

August 11, 2025

Weekly Investment Insights



In last week's newsletter, we wrote about how the copper market was upended by an abrupt change to the practicalities of how tariffs would be applied. This week, it was gold that was whiplashed by such changes, proving that when it comes to tariffs, the devil will really be in the details. What happened? US gold futures hit a record high on Friday after an announcement that one-kilo and 100-ounce bars would be subject to "reciprocal" trade duties, contrary to what had been understood across the industry.

What's more surprising is that the tariffs will apparently work retroactively. Ahead of the April liberation day, traders rushed to bring gold into the US to beat levies, building up a record stockpile, and leading to a temporary shortage of gold in London. Comex contracts, used in New York to buy gold, require a different size of gold bar than what is typically traded in London, necessitating processing in Switzerland, where it is melted down and re-moulded into bars of the accepted size. As a result, Switzerland "exported" USD 61.5bn of gold to the US over the 12 months ending in June. With the small Alpine nation subject to one of the highest tariff rates in the world (39%), demand for gold that has been processed there could fall, essentially changing the very nature of the global gold market if no exemptions are made. Switzerland has long been a global hub for gold refining and trading due to its reputation for quality, security, and discretion, as well as its strategic location and favourable business environment. Other refining hotspots include China, India, the UAE and South Africa.

Black gold, i.e. crude oil, moved in the opposite direction, declining over 4% on the week. With the US guzzling approximately one barrel in every five consumed globally, fears about an economic slowdown there are bringing headwinds for the commodity. The impact of tariffs on US trading partners isn't helping either, with supply expected to outstrip demand into the year-end.

The prospect of peace in Ukraine also contributed to the decline in crude prices. US President Donald Trump said on Friday that he would meet Russian President Vladimir Putin on August 15 in Alaska to negotiate an end to the war. This, alongside stronger-than-expected corporate earnings, boosted European equities.

It was a good week for equities, overall. In the US, major indices ended the week in the green, but the tech-heavy Nasdaq performed the best, reaching a record high. This positive market sentiment was driven by the announcement that several major technology companies would be exempt from Trump's tariffs on semiconductors, which he said would be as high as 100%, as well as hopes for a Fed rate cut. Earnings also continued to exceed expectations, as shown below.

Q2 Earnings Season so far

	S&P 500	Stoxx Europe 600
% of companies that have reported	83	79
% of companies that beat EPS expectations	81	61
EPS (% YoY)	12	-2
% of companies beating sales	69	39
Sales (% YoY)	6	-3

WEEKLY HIGHLIGHTS

ISM: US services sector comes close to stagnation, manufacturing contraction deepens

