WEEKLY COMMENTARY

The Cure for Higher Yields May Be Higher Yields

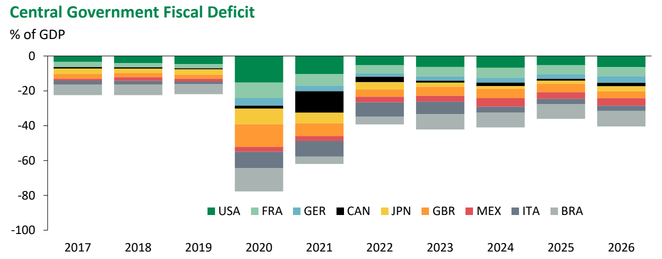
By Mirza Shaheryar Baig, Foreign Exchange Strategist

Bond yields pushed to fresh cycle highs across the G7 this week. In some cases, they are trading at levels not seen in decades. French 10-year yields are above 4.2%, their highest since 2008, while Japan's 10-year yield hit 3%, a level last seen in 1996. These are not milestones to celebrate. Rather, they mark the latest stage of a global bond bear market that has been grinding on for years. The catalyst this week appears to be energy. Oil prices surged as tensions between the US and Iran escalated. Six months into the conflict, there is little sign of a resolution.

This puts central banks on notice. Crude oil staying in the US\$80–US\$120 range, together with refining bottlenecks, is enough to generate inflation pressure but not enough to trigger the kind of global recession that would bring inflation down on its own. As a result, another round of global monetary tightening looks likely. The RBNZ moved first this week with a 25bp hike. We think the ECB and BoJ are set to follow later this month, and there is a meaningful chance that the Fed may ultimately hike as well—even though our own forecast is still for a hold. The Bank of Canada held rates this week, but noted that the longer high energy prices persist, the greater the risk of broad spillovers.

Looking past this week's headlines, the bond market faces a deeper problem. Developed markets are producing debt faster than investors can digest it. Governments are running wider deficits post Covid (graph 1), and large corporations are borrowing more to invest in AI. The OECD expects governments and corporations to raise a combined USD 29 trillion from capital markets in 2026, 17% more than in 2024. Sovereign bond borrowing in OECD countries has climbed from USD 12 trillion in 2022 to USD 18 trillion in 2026. Corporate borrowing is also running at all-time highs. In short, the world is issuing bonds at a remarkable pace.

Graph 1
Government Budget Deficits Remain Wide Post Covid



* 2026 is based on consensus forecast
Macrobond, Bloomberg and Desjardins Economic Studies

Meanwhile, demand is becoming less reliable. Central banks are no longer accumulating bonds through quantitative easing. Foreign reserve managers are less eager buyers, particularly since the freezing of Russia's reserves. Large public pension funds now prefer to invest in higher yielding private assets like infrastructure, rather than government bonds. All that has shrunk the pool of price-insensitive buyers.

Price-sensitive buyers are reluctant to catch a falling knife. While higher yields should attract buyers, investors also care about future supply. They demand additional compensation if they expect to be on the hook for even more issuance in the future. Governments can reduce this premium by convincing markets that their borrowing needs will become more

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sustainable over time. Unfortunately, in most major economies, political appetite for reducing fiscal deficits is low. Germany has committed to a beefier defence budget and industrial policy. France's minority government postponed a critical but unpopular pension reform this year, highlighting the political difficulty of fiscal restraint. In Canada, the federal government is spending more to cushion the economy from trade uncertainty and support investment in infrastructure, energy and nation-building projects. Finally, in the United States, which is the largest source of supply, there is little sign that either party is prepared to meaningfully shrink the fiscal deficit.

That leaves markets as the last line of fiscal discipline. Rising borrowing costs would increase debt-servicing burdens, squeeze fiscal room and eventually force difficult choices that politicians have been reluctant to make. In that sense, the cure for higher yields may be higher yields. But don't expect governments to quietly accept that premise. Next week, the US Treasury will undertake its first expanded buyback operation in long-end bonds. Officially, these are a routine liquidity-support operation. But the timing leaves little doubt that policymakers are paying close attention to the bond market.

