

FX WEEKLY · 18 OCTOBER 2026

The dollar no longer **cashes** in on inflation

By Walid Qairmi, Macro Edge, written by AI

The week gave the dollar every reason to rise: CPI at 3.7%, PPI up 1.3% on the month, retail sales up 0.8%. Yet the Macro Edge index fell 0.46% to 101.71, the 2-year yield lost 6 bp and the 10-year 15 bp. Rates accounts read an energy supply shock that squeezes demand, and the Fed, from Williams to Warsh, refused to treat it as an emergency. The dollar therefore no longer tracks inflation surprises, and the bullish bias we held on 12 and 13/10 was wrong. During the eleven-day blackout ahead of the 28/10 FOMC, oil and the French budget votes will weigh more on currencies than the sparse US data.

FED AND DOLLAR

The front end reads a supply shock, and the Fed agrees

Gasoline accounts for more than half of the rise in September CPI and for more than 70% of the rise in retail sales; the control group grew by only 0.1%, against +0.3% expected. Michigan sentiment fell to 46.3, described as its lowest in at least fifty years, and average hourly earnings are up 3.02% year on year, the lowest in the series in our dataset. Our reading is that traders saw in these figures prices rising on stagnating volumes.

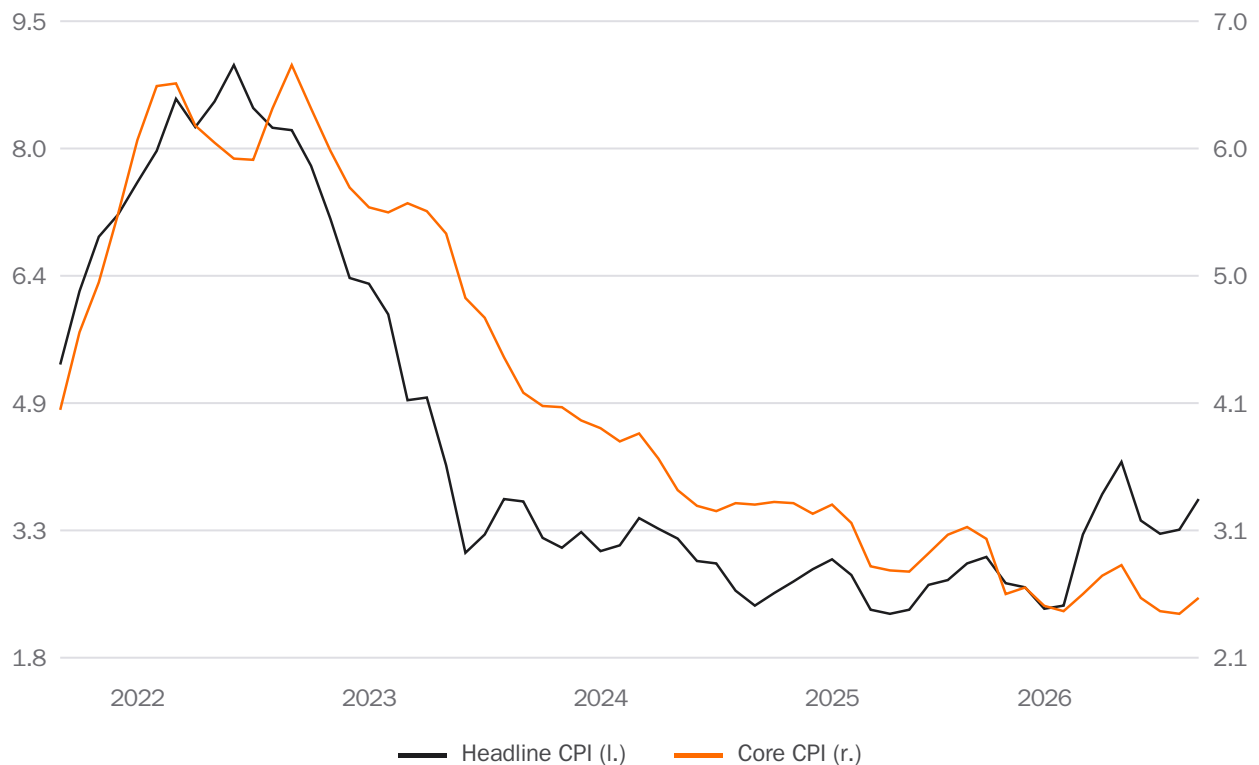
The Fed endorsed that reading. After the CPI, the probability of a hike on 28/10 climbed to 43.7%, then fell back towards 27-33% after remarks from Williams and Daly; Warsh then declined to "prejudge" the meeting. The Daily of 12/10 judged that a +0.3% core print would reopen October: core did come in at +0.3%, the door opened for half a session, then the Fed closed it.

