
Economy Week Ahead

October 18, 2026

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Chief Economist

“Economics is not an exact science. It's a combination
of an art and elements of science.”

Paul Samuelson

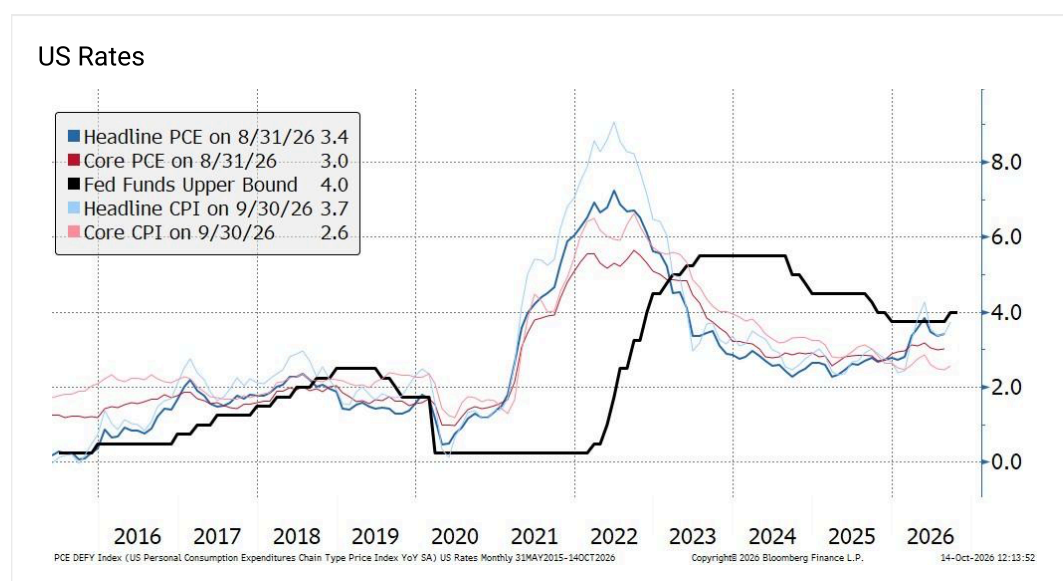
Markets ended last week on a sour note as the AI-related selloff continued. Higher oil prices (see below) also added to the negativity, as did September US inflation data that ran hot. Higher rates from Fed tightening, higher oil prices, and AI concerns are a toxic mix that is unlikely to go away anytime soon and so we would maintain a defensive posture for the time being. We do not see any major drivers this week that could help reverse market sentiment. However, global October PMI readings could help markets differentiate between the major economies.

Geopolitics

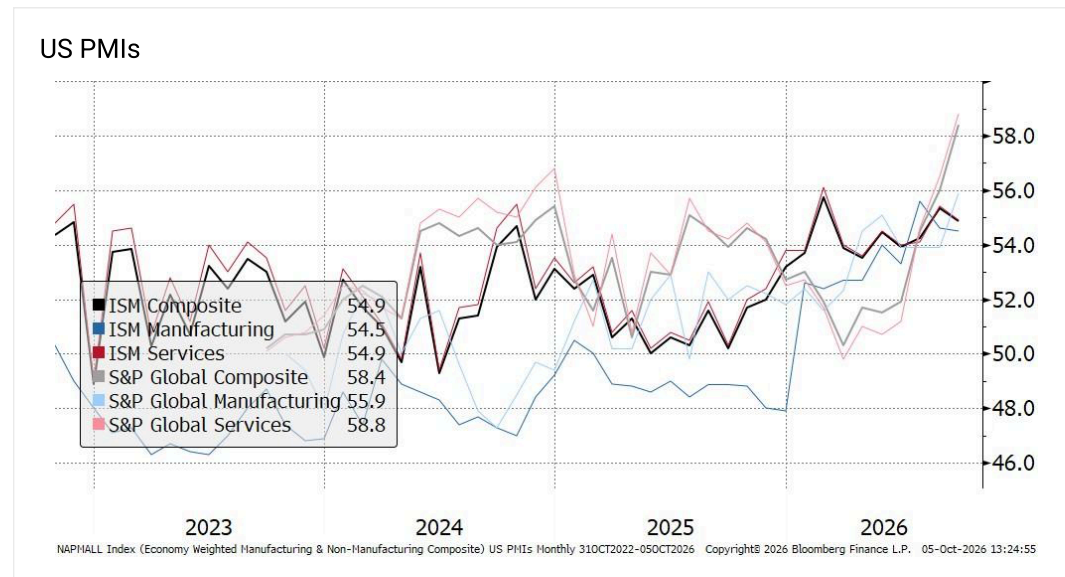
While there was little news on the US-Iran front last week, oil prices remain elevated as Brent traded at \$110 for the first time since late May. This is likely to keep global inflation readings high in the coming months. Elsewhere, Houthi rebels have intensified their attacks on Saudi Arabia, while Ukraine and Russia continue to target energy infrastructure. These developments are likely to keep markets nervous.

