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Layers of risk are piling up

- **Geopolitical events continue to shape the economic and financial outlook, primarily through energy prices. While in 2022 the oil market managed to offset the Western sanctions on Russian oil and petroleum products, it remains unable to find alternatives to the shortfall in oil production from the Persian Gulf. The outlook for late 2026 and 2027 therefore remains conservative, anticipating relatively high oil prices, averaging close to USD95/bl. Furthermore, despite prices being well below 2022 levels, the European natural gas market could come under strain this winter. EU stocks, which were replenished too slowly this summer, are at a record low. Without the return of Qatari LNG and faced with persistent Asian demand, the market is expected to remain tight in 2027.**

Sustained high energy prices, higher and more persistent inflation, monetary tightening and rising interest rates: the outlook is therefore not encouraging, and yet growth is proving fairly resilient, albeit to varying degrees.

In **the US**, for instance, the economy remains robust and is expected to continue to do so. Growth is forecast to remain in 2026 at the same level as in 2025 (2.1%) before slowing marginally to a still solid pace (2.0% in 2027). Specific favourable factors are, in fact, helping to overcome the shock caused by the war in Iran. Firstly, there is the very robust cycle of investment spending on AI, which is not yet showing any tangible signs of running out of steam. Secondly, there is the relative strength of the labour market. Although the labour market is less dynamic, net job creation remains fairly robust given the fall in the 'break-even point' resulting from changes to immigration policy, and points to the unemployment rate remaining virtually stable at around 4% until the end of the forecast horizon, at the end of 2027. Furthermore, while growth in hourly wages has slowed, constraints on the labour supply are limiting the extent of this decline. Another factor is the favourable stance of fiscal policy (the 'One Big Beautiful Bill'). Finally, there is the net wealth of households as a whole, the sharp rise in which is boosting the wealth effect and, for the wealthiest households, cushioning the impact of shocks linked not only to inflation but also to rising interest rates. Contributing to high interest rates, headline inflation is expected to hover around 3.5% until Q127, before falling and dipping below the 2% mark after the summer of 2027, followed by a stabilisation around 2.3% by the end of 2027. On average, it is expected to reach 3.4% in 2026 and 2.3% in 2027.

With global growth forecast at 3.9% in 2026**, the diverse group of emerging economies** is also, on the whole, surprising in its ability to absorb shocks: this resilience is underpinned by the strength of domestic demand as well as exports of metals (energy transition, stockpiling), hydrocarbons and AI-related goods. In **China**, which is benefiting from the global cycle of investment in AI infrastructure, external demand for manufactured goods remains strong, but domestic demand remains weak. Despite the recovery in producer prices, inflation is rising only very modestly (forecast at around 1.0% in 2026 and 1.2% in 2027), suggesting that deflationary pressures persist. Assuming a gradual easing of monetary policy and an acceleration in fiscal spending, Chinese growth – although slightly revised downwards – is nevertheless expected to reach 4.5% in 2026 and 2027.

Finally, in the **Eurozone**, the negative impact of rising fossil fuel prices is offset by the positive impact of global investment spending in the tech sector, with benefits already evident for exports and potential benefits for investment. The recovery in foreign trade flows, which began in the summer of 2025, thus accelerated during H126; thanks to the strong contribution from net exports, GDP growth in Q2 significantly exceeded expectations and has added 0.8% to the


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annual average for 2026. Domestic demand, primarily driven by household consumption, has strengthened slightly. While private consumption has once again appeared to defy the rise in inflation, thanks to the fall in the savings rate, questions remain as to its ability to absorb the expected erosion of purchasing power. In line with persistently high inflation (forecast to average around 3.0% in 2026 and again in 2027), our scenario anticipates a slowdown in private consumption between autumn 2026 and early 2027 but expects a gradual improvement in industrial investment, underpinned by a recovery in profitability. Thus, after 1.3% in 2025, the growth rate is expected to be around 1.0% in 2026, below the potential rate it is expected to approach in 2027 (1.1%), despite the expected dip at the turn of the year.

On the monetary front, rising energy prices, a resurgence in inflation and fears that inflation may accelerate and become more persistent: all these factors justify, on the one hand, monetary tightening and, on the other, the maintenance of a relatively cautious stance by the major central banks.

Having raised the Fed funds rate by 25bp in September, **the Fed** could implement two further hikes in December and then in March, totalling 50bp, bringing the upper limit to 4.50%. In such a scenario, the Fed would undertake only a modest tightening cycle, consisting solely of reversing the 75bp of 'insurance' rate cuts implemented pre-emptively at the end of 2025. The Fed would then keep its rates unchanged and would only cut them by 50bp in Q427, provided that the easing of inflation is undeniable. Our scenario, which was quite 'hawkish' before the summer, anticipated a rise in **the ECB's** deposit rate from 2.50% to 2.75% in December, followed by a hold at that level until the end of 2027. This now accommodative scenario is, for the time being, maintained but is subject to a marked upside risk: the probability that the ECB will raise its rates above 2.75% has, very recently, increased significantly, with a risk of tightening as early as October.

In terms of interest rates, times are tough and there is no sign of a rapid respite. Rising energy prices, a resurgence in inflation, monetary tightening, widening budget deficits and mounting public debt: all these factors indeed justify a rise in interest rates.

The sharp rise already seen also signals that the uncertainty surrounding all these upward pressures – from the risk of escalation in the Middle East to concerns over fiscal trajectories – is taking its toll. Beyond the 'objective' reasons for the rise in interest rates, the lack of visibility is also proving costly. In **the US**, the correction in the bond market has accelerated in recent weeks, and investor apprehension has pushed up yields on Treasury securities across the entire yield curve. Yields are likely to rise until early 2027, and the flattening of the yield curve is set to persist until investors are convinced that the Fed is nearing the end of its rate-hiking cycle. In the **Eurozone**, it appears that markets are having to adjust to a structurally higher neutral rate. This raises the floor for short-term rates, reduces the scope for future easing cycles and, in the absence of a genuine recessionary shock, limits the appeal of long-term bonds. The notion of 'higher rates for longer' is keeping the 2Y swap rate within a narrow range of 3.55_3.60% and maintaining pressure on the long end of the curve: the 10Y swap rate is expected to reach 3.85% by the end of 2027, despite stabilisation at the short end. As for European government bond spreads, there is little cause for optimism: spreads appear tight given the simultaneous rise in inflation, rising interest rates – which are undermining the debt trajectories of the most indebted issuers – political risk and the 2027 election cycle. Barring an unexpected positive outcome on the Iran war front or very bad news on growth, no catalyst capable of triggering a tightening appears to be on the horizon.

Finally, on the foreign exchange front, the USD is holding firm but without any adverse consequences. In a turbulent international climate, it is common for the USD to appreciate. However, its appreciation has not been severe enough to make the EUR extremely cheap or to undermine the major emerging-market currencies. The outlook remains slightly bearish for the EUR/USD, with a sustained recovery seeming unlikely before H227. Such a recovery would push the EUR towards 1.17 USD in Q427.

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Geopolitics: the hegemon running out of steam

- **Over the past six months, uncertainty in the geopolitical landscape has affected energy price forecasts through two major constraints: (1) the risk of uncontrolled escalation in the Gulf and (2) Ukrainian strikes on Russian refineries. At the same time, US strategic inconsistency is damaging its image around the world, and this is benefiting China.**

What we know, what we do not know. Despite the media and political attention, the Xi-Trump meeting – as well as a possible Republican defeat in the US elections – is unlikely to reverse the underlying trend in the geopolitical landscape – shaped by the power rivalry between Beijing and Washington, as well as by the weakening of the US hegemony, which has far-reaching consequences. This does not, however, detract from the importance of these events, as they may trigger market movements, notably through expectations which, in geopolitical matters, always tend to overprice the short term and underestimate the long term. Yet players such as China and Russia, on the contrary, base their decisions – including economic ones – on giving high priority to the long term, even if this means prioritising geopolitical considerations over economic ones. This time lag – both in the perception of events and in their analysis – between market players and the most revisionist states, which are committed to a 'long game' strategy, is one of the blind spots of the financial sector when it comes to geopolitical scenarios.

In the US, distinguishing between the short and long term

The US elections will do nothing to resolve the political polarisation that has long been undermining the institutional functioning of the US – in reality, Donald Trump is merely a catalyst, revealing the growing difficulty in reaching a consensus. Nor will the elections halt the erosion of US soft power around the world, fuelled by Washington's inability to stabilise the global geopolitical landscape. Month after month, opinion polls show that the US's image is losing ground to that of China, and since this summer, Pew Research surveys have even shown that a favourable view of China exceeds that of the US in around 20 countries. This is a very important factor in the scenario, one that is underestimated by the markets. As for the impact of a possible Republican defeat on the strategy towards Iran, it is difficult to predict. However, it will not significantly alter the US ambition to economically strangle Iran through the threat of secondary sanctions. The military approach may vary, but the objective of regime change remains a constant.

Signs of political realignment are raising questions about the post-Trump era. The elections may bring about less political change in the short term than the market anticipates, but they point to significant domestic developments for the post-Trump era. Thus, the forecast of a favourable vote for the Democrats is underpinned by the impact of inflation and, more broadly, by a resurgence of economic issues – including the fiscal trajectory – which is also beginning to weaken Trumpism within its own ranks. The Fed's resistance to Trump's demands bears this out. Above all, the Iran issue is dividing the Republican Party: Trump now appears caught between his increasingly disillusioned MAGA base and concerned Republican economic elites. On the other side of the political spectrum, the controversial support for Israel is driving a realignment within the Democratic Party, with a rise in the influence of the democratic socialists embodied by the Mayor of New York and Bernie Sanders, who know how to speak to young people. Above all, New York's experience with innovative solutions to housing and purchasing power issues marks a break with the 'woke' ideas that had, among other things, fuelled the MAGA backlash. In fact, the political realignment in the US is, above all, beginning to signal a generational shift that could reshape not only the national political landscape, but also the international one.

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China-US relations remain an armed truce

The few agreements, purchase commitments, gifts of pandas and other temporary easing of tensions over rare earths will do nothing to alter the rivalry between China and the US, which permeates all sectors deemed strategic. This rivalry runs deep because it is perceived as existential on both sides: this is precisely what defines a hegemonic conflict. Furthermore, Washington is seeking to turn the issue of Chinese overcapacity into a trade coalition, and this strategy will not be abandoned by 2027. The Xi-Trump meeting nevertheless demonstrates a shared willingness to maintain channels of communication, a willingness that is also evident regarding Taiwan and the maritime areas surrounding China. This is a crucial point, as one of the risks is the mishandling of an incident, and nothing better has been devised than the 'red telephone' principle to guard against the risks of escalation… Indeed, for the past two years, the major players have been talking to one another; diplomacy has even become very active, albeit discreet.

Do corporate interests truly align with those of states? The China-US risk also lies in a misalignment between governments and businesses. Many states wish to reduce their dependence on China, yet many industries remain reliant on Beijing for components, electrical equipment, solar technology, batteries and other refined materials. In fact, the attempt to reduce risk exposure to Beijing has not eliminated the interdependence of value chains: it has made it more indirect, via 'transit' countries, but also more opaque, with numerous bypassing trade flows.

Europe under hybrid pressure

The intensification of the hybrid war with Russia and China is broadening the scope of dual-use sectors, at the intersection of the civilian and defence spheres.

In Europe, incidents involving the Baltic cables and Svalbard, drones spotted near logistics sites, and the vulnerability of airports, LNG terminals and electricity grids indicate, above all, that the confrontation with Russia is extending below the threshold of open warfare. The alleged Russian operation in Svalbard this summer did not cause any disruption but is thought to have served to test the allies' responses. Furthermore, the key issue is therefore not merely the risk of sabotage: it is reconnaissance, the installation of dormant equipment and, above all, the legal ambiguity surrounding an attack that cannot be attributed to any specific party. Denmark has recently raised its alert level, and the Baltic states fear such incidents. All this is taking place against a backdrop where both sides – Russia and Ukraine – are increasingly targeting ports, refineries, depots, electricity grids, metallurgical facilities and border crossings. As for the recent Russian strikes near Poland, they bring the logistics of war closer to EU territory and highlight the threat posed by Russia, which is becoming increasingly nervous as a result of Ukraine's strikes deep into its territory.

In Asia, too, the approach is hybrid

Hybrid and cognitive warfare are also at the heart of China's strategy regarding Taiwan, the Philippines and the South China Sea: coastguard operations, inspections, drones, undersea cables, political pressure and the erosion of Taipei's diplomatic space are gradually blurring the line between actual preparations for a blockade and the 'New Normal'… For Taiwan, investment in semiconductors in the US and Europe is certainly a tool for forging alliances, but industrial dispersion ultimately weakens Taiwan's value as an indispensable asset. In reality, time is on Beijing's side, particularly as the US no longer appears to be a reliable provider of security. In this context, Japan's strategic position is central.

Secondary sanctions and extraterritoriality are driving the geopolitisation of the economy

The US decision to intensify secondary sanctions to stifle Iran is driving the geopolitisation of the economy, forcing companies and banks to scrutinise the role of second-tier players in their value chains. As for China, it is stepping up its use of extraterritorial rules, which mirror those of the US, employing exactly the same argument of national security – one that Trump is far from having invented,

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as it has always been a recurring theme in US economic history. The principle of weaponising the economy is, moreover, not the preserve of the major powers – it is precisely what the Iranians and the Houthis are doing when they attempt to lay down their own rules for maritime traffic.

The Middle East highlights the limits of regional geopolitical realignment. There is, as yet, no sign of a swift resolution to the partial paralysis of the Strait of Hormuz. Furthermore, the Houthi advance along the Red Sea coastline and onto the islands, facilitated by strategic disagreements between Saudi Arabia and the UAE, has diminished the value of the Saudi bypass solution. Above all, it shows that the Mecca defence agreement does not, for the time being, possess the automatic nature of NATO (which remains to be proven) and that the US is not prepared to assist Riyadh (at least not without major concessions, such as a rapprochement with Israel…).

New forces in regional coordination

Against this backdrop of doubt regarding the reliability of alliances, most middle powers are developing a 'portfolio diplomacy': they seek political solidarity, technology transfers or mediation, but avoid binding commitments. Similarly, the thaw in relations between Xi Jinping and Narendra Modi at the BRICS summit remains tactical: it facilitates certain investments, without resolving the Himalayan disputes, Chinese-Pakistani relations, or the rivalry in the Indian Ocean. Against this backdrop of fragmentation and realignment, Japan and Australia are vying for the role of coordinating powers: their value lies not in global dominance but in their ability to foster cooperation among regional powers.

New rules for infrastructure? More broadly, the wars in Iran and Ukraine also show that pipelines, data centres, nuclear power stations and desalination plants are targets. The need to avoid disruptions to operations will therefore stimulate new infrastructure funding: underground routing, redundancy in critical infrastructure (switchover to backup circuits) and diversification of storage points are becoming essential. Alternative ports and airports have a bright future ahead of them. In fact, new rules on security are emerging, which will impact many sectors. But certainly, both governments and businesses will be willing to pay more to ensure the continuity of supply flows. It remains to be seen how the additional costs will be shared…

Three geo-economic scenarios are emerging

In the short term, the central scenario – which is based on increasingly interconnected crises – will be shaped by four main fronts: (1) the partial closure of the Strait of Hormuz, (2) the selective threat to the Bab el-Mandeb Strait, (3) the continuation of the Russian-European hybrid war, and (4) the China-US strategic rivalry. In the medium term, geopolitics will impact production capacities – refineries, interceptors, networks, storage facilities, processed minerals and semiconductors. Furthermore, other critical points in production, transport or processing may be weaponised by states or private actors seeking to derive new rents from the global geopolitical realignment. In the long term, power will be measured less by self-sufficiency than by the ability to maintain a diversity of routes, suppliers and payment systems. The winner will be the one who can preserve not only the performance but also the resilience of their operational system.

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Developed economies: resilience and, above all, its many shades

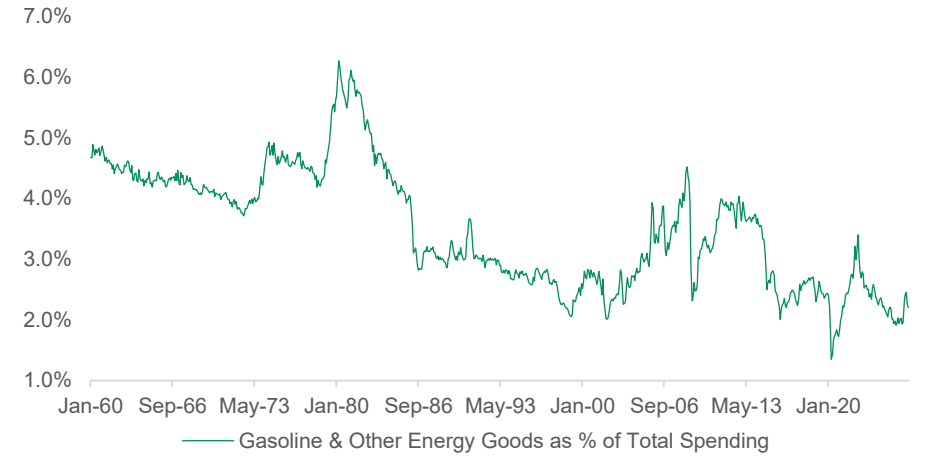
- **Higher and more persistent inflation, monetary tightening and rising interest rates: the outlook is not encouraging, and yet growth is holding up. This resilience varies greatly, of course: while growth remains robust in the US, due in particular to the strength of the AI investment cycle, it remains sluggish in the Eurozone, where it is ultimately proving more dynamic than anticipated. The uncertainties surrounding the outlook for domestic demand are nevertheless more pronounced there.**

US: resilience not yet derailed

Despite facing a seemingly never-ending series of shocks in recent years, the latest being the Iran war, the US economy has remained resilient overall, and we expect this resilience to persist moving forward. While the quarterly pace had admittedly been somewhat choppy, exacerbated by the government shutdown around the turn of the year and swings in some of the more volatile components of GDP, we are tracking 2026 growth to come in at 2.1%, matching the 2025 advance, before a marginal slowdown to a still healthy pace of 2.0% in 2027.

These forecasts are slightly down compared to our expectations entering the year but are again little changed from last quarter as downward revisions since the war started have been relatively modest. As we have noted in the past, this comes down to the fact that we believe the US economy is less vulnerable to an oil price shock than many other countries currently and is less vulnerable than it was in prior decades, mainly due to the fact that the US economy has become less energy intensive over time, and that it is now a major oil producer as well, having become a net energy exporter in 2019.