The curve flattened by 9 bp, to 35 bp, through the long end. The 10-year real yield moves from a 2.93% September average to 2.74% in October, with the breakeven stable around 2.35%: investors bought back duration without revising their inflation expectations. The sell-off in AI stocks contributed, with the Nasdaq down 4.5% on the week according to a single source and the VIX at 22.

The regime has changed since September: the dollar used to rise with the 2-year yield; it is now capped by a Fed that promises hikes without setting a date. The closing high of 07/10, at 102.41, would only come back within reach if the 2-year returned towards its 4.92% peak of 28/09, and between now and 28/10 the US calendar holds only jobless claims, housing data, the flash PMIs and the final Michigan survey.

US inflation: headline CPI and CPI excluding food and energy

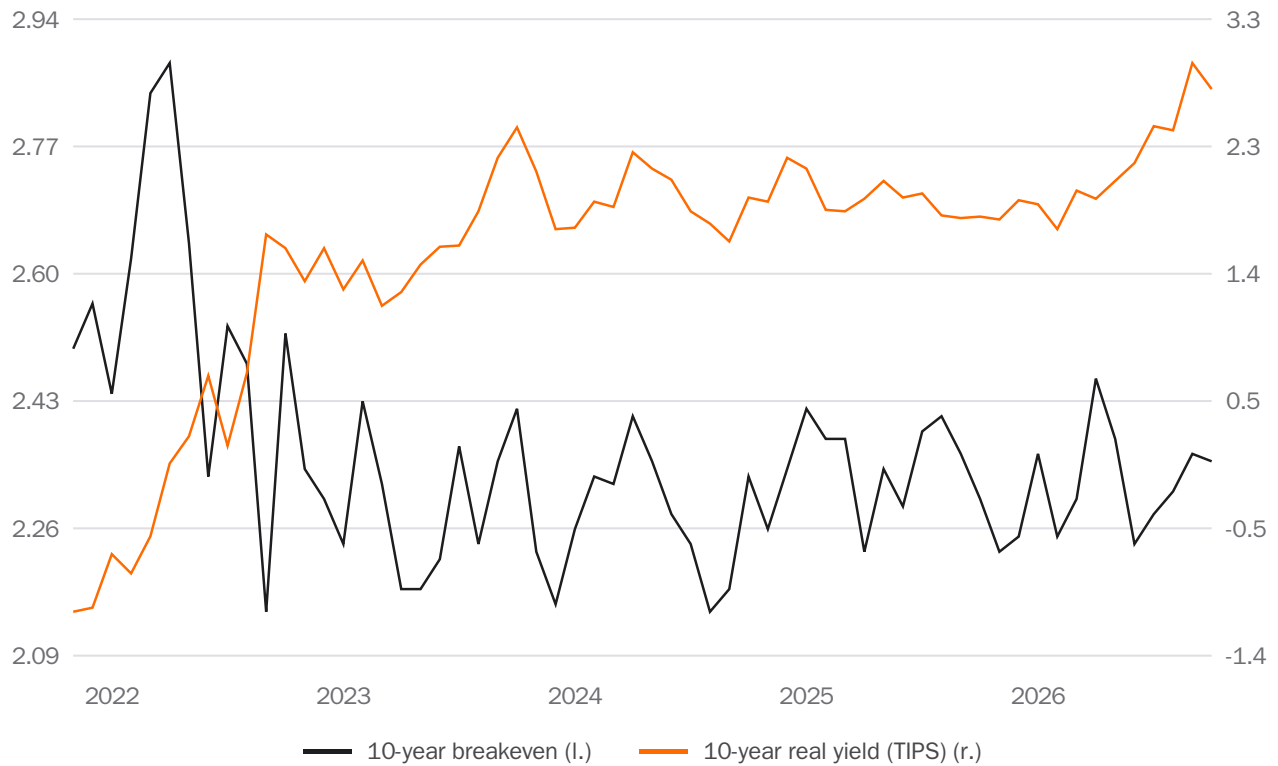
% year on year (l.), % year on year (r.)



