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Macro Research
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“Disinflation on track, rate cuts have a way to go”

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Disinflation on track, rate cuts have a way to go

- **Global:** We are increasing our global GDP growth forecast slightly to 3.1% this year from 2.9%. This is below its 2012-19 average of 3.4%, as high real interest rates, weakening resilience in labor markets and geopolitical tensions weigh on economic activity. Manufacturing is likely to show gradual improvement, while the services industry will probably lose some of its shine, mostly in the US. We forecast a slight acceleration in GDP growth to 3.2% next year, amid easier financial conditions. Annual inflation rates in advanced economies will likely continue to decline to target, or slightly below, in 2025. Goods-price inflation is likely to remain contained, assuming no major geopolitical shock, while services-price inflation should gradually slow thanks to cooling wage growth and firms finding it harder to pass on input price rises to customers. Global monetary policy is likely to ease through next year.

- **US:** We forecast the economy to grow by 2.2% this year and by 1.3% next year. The quarterly trajectory is unchanged, with growth slowing to around 0.8% annualized in 2H24 before picking up to about 1.6% annualized in 2025. The main drivers of consumption have lost steam, while business investment is unlikely to be a big support amid election-related uncertainty and high interest rates. We expect core inflation to decline to around 2% by mid-2025 and for the Fed to cut rates by 75bp this year, starting in September, and by 125bp next year. The risks are skewed towards fewer cuts this year. The 5 November election is too close to call. In our baseline we have assumed no major shock to geopolitics and trade, but risks are tilted towards policies that could damage growth and raise inflation.

- **Eurozone:** Activity surprised to the upside in 1Q24 but with domestic demand still weak, the eurozone is not out of the woods yet. We forecast GDP will rise by 0.6% this year and by 1.2% in 2025 as the drag from monetary policy eases while growth in real wages supports private consumption. A resilient labor market mitigates downside risks to activity. Disinflation has slowed but the trend remains intact. Wage growth has peaked, while companies are increasingly absorbing their high labor costs into their profit margins. The ECB cut interest rates at its June meeting without giving guidance about the future rate path. We expect a slow easing cycle at a pace of 25bp per quarter through the end of 2025.

- **CEE:** We forecast GDP growth of 2.7% this year and 2.9% in 2025 in EU-CEE[1], and above 3% in both years in the Western Balkans and Turkey. Domestic demand will remain the strongest growth driver, helped by real wage growth, fiscal transfers and falling interest rates. We expect net exports to contribute to growth in 2025, when capex might accelerate. We forecast cautious rate cuts this year, with more to come in 2025.

- **UK**: We are increasing our GDP growth forecast for this year to 0.7% from 0.2%, while our 2025 forecast is unchanged at 0.8%. Underlying growth remains subdued. If the opposition Labour party wins a majority at the 4 July election, it will likely increase borrowing to fund higher public investment, but some taxes will probably have to rise. Headline inflation should stay close to 2% for the rest of this year and fall below target next year. We still expect the BoE to cut the bank rate in August and make a total of 75bp of cuts this year.

- **China:** On the back of stronger-than-expected 1Q24 performance, we are raising our GDP-growth forecast for 2024 to 4.8% from 4.5% while leaving our projection for 2025 unchanged at 4.3%. The outlook on the demand side is not bright. Consumer confidence is not recovering and remains stuck at historically low levels. The main growth impulse is from exports and state-driven investment. There are no signs of major all-in policy stimulus. We think the PBoC is unlikely to cut policy rates but rather to keep using ad-hoc lending facilities to support specific industries.

[1] EU-CEE refers to CEE countries that are members of the EU: Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Slovakia and Slovenia.

Table 1: Annual macroeconomics forecasts

	GDP (%)			CPI inflation (%)*			Central Bank Rate (EoP)			Government budget balance (% GDP)			General government debt (% GDP)			Current account balance (% GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	**3.2**	**3.1**	**3.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
US	**2.5**	**2.2**	**1.3**	**4.1**	**3.0**	**1.9**	**5.50**	**4.75**	**3.50**	**-8.8**	**-7.4**	**-7.4**	**122.1**	**124.0**	**127.0**	**-3.0**	**-2.7**	**-2.5**
Eurozone	**0.6**	**0.6**	**1.2**	**5.4**	**2.4**	**1.8**	**4.00**	**3.25**	**2.25**	**-3.6**	**-3.3**	**-2.9**	**88.6**	**88.8**	**88.6**	**1.7**	**2.1**	**2.4**
Germany	-0.2**	0.4**	1.3**	5.9	2.4	1.7	-	-	-	-2.5	-2.0	-2.0	63.6	63.9	64.0	6.1	6.5	7.0
France	1.1	1.0	1.2	4.9	2.2	1.6	-	-	-	-5.5	-5.3	-4.5	110.6	112.1	112.7	-1.3	-1.2	-0.8
Italy	1.0	0.8	1.1	5.7	1.2	1.8	-	-	-	-7.4	-4.5	-4.0	137.3	138.5	140.1	0.5	1.1	1.3
Spain	2.5	2.2	1.5	3.4	3.3	2.3	-	-	-	-3.6	-3.0	-2.9	107.7	105.5	104.6	2.6	2.5	2.4
Austria	-0.8	0.3	1.5	7.8	3.6	2.3	-	-	-	-2.6	-3.0	-2.9	77.6	78.0	78.7	2.5	2.3	2.2
Greece	2.0	1.9	1.7	3.5	2.3	1.7	-	-	-	-1.6	-1.3	-1.0	161.9	154.2	148.5	-9.6	-7.0	-5.8
Portugal	2.3	1.8	1.4	4.3	2.3	1.6	-	-	-	1.2	0.2	0.3	99.1	94.2	90.5	1.3	0.9	0.6
CEE																		
Poland	0.2	3.5	3.5	6.2	4.7	4.0	5.75	5.75	5.00	-5.1	-5.3	-4.5	49.8	53.5	55.8	1.6	1.0	1.3
Czechia	-0.2	1.3	2.7	6.9	3.1	2.6	6.75	4.00	3.50	-3.7	-2.8	-3.0	44.0	44.9	45.5	0.4	1.4	1.4
Hungary	-0.9	2.3	3.5	5.5	5.6	4.0	10.75	6.50	4.50	-6.7	-5.5	-5.1	73.5	73.5	73.3	0.3	1.8	3.6
Russia	3.7	3.0	1.6	7.4	5.4	4.0	16.00	16.00	12.00	-1.9	-1.7	-1.1	16.0	18.1	19.2	2.6	2.6	2.2
Turkey	4.5	3.6	3.3	64.8	46.0	28.0	42.50	50.00	30.00	-6.4	-6.0	-4.6	29.5	31.9	30.7	-4.2	-1.8	-1.8
Other Europe																		
UK	0.1	0.7	0.8	7.3	2.5	1.8	5.25	4.50	2.75	-4.5	-4.5	-3.5	104.3	106.5	107.5	-3.3	-3.0	-2.7
Sweden	0.0	1.0	1.6	6.0	2.0	1.5	4.00	3.25	2.25	-0.6	-0.3	-0.8	31.2	32.0	31.0	6.5	5.8	5.3
Norway	1.1***	0.6***	1.0***	5.5	3.5	2.1	4.50	4.50	3.50	14.9	14.0	12.1	44.3	42.0	41.0	15.9	16.8	17.0
Switzerland	0.7	1.4	1.6	2.1	1.4	0.8	1.75	1.00	1.00	0.8	0.5	0.3	36.1	35.5	35.1	7.0	8.0	8.5
Others																		
China	5.2	4.8	4.3	0.2	0.6	1.6	4.35	4.35	4.35	-7.1****	-7.4****	-7.6****	83.6	89.0	92.9	1.8	1.3	1.2
Japan	1.9	0.4	1.0	3.3	2.3	1.7	-0.10	0.30	0.50	-5.2	-4.3	-3.5	252	250	248	3.6	3.7	3.6

Source: UniCredit Research

*Annual averages, except for CEE countries, for which end-of-period numbers are used.
**Non-wda figures. Adjusted for working days: 0.0% (2023), 0.4% (2024) and 1.4% (2025).
***Mainland economy figures. Overall GDP: 0.7% (2023), 0.7% (2024), 1.2% (2025).
****Official budgetary balances are adjusted according to IMF methodology to include government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

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Table 2: Quarterly GDP and CPI forecasts

REAL GDP (% QOQ, SA)

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
US (non-annualized)	**1.2**	**0.8**	**0.3**	**0.4**	**0.2**	**0.2**	**0.3**	**0.4**	**0.4**	**0.4**
Eurozone	**0.0**	**-0.1**	**0.3**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**
Germany	0.1	-0.5	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4
France	0.1	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Italy	0.4	0.1	0.3	0.1	0.3	0.2	0.3	0.3	0.3	0.3
Spain	0.5	0.7	0.8	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Austria	-0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4
CEE										
Poland (% yoy)	0.8	1.4	1.4	3.3	4.4	4.8	4.1	3.8	3.1	3.0
Czechia	-0.8	0.4	0.3	0.7	0.4	1.0	0.6	0.7	0.6	0.6
Hungary (% yoy)	-0.4	0.0	1.1	1.4	3.4	2.9	4.6	5.5	1.9	2.1
Russia (% yoy)	4.6	4.2	5.0	3.5	2.1	1.3	-0.1	0.7	2.2	3.5
Turkey (% yoy)	6.1	4.0	5.7	3.7	3.6	2.0	0.4	2.5	4.0	5.7
Other Europe										
UK	-0.1	-0.3	0.6	0.5	0.1	0.0	0.2	0.3	0.3	0.3
Sweden	0.1	0.0	0.7	0.3	0.3	0.3	0.3	0.5	0.5	0.5
Norway (mainland)	0.1	0.3	0.2	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Switzerland	0.3	0.3	0.5	0.5	0.3	0.4	0.4	0.4	0.4	0.4

CPI INFLATION (% YOY)

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
US	**3.5**	**3.2**	**3.2**	**3.3**	**2.9**	**2.7**	**2.2**	**1.9**	**1.8**	**1.9**
Eurozone	**5.0**	**2.7**	**2.6**	**2.5**	**2.2**	**2.3**	**2.0**	**1.8**	**1.7**	**1.7**
Germany	5.6	3.6	2.5	2.3	2.3	2.6	2.5	1.7	1.4	1.3
France	4.7	3.7	2.8	2.2	2.1	1.9	1.7	1.6	1.5	1.4
Italy	5.6	1.0	0.9	0.9	1.3	1.6	1.7	2.0	1.7	1.6
Spain (HICP)	2.6	3.3	3.2	3.5	3.1	3.6	3.1	2.4	1.8	1.9
Austria	6.8	5.4	4.3	3.4	3.4	3.1	2.8	2.4	2.1	1.9
CEE*										
Poland	8.2	6.2	2.0	2.6	4.6	4.7	5.4	5.2	4.1	4.0
Czechia	6.9	6.9	2.0	2.5	2.7	3.1	2.5	2.5	2.5	2.6
Hungary	12.2	5.5	3.6	3.8	3.4	5.6	5.3	6.1	4.8	4.0
Russia	6.0	7.4	7.7	7.7	6.5	5.4	4.9	4.3	4.2	4.0
Turkey	61.5	64.8	68.5	72.3	49.0	46.0	38.6	34.7	30.1	28.0
Other Europe										
UK	6.7	4.2	3.5	2.1	2.1	2.3	2.0	1.6	1.8	1.8
Sweden	5.0	3.3	2.7	2.0	1.6	1.6	1.5	1.5	1.4	1.4
Norway	4.5	4.5	4.4	3.4	3.1	3.0	2.3	2.1	2.0	2.0
Switzerland	1.6	1.6	1.2	1.4	1.5	1.6	1.2	0.7	0.6	0.5

*CEE CPI figures are end-of-period.

Source: UniCredit Research

Table 3: Oil forecasts

	Current	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Brent (USD/bbl, average)	86	83	83	80	80	78	78

Source: Bloomberg, UniCredit Research

Table 4: Comparison of annual GDP and CPI forecasts

GDP (%)

	UniCredit			IMF (Apr-24)			European Commission (May-24)			OECD (May-24)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	**3.2**	**3.1**	**3.2**	**3.2**	**3.2**	**3.2**	**3.1**	**3.2**	**3.3**	**3.1**	**3.1**	**3.2**
US	**2.5**	**2.2**	**1.3**	**2.5**	**2.7**	**1.9**	**2.5**	**2.4**	**2.1**	**2.5**	**2.6**	**1.8**
Eurozone	**0.6**	**0.6**	**1.2**	**0.4**	**0.8**	**1.5**	**0.4**	**0.8**	**1.4**	**0.5**	**0.7**	**1.5**
Germany	-0.2*	0.4*	1.3*	-0.3	0.2	1.3	-0.3	0.1	1.0	-0.1	0.2	1.1
France	1.1	1.0	1.2	0.9	0.7	1.4	0.7	0.7	1.3	0.9	0.7	1.3
Italy	1.0	0.8	1.1	0.9	0.7	0.7	0.9	0.9	1.1	1.0	0.7	1.2
Spain	2.5	2.2	1.5	2.5	1.9	2.1	2.5	2.1	1.9	2.5	1.8	2.0
Austria	-0.8	0.3	1.5	-0.7	0.4	1.6	-0.8	0.3	1.6	-0.7	0.2	1.5
Greece	2.0	1.9	1.7	2.0	2.0	1.9	2.0	2.2	2.3	2.0	2.0	2.5
Portugal	2.3	1.8	1.4	2.3	1.7	2.1	2.3	1.7	1.9	2.3	1.6	2.0
CEE												
Poland	0.2	3.5	3.5	0.2	3.1	3.5	0.2	2.8	3.4	0.1	2.9	3.4
Czechia	-0.2	1.3	2.7	-0.4	0.7	2.0	-0.3	1.2	2.8	-0.2	1.1	2.4
Hungary	-0.9	2.3	3.5	-0.9	2.2	3.3	-0.9	2.4	3.5	-0.9	2.1	2.8
Russia	3.7	3.0	1.6	3.6	3.2	1.8	3.6	2.9	1.7	3.6	2.6	1.0
Turkey	4.5	3.6	3.3	4.5	3.1	3.2	4.5	3.5	3.8	4.5	3.4	3.2
Other Europe												
UK	0.1	0.7	0.8	0.1	0.5	1.5	0.1	0.5	1.4	0.1	0.4	1.0
Sweden	0.0	1.0	1.6	-0.2	0.2	2.2	-0.2	0.2	2.1	0.0	0.6	2.6
Norway	1.1**	0.6**	1.0**	0.5	1.5	1.9	0.5	0.8	1.4	0.5	0.8	1.8
Switzerland	0.7	1.4	1.6	0.8	1.3	1.4	1.3	1.5	1.8	0.8	1.1	1.4
Others												
China	5.2	4.8	4.3	5.2	4.6	4.1	5.2	4.8	4.6	5.2	4.9	4.5
Japan	1.9	0.4	1.0	1.9	0.9	1.0	1.9	0.8	0.8	1.9	0.5	1.1

CPI INFLATION (%)***

	UniCredit			IMF (Apr-24)			European Commission (May-24)			OECD (May-24)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
US	**4.1**	**3.0**	**1.9**	**4.1**	**2.9**	**2.0**	**4.1**	**2.9**	**2.4**	**4.1**	**3.0**	**2.2**
Eurozone	**5.4**	**2.4**	**1.8**	**5.4**	**2.4**	**2.1**	**5.4**	**2.5**	**2.1**	**5.4**	**2.3**	**2.2**
Germany	5.9	2.4	1.7	6.0	2.4	2.0	6.0	2.4	2.0	6.0	2.4	2.2
France	4.9	2.2	1.6	5.7	2.4	1.8	5.7	2.5	2.0	5.7	2.3	2.0
Italy	5.7	1.2	1.8	5.9	1.7	2.0	5.9	1.6	1.9	5.9	1.1	2.0
Spain	3.4	3.3	2.3	3.4	2.7	2.4	3.4	3.1	2.3	3.4	3.0	2.3
Austria	7.8	3.6	2.3	7.7	3.9	2.8	7.7	3.6	2.8	7.7	3.7	2.9
Greece	3.5	2.3	1.7	4.2	2.7	2.1	4.2	2.8	2.1	4.2	3.0	2.3
Portugal	4.3	2.3	1.6	5.3	2.2	2.0	5.3	2.3	1.9	5.3	2.4	2.0
CEE												
Poland	6.2	4.7	4.0	11.4	5.0	5.0	10.9	4.3	4.2	11.5	3.9	4.5
Czechia	6.9	3.1	2.6	10.7	2.1	2.0	12.0	2.5	2.2	10.7	2.4	2.1
Hungary	5.5	5.6	4.0	17.1	3.7	3.5	17.0	4.1	3.7	17.1	4.0	3.9
Russia	7.4	5.4	4.0	5.9	6.9	4.5	5.9	6.6	4.5	5.9	7.4	4.7
Turkey	64.8	46.0	28.0	53.9	59.5	38.4	53.9	57.4	31.5	53.9	55.5	28.9
Other Europe												
UK	7.3	2.5	1.8	7.3	2.5	2.0	6.8	2.4	2.0	7.3	2.7	2.3
Sweden	6.0	2.0	1.5	5.9	2.6	2.0	5.9	2.0	1.8	8.5	3.6	2.1
Norway	5.5	3.5	2.1	5.5	3.3	2.6	5.5	3.7	2.6	5.5	3.9	2.8
Switzerland	2.1	1.4	0.8	2.1	1.5	1.2	2.1	1.7	1.5	2.1	1.5	1.4
Others												
China	0.2	0.6	1.6	0.2	1.0	2.0	-	-	-	0.3	0.3	1.3
Japan	3.3	2.3	1.7	3.3	2.2	2.1	3.3	2.8	2.2	3.3	2.1	2.0

*Non-wda figures. Adjusted for working days: 0.0% (2023), 0.4% (2024) and 1.4% (2025); **Mainland economy figures. Overall GDP: 0.7% (2023), 0.7% (2024), 1.2% (2025); ***Annual averages, except for CEE countries, for which end-of-period numbers are used.

Source: IMF, European Commission, OECD, UniCredit Research

Table 5: FI forecasts

INTEREST RATE AND YIELD FORECASTS (%)

	Current	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
EMU							
Refi rate	4.25	3.65	3.40	3.15	2.90	2.65	2.40
Depo rate	3.75	3.50	3.25	3.00	2.75	2.50	2.25
3M Euribor	3.72	3.45	**3.20**	2.95	2.70	2.45	**2.24**
Euribor future		*3.49*	*3.24*	*3.03*	*2.87*	*2.75*	*2.67*
2Y Schatz	2.82	2.50	**2.30**	2.15	2.00	1.95	**1.90**
fwd		*2.62*	*2.45*	*2.35*	*2.24*	*2.22*	*2.19*
5Y Obl	2.45	2.35	2.20	2.10	2.05	2.00	2.00
10Y Bund	2.44	2.40	**2.40**	2.35	2.30	2.30	**2.30**
fwd		*2.42*	*2.41*	*2.41*	*2.40*	*2.42*	*2.43*
30Y Bund	2.63	2.70	2.70	2.75	2.75	2.75	2.75
2/10	-38	-10	10	20	30	35	40
2/5/10	-37	-20	-30	-30	-20	-25	-20
10/30	19	30	30	40	45	45	45
2Y EUR swap	3.19	2.85	2.65	2.50	2.35	2.30	2.25
5Y EUR swap	2.84	2.70	2.55	2.45	2.40	2.35	2.35
10Y EUR swap	2.78	2.70	2.70	2.65	2.60	2.60	2.60
10Y BTP	3.94	4.05	4.00	3.95	3.85	3.85	3.80
US	**Current**	**3Q24**	**4Q24**	**1Q25**	**2Q25**	**3Q25**	**4Q25**
Fed fund	5.50	5.25	4.75	4.25	4.00	3.75	3.50
3M OIS SOFR	5.34	4.95	**4.45**	4.15	3.90	3.65	**3.35**
fwd		*5.19*	*4.95*	*4.72*	*4.34*	*4.09*	*3.83*
2Y UST	4.73	4.65	**4.40**	4.10	3.80	3.60	**3.40**
fwd		*4.54*	*4.38*	*4.28*	*4.18*	*4.13*	*4.08*
5Y UST	4.31	4.50	4.40	4.20	4.05	3.90	3.80
10Y UST	4.27	4.50	**4.40**	4.30	4.20	4.10	**4.00**
fwd		*4.25*	*4.24*	*4.23*	*4.23*	*4.24*	*4.25*
30Y UST	4.40	4.65	4.55	4.50	4.40	4.35	4.30
2/10	-46	-15	0	20	40	50	60
2/5/10	-39	-15	0	0	10	10	20
10/30	13	15	15	20	20	25	30
2Y USD swap	4.59	4.60	4.35	4.05	3.75	3.55	3.35
10Y USD swap	3.93	4.30	4.20	4.10	4.00	3.90	3.80
UK							
Key rate	5.25	5.00	**4.50**	4.00	3.50	3.00	**2.75**

Spreads	Current	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
10Y UST-Bund	183	210	200	195	190	180	170
10Y BTP-Bund	150	165	160	160	155	155	150
10Y EUR swap-Bund	34	30	30	30	30	30	30
10Y USD swap-UST	-34	-20	-20	-20	-20	-20	-20

Forecasts are end of period. Source: Bloomberg, UniCredit Research

Table 6: FX forecasts

EUR	Current	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	*3M*	*6M*	12M
G10										
EUR-USD	1.07	1.08	**1.09**	1.10	1.11	1.11	**1.12**	1.08	1.09	1.11
EUR-CHF	0.96	0.99	**1.00**	1.00	1.01	1.01	**1.02**	0.99	1.00	1.01
EUR-GBP	0.85	0.86	**0.86**	0.87	0.89	0.90	**0.92**	0.86	0.86	0.89
EUR-JPY	171	163	**162**	162	161	160	**160**	163	162	161
EUR-NOK	11.32	11.55	**11.50**	11.45	11.45	11.40	**11.40**	11.55	11.50	11.45
EUR-SEK	11.23	11.55	**11.55**	11.50	11.45	11.45	**11.40**	11.55	11.55	11.45
EUR-AUD	1.61	1.64	**1.63**	1.62	1.61	1.59	**1.60**	1.64	1.63	1.61
EUR-NZD	1.75	1.77	**1.76**	1.75	1.73	1.71	**1.72**	1.77	1.76	1.73
EUR-CAD	1.47	1.47	**1.47**	1.47	1.48	1.47	**1.46**	1.47	1.47	1.48
EUR TWI	97.2	97.7	**98.0**	98.1	98.5	98.9	**99.2**	97.7	98.0	98.5
CEEMEA & CHINA										
EUR-PLN	4.30	4.30	4.40	4.42	4.47	4.48	**4.50**	4.30	4.40	4.47
EUR-HUF	395	390	395	398	410	415	**420**	390	395	410
EUR-CZK	24.89	24.80	25.00	25.00	25.00	25.00	**25.00**	24.80	25.00	25.00
EUR-TRY	35.34	35.64	39.79	42.90	45.51	46.34	**49.84**	35.64	39.79	45.51
EUR-RUB	93.95	105	107	110	112	113	**115**	105	107	112
EUR-CNY	7.79	7.78	7.83	7.87	7.88	7.83	**7.84**	7.78	7.83	7.88

USD	Current	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	3M	6M	12M
G10										
EUR-USD	1.07	1.08	**1.09**	1.10	1.11	1.11	**1.12**	1.08	1.09	1.11
USD-CHF	0.89	0.92	**0.92**	0.91	0.91	0.91	**0.91**	0.92	0.92	0.91
GBP-USD	1.27	1.26	**1.27**	1.26	1.25	1.24	**1.22**	1.26	1.27	1.25
USD-JPY	160	151	**149**	147	145	144	**143**	151	149	145
USD-NOK	10.55	10.69	**10.55**	10.41	10.32	10.27	**10.18**	10.69	10.55	10.32
USD-SEK	10.47	10.69	**10.60**	10.45	10.32	10.32	**10.18**	10.69	10.60	10.32
AUD-USD	0.67	0.66	**0.67**	0.68	0.69	0.70	**0.70**	0.66	0.67	0.69
NZD-USD	0.61	0.61	**0.62**	0.63	0.64	0.65	**0.65**	0.61	0.62	0.64
USD-CAD	1.37	1.36	**1.35**	1.34	1.33	1.32	**1.30**	1.36	1.35	1.33
USTW$	90.8	98.4	**97.5**	96.7	96.0	95.7	**95.1**	98.4	97.5	96.0
DXY	105.5	104.8	**103.8**	103.0	102.2	102.1	**101.5**	104.8	103.8	102.2
CEEMEA & CHINA										
USD-PLN	4.01	3.98	**4.04**	4.02	4.03	4.04	**4.02**	3.98	4.04	4.03
USD-HUF	368	361	**362**	362	369	374	**375**	361	362	369
USD-CZK	23.20	23.00	**22.90**	22.70	22.50	22.50	**22.30**	23.00	22.90	22.50
USD-TRY	32.90	33.00	**36.50**	39.00	41.00	41.75	**44.50**	33.00	36.50	41.00
USD-RUB	87.34	97.00	**98.50**	100.00	101.00	102.00	**103.00**	97.00	98.50	101.00
USD-CNY	7.26	7.20	**7.18**	7.15	7.10	7.05	**7.00**	7.20	7.18	7.10

Forecasts are end of period.

Source: Bloomberg, UniCredit Research

Global

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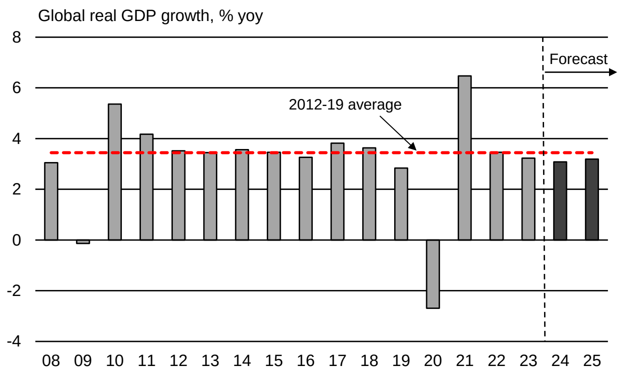
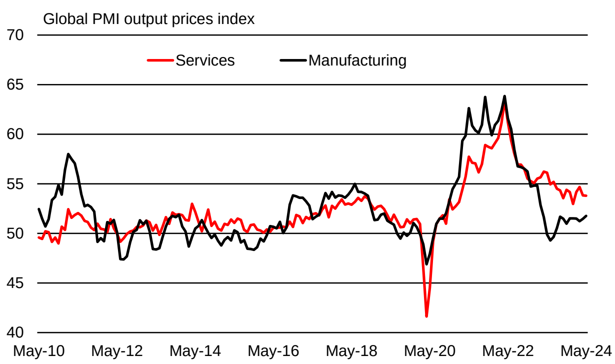
- We expect global GDP growth of 3.1% this year (previously 2.9%) and 3.2% next year (previously 3.1%). The first quarter saw GDP growth slow in the US and pick up in the euro area, but the convergence of growth rates was largely due to net exports. In the US, there are signs that personal consumption is slowing, in line with our expectation, and business investment is unlikely to offset this amid election-related uncertainty. In the eurozone, we still expect moderate growth this year as the pickup in real incomes provides support against still-high interest rates, but the fall in the June composite PMI to just above the expansion threshold suggests headwinds remain. In China, quarterly GDP growth accelerated in 1Q24, in part driven by exports, but the housing sector and low consumer confidence continue to weigh on activity. In other major emerging markets, business surveys have generally been solid, notably in India and Brazil. Global growth is likely to accelerate slightly in 2025 as financial conditions ease. To the extent firms have been hoarding labor, employment will likely grow more slowly than output next year.
- Annual inflation rates have continued to decline in most advanced economies, but the pace of easing has slowed as the downward effects from energy, food and core goods prices have largely run their course, while services-price inflation is moderating only gradually. In the US, the spike in inflation in the first quarter looks likely to have been an aberration, with inflation easing in April and, more notably, in May. Going forward, goods inflation is likely to remain contained, barring a major geopolitical shock, while services inflation should continue to slow, for several reasons. First, subdued domestic demand and labor market softening will weigh on both profit margins (as firms find it increasingly difficult to pass input price rises onto their customers) and wage growth. Second, indexed and regulated prices will come down as they are reset to lower headline inflation. And third, firms' lower short-term inflation expectations (which have followed headline inflation on the way down) should lead to less-frequent price changes. We expect headline inflation to fall to slightly below the 2% target next year in the US, the eurozone, and the UK. China is likely to continue to be a source of disinflation for goods amid oversupply.
- Central banks have either started to or are getting closer to cutting interest rates, except for the BoJ, which is in a slow hiking cycle. We expect the Fed to start reducing rates in September and to make a total of 75bp of cuts this year, although the risks are heavily skewed towards two cuts. After the ECB started cutting in June, we continue to see two more cuts this year. Both central banks will probably continue to ease next year. The PBoC is likely to ease lending conditions somewhat, but probably not via policy rates.

