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## ADVANCED ECONOMIES

**The trade war between the United States and the European Union has begun.** US tariffs of 25% on all steel and aluminium imports came into force on 12 March. In response, the EU will re-impose, from 1 April, the rebalancing measures introduced during the first Trump administration, and will impose a new, more substantial package of measures, bringing the total amount of imports affected to EUR 26 billion.

### UNITED STATES: Inflation falls and consumer sentiment worsens ahead of the Fed meeting

In March, the University of Michigan's consumer sentiment index fell to its lowest level since November 2022 (57.9, -6.8 pts), a decline triggered by a further deterioration in expectations. 1-year inflation expectations (+4.9%, +0.4 pp) and 5-year inflation expectations (+3.9% - the highest since 1992, +0.4 pp) were rising again. Headline inflation (measured by the CPI) and its underlying component slowed in February to 2.8% and 3.1% y/y respectively (-0.2 pp each). Inflation in services excluding housing and energy fell sharply (3.7% y/y, -0.3 pp). Year-on-year producer prices fell for the first time since August 2024, to +3.2% (-0.5 pp). In addition, the electoral boost to small business sentiment has fizzled out: the NFIB optimism index fell in February for a second consecutive month, to 100.7 (-2.1 pts). In addition, the uncertainty index has risen again, to 104 (a level exceeded only once in history).

On the domestic front, the Democrats in the Senate did not obstruct the adoption of the Republican budget resolution. As a result, a shutdown has been avoided and federal funding has been extended until the end of the fiscal year (30 September). The main event of the week ahead will be the FOMC meeting on 18-19 March. Market pricing is 97% in favour of maintaining the rate target at +4.25% - +4.5%, while Jerome Powell reiterated (7 March) that there is no hurry to cut rates. The rate decision will be accompanied by the publication of the Summary of Economic Projections, which will update the Committee members' median view of inflation and the key rate to 2027.

### EUROZONE: Inflation torn between two-directional shocks

In her latest speech, Christine Lagarde acknowledged the change in the current inflationary environment, with the direction of shocks "much harder to predict", and the persistence of inflation that could «in some circumstances be greater». The ECB's latest wage tracker still points to a deceleration in negotiated wages in 2025. Industrial production grew by 0.8% m/m in January. Activity in the machinery/equipment, metallurgy and petrochemicals sectors continues to suffer, but the agri-food and pharmaceuticals industries are posting record levels. Interest rates on 10-year government bonds, which rose following Germany's announcement of its spending plans on 4 March, continued to rise. On 14 March, the increase reached 45 bps. It was uniform across Germany, France and Italy. This week will see the publication of the final inflation figures for February, as well as the labour cost estimate for Q4 2024. On 20-21 March, the European Council will discuss European security and defence issues.

### GERMANY: The German parliament debates its reforms

The German parliament met on Thursday 13 March for the first day of an extraordinary session devoted to examining reforms aimed at increasing spending on infrastructure and defence. The Greens eventually gave their support, which is key to the vote, following amendments (aid to Ukraine and the intelligence services are to be included in defence spending; extension of the period of use and doubling the budget of the Infrastructure Fund allocated to climate and transition). The second session of the Bundestag is scheduled for Tuesday 18 March, followed by the decisive vote, while the Bundesrat will examine the bill on 21 March. The following week, on 25 March, the new parliament will take office.

### FRANCE: Stable growth at a low level

The Banque de France's monthly business survey points to stable yet low growth (between 0.1% and 0.2% for Q1). The uncertainty indexes have eased back from their peak following the adoption of the motion of no confidence, but they remain above their pre-dissolution level. The Banque de France has updated its growth forecasts for 2025 (0.7%, revised by -0.2 points) and 2026 (1.2%, -0.1 points). These forecasts show weak growth at the end of Q1, and point to an acceleration in growth from Q2 onwards. Fitch has kept France's sovereign rating at AA- and still has a negative outlook on this rating. INSEE will publish its updated growth forecasts on Tuesday 18 March and its business climate survey on Thursday 21<sup>st</sup> March.

### UNITED KINGDOM: Industrial setback

**Affected by the industrial recession, activity fell back in January.** Value added fell by 0.1% m/m, while manufacturing activity contracted by 1.1% m/m. Household consumption is in better shape: according to BRC/KPMG, retail sales rose by 2.2% y/y in February, the highest increase in two years. According to the FCA, arrears rose very slightly in Q4 (1.32% of outstanding home loans compared with 1.31% in Q3). The property market has lost further momentum: the RICS indices of price and sales trends fell again in February, partly due to the tightening of stamp duty in April. The BoE's Monetary Policy Committee meeting will be held on 20 March, and the labour market indicators will be published.



## EMERGING ECONOMIES

**Capital flows.** According to estimates by the Institute of International Finance, portfolio investment flows (equities and bonds) by non-residents into the main financial markets of emerging countries remained distinctly positive in February (USD 15 billion) despite geopolitical tensions. Investments in bond debt more than offset net outflows from equity markets. Investments in China were slightly negative again. Excluding China, investments in bond debt remained very strong, at USD 33 billion. Cumulatively since July 2024, these have exceeded USD 300 billion, a record for an 8-month period. However, a comparison with balance-of-payment data suggests that estimates of investment in bond debt are overestimated.

