

# Weekly Macro and Markets View

21 September 2026



## Highlights and View

**The US Federal Reserve delivers its first hike since 2023, lifting policy rates by 25bp to 3.75-4.00%, indicating more to come**

The move had been almost completely priced by the market going into the meeting and is an important marker in showing Fed independence from political pressures.

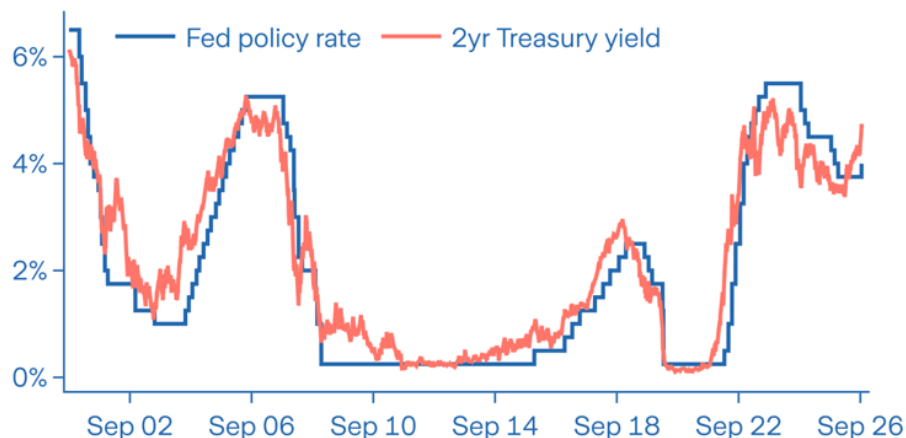
**The Bank of England leaves interest rates unchanged in a 6-3 vote, but signals growing concern over incoming inflationary pressure**

The Bank also paused sales of their QE holdings until at least next April, alleviating pressure on the UK bond market.

**The Bank of Japan lifts its policy rate to 1.25% as widely expected, the highest since 1995**

Looking ahead, the BoJ is likely to move faster than its previously signalled six-month cadence, taking the rate to 1.75% by the end of H1 2027.

The Fed hikes the policy rate, with markets pricing more to come



Source: Bloomberg

All attention was on the Fed last week, in what was one of the most anticipated FOMC meetings in many years. The new Fed Chair, Kevin Warsh, proved his doubters wrong by delivering on his hawkish narrative and lifting the Fed Funds Rate by 25bps. While market pricing placed the odds of a hike at over 90% going into the meeting, the details paint a picture of a Fed united in focusing on bringing inflation back to target. Indeed, the infamous dot-plot forecast, which Warsh has chosen not to participate in, indicates the vast majority of members anticipating further rate hikes ahead. Market pricing now indicates a more than 50% chance of a hike in October, immediately before the midterm elections. It was also notable that growth was deemed to be robust and monetary conditions far from being restrictive.

Certainly, economic data released last week support that conclusion, with initial and continuing jobless claims surprising positively and retail sales also coming in well ahead of expectations. We believe the policy hike was warranted, not least to cement the Chair's credibility and underscore the Fed's independence from political pressures. That noted, we suspect that market pricing of three further hikes this cycle is a tad aggressive. Higher energy prices and a fading fiscal boost, combined with higher bond yields are likely to curb growth and inflation going forward.

## UK

Rates unchanged, gilts supported

Last week saw an unusually busy economic calendar in the UK. The Bank of England held policy rates at 3.75% on Thursday, with three out of nine committee members dissenting in support of hike to 4%. The market expected the hold in advance, although the tone of the meeting did suggest building inflation concerns due to the rising energy prices. In a positive development for the UK gilt market, the bank announced a new framework for their QE unwind. Active bond sales, the world's most aggressive form of balance sheet reduction, will be paused until at least

April of next year. There are also no plans to include long-dated debt in active sales, helping support that part of the yield curve. August retail sales data rose 2.4% YoY, slightly more resilient than the market anticipated. Labour market data was mixed. Pay growth appears to have stabilised at levels that don't suggest large inflationary pressures. Both vacancy and job growth numbers are slowing, although overall unemployment numbers are low.