GLOBAL GROWTH SLIGHTLY SUBDUED



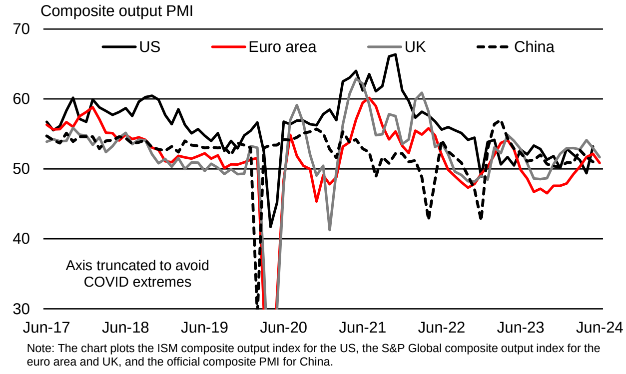
INFLATION CONTAINED FOR GOODS, STICKY FOR SERVICES



Source: IMF, S&P Global, UniCredit Research

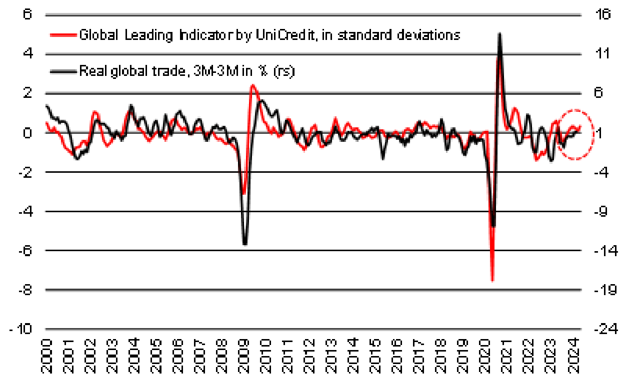
Global

PMIs



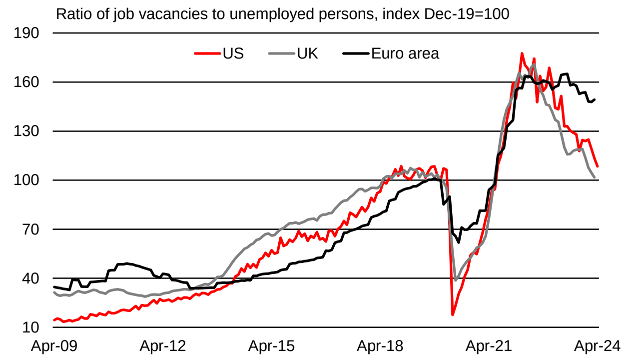
- Composite PMIs remain subdued compared to historical averages and fell back in the euro area and the UK in June.

GLOBAL LEADING INDICATOR



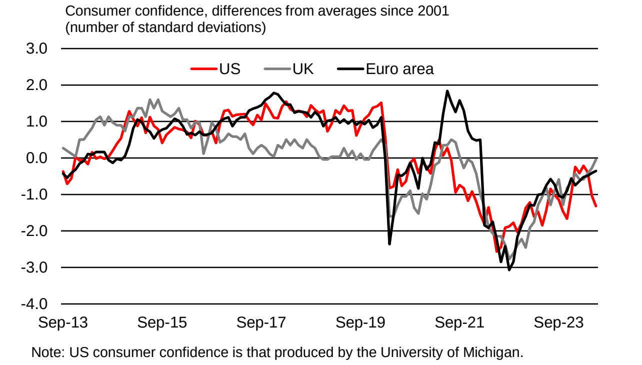
- Our Global Leading Indicator for global trade increased to +0.3 standard deviations in May from +0.1 in April. However, a sustainable improvement seems a way off.

LABOR MARKET



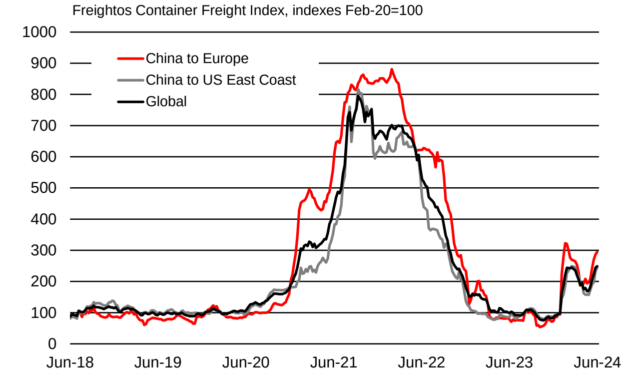
- Labor markets have loosened but remain tight. The vacancies-to-unemployment ratio has eased to around pre-pandemic levels in the US and UK, while remaining higher in the euro area.

CONSUMER CONFIDENCE



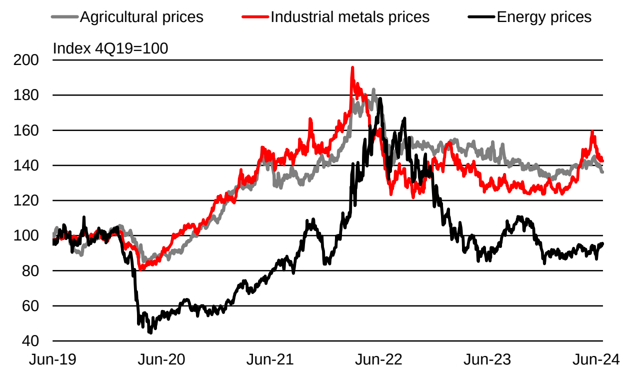
- Measures of consumer confidence have picked up in Europe but remain below historical averages. In the US, consumer confidence has fallen back recently.

SHIPPING COSTS



- Shipping costs have picked up, owing to ongoing disruption in the Red Sea, although costs remain well below their peak during the pandemic.

COMMODITIES



- Wholesale energy and food prices have been broadly stable over the last three months, while industrial metals prices fell back somewhat after rising sharply in the spring.

Source: Bloomberg, Freightos, GfK, ISM, S&P Global, University of Michigan, UniCredit Research

US

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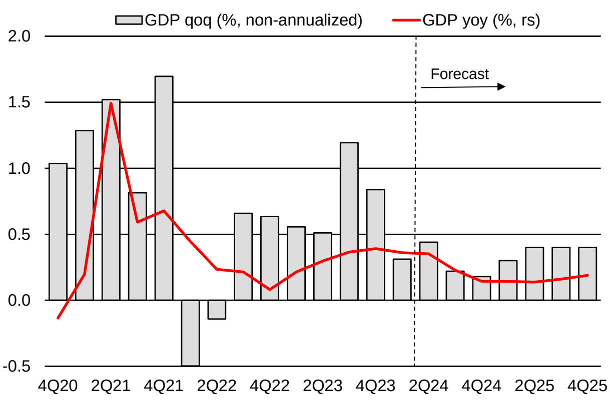
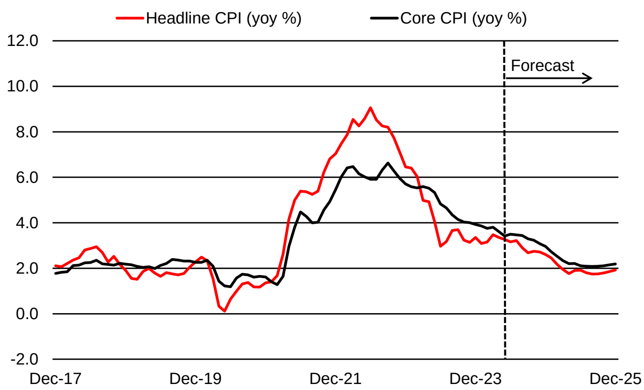
- We expect the US economy to grow by 2.2% this year (previously 2.4%) and by 1.3% next year (from 1.2%). The small revisions reflect weaker-than-expected GDP growth of 1.3% qoq annualized in 1Q24, while the quarterly trajectory is unchanged with growth slowing to around 0.8% annualized in 2H24 before picking up moderately to about 1.6% annualized in 2025. The main drivers of consumption have lost steam. Consumer confidence has fallen, consumer credit has slowed, savings buffers have been exhausted for low earners, and real disposable income growth has softened. Real personal consumption fell slightly in April and retail sales disappointed in May. Business investment is unlikely to be a big support amid election-related uncertainty, high interest rates and the fading fillip from fiscal policy. The US election on 5 November is too close to call. In our baseline scenario we have assumed no major shock to geopolitics and trade, but risks are tilted towards policies that could damage growth and raise inflation. Growth should pick up in 2025 as financial conditions ease.
- The spike in inflation in 1Q24 looks likely to have been an aberration. Core CPI inflation eased to 3.4% yoy in May and core PCE inflation (the Fed's preferred measure) likely eased to 2.6%. We still expect core inflation to decline to around 2% by mid-2025. Core goods inflation will likely remain broadly flat, while housing and non-housing core services inflation should gradually ease. Market rents point to housing disinflation ahead, while various indicators of labor-market tightness have eased to around pre-pandemic levels. Layoffs have remained low so far, but any further easing of labor demand is likely to push the separation rate up. There is uncertainty regarding the true health of the labor market, with non-farm payrolls continuing to grow strongly, in stark contrast to the weakness in household employment. We are putting more weight on the latter as the BLS's birth-death model for payrolls appears to have overestimated jobs judging by census data.
- The Fed left the target range for the fed funds rate at 5.25-5.50% on 12 June for the seventh consecutive meeting. The median "dot" showed just one rate cut in 2024, instead of three previously, although a large minority of 8 of 19 participants expect two rate cuts this year. Ultimately, the data will decide. We still expect 75bp of rate cuts this year, starting in September, as we expect economic activity and inflation to undershoot Fed expectations. However, the reluctance of Fed officials to discuss rate cuts means the risks are skewed towards fewer cuts. We see 125bp of rate cuts next year, taking the fed funds target range to 3.25-3.50%, a little above our estimate for the neutral rate at 3%. Quantitative tightening is likely to continue at least through year-end and likely into 1Q25.

GDP GROWTH LIKELY TO SLOW THIS YEAR



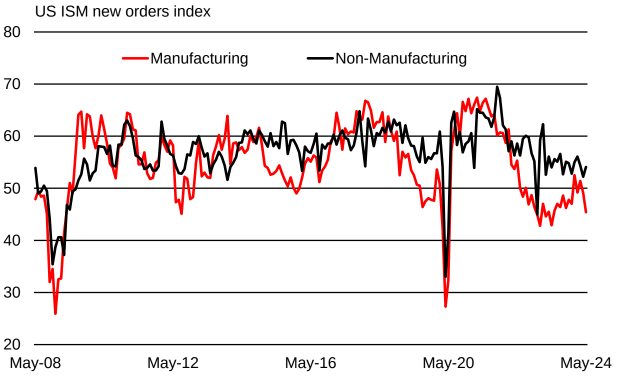
INFLATION MOVING DOWN TOWARDS 2%



Source: BEA, BLS, UniCredit Research

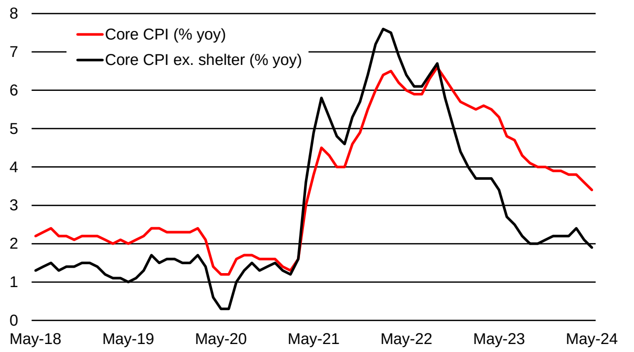
US

BUSINESS SURVEYS



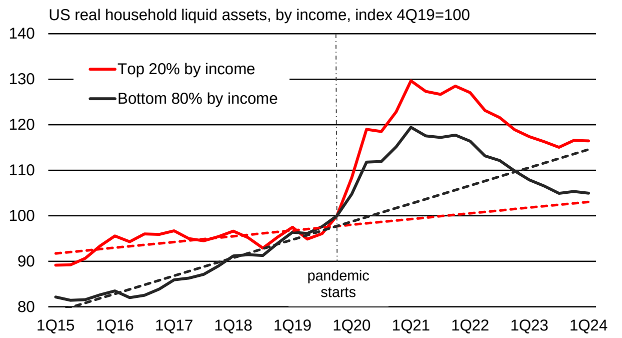
- The composite index (using GDP weights) of ISM new orders in manufacturing and non-manufacturing rose to 53.2 in May from 51.9 in April but remains well below its 2012-19 average of 58.0.

INFLATION



- Core CPI (i.e. excluding energy & food) inflation eased to 3.4% yoy in May and fell to just 1.9% yoy if shelter is excluded.

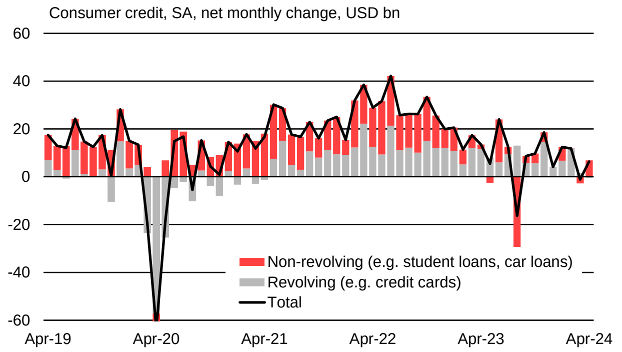
HOUSEHOLD SAVINGS



Note: dashed lines denote 2015-19 linear trends.

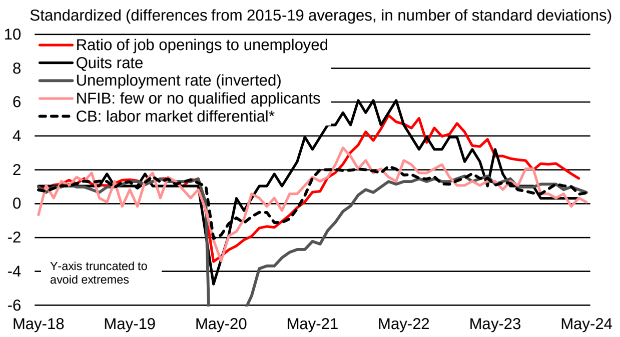
- Savings buffers, proxied by real liquid assets relative to their pre-pandemic trend, have been exhausted for all but the top 20% of income earners.

CONSUMER CREDIT



- Net consumer credit has slowed meaningfully, with revolving credit (mostly credit cards) falling slightly in April. High interest rates and rising delinquency rates are likely responsible.

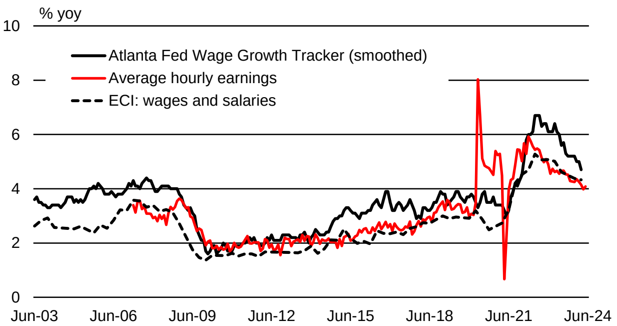
LABOR MARKET



Note: * Conference Board: jobs plentiful "minus" jobs hard to get.

- Various indicators of labor-market tightness have returned to pre-pandemic levels, which was a bit tight but not overheated.

WAGES



Note: The latest data point is May 2024 for average hourly earnings, March 2024 for the Atlanta Fed Wage Tracker, and 1Q24 for the Employment Cost Index (ECI).

- Measures of wage growth have eased but remain somewhat above pre-pandemic levels.

Source: Atlanta Fed, BLS, Conference Board, Fed, NFIB, ISM, UniCredit Research

Eurozone

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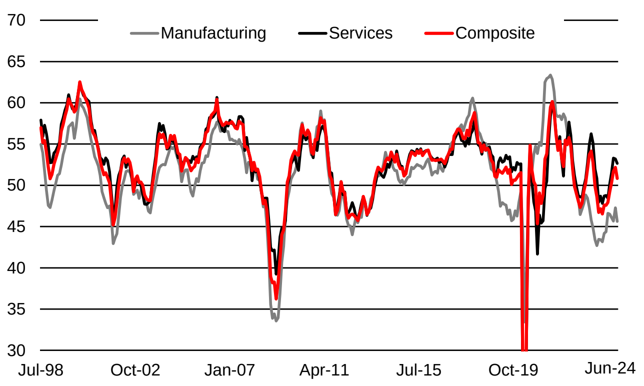
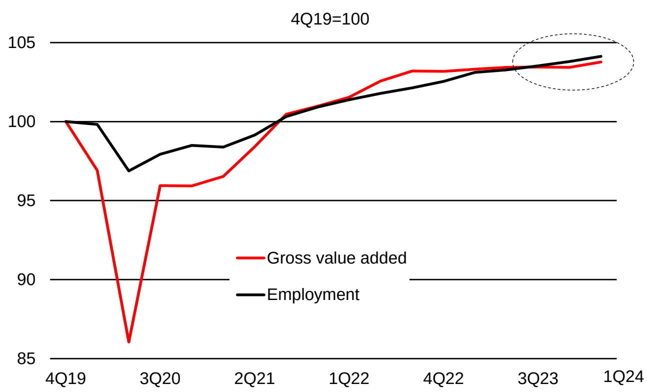
- After economic activity had stagnated for more than a year, GDP rose by 0.3% qoq in 1Q24, a better outcome than generally expected. However, with domestic demand still weak, the eurozone economy is not out of the woods yet. We forecast GDP will rise by 0.6% this year and by 1.2% in 2025 as the drag from monetary policy gradually eases while real-wage growth turning positive should support private consumption.
- The composite PMI for June disappointed, signaling sluggish growth driven by services, while industry remains on a weak footing. The labor market continues to show resilience. Employment expanded much more than economic activity in recent quarters, with labor hoarding supported by firms' solid profitability, which, however, is now showing signs of fading. We expect that this will lead to a moderation in new hiring. While data point to a gradual easing of labor-market tightness, the unemployment rate has declined to a fresh record low of 6.4%. A healthy labor market mitigates downside risks to activity, and this grants the ECB time to assesses the sustainability of the disinflation process.
- Disinflation has slowed in recent months, with headline inflation hovering around 2.5% since February (broadly in line with our expectations). The downward pressure from energy and food items has largely been exhausted, while the trajectory of core-good prices still points south, although leading indicators suggest a bottom is nearing. We forecast that headline inflation will approach 2% in September-October and fall below the ECB's goal in 2025. Core inflation will prove stickier, mainly reflecting a slow adjustment in the price of services. Wage growth remains strong but forward-looking indicators point to some easing ahead, while companies are increasingly absorbing high labor costs into their profit margins. This is good news for the ECB, which seems absolutely determined to ensure that disinflation does not stop prematurely.
- The ECB cut interest rates by 25bp at its June meeting, its first rate reduction since 2019. Given high uncertainty surrounding the pace of disinflation in services prices, the geopolitical environment and the Fed's expected monetary-policy trajectory, the ECB did not send any clear signals about the rate path beyond June. In light of our benign inflation outlook, we remain convinced that several rate cuts are in the pipeline, although the ECB will want to proceed cautiously. We continue to expect a slow easing cycle at a pace of 25bp per quarter through the end of 2025.

THE RECOVERY REMAINS WEAK AND UNEVEN



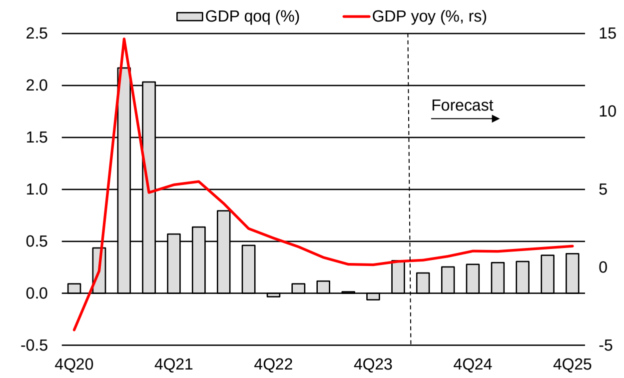
EMPLOYMENT HAS OUTPERFORMED ACTIVITY



Source: Eurostat, S&P Global, UniCredit Research

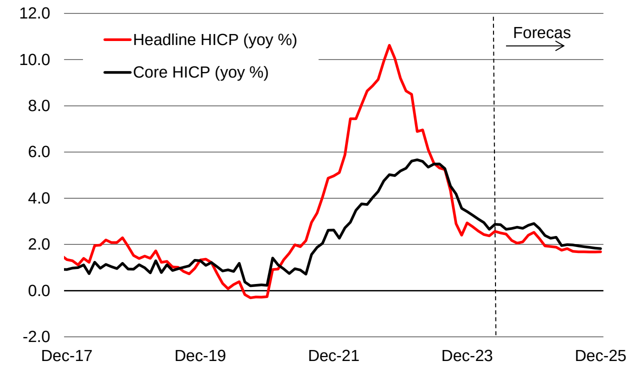
Eurozone

GROWTH



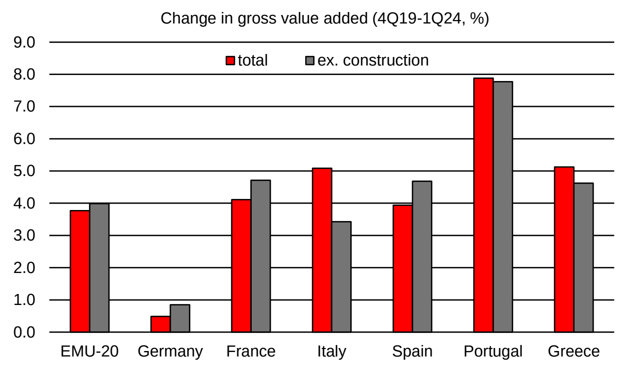
- We expect GDP to rise by 0.6% this year and by 1.2% in 2025.

INFLATION



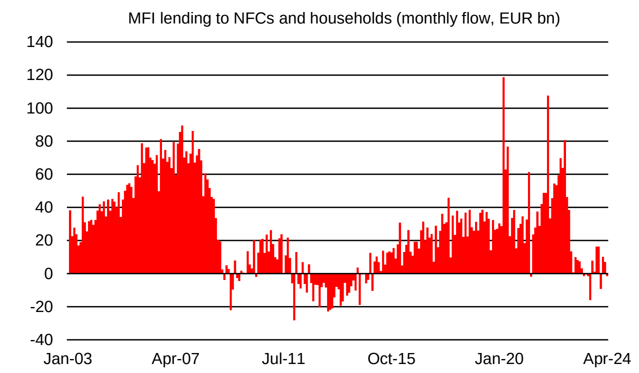
- Disinflation has slowed, but the downward trend remains intact.

ACTIVITY BY COUNTRY



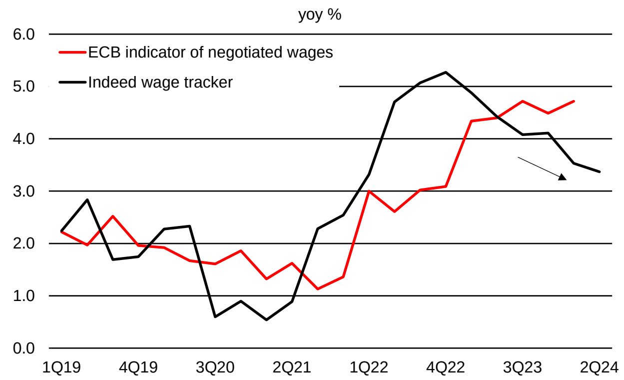
- Strong growth performance in southern eurozone countries.

LENDING



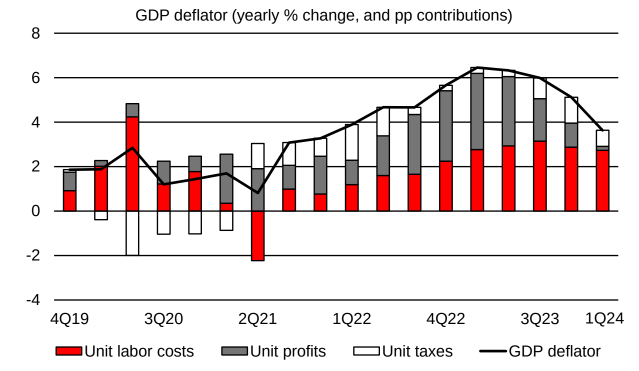
- The credit cycle remains weak.

WAGES



- Wage pressure has started to ease.

PROFITS



- Firms' profit margins are increasingly absorbing high labor costs.

Source: ECB, Eurostat, Indeed, UniCredit Research

Germany

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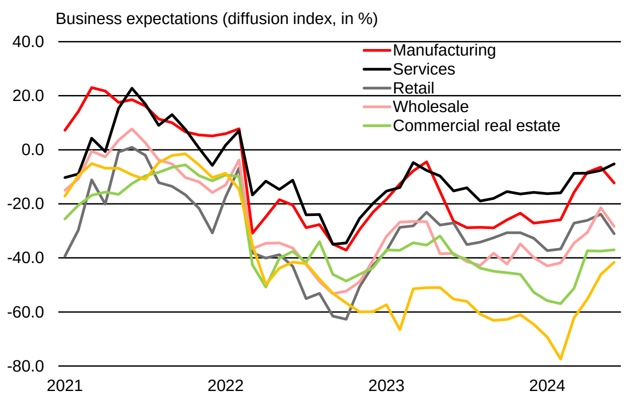
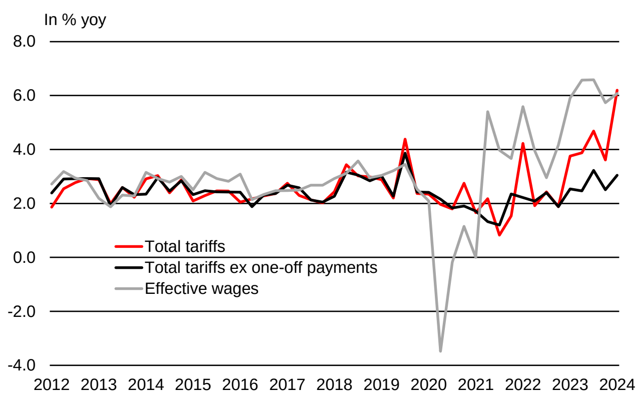
- We continue to expect GDP growth of 0.4% in 2024, followed by an increase of 1.3% in 2025 (each on a non-working-day-adjusted basis). After rising 0.2% qoq in 1Q24, economic activity is likely to gain moderate momentum in the quarters ahead (2Q-4Q24: +0.3% qoq; 1Q-4Q25: +0.4% qoq).
- We see two major contributing factors to this moderate recovery. First, as signaled by our proprietary global leading indicator, global trade is likely to grow robustly, and the export-dependent manufacturing sector will benefit from this. Second, we expect consumer spending to start rising, at least moderately, due to a mix of lower inflation (compared to 2022 and 2023) and higher wages. Furthermore, there are tentative signs of a bottoming out in the housing sector, as building permits stopped plunging. On a negative note, the fiscal policy stance will remain restrictive in 2024 despite the expected passing of a supplementary budget of about EUR 11bn (or 0.2-0.3% of GDP) after the summer break. Furthermore, capex spending is likely to remain rather weak, as the recovery is still at an early stage and in the light of substantial geopolitical uncertainty.
- The latest sentiment data support our view of a moderate recovery. The forward-looking Ifo business-expectations component has risen across sectors in recent months but has suffered a setback in some sectors in June. For consumer sentiment (GfK), the worst is also likely to be behind us, although the levels are still low.
- We have raised our tariff-wage forecast to 4½% yoy for 2024 from 3½-3¾% after the surprisingly strong increase of more than 6% yoy in 1Q24. However, we are sticking with our view that pay growth will moderate, as the one-off effect from the inflation bonus payment of up to EUR 3,000 is likely to fizzle out. Effective wages will probably also rise less dynamically, as (planned) hikes in the minimum wage at the start of 2024 and 2025 were (or will be) less pronounced than in autumn 2022. In contrast, tariff wages, excluding one-off payments, which increased by a moderate 3% yoy in 1Q24, are likely to accelerate further in the course of 2024 due to recent and upcoming collective bargaining rounds. Recently, an agreement was reached in the construction industry, which foresees wage hikes of about 7-7½% in 2024-025, of 4½% in 2025-26 and of 4% in 2026-27 (each on a 12-month basis). The next important collective bargaining round, which currently takes place, is in the chemical industry with 0.6mn employees, where the labor union demands a wage hike of 7%. In autumn, negotiations will start in the metal and electrical industries and will affect nearly 4mn employees in key sectors such as auto and machinery. The labor union, IG Metall, has recently demanded a wage hike of 7% on a 12-month basis.

