GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, SEPTEMBER 29, 2025

LEAD EDITOR: PATRICK SCHNEIDER

- **Analysts look ahead to next Bank of Japan rate hike amid central bank commentary** (link)
- **The Federal Reserve's reserve repo facility has declined to very low levels** (link)
- **Foreign flows to Chinese equities and other assets have turned positive in 2025** (link)
- **EM fund inflows continued last week, led by strong equity flows** (link)
- **Analysts believe the dollar remains vulnerable** (link)

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Markets Eye Positive Start to the Week

Global equity markets were mostly higher this morning after risk appetite had stalled last week. US equity futures were higher, following gains in Europe and EM Asia, though Japan underperformed amid continued uncertainty over the upcoming LDP leadership election**.** Nevertheless, the yen gained 0.6% after comments from a Bank of Japan board member boosted expectations for another rate hike. Advanced economy bond yields edged lower, partially reversing the move higher last week after investors had reassessed prospects for two more rate cuts by the Federal Reserve in October and December. In the week ahead, investors will be closely watching the US nonfarm payrolls report on Friday, though some analysts have speculated that a possible government shutdown on Wednesday could delay the release. Elsewhere, gold prices continued to rise and have gained another 2% over the last week.

Key Global Financial Indicators

Last updated: 9/29/25 8:25 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6644	0.6	0	3	16	13
Eurostoxx 50		5506	0.1	1	3	9	12
Nikkei 225		45044	-0.7	0	5	19	13
MSCI EM		53	-0.2	-1	6	13	26
Yields and Spreads					bps		
US 10y Yield		4.15	-2.5	0	-8	40	-42
Germany 10y Yield		2.73	-1.8	-2	0	60	36
EMBIG Sovereign Spread		281	1	-9	-15	-84	-44
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.9	0.2	0	0	-1	7
Dollar index, (+) = $ appreciation		98.0	-0.2	1	0	-2	-10
Brent Crude Oil ($/barrel)		68.8	-1.9	3	1	-4	-8
VIX Index (%, change in pp)		15.9	0.6	0	1	-1	-1

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

In the week ahead, key labor market data, including the September nonfarm payrolls report and August JOLTs data will be released, though a possible government shutdown could delay certain data. ADP will also release its own measure of payrolls. Most major European markets will release September inflation data. In addition, central banks of Australia, Colombia, Egypt, India, and Israel will have policy decisions.

Mature Markets

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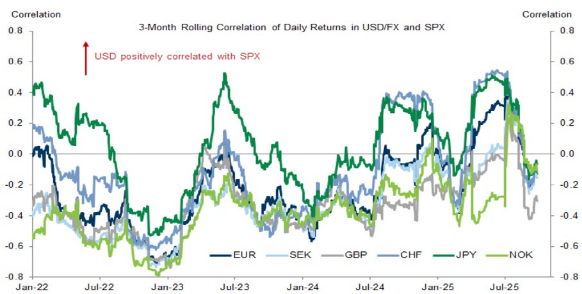
United States

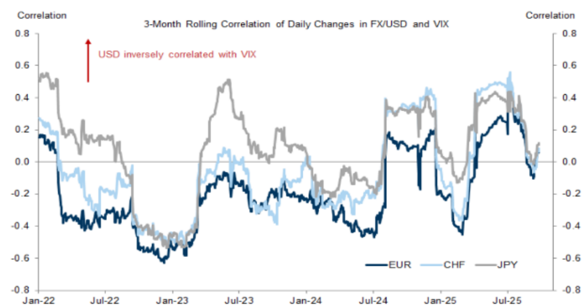
Analysts believe dollar remains vulnerable despite some normalization in market patterns. Goldman Sachs analysts noted that the urgency to reduce dollar exposure through hedging or asset allocation may have declined recently as the correlation of dollar moves to US equity returns has returned to negative territory. With negative correlations, negative US equity returns would be partially offset by a stronger dollar in the case of a downside shock for foreign investors. However, the analysts believe that recent tight correlations among many European currencies with traditional safe havens like the Swiss franc and Japanese yen still suggest a broad aversion to dollar exposure. Moreover, when looking at a more direct measure of risk, such as the VIX, the analysts find that the dollar has not been trading as a clear safe haven (especially against the euro) like in the past.