Americas

The media blackout remains in effect ahead of the FOMC meeting and so there will be no Fed speakers until Chair Warsh's press conference next Wednesday October 28. Despite the hotter than expected September CPI and PPI data, markets have not really adjusted their Fed expectations as the odds of a hike next week stand at only 15%. While a hold is likely, we believe the odds of a hawkish surprise are a bit higher. Please see our recent analysis of the Beige Book and September inflation data [here](#).



The US data highlight will be preliminary October S&P Global PMIs Friday. Manufacturing is expected to fall four ticks to 55.5 and services is expected to fall nearly a point to 57.9. If so, the composite would likely fall around a point from 58.4 in September. ISM PMIs won't be reported until early November. For now, the economy remains relatively robust but the soft September retail sales and jobs data warrant some caution, which is why the Fed is likely to pause this month before hiking in December.

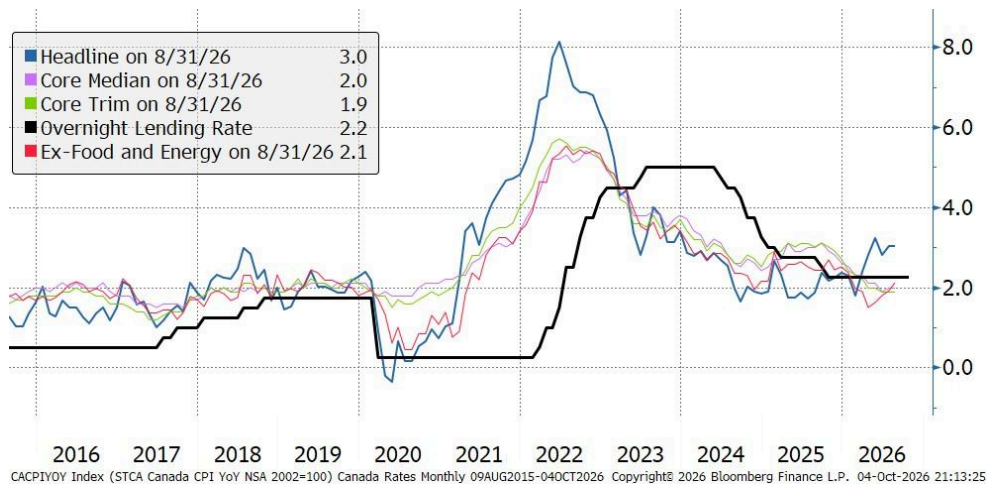


Canada highlight will be September CPI data Monday. Headline is expected to pick up two ticks to 3.2% y/y, while core median is expected to slow a tick to 1.9% y/y and core trim is expected to remain steady at 1.9% y/y. If so, headline would be the highest since May. However, if core measures remain steady, policymakers won't be as concerned.

The Bank of Canada meets next week and is expected to keep rates steady at 2.25%. At the last meeting September 2, the bank delivered a hawkish hold as it noted that "with the Middle East conflict still ongoing and little progress reopening the Strait of Hormuz, upside risks to the Bank's inflation forecast have increased. The longer that high oil prices and elevated refinery margins persist, the greater the risk of spillover to the prices of other goods and services. New US tariffs and Canadian counter-tariffs will also raise costs for some businesses and could feed into consumer prices over time."

Next meeting is October 28 and the market sees only 30% odds of a 25 bp hike vs. more than 75% right after the September meeting. A hike at the December 9 meeting is nearly priced in. Looking ahead, the swaps market is still pricing in around 100 bp of total tightening over the next twelve months, down from 125 bp in late September.

Canada Rates



BOC Monetary Policy Report July 2026 (April)

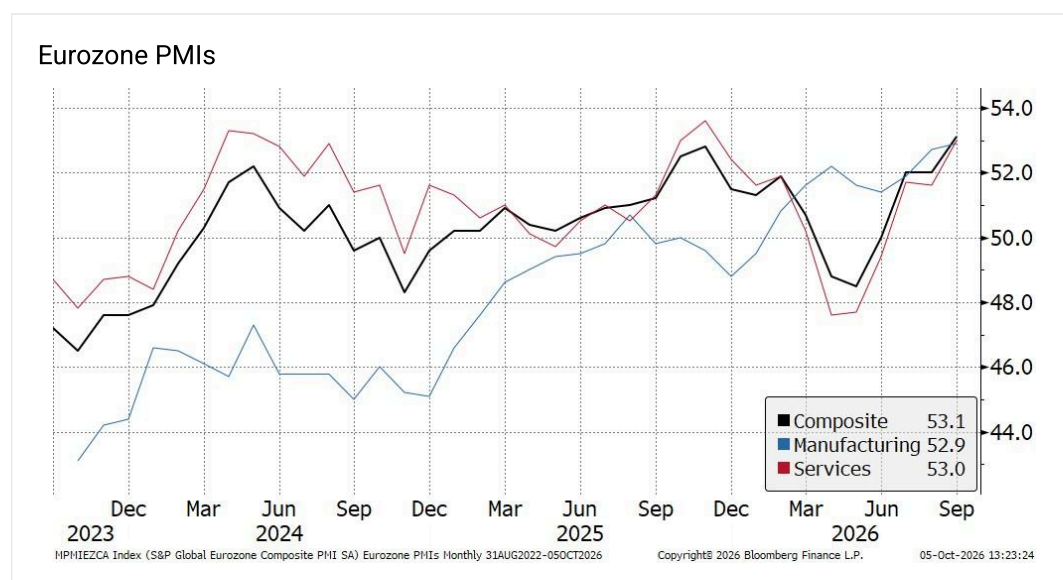
	2026	2027	2028
GDP Growth	0.7% (1.2%)	1.8% (1.6%)	1.8% (1.7%)
CPI Inflation	2.5% (2.3%)	2.0% (2.1%)	2.1% (2.0%)

