GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, OCTOBER 8, 2025
LEAD EDITOR: JOHANNES S. KRAMER

- **US government shutdown enters week two, expected to last a few weeks more** (link)
- **Since the beginning of September, US money markets have become more volatile** (link)
- **Soft August industrial production data in Germany confirms tepid economic momentum** (link)
- **Soft August wage growth data echoes concerns that Japan's economy remains fragile** (link)
- **New Zealand dollar hits six-month low after RBNZ's larger-than-expected rate cut** (link)
- **Argentina continued FX interventions for a sixth consecutive session to defend peso** (link)

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Soft Global Data Abroad Emboldens Demand for Long-End Duration

Risk sentiment improved with gold holding above $4,000 and US futures pointing higher. European government bonds bull-flattened as French political concerns eased slightly, while German industrial output dropped sharply. US yields edged lower amid light flows and speculation that Treasury may trim coupon sizes into year-end. Despite the shutdown entering week two, hopes for a healthcare subsidy extension are emerging. In Asia, the yen slipped past 152 on soft wage data seen as supporting Takaichi's call for continued policy support. The RBNZ surprised markets with a 50bp rate cut, sending the kiwi to a six-month low. In EM, Argentina continued dollar sales to defend the peso for a sixth day, Kenya cut rates by 25bps citing anchored inflation, and Romania held rates steady as expected. Today, investors are focused on the US 10y auction, Fed minutes, and Fed speakers, with bull-flatteners gaining traction as long-end demand remains resilient.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
10/8/25 8:43 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		6715	-0.4	0	3	17	14
Eurostoxx 50		5637	-0.3	1	5	14	15
Nikkei 225		47735	0.0	7	10	22	20
MSCI EM		54	-0.8	1	7	14	29
Yields and Spreads				bps			
US 10y Yield		4.10	-2.5	0	6	9	-47
Germany 10y Yield		2.68	-1.0	-4	3	43	31
EMBIG Sovereign Spread		278	-2	-5	-19	-72	-47
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		45.9	-0.2	0	0	0	7
Dollar index, (+) = $ appreciation		98.8	0.2	1	1	-4	-9
Brent Crude Oil ($/barrel)		66.4	0.5	2	1	-14	-11
VIX Index (%, change in pp)		17.1	0.9	1	2	-4	0

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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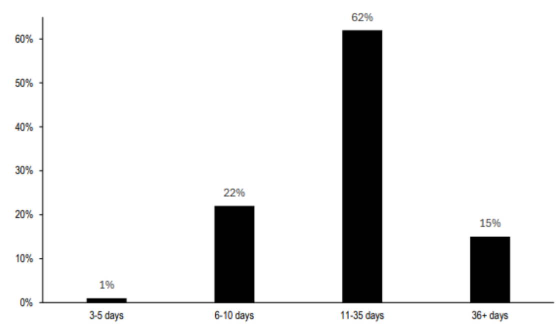
United States

Risk markets took a breather on Tuesday after reaching an all-time high in the morning. The S&P500 closed (-0.4%) lower. Bitcoin also saw a correction, sharply down (-3.3%) on the day. Meanwhile, gold prices continued to rise, nearing $4,000 per troy ounce. The dollar strengthened against major currencies, most notably against the Japanese Yen (+1.1%), approaching ¥152/$. In remarks yesterday, Fed Governor Miran stated that he does not see as much tension between the bank's dual mandate as some of his colleagues do. He reiterated his view that the Fed has ample room to continue cutting rates. 10y Treasury yields fell (-2bps) to 4.1%.

The government shutdown has dragged on for a week. According to betting markets, the shutdown is expected to last between 11 and 35 days. JP Morgan, using data from inter-dealer 1-day options and recent non-event-day volatility, sees swaption markets pricing a shutdown lasting 2 to 6 weeks, with 3 to 4 weeks most likely. Analysts see two-sided risks to the growth outlook. On the one hand, the early boost from fiscal spending, Fed cuts, and rising tech investment to sustain AI momentum may fade. If that were to happen, the labor market could weaken as demand slows and slack builds. On the other hand, delays in the release of key economic data due to the government shutdown clouds signals on activity and inflation. That makes it harder for the Fed and investors to track momentum in real time.

