Group Economics - Macro Research - Global Monthly | 4 September 2026

# Deal or no deal: Does it still matter?

- **The energy shock is back, but its impact more idiosyncratic than before**
- **A lot of energy is getting through Hormuz 'dark', and this lowers the importance of a deal to re-open the Strait**
- **Less important ≠ not important, and a deal would still help restore LNG flows, lower inflation and reduce European energy supply risks**
- **Resurgent energy prices and stubborn inflation are keeping central banks on edge. Markets have probably gone too far pricing hikes...**
- **...but the risk of more tightening than we currently expect has risen**
- **Spotlight 1: Drought likely to push food inflation higher next year**
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- **Imbalances worsening in China while trade tensions continue to brew**


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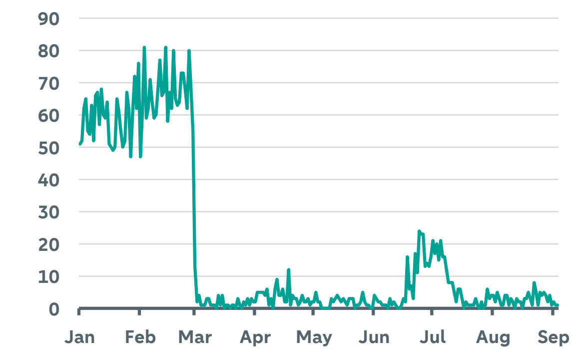
## Global View: Yes, a deal does still matter, but less than before

When the summer kicked off, it looked like the worst of the energy shock was behind us. But while the *Teflon economy* is still thriving, the US-Iran ceasefire is not, with tit-for-tat low level conflict persisting, and the Strait of Hormuz at least nominally still closed. Nominally, because the reality is that a lot of crude oil is getting through Hormuz 'dark', and this is in addition to the myriad offsetting factors that were already cushioning the energy shock before the summer. Indeed, we estimate that some three quarters of pre-war Gulf oil and distillate flows have been restored. This would go some way to explain why, despite the continued fighting between the US and Iran, oil prices remain well below their wartime peak seen on 30 April, when Brent crude touched $126 per barrel. This begs the question: does it even still matter if there is a deal or not? Might energy suppliers and consumers continue to find ways to adapt and get around the Hormuz blockage? Perhaps, but the lack of a deal is still posing considerable problems, namely huge bottlenecks in refined products which is leading to outsized price rises in petrol and diesel, and a continued suspension in Qatari LNG flows. These problems are hitting Europe and much of Asia the hardest, where gas prices have hit the highest levels since the 2022-23 energy crisis, while the US and China (among others) are relatively less impacted by the resurgent energy shock. While a deal to reopen Hormuz has lost some of its importance, for Europe and Asia at least, it is still a crucial driver of the inflation outlook.

**Hormuz flows have supposedly slowed to a trickle...**

Daily vessel numbers passing the Strait of Hormuz




Source: Bloomberg, ABN AMRO Group Economics

**...but crude oil prices are still well off their highs**

Brent crude, USD per barrel


Source: IEA, ABN AMRO Group Economics

## Offsets to the ongoing Hormuz closure have grown bigger...

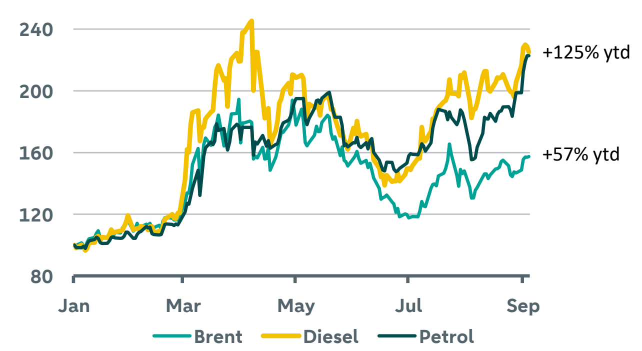
Even at the height of the conflict, a significant proportion of the disrupted energy supply was being offset by a combination of alternative trade routes, such as Saudi Arabia's east-west pipeline to the Red Sea, increased US exports, and reduced China imports. These offsets largely remain, although higher US exports and lower Chinese imports cannot be sustained indefinitely. Still, we now add an additional major offset: dark transit and ship-to-ship transfer through Hormuz. While the official data show that Hormuz traffic has slowed back to a trickle, the reality on the ground is one of considerable flows getting through the Strait *unofficially*. In a dark transit, a tanker crosses the Strait with its automatic identification system (transponder) switched off. In a ship-to-ship transfer, crude oil is loaded onto a smaller tanker inside the Gulf, carried through the Strait without transmitting its location and then transferred to a larger vessel outside the Strait. All told, we estimate that around 70% of pre-war export amounts (c20mn barrels per day in oil and refined products) is still reaching markets through pipelines and these alternative methods. The US has also maintained oil production close to maximum capacity and exported a large share of its output, despite falling domestic inventories.

## ...but so have localised shortages of refined products

But while much of the pre-war crude oil flows have been restored, the story is not quite so rosy for refined products such as petrol, diesel and jet fuel. Some refined products are getting through Hormuz, but this is being limited by refinery outages in the region from war damage, as well as ongoing threats from the low-level conflict. Many Asian refineries also remain closed where crude flows are still scarce. Reduced refinery capacity is not only linked to the Iran conflict, but also the Russia-Ukraine conflict, with Russian refinery capacity also currently massively curtailed due to Ukrainian drone strikes. All told, global refinery output faced a shortfall of some 6.5mbd per end Q2, a drop of around 8% from end-2025 levels (see here for more detailed analysis on oil and refined products). These shortages are concentrated in the highly import dependent regions of Asia and Europe, and it is in these regions where petrol and diesel price rises have far outpaced that of crude oil. For instance, European wholesale diesel is up over 60% from its June lows, while petrol is up over 50% and has actually surpassed its wartime peak. In contrast, US wholesale gasoline is up only 9% over the same period.

**European diesel & petrol up 50-60% from June lows**

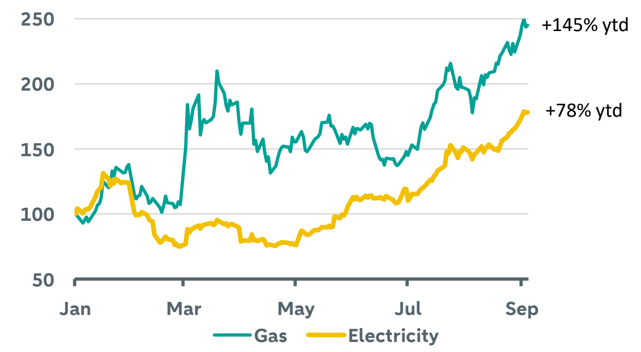
Brent, European wholesale diesel & petrol; Index, 1 January = 100




Source: Bloomberg, ABN AMRO Group Economics

**European gas & electricity at post-energy crisis highs**

1-month ahead future; Index, 1 January = 100




Source: Bloomberg, ABN AMRO Group Economics

## European gas and electricity at new post-energy crisis highs

Unlike oil and its derivatives, LNG is much harder to ship 'dark' through Hormuz. LNG tankers are among the biggest in the world, while temperature control requirements make ship-to-ship transfer impractical. As a result, flows of LNG out of the region from QatarEnergy remain essentially halted. Qatari flows represented some 20% of global LNG supply prior to the conflict, and although Europe sourced comparatively little from Qatar directly, it does nonetheless compete with Asia on a global market for LNG. The resulting market tightness from the continued halt of Qatari LNG has therefore pushed European natural gas prices to the highest seen since the tail-end of the 2022-23 energy crisis. While electricity baseload prices continue to considerably lag rises in gas prices, they too have risen recently and have also hit three-year highs.