IMPROVING BUSINESS SENTIMENT ACROSS SECTORS



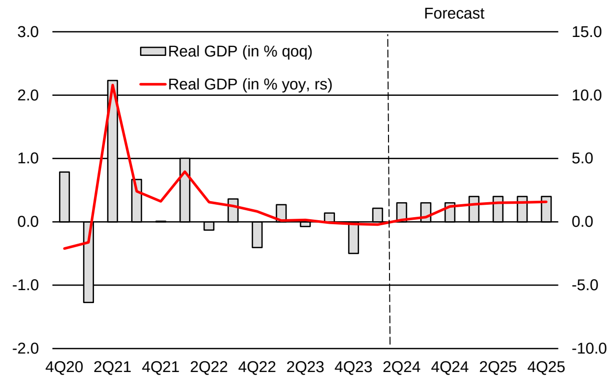
STRONG RISE IN WAGES



Source: Ifo, Bundesbank, UniCredit Research

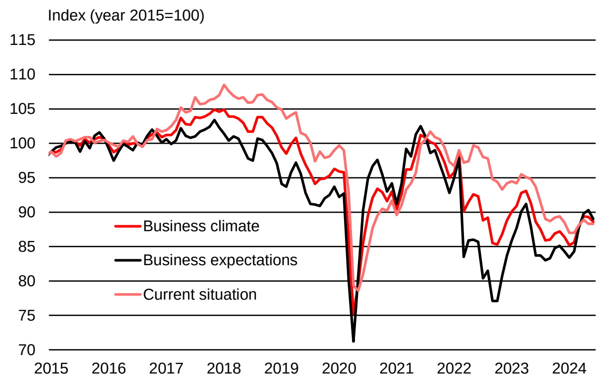
Germany

GROWTH



- GDP rose 0.2% qoq in 1Q24 and is expected to gain moderate momentum afterwards.

BUSINESS SURVEY

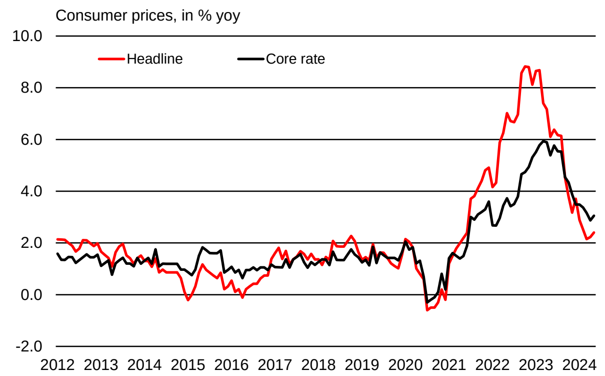


- In June, the Ifo index declined markedly after rising strongly in previous months.

INVENTORIES

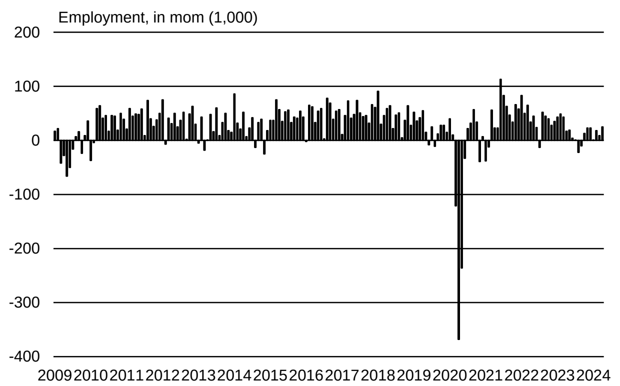
- Inventories of finished goods are still regarded as too high by manufacturers.

INFLATION



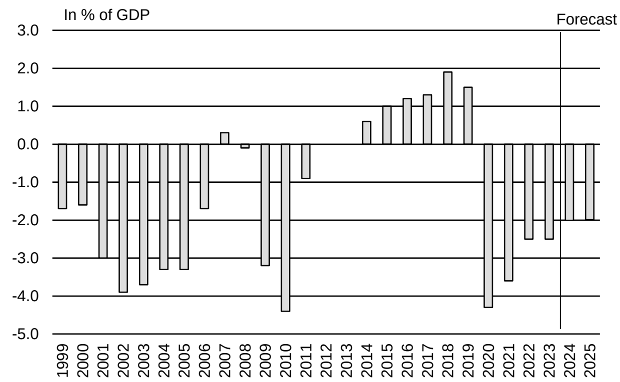
- Consumer prices increased by 2.4% yoy in May (core rate: 3.0%).

LABOR MARKET



- Job creation has remained robust, with about 13,000 new jobs being created per month in 2024 on average (2023: 17,000).

PUBLIC BUDGET BALANCE



- We expect budget deficits of 2.0% of GDP in 2024 and 2025.

Source: Destatis, Ifo, Federal Labor Agency, UniCredit Research

France

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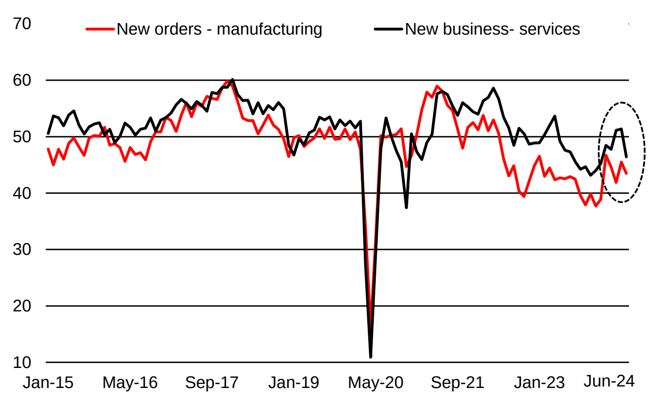
- We confirm our forecast for GDP to increase by 1.0% in 2024 and by 1.2% in 2025 (compared to 1.1% in 2023). We expect GDP growth to moderately accelerate in 2H24 as the combination of easing inflation and the weakening of the pass-through of ECB rate hikes to lending rates is set to strengthen consumer confidence and accelerate private consumption. Export growth is also anticipated to regain some traction in 2H24 as global trade growth improves and demand for some of the least cyclical sectors strengthens. However, the uncertainty surrounding the outcome of the upcoming election and its implications for domestic economic policies risk weighing on business confidence and could make the recovery path bumpier than we expect. PMI data signaled a weakening of economic activity in June, with some panel members explicitly linking the lower levels of output to the upcoming election.

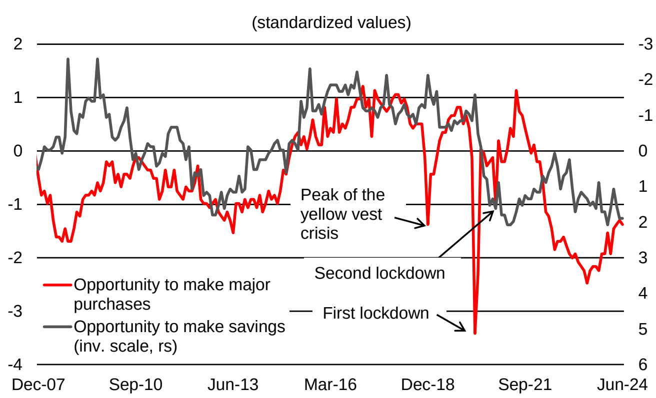
- Consumer inflation accelerated by 0.1pp to 2.3% yoy in May due to unfavorable base effects on energy inflation, which more than offset a slowdown in services inflation (to 2.8%, its lowest reading since November last year). We expect inflation to broadly stabilize in the coming months and close the year at about 2%. Base effects in energy and, to a lesser extent, food inflation will support the stabilization. Services inflation is likely to prove stickier due to upward pressure from wage growth, which has, however, moderated significantly in recent quarters.

- As the first round of the legislative election approaches (30 June), opinion polls indicate that almost 85% of the French electorate is divided into three main blocks: the far-right National Rally (RN) party, which has teamed up with members from center-right The Republicans (LR) party who decided to follow ousted president Eric Ciotti; the left-wing New Popular Front (NPF) alliance; and the centrist Together for the Republic coalition, including President Emmanuel Macron's Renaissance (RE) party and its allies. This division of vote shares indicates that the most likely outcome of the election is a hung parliament, in which no coalition obtains an absolute majority of seats, the center-right gets squeezed by the extremes, and political fragmentation increases. This would worsen the current stalemate, with the president unable to dissolve the National Assembly before a year has passed, according to the French constitution. Still, tactical voting under a two-rounds majoritarian system might also lead to a cohabitation scenario, in which the president will have to face a far-right parliamentary majority with constitutionally untested consequences in case of disagreement with the PM. In both cases, France is likely to go through a period of political deadlock, which entails greater uncertainty about the future trajectory of its public finances.

JUNE PMIs SIGNAL WEAKENING IN ECONOMIC ACTIVITY



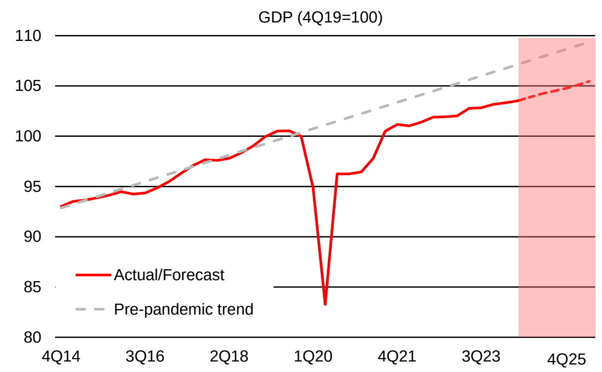
CONSUMER CONFIDENCE REMAINS SUBDUED



Source: S&P Global, INSEE, UniCredit Research

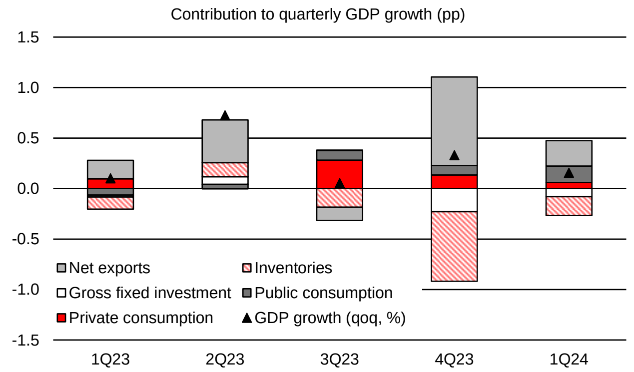
France

GROWTH (I)



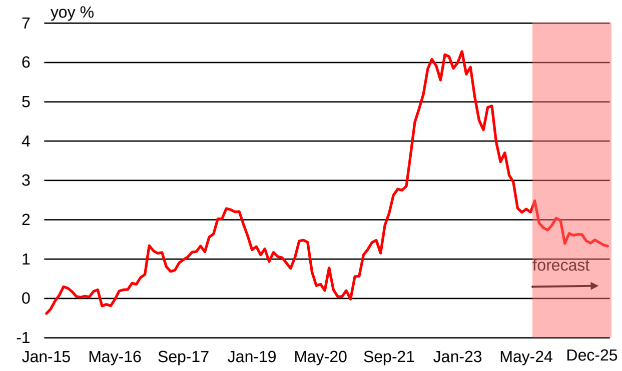
■ We do not expect GDP to recover to its pre-pandemic trend level in the foreseeable future.

GROWTH (II)



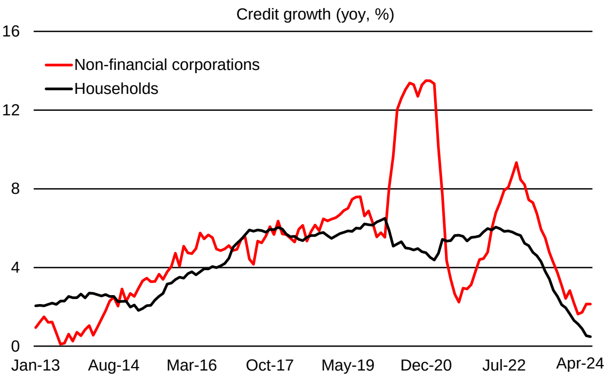
■ Net exports and public consumption were the main drivers of GDP growth in 1Q24.

INFLATION



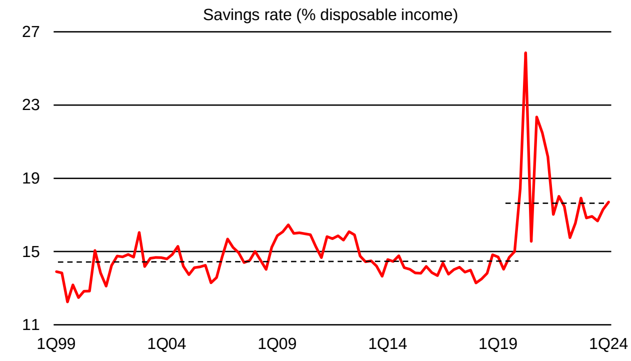
■ We expect consumer inflation to broadly stabilize in the coming quarters.

CREDIT



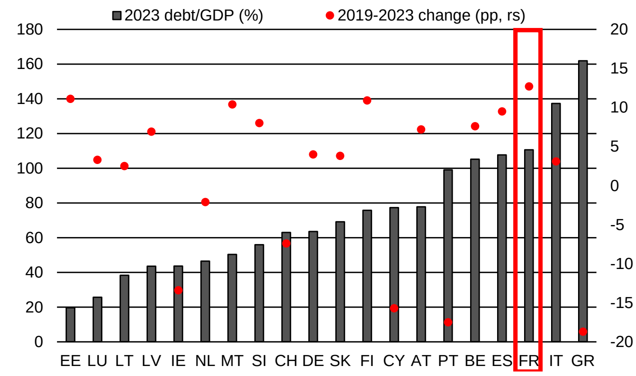
■ Non-financial corporations and households have significantly reduced demand for credit amid tighter financing conditions.

SAVINGS RATE



■ The savings rate remains well above its historical average.

PUBLIC DEBT



■ France has recorded the largest increase in public debt since 2019.

Source: Eurostat, INSEE, UniCredit Research

Italy

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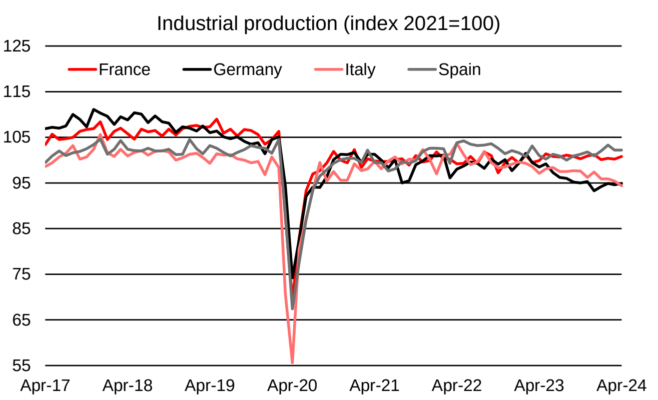
- We are slightly increasing our GDP growth forecast for this year to 0.8% from 0.6%, while we continue to see GDP growth accelerating to 1.1% in 2025. The upward revision is entirely explained by stronger-than-expected growth in the first quarter (+0.3% qoq), mainly supported by a recovery in services and consumer spending.

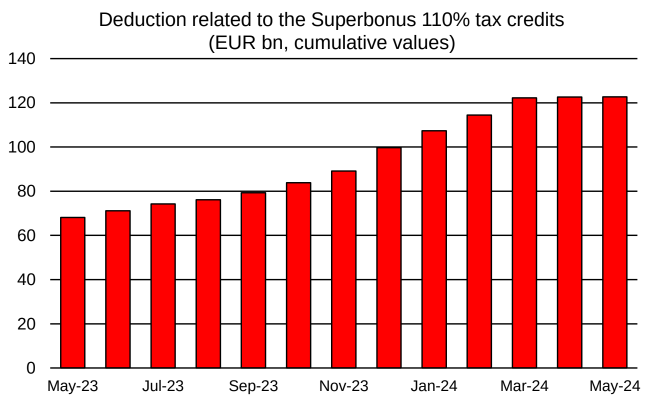
- Economic activity is expected to slow again in 2Q24, with the main growth engine likely remaining consumer demand and services activity amid improving purchasing power and a good performance of tourism and professional activities. Industrial production, excluding construction, is proving particularly weak. It contracted by 1.0% mom in April following a 1.4% qoq decline in 1Q24, with output in energy-intensive sectors still far from showing signs of recovery (-3.5% mom in April). Business confidence indicators point to weakness in new order books in the second quarter. In addition, while most likely having passed their peak, the improvement in financing costs for firms is proceeding slowly given uncertain market conditions, potentially impacting a recovery of profits. We continue to think that a gradual recovery in global trade will lift manufacturing prospects. Construction activity proved resilient in 1Q24 but has started to cool, as the positive impact from housing tax credits has begun to fade. The Istat confidence indicator for the construction sector has deteriorated further in 2Q24, hitting its lowest level since end-2022. Still, we do not expect an abrupt correction in this sector, as the ongoing implementation of the National Recovery and Resilience Plan will sustain infrastructure investment.

- In July, the European Commission (EC) will propose opening an excessive deficit procedure for Italy following a government deficit of 7.4% of GDP in 2023 and most likely of above 4% this year, and a high debt-to-GDP ratio. This will require Italy to adjust its structural primary balance by at least 0.5% of GDP per year in 2025-2027. The size of the adjustment will be fine-tuned based on discussions with the EC and the government will have to present, by 20 September, the new fiscal targets for its medium-term plan, together with an indication of investment and reforms conducive to an extension of the adjustment period from four to seven years. Setting new fiscal targets will be challenging as the room for maneuver will be constrained after the government committed to extending the reduction of the tax wedge for low-and-middle-income employees for another year, with this measure alone worth around 0.5% of GDP. For the 2024 budget forecast, the good news is the broad stabilization of the cost of the Superbonus 110% program following its strong monthly increase between October 2023 and March 2024 (of EUR +7bn, on average). Given this reduced risk and slightly better economic growth, we have fined-tuned our government budget deficit forecast for this year to 4.5% of GDP (from 4.8%).

WEAKNESS IN INDUSTRY CONTINUES



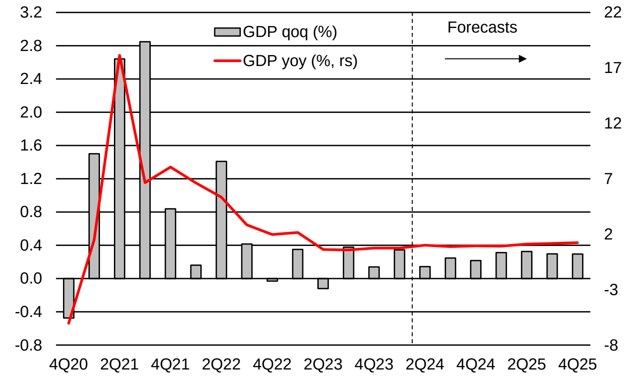
THE COST OF THE SUPERBONUS HAS BROADLY STABILIZED



Source: Eurostat, ENEA (Italian national energy agency), UniCredit Research

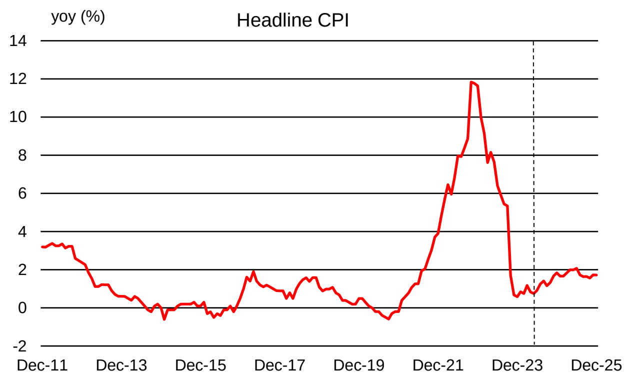
Italy

GROWTH



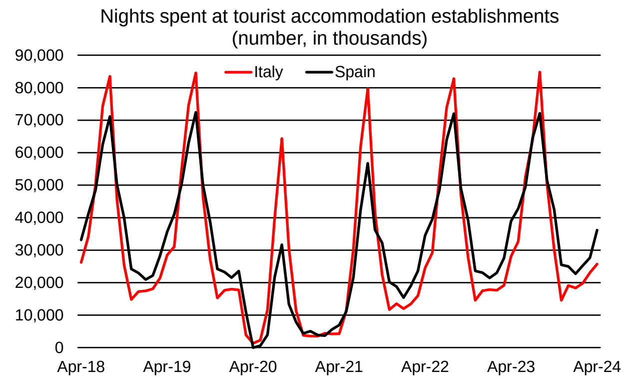
- After increasing to 0.3% qoq in the first quarter, GDP growth is likely to (temporarily) moderate to 0.1% qoq in 2Q24 before strengthening again in the next few quarters.

INFLATION



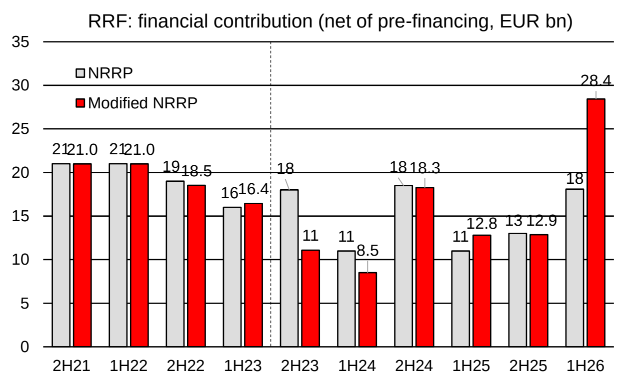
- We see headline inflation averaging 1.2% in 2024 (1.8% in 2025), as the strong fall in energy prices has accelerated disinflation, while core inflation is gradually normalizing.

TOURISM



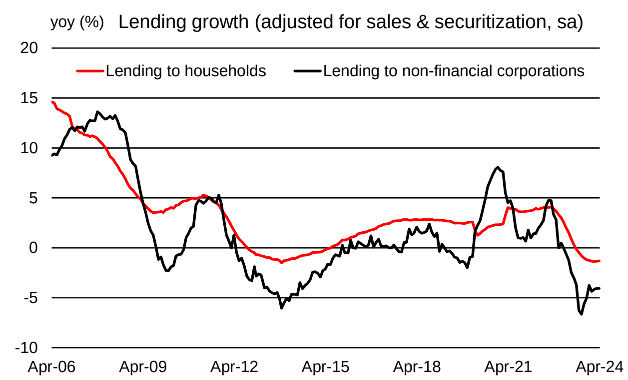
- In January-April, the number of nights spent on tourism accommodation was 5% higher than in the same period in 2023.

NATIONAL RECOVERY AND RESILIENCE PLAN



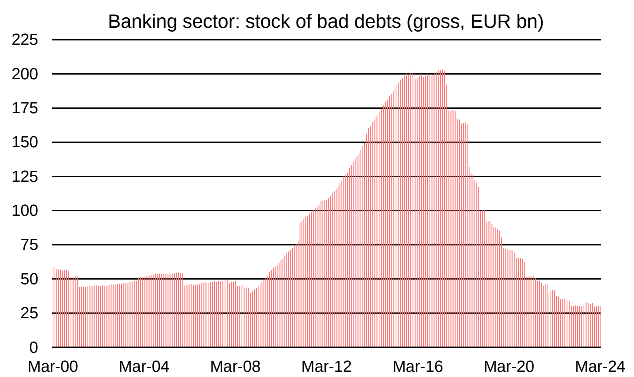
- Italy is waiting for a fifth payment, worth EUR 11bn, of which EUR 8bn in loans, while making progress to receive next installment.

LENDING VOLUME



- Credit dynamics remain particularly weak, with annual growth of loans to non-financial corporations stabilizing in negative territory.

BAD DEBTS



- In 1Q24, the picture of credit quality of the banking system remained largely unchanged compared to the prior-year period.

Source: Bank of Italy, EC, ECB, Eurostat, Istat, UniCredit Research

Spain

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- We are raising our GDP growth forecast for this year to 2.2% from 1.5% we had penciled in previously (after 2.5% in 2023). Our estimate for 2025 is unchanged at 1.5%. This change reflects a stronger carryover due to revisions to historical data, stronger-than-expected growth in the first quarter (0.8% qoq, after 0.7% qoq in 4Q23) and a slight upward revision to our forecast for 2Q GDP (to 0.4% qoq), anticipating a stronger boost from tourism than we originally penciled in.

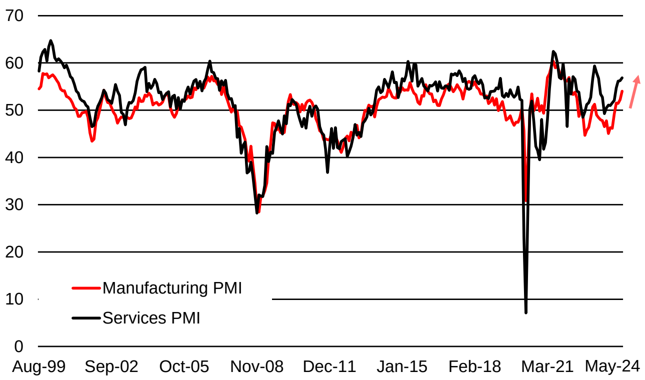
- GDP growth will probably continue to expand at a solid pace (0.4% qoq per quarter) also in 2H24. As the tailwind from tourism is set to weaken somewhat, economic growth is likely to increasingly benefit from lower inflation, an improvement in global trade and stronger deployment of NGEU funds. On the demand front, household consumption is likely to accelerate, supported by an increase in real disposable income in the wake of rising real wages and sound, albeit slowing, job creation.

- HICP inflation rose by 0.4pp to 3.8% in May, its highest reading in more than a year. The acceleration mainly reflects a strong increase in hotel and restaurant prices as well as electricity prices (following the unwinding of the reduction of the VAT rate applied to energy prices). We expect inflation to start easing again as soon as June, although its downward path is likely to be bumpy in the coming months. The phasing out of support measures is likely to exert upward pressure on inflation towards year-end. We see inflation closing 2024 around 3.5% and the yearly average settling at 3.3% (compared to 3.4% in 2023).

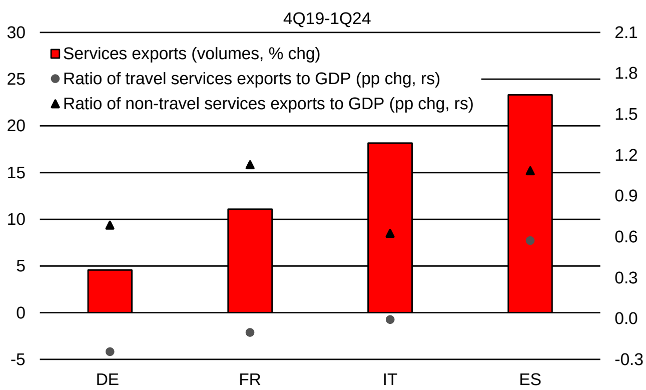
- The European Commission (EC) decided not to open an excessive deficit procedure against Spain, as it expects that the Spanish deficit will not exceed 3% of GDP in 2024. While this will not ease pressure on the Spanish government to adopt reforms aimed at boosting revenues, it will help sustain the positive drift in rating agencies' assessment.

- In the European Parliament election, the People's Party (PP) outperformed the Spanish Socialist Workers' Party (PSOE) by securing 34% of the vote and 22 seats (out of the 61 allocated to the country). Nonetheless, the PSOE managed to contain its losses by securing 21 seats. While these results do not challenge Prime Minister Pedro Sanchez's majority, the disappointing performance of junior coalition partner Sumar (which gained fewer seats than expected) may increase friction within the ruling left-leaning coalition and somewhat slow the legislative process.

