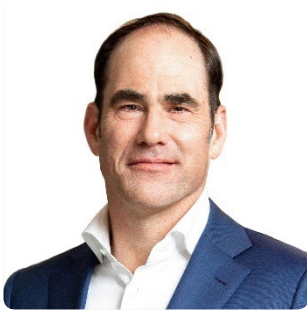


ING Monthly

June 2025

A blockbuster plot worth following





A blockbuster plot worth following

It's not every day I compare the global economy to Tom Cruise's blockbuster movies. But amid the noise, the stunts and the audience's appreciation and shock, this is a plot worth following

What are we watching?

As a self-declared movie buff, I love nothing more than settling into any new movie. Recently, I watched the latest instalment in the seemingly endless Mission: Impossible series: The Final Reckoning. Tom Cruise, still sprinting like it's 1996, takes on a new villain: AI. The film delivers what you'd expect: high-octane stunts, explosions, and a plot so elusive it might as well have been classified. I left the theatre wondering what exactly I had just watched. Lots of action, very little story.

And that's when it hit me: this felt oddly familiar. Welcome to the global economy in 2025.

No shortage of drama

We're nearly halfway through an action-packed year. There's been no shortage of drama, some meaningful, much of it not. However, unlike Mission: Impossible, the global economy does have a storyline, it's just not always easy to follow.

Let's rewind: tariffs - some more charming than others - market volatility, questions about Fed independence, a U.S. credit downgrade, fiscal stimulus on steroids, rising debt, deportations, visa restrictions for foreign students, the war in Ukraine entering its fourth year, and Germany doing a fiscal U-turn with a likely doubling of defence spending. And that's just the highlights reel.

This isn't another Hollywood sequel. Even if not every policy twist is meaningful, we're clearly in the middle of a structural shift. And it's still too early to separate noise from narrative, but some themes are emerging:

- the highest global tariff levels since the 1930s,
- growing investor concerns about America's debt sustainability, and
- rule of law, and a geopolitical landscape that's anything but stable.

Germany's fiscal mindset has changed—at least for now (they prefer calling it “fiscal investing”). Europe is waking up to the reality that it can no longer rely on the U.S. for its security. ECB President Christine Lagarde has dubbed this a “global euro moment.” That might be a touch too Ethan Hunt for some, but the message is clear: Europe needs to step up.

A nail-biting ending

But let's be honest; this 'moment' won't materialise through speeches alone. Europe must build a fully integrated financial and capital market, foster a competitive and innovative economy, and be ready to act as a global backstop in times of crisis, be that financial, geopolitical, or even military. Let's hope this time there's more follow-through than there was with the [Lisbon Strategy](#), which once promised to make Europe “the most competitive and dynamic knowledge-based economy in the world.” We all know how that movie ended.

So, while the global economy may not have Tom Cruise dangling from helicopters, it does offer a plot worth following, one with real consequences. And for the record, my favourite Cruise moment isn't from Mission: Impossible at all. It's from Magnolia. But drawing parallels between that and today's economy would definitely earn this update an X rating.

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Watch: Why the global economy's like a Tom Cruise blockbuster



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Our key calls this month

- **Tariffs:** The 10% baseline and 30% China tariffs remain and despite the recent court ruling, the tariff landscape is unlikely to change. Steel tariffs stay at 50% but aluminum falls back to 25%. Other sector tariffs (eg pharma/copper etc) to come in 3Q/4Q.
- **United States:** Tariff front running led to a drop in GDP in the first quarter, but a subsequent plunge in imports means growth of around 4% looks probable in the second. This masks a slowing in private demand growth due to tariff and job uncertainty. We expect the economy to expand 1.6% this year and 1.3% in 2026. The Fed is likely to start cutting rates in the fourth quarter.
- **Eurozone:** We expect growth to slow in the second and third quarters and inflation to remain below 2% for several quarters. The ECB is set to cut rates once more in September.
- **United Kingdom:** Growth is set to slow after a strong first quarter. Headline inflation is set to stay above 3% this year but service-sector price pressures should cool. That should cement two further Bank of England cuts this year.
- **China:** Developments over the past month have boosted the second and third quarter outlooks. Together with a smaller-than-feared impact from April's tariffs, we expect 4.7% 2025 growth.
- **FX:** While we're not expecting the dollar to collapse, we do think there are enough negative factors out there to keep it under pressure for the rest of the year. We expect EUR/USD to end the year at 1.15.
- **Market rates:** The US front end can certainly be dragged lower should economic data disappoint in the coming few months (and quarters), but this should mostly serve to steepen the curve. The primary driver of longer-term yields comes from longer-term issuance pressure. We expect the US 10-year yield to end 2025 at 4.75%.

ING global forecasts

	1Q24	2Q24	2024			2025F					2026F				
			3Q24	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F
United States															
GDP (% QoQ, ann)	1.6	3.0	3.1	2.5	2.8	-0.2	3.6	-0.6	0.4	1.6	1.2	2.0	2.1	2.3	1.3
CPI headline (% YoY, aop)	3.2	3.2	2.7	2.7	3.0	2.7	2.5	3.5	3.8	3.1	3.3	3.3	2.3	1.8	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	4.50	4.75	4.75	4.75	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					102					104
Eurozone															
GDP (% QoQ, ann)	1.0	0.9	1.6	1.2	0.8	2.5	0.2	-1.3	0.6	1.0	1.2	1.4	1.8	2.1	0.9
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	2.50	2.50	2.60	2.60	2.60	2.70	2.80	2.80	2.80
Fiscal balance (% of GDP)					-3.2					-3.4					-3.4
Gross public debt/GDP					89.6					90					91.2
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	2.7	2.2	3.0	1.5	1.8	2.1	2.2	1.9
Target rate	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
3-month interest rate (% eop)	0.26	0.30	0.43	0.62	0.62	0.82	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
10-year interest rate (% eop)	0.73	1.06	0.86	1.10	1.10	1.50	1.60	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.75
Fiscal balance (% of GDP)					-7					-5					-5
Gross public debt/GDP					236					238					235
China															
GDP (% YoY)	5.3	4.7	4.6	5.4	5.0	5.3	4.9	4.6	4.2	4.7	4.3	4.2	4.2	4.1	4.2
CPI headline (% YoY, aop)	0.0	0.3	0.5	0.2	0.2	-0.1	-0.1	0.0	0.2	0.0	1.1	0.8	0.8	1.8	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	1.20	1.20	1.20	1.10	1.10
3M SHIBOR (% eop)	2.16	1.92	1.84	1.85	1.85	1.91	1.70	1.70	1.60	1.60	1.50	1.50	1.50	1.45	1.45
10-year T-bond yield (% eop)	2.30	2.21	2.20	2.00	2.00	1.70	1.70	1.65	1.65	1.65	1.65	1.70	1.80	1.85	1.85
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	2.9	1.2	0.2	1.0	1.2	1.1	1.0	0.8	1.0	0.9
CPI headline (% YoY, aop)	3.5	2.1	2.0	2.5	2.5	2.8	3.3	3.3	3.0	3.1	2.6	1.9	2.3	2.5	2.3
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	4.60	4.60	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					99.7					100
EUR/USD (eop)	1.08	1.08	1.12	1.05	1.05	1.08	1.13	1.14	1.15	1.15	1.15	1.15	1.16	1.17	1.17
USD/JPY (eop)	151	160	143	155	155	150	145	142	140	140	138	137	136	135	135
USD/CNY (eop)	7.22	7.26	7.01	7.25	7.25	7.28	7.17	7.15	7.20	7.20	7.20	7.20	7.15	7.15	7.15
EUR/GBP (eop)	0.86	0.87	0.84	0.83	0.83	0.84	0.85	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	64	62	59	65	58	56	58	54	57
Dutch TTF - EUR/MWh (average)	28	32	36	43	35	47	35	37	39	39	37	30	30	34	33

Source: ING forecasts

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US tariffs here to stay, trade deals 'largely symbolic'

Despite legal challenges to IEEPA tariffs, US trade policy remains firm. Tariffs on steel and aluminium have doubled, and new sectoral tariffs are expected. Trade deals may emerge, but most will be symbolic. Effective tariff rates will stay high throughout 2025



Donald Trump's tariffs are here to stay

In recent weeks, two major developments have shaped the trade landscape: a US court ruling questioning the legality of tariffs imposed under the International Emergency Economic Powers Act (IEEPA), and the doubling of tariffs on steel, aluminium, and related derivatives, effective from 4 June.

Despite these major developments, we believe that the average tariff rate is unlikely to shift significantly, as other tariff measures are expected to offset any reductions resulting from trade deals or court rulings.

The US Court of International Trade [ruled on 28 May](#) that President Donald Trump exceeded his authority using the 1977 IEEPA to impose tariffs. Directly affected by this ruling are the 10-30% tariffs on China, Canada, Mexico, and the rest of the world. A stay is currently in place pending appeal, following the US administration's immediate objection to the initial court ruling. The Court of Appeal has scheduled arguments for 31 July, meaning that tariffs under currently-used laws can stay in effect at least until then.

