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ADVANCED ECONOMIES

UNITED STATES

The Fed faces legal action and headwinds for productivity and employment

The Federal Reserve (Fed) announced that it is the subject of a subpoena from the Department of Justice (DoJ) relating to the renovation of its headquarters. J. Powell responded by describing this "unprecedented action" and these "threats" as "pretexts", the ultimate goal of which is to align interest rates with the "preferences of the [US] president" as opposed to an approach "based on facts and economic conditions".

In Q3 2025, productivity growth accelerated to +4.9% (annualised quarterly rate, +0.8 pp), the highest since Q3 2023, bringing the annual change to +1.9%, above the estimate of its potential level (+1.5% according to the CBO). At the same time, the number of hours worked fell as in Q2, to +0.5% (-0.5 pp). In December 2025, salaried job creation fell to +50k (vs. November: +56k, consensus: +66k), while in October and November it was revised down by -70k in total. Employment fell in goods (-21k, the 8th consecutive decline for the manufacturing sector), but accelerated in services (+58k), particularly in leisure and hospitality (+47k). The unemployment rate fell to 4.4% (-0.1pp) due to a decline in the participation rate (62.4%, -0.1pp). In 2025, salaried employment grew by +49k per month (+61k in the private sector, virtually zero outside "education and health services"), compared with +168k (+177k in the private sector) in 2024. The November JOLTS survey showed a decline in the "v/u" ratio (job vacancies/unemployed persons) to its lowest level since March 2021.

At the same time, the non-manufacturing ISM reached 54.4 (+1.8pp), its highest level since October 2024, while the manufacturing ISM has been declining for three months, reaching 47.9 (-0.3pp) in December. The price paid index continues to show signs of moderation in both surveys. Furthermore, consumer sentiment (University of Michigan) began 2026 with a modest improvement (54.0, +1.1 points).

Finally, most of the announcements made by President Trump will require congressional approval: an increase in the defence budget (from USD 900 billion to USD 1.5 trillion by 2027); a ban on institutional investors buying single-family homes; a 10% cap on credit card interest rates; and the purchase of USD 200 billion in mortgage bonds by mortgage lenders Fannie Mae and Freddie Mac.

Coming up: December CPI inflation and NFIB (Tuesday), November retail sales, December existing home sales and Fed Beige Book (Wednesday), December industrial production (Friday).

EUROPEAN UNION

Approval of the EU-Mercosur agreement. With a majority of Member States voting in favour, the agreement with Mercosur will be signed by the President of the European Commission on Monday 12 January. It will then have to be ratified by the European Parliament.

EUROZONE

Inflation remains under control and consumption is rebounding. Harmonised inflation fell to 2% in December (-0.1 pp) due to energy prices (-1.9% y/y after 0.5% y/y), despite persistent inflation in services (3.4% y/y) and a resurgence of inflation in food, alcohol and tobacco (2.6% y/y). However, core inflation is decreasing (-0.1 pp to 2.3% y/y), as are producer prices (-1.7% y/y, the lowest since November 2024). Retail sales rose for the third month in a row in November (+0.2% m/m, +0.7% cumulatively), while the unemployment rate fell to 6.3% (-0.1 pp). The Economic Sentiment Index (ESI) stabilised in December (-0.4 points

to 96.7) after a sharp gain in November. The improvement in industry continues (-9 vs. -9.3), supported by production expectations and order books. However, employment expectations are deteriorating (-0.9 to 96.8). *Coming up: industrial production and trade balance for November (Thursday).*

- France: Households slightly more optimistic and still positive in the aeronautics industry. Household confidence rebounded to 90 in December (+1 point m/m, +3 points from the low point in August 2025). Fears about unemployment continued to ease (+45 in December, -2 points m/m, -14 points vs. the peak in May 2025). And while the opportunity to save reached a new record high (+46), the improvement in the index linked to the opportunity to make major purchases (-27, +3 points m/m) and the proportion of households wishing to buy a house (9.5%, +2 points m/m) are positive signs for household investment. Manufacturing output rose by 0.3% m/m in November, once again supported by aeronautics (+2.6% m/m). *Coming up: Banque de France business survey (Tuesday).*

- Germany: Strong rebound in industrial demand and production. New factory orders rose 5.6% month-on-month in November (10.3% year-on-year), driven by domestic and European demand, particularly for capital goods. Manufacturing production rebounded by 2% m/m in November and reached (excluding frontloading of customs tariffs in March 2025) its highest level since June 2024, driven by capital goods. In December, inflation fell to 2% y/y (from 2.6% in November) thanks to energy and goods prices, while services inflation remained high. Core inflation fell to 2.4%. The trade surplus fell to EUR 13.1 billion in November, a three-year low (decline in the surplus with the EU and deficit with the rest of the world). *Coming up: GDP growth in 2025 (Thursday).*

- Italy: Private sector activity slowed in December. The composite PMI fell (50.3; -3.5 points m/m), weighed down by industry (see last week) and services (51.5; -3.5 points after reaching a two-and-a-half-year high in November). The ESI confirms this trend. The unemployment rate fell (5.7% in November; -0.1pp m/m), reaching a historic low. Inflation rose (+1.2% y/y; +0.1pp m/m) due to services (+2.7%; +0.1pp), which is reflected in the core inflation figure (+1.8%; +0.1pp). *Coming up: industrial production and trade balance for November (Thursday).*

- Spain: More good news. Industrial production continued to accelerate in November (+1% 3m/3m vs. +0.5% in October, highest since December 2024), supported by electronic and optical products (+6.7%, the highest since April 2024). The composite PMI for December (55.6; +0.5 points) was driven by services (57.1; +1.5 points). The number of unemployed fell to 2.4 million in December (-6.0% y/y).

