BOC Research Institute

Global Economic and Financial Outlook

2025Q4 (Issue 64) Issue Date: September 25, 2025

Highlights

●In 2025Q3, the global economic growth momentum showed signs of recovery. Aggregate demand experienced a slight rebound, while aggregate supply remained generally stable. The pace of global inflation decline slowed overall, with divergence trends intensifying. The impact of tariff policies on global trade moderated. The Federal Reserve's monetary policy turned dovish. International capital returned to emerging markets. Global USD liquidity faced pressure, the US Dollar Index fluctuated at low levels, US Treasury yields underwent wide adjustments, global stock markets generally trended upwards, and commodity price volatility increased.

●Looking ahead to 2025Q4, the outlook for global economic growth is mixed. Uncertainty on the demand side has increased, while the supply side remains relatively robust. Global inflation is expected to stabilize with a downward trend overall, though the US faces risks of a rebound. US tariff policies remain highly uncertain. Fiscal revenue and expenditure pressures are intensifying in some economies. The Federal Reserve may implement further interest rate cuts. Geopolitical factors will continue to significantly influence global capital flows. The US Dollar Index is expected to continue its weak performance, US Treasury yields are likely to maintain wide fluctuations, emerging market equities appear more attractive, and the central price level of international crude oil is expected to shift downward.

●The hot issues that deserve particular attention include the prospects of China-EU economic and trade cooperation against the backdrop of Trump's second term, and the potential adjustment of the Federal Reserve's monetary policy framework.

Analysis of Major Global Economic Indicators

	Items	Share in global GDP in 2022	2025Q3Vs 2025Q2	Comprehensive judgment
Demand	Residential consumption	55.4%	→	↑
	Private investment	28.1%	↑	
	Government spending	16.5%	↑	
Supply	Agriculture	4.3%	→	↑
	Industry	27.5%	↑	
	Services	68.2%	→	
Economic growth——GDP growth				↑
Inflation rate——CPI growth				↓

Source: World Bank, Wind, BOC Research Institute

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Global Economic Growth Shows Resilience, Cross-Border Capital Flows Exhibit New Characteristics

Global Economic and Financial Outlook (2025 Q4)

In 2025Q3, the global economic growth momentum showed signs of recovery. Consumption growth diverged among major economies, investment activity improved, fiscal policies continued their proactive expansion stance, leading to a slight rebound in aggregate demand; manufacturing PMI picked up, while services activity softened slightly, keeping aggregate supply generally stable. The pace of global inflation decline slowed, with divergence trends intensifying. The US economic situation warmed up, Europe's economy showed a weak recovery, Japan's economic growth faced pressure, India's economy exceeded expectations with a strong surge, while Russia's economic growth encountered challenges. The impact of tariff policies on global trade activity moderated. The Federal Reserve's monetary policy shifted towards a dovish stance. Some emerging economies became key destinations for global FDI inflows, and international capital returned to emerging markets. Global USD liquidity faced pressure, the US Dollar Index fluctuated at low levels, US Treasury yields underwent wide adjustments, global stock markets generally trended upwards, and commodity price volatility increased.

Looking ahead to Q4 2025, the outlook for global economic growth is mixed. Uncertainty on the demand side has increased, while the supply side remains relatively robust. Global inflation is expected to stabilize with a downward trend overall, though the US faces risks of a rebound. US tariff policies remain highly uncertain, and other economies may adopt more trade protectionist measures. Fiscal revenue and expenditure pressures are intensifying in some economies. The Federal Reserve may implement further interest rate cuts, while the European Central Bank's rate cut path faces debate. Geopolitical factors will continue to significantly influence global capital flows. The US Dollar Index is expected to continue its weak

performance, US Treasury yields are likely to maintain wide fluctuations, emerging market equities appear more attractive, and the central price level of international crude oil is expected to shift downward.

This issue includes two special analyses: the prospects for China-EU economic and trade cooperation under Trump's second term, and the potential adjustment of the Federal Reserve's monetary policy framework.

I. Global Economy: Review and Outlook

I.1 Global Economy: Short-term Tariff Impact Weakens, Economic Growth Recovers Somewhat

In 2025Q3, the global economic growth momentum showed signs of recovery. Disturbances caused by US tariff policies eased, and accommodative policy stances provided some support to the global economy.

Agricultural output remained stable, manufacturing PMI picked up, services activity softened slightly. Global food prices remained generally stable, with global grain production in 2025 projected to hit a record high. Global economic operating expectations stabilized, and manufacturing activity in major economies rebounded. Manufacturing activity in the US, EU, and Japan showed good recovery momentum, while manufacturing activity in ASEAN, India, and Latin America warmed up month-by-month. Manufacturing activity in Turkey, Kazakhstan, and Russia remained relatively weak. Services activity in developed economies slowed, while services activity in emerging market economies continued to heat up. **Consumption growth diverged among major economies, investment activity saw short-term improvement.** US retail sales expanded for two consecutive months, consumption activity in Europe slowed, and Japan's consumption expansion momentum was not robust. In July, US core capital goods orders (excluding aircraft and military hardware) increased month-on-month, and Japanese machine tool orders grew year-on-year, reflecting a recovery in global manufacturing investment demand.

