

# ING Monthly: All the small things are adding up

Despite all the warnings, the global economy has held up better than expected this year. However, we view this as a temporary reprieve rather than a lasting recovery...

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#### All the small things are adding up

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By Carsten Brzeski

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Article | 6 November 2025

## All the small things are adding up

Sometimes, you've got to focus on the small things. And there are signs of relief in the global economy right now. Yet, perspective is everything, so never overlook the huge political and geopolitical changes that are happening everywhere



The global economy has entered the final stretch of the year. Before the festive season and outlook reports begin, it currently offers some rays of hope, at least for the humble and modest among us.

This year has been another wild ride for the global economy and, in part, another example that (geo-)political developments do not always lead to severe disruption in economies or financial markets, at least not in the short term. So far, the global economy has proven more resilient than feared, given the substantial (geo-)political shifts we are still witnessing. Recent weeks have brought developments that seem to feed tentative, yet fragile, optimism: a truce in trade tensions between the US and China, another Fed rate cut, solid eurozone growth, and an ECB seemingly brimming with confidence.

As is so often the case, when taking a closer look at these developments, it becomes a matter of perspective whether these are truly signs of relief for the global economy or merely a temporary respite. While the fact that trade tensions between the US and China have not escalated further is positive, the “soybeans for fentanyl tariffs” deal is far from a structural breakthrough and does little to eliminate the risk of renewed tensions. The Fed's rate cut, delivered amid a data fog caused by the ongoing government shutdown, should provide some support for the economy and markets, but Chair Jerome Powell's comments indicate a certain reluctance to continue cutting rates. Meanwhile, solid eurozone growth in the third quarter was driven by a surprise surge in

French activity, yet remained below the eurozone's potential growth rate. For me, this is reason enough to rub my eyes and ears when listening to the ECB's self-confidence that all is well in the eurozone.

Another theme in recent weeks has been stock market valuations and the AI rally, with more and more market observers warning of a possible bubble bursting. I am not in a position to comment on valuations, but I do recall that financial crises hardly ever occur when almost every expert and commentator predicts them. In any case, we are gradually shifting into the next phase of the AI boom, where application, not just production, will be key. It is also a phase in which interest rate levels, particularly in the US, could become more relevant as tech companies move from cash-flow-financed to debt-financed investments.

Credit where credit is due: despite all warnings and fears, the global economy has held up better this year than expected, and the AI boom has clearly offset some other adverse factors. Personally, I remain convinced that we are in the midst of substantial and historic geopolitical shifts. Global tariffs are at their highest level since the 1930s; trade flows are changing; trade is increasingly used as a geopolitical policy instrument; we still have a war in Ukraine and European commitments to ramp up defence spending; there is growing awareness that China has become a global player in many key industries; and almost all industrialised economies are struggling with how to reconcile rising government debt with high investment needs and the fiscal challenges of ageing – just to mention a few. However, as with structural shifts and transitions in the past, they can be frightening to some but do not automatically lead to disastrous economic outcomes.

All of this shows that the global economy is currently experiencing respite, not relief. But as we enter the festive season and outlook period, let's cherish the moment. As the US punk rock band Blink-182 sang: it's all the small things. For now.

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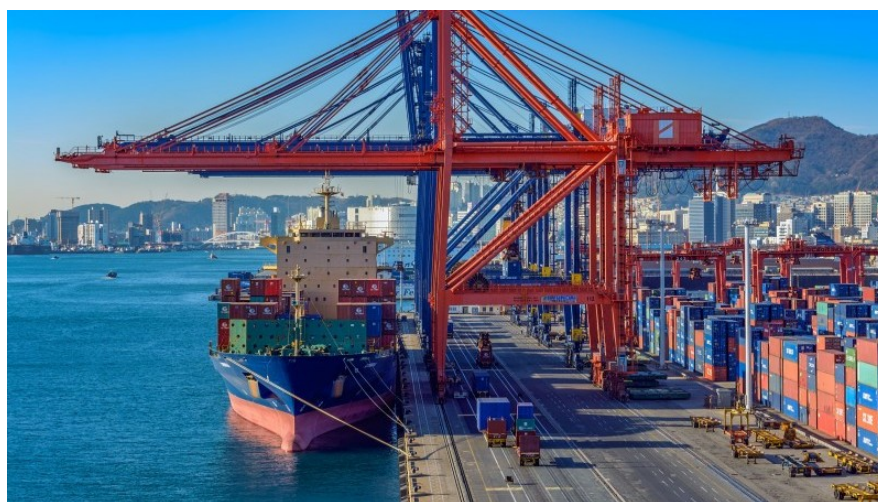
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## Global trade: respite but no relief

At first glance, it appears global trade has entered calmer waters. However, as Rick Astley sang some 25 years ago: 'What you see is what you don't get'



Tentative signs of a truce in the trade tensions between the US and China have given hope that the period of excitement and volatility in global trade is over and a more normal period will begin. It would be too good to be true. In fact, what looks like some relief at first glance will only be respite. Tensions in global trade will remain and could rather re-escalate. Clearly, trade is increasingly becoming a geopolitical instrument.

### US and China agree on 'soybeans for fentanyl tariffs' deal

The recently announced trade agreement between the US and China will bring some relief, as it signals at least a willingness on the part of the two largest global players to compromise. However, the facts of the agreement are less impressive than the label "12 out of 10" that US President Trump gave it.

The agreement suspended rare-earth export controls and committed China to substantial soybean purchases: 12 million tons in late 2025 and 25 million tons annually through 2028. In return, the US will reduce fentanyl-related tariffs by 10 percentage points and delay new export restrictions for one year. In short: "soybeans for fentanyl tariffs". This agreement still leaves China with a US tariff rate of more than 40%, and doubts about compliance could arise quickly. This means the accord will offer respite rather than relief, and the risk of new tensions remains high.

## US Supreme Court ruling

The start of the US Supreme Court's hearing on parts of the administration's tariffs could bring back new expectations about more trade relief. Predicting how the Supreme Court will rule remains difficult, as there is only one legal precedent. Judging from betting markets, there currently is more than a 60% chance that the court will reject Trump's tariffs. However, a rejection would not mean that the era of tariffs is over. Instead, the US government will use other laws to impose new tariffs, focusing on sectoral ones, which in turn could particularly harm the pharmaceutical and automotive industries in Europe.

## Tariffs have become a geopolitical instrument

The Nexperia chip crisis exposed Europe's structural dependence on Chinese mid-tech components, with German carmakers warning of production halts. This is not only a German issue but a broader European one, as rare earth imports to the EU are four times higher than to the US. And while Europe is struggling to walk the walk on previous talks of strategic autonomy, the US and Australia signed an agreement on joint efforts to exploit rare earth reserves in Australia.

