

FX WEEKLY · 11 OCTOBER 2026

A dollar supported by **real** yields, awaiting CPI

By Wealthon, Macro Edge, with the help of AI

The week extended the regime established in September: a strong dollar against the currencies of energy importers. Yet momentum is fading: our dollar index gained just 0.10%, to 102.19, versus a 3.63% rise over one month. The data corrects an earlier interpretation of ours: since January, the rise in the US 10-year yield has come from the real yield, which rose from 1.90% to 2.91%, while the 10-year breakeven remains at 2.33%. The dollar therefore rests on carry and a Fed that regards another hike before year-end as likely, while employment and wages slow. Hormuz remains effectively closed despite Donald Trump's pledge not to strike Iran before 3 November, and the euro also bears France's sovereign premium: EUR/GBP is down 1.32% over one month. The CPI release on 14 October, followed by Kevin Warsh overnight on 15-16 October, will show whether December pricing, around 81%, can withstand a labour market losing momentum.

FED AND RATES

The Fed keeps December open; employment weakens its case

Minutes of the 15-16 September FOMC meeting, published on Wednesday, gave the front end what it expected: the hike to 3.75-4.00% was unanimous, and “most participants” considered a further hike “likely appropriate by the end of the year”. The latest verified CME FedWatch readings, between 2 and 8 October, put the probability at 17% for 28 October and around 81% for December. The 2-year yield ended at 4.80%, down 3 bp over the week and 12 bp below its 28 September peak.

Our 8 October Daily linked rising long-term yields and the Fed's hawkish tone to energy inflation; the data contradicts that reading. The 10-year breakeven has barely changed since January (2.36% then, 2.33% now), while the real yield gained 101 bp to 2.91%, just below its September peak (2.93%). Investors are therefore not hedging against an inflation overshoot: they demand a higher real return to

hold US debt. This support for the dollar should last longer than an inflation scare, but give way more quickly to bad news on growth.

Auctions showed where buyers were. The Treasury sold \$39bn of 10-year notes at 5.300%, with a bid-to-cover ratio of 2.77 versus a 2.52 average over ten auctions, followed by \$22bn of 30-year bonds at 5.618%, the highest since August 2000, with a bid-to-cover ratio of 2.54 and 72.3% indirect bidders. The 10-year yield, at 5.31% on 5 October, ended the week at 5.24%. The term premium attracted buyers at these levels, removing the dollar's long-end driver and leaving it dependent on the Fed's path.

That path rests on a weakening labour market. September employment added 29k jobs versus around 90k expected, with 60k of downward revisions to July and August; unemployment rose to 4.2%, and hourly earnings growth slowed to 3.0% year on year, the lowest in the dataset. October Michigan sentiment fell to 46.3, with current conditions at a record low, but households' 5-10-year inflation expectations rose to 3.5%. Hawkish FOMC members draw their argument from this figure more than from wages.

Wednesday's CPI release will distinguish between these two readings. Consensus expects headline inflation of +0.6% month on month and 3.6% year on year, with core at +0.2% and 2.5%; Thursday's retail sales are expected at +0.3% after +1.2%. A disappointment would meet speculative positioning already short 63k contracts in the euro, 91k in sterling and 79k in the Canadian dollar.

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.

Average hourly earnings and Core CPI. Hourly earnings growth slowed from 3.98% in August 2025 to 3.02% in September 2026, while core CPI remains around 2.45%. Wages are not feeding a wage-price spiral, leaving a December hike dependent on energy and household expectations.

ENERGY AND GEOPOLITICS

Washington removes the strike risk; Hormuz retains the physical premium

On 8 October, Donald Trump wrote that the United States would not attack Iran before the 3 November midterm elections, citing “productive discussions”. The naval blockade of Iranian exports remains in place, and conditions in the strait have not improved: UKMTO reported at least 12 incidents between 28 September and 5 October, IMF PortWatch counted just 4 transits on 4 October versus 85 a day before the crisis, and the EIA mentioned attacks on Saudi Arabia's East-West pipeline, the main bypass route.

