ECONEWS

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ADVANCED ECONOMIES

NATO

The Hague Summit (24-25 June) is expected to announce a target of 5% of GDP dedicated to defence. By 2035, Member States should commit to allocating 3.5% of their annual GDP to military spending and 1.5% to defence spending in the broad sense (infrastructure, including satellites). Although most countries, notably Germany, have committed to this, others such as Spain, Italy and Portugal remain reluctant. The implementation of this effort should support growth (+0.3pp in 2025 and +0.5pp in both 2026 and 2027 according to our estimates). This effect could be even greater if the target of 3.5% is achieved more quickly. This impact however, could be mitigated by crowding-out effects, particularly in the event of an increase in public debt, interest rates and inflation.

UNITED STATES

The Fed, without surprise but not without divisions. The FOMC meeting of 17-18 June resulted in the Fed Funds rate target being maintained at 4.25% - 4.50%. The Fed sees its policy as "well positioned" to wait for the impact of tariffs and other policies to materialise, while the US economy and labour market are seen as "solid". The Summary of Economic Projections reports an upward revision to median expectations for PCE inflation and a downward revision to median expectations for GDP growth in 2025 and 2026. Expectations for the policy rate are stable (at +3.9% at the end of the year). However, they mask a major split within the committee (9 members expect two cuts, 7 none), while J. Powell has suggested that they should be kept at arm's length (cf. our detailed analysis). Retail sales fell by -0.9% m/m in May (previous: -0.1%), of which -3.5% m/m in the automotive sector. Manufacturing output returned to growth territory (+0.1% m/m, +0.6pp). Building permits fell in May (-2.0% m/m), as did housing starts (-9.8% m/m). Finally, sectoral business sentiment contracted (NAHB at 31, the lowest since October 2023). *Coming up: Consumer confidence (Tuesday) and PCE inflation (Friday).*

EUROZONE

Confidence indices hold up well. The PMI composite was unchanged in June at 50.2. The services index returned to the 50 threshold, while manufacturing remained below it (49.4). The flash consumer index for the Eurozone fell very slightly in June (-0.2 points to 15.3). The full survey will be published this week.

GERMANY

Economic sentiment in the business sector improved significantly, while price pressures eased. The ZEW economic sentiment index jumped to 47.5 points in June (+22.3 points m/m), reflecting renewed optimism among financial and economic analysts about the six-months ahead economic outlook. The current conditions index also improved (+10 points m/m to -72), but remains very negative. The Flash PMI composite index rose to 50.4 in June, rebounding from its five-month low of 48.5 in May, driven by manufacturing output. While still in negative territory, the Flash PMIs manufacturing and services rose to 49 (+0.7 points m/m) and 49.4 (+2.3 points m/m) respectively. Producer prices fell by 0.2% m/m in May, extending the decline that began last December. However, the pace of this fall tends to slow down. *Coming up: the announcement of the 2025 budget on 24 June, the Ifo business climate survey and the GfK consumer sentiment index for June.*

FRANCE

Insee's business climate remained stable in June (at 96, as in May, and 97 in March-April, the historical average being at 100). At 97, the employment climate returned to its April level (after a month of May disrupted by the unusually high number of bridging days), its highest level since January 2025. According to S&P, the composite PMI contracted to 48.5 in June (49.3 in May), mainly due to the manufacturing PMI (47.2 in June, compared with 51 in May). INSEE is maintaining its growth forecast of 0.2% q/q for Q2. It notes, however, the continuing weakness of household consumption (and the predominant role played by pensioners in the high savings rate) and a loss of export market share (automobile and pharmaceuticals). A rebound in household investment is expected. **Lower interest rates and indebtedness in the non-financial private sector:** average interest rate on new bank loans to non-financial **corporations** fell sharply in April (-19 bp m/m) to 3.61%, a level not seen since January 2023. The year-on-year growth of outstanding bank loans, driven by investment loans, remained stable for the third consecutive month at 2.3%, a historically low level. Conversely, outstanding market financing fell year-on-year (-0.4%); this is the first time since August 2023. Interest rates, meanwhile, fell by 16 bp to 3.4%. Household indebtedness in France continued to fall in 2024, driven by the decline in outstanding home loans. It stood at 60% (-2pp a/a) as a share of GDP in Q4 2024. NFC indebtedness also fell (-1.43 pp) to 75% as a share of GDP in Q4 2024. *Coming up: Further discussions at the conclave on pensions on 23 June, publication of household confidence figures on 25 June and inflation figures on 27 June.*

ITALY

Inflation confirmed below 2%. The final estimate of harmonised inflation for May (+1.7% y/y) is lower than the flash estimate (+1.9%) compared with 2.0% in April. Core inflation is back below the 2% threshold (+1.9%). *Coming soon: industrial sales index for April (Friday 27th June).*

UNITED KINGDOM

Stable inflation and falling retail sales: After revising April's figures (which fine-tune the impact of the excise tax hike), inflation stabilised at 3.4% y/y in May. The acceleration in goods (from 1.7% y/y to 2.0% y/y) was offset by a deceleration in services (from 5.4% y/y to 4.7% y/y). Core inflation reached 3.5% y/y. The PMI composite rose again in June (+0.4 points to 50.7). The Gfk household confidence index recovered (-18 in June compared with -20 in May) thanks to a better perception of the economic situation over the last twelve months and for the coming months, but retail sales fell in May (-2.7% m/m and -1.3% y/y). The BoE maintained its key rate at 4.25%, but three members of the MPC voted in favour of a 25 basis point cut, increasing the probability of a 25 bp cut in August. The United States and the United Kingdom formalised their trade agreement at the G7 summit. The British automotive sector will be subject to a reduced tariff of 10% on a quota of 100,000 vehicles, while aerospace products will be exempt from customs duties. Tariffs on steel and aluminium have been maintained at 25%, but negotiations, particularly on the introduction of quotas, are envisaged. *Coming up: CBI industrial survey, current account and final GDP estimate for Q1 2025.*