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# US sanctions on Russia cloud the outlook for the oil market

The announcement by the US of sanctions on two Russian oil producers has created more supply uncertainty in the oil market. However, we are holding back from revising our forecasts higher until the impact of these sanctions becomes clearer



US sanctions on two Russian oil producers has increased supply uncertainty in the oil market

## Bearish oil outlook retained – at least for now

US sanctions on Russian oil producers, Rosneft and Lukoil, has led to more uncertainty over the supply outlook for the oil market. The announcement caught the market off guard, with speculators having become increasingly bearish towards the market ahead of the announcement.

Not only are these sanctions a threat to Russian oil supply, but they also mark a shift in the Trump administration's approach to Russia, with the action being the first direct sanctions that President Trump has placed on Russia during this term. Clearly, there is the risk of tougher sanctions if a peace deal between Russia and Ukraine remains elusive.

Rosneft and Lukoil produce around 50% of total Russian oil production, so successfully restricting these flows could dramatically change the outlook for the oil market.

However, clearly the price action that we have seen following the sanction announcement suggests that the market is of the view that we will not see a significant amount of supply lost. Since 2022, Russia has effectively demonstrated its ability to circumvent sanctions and embargoes.

The key question is whether buyers will start to shun Russian oil. The buyers the market will focus on are India and China. China buys around 2m b/d of Russian oil, while India takes 1.5m b/d. From these two key buyers, flows to India are the most likely at risk, with Indian refiners already looking at alternative grades. As for China, it has continued to buy Iranian and Venezuelan oil despite sanctions, and so we suspect it will do the same when it comes to Russian oil. In fact, China could increase the amount of Russian oil it buys. If India and other smaller buyers reduce/stop their purchases of Russian oil, one would expect the discount on Russian crude to widen, making it even more attractive for Chinese refiners.

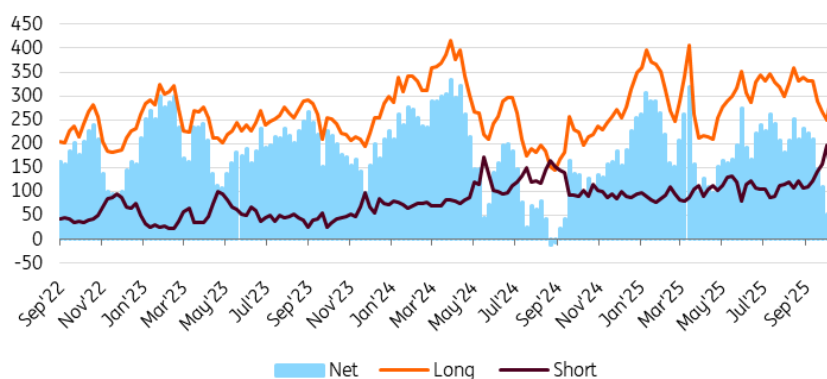
Russian oil was also not a discussion point between President Trump and President Xi during their recent meeting in South Korea, possibly suggesting that there will be little pressure from the US on China to cut back on Russian oil.

Meanwhile, OPEC+ announced a further supply increase of 137k b/d for December. However, probably of more interest was the group deciding to pause any further supply hikes during the first quarter of 2026, a period where we see a significant surplus in the market. Although OPEC+ policy may also be dictated by how impactful sanctions on Russia are.

We are reluctant to revise our oil price forecasts on the back of these sanctions. We are waiting for further clarity on the exact impact on supply before making any changes. For now, our balance sheet continues to show a significant surplus in 2026, which should keep downward pressure on prices. Therefore, we retain our view that Brent will average \$57/bbl over 2026. But there are clear upside risks to this view.

## Speculators were becoming increasingly bearish towards the oil market ahead of the Russian sanction announcement

ICE Brent managed money position (000 lots)



Source: ICE, ING Research

## Rangebound trading for European natural gas

The European natural gas market has spent the last month trading in a fairly rangebound manner despite Europe moving deeper into the 2025/26 heating season. In addition, the EU has entered

the new heating season with storage below not only last year's levels, but also below the five-year average. Storage was 83% full at the end of October vs. a five-year average of 92%. Furthermore, the European Commission is moving ahead with its ban on Russian LNG, and in fact will bring the ban forward by one year, ensuring a full ban on Russian LNG from 1 January 2027.

There are several reasons behind the market trading in a fairly narrow range, despite the European balance still being fragile this winter, and the progress made in banning Russian LNG. Firstly, flexibility in EU storage targets this year has taken potential upward pressure off the market, as buyers haven't been forced to rush purchases to ensure storage is 90% full by 1 November. Secondly, Asian LNG demand has been weak this year, which has been driven by China. Chinese LNG imports are down 17% YoY, ensuring adequate LNG supply for Europe. Finally, there is a significant amount of LNG supply in the pipeline from now until the end of this decade, which should ensure that global gas markets are well supplied over the next several years.

While we could see some seasonal strength in gas prices this winter, we continue to believe that the broader trend for the market is lower in 2026.

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# Our major central bank calls this November

Despite recent comments from Fed Chair Powell, we still expect a US rate cut in December and two more cuts in 2026. That's in contrast to the ECB, where we continue to think rates are likely to remain on hold for the foreseeable future



## Federal Reserve

In October, the Fed cut the policy rate for a second consecutive meeting, by 25bp to 3.75-4%, but warned that a third cut at the December meeting is “not a forgone conclusion... far from it”. There are a group of officials who remain worried about tariffs lifting inflation further above the target amid scant evidence of a slowdown in the economy. However, there are others who are concerned that inflation fears are overdone and the focus should instead be on a rapid cooling of the jobs market, which could push inflation below target over the medium term.

A case can be made for the Fed not needing to cut rates further if looser financial conditions (lower Fed funds and Treasury yields and a weaker dollar), alongside trade clarity, stabilise confidence and gradually prompt a revival in hiring. Alternatively, if tariffs start to squeeze household spending power and corporate profits, then a turnaround in the jobs market will look less likely. Throw in an asset price correction and significant interest rate cuts would be required.

Our view is that the inflation backdrop is looking less threatening than it did in early summer, with the slow tariff pass-through allowing disinflationary pressures from lower energy costs, slowing housing rents and cooling wage growth to mitigate the effect. At the same time, the jobs outlook is

more concerning. We expect a December rate cut, and while we retain a moderately upbeat outlook, we think it will take at least two more rate cuts next year and further dollar weakness to achieve the required platform for growth.

*James Knightley*

## European Central Bank

The ECB has now kept interest rates unchanged for three consecutive meetings and the bar to restarting rate cuts is high. In fact, the Bank currently feels very comfortable in its 'good place'. With the ECB's own growth forecasts indicating that the eurozone economy will grow by slightly more than 1% each year and inflation will settle down to 2% over the next few years, there is indeed very little reason to change its monetary policy stance.

At the same time, there are still valid dovish arguments that could force the central bank to cut again at the December meeting. Just think of the delayed adverse impact of US tariffs, the stronger euro exchange rate, French politics or a delay in Germany's fiscal stimulus. If any of these downside risks materialise, we can expect the ECB to engage in one or two more rate cuts.

