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ADVANCED ECONOMIES

UNITED STATES

Inflation at 3-year high, activity resilient. In May, personal consumption expenditure (PCE) inflation rose to 4.1% y/y, up 0.3 pp from April and 1.2 pp since the outbreak of the Iran war. This was the highest level since April 2023. Core PCE inflation, the Fed's preferred gauge (for now), rose to 3.4% y/y (up 0.4pp since the beginning of war) with a stable monthly pace (0.3%) for three months. Consumption was resilient despite rising prices, with nominal personal spending accelerating to 0.7% m/m (up 0.3pp). Durable goods orders plummeted by -4.5% m/m. However this was due to the volatile transportation equipment subcomponent, while non-defense capital goods ex-aircraft (a proxy for private capex intentions) came in at a solid 1.6% m/m (-0.7% in April), extending a solid run over recent quarters. Amid ongoing talks at the OECD and in the EU on digital services taxes, President Trump warned that countries implementing such tax would face a 100% tariff irrespective of signed trade agreements. *Coming up: June Nonfarm Payrolls (Thursday); June ISM Manufacturing (Wednesday).*

EUROZONE

Activity stabilizing, price pressures easing. Flash PMI data for June were encouraging: the composite PMI rose 1 point to 49.5. The deterioration in services softened (+1.2 points to 48.9), while the manufacturing production index remained stable in expansion territory (-0.1 point to 51.2). Meanwhile, the input price indicator in the manufacturing sector fell sharply (-6.8 points to 73) albeit from a high level. The services price index returned close to pre-conflict levels (-1.7 point to 53.7), suggesting that indirect effects of the energy shock remain contained so far. Encouragingly, ECB consumer inflation expectation measures over the 12-month horizon fell from a median of 4.0% to 3.5%, while the five-year ahead expectation was unchanged at of 2.4%. President Lagarde gave a dovish speech in front of the European Parliament, describing the current situation as a "significant but non-permanent shock requiring measured adjustment." This led the euro to fall below 1.14 to the dollar. Separately, consumer confidence improved for the second month running in June. New car registrations fell 6% m/m in May (seasonally adjusted) but rose in three-month smoothed data. EVs continued to gain market share: 20% of the European market, up nearly 5 percentage points from the previous year. *Coming up: June HICP flash estimate (Wednesday); European Commission survey; May loans to the private sector and money supply (Monday); May unemployment rate (Thursday).*

EUROPEAN UNION

On (a slow) track. Europe is on track implementing the Draghi recommendations, according to a systematic assessment by Institut Montaigne. 30% of the 567 recommendations have been completed, and a full 60% are set for completion by end-2026. Semi-conductors, governance and natural gas have seen the least progress, while critical raw materials and defence have seen the most. Unsurprisingly, low-hanging fruits dominate so far, and only 3% of high-impact recommendations have been fully enacted. This week, the EC touted the adoption of a two part Tax Simplification Package projected to shave about EUR8bn off EU business costs each year

(<0.05% of EU GDP). The EU also signed up to the US-led Pax Silica initiative aimed at securing critical supply chains for AI among "trusted partners".

France: Activity recovering, employment and public finances weakening. Flash PMIs rebounded in June from the low prints observed in May: composite Output Index up 2.7 pts to 47.6; services up 3.1 pts to 47.4; manufacturing up 1 pt to return to expansion at 50.7. The Insee business climate also showed a slight improvement to 94 in June from 93 in May. The retail trade index recovered from 89 to 93, while construction and manufacturing indices deteriorated (from higher levels). Price pressures eased somewhat in June for the first time since March. Less positively, the employment index fell to a new low (89 in June, the worst since 2013 excluding the Covid period). The deterioration is mainly driven by the services sector. Likewise, household unemployment expectations increased to 60 (vs. 55 in May, long-term average 33). Even so, household confidence recovered slightly to 84 in June, from 82 in May, driven by improving cost of living expectations. Meanwhile, the Cour des Comptes sounded the alarm over public finances owing to downwardly revised growth prospects and higher interest rate bill. It called for the swift implementation of measures to curb public spending, failing which it would be impossible to reduce the fiscal deficit to 3% of GDP, and hence stabilize public debt/GDP, by 2030. *Coming up: Inflation (Tuesday) and car registrations (Thursday) for June.*

Germany: Structural reforms progress amid improved sentiment. Beyond the headline-grabbing report of 100,000 job reductions at VW over the medium term, the manufacturing flash PMI held steady at 50.0 (from 50.1 in May), with business activity slightly improving (50.8 vs 50.4 in May). New orders rose modestly—both domestic and exports. The Ifo business climate index jumped 0.6 pt to 85.6 in June, its highest level since the start of the war. Assessment of the Business Situation rose 0.9 pt to 87.0 (best since July 2024). Expectations with regard to Business Development in the next 6 months also improved (+0.2 to 84.1) with firms hopeful for geopolitical easing. That said, the services PMI hit 46.8 (weakest since November 2022) with both current and expected activity in decline, leading the composite PMI unexpectedly to fall deeper into contraction (48.0 vs 48.8 in May; lowest reading since December 2024). Pressure on costs is easing, both input and output price inflation softened at the end of Q2, returning to their lowest levels since the outbreak of the war. Encouragingly, the GfK household confidence index rose 0.5 pt to -29.2 in June, its highest level since the start of the conflict. Meanwhile, Chancellor Merz gave the nod to an ambitious retirement reform package that will shift from a pure pay-as-you-go model to one incorporating a capital-market component. Under this proposal, employees and employers will jointly contribute 2% of gross wages (EUR 30bn) to a state-managed fund, in addition to existing pension contributions. Contributions will be introduced gradually, starting at 0.5% in 2027. It will also increase the official retirement age in line with life expectancy after it reaches 67 years in 2031. The Cabinet is also negotiating a tax cut package of EUR 20bn that would lower income taxes for earners up to EUR 100,000. *Coming up: May's retail sales and import prices, June's unemployment rate and flash inflation (Tuesday), June's Final Manufacturing PMI (Wednesday).*