Looking ahead to Q4, the outlook for global economic growth is mixed. Uncertainty on the demand side has increased. Consumption demand expansion momentum in developed economies like the US, EU, and Japan showed signs of softening. US domestic investment activity might receive a boost, but investment potential in other economies might be overstretched. **The supply side is generally trending towards stability.** Global market expectations entered a phase of relative stability, promoting the recovery of manufacturing activity. Services activity overall maintained a steady expansion momentum. **Global real GDP growth is forecast at around 2.4% for 2025Q4, and around 2.1% for the full year 2025.**

I.2 Global Inflation: Pace of Decline Slows, Divergence Intensifies

The pace of global inflation decline slowed. US inflation remained relatively moderate, the Eurozone's HICP (flash estimate) increased year-on-year in August, and Japan's core CPI remained at high levels. CPI growth rates in major emerging economies showed a downward trend. **Looking ahead to 2025Q4, global inflation is expected to stabilize overall.** Cooling global demand and falling energy prices help alleviate inflationary pressures. The impact of policies such as tariffs and immigration on US inflation is gradually materializing; however, for most other economies, the downward price trend remains the main theme. **Global CPI year-on-year growth is forecast at around 3.1% for 2025Q4, and around 3.5% for the full year 2025.**

Table 1: Forecasts for Real GDP Growth and Inflation Rate for Major Global Economies (%)

Region	Country	Real GDP Growth				CPI Growth			
		2023	2024	2025F	Change vs Prev.	2023	2024	2025F	Change vs Prev.
Americas	United States	2.9	2.8	1.4	0	4.1	3.0	3.0	0
	Canada	1.5	1.6	1.6	+0.4	3.9	2.4	2.0	-0.1
	Mexico	3.3	1.5	0.2	-0.8	5.6	4.7	3.9	+0.1
	Brazil	3.3	3.4	2.3	+0.2	4.6	4.4	5.1	-0.2
	Chile	0.2	2.6	2.4	+0.2	7.7	4.3	4.3	-0.1
	Argentina	-1.6	-1.7	4.4	0	127.9	236.8	41.4	-1.8
Asia Pacific	China	5.4	5.0	5.0	0	0.2	0.2	0.1	0
	Japan	1.5	0.2	0.7	-0.1	3.3	2.7	2.8	0
	Australia	2.1	1.1	1.8	0	5.6	3.2	2.5	0
	India	7.6	9.2	6.1	-0.2	5.7	5.0	4.6	0
	Korea	1.4	2.2	0.8	-0.2	3.6	2.3	2.0	0
	Indonesia	5.1	5.0	4.8	0	3.8	2.3	1.8	-0.2
	Saudi Arabia	-0.8	1.2	3.6	-0.1	2.3	1.7	2.2	+0.3
Europe & Africa	Eurozone	0.4	0.9	0.9	-0.1	5.4	2.4	2.0	0
	United Kingdom	0.1	1.1	1.1	0	6.8	2.5	3.4	+0.3
	German	-0.3	-0.2	0	-0.2	6.0	2.5	2.2	0
	France	0.9	1.2	0.5	0	5.7	2.3	1.2	+0.2
	Russia	4.1	4.3	1.5	+0.1	6.0	8.4	8.0	-1.2
	Turkey	5.1	3.2	3.0	+0.1	53.4	60	34.5	+0.2
	Nigeria	2.9	3.4	3.4	-0.1	24.5	33.2	22.0	-0.4
	South Africa	0.7	0.5	1.0	-0.1	5.9	4.4	3.4	0
World		**2.7**	**2.8**	**2.1**	**+0.1**	**+0.2**	**4.3**	**3.5**	**+0.1**

Source: IMF，BOC Research Institute

I.3 Global Trade: Volatility Moderates, Tariff Policies Remain Highly Uncertain

In 2025Q3, the impact of tariff policies on global trade activity moderated. Since July, the US has frequently adjusted its tariff policies. Compared to early Q2, the tariff levels imposed by the US on China, ASEAN member states, Japan, South Korea, the EU, and other economies have decreased, while trade partners like Brazil and India face higher tariffs. Tariffs on products like copper and semiconductors continue to be advanced. The impact of tariff policies on global trade activity eased. In July, the export growth rates of South Korea, Singapore, Thailand, Indonesia, and Vietnam reached 5.9%, 8.6%, 11.0%, 11.3%, and 17.7% respectively. **Looking ahead to 2025Q4, the impact of tariff policies on the global trade landscape will be difficult to eliminate in the short term.** Currently, US tariff policies remain highly uncertain. First, the legality of Trump's tariff policies awaits a ruling from the US Supreme Court. Second, most trade agreements reached by the US with its major trade partners have not been published in the form of executive orders, details of the terms are still partly disputed, and the implementation timeline remains unclear.

Trump's tariff policies have triggered a widespread demonstration effect globally, potentially leading to further accumulation and spillover of trade risks. **Global trade growth is forecast at around 0.7% for 2025.**

I.4 Global Fiscal Policy: More Proactive, Pressure from Imbalances Highlights

In 2025Q3, major economies maintained proactive fiscal policy stances. Increased US tariff revenue and expenditure structure adjustments were insufficient to alleviate fiscal pressure. Since the start of FY2025 (October 2024 to July 2025), the cumulative US deficit reached $1.63 trillion, a year-on-year increase of 7.7%. Fiscal policy stances varied significantly among major Eurozone economies, with Germany adopting an active fiscal policy, while France plans to cut spending by reducing public sector positions and controlling social welfare expenditure growth. Japan's fiscal expenditure growth was rapid. **Looking ahead to 2025Q4, major economies are expected to maintain their fiscal expansion pace.** The US Trump administration formally signed the "Big and Beautiful Act" on July 4. According to the Congressional Budget Office, it is estimated to increase US debt by approximately $3.3 trillion over the next decade. The European Commission unveiled a new budget proposal for 2028-2034 in July, totaling 2 trillion euros, a significant increase from the current budget of 1.21 trillion euros. Japan's fiscal expenditure continues to expand; in August, Japan announced total budget requests from various government ministries for FY2026, representing a 4.1% increase from FY2025.