In any case, even if the ECB seems to rest more comfortably on its laurels than before, the December staff projections will be crucial and could still disrupt its good place. If the 2028 inflation forecasts come in sub-1.7%, the likelihood of yet another rate cut would increase.

*Carsten Brzeski*

## Bank of England

Better news on UK inflation means a December rate cut is more likely than not. It's early days, but it appears that food inflation has peaked lower than the Bank had previously feared. Service sector inflation, though volatile, is also showing more promising signs.

By December, we'll also have had the Budget. That is expected to deliver a material fiscal tightening, which in sharp contrast to the Budget 12 months ago, should add to the case for looser monetary policy.

There is also a growing recognition at the Treasury that the Budget needs to avoid measures which add to inflation in 2026, after certain policies – including a near-7% hike in the National Living Wage and payroll tax increases – have appeared to add to consumer price pressures in recent months. There's little the Treasury can do to actively bring inflation down, but avoiding measures that compound the Bank's caution on interest rates is likely to be avoided.

We expect a 25bp rate cut in December, taking the Bank Rate from 4% to 3.75%, followed by two cuts in 2026.

*James Smith*

## Bank of Japan

The Bank of Japan held interest rates at 0.5% at its October meeting, recording a 2-7 split for the second consecutive meeting, showing there are varying perspectives among BoJ members regarding potential adjustments to the policy rate. The majority of board members

expressed caution about uncertainties related to US trade policy and its impact on the Japanese economy. Additionally, the BoJ continued to deny that it is behind the curve, as underlying inflation has not yet reached its sustainable target.

However, global trade tensions have recently eased quite meaningfully, and economic indicators suggest a recovery in the current quarter. Also, inflation is likely to stay above 2% for a while due to wage growth and changing business pricing strategies. The weak JPY may add more inflationary pressure. Robust corporate earnings may indicate the possibility of continued wage growth in 2026.

The new government has also given its policy priority to tackle inflation; it is unlikely to challenge the BoJ's rate hike publicly, supporting the BoJ's independence. In our view, the Bank of Japan will likely deliver a 25bp hike in December, followed by an extended pause until October next year.

*Min Joo Kang*

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# Eurozone economy sees glimmers of hope

The eurozone economy shows resilience with modest growth and improving sentiment. Industry is finally bottoming out, but we don't see a real acceleration before the German infrastructure spending kicks in. The ECB is bound to keep rates steady as inflation nears target and the downward risk to the economy diminishes



Dawn breaks by the ECB building in Frankfurt

## Signs of resilience

While it would be preposterous to speak of an economic boom in Europe, the eurozone economy has shown more resilience than anticipated despite multiple headwinds. US tariffs and a strong euro continue to weigh on exports, while Chinese imports are squeezing profit margins. Yet, eurozone GDP grew by 0.2% quarter-on-quarter in 3Q. Both the PMI and the European Commission's sentiment indicators improved in October, pointing to a continued recovery in the fourth quarter.

To be sure, Germany remains lacklustre, with third-quarter stagnation, while France posted a surprisingly solid 0.5% quarterly growth rate, though looming budgetary constraints could become a drag in 2026.

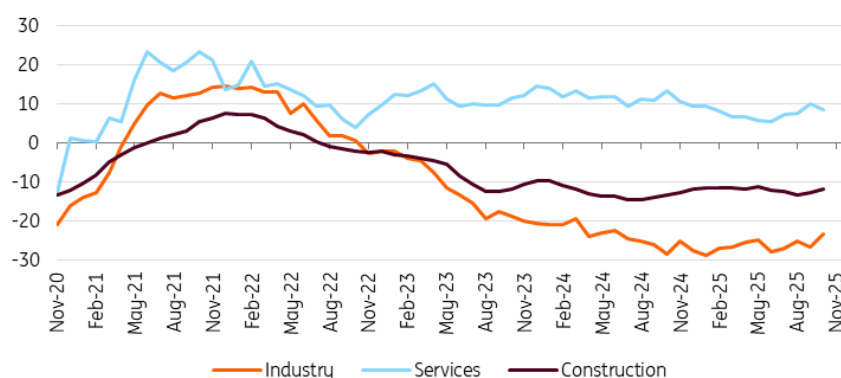
## Industry nearing a turning point

Services activity is expanding, supported by consumer spending on tourism and hospitality, and

boosted by IT services growth linked to rising AI investment and further digitalisation. Industrial activity is still subdued, but capacity utilisation has been trending upward throughout the year. Energy costs remain a competitive disadvantage, albeit less severe than before, now that both oil and natural gas prices have been trending lower. Without supply issues, which are still a short-run threat, industry should have bottomed out. Construction is showing signs of recovery, driven by stronger mortgage demand despite slightly higher long-term rates.

But for the eurozone economy to gain real momentum, German infrastructure spending will be key, and that's only likely to kick in from the second half of next year. We forecast 1.4% GDP growth in 2025 and a gradual quarterly acceleration next year. However, adverse base effects mean 2026 growth will likely average 1.1%.

## Order books are bottoming out



Source: LSEG Datastream

## Inflation near target

Headline inflation eased to 2.1% in October, close to the ECB’s target. Core inflation remains sticky at 2.4%, driven by services inflation at 3.4%. However, selling price expectations in the services sector suggest easing pressures over the next six months. At the same time, wage growth is moderating and energy prices are declining. We expect inflation to fall below 2% in the coming months and remain there through 2026, with a slight uptick possible in 2027.

The ETS2 scheme, which was set to raise heating and transport costs from 2027, has been delayed until 2028. Its impact should be muted, as the European Commission has suggested that safeguards will limit its effects on consumers.

## The ECB's good place is becoming a permanent residence

The European Central Bank kept rates unchanged in October, reaffirming it is in “a good place”. With inflation near target and downward growth risks dissipating, according to President Lagarde, policymakers see little reason to change their current stance. Market pricing still sees a small chance of a 25bp cut by mid-2026, but this would probably require a faltering growth story, severe financial stress or a further strong appreciation of the euro.

