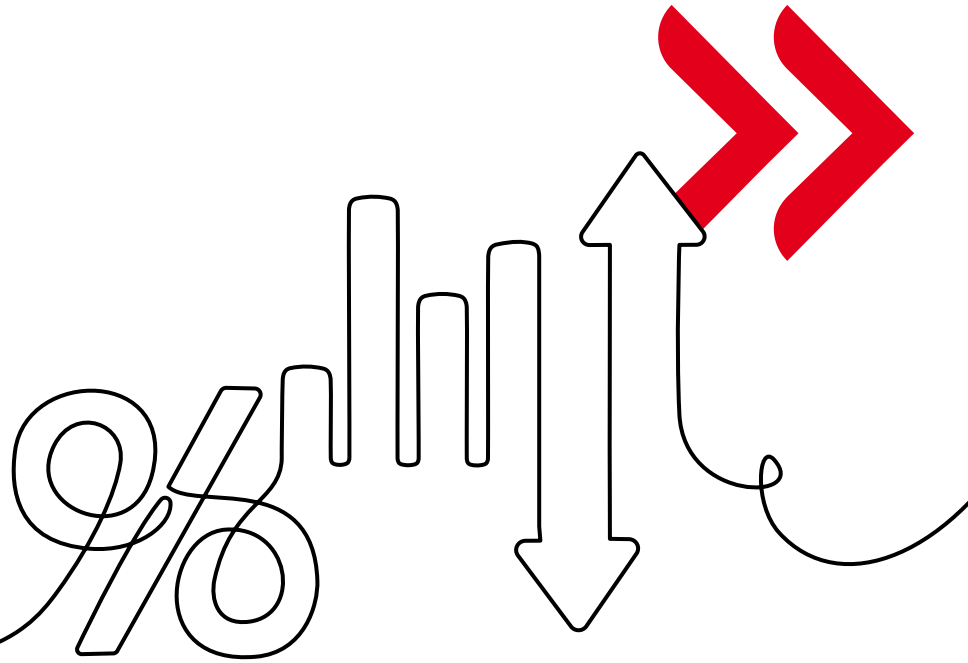


# Quarterly Updates

## Navigating the tariff tide



20 June 2025

**Editors**

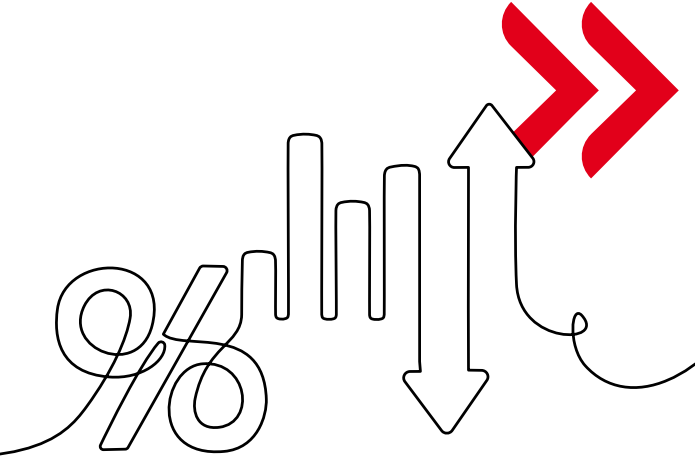
Edoardo Campanella, Luca Cazzulani, Stefan Kolek, Mauro Giorgio Marrano, Andreas Rees, Chiara Silvestre

The Investment Institute  
by



# Navigating the tariff tide

Quarterly Updates at a glance



## MACRO

**Trade war:** policy uncertainty to drag on; US tariffs of 10% likely to be the new floor.

**Growth:** moderate growth slowdown remains our baseline (no recession in the US; weak growth in the eurozone); downside risks due to tensions in the Middle East.

**Inflation:** on target in the eurozone; stubborn in the US.

**Central Banks:** ECB and Fed to cut once in 2025.

## STRATEGY

**Treasuries:** 10Y UST yields to trade sideways at 4.50% as recession risks and concerns on fiscal policy should broadly offset each other.

**Bunds:** Bund yields to be steady as the end of ECB easing approaches.

**BTPs:** solid appetite for carry and improved Italy's outlook should consolidate recent gains.

**Credit:** we remain constructive on credit, expecting only a minor spread widening, with carry remaining the key source of returns.

**Equities:** solid upside potential for both the European and US stock market of almost 10%

**FX:** we see the US dollar remaining weak, with EUR-USD reaching 1.20 over the medium term.

## CEE

**Political and fiscal risks:** to persist in Romania, Poland, Slovakia and Hungary.

## COMMODITIES

**Oil:** tensions between Iran and Israel create scope for temporary volatility in Brent prices that we expect to stabilise at USD 65-70/bbl by the end-2025.

**Gas:** needs to refill European gas inventories create upside pressure on TTF prices towards EUR 40-45/MWh.

**Gold:** central bank purchases and private-investor demand will drive gold price towards USD 3,400-3,500 /oz by the end of this year.

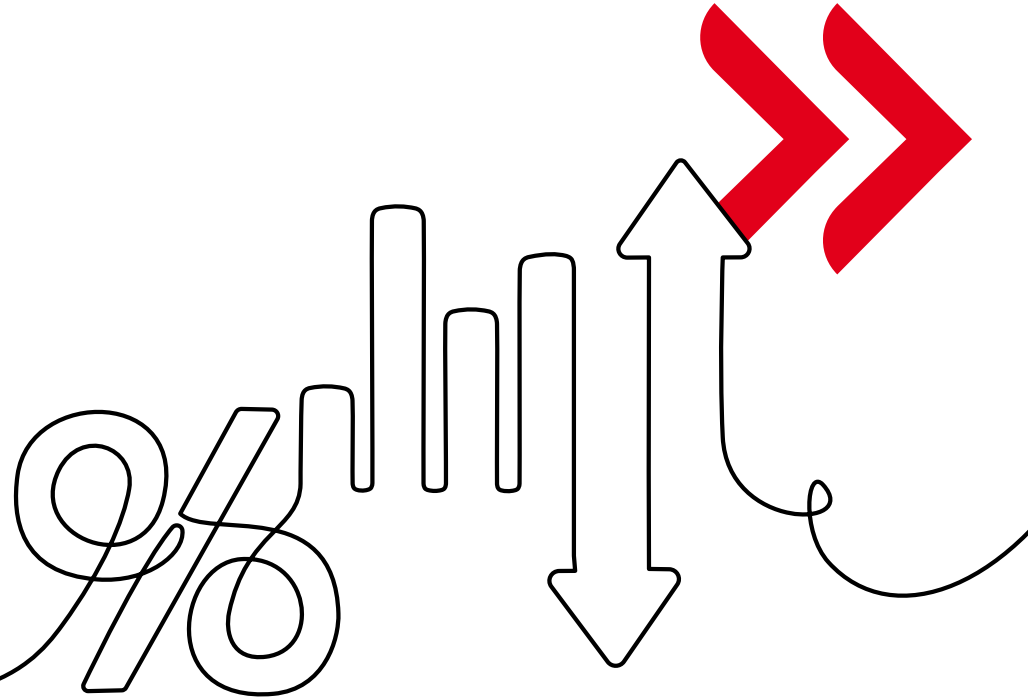
**Industrial Metals:** on balance, they will face moderate upside risks in the medium term.



# Executive Summaries

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MACRO	P.4
STRATEGY	P.5
CEE	P.6
COMMODITY	P.7





# Global economy adapting to geopolitical pressures

**GLOBAL:** Higher tariffs and policy uncertainty will weigh moderately on global growth. While negotiations between the Trump administration and US trading partners drag on, US tariffs of 10% are likely to be the new floor. **Downside risks** have recently increased, as the Israel-Iran conflict could evolve into a broader regional conflict with further surging oil and gas prices.

**US:** We expect slower GDP growth of 1.5% this year and 1.9% next year, but **no recession** due to a partial pivot by the administration on tariffs, the calming of financial market turmoil, and progress on a fiscal package. We still expect the Fed to cut only once this year as inflation moves up towards 4%.

**EUROZONE:** Frontloading of exports to the US boosted activity in 1Q25, but this effect is already reversing, leaving growth on a weak trajectory. GDP will likely rise by 1.0% both this year and in 2026. **Inflation has converged to 2%** and will likely stabilize at around this level. We expect a final rate cut by the ECB in September.

**GERMANY:** While the **fiscal bazooka** will arrive in the real economy only in 2026, policymakers have introduced tax incentives to lift capex spending and the production of electric vehicles from July 2025 onwards. We stick to our growth forecast of 0.1% and 1.3% in 2025 and 2026.

**ITALY:** The economy will be supported by **private consumer expenditures**, the pass-through of lower ECB rates to borrowing costs and higher spending of EU funds. We confirm our GDP forecast of 0.5% in 2025 and 0.8% in 2026.

**CHINA:** Besides higher US tariffs dampening Chinese export growth, **domestic demand** is likely to remain **weak** due to continuing woes on the real estate market and precautionary savings of households.





# Sideways yields, weaker USD, good appetite for carry

**RATES:** Opposing forces are likely to keep **UST yields** broadly sideways in the near term. In the medium term, we see a modest decline once Fed easing towards neutrality comes into focus. Be prepared for volatility episodes related to fiscal and trade uncertainty. The approach of the end of the easing cycle removes a source of support to **EGBs**. We see Bund yields moving sideways, with risks to the upside in the medium term related to the fiscal bazooka. Appetite for carry should help BTPs to consolidate at current levels.

**CREDIT:** Credit **spreads** have remained quite resilient after the “Liberation Day” tariff announcements and we are lowering our forecasts. We see IG NFI SEN spreads at 95bp, NFI subordinated at 210bp, high yield at 310bp and bank seniors at 95bp by the end 2025. We raise our recommendation for telecoms to OW from MW due to their defensive nature, low exposure to tariffs and solid credit metrics. We reiterate our OW recommendation on basic resources and oil & gas and our UW recommendation on automobiles & parts and chemicals.

**EQUITIES:** We see only **limited upside** for stock markets during the summer months, which typically display negative seasonality. Furthermore, US valuations are very stretched. On a 12M horizon, we see high single-digit performance for both the European and the US stock market. The technology sector in the US and cyclical sectors in Europe are our favourite picks.

**FX:** We remain **bearish on the USD**. The JPY will probably benefit from high Japanese yields and BoJ tightening later this year, while heavy BoE easing is set to hurt sterling, mainly in 2026. Slower Chinese growth and trade worries will likely prevent more CNY strength. A weaker USD may help CEE currencies, which we expect to be driven by domestic political and fiscal risks.





# Political risk and tariff uncertainty clouding the outlook

**GROWTH OUTLOOK:** The structure of economic growth increasingly relies on **domestic demand** as US tariffs and weakness in the European automotive sector are weighing on external demand, while the impact of fiscal stimulus in Germany will likely remain muted.

- Household consumption remains the key pillar of domestic demand as tight labour markets support real wage growth.
- Fixed investment may pick up in 2026, supported by EU-funded infrastructure investments and lower interest rates.

**POLITICAL AND FISCAL RISKS:** Risks remain in the spotlight in **Romania, Poland, Slovakia and Hungary**.

While economic fundamentals and risk metrics vary, all these countries need to deliver fiscal adjustment.

- A parliamentary majority supporting fiscal consolidation is essential for Romania to avoid a sub-investment grade rating.
- A presidential veto right and the risk of further erosion in the government's popularity slow fiscal adjustment in Poland.
- In Hungary, the focus is on a potential government change after 16 years in the election next spring.

**INFLATION AND MONETARY POLICY:** Economic policy measures add to inflation swings.

The **room for rate cuts** is narrowing but also depends on fiscal steps.

- We expect 50bp in cumulative cuts in Poland and Serbia and one 25bp cut in Czechia, Hungary and Romania until year-end.
- In 2026, Poland may have the most room for further rate cuts following a late start in this respect.
- In Romania, the implementation of fiscal correction steps will determine the room for additional rate cuts next year.
- In Czechia and Hungary, we see room for only one additional 25bp cut in early 2026.





**OIL:** Although oil prices have rebounded recently, the dynamics of supply and demand argue in favour of lower oil prices going forward. Assuming that tensions between Israel and Iran are short-lived and do not lead to major supply disruptions, we see **Brent** crude trading in a USD 65-70/bbl range in 2H25 and between USD 62.5/bbl and USD 67.5/bbl in 2026.

**NATURAL GAS:** European gas inventories are currently around 20pp below where they were at this time of year in the last two years. Refilling these facilities to acceptable levels will likely put upside pressure on gas prices as restocking accelerates. We expect **TTF prices** to rise from their current lows to average EUR 40-45/MWh for this year.

**PRECIOUS METALS:** Amid persistent geo-economic risks, investors are expected to continue to seek safe-haven assets, which will boost both **gold** and **silver** prices in the medium term. We see the gold price remaining in a USD 3,400-3,500/oz range in 2H25 before moving to USD 3,500-3,600/oz in 2026. Silver is expected to stay in the USD 35-40/oz range in 2H25 and to move into the USD 40-45/oz range in 2026.

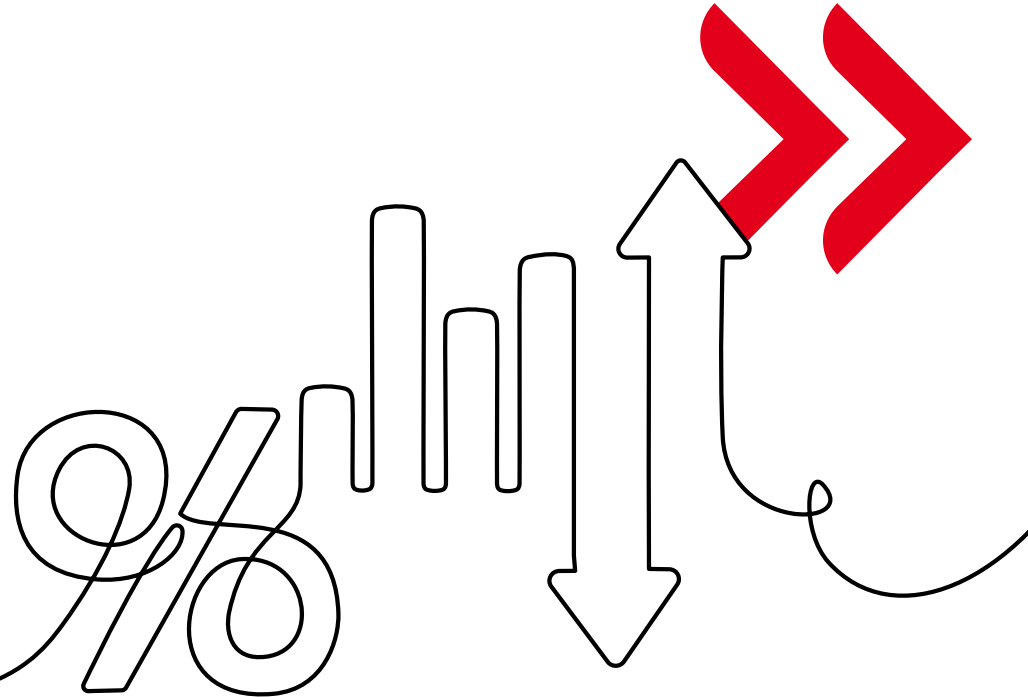
**INDUSTRIAL METALS:** Despite weak economic demand, industrial metal prices face moderate upside risks in the medium term. **Copper** prices should remain supported at USD 9,600-9,800/t in 2H25 (2026: USD 9,800-10,000/t). **Aluminium** prices are expected to range between USD 2,400-USD and 2,500/t in 2H25 with the potential to rise to USD 2,500-2,600/t in 2026. **Steel** prices are expected to remain rangebound, with risks skewed to the upside. Nickel, lithium and cobalt face adverse supply-demand dynamics, which points to lower prices, while risks are skewed to the upside in the longer term.



# Macro Update

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<b>GLOBAL</b>	<b>P.9</b>
<b>US</b>	<b>P.11</b>
<b>EUROZONE</b>	<b>P.14</b>
<b>GERMANY</b>	<b>P.17</b>
<b>FRANCE</b>	<b>P.19</b>
<b>ITALY</b>	<b>P.20</b>
<b>AUSTRIA</b>	<b>P.22</b>
<b>UK</b>	<b>P.23</b>
<b>CHINA</b>	<b>P.24</b>



## Authors

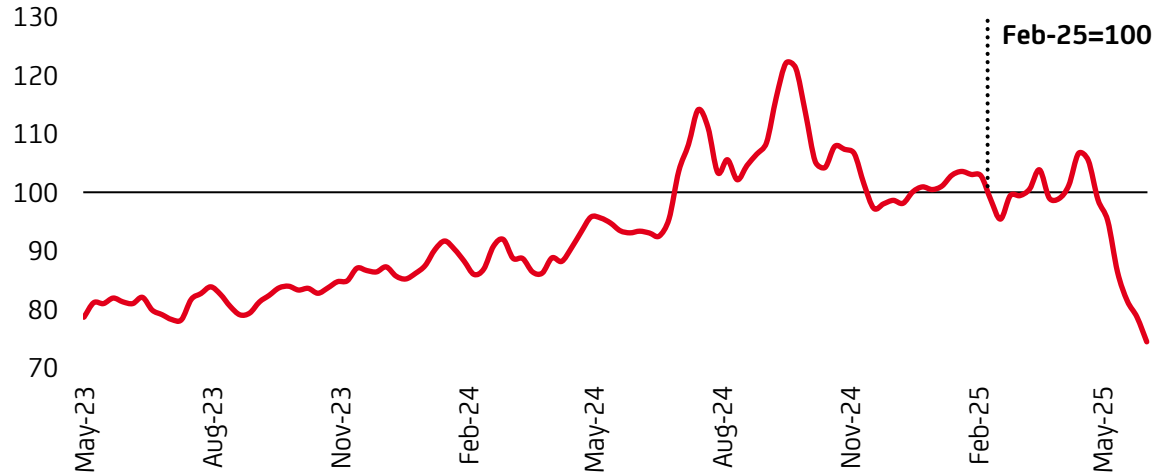
Stefan Bruckbauer, Tullia Bucco, Loredana Federico, Walter Pudschedl, Andreas Rees, Marco Valli, Daniel Vernazza



# Breakthrough in trade negotiations between the US and China?

## CARGO SHIPPED FROM CHINA TO US STILL PLUNGING

LADEN CONTAINER SHIP TONNAGE (TEU) DEPARTING FROM CHINA TO US  
(INDEX FEBRUARY 2025=100; 4-WEEK MOVING AVERAGE; SEASONALLY ADJUSTED)



Source: Bloomberg, The Investment Institute by UniCredit

- The US and China seem to have made progress in their trade negotiations, although specific details of the new framework are still limited at the time of writing. This follows a 90-day truce brokered in mid-May, where both sides had agreed to slash tariffs.
- Besides tariffs, there have been additional controversial issues, such as the Chinese export curbs on rare earths, US restrictions on Chinese chips and the cancellation of US visas for Chinese students.
- Despite the 90-day truce agreed in mid-May, trade flows have continued to dry up. Real-time data in the form of cargo shipped from China to the US show that it recently hit its lowest level in more than two years.

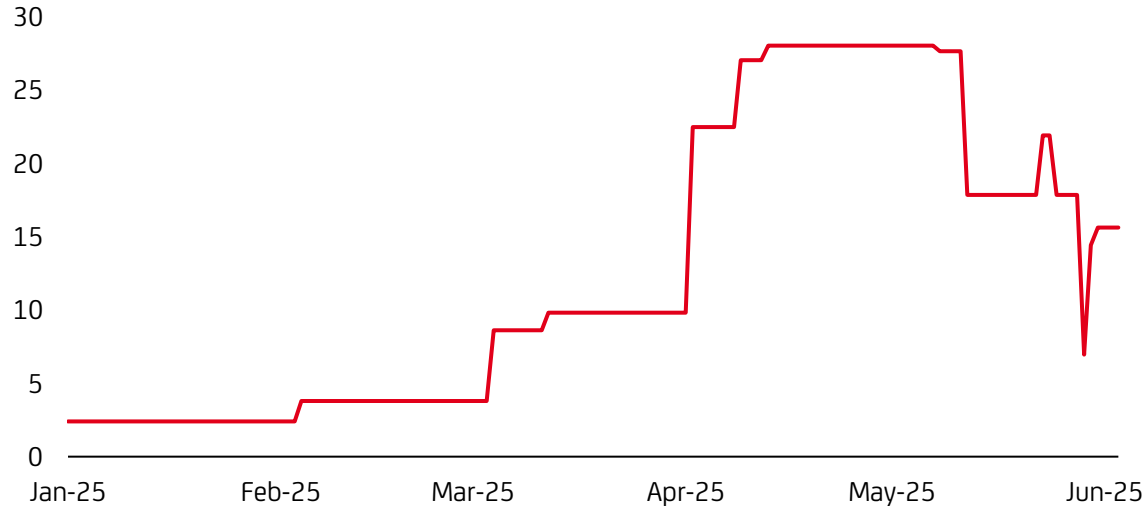


# Global

## Tariffs and uncertainty remain high

### TARIFFS REMAIN HIGH EVEN AFTER US-CHINA DEAL

US AVERAGE EFFECTIVE TARIFF (USING 2024 IMPORT SHARES), %, BY ANNOUNCEMENT DATE



Source: The Budget Lab, The Investment Institute by UniCredit

- Tariffs remain high even after the US-China deal in mid-May. The Budget Lab at Yale estimates an average US tariff of 16% (using 2024 import shares), up from 2.4% at the beginning of this year.
- We expect US tariffs to settle around – or moderately below – current levels. The US Court of International Trade temporarily blocked President Donald Trump from imposing sweeping tariffs, but the Trump administration has other ways to impose tariffs.
- Tariff uncertainty will likely persist as Trump regards unpredictability as a strength. This ongoing uncertainty will likely weigh on hiring and investment.

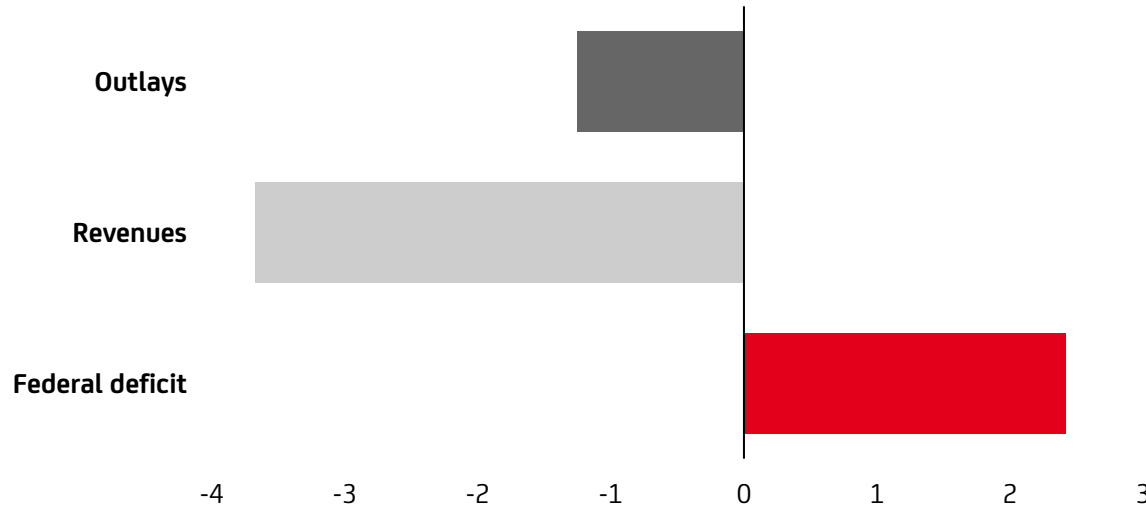


# US

## Extension of tax cuts to support activity

### FISCAL POLICY WILL NOT REDUCE THE DEFICIT

BUDGET PLAN PASSED BY THE HOUSE OF REPRESENTATIVES, USD TN OVER 10 YEARS



- The US House budget plan includes tax cuts of about USD 3.7tn over a decade, some spending increases (e.g. border enforcement) and spending cuts totaling USD 1.3tn (mostly on lower-income households). This will increase the deficit by USD 2.4tn over 10 years.
- The vast bulk of the tax cuts includes an extension of current individual tax rates, which would rise starting in October. This is unlikely to be particularly stimulative but avoids a cliff edge.
- Revenue estimates do not include potential additional customs receipts from tariffs, but these are highly uncertain and would come with negative dynamic growth effects.

