ECONEWS

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ADVANCED ECONOMIES

UNITED STATES

Activity accelerates, employment slows down and markets are penalised (before rebounding on 6 February). The Non-Manufacturing ISM remained at its highest level since October 2024 (53.8) in January, while the Manufacturing ISM improved to 52.6 (+5.7 pp, the highest since August 2022, supported by new orders and production). The improvement was seen in five out of the six major manufacturing sectors, including transport equipment and electronic and computer products. The 'employment' sub-component of the Manufacturing ISM recorded a smaller contraction (48.1, +3.3 pp) and that of services slowed (50.3, -1.4 pp). Private payroll growth (ADP survey) fell to +22k (-15k) in January, while redundancies (Challenger survey) reached 108.4k (+69.9k). In December, job openings (JOLTS) fell to 6.5 million (-400k m/m), their lowest level since September 2020. Concerns about the profitability of AI investments caused tech stocks to fall sharply, before rebounding on Friday 6 January, leaving the S&P 500 relatively unchanged at the end of the week. *Coming up: Employment situation (nonfarm payrolls, Wednesday), CPI inflation (Friday).*

EUROZONE / EUROPEAN UNION

Inflation falls back below 2% and the ECB keeps interest rates unchanged. Inflation slowed in January (-0.3 pp to +1.7% y/y, the lowest since September 2024) due to energy prices. Core inflation fell (-0.1 pp to +2.2% y/y, lowest since October 2021) due to services prices (+3.2% y/y, -0.2 pp). The Composite PMI declined in January (to 51.3, -0.2 pts m/m; lowest in four months) due to services (51.6, -0.8 pts) and despite an improvement in the Manufacturing PMI (49.5; +0.7 pts). In December, retail sales growth slowed (+1.3% y/y, -0.9 pp m/m). The ECB kept its policy rates unchanged. *Coming up: December trade balance and Q4 2025 GDP (Friday).*

- Germany: Industry is recovering sharply (see our analysis) despite the deterioration in the automotive sector. Manufacturing output fell by 3% m/m in December, but rose by +0.9% q/q in Q4. The decline in December was due to the automotive sector, while most other sectors continued to grow. Construction output rose by 3% m/m and 1.9% q/q in Q4, and new industrial orders increased by +7.8% m/m (+14% over two months), driven by domestic demand for capital goods (+10.5% m/m, +31.2% over two months). External demand also improved (+5.6% m/m, +11% over two months): in capital goods for the Eurozone, and in consumer goods and equipment outside the Eurozone. Exports recovered by 4% in December and ended the year up 1.1%; in 2025, the decline to the United States and China is marked (-9.3% for both; -15 and -9 billion euros, respectively), but exports to the EU rebounded (+4%, +35 billion euros) after two years of decline. The Composite PMI improved in January (to 52.1, +0.9 pts m/m), supported by the manufacturing index (49.1, +2.1 pts m/m), despite a slight slowdown in services (52.4, -0.3 pts m/m).

- France: Government and goods-trade deficits down in 2025, while inflation hit a new low in January. The government budget deficit fell to 122.5 billion euros in 2025 from 153.9 billion euros in 2024, thanks to higher revenues. The total budget deficit (5.8% of GDP in 2024) looks to have improved more than the expected 5.4% of GDP in 2025. The trade deficit in goods narrowed in 2025 (69 billion euros vs. 79 billion euros in 2024), according to customs data (increase in aeronautical exports and decrease in hydrocarbon and automobile imports). The trade deficit with Germany narrowed to 5.4 billion euros in 2025 (-3 billion y/y, -10 billion vs. pre-COVID), its lowest level since 1999. The current account balance deteriorated in 2025 (-12.5 billion, compared to 3.4 billion in 2024), according to the Banque de France, due to the deterioration in the income balance (which went from a surplus of 6 billion to a deficit of 8 billion, due to interest charges). Harmonised inflation fell (from 0.7% y/y in December to 0.5% y/y in January 2026) due to a more pronounced effect of promotional sales (-1.9% m/m on goods compared with -1.1% m/m in January 2025). Manufacturing output fell by 0.8% m/m in December, but rose in Q4 (+0.2% q/q), reaching a new post-COVID high. In January, the Manufacturing PMI reached a 43-month high (51.2, +0.5 points m/m). *Coming up: Q4 unemployment rate (Tuesday).*