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# US government shutdown weighs more heavily on growth

Tech-fuelled growth attracts the headlines, but headwinds from the government shutdown are becoming more apparent as consumer confidence continues to slide. The absence of official data is clouding the situation, but business surveys suggest the Federal Reserve will likely cut rates further despite recent hawkish messaging



The federal government shutdown is the longest in US history

## Shutdown creates more headwinds for growth

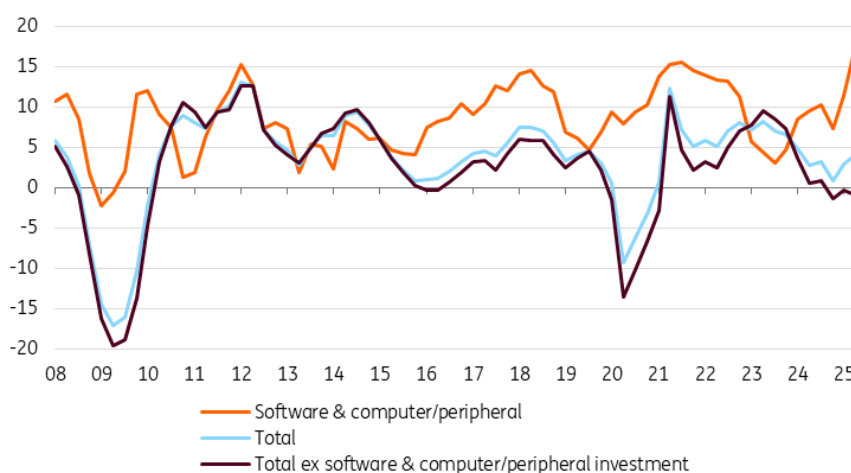
We've written extensively about the bifurcation of US consumers. The top 20% of earners are in excellent financial shape and continue to spend aggressively, while the bottom 60% are struggling due to inflation, job worries, and limited exposure to rising asset prices. We're also seeing more bifurcation in the broader economy between tech-related sectors, where the AI boom is driving spending and profits, and non-tech, where investment is much weaker. The chart below shows the divergence in business capex spending. We observe similar trends in construction activity. However, hiring remains weak for both tech and non-tech sectors.

The government shutdown is contributing to these trends. It has lasted more than a month, and political intransigence suggests we should brace for it lasting, potentially, several more weeks. This is putting financial pressure on federal workers who aren't receiving pay cheques (funding was

found to pay members of the military). The Department of Agriculture has warned that 42 million Americans might not receive their full allocation of SNAP benefits (food stamps) this month. Federal funding has been cut for several infrastructure projects. The granting of federal permits and certifications for business has been suspended, and access to federal loans and subsidies has been interrupted.

This is weighing on near-term economic activity. Typically, the effects reverse after a shutdown ends. However, the longer it lasts, the greater the chance it has of a more permanent slowing influence on activity. Moreover, federal statistics agencies are not collecting and publishing data. This is creating greater uncertainty over the state of the economy. It's also making life harder for the Federal Reserve as it seeks to optimise monetary policy for its dual goals of price stability and maximising employment.

## Business capex led by tech investments (YoY%)



Source: Macrobond, ING

## Fed suggests further rate cuts aren't guaranteed

The Fed resumed interest rate cuts in September, followed by a further 25bp cut at the 29 October Federal Open Market Committee (FOMC) meeting. However, Fed Chair Jerome Powell suggested that further rate cuts are not guaranteed – “far from it” in fact. Growth has proved to be resilient thanks to tech-related investment, inflation is above target, unemployment is low, and equity markets are at all-time highs. So, it's understandable that several Fed officials think the market has got ahead of itself in believing the Fed is on a preset course of cutting the policy rate down to 3%.

There's a very real chance that we will receive little to no official government data ahead of the 10 December FOMC meeting. We will have third-party business surveys and job numbers along with the Fed's Beige Book, so policymakers won't be completely blind. But the hurdle for action has been raised, with several officials indicating they're not convinced of the need for further easing. The primary issue is the scarcity of inflation metrics.

## Job slowdown will dampen inflation

Our view on inflation is that while the impact of tariffs has been slow to materialise, the risk of one-off price hikes remains real. However, the slow pass-through gives more time for the disinflationary

impulses from lower energy costs, slower housing rents, and weaker wage growth to mitigate and limit the rise in inflation.

On jobs, there's broad evidence of a cooling in hiring and households remain nervous about job security. So far, layoffs have not been significant, despite prominent employers, including Amazon and UPS, announcing significant employee reduction programmes. At the same time, the Institute of Supply Management (ISM) business surveys continue to point to a slowing growth story. Credit and debit card spending numbers also suggest a moderation is underway. As such, we continue to expect a December rate cut, followed by two further rate cuts in 2026.

President Trump's trade policy continues to create uncertainty. There's also the prospect that it could be overturned. The Supreme Court may uphold the decision of lower courts that found Trump's use of the International Emergency Economic Powers Act (IEEPA) as a basis for imposing tariffs to be unlawful. Oral arguments were heard 5 November. If the court rules against the tariffs, the government will be required to repay them, with Treasury Secretary Scott Bessent admitting, "We would have to give a refund on about half the tariffs." The upshot, though, would be a dampening of inflation pressures, but also heightened concerns over the sustainability of the US fiscal position. They were expected to contribute \$2.5tr of tax revenue over the coming decade.

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# China's outlook boosted by US trade truce and latest data

Stronger-than-expected third-quarter GDP and the US trade truce help to keep China's 5% growth target on track, but increasing dependence on external demand raises risks



Presidents Xi Jinping and Donald Trump meet in a pivotal moment for US-China relations

## China well on track for 2025 growth target

China's third-quarter GDP growth came in stronger than expected at 4.8%, keeping the full-year growth at 5.2% YoY for the first three quarters of the year. The main drivers of growth this year are still tied to external demand, as exports and manufacturing continue to drive growth.

The data so far shows that barring a sharp collapse in fourth quarter data, growth looks likely to achieve this year's "around 5%" target. A dramatic slowdown doesn't look likely, despite an unfavourable base effect for the fourth quarter.

The [recent meeting](#) between US President Donald Trump and Chinese President Xi Jinping marked a major milestone in what has been a period of friction for US-China ties. The meeting concluded on a positive note, setting up a year-long truce. In terms of the immediate implications, the successful meeting defuses the immediate prospects of another sharp cycle of tariff and non-tariff escalations and the potential economic and market fallout that would accompany it.

While there is no guarantee the truce will last for the entirety of the one-year period, the extension gives hope for more constructive ties and removes a source of major risk for November. The 10% tariff cut should improve Chinese exporters' competitiveness in the US to some extent.

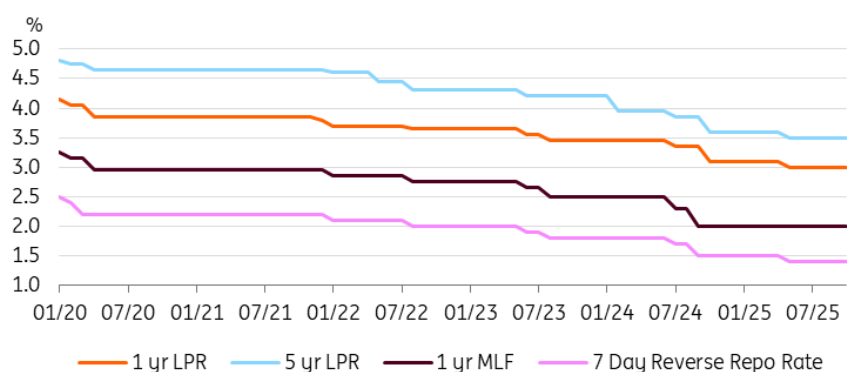
We've nudged our full-year GDP forecast a little higher, up to 5.0% YoY.