PMIs HOLD UP AT HIGH LEVELS



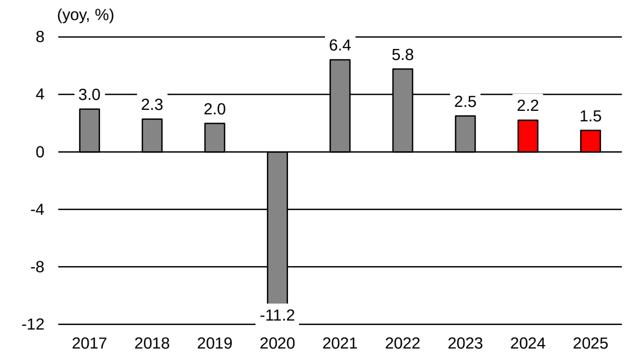
GROWTH IN SERVICE EXPORTS GOES BEYOND TOURISM



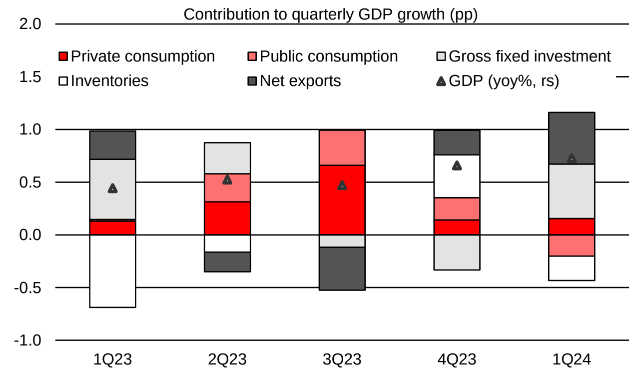
Source: S&P Global, Eurostat, UniCredit Research

Spain

GROWTH (I)

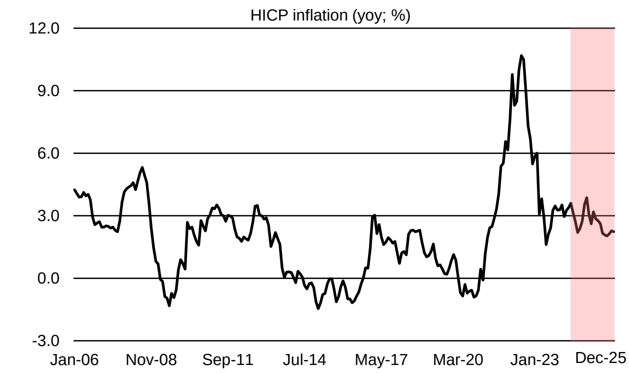


GROWTH (II)

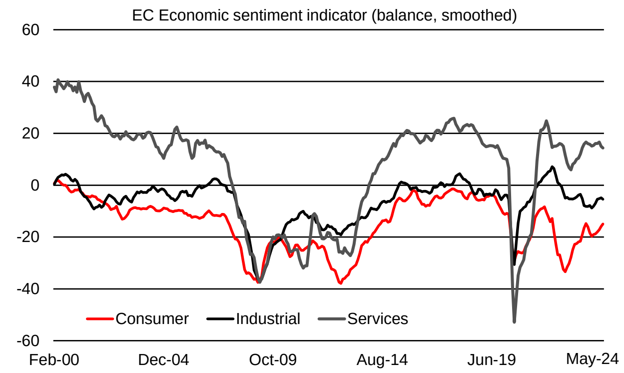


- We expect GDP to increase by 2.2% in 2024 and by 1.5% in 2025 (after it grew by 2.5% in 2023).
- Gross fixed investment rose strongly in 1Q24, contributing as much as net exports to GDP growth.

INFLATION

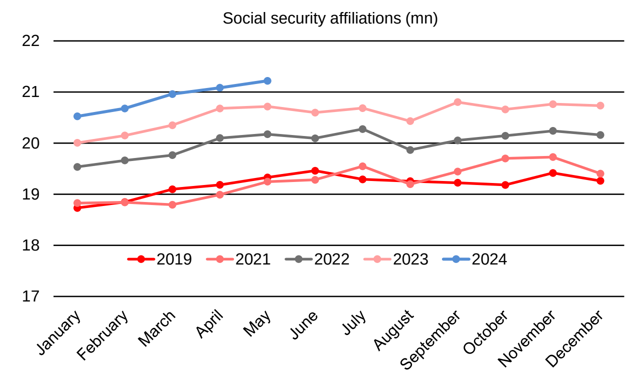


CONSUMER CONFIDENCE

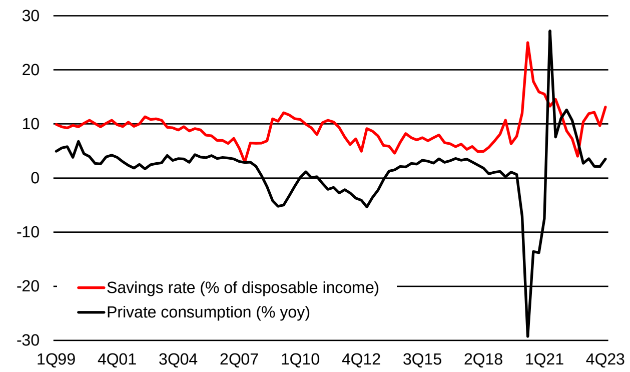


- The path for HICP inflation will be bumpy this year due to the phasing out of support measures and base effects on energy and food prices.
- Consumer confidence is almost back to its long-term average amid easing inflation and a resilient labor market.

LABOR MARKET



SAVINGS RATE



- Social-security affiliations continued to point to a resilient labor market up to May.
- The savings rate increased above its long-term average as households cut on spending.

Source: Eurostat, EC, INE, UniCredit Research

Austria

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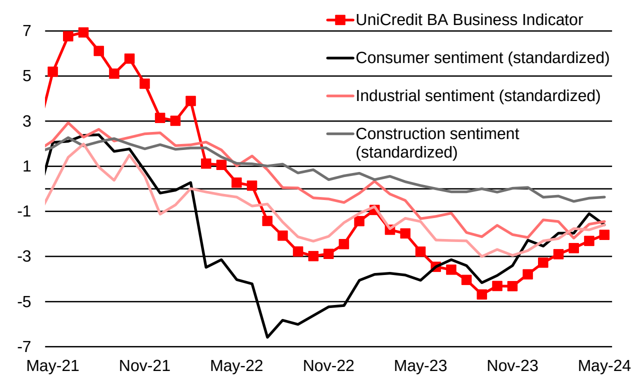
- We continue to expect GDP to rise by 0.3% in 2024 and by 1.5% in 2025. Ongoing improvement in sentiment suggests there could be a slight acceleration in the recovery in 2H24. The further revival of private consumption, which is benefiting from real-wage increases, should contribute to this. As a result, many service sectors are likely to become the driving force behind the recovery. In addition, a turnaround in monetary policy is improving the economic outlook. However, the current phase of interest-rate cuts is only likely to have a positive effect on a revival in investment from 2025 and should then have a favorable impact on domestic industry and on the construction sector in particular. This should put economic growth on more-stable footing in 2025.

- The seasonally adjusted unemployment rate rose to 6.9% in May; this is its highest level since December 2021. This slightly upward trend in unemployment is likely to continue over the coming months. Improved economic performance should begin to have a stabilizing effect towards the end of the year, however, driving a drop in unemployment in the year ahead. We expect the unemployment rate to average 6.8% in 2024 before falling to 6.6% in 2025.

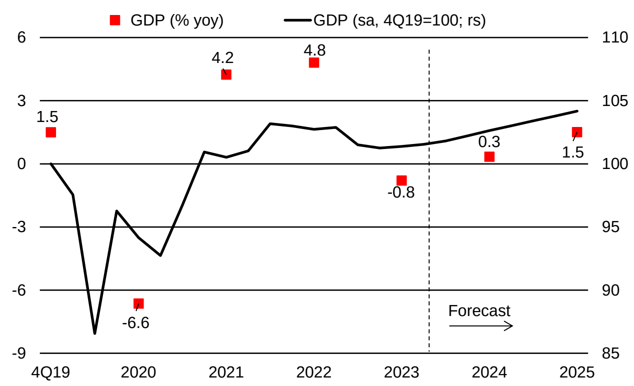
- Inflation fell to 3.4% yoy in May — this is its lowest level in two and a half years. Inflation is likely to fall further over the summer, as lower wholesale prices for gas and electricity are passed on to households, but the only-slowly-fading second-round effects in the services sector are likely to slow disinflation in the second half of the year. We continue to expect an annual average inflation rate of 3.6% in 2024 and of 2.3% in 2025.

- In the run-up to Parliamentary elections on 29 September, fiscal policy is once again attracting attention. Due to a higher interest burden and significant pension increases, expenditure in the current year has so far been significantly higher than planned, meaning that the official budget estimate is likely to be exceeded in 2024. We expect the budget deficit to approach the Maastricht limit of 3% of GDP, which is likely to lead to an increase in total public debt again after three years of decline.

SENTIMENT IS STEADILY IMPROVING



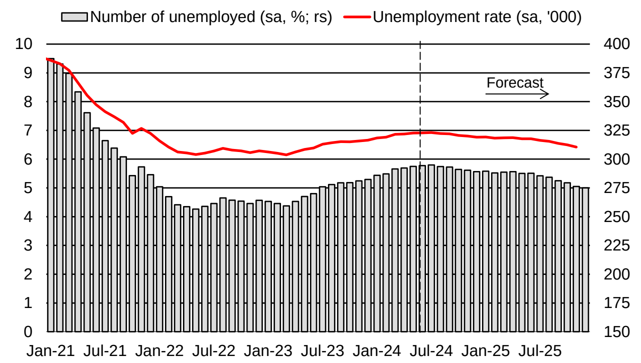
CURRENT RECOVERY IS LIKELY TO GAIN MOMENTUM



Source: EC, Statistik Austria, UniCredit Research

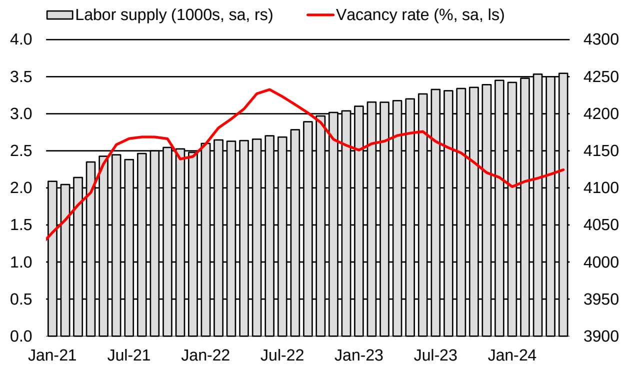
Austria

LABOR MARKET (I)



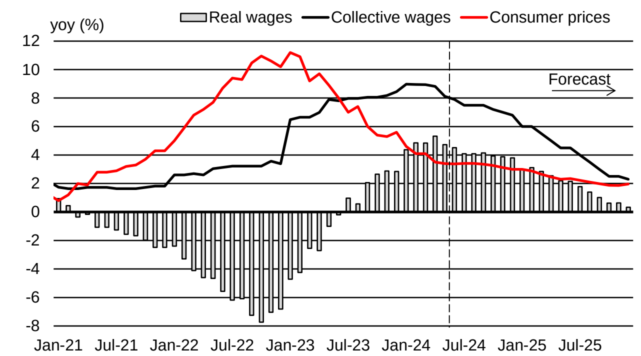
- The slightly upwards trend in the unemployment rate is not expected to be reversed until the end of 2024.

LABOR MARKET (II)



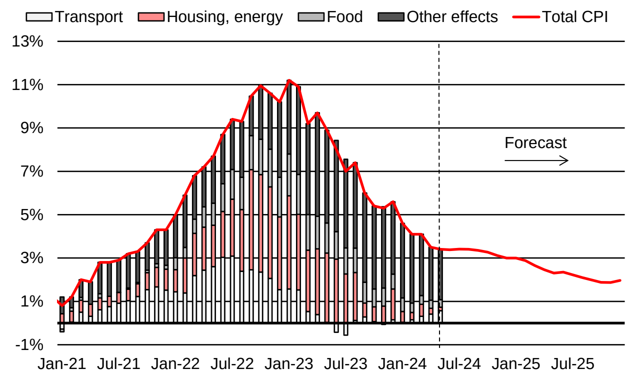
- There is still a shortage of labor in many sectors. More than 90,000 vacant positions were registered in May.

REAL WAGES



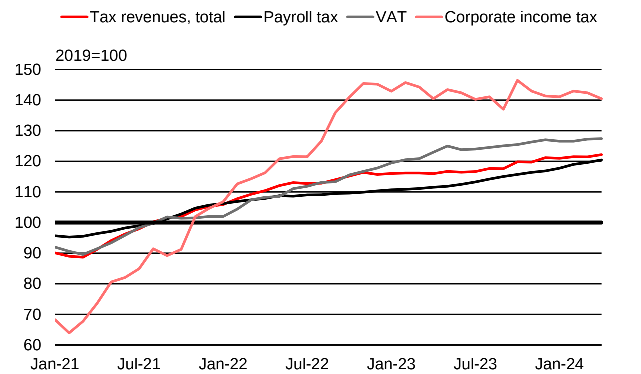
- Real wage growth will boost consumer purchasing power in the coming months.

INFLATION



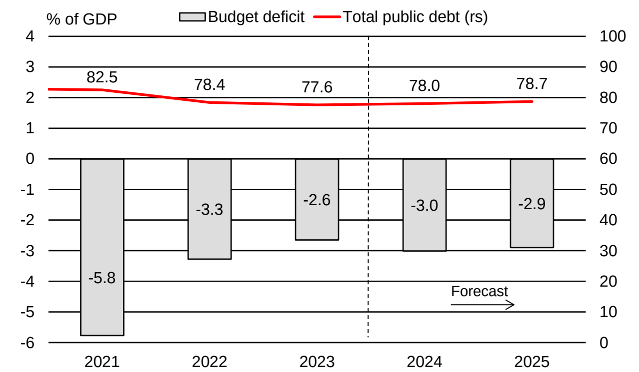
- Inflation fell sharply to 3.4% yoy in May, but disinflation is likely to slow in the coming months.

BUDGET REVENUES



- Due to a weak economy, tax revenues have barely increased in 2024 to date.

BUDGET BALANCE AND PUBLIC DEBT



- The budget deficit will increase slightly in 2024 due to high spending momentum, while the decline in debt is set to stop.

Source: Statistik Austria, Federal Ministry of Finance, UniCredit Research

Greece

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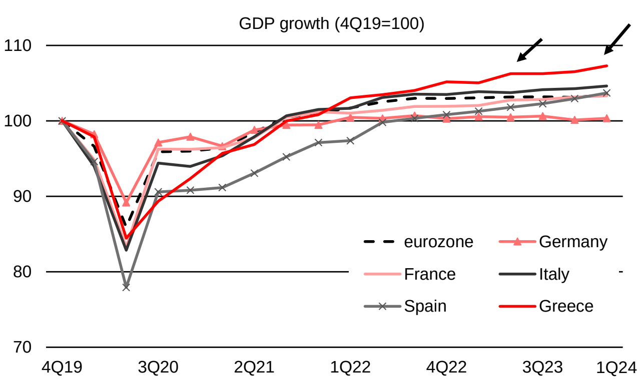
- We are revising up our 2024 GDP forecast from 1.3% to 1.9% in 2024 (after 2.0% in 2023), while we keep our forecast unchanged at 1.7% in 2025. GDP surprised to the upside in the first quarter, expanding by 0.7% qoq after rising by 0.3% qoq in 4Q23. The acceleration in growth was driven by a strong accumulation of inventories and a firm rebound in gross fixed investments, especially of machinery and equipment, following four consecutive quarters of contraction. The latter is encouraging as it signals that the impulse from NGEU funds and FDI inflows is cushioning the impact of tighter financing conditions and of a deterioration in corporate profitability. We expect this to continue to provide tailwind for growth in the coming quarters. Meanwhile, private consumption is set to expand solidly, similar to 2023, thanks to robust real disposable income growth as inflation eases, wage growth stays robust and the labor market, albeit slowing, remains fairly strong. Healthy growth in domestic demand should thus largely offset a negative contribution from net exports as weak global demand continues to weigh on goods exports while import growth remains resilient.

- The manufacturing PMI survey, which remains the most reliable gauge of GDP growth, indicates that economic activity continues to hold at high levels, although momentum may have slightly weakened compared to 1Q, as diminished demand for Greek goods has started feeding into lower production levels. In contrast, according to the EC survey, services growth, probably driven by tourism-related activities, has continued to perform well.

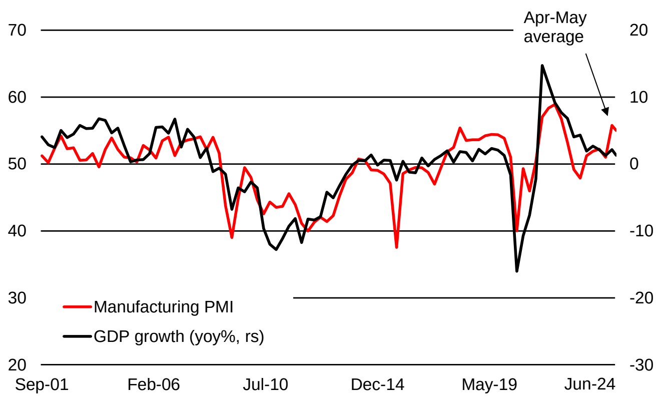
- HICP inflation eased to 2.4% yoy (from 3.2%) in May owing to a significant decline in food price inflation, which recorded its slowest pace of growth (3.1% yoy) since October 2021. Inflation is likely to move along a downward path until year-end, driven by normalizing energy and food prices, while core inflation is projected to decline more gradually due to persistent services price inflation, which partly reflects past wage increases.

- Prime Minister Kyriakos Mitsotakis reshuffled the cabinet following the disappointing result of his center-right New Democracy (ND) party in the European Parliament (EP) election. ND came in first but lost 5pp of the vote (winning 28%), while far-right parties secured about 20% of the vote, indicating a significant shift in part of the electorate towards the far-right of the political spectrum. The cabinet's main changes reflect the Greek people's discontent with cost-of-living and labor policies leading up to the EP election and point to a likely tightening of migration policy.

STRONG RECOVERY IN GDP SINCE THE PANDEMIC CRISIS



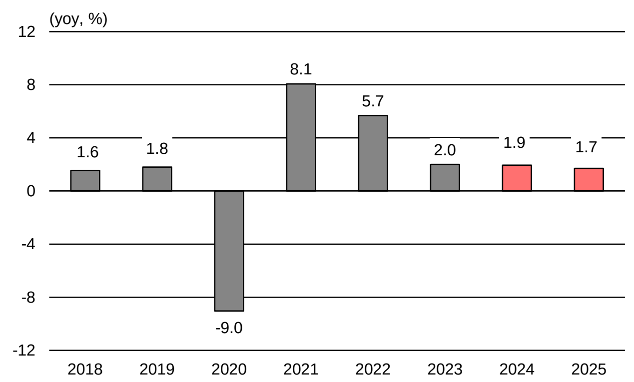
MANUFACTURING PMI HOLDS UP AT HIGH LEVELS



Source: Eurostat, S&P Global, UniCredit Research

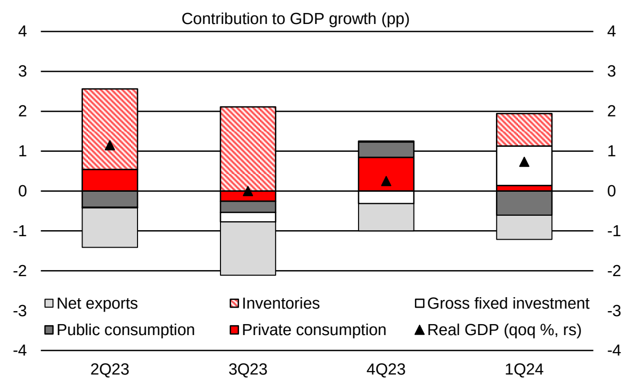
Greece

GROWTH (I)



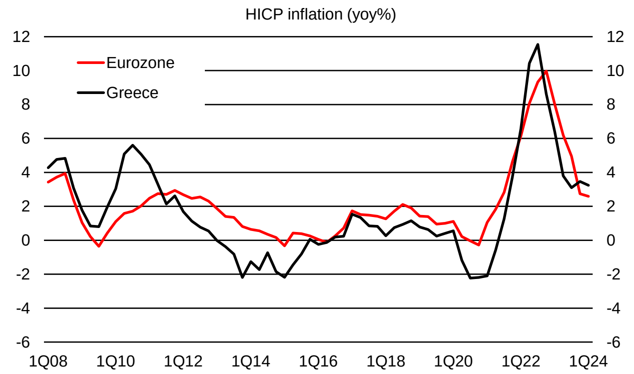
- We expect GDP to increase by 1.9% in 2024 and 1.7% in 2025 (after 2.0% in 2023).

GROWTH (II)



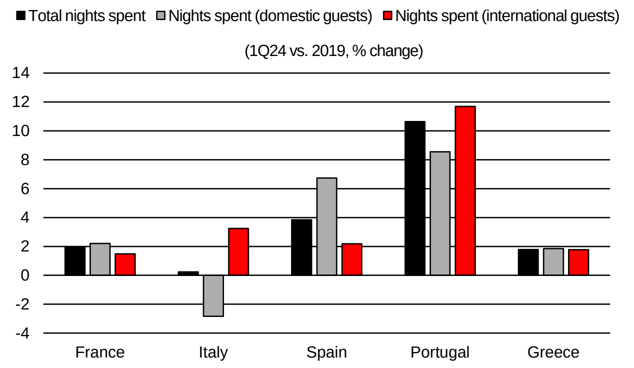
- A strong rebound in investment and the accumulation of inventories explains the significant acceleration in 1Q24 GDP growth.

INFLATION



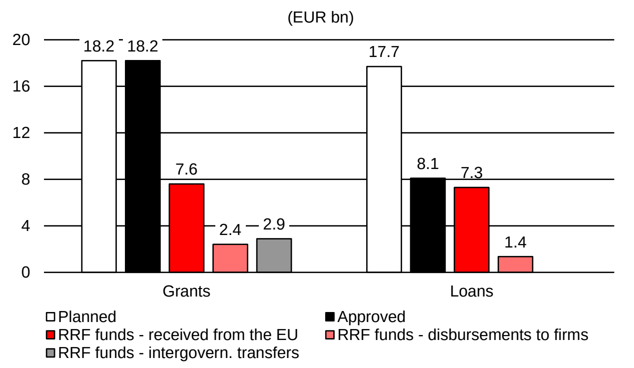
- Greece's HICP inflation has moved in tandem with the eurozone, although food inflation remains significantly higher in Greece.

TOURISM



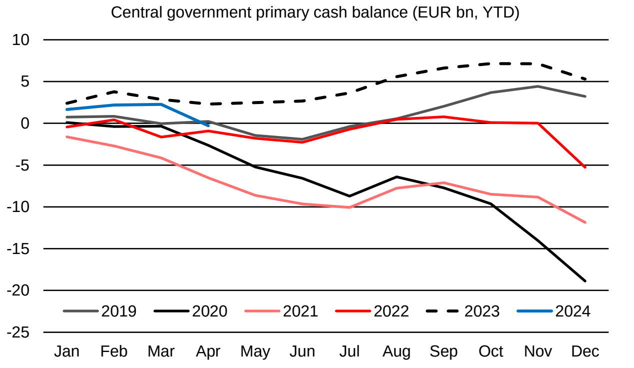
- Tourism has exceeded the strong levels recorded before the outbreak of the coronavirus pandemic.

RRF FUNDS



- Greece has received EUR 14.9bn from the RRF so far, while outstanding loan requests amount to an additional EUR 3.3bn.

CENTRAL GOVERNMENT DEFICIT



- Budgetary performance remains sound.

Source: Bank of Greece, Elstat, Eurostat, UniCredit Research

Portugal

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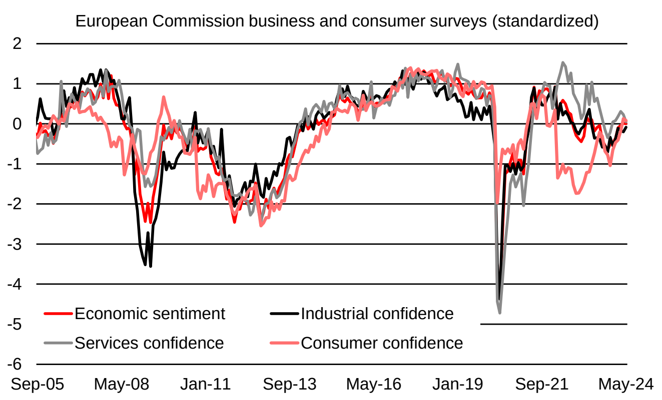
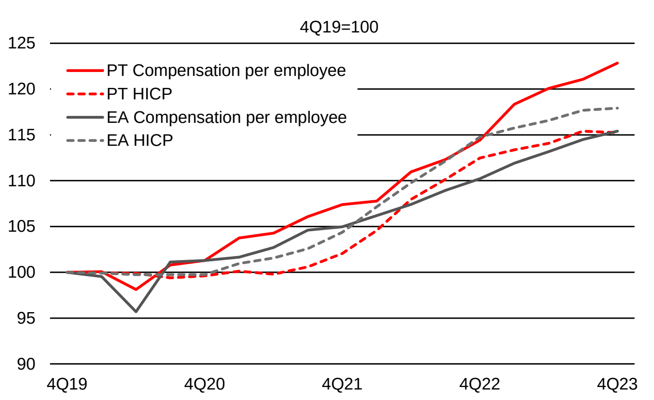
- We are increasing our forecast for GDP growth to 1.8% (from 1.2%) in 2024 while we leave it unchanged at 1.4% in 2025 (compared to 2.3% in 2023). This revision follows a surprisingly strong GDP outcome in 1Q24 (0.8% qoq after 0.7% qoq in 4Q23) driven by resilient private consumption and solid export growth, which far outpaced the contraction in imports. While GDP growth is likely to slow significantly in 2Q as a result of a weaker contribution from net exports, we expect it to resume expanding at a healthy pace (0.4% qoq) in 2H24. Business sentiment has been steadily improving across sectors since the end of 2023 and returned to its long-term average in May, according to the European Commission's survey. Starting from the second half of the year, a moderate pickup in external demand for manufactured goods and the impact of easing inflation are likely to provide tailwind to economic activity. These factors should mitigate the impact on GDP growth associated with a slowdown in public expenditure and a normalization of tourism inflows.
- We expect domestic demand to remain the main growth engine, driven by resilience in private consumption and a recovery in business investment. The latter is likely to benefit from a gradual improvement in global demand and the continuous inflows of European funds aimed at aligning production with the digital and green transition requirements. Momentum in the residential construction sector is likely to remain weak until year-end as tight financing conditions weigh on demand.
- Consumer inflation rose by 0.9pp to 3.1% yoy in May due to large base effects on unprocessed food and energy prices. However, the downward trend remains intact: we expect inflation to slow to 2.3% in 2024 and to 1.6% in 2025 (from 4.3% in 2023). The slowdown in core inflation will probably be less pronounced, reflecting the upward pressure exerted by robust wage and employment growth on services inflation.
- Parliamentary negotiations for a further individual income tax reduction and a package of measures aimed at "preventing young Portuguese people from emigrating", which were part of the center-right Democratic Alliance's (AD) electoral program, have already tested the new minority government's room for maneuver. The first major test for the government will likely be the vote on next year's budget, with discussions starting in October. Although Socialist Party leader Pedro Nuno Santos reaffirmed that it's "practically impossible" for him to vote in favor, we think his party has an interest in cooperating with the government to avoid early general elections that could strengthen the popularity of the far-right CHEGA party, a rising political formation which cemented its place as the third-largest parliamentary force in the general elections held on March.

SURVEYS HAVE RETURNED TO THE LONG-TERM AVERAGE



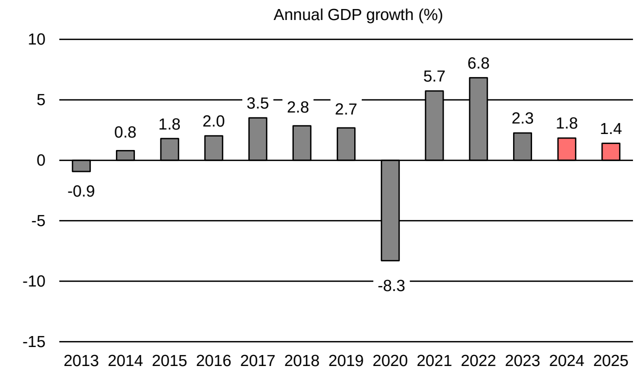
ROBUST WAGE GROWTH SUPPORTS HOUSEHOLD CONSUMPTION



Source: EC, Eurostat, UniCredit Research

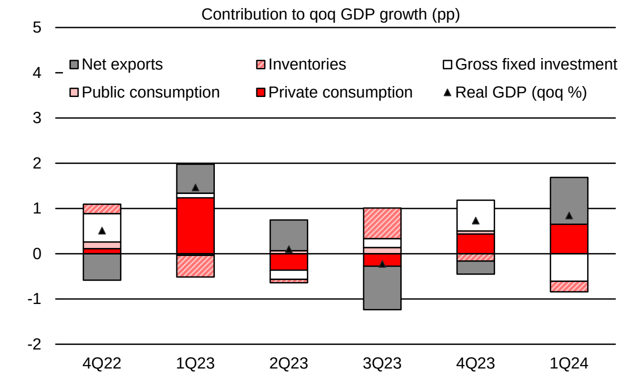
Portugal

GROWTH (I)



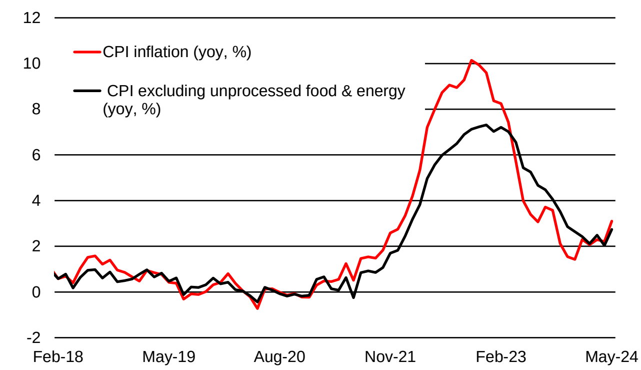
■ We expect GDP to increase by 1.8% in 2024 and by 1.4% in 2025.