The shortage of LNG is not only a renewed inflation problem, but it also poses greater physical risks to European supply. European gas storage is running at just 66%, far below levels that are typical by the end of summer, and the lowest at this point since 2011. While Europe is likely to manage in the event of an average or mild winter, there would be very little margin for error in the event of a severe winter, particularly if coupled with further supply disruptions. First, storage facilities rely on internal pressure to extract gas, and as levels drop below 30%, pressure declines, limiting the rate of extraction during peak demand. This raises the risk of supply issues towards the end of the winter. Second, storage only supplements Europe's winter gas needs, covering c30% of total consumption, with the rest via imports. A low starting storage level leaves minimal margin to handle simultaneous cold spells and supply disruptions. See here for more detailed analysis on European gas markets.

**European gas storage needs across coldest winters**

| Winter Season | Typical Peak Fill Level | Post-Winter Low Level | Total Drawdown (% of Capacity) |
|---|---|---|---|
| **2017/18** | 85% | 18% | 67pp |
| **2020/21** | 95% | 29% | 66pp |
| **2021/22** | 77% | 25% | 52pp |
| **2024/25** | 95% | 35% | 60pp |

Source: GIE, ABN AMRO Group Economics

## A deal to reopen Hormuz would still matter, but it is less binary than before

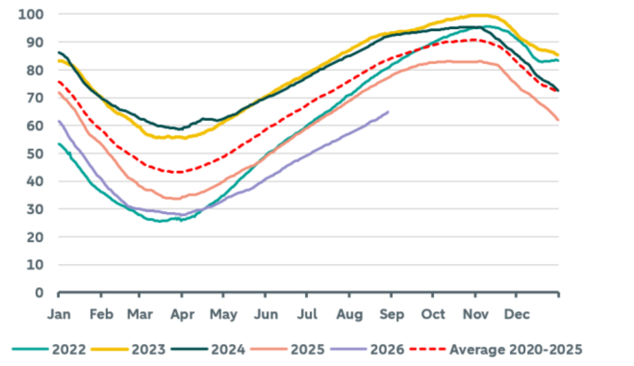
Our base case assumes a deal to formally re-open the Strait of Hormuz to be sealed by end-Q3. Given the considerable amounts of energy managing to get through Hormuz even without a deal, this reduces the importance of a deal to the overall outlook. Reduces, but not eliminates – because a deal would still have a substantial dampening impact on European pump prices and home energy costs, as well as reducing physical risk to European gas supply in the event of a severe winter and/or other supply disruptions. Even with a deal, prices will likely stay somewhat elevated over the coming months, given the prevailing tightness in markets and that it will take time to fully reactivate refinery capacity and LNG flows.

## Global economy likely to stay resilient, but eurozone inflation to move higher

Our base case continues to see advanced economies staying resilient through the resurgent energy shock. The US is relatively insulated from the most recent price rises and faces essentially zero physical supply risk, while the growth outlook continues to be largely driven by the AI boom. In Europe, resurgent energy prices are likely to be a headwind to the nascent recovery in consumption, but this won't be enough to offset the impact of Germany's fiscal expansion, which continues to be the main driver of the outlook. The story is less positive for inflation. This month we substantially raised our eurozone inflation forecast reflecting the sharp rises in petrol, diesel, gas and electricity prices relative to our early July expectation (see chart below and eurozone for more). An additional driver is an expected pickup in food inflation, driven by the hot summer and drought we have seen in Europe – something we explore in our Spotlight next. Assuming a Hormuz deal is struck, energy prices should unwind and inflation should moderate in the course of next year, but the more prolonged period of elevated inflation now in train has raised the risk of more serious second round effects taking hold.

**EU gas storage at a 15 year low for this time of year**

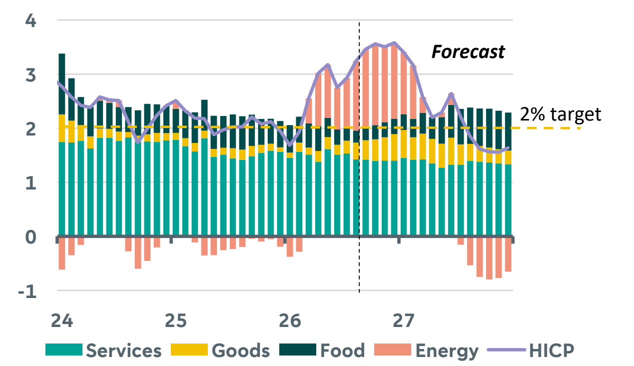
EU gas storage, %




Source: Bloomberg, ABN AMRO Group Economics

**Eurozone inflation to stay high the coming months**

Eurozone HICP inflation, % y/y and pp contributions




Source: Bloomberg, ABN AMRO Group Economics

## What does this mean for central banks?

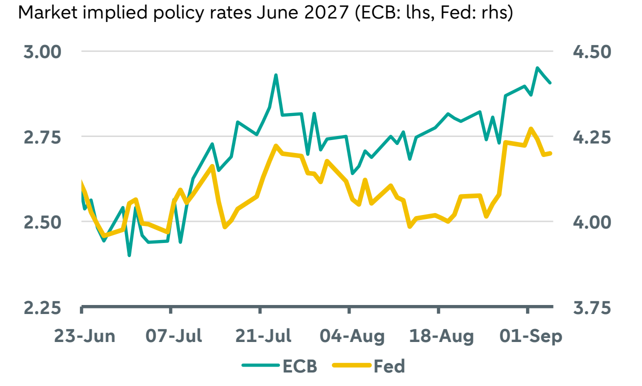
The ECB is expected to raise rates next week, but as discussed in the eurozone, the rebound in inflation is posing risks to our view that the Governing Council will keep rates on hold for the remainder of the year. The Fed meanwhile faces a different problem. While inflation is not being pushed as much higher by the rebound in energy prices, and disinflation is expected to continue, it has been above the Fed's target already for some time. Meanwhile the economy is running relatively hot thanks to the AI boom, even if that that impulse is narrow. It is clear that this has the FOMC divided. This led to three members dissenting in favour of a hike in the July meeting. We think support for hiking has only increased, but many of the vocal Fed officials are actually not voting members this year. By our count, detailed below, a majority is either against hiking, or comfortable staying on hold as long as inflation continues to make progress towards target. That means the decision will remain contentious for a while, but our base case remains for the Fed to keep its policy rate steady. Should the upcoming inflation reading surprise to the upside, quite a number of FOMC members will likely flip to camp hike, and a September rate hike would become likely. Such upside inflation surprises triggering rate hikes will remain a risk for the foreseeable future.

| Likely vote | FOMC member | Basis |
|---|---|---|
| Against | Barr | Sept 2: I think we can take a bit more time to assess our policy stance |
| | Bowman | May 29: Appropriate to look through temporary inflation |
| | Jefferson | July 17: Current policy is well positioned |
| | Williams | Sept 2: Interest rates are in a good place |
| | Waller | Sept 3: I don't want to raise rates into disinflation |
| Leaning against | Cook | Aug 5: Some disinflationary forces at play, not appropriate to hike while evolving. Prepared to act if I don't see continued disinflation. |
| | Paulson | Aug 4: Policy is mildly restrictive. If no inflation progress, could need to recalibrate. |
| No guidance | Warsh | Difficult to gauge, we think camp against |
| | Powell | Will vote with majority |
| For | Hammack | Dissent in July |
| | Kaskhari | Dissent in July |
| | Logan | Dissent in July |

## Will the march higher in bond yields continue?

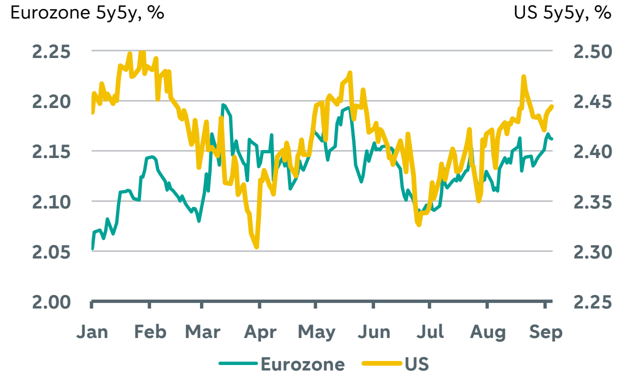
Bond yields have been on a relentless rise in recent months, to the point of triggering an unusual intervention by the US Treasury (see also here). While there are multiple drivers of the rise in bond yields, one of the biggest has clearly been a repricing of market expectations for central bank rate hikes, reflecting at least in part resurgent energy prices. The impact has been bigger for the ECB than for the Fed, with markets pricing in two additional hikes since June, and one additional hike for the Fed. Additional factors have probably been the AI boom, with hyperscalers hoovering up ever more scarce capital on markets, as well as Germany's fiscal expansion. We have also seen the view that a *lack* of central bank action has pushed longer term rates higher. However, this would be reflected in rising inflation expectations, and we have seen only modest moves on that front (c10bp in the US 5y5y since June). Our rates strategists continue to think bond yields will moderate over the coming quarters (see Key Views), but they will set out their more detailed views and forecasts in the upcoming Rates Monthly.