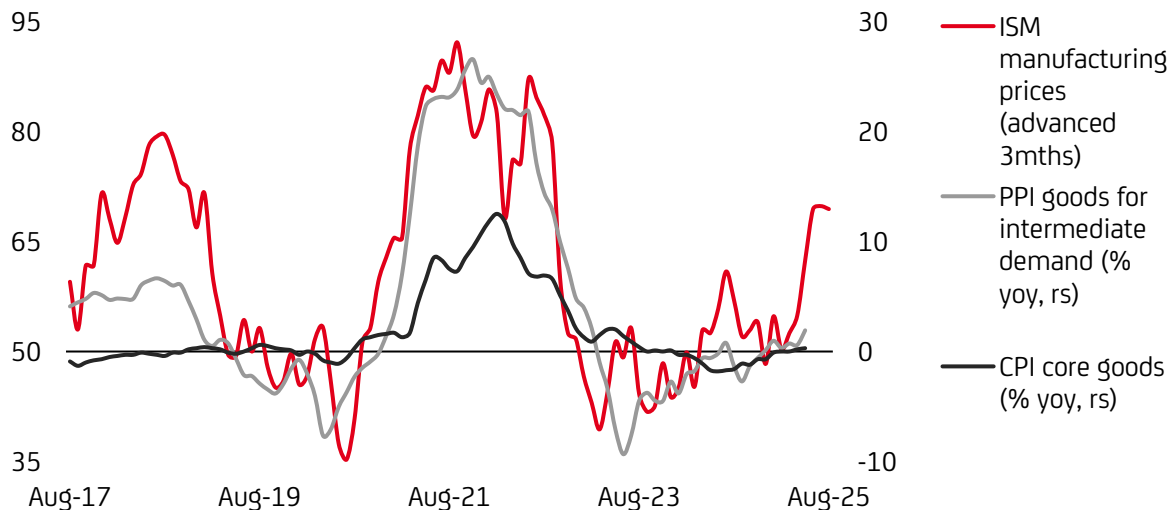
Source: Congressional Budget Office, The Investment Institute by UniCredit



# Inflation set to move higher

## PIPELINE INFLATIONARY PRESSURE IS BUILDING

ISM MANUFACTURING PRICES AND CONSUMER GOODS PRICES



- The impact of tariffs on consumer inflation has been muted so far but is unlikely to last. It typically takes around three months for tariffs to be passed on to consumers, and the frontloading of imports has likely delayed this.
- A squeeze in firms' margins seems likely, but tariffs are too high for firms not to pass the bulk of them on.
- A key uncertainty is the strength of so-called second-round effects of higher tariffs on other prices and wages. Lower immigration means that the labor market is unlikely to loosen much. Inflation expectations may be more sensitive to higher prices following the recent high-inflation episode.

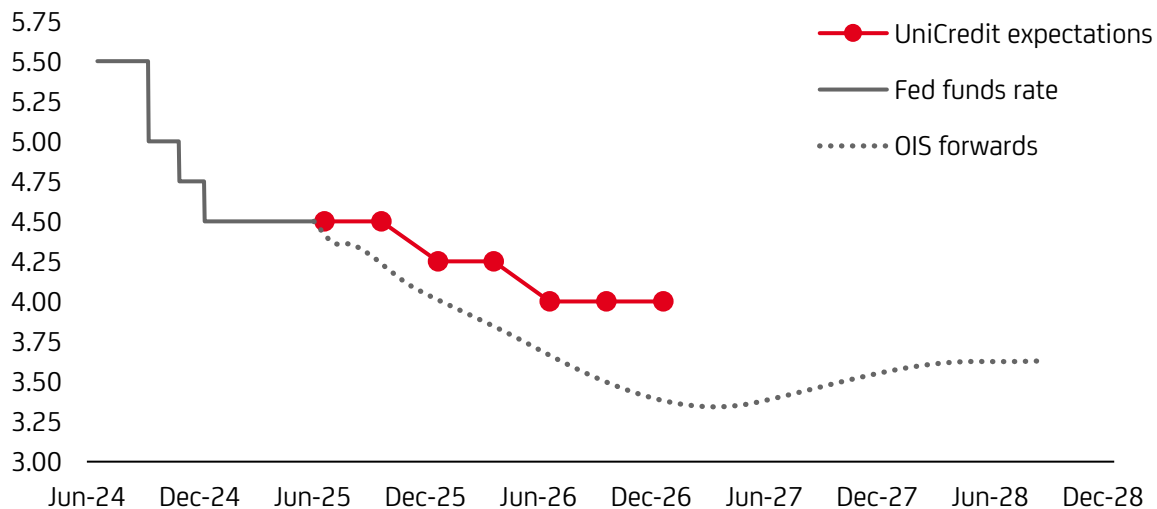
Source: BLS, Institute for Supply Management, The Investment Institute by UniCredit



# We see just one Fed rate cut this year

## FED TO CUT ONCE THIS YEAR AND ONCE NEXT YEAR

EXPECTATIONS FOR THE FED FUNDS RATE



Source: Bloomberg, The Investment Institute by UniCredit

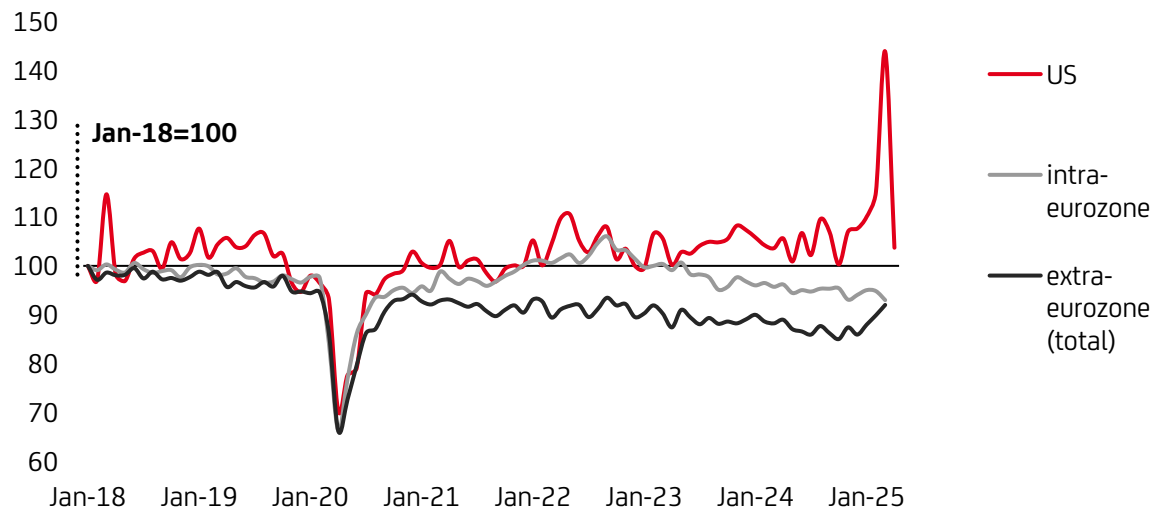
- The tightening of financial conditions since the 2 April reciprocal tariffs announcement has been reversed.
- The resilience of the labour market means that the Fed can afford to wait for greater clarity on government policy and economic data before deciding whether to adjust rates.
- In our base case of no recession, the Fed will likely focus on its price-stability goal, and we expect just one rate cut this year, in 4Q25, and one cut in mid-2026.



# Frontloading exports to the US fuelled activity, but only temporarily

## EXPORTS TO THE US SURGED, THEN COLLAPSED

EUROZONE MERCHANDISE EXPORTS BY DESTINATION (VOLUME INDEX, SEASONALLY ADJUSTED)



- Frontloading of US imports supported eurozone exports, driving strong GDP growth in 1Q25 (+0.6% qoq).
- Among the main countries, Germany and Italy seem to have benefitted the most, while frontloading has been muted in France and Spain.
- Ireland, where GDP surged by almost 10% qoq, stands out as the eurozone country recording the largest boost amid skyrocketing pharma exports.
- This effect is already reversing, leaving growth on a weak footing. However, the strong start to the year is lifting our 2025 GDP forecast from 0.9% to 1.0%. Our estimate for 2026 remains at 1.0%

Source: Eurostat, The Investment Institute by UniCredit

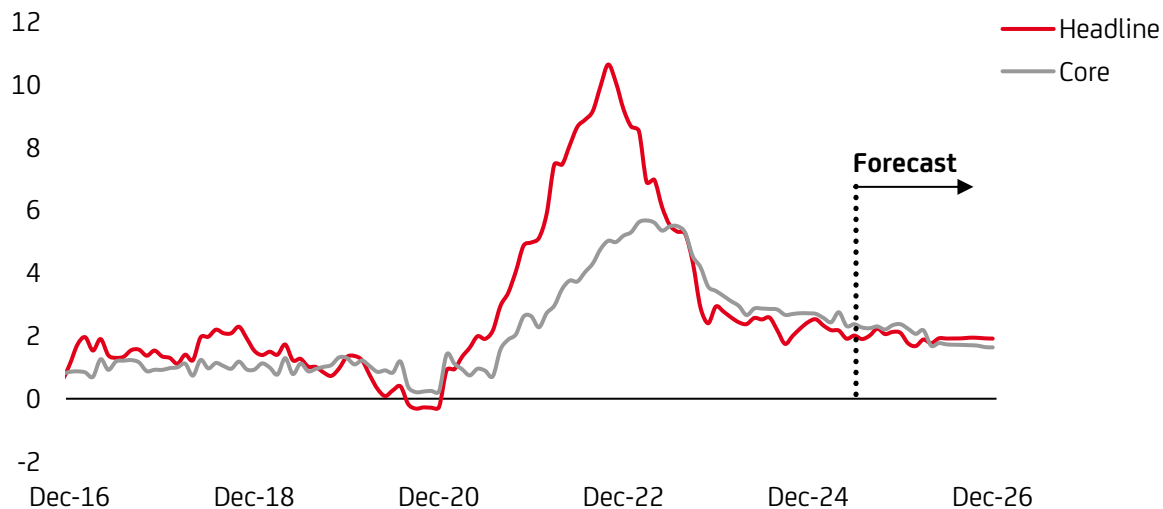
Note: Data for eurozone exports to the US refer to April, while data for extra- and intra-eurozone exports are available until March.



# Trade tensions help disinflation

## HEADLINE INFLATION CONVERGES TO THE ECB'S GOAL

HICP (YOY %)



- Headline inflation has converged to the ECB's price goal.
- Trade tensions increase downside risks to the eurozone growth outlook while adding to disinflationary pressure, at least in the short to medium term.
- Weak economic growth, euro appreciation and the risk of diversion of Chinese trade away from the US are likely to keep headline inflation at around 2% for the foreseeable future.
- Core inflation is likely to remain on a downward trajectory as slower wage growth helps reduce price pressure in services.

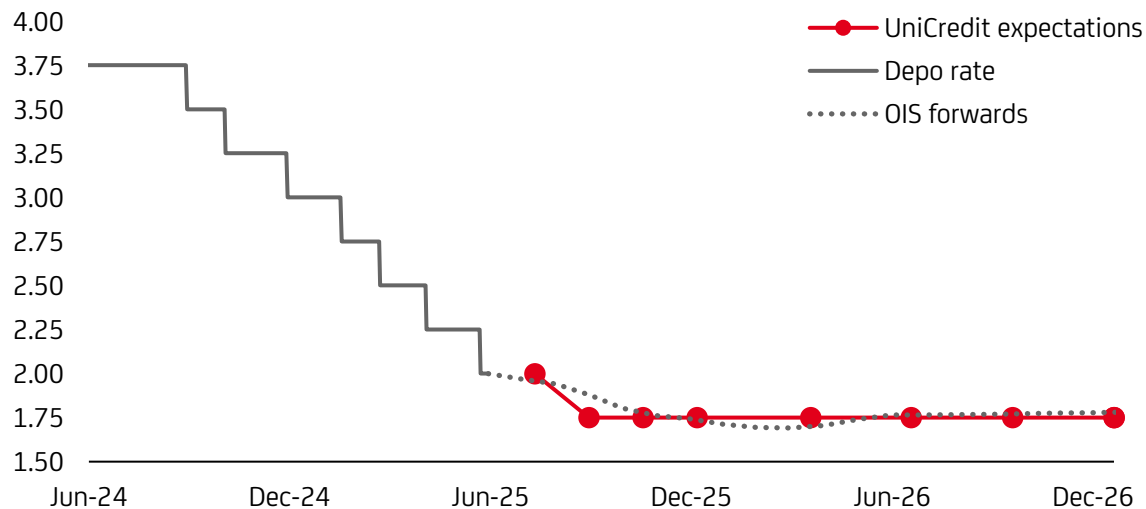
Source: Eurostat, The Investment Institute by UniCredit



# Rate cuts drawing to an end

## ONE CUT TO GO

EXPECTATIONS FOR THE DEPOSIT RATE (%)



- The ECB delivered a further 25bp rate cut on 5 June and signaled that the easing cycle is ending.
- We confirm our view that the deposit rate will bottom out at 1.75%. We expect a pause in July and the final 25bp reduction in September, as growth indicators will probably weaken from here, while inflation remains in line with the ECB's goal.
- Our forecast for the terminal rate would be at the low end of the neutral range estimated by ECB staff (1.75-2.25%).

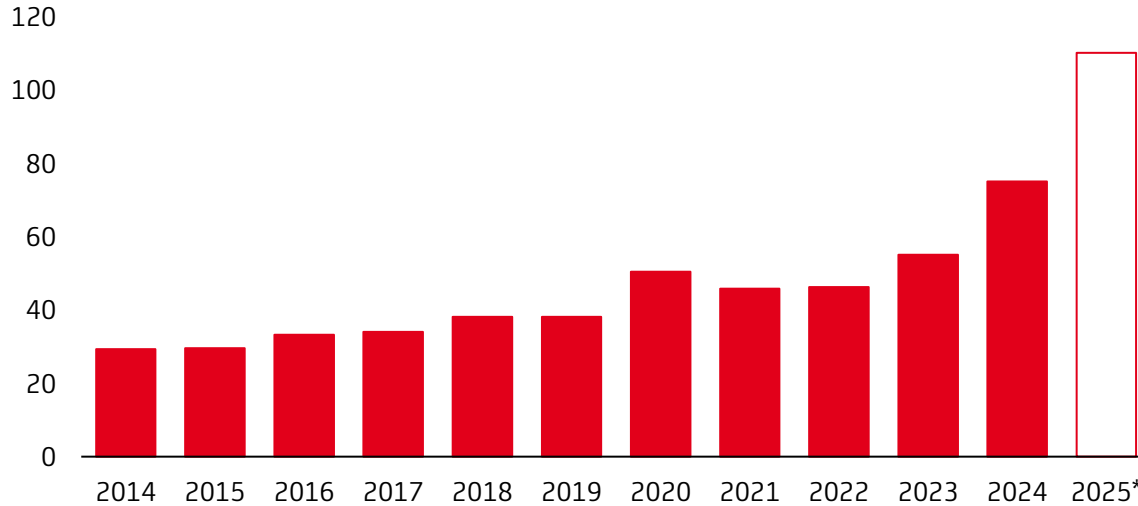
Source: Bloomberg, The Investment Institute by UniCredit



# Implementing the fiscal bazooka will take some time

## RAMPING UP PUBLIC INVESTMENT

PUBLIC INVESTMENT OF FEDERAL GOVERNMENT, IN EUR BN



Source: Federal Finance Ministry, The Investment Institute by UniCredit

Note: \* The 2025 figure is the planned investment by the government

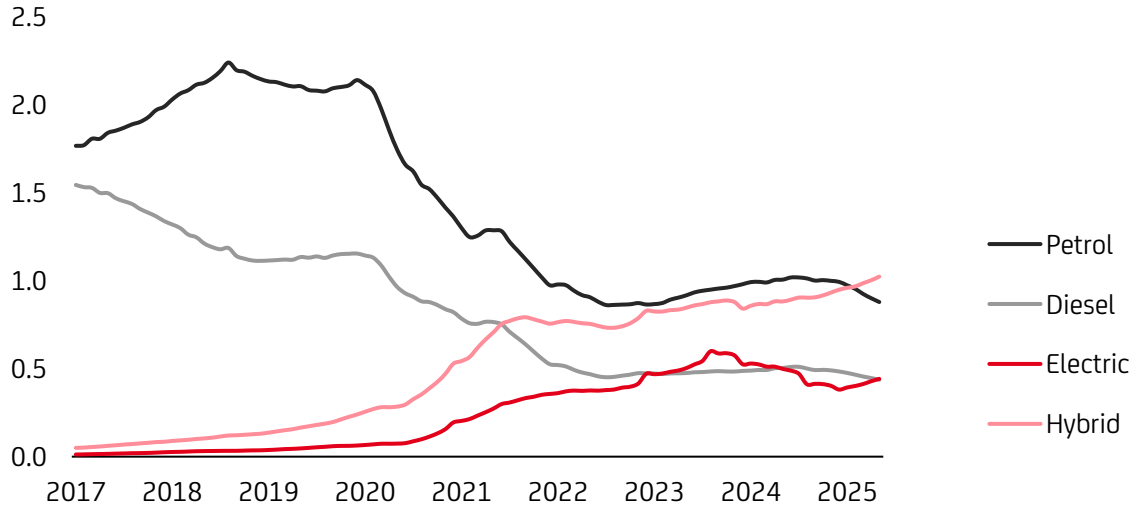
- The new government will present the federal budget for 2025 and a rough medium-term spending plan at the end of June. The federal budget will probably be passed by the Bundestag in September.
- According to pre-announcements, public investment is targeted to rise to EUR 110bn in 2025 already, an increase of about 50% compared to 2024. However, we think that delays are likely before the additional funds effectively reach the real economy.
- The government plans to reduce bureaucracy to speed up processes, comparable to the streamlining in 2022, to swiftly build new LNG terminals to replace Russian gas.



# Policymakers are bridging the gap with tax incentives

## TAX INCENTIVES LIKELY TO LIFT EV SECTOR

NEW PASSENGER CAR REGISTRATIONS IN GERMANY BY PROPULSION, IN MN (MOVING 12-MONTH SUM)



- As the implementation of the fiscal bazooka will take some time, the government recently introduced significant tax incentives to stimulate the economy from July 2025 onwards.
- Besides an “investment booster”, which allows for a depreciation rate of 30% for machinery and equipment, the plan foresees tax incentives for companies purchasing electric vehicles (EVs). We think the German car industry will benefit greatly from the tax cuts, as it has a substantial market share of newly registered EVs in Germany (about 50-60%).
- We stick to our GDP forecast of 0.1% for 2025 and 1.3% in 2026.

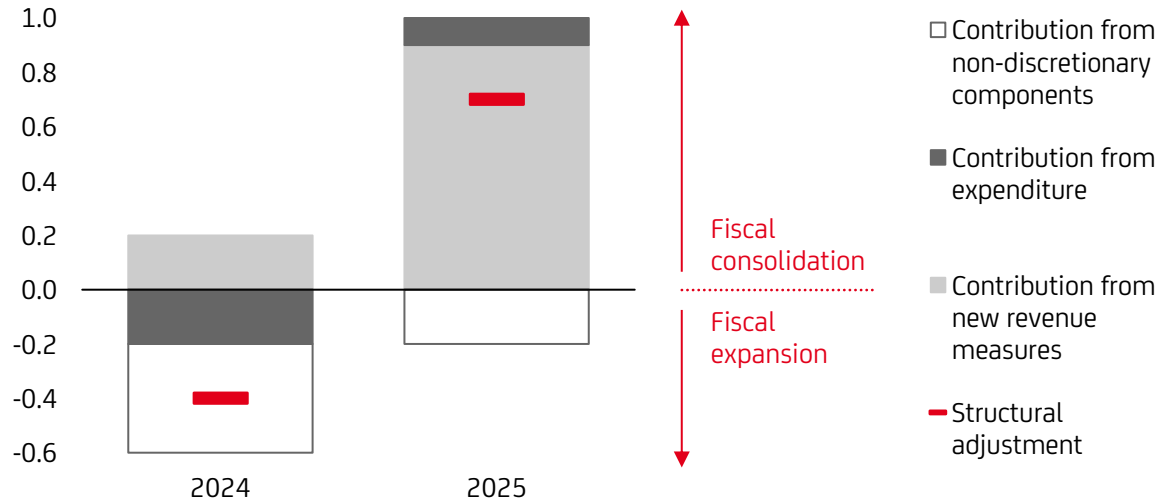
Source: German Federal Motor Transport Authority, The Investment Institute by UniCredit



# Political uncertainty remains center stage

## 2025 FISCAL CONSOLIDATION MAINLY BASED ON REVENUE MEASURES (THAT BURDENED FIRMS)

CHANGE IN STRUCTURAL BUDGET BALANCE (PP OF POTENTIAL GDP)



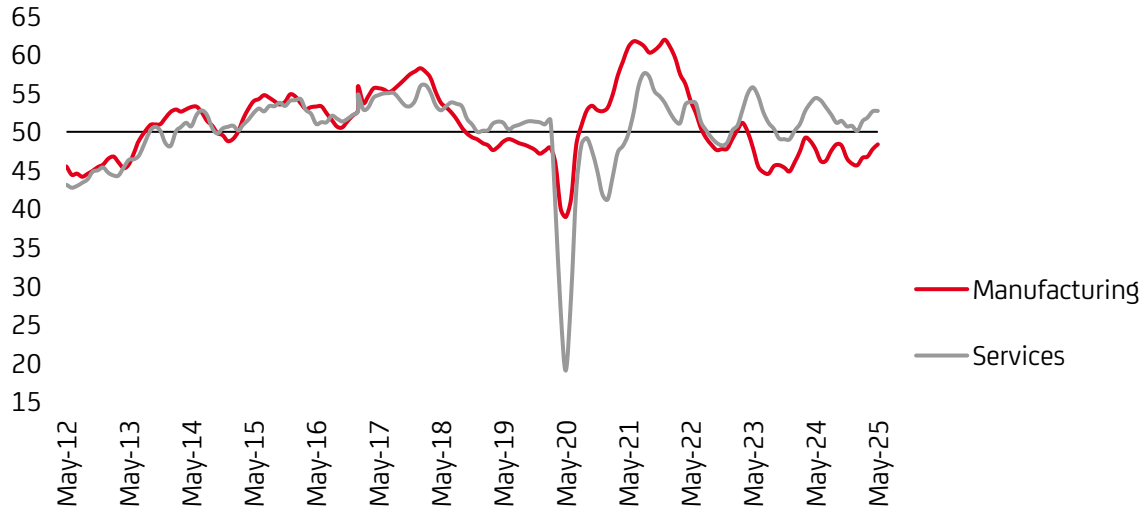
Source: French government, The Investment Institute by UniCredit

- A year has passed since the dissolution of parliament last June, and the window to call new elections has just reopened or is approaching, depending on how one interprets the letter of the Constitution.
- However, for reasons that vary from one party to another, no one currently has an interest in bringing down the government and calling new (most likely inconclusive) elections.
- The next stumbling block to the government's fragile survival could thus be the approval of the 2026 budget in the fall.
- This is expected to be challenging as, to comply with EU rules, France will have to implement a significant fiscal consolidation (worth 1.2% of GDP) next year, this time including significant spending cuts.



