ECONEWS

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INTERNATIONAL TRADE

Tensions eased between the United States and China. An agreement, yet to be formalised, has been reached between China and the United States to preserve the tariff truce and, in particular, the supply of rare earths to the United States. While the G7 could provide a window to make progress in negotiations between trading partners, the tariffs applied by the United States on steel (50%) will be extended from 23 June to derivative products, including home appliances.

WORLD / PUBLIC DEBT

Fitch has lowered its overall outlook on sovereign debt from stable to negative. This move is motivated by the deterioration in economic growth forecasts in the United States, the prospect of continued high interest rates in the United States and Europe, and the risk of an increase in public debt in advanced economies (rearmament, weak growth, ageing population in particular).

ADVANCED ECONOMIES

UNITED STATES

Inflation surprised on the downside and sentiment picked up. CPI inflation came in at +2.4% y/y (+0.1pp) in May, while core inflation was stable (+2.8% y/y). Both indices slowed to +0.1% month-on-month. Goods prices fell and services inflation slowed (excluding energy, housing and rents). At the same time, producer prices rose slightly (+2.6% y/y) but decelerated at the underlying level (+3.0% y/y). The University of Michigan's consumer sentiment index rebounded sharply in May, to 60.5 (+8.3 points - the first rise since November 2024). The improvement in expectations (58.4, +10.5 points) underpinned the result. Inflation expectations fell significantly over the 1 year (+5.1%, -1.5pp) and marginally over the 5-10 year (+4.1%, -0.1pp). Small businesses optimism index(NFIB) indicated the end to four months of decline at 98.8 (+3.0 points). At the same time, the uncertainty index and plans for price rises were on the rise. *Coming up: FOMC meeting and Q3 Summary of Economic Projections (Wednesday), May retail sales and industrial production (Tuesday).*

EUROZONE

Post-Liberation Day slump. Industrial production fell by 2.4% m/m in April, the biggest monthly decline since July 2023. The contraction was expected after Q1, driven by the anticipated rise in US tariffs in April. The Eurozone's trade surplus narrowed sharply in April (EUR 9.9 bn vs. EUR 37.3 bn in March), mainly due to a fall in exports (and the surplus) from the pharmaceutical industry. The EUR/USD reached its highest point since October 2021 against the dollar on 12 June (1.16). *Coming up: The flash estimate of household confidence for June, final inflation for May and details of the current account for April.*

GERMANY

The 2025 budget is due to be adopted by the Council of Ministers on 24 June and voted on in September. It will lay the groundwork for the implementation of the investment plans (defence and infrastructure). As far as infrastructure is concerned, priority should be given to the railways: of the EUR 22 billion in infrastructure investments planned for 2025, 10.5 billion should be allocated to Deutsche Bahn. *Coming up: publication of producer price figures for May.*

FRANCE

Moderation in the rise in insolvencies. The Banque de France (BdF) has revised its growth forecast for 2025 to 0.6% (-0.1 pp). It has also lowered its forecast for 2026 to 1% (-0.2pp) due to a revision of the causes of the loss of labour productivity compared to the pre-Covid trend (-5.8% in Q4 2024). Durable factors are estimated at 4.3 points (revised by +0.6 pp), leading the BdF to revise downwards the expected rebound in productivity in the coming quarters. Business insolvencies continued to rise in April, according to the BdF. They totalled almost 67,000 units over 12 months. However, this rise has slowed (+170 per month on average over January-April, compared with +300 per month on average in Q4). The rise in insolvencies came mainly from the services sector (accommodation and catering, business services). There was a first fall in insolvencies among real estate agencies. Pension negotiations («conclave») are continuing. The retirement age of 64 should not be called into question. Among the adjustments envisaged, the full retirement age (currently 67) could be lowered to 66. *Coming up: final negotiations in the conclave on pensions on Tuesday 17 June, publication of the INSEE business climate on Friday 20 June.*

ITALY

Industrial output rebounds. Industrial output rises by 1% m/m in April after stagnating in March. Production grew by 0.3% y/y, the first annual increase since January 2023.

