Market Insights Weekly

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LLOYDS

Markets await crucial policy signals

- Global bond yields reached multi-year highs as inflation risks returned to focus
- September Fed decision finely balanced ahead of next week's US CPI report
- ECB is expected to raise rates again, while UK GDP is forecast to soften in July
- UK Chancellor speech and BoE MPC parliamentary testimony in focus for sterling markets

This report summarises key economic indicators, policy events and financial market movements over the past week, and looks ahead to highlights for the upcoming week.

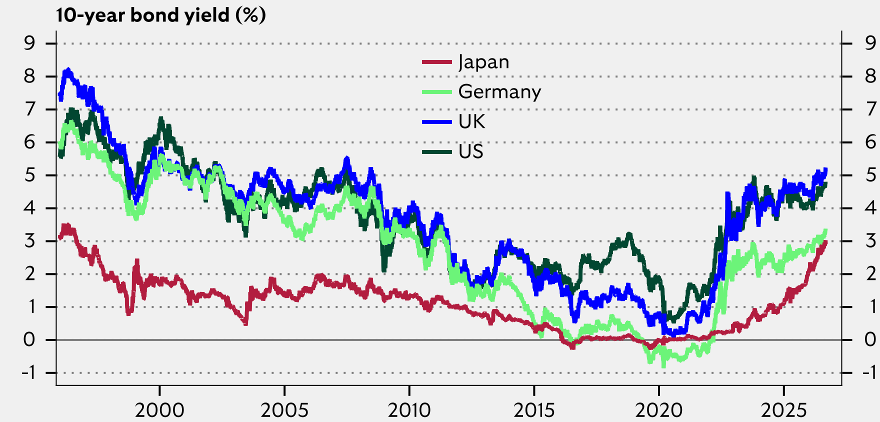
Global bond yields reach multi-year highs

The overarching theme of the week has been a sharp rise in global government bond yields, driven by surging energy prices stemming from the ongoing US-Iran conflict in the Middle East and the disruption to oil and gas flows through the Strait of Hormuz, as well as investor concerns around government debt levels across advanced economies. Brent crude has risen to around $95/bbl and wholesale gas prices have continued to march higher, reigniting inflation fears and prompting markets to price in more aggressive central bank tightening globally.

The US 10-year Treasury yield climbed above 4.80% midweek, its highest since 2023, while Japan's 10-year yield touched 3% for the first time since 1996 before falling back. European sovereign bonds also sold off, with German bund yields rising in tandem and French 10-year yields remaining above their Italian counterpart. In the UK, and ahead of the October Budget, the 10-year gilt yield rose to 5.29%, its highest level since 2007, while the 30-year yield reached 5.91%, a level last seen in 1998. Yields have since come back down, with the 10-year gilt yield below 5.20% at the time of writing.

Financial markets also continued to assess the possibility that the US Federal Reserve will raise interest rates at its next policy update on 16 September. Chairman Kevin Warsh made hawkish remarks at last week's Jackson Hole Symposium, in which he noted that progress in returning inflation to target since its peak in 2022 had slowed, and that the Fed may therefore have "work to do". In response, market-implied probability of a September hike increased to around 75%. Those odds, however, fell back to around 50%, partly reflecting comments from Fed Governor Christopher Waller, who indicated that his vote would be "heavily influenced" by next week's CPI inflation report (see below) and suggested he would be inclined to support no change in rates if disinflation continues.

Chart 1: Sovereign borrowing costs continue to rise



Source: Macrobond, Bloomberg, Lloyds Bank Market Insights

Jeavon Lolay
Head of Market Insights

Hann-Ju Ho
Senior Economist

Nikesh Sawjani
Senior UK Economist

Gajan Mahadevan
Senior Macro Strategist

Team mailbox
lloydsmarketinsights@lloydsbanking.com

Economic previews

- ECB policy decision – Thu 10 Sep (13:15 BST)
- UK GDP (Jul) – Fri 11 Sep (07:00 BST)
- US CPI (Aug) – Fri 11 Sep (13:30 BST)

Market pricing for a Fed hike increased again today to around 60% after the August labour market showed a stronger-than-expected increase in nonfarm payrolls of 162k and with the prior two months also revised up by 55k in total. The unemployment rate stayed at 4.1%. Other data over the week indicated soft job openings but also low initial jobless claims, suggesting a stable, albeit 'low hire, low fire', picture of the labour market. The Fed decision remains finely balanced after the labour market data.

