Macroeconomic bulletin – August/September 2025

Executive Summary

Geopolitical Risks

- *Conflicts in Ukraine and Gaza persist, with heightened tensions between Russia and NATO.*
- *Strengthening of the China–Russia–India axis as an alternative geopolitical bloc.*

Sovereign Debt Tensions

- *France and the United Kingdom stand out due to rising risk premia driven by fiscal imbalances.*
- *France's debt exceeds 114% of GDP, with interest costs draining resources equivalent to national defense.*
- *Portugal and Greece keep a positive recovery with signs of fiscal consolidation.*

Trade Policy

- *The U.S. and the EU signed a tariff agreement (15% on most European exports, with strategic sectors exempted).*
- *EU–Mercosur agreement paves the way for trade liberalisation, with potential to boost EU exports by 39% and create 440,000 jobs.*

Commodities

- *Oil remains on a downward trend, with prices in the USD 65–70/bbl range.*
- *Natural gas prices are stable, with European reserves at record levels (~74%).*
- *Metals: gold and silver at record highs on safe-haven demand; copper rising due to supply restrictions.*
- *Agricultural commodities: cereals trending lower, vegetable oils at record highs, sugar showing marginal recovery.*

Monetary Policy and Currencies

- *The ECB halts cuts at 2% as inflation stabilises at 2.1%.*
- *The Fed is highly likely to cut rates in September following weak labour data (+22,000 jobs in August).*
- *The euro has strengthened to USD 1.17, up 13% in 2025.*

Economic Outlook

- *United States: technical rebound (+3.3% in Q2), though built on fragile foundations; 2025 forecasts at 1.4–1.7%.*
- *China: growth near 5%, though deflation risks persist.*
- *Germany and France: stagnation, with projected growth of 0.2% and 0.6% in 2025.*
- *Spain: robust growth of 2.8% in Q2, though fiscal risks and housing tensions are worsening.*
- *Portugal: growth of 1.9% in Q2, with forecasts at 2.0% in 2025.*

Geopolitical risks

1. In **Ukraine**, despite multiple attempts at mediation—including the recent Alaska summit between Donald Trump and Vladimir Putin—no progress has been achieved toward peace. On the contrary, the conflict continues to escalate, with devastating human costs of around 7,000 casualties per day. Russia has firmly rejected proposals put forward by the so-called Coalition of Volunteers to deploy foreign troops on Ukrainian soil to enforce peace. Meanwhile, Putin's call for a meeting with President Zelensky in Moscow has been ignored, underlining the absence of credible diplomatic progress.
2. In the **Middle East**, the situation remains equally tense. Israel has intensified its military operations in Gaza, drawing international criticism and further damaging its global standing. Hamas, under pressure, has signaled willingness to enter into dialogue, including discussions over the release of hostages, but sustainable peace remains elusive. U.S. president Trump has pushed for talks, though it is unclear whether his efforts can succeed in building momentum for negotiations.
3. At the same time, the **China–Russia–India** axis continues to consolidate itself as an alternative bloc to NATO. The recent commemoration of the 80th anniversary of the end of the Second World War served as a highly symbolic occasion to showcase unity, military strength, and a shared determination to challenge Western influence. This realignment of global power structures adds another layer of uncertainty to the geopolitical landscape.

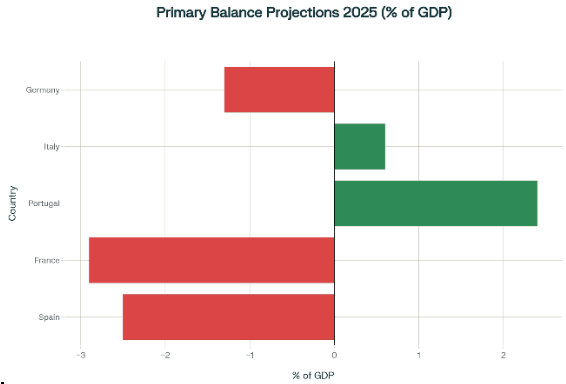
Political Instability and Sovereign risk premiums

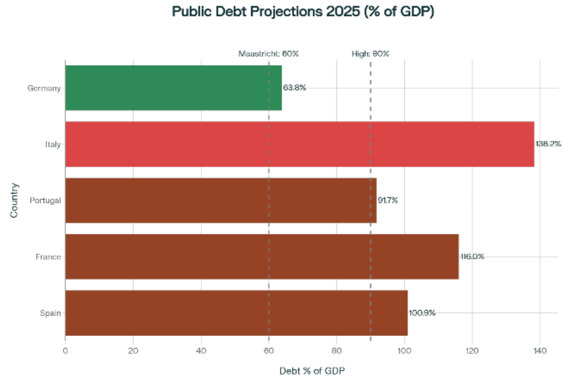
Fiscal fragility has once again come to the forefront, with France, the United Kingdom, and Japan emerging as the most vulnerable cases.

