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Global Monthly

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Buckle up – this is just the beginning

- The early days of the Trump administration have been predictably chaotic. Businesses and investors had better get used to the new environment of radical policy uncertainty
- An earlier end to Fed rate cuts is likely to drive the euro below parity later this year. This will take the edge off of the tariff blow to European exports, but it won't fully offset it
- Still, Europe isn't powerless: the EU has long prepared for negotiations with Trump, while the German election could free up much-needed investment to deal with structural competitiveness challenges
- We preview the German elections in the first of a series of articles in this month's Spotlight
- Regional updates: The consumer is finally waking up in the Eurozone, helped by ECB rate cuts, while in the Netherlands, stronger domestic demand is likely to partly offset looming headwinds for trade
- In the US, the goldilocks economy is back for now, but Trump policies will likely put an end to Fed cuts
- China is seeing tailwinds from Beijing's policy pivot and trade frontloading, ahead of likely US tariffs

Global View: Europe isn't powerless to the challenges of Trump, but it won't be easy

Only three days into Trump's second term as president, and if anything has been predictable, it is the chaos. For a while, it appeared China, Mexico and Canada had been spared immediate tariff rises after some positive phone calls. If we take Trump's day 1 & 2 comments literally, the US's neighbours could be hit with 25% tariffs on 1 February, and China could be hit by an additional 10% tariff. China has even been threatened with 100% tariffs if it does not agree to a partial sale of TikTok. The saga is an illustration of the new, volatile policy environment we find ourselves in, where anything could happen on a given day. It won't be long before Europe enters Trump's tariff cross-hairs – as his comments overnight suggest – but the administration supposedly is not yet 'ready' for universal tariffs. Our base case continues to foresee a significant rise in tariffs on European imports in the second half of 2025, putting the brakes on a fragile eurozone recovery. For now, the global economy is not doing too badly. US growth momentum remains solid, notwithstanding some cracks below the surface; the eurozone consumer is finally waking up – partly helped by ECB rate cuts; and China is seeing a lift from more stimulus, as well as a front-loading of trade ahead of probable US tariffs. As for central banks, we now expect the Fed to halt rate cuts even sooner – after June – while for the ECB, the growth threat from tariffs continues to point to the deposit rate falling to 1% by early 2026. The earlier end to Fed cuts implies an even bigger divergence in rates, and therefore an even weaker euro: we now expect EUR/USD to fall briefly below parity to $0.98 by the end of the year. Might the weaker euro keep the eurozone economy on an even keel? It will certainly cushion the blow of tariffs, but it will not fully negate it. As described in our *Global Outlook*, while we expect a 5pp trade-weighted rise in tariffs, much bigger tariffs are likely on products where US companies stand to gain market share, and it is through these sectors that the drag on eurozone growth is likely to materialise.

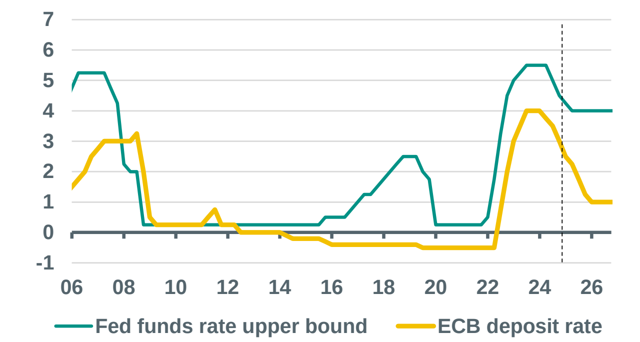
Markets still price in a major ECB-Fed rate divergence

Market-implied policy rates by end 2025 for Fed (lhs) and ECB (rhs)

Source: Bloomberg, ABN AMRO Group Economics

Divergence likely to push EUR/USD below parity

Policy rates, % (beyond dotted line: our forecast)



Source: Bloomberg, ABN AMRO Group Economics

Europe faces enormous challenges from the new Trump administration – to put it mildly, particularly given that tariffs may be used for broader political goals under Trump 2.0. But it is not powerless to deal with them. Aside from the carrots and sticks the European Commission can use in response to US tariffs, in the country that faces the biggest challenge from tariffs – Germany – the election on 23 February presents a golden opportunity to respond to the new geopolitical and economic environment. In the first of a series of publications covering the elections, this month's *Spotlight* describes the key themes and policies of the various parties, and discusses the likelihood of Germany's debt brake being eased to help free up much needed funds for investment. Germany is one of the few eurozone countries that has the fiscal space to tackle structural challenges in a more ambitious manner, and while forming a coalition won't be easy, the two main parties most likely to be part of the next government at least appear open to change. This will be crucial, because the challenge of Trump to Europe's prosperity will likely require radical solutions.

In the below table, we summarise our key judgement calls and assumptions for macro and financial market developments in 2025. We've made some updates (in italics) where views have changed since the publication of our Global Outlook in November.