Despite the legal setback, the tariff landscape is unlikely to shift

Even if the IEEPA tariffs are ultimately overturned, we do not anticipate a significant shift in the overall tariff landscape. For once, there are [fallback options](#) such as Section 122 (Trump can impose tariffs of up to 15% or quotas on all imports for up to 150 days to address balance-of-payments deficits. Extending tariffs beyond 150 days requires Congressional approval) or Section 338 (the president can impose new or additional duties on imports from a foreign country of up to 50%, or exclude its products from importation if the foreign country imposes unreasonable charges or discriminates against US commerce).

We still expect Section 232 and Section 301 tariffs to intensify over the next few months. While individual sectoral country tariffs and subsequent reductions are possible, most sectoral tariffs will stay irrespective of trade deals due to national security reasons, especially if tariffs under IEEPA are struck down. We expect that:

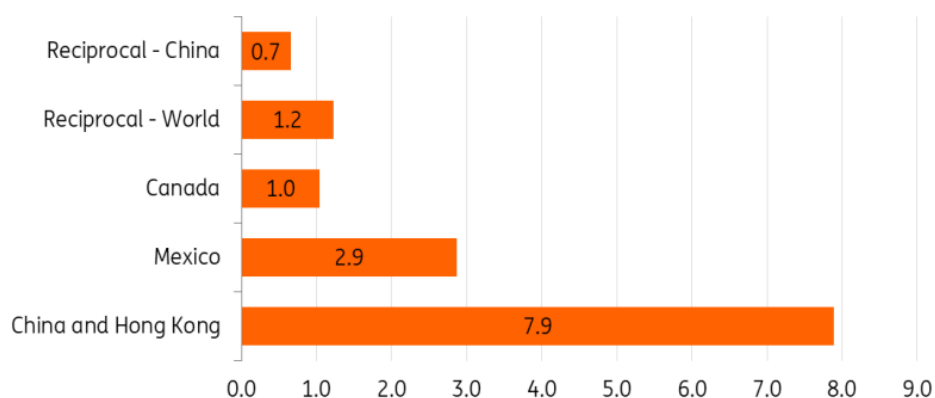
- Car tariffs will remain at a minimum of 10%, depending on trade deals, but for the majority of trade partners will remain at 25%.
- Steel tariffs will remain at 50% and will not fall back to 25%.
- Aluminium tariffs, however, are more likely to fall back to 25% as US production is pretty much limited ([read our take here](#)).
- [Other sectoral tariffs](#) will most likely come in 3Q/4Q, probably in the range of 10-25% (copper, trucks, cranes, aircraft, pharma, etc.)

No US appetite for reciprocity with tariff revenue remaining strong

In general, we expect higher tariffs to stay. US Commerce Secretary Howard Lutnick made clear during a recent Senate Appropriations Committee hearing that the US is not looking for real reciprocity. Judging from his statements, the US is not interested in zero-for-zero deals or eliminating all trade barriers, as this would undermine the US agenda to generate new revenues and gain relative advantages vis-à-vis its trading partners.

Up to 30 April, revenues under IEEPA tariffs have totalled \$13.7bn, while tariff revenues under Section 201, 232 or 301 duty assessments total \$26.8bn for the 2025 fiscal year (October 2024 to September 2025).

Trade remedy duties on imported goods via IEEPA (as of 30 April, in \$bn)



Source: US Customs and Border Protection, ING

Trade deals: 'showcase' or the 'real deal'?

While a temporary tariff truce between the US and its trade partners is in place – ideally lasting until 8/9 July for most partners and 12 August for China – ongoing trade talks remain clouded by uncertainty. Several countries are engaged in negotiations with the US, but the nature and substance of any potential trade deal remain unclear, largely due to the lack of a defined US position.

Talks with the EU and China are reportedly progressing, with the US and China having reached a framework on 10 June. Yet there is no clarity on what a final agreement might entail. The risk of talks breaking down persists, and in such a scenario, the EU, Canada, and other stakeholders are preparing to implement (additional) retaliatory measures. Current discussions with China are centred on technology export controls and [rare earths](#), and both sides have agreed to ease some of these export restrictions, though specific details have not been disclosed. Meanwhile, a limited agreement with India is anticipated before the July deadline.

Overall, we expect most outcomes to be 'showcase' deals – agreements crafted for political optics rather than meaningful economic change. The US-UK case exemplifies the core issue: talks are happening successfully, but delivery is not.

It also means that by year-end, we do not expect the effective average tariff rate to be much different from its current value, meaning that the average effectively applied tariff rate will stay around its current level, i.e.

- EU: 10-15%
- China: 50%
- World: 10-15%

A reduction in tariff lines via trade deals or court rulings will be offset by other tariff measures.

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OPEC+ move to defend market share

The shift in OPEC+ policy suggests that oil prices will come under pressure towards the end of the year. Meanwhile, European gas prices are expected to remain well supported to bring in enough LNG



The large increases from OPEC+ will push the global oil market into a large surplus from 4Q25

OPEC+ goes with another large supply hike

Despite OPEC+ originally announcing three larger-than-expected supply hikes this year (the latest being a 411k b/d increase for July), which have essentially cemented the shift in the group's output policy, oil prices have held up relatively well. This is due to a flare-up in geopolitical risks, while the oil market remains tight, particularly in the spot physical market. This is reflected in the backwardation at the front end of both the Brent and WTI forward curves.

We continue to believe that OPEC+ will unwind its additional voluntary supply cuts at a quicker pace. In our balance sheet, we assume that by the end of the third quarter, the group will have restored the full 2.2m b/d of supply, which would be 12 months ahead of schedule. Although in reality, the supply increase will be smaller, given that some members are already producing above their production targets.

The big unknown is whether OPEC+, and specifically Saudi Arabia, will be content after this supply is restored. Or will the group also start bringing back the 1.65m b/d tranche of voluntary cuts, which are currently scheduled to remain in place until the end of 2026? We are currently not assuming this supply will be brought back.

The large increases from OPEC+ will push the global oil market into a large surplus from the fourth quarter of this year onwards, which is why we see Brent trading lower towards the end of this year. We are currently forecasting ICE Brent to average \$59/bbl in 4Q25, unchanged from last month.

However, at these price levels, we will see a pullback in activity from the US oil industry. This is something we are already seeing, with the number of active US rigs having fallen by 33 over the last six weeks to 442 – the lowest level since October 2021. The reduction in drilling activity suggests potential downside risks for US crude oil production. The Energy Information Administration (EIA) recently forecast that US crude oil output will

fall by 50k b/d YoY in 2026, the first annual decline since 2021, when Covid-19 hit production. We believe there is still room for further revisions lower in US output. This should provide a floor for Brent in the mid-\$50s through 2026. Demand will also be important in determining how strong that floor is.

The key upside risk to our view is around Russian oil supply. For now, it appears as though the US administration is not keen to tighten sanctions against Russia. However, frustrations may grow if a peace deal between Russia and Ukraine remains elusive, which could eventually see sanctions targeting Russian energy flows. US senators are trying to push through a bill to impose strict sanctions on Russian energy. Any effective sanctions on Russian oil would dramatically change the outlook for the oil market, with Russia exporting more than 7m b/d of crude oil and refined products.

The US oil rig count has fallen to its lowest level since October 2021



Source: Baker Hughes, ING Research

Norwegian outages prop up the European gas market

European natural gas prices have been well supported over the last month as concerns grow over supply disruptions from Norway due to unplanned outages, along with scheduled maintenance. This saw Norwegian gas flows to Europe come under pressure in May and early June.

Meanwhile, EU gas storage continues to tick higher, but at 51% full, it is still lower than the 72% seen at the same stage last year and also below the five-year average of 62%. We believe it will be a challenge for the EU to hit its 90% storage target. While the region is working towards lowering its storage targets, it is not confirmed yet. Under proposals, the target will be reduced to 83% and under a scenario of unfavourable market conditions, this target could be lowered to as low as 75%. In addition, rather than meeting the target by 1 November, it can be met anytime between 1 October and 1 December.

The EU has relied more heavily on LNG so far this year, making up for Russian pipeline supply losses. EU LNG send-outs in May hit record levels, after very strong send-outs in March and April as well. Europe will need to continue to pull in large amounts of LNG to get near its storage targets, and in order to do that, prices will need to stay at elevated levels. The issue is that JKM is currently trading at a premium to TTF, which could in fact lead to a fall in LNG flows into Europe.

We continue to hold onto our view that TTF will average EUR38/MWh over the second half of 2025. For 2026, we expect prices to average EUR33/MWh as the global LNG market becomes better supplied.

