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ECONEWS

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ECONEWS OF 12 OCTOBER 2026

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ADVANCED ECONOMIES

EUROPEAN UNION

Stronger trade posture pays off. The EU and China have agreed to restrain hybrid cars exports to the EU to a level half or less than currently projected over the next four years, cutting exports by “several million units” though still allowing them to rise. China also agreed to drop its tariffs on EUR4 bn of EU exports and provide easier access to Chinese rare earths and magnets under a fast-track licensing scheme. These announcements were made at the conclusion of EU Trade Commissioner Maroš Šefcovic’s visit to Beijing, following a recent escalation in trade tensions. Meanwhile, France and Germany released a joint [non-paper](#) on “Strengthening European resilience, addressing global macroeconomic imbalances and market distorting practices” calling notably for:

- i) Broadening the tools the European Commission may use to address unfair trade practices (including undervalued exchange rates) or import surges;
- ii) Procedural changes to make them easier to use (qualified majority of member states needed to block rather than authorise them). These measures will be discussed during the next EU council on October 15-16th. The European Commission also unveiled a new critical materials package involving 46 strategic extraction, processing or recycling projects spread across 16 member states (including 5 in France). The goal is to reduce the EU’s dependence on China for critical metals.

EUROZONE

Price pressures are broadening, activity holds up. Producer price inflation accelerated further in August (8.3% y/y[1] from 5.8%), driven by energy. Pressures are becoming more widespread, notably in capital goods and above all intermediate goods (6.8%). They are partly offset by non-durable consumer goods, which remain in deflation (-0.8%). Given the PPI's close correlation with the HICP, this points to further upside risks to consumer inflation. On the activity front, final September PMIs confirmed the flash estimates, with the composite index still solid at 53.1 and the manufacturing index stable at 52.7. The construction PMI improved but remains depressed (43.4; +0.4 pt). Retail sales edged up 0.1% m/m in August.

France

Modest spread relief as budget positioning starts. The spread between French and German 10Y yields narrowed to 136 bps[2] on October 9 (mostly thanks to a decline in the French yield). As the Finance Committee of the National Assembly started discussing the 2027 budget, the government reiterated its

strong intent not to deviate from the 5% of GDP deficit target and to get a budget adopted in time, likely without a vote. This is the most likely outcome — but not to be implemented before 10 December (given mandatory timelines) — which effectively removes any incentive for MPs to back unpopular measures during the process. We can therefore expect heated debates (including multiple no-confidence votes being tabled but rejected) and a lack in fiscal discipline. In parallel, Marine Le Pen presented her fiscal strategy, which includes an alternative budget for 2027 and an aggressive fiscal consolidation path throughout 2032. She called for a referendum to constitutionalise a “golden rule” that would require a deficit at least 0.5pp below the debt-stabilising threshold (roughly 3% of GDP), as long as the public debt ratio exceeds 60% of GDP. The golden rule would require a budget balance adjustment of 0.5pp per year if the fiscal deficit is more than 1 pp above the stabilising threshold. The adjustment measures put forward lack specifics but likely overstate savings, understate costs and rely on overly optimistic growth assumptions (despite large fiscal consolidation, at least 1.7% annually over the next three years — a pace reached only 4 times in France since 2008, apart from post-pandemic reopening, and well in excess of the roughly 1% growth potential estimated by most international institutions). That said, it is significant that this candidate has chosen to fly the flag for fiscal discipline loud and clear. Other candidates should do the same. **Activity is holding up. New vehicle registrations** rose 11% y/y in September, confirming a marked acceleration over the past three months (+9.4% y/y in Q3). In Q3, growth came entirely from electric vehicles (+112% y/y), whose share of registrations reached an all-time high (38% in Q3, 41% in September). **Export growth** continued in August, both in services (+5.2% y/y YTD) and in goods (+5.6% y/y YTD)—though driven by prices rather than volume in the latter case. **Manufacturing** output posted only a moderate rebound in August (+0.3% m/m; following cumulative declines of 2.8% over the previous three months), limited by renewed supply constraints in Q3 (which limited production at 31.5% of companies; +5 pp compared to H1). Industrial production fell (-0.3% m/m) as a result of a decline in electricity production (-2.4% m/m) driven by the heatwave. **Credit growth** remains dynamic. Bank and market financing to NFCs saw steady growth in August (+4%). New housing loans rebounded slightly in August (EUR 12.2 bn) following a relatively weak July, whilst interest rates continued to rise. Consumer credit remained buoyant.

