

Weekly Macro and Markets View

5 October 2026



Highlights and View

French assets suffer; the France-Germany 10yr bond spread surges to its widest level since the 2011 Eurozone sovereign debt crisis

Rising global funding costs have collided with France's persistent budget deficits, fractious politics and low economic growth. French borrowing costs may still rise further.

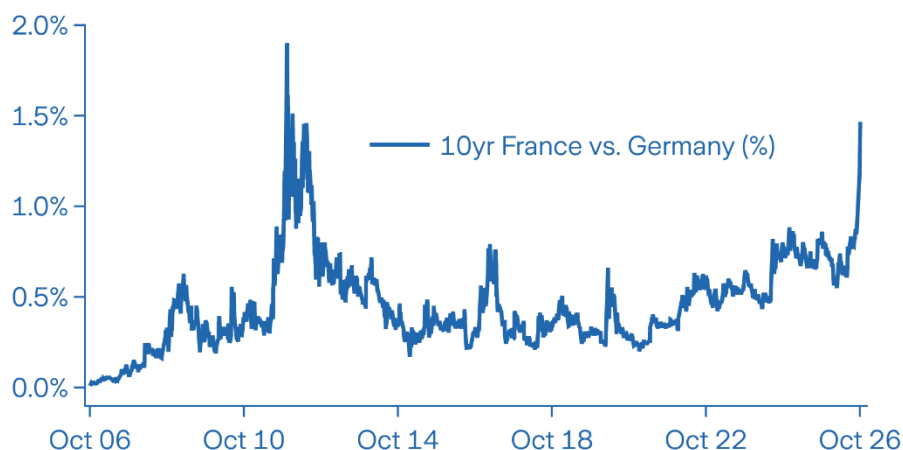
US nonfarm payrolls grow by only 29'000, with the prior two months revised down

A softer employment environment significantly reduces the risk of a Fed rate hike in October.

Bolsonaro's surprise lead sets up a Brazilian asset rally

His first-round lead makes Bolsonaro the runoff favourite. Markets are expected to welcome the result, although the campaign may remain volatile. A more right-leaning Congress adds to a more constructive fiscal outlook.

Echoes of 2011



Source: Bloomberg

Last week saw price action in European financial markets reminiscent of past crisis periods. The difference in 10-year French borrowing costs compared to Germany's rose to 1.5%, its widest level since 2011. Poor domestic fundamentals have met unfavourable macroeconomic conditions. Rising global bond yields have disproportionately impacted France. French debt dynamics have been deteriorating since Covid, further propelled by the fragmented Assembly was elected in 2024. Sebastien Lecornu, the third Prime Minister since then, is attempting to reduce the persistent budget deficit, but it remains firmly stuck above 5%, exacerbated by rising bond yields and slowing growth. Debt-to-GDP is likely to soon exceed 120%, up from below 100% in 2019. Presidential elections in May 2027 increase concerns as candidates are typically wary of announcing spending cuts. So far, there are early but limited signs of broader contagion. The Euro has weakened. Italian bonds have also underperformed, with their spread to Germany reaching its highest level of the year. At 1.2%, this remains considerably below 2022 levels. Bank equity prices fell, but only following a stellar run. In theory, the ECB can arrest bond declines through various tools. In practice, conditions do not yet warrant intervention given clear French domestic issues. Risks still appear skewed negatively, and an improvement would require either lower global bond yields or a French political compromise.

US

Softer employment lowers the risk of tighter Fed policy

Growth in nonfarm payrolls slowed markedly in September according to the latest batch of employment data with only 29'000 new payrolls being added, significantly below consensus expectations. In addition, the prior two months' numbers have been revised down by a total of 60'000. Meanwhile, the unemployment rate ticked up from 4.1% to 4.2%, though this was driven by a pickup in the participation rate. Average hourly earnings grew by a mere 0.1% MoM, pushing the annual rate down to 3.0%, a post-Covid low. A softer employment environment

reduces the likelihood of a near-term policy tightening by the Fed, with market expectations for a rate hike in October falling below 20% from a recent high of more than 70%. Meanwhile, manufacturing activity remains brisk according to the latest ISM survey, with both new orders and price pressure accelerating in September. In a volatile week, Treasury yields kept rising and the S&P 500 ended the week slightly negative while the Nasdaq managed to eke out a small gain.

