

“If the Fed takes the markets’ signal into account — as Kevin Warsh seems inclined to do — then it must raise its policy rates without further delay. Not only do economic conditions require it, but it is also a matter of risk management.”

ECONOMIC RESEARCH



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EDITORIAL

3

THE EIGHT REASONS WHY THE FED SHOULD RAISE RATES

The FOMC meeting on September 15–16 is expected to mark a turning point with the Fed's first rate hike since May 2023. While there may have been economic reasons to hold off and maintain the *status quo* until now (some negative signals on the employment front and some encouraging ones on the inflation front), the conditions for a necessary recalibration now appear to be in place.

Between the start of the year and September 11, out of a sample of nearly 90 central banks worldwide, 25 lowered their policy rates (an average cumulative decrease of 85 basis points), 25 raised them (an average cumulative increase of 75 basis points), and 36 left them unchanged. The U.S. Federal Reserve is part of this *status quo* group, while the ECB is among the central banks that have raised their rates (twice). Which is the odd one, the Fed or the ECB? At first glance, the Fed's *status quo* seems harder to explain than the ECB's rate hike: U.S. growth and inflation are significantly higher than Eurozone metrics. Why would this situation warrant a rate hike in the latter case but not (yet) in the former? In short, because the Fed has a dual mandate and, until recently, its focus has been more on the maximum employment component than on price stability.

Will the Fed continue to diverge from its peers this week, given that the ECB implemented another rate hike on September 10th and that further tightening by the BoJ (September 17th–18th) is also widely anticipated? And while a *status quo* from the BoE (which will also meet on September 17th) is expected, the vote is likely to be close (6-3 according to our forecasts, possibly 6-4) and the tone should be hawkish. In our new base case scenario, we believe the Fed will join the ranks of the hikers this week: it would no longer wait until December 2026 to begin the (short) cycle of (three) rate hikes (25 bp each) that we have been anticipating for several months. However, the outcome of the September 15–16 FOMC meeting remains somewhat uncertain: we believe the conditions are in place for a monetary policy adjustment. But will the Fed share the same view?

WHAT HAS HELD THE FED BACK FROM RAISING RATES SO FAR? SOME SIGNS OF WEAKNESS IN THE LABOUR MARKET AND THE K-SHAPED NATURE OF GROWTH

This latter is running at a relatively high pace (an average of 2.2% year-over-year since Q1 2025, double the Eurozone growth rate) but rests on narrow foundations that are largely dependent on the AI boom. It is this sector that is driving a large portion of non-residential investment (with, conversely, equally significant imports). And it is the wealth effects stemming from the sharp rise in stock indices—driven by tech stocks—that largely underpin consumption among the wealthiest households, while consumption among lower-income households is struggling, constrained, and affected by the high cost of living.

Strong on the surface but more fragile beneath: this characteristic of U.S. growth has likely contributed, thus far, to tipping the scales in favor of the monetary status quo. The aim was to avoid the risk of stalling the AI engine and exacerbating the financial difficulties of lower-income households. An idea has also circulated: that this strong growth, driven by productivity gains (supposedly resulting from the deployment of AI¹), might be disinflationary rather than inflationary.

1 U.S. productivity gains are significant but attributing them to the AI boom is premature: see our [Chart of the Week from May 27, 2026, United States: Labour productivity growth set to continue](#).

This theory has not, for the time being, been fully validated by the data: on the contrary, the AI boom appears to be rather inflationary in the short term, which should lead the Fed to reconsider its *status quo*.

The labour market, like economic growth, has both a positive side and a more worrisome one. The first is characterized by a low unemployment rate, downwardly oriented over the past few months, a trend which is expected to continue. The second stems from the volatility and relative weakness of job gains through July, the downward pressures on labour supply, and the uncomfortable balance of a situation combining low firing and low hiring. The Fed has been more sensitive to these vulnerabilities, in line with its dual mandate.

HIGH INFLATION — THOUGH TRENDING DOWNWARD ACCORDING TO CERTAIN ALTERNATIVE MEASURES — AND ANCHORED INFLATION EXPECTATIONS HAVE ALSO HELPED THE FED ADOPT A WAIT-AND-SEE APPROACH.