France is currently experiencing a deep political deadlock after the resignation of Prime Minister Bayrout, whose fiscal consolidation plan worth €44 billion failed to secure parliamentary support. The country's public debt now stands at 114 percent of GDP, equivalent to more than €3.3 trillion. Interest payments alone consumed €58.8 billion in 2024—an amount equal to France's defense spending and greater than allocations for culture or research. With spreads against German Bunds widening, markets are signaling growing concerns about the sustainability of French public finances, despite the country's AA– rating.

The **United Kingdom** faces a similar challenge. Debt levels have surpassed 96 percent of GDP, accompanied by persistent deficits and rising financing costs. Yields on 30-year gilts have reached 5.75 percent, the highest level since 1998 and well above those of other G7 economies. This reflects not only inflationary pressures but also doubts about the government's fiscal strategy, which rests on higher taxation of companies and high-income households, rejection of austerity, and increased investment in infrastructure.

In **Japan**, political instability has been exacerbated by the resignation of the Prime Minister following a loss of confidence driven by persistent inflationary pressures and controversial migration policies. Although Japanese equity markets remain calm, sovereign bond yields continue to rise, highlighting the fragility of investor sentiment.





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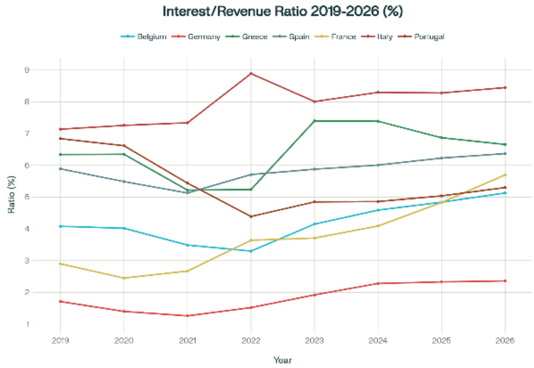
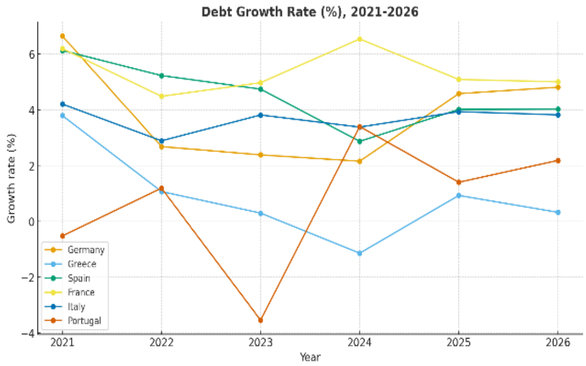
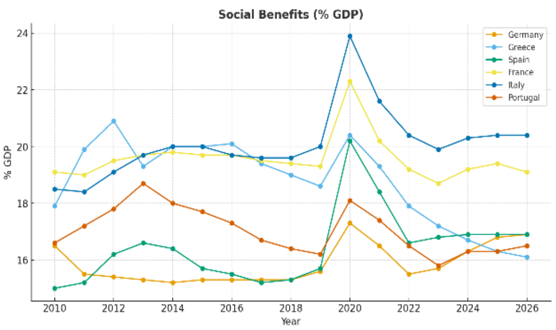
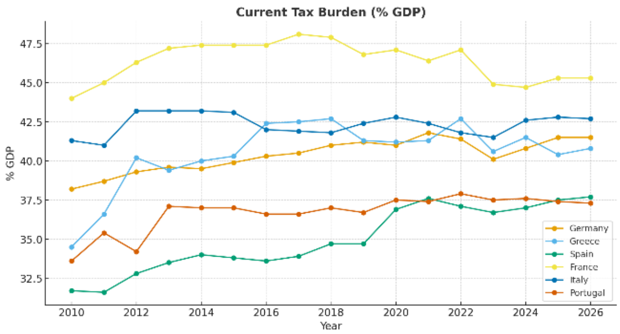




