

Geopolitics bad, macro good

- While the risks have certainly not gone away, economic data has been generally firming, while near term positive impulses are getting stronger
- Higher AI capex spending looks to be bigger than expected, fiscal stimulus is ramping up and financial conditions remain easy
- So far geopolitics has been the dog, which barks very loudly, but does not bite. That cannot be taken for granted with Iran the latest flashpoint
- SCOTUS decision to scrap IEEPA tariffs may not change too much, not least because fresh tariffs have largely replaced the old ones
- There is an increasing chance that the global economy may run hot in the near term but also of a future hangover further down the line
- In our [Spotlight](#) on the Warsh Fed in 2026, we argue that his conviction-based approach to policy will lead rate cuts despite the strong macro
- **Regional updates:** In the [eurozone](#), Q4 GDP surprised to the upside, amid early signs in the data of Germany’s big defence spending push
- Defence is also central in the new coalition agreement in the [Netherlands](#)
- AI spending continues to offset labour market weakness in the [US](#)
- Policy support in [China](#) to stay targeted amid record trade surpluses

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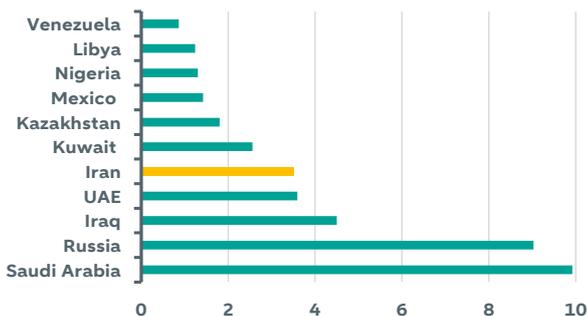
Global View: Positive drivers have been building despite all the risks

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In our 2026 outlook we struck a constructive tone for the outlook despite what appeared to be a wall of worries, from the changing world order to fiscal vulnerabilities, from concerns about tech bubbles to fears about the Fed’s independence. However, our view was that many of these risks seemed to be either not imminent or not tangible enough to be part of a base case. At the same time the classic drivers of cyclical recoveries were coming together with a powerful boost from AI and this had the potential to sustain the expansion. Some months on, while the risks have certainly not gone away, economic data has been generally firming, while the near term positive impulses if anything are getting stronger. There is even a building chance that the global economy will start to run hot. So far geopolitics has been the dog, which barks very loudly, but does not bite.

Main Opec + oil producers

Million barrels per day



Source: IEA, ABN AMRO Group Economics

Economic surprise index

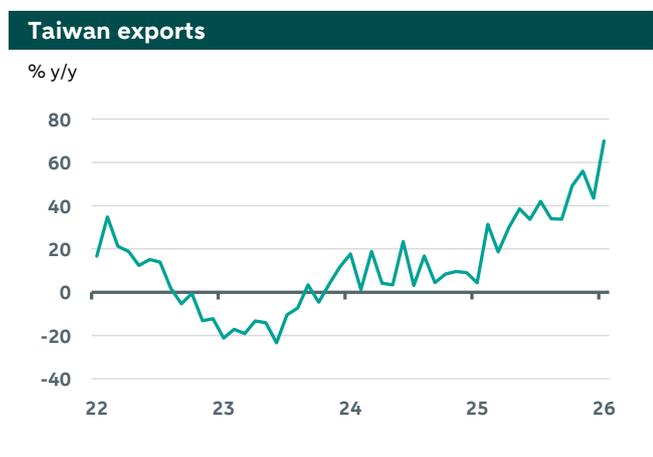
Global index (positive reading means reports better than expected)



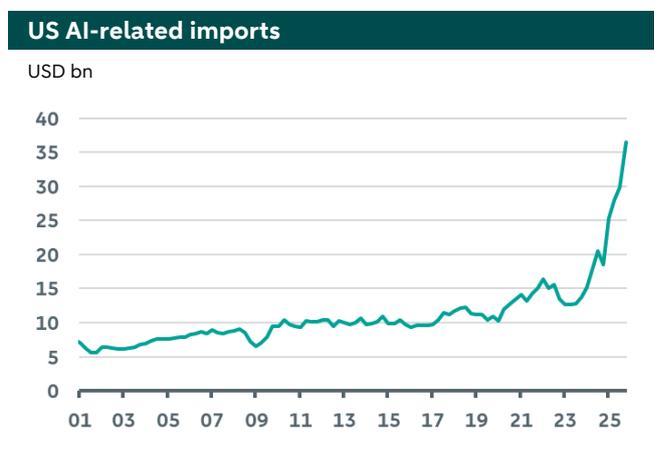
Source: Bloomberg, ABN AMRO Group Economics

At the time of writing, the latest flashpoint concerns a potential US military attack on Iran. The way this could impact the economic outlook is via its potential to drive up oil prices, and indeed a risk premium is already building that has pushed up benchmark levels by around USD 5 per barrel, despite what looks to be a building supply glut. After all, Iran is a significant oil producer and the strait of Hormuz - between Iran and Oman - is probably the world's most strategically important energy choke point. It is difficult to know how this will play out. We could wake up either to the 'greatest deal in history' or to military conflict that threatens energy supply. One would not surprise more than the other. And indeed there is a danger now of treating geopolitics like the 'boy who cried wolf'. However, so far at least, while the geopolitics has been bad, the macro has been good.