## Solid case for more stimulus remains but rising odds for a delay into next year

The immediate implications of stronger third-quarter data and the truce with the US on policy could be a reduced urgency for stimulus to secure this year's growth target, resulting in an increasing possibility for further stimulus to be pushed into next year, when a new set of growth targets is unveiled. A 10bp rate and 50bp RRR remains possible in the fourth quarter, but we have pushed the baseline case for this easing back to 1Q26.

Resilient external demand should keep this year's growth target on track, but this does not mean there's no need for further policy support. Other parts of China's economy, such as consumption and investment, have been losing steam in the past few months, and domestic confidence remains downbeat. China's property prices continue to fall, which threatens the transition towards consumption-driven growth.

## Rising odds of postponed rate and RRR cuts after October developments



Source: PBOC, ING

## Fourth Plenum signals China's continued commitment to its upcoming Five-Year Plan

We got [our first look](#) at China's 15<sup>th</sup> Five-Year Plan after the Fourth Plenum meetings in October.

China's key focuses will remain on industrial modernisation, tech self-sufficiency, boosting innovation, and building out domestic demand. Resources will likely continue to be directed to these broader themes.

In an increasingly protectionist global economy, China is attempting to take a different path, putting a greater emphasis on expanding external cooperation through trade and investment in

the next FYP. These efforts have helped China weather the impact of the trade war with the US this year, and look to be increasingly important in the years ahead. While China has historically benefited more from exports and inward investment, increasingly these flows should evolve to be more two-way as Chinese consumers grow wealthier and as companies invest outward.

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# Trade tensions ease, but can Asia sustain export growth?

Trump's recent visit to Asia resulted in a trade truce with China and new agreements with others, easing tensions but offering limited growth upside. Export diversification has cushioned the impact of weaker US demand, yet as tariffs are fully implemented, Asia's export growth is likely to moderate, with AI-related exports likely to outperform



Pusan Newport International Terminal in South Korea

## Trade truce and new agreements

US President Donald Trump's recent visit to Asia led to a trade truce with China and the signing of formal trade agreements with several countries, including Japan, South Korea, Malaysia, and Cambodia. These agreements finalised certain tariff rates initially proposed under the reciprocal tariff framework, though some additional concessions were made to individual countries. For instance, South Korea secured a reduction in automobile tariffs from 25% to 15%, similar to what Japan had previously secured. South Korea also obtained zero tariffs for select categories such as aircraft parts and generic medicines. Now, Japan and Korea face harmonised 15% tariffs on pharmaceuticals and automobiles – effectively creating a level playing field between the two.

While the new tariff structure does little to differentiate between countries competing in similar

sectors (e.g., Japan vs. Korea or ASEAN vs. intra-ASEAN), the reduced gap between China and its regional peers stands out as a clear strategic win for Beijing.

Beyond tariffs, the agreements also helped resolve key structural issues – particularly around investment commitments from Japan and South Korea into the US. South Korea, for example, has pledged to invest \$350bn, similar to what was announced by Trump previously, but the deal confirms that the investments would be phased over time to mitigate pressure on foreign exchange reserves and local currency stability.

Four countries in Southeast Asia – Malaysia, Thailand, Cambodia and Vietnam – pledged to remove trade barriers and provide preferential market access to various US goods. However, what remains unclear is what these countries received in return for signing the deals, raising questions about the net benefit for ASEAN members. ASEAN countries continue to face average tariff rates in the 19-20% range, which are comparatively more punitive.

## Missing clarity on transshipment tariffs

Notably, the agreements did not include any details on transshipment tariffs – neither on their structure nor on the timeline for potential implementation. This omission leaves a gap in understanding about how re-routed trade flows might be treated under the new framework, especially given past challenges in enforcement.

With the reduction in import tariffs on Chinese goods, the tariff differential between China and the rest of Asia has narrowed. This directly benefits Chinese exports and may reduce the incentive for exporters to re-route shipments through third countries – a workaround that previously complicated enforcement under the reciprocal tariff system.

## Outlook: trade tensions easing but export outlook uncertain

Looking ahead, while the recent trade agreements signal a de-escalation in tensions, they offer limited assurance that export growth will remain robust. Export data since April 2025 shows that China's decline in shipments to the US has been nearly offset by increased exports to other global markets – a trend mirrored across much of Asia. This diversification in export destinations is likely to remain a key structural theme.

However, as US tariffs are fully implemented and reflected in trade volumes, a moderation in Asia's overall export growth appears likely. Countries with strong exposure to AI-related exports may outperform, but for others, the agreements do little to counteract the broader slowdown in trade momentum.

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# Why we're raising Japan's growth forecasts

Japan's economy is likely to contract in the third quarter thanks to the unwinding of export front-loading from the previous quarter. Yet easing trade tensions, fiscal support, and strong equity performance suggest that the economy could return to recovery mode in the near term



Japanese Prime Minister Sanae Takaichi

## We have revised our GDP growth forecasts for 2025 and 2026 higher

We expect Japan's GDP to contract in the third quarter (-0.3% quarter-on-quarter, seasonally adjusted) following the unwinding of export front-loading seen in the second quarter.

Yet recent data – including stronger-than-expected industrial production and facility investment – suggest the economy bottomed out by the end of the June-August period. We expect exports to rebound thanks to the finalisation of the US trade deal and a weaker JPY, which may help mitigate the impact of tariffs.

On the domestic demand side, we expect private consumption to continue recovering. The new government is crafting an economic package equivalent to nearly 2.5% of the country's GDP, with

plans to present it during the current Diet session, which runs until mid-December. The priority is to lower inflation and reduce some tax rates, which should boost private consumption. However, the new ruling government still lacks a majority in both houses. So, Prime Minister Sanae Takaichi must compromise on bills and budgets to gain the support of the opposition.

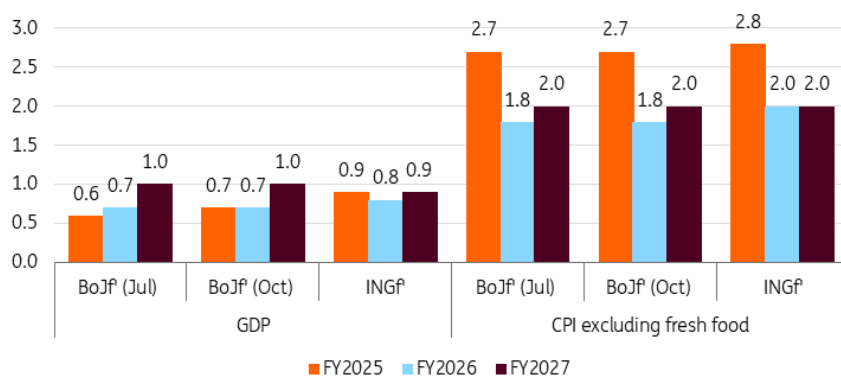
We believe that the budget bill will eventually pass, but its size will likely be reduced. In addition, corporate earnings have been quite solid despite the US tariff headwinds. This could enable wage growth above 3% for the next fiscal year. Coupled with the recent asset market rally, this should be supportive for household spending.

