

FX, Fixed income, Econ, Facts & Fallacies

3 October 2025

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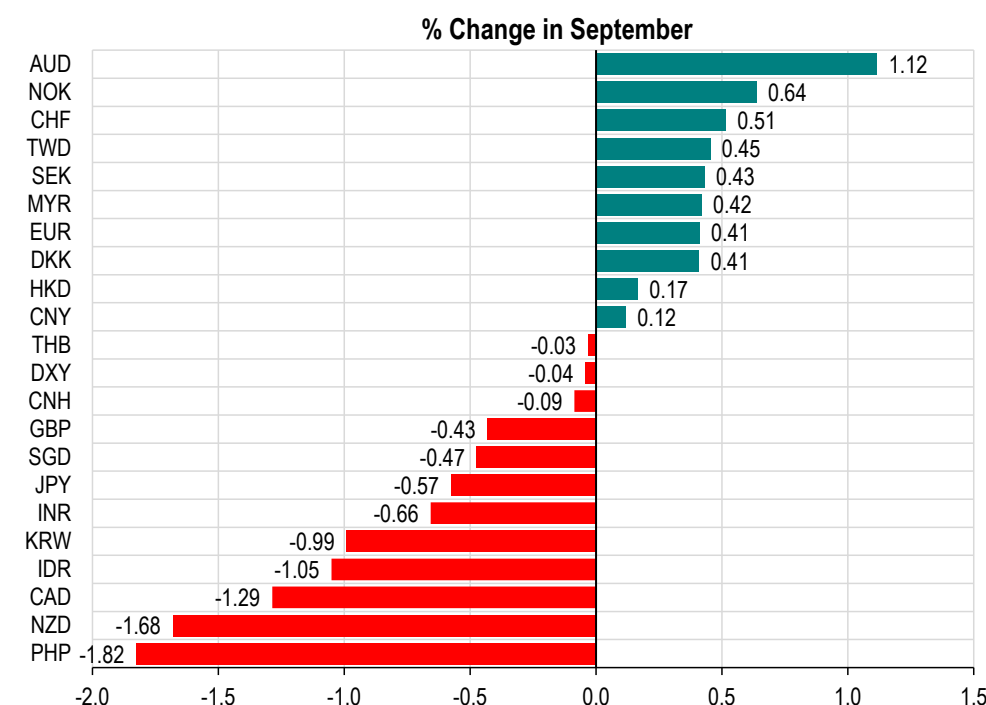
Capital markets recap, September 2025

- The US dollar ended September broadly unchanged but experienced notable volatility, hitting its lowest level since late February 2022 amid weak labor data, before regaining strength in the second half of the month following the Fed's rate cut, and a stronger-than-expected GDP reading. However, the dollar softened again due to growing concerns over a potential US government shutdown. The baht also closed the month broadly stable, but was highly volatile. It briefly strengthened to below 32 per USD, the strongest level in 4 years, before gradually weakening in the latter half of the month due to slowing economic momentum and tensions along the Thai-Cambodian border.
- US Treasury yields edged slightly lower in September but were volatile throughout the month, reflecting Fed rate cut expectations, global

sovereign debt concerns, mixed US data, and rising questions around Fed independence. In contrast, Thai government bond yields rose across most maturities, following J.P. Morgan's downgrade of Thai bonds to "Underweight". Additionally, Fitch Ratings revised Thailand's credit outlook to "Negative", citing elevated fiscal risks.

FX Markets

Figure 1: Monthly Changes in Major Currencies



Source: Bloomberg, KBank

The US dollar ended September 2025 broadly stable, although it experienced depreciation during the month, reaching its lowest level since late February 2022 at 96.2 mid-month. This was largely due to weaker-than-expected labor market data, which prompted markets to anticipate up to 3 rate cuts by the Fed this year. The dollar started the month on a stronger note but gradually weakened as labor market indicators disappointed—most notably, nonfarm payrolls in August increased by only 22k, significantly below expectations. In addition, the unemployment rate rose to 4.3%, the highest in four years.

Despite strong data in other sectors—such as the ISM Services PMI reaching a 6-month high and better-than-expected retail sales—investor sentiment was shaped by rising concerns over the labor market. August inflation accelerated to 2.9% YoY, which is in line with forecasts and has not yet reflected the impact of newly implemented import tariffs.