I.5 For global monetary policies, the Federal Reserve will flexibly adjust interest rates based on economic data; the European Central Bank (ECB) will continue rate cuts yet at a slower pace

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I.6 Economic outlook for major countries/regions

1. US: Economic Growth Experiences Significant Volatility, Expected to Grow Slowly Thereafter

Domestic demand activity weakened. In the first half of this year, the average growth rate of US consumer spending slowed significantly compared to last year. The pace of investment expansion was hindered. From May to July, the month-on-month growth rates of US core capital goods orders (excluding defense and aircraft) were 2%, -0.6%, and 1.1% respectively, indicating that corporate willingness to expand capital spending remains unstable. Federal fiscal policy turned expansionary again in 2025Q3; July federal government spending surged 9.7% year-on-year, with a budget deficit of $291.1 billion, significantly higher than market expectations of $239.15 billion. **Export demand remained relatively stable, import activity was highly volatile.** In July, US goods and services exports increased slightly by $8 billion to $280.5 billion, while imports surged by $20 billion

to $358.8 billion after three consecutive months of decline, reaching the highest level in four months. The trade deficit widened by nearly 33% month-on-month to $78.3 billion. **Inflation remained in an upward trend, tariff pressures gradually materialized.** Since June, the rise in US CPI has accelerated. In August, core goods price increases intensified, indicating that goods inflation pressure induced by tariff hikes is gradually emerging. **Looking ahead to 2025Q4, US economic growth is expected to be slow.** Consumption activity may weaken further. The University of Michigan's Consumer Sentiment Index fell sharply again to 55.4 in September. Investment activity receives positive signals. On one hand, the Fed cut rates by 25 basis points in September, with expectations of further cuts within the year, which could boost domestic investment. On the other hand, the US secured massive investment commitments from major developed economies; if these investments materialize, they could effectively stimulate domestic economic activity. Cross-border economic and trade activities are expected to stabilize, providing some support to the US economy. US real GDP growth (QoQ SAAR) is forecast at around 1% for 2025Q4, with CPI YoY growth around 3.5%.

2. Europe: Weak Economic Recovery, Prospects Disturbed by Tariff Agreements

Eurozone: The economy continued its weak recovery trend. Private consumption growth showed some resilience. In June, both the Eurozone retail sales index and the growth rate of total consumer credit rebounded significantly compared to May. The ECB's benchmark rate cut to a neutral level spurred an investment recovery. Eurozone trade contracted, with the trade surplus shrinking to 2.82 billion euros in June, significantly lower than 15.61 billion euros in May. Inflation remained stable. In August 2025, Eurozone HICP increased 2.1% YoY, and core HICP increased 2.3% YoY, largely in line with the central bank's target. **Looking ahead to 2025Q4, the Eurozone's weak recovery faces disruptions.** First, the momentum for private consumption and investment growth is weak. Second, the US-EU trade agreement is

expected to weaken the Eurozone's growth prospects. EU investment commitments coupled with high US tariffs on EU goods may accelerate the relocation of key European industries like manufacturing and pharmaceuticals to the US. Declining exports and capital outflows would undermine the EU's growth potential. Third, the significant expansion of EU fiscal spending may provide some support to the economy. **Eurozone real GDP QoQ growth is forecast at 0.1%, with CPI YoY growth at 2.0% for 2025Q4.**

Germany: Economic recovery faces high uncertainty. Manufacturing growth momentum remains weak, consumption and investment momentum have weakened. Looking ahead to 2025Q4, government spending is expected to be a key driver of Germany's economic recovery. The German government's substantial increase in government spending helps secure employment and boost economic vitality but is projected to create a budget gap of 172 billion euros between 2027-2029, potentially increasing fiscal pressure on the German government. **Germany's real GDP QoQ growth is forecast at 0.2%, with CPI YoY growth around 2.1% for 2025Q4.**

France: Political instability affects economic growth prospects. French industrial performance was relatively stable, consumption remained steady, and import-export trade showed good growth momentum. Looking ahead to 2025Q4, political instability in France weakens economic growth momentum. On September 8, the government led by Prime Minister Berru failed to pass a confidence vote in the National Assembly; Berru submitted his resignation to President Macron on the 9th, becoming the third prime minister to resign in little over a year. Political turmoil has raised market concerns about France's economic prospects. **France's real GDP QoQ growth is forecast at 0.1%, with CPI YoY growth around 1.0% for 2025Q4.**

United Kingdom: Economic growth momentum weakens. On the supply side, the manufacturing production index declined; on the demand side, consumption and government spending maintained growth trends, the pace of rate cuts spurred investment growth, and trade performance was stable. Looking ahead to 2025Q4,

UK debt pressure continues to increase, and financial market risks warrant attention. The UK government plans to announce its Autumn Budget on November 26. Whether the UK economy can maintain growth momentum and whether the Labour Party can regain public trust will depend on the effectiveness of related fiscal policies in alleviating debt pressure and stimulating economic growth. **UK real GDP QoQ growth is forecast at 0.2%, with CPI YoY growth around 3.5% for 2025Q4.**