Our latest views on the major central banks

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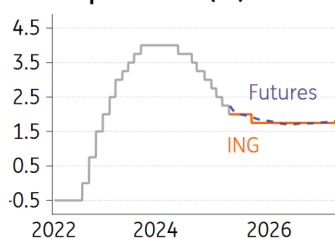
Our take on what could be next for the Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan over the coming months



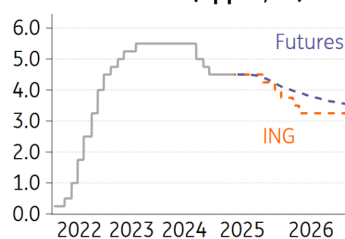
Fed Chair, Jay Powell, at a conference in Washington earlier this month

Our Fed and ECB view

ECB Deposit Rate (%)



Fed Funds Rate (upper, %)



Source: Macrobond, ING

Federal Reserve: 50bp cut in December with a further 75bp of cuts in 2026

The market angst over what the “Liberation Day” tariffs may mean for the global economy triggered swift policy backtracking. The subsequent de-escalation of tensions suggests that downside GDP growth risks have diminished and upside CPI fears have faded a touch relative to our previous expectations.

Nonetheless, damage has resulted in steep falls in consumer confidence, suggesting downside risk to consumer spending growth. A lack of clarity on the trading environment means there is also the potential for corporates to delay decisions on hiring and investment. Tariffs do risk higher goods prices, but the squeeze on spending power could lead to cuts to discretionary spending that impact the service sector and cool inflation faster there. There is also evidence of softer housing-related inflation on the way, and we look for inflation to return to 2% in 2026.

The Federal Reserve continues to suggest that it expects the Fed funds rate to settle at 3% versus the current 4.5% level. The key question is how long the central bank is prepared to wait until it is comfortable enough to cut. We don’t disagree with the

market pricing of 50bp of cuts this year, but rather than September and December, we are favouring a 50bp move in December, followed by three 25bp cuts in 2026. This would be a similar playbook to the Fed's actions in 2024, where it waited until it was comfortable to commit to a lower interest rate environment.

European Central Bank: The normalising monetary policy cycle is almost over

Within a year, the European Central Bank's inflation assessment has dramatically changed. From 'stubbornly high' and difficult 'last miles', the ECB has shifted towards risks of inflation undershooting. For the first time, the central bank brought forward the moment when inflation would drop below 2%. Even if there seems to be a majority of members viewing the acceleration of disinflationary pressure mainly as transitory due to energy prices and the stronger euro, every additional inflation undershooting will provide new arguments for the doves.

For now, and unless trade tensions return with a vengeance – be it at the end of the current 90-day pause or at another time – we suspect that the ECB will stick to a wait-and-see approach over the summer. It will take a bit longer to understand whether the current disinflationary risks are merely one-offs or whether they signal a broader trend. Eventually, we see a clear risk of some aftershocks from recent developments on growth and inflation, which should provide enough room for at least one more rate cut after the summer.

Bank of England: Rate cuts to continue in August and November

Markets were left disappointed by the Bank of England's May meeting, where policymakers failed to endorse a faster pace of easing. BoE hawks are visibly concerned about headline inflation, which has risen above 3% and is set to stay north of that throughout 2024.

It seems officials are scarred by the experience of 2022, where higher food and energy prices seeped into service-sector inflation. We suspect those fears are overblown this time around, and with the jobs market cooling and wage growth/services inflation set to come lower too, there is plenty of scope to cut rates further. At 4.25%, Bank Rate is well above its neutral level, which is most likely around 3%. Recent BoE commentary has set the bar relatively high for accelerating the current once-per-quarter pace of cuts. That's why we expect cuts in August and November, as well as another two in 2026. That would take Bank Rate to 3.25%, which is lower than markets are currently pricing.

Bank of Japan: More rate cuts to come

The Bank of Japan will meet on 17 June. As no rate changes are widely expected, increasing attention is being paid to the interim assessment and plan of the bond purchase programme. We expect the pace of tapering, which is currently being reduced by ¥400 billion per quarter, to be maintained from April 2026 onwards despite the recent volatility in JGB markets.

BoJ Governor Kazuo Ueda clearly stated that the balance sheet reduction should be considered separately from the policy rate decision. The one-year real yield is a key tool used to assess the accommodativeness of the BoJ's monetary policy, which is heavily dependent on the policy rate. As this remains well below the zero rate, we continue to see more policy normalisation to come. The fragile state of the economy and the uncertainty surrounding trade negotiations may put the Bank of Japan in a difficult position. However, given the build-up of underlying inflationary pressures, we anticipate a slightly higher chance of a 25bp hike in July.

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Trade swings mask cooling US demand growth

Tariff front running led to a drop in GDP in the first quarter, but a subsequent plunge in imports means growth of around 4% looks probable in the second. This masks a slowing in private demand growth due to tariff and job uncertainty. We expect the economy to expand 1.6% this year and 1.3% in 2026



People in Times Square, New York

Violent trade swings make forecasting challenging

The US economy contracted in the first quarter as tariff front-running led to a surge in imports and resulted in net trade knocking 4.9 percentage points off headline growth. The subsequent collapse in imports in the wake of the 'Liberation Day' tariff announcements means we could quite easily see GDP growth surge 4% in the second quarter. Trade volatility looks set to mask underlying domestic demand trends for much of this year.

US Goods exports and imports (\$bn)



Source: Macrobond, ING

Tariff and trade uncertainty will limit domestic demand growth

Consumer spending and investment held up pretty well in the first quarter, but the steep falls in consumer sentiment seen so far this year suggest we should expect to see a cooling over subsequent quarters. While inflation has been surprisingly benign so far, households are anxious about tariff-induced price hikes that will squeeze their spending power over the summer. At the same time, there is apparent nervousness about the jobs market while equity market volatility has raised concerns about the resilience of household wealth. This is already translating into a rising household savings ratio from 3.5% in December to 4.9% in April. The corporate sector is also wary of putting money to work until there is more clarity on the trading environment.

This is resulting in a slowing in labour demand, particularly for the traditional growth engines of the US economy such as technology, construction and business services. In fact, 87% of all jobs added in the US economy over the past two and a half years have come in just three sectors: government, leisure & hospitality, and private health & education services. In May, the latter two categories accounted for 135k of the 139k total jobs added in America.

Our concern is that all three sectors look vulnerable given the current economic and political climate. Government jobs are now being lost, and this will accelerate after September when those who accepted voluntary severance deals drop off the payroll. Health and education jobs are at risk from government efforts to trim spending on healthcare programmes, while leisure and hospitality spending is one of the first things to be cut when consumers become cautious, suggesting employment growth will slow here too.

Tariff induced inflation will fade

Inflation has been quite soft in recent months, but there are clear upside risks to goods prices from July onwards. There is some optimism that trade deals will be signed, but tariffs are here to stay and will increasingly become evident with the Federal Reserve's Beige Book warning, *"all District reports indicated that higher tariff rates were putting upward pressure on costs and prices... A few Districts described these expected cost increases as strong, significant, or substantial"*. This will keep the Federal Reserve nervous about cutting interest rates anytime soon.

In the immediate aftermath of 'Liberation Day' tariff announcements, equity markets fell sharply, and Fed funds futures markets were discounting 100bp of Federal Reserve interest rate cuts in 2025. The subsequent de-escalation of tensions led financial markets to believe the downside GDP growth risks have diminished, and upside CPI fears have faded a touch. The sense is that the Fed is still going to be in a position to cut interest rates, just not quite as aggressively/quickly as previously thought.

Financial markets are currently pricing 50bp of Federal Reserve interest rate cuts this year. We don't disagree with this, but we suspect the Fed will follow a similar playbook to 2024 and wait and wait until they are convinced they can afford to cut rates. So, we slightly favour a 50bp move in December rather than two 25bp cuts that start in September. Weakening housing inflation should allow for more interest rate cuts in 2026, with the Fed funds rate expected to settle at around 3.25%.

Big Beautiful Bill provides lots of red ink, but little to boost growth

Trade isn't the only uncertainty in the US. We also have President Trump's Big Beautiful Bill to contend with, which still needs to pass in the Senate. On the face of it, this is a huge fiscal giveaway, but we need to remember that the majority of the Bill is an extension of the 2017 tax cuts, so while it provides lots of red ink for the fiscal metrics, it generates little positive impetus for US economic activity.

Tips and overtime pay will be temporarily removed from taxable income, and there'll be a temporary increase in the standard tax deduction for seniors; these are the main income boosts. This may, on the face of it, lift growth one to two tenths of a percentage point, but there are cuts to government grants, particularly for 'green' environmental-related areas, while the government will also be looking to trim spending on healthcare provision. There will be more money for defence and border security.

The concern is that this will mean US government deficits and debt levels continue to rise, with entitlement spending and healthcare provision growing faster than tax receipts. This runs the risk of higher government borrowing costs that will worsen the debt dynamics of the US economy while also pushing up borrowing costs for households and corporates, which are determined by what happens at the longer end of the yield curve.