The dollar rebounded in the month's latter half after the Fed cut interest rates by 25bps as expected. However, the tone was less dovish than markets had anticipated, given persistent upside risks to inflation. Although the Fed's dot plot suggests two more rate cuts this year, matching market expectations and up from 1 cut projected in June, it forecasts only one cut in 2026, while the market is pricing in 3. **Fed members expressed mixed views on the rate path ahead** due to the

contrasting dynamics of weak labor markets and still-elevated inflation. **Meanwhile, Q2 2025 GDP was revised upward notably to 3.8% QoQ (saar), the highest in nearly two years** and above both previous estimates and expectations (3.3%). Fed Chair Jerome Powell also signaled a cautious approach to further easing, helping push the dollar to its strongest level in 3 weeks at 98.5.

However, the dollar pared some gains in the month's final week amid rising concerns over a potential US government shutdown on 1 October 2025. The budget for fiscal year 2026 had yet to be approved due to partisan conflict, particularly over healthcare spending, raising risks of economic disruptions and delays in key data releases such as nonfarm payrolls.

The euro appreciated slightly by 0.4% in September, reaching its strongest level since September 2021, surpassing 1.19 US dollar per euro mid-month. This was driven primarily by USD weakness following soft US labor data and heightened expectations for a Fed rate cut, the first in ten months. Meanwhile, the ECB held rates steady at 2.00%, as expected. ECB President Christine Lagarde stated that interest rates are at an appropriate level and inflation is on target, leading markets to speculate that the ECB's easing cycle may be nearing its end. **Nonetheless, the euro faced some headwinds from political uncertainty in France,** where a no-

confidence vote on 8 September led to the appointment of a new prime minister. Ongoing debates over fiscal policy and the national budget created further uncertainty.

The pound dropped slightly by -0.4% over the month, despite briefly reaching a two-month high mid-month, following USD weakness.

Sterling faced downward pressure from generally weak economic data and concerns over the UK's fiscal outlook. Markets are closely watching the upcoming budget announcement on 26 November by Chancellor Rachel Reeves. At the same time, the BoE maintained its policy rate at 4.00%, as expected, citing stubborn inflation. Governor Andrew Bailey emphasized the need for a gradual approach to rate cuts. Markets still expect further cuts from the BoE but push out to 2026.

The Australian dollar appreciated by over 1% in September, the best performer among major currencies, supported by broad USD weakness and higher-than-expected inflation, which rose to the top end of the RBA target range. This reduced the likelihood of near-term rate cuts. As expected, the RBA held rates steady at 3.60%, and signaled that monetary policy would remain restrictive to curb inflationary pressures.

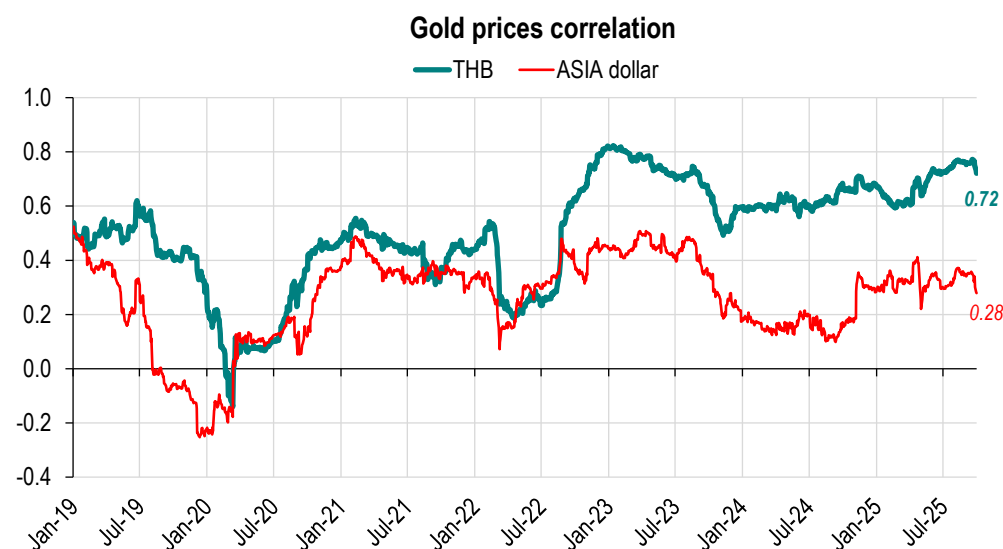
The yen fell by approximately -0.6% in September and saw high volatility, reaching a weakest point near 150 per US dollar and a