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

10-year breakeven inflation and 10-year real yield

% (l.), % (r.)



Sources : [Federal Reserve](#) (T10YIE, DFII10), [Macro Edge Terminal \(5Y5Y panel\)](#) 01/10/2026.

Dollar index and US 2-year Treasury yield

points (l.), % (r.)



Sources : [ECB](#) (Macro Edge calculation), [US Treasury](#) (DGS2), [Macro Edge Terminal \(2A-FF panel\)](#) 16/10/2026.

Headline CPI and Core CPI. Headline CPI rises to 3.72% while core only moves from 2.45% to 2.57%. That gap of more than one point underpins the "supply shock" reading adopted by rates accounts and by the Fed.

10-year breakeven and 10-year real yield (TIPS). The 10-year breakeven has stayed between 2.23% and 2.46% over the past twelve months, while the real yield reached 2.93% in September. October's decline runs through the real yield, which suggests traders are not pricing lasting inflation.

DXY and US 2-year. The correlation between the dollar index and the 2-year yield falls to 0.13 over the period. In September the greenback rose with the front end; the 2-year yield is no longer enough to explain its moves.

OIL AND HORMUZ

Oil follows physical supply and ignores demand forecasts

The IEA and OPEC published opposing diagnoses of demand on the same day. The IEA expects a decline of 2.6 mb/d in 2026, the first since the pandemic, while OPEC still projects an increase of 0.2 mb/d, a gap of 2.8 mb/d. Crude buyers paid no attention: the Brent contract ended Friday at \$109.86 and touched \$110 intraday, a first since May, after at least nine attacks in the strait since early October and a missile fired near a major Saudi oil port. According to Kpler, 9.4 mb/d passed through Hormuz in the week ending 14/10, about 70% of the pre-war level.

The physical market is tighter than futures. EIA spot Brent stood at \$127.43 on 09/10, while the contract traded at \$103.18; we see this as a physical premium linked to scarce cargoes, without having found confirmation. Spot already exceeds the IMF's "severe" scenario, built on \$110 oil and global growth cut to 2.0%, and the contract touched that level on Friday. US commercial crude stocks fell by 8.6 mb to 415.6 mb, 3% below their five-year average.

