



BNP PARIBAS



ECONEWS

PDF



ECONEWS OF 26 OCTOBER 2026

10/26/2026

ADVANCED ECONOMIES

In brief. The week was dominated by a continued global selloff in tech stocks, leading to safe haven flows into US Treasuries, Japanese Government bonds and German bunds. As a result, their yields fell despite energy prices surging to or past their Spring highs. Economic data generally showed continued resilience. French bonds were under rising pressure, but Moody's unexpected decision to maintain its France rating unchanged could, at the margin, help stabilise the spread. The Fed, ECB and BOJ should be on hold next week while signaling further rate action is likely.

EUROPEAN UNION

A win for securitization. The Council and the European Parliament have reached a provisional political agreement on measures to revive and simplify the EU's securitization market. The updated framework will reduce banks' capital requirements for the safest and most well-structured transactions, notably for a newly introduced "resilient" category of securitization. As a key component of the "One Europe, One Market" initiative and the EU's Savings and Investment Union agenda, this aims to channel increased lending to households and businesses. The relevant legal texts must now be finalised.

EUROZONE

Expansion continues. The flash PMIs weakened in October, mainly on the back of a decline in France. The EZ composite index dipped to 51.9 (-1.2 m/m), dragged down by services (51.7, -1.3 m/m), although manufacturing also dipped (52.4, -0.5 m/m). Both remain in expansion territory, and manufacturing new export orders rose to their highest level since early 2022. Price signals were also rather reassuring, with the services output price index easing to 54.9 (-1.7 m/m). Households are more cautious: consumer confidence fell for a second consecutive month to a five-month low (-17.9). Households' inflation expectations edged up at short horizons (+0.1 pp to 3.6% at one year and 3.1% at three years), but long-term expectations remained anchored, with the five-year median stable at 2.5%.

France

Rising market stress despite decent economic news; a reprieve from Moody's. The spread on French 10-year bond relative to Germany's peaked to 174 bps on Friday, the highest since 2011 and only 16 bps short of its all-time high, as markets price in anticipation of worst-case scenarios regarding the country's ability to repair its public finances. The 10Y yield briefly exceeded 5.1% before falling back to 5% (above the US equivalent). Nonetheless, services output was stable in August, following a 0.6% m/m increase in July, a much higher pace than in Q2. The rebound is driven by the catering sector, the digital sector,

business services, and real estate. The INSEE business climate improved from 96 to 97 (long-term average = 100) in October, but the survey was conducted before the riots. The main improvement was in manufacturing, which rose from 101 to 105, driven by increased new orders in the aeronautics sector, and to a lesser extent by the services sector (from 98 to 99). The PMI survey (conducted partially after the riots) was less positive: the composite index fell to 48.4 (-2.7 m/m), with a sharp decline in services (48.4; -2.8 m/m) and a slightly smaller decline in manufacturing (49.3; -1.3 m/m). Moody's unexpectedly announced after the market close on Friday that it was maintaining France's rating at Aa3 on account of France's diversified economic structure and sound public institutions, but maintained its negative outlook. This is on par with the UK and one notch above S&P and Fitch. Moody's made clear keeping this rating is conditional on a budget being adopted that reduces the fiscal deficit, along with an easing of social and market stress going forward. Saturday's demonstrations across the country saw strong attendance but only limited violent incidents.

Germany

Prices continue to rise, but confidence surveys remain on an upward trend. Producer prices rose 6.7% y/y in September (+2.1pp m/m; the highest level in 3.5 years) due to higher prices for energy and intermediate goods, primarily metals. The ZEW Economic Sentiment Index improved beyond consensus forecasts in October and returned to its highest level since May 2023 (-35.9; +11.2 m/m), albeit the Economic Expectations Index fell to its lowest level since July (28.1; -6.6 m/m). The recovery in economic activity continues, although a slowdown is evident: the flash Composite PMI slowed (52.8; -1 m/m; the lowest in 2 months) due to weaker growth in the services sector (51.7; -1.1 m/m; the lowest in 2 months) and in manufacturing output (55.1; -0.9 m/m; the lowest in 3 months). Nevertheless, in both sectors, hiring is rising slightly, supported by growth in export sales and the spillover effects of investment plans. Despite persistently high input prices, selling prices are slowing (reaching their lowest level since February in the manufacturing sector).