strongest point at 145.49 per US dollar. After Prime Minister Ishiba announced his resignation in early September, the currency came under pressure from political uncertainty. This triggered a leadership vote within the Liberal Democratic Party (LDP), scheduled for 4 October. Markets expressed concern over Japan's fiscal position and are closely monitoring the policy stance of potential successors, particularly Sanae Takaichi, who is seen as relatively dovish and potentially weighing further on the yen. However, the yen found some support from rising expectations of a BoJ rate hike. The latest meeting reflected a more hawkish tone, with a 7-2 vote to keep rates unchanged—two members advocated for an immediate hike. The BoJ also unveiled plans to reduce holdings of ETFs and J-REITs, and several officials signaled the possibility of future rate hikes.

The baht ended the month broadly unchanged but experienced significant intra-month volatility. It reached the strongest level in 4 years at 31.67 per US dollar mid-month, supported by a weaker USD and a continued rally in gold prices. **However, in the second half of the month, the baht weakened back above 32.00 per US dollar** as the dollar rebounded. Additionally, Thai authorities sought to stabilize the currency, including discussions about implementing a tax on gold trading and targeted currency interventions. Market focus also shifted to Thailand's economic fundamentals. August exports rose 5.8% YoY, below

expectations and marking the end of seven consecutive months of double-digit growth, amid the impact of new US tariffs. The current account posted a larger-than-expected deficit in August. Geopolitical concerns along the Thai-Cambodian border and Fitch’s downgrade of Thailand’s credit outlook to “Negative”, citing fiscal stability concerns, further weighed on investor sentiment.

Figure 2: Correlation between Gold prices and baht (green line)



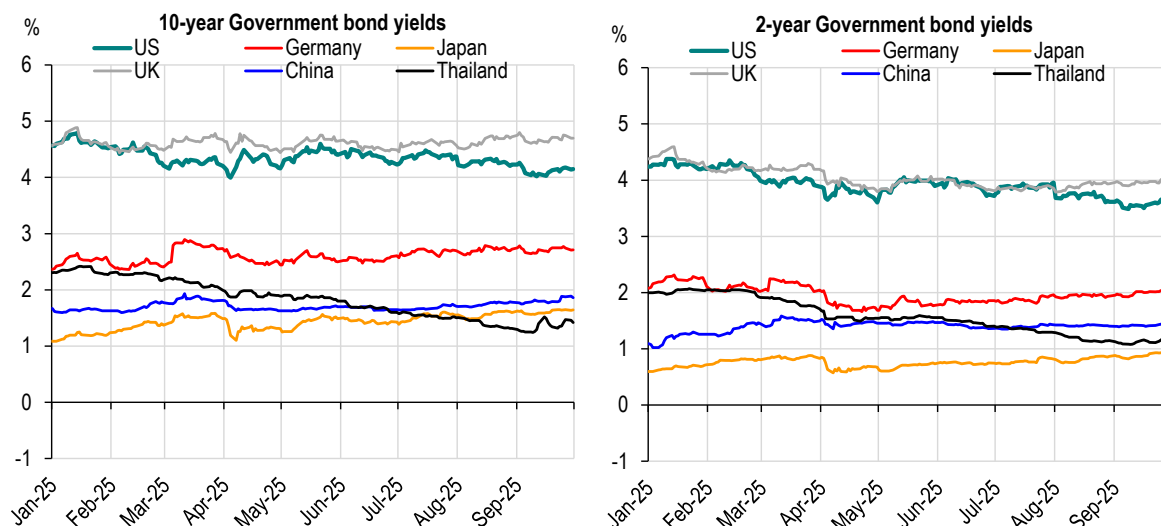
Source: Bloomberg, KBank as of 30 September 2025.