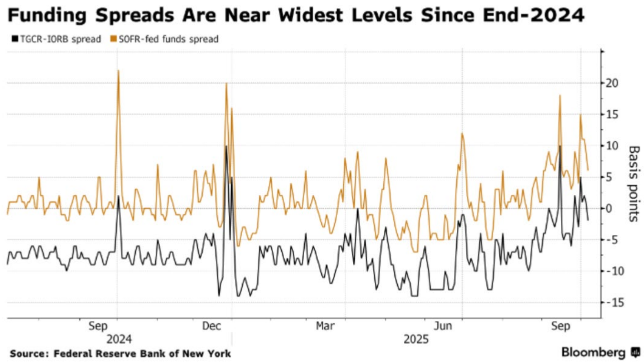
Figure 3: Prediction markets indicate that the shutdown is likely to last 11-35 days

Kalshi's market on "How many days will the federal government be shut down this year?"
Data as of 4 p.m. on 10/3/25



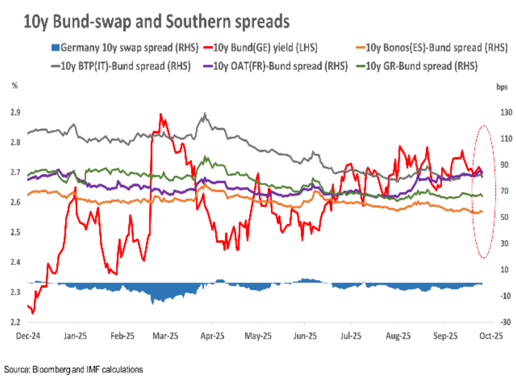
Source: Kalshi, Bloomberg Finance L.P.

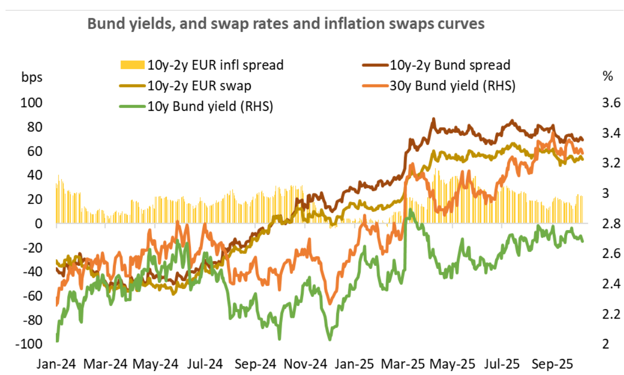
Since the beginning of September, overnight funding markets have become more volatile. Bank reserves fell to just below $3trn, the lowest level since January, while the spread between the Secured Overnight Financing Rate (SOFR) and the effective fed funds rate is near its widest level since late 2024. By way of background, SOFR tends to respond differently depending on how much liquidity is in the system. When bank reserves are abundant, fluctuations in supply have little impact on where SOFR trades. In that setting, SOFR drifts toward the bottom of the Fed's administered rates, anchored by the overnight reverse repo facility. This facility sets the opportunity cost for lending reserves, as lenders—including money market funds—can always park excess cash there risk-free. But as reserve supply tightens with continued Fed balance sheet runoff, the system moves toward what the Fed calls ample. Here, reserve demand becomes more sensitive—more elastic—to swings in supply. SOFR starts to climb toward the interest on reserve balances, the rate the Fed pays banks for holding reserves. That reflects banks' opportunity cost for borrowing reserves rather than holding them. Indeed, the spread between SOFR and fed funds is now close to its widest point since late 2024, even after the turn of the quarter, when banks typically pull back to shore up balance sheets for regulatory snapshots—driving seasonal spikes in intermediation costs.



