



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Major Country Risk Developments October 2026



By Byron Shoulton



Overview

The collision of scientific progress, moral imperative and financial incentive is creating a potential crisis for the AI industry. AI's development has fueled a revolution in how we live, think, work and produce. It has ushered in a ballooning stock market, which looms even larger with Anthropic and OpenAI both approaching initial public offerings that could value the companies at trillions of dollars. Competition from China has further raised the stakes.

Meanwhile, loud warnings by leaders inside AI companies have highlighted that the dangers of proceeding—without regulation—are potentially immense. The warnings come on top of rising public backlash over the

impact that the AI revolution is starting to have on education, jobs, prices, and land use. The negative drumbeat has continued, and anxiety from some corners of Silicon Valley has spilled into the mainstream. AI-safety campaigners warned last month that companies are moving dangerously fast in their quests for market share. These insiders have strongly urged governments to erect guardrails around AI. In recent weeks, OpenAI and Anthropic have called on industry partners to slow down the development of cutting-edge AI models and invest in safety standards, noting they will temper the pace of their own internal AI progress.

The U.S. Treasury Secretary and China's Vice Premier

[Celebrating FCIA's Legacy, Inspiring Its Future—watch here](#)



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

met ahead of the September summit between Presidents Trump and Xi to discuss creating a direct hotline for AI-related national security issues. This would facilitate communication between the two AI super-powers. A welcome first step.

Separately, both countries also agreed to \$60 billion in trade between them that would be subject to low tariffs. The U.S. listed 77 Chinese imports - ranging from child seats and electric shavers to fishhooks, that will be subject to low U.S. tariffs. The agreement comes as the two sides agreed ahead of Xi's visit to extend their year-long tariff war ceasefire by two months to January 2027. The agreement carves out \$30 billion of Chinese imports that will qualify under the new low tariff regime. China is expected to do likewise, allowing \$30 billion worth of U.S. goods to enter China at lower tariffs.

USA

The U.S. economy remains robust despite inflation, tariffs and higher borrowing costs, defying a run-up in Treasury yields and a recent Federal Reserve ("the Fed") rate increase. The usual economic brakes have not slowed growth, hiring, or the AI investment boom. With AI's potential returns, even steep interest rates are unlikely to slow tech companies' investments.

The yield on 10-year Treasury notes, which plays a critical role in determining rates on mortgages and other types of debt, hit highs not seen in nearly 20 years, climbing to 5.2%. Bond prices have sagged over concerns about surging energy prices and elevated inflation. Treasuries are facing more competition for investors' cash from an explosion of bonds issued by companies involved in the AI build-out. Strong economic data are also pushing up yields by stirring speculation that the Fed may have to raise rates even higher than previously expected to cool a potentially overheating economy. Reinforcing that concern, some worry that climbing borrowing costs may do less today to slow the economy than they have in the past, potentially requiring an even bigger response from

the Fed.

Hiring picked up in August, and layoffs have remained low. Manufacturers report business picking up steam. With surging AI investments, overall economic growth was strong in the second quarter. The S&P purchasing managers' index provided the strongest evidence yet. The gauge of manufacturing activity registered its biggest monthly increase since 2022. A reading of service-sector activity also jumped to its highest level since 2021. New orders for components, equipment, raw materials, machinery, generators, cooling equipment, aircraft; and demand for defense related supplies and royalties to U.S. tech companies, are powering growth in both the manufacturing and service sectors.

The consensus is that inflation is unlikely to return to the Fed's 2% target anytime soon. Hence, the need for higher interest rates. Over time the impact of tariffs should fade, and energy prices could eventually begin to fall after the Iran conflict is resolved (and strategic reserves are sufficiently replenished). For now, there is a growing risk that private-sector demand will pick up enough to result in more durable inflation. Higher interest rates have already weighed on sensitive sectors of the economy, like housing. Mortgage rates climbed 7% for the first time in over a year, further dampening an already sluggish housing market. Commercial landlords are feeling the squeeze as well.





Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Many consumers' investment accounts have been lifted by soaring stock indexes, boosted by strong corporate earnings and AI optimism. Substantial savings in money-market funds, where higher interest rates boost returns, have helped sustain consumer spending and confidence. Meanwhile, the U.S. government debt burden has soared. Yields have also been closely correlated to oil prices, reflecting worries that higher energy costs could feed into broader inflation. The U.S. government debt servicing costs hit \$1 trillion in 2026, which is expected to stay elevated given high borrowing costs and a ballooning federal debt (currently \$40 trillion).