Bond Markets

US Treasury yields declined slightly in September, though they remained volatile throughout the month, particularly in the 10-year and 30-year maturities. Movements were driven by shifting expectations around Fed rate cuts, rising concerns over global sovereign debt, mixed US economic data, and questions about the Fed’s independence following developments involving Fed Governor Lisa Cook. Yields initially rose in early September, reflecting heightened concerns about sovereign debt risks spreading from Europe, especially from France, the UK, and Japan. However, yields began to trend downward as the month progressed, following weaker-than-expected US labor market data, which prompted markets to price in up to 3 potential Fed rate cuts this year.

In the second half of the month, yields climbed again after the Fed cut rates by 25bps as expected, but struck a less dovish tone than anticipated. Most Fed officials signaled continued caution due to persistent inflation risks and showed no urgency to ease further. Toward the end of the month, yields retreated slightly once more as markets grew increasingly concerned about a potential US government shutdown, which reintroduced some demand for safe-haven assets.

Figure 3: 10-year and 2-year yield movements

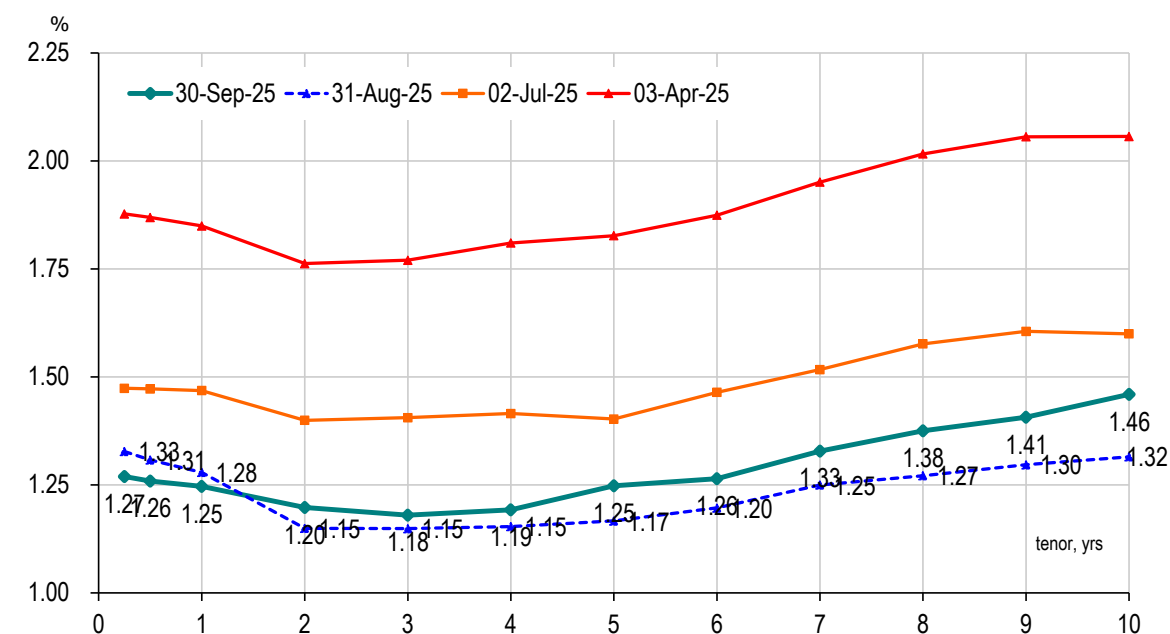


Source: Bloomberg, KBank

Thai government bond yields rose across most tenors in September, with notable increases mid-month. The 10-year yield climbed to approximately 1.52%, its highest level since late July, while the 2-year yield reached around 1.20%, the highest since early August. The rise followed J.P. Morgan's downgrade of Thai government bonds to "Underweight", indicating a recommendation to reduce portfolio exposure relative to market benchmarks. This assessment reflected the view that the market had already largely priced-in the BoT expected rate cuts.

Currently, the market anticipates that the BoT will cut rate once more this year, bringing the policy rate down to 1.25%, followed by an additional cut next year to 1.00%. Adding to the pressure on Thai bonds, Fitch Ratings revised Thailand's credit outlook to "Negative", while affirming its BBB+ rating. The agency cited rising fiscal risks as the main driver of the outlook downgrade.

Figure 4: Thai bond yields



Source: Bloomberg, KBank



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