Irish 'boom' disguises eurozone weakness

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The strong GDP growth reading in the eurozone for the first quarter was largely due to special factors, which are expected to balance out in the second and third quarters. Meanwhile, inflation is now projected to remain below 2% for several quarters. That said, the ECB is nearing the end of its easing cycle



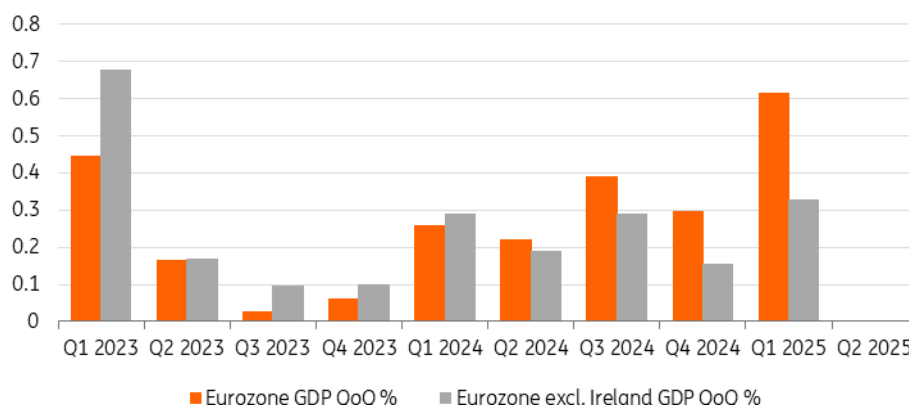
Inflated Irish GDP figures are masking eurozone weakness

The Irish distortion

The trade war, much like the Covid-19 pandemic, has strongly influenced economic data. Eurozone exports to the US surged in the first quarter as US importers sought to increase their inventories before import tariffs were imposed. Additionally, growth in the fourth quarter of 2024 and the first quarter of 2025 was revised higher, mainly due to Irish GDP figures.

Despite Ireland representing only around 4% of eurozone GDP, it contributed about half of the 0.6% GDP growth in the eurozone for the first quarter. This was driven by the strong performance in the pharmaceutical sector and distorted GDP figures resulting from tax-induced accounting practices by foreign multinationals. The presence of intellectual property rights in Ireland leads to licensing revenues being recorded there, inflating Irish GDP – even though much of this income is ultimately channelled away.

This part of GDP does not represent any real economic activity in Ireland but still affects eurozone growth numbers. Some payback is expected in the second and/or third quarter, as Irish manufacturing production fell by 13.7% month-on-month in April. One thing looks certain: growth figures are likely to remain volatile.

Eurozone GDP growth with and without Ireland

Source: LSEG Datastream

Unemployment expectations rise

Looking past the distorted figures, the eurozone economy appears rather weak. While sentiment in the manufacturing sector has improved from very low levels, the sector remains vulnerable to further tariff actions, with the impact of increased US import tariffs on steel and aluminium (now at 50%) expected to show in June sentiment surveys. Meanwhile, the services sector is losing momentum, possibly reflecting weakening domestic demand.

Unemployment expectations rose in May to the highest level in five months, which will likely increase the savings ratio and reduce consumer expenditure. The current high-uncertainty environment is also likely to weigh on business investment in the short term.

After weak or negative growth in the second and third quarters, we anticipate a gradual improvement in the growth profile, supported by expansionary fiscal policy in Germany and lower interest rates. We have adjusted our GDP growth forecast to 1.0% for 2025 and 0.9% for 2026, due to carry-over effects.

Inflation on a downward path

Inflation is finally evolving favourably, with the May headline harmonised inflation rate falling to 1.9%, while underlying inflation dipped to 2.3%.

Energy prices are likely to continue exerting downward pressure on headline inflation in the coming quarters. Wage growth is decelerating, and the slowdown in services is now capping selling price expectations. Food prices still exert upward pressure on inflation but not enough to reverse the downward trend.

We now expect headline inflation to remain below 2% until the middle of next year, resulting in an inflation forecast of 2% for both 2025 and 2026.

The end of the easing cycle approaches

As expected, the ECB cut its key interest rates by another 25 basis points in June. However, during the press conference, ECB President Christine Lagarde stated that the central bank has "nearly concluded a monetary policy cycle," indicating limited further downward room for interest rates.

We believe the ECB will pause its easing cycle in July, but another rate cut is likely in September due to a weak economy and inflation below 2%. Afterwards, rates are expected to remain stable for an extended period.

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The UK's deteriorating jobs market should ring alarm bells at the Bank of England

UK job losses are picking up pace, casting doubts over the Bank of England's gradual approach to rate cuts. It's also bad news for Chancellor Rachel Reeves, whose fiscal headroom already looks like it has completely evaporated since the Spring Statement in March. Tax rises loom in the autumn



Andrew Bailey, Governor of the Bank of England

Job losses appear to be picking up pace

A lot has happened in the UK over the past month, but a surprisingly bad jobs report has set off fresh economic alarm bells recently. It showed that employee numbers are falling at the fastest rate outside of the Covid-19 pandemic, since the data began in 2014. These numbers tend to get revised up later, but still, employment is down by more than a percentage point since the end of last year and has fallen in nine out of the last 10 months.

At face value, this has a clear recessionary feel to it. We're sceptical that's where we're heading, but these figures do at least tell us that the economy will struggle to sustain the astonishingly strong 0.7% quarterly growth rate recorded in the first quarter.

In fact, we think those figures probably overstate recent strength. Some of it was linked to firms' frontloading of US tariffs. But in general, the GDP data has been stronger in the first half of the year than the second, ever since 2022. That hints at problems with the way the numbers are adjusted for seasonal patterns.

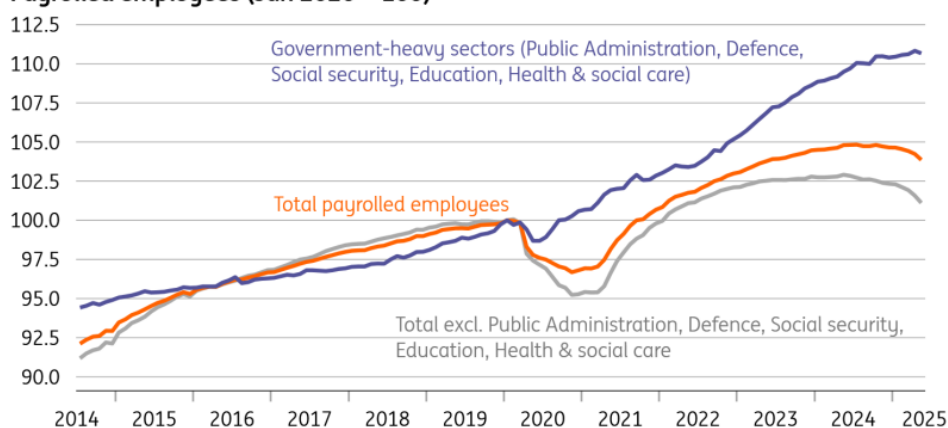
Weaker growth and a cooler jobs market raise questions about the Bank of England's reticence to cut interest rates more quickly. Wage growth has already slowed from 6% to 5% in annual terms, and we think it should fall towards 4% and perhaps below by the end of the year. Similarly, we think services inflation – which is intrinsically linked to wages and a key focus at the Bank of England – should fall from 5.4% to 4% by early 2026.

The bar for the Bank to cut rates more rapidly appears set relatively high, judging by recent comments. But we expect the committee to keep lowering them once per quarter through this year, in August and November, with further cuts in 2026. Were the

cooling in the jobs market to gather pace – in particular, if redundancies were to increase off their current low levels – then that could be a catalyst to move more rapidly.

Private sector employee numbers are falling

Payrolled employees (Jan 2020 = 100)



Source: Macrobond, ING

A weaker jobs market is bad news for the Treasury

A weaker jobs market is yet another headache for Chancellor Rachel Reeves. Even before the jobs numbers turned south, we thought it was highly likely the Office for Budget Responsibility would be forced to revise down its growth forecasts. That's on account of tariff uncertainty and weaker productivity growth. That would lower projections for tax revenues and make it much harder to balance the budget later this decade, which is what the fiscal rules require.

In March, the government was forecast to generate a slim surplus later this decade. By the autumn, we think those forecasts will show a deficit, particularly considering the growing pressure on the Treasury to boost spending. The Chancellor's spending review, which allocates previously set spending pots between government departments, demonstrated that there isn't enough money to go around. Day-to-day spending will likely have to rise more quickly in 2026 than currently budgeted.

That leaves a shortfall, perhaps above £20bn, that'll need to be filled to make the fiscal rules add up. We think tax rises are therefore inevitable and the way the fiscal rules work means that, counterintuitively, a weaker jobs market only makes that more likely.