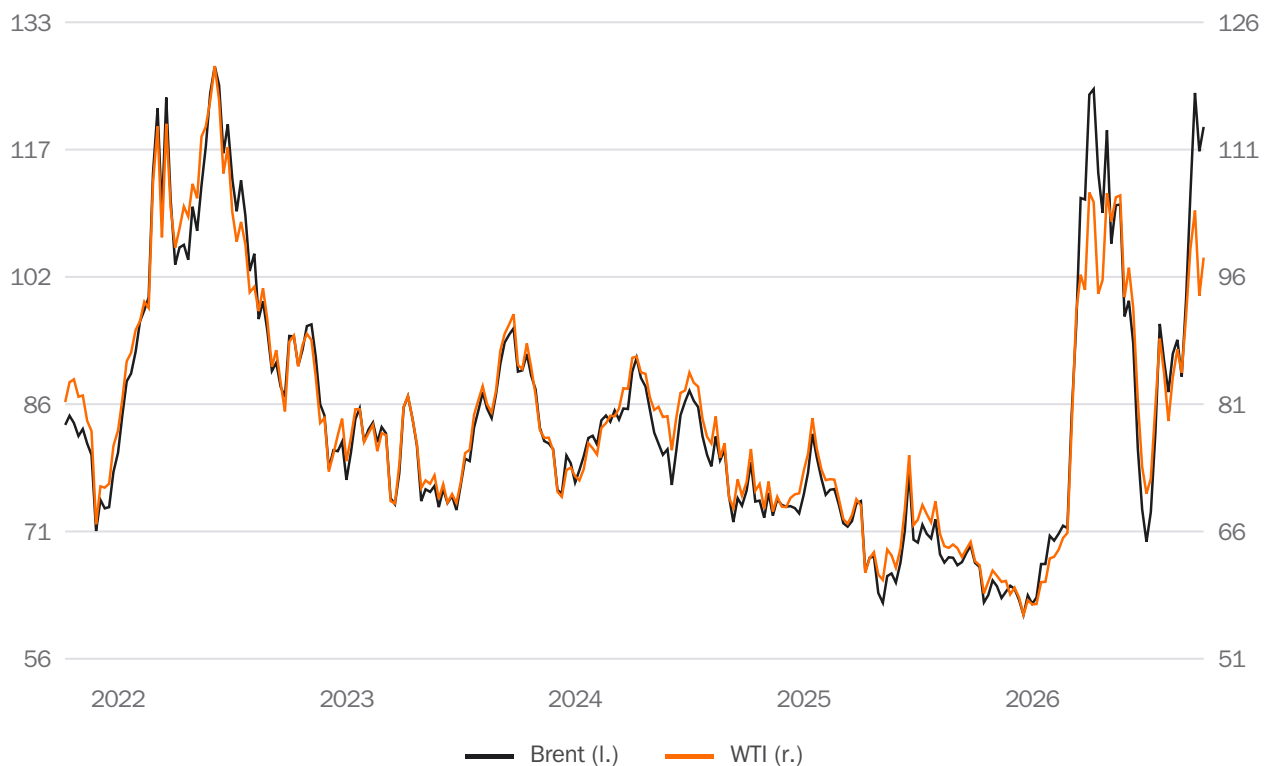
The dataset puts EIA spot Brent at \$120.03 on 2 October, up 33.77% over one month, and WTI at \$98.07. Press reports put Brent futures around \$103.5 on Friday; the dates and instruments differ, but such a gap suggests a premium on physical barrels whose exact size we cannot verify. The EIA raised its fourth-quarter Brent forecast by \$14 to \$105, assuming 4.5 million barrels a day of Middle Eastern production is shut in, while US crude inventories fell by 3.2 million barrels against expectations of a 1.7 million-barrel rise. OPEC+ kept November quotas unchanged on 4 October and will not meet again until 1 November.

Over one month, NZD lost 4.11% and the euro 3.83% against the dollar, while the S&P 500 gained 1.2% over the week to 7,811.54: the decline affects importers' currencies without accompanying equity stress.

The political timetable moves the binary risk to 3 November, after the FOMC, ECB and BoJ, which will decide in late October with expensive oil and a still-closed strait. The IEA quantifies what a diplomatic outcome would cost long-dollar positions: its 1.3 million-barrel-a-day deficit for 2026 would become a 4.6 million-barrel-a-day surplus in 2027 if Hormuz reopened. In our reading, the euro and yen, the currencies of importers, would benefit first.

Brent and WTI

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



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

EUR/USD and Brent prices

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



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 09/10/2026.

