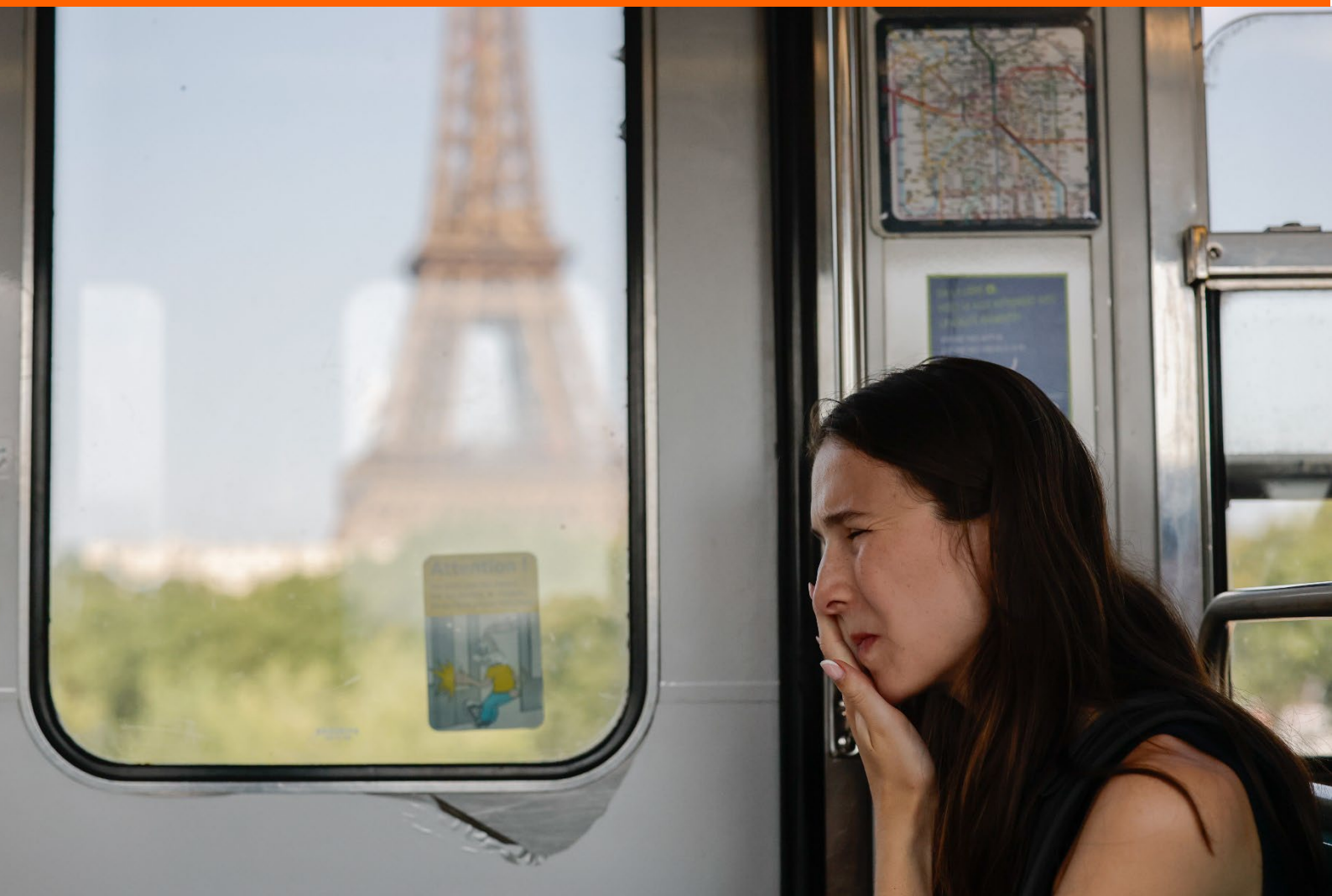


ING Monthly

July 2025

No holiday respite from this economic heat





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

The temperature continues to rise

Sitting in a stifling office or a packed train in the middle of a heatwave can make anyone wish for cooler, balmy 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, then dream on.

Donald Trump sending actual letters to world leaders about prospective new tariffs had a charmingly old-fashioned theme in our digital age. But there was nothing charming about the content. It simply reinforced the demands the President made on 'Liberation Day'. At the same time, the extended deadlines from 9 July to 1 August have 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 still 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 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 governments' policy agendas.

Admittedly, these policy priorities are well-known, but addressing them all is still a huge challenge. However, even though I personally 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 being over and heatwaves affecting Europe, the heat is definitely still on. This shouldn't take away the joy and rest that your personal holiday break can offer. Enjoy your rest; I fear you're going to need it.

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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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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.

ING global forecasts

	1Q24	2Q24	2024			2025F					2026F				
			3Q24	4Q24	2024	1Q25	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F
United States															
GDP (% QoQ, ann)	1.6	3.0	3.1	2.5	2.8	-0.5	3.3	0.2	0.5	1.6	1.2	2.0	2.1	2.3	1.4
CPI headline (% YoY, aop)	3.2	3.2	2.7	2.7	3.0	2.7	2.5	3.4	3.6	3.1	3.2	3.3	2.5	1.9	2.7
Federal funds (% eop)	5.50	5.50	5.00	4.50	4.50	4.50	4.50	4.50	4.00	4.00	3.50	3.25	3.25	3.25	3.25
3-month SOFR rate (% eop)	5.40	5.40	5.00	4.40	4.40	4.50	4.40	4.40	4.00	4.00	3.50	3.30	3.30	3.30	3.30
10-year interest rate (% eop)	4.25	4.40	3.80	4.60	4.60	4.25	4.25	4.75	4.50	4.50	4.50	4.50	4.25	4.25	4.25
Fiscal balance (% of GDP)					-6.9					-6.8					-6.9
Gross public debt / GDP					99.6					101.7					104.4
Eurozone															
GDP (% QoQ, ann)	1.0	0.9	1.6	1.2	0.8	1.0	0.9	1.6	1.2	1.0	1.2	1.5	1.8	2.1	1.0
CPI headline (% YoY, aop)	2.6	2.5	2.2	2.3	2.4	2.3	2.0	1.9	1.8	2.0	1.8	1.9	2.0	2.1	2.0
ECB Deposit Rate (% eop)	4.00	3.75	3.50	3.00	3.00	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month interest rate (% eop)	3.90	3.70	3.25	2.85	2.85	2.40	1.90	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90
10-year interest rate (% eop)	2.30	2.60	2.10	2.36	2.36	2.80	2.60	2.70	2.80	2.60	2.80	2.90	3.00	3.00	3.00
Fiscal balance (% of GDP)					-3.1					-3.4					-3.5
Gross public debt/GDP					87.4					90.8					92.1
Japan															
GDP (% QoQ, ann)	-1.3	3.9	0.9	2.2	0.2	-0.2	0.0	0.4	0.8	0.8	0.8	0.8	0.8	1.2	0.7
CPI headline (% YoY, aop)	2.5	2.7	2.8	2.9	2.7	3.8	3.4	2.9	2.2	3.0	1.4	1.5	1.8	2.0	1.8
Target rate	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00
3-month interest rate (% eop)	0.26	0.30	0.43	0.62	0.62	0.82	0.77	0.80	1.00	1.00	0.90	1.00	1.20	1.20	1.20
10-year interest rate (% eop)	0.73	1.06	0.86	1.10	1.10	1.50	1.43	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.75
Fiscal balance (% of GDP)					-7					-7					-5
Gross public debt/GDP					236					235					234
China															
GDP (% YoY)	5.3	4.7	4.6	5.4	5.0	5.3	5.0	4.6	4.2	4.7	4.3	4.5	4.5	4.4	4.4
CPI headline (% YoY, aop)	0.0	0.3	0.5	0.2	0.2	-0.1	-0.1	-0.1	0.1	-0.1	0.8	0.5	1.0	2.0	1.1
7-day Reverse Repo Rate (% eop)	1.80	1.80	1.50	1.50	1.50	1.50	1.40	1.40	1.30	1.30	1.30	1.20	1.20	1.10	1.10
3M SHIBOR (% eop)	2.16	1.92	1.84	1.85	1.85	1.91	1.60	1.55	1.50	1.50	1.50	1.50	1.45	1.45	1.45
10-year T-bond yield (% eop)	2.30	2.21	2.20	2.00	2.00	1.70	1.65	1.65	1.60	1.60	1.60	1.65	1.70	1.75	1.75
Fiscal balance (% of GDP)					-5.0					-5.50					-5.5
Public debt (% of GDP), incl. local govt					121					135					145
United Kingdom															
GDP (% QoQ, ann)	3.7	1.8	0.0	0.4	1.1	3.0	0.3	0.4	1.0	1.1	0.8	1.0	1.0	1.0	0.8
CPI headline (% YoY, aop)	3.5	2.1	2.0	2.5	2.5	2.8	3.4	3.5	3.2	3.2	2.8	2.1	2.5	2.6	2.5
BoE official bank rate (% eop)	5.25	5.25	5.00	4.75	4.75	4.50	4.25	4.00	3.75	3.75	3.50	3.25	3.25	3.25	3.25
3-month interest rate (% eop)	5.25	5.05	4.80	4.55	4.55	4.45	4.20	3.95	3.70	3.70	3.45	3.20	3.20	3.20	3.20
10-year interest rate (% eop)	3.95	4.20	4.00	4.25	4.25	4.68	4.55	4.75	4.60	4.60	4.40	4.40	4.30	4.30	4.30
Fiscal balance (% of GDP)					4.5					3.6					3.4
Public sector net debt (FY, %)					100.1					99.7					100.1
EUR/USD (eop)	1.08	1.08	1.12	1.05	1.05	1.08	1.18	1.15	1.18	1.18	1.18	1.18	1.19	1.20	1.20
USD/JPY (eop)	151	160	143	155	155	150	145	145	140	140	138	137	136	135	135
USD/CNY (eop)	7.22	7.26	7.01	7.25	7.25	7.28	7.17	7.17	7.13	7.13	7.10	7.10	7.05	7.05	7.05
EUR/GBP (eop)	0.86	0.87	0.84	0.83	0.83	0.84	0.86	0.86	0.86	0.86	0.87	0.87	0.88	0.88	0.88
ICE Brent - US\$/bbl (average)	82	85	79	74	80	75	67	65	62	67	58	56	58	54	57
Dutch TTF - EUR/MWh (average)	28	32	36	43	35	47	36	37	39	40	37	30	30	34	33

Source: ING forecasts

Letters from America: Trump's tariff saga continues

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After 'Letter Day', echoing the original 'Liberation Day' tariff announcements, so far 22 countries received a revised tariff rate effective 1 August. Trade negotiations can continue, but where this ends up is anyone's guess



For global markets and policymakers alike, the tariff saga is far from over

From ultimatums to extensions: a tactical delay

On 7 and 9 July, US President Donald Trump unveiled a [wave of tariff letters](#) via Truth Social, targeting trading partners with rates ranging from 20% to 50%, effective from 1 August. While the tone was uncompromising, the move effectively extended the previous 9 July deadline despite repeated assertions that no extensions would be granted.