# Domestic demand in the driver's seat

## PMI INDICATORS SUGGEST RESILIENCE SO FAR



Source: S&P Global, The Investment Institute by UniCredit

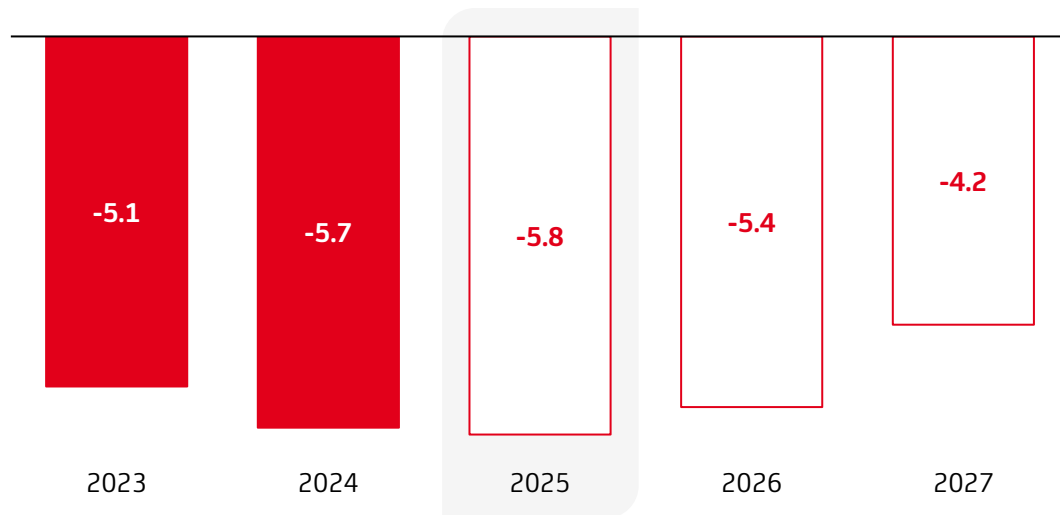
- Despite ongoing geopolitical uncertainty, PMIs are showing resilience, while consumer sentiment is holding up. We forecast positive GDP growth in 2Q25, albeit slowing, as net exports will turn into a drag amid US trade tensions.
- Private-consumption growth is likely to accelerate in 2025. Moreover, we expect the pass-through of lower ECB rates to firms' borrowing costs, together with higher spending of EU funds (related to the NRRP), to support fixed investment. We confirm our GDP forecast of 0.5% in 2025 and 0.8% in 2026.
- Employment is likely to expand this year, but at a slower pace than the 2% average over 2022-24 (+1.5% yoy Jan-Apr). The unemployment rate is currently at 5.9%. We project inflation will remain below 2% yoy, also considering downward pressure from a stronger euro.



# Public finances look good and are EC-compliant

## 2025 CASH DEFICIT STILL HIGH BUT MANAGEABLE

STATE-SECTOR CASH BALANCE (% GDP)

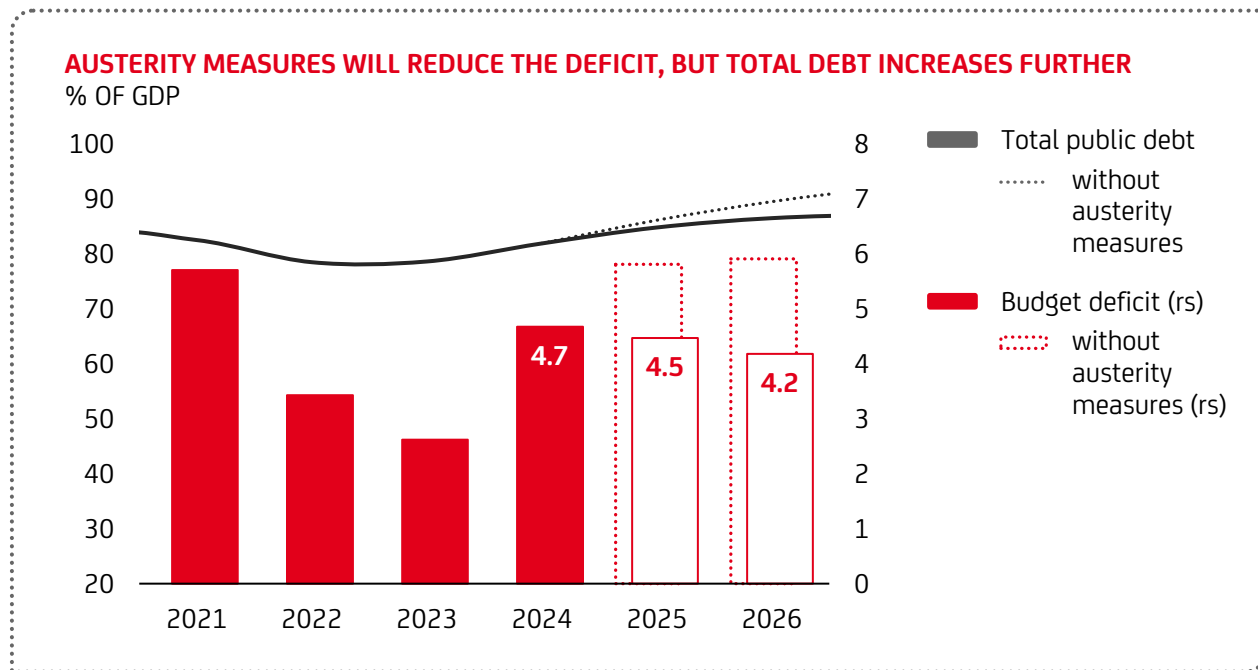


Source: Italian government, The Investment Institute by UniCredit

- In April, the government set an estimate for the 2025 cash deficit broadly in line with that of 2024 – despite initial expectations of a deterioration (we projected it slightly above 6% of GDP at the end of 2024). Monthly data for the state-sector cash deficit until May support this forecast.
- This is consistent with a stabilisation of the budget deficit (Maastricht definition) at slightly below 3.5% of GDP this year, before moving close to 3% in 2026. The EC recently confirmed that, in 2025, net expenditure, the key fiscal indicator, is projected to grow within the ceiling established by the corrective path.
- The public debt/GDP ratio is likely to increase (due to housing tax incentives), but this comes with an improving primary balance and an encouraging picture for interest expenditure.



# Struggling against the effects of high inflation



Source: Statistik Austria, BMF, The Investment Institute by UniCredit

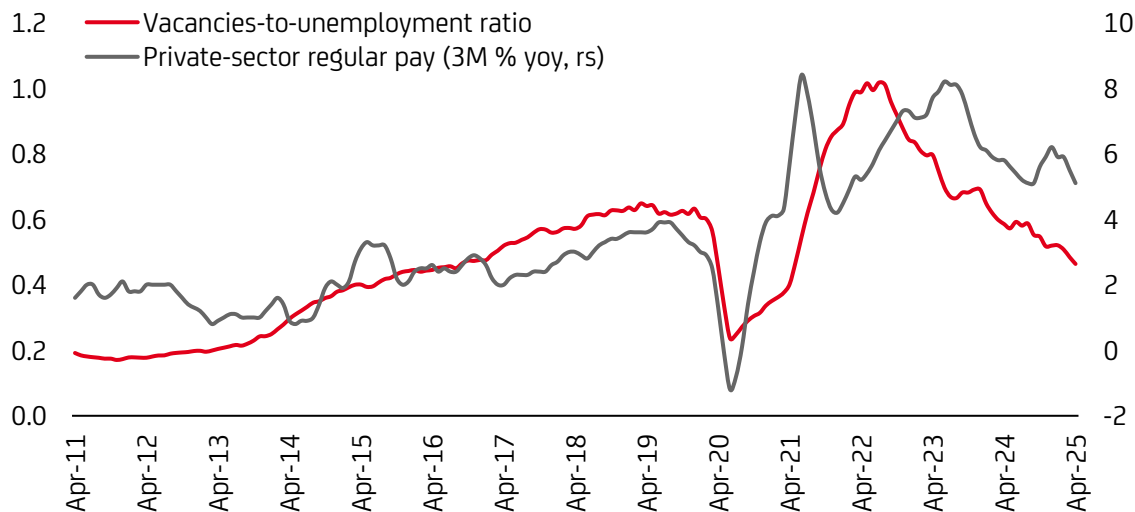
- The recession ended at the beginning of the year, but we do not expect any noticeable revival of the Austrian economy for the time being.
- The austerity package increases headwinds for an economic improvement via consumption and is not sufficient to prevent the opening of an Excessive Deficit Procedure by the EU against Austria.
- Inflation rose to an average of 3.1% yoy from January to May, well above the level in the euro area. Inflation is not expected to reach the 2% target until 2026.



# Low growth and a deteriorating labour market

## THE UK LABOUR MARKET IS DETERIORATING BUT PAY GROWTH IS LAGGING

### JOB VACANCIES AND PAY GROWTH



- The UK economy faces a plethora of headwinds, from US tariffs, a rise in employers' national insurance, an inflation-beating minimum wage increase and a jump in household regulated bills, all of which are likely to keep underlying GDP growth subdued.
- Labour market quantities are now showing clear weakness, with vacancies continuing to fall, the unemployment rate rising and payrolls falling.
- We expect the Bank of England to cut the bank rate in August, November and December this year. The spike in inflation, driven by regulated prices, is temporary.

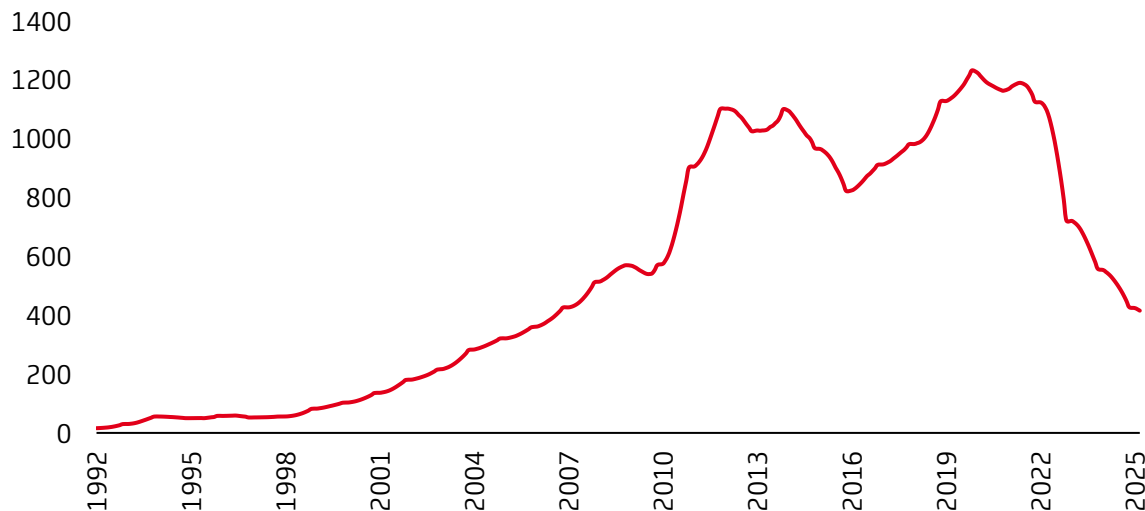
Source: ONS, The Investment Institute by UniCredit



# Growth challenges continue

## PERSISTING WOES IN THE REAL ESTATE SECTOR

FLOOR SPACE OF HOUSES NEWLY STARTED (MN SQUARE METERS, 12-MONTH MOVING AVERAGE)



Source: Bloomberg, The Investment Institute by UniCredit

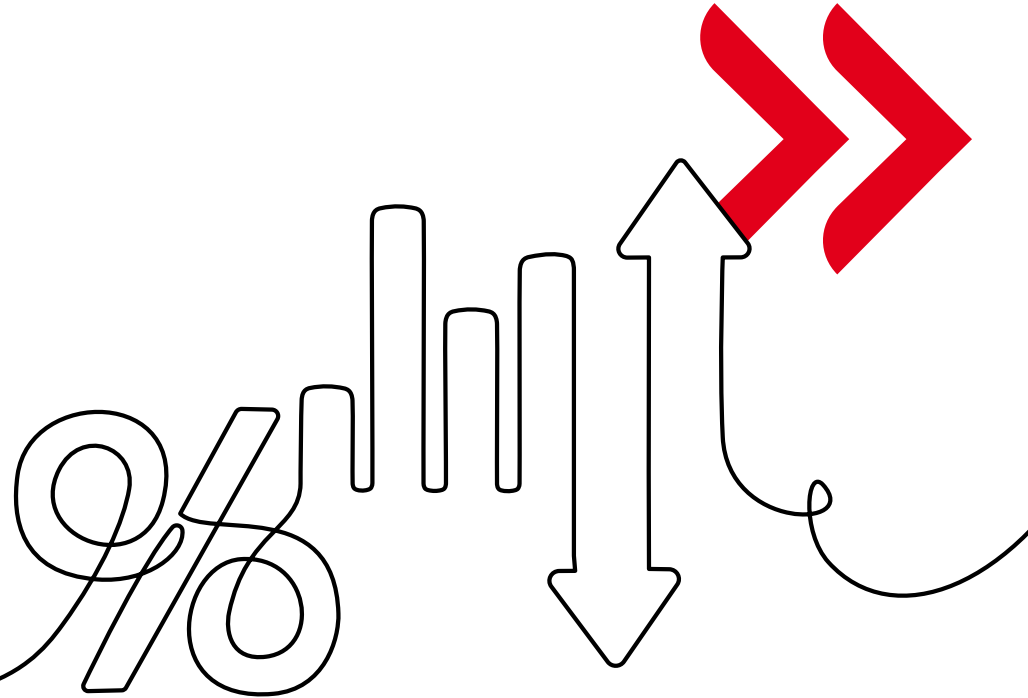
- The Chinese economy continues to navigate a complex set of external and internal challenges. Besides higher US tariffs dampening Chinese export growth, domestic demand is likely to remain weak.
- Driven by still-elevated developer debt, housing starts continued to decline further. Consumer spending also remained sluggish in light of negative wealth effects (falling house prices) and precautionary savings due to job insecurity and demographic pressures.
- The latest announcements of fiscal stimulus measures have fallen short of what is needed to fuel dissaving of households and rebalance China's growth model.



# Strategy Update

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<b>RATES</b>	<b>P.26</b>
<b>CREDIT</b>	<b>P.33</b>
<b>FX</b>	<b>P.37</b>
<b>EQUITY</b>	<b>P.42</b>



## Authors

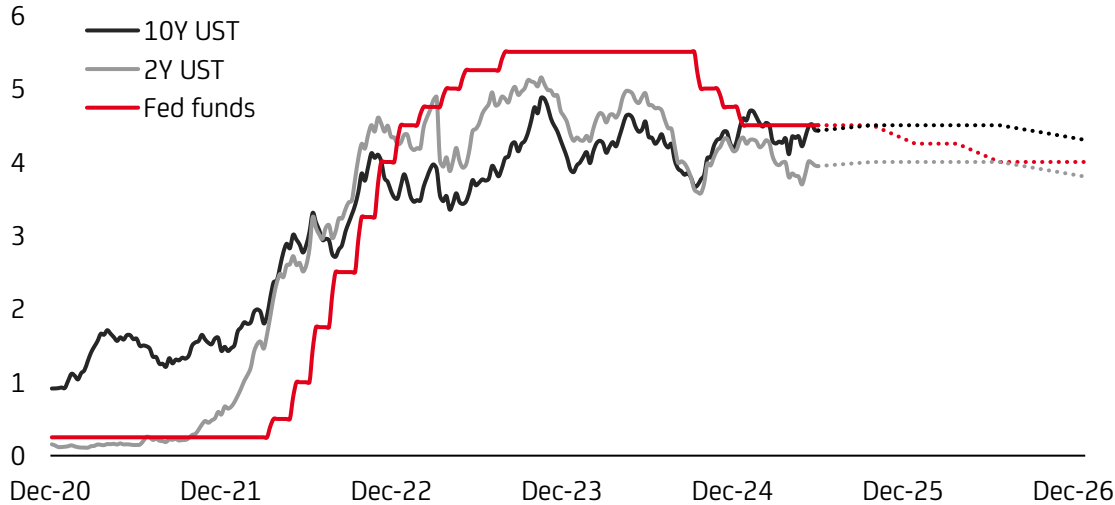
Luca Cazzulani, Francesco Maria Di Bella, Eszter Gárgyán, Stefan Kolek, Roberto Mialich, Christian Stocker, Michael Teig



# USTs in search of direction

## LITTLE DIRECTIONALITY FOR USTs

FED FUNDS RATE AND UST YIELDS (%)



Source: Bloomberg, The Investment Institute by Unicredit

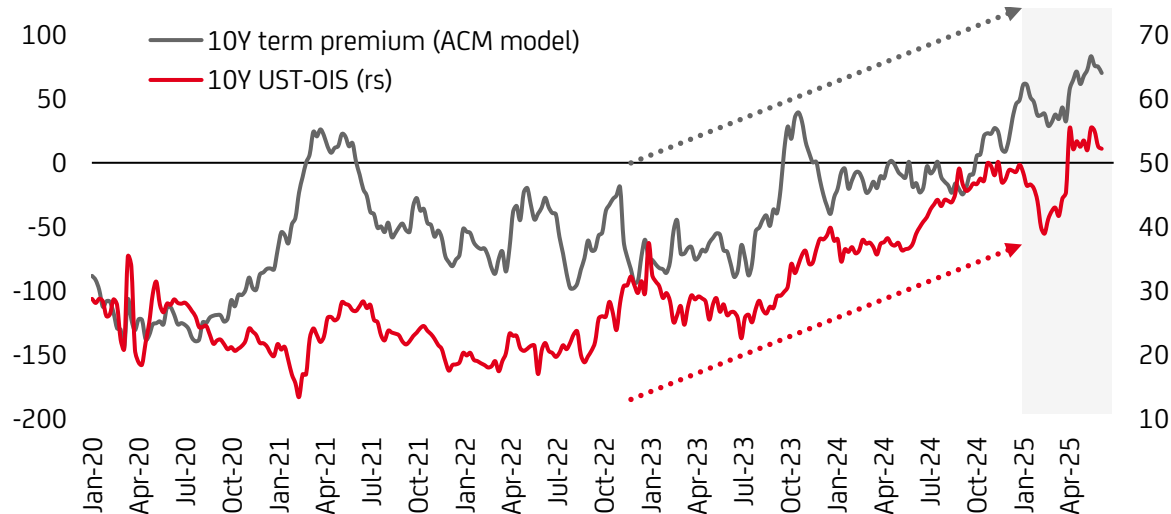
- Trump's agenda is having opposing effects on USTs:
  - Tariff and political uncertainty create concerns of a slowdown in economic activity and fuel demand for fixed-income assets but...
  - ...inflation risk could make the Fed less keen to cut rates, reducing the case for lower yields and...
  - ...concerns about fiscal and foreign policy cast doubt on foreign-investor demand for US assets, including USTs.
- We expect these forces to offset each other in the coming quarters, leaving UST yields little changed, with the 2Y and 10Y yields at 4% and 4.5%, respectively. We expect the 2/10Y spread to remain at 50bp.



# Trump's fiscal agenda still poses a risk to USTs

## MORE-ADVERSE SUPPLY/DEMAND BALANCE IS WEIGHING ON USTs

US 10Y TERM PREMIUM AND 10Y UST-OIS SPREAD



Source: Bloomberg, The Investment Institute by Unicredit

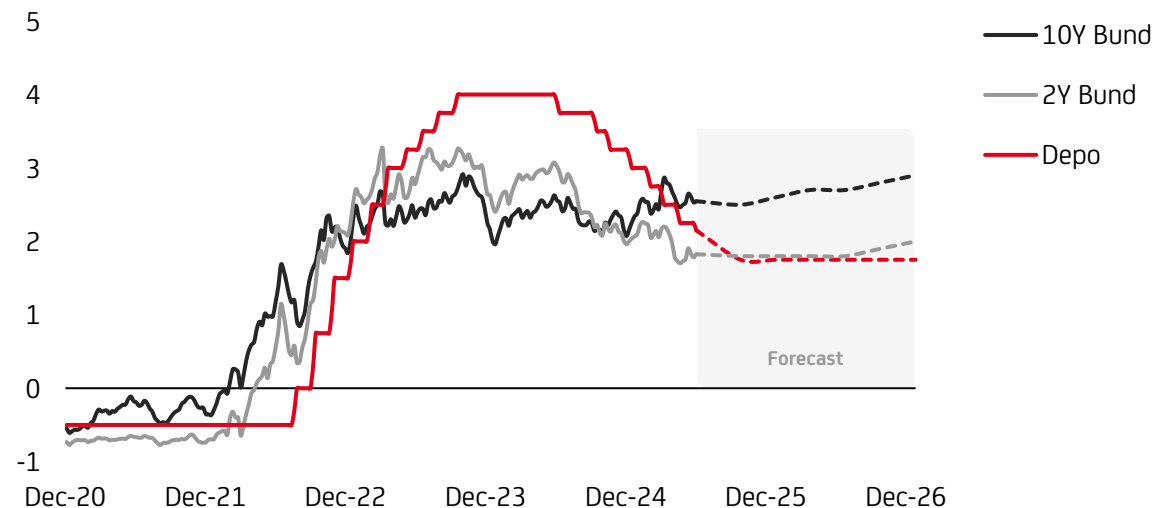
- After years of high deficit, UST supply is set to remain high also in the coming years to finance US administration policies.
- UST underperformance of OIS and the increase in term premium began in the second half of 2022, following the start of Fed QT. The trend accelerated this year, reflecting investor concern about the US fiscal stance.
- The fiscal agenda of the Trump administration will continue to pose upward risks to UST yields. Investors should be prepared for volatility.
- Following Moody's downgrade, no major rating agency gives US a AAA rating. This may reduce demand from foreign investors that are sensitive to such ratings.