US consumption has become less energy intensive



Source: BEA, Crédit Agricole CIB

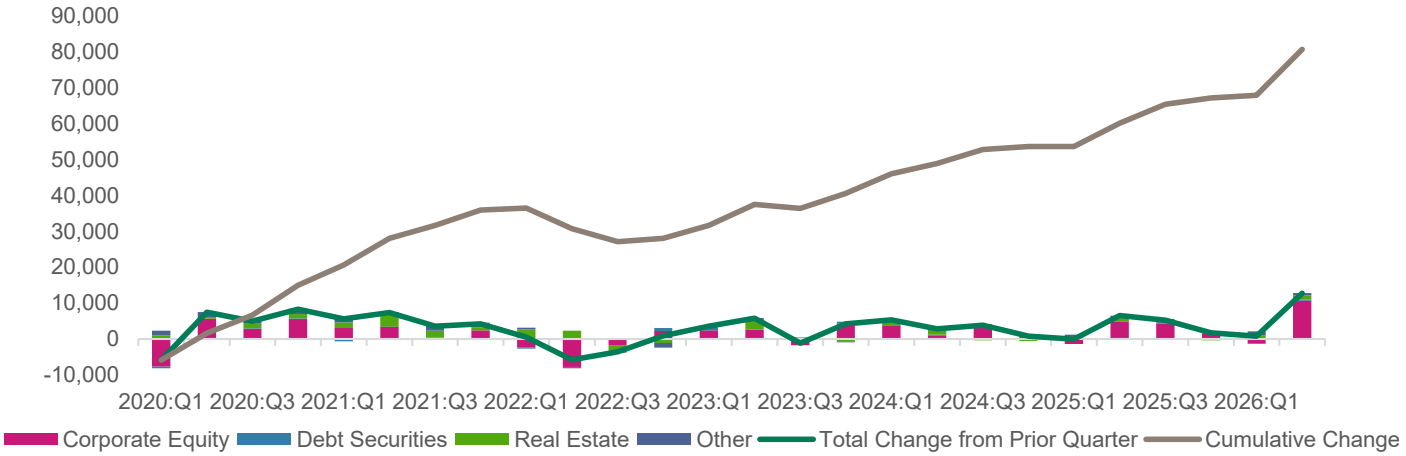
On top of this, there are a number of supportive factors that remain in place, helping keep growth at a solid pace despite the war:

- **For one, we continue to see a more constructive backdrop on the policy front, in line with our thoughts last year on policy sequencing**. To reiterate, while growth-negative tariffs were a key focus of the Trump administration in 2025, fiscal policy has begun to play a bigger role in 2026 as the Big, Beautiful Bill kicks in. As an example, tax refunds in 2026 totalled roughly USD50bn higher in 2026 than in 2025, providing some cushion to help offset the surge in gas prices.
- **Outside of policy changes, we would again highlight that household balance sheets remain extremely healthy, with overall net worth now up**

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by just over USD80trn compared to the pre-Covid period. Admittedly these are aggregate figures and the gains are far from being shared equally, but it does seem like pockets of weakness have been relatively concentrated among low-income households rather than spread throughout the economy. Thus, our base case sees these K-shaped dynamics remaining contained rather than being severe enough to bring the overall economy down.

Household balance sheets remain very strong as net worth (USDbn) has surged



Source: Federal Reserve, Crédit Agricole CIB

- Last, but most certainly not least given its contribution to growth in recent quarters, is that the very strong AI capex cycle has shown few signs of slowing down. Here, the combination of investment in information process equipment and software have contributed an average of around 0.8ppt to growth in the six quarters from Q125 through Q226, with a couple of quarters even larger in the neighbourhood of 1.3ppt. **We are not convinced that the scorching pace seen during the strongest quarters will be maintained, but we do not expect AI investment to disappear entirely, contributing to continued strength in non-residential investment.**

AI has provided a strong contribution to investment in recent quarters



Source: BEA, Crédit Agricole CIB

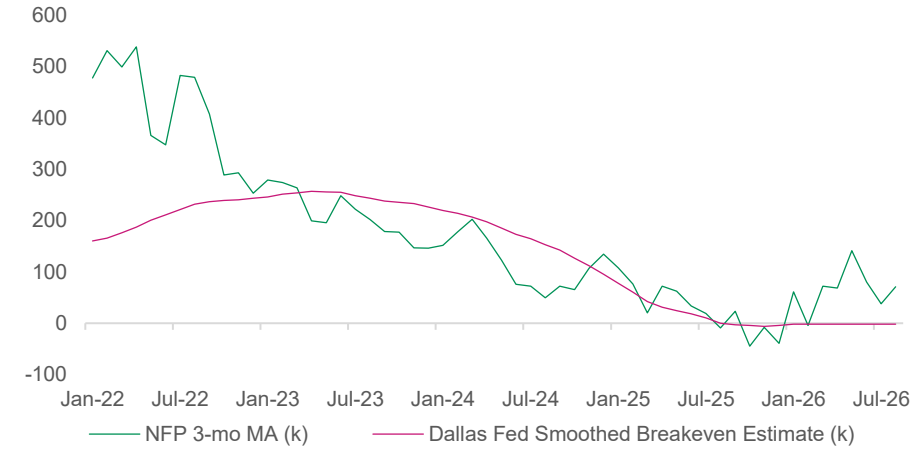
With growth remaining fairly strong, the labour market has also shown clear signs of stabilisation in recent months, despite some choppiness from month-to-month. For example, the three-month moving average of NFP sits at +71k as of August, after this measure had been negative five times in the seven months between August 2025 and February 2026. While this may not sound all that great in comparison to historical data, we would argue that it is pretty solid in the current context of a sharp decline in the breakeven pace due to

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shifts in immigration policy, which means that the economy does not have to create as many jobs to absorb new entrants as it did a couple of years ago.

As well, the layoffs rate remains historically low and recent jobless claims data provides no indication of a major shift. Thus, we see the labour market remaining close to balance in this low-hire, low-fire environment that has prevailed in recent months, keeping the unemployment rate hovering in the low-4% range throughout the remainder of our forecast horizon until end-2027.

Job gains above breakeven despite slowdown in job creation



Source: BLS, Dallas Fed, Crédit Agricole CIB

Admittedly, wage growth has not been as strong, with average hourly earnings having dipped to 3.1% as of August. This pace is still generally within the pre-Covid range but is substantially down from the recent peak and now sits at its lowest level since mid-2021, though we do not expect much further decline as the headwinds to labour supply from substantially lower net immigration may limit downward pressures. Still, even without any further slowdown the Fed should maintain its view that the labour market is not a major source of inflationary pressure at the moment, despite signs of stabilisation in the overall jobs market.

Turning to inflation, the spike in energy prices since the start of the Iran war has driven headline inflation much higher, with headline CPI accelerating to 4.2% in May from 2.4% in February, before partially retracing back to 3.4% as of August. That said, core inflation has been much better behaved, with few signs of any major second-round effects outside of airfares as YoY core CPI has ticked back down to 2.4% in August after having reached 2.9% in May, its lowest level since early 2021.

Going forward, we currently project that May was likely the peak for headline inflation and expect second-round effects on core to remain fairly well contained. Specifically, we have headline CPI holding close to the mid-3% range into Q127 before a brief, base effects driven dip below 2% in Q227, followed by a stabilisation around the 2.3% level at end-2027. For core, we currently see a roughly 2.4-2.7% range prevailing into Q127 before some modest decline later next year with core CPI finishing 2027 around 2.4%.

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Eurozone: conflicting forces in the global cycle, domestic resilience put to the test

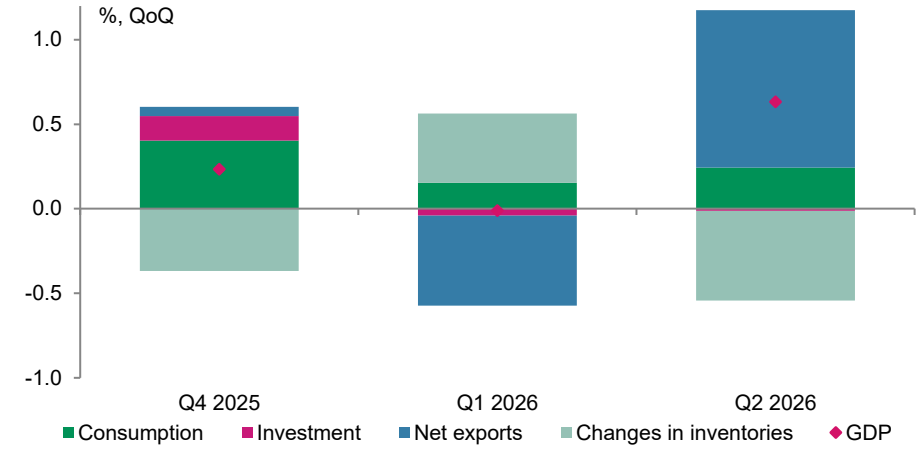
The Eurozone economy is facing the negative supply shock caused by rising fossil fuel prices but is simultaneously benefiting from a positive demand shock linked to global investment spending in the tech sector, with knock-on effects on its exports and investment. Both domestically and globally, several investment cycles are overlapping, each with its own timeline. In real terms, financing conditions have tightened far less than nominal interest rates suggest; the equity

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market remains buoyant; and investment decisions are also being supported by the recovery in the productivity cycle and continued high profitability. While a '2022-style' scenario is emerging for households, it will not be as severe, and losses in purchasing power are expected to be more limited. The ECB is observing two areas of resistance: (1) inflation, and (2) confidence and economic activity, and is considering the degree to which it should tighten its policy stance. Driven by the global cycle and a barely expansionary fiscal policy, growth in the Eurozone over the horizon of our forecast is expected to be held back by a more restrictive monetary stance and financial conditions, rising input prices and a EUR exchange rate that remains high. Thus, after 1.3% in 2025, the growth rate is expected to fall below potential, at 1.0% in 2026 and 1.1% in 2027.

The resilience of the Eurozone economy has resulted in stronger-than-expected GDP growth in H1 compared with the consensus forecast. Excluding the impact of Irish GDP, growth in the Eurozone has stabilised at a quarterly rate of 0.3% since the summer of 2025, standing at an annualised rate of 1.2% in Q26, slightly above potential. The cumulative growth figure for the 2026 annual average is 0.8%, which automatically raises the forecast for 2026 from June's quarterly publication.

Eurozone: contributions to GDP growth



Source: Eurostat, Crédit Agricole SA

GDP growth in Q2 was driven by a strong contribution from net exports (+0.9ppt), due to a more pronounced rebound in exports (+3.4%) than in imports (+1.5%). The recovery in foreign trade flows since the summer of 2025 gained momentum during H126, particularly in Germany and, to a lesser extent, in most countries in the Eurozone. Exports of capital goods accelerated sharply, followed by those of intermediate goods, with the strongest performances seen in chemicals and transport machinery and equipment. This surge is primarily driven by performance in the Taiwanese and South Korean markets, but trade flows to the US and China have also regained momentum. The investment cycle in technology products, which is fuelling production and trade flows across the Pacific, is beginning to have a positive impact in Europe.

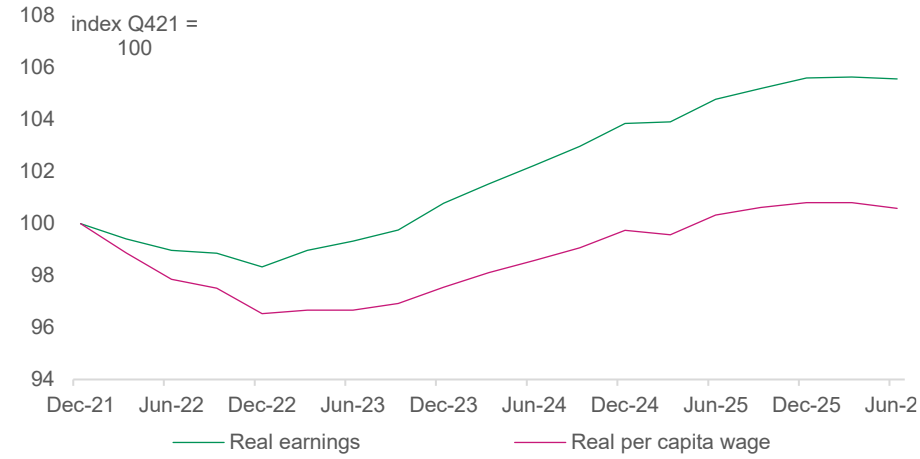
The contribution from domestic demand strengthened, while remaining more marginal (+0.2ppt). The rebound in domestic demand was driven mainly by household consumption. With growth of +0.4%, it accelerated in Germany, France, the Netherlands, Spain and Portugal. By contrast, it slowed in Italy and Belgium, though it remains at a fairly sustained pace in those countries.

With an annual growth rate of 3.8% in Q2, the total wage bill was slowing but still grew at a faster rate than inflation. Past losses in purchasing power associated with the total wage bill – taking employment growth into account – have been largely recouped. However, while inflation in Q2 was in line with our forecasts at 3%, it is rising in Q3 and is expected to exceed 3.7% until February 2027, triggering a new cycle of erosion in purchasing power. The rebound in private consumption is therefore, for the time being, holding its own against rising inflation, thanks to the fall in the savings rate, which appears, for now, to be supporting household spending; but the question of its sustainability arises,

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against a backdrop of expected erosion of purchasing power. This is all the more so as job creation has not kept pace with the growth in economic activity. Employment growth stood at 0.1% over the quarter, with no clear acceleration. At +0.5% YoY, this pace is enabling a return to a positive productivity cycle (+0.8% YoY), which, coupled with the slowdown in wage (3.3% YoY for per capita wages), is reducing unit labour costs and halting the deterioration in margins that has been ongoing since the summer of 2023. The slowdown in wage growth is widespread across all service sectors, both market and non-market, while in manufacturing and construction, modest accelerations are being recorded. The new cycle of investment in equipment and information and communication technologies (ICT) suggests a shift in pricing power and profitability from the service sectors towards the industrial sectors.

Purchasing power of wages



Source: Eurostat, Crédit Agricole SA

As for investment, the picture is obscured by various overlapping cycles with different timeframes. It has been on a slight downward trend for the past two quarters, with all its components declining, except for the building and civil engineering sector, which is recovering. Construction, driven in particular by housing, was on average in negative territory during H1, notably in Germany and France, while it is slowing down from previously sustained rates in Italy and Spain. Demographic trends (in Spain) and recent expenditure linked to the NGEU have continued to underpin investment in Mediterranean countries. Investment in machinery and equipment (including ICT products) is declining after more than a year of sustained growth. However, it rebounded strongly in Germany in Q2. In Germany, the major investment programme is nevertheless falling behind schedule: following the sharp rise at the end of 2025, when the SVIK fund for infrastructure and climate neutrality was launched, public investment has slowed significantly and investment funded from the central budget was 20% below its 2025 level in August. The Q2 recovery is likely attributable to private investment, which could support the hypothesis of positive spillover effects from the AI-driven investment cycle. The slump in investment in transport equipment continues across the board.

Despite the resilience shown by private demand – reflected in credit flows to the private sector that remain robust (3.1% growth for households and 4.2% for non-financial corporations in August) – there are numerous uncertainties surrounding the investment and consumption cycle. In line with persistently high inflation, we expect a slowdown in private consumption between autumn 2026 and early 2027, while we forecast a gradual improvement in industrial investment, driven by improved profitability. Despite a temporary dip at the turn of the year, growth in the Eurozone is expected to return to a rate close to potential in 2027 (+1.1% after +1.0%).

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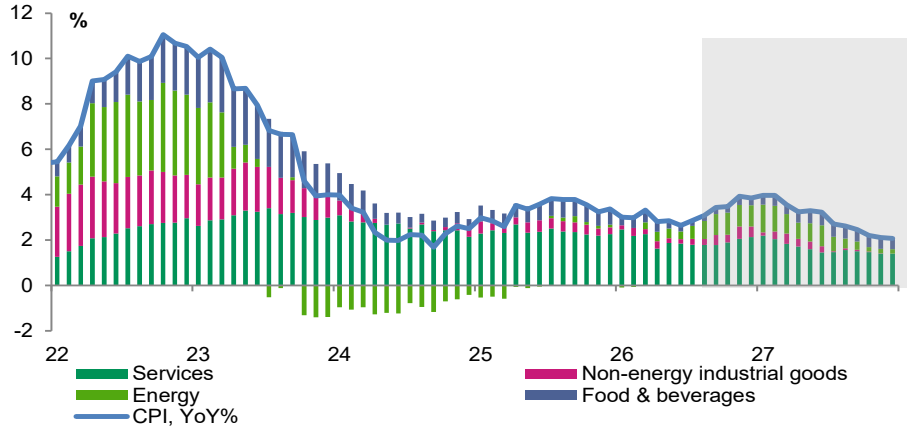
UK: resilience so far, but risks persist

UK GDP growth has exceeded expectations so far this year: 0.6% QoQ in Q1 and 0.4% QoQ in Q2 according to the preliminary estimate (vs 0.2% QoQ forecast). Growth in H126 as a whole (1%) was driven by robust domestic demand, with household consumption rising 0.9% and business investment expanding 2.6%, particularly in ICT and hardware. Inventory changes contributed half of overall H126 growth. The momentum looks sustained at the beginning of Q3: activity increased by 0.4% MoM in July. Even though we continue to expect weaker growth in the coming months, these better-than-expected results prompt significant upward revisions: our Q3 forecast is raised to 0.6% QoQ (vs 0.1% previously) and 2026 annual growth is lifted to 1.4% from 1.1%. However, our growth forecast for 2027 remains unchanged at 1.1%, as is our growth forecast for Q426 (0.1% QoQ).

Consistent with the resilience of activity, the labour market looks to have stabilised, likely temporarily though. The unemployment rate was 4.9% in the three months to July, unchanged from the three months to April, and slightly above its equilibrium rate at 4.75%. Employment signals remain mixed: while the LFS measure rose 66k in the three months to July, the PAYE (payrolls) employment, which the ONS says is the more reliable measure at the moment, fell by 39k, and stands 0.3% below its level a year ago. Vacancies remain flat and below pre-pandemic levels, with the unemployed-to-vacancies ratio at 2.5, consistent with stabilising slack in the labour market. Forward-looking PMI surveys have improved, but we expect winter deterioration as growth softens. Unemployment is set to deteriorate going forward to a peak of 5.1% (vs 5.4% previously).