This delay allows for continued negotiations, particularly with countries like [Japan](#), [South Korea](#), and Brazil which together account for 9.9% of US imports. Japan and South Korea have been assigned a tariff rate of 25%, which matches South Korea's previous rate on 2 April and raises Japan's by one percentage point, while Brazil received a staggering 50%, having received the minimum 10% levy before.

An executive order legally formalised the extension of the 'reciprocal' tariffs for all trading partners, although China remains bound to the original 12 August deadline. Notably, the EU, which accounts for 18.5% of US imports, did not receive a letter and is now scrambling to secure a deal before the new deadline.

The BRICS factor, strategic trade shifts and legal uncertainty

Trump's latest announcements also include a 10% warning aimed at countries aligning with BRICS nations. This follows earlier threats of 100% tariffs should these countries [pursue de-dollarisation](#) or alternative currency systems. While enforcement remains vague, the geopolitical message is clear: alignment with BRICS could carry economic penalties.

Additionally, allies might find themselves caught between US demands and Chinese retaliation threats. As more deals near completion, with some potentially including clauses that effectively aim to isolate China, China has warned of "firm countermeasures" against perceived US encroachments. The 12 August deadline, which

currently locks in lower tariff rates for both sides, still looms over US-China relations despite the framework agreement. While we don't expect a return of the escalation seen between February and April, tensions between both nations will continue.

Meanwhile, legal challenges to Trump's tariff authority under the IEEPA continue. A [key court ruling is expected in August](#), with potential implications for the longevity and scope of current tariffs.

Outlook: protectionism and uncertainty persists

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. President Trump already announced a 50% tariff on copper as of 1 August and threatened 200% on pharma, but with a 1 to 1½ year accustomisation period for the latter.

The 10% tariff framework is likely to remain in place for any deal with the EU, eventually bringing the effective tariff rate to some 20%. At the same time, let's not forget that the ongoing uncertainty could do almost as much economic harm as the actual tariffs and could eventually lead to even more growing tensions and differing views within the EU.

In short, the letters may have bought time, but they've also reignited uncertainty. For global markets and policymakers alike, the tariff saga is far from over.

Energy markets quickly discount Middle East supply risks

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Energy prices have seen increased volatility over the last month due to developments in the Middle East. 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



We believe oil prices will fall later in the year

OPEC+ surprises with larger-than-expected supply hike

The oil market has had a volatile month due to developments in the Middle East. ICE Brent briefly traded above US\$80/bbl following US strikes on Iranian nuclear facilities. The move, which followed Israeli strikes on Iran, raised supply concerns, not just in terms of Iranian supply, but the potential for disruption to oil flows through the Strait of Hormuz, a crucial chokepoint for oil flows, with a quarter of global seaborne oil trade moving through the strait.

However, tensions de-escalated in the Middle East much quicker than expected, and the ceasefire between Israel and Iran appears to be holding, helping to push oil prices back below \$70/bbl. Still, there are risks for a re-escalation, and attacks by the Iranian-backed Houthis on vessels passing through the Red Sea are a concern.

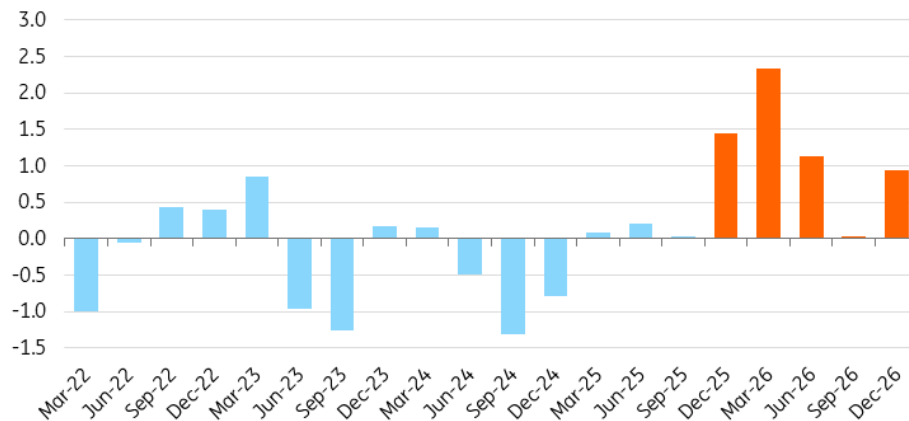
Another factor influencing the oil market remains the OPEC+ output policy. The group has continued to increase supply, and in fact announced a larger-than-expected supply increase for August. The group is set to bring 548k b/d of supply onto the market next month, more than the 411k b/d the market was expecting. This also takes the total amount of supply increases announced by OPEC+ to a little more than 1.9m b/d and leaves the group on track to bring the full 2.2m b/d of supply it was scheduled to bring onto the market by the end of September 2025 – 12 months ahead of schedule.

While the return of these barrels from OPEC+ will lead to a better-supplied market, we will have to wait until the fourth quarter of the year before seeing the market move into surplus. Our balance sheet still shows a relatively tight market through the third quarter of this year, and this is also reflected in the strength of the prompt timespreads in crude oil. We believe prices should come under more sustainable downward pressure from the fourth quarter of this year onwards. We forecast Brent to average \$64/bbl over the second half of the year and \$57/bbl in 2026.

A key upside risk to this view is a re-escalation in the Middle East, which would require the market to again start pricing in a larger risk premium.

Looking at downside risks, tariffs remain a potential drag on the market. However, OPEC+ policy could provide further downside to oil prices. The next OPEC+ meeting in early August is important for the oil market as it should shed some light on whether the group is content with bringing back just the 2.2m b/d of supply that was expected, or whether it will return the next tranche of supply cuts to the market. If we see the latter, it will mean a larger surplus for the oil market further ahead, and more downside for oil prices.

The oil market is still tight this quarter before moving into large surplus from 4Q25 (m b/d)



Source: ING Research, IEA, EIA, OPEC

Gas fundamentals suggest prices will remain well supported

European natural gas prices also moved higher on the back of the escalation in the Middle East amid concerns that more than 20% of global LNG trade could be at risk with a potential disruption to shipping flows through the Strait of Hormuz.

Given that global gas markets are still relatively finely balanced, such a disruption would dramatically change the outlook for the natural gas market. However, European gas prices have since fallen with the de-escalation.

The European market remains relatively tight with EU gas storage 61% full compared to 79% at the same stage last year, while also being below the five-year average of 70%. In order to hit the 90% storage target, prices will likely need to remain well supported this year to ensure enough LNG is being brought into the EU. The fact that we have seen weaker Chinese LNG demand so far this year has helped with stronger LNG flows into Europe. However, we will need to see European prices trade at a premium to spot Asian LNG to ensure this trend continues over the latter part of the year.

While we expect prices to remain well supported, we believe that significant upside is limited. The fact that the European Commission is introducing more flexibility with storage targets ahead of the next heating season means that EU buyers will not need to chase the market higher to hit storage targets in the event of unfavourable market conditions.

In 2026, global LNG export capacity is set to continue growing, with as much as 70bcm set to start up, which should leave global gas markets better supplied, providing further downside to European gas prices next year.

Our latest views on the major central banks

Our take on what could be next for the Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan over the coming months

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Clockwise from top left: Bank of England Governor Andrew Bailey; US Federal Reserve Chair Jerome Powell; Bank of Japan Governor Kazuo Ueda and Christine Lagarde, President of the European Central Bank

Federal Reserve

US President Donald Trump continues to push the Federal Reserve to cut interest rates, and Chris Waller and Michelle Bowman – both Trump FOMC appointees from his first presidential term – suggested they were open to voting for a cut as soon as this month. However, the recent stronger-than-expected jobs report and uncertainty over how much and for how long tariffs will lift inflation mean that it is now a remote possibility. Fed Chair Jerome Powell, appearing before Congress at the end of June, suggested that officials “are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance”.

Markets are currently favouring two 25bp cuts this year, most likely at the September and December FOMC meetings. However, 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.

The Fed was stung by the criticism it received when it said inflation would be “transitory” post-pandemic, only for it to hit 9% in 2022. Officials probably won’t have the information to say confidently that tariffs are not going to lead to more permanent inflation until the October and November inflation prints. This is why we tend to think it may wait until December before cutting, but move by 50bp in one go in response to cooler jobs numbers.

Lower inflation in 2026, thanks to weak wage growth, tariff effects dropping out of the annual price comparison and more modest housing costs, should allow the Fed to cut rates to around 3.25% by summer 2026.

ECB

With the June decision to cut the main policy interest rate to 2%, the European Central Bank ought to be in a 'good place', hoping for some typical wait-and-see monetary policy over the coming months. However, this 'good place' has become somewhat less comfortable recently due to the continued strengthening of the euro. Not only does the stronger euro act as an additional tariff on top of the current trade tensions, but it also bears the risk of more inflation undershooting. Consequently, the chances are high that the ECB will have to leave the 'good place' soon and continue cutting rates.

Driven by the stronger currency, the question for the ECB is not whether to continue cutting interest rates, but rather when and by how much. In fact, in the case of a re-escalation of trade tensions and the subsequent weakening of the eurozone growth outlook, further rate cuts would come faster and at a larger magnitude. Should the trade story move on without a strong escalation and further turmoil, and inflation continues its recent disinflationary trend, but fiscal stimulus brings back growth and inflation (in 2026 at the latest), we would see the ECB cutting only once more in September. For the time being, this remains our base case scenario.