Euro area

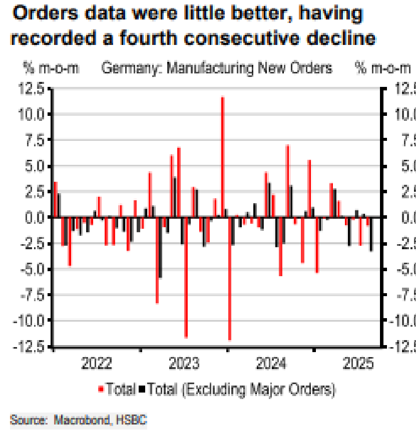
This morning, stock markets rebound and yields bull-flatten. The Stoxx 600 rose (+0.4%), with banking (+0.8%), health care (+0.7%), and industrials (+0.6%) leading gains. In terms of regions, Italy's FTSE MIB (+0.6%) and France's CAC 40 (+0.6%) outperformed. Meanwhile, the euro dropped (-0.3%) to 1.1617/€. The 2y Bund yield fell (-2bps) to 1.98%, while 10y and 30y yields declined (-4bps each) to 2.67% and 3.26%, respectively. Germany sold €852mn of its 2041 bond (2.6% coupon) at 3.06%, up from 3.03% at the prior auction in September, with a bid-to-cover ratio of 2.8. Berlin also announced plans to issue €5.5 bn of 2027 bonds on October 14. Southern EGBs outperformed across the curve, with the 10y OAT–Bund spread down (-2bps) to 84bps, and the BTP–Bund spread (-3bps) to 80bps.





French political risks remain a focus. Crédit Agricole analysts assigns a 75% probability to snap elections in France, warning that political instability could weigh on growth and inflation through 2026. Nomura analysts note that OAT yields have recently traded above Italian BTPs and expects spreads to converge—unless new elections or a Macron resignation trigger fresh volatility. Deutsche Bank analysts see little spillover risk to broader EGBs but expect the ECB to closely monitor the financial conditions tightening. Both Nomura and Deutsche agree that TPI is unlikely to be activated unless the OAT–Bund spread breaches 100bps or disorderly moves emerge.

Incoming economic data from Germany underscore a notion of tepid economic momentum. August industrial production fell -4.3% y/y (exp. -0.9% from 1.5%) with the monthly change reflecting the sharpest drop since March 2022. The declines were broad-based with auto production dropping -18.5%, machinery -6.2%, and pharmaceuticals -10.3%. Bloomberg noted that Q2 GDP growth was driven by front-loaded investment and net exports. With those effects fading and demand weakening, they expect further drag in Q3 with export volumes now projected to fall to -0.8%, after a -1.0% decline in Q2. While recent statements of Governing Council members hint at the ECB's easing cycle drawing to a close, the macro backdrop remains soft. Bloomberg economists see the risks remaining skewed toward additional easing as early as 1Q 2026, particularly if US tariffs weigh on European exports, such as pharmaceuticals.



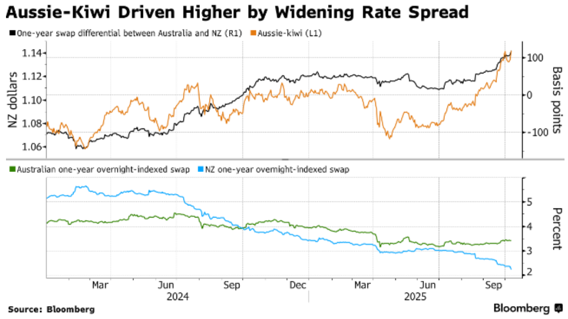
Japan

Latest wage data missed expectations, prompting a rally in long-term JGBs and tech-led equity slump. Nominal wages rose just +1.5% y/y in August (exp. +2.7% from +3.4%), marking the slowest pace in three months. Real wages fell -1.4% y/y (exp. -0.5% from revised -0.2%), down for an eighth consecutive month. Still, base salaries for full-time workers—stripping out bonuses and sampling issues—held steady at +2.4% (exp. 2.5% from 2.4%) for a second month, pointing to firm underlying wage momentum. Long-end JGB yields retreated (30y: -14bps to 3.15%) as rate expectations eased. Equities also slipped (Nikkei 225: -0.45%), dragged by weakness in semiconductor stocks following softer tech sentiment.

The yen continued to weaken. The yen depreciated (-0.36%) to ¥152.44/$—its lowest since February—on speculation that slower wage growth could delay BOJ tightening. Daiwa Securities said the soft data vindicates Takaichi's view that the economy remains fragile and still hinges on policy support. Analysts at Minoto Bank note that the yen shows no sign of stabilizing without stronger verbal intervention. Sell-side FX revisions followed: Bank of America lowered its year-end yen forecast to ¥155/$ from ¥153/$, while Deutsche Bank shifted to neutral from bullish.