U.S. inflation is high and has been well above the 2% target for now six years, according to the most widely used metrics; while alternative measures are closer to the target (see Chart 1). The trend, drivers, and composition of inflation also matter. As for its trend, data from June and July showed a slight downward trend, an encouraging sign further supported by the stability (no increase) seen in August (3.4% year-on-year for the headline CPI, with core inflation even edging down slightly from 2.5% to 2.4% y/y).

US inflation metrics: In progress, but still persistently above the 2% target

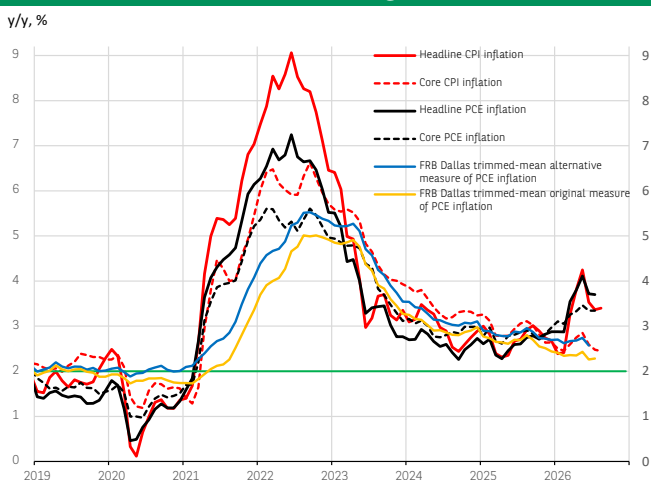


CHART 1

SOURCE: BLS, BEA, FRB DALLAS, MACROBOND, BNP PARIBAS



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US: Disinflation looks underway according to the trend in unit labour costs

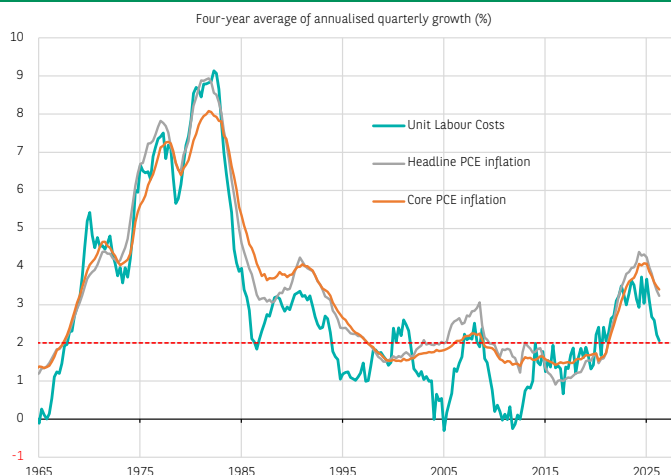


CHART 2

SOURCE: BLS, BEA, MACROBOND, BNP PARIBAS

On the other hand, if we compare inflation with the trend in unit labor costs—a key driver, as Richard Clarida (former Fed vice chair)² points out—it clearly appears to be trending downward, with further disinflation on the horizon (see Chart 2).

Finally, in terms of composition, current inflationary pressures stem largely from the energy supply shock caused by the conflict in Iran. Such a development does not require an immediate response from the central bank³, as long as inflation expectations remain anchored (which is currently the case) and provided that the inflation spike remains transitory, does not become widespread, and does not trigger second-round effects (which cannot be taken entirely for granted over the next few months, given persistent upward pressure on energy prices combined with resilient U.S. growth).

WHY IS THE MONETARY STATUS QUO NO LONGER TENABLE? THERE ARE AT LEAST SEVEN REASONS

A combination of factors justifies the Fed raising its policy rates, starting in September. From our perspective, it should have already done so, given the economic and inflation data.

First, the current environment is completely different and significantly more favorable than the one that prevailed at the time of the three insurance rate cuts in late 2025. Undoing this easing alone is justified today.

Second, the real GDP growth rate is well above its potential pace.

Our 3rd, 4th and 5th points are the following: unemployment is trending downward, inflation is well above target, and there is a risk that inflation expectations could become unanchored.