China's growth remains steady despite the tariff dance

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China's April data slowed but outperformed expectations, while easing by the People's Bank of China and the 90-day truce along with an initial trade deal supports our forecast upgrade – despite lingering uncertainties



Performers outside the National Stadium in Beijing

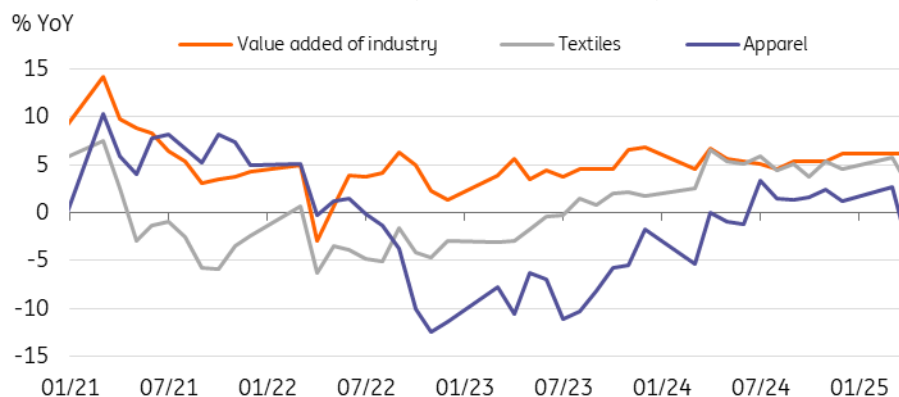
China's data softened but remained resilient amid April's tariff turmoil

The sharp escalation of tariffs in April led to a wave of forecast downgrades in China, as markets weighed the impact on growth. Reports of halted shipping containers and empty ports grabbed headlines. However, China's data releases over the past month, our first real look at the aggregate impact of tariffs, showed a less dramatic slowdown than feared.

Exports and industrial production were the most closely watched indicators, and both moderated in April. We observed a more pronounced slowdown in low-value-added sectors, such as textiles and apparel, where readily available substitute products led to a sharper decline in China's growth. This slowdown continued for exports in May, with exports to the US slumping by -34.5% YoY. However, the overall levels saw only a mild downturn as exports to other markets picked up part of the slack. We expect that the trade negotiation period could lead to another round of trade frontloading amid concern that tariffs could rise again.

Somewhat ironically, despite higher and faster-than-anticipated tariffs coming into effect, both export and industrial production grew faster in year-on-year terms through the first five and four months, respectively, of 2025 compared to the 2024 growth levels. With that said, PMI data does present a case for caution, with May's data remaining in contraction for a second consecutive month, and though we saw a rebound of export orders, the gauge remained in contraction territory.

While the direct impact may have been smaller than feared, tariffs continue to contribute to overall uncertainty and weak sentiment, and we have therefore seen a slowdown in both fixed asset investment and retail sales.

Low value-added sectors hit harder by tariffs while overall growth remained solid

Source: CEIC, ING

The PBoC seized the opportunity to ease policy as the yuan recovered

Markets have been looking for China's central bank to ease for some time, after various high-level meetings signalled easing to come at a "suitable time." With the CNY stabilising after the 90-day trade war ceasefire, this window had finally arrived, allowing the PBoC to cut benchmark interest rates by 10bp and the required reserve ratio by 50bp, freeing approximately RMB 1tr of liquidity.

We still think there's room for additional policy easing if needed later in the year, given deflationary pressures and the risk of moderating growth.

We are looking for another 20bp of rate cuts and 50bp of RRR cuts this year, though we suspect that the next move might not come until after the US Federal Reserve resumes rate cuts.

Initial trade deal boosts the outlook though Grand Bargain may remain elusive

After several stops and starts, China and the US reached an initial agreement to reduce trade tensions in London. Details remain sparse at the time of writing, but appear to include some loosening of restrictions around the edges, with the deal mainly featuring loosening of export controls on products such as rare earths from China and hi-tech exports from the US, as well as restrictions on Chinese students studying in the US. At the moment, it looks like tariffs will remain where they were at the start of the 90-day trade war ceasefire, meaning that this initial deal is a positive initial step.

While it certainly is encouraging that steps are being taken in the direction of negotiation rather than escalation, we can see that the 90-day trade war ceasefire is already showing that coming to any lasting "Grand Bargain" will be very challenging in such a short period. We expect that results may be limited to smaller or partial agreements where tariffs remain in place; as we said at the start of all the trade tensions, there certainly should be room for cooperation on issues such as fentanyl. If the current tariff levels remain in place, exports to the US should improve from the sharp declines seen in April and May, but should ultimately settle at a lower level, as easily substitutable products will likely lose out to other competitors.

It remains uncertain whether this 90-day deadline for reaching a trade deal still applies or if this agreement will be sufficient to keep tariffs at the current level. Reports are that no further talks are scheduled for now, but channels of communication remain open.

In the near term, we expect this current window of relatively lower tariffs to allow US importers to replenish inventories. Depending on whether or not the 90-day deadline still applies, we could see another round of import frontloading closer to August. Overall, developments in the past month have given a boost to China's second and third quarter outlooks. Along with the smaller-than-feared impact from April tariffs, we reverted our 2025 GDP forecast to the original 4.7% YoY level last month.

Asian growth is set to slow

Asia's boost from export front-loading is likely to fade, while the direct drag from tariffs will weigh on exports across the region. Inflation is expected to stay within central bank targets, which may prompt quicker and deeper rate cuts

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China's manufacturing sector has slipped back into contraction territory

Softer growth across Asia in the second half of the year

The first-quarter GDP data for Asia indicated signs of a slowdown in economic growth. A positive takeaway, however, is that domestic demand remained resilient across most economies in the region, supported by government spending, particularly in India, Malaysia, Singapore and the Philippines. Indonesia, however, stood out as an exception. Here, the political transition appears to have delayed fiscal disbursements, though we expect this to pick up later in the year.

On the external demand front, trade and manufacturing data continues to reflect the re-exporting of goods from ASEAN economies and Taiwan. Manufacturing PMIs for export-oriented countries such as Thailand, Taiwan, and Vietnam showed a notable rebound in May following a sharp deceleration in previous months. In contrast, China's manufacturing sector slipped back into contraction territory. The composition of exports suggests that the recent recovery and re-export activity have been primarily driven by electronics, while other sectors, such as automobiles, have started to show signs of weakness.

We continue to expect softer growth across Asia in the second half of the year. The boost from export front-loading is likely to fade, while the direct drag from tariffs – and the indirect spillovers via China – will weigh on exports across the region. On the domestic side, uncertainty around investment and capex plans is also likely to dampen demand, adding to the broader slowdown.

Disinflationary pressures intact across most of the region

Headline CPI inflation has remained benign across most countries, thanks to softer food and fuel prices. We expect inflation to stay within central bank targets for much of the region, creating room for policymakers to cut rates more quickly and more deeply.

India has already taken the lead with a larger-than-expected rate cut, signalling a shift in the regional policy tone. The Bangko Sentral ng Pilipinas (BSP) has also indicated that

it's open to delivering sizeable cuts, while Bank Indonesia has re-embarked on its easing cycle. With inflation largely under control across much of the region, we expect more central banks to follow suit, especially as growth risks mount and global monetary conditions begin to ease.

However, there is one country where the risk is skewed towards fewer rate cuts: Korea. With the new government in place, consumer and investment sentiment is improving rapidly on expectations of stimulus from expansionary fiscal policy. We have revised the growth rate up to 0.9% year-on-year, which will likely slow the pace of rate cuts from the Bank of Korea.

Regional policy rate cut outlook

- **Philippines:** Expected to lead the easing cycle with up to 100bp of additional cuts by mid-2026, on top of previous reductions. The central bank is prioritising domestic growth and inflation over alignment with the Federal Reserve.
- **Indonesia:** Still likely to deliver considerable easing of 75bp by 1Q,2026. Rising risks to growth from tariffs and an uncertain investment climate, combined with domestic policy uncertainty, increase the risks of higher-than-expected rate cuts.
- **Australia:** Set to maintain its gradual easing pace, cutting the cash rate by 50bp more this year, driven by lower-than-expected inflation due to a recent drop in oil prices, the government's plan to further extend electricity price rebates, and a deflationary impact on goods imported from China.
- **Korea:** More but cautious easing of 50bp more in the second half of 2025, with risks skewed towards fewer rate cuts given the uncertainty around trade negotiations and the fiscal policy stance of the new government.
- **India:** Already surprised markets with a 50bp cut and a shift to a neutral stance. While this may signal a pause, at least one more 25bp cut is likely later in the year as growth softens further.
- **China:** Plenty of room for targeted easing, especially as downward price pressures remain significant and real rates remain high. Alongside other measures to support domestic demand, we expect a further 20bp cut in the 7-day reverse repo rate in 2025.