Markets are concerned by just how much the Fed may have to raise interest rates to keep inflation in check. Through the summer, many officials at the Fed appeared optimistic that inflation would fall toward the central bank's 2% target on its own. However, the August inflation data indicated that prices were still rising faster than the Fed's comfort level, which led to an increase in inter-

est rates for the first time in three years. Most Fed officials indicate they expect at least one more rate increase before year-end 2026.

While crude prices eased, tightness remains in fuel markets. The U.S. national average price for diesel rose to a record \$6.60 a gallon, from \$3.67 a gallon a year earlier, according to the American Automobile Association.

Meanwhile, foreign investors made a record \$942 billion in net purchases of U.S. equities and investment fund shares in the 12 months to July, accelerating a shift in overseas investment towards U.S. stocks. The flows represent the highest rolling 12-month total in U.S. data going back to 1985. In the second quarter purchases of U.S. equities by foreign investors were up 62% from the same period in 2025 (surpassing the previous quarterly record of \$299 billion in 2022) according to the Bureau of Economic Analysis. The second quarter foreign investment surge was unusually large even compared with elevated



[Celebrating FCIA's Legacy, Inspiring Its Future—watch here](#)



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

foreign demand over the past year. Inflows of Korean and Taiwanese investments led to the latest surge.

By contrast, foreign demand for U.S. debt moved in the opposite direction. Overseas investors bought a net \$188 billion of U.S. debt securities in the second quarter, down from \$314 billion in Q1. This came as China's reported holdings of U.S. Treasuries fell to \$618 billion, their lowest level since August 2008, as Beijing diversifies to gold, agency bonds and other assets.

The U.S. is focused on continuing to reduce its trade deficit with China. The deficit reportedly declined by an estimated 40% since January 2025 to \$140 billion this year. According to the U.S. Census Bureau, the U.S. trade deficit with China for 2024 was \$297 billion. Differences remain between the superpowers, particularly regarding access to rare earth minerals. Washington wants Beijing to accelerate the flow of rare earths to the U.S. and its allies, including Japan, to which China has curbed such exports.

Middle East

Crude oil prices declined as Saudi Arabia signaled that it was preparing to restart its key pipeline. Also, improving flows through the Strait of Hormuz and hopes for renewed diplomacy over the Iran conflict eased immediate supply concerns. Beginning in late September oil prices fell as investors welcomed signs of renewed U.S.-Iran diplomacy and U.S.-China engagement. More recently, however, crude prices have rebounded as optimism over a diplomatic breakthrough has waned and geopolitical risks remain elevated.

In early September, prices were as high as \$109.97 per barrel after Saudi Arabia shut down the East-West pipeline following a series of drone strikes that destroyed pumping stations and caused several injuries. Since then, prices have remained volatile, reflecting ongoing uncertainty surrounding Middle East supply risks and diplomatic efforts involving Iran.

Saudi Aramco confirmed that it will partially restart the pipeline, easing worries over prolonged disruptions. However, technical hurdles remain, and Aramco has warned some European and Asian customers of possible delays or cancellations of deliveries in October. The pipeline carries crude from Saudi Arabia's eastern oil fields to the Red Sea port of Yanbu, providing an alternative export route when flows through the Strait of Hormuz (the "Strait") are constrained. Middle Eastern crude exports rebounded in September to their highest level since the war began in February, oil data trackers report. Shipments via the Strait of Hormuz and bypass routes were delivering just under 80% of their prewar regional flows as of September 25, according to tracker Kpler.



