



Article MARKET COMMENTARY

Weekly round-up: 17th October – 24th October

Darren Ripton recaps the past week's events and looks ahead to the next.

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The week that was!

UK Inflation and Bond Market Rally Signal a Shift in Interest Rate Expectations

UK inflation for September held steady at 3.8% year on year basis, notably below survey expectations of 4.0%, with prices of food and non-alcoholic drinks rising more slowly than had been predicted. This news was positive for the beleaguered UK gilt market with the 10 year gilt yield falling by more than 5 basis points on Wednesday. This rally was driven by investor expectations that the Bank of England may cut interest rates sooner than expected, especially as economic growth has shown signs of weakness.

The Bank of England's Monetary Policy Committee's job has been made all the more difficult, with the release of September's UK Retail Sales. The 0.5% jump experienced in September was considerably stronger than the -0.4% fall which had been expected. It seems that online shopping remained strong, with clothing and household goods performing particularly well. It was also noted that the warm weather had also provided a positive boost to these numbers.

Even with this conflicting data markets are now pricing a 65% chance of a rate cut (25 basis points) in the UK by the end of the year, up from around 45% at the start of the week.

Japan appoints a new PM

On 21st October Japan made history by electing Sanae Takaichi as its new Prime Minister, the first woman ever to hold the country's highest political office. Her election marks a significant moment not only for gender representation in Japanese politics but also for the ideological direction of the country, as she brings a distinctly conservative and nationalist agenda to the role.

Takaichi, a long-time member of the Liberal Democratic Party (LDP), secured her position following a vote in the lower house of parliament. Her rise to power comes amid political turbulence, including the recent breakup of Japan's ruling coalition, which had dominated the country's politics for decades. Despite these challenges, Takaichi's leadership style and policy positions have resonated with a significant portion of the electorate and party members, particularly those seeking a more assertive national

stance.

Known for her hawkish views on security, Takaichi has pledged to strengthen Japan's defence capabilities and take a firmer stance on regional threats, particularly from China and North Korea. Her approach signals a shift toward a more muscular foreign policy, which could have implications for Japan's role in the Indo-Pacific and its relationship with allies like the United States.

On the domestic front, Takaichi is dovish on fiscal policy, advocating for continued government support to stimulate the economy, especially in the wake of sluggish growth and demographic challenges. However, she is also a traditionalist on social issues, opposing progressive reforms such as same-sex marriage and maintaining a conservative stance on gender roles, despite being a trailblazer herself.

Chinese GDP Growth

China's latest GDP figures were released on the 20th and revealed a mixed picture of the world's second-largest economy. Over Q3 2025 China's economy grew by 4.8% on a year on year basis, slightly above market expectations but still marking the slowest pace of expansion in a year. This slowdown reflects deep-rooted structural challenges, particularly in the property sector, which continues to drag on broader economic performance. Residential property sales fell 7.6% in the first nine months of the year, and property investment dropped nearly 14%, the steepest decline since records began in 1998.

The data also underscores the ongoing "two-speed" nature of China's economy. On one hand, industrial output rose 6.5% in September, its strongest performance since June, driven by manufacturing and infrastructure-related activity. On the other hand, retail sales grew just 3%, the weakest monthly reading since November 2024. This divergence highlights a key concern for policymakers: domestic consumption remains weak, largely due to low consumer confidence and a cautious household sector.

Despite these headwinds, China remains on track to meet its official growth target of "around 5%" for 2025. However, the composition of growth is increasingly skewed toward state-led investment and exports, rather than consumer-driven expansion. This imbalance raises questions about the sustainability of the recovery and the effectiveness of recent stimulus measures aimed at boosting domestic demand.

