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Weekly Money Market Report

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Markets in Flux: Global Markets Navigate Inflation, Fiscal Risks, Geopolitics, and Policy Expectations

Market Commentary

Global markets this week remained dominated by the interplay between inflation concerns, rising sovereign yields, and geopolitical risks. In the US, Treasury yields retreated after touching multi-decade highs, with the 10-year yield easing from above 5.34% as investors sought safety amid growing concerns over France's fiscal deterioration, before seeing declines following a weaker-than-expected September payrolls report. Economic data presented a mixed picture, with consumer spending rising 0.6% MoM, core PCE inflation moderating to 0.2% MoM and 3.0% YoY, and initial jobless claims falling to 197K. However, September nonfarm payrolls increased by just 29K, the unemployment rate rose to 4.2%, and wage growth eased to 0.1% MoM and 3.0% YoY. Nevertheless, ISM prices paid surged to 77.9, reinforcing concerns that inflation pressures remain sticky. Federal Reserve communication remained mixed, with Dallas Fed President Logan indicating rates may need to rise by at least another 50 bps, while softer labor market data led investors to sharply reduce expectations for an October rate hike. DXY closed the week at 101.932 [+0.95%]. In Europe, France's fiscal challenges intensified, with the 10-year yield rising to 4.9% and the spread over German bunds widening to 141 bps, its highest level since 2011, raising concerns about broader Eurozone stability. Eurozone inflation accelerated to 3.8% YoY from 3.2% YoY, while core inflation rose to 2.5% YoY, reinforcing expectations that the ECB may deliver at least one additional rate hike by year-end. Swiss inflation also rose modestly to 1.0% YoY. EUR/USD and USD/CHF closed at 1.1255 [-1.19%] and 0.8288 [+0.06%] respectively. In the UK, second-quarter GDP growth was revised higher to 0.5% QoQ, confirming the UK as the fastest-growing G7 economy during the first half of 2026. GBP/USD closed the week at 1.3241 [-0.05%]. Across Asia Pacific, Tokyo core inflation accelerated to 2.7% YoY and core-core inflation jumped to 3.0% YoY, reinforcing expectations of further BOJ tightening, while Australia raised rates by 25 bps to 4.60% before softer inflation data eased expectations of another near-term move. USD/JPY and AUD/USD closed at 157.85 [+0.36%] and 0.6956 [-0.95%] respectively. In China, authorities rolled out targeted stimulus measures, including a 25 bps cut in the Pledged Supplementary Lending (PSL) rate to 1.5% and additional lending support, to support growth within the government's 4.5%-5.0% target range. USD/CNH closed the week at 6.7058 [-0.25%]. Meanwhile, Brent crude and gold closed the week at 102.25 [-1.98%] and 4141.19 [-3.35%], respectively, while the US Treasury 2s10s and 5s30s curves moved by +13.49 bps and 6.59 bps, respectively, as evolving inflation expectations, rising fiscal concerns, and Middle East geopolitical developments continued to drive global market sentiment.

United States and Canada

US 10Y Treasury Yield Retreats from 24-Year High as 2Y Yield Falls to 4.82%

US Treasuries staged a strong rebound after a prolonged global bond selloff, with safe-haven demand accelerating as investors reacted to deepening fiscal and political concerns in France. The yield on the US 10-year Treasury retreated from a 24-year high above 5.34%, while the 2-year yield declined by 2.7 bps on the week to 4.82%. Softer-than-expected US manufacturing data and comments from Fed Vice Chair Philip Jefferson suggesting policymakers could take more time before deciding on further tightening also supported bond prices. The rally accelerated following September's weaker-than-expected labor market report, which showed nonfarm payrolls increased by just 29K and the unemployment rate rose to 4.2%, reinforcing expectations that the Fed will remain on hold at its October meeting. DXY last printed at 101.932.

