ECONEWS

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UPCOMING DATA

• **UN General Assembly:** President Trump will be meeting with several foreign leaders including Ms. Takaichi and Messrs. Burnham, Xi, and Zelensky.

• **Advanced Economies:** September flash PMIs (Wednesday/Thursday).

• **United States:** Sept. Richmond manufacturing survey (Monday), August durable goods orders (Friday).

• **European Union:** EC consumer confidence flash (Tuesday), Germany September Ifo and France INSEE business climate (Thursday), August credit and money supply (Friday).

ADVANCED ECONOMIES

EUROZONE / EUROPEAN UNION

ECB speakers temper hawkish tone even as incoming data points to resilience. Several Governing Council members confirmed the ECB might need to increase interest rates further but signaled they saw no haste to do so (including President Lagarde and Vice-President Vujcic). (We foresee a final 25 bps hike in December). In July, **exports** rose 1.2% m/m while imports fell 0.4% m/m; exports to the US rebounded (+6.0% m/m), offset by a similar decline in sales to China. **Industrial production** fell less than expected in July (-0.1% m/m, -0.3% m/m for manufacturing), held back by lower motor vehicle output, while computer and electronic equipment bounced back sharply. Forward-looking PMI and EC surveys signal further improvement ahead. The ECB wage tracker points to a pick-up in wage growth in 2027 after stabilising in H2 2026, with the base-wage index reaching 2.9% y/y in June 2027—though not signaling “second-round effects” from the ongoing inflation spike. Consumer inflation expectations (ECB survey) edged up in August, however, with the median up 0.1 pp both for one year (3.0%) and five-year (2.5%) ahead. The ECB’s Supervisory Banking Statistics revealed a **strong banking system as of end-Q2 2026**. Capital ratios remain at record highs (16% in Q2 2026 for CET1), whilst non-performing loan (NPL) ratios were at record lows (2.2%). Return on Equity reached a peak not seen since 2015 at 10.73, thanks to a cost-to-income ratio at its lowest level since 2015 and stable net interest margins.

Transatlantic relations: Two surprise rapprochements. On Friday, President Trump announced the US had reached an agreement with Denmark and Greenland giving the US “permanent control over security and other needs” including by restricting the rights of non-NATO members in the territory. Denmark confirmed the deal should be signed soon. Also unexpectedly, President Von der Leyen used her SOTEU speech to offer Canada “associate membership” in the EU, an undefined status that does not exist in the EU treaties and would require unanimous approval from the 27 member states.

France: Higher fiscal deficit and lower growth forecasts overshadow positive news on business starts. Prime Minister S. Lecornu announced that the budget deficit is expected to reach 5.4% of GDP in 2026, versus 5% targeted and 5.1% in 2025. This overrun stems mainly from interest payments, fuel subsidies, and below-forecast growth. The draft budget for 2027 is expected to target a deficit of 5% of GDP. Government spending would be completely frozen (excluding interest payments and defence), and the fiscal effort would aim to be more evenly distributed than in the past. Meanwhile, **the Banque de France (BdF) has lowered its growth forecast** from 0.5% to 0.4% for 2026 and left unchanged its forecast for 2027 at 0.9%. **The OAT-bund spread topped 100 bps** on Friday, its highest since 2012. More positively, **business creations rose 16% y/y in August** and 12% y/y YTD. The strongest growth was seen in the information and communications sector (+57% y/y; Ytd +46% y/y) and business services (+15% y/y; Ytd +19% y/y). According to the BdF, business insolvencies increased by 4.6% y/y after +5.1% y/y in June. They are declining in construction (-2.4% y/y), stabilising in retail, but continuing to rise in certain service sectors. According to Altarès, late payments fell to their lowest level in three years. Wage growth accelerated to 2.4% y/y in Q2 from 2.1% y/y in Q1, mainly driven by the increase of the minimum wage in June.

