

French spreads, the ECB and the outlook for Europe

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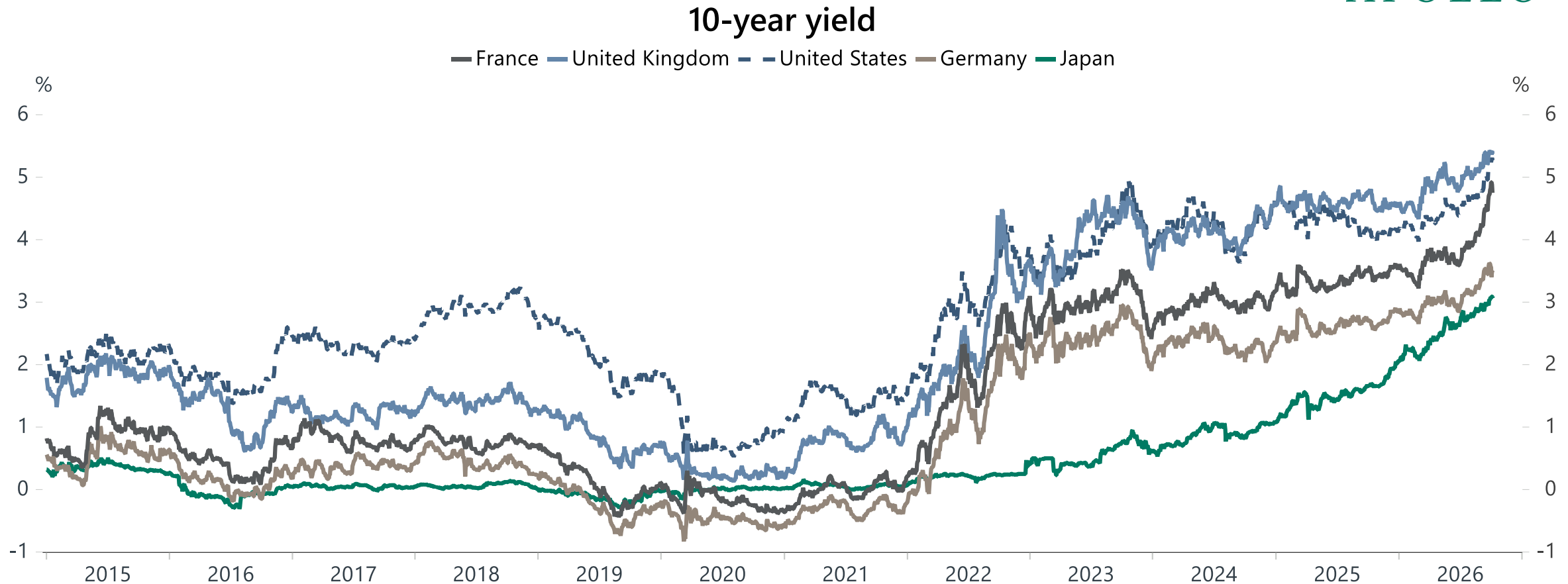
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Overview and global backdrop

10-year yields rising everywhere

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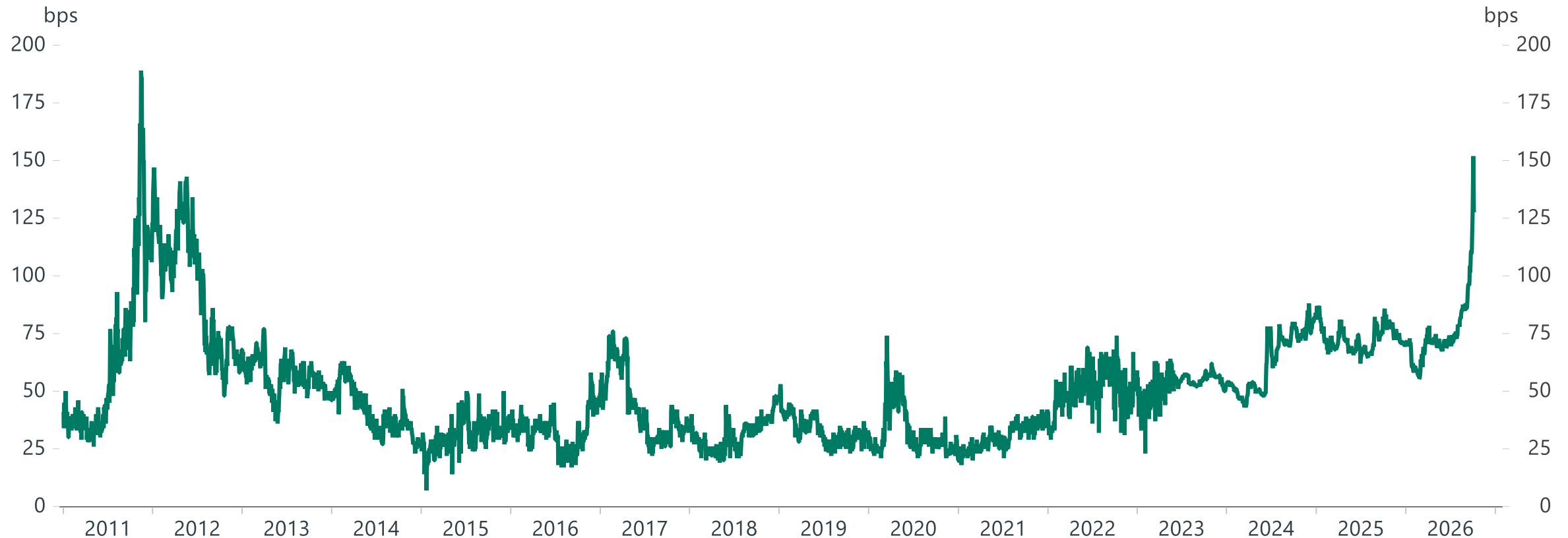
Source: Macrobond Financial AB, U.S. Department of Treasury, Macrobond, Apollo Chief Economist