US Consumer Spending +0.6% MoM, Core PCE +0.2% MoM and +3.0% YoY as Labor Market Conditions Ease

US economic data painted a mixed picture of resilient demand alongside weaker labor market data, prompting investors to scale back expectations for near-term Federal Reserve tightening. Nonfarm payrolls increased by just 29K in September, well below expectations, while the unemployment rate rose to 4.2% and average hourly earnings slowed to 0.1% MoM and 3.0% YoY, the weakest annual wage growth since 2021. Despite softer labor market conditions, consumer activity remained robust, with inflation-adjusted personal spending rising 0.6% MoM in August, the strongest increase since March 2025. Meanwhile, core PCE inflation increased 0.2% MoM and 3.0% YoY, below expectations, while Q2 GDP growth was revised higher to 2.2% from 1.5%. Manufacturing activity remained in expansionary territory, with the ISM PMI at 54.5, although input cost pressures intensified as the prices-paid index surged to 77.9 from 71.1. Initial jobless claims fell to 197K, underscoring still-limited layoffs. Financial markets responded positively to the softer employment report, with Treasury yields declining, equities advancing, and expectations for an October rate hike easing significantly.

Fed Officials Signal Diverging Policy Views as October Hike Odds Fall Below 25%
Recent Federal Reserve communication highlighted diverging policy views, with Dallas Fed President Lorie Logan maintaining a hawkish stance while several senior officials advocated patience. Logan stated that the policy rate may need to rise by an additional 50 bps or more to restore price stability, although she noted that higher Treasury term premiums and tighter financial conditions could reduce the need for further rate increases. In contrast, Vice Chair Philip Jefferson, New York Fed President John Williams, and Vice Chair for Supervision Michelle Bowman emphasized the need for more time to assess incoming data and underlying economic trends before adjusting policy. Following the weaker-than-expected September payrolls report and moderation in wage growth, markets further reduced expectations for near-term tightening, with futures-implied odds of an October rate hike falling to 23% from around 70% earlier in the week. Meanwhile, 30-year Treasury yields have risen 66.8 bps since 30 June, reinforcing broader financial tightening.

Europe and the United Kingdom

Eurozone Inflation Accelerates to 3.8% YoY and Core Inflation Rises to 2.5% YoY
Eurozone consumer prices accelerated to 3.8% YoY in September, up from 3.2% YoY in August and above the market expectation of 3.7%, marking the highest inflation rate since September 2023. Core inflation, which excludes energy and other volatile components, rose to 2.5% YoY, while services inflation increased to 3.2% YoY, indicating continued underlying price pressures. The latest acceleration was driven primarily by higher energy costs linked to ongoing disruptions in oil and natural gas markets, with inflation across the bloc's largest economies exceeding expectations and reaching 5.0% YoY in Spain. In Germany, inflation rose to 3.3% YoY, the highest level in almost three years, while core inflation remained stable at 2.4% YoY. Although ECB policymakers have signalled no urgency for an immediate rate increase, inflation remains well above the 2% target, supporting expectations for at least one additional policy rate hike by year-end, with financial markets increasingly pricing a move in December rather than October. EUR/USD last printed at 1.1255.

France 10Y Yield Surges Above 4.9% as Debt-to-GDP Nears 120% and Spread Over Germany Widens to 141 bps
French sovereign debt came under renewed pressure as concerns over fiscal deterioration, political uncertainty, and rising borrowing costs drove a sharp repricing of risk. France's 10-year government bond yield rose to 4.9%, its highest level since 2002, while the spread over equivalent German bunds widened to 141 bps, the largest since 2011. Investor concerns have intensified as the fiscal deficit moves further away from the government's 5% target and public debt remains near 120% of GDP, almost double Germany's level. The government's latest budget includes ambitious spending cuts aimed at restoring fiscal credibility, though implementation risks remain elevated amid a fragmented political landscape ahead of next year's presidential elections. Market participants increasingly view France as a key source of Eurozone risk, with concerns extending to potential contagion effects on regional bond markets, fiscal governance, and the euro.

UK GDP Revised Higher to +0.5% QoQ in Q2; Economy Expands +1.2% in H1 2026
The UK economy outperformed expectations in the first half of 2026, with second-quarter GDP growth revised higher to 0.5% QoQ from an earlier estimate of 0.4%, following a 0.6% expansion in the first quarter. Output increased 1.2% during the first six months of the year, making the UK the fastest-growing G7 economy over that period. Growth was supported by a 0.3% rise in household consumption, a 1.8% increase in business investment, and a stronger-than-expected 2.8% surge in exports. Real household disposable income per capita advanced 1.0%, while the savings ratio increased to 8.8%. Despite the strong performance, economists expect momentum to moderate in the second half of the year as higher energy costs, rising borrowing rates, and persistent inflation pressures weigh on household spending and business activity. GBP/USD last printed at 1.3241.