Inflation has continued to surprise favourably thanks to a continued moderation in domestic inflationary pressures. The increase in headline CPI inflation has been relatively modest so far – it reached 3.1% YoY in August (back to its Q126 average) – as services inflation fell for the third consecutive month (from 3.7% in May to 3.4% YoY in August), suggesting no signs whatsoever of second-round effects materialising so far. Core inflation has been stable at 2.6% YoY for the past four months as at the end of August. UK inflation is not out of the woods yet though. The outlook for energy prices has deteriorated due to the persistence of the war in the Middle East. Ofgem's energy price cap for October to December will be increased to GBP1,723 from GBP1,663 currently and will likely increase further in January if the conflict in the Middle East persists, as appears to be the case. However, the government's decision to remove VAT from all domestic electricity bills implies that the increase in the price cap will be driven by gas prices (+8%), while electricity prices will remain broadly stable. The increase in energy prices leads to a peak of inflation in early next year (4% in Jan/Feb, against 3.6% in November expected three months ago). Second-round effects should remain limited given weak demand and two anticipated BoE rate hikes (Q426 and Q127). We therefore continue to expect CPI inflation falling close to the 2% target in Q427. Risks remain tilted to the upside in relation to energy price developments.

UK: CPI inflation and contributions



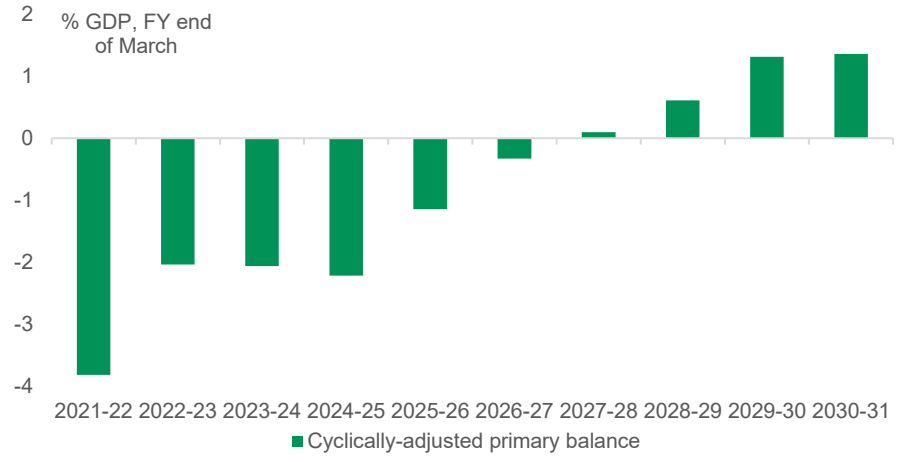
Source: ONS, Crédit Agricole S.A

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The 28 October Budget is the main domestic risk event in the short term. We expect it to be primarily a fiscal-repair budget, with the government announcing a net fiscal tightening rather than a large giveaway. The key issue for the government is that the fiscal headroom available in March against its key fiscal rule (targeting a current-budget balance or surplus in the third year of the forecast) has been significantly eroded by higher gilt yields, higher inflation-linked spending, new unfunded spending commitments and larger-than-expected borrowing so far this year. The headroom is likely to have fallen from GBP23.6bn to close to GBP10bn, with some external estimates as low as GBP5bn (Resolution foundation early September). In our view, the government will likely aim to rebuild a meaningful buffer of at least GBP15bn in order to reassure gilt investors and avoid a situation similar to the one experienced by Rachel Reeves after the 2024 Budget, where headroom of around GBP10bn had left the gilt markets very sensitive to any bad news impacting the fiscal outlook.

Therefore, we expect significant tax increases to be announced at this Budget but concentrated outside the three main taxes which the government has pledged to keep unchanged (no changes to the basic, higher or additional rates of income tax, VAT or employee National Insurance, and cap the main rate of corporation tax at 25%). Possible tax measures include raising capital gains rates, a property tax reform, a reform to the pensions tax relief as well as inheritance/wealth tax. At the same time, the government will most likely keep frozen the income-tax thresholds as it is a major source of revenue for the budget. Within spending, painful trade-offs will have to be made. These will likely involve savings in welfare while prioritising defence, social care and infrastructure investment. Long-term infrastructure projects and regional devolution will likely take centre-stage with some of the government's growth agenda funded through public financial institutions the capacity of which is likely to be expanded. Higher borrowing to invest will likely lead to an upward revision to the public sector net debt by the OBR, while leaving public sector net financial liabilities (PSNFL) to GDP ratio on a downward path in the third year of the forecast in line with the government's second main rule.

UK: fiscal policy is set to tighten under current government's plans



Source: OBR March EFO

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Japan: Takaichi administration's strategic investments through public-private partnerships help overcome structural economic stagnation

The government and the BoJ work together to achieve both strong economic growth and stable prices

The Takaichi administration believes that the cause of Japan's structural economic stagnation lies not in demographic deterioration, but in a shortage of public and private investment in terms of capital input. In its view, structural economic stagnation is not an inevitable consequence of demographics, but is

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rather due to a failure to invest, and that it can be changed. 'Sanaenomics' – aimed at revitalising the Japanese economy and restoring national strength – seeks to achieve that restoration through expanded investment driven by proactive fiscal policy. In our view, breaking free from Japan's structural economic stagnation requires boosting productivity through capex under a high-pressure economy, rather than through restructuring.

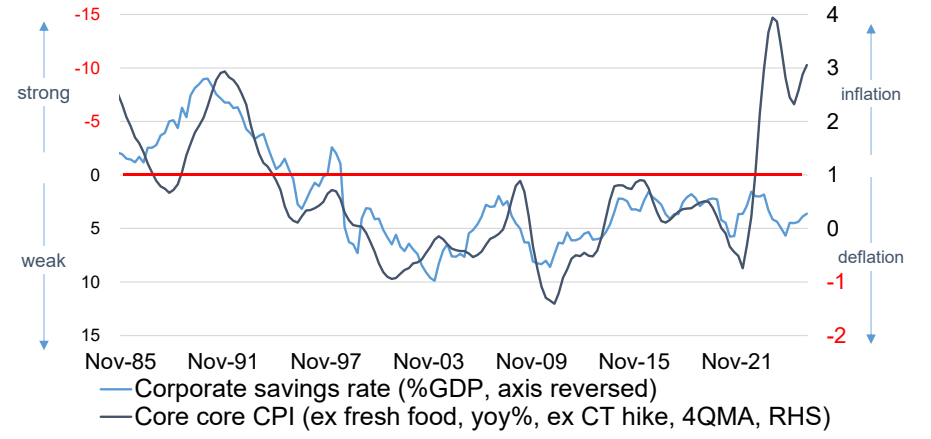
A robust credit cycle under an accommodative monetary policy environment has been supporting the economic recovery, including the employment situation. The groundwork has been laid for an expansion of domestic investment to lead to a strong rise in real wages. Should the credit cycle falter, it would pose a risk of halting the escape from structural economic stagnation.

Net domestic fund demand (corporate savings rate + fiscal balance) recovered and, through reflationary forces, expanded nominal GDP. The phase of reflationary policy is now over, and investment to expand supply capacity has become necessary in our view. Expansionary fiscal policy through public-private strategic investment and consumption tax cuts would restore domestic demand, while a global cyclical recovery driven by receding geopolitical risks is also anticipated. As corporate domestic spending increases, the corporate savings rate would begin to decline, and combined with expansionary fiscal policy, net domestic fund demand – which has all but disappeared – would recover once again, moving the economy toward a full escape from structural stagnation.

The reflationary force driven by expansionary fiscal policy and continued accommodative monetary policy has significantly expanded nominal GDP. The premature rate hikes by the BoJ and the deterioration in the terms of trade would temporarily slow the expansion of nominal GDP. The driving force behind growth will shift from reflationary policy to investment expansion.

Driven by a phase of global cyclical economic recovery and the expansion of domestic demand through the Takaichi administration's PPP strategic investment initiatives, a rising capex cycle would take the lead, putting downward pressure on the corporate savings rate. The 2026 Honebuto would mark the beginning of a shift toward proactive fiscal policy focused on strategic investment, particularly through new investment frameworks. Core inflation (ex fresh food and energy) would temporarily decelerate due to slow recovery in domestic demand, but then re-accelerate towards the 2% target. By 2027, domestic demand would expand, supported by an upside in capex cycle and rising real wages. By 2028, expansion in domestic demand is expected to accelerate, the corporate savings rate to return to its normal negative territory and potential growth to exceed its trend – marking a complete escape from structural economic stagnation.

Corporate savings rate and core core CPI



Source: Cabinet Office, BoJ, MIAC, Crédit Agricole CIB

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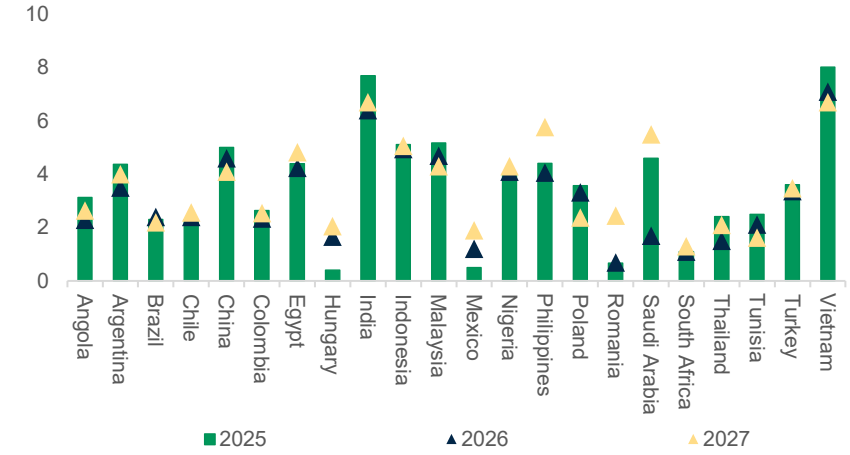
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Emerging markets: the key to resilience?

- **Emerging markets continue to enjoy a favourable growth differential and stronger reserves than in the early 2010s and are benefiting from several factors that make them resilient to the crisis. The current winners are technology exporters and resource producers located outside conflict zones. Short-term risks centre on energy importers with low reserves, governments that subsidise prices with little fiscal leeway and the most fragile sovereign issuers.**

With global growth forecast at 3.9% in 2026 – up from a forecast of 3.8% three months ago – **emerging economies are surprising observers with their ability to absorb a succession of shocks**. Inflation also appears to be under control, forecast at 3.8% for 2026. However, the new disruptions in the Gulf suggest maintaining a bearish outlook on growth and a bullish outlook on inflation, as many emerging economies are highly vulnerable to a further rise in oil prices. We must therefore speak of resilience – ie, a capacity for adaptation that remains very much a reality – rather than sustained resistance to a shock the full impact of which has, in reality, not yet been felt.

Growth forecasts



Source: IMF, Crédit Agricole SA

A hard-line scenario for oil would be one characterised by political risks

Domestic demand remains the primary buffer. Excluding China, private consumption is holding up fairly well, particularly in India and several ASEAN countries. However, this resilience should not be extrapolated: rises in the prices of fuel, electricity and food are gradually eroding real incomes, while global monetary tightening will make credit more expensive. But domestic demand is still benefiting from swiftly adopted fiscal support measures and relatively strong labour markets, particularly in Asia, where unemployment rates are often between 4-5%. Care must be taken, however, not to underestimate the social and political vulnerabilities of countries where unemployment is low but employment is precarious. In India, for example, where female labour force participation is very low and there are disparities between rural and urban areas; or in Indonesia and Mexico, where the informal sector absorbs a large proportion of the workforce. In China, the urban unemployment rate for 16-24 year-olds (excluding students) rose to 18.9% in August.

These details are important because a scenario of higher oil prices would, for many emerging economies, represent a political risk. Finally, some emerging economies continue to be characterised by high unemployment rates, such as Morocco, at nearly 13%, and, above all, South Africa, at nearly 34%, with a rate close to 50% for 15-34 year-olds.

The second buffer against the crisis is external, with robust exports in many emerging economies. According to the IMF, global trade is expected to

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grow by 3.5% in volume in 2026, following 5% in 2025, before rebounding to 4.3% in 2027. However, this forecast excludes the possibility of an escalation in the Gulf. Furthermore, the average figure once again masks signs of a two-speed economy: according to the WTO, trade in AI-related goods rose by 42% YoY in Q126, compared with 7% for other goods – with South Korea, Taiwan, Malaysia, Singapore, Thailand and Vietnam accounting for a disproportionate share of this trend. In 2025, AI-related goods are also estimated to have accounted for 53.5% of the value of Asian air freight, but only 7% of its volume, benefiting hubs in South Korea, Taiwan, Japan and Singapore.

Beware of two-speed economies

In reality, the 'K-shaped' recovery is playing out across Asian economies, with a contrast between the export-oriented electronics sector and less dynamic domestic sectors. In South Korea, exports of semiconductors and computers – driven by AI servers – are soaring, while car exports are falling. However, as chip manufacturing is highly capital-intensive, the rise in exports and profits is not leading to a proportional increase in jobs. In Singapore, restructuring and redundancies have reached their highest level since 2020, while Taiwanese trade unions are demanding a fairer distribution of profits. In Malaysia and Vietnam, the 'K-shaped' recovery is also regionally concentrated, with a few regions attracting investment, but little spillover of productivity gains to others, while putting pressure on electricity, water and land supplies. The gap is therefore widening between skilled workers and those in the garment industry, small retail businesses or agriculture. In China, this simply means that the export boom is doing nothing to restore the financial health of local authorities, property developers or household confidence.

A third, more structural driver of resilience to the crisis comes from metals. Exporters of copper, nickel, bauxite, lithium and hydrocarbons (excluding those from the Gulf) are benefiting not only from the energy transition, but also from a shift in the behaviour of governments and businesses. In a more mercantilist world, security of supply, stockpiling and control over value chains take precedence over mere cost optimisation. This 'strategic scarcity premium' particularly favours Brazil, Chile, Peru, Indonesia, the Democratic Republic of the Congo and Kazakhstan. While it bolsters export revenues, mining investment and external liquidity, it does not, however, eliminate political risks – as in the Congo – nor price volatility.

Resilience exposed to four potential disruptions

The first risk is energy. For net importers, such as India or Turkey, the shock simultaneously worsens the current account, inflation, public finances and the solvency of energy-intensive firms. In Central and Eastern Europe, which is highly exposed to the cost of gas and diesel, regional growth is expected to remain positive, but at the cost of a more constrained policy mix: high fiscal support, a resurgence in energy-driven inflation and a reduced monetary margin. While Central Europe benefits from EU funds, defence spending, an infrastructure revival and rising consumption, it nevertheless remains dependent on German industrial performance. Poland remains the region's most robust economy, while Romania is the main area of sovereign concern, with political difficulties delaying fiscal adjustments.

The second risk is monetary. For emerging markets, the impact of rising US interest rates is channelled through the USD, capital outflows, domestic interest rates and the cost of refinancing in foreign currencies. Above all, many countries will have to strike a balance between economic activity and external stability, with the scope for interest rate cuts consequently narrowing. Brazil cut the Selic rate by 25bp on 16 September, but the central bank has raised its inflation forecast for 2026. In the current global geo-economic landscape, Brazil benefits from its specialisation in agriculture, oil and iron ore, as well as its large domestic market; however, the upcoming presidential election is increasing fiscal uncertainty. The close race between the candidates in the polls will heighten scrutiny of the fiscal trajectory. In Colombia, too, political and fiscal uncertainty is weighing on investment. Mexico, for its part, is exposed to trade renegotiations with the US. In reality, Latin America is better protected from the energy shock than import-dependent Asia, but lacks a growth engine as powerful as the Asian technology cycle.

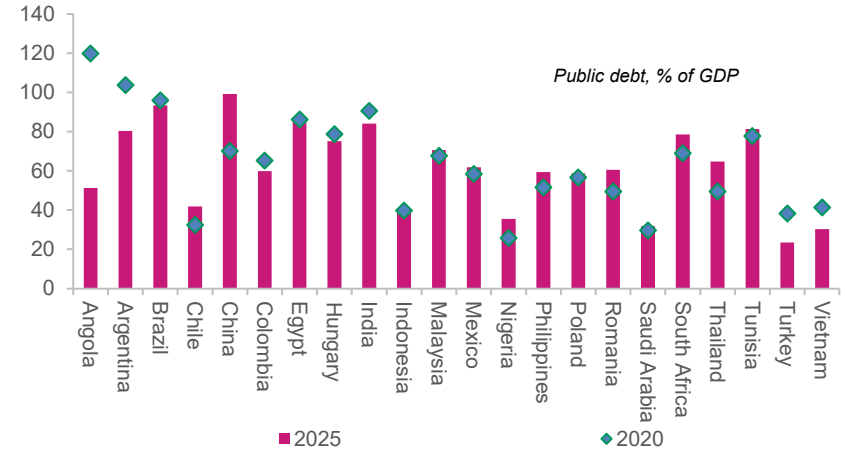
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The third risk is, of course, a correction in the technology cycle. AI is supporting exports, investment and Asian equity markets, but is creating a dangerous sectoral and geographical concentration. A revision of profitability expectations for AI would therefore simultaneously affect stock market valuations, exports, investment and consumption, via the wealth effect.

The fourth risk relates to climate and food. The main risks linked to the impact of El Niño centre on rice, sugar, palm oil, coffee and cocoa – as well as hydroelectricity. For the countries affected, agricultural yields could fall by 8-10%, with local rainfall deficits of 40-60%. In India, by mid-September, monsoon rainfall was already almost 15% below its long-term average, and nearly half of the regions are experiencing a rainfall deficit.

For the time being, however, the global food risk remains manageable, not least thanks to a still comfortable stock-to-use ratio, but the situation could very quickly become strained in the most vulnerable countries. The FAO Food Price Index rose by just 2.5% YoY in August, but sugar prices have already surged by 11.9%. **The danger therefore lies less in an immediate global shortage than in the combination of currency depreciation, dependence on imports, subsidies and low purchasing power**. This is particularly the case in Pakistan, Bangladesh, Ghana, Mozambique and several small island states. Egypt is one to watch, caught in a vice between the Houthi risk – which is fuelling investor mistrust – and the Black Sea risk for wheat, compounded by a new unknown: the reliability of the Gulf's lenders of last resort.

Variability in debt trajectories



Source: IMF, Crédit Agricole SA

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China: a tale of two economies

Incremental easing to deliver a modest H2 rebound

We expect a modest recovery in China later in the year, driven by incremental policy easing with faster fiscal spending. Following the July Politburo meeting's pledge to strengthen countercyclical policy adjustment, government agencies and financial regulators have announced a range of follow-up measures with the aim to stabilise near-term growth. We think these policy moves are a step in the right direction, though they are still being rolled out in an incremental and measured way.

We have recently lowered our 2026 GDP growth forecast to 4.5%, from 4.7% previously, while maintaining our 2027 forecast at 4.5%. A gradual sequential recovery remains likely, supported by faster fiscal implementation following the July Politburo meeting, a post-summer rebound as weather-related disruptions fade and more favourable YoY base effects in H2.