US CPI data, better late than never

US CPI data showed that headline CPI rose to 3.0% year on year in September, up from 2.9% in August but marginally lower than the survey of 3.1%. Core Inflation, which excludes more volatile components such as food and energy, fell to 3.0% on a year on year basis, again slightly softer than the forecast of 3.1%. Originally delayed due to a partial government shutdown, the report was compiled after the US Labor Department called furloughed employees back to work to ensure its timely publication. This CPI release covers September's inflation figures, and it is particularly notable as its used by the Social Security Administration to calculate their annual cost-of-living adjustment).

This CPI release will also have a significant influence on the Federal Reserve's next interest rate decision (meeting scheduled for the 28th-29th October). Analysts are watching closely for signs of whether inflation is continuing to cool or showing signs of persistence. The Fed has maintained a cautious stance in recent months, balancing the need to support economic growth with its mandate to keep inflation under control.

The delay in the report's release has added a layer of uncertainty to financial markets. Investors typically rely on CPI data to gauge the health of the economy and adjust their portfolios accordingly. Without timely data, market participants have had to rely on anecdotal evidence and secondary indicators, such as producer prices and wage growth, which have offered mixed signals.

So what is on the slate in terms of data releases next week?

Federal Reserve rate decision

The Federal Reserve's upcoming interest rate decision (scheduled for 29th October), is generating considerable anticipation across financial markets. Following a 0.25% rate cut in September, which lowered the federal funds target range to 4.00%–4.25%, investors are now weighing the likelihood of further cuts before year end. Market expectations suggest that there is a around a 95% chance of a further 25 basis points cut at the October meeting.

The minutes from the Fed's September meeting revealed a divided Federal Open Market Committee (FOMC). While most members supported further easing, citing softening labour market conditions and slowing economic momentum, a notable minority expressed concern about persistent inflation risks. Seven of the 19 committee participants projected no additional cuts in 2025, underscoring the internal debate over how aggressively to proceed.

The Fed's dual mandate of price stability and maximum employment is at the heart of this tension. Recent data shows a cooling labour market, with slower job creation and a modest rise in unemployment. However, inflation remains above the Fed's 2% target, and some officials worry that cutting rates too quickly could reignite price pressures.

Adding to this complexity is the political backdrop. President Trump has continued to pressure the Fed for deeper rate cuts, and recent controversies involving Fed Governor Lisa Cook have raised questions about central bank independence. Despite this, Chair Jerome Powell has emphasized the Fed's commitment to data-driven decision-making, distancing the institution from political influence.

German IFO Business Climate Survey

The Ifo Business Climate Index is due for release on 24th October and is expected to provide a timely update on the mood among German businesses as the country navigates a period of economic uncertainty. This index, compiled by the Ifo Institute in Munich, surveys around 9,000 firms across manufacturing, services, trade, and construction, offering insights into both current conditions and expectations for the next six months.

Economists are forecasting a slight increase in the headline index, driven by resilience in the services sector and tentative signs of recovery in manufacturing.

Germany's economy has faced several headwinds in recent months. The country's industrial base, particularly its export-oriented sectors, has been hit by slowing global demand, especially from China and ongoing geopolitical tensions. These factors have weighed on business confidence and investment.

Chinese Purchasing Managers Index

China's official Purchasing Managers' Index (PMI) data is released on 31st October and this provides a key indicator of the country's economic momentum as it enters the final quarter of the year. The PMI, compiled by the National Bureau of Statistics, tracks activity in the manufacturing and services sectors and is closely watched by investors, policymakers, and economists for early signs of expansion or contraction.

The October PMI will be particularly important in assessing whether the manufacturing sector is continuing to recover or facing renewed pressure from weak global demand, especially amid trade tensions with the US and a slowing property market. Analysts expect the headline manufacturing PMI to hover near the neutral 50-point mark, which separates expansion from contraction. A reading above 50 would suggest growth, while a figure below would indicate a slowdown.

The services PMI will also be in focus, given its role in supporting domestic consumption. With China's economy increasingly

reliant on internal demand, any weakness in services could signal broader challenges ahead.

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