China factory activity shrinks for a sixth month in September, PMI shows

By Reuters, September 29, 2025

BEIJING - China's manufacturing activity shrank for a sixth month in September, an official survey showed on Tuesday, suggesting producers are waiting for further stimulus to boost domestic demand, as well as clarity on a U.S. trade deal.
The official purchasing managers' index (PMI) rose to 49.8 in September versus 49.4 in August, below the 50-mark separating growth from contraction, but beating a median forecast of 49.6 in a Reuters poll. The non-manufacturing PMI, which includes services and construction, fell to 50.0 from 50.3 in August, according to the National Bureau of Statistics (NBS). The NBS composite PMI of manufacturing and non-manufacturing came in at 50.6 in September, compared with 50.5 in August.

The prolonged slump in headline factory activity underlines the twin pressures on China's economy: domestic demand has failed to mount a durable recovery in the years since the pandemic while U.S. President Donald Trump's tariffs have squeezed Chinese factories as well as overseas firms that buy components. Policymakers rolled out a series of consumer loan subsidies in mid-August, a decision vindicated by separate factory output and retail sales data for the month, which saw their weakest growth in 12 months. Pan Gongsheng, the governor of the People's Bank of China, said last week a range of monetary policy tools to support the economy remained available, but refrained from following the U.S. Federal Reserve with a rate cut, as some economists speculated the central bank might.Despite signs the $19 trillion economy is losing momentum, authorities appear in no hurry to roll out major stimulus measures, given resilient exports and a stock market rally, market watchers say.

China's exports to regional rival India hit an all-time high in August, customs data showed, while shipments to Africa and Southeast Asia are on track for annual records. But no other country comes close to the consumption power of the U.S., where Chinese producers sell more than $400 billion worth of goods annually, accounting for around 14% of total exports. Chinese leader Xi Jinping phoned Trump on September 19 for the first time in three months, and while the call appeared to ease tensions, it remains unclear whether it yielded the expected agreement on popular short-video app TikTok, which analysts see as key to a broader trade deal. Disagreements on technical details appeared to be weighing on negotiations, as Chinese and U.S. trade officials met again last Thursday to revisit issues discussed in talks before this month's Madrid summit, where a framework TikTok deal was reached. The private sector RatingDog manufacturing PMI came in at 51.2, up from 50.5 a month prior.

Japan's economy shows strain as factory output and retail sales drop

By Satoshi Sugiyama, Reuters, September 29, 2025

TOKYO - Japan's factory output fell more than expected while retail sales declined for the first time in over three years in August, government data showed, heightening uncertainties about the economic outlook. Although Tokyo struck a trade deal with Washington, analysts said U.S. tariffs could still affect Japan's production and the global economy, which is keeping the Bank of Japan on edge in terms of when to next raise rates. Industrial output fell 1.2% in August from a month earlier, data from the Ministry of Economy, Trade and Industry (METI) showed on Tuesday, exceeding a median market forecast for a 0.8% decline. Manufacturers surveyed by the ministry expect seasonally adjusted output to grow 4.1% in September and rise 1.2% in October. The ministry maintained its assessment that industrial output is "seesawing." "The cautious stance towards production planning remains deeply entrenched," a METI official said.

The production of electrical machinery and information and communication electronics equipment, including laptop computers, fell 5.7% in August from the previous month due to a reaction to pent-up demand in July. Fabricated metal production was down 7.8%. In late July, Washington and Tokyo agreed upon a baseline 15% tariff on nearly all Japanese imports, down from an initial 27.5% rate on autos and a threatened 25% duty on most other goods, which came as a relief to Japanese exporters. Motor vehicle production, a key industry for Japan, was up 2.5% in August from a month earlier as the output for vehicle models for sale overseas increased and a parts shortage eased.

Still, analysts said it was too early to be optimistic. "Japanese manufacturers are feeling squeezed on all sides," said Stefan Angrick, head of Japan and frontier market economics at Moody’s Analytics. "Higher U.S. import tariffs under the U.S.-Japan trade deal are dragging down shipments." BOJ Governor Kazuo Ueda said this month that the central bank will continue to raise interest rates if the economy and prices move in line with its forecast, although he said he preferred to scrutinise more data for clues on how U.S. tariffs could affect Japan's economy. Separate data showed Japanese retail sales in August declined 1.1% from a year earlier, the first decline in 42 months, dragged down by lower automobile sales. The median market forecast expected a 1.0% rise. "This dismal data streak will keep the Bank of Japan on hold for now," Angrick said.