Foreign exchange markets were comparatively calmer, despite the turbulence in bond markets. GBP/USD was little changed over the week, remaining slightly above 1.35. The main major currency focus was on the Japanese yen, which strengthened markedly. USD/JPY fell towards 155, a level not breached since February, driven by expectations that the Bank of Japan will raise interest rates later this month. Markets were also alert to the possibility of further official intervention.

"Markets are awaiting a series of crucial policy signals next week, from US inflation data and ECB guidance to UK releases and comments from policymakers."

Hann-Ju Ho

Senior Economist
Lloyds Market Insights

Fed patience hinges on inflation progress

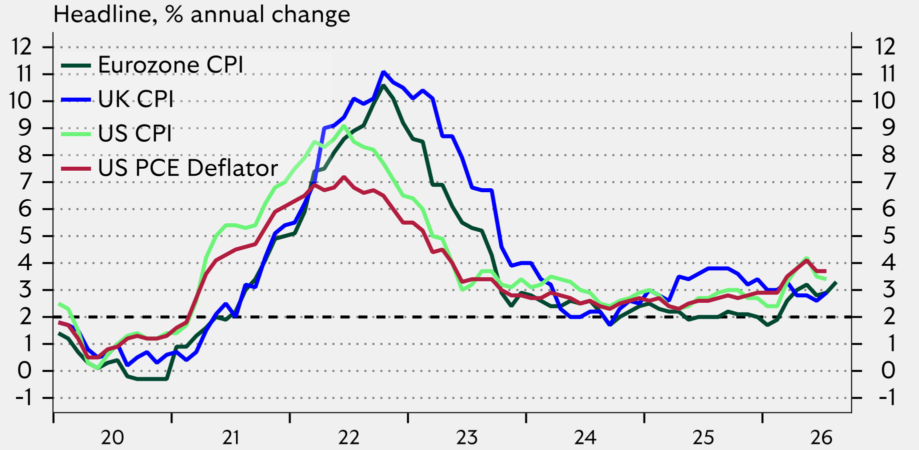
Looking ahead, next week's US CPI inflation report (Friday) could prove pivotal for the Fed's policy decision on 16 September. Further evidence of easing price pressures could persuade policymakers to remain patient and wait for additional data. However, any upside surprise would materially increase the likelihood of further tightening. Energy prices are likely to have risen in August after falling in each of the previous two months. The more important question is whether higher energy costs feed through to broader core inflation. We forecast core CPI inflation to increase by 0.2% m/m, which would see the annual rate ease to 2.4% y/y from 2.5% y/y. Headline inflation is also expected to edge lower, to 3.3% y/y from 3.4% y/y. Barring an upside surprise, the report may provide sufficient reassurance for the Fed to remain on hold this month, but it appears to be a close call.

Attention turns to the ECB and UK growth

The European Central Bank (ECB) will announce its interest rate decision next week (Thursday, 13:15 BST), a week ahead of the US Federal Reserve, Bank of England and Bank of Japan. A 25bp rate increase is widely expected. The greater focus will be on guidance from President Lagarde at the post-meeting press conference (13:45 BST) and the ECB's updated staff economic projections. The balance of risks remains tilted towards a further rate increase in Q4 (December), with markets currently assigning a probability of around 90%. A more detailed preview is provided on the next page.

In the UK, the Office for National Statistics will release July GDP data (Friday). Despite improving business and consumer confidence surveys, we anticipate a slight contraction of 0.1% m/m, following June's 0.3% increase, when consumer-facing sectors benefited from favourable weather and the World Cup. Such an outturn would leave the economy on course for slower growth in Q3, following a robust first half of the year in which GDP expanded by 0.6% q/q in Q1 and 0.4% q/q in Q2. According to reports, Chancellor John Healey is also due to deliver a speech on economic growth on Monday. Meanwhile, Bank of England officials, including Governor Andrew Bailey, will testify to the Treasury Select Committee on Tuesday.