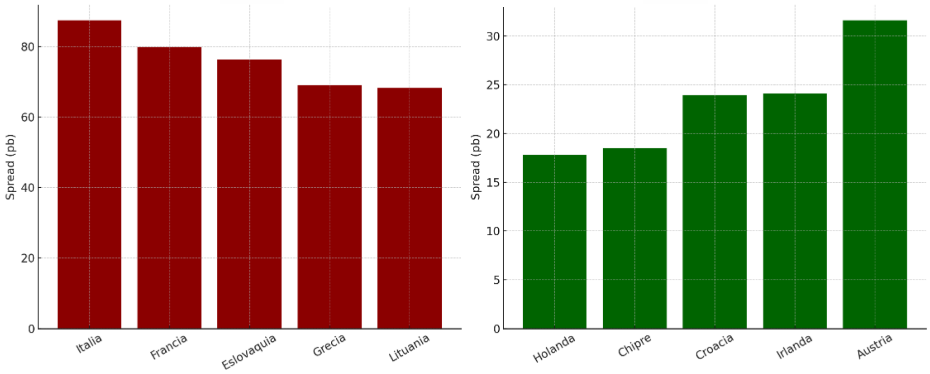




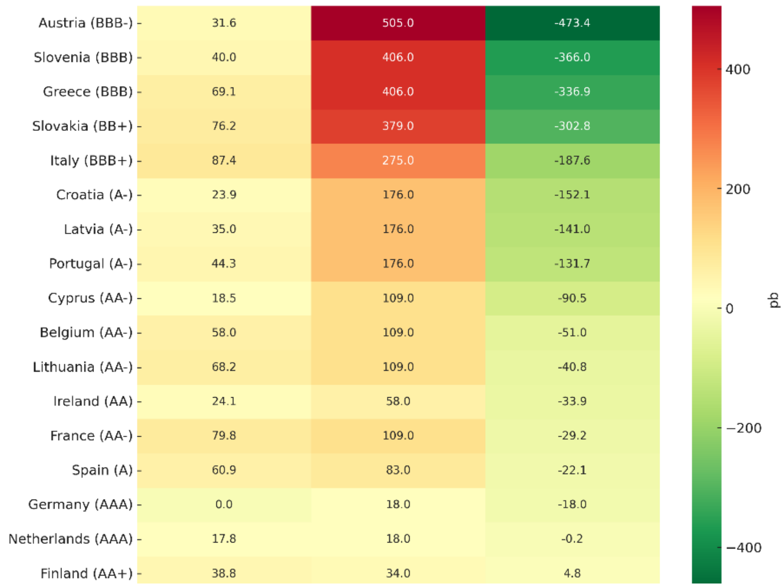
Source: EthiFinance Ratings own work using AMECO data.

Across Europe, **sovereign spreads** tell a more nuanced story. Countries such as Portugal and Greece—traditionally perceived as weaker credits—are now trading at tighter spreads than historical data would imply, supported by signs of fiscal consolidation and primary surpluses. By contrast, France and Belgium are experiencing spreads far higher than their credit ratings would suggest. Spain remains broadly aligned with its rating-implied spread, though the absence of approved national budgets and persistent fiscal imbalances constitute medium-term risks. While the probability of a systemic sovereign debt crisis remains limited thanks to the intervention capacity of central banks, the combination of expansive fiscal policy and ultra-accommodative monetary policy continues to put upward pressure on inflation.