Tech and green products support solid export growth

China remains a major beneficiary of the global AI infrastructure investment cycle, due to its deep integration into the technology hardware and component

supply chains. Meanwhile, China's exports of green products could also remain supported by the elevated energy prices amid ongoing geopolitical tensions in the Middle East, given China's related export dominance. We note that prices for AI-related and other technology products have risen faster than energy prices, supporting the relative profitability of China's technology exports against an important category of imported inputs.

We expect China's current account surplus to increase to 4.0% GDP in 2026 and 3.9% GDP in 2027, from 3.7% in 2025. The larger current account surplus reflects China's continued growth imbalance: external demand for Chinese manufactured goods remains resilient, while domestic demand has stayed weak amid the prolonged property-market correction and limited demand-side stimulus.

Modest fiscal expansion after de facto tightening in H1

On the fiscal front, policymakers urged a full utilisation of planned fiscal and quasi-fiscal supportive measures, and to accelerate funding allocations to strategic infrastructure and investment projects. It will likely help stabilise investment over the remainder of the year. However, the pace of government bond issuance has been slower than in 2025, and LGB issuance has heavily prioritised debt swaps, resulting in a net fiscal tightening rather than expansion. We expect China could boost its fiscal spending by 0.3-0.5% of GDP later this year in case of major growth shocks.

Mild CPI recovery and supply-led PPI reflation

So far in 2026, China's increased headline CPI inflation has been driven by higher fuel and gold price inflation, while food deflation narrowed. Meanwhile, the return of positive PPI inflation in 2026 has been driven primarily by rapid price increases in AI-related inputs and capital goods, alongside higher energy prices.

We expect 2026 CPI inflation at 1.0% from 0% previously, but still expect inflation to firm gradually with a mild increase in 2027 to 1.2%. PPI inflation has returned in 2026 on stronger upstream technology- and energy-related prices, although continued deflationary pressures in downstream sectors could limit the breadth and durability of the recovery. Against a higher comparison base, we expect a moderation of PPI inflation ahead.

PCoC to focus on targeted easing for now

The PBoC should likely maintain its overall easing stance, despite providing little indication of any broad easing, and we expect no policy rate or RRR cuts in 2026. Meanwhile, the PBoC has pledged to keep interbank liquidity ample, support targeted credit growth and coordinate with fiscal policy, leading us to expect a greater emphasis on financial market stability (ie, bond, equity and FX). Furthermore, the PBoC continues its efforts to upgrade its monetary policy framework, towards more price-based (with more frequent ON reverse repo operations) to better anchor short-term market rates (ie, DR001).

CNY appreciation likely continue at a slower pace

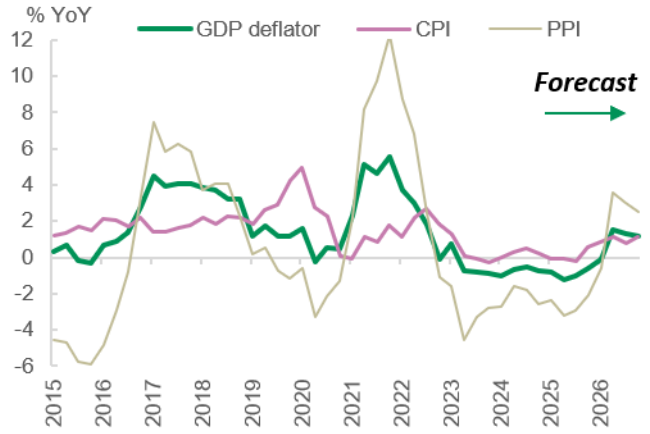
The CNY has been Asia's strongest-performing currency in 2026, supported by record trade surpluses, sustained exporter FX conversion and a PBoC stance that appears tolerant of gradual appreciation. Renewed CNY valuation debates reinforce the case for further CNY appreciation, although the PBoC is unlikely to target any rapid gains given the weak domestic demand and still-negative China-US yield differentials. We forecast USD/CNY at 6.62 at end-2026 and 6.50 at end-2027.

Risk to watch

Growth divergence has remained apparent, with global AI capex demand strength supporting trade and related manufacturing activities, with limited spillover to the non-tech and household sectors. We believe a strong growth rebound is unlikely without major demand stimulus.

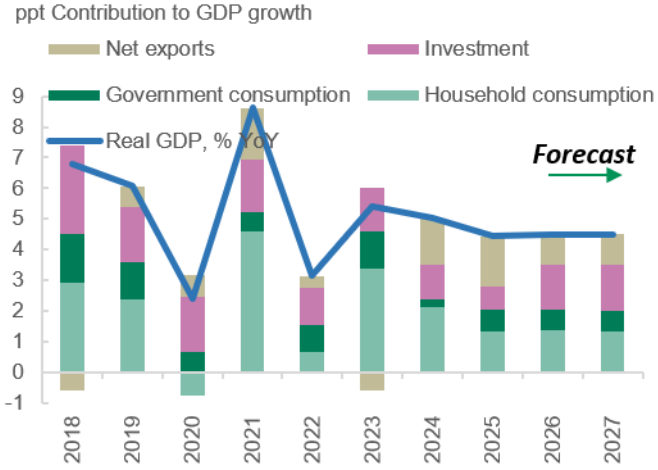
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Inflation rebound mainly led by fuel and gold



Source: CEIC, Crédit Agricole CIB

Incremental policy easing to boost domestic demand



Source: Bloomberg, Crédit Agricole CIB

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Brazil: a toss-up election with binary implications

The outcome of the election will be most decisive for fiscal policy

The incoming election polls in Brazil continue to indicate that the upcoming general election in Brazil on 4 October will be a toss up between the incumbent president Luiz Inacio Lula da Silva and the main challenger Flavio Bolsonaro. Lula's presidential approval rating has remained in low 30s this year, which historically was associated with a loss for the incumbent.

The betting markets have indeed been pricing in higher implied odds of Bolsonaro's victory, although this has been a more recent development. In our view, this is a truly 50/50 election and anyone claiming otherwise is gambling on their luck. Most investors appear to be on the sidelines.

The outcome of the election will be most decisive for fiscal policy. Lula's victory will likely mean continuity with social and investment spending funded with revenue measures to offset the fiscal impact, while structural expenditure cuts are less likely. However, we also foresee modest fiscal reforms as Lula is likely to be mindful of leaving a clean legacy, unmarred by a fiscal crisis. Bolsonaro's platform includes smaller government, lower taxes, expenditure reductions and privatisations.

Banco Central do Brasil likely to pause the easing cycle

Following the latest decision by Banco Central do Brasil (BCB) to cut the Selic rate by 25bp to 13.75%, we expect the central bank to remain on hold until the outcome of the presidential election provides more visibility on fiscal policy. In our view, the BCB would be prudent to hold off on taking any further action. While the economy has been weakening with retail sales and the overall economic activity contracting in July (the latest available), the labour market has remained resilient. Meanwhile, the latest inflation print surprised on the upside with the YoY inflation running at 4.47% through mid-September, pushing the top of Brazil's relatively wide inflation target band of 1.50-4.50%.

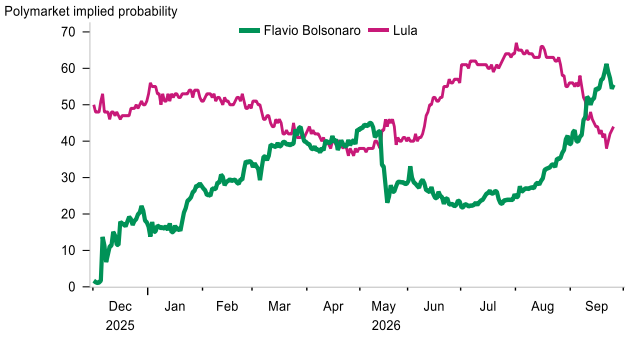
We maintain our forecast for USD/BRL at 5.25 at end-2026 and at 5.45 at end-2027.

Presidential approval rating has remained low



Source: Datafohla

Betting markets swing in both directions



Source: Polymarket

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India: the fragile balance of growth

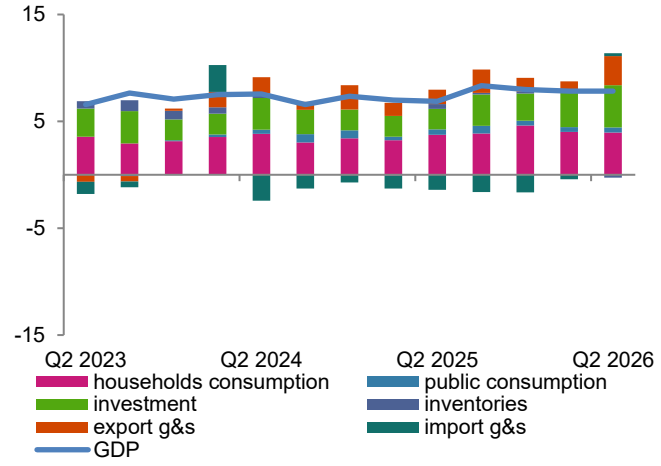
India is holding its ground amid the fog of the Strait of Hormuz. Despite a heavy reliance on energy from the Gulf (oil and gas, accounting for around 25% of India's total imports) and record energy inflation (23% YoY in August), second-round effects remain limited and are not weighing too heavily on domestic demand. **At 4.8% in August, headline inflation is currently within the central bank's tolerance band** (±4ppt). Monetary policy is, however, expected to become more cautious. The RBI has not ruled out further rate rises before December – an additional 25bp or 50bp – which would take the policy rate from 5.25% to 5.50% or 5.75% – and is also continuing to intervene to support the INR, which remains at a historically low level (around 95-96 INR/USD). These pressures on the exchange rate are likely to persist for as long as oil prices remain high: in August, the YoY cumulative trade deficit exceeded USD350bn.

Our base-case scenario for India remains one of strong growth, at around 6.5%, but with increased volatility linked to these price dynamics (energy and food, given that the monsoon rains have so far been insufficient in the south and east of the country). While India is once again turning heavily to Russia to secure its energy supplies**, the introduction of new US tariffs on Russia's main customers – of which India is one – could trigger a new phase of uncertainty and trade tensions**. Despite a staged agreement with China and Russia at the recent BRICS summit in Delhi, India's 'multi-alignment' policy continues.

GDP grew by **7.8 % in the first quarter of the 2026-27 financial year**, driven by strength in the manufacturing and services sectors. However, although India is better integrated into certain global value chains and despite the signing of new free trade agreements (notably with the EU), this growth in industrial output remains uneven. To ensure its sustainability, this growth will need to be underpinned by a reduction in logistics costs, an improvement in the skills of the workforce and an increase in the local content of production. **India's ability to create industrial jobs will also be crucial to sustaining growth in purchasing power.** The lag in the labour market, where dynamics are not keeping pace with economic activity, continues to fuel strong social resentment and has found a political echo in the creation of the 'Cockroach Party'. This party campaigns, in particular, for regulation and transparency in civil service recruitment exams, which for many young people represent the only route to stable employment. The upcoming elections, particularly in the state of Uttar Pradesh next February, will provide an opportunity to see how the issue of employment is addressed, in the run-up to the general parliamentary elections in 2029.

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India: contribution to growth



Source: CSO, Crédit Agricole SA

India: inflation and interest rate



Source: OEAGI, RBI, Crédit Agricole SA

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Oil: 'cracking' everywhere

- **The oil shortage is not the only reason for the rise in retail fuel prices. A shortage of diesel and kerosene is exacerbating the crude oil deficit. Without a lasting political resolution in the Middle East or Europe, markets are expected to remain tight until 2027.**

For more than six months, oil markets have been grappling with a supply shortfall that is driving prices of crude oil and petroleum products up to levels last seen at the start of the Russia-Ukraine conflict in 2022. While in 2022 the oil market managed to offset Western sanctions on Russian oil and petroleum products, **it remains unable to find alternatives to the oil production losses from the Persian Gulf**. The recent attack on the Saudi 'Petroline' oil pipeline, by depriving the market of around 4 Mb/d, is highly likely to exacerbate the market imbalance and trigger further rises in fuel prices.

The rise in the price of crude oil is not the only reason for the surge in fuel prices at the pump. The shortage of diesel and jet fuel (a type of kerosene used in jet aircraft) is causing a greater increase in the prices of petroleum products than in crude oil prices. Consequently, the difference between the prices of petroleum products and crude oil prices – known as the 'crack spread' – is rising particularly sharply for diesel and jet fuel. Today, crack spreads are reaching record levels, even higher than those recorded following Russia's invasion of Ukraine. Since mid-August, the diesel crack spread in Europe has exceeded USD80/bl, whereas in 2022 it averaged around USD50/bl. This supply shortage of diesel and jet fuel stems both from Iranian attacks on refineries in the Middle East and from Ukrainian attacks on Russian oil infrastructure. Deprived of part of its production of 'middle distillates'[1] , Russia has therefore prioritised its domestic market and reduced its exports of diesel and kerosene.

Although they have also risen, gasoline crack spreads are lower than those for diesel. They have averaged USD35/bl since 1 March, compared with USD10/bl in 2025. This gap between diesel and petrol in Europe is due to the difference in design between European refineries, built in the 1960s and 1970s, and the more recent refineries in the Middle East. European refineries are designed to maximise gasoline production from relatively light crude oil, while Middle Eastern refineries optimise the production of diesel and jet fuel (historically more profitable than gasoline) from relatively heavy crude oil.

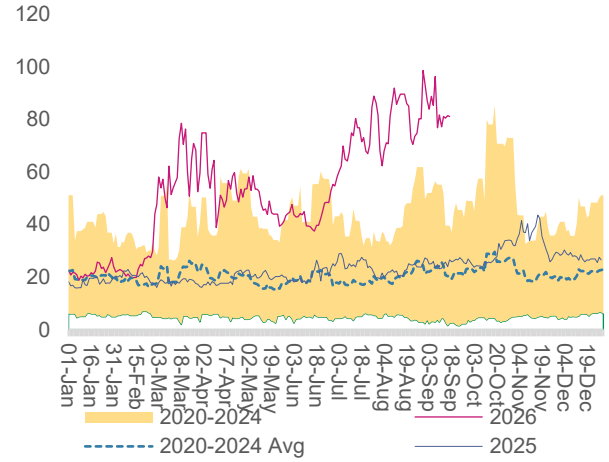
Without a political resolution to the conflicts in the Middle East and Europe, the supply shortage is expected to persist throughout Q426 and into 2027. Even assuming a partial reopening of the Strait of Hormuz, allowing maritime traffic to return to 50% of the levels recorded prior to 28 February, oil supply will not be able to simultaneously (1) restore demand to levels from prior to the US-Israeli attack on Iran and (2) replenish commercial and strategic stocks. The market also faces the risk of being deprived of drawdowns from strategic reserves. US strategic reserves, in particular, have been heavily drawn upon since the blockage of the Strait of Hormuz began. Between early April and late August, withdrawals from US strategic reserves averaged 900 kb/d. A sudden halt to these withdrawals would be equivalent to eliminating Oman's oil production, which stands at around 900 kb/d, and would likely have an impact on oil prices. Iran's ability, through 'proxies', to disrupt oil flows via the Saudi 'Petroline' pipeline also poses a threat to the fragile oil market balance, which is unable to compensate for any further loss of supply.

For these reasons, **our scenario for the end of 2026 and 2027 remains conservative, forecasting relatively high oil prices averaging between USD90-95/bl per quarter**.

[1] *Petroleum products, including diesel, domestic heating oil and kerosene.*

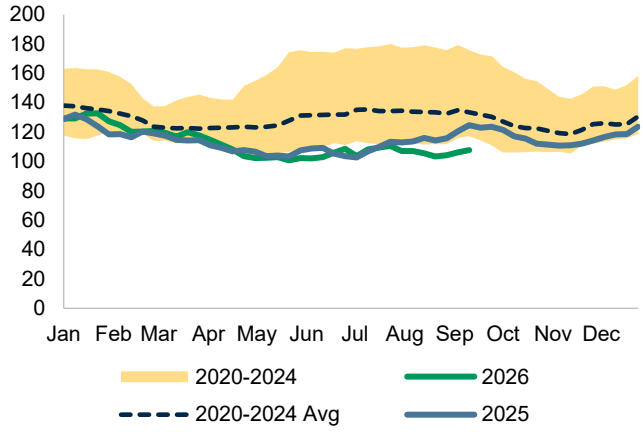
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NWE Diesel crack-spread (USD/bl)



Source: LSEG, Crédit Agricole SA

US middle distillate stocks (million bl)



Source: EIA, Crédit Agricole SA

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Gas: let's hope for a mild winter

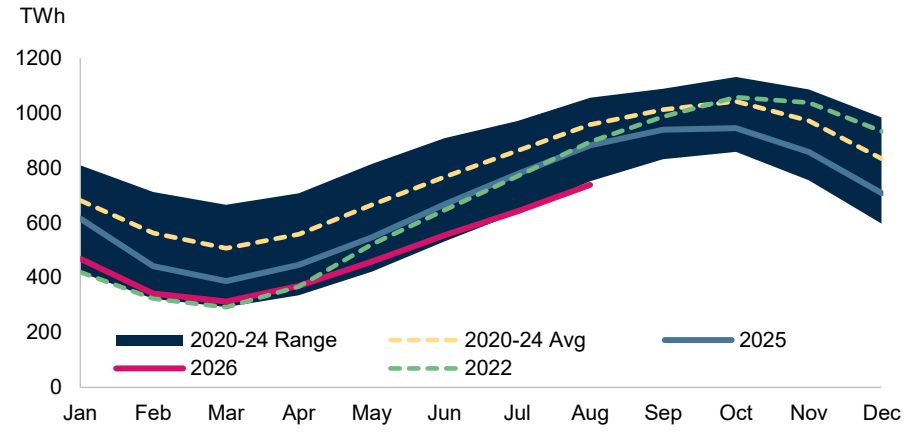
- **Despite gas prices being well below 2022 levels, the European natural gas market could come under pressure this winter. EU stocks, which were replenished too slowly this summer, are at a record low. Without a return of Qatari LNG [2] and in the face of persistent Asian demand, the market will remain tight in 2027.**

Despite the difficulties faced by Qatari LNG carriers in passing through the Strait of Hormuz since 28 February, **natural gas prices remain well below those of 2022**. The TTF[3] averaged EUR46/MWh in Q226, compared with nearly EUR100/MWh in Q222. European buyers have scaled back their purchases in anticipation of winter, thereby limiting competition with Asian buyers who have been deprived of Qatari volumes. Between March and August 2026, the EU's LNG imports fell by 6.4bcm (-13%) compared with 2025. This European restraint enabled Asian buyers to reduce their imports by just 3bcm (-3%) between April and July.

