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Long-term yields support the dollar; the euro pays for France

Par Wealthon, Macro Edge, avec l'aide d'une IA

The dollar advanced this week as the Fed lost arguments: September employment (+29,000, revisions of -60,000) reduced the chances of an October increase, yet the Macro Edge dollar index ended at 102.41, up 3.47% over a month. Foreign buyers took over: they received 80.3% of Wednesday's 10-year auction at its highest yield since 2000. French debt moves the other way, with the OAT–Bund spread above 150bp following the budget presentation. The euro, at 1.1177, also weakens against sterling. In oil, the gap between Brent spot at \$120 and futures around \$101 places the shock in maritime freight, with no benefit for the Canadian dollar. What follows depends on US CPI on 14 October, then Moody's France review on 23 October.

DOLLAR AND FED

Foreign Treasury buyers take over from the Fed

Between 9 September and 7 October, the Macro Edge dollar index rose from 98.61 to 102.41. The final part of that rise ran against the Fed's timetable. On 2 October, the BLS reported 29,000 jobs created in September, unemployment rising to 4.2% and revisions of -60,000 for July and August. The probability of an increase on 28 October, already at 37.1% on 30 September according to CME FedWatch, fell below 25% after the release according to Investinglive. The minutes of the 15 and 16 September meeting, released on Wednesday, show most participants judged an additional rise “likely appropriate” by year-end. Williams and Jefferson have since ruled out any urgency, while Bowman would prefer no further increases in 2026.

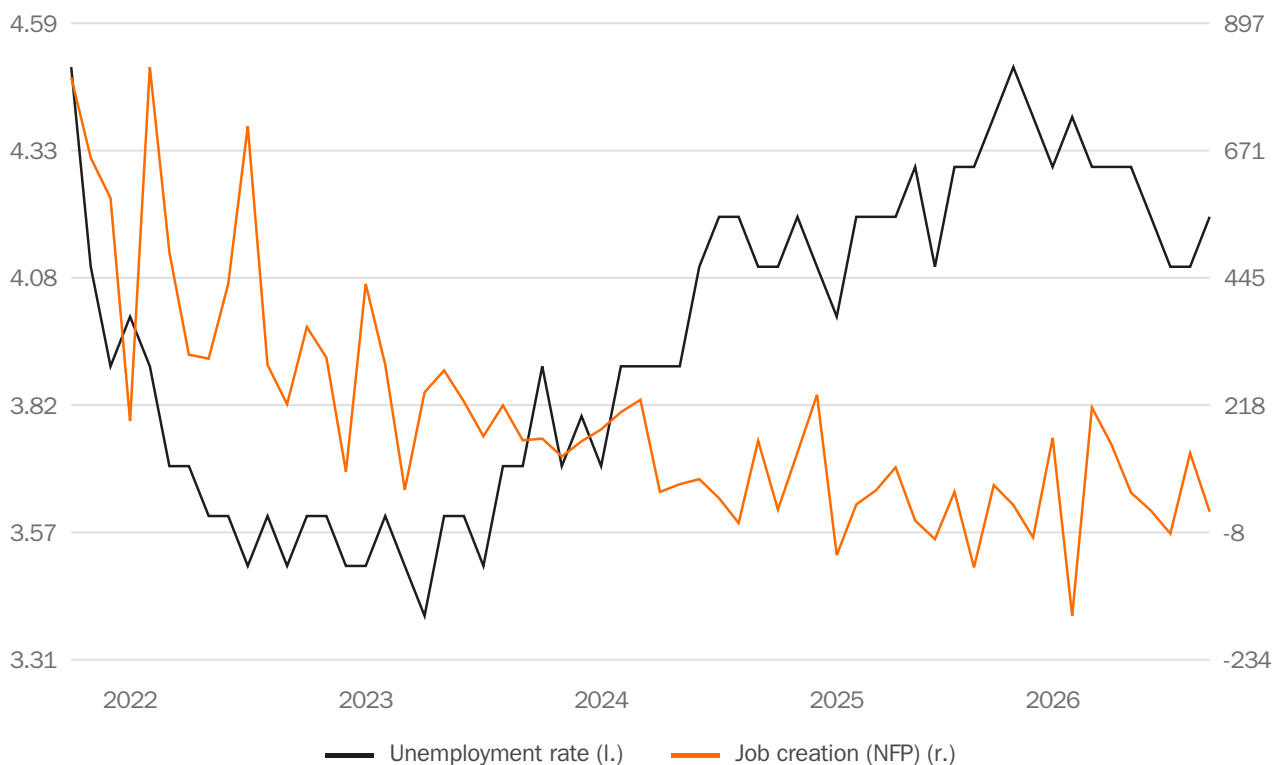
The US 10-year yield rose from 5.24% on 1 October to 5.36% intraday on 7 October, before closing at 5.28%. The same day, the Treasury auctioned \$39bn of 10-year notes at 5.300%, the highest auction yield since November 2000 and 1.7bp below the grey market level. Bid-to-cover was 2.77 against an average of 2.52 over the previous ten auctions. Indirect bidders, mostly foreign, received 80.3% of the

securities, and primary dealers 2.5%. Our reading is that these yields are bringing foreign capital back into US debt, supporting the dollar even as Fed pricing retreats.