Data have been improving - Let's start with the data. Economic data releases have been better than expected (see chart above on the right), and not just because of low expectations. Domestic demand has remained robust, but [perhaps](#) most encouragingly is that manufacturing, a previous weak spot, appears to be gaining traction (also see our note [here](#)). The PMI surveys have been on a rising trend, while the hard data for factory orders in the US and Germany has also been strong. All this despite the impact of US tariffs. Part of this is explained by effective tariff rates being much lower than headline announcements, while at the same time the AI boom appears to be having a strong impact on global trade. For instance, US AI-related imports are up by an extraordinary 166% y/y. Taiwan's exports have been surging over recent months, even though the latest reading might be inflated by a change in the timing of the lunar new year. The Fed estimated in a note last year that Taiwan's AI-related exports account for around 13% of its GDP (see [here](#)).

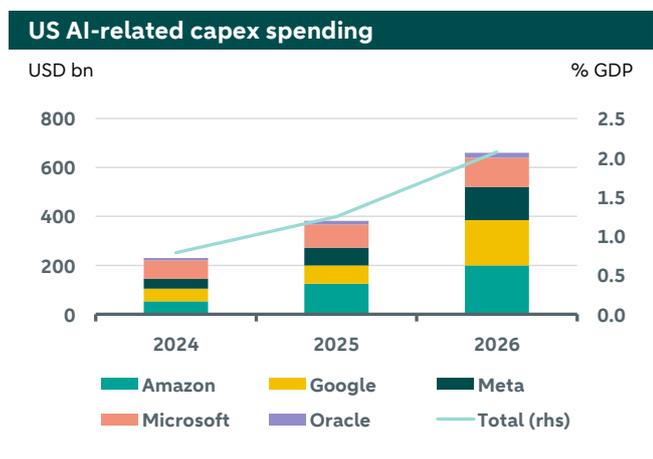


Source: Bloomberg, ABN AMRO Group Economics

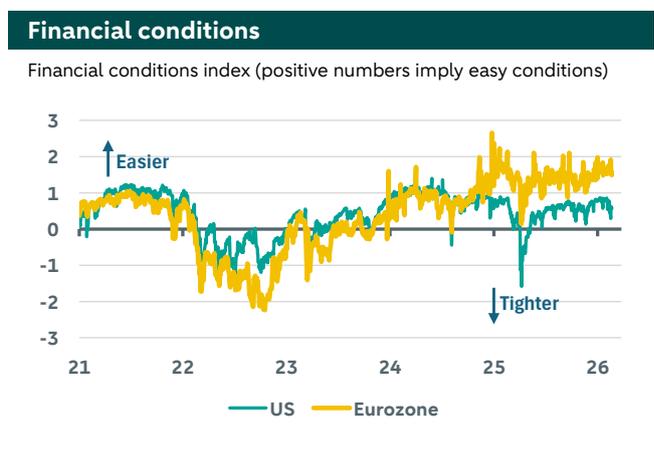


Source: Bloomberg, ABN AMRO Group Economics

Positive drivers are building - The announcements of the large US tech companies of AI-related capex were much larger than expected. The capex plans of just five of the large tech companies amount to around 2% of US GDP up from 1.2% last year. There has been some softening of equity markets on the back of this as investors are concerned that these incredible capital expenditures are outpacing the earnings potential of the new technology (more about this later). In addition, investors are assessing the winners and losers from AI. For instance, AI group Anthropic (which is a private company) has recently released marketing, legal and finance additions to its Claude Co-work tool, which has hit software stocks hard reflecting concerns about the implications for their business models. Despite recent equity market weakness, however, financial conditions remain accommodative and will continue to provide support for the economy.



Source: Bloomberg, ABN AMRO Group Economics



Source: Bloomberg, ABN AMRO Group Economics

Supreme Court ruling to scrap IEEPA tariffs may not mean much - The ruling of the Supreme Court of the United States that President Trump’s tariffs under the International Emergency Economic Powers Act (IEEPA) were illegal could on the surface be seen as an additional positive driver. However, this is too optimistic a take. The Trump administration has imposed a 10% tariff on US imports under Section 122 of the Trade Act for a period of 150 days (with important sector exemptions) and has suggested this will go up to 15%. This will provide some offset to the fall in tariffs due to the scrapping of the IEEPA variants, while additional tariffs are being considered under other laws. Indeed, the effective tariff rate may end up only slightly below the one that stood before the ruling. Beyond this, there are distributional elements, with emerging markets in particular benefiting from lower tariffs (see our note [here](#)).

Changing tariff rates

US effective tariff rate on imports, %



Source: ABN AMRO Group Economics

Eurozone debt ratios

% GDP



Source: ECB, ABN AMRO Group Economics

Possibility of running hot - The chances are rising of a stronger acceleration in economic growth than under our base case. The AI boost aside, there is also the prospect of more fiscal stimulus globally. We are seeing increasingly convincing signs that European defence spending and production is ramping up, especially in Germany. The ‘Greenland episode’ if anything would add to the sense of urgency. Meanwhile, Japan’s Prime Minister Sanae Takaichi was recently re-elected with a landslide gave her an impregnable majority in the country’s lower house of parliament, which gives her every opportunity (the bond market aside – more on this later) to carry out her sizeable spending and tax cut pledges. Furthermore, the US authorities might also be tempted to put in place additional stimulus before the Midterms, particularly in the form of cheques to lower and middle-income households.

Meanwhile, private sector balance sheets in advanced economies are in good shape and provide scope for a pickup in domestic demand. This is particularly the case in the eurozone, where savings rates have remained elevated, while debt ratios have collapsed (see chart above on the right). The return of ‘animal spirits’, particularly in Europe, could therefore provide some additional upside. Finally, usually a sharper acceleration in economic growth is offset by central banks taking away the punch bowl. As we discuss below in our Spotlight, a Warsh Fed may actually continue to cut rates. In Japan, Prime Minister Takaichi is reportedly putting pressure on the BoJ to be very careful with additional rate hikes.