UNITED KINGDOM

Inflation, wage growth and activity accelerate. CPI inflation overshot consensus on energy prices, printing at 0.4% m/m and 3.5% y/y in September (consensus: 3.4%, prior: 3.1%), its highest in 11 months. Core CPI came in at 2.8% y/y (up 0.2 pp), in line with consensus. Pressures remained persistent according to the PPI at 8.3% y/y (prior: 6.7%). Labour market and activity data also surprised positively. Payroll growth reached 102k in August (3m/3m), bringing the unemployment rate to 4.7% (down 0.2 pp), its lowest since July 2025. October PMI surveys beat expectations in both manufacturing (52.8, consensus: 51.8, prior: 51.9) and services (53.1, consensus: 51.8, prior: 52.1). The only negative news came from headline retail sales, falling 0.4% m/m in September, with the core gauge (ex petrol) deteriorating by -0.7% m/m.

UNITED STATES

Construction struggling, GENIUS Act implemented. Housing starts dropped -5.2% m/m in September (-7.4% y/y). This third consecutive monthly decline dragged the Q3 average to its lowest since Q2 2020. Building permits also came in negative, at -0.2% m/m (-3.0% y/y), while the NAHB homebuilder sentiment index plunged to its weakest since 2012. The average 30-year fixed mortgage rate eased to 7.32% (still 134bp above pre-war level), as the ongoing AI selloff pushed down US treasury yields. The **GENIUS Act** final implementation rule from the Office of the Comptroller of the Currency's (OCC) leaves the door open

for stablecoin customers to receive yield or rewards. Issuers remain prohibited from paying holders any form of interest or yield solely in connection with the holding, use, or retention of payment stablecoins. This represents a shift from the OCC's February proposal and has renewed concerns within the banking industry about deposit flight. The rule will take effect on January 18, 2027.

JAPAN

Activity and inflation keep rising. Composite PMI was unchanged in September at 52.3, solidly in expansion territory, as an improvement in services activity offset slower output growth in manufacturing. The Manufacturing PMI disappointed at 53.3 (-0.8 m/m; an 8-month low). Underlying price pressures, meanwhile, extended. Headline CPI was flat on a monthly basis, bringing the annual rate up to 2.1% (up 0.4 pp). Core CPI (excl. fresh food) matched it at 2.1% y/y (up 0.4 pp), in line with consensus. More importantly, the New Core index, which strips out fresh food and energy, rose sharply to 2.4% y/y (up 0.5 pp), its fastest pace since January.

EMERGING ECONOMIES

ASIA

China

New monetary policy tool and export controls: The central bank's Governor Pan Gongsheng unveiled a plan to switch ("when appropriate") its key policy rate from the 7-day reverse repo rate (at 1.4% since May 2025) to the overnight reverse repo rate, in order to reflect developments in the interbank market. New export controls: The government plans to add 40 key technologies to the list of technologies prohibited or restricted for export, including in the AI (for ex. LLMs, computing clusters), biotechnology and photovoltaic sectors.

Indonesia

BI kept policy rate unchanged at 5.75%, raised its deposit facility rate by 25bp to 5% and announced a phased cut in reserve requirements from 9% to 7% by December. This combination of limited FX support and measures to support credit growth sends mixed signals amidst pressures on the rupiah following MSCI's downgrade warning and undermines the central bank's credibility. The rupiah has lost 1% against the USD since mid-October, with little contagion effect on other Asian currencies.

South Korea

The Bank of Korea (BoK) kept its policy rate unchanged at 3.0%, but the tightening cycle may not be over. CPI inflation was 2.9% y/y in September, above the central bank's target of 2%, while high oil prices, rapid growth in Seoul housing prices and wage pressures (though concentrated in the electronics sector) raise the risk of lasting inflation pressure. As economic activity remains robust, supported by strong exports and recovering investment, the BoK has scope to raise rates further.

EMEA

Hungary

Monetary *status quo* and 2027 budget in consolidation mode. The Central Bank kept its policy rate unchanged at 5.5%, as expected. A cautious stance will likely prevail in the short term. Inflation has been picking up in recent months, albeit mildly, and will continue to move upward as the government recently removed the margin cap on fuel. Separately, the Budget for 2027 and the medium-term fiscal plan show Hungary's goal to join the Eurozone; the government expects to reduce the fiscal deficit to 4.9% of GDP in 2027 (from 7% expected in 2026) and towards 2.8% of GDP by 2030.

Türkiye

Cautious monetary loosening. The Central Bank lowered its policy rate by 100 bp to 36% at its October Monetary Policy Committee meeting, in line with market expectations. The overnight lending and borrowing rates were also reduced by 100 bp, to 39% and 34.5%, respectively. The improvement in underlying inflation has yet to translate into a sustained period of low inflation, justifying the CBRT's preference for a measured pace of monetary easing.