Exhibit 1: European currencies (vs USD) have continued to see similar correlations with the S&P 500 as the traditional non-USD safe havens, CHF and JPY, implying some persistent reduction in Dollar appetite



Source: Bloomberg, Goldman Sachs Global Investment Research

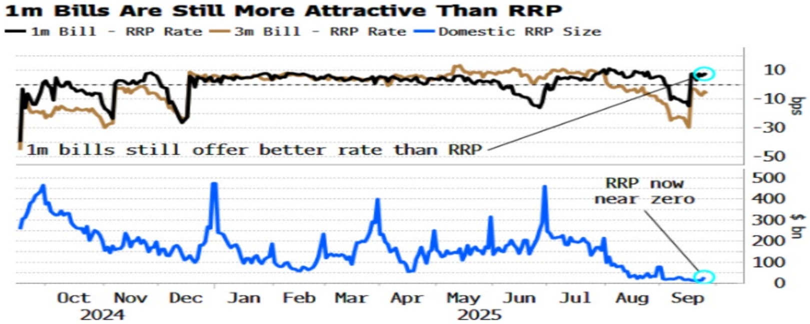
Exhibit 4: ...and particularly on a 3-month rolling basis, leaving the Dollar vulnerable to any renewed market worries



Source: Bloomberg, Goldman Sachs Global Investment Research

The Federal Reserve's reserve repo facility (RRP) has dwindled to less than $50 bn, down from a peak near $2.5 tn in 2022. The facility has fluctuated between $10–30 bn for most of September**.** Some market participants have speculated that the Federal Reserve could further adjust its balance sheet run-off in the coming quarters to avoid any funding strains**.** Bloomberg reported that money market funds have increasingly shifted from RRP towards investing in short-term bills that offer higher rates. They've also reportedly been more active in private repo markets.

1m Bills Are Still More Attractive Than RRP



Source: Bloomberg; Macrobond

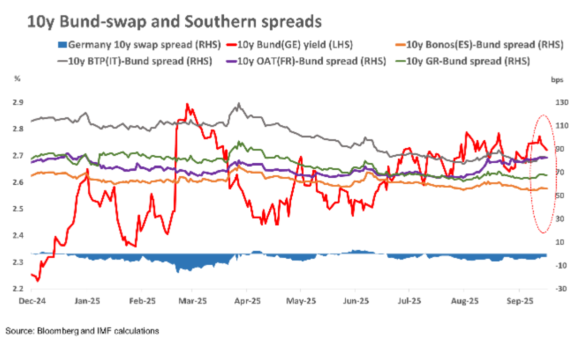
Europe

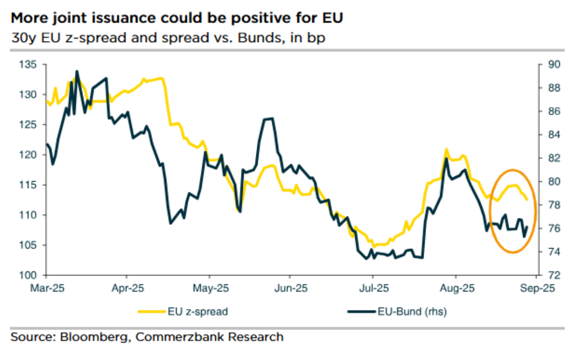
European equities opened the week higher, with the Stoxx 600 index up by 0.4%, led by gains in the consumer discretionary good sector (0.8%) and pharmaceuticals (0.5%). The euro was little changed against the dollar today, trading at $1.1716/€. Most major economies will report September inflation data tomorrow, while Spain was in line with expectations at 3% y/y (previous 2.7%).

European government bond yields were lower across the curve, led by the long end, with spreads litte changed. Both 10y BTP-Bund spreads and 10y OAT-Bund spreads are hovering near 83 bps.

