Macro Outlook

OLD NEWS, GOOD NEWS

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We upgraded our US growth outlook for this year but left our inflation baseline unchanged. Incoming data suggests that domestic demand ended 2025 on a stronger footing than we had expected, while inflation remains on a downward trend. On the one hand, fiscal policy, lower rates and solid market performance should support consumer spending. On the other hand, low energy prices, delayed/cancelled tariffs and favourable base effects on insurance costs will likely weigh on prices. Against this backdrop we now expect growth at 2.7% in 2026 (consensus: 2.1%), while we continue to forecast core PCE inflation to hit 2.0% Q4/Q4 (consensus: 2.5%). Risks, however, are pro-cyclical in both areas. A tariff ruling and/or potential electoral moves by the Trump administration could put further upside pressure on both economic activity and inflation.

We stick to the view that EA growth momentum will accelerate next year as we continue to expect Germany to take the growth lead amid fiscal expansion. Incoming data provide mixed evidence that our constructive baseline is on track. On the bright side, the latest IP data in Germany came in stronger than expected. On the dark side, German retail sales and our live fiscal indicator point to weak domestic demand and a slowing spending momentum, respectively. Against this backdrop, we think the balance of risks remains tilted to the downside amid poor growth quality across the region and fiscal implementation risks in Germany.On inflation, we believe the broader core downward trend is likely to remain in place as the annual reset mechanism comes into play and wage growth continues to ease.

In China, real GDP growth moderated to 4.5% y/y in Q4, mostly in line with our expectations, as domestic demand (especially investment and consumption) has weakened despite still-resilient exports. Heading into 2026, we continue to expect GDP to stabilise at 5.0% for the year, as export activity continues to play a leading role. We maintain our view that China's inflation will remain low over the next year. We expect CPI inflation to increase only gradually, from 0% in 2025 to 0.8% in 2026.

We expect the Fed to pause in January. Beyond January, we stick to our view that the Fed will cut rates in March, June and September, taking the Fed funds rate to 2.75-3.00%. We, therefore, remain more dovish than markets, which expect around two rate cuts by year-end, starting in June. However, we flag downside risks to our call amid potential cycle and policy-led overheating pressures, consistent with the risk assessment incorporated into our macro baseline

While we continue to believe that the EA economy requires further support, the ECB increasingly holistic reaction function points to very low probability of a rate cut in the near-term. Against this backdrop, we fine-tune our call: we still expect a rate cut this year, but timing of the move is particularly uncertain amid the continued build up of balanced risks incorporated into our baseline (vs March previously, with risks of postponing it to June).

At the Q4 Monetary Policy Committee (MPC) meeting, the PBOC struck a measured easing stance, signaling a preference for calibrated easing. We maintain our current forecasts of around 40bps of rate cuts (OMO 7day reverse repo-rate) and possibly one 50bp RRR reduction to support 2026 growth on a firm foundation.

GROWTH & INFLATION

US – Hot without heat

We upgraded our US growth outlook for this year but left our inflation baseline unchanged. Incoming data suggests that domestic demand ended 2025 on a stronger footing than we had expected, while inflation remains on a downward trend. On the one hand, fiscal policy, lower rates and solid market performance should support consumer spending. On the other hand, low energy prices, delayed/cancelled tariffs and favourable base effects on insurance costs will likely weigh on prices. Against this backdrop we now expect growth at 2.7% in 2026 (consensus: 2.1%), while we continue to forecast core PCE inflation to hit 2.0% Q4/Q4 (consensus: 2.5%). Risks, however, are pro-cyclical in both areas. A tariff ruling and/or potential electoral moves by the Trump administration could put further upside pressure on both economic activity and inflation.

Strong ending. Real GDP rose more than expected at 4.3% q/q SAAR in Q3 (vs 3.0% consensus and 2.7% ANIMA), marking an acceleration from the 3.8% q/q SAAR gain in Q2 amid stronger than anticipated demand. Private domestic final purchases (PDFP) surged by 3.0% q/q SAAR, broadly unchanged from Q2 and in line with the average of the last two years. Much of the strength in PDFP came from private consumption, which accelerated by 1.0pp, to 3.5% q/q SAAR amid solid gains in the services sector (+3.7% q/q SAAR) - with strength mostly concentrated in discretionary categories - and in goods (+3.1% q/q SAAR) components. On the investment side, AI-related spending (data centers, power structures, IT equipment, software) accounted, once again, for the lion's share of non-residential capital spending expansion, even as it slowed compared to the exceptional gain in Q3. Finally, net trade added 1.6pp to GDP growth as imports slowed and exports rose.