This summer's restraint could prove costly for Europe this winter. As of mid-September, European stocks are only 69% full (compared with 81% in 2025) and show a shortfall of 13bcm. If this shortfall persists by the end of October, Europe will have to increase its LNG imports, risking a rise in prices. With winter demand similar to that of 2025-26, stocks could end the season at less than 200 TWh or 18bcm, a level not seen since 2018. The years 2018-20 benefited from a supply surplus that did not require large-scale storage: 2027 will be different. Deprived of the bulk of Qatari capacity (20% of global supply), the LNG market will remain in deficit, while Europe will likely be forced to maintain high import levels in Q2 and Q327 to replenish its stocks. The 3bcm of new US and Nigerian capacity expected in 2027 will provide some relief to the market but is unlikely to offset the loss of Qatari supply. Without the return of Qatari supplies, US LNG will be in high demand, especially if the EU enforces its embargo on Russian LNG.

Europe must hope for a mild winter, or at least one as mild as that of 2025-26. The impact of the current El Niño episode on the European winter remains unpredictable. Although studies suggest an average effect close to zero, severe cold spells in early winter could increase tensions from late 2026 onwards. **The European and Asian markets face the risk of a significant rise in spot prices, while the US market remains shielded from supply pressures**. However, the rush for US LNG could lead to a sharper-than-usual rise in winter prices in the US.

Natural gas underground storage in the EU



Source: GIE, Crédit Agricole SA

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[2] *Liquefied natural gas.*
[3] *European benchmark for the spot price of natural gas.*

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Autos: a reshuffle

- **China's competitive advantage continues to widen. In practical terms, this translates into structural pressure on volumes and prices globally, particularly against the backdrop of a contracting Chinese domestic market. European manufacturers must invest to reduce their installed capacity, refocus their brand portfolios, speed up time-to-market and close the cost gap with their Chinese counterparts.**

A resurgence in electric vehicles favouring Chinese brands

The EU's passenger car and light commercial vehicle markets grew in H126. New car registrations there rose by 5.7% YoY, reaching 5,896,683 units. In the light commercial vehicle segment, sales of new vans in the EU rose by 1.9% to 742,759 units; volumes increased by 7.9% in Spain, but fell in Germany (4.6%), Italy (4.7%) and France (2.1%).

The upward trend for electric vehicles continued in 2026: battery-electric cars accounted for 20.7% of the EU market in H126, compared with 15.6% a year earlier; the share of hybrid car registrations remained steady at 37.3%, while the market share of petrol and diesel cars fell to 29.7% in H126, compared with 37.8% in H125.

It is reasonable to assume that the conflict in the Middle East, by causing a rise in petrol prices for consumers, encouraged them to switch to electric and hybrid vehicles. However, it is more likely that the launch of numerous products and incentive schemes for the purchase of electric vehicles in France (social leasing) and Germany has enabled lower-income households to make the switch to electric vehicles. This category of consumers had previously considered such vehicles to be unaffordable.

Chinese exporters remain the main beneficiaries of this growth. They recorded a 62% increase in H126 and gained market share across the region, rising from 6.1% to 9.3% of the market across the EU as a whole (source: ACEA).

Against this backdrop, Volkswagen, Peugeot, Renault and, above all, Dacia brands appear to be more vulnerable. They recorded an aggregate decline of 6.9% and underperformed the market over H1, as Chinese competition is currently concentrated in the mass-market segments, where some of these manufacturers have a strong presence.

We now forecast that the European market will stand at around 12m units in 2026, up 3.5% YoY, which implies a slowdown during H2.

Although the EU intends to take a tougher stance on localisation requirements and trade defence measures, their implementation is still in its early stages and European industry is paying a heavy price for the transition to electric vehicles.

Faced with production levels below historical norms, European manufacturers are restructuring

European production is expected to fall by a further 2.5% in 2026, with this decline set to accelerate in Q3 and Q4 (by 2.1% and 4.1% respectively) as the mismatch between sales and production widens. For the past five years, production has been 17.8% below its 2019 level, with production stocks now exceeding 80 days' worth. As a result, capacity utilisation rates at car factories remain low, not exceeding 55%.

European car manufacturers are considering sharing their factories' unused production capacity with Chinese partners in order to reduce costs. Chinese manufacturers could add 800k vehicles to the European market by 2030, while European manufacturers would reduce their production by 400k units. Co-production gives Europeans access to software platforms and batteries – areas of Chinese expertise that they now need to remain competitive.

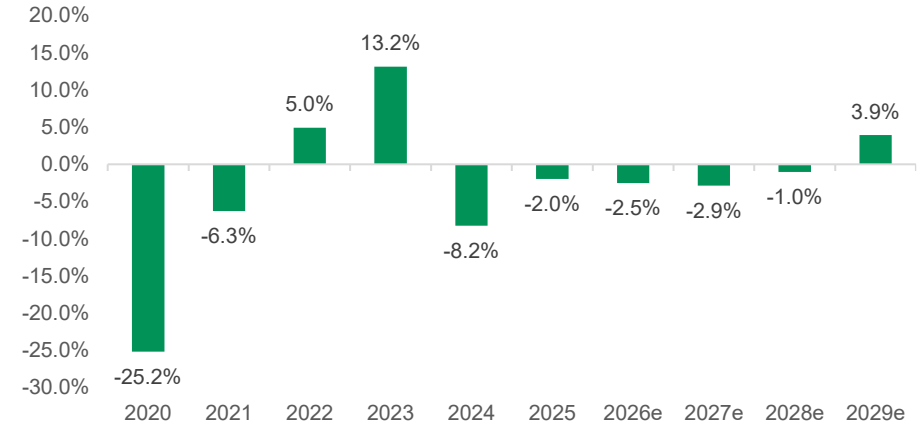
The Volkswagen Group has launched the most extensive restructuring in its history, citing a fight for survival in the face of Chinese competition, heavy tariffs and overcapacity. By deciding to make 50k employees redundant in addition to the plan put in place in December 2024 – bringing the total to 100k jobs – it is

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cutting 15% of its workforce. Meanwhile, BMW plans to cut up to 8k jobs in Germany by the end of 2027 through voluntary redundancies. Last year, Volvo had already announced the loss of 3k jobs – around 15% of its global administrative workforce – while Jaguar Land Rover plans to cut 4k jobs (9% of its workforce).

Restructuring appears to be the only option for European car manufacturers, and in particular for German manufacturers.

Western Europe: trends in automotive production



Source: Crédit Agricole SA

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Metals: in the January fog

- **While China's initial restrictions on rare earths, which came into force in April 2025, continue to reshape Western value chains, a second set of measures is set to exacerbate a situation that is, in some cases, already precarious. Postponed at the last minute in October 2025 and then in September 2026 following two meetings between Presidents Xi Jinping and Donald Trump, the new deadline of 10 January 2027 has become the next insurmountable hurdle. It could herald a bleak January.**

The issue of extraterritoriality

In early October 2025, the Chinese Ministry of Commerce (MOFCOM) issued four decrees significantly tightening the export control regime applicable to rare earths and the technologies involved in their production. These measures also extended the scope of the restrictions to five new rare earth elements, which had previously been exempt from the initial restrictions introduced in April 2025 – restrictions that had already sent shockwaves through the markets and global supply chains.

One of the most striking aspects of these regulations is the introduction of a principle of extraterritoriality. Decree 2025/61 thus requires foreign operators exporting rare-earth-related goods from a third country to another jurisdiction to apply for a Chinese dual-use goods export licence provided that certain criteria are met. In practical terms, when a product manufactured outside China incorporates materials of Chinese origin accounting for at least 0.1% of its value, its export is subject to prior authorisation. This requirement also applies to products developed using Chinese technologies. Through this mechanism, Beijing is adapting for its own benefit an approach previously largely associated with the US: indeed, it is hard not to see in it a reflection of the Foreign Direct Product Rule applied by Washington to the semiconductor sector.

In practice, this traceability requirement is likely to have repercussions across the entire value chain, from the magnet manufacturer right through to the end user. Such a system appears difficult to sustain, both in view of Western requirements regarding industrial confidentiality and the administrative burden it would place on the Chinese authorities. Its implementation would therefore raise the risk of a bottleneck on an unprecedented scale. Faced with the threat of an industrial crisis, the US agreed, in October 2025, to scale back part of its trade policy during the meeting between Trump and Xi in Busan. In return, Beijing had agreed to postpone the entry into force of the measure. Brought back to the forefront of the September 2026 negotiations in Washington, the issue, however, resulted in nothing more than a further two-month reprieve for the US administration.

Three-tiered resilience

When it comes to resilience, not everyone is on an equal footing. US mercantilist policy has been unfolding for over a year with extraordinary momentum, seeking vertical integration and capturing existing assets through colossal investments made in record time. Latecomers will have to make do with the crumbs – if any remain. Japan, a major consumer of magnets, continues to take a long-term view and is now reaping the rewards of more than 15 years of investment in its resilience. Its value chain, of which the Australian firm Lynas remains the cornerstone, is enabling it to weather what might otherwise have been a fatal blow to its industry. Europe, for its part, is just setting out on its journey. France, in fact, is leading the way, having adopted an action plan last May. The problem, however, remains one of momentum, and it is therefore on its ability to anticipate that the European industrial sector will have to rely in order to cope with what looks set to be a new shock.

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Semi-conductors: AI is driving the sector's current trajectory

- **The semiconductor sector has been experiencing an unprecedented period of strong growth since 2024. Investment in AI-dedicated infrastructure is driving this growth, reinforcing the vital role of semiconductors in the AI value chain.**

In 2025, the global semiconductor market reached USD809bn. Growth forecasts for 2026 have been revised upwards once again compared with the previous quarter's projections, reaching USD1,555bn– an increase of 92.2% compared with 2025.

AI and memory chips at the heart of the disruption

AI infrastructure consists of AI servers mounted and integrated into racks, which are in turn installed in dedicated spaces within AI data centres. AI servers are electronic boards on which three main types of components are mounted: graphics processing units (GPUs), AI accelerators and memory chips – DRAM/HBM and NAND. HBM (High Bandwidth Memory) is a type of high-bandwidth memory that belongs to the DRAM category. The average selling price of HBM has always been four to five times higher than that of conventional DRAM. The colossal demands of AI have even driven HBM prices to more than six times that of DRAM by mid-2025. Global DRAM manufacturers – the South Korean firms Samsung and SK Hynix, and the US-based Micron Technology – have therefore not hesitated to ramp up production of HBM, utilising existing capacity on conventional DRAM production lines. This reallocation of capacity has led to a shortage of conventional DRAM on the market since mid-2025. AI servers, AI accelerators and smartphones currently account for more than 66% of the total memory capacity produced in gigabytes, and forecasts predict this will exceed 70% by 2030.

Similarly, demand for NAND Flash memory has been growing steadily since 2024, driven by AI's increasing data storage requirements. As a result, two types of equipment account for more than 80% of the total memory capacity in gigabytes produced to date: SSDs (Solid State Drives) and smartphones. Forecasts predict that this figure is set to reach 84% by the end of 2027 and 82% by 2030.

Consequently, the colossal demands of AI, which have been rising steadily since 2024, are having a major impact on the sector's overall growth, while simultaneously tying up the manufacturing capacity of the sector's leading foundries. The world's leading memory chip manufacturers cannot increase their manufacturing capacity overnight. Expanding existing facilities and setting up new production lines can take 12 months at best. As for building a new facility from scratch, equipped with new operational production lines, this cannot be achieved in less than 24 months at the earliest.

Dependence on a handful of players

This situation explains the shortage of memory chips on the market, which began in mid-2025 and is set to continue into 2027. Faced with ever-increasing demand, prices are soaring: between 2024 and 2026, the average selling price of DRAM with a capacity equivalent to 8gb, as well as that of NAND flash memory equivalent to 1gb, has quadrupled. This presents a real opportunity for the leading Chinese manufacturers, CXMT and YMTC: the opportunity to bridge the supply gap, in both conventional DRAM and NAND flash, for segments other than AI data centres, such as consumer electronics, the automotive sector, smartphones, laptops and tablets.

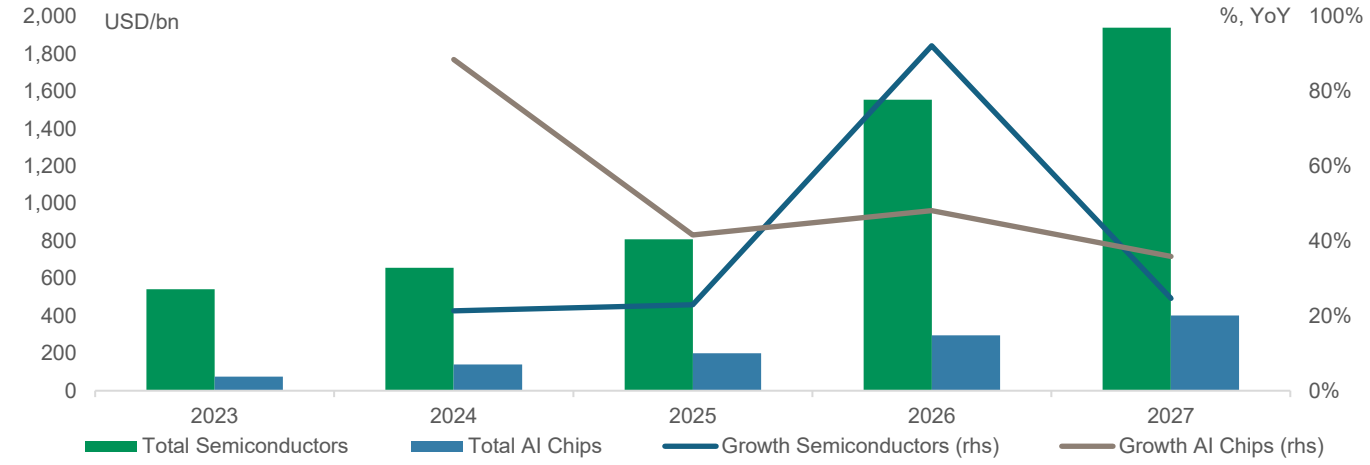
The other category of components sought after by players in the AI sector, specifically AI infrastructure providers, are GPUs and AI accelerators. These components are designed using the most advanced technologies, with a process node of 3nm or smaller. To date, TSMC in Taiwan – and soon also in the US through its foundries – holds a virtual monopoly on the manufacture of GPUs and other specialised processors or ASICs (Application-Specific Integrated Circuits), upon which AI infrastructure relies.

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It is clear that the manufacture of GPUs and memory components is dominated by a handful of players, mainly based in Asia. This cyclical industry is, of course, dependent on supply and demand. Furthermore, the surge in the prices of DRAM and NAND Flash memory – which have soared by around 200% and 305% respectively compared with 2025 – as well as GPUs (+58% compared with 2025), has led to an immediate rise in the prices of end-user devices, such as smartphones and laptops equipped with AI capabilities, storage devices (SSDs) and other networking equipment. The risk, with prices continuing to rise, is a slowdown in consumption, as users prefer to delay their spending and extend the lifespan of their equipment.

Revenue from AI chips reached USD200bn in 2025, accounting for 25% of the total semiconductor market, and is expected to account for nearly 20% in 2026. The sector's strong annual growth in 2026, forecast at over 92%, stems mainly from the explosive growth in memory chips.

Revenues: semiconductors & AI chips



Source: Gartner (August 2026), Crédit Agricole SA

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Shipping: unprecedented pressure on supply

- **A critical threshold has been crossed with the expansion of war zones and the intensification of attacks on ships. At the heart of the two major ongoing conflicts, shipping routes are becoming longer and more complex. Whilst oil and gas shipments are on the front line, the entire supply chain is now exposed to an unprecedented combination of geopolitical, operational and climatic risks. Freight rates for crude oil tankers are currently breaking records. Following a lull linked to the US-Iran agreement, they have risen again with the resumption of attacks and the Houthis' intervention targeting Saudi Arabia. Ships loading oil in the Red Sea are now being rerouted via Suez, adding a month to journeys to Asia.**

In the Strait of Hormuz, a fleet of 'shuttle' tankers is making an increasing number of high-risk crossings, with their transponders switched off and with US support, in order to transfer their cargoes outside the Gulf to other tankers that transport them to Asia. Combined with pipeline routes bypassing Hormuz, this clandestine 'lifeline' has so far helped to stem the decline in global crude oil traffic. The Houthis' control over the Bab el-Mandeb Strait and the attack on the Saudi east-west pipeline could jeopardise this fragile balance.

El Niño could lead to restrictions on access to the Panama Canal

Freight rates for tankers carrying refined products are rebounding more modestly, with volumes being more heavily affected by the conflicts. The attack on Saudi infrastructure in the Red Sea, along with the intensification of Ukrainian strikes targeting Russian refineries, is reducing exports. Conversely, LNG carrier freight rates are falling, reflecting the persistent shortfall in Qatari volumes and pressure from new supply.

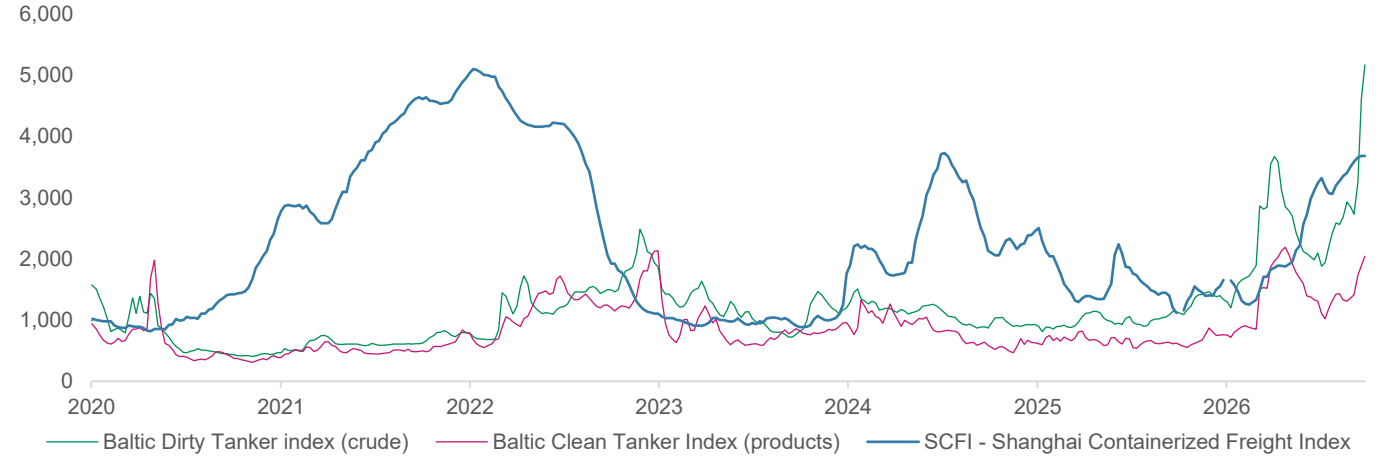
For separate reasons, the container shipping sector is also under significant strain. This is evidenced by the surge in freight rates this summer, which is easing on the Asia-Europe route but persists on the trans-Pacific route. Freight volumes have continued their upward trend (+5% over seven months), driven by anticipatory demand in an uncertain environment and demand for equipment from Asia linked to the boom in AI and green energy. The demand for vessels is exacerbated by trade imbalances and a resurgence of port congestion to levels not seen since the pandemic, following an exceptional series of typhoons disrupting operations in China. Despite the Houthi threat, these tensions are encouraging a gradual return to the shorter Red Sea route, although this could yet be called into question.

