MASHREQ GLOBAL DIGEST
UK
October 25 – October 31

This edition of the Market Digest highlights the UK's latest macroeconomic and financial developments, alongside recent deals and key trends influencing the country's economic outlook.

Macroeconomic News

UK 2027 Growth Forecast Cut to 1%



The UK economy is now forecast to grow just 1% in 2027, down from the 1.6% projected in March, according to the Office for Budget Responsibility. Growth for 2026 was slightly upgraded to 1.2%, while the OBR expects a gradual recovery to 1.6% in 2028, 1.8% in 2029, 1.7% in 2030 and 1.6% in 2031. The downgrade reflects a much weaker near-term outlook than previously expected, increasing pressure on the government to support growth while maintaining fiscal discipline.

Reference: Reuters

UK Inflation Rises to 3.5% in September



UK inflation rose to 3.5% year-on-year in September, up from 3.1% in August and slightly above expectations, driven mainly by higher motor fuel prices. Long-term inflation expectations eased to 4% in October from 4.3%, but analysts said the decline was unlikely to change the Bank of England's near-term policy path, with a 25-basis-point rate hike expected next week.

Reference: CNBC, Reuters

UK Budget Raises Taxes While Easing Household Costs



The UK government unveiled its latest budget, combining targeted tax increases with cost-of-living support. Measures include a temporary doubling of the bank profit surcharge to 6%, £100 energy payments for 20 million households, a 3.9% minimum-wage increase and £20.4 billion in funding for Britain's national business lender and infrastructure bank. Fiscal headroom is expected to fall to £15 billion in 2029/30 from £24 billion previously, leaving less room to absorb future shocks. The package aims to support households and investment while raising more revenue.

Reference: Reuters, Reuters

UK House Price Growth Slows to 0.5% in October



UK house prices were 0.5% higher year-on-year in October, down from 0.8% in September and the weakest annual growth since January 2024. Prices were flat month-on-month as higher market interest rates and mortgage costs weighed on buyer demand. Rising energy prices and inflation concerns have also increased expectations that the Bank of England could raise rates to 4% from 3.75%. The figures suggest the housing market is losing momentum as borrowing costs remain elevated.

Reference: Reuters

BoE Considers Easing High-Risk Mortgage Rules

The Bank of England is considering allowing lenders to issue more mortgages at up to five times household income, compared with the current 4.5-times threshold, according to the Financial Times. The move comes as mortgage approvals fell to 53,443 in September, the lowest since December 2023, as higher borrowing costs weakened demand. Easing the rules could improve access to credit and support the housing market, although it may also increase household leverage.

Reference: Bloomberg, Reuters

UK Retail Sales Decline at Slowest Pace in 18 Months

UK retail sales volumes declined in the year to October at their slowest pace since April 2025, with the CBI's retail sales indicator improving markedly to -10% from -55% in September. Sales were broadly in line with seasonal norms for the first time since May 2024. Retailers expect a further modest decline in November, with the outlook remaining fragile amid cautious household spending and higher fuel costs.

Reference: CBI

Financial/Tech News

Pound Faces Pressure From UK Budget Restraint



Sterling could weaken if tighter government spending weighs on UK economic growth, according to Morgan Stanley. The bank sees the pound falling to around $1.30 by year-end from about $1.33, warning that investors may be too optimistic about the fiscal outlook. The key risk is that stronger fiscal restraint could improve public finances while simultaneously weakening growth and reducing support for sterling.

Reference: Bloomberg

UK Sets Out £600M for AI Security and Innovation

The UK government announced around £600 million ($800 million) in AI-related funding, focused mainly on biosecurity and cyber defense. The package includes £100 million for an AI Biosecurity Lab, £120 million for the AI Security Institute and £130 million for critical-infrastructure cyber protection, alongside funding for robotics, chip design and AI research. The investment strengthens the UK's AI capabilities while addressing security risks.

Reference: Reuters

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UK Business Distress Hits Two-Decade High



The number of UK businesses in significant financial distress reached 738,144 in Q3 2026, up 1.6% year-on-year and the highest level since BTG's red-flag report began in 2004. Support services, construction and real estate recorded the largest numbers of distressed firms, while hospitality saw a 5% increase. Businesses are being squeezed by higher employment costs, inflation, energy prices and borrowing costs.