Brazil holds the runoff presidential election Sunday. As of this writing, the latest polls show a tight race. Datafolha shows Bolsonaro leading Lula 51-49%, while PoderData/Ava shows the two tied at 50-50. After Bolsonaro won the first round vote, Brazil assets surged but have since given back some of the gains as the race tightened up. That said, we believe Bolsonaro is likely to win given that polls greatly understated his support in the first round vote. In addition, the votes of the right-wing candidates Caiado and Santos are likely to go to Bolsonaro, not Lula. Be prepared for another leg up in Brazil assets if Bolsonaro wins.

Europe

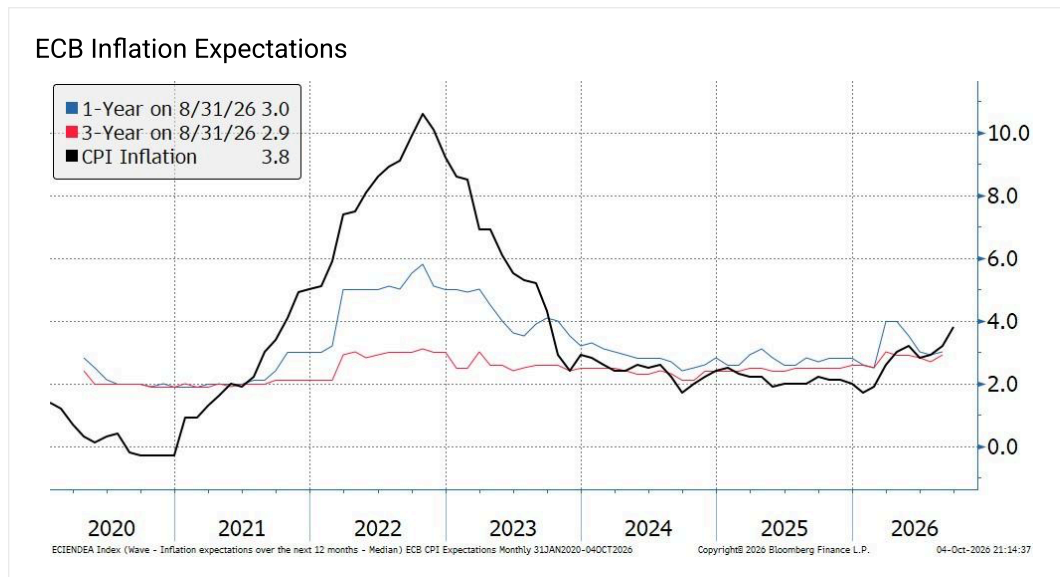
Concerns about France have ebbed a bit, allowing its bond spreads to Germany narrow a bit from the early October highs. This has also allowed the euro to gain some traction and move back near \$1.13 after trading as low as \$1.1115 last week. We do not expect concerns about France to delay ECB tightening and so unless the monetary policy trajectories shift significantly, we believe the euro will hold in a broad \$1.10-1.15 range over the near-term.

Eurozone data highlight will be preliminary October S&P Global PMIs Friday. Headline manufacturing is expected to fall two ticks to 52.7, services is expected to fall half a point to 52.5, and the composite is expected to fall four ticks to 52.7. Looking at the country breakdown, the German composite is expected to fall three ticks to 53.5 and the French composite is expected to fall over half a point to 50.5. Italy and Spain will be reported with the final PMI readings in early November.