French spreads

French minus Germany at the widest level since 2012

France minus Germany 10 year yield spread

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French 10-year yield now higher than Greece



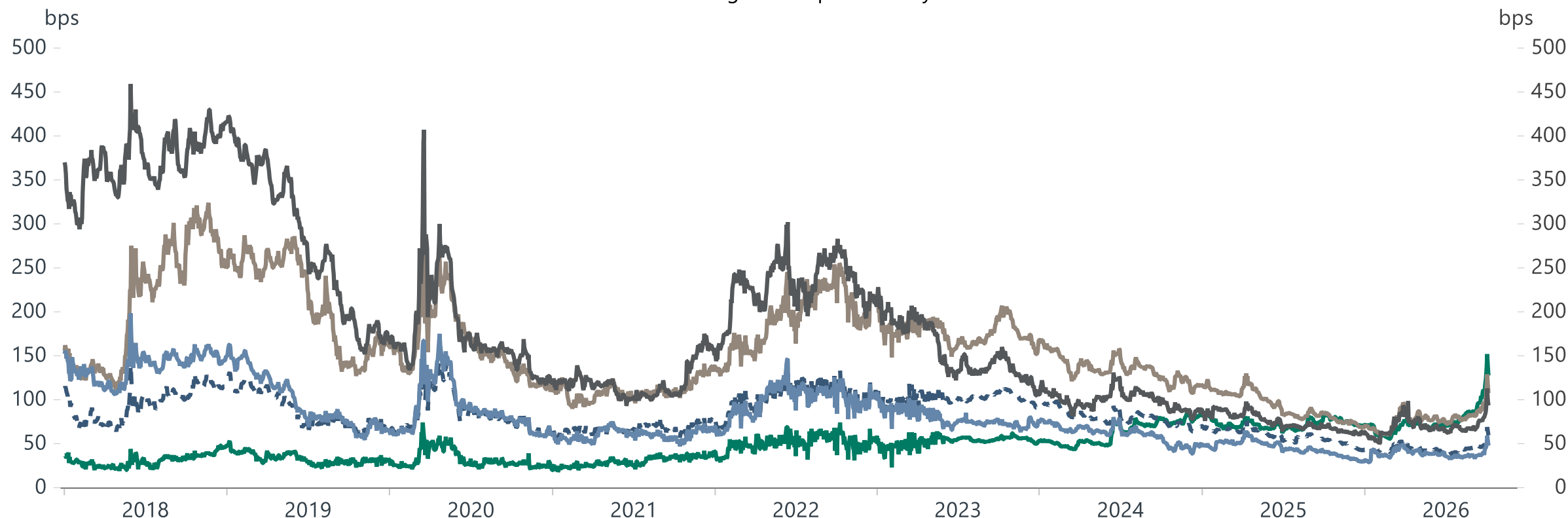
Source: Macrobond Financial AB, Macrobond, Apollo European and Policy Strategist

French spreads are now wider than Italy, Spain and Greece.
But lower than when the ECB has intervened in the past

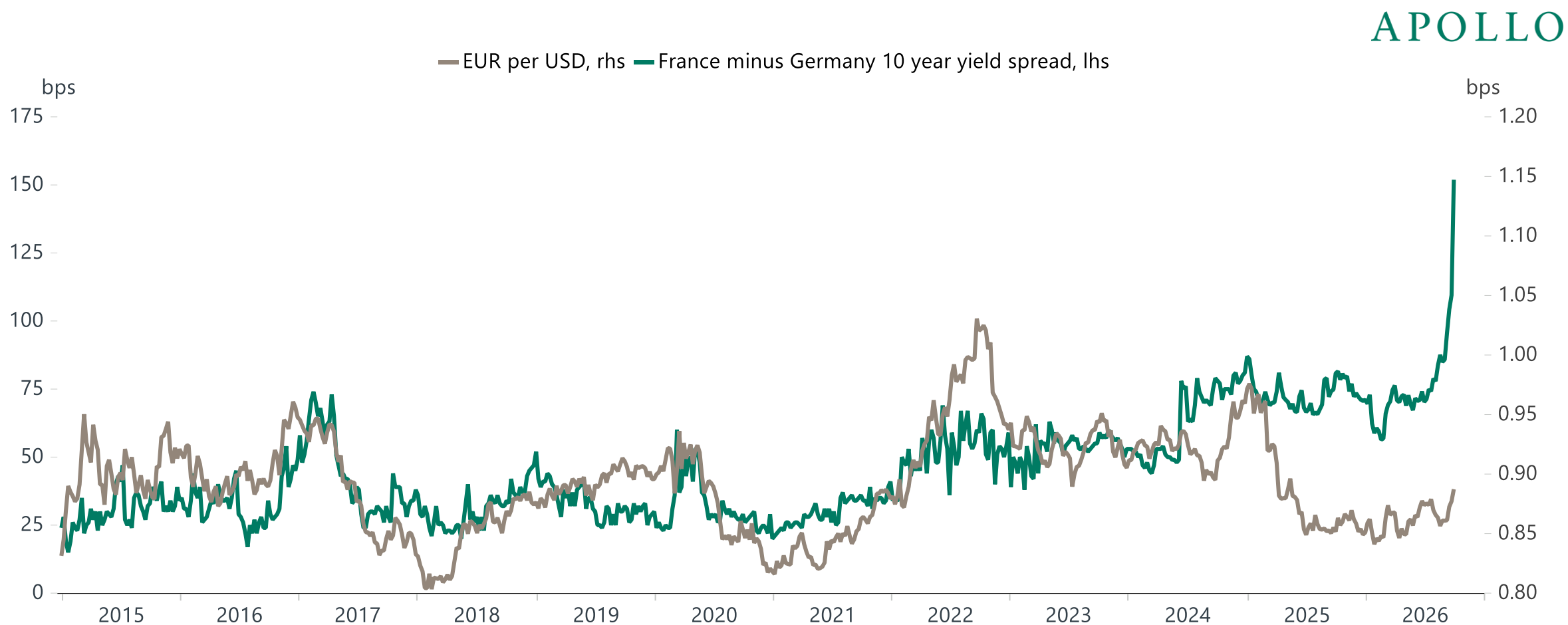
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Spread of 10 year sovereign bonds over bunds