Trust it. Although this was the advance release for Q3 GDP data, the fact that it was published late by the BLS due to the government shutdown meant that these figures already included information from the Q3 Quarterly Services Survey (QSS) - usually available with the second GDP estimate and often a source of meaningful revisions to the advance estimate. As a result, Q3 data in the upcoming releases will be subject to only minimal revisions, and we can reliably take the strength shown in the Q3 print at face value.

Activity is expected to remain resilient in Q4. Although we continue to expect growth to moderate in Q4 (mainly due to a drag of 1.1pp on government spending caused by the shutdown and a prolonged slowdown in residential investment), we are revising our tracking estimate for Q4 upwards: we now expect real GDP growth of 2.1% q/q SAAR (vs 1.4% previously). The upward revision comes mainly on the back of two drivers:

1. We have revised our estimate for private consumption upwards, mainly due to a stronger-than-expected carryover from Q3 and services spending that remains on a solid footing. Moreover, core retail sales increased by 0.8% in October, and healthy Black Friday and Cyber Week spending trends suggest a further increase in November.
2. The trade deficit shrank sharply by $18.8bn to $29.4bn in October, the smallest deficit since June 2009. Imports drove the overall narrowing, falling by $11.0bn (-3.2% m/m) after rising modestly in the prior month. Exports, on the other hand, recorded another solid monthly gain, rising by $7.8bn (+2.6%

m/m). Consequently, we estimate that net exports will contribute strongly again in Q4 (+1.0pp).

We also upgraded our 2026 GDP baseline. On the back of more resilient economic momentum in H2-25 than in our already above-consensus estimates, we are revising our GDP baseline for 2026 upwards. We now forecast real GDP growth of 2.4% (Q4/Q4), compared to the latest FOMC projection of 2.3%, and the current consensus of 2.1%.

Friendly fiscal policy kicks in. The key driver of our forecast for solid growth this year continues to be that the drag from tariff increases will give way to a boost from business and personal tax cuts included in the One Big Beautiful Bill Act (OBBBA). Indeed, with the midterm elections approaching and the cost of living emerging as a major political theme, the White House is likely to avoid significant further tariff increases and may continue to remove duties. This should help keep private consumption resilient throughout 2026.

Monetary easing still has room to support investment activity. Financial conditions continue to normalise, reflecting higher equity prices, a weaker dollar, and lower interest rates, while fewer banks are reporting tighter lending standards for business loans than a year ago, and banks have also reported healthy loan demand in recent quarters. This should help boost CAPEX spending - particularly AI-related infrastructure investment – allowing it to further increase. Timely indicators of CAPEX already suggest that investment momentum has room to pick up.

Low, not bad. We remain of the view that the stabilisation of the labour market at a lower breakeven level than in the last two years does not necessarily imply a slowdown in economic activity. While employment gains were mild in H2-25, the 37k rise in private jobs in November was in line with the prior six-month average, and the pace of job growth has not slowed since the middle of last year. On the other hand, layoffs remain limited: the unemployment rate in November ticked down to 4.4%, with the number of unemployed falling by 278k on the month (the biggest m/m decline since March 2022), while the most timely data on jobless claims remain well within seasonal patterns in recent weeks.

Cobb-Douglas world, in words. The net combined effect is that the composition of GDP growth will look different from last cycle: more will come from productivity growth, which has already rebounded to its historical average pace of 2% this cycle and should receive a further boost from artificial intelligence, and less will come from labour supply growth.

Still expecting inflation to head towards target by Q4 this year. Although we upgraded our growth outlook for this year, we left our already below-consensus baseline unchanged, continuing to expect inflation to reach target by Q4 this year.

Core CPI for December came in softer than expected at 0.3% m/m. Monthly placeholders for October and November are absent due to the interruption in CPI collection caused by the government shutdown.

Tariff pass-through appears to have run its course. Core goods inflation came in flat on the month, led by a 1.1% m/m decline in used car inflation. However, several other tariff-driven items showed a deceleration on the month, suggesting that tariff pass-through has likely peaked. Indeed, household (HHs) appliance inflation - a CPI item strongly affected by imports activity - dropped 4.3% (the biggest decline on record), while information-technology goods inflation (including computers and phones) fell by 2.2%. Prices of audio equipment, which had risen since the announcement of the "Liberation Day" tariffs in April, fell by 1.1% and sports equipment dropped by 0.4%.