More pronounced climate change is thus adding to the uncertainty. El Niño, in particular, could cause restrictions on access to the Panama Canal, a transit point made all the more strategic by the surge in US hydrocarbons imported by Asia.

In a scenario of a persistent standoff at Hormuz, freight rates are nevertheless expected to ease next year, due to a more abundant supply of new vessels and a 'normalisation' within the crisis environment. Rates are likely to remain high for crude oil tankers. A more pronounced fall is expected for container shipping in view of forthcoming deliveries.

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Tanker and container freight indices



Source: Bloomberg, Baltic Exchange, Shanghai Shipping Exchange, Crédit Agricole SA

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Monetary policy: the major tightening

- **Rising energy prices, a resurgence in inflation and fears that it may accelerate & become more entrenched: all these factors justify, on the one hand, monetary tightening and, on the other, the maintenance of a sustained cautious stance by the major central banks.**

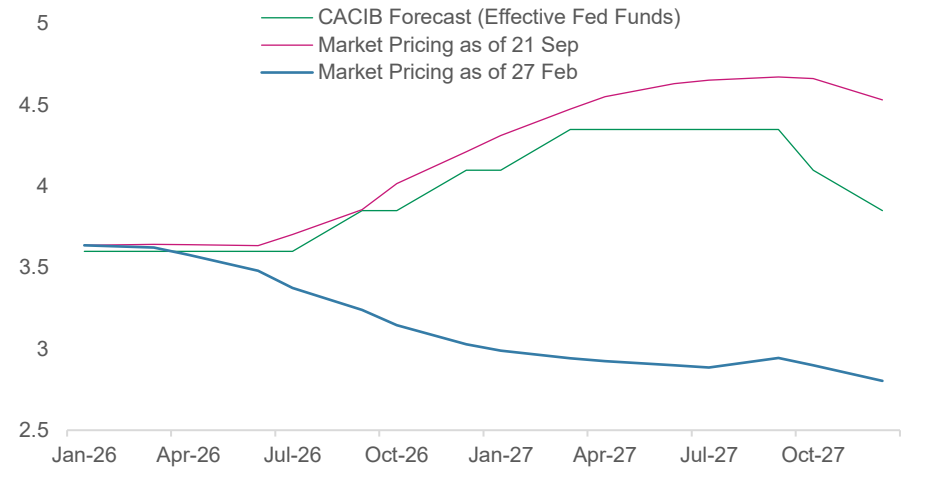
Fed: further hikes on deck

Going into the year with a more hawkish forecast that saw the Fed on hold for all of 2026 had worked out well to begin the year, though it was clearly time to update the forecast given the September hike, and we now look for the Fed to deliver some additional tightening in the coming months. Specifically, we now expect additional hikes in December and March for a total of 75bp, taking the upper bound to 4.50%. The Fed would then stay on hold for a bit, before cutting rates by 50bp in Q427 given the improvement in our inflation forecast in H227, leaving the upper bound at 4.00%.

When considering the number of additional hikes that might be on the cards, a one-and-done move seems unlikely as 25bp is too small to have any significant impact on the economy, with the September dot plot backing this view. At the same time, part of the rationale for acting now would be to avoid falling (further?) behind the curve and being forced into a more aggressive cycle later on. When balancing these, we think the Fed may land on a modest cycle of 75bp, essentially removing late 2025's insurance cuts.

With a 75bp cycle in mind, we also have to consider the pace. While we think that hiking 25bp for three consecutive meetings would be the better approach given the long and variable lags with which monetary policy impacts the economy, it may be easier to gain broader buy-in on a divided committee if the FOMC takes a more cautious approach by hiking at every other meeting, so we lean toward the latter. However, this could go either way, and the unanimous nature of the decision in September points to consecutive hikes as a real possibility.

September hike not a one and done, though market pricing may have gone too far (%)



Source: Bloomberg, Federal Reserve, Crédit Agricole CIB

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ECB: an uncertain outlook

The deterioration in the geopolitical environment has led, since early August, to a rise in gas prices and, to a lesser extent, oil prices. Against this backdrop, we have revised our forecasts for both headline and core inflation upwards. We now expect average headline inflation of 3.05% in 2026 and 3% in 2027. Over the same periods, average core inflation is forecast to reach 2.40% and then 2.80%.

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Inflation is expected to slow rapidly from the summer of 2027, converging towards the 2% target. We see inflation falling below 2% in Q128.

Following these developments, the market has significantly repriced its expectations regarding the ECB: swap curves indicate that the ECB's deposit rate could reach 3.5% by September 2027.

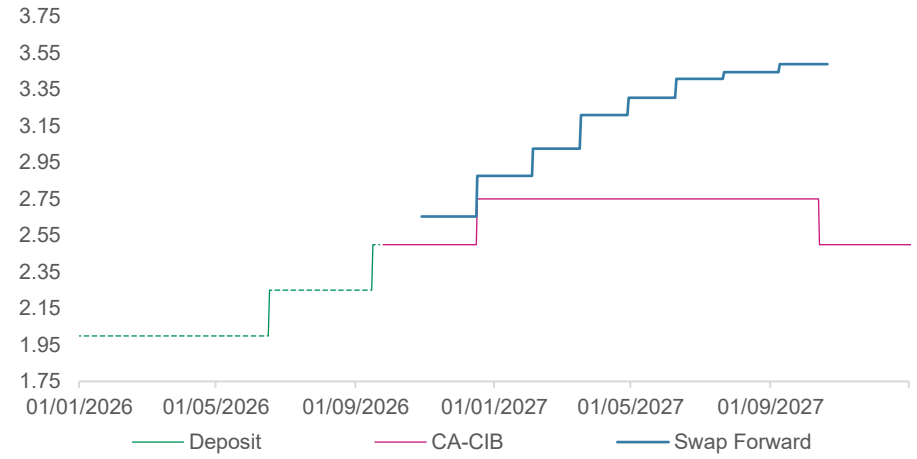
Our scenario remains unchanged at this stage: we anticipate that the ECB will raise its deposit rate from 2.50% to 2.75% in December, before keeping it at that level until Q427. This scenario appeared very hawkish compared with market pricing and the consensus until early August; it now appears extremely dovish.

We face significant uncertainties: these relate to both economic developments and the ECB's monetary outlook.

Our inflation scenario remains consistent with the ECB raising rates 'moderately' – by around 25bp (to 2.75%) or 50bp (to 3%). A deterioration in energy commodity markets could, however, prompt the ECB to raise rates further; conversely, an improvement in the situation would encourage it to adopt a less restrictive path.

At this stage, we prefer to stick to our scenario, with a terminal rate of 2.75%, to be reached in December 2026. However, this scenario is likely to change very soon: the probability that the ECB will raise rates above 2.75% has increased significantly in recent weeks and, consequently, the risk that this rise will begin as early as October is higher.

Our scenario vs market pricing (%)



Source: Bloomberg, ECB, Crédit Agricole CIB

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BoE: hawkish on rates, dovish on QT

A scenario of preemptive rate hikes is back on the table

The increase in UK inflation since the beginning of the war in Iran has been relatively contained, with domestically-generated inflation having continued to moderate. Alongside significantly tighter financial conditions, this allowed the BoE to keep its Bank rate unchanged at 3.75% in line with our and consensus expectations.

However, further increases in wholesale and refined oil and gas prices, mostly in relation with the persistent conflict in the Middle East have prompted significant upward revisions to inflation forecasts. In September, the BoE signalled that CPI inflation would exceed 4% YoY in early 2027 against 3.2% YoY expected for Q127 in its July monetary policy report (published on 30 July). The MPC is worried that "the persistence of above-target CPI inflation in the run-up to a wage-setting round could increase inflationary pressures" and considers that "given the lags with which second-round effects appeared, it was not appropriate to wait too long for evidence of such effects before responding with policy." Furthermore, there were signs of economic resilience and stabilisation in the

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labour market, which may imply “a less stark trade-off” between growth and inflation in coming quarters.

This shift in tone leads us to put back on the table a scenario of preemptive rate hikes. We now expect two rate hikes of 25bp each at the next meetings accompanied by Monetary policy reports: in November 2026 and in February 2027. This tightening would bring the Bank rate to a peak of 4.25% in Q127, 1ppt above the estimate of the neutral rate. The MPC would likely not be very comfortable with this level of restrictiveness for very long. Given our scenario of a sharp fall of inflation towards the 2% target in Q427, mostly thanks to base effects, we maintain our scenario of two rate cuts in H227. Most of the MPC members would likely choose not to tighten at all if the risk of second-round effects abates soon. However, this is not our central scenario and energy prices are expected to remain elevated throughout our forecast.

UK: inflation and contributions



Source: ONS, Crédit Agricole SA

A break on QT

In September, the BoE provided clarity over the future of its quantitative tightening (QT) programme by setting a multi-year unwinding plan (instead of an annual plan since the inception of QT in 2022). By doing this, the BoE expected that the removal of uncertainty over future QT would be embedded into financial conditions shortly after the announcement in turn enabling “the MPC to take QT into account better when setting Bank rate as the active instrument of monetary policy”. Long-term yields have fallen after the announcement but remain at multi-year high levels at the time of writing (from 5.85% to 5.7% for the 30-year gilt, highest since 1998). Specifically, the BoE announced that it would retain GBP120bn of its longest-dated gilts (maturities between 2049 and 2071) permanently on its books for the purposes of backing banknote issuance. The process of unwinding the remaining stock of bonds held for monetary policy purposes (GBP368bn) would be slowed down to an annual average pace of GBP46bn until September 2034, through annual sales of GBP20bn alongside maturing gilts. This compares with an annual average pace of gilt stock reduction of GBP87.5bn over the past four years of QT, including annual average gilt sales of GBP32bn alongside maturities. Furthermore, the BoE decided to postpone its APF auctions until April 2027 when it will publish the operational details of its multi-year plan and that will involve direct sales to the government instead of the secondary market, financed through the government’s aggregate debt issuance.

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UK: gilt yields



Source: BoE, Crédit Agricole SA

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BoJ: the axis of economic policy would shift from reflation to strategic public-private investment under the Takaichi administration

The BoJ is given a dual mandate aimed at achieving both strong economic growth and price stability

The Takaichi administration shifted toward expansionary fiscal policy with its Honebuto. Rather than relying on reflationary policy, the commitment is to the sustained expansion of supply capacity and economic scale through the scaling up of strategic public-private investment. By increasing corporate domestic spending and pursuing expansionary fiscal policy, the aim is to restore net domestic fund demand and achieve a full break from structural economic stagnation. Until real wages rise strongly, the burden on households would be alleviated through fiscal measures such as VAT cuts.

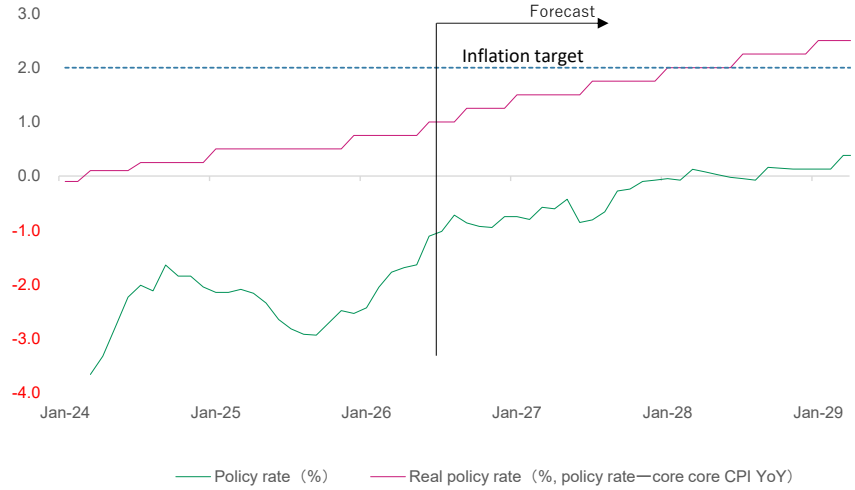
The Takaichi administration's policy is one of "high-pressure economics" aimed at sufficiently expanding the output gap through growth in investment demand. For corporate savings rates to return to a normal negative position and for the economy to break free from the cost-cutting paradigm, a "high-pressure economy" in which the output gap exceeds +2% is necessary — and in our view it is a mistake to tighten policy using 0% as the benchmark. As investment demand converts into supply capacity, inflation will stabilise.

The YoY rate of CPI (ex fresh food and energy) would temporarily decline to the 1% range in H226, reflecting still-weak domestic demand, the VAT cut and a loss of purchasing power due to a sharp increase in energy costs. Corporates are beginning to become wary of the rising price elasticity of demand. Under a global cyclical economic recovery and a recovery in domestic demand, corporate spending, including capital investment and wages, will strengthen, and the positive corporate savings rate, which caused structural economic stagnation as excess savings, would shrink. With the recovery of consumption due to rising real wages and the realisation of a high-pressure economy due to an upward revision of the growth rate, the inflation rate is expected to once again expand towards 2%. By 2028, the corporate savings rate will turn negative, eliminating the pressure of structural economic stagnation, and the stable & sustainable achievement of the price target is expected to be achieved as wage increases accelerate and inflation expectations are anchored at 2%. The prerequisites are that the BoJ's premature rate hikes do not cause domestic demand to falter due to downward pressure on the credit cycle and that there is no rapid appreciation of the JPY.

The premature rate hikes that began in 2024 delayed the recovery of domestic demand and squandered the room for rate increases needed to confront a global rising interest rate environment. Greater emphasis is placed on coordination with the Takaichi administration's policy direction of escaping structural stagnation

through strategic public-private investment. The government has effectively imposed a dual mandate on the BoJ, requiring it to pursue both strong economic growth and stable price increases simultaneously. The pace of rate hikes, after a temporary acceleration to roughly once per quarter driven by the impact of rising oil prices, would revert to approximately once every six months, remaining gradual. Maintaining low real interest rates promotes economic activity. By 2028, the corporate savings rate would return to negative, corporate demand for funds would recover, and with the escape from structural stagnation, the real policy rate would move out of negative territory relative to the inflation target. A terminal rate of 2.5% would be reached in 2029, which in real terms would be roughly in line with the current level of potential growth. Under geopolitical risks and a global economic slowdown, if the pace of rate hikes becomes excessively rapid and the credit cycle and capital expenditure cycle break down, a slowdown in domestic demand would push the corporate savings rate higher, posing the risk of a return to structural stagnation.

Uncollateralised overnight call rate (ie, policy rate) (%)



Source: BoJ, MIAC, Crédit Agricole CIB

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Interest rates: tough times ahead

- **Rising energy prices, a resurgence in inflation, monetary tightening, widening budget deficits and mounting public debt: all these factors justify a rise in interest rates. The sharp rise already seen also signals that the uncertainty surrounding all these upward pressures – from the lack of visibility in the Middle East to concerns over fiscal trajectories – are taking a toll. Beyond the 'objective' reasons for the rise in interest rates, this lack of visibility is also proving costly.**

US: high rates and a flattening curve amid fed tightening

The bond market sell-off accelerated in recent weeks as investors continue to reassess the outlook for inflation and monetary policy. Persistent price pressures, rising energy costs, a large fiscal deficit and heavy debt issuance collectively pushed Treasury yields higher across the curve. Although the Fed hiked by 25bp as expected on 16 September, the Treasury curve has flattened since then, as the FOMC communication confirmed expectations of additional tightening, with the median dot implying at least one more 25bp rate increase by year-end. The curve has flattened as Fed Chair Kevin Warsh reiterated his commitment to price stability during the FOMC press conference.

We expect Treasury yields to continue rising into early 2027. The rates market has priced in a more restrictive policy path, reflecting persistent inflation pressures and growing expectations that policymakers may need to tighten in the months ahead. Inflation has proven more resilient than expected, while recent increases in energy prices risk creating additional upside pressure on headline inflation in the coming months.

We expect the 2Y Treasury yield to move towards 4.9% through Q127 as investors incorporate additional tightening into pricing. Front-end yields are likely to remain particularly sensitive to incoming inflation data and Fed communication over the coming quarters. While the Fed may ultimately deliver multiple hikes during this cycle, we believe the policy debate will increasingly shift from whether hikes are necessary to how restrictive policy must become to ensure inflation returns towards target.

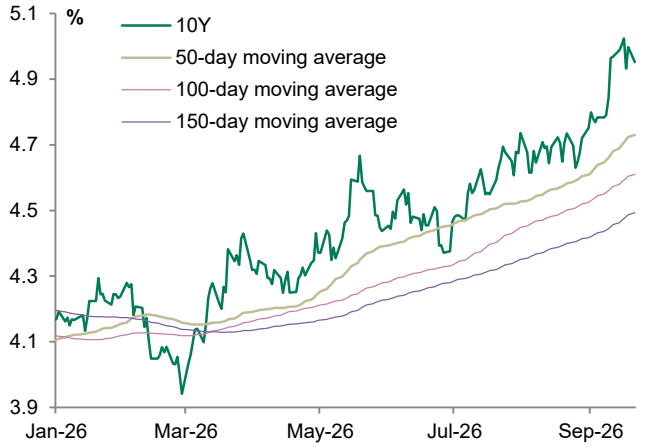
We target the 10Y Treasury yield around 5.00% by year-end and expect yields to continue rising into early 2027. Several factors support structurally higher long-end rates. Inflation remains above the Fed's objective; the fiscal deficit remains elevated and Treasury financing needs continue to grow. In addition, corporate borrowers have remained active to fund AI build-up despite rising yields, contributing further to supply pressures across fixed income markets.

Further increases in Treasury yields cannot be ruled out, particularly if inflation continues surprising to the upside or if energy prices remain elevated (left-hand chart). Our forecast assumes the 10Y yield rises modestly above 5.00% during early 2027 before stabilising, as markets gain confidence that the Fed is approaching the end of its tightening cycle. As bonds look cheap to stocks, asset allocation trades can limit bond sell-off, in our view.