Brent and WTI. The Brent-WTI spread widened from around \$5 in late August (\$89.73 versus \$84.62) to nearly \$22 on 2 October (\$120.03 versus \$98.07). The premium is concentrated in seaborne crude, on which Europe and Asia depend, while WTI, produced in the United States, captures less than half of it.

EUR/USD and Brent. Since late August, EUR/USD has fallen from 1.1596 to 1.1206 while spot Brent rose from \$89.73 to \$120.03. The euro area's energy bill is one of the two channels behind the euro's decline; reopening Hormuz would be the most direct catalyst for a rebound.

EURO AREA

France weighs on the euro faster than the ECB rewards it

September flash HICP surprised at 3.8% versus 3.6% expected, the highest since September 2023, with energy at +18.8% and services at 3.2%; core remains at 2.5%. The Reuters poll of 5-8 October captures consensus: 70 of 73 economists expect a hold at 2.50% on 29 October, 64 expect a 25 bp

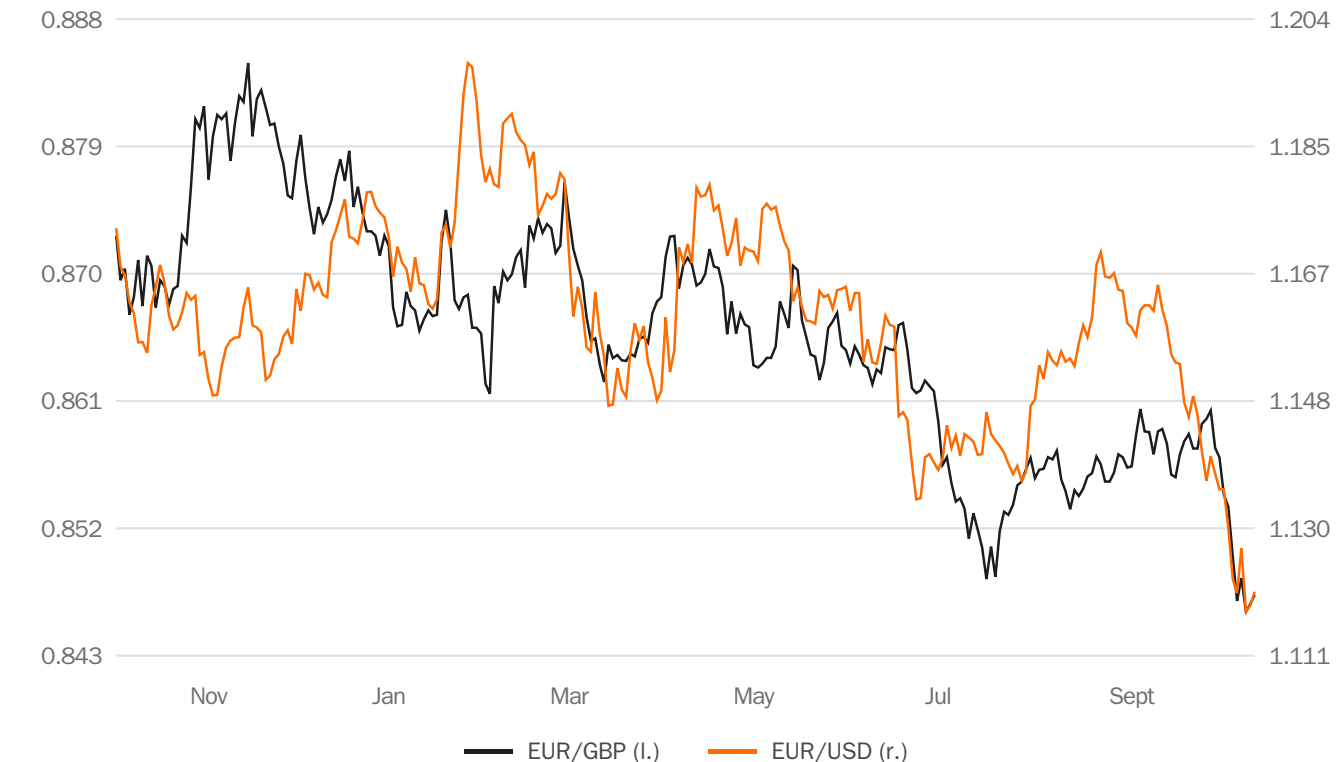
hike in December, and 58% of respondents see the peak at 2.75%. Activity does not justify euro weakness: German industrial production rose 2.0% month on month in August, and institutes raised their 2026 German growth forecast to 1.3%.