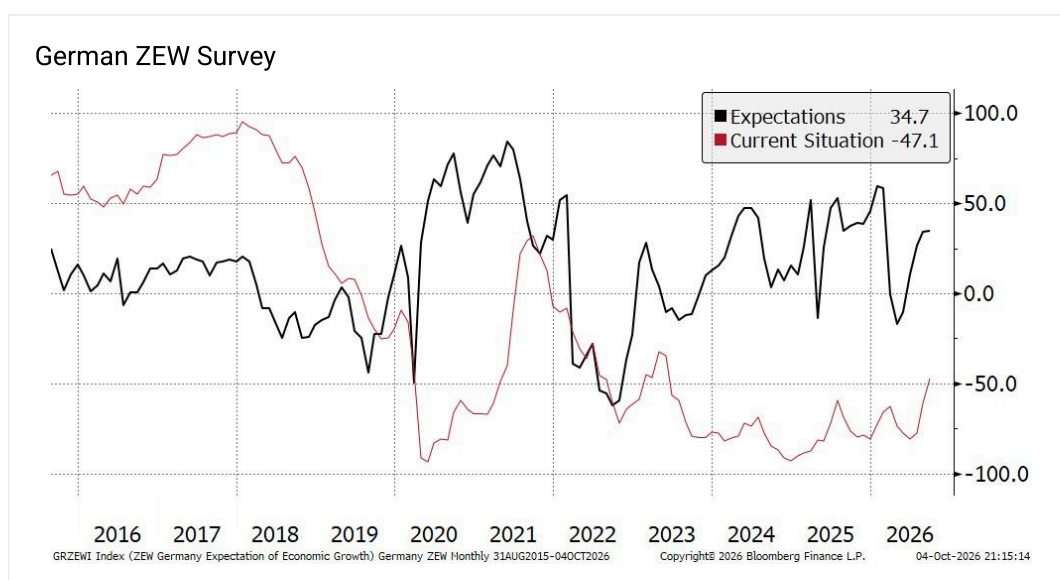


European Central Bank reports September inflation expectations Friday. 1-year expectations are seen picking up two ticks to 3.2% while 3-year expectations are seen steady at 2.9%. With headline inflation expected to continue climbing, we would expect short-term expectations to follow it higher. It will be important for the ECB that medium-term expectations remain anchored so if they drift higher, it would help cement further tightening ahead.

Lane and Elderson speak Monday. Lane speaks Tuesday. Cipollone and Lagarde speak Wednesday. Kocher and Panetta speak Thursday. The media blackout begins Thursday evening. The market puts less than 10% odds of a hike at the October 28-29 ECB meeting, but becomes nearly priced in for the December 16-17 meeting. Looking ahead, the swaps market is pricing in 50-75 bp of total tightening over the next twelve months. We see risks that actual tightening will be higher than market pricing.

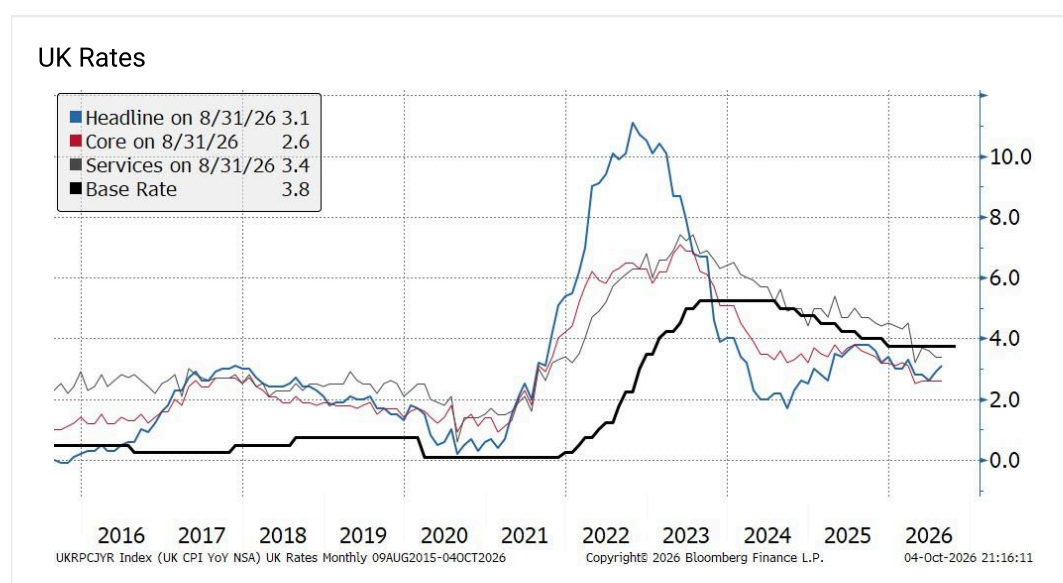


German ZEW survey for October will be reported Tuesday. Expectations component is seen falling nearly five points to 30.0 and current situation component is seen rising nearly three points to -44.5. As we noted in a previous piece [here](#), “the ZEW surveys investment and finance professionals and measures market sentiment and so it is a better predictor of German financial market performances. On the other hand, the ifo surveys executives at actual firms and measures developments in each sector and so it is a better predictor of German economic activity.” The October ifo survey will be reported next Monday.