This support remains fragile while prices rise faster than incomes. ISM prices paid reached 77.9 in manufacturing and 74.0 in services, the latter's highest since July 2022, while August core PCE rose only 0.2% month on month. For September CPI, TD expects +0.54% month on month for headline and +0.20% for core. This profile would describe an imported shock without wage transmission. It would undermine December's increase, when CME FedWatch assigned an 86.8% chance of at least one increase by then on 30 September, leaving the dollar dependent on long-term yields alone.

US unemployment rate and job creation

% of the labour force (l.), thousands of jobs per month (r.)



Sources : BLS (UNRATE, PAYEMS), Macro Edge Terminal (CLAIMS panel) 01/09/2026.

US average hourly earnings and core CPI

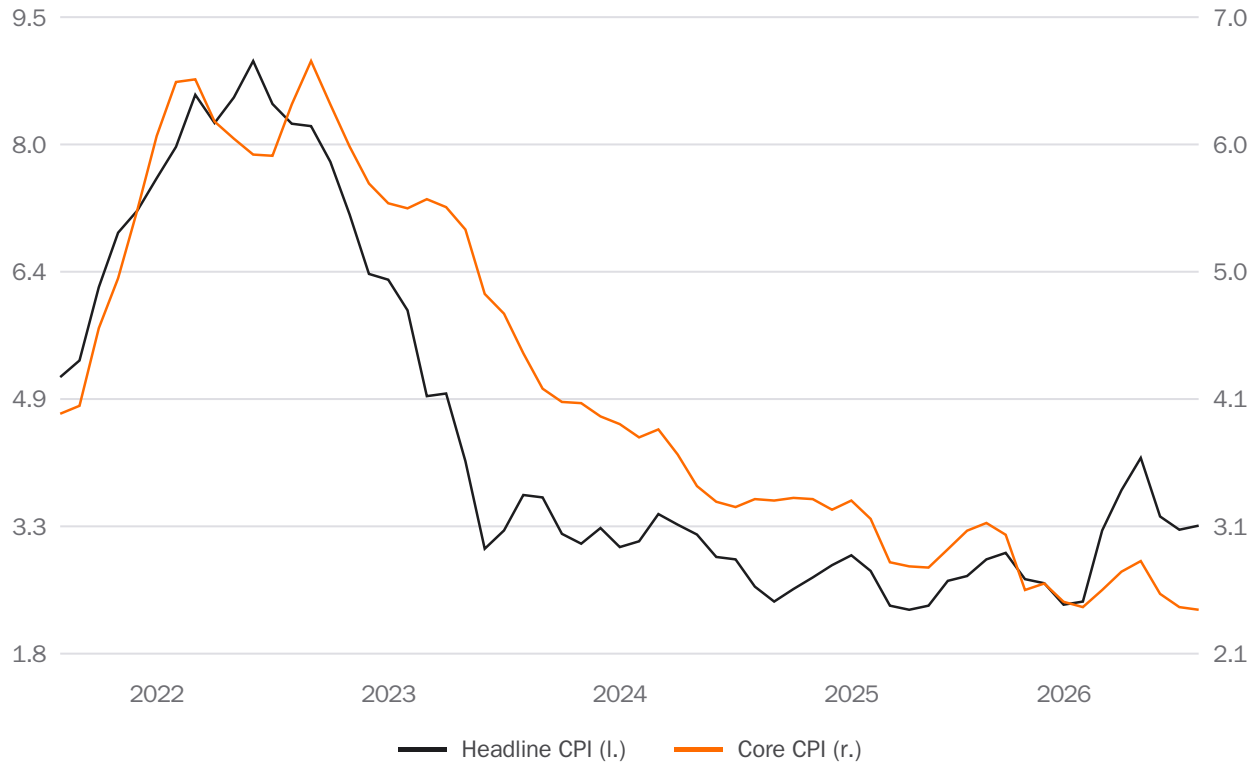
% year on year (l.), % year on year (r.)



Sources : [BLS](#) (CES0500000003, CPILFESL), [Macro Edge Terminal \(CLAIMS panel\)](#) 01/09/2026.

US inflation: headline CPI and CPI excluding food and energy

% year on year (l.), % year on year (r.)



Sources : [BLS](#) (CPIAUCSL, CPILFESL), [Macro Edge Terminal \(OFFI panel\)](#) 01/08/2026.

Unemployment rate and Job creation (NFP). Job creation in 2026 alternates between negative readings and rebounds, while unemployment returned to 4.2% in September after two months at 4.1%. This explains the decline in October pricing: the Fed raises rates against a labour market that is not accelerating.

Average hourly earnings and Core CPI. Average hourly earnings growth has slowed since summer 2025, from 3.98% in August 2025 to 3.02% in September 2026. Its correlation with core CPI is effectively zero over the period (-0.01). No wage–price spiral appears, weakening the case for a December increase.

Headline CPI and Core CPI. The gap between headline CPI, at 3.35% in August, and core CPI, at 2.45%, measures energy's share of US inflation. Core inflation has fallen from 2.82% in May: energy has not yet passed into the core index.