The rate differential widened despite the ECB. The 10-year Treasury-Bund spread reached around 182 bp in September, and the US 2-year yield, at 4.80%, exceeds the deposit rate by 230 bp. Two ECB hikes have failed to keep pace with the Fed.

France adds a premium that the ECB cannot offset. The Lecornu government's € 43bn savings plan targets a deficit of 5.0% of GDP in 2027, with debt at 121.7% of GDP, interest costs of € 91bn and borrowing of € 340bn, up 10%. The OAT-Bund spread touched 154 bp intraday on 2 October, its widest since 2011, then 134 bp on 7 October, above Italian and Greek spreads and far from its 75.5 bp one-year average. November's budget vote and the April 2027 presidential election leave this premium in place for several months.

EUR/GBP isolates the euro-specific component. The pair touched 0.8465 on Wednesday and ended at 0.8476, down 0.32% over the week, even as the UK also faces long-term yields at record highs. Traders appear to favour the central bank that will raise rates first, penalising French sovereign risk more heavily than pressure on gilts.

EUR/GBP and EUR/USD

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

Sources : [ECB](#), [Macro Edge Terminal \(FORCE panel\)](#) 09/10/2026.

EUR/GBP and EUR/USD. EUR/GBP fell from 0.8565 in late August to 0.8476, alongside EUR/USD. When the euro also falls against sterling, which faces its own fiscal pressures, the weakness is euro-specific rather than solely a matter of dollar strength.

UNITED KINGDOM

The BoE moves ahead; Healey's budget sets the limit

Markets now price a BoE hike to 4.00% on 5 November with a probability of around 83-84%. September's 6-3 vote to hold at 3.75% paved the way, and Megan Greene said on Thursday it was "dangerous to assume markets will do the BoE's work". Goldman Sachs now expects a November hike, while Citi expects one in the fourth quarter and another in the first quarter of 2027. The BoE bases this tightening on its forecast of CPI around 3.75% in the fourth quarter and above 4% in early 2027.

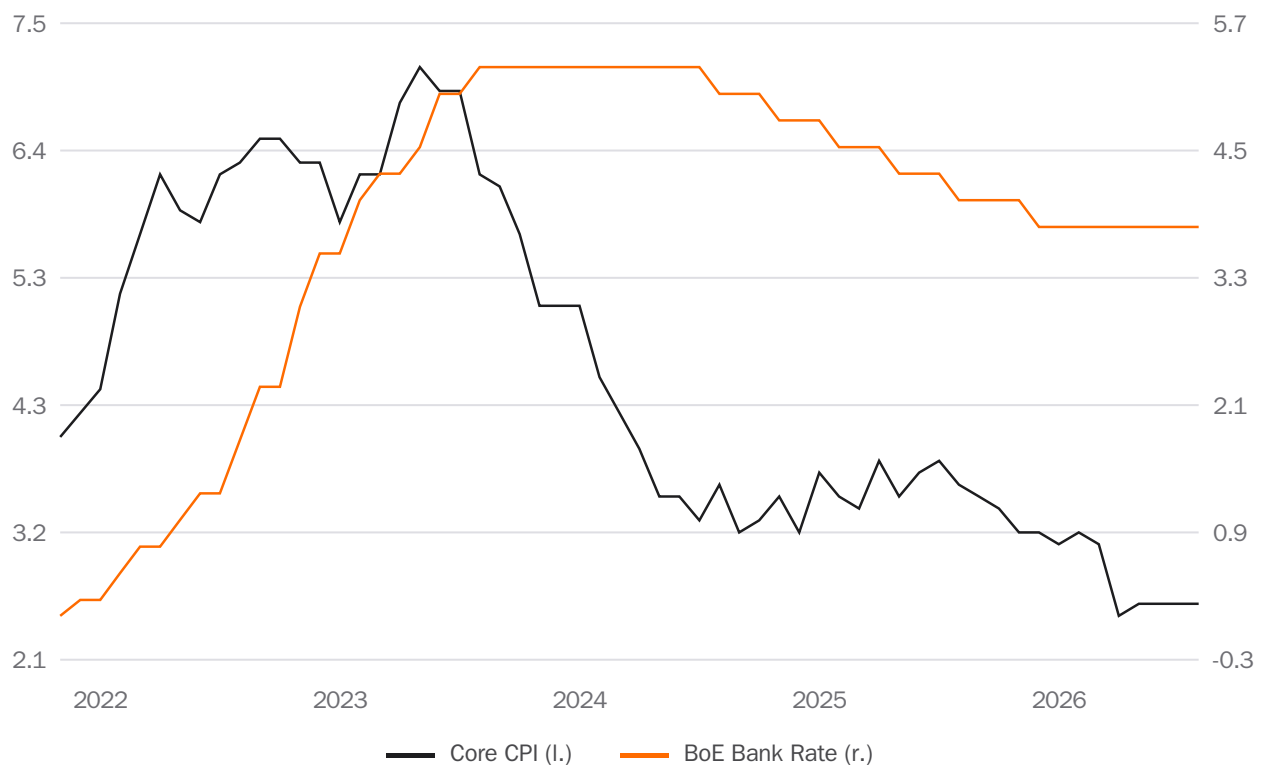
Observed inflation is less pressing: August CPI is 3.1% and core 2.6%, below a Bank Rate of 3.75%, with unemployment at 4.9%. Like the Fed, the BoE is preparing to tighten against imported inflation that