Services inflation remains on a soft underlying trend. Core services inflation ticked up to 0.3% m/m, in line with its average monthly pace for the year. Here, we note that core shelter prices (RPR+OER) did see some bounce-back, at 0.3% m/m, after an unusually weak print. But the leading indicators continue to suggest that this component is on a moderating trend. *Supercore* (core services ex shelter) momentum came in slightly stronger than recently available readings at 0.3% m/m - although we note that much of the increase was driven by notoriously volatile components. Our measure for *supercore* CPI ex-health insurance, lodging, and airfares slowed to 0.1% m/m (0.2pp below the average of the last two years).

Multiple effects at work. The key message for us is that compared to the average of July, August, and September, no tariff-related pressure has built up in the area of core goods inflation. This suggests that the tariff pass-through has likely run its course. In the area of core services inflation, we continue to believe that the deceleration trend has room to continue this year. Despite monthly volatility, shelter inflation is likely to substantially undershoot its pre-COVID pace. Indeed, the gap between rents for new and continuing leases - a key determinant of the future pace of official shelter inflation - is 1-2pp narrower than it was pre-pandemic. Moreover, we note that wage growth has already slowed to a target-consistent rate and should put downward pressure on *supercore* inflation, which has yet to return to a target-consistent pace. There are also additional technical effects that will weigh on the downside: for instance, insurance categories are likely to show smaller price increases than last year. Health insurers' profit margins - which feed into CPI with a lag - have narrowed over the past year, while auto insurance premiums now appear to have fully caught up with repair and replacement costs, marking the end of that particular bout of catch-up inflation.

ANIMA baseline. On growth, for Q4-25, we now expect growth to decelerate to 2.1% q/q SAAR (vs 1.4% q/q SAAR in the prior baseline) from 4.3% in Q3-25 - mainly due to a drag of 1.1pp on government spending caused by the shutdown and a prolonged slowdown in residential investment. This is now consistent with an annual growth rate of 2.2% (vs 1.9% previously expected).

For 2026, we now expect growth to pick up to 2.8% q/q SAAR (vs 1.7% q/q SAAR in the prior baseline) in Q1-26. The rebound here is mainly linked to the recovery of the government-spending drag in Q4-25. For Q2, Q3 and Q4-26 we expect growth to average 2.2% q/q SAAR (vs 1.8%, 2.0% and 2.1% respectively in our prior baseline) - on the back of a moderate upgrade to our forecast path for private consumption and fixed investment. This is now consistent with an annual growth rate of 2.7% (vs 2.0% previously expected). In Q4/Q4 terms, our new forecast now stands at 2.4% (vs 2.3% in the latest FOMC projection, and 2.1% consensus).

The inflation baseline remains unchanged. For H1-26 we expect core CPI to average 2.8%, and 2.2% in H2-26. This is consistent with an annual average of 2.6%. We expect the y/y rate to reach 2% at the end of Q3-26. In core PCE terms, for H1-26 we expect core PCE to average 2.6%, and 2.2% in H2-26. This is consistent with an annual average of 2.5%.

EA – Between relief and reality

We stick to the view that EA growth momentum will accelerate next year as we continue to expect Germany to take the growth lead amid fiscal expansion. Incoming data provide mixed evidence that our constructive baseline is on track. On the bright side, the latest IP data in Germany came in stronger than expected. On the dark side, German retail sales and our live fiscal indicator point to weak domestic demand and a slowing spending momentum, respectively. Against this backdrop, we think the

balance of risks remains tilted to the downside amid poor growth quality across the region and fiscal implementation risks in Germany.
On inflation, we believe the broader core downward trend is likely to remain in place as the annual reset mechanism comes into play and wage growth continues to ease.

The data flow between December and early January came in as a mixed bag:

1) Aggregate soft data remained lacklustre. Weak demand dynamics continued to weigh on PMIs, although services and non-core countries performed somewhat better. On the consumer side, confidence continued to soften, with households turning more pessimistic about their expected financial situation and their assessment of the general economic outlook.