Sowing the seeds for a future hangover - Today’s positive drivers may prove to be tomorrow’s negative drivers. AI will likely lead to a significant acceleration in productivity growth. However, our calculations suggest that productivity gains would need to come in at the very upper end of estimates and come through relatively quickly for the capital spending to make economic sense. While the ongoing ramp up in AI capex is a positive for economic growth in the short-term, an eventual slowdown or worse implies medium-to-long term risks. Especially if coupled with a tech-driven market correction that tightened financial conditions. A second risk relates to the deterioration in fiscal fundamentals in a number of countries, including the US, Japan and France, which could lead to a sharper rise in term premia. A final risk, that could exacerbate the other two risks is a potential eventual reversal in US monetary policy, as inflation may remain sticky despite the AI productivity boost, which could also have the impact of raising neutral interest rates.

Spotlight: The Warsh Fed in 2026

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- In the near-term, Warsh’s ‘conviction-based’ policy drive puts downward pressure on rates.
- Despite a bullish outlook on the US economy and increasing inflation, we see 75 bps of cuts this year
- This view is grounded in a more dovish Fed reaction function that downplays recent data

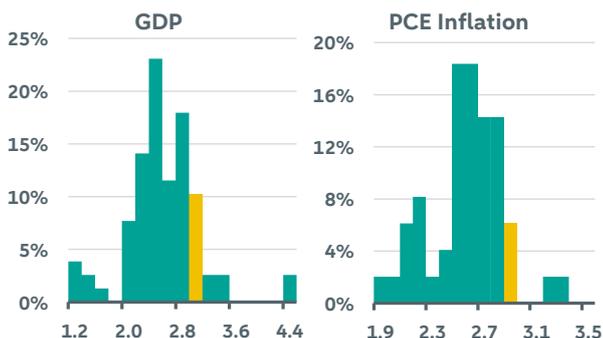
At the end of last month, Kevin Warsh was nominated to be the next Fed chair. While a lot is still unknown about how he’ll try to influence Fed policy, three points stand out from his most recent remarks about the Fed. The first is his unease with Quantitative Easing. We’ve written [extensively](#) about how that might ultimately affect policy (spoiler: higher long-term rates) but this will likely be a long and gradual process. In the nearer term, we should probably expect less transparency, with less communication and guidance from FOMC officials. Most important for the near term, however, is his idea of ‘conviction-based’ policy. Warsh has been quite clear on what his current *conviction* for the US economy is. He has pushed a bullish outlook on the back of AI productivity gains and pro-growth policies from the Trump administration. He believes that through AI, the US can keep on growing at the current strong pace, with limited inflation risk. This offers room for lower rates in the near term.

How much credibility is there to the AI story? It seems likely that in the long run, AI becomes a general-purpose technology, similar to electricity or computers, which should boost productivity, raising potential growth. Then indeed, the economy can grow faster without generating inflationary pressure. The big question is whether the US is already in that ‘long run’ state that would allow for 3%+ annual growth without inciting inflationary pressure, especially in the absence of labour force growth. Some of the recent data may be interpreted that way. The decoupling between economic growth and jobs growth we described [last month](#) has only intensified after the revision to NFP published this month (see also US chapter). Beyond an AI productivity boost, it could be labour scarcity pushing firms to extract more output per worker, or tariffs and a weaker dollar may have boosted competitiveness leading to increased capacity utilization. There’s little direct empirical evidence for any of these theories, including the AI productivity one. Still, we saw exceptionally strong growth in the second half of last year, with limited demand-driven inflation pressure.

We share the bullish outlook for the US economy, with higher growth forecasts than consensus, supported by fiscal and monetary easing, as well as large private sector investment stemming from the tech sector. We differ in our view on whether this will lead to increased price pressure, leading to our above consensus inflation call. Despite that, we do still see more rate cuts than current market pricing would suggest. While that may seem inconsistent, the answer lies in a more dovish reaction function of the Fed which has gradually revealed itself over the past half year, where inflation above target carries significantly less weight than any potential threats to employment.

We have a bullish US outlook ...

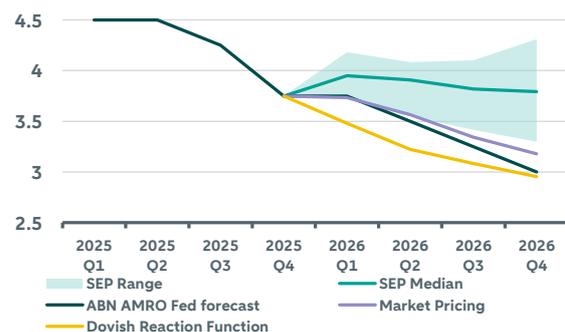
Bloomberg survey for 2026. ABN AMRO in yellow



Source: Bloomberg, ABN AMRO Group Economics

... but a dovish Fed path

Market pricing for upper bound of Fed policy rate, ABN AMRO in marker



Source: Federal Reserve Board, ABN AMRO Group Economics

Usually, such strong growth would, in conjunction with above target inflation, quite simply imply at the very least a hold, if not a rate hike. Still, a not insignificant subset of the FOMC is sure to continue supporting rate cuts until at least 3%. Beyond those members, the FOMC has shown itself to be quite open to ease despite elevated inflation. It continues to interpret the current level in the most benign of ways; stating that at least inflation is not accelerating, or that most of the overshoot can be attributed to one-off tariff shocks. ‘On track’ towards 2% appears to be the bar for the median voter. We’ve [previously](#) written about the fact that the Fed’s easing over the past one and a half years seems inconsistent with historical reaction functions, given their Economic Outlook. The chart above suggests that that historical reaction function implies a hike for all but the most dovish forecasts in the current Summary of Economic Projections. A recalibration of the reaction function that matches the recent Fed path with SEP projections provides a more Dovish Reaction Function (in yellow), even without a Warsh effect. With the current median SEP forecast, there is room to continue easing at 25 bps pace. Our base case of stronger inflation prevents this continued easing in the near term, but the implied policy rate converges to an upper bound of the Federal Funds Rate at 3.00% by year end.