Swiss Inflation Accelerates to 1.0% YoY as Core Inflation Edges Up to 0.5% YoY
Swiss consumer prices rose to 1.0% YoY in September from 0.8% in August, reaching its highest level in two years and reflecting the combined impact of higher oil prices and a weaker Swiss franc. Core inflation also edged higher to 0.5% YoY from 0.4%, marking a second consecutive increase. Nevertheless, inflation remains comfortably within the Swiss National Bank's 0%-2% target range and significantly below the Eurozone inflation rate of 3.8%. Policymakers continue to view the recent acceleration as largely temporary, although the weakening franc is contributing to rising import prices and gradually increasing domestic inflation pressures. Market participants remain divided on when the SNB may begin normalizing rates from their current zero level. USD/CHF last printed at 0.8288.

Asia-Pacific

Tokyo Core CPI Jumps to 2.7% YoY and Core-Core Inflation Accelerates to 3.0% YoY

Inflation in Tokyo accelerated sharply in September, strengthening expectations that the Bank of Japan could deliver another policy rate increase before year-end. Tokyo core CPI rose 2.7% YoY, surpassing forecasts of 2.4% and accelerating from 1.8% in August, marking the fastest pace in ten months. A more closely watched measure excluding both fresh food and energy climbed 3.0% YoY from 2.0%, its strongest reading since August 2025. Service-sector inflation also accelerated to 2.3% YoY from 1.4%, reflecting growing pass-through of labor and input costs. Following last month's decision to raise rates to 1.25%, BOJ policymakers reiterated that preventing inflation from overshooting the 2% target has become a key objective, with swap markets pricing an 80% probability of another rate increase by December. USD/JPY last printed at 157.85.

Australia Raises Cash Rate to 4.60% as CPI Holds at 4.0% YoY and Core Inflation at 3.6% YoY

The Reserve Bank of Australia raised its cash rate by 25 bps to 4.60%, the highest level in approximately 15 years, citing persistent inflation risks linked to resilient demand and elevated energy prices. However, subsequent inflation data provided some reassurance, with headline CPI moderating to 4.0% YoY in August versus expectations of 4.1%, while core inflation remained stable at 3.6% YoY and trimmed-mean inflation slowed to 0.2% MoM from 0.5%. Housing costs remained the largest contributor to inflation, increasing 5.7% YoY, while fuel prices surged 14.8% MoM. Following the data release, markets sharply reduced expectations of a further November rate hike, with investors increasingly expecting the RBA to pause while assessing the cumulative effects of tightening. AUD/USD last printed at 0.6956.

China Targets 4.5%-5.0% Growth as PBOC Cuts PSL Rate by 25 bps to 1.5% and Expands Targeted Lending

China unveiled its largest stimulus package since 2024, although markets viewed the measures as insufficient to address deeper structural challenges facing the economy. Authorities expanded targeted lending programs by an additional CNY 700 billion, introduced mortgage subsidies for qualifying homebuyers, and reduced the pledged supplementary lending rate by 25 bps to 1.5%. The package aims to support growth within the government's 4.5%-5.0% annual target range following second-quarter growth of 4.3% YoY. While recent PMI data suggest manufacturing activity returned to expansion in September, economists argue that weak domestic demand, subdued property activity, and elevated local government debt continue to constrain the recovery. Investors responded cautiously, with Chinese equities extending losses and government bond yields remaining near multi-year lows, highlighting lingering concerns over the effectiveness of targeted policy support. USD/CNH last printed at 6.7058.

Kuwait

USD/KWD closed last week at 0.30795.

Rates – October 4, 2026

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1391	1.1215	1.1395	1.1255	1.1130	1.1330	1.1300
GBP	1.3247	1.3181	1.3311	1.3241	1.3140	1.3280	1.3246
JPY	157.28	156.38	158.45	157.85	157.30	159.05	156.66
CHF	0.8283	0.8228	0.8383	0.8288	0.8200	0.8475	0.8198

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