**ECB pricing of rate hikes has shifted more than the Fed**




Source: Bloomberg, ABN AMRO Group Economics

**Inflation expectations still seem well-anchored**




Source: Bloomberg, ABN AMRO Group Economics

## Spotlight: A perfect storm for food inflation?

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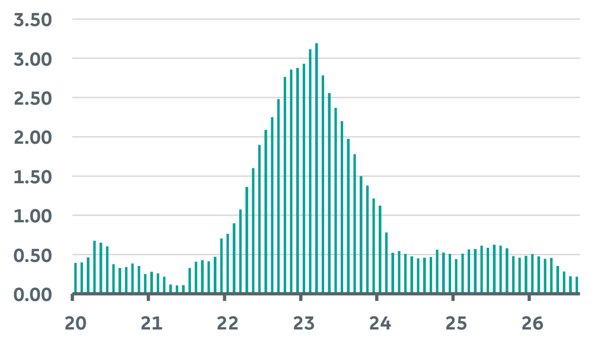
- Food inflation remained contained in recent quarters, but leading indicators suggest upward pressures are building and we expect food inflation to start rising again towards the end of 2026 and into 2027
- Heat and drought records were once again broken across the EU and the US, which is expected to put upward pressure on European food price. The impact of El Niño is likely to be more mixed
- Our base case sees food price rises adding 0.5pp to eurozone HICP inflation at its peak by Q3 2027

Food inflation has remained contained in recent quarters. This favourable picture is unlikely to persist, however. Leading indicators suggest that upward pressures are building, and we expect food inflation to start rising again towards the end of 2026 and into 2027. The increase is likely driven by higher agricultural commodity prices, (expected) weather-related disruptions, and renewed energy-related pressures. At the same time, several factors dampen the impact on food inflation. Global inventories remain ample, many firms are protected by existing energy contracts, and retailers appear reluctant to fully pass higher costs on to consumers.

**Contribution of food to eurozone inflation has diminished**

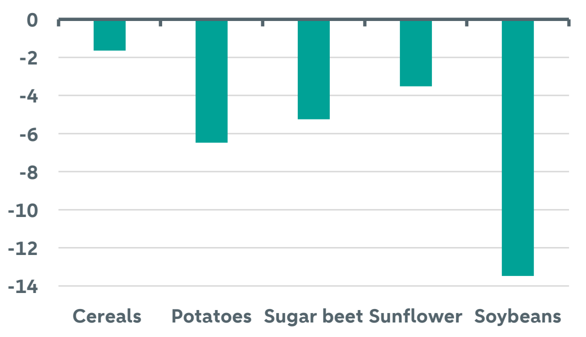
Pp contribution of food to y/y eurozone inflation




Source: LSEG, ABN AMRO Group Economics

**Summer crop estimates in Europe**

% change versus 5 year average yield (t/ha)




Source: European Commission JRC, ABN AMRO Group Economics

Food prices are driven by a broad range of factors. Agricultural commodities account for roughly 40% of food production costs for the EU, while the remaining 60% consists of factors such as labour, energy, transport and packaging[1]. Pressures have been building on both sides.

Weather-related developments can be an important driver of agricultural commodity prices. To begin with, this summer, heat and drought records were once again broken across the EU and the US, which is expected to put upward pressure on European food prices (see our earlier research notes on this here and here). The EU's August crop forecasts (see here) show that yield expectations for summer crops have been sharply reduced, falling on average around 7% below the five-year average, although the impact varies considerably across crops. Next, forecasts suggest that a very strong El Niño event will develop in 2026-27, potentially reaching unprecedented intensity (see here). Such an event could affect the supply of a wide range of globally traded agricultural commodities, including coffee, sugar, rice, cocoa, soybeans, vegetable oils, maize, and wheat, some of which are imported into the EU in significant quantities.

When assessing the potential impact of weather-related changes in the supply of agricultural commodities on food prices in Europe and the Netherlands, it is important to consider available inventories of these commodities, as well as the ability to offset supply shortfalls through substitution with alternative products or increased imports. Another factor to take into account is that El Niño does not affect all agricultural commodities in the same way. While prices of some commodities, such as soybeans, tend to decline during El Niño episodes, prices of others, including coffee and cocoa, tend to increase. As a result, the overall impact on European food prices is likely to be heterogeneous and subject to considerable uncertainty (see, for example, the European Commission's Joint Research Centre report here). Consequently, any estimates should be treated with caution. Nevertheless, as a rule of thumb, a decline in European summer crops

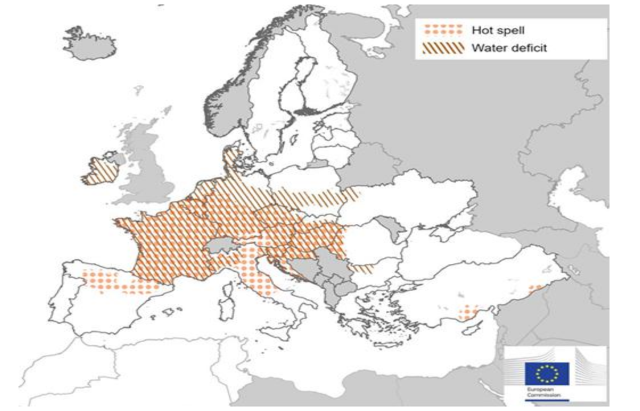
[1] Cost structures may vary across food categories, and cannot be directly interpreted as pass-through rates; these are generally lower.

comparable to that discussed above, could increase overall food prices in the EU by around 1-3%. The impact of El Niño is likely to be more mixed, but most studies suggest a net upward effect on food prices that could persist for an extended period[2] (for instance see a report by the ECB about this topic here). Indeed, El Niño could drive food price increases above the range mentioned above, while an exceptionally strong El Niño event could potentially double the estimated impact of the heat and drought in Europe. All told, our base case sees food price rises adding 0.5pp to eurozone HICP inflation at its peak by Q3 2027, offsetting the likely drag from energy prices at that point.

**Container freight rates have doubled since April**


Source: Bloomberg, ABN AMRO Group Economics

**Heat and drought in Europe July-August 2026**




Source: European Commission JRC, ABN AMRO Group Economics

Another factor affecting agricultural markets is the rise in specific fertilizer prices following the conflict in Iran. While the impact is substantially less pronounced than during the fertilizer shock following Russia's invasion of Ukraine, prolonged shortages, mainly in developing countries, could put additional pressure on future harvests. In Europe the effect is mainly limited to an price shock for farmers rather than an availability issues.

At the same time, agricultural markets are entering this period from a relatively strong position. Global inventory levels for example grains, wheat and rice are historically high, helping to cushion the impact of adverse weather conditions on prices. Also, a large share of agricultural commodities is contracted in advance rather than purchased on spot markets. As a result, increases in commodity prices usually pass through to food inflation gradually and partially.