New Zealand

The RBNZ has cut rates more than expected. The central bank lowered its official cash rate (OCR) by 50bps to 2.5% (exp. -25bps), citing weak economic activity through mid-2025 and signaling openness to further easing if needed. In reaction, the New Zealand dollar weakened (-0.7%) to a six-month low against the dollar and hit a three-year low against the Australian dollar (see chart). Policy-sensitive 2y bond yields dropped (-7bps) to 2.63%, while equities gained (S&P/NZX 50: +0.27%). Bloomberg economists interpret the move as a response to tepid growth, a widening output gap, and labor market softness. They expect another 25bp cut with dovish guidance at the November meeting. Nomura said the RBNZ may have frontloaded two 25bp cuts originally expected in October and November. Citigroup and JPMorgan project the OCR to fall to 2% or below.



Emerging Markets

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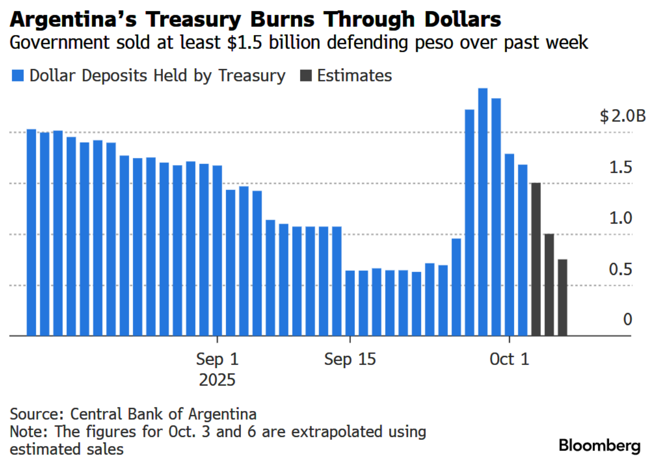
EMEA equities and currencies are broadly appreciating. In CEE, equities advanced across the region, with Poland outperforming (+0.4%) ahead of National Bank of Poland's rate decision later today, where consensus is for an unchanged policy rate at 4.75%. CEE remain flat with the Romanian leu at RON5.09/€ ahead of National Bank of Romania's decision today, where the central bank kept its policy rate on hold at 6.50% as widely anticipate. In Türkiye, the lira trades at TRY41.71/$ against the dollar while equities show nimble gains (+0.1%). The rand regained ground against the dollar (+0.3%), trading at ZAR17.16/$, with the stock market up (+1.1%).

EM Asian currencies mostly depreciated versus the dollar amid subdued equity markets. Only the Thai baht lightly appreciated (+0.1%) as the Bank of Thailand unexpectedly kept its benchmark interest rate at 1.5%, aiming to preserve policy space despite a weak economic outlook and a strong baht. In equities, Vietnam's Ho Chi Minh index briefly surged (+3%) after FTSE Russell upgraded the country to emerging market status from frontier. Gains later faded, and the index ended up (+0.7%) on the day. Hong Kong SAR declined (HSI: -0.5%) as the AI-driven lost steam. Markets in China and Korea remained closed for holidays.

Yesterday, Latin American equities broadly declined while most currencies depreciated. In stock markets, Brazil led the decline (-1.6%), while Mexico, Colombia, and Chile also closed lower. In FX markets, the Chilean peso strengthened while the Brazilian real, Mexican peso, and Colombian peso all weakened. In Colombia, September headline inflation slightly accelerated to 5.18% y/y in September (exp. 5.11% from 5.1%) signaling persistent price pressures.