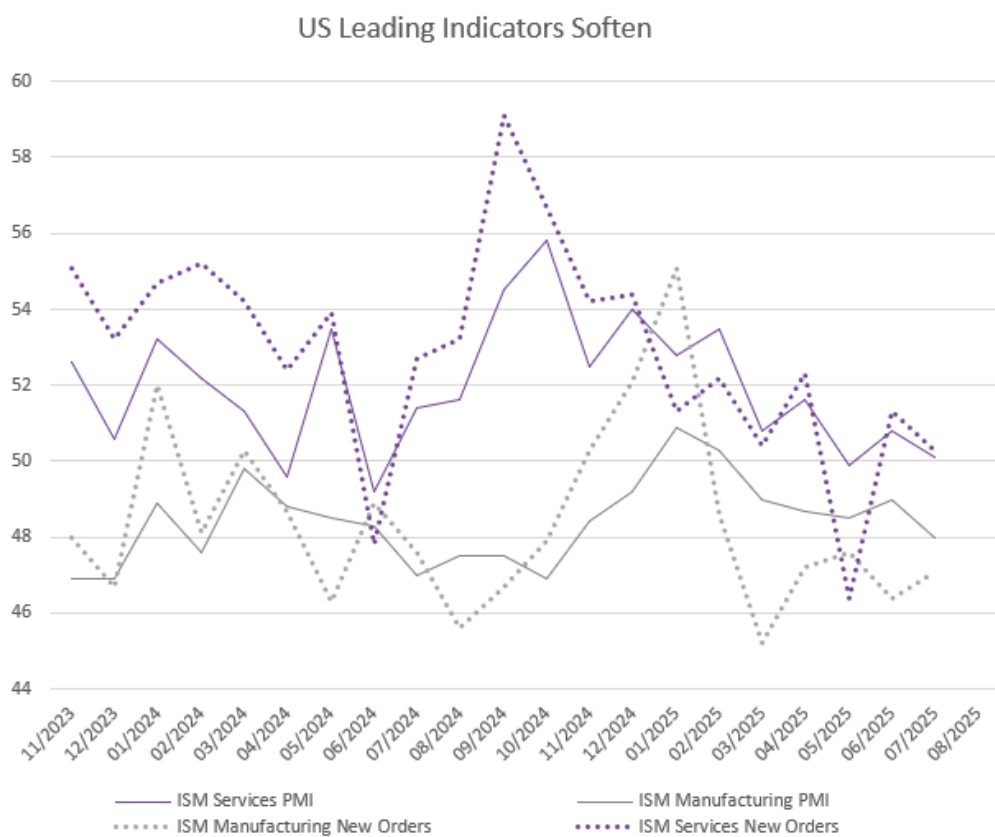
The latest ISM data painted a picture of a US economy that is starting to feel the strain of trade tensions. The services PMI slipped from 50.8 in June, to 50.1 – 50 is considered as the line between contraction and expansion. While seasonal and weather factors partially explained the unexpected pullback, the underlying details were not very encouraging. A slowdown was seen for production (52.6 vs 54.2), new orders (50.3 vs 51.3) and inventories (51.8 vs 52.7). In a toxic

combo for the Fed, slowing activity was met with intensifying price pressures (now at their hottest since October 2022 at 69.9). Indeed, the recurring theme mentioned among survey respondents was the impact of tariffs – this was especially true for commodities. New exports (47.9 from 51.1) and imports (45.9 from 51.7) both fell into contraction territory, amid the ongoing upheaval of the global trading system.

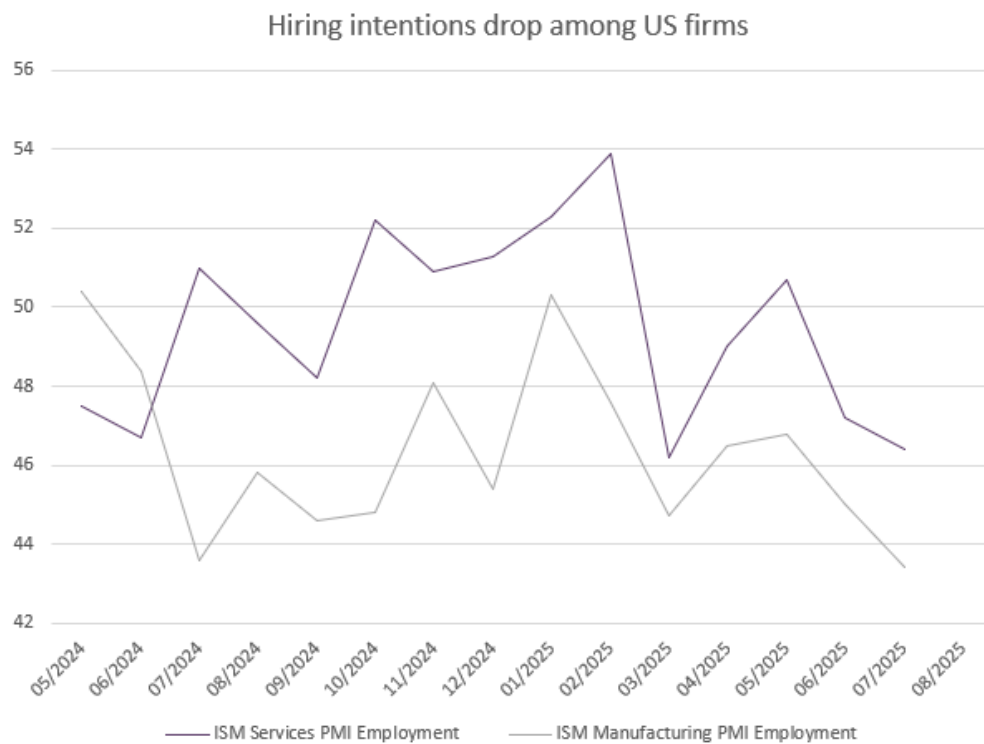
Turning to the goods producing sector, the manufacturing PMI fell from 49 to 48, contrary to consensus expectations for a mild improvement. It marked the fifth month in a row that the index has been below 50, and was the weakest reading since October 2024. On a more positive note, production picked up (51.4), and a decline in new orders decelerated (47.1 from 46.4).