Sixth, the balance of risks between the two components of the Fed's mandate has shifted: the easing of employment concerns brings the upward risks to inflation to the forefront.

Seventh, U.S. monetary policy is likely too accommodative — to a degree difficult to assess precisely, given the inability to accurately estimate the neutral rate (which, according to our estimates, falls within a range of 3.25% to 4.25% in nominal terms).

But it is clear that current high productivity gains are pushing it higher. A recalibration of monetary policy therefore appears necessary to bring the Fed Funds target (currently 3.50–3.75%) at least toward the upper end of our estimate of the neutral rate, or even into restrictive territory.

EIGHTH, THE FED MUST BACK UP ITS WORDS WITH ACTION

Regarding the outcome of the September 15–16 FOMC meeting, Kevin Warsh has not shown willingness to act upon the latest data. He wants a Fed that is less data-dependent and more guided by underlying trends. It is understandable and this shift could happen in the future, following the conclusions of the task forces. However, aside from the fact that Kevin Warsh is not the sole decision-maker, the latest data for August points towards a rate hike. This is clear in light of the strong rebound in nonfarm payroll employment. It is also clear regarding inflation, as the monthly change (seasonally adjusted) in the core CPI (+0.29%) exceeds the trigger threshold we had identified (a “big” 0.2%). In fact, the very persistence of high inflation⁴, combined with an economic environment (both domestic and international) that remains inflationary, argues for a rise in the Fed Funds target.

It would also be a matter of Kevin Warsh walking the talk to reinforce the credibility of his remarks at Jackson Hole regarding the renewed firmness of his commitment to ensure price stability. And it would also be a matter of not adding to the tension and nervousness already present in the bond markets, regardless of their origin. If the Fed takes the markets' signal into account — as Kevin Warsh seems inclined to do when he considers that the rise in long-term rates is doing part of the central bank's job and when he highlights the reassuring anchoring of their inflation expectations — then it must raise its policy rates without further delay. Not only do economic conditions require it, but it is also a matter of risk management.

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2 See this Financial Times article: [The Key Inflation Signal for Investors \(August 19, 2026\)](#).

3 See this BIS paper for a recent overview of the debate: [Energy Shocks and Inflation: Challenges for Monetary Policy, August 5, 2026](#).

4 65 months of core PCE inflation overshooting the 2% target.



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ADVANCED ECONOMIES

The past week saw unusually large increases in sovereign bond yields across developed markets (see our [Markets Overview of 14 September 2026](#)).

EUROZONE

A “no-brainer” ECB hike. As expected, the ECB increased its main policy rate by 25 bps to 2.5%. It revised up both its [growth and inflation forecasts](#), with the latter expected to be more protracted than previously thought. GDP excluding Ireland is expected to grow by 1.2% in 2026 and 2027, and by 1.4% in 2028. Inflation would peak at 3.6% in Q4 2026, then fall to 2.5% in Q2 2027 and would hover close to 2.0% thereafter. Although no forward guidance was provided, the market took a hawkish read, pricing $\frac{1}{2}$ a rate hike in October and more than 3 additional hikes in total by mid-2027. This seems overdone to us. We expect one more hike in December, but it depends largely on the evolution of energy prices. Meanwhile, Q2 GDP growth was revised up to 0.6% q/q (+0.2pp) due to a sharp revision in Ireland data. That said, growth was broad-based with GDP growth excluding Ireland up 0.4% q/q, overwhelmingly driven by net exports. Employment climbed again (0.1% m/m) as solid gains in Spain and Portugal offset another (moderate) decline in Germany.

- European Union

Procurement simplification & innovation boost: The European Commission unveiled its proposals for a new Procurement Regulation focused on simplification and the European Innovation Act. Both initiatives are designed to strengthen the single market and Europe’s competitiveness.