— Greece — Portugal — Spain — Italy — France

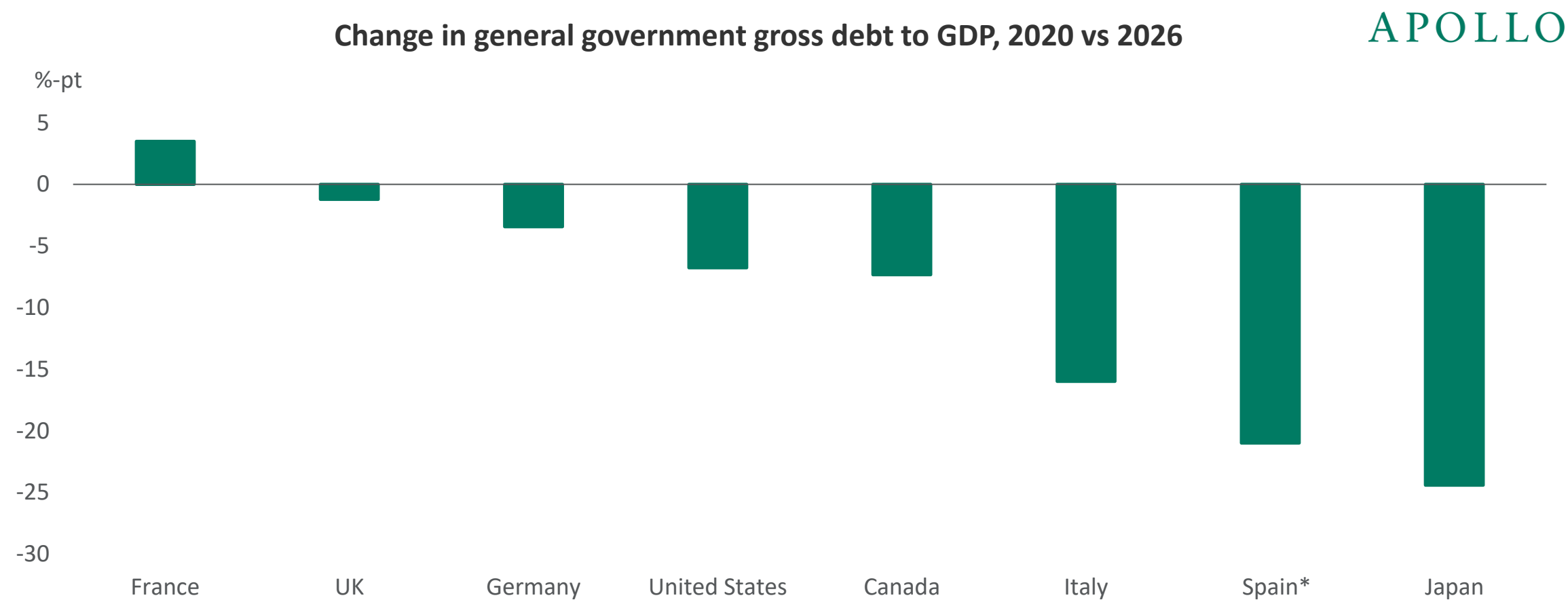


French spreads have disconnected from the euro



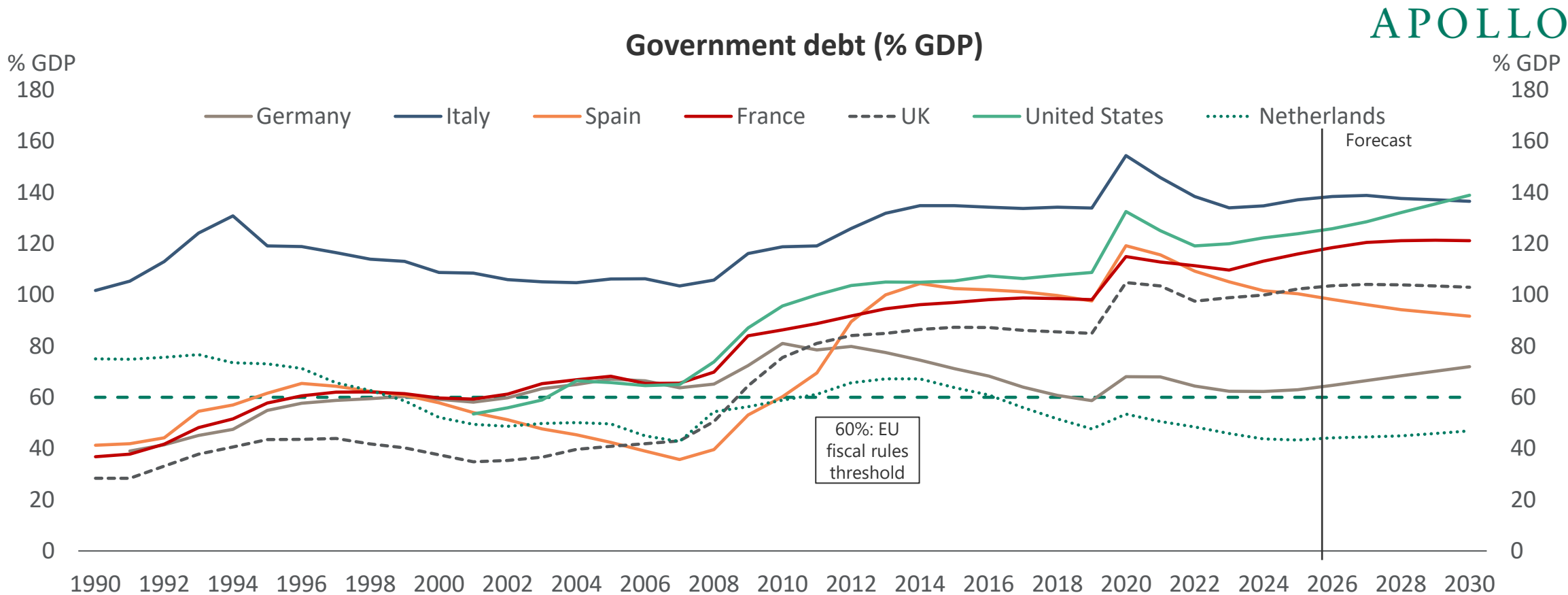
The fiscal situation in France