# EGB outlook in a nutshell

## GERMAN YIELDS – SHORT-TERM CONSOLIDATION, MEDIUM-TERM STEEPENING

BUND YIELDS (%)



Source: Bloomberg, Investment Institute by UniCredit

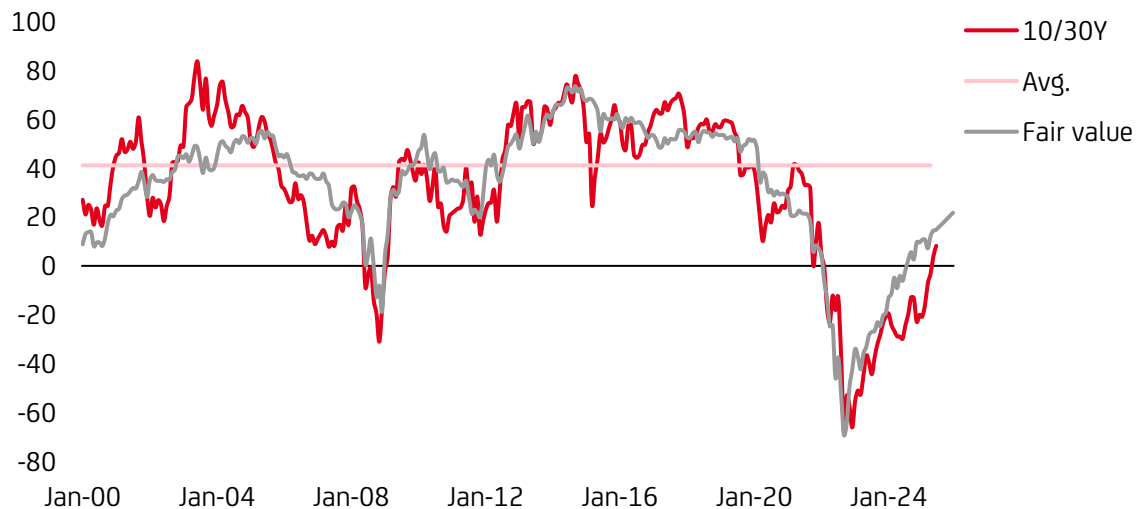
- With the ECB approaching the end of the easing cycle and markets already pricing this in, we expect EGB yields to move sideways in the near term.
- Lower yields would require a negative shock to growth/inflation or an intensification of concerns about US assets (both are not our baseline).
- Tariff-related uncertainty creates a binary situation. As highlighted by the ECB, developments on this front could spark volatility in either direction.
- Over the medium term (4-6 quarters), we expect the 2Y Bund yield to trade close to 2.00% and the 10Y Bund yield to grind higher, approaching 3% due to higher supply/lower demand from the ECB, no additional support from rate cuts and a return of growth towards potential.



# Extra-long end: handle with care

## 10/30Y EUR SPREAD: THE CASE FOR MORE STEEPENING

SWAP RATE SPREAD (BP)



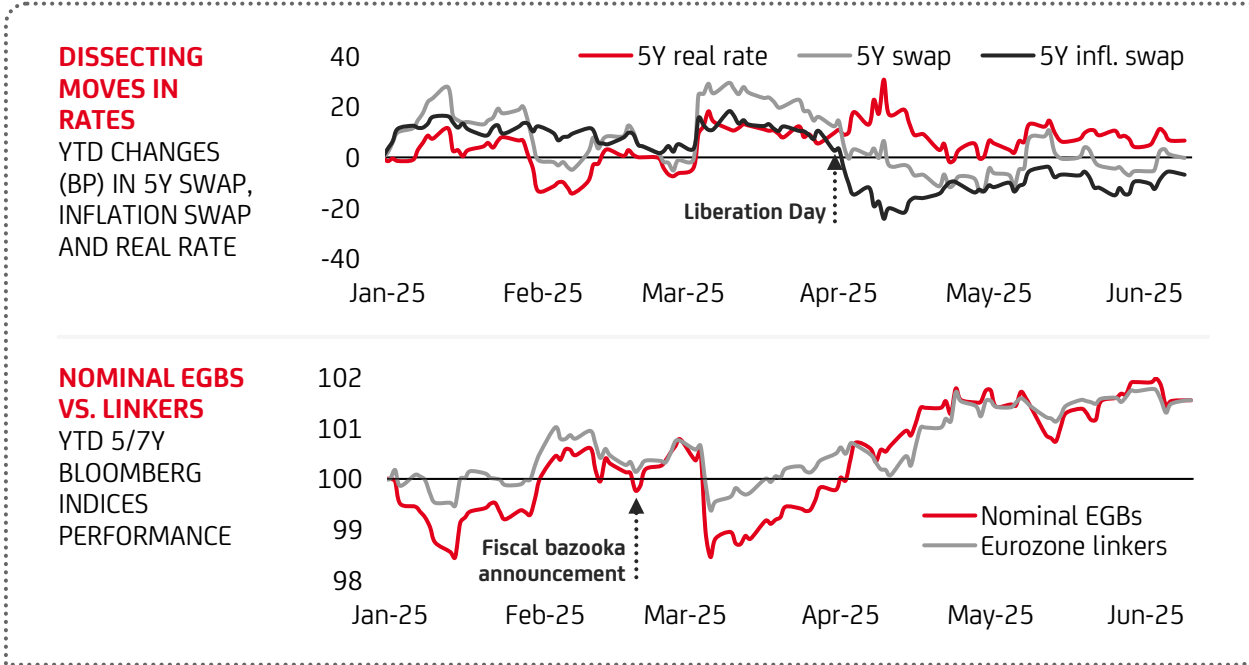
Source: Bloomberg, Investment Institute by UniCredit

- At around 10bp, the 10/30Y yield spread on the swap curve remains well below the 40bp average observed from Jan 1999 to Dec 2021.
- We see more steepening as likely because shrinking ECB balance sheet and higher public spending in the coming years should lead to higher term premiums.
- Dutch pension funds increased interest-rate risk hedging in recent years, causing extra flattening of the swap curve relative to Bunds. This factor should now fade as the move towards a defined-contribution scheme will reduce demand for long-dated swaps. However, the speed and magnitude of any adjustment remain open questions. Steepening may, hence, occur slowly.



# Rates

## Beneath the surface: real rates versus inflation expectations



- Real rates have risen since Germany’s fiscal “bazooka” and Trump’s tariffs were announced, while market-based inflation expectations edged lower before bouncing back following the Israel’s airstrike on Iranian territory.
- The divergence between real rates and inflation swap rates has recently diminished. This is also mirrored in the performance of nominal and inflation-linked bonds (ILBs).
- While we do not expect a divergence between these asset classes, low breakeven inflation makes ILBs attractive for hedging against rising inflation in the medium term.

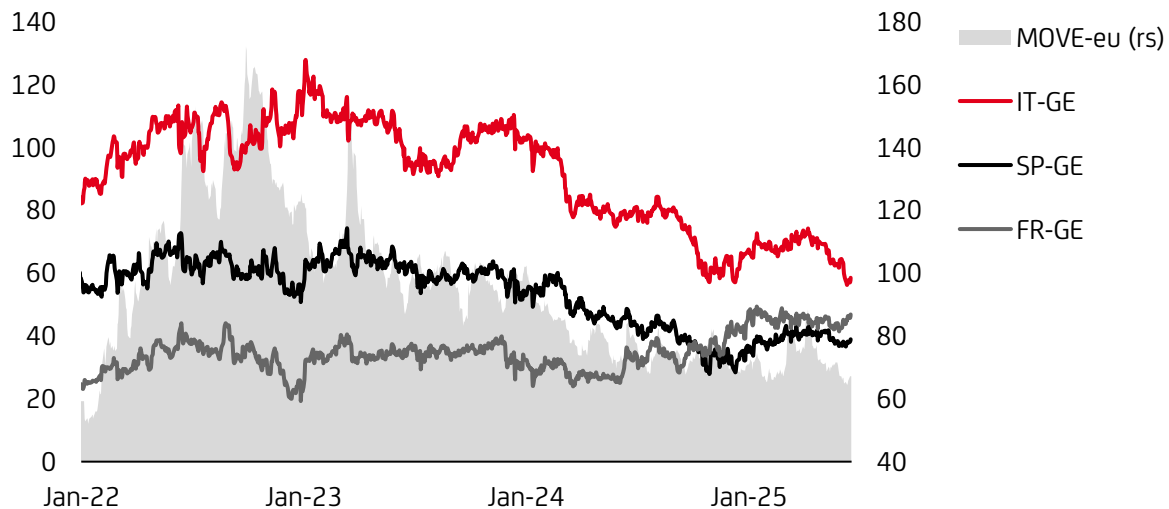
Source: Bloomberg, The Investment Institute by Unicredit  
Notes: Performance is based on Bloomberg Indices.



# BTP: consolidation after recent tightening

## BTPS ARE STILL THE MOST COMPELLING CHOICE FOR CARRY

DIFFERENCE IN 2/10Y SPREAD (BP)

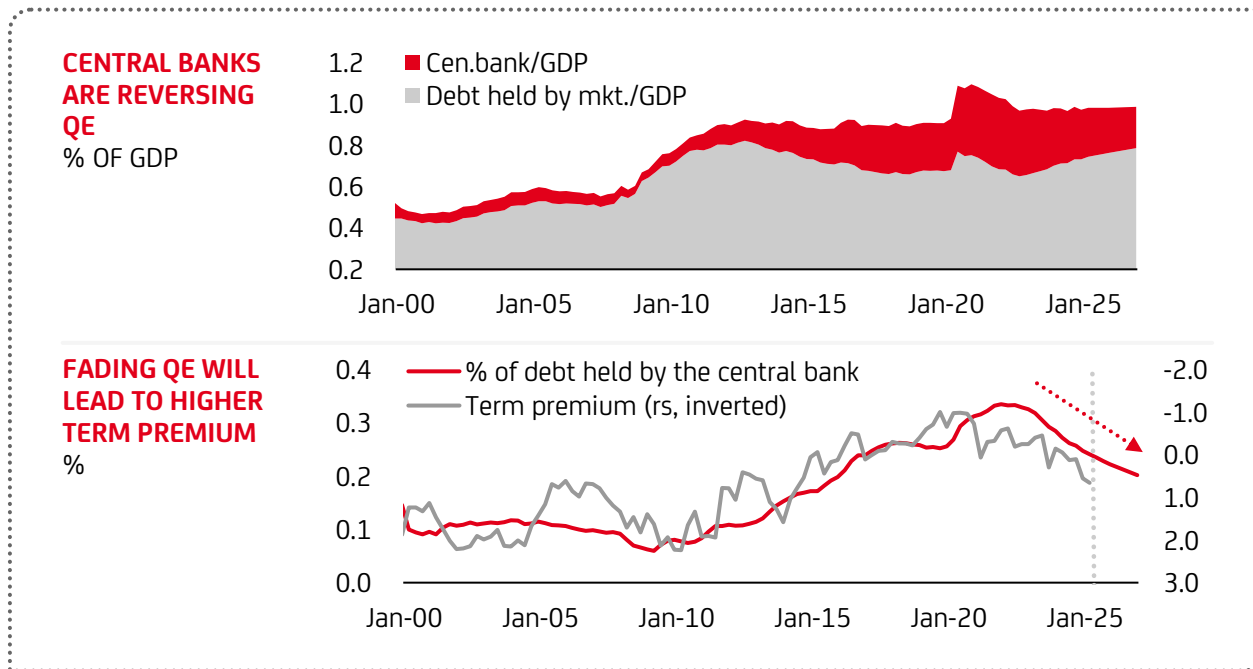


- BTPs performed well in 1H25, supported by an improving rating outlook, a stable political environment, prudent fiscal policy and their having the most-attractive carry among EGBs.
- Advanced funding and solid demand from foreign investors should help the 10Y BTP-Bund spread to consolidate around 90bp.
- Even at this level, BTPs are cheap relative to other EGBs (if ratings serve as a proxy for economic fundamentals). Additional tailwind may result from any step-up in EU political cohesion.
- The absolute of risk-free yields and dynamics of growth and deficit will be key drivers of BTP performance.

Source: Bloomberg, The Investment Institute by Unicredit



# Debt supply in major Western countries is expected to be abundant



Source: Bloomberg, Fed, ECB, BoJ, BoE, The Investment Institute by Unicredit

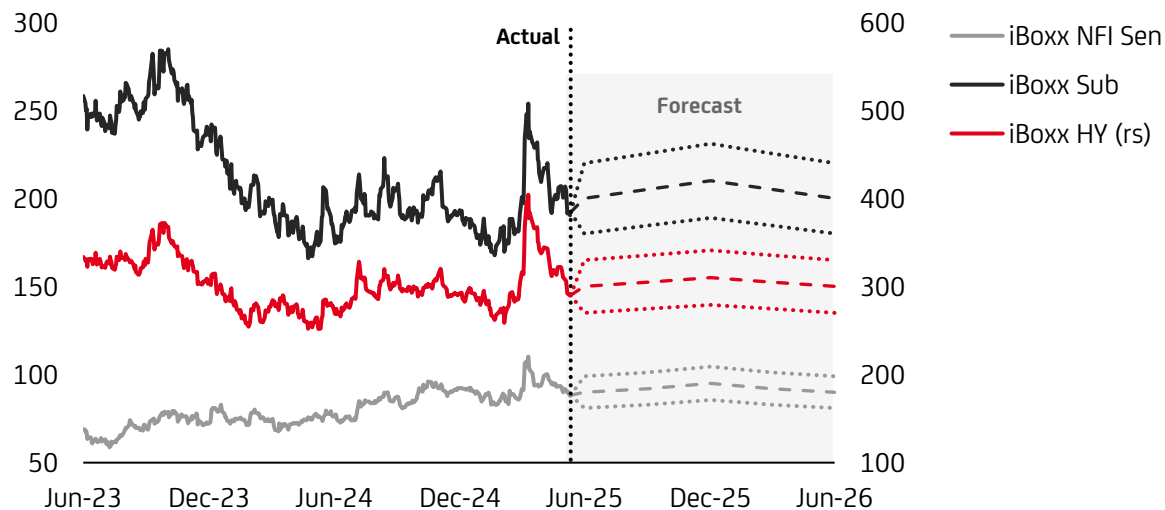
- With major central banks engaged in balance-sheet reduction, private investors will face constant pressure to increase holdings of government bonds.
- Plans to boost spending on defence and infrastructure in the eurozone will add to supply pressure.
- After years of compression, term premiums in major economies have started to rise and are expected to stay under pressure.
- Game changers in this regard would be halting QT by major central banks, significant fiscal consolidation in the US or the adoption of fiscal repression measures



# We have revised our spread forecasts to the downside

## CREDIT SPREADS TO MOVE MARGINALLY WIDER UNTIL YEAR-END

IBOXX CORPORATE SPREAD FORECASTS, BP



Source: S&P Global, The Investment Institute by UniCredit

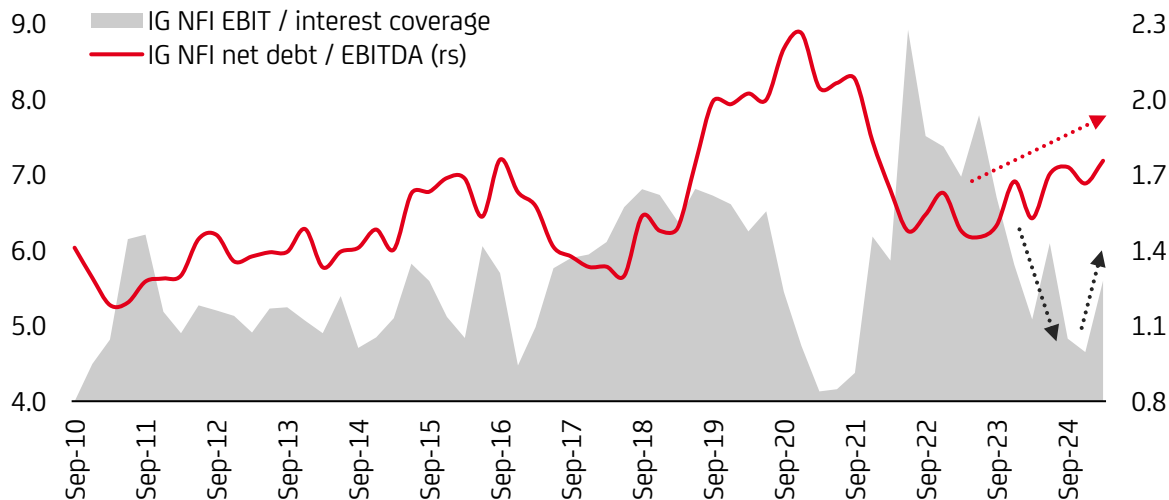
- The impact of US trade policies on credit has been so far less pronounced than originally thought. This reflects attractive carry, robust credit metrics, absence of defaults, corporates sticking to conservative financial policies and contained bond supply (lower than in 2024).
- Given this, we expect to see IG NFI SEN spreads at 95bp (vs. 110bp originally forecast), NFI subordinated at 210bp (vs. 290bp) and high-yield at 310bp (vs. 420bp) by the end of the year.
- Carry remains a key pillar of performance for this asset class. For 1H26, we expect spreads to revert close to current levels, as economic growth accelerates.



# Credit quality is on balance still solid

## CORPORATES' LEVERAGE IS INCREASING, BUT DEBT-SERVICE OUTLOOK IS IMPROVING

iBOXX NFI IG LEVERAGE VS. EBIT-TO-INTEREST COVERAGE, (X)



- The impact from US tariff policy on European credit has been limited. The asset class remains supported by an appealing carry and by solid credit metrics: iBoxx corporates' leverage has increased only gradually and lower refinancing costs have raised EBIT-interest coverage.
- Moreover, corporates are sticking with cash-preserving financial policies, while subdued M&A activity YTD has reduced the risk that funding needs will be significant.
- We have raised our recommendation on telecoms to overweight from marketweight due to the sector's defensive nature, low exposure to tariffs and solid credit metrics.

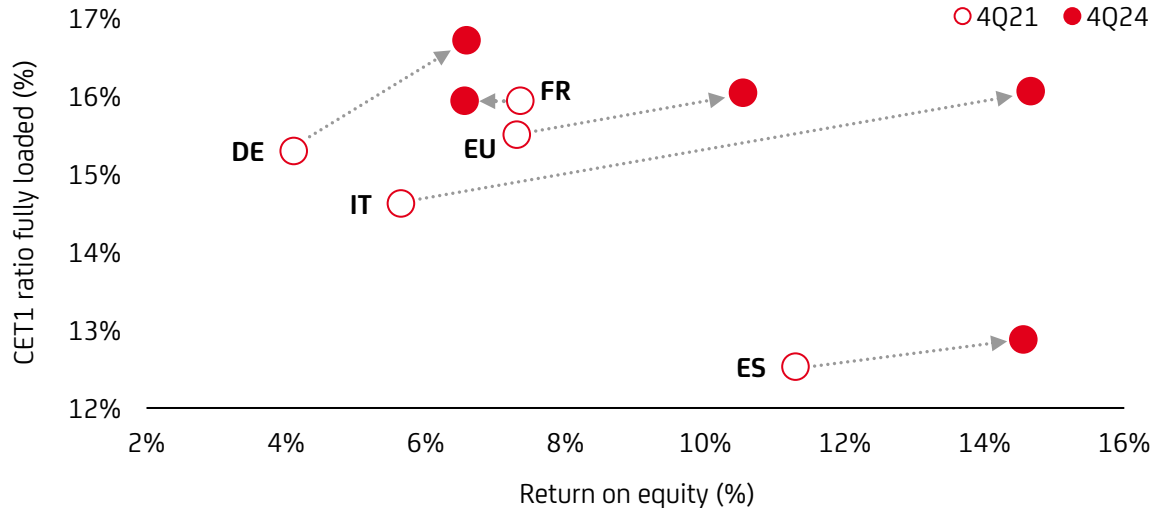
Source: S&P Global, Bloomberg, The Investment Institute by UniCredit



# Credit

## Banks remain in a solid position

### EUROPEAN BANKS' IMPROVED FUNDAMENTALS

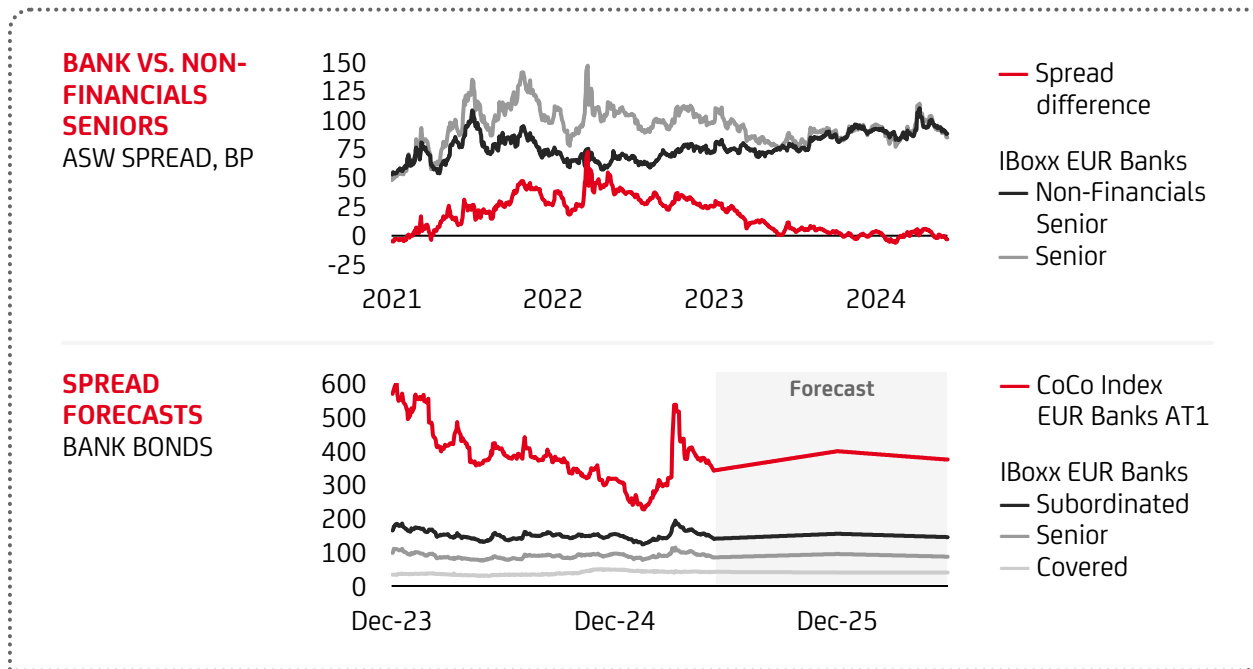


Source: European Banking Authority, The Investment Institute by UniCredit

- Credit spreads of European banks recovered quickly from their widening in April 2025. Bank senior credit spreads have tightened by around 30bp since peaking on 9 April 2025.
- During 1Q25 earnings presentations, banks delivered a constructive message on asset-quality outlook despite higher macroeconomic uncertainty.
- Improved profitability, increasing focus on fee-generating business and high capitalisation are supportive of bank credit.
- Uncertainty surrounding USD-denominated assets, which may favour portfolio rebalancing towards EUR-denominated assets, would support EUR-denominated corporate and bank credit.



# Neutral regarding non-financial and bank credit, value in bank AT1s



- Bank senior bonds offered a premium over non-financial seniors from 2022 to 2024, driven by idiosyncratic bank risk and an uncertain macroeconomic outlook, mainly regarding inflation and interest rates. Since 2H24, this premium has been around zero.
- Further outperformance of bank credit over non-financial credit is unlikely. In a risk event like an economic recession or a surge in US inflation (not our base case), bank senior credit would likely underperform.
- We expect spreads of bank senior bonds to be at 95bp at end-2025 (vs. 115bp originally forecast) and to tighten in 1H26. Within bank capital structure, we prefer bank AT1s, which continue to offer attractive carry.