GROWTH (II)



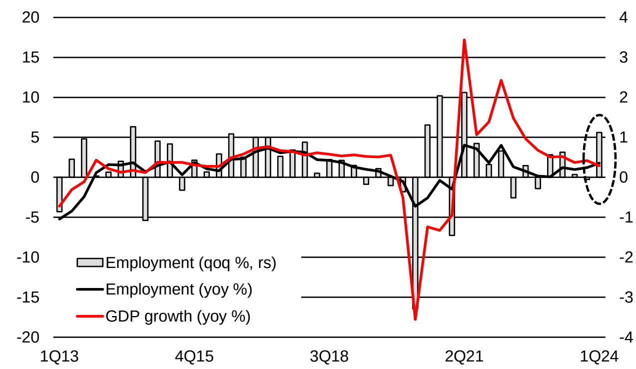
■ Private consumption and net exports were the main drivers of GDP growth in 1Q24.

INFLATION



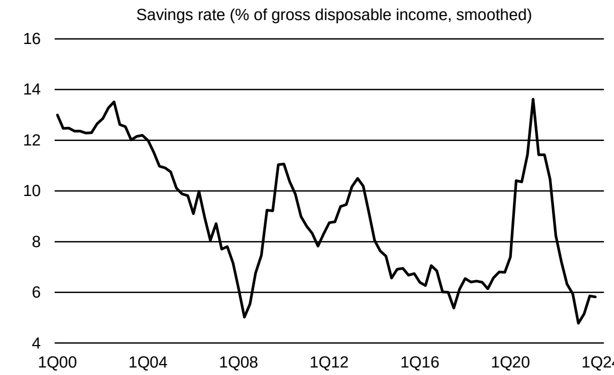
■ Base effects on energy and food inflation lifted inflation above 3% in May but the downtrend is expected to remain in place.

EMPLOYMENT



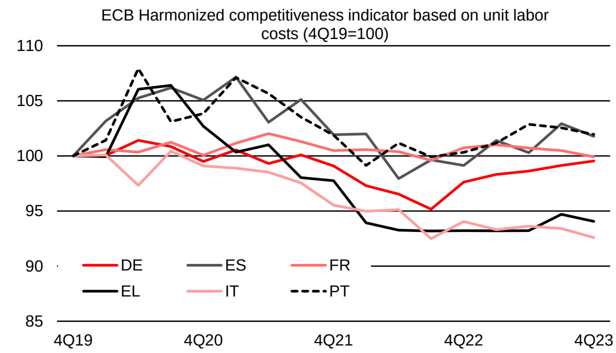
■ Employment firmly accelerated at the beginning of the year, driven by the services sector.

SAVINGS RATE



■ The savings rate remains at a historically low level.

COMPETITIVENESS



■ Strong wage growth has resulted in some losses of competitiveness since the pandemic crisis.

Source: Eurostat, ECB, INE, UniCredit Research

Poland

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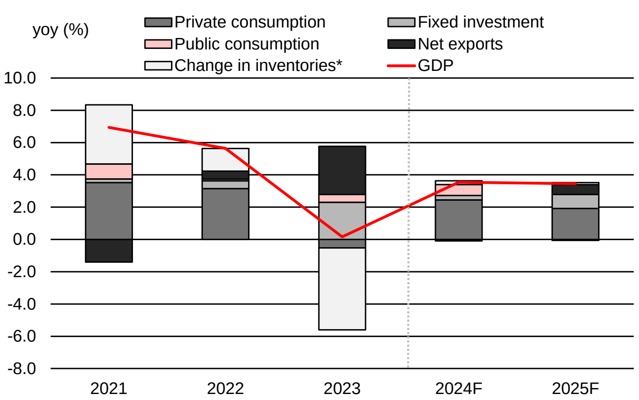
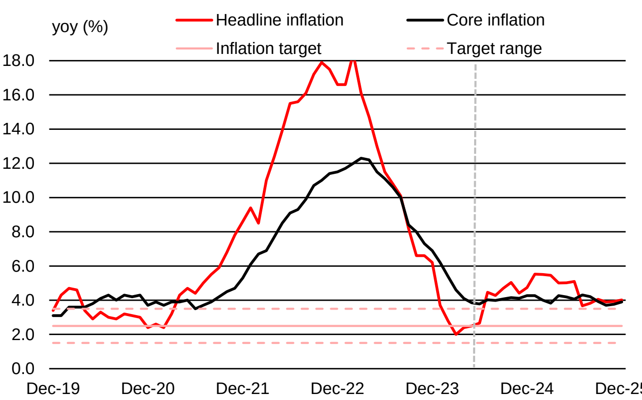
- We forecast that GDP will grow by 3.5% this year. Private consumption is recovering, with higher wages and resilient employment, and sentiment indices have shown that consumer optimism is improving. Public investment could recover in 2H24 and 2025 as EU transfers from the 2021-27 budget finally pick up. However, the Recovery and Resilience Fund transfers might be postponed to 2025 as necessary reforms are likely to be stifled by President Andrzej Duda and the Constitutional Tribunal. Poland's real-estate market might recover faster than its regional counterparts, led by the industrial and logistics sectors, with housing construction likely to pick up as well. Higher contributions from investment and net exports could compensate for the slower growth in consumption next year, serving to keep GDP growth at 3.5%.
- As we expected, reform momentum has stalled because many of the government's more-important laws have been vetoed by Mr. Duda or challenged in the Constitutional Tribunal. A probe against NBP Governor Adam Glapiński has sharply reduced the probability of rates being lowered this year. The government could continue to rely on loose fiscal policy ahead of next year's presidential election. The European Commission (EC) will propose launching an excessive deficit procedure against Poland and the government will likely cut fiscal spending to comply with the adjustment requirements by the EC. That said, real effort to lower the deficit could be postponed to beyond the presidential elections, and consequently, scope for spending cuts could be limited. We forecast the budget deficit will be cut to 4.5% of GDP in 2025, after widening to 5.3% of GDP in 2024.
- We forecast annual inflation will end this year at 4.7% and ease to 4.0% in 2025. We expect inflation to rise sharply in July as the government lifts price caps on retail energy prices. Implied changes to electricity, natural-gas and heating prices could add up to 2pp to headline inflation, although the government will attempt to delay part of the impact to next year via a temporary exemption on power-capacity fees. Core inflation could rise gradually in 2H24 as domestic demand continues to recover.
- We expect the central bank to leave its policy rate at 5.75% this year before reducing it to 5% in 2025. In his latest communication, Mr. Glapiński projected that monetary easing could begin in mid-2025. We think that constructive appetite and favorable seasonality will support the PLN over the summer. With the market pricing in only two rate cuts in the next 12 months, this support could weaken if NBP guidance shifts more towards cuts in 2025.

WE EXPECT GDP GROWTH TO INCREASE TO 3.5% IN 2024



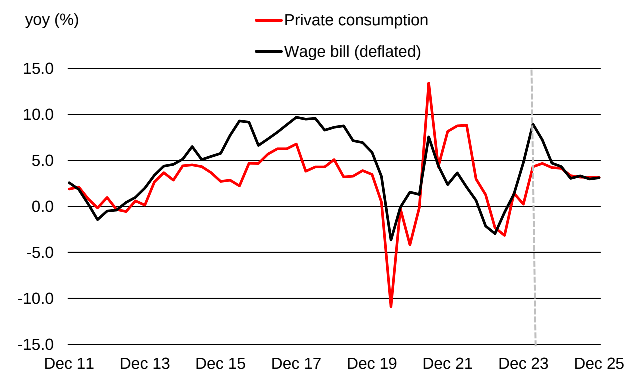
INFLATION WILL RISE IN 2H24



Source: Statistics Poland, NBP, UniCredit Research

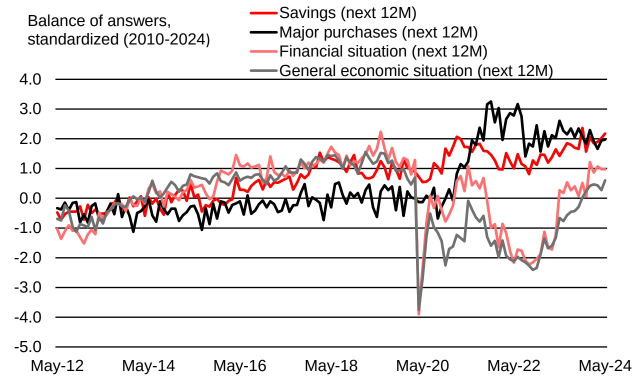
Poland

PRIVATE CONSUMPTION AND WAGE BILL



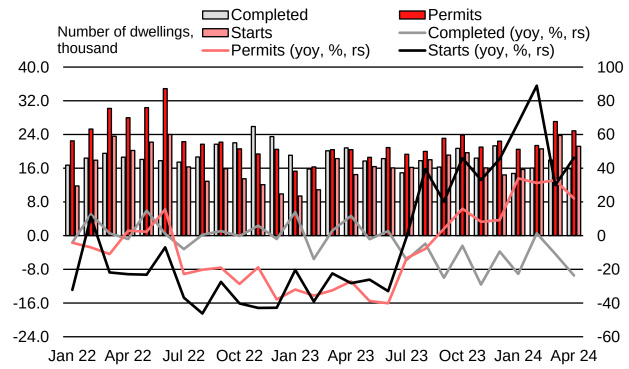
- Private consumption is recovering, with higher wages and resilient employment.

CONSUMER SENTIMENT



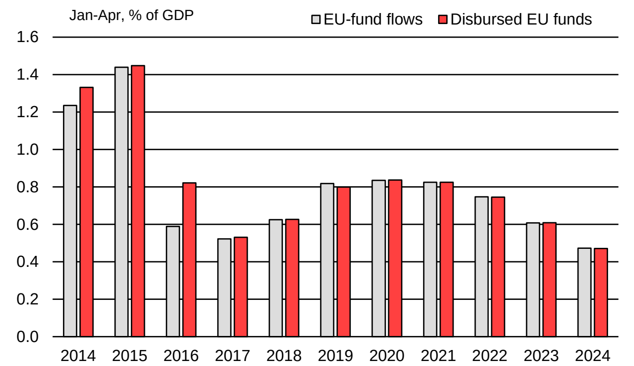
- Consumer optimism is improving, as shown by the forward-looking components of sentiment indices.

CONSTRUCTION



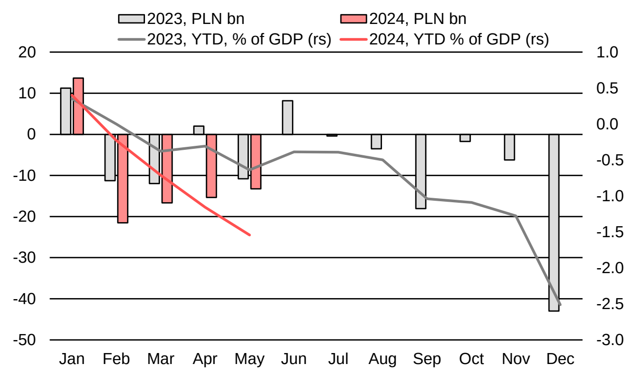
- Building permits and starts are growing faster than completions.

EU FUND FLOWS



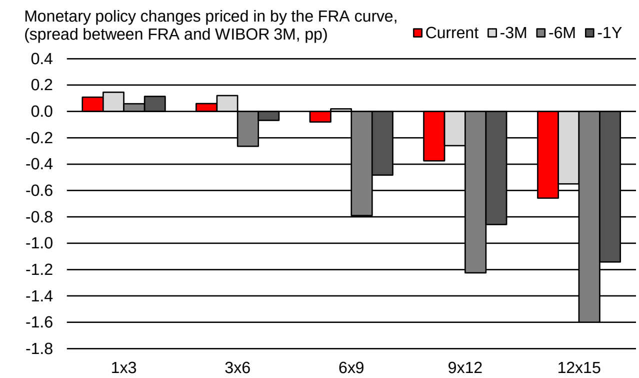
- Fund flows from the new EU budget have been slow so far this year.

BUDGET BALANCE



- The state budget deficit is more than double what it was in the same period last year, primarily due to higher transfers to households.

MARKET EXPECTATIONS REGARDING POLICY RATE



- The market is pricing in only two rate cuts in the next 12 months.

Source: Eurostat, Statistics Poland, NBP, Polish Ministry of Finance, Bloomberg, Macrobond, UniCredit Research

Czechia

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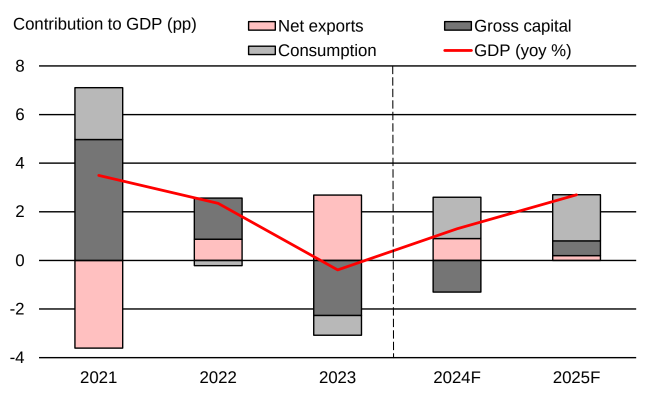
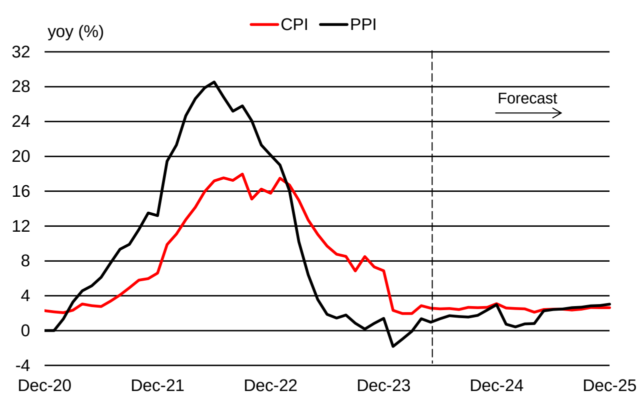
- In 1Q24, GDP expanded by 0.3% qoq, maintaining the pace of yoy growth unchanged at 0.2%. Private consumption accelerated further to 1.0% qoq, bringing the yoy momentum to a positive 2.1%. Government consumption reported a rise of 3.5% yoy. Fixed-capital formation, by contrast, posted the first yoy contraction (-2.7%) since 1Q21, with all types of investment but transport equipment losing yoy momentum. Inventories continued to be a drag on GDP, subtracting 3.4pp from yoy growth. Net exports added 2.7pp to GDP growth, with real exports accelerating to 2.5% while imports shrank by 1.1% yoy.
- The economic recovery seems to be continuing, as most calendar-adjusted real-activity data for April showed improving yoy dynamics compared to 1Q24. Industrial output eased its decline to -0.4% from the -0.9% seen in 1Q24. Construction output improved to -0.3% in April from 1Q24's -4.3%. Sales in services grew by 2.4% yoy (1.0% in 1Q24). Retail sales (ex-autos) expanded by 5.3% yoy (3.9% in 1Q24). The sales expansion may have continued at a similar pace in May (indicated by card transactions). The manufacturing PMI hit 46.1 in May, a level that still points to a contraction in activity but a more moderate one than in 2023. The recovery momentum in adjusted terms may be somewhat underrated by an unusually large yoy change in the number of working days in April. We predict 2Q24 GDP growth at 0.7% qoq as well as yoy.
- Private consumption in the rest of 2024 will continue to be mitigated by the same factors as in 1Q24: tax adjustments, wage increases probably disproportionately favoring higher earners with a lower propensity to spend, and more expensive servicing of household debt. Real wages will have limited space to accelerate from the 4.8% yoy figure for the first quarter and are expected to grow by 4.6% in 2024. In 2025, consumption growth may speed up to exceed 3%. A boost in investment activity would require companies' financial results to improve. Government infrastructure projects may gradually gather momentum, but this will not be a game changer, and neither will private-housing construction. In total, we think fixed-capital formation is set to dip in 2024 and resume growth in 2025. With 46% of Czechia's GDP being dedicated to meeting external demand, sustainable economic growth is unlikely to be achieved without an upturn in demand in key export markets. We remain cautious in projecting faster real-export growth before 2025. We have reduced our 2024 GDP-growth forecast to 1.3% from 1.5%, shifting it upwards by the same amount in 2025 (to 2.7%).
- We see the pace of ČNB cuts being reduced to 25bp per policy meeting, which is in line with the central bank's own assumptions until mid-2025. Where we differ is for 2H25, as we assume the repo will reach 3.5% in mid-2025 (the terminal rate for the current cycle), while the ČNB expects policy easing to continue in 2H25. Our more-cautious outlook is consistent with our stickier inflation forecast (2-3% band for most of 2024-25, with possible overshooting).

GDP SET TO REVIVE IN 2024 AND 2025



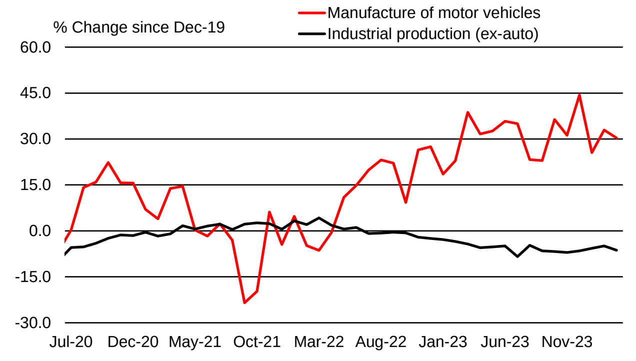
CPI SEEN IN 2-3% BAND IN 2024 AND 2025



Source: Czech Statistical Office, UniCredit Research

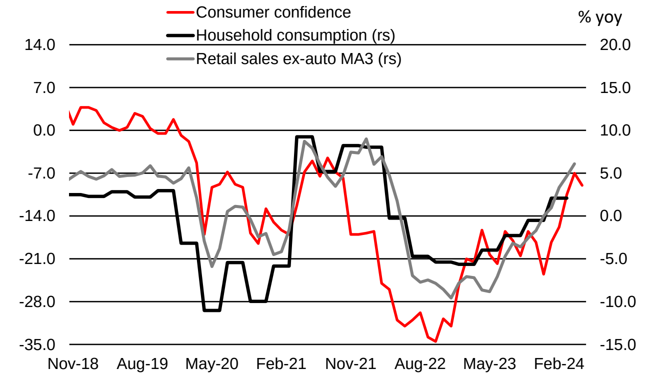
Czechia

INDUSTRIAL OUTPUT



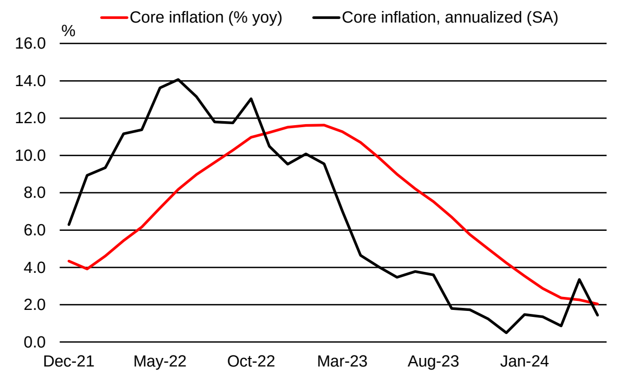
- The automobiles segment is preventing overall industrial output from contracting sharply. Excluding it would leave overall production 7% below its pre-COVID level.

CONSUMER CONFIDENCE AND HOUSEHOLD CONSUMPTION



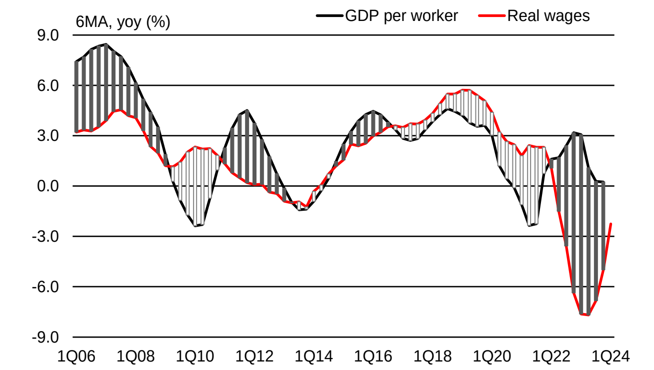
- Recent gains in private consumption look consistent with consumer confidence and retail sales. There seems to be room for an additional moderate acceleration in private spending.

INFLATION



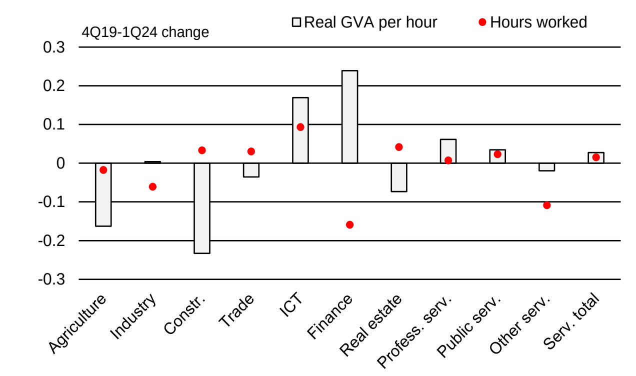
- The annualized mom core CPI exceeded the yoy core CPI in April before retreating to 1.4% in May. Recent figures suggest that annualized CPI has already bottomed out for this economic cycle.

PRODUCTIVITY AND REAL WAGES



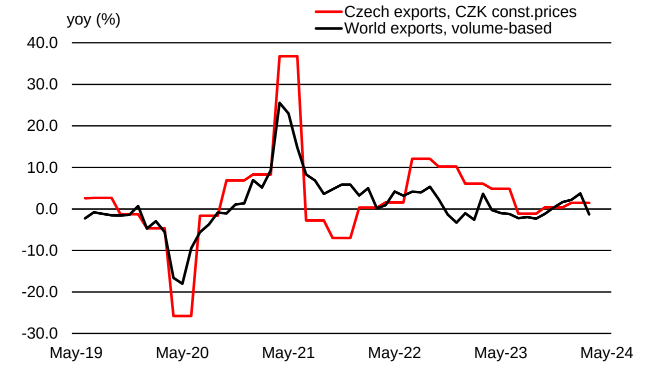
- Following the sharp adjustment of last two years, real wages have realigned with productivity. This removes one obstacle to a future rise in real wages, although productivity gains remain a key condition.

PRODUCTIVITY



- As regards the change in productivity between the pre-COVID 4Q19 and 1Q24, Czechia ranked seventh worst among EU countries, with a decrease of 0.2%. Construction, trade and real estate are mainly to blame.

EXPORTS



- Czech export volumes follow the long-term trends of global trade. The recent drop in world exports may impede Czech performance.

Source: Czech Statistical Office, Eurostat, Macrobond, UniCredit Research

Hungary

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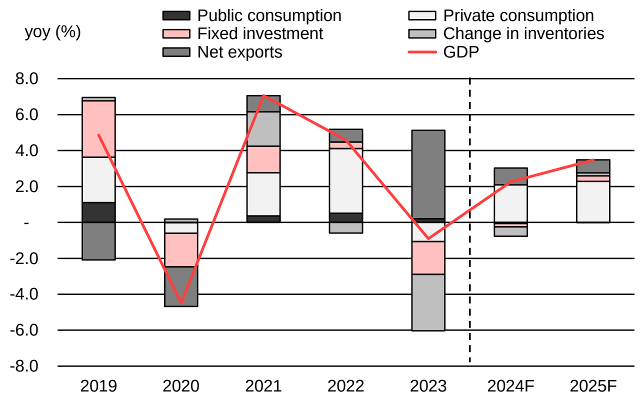
- Hungarian GDP growth is currently slightly above our expectations from March, driven by household consumption, while investment continues to disappoint amid highly uncertain demand and budget cuts worth HUF 0.7bn. There is some light at the end of the tunnel as households are inquiring about housing loans again, nevertheless this is mostly a correction from a very low base. For next year, we acknowledge upside risks to our current GDP forecast of 3.5% yoy amid possible surprises in net exports and investments.

- Commodity prices are currently posing headwinds to prices; however, we remain cautious about services amid high real wage growth and other pipeline price pressures stemming from transportation costs, taxes and price hikes by large service providers. We expect average inflation to accelerate in 2025 amid base effects from non-core elements, real wage growth exceeding the regional average, a positive fiscal impulse, lower rates and a weaker HUF.

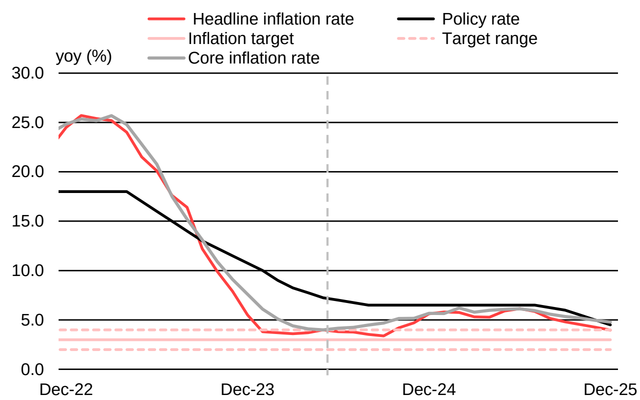
- Given the reduced carry, the NBH is more exposed to investor sentiment. Towards the end of the year, the election of a new NBH governor to succeed György Matolcsy in March 2025 might start to impact markets. Márton Nagy, Minister for National Economy, hinted at raising the CPI target from the 3% currently in force. If the NBH decides to modify its main target, inflation expectations could de-anchor and might result in higher interest rates than in the rest of the region in the medium-to-long term. Until March, we expect the NBH to remain cautious and we still see the policy rate at 6.50% in 2024 and at 4.50% in 2025, with the latter level probably being the terminal rate in this cycle.

- While Fidesz won both EP and local elections by a large margin, the center-right Tisza, a party formed just two months ago, emerged as the second-largest party in the country. The muted economic performance of the country probably left some unengaged government voters at home, something Fidesz would like to avoid in 2026. This requires a fiscal impulse, at least for 2025. For next year, we expect a deficit of 5.1% of GDP, which would imply a fiscal impulse of around 0.6% of GDP. A point of attention regarding debt-stock accumulation relates to quasi-fiscals, as the aggregate long-term liabilities of the Hungarian Development Bank (MFB) and the Hungarian Electricity Works (MVM) reached 4% of GDP in 2023 compared to 0.4% of GDP in 2018. These institutions are not (yet) consolidated into government debt (unlike EXIM).

2024 GROWTH DRIVEN BY PRIVATE CONSUMPTION AND IMPORT DEMAND DESTRUCTION



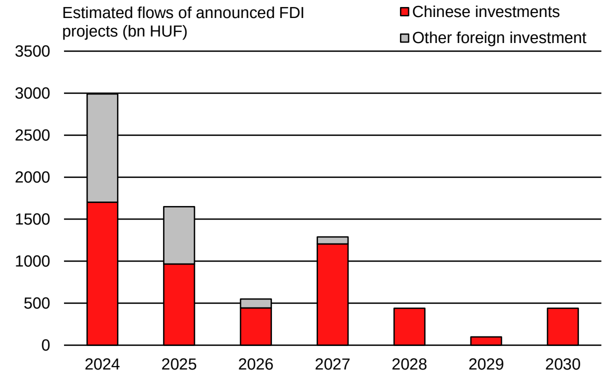
DOWNWARD-REVISED INFLATION FOR THIS YEAR AMID NON-CORE ITEMS; INFLATION TO ACCELERATE AGAIN IN 2025



Source: Hungarian Central Statistical Office (HCSO), NBH, UniCredit Research

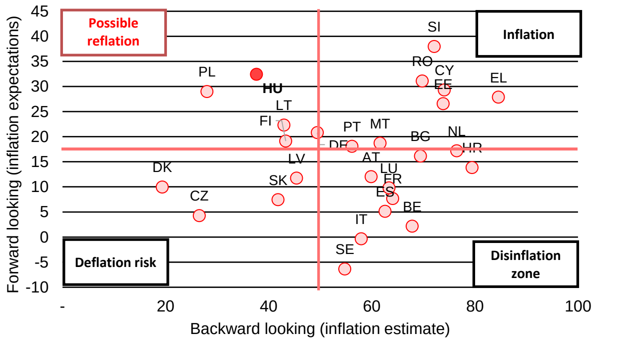
Hungary

FDI: PUBLICLY ANNOUNCED PROJECTS



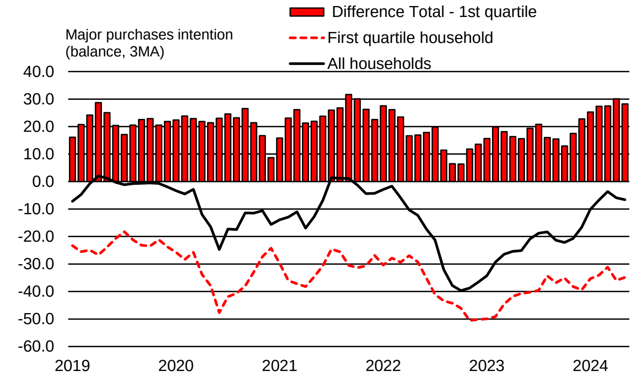
- With the sizeable absence of EU funds allocated to Hungary, economic policy increasingly relies on Chinese FDI.