France is the only G7 country with debt/GDP above pandemic levels

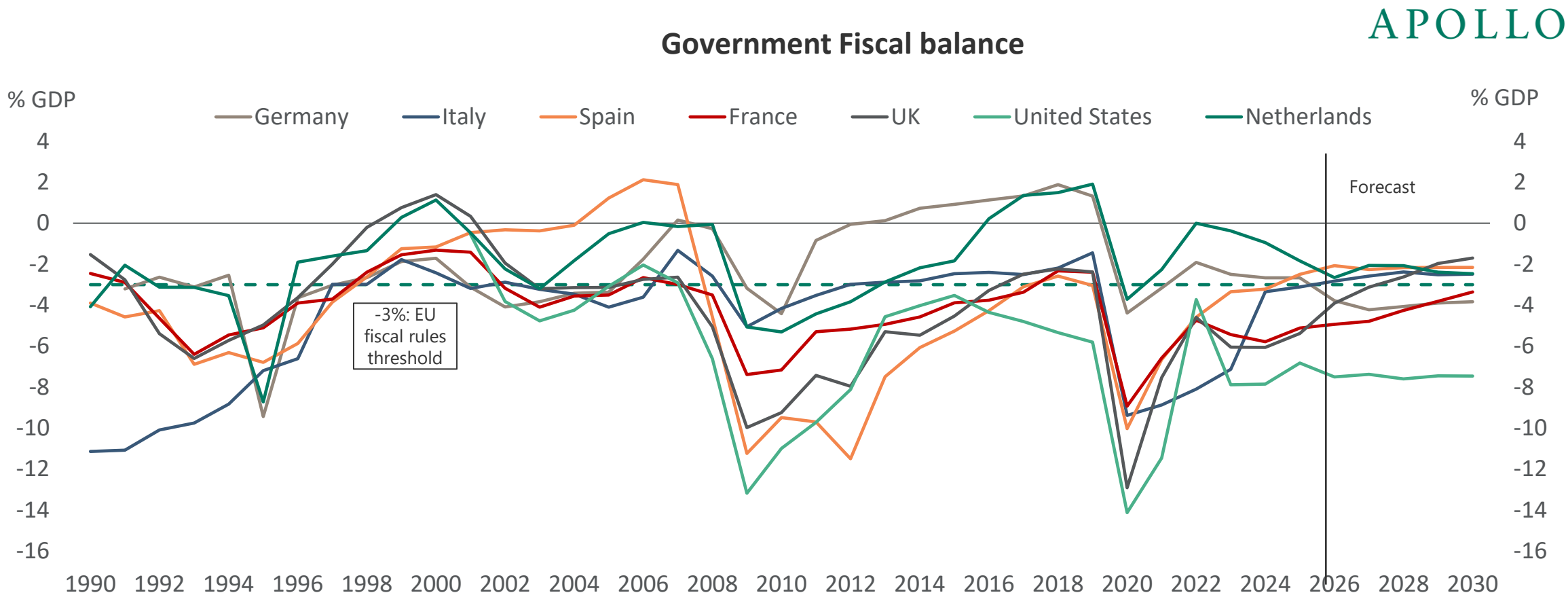


Source: IMF WEO, Haver Analytics, Apollo Economics *Spain added for comparison