Theme	View
Trade & Growth	• **US to impose steep import tariffs rises,** with China bearing the brunt, but significant rises also against RoW (including European) imports • **Global trade to slow sharply from H2 2025**, but with frontloading initially boosting trade in H1 2025 • Activity to therefore expand solidly in H1 2025, but weaken substantially from H2 2025 and into 2026 • **Improved domestic demand in the eurozone and China**, partly due to falling interest rates, will be an important offset; no eurozone recession expected • **In the US, tax cuts & deregulation will partly offset** the real income shock and disruption from higher tariffs, but growth to fall below trend in 2026
Labour markets and inflation	• **US inflation to re-accelerate on tariff rises, but eurozone inflation to undershoot** the 2% target due to falling energy prices • **Unemployment to rise modestly in the US & eurozone,** but labour markets overall are likely to remain resilient • **Wage growth to continue normalising** in the eurozone, but US may see a pickup on second-round effects from the inflation comeback • **Mass deportations in the US are unlikely**, but are a tail risk for growth (downward) and inflation (upward)
Interest rates and FX	• **Fed & ECB rate paths to diverge in 2025**, driven by eurozone growth weakness and the inflation comeback in the US • **ECB deposit rate to fall to 1%, *Fed to abort rate cuts at 4.0%*** in the upper bound of the fed funds rate. Fed to cut once per quarter, ECB at every meeting • ***EUR/USD to fall briefly below parity during 2025*** • **Bond yields to decline, but by a bigger magnitude in Europe** than in the US
Geopolitics and structural challenges	• **European defence spending to continue rising,** with a weaker US commitment to NATO potentially leading to a relaxation of fiscal rules • **Eurozone productivity to see a cyclical pickup,** but competitiveness challenges from high energy prices and China will keep a lid on the recovery • **German elections on 23 February could trigger a step-change in fiscal policy.** Coalition-building will be challenging, but the centre-right CDU is open to amending the constitutional debt-brake in order to raise public investment

Spotlight: 'Grand coalition' most likely result

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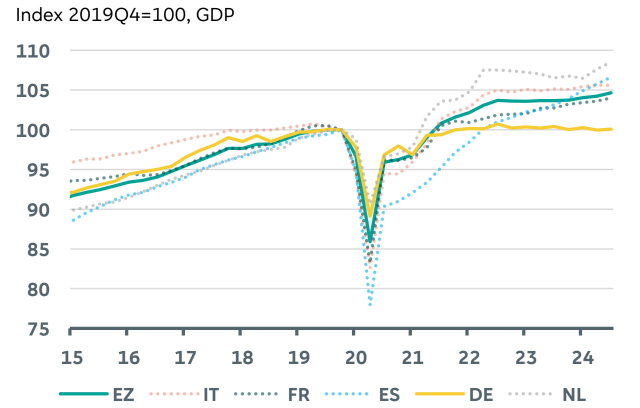
- On February 23, parliamentary elections will be held in Germany. Union leads the polls, with AfD in second place. However, a coalition between these parties is not feasible. Most parties, including CDU/CSU (Union), reject governing with AfD due to this party's extreme views
- The most likely coalition is Union with SPD, as CSU does not want to partner with the Greens. Given the strained relationship between Union and SPD, the likelihood of significant reforms is low. Nevertheless, the chance of easing the so-called debt brake is high
- Easing the debt brake would enable new investments by the government. These are urgently needed, as the German economic outlook hinges on improvements in physical and digital infrastructure

This Spotlight summarises our full preview of the German elections, which can be found here.

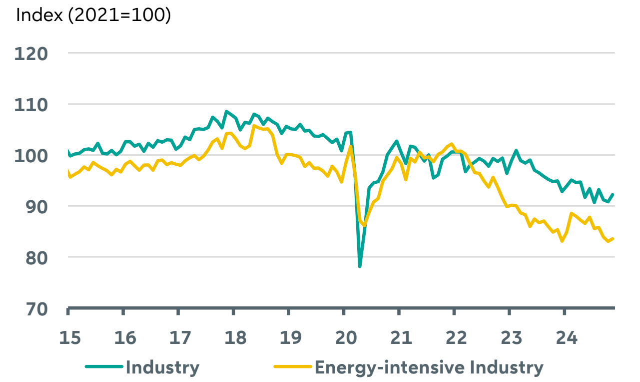
The German elections have been brought forward from September to February this year. The shift is due to the fall of the government in November after Chancellor Olaf Scholz dismissed his Finance Minister Christian Lindner. SPD's Scholz accused FDP's Lindner of betrayal, claiming he deliberately aimed for the government's collapse. A major point of contention among the three coalition partners was public finances and whether the government should adhere to the so-called debt brake, which enforces budget discipline by law. FDP wanted to maintain it, while SPD and the Greens sought easing due to higher defence spending, support for Ukraine, and the ambition to modernize the economy.

German growth: 5 years of stagnation



Source: LSEG, ABN AMRO Group Economics

Industrial production drops, unused capacity grows



Source: Datastream

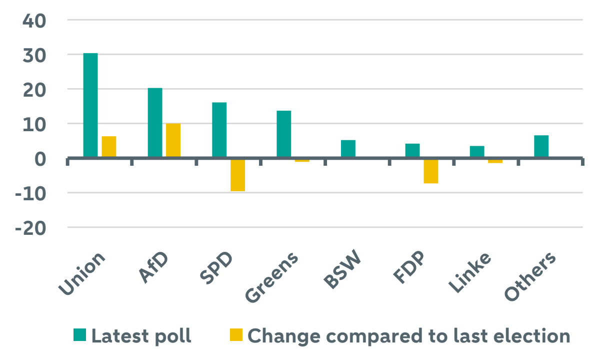
The elections take place against the backdrop of a weak economy that has shrunk for two consecutive years and faces rising unemployment. The threat of higher U.S. import tariffs also clouds the outlook for this year. The problem is that the contraction is not cyclical but structural. The industry, traditionally the pillar of the economy, suffers from high energy costs, deterring investments. Additionally, the U.S. government is luring European companies to the U.S. with the Inflation Reduction Act. Furthermore, competitiveness is under pressure as major companies falter. For instance, car manufacturers have long underestimated the importance of electric vehicles. Germany invests too little in digitization, resulting in slow internet and stagnant productivity growth. Moreover, worsening PISA scores indicate problems in education, while aging continues, with more experienced workers retiring. A further problem for Germany is that old certainties have vanished. Since Trump's election, security under the familiar NATO umbrella is no longer a given. Due to Russia's invasion of Ukraine, Ostpolitik, once the cornerstone of German foreign policy, has been discarded. Cooperation with Russia, a strategic partner through the supply of cheap oil and gas, is no longer an option. Lastly, China has transformed from a buyer of German products to a formidable competitor, initially in wind turbines and solar panels, now also in electric cars.