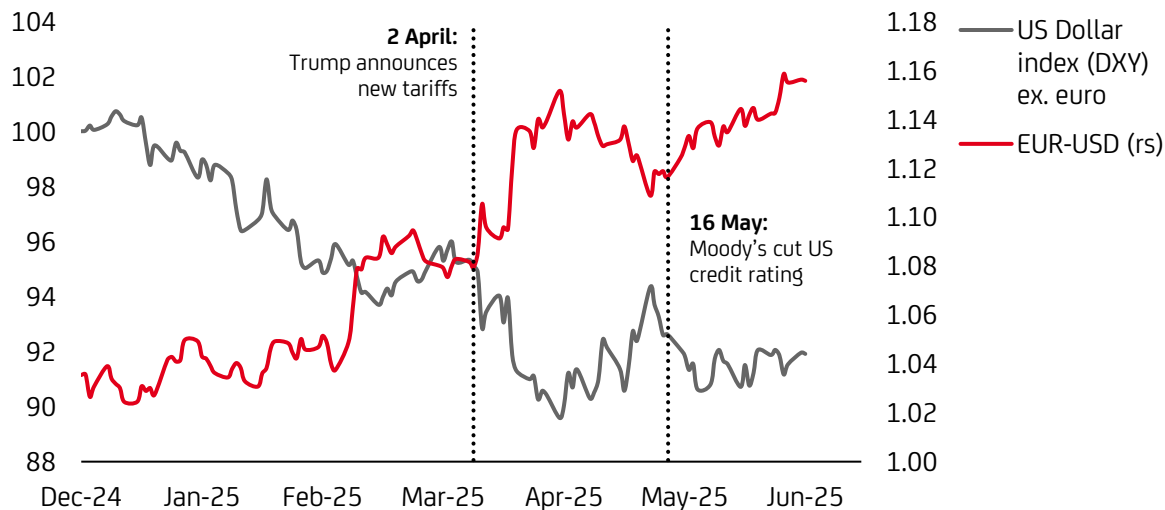
Source: European Banking Authority, The Investment Institute by UniCredit



# EUR-USD: still-bullish picture ahead

## EUR-USD REMAINS ON A RISING TREND AMID BROAD-BASED USD WEAKNESS

EUR-USD AND THE US DOLLAR INDEX (DXY) EXCLUDING THE EURO



- Trump's policies are likely creating a structural credibility problem for the USD amid worries about the trajectory of US debt, as indicated by the recent US credit-rating downgrade by Moody's.
- These factors are likely to weigh on the USD, preventing strong and lasting appreciation even if the US avoids a recession and the Fed cuts rates only modestly, as we expect.
- The medium-to-long-term picture for the USD remains bearish, reflecting worries about a further decline in its dominant role as the world's preferred reserve currency.
- EUR-USD remains on a rising trend towards 1.20 and probably slightly beyond next year.

Source: Bloomberg, The Investment Institute by UniCredit

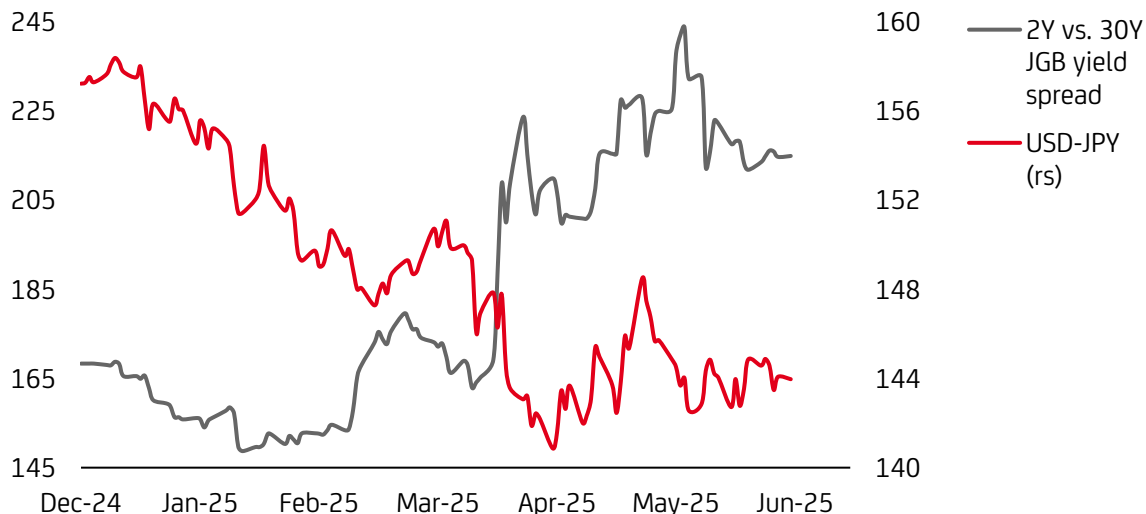
Note: The US Dollar Index (DXY) ex-euro is calculated by excluding the EUR-USD exchange rate from the original DXY index and by rebasing its weight (57.6%) among the other five major currencies included in the index (JPY, GBP, CHF, CAD and SEK). The index is set equal to 100 on 31 December 2024.



# USD-JPY: likely to firm as BoJ set to resume rate hikes later this year

## HIGH LONG-TERM YIELDS IN JAPAN MAY FAVOUR MORE JPY STRENGTH AHEAD

JAPANESE YIELD CURVE AND USD-JPY



- We expect to see a new fall in USD-JPY to 140 by 4Q25 and towards 135 in 2026. The USD remains weak, and a trade row with the US has frozen the BoJ's policy normalisation at 0.50%.
- The BoJ is likely to resume tightening interest rates to 0.75% later this year and to 1% (the lower bound of the "neutral rate" for the BoJ) in 2026.
- High long-term yields, making the Japanese curve the steepest in the G10 universe, might help the JPY as well. Volatility might emerge ahead of the election of the House of Councillors in late July.
- EUR-JPY is likely to trade rangebound above the 165 handle.

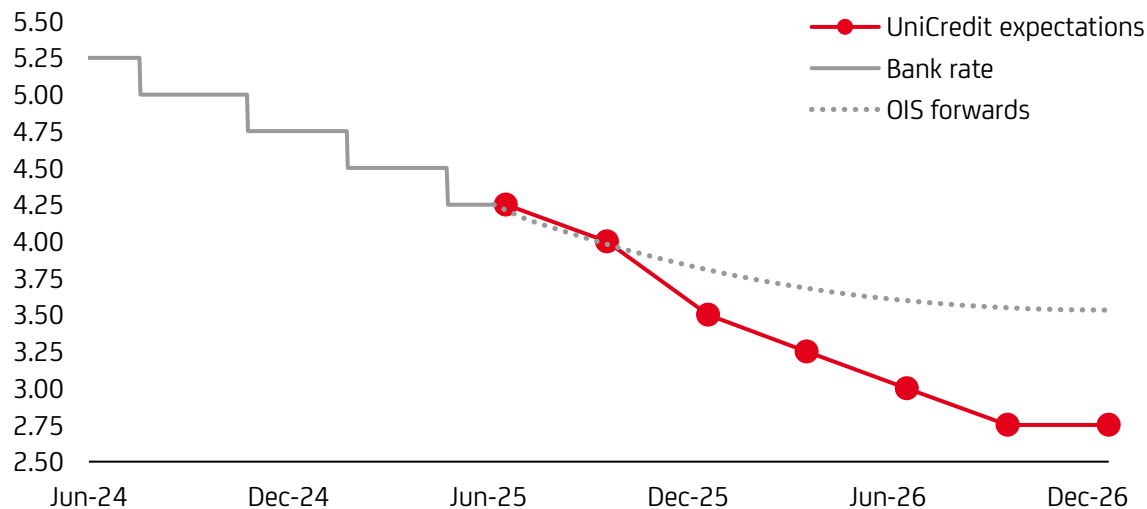
Source: Bloomberg, The Investment Institute by UniCredit



# GBP: a bearish picture, especially next year

## MORE BOE EASING THAN MARKETS EXPECT STILL POINTS TO A BEARISH PICTURE FOR GBP

BOE BANK RATE, FORWARD RATES AND UNICREDIT FORECASTS



Source: Bloomberg, The Investment Institute by UniCredit

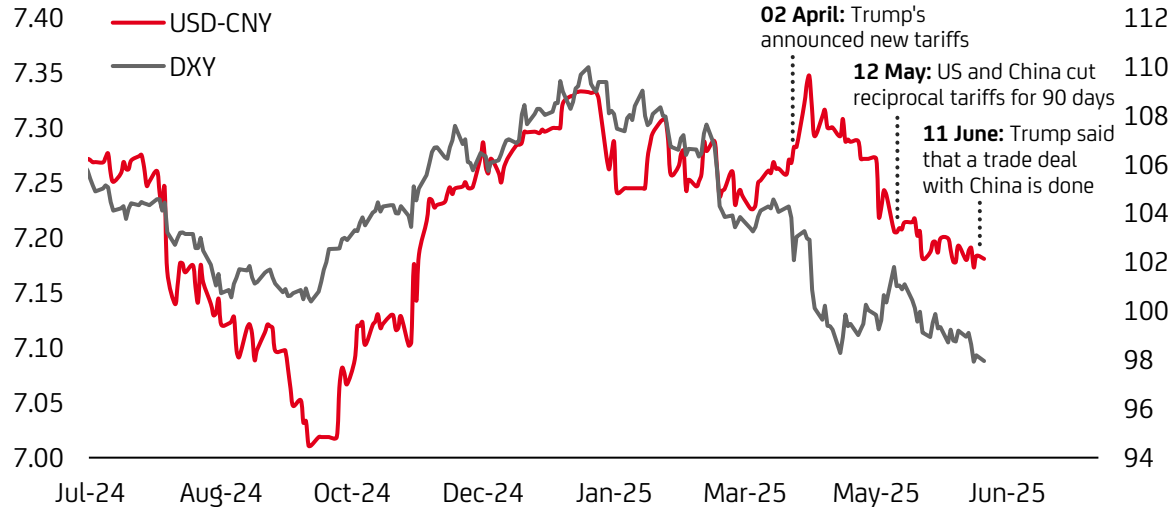
- We remain bearish on sterling, with weakness expected to be more pronounced in 2026 than in the remainder of 2025.
- We still expect more BoE easing than markets this year, but this disparity has narrowed (we expect the policy rate to be at 3.50% vs. forwards, which project it to be around 3.80%). A weaker USD will likely limit the potential slide of GBP-USD as well.
- The picture for sterling is set to become more negative in 2026, as we have still pencilled in more BoE rate cuts than investors (down to 2.75% vs. forward rates, which project it will be around 3.70%).
- GBP-USD is likely to return below 1.30. EUR-GBP will probably rise above 0.90.



# CNY: slower growth at home and trade debate to limit CNY strength

## TRADE DEVELOPMENTS INVOLVING THE US WILL REMAIN THE MAIN DRIVER OF USD-CNY

THE US DOLLAR INDEX (DXY) AND USD-CNY



- The CNY outlook is likely to continue to mostly reflect trade developments with the US. USD-CNY rallied to over 7.35 on the back of the 2 April US tariff announcement but fell below 7.20 as the USD started to show broad based weakness and after the US and China reached a trade agreement in early June.
- We expect slower Chinese economic growth and further trade talks, while it will likely still take a long time for the engine of Chinese growth to shift from external to internal demand.
- All these factors will probably limit the margin for a USD-CNY recovery below 7.10 over the medium-to-long term.

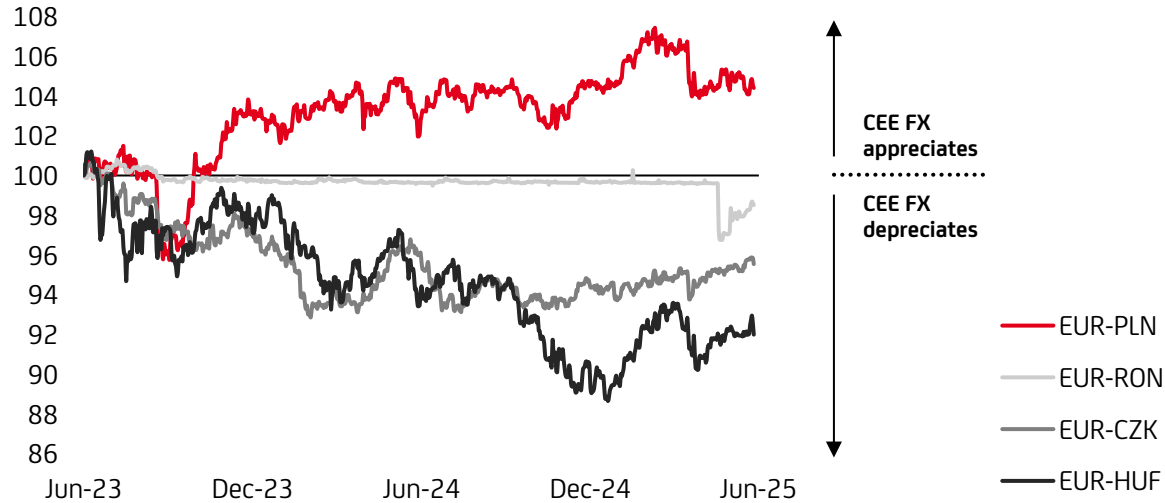
Source: Bloomberg, The Investment Institute by UniCredit



# CEE currencies: fiscal and political risks in the driver's seat

## CEE CURRENCIES VS. THE EUR

TWO-YEAR RELATIVE PERFORMANCE (INDEX, JUN 2023=100)



Source: Bloomberg, The Investment Institute by UniCredit

Note: The chart was last updated on 13 June 2025.

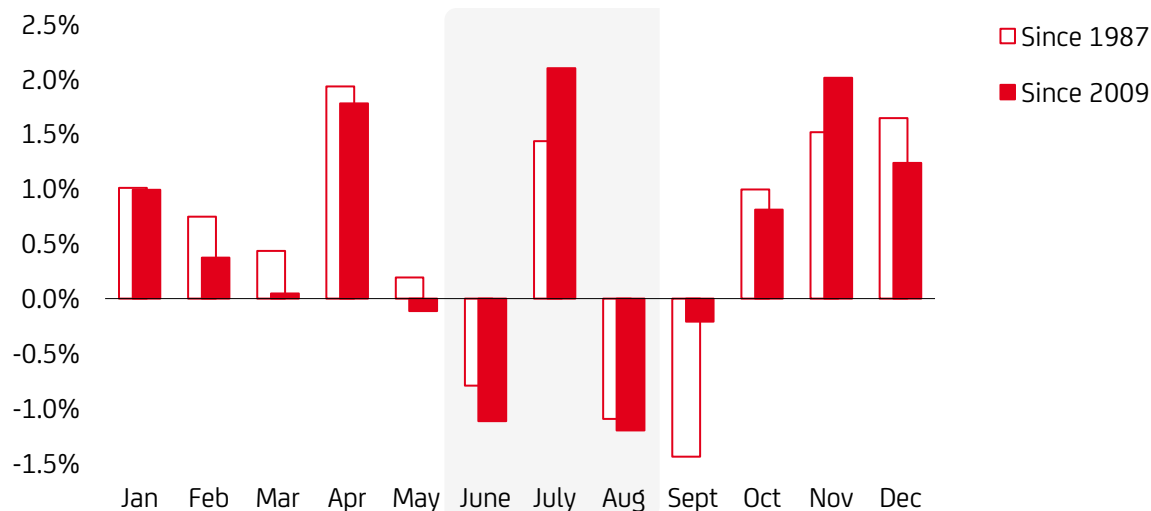
- A weaker USD may help mute CEE FX volatility, while local political and fiscal risks are likely to be key drivers.
- EUR-PLN: NBP rate cuts, slower-than-expected fiscal adjustment and political risks may lift EUR-PLN towards 4.40 by end-2026.
- EUR-HUF: Unchanged rates until at least 4Q25 and tightening liquidity should support HUF stability. Fiscal and political risks may lift EUR-HUF towards 410-415 in 4Q25.
- EUR-CZK: The CNB is close to ending its current rate-cutting cycle, which, together with solid fundamentals, have supported EUR-CZK stability around 24.80.
- EUR-RON: Fiscal consolidation is required to enable the NBR to stabilise EUR-RON.



# Beware adverse summer seasonality

## THE SUMMER MONTHS ARE TRADITIONALLY CHARACTERISED BY LARGE PRICE FLUCTUATIONS

AVERAGE MONTHLY PERFORMANCE OF THE STOXX EUROPE 600



- Despite high uncertainty and the resulting fluctuations, European stocks in particular achieved very solid performance in the first two quarters of the year.
- However, history shows that the summer months are traditionally characterised by greater fluctuation and adverse seasonality.
- Although history is not always an accurate guide, we expect the economic environment to become more challenging in the coming months, based on tariff and earnings uncertainty, and high valuations, before more clarity emerges in the autumn.

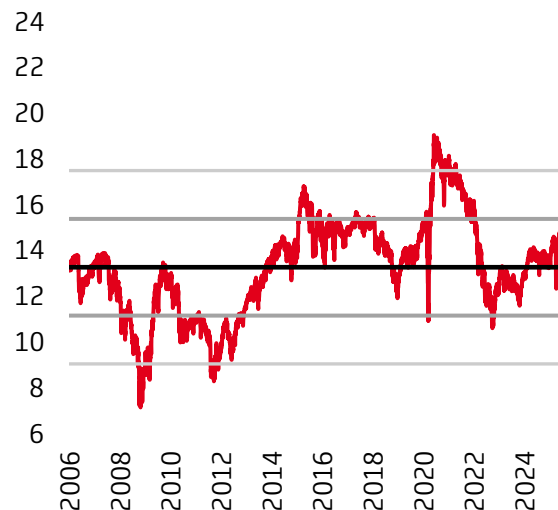
Bloomberg, The Investment Institute by UniCredit



# US stocks are priced for perfection

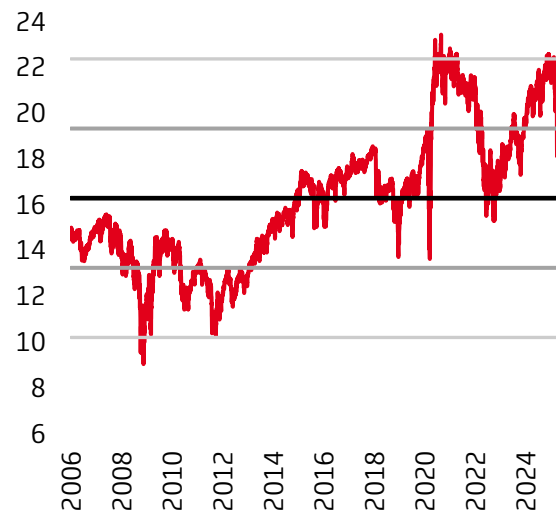
## STOXX EUROPE 600

12M FWD P/E RATIO



## S&P 500

12M FWD P/E RATIO



- Elevated valuations are not inherently negative, but they limit price potential, particularly in the short term.
- This is particularly true for the US, as equities there are trading with P/E ratios that are about two standard deviations above their average over the last 20 years.
- By comparison, European equities are attractive. Their P/E ratios are much lower than in the US and are more in line with their long-term averages.
- From a relative perspective, this should dampen potentially negative effects from tariff or geopolitical developments.

Source: Bloomberg, The Investment Institute by UniCredit

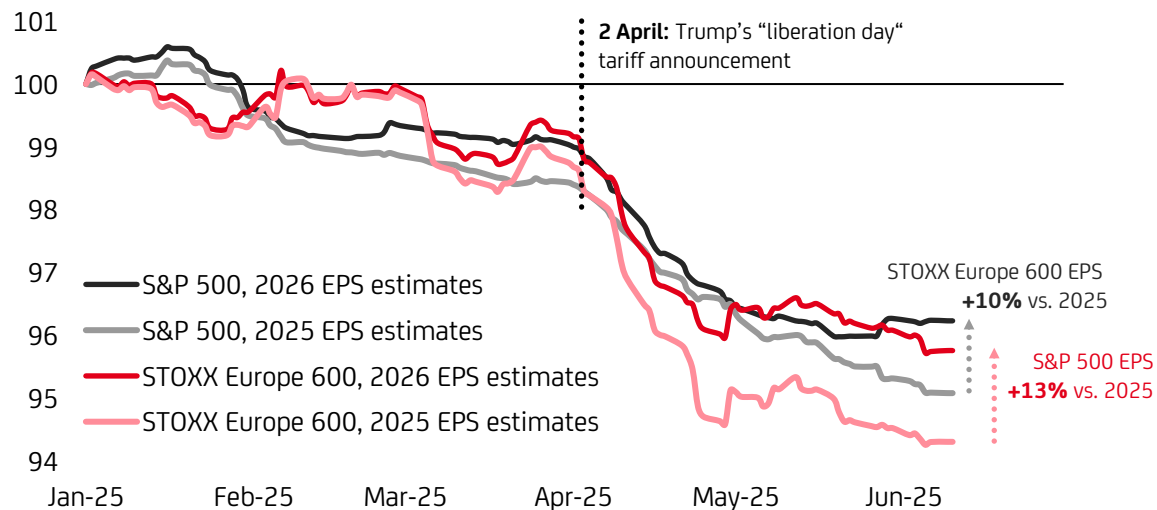
Note: Black line indicates the 20-year average, pink lines the +/- 1 standard deviation and dotted lines the +/- 2 standard deviation.



# The worst of negative EPS revisions seems to be over

## 2026 EPS ESTIMATES HAVE STABILIZED AFTER THE 2 APRIL SHOCK

2025 AND 2026 EPS ESTIMATES, JAN 2025=100



Source: Bloomberg, The Investment Institute by UniCredit

- Tariff-related uncertainty has led to a significantly downward revision of profit forecasts for 2025 and 2026.
- We think most of the tariff drag on the global economy will occur in 2025, while GDP growth should increase again in 2026.
- This is also reflected in earnings estimates. Those for 2025 are still declining, while those for 2026 have been stabilising.
- We consider currently expected corporate profit growth of around 10% in 2026 to be realistic.
- Against this background, we see high single-digit-percentage potential over a 12M horizon for both the European and US stock markets.



# Cyclicals may be showing too much optimism

## CYCLICAL SECTORS ALREADY REFLECT A STRONG ECONOMIC RECOVERY



Source: Bloomberg, The Investment Institute by UniCredit

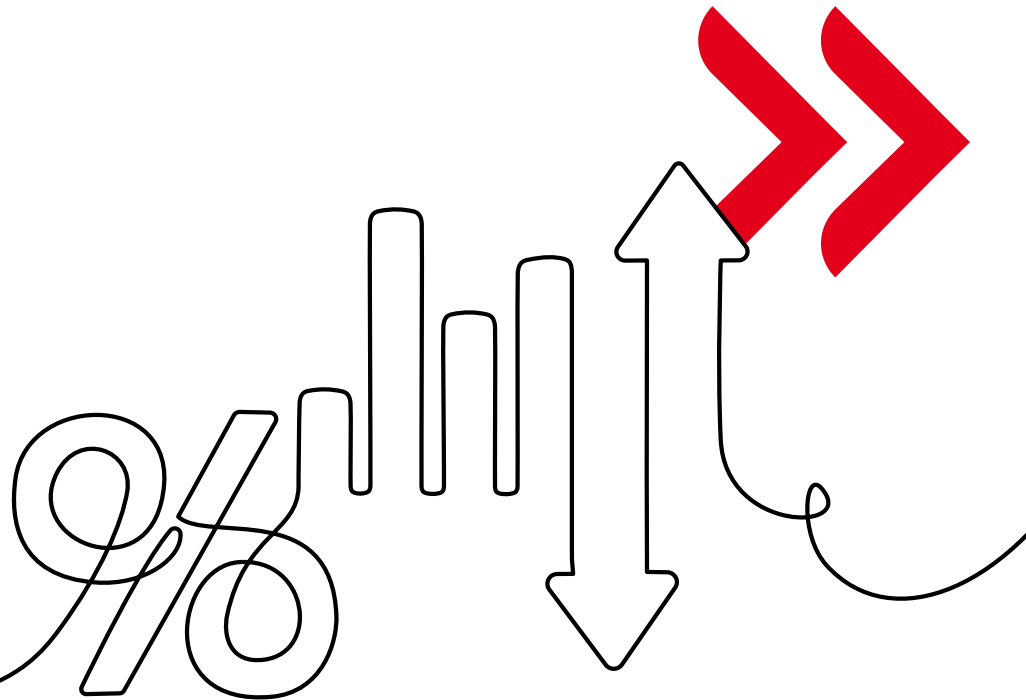
- Cyclical sectors have strongly outperformed their defensive peers recently. This outperformance is reasonable as the relative performance of cyclicals versus defensives is correlated with economic expectations, which are constructive.
- However, the extent of the outperformance of cyclical stocks has exceeded improvement in sentiment.
- As stock markets achieve a lasting uptrend only with support from cyclicals, a further and significant increase in the overall market is unlikely to occur during 3Q25.