Eurozone: Early signs of the German spending push

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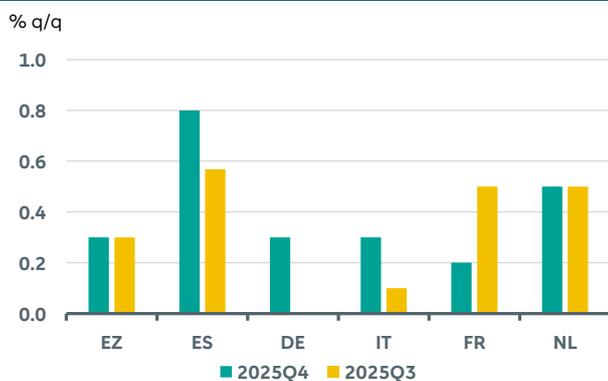
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- Q4 GDP surprised to the upside, driven partly by the usual suspects (Spain), but Germany was a notable contributor after years of tepid growth, while France was resilient in the face of budget uncertainty
- We are seeing early signs of Germany's spending push, particularly in defence-related factory orders
- The strengthening domestic economy adds to our conviction of an on-hold ECB. Beyond near-term policy, the changing of the guard on the Governing Council will be key over the coming 1-2 years

Eurozone GDP surprised to the upside in Q4 at 0.3% q/q, above our (0.1%) and consensus (0.2%) forecasts. Incoming data had already suggested strength in the domestic economy, but we expected net exports to have been more of a drag. Full details for the eurozone aggregate will be released next week with the 3rd estimate, but piecing together the details from individual countries suggests that household consumption and government spending were significant drivers of growth in Q4, while net exports were indeed a drag in most countries – with some exceptions such as the [Netherlands](#) and France (the latter largely due to falling imports). Looking at country level data, GDP growth was particularly strong again in Spain (0.8% q/q), while France was surprisingly solid (0.2%) considering this came after an already very strong Q3 (0.5%). This suggests the private sector appeared to shrug off the uncertainty surrounding the 2026 budget wrangles.

All told, the eurozone economy continues to be resilient in the face of extraordinary uncertainty and US tariffs. We expect the latter to continue to weigh on exports over the coming months, keeping a lid on headline GDP growth, but we expect the domestic economy to continue to firm this year on the back of reduced caution on the part of households and businesses and rising German government spending. Indeed, Germany contributed notably to the upside surprise in eurozone Q4 GDP, with the German economy expanding by 0.3% q/q, up from 0.2% q/q in the preliminary estimate of Destatis. While German industry is not out of the woods yet, factory orders unexpectedly strengthened further in December following a jump in November, with orders growth accelerating to 13% y/y from 10.6% in November. The details showed domestic orders leading the surge, particularly (and not so surprisingly perhaps) in defence-related sectors such as weapons and ammunition – where orders were up a whopping 569% y/y in December.

Eurozone Q4 GDP by country



Source: LSEG, ABN AMRO Group Economics

Is this the bazooka we've been waiting for?

German domestic factory orders, weapons & ammunition (2021 = 100)



Source: LSEG, ABN AMRO Group Economics

The strengthening domestic economy adds to our conviction that the ECB will keep policy on hold for the foreseeable future, despite the current inflation undershoot (which we expect to be [short-lived](#)), and euro strength (which is largely [dollar-driven](#) rather than in the trade-weighted exchange rate). Beyond near term rates, important news for medium term ECB policy is that Governing Council President Lagarde looks likely to step down ahead of the end of her term in October 2027, according to reports from the FT. The two main frontrunners appear to be former Spanish central bank governor (and current head of the BIS) Pablo Hernandez de Cos, alongside former Dutch central bank governor Klaas Knot. Whether Lagarde leaves early or not, the ECB is set to see significant changes in the makeup of the Governing Council over the coming 1-2 years, with Vice Chair de Guindos and French central bank governor Villeroy stepping down on 31 May, while chief economist Philip Lane and Isabelle Schnabel set to leave next year (in May and December respectively). See our note [here](#) for more.

The Netherlands: Minority coalition agreement is all about defence

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- A strong second half of 2025 and strong momentum at the start of the year means we upgrade our growth forecasts to 1.6% for 2026 and 1.4% for 2027
- Inflation is expected to moderate to 2.3% in 2026, down from 3.3% in 2025
- The incoming minority government is ramping up defence spending, while keeping its finances in check
- Plans are nowhere near final though, as they hinge on opposition support

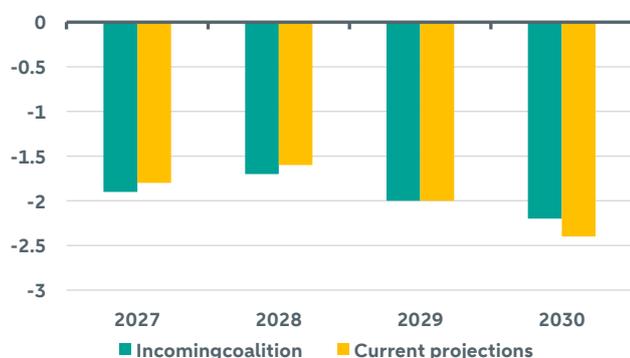
As expected, the election-winning liberal-progressive D66, the centre-right VVD, and the Christian Democratic CDA have reached an agreement to form a minority government. On the 30th of January the three parties presented their [coalition agreement](#). Central in the government's plans is the ramping up of defence spending to adhere to the new NATO-target. The incoming government plans spending increases from roughly 2% of GDP now, to 2.8% by 2030 and 3.5% by 2035. This goal is ambitious, particularly when it comes to defence personnel given the very tight labour market. Most of the other measures are designed to support this goal. Spending cuts, particularly in healthcare and social security (cutting unemployment benefits from two to one year), along with higher income taxes, are intended to finance these investments. As a result, as shown by CPB calculations, budget deficits and debt to GDP ratios in the next 4 years are only marginally higher compared to previous policies.