EURO

The euro pays two premiums: energy and France

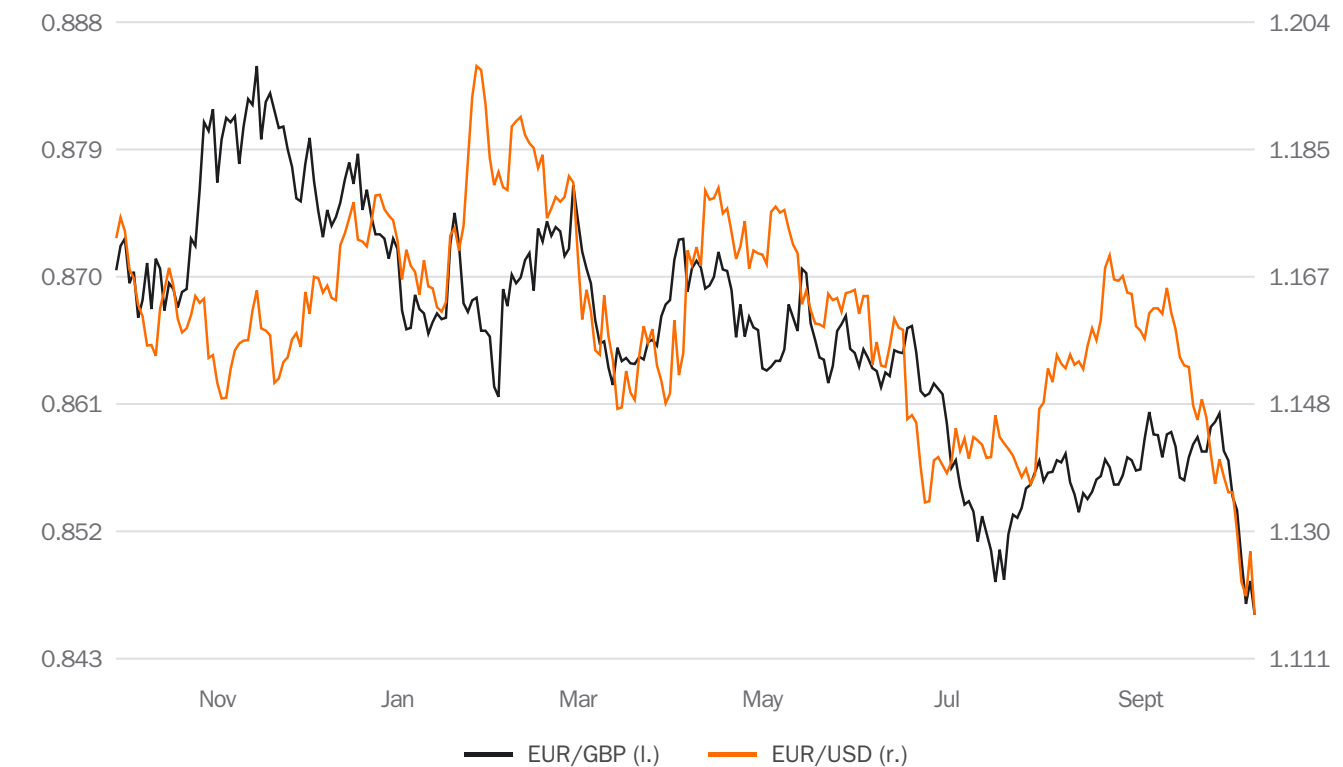
Taken alone, euro-area data would justify a firmer ECB. September flash HICP came in at 3.8% year on year, against 3.6% expected and 3.2% in August, with energy at 18.8% and core at 2.5%, in line with consensus. Flash composite PMI reached 53.1, its highest in three and a half years, while France returned to growth for the first time in ten months. The ECB raised its deposit rate to 2.50% on 10 September, and Lagarde highlighted energy's inflation risk before the European Parliament on 28 September. Yet EUR/USD lost 3.83% in a month and ended Wednesday at 1.1177, the lowest in our snapshot.

This week adds a sovereign premium to energy. On 1 October, the Lecornu government presented a 2027 budget proposing around € 54bn of consolidation to bring the deficit to 5.0% of GDP in 2027, against 5.4% expected in 2026. The 10-year OAT briefly exceeded 5%, its highest since July 2002, while its spread against the Bund crossed 150bp, the highest since late 2011, against 132bp a few days earlier. Moody's, which rates France Aa3 with a negative outlook and judges budget adoption "highly uncertain", will publish its review on 23 October. According to FXStreet, the Bank of France regards the tension as serious but believes it does not meet the conditions for ECB assistance: OAT holders have no explicit safety net.

US and French yields rise together with opposite effects: foreign buyers appear at Treasury auctions, while the widening OAT–Bund spread signals insufficient demand for French debt. We see a fragmentation premium adding to the energy bill. It would explain the euro's fall against sterling, from 0.8605 on 25 September to 0.8465, although the United Kingdom also imports energy. Our bearish euro bias holds, but a narrowing OAT–Bund spread would matter more than falling oil. Positioning limits this reading: the CFTC shows a large euro short position on 29 September. FXStreet cites a record 301,000 contracts, which we have not cross-checked; good news from France could trigger rapid short covering.

EUR/GBP and EUR/USD

pounds per euro (l.), dollars per euro (r.)



Sources : [ECB](#), [Macro Edge Terminal \(FORCE panel\)](#) 07/10/2026.

EUR/USD and Brent prices

dollars per euro (l.), \$ per barrel (r.)



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 07/10/2026.

EUR/GBP and EUR/USD. EUR/USD has fallen since 9 September and EUR/GBP since 25 September: the euro loses against both the dollar and sterling. A shared decline against two currencies with different energy exposure points to a euro-specific factor, consistent with the French premium.

EUR/USD and Brent. Brent spot peaked at \$124.15 on 18 September, then retreated to between \$117 and \$120, while EUR/USD continued falling from 1.1460 to 1.1177. Since late September, oil alone no longer explains the euro's path.

