ECONEWS

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ADVANCED ECONOMIES

EUROZONE

ECB on hold, September hike likely as activity holds up. The ECB kept its deposit rate at 2.25% on Thursday in a unanimous decision. The press conference was quite hawkish but several members who spoke later want to retain optionality. The ECB will have been reassured by the easing in the latest inflation expectations, whether from consumers (1-year inflation expectations fell to 3.0% in June from 3.5% in May while the 3-year gauge slipped to 2.8% from 2.9%; or professional forecasters (The Q3 2026 Survey projects Eurozone inflation at 2.7% for 2026, 2.2% for 2027, and 2.0% for 2028 and the longer term). Separately, Eurozone businesses do not expect a pickup in wage growth in 2026 or 2027, suggesting no second-round effects so far, a point emphasized by President Lagarde.

Activity surveys robust in July despite tighter financial conditions. The flash composite PMI improved to 51.9 (+1.9 pts), the highest since February, with new orders climbing at their fastest pace since April 2023. The manufacturing output index reached a four-and-a-half year high (53.0, +1.3 pts) while the services index rebounded in expansion territory to 51.6 (+2.2 pts). Output and input price indices eased again, but from a high level. Consumer confidence improved for the third month running in July (-15,9; +1.8 pts), according to EC's flash estimate. Meanwhile, credit standards (enterprises and households) continued to tighten in Q2 2026, albeit much less than expected. Further net tightening is expected in Q3.

France: Business climate recovering and inflation pressures easing in July. Flash PMIs broadly improved: composite to 49.6 (from 47.2 in June); services to 49.8 (from 46.8 in June); manufacturing deteriorated to 50 (51.2 in June), avoiding contraction territory. Meanwhile, INSEE business confidence beat expectations by rising to 97 (95 in June), a 4-month high, mainly driven by retail trade (99 in July, 91 in June), services (98 in July, 96 in June) and manufacturing sectors (101 in July, 100 in June). Weak sectors since March improved in July (retail, accommodation and catering, business services including temporary employment). Both surveys show lower inflation pressures, particularly in manufacturing and construction. **Business creations** decreased by 2.2% m/m in June (after +10.6% m/m in May) but still increased by 11.7% in H1 (+5% in 2026), mainly driven by AI-related sectors (information and communication, business services) and continue to far outpace insolvencies. The IMF concluded its annual review of France warning that its **budget deficit** will reach 5.2% of GDP in 2026, which is wider than the government's 5.0% target. Prime Minister Lecornu appears to agree, saying he is "not very optimistic" France will meet its 2026 budget goals.

Germany: Business activity unexpectedly expanded for the first time since March. S&P Composite PMI increased to 51.2 in July from 49.5 in June, unexpectedly rising above the 50 threshold. The boost was driven by manufacturing, which jumped to 52.2 — also its strongest reading in four months and marking six months of expansion. The services sector also improved, rising to 49.6 (+1). An Ifo Institute survey found US tariffs are negatively affecting nearly two-thirds of German industrial manufacturers. Almost 40% of firms said they have scrapped, delayed, or adjusted at least one investment project as a direct result of US trade policy.

The ZEW investors sentiment Index climbed to 26.3 points in July, up from 10.5 in June. This rise significantly outperformed market expectations of 18, reaching its highest level since February.

UNITED KINGDOM

Good surprises for the new Cabinet on activity, inflation, and jobs. Andy Burnham took office as new PM on Monday, with a Cabinet mixing Blairites — notably the Chancellor — and more left-leaning members. His priorities include cost of living, fiscal responsibility, devolution of power, and remedying the problems that emerged from the privatisation of utilities in the 1980s/90s. The flash composite PMI jumped to a three-month high of 52.1 in July (+2.8 pts m/m), significantly outperforming expectations. The rebound was supported by strong manufacturing output (53.6; +1 pt m/m) and a return to growth in services at 51.8 (+3 pts m/m). The manufacturing flash PMI also climbed to 52.8 (+0.3 pt m/m), with new orders hitting their highest reading since February 2022. Both sectors reported easing cost pressures. Inflation fell to a 15-month low in June: CPI rose 2.6% y/y, the lowest since March 2025. Retail sales volumes rose 1.0% in June, the fifth consecutive month of upside surprise. Unemployment held at 4.9% for the three months to May. Average weekly earnings for the three months to May rose by 4.3% y/y, with private-sector wage growth easing to +2.9, the lowest reading since October 2020. We expect the BoE to hold its policy rate at 3.75% this week.

UNITED STATES

Solid data makes Fed meeting a risk event. Weekly jobless claims fell far more than consensus expectations, to their lowest since 1969. At the same time, the S&P composite PMI rose strongly in July (53.6, +1.7 point), led by more robust activity in services (53.6, +2.4 pts), while the manufacturing index missed expectations but was broadly stable, close to 54. Given the continued rise in oil prices, and its inflation-fighting credibility at stake, there is a risk a majority of FOMC voters would support a rate hike this week, albeit our base case remains the Fed waits until after the mid-term elections to hike.