## Inflation is expected to stay above 2%, supporting the BoJ's policy normalisation

Tokyo's hotter-than-expected CPI in October increases the likelihood of a near-term Bank of Japan rate hike. October is typically when companies adjust final prices for the latter half of the fiscal year. We saw prices rise in both labour-intensive services and manufactured goods. This development aligns with the BoJ's goal to initiate a virtuous cycle of wage growth and sustained inflation.

Looking ahead, headline inflation should slow in 2026, mostly thanks to government measures and lower global commodity prices. Yet strong wage growth above 3% could have companies passing input price gains onto consumers. The recent weakness in JPY may keep core inflation elevated above 2%. Also, although Takaichi does not advocate for the BoJ's rate hikes, she has not made explicit statements regarding monetary policy either. Given the increased attention on BoJ policy from the US, she is unlikely to make comments on this matter without careful consideration. Thus, with the real interest rate still negative and easing downside risks on growth, we expect the BoJ to deliver a 25bp rate hike in December.

## We expect higher growth and inflation than the BoJ projects



Source: BoJ, ING estimates

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## Why the dip in UK yields may have run its course

Renewed expectations of a Bank of England rate cut before year-end have taken UK 10-year yields down by more than three-tenths of a percentage-point since mid-October. In the absence of even larger tax hikes in the Autumn Budget, further downside looks limited



The recent fall in gilt yields should shave £5bn off the size of UK Chancellor Rachel Reeves' fiscal hole

### UK inflation is looking better beneath the surface

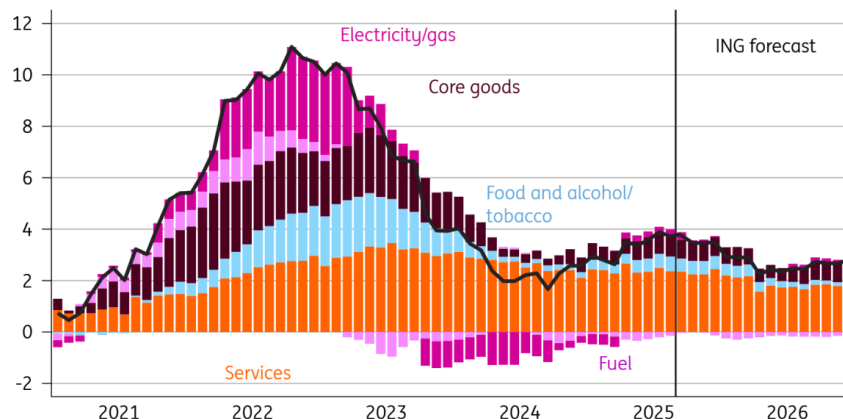
UK 10-year bond yields have fallen more than 30bp since mid-October, on renewed hopes that the Bank of England can cut interest rates this year, together with greater confidence that the Autumn Budget in late November will deliver a market-friendly outcome.

Rewind one month and markets were deeply sceptical that the Bank of England would cut rates again, and certainly not this year. But that's changing. Inflation, at 3.8%, appears to have peaked. And while it's unlikely to fall much before next year, there are more encouraging signs beneath the surface.

Food inflation – a particular bugbear at the BoE – fell in September and is now running half a percentage point below official forecasts. Similar evidence from the eurozone hints that price pressure in supermarkets may be passing its worst.

Service sector inflation is easing too; we calculate that “core services” is now below 4%. That’s helped by private sector wage growth, which is also on track to end the year below 4%, having started 2025 at 6%.

## Contributions to UK headline inflation (YoY%)



Source: Macrobond, ING

## Further downside in gilt yields looks limited at this stage

For now, that better inflation news is largely confined to one month’s worth of data. But we’ve long felt that the BoE’s concerns about another inflation wave are overblown. We expect headline inflation to dip back from 3.8% today to the 2.5% area next spring. And that’s why we expect Bank Rate to fall to 3.25% by next summer.

If that happens, that would be welcome news for Chancellor Rachel Reeves. In fact, the recent fall in gilt yields should already shave £5bn off the size of her fiscal hole, relative to where we were a few weeks ago. That’s assuming the Office for Budget Responsibility incorporates these latest market moves in its forecasts.

Still, sizeable downgrades to productivity growth likely mean the chancellor faces a shortfall of roughly £25bn/year – and more if she wants to leave a bigger fiscal buffer than she had back in March.

That is well recognised now, and increasingly so is the combination of measures that are likely to fill the gap. The chancellor is likely to extend a freeze on tax thresholds beyond 2028, extend National Insurance to landlords/partnerships, and hike a range of smaller taxes on the likes of banks, pricier properties and dividends.

Assuming that’s the case, we don’t think gilt yields have much further to fall, if at all. Bank of England expectations, which have driven that move lower in yields, are more or less in line with our own forecasts. Another modest leg lower is possible should the chancellor go further, by breaking with her manifesto pledge not to hike income tax. We suspect Reeves can restore the necessary fiscal headroom without doing that.

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## CEE: Diverging growth, converging hawks

CEE economies show contrasting trends: Poland is enjoying balanced growth and faster monetary easing as the inflation outlook improves. Czech performance remains solid but vulnerable to weak external demand. Hungary is struggling with stagnation and cautious policy, while Romania faces subdued growth and persistent inflation



### Poland: NBP moves fast but terminal rate holds near 3.75%

Between the second and third quarters of the year, Monetary Policy Council members indicated that they expected a terminal rate near 4% in 2026 and favoured gradual, data-driven adjustments rather than a full-scale easing cycle. However, by October, the cumulative rate cuts in 2025 reached 125bp, including three consecutive reductions in July, September, and October.

The reason why the MPC decided to ease more decisively than previously suggested was a better-than-expected inflation picture. This is less obvious in current data – for example, in the third quarter, headline CPI was broadly in line with the July NBP projection, only core inflation was 0.2pp lower than expected. The improvement in the inflation outlook became more pronounced in the fourth quarter.

The NBP's pessimistic scenario – a spike in energy prices for households potentially adding 0.7pp to CPI – did not materialise, as the government extended the energy price freeze to 4Q25 and distributors secured 2026 energy supplies at low prices. The October CPI also surprised on the downside, which suggests both headline and core CPI will fall below the July projection – even after

adjusting for the impact of the electricity price freeze for households.

The more visible improvement in the CPI picture is seen happening in 2026, where inflation is inevitably heading towards the central bank target of 2.5%. MPC members have repeatedly stressed the upside risks to the mid-term inflation outlook, including expansionary fiscal policy, robust consumption growth, elevated wages dynamics and uncertainty about the impact of ETS2 on prices. But despite that, current readings of CPI, the global backdrop and local situation call for a low CPI in 2026 as well.

