Weekly Macro and Markets View

7 September 2026

Highlights and View

The number of US nonfarm payrolls grows a solid 162’000 in August

Robust employment numbers keep a Fed rate hike in September on the table, though this week’s inflation data will be crucial.

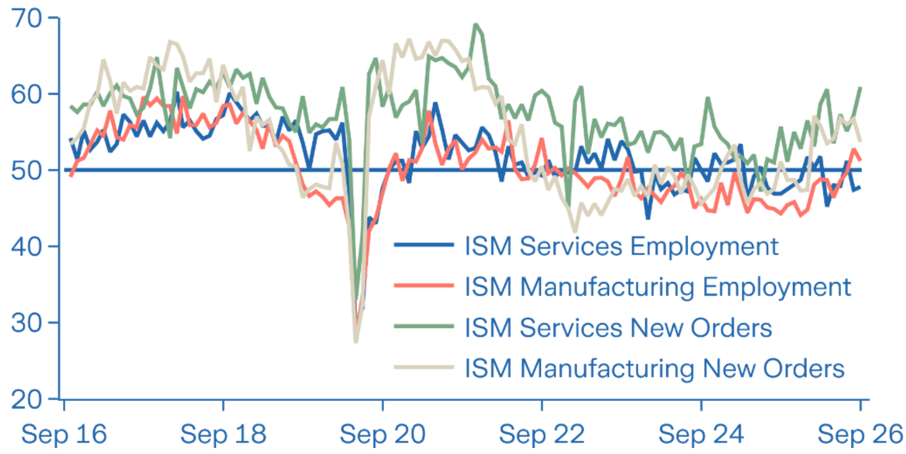
The AfD wins close to 44% of the vote in German state elections for Saxony-Anhalt, falling just short of a majority of seats

While the immediate macro implications are limited and the results were close to polls beforehand, fractious politics in Germany and France are likely to be an increasing source of market volatility.

French covered bonds trade at record premiums to sovereigns

Reminiscent of a periphery dynamic, investors are increasingly focusing on France’s political and fiscal headwinds, valuing the structural protection of covered bonds amid rising sovereign risk.

US services activity is picking up momentum



Source: Bloomberg

Economic growth remains robust in the US. Manufacturing is expanding at a slightly lower pace, according to the latest ISM surveys, but services activity has picked up steam. New orders point at a continuation of solid momentum in the services sector while employment still faces some headwinds. In both manufacturing and services price pressure remains elevated. The number of job openings ticked up in July, but the quits rate fell back to match post-Covid lows, indicating that people still feel somewhat reluctant to switch jobs. This usually helps to keep a lid on wage growth. New nonfarm payrolls, a notoriously volatile time series, rebounded strongly from their soft patch with 162’000 new payrolls added in August. The unemployment rate remained at 4.1%, with average hourly earnings growth slowing to 3.1% YoY from 3.2% YoY the month before. The stronger payrolls number keeps a Fed rate hike in September on the table, though this week’s inflation numbers will be crucial. Treasury yields moved up a few basis points over the course of the week, with the 10yr yield hovering at the upper end of their multi-year range. The S&P 500 saw some modest swings but ended the week basically unchanged. The Nasdaq and the Russell 2000 were only marginally better.

Eurozone

Energy drives inflation up

While core inflation slowed from 2.5% YoY to 2.4% in August, consumer inflation rose from 2.9% YoY to 3.3%, driven by energy prices. Natural gas has risen relentlessly and is now up over 120% since February. The ECB is likely to hike this week, although a lack of broader price pressures is welcome. Politics are solidly back on the map for European investors. Elections on Sunday in the German state of Saxony-Anhalt saw the right-wing AfD surge to its best result, gaining just shy of 44% of the vote and just missing a majority in the state legislature. The immediate market and macro implications are limited, given that broader federal polls show a more fragmented political landscape. Nevertheless, the result increases pressure on the current government, with investors wary of changes to Merz’s ambitious reform agenda. Campaigning for the French presidential election is ramping up, with left-wing candidate Jean-Luc Mélenchon proposing that the ECB simply write off their holdings of French government debt. Alongside a difficult upcoming budget negotiation, this is an unfriendly environment for French debt.