OIL AND CAD

Oil weighs on seaborne energy importers without supporting the Canadian dollar

This week's oil shock comes from transport. At least four commercial vessels were hit by missiles or drones over the weekend of 3 and 4 October. Hormuz transit fell to an average of ten commodity vessels a day over ten days, its lowest since May. OPEC+ offered no relief: the seven countries meeting on 4 October held November production unchanged, a second pause following four monthly increases,

and will not meet again until 1 November. US commercial inventories fell 3.2 million barrels to 424.1 million barrels in the week ending 2 October, still 1% above the five-year average.

EIA Brent spot traded at \$120.03 on 2 October, up 33.77% over a month, while the nearby ICE contract traded at \$100.87 on 7 October. The WTI spread reached around \$22 in spot markets on 2 October and \$13.80 in futures on 6 October; freight from the Gulf reached a record of around \$33 per barrel. In our view, freight explains much of the spot–futures gap: the premium concerns seaborne crude and passes only partly into crude priced at Cushing. Speculators are not chasing it, as their combined WTI and Brent net long fell by 31,000 contracts to 335,000, a five-week low, in the week ending 29 September.

USD/CAD has risen from 1.3768 on 9 September to 1.4253, almost continuously, while Brent spot gained a third. The price that matters for Canada is discounted WTI, and the Bank of Canada holds at 2.25% against a Fed at 3.75–4.00%, after August employment fell by 42,000 and inflation excluding petrol stood at 2.4%. Speculators sold CAD in the week ending 29 September. September employment on Friday, followed by the BoC on 28 October, could change this profile.

Brent and WTI

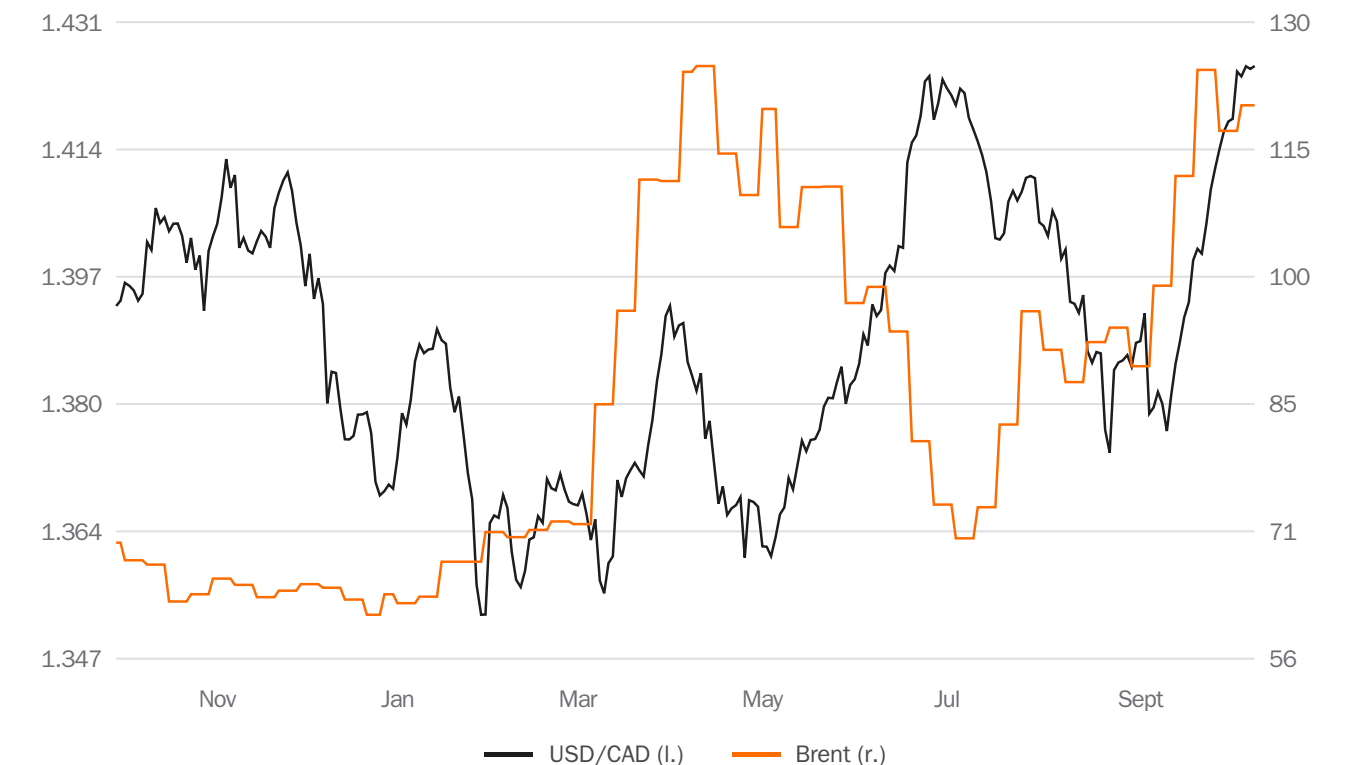
\$ per barrel (l.), \$ per barrel (r.)



Sources : [EIA](#) (spot prices), [Macro Edge Terminal \(OILFX panel\)](#) 02/10/2026.

USD/CAD and Brent prices

Canadian dollars per US dollar (l.), \$ per barrel (r.)