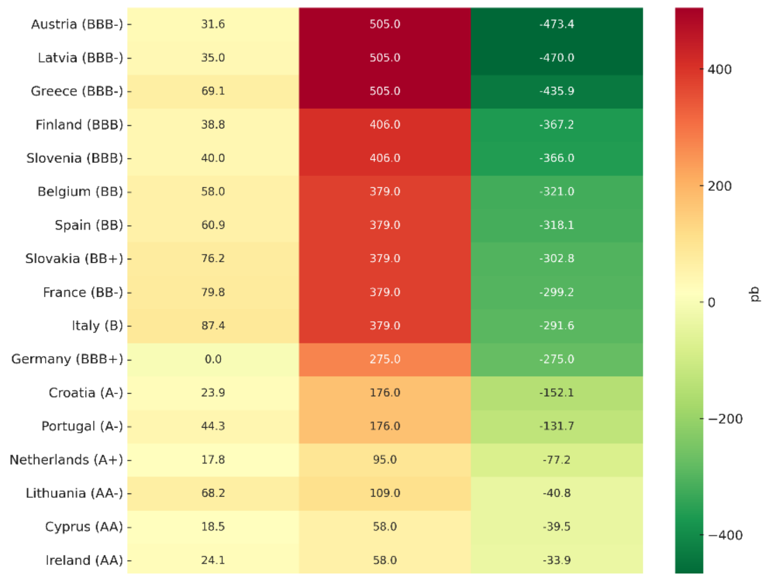
Risk premium: higher and lower



Risk premium heatmap by external rating. Observed (first row), historical average (second row) and deviation.



Risk premium heatmap by EFR's fiscal&debt proxy rating. Observed (first row), historical average (second row) and deviation.



Source: EthiFinance Ratings own work using market data. Historical averages from Afonso, A., Furceri, D., & Gomes, P. (2011). Sovereign credit ratings and financial markets linkages: Application to European data (ECB Working Paper No. 1347). European Central Bank. https://ssrn.com/abstract=1847505

Tariffs: US-EU and Mercosur agreement

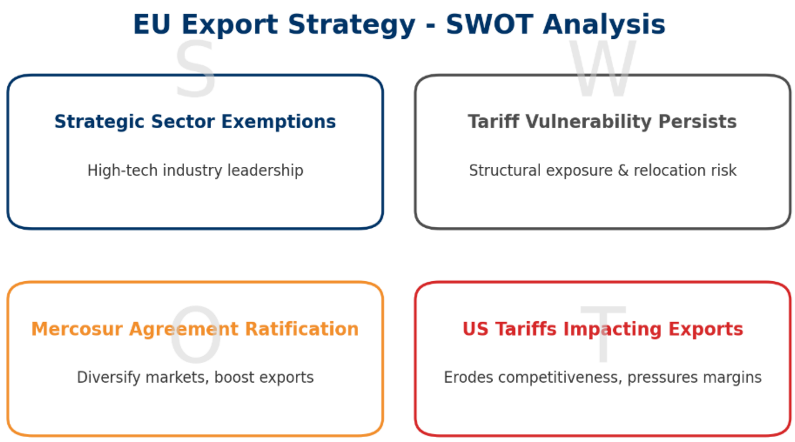
Global trade is undergoing significant shifts, with Europe caught between constant negotiations with the United States and new opportunities with Mercosur.

EU-US Trade Agreement - Key Details

General Tariff	15% on 70% of EU exports
Automobiles	Reduced from 27.5% to 15%
Pharmaceuticals	Included in the 15%
Semiconductors	Included in the 15%
Steel/Aluminium	Remain at 50%
EU Investments in US	$600 billion by 2029
Energy Purchases	$750 billion until 2028
Effective Date	1 August 2025 (retroactive)

Source: EthiFinance Ratings own work

The **EU–U.S. agreement** reached on July 27 imposes a uniform tariff of 15 percent on around 70 percent of European exports to the U.S., covering automobiles, auto parts, pharmaceuticals, and semiconductors, among others. Strategic sectors such as aerospace and certain chemicals were exempted, but metals such as steel, aluminum, and copper now face tariffs as high as 50 percent. At the same time, the EU agreed to eliminate all tariffs on U.S. industrial goods and cut auto tariffs from 10 percent to 2.5 percent, granting American manufacturers preferential access to the European market.



Source: EthiFinance Ratings own work

The impact of this agreement is uneven across **sectors**. German automakers benefit from avoiding the worst-case scenario of higher tariffs, but the reduction in European tariffs for U.S. autos undermines their competitive advantage in their home market. The aerospace sector emerges as the clear winner, with Airbus strengthened relative to Boeing thanks to the exemption. Conversely, the metals industry remains under significant pressure, while European wines and spirits face eroded competitiveness. The euro's 13 percent appreciation since the start of 2025 further compounds the loss of price competitiveness.