Germany: Confidence and producer price inflation rise to new highs. The current economic situation index rose by 14 pts to its highest level since May 2023 (at -47.1 in the ZEW survey for September. The Economic expectations index rose by 0.5 pts to 34.7, its highest level since February 2026. Improvements were seen across all sectors, with only construction and retail remaining below their pre-Iran war levels. Wholesale prices rose by 6.8% y/y in August (*vs.* +5.3% in July) due to energy prices, while PPI grew by 4.6% y/y (*vs.* +3.0% in July and +4.1% expected). Prices for intermediate goods rose by 6.1% (from 5.4%) due to a surge in metal prices.

UNITED KINGDOM

A hawkish BOE hold as inflation picks up and activity data reassures. The Bank of England left the Bank Rate unchanged at 3,75% (6-3 vote), as expected, but shifted its tone to suggest readiness for a conditional 25bp 'insurance' hike to 4% in November. More unexpectedly, the BOE announced significant **quantitative tightening (QT) relief** with a new Gilt divestment schedule through 2034 that features a pause in active sales until April 2027, direct sales to the Treasury’s debt management office (instead of to the market), and a cessation of sales for bonds maturing after 2049. Gilts rallied on the news. **Headline CPI accelerated** to 3.1% y/y in August (*vs.* 2.9% in July), meeting market expectations, primarily driven by rising transport and fuel costs, notably diesel (+8.0% m/m). Core CPI remained stable at 2.6% y/y. **Retail sales volumes unexpectedly rebounded** to 0.5% m/m in August (2.4% y/y), despite a drop in fuel sales. **Unemployment held steady at 4.9%** in July for the fourth consecutive month (*vs.* 5.0% expected). Wage growth accelerated slightly to 3.5% in the 3 months to July, driven by the public sector (+6.7%).

UNITED STATES

Kevin Warsh’s Fed delivers. The Fed convincingly set aside doubts regarding its seriousness about restoring price stability by not only raising the Fed funds target range by 25bp to 3.75-4.00% (as widely expected), but doing so unanimously, and with strong ownership by Chair Warsh, who hawkishly described the move as “removing a dose of accommodation”. 16 (out of 19) FOMC members now expect another hike by year-end, and 8 expect another to be necessary thereafter. The FOMC statement and Summary of Economic projections both expressed confidence in the strength of US economy, with not a single member seeing risks tilted to the downside (a first since 2017). The Committee foresees inflation returning to its 2% target before 2029, with unemployment falling to 4.1% and GDP growth revised higher and remaining above trend through

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2028, *i.e.*, immaculate disinflation. We expect at least two more rate hikes, with the next one in December as our base case, but October not ruled out. In other news, in July, **foreign private investors turned net sellers** of Treasury bonds and notes (USD -29bn) and US equities (USD -10bn), while non-resident official investors turned net buyers (USD +25bn and USD +14bn, respectively). However, private investors' cumulative net purchases of equities since the beginning of the year exceed those of last year (+386 bn *vs.* +269 bn). The cumulative net purchases of Treasuries by the official sector remain modest (+22 bn 7M26 *vs.* +10 bn 7M25). Latest data points to **continued strength in price pressures and activity, except in housing**: Further inflationary impulse is evident from import prices (+7% y/y in August, a four-year high, largely driven by AI-related capital goods) and from the Philadelphia Fed index of delivery times and backlog gauges hitting their highest levels since 2022. August retail sales were robust (+1.2% m/m, +1.4% m/m for the core) and jobless claims fell more than expected by 10k to 196k, one of the lowest readings since 1969. Housing indicators weakened further in August, with both building permits and housing starts falling (-2.7% and 2.6% m/m, respectively). Separately, the **Clarity Act failed in the Senate** before reaching the floor. The Act aimed to provide a federal regulatory framework for cryptocurrencies and stablecoins and was seen as a booster to their expansion.