INFLATION EXPECTATIONS IN RELATION TO SENTIMENT



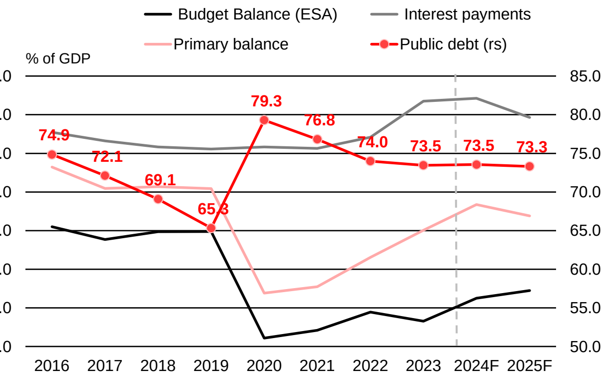
- Unanchored inflation expectations reflect the uncertainties regarding fiscal policy.

HOUSEHOLD SENTIMENT



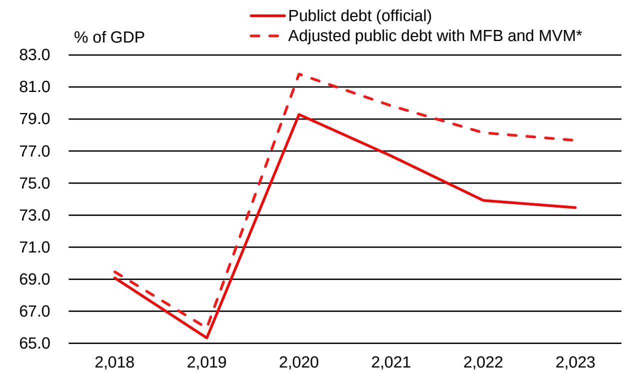
- Recovery of lower-income households is taking longer than expected.

GOVERNMENT FINANCES (I)



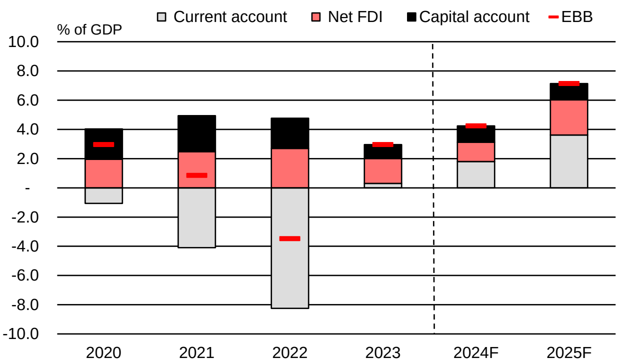
- Adjustment in the primary balance to come to a halt in 2025, debt ratio closely managed.

GOVERNMENT FINANCES (II)



- Quasi-fiscal liabilities – currently not accounted for in the official debt figures – lower public debt.

MACRO-FINANCE: EXTENDED BASIC BALANCE (EBB)



- Positive EBB expected to increase further, airport deal to result in an impact on net FDI for 2024.

Source: HCSO, NBH, Hungarian Debt Management Agency (AKK), HIPA, European Commission, UniCredit Research

Russia

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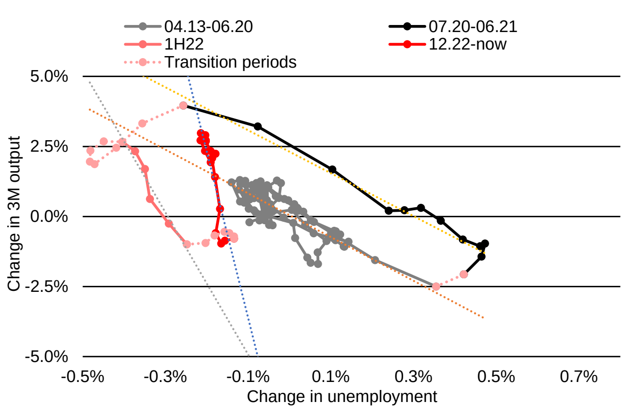
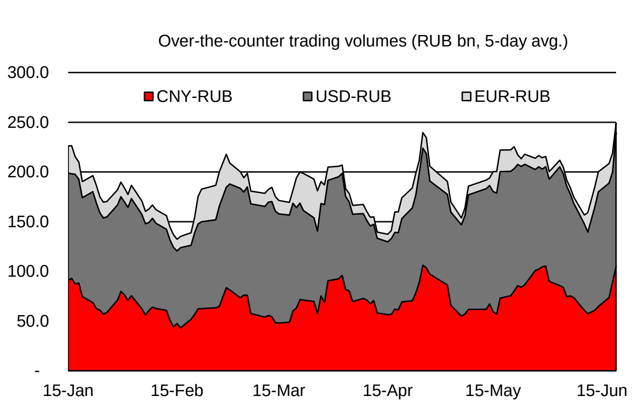
- The Russian economy continues to perform better than expected. This performance is based on high utilization of both labor and capital. Wage growth accelerated to 11% yoy in real terms in 1Q24, while unemployment is low (at 2.6% in April). Therefore, we have revised our GDP-growth expectations for 2024 to 3.0% (+0.2pp), but demographic factors do not allow for further improvement of output growth via the expansion of the labor force. Thus, economic growth is likely to decelerate in 2025 to 1.6% yoy, closer to its potential.
- The side effect of this good performance is persistent inflation pressure, which has forced the CBR to keep its policy rate high. The CBR even indicated that it would be ready for a hike in July, if needed, and the risk that it will undertake a rate hike in 2H24 is material. However, we expect the key rate to stay at its current level of 16% during 2H24. The transmission mechanism is malfunctioning due to structural changes in the economy and high budget spending, and these will not to be solved by way of the degree of current monetary tightness but might be improved via policy consistency. The CBR's verbal interventions have already impacted both deposit and OFZ rates. It will not revert inflation back to the CBR's 4% target in 2024, and we expect inflation at 5.4% this year (0.4pp higher than our previous forecast). However, this will likely bring inflation to 4% next year.
- Tight monetary policy will help contain inflation in 2025 if fiscal policy is tightened. Russia's ministry of finance intends to collect an additional RUB 1.1tn by increasing the corporate profit tax by 5pp, to 25%, and another RUB 0.5tn by moving from a 13% flat personal income tax (in place since the early 2000s) to a progressive scale ranging between 13% and 22% in 2025. Other tax measures will increase budget revenues by another RUB 1tn, for a total of 1.4% of GDP. Hence, we expect the budget deficit to decrease in 2025, to 1.1% of GDP.
- Recent sanctions on the MOEX and on other financial-infrastructure entities might have a limited impact on the functioning of the Russian FX market (the share of over-the-counter [OTC] trades was high even before 12 June 2024), yet volatility and spreads will be higher. Higher transaction costs for participants will likely change the balance-of-payments structure towards higher imports and lower capital outflows. Given the experience of Russian importers with regard to restoring supply chains, we think there is no reason to believe that imports will be hurt severely. Thus, we are keeping our USD-RUB forecast unchanged at 98.5. However, on the way to this new equilibrium, there is the risk of short-term RUB strengthening (while new trade routes are being developed), followed by a period of depreciation to restore competitiveness. A forced decline in access to hard currency will result in closer cooperation with Asian economies, specifically China.

DIFFICULT TO INCREASE OUTPUT WITH AVAILABLE LABOR



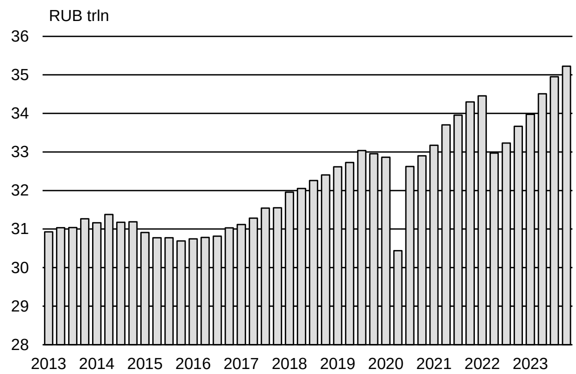
OTC MARKET IS NOT AFFECTED BY SANCTIONS



Source: UniCredit Research

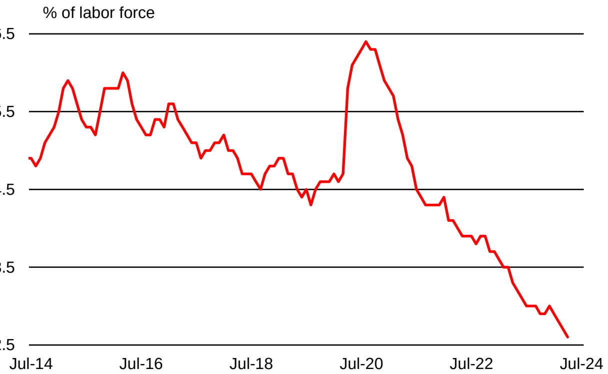
Russia

GROWTH



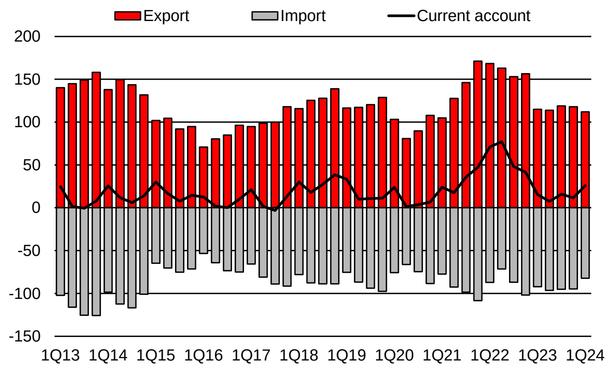
- Economy is actively booming, as implied by seasonally adjusted GDP data.

LABOR MARKET



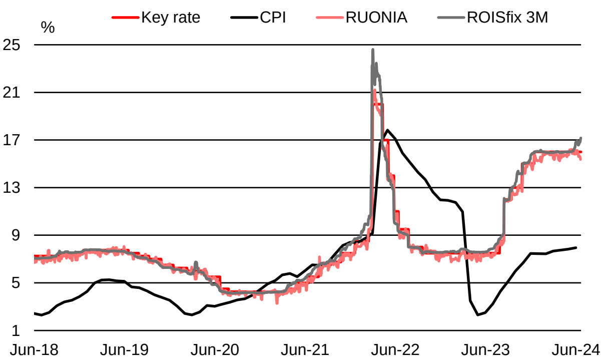
- Labor market is very tight, and low unemployment reflects worsening demography.

CURRENT ACCOUNT BALANCE



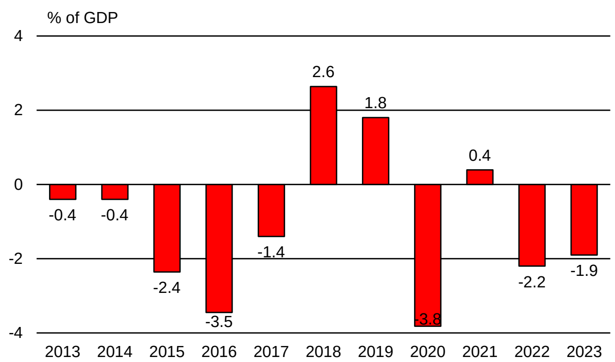
- Following peak levels of 2022, Russia's current account has stabilized.

MONEY MARKET RATES



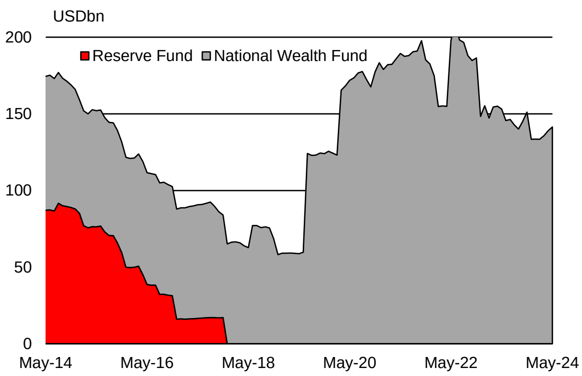
- While inflation is not declining, the CBR's commitment to keeping the key rate high has resulted in the further tightening of monetary conditions.

FEDERAL BUDGET BALANCE



- Budget deficit is manageable, and it is likely to shrink more in 2024.

NATIONAL WEALTH FUND



- While the nominal amount of the National Wealth Fund is high, its liquid part is much smaller and is not likely to increase in the foreseeable future.

Source: MinFin, Bank of Russia, Rosstat, UniCredit Research

Turkey

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- We have increased our GDP growth forecast for 2024 to 3.6% from 3.2% due to a stronger-than-expected carryover from 1Q24. That said, we continue to expect slower growth going forward, primarily due to tighter monetary and financial conditions. Most leading indicators are signaling that economic activity started to cool down in 2Q24. We have lowered our GDP growth forecast for 2025 to 3.3% from 4% as the expected slowdown in 2H24 will translate into low carryover for next year. We expect the contribution from private and public consumption to ease compared to this year due to slower wage growth and tighter fiscal policy.

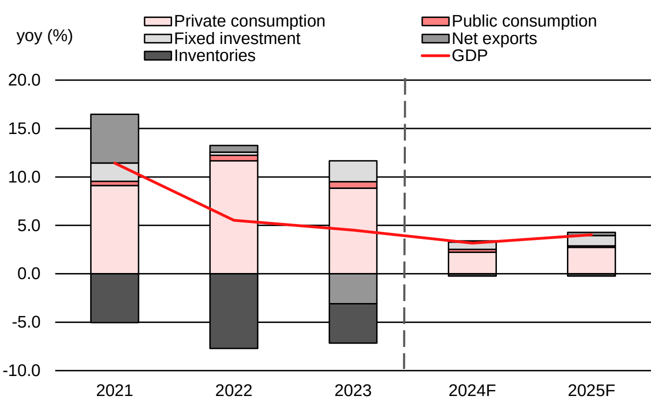
- The government announced a savings package to cut public spending. We estimate that the impact of the measures will amount to 0.4% of GDP, which is underwhelming. We think the fiscal adjustment will be gradual and that meaningful tightening will happen in 2025.

- We expect the current-account (C/A) deficit to narrow to 1.8% of GDP by the end of this year and to remain broadly flat in 2025. An expected slowdown in domestic demand should curb import demand going forward, while a gradual recovery in Europe should support demand for Turkey's exports. However, TRY appreciation in real terms might jeopardize such an adjustment on the external front by making imports relatively cheaper while hurting the competitiveness of exports.

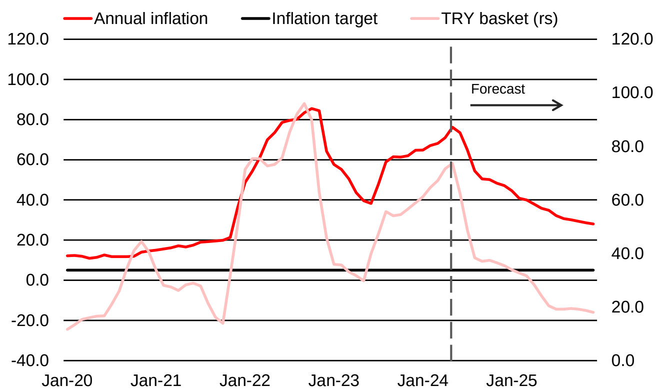
- We expect headline inflation to ease to 46% by the end of 2024 and to 28% in 2025. Base effects will be significantly disinflationary in 3Q24, while weaker domestic demand will also help curb price pressure going forward.

- We think monetary policy has mostly done its part and that the CBRT will remain on hold during the remainder of this year before rate cuts start in 1H25. In the meantime, the central bank could continue to rely on macroprudential measures to sterilize the liquidity resulting from capital inflows, keeping deposit rates sufficiently high to continue incentivizing TRY-denominated savings and keeping lending growth in check. The central bank could lower its policy rate to 30% in 2025 if inflation continues to fall, as we expect. We expect the TRY to remain well-supported in 3Q24 by continued capital inflows and favorable seasonality effects on the C/A balance over the summer. These factors will also support further recovery in the CBRT's FX reserves, in our view.

WE EXPECT GDP GROWTH TO SLOW TO 3.6% THIS YEAR



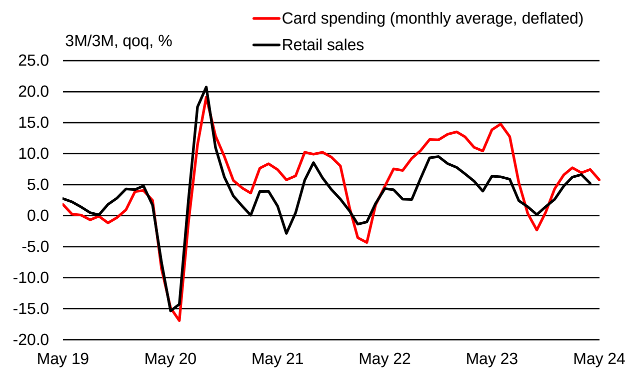
INFLATION COULD EASE TO 28% BY THE END OF 2025



Source: TurkStat, CBRT, Macrobond, UniCredit Research

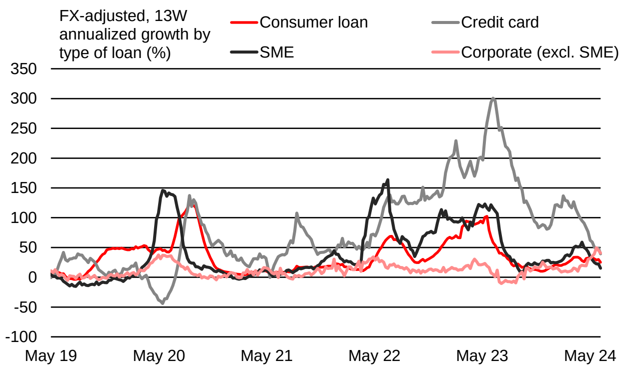
Turkey

CONSUMPTION INDICATORS



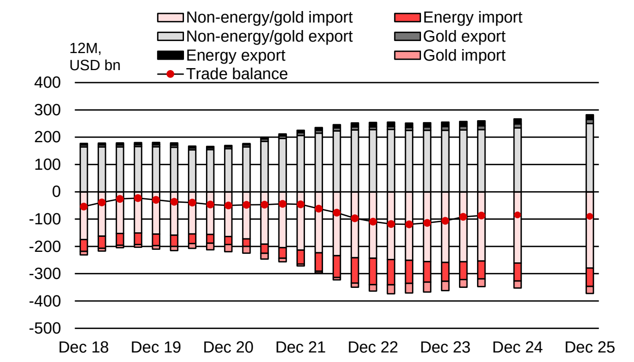
- Leading indicators have signaled that private consumption growth is lessening.

LOAN GROWTH



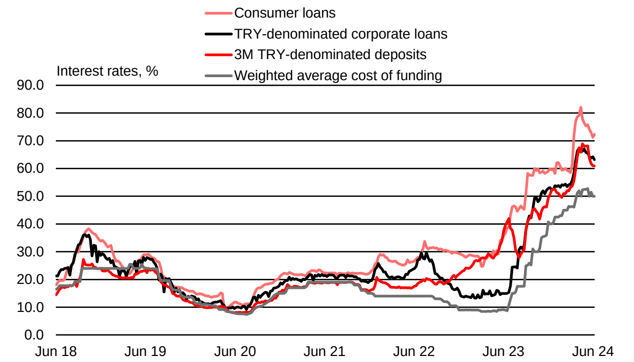
- Lending via credit cards and to SMEs has slowed.

TRADE BALANCE



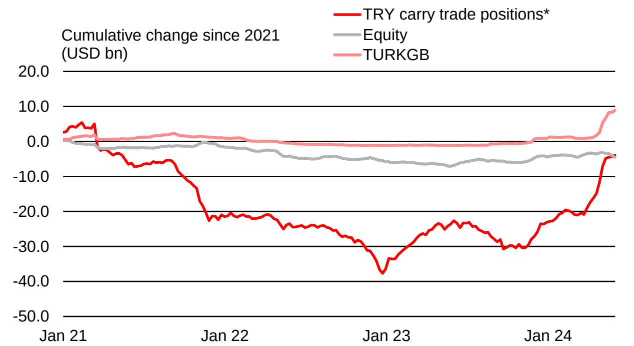
- We expect Turkey's external deficit to narrow further due to weaker domestic demand.

DEPOSIT AND LOAN RATES



- Recent declines in deposit and lending rates could trigger additional monetary tightening.

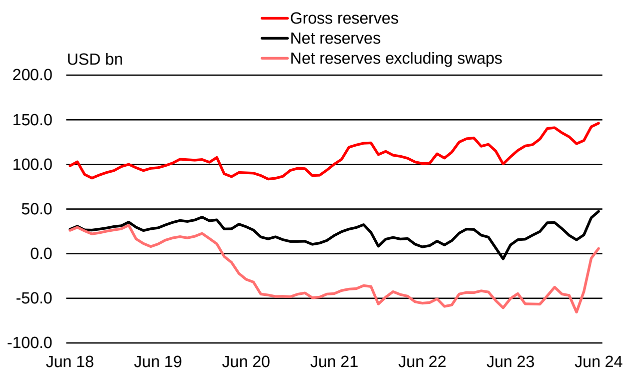
PORTFOLIO FLOWS



*Decline implies reduction in TRY-long positions

- Capital inflows have accelerated since local elections…

FX RESERVES



- …supporting a fast buildup in the CBRT's FX reserves.

Source: TurkStat, Banking Regulation and Supervision Agency, CBRT, Bloomberg, Macrobond, UniCredit Research

UK

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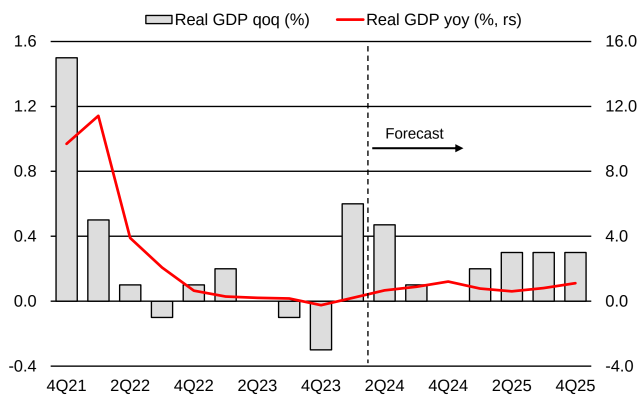
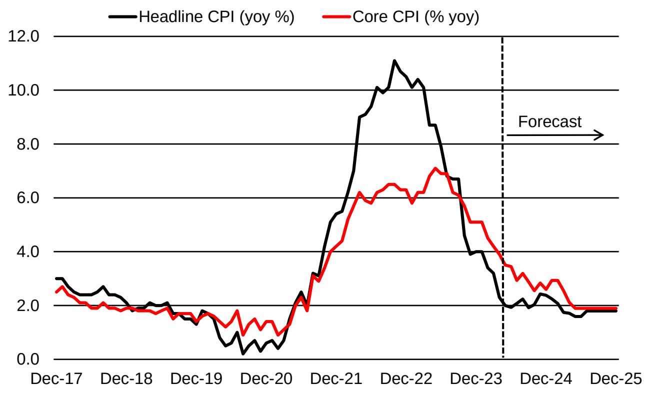
- We are increasing our GDP growth forecast for this year to 0.7% (previously 0.2%), while our forecast for growth in 2025 is unchanged at 0.8%. After entering a mild recession in the second half of last year, the economy rebounded a stronger-than-expected 0.6% qoq in 1Q24. We see this as largely a technical rebound, in part driven by reduced strike action in the public sector and the weaker-than-expected end to 2023. Strong monthly GDP growth of 0.4% mom in March also lifts 2Q GDP growth, to 0.5% qoq (previously -0.1%). However, underlying GDP growth appears to have remained subdued. Personal consumption rose a modest 0.2% qoq in 1Q24 and is still 2% below its pre-pandemic level. The recent pickup in real labor income resulting from lower inflation and still-high wage growth has supported spending but, set against this, the labor market is weakening amid high real interest rates, and the savings rate is rising. We still see broadly flat GDP growth in 2H24. Business surveys have eased back, with the flash composite PMI falling to 51.7 in June, down from 54.1 in April, which if it were to persist would be consistent with just 0.1% qoq growth. The general election on 4 July is likely to see the main opposition Labour party win a majority, according to opinion polls. It has pledged not to raise the three main taxes (income tax, national insurance, and VAT) but will increase borrowing to fund higher public investment, particularly in green technologies. Whoever wins, some taxes will likely have to rise, given higher spending needs on health and defense and already-stretched public finances.
- Headline inflation fell to the 2% yoy target in May, with core goods inflation flat and core services inflation still high at 5.7% yoy. Headline inflation is likely to pick up somewhat in the second half of the year, as the downward contribution from energy prices fades, while core services inflation moves down gradually. Inflation is likely to fall slightly below 2% next year as spare capacity builds and wage growth cools. There is uncertainty regarding the true health of the labor market due to low response rates for the LFS. But it seems clear that it is weakening, with the ratio of job vacancies to unemployed persons back to its pre-pandemic level.
- The Bank of England's Monetary Policy Committee (MPC) maintained the bank rate at 5.25% at its 20 June meeting. Two members again preferred an immediate 25bp cut. Importantly, for "some members" of the seven-strong majority, the decision not to cut rates was "finely balanced". We still expect the first rate cut on 1 August, but it's a close call and it would not take a lot for caution to prevail. We expect a total of 75bp of rate cuts this year as headline inflation stays close to 2% and underlying economic activity remains subdued.

GDP GROWTH LIKELY TO BE WEAK IN 2H24



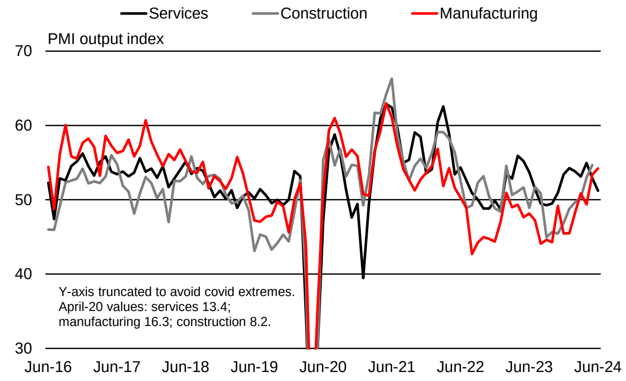
CPI INFLATION LIKELY TO STAY CLOSE TO 2%



Source: ONS, UniCredit Research

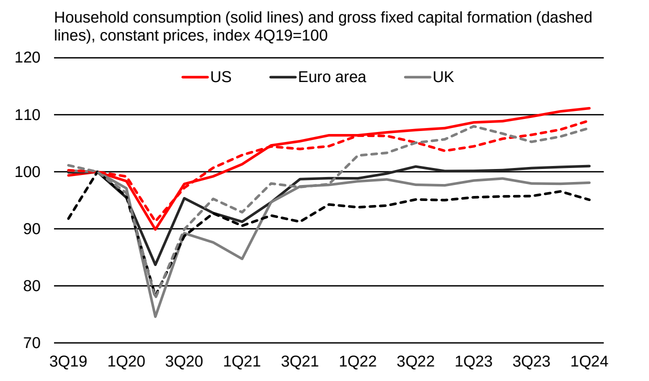
UK

PMIs



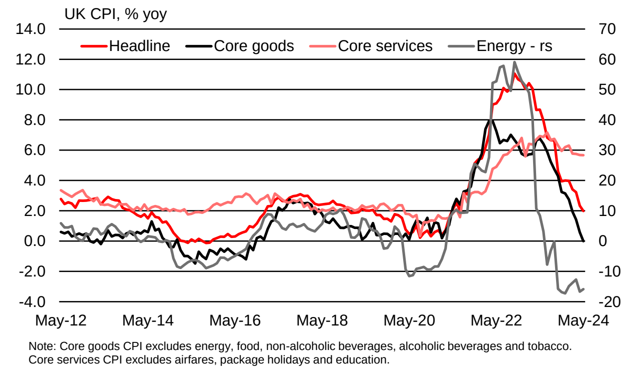
- The services PMI lost momentum, easing to 51.2 in June, down from 55.0 in April. The manufacturing PMI output index rose to a two-year high of 54.2 in June, but orders are less strong at 51.5.