Bank of England

The Bank of England is still reluctant to pick up the pace of easing, though that could start to change. The most recent jobs data, albeit prone to revision, was particularly worrisome. Wage growth is showing signs of cooling too, and services inflation – a key barometer for the Bank – should be closer to 4% than 5% as the year progresses. For now, we're sceptical that this will prompt a faster string of rate cuts, though it does help cement the current pace of quarterly 25bp moves through the rest of this year and into 2026.

We expect the next rate cut in August, followed by November, and continue to predict a terminal rate of 3.25% by mid-2026. Should the fall in payrolled employee numbers pick up pace, however, we could see a scenario where we get there by the end of this year.

Bank of Japan

The Bank of Japan is expected to exercise caution when it comes to near-term rate hikes. The BoJ's primary concern should be the difficulty of determining the full impact of US tariffs on the Japanese economy, given the high level of uncertainty. With trade negotiations extended until August and reciprocal tariffs increased slightly to 25% (barring any significant changes in circumstances), the BoJ is likely to keep its policy rate unchanged at the July meeting.

The domestic political situation is also adding to the uncertainty surrounding trade negotiations and monetary policy. While the Upper House elections are scheduled for 20 July, recent polls suggest that the ruling coalition may not secure a majority. The government has been reluctant to offer too many concessions, given that US trade policy touches on sensitive issues such as the import of agricultural products, including rice, which are important to the ruling party's main supporters. If the ruling coalition loses, the coalition will require restructuring. The main opposition party advocates consumption tax cuts and a more cautious stance on fiscal policy. It will also complicate the BoJ's future policy decisions.

The Powell-Trump clash is set to escalate

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Growth challenges are mounting while tariffs will lift inflation, but stagflation fears are wide of the mark. The Fed will likely delay rate cuts until the end of the year, despite escalating pressure from the president, but may move in larger steps when it does cut



Tariff-induced inflation will set up a big clash between the President and the Fed

Consumer caution weighs on growth

2025 and 2026 consensus forecasts for GDP growth have fallen from 2.2% to 1.5% since the start of the year, with the consumer at the heart of the problem. Sentiment has soured and this has led to consumer spending plateauing over the past six months after having been the engine of growth since the end of the pandemic.

The reasons for this are threefold. Firstly, households quickly recognised that they would be the ones to pay the bulk of the tariff cost despite President Trump declaring that it would be foreigners who pay. With a renewed hike of tariffs on many key trading partners in recent days, the sense that tariff-induced price hikes will squeeze spending power will remain front and centre in consumers' minds.

**Real consumer spending levels highlight the lack of growth since December
(December 2024 = 100)**



Source: Macrobond, ING

Corporate sector hurt by lack of trade clarity

At the same time, there is a perception that the jobs market is weakening more significantly than official data suggests. Outside of the private education and healthcare services, government and leisure and hospitality sectors, job creation has virtually stalled and has actually fallen in nine of the past 30 months. Meanwhile, the pick-up in Worker Adjustment and Retraining Notifications (most larger companies have to give 60 days' notice of upcoming large job losses) suggests that we need to be braced for the threat of increasing numbers of lay-offs and a renewed rise in the unemployment rate through the second half of the year.

Third, the volatility in household wealth is proving to be unsettling. Equities have since regained their 20% losses earlier in the year, but now it is house prices, the largest store of wealth for most Americans, that is becoming an issue. A lack of affordability is now being met by rising inventory for sale, with two consecutive months of price falls already.

This leaves the corporate sector in an uncertain situation, with tariffs and trade further clouding the outlook. This is leading to more subdued investment spending with residential investment looking particularly vulnerable given what is happening to home prices. Second-quarter GDP growth will be lifted by a large unwind of the first quarter import surge caused by businesses front-running tariffs, but that could reverse again in the third quarter, given President Trump's renewed push for higher tariffs on key trading countries from 1 August.

Tariff-induced inflation will set up a big clash between the President and the Fed

Inflation has been well behaved in recent months, posting 0.1% and 0.2% month-on-month readings, but we always suspected it would be three months from April/May before the tariffs show up. That means the July, August and September CPI reports are where we will see the potential 0.4% MoM or even 0.5% prints. President Trump has been pushing the Fed to cut rates by 200bp to 300bp immediately, and two of his appointees to the FOMC from his first presidential term suggested they could vote in favour of a cut as soon as the July FOMC meeting. However, the rest of the committee feels they have time to wait, especially in light of the recent firmer-than-expected June jobs report.

The Fed was stung by criticism after suggesting the post-pandemic supply shock price hikes would be “transitory”, only for inflation to hit 9% in 2022. We suspect a majority of FOMC members will want to ensure that tariffs are a one-off price change rather than something that leads to greater permanence in inflation. We doubt they will have enough evidence to be certain of that by the September FOMC meeting, so we would need to see some significant weakness in jobs to trigger a rate hike at that point. That suggests the president’s frustrations with Jerome Powell will intensify, with him set to seek a more dovish replacement for when Powell’s term as Fed Chair ends early next year. Talk of firings may escalate too.

Fed to wait, but cut by 50bp in December

Nonetheless, interest rate cuts will come. The cooler growth environment with a softer jobs narrative and weakening wage pressures will help ensure that inflation is indeed temporary. Moreover, the shifting dynamics of the housing market will mean housing costs, which have been a major driver of inflation in recent years, will increasingly become a source of disinflationary pressure. With the risk that unemployment does start to climb, we believe the Fed will be much more comfortable with cutting interest rates from the December FOMC meeting, kicking off with a 50bp move.

Our main takeaway in our separate section on the One Big Beautiful Bill Act is that this adds a significant chunk of debt due primarily to making permanent the 2017 Tax Cuts and Jobs Act, but does nothing to boost growth. That’s because the bulk of the legislation merely extends the tax cuts that were due to sunset at the end of this year. Moreover, the additional tax cuts announced (including on tips and overtime) are more than offset by the net spending cuts, largely falling on lower-income households via Medicare and food programmes, plus reduced tax incentives for ESG-related projects. As such, there is a net headwind to growth for 2026 versus 2025 which means that the risks are likely skewed in favour of the Fed having to ease more than we are currently forecasting in 2026, rather than less.

How President Trump's plans will impact the US deficit

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Big isn't beautiful when it comes to government debt, but tariffs and the Department of Government Efficiency (DOGE) help to plug the hole left by President Trump's latest fiscal bill. The net effect will be weaker growth, with US government debt remaining on a worrying trajectory



Donald Trump's fiscal policies are poised to significantly impact the US federal deficit and overall economic growth

This article is a condensed version of our in-depth analysis found [here](#).

A worrying fiscal trajectory

US President Donald Trump's fiscal policies, including the One Big Beautiful Bill Act (OBBBA) and new tariffs, are set to have significant implications for the US federal deficit and overall economic growth.

To begin with, the US fiscal position is not in a good place. Even after the Covid-related spike in borrowing during 2020-22, the US government continues to spend far more than it takes in through tax revenue. The Federal deficit is running at 6.7% of GDP, while net government debt, which was 35% of GDP 20 years ago, looks set to breach 100% of GDP this fiscal year.

Concerns about the fiscal trajectory are growing, with the US having now lost its Triple A rating with S&P, Fitch and, just last month, Moody's. On top of this, President Trump's One Big Beautiful Bill Act will extend and expand his huge tax cuts from 2017. The Congressional Budget Office estimates this will lower tax revenues by \$3.7tr over the next 10 years, while proposed spending cuts would only save \$1.3tr, leaving the primary deficit \$2.4tr wider than would otherwise have been the case.

On the face of it, this is a huge fiscal giveaway, but we need to remember that most of the Bill is merely an extension of the 2017 tax cuts, which had been due to sunset at the end of this year. So, while it provides lots of red ink for the long-term fiscal metrics, it generates no positive impetus for US economic activity relative to trends already in place.

- US net debt refers to total (gross) debt excluding holdings by US government entities. For reference, as of the 2024 fiscal year, net public debt was 96.4% of GDP vs. gross debt of 121% of GDP.
- We refer to US fiscal years (eg, FY24: 1 October 2023 – 30 September 2024).
- Deficit before debt interest expenses

Good news and bad

The good news for the fiscal hawks out there is that President Trump's tariffs are already generating tax revenues that are separate from the OBBBA. On top of this, we have some "efficiency savings" being generated by DOGE, but those are admittedly modest at less than \$200bn.

While these initiatives may help to fill the financial hole created by OBBBA, US deficits will remain wide and debt levels will continue to grow, especially when we consider the continuous [0.1-0.2pp GDP increase in demography-related spending](#) and how that will feed into the US's fiscal position. Moreover, the combination of these policies is likely to be detrimental to economic growth in the near term, which runs the risk of official deficit and debt projections being too optimistic.

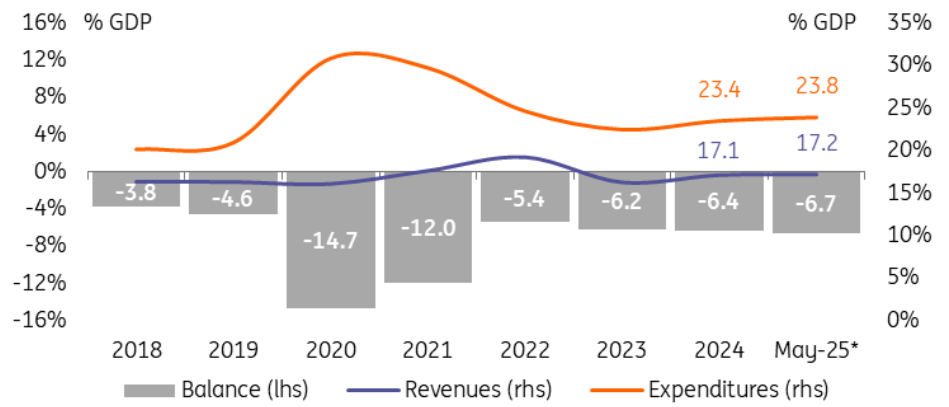
That's because OBBBA is, on balance, likely to be a headwind for growth with additional tax cuts over and above the extension of the 2017 Tax Cuts and Jobs Act being offset by the spending cuts that are falling heavily on "green" investment support and healthcare.