# CEE Update

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<b>SPECIAL FOCUS</b>	<b>P.47</b>
<b>GROWTH OUTLOOK</b>	<b>P.48</b>
<b>FISCAL OUTLOOK</b>	<b>P.51</b>
<b>INFLATION</b>	<b>P.52</b>
<b>MONETARY-POLICY</b>	<b>P.53</b>
<b>RISKS</b>	<b>P.54</b>



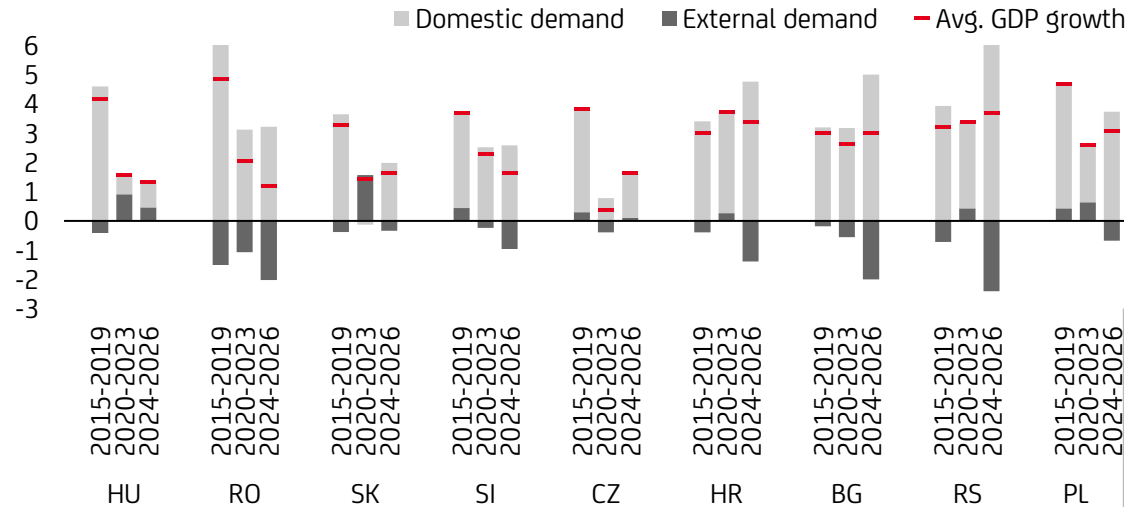
## Authors

Mauro Giorgio Marrano, Eszter Gárgyán



# An increasingly domestic-demand-driven growth model

DOMESTIC AND EXTERNAL DEMAND: AVERAGE ANNUAL CONTRIBUTION TO GDP GROWTH  
YOY %, PP



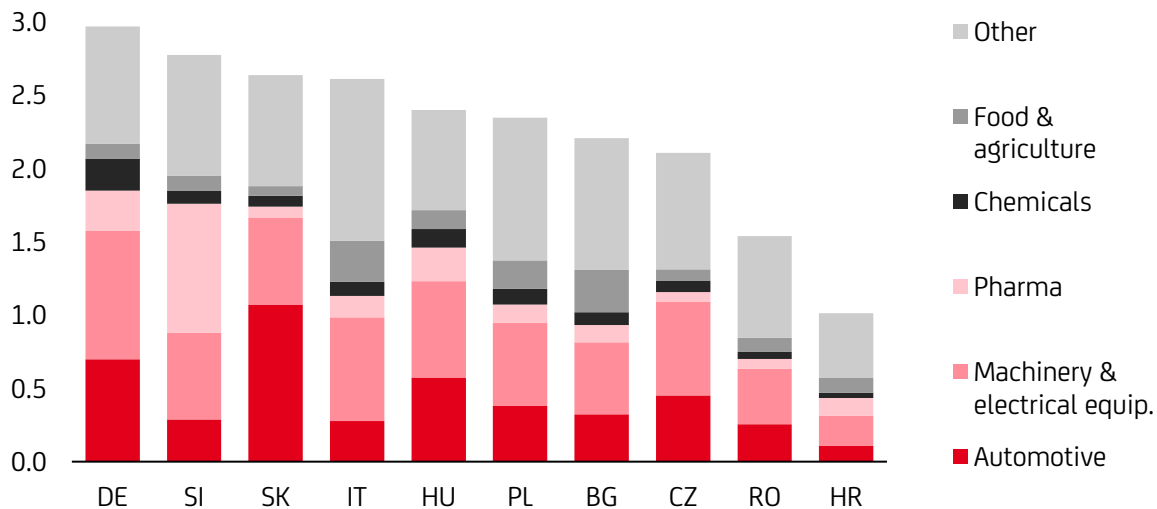
- Despite some positive spill-over effects expected from German fiscal stimulus, CEE economies' growth models are increasingly relying on domestic demand.
- While net exports' negative drag may moderate in 2026, household consumption and public investments will likely remain engines of growth for most countries.
- Positive fiscal impulses will support domestic demand in most CEE countries. The exceptions are Romania, Slovakia and Poland which are expected to have to make gradual fiscal adjustments.
- In EU-CEE, we expected GDP growth to increase from 2.0% in 2024 to 2.2% in 2025, and to 2.5% in 2026

Source: Macrobond, The Investment Institute by UniCredit  
Note: Figures are based on UniCredit forecasts for 2025-26.



# Higher US tariffs impact may be softened by German fiscal stimulus

**SHARE OF US INTERMEDIATE AND FINAL USE IN TOTAL GVA**  
% OF GVA IN 2022



- As US-EU trade talks linger, a 25% tariff on car exports to the US remains in place. Besides the traditional auto sector, batteries, auto parts and pharma exports to US may have the most visible impact on gross value added (GVA) in CEE.
- German fiscal stimulus may partly offset any adverse impacts on GDP growth from US tariffs in 2026.
- On average, we have lowered GDP forecasts for the region by 0.3% for 2025 and 2026 due to trade tensions, with downside risks related to spillover effects on global growth.
- German tax break for corporate EV purchases starting in July 2025 may partly offset US trade disruptions already from late-2025.

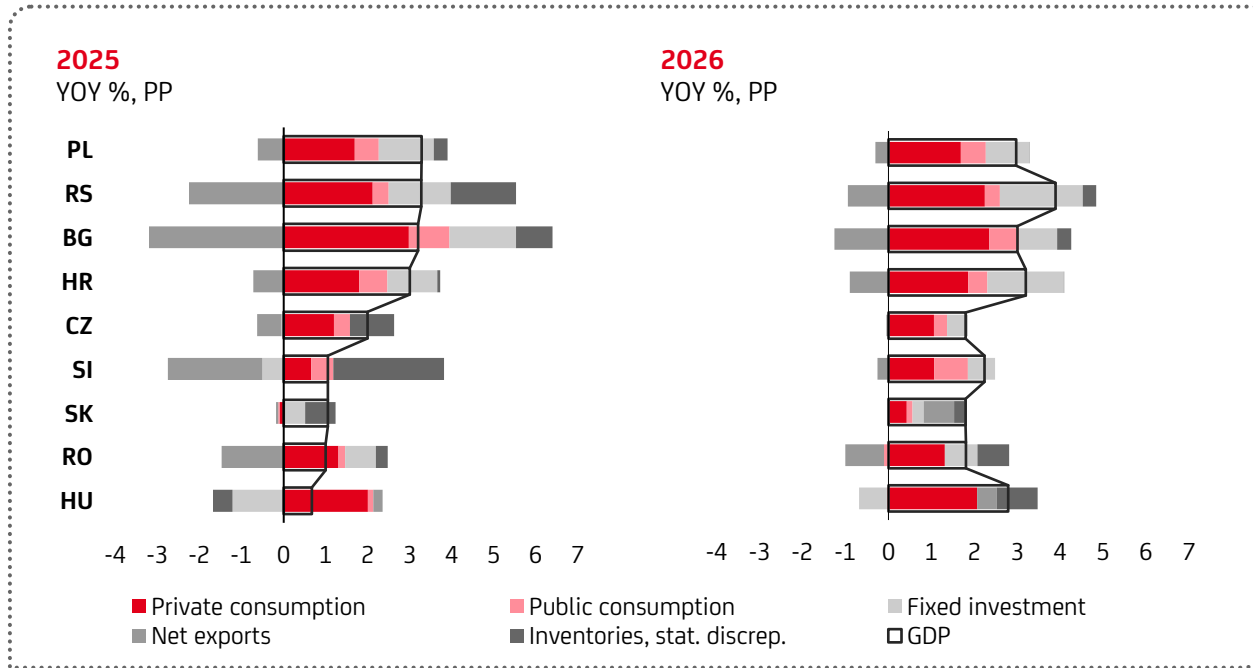
Source: Eurostat FIGARO tables, The Investment Institute by UniCredit

Note: For more details, see our [Short View - CEE: implications of US tariff hikes](#)



# Growth outlook

## Structure of GDP growth



Source: national statistical offices, Eurostat, Macrobond, The Investment Institute by UniCredit

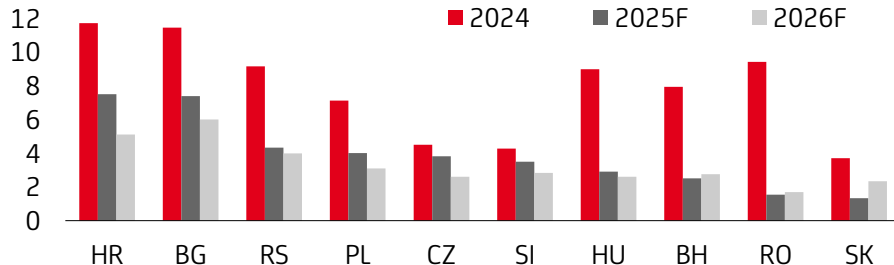
- Household consumption will remain the key driver of growth, as tight labour markets and income convergence support real wage growth.
- Fixed-investments' contribution to growth may pick up in 2026, supported by EU funds, declining interest rates and slightly improving external demand.
- German fiscal stimulus, large-ticket investments, expanding export capacities and base effects will accelerate export dynamics in 2026.
- Public consumption will drag on growth in Slovakia and Romania due to their need for fiscal adjustment.



# Household consumption and EU funds remain key pillars of growth

## REAL WAGES

%



## RRF DISBURSEMENTS, EUR BN

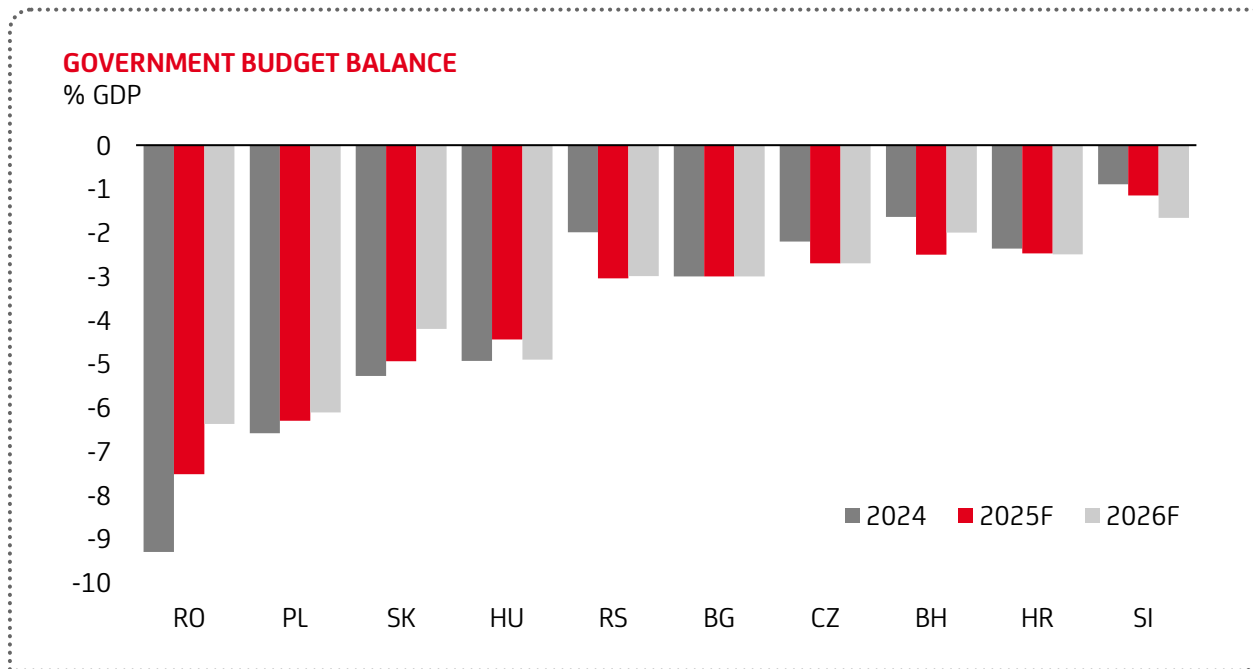
	BG	HR	CZ	HU	PL	RO	SK	SI	Total
<b>Total 2021-24</b>	1.4	4.5	4.4	0.9	20.8	10.7	3.5	1.1	47.3
% of allotment	24.1	44.9	47.7	9.5	34.8	37.5	54.7	42	35.8
<b>Expected 2025</b>	1.2	2.8	2	0	6.4	2.4	0.5	0.5	25.1
% GDP	1.1	3.1	0.6	0	0.7	0.6	0.4	0.7	
<b>Expected 2026</b>	1.3	2.7	1.7	0	27	4.2	1.7	1.1	30.2
% GDP	1.1	2.8	0.5	0	2.9	1.1	1.2	1.5	

- Average real wage growth in CEE is likely to approach 4% in 2025 and to slow to 3.3% in 2026 as a busy election cycle in the region adds to wage growth in 2024-25.
- Weak demographics and limited immigration due to political reasons will keep labour markets structurally tight.
- In some countries, election cycles and minimum-wage hikes will contribute to wage dynamics.
- The use of the EU’s Recovery and Resilience Fund (RRF) should pick up in most countries, as the funds are only available until 2026. Hungary is unlikely to access the RRF due to a lack of progress meeting its required conditions.

Source: European Commission, national statistics, The Investment Institute by UniCredit



# Fiscal risks are on the radar in Romania, Poland and Hungary

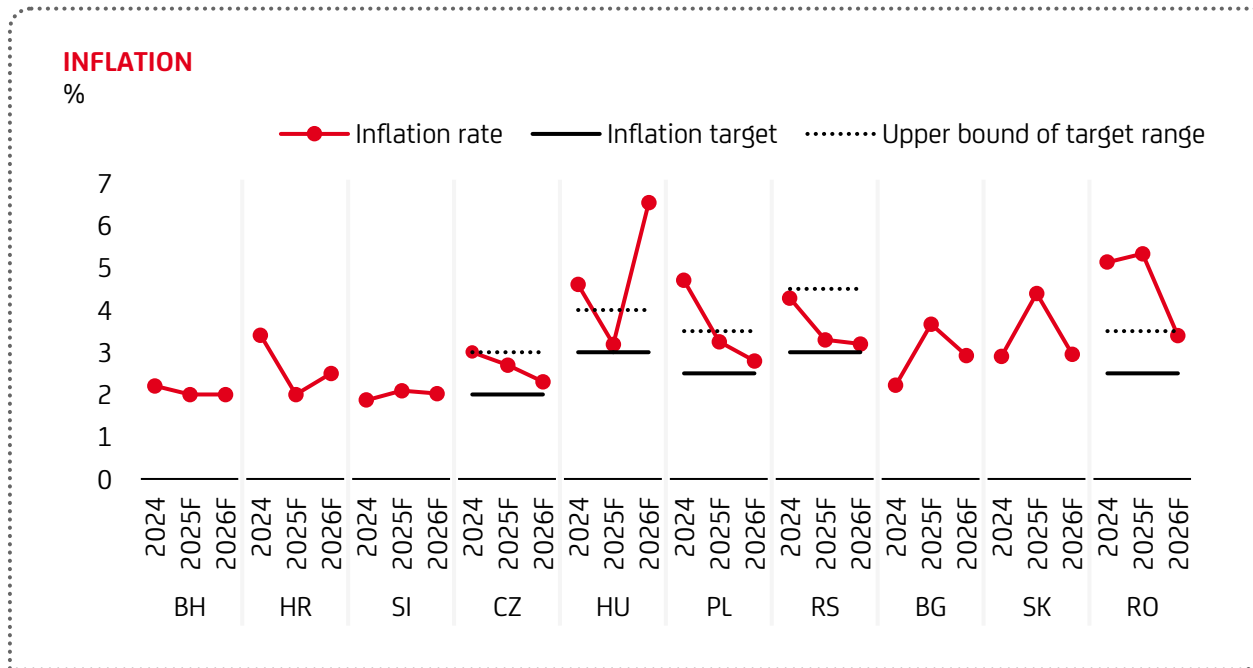


Source: national statistics, Eurostat, The Investment Institute by UniCredit

- Political considerations will likely lead to slower fiscal adjustment in Poland, keeping the deficit above 6% of GDP in 2025-26.
- Political risks remain elevated in Romania, as coalition talks still have not concluded and as further fiscal steps are needed to adjust the deficit from 9.3% of GDP in 2024 and to avoid a credit-rating downgrade to the “junk” category.
- The risk of fiscal slippage will also be elevated in Hungary in the run up to parliamentary elections in spring 2026.
- Given the still heavy dependence of Slovakia and Hungary on Russian energy, the costs of a potential accelerated diversification may negatively impact fiscal positions.



# Disinflation likely to continue

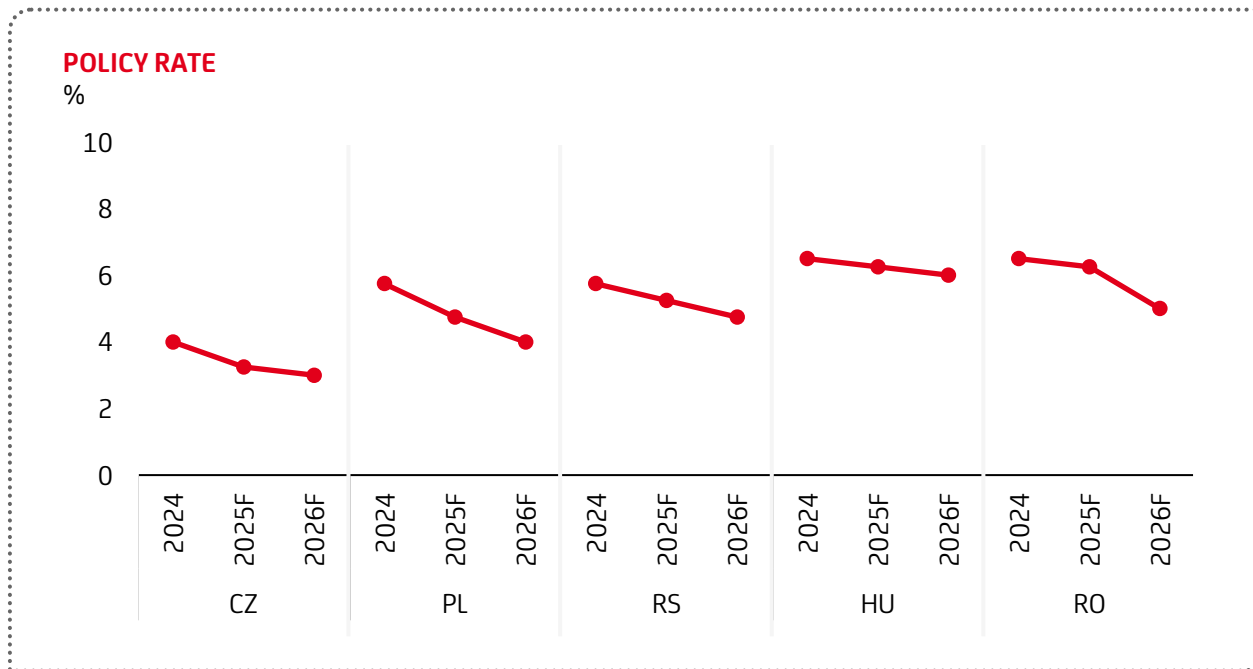


- Inflation is close to, but slightly above, central-bank targets in Czechia and Serbia and may fall within target ranges in Poland in the second half of the year.
- Tax hikes related to fiscal adjustment may temporarily lift inflation in Slovakia and Romania in 2025.
- In Romania, base effects may support a sharp drop in inflation within the target range in 2026, provided that fiscal tightening is implemented.
- In Hungary, extended regulatory price controls may push headline inflation temporarily within the target range. We assume price controls will be lifted only after elections in 2Q26, pushing inflation above 6% by end-2026.

Source: national statistics, national central banks, The Investment Institute by UniCredit



# Narrowing room for rate cuts








- Volatility in core markets and domestic fiscal risks will likely keep CEE central banks cautious.
- In Czechia, we see room for one 25bp cut in 3Q25, and a further cut in the repo rate to 3.0% is still an open issue.
- The NBP may cut rates to 4.45% by end-2025 and to 4.0% by end-2026, as the Monetary Policy Council may lean towards being ultra-cautious due to political considerations.
- The NBH may have room for two 25bp cuts in late 2025/early 2026 to 6.0%, if the fiscal outlook remains under control. Reaccelerating inflation will limit room for additional cuts in 2026.
- Pace of fiscal correction will largely determine how much room the NBR has for rate cuts. We only expect one 25bp cut in 2025 (to 6.25%), with the risk of no cut at all if fiscal slippage occurs.