it anticipates more than observes. With a hike priced for 5 November, sterling offers short-term carry that the euro does not offer before December.

The limit will come from the 28 October budget, John Healey's first for the Burnham government, published on the same day as OBR forecasts and the FOMC. The Chancellor rules out increases in income tax, VAT and employee National Insurance, while the 30-year gilt yield exceeded 6% on 1 October, its highest since 1998; Bloomberg Economics estimates that higher yields reduce £23.6bn of headroom by around £12bn. If gilt investors start treating the UK like France, a BoE hike would become a funding cost rather than carry. August GDP, expected at -0.1% on Thursday, will be the first test.

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.

Core CPI and BoE Bank Rate. UK core CPI fell from 3.2% in February to 2.6% in August, with Bank Rate unchanged at 3.75% since December 2025. A November hike would run against this trend, and September CPI, expected around 21 October, could shift pricing currently at 83-84%.

ENERGY, METALS, AGRICULTURE

Commodities **premières**

— Gold

Gold ETFs attracted \$10bn in September according to the World Gold Council, their fifth consecutive month of inflows, for a record quarterly \$31bn and record holdings of 4,256 tonnes (+67 tonnes). Prices did not follow: assets under management fell 7% over the month to \$574bn, while the dataset's September average was \$4,335. Press reports put spot around \$4,177 on Friday morning, more than 20% below the late-January record, up 1.1% as the 10-year yield eased after a two-month low early in the week. ETF buyers are accumulating while the 2.91% real yield caps prices; speculators remain long 218.6k contracts despite reducing positions by 7.2k over the week.

Effect on currencies Inflows that withstand real yields make gold the first beneficiary of falling rates after CPI, a move that would accompany a weaker dollar. The Swiss franc would benefit less: USD/CHF gained 2.97% over one month, and the SNB, at 0.00%, says it is ready to intervene in FX markets.

Bias Neutral

CURRENCY BY CURRENCY

Our readings by **currency**

— JPY · Yen held below the intervention ceiling; Bangkok offers a window

The ECB USD/JPY fixing stayed between 158.09 and 158.28 all week, the narrowest range among the pairs we track, less than one big figure from the 159-160 zone where Japan intervened in 2026: ¥11,730bn of yen purchases between late April and late May, followed by a coordinated operation with the US Treasury in late July. Traders are not testing this ceiling, even as the 10-year Treasury-JGB spread remains around 224 bp and Japan pays for expensive oil.

The BoJ provides no opposing impulse. Kazuo Ueda sees “no urgency” to raise its 1.25% rate again, and markets price only around a 25% chance of a hike on 29-30 October, despite the large manufacturers' Tankan rising to +24. Speculators, still long 55k yen contracts, reduced exposure by 16.5k contracts: these positions, held since September as USD/JPY moved from 153 to 158, are losing money. IMF meetings in Bangkok on 12-18 October offer a natural setting for a coordinated

message from Tokyo and Washington, after Donald Trump himself raised yen weakness with Sanae Takaichi.

Bias	Neutral · confidence average
Invalidation	A USD/JPY close above 160 without an official response would turn the yen bias bearish; an October BoJ hike probability above 50% would turn it bullish.