Government debt rising for France



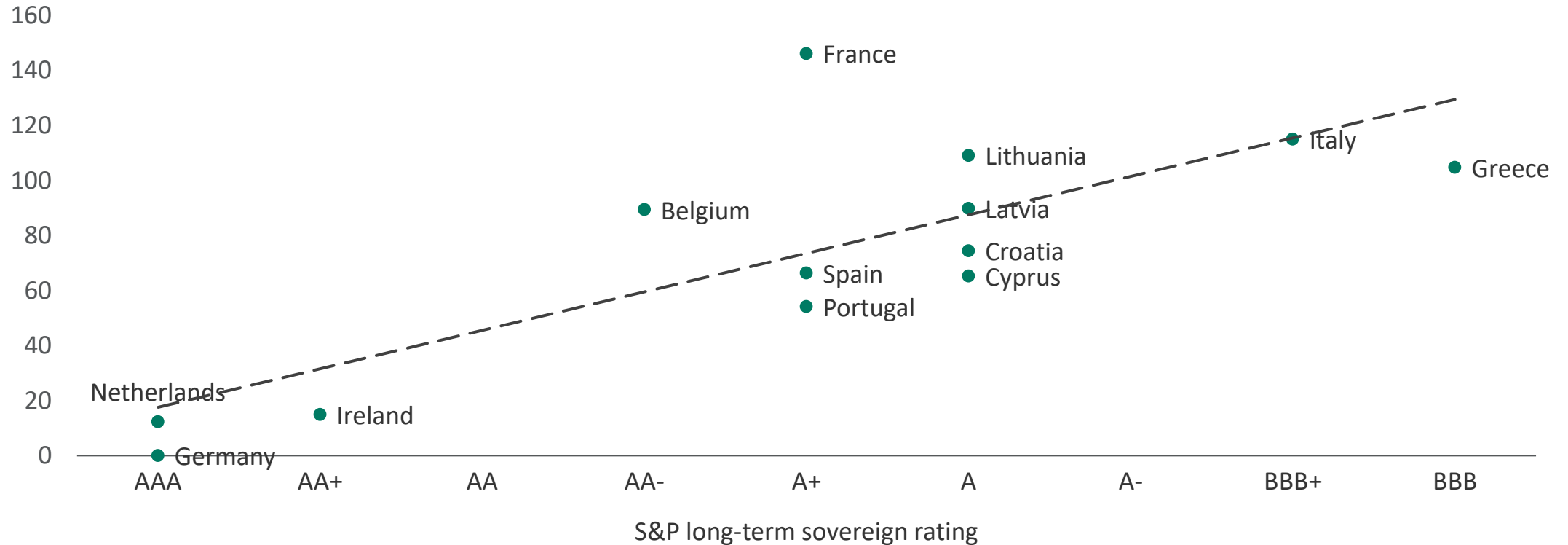
Fiscal balances in the G7 countries



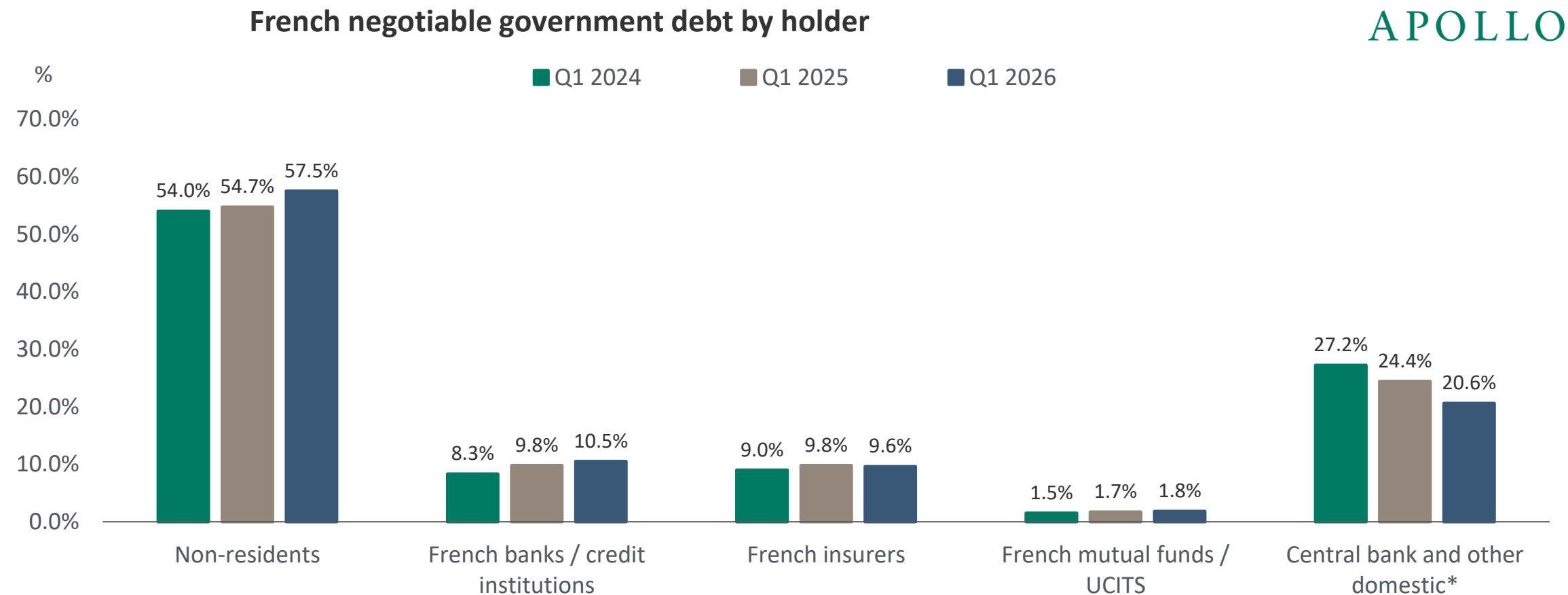
Markets are pricing French bonds as if far lower rated