Upcoming: Banque de France monthly Business Survey (Monday), Business creations in September (Friday).

Germany

Bullish official growth forecast upgrade despite mixed data. The German government raised its 2026 GDP growth forecast to 1.3% — the fastest pace since 2017 — from a prior estimate of 0.5%, citing stronger-than-expected exports and a surge in government spending. The 2027 forecast was also raised to 1.1% from 0.9%. **Industrial production** was stronger than expected in August (+2.3% y/y versus -1.7% in July; the highest level since March 2025 and higher than anticipated), driven mainly by strong growth in construction output, primarily in public works (+10.5%; to the highest level since November 2021). By contrast, **manufacturing output** fell by -0.2% (after +3.3% in July) due to a decline in transport equipment production (lowest level since April 2022). Likewise, **new factory orders** hit their lowest level in one year in August (-10.6% m/m). However, this decline is mainly due to a base effect. **Export growth** remains solid: +4.4% YTD, despite a -0.8% m/m decline in August. Exports to the Eurozone continue to rise (+6.3% y/y YTD), while exports to the U.S. have returned to positive territory (+1.1%) and those to China continue to decline (-12.9%). The trade surplus reached EUR 19.5 bn in August (+4% y/y YTD, despite a -9.8% m/m decline).

UNITED STATES

Mild slowdown in services and more rate hikes signaled. The non-manufacturing ISM survey fell 0.5pp[3] to 54.9 in September due to a sharp slowdown in the business activity component (down 5.2pp to 56.5pp, still a robust expansion). Employment rose and supply pressures intensified for the first time since June, while the price gauge reached its highest level (74, up 1.4pp) since 2022. Meanwhile, the minutes of the September FOMC meeting confirmed the Fed's hawkish outlook and noted that the AI-buildout carried growing weight in the reading of current inflation data and outlook. Governor Waller and St. Louis Fed President Musalem mentioned the need for additional rate hikes while remaining flexible on timing. The New York Fed survey of consumer inflation expectations showed them rising to 3.9%. We continue to expect two more hikes, the next one coming in December.

Upcoming: September CPI (Wednesday), September PPI and Retail Sales (Thursday), September Industrial Production (Friday).

JAPAN

Solid wage growth fails to lift household spending. Total wage growth eased to 3.8% y/y in August (down 0.5pp) as bonus payments stalled (0% y/y, after 5.3% y/y in July). This allowed continued real wage growth at 1.5% y/y, extending an uninterrupted run of positive readings in 2026 as administrative measures kept inflation in check. However, this did not prevent real household spending from contracting in August for the ninth consecutive month (-3.1% y/y).

EMERGING MARKETS

The IIF reports that nonresident portfolio flows to EMs turned negative at -USD26.3 bn in September, after USD11.4 bn in August, the first net outflow since June, as a hawkish Fed lifted US real yields and the USD. Equity outflows reached -USD19.2 bn, led by heavy foreign selling of Korean equities, while debt flows turned negative at -USD7.0 bn as hard currency demand faded and EM credit spreads widened late in the month. Further hikes from DM central banks will create additional headwinds, =but EM should remain resilient as long as global growth persists.