3. Japan: Sustaining Unexpectedly Strong Growth is Difficult; Growth Faces Shocks from Tariffs and Political Turmoil

Since 2025Q3, signals of pressure on the Japanese economy have gradually emerged. The suppressive effect of persistently high price growth on household purchasing power is becoming apparent. A decline in inbound tourist numbers leading to reduced tourism spending also dragged on consumption growth. Affected by US tariff hikes on automotive products, Japan's exports fell 2.6% YoY in July to 93.6 trillion yen, with exports to the US of automobiles and auto parts dropping sharply by 28.4% and 17.4% respectively. **Food price increases were significant, inflationary pressures persisted.** In July, Japan's CPI rose 3.1% YoY, marking the eighth consecutive month above 3%. Rising rice prices triggered a chain reaction, with processed food prices rising 8.3% YoY, the highest increase since September 2023. **Looking ahead to 2025Q4, Japan's economy faces challenges from the prime minister election and US tariff hikes, leading to high uncertainty in the growth outlook.** US President Trump signed an executive order, effective mid-September, imposing tariffs of up to 15% on most Japanese exports to the US, including automobiles and parts, down from the previous 25% tariff level. However, against the backdrop of higher tariffs and declining competitiveness of Japan's auto industry, the outlook for Japanese auto exports to the US remains pessimistic. On September 7, Japanese Prime Minister Ishiba Shigeru decided to resign citing "unwillingness to cause party split". The appointment of a new prime minister will

have multifaceted impacts on Japan's economic policies and social sectors. **Japan's real GDP growth is forecast at around 0.7% for 2025, with CPI growth around 2.8%.**

4. India: Economic Growth Surges, US Tariff Policies May Pose Significant Impact

In 2025Q2, India's real GDP grew 7.8% YoY, higher than the 7.4% in 2025Q1. Private consumption was the main driver of growth. Proactive fiscal efforts pushed government consumption growth significantly higher compared to the previous quarter. Strong domestic demand vigorously drove import growth, making net exports a drag on the Indian economy. **Looking ahead to 2025Q4, US tariff hikes are expected to have a significant impact on the Indian economy.** In August 2025, US tariffs of up to 50% on India officially took effect, impacting key export sectors such as textiles, leather, and chemicals. The Indian government has committed to supporting domestic industries affected by US tariff policies and indicated plans to cut taxes to stimulate domestic demand, but its imbalanced fiscal revenue and expenditure structure may constrain policy effectiveness. **India's real GDP YoY growth is forecast at 6.8% for 2025Q4, with CPI YoY growth at 1.4%.**

5. Russia: Russia-Ukraine Conflict Continues to Escalate, Sustainability of "War Economy" Model Challenged

Since 2024, Russia's economic growth has decelerated. Constrained by high interest rates, labor shortages, and supply chain disruptions due to sanctions, Russia's supply side is hampered. Demand side contracted noticeably. High credit costs and slowing wage growth led to weak household consumption growth. In 2025H1, total retail trade volume increased 2.1% YoY, 7.9 percentage points lower than the growth rate in 2024H2. Exports continued to decline; in June, Russian merchandise exports fell 8.0% YoY, the fifth consecutive month of decline. **Cooling demand led to disinflation.** In July 2025, Russia's CPI YoY growth was 8.8%, down from the peak

inflation level of 10.3% in March. **Looking ahead to 2025Q4, the Russian economy lacks strong support, and growth may slow further.** Recently, signs of escalation and spillover of the Russia-Ukraine conflict have emerged. Russia's "state of war" is likely to persist, and the negative effects of the "war economy" model are gradually becoming apparent. Currently, Russia faces a choice between maintaining economic growth and curbing inflation. Russia's real GDP growth is forecast to drop to around 1.5% for 2025, with CPI YoY growth around 8.0%.

6. Indonesia: Nationwide Riots Disrupt Economic Activity, Export Performance Under Pressure

In 2025Q2, Indonesia's real GDP grew 5.1% YoY, 0.3 percentage points higher than the previous quarter. The Indonesian economy still relies more on domestic demand: first, public infrastructure and newly established sovereign funds underpinned investment. Second, subsidized consumption for low- and middle-income groups provided support. Third, emerging industries like nickel batteries and the digital economy made structural contributions. **Looking ahead to 2025Q4, the Indonesian economy faces multiple pressures.** According to the US-Indonesia tariff negotiation agreement, the US imposes a 19% reciprocal tariff on Indonesian goods, while Indonesia will increase imports of US goods, leading to a reduction in Indonesia's trade surplus. Although the Indonesian government launched an economic stimulus plan in September to boost consumption, the consumer confidence index remains weak, and consumption's contribution may continue to decline in 2025Q4. The nationwide riots subsided after major concessions from the Indonesian government, which may affect the government's fiscal space for stimulating the economy through fiscal expansion. **Indonesia's real GDP YoY growth is forecast at 4.8% for 2025Q4, with CPI YoY growth at 2.5%.**

7. Brazil: Economic Growth Under Pressure, US Tariff Impact Becomes Key Factor

In 2025Q3, Brazil's economic growth was under pressure. High inflation eroded the real purchasing power of Brazilian residents, suppressing private consumption. Private investment was impacted by high interest rates. Public debt continued to climb, with high interest rates and rigid expenditures limiting the government's fiscal space. Export performance was stable. **Looking ahead to 2025Q4, the US tariff impact becomes an important external factor affecting Brazil's economic trajectory.** The National Confederation of Industry of Brazil predicts that US tariff policies will reduce Brazil's export growth by 1.5 percentage points, dragging down GDP by approximately 0.2 percentage points. In response to the tariff shock, the Brazilian government launched the "Brazil Sovereign Plan" on August 13, but its effectiveness is constrained by fiscal pressures. In May 2025, Moody's downgraded Brazil's credit rating outlook from "positive" to "stable", citing expenditure rigidity and debt servicing pressure as key reasons. **Brazil's real GDP YoY growth is forecast around 1.8% for 2025Q4, with CPI YoY growth around 4.9%.**