Chart 2: Inflation has moved back above target across major economies



Source: Macrobond, Lloyds Bank Market Insights

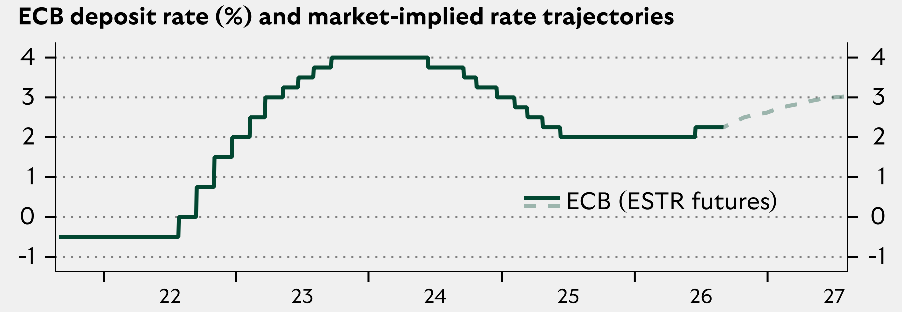
Economic previews:

ECB policy decision – Thursday 10 September (13:15 BST)

The ECB is almost certain to increase interest rates by 25bp, following its June hike, taking the deposit facility rate to 2.50%. The more important signal will be the updated staff economic projections and President Lagarde's guidance on the policy path beyond September. With Eurozone headline CPI inflation rising to a near three-year high of 3.3%, economic activity remaining resilient and the Middle East conflict still unresolved, hawkish members will favour further policy tightening. Dovish members, however, will point to limited evidence of second-round effects, alongside higher long-term yields and tighter financial conditions.

The new economic projections may show upward revisions to near-term inflation, particularly as wholesale gas prices continue to rise, but the key focus will be the medium-term outlook. In the June projections, inflation returns to target in the second half of 2027 in the baseline forecast, while it remains above target throughout the forecast horizon (to end-2028) in the adverse and severe scenarios. The ECB is expected to highlight upside inflation risks but also emphasise its data-dependent, meeting-by-meeting approach rather than pre-committing to a particular rate path. Markets have almost fully priced in a September hike and see around a 90% probability of an additional increase in December.

Markets price further ECB rate hikes beyond September



Source: Macrobond, Lloyds Bank Market Insights

Deposit facility rate	
Lloyds Forecast	2.50%
Consensus	2.50%
Previous	2.25%
Main refinancing rate	
Lloyds Forecast	2.65%
Consensus	2.65%
Previous	2.40%
Marginal lending facility rate	
Lloyds Forecast	2.90%
Consensus	2.90%
Previous	2.65%

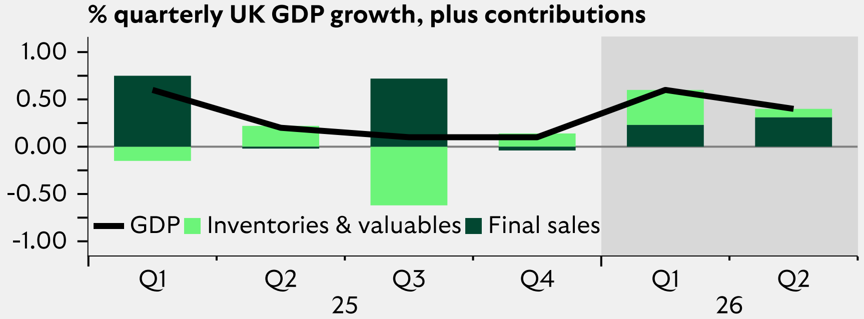
Economic previews:

UK GDP (July) – Friday 11 September (07:00 BST)