A total of fifty-six parties have registered to participate in the elections. Since not all are allowed to run and there is a 5% hurdle rate, only a fraction will enter parliament. A new party may enter the Bundestag: BSW, although it is uncertain whether this party will surpass the 5% hurdle rate. It is also unclear if FDP and Die Linke will exceed the 5% hurdle rate. Currently, eight parties have a realistic chance of gaining seats: AfD, BSW, Union, the Greens, Die Linke, FDP, and SPD. Caution is advised when drawing conclusions about the final election outcome based on current polls, as German elections are often unpredictable. For instance, SPD unexpectedly rose in the polls during the 2021 elections without SPD candidate Scholz having to do anything. His Union opponent, Armin Laschet, squandered his chances with an unfortunate, empathy-lacking remark about flood victims in southern Germany at the time.

Additionally, a small difference in the election result can significantly impact the final composition of parliament. Currently, it is uncertain whether three parties with a chance of a parliamentary seat will surpass the 5% hurdle rate. After an article about the government's fall in the weekly Die Zeit, FDP fell below the hurdle rate in the polls. It is also uncertain whether Die Linke, which is also losing ground, and newcomer BSW will secure enough votes to enter parliament.

Latest polls show rise in Union and AfD

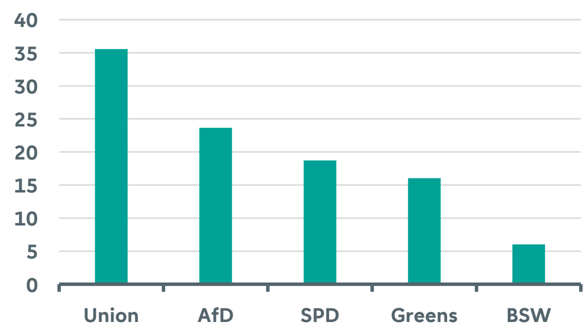
Share of votes, %-change



Source: Politpro

FDP and Die Linke may not return to the Bundestag

Percentage share of seats



Source: Politpro

According to the latest results, Union leads with a polling share ranging from 26% to 31%, followed by AfD (18% to 22%). Both parties are set to gain compared to the previous elections. All other parties currently in parliament are losing ground: SPD (14% to 19%), the Greens (12% to 16%), FDP (4% to 7%), and Die Linke (3% to 5%). Newcomer BSW scores 4% to 7% in the polls. None of the parties can secure an absolute majority, meaning a coalition will need to be formed, as is customary in post-war Germany. The exact composition of this coalition is still unclear. Although party views differ, most parties agree on one thing: they do not want to govern with AfD due to the party's radical views that contradict the rule of law and democracy.

Based on current polls, a repeat of the 'Grand Coalition' between CDU and SPD is most likely. A combination of CDU and the Greens would also yield a majority on paper. However, CSU leader Markus Söder has indicated a preference not to partner with the Greens, although he may set aside his reservations if FDP joins. The 'Grand Coalition' could also theoretically be supplemented by FDP, whose party program most closely aligns with that of Union. However, this is not very likely. Firstly, because FDP must first surpass the electoral hurdle. Secondly, because Olaf Scholz may be reluctant to join another cabinet with Christian Lindner. Conversely, Union may not be enthusiastic about expanding the 'Grand Coalition' with Die Linke or BSW.

Based on the programs, 1) Union and FDP, 2) SPD and the Greens, and 3) AfD and BSW are most closely aligned. However, none of these combinations can secure a majority based on the polls, making a repeat of the 'Grand Coalition' the most likely outcome. The advantage is that this coalition can rely on a comfortable majority in parliament, allowing measures to be passed relatively smoothly. One measure on the agenda for the next government is adjusting the **debt brake**. Union was not in favour, but this stance is shifting. SPD's desire for adjustment has also increased. In a 'Grand Coalition,' there is room to soften the sharpest edges, for example, by incorporating exceptions for investments, defence, or climate policy. More room for this helps address economic issues and provides opportunities to play a constructive role in Europe and initiate Mario Draghi's policy agenda. Improving European security and strengthening common defence are high priorities.

At the same time, we must note that the party programs of Union and SPD have few overlaps, and where they do, they lack ambitious goals. This means that few far-reaching structural reforms are expected, although they are necessary, for example, in reforming the inefficient banking sector, revising the unsustainable healthcare and pension systems, and improving education. The plans for businesses and families are focused on preserving what exists instead of freeing up what could be. If important choices are postponed, uncertainty may persist, with businesses and families sitting idle. This would result in an economy that continues to falter, creating an ideal breeding ground for growing discontent, a situation that AfD would thrive in. That could mean that the AfD could score well during the next elections and will be difficult to exclude from government participation by 2029.

