

No holiday respite from this economic heat

There'll be no relief from the summer heat and storms this summer, both actual and those originating from the White House



Watch: No respite from the economic heat

June was one of the hottest months ever in Western Europe, and don't expect things on the economic front to cool down anytime soon. ING's Carsten Brzeski looks at what to expect for the rest of the summer

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Temperatures continue to rise

Sitting in a stifling office or a packed train in the middle of a heatwave can make anyone wish for cooler, balmier days. I feel the same about the current global economic temperature. And if you're dreaming of less heat from the Oval Office this summer, dream on.

US President Donald Trump sending actual letters to world leaders about prospective new tariffs had a charmingly old-fashioned theme in our digital age. But nothing was charming about the content. It simply reinforced the demands the president made on 'Liberation Day'. At the same time, the extended deadline from 9 July to 1 August has given the impression that the president is

in for some European 'extend and pretend'.

Europeans will remember that phrase well. It's also known as 'kicking the can down the road'. This term was often heard during the euro crisis when European leaders regularly tried to delay far-reaching and potentially painful decisions. The then European Commissioner, Jean-Claude Juncker, said at the time that all European leaders knew what they needed to do. But they just didn't know how they'd ever be re-elected if they did it.

So, the latest episode in the never-ending US tax and tariff saga has given the impression that 'extend and pretend' is now also a favourite theme in Washington. But I wouldn't be so sure. The heat is definitely on this summer, in many ways.

In fact, the 'One Beautiful Bill' has actually increased pressure on the US government to ensure that tariffs become a source of revenue. This means that there will be little room for the US administration to give anything away in the ongoing negotiations.

The new tariff threats on copper and pharmaceuticals also show that trade tensions aren't going away. I still think that, eventually, we will see trade deals settling at different base rates plus sectoral tariffs, which will bring the effective tariff rate in the US to levels last seen in the 1930s. The longer-term damage of this tariff saga, however, will be a different one: the loss of confidence in international negotiations and partnerships at eye level.

The real heat threat to growth

So, while temperatures continue to rise as far as global trade tensions are concerned, never forget the actual heatwave affecting people around the world, notably in Europe. It's a real economic threat and could challenge the resilience of the European economy. As a rule of thumb, in most European countries, one day of heat with more than 30 degrees has the same economic impact as half a day of strikes. Hours worked drop, but also labour productivity and consequently income. According to an ECB paper, manufacturing and services partially rebound after a heatwave, while agricultural and certain infrastructure losses tend to persist.

When travelling in Germany last week, I heard the first warnings about melting asphalt on the roads. Add to that the wildfires at the beginning of the year in California or the floods in Texas last week, and it should become clear that the consequences of climate change are here. They have different patterns, but they occur more frequently and seem to be more intense. Therefore, adaptation to climate change and prevention should be high on all government policy agendas.

Admittedly, these policy priorities are well-known, but addressing them all is still a huge challenge. However, even though I struggle to see the role monetary policy can play in fighting climate change, I have a better understanding of the European Central Bank these days. In its latest assessment of its own monetary policy, the Bank paid more attention to climate change. Indeed, more extreme weather conditions will have a significant impact on growth and inflation.

With the tariff saga far from over and heatwaves affecting Europe, the heat is definitely still on. This shouldn't take away the joy and rest that your holiday break can offer. Enjoy your rest; I fear you're going to need it.

Our key calls this month

- **Tariffs:** Despite the flurry of outstanding negotiations, the US stance remains unchanged: protectionism is policy, not posturing. For us, the 10% baseline tariff rate remains the floor, while additional sector-specific tariffs are likely to be announced as soon as most deals are closed.
- **Energy:** We believe oil prices will move lower later in the year, driven by growing OPEC+ supply, while European gas prices are set to remain well supported.
- **United States:** We think it will require some very soft jobs numbers for the Fed to be willing to cut in September, given that July, August and September are when the pass-through from tariffs will be at their maximum. We expect the first cut in the fourth quarter, but lower inflation in 2026 should allow the Fed to lower rates to 3.25% by next summer.
- **Eurozone:** Following a strong first quarter, inflated by tariff frontloading, we forecast negative growth in the second quarter. We therefore expect inflation to undershoot the ECB's 2% target in the coming quarters, enabling one more rate cut in September.
- **United Kingdom:** Despite weaker jobs numbers, we don't yet expect the Bank of England to accelerate the pace of rate cuts. We're looking for the next move in August, followed by November.
- **China:** Overall, growth looks on track to remain above 5% through the first half of the year, despite US tariffs.
- **FX:** Fresh updates on US tariff levels are having a diminishing marginal impact on FX markets, and instead, macro factors are making a comeback. Here, we think the expected pick-up in US prices during the third quarter can deliver a counter-trend dollar bounce.
- **Market rates:** We expect US 10-year yields to spike to 4.75% this quarter, on renewed inflation concerns and worries about debt sustainability.

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