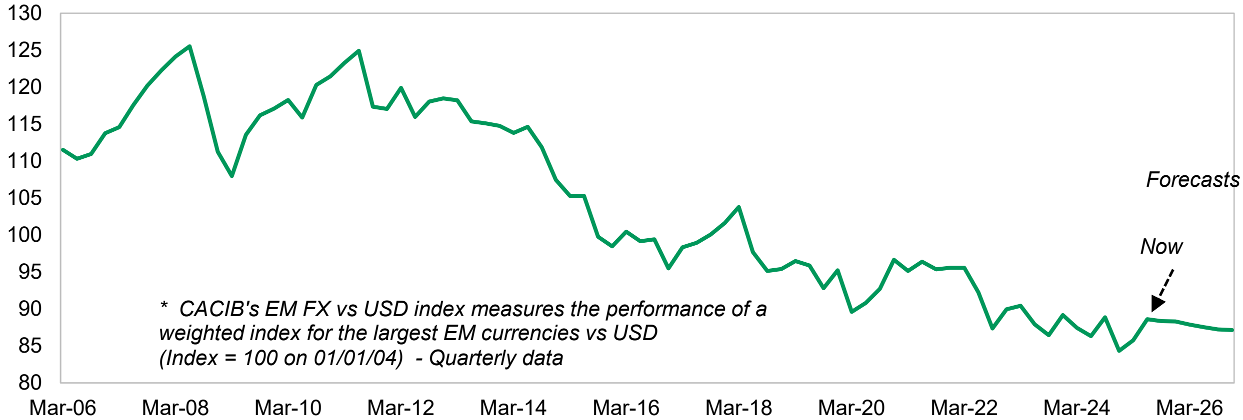
Bottom line

The conjunction of these positive factors and of **the negative effect of tariffs leads us to have a flattish profile for average EM FX vs USD in the next six months**.

Of course, this is on average for the EM FX asset class. Within the EM FX complex, there is some differentiation. On a regional basis, we expect LATAM currencies to underperform their peers, on fiscal concerns and as central banks lower interest rates significantly. Some CE4 currencies may still benefit from high carry and from the German spending boost. Asia currencies may be capped by the exposure to tariffs, but they should also be buffered by strong fundamentals on average.

