

French bonds in focus

The **Week Ahead** – 9 October 2026



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Government bond markets across most of the world have been testing for borrowers and investors alike through much of this year. Financial markets take on the role of capital allocators when growth is strong and investment demand is high, determining which borrowers can make a strong case in terms of the required return on capital and which should be prompted to revise their thinking through higher spreads and increased risk premiums. Given the exceptional requirements of the AI capex expansion, pressures on borrowers with a weaker investment case have been unusually large, including for sovereign borrowers, despite their high credit ratings.

A number of countries fit this bill. At various points in the year, it would have been easy to write about the **United States, Japan or the UK** against the same broad backdrop. However, in recent weeks, **France** has stood to the fore, with yield spreads relative to **Germany** widening to levels not seen since the euro crisis fifteen years ago. Before then, the last period with comparably wide yield differentials was in the early 1990s when the European Exchange Rate Mechanism came under concerted pressure. Relative to recent history, what has been especially striking has been the widening in yield spreads at the front end of the curve. For instance, between January 2025 and June of this year, the differential between 2 year French and German government bonds traded within a 20 basis point (i.e. 0.2%) range – from a low of just above 10bp to a high of

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just above 30bp. Within the space of a few days starting just before the end of September, the yield spread for 2 year bonds then doubled to just over 60bp.

These sorts of accelerated changes are particularly problematic for leveraged investors. One of their strategies is to increase exposure to higher-yielding assets relative to lower-yielding assets (even where the yield difference may be relatively small) up until their desired target return is achieved. By focusing on yield spreads in this way, they seek to achieve lower volatility and higher risk/reward than by trading the underlying assets on their own. However, because of the high leverage, the strategy quickly has to be unwound if unexpected volatility arrives, as occurred in French markets in recent weeks. The result of a wave of investors following similar strategies exiting the market at the same time was the sharp underperformance of French bonds that we have witnessed.

The burst of volatility means that similar investment strategies will now be forced to employ less risk, meaning new buyers for French government bonds have to be found. Yet, the pressure on French bonds came in part from the long-standing inability of a range of French governments to bring public borrowing under control. Convincing new investors that they are compensated for the risks of lending therefore requires some form of political breakthrough.

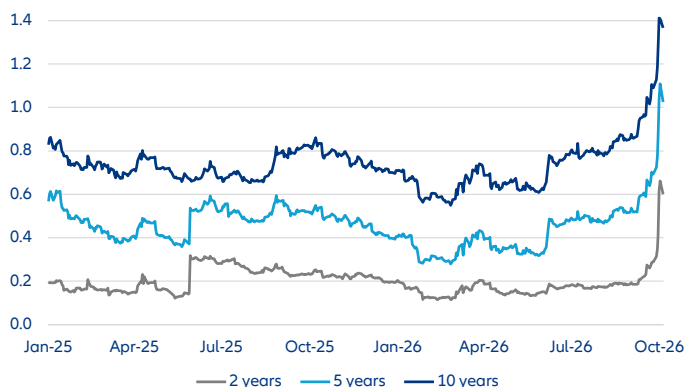
This is what makes the announcement on 6 October by Marine Le Pen, presidential candidate for the *Rassemblement National* (National Rally), particularly interesting. Having for a long period criticised the government for their approach to reducing the government deficit, thereby contributing to the logjam in parliament, she announced that, if elected, her party would deliver a reduction in government borrowing to 3.7% of GDP (Gross Domestic Product) in 2027 and to below 3.0%

no later than 2030 before bringing French debt as a proportion of GDP lower by 10 percentage points over five years. As context, the current government has been unable to achieve a parliamentary majority for policies to bring the budget deficit next year to below 5.0%.

It is fair to remark that pre-election campaigning may be one thing but that delivering such a sharp reduction in the deficit in practice would be quite another. This is particularly the case given that Le Pen's party has also committed to cutting taxes, meaning that government spending would have to be slashed. Even casual observers of French politics will note from the street protests against lower education spending that this is likely to be firmly resisted.

Nonetheless, it may be that bond yields have reached a trigger point where the debate over the budget deficit becomes a core part of campaigning for next year's elections. It seems too much to hope that *political détente* will allow the current government to make much headway in reducing borrowing needs before the election. In turn, this means that market pressure will not be far away in coming months in the best of cases. The yield spreads are putting the focus on French bonds. It remains to be seen what reaction will follow.