We expect the Treasury curve to flatten through Q127 as front-end yields rise faster than long-end yields during the tightening cycle. A key driver of this flattening is the continued rise in the 2Y Treasury yield towards 4.9%, as the front-end rates remain under greater upward pressure than longer maturities. The expected flattening is consistent with the behaviour of the curve during historical tightening cycles, when the 2-10Y curve has tended to flatten by roughly 40bp on average during the six months following the first rate hike (right-hand chart). Curve flattening is likely to persist until investors become confident that the Fed is nearing the end of its hiking cycle. By mid-2027, curve slopes should stabilise as policy expectations become more anchored.

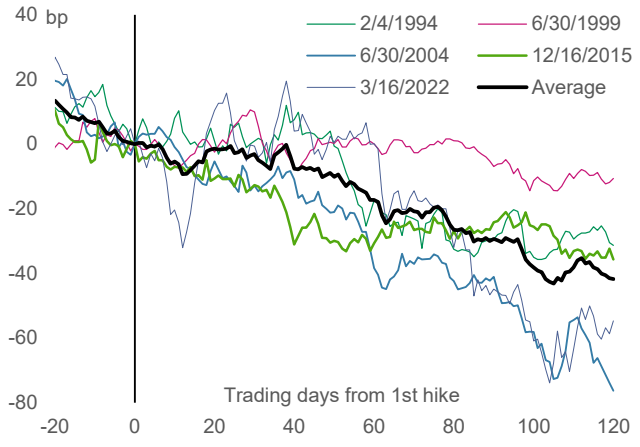
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Despite rising rates, another leg higher in yields cannot be ruled out



Source: Bloomberg, Crédit Agricole CIB

2-10Y Treasury curve tends to flatten during Fed tightening cycles



Source: Bloomberg, Crédit Agricole CIB

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Eurozone: no pivot until end of year at least

Following the ECB's second consecutive rate hike and updated inflation forecasts, we find it increasingly difficult to construct a compelling case for EUR rates, either from a duration perspective or for EGB spreads. Our revised forecasts are built around one central assumption: markets must adapt to a structurally higher EUR neutral rate. This raises the floor for front-end rates, compresses the scope for future easing cycles, and limits the duration appeal of long-end paper absent a genuine recessionary shock.

Core inflation is only seen peaking in late Q127, and accelerating wage growth means the ECB will not be able to negotiate a clean pivot before end-2027. Markets will only begin pricing meaningful easing once inflation is sustainably back at target and activity data softens, neither of which we expect to materialise convincingly before mid-2027.

Our dominant curve theme is bear steepening, though the dynamics differ by segment. The front end should modestly outperform forwards, anchored by the "higher for longer" narrative, with our 2Y swap rate forecast sitting in a tight 3.55-3.60% range peaking around Q227. The belly is where we see the most pain: it bears the greatest burden of inflation uncertainty and is the key driver of 2-5Y bear steepening. A meaningful rally there would require the growth outlook to deteriorate sharply enough to question the sustainability of the new central bank regime, and our baseline, which assumes growth slightly above trend, does not support this. Further out, we expect real yields to keep rising, with a 160-180bp range forecast for the 5YF5Y EUR real yield, keeping the long end under pressure, with the 10Y swap rate expected to reach 3.85% by end-2027 despite front-end stabilisation.

On EGB spreads, our stance is broadly bearish. Spreads look tight relative to both the prevailing rate environment and current inflation expectations, and we see further room for credit curves to steepen. Spreads have been slow to react to the inflation repricing, and rising refinancing costs will progressively erode debt sustainability for the more heavily indebted issuers.

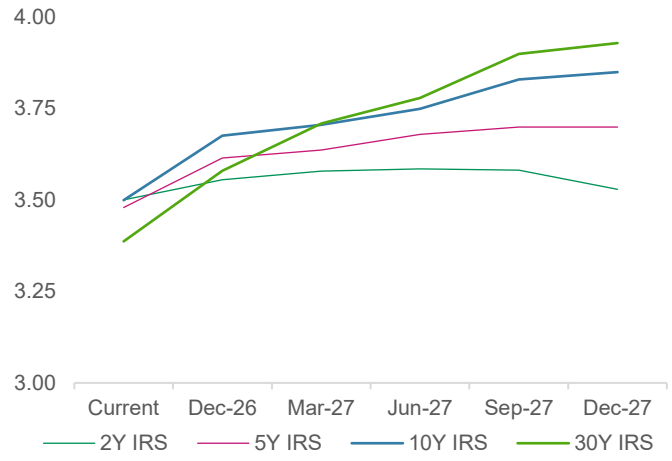
Political risk is an additional headwind we now explicitly embed in our forecasts, with the 2027 election cycle looming large. We revise our peak 10Y OAT-Bund spread to 120bp by Q227, ahead of French presidential elections. We see BTPs as relatively more resilient, with the 10Y OAT-BTP spread reaching a tighter peak of 20bp by Q127, though election timing uncertainty adds late-2027 volatility risk. Among smaller issuers, Finland's April 2027 election could affect its consolidation path, while Belgium's rising deficit and the Netherlands' minority cabinet dynamics add idiosyncratic risk to the broader EGB picture.

In short, we see no near-term catalysts for a sustained rally, barring any surprising positive development on the Iran war or a drag on growth. By

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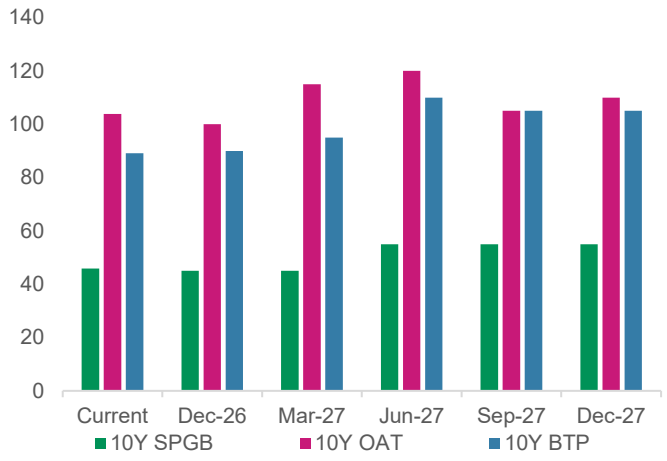
December 2027, we target the 10Y Bund at 3.95%, the 10Y OAT at 5.05%, and the 10Y BTP at 5.00%.

EUR swap curve forecasts (%)



Source: Bloomberg, Crédit Agricole CIB

EGB spreads to widen as sentiment should remain downbeat



Source: Bloomberg, Crédit Agricole CIB

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FX: USD resilience but without adverse consequences

- **In a turbulent international environment, it is common for the USD to appreciate. However, its appreciation has not been so sharp as to make the EUR extremely cheap or to undermine the major emerging market currencies.**

G10 FX: still bearish on EUR/USD

We maintain our bearish 6-9M EUR/USD outlook and do not expect the pair to recover on a sustained basis before H227. Our view is based on several drivers that should play out sequentially in the coming quarters. EUR/USD negatives should dominate in Q426 and H127 with the pair still trading as collateral damage of geopolitical risks. European political and fiscal risks could grow too ahead of the French presidential elections in Q227. The US is the global growth leader but no longer acts as magnet for Eurozone exports due to trade tariffs and high global energy prices. Eurozone investors further remain invested in the US stock and bond markets. Our US economists have recently revised higher their outlook for US rates and, as a result, cemented the position of the Fed as considerably more hawkish than the ECB. The USD could remain a pro-cyclical, investment currency and the EUR a funding currency. In our forecasts, we continue to target a return for EUR/USD towards 1.13 by Q426 before a more sustainable recovery ensues towards 1.17 in Q427. The risks to our view seem to be balanced overall.

We maintain our bearish 6-9M EUR/USD outlook and do not expect the pair to recover on a sustained basis before H227. Our view is based on several drivers that should play out sequentially in the coming months. EUR/USD negatives should dominate in Q426 and H127 given that the pair continues to trade as collateral damage of geopolitical risks – ranging from US-China tensions to the Ukraine war and the conflict in the Middle East. European political and fiscal risks could grow too, in the wake of the German regional elections this month and ahead of the French presidential elections in Q227.

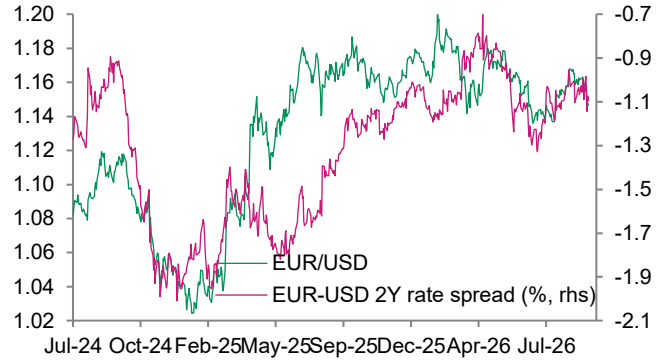
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EUR/USD positives could gradually start to prevail in the course of H227. The US fiscal outlook could worsen further, and servicing US debt could start dominating the fiscal (and monetary) policies once US inflation subsides in 2027. We expect the Fed to cut rates in Q427, in a blow to the USD rate appeal. A flatter UST yield curve could make short USD hedges more attractive for Eurozone buyers of US assets as well. International investors could increasingly see Eurozone stocks as a liquid diversification hedge, if the AI-investment boom starts to show signs of slowing down. The EUR is the second largest reserve currency and should benefit if US fiscal dominance and debasement fears grow while the weaponisation of the USD by the Trump administration hastens de-dollarisation flows in 2027.

In our forecasts, we continue to target a return for EUR/USD towards 1.13 by Q426 before a more sustainable recovery ensues towards 1.17 in Q427. The risks to our view seem to be balanced overall. On the EUR/USD-negative side, we have a significant re-escalation of global geopolitical tensions that could add to stagflation risks in the Eurozone. Political risks in Europe could linger beyond the French presidential elections in Q227, in another blow to the EUR. On the EUR/USD-positive side, we have a premature end to the AI-boom in the US and/or geopolitical tensions that could boost the relative appeal of EUR assets. A sharp escalation of USD debasement fears and/or de-dollarisation could give EUR/USD a boost as well.

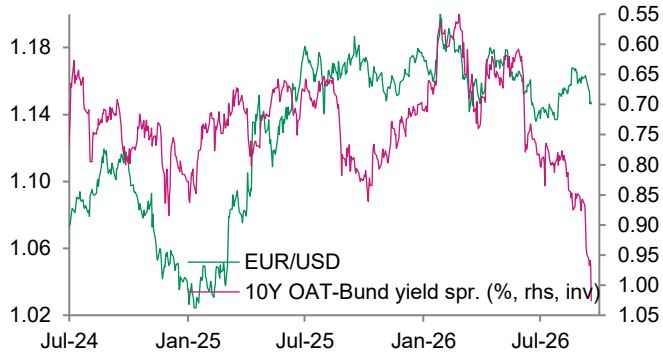
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EUR/USD vs nominal 2Y EUR-USD rate spread



Source: Crédit Agricole CIB, Bloomberg

EUR/USD vs 10Y OAT-Bund yield spread



Source: Crédit Agricole CIB, Bloomberg

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Emerging markets: four reasons for EM currencies to remain resilient

Traditionally, EM FX tends to be under pressure when US yields increase. But EM currencies have been resilient despite the increase in US yields in recent weeks. Since the beginning of July, the US 10Y yield has increased by about 60bp. Yet, during the same period, our EM FX index appreciated vs the USD.

This is due to a handful of factors, which are the same factors behind our relatively constructive call for EM FX looking forward.

The EM consumer remains robust

First, EM private domestic demand, and consumer demand in particular, has been resilient. This is not exactly the case in China, but it is the case in the rest of EMs on average. Real retail sales growth for a sample of 17 large EMs that exclude China and India has hovered around a reasonably strong level since 2024. This is partly thanks to the strength of EM labour markets (once again, on average), with national unemployment rates that remain close to historically low levels in many countries.

Asia benefiting from the tech boom

Second, EM Asia has fully benefited from the global AI/tech boom. Asian export growth has accelerated strongly YTD (China included). This has stimulated industrial activity in these countries. Moreover, beyond Asia, other countries have benefited even if they are less tech-oriented. This is the case for instance for some metal-oriented countries, such as Chile, Peru and South Africa, whose exports have also accelerated meaningfully. This has supported not only GDP growth, but also the balance of payments.

The EM-US carry gap is decent

Third, the average EM-US carry gap has remained decent, in spite of the recent increase in US short-term rates. This is because higher oil prices have also put a floor under EM short-term rates.

Overall, we expect these three supports to remain in place in the coming months. In particular, despite the uncertainty about AI security and possible intensifying regulation, tech orders in Asia are quite full, suggesting that tech exports should remain strong into 2027, supporting EM exports.

A stabilisation of the oil price?

Also, we assume that the oil price will stabilise around USD95/bl in Q4, which should help avoid a sell-off of EM importers. This, plus the recent tightening action by global central banks (which should contribute to contain inflation expectations) may also cap long-term yields. Our US rate strategists only expect a limited increase in US yields (UST 10Y rate forecasts at 5.05% in December 2026, vs 4.96% at the time of writing).

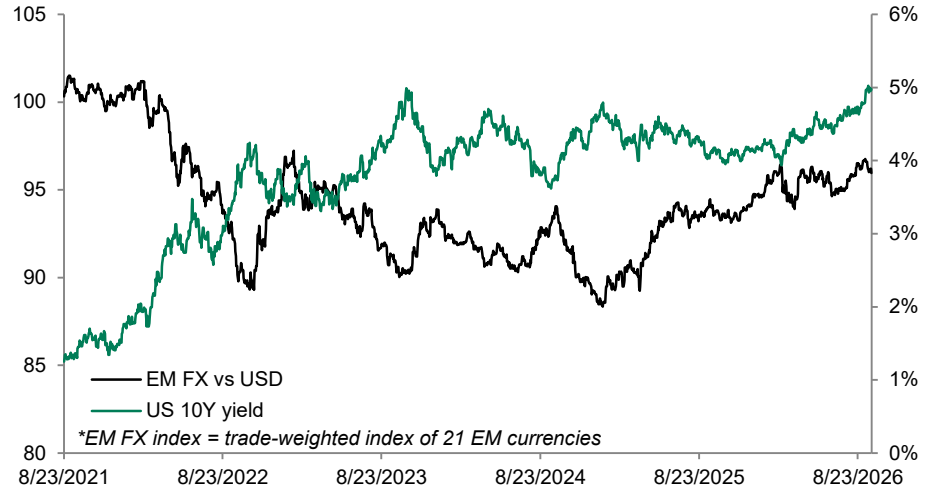
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Main risks to a constructive scenario: oil prices or US yields

This should fuel the resilience of EM currencies, on average, despite a further likely increase in the Fed Funds rate. We do not expect a full-fledged appreciation of EM FX vs the USD. But we foresee some stability of our EM FX index (a trade-weighted index reflecting the behaviour of 22 EM currencies) vs the USD, in the coming quarters. From an FX regional angle, we expect a slight appreciation of Asia vs the USD, and of CE4 vs the EUR, but expect more weakness in Latam (the COP and MXN in particular).

The main risks to this scenario are a possible increase in oil prices due to an escalation in the Middle East, or a strong increase in US yields, fuelled by inflation expectations and/or growing fiscal worries.

EM FX vs USD vs UST 10Y yield



Source: Crédit Agricole CIB

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Exchange rate forecasts

		1-Oct	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
USD Exchange rate							
Industrialised countries							
Euro	EUR/USD	1.12	1.13	1.13	1.14	1.16	1.17
Japan	USD/JPY	158.1	156.0	155.0	154.0	152.0	150.0
United Kingdom	GBP/USD	1.32	1.31	1.32	1.34	1.37	1.39
Switzerland	USD/CHF	0.83	0.84	0.84	0.83	0.81	0.80
Canada	USD/CAD	1.42	1.38	1.36	1.34	1.33	1.32
Australia	AUD/USD	0.69	0.69	0.70	0.70	0.72	0.73
New Zealand	NZD/USD	0.56	0.58	0.60	0.61	0.62	0.63
Euro Cross rates							
Industrialised countries							
Australia	EUR/AUD	1.62	1.64	1.61	1.63	1.61	1.60
Canada	EUR/CAD	1.6	1.559	1.537	1.528	1.543	1.544
Japan	EUR/JPY	177.66	176.28	175.15	175.56	176.32	175.50
New Zealand	EUR/NZD	2.0	1.948	1.883	1.869	1.871	1.857
Norway	EUR/NOK	10.82	10.70	10.50	10.40	10.30	10.20
Singapore	EUR/SGD	1.4	1.435	1.435	1.436	1.462	1.463
Sweden	EUR/SEK	11.29	10.60	10.50	10.60	10.50	10.40
Switzerland	EUR/CHF	0.93	0.95	0.95	0.95	0.94	0.94
United Kingdom	EUR/GBP	0.85	0.86	0.86	0.85	0.84	0.84
Asia							
China	USD/CNY	6.70	6.62	6.60	6.60	6.55	6.50
Hong Kong	USD/HKD	7.85	7.81	7.82	7.82	7.82	7.80
India	USD/INR	96.31	96.00	94.00	94.00	92.00	92.00
Indonesia	USD/IDR	17940	17600	17500	17500	17250	17250
Malaysia	USD/MYR	4.08	4.02	4.00	3.98	3.96	3.95
Philippines	USD/PHP	62.7	61.2	61.0	60.8	60.5	60.0
Singapore	USD/SGD	1.28	1.27	1.27	1.26	1.26	1.25
South Korea	USD/KRW	1359	1385	1400	1390	1380	1360
Taiwan	USD/TWD	31.9	31.6	31.5	31.5	31.4	31.2
Thailand	USD/THB	33.6	33.0	33.0	32.8	32.5	32.0
Vietnam	USD/VND	25979	26250	26200	26200	26100	26000
Latin America							
Brazil	USD/BRL	5.22	5.25	5.30	5.35	5.40	5.45
Chile	USD/CLP	985.41	960.00	940.00	920.00	900.00	890.00
Colombia	USD/COP	3307.55	3550.00	3600.00	3650.00	3700.00	3750.00
Mexico	USD/MXN	18.27	18.00	18.25	18.50	18.75	19.00
Peru	USD/PEN	3.45	3.45	3.50	3.55	3.60	3.65
Africa							
South Africa	USD/ZAR	16.68	15.50	15.50	15.50	15.50	15.50
Emerging Europe							
Poland	USD/PLN	3.89	3.82	3.82	3.79	3.72	3.68
Russia	USD/RUB	83.50	77.00	80.00	81.00	82.00	83.00
Turkey	USD/TRY	48.90	51.50	52.50	53.50	54.10	55.00
Central Europe							
Czech Rep.	EUR/CZK	24.45	24.10	23.90	23.60	23.30	23.10
Hungary	EUR/HUF	369	364	362	360	358	357
Poland	EUR/PLN	4.38	4.32	4.32	4.32	4.31	4.30
Romania	EUR/RON	5.34	5.28	5.28	5.30	5.30	5.30