In both sectors, employment fell faster, adding to the growing pool of data suggesting that the US labour market is cooling at a brisk pace, with companies increasingly cautious on hiring.

Overall, the ISM data is not great, however, we should keep in mind that the survey's predictive power about actual economic outcomes has weakened in recent years. Further, a lot still hinges on trade decisions which can turn on a dime.



Source: Bloomberg, BIL



Source: Bloomberg, BIL

China exports continue to support the economy

China's exports and imports both exceeded expectations in July, with exporters in particular boosting activity ahead of the expiry of the tariff truce with the US' on August 12. The world's two largest economies have yet to announce an extension of the deadline to reach a trade agreement, and the risk of reignited trade tensions has led exporters to bring forward shipments.

Exports grew by 7.2% year on year in July, exceeding expectations. Meanwhile, imports increased by an unexpected 4.1%, despite predictions of a decline.

The current 90-day trade truce saw the suspension of 145% US tariffs on imports from China, while Beijing also halted its retaliatory rate of 125%. There is hope that a permanent deal can be reached; in an unprecedented move, President Trump has said he will now allow Nvidia and AMD to ship chips to China, if 15% of the revenues are paid to the US government.

China's trade surplus with the US continued to decline in July, with exports and imports falling by 21.7% and 18.9%, respectively. Now, President Trump is calling on China to quadruple soybean imports from the US in order to close the gap further.

Albeit, China's exports to Southeast Asia have grown strongly this year, leading to speculation about the transshipment of goods. This means that, despite the decline in trade between the

US and China in recent months, some of China's exports may still end up in the US after being "repackaged" in another Asian country. Nevertheless, President Trump is determined to stop this and has recently imposed a blanket 40% levy on transshipped goods. It remains to be seen how this tariff will be enforced.

As consumption does not appear likely to become the growth engine of the Chinese economy any time soon, the continued strength of Chinese exports will be welcome news for policymakers in China, who seem, insofar as now, on track to meet the 5% growth target for this year.

Bank of England cuts interest rates to 4% in narrow vote

In a closely contested decision, the Bank of England (BoE) reduced interest rates by 25 basis points to 4% on Thursday, aiming to bolster the struggling economy. While four out of nine policymakers favored maintaining rates, citing concerns over elevated inflation, which rose to 3.6% in June, five members voted to cut rates to address threats to economic growth and a faltering labour market.

For the first time in its history, the Monetary Policy Committee held two votes to reach a majority, indicating that the BoE's rate cut run might be nearing an end. With high inflation, a weakening labour market due to last year's tax hikes, and uncertainties stemming from US trade policy, analysts are uncertain about the BoE's monetary policy direction for the remainder of the year. Another rate cut is just barely priced in by markets as of now. A halt in rate cuts would be a significant hit to Chancellor Reeves, who has struggled to fulfill her commitment to stimulate the country's modest growth.