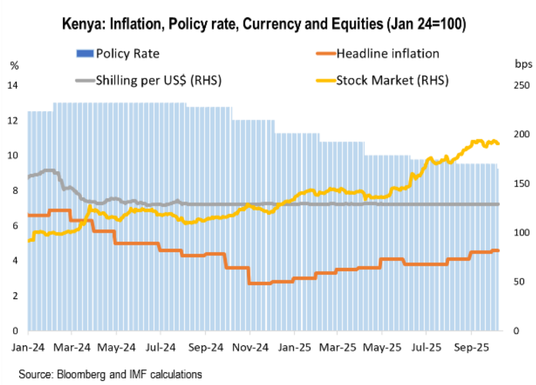
Argentina

Argentina's Treasury is drawing down its remaining dollar deposits to defend the peso. For a sixth consecutive session, market contacts estimate authorities sold $250–330mn on Tuesday, bringing total interventions to at least $1.5bn. Analysts estimate the Treasury has around $700mn in dollar deposits left as dry powder. The local currency ended the day flat at 1,430/$ against the dollar on Tuesday. Despite new capital controls—including a 90-day ban on reselling dollars and expanded FX futures sales—dollar demand remains high, widening the gap between official and parallel rates. Futures pricing now implies nearly 60% annual depreciation over the next 12 months, signaling market doubts that current measures can stabilize the currency. The pressure comes as Economy Minister Luis Caputo continues talks in Washington with U.S. authorities to secure aid, while preparing for $500mn in debt payments due in November.



Kenya

The Central Bank of Kenya (CBK) cut its policy rate by 25bps to 9.25% on Tuesday, in line with expectations. The CBK noted that inflation expectations remain "firmly anchored" and the exchange rate is stable, with the shilling flat against the dollar year-to-date. Strong FX reserves—estimated at $10.8 bn—continue to be supported by inflows from Kenya's recent $1.5 bn Eurobond issuance, helping contain imported inflation. With headline and core inflation staying below the 5% midpoint of the CBK's 5.0% ±2.5 ppt target range for an extended period, Goldman Sachs expects the policy rate to fall further, reaching 8.5% by mid-2026. JP Morgan also sees near-term easing but believes the cycle is nearly done, with inflation forecast to move back toward 5% by 2026 as food and fuel prices rise. Today, the shilling remained stable at around KES129.20/$.



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Global Financial Indicators

10/8/25 8:44 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,719	-0.4	0.1	3.4	16.8	14
Europe		5,637	-0.3	1.0	5.1	13.9	15
Japan		47,735	0.0	7.1	9.8	21.5	20
China		4,641	0.4	2.7	4.6	17.3	18
Asia Ex Japan		93	-0.7	1.9	5.9	17.3	29
Emerging Markets		54	-0.8	1.2	7.2	14.1	29
Interest Rates					basis points		
US 10y Yield		4.1	-3	0	6	9	-47
Germany 10y Yield		2.7	-1	-4	3	43	31
Japan 10y Yield		1.7	-1	4	12	76	59
UK 10y Yield		4.7	-2	0	10	52	13
Credit Spreads					basis points		
US Investment Grade		112	0	-2	-10	-11	-7
US High Yield		331	4	-1	-13	-13	2
Exchange Rates					%		
USD/Majors		98.8	0.2	1.1	1.4	-3.7	-9
EUR/USD		1.16	-0.2	-0.8	-1.1	6.0	12
USD/JPY		152.7	0.5	3.8	3.5	3.0	-3
EM/USD		45.9	-0.2	-0.2	0.1	0.2	7
Commodities					%		
Brent Crude Oil ($/barrel)		66.4	1.5	1.7	1.2	-10.9	-7
Industrials Metals (index)		151.9	-0.1	2.7	6.8	-0.1	8
Agriculture (index)		54.3	0.2	0.7	-1.3	-4.7	-5
Gold ($/ounce)		4033.5	1.2	4.3	10.9	53.8	54
Bitcoin ($/coin)		122674.1	0.5	0.1	9.5	96.8	31
Implied Volatility					%		
VIX Index (%, change in pp)		17.1	0.9	0.8	2.0	-4.3	-0.2
Global FX Volatility		7.1	0.0	-0.2	-0.6	-1.6	-2.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		66	-2	0	-1	-29	-19
Italy		80	-2	-1	-3	-50	-35
France		84	-2	3	8	7	1
Spain		54	0	0	-4	-20	-15