UNITED KINGDOM

Easing on the gilts market. Long-term yields fell sharply in early January (lower inflation outlook, increased expectations of rate cuts by the BoE). In particular, 30-year rates reached their lowest level since Liberation Day in April 2025. The composite PMI rose in December (+0.2 points to 51.4) thanks to the manufacturing index (+0.4 points to 50.6) and the services PMI (+0.1 points to 51.4). New car registrations exceeded 2 million in 2025, the highest since 2019, supported by imports of Chinese vehicles (car production continued to decline in 2025). *Coming up: December RICS index (Thursday), November trade balance and GDP (Thursday).*



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EMERGING ECONOMIES

AFRICA & MIDDLE EAST

- **Saudi Arabia: Local stock and bond markets to open to all foreign investors from 1st February.** The financial markets authority hopes to revive a stock market whose main index, the Tadawul, lost 13% in 2025, underperforming other Gulf markets. However, the impact of this measure is likely to remain modest as long as foreign ownership of listed companies is limited to 49%. Discussions are ongoing and a decision could be reached this year.

- **Ethiopia: Agreement in principle on Eurobond restructuring.** The government defaulted in December 2023 on its sole USD 1 bn Eurobond. It has reached an agreement with its external creditors that provides for a 15% haircut on the bond, which is relatively limited compared to the haircut imposed by the restructuring of Ghanaian Eurobonds (36%). The agreement still needs to be validated by the IMF and the official creditors' committee, which will verify compliance with debt sustainability and comparable treatment between creditors.

LATIN AMERICA

- **Argentina: Treasury bond debt repayment honoured thanks to private financial support.** On 9 January, the Argentine Treasury was able to repay USD 4.3 billion in dollar-denominated bonds after obtaining a USD 3 billion loan from a pool of international banks; this is a short-term loan (1 year) offering a yield of 7.4%. The Treasury also repaid USD 2 billion that it had drawn on the swap line with the US Treasury. This loan allows the Central Bank to avoid drawing on its foreign exchange reserves, which amount to only USD 41 billion. The next maturity for an equivalent amount will be in July.

- **Colombia: The increase in the minimum wage could add 2pp to inflation in 2026,** according to Mauricio Villamizar, a member of the Central Bank's monetary policy committee. Despite inflation slowing in December to 5.1% y/y (from 5.3% in November), the Central Bank could raise its policy rate as early as January. **Tensions with the United States began to ease** on 8 January when Presidents Trump and Petro spoke on the phone for the first time, with the Colombian President proposing a resumption of dialogue between the two countries. A visit to the White House is expected to take place soon.

- **Mexico: The review of the USMCA treaty is expected to formally begin in the coming days.** Non-trade measures demanded by the US government (relating to security and drug trafficking) have been implemented by the Sheinbaum administration in recent months. Negotiations with the United States are nevertheless expected to be difficult amid heightened tensions caused by US intervention in Venezuela. **Inflation slowed again in December,** to 3.7% y/y after 3.8% in November. Core inflation remains high and above target, at 4.4% in December (after 4.3% in November). Convergence towards the 3% target is expected to remain gradual over the coming months.

- **Venezuela: Despite President Trump's encouragement and the promise of a rapid lifting of sanctions, representatives of the US oil sector are reluctant to invest heavily in Venezuela.** The necessary investments (particularly in terms of infrastructure reconstruction and well exploitation) require a long-term commitment that is difficult to make in the current political climate.

ASIA

China: Acceleration in the appreciation of the RMB/USD exchange rate: The yuan appreciated by 1.3% against the USD between 8 December 2025 and 8 January 2026 (after +0.7% the previous month), in line with the broad evolution of the USD and the strength of Chinese export revenues. However, the yuan remains at a historically low level. At the end of 2025, the RMB/USD reference rate was 2% weaker than at the end of 2024 and the CFETS index was 4% lower. **Slight rise in consumer prices for the third consecutive month:** CPI inflation reached +0.8% y/y in December and +0.6% on average in Q4 2025, driven by core inflation (which stabilised at +1.2% over the last three months) and higher food prices (positive in November and December). The easing of deflationary pressures in Q4 2025 can be explained by various factors (weather conditions, consumer goods subsidy programmes, rising gold prices, anti-deflationary measures). In the short term, the authorities are planning – for the time being – to reduce public subsidies for household consumption. Separately, **digital RMB deposits held by individuals have been remunerated since 1st January 2026;** the decision aims to encourage the use of the digital RMB, which is still extremely limited.

COMMODITIES

Copper prices continue to break historical records on the London Metal Exchange amid rising stocks in the United States linked to the persistent risk of tariff hikes. The temporary shutdown of certain production sites and increased demand linked to electrification and data centres are also fuelling this rise, despite the current weakness in Chinese demand.

Political tensions in Iran and threats from the United States are pushing Brent prices higher. Despite US sanctions on Iranian oil (2018 and "maximum pressure 2.0" in February 2025), exports (around 2 mb/d, mainly to China) and production (fourth largest OPEC producer with 3.2 mb/d) are at their highest since 2018.

By allowing an increase in production and the release of blocked stocks, the lifting of sanctions on Venezuelan oil could weigh on prices, at least in the short term.