8. Argentina: Effects of Milei's Policies Appear, Recovery Momentum Faces Disturbances

Since 2025, Argentina's economic activity has continued to recover. The effects of the Milei government's policies to control inflation have become apparent, boosting consumer confidence. Policy rates remained persistently low, coupled with signs of stabilizing economic activity, jointly spurred a recovery in private investment. The Milei government continued to reduce government spending. The depreciation of the Argentine peso reduced Argentina's export advantages and increased import costs. **Looking ahead to 2025Q4, whether Argentina's recovery momentum can continue faces disturbances.** Recently, the USD/ARS exchange rate continued to rise, pushing up import costs and leading to imported inflationary pressures. To curb USD exchange rate volatility, the Argentine government

announced intervention in the foreign exchange market, but this weakened the government's debt servicing capacity, increased government debt risk, and constrained government fiscal expenditure. **Argentina's real GDP YoY growth is forecast around 2.7% for 2025Q4, with CPI YoY growth around 29.0%.**

II. International Finance Review and Outlook

Cross-border capital flows: FDI grows in some developing countries, while global securities investment volatility increases due to policy changes.

Cross-border Direct Investment: Some developing countries saw FDI growth, with green and digital industries being the key investment areas. Southeast Asian economies, represented by Thailand and Vietnam, remain hot spots for global industrial relocation, attracting a steady increase in FDI. The Central Asian region attracted more investment from China, marking it as the "Belt and Road" region with the highest Chinese investment scale in the first half of 2025. Mexico became a key node in the global supply chain restructuring, affected by the United States' increased tariffs on major global economies. Manufacturing and financial services attracted the highest scale of FDI, followed by the construction and mining industries. FDI flowing into European countries showed some recovery. Foreign enterprises' enthusiasm for investing in the US decreased due to US tariff policy. In the first quarter of 2025, US FDI inflow scale dropped by 12.6% to $54.90 billion dollars, which is a historically low level for the corresponding period.

Looking ahead to 2025Q4, FDI investment in developing countries, represented by Southeast Asia and Mexico, will likely continue to grow. Under the policy support of the German and French governments to attract FDI, the scale of FDI inflow to the European region may continue to increase. U.S. is using tariff negotiations to secure investment commitments, and the scale of announced investment in the US by major economies may see a significant increase in the future. However, considering the high uncertainty in US policy, the actual amount of FDI realized may be lower than

the announced amount.

Securities Portfolio Investment: Investor risk appetite rebounded, and securities investment reversed again after policy shocks. US international capital flow shifted from a net outflow of $13.88 billion dollars in April (due to the "reciprocal tariffs" shock) to a net inflow of $318.13 billion dollars in May and $77.82 billion dollars in June. The European market, after achieving a net inflow of $64.93 billion euros in April, returned to a net outflow for two consecutive months. Market confidence experienced "twists and turns" due to factors such as interest rate hike expectations and long-term debt risk, causing frequent adjustments in Japan's securities investment between net inflow and net outflow. International capital returned to emerging markets.

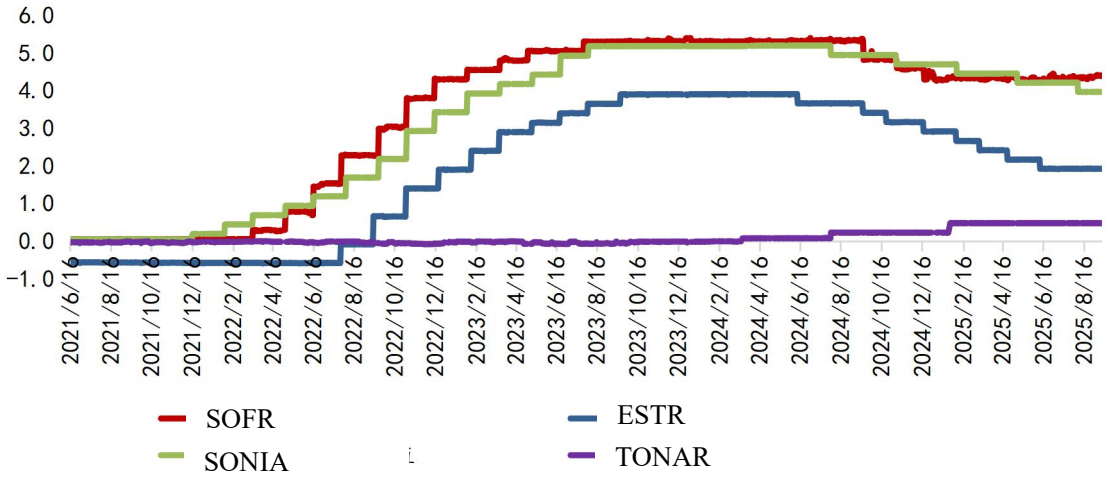
Looking ahead to 2025Q4, the pace of US capital inflow will generally slow down, and investment in emerging markets will show a concentrated feature amid divergence. Against the backdrop of a weak economic outlook and the Federal Reserve's interest rate cuts, the pace of US capital inflow will generally slow down. Market concern about the US long-term risk premium may remain relatively high, continuing to weaken capital confidence, and investors will initiate a more diversified global allocation path. However, "de-dollarization" is a long-term and gradual process, and there are significant differences in the performance of official and private sector investment, so international investor demand for US debt will show repeated changes. The Eurozone may experience capital outflow after a large-scale inflow in the short term, but the scale of capital outflow will significantly narrow in 2025 due to diversified allocation needs. As the interest rate hike cycle continues and the US-Japan interest rate differential narrows, Japan's securities portfolio investment is expected to show a net inflow trend. Emerging regions may attract international capital inflows, benefiting from high-interest rates and arbitrage demand.