Sébastien BARBÉ

EMFX vs USD



Source: 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**	**1.7**	**2.0**	**2.9**	**2.8**	**2.9**	**-4.1**	**-3.7**	**-3.5**
Japan	**0.1**	**1.0**	**0.6**	**2.4**	**2.9**	**1.6**	**4.8**	**3.5**	**2.0**
Eurozone	**0.8**	**1.3**	**1.3**	**2.4**	**2.2**	**1.8**	**2.5**	**1.6**	**1.8**
Germany	-0.5	0.1	1.2	2.5	2.2	2.0	5.6	5.3	5.0
France	1.1	0.7	1.2	2.3	1.0	1.3	0.4	-0.8	0.0
Italy	0.5	0.5	0.6	1.1	1.7	1.1	1.1	1.1	1.4
Spain	3.5	2.8	2.0	2.9	2.5	1.8	2.8	2.6	2.5
Netherlands	1.1	1.5	1.4	3.2	2.9	2.1	9.1	9.8	10.5
Belgium	1.0	1.1	1.2	4.3	2.9	1.8	-0.9	-0.8	-1.3
Other advanced									
United Kingdom	1.1	1.5	1.1	2.5	3.4	2.5	-2.7	-3.3	-2.9
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	1.4	1.0	1.4	1.1	0.3	0.6	7.7	4.9	5.7
Sweden	0.7	1.0	2.0	2.8	2.5	2.0	7.4	6.0	6.5
Norway	2.1	0.3	1.6	3.2	3.0	2.3	16.9	14.5	12.2
Asia	**5.2**	**4.8**	**4.7**	**1.7**	**1.3**	**1.9**	**2.0**	**1.8**	**1.4**
China	5.0	4.8	4.4	0.2	0.1	0.6	2.2	2.0	1.4
India	6.8	6.3	6.7	4.9	3.6	4.7	-1.4	-1.6	-1.7
South Korea	2.0	0.9	2.1	2.3	2.1	1.8	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	4.7	2.2	2.2	1.7	1.8	14.3	14.0	13.0
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	1.0	1.5	17.5	16.6	17.5
Hongkong	2.5	2.3	2.2	1.8	1.6	2.0	11.3	10.7	10.0
Philippines	5.6	5.4	5.5	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	**2.8**	**2.5**	**2.2**	**3.7**	**3.2**	**2.8**	**-0.5**	**-0.8**	**-1.1**
Brazil	3.4	2.3	1.7	4.4	5.0	4.3	-2.6	-2.5	-2.0
Mexico	1.2	0.7	1.2	4.7	3.8	3.3	-0.7	-0.6	-0.8
Emerging Europe	**3.2**	**1.9**	**2.2**	**20.9**	**14.8**	**8.3**	**0.6**	**0.2**	**0.2**
Russia	4.1	1.0	1.4	8.4	8.7	6.0	2.9	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	3.6	3.3	3.6	3.7	2.9	0.2	-0.2	0.0
Czech Republic	1.0	2.2	2.3	2.5	2.4	2.2	1.8	1.2	0.6
Romania	0.8	1.0	1.7	5.6	7.4	6.5	-8.3	-7.5	-6.1
Hungary	0.5	0.8	2.5	3.7	4.6	4.0	2.1	1.5	1.0
Africa, Middle East	**2.4**	**3.0**	**3.2**	**12.8**	**11.5**	**9.3**	**1.8**	**0.3**	**0.1**
Saudi Arabia	2.0	3.9	3.8	1.7	2.2	2.0	-0.5	-2.6	-3.1
United Arab Emirates	4.0	4.5	4.5	1.8	1.5	2.0	9.1	8.8	8.3
South Africa	0.6	1.4	1.3	4.4	3.7	4.5	-0.6	-1.3	-1.4
Egypt	2.4	4.3	4.6	33.2	20.8	12.5	-5.5	-4.9	-4.1
Algeria	3.6	3.2	2.7	4.4	4.5	5.1	-1.0	-2.5	-3.5
Qatar	2.4	2.6	5.2	1.3	0.5	1.8	17.3	13.7	15.2
Koweit	-2.6	2.7	2.5	2.9	2.3	2.2	29.1	22.4	19.0
Morocco	3.8	4.1	3.7	1.0	1.7	2.0	-1.2	-1.9	-2.2
Tunisia	1.4	1.7	1.5	7.0	6.0	6.5	-1.7	-2.5	-2.8
Total	**3.2**	**2.9**	**2.9**	**4.4**	**3.7**	**3.1**	**0.7**	**0.4**	**0.2**
Advanced economies	**1.6**	**1.5**	**1.5**	**2.6**	**2.6**	**2.3**	**-0.3**	**-0.7**	**-0.7**
Emerging countries	**4.4**	**4.0**	**3.9**	**5.8**	**4.5**	**3.7**	**1.5**	**1.1**	**0.9**

