ECONEWS

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GLOBAL

Signing of the Chinese-American agreement. On 25 June, Donald Trump announced the signing of a formal agreement with China. It provides for the continuation of rare earth exports from China to the United States and the maintenance of additional 30% tariffs (20% for fentanyl) with a minimum 10% retaliatory tariff imposed by China on the United States. The signing was confirmed in a Chinese Ministry of Commerce press release. In addition, Howard Lutnick, US Secretary of Commerce, announced the forthcoming signing of trade agreements with ten US partners, including India. The tax on digital services, which was due to come into force in Canada on Monday 30 June, has been cancelled by the government in order to resume negotiations with the United States (Trump had announced the end of these negotiations on 27 June). An agreement between both parties is now expected on 21 July.

At the summit in The Hague, NATO members formalised an historic increase in the target for military spending, from 2% to 5% of national GDP by 2035. While this target will be difficult for some countries to meet, Spain is the only country to have officially rejected it.

ADVANCED ECONOMIES

UNITED STATES

Activity down and inflation up. Q1 growth was revised down from -0.2% to -0.5% (annualised) due to a smaller rise in consumer spending than initially estimated. In May, core inflation as measured by the PCE (the FOMC's favourite indicator) surprised the Consensus consensus by rising to +2.7% y/y (+0.1pp). The PCE also reported a fall in consumer spending (-0.1% m/m, -0.2pp). Consumer confidence, as measured by the Conference Board, showed an unexpected decline in June (93.0, -5.4pp / consensus: 99.4). The decline extends to both assessments of the current situation and expectations. Households, in particular, are worried about the job market: the associated stress measure (share of respondents finding jobs are 'plentiful' minus those finding them 'hard to get') is at its lowest since March 2021. Existing home sales are up by +0.8% m/m (+1.3pp). **Budget**: before submitting the budget bill (known as the 'One, Big, Beautiful Bill') to the Senate, which the CBO estimates that it will add US3.94 to the federal debt by 2034, Treasury Secretary Scott Bessent announced that he had asked the Senate to withdraw the provision for an additional tax on profits and capital income repatriated by nationals of countries deemed to have discriminatory tax practices. In return, he obtained concessions from the G7 countries concerning an exemption from implementation of the OECD's minimum taxation of multinationals by the United States. **Regulatory easing to support Treasuries**: on June 25, regulators proposed easing the leverage requirement that apply to US Global Systemically Important Banks (G-SIBs) and their depository institution subsidiaries. The proposal, subject to a 60-day comment period, aims to strengthen the incentive and ability of large banks to act as intermediaries in the Treasury market, particularly in times of stress. Under this rule, the eSLR (enhanced supplementary leverage ratio) requirement for the eight G-SIBs would be reduced to a range of between 3.5% and 4.25% (compared with 5% at present). The proposal is also seeking comment on a potential exclusion from the SLR denominator of Treasury securities held for trading purposes by the broker-dealer subsidiaries of the major US banks. *Coming up: Employment survey (Thursday), ISM manufacturing index (Monday) and non-manufacturing index (Thursday).*

EUROZONE

Europe expands its alliances with a security and defence partnership with Canada and an opening towards the countries of the CPTPP. The signing of a security and defence partnership agreement with Canada marks the first step towards the country's eligibility for the SAFE programme (joint European defence funding, with 65% of production carried out in the EU and 35% in partner countries). Ursula Von der Leyen expressed her desire to conclude a trade agreement with the signatories of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP, including Australia, Canada, Japan and Mexico). In the eurozone, the economic sentiment index fell by 0.8 points in June (to 94). The balances of opinion in industry and retail trade fell (-1.8 and -0.3 points respectively), while they improved in services and construction (+1.1 and +1 points respectively). Consumer confidence deteriorated slightly (-0.2 points to -14.2) due to a deterioration in sentiment regarding the general economic situation. The M3 money supply increased by 3.9% y/y in May. At the same time, the ECB's accommodative policy is boosting credit: lending to households rose by 2.0% y/y and lending to businesses by 2.5% y/y. Coming up: Central Bankers' Forum in Sintra (Portugal) from June 30 to July 2 (main theme: «Adapting to change: macroeconomic changes and policy responses»). *The flash estimate of inflation and the final composite PMI indices for June will be published, along with producer prices for May.*

GERMANY

Budgetary reboot and a rebound in private sector expectations. The German government has presented its 2025 budget. It is geared towards stimulating public investment and supporting private investment, at the cost of a sharp rise in debt (+EUR 850 bn between 2025 and 2029). It is due to be adopted next September. Notably, the plan aims to invest around EUR 120 bn per year in public infrastructure from 2025 onwards, and gradually increasing the defence budget to 3.5% of GDP in 2029 (from 2.1% in 2024). In June 2025, the GfK consumer confidence index remained relatively stable, at -20.3. Six-month economic expectations have recovered to a level not seen since the start of the war in Ukraine. On the business side, the Ifo index climbed to 88.4 (+0.9 points m/m). This record for almost a year was driven by a rise in expectations (+1.7 points m/m, to 90.7), with «current conditions» stable at 86.2. The PMI flash composite index rose to 50.4 (+1.9 points m/m), the first expansion for six months, driven by an improvement in manufacturing output. *Coming up: June inflation and May industrial new orders.*

