Market Insights Weekly

23 October 2026

UK Budget and central bank rate decisions in focus

- Global market pressures persist amid higher oil prices and AI-linked stock concerns
- UK data reinforce near-term rate expectations despite mixed domestic signals
- UK Budget to balance fiscal credibility with targeted economic support
- Fed, ECB and BoJ set to hold rates; BoC could hike

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

Global pressures persist, UK rate expectations rise

A challenging global market backdrop has persisted, as investors reassess AI-related asset valuations, while Brent crude oil topped $116, a five-month high, due to escalating Middle East hostilities. Meanwhile, intensifying French fiscal and political concerns have pushed borrowing costs higher, with the 10-year yield spread between French and German bonds widening to 170bp, a level last seen in 2011. The euro remained under pressure, with GBP/EUR moving up towards 1.20. UK 10-year gilt yields were little changed on the week.

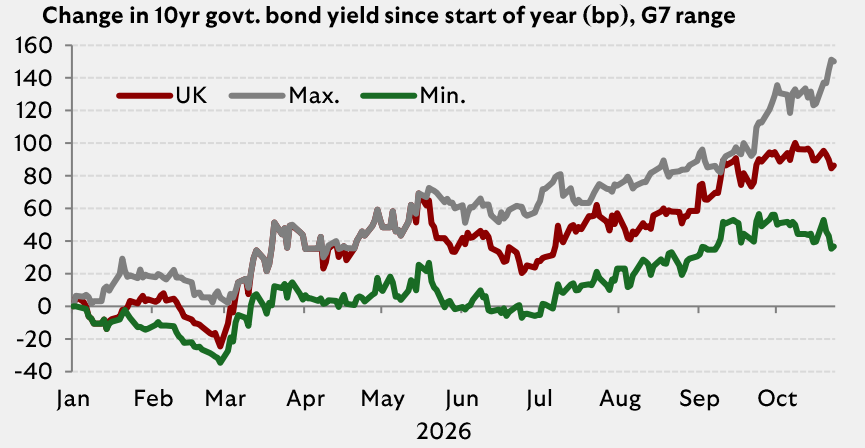
The latest set of UK data has reinforced market expectations of a Bank of England rate increase next month, but question marks remain over the pricing for four hikes in total over the next year. Headline CPI inflation increased to 3.5% in September, in line with our forecast but beating consensus expectations, driven by higher fuel prices and some evidence of indirect effects on airfares.

Evidence of domestically generated inflation, however, remains limited. Private sector regular pay growth was 3.0% y/y, a level still consistent with the BoE's inflation target being met. Job vacancies fell further to the lowest since 2014 outside of the pandemic period. Against that, the unemployment rate fell and there were some tentative signs of renewed wage pressures. UK survey evidence was mixed, with the October flash composite PMI rising to 53.1, but GfK consumer confidence dropping 11 points to -24.

Balancing support and fiscal credibility

Attention next week will centre on UK Chancellor John Healey's first Budget on 28 October, where we expect the emphasis to be on maintaining fiscal credibility while providing some support for the economy. The deterioration in the global backdrop,

Chart 1: Higher yields not unique to the UK



Source: Bloomberg, Lloyds Bank Market Insights

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Economic previews

- US Federal Reserve policy decision – Wed 28 October (18:00 GMT)
- ECB policy decision – Thu 29 October (13:15 GMT)

particularly the rise in energy prices, has increased pressure for measures to cushion households and businesses. However, given the constraints on the public finances, any support is likely to be temporary and targeted rather than a large-scale package.

The starting fiscal position is also likely to be less comfortable than in March, when the Office for Budget Responsibility (OBR) estimated £23.6bn of headroom against the government's stability rule. Higher gilt yields and Bank Rate expectations will raise projected debt interest costs, potentially absorbing a significant part of that buffer. However, tax receipts have held up well, reflecting economic resilience, and higher nominal wage growth could provide a further boost to revenues if reflected in the updated forecasts. The final position will therefore depend on how these offsetting factors interact.