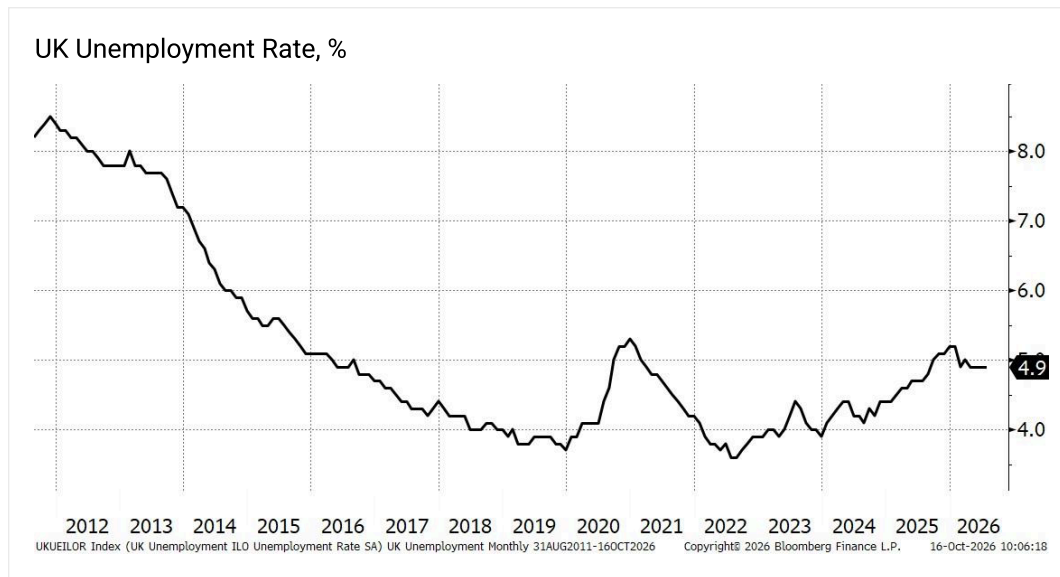


The UK highlight will be September CPI data Wednesday. Headline is expected to pick up three ticks to 3.4% y/y, core is expected to pick up two ticks to 2.8% y/y, and CPIH is expected to pick up two ticks to 3.5% y/y. If so, headline would accelerate for the third straight month to the highest since December. Of note, services inflation is expected to pick up two ticks to 3.6% y/y.

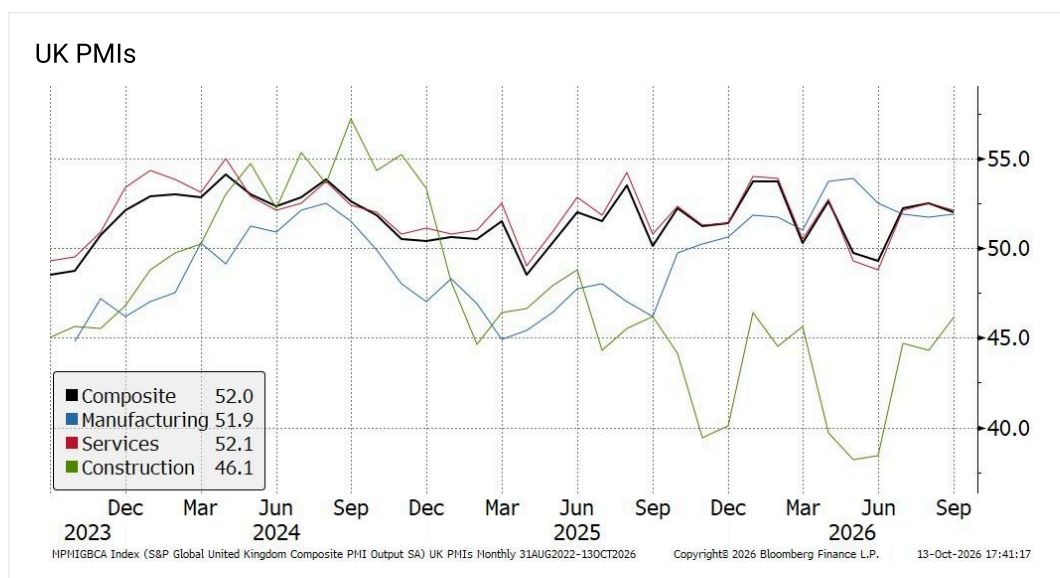
Recent inflation data have kept Bank of England tightening expectations elevated. The market sees nearly 95% odds that it begins a tightening cycle at the next meeting November 5. We should get some clues about the bank's stance from quite a couple of speakers this week. MPC member Greene speaks Tuesday. Governor Bailey speaks Wednesday.



UK labor market data Tuesday will be important. The unemployment rate is expected to rise a tick to 5.0% for the three months ended in August. If so, it would be the first rise in five months and would be the highest since March. While still short of the early 2026 peak of 5.2%, the UK government will be concerned about rising unemployment. However, the Bank of England is focused on getting inflation back to target and so the tightening cycle should continue well into 2027. Weekly earnings ex-bonus are expected to continue drifting higher, adding to the potential inflation pressures.