While developments in agricultural commodities tend to attract most attention, the majority of food production costs originate elsewhere. The renewed increase in energy prices following the Iran conflict is putting pressure on food production both directly through energy costs and indirectly through transportation, packaging, another inputs. Although companies remain relatively protected through existing energy contracts, cost pressures will rise when these contracts expire. Labour costs are another source of pressure. In the Netherlands, the collective agreement wages in the food sector increased by 4% year-on-year in the second quarter of 2026, illustrating that wage pressures remain elevated.  Given that labour accounts for roughly 15% of total production costs, wage developments are also relevant for food inflation. Besides the impact on agricultural commodity prices, the summer heat and drought in Europe also had a more indirect on food prices, via higher transportations costs due to exceptionally low water levels in main rivers such as the Rhine and Danube. This is also visible in recent PMIs, which point to rising transportation costs and supply-chain pressures. Finally, governmental policies can affect food inflation, such as the planned minor indexation of alcohol excise duties in the Netherlands from 1 January 2027 onwards.

An important difference with earlier inflation waves is that pricing power is expected to be weaker. Following several years of sharp price increases, negotiations between supermarkets and suppliers have become challenging. Retailers appear more reluctant to pass higher costs directly to consumers, increasing the likelihood that part of the shock is absorbed in producer margins. This points to a smaller pass-through of cost increases than during previous periods.

Food inflation is particularly relevant as it plays a large role in the formation of household inflation expectations. Consumers tend to attach disproportionate weight to them when assessing inflation developments. It could therefore also influence wage demands, and thereby increase the risk of second-round effects. As the food price jump is hitting at a time where circumstances for general inflation are unfavourable, the ECB is also paying close attention to food inflation, as signalled in the recent Governing Council meeting (read here).

[2] Studies about the impact of El Niño on food price inflation mention that the impact can even last until the end of 2027-start of 2028.

## US Midterms – Trump can veto, Democrats cannot

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- The upcoming mid-terms are of little importance for the direction of policy, merely the potential speed
- Our base case is a divided congress, which implies that Trump will continue to rule by Executive order

The United States midterm elections are scheduled to be held on November 3rd. All 435 seats of the House of Representatives are up for election, and 35 of the 100 seats in the Senate are contested. With President Trump's approval ratings at all-time lows, Democrats have a chance of gaining some ground. The Trump administration has passed several policy measures in hopes of swaying the public. Beyond the Big Beautiful Bill, they have proposed several affordability measures, but these are mostly dwarfed by the headwinds from the Iran war and renewed trade tensions with Canada. The various redistricting efforts were mirrored by the Democrats, and as a result, we expect the election to mostly reflect US voters' assessment of the Trump administration. That means Democrats are likely to gain ground, and potentially a lot. A best case scenario is a couple of angry tweets, but realistically there could be some legal challenges in close races. A successful attempt to overturn the elections is extremely unlikely.

Our base case is that Democrats will win the House, but Republicans keep the Senate, implying a divided Congress. There is a distinct possibility the Democrats might be able to sweep Congress, while a Republican sweep is increasingly unlikely. Still, in either alternative scenario, we do not expect a markedly different path for the US economy. This is because i) The Trump administration has been ruling by executive order, bypassing Congress, making its makeup less relevant, and ii) Trump can veto any policy Congress might put forward, as a veto-proof majority is a near-impossibility. Putting it (perhaps too) bluntly; Trump can stop all, but nothing can stop Trump. Of course, executive orders are not unconstrained, and courts have proved willing to strike them down. Similarly, a Democrat-majority Congress would have some power to enact policy, since in both a divided and Democratic congress, Democrat support would be necessary to fund the government, avoid a shutdown and raise the debt ceiling.

| Outcome | | Implication |
|---|---|---|
| **Base case: Divided Congress** | **House: Democrat<br>Senate: Republican** | Legislative gridlock.<br>Governing by executive order.<br>President's veto power prevents reversals.<br>Democrats can force consessions to fund the government, avoid a shutdown, and raise the debt celing. |
| **Republican Sweep** | **House: Republican<br>Senate: Republican** | Status quo. Would enable further reconciliation packages. |
| **Democrat Sweep** | **House: Democrat<br>Senate: Democrat** | Democrats will not hold a veto-proof majority, allowing President Trump to block all initiatives.<br>Could force fiscal crisis.<br>Ability to set up for a more effective Democrat President in 2028.<br>Can make appointment of judicial nominees difficult. |

Still, we do not expect any major differences in policy between the three scenarios. Funding will be easier under a Republican sweep scenario, and as a result, we could expect some more reconciliation packages. In case of a (partial) takeover of Congress by Democrats, we could expect some additional congressional oversight of executive agencies. In fact, the impact of a Democrat sweep is likely delayed, as they will be most effective in preparing for a Democrat President in 2028, rather than changing policy now. This could, for instance, be by reinstating some EPA standards, and importantly, making appointments of Trump judicial nominees difficult.

What policy can we expect in the second half of Trump's term? We continue to expect trade and tariff developments, more immigration and domestic policy, such as the SAVE America Act, more energy and deregulation, and possibly measures to deal with the worsening fiscal trajectory. The primary difference between outcomes is the pace of further fiscal expansion (fastest under a Republican sweep, slowest under a Democratic sweep), the intensity of executive oversight (highest under a Democratic sweep), and the direction of regulatory policy (deregulation accelerates under a Republican sweep; oversight intensifies under a Democratic one). The divided Congress base case is a middle path: gridlock on legislation, continued executive-driven deregulation and trade policy, and increasing partisanship on the debt ceiling and government funding.

# Eurozone: Resilient growth, worrying inflation

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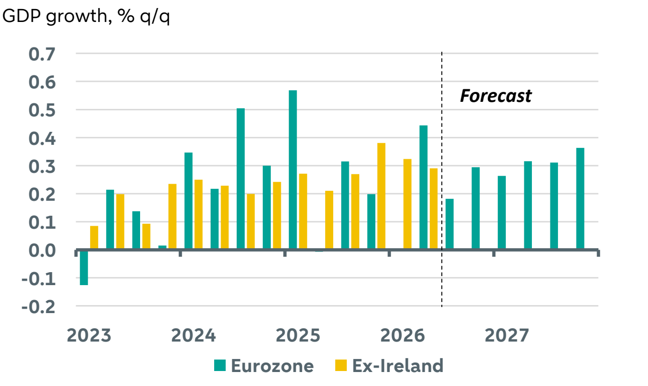
- Growth is likely to stay resilient despite the resurgent energy shock, but inflation has become a worry
- The longer high energy prices persist, the bigger the risk of second round effects...
- ...and the bigger the risk the ECB might have to tighten beyond next week's expected rate hike

The summer delivered a mixed bag of news for the eurozone. The energy shock – which had started to recede following the US-Iran ceasefire – came back with a vengeance, and this is pushing inflation in the wrong direction again. On the other hand, growth came in stronger than expected, and in the case of Germany, was revised substantially higher (see Germany). While Ireland continues to distort GDP significantly, underlying growth remained solid at 0.3% q/q in the first half of 2026. We expect that resilience to broadly continue in the quarters ahead, despite the renewed energy shock. While the consumption recovery is likely to see renewed headwinds from the hit to real incomes, German fiscal spending is expected to continue to support a recovery in the eurozone's biggest economy, and this should remain a key pillar supporting the region. All told, the strength in Q2 alongside Germany's upward revisions have led us to revert back to our 0.8% growth expectation for 2026, while keeping our 2027 forecast at 1.2%.