- France

Falling behind. INSEE revised its 2026 growth outlook down to 0.4% even as the other large Eurozone economies are picking up steam. The government also downgraded its forecast, to 0.5% (same as ours). These include a 0.1% downgrade on account of summer’s heatwaves. For Q3, INSEE forecasts 0.1% q/q GDP growth, 0.1 pp lower than our forecast and the Banque de France’s nowcast. Manufacturing output declined in July for the third consecutive month, by 0.8% m/m and 1.2% 3m/3m. This appears driven primarily by supply constraints in sectors experiencing strong demand (capital goods, including aeronautics and electronics). More positively, solid momentum in goods exports continues (+4% y/y in July, +5.2% YtD), mostly to Europe. Loan demand is falling as interest rates rise: new housing loans plunged 17% m/m in July, as interest rates reached their highest since January 2025 (3.30% on average, +3 bp m/m). Yearly growth for bank and market financing to non-financial corporates (NFCs) fell in July to 3.5% (-4 bp m/m) and 4.4% (-4 bp m/m) respectively. On the budget front, the government is considering reducing the exceptional surtax on large corporates and generating EUR 6bn of savings from pensions.

- Germany

Solid intra-EU export growth. German exports grew by 4.0% over Jan-July compared to the same period in 2025 (despite a -0.8% m/m wobble in July, missing expectations of a 0.1% rise). Gains are particularly robust to the EU and euro area (+6.5%). This offsets persistent losses to the US (-1.5%) and China (-12.7%).

UNITED KINGDOM

Strengthening growth backdrop as Chancellor unveils strategy. Real gross value-added rose 0.4% in the three months to July, led by a rise in professional, scientific and technical activities (+2.1%, with scientific R&D up 7.0%) and information and communication (+2.5%). The AI cycle is gaining traction, with positive spillover effects on the manufacturing sector. The latter rebounded 0.5% in the three months to July, with output for computer, electronic and optical products sector being the biggest contributor (+3.9%). The RICS housing survey was positive too, with the sales expectations index improving for the fifth month running in August and to its highest since January. The jobs market is showing tentative signs of improvement. Staff placements increased for the first time since September 2022, although vacancies declined again, pointing to continued weakness in labour demand, according to the S&P and KPMG UK Jobs Report.

John Healey, the UK’s new Chancellor of the Exchequer, stressed fiscal discipline as his “first priority” in his first major speech. While declining to rule out tax rises, he pledged to tackle rising costs for businesses and double the number of UK unicorn firms.

UNITED STATES

Inflation heats up, housing cools further. August Core CPI came in at 0.29% m/m (stable), a pace inconsistent with the Fed’s 2% objective and above consensus expectations (0.2% m/m). Housing and non-housing core services both posted their largest monthly gains since April. Energy compounded price pressures, with headline CPI up 0.4% m/m and stable at 3.4% y/y. Producer price inflation jumped to 5.4% y/y (up 0.5pp), while core PPI edged up to 4.7% (up 0.3pp), both above expectations. Diesel passed the \$6/gallon (national average), for the first time ever. These price developments raised the market-implied probability of a rate hike next week to 90% vs. 60% at the start of the week. Meanwhile, existing home sales contracted for a third month in a row in August (-2.0% m/m), pushing the annual growth rate into negative territory (-1.7% y/y). 30-year mortgage rate hit 6.85% last week, the highest since June 2025.

JAPAN

Bullish data and Yen resurgence. Wage growth hit a three-decade high in July. Nominal earnings climbed to 4.7% y/y in July (up 0.7pp), the fastest pace since 1994. Real wages improved for a third straight month to 2.4% y/y (up 0.2pp). Q2 GDP growth was revised upward to 0.4% q/q advance (up 0.1 pp from initial est.). Machine tool orders jumped to 64.7% y/y in August (up 14.3pp) – a pick-up most pronounced in foreign orders. With the BOJ multiplying hawkish signals, the USD/JPY exchange rate is down to 154, its strongest since February, up almost 4% on the week and over 6% since the joint US/Japan intervention in August.



[Find out more in our scenario and forecasts](#)

EMERGING ECONOMIES

EUROPE, AFRICA & MIDDLE EAST

- Central Europe

Inflation contained so far. August inflation data pointed to a marginal uptick (Hungary: 1.3% y/y from 1.2% in July; Czech Republic: 1.9% y/y from 1.7% in July). Poland's inflation, at 3.4% y/y, was near the upper end of the central bank's target range. Meanwhile, Romania's inflation fell markedly (6.2% y/y from 8.2% y/y), as expected, from base effects. Going forward, inflationary pressures are tilted to the upside due to the recent rise in fuel prices at the pump. Meanwhile, the recent decline in food prices should reverse in the coming months. As a consequence, most Central banks will likely remain on hold though Hungary still has a wider window to continue easing.