CONSUMPTION AND INVESTMENT



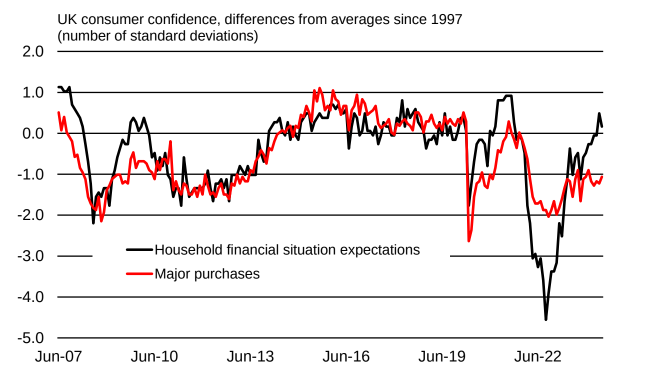
- UK consumption has been particularly weak compared to its peers, while business investment has been boosted by a low base and tax incentives.

INFLATION



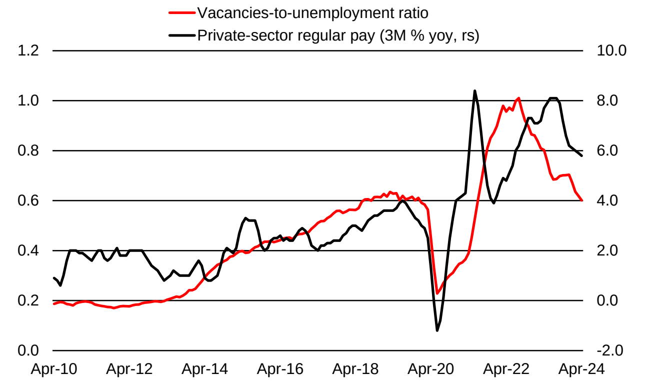
- Headline CPI inflation hit the 2% yoy target in May, but core services inflation remains high at 5.7% yoy.

CONSUMER SENTIMENT



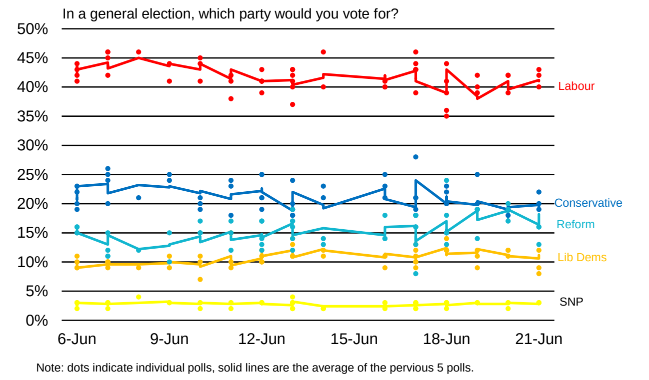
- Consumers' financial situation has improved but they remain reluctant to undertake large purchases.

LABOR MARKET



- The ratio of vacancies to unemployed fell to its pre-pandemic level of 0.60 in April. Private-sector regular pay growth only edged down to 5.8% 3M yoy in April amid a 10% rise in the minimum wage.

ELECTION OPINION POLLS



- For the general election on 4 July, the main opposition Labour party have maintained an around 20pp lead over the ruling Conservatives, according to opinion polls.

Source: GfK, OECD, ONS, S&P Global, various polling companies, UniCredit Research

Sweden

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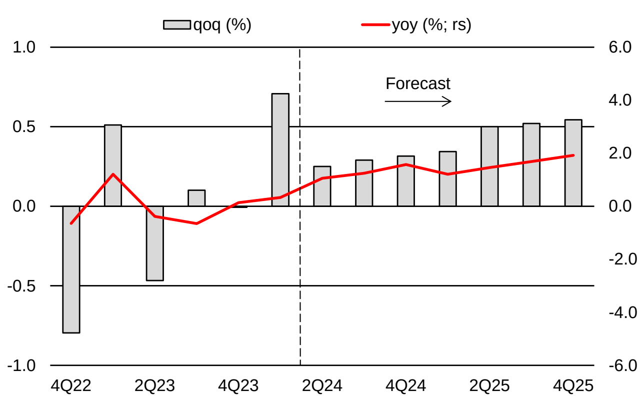
- We are revising upward to 1.0% (from 0.3%) our GDP forecast for 2024. The revision is entirely driven by stronger-than-expected growth in 1Q24 (0.7% qoq,1.1% yoy) after the stagnation recorded at the end of last year. We confirm the rest of projected quarterly figures over the 2024-25 horizon and our GDP forecast for 2025 remains at 1.6%.

- Forward-looking indicators, including business and consumer confidence edged up in both April and May, while hard data for April provided a mixed picture, with growing new orders and retail sales but strongly decreasing industrial production and monthly GDP. Taken together, all the above-mentioned data indicate that, in 2Q24, economic growth will probably be weaker than in 1Q24 (our forecast is 0.3% qoq). In line with the outlined environment and based on surveys, our view is that GDP growth will stabilize around 0.3% qoq until the start of next year. Throughout 2025, the gradual easing of credit conditions, lower construction costs and higher external demand are expected to result in higher investment and exports. Household consumption, which is currently the main weak spot, will probably recover, benefiting mainly from higher real disposable income and expectations of lower mortgage rates.

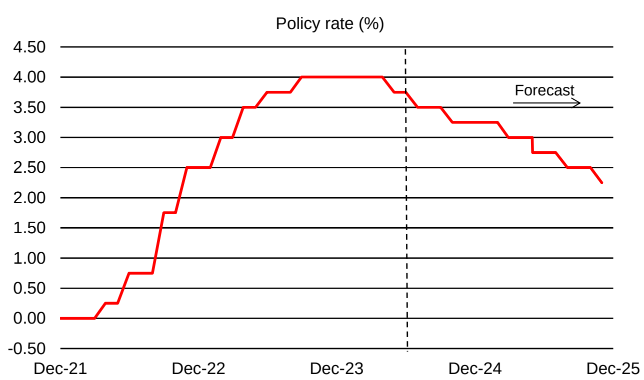
- Inflation is approaching the Riksbank's target. In May, headline inflation was stable at 2.3% yoy. Excluding energy, inflation accelerated to 3% from 2.9%. This outcome was amplified by price rises that we deemed temporary as they were attributed to large entertainment events in Sweden this year. After June, disinflation is likely to resume, driven by a decrease in fuel prices, lower labor-cost pressure (due to weak bargaining agreements on wages), weak domestic demand and the fading impact of supply shocks. Overall, headline inflation is expected to average 2% in 2024 and 1.5% in 2025, with core inflation projected to reach 2.5% in 2024 and 1.8% in 2025.

- Before the ECB, in May the Riksbank started a policy-easing cycle by cutting its key rate by 25bp, to 3.75%. Riksbank guidance envisages two more rate cuts in 2H24. Inflation is approaching its target, and the real economy is resilient. Accordingly, we continue to expect the Riksbank to cut gradually this year and the next. This year, two cuts of 25bp each will likely come in August and November and will take the policy rate to 3.25% by end-2024. Going into 2025, our rate-cutting path foresees four other moves. The key rate will likely reach 2.25% by end-2025.

SLOW PICK-UP IN GROWTH AHEAD



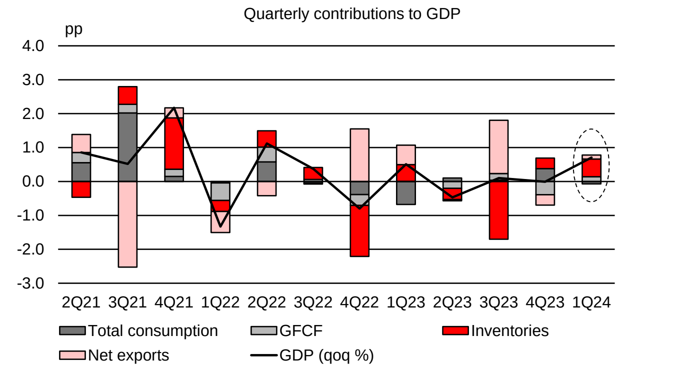
ADDITIONAL EASING TO COME IN 2H24 AND 2025



Source: Riksbank, Statistics Sweden, UniCredit Research

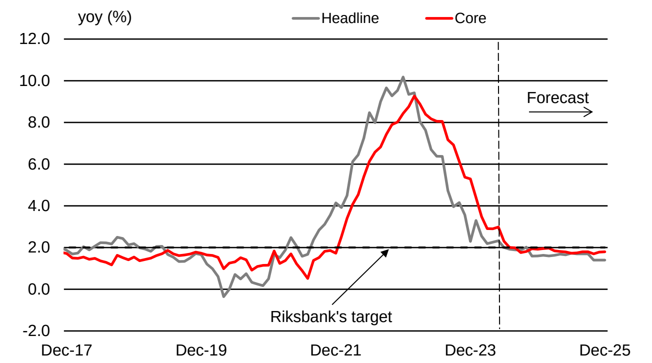
Sweden

GROWTH DRIVERS



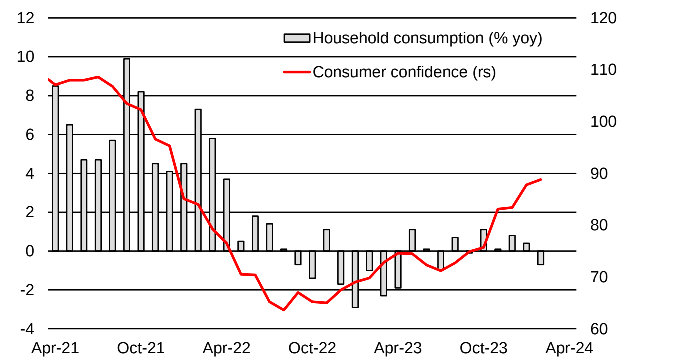
- In 1Q24 strong GDP performance was entirely driven by inventory buildup. Other components increased modestly.

INFLATION



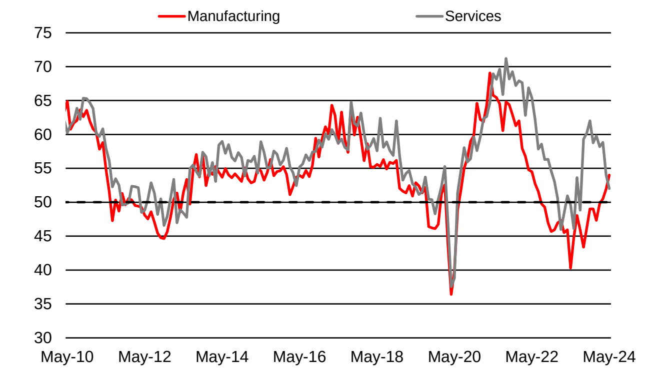
- After June, both headline and core inflation will probably resume deceleration, moving closer to 2%.

CONSUMER SECTOR



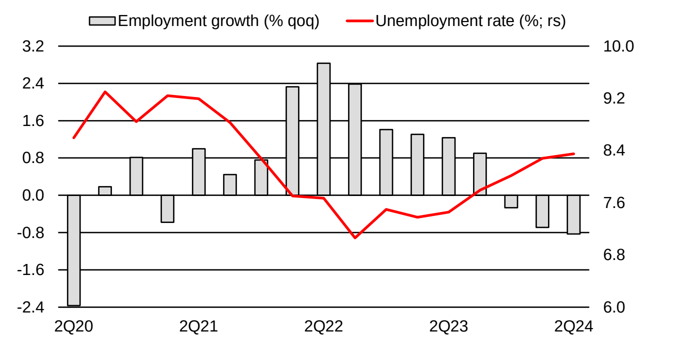
- Household consumption contracted in April, but continuing improvement in consumer confidence indicates that a bounce back is likely.

PMIS



- Both PMIs are above 50, indicating that manufacturing and services are expanding.

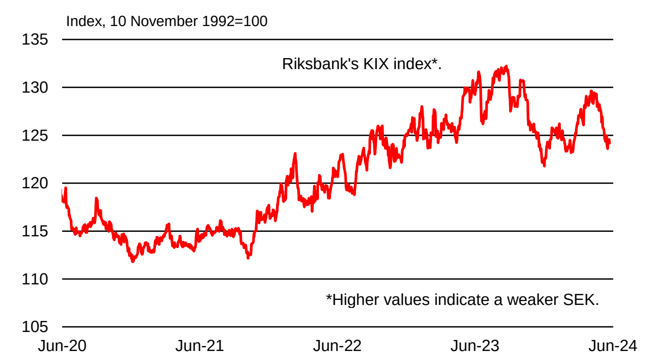
LABOR MARKET



Note: 2Q24 is the average of available data for months of January and February 2024.

- Employment growth has been falling since end-2023, while the unemployment rate has kept rising. It is now above 8%.

TWI



- After the Riksbank's cut in May, the SEK strengthened against all the other G10 currencies.

Source: Bloomberg, Riksbank, Statistics Sweden, Swedbank/Silf, UniCredit Research

Norway

Chiara Silvestre, Economist
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chiara.silvestre@unicredit.eu

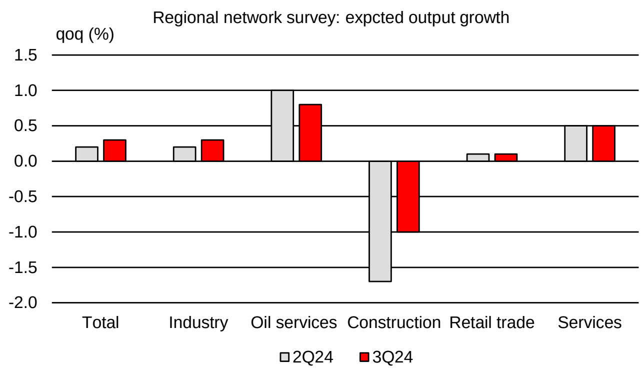
- We confirm our forecast that mainland GDP will grow by 0.6% (overall: 0.7%) in 2024 and by 1.0% (overall: 1.2%) in 2025. For the remainder of this year, economic activity is likely to rise moderately, due to the poor performance of domestic demand. In 2025, higher purchasing power amid real wage increases and less-restrictive monetary policy will fuel a recovery of GDP.

- The latest Norges Bank Regional Network report signaled improving economic activity in 2024 after the 2023 stagnation. In detail, the survey reported higher GDP growth expectations at 0.2% qoq in 2Q24 and 0.3% in 3Q24 compared to March (-0.1% qoq and 0.0% qoq, respectively). In terms of sectors, the Regional Network reported that enterprises expect a significant decline in construction activity, while growth in oil, renewable energy and services is likely to remain solid.

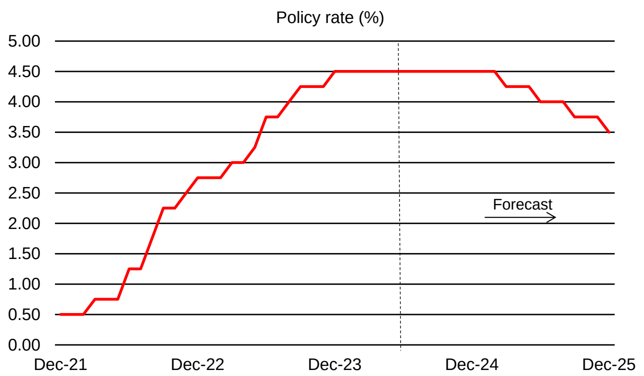
- Inflation is continuing to decelerate but is still too far above Norges Bank's target. In May, headline inflation fell to 3.0% yoy (from 3.6% in April). Core inflation decelerated to 4.1% from 4.4%. Past NOK depreciation and growing unit labor costs continue to exert upward pressure on the CPI index delaying the 2% threshold attainment, which we now expect in 2H25 for the headline index and in 2026 for the core index. We expect headline CPI inflation to average 3.5% and 2.1%, and core CPI 4.2% and 3.3% in 2024 and 2025, respectively.

- At its June meeting, Norges Bank was more hawkish than expected, with the Committee noting that "high wage growth, weak productivity growth and last year's NOK depreciation will likely contribute to keeping inflation elevated ahead". As our macro forecasts do not deviate substantially from Norges Bank's new forecasts, we revise our call on the key policy rate and no longer pencil in any rate cuts in 2024 (we previously expected one cut in December). We expect the first 25bp rate reduction in March 2025 and we stick to our view that the Norges Bank will deliver one cut per quarter until the policy rate reaches 3.50%.

OIL SERVICES DRIVE UP ECONOMIC ACTIVITY



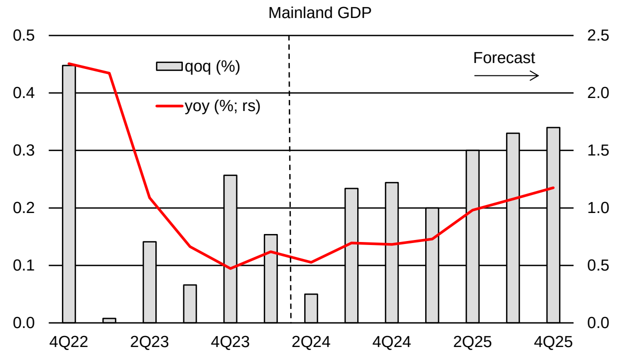
PUSHING BACK OUR FIRST RATE-CUT CALL TO MARCH 2025



Source: Norges Bank, UniCredit Research

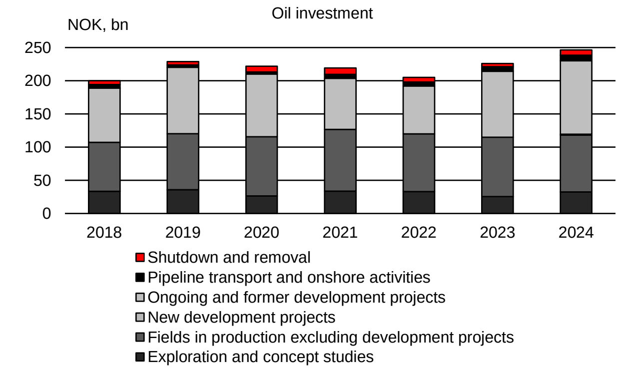
Norway

GROWTH



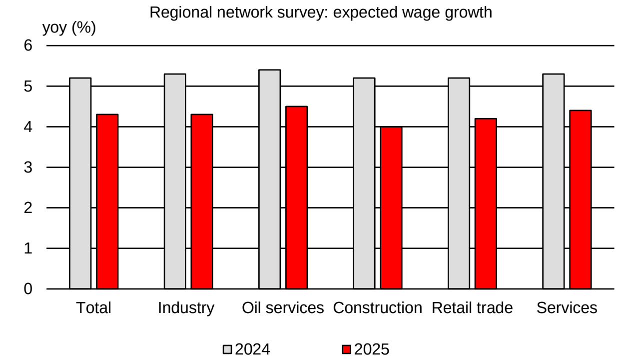
■ We expect subdued GDP growth during the remainder of this year. The recovery is likely to gain speed in 2025.

OIL INVESTMENT



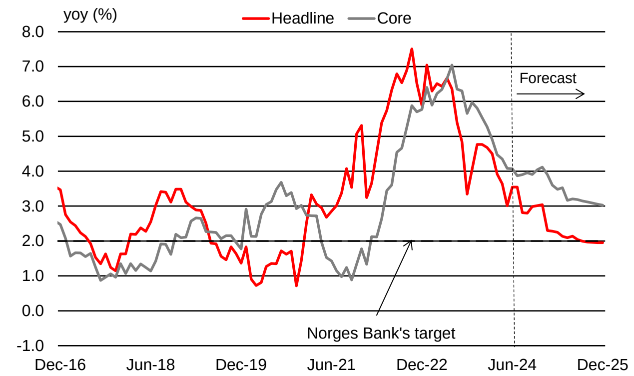
■ The decline in GFCF has been mitigated by investment in the oil and gas sector which rose markedly in 2023 and is expected to grow again in 2024.

INFLATION (I)



■ Businesses have increased their wage growth expectations for 2024 and 2025 to 5.2% and 4.3%, respectively, from 4.9% and 4.0% in March. All sectors are involved.

INFLATION (II)

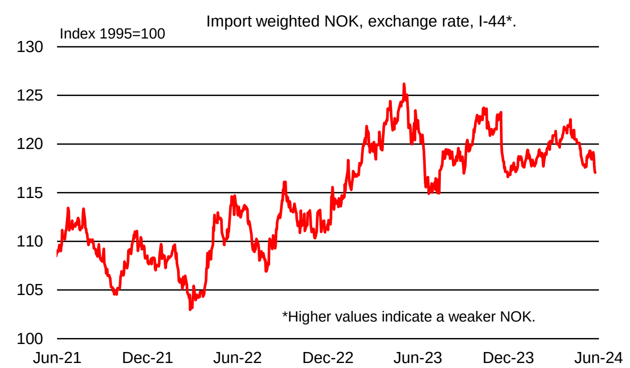


■ Core inflation will return towards the 2% target at a slower pace than headline inflation.

LABOR MARKET

■ Employment growth has been stabilizing since end-2023. The unemployment rate rose slightly and close to 4%.

TWI



■ Slightly stronger NOK than in March. The NOK might appreciate slightly in the near term as the Norges Bank has delayed to March 2025 its expectation of first policy rate cut.

Source: Norges Bank, Statistics Norway, UniCredit Research

Switzerland

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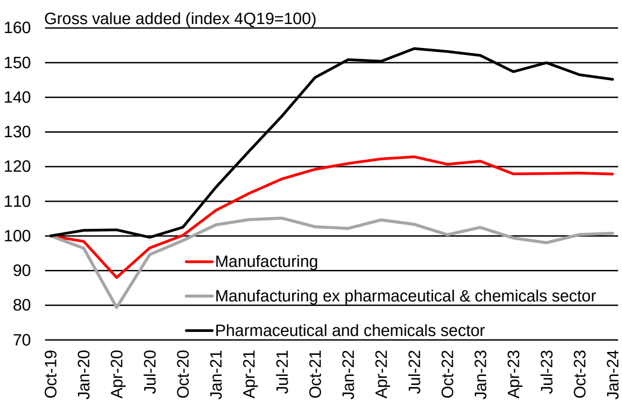
- We have raised our 2024 growth forecast to 1.4% from 1.2% after the better-than-expected start to the year (2023: +0.7%). We continue to expect 1.6% growth in 2025. The 2024 figure is likely to be inflated by licensing income, probably by nearly 0.5pp, stemming from major international sporting events, such as the Summer Olympic Games.

- Both exports and domestic demand are likely to support the economy. The export-dependent manufacturing sector will benefit from the recovery in global trade, although the consolidation in the pharmaceutical and chemicals sector after COVID-19 is likely to limit the upward potential. The pharmaceutical and chemicals sector accounts for more than a third of total manufacturing activity and for about 7% of total gross value added. Private consumer expenditure is likely to benefit from low inflation, a high level of immigration and further job creation, although the buildup in new jobs has recently slowed down.

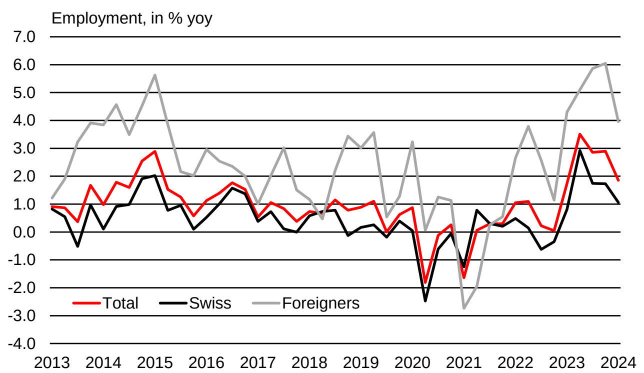
- While headline inflation accelerated slightly to 1.4% yoy in April and May (from 1.2% in 1Q24), the core rate was at 1.2% in April and May compared to 1.1% in 1Q24. Leading indicators in the form of surveys and hard data, such as import and producer prices, signal low inflationary pressure in the next few months. Output prices of service providers (PMI survey) have also been moving sideways at a neutral level close to 50. We expect headline inflation rates of about 1½% in 2H24 before declining below 1% in spring 2025.

- The SNB cut its key rate again by 25bp to 1.25% at its quarterly meeting in June after the first 25bp rate cut in March. Policymakers explained this decision by highlighting the reduced “underlying” inflationary pressure, while downplaying the latest slight rises in inflation rates. Specifically, SNB Chairman Thomas Jordan highlighted lower-than-expected second-round effects such as limited wage pressure and the moderate passing on of higher input costs from companies to consumers. Without the SNB explicitly saying so, we think that the appreciation of the Swiss franc after the EU elections also played a role in triggering the latest rate cut. We expect the SNB to pause at its next meeting in September. This would give policymakers more time to assess their future monetary policy stance and to see whether the ECB is cutting rates further. A final interest rate cut by 25bp to 1% is then likely to take place in December.

MANUFACTURING ACTIVITY HELD BACK BY PHARMACEUTICAL AND CHEMICALS SECTOR



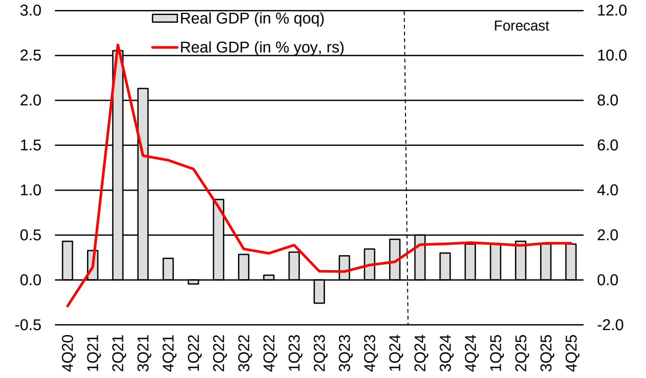
LESS STRONG JOB CREATION



Source: SECO, FSO, UniCredit Research

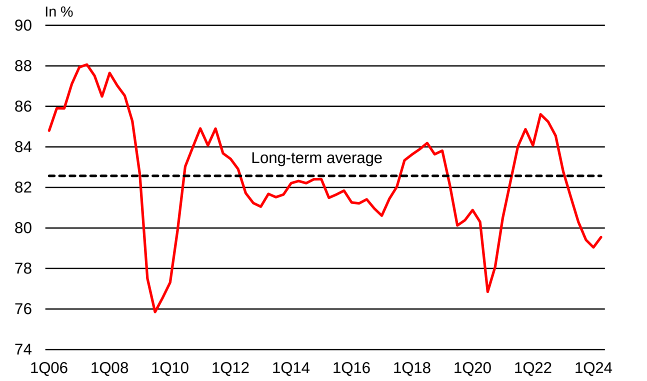
Switzerland

GROWTH



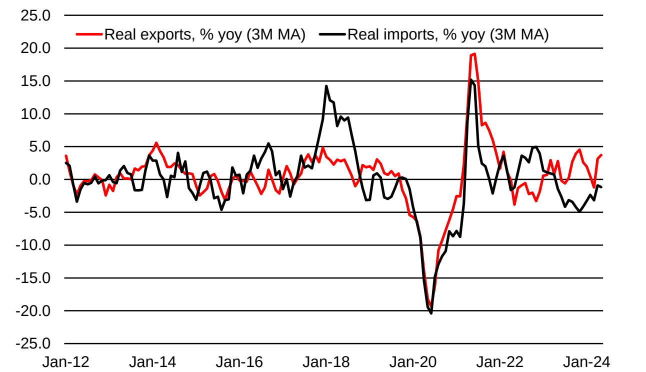
- We expect real GDP to rise solidly, although growth has probably been inflated in 1H24 by licensing income from international sporting events.

CAPACITY UTILIZATION



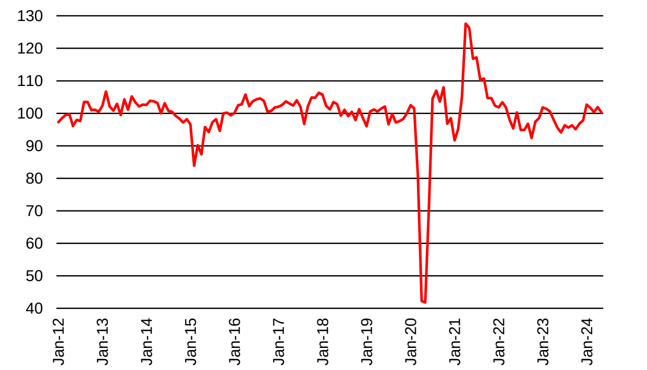
- Capacity utilization in the manufacturing sector has recovered slightly in 2Q24 but remains markedly below its long-term average.