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 07/10/2026.

Brent and WTI. The two crude benchmarks move together (correlation of 0.91), but the \$21.96 spread on 2 October (\$120.03 versus \$98.07) is the widest in the series starting in March, exceeding the \$20.6 spreads on 17 April and 18 September. It widens while Brent spot remains below September's peak.

USD/CAD and Brent. The correlation between USD/CAD and Brent is 0.03: over the period, oil's price says nothing about the Canadian dollar. For an oil exporter, this decoupling signals that the rate spread against the United States dominates.

JAPAN

The yen has given back its gains, but 158 remains a danger zone

The yen has completed a full round trip in a month. USD/JPY fell from 160.16 on 1 September to 153.27 on 9 September, when speculators switched to yen longs ahead of the BoJ. The central bank raised its rate to 1.25% on 18 September, a 31-year high, but two dissenting votes led to a cautious

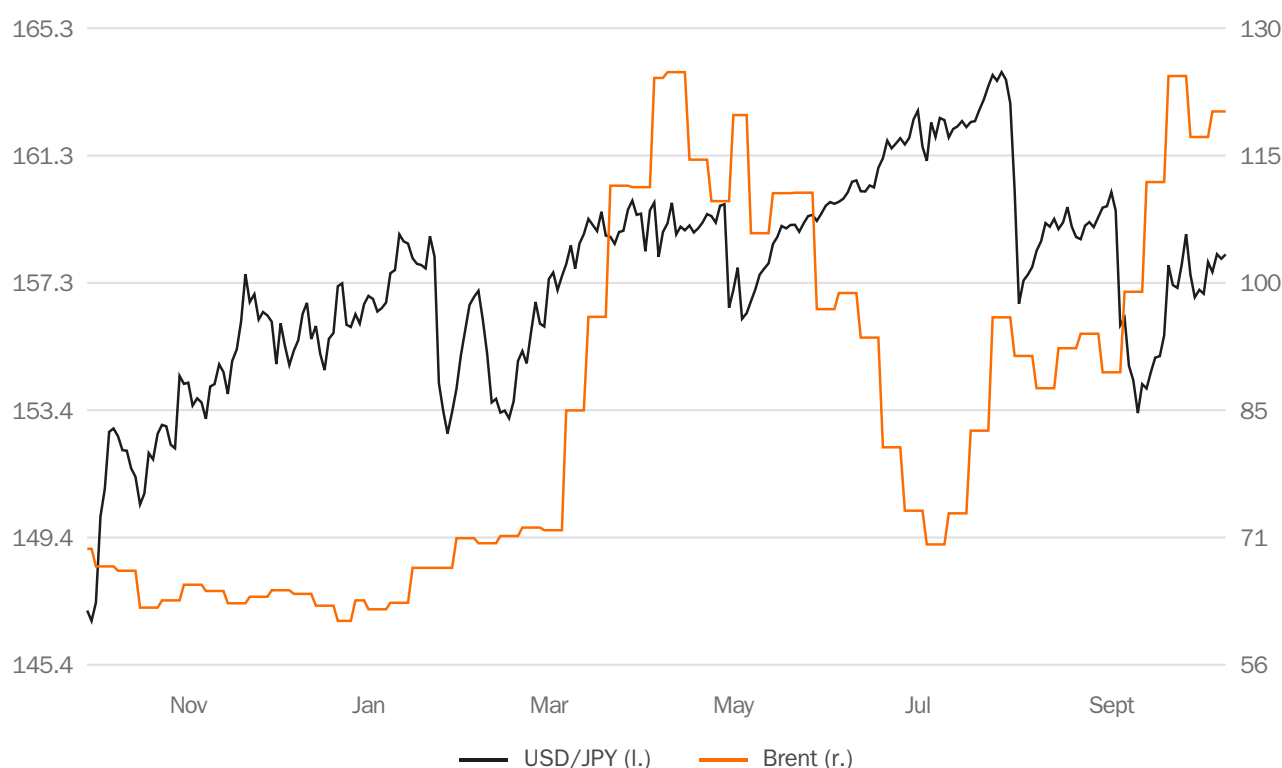
reading of the decision and the pair returned to 158.23 on 7 October. On 29 September, the yen remained one of only two currencies in which speculators were net long, with positions losing money since the 9 September low.

Ueda shifted the debate on 6 October. Core inflation is approaching 2%, and yen weakness is one of three upside risks he cites, alongside the war with Iran and AI-related demand. The market assigned only around a one-in-four chance to an October increase and targets December. Japan sold more than \$70bn in late April and early May after the pair exceeded 160, then a record ¥15,400bn, around \$96bn, between late July and late August beyond 163. The market places the new intervention area between 158 and 159, where the pair currently trades.

The risk appears asymmetric to us. Rising US yields and the energy bill push the pair higher, but each additional gain brings intervention closer, and the BoJ keeps December open. Weak US CPI or intervention would trigger a rapid decline, especially since not all yen buyers have closed their positions.

USD/JPY and Brent prices

yen per dollar (l.), \$ per barrel (r.)



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 07/10/2026.

USD/JPY and Brent. The correlation between USD/JPY and Brent remains modest (0.26), but both have risen together since mid-September: from 155 to 158 for the pair and from \$112 to \$120 for Brent

spot. For an energy importer, persistently high oil worsens the terms of trade and keeps pressure on the yen.