Many of the risks flagged by the MPC have not materialised (e.g. an energy price spike in Q4 2025) or eased (such as slower wage growth in Q3 after a temporary acceleration in Q2). As a result, our models and presumably also NBP forecasts show inflation heading towards the central bank target of 2.5%.

We see the recent MPC decisions as front-loading the easing cycle rather than a major change in the terminal rate. We still expect the terminal rate to be around 3.75%, but it is now likely to be reached in the first half of 2026 rather than in 2027. On the other hand, the September data set from the real economy – comprising industrial production, construction and assembly output, and retail sales – paints a solid picture of the end of the third quarter of this year. The results were broadly in line with consensus (retail sales) or better (industrial and construction output).

We maintain our forecast for GDP growth in 3Q25 at 4.0% YoY, and for the full year we expect economic growth to be around 3.5%. The main drivers remain the services sector and rapidly expanding consumption, which is set to grow faster this year than in 2024, despite a slower increase in the real disposable household income. Consumer sentiment is improving, and households appear more willing to spend.

## **Czech Republic: The economy is humming, but lingering external demand is a threat**

The primary economic driver remains unchanged, namely, consumer spending. That said, fixed investment is bottoming out, and we expect it to become a significant contributor to growth over the upcoming year, comparable to consumption. Such a scenario, however, is subject to an appropriate takeoff in the industrial base, which is closely linked to export performance.

The Czech industry has stabilised this year and is gradually diversifying away from the struggling German economy. However, the trajectory of Europe's largest economy remains a key variable – whether it continues to struggle forward or faces more pronounced challenges will have significant implications. This is what we don't know right now, as the ominous zero German growth in 3Q25 does not provide much of a clue. Therefore, we still take the positive outlook for the solid Czech performance as the base case, but lingering external demand would likely take its toll if the disappointments were too severe and prolonged.

The inflation outlook is somewhat tricky for the upcoming years as well, as uncertainty about future price developments has amplified one thing: already upbeat energy prices and emission allowances for households and small firms, which are set to be implemented in 2027. Czech households face one of the highest energy prices in Europe, which could become even pricier due to ETS2. It's no surprise that energy prices were a key election topic, and the new government appears to be taking action to bring them down.

Several measures are underway, although timing is difficult to predict. It may be the reduction in the regulated share of the energy price, which may be scheduled to come into effect in 2026, or some other decisive ETS2 countermeasures in 2027. We currently take 0.4ppt as the best-guess ETS2 impact in 2027, while the proposed reduction in regulated price would outweigh it. Still, core inflation is poised to exceed the target, which will contribute to base rate stability if the economy continues to expand as expected and no major issues arise in the eurozone.

## Hungary: Trapped in stagnation

If you don't have high hopes, you won't be hugely disappointed. This could have been the market's motto ahead of the release of Hungary's third-quarter GDP figures. However, economic activity in Q3 came as a negative surprise, with GDP growth stagnating on a quarterly basis and showing merely 0.6% year-on-year growth due to the base effect. It seems, then, that Hungary remains trapped in stagnation.

Although consumer and business confidence has improved somewhat in recent months, this was not reflected in real economic activity in the July-September period. We are still awaiting the second release with the details, but the bottom line remains the same: the services sector is supporting growth, while agriculture, industry and probably construction are dragging down the country's economic performance.

Due to the weak third quarter, we have downgraded the 2025 GDP growth forecast to 0.5%, and the lower carry-over effect means that next year's GDP forecast has also been reduced to an average of 2.3%. Consumption will be the main driver, as fiscal measures will provide sufficient impetus to increase household spending, while the labour market will remain relatively tight.

In all fairness, however, major labour market ratios are looking good due to the fact that both the demand and supply sides of the labour market are shrinking in tandem. The expected double-digit minimum wage increase next year poses two-sided risks in a long-stagnant economy: labour force rationalisation or stronger price pressure.

However, the majority of pipeline price pressure will be masked by the extended and widened price shield measures. We predict this year's average inflation to be 4.5%, followed by 3.6% in 2026. However, the trade-off is reflected in the 2027 inflation outlook, where we anticipate an increase to an average of 4.3%, with price stability only being achieved sustainably in 2028. Therefore, the National Bank of Hungary is expected to remain hawkish and ignore the temporary drop in inflation induced by the price shield measures and base effects in early 2026.

We now anticipate only 50bp of easing in total, in a backloaded fashion next year. However, risks are twofold, with a possible renewed dovish tilt in major and regional central banks opening the door a bit wider on a relative nominal rate basis. However, a no-rate-cut scenario in 2026 is also possible if we see an upside surprise in inflation or a strong HUF fails to lower imported inflation and push down inflation expectations.

Monetary policy will support the forint, keeping the carry trade popular. However, the fiscal situation could cause market players to question the feasibility of this. Nevertheless, as we approach the end of the year, we remain optimistic about Hungarian assets, anticipating a further strengthening of the forint and a flattening of the yield curve at the long end.

## Romania: Growth prospects remain limited in the short term

We maintain our GDP growth forecast of 0.3% for 2025 and 1.4% for 2026. Short-term downside risks remain pronounced as economic sentiment weakened further in October, staying well below its long-term average and signalling persistent pessimism across businesses and consumers. Manufacturing continues to lose jobs, particularly in export-oriented sectors, though overall employment remains broadly stable. On the positive side, the renegotiated NRRP has been officially approved by the European Commission, paving the way for another round of large-scale, tight-deadline investments. The budget deficit target has been revised to 8.4% of GDP, ensuring continuity of investment flows but at the expense of another year of poor fiscal performance.

Inflationary pressures remain elevated but are gradually easing. Our year-end inflation forecast remains at 9.6% for 2025 and 4.5% for 2026. Price pressures seem to moderate slightly ahead of time, supported by weaker demand and softer wage dynamics, though fiscal measures and energy adjustments keep inflation high in the near term. We expect sharply lower inflation from the second half of 2026, with downside risks at play for both our year-end estimates.

We continue to expect the NBR to start cutting rates in May 2026. Despite the above-target inflation, the growth backdrop suggests that dovish signals from the NBR cannot be ruled out. The November Inflation Report remains the key forward guidance event in the coming months. We expect NBR to cut its key rate starting in May 2026, delivering a total of 100bp of cuts during the year.

