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ADVANCED ECONOMIES

UNITED STATES

The impact of tariffs starts to be felt on prices. Headline inflation in June came in slightly above consensus (2.7% vs. 2.6% y/y and 0.3% m/m), while the core measure was lower (2.9% vs. 3.0% y/y; 0.2% vs. 0.3% MoM). In services, disinflation appears to be fading, with prices rising slightly (+3.6% YoY vs. +3.5% YoY in May). Inflation excluding motor vehicle resales was +0.55%, the highest since March 2022. The PPI index remained stable in June. The latest indicators suggest that the economy is in good shape: retail sales in June exceeded expectations (+0.6% m/m vs. -0.9% in April). Industrial production rose slightly (+0.3% between May and June). Consumer sentiment (University of Michigan) continued to rebound in July to 61.8 from 60.7 in June (and 52.2 in April-May, but 74 in December). One-year inflation expectations fell to 4.4% (from 5% in June and 2.8% in December). As the White House continues its attacks on the Fed Chair, John Williams, President of the New York Fed, and Christopher Waller, member of the Fed Board, came out respectively against and in favour of a rate cut at the FOMC meeting on 30 July, setting out two different views on the state of the US economy and the inflationary risks posed by tariffs.

EUROZONE

A new European budget framework already under criticism: The European Commission has unveiled its multiannual financial framework (MFF) for 2028-34. Among the most significant proposals is a sharp increase in the overall budget envelope to EUR 1,985 billion, or 1.26% of the EU's gross national income (compared to EUR 1,210 billion for the 2021-27 budget). This envelope includes repayments from the NGEU fund (EUR 168 billion). A national and regional partnership fund (EUR 865 billion) will bring together 14 funds (including the CAP and the Cohesion Fund), while a European Competitiveness Fund (EUR 409 billion), including defence and the Horizon Europe programme, would be created. Two additional envelopes would finance support for Ukraine (EUR 100 billion) and a crisis mechanism (EUR 395 billion). On the revenue side, an increase in excise duties on tobacco, a flat-rate tax on corporate turnover and a tax on non-recycled electronic waste are proposed. The German government immediately rejected the increase in the total budget and the tax on large companies. The MFF must be adopted unanimously before the end of 2027. *Coming up this week: ECB monetary policy meeting, consumer confidence, PMI survey, report on credit and monetary aggregates.*

GERMANY

The ZEW Current Conditions index rose to -59.5, its highest level since June 2023 (-72 in June). *Coming up: PMI survey, GFK household confidence and IFO business climate.*

FRANCE

Presentation of the 2026 budget. François Bayrou presented a draft budget that would reduce the public deficit from 5.4% in 2025 to 4.6% in 2026. The deficit would be reduced by nearly EUR 20 billion through measures to improve the public balance by EUR 43.8 billion, offsetting increases in expenditure related to interest charges (+11.4 billion), defence (+6.7 billion) and the increase in the contribution to the European budget (+5.7 billion). The increase in public spending would be limited to EUR 15 billion (+0.9%), representing a freeze on spending excluding increases in interest payments and the defence budget. As a result, the spending-to-GDP ratio would fall to around 56% in 2026 (compared with 57% in 2025). The main measures concern a blank year (including a total absence of indexation, EUR 7 billion in savings, and a freeze on ministry budgets excluding defence), savings on local government spending (EUR 5.3 billion) and on health spending (EUR 5 billion). The weight of public revenue would remain close to 51.5%, with new measures (abolition of bank holidays, no indexation of the income tax brackets) offsetting the non-renewal of some of the exceptional measures of 2025 (corporate tax). The difficulty of getting the budget passed in a fragmented Parliament leads us to anticipate a smaller budgetary effort and a deficit of 5% in 2026. However, this would still be in line with the commitments made to the European Commission. **Rebound in wheat production.** The Ministry of Agriculture has announced a 27% rebound in the wheat harvest in 2025. The poor harvests in 2024 (cereals, vegetables) had reduced French growth by 0.2 points. This rebound would contribute 0.1 percentage point to growth in Q2 2025 (BNP Paribas forecast of 0.2% q/q), on top of estimated non-agricultural growth of 0.1 percentage point (Banque de France). *Coming up: PMI survey and INSEE business climate on 24 July and household confidence on 25 July.*

ITALY

Industrial production fell again in May (-0.9% y/y), mainly due to pharmaceuticals products and automobiles. The trade balance reached EUR 17.472 billion over the first five months of the year. Compared with the same period in 2024, imports grew more than exports (4.5% and 1.6% respectively). Exports to Eurozone countries increased, driven by those to Spain (+11.7%). At the same time, exports to the United States continued to grow (+7.3%). Harmonised inflation was slightly higher than expected in June but remained under control (1.8% y/y; +0.1pp m/m), with the core index standing at 2.0% (+0.1pp m/m).