Money Market: **US dollar liquidity is under pressure**, **and cross-border JPY**

funds inflow is expected to increase.

In the third quarter of 2025, the Federal Reserve maintained its policy interest rate target range, and the USD SOFR rate fluctuated widely in the range of 4.28% to 4.44%, with a mean of 4.35%, meaning the central interest rate was slightly higher than in the second quarter. Affected by US Treasury issuance, a structural tension emerged in dollar liquidity. As of September 12, 2025, the balance of the Fed's Overnight Reverse Repurchase Agreement Facility (ONRRP), which represents the liquidity level of US non-bank institutions, declined rapidly. The European Central Bank and the Bank of Japan maintained their policy interest rates. The Euro STR rate maintained a narrow fluctuation at the 1.92% level, while the Sterling SONIA money market interest rate dropped by 25 basis points in sync with the policy interest rate. JPY speculative contracts maintained a net long position, and overall funds maintained an inflow (Figure 1).

Figure 1：Trends in Money Market Interest Rates in Major Economies



Sources: Wind, Research Institute of Bank of China

Looking ahead to 2025Q4, the global money market will mainly present the following characteristics[37]. First, the USD money market is expected to face further pressure due to the shock from US debt supply. The scale of reserves will become the main metric for USD liquidity. Since the US Treasury issued a large number of

short-term Treasury bills in the third quarter, attracting funds from non-bank institutions, the usage of the ONRRP, which serves as a "buffer" for dollar liquidity, was significantly suppressed. The USD money market showed structural pressure. Since August 2025, the USD repo market interest rate has generally maintained a high level. The currency swap basis for the USD against the Euro, Japanese Yen, Swiss Franc, and other currencies frequently declined, indicating a tightening of USD liquidity. The subsequent changes in USD money market liquidity will be more transmitted to the Federal Reserve's reserve account. As of the week of September 10, 2025, the scale of reserve balances, which represents the liquidity level of US banks, dropped to $3.15 trillion dollars. According to the predictions of Federal Reserve officials, the safe level of the Fed's reserve balance is about $2.7 trillion dollars. Based on the estimated pace of USD liquidity reduction in the second quarter of 2025, the reserve account will drop to the alert level in the fourth quarter of 2025. If the ONRRP is exhausted and the scale of the Fed's reserve balance decreases too quickly, the Fed is expected to implement an early halt to balance sheet reduction or switch to easing.

Second, the monetary policy interest rate differential between the US and Japan may narrow, and cross-border JPY funds inflow is expected to increase. Bank of Japan Governor Ueda Kazuo stated at the Jackson Hole central bank annual meeting that the momentum of wage increases in Japan has spread beyond large companies. As the Japanese job market tightens, rising wages may push for interest rate hikes, and he feels optimistic about the prospect of a Bank of Japan rate hike. According to market interest rate futures trading, as of September 12, 2025, the Bank of Japan is expected to raise interest rates as early as October. The monetary policy interest rate differential between the US and Japan will significantly narrow, which will strengthen the JPY funds inflow trend and slow down the cross-border capital outflow caused by carry trades.

Foreign Exchange Market: The USD Index is expected to oscillate at a low level,

and **emerging market currencies will show divergent performance**.

In the third quarter of 2025, the global foreign exchange market performed relatively calmly, and the exchange rates of major currencies fluctuated sideways. The USD Index fluctuated in both directions around a center of 98. The exchange rate fluctuations of G10 currencies were generally small. Emerging market currencies showed divergent performance. Affected by domestic and international political and economic situations, the currencies of some countries and regions experienced a relatively large decline. The Indian Rupee fell to a historical low against the USD amid the US's additional trade tariffs and the backdrop of international capital outflow.

Looking ahead to 2025Q4, the global foreign exchange market will mainly present the following characteristics. First, the USD Index will continue its weak performance, and European currencies will be in a relatively strong position. As expectations for a Fed rate cut increase, the USD Index will show a low-level oscillating trend. Concerns about US fiscal sustainability and the independence of the Federal Reserve exert downward pressure on the USD. The European economy has somewhat stabilized, and the implied policy rate paths for the US and Europe are converging, so the Euro against the USD may slightly appreciate in the fourth quarter. However, the overly optimistic sentiment from the previous period has subsided, the European economic recovery is not balanced, and the political situation in some member states still faces uncertainty. This makes it difficult for the Euro to form a significant upward breakthrough, and it may maintain a high-level oscillating trend.

Second, Asian currency exchange rates will be generally firm, and emerging market currencies will show divergent performance. The external shocks faced by different countries, their internal economic resilience, and their monetary policy stances differ, which in turn leads to differentiated impacts on exchange rates and risk premiums. The Asian economy is generally stable, and currencies will continue a

stable-to-rising trend against the USD. The JPY against the USD is tending to strengthen under the expectation of a rate hike and the reversal of previous net short positions. The RMB continues to act as the "ballast" for the stability of Asian currencies. Due to uncertainty in the direction of geopolitical conflict, Eastern European currency exchange rates are expected to fluctuate widely.