ASIA

China

Yuan policy defence. Coinciding with the Beijing visit of the EU trade commissioner, the People's Bank of China issued an unusually lengthy formal statement rejecting claims that the yuan is undervalued and defending its exchange-rate management by reiterating that it has a 'floating exchange rate regime' with reference to a basket of currencies. It further argued that China's trade surpluses are driven by rising industrial competitiveness rather than currency under-devaluation and that exchange-rate adjustments will not resolve structural global imbalances. Nonetheless, it allowed the yuan to hit a four-year high vs. the CFETS basket — bringing its year-to-date gain to 5.7%. The PBOC set the USD/CNY's reference rate at 6.7330, the strongest level since 2023.

India

Monetary tightening. The RBI raised its repo rate by 25bp to 5.5%, its first hike since February 2023, and shifted to a "calibrated tightening" stance amidst rising inflationary pressures. The RBI introduced new measures to stabilise the rupee, including direct dollar supplies to state-owned oil companies and tighter restrictions on FX derivatives.

EUROPE, MIDDLE EAST, AFRICA

Central Europe

Cautious monetary policy stance amid mild inflation uptick. Poland's and Romania's Central banks kept policy rates unchanged at 3.75% and 6.5%, respectively. Inflation accelerated in September, with a mild uptick in the Czech Republic and Hungary (respectively 2.5% and 1.6% y/y) and a more entrenched increase in Poland (4% y/y). Inflation is now above the official target in the Czech Rep. and Poland, but fuel price caps in both countries should contain inflation dynamics.

Gulf

PMIs for September point for a firm but uneven non-oil recovery. Both Saudi and UAE PMIs stood at 55.3, driven mostly by export orders in the UAE and by domestic demand in Saudi Arabia. On the contrary, Qatar's PMI fell again (to 46.7), while Kuwait's PMI also declined but remained in expansionary zone (at 52.4).

Türkiye

Manufacturing production contracted by 1.6% m/m in August, the largest monthly decrease since the beginning of the year. On a y/y basis, it fell by 2.3%. Both domestic demand and exports seem to have contributed negatively to this poor outcome. On a positive note, in September, CPI inflation (1.9% m/m, 27.9% y/y) slowed more than the market expected, and exports rebounded.

LATIN AMERICA

Inflationary pressures slightly up across the region. In Brazil, headline CPI inflation accelerated to 4.6% y/y from 4.2% y/y in August (above the central bank's 4.5% target), partly reflecting the reversal of a temporary electricity price discount in August. In Mexico, inflation rose to 3.5% in September from 3.3% in August, while in Colombia it reached 6.3%, slightly up from 6.2% in August. Inflation remained high in Chile but was stable at 4.1%. In Peru, it was also slightly up (4.2% vs. 4.1%); the central bank kept its policy rate unchanged at 4.25% for the thirteenth consecutive month but maintained an upward bias amid rising inflation and energy prices.

COMMODITIES

Energy: Limited relief. Continuation of skirmishes in the Gulf of Hormuz and escalation of the conflict between the Houthis and a Saudi-led coalition left oil prices fluctuating around \$100/b for Brent. However, the complex security situation has been driving the cost of shipping to record high levels and the price of physical barrel to early April levels. Late on Friday, President Trump announced an agreement with Russian President Putin to release to global markets 4.8 million tonnes of diesel (roughly 8 days of European consumption), provided conditions in refineries allow for it, of which 300,000 tonnes immediately. The White House also announced a suspension of sanctions on Russia's exports of diesel until April 2027. Energy experts expect a *de minimis* price impact.

European gas prices (TTF) rose by 11.5% over the week to 82 €/MWh. EU gas inventories reached 73.6% of full capacities on October 11th (the official target is 80% at end October).

Food inflation rose sharply in September. The FAO's Food Price Index grew by 5.8% y/y, up from just 3% in August. This was driven by cereal (+17% y/y) and sugar prices (+15%).

[1] Year-on-year

[2] Basis points

[3] Percentage points

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