- Italy: Slowdown in inflation and acceleration in activity. Inflation stood at 1.0% y/y in January (-0.2 pp m/m, the lowest since October 2024). The Composite PMI improved (51.4, +1.2 pts m/m), driven by services (52.9, +1.4 pts) and the Manufacturing PMI (48.1, +0.2 pts). S&P raised its outlook on its sovereign rating (BBB+) from "stable" to "positive" due to the economy's resilience to the trade shocks of 2025. *Coming up: December industrial production (Wednesday).*

UNITED KINGDOM

The Bank of England kept its key interest rate at 3.75% but is moving closer to a cut following a much closer vote than expected (5-4). Although disinflation is under way, the persistent strength of wages and underlying inflation encourages caution. However, the central bank is now expecting a return to the inflation target in May (compared with Q4 previously) and we forecast a 25 bp rate cut in March. *Coming up: Q4 2025 GDP (BNP Paribas forecast: +0.2% q/q) and December industrial production and trade balance (Thursday).*

AUSTRALIA

Monetary tightening. The central bank has become the first among advanced economies (excluding Japan) to raise its policy rate with a +25bp hike to +3.85% due to inflation, which according to its projections will not return to target (2.5% y/y) before the end of 2028 at the earliest. The move marks a change of direction in monetary policy after three rate cuts in 2025 (totalling -75 bp). Governor Michelle Bullock did not indicate whether further rate hikes would follow.

JAPAN

The LDP's clear victory heralds a more expansionary fiscal policy. The early elections to the House of Representatives resulted in a landslide victory for Prime Minister Sanae Takaichi's Liberal Democratic Party, which won 316 seats (absolute majority: 233). This clear mandate heralds more fiscal stimulus (including the possible end of the food tax) and the risk of faster monetary tightening in the current inflationary environment. The prospect of stronger fiscal support prompted a reaction in the equity market (up 4.8% for the Nikkei 225) and the bond market (+6 bp on the 10-year yield).

EMERGING ECONOMIES

AFRICA & MIDDLE EAST

PMI indices for the non-oil sector in the Gulf: Mixed signals. Overall, activity remains solid, with levels well above 50. However, performances differ between the United Arab Emirates, where the index improved to 54.9 (its highest level since February 2025), and Saudi Arabia (its PMI fell further to 56.3, from a peak of 60.2 in October).

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- Ivory Coast: The government unveils an ambitious development plan for 2026-2030. It earmarks investments of XOF 114 trillion (USD 206 billion, or 208% of GDP in 2025); 70% would come from the private sector, a slight increase on the 2020-2024 average (67%). Economic growth is expected to average at 7.2% per year over the period, enabling the country to join the ranks of upper-middle-income economies by 2030.

- Morocco: Record net job creation in 2025. Higher growth resulted in net job creation of 193,000 in 2025, more than double the figure for 2024. While the service sector remains the main contributor (+123,000), construction posted the largest increase (+64,000 in 2025, compared to +13,000 in 2024). These figures are encouraging, even though the unemployment rate remains very high (13%) and is down by only 0.3 points.

ASIA

- India: Trade agreement with the United States and sharp easing of tensions on financial markets (*see*: "India: Trade Agreements to Attract Foreign Investments"). On 2 February, President Trump announced a trade agreement with India to reduce "reciprocal" tariffs on Indian imports from 25% to 18% and remove the 25% "penalty" imposed on oil purchases from Russia. Under this agreement, which has yet to be signed by both parties, India has agreed to suspend its purchases of Russian oil in favour of American or even Venezuelan oil (the Modi government has not yet confirmed this) and to partially open up its agricultural market to American products. Customs tariffs on Indian products would therefore be lower than those applied to Southeast Asian countries (excluding Singapore). This announcement reassured investors. After hitting a low of INR 92 to USD 1 at the end of January, the rupee recovered to INR 90.4 to USD 1 at the end of last week. Lower customs duties on products imported by the United States could boost growth by 0.2 pp for the 2026/2027 year. Against this backdrop, the central bank left its key interest rates unchanged at its latest monetary policy committee meeting. Its cycle of monetary easing is likely to be over, as is the case in most other emerging Asian countries.