DEBT AND STERLING

The term premium is paid everywhere; the BoE gives sterling support the euro lacks

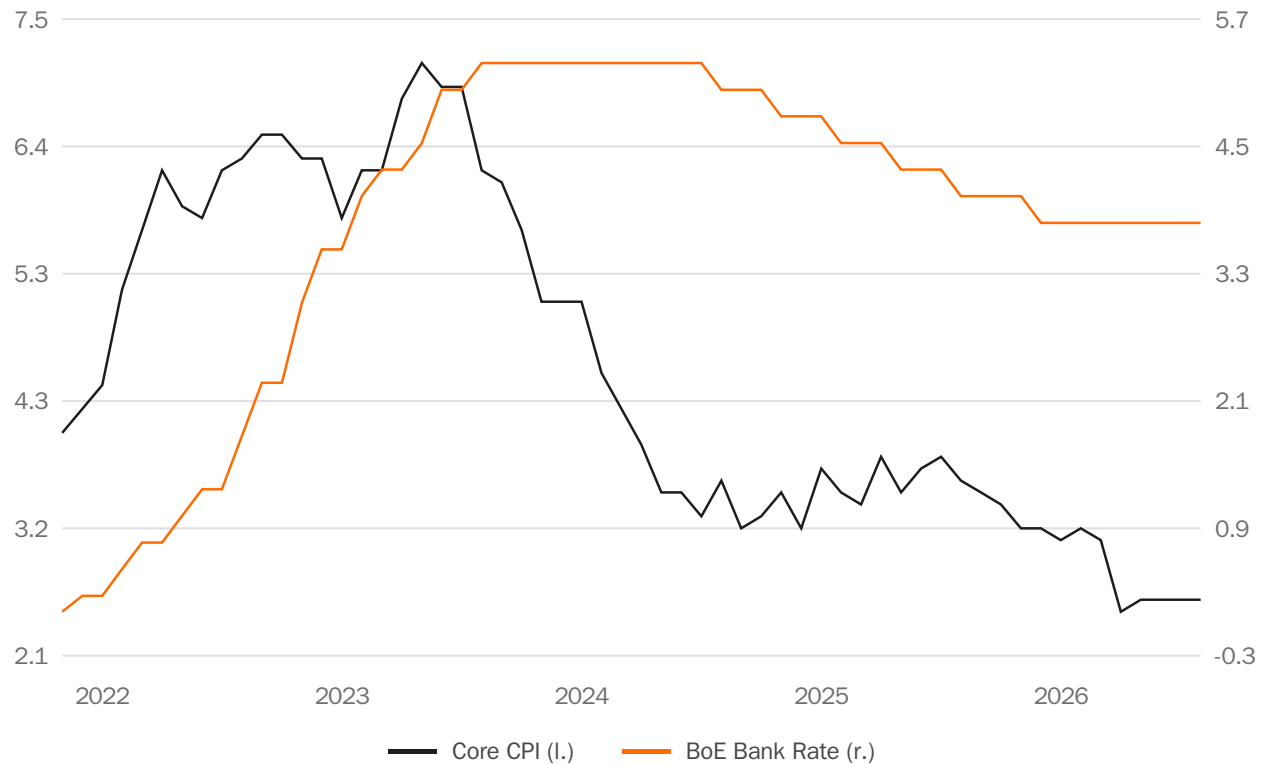
The bond sell-off on 7 October hit every major curve: the US 30-year reached 5.73% intraday, its highest since 2002, and the 30-year gilt returned to its highest since 1998, after reaching 6.029% intraday on 1 October. BBH sees rising term premiums driven by supply: the US Treasury auctions \$119bn in 3-, 10- and 30-year securities this week, while according to Apollo hyperscalers have raised \$48bn in European currencies in 2026, three times as much as in 2025. Georgieva noted that global public debt will exceed \$100,000bn at the end of 2026 and approach 100% of GDP in 2030. The IMF Fiscal Monitor, published during the Bangkok meetings from 12 October, will give the detail.

Each currency depends on its country's ability to find buyers for that debt, and the United Kingdom sits between the United States and France. August CPI rose to 3.1%, with motor fuels up 23.0% year on year; the BoE forecasts inflation around 3.75% in the fourth quarter, then slightly above 4% in early 2027. On 17 September, three of nine members voted for an increase, and the statement signals likely tightening if the conflict persists. We believe this restrictive bias explains sterling's better performance: GBP/USD lost 2.41% over a month, against 3.83% for EUR/USD.

This support has two limits. The labour market is not pushing wages higher, leaving the BoE free to wait. The 28 October budget could also increase gilt supply: higher long-term yields would then weigh on sterling rather than support it, just as OAT yields weigh on the euro.