Tariffs set to hit US growth

As for tariffs, in addition to raising revenue, they are intended to encourage the reshoring of manufacturing to the US which boosts growth longer term, secures intellectual property and strengthens the resilience of supply chains. However, the near-term result will be some combination of higher prices for consumers that eat into household spending power and weaker corporate profits as firms absorb some of the cost. Hiring and investment are already slowing, and there are also warning signals that investment growth is stalling in an environment of heightened economic and geopolitical uncertainty.

We expect US growth to slow from 2.5% in 2024 to average at 1.5% in 2025-26, which is 0.3-0.4pps weaker than what is assumed in the official fiscal projections. Combining this with our more cautious view on the interest rate trajectory, we believe the US fiscal performance should be skewed to the negative side of the [Congressional Budget Office's \(CBO\) forecast range](#). We expect the deficit to stay at or more than 6% of GDP for much of the coming decade, with debt-to-GDP ratios continuing to rise by around 2pps or more per year.

Key parameters of the US federal budget (FY2018-24, and 12M ending May 2025)



*12M rolling sum - Source: CEIC, CBO, ING
Source: CEIC, CBO, ING

Eurozone economic weakness laid bare as US front-loading effects wane

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Eurozone data remains volatile amid trade war developments, but the underlying trend is still sluggish. Uncertainty is slowing domestic demand, which contributes to our expectation of a further rate cut from the European Central Bank in September



Uncertainty is lingering in the eurozone, and as a result, economic activity seems increasingly hampered by worried businesses and consumers

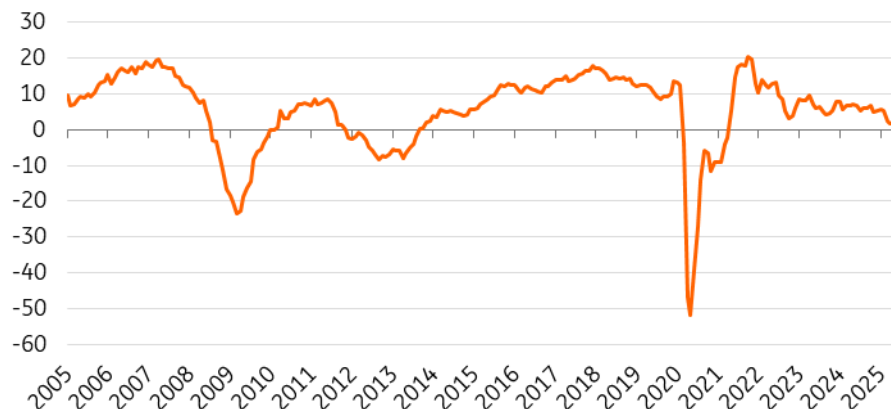
Eurozone economy shows further weakness in the second quarter

The eurozone economy had been inflated in the first quarter by strong US front-loading effects. Pharma, in particular, saw a significant boost to exports, but other sectors also profited from Americans trying to avoid higher costs for goods. The 0.6% quarter-on-quarter growth rate was the best since the second quarter of 2022, but April industrial production and trade figures poured cold water on any hopes of sustained strength. Production and exports fell by 2.4% and 8.2% respectively, suggesting that the reversal of front-loading effects is now weighing negatively on second-quarter growth.

And the second quarter is also plagued by subdued domestic demand, which leads us to believe that a negative growth print for the period is likely. Services production was down by -0.3% month-on-month in April, and retail sales fell by 0.7% in May. While the timing of holidays may have influenced activity data throughout the second quarter, weakness in the service sector has become a theme in the eurozone in recent months.

In 2Q, eurozone services sentiment hit its lowest level since 2013, excluding the pandemic

Eurozone services confidence indicator, balance SA



Source: European Commission DG ECFIN

Fearful consumers and businesses weigh on domestic demand

For the third quarter, we expect stagnation compared to the second quarter. We don't expect a full escalation of trade tensions, but a continuation of current uncertainty and trade barriers that could still tick higher from where we are now. The continuation of the "tariff pause" for a few more weeks is unlikely to bring significant relief to the eurozone domestic economy, instead extending a period of uncertainty around the economic outlook for the bloc.

The uncertainty not only makes our lives as forecasters more difficult, but it is also weighing on domestic demand. It is likely an important reason for the sluggish service sector performance in the second quarter. Franklin Roosevelt warned us of this decades ago, but his statement that the "only thing to fear is fear itself" could be falling on deaf ears in the eurozone as economic activity seems increasingly hampered by worried businesses and consumers.

The household savings rate remains at very high levels, which has so far dampened a recovery for consumption. As wage growth still outpaces inflation and employment remains near historical lows, stronger consumer spending could have been expected. But weakness remains.

Chances of a short-lived ECB pause are increasing

Inflationary pressures have clearly eased, with a fast drop in services inflation reflecting weak domestic demand, low energy prices and a stronger euro. We therefore expect inflation to undershoot the ECB's 2% target in the coming quarters, and we see the ECB cutting rates one more time in September before pausing indefinitely.

We don't think the current economy requires the central bank to go much lower than the current 2% on the deposit rate. With substantial public investment starting to trickle through to the economy from next year on, the medium-term inflation outlook is likely to remain around 2%. The current environment of huge uncertainty and lack of direction will likely be followed by activity picking up slowly but surely as public investments make a return to the eurozone at long last.

UK tax rises grow ever more likely, boosting case for rate cuts

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Political drama in Westminster has only raised the probability of fresh tax rises. We think it will be hard to bridge the fiscal shortfall – likely to be in excess of £20bn/year – without raising at least one of the major taxes



UK Chancellor Rachel Reeves has some tough choices to make

The Treasury faces at least a £20bn shortfall

One of our big calls this year has been that further tax rises are unavoidable. And after another tumultuous month in UK bond markets, that looks even more likely than it did before.

Remember that Chancellor Rachel Reeves has just £10bn of error margin against her main fiscal rule, mandating a balanced current budget by the end of the decade. In the context of upwards of £1 trillion of public spending, that is really just a rounding error. It means that small changes to the Office for Budget Responsibility's economic forecasts can tee up very difficult decisions at the Treasury, and that's exactly what we expect this autumn.

We expect the OBR to downgrade its projections for 2026 growth, trend productivity and net migration. Even if market rates eventually settle a little lower than they were ahead of the Spring Statement in March, reducing forecasts for debt interest, we still think that the combination of forecast downgrades will land the Treasury with a shortfall of at least £4bn to be made up.

That's also not a huge number, but crucially that is before we consider the mounting list of pressures on public spending. The recent U-turns on welfare spending and Winter Fuel Payments may well have to be followed by further top-ups to departmental budgets later this year. In short, we think the Treasury will have to find at least £20bn/year, just to get back to the level of fiscal headroom it had in March.

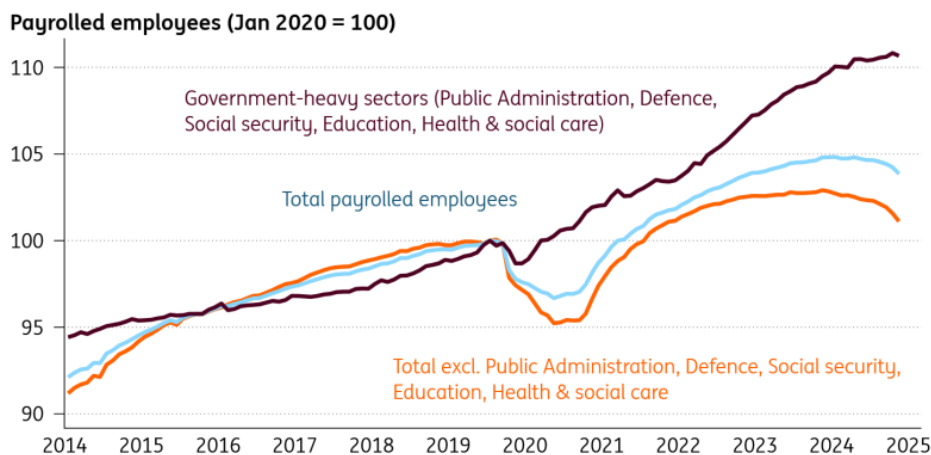
Addressing that by spending cuts looks like a non-starter. The political will simply isn't there. Changing the fiscal rules again, to free up some more breathing room, looks difficult too. One option would be to bring forward a planned tweak in those rules to allow a small 0.5%/GDP deficit, a change that is already set to kick in next year. This

would represent a subtle change, but one which could unlock £17bn of additional headroom.

However, scarred by the events of the 2022 mini-Budget crisis, the Treasury is going to be very wary about upsetting financial markets. The 20bp spike in 30-year government bond yields we saw on mere speculation about Rachel Reeves being replaced as Chancellor is a reminder that fiscal policy is still a big topic for investors.

That leaves tax rises. The good news is that there's one obvious piece of low-hanging fruit, and that's to extend the freeze on tax thresholds beyond 2028. That may sound very academic, but because the fiscal rules are all about what happens by the end of the decade, this would buy the government an extra £9bn of spending room. It's surprising it didn't already do this in March.

Payrolled employee numbers are falling more quickly



Source: Macrobond, ING

But that still leaves a sizable hole to fill and it is hard to see how this will happen without raising one of the major taxes. The Treasury may well opt to lift employer national insurance (social security) again, though that is complicated by the softer jobs market backdrop that has emerged over the past couple of months. While the data may ultimately be revised up, the most recent monthly fall in payrolled employees was the biggest on record (since 2014), outside of the Covid-19 pandemic.

This story matters not just for the Treasury, but is key for the Bank of England too. If we see this pace of job losses accelerate over the next couple of readings, we think the BoE will have to seriously consider speeding up the pace of rate cuts. For now though, we expect quarterly cuts to continue in August and November. The prospect of tax hikes – and the slower economic growth that entails – reinforces our view that the Bank will cut rates a little further in 2026 than markets now expect.