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 10/8/2025 8:44 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.12	0.0	-0.1	0.2	-1.5	2.5		1.9	0	-1	8	-20	22
Indonesia		16540	0.1	0.8	-1.4	-5.2	-2.6		6.2	-1	-3	-15	-45	-87
India		89	0.0	0.0	-0.6	-5.4	-3.6		6.8	-2	-10	-5	-35	-56
Philippines		58	0.4	0.1	-2.4	-2.3	-0.5		4.7	-4	-1	-1	-1	-14
Thailand		33	-0.2	-0.3	-2.0	2.9	4.9		1.5	0	-3	17	-103	-79
Malaysia		4.21	0.0	-0.2	0.1	1.7	6.1		3.5	-1	1	6	-31	-35
Argentina		1430	0.0	-3.5	-0.8	-31.8	-27.9		55.4	-34	431	798	1543	2624
Brazil		5.35	-0.8	-0.6	1.3	2.6	15.4		13.9	-5	8	7	141	-203
Chile		959	0.3	0.4	1.1	-3.5	3.7		5.4	0	-2	0	28	-25
Colombia		3875	-0.5	1.2	1.7	8.8	13.7		11.4	2	-1	-27	114	-45
Mexico		18.39	-0.3	-0.4	1.5	4.8	13.2		8.8	-1	2	-7	-86	-160
Peru		3.4	0.5	0.8	1.9	8.7	8.6		6.1	-1	5	3	-37	-51
Uruguay		40	0.0	-0.1	0.3	3.4	10.1		8.0	0	-1	-8	-148	-169
Hungary		337	-1.6	-1.4	-0.9	8.6	17.9		6.6	1	-1	-16	33	15
Poland		3.65	-0.4	-0.3	-1.0	8.0	13.2		4.9	2	1	7	-15	-64
Romania		4.4	-0.6	-1.0	-1.4	3.7	9.8		7.3	4	5	-13	83	5
Russia		81.9	1.4	1.1	0.9	17.3	38.6							
South Africa		17.2	-0.3	0.3	1.6	1.0	9.4		9.6	4	4	-34	-88	-87
Türkiye		41.65	0.1	-0.2	-1.0	-17.7	-15.1		32.5	21	39	-33	232	274
US (DXY; 5y UST)		99	0.5	0.8	0.9	-3.8	-9.1		3.71	-3	-3	12	-16	-68

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4,641	0.0	2.7	4.6	17.3	17.9		92	-13	-21	-26	-4
Indonesia		8,169	0.0	1.3	5.2	8.1	15.4		88	-2	-5	3	-3
India		81,927	-0.2	1.9	1.4	0.4	4.8		89	2	-3	-10	3
Philippines		6,084	0.2	2.2	-0.3	-19.3	-6.8		67	1	-9	-5	-12
Thailand		1,305	0.0	2.4	3.1	-10.2	-6.8						
Malaysia		1,630	-0.2	1.1	2.8	-0.3	-0.7		57	-4	-10	-18	-13
Argentina		1,793,952	-0.5	1.2	-10.2	4.6	-29.2		1021	-98	107	-223	384
Brazil		141,356	-1.6	-3.3	-0.9	7.1	17.5		189	-1	-15	-13	-58
Chile		8,830	0.0	-1.6	-4.1	36.4	31.6		95	-3	-14	-12	-18
Colombia		1,858	-0.3	-0.8	-0.3	41.9	34.7		255	-8	-11	-47	-71
Mexico		60,216	-0.3	-4.3	-0.4	15.7	21.6		204	-8	-27	-83	-108
Peru		2,364	-1.8	0.4	9.2	21.7	39.5		94	-3	-12	-37	-47
Hungary		101,346	0.6	2.5	-1.8	36.9	27.8		127	-2	-18	-18	-28
Poland		107,937	0.1	1.5	2.2	31.6	35.6		89	-6	-15	-15	-23
Romania		21,525	0.1	0.9	3.6	21.3	28.7		198	-6	-18	10	-37
South Africa		109,449	0.9	1.4	7.8	26.8	30.1		253	-6	-37	-13	-40
Türkiye		10,814	0.1	-1.8	0.8	19.7	10.0		259	-4	-23	-16	0
EM total		54	-0.2	1.2	7.2	14.1	29.3		287	-64	-70	-98	-77

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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