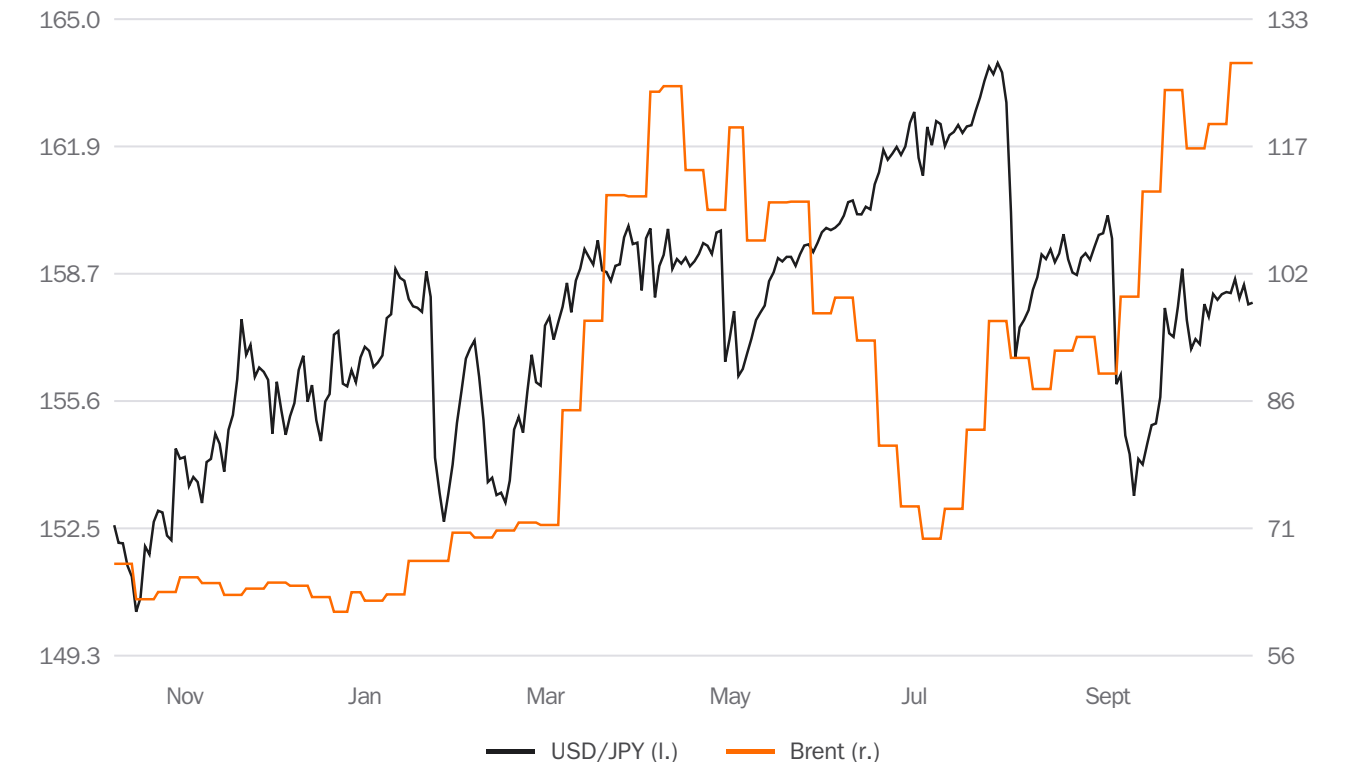
Trump's pledge not to strike Iran before 3/11 did not stop Brent from touching \$110: the attacks continue and the US blockade remains in place. For currencies, the thesis of the 14/10 Daily held for oil, which rebounded after its dip towards \$105, but not for the yen: lower US yields outweighed the energy bill, and USD/JPY slipped only 0.15% on the week. The oil channel would return to the fore if Brent stayed above \$110 just as the US front end stops falling; the euro and the yen would then be the most exposed.

Brent and WTI

\$ per barrel (l.), \$ per barrel (r.)Sources : [EIA](#) (spot prices), [Macro Edge Terminal \(OILFX panel\)](#) 09/10/2026.

USD/JPY and Brent prices

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



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 16/10/2026.

Brent and WTI. The gap between spot Brent (\$127.43) and WTI (\$96.88) reached about \$30 on 09/10, an exceptional level. It suggests a shortage concentrated on Gulf-exposed cargoes rather than general tightness in crude.

USD/JPY and Brent. At 0.26, the correlation between USD/JPY and Brent is the strongest of the three pairs tracked against oil (−0.09 for EUR/USD, −0.01 for USD/CAD). The yen remains the currency most exposed to a further rise in oil.

EURO AREA

The ECB lets long-term yields do the work, Paris sets the price of the euro

September inflation of 3.8%, the highest since September 2023 and 0.2 point above consensus, should have made the ECB more hawkish. Yet the market prices a hold on 29/10 at about 99%, and 70 of 73 economists polled by Reuters expect one. Lagarde warned at the end of September that the rise in long-term yields "will slow growth and reduce pass-through" by more than projected. With core

at 2.5% and no second-round effects, the ECB can wait: 64 of 73 economists place the next hike in December.