Bank of England's Ramsden sees inflation falling to target as jobs market weakens

By Reuters, September 29, 2025

Bank of England Deputy Governor Dave Ramsden said on Monday that Britain's jobs market had weakened and wage growth was normalising, leaving him confident that interest rates could be cut further and inflation would fall back to the BoE's target. "We have seen the labour market continuing to loosen with wage growth normalising and I see that as supporting a continuation of the core disinflation process. And that anchors my view on the inflation outlook," Ramsden said in a panel discussion organised by the European Central Bank in Frankfurt. Ramsden was one of seven members of the nine-strong Monetary Policy Committee who this month decided to keep the BoE's benchmark Bank Rate on hold at 4% while the other two voted for a quarter-point cut. Ramsden said Britain's inflation pressures had been easing substantially until recently and, although households' inflation expectations were high, the BoE's forecast of a rise in consumer price growth to 4% in September was likely to prove a peak. "I do remain confident that we're going to get inflation back to target with the current setting of ... interest rates which is still in restrictive territory, and also given the market expectations that we condition our forecast on," he said in the panel discussion. Governor Andrew Bailey last week reiterated his view that borrowing costs are likely to fall further but when and by how much depended on the path of inflation. "I think the gradual and careful approach that the MPC have taken to removing policy restraint remains appropriate and I see scope for further removal of policy restraint looking ahead," Ramsden said. Another MPC member, Megan Greene, on Wednesday warned that inflation in Britain could prove stronger than the BoE has forecast and a cautious approach should be taken to further rate cuts.

Rupee pinned near all-time low on weak Asia, enduring US trade troubles

By Nimesh Vora, Reuters, September 29, 2025

MUMBAI - The Indian rupee is likely to hover near its lifetime low at open on Tuesday, dragged by weakness across Asia and persistent U.S. trade tensions that have strained New Delhi’s economic ties with Washington. Non-deliverable forwards indicated the rupee would open at 88.74–88.78 to the dollar, little changed from Monday’s 88.76 level and near the lifetime trough of 88.7975 struck last week. Persistent strain on the rupee has built up in recent weeks, driven by the drag from U.S.-India trade frictions. Washington’s 50% punitive tariffs on Indian goods and the hike in H-1B visa fees, which is expected to hit India harder than any other country, have driven foreign investors to pull money out of equities. Last week, foreign investors pulled out $1.8 billion, with preliminary data showing more than $300 million sold on Monday. "Most were thinking the 50% tariff would come down to 25% through talks - looks like that’s not happening anytime soon," a currency trader at a Mumbai-based bank said. "Then you throw in the H-1B visa news, and the pick up in equity outflows," keeping the rupee under persistent strain, he added. The Reserve Bank of India has been stepping in to slow the rupee's slide without which, bankers say, the Indian currency would have fallen much more. At Tuesday’s open, the rupee faces pressure from weaker Asian peers and a modest rise in the dollar index. Investors are wary of a potential U.S. government shutdown, which could delay key economic data, including this week’s key jobs report. Economists at Morgan Stanley expect each week of a shutdown to shave about 10 basis points off real U.S. GDP. U.S. long maturity Treasuries rallied on Monday.

Italy sees 2025 deficit at around 3% of GDP, in line with EU rules

By Giuseppe Fonte, Reuters, September 29, 2025

ROME - Italy sees this year's budget deficit at around 3% of national output (GDP) or slightly below, people familiar with the matter told Reuters on Monday, as the government finalises its new multi-year budget plan to be unveiled this week. Rome in April had estimated a deficit of 3.3% of GDP in 2025, but higher-than expected tax revenue and lower interest paid on sovereign bonds mean the fiscal gap will be lower, the sources said, asking not to be named. Although the figures are subject to possible slight changes ahead cabinet approval, the Treasury is confident the deficit will fall this year to 3% of GDP or lower, from 3.4% in 2024, the sources said. The cabinet meeting to sign off on the numbers is expected to be held on Thursday. A deficit-to-GDP ratio at or below 3% would allow Italy to exit the EU's infringement procedure for countries running excessive deficits by mid-2026, one year ahead of schedule.

The procedure restricts offending countries' flexibility with regard to taxation and spending policies, as they must cut their fiscal deficit by a prescribed amount each year. The sources said Italy's 2.8%-of-GDP deficit goal previously set for next year would also be revised downwards, without giving further details. Once it has exited the EU's procedure, Italy will be able to assess next year, probably in the autumn, whether to activate the bloc's so-called "escape clause" designed to boost defence spending. This would allow it to widen its deficit again without triggering new disciplinary proceedings. The new budget framework will target gross domestic product in the euro zone's third largest economy to grow by 0.5 or 0.6% this year and by around 0.8% in 2026, the sources said, broadly in line with previous estimates. Under an unchanged policy scenario the economy would grow by 0.7% in 2026, they said, but the government expects that the positive impact of tax cuts and higher spending to be adopted in the upcoming 2026 budget will provide a modest boost.