Regarding the structural agenda, it is encouraging that the incoming government intends (1) to reverse – but not expand – the previous coalition's shift towards more consumptive spending, by undoing cuts to education, and (2) to recognise the numerous supply-side bottlenecks facing the economy. The plan to address these constraints is convincing when it comes to resolving the nitrogen impasse, but less so in areas such as tackling electricity grid congestion. Indeed, when zooming out, reforms in key domains such as the housing market and taxation are pushed towards the next government. Perhaps most important is that it remains to be seen what parts of the agreement will receive support. The government lacks a majority not only in the House of Representatives, but also in the Senate.

Dutch Q4 GDP came in [stronger](#) than anticipated at 0.5% q/q in what has been a very strong second half of 2025. Unsurprising were strong contributions to growth from private consumption and government consumption, factors which are expected to drive growth in 2026 as well. What was surprising was the strong positive contribution from net exports. The drag in 2025 from US tariffs is visible in export values to the US, particularly in value-added heavy exports of Dutch manufactured products, but this has been more than offset by exports to other countries. Stronger growth in Germany, the Netherlands' main trading partner, may help explain this development. The robust export performance in machinery and higher exports to Taiwan, suggests that Dutch chip-making equipment has been a contributing factor of the export upswing. We have upgraded our growth forecast for 2026 to 1.6% (was 1.2%); 2027 is unchanged at 1.4%.

Deficits barely change, but will parliament approve?

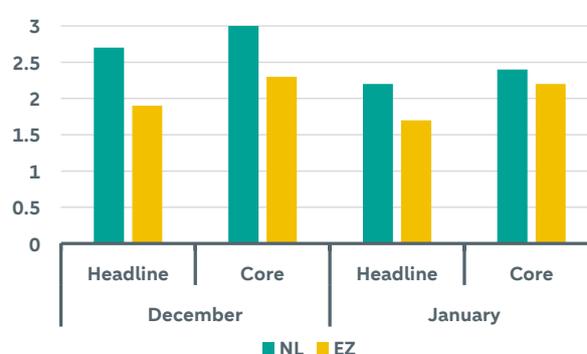
% of GDP, budget deficits previous and incoming government



Source: CPB, ABN AMRO Group Economics

January surprise moves Dutch inflation closer to EZ

%, HICP inflation



Source: LSEG, ABN AMRO Group Economics

January's inflation surprise puts downward pressure on our inflation forecasts. HICP inflation in January came in at 2.2% y/y, compared to 2.7% in December. The decline was broad-based across spending categories. Most prominent was food inflation at 2% – for the first time in five years – and services. As a result, Dutch inflation has moved more in line with the eurozone average. We anticipate Dutch CPI inflation to average 2.3% (HICP 2.2%) in 2026.

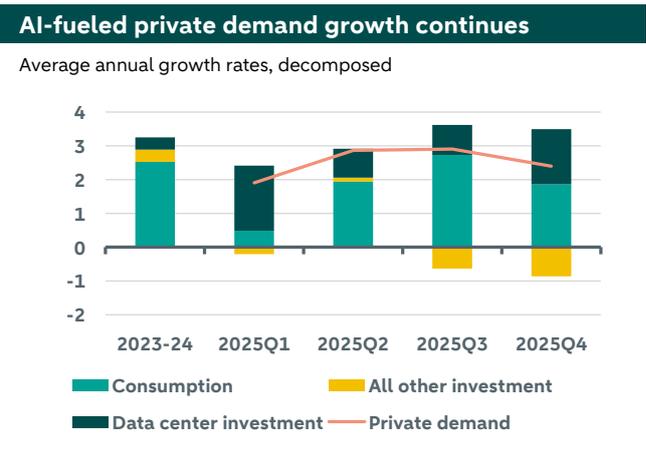
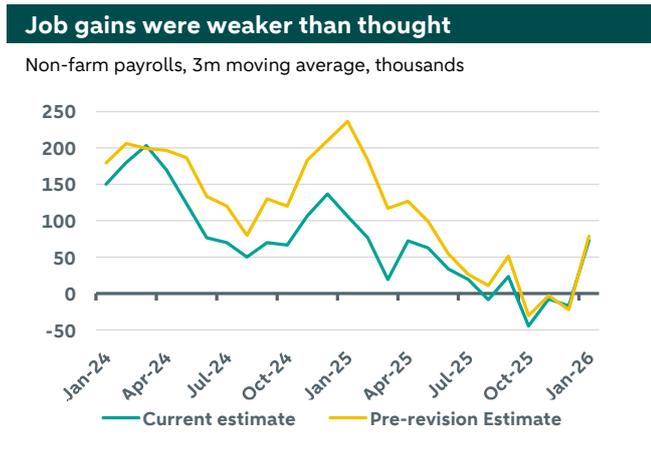
US: AI momentum overshadows and deepens labour weakness

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- The revision to labour market data brings it closer in line with sentiment
- Core PCE inflation back at 3.0%, while CPI continues to slow to 2.5%
- Headline GDP weaker than expected, but AI-investment fueled private demand holds up

The past month saw a rollercoaster of data releases and policy announcements, echoing the first half of last year. GDP surprised to the downside, but private demand held up. Job gains surprised to the upside, and the unemployment rate even fell to 4.3%. Still, large negative revisions confirmed that almost no jobs were created over the past year. Meanwhile, January CPI inflation readings were surprisingly low, while December PCE inflation readings were surprisingly hot, with y/y core PCE picking up to 3.0%. On the policy front, Kevin Warsh was [nominated](#) to lead the Fed from June, and the Supreme Court finally decided to [annul](#) Trump’s emergency tariffs. This means that we’re set for another year of substantial policy uncertainty, with Warsh explicitly stating he thinks the Fed should give less guidance (see also our [spotlight](#)), and the Trump administration trying to find ways to reinstate tariff policy.