China's policy focus turns inward, though trade risks still loom

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China's relatively steady economic data and a reprieve on the tariff front have policymakers shifting inward to address challenges such as excessive price competition and boosting consumption. Meanwhile, the Chinese yuan's strength presents a window to expand outward investment quotas



Chinese Premier Li Qiang has promised to make China a consumption powerhouse

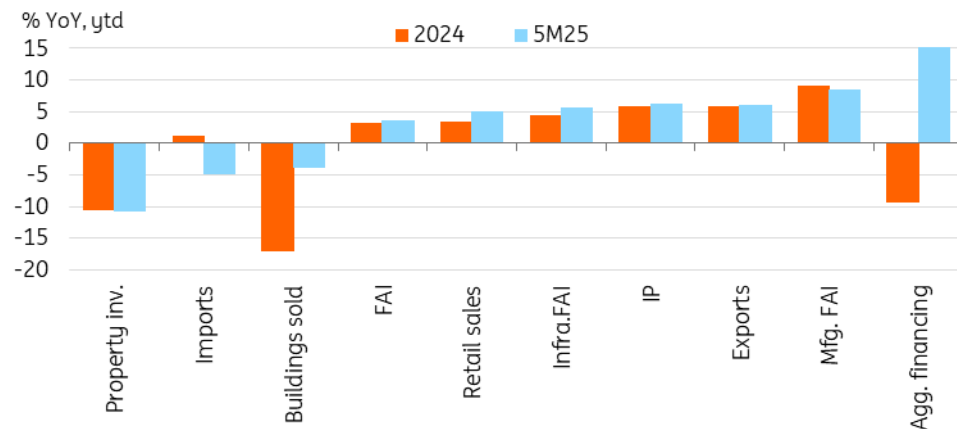
May data a mixed bag showing tariff headwinds and policy tailwinds

Last month's data offers something for both China bulls and bears. On the one hand, we continue to see the impact of tariffs, with export and industrial production growth decelerating in May. They slumped to 4.7% and 5.8% year-on-year, respectively, down from 8.1% and 6.1% YoY in April. Both are within the range of expectations, though the impact from the peak tariff period continues to affect the data. Further weakening of fixed asset investment growth suggests uncertainty prevails as companies hold back on new investment. This caution is also reflected in property prices, which saw a steeper decline, a bad sign for domestic confidence.

On the brighter side, retail sales rebounded strongly, hitting a 15-month high of 6.4% YoY. In particular, we're seeing the positive impact of China's trade-in policies play out, as evidenced by the strong performance of beneficiary categories like household appliances and consumer electronics.

Overall, growth looks on track to remain above 5% through the first half of the year.

Key activity data has generally improved from 2024 levels



Source: CEIC, Bloomberg, ING

Policymakers turn attention inward

As the more time-sensitive challenges – from US trade talks to May’s easing moves by the People’s Bank of China – moved off centre stage, June proved to be a quieter month. But it was still an important one, with policymakers turning their focus inward to the toughest challenges facing the economy.

One of the top focuses has been on addressing the 'involution' themes of unhealthy cost competition, including encouraging market consolidation and cracking down on non-market practices. This includes abuses such as compelling businesses to sell goods on a below-cost basis.

Policymakers expanded the quotas for the Qualified Domestic Institutional Investors (QDII) scheme. There are also reports of a potential doubling of the Southbound Bond Connect quota. This could reduce downward pressure on bond yields and help domestic investors diversify their portfolios. The recent strength of the Chinese yuan has provided a timely window for such policy action.

Additionally, policymakers continue to focus more closely on boosting consumption. Premier Li Qiang pledged to transform China into a consumption powerhouse at the recent World Economic Forum. So far, little in the way of new direction has been detailed; the focus remains on trade-in policies and relending programmes.

These measures are being considered with an eye towards the longer term. Yet, they mark important steps towards addressing key issues plaguing China’s economy over the past few years.

Trade issues continue to loom even in a window of relative calm

While other economies are now grappling with a new 1 August deadline for US tariffs, Chinese market participants are facing uncertainty on whether the 12 August deadline – following a 90-day tariff reprieve to allow time for negotiations – still applies. Or, if recent developments are sufficient to delay or scrap this deadline.

If the deadline remains intact, the focus in the month ahead will once again swing to the countdown. Otherwise, China’s main focus will likely be on assessing the impact of other trade deals the US might sign with other economies.

The US deal with Vietnam could set a potentially damaging precedent, with transshipments being tariffed at a higher rate. Data suggests a significant chunk of China’s exports to Vietnam may be affected. Subsequently, US President Donald Trump threatened an additional 10% tariff on any country “aligning with anti-American policies of BRICS.” It’s another sign that the tariff story is likely far from over.

Aside from the US, we also saw some friction between China and the EU. China announced new curbs on government procurement of medical devices priced at over RMB 45mn, as well as tariffs of up to 34.9% on brandy. On the retaliation front, measures announced in the past week are broadly in line with previous steps. They are relatively modest, narrowly targeted and feature various exemptions. Nonetheless, proceeding with retaliatory actions rather than delaying them appears to dim prospects for reaching a breakthrough deal on electric vehicle tariffs in the near term.

New US tariffs target Asia, but some countries stand to gain

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President Trump's new tariffs are higher than expected for most Asian economies. Moreover, most countries will face additional tariff rates on transshipments. The new announcements are silent on Singapore, India and the Philippines, which might stand to benefit from tariff concessions if negotiations progress favourably



US President Donald Trump announced on 7 July that the US will impose a new tariff rate of 25% on South Korea starting 1 August

Asia has once again been hit hard with a fresh set of tariff rates announced by President Trump, set to take effect on 1 August. Out of the 14 countries that received tariff letters, nine were in Asia. While there is some respite in terms of reciprocal tariffs being pushed out by about three weeks, most countries are now facing higher or similar rates than those announced on Liberation Day. Here are our key takeaways:

The overall outcome is clearly worse than expected. Only three countries in Asia – Cambodia, Bangladesh and Laos – received tariff rates which were lower than on 'Liberation Day'. Despite lower rates, they remain high and penalising in the 35-40% range, much higher than the 20% Vietnam got.

These steeper tariffs may reflect Trump's growing frustration with stalled negotiations with certain countries like Japan, Korea, Thailand and Malaysia, which all received a higher or unchanged tariff rate.

More importantly, they seem to signal a broader strategy targeting Asia's trade links with China – particularly transshipment practices. The letters indicate that transhipped goods will be subject to higher tariffs, but there's no mention of the rate that'll be applied.

Interestingly, countries like India, Singapore, and the Philippines, which are not on the new tariff list, may be closer to finalising trade deals with the US, potentially giving them a competitive edge.

Donald Trump sets new tariff rates (%)		
Country	'Reciprocal' tariff announced in April	Tariff rate effective 1 August
Bangladesh	37	35
Bosnia and Herzegovina	35	30
Cambodia	49	36
Indonesia	32	32
Japan	24	25
Kazakhstan	27	25
Laos	48	40
Malaysia	24	25
Myanmar	44	40
Serbia	37	35
South Africa	30	30
South Korea	25	25
Thailand	36	36
Tunisia	28	25

Overall assessment: a worse-than-expected outcome for Asia

Tariff rates that are higher than the 10% baseline are a worse-than-expected outcome for Asia, unless we see successfully negotiated deals over the next three weeks. Sector tariffs on autos and semiconductors, in addition to base tariff rates, will be more negative for Northeast Asia, including Taiwan, Korea, and Japan.

We are beginning to see signs of a pullback in exports in several Asian economies, after a good frontloading run in March-April. We had already factored in this expected slowdown into our outlook. However, our earlier assumptions were based on a 10% tariff rate. But tariffs remain a major swing factor, and the new higher tariff rates would imply that export growth could slow more sharply in the months ahead, with higher tariffs impacting global demand and rising business uncertainty.

Tariffs on transshipments, on top the new tariff rates, could be more negative for ASEAN

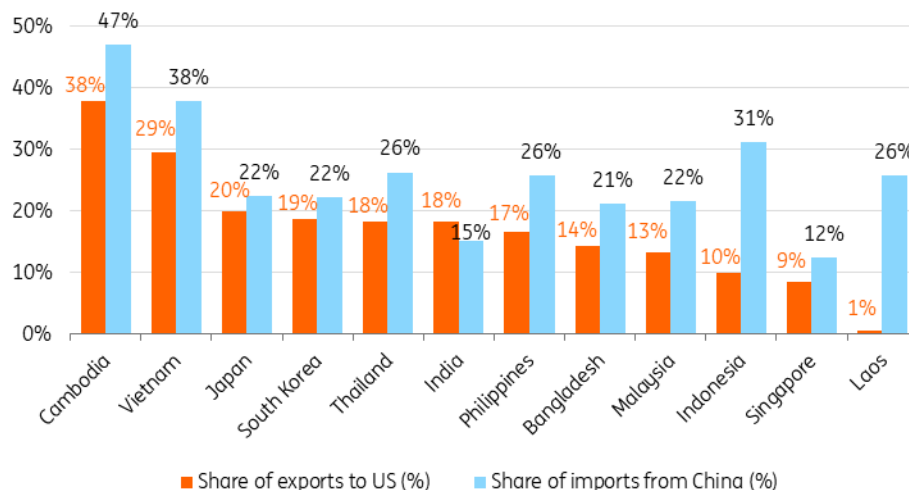
Within ASEAN, tariffs on Thailand and Indonesia remain elevated – unchanged at 36% and 32%, respectively. Indonesia is relatively insulated due to its domestic demand-driven economy, with only about 10% of its exports destined for the US. In contrast, Thailand is more exposed, given its higher trade dependence and stronger economic ties with the US, making it more vulnerable to prolonged tariff pressure, especially amid ongoing domestic political tensions.

Malaysia saw a modest increase in tariffs, from 24% to 25%. While still positioned in the middle of the pack, Malaysia retains room for further negotiation, potentially softening the impact if diplomatic efforts prove successful.

It remains to be seen how transshipments will be defined, but the letters issued yesterday indicate that, like Vietnam, most countries will face additional tariff rates on transshipments. The recent surge in ASEAN imports from China suggests that supply chains are deeply intertwined. While some companies might be diverting goods through ASEAN to avoid tariffs, other genuine ones export foreign components to ASEAN where the actual value added takes place. If transshipments were to include the latter, the

negative impact on ASEAN could be more significant, and we'd need to reassess our projections.

Asia's growing reliance on China under scrutiny



Source: CEIC

India is likely next in line for a trade deal with the US

President Trump on Monday said that the US is very close to making a deal with India. India was one of the first countries to begin trade negotiations with the US, which appeared to have been going well. However, India has recently taken a firmer stance on offering tariff concessions to the US in politically and economically sensitive sectors such as agriculture and dairy. Differences also remain on steel (50%), aluminium (50%) and auto (25%) tariffs.