CEE: Focus returns to the local story

Within the CEE region, the Hungarian and Romanian economies continue to surprise to the downside, while the Czech economy surprises to the upside. Inflation remains more mixed, with attention to local factors and more divergence within the region as central banks remain cautious

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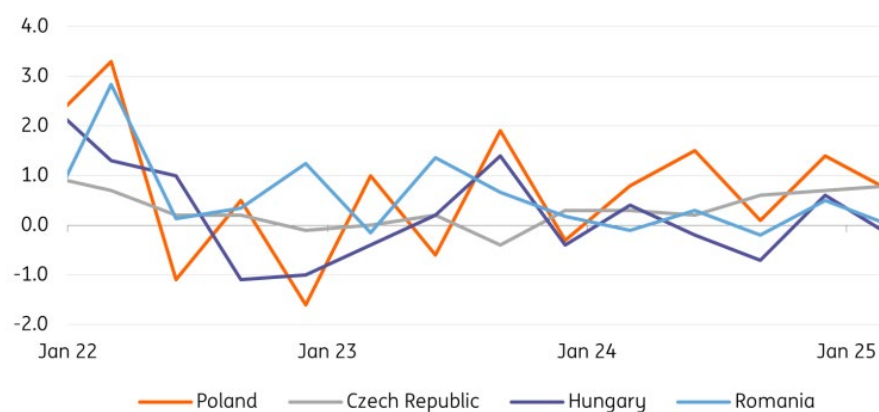
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GDP in CEE region (%QoQ)



Source: Macrobond, ING

Czech Republic: Strong consumer shadow lukewarm investment appetite

The Czech economy did well over the start of the year when it came to wage increases and overall GDP growth figures, and the expansion is set to carry on over the subsequent quarters. However, there are some soft spots when looking into the details, such as almost stagnant household consumption in quarterly terms and barely growing fixed investment over the medium term.

We see the economy further outperforming the eurozone, although elevated uncertainty and a low propensity to invest in the Czech Republic and across Europe pose tangible risks to a speedy rebound. The structural issues, such as prohibitively high energy prices and a suffocating regulatory burden, don't seem to be getting addressed

decisively or swiftly, which only adds to the fundamental question of whether the desire to improve competitiveness is still serious.

Czech annual headline inflation ticked up to 2.4% in May, coming in above market expectations and slightly above the Czech National Bank's forecast. The strong overall GDP figure, along with more potent headline and core inflation, will pave the way for a hawkish stance by rate-setters. In contrast, the subdued propensity to invest and lower European Central Bank rates are reasons for a lower terminal rate. The interplay between persistent services inflation driven by household spending, lukewarm investment activity in uncertain times, and the euro rate path will determine the landing runway for the Czech base rate.

Our base case scenario for the June CNB decision is no change to rates, while we still see some room for easing, with the rate potentially landing at 3.25% at the August meeting. The potent rate differential to the euro and better growth performance will further support the koruna.

Hungary: The economy remains grounded and is facing several challenges

Based on the details of the unexpectedly weak first quarter, the short-term outlook for the Hungarian economy has worsened. Consequently, we have further downgraded the 2025 GDP growth outlook to just 1.0%, with an average forecast of around 3% for 2026-2027.

The elephant in the room remains the lack of confidence among households and businesses. As a result, consumption growth has slowed down significantly, and investment activity continues to decline sharply. The economy has now reached a point where even the labour market, seen as a silver lining until now, has started to weaken. The number of participants and the number of people employed in the labour market have sunk to levels not seen in two years. While wage growth has unsurprisingly continued to decelerate, there has been no significant easing of price pressures.

Inflation continues to hover around 4%, despite the lack of demand-side pressure and the implementation of price-curbing measures (both mandatory and voluntary). High inflation expectations appear to be becoming increasingly ingrained in the mindsets of economic actors, creating a long-term issue. We therefore forecast inflation to average 4% during the 2025-2027 period.

Despite all the challenges, we don't believe that demand for Hungarian assets will collapse. The risk premium will increase relatively as major central banks and regional peers continue to ease monetary policy. While this could theoretically lead to easing in Hungary, we expect the National Bank of Hungary to keep the base rate unchanged until at least the end of the year. This will provide investors with the necessary risk premium to counterbalance the risks stemming from the deteriorating fiscal outlook (via weaker economic activity and labour market metrics, as well as mounting political challenges for the government), and the risk of a downgrade to Hungary's credit rating.

In this environment, we expect range trading in the Hungarian forint with a potential slide towards the top of the range. In our view, this equates to 415-420 by the end of the year. The rates market is taking back some expectations of NBH rate cuts this year, pushing the IRS curve up, also supported by global developments. Still, the long end of the curve seems too high given our bearish views, but the risk sheet for a further move up is decent.

Romania: Catching the last train on fiscal correction

With calmer waters in the Romanian markets following the electoral turmoil, all eyes are now on the soon-to-be-adopted fiscal measures. Political negotiations for the formation

of a new government are also ongoing. The latest EU Commission assessments released on 4 June point to the fact that Romania needs to implement fiscal measures quickly, throughout June, to remain in good standing with EU funds. We now expect a fiscal deficit of 7.5% of GDP in 2025 (previously: 7.0%).

Our GDP growth base case remains for slight acceleration to 1.2% (2024: 0.8%), with downside risks at play. Private consumption growth should moderate while exports are set for another sluggish year, but productivity improvements amid infrastructure upgrades and the Schengen ascension should contribute positively to activity through higher productivity.

On FX, from the current range of 5.04–5.07, we anticipate a gradual depreciation to 5.10 by end-2025 and towards 5.18 by end-2026. Under normal market conditions and with improved EU fund inflows, a sharper depreciation would likely be unacceptable to policymakers at this stage.

On the monetary policy front, the National Bank of Romania left rates on hold at its May meeting. Our base case remains for two 25bp rate cuts in October–November, with clear upside risks, and for inflation to end 2025 at 5.0%. Multiple factors at play are key for rate cuts to even be on the table going forward: stable government, credible fiscal reform, continued access to EU funds, preserved rating, money market rates falling back below the policy rate, and well-behaved inflation.

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CIS-4 face higher CPI risks despite stronger exchange rates

As global volatility has eased somewhat, markets in the CIS region are turning their focus back to issues closer to home. Most of the region's currencies are strengthening against the dollar, although country-specific constraints are weighing on performance. Meanwhile, inflationary pressures are mounting, complicating matters for central banks



The Armenian dram is stronger than expected. Pictured: shoppers in Yerevan

CIS-4 currencies edge higher, but domestic constraints temper gains

Over the past four weeks, the currencies of the CIS-4 – excluding the pegged Azerbaijani manat – have appreciated by 1.5-2.0% against the US dollar. This movement largely reflects the continued weakness of the greenback relative to core global currencies. However, this performance appears modest when viewed alongside a 6-7% rebound in Brent crude prices, an ongoing 1% gain in gold, and a further 3% strengthening of the Russian ruble – a key trade partner currency for most CIS-4 economies.

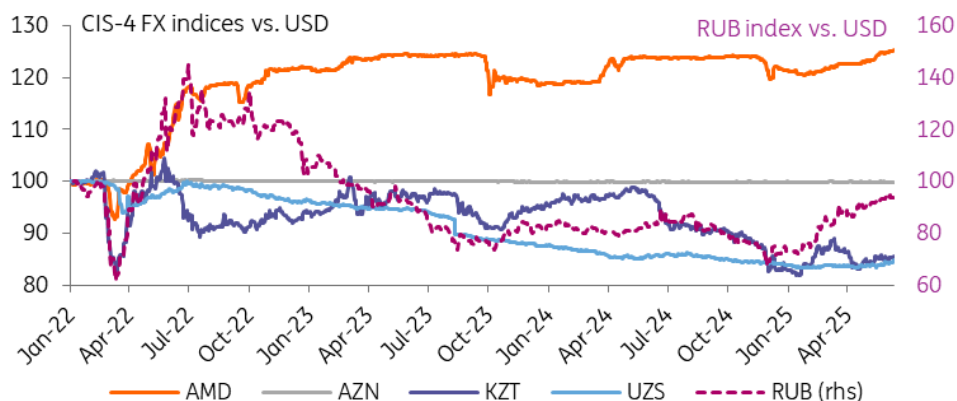
We believe this restrained appreciation is primarily due to domestic factors. Chief among them is a deterioration in trade balances driven by rising imports, with Uzbekistan being the notable exception. In Armenia's case, country-specific foreign policy challenges have added to the pressure. Kazakhstan's ongoing tensions with OPEC+ regarding oil production quotas are also drawing attention.

Despite these headwinds, the Armenian dram remains significantly stronger than our expectations, and the Uzbek soum's pause in its multi-month depreciation trend should be seen as a positive development. Conversely, Azerbaijan's continued currency peg, despite a shrinking trade surplus and growing uncertainty around energy prices, may eventually bring its FX market into sharper focus.

Overall, we remain constructive on CIS-4 currencies in the near term, supported by [relative macroeconomic resilience](#). However, we see limited support for sustained appreciation over the longer horizon, as country-specific challenges are likely to weigh on performance.

CIS-4 FX lifted by weaker dollar amid mixed domestic factors

Index of CIS currencies vs. US Dollar, Year-end 2021 = 100



Source: Refinitiv, CEIC, national sources, ING

Inflation pressures are up, putting central banks in the spotlight

The appreciation of floating exchange rates across the CIS-4 region since the start of the year should, in theory, exert a disinflationary effect. However, this has been outweighed by mounting pro-inflationary pressures. Consumer price inflation has been trending upward across most of the region since mid-2024.

Uzbekistan stands out as an exception, showing some moderation in inflation recently, although this is largely a base effect following last year's spike driven by domestic utility tariff hikes. Even with the recent decline, inflation remains elevated at around 10% year-on-year.