Switzerland

Solid economic activity while inflation edges higher

CPI inflation rose to 1% YoY in September and has now risen by a cumulative of 0.9pp since the beginning of the year. The pickup was in line with market expectations and almost entirely driven by higher energy prices. Core inflation, however, ticked up by 0.1pp, to 0.5% YoY, led by stronger services price pressures. Domestic inflation also edged up and is now tracking at 0.7% YoY, while imported inflation rose from 1.5% to 2.1%. While underlying inflation remains benign, disinflationary pressures have eased, with some further upside expected in coming

months. At the same time, economic activity is strengthening. The KOF leading indicator bounced in September, pointing to growth above trend, while the PMIs showed that growth is broad-based, with both services and manufacturing benefiting from a combination of solid external demand and improving sentiment and spending domestically. As disinflationary pressures are easing and growth is set to remain robust, we now anticipate some modest monetary policy tightening over the coming year.

Japan

A BoJ December rate hike is likely

The 1pp jump in Tokyo's September core-core CPI (ex-fresh food and energy), from 2% to 3%, may cause a few jaws to drop. Japan's inflation prints remain closely watched, shaping the market's view on the BoJ's policy path. Beneath the surface, though, things look far less hot. The move higher was mostly driven by base effects from last year's water-charge waivers and education subsidies in Tokyo. The BoJ's own measure of inflation (excluding subsidies) puts core-core CPI at around 2%. While we wouldn't read too much into the Tokyo spike, it still points to inflation

running slightly above the BoJ's target, reinforcing the view that policy normalisation remains on track. The BoJ's Summary of Opinions from its September meeting suggests policymakers are now more focused on preventing inflation from overshooting. Along with higher inflation, the yen is trading not far from the 160 level that has previously prompted FX intervention. With that, the central bank is likely to hike again in December, taking its policy rate to 1.5% by year end.

Australia

Hot inflation and cold residential

The RBA increased the cash rate target to 4.6% last week in its fourth hike this year. Main drivers behind the decision include elevated energy prices and pressure on domestic capacity stemming from the boom in AI related investments. While such projects help the economy stay resilient, signs of spillover are limited and growth in other sectors remains modest. August CPI, which was released after the cash rate decision, saw an increase of 4.0% YoY, with electricity and automotive fuel among the largest contributors to inflation. However, this is

partially due to the one-off effects of the end of electricity rebates and fuel excise relief. The housing downturn, which began in Sydney and Melbourne, has now spread to other cities. Dwelling values across Australia are 5.2% below the peak in March, and its impact on consumption is expected with a six-to-nine-month lag. We believe these factors mean the RBA will likely be on hold the rest of the year, with easing consumption and weak growth outside the tech sector to become more apparent.

LatAm

Brazil's election shifts the fiscal outlook

Brazil's first-round election has reshaped the presidential race. Flávio Bolsonaro won 47.0% of valid votes against Lula's 45.2%, reversing the modest Lula lead in most final polls. Bolsonaro is now the clear favourite for the October 25 runoff. His lead gives him momentum, with the remaining vote pool leaning right, though not all those votes will transfer automatically. Brazilian assets are expected to rally in the first post-election session as markets price a greater chance of a market-friendly policy shift, lifting the BRL

and equities while pushing local bond yields lower. The runoff campaign could still be volatile as further incumbent spending measures or fresh corruption allegations could unsettle markets. Still, the right's gains in Congress, particularly the Senate, could prove consequential beyond the runoff. They would give Bolsonaro more room to pursue a fiscal reform aimed at containing rising debt, while constraining Lula's agenda if he wins another term. Either way, the fiscal outlook has shifted in a more constructive direction.

What to Watch

- In the US, the ISM Services Index and the latest consumer confidence survey will give important insights into the current state of the economy.
- This week brings September PMI data for Italy and Spain. Eurozone retail sales are due, as are August industrial production data across the bloc.
- The RBI repo rate decision will be a key event in Asia. Industrial production figures in Malaysia, PMI in Singapore, and trade data for Taiwan will indicate the strength of industrial activity across the region.
- September CPI releases will be the key focus across major LatAm economies.

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