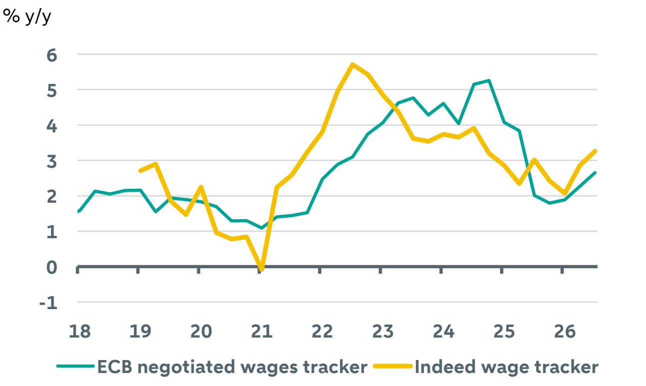
Indeed, the resurgent energy shock is likely to leave a much bigger mark on inflation. Headline inflation has already rebounded from its June trough of 2.8% to reach a three year high of 3.3% in August. The rise was driven almost entirely by energy, although goods inflation picked up notably as well – something we had flagged in our Monthly just prior to the summer. Inflation has gone from a crude oil problem to a refined products and gas problem, and even assuming a near-term deal to reopen Hormuz fully, inflation is likely to continue rising over the coming months as existing price pressures get passed on to consumers. Inflation is now expected to peak above 3.5% over the coming months, and to average 3.0% in 2026 – 0.5pp higher than our June forecast. The rebound in inflation will sharpen the focus on second round effects, and particularly wage inflation. We saw the first warning signs of a pickup in wage growth with the Indeed monthly data for July, but the ECB's forward-looking tracker for negotiated wages has also picked up in recent months (see chart below). We continue to think that the much looser labour market will prevent second round inflation effects from taking hold, in contrast to developments in 2022-23 (see Theme 4 in our July Global Monthly here), while the ECB's more restrictive policy stance also acts as a hedge against more self-sustained inflation and keeping inflation expectations well anchored. Still, the longer elevated headline inflation persists, the bigger the risk that second round effects become a more worrying problem.

**Growth has stayed resilient and is likely to remain so**




Source: LSEG, ABN AMRO Group Economics

**Wage indicators have started to creep higher**




Source: Bloomberg, ABN AMRO Group Economics

## ECB path beyond September grows murkier

For now, the path for the ECB is clear, and a rate hike at next Thursday's Governing Council meeting is fully priced by financial markets. Less clear now is what comes after. Our base case sees the ECB keeping rates on hold for the remainder of the year, and even cutting rates in Q2-Q3 next year. While a back-to-back October hike looks unlikely even in a more negative inflation scenario, December could well be in play if wholesale energy prices have not started to come back down by that point, and/or if second round effects show signs of broadening.

## Germany: Cautious optimism

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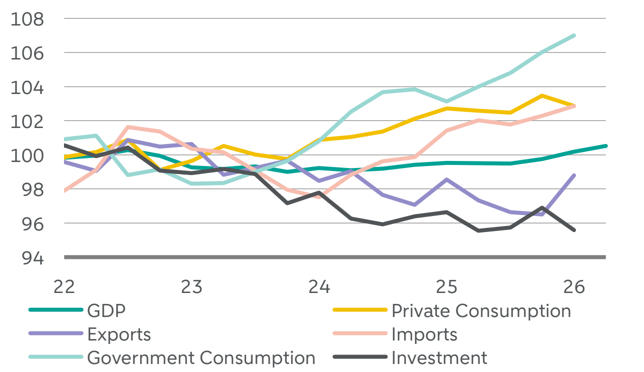
- Economic output is rising, but no decisive breakthrough is in sight
- Still, we are raising our GDP growth forecast for 2026
- The inflation rate is likely to hover just below 3.0% over the coming months

Against the backdrop of the ongoing Iran war, the German economy has remained resilient in the latest data releases. Solid GDP growth has now been recorded for three consecutive quarters. Nevertheless, the cumulative growth gap vis-à-vis other euro-area countries since the end of the Covid pandemic remains wide. This is unlikely to change any time soon, particularly as, in our view, the composition of GDP growth is not particularly encouraging. Growth continues to be driven to a significant extent by debt-financed government consumption. More recently, foreign demand has also provided a stronger contribution. Domestically, however, the picture remains subdued. Consumers continue to be unsettled by high energy prices and erratic policymaking. While the governing coalition has passed a reform package – which we welcome, as it contains several promising measures, including efforts to reduce bureaucracy – it falls well short of a far-reaching economic overhaul on the scale of Agenda 2010. The combined reforms to taxation and social security contributions provides no meaningful relief for private households or businesses. Energy remains expensive. Genuine incentives for an investment offensive are lacking, while the competitiveness of many companies remains impaired. We therefore doubt that the inclination of companies to relocate and of workers to move abroad will diminish materially. At least the persistent decline in investment appears to be bottoming out. A self-sustaining upturn, however, remains elusive. Moreover, the predominantly consumption-oriented use of the fiscal package points to a short-lived cyclical boost rather than a shift to a sustainably higher growth trajectory.

Nevertheless, we are becoming cautiously more optimistic about the growth outlook. Public investment, including defence investment spending, will continue to rise noticeably and support growth. However, we expect the spillover to other demand components to remain limited. In particular, the loss of purchasing power resulting from elevated energy prices, together with a more uncertain labour market outlook, will likely keep a lid on the recovery in private consumption. Despite full order backlogs, industrial capacity utilisation is unlikely to increase to any significant extent given the difficult conditions for doing business in Germany. In addition, financing conditions are becoming less supportive. Another burden is that companies continue to face the repercussions of the Iran war. Taken together, these factors point to a growth trajectory ranging from subdued to solid. Partly reflecting statistical upward revisions – which raised cumulative growth over 2011–2021 by 0.8 percentage points – we have revised our GDP growth forecast for 2026 from 0.7% to 1.3% and for 2027 from 0.9% to 1.1% (working day adjusted: to 1% from 0.7%, 2027 unchanged at 1%). We continue to monitor potential disruptions from US tariff policy and supply-chain developments.

**Government spending remains the main driver of growth**

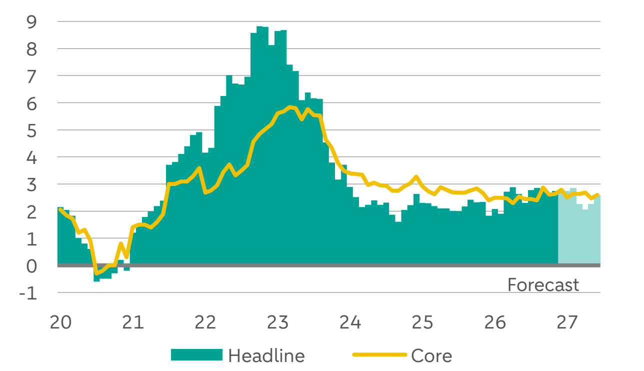
GDP and GDP components (Germany, 2022=100)




Source: LSEG Datastream

**Inflation expected to overshoot the 2.0% price target**

Consumer prices (Germany, % year-on-year)




Source: LSEG Datastream. Forecast: ABN AMRO Group Economics

Concerning inflation, a fundamental easing is not yet in sight. The increase in energy costs caused by the Iran war continues, with crude oil, gas, and electricity prices having risen markedly again since the beginning of July. Low water levels on the Rhine and crop failures caused by heatwaves are also likely to result in upward pressure on agricultural commodity and food prices. We expect companies to pass through most of these higher costs to consumers. Against this backdrop, the inflation rate is likely to come in just below 3.0% this year. We expect inflation to move broadly back towards the 2.0% ECB inflation target by spring 2027. In our view, risks to the inflation outlook are tilted to the upside.