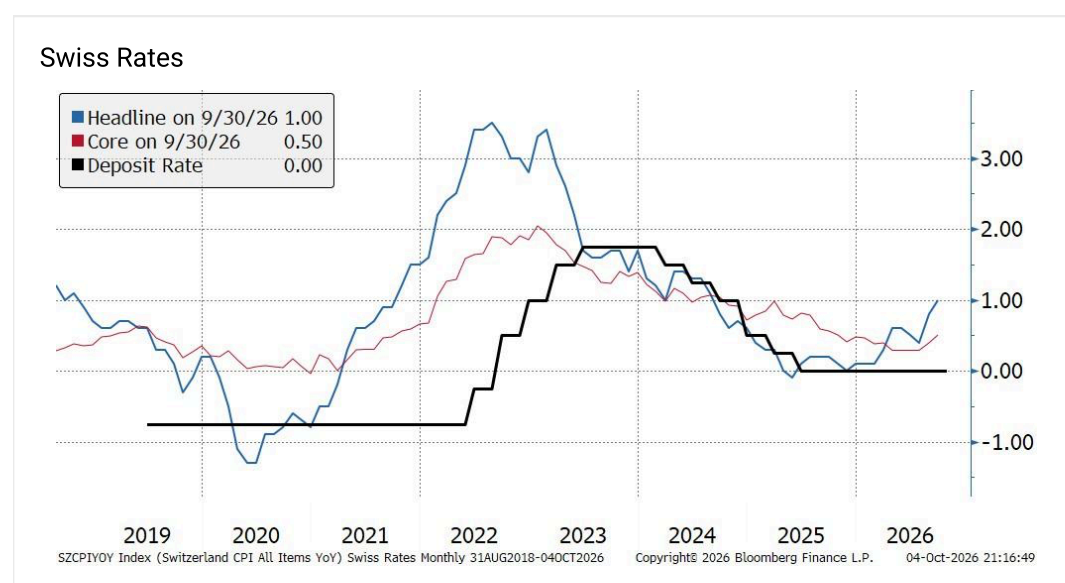


UK preliminary October S&P Global PMIs Friday will also be important. Manufacturing is expected to fall two ticks to 51.7, services is expected to fall three ticks to 51.8, and the composite is expected to fall two ticks to 51.8. If so, the composite would fall for the second straight month to the lowest since June. That said, the UK economy is holding up relatively well but the start of a tightening cycle next month will be a headwind in 2027.



Swiss National Bank publishes the summary of its last policy decision Thursday. At the September 24 meeting, the bank kept rates unchanged at 0.0% and raised both its growth and inflation forecasts modestly. The bank also showed less concern about the CHF exchange rate as it softened the wording on possible FX intervention as the currency continues to weaken. Of note, reports emerged over the summer that the bank is likely to keep rates steady until the end of 2027 before starting a tightening cycle. The swaps market is pricing in 50 bp of total SNB tightening over the next twelve months, but we suspect this overstates the potential hawkishness as Switzerland slowly emerges from an extended deflationary backdrop.

We suspect that the SNB is not too happy with recent CHF strength. Concerns about France and contagion gave the franc a bid earlier this month, and then was aided by some haven flows last week as the AI trade unraveled a bit. As a result, EUR/CHF is trading at the lowest since late July and may test that month's low near .91775.

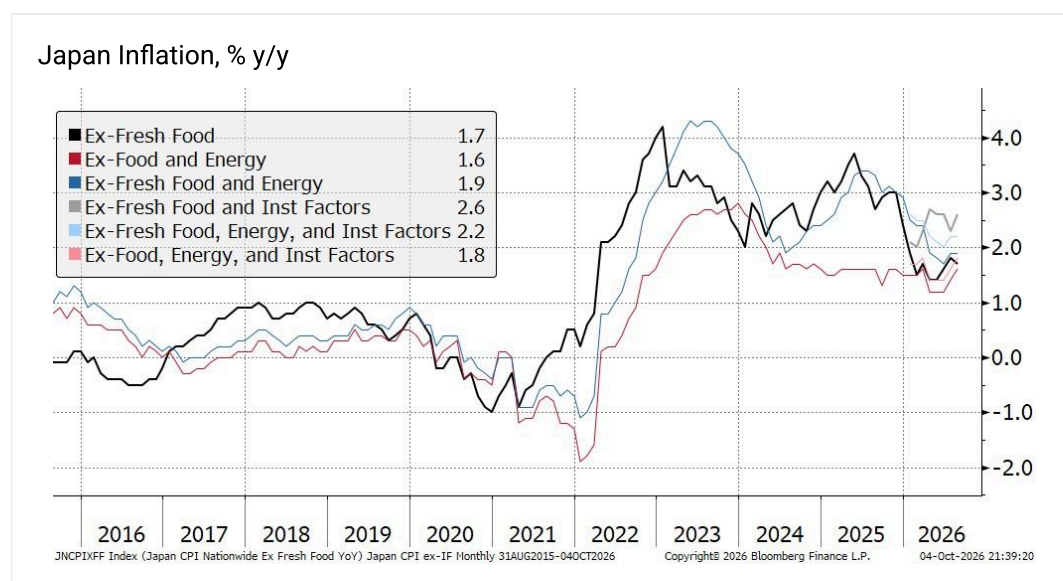


SNB Monetary Policy Assessment September 2026 (June)

	2026	2027	2028
GDP Growth	1.5-2.0% (1.0%)	1.5% (1.5%)	n/a
CPI Inflation	0.7% (0.6%)	0.8% (0.6%)	0.8% (0.7%)

Asia

Japan highlight will be national September CPI data Friday. Headline is expected to pick up four ticks to 2.3% y/y, core (ex-fresh food) is expected to pick up four ticks to 2.1% y/y, and core ex-energy is expected to pick up four ticks to 2.3% y/y. If so, core would be the highest since December 2025 and back above the 2% target. Next week, the Bank of Japan reports its underlying CPI measures that exclude institutional factors. Of note, core ex-institutional factors rose 2.6% y/y in August and supports further tightening ahead. That said, the BOJ is likely to remain on hold at the October 29-30 meeting before hiking at the December 17-18 meeting.