- Qatar

Mounting fiscal pressure. The budget deficit more than doubled to USD 5.8 bn in Q2 (26 times the deficit in Q2 2025). Total revenues dropped 57% y/y. Expenditures also fell sharply (-22% y/y).

- Saudi Arabia

A sharp economic contraction. Real GDP contracted by 4.7% in Q2, the steepest decline since the pandemic, driven by the sharp fall in hydrocarbon GDP (-24.4% y/y). Non-oil activity growth slowed to 0.9% y/y from 2.5% y/y in Q1; it remained resilient thanks to robust domestic demand, notably public investment.

- South Africa

Poor growth performance in Q2. The economy contracted by 0.2% q/q, ending six consecutive quarters of expansion. Year on year real growth slowed to 0.9% from 1.9% in Q1, reflecting difficulties in the manufacturing and mining sectors, and weak investment.

- Türkiye

Near term set back to growth and inflation progress but rosier medium-term outlook. The central bank held its one-week repo rate at 37% on September 10, citing upside risks to inflation. Annual headline CPI was 31.5% in August. The ministry of Finance strongly revised up its inflation forecast for this year (28.4% at year-end) and next. It also downgraded its growth forecast to 3.3%, from 3.8% earlier. However, it presented a relatively optimistic medium term soft-landing scenario: inflation falls to single digits, growth accelerates towards 5%, unemployment declines, and the current account deficit narrows simultaneously. This will require a significant improvement in productivity and potential growth to avoid renewed demand-side inflationary pressures.

ASIA

China

Low inflation, strong exports, and structural patches. In August, CPI inflation rose to +0.8% y/y from +0.5% in July, due to higher energy prices, but it remained below its Q2 average (+1.1% y/y). Food prices continued to fall (-1.4% y/y) and core inflation remained low (+1% y/y vs. +0.9% in July and +1.1% in Q2) given the absence of demand-side inflationary pressure. Foreign trade continued to grow strongly in August, driven by both volume and prices; export value was up 25% y/y vs. 23.9% in July and import value was up 28.2% y/y vs. 27.6% in July. The trade surplus reached a gigantic USD 806 bn in the first eight months

of 2026, up from USD 782 bn in the same period in 2025. The authorities adopted a new set of measures to address industrial over-capacity, notably in the batteries sector. The government also announced a large recapitalisation plan for 8 major financial institutions (RMB 360 bn): 3 state-owned banks (Agricultural Bank of China, ICBC and Export-Import Bank of China) as well as insurance companies will benefit from the scheme, which aims to stimulate credit supply and support the financial soundness of these institutions

LATIN AMERICA

- Latam

Inflation accelerated in August except in Argentina, notably in **Chile** (4.1% y/y from 3.5% in July), driven mainly by food and transportation costs. In **Colombia**, the acceleration (6.2% y/y from 6.0% in July), was particularly due to rising food prices. In **Mexico**, headline inflation picked up to 3.3% (from 3.1% y/y in July), though core disinflation continued (3.9% y/y, slowing steadily since January 2026). In **Argentina**, monthly inflation slowed to 1.7% in August, its lowest monthly level in 14 months. But core inflation was stable at 1.8% m/m. Year on year inflation rates slowed down marginally to 33.5% and 31.9% for headline and core CPI respectively. Despite sluggish growth, inflation is likely to remain above target across Latin America for some time. This could prompt Mexico's central bank to raise interest rates, while in Colombia and Brazil, monetary easing remains possible, contingent on the degree of fiscal tightening. Meanwhile, the Chilean central bank held its policy rate at 4.5%, reflecting a cautious stance amid sticky core inflation and external risks.

- Mexico

Revenue-based fiscal consolidation in 2027. Growth forecasts in the Budget proposal are more conservative than in previous years (1.5%–2.5% for 2027), while the deficit is set to narrow slightly to -3.9% of GDP (from -4.1% in 2026), but debt will rise to 55% of GDP. Consolidation relies on ambitious revenue growth, driven by an expanded corporate tax base, stricter fiscal controls, and measures to combat evasion, offsetting a 15% drop in oil revenues. Spending is nearly flat in real terms.