MONETARY POLICY IN EUROPE

Three rate cuts. The Riksbank (Sweden) decided to cut its key rate by 25 bp at its meeting on 18 June; i l is now 2.0%. which had been stable since December 2023. On the same day, Norges Bank (Norway) decided to cut its rate to +4.25% (-25 bp). In both cases, the central bank announced that the move was a prelude to further easing in 2025 (according to the central scenarios). On 19 June, the Swiss National Bank () SNB cut its key rate by 25 bp to 0% (due to a rate inflation of -0.1% y/y in May and the +10% appreciation of the CHF YtD).

JAPAN

The BoJ responds, in part, to bond pressures. The Bank of Japan (BoJ) decided to keep the uncollateralised overnight call rate stable at its meeting on 16-17 June. Fears about growth and the associated prospect of lower inflationary pressures are delaying the rate hikes. The BoJ also announced a slowdown in quantitative tightening from fiscal year 2026 (which begins on April 1): monthly purchases of JGBs will fall from JPY 400 bn, the current pace, to 200 bn. 10-year yields rose after the meeting, but ended the week at their lowest level (+1.395%) since 12 May. In May, core inflation (excluding fresh food) reached +3.7% y/y (+0.2pp), while core-core inflation (which excludes energy) reached +3.3% y/y (+0.3pp).

EMERGING ECONOMIES

ARGENTINA

Further disinflation. In May, the month-on-month rise in consumer prices was just 1.5%, compared with 2.7% over the previous 6 months. Over one year, the inflation rate stood at 43.5%. Over the same month, producer prices fell by 0.3% (22.4% year-on-year), thanks to a slowdown in local price inflation and, above all, a fall in import prices as a result of the stronger exchange rate.

BRAZIL

The monetary tightening cycle is coming to an end. On 18 June, the Central Bank of Brazil (BCB) raised its benchmark rate by 25 basis points, taking the SELIC to 15%, following seven consecutive hikes (+450 bp since August 2024). The BCB justified this latest hike – presented as the likely conclusion of the tightening cycle – by citing the unexpected resilience of economic activity, continued labour market pressures and the unanchoring of inflation expectations. Inflation (down slightly in May to 5.3% y/y) remains above the Central Bank's target range of 1.5%-4.5%. In both nominal and real terms, the SELIC is at its highest level in nearly 20 years.

COLOMBIA

The presentation of the medium-term budget framework confirms the deterioration in public finances. The central government deficit is expected to reach 7.1% of GDP in 2025, 6.2% in 2026 and 4.9% in 2027. Fiscal consolidation efforts, which are still based on imprecise measures, have been postponed for a year. It will therefore be up to the next government, which will be formed after the presidential elections in May 2026, to implement the reforms aimed at reducing the public deficit.

GULF STATES

The solid fundamentals of the Gulf States are reassuring in the face of rising security risks in the region. Since the start of the conflict between Israel and Iran on 13 June, risk premiums on 5-year sovereign debt have remained relatively stable and at low levels, with the exception of Bahrain (222 bp), whose public finances are a source of concern. Nor did trends on the region's main stock markets show any particular panic. The cumulative fall in indices was moderate: -2.1% in Saudi Arabia, -2.2% in Bahrain, -2.5% in Kuwait, -3.4% in Qatar, -3.6% in Dubai, and -3.7% in Abu Dhabi. The escalation of tensions remains to be monitored, however. In this respect, the cascade of airline cancellations to these countries is one of the most visible signals of the potential impact of the conflict on these economies.

COMMODITIES

Immediate but contained market reaction to tensions in the Middle East: The US intervention against Iran's nuclear facilities has led to fears that the conflict will be regionalised. When the markets opened, Brent and gas prices on the European market showed little reaction, rising by less than 5%.

Whether Brent remains below USD 80 /barrel will depend on the nature of the Iranian response, the US capacities mobilised to deal with it, and political developments in Iran. At this stage, three categories of events would propel prices to very high levels (above 120 USD/b):

• A blockage of the Strait of Hormuz (25% of oil trade and 20% of LNG trade) would prevent a large proportion of exports originating in the Gulf (Saudi Arabia, UAE, Kuwait, Iraq, Iran, Qatar, Bahrain), with alternative routes able to handle only 15% of export volumes. Beyond a total blockage of the Strait (which has never happened before), low-intensity attacks against ships would severely disrupt traffic without stopping it. This could keep the price of Brent crude high (around 100 USD/b) for several months.

• Disruption of LNG exports from Qatar and, to a lesser extent, from the UAE by a blockade of Hormuz would push European gas prices to very high levels given the current tensions on this market (low level of European stocks). An attack on Israeli gas installations would have a limited impact on the European market, given Israel's ability to use alternatives (coal and oil), and the rationing that would be introduced in Egypt, the largest importer of Israeli gas.

• A collapse of Iranian power would have consequences for certain countries under its influence, such as Iraq, OPEC's second largest producer (around 4 mb/d).