LATIN AMERICA

Brazil

President Lula da Silva was re-elected on Sunday for a fourth term (with 51.8% of the vote), defeating far right-wing candidate Flavio Bolsonaro (48.2%). Lula will enter this new term facing significant economic and political challenges. Public debt has risen to more than 82% of GDP, while high borrowing costs and rigid mandatory spending leave limited room to reconcile fiscal consolidation with social spending and investment. Restoring confidence in the fiscal outlook will be a key challenge in the short term.

COMMODITIES

Pressure rising. Amid growing rumours of imminent re-escalation of military operations in the Gulf, energy prices rose sharply this week, with Brent touching \$117/b – near its April peak, and European gas prices (TTF) rising to 97 €/MWh on Monday, their highest level since Dec 2022. The Asian gas benchmark (JKM) is following the same trend (4.6% w/w to 31.4 \$/mbtu, equivalent to around 96 €/MWh). Diesel crack spreads are slightly decreasing in Europe (-2.8% w/w on Monday) and in the US (-4% w/w on Monday). The first Russian diesel tanker intended to the US market left Russia this Friday and should supply the US market in 2 weeks. US diesel average retail prices remain oriented to the upside (0.7% w/w at 6.32 \$/gallon on Monday). US commercial crude inventories fell by 3.1 m/b in the week ending 16 October, significantly exceeding market expectations for a 340,000-barrel decline.

To Watch This Week

Eurozone: ECB meeting, October European Commission Survey (Thursday) and Q3 GDP (Friday). France Household Confidence (Tuesday), Q3 GDP, October Inflation and Q3 Employment (Friday). Germany IFO Business Climate (Monday), Household Confidence (Wednesday), Q3 GDP and October Inflation (Friday)

UK: HM Treasury Autumn Statement (Wednesday)

US: FOMC (Wednesday) and Q3 GDP (Thursday)

Japan: October Household Confidence (Thursday), BOJ meeting, September Industrial Production and Retail Sales (Friday)

To Watch Next Week

Eurozone: ECB meeting (Thursday, hold expected); DE, EZ, FR Q3 GDP flash, EZ October flash inflation (Friday); Germany October Ifo (Monday)

UK: HM Treasury Autumn Budget Statement (Wednesday)

US: FOMC Meeting (Wednesday, (hold expected), Q3 GDP Growth, September PCE Inflation and Personal Spending (Thursday)

Japan: BoJ Meeting (Friday, hold expected), September Industrial Production and Retail Sales (Friday).

THE ECONOMISTS WHO PARTICIPATED IN THIS ARTICLE

**ECONOMIC
RESEARCH**

Équipe ÉTUDES ÉCONOMIQUES

Team : Economic research

bnp.paribas.economic.research.department@bnpparibas.com

[📄 PDF - FULL PUBLICATION](#)

OTHER ARTICLES FROM THE SAME PUBLICATION

EDITORIAL



[...]

[☰ Read the article](#)

MARKETS OVERVIEW

[Read the article](#)

[PREVIOUS ISSUE](#)

ECONOMIC RESEARCH

Three teams of economists (OECD economies, emerging economies and country risk, banking economics) form the BNP Paribas Economic Research Department. This web site presents their analyses.



My Account

Receive all publications as soon as they are published

PUBLICATIONS

CHARTS OF THE WEEK

ECO BRIEF

ECO CHARTS

ECO CONJONCTURE

ECO EMERGING

ECO FLASH

ECO INSIGHT

ECO PERSPECTIVES

ECO PULSE

ECO WEEK

ECOTV

FRENCH ECONOMY POCKET ATLAS

PODCAST - MACRO WAVES

SCENARIO AND FORECASTS

SPECIAL EDITION

THEMATICS

CLIMATE CHANGE

SUSTAINABLE FINANCE

FISCAL POLICY

EMERGING ECONOMIES

DEVELOPED ECONOMIES

FINANCIAL MARKETS AND INVESTMENTS

FINANCIAL REGULATIONS

MONETARY POLICY

INTERNATIONAL TRADE

BANKING ECONOMICS

EMPLOYMENT AND LABOUR MARKET

ECONOMIC GROWTH

INFLATION

REAL ESTATE

CONSUMPTION AND PURCHASING POWER

ENERGY

ECONOMIC POLICY

ARTIFICIAL INTELLIGENCE

ECONOMIC REGIONS

ASIA

CENTRAL ASIA

EUROPEAN UNION

NORTH AMERICA

GLOBAL

EMERGING COUNTRIES

COOKIES
POLICY

MANAGE
COOKIES

DATA
PROTECTION

LEGAL
NOTICE

TERMS &
CONDITIONS

ACCESSIBILITY : NOT
COMPLIANT

CONTACT