** 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	-0.6	3.8	1.1	1.5	1.8	2.2	2.4	2.4
Japan	-0.2	0.5	0.6	0.5	0.1	0.5	-0.6	0.1	0.2	0.3	0.4	0.4
Eurozone	0.3	0.2	0.4	0.4	0.6	0.1	0.2	0.2	0.4	0.4	0.4	0.4
Germany	-0.1	-0.3	0.0	0.2	0.3	-0.3	-0.1	0.1	0.4	0.5	0.5	0.4
France	0.1	0.2	0.4	-0.1	0.1	0.3	0.2	0.1	0.3	0.4	0.3	0.4
Italy	0.2	0.2	0.0	0.2	0.3	-0.1	-0.1	0.1	0.2	0.1	0.3	0.2
Spain	1.1	0.9	0.8	0.8	0.6	0.8	0.5	0.3	0.5	0.5	0.6	0.6
United Kingdom	0.8	0.6	0.2	0.2	0.7	0.3	0.3	0.1	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	2.7	2.5	2.9	3.1	3.1	3.0	2.8	2.7
Japan	3.2	2.2	2.0	2.3	2.7	3.2	3.2	2.6	2.0	1.5	1.3	1.4
Eurozone	2.6	2.5	2.2	2.2	2.3	2.0	2.1	2.0	1.7	1.9	1.7	1.8
Germany	2.7	2.6	2.2	2.5	2.6	2.1	2.1	2.2	2.0	2.0	2.0	1.9
France	3.0	2.5	2.1	1.7	1.2	0.8	1.0	1.0	1.1	1.4	1.4	1.5
Italy	1.0	0.9	1.2	1.3	1.8	1.8	1.7	1.4	0.9	1.3	1.1	1.2
Spain	3.2	3.6	2.3	2.4	2.7	2.2	2.6	2.5	1.8	1.8	1.7	2.0
United Kingdom	3.5	2.1	2.0	2.5	2.8	3.5	3.9	3.6	3.1	2.3	2.2	2.3

	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	4.2	4.3	4.5	4.4	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	6.6	6.5	6.4	6.3	6.4	6.4	6.3	6.3	6.3	6.2	6.2	6.1
Germany	3.3	3.4	3.4	3.4	3.6	3.7	3.6	3.6	3.6	3.5	3.4	3.4
France	7.5	7.4	7.4	7.3	7.5	7.6	7.6	7.7	7.7	7.7	7.7	7.6
Italy	7.1	6.7	6.3	6.2	6.3	6.3	6.2	6.3	6.4	6.4	6.4	6.4
Spain	11.8	11.6	11.3	10.8	10.8	10.6	10.3	10.1	9.9	9.7	9.5	9.4
United Kingdom	4.4	4.2	4.3	4.4	4.5	4.7	4.8	4.9	4.9	4.9	4.9	4.9