Source: Crédit Agricole CIB

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Economic forecasts

	Real GDP (YoY. %)			CPI (YoY. %)			Current Account (% GDP)		
	25	26	27	25	26	27	25	26	27
USA	**2.1**	**2.1**	**2.0**	**2.7**	**3.4**	**2.4**	**-3.8**	**-3.5**	**-3.4**
JAPAN	**1.2**	**0.8**	**0.6**	**3.0**	**2.1**	**1.1**	**4.8**	**4.0**	**3.0**
EUROZONE	**1.3**	**1.0**	**1.1**	**2.1**	**3.1**	**3.0**	**1.7**	**1.3**	**1.2**
Belgium	1.0	0.6	0.7	3.0	3.6	2.8	-1.9	-0.1	-0.1
France	0.9	0.4	0.7	0.9	2.4	2.4	-0.4	-1.2	-0.6
Germany	0.3	1.0	1.1	2.3	2.8	3.7	4.5	4.2	3.7
Italy	0.7	0.9	0.5	1.6	3.1	2.4	1.1	1.0	1.2
Netherlands	1.6	1.3	1.1	3.0	2.9	3.4	7.6	7.7	7.9
Spain	2.8	2.4	1.7	2.7	3.9	3.4	2.9	1.7	1.5
Other developed countries									
Australia	2.1	2.2	2.3	3.3	3.0	2.6	-2.1	-2.3	-2.6
Canada	1.1	1.5	1.8	2.0	2.1	2.0	-0.8	-1.0	-1.7
New Zealand	1.9	2.4	2.6	2.2	2.1	2.1	-3.6	-3.4	-3.4
Norway	1.1	1.1	0.8	3.1	3.2	2.5	14.2	20.2	18.9
Sweden	1.4	2.8	2.6	2.6	1.4	2.1	6.1	4.7	4.3
Switzerland	1.0	1.3	1.1	0.1	0.6	0.7	7.0	7.0	7.1
United Kingdom	1.3	1.4	1.1	3.4	3.2	2.9	-3.1	-3.7	-3.5
Asia	**5.2**	**5.0**	**4.8**	**1.0**	**2.4**	**2.3**	**3.2**	**3.4**	**3.6**
China	5.0	4.5	4.5	0.0	1.0	1.2	3.7	4.0	3.9
Hong Kong	3.2	3.1	3.0	1.5	1.8	2.0	13.5	11.2	9.5
India	7.0	6.5	6.7	2.6	5.2	4.5	-1.0	-2.9	-2.1
Indonesia	5.0	5.2	5.0	2.0	3.2	2.8	-0.1	-1.9	-1.7
Korea	1.0	3.5	2.7	2.1	2.7	2.4	6.6	22.0	23.4
Malaysia	4.2	4.5	4.3	2.0	2.2	2.0	1.9	1.8	1.8
Philippines	4.7	2.8	4.1	1.7	5.8	5.3	-2.3	-5.3	-4.8
Singapore	5.0	4.3	2.7	0.9	2.2	2.0	16.7	17.2	17.0
Taiwan	8.4	11.3	3.8	1.7	2.2	1.8	20.0	23.6	22.5
Thailand	2.0	2.1	2.0	-0.1	2.6	2.4	2.8	-4.5	-3.5
Vietnam	6.9	6.9	6.6	3.3	3.5	3.3	5.1	5.3	6.0
Latin America	**2.5**	**2.0**	**2.0**	**3.4**	**3.2**	**3.2**	**-0.5**	**-0.7**	**-0.9**
Brazil	2.3	1.9	1.6	5.0	4.5	4.1	-3.0	-2.2	-2.0
Chile	2.3	1.8	2.1	4.2	3.4	3.4	-2.3	-1.6	-1.5
Colombia	2.6	2.8	1.9	5.1	4.8	4.6	-2.4	-2.5	-2.2
Mexico	0.6	0.9	1.2	3.7	3.9	3.5	-0.5	-0.5	-0.6
Peru	3.4	2.4	2.2	1.5	2.0	2.2	3.1	1.2	0.5
Emerging Europe	**1.5**	**1.8**	**1.8**	**7.0**	**5.2**	**4.9**	**0.4**	**0.2**	**0.3**
Czech Republic	2.6	2.1	2.3	2.5	1.9	2.5	0.7	0.4	0.3
Hungary	0.4	2.0	2.5	4.4	1.8	3.0	1.5	-0.3	0.4
Poland	3.6	3.7	3.0	3.6	3.3	3.7	-0.8	-1.3	-1.3
Romania	0.7	-0.1	1.5	7.3	8.1	4.4	-8.0	-6.8	-5.6
Russia	1.0	1.4	1.4	8.7	6.0	5.8	1.8	1.7	1.6
Turkey	3.4	3.4	3.7	36.0	24.0	19.0	-1.5	-1.5	-2.0
Africa & Middle East	**3.3**	**-0.2**	**4.0**	**4.9**	**4.4**	**4.4**	**1.0**	**-0.3**	**0.0**
Algeria	3.8	3.1	2.9	1.5	6.5	5.5	-3.0	-3.0	-3.8
Egypt	4.4	4.6	4.0	20.9	13.3	14.0	-4.4	-4.6	-5.0
Iran	-	-	-	-	-	-	-	-	-
Kuwait	2.5	-13.5	15.0	2.3	2.4	2.3	22.6	17.0	19.0
Morocco	4.6	4.4	4.2	0.7	0.8	2.0	-2.5	-2.6	-2.6
Qatar	2.9	-14.5	12.0	0.6	2.6	2.6	15.5	8.0	10.0
Saudi Arabia	4.5	-2.5	5.0	2.1	2.3	2.4	-2.6	-2.0	-1.7
South Africa	1.1	1.2	1.2	3.2	4.4	4.2	-0.5	-1.5	-1.2
Tunisia	2.5	1.8	2.0	5.4	5.8	6.0	-2.8	-3.5	-3.2
United Arab Emirates	6.2	0.0	6.0	1.3	3.0	1.8	15.3	7.5	9.0
Total	**3.1**	**2.8**	**2.9**	**3.1**	**3.5**	**3.0**	**0.9**	**0.9**	**0.9**
Industrialised countries	**1.6**	**1.5**	**1.5**	**2.5**	**3.0**	**2.5**	**-0.5**	**-0.6**	**-0.8**
Emerging countries	**4.3**	**3.7**	**4.0**	**3.6**	**3.8**	**3.5**	**2.0**	**2.0**	**2.1**

Notes:
(1) CPI – for UK: HICP; for Brazil: IPCA
(2) India – fiscal year ending in March

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Economic forecasts – quarterly breakdown

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP growth, QoQ %												
USA (annualised)	-0.6	3.8	4.4	0.5	2.1	1.5	2.5	1.9	2.0	2.1	2.0	1.9
JAPAN	0.5	0.1	-0.4	0.3	0.5	0.4	0.0	0.1	0.0	0.3	0.3	0.3
EUROZONE	0.7	0.1	0.3	0.2	-0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Germany	0.4	-0.2	0.0	0.2	0.3	0.0	0.1	0.2	0.2	0.3	0.3	0.4
France	0.1	0.3	0.4	0.2	-0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3
Italy	0.3	0.0	0.2	0.3	0.3	-0.2	0.0	0.1	0.2	0.2	0.4	0.3
Spain	0.5	0.7	0.6	0.8	0.6	0.3	0.3	0.3	0.4	0.4	0.5	0.5
United Kingdom	0.6	0.1	0.2	0.2	0.6	0.2	0.1	0.1	0.5	0.1	0.3	0.3
Consumer prices, YoY %												
USA	2.7	2.5	2.9	2.7	2.7	3.9	3.5	3.6	3.3	2.0	2.1	2.1
JAPAN	2.7	3.3	3.2	2.9	2.5	1.8	2.0	2.0	2.0	1.0	0.7	0.5
EUROZONE	2.3	2.0	2.1	2.1	2.0	3.0	3.3	4.0	4.0	3.2	2.8	2.0
Germany	2.6	2.1	2.1	2.3	2.3	2.6	3.0	3.6	4.1	4.0	3.6	2.9
France	1.2	0.8	0.9	0.8	1.1	2.4	2.7	3.6	3.4	2.5	2.0	1.3
Italy	1.7	1.8	1.7	1.2	1.4	3.0	3.3	4.8	4.2	2.5	2.0	0.9
Spain	2.7	2.2	2.8	3.1	2.8	3.6	4.4	4.8	4.6	4.0	3.0	2.0
United Kingdom	2.8	3.5	3.8	3.4	3.1	2.7	3.0	3.4	3.4	2.8	2.2	2.0
Unemployment rate, %												
USA	4.1	4.2	4.3	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4.2
JAPAN	2.5	2.5	2.5	2.6	2.7	2.5	2.6	2.6	2.6	2.6	2.5	2.5
EUROZONE	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.5	6.5	6.5	6.5	6.5
Germany	3.6	3.7	3.8	3.9	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.1
France	7.5	7.6	7.8	8.0	8.2	8.3	8.3	8.3	8.3	8.3	8.3	8.2
Italy	6.3	6.3	6.0	5.7	5.3	5.5	5.7	5.9	6.0	6.1	6.2	6.3
Spain	10.8	10.6	10.5	10.2	10.3	10.1	9.9	9.8	9.7	9.6	9.5	9.4
United Kingdom	4.6	4.7	5.1	5.2	5.0	5.2	5.4	5.4	5.4	5.4	5.3	5.2

Source: Crédit Agricole CIB

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Interest rate forecasts – developed countries

	01-Oct	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
EUR						
Refi rate	2.65	2.90	2.90	2.90	2.65	2.65
Depo rate	2.50	2.75	2.75	2.75	2.50	2.50
ESTR	2.44	2.70	2.70	2.70	2.45	2.45
3M Euribor	2.59	2.85	2.85	2.65	2.50	2.30
Germany						
2Y	3.07	3.36	3.35	3.40	3.43	3.40
5Y	3.24	3.45	3.47	3.55	3.62	3.65
10Y	3.52	3.68	3.69	3.77	3.93	3.95
30Y	3.91	4.00	4.11	4.23	4.40	4.43
France						
2Y	3.68	3.66	3.72	3.83	3.78	3.80
5Y	4.24	4.05	4.27	4.35	4.37	4.45
10Y	4.92	4.68	4.84	4.97	4.98	5.05
30Y	5.53	5.25	5.46	5.68	5.70	5.78
Italy						
2Y	3.63	3.66	3.70	3.85	3.85	3.80
5Y	4.15	4.10	4.17	4.33	4.42	4.45
10Y	4.71	4.58	4.64	4.87	4.98	5.00
30Y	5.28	5.15	5.26	5.51	5.63	5.58
Spain						
2Y	3.28	3.42	3.43	3.50	3.53	3.52
5Y	3.64	3.66	3.65	3.72	3.79	3.80
10Y	4.16	4.13	4.14	4.32	4.48	4.50
30Y	4.69	4.65	4.76	5.01	5.10	5.08
Belgium						
10Y	4.40	4.28	4.29	4.47	4.68	4.65
Ireland						
10Y	3.67	3.93	3.94	4.07	4.18	4.25
Portugal						
10Y	4.05	3.78	3.79	3.87	4.03	4.05
Finland						
10Y	3.90	4.08	4.09	4.17	4.33	4.40
Greece						
10Y	4.56	4.43	4.49	4.57	4.73	4.80
Sweden						
Repo		1.75	2.00	2.00	2.00	2.00
Norway						
Deposit	4.50	4.25	4.25	4.25	4.00	4.00
EUR swaps						
2Y	3.43	3.56	3.58	3.59	3.58	3.53
5Y	3.53	3.61	3.64	3.68	3.70	3.70
10Y	3.63	3.68	3.71	3.75	3.83	3.85
30Y	3.50	3.58	3.71	3.78	3.90	3.93
GBP						
Bank Rate	0.00	3.75	3.75	3.75	3.50	3.25
Sonia	0.00	3.50	3.50	3.50	3.50	3.50

Note: 3M rates are interbank, 2Y and 10Y rates are government bond yields

Source: Crédit Agricole CIB

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Interest rate forecasts – developed countries (cont.)

	01-Oct	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
USD						
FF target	4.00	4.25	4.50	4.50	4.50	4.00
FF effective	3.88	4.13	4.38	4.38	4.38	3.88
SOFR	3.90	4.14	4.39	4.39	4.39	3.89
USTs						
2Y	4.82	4.75	4.85	4.80	4.75	4.60
5Y	5.04	4.90	4.95	4.90	4.85	4.75
10Y	5.27	5.05	5.10	5.05	5.05	4.95
30Y	5.63	5.40	5.45	5.40	5.40	5.30
USD swaps						
2Y	4.66	4.63	4.74	4.69	4.64	4.49
5Y	4.74	4.64	4.69	4.65	4.60	4.51
10Y	4.86	4.67	4.73	4.68	4.69	4.60
30Y	4.95	4.72	4.78	4.74	4.75	4.66
JPY						
Call rate	0.00	1.25	1.50	1.50	1.75	1.75
JGBs						
2Y	1.95	1.90	2.00	2.00	2.15	2.15
5Y	2.37	2.35	2.40	2.40	2.45	2.45
10Y	3.10	3.05	3.10	3.10	3.20	3.20
30Y	4.16	4.15	4.20	4.20	4.25	4.25
Canada						
Overnight	0.00	2.25	2.25	2.25	2.25	2.25

Note: 3M rates are interbank, 2Y and 10Y rates are government bond yields

Source: Crédit Agricole CIB

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Interest rate forecasts – emerging countries

		1-Oct	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Asia							
China	7d reverse repo rate	0.00	1.40	1.30	1.30	1.30	1.30
Hong Kong	Base rate	4.25	4.50	4.75	4.75	4.75	4.25
India	Repo rate	5.25	5.50	5.75	5.75	5.75	5.75
Indonesia	7D (reverse) repo rate	5.75	5.75	6.00	6.00	6.00	6.00
Korea	Base rate	3.00	3.25	3.25	3.25	3.25	3.25
Malaysia	OPR	2.75	3.00	3.00	3.00	3.00	3.00
Philippines	Repo rate	5.00	5.25	5.25	5.25	5.25	5.25
Singapore	O/N SORA	1.40	1.30	1.40	1.40	1.40	1.50
Taiwan	Redisc	2.00	2.13	2.13	2.13	2.13	2.13
Thailand	Repo	1.00	1.00	1.00	1.00	1.25	1.25
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50
Latin America							
Brazil	Overnight/Selic	13.75	13.75	13.75	13.75	13.75	13.75
Chile	o/n lending rate	4.50	4.50	4.50	4.50	4.50	4.50
Colombia	o/n lending rate	12.00	12.25	12.25	12.25	11.75	11.25
Mexico	Overnight rate	6.50	6.50	6.50	6.50	6.50	6.50
Peru	o/n lending rate	4.25	4.25	4.25	4.25	4.25	4.25
EMEA							
Czech Rep.	14D repo	3.75	4.00	4.00	4.00	4.00	3.75
Hungary	Base rate	5.50	5.50	5.50	5.50	5.25	5.00
Poland	7D repo	3.75	4.00	4.00	4.00	3.75	3.50
Romania	2W repo	6.50	6.50	6.00	5.50	5.00	4.50
Russia	1W auction rate	14.00	12.50	11.00	10.00	9.00	9.00
South Africa	Repo	7.25	7.25	6.75	6.25	6.00	6.00
Turkey	1W repo rate	37.00	34.00	31.00	28.00	25.00	22.00

Source: Crédit Agricole CIB

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Public finance forecasts

	Government balance (% of GDP)			Public debt (% of GDP)		
	25	26	27	25	26	27
USA	-6.1	-6.4	-6.5	101.3	102.4	104.5
JAPAN	-1.0	-3.0	-3.0	218.0	217.0	215.0
EUROZONE	-2.9	-3.4	-3.4	88.7	90.1	91.0
Germany	-2.7	-3.7	-4.1	63.3	65.9	68.3
France	-5.1	-5.1	-5.0	115.7	118.3	120.5
Italy	-3.1	-3.0	-2.9	137.1	138.4	138.6
Spain	-1.6	-2.5	-1.9	100.7	99.1	98.7
Netherlands	-1.6	-2.5	-1.9	44.4	47.2	47.2
Belgium	-5.2	-5.3	-5.5	107.9	109.9	113.1
Greece	1.7	0.5	0.2	145.3	138.0	133.8
Ireland	1.8	-0.8	-0.1	32.9	35.1	33.7
Portugal	0.7	-0.1	-0.3	89.7	88.8	88.3
United Kingdom	-5.3	-3.9	-3.5	102.3	103.1	103.5

Source: Crédit Agricole CIB

Commodities forecasts

		Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Gold	USD/oz	5,000	5,200	5,300	5,400	5,500

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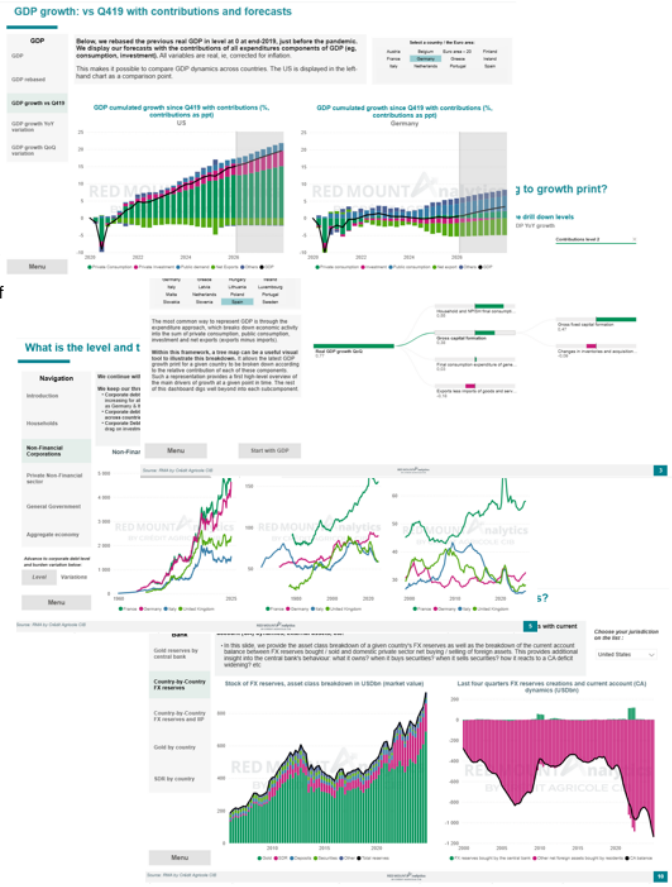
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