What to Watch For

UNITED STATES

THURSDAY September 10 - 10:00

August	**ann. rate**
Consensus	3,990,000
Desjardins	3,990,000
July	**4,060,000**

Existing home sales (August) – For the first time since summer 2024, existing home sales fell for two consecutive months in June and July. Sales nevertheless remained slightly above the relative lows recorded in early 2026. However, another decline is expected for August. The clearest indication of a drop is the decrease in pending home sales recorded in July. Mortgage applications for home purchases also fell in August compared with June and July. Preliminary regional data for August are not yet available, but releases in the coming days should allow us to fine-tune our projections. In the meantime, we expect existing home sales fell below 4,000,000 units on an annualized basis.

FRIDAY September 11 - 8:30

August	**m/m**
Consensus	0.4%
Desjardins	0.4%
July	**0.1%**

Consumer price index (August) – After surging at the start of the conflict in the Persian Gulf, the monthly and annual increases in the consumer price index moderated in June and July. But we expect another uptick in August as higher gasoline prices once again put upward pressure on inflation. The end of the ceasefire and the renewed exchange of threats and hostilities reversed some of the decline in oil and gasoline prices seen in June and July, although they remain well below their May peak. Energy is therefore expected to add approximately 0.2 percentage points to the monthly advance in headline CPI. Food prices also likely rose somewhat faster after the July lull. Core CPI, which excludes food and energy, likely accelerated, as shelter costs probably picked up after two months of weaker-than-usual growth. However, used car and truck prices may have helped curb the rise in inflation. We see core CPI and the all items index posting month-over-month gains of 0.3% and 0.4%, respectively. Year-over-year, headline CPI growth stayed flat at 3.4%, while core inflation ticked down from 2.5% to 2.4%.

FRIDAY September 11 - 10:00

September	
Consensus	51.0
Desjardins	51.0
August	**51.7**

University of Michigan consumer sentiment index (September – preliminary) – After improving in June and July, the University of Michigan's consumer sentiment index declined again in August. Developments in the Persian Gulf conflict and their impact on gasoline prices have been driving recent swings in sentiment. Prices continued to rise over the past week, likely dampening consumer confidence once again. The stock market has also edged lower since mid-August. However, the outlook isn't entirely bleak. The TIPP Economic Optimism Index perked up slightly in September, and the labour market rebounded from its July dip. On balance, we expect the University of Michigan index to post a modest decline.

OVERSEAS

TUESDAY September 8 - 21:30

August	**y/y**
Consensus	0.9%
July	**0.5%**

China: Consumer price index (August) – Inflation may have picked up somewhat in August after slowing to 0.5% in July. The continued sharp decline in food prices, which fell 1.5% year over year, along with lower transportation costs, should help keep CPI growth in check. Core inflation of 0.9% and services inflation of 0.7% also point to persistent weakness in domestic demand. More favourable base effects could nevertheless bring headline inflation closer to 1%, although some disinflationary pressures remain. A weaker-than-expected reading would strengthen the case for further policy easing, particularly given the rebound in energy prices in August.

THURSDAY September 10 - 8:15

September	
Consensus	2.50%
Desjardins	2.50%
July 23	**2.25%**

Eurozone: European Central Bank meeting (September) – We expect the ECB to deliver a 25bp rate hike at the September meeting. This summer's data releases position the ECB close to its June baseline scenario, which warrants policy tightening. A rate hike next week will put the policy rate at the upper limit of the neutral rate range. We expect the communication to once again point to a meeting-by-meeting approach and clear data dependency.

FRIDAY September 11 - 2:00	
July	**m/m**
Consensus	0.0%
June	**0.3%**

United Kingdom: Monthly GDP (July) – The economy continued to grow in the spring, with real GDP expanding by 0.4% on a non-annualized basis. This was supported by stronger investment but held back by slower consumer spending and a decline in government expenditures. Monthly data also showed that most of the gain came from a rapid acceleration in June. The July figures will tell us whether that momentum continued or gave way to a decline at the start of the third quarter. One early indicator is that retail sales fell 0.5% in July.