UK GDP likely slipped modestly in July following a surprisingly strong first half of the year. The 0.4% q/q increase in Q2, following growth of 0.6% q/q in Q1, points to a reasonably solid underlying picture. However, the expenditure breakdown suggests that inventory accumulation made a significant contribution to growth over the first half of 2026, a support that is unlikely to be sustained and could become a headwind to activity through H2. In addition, June's monthly gain appears to have been boosted by a number of temporary factors, including stronger consumer-facing activity during the FIFA World Cup and unusually warm weather, both of which are likely to have unwound to some degree in July. We forecast GDP to have declined by 0.1% m/m, driven by a 0.1% fall in services output and a 0.2% drop in industrial production. While manufacturing output is expected to have risen by 0.4% m/m, this is likely to have been more than offset by weaker oil and gas extraction. If realised, and assuming no growth in August or September, the economy would be on track for GDP growth of just 0.1% q/q in Q3.

GDP	M/M	3M/3M
Lloyds Forecast	-0.1%	0.2%
Consensus	0.0%	0.3%
Previous	0.3%	0.4%
Services output	**M/M**	**3M/3M**
Lloyds Forecast	-0.1%	0.4%
Consensus	0.0%	0.5%
Previous	0.4%	0.5%

H1 inventory build-up represents an overhang for H2 trends



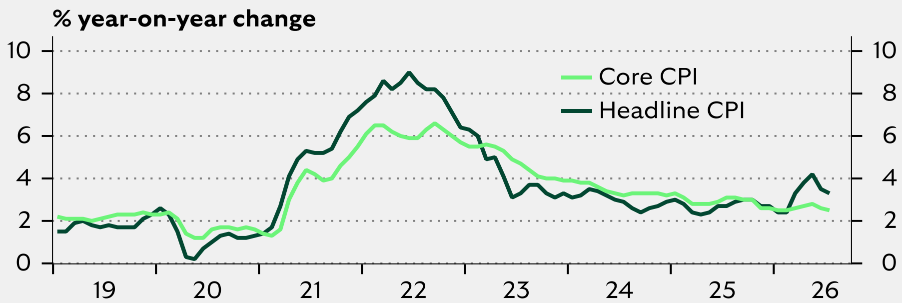
Source: Macrobond, Lloyds Bank Market Insights

US CPI (August) – Friday 11 September (13:30 BST)

The August CPI report could be pivotal in determining whether the Fed raises interest rates at the end of its two-day policy meeting on 16 September. Chairman Warsh indicated last week that progress in returning inflation to target has slowed and that policy may "have work to do". Over the past two months, energy prices have fallen back, helping to push headline CPI inflation down to 3.4% y/y in July, a four-month low. Core inflation has also been relatively subdued, providing limited evidence of broader price pressures. However, global energy trends reversed in August, with oil prices averaging higher than in July. Nevertheless, a forecast rise in core inflation of 0.2% m/m would, in our view, still result in a decline in the headline inflation rate to 3.3% y/y. Such an outcome may be sufficient for the Fed to remain patient and to wait for more data. However, any upside surprise in the August CPI report would materially increase the likelihood of a rate hike in a fortnight's time.

Headline CPI	M/M	Y/Y
Lloyds Forecast	0.3%	3.3%
Consensus	0.4%	3.4%
Previous	0.1%	3.4%
Core CPI	**M/M**	**Y/Y**
Lloyds Forecast	0.2%	2.4%
Consensus	0.2%	2.4%
Previous	0.2%	2.5%