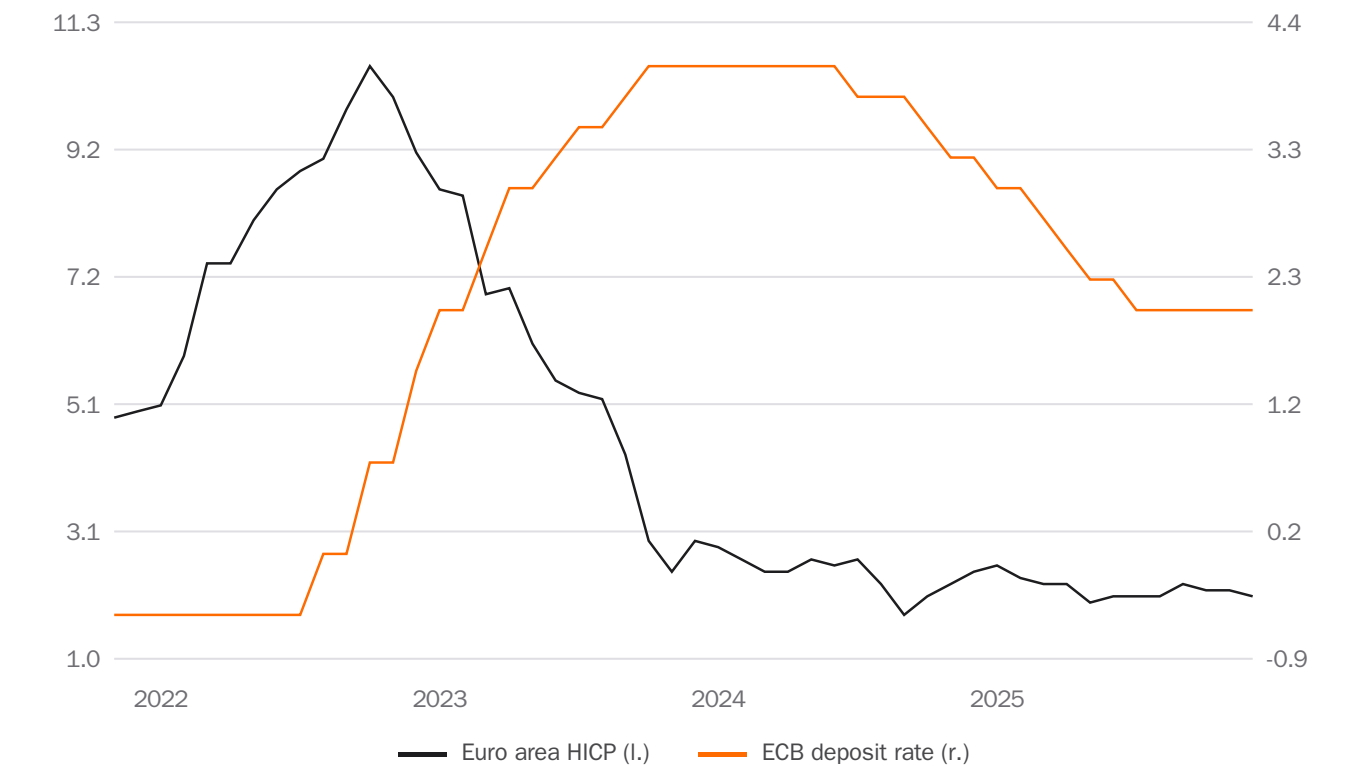
The 14/10 Daily cited pricing of about 60% for a hike on 29/10. That figure dated from 24/09 and this week's data contradict it. The correction supports our bearish bias on the euro: the ECB offers the currency no rate support before December.

That bias was only half wrong. EUR/USD gained 0.42%, its first weekly rise after five weeks of decline, but EUR/GBP lost 0.45% and the euro also slipped against the franc: the rebound belongs to the dollar. The 10-year OAT is approaching 5% and its spread over the Bund, around 132 bp, is at its widest since 2012, after widening by more than 60 bp since August (16/10 closing level not verified).

The coming week concentrates French risk. On Tuesday 20/10 the National Assembly votes on the first part of the 2027 budget bill (PLF), which the finance committee rejected by 31 votes to 3; Moody's is due to review France's rating on Friday 23/10 (date to be confirmed; current rating and outlook not verified). The social security financing bill (PLFSS) follows on 27/10. Until these votes, our reading is that the euro will track the OAT-Bund spread more than HICP.