The drivers of inflation in the CIS region over the past 12 months are both supply and demand-side in nature. On the supply side, key contributors include rising global food prices, a front-loaded increase in freight costs amid global trade woes, persistent inflation in Russia (a major trade partner), and domestic utility tariff increases in Kazakhstan and Uzbekistan. In Kazakhstan, expectations of a VAT hike in 2026 are also adding to the current price pressures.

On the demand side, expansionary fiscal policies in Armenia, Kazakhstan, and Uzbekistan, along with credit growth in Armenia and Kazakhstan, are fuelling domestic demand and adding to inflationary momentum.

The recent rise in inflation across the CIS region is placing national central banks in a difficult position. On one hand, they cannot ignore mounting price pressures and the growing divergence from their official CPI forecasts. This has already prompted several rounds of key rate hikes in Kazakhstan and Uzbekistan over recent quarters.

On the other hand, the inflation spike is largely driven by cost-side factors, such as utility tariffs and imported inflation, while uncertainty around both global and domestic demand complicates the policy response. For instance, in its meeting last week, the National Bank of Kazakhstan (NBK) [acknowledged rising inflation risks](#), including demand-side pressures, but chose to keep the policy rate unchanged, instead opting to curb retail lending through macroprudential tools.

The Central Bank of Azerbaijan (CBRA) [held the key rate steady](#) this week despite accelerating inflation and even signalled the possibility of a rate cut, likely reflecting concerns over subdued domestic demand. The Central Bank of Uzbekistan (CBRU) decided today to keep its policy rate unchanged at 14.00%, with the [commentary](#) focused on persisting proinflationary risks, likely limiting the room for rate cuts in future. The Central Bank of Armenia (CBA) is also likely to hold its policy rate steady at 6.75%

despite rising inflation due to ongoing uncertainty surrounding the composition of inflation drivers.

Overall, we reiterate our view that the current environment limits the scope for rate cuts in the CIS region – especially when compared to developed markets. However, the reluctance to tighten monetary policy further, particularly in light of the recent decision by Russia's central bank, underscores the delicate balance regional policymakers are trying to strike between inflation control and supporting domestic demand. Further fiscal and FX performance will remain important watch factors for all the CIS-4 countries, in our view.

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FX: Risk premium to stay in the dollar

While we're not expecting the dollar to collapse, we do think there are enough negative factors out there to keep it under pressure for the rest of the year



The dollar is likely to remain under pressure for the rest of the year

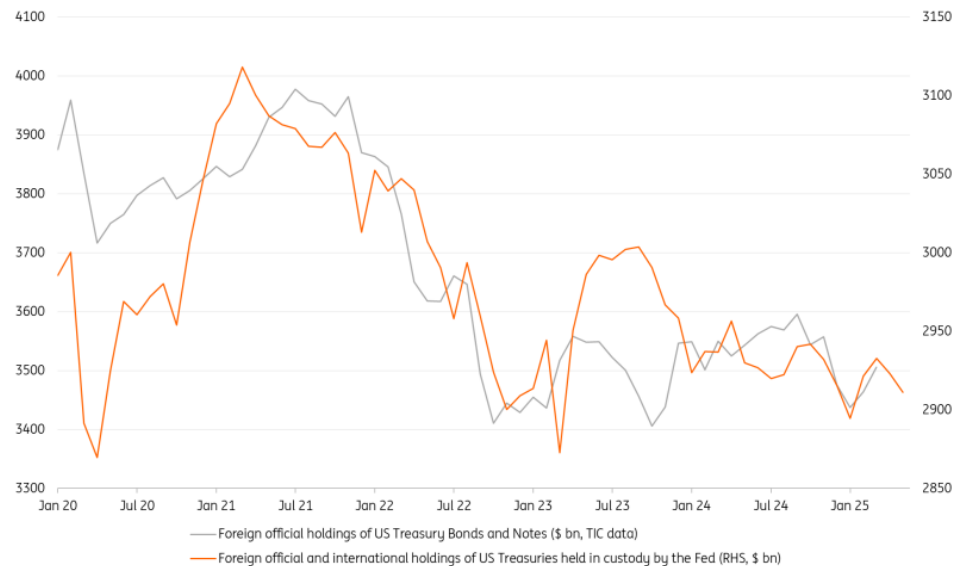
Divestment alert

There has been a lot of talk about the 'Sell America' thesis and also 'de-dollarisation'. The two are linked, but the former, in our opinion, best describes the acute sell-off in US asset markets in April. The latter represents the much slower, secular trend away from a unipolar to a multipolar global financial system.

Relevant for both is the view that foreigners will end up holding fewer US assets than they have previously. A key focal point here is the US Treasury market and any evidence that foreigners have indeed been selling. There will therefore be interest in the US TIC data released on 18 June, which covers the month of April. Were central banks one of the key communities selling Treasuries that month?

The chart below shows foreign official holdings of Treasuries, drawing on data from both the US Treasury TIC report and the Fed's custody holdings. The latter is a subset of the former, but they typically profile quite well. The more frequent release from the Fed shows a \$20bn decline in foreign official holdings since April and suggests the April TIC data could well support the foreign divestment hypothesis – a dollar negative.

Snapshot of foreign central bank holdings of Treasuries



Source: US Treasury, US Federal Reserve

The macro is dollar negative too

We expect tariff and US policy uncertainty to keep a risk premium in the dollar this year. One such policy on the market's radar is Section 899 of the tax bill, which threatens a new withholding tax on foreign investors whose governments are deemed to run discriminatory tax regimes. Should that go into law, expect the dollar to turn quite offered into year-end as global investors optimise portfolios ahead of its introduction in 2026.

But dollar weakness will not be entirely down to a risk premium. The softer US growth trajectory and the restart of the Fed's easing cycle later this year should keep the dollar offered. Fed rate cuts, in particular, can reduce dollar hedging costs and make it easier to increase hedge ratios on holdings of US assets. On this subject, we suspect that current high dollar interest rates are discouraging some of that activity.

Equally, the eurozone story should start to look a little more attractive through 2026 as the benefits of this year's fiscal stimulus decisions bear fruit. Importantly, we're looking for eurozone money market rates to start picking up in late 2026 ahead of what could be an ECB hike in early 2027. We expect EUR/USD to trade towards the upper end of a 1.15-1.20 range at that stage. And that's why this month we are nudging our EUR/USD forecast profile slightly higher.

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Rates: Downside limits for yields, versus bigger room to the upside

The Fed and ECB are expected to cut rates ahead. We'd then usually be bullish on longer-tenor bonds, especially given the tariff uncertainties. However, there isn't huge room for yields to fall. There's more room for yields to rise, with the biggest driver being fiscal deficit pressure. Watch for the passage of US tax cuts as a catalyst...



The European Central Bank and US Federal Reserve are expected to cut rates in the months ahead

How far can 10yr yields fall based off current thinking on interest rate cuts?

We've moved into calmer waters for market rates. The 10-year Treasury yield has recently tended not to stray too far from 4.5%. In the eurozone, the 10yr Euribor rate has trended around the 2.5% area, and the 10yr Bund yield is broadly flat to this.

If we were to map out a case for these rates to fall, we'd point to the rate-cutting tendency ahead as a key component. Here's how that would go for the eurozone and the US:

- In the eurozone, we anticipate that the European Central Bank will get to 1.75% (now 2.0%). The current 10yr rate is only 75bp above that future low. Perhaps we could squeeze a 25bp move lower. Realistically, the ECB would have to dip to 1.5% to make some room for a structurally lower 10yr rate. That, in fact, is the market discount. If that were to be realised, we could talk of 10yr rates dipping to the 2-2.25% area.
- In the US, the Federal Reserve is expected to cut to the 3.25-3.5% range (now 4.25-4.5%). That would imply a curve of some 115bp to the current 10yr yield at 4.5%. That appears to present value in the 10yr yield. However, we need to account for the swap spread to 10yr SOFR, which cuts the "true curve" down to roughly 65bp (10yr SOFR now at around 4%). Maybe we could squeeze a 25bp move to the downside. To see a proper manoeuvre to the downside for the 10yr yield, the Fed would need to cut much more than is currently discounted.

The bottom line is that when we look at yields' capacity to fall, we find there are constraints. Yes, there is macro angst to consider, and a rate-cutting backdrop. But we'd need more than is currently discounted to rationalise meaningful falls in longer-tenor yields.

The other extreme - how much room is there for yields to rise?

In contrast, when we consider the potential for yields to rise, things begin to open up. The key ingredient on both sides of the Atlantic is the fiscal balance.

In the US, if the tax-cutting package currently going through Congress ultimately gets passed (and it looks like it will), it will leave the bond market with no plan in place to reduce the fiscal deficit. This piles the issuance pressure on as a theme. In the eurozone, plans for more spending (on defence "plus"; Germany in particular) won't push average fiscal deficits to US-style extremes, but it 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 evolving through 2025/2026.