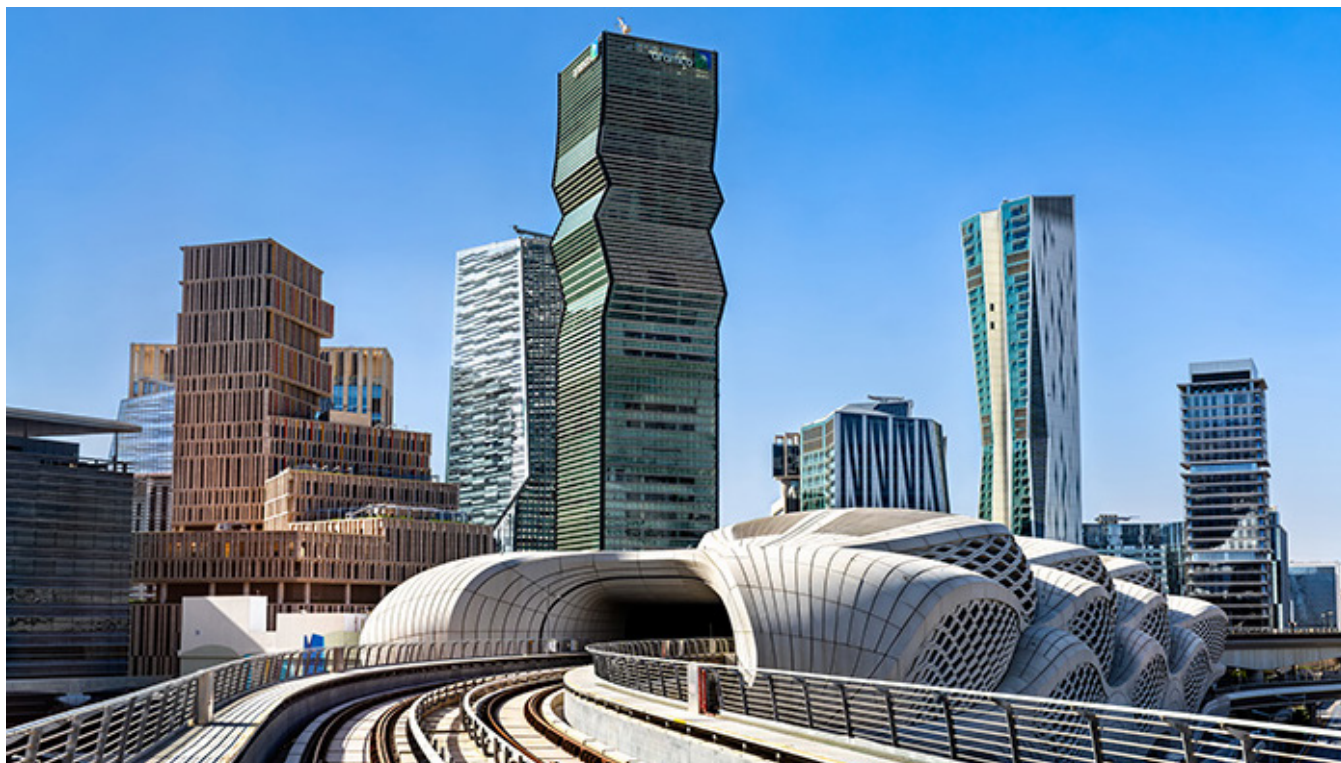
The broader crude market is not running out of oil, according to analysts at Julius Baer. Increased flows through the Strait and other routes have helped compensate for disruptions to the East-West Pipeline and the Bab al-Mandeb Strait, while lower demand has helped keep the global market roughly balanced since summer. Uncertainty has eased since the pipeline attack, lowering three-month oil-price forecasts. Nonetheless, oil prices continue to carry a persistent premium reflecting the risk of further supply disruptions.



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com



Security risks around Saudi Arabia remain elevated with more Houthi attacks and advances in the region. Saudi air defenses destroyed ballistic missiles targeting Riyadh and other cities, according to the Saudi Press Agency. An airborne attack separately hit jet-fuel facilities at King Khalid International Airport in Riyadh. The Houthis claimed attacks on Riyadh and Yanbu.

The security situation is also complicating Saudi shipments from the Red Sea. Numerous Saudi-flagged vessels have rerouted around South Africa's Cape of Good Hope rather than transit the Bab al-Mandeb Strait, adding around \$1 million to the cost of each voyage, according to maritime intelligence firm Windward. Traders have been selling oil on speculation that diplomatic meetings between Iran, China and the U.S. would lead to a potential breakthrough in efforts to end the war in the Middle East.

The rerouting is also straining tanker availability. Around

15% of the global fleet of very large crude carriers is currently off Oman. Tanker freight rates have climbed sharply as vessels are tied up in shuttle operations and longer voyages, according to Clarksons Research.