The Chancellor is expected to use the Budget to rebuild some fiscal headroom and reinforce the government's commitment to fiscal credibility, although not necessarily to restore the £23.6bn buffer available in March. More broadly, this is anticipated to be a relatively low-key fiscal event, with the government's longer-term policy direction expected to become clearer in its 10-year plan before year-end. In the meantime, hopes will rest partly on an improvement in the global economic and energy backdrop in 2027.

For a more in-depth look at the factors likely to shape the Chancellor's room for manoeuvre and the broad contours of the OBR's updated projections, please see: UK Fiscal picture: five considerations ahead of the Budget.

"The Budget is expected to balance fiscal credibility with temporary and targeted support for the economy."

Hann-Ju Ho
Senior Economist
Lloyds Market Insights

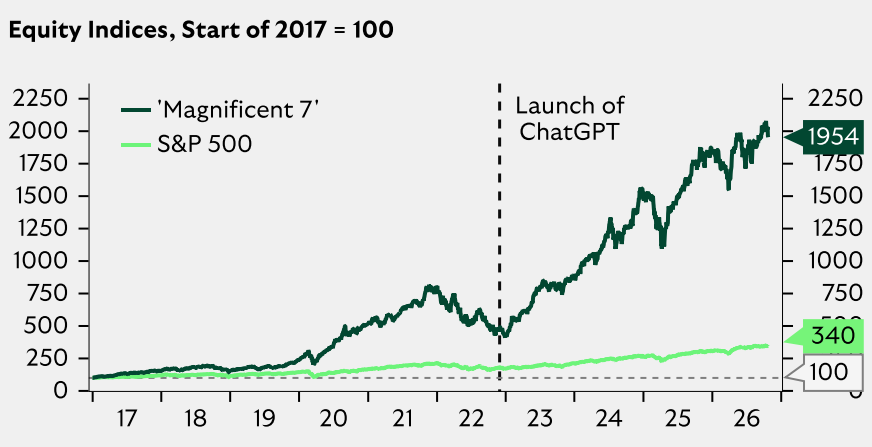
Global central banks and tech in focus

Globally, an exceptionally busy week lies ahead, with policy decisions from the US Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of Canada set to dominate market attention, alongside first estimates of Q3 GDP from the US and the Eurozone. Renewed attacks on shipping in the Strait of Hormuz have pushed Brent crude to five-month highs, reviving concerns over energy-driven inflation.

The Fed raised rates in September for the first time in over three years, while the ECB has already hiked twice. However, both are expected to keep policy unchanged next week, with core inflation remaining relatively contained despite energy-driven increases in headline inflation, providing scope to wait before tightening policy further. The ECB will also be assessing the impact of tighter financial conditions, particularly in France. Markets will therefore watch post-meeting remarks from Fed Chair Kevin Warsh and ECB President Christine Lagarde closely for indications of how they assess the economic outlook and the potential path for interest rates. The Fed decision is due on 28 October and the ECB follows on 29 October.

The Bank of Japan is also expected to keep rates unchanged, with attention instead turning to the prospect of a further hike in December. The Bank of Canada decision is potentially a close call, with a first hike since 2023 a possibility. Investors will also watch quarterly results from Microsoft and Alphabet on Wednesday and Amazon on Thursday for further signals on the strength of AI-related demand and investment spending.

Chart 2: Recent tech sell-off follows exceptional gains



Source: Bloomberg, Macrobond, Lloyds Bank Market Insights

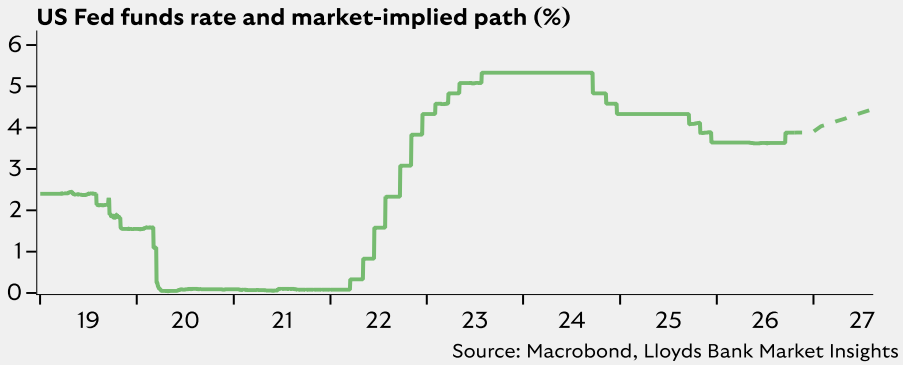
Economic previews:

US Federal Reserve decision – Wednesday 28 October (18:00 GMT)

The Federal Reserve raised rates in September for the first time in over three years and is expected to pause at the October meeting, allowing policymakers to assess more data ahead of the December policy update. Chair Warsh's recent remarks did not convey a strong signal for an October hike. Recent economic data have been mixed, but still point to the likelihood of higher interest rates ahead. In particular, September inflation data surprised on the upside, with headline CPI inflation rising to 3.7%. However, downward revisions to the Fed's preferred inflation gauge, the PCE deflator, and unexpectedly weak payrolls support the case for a more gradual pace of policy tightening. With no updates to economic projections at this meeting, the focus will be on Warsh's comments at the post-meeting press conference and the vote split within the Federal Open Market Committee. Markets currently attach a probability of more than 80% to a December rate hike.

Fed funds target range	%
Lloyds Forecast	3.75-4.00
Consensus	3.75-4.00
Previous	3.75-4.00

Markets expect further Fed tightening ahead



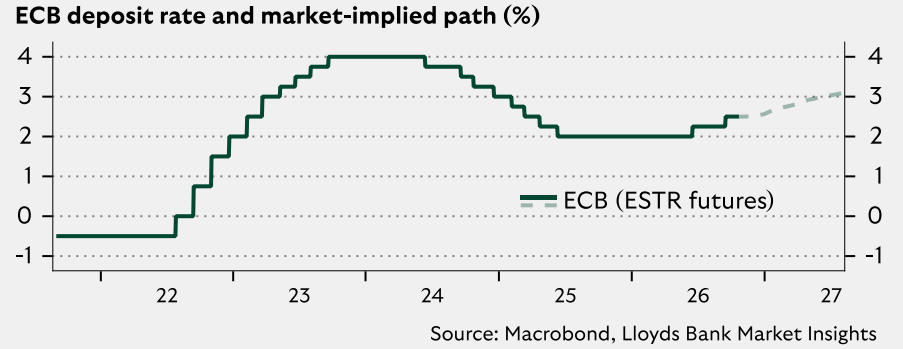
Source: Macrobond, Lloyds Bank Market Insights

ECB policy decision – Thursday 29 October (13:15 GMT)

The ECB increased interest rates for a second time in September in response to upside inflation risks. It is, however, likely to keep rates unchanged at the October meeting. Intensifying French fiscal and political concerns have tightened financial conditions, reinforcing expectations for no policy change at this meeting. The latest October flash PMI signalled a softer start to Q4 for Eurozone growth, weighed by weaker activity in France. However, upside inflation risks remain, with further global oil and gas price rises set to keep Eurozone headline CPI inflation above target for longer. So far, there is limited evidence of second-round effects on inflation, but pressure for further policy tightening, perhaps in December, remains. There will be intense focus on President Lagarde's press conference at 13:45 GMT following the policy announcement, particularly for remarks on the economic situation in France and any indication that the door remains open to further tightening.