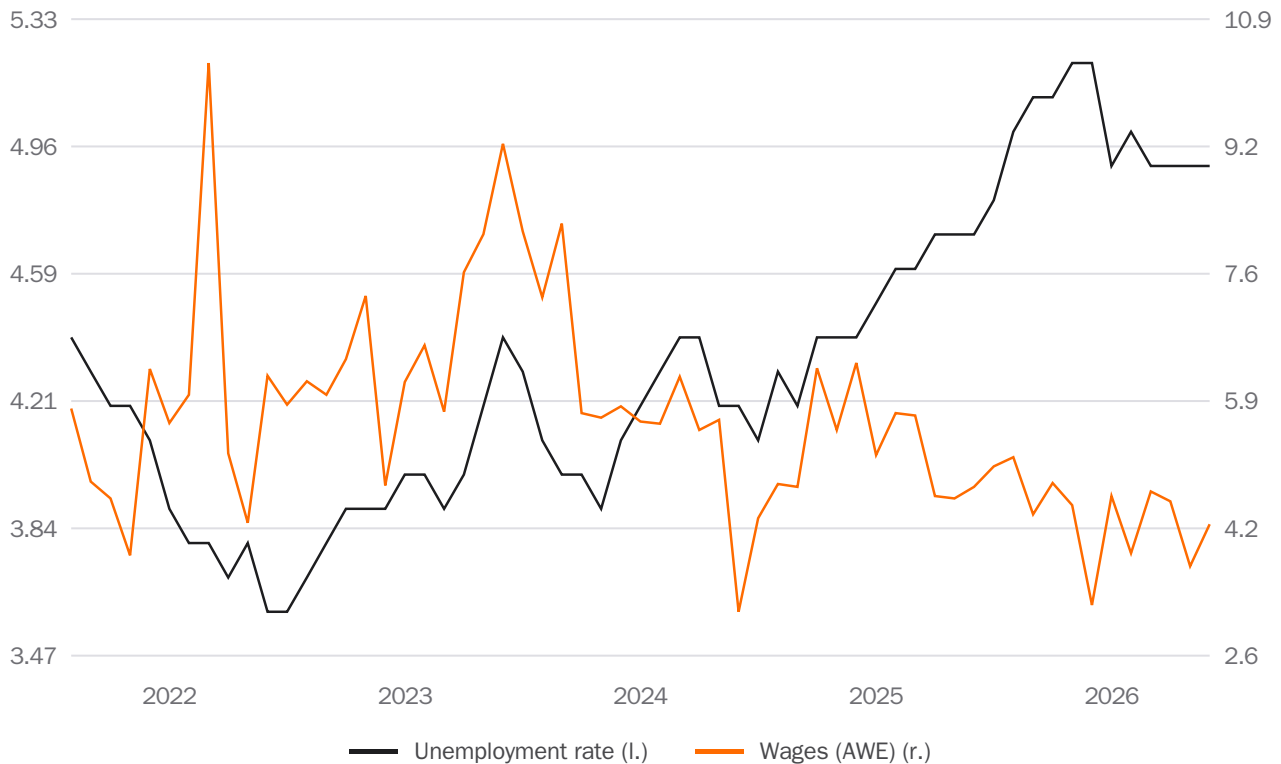
UK core CPI and Bank Rate

% year on year (l.), % (r.)

Sources : [ONS \(DK08\)](#), [Bank of England](#), [Macro Edge Terminal \(OFFI panel\)](#) 01/08/2026.

UK unemployment rate and wages

% of the labour force (l.), % year on year (r.)



Sources : [ONS \(MGSX, KAB9\)](#), [Macro Edge Terminal \(OFFI panel\)](#) 01/06/2026.

Core CPI and BoE Bank Rate. Bank Rate has stood at 3.75% since December 2025, while core CPI has held at 2.6% since May. The real rate remains positive: a BoE increase would respond to the energy shock in headline inflation, with a stable core.

Unemployment rate and Wages (AWE). UK unemployment has fallen from 5.2% in late 2025 to 4.9%, where it has remained since March, while wage growth has eased from above 5% in summer 2025 to 3.7% in July 2026. The BoE has no wage spiral to fight, limiting the restrictive scenario.

ENERGY, METALS, AGRICULTURE

Commodities premières

— Gold

Gold fell 1.92% in September's monthly average according to the IMF (\$4,335). The press places spot gold between \$4,140 and \$4,160 per ounce on 6 October, without cross-checking against a specialist source. Buyers diverge: in the week ending 29 September, managed money reduced net longs by

27,000 contracts, while ETFs received 1.7 million ounces, their largest inflow in four years according to Saxo. Central banks bought 39 tonnes in August according to the World Gold Council, including 20 tonnes for the PBoC, its 22nd consecutive buying month and largest monthly purchase since 2023. This long-term demand forms a floor, while US real yields cap the price.

Effect on currencies	As long as the US 10-year yield remains above 5%, gold provides no independent FX signal. Gold rising alongside a falling 10-year yield would signal easing real yields, favourable to the yen and franc against the dollar.
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Bias	Neutral
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CURRENCY BY CURRENCY

Our readings by **currency**

— CHF · The franc protects against the euro, not the dollar

USD/CHF has risen from 0.8071 on 9 September to 0.8329 and gained 5.07% since the start of the year, while the CFTC shows speculative dollar buying against every major currency except the franc. Calculated from our fixings, implied EUR/CHF has fallen from around 0.940 to 0.931 over the same period: the franc acts as a haven against European risk.

The SNB held its rate at 0% on 24 September and said it was “willing to intervene in the foreign exchange market if necessary”, a broader formulation than the previous reference to safe-haven demand. With inflation forecast at 0.7% in 2026, it has little tolerance for appreciation against the euro, limiting the franc's potential on the cross.

Bias	Neutral · confidence average
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Invalidation	Implied EUR/CHF below 0.92 without an SNB response would open a bullish franc bias; the OAT–Bund spread returning below 132bp would remove its European safe-haven demand.
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— AUD · The Australian dollar is sold despite China's recovery

The RBA unanimously raised its rate to 4.60% on 29 September, but Bullock signalled no November move and AUD/USD fell below 0.70. It trades at 0.6951, down 3.65% over a month, and speculators sold it in the week ending 29 September. Yet China's backdrop improved: official September manufacturing PMI returned to 50.1, composite PMI to 50.7, its highest since December 2025, and input prices jumped to 60.8.