We think the two countries can conclude a deal soon if India allows for a few concessions on agriculture imports, allowing imports of some genetically modified US farm products while also agreeing to increase LNG imports from the US.

No new tariffs and a steady 10% rate favour Singapore's trade-driven economy

Singapore and the Philippines were the only two ASEAN countries that did not receive a tariff notification letter from President Trump on Monday. Notably, these two also have the lowest reciprocal tariff rates – 10% for Singapore and 17% for the Philippines.

Singapore, in particular, stands to benefit significantly if the 10% rate is maintained. As one of the most trade-dependent economies in the region, preserving low-tariff access to the US market is critical. Additionally, the US currently runs a trade surplus with Singapore, and Singapore has the lowest reliance on Chinese imports among its regional peers. These factors enhance the likelihood of Singapore securing a concessionary or preferential tariff arrangement going forward.

Philippines – tariff concessions key to electronics export growth

The Philippines has indicated that it is working toward a “mutually beneficial framework” for trade with the United States. The US remains a vital export destination, accounting for roughly 17% of the Philippines' total exports as of 2024. A significant portion – about 53% – of these exports are electronic products, a sector in which the Philippines competes directly with countries like Vietnam and India for US market share.

Given this context, any reduction or concession on the current 17% reciprocal tariff rate would give the Philippines a competitive edge, particularly in electronics, and strengthen its position against regional peers.

CEE: Mounting pressure complicates the road to rate cuts

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Central and Eastern European growth is being driven by consumption, but diverging inflation paths are set to shape monetary policy. Poland has resumed cuts amid low inflation, and the Czech Republic has paused easing as prices rise. Meanwhile, Hungary is keeping high rates amid sticky inflation, and Romania has tightened fiscally, risking recession



CEE growth is being driven by consumption, but diverging inflation paths are what's shaping monetary policy for the time being

Poland: Growth despite manufacturing stagnation, monetary easing to be frontloaded

Poland's interest rate cuts are set to be frontloaded with a target rate of 3.5% to be reached in early spring 2026. At the July meeting, the Monetary Policy Council unexpectedly cut interest rates by 25bp, bringing the main rate to 5.0%. This follows a 50bp cut in May and a pause in June. While the cut was justified by a radically improved inflation outlook and stagnation in manufacturing, it wasn't signalled ahead of the meeting by either NBP Governor Adam Glapiński or other MPC members.

Headline CPI is expected to fall to close to the 2.5% target in July, down from 4.1% year-on-year in June. This decline should be driven by statistical base effects in regulated prices, a strong zloty, and external 'lowflation', which are helping to contain past inflation impulses. Also, with GDP growth just above 3% year-on-year in the second quarter of 2025, the output gap remains slightly negative.

GDP growth is being driven mainly by services, while manufacturing remains sluggish, as indicated by weak high-frequency data on industrial production and a collapse in the manufacturing PMI as the Trump front-loading effect faded away. Production in the construction sector is contracting too, due to the slow start of public investment and a shift in the EU funds' main projects for 2026. With resilient retail sales, Poland's growth is currently driven mainly by the consumption engine.

The National Bank of Poland's communication hasn't been very transparent as of late; Glapiński started the presser with a hawkish introduction, but surprised with a more dovish rhetoric. He suggested the continuation of rate cuts and the target rate in the

range of 3.0%-3.5%, but other MPC members appear to have taken this with a pinch of salt.

Nevertheless, we've adjusted our rate projection downwards and assume a 75bp cut in the second half of this year, and three additional cuts in the first half of 2026. We see the NBP target rate of 3.5% to be reached in early spring 2026, broadly in line with market valuations. The ex-ante real rate at 1% is still higher than average under Glapiński's presidency and is above the pre-pandemic level.

Czech Republic: Mounting inflationary pressures end the cutting cycle

The Czech economy's expansion is gaining pace. Households are set to remain the dominant growth driver, now complemented by the booming construction sector. After quite some time, the Czech industry appears to have bottomed out, with the PMI entering the expansionary area in June for the first time in three years. That said, May's annual growth in industrial production gained momentum for a third month in a row after mostly hovering in negative territory for more than 20 months.

Should the rebound in manufacturing prove not to be another false dawn and remain resilient, it'd be full speed ahead for the Czech economy, with a tight labour market and further room for solid wage increases. The household spending appetite is reflected in buoyant real retail sales dynamics, which in turn provide solid ground for further increases in consumer prices.

Indeed, consumer inflation picked up in June, with the disinflationary process in the service sector coming to a halt and frowning rate-setters' brows. Moreover, the overheating housing market implies double-digit annual increases in residential prices, creating upward pressure on imputed rents and core inflation in the future. Add the accumulated cost pressures in agriculture, and it's simple to conclude that further rate reductions aren't on the menu for now.

And yes, Czech National Bank board members are well aware of the intensifying upward risks to inflation, as is clear in their rather hawkish commentary. We take rate stability for the rest of the year as our base case scenario, while still-positive real interest rates have only a moderately restrictive effect. The chapter of the Czech Republic's real economic growth outperforming the eurozone's is entering solid ground, and with Czech rates remaining stable, the koruna still has potential to strengthen gradually.

Hungary: Inflation sizzles while growth fizzles

The short-term outlook for Hungary remains subdued following a weaker-than-expected first quarter. We maintain our 2025 GDP growth forecast at just 1.0%, with downside risks persisting and a modest recovery of around 3% expected for 2026-2027.

Household and business confidence remains low, further restraining consumption and investment. Nevertheless, consumption will remain the main driver of GDP, while investment activity is expected to continue to hinder growth for the third consecutive year.

The labour market, once resilient, has now clearly softened; participation and employment have slipped to their lowest levels in two years, and general wage growth continues to slow, although it remains high enough to create pipeline price pressure, especially in the services sector. Consequently, it is hardly surprising that price pressures in the Hungarian economy remain elevated.

Year-on-year inflation is still hot, sitting at 4.6% in June, and we project an average of 4.6% in 2025, before returning to close to 4% in 2026-2027. Despite limited demand-side pressure and various price shield measures (on food, household goods, pharmaceuticals, telecommunications and financial services), inflation expectations are proving sticky, which complicates the outlook for the economy as a whole.

In terms of monetary policy, the National Bank of Hungary kept the base rate at 6.50% for the ninth consecutive month in June amid ongoing inflationary pressures. According to the central bank's latest Inflation Report, the Monetary Council believes that inflation risks are tilted to the upside. Given this situation, we believe it is safest to assume that the policy rate will remain unchanged for the rest of the year.

Nevertheless, demand for Hungarian assets remains robust, supporting government financing even though the deficit target has officially been revised upwards to 4.1% of GDP in 2025. We also see a 0.5ppt slippage risk to that target, as well as a real possibility of another year with a rising debt-to-GDP ratio. Meanwhile, the forint has recently rallied, but mild depreciation is likely later in 2025, as a weaker economic outlook and budgetary and sovereign rating risks take centre stage. In this context, we expect the EUR/HUF exchange rate to crawl back to around 410 by the end of the year.

Romania: Fiscal reset begins

As widely anticipated, the Romanian government has rolled out a two-phase fiscal package aimed at addressing the widening budget deficit and reassuring markets, rating agencies, and the European Commission about the country's debt trajectory. The first wave of measures, set for early July, focuses on boosting revenues, primarily through tax hikes.

A second package, targeting spending cuts, is expected later in the month. In a move that surprised some observers, the government opted to raise both the reduced and standard VAT rates – likely the headline measure of the package. Other key changes include a 10% hike in excise duties, dividend tax increased from 10% to 16%, the bank tax doubled from 2% to 4%, broader application of social contributions, etc.

Despite these measures, we maintain our 2025 budget deficit forecast at 7.5%, though positive surprises are possible. The 2026 target of 6.4% of GDP also appears within reach. Markets have responded positively to the size and timing of the package. However, the fiscal tightening coincides with a sharp increase in electricity prices scheduled for July, which is expected to push inflation higher. We now see year-end inflation at 7.5%, likely eliminating any room for monetary easing by the National Bank of Romania. The fiscal squeeze is also expected to weigh on growth. We have revised our 2025 GDP growth forecast down to 0.3% from 0.8%.

Bottom line: Romania is trading short-term growth for long-term fiscal credibility. But with inflation rising and growth slowing, the risk of a mild recession – or even a full-year contraction – can't be ruled out.

Divergent oil and gold prices are shaping the CIS-4's economic path

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Gold, oil, and inflation are the three key themes of the month for the CIS-4. The last couple of months have shown that Uzbekistan continues to benefit from strong gold prices, while Kazakhstan and Azerbaijan face renewed pressure from oil market dynamics. Meanwhile, inflation and rate hike risks across the region have not materialised so far



Gold, oil, and inflation are the dominant themes for the CIS-4 economies this month

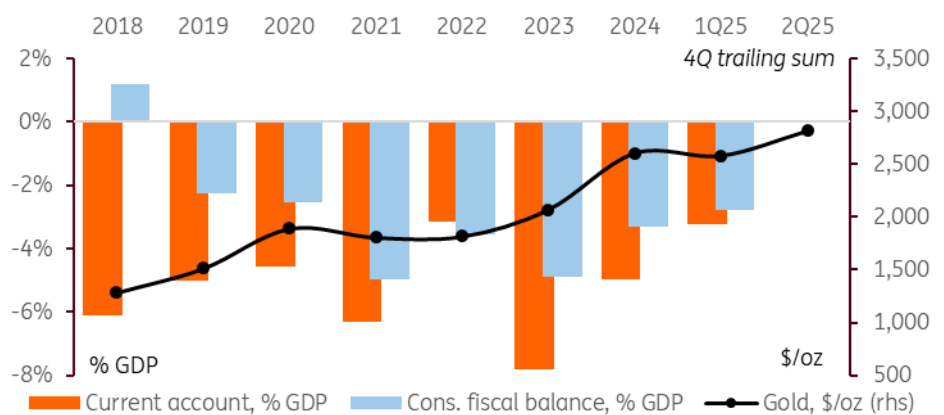
A golden moment for Uzbekistan

In recent months, Uzbekistan has emerged as the standout performer in the region, benefiting from a favourable external environment and strengthening domestic fundamentals. The rally in gold prices has further bolstered the country's trade and current account balances, reversing the Uzbek soum's multi-quarter depreciation trend. These gains build on already encouraging signs from the first quarter, when the trailing fourth-quarter current account deficit narrowed to US\$3.8bn from \$5.7bn in 2024. According to our estimates, each \$1/oz increase in the gold price currently translates into an annualised \$3.6m in export proceeds for Uzbekistan.