Source: national statistics, national central banks, The Investment Institute by UniCredit



# Risks to our outlook

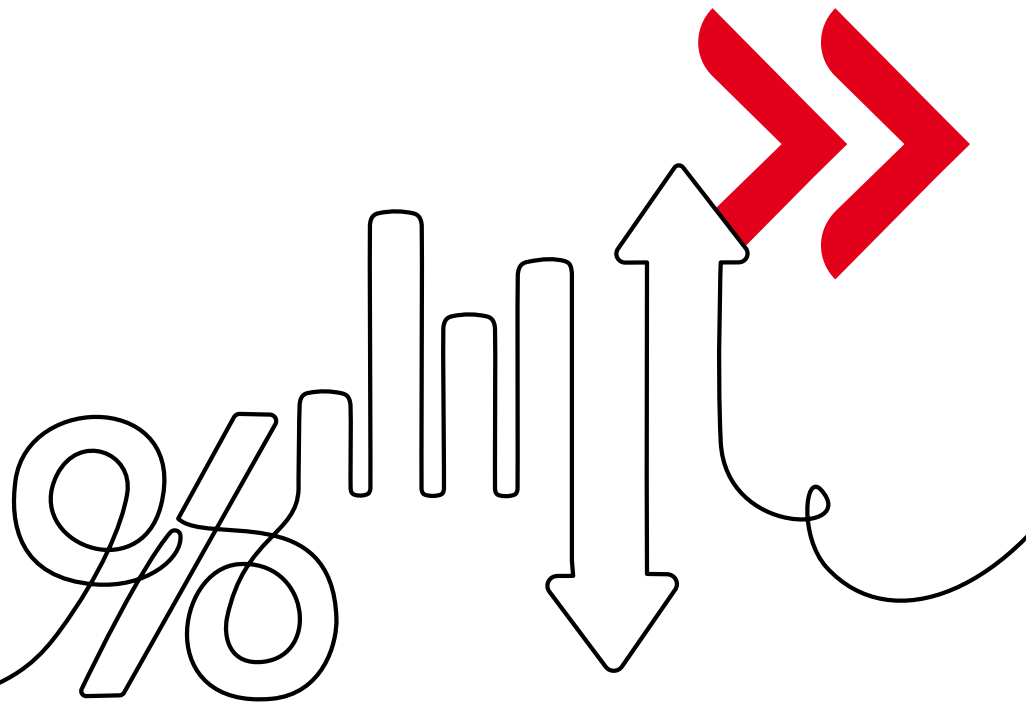
-  German tax break for corporate EV purchases starting in 2H25 may boost demand for EV makers and battery plants in the CEE (all CEE countries. Czechia, Hungary, Slovenia may benefit the most)
-  German fiscal stimulus and increased defense spending in Europe could have a greater-than-expected spillover effect. In the Western Balkans, we expect growth to amount to 3.0% in 2025 and to around 3.5% in 2026
-  EU ban on Russian energy import and potential penalty import tariff by the US levied on Russian energy importers (Hungary, Slovakia)
-  Political risks leading to the break up of the coalition and/or early elections (Poland, Serbia, Romania), fiscal risks in the run up to elections (Hungary, Poland)
-  Higher than expected US tariffs weighing on external demand for the CEE goods and services



# Commodity Update

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<b>CRUDE OIL</b>	<b>P.56</b>
<b>NATURAL GAS</b>	<b>P.59</b>
<b>PRECIOUS METALS</b>	<b>P.62</b>
<b>INDUSTRIAL METALS</b>	<b>P.65</b>
<b>BATTERY METALS</b>	<b>P.67</b>



## Authors

Tobias Keller, Stefan Kolek, Jonathan Schroer, Thomas Strobel



# Brent surges on geopolitics, but medium-term bearish outlook holds

## OIL PRICE REBOUND FACES STRUCTURAL HEADWINDS

BRENT (USD/BBL)



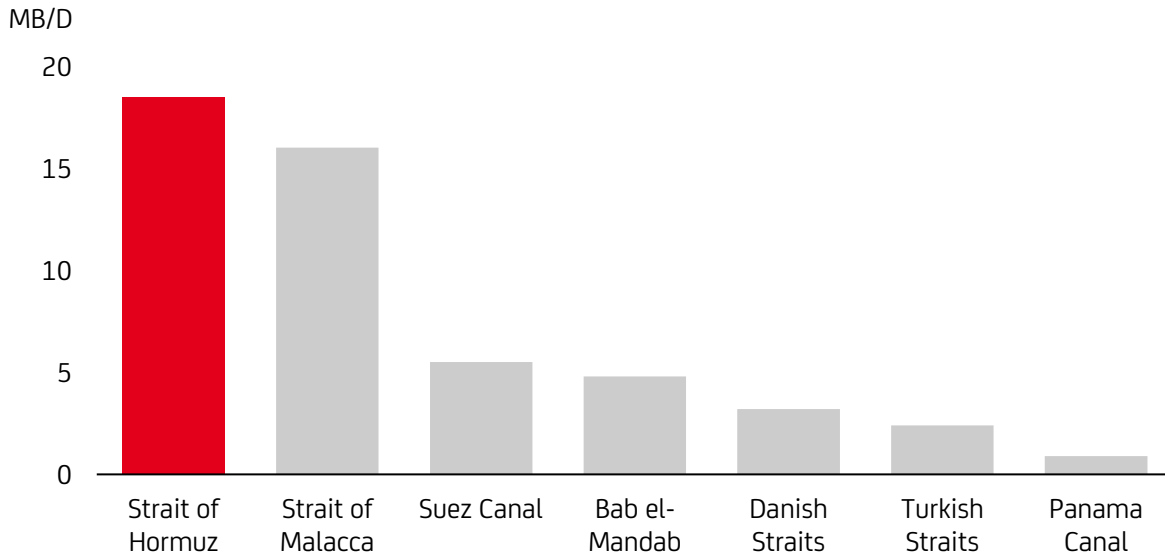
Source: Bloomberg, ICE, The Investment Institute by UniCredit

- Brent crude surged sharply following Israel's strike on Iranian military targets, reviving geopolitical risk premiums in oil markets. The situation remains highly uncertain, and visibility is low, making it difficult to predict developments with confidence.
- For the moment, consensus among market participants is coalescing around the prospect of a pronounced supply overhang emerging in the second half of the year, which is expected to weigh on prices through the medium term.
- While we are monitoring the situation in the Middle East, we are sticking to our Brent crude forecast of USD 65-70/bbl in 2H25 and USD 62.5-67.5/bbl in 2026.



# Strait of Hormuz remains a focal point amid regional tensions

## FLOW OF CRUDE AND PETROLEUM PRODUCTS THROUGH KEY GLOBAL CHOKEPOINTS



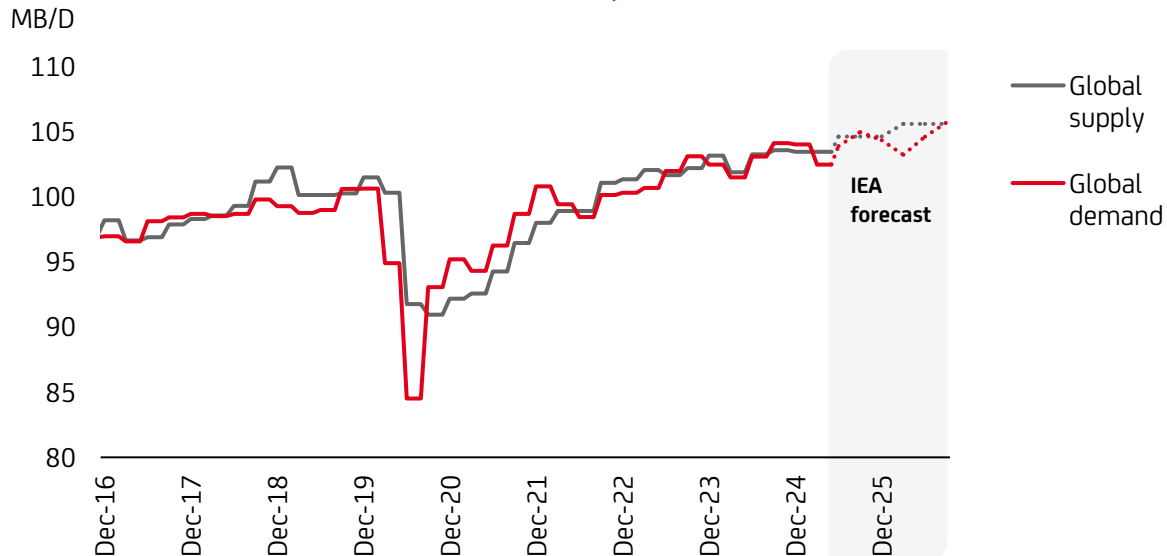
Source: Bloomberg, The Investment Institute by UniCredit

- In our baseline scenario, we assume that the current military tensions in the Middle East will be short-lived, with the strategic interests of the US, key Arab states, and the broader international community helping to stabilize the region.
- However, in a low-probability risk scenario, Iran could escalate by targeting Saudi oil infrastructure or, more severely, by attempting to block the Strait of Hormuz, through which around 20 mb/d of crude and petroleum products flow – making it the world’s most vital and vulnerable oil artery.
- Such escalation could plausibly push oil prices above USD 100/bbl, raising the risk of stagflationary pressures.



# OPEC+ raises output despite tepid demand

## SUPPLY RISKS MOUNT AS OPEC+ BOOSTS OUTPUT, BUT DEMAND FALTERS



- OPEC+ added 411kb/d for July in its third consecutive hike, while near-term supply risks remain in focus due to ongoing disruptions in supply from Russia, Iran, Libya and Canada.
- Global supply looks on track to rise by 1.6mb/d to 104.6mb/d on average in 2025, according to the IEA, and by an additional 970kb/d in 2026.
- Seasonal drivers aside, weak demand and inventory build-up signal a supply-demand mismatch amid slowing growth and a soft Chinese recovery.
- Global oil demand growth is expected to slow, averaging 740kb/d in 2025 and 760kb/d in 2026, according to the IEA, as economic headwinds and record EV sales weigh on consumption.

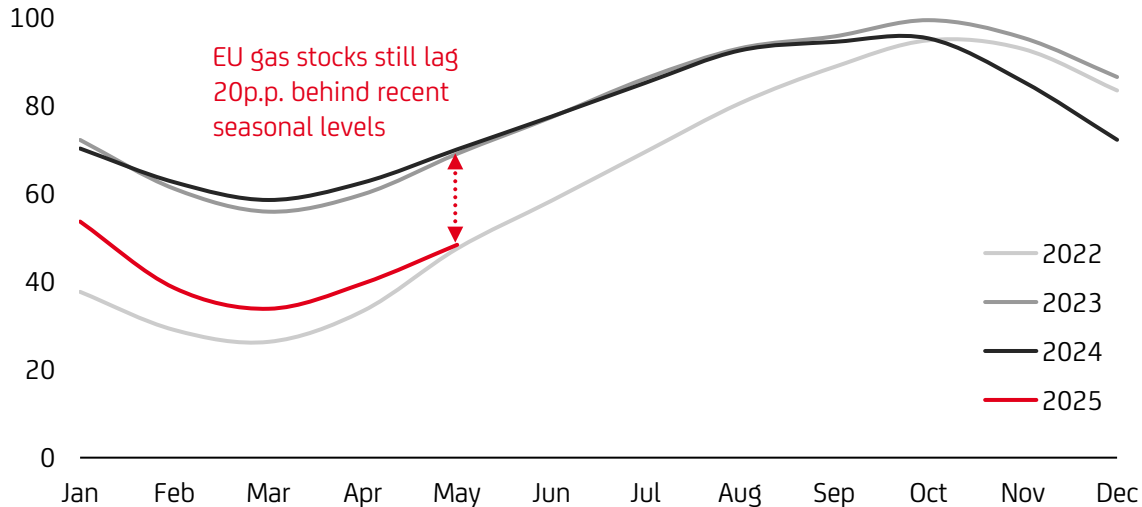
Source: Bloomberg, IEA, The Investment Institute by UniCredit



# Refilling EU gas stocks will be challenging

## GAS STOCKS ARE SEVERELY DEPLETED AFTER THE COLD WINTER

EU NATURAL GAS STORAGE (%)



- The cold winter in Europe left gas stocks severely depleted this year. After the Russian invasion of Ukraine in 2022, the EU mandated that gas stocks needed to be 90% full by 1 November in an effort to bolster energy security. Current inventories are around 20pp below where they were at this time of year in the previous two years since this mandate has been enforced.
- Low storage levels Germany are a particular concern as restocking has been slowed by supply bottlenecks. Refilling these facilities to acceptable levels remains a challenge in the coming months and will likely put upside pressure on gas prices as restocking accelerates.

Source: Bloomberg, The Investment Institute by UniCredit



# Gas prices are well down from their highs

## THE TTF GAS PRICE HAS FALLEN SIGNIFICANTLY, EASING RESTOCKING CONCERNS

EUR/MWH



- TTF prices surged as high as EUR 58/MWh in February 2025, which was well above recent averages. The high price level just before seasonal restocking was set to commence raised concerns that restocking might be uneconomical and could require state support.
- In response to fears about the need to replenish stocks at high prices, EU countries relaxed the mandate to reach 90% of capacity by 1 November. This easing of pressure on the timing of gas purchases contributed to a significant drop in prices after February this year. Given the acute restocking need, we expect TTF prices to rise from these lows and to average EUR 40-45/MWh this year.

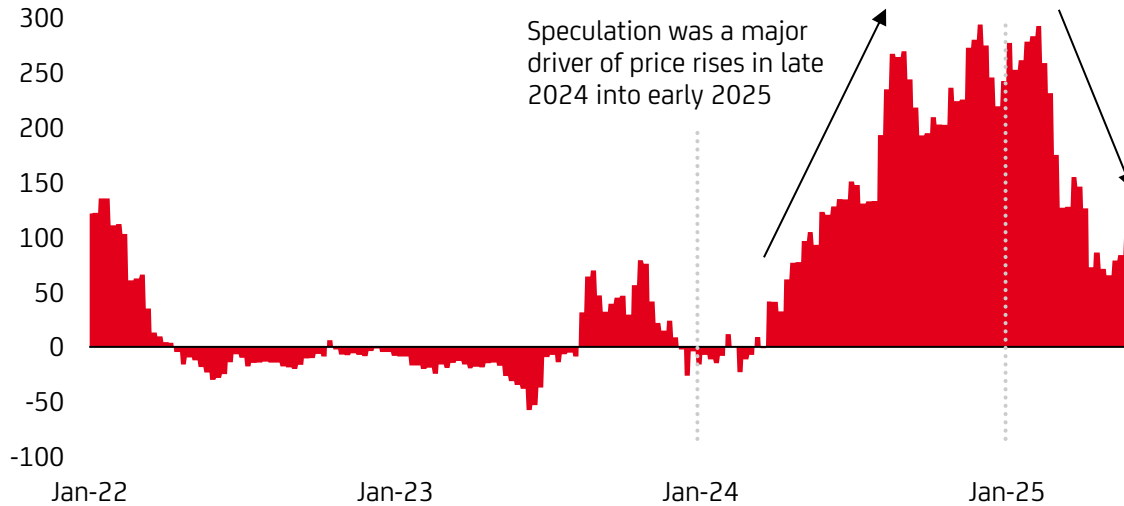
Source: Bloomberg, The Investment Institute by UniCredit



# Financial speculation contributed to overheated prices

## INVESTORS CUT NET LONG GAS POSITIONS SUBSTANTIALLY AFTER FEBRUARY

NET LONG MN CONTRACTS, EUR/MWH



- Financial speculation on supply shortages was a factor that drove the overheated prices at the start of 2025. As drawdowns on gas stocks exceeded the seasonal patterns of recent years, net long gas positions began rising to well above recent levels.
- A major factor behind the reversal of these net long gas positions was the decision by EU countries to relax the 1 November mandate. A further factor behind the weaker outlook for gas prices was an expectation of slower global economic growth, as this would cool demand for LNG in Asia, which is Europe's main competitor for gas.

Source: Bloomberg, The Investment Institute by UniCredit



# Gold: prices likely to rise further despite recent easing of uncertainty

## GOLD ETF INFLOWS SIGNAL RISING DEMAND FROM PRIVATE INVESTORS



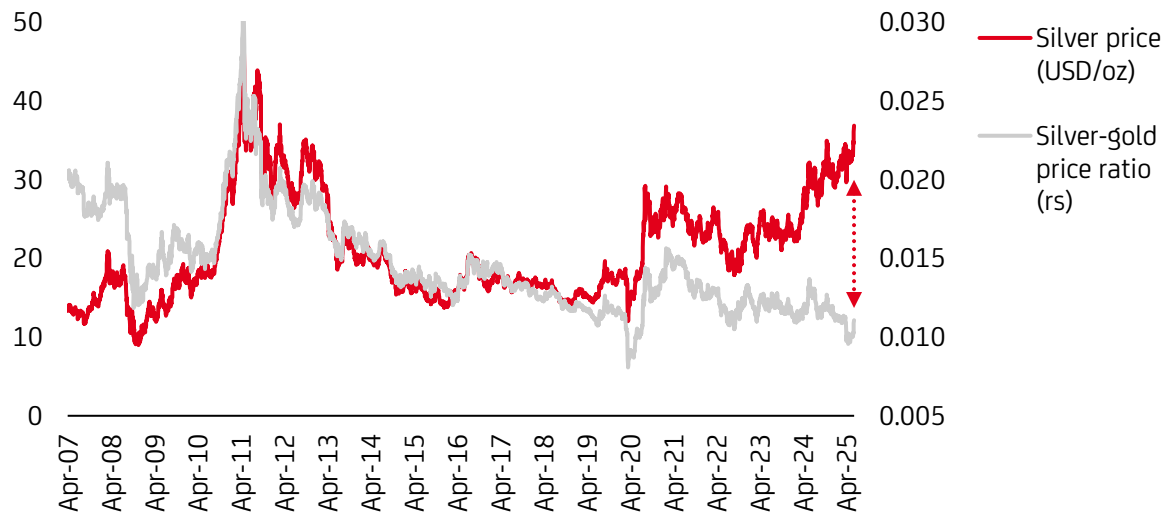
Source: Bloomberg, The Investment Institute by UniCredit

- Gold remains above USD 3,000/oz, buoyed by ongoing uncertainty related to geo-economic issues, including the Iran-Israel conflict and Trump's trade policies, which continue to push investors towards safe-haven assets.
- Gold increased in price by more than 25% last year, and it has gained the same amount in 2025 YTD.
- While the US-China trade tensions look set to subside, leading to the gold price to soften recently, we expect geo-economic risks to persist through 2H25. As such, the main drivers are continuing central-bank purchases and rising private investor demand for gold ETFs.
- We expect gold to rise to USD 3,400-3,500/oz in 2H25 and to potentially reach USD 3,500-3,600/oz by the end of 2026.



# Silver: feeling the appetite for precious metals

## SILVER ON THE RISE, BUT STILL UNDERPERFORMING GOLD



- Amid geoeconomic uncertainties, demand for precious metals has been strong over the past few weeks. Besides gold, silver has delivered a very strong performance (25% YTD) to reach USD 36/oz, its highest value since 2011. However, on a relative-value basis, it has underperformed gold.
- Silver should continue to benefit from demand for safe-haven assets, and we see its price moving towards the upper end of our range forecast of USD 35-40/oz in 2H25 and to USD 40-45/oz by the end of 2026.
- Additionally, industrial demand, e.g. for EV batteries and semiconductors, should prove supportive for silver.

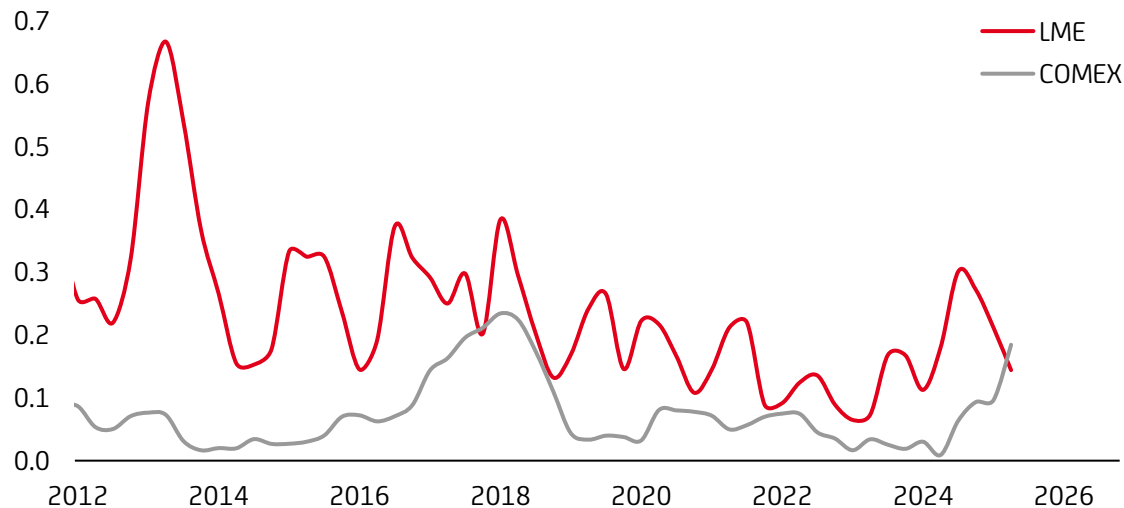
Source: Bloomberg, The Investment Institute by UniCredit



# Copper: prices to remain well-supported at current levels

## LME INVENTORIES DROPPED, WHILE COMEX JUMPED DUE TO TARIFF FRONTLOADING

COPPER INVENTORIES (WAREHOUSE STOCKS, TOTAL MILLION TONS)



- Copper prices have continued to rise and are currently settling at around 9,650 USD/t, up nearly 10% YTD.
- The COMEX-LME spread remains sizeable, though it has decreased since the Section 232<sup>1</sup> investigation of copper started in March.
- Declining LME inventories signal growing tightness in the physical copper market. Meanwhile, COMEX inventories have been increasing due to uncertainty over US tariffs and supply disruptions (see chart).
- Prices will likely remain supported at around USD 9,600-9,800/t due to physical tightness in 2H25, US frontloading and Chinese stimulus. We see some upside in 2026, with prices trading at USD 9,800-10,000/t.

Source: Bloomberg, The Investment Institute by UniCredit

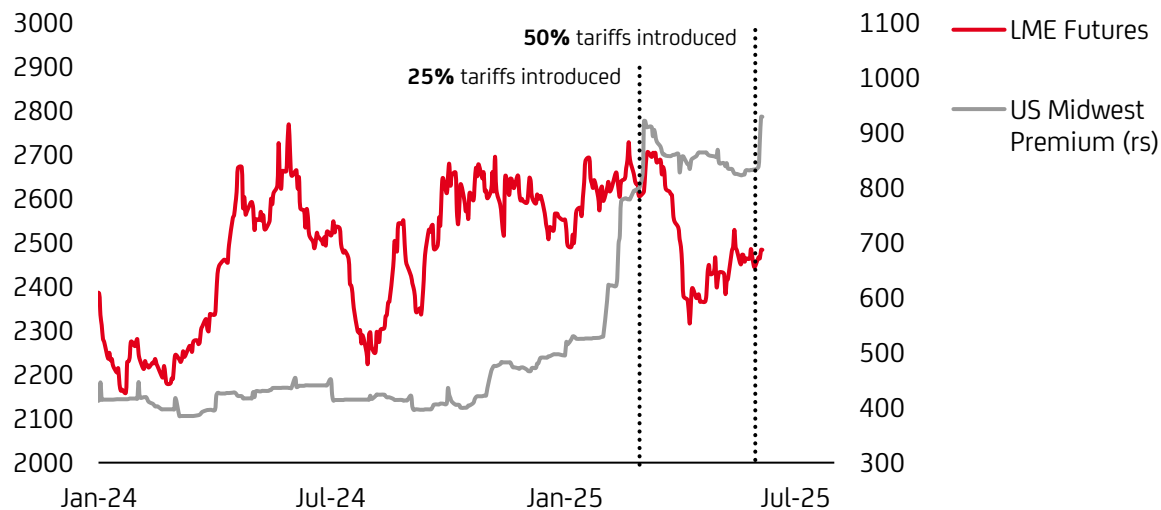
1. Launched by President Trump by executive order on 25 February, the investigation started on 10 March and aims to evaluate whether imports of copper pose a threat to US defense and critical infrastructure.