French-German government bond spreads by maturity
Percentage points



Source: Bloomberg, Allianz Global Investors Global Capital Markets & Thematic Research (data as at 5 October 2026).
Past performance does not predict future returns.

The coming week

US inflation data will be of greatest importance in the week ahead. Investors have scaled back their expectations of near-term Federal Reserve tightening (the Fed is the US central bank) with the chances of a rate hike in October only around 20%. Expectations for **core CPI** next week seem to align with this expectation with the market anticipating a more benign 0.2% monthly rise. Nonetheless, given the Fed has only just started to raise interest rates, investors will be particularly sensitive to the inflation outturn. Other data from the US next week include PPI (producer price inflation also contributes to the Fed's preferred measure of inflation), retail sales, industrial production and existing home sales.

In the **euro area**, **industrial production** is the main release with the market looking for signs that strength in business surveys is confirmed by hard economic data. The final update of September CPI and August's trade balance complete next week's euro area data set.

Upcoming political events 2026

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|-------------|-----|--------------------------------|
| • 12–18 Oct | THA | IMF/World Bank Annual Meetings |
| • 27 Oct | ISR | Knesset election |
| • 27–28 Oct | FED | Central Bank Meeting |
| • 29 Oct | ECB | Central Bank Meeting |
| • 29–30 Oct | BoJ | Central Bank Meeting |
| • 29–30 Oct | EU | Budget negotiations, key phase |

In the **UK**, **growth and production indicators** have recently outperformed expectations, supporting **business optimism**, albeit the latter will likely remain contained until the Budget at the end of the month.

Finally, **China** releases **CPI, PPI** and **money supply** data.

Hoping that you find helpful provocations in the week ahead.

Yours,
Sean Shepley

Calendar Week 42

Day	Country	Indicator	Period	Consensus	Previous
Monday	CN	M2 Money Supply YY	Sep	7.5%	7.5%
Tuesday	GE	CPI Final YY	Sep	--	3.3%
	GE	HICP Final YY	Sep	--	3.3%
	JN	Corp Goods Price YY	Sep	--	7.6%
	US	Existing Home Sales	Sep	--	3.98M
	US	Exist. Home Sales % Chg	Sep	--	-2.0%
Wednesday	CN	PPI YY	Sep	--	3.8%
	CN	CPI YY	Sep	1.1%	0.8%
	CN	Exports YY	Sep	--	25.0%
	CN	Imports YY	Sep	--	28.2%
	CN	Trade Balance USD	Sep	--	119.09B
	JN	M2 Money Supply	Sep	--	1,294.57T
	JN	Broad Money	Sep	--	2,337.3T
	US	Core CPI YY, NSA	Sep	--	2.4%
	US	CPI YY, NSA	Sep	--	3.4%
	US	CPI Wage Earner	Sep	--	328.481
Thursday	EC	Industrial Production YY	Aug	--	0.0%
	EC	Reserve Assets Total	Sep	--	1.86T
	JN	Machinery Orders YY	Aug	--	11.2%
	UK	GDP Est 3M/3M	Aug	--	0.4%
	UK	GDP Estimate YY	Aug	--	1.6%
	UK	Services YY	Aug	--	2.1%
	UK	Industrial Output YY	Aug	--	0.6%
	UK	Manufacturing Output YY	Aug	--	2.6%
	UK	Goods Trade Balance GBP	Aug	--	-20.965B
	US	NY Fed Manufacturing	Oct	--	7.60
	US	Initial Jobless Clm	5 Oct, w/e	--	--
	US	Cont Jobless Clm	28 Sep, w/e	--	--
	US	Philly Fed Business Indx	Oct	--	37.8
	US	PPI Machine Manufing	Sep	--	199.5
	US	PPI Final Demand YY	Sep	--	5.4%
	US	PPI exFood/Energy YY	Sep	--	4.6%
	US	Retail Control	Sep	--	1.4%
Friday	EC	Total Trade Balance SA	Aug	--	5.00B
	EC	HICP Final YY	Sep	--	3.8%
	EC	HICP-X F,E,A&T Final YY	Sep	--	2.5%
	JN	Chain Store Sales YY	Sep	--	0.2%
	UK	CBI Business Optimism	Q4	--	-36
	US	Import Prices YY	Sep	--	7.0%
	US	Capacity Utilization SA	Sep	--	76.3%

The calendar data for the current week comes directly from LSEG Datastream. They are published in the week in which "The Week Ahead" appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by LSEG Datastream through a survey of analysts and economists. It is the average of all estimates submitted.

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