On the fiscal front, the budget performance has also improved, supported by tighter cost controls and stronger revenue collection. As of the first quarter of 2025, the 12-month rolling consolidated deficit narrowed to 2.8% of GDP, down from 3.3% in 2024 and 4.9% in 2023. These positive developments contributed to Fitch's [recent upgrade](#) of the sovereign rating to BB, with a stable outlook, citing accelerated reform progress and favourable medium-term growth prospects.

Looking ahead, the near-term performance of the UZS aligns with our constructive outlook. However, the longer-term trajectory of the soum will depend on the stability of private capital flows. Balance of Payments (BoP) data indicate that the local FX market has recently benefited from robust private capital inflows, with net portfolio inflows reaching \$5.1bn over the four quarters ending in the first quarter of this year. This marks a significant improvement compared to \$3.1bn in 2024 and the \$1-2bn per annum seen over the previous five years. Nonetheless, the durability of these inflows remains uncertain.

Gold price rally helps to narrow Uzbekistan's twin deficit



Source: CEIC, National sources, Refinitiv, ING

Armenia benefits from commodities markets, oil exporters struggle

The temporary spike in oil prices linked to Middle East tensions has faded, with OPEC+ now guiding for a faster-than-expected increase in supply. The group [plans to boost output](#) by over half a million barrels per day in August, with similar moves likely in September. This shift is putting renewed pressure on the external balances of oil exporters. Kazakhstan is already experiencing renewed depreciation of the tenge, while Azerbaijan's pegged currency conceals a shrinking trade surplus, which has narrowed to \$2.7bn over the 12 months ending in May 2025, down from \$5.5bn in 2024 and \$16.6bn in 2023. Based on our estimates, each \$1/bbl of oil prices translates into approximately \$570m in annualised fuel export revenues for Kazakhstan and \$350m for Azerbaijan.

However, Kazakhstan may find some relief in rising oil production volumes, which grew by 13-16% year-on-year between February and May. If sustained, this could support higher export volumes in the coming months. Given that oil accounts for approximately 55% of Kazakhstan's total exports, its alignment with OPEC holds significantly more macroeconomic weight than its trade relationship with the US, which comprised just 2.4% of Kazakhstan's exports in 2024.

As such, the recent US [announcement](#) of 25% tariffs on Kazakh exports – set to take effect on 1 August – is likely to have a limited macroeconomic impact. For Azerbaijan, the deterioration in the trade balance may be offset by stronger capital inflows. Moody's recently followed Fitch in assigning the country an [investment-grade rating of Baa3](#), maintaining a positive outlook and citing improved fiscal and external buffers. Additionally, further investor interest could be unlocked if the ongoing normalisation of relations with Armenia continues.

Meanwhile, Armenia continues to benefit from a combination of higher gold exports, lower energy import costs, and optimism surrounding foreign policy developments. The dram has remained strong, reflecting these favourable dynamics.

Inflation risks appear contained, for now

Earlier this year, [we flagged](#) the risk of rising CPI and a potential shift toward more hawkish central bank policies in response to escalating global trade tensions. Encouragingly, this scenario has not fully materialised. With the exception of Kazakhstan, where inflation accelerated to 11.8% YoY last month, June inflation readings across the region remained broadly stable compared to May, despite continued pressure from food prices.

Over the past couple of months, central banks have adopted a more cautious tone, but none have raised policy rates. Even in Kazakhstan, where inflation has shown signs of renewed momentum – partly driven by robust domestic demand – we expect the

National Bank of Kazakhstan (NBK) to [maintain](#) its current policy stance and keep rates on hold this week. However, if fiscal and banking sector dynamics remain pro-inflationary in the second half of 2025, a rate hike later in the year cannot be ruled out.

For the remaining three countries, key rate hikes appear less likely. That said, given the current global uncertainties and domestic policy challenges in some cases, we continue to believe that the scope for rate cuts in the second half of 2025 remains limited.

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FX markets learn to live with tariff uncertainty

The dollar downtrend is pausing for breath. 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



We're looking for a counter-trend dollar bounce in the third quarter as US inflation makes a comeback

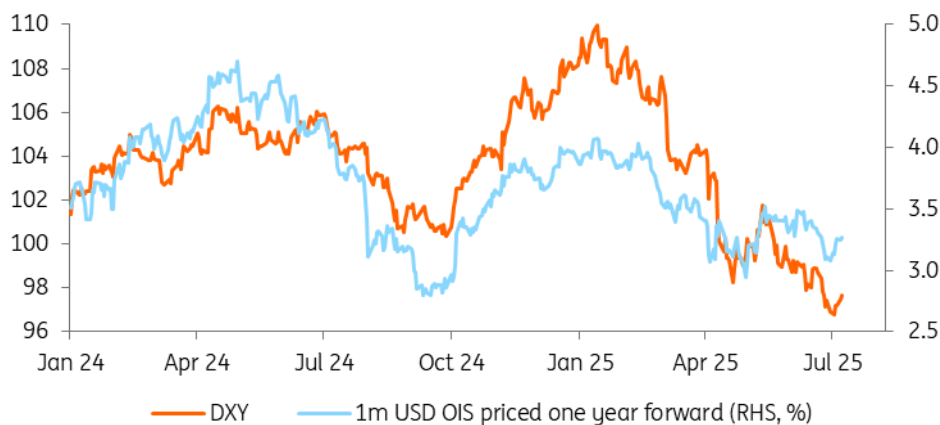
Sticky prices and an independent Fed can help the dollar

The trade-weighted dollar has fallen by 12% over the last six months. That's a very sizable move and one to match the extremes seen this century. A quick summary of what got us here is: (January-March) rotation into international stocks and fiscal expansion in Europe, (April) surging US tariffs undermining US asset markets, (May-June) softening US price data and a view that the Fed would respond with earlier cuts.

Notably, recent news about the flip back to higher US tariff rates has not hurt the dollar. Indeed, recent dollar price action suggests short positions are getting a little stale. But with diminishing marginal reaction to tariff news, it looks like the macro story is going to have a greater say.

Here, our call for the next quarter is that higher US tariffs will finally show up in US inflation – something that the prices paid components of business surveys have been warning for a while. This data should play into the hands of the majority of the FOMC members who favour caution when it comes to restarting the Fed easing cycle. Our house call for the Fed to wait until December before cutting rates should be a dollar positive. In effect, we can see a reversal of the decline in short-dated US rates which hit the dollar in June. We think the dollar could be due a 2-3% corrective bounce in the third quarter as the Fed continues to resist White House pressure to cut rates.

Back-up in short-term rates could help the dollar



Source: ING, Refinitiv

G10 low-yielders in focus this month

If the dollar is to show a little stability this month, the focus may also shift to developments overseas. Here, Japan is interesting. Upper House elections on 20 July and what it means for Japanese fiscal policy is starting to have an impact on the yen. Instead of rising Japanese Government Bond yields helping the yen, the sell-off in Japanese bonds is starting to be treated like events in the US in April – a net negative for asset markets and the currency. A combination of firmer US short-dated rates and some sovereign risk in Japan could make USD/JPY at 150 the surprise package this month.

Elsewhere, we think there's little the Swiss National Bank can do about the super-strong Swiss franc. Heavy FX intervention to resist franc appreciation is politically difficult during current trade discussions with the US, while the SNB's room to cut rates may be limited too. That's why we think the Swiss franc is a popular currency amongst investors – seen as a hedge should current benign global conditions not last.

For EUR/USD itself, we're looking for a correction back to the 1.15 area this quarter. But we've nudged our year-end forecast higher and expect the dollar downtrend to resume towards year-end when the Fed cuts by 50bp and all those buy-side investors with US exposure are offered cheaper dollar hedging costs.

Rates: Upside pressures aren't going away any time soon

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We identify a rising tilt to market rates in the coming months, and in particular for longer tenor rates. Shorter tenor rates remain contained by rate-cutting hopes. Consequently, curves should steepen, led by the US and mirrored by eurozone rates



The Federal Reserve is waiting in the wings to cut rates

There are clear macro risks, but there are also fiscal and tariff issues that can push longer tenor rates higher

It's never easy to predict what's coming. But especially now. Not only is there policy uncertainty to contend with, but the policies themselves are hugely impactful. Two of the biggest ones have come in the guise of 'Liberation Day' and the 'Big Beautiful Bill'. The former has left us with an average tariff rate of 13%, and rising, as letters get sent to those on the naughty list, while the latter brings a clear tax-cutting tint to fiscal policy, and leaves the US with a large ongoing structural fiscal deficit, with supply pressure to boot. Tariff revenues help finance the tax cuts, but likely push US inflation up towards 4% in the coming months.

The good news is the Federal Reserve is waiting in the wings to cut rates. The current funds rate is some 100bp above neutrality, thus sustaining a moderately tight policy stance. Fed Chair Jerome Powell has made it reasonably clear that an easing in policy is in the works, with only the tariff impact on inflation in the coming months the biggest element of uncertainty to be overcome. Once that clears, the odds firmly favour the Fed cutting rates.

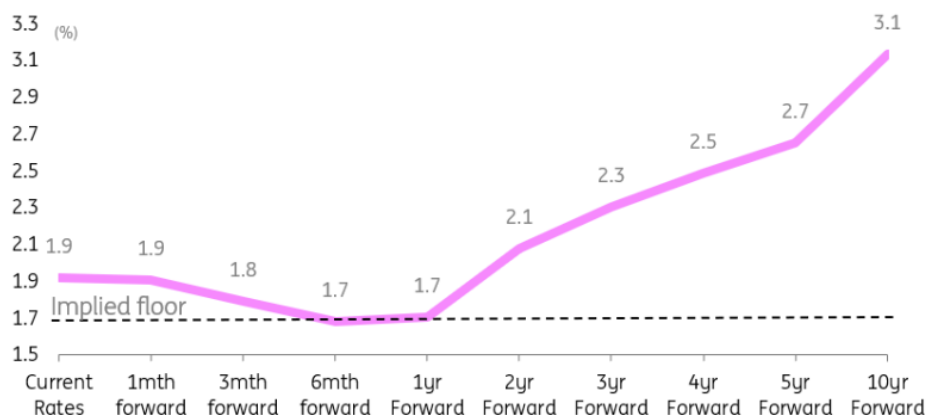
Interestingly, the market discount has the funds rate bottoming in the 3% to 3.25% range, and then the forwards have the implied funds rate rising from 2027 onwards. This is, in fact, quite a good outcome, as it effectively discounts something of a soft landing, and no need for the funds rate to go deep below neutrality. If this is the realised outcome, we'd certainly take it. In our view, we will likely see sub-trend growth in 2025 and 2026, which means growth of below 2%, likely with a 1% handle. Not great, but also not a deep or damaging recession.