# Aluminium: prices to stabilise amid tariffs and robust demand

## ADDITIONAL TARIFFS CREATE UPSIDE RISK TO US MIDWEST PREMIUM

ALUMINIUM (USD PER TON) AND US MIDWEST PREMIUM (USD PER TON)



Source: Bloomberg, The Investment Institute by UniCredit

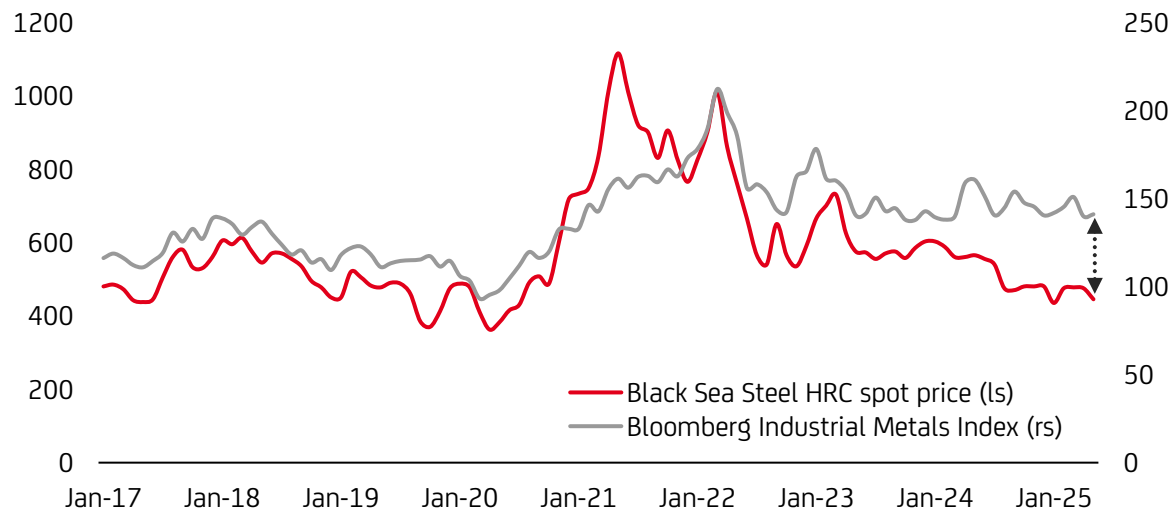
- In contrast to copper, the price of aluminium has moved largely sideways since the beginning of the year, weighed down by the Section 232 investigation and tariffs.
- The increase of US tariffs on steel and aluminium to 50% (from 25%) increases the upside risk to the Midwest aluminium premium.
- Despite strong Chinese production, LME inventories have continued to decline, pointing to solid demand.
- Due to tight physical markets and robust demand, we expect prices to remain in a USD 2,400-2,500/t range in 2H25. For 2026, we target a price range of USD 2,500-2,600/t.



# Steel: prices face downside risks

## STEEL PRICES HAVE UNDERPERFORMED INDUSTRIAL METALS

STEEL PRICE (USD PER METRIC TONNE) VS. BLOOMBERG INDUSTRIAL METALS PRICE INDEX



- US tariffs and global growth uncertainties have weighed on steel prices over the past few weeks, and steel prices have underperformed those of other metals, on average.
- Reports that the US and Mexico are close to reaching a trade agreement to remove the current 50% tariffs on steel imports from Mexico raises hopes that the EU and Canada can also achieve concessions.
- We expect steel prices to move rangebound, with risks skewed to the upside amid higher infrastructure and defence expenditure. Downside risks result notably from the fierce price competition among EV producers putting pressure on upstream raw-materials suppliers.

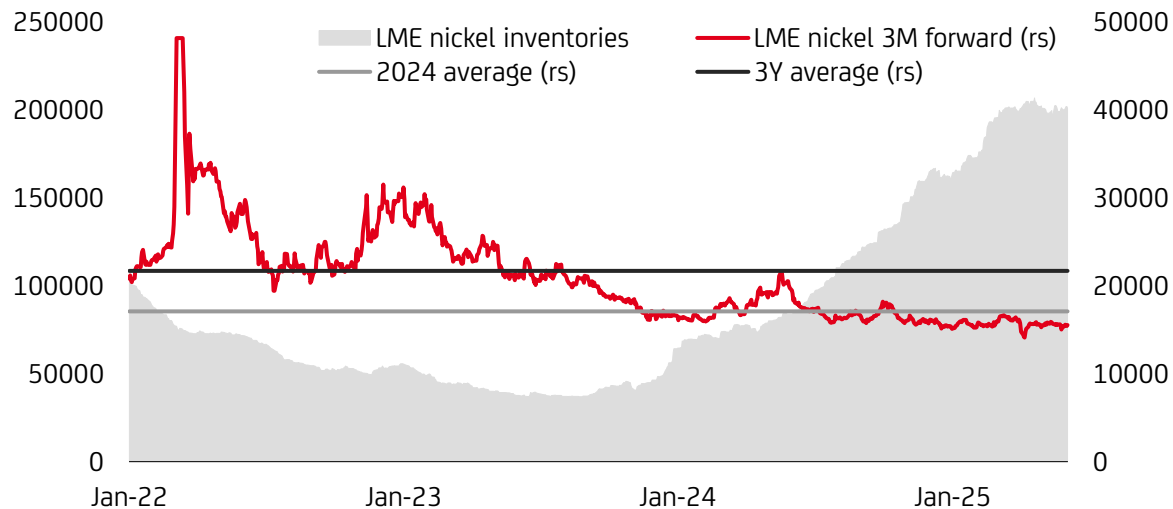
Source: Bloomberg, The Investment Institute by UniCredit



# Nickel prices remain stuck below multi-year averages

## NICKEL HAS TRADED MOSTLY SIDWAYS SINCE 2024

LME NICKEL 3M FORWARD PRICE (USD/MT) AND INVENTORIES (MT)



- The nickel price has been mostly rangebound since 2024 and remains well below its three-year average level. High inventories are a further headwind to prices.
- In view of the expectation of a strong rise in demand for batteries in the future, the main nickel mining and refining nation, Indonesia, has continued to expand production capacity despite the low nickel price. We expect pricing to remain stuck near current levels in the near term until there is a significant rise in battery demand to absorb this recent supply growth.

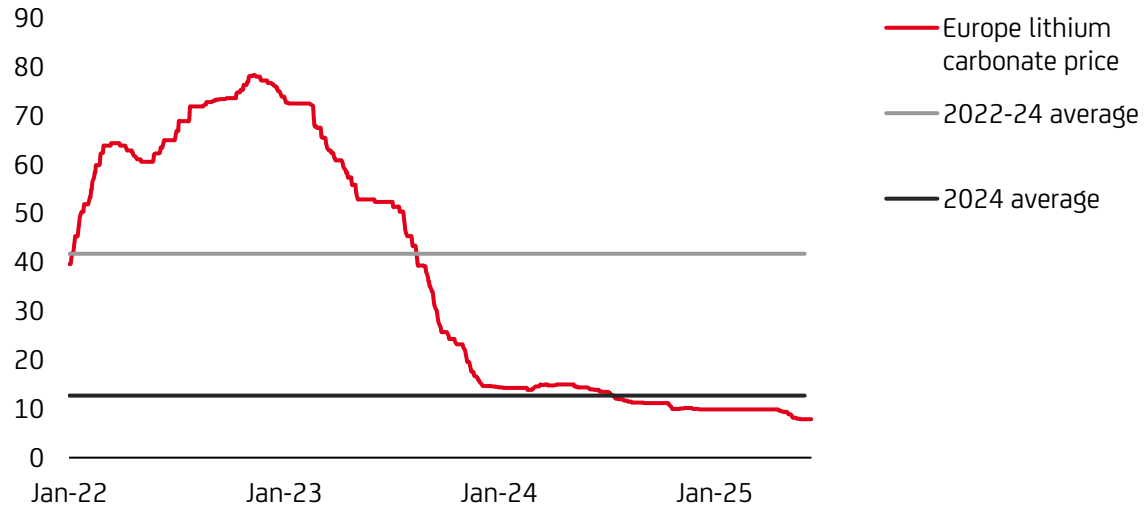
Source: Bloomberg, The Investment Institute by UniCredit



# Lithium price recovery depends on battery demand growth

## LITHIUM PRICE IS STILL FALLING DESPITE RISING BATTERY DEMAND

EUROPE LITHIUM CARBONATE 99.5%, USD/KG

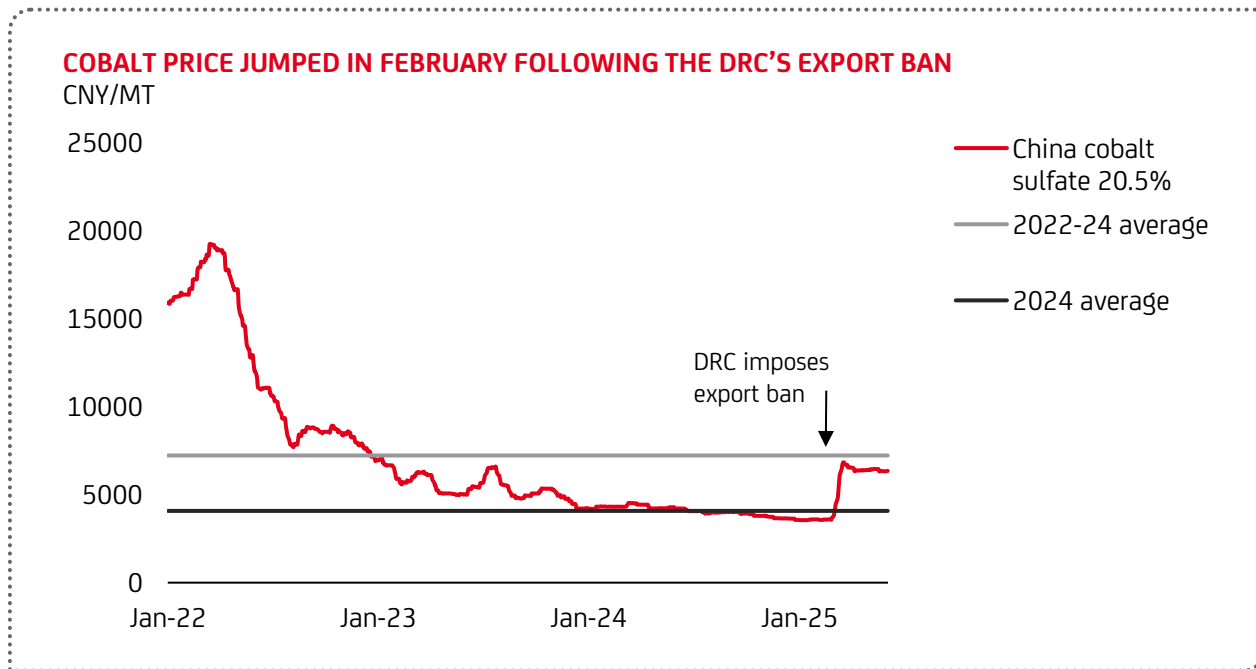


Source: Bloomberg, The Investment Institute by UniCredit

- Due to its central role in battery production, lithium demand is expected to grow rapidly in the coming years as battery production continues to expand.
- To address this future growth, the leading lithium producers have invested in major supply expansions. With reserves still high and production currently exceeding demand, lithium prices have declined since 2023.
- Given the mentioned expansion of production capacities, the near-term picture suggests no relief for pricing. For lithium prices to rise, there needs to be a major uptick in battery demand, something that we see taking place over a longer time horizon, when demand for lithium is likely to eventually outstrip supply.



# Cobalt price temporarily propped up by export ban



Source: Bloomberg, The Investment Institute by UniCredit

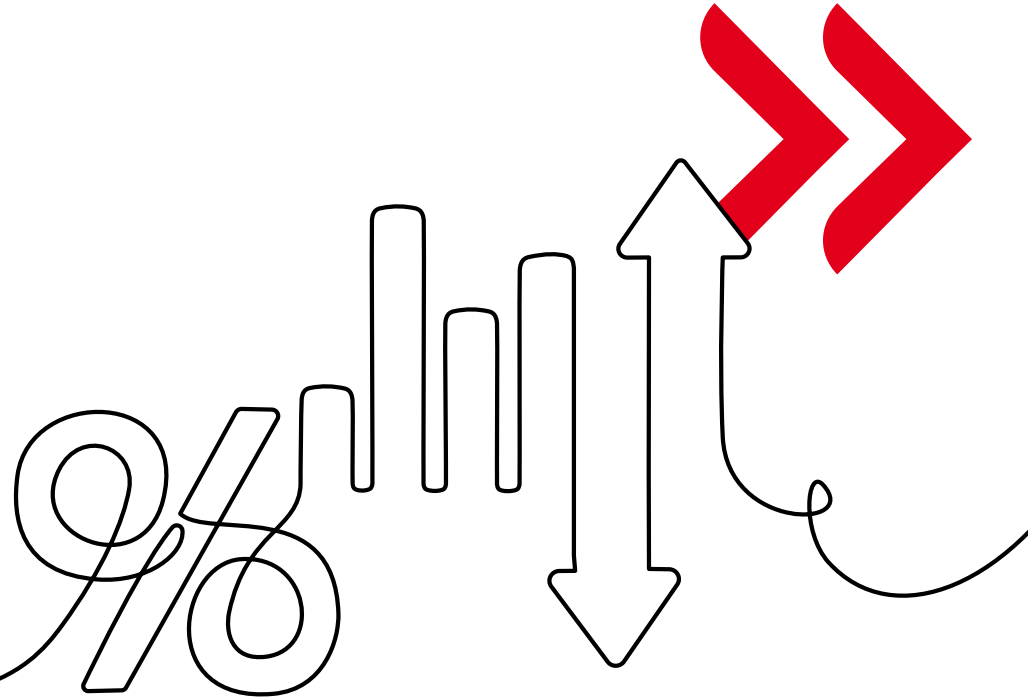
- Cobalt production has exceeded demand growth for several years, as the leading mining countries – Indonesia and the Democratic Republic of Congo (DRC) – have expanded their mining and refining capacity to meet expectations for a future rise in battery demand. The resulting oversupply has led to a sustained fall in cobalt prices since 2022.
- The DRC responded to falling prices by instituting a four-month export ban in February. This led to a temporary jump in the cobalt price but is unlikely to be sustainable. We expect prices to drop again once the ban is relaxed unless Indonesia and the DRC coordinate to restrict supply.



# Forecast Tables

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<b>MACRO</b>	<b>P.71</b>
<b>STRATEGY</b>	<b>P.73</b>
<b>CEE</b>	<b>P.75</b>



# Macro

## GDP, CPI and budget balance

For detailed forecast tables click the following links:

[ECONOMICS >](#)

[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

	Real GDP % Y/Y			Consumer prices % Y/Y			Budget balance % of GDP		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
<b>Global</b>	<b>3.2</b>	<b>2.7</b>	<b>2.9</b>						
<b>US</b>	<b>2.8</b>	<b>1.5</b>	<b>1.9</b>	<b>2.9</b>	<b>3.2</b>	<b>3.2</b>	<b>-7.3</b>	<b>-7.8</b>	<b>-8.3</b>
<b>Eurozone</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>	<b>-3.1</b>	<b>-3.7</b>	<b>-3.5</b>
Germany	-0.2 <sup>1</sup>	0.1 <sup>1</sup>	1.3 <sup>1</sup>	2.2	2.0	1.7	-2.8	-3.0	-3.3
France	1.1	0.6	1.1	2.0	1.0	1.3	-5.8	-5.6	-5.3
Italy	0.5	0.5	0.8	1.0	1.7	1.6	-3.4	-3.4	-3.0
Spain	3.2	2.4	1.8	2.9	2.1	1.9	-3.2	-2.8	-2.5
<b>UK</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>2.5</b>	<b>3.1</b>	<b>1.9</b>	<b>-5.7</b>	<b>-4.0</b>	<b>-3.8</b>
<b>China</b>	<b>5.0</b>	<b>4.0</b>	<b>3.8</b>	<b>0.6</b>	<b>0.9</b>	<b>1.8</b>	<b>-7.4</b>	<b>-7.6</b>	<b>-7.7</b>
<b>Japan</b>	<b>0.2</b>	<b>0.9</b>	<b>0.7</b>	<b>2.7</b>	<b>2.7</b>	<b>1.9</b>	<b>-3.5</b>	<b>-3.4</b>	<b>-3.0</b>
<b>India</b>	<b>6.8</b>	<b>6.5</b>	<b>6.5</b>	<b>4.6</b>	<b>4.2</b>	<b>4.1</b>	<b>-2.4</b>	<b>-2.2</b>	<b>-2.1</b>

Source: The Investment Institute by UniCredit

1. Non-WDA figures. Adjusted for working days: -0.2% (2024), 0.2% (2025) and 1.0% (2026)



# Macro

## Central Banks Watch

For detailed  
forecast tables  
click the  
following links:

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[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

	Current	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
<b>Fed</b>	<b>4.50</b>	<b>4.50</b>	<b>4.25</b>	<b>4.25</b>	<b>4.00</b>	<b>4.00</b>	<b>4.00</b>
<b>ECB</b>	<b>2.00</b>	<b>1.75</b>	<b>1.75</b>	<b>1.75</b>	<b>1.75</b>	<b>1.75</b>	<b>1.75</b>
BOE	4.25	4.00	3.50	3.25	3.00	2.75	2.75
BoJ	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Riksbank	2.00	1.75	1.75	1.75	1.75	1.75	1.75
Norges Bank	4.25	3.75	3.50	3.25	3.25	3.25	3.25

Source: The Investment Institute by UniCredit  
Note: Figures are end-of-period



# Strategy

## Interest rate and yield

For detailed forecast tables click the following links:

[ECONOMICS >](#)

[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

		19.06.25	3Q25	4Q25	1Q26
<b>Eurozone</b>	Depo rate	2.00	1.75	1.75	1.75
	3M Euribor	2.04	1.75	1.75	1.75
	2Y Schatz	1.83	1.80	1.80	1.80
	10Y Bund	2.49	2.50	2.60	2.70
	2Y EUR swap	1.99	1.95	1.95	1.95
	10Y EUR swap	2.53	2.55	2.65	2.75
	10Y Bund-swap spread	4	5	5	5
	2Y BTP	2.09	2.00	2.00	2.00
	10Y BTP	3.48	3.40	3.50	3.70
	10Y BTP-Bund spread	99	90	90	100
<b>US</b>	Fed fund rate	4.50	4.50	4.25	4.25
	3M OIS SOFR	4.32	4.23	4.15	4.11
	2Y UST	3.94	4.00	4.00	4.00
	10Y UST	4.41	4.50	4.50	4.50
	10Y UST-Bund spread	188	200	190	180

Source: Bloomberg, The Investment Institute by UniCredit



# Strategy

## FX and Risky Assets

For detailed forecast tables click the following links:

[ECONOMICS >](#)

[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

	19.06.25	3Q25	4Q25	1Q26
<b>EUR-USD</b>	1.15	1.18	1.19	1.20
<b>USD-JPY</b>	146	142	140	139
<b>EUR-JPY</b>	167	168	167	167
<b>GBP-USD</b>	1.34	1.34	1.33	1.32
<b>EUR-GBP</b>	0.85	0.88	0.89	0.91
<b>USD-CNY</b>	7.19	7.19	7.15	7.14
<b>EUR-CNY</b>	8.24	8.48	8.51	8.57

	Closing 19.06.25	End-2025	Mid-2026
<b>Oil</b>			
Brent USD/bbl.	79	68	65
<b>Equities</b>			
Euro STOXX 50	5,242	5,600	5,750
STOXX Europe 600	536	565	590
DAX	23,222	24,500	26,000
MSCI Italy	101	108	112
S&P 500	6,024	6,100	6,450
Nasdaq 100	19,687	22,000	24,000
<b>Credit</b>			
iBoxx Non-Financials Senior	89	95	90
iBoxx Banks Senior	86	95	87
iBoxx High Yield NFI	300	310	300

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit



# CEE GDP, inflation and current account balance

For detailed  
forecast tables  
click the  
following links:

[ECONOMICS >](#)

[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

	Real GDP % change			CPI, EoP % change			C/A balance % GDP		
	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F
<b>EU-CEE</b>	2.0	2.2	2.5	3.5	3.2	3.2			
<b>Bulgaria</b>	2.8	3.2	3.0	2.2	3.7	2.9	-1.8	-2.4	-2.3
<b>Croatia</b>	3.9	3.0	3.2	3.4	2.0	2.5	-1.2	-1.8	-2.2
<b>Czechia</b>	1.0	2.0	1.8	3.0	2.7	2.3	1.8	2.0	2.4
<b>Hungary</b>	0.5	0.7	2.8	4.6	3.2	6.5	2.6	2.6	2.1
<b>Poland</b>	2.9	3.3	3.0	4.7	3.3	2.8	0.2	-0.9	-0.7
<b>Romania</b>	0.8	1.0	1.8	5.1	5.3	3.4	-8.4	-8.8	-8.4
<b>Slovakia</b>	2.1	1.1	1.8	2.9	4.4	3.0	-2.8	-2.9	-1.8
<b>Slovenia</b>	1.6	1.1	2.2	1.9	2.1	2.0	4.4	4.0	4.1
<b>Bosnia and Herz.</b>	2.5	2.5	3.0	2.2	2.0	2.0	-4.2	-4.0	-4.0
<b>Serbia</b>	3.9	3.3	3.9	4.3	3.3	3.2	-6.3	-6.3	-6.0

Source: National statistical offices, Eurostat, Macrobond, central banks, The Investment Institute by UniCredit



# CEE

## Basic balance, external debt and budget balance

For detailed forecast tables click the following links:

[ECONOMICS >](#)

[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

	Extended basic balance % GDP			External debt % GDP			Budget balance % GDP		
	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F
<b>EU-CEE</b>									
<b>Bulgaria</b>	1.5	2.8	2.7	47.4	49.3	49.0	-3.0	-3.0	-3.0
<b>Croatia</b>	2.2	3.7	3.7	65.6	63.7	62.2	-2.4	-2.5	-2.5
<b>Czechia</b>	2.8	3.2	3.6	65.8	64.3	64.9	-2.2	-2.7	-2.7
<b>Hungary</b>	5.3	5.3	5.9	125.6	122.8	114.9	-4.9	-4.4	-4.9
<b>Poland</b>	1.6	1.3	2.0	52.1	51.5	50.0	-6.6	-6.3	-6.1
<b>Romania</b>	-5.7	-5.8	-5.2	57.9	56.9	59.1	-9.3	-7.5	-6.4
<b>Slovakia</b>	-1.1	-1.1	0.1	100.3	98.2	95.5	-5.3	-4.9	-4.2
<b>Slovenia</b>	6.7	6.4	6.4	88.5	88.1	87.4	-0.9	-1.2	-1.7
<b>Bosnia and Herz.</b>	0.2	0.2	0.2	17.8	17.5	17.3	-1.6	-2.5	-2.0
<b>Serbia</b>	-0.7	-1.8	-1.3	60.5	59.2	57.8	-2.0	-3.0	-3.0

Source: National statistical offices, Eurostat, Macrobond, central banks, The Investment Institute by UniCredit



# Government debt, policy rate and exchange rate

For detailed forecast tables click the following links:

[ECONOMICS >](#)

[FI >](#)

[FX >](#)

[RISKY ASSETS >](#)

	Government debt % GDP			Policy rate %			FX vs. EUR EoP		
	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F
<b>EU-CEE</b>									
<b>Bulgaria</b>	23.6	25.7	27.1	-	-	EUR	2.0	2.0	EUR
<b>Croatia</b>	57.6	56.0	55.4	EUR	EUR	EUR	EUR	EUR	EUR
<b>Czechia</b>	43.6	44.3	45.1	4.00	3.25	3.00	25.2	24.8	24.8
<b>Hungary</b>	74.1	74.3	72.4	6.50	6.25	6.00	411.3	414.0	426.0
<b>Poland</b>	54.8	59.0	63.0	5.75	4.75	4.00	4.3	4.3	4.4
<b>Romania</b>	54.8	61.3	65.5	6.50	6.25	5.00	5.0	5.1	5.2
<b>Slovakia</b>	59.3	61.5	62.2	EUR	EUR	EUR	EUR	EUR	EUR
<b>Slovenia</b>	67.0	65.0	64.0	EUR	EUR	EUR	EUR	EUR	EUR
<b>Bosnia and Herz.</b>	32.8	33.5	33.4	-	-	-	2.0	2.0	2.0
<b>Serbia</b>	47.5	47.5	47.4	5.75	5.25	4.75	117.0	117.2	117.3

Source: National statistical offices, Eurostat, Macrobond, central banks, The Investment Institute by UniCredit



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