- For the US, we see the passage of the tax-cutting bill plus a tariff-induced rise in inflation as themes for the third quarter, manifesting in upward pressure on the 10yr yield. We pitch 4.75% as a target, but would not be surprised to see this extend to 5%. Subsequently, we have a calming process as the Fed cuts, starting in the fourth quarter. And the 10yr yield eventually eases its way back down towards 4.25% (mostly through 2026).
- For the eurozone, the bigger independent upside pressure for the 10yr Bund yield is through 2026 as the ECB finishes with cuts, and the aforementioned fiscal pressure builds. That coaxes the 10yr yield to the 2.75% area (and likely above).

Bigger upside to yields, and issuance pressure is the common denominator

On balance, we're left with a bearish tilt to our forecasts for bond yields. The US front end can certainly be dragged lower should economic data disappoint in the coming few months (and quarters), but this should mostly serve to steepen the curve. The primary driver of longer-term yields comes from longer-term issuance pressure.

Developed Markets (QoQ% annualised growth)										
	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	-0.2	3.6	-0.6	0.4	1.2	2.0	2.1	2.3	1.6	1.3
Japan	-0.2	0.0	0.4	0.8	0.8	0.8	0.8	1.2	0.8	0.7
Germany	1.7	-0.3	0.2	0.4	1.1	2.0	2.4	2.6	0.2	1.3
France	0.5	-0.2	0.4	0.8	0.8	1.2	1.2	1.2	0.4	0.8
UK	2.9	1.2	0.2	1.0	1.1	1.0	0.8	1.0	1.2	0.9
Italy	1.1	0.5	0.3	0.8	1.1	0.7	1.2	1.0	0.6	0.8
Canada	2.2	-0.2	-1.4	-0.5	1.2	1.8	2.3	2.5	1.1	0.8
Australia	1.6	2.0	2.2	2.2	2.8	2.4	2.4	2.4	2.0	2.6
Eurozone	2.5	0.2	-1.3	0.6	1.2	1.4	1.8	2.1	1.0	0.9
Austria	0.6	0.4	0.6	1.2	1.4	1.4	1.6	1.6	0.2	1.2
Spain	2.3	2.0	2.3	2.5	2.2	1.8	2.0	2.0	2.5	2.1
Netherlands	0.4	0.9	0.5	1.2	1.1	1.4	1.8	2.2	1.3	1.2
Belgium	1.6	-0.4	0.0	0.8	1.2	0.8	1.2	1.6	0.7	0.8
Greece	1.5	0.6	0.9	1.9	1.3	2.3	2.1	2.1	1.9	1.7
Portugal	-2.1	2.1	2.2	2.2	2.0	2.0	2.5	2.5	1.6	2.2
Switzerland	2.1	-0.4	0.0	0.8	1.2	1.6	2.0	1.6	1.1	1.1
Sweden	1.4	1.3	0.9	0.9	1.4	1.1	1.1	1.1	1.7	1.1
Emerging Markets (YoY% growth)										
	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
Bulgaria	3.1	3.0	2.8	2.4	2.3	2.4	2.4	2.3	2.8	2.3
Croatia	2.9	2.6	2.5	1.7	2.2	2.1	2.1	1.8	2.4	2.1
Czech Rep.	2.0	2.2	2.1	2.1	2.3	2.5	2.7	2.8	2.1	2.6
Hungary	0.0	-0.3	1.6	2.5	2.9	3.3	3.2	3.0	1.0	3.1
Poland	3.2	3.3	3.3	3.1	4.1	3.4	2.8	3.2	3.2	3.4
Romania	0.3	0.5	1.2	1.1	1.7	2.1	2.3	2.6	0.8	2.2
Turkey	2.0	2.9	3.0	3.3	4.0	3.7	3.3	3.0	2.8	3.5
Serbia	2.0	3.1	3.5	3.4	4.5	4.4	4.1	3.8	3.0	4.2
Azerbaijan	0.3	2.5	2.0	3.0	3.5	3.0	2.5	1.0	2.0	2.5
Kazakhstan	5.8	4.5	4.0	3.7	2.0	3.0	4.0	5.0	4.5	3.5
Russia	1.7	2.0	1.5	1.2	1.0	1.0	0.5	-0.5	1.5	0.5
Ukraine	2.2	3.0	4.0	4.5	4.6	4.3	4.0	4.0	3.3	4.3
China	5.3	4.9	4.6	4.2	4.3	4.2	4.2	4.1	4.7	4.2
India	6.7	6.4	6.2	6.2	6.8	6.8	6.8	6.8	6.4	6.8
Indonesia	4.9	4.9	4.7	4.7	5.0	5.0	5.1	5.1	4.8	5.1
Korea	-0.1	0.4	1.3	1.9	2.4	2.2	1.5	1.2	0.9	1.8
Philippines	5.4	5.2	6.0	5.8	6.1	6.1	5.9	5.7	5.6	6.0
Singapore	3.8	2.0	0.7	0.0	2.6	2.8	2.6	2.6	1.6	2.7
Taiwan	5.4	3.1	2.2	2.5	1.4	2.1	3.5	3.4	3.2	2.6

Norway: Forecasts are mainland GDP
Source: ING estimates

CPI Forecasts (pa)

YoY%	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	2.7	2.5	3.5	3.8	3.3	3.3	2.3	1.8	3.1	2.7
Japan	3.8	3.4	2.7	2.2	1.5	1.8	2.1	2.2	3.0	1.9
Germany	2.6	2.1	1.9	1.6	1.6	1.9	2.2	2.4	2.0	2.0
France	1.2	1.0	1.4	1.7	1.7	1.5	1.6	2.0	1.3	1.7
UK	2.8	3.3	3.3	3.0	2.6	1.9	2.3	2.5	3.1	2.3
Italy	1.8	1.9	1.7	1.7	1.7	1.8	2.1	2.2	1.8	1.9
Canada	2.3	1.8	2.4	3.1	3.0	2.4	1.6	1.4	2.4	2.1
Australia	2.4	2.0	2.4	2.8	2.8	2.7	2.5	2.4	2.4	2.6
Eurozone	2.3	2.0	1.9	1.8	1.8	1.9	2.0	2.1	2.0	2.0
Austria	3.3	2.9	2.3	2.1	2.1	2.1	2.1	2.1	2.7	2.1
Spain	2.7	2.0	2.1	2.0	2.1	2.1	2.1	2.1	2.3	2.1
Netherlands	3.3	3.8	3.1	2.8	2.8	2.2	2.2	2.3	3.3	2.4
Belgium	3.5	2.7	2.2	2.3	1.6	1.9	2.3	2.1	2.7	2.0
Greece	3.1	3.0	2.8	2.5	2.4	2.2	2.2	2.3	2.8	2.3
Portugal	2.3	1.9	1.9	2.0	2.1	2.2	2.2	2.1	2.0	2.2
Switzerland	0.4	-0.1	0.1	0.5	0.6	0.6	0.7	0.8	0.2	0.7
Sweden	2.3	2.3	2.5	2.2	1.3	1.4	1.6	1.9	2.3	1.6
Bulgaria	3.9	3.6	3.8	3.9	1.8	2.7	2.8	2.9	3.8	2.6
Croatia	3.6	3.4	3.4	3.0	2.5	3.3	3.5	3.8	3.4	3.3
Czech Republic	2.7	2	2.2	2.4	2.1	2.5	2.4	2.3	2.4	2.3
Hungary	5.3	4.1	3.8	4.1	2.6	3.8	4.4	4.5	4.3	3.8
Poland	4.9	4.1	2.5	2.5	2.3	2.6	2.5	2.5	3.5	2.5
Romania	4.9	5.2	5.7	5.7	5.1	5.4	4.4	4.3	5.4	4.8
Turkey	38.1	35.3	30.3	29.0	24.7	21.0	19.5	18.1	33.9	21.3
Serbia	4.5	3.9	3.4	3.0	3.0	3.4	3.5	3.5	3.7	3.3
Azerbaijan	5.6	6.1	4.6	4.7	4.5	4.9	5.2	5.7	5.2	5.1
Kazakhstan	9.4	11.2	11.6	12.2	14.1	13.1	12.1	11.0	11.1	12.6
Russia	10.1	9.8	9.2	7.8	6.8	6.3	5.9	5.6	9.2	6.1
Ukraine	13.6	14.0	12.0	8.4	7.0	6.7	6.5	6.3	12.0	6.6
China	-0.1	-0.1	0.0	0.2	1.1	0.8	0.8	1.8	0.0	1.1
India	3.7	3.8	3.5	3.5	4.5	4.5	4.7	4.4	3.6	4.5
Indonesia	0.6	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.2
Korea	2.1	2.1	2.0	2.3	1.5	1.7	1.8	1.9	2.1	1.7
Philippines	2.2	1.6	2.0	2.4	3.0	3.0	3.0	3.0	2.1	3.0
Singapore	1.0	1.3	1.4	1.5	2.0	2.0	2.0	2.0	1.3	2.0
Taiwan	2.2	2.2	2.0	1.9	1.5	1.5	1.4	1.5	2.1	1.5

*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)

	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Brent (\$/bbl)	64	62	59	58	56	65	57
Dutch TTF (EUR/MWh)	35	37	39	37	30	39	33

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