Eurozone: Consumer awakens as Trump enters the stage

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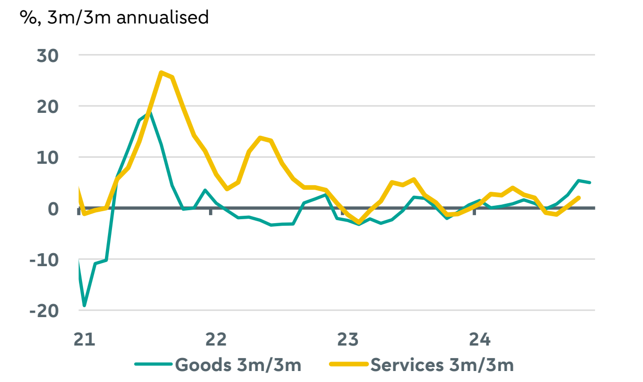
- We expect Q4 growth of 0.2% q/q, bringing 2024 annual growth to 0.8%
- Our 2025 growth estimate still stands at 1.2%, as the periphery and France offset German weakness
- With 2% inflation reached sustainably by April, the ECB is expected to remain in easing mode

2025 has started with two important political events which impact the eurozone growth outlook. Shortly after Trump is inaugurated and takes office, new details are expected on possible tariffs. As outlined in our Global Outlook (see here), the impact of tariffs on the eurozone is sizeable, particularly affecting exporting economies like the Netherlands and Germany. Until there is clarity, tariffs hang over the outlook. Another important event is the German elections (see our spotlight for a preview) in February. The elections take place against the backdrop of a very weak German economy, with no turnaround in sight for struggling industry in the near term. Alongside a slight weakening in the labor market, and the currently still-absent frontloading boost from trade (expected by companies to avoid tariffs), we have downgraded our German growth forecast from 0.8% to 0.5% for 2025. We maintain our eurozone aggregate growth forecast of 1.2% for 2025. This is due, in part, to less fiscal tightening in France, which is expected to offset some of the German growth weakness. Additionally, peripheral countries continue to outperform. Most importantly, the outlook for consumer spending bodes well for consumption growth in 2025.

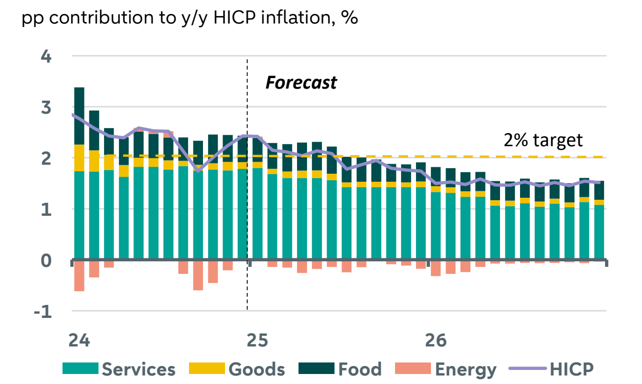
Indeed, with purchasing power increases due to wage growth outpacing inflation and healthy household balance sheets, increased household spending is expected to be the main driver of growth in 2025, alongside smaller contributions from investment and government consumption. A promising start to this was Q4 2024 hard consumption data coming in firmer than expected. Retail sales have been growing roughly at a 5% annualized rate in recent months, finally outpacing growth in the services sector for the first time since 2021, which also continues to grow at a solid 2% rate. Goods consumption is finally seeing the anticipated rebound after slumping for most of 2024. Rate cuts by the ECB are likely a major factor, as the pickup in mortgage lending (new home loans ex-refinancing) — a strong indicator for (goods) consumption — is currently growing at around 20% y/y (see our September Monthly for more on this topic).

Firm consumption data, especially on the goods side



Source: LSEG, ABN AMRO Group Economics

Inflation on track to reach 2% from April onwards



Source: LSEG, ABN AMRO Group Economics

Inflation rebounded from 2.2% in November to 2.4% in December, largely due to energy. Three reasons led to the uptick in energy inflation: 1) base effects, 2) a weak euro leading to higher petrol prices and 3) lower gas inventories due to cold weather increased gas and electricity prices. In other areas, inflation dynamics were broadly unchanged. The main upward pressure on inflation continues to come from services inflation, and with wage growth still elevated (albeit slowing), that will remain the case in the near term. Big picture, we expect headline inflation to resume its fall already from February as energy base effects fade, with the 2% target expected to be reached sustainably by April. Core inflation is expected to stay more elevated in the near-term due to services, with a more sustained fall expected around the middle of 2025. With the recent rebound in inflation fully anticipated by the ECB, and the Governing Council clear on their intention to return policy rates to neutral levels, another 25bp rate cut at the January meeting remains our base case. Looking ahead to the rest of 2025, we see substantial room for further rate cuts. First, we believe the neutral rate in the eurozone is lower than the ECB's estimates suggest. Second, our US tariff scenario is likely to lead to a disinflationary shock for the eurozone. Ultimately, we anticipate the ECB will reduce its deposit rate to as low as 1%.

The Netherlands: Consumer holds the key

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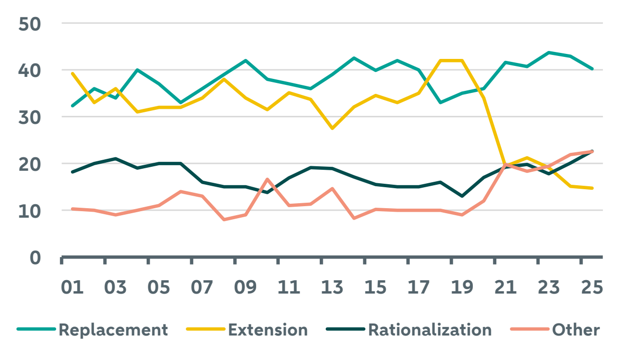
- Solid growth in 2024 is expected to continue in 2025, but external risks tilted to the downside
- Inflation edged up in recent months and is expected to remain higher than eurozone inflation
- Dutch house prices are expected to rise by 7% in 2025 and 3% in 2026, down from 8.7% in 2024