The jobs data revision did little to change our overall assessment of the labour market. The signal still shows that the labour market was stalling around the summer of 2024, with the 3m-average reaching around 50k a month, at a time where supply growth was substantially stronger. Most likely in response to the Fed’s easing, the labour market picked up, but the revised data shows the recovery was more short-lived than previously thought. Job gains declined again the minute the Trump administration took office, likely in response to the massive policy uncertainty. Markets predominantly reacted to the uptick in January rather than the overall downward revision. We think it’s a temporary blip, with gains still driven by a very concentrated labour market, as virtually all job gains in health care. We expect weaker figures in the coming months, predominantly on the back of lackluster supply, and some weakness in demand due to post-pandemic labour hoarding, and initial effects of AI adoption.



Source: LSEG, ABN AMRO Group Economics

Source: LSEG, ABN AMRO Group Economics

On the inflation front, January CPI inflation came in surprisingly cool, with the headline index rising by just 0.17%, compared to an average January reading of 0.45% over the past three years. This led to a sharp decline in the y/y rate to 2.4%. Not helped by a windfall from energy prices, core increased by 0.3%, with the y/y dropping to 2.5%. Goods inflation was mostly flat, but bifurcated. Recreational goods rose in price, while used cars fell. Price increases in recreational goods can be explained by the AI investment boom, which is causing shortages in various inputs to e.g. consumer electronics. Core services came in strong at 0.4%, particularly in discretionary services such as airfares. This is likely demand-driven inflation, on the back of substantial wealth effects accumulated over the past year.

Finally, the US economy grew at 1.4% annualized in the fourth quarter, slowing from 4.4% growth in the third quarter. That puts total growth for 2025 at 2.2%. The BEA suggested the government shutdown, which lasted almost half the quarter, subtracted about 1%. This should mostly unwind in the first quarter of this year. Indeed, Federal government spending decreased by more than 15%. The contribution from net exports was minimal, where a positive impact was expected until December trade data was released, which showed one of the largest full-year deficits on record, after a notably volatile trade year. Private demand still rose at a solid 2.4%, as consumer spending cooled down to 2.4%, from 3.5% prior, while business investment grew at a solid 3.7% pace, again mainly reflecting the AI spending boom. All other investment showed a continued contraction. The overall 2025 contraction of 0.4% is the worst since the great financial crisis. Still, we expect AI spending, along with monetary and fiscal stimulus, to continue to be a driver of growth and inflationary pressures in the coming year. The supreme court decision to [annul](#) Trump’s emergency tariffs adds new uncertainty, but seems unlikely to materially effect the outlook.

China: Beijing to keep targeted approach amid record trade surplus

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- Mixed macro data as China enters the Year of the (Fire) Horse
- Domestic supply-demand imbalances culminate in record trade surpluses
- Policy targets to be announced in early March; China to benefit from US Supreme Court ruling

Mixed macro data as China enters the Year of the (Fire) Horse

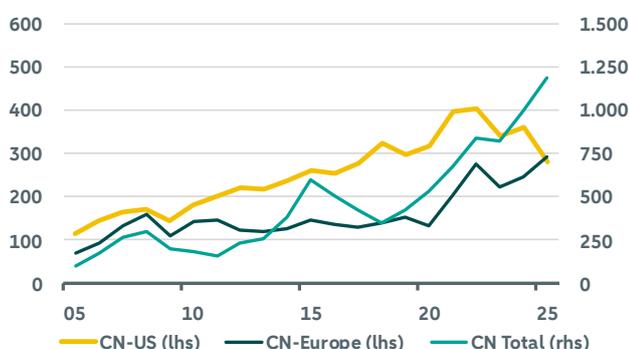
As usual, due to the Lunar New Year (LNY) break (held mid-February this year), some data for January/February are combined and published mid-March. Recent data that were still published are a mixed bag. January PMIs came in weaker than expected, and brought a renewed divergence between the official PMIs and RatingDog's alternative ones. The official composite PMI fell below the neutral mark again (49.8), after a sudden improvement in December, while RatingDog's composite PMI rose to a three-month high of 51.6. Overall lending data for January came in stronger than expected, but this was driven by the issuance of government bonds. New bank loans disappointed, with household and corporate loan demand still weak on fragile confidence. On the positive side, the first data on consumption and mobility data covering the LNY holiday were quite solid, partly reflecting better weather conditions compared to 2025.

Domestic supply-demand imbalances culminate in record trade surpluses

On the inflation front, after rising to a 3-year high of 0.8% y/y in December, CPI inflation fell to 0.2% y/y in January. This was driven by base effects; we expect CPI inflation to average 0.9% y/y this year, up from 0.1% in 2025, but to remain low. The easing of producer price deflation also has further to run. The fading of deflationary pressures is not reflecting easing domestic supply-demand, though. China's growth is still led by the supply side, with exports and industrial production holding up, while the demand side is suffering from the ongoing property downturn and weak confidence. This imbalance goes hand in hand with rising external surpluses (see chart), potentially feeding trade tensions. [The IMF](#) recently advised Beijing again to put more efforts into shifting towards a consumption-led growth model and allow more exchange rate flexibility, as the current model creates negative spillovers to trading partners.