SPAIN

Harmonised inflation stood at 2.3% y/y in June (+0.3pp m/m) due to a slowdown in energy deflation, mainly caused by higher fuel prices. The core index remained stable at 2.5%. *Coming up: unemployment rate for Q2, PPI for June.*

UNITED KINGDOM

Signs of stagflation. Headline inflation rebounded in June to 3.6% y/y (+0.2 pp, the highest since January 2024). Inflation stabilised in services (4.7% y/y) but rose in goods (2.4% y/y, the highest since October 2023). The core measure rose by 0.2 pp to 3.7% y/y. The RPI index (which determines the already high cost of inflation-indexed public debt securities) rose by 4.4% y/y. Job losses continued for the fifth consecutive month: -41,000 in June and -141,000 in the first half of the year. The unemployment rate rose again (+0.1 pp to 4.7%, three-month average), while annual growth in average weekly earnings growth slowed but remained strong (+5%). The Chancellor of the Exchequer announced a series of reforms to deregulate the banking sector and facilitate investment. The financial sector reacted with scepticism. *Coming up this week: PMI survey, consumer confidence (Gfk), retail sales, CBI survey of industry, monthly public finance report*.

JAPAN

Despite losing his majority in the upper house, Prime Minister Ishida intends to stay on. Although he has lost his absolute majority in both houses, the Prime Minister has indicated that he will seek to form a majority government, in line with market expectations. The risk is that these efforts will involve budgetary largesse that the bond markets would find difficult to digest. Inflation slowed in June to +3.3% y/y (vs. 3.5% y/y in May). However, core inflation (excluding perishable food and energy) rose again (+3.3% y/y). The price of rice in particular has doubled in a year.

EMERGING ECONOMIES

Strong growth in non-resident portfolio investment inflows (on equity and bond markets) in June, largely destined for China. According to IIF estimates, these investments amounted to USD 42.8 billion, of which 33.6 billion went to China. Excluding China, equity investment has picked up over the last two months. Bond markets continue to attract foreign investors, more than indicated by IIF estimates (which significantly underestimate investment in Asian countries excluding China when compared with balance of payments data for the five main countries in the region).

SAUDI ARABIA

Inflation rose slightly in June, reaching 2.3% year-on-year, compared with 2.2% in May. CPI growth continues to be driven by rising rents (+7.6% yoy), by far the largest component. CPI excluding rents remains subdued at + 0.6%, but could pick up in the coming months, mainly due to the weakness of the dollar, to which the Saudi currency is pegged. Furthermore, domestic demand remains strong and bank lending continues to grow at a rapid pace (+15% yoy in May). Against this backdrop, maintaining the policy rate at a high level of 5%, in line with US monetary policy, appears appropriate.

BRAZIL

Economic slowdown in Q2 amidst increasing trade tensions with the United States. Economic activity is showing signs of slowing down. The GDP proxy (IBC-Br) published by the Central Bank (BCB) recorded its first decline in May since the start of the year , confirming the weakening of activity already visible in hard data (drop in industrial production and retail sales in April and May, slowdown in credit growth and corporate bond issuance). In June, survey data continued to support this assessment with the composite PMI indicating a sustained contraction in private sector activity. This cyclical downturn comes at a time of intensifying trade tensions with the United States. Washington's threat to raise tariffs on Brazilian imports by 50% should, overall, have a moderate direct impact on GDP (exports to the United States account for just under 2% of GDP). However, the impact on the trade balance and on certain sectors (heavily dependent on the US market, such as agri-food, aerospace, pulp and steel industries) is likely to be more significant.

INDONESIA

Trade agreement with the United States. Reciprocal customs duties imposed by the United States on Indonesian goods will amount to 19%, and an additional penalty for goods "Made in China" transiting through Indonesia is planned. Jakarta is reducing its taxes to 0% on imports of US goods and has committed to purchasing agri-food products, energy and Boeing aircraft from the United States. **New interest rate cut.** The Central Bank lowered its policy rate by 25 basis points to 5.25% on 16 July. Inflation remains under control (expected to be less than 2% in 2025) and priority is being given to supporting economic activity due to the increase in US tariffs. The Indonesian rupiah has barely depreciated against the dollar since the agreement was announced on 15 July (-0.3%); it has gained +2.6% since *Liberation Day* on 2 April.

MALAYSIA

Growth stronger than expected in Q2 2025. According to preliminary estimates, real GDP grew by +4.5% y/y in Q2, after +4.4% in Q1. Growth in the manufacturing sector slowed and the export outlook is deteriorating due to US tariff policy. Activity in services and domestic demand were more dynamic. They could remain so in the very short term, helped by the monetary easing cycle initiated by the Central Bank in early July.

COMMODITIES

Additional threats to Russian hydrocarbon exports are supporting oil prices. European Union countries have agreed to reduce the price cap on Russian oil purchases (theoretically applied by G7 countries, but US agreement is not yet certain) from USD 60 to USD 47.6 per barrel. An automatic adjustment mechanism for the cap will be put in place. In addition, a ban will be imposed on imports of refined products made from Russian crude oil, with the exception of those from Norway, Switzerland, the United Kingdom, Canada and the United States. **The US government has threatened secondary sanctions against countries that import hydrocarbons from Russia if fighting between Russia and Ukraine continues beyond 2 September.** China and India are the main importers of Russian oil, accounting for 21% and 33% of their total crude oil imports, respectively. In addition, approximately 14% of China's natural gas imports come from Russia.