↘ CAD · The loonie decouples from oil; the BoC loses its argument

Canada lost 68k jobs in September after 42k in August; unemployment rose to 6.5%, participation fell to 64.8%, its lowest in 29 years outside the pandemic, and the public sector lost 70k jobs. This weakens the case for a BoC hike on 28 October, which UBS still expected and specialist press described as a coin toss in mid-September: with CPI around 3%, but 2.2% excluding petrol and core measures near 2%, the BoC has only imported inflation left to justify tightening. Post-employment pricing could not be verified.

The Canadian dollar is not benefiting from higher oil: USD/CAD rose from 1.3886 in late August to 1.4226 despite spot Brent above \$120, against a backdrop of Canadian counter-tariffs in force since 8 September. Positioning tempers this bias in the short term. Speculators are short 78.7k contracts after adding 25.5k in one week, and USD/CAD fell 0.25% on the very day employment printed at -68k: the market appears already heavily positioned for bad Canadian news. Tiff Macklem's two appearances, on Wednesday and Friday, must indicate whether the BoC retains the option of a hike.

Bias	Baissier · confidence average
Invalidation	A clear signal from Tiff Macklem supporting a hike on 28 October, accompanied by USD/CAD moving back below 1.40.

THE SCENARIOS

What could happen

Base case: December holds, the dollar plateaus

Core CPI comes in at +0.2% to +0.3% month on month, around 2.5% year on year, and retail sales slow without contracting. Kevin Warsh retains data-dependent forward guidance, December pricing stays near 80%, and the 2-year yield trades between 4.70% and 4.90%. The dollar remains firm without

extending gains, the euro stays constrained by the French premium, and EUR/GBP retains its downward slope ahead of the BoE.

Core CPI at 2.5% → December priced around 80% → 2-year yield between 4.70% and 4.90% → Dollar range-bound, EUR/GBP under pressure

The front end gives way

Core CPI of +0.1% or less, followed by negative retail sales, would bring December's probability below 50%. The 2-year yield would fall below 4.70%, and accumulated shorts in the euro, sterling and Canadian dollar would be covered. Gold would benefit from falling real yields; the euro would remain the least responsive of the trio while the OAT-Bund spread fails to narrow.

Core CPI $\leq$ +0.1% m/m → December below 50% → 2-year yield below 4.70% → Short squeeze in GBP, CAD, then EUR → Gold supported

The Fed reopens October

Core CPI of +0.4% or more, confirmed by Kevin Warsh overnight on 15-16 October, would bring the 28 October meeting back into play. The 2-year yield would exceed its 4.92% peak, EUR/USD would break the 7 October low of 1.1177, and USD/JPY would test the 159-160 zone, where the risk of coordinated intervention becomes the main brake on the dollar.

Core CPI $\geq$ +0.4% m/m → Hawkish Warsh → 2-year yield above 4.92% → EUR/USD below 1.1177, USD/JPY towards 159-160 → Risk of Japanese intervention

PARIS TIME

The agenda ahead

Date	Event	What's at stake	FX sensitivity
Mon. 12/10	Columbus Day (US bond market closed); opening of IMF and World Bank meetings in Bangkok, running until 18/10	Reduced liquidity; a window for Tokyo and Washington to communicate on the yen.	● ● ●
Wed. 13/10	IMF: World Economic Outlook and Global Financial Stability Report (04:00 Paris time)	Revision to global inflation and energy risk; tone on public debt.	● ● ●

Date	Event	What's at stake	FX sensitivity
mer. 14/10	Remarks by Christine Lagarde (04:10 and 10:30), Andrew Bailey (07:30) and Tiff Macklem (08:05)	Confirmation of an October ECB hold; the BoC after employment at -68k.	● ● ●
mer. 14/10	Chinese CPI and PPI for September (03:30)	PPI above 3.8% would confirm China's importation of energy inflation; CNY and AUD.	● ● ●
mer. 14/10	US CPI for September (14:30)	Consensus at 3.6% headline and 2.5% core; determines whether a December hike holds.	● ● ●
jeu. 15/10	Australian employment (02:30), then UK GDP for August (08:00)	AUD; GBP ahead of the 28/10 budget and 5/11 BoE meeting, with GDP expected at -0.1%.	● ● ●
jeu. 15/10	Retail sales, PPI, jobless claims and Philly Fed (14:30)	US consumption facing expensive petrol; retail sales expected at +0.3% after +1.2%.	● ● ●
jeu. 15/10	IEA monthly report (date to be confirmed) and EIA inventories	Revision to demand and the supply deficit; CAD, NOK.	● ● ●
ven. 16/10	Kevin Warsh (05:30), then Tiff Macklem (06:15)	Forward guidance ahead of the 28/10 FOMC; the option of a BoC hike.	● ● ●
lun. 19/10	Chinese third-quarter GDP	Strength of the recovery signalled by PMIs; CNY and AUD.	● ● ●