10-year yield spread vs
Germany (basis points)

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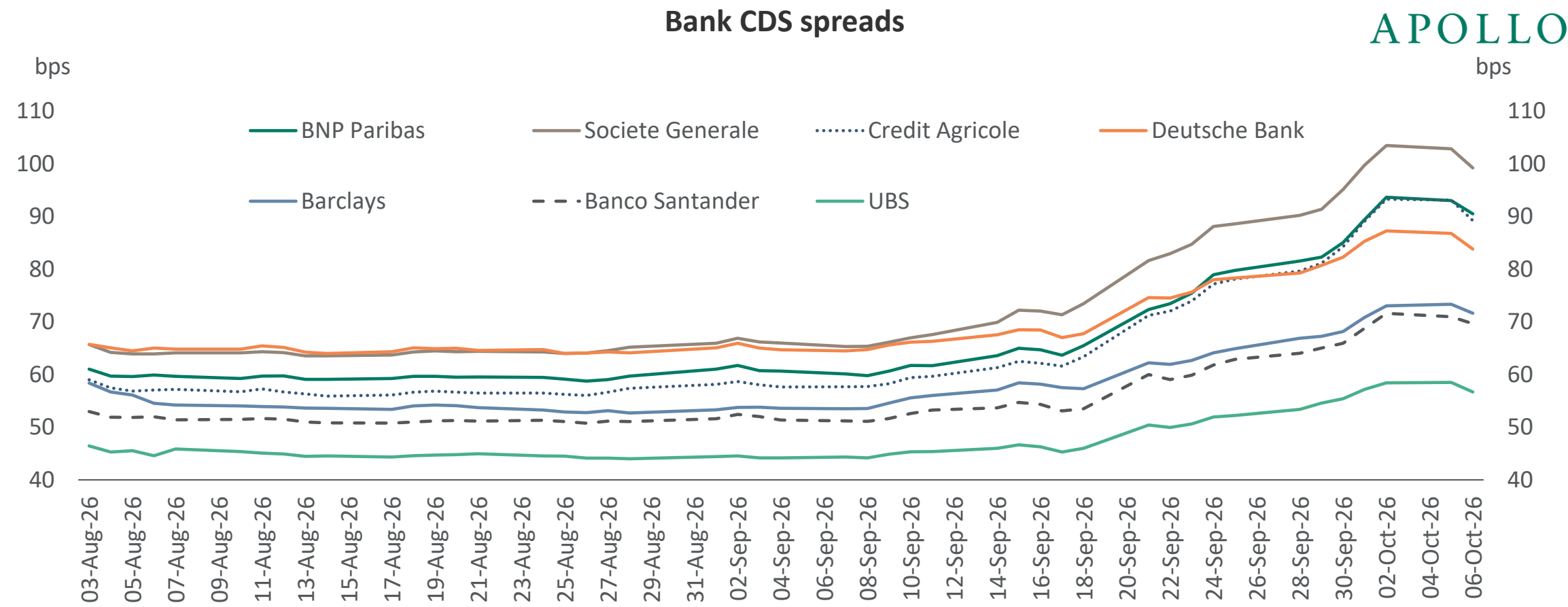
Foreign ownership of French bonds has been increasing as the ECB has reduced holdings



Source: Banque de France data as reproduced by Agence France Trésor (AFT), Apollo Economics. Note: Percentages are shares of negotiable government debt at market value, * AFT's official category is "Other French residents", it includes Banque de France/Eurosystem holdings as well as other domestic holders.