Fed policymakers seek further evidence of disinflation



Source: Macrobond, Lloyds Bank Market Insights

Weekly economic calendar

Ctry	Time (BST)	Time (EST)	Release/Event	Period	Consensus	Forecast	Previous
MONDAY 7 SEPTEMBER							
GE	07:00	02:00	Industrial Production	Jul	0.5% (0.4%)	--	0.2% (-0.1%)
EZ	09:30	04:30	Sentix Investor Confidence	Sep	1.6	--	0.9
EZ	10:00	05:00	GDP	2Q F	0.4% (1.0%)	0.4% (1.0%)	0.4% (1.0%)
TUESDAY 8 SEPTEMBER							
CH			Trade Data	Aug			
UK	00:01	19:01*	BRC Sales Like-For-Like	Aug	--	--	(1.0%)
JN	00:50	19:50*	GDP Annualised	2Q F	1.8%	--	1.1%
GE	07:00	02:00	Exports	Jul	0.2%	--	0.9%
US	11:00	06:00	NFIB Small Business Optimism	Aug	99.2	--	99.8
UK	**14:15**	**09:15**	**BoE Officials Speak in Parliamentary Hearing**				
WEDNESDAY 9 SEPTEMBER							
CH	02:30	21:30*	CPI	Aug	(0.9%)	--	(0.5%)
CH	02:30	21:30*	PPI	Aug	(3.6%)	--	(3.5%)
FR	07:45	02:45	Industrial Production	Jul	0.1% (0.4%)	--	0.1% (-0.1%)
THURSDAY 10 SEPTEMBER							
UK	00:01	19:01*	RICS House Price Balance	Aug	-32%	--	-30%
GE	07:00	02:00	CPI EU Harmonised	Aug F	0.2% (2.9%)	--	0.2% (2.9%)
EZ	**13:15**	**08:15**	**ECB Refinancing Rate**	**Sep 10**	**2.65%**	**2.65%**	**2.40%**
EZ	**13:15**	**08:15**	**ECB Deposit Rate**	**Sep 10**	**2.50%**	**2.50%**	**2.25%**
EZ	**13:15**	**08:15**	**ECB Marginal Lending Facility**	**Sep 10**	**2.90%**	**2.90%**	**2.65%**
US	13:30	08:30	PPI Final Demand	Aug	0.4% (5.2%)	--	0.0% (4.7%)
US	13:30	08:30	PPI (excluding food and energy)	Aug	0.3% (4.6%)	--	0.2% (4.2%)
US	13:30	08:30	Initial Jobless Claims	Sep 5	205k	--	206k
US	15:00	10:00	Existing Home Sales	Aug	-1.6%	--	-1.7%
FRIDAY 11 SEPTEMBER							
UK	**07:00**	**02:00**	**Monthly GDP (3m/3m)**	**Jul**	**0.0% (0.3%)**	**-0.1% (0.2%)**	**0.3% (0.4%)**
UK	**07:00**	**02:00**	**Index of Services (3m/3m)**	**Jul**	**0.0% (0.5%)**	**-0.1% (0.4%)**	**0.4% (0.5%)**
UK	07:00	02:00	Manufacturing Production	Jul	0.2% (2.1%)	0.4% (2.2%)	-0.5% (0.5%)
UK	07:00	02:00	Industrial Production	Jul	-0.2% (0.4%)	-0.2% (0.2%)	-0.2% (-0.2%)
UK	07:00	02:00	Construction Output	Jul	0.2% (-2.2%)	0.4% (-2.2%)	-0.1% (-2.3%)
UK	07:00	02:00	Trade Balance	Jul	-£4,900mn	--	-£5,537mn
UK	07:00	02:00	Visible Trade Balance	Jul	-£22,350mn	--	-£23,007mn
US	**13:30**	**08:30**	**Core CPI (excluding food and energy)**	**Aug**	**0.2% (2.4%)**	**0.2% (2.4%)**	**0.2% (2.5%)**
US	**13:30**	**08:30**	**CPI**	**Aug**	**0.4% (3.4%)**	**0.3% (3.3%)**	**0.1% (3.4%)**
US	15:00	10:00	University of Michigan Sentiment	Sep P	51.0	--	51.7

Bold text denote those releases/events that are expected to attract most market attention.
Data in brackets denote YoY unless stated otherwise. Market consensus estimates are taken from Bloomberg on the date of publication.
* Released overnight, (r) revised, (p) preliminary, (f) final

Market Insights Team

Jeavon Lolay
Head of Market Insights

Nicholas Kennedy
FX Strategist

Gajan Mahadevan
Senior Macro Strategist

Hann-Ju Ho
Senior Economist

Nikesh Sawjani
Senior UK Economist

Sam Hill
Head of Market Insights

Karim Henide
Rates Strategist

lloydsbank.com/market-insights

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