It is unclear how much oil will flow through the East-West pipeline when it restarts. Its official capacity is 7 million barrels of oil per day. Sources confirm that a quarter of capacity through the pipeline has been restored. However, no extra oil will be exported, since the flows will be used in Saudi Arabia's own refineries. If 40% of the pipeline's capacity is restored, there will be an additional 1 million barrels a day of crude on the market, according to International Energy Agency ("IEA") estimates.

Industry Spotlight: Diesel & Lubricants

Over the past three decades, Persian Gulf countries and Russia invested tens of billions of dollars in oil refineries,



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

enabling them bigger shares of the global diesel market. Now, war in both regions has caused exports to plunge, squeezing supplies of this essential fuel, which powers much of the global economy. Diesel prices have soared past \$6 a gallon in the U.S. for the first time and have kept climbing, hitting \$6.60. The price surge has rattled governments and markets around the world that rely on diesel for industrial production, transportation and agriculture. Shortages have appeared at gas stations in rural Brazil, in Libya and in other African nations that cannot afford to import the fuel.



The Iran and Ukraine wars left the U.S. as the producer of last resort for diesel and other refined products, and President Trump recently backed a potential ban on U.S. exports of diesel in an effort to lower domestic fuel prices ahead of upcoming midterm elections. However, a U.S. ban would send diesel prices soaring for the rest of the world and potentially push other big diesel exporters such as China and India to follow suit.

Russia has sharply restricted diesel exports because of damage to its refineries caused by Ukrainian drone strikes. China has limited its refinery exports, while India has imposed an export tax on diesel and gasoline. The diesel blocked in the Persian Gulf is three times as large as supplies missing from Russia compared with before the Iran war, according to data compiled by the IEA.

The market for refined fuels is global. Products are transported on huge tankers around the world, much like

crude oil. Before the Iran war, Middle East refiners tended to ship diesel to Asia and Europe. U.S. refiners exported large quantities of diesel to Europe, while European refiners often exported gasoline to the U.S. Russia sold diesel to Turkey, India and China.

A worldwide shortage of motor oil is becoming more acute, with prices of the car engine lubricant reaching new highs, oil-change shops running dry, and some leading retail groups rationing sales to customers. The cost of base oil used in full synthetic motor oil required for many newer cars has surged well beyond the price increases seen in crude oil, gasoline and diesel. The U.S. price of so-called Group III base oil has quadrupled since February. Base oil supplies were first disrupted after an Iranian strike in March damaged a huge Shell gas-to-liquids plant in Qatar in retaliation for the U.S.-Israeli war against Iran. The plant was a leading producer of Group III base oil.

The disruption has been compounded by Ukraine's increasingly successful attacks on Russian refineries, which have nearly halted exports. The difference between the price of crude and the price of diesel in many markets also hit a record high. The emergence of a tighter diesel market is more severe than seen in any previous period.

The Iran war came after a decade of major refinery construction in the Middle East led by the region's national oil companies. Kuwait National Petroleum Company built one of the world's biggest oil refineries at Al-Zour. The UAE boosted capacity at its refinery and Iraq opened a new refinery. Saudi Aramco built two refineries near the Red Sea. Those projects doubled diesel exports from the Middle East between 2017 and 2025, when the region accounted for 19% of global exports and jumped ahead of North America as the world's top diesel exporting region.

Russia has also expanded its diesel production, not by building new refineries but by upgrading existing ones. Exports rose by one-third between 2017 and 2023, when



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Ukraine began to take out Russian production with its drone attacks. The major refinery investments have had a knock-on effect: They put pressure on refining margins across the U.S. and Europe. Western oil companies have not built new refineries in decades, while more than a dozen facilities across the U.S. and Europe have shut down since 2015.

The oil majors reduced their exposure to refineries because the returns on actual capital employed were deemed poor. While refineries in the West have been running near capacity and shifting to diesel production, away from other refined products such as gasoline and jet fuel. Still, that has not done much to fill the gap left by the Middle East and Russia.



China is the one country outside the Middle East and Russia that has significant spare refining capacity. Yet, its refiners have limited their crude oil purchases and avoided running their facilities at full capacity. Speculation is that China, the world's largest crude importer, wants to avoid driving up the price of crude. The market is not convinced oil prices can fall for a sustained period without a resolution of the U.S.-Iran war — and knows that tensions could easily re-escalate. Goldman Sachs has noted that China is unlikely to increase its oil imports over the remainder of this year.