Record trade surplus in 2025, surplus versus US down

China trade surpluses versus world, US, Europe, USD bn (Chinese data)*

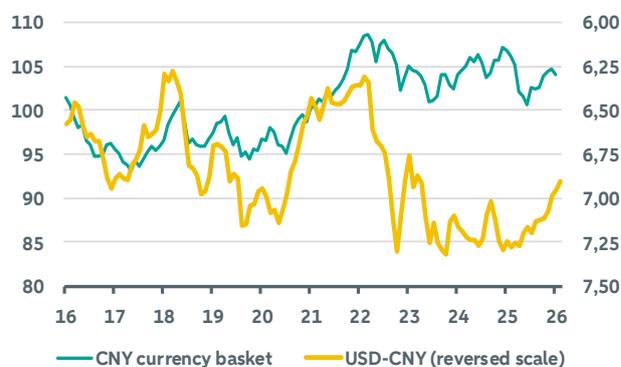


Source: ABN AMRO Group Economics, Bloomberg

*Chinese trade data point to a larger surplus versus US than US data

CNY is gaining back versus USD, still 'undervalued'

CNY currency basket (CFETS/BIS) USD-CNY (reversed scale)



Source: BIS, Bloomberg, ABN AMRO Group Economics

Policy targets to be announced early March; China benefits from Supreme Court ruling

In early March, Beijing's 2026 policy targets and the 2026-30 5-year plan will be presented to parliament (NPC). The 2026 growth target will likely be set at 'a range of 4.5-5.0%' or 'around 5.0%'. Despite the IMF advise, we think Beijing is not in a hurry to radically step up macro support, as solid exports – amidst a firming global business cycle – keep safeguarding growth, and the US truce brought external stability. Beijing keeps rolling out consumption support (eg. extending subsidies for durable goods and consumer loans, income transfers via pensions, childcare), but the support stance remains 'targeted'. On the FX front, we expect Beijing to tolerate more CNY strengthening versus USD, while keeping the yuan more stable versus a broad currency basket to safeguard competitiveness. Regarding US relations, China is set to benefit from the US Supreme Court Ruling and the replacement of IEEPA by Section 212 tariffs (see [here](#)), while Beijing's hand looks strengthened in the run-up to a potential Trump-Xi meeting end March/early April. Still, we think both China and the US have their own reasons to keep this trade truce broadly in tact, partly because it also deals with the thorny issue of chokepoint restrictions (rare earths, semiconductors).

Key views on a page

The transition from one world order to another is in full swing, but it is still unclear how that new world order will look. The advent of AI, China's rise, and the US's relative decline offer challenges but also opportunities. US import tariffs remain a dampener on global trade, despite the recent US Supreme Court ruling. Still, global growth has been resilient given the headwinds. Our base case sees that resilience continuing, albeit with considerable risks. Growth in the US is expected to stay solid, but this masks variation and vulnerability below the surface. Eurozone growth is expected to pick up on higher German fiscal spending, while China may take modest measures to lift demand while keeping its manufacturing growth model intact. Inflation in the US is expected to pick up, but to stay broadly benign in the eurozone. Despite this, the divergence in Fed & ECB rates is expected to narrow significantly, with the ECB expected to keep rates on hold, and the Fed looking through the US inflation overshoot and prioritising the labour market by continuing to cut rates.