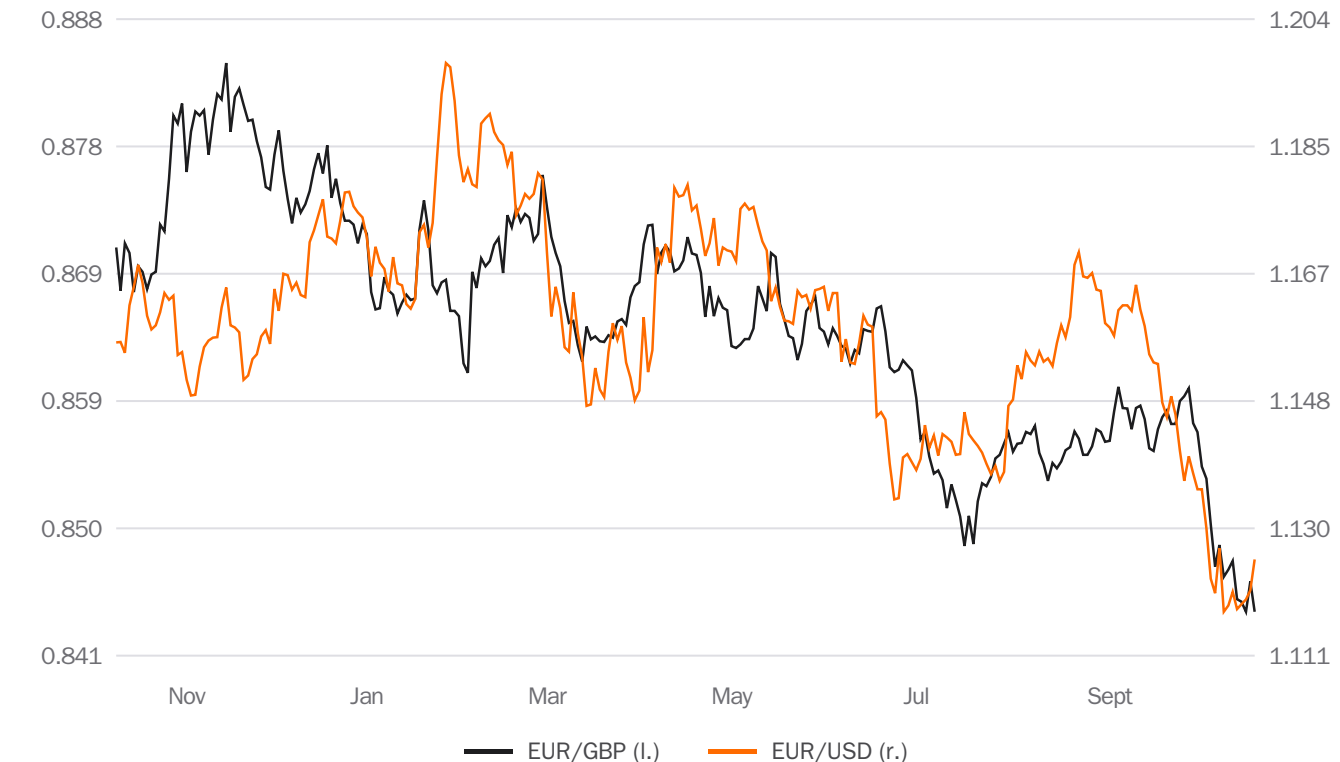
Euro area inflation (HICP) and the ECB deposit rate

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



Sources : [Eurostat](#) (prc_hicp_manr), [ECB](#) (ECBDFR), [Macro Edge Terminal \(OFFI panel\)](#) 01/12/2025.

EUR/GBP and EUR/USD

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

Sources : [ECB](#), [Macro Edge Terminal \(FORCE panel\)](#) 16/10/2026.

Euro area HICP and ECB deposit rate. The deposit rate has risen from 2.00% to 2.50% since June, but the HICP series in our dataset ends in December 2025, at 2.0%. The September flash, at 3.8%, falls outside the chart: it exceeds the deposit rate by 1.3 points, a gap the ECB is leaving long-term yields to narrow.

EUR/GBP and EUR/USD. EUR/GBP fell from 0.8476 to 0.8438 over the week while EUR/USD rebounded. This divergence isolates a weakness specific to the euro, which the rebound against the dollar masks.