## The Netherlands: Resilient in an uncertain world

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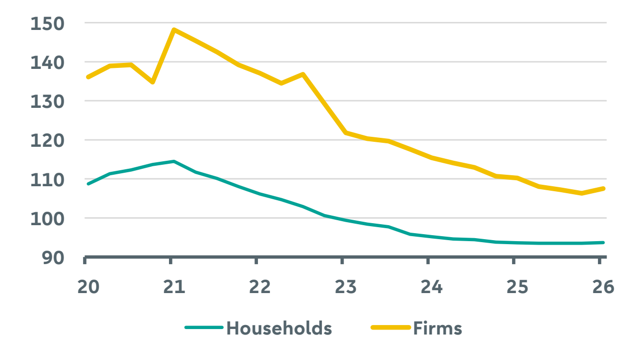
- In the first half of this year, the Dutch economy grew stronger than previously expected; growth will slow in the second half. We expect growth of 1.3% in 2026 and 1.1% in 2027
- The minority government has reached an agreement, and will introduce purchasing power support
- Given its minority status, the budget will likely still be amended

In the first half of the year, the Dutch economy grew stronger than previously expected; despite higher inflation, geopolitical tensions, heatwaves, low water levels in the Rhine and fluctuating energy prices. Growth was driven by domestic spending: households consumed more, the government continued to spend, and investment increased. In addition, the economy temporarily benefited from, for example, stockpiling behaviour: companies built up extra inventories due to concerns about disruptions to international supply chains. The underlying fundamentals of the economy are also solid. The labour market remains tight, households and companies have financial buffers, and the government supports growth. Looking ahead, we expect growth to continue, but at a slower pace. Temporary factors will fade, while higher energy prices will gradually have a stronger impact on the economy and can put pressure on real incomes. All in all, we expect growth of 1.3% this year and 1.1% next year.

**Households and companies have reduced debt**

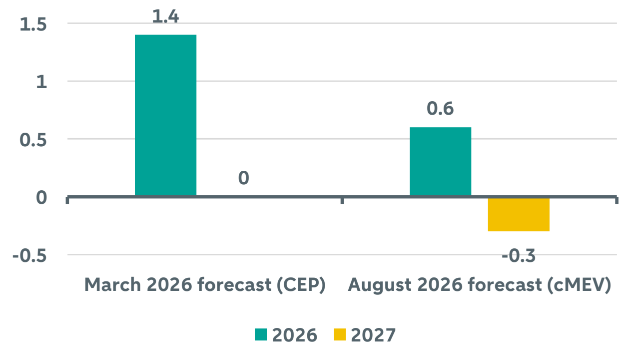
% of GDP, households and non-financial corporations




Source: LSEG, ABN AMRO Group Economics

**CPB revises purchasing power forecasts**

Median y/y purchasing power development, all households




Source: CPB, ABN AMRO Group Economics

At the end of August, the Jetten I minority government reached an agreement on its first full budget. The coming weeks, and particularly the General Political Debates following *Prinsjesdag* (Budget Day), will show how much this agreement is worth. Its minority status in both the House of Representatives and the Senate requires support from opposition parties, which unanimously indicated that they do not yet support the budget.

What has already been disclosed? The changing purchasing power situation is forcing the government to introduce purchasing power support (EUR 1.5 billion). When the coalition agreement was concluded at the beginning of 2026, the coalition expected strong growth in purchasing power this year thanks to wage increases. That outlook created room to increase taxes on labour to help finance defence expenditure. The new inflation shock resulting from Iran removes this foundation. Instead of reducing purchasing power support, the government is now increasing it. To secure political backing, cuts to social security, such as raising the state pension age, shortening the duration of unemployment benefits, and reducing the maximum daily wage, are being softened or postponed; . Uncertainty remains in several areas, such as the tax on savings and investments (under the Box 3 system).

The ambitious coalition agreement has been watered down in light of political realities. Adjustments were needed to resolve differences within the minority coalition and to make room for parliamentary demands. It appears that long-term challenges facing the Dutch economy, such as addressing bottlenecks (the shortage of housing and expansion of the electricity grid) and improving labour productivity, currently receive less priority given the limited attention paid to them in the budget, although the additional EUR 4 billion in spending on innovation funds is a promising bright spot. The coming weeks will show whether the balance between short-term and long-term interests, and between consumption and investment, will be restored.

## US: A race against the clock

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- Warsh's Jackson Hole speech increased the perceived odds of a September hike
- The broader FOMC still seems divided. The speed of progress on the disinflation process is key
- The labour market muddles along, with weak hiring and employment caught by dwindling supply

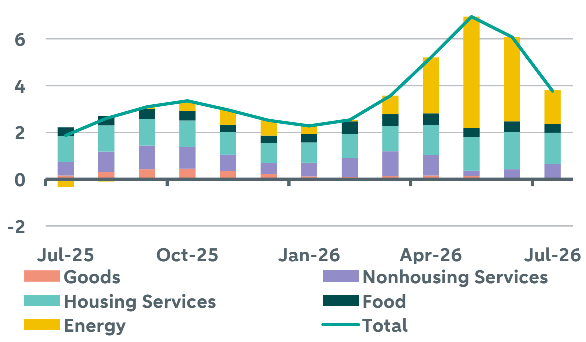
All eyes are on the September FOMC decision. The minutes and Warsh's Jackson Hole speech revealed that the FOMC thought it wiser to await new information in the intermeeting period. Where do we stand? Before the summer, we argued we had reached 'peak hawk' data, the height of inflation, and surprisingly strong non-farm payrolls. It was indeed the peak. Despite continued high oil prices and no end in sight of the Hormuz closure, inflation has been coming down, and non-farm payrolls came in weak over the summer, even if they recovered somewhat in the latest report.

Non-farm payrolls remain incredibly volatile. As we had predicted, the two summer readings were weak, but the latest August figure was another blowout at 162k. We see a large probability that this figure will be revised down. Meanwhile, the unemployment rate continued to trend down, now standing at 4.1%. This decline is mostly caused by a marked decline in participation rather than a fundamentally tighter labour market, even though the latest report saw a slight uptick in participation again. The latest report broke the trend of falling employment, showing a substantial increase, narrowing the gap between non-farm payrolls jobs and total employment growth. Beyond the latest figure, the annual benchmark revision removed 79k of the 165k jobs created in the year through March. Overall, this does not drastically alter the view, similar to how last year's massive downward revision had no material impact on the assessment of the labour market. The labour market remains in its curious balance. Chairman Warsh sees it as consistent with full employment. The bigger focus is inflation.

PCE inflation came in slightly above expectations, leading the y/y rate to remain stuck, which could be construed as an argument to raise rates. But what is the trajectory? Energy and food inflation remain elevated, while other categories are closer to historic patterns and consistent with the 2% target. Still, we broadly expect disinflation to continue, though at a less rapid pace than in recent months. Base effects will push inflation markedly down, even in range of target by Q2 2027, before rebounding somewhat again. We expect the y/y headline CPI and PCE inflation to stay flat, while both core measures continue to soften. Beyond that, the BEA will reveal the impact of a change in methodology for PCE, which affects the way portfolio management fees, legal services and computer software and accessories drive PCE inflation. The BLS has been unclear about details, but consensus is that it will push today's inflation rate down by about 0.2pp. Concretely, the FOMC will have access to August CPI and PPI data. An upward surprise in (core) CPI, or a resurgence of PPI pressures, would likely be both sufficient and necessary to push the majority of the FOMC to hike.

**Disinflation momentum set to slow, but not stop**

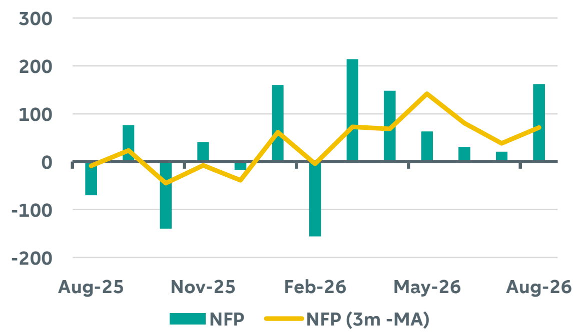
3m annualized CPI inflation, %




Source: LSEG, ABN AMRO Group Economics.