Elsewhere, Moody's and Fitch upgraded Spain to A3/stable (from Baa1/positive) and A/stable (from A-/positive) respectively, on Friday. In contrast, Scope affirmed France at AA- while lowering its outlook to negative, though the market impact should be limited. Commerzbank analysts highlighted convergence among core European bond yields, with Spain expected to be a beneficiary from the latest ratings reviews. Analysts see the potential of more EU joint debt issuance as adding to the convergence theme, with Wednesday's informal EU summit potential offering news on that front.

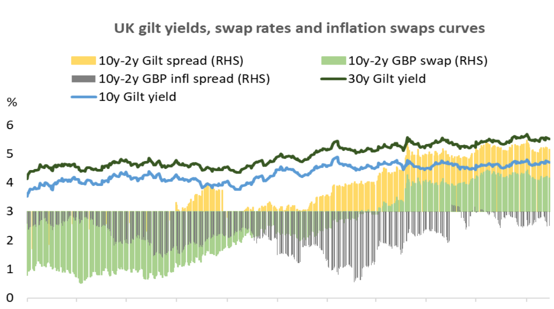
Fiscal trends remain top of mind in Europe. Deutsche Bank highlighted that Germany's fiscal expansion will start to accelerate, with federal spending to rise 17% this year, and the budget deficit to reach 3.8% of GDP in 2026 (2.2% in 2025). Meanwhile, Bloomberg highlighted that political tensions continue to weigh on French bonds, as Prime Minister Lecornu's proposed "Zucman wealth tax" has come under criticism. However, analysts expressed concerns about France's ability to curb rising social and local-government spending, with the country needing €120 bn in fiscal savings by 2029 to meet EU deficit targets.

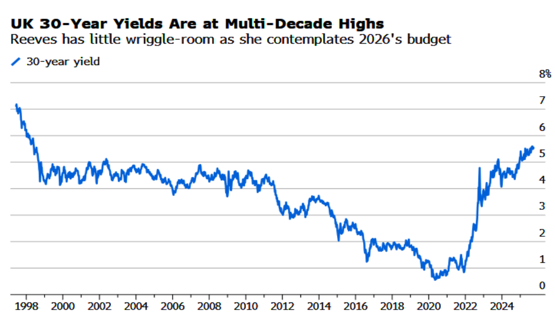




UK

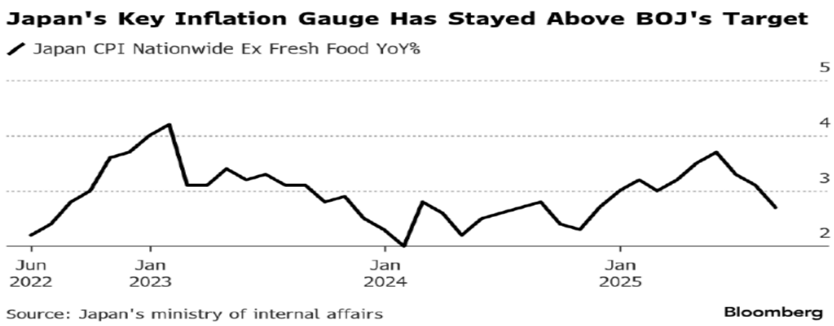
UK equities (+0.6%) and the pound (+0.2%) gained this morning, while Gilt yields edged 2–3 bps lower ahead of today's annual Labor Party conference. ING analysts noted that the pound has been underperforming since mid-September, with the market focus on fiscal developments offsetting any hawkish tone from the Bank of England. Deutsche Bank expects the UK government to face a fiscal hole of £25–30 bn in the November 26th Autumn Budget, forcing it to take difficult incremental measures without breaching its commitment to a "tax lock" on income tax, VAT, and National Insurance. Deutsche Bank also expects consumption and investment to remain subdued after GDP growth slowed to 0.3% q/q (1.2% y/y) in the second quarter.