OUR CONVICTIONS

And what would contradict them

Conviction	Invalidation
EUR/GBP remains biased lower until 5 November: the BoE leads the ECB by one meeting, and France's sovereign premium weighs more heavily than gilt pressure.	A November BoE hike probability below 60%, an OAT-Bund spread back below 120 bp, or an EUR/GBP close above 0.8540.

Conviction

With two well-covered auctions, at 5.300% for the 10-year and 5.618% for the 30-year, the US long end should cease to be the dollar's bullish driver; it now depends on the 2-year yield and therefore on the data.

Invalidation

A 10-year close above 5.35%, or a 10-year auction with a bid-to-cover ratio below 2.4.

IN SHORT

What you need **pick**

The 2-year yield has taken over from a long end stabilised by auctions: the dollar's next impulse will come from US data rather than Treasury supply. The dollar is exposed because this support rests on a Fed tightening into a supply shock while wages slow. A CPI disappointment would first hit shorts in sterling and the Canadian dollar; the euro would follow with a lag, constrained by Hormuz and the OAT-Bund spread. Bearish EUR/GBP remains our preferred expression because it holds in both the base case and a front-end retreat.

SOURCES

1. Federal Reserve, [Minutes of the Federal Open Market Committee, September 15–16, 2026](#), 07/10/2026.
2. Bureau of Labor Statistics, [The Employment Situation — September 2026](#), 02/10/2026.
3. Bureau of Economic Analysis, [Personal Income and Outlays, August 2026](#), 30/09/2026.
4. Bloomberg, [Treasury's Rise as Lofty Yields Lure Demand to 30-Year Sale](#), 08/10/2026.
5. Newsquawk, [US sells USD 39bn of 10-year notes, stop-through 0.1bps](#), 07/10/2026.
6. U.S. Energy Information Administration, [Short-Term Energy Outlook, octobre 2026](#), 06/10/2026.
7. OPEC, [Statement from the meeting of the eight OPEC+ countries on 4 October 2026](#), 04/10/2026.
8. Argus Media, [IEA sees greater oil demand fall in 2026](#), 09/2026.
9. AP via Hawaii News Now, [Trump says US will not resume military strikes on Iran before midterm elections](#), 08/10/2026.
10. World Gold Council, [Gold ETF Flows: September 2026](#), 08/10/2026.
11. Reuters via TMGM, [ECB expected to pause in October before hiking rates in December — Reuters poll](#), 08/10/2026.
12. TFC, [France OAT-Bund spread wider than Italy and Greece, debt at 121% of GDP](#), 10/2026.
13. Newsquawk, [Goldman Sachs expects the BoE to hike rates by 25bp in November 2026](#), 10/2026.

14. FXStreet, Pound holds its floor as BoE member Greene presses for a hike, 08/10/2026.
 15. The Hub (Statistics Canada data), Canada shed 68,000 jobs in September, Statistics Canada reports, 09/10/2026.
 16. Bank of Japan, Tankan, September 2026 survey, 01/10/2026.
 17. FXStreet (CFTC data), COT report October 2, 2026, 04/10/2026.
 18. Trading Economics, US consumer sentiment, October 2026 (preliminary), 09/10/2026.
 19. International Monetary Fund, World Economic Outlook, October 2026, 13/10/2026.
-

This publication is provided for information purposes only and is neither investment advice nor a recommendation to buy or sell any financial instrument. Written with the help of artificial intelligence (Claude, Anthropic) and published under the editorial responsibility of Walid Qairmi (Wealthon), publication director of Macro Edge. Figures are facts, sourced and dated; biases and scenarios are the author's opinions as of the publication date and may change without notice. The author is a student with a great deal still to learn: these analyses reflect his knowledge and the experience gained to date. Conflicts of interest: the author may personally take positions on some of the ideas presented; Macro Edge receives no compensation from any broker, issuer or third party for this publication.