At the start of 2025, the growth outlook for the Dutch economy is solid. The economy is recovering from a period of lower growth due to inflation, and in recent quarters has outperformed the eurozone aggregate. Growth typically originates externally, with increasing exports gradually benefitting households and boosting domestic demand. In the coming two years, we expect the reverse to take place. Risks on the external side are tilted to the downside, with an extended stagnation in main trading partner Germany and potential Trump tariffs clouding the outlook later in 2025. The first half of 2025 will likely see a small boost to activity from a front-loading of exports to the US. Despite this, it will be internal demand driving growth. Households are benefiting from rising real incomes on the back of high wage growth, which is expected to outpace inflation in the coming years, while the government is also supporting growth with an expansive fiscal stance. The lagged pass-through of rate cuts will provide support to investments, although the impulse might take longer to materialize due to capacity constraints and bottlenecks, while companies are not eager to increase production capacity. All in all, we estimate a y/y growth figure of 1.5% for 2025 and 0.8% for 2026.

The final quarter of 2024 is expected to show GDP growth of 0.3% q/q following two strong quarters. Generally, consumption will be supported by the continued rise in real incomes from higher wage growth, as well as a normalizing savings rate. Investments are expected to have gained some momentum, particularly in road transport due to the changed tax regulation to vehicles which has been implemented since the start of 2025. The external side is expected to benefit from a gradually improving eurozone economy, while German underperformance puts a lid on export growth.

Replacement, the main rationale for investment

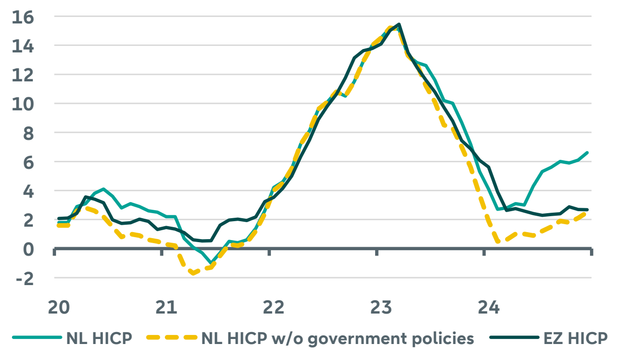
Investment survey industrial companies



Source: EC, ABN AMRO Group Economics

Dutch food inflation largely affected by tax changes

y/y food (including alcohol and tobacco)



Source: CBS, LSEG, ABN AMRO Group Economics

The last month of 2024 showed the highest inflation figure of the year, coming in at 3.9% y/y (HICP). The high December figure was particularly driven by firming services inflation and less favourable energy base effects. The former is largely affected by higher housing rent indexation. Similarly, food prices have contributed substantially due to higher levies on tobacco and drinks. Absent these tax changes, the December figure would have come in at 3.0%, so roughly 1pp lower. Generally, we expect inflation to ease in the coming months, and average 2.9% in 2025 and 2.4% in 2026 (HICP). But given still-elevated wage growth, a tight labour market, and the expansive fiscal stance of the Dutch government, inflation will stay above the eurozone average throughout 2025.

2024 was generally a strong year for Dutch house prices, with an increase of 8.7% y/y. For 2025 we expect price growth of 7%, given still-rising household incomes on the back of high wage growth, lower mortgage rates, and a persistent supply shortage. Looking ahead, as inflation normalizes and wage growth slows, we expect a 3% rise in house prices in 2026. Through the wealth effect – homeowners feel wealthier due to the increased value of their assets – increasing house prices can support consumption. Additionally, the higher number of expected transactions boosts housing market-related purchases, such as furniture.

US: Powell shapes the present, Trump holds the future

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- Headline macro data returns to goldilocks' 'just right,' just before Trump returned to office
- Disinflation to resume; labour market not out of the woods yet
- Rate cuts possible and likely in the first half of 2025; second half determined by Trump policy

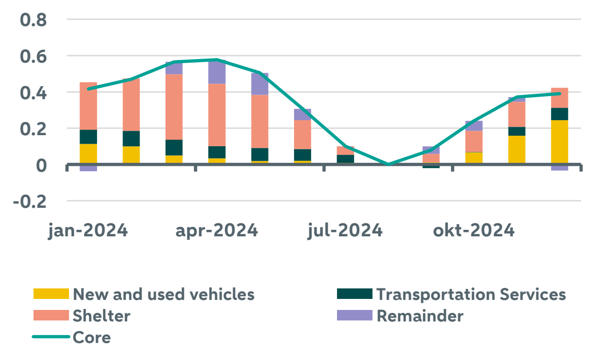
President Trump officially entered the White House this Monday, following a notable two-month transition period since his election. In his first days in office, he has signed numerous executive orders, focusing predominantly on immigration, fossil fuels and government HR policy. As the new administration begins, fresh fiscal policies are causing reverberations, but recent data by itself is enough to offer a new perspective on the U.S. economy. The combination of fiscal, and especially monetary policy, over the last four years, saw an economy with continued strong momentum, and an quasi-victory over inflation. The closing month of President Biden's term saw an inflation report consistent with the 2% target and a seemingly robust labor market. What implications do these developments hold for the economy, the Federal Reserve, and President Trump?

While the December CPI report was surprisingly benign, inflation has resurfaced since the start of the easing cycle. The 3m/3m inflation rate highlights that excess inflation - defined as the component's rate above to its 2015-2019 average - is predominantly concentrated in the transportation sector. Excess CPI inflation also has a large shelter component, which is notably smaller in the PCE measure due to lower weighting. We are optimistic that disinflation will continue its December impulse in the first half of 2025. Even though shelter inflation has increased again from its August low, it is still significantly lower than in the first half of 2024, and indicators like those from Zillow showing no renewed pressure and even a decline towards the end of 2024. Residual seasonality contributed to the rise in transportation inflation, but we anticipate it will exert a dampening effect in the early months of 2025. Consequently, we expect disinflation to continue at the onset of Trump's presidency—a development he might claim as a victory.