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Italy: A productive 36th Franco-Italian Summit. The leaders unveiled seven new accords covering defence (a mixed brigade and joint weapons programs), nuclear energy (SMR NUWARD) and space (the BROMO satellite), with the aim of forging European "champions" and reducing reliance on external powers. They also reinstated major cross border projects – the full reopening of the Tende tunnel, the Lyon Turin high-speed rail link, and an expanded transnational transport plan linking the two countries. Separately, PM Meloni introduced an electoral reform proposal and is rumoured to moot bringing the next general election forward to April 2027. *Coming up: June Inflation (Tuesday), Manufacturing PMI (Wednesday), May Unemployment rate (Thursday) May retail sales (Friday).*

UNITED KINGDOM

Activity contraction. In June, the Composite PMI came in below consensus and remained contractionary (49.4, -0.3pp). Business activity in the services sector, at its lowest level since 2023 (48.7, -0.6pp), was the main driver of the decline. The manufacturing index remained high but also showed an overall decrease (53.1, -0.9pp), with the improvement in output being offset by slowdowns in employment and new orders. Price indices (input and price charged) were moderating in both sectors.

JAPAN

Unprecedented investment plan amid accelerating growth and yen weakness. PM Takaichi unveiled a \$2.3bn (JPY 370 trn) 14-year investment plan spanning 17 sectors including AI and chips. The financing and public/private split remain to be specified and could trigger concerns about fiscal sustainability. June PMIs revealed accelerating activity and persistent cost pressure: the composite index rose to a 3-month high of 52.5 (+1.3pp) with improvements in both manufacturing (54.9, +0.4pp) and services (51.8, +1.8pp). New manufacturing orders improved to their highest since 2022 (54.2, +0.8pp). Input price sub-indexes remained close to 4-year high. The yen has been approaching a 40-year low of 161.95 to the dollar. *Coming up: Q2 TANKAN Business Conditions (Wednesday), June retail Sales (Monday) and May Industrial production (Tuesday).*

EMERGING ECONOMIES

AFRICA & MIDDLE EAST

Kenya: government opens its domestic debt market to foreign investors. The move aims at broadening the investor base as the government fails to consolidate public finances. Central government debt reached 70% of GDP end-2025, with 66% of the debt stock domestic.

ASIA

China: New export restrictions and fiscal squeeze. Ten U.S. companies have been placed on a list of entities to which Beijing prohibits the sale of Chinese goods with potential "dual use" (civilian + military). They include USA Rare Earth (rare earth), Red Cat (drones and robots), and Aveox (electromechanical systems). Beijing has also announced a ban on government agencies and local governments from purchasing products from 46 US companies. These measures are in response to the new Chinese names (such as Alibaba, BYD, Baidu) added to Washington's blacklist of entities deemed to pose a national security risk to the US because of alleged connections to the People's Liberation Army.

Meanwhile, government expenditure fell by 4% y/y in May, contributing to weak domestic demand. Rather than contemplating new fiscal stimulus, the authorities have been informally calling on banks to lend more.

EMERGING EUROPE

Central Europe: Monetary policy on diverging paths. Hungary: Policy easing. As expected, the Central Bank lowered its policy rate by 25 bp to 6.00%, the second rate cut this year. The recent appreciation of the forint alongside soft inflation (1.8% y/y in May; 2.1% in April; 1.4% in February) helped. **Czech Republic:** policy tightening in June (+25 bp in the key rate). **Poland** and **Romania** may remain on hold for a while, although a rate cut is not ruled out in Poland if inflation is contained in the next couple of months.

LATIN AMERICA

Argentina: A blurred picture of the trend in activity. The Statistical Office has confirmed that real GDP still showed good resilience in Q1 2026 (+0.7% q/q sa after +1.2 in Q4 2025). Yet, the supply-based monthly economic index showed an increase of 0.5% q/q sa after 0.8% in Q4 2025. Agriculture & fishing remained the main supportive sector with impressive double-digit growth. Real wages and employment are not supportive factors; according to the central bank, the share of individuals in arrears reached its highest peak in 20 years.

Mexico: policy rate kept at 6.5%. This decision was expected, as the previous statement explicitly indicated that the monetary easing cycle begun in March 2024 (totaling 475 bp) had ended. The expected convergence of inflation toward the 3% target remains set for Q2 2027.

COMMODITIES

Oil prices have dropped below their prewar levels, with Brent at 72 USD/b and Dated Brent at 70.7 USD/b on Friday. European spot gas prices (TTF) have eased to 41 EUR/MWh this Friday but remain above their prewar levels.

The massive drawdown of oil stocks continues even though Gulf oil shipments have rebounded following the reopening of the Strait of Hormuz. The US Strategic Petroleum Reserve (SPR) dropped by 9 mb/d during the week of 19 June, bringing its total down to 331 million barrels – its lowest level since 1983.

Heatwave in Europe has triggered a sharp rise in wholesale electricity prices, which have reached their highest level since mid-January. The price gap between most impacted countries (linked to electricity mix breakdown) has tended to narrow (notably between France, Germany, Italy and UK).



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