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## FX: Dollar bears retreat further

It was barely six weeks ago that EUR/USD briefly traded over 1.19. However, seemingly strong activity data from the US, combined with a Federal Reserve less committed to easing, has seen it correct to 1.15. Bears have virtually given up. Low volatility appears to be the most likely path ahead, although we remain slightly negative on the dollar



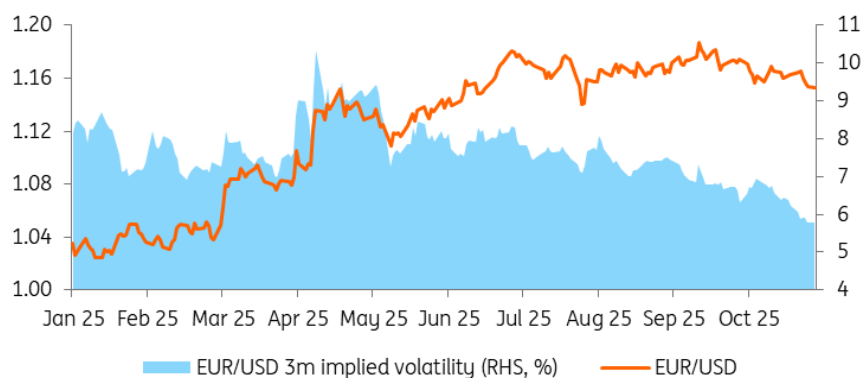
### A more balanced market

The late October Federal Reserve meeting was the latest event to give the dollar a lift. Whether the Fed truly wants to introduce 'optionality' into the debate over future rate cuts, or genuinely does not know its next step, remains to be seen. Either way, the cornerstone of the bearish dollar consensus – lower Fed policy rates – just became more complicated.

We recently argued that lower short-dated US rates would weaken the dollar, as the buy-side increased FX hedge ratios on US assets again. However, if the policy rate is going to stick around 3.75% for a while, there will be no rush to increase hedge ratios.

The FX option market suggests that investors are more likely to exit dollar shorts in a passive move, rather than actively taking long dollar positions. Well, at least in the case of EUR/USD. Here, three-month traded volatility has sunk below 6.0% and appears poised to drop to the summer 2024 lows of 5.4%. This suggests investors are losing interest in the EUR/USD trend and probably favour a more listless, range-bound market into year-end.

## Investors lose interest in the EUR/USD rally



Source: Refinitiv, ING

## Dollar negatives are still present

We think it's too early to call time on the dollar bear trend and the EUR/USD rally. The house call is for three more Fed rate cuts, and there is much uncertainty over both the shape of the US labour market and whether political pressure will bear down on the Fed next year. At the same time, lower energy prices in 2026 should remove one of the dollar's competitive advantages and be welcome news to fossil fuel importers, such as the eurozone.

Although it may not seem relevant at the moment, the euro is expected to receive a boost from eurozone growth in 2026. Our macro team expects growth to accelerate in 2026 as German fiscal stimulus is implemented.

Our 1.20 forecast for EUR/USD for the end of this year is now a bit of a stretch. But year-end seasonality and the true state of the US jobs market should be supportive. And some modest gains next year are still the preferred call.

## Sterling in focus

Softer inflation data and expectations of a fiscally tight budget from Chancellor Rachel Reeves later this month led to a drop in UK short-dated yields and sterling in October. Pricing for the 2026 Bank of England (BoE) easing cycle appears to be about right, with the terminal rate currently priced near 3.25%. As such, we don't think sterling needs to fall much further on the BoE story.

The budget is a major sterling event risk. Our base case sees sterling staying supported as Reeves does enough to support the gilt market without prompting a major reassessment of UK growth prospects and the BoE easing cycle. Reeves has to walk a fine line, however. Any further aggressive or less aggressive fiscal tightening is likely to be negative for the pound, with the latter scenario being more perilous.

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## Rates: Long ends get some personality

We've argued that the US 10yr has been far too correlated with the 2yr. The 10yr yield should be more worried about inflation and the fiscal deficit, but instead has been hypnotised by rate cutting. It's about time for longer tenor rates to become more unhinged. The same goes for eurozone long tenor rates, especially as the ECB is on hold for the time being



If long end rates are going to test materially higher at all, now is as good a time as ever

### Here's a question: why is the spread between 2yr SOFR and 10yr SOFR just 30bp?

The 2yr rate is at just under 3.4%. That compares with a 3mth SOFR at 4.0%. On the theory that the Federal Reserve cuts the funds rate by another 75bp in the coming six to nine months, and holds there, that averages 3.35%. So 2yr SOFR at 3.4% looks okay. It *could* dip a tad lower. But no big issue with where it sits. But the 10yr? At just 30bp above the 2yr, this looks quite tight. One rationale is an implied discount for even bigger cuts than the market currently discounts. That could centre on the notion that something breaks, and the Fed is forced to cut deeper. Maybe. Or it could come from manufactured rotations at the Fed that manifest in the emergence of a super-dovish tilt.

But what about the inflation environment? It's currently running at or about 3%. Even the most conservative estimates expect inflation to rise to 3.3%. We think 3.6%. Rounded, we'd not be crazy to assert that the tariff feed-through can push inflation up to the 3.5% area. That's right up against the current 10yr SOFR rate at just under 3.7%. So, even if something *did* break and/or the Fed

becomes doveish, should the 10yr not be more concerned about where inflation is heading in the next few months? We continue to view the 3.75-4% area as fair value for the 10yr SOFR rate when the Fed bottoms at 3%. And that, in fact, should not theoretically change much, even if the Fed were to shock-cut to 2%.

That is unless the 10yr SOFR rate remains overly enamoured with where the front end *could* get to. The 10yr should get a personality of its own, and think beyond what the Fed is doing, and more about where it's pitched in real terms.

## Question two: why does the German 10yr yield love the 2.6% area?

The 2.6% area was hit in the early weeks of January, and since then the German 10yr yield has managed to average there. It's now at 2.65%, and has happily mean-reverted around that level in recent months. German inflation is running at 2.3%, and we expect it to hold in that area, or slightly above 2%. Yet the German 10yr breakeven rate is at under 1.8% (nominal yield minus real yield from inflation-linked bonds). So, either the German real yield is too high or the German nominal yield is too low. The German real yield is about 0.75% (extrapolated from 0.65% on the 8yr), which does not seem high. So can we square the circle by asserting the 10yr Bund yield as too low?

The Bund yield must also take into account issuance pressure. That's something, theoretically, that should not be an issue for ESTR (or SOFR, or indeed Euribor). German debt dynamics have been admirable, at least up until recently, as it has managed to credibly head in the direction of 60%. Ahead, however, fiscal deficits of 3-4% of GDP would not be out of kilter with heightened spending ambition (defence, but also infrastructure). That risks steering the debt/GDP ratio higher, even if just temporarily. That should add pressure from an issuance perspective. The same as US Treasuries can feel relative to SOFR. Long story short, the 2.75% to 3% area is where the 10yr Bund yield should be heading.

Again, the likelihood of this happening is enhanced now that the ECB distraction has been downsized (assuming a dominant on-hold tendency ahead). Time for longer dates to become a bit more deanchored versus the front end.

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# All the small things are adding up

As we near the end of 2025, here's our take on how the global economy is faring



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