Reference: The Guardian

UK Firms See Pay Growth Around 3.5% in 2027

UK businesses expect wage growth of around 3.4%–3.6% in 2027, broadly in line with current rates, according to Bank of England surveys. The figures suggest pay pressures are likely to remain persistent next year, keeping labor costs elevated for UK companies.

Reference: Reuters

UK Budget Disappoints London Stock Market

The UK budget included plans to increase public investment funding and encourage first-time investors, but stopped short of major measures sought to revive London's stock market, including removing the 0.5% stamp duty on shares. At the same time, five-year gilt yields reached their highest level since 2008, highlighting rising government borrowing costs and adding pressure to the broader investment backdrop. The limited reforms may therefore do little to ease concerns over London's competitiveness and its ability to attract listings and investment.

Reference: Bloomberg, Reuters

Revolut Expands Into UK Personal Lending

Revolut, Europe's most valuable start-up, has entered the UK personal loans market after securing a full British banking license in March. The move puts the fintech in more direct competition with established UK lenders. Its expansion highlights growing pressure on traditional banks as digital players broaden their services.

Reference: The Times

Deals/Trade

UK and EU Seek Compromise on 'Made in Europe' Rules

Britain and the EU are working to resolve concerns over proposed "Made in Europe" rules, which could disadvantage UK manufacturers in sectors such as EVs, batteries and clean technologies. A compromise could allow Britain to be treated as a trusted partner if it aligns more closely with EU tariffs on China. A deal would reduce uncertainty for UK manufacturers and protect access to European industrial programs.



Reference: Reuters

UK Approves 2GW Undersea Power Cable

Britain has approved a 2 GW undersea electricity link between Suffolk and Kent, capable of carrying enough power for around 2 million homes. The 138 km project, developed by National Grid, is expected to begin construction in 2027 and be completed in the 2030s. The project supports the UK's push to strengthen grid resilience, reduce wasted energy and accommodate more renewable power.

Reference: Reuters

Markets

Market Dashboard

- U.S. stocks ended the week lower, with the S&P 500 down 0.6%, the Dow falling 0.9% and the Nasdaq dropping 2.0%. The weakness was driven mainly by technology shares as investors questioned whether heavy AI spending will generate sufficient returns, while disappointing results from Intel and Amazon intensified the selloff. Chipmakers were hit particularly hard, with Intel plunging 28.6% on Friday, Nvidia falling 4.2% and AMD dropping 10.9%. Energy stocks provided some support as higher oil prices lifted profits, but overall sentiment remained risk-off.
- Bitcoin fell sharply during the week after hackers stole $6.3 billion from Binance, triggering a broad crypto selloff and pushing the token to around $76,400, its lowest since mid-September. Prices later recovered slightly after Binance said it would cover the losses, but sentiment remained fragile amid renewed concerns over security risks in the crypto market.
- Gold fell sharply over the week, with spot gold down 3.0% and dropping below $4,000 an ounce, reaching about $3,875, its lowest level in a year. The decline accelerated on Friday as the technology selloff triggered forced selling and margin calls, while expectations that interest rates could remain higher for longer also weighed on precious metals. Silver, platinum and palladium fell even more sharply, down around 7%–9% over the week, reflecting weaker industrial demand and broader risk-off pressure across metals.
- Oil prices rose sharply over the week, as markets priced in growing risks of supply disruptions from the Iran conflict. On Friday alone, Brent jumped 2.4% to $117.64 a barrel, while WTI rose 2.1% to $104.12, after a tanker was hit in the Strait of Hormuz and security risks increased around key Gulf oil infrastructure. For October overall, Brent was up 13.6% and WTI 15.2%, reflecting heightened geopolitical risk and concern over Middle East supply flows.
- The euro weakened against the U.S. dollar, trading near $1.1183 on Friday and heading for a second straight monthly decline. The ECB kept rates unchanged, while relatively stronger U.S. growth continued to support the dollar.

Indicators	23-Oct-26	30-Oct-26	% Change
S&P 500	7,623.68	7,580.07	-0.57%
Bitcoin	81,074.19	77,198.21	-4.78%
Gold	3,995.80	3,875.44	-3.01%
Crude Oil	111.70	117.64	5.32%
EUR/USD	1.1221	1.1183	-0.34%