Deposit facility rate	
Lloyds Forecast	2.50%
Consensus	2.50%
Previous	2.50%

Further ECB tightening priced despite French concerns



Source: Macrobond, Lloyds Bank Market Insights

Weekly economic calendar

Ctry	Time (GMT)	Time (ET)	Release/Event	Period	Consensus	Forecast	Previous
MONDAY 26 OCTOBER							
GE	**09:00**	**05:00**	**IFO Business Climate**	**Oct**	**90.0**	--	**89.9**
GE	**09:00**	**05:00**	**IFO Expectations**	**Oct**	**90.0**	--	**90.4**
GE	09:00	05:00	IFO Current Assessment	Oct	89.9	--	89.5
UK	11:00	07:00	CBI Retail Sales	Oct	-48	--	-55
TUESDAY 27 OCTOBER							
UK	00:01	20:01*	BRC Shop Price Index	Oct	1.7%	--	1.4%
EZ	09:00	05:00	M3 Money Supply	Sep	(3.4%)	--	(3.5%)
US	12:30	08:30	Durable Goods Orders	Sep P	1.4%	--	-0.1%
US	14:00	10:00	Conf. Board Consumer Confidence	Oct	80.4	--	81.9
US	14:00	10:00	New Home Sales	Sep	-6.4%	--	6.4%
WEDNESDAY 28 OCTOBER							
NZ	01:00	21:00*	RBNZ Official Cash Rate	Oct 28	3.00%	--	2.75%
GE	07:00	03:00	GfK Consumer Confidence	Nov	-30.1	--	-30.6
UK	**12:30**	**08:30**	**Chancellor Healey Presents Budget**				
US	12:30	08:30	Advance Goods Trade Balance	Sep	-$129.0bn	--	-$132.1bn
CA	13:45	09:45	Bank of Canada Rate Decision	Oct 28	2.25%	--	2.25%
US	**18:00**	**14:00**	**FOMC Rate Decision (Range)**	**Oct 28**	**3.75%-4.00%**	3.75%-4.00%	**3.75%-4.00%**
THURSDAY 29 OCTOBER							
UK	09:30	05:30	Net Consumer Credit	Sep	£2.1bn	--	£2.5bn
UK	09:30	05:30	Mortgage Approvals	Sep	54.00k	--	54.92k
EZ	10:00	06:00	Industrial Confidence	Oct	-3.8	--	-3.8
EZ	10:00	06:00	Economic Confidence	Oct	97.6	97.3	97.9
US	**12:30**	**08:30**	**PCE Deflator**	**Sep**	**0.5% (3.6%)**	**0.5% (3.6%)**	**0.3% (3.4%)**
US	**12:30**	**08:30**	**Core PCE Deflator (exc. food and energy)**	**Sep**	**0.3% (3.1%)**	**0.3% (3.1%)**	**0.3% (3.0%)**
US	**12:30**	**08:30**	**GDP Annualised**	**3Q A**	**3.0%**	**3.2%**	**2.2%**
US	12:30	08:30	Initial Jobless Claims	Oct 24	--	--	194k
US	12:30	08:30	Personal Spending	Sep	0.6%	--	0.9%
EZ	**13:15**	**09:15**	**ECB Deposit Rate**	**Oct 29**	**2.50%**	**2.50%**	**2.50%**
EZ	**13:45**	**09:45**	**President Lagarde Holds Press Conference**				
FRIDAY 30 OCTOBER							
JN			**Bank of Japan Target Rate**	**Oct 30**	**1.25%**	--	**1.25%**
UK	**00:01**	**20:01***	**Lloyds Business Barometer**	**Oct**	--	--	**41**
FR	06:30	02:30	GDP	3Q P	0.1% (0.3%)	--	0.0% (0.5%)
GE	07:00	03:00	Import Price Index	Sep	2.0% (10.3%)	--	1.0% (8.3%)
FR	07:45	03:45	CPI EU Harmonised	Oct P	0.3% (3.6%)	--	-0.3% (3.4%)
GE	08:55	04:55	Unemployment Change	Oct	5k	--	12k
GE	**09:00**	**05:00**	**GDP**	**3Q P**	**0.1% (1.1%)**	--	**0.3% (1.0%)**
EZ	**10:00**	**06:00**	**GDP**	**3Q A**	**0.2% (1.0%)**	**0.1% (0.9%)**	**0.6% (1.2%)**
EZ	10:00	06:00	Unemployment Rate	Sep	6.4%	--	6.4%
US	12:30	08:30	Employment Cost Index	3Q	0.8%	--	0.9%
GE	**13:00**	**09:00**	**CPI EU Harmonised**	**Oct P**	**0.1% (3.1%)**	--	**0.6% (3.3%)**

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

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