



IR and FX Newsletter
September 2025



A Macro View: Trade tensions reduce but uncertainties remain

The UK economy grew 1.1% in the first half of 2025, the fastest rate among the large, developed G7 economies. This is despite the headwinds of global trade uncertainty, heightened geopolitical tensions and previously announced tax rises that came into effect in April. More timely data from purchasing managers' indices (PMI) suggest continued positive momentum in economic activity in July and August, likely in response to the announcement of the UK-US trade deal. Consumers and businesses remain cautious, however, amid continued global uncertainty and a slowing labour market.

The UK's headline inflation rate increased to 3.8% in July, up from 2.6% in March (adjoining chart), driven by higher energy and food prices, as well as strong wage growth pushing up the price of services. The Bank of England expect inflation to peak at around 4% in the coming months, before easing in the fourth quarter and returning to the 2% target rate early next year. This outlook prompted the Bank to cut interest rates by 25 basis points in August, to 4%, and now financial markets expect limited further easing of monetary policy, pricing just one more 25 basis-point rate cut this year.

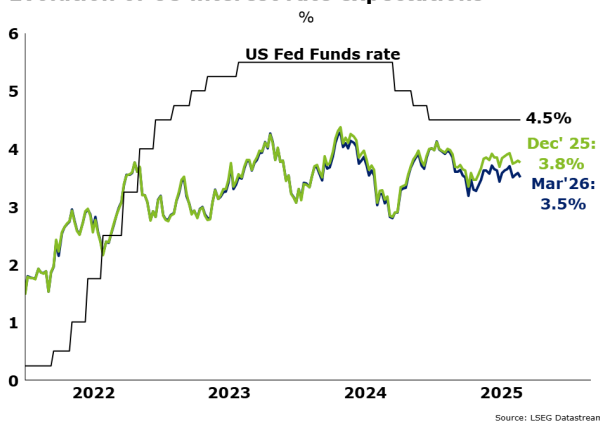
Following a contraction in the first quarter, the US economy rebounded in the second quarter as unusual trade flows muddled the economic picture. The US is expected to grow at a much slower pace this year compared with 2024, however. Following three consecutive months of improvement, consumer confidence fell in August amid inflation concerns. US inflation edged up from 2.3% in April to 2.7% in August, with anecdotal evidence suggesting US and foreign businesses have shouldered some of the tariff costs so far. Markets expect that the Federal Reserve will lower its target rate to around 3.8% by the end of 2025 (adjoining chart). Financial market volatility remains elevated as investors respond to the latest tariff announcements.

While monthly PMI data indicated growing momentum in the euro area over the summer months, activity remains subdued compared to the UK and US amid ongoing trade uncertainty and heightened geopolitical tensions. Despite Germany's current economic weakness, confidence in its medium-term prospects continue to improve following announcements of fiscal expansion earlier this year, while activity in Spain remains above its long-term trend. Given sluggish growth and inflation at target levels, markets expect little change in euro area interest rates for the remainder of the year (adjoining chart).

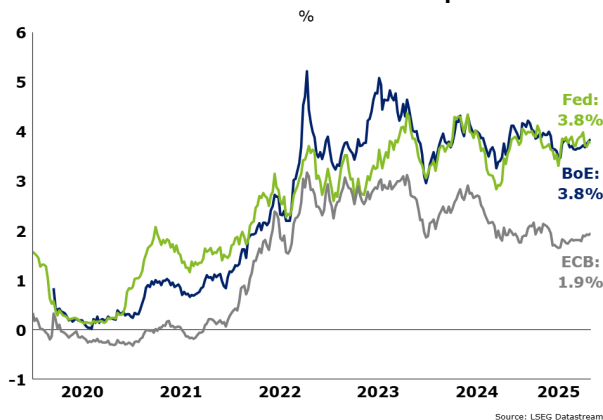
UK: Headline & alternative measures of inflation



Evolution of US interest rate expectations



Evolution of end-2025 interest rate expectations



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