Europe

Germany and five other members of the EU have indicated that they will block the bloc's next seven-year budget unless there are cuts in the hundreds of billions of euros.

Europe's export-oriented economies are struggling to find balance between Brussels's embrace of "Made in Europe" requirements, tougher scrutiny of foreign investments and efforts to protect strategic industries. The ultimatum underscores divisions over the EU's new spending priorities, including defense and efforts to shore up ailing industries against Chinese and U.S. competition, while continuing to support farmers and poorer regions that have traditionally absorbed the bulk of its budget.

While some in the EU warn against swinging too far towards protectionism, Chinese competition is forcing action. Others warn that since Europe lacks capital and investors, restrictions on foreign investment should not become onerous. However, China's enormous trade surplus with Europe means the status quo is also untenable.

Meanwhile, Europe is at a critical moment: its energy security is unclear with oil prices above \$100 per barrel and adequate supplies of natural gas are not guaranteed. The region is bracing for winter with much lower gas storage than usual, and the U.S. is contemplating cuts to diesel exports. The IEA has laid out a list of potential measures governments can adopt, from encouraging working from home to cutting highway speed limits. Some member states have enacted tax cuts that are subsidizing fuel prices and pushing up demand for diesel and fuel.

The European Central Bank's president highlighted rising gas prices as an upside risk to regional inflation when the central bank raised interest rates in September. Soaring gas prices are being watched closely, given their greater importance to household inflation. European natural gas prices are up 160% this year to the highest level since the aftermath of Russia's full-scale invasion of



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Ukraine.

A global tug of war for liquefied natural gas (“LNG”) cargos threatens to catapult prices even higher as Europe needs to secure more supplies than usual for the winter and buyers in Asia are willing to pay far more than in the past. The price of LNG has already reached multiyear highs, having more than doubled since the outbreak of the U.S.-Iran war. Platts JKM, the Asian benchmark, reached almost \$30 per million British thermal units (MMBtu) in mid-September. Deliveries of the fuel to Europe were at \$24.62 per MMBtu, according to Spark Commodities.

The EU has spent an extra €100 billion on fossil fuels since the start of the U.S.-Iran war for the same volume of imports, underlining the region’s vulnerability to surging diesel prices this winter. As EU member states prepare for a winter of high energy prices, the EU Energy Commissioner urged member states to cut demand, continue filling gas storage facilities to at least 80%, and implement targeted and temporary measures to tackle high prices. He repeated the need to increase the rate of electrification in Europe. Spain’s energy minister announced further measures to protect households, saying that Madrid would limit the increase in a regulated gas tariff to 15%.

In Italy, Prime Minister Giorgia Meloni’s government has persuaded Azerbaijan’s state oil and gas company, Socar, and the state-owned Kuwait Petroleum Interna-

tional to temporarily cap fuel pump prices at their Italian retail distribution networks. The decision came after Italy’s state-controlled energy company Eni announced a cap on its own domestic petrol prices for at least a month in what it called a “gesture of solidarity towards the country, consumers and its customers.” Rome spent an estimated €2.8 billion so far this year in fuel excise tax cuts but has little fiscal space for continued largesse, forcing the government to instead appeal to its major fuel suppliers for support.

The OECD warned that only half of the fiscal interventions by governments globally are being properly targeted, adding to pressures on public finances.

Analysts expect competition for LNG cargos to escalate in coming months, as developing countries in Asia that were priced out of the market during the last crisis are now willing to pay more to limit damage to their economies. This could push up prices even further for European buyers as the EU will enter the winter with the lowest gas stores for at least 15 years. The willingness of price-sensitive Asian buyers to pay more rather than risk shortages amounts to a fundamental shift in the gas market. India and Pakistan seem accustomed to price volatility and continue to show interest in buying. Traders report Bangladesh and Pakistan buying multiple LNG cargos at \$25 per MMBtu. In the last crisis, at such prices, those countries would have already left the market. This suggests that Europe will need to pay even more this time around.