COMMODITIES

Energy prices continue to rise on the back of renewed tensions in both straits of Hormuz and Bab el Mandeb. Saudi oil exports through the E-W pipeline have stopped, at least temporarily. They are equivalent to roughly 4% of global oil supply. Crude oil prices breached 100 \$/b (above 107\$/b on Monday morning) and Brent Dec 2026 futures reached 100 \$/b for the first time this year. Two new sources of pressure: weekly US SPR stock release has been the lowest since end-March (1.2mb for the week ending 4 September) and Chinese crude oil imports expected to increase in September for the third consecutive month after the decade-low level recorded in June. **Unsurprisingly, refined product prices reached new highs.** Diesel cracks gained around 10% in Europe (92\$/b) and 6% in the US (110\$/b) over the week. The US diesel fuel price reached 6\$/gallon for the first time ever. **The IEA has sharply lowered its oil demand forecast for 2026.** Demand is expected to decline by 2.5 mb/d (compared to the previous estimate of 1.6 mb/d), before growing by 2.6 mb/d in 2027.

TTF gas prices rose above 83€/MWh on Monday morning, the highest since end-2022. EU gas pre-winter inventories reached 67.6% of full capacity this week (official target is 80% at end-October).



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MARKETS OVERVIEW

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Bond Markets

	In %	In bps			
	11/09/2026	1-Week	1-Month	Year to date	1-Year
Bund 2Y	3.17	+25.2	+40.1	+108.6	+120.1
Bund 5Y	3.27	+22.8	+39.8	+80.4	+106.0
Bund 10Y	3.48	+18.3	+35.2	+61.7	+86.7
OAT 10Y	4.35	+29.6	+49.6	+85.5	+97.5
BTP 10Y	4.36	+24.6	+43.1	+85.8	+88.8
BONO 10Y	3.92	+18.6	+35.9	+67.2	+74.4
Treasuries 2Y	4.64	+31.3	+41.9	+115.9	+105.7
Treasuries 5Y	4.79	+29.8	+39.5	+106.2	+121.0
Treasuries 10Y	4.97	-1.2	+27.7	+80.3	+3.2
Gilt 2Y	4.74	+30.2	+39.5	+98.0	+79.3
Treasuries 5Y	4.91	+28.0	+39.0	+105.8	+85.8
Gilt 10Y	5.35	-3.9	+30.4	+47.6	+17.2

Currencies & Commodities

	Level	Change, %			
	11/09/2026	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.16	-0.0	+0.6	-1.1	-1.0
GBP/USD	1.35	-0.2	+0.2	+0.6	-0.2
USD/JPY	153.47	-3.9	-3.6	-2.1	+4.3
DXY	99.12	-0.3	-0.7	+0.8	-1.1
EUR/GBP	0.86	+0.2	+0.5	-1.7	-0.8
EUR/CHF	0.95	+0.9	+1.2	+1.8	+1.4
EUR/JPY	178.25	-3.9	-3.0	-3.2	+3.3
Oil, Brent (\$/bbl)	104.73	+17.1	+17.7	+72.1	+57.7
Gold (\$/ounce)	4363	-1.7	-0.7	+0.9	+20.1

Equity Indices

	Level	Change, %			
	11/09/2026	1-Week	1-Month	Year to date	1-Year
World					
MSCI World (\$)	4937	-0.6	-1.2	+11.4	+16.0
North America					
S&P500	7657	-0.4	-0.9	+11.9	+16.2
Dow Jones	52573	-1.2	-2.3	+9.4	+14.0
Nasdaq composite	26333	-0.1	-0.4	+13.3	+19.5
Europe					
CAC 40	8180	-1.9	-6.1	+0.4	+4.6
DAX 30	25569	-2.6	-3.1	+4.4	+7.9
EuroStoxx50	6325	-1.5	-3.5	+9.2	+17.4
FTSE100	10650	-1.6	-1.8	+7.2	+14.6
Asia					
MSCI, loc.	1932	-2.9	-2.5	+14.4	+20.8
Nikkei 225	64011	-3.5	-4.4	+27.2	+44.3
Emerging					
MSCI Emerging (\$)	1722	+0.1	+3.4	+22.5	+31.4
China	72	-3.8	-4.9	-12.5	-15.5
India	926	-3.1	-4.0	-12.5	-10.1
Brazil	1968	+6.5	+11.5	+19.5	+28.3