Our view on the labour market remains less optimistic. While the latest report was strong, the overall trend remains a source of concern. Non-farm payrolls are scheduled to be revised down significantly in the January report, slated for release on February 7th. Moreover, hiring over the past year has become increasingly concentrated, with nearly 90% of employment gains in the latter half of 2024 stemming from just three sectors, which collectively constitute only 42% of total employment. Government, education and health services are noncyclical, while job creation in leisure and hospitality is not necessarily a sign of a strong economy, but rather a consequence of the broader trend towards services consumption. Other sectors have seen minimal hiring, presenting a different picture of U.S. economic dynamics compared to the headline figures. This concentration increases vulnerability to negative shocks, particularly given expectations that government hiring is likely to contribute less positively under the new administration.

Residual seasonality: Transport/cars drives lack of progress

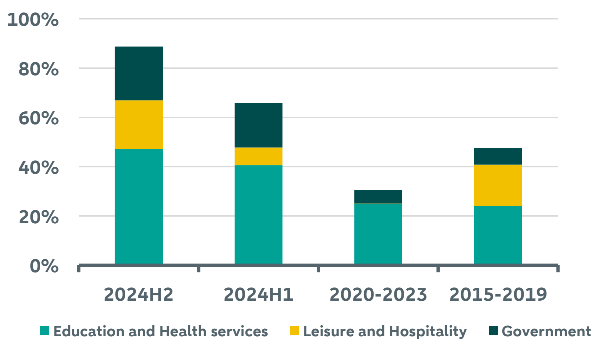
Excess 3m/3m CPI inflation relative to August 2024, pp



Source: LSEG, ABN AMRO Group Economics

Concentrated hiring highlights labor market fragility

Sector hiring divided by total job non-farm hires, %.



Source: LSEG, ABN AMRO Group Economics

Last week we outlined a revised path for the federal funds rate. Inflation data in the last quarter of 2024 was a bump on the path to 2%, but we expect disinflation to resume in the first half of 2025, giving the Fed room to consider easing rates further. We expect the fragile labour, with an overall downward revision, and a number of poor reports to feed concerns about the employment side of the mandate, leading to one or two more cuts by the Fed. In the second half of the year, Trump policy is likely to start to push the economy in a different direction. The tariffs are expected to provide an inflationary impulse, pushing rates up, but changes in immigration policies, and abrupt shifts in federal hiring practices could significantly impact the labour market, pulling rates down. Trump inherits an economy with strong momentum that continues to exceed expectations. The path for his proposed policies to have a positive impact on the economy is narrow, while the downside risks are large. Trump holds the future, but he must navigate carefully to preserve its, and his, promise.

China: Beijing prepares for a (delayed) US tariff snakebite

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- Recent data show the economy enters 2025 stronger, amid Beijing's policy pivot and trade frontloading
- The recovery keeps showing large imbalances, with the supply side still stronger than the demand side
- Beijing prepares for more stimulus to stabilise property/demand, partly to offset impact from US tariffs

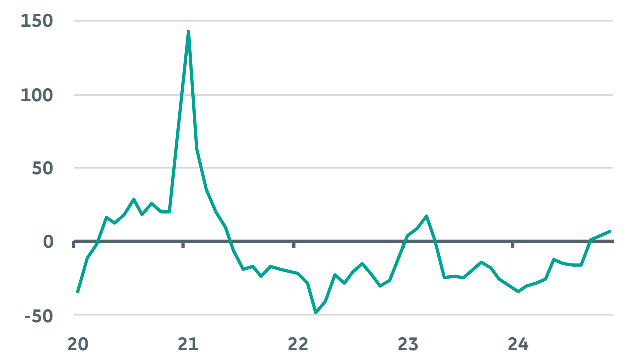
On 29 January, the Lunar Year of the Snake will start, just after the inauguration of Donald Trump as 47th US president. While the economy is entering 2025 on a bit stronger footing following Beijing's policy pivot and trade frontloading, a rise of US import tariffs under Trump 2.0 would form an additional headwind. We expect Beijing to keep adding monetary easing and fiscal support aimed to stabilise real estate and domestic demand, and offset the tariff impact.

The Chinese economy enters 2025 stronger, but supply-demand imbalances remain

Recent macro data confirm that the economy picked up in late 2024, in line with our expectations, driven by the policy pivot from September and trade frontloading in the run-up to higher US import tariffs. Real GDP accelerated to 5.4% y/y in Q4 (Q3: 4.6%), meaning the 2024 growth target (5%) was exactly met. However, the pick-up in quarterly growth was less pronounced (1.6% q/q s.a.), with upward revisions in Q3 and Q2. Regarding the monthly data, the December PMIs showed a clear pick-up for services, driven by construction (see here). Exports and industrial production data for December came in strong on the back of trade frontloading. There are also some signs of improvement on the demand side. Retail sales picked up to 3.7% y/y in December (but slowed in monthly terms) and residential home sales are now for three months in a row higher than the same month one year earlier (see chart). That said, China's recovery is still imbalanced, with the supply side clearly stronger than the demand side, and consumption, private investment and confidence fragile. This is mirrored by ongoing low CPI inflation and producer price deflation. Activity data for early 2025 will show the usual volatility due to annual changes in timing of the Lunar New Year holiday break.