"Interest rates are still on a downward path," stated Governor Andrew Bailey. "But any future rate cuts will need to be made gradually and carefully." The BoE anticipates inflation will peak at 4% in September before returning to its 2% target in 2027.

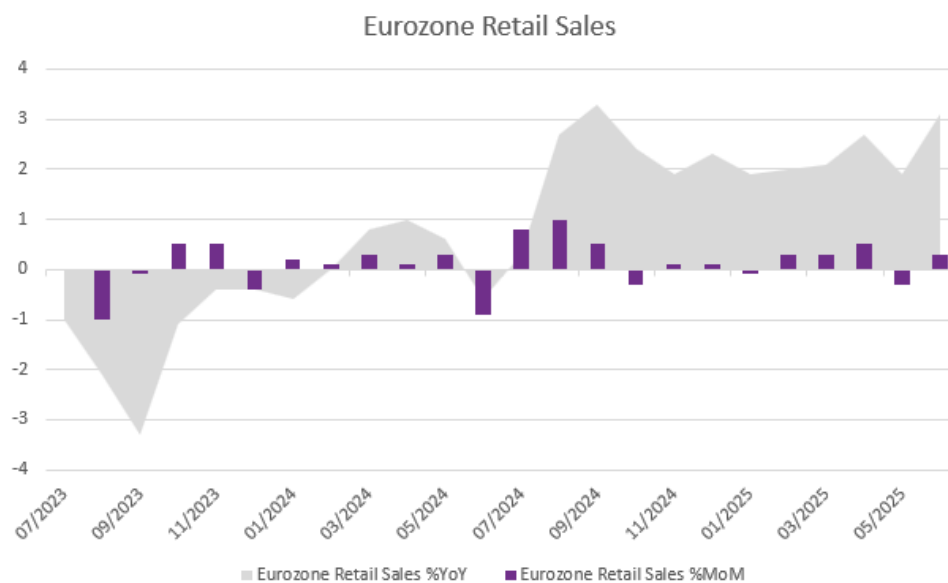
Following the announcement, British government bond yields rose, while stock markets declined.

Eurozone retail sales: winds of change?

Are Eurozone households finally loosening their purse strings? Since the Covid pandemic, unlike their American counterparts, European consumers have erred on the side of caution and have barely touched the excess savings amassed during lockdowns. The most recent retail sales data hints that this might be changing.

Retail Sales in the Euro Area increased 3.1% YoY in June, the most since September 2024, compared to a 1.9% gain in May and forecasts of a 2.6% rise. Country-by-country, Germany, Croatia, Malta and Portugal led the gains, while France saw a decline.

While it is definitely too soon to declare one, the timing of a consumer renaissance would be practically perfect, with external headwinds such as tariffs and a stronger euro likely to weigh on exports and the corporate sector at large. A strong labour market (the unemployment rate fell to a historic low in June), rising real incomes and sunny weather enticing people out to the high streets, could all contribute to continued spending in the months to come.



Source: Bloomberg, BIL

CALENDAR FOR THE WEEK AHEAD

Monday – Italy Inflation Rate (Final, July), Balance of Trade (June).

Tuesday – UK Unemployment Rate (June). Eurozone & Germany ZEW Economic Sentiment (August). US NFIB Business Optimism Index (July), **Inflation Rate** (July).

Wednesday – Germany & Spain Inflation Rate (Final, July).

Thursday – UK GDP Growth Rate (Prel, Q2). Eurozone Industrial Production (June), GDP Growth Rate (2nd Est, Q2). US PPI (July), Jobless Claims.

Friday – Japan GDP Growth Rate (Prel, Q2). China Industrial Production (July), Retail Sales (July),

Unemployment Rate (July). UK Balance of Trade (June), Industrial Production (June). **Switzerland**
GDP Growth Rate (Flash, Q2), Industrial Production (Q2). **US Retail Sales** (July), Industrial
Production (July), **Michigan Consumer Sentiment** (Prel, August).

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