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2024	0.8	1.1	2.3	-2.1	0.4	-0.5	0.4	0.2
2025	1.3	1.2	1.4	2.2	1.7	2.6	-0.4	0.5
2026	1.3	1.1	1.3	1.9	1.4	1.3	0.1	0.4
Q1 2025	*0.6*	*0.3*	*-0.1*	*2.7*	*2.2*	*2.2*	*0.1*	*0.2*
Q2 2025	*0.1*	*0.1*	*0.5*	*-1.8*	*-0.5*	*0.0*	*-0.2*	*0.7*
Q3 2025	*0.2*	*0.2*	*0.2*	*0.3*	*0.1*	*0.0*	*0.1*	*0.7*
Q4 2025	*0.2*	*0.2*	*0.2*	*0.6*	*0.4*	*0.2*	*0.1*	*0.5*
Germany								
2024	-0.5	0.5	2.6	-3.2	-1.9	-0.4	-0.7	0.0
2025	0.1	1.0	1.9	-0.9	0.0	3.5	-1.4	0.8
2026	1.2	0.7	2.2	3.1	0.9	1.7	-0.3	0.0
Q1 2025	*0.3*	*0.6*	*-0.3*	*0.3*	*2.5*	*1.6*	*0.4*	*-0.4*
Q2 2025	*-0.3*	*0.1*	*0.8*	*-1.4*	*-0.1*	*1.6*	*-0.7*	*0.5*
Q3 2025	*-0.1*	*-0.2*	*0.3*	*-0.2*	*-0.2*	*-0.2*	*0.0*	*-0.1*
Q4 2025	*0.1*	*0.1*	*0.3*	*0.8*	*0.1*	*0.1*	*0.0*	*-0.1*
France								
2024	1.1	1.0	1.4	-1.3	2.4	-1.3	1.3	-0.8
2025	0.7	0.4	1.2	-0.4	0.6	2.7	-0.6	0.9
2026	1.2	1.0	1.0	1.0	3.1	1.5	0.6	-0.4
Q1 2025	*0.1*	*-0.2*	*0.2*	*-0.1*	*-1.2*	*0.4*	*-0.5*	*0.7*
Q2 2025	*0.3*	*0.0*	*0.4*	*-0.1*	*0.5*	*1.3*	*-0.3*	*0.5*
Q3 2025	*0.2*	*0.2*	*0.2*	*0.1*	*0.9*	*0.3*	*0.2*	*-0.1*
Q4 2025	*0.1*	*0.2*	*0.2*	*0.1*	*1.7*	*0.4*	*0.4*	*-0.5*
Italy								
2024	0.5	0.4	1.1	0.0	-0.3	-1.5	0.3	-0.2
2025	0.5	0.5	0.5	2.7	0.0	2.3	-0.7	0.1
2026	0.6	0.6	0.5	2.0	-0.6	0.4	-0.3	-0.1
Q1 2025	*0.3*	*0.2*	*-0.3*	*1.1*	*2.1*	*1.3*	*0.3*	*-0.3*
Q2 2025	*-0.1*	*0.0*	*0.2*	*1.0*	*-1.7*	*0.4*	*-0.7*	*0.4*
Q3 2025	*-0.1*	*0.2*	*0.2*	*0.4*	*-0.2*	*0.5*	*-0.2*	*-0.1*
Q4 2025	*0.1*	*0.1*	*0.1*	*0.6*	*-0.1*	*-0.2*	*0.0*	*-0.1*
Spain								
2024	3.5	3.1	2.9	3.6	3.2	2.9	0.2	0.3
2025	2.8	3.1	1.3	5.1	4.1	5.5	-0.3	0.1
2026	2.0	2.2	1.0	3.3	2.3	2.9	-0.1	0.1
Q1 2025	*0.6*	*0.6*	*0.2*	*1.3*	*2.4*	*2.0*	*0.2*	*-0.2*
Q2 2025	*0.8*	*0.8*	*0.1*	*0.8*	*1.3*	*1.6*	*0.0*	*0.2*
Q3 2025	*0.5*	*0.6*	*0.2*	*1.0*	*0.4*	*0.7*	*-0.1*	*0.0*
Q4 2025	*0.3*	*0.4*	*0.2*	*0.9*	*0.4*	*0.8*	*-0.1*	*0.0*
Portugal								
2024	2.1	3.0	1.5	4.2	3.1	4.8	-0.8	0.0
2025	2.1	3.1	1.4	2.6	0.8	4.1	-1.6	0.9
2026	2.3	2.1	0.8	5.5	2.1	3.0	-0.5	0.2
Q1 2025	*-0.3*	*0.0*	*0.5*	*-2.4*	*-0.2*	*1.8*	*-1.0*	*1.1*
Q2 2025	*0.7*	*0.7*	*0.5*	*1.8*	*0.1*	*0.2*	*0.0*	*-0.2*
Q3 2025	*0.9*	*0.5*	*0.1*	*2.0*	*0.2*	*0.4*	*-0.1*	*0.3*
Q4 2025	*0.9*	*0.5*	*0.1*	*2.0*	*0.4*	*0.6*	*-0.1*	*0.3*
Netherlands								
2024	1.1	1.0	3.6	-0.5	-0.2	0.0	-0.2	0.0
2025	1.5	1.0	2.7	1.9	1.8	2.0	0.0	0.0
2026	1.4	1.4	1.6	3.2	1.3	1.4	0.1	-0.4
Q1 2025	*0.3*	*0.4*	*0.5*	*-2.1*	*0.2*	*0.4*	*-0.1*	*0.5*
Q2 2025	*0.1*	*-0.4*	*0.8*	*1.5*	*0.9*	*2.6*	*-1.2*	*1.0*
Q3 2025	*0.3*	*0.3*	*0.5*	*0.5*	*-0.4*	*-1.3*	*0.6*	*-0.7*
Q4 2025	*0.4*	*0.4*	*0.4*	*1.0*	*0.0*	*-0.3*	*0.3*	*-0.3*
United Kingdom								
2024	1.1	-0.2	3.4	1.8	0.7	2.6	-0.6	0.1
2025	1.5	0.9	1.3	2.9	3.8	4.7	-0.4	-0.1
2026	1.1	1.0	1.5	3.1	2.9	4.3	-0.5	0.0
Q1 2025	*0.7*	*0.3*	*-0.2*	*1.9*	*1.7*	*1.2*	*0.1*	*-0.2*
Q2 2025	*0.3*	*0.1*	*1.3*	*0.5*	*-0.2*	*0.0*	*-0.1*	*0.0*
Q3 2025	*0.3*	*0.2*	*-1.0*	*0.5*	*0.8*	*1.0*	*-0.1*	*0.0*
Q4 2025	*0.1*	*0.1*	*0.5*	*0.3*	*0.8*	*1.0*	*-0.1*	*0.0*