Home sales suggest real estate is reaching a bottom

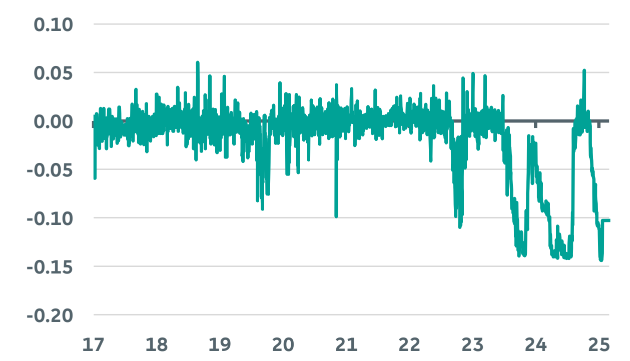
Residential home sales, % y/y



Source: ABN AMRO Group Economics, Bloomberg

PBoC aims to keep CNY depreciation orderly

Delta USDCNY fixing day t vs market rate day t-1 (- = strong fixing)



Source: ABN AMRO Group Economics, Bloomberg

More support is being rolled out; Beijing uses playbook regarding US tariff threat

In line with our base case, Beijing is stepping up stimulus to support real estate and domestic demand. At the Central Economic Work Conference (CEWC) held in December, 'to comprehensively expand domestic demand' was declared the main policy goal for 2025. The monetary stance was shifted from 'prudent' to 'moderately loose'. On the fiscal front, Beijing confirmed its readiness to raise the headline budget deficit (from 3% of GDP) and to issue more ultra-long central government bonds and special local government bonds. The CEWC statement also hinted on more direct support for consumption (see our comment here). And indeed, earlier this month, programmes for consumption and industrial equipment subsidies were expanded. We expect more fiscal stimulus under a stepwise approach, allowing Beijing to finetune support with developments in activity/sentiment, while keeping part of its powder dry for when more is known about Trump's tariffs. US tariffs will be made contingent on studies of tariff policy/trade relations, with Trump adding a 100% tariff threat should China not cooperate with a TikTok deal and a 10% threat per 1 February (fentanyl). Beijing is already using parts of the tariff playbook we sketched in our 2025 China outlook. One of them is currency depreciation (CNY lost ±2.5% vs USD since Trump's re-election), but the PBoC is keeping this from getting disorderly by setting the fixing relatively strong (chart). The currency angle will likely impact the timing of further monetary easing, but we still expect additional policy rate cuts (a bit more than in 2024) and RRR cuts going forward.

Key views on a page

The return of president Trump to the White House is likely to mean a significant rise in US import tariffs in 2025. China will bear the brunt, but Europe will also be hit. Global trade and growth will initially benefit from a frontloading ahead of the tariff rises, before slowing sharply later in 2025. Against this backdrop, domestic demand is recovering in the eurozone and China, helped by falling interest rates and targeted fiscal measures in China, while in the US, deregulation and tax cuts will help blunt the real income shock from tariff rises. Inflation in the US is expected to reaccelerate, but to fall below target in the eurozone. All of this is likely to drive a divergence in Fed & ECB policy, with slower and fewer Fed rate cuts, and the ECB deposit rate ultimately falling to 1%. This is expected to push the euro below parity against the dollar in the course of 2025.

Macro	Central Banks & Markets
Eurozone – The eurozone recovery is set to continue in early 2025, helped by rate cuts feeding through and real income gains supporting private consumption. Our tariff scenario has significant repercussions for the eurozone outlook. Initially in the first half of 2025 frontloading effects actually boost quarterly growth. Afterwards, we see growth and inflation negatively impacted by the gradual implementation of US import tariffs from 25Q3 onwards. In 2026 inflation will undershoot the target. Growth is expected to average 0.8% in 2024 and rise to 1.2% in 2025 to slow down to 0.8% in 2026.	**ECB** – We expect the ECB to continue cutting rates in January and throughout 25Q1. We see the ECB pausing in April as uncertainty over tariffs as well as policy rates approaching the ECB's assessment of neutral are reason to adopt a wait-and-see approach. As the impact of tariffs on growth and inflation feed through we see the ECB resuming its easing cycle at the June meeting, and cutting rates by more than markets currently price, until the deposit rate reaches 1% in early 2026. A year from now the ECB will therefore have moved from a restrictive to an accommodative policy stance
The Netherlands – In 2024, the economy has performed robustly, with Q2 and Q3 showing solid growth. This is expected to have continued in Q4. Risks on the external side are tilted to the downside particularly because of the implementation of US import tariffs. Growth will be domestically driven and will average 0.9% in 2024, 1.5% in 2025, and 0.8% in 2026. Unemployment will increase slightly, but the tight labour market remains a constraining factor. Inflation is expected to stay above the 2% target in the coming years, driven by still high wage growth.	**Fed** – After another rate cut, the Fed's upper bound on fed funds rate stands at 4.50%. We expect two more 25bps cuts in the first half of this year. We expect disinflation to resume, and the labour market to continue cooling, with a number of weaker reports triggering rate cuts. The policy rate will then be at a still restrictive 4.00%. The Fed will pause here until the full extent and impact of the new administration's policy is starting to reveal itself. Under our baseline assumptions, we expect a pickup in inflation which will leave rates at this restrictive level indefinitely.
UK – In November, the government announced a fiscal expansion amounting to c1% of GDP. This, alongside rising real incomes, is likely to keep the economy on a solid recovery path for now, though structural challenges remain. New US trade tariffs pose downside risks to growth in H2 25, but the UK is less vulnerable than the eurozone as it is less export dependent. Services inflation is stubbornly high, with wage growth still well above levels consistent with 2% inflation. A sustained return to 2% inflation will take longer than elsewhere, due to historically higher inflation expectations in the UK.	**Bank of England** – The MPC lowered Bank Rate to 4.75% in November, in line with our expectations. Incoming data suggests stubbornly high underlying inflationary pressure, and sticky wage growth. At the November Budget, the government announced a combination of tax rises to fund regular spending, and additional debt to fund growth enhancing public investment. This poses upside risks to medium-term inflation, and is likely to keep rate cuts at a more gradual pace than for the ECB. We expect three 25bp rate cuts each in 2025 and 2026, taking Bank Rate to 3.25% by end-2026.
US – Growth and consumption momentum remains strong. Disinflation is resuming but inflation remains above target. The labour market continues to cool, with demand growth slowing, and supply now also losing pace. A weakening labour market and pockets of financial stress among households are likely to contribute to a slowdown in growth into 2025. Policy, in particular tariffs, will start to impact growth and inflation in the course of the year and into 2026. Our 2025 growth forecast is 2.0% on the back of still strong momentum, while the impact of assumed tariffs leaves our inflation forecast elevated at 2.4%.	**Bond yields** – US and European bond yields are on the rise since last December despite central bank rate cuts. This is primarily driven by strong US economic data and increasing term premia. In our view, US term premia will continue to exert upward pressure on US Treasury yields due to risks associated with higher deficit/debt levels and economic uncertainty. In contrast, term premia in Europe plays a much smaller role on the 10y yield. Market policy rate expectations remain the key driver of EGB yields. Consequently, given our outlook for the ECB, we hold a more optimistic view on European rates.
China – Recent GDP and other macro data confirm that the economy picked up in the final part of 2024, in line with our expectations, driven by Beijing's policy pivot from September and trade frontloading in the run-up to an expected hike in US import tariffs. We expect Beijing to keep adding monetary easing and fiscal support in an aim to stabilise the real estate sector and domestic demand. Their stepwise approach enables Beijing to finetune support with developments in activity and sentiment, while keeping part of its powder dry for when more is known about Trump's exact tariff plans and their impact.	**FX** – Since the outcome of the US elections the US dollar has rallied and EUR/USD has weakened in anticipation of what the next Trump government would bring and the possibility of fewer Fed rate cuts. We have downgraded our EUR/USD forecast to 0.98 from 1.00 for the end of 2025. This is following our change in Fed view reflecting fewer rate cuts. Meanwhile our expected ECB rate cuts are more than is priced in financial markets. This is our view if markets remain relatively constructive. Waves of risk-off could support the dollar as safe haven currency.