2) German industrial production rose by more than expected, increasing 0.8% m/m in November, alongside solid factory orders. The November's gains put industrial output in the first two months of Q4-25 roughly 2% above the prior quarter's average, indicating that industry provided a meaningful lift to year end GDP. Moreover, truck toll mileage for December, the first manufacturing hard data point released for the month, rose by +3.2% m/m, pointing to firm activity into year-end. However, the demand side of the German economy remains subdued: retail sales for November came in lower than expected at -0.6% m/m. Outside Germany, consumption in the rest of the EA proved relatively more resilient, with area-wide retail sales data that came in slightly better than expected at 0.2% m/m in November, with October data revised up by 0.2pp at 0.3% m/m.

Against this backdrop, we have marginally adjusted our tracking estimate upwards for Q4-25 EA GDP growth by 0.1pp to 0.3% q/q but have left our outlook for 2026 unchanged. We continue to rely on German fiscal expansion, reduced global tariff tensions, and Southern economies outperformance.

German fiscal expansion remains on track, with a "but". Although German fiscal data for November showed a deceleration of spending compared to October, placing the spending pace substantially below the pace needed to reach the budget targets by year-end, we believe that this will not alter the fiscal spending path projected for 2026. Indeed, the German government already appeared to be aware that achieving the budget targets in 2025 would be difficult. The *Finanzegentur* funding plan for 2026 foresees the financing of EUR 98bn in federal deficit, which is EUR 10bn more than initially expected. We believe that the German government has raised the 2026 deficit target as they already expected to miss the federal deficit target in 2025, however it is not a given that 2026 target will be met. Therefore, we maintain a cautious approach: the risks of under-delivery remain significant.

There are multiple signs that tariff headwinds are subsiding. Trade policy uncertainty is receding markedly, and with the midterm elections looming in the US, it is unlikely that the Trump administration will impose further tariff increases in the months ahead. In addition, although EA exports to the US have dropped sharply since the announcement of "Liberation Day" tariffs, demand in other export destinations has held up better.

We continue to believe that resilient consumer spending will be the hallmark of Southern economies. Private final consumption in Spain and Italy over the last seven quarters averaged 0.6% q/q (approximately 0.3pp higher than the rest of the EA). In both economies, the labour market continues to prove robust, with the unemployment rate is at historic lows for both economies. Moreover, with employment at record highs, Italy and Spain share a constructive outlook for private consumption in the quarters ahead. Hence, we expect consumption growth to remain upbeat at around 3% in Spain and to accelerate in Italy throughout 2026, on the back of above-average real disposable income growth and a firm labour market.

Inflation closed out the year on the right foot… more to come. Headline Inflation for December decelerated by 0.1pp to 2.0%. Meanwhile, core HICP came in slightly softer than consensus estimates - but in line with our forecast - at 2.3% y/y, down from 2.4% in November.

Underlying details showed that NEIG inflation declined by 0.1pp to 0.4% y/y. As evident from the German regional data, much of the decline in December can be explained by the clothing and footwear component. Services inflation ticked down to 3.4% from 3.5% in November. German regional data indicate that much of the downtick was driven by package holidays, while in Spain the press release reported that recreational services prices rose less than last year. Therefore, the downtick at the area-wide level could have occurred on the back of both volatile and non-volatile components: our eyes will be on the final HICP details (out on 19 January).

Next step down. We continue to believe that the inflation focus in the Euro Area remains on services inflation, as the rest of the components have now normalised. Here, we continue to believe that the broader downward trend in services inflation is likely to remain in place as wage growth normalises to levels consistent with price stability. In addition, a new base year together with a series of resets for various service price categories in January should contribute to further downward pressure ahead.

ANIMA baseline. On growth, we now project Q4-25 real GDP at 0.3% (vs 0.2% in the previous baseline). Our annual 2025 forecast stands at 1.5% (vs 1.4% in our previous baseline). For 2026, we have left our baseline unchanged. We project growth of 0.3% for H1 2026 (quarter-on-quarter average) and 0.4% for H2 2026. This results in an annual 2026 forecast of 1.2%.

On inflation, our baseline for 2026 remains unchanged: we expect core inflation to be 2.0% in H1 and 1.9% in H2, consistent with an annual average of 1.9%.

CHINA – Same growth engine

Real GDP growth moderated to 4.5% y/y in Q4, mostly in line with our expectations, as domestic demand (especially investment and consumption) has weakened despite still-resilient exports. Heading into 2026, we continue to expect GDP to stabilise at 5.0% for the year, as export activity continues to play a leading role. We maintain our view that China's inflation will remain low over the next year. We expect CPI inflation to increase only gradually, from 0% in 2025 to 0.8% in 2026.