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## Japan

The BoJ stops short of signalling the timing of the next move

In Japan, all eyes were on the Bank of Japan last week, with markets watching how it would react to the nearly 100% pricing of a hike and the Fed's move two days earlier. The BoJ delivered the widely expected 25bp hike, taking the policy rate to 1.25% in a 7-2 vote. Interestingly, the two dovish members appointed by PM Takaichi voted to hold, suggesting the government still clearly prefers loose policy. The hike reassured markets that the BoJ intends to move fast to ease depreciation pressure on the JPY. More important, though, is the forward guidance.

Governor Ueda stopped short of signalling the timing of the next move. Those looking for a more hawkish tone were disappointed. While he noted the BoJ has entered a different phase, he stressed the need to avoid abrupt increases. We therefore expect more flexibility on timing while back-to-back or outsized 50bp hikes remain unlikely. We continue to look for a 25bp hike in December if the Fed raises rates again, and otherwise in early 2027, followed by a third hike in April or June, taking the policy rate to 1.75%.

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## China

A one-speed economy

China's August data confirmed an economy leaning more heavily on exports. Industrial production was the only bright spot, up 5.3% YoY. Domestically, there was little sign of a turnaround. Retail sales grew only 0.4% YoY, while YTD fixed asset investment contracted 7.2% YoY on weakness in manufacturing, infrastructure and property. The housing downturn remained entrenched, with housing starts, home sales and real estate investment all posting double-digit contractions. Policy support is becoming more visible but remains targeted, including capital injections for

banks and insurers, and longer mortgage terms for households. Of note, the government's push to accelerate local government bond issuance should help lift infrastructure activity in Q4. That said, fiscal easing is likely to remain targeted and small in scale rather than a broad-based stimulus, which will keep the economy muddling through.

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## Bonds

Government bond yields ease back as the Fed hikes rates, helped by lower oil prices

In a busy week for central banks, it was reassuring that sell-off pressures in government bond markets eased. Sentiment was also helped by oil prices, which edged lower. The 10yr Treasury yield, which breached 5% mid-week, fell back below 5% as the Fed hiked rates. The decline was led by the long end of the curve as concerns around Fed independence softened. Gilts outperformed as the BoE kept rates unchanged, while announcing significant changes to their bond sales program. The 30yr gilt yield slumped, down 15bps on the

week, though it remains elevated at over 5.7%. The BoJ hiked rates as expected. This was well received by investors, with the 10yr JGB yield edging back below 3% by the end of the week. Real yields, however, stayed elevated globally last week as market pricing of inflation also ticked lower. While bond markets will remain volatile near term, they are likely to offer good value over the longer term given elevated real yields and central banks that remain focused on inflation.

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## Eurozone Bonds

Flashing amber

European financial markets are increasingly nervous about the domestic implications of our fractious world. Rising energy prices, significant defence spending commitments, political tensions, and higher global bond yields are reopening fissures in Eurozone debt markets. Last week, German 10yr bond yields rose to levels last seen in 2009. While all sovereign borrowing costs have risen, spreads between Eurozone governments have started to display increasing sensitivity to higher rates. France is currently at the centre of investor's concern, with borrowing

costs above those of Italy, Spain and Greece. 10yr borrowing costs have risen above the key psychological barrier of 1% over the German equivalent, a threshold last breached in 2011. The situation is difficult, with scope for further weakness. France's fiscal deficit remains too high, and the growth outlook has deteriorated. Presidential elections next April discourage political compromise while the energy and fuel situation increases the risk of strikes. At current levels, the ECB is unlikely to offer any support tools, but that option does remain in extremis.

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## What to Watch

- In a light week for US data, attention will be on the PMI Services and Manufacturing readings, with very modest weakening expected.
- This week brings key Eurozone activity surveys, including PMIs and the German ifo. PMIs will also be released for the UK, as will September house price data.
- In Switzerland, the SNB is expected to keep rates unchanged in its policy meeting, but it will be a finely balanced decision.
- The Xi-Trump meeting on Thursday will be the focus in Asia. Australia's labour market data, Bank Indonesia's rate decision, and Taiwan's export orders are also key data to watch.

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