JAPAN

An insufficiently hawkish rate hike as reflation continues. The Bank of Japan (BOJ) raised its benchmark interest rate by 25 bps to 1.25%, a level not seen since 1995. The move had been expected, and Governor Ueda tried to sound hawkish at the press conference, stressing the focus had now shifted to preventing above-target inflation. However, the lack of unanimity of the decision disappointed markets (2 members appointed by Prime Minister Takaichi dissented). The currency weakened markedly following the decision, to 157 per dollar. Headline **CPI was stable at 1.9% y/y in August**, as was core CPI excluding fresh food and fuel, holding at its fastest pace in three months and pointing to relatively persistent underlying demand-driven price pressures. As such, we expect the BOJ to continue to tighten monetary policy to 1.75% by March 2027. **Exports rose 19.3% in August**, topping market consensus, supported by robust demand for AI-related chips. Industrial production fell 0.2% m/m in July, defying estimates of a 0.1% rise and marking its first decline since March. **Machinery orders remained strong**, increasing 11.2% y/y, despite a volatile m/m decline. The capacity utilisation index rose 0.5% m/m to its highest level since December 2023. PM Takaichi has proposed a **temporary food tax cut** (from 8% to 1%) through 2029. Despite government plans to avoid additional borrowing, the reform faces market skepticism regarding long-term fiscal discipline and internal party dissent.

EMERGING ECONOMIES

EUROPE, MIDDLE EAST, AFRICA

Czech Republic: Monetary policy on hold as expected at 3.75%. The Central bank remains the most hawkish in the region and has floated the possibility of a rate hike by year-end.

ASIA

China: A continued K-shaped growth. August activity data confirmed the wide divergence between solid growth of external demand-driven manufacturing sectors and sluggish growth of sectors dependent on domestic demand. Industrial growth accelerated to +5.2% y/y from +4.5% in July, notably supported by semiconductor production (+20.6% y/y). The contraction in production of refined products eased in August (-6.9% y/y *vs.* -16.8% in June-July), following the recent rebound in Chinese crude oil imports. Meanwhile, growth in services continued to slow (+4.1% y/y *vs.* +4.3% in July). Household spending barely increased in August, as suggested by weak retail sales (-0.4% y/y in volume), the continued decline in bank loans to households (-1.6% y/y) and falling housing sales (-16.2% y/y in volume). Total investment continued to contract (-7.2% y/y in nominal terms in the first eight months of 2026). Nevertheless, the **Yuan hit a four-year high** ahead of a Trump-Xi meeting next week.

Rest of Asia: Inflation reacceleration in several economies. In **India**, CPI inflation accelerated to 4.8% y/y in August from 4.5% in July, with food inflation rising to 6% and core inflation at 4.2%. Inflation is no longer confined to food and transport. With the US monetary tightening, expectations of rise in policy rates by the end of the year have increased, although the timing remains dependent on oil prices and downward pressure on the rupee. In **Malaysia**, August CPI at 1.9% y/y (*vs.* 1.8% in July) remains benign despite energy price pressures. **Elsewhere in SEA**, inflation is mixed: Thailand at 2.5% (*vs.* 1.9% in July), Philippines almost stable at 6.1%, Indonesia at 3.2% (*vs.* 2.9%) and Vietnam at 4.9% (*vs.* 4.5%).

LATIN AMERICA

Argentina: Second estimates of real GDP for Q2 confirm the contraction (-0.6% q/q). All components of domestic demand fell, especially private consumption (-2.4%). The contraction would have been worse without the large positive contribution of net exports (+1.6 pp). In y/y terms, growth decelerated to only 1.4%.

Brazil: The Selic rate was cut by 25 basis points to 13.75%. The Central bank keeps a "meeting-by-meeting" prudential approach to preserve its flexibility. Three weeks before the first round of the presidential election (October 4), the Copom avoids giving any strong signal that could be interpreted as a political stance.

ENERGY

Stabilisation at high levels: Brent oil prices remain above 100$/b but stabilised at a slightly lower level than last week, on hopes of a new diplomatic round in Iran and expectations of a rapid restoration of the Saudi East-West pipeline. However, physical crude markets remain severely dislocated (Brent physical/future spread is above 20$/b against 3$/b on average in August) and diesel crack spreads remain near their highs (above 90 $/b in Europe and above 110 $/b in the US) as market tensions are stronger than for crude. On Friday, President Macron called a special G7 Summit to discuss additional release of Strategic Petroleum Reserves. European gas prices were almost stable during the week (77 €/MWh on Monday 21st). EU storage reached a better than expected 68.8% of full capacity (September 17th). In Asia, JKM continues to rise (+7.5% w/w) on the back of unusually hot temperatures in Japan.