Soft ending. Real GDP growth moderated to 4.5% y/y in Q4, mostly in line with our expectations, as domestic demand (especially investment and consumption) has weakened despite still-resilient exports. IP growth rose modestly to 5.2% y/y in December from 4.8% y/y in November amid the stronger-than-expected exports, led by faster output growth in computer & electronics equipment, and pharmaceutical industries, more than offsetting slower output growth in the automobile and utilities industries. On a single-month basis, FAI growth declined to -13.0% in December from -10.7% y/y in November, registering the first full-year contraction since 1990s (-3.8% y/y in 2025). Retail sales growth moderated to 0.9% y/y in December from 1.3% in November, with weakness broad-based.

Export activity continues to be the main source of support. In year-over-year terms, China's trade growth accelerated somewhat in December, with both export and import growth surprising to the upside. By major category and in sequential terms, export value rose broadly from November to December, with automobiles exports rising the most, followed by tech-related products and metals.

Heading into 2026, we continue to expect GDP to stabilise at around 5.0% for the year.

We believe that exports will continue to play a leading role and that the resilience of Chinese exports will continue to be based on three key factors:

1) The surge in Chinese exports to EMs reflects more than simple trade diversion; it is underpinned by strong price competitiveness and demand linked to China's expanding overseas investment footprint.

2) China's dominance in rare earths and other critical minerals limits the extent to which trading partners can impose meaningful barriers without risking supply-chain disruptions.

3) High-tech exports also have room to accelerate, supported by targeted policy initiatives and the broader investment cycle tied to AI-related capital spending.

The path for private consumption will remain similar to that seen in 2025. Household consumption strengthened in 2025 relative to its mid-2024 low, supported in part by the government's subsidised "trade-in" programme for consumer goods. Final consumption accounted for 54% of GDP growth in the first three quarters of 2025, an improvement from 46% in 2024, though still below the pre-pandemic share of 59% in 2019. We believe that the contribution will remain similar throughout 2026. Recent policy communications have pointed to increased priorities on services consumption, as policymakers have called for removing regulatory barriers to the supply of certain services, increasing financial support for services businesses, and encouraging more vacation time and paid leave. This should offset the strong propensity to save that Chinese consumers continue to demonstrate: the savings rate has continued to trend upward since mid-2023.

FAI investment is expected to improve, given the ongoing policy easing and a low comparison base for the y/y calculation, we expect FAI growth to rebound to +2.0% in 2026 from an expected -3.2% in 2025.

Persistent weak inflation. We maintain our view that China's inflation will remain low over the next year. We expect CPI inflation to increase only gradually, from 0% in 2025 to 0.8% in 2026. Soft energy prices will be offset by a rise in food inflation, led by a low base for the y/y calculation and ongoing hog supply discipline. We believe PPI inflation may not turn positive year-over-year until late 2026 or early 2027.

ANIMA baseline. For 2026 we continue to expect growth of 5.0% (annual average).

On inflation, we anticipate full-year CPI to be zero in 2025, down from +0.1% in 2024. On a sequential basis, we expect headline inflation to print at 0.3% in Q4-25. For 2026, we expect headline CPI to average 0.8%.

MONETARY POLICY

FED – Risk(of)less

We expect the Fed to pause in January. Beyond January, we stick to our view that the Fed will cut rates in March, June and September, taking the Fed funds rate to 2.75-3.00%. We, therefore, remain more dovish than markets, which expect around two rate cuts by year-end, starting between June and July. However, we flag downside risks to our call amid potential cycle and policy-led overheating pressures, consistent with the risk assessment incorporated into our macro baseline.

A pause in January. In line with most analysts and the market, we expect the Fed to pause in January. At the December meeting, Chair Powell argued that the Fed is well positioned to wait and see how the economy evolves. Since December, incoming data have confirmed that economic growth is solid, with rising risks of overheating, and the labour market remains in a "curious" equilibrium of low hiring/low firing. Meanwhile, we continue to see it as highly likely that President Trump will deliver additional fiscal stimulus to offset his declining popularity.

We stick to our call of three rate cuts in 2026. While we expect the Fed to pause in January, we stick to our view that the Fed will cut rates three times in 2026, in March, June and September, taking the Fed funds rate to 2.75-3.00%. Our view remains more dovish than both the Fed's members and markets.