By contrast, the **EU–Mercosur** agreement, approved on September 2, 2025, represents a major strategic breakthrough. Once ratified, it will create the largest free trade zone in the world, encompassing over 700 million consumers. The pact will eliminate 91 percent of Mercosur tariffs on European goods, potentially boosting EU exports by 39 percent—equivalent to €49 billion annually—and generating 440,000 jobs. Key beneficiaries include the automotive, chemical, and pharmaceutical industries, as well as wine and beverage producers. Spain is particularly well-positioned to benefit given its geographic and trade ties to Latin America, though political resistance remains strong in France.

Commodities

- **Commodity markets** are sending mixed signals. Oil prices remain in a downward trajectory, trading between USD 65 and 70 per barrel, reflecting weaker global demand, rising supply, and continued uncertainty stemming from trade disputes. Projections suggest prices could fall as low as USD 55 per barrel in the fourth quarter.
- **Natural gas prices** remain broadly stable. U.S. Henry Hub is trading at USD 3.09/MMBtu, while Dutch TTF is at €32.71/MWh. European storage levels stand at a record 74 percent, ensuring stability ahead of winter, although Germany lags at 67 percent, making it more vulnerable. Given current dynamics, prices are expected to remain within a narrow USD 3.15–3.25/MMBtu range in 2026.
- **Metal markets** reveal diverging trends. Copper prices are firm at USD 4.52/lb, driven by resilient demand from infrastructure projects and electric vehicles combined with constrained supply following China's withdrawal of support for scrap recycling. Aluminum remains stable at USD 2,605/t, supported by demand from renewable energy projects. Steel markets are mixed, with Chinese prices recovering modestly while U.S. hot-rolled coil prices have weakened due to sluggish construction demand. Meanwhile, gold has surged to a record high of USD 3,552/oz, reflecting heightened safe-haven demand (central banks across the world increased purchases during the summer) amid geopolitical and fiscal uncertainty.
- In **agriculture**, prices remain differentiated. Cereal prices are falling, reflecting abundant supply, while vegetable oils have reached record highs. Sugar prices are recovering only marginally from recent lows.

Monetary Policy, Interest rates & Currencies

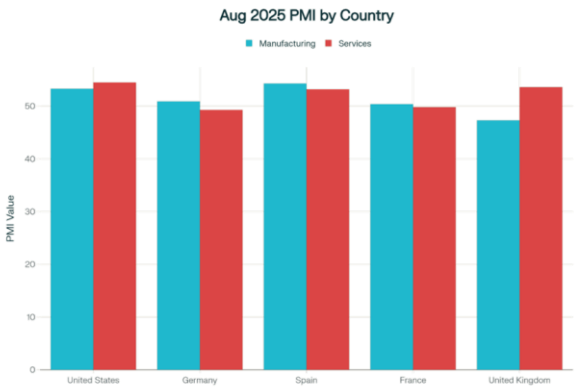
- The **European Central Bank (ECB)** has chosen to pause its cycle of interest rate cuts, maintaining the deposit facility rate at 2 percent. The decision reflects a cautious approach as inflation, at 2.1 percent, remains just above the target. While disinflationary forces from weaker demand are evident in Germany and France, more resilient economies such as Spain and Portugal are still generating price pressures, particularly in the housing and services sectors. The ECB faces a delicate balancing act: cutting too soon risks weakening the euro further at a time of already fragile external competitiveness, while maintaining current levels may exacerbate the slowdown in core economies. The Governing Council has signaled that further cuts remain on the table for early 2026 if inflation proves durable at or below target, but the window for renewed easing is narrowing given fiscal slippages in several member states.