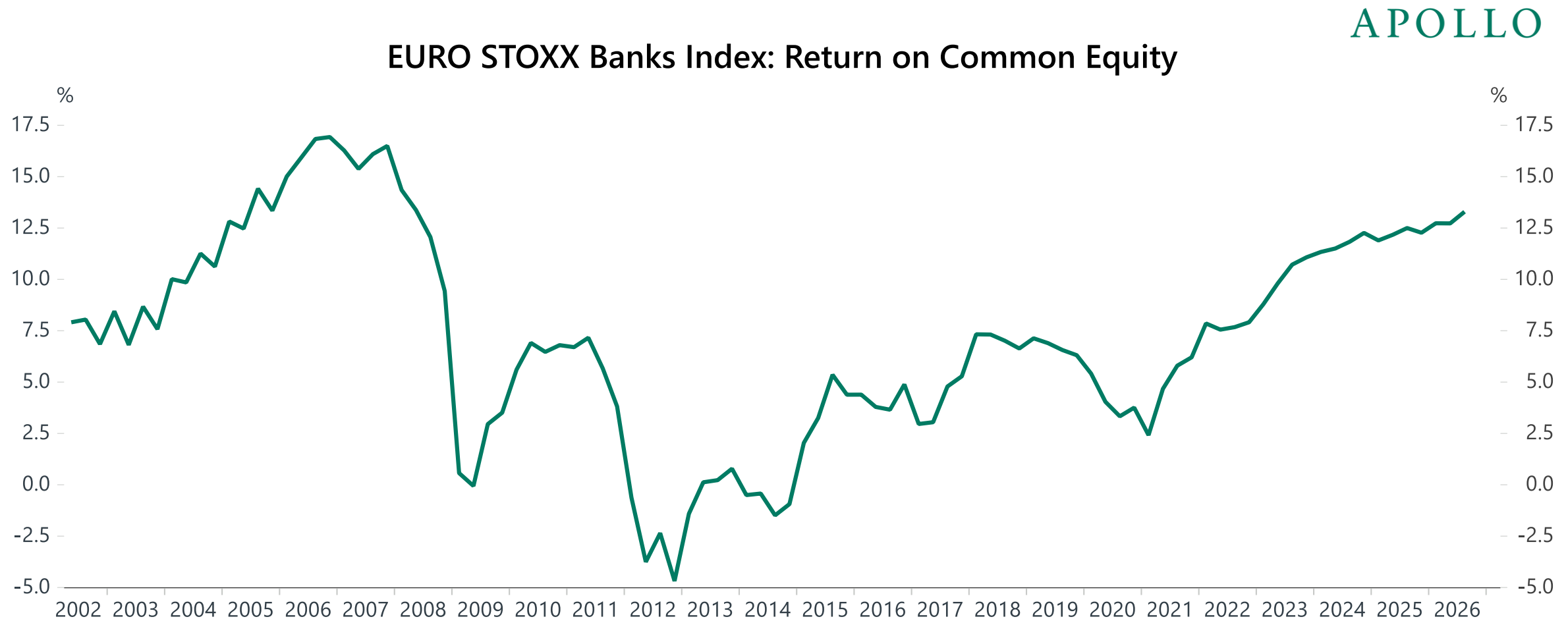
The banking sector

Bank CDS spreads

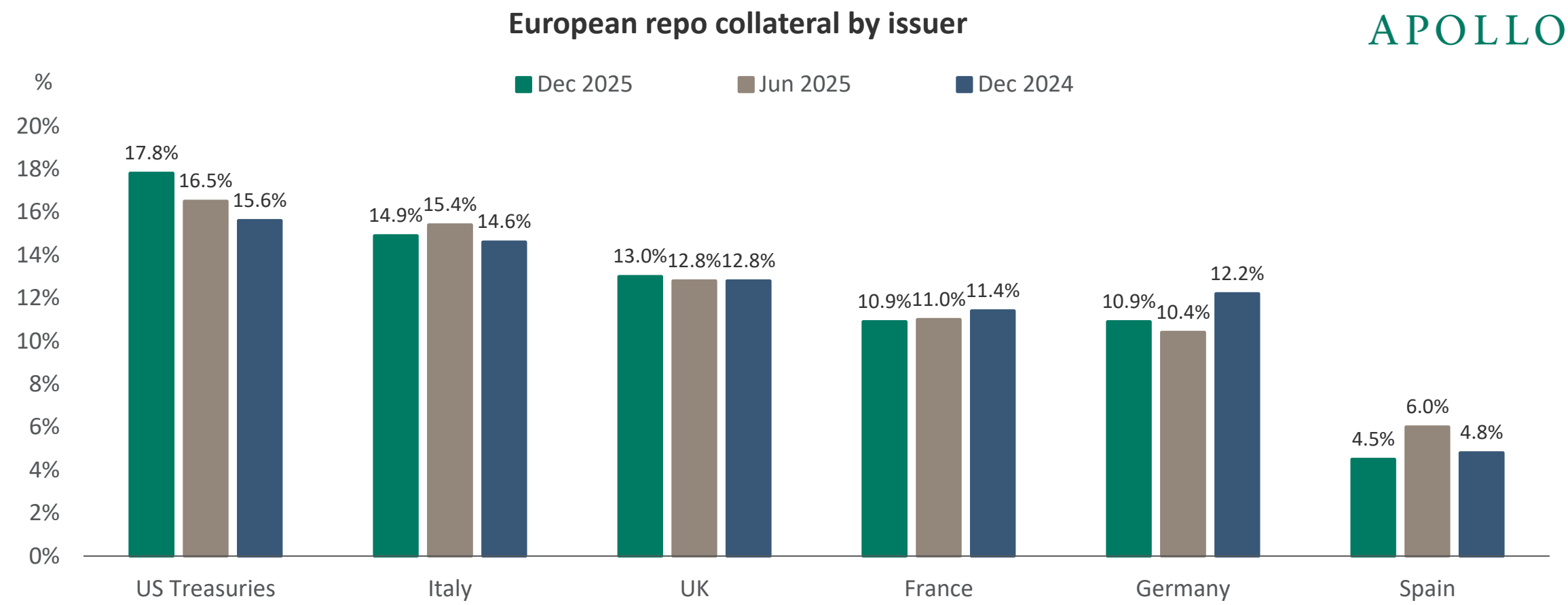


Source: Bloomberg, Apollo Economics

European banks though are in the best health for decades – unlike during the Eurozone crisis



French government bonds underpin roughly one-tenth of the European repo market



Source: ICMA European Repo Market Survey No. 50, Apollo Economics.