Third, focus on emerging market currency carry trades, and beware of the risk of FX market volatility rebounding. Carry trades involving high-interest rate currencies such as the Mexican Peso and the Brazilian Real against the USD have increased significantly, driven by decreasing USD funding costs and low exchange rate volatility. Going forward, it is necessary to focus on the US economic outlook, the monetary policy path, and changes in the geopolitical situation, and be alert to the risk of exchange rate volatility rebounding and localized reversals in carry trades[77].

Bond Market: US Treasury (UST) yields are expected to maintain a wide-ranging oscillation, and the Japanese Government Bond (JGB) market will remain under pressure.

In the third quarter of 2025, the US bond market returned to fundamental pricing, experiencing multiple wide-ranging adjustments. The US labor market weakened after being strong in July. Tariff frictions first intensified, then eased as the US extended tariff exemption periods or reached agreements with major trading partners. Coupled with the public expression of support for interest rate cuts by Federal Reserve officials in mid-to-late July, the overall rise in UST yields was blocked. JGB yields rose overall, affected by rising inflation in Japan and concerns about potential fiscal stimulus. Long-term government bond yields briefly fell in early August but subsequently continued to surge.

Looking ahead to 2025Q4, the global bond market will present the following characteristics. First, UST yields may maintain a wide-ranging oscillation under the influence of economic fundamental volatility and a trend towards looser monetary

policy. The economic and monetary policy outlook section in Powell's central bank annual meeting speech received higher attention. It was interpreted by the market as dovish because it involved both weak labor supply and weak labor demand. In terms of economic data, the degree of US fundamental weakness is limited. Although non-farm employment data was subdued, Q2 GDP growth exceeded expectations. Furthermore, inflation data currently met expectations and was basically consistent with the previous value, and although consumer confidence was under pressure, the magnitude of the decline was relatively limited.

Second, supply-demand rebalancing will continue to put pressure on the JGB market amid multiple policy objectives. The Bank of Japan, as the largest buyer of JGBs, is gradually reducing its bond purchase scale, which is expanding the market demand gap. At the same time, traditional long-term capital allocation institutions (such as Japanese life insurance companies) will continue to cut JGB holdings. This is affected by factors such as unrealized losses on bond prices falling and increased pressure on matching the duration of assets and liabilities. However, long-term JGBs are still sought after by overseas investors. In the future, under multiple pressures such as high inflation, economic weakness, pressure on fiscal sustainability, and the exit from a low-interest rate monetary environment, Japan is expected to continue to focus on stabilizing its domestic economy. It will adopt a neutral-to-tight monetary policy while gradually relaxing fiscal policy. Coupled with the Bank of Japan's lack of flexibility in intervening in long-end interest rates, the JGB market is expected to remain under pressure and maintain a high-volatility pattern.

Stock Market: Global stock markets rose with volatility, and emerging markets became a focus.

In the third quarter of 2025, global stock markets saw strong gains, with the MSCI World Index rising by over 10%. Against the backdrop of the Federal Reserve restarting interest rate cuts, the capital frenzy for tech giants continued, and some progress was made in global tariff negotiation, market risk aversion subsided,

injecting growth momentum into global stock markets. Stock markets in multiple regions hit new highs for the year[106]. From the overall regional performance, developed markets still led the gains.

Looking ahead to 2025Q4, the global stock market will mainly present the following characteristics. First, US stocks will see a short-term rise but face adjustment pressure, and the growth potential of emerging markets is yet to be released. International capital is shifting to a more diversified international allocation model, with investment logic moving from simply pursuing growth to balancing valuation and safety margins. For US stocks, valuation and concentration have returned to a relatively high range, and the probability of short-term sector rotation is increasing, so the room for continued upward movement is limited. The stock market performance of European countries is expected to diverge due to different paces of economic recovery and political stability. Emerging market stock valuations are more attractive. A weaker dollar is driving global investors to gradually reduce their allocation to dollar assets and seek diversified allocation. More funds will flow into emerging markets, supporting stock market strength.

Second, technology stocks will still lead global equities, and the manufacturing sector will see some recovery. In the third quarter of 2025, major global stock market sectors generally rose, with the telecom services sector leading global equities. Tech sectors such as AI computing power and semiconductors are expected to continue rising in the future. Against the backdrop of significant uncertainty remaining in the global economy, market volatility may increase. High-dividend assets, with their stable cash flow and high dividends, offer prominent defensive attributes. High-dividend stocks in industries such as public utilities, telecommunications, and banking are worth attention.

Commodity Market: Global commodity prices saw intensified volatility, and the game between market supply and demand stepped up.

In the third quarter of 2025, global commodity prices first rose, then fell, and then rebounded, but still remained at a relatively low level for the year. Looking at different commodities, crude oil prices first rose and then fell, nearly halving from the price at the beginning of the year. Gold prices rose with volatility on expectations of a Fed rate cut.

Looking ahead to 2025Q4, the global commodity market will mainly present the following characteristics. First, supply pressure in the crude oil market will increase, and the international oil price center will move down. From the supply side, the expectation of supply growth is strengthening, putting significant pressure on oil prices. The International Energy Agency (IEA) predicts that global oil supply growth will reach $2.7 million barrels per day in 2025. From the demand side, the IEA predicts that global crude oil demand growth will reach about $0.74 million barrels per day in 2025. Under the effect of supply growth far exceeding demand growth, supply pressure in the international crude oil market will increase, which will push down international oil prices.