Japan

Commentary from a Bank of Japan board member has increased the market's focus on the next rate hike. In prepared remarks, BOJ Board member Noguchi noted that Japan's inflation is moving steadily toward the BOJ's inflation target while the need for interest rate hikes is increasing "more than ever." Such comments from Noguchi, who has advocated for loose monetary policy in the past, are seen by some analysts as boosting the prospects for a rate hike as early as October. Market pricing also moved in a slightly hawkish direction. That said, overnight swap markets are only fully pricing a rate hike by the March 2026 meeting, with the prospect of a second hike by the end of 2026. The yen gained (+0.5%) while JGB yields were little changed.



Analysts remain uncertain about the upcoming LDP election on October 4. Opinion polls show that Shinjiro Koizumi (Agriculture Minister) and Sanae Takaichi (seen as more supportive of fiscal spending) are the frontrunners, though none of the five candidates are likely to win a majority in the first round of voting. Such an outcome would trigger an additional runoff between the two leading candidates.

Emerging Markets

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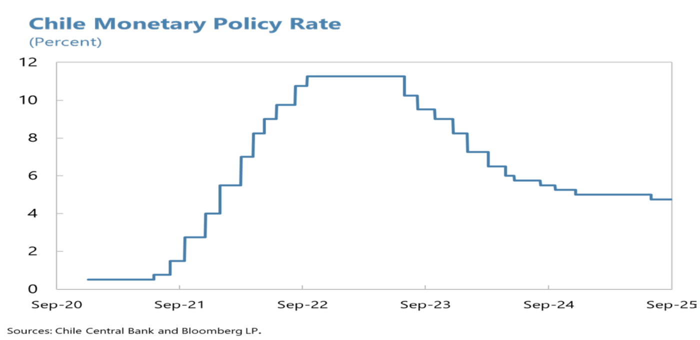
EMEA equities mostly traded higher this morning, with Romania (+0.6%), South Africa (+0.8%), and Saudi Arabia (+1.1%) outperforming, while currencies were mixed. In Türkiye, the lira edged lower (-0.2%), while the rand regained ground (+0.4%) against the dollar. **Regional currencies in Asia were broadly higher against the dollar today.** The South Korean won outperformed (+0.8%) on the back of strong foreign purchases of local equities and expectations of quarter-end dollar sales by exporters. **On Friday, Latin American equities and currencies mostly closed higher**, with the MSCI Latin America index up 0.3%, led by Brazil, Mexico, and Argentina.

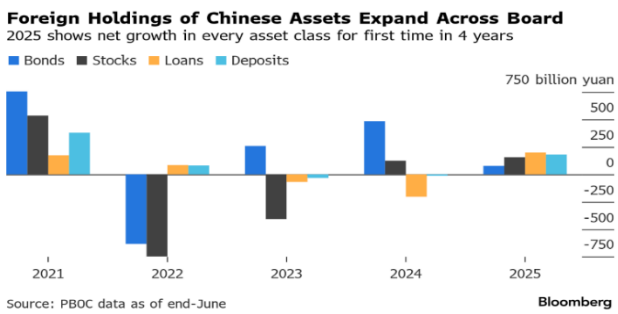
Chile

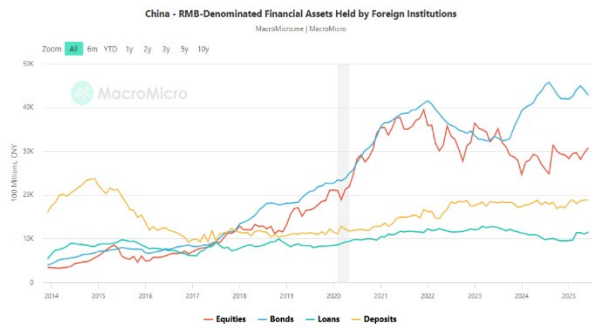
Central bank minutes revealed concern about upside inflation risks. After the monetary policy committee left rates unchanged at 4.75% on September 8, the minutes from the meeting noted concern about inflation risks and the persistent deviation from target. The committee members noted potential upward pressure from stronger domestic consumption and rising labor costs, while global uncertainties persisted. They also highlighted that the benchmark rate is likely close to neutral, currently estimated between 3.5% and 4.5%, but stressed the need for further data before reassessing that range.