Macro	Central Banks & Markets
<p>Eurozone – The domestic economy continues to gradually recover, helped by strengthening consumption and resilience in industry, despite the headwinds from US tariffs. This year, higher defence and German infrastructure spending are likely to drive higher quarterly growth. Aggregate inflation remains well behaved, but some key countries are seeing a persistent undershoot of the 2% target. Falling energy prices are likely to drive an undershoot of the 2% inflation target later this year, helped by a stronger euro. However, core inflation is expected to hold steady around the ECB's target.</p>	<p>ECB – The Governing Council kept policy on hold in February, and is likely to remain on hold for the foreseeable future. President Lagarde has reiterated that the ECB is 'well positioned', and appears as yet unconcerned by the euro's recent appreciation. Despite the expected undershoot of the 2% inflation target, the GC seems minded to look through this on the expectation that inflation will return to target in 2027. Near term risks are still tilted to another cut given the looming inflation undershoot, but in 2027, those risks could tilt back towards a hike, with upside risks likely to build from higher German fiscal spending.</p>
<p>The Netherlands – The Dutch economy has shown resilience in 2025. This momentum carries over to 2026 and lead to an upward adjustment of our forecasts to 1.6% in 2026 and 1.4% in 2027. Private consumption and government spending remain the drivers of the outlook. While the geopolitical situation and uncertainty keep a lid on export growth and investment. Inflation (CPI) is expected to ease, further slowly throughout the year to average 2.3% in 2026 down from 3.3% in 2025. The incoming minority coalition presented it's coalition agreement, however execution is uncertain as it hinges on opposition buy-in</p>	<p>Fed – The Fed cut rates in the last three meetings of 2025 but will likely again enter another pause in the first part of this year. Due to stronger growth and demand, waning pressure from the labour market, and continued above-target inflation, we think the Fed will keep on hold until the June meeting, the first meeting with the new chair. From that point onward, a dovish tilt in the reaction function implies it will resume easing once a quarter in response to a gradually slowing economy, despite still elevated inflation. We expect the policy rate to reach 2.75-3.00% by the end of the year, the lower end of neutral estimates.</p>
<p>UK – Economic data is sending mixed signals, with the labour market clearly deteriorating, but consumption and business confidence improving. Our base case sees growth gradually picking up over the coming year, helped by reduced fiscal uncertainty and reduced caution among households. Inflation meanwhile is expected to continue normalising, but its flirtation with the BoE's 2% target is likely to prove short-lived. Sustained 2% inflation will require wage growth to continue to fall significantly, and for inflation expectations to move lower again.</p>	<p>Bank of England – The MPC kept Bank Rate at 3.75% in February, in line with our expectations. The BoE is now nearing the end of its rate cut cycle, with limited room for further easing given stubborn underlying inflation. Our base case sees two final rate cuts, in Q2 and Q4. Still, the recent easing in wage growth raises the risk of these cuts being frontloaded to the first half of 2026. Injecting considerable uncertainty is the high degree of division on the MPC, with doves and hawks still split finely down the middle. Volatile UK data contributes to this uncertainty.</p>
<p>US – The impact of tariff and immigration policy continues to gradually build in the data. The negative impact in the headline figures is overshadowed by the positive impulse from AI investments and monetary and fiscal easing. The first quarter of 2026 will see a reversal from the Q4 shutdown drag, and we expect continued solid growth throughout 2026. After a cooldown in the beginning of the year, inflation rises again due to the final pass-through of tariffs, and demand effects from stimulus. Unemployment continues a gradual, but not dramatic increase, as supply and demand remain mostly in balance.</p>	<p>Bond yields – Both in the US and Europe, 10-year yields have fallen as a result of increased uncertainty in equity markets and lower long-term inflation expectations in both regions in February. Short-term rates have not changed significantly because the interest rate expectations of both the ECB and the Fed have remained largely unchanged, resulting in a flattening of the curve between these maturities. Despite this flattening, we still expect the curve to steepen again, especially in the US, due to further rises in term premium.</p>
<p>China – January data (PMIs, lending, inflation) are a mixed bag, while consumption/mobility data covering mid February's Lunar New Year break look solid. Meanwhile, ongoing domestic supply-demand imbalances culminated in a record trade surplus, also with Europe, but the surplus with the US has fallen sharply. China stands to benefit from the US Supreme Court ruling, although we expect both China and the US to broadly stick to their trade truce (in the run-up to a potential Trump-Xi meeting). We expect Beijing to keep policy support targeted, with plans being presented to parliament in early March.</p>	<p>FX – At the end of January the dollar weakened and EUR/USD rallied to a high of 1.2081. The focus was back on the US and the uncertainty in policy. There was also fear that US and Japanese authorities would intervene in FX markets to sell USD/JPY. Since then, the dollar has recovered in a volatile manner. In recent days renewed uncertainty around US tariffs has resulted in modest dollar weakness. For this year we expect a lower dollar and a higher euro. Main reasons are: uncertainty about US policy, lower US real yields, concerns about US structural deficits and more FX hedging. Our forecast for the end of 2026 stands at 1.25.</p>

Main economic & financial market forecasts												
	GDP				Inflation				Policy rate			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Eurozone	0.8	1.5	1.1	1.4	2.4	2.1	1.7	2.0	3.00	2.00	2.00	2.00
Netherlands	1.1	1.9	1.6	1.4	3.2	3.0	2.2	2.0				
Germany	-0.5	0.4	1.0	1.3								
UK	1.1	1.3	1.0	1.4	2.5	3.4	2.5	2.3	4.75	3.75	3.25	3.25
US	2.8	2.2	2.9	2.2	2.6	2.6	2.9	2.7	4.50	3.75	3.00	3.00
China	5.0	5.0	4.7	4.4	0.2	0.1	0.9	1.2	3.10	3.00	2.80	2.60

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

	2025	23/02/26	26Q2	2026	2027	Energy	2025	23/02/26	26Q2	2026	2027
US Treasury	4.17	4.03	4.25	4.35	4.40						
German Bund	2.85	2.72	2.80	2.90	3.00	Brent - USD/bbl*	60.85	71.49	56	50	63
EUR/USD	1.17	1.18	1.20	1.25	1.30	WTI - USD/bbl*	57.42	66.31	52	48	59
USD/CNY	6.99	6.91	6.85	6.80	6.70	TTF Gas - EUR/MWh*	27.28	27.42	30	30	28
GBP/USD	1.35	1.35	1.34	1.40	1.45						

* Brent, WTI: active month contract; TTF: next calendar year

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (q/q)												
Eurozone	0.6	0.1	0.3	0.3	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Netherlands	0.3	0.3	0.5	0.5	0.4	0.3	0.4	0.2	0.4	0.3	0.4	0.3
US (saar)	-0.6	3.8	4.4	1.4	3.7	2.6	2.4	2.2	2.1	2.1	2.0	2.1
China (y/y)	5.4	5.2	4.8	4.5	4.6	4.8	4.8	4.6	4.5	4.4	4.4	4.4
Inflation												
Eurozone	2.3	2.0	2.1	2.1	1.7	1.9	1.6	1.5	1.7	1.8	2.1	2.3
Netherlands	3.3	3.2	2.6	2.8	2.3	2.3	2.1	2.1	2.1	2.0	2.2	1.9
US (PCE)	2.6	2.4	2.7	2.8	2.7	2.9	3.0	3.0	2.8	2.7	2.6	2.6
China	-0.1	0.0	-0.2	0.6	0.7	1.0	1.0	1.0	0.9	1.0	1.2	1.5
Unemployment												
Eurozone	6.3	6.4	6.4	6.3	6.4	6.4	6.4	6.3	6.3	6.2	6.2	6.2
Netherlands	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.2	4.3	4.3	4.3	4.3
US	4.1	4.2	4.3	4.5	4.5	4.7	4.7	4.7	4.6	4.6	4.6	4.6
Policy rate												
Eurozone	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
US	4.50	4.50	4.25	3.75	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00
UK	4.50	4.25	4.00	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
China	3.10	3.00	3.00	3.00	2.90	2.90	2.80	2.80	2.70	2.70	2.60	2.60

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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