**Volatility in non-farm payrolls**

Non-farm payrolls (thousands)




Source: LSEG, ABN AMRO Group Economics

Our view is that markets are overestimating the probability of a September hike, and our base case remains that there is no majority support for a rate hike. The FOMC therefore continues to hold in September, and beyond. We expect the policy rate to remain at current levels for an extended period of time, before gradually moving towards neutral next year. We are pushing back that easing slightly further and now see one cut in Q2, Q3 and Q4 each. While rates only seem marginally restrictive now, easing to the lower side of neutral will provide some support when the pace of private sector stimulus, i.e. the AI buildout eases off a bit. Still, there is a distinct possibility of a hike in September, which would put us on a different path, reminiscent of the Matterhorn or Table mountain debate of the previous hiking cycle.  That would signal a Fed that is keen to get inflation down more quickly, implying more than a single hike. We'd see at least one more hike in December, and a gradual easing by the end of next year, when inflation should have sufficiently eased.

# China: Domestic imbalances worsening, trade tensions brewing

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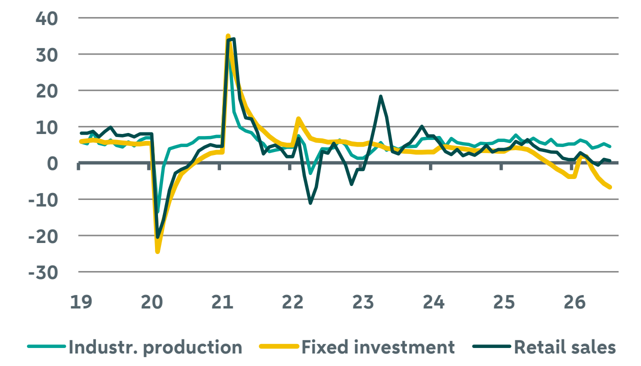
- Supply-demand imbalances worsen amidst weak growth momentum
- Beijing still seems to be taking a cautious approach towards fresh stimulus
- US-China tensions resurface in run-up to Trump-Xi summit; tougher EU stance on China

## Supply-demand imbalances worsen amidst weak growth momentum

The prolongation of the energy crisis over the summer contributed to a weakening of growth momentum in July, although August PMIs showed some improvement. On the demand side, retail sales slowed to a meagre 0.6% y/y in July, with car sales still hit by payback from fading subsidies. An ongoing property slump, slowing income growth, a weak labour market and low consumer confidence keep putting a brake on household demand. The contraction in investment deepened to -6.7% y/y ytd: the slump in property investment drags on, but investment in manufacturing and infrastructure also turned negative. On the supply side, industrial production was hit by extreme weather and drags from the energy shock, although monthly oil imports picked up in July for the first time since March. All told, the production side remains much stronger than the demand side. That is also illustrated by ongoing strength of exports (and in their slipstream imports), as China still benefits from the global AI boom, and by CPI inflation falling back again.

**Supply-demand imbalances, investment slump worsen**

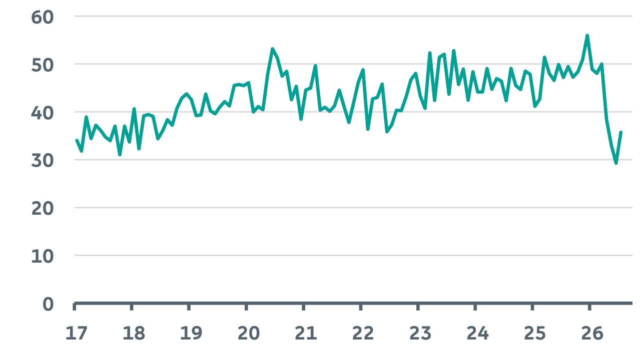
Industrial production/retail sales: % y/y, fixed investment : % y/y ytd




Source: ABN AMRO Group Economics, Bloomberg

**After steep decline, oil imports picked up a bit in July**

China's oil import volumes, million tonnes




Source: Bloomberg

## Beijing still seems to keep taking a cautious approach towards stimulus

All in all, although China has proven remarkably agile with regard to the energy crisis (the global 'swing consumer'), risks to Beijing's 2026 growth target (4.5%-5.0%) have risen over the summer. Meanwhile, worsening domestic imbalances add to frictions with key trade partners and to future external risks (see below). Still, it seems that policy makers are so far sticking to the view that the energy shock is a temporary one and are not in a hurry to add new stimulus. Instead, Beijing seems to prefer a quicker, bolder execution of previously announced measures – such as more bond issuance by local governments that will boost infrastructure investment ('under delivery' of fiscal stimulus contributed to the slowdown in Q2). The PBoC will probably also show patience regarding further piecemeal monetary easing steps, but we think RRR cuts and mini policy rate cuts are still in the pipeline.

## US-China tensions resurface in run-up to Trump-Xi summit; tougher EU stance on China

The US package against Iran contained (potential) secondary sanctions including for some smaller Chinese/Hong Kong firms, although large Chinese banks were left out. On the tariff front, the US prepares a 7.5% 'overcapacity' tariff on China, on top of the 12.5% 'forced labour' tariff imposed in July. That would lead to a (post SCOTUS-ruling) 'replace-ment tariff' of 20%, which looks in line with what was agreed. The US also imposed 100% tariffs on imports of drones and related products, confirming the decoupling in strategic tech areas. We think these sanctions and tariffs are unlikely to derail the fragile tariff and chokepoint truce, in the run-up to a (potential) Trump-Xi meeting in Washington later this month. Meanwhile in Europe, Brussels and Beijing have agreed on an October deadline for some trade/ investment measures (also see here). While we still think the EU will take a cautious approach, German Chancellor Merz recently stated that his government is prepared to take a tougher position on China, also reflecting that German industry changed its stance. Meanwhile, the Netherlands Scientific Council for Government Policy (WRR) published a report with recommendations for tackling trade imbalances with China while strengthening innovation in Europe.

## Key views on a page

**The global economy remains resilient in the face of a succession of shocks. While the energy shock is back with a vengeance, its effects are more idiosyncratic now, and much more impactful for Europe than the US. Meanwhile, a capex troika centred around AI, defence and the energy transition are continuing to drive growth, which is expected to hold roughly around trend rates in advanced economies. The global investment surge is also supporting growth in China, although imbalances there continue to fan trade tensions with the EU. Against this backdrop, inflation will remain somewhat elevated over the coming months, and this should keep central banks leaning hawkish, with the ECB expected to raise rates further in September, and a risk that the Fed has to tighten policy. Our base case sees both central banks resuming rate cuts in 2027.**