UNITED KINGDOM

An increase in public investment to support growth. The Spending Review includes an increase in health spending in real terms of around 3% per annum over the period 2024-25 to 2028-29. Defence spending will rise to 2.6% of GDP by April 2027. Education will benefit from GBP4.5 bn a year and GBP39 bn will be allocated to building social housing over the next decade. Monthly GDP for April falls by -0.3% m/m (after +0.7% q/q in Q1). **Job losses intensified**, with a net loss of 109,000 payroll employment in May, the biggest monthly fall in 5 years. Unemployment rose again, by 0.1 pp to 4.6%. Growth in regular pay remains strong at +5.0% y/y. **The property market remains sluggish** according to the May RICS survey: the balances of opinion on house prices and demand remain negative (-8% and -28% respectively, compared with -3% and -31% in April). A new post-

Brexit rapprochement: the United Kingdom and the European Union have reached an agreement on free movement between Gibraltar and Spain, which has yet to be ratified. *Coming up: BoE monetary policy meeting, inflation and retail sales for May, GfK consumer confidence index for June.*

EMERGING ECONOMIES

CAPITAL FLOWS

Portfolio investment flows to China continue to return. According to IIF estimates, portfolio investment inflows totalled USD 19.2 bn in May, two-thirds of which went to China (mainly on its bond market). Investment flows to several Asian countries (India, Indonesia, Taiwan) were strong, which explains the strengthening of currencies against the US dollar since May.

AFRICA - CHINA

China announces the lifting of tariffs on all African imports. China had already been offering preferential access to its domestic market to 33 low-income African countries since last year. The extension of this measure to middle-income countries will notably benefit South Africa, Nigeria and Kenya in particular. Only Eswatini, which has links with Taiwan, will be exempt. China is the leading destination for African exports (20% of total exports).

CHINA

Slight acceleration in growth in services, continued slowdown in industry. Retail sales rose by 6.4% y/y in value terms in May (vs. 5.1% in April), driven by consumer goods trade-in programs and the early start of summer promotions. Activity in the services sector grew by 6.2% y/y in May, compared with 6% in April. By contrast, industrial activity slowed (+5.8% in May, vs. +6.1% in April), largely as a result of Sino-American trade tensions and the continued contraction in property demand. The national surveyed unemployment rate stood at 5%, down from 5.1% in April.

COLOMBIA

The government suspends the fiscal rule ahead of the presentation of the medium-term budget framework. This suspension, valid for three years, allows the government to increase its deficit in 2025 beyond 5.1% of GDP, the threshold authorised by the Autonomous Committee for the Fiscal Rule (CARF). This announcement comes on top of the institutional tug-of-war between President Petro and the Senate over labour reform. The Colombian peso (COP) depreciated by 1.7% against the US dollar between 6 and 13 June.

COMMODITIES

The impact on oil prices of the sudden rise in geopolitical tensions in the Middle East will depend largely on the nature of the damage: production capacities and/or transit routes. For the time being, the rise in prices is moderate. When the markets opened on 16 June, Brent and TTF prices had risen by around 8% since the outbreak of hostilities.

Oil: no impact on production capacity at this stage. Stopping Iranian exports (approx. 1.7 mb/d) would have a temporary impact on prices, given the spare capacities available in the Gulf (>5 mb/d). This scenario (high tensions with no significant impact on regional production capacities) puts Brent in the USD 70-80/b range for 2025. A blockage in the Strait of Hormuz (around 25% of world oil trade) would temporarily push prices above USD 120/b.

Gas: production facilities are affected in Iran (one terminal bombed, but Iran does not export LNG) and Israel (2 out of 3 terminals shut down, but alternative solutions (coal and oil) in Israel and rationing in Egypt, the main importer). The TTF, which is currently trending upwards, is highly reactive to tensions on the European market (insufficient stocks). A blockage at Hormuz (20% of LNG trade, 80% of which goes to Asia), as the seasonal peak in Asian consumption approaches, would push the TTF to new heights, given the interconnection between the Asian and European LNG markets.