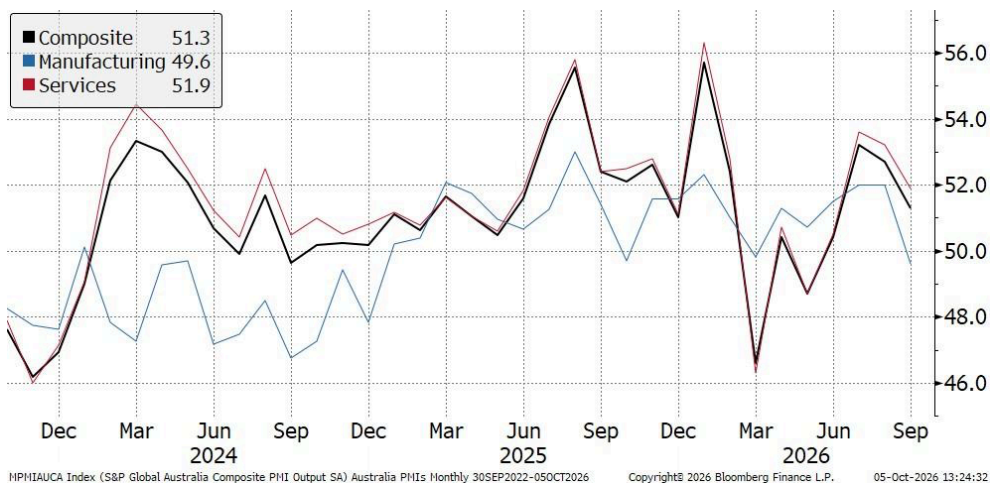
Japan preliminary October S&P Global PMIs Friday will also be important. The composite PMI fell to 52.3 in September and was the lowest since May. Still, the economy remains in solid shape and should allow the BOJ to continue its cautious easing cycle.

Japan PMIs



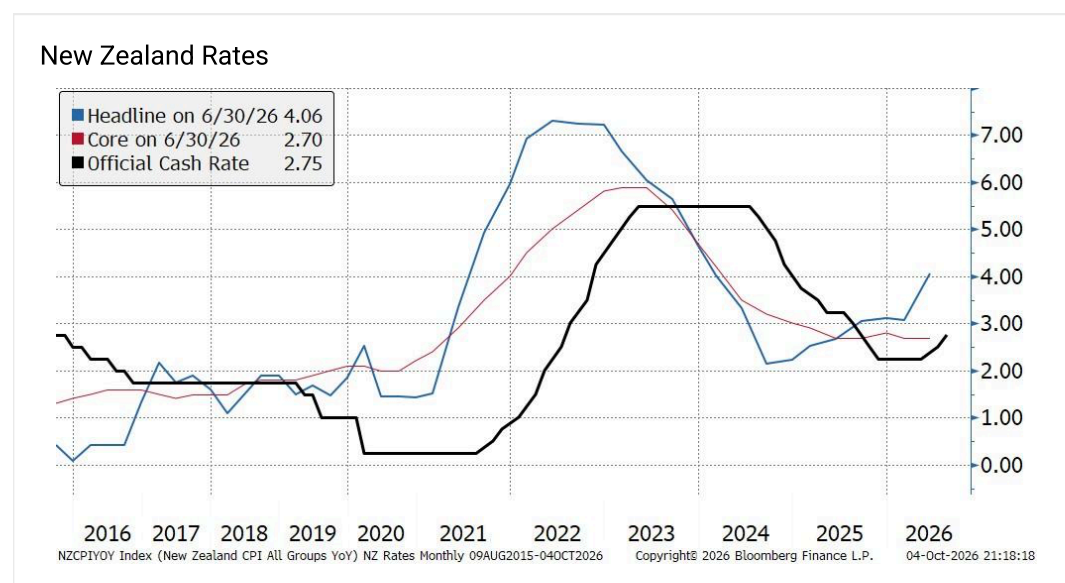
Australia data highlight will be preliminary October S&P Global PMIs Friday. The composite PMI fell for the second straight month in September to 51.3 and was the lowest since June. While the economy remains in solid shape, the soft September jobs data warrants some caution ahead for the Reserve Bank of Australia. It next meets November 3 and the market currently sees around 20% odds of a hike then.