- Indonesia: Acceleration in Q4 2025 GDP growth (+5.4% y/y), but persistent tensions on financial markets. As in other Southeast Asian countries, growth was stronger than initially expected (+5.1% for the year as a whole vs. +4.9% in Malaysia and +8% in Vietnam) and the outlook for 2026 is positive. However, concerns remain about the deterioration in governance, the lack of visibility on President Prabowo's policies and the widening budget deficit. It is against this backdrop that Moody's downgraded the sovereign rating outlook (Baa2) from "stable" to "negative", weighing further on stock indices and the Indonesian rupiah after the sell-off observed at the end of January following MSCI's announcement of a possible removal of the country from the "emerging market" category.

- Thailand: Election results point to greater stability. The conservative Bhumjaithai Party led by Prime Minister Anutin Charnvirakul won 191 out of 500 seats against the reformist parties, enabling it to form a coalition government. This result was welcomed by the markets, which hailed the prospect of greater stability. However, Thailand continues to face weak growth, caution from investors and the need for clear policy direction to boost investment.

EMERGING EUROPE

- Central Europe: Monetary *status quo* in Poland and the Czech Republic. As expected, the Polish central bank kept its key rate at 4.00% while the rate also remained unchanged at 3.50% in the Czech Republic. Inflation in both countries (Poland: 2.4% y/y in December; Czech Republic: 1.6% y/y in January) has already reached its target, hence providing monetary authorities with some room for manoeuvre, but they will remain cautious. In the Czech Republic, high inflation in the services sector (4.8% y/y in December), rising house prices and the prospect of a larger budget deficit in 2026 will weigh on the central bank's decision. In Poland, the easing cycle, which began in 2025, has been significant (-175 bp in total) and could end in the coming months. According to our forecasts, the key interest rate will reach 3.50% by the end of 2026 in Poland (with a probable 25 bp cut next month) and 3.25% in the Czech Republic.

- Türkiye: Difficult slowdown in inflation. In January, the month-on-month increase in the consumer price index came in at 4.8% (+0.5 pts compared to the consensus). The statistics institute reassessed the weighting of services in the overall index. However, inflation in services prices is higher than that for goods. Over one year, the CPI rose by 30.9%, compared with 31.1% in December. External financing conditions are historically favourable: the Turkish Treasury issued EUR 2 billion in Eurobonds in euros, with a spread of 242 bp, the lowest for an issue in euros in 15 years. International debt issues have already reached USD 5.9 billion since the beginning of the year.

LATIN AMERICA

Mexico: The central bank paused its easing cycle, leaving its key interest rate unchanged at 7% after 11 consecutive cuts. Geopolitical tensions, the "potential escalation" of trade tensions and persistent inflationary pressures are the main reasons that factored into the central bank's decision. The statement specifies that inflation forecasts for 2026 was revised upwards (for the total and core indices: 3.7% and 3.8%, respectively, compared with 3.2% and 3.3% previously). The convergence target for inflation (3%) has been pushed back from Q3 2026 to Q2 2027.

COMMODITIES

Critical materials: Several agreements in principle were announced by the US government. The agreements signed with the European Union and Japan aim to strengthen supply chains for critical materials, in particular, by coordinating trade policies. A specific action plan was announced with Mexico to identify "*priority*" critical materials for cooperation between the two countries; the measures would be incorporated into the new version of the USMCA (currently under renegotiation). A dozen bilateral agreements were also announced, with Argentina (with the aim of encouraging "*an environment conducive to long-term productive investment*"), Brazil, Canada, Ecuador, Morocco, Paraguay, Peru, the Philippines and the United Arab Emirates. The final list of materials covered by the agreement and the operational details have not been confirmed.