Switzerland

Solid economic activity while inflation snaps higher

The GDP report confirmed growth at 1.5% QoQ (sport event adjusted) in Q2—the strongest pace since 2021. Strength was driven by a rebound in pharma activity, but the rest of the manufacturing sector also did well, up 0.7% QoQ. Net trade was solid, confirming the stronger external demand environment, and investment gained momentum. More timely PMI data show continued manufacturing strength in August as Swiss companies are well positioned to benefit from the global capex cycle, with employment dynamics tentatively improving. The Services PMI was robust as domestic sentiment and spending continue to improve. Inflation has also rebounded, with annual CPI up from 0.4% to 0.8% in August. The key driver was higher energy prices, but core CPI was also a tad stronger, potentially reflecting pass-through from the softer franc. The upside surprise means that CPI data are tracking broadly in line with the SNB's forecast again. While we do not anticipate a rate hike in September, risk is to the upside, and September's CPI data will be key for the decision.

Japan

The yen strikes back

Japan is back in the spotlight after one of the largest FX interventions ever—around USD 98.6bn—delivered only fleeting relief. Last week, however, the yen roared back on its own, with USD/JPY tumbling from above 160 into the mid-155s as traders unwound crowded shorts amid growing conviction of an imminent BoJ rate hike. A 25bp September move is now fully priced, with markets eyeing a December encore, mirroring the global repricing led by the Fed. Still, we expect the BoJ to stay patient, favouring a gradual path that avoids killing off Japan's hard-won inflation. The latest activity data paint a mixed picture: household spending fell -3.6% YoY despite a stronger retail sales print of 4% YoY in July, while the corporate sector shines. Q2 recurring profits rose 11.0% QoQ and 24.6% YoY to a record high, with manufacturing profits surging on AI-related demand and a still-competitive currency backdrop.

Asia PMIs

PMIs suggest tech remains in the lead

PMI releases last week signalled strength in Asia on the back of strong export orders and easing supply cost pressures. The Manufacturing PMI is above 50 across much of the region. Details on new export orders paint a clear picture of what is driving this strength. New orders are strongest in Taiwan, Japan, and Korea, where key semiconductor manufacturers such as TSMC, SK Hynix, Samsung, Tokyo Electron and Advantest are based. Vietnam and Singapore also saw strong momentum. While growth led by the tech upcycle is spreading across the region, its impact is uneven and expected to mainly benefit economies closest to the AI related supply chain. Indonesia, for example, saw its Manufacturing PMI fall below 50 due to the smaller size of its tech sector. Meanwhile, in China, manufacturing sentiment was patchy. The official PMI, which skews toward large state-owned firms, sits in contractionary territory, while the RatingDog PMI points to improving sentiment. Although China's tech sector is doing well, general manufacturing remains fragile amid weak profitability.

European Covered Bonds

French covered bonds trade at record premium to sovereigns

The primary European covered bond (CB) market reopened strongly after the summer pause, with the busiest August on record and September also starting actively. Demand has been robust, with solid oversubscription levels and low new issue premia. Spreads have remained resilient despite the recent rise in government bond yields and are now back to start-of-year levels. We expect spreads to remain rangebound as the outlook into the year-end is constructive, supported by favourable technical conditions. With bank funding needs for 2026 largely completed and sizeable redemptions expected, covered bonds continue to trade at yields that attract income-focused investors. Interestingly, French CBs continue to trade among the widest segments, despite having modestly tightened year-to-date. Notably, the 10yr yield differential between French CBs and OATs, which has been mostly negative since mid-2024, fell further over the summer and touched a record low of -28bps in late August as investors increasingly place value on the structural protection of CBs amid rising sovereign risk.

What to Watch

- In the US, investors will focus on the latest batch of inflation data, which will be crucial for the Fed's monetary path in the coming weeks.
- The ECB is likely to raise rates for a second time this year on Thursday, taking the deposit rate to 2.5%.
- Key to watch in Asia this week will be China's CPI and exports and Japan's wages, GDP and Eco Watcher Survey.

Disclaimer and cautionary statement

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