Australia PMIs



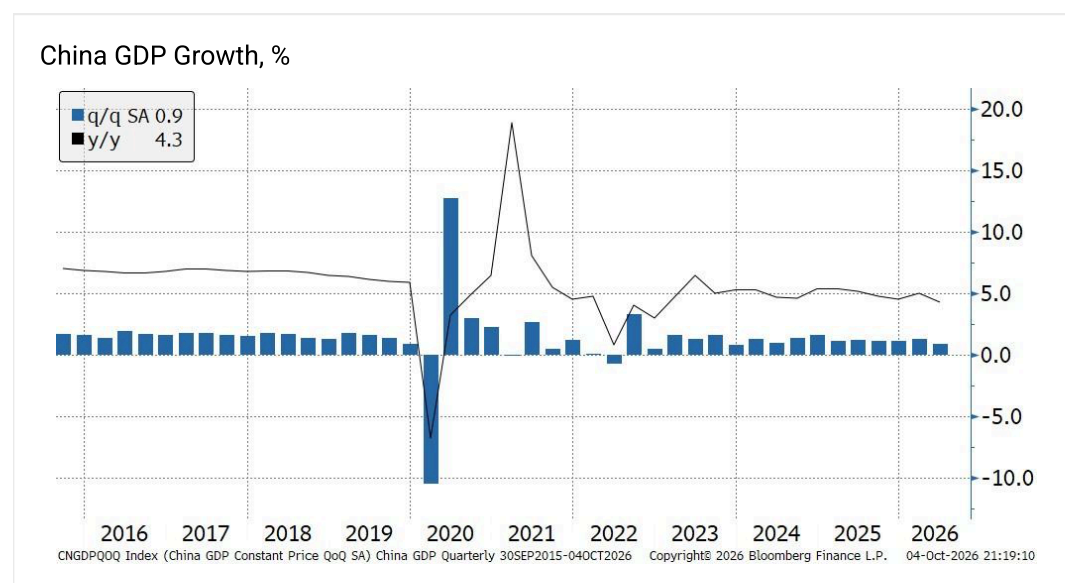
New Zealand reports Q3 CPI data Thursday. Headline is expected to rise 0.8% q/q vs. 1.5% in Q2, while the y/y rate is expected to slow three ticks to 3.8%. If so, it would be the first deceleration in the y/y rate since Q2 2024 but would remain well above the 2% target. No wonder the Reserve Bank of New Zealand continues to tighten.

At the last meeting September 2, the bank delivered its second straight 25 bp hike and raised its 2026 and 2027 growth forecasts to 0.8% and 1.9%, respectively. Governor Brennan said that policy was still accommodative and added that while future hikes were likely, the timing remains uncertain. Next meeting is October 28 and a third straight hike is over 80% priced in. The Q3 inflation data will be the decisive factor, to state the obvious.

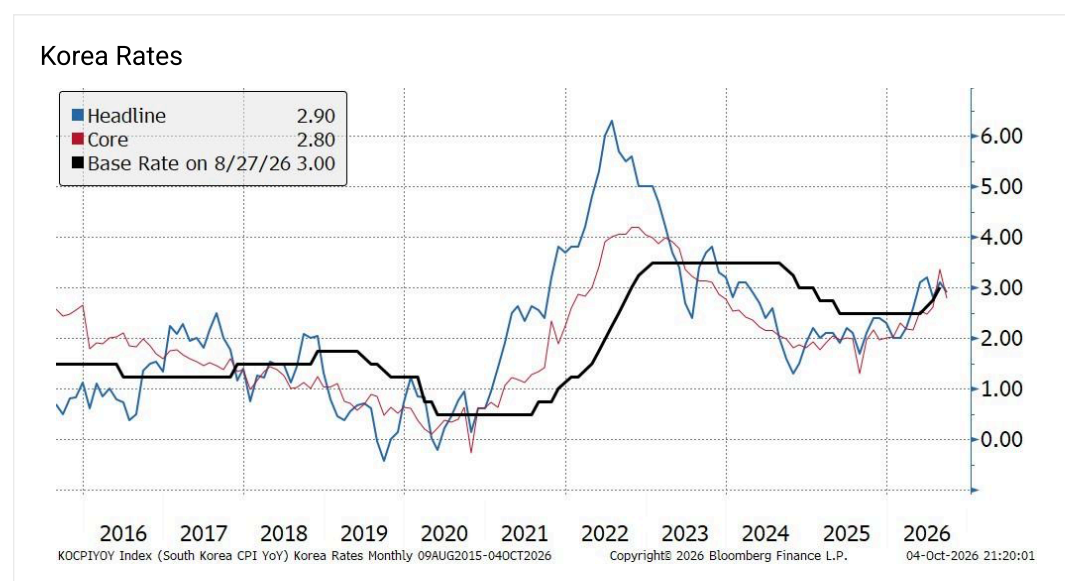


China reports Q3 GDP and September real sector data Monday. GDP is expected to remain steady at 0.9% q/q, while the y/y rate is expected to pick up a tick to 4.4%. IP is expected to pick up three ticks to 5.5% y/y and retail sales are expected to pick up a tick to 0.5% y/y. Investment remains weak, with fixed asset investment expected at -7.3% YTD and property investment expected at -20.0% YTD.

While recent data suggest the economy is gaining some traction, further stimulus measures are likely in Q4 and beyond. Policymakers are keen to boost not only the economy, but local markets too. Last week, the global AI-selloff hit Chinese markets and reports emerged that companies and state funds were urged by regulators to buy local shares and to also curb any selling.



Bank of Korea meets Thursday and is expected to keep rates steady at 3.0%. At the last meeting August 27, the bank hiked rates 25 bp for the second straight meeting. There was one dissent in favor of steady rates vs. no dissents for the July 16 decision to hike. The bank said that the board would determine the timing and pace of further hikes, while its six-month median Dot Plot of 3.25% suggests the pace will slow after the back-to-back moves. Governor Shin noted that inflation is seen as more persistent and staying higher for longer, adding that strong growth and higher incomes will extend through next year. Given the recent selloff in the KOSPI, the swaps market is pricing in a less hawkish BOK, with around 50 bp of total tightening seen over the next twelve months vs. 100 bp seen in late September.



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