Economic Indicators

Week of September 7 to 11, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 7	---	Markets closed (Labour Day)				
TUESDAY 8	15:00	Consumer credit (US$B)	July	11.340	20.500	14.173
WEDNESDAY 9	---	---				
THURSDAY 10	8:30	Initial unemployment claims	Aug. 31–Sep. 4	205,000	209,000	206,000
	8:30	Producer price index				
		Total (m/m)	Aug.	0.4%	0.6%	0.0%
		Excluding food and energy (m/m)	Aug.	0.3%	0.3%	0.2%
	10:00	Wholesale inventories – final (m/m)	July	n/a	1.3%	1.3%
	10:00	Existing home sales (ann. rate)	Aug.	3,990,000	3,990,000	4,060,000
FRIDAY 11	8:30	Consumer price index				
		Total (m/m)	Aug.	0.4%	0.4%	0.1%
		Excluding food and energy (m/m)	Aug.	0.2%	0.3%	0.2%
		Total (y/y)	Aug.	3.4%	3.4%	3.4%
		Excluding food and energy (y/y)	Aug.	2.4%	2.4%	2.5%
	10:00	University of Michigan consumer sentiment index – prel.	Sep.	51.0	51.0	51.7
	14:00	Federal budget (US$B)	Aug.	n/a	n/a	-344.8
CANADA						
MONDAY 7	---	Markets closed (Labour Day)				
TUESDAY 8	---	---				
WEDNESDAY 9	---	---				
THURSDAY 10	---	---				
FRIDAY 11	8:30	National balance sheet	Q2			

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of September 7 to 11, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (€B)	Aug.	120.00		112.50	
MONDAY 7							
Japan	1:00	Leading index – preliminary	July	118.0		116.5	
Japan	1:00	Coincident index – preliminary	July	120.2		118.5	
Germany	2:00	Industrial production	July	0.3%	0.0%	0.2%	-0.1%
Eurozone	5:00	Net change in employment – final	Q2	n/a	n/a	0.1%	0.5%
Eurozone	5:00	Real GDP	Q2t	0.4%	1.0%	0.4%	1.0%
Japan	19:50	Current account (¥B)	July	2,510.7		1,396.9	
Japan	19:50	Real GDP – final	Q2	0.4%		0.3%	
TUESDAY 8							
Germany	2:00	Trade balance (€B)	July	15.8		15.4	
France	2:45	Trade balance (€M)	July	n/a		-5,847	
France	2:45	Current account (€B)	July	n/a		-1.4	
China	21:30	Consumer price index	Aug.		0.9%		0.5%
China	21:30	Producer price index	Aug.		3.6%		3.5%
WEDNESDAY 9							
France	2:45	Industrial production	July	0.2%	0.4%	0.1%	-0.1%
THURSDAY 10							
Germany	2:00	Consumer price index – final	Aug.	0.2%	2.9%	0.2%	2.9%
Italy	4:00	Industrial production	July	0.3%	n/a	-1.0%	-0.6%
Eurozone	8:15	European Central Bank meeting	Sep.	2.50%		2.25%	
Japan	19:50	Producer price index	Aug.	0.0%	7.4%	0.1%	7.2%
FRIDAY 11							
Germany	---	Current account (€B)	July	n/a		19.0	
United Kingdom	2:00	Trade balance (£M)	July	-5,150		-5,537	
United Kingdom	2:00	Construction	July	0.2%	-2.3%	-0.1%	-2.3%
United Kingdom	2:00	Index of services	July	0.0%		0.4%	
United Kingdom	2:00	Monthly GDP	July	0.0%		0.3%	
United Kingdom	2:00	Industrial production	July	-0.2%	0.2%	-0.2%	-0.2%
Russia	6:30	Bank of Russia meeting	Sep.	14.00%		14.00%	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).