China

Foreign flows to most Chinese asset classes have been positive for the first time since 2021. Data from the People's Bank of China show that through June, foreign holdings of stocks, bonds, deposits and loans (left chart) have all increased year on year. However, inflows have been modest, and foreign holdings of Chinese equities remain well below their peak in late 2021, while bond holdings remain below their historical peak. The strong performance of the domestic equity market (CSI300: +22% YTD) has garnered renewed foreign interest, with Goldman Sachs reporting that global hedge funds were the most active in onshore equities in August that they have been in several years. Morgan Stanley also noted that Asia ex-Japan investment managers have turned overweight on China. **Industrial profits rose for the first time in four months (20.4% y/y, 0.9% YTD y/y) helping to boost sentiment.** Chinese equities rose 1.5%, with Hong Kong's Hang Seng index also gaining 1.9%. Both the onshore and offshore yuan gained on the day (0.2% and 0.3% respectively). Separately, the authorities announced that the next 5-year plenum, which sets China's development plan for 2026 to 2030 will convene at the end of October.





EM Fund Flows

EM fund inflows continued last week, with both bond flows ($1.3 bn, $0.9 bn previous) and equity flows ($4.2 bn, previous $5.4 bn) remaining positive. Inflows into hard currency bond funds decelerated to $0.6 bn ($0.9 bn previous), while flows to local currency funds rebounded to $0.7 bn (-$0.1 bn previous). Aside from inflows to global equity funds, regional flows were led by Asia ex-Japan ($1.7 bn), LATAM ($0.2 bn), and EMEA ($23 mn). ETFs accounted for the bulk of equity inflows ($5 bn), contrasting with small outflows from non-ETFs. All in, cumulative YTD fund inflows have reached $11.5 bn for bonds and $7 bn for equities.

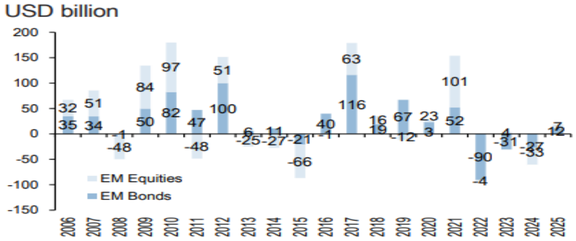
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago ⟶ current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		5.5	18.5
	EM Bonds		1.3	11.5
	Hard Ccy		0.6	3.2
	Local Ccy^		0.7	8.4
	o.w. EM ex-China		0.7	6.7
	o.w. China		0.0	-1.8
	EM Equities		4.2	7.0
	US HG		5.3	162.9
	US HY		0.3	22.7
	Global Equities		-0.6	29.7
	EM Bond and Equity ETFs		5.5	54.7
	EM Bond ETFs		0.4	1.8
	EM Equity ETFs		5.0	52.8
	Non-resident EM flows*		0.8	-9.8

Figure 2: EM bond and equity fund flows

USD billion

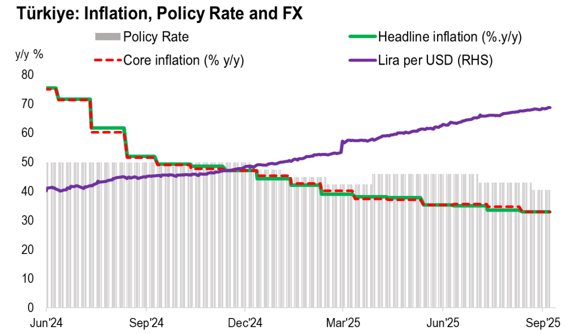


*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only.

