



US government services have been suspended since October 1st due to the congressional gridlock over the appropriations bill. Even though the House managed to pass a bill to extend funding for 45 days, it fell short in the Senate, with a 55-45 stalemate. The White House is aiming to make the shut-down impactful for Democratic constituencies by withholding funding for green energy and infrastructure projects in states led by Democrats, and has even threatened to permanently fire thousands of government workers. Democratic leaders are pushing for increased health care funding to reopen the government, while Republicans are open to health care subsidy negotiations only after the shut-down ends. Despite these developments, markets have remained resilient, with equities trading at record levels and bond yields experiencing a modest drop.

With the US government's data delayed due to the shut-down, the market has turned its attention to private economic data. For instance, the ADP private employment report revealed a decline of 32,000 jobs in September. However, this drop is largely attributed to recent revisions to government employment data. It is important to note that ADP data and nonfarm payrolls are not typically closely correlated. US job openings held steady in August, rising to 7,227,000 from 7,208,000 in July, indicating a balanced labour market with low levels of churn. However, consumer confidence continues to decline, as evidenced by the Conference Board's confidence index, which fell to 94.2 in September from 97.8 in August. Respondents expressed growing concerns about job availability.

The UK economy grew 0.2% in the May–July period, with services output rising 1.3% year-over-year and manufacturing increasing 0.4%, reflecting the impact of US tariffs and frontloaded export activity. Headline CPI for August remained steady at 3.8% year-over-year, still above the BoE's 2% target. Services CPI moderated, driven by a sharp drop in airfares. Wage growth slowed to 4.8%, down from 5.8% in January, and the unemployment rate rose to 4.7%, indicating a gradual loosening in labour conditions. These developments suggest inflation is cooling, but underlying pressures persist. In the UK, British Prime Minister Keir Starmer, speaking at the annual Labour Party conference in Liverpool, emphasised the non-negotiable fiscal rules designed to restore the budget's health, rejecting calls from party members for unfunded tax cuts and spending.

The Bank of England held rates at 4.00% in September, with a 7–2 vote split. While the BoE signalled a gradual easing path contingent on further inflation moderation, policymakers remain divided. Some, like Deputy Governor Sarah Breeden, support a cautious approach to rate cuts, while others, including Catherine Mann and Megan Greene, warn against premature easing due to persistent inflation expectations. Looking ahead, the BoE is expected to maintain a cautious stance, with potential for one more rate cut by year-end if inflation continues to ease and growth remains subdued. Fiscal policy developments, particularly in the Autumn Budget, will also be key in shaping the macro outlook.

Eurozone inflation rate rose to 2.2% in September from 2% in August, with the core rate holding at 2.3%. European Central Bank President Christine Lagarde stated that the bank's policy outlook is not fixed and that the ECB is prepared to act if needed. She noted that adverse economic impacts from tariffs have mainly affected growth, but the trade deal with the US has reduced uncertainty faster than expected. The European Union is planning to increase tariffs on steel imports to support local producers affected by Asian overcapacity. Currently, the EU imposes a temporary 25% tariff on most imports once quotas are exhausted, but this mechanism expires next year. The commission is working on a more permanent solution, which is expected to be unveiled next week.