- In the United States, **the Federal Reserve** is under mounting pressure to adopt a more accommodative stance. Job creation slowed dramatically in August, with just 22,000 new positions added, far below expectations (70K). In fact, the number of new jobs has been revised down by 1 million for the 12 months through March. At the same time, inflation dynamics are showing signs of easing, though not yet fully aligned with the Fed's target. Markets are now pricing in at least two rate cuts before year-end, with the first expected as early as September.
- Japan presents a very different picture. After decades of ultra-loose monetary policy, the **Bank of Japan (BoJ)** has embarked on a gradual normalization strategy. With inflation proving more persistent than expected, driven by wage growth and higher import costs, the BoJ has raised its policy rate incrementally and is signaling further tightening in the months ahead. The yen, however, has remained weak against the dollar and euro, reflecting both the long-standing interest rate differential and Japan's structural challenges.
- **The 12-month Euribor** stands at 2.18% in early September, breaking its recent downtrend after a cumulative 77bp decline from January's peak; pricing points to broadly steady levels near-term and a gentle drift toward ~2.1% into year-end, consistent with a shallow-easing narrative. The euro swap curve retains a mild positive slope, with the 10-year IRS around 2.65%, signalling expectations of stable short-term policy rates and a somewhat higher term premium at the long end as sovereign risk dispersion persists.
- These dynamics intersect with **foreign-exchange** in a way that is increasingly material for Europe's external competitiveness. The euro trades near 1.1730 against the U.S. dollar, up more than 13% year-to-date, within a 1.1640–1.1760 range and with well-defined technical supports at 1.1670–1.1900. The near-term skew remains modestly upward so long as the Fed's dovish tilt is validated by softer U.S. data; further out, relative growth differentials and Europe's political-fiscal noise cap the upside, with 12-month projections gravitating back toward the 1.15 area.

Economic Outlook

The **United States** has shown a technical rebound with GDP expanding by 3.3% in the second quarter of 2025, a figure that surprised on the upside but rests on fragile foundations. The rebound was largely driven by temporary factors such as lower imports and resilient consumption supported by fiscal transfers, rather than by a solid investment cycle. Forward-looking indicators suggest that momentum is weakening, as the labour market shows clear signs of fatigue, with job creation falling sharply in August. With financial conditions still restrictive despite market expectations of monetary easing, the U.S. economy is likely to revert to a growth rate between 1.4% and 1.7% in 2025.

China continues to record growth near the 5% threshold, in line with government objectives, in the first half of the year, but faces increasing headwinds. Deflationary pressures persist, with producer prices slightly in the positive territory and weak domestic demand reflected in a 20% drop in imports year-to-date. The property sector remains under severe stress, undermining confidence and constraining household consumption, while the government's stimulus measures are proving insufficient to restore sustainable momentum. Infrastructure investment and the electric vehicle sector continue to support output, but without a recovery in household demand the Chinese economy risks slipping into a structurally weaker growth path.



Source: EthiFinance Ratings own work

Germany remains trapped in stagnation, with GDP growth projections for 2025 around 0.2%. The economy suffers from persistent weakness in industrial production, particularly in the automotive and chemicals sectors, as external demand softens and tariffs erode competitiveness. Domestic consumption is restrained by muted wage growth in real terms and rising precautionary savings in the face of heightened uncertainty. Investment remains subdued, with companies delaying capital expenditure amid concerns about global demand and tr ade policy disruptions. In this context, Germany's role as Europe's growth engine is significantly diminished.

France presents a similarly fragile picture, with growth expected to reach only 0.6% in 2025. The economy is weighed down by political instability, which has undermined business and consumer confidence, and by fiscal uncertainty, as efforts to consolidate public finances encounter strong political resistance. Industrial activity remains weak, with limited prospects for recovery given the competitiveness challenges arising from high labour costs and a strong euro. Services remain the main driver of output, but their resilience is unlikely to offset broader headwinds. Without a credible fiscal strategy and structural reforms, France risks falling into a low-growth equilibrium.

Spain stands out as one of the more dynamic economies in Europe, with interannual GDP growth of 2.8% in the second quarter. Strong tourism receipts, robust employment creation, and resilient household consumption continue to underpin the expansion. Investment, particularly in construction and real estate, remains buoyant, though this also creates vulnerabilities, as signs of overheating in the property market become more apparent. Fiscal policy has remained expansionary, but growing deficits raise concerns about medium-term sustainability. Looking ahead, Spain's growth prospects are more favourable than the euro area average, we forecast a GDP growth of 2.5% for 2025, though contingent on managing imbalances in housing and public finances.

Portugal continues to perform solidly, posting growth of 1.9% year-on-year in the second quarter of 2025, with forecasts suggesting an acceleration to 2.0% next year. Unlike many of its peers, Portugal benefits from prudent fiscal management, with a primary surplus and declining debt ratios. The economy is supported by strong export performance in sectors such as chemicals, machinery, and tourism, while domestic demand is gradually improving on the back of wage growth and declining unemployment. Portugal has managed to consolidate its recovery from past crises while maintaining investor confidence, making it one of the euro area’s relative success stories in 2025.