INTERNATIONAL TRADE



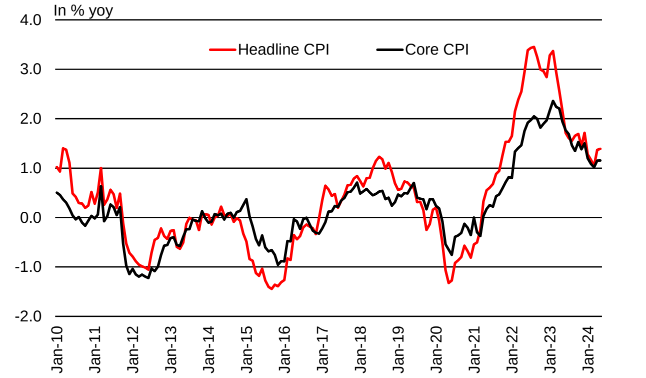
- Exports have picked up slightly, while imports have continued to decline moderately.

LEADING INDICATOR



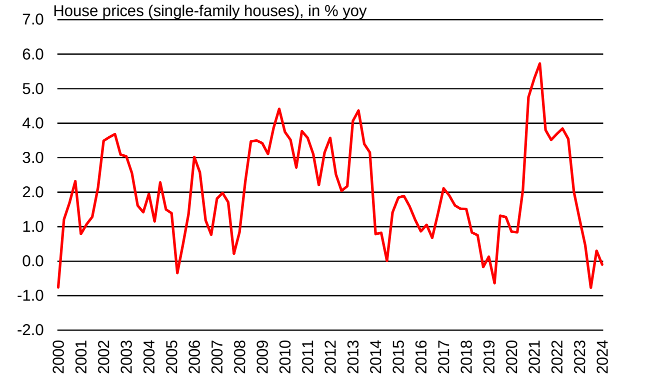
- The KOF leading indicator has remained roughly unchanged on average in recent months.

INFLATION



- Inflation rates have slightly increased recently, with the headline rate at 1.4% yoy and the core rate at 1.2% yoy in May.

RESIDENTIAL PROPERTY MARKET



- House prices decreased slightly in 1Q24.

Source: Bloomberg, SECO, Feri, UniCredit Research

China

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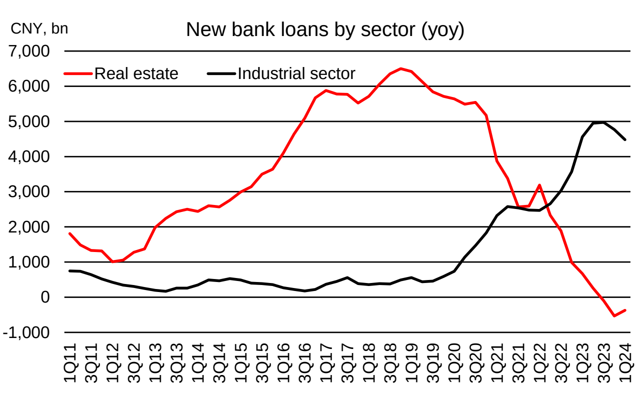
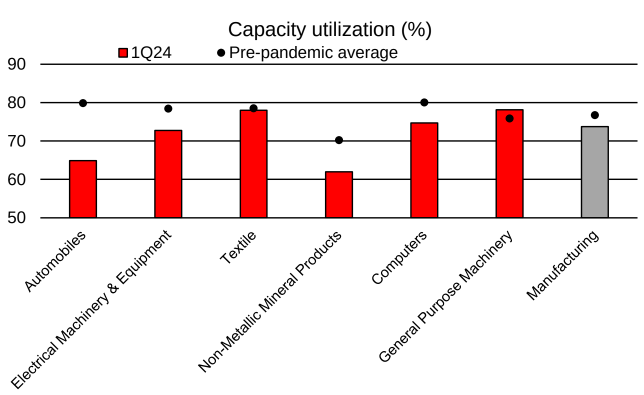
- In 1Q24, GDP growth surprised to the upside, accelerating to 5.3% yoy from 5.2%. As a result, we have revised our GDP-growth forecast for 2024 up to 4.8% from 4.5% while leaving that for 2025 unchanged, at 4.3%. The overall outlook on the demand side is not bright. Consumer confidence is not recovering and remains stuck at historically low levels. Most growth impulse is from exports and state-driven investment. The central government seems keen on downsizing the country's real-estate sector (property investment had contracted by more than 10% yoy in the year to May) while actively managing housing inventory. In late May, it announced measures to help state-owned enterprises purchase unsold homes. So far, looking at declining property sales figures, these measures do not seem to be enough to boost consumer confidence.
- Anemic CPI inflation is a clear sign of demand weakness in China. In May, it rose 0.3% yoy. Prices for consumer goods were flat for a second consecutive month, while prices for services rose 0.8% yoy. Producer-price-index (PPI) deflation continued in May for a twentieth straight month; PPI contracted by 1.4% yoy, easing from a 2.5% drop in April.
- Demand weakness can also be seen as a result of Beijing's strategy to support the supply side of the economy through tax credits, production subsidies and ad hoc lending facilities, with many policy measures directly targeting high-tech manufacturing industries, including those focused on electric vehicles, lithium-ion batteries, solar panels and semiconductors. This policy approach has created tension with Western countries as it tends to result in overcapacity – the nature of which, as we have discussed, is rather complex. Both the US and the EU, which have adopted protectionist measures in response, have cited excessive capacity that risks pushing out foreign companies that do not enjoy a similar degree of government support.
- According to some estimates, in 2022, over 99% of listed companies received some form of direct government subsidies. In an attempt to reduce the dependence of the Chinese economy on the real-estate sector, lending was redirected from the property sector toward the manufacturing sector. Redirection in lending, which was also driven by the recent bursting of China's real-estate bubble, is consistent with Beijing's stated intention to boost economic self-sufficiency in industry.
- We think the PBoC is unlikely to cut policy rates but rather to keep using ad hoc lending facilities to support specific industries. It might also cut reserve-requirement ratios to inject more liquidity into the economy.

SUPPORTING THE INDUSTRIAL SECTOR



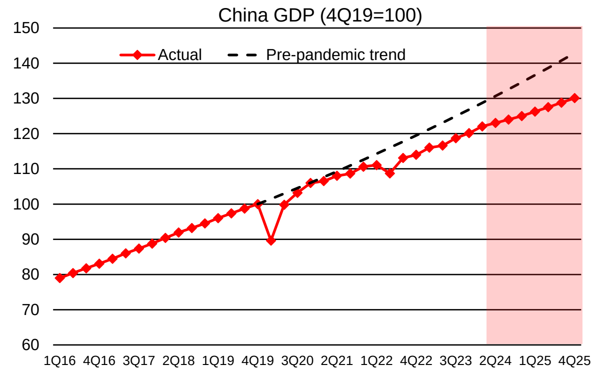
THE OVERCAPACITY PROBLEM



Source: PBoC, NBS, UniCredit Research

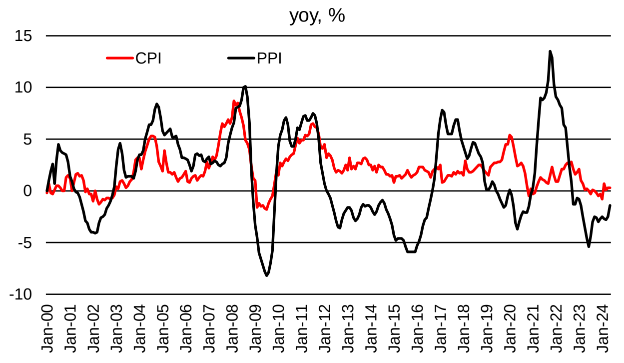
China

GROWTH



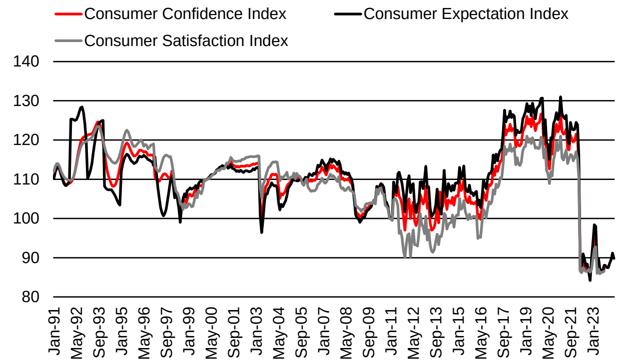
- GDP growth surprised to the upside in 1Q24. We still expect it to miss the PBoC's target of 5%.

PRICES



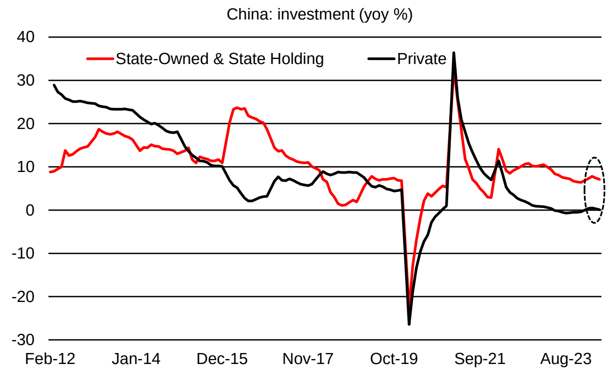
- PPI deflation continues, while CPI inflation is anemic.

CONSUMER CONFIDENCE



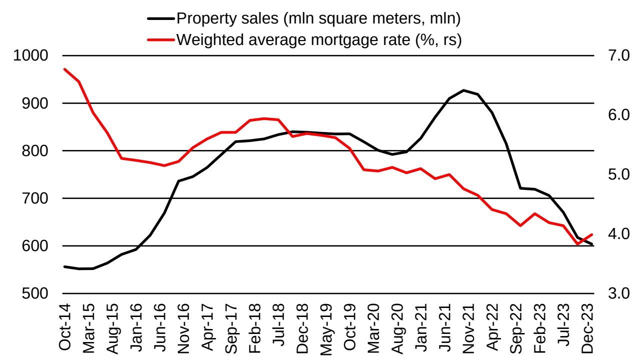
- Consumer confidence is unlikely to recover without ambitious policy measures to support household income and wealth.

INVESTMENT



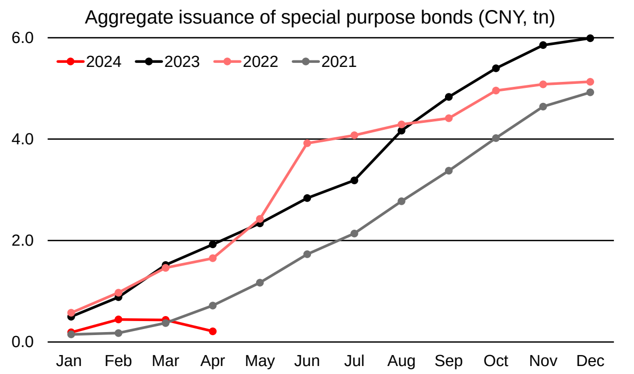
- Private investment has been flat for more than two years. Only state-driven investment supports growth.

REAL ESTATE



- The downsizing of the real-estate sector continues.

SPECIAL PURPOSE BONDS



- Special purpose bonds for funding of infrastructural projects lost prominence in 1H24.

Source: NBS, Bloomberg, UniCredit Research

Oil

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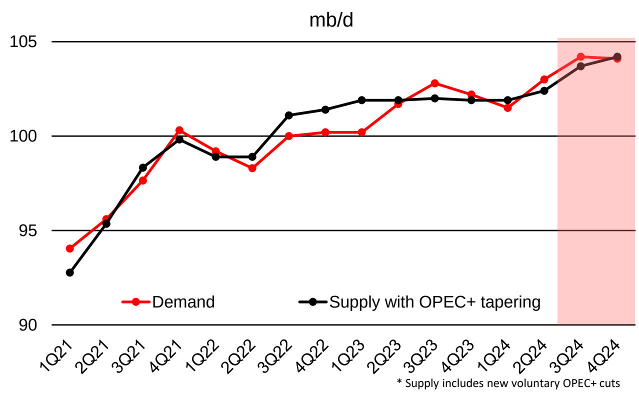
- Brent prices briefly moved above USD 90/bbl when Iran launched an unprecedented airborne strike on Israel in mid-April. Israel's muted reaction, under the pressure of Western allies, dissipated fears of a broader regional conflict, bringing prices down again. The still-subdued global demand outlook, coupled with OPEC+'s decision to gradually phase out its voluntary output cuts in 4Q24, created further downward price pressure. Going forward, and assuming a stabilization in geopolitical risk at current levels, we expect the oil market to be roughly balanced and Brent prices to fluctuate within the USD 80-85/bbl trading range.

- The supply-demand gap is likely to remain rather contained in 2H24 as OPEC+ has laid out a roadmap for unwinding extra voluntary supply reductions of up to 2.2 mb/d from 4Q24 through 3Q25. There is however uncertainty that this will happen because OPEC+ clarified that the production increase can be paused or reversed subject to market conditions. In case of a pause, the undersupply would still be manageable, with limited price impact.

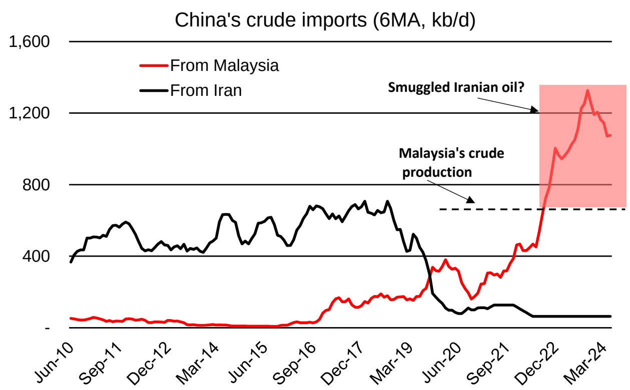
- Oil supply in the US surpassed 20mb/d this year – a historic high. Saudi Arabia and Russia now follow the US as the largest producers in the world by a large margin. Rig counts and drilled but uncompleted wells (DUCs) have stabilized at relatively high levels and do not create concerns of excessive drilling activity or subdued investment. However, US production might experience sudden disruptions in 2H24. Preliminary forecasts for the 2024 Atlantic hurricane season, which runs from 1 June to 30 November, point to a high likelihood of extreme events due to warm Atlantic Ocean Sea surface temperatures (SST) and the arrival of La Niña.

- US President Joe Biden recently signed into law the package on Iran oil sanctions, also known as "Stop Harboring Iranian Petroleum Act". However, the enforcement of existing sanctions has been poor. Since 2018, when Washington departed from the nuclear deal with Teheran and adopted a strategy of "maximum pressure", China's official imports of Iranian crude have been insignificant. But imports from Malaysia have picked up massively since then. At the moment, they are close to 1.1mb/d – that is more than 500kb/d above the production capacity of the country. According to the Energy Information Agency, China rebrands Iranian oil as originating from Malaysia.

A ROUGHLY BALANCED MARKET



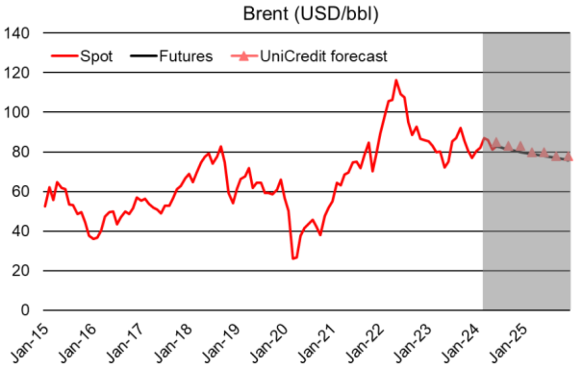
EVADING SANCTIONS



Source: IEA, Bloomberg UniCredit Research

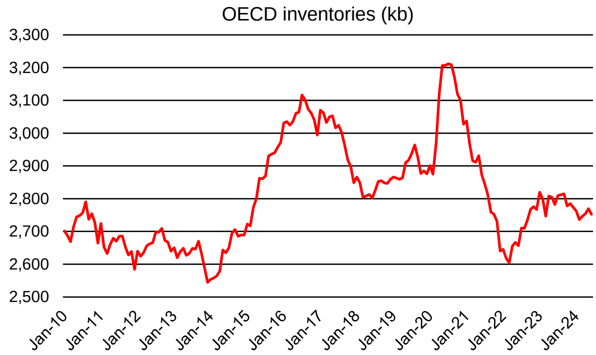
Oil

PRICES



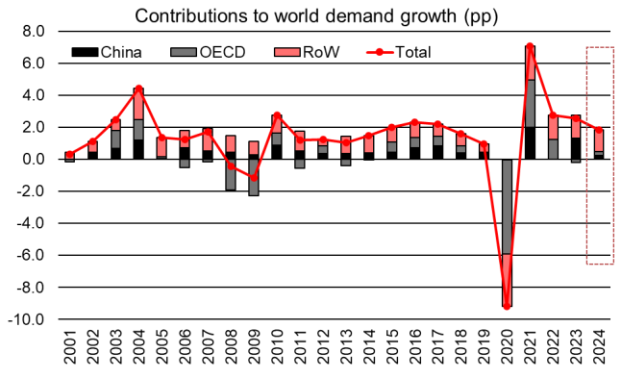
- Brent prices are likely to remain rangebound within USD 85-80/bbl.

INVENTORIES



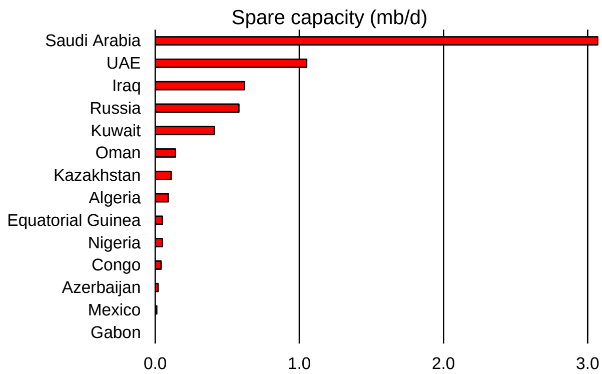
- Inventories remain above the pre-shale boom, providing a cushion against potential positive demand shocks.

DEMAND



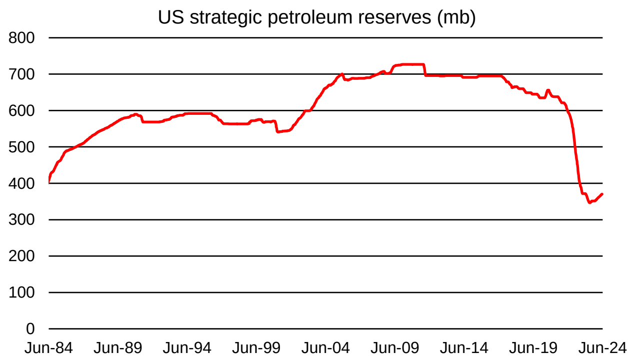
- Global oil demand is likely to grow by less than 2% overall in 2024, to around 103.5 mb/d from around 102mb/d.

OPEC+



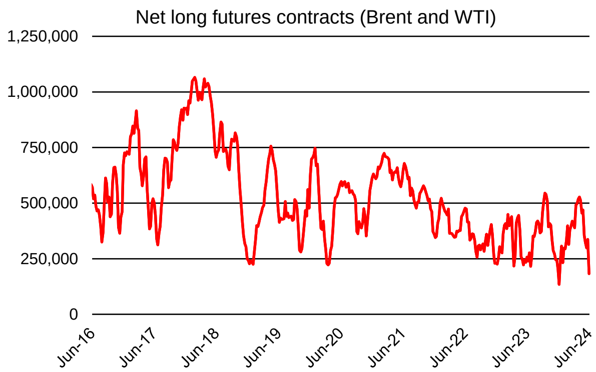
- Abundant spare capacity in OPEC+ countries is prompting the cartel to unleash production at a time when American producers are expanding their market share.

US STRATEGIC RESERVES



- The US strategic petroleum reserves that the Biden administration used to stabilize the market during the pandemic years are recovering at a very slow pace.

DECLINE IN SPECULATIVE POSITIONS



- The decision by OPEC+ to expand its production and prospects of the war in Gaza remaining a localized conflict have led to a sharp decline in net-long speculative positions.

Source: IEA, Bloomberg, EIA, UniCredit Research

Natural Gas

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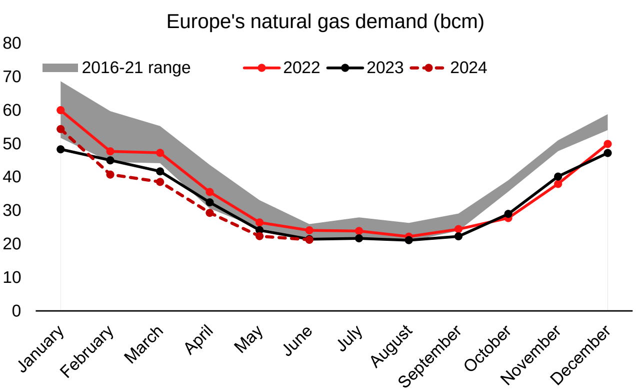
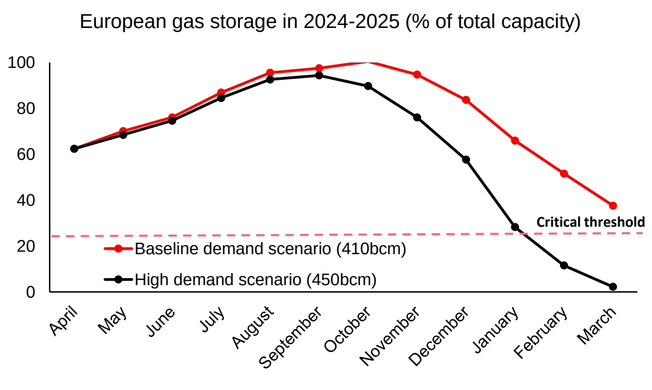
- Last winter unfolded similarly to the previous one, with milder-than-normal temperatures. In the meantime, the strategy of supply diversification away from Russian gas, with LNG playing a key role, continued successfully. As a result, even though supply remains extremely tight and vulnerable to shocks, as shown by recent price volatility due to Russia's threat to halt supply to Austria and revisions to planned maintenance of Norway's export facilities, we reiterate our expectation that TTF prices will fluctuate within the EUR 30-35/MWh trading range.
- The outlook for next winter looks bearish again, with storage levels potentially hitting 100% in late September/early October. One source of uncertainty from the demand side is posed by the shift from El Nino to La Nina, which could bring lower temperatures than last year and more extreme weather events. Looking at the breakdown by sector, demand seems to be stabilizing at lower levels across the board as a result of energy-efficiency gains, the green transition and structural consumption losses in energy-intensive sectors.
- The process of supply diversification is probably completed for the time being. Domestic production accounts for about 45% of total supply, followed by LNG imports (35%) and piped gas imports (20%). Norway alone covers around 30% of total supply, offering secure gas to the continent. This explains why pipeline outages in the country have created substantial price volatility in recent weeks.
- In our baseline, we assume that demand will amount to 410bcm in 2024-2025. With demand in 1H24 substantially below the level recorded last year, we expect higher demand of 3.5% in 2H24 to take into account a possible increase in gas consumption during the winter due to the end of El Nino. In this scenario, the winter ends comfortably, with storage close to 40% and TTF prices likely fluctuating between EUR 30 and EUR 35/MWh.
- In the risk scenario, we assume demand of 450bcm, below the 480bcm recorded in 2021. This could materialize if next winter turned out to be extremely cold. In this case, only a pick-up in LNG imports would satisfy this higher demand. Otherwise, given current natural gas and LNG inflows into Europe, storage would fall below the critical threshold of 30%, down to zero. In this scenario, TTF prices will likely jump above EUR 40-50/MWh.

EXCEPTIONALLY WEAK DEMAND



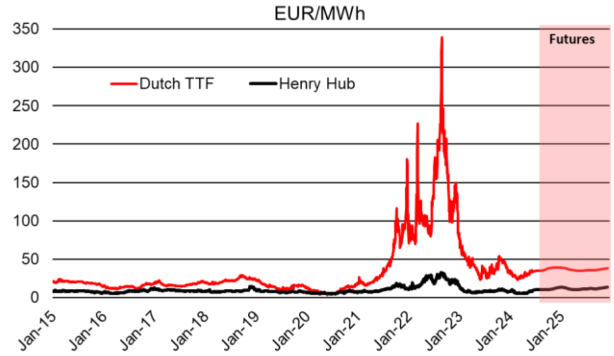
REASSURING BASELINE SCENARIO



Source: Energy Aspects, UniCredit Research

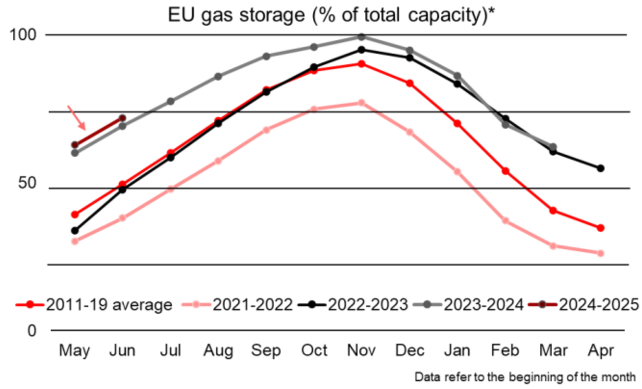
Natural Gas

PRICES



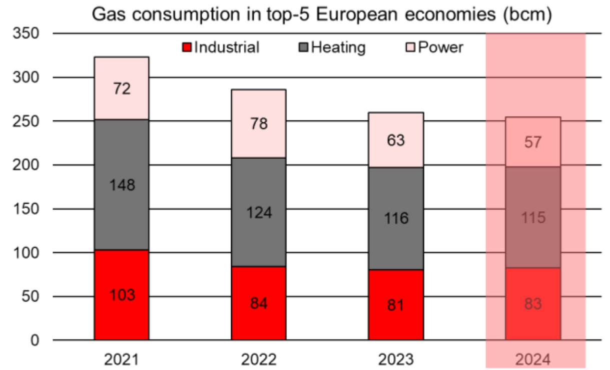
- TTF prices are likely to stabilize within the EUR 30-35/MWh trading range.

STORAGE



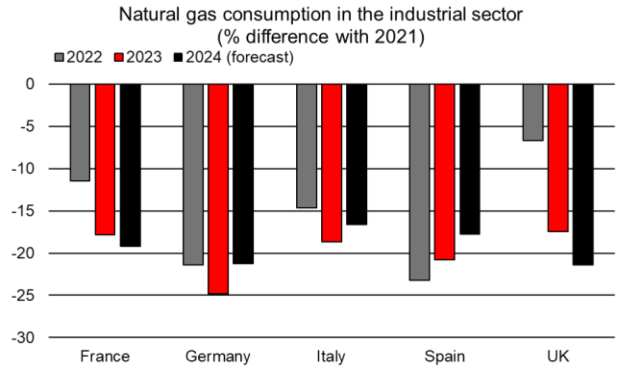
- Last November, gas storage in Europe hit 100% – a historic high. It is on track to hit this level again in October.

DEMAND (I)



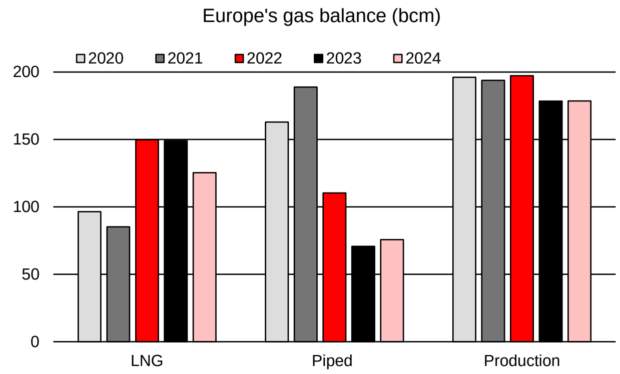
- Gas consumption is weak across the board.

DEMAND (II)



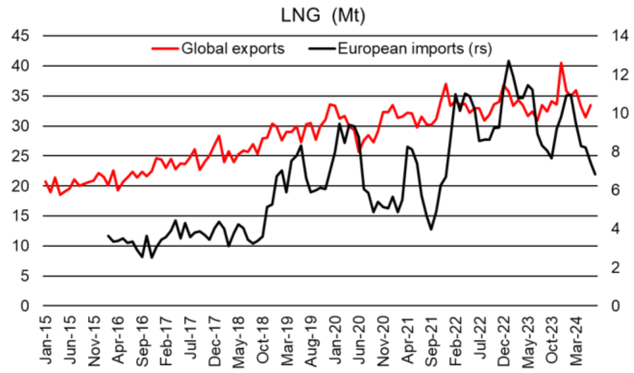
- Gas demand for industrial use is unlikely to stage a comeback, as losses of production capacity are likely to be permanent in energy-intensive sectors.

SUPPLY



- Given weak demand in 1H24, LNG imports are expected to be below the level recorded in 2022 and 2023.

LNG



- Global LNG supply is expected to increase by about 4% in 2024. Six major LNG projects are aimed to begin operations across the world.

Source: Energy Aspects, Bloomberg, UniCredit Research

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