Policy options for the ECB

ECB reaction function in focus

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Options for the ECB include:

- Pause or slow QT.
- New or modified asset purchases.
- Transmission Protection Instrument (TPI).
- Outright monetary transactions (OMT).

The bottom line is that pressure on the French government and ECB is rising; the ECB is unlikely to step in until spreads and yield levels pose a threat to financial stability.

The important thing to watch is whether the sell-off stays in France or spreads to the rest of the euro area.

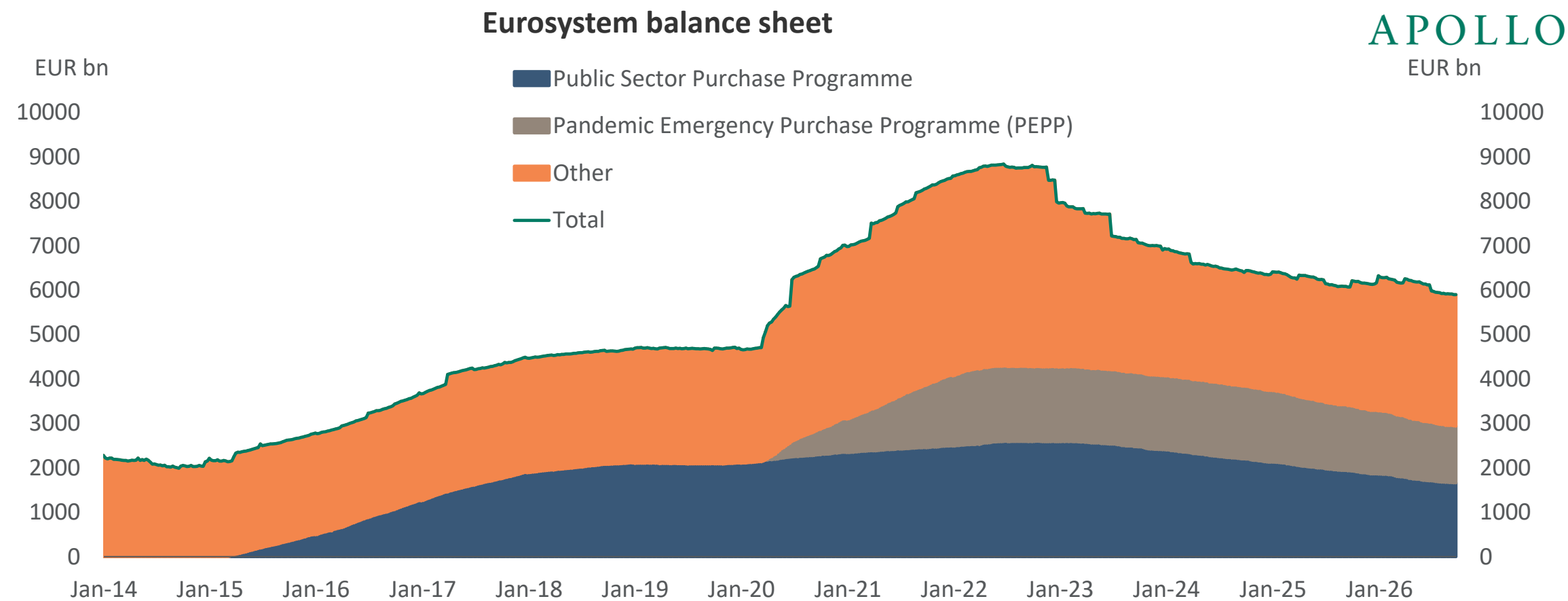
Market has reduced expectations of ECB hikes

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Market implied number of rate hikes in 2026 by the ECB



ECB balance sheet



Conclusion

What we are watching

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- Next French parliamentary budget debate is October 13
- Will the French budget be passed, and with what revisions?
- This will be the last budget before the French Presidential election in April 2027
- Watch ECB communication/silence
- US 10-year rate dynamics and energy prices
- So far, the global macro backdrop is strong. But higher rates are slowing growth. Any signs of weakness in the European business cycle would create additional fiscal problems

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Huw van Steenis is Partner at Apollo where since August 2026 he advises on economic, financial and policy trends.

He serves on the Investment Committee of the Oxford Endowment and the MSCI Advisory Council.

Previously, Huw served as Senior Adviser to Mark Carney when he was Governor of the Bank of England, where he led the van Steenis Review on the future of UK finance.

Huw spent 14 years at Morgan Stanley, where he was Global Head of Banks and Diversified Financials Research. He and his teams were ranked No. 1 in investor surveys 12 times.

He has also served as co-Chair of the World Economic Forum's Council on Financial Services, Senior Adviser to the Chief Executive of UBS and Vice Chair at Oliver Wyman. He was educated at Oxford and INSEAD.

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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D. in Economics and has studied at the University of Copenhagen and Princeton University.