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

INTEREST RATES

Short-term interest rates		Oct-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Etats-Unis	Fed funds	4.25	4.00	4.00	4.00	4.00	4.00
	Sofr	4.20	3.82	3.82	3.82	3.82	3.82
Japon	Call rate	0.50	0.50	0.75	0.75	1.00	1.00
Eurozone	Refinancing	2.15	2.15	2.15	2.15	2.15	2.40
	Deposit	2.00	2.00	2.00	2.00	2.00	2.25
	€str	1.93	1.93	1.93	1.93	1.93	2.18
	Euribor 3m	2.00	1.97	1.98	1.99	2.00	2.25
United-Kingdom	Base rate	4.00	4.00	3.75	3.50	3.50	3.50
	Sonia	3.75	3.75	3.50	3.50	3.50	3.50
Sweden	Repo	1.75	1.75	1.75	1.75	1.75	1.75
Norway	Deposit	4.00	3.75	3.75	3.50	3.50	3.50
Canada	Overnight	2.25	2.25	2.25	2.25	2.25	2.25

10Y rates	Oct-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USA	4.10	4.30	4.40	4.45	4.50	4.55
Japan	1.66	1.60	1.90	1.95	2.20	2.25
Eurozone (Germany)	2.70	2.80	2.97	3.00	3.05	3.03
Spread 10 ans / Bund						
France	0.82	0.75	0.70	0.65	0.75	0.80
Italy	0.85	0.75	0.65	0.65	0.85	0.85
Spain	0.54	0.50	0.50	0.45	0.50	0.50

Asia		Oct-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
China	7d reverse repo rate	1.40	1.30	1.30	1.20	1.20	1.20
Hong Kong	Base rate	5.50	5.25	5.25	5.25	5.25	5.25
India	Repo rate	4.75	4.25	4.00	4.00	3.75	3.75
Indonesia	7D (reverse) repo rate	2.50	2.25	2.00	2.00	2.00	2.00
Korea	Base rate	0.00	2.50	2.50	2.50	2.50	2.50
Malaysia	OPR	5.00	4.75	4.75	4.75	4.75	4.75
Philippines	Repo rate	1.04	0.85	0.70	0.60	0.50	0.40
Singapore	O/N SORA	2.00	2.00	2.00	1.88	1.88	1.88
Taiwan	Redisc	1.50	1.25	1.25	1.25	1.25	1.25
Thailand	Repo	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
Latin America							
Brazil	Overnight/Selic	4.75	4.50	4.50	4.50	4.50	4.50
Mexico	Overnight rate	4.00	4.00	4.00	4.00	4.00	4.00
Emerging Europe							
Czech Rep.	14D repo	6.50	6.50	6.25	6.25	6.25	6.00
Hungary	Base rate	0.00	4.50	4.25	4.00	4.00	4.00
Poland	7D repo	6.50	6.50	6.50	6.50	6.00	5.50
Romania	2W repo	17.00	15.00	13.00	11.00	10.00	10.00
Russia	1W auction rate	6.75	6.75	6.75	6.75	6.75	6.75
South Africa	Repo	36.00	36.00	33.00	30.00	27.00	24.00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		Oct-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Euro	EUR/USD	1.17	1.17	1.16	1.14	1.12	1.10
Japan	USD/JPY	147.4	144.0	145.0	146.0	147.0	148.0
United Kingdom	GBP/USD	1.34	1.37	1.37	1.36	1.34	1.33
Switzerland	USD/CHF	0.80	0.81	0.83	0.85	0.88	0.89
Canada	USD/CAD	1.40	1.37	1.36	1.36	1.35	1.35
Australia	AUD/USD	0.66	0.68	0.68	0.69	0.70	0.70
New Zealand	NZD/USD	0.58	0.60	0.61	0.62	0.64	0.64