MONTH-END

Fed, ECB and BoJ approach month-end priced for a pause while talking of hikes

The three meetings follow one another from 28 to 30/10 and all are priced for a pause: about a 28% chance of a hike for the Fed according to an aggregator (CME FedWatch not consulted), about 1% for

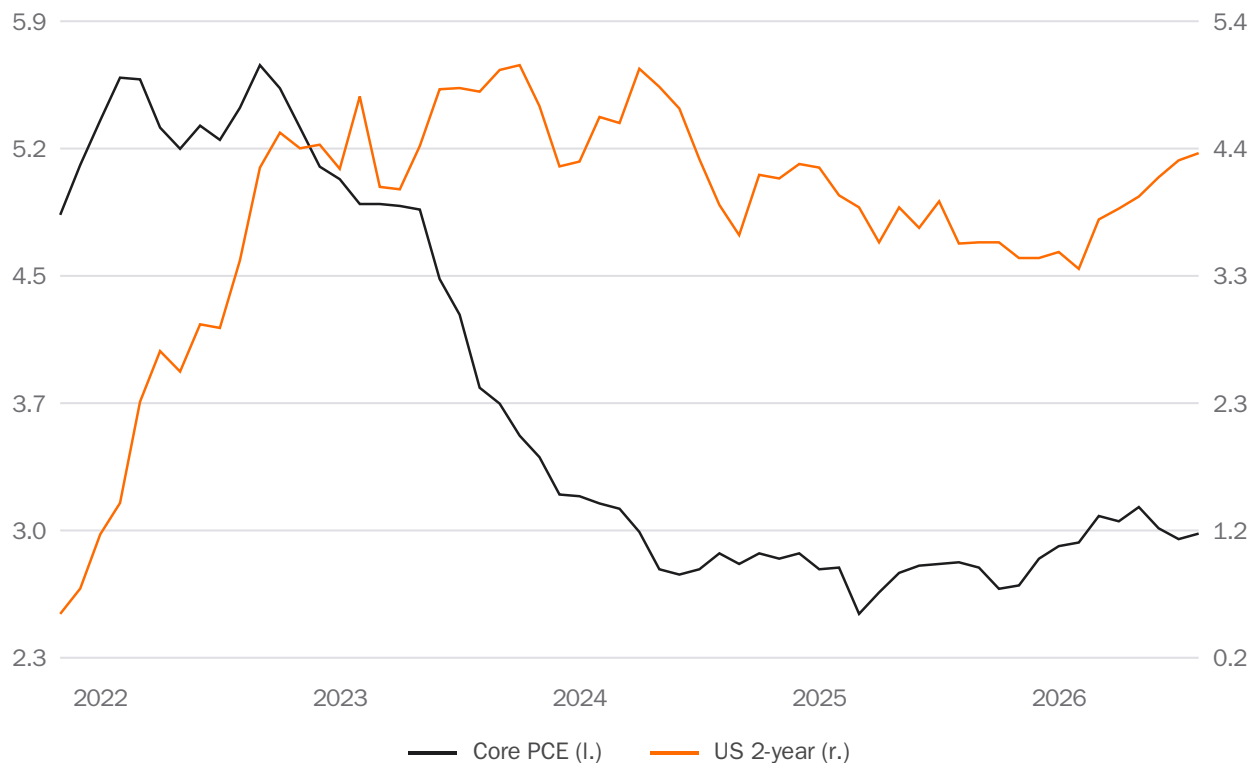
the ECB, about one in four for the BoJ based on OIS from 06/10, not updated. Yet all three signal further hikes: the risk of surprise is hawkish on all three sides.

On the Fed side, the 14/10 Beige Book adds an argument to those in the September minutes: three districts describe a "robust" rise in prices, against one in August, and four an acceleration, against one, with costs driven by energy, transport and tariffs rather than by demand. Core PCE, at 3.01% in August, still exceeds core CPI by about 44 bp. A hike six days before the midterm elections nonetheless remains difficult, and our central scenario does not include one.

The BoJ looks to us the most likely to surprise. Its rate stands at 1.25%, Ueda says the Bank intends to "continue" raising it, and board member Koeda has warned against excessive caution. USD/JPY briefly moved towards 157.5 after remarks by Deputy Governor Uchida, a measure of the pair's sensitivity to a signal from Tokyo. National CPI on 23/10, expected at 2.9% excluding fresh food after three slowdowns, will provide the final argument. At 158.02, USD/JPY prices little of this risk.

