Central banks in the spotlight

Key takeaways

With global government bond yields continuing to move higher amid renewed ferocity in the Middle East, all eyes will be on the three major central banks setting interest rates this week.

Oil climbs above $100 a barrel as Iran war exchanges escalate

Last week saw oil prices cresting above $109 a barrel as US warships destroyed multiple Iranian crude tankers and Yemen's Iran-backed Houthi militants launched painful attacks on Saudi Arabian infrastructure, greatly curtailing oil output.

The news pushed government bond yields higher on both sides of the Atlantic (meaning their prices fell). Against this backdrop, the US Treasury commenced its 'buyback' programme buying some $5.2bn of US government bonds (Treasuries) in its first tranche. This did little to stem steeply rising Treasury yields.

Elsewhere, President Trump renewed his calls for the Federal Reserve (Fed) to cut interest rates while adding to US debt worries with the promise of a $5,000 'dividend' payment to all American adults if the Republicans triumph at the midterms (thought to add c.$1.2trn to US borrowing). All this puts Fed chair Kevin Warsh on a collision course with both the White House and the Treasury with this week's Fed decision being seen as a test of his inflation-fighting credibility.

Latest inflation numbers harden expectations of US rate hike this week

Last week's Producer Price Index (PPI) reading of US 'factory gate' inflation in August was in line with elevated expectations. It rose 0.4% over the month while core PPI, excluding food and energy prices, was up 0.2%, bringing annual headline PPI to 5.4%. A day later, US Consumer Price Index (CPI) numbers showed inflation was up 0.4% in August, but had remained stable at 3.4% annually. Core CPI, meanwhile, came in at 0.3%, taking the annual figure to 2.4%.

Although US stock markets rallied on Friday, the news hardened expectations for a US interest-rate hike to 90% when the Fed announces its latest rate decision on Wednesday. Markets now expect four more US rate hikes to come.

UK's surprise GDP number

The Bank of England meets on Thursday to set UK interest rates following a welcome surprise in UK GDP growth, which instead of being flat as forecasters expected, expanded 0.4% in July. However, economists were quick to warn of the headwinds that lie ahead due to the pressure from energy and bond markets, and the chancellor's declining 'fiscal headroom'.

Separately, Bank of England Governor Bailey last week warned of the impact global energy prices, the UK drought, and the El Nino weather system, would have on inflation. UK inflation hit 2.9% in July, up from 2.6% in June. The UK's latest inflation report is due on Wednesday, a day before the Bank's latest rate announcement where analysts expect interest rates to remain on hold.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

Every major regional stock market suffered modest declines as oil prices and global bond yields rose.

Japanese and emerging market shares outperformed with only very moderate losses.

Both UK and US government bonds gave up ground. Gold declined again leaving returns only just in positive territory for 2026.

What to look out for this week

Tuesday brings UK unemployment and average earnings numbers, and the latest US ADP employment change data.

Wednesday will see UK inflation and Retail Price Index (RPI) data alongside US retail sales and the Fed's latest interest-rate decision.

Thursday promises the Bank of England's latest interest-rate decision as well as EU inflation numbers, US initial jobless claims and industrial and manufacturing production readings.

The Bank of Japan's latest rate announcement is due Friday.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk

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