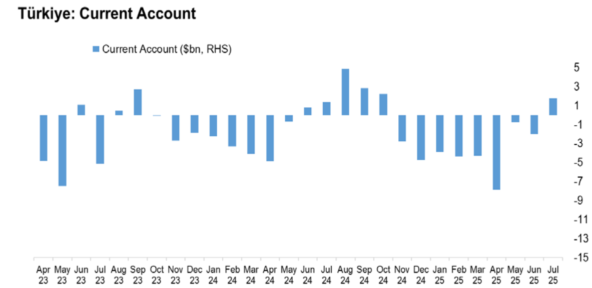
Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Türkiye

The lira continued to weaken today (-0.2%) and has depreciated 17.6% YTD (-4.4% QTD). The central bank (CBRT) surprised analysts by cutting its policy repo rate by 250 bps to 40.50% (vs. 41% expected) on September 11th after inflation slowed in August to 32.95% y/y. Analysts expect inflation to slow gradually, with September's print falling to 32% before falling below 30% in 2026. They also believe the CBRT will cut rates further to 37% by year end and 27% in 2026. The economy expanded 4.8% y/y in the second quarter (2.3% y/y in Q1), with fiscal policy remaining supportive despite some gradual fiscal consolidation expected in 2026. The current account also turned positive in July for the first time since October 2024, with gross reserves gradually rising ($183 bn in September). In addition, with Türkiye's sovereign spread falling below 250 bps, Deutsche Bank expects additional international sovereign issuance in the fourth quarter.



Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Timothy Chu (Financial Sector Expert-New York Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Senior Financial Sector Expert), Johannes S. Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Analyst), Deepali Gautam (Senior Research Officer), Zixuan Huang (Economist – EP), Harrison Kraus (Research Analyst), Yiran Li (Senior Research Analyst), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Lawrence Tang (Senior Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Jeremie Benzaken (Administrative Coordinator), Javier Chang (Senior Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

	Level		Change				
9/29/25 8:23 AM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities			%				%
United States		6,664	0.6	-0.5	3.1	16.1	13
Europe		5,506	0.1	1.2	2.9	8.7	12
Japan		45,044	-0.7	0.0	5.4	18.8	13
China		4,620	1.5	2.2	2.7	15.0	17
Asia Ex Japan		90	-0.6	-1.2	4.9	13.0	25
Emerging Markets		53	-0.2	-0.6	5.7	13.1	26
Interest Rates			basis points				
US 10y Yield		4.2	-3	0	-8	40	-42
Germany 10y Yield		2.7	-2	-2	0	60	36
Japan 10y Yield		1.6	-1	-1	4	79	54
UK 10y Yield		4.7	-3	1	-1	74	15
Credit Spreads			basis points				
US Investment Grade		114	-1	-1	-9	-16	-6
US High Yield		326	0	2	-13	-34	-3
Exchange Rates			%				
USD/Majors		98.0	-0.2	0.7	0.2	-2.4	-10
EUR/USD		1.17	0.2	-0.7	0.3	5.3	13
USD/JPY		148.8	-0.5	0.7	1.2	3.6	-5
EM/USD		45.9	0.2	-0.2	0.3	-0.8	7
Commodities			%				
Brent Crude Oil ($/barrel)		68.9	-1.8	3.4	2.0	-2.3	-4
Industrials Metals (index)		146.4	0.8	2.0	2.7	-5.1	4
Agriculture (index)		54.0	-0.3	0.4	-3.0	-7.0	-5
Gold ($/ounce)		3820.8	1.6	2.0	10.8	45.0	46
Bitcoin ($/coin)		112326.1	1.3	-1.1	4.2	70.6	20
Implied Volatility			%				
VIX Index (%, change in pp)		16.0	0.7	-0.2	0.6	-1.0	-1.4
Global FX Volatility		7.3	0.1	0.0	-0.5	-1.2	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		68	-1	2	-2	-29	-18
Italy		82	-1	3	-4	-49	-33
France		83	0	2	4	4	0
Spain		56	-1	1	-5	-23	-13