[Celebrating FCIA’s Legacy, Inspiring Its Future—watch here](#)



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Developing countries in Asia have few options to further reduce their gas demand, having already cut consumption as finely as possible since the start of the U.S.-Iran war, causing rolling blackouts in some countries. Many countries in the region, including advanced economies like Japan and South Korea, have also increased their use of coal, but energy executives say there is little scope for more fuel switching.

In Europe, there are also few easy remaining options to reduce demand. Demand was already dented before the Iran war brought shipping in the Strait of Hormuz to a near standstill, tightening global supplies.

Consumption cuts made in 2022 are still largely in place, suggesting gas prices would need to climb much higher to curb remaining demand. According to the Boston Consulting Group, competition between Asia and Europe for LNG cargos will be inevitable over the coming months.

Canada

Canada has secured significant investment to expand its flagship LNG project in a boost for the country's ambi-

tions to increase its energy exports beyond the U.S. Shell plc and the four other companies in the LNG Canada consortium reached a final investment decision to double the production capacity of the project in the west of Canada to 28 million tons a year, equivalent to the annual LNG imports of India.

LNG Canada celebrated the decision as a “nation-building investment” that would help propel Canada towards becoming one of the world’s top five LNG exporters, from 19th last year. Canada’s energy and natural resources minister said the decision to proceed with the second phase, predicted to cost between US\$21 billion and US\$23 billion, is a vote of confidence in Canada.

Plans to sell more of Canada’s gas to Asia and Europe are part of a strategy to counter escalating trade tensions with the U.S. and reduce reliance on the U.S. The Canadian government previously said it expected the second phase of the project, expected to commence in the early 2030s, to attract US\$23 billion in private sector capital. Mitsubishi Corporation, which holds 15% equity in LNG Canada, estimated that the cost for its share of phase 2 was US\$3.2 billion. That implies an overall project cost of US\$21.3 billion. China’s PetroChina, South Korea’s



[Celebrating FCIA's Legacy, Inspiring Its Future—watch here](#)



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Kogas and Malaysia's Petronas are the other members of the consortium.

LNG Canada is viewed by Asian countries as vital to bolstering energy security at a time when gas supplies from the Middle East have come under threat and U.S.-aligned nations want to reduce dependence on Russian gas.

Potential projects from Mozambique to the U.S. have received a boost from the conflict in the Middle East, which is restricting supplies from Qatar and the UAE, which normally supply about a fifth of global LNG. Higher oil prices resulting from the war have boosted the finances of energy majors, with many choosing to invest in LNG, where demand is expected to remain robust.

Written by Byron M. Shoulton
Senior Global Economist
FCIA Trade Credit & Political Risk Division
Great American Insurance Group
For questions / comments, please contact Byron at
bshoulton@fcia.com





Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

What is Trade Credit Insurance?

Companies selling products or services on credit terms or financial institutions financing those sales face the risk of non-payment by their buyers.

Trade Credit Insurance provides a cost-effective mechanism for transferring that risk. FCIA's Trade Credit Insurance products protect the policyholders against losses resulting from that non-payment.

Why Trade Credit Insurance?

One of a company's largest assets is their accounts receivable but they are often not insured. This could often be due to lack of knowledge of availability of coverage.

A debtor's nonpayment can be caused by commercial events such as insolvency or protracted default. On international transactions, nonpayment can also result from the occurrence of disruptive political events such as wars, government interventions, or currency convertibility.

A Few Value-Added Benefits For Insureds

FCIA's Trade Credit Insurance policies offer companies a wide array of flexible coverages. You can insure a broad multi-buyer receivable portfolio, a smaller select receivable portfolio (key accounts), or a single buyer receivable.

Some Value-Added Benefits of Trade Credit Insurance

- Sales expansion
- Ability to offer longer repayment terms
- Access to better financing terms
- Reduce earnings volatility
- Reduce bad debt reserves

Who Can Benefit From Trade Credit Insurance?

Manufacturers & Distributors, Packaging, Energy, Pharma, Mining, Commodity Traders, Metals, Technology, Financial Institutions, Food & Beverages, and more.

To sign up for FCIA Major Country Risk Development and more information on FCIA insurance coverages, please visit us at www.FCIA.com.

Watch FCIA's one-minute video at www.FCIA.com



[Celebrating FCIA's Legacy, Inspiring Its Future—watch here](#)