| Macro | Central Banks & Markets |
|---|---|
| **Eurozone** – The resurgent energy shock is driving a renewed rise in inflation. Goods inflation is also firming, linked not only to pass-through from energy price rises but more broadly to a rise in global supply bottlenecks. Second round effects are so far limited, but risks have risen. Underlying growth (ex-Ireland) meanwhile has been holding up, helped by the ongoing pickup in German defence spending, while consumption has stayed resilient, helped by the switch to EVs. Higher energy prices are likely to be a renewed headwind to the recovery in consumption, however, limiting any upside risks to the outlook. | **ECB** – Following its rate hike at the June meeting, we expect the Governing Council to raise rates again in September, taking the deposit rate to 2.50%. This is in order to keep inflation expectations well anchored, with headline inflation moving higher again, raising risks of second round effects. Ultimately, we expect second round effects to be contained, and by early 2027 we expect the ECB to be confident enough in the inflation outlook to gradually bring rates back to its estimate of a neutral policy setting. Still, the ECB could be forced to tighten further if the situation around energy supply does not improve by year-end. |
| **The Netherlands** – The first half of 2026 ended stronger than expected, given geopolitical uncertainty and higher inflation. We expect growth to moderate somewhat in H2, with temporary factors disappearing. The Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers. With higher energy prices gradually filtering through to other inflation categories, we expect inflation to stay elevated. The first Budget Day of the minority Jetten Cabinet is an important indicator of the coalition's political strategy going forward. | **Fed** – Warsh's communication style means the future path of the Fed's policy rate is surrounded by more uncertainty than usual. We still do not see a majority on the FOMC willing to raise rates, awaiting further evidence on the disinflationary trend. Upward surprises on inflation are both a sufficient and necessary condition for the Fed to start hiking. In our base case, the Fed keeps rates on hold for an extended period of time. We see them gradually easing at a 25bps per quarter pace starting in the second quarter of next year, to arrive at 2.75-3.00% by the end 2027, the lower end of neutral estimates. |
| **UK –** The government led by newly-installed PM Andy Burnham is more popular with the public than the Starmer administration, but fiscal constraints prevent it from taking bold measures to support growth. We expect next month's budget to include tax rises to maintain the government's commitment to its fiscal rules. Meanwhile, though inflation is expected to stay elevated over the coming months, the much looser labour market means that a renewed pickup in wage growth looks much less likely than in 2022-23. | **Bank of England** – We continue to think the MPC will keep rates on hold through the renewed energy shock, but the risk of rate hikes has risen. Our base case currently sees the MPC resuming rate cuts in 2027, and we expect two rate cuts taking Bank Rate down to 3.25% by the end of the year. A focus of the new Burnham government could be on potential changes to the BoE's mandate. Even if there are changes, we expect the impact on monetary policy to be limited in practice given that the MPC is already not fully focused on its inflation objective. |
| **US** – Headline growth and private demand remain solid, predominantly on the back of the AI investment boom. The labour market is showing payback for strong frontloaded acyclical hiring. Overall tepid labour demand is in balance with a declining labour force, amplified by declining participation. The disinflation process continues but loses pace. Energy and food inflation remain elevated for some time. Inflation is projected to get within reach of the 2% target in Q2 of 2027 before gradually picking up somewhat. | **Bond yields** – As the Middle East conflict drags on, markets have increasingly priced a higher-for-longer ECB policy path, reflecting concerns that persistent energy-related inflation could trigger second-round effects. We still expect one final 25bp hike in Q3, followed by two cuts in 2027, while the Fed is likely to remain on hold through 2026 before delivering three cuts in H1 2027. As inflation pressures ease and markets move closer to our policy outlook, front-end yields should decline and yield curves steepen, although likely only once concerns about inflation and second-round effects subside. Long-end yields are likely to fall less as elevated term premia continue to support longer maturities. |
| **China** – The prolongation of the energy crisis hit growth momentum in July, although August PMIs show an improvement. While supply- demand imbalances worsen, foreign trade remains solid as China continues to benefit from the global AI boom. Despite rising risks to the 2026 growth target (4.5-5.0%) and brewing trade tensions, Beijing still takes a cautious support stance, relying on implementation of existing measures rather than adding fresh stimulus. New US sanctions/tariffs are unlikely to derail the fragile tariff/chokepoint truce, in the run-up to a (potential) Trump-Xi meeting later this month. The EU is working on a tougher stance versus China. | **FX –** Recent comments from Fed Chair Warsh are taken as hawkish. This has resulted in higher short-term interest rates and a higher dollar. Higher short-term interest rate expectations generally support the dollar. However, higher government bond yields do not automatically strengthen the currency, especially when they reflect a higher risk premium. If the Fed does not raise rates, the dollar could quickly give back its recent gains and EUR/USD. If at the same time US Treasury yields also increase because of a higher risk premium, dollar weakness could be more substantial. We maintain our views of a higher EUR/USD towards the end of 2026 with our forecast of 1.18 at the end of the year. |

## Main economic & financial market forecasts

| | GDP | | | | Inflation | | | | Policy rate | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2024 | 2025 | 2026 | 2027 | 2024 | 2025 | 2026 | 2027 |
| Eurozone | 1.0 | 1.5 | 0.8 | 1.2 | 2.4 | 2.1 | 3.0 | 2.2 | 3.00 | 2.00 | 2.50 | 2.00 |
| Netherlands | 1.1 | 1.8 | 1.3 | 1.1 | 3.2 | 3.0 | 2.9 | 2.6 | | | | |
| Germany | 0.0 | 0.3 | 1.0 | 1.0 | | | | | | | | |
| UK | 1.0 | 1.3 | 1.2 | 1.2 | 2.5 | 3.4 | 3.2 | 2.3 | 4.75 | 3.75 | 3.75 | 3.25 |
| US | 2.8 | 2.1 | 2.2 | 2.3 | 2.6 | 2.6 | 3.5 | 2.4 | 4.50 | 3.75 | 3.75 | 3.00 |
| China | 5.0 | 5.0 | 4.6 | 4.5 | 0.2 | 0.1 | 1.0 | 1.2 | 3.10 | 3.00 | 2.90 | 2.80 |

Note: Annual average for GDP and inflation, end of period for the policy rate

Note: Energy price forecasts are averages

| | 2025 | 03-09-26 | 26Q3 | 2026 | 2027 |
|---|---|---|---|---|---|
| US Treasury | 4.17 | 4.77 | 4.70 | 4.45 | 4.15 |
| German Bund | 2.85 | 3.35 | 3.20 | 3.00 | 3.05 |
| EUR/USD | 1.17 | 1.16 | 1.16 | 1.18 | 1.23 |
| USD/CNY | 6.99 | 6.72 | 6.80 | 6.80 | 6.70 |
| GBP/USD | 1.35 | 1.35 | 1.35 | 1.36 | 1.40 |

| Energy | 2025 | 03-09-26 | 26Q3 | 2026 | 2027 |
|---|---|---|---|---|---|
| Brent - USD/bbl* | 61 | 97 | 85 | 86 | 73 |
| WTI - USD/bbl* | 57 | 93 | 75 | 80 | 68 |
| TTF Gas - EUR/MWh* | 27 | 73 | 60 | 49 | 38 |

* Brent, WTI: active month contract; TTF: next calender month

| | 2025 | | | | 2026 | | | | 2027 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (q/q)** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 0.6 | 0.0 | 0.3 | 0.2 | 0.0 | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Netherlands | 0.2 | 0.3 | 0.5 | 0.4 | 0.3 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 |
| US (saar) | -0.6 | 3.8 | 4.4 | 0.5 | 2.1 | 1.5 | 3.3 | 2.2 | 2.2 | 2.3 | 2.3 | 2.3 |
| China (y/y) | 5.4 | 5.2 | 4.8 | 4.5 | 5.0 | 4.3 | 4.5 | 4.6 | 4.5 | 4.6 | 4.6 | 4.4 |
| **Inflation** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 2.3 | 2.0 | 2.1 | 2.1 | 2.0 | 3.0 | 3.2 | 3.6 | 3.1 | 2.4 | 1.9 | 1.5 |
| Netherlands | 3.3 | 3.2 | 2.7 | 2.8 | 2.3 | 2.8 | 3.2 | 3.5 | 2.9 | 2.8 | 2.4 | 2.3 |
| US (PCE) | 2.6 | 2.4 | 2.7 | 2.8 | 3.1 | 3.9 | 3.6 | 3.4 | 2.9 | 2.1 | 2.3 | 2.6 |
| China | -0.1 | 0.0 | -0.2 | 0.6 | 0.8 | 1.1 | 0.8 | 1.1 | 1.1 | 1.2 | 1.2 | 1.1 |
| **Unemployment** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 6.3 | 6.3 | 6.3 | 6.3 | 6.2 | 6.3 | 6.4 | 6.3 | 6.3 | 6.2 | 6.2 | 6.2 |
| Netherlands | 3.8 | 3.8 | 3.9 | 4.0 | 4.0 | 3.9 | 4.0 | 4.1 | 4.2 | 4.2 | 4.2 | 4.2 |
| US | 4.1 | 4.2 | 4.3 | 4.5 | 4.3 | 4.3 | 4.3 | 4.4 | 4.5 | 4.4 | 4.3 | 4.3 |
| **Policy rate** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.25 | 2.50 | 2.50 | 2.50 | 2.25 | 2.00 | 2.00 |
| US | 4.50 | 4.50 | 4.25 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.50 | 3.25 | 3.00 |
| UK | 4.50 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.50 | 3.25 | 3.25 | 3.25 |
| China | 3.10 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 2.90 | 2.90 | 2.90 | 2.80 | 2.80 |

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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