Second, gold prices will usher in upward space in the short term as the Federal Reserve restarts its interest rate cutting cycle. In the future, "policy expectation trading" is expected to become the main factor affecting the trend of gold prices. Changes in US economic fundamentals and the Federal Reserve's monetary policy expectations have a relatively large impact on gold prices. As the market's expectation of further interest rate cuts by the Fed strengthens, the opportunity cost of holding non-interest-bearing assets such as gold decreases, and a weakening dollar provides upward momentum for gold prices. Furthermore, global trade policy and geopolitics still have significant uncertainty, and the safe-haven attribute of gold provides support for its price.

Third, copper prices will maintain a strong, volatile trend as global supply growth is lower than demand growth. The recent rise in copper prices has mainly benefited from the combined drive of three factors: the weakening of the USD Index, the

demand resilience shown by the Chinese economy, and global supply-side disruptions. As the market gradually digests macro uncertainties such as tariff policies, the dominant logic for copper prices will return more to its own supply and demand fundamentals. Copper prices are expected to maintain a high-level volatile pattern, and the long-term positive trend remains unchanged.

III. Special Research

III.1 Prospects for China-EU Economic and Trade Cooperation under Trump's Second Term

China and the EU are important economic and trade partners for each other, with close economic and trade linkages. Since Trump's second term, the EU has faced comprehensive challenges from US policy shocks in trade, investment, and industrial competitiveness. Against this backdrop, certain opportunities arise for the development of China-EU economic and trade relations.

First, there is room to deepen bilateral trade and industrial chain cooperation. In recent years, EU industrial competitiveness has faced significant challenges. The tariff policies and trade agreements with the EU adopted since Trump's second term further exacerbate the risk of declining EU industrial competitiveness. Increasing the introduction of Chinese industrial capital could help repair the EU's local industrial competitiveness and improve its industrial system.

Second, both sides have huge cooperation potential in green transition and climate change response. China and the EU share highly aligned concepts on green and low-carbon development and have complementary advantages in addressing climate change issues. Chinese enterprises can fully leverage their advantages in technology and cost to respond to the EU's related industrial chain localization development needs, seeking greater external development space.

Third, the China-EU Comprehensive Agreement on Investment (CAI) faces potential signing. In May 2025, China and the European Parliament decided to

simultaneously and comprehensively lift restrictions on mutual exchanges. This cleared an institutional obstacle for both sides to discuss and approve the signing process of the CAI, which has been shelved for nearly five years. The signing process of the CAI is expected to restart.

Fourth, cooperation in promoting the reform of the multilateral economic and trade governance system. The combined economic size of China and the EU exceeds one-third of the world's total, and their goods trade volume exceeds one-quarter of the global total. China and the EU are a community of shared interests in maintaining the multilateral economic and trade order, which also helps safeguard the common interests of the majority of global economies, injecting greater certainty and stability into the global economy.

III.2 The Historical Evolution, Latest Adjustments, and Impact of the Federal Reserve's Monetary Policy Framework

The Federal Reserve's monetary policy goals are established by Congress as maximum employment and price stability. However, the Fed has significant autonomy in designing and formulating the monetary policy framework for achieving these goals. This framework serves as the cornerstone for the Fed's formulation and implementation of monetary policy, and its rationality is crucial for whether it can achieve its monetary policy goals in a balanced and effective manner.

The design of the Federal Reserve's monetary policy framework is largely influenced and constrained by the economic and financial conditions at the time. The First Framework more reflected the lessons learned by the Fed in fighting high inflation, thus tilting toward price stability in the dual mandate. The main adjustments in the Second Framework included the following aspects. First, policy tools. The Fed emphasized using its various tools, including QE, to achieve its dual goals. Second, inflation target. The Fed's main task was to raise inflation above 2% and maintain it for a period. Third, employment goal. The Fed no longer focused on employment

deviating from the maximum level but only on its state below that level.

On August 22, 2025, at the Jackson Hole Global Central Bank Annual Meeting, Federal Reserve Chair Powell delivered a public speech titled *Monetary Policy and the Review of the Federal Reserve's Framework*, and simultaneously announced the results and revised text of the committee's five-year review of the *Statement on Longer-Run Goals and Monetary Policy Strategy*. This round of review incorporated the lessons from recent economic and policy practices and improved the communication and decision-making framework.

The revisions to the Federal Reserve's monetary policy framework primarily focused on the following aspects. First, policy tools. With the overall rise in inflation and interest rate levels after the pandemic, the Fed weakened the "Effective Lower Bound (ELB)". The zero lower bound constraint on interest rates is no longer the Fed's main concern.

Second, inflation target. The Fed eliminated the "Compensation" (Makeup) strategy for offsetting previously low inflation. It returned to a flexible inflation targeting framework, no longer committing in advance to compensating for historical low inflation through intentional future overshooting.

Third, employment goal. The Fed emphasized the relationship between maximum employment and inflation, focusing on maximum employment as the highest sustainable level of employment in the context of price stability.

The new framework is largely a return to the First Framework. It once again adapts to a high-inflation and high-interest rate environment, shifting from an employment-biased model to a more balanced model, and adopting a stricter 2% inflation target. This revision of the Federal Reserve's monetary policy framework will have multiple impacts on the market and policy communication. In the short term, the financial market's expectation of "long-term inevitable reliance on unconventional tools" may weaken as the Fed downplays the normalization

expectation of unconventional tools. In the long run, the Fed may be more hawkish, and maintaining interest rates at a higher level for a longer period may once again become the norm. If the economic environment changes significantly again in the future, it is not ruled out that the Federal Reserve will re-examine this framework in five years.

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