For the following reasons:

1) Compared to the December SEP, we forecast a faster disinflationary progress (our core PCE forecast for 2026 is 2% q4/q4 vs 2.5% in the SEP) than the Fed does.

2) The Fed retains a clear dovish bias in our view. Even after reaching the upper range of the neutral estimates, the majority of FOMC members continue to place more importance on downside risks to the labour market than to upside risks to inflation.

3) Politics matter. We continue to believe that, whoever the next Fed's Chair will be, the dovish bias will remain - if not strengthened - amid likely political pressures ahead to mid-term elections. The recent launch of an investigation into Powell by the Department of Justice confirms the unprecedented political pressure that this administration is exerting on the Fed.

But risks for fewer cuts are increasing. We see rising risks of fewer rate cuts delivered in 2026, as risks that the economy overheats are increasing. A larger fiscal easing compared with that already included in our baseline could support private consumption more than we currently expect. Moreover, amid a structural lack of labour supply, a stronger than expected domestic demand could press on labour demand, pushing up wage growth. We believe that in this scenario, even a dovish-leaning Fed will have to take into account upside risks to inflation.

ECB – Help needed, timing unclear

While we continue to believe that the EA economy requires further support, the ECB increasingly holistic reaction function points to very low probability of a rate cut in the near-term. Against this backdrop, we fine-tune our call: we still expect a rate cut this year, but timing of the move is particularly uncertain amid the continued build-up of balanced risks incorporated into our baseline (vs March previously, with risks of postponing it to June).

Probability of a rate cut in the near term is very low. At the December meeting President Lagarde argued that the ECB is still in a good place and will continue to maintain a meeting-by-meeting approach. Since the December meeting, while the EA economic outlook has remained basically unchanged, some good news has emerged from the industrial sector in Germany. This will further reinforce ECB's constructive rhetoric and its increasingly holistic reaction function. Against this backdrop, we believe that the probability of an additional rate cut in the near-term has declined and is, at the moment, very low.

That said, we continue to expect the ECB to ease this year. We believe that:

1) While news out of Germany is encouraging, we need to wait for more evidence before concluding that there is a turnaround in industrial activity that poses upside risks to our growth forecasts.

2) The quality of EA growth remains poor, with only isolated bright spots from selected countries and selected sectors (AI and pharma in Spain and Ireland, respectively), while any impact from the German fiscal package will take time to materialise.

3) Inflation will average below target this year, driven by ongoing disinflation in the services sector.

4) Past EUR appreciation will start feeding through the economy, weighing on growth and inflation.

5) We believe that a further EUR-USD appreciation from current levels is possible until the Republicans hold the majority in Congress (or it becomes clear that they won't be able to keep it after the upcoming midterm elections). Until then, we expect Trump to continue to threaten the domestic institutional order in order to regain popularity, putting downside pressure on the USD. A further appreciation of the EUR (outright or relative) could shift the ECB's balance of risks on growth and inflation, making a rate cut more likely.

Against this backdrop, we still expect a rate cut, yet sometime this year (vs March previously, with risks of postponing it to June).

PBoC – Looking for support

At the Q4 Monetary Policy Committee (MPC) meeting, the PBOC struck a measured easing stance, signaling a preference for calibrated easing. We maintain our current forecasts of around 40bps of rate cuts (OMO 7day reverse repo-rate) and possibly one 50bp RRR reduction to support 2026 growth on a firm foundation.

A measured easing stance. The PBOC held its Q4 MPC meeting on December 18, with the statement released on December 24. The Committee maintained a cautiously accommodative stance, signalling openness to additional easing in the months ahead while emphasizing a reactive approach to preserve policy flexibility.

The renewed focus on intensifying policy adjustments aligns with the message from the Central Economic Work Conference, which pointed to the need for gradual, targeted easing to help secure next year's growth objective.

But the central bank also stressed the importance of calibrating the pace, intensity and timing of policy implementation, suggesting a preference for a reactive rather than proactive approach to easing. The language changes on financing costs and credit extension suggest the central bank remains mindful of preserving policy space.

On exchange rates, the PBOC's language has alternated between "resilience" and "flexibility" over the past few months. In our view, this pattern suggests that the PBOC may have developed a preference for a stronger CNY, while remaining keen to avoid an excessively rapid appreciation. We maintain our current forecasts of around 40bps of rate cuts (OMO 7-day reverse repo-rate) and possibly one 50bp RRR reduction to support 2026 growth on a firm foundation.

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