There are some risks to this outcome. The first comes from the elevated fiscal deficit. While Treasury Secretary Scott Bessent has no immediate plans to push issuance

pressure out to longer tenors, that does not mean that issuance pressure goes away. To begin with, it is heavily bills-focused, and we'll feel this now that the debt ceiling has been raised (done in conjunction with the passing of the Big Beautiful Bill). The US Treasury will issue big, as it needs to replenish cash balances that have been spent down to stay within the debt ceiling to date. This will also act to take reserves out of the system, tightening conditions generally. This, alongside the tariff-induced spike in inflation, could be a problem for long rates.

The implied market discount for the ECB's depo rate has longer-term upside written all over it

The graph shows the market forwards for 1mth ESTR (as a proxy for the ECB's deposit rate)



Source: Macrobond, ING estimates

Eurozone upside pressure for long rates in 2026, but pull risks from the US loom in 3Q

In the eurozone, plans for more spending (on defence, among other things, and in particular Germany) won't push average fiscal deficits to US-style extremes, but will add to issuance pressures in a meaningful way, albeit likely more from 2026 onwards. This has implications for how we see longer-tenor market rates evolve in 2025/26. The bigger independent upside pressure for the 10yr Bund yield is in 2026 as the European Central Bank is done with cuts, and the aforementioned fiscal pressure builds. That pressures the 10yr yield towards 3%. And nearer term, should the US 10yr get to 4.75% in the third quarter (our view), there will be a nearer-term drag higher from that for eurozone yields as well.

Note also the market profile for 1mth Ester as shown in the graph above. While forwards are terrible forecasters of the future, they still provide a guide as to underlying market thinking, as priced into current rates right along the curve.

The bottom line outcome here is one of some material wobbles in the US economy, alongside a rise in inflation (even if temporary). The Fed should get the funds rate down to neutrality within the next 12 months, but we identify pressures that can pull longer tenor rates higher in the coming months.

Tariff-impacted US inflation at 4% can't be ignored, nor can fiscal pressures. There is some 25-50bp of upside here as a risk factor for the 10yr Treasury yield, even if temporary.

Developed Markets (QoQ% annualised growth)									
	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	3.3	0.2	0.5	1.2	2.0	2.1	2.3	1.6	1.4
Japan	0.0	0.4	0.8	0.8	0.8	0.8	1.2	0.8	0.7
Germany	-0.8	0.0	0.1	1.1	2.0	2.4	2.6	0.1	1.2
France	-0.2	0.4	0.8	0.8	1.2	1.2	1.2	0.4	0.8
UK	0.3	0.4	1.0	0.8	1.0	1.0	1.0	1.1	0.8
Italy	0.5	0.3	0.8	1.1	0.7	1.2	1.0	0.6	0.8
Canada	-0.2	-1.4	-0.5	1.2	1.8	2.3	2.5	1.1	0.8
Australia	2.0	2.2	2.2	2.8	2.4	2.4	2.4	2.0	2.6
Eurozone	0.9	1.6	1.2	1.2	1.5	1.8	2.1	1.0	1.0
Austria	0.0	0.6	1.2	1.4	1.4	1.6	2.0	0.1	1.2
Spain	2.0	2.3	2.5	2.2	1.8	2.0	2.0	2.5	2.1
Netherlands	0.9	0.6	1.2	1.2	1.1	1.5	2.0	1.6	1.2
Belgium	-0.4	0.0	0.8	1.2	0.8	1.2	1.6	0.7	0.8
Greece	0.9	1.4	2.1	0.8	2.6	1.4	2.2	1.5	1.6
Portugal	2.1	2.2	2.2	2.0	2.0	2.5	2.5	1.6	2.2
Switzerland	-0.4	0.0	0.8	1.2	1.6	2.0	1.6	1.1	1.1
Sweden	1.3	0.9	0.9	1.4	1.1	1.1	1.1	1.7	1.1

Emerging Markets (YoY% growth)									
	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
Bulgaria	3.1	2.9	2.4	2.3	2.4	2.4	2.3	2.8	2.3
Croatia	2.6	2.5	1.7	2.2	2.1	2.1	1.8	2.4	2.1
Czech Rep.	2.5	2.3	2.0	2.0	2.4	2.7	2.8	2.3	2.5
Hungary	-0.3	1.6	2.5	2.9	3.3	3.2	3.0	1.0	3.1
Poland	3.3	3.3	3.1	4.1	3.4	2.8	3.2	3.2	3.4
Romania	0.3	0.5	0.0	0.6	1.2	1.9	2.6	0.3	1.7
Turkey	2.9	3.0	3.3	4.0	3.7	3.3	3.0	2.8	3.5
Serbia	3.1	3.5	3.4	4.5	4.4	4.1	3.8	3.0	4.2
Azerbaijan	2.7	2.0	3.0	3.5	3.0	2.5	1.0	2.0	2.5
Kazakhstan	5.5	4.0	3.0	2.0	3.0	4.0	5.0	4.5	3.5
Russia	1.5	1.5	1.4	1.0	1.0	0.5	-0.5	1.5	0.5
Ukraine	3.0	4.0	4.5	4.6	4.3	4.0	4.0	3.3	4.3
China	5.0	4.6	4.2	4.3	4.5	4.5	4.4	4.7	4.4
India	6.4	6.2	6.2	6.8	6.8	6.8	6.8	6.4	6.8
Indonesia	4.9	4.7	4.7	5.0	5.0	5.1	5.1	4.8	5.1
Korea	0.3	1.4	2.3	2.6	2.6	1.7	1.0	1.0	2.0
Philippines	5.5	5.4	5.3	6.1	6.1	5.9	5.7	5.5	6.0
Singapore	2.7	0.7	0.0	2.6	2.8	2.6	2.6	1.8	2.7
Taiwan	4.3	3.4	2.0	1.9	2.1	2.7	3.7	3.7	2.6

Norway: Forecasts are mainland GDP
 Source: ING estimates

CPI Forecasts (pa)

YoY%	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	2.5	3.4	3.6	3.2	3.3	2.5	1.9	3.1	2.7
Japan	3.4	2.9	2.2	1.4	1.5	1.8	2.0	3.0	1.8
Germany	2.1	1.9	1.6	1.6	1.9	2.2	2.4	2.0	2.0
France	1.0	1.4	1.7	1.7	1.5	1.6	2.0	1.3	1.7
UK	3.4	3.5	3.2	2.8	2.1	2.5	2.6	3.2	2.5
Italy	1.8	1.6	1.7	1.6	1.8	2.1	2.1	1.8	1.9
Canada	1.8	2.4	3.1	3.0	2.4	1.6	1.4	2.4	2.1
Australia	2.0	2.4	2.8	2.8	2.7	2.5	2.4	2.4	2.6
Eurozone	2.0	1.9	1.8	1.8	1.9	2.0	2.1	2.0	2.0
Austria	3.2	2.3	2.1	2.1	2.1	2.2	2.2	2.7	2.2
Spain	2.0	2.1	2.0	2.1	2.1	2.1	2.1	2.3	2.1
Netherlands	3.3	2.5	2.2	2.2	2.1	2.3	2.3	2.8	2.2
Belgium	2.4	1.9	2.3	1.6	1.9	2.6	2.1	2.6	2.2
Greece	3.0	2.8	2.5	2.4	2.2	2.2	2.3	2.8	2.3
Portugal	1.9	1.9	2.0	2.1	2.2	2.2	2.1	2.0	2.2
Switzerland	-0.1	0.1	0.5	0.6	0.6	0.7	0.8	0.2	0.7
Sweden	2.3	2.5	2.2	1.3	1.4	1.6	1.9	2.3	1.6
Bulgaria	3.6	3.8	3.9	1.9	2.7	2.8	2.9	3.8	2.6
Croatia	3.4	3.3	2.9	2.6	3.4	3.6	3.9	3.3	3.4
Czech Republic	2	2.5	2.7	2.4	2.5	2.3	2.3	2.6	2.4
Hungary	4.4	4.3	4.6	3.1	4.0	4.4	4.5	4.6	4.0
Poland	4.1	2.5	2.5	2.3	2.6	2.5	2.5	3.5	2.5
Romania	5.2	7.2	7.6	7.0	7.4	4.8	4.3	6.2	5.9
Turkey	35.3	30.3	29.0	24.7	21.0	19.5	18.1	33.9	21.3
Serbia	3.9	3.4	3.0	3.0	3.4	3.5	3.5	3.7	3.3
Azerbaijan	6.1	4.6	4.8	4.6	4.9	5.2	5.7	5.3	5.1
Kazakhstan	11.3	11.8	12.5	14.3	13.3	12.1	11.0	11.3	12.7
Russia	9.8	9.1	7.8	6.7	6.3	6.0	5.6	9.2	6.2
Ukraine	14.0	12.0	8.4	7.0	6.7	6.5	6.3	12.0	6.6
China	-0.1	-0.1	0.1	0.8	0.5	1.0	2.0	-0.1	1.1
India	3.8	3.5	3.5	4.5	4.5	4.7	4.4	3.6	4.5
Indonesia	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.2
Korea	2.1	2.0	2.3	1.5	1.7	1.8	1.9	2.1	1.8
Philippines	1.5	1.5	2.0	3.0	3.0	3.0	3.0	1.8	3.0
Singapore	1.3	1.4	1.5	2.0	2.0	2.0	2.0	1.3	2.0
Taiwan	1.8	1.5	1.4	1.0	1.4	1.4	1.5	1.7	1.3

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas price forecasts (avg)

	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Brent (\$/bbl)	65	62	58	56	67	57
Dutch TTF (EUR/MWh)	37	39	37	30	40	33

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