Main economic & financial market forecasts

	GDP				Inflation				Policy rate			
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Eurozone	0.5	0.8	1.2	0.8	5.4	2.4	2.0	1.5	4.00	3.00	1.25	1.00
Netherlands	0.1	0.9	1.5	0.8	4.1	3.2	2.9	2.4				
Germany	-0.1	-0.2	0.5	0.7								
UK	0.4	0.9	1.2	1.6	7.3	2.6	3.0	2.5	5.25	4.75	3.50	3.25
US	2.9	2.8	2.0	1.7	4.1	2.5	2.4	3.0	5.50	4.50	4.00	4.00
China	5.4	5.0	4.3	4.2	0.2	0.2	0.8	1.3	3.45	3.10	2.70	2.60

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

	2024	21/01/25	Q1 25	2025	2026	Energy	2024	21/01/25	Q1 25	2025	2026
US Treasury	3.88	4.56	4.35	4.20	4.00						
German Bund	2.02	2.48	2.05	1.45	1.55	Brent - USD/bbl*	74.64	79.29	70	62	60
EUR/USD	1.03	1.04	1.03	0.98	1.05	WTI - USD/bbl*	71.72	75.89	65	58	55
USD/CNY	7.30	7.28	7.50	7.80	7.60	TTF Gas - EUR/MWh*	47.94	39.87	37	40	30
GBP/USD	1.25	1.23	1.21	1.19	1.24						

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

	2024				2025				2026			
GDP (q/q)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0.3	0.2	0.4	0.2	0.4	0.4	0.1	0.2	0.1	0.2	0.2	0.3
Netherlands	-0.3	1.1	0.8	0.3	0.3	0.3	0.2	0.1	0.1	0.2	0.3	0.2
US (saar)	1.6	3.0	2.8	2.2	1.7	1.3	1.9	2.0	1.8	1.4	1.3	1.4
China (y/y)	5.3	4.7	4.6	5.4	5.0	4.7	4.2	3.4	3.4	4.1	4.5	4.7
Inflation	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.6	2.5	2.2	2.2	2.2	2.1	1.9	1.7	1.5	1.5	1.5	1.5
Netherlands	3.0	2.9	3.3	3.7	3.4	3.1	3.0	2.3	2.8	2.5	2.1	2.1
US (PCE)	2.7	2.6	2.3	2.5	2.2	2.2	2.6	2.8	3.1	3.1	3.0	2.7
China	0.0	0.3	0.5	0.2	0.6	0.8	0.5	1.2	1.0	1.1	1.3	1.7
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.5	6.4	6.3	6.3	6.4	6.5	6.7	6.9	6.9	6.9	6.7	6.6
Netherlands	3.6	3.6	3.7	3.7	3.9	3.9	3.9	3.9	4.0	4.2	4.3	4.3
US	3.8	4.0	4.1	4.3	4.4	4.5	4.6	4.5	4.5	4.4	4.4	4.4
Policy rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	4.00	3.75	3.50	3.00	2.50	2.25	1.75	1.25	1.00	1.00	1.00	1.00
US	5.50	5.50	5.00	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50
UK	5.25	5.25	5.00	4.75	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.25
China	3.45	3.45	3.35	3.10	2.80	2.80	2.70	2.70	2.70	2.60	2.60	2.60

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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