Performance by sector

Eurostoxx600

Year 2026 to 11-9, €

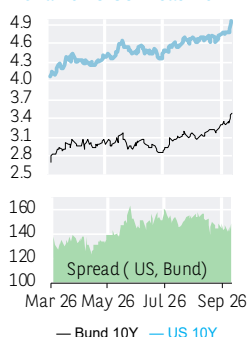
+36.6%	Oil & Gas
+26.7%	Commodities
+22.4%	Banks
+18.9%	Technology
+13.4%	Telecoms
+13.1%	Chemical
+8.6%	Industry
+7.9%	Eurostoxx600
+7.8%	Utilities
+6.8%	Financial services
+5.6%	Insurance
-1.3%	Food industry
-2.9%	Travel & leisure
-4.1%	Retail
-4.7%	Real Estate
-5.6%	Media
-5.8%	Construction
-6.0%	Health
-15.3%	Consumption Goods

S&P500

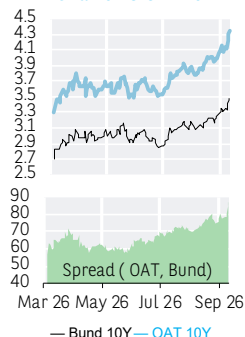
Year 2026 to 11-9, \$

+44.5%	Energy
+36.1%	Semiconductors
+35.8%	Tech. Hardware & Equip.
+13.8%	Pharmaceuticals
+13.7%	Capital Goods
+12.8%	Food, Beverage & Tobacco
+11.9%	S&P500
+11.6%	Materials
+10.4%	Bank
+5.3%	Telecoms
+5.0%	Consumer Discretionary
+2.9%	Insurance
+2.3%	Retail
+1.6%	Media
-1.4%	Utilities
-5.0%	Healthcare
-6.0%	Commercial & Pro. Services
-6.5%	Consumer Services
-16.7%	Automobiles
-28.5%	Real Estate

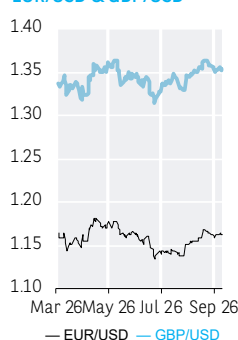
Bund 10Y & US Treas. 10Y



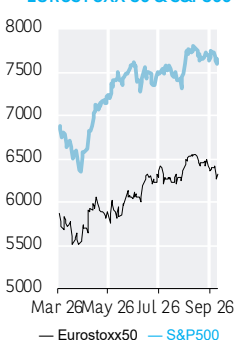
Bund 10Y & OAT 10Y



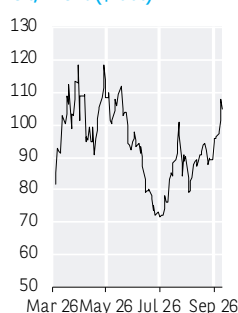
EUR/USD & GBP/USD



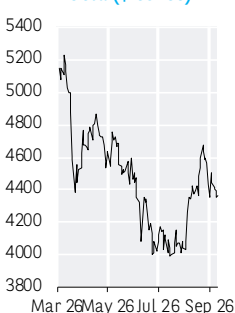
EUROSTOXX 50 & S&P500



Oil, Brent (\$/bbl)



Gold (\$/ounce)



MSCI World (\$)



MSCI Emerging (\$)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS
DATA VISUALISATION AND CARTOGRAPHY: TARIK RHARRAB



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FURTHER READING

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The energy crisis versus the rise of AI: why emerging economies are holding their own	Podcast Macrowaves	10 September 2026
Emerging economies: why are financing conditions holding up well against the energy shock?	Chart of the Week	9 September 2026
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