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

Emerging Market Financial Indicators

Last updated: 9/29/2025 7:44 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	0.2	-0.1	0.1	-1.4	2.5		1.9	0	3	9	-5	22
Indonesia		16680	0.4	-0.4	-1.1	-9.2	-3.5		6.2	0	12	-5	-26	-80
India		89	-0.1	-0.5	-0.6	-5.6	-3.6		6.9	0	2	2	-5	-45
Philippines		58	0.0	-1.9	-1.7	-3.6	-0.5		4.8	1	7	6	14	-6
Thailand		32	0.0	-1.4	0.4	-0.3	5.7		1.6	5	10	16	-95	-76
Malaysia		4.22	0.2	-0.3	0.2	-2.2	6.1		3.5	0	3	7	-26	-36
Argentina		1329	0.6	10.9	2.0	-27.2	-22.5		51.3	-70	-1585	388	975	2215
Brazil		5.34	0.4	-0.4	1.6	1.8	15.6		13.8	-2	9	-14	137	-218
Chile		958	0.2	-0.2	0.9	-6.2	3.9		5.4	0	5	2	43	-23
Colombia		3901	0.1	-0.9	3.9	6.6	13.0		11.4	2	12	-9	135	-38
Mexico		18.36	0.1	0.0	1.6	7.3	13.5		8.7	3	1	-26	-66	-164
Peru		3.5	0.3	0.2	1.6	6.6	7.1		6.1	-1	0	-15	-12	-49
Uruguay		40	-0.2	-0.4	0.2	4.1	10.1		8.0	-1	-1	5	-190	-168
Hungary		334	0.0	-1.3	1.6	6.8	19.0		6.6	-1	-2	-9	66	17
Poland		3.64	0.1	-1.0	0.1	5.6	13.4		4.9	3	2	13	-1	-64
Romania		4.3	0.2	-0.8	0.2	3.1	10.8		7.3	0	-3	-7	80	2
Russia		82.9	0.8	1.0	-2.2	12.2	37.0							
South Africa		17.3	0.3	0.2	2.1	-0.1	9.0		9.6	1	-3	-36	-53	-89
Türkiye		41.58	-0.2	-0.5	-1.0	-17.8	-15.0		32.1	23	36	55	303	241
US (DXY; 5y UST)		98	-0.1	0.7	0.3	-2.3	-9.6		3.74	-2	4	5	24	-64

	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		4,620	1.5	2.2	2.7	15.0	17.4		106	-4	-5	-18	10
Indonesia		8,123	0.3	1.0	3.7	7.9	14.7		87	-2	4	-12	-4
India		80,365	-0.1	-2.2	0.7	-4.7	2.8		88	-2	-2	-19	2
Philippines		5,998	-0.5	-3.5	-2.6	-17.5	-8.1		65	-3	-7	-17	-14
Thailand		1,288	0.7	0.4	4.2	-11.1	-8.0						
Malaysia		1,611	0.1	0.5	2.3	-2.3	-1.9		61	0	-2	-20	-9
Argentina		1,791,046	1.3	6.4	-9.8	3.7	-29.3		1064	-395	205	-241	427
Brazil		145,447	0.1	-0.3	2.8	9.6	20.9		188	-4	-18	-32	-59
Chile		9,023	-0.2	-1.0	1.4	38.2	34.5		95	-1	-8	-22	-18
Colombia		1,863	-0.7	-0.4	1.0	41.1	35.1		254	6	-36	-64	-72
Mexico		62,307	0.6	1.8	6.1	18.1	25.8		212	-5	-32	-100	-100
Peru		2,317	-0.2	4.6	10.8	18.6	36.7		94	1	-10	-42	-47
Hungary		99,141	-0.1	-0.2	-3.3	33.1	25.0		127	-2	-11	-22	-28
Poland		106,441	-0.1	1.1	1.6	25.3	33.8		93	1	-4	-20	-19
Romania		21,281	0.8	2.4	3.5	20.3	27.3		202	5	-7	6	-33
South Africa		107,500	0.8	1.3	5.6	22.7	27.8		249	-1	-38	-19	-44
Türkiye		11,156	0.0	-2.7	-1.2	14.1	13.5		262	-2	-13	-19	3
EM total		53	1.1	-0.6	5.7	13.1	26.0		347	-24	-5	-47	-17

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

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