Our reading is that AUD suffers more from the dollar and its central bank's caution than from China's economy, creating asymmetry if China's foreign trade release on 14 October confirms the recovery. NZD remains the most exposed currency in the bloc, down 4.78% over a month, with the market assigning a 97% chance that the RBNZ holds at its 28 October meeting.

Bias	Neutral · confidence faible
Invalidation	An AUD/USD close below 0.6939, the low on 2 October, after disappointing Chinese imports on 14 October would turn the bias bearish.

THE SCENARIOS

What could happen

Base case: long-term yields keep the dollar firm

CPI on 14 October confirms a headline figure inflated by energy and core inflation close to 0.2% month on month. The Fed keeps December open without committing, the 10-year yield stays above 5% and foreign auction demand holds. The euro remains under pressure until Moody's review, sterling holds up better and CAD stays weak ahead of the BoC.

High headline CPI, stable core → US 10-year yield above 5% → USD supported → EUR/USD and CAD under pressure

The dollar runs out of momentum

Weak core CPI and a Beige Book showing no wage transmission reduce December's chances. The 10-year yield falls below 5%, the term premium deflates and dollar longs, which reached \$25.3bn on 29 September, unwind. The heavily shorted euro and the yen, protected by the threat of intervention, rebound most.

Weak core CPI → December's increase repriced lower → US 10-year yield below 5% → EUR/USD and JPY ↑

Escalation in Hormuz

New attacks further reduce transit, Brent futures converge with spot above \$110 and freight stays at record levels. Importers pay: the euro, yen and sterling fall, Tokyo intervenes beyond 160, and tougher ECB and BoE language does not support their currencies.

Hormuz transit ↓ → Brent futures above \$110 → EUR, JPY, GBP ↓ → Japanese intervention

Bond demand breaks down

A poorly received long-dated US auction or a French downgrade on 23 October renews the rise in term premiums. If foreign demand withdraws from Treasuries, the dollar falls with its bonds in favour of the franc and yen. If the shock remains French, the euro breaks its lows.

Failed auction or French downgrade → Term premiums ↑ → USD ↓ if the shock is American; EUR ↓ if it is French

PARIS TIME

The agenda ahead

Date	Event	What's at stake	FX sensitivity
jeu. 08/10	ECB meeting account (9–10/09 meeting), 13:30	Openness to a third increase and a possible fragmentation debate	● ● ●
jeu. 08/10	US 30-year auction (\$22bn, reopening), 19:00	Foreign demand at the long end; previous yield 5.308%	● ● ●
ven. 09/10	September Canadian employment, 14:30	After -42,000 in August; first test of the CAD bias ahead of the BoC	● ● ●
lun. 12/10	IMF and World Bank Annual Meetings in Bangkok (12–18/10); Columbus Day in the United States	WEO, GFSR and Fiscal Monitor; IMF oil scenarios at \$82, \$100 and \$110	● ● ●
mar. 13/10	October German ZEW; UK employment (date to be confirmed)	UK wages ahead of the budget and the BoE	● ● ●
mer. 14/10	September Chinese foreign trade, 05:00	Imports and external demand; a test for AUD	● ● ●
mer. 14/10	September US CPI, 14:30	Headline expected around +0.5 to +0.6% month on month, core around +0.2%; the fate of December's increase	● ● ●
mer. 14/10	Beige Book, 20:00	Transmission of energy to prices and wages	● ● ●
ven. 23/10	Moody's France review (Aa3, negative outlook)	OAT–Bund spread and the euro's fragmentation premium	● ● ●

Date	Event	What's at stake	FX sensitivity
mer. 28/10	FOMC, BoC (with MPR), RBNZ, UK budget	Fed increase or wait until December; gilt supply	● ● ●
jeu. 29/10	ECB decision, 14:15	Third increase or pause, without projections	● ● ●
dim. 01/11	OPEC+ (seven countries)	December production after two months on hold	● ● ●
jeu. 05/11	BoE decision	Three of nine members already voted for an increase	● ● ●

OUR CONVICTIONS

And what would contradict them

Conviction	Invalidation
As long as the US 10-year yield holds above 5% with strong foreign auction demand, the dollar remains supported even if the Fed abandons October.	A 10-year close below 5.00%, or a long-dated auction clearing above the grey market level.
The euro underperforms sterling at least until Moody's review on 23 October.	The OAT–Bund spread returning below 132bp, its pre-budget level, or EUR/GBP above 0.8550.
The Canadian dollar remains weak until the BoC on 28 October.	USD/CAD closing below 1.4100 after Friday's Canadian employment.
USD/JPY has more to lose than gain from 158.	A close above 160.16, the high on 1 September, without intervention or an official warning.

IN SHORT

What you need pick

Disappointing CPI on 14 October would reduce the chances of a December increase without being enough to reverse the dollar: that would require the 10-year yield below 5% or an auction shunned by foreign buyers. Until 23 October, the euro remains the most exposed currency, because the OAT–Bund spread now weighs as much as oil. The Canadian dollar has no oil support to expect before the BoC. If the dollar reverses, the yen, already in the intervention area, offers the best profile, ahead of a heavily shorted euro.

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