FRANCE

Slight rebound in inflation, households remain pessimistic, modest recovery in new construction. Inflation rose in June to 0.8% y/y (from 0.6% y/y in May) due to an acceleration in services prices (mainly accommodation, healthcare and transport). Household confidence remained stable at a low level in June (88, compared with a historical average of 100). New housing activity rebounded moderately, with a 2.3% y/y increase in housing starts over the first 5 months of the year and an 11% y/y increase in building permits. The conclave on pensions ended in disagreement among the participants. However, the Prime Minister expressed that he wants to resume certain advances (lowering the full retirement age from 67 to 66.5, retirement for women), but the unions refused to continue negotiations on arduous work and funding. The left-wing parties tabled motions of no confidence in the government. *Coming up: May's industrial output.*

ITALY

The economic sentiment index rose for the second consecutive month in June (+0.2 points to 98.6). Confidence in industry remains low but has returned to its highest level since May 2024. It is driven by a clear improvement in production and employment expectations for the coming months. Household confidence deteriorated (-1.1 points). *Coming up: inflation (Monday), manufacturing PMI (Tuesday), unemployment (Wednesday), composite and services PMI (Thursday), construction PMI and retail sales (Friday).*

UNITED KINGDOM

Manufacturing improves, but retail suffers. The flash estimate of the composite PMI for June rose by 0.4 points to 50.7, thanks to an improvement in both services (+0.4 points to 51.3) and industry (+1.3 points to 47.7). This improvement in industry can also be seen in the CBI survey, where the balance of opinion on export orders and future production has risen. On the other hand, the CBI's retail survey shows a deterioration in sales volumes in June (-46 compared with -27 in May): the leading indicators for July (sales and supplier orders) are down sharply. *Coming up: Nationwide and Halifax house price indices (for June), composite final PMI and construction PMI (June), motor vehicle sales (June).*

JAPAN

Business growth in June. The manufacturing PMI (50.4, +1.0ppm, in the expansion territory for the first time since May 2024) and the services PMI (51.5, +0.5pp) were on the rise. Underlying inflation in Tokyo fell in July (+3.1% y/y, -0.5pp) for the first time since February. However, upward pressure remained. This decline was mainly due to the reintroduction of support measures for running water. In April, growth in scheduled contractual wages improved to +2.1% y/y (+0.7pp), but the withdrawal of special payments led to an overall decline (+2.0% y/y, -0.3pp). The real wages index remained negative (-2.0% y/y, -0.2pp).

EMERGING ECONOMIES

CHINA

The official PMI for the manufacturing sector, published by the NBS, improved slightly in June (from 49.5 in May to 49.7) but remains below 50 for the third month in a row. The very slight rise was widespread across all sub-components. Conversely, the PMI index for the services sector deteriorated slightly (from 50.2 to 50.1) but remains in expansionary territory. **China must become a 'mega-sized consumer powerhouse'**, according to Premier Li Qiang, who spoke at the World Economic Forum on 25 June. No new measures have been announced to support this objective.

COLOMBIA

S&P and Moody's lowered their sovereign ratings to BB and Baa3 respectively. S&P maintains its negative outlook. The two rating agencies highlight the deterioration in public finances following the suspension of the fiscal rule and the widening of the central government's deficit (7.1% of GDP in 2025 according to the government). **The Central Bank has maintained its key rate at 9.25%**, given the inflationary risks posed by the rising fiscal deficit.

ETHIOPIA

Liberalisation of the banking sector. The Central Bank of Ethiopia has announced that foreign banks and investors can now apply for licences to operate in the country. This follows the authorisation given to foreign banks in December 2024 to hold up to 40% of the capital of a local bank. These measures are aimed at attracting FDI and increasing the competitiveness of the sector, which is dominated by the state-owned Commercial Bank of Ethiopia.

MOROCCO

Monetary status quo after two consecutive cuts. The Central Bank has maintained its key rate at 2.25%. Inflation is low (0.4% in May) and expectations are well anchored. Growth is also robust. The central bank now expects growth to reach 4.6% in 2025, compared with 3.9% previously. If there is no shock, the central bank could cut rates again between now and the end of the year. In addition, the transition to inflation targeting is still scheduled for 2026.

MEXICO

Another rate cut. On 26 June, the Central Bank of Mexico cut its key rate by 50 basis points to 8%. Inflation and core inflation have been accelerating since January, reaching 4.4% and 4.1% y/y respectively in May. The central bank has revised its inflation forecasts upwards (3.7% p.a. expected by the end of 2025, compared with 3.3% previously), but convergence towards the target (3%) is still scheduled for Q3 2026. With the economy slowing markedly and inflationary pressures persisting, monetary easing could be more gradual between now and the end of the year.