**SAUDI ARABIA: The good momentum in activity continues.** GDP growth reached 4.5% y/y in Q4, driven by a favourable base effect in the oil sector (+3.4%/y/y) and, above all, by the resilience of non-oil activity (+4.7%). Against a backdrop of moderate inflation, household consumption remains strong (+3.9%), as does private sector investment (+4.4%). On the other hand, government activities (15% of GDP) weakened for the third consecutive quarter (+2.2%), due to a significantly tighter fiscal stance. This decorrelation between the public and private sectors is encouraging. Despite the sharp fall in dividends from the national oil company Aramco, non-hydrocarbon GDP growth should remain above 4% this year.

**CHINA: Deflation.** The CPI index contracted by -0.1% y/y on average over the first two months of 2025, vs. +0.2% y/y in Q4 2024. While this decline can be explained in part by the volatility of prices during the Chinese New Year period, it reveals above all the persistence of deflationary pressures. In January-February, core inflation eased very slightly (to +0.25% y/y on average), food prices fell again (-1.5%), and the producer price index continued to fall (-2.3%). In another sign of weak domestic demand, growth in outstanding bank loans continued to slow (+7.1% y/y in February 2025, vs. +9.7% in February 2024). These figures could prompt the monetary authorities to cut their benchmark rates in the very short term (the last cut in the 7-day reverse repo rate, from 1.7% to 1.5%, was in September 2024).

**Consumer support plan.** Beijing has just announced a plan to stimulate household income and consumption. This plan contains measures that have already been implemented (such as the consumer goods trade-in programme) and envisages new measures, which have yet to be specified (including wage increases).

**INDIA: Inflationary pressures continued to ease in February.** Inflation slowed significantly to 3.6% year-on-year (y/y), helped by the deceleration in food prices. For the first time since August 2024, price inflation was below the target of 4% +/- 2pp set by the monetary authorities. This points to a further 25 bp rate cut at the next Monetary Policy Committee meeting in April, especially as the rupee, like other Asian currencies, has recently strengthened against the US dollar.

**SOUTH AFRICA: 2025/26 Budget presented to Parliament without the support of the DA.** On Wednesday 12 March, a revised version of the 2025/26 Budget was presented to Parliament. The document confirms the continued consolidation of public finances and forecasts a fall in the budget deficit from 4.7% of GDP in the current fiscal year to 3.3% of GDP in 2027/28. Despite 3 additional weeks of negotiations, made possible by the last-minute postponement of the initial presentation of the Budget in February, the Government of National Unity (GNU) has still not managed to present a united front. The proposed increase in the VAT rate (+0.5 pp in May 2025 and +0.5 pp in April 2026) is still a stumbling block between the ANC and the DA, the government's second largest party. Strongly opposed to any tax increase, John Steenhuisen, leader of the DA, has stated that he will not support this budget bill when Parliament votes on 2 April. In the meantime, the members of the GNU will have to find more compromises to avoid fragmenting the government coalition.

**TURKEY: Further monetary easing.** At the Monetary Policy Committee meeting on 6 March, the Central Bank cut its key rate by 250 bps to 42.5%. This is the third consecutive cut by the same amount, following those on 26 December and 23 January. This action follows the publication of more reassuring inflation figures for February (2.3% over one month and 39.1% over one year, compared with +3.5% and 42.4% respectively in January), even though recent monthly trends have been particularly erratic and do not allow us to detect trend changes with any reasonable degree of reliability. This deceleration in inflation comes against a backdrop of slowing growth and the lira's reduced depreciation against the euro/dollar basket.

**BRAZIL: Slowing economic activity and deteriorating expectations.** After three years of growth in excess of 3%, the Brazilian economy is showing signs of slowing down. In addition to the sharp deceleration in activity in Q4 2024 (0.2% q/q compared with 0.7% in the previous quarter), several indicators available for Q1 2025 confirm a loss of momentum. Unemployment has been rising since January, after reaching a historic low in 2024. In the manufacturing sector, production levels are stagnating and new orders are growing at their slowest pace in over a year. The FGV-IBRE consumer confidence index fell in February to its lowest level since August 2022 amid rising food prices, tighter credit conditions and greater global and domestic uncertainty. Inflation expectations have continued to deteriorate despite the appreciation of the real (+7.3% against the US dollar since January). While a strong harvest should support growth in Q1 (seasonal effects), it will not be enough to mask the broader economic slowdown in the rest of the economy, especially as the central bank projects to tighten monetary policy further at its March meeting (+100 bps).

## COMMODITIES

**The US is stepping up its sanctions against the Russian and Iranian oil sectors.** The licences authorising certain Russian banks to receive foreign currency payments in return for oil purchases have not been renewed. The number of Iranian companies and vessels subject to sanctions has been extended.

**The EIA (US Energy Information Administration) has revised its price forecasts for 2025 slightly downwards, to \$74.2/b (-0.4%), but upwards for 2026, to \$68.5/b (+3%),** in view of the impact of the tougher US sanctions on the Russian, Iranian and Venezuelan oil sectors.

**The International Energy Agency has lowered its forecast for growth in demand for oil for 2025 to +1 mb/d (-0.1 mb/d),** linked to the growing risk of a trade war. As a result, with the announced easing of OPEC quotas, the supply surplus could exceed 0.6 mb/d in 2025 and have a downward impact on prices.