Tariff noise returns: The Trump administration announced new import duties of 10%-12.5%, effective from July 25, on goods from approximately 60 trading partners (86 if EU members are counted individually), citing inadequate protections against forced-labor. These tariffs will conveniently replace the universal 10% tariff under section 122 expired on 24/7 that the administration had put in place after the Supreme Court struck down most of the tariffs imposed in 2025. Food, energy and products subject to sector-specific duties are exempted. The resulting effective rate is little changed for most countries (and improves in absolute terms for Belgium and Italy, and in relative terms for most European countries). In addition, Canada is threatened with a 50% tariff on 5% of its exports to the US to take effect within 30 days, while a new 100% tariff on generic drug imports is set to become effective in August 2028, rising to 200% in August 2029, for manufacturers that do not relocate production to the US. President Trump also threatened additional tariffs on the EU in retaliation to recent "unethical" fines against US tech companies. He also announced plans to cut tariffs on raw aluminum imports to reduce input costs for the defence industry.

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JAPAN

Verbal support fails to stem yen depreciation. USD/JPY hit a fresh 40-year low of 163.99 despite renewed intervention warnings from the MoF and BoJ officials letting it be known that they are open to raising rates faster than consensus expects, as persistent yen weakness adds to upside inflation risks. Inflation rebounded to 1.7% y/y in June (+0.2 pp) as energy deflation eased on the back of government energy subsidies being scaled back. That said, core inflation slowed further to 1.6% (-0.1 pp), a near four-year low. Activity remained robust in July, on manufacturing strength. The composite PMI index edged higher (53.1, +0.3 pt), as manufacturing output hit its highest level since February 2014 (56.1, +1.8 pts), while services activity dipped (51.9, -0.3 pt). The BoJ is widely expected to hold its policy steady at its July 31 meeting, having raised the benchmark rate to 1% last month (our base case is for another hike in October).

EMERGING ECONOMIES

ASIA

China: Export controls on EU entities and a yellow card from the US. China added 14 European companies to its export control list, banning dual-use exports immediately, in retaliation for EU sanctions. The US Treasury's semi-annual FX report called out China for its "relative lack of transparency" around currency management, though it stopped short of labelling China a currency manipulator.

Indonesia: Bank Indonesia kept its policy rate unchanged at 5.75%. Although downward pressures on the rupiah remain strong (close to the threshold of IDR18000 per USD), the Central Bank argued that targeted measures to attract capital inflows and support the rupiah would be more effective than rate hikes. The unexpected resignation of Bank Indonesia's Governor Perry Warjiyo has heightened concerns over the central bank's independence and policy continuity, increasing uncertainty for investor confidence, the rupiah and Indonesian financial markets until a credible successor is appointed.

South Korea: Real GDP growth remained robust in Q2 at 3.7% y/y (after 3.8% in Q1). Exports continued to grow strongly and the boom in tech is spilling over to the rest of the economy.

EUROPE, MIDDLE EAST, AFRICA

Hungary: More monetary policy easing. As expected, the Central Bank lowered its policy rate by 25 bp to 5.75%. Year to date, the key rate has been cut by a cumulative 75 bp. Central Bank rhetoric suggests one more rate cut next month. Contained inflation (1.7% y/y in June) and the recent appreciation of the forint provide leeway to ease policy.

Türkiye: Monetary stand-by. The CBRT kept the policy rate unchanged at 37%, in line with market expectations. The interest rate corridor (lower bound 35.5%, upper bound 40.0%) was also left unchanged. Overall, despite acknowledging weaker activity, the MPC statement suggests greater concerns about inflation than growth, and the Committee does not appear ready to signal the start of an easing cycle.

South Africa: Inflation and Central Bank surprises. Inflation rose from 4.5% y/y in May to 5.0% in June, above consensus. Core inflation rose to 4.1%, a two-year high. Yet the Central Bank kept its policy rate at 7% on June 23, against a widely expected 25bp hike.

LATIN AMERICA

Argentina: Country risk rating upgrade tarnished by poor activity indicator. Moody's upgraded Argentina by one notch to B3 (from Caa1) with a positive outlook. All three major rating agencies now rate Argentina above the highly distressed category. Meanwhile, the monthly proxy indicator of real GDP contracted by 0.5% m/m in May for a second straight month. From a year ago, it grew only 0.2%, well below the 2.5% median estimate of economists surveyed by Bloomberg. Agriculture and mining led growth on an annual basis, while manufacturing and retail fell.

ENERGY

Oil prices remained flat w/w after a volatile week. Oil prices (Brent) breached the USD 100/b threshold last week, as Middle Eastern oil exports were again placed under severe constraints by geopolitical developments. Market pressure remains intensified by historically low US strategic and OECD commercial inventories. **The pause on strikes between US and Iran during the week-end entailed a sharp drop in prices on Monday** to 90 $/b at the opening.

European gas benchmarks too (TTF) have been volatile during the week. They reached their highest levels since January 2023 (EUR 64 MWh) last week before sharply falling on Monday. Short-term prospects for a recovery in Gulf LNG exports are deteriorating, while intensifying competition between European and Asian markets is driving price appreciation. Since mid-July, TTF and JKM (the Asian market benchmark) prices have risen by 10% and 29%, respectively (compared to Monday 27th prices).