Euro Cross rates

Industrialised countries		Oct-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Japan	EUR/JPY	172	168	168	166	165	163
United Kingdom	EUR/GBP	0.87	0.85	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.93	0.95	0.96	0.97	0.98	0.98
Sweden	EUR/SEK	11.04	11.00	10.80	10.70	10.60	10.50
Norway	EUR/NOK	11.70	11.30	11.10	10.90	10.70	10.50

Asia		Oct-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
China	USD/CNY	7.12	7.15	7.17	7.18	7.19	7.20
Hong Kong	USD/HKD	7.78	7.80	7.80	7.78	7.77	7.77
India	USD/INR	88.76	86.00	86.25	86.50	86.25	86.00
Indonesia	USD/IDR	16580	16450	16400	16500	16600	16700
Malaysia	USD/MYR	4.20	4.20	4.25	4.30	4.30	4.30
Philippines	USD/PHP	58.1	55.8	56.0	56.3	56.5	57.0
Singapore	USD/SGD	1.29	1.27	1.28	1.29	1.30	1.31
South Korea	USD/KRW	1408	1350	1355	1360	1365	1370
Taiwan	USD/TWD	30.5	29.8	29.9	30.0	30.2	30.5
Thailand	USD/THB	32.5	32.2	32.8	33.0	33.3	33.5
Vietnam	USD/VND	26393	26000	26000	26200	26400	26600
Latin America							
Brazil	USD/BRL	5.35	5.50	5.55	5.60	5.65	5.70
Mexico	USD/MXN	18.50	19.25	19.50	19.75	20.00	20.25
Africa							
South Africa	USD/ZAR	17.33	17.50	17.40	17.40	17.60	17.70
Emerging europe							
Poland	USD/PLN	3.64	3.66	3.68	3.74	3.79	3.85
Russia	USD/RUB	81.45	83.00	86.00	87.00	88.00	88.00
Turkey	USD/TRY	41.61	42.50	43.40	44.10	44.50	44.80
Central Europe							
Czech Rep.	EUR/CZK	24.29	24.20	24.00	23.80	23.60	23.40
Hungary	EUR/HUF	389	385	380	370	368	365
Poland	EUR/PLN	4.26	4.28	4.27	4.26	4.25	4.24
Romania	EUR/RON	5.08	5.07	5.07	5.07	5.07	5.07

COMMODITIES

Av. quarter price		2-Oct	2025	2026			
			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	65	63	60	65	70	72

Av. quarter price		2-Oct	2025	2026			
			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	3,832	3,700	3,600	3,600	3,500	3,400

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	**-3.1**	**-3.0**	**-3.1**	**87.6**	**88.3**	**89.1**
Germany	-2.8	-3.5	-3.8	62.1	64.1	66.0
France	-5.8	-5.6	-5.3	113.2	116.8	118.8
Italy	-3.4	-3.0	-2.9	135.3	136.5	138.8
Spain	-3.2	-2.9	-2.8	101.8	100.5	101.4
Netherlands	-0.9	-2.2	-2.8	43.8	45.7	48.7
Belgium	-4.5	-5.4	-5.6	104.7	107.3	110.1
Greece	1.3	2.4	1.8	153.8	144.0	138.0
Ireland	4.3	6.0	5.8	40.9	31.8	24.9
Portugal	0.7	0.3	0.1	93.8	89.7	86.1
United Kingdom	**-5.9**	**-4.5**	**-3.8**	**101.1**	**101.8**	**103.1**

Completed on 3 October 2025

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