

FX Viewpoint

Currencies
Global

USD: US government shutdown

- ◆ US government shuts down for the first time since 2019
- ◆ The economic impact will depend on the duration of the shutdown and whether job reductions become permanent
- ◆ For the USD, its implications are open to debate, but most likely lean to the weak side

The federal government of the US officially shut down on 1 October. If it persists, **US economic data releases that come from affected federal agencies will be delayed.** This would include releases from the Bureau of Labor Statistics (**nonfarm payrolls, CPI, PPI**), the Bureau of Economic Analysis (**GDP, PCE prices**), and the Census Bureau (**retail sales, international trade, new home sales**). The shutdown will not affect economic releases that come from private-sector sources (such as ADP employment and ISM manufacturing PMI).

The FX impact of delayed US data could be spun both ways. **Markets are currently pricing in a c99% chance of a 25bp cut by the Federal Reserve (Fed) at the 28-29 October meeting** (*Bloomberg*, 2 October 2025). If the shutdown means that policymakers cannot accurately assess the state of the US economy, there is a chance the Fed will choose to delay the rate cut, thereby supporting the USD. Nonetheless, we see the Fed more inclined to cut rates unless there are hawkish data surprises. This is also our economists' base case (expecting two more 25bp rate cuts before end-2025). **The private sources of data (released on 1 October) confirm the current softening labour market narrative.** For example, ADP employment change showed a net employment loss in September; and ISM manufacturing PMI's employment subindex remained below 50 (indicating a contraction) for an eight straight month in September. With a rate cut almost fully in the price, the USD is likely to remain largely rangebound over the near term, in our view.

The economic impact will largely hinge on its duration. There were **three government shutdowns during US President Trump's first term (2017-2021), ranging from just 9 hours up to 35 days.** A second element is whether the current shutdown results in job losses rather than workers merely being furloughed. The US Congressional Budget Office (CBO) estimates that about 750,000 employees could be furloughed this time around, and the daily cost of "compensation" or worker pay for the furloughed employees would be roughly USD400m. For example, **a 10-day shutdown could be proxied as USD4bn of compensation on services not provided; relative to nominal GDP of USD30trn, this would be 0.13%.** The impact on total annual GDP would be relatively small since real economic output should mostly recover after the shutdown ends. But if permanent reductions occur, the economic impact of the shutdown could be much larger.

Overall, **the implications of the US government shutdown for the USD are uncertain, but most likely lean to the weak side,** in our view.

US government shutdown shifts market attention to alternative data sources

The USD is likely to remain largely rangebound over the near term, in our view

The immediate and lasting economic impact depends on the duration of the shutdown and whether job reductions become permanent

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