Core PCE and US 2-year Treasury yield

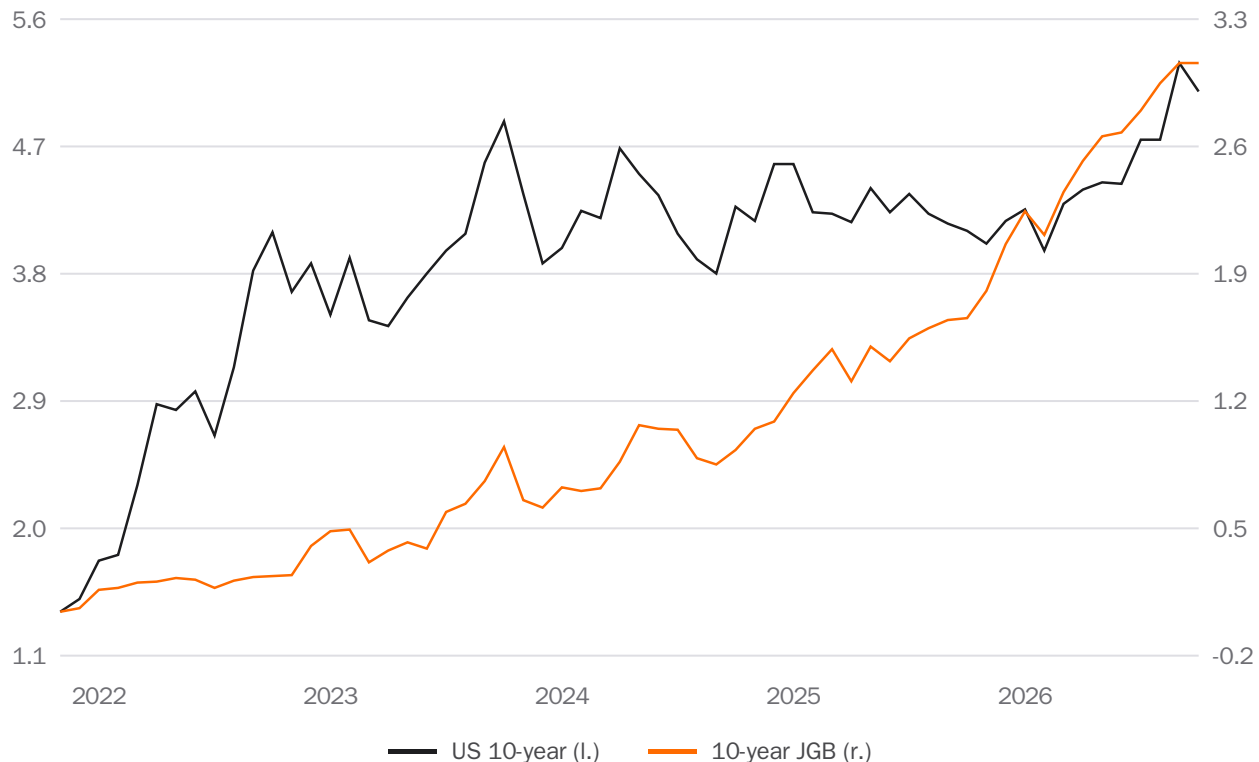
% year on year (l.), % (r.)



Sources : BEA (PCEPILFE), US Treasury (DGS2), Macro Edge Terminal (IMPLIED panel) 01/08/2026.

10-year sovereign yields: United States and Japan

% (l.), % (r.)



Sources : [US Treasury](#) (DGS10), [OECD](#) (IRLTLT01JPM156N), [Macro Edge Terminal \(SPRDS panel\)](#) 01/10/2026.

Core PCE and US 2-year. Core PCE has hovered around 3% since March while the 2-year yield rose from 3.79% to 4.74% on a monthly average basis. The front end has already priced part of the cycle, which limits its room to rise without a pick-up in PCE.

US 10-year and 10-year JGB. The 10-year JGB yield has risen by more than 2 points in two years, to 3.05% in September, but the spread to Treasuries is still 224 bp. A BoJ hike on 30/10 would narrow this differential just as US long-term yields are falling.

CANADA, PACIFIC, CHINA

Local jobs drive commodity currencies, China takes a back seat

Canada lost 68,000 jobs in September, a second consecutive decline, and the participation rate fell to 64.8%, its lowest since December 1997 excluding 2020. With Brent above \$100, the CAD should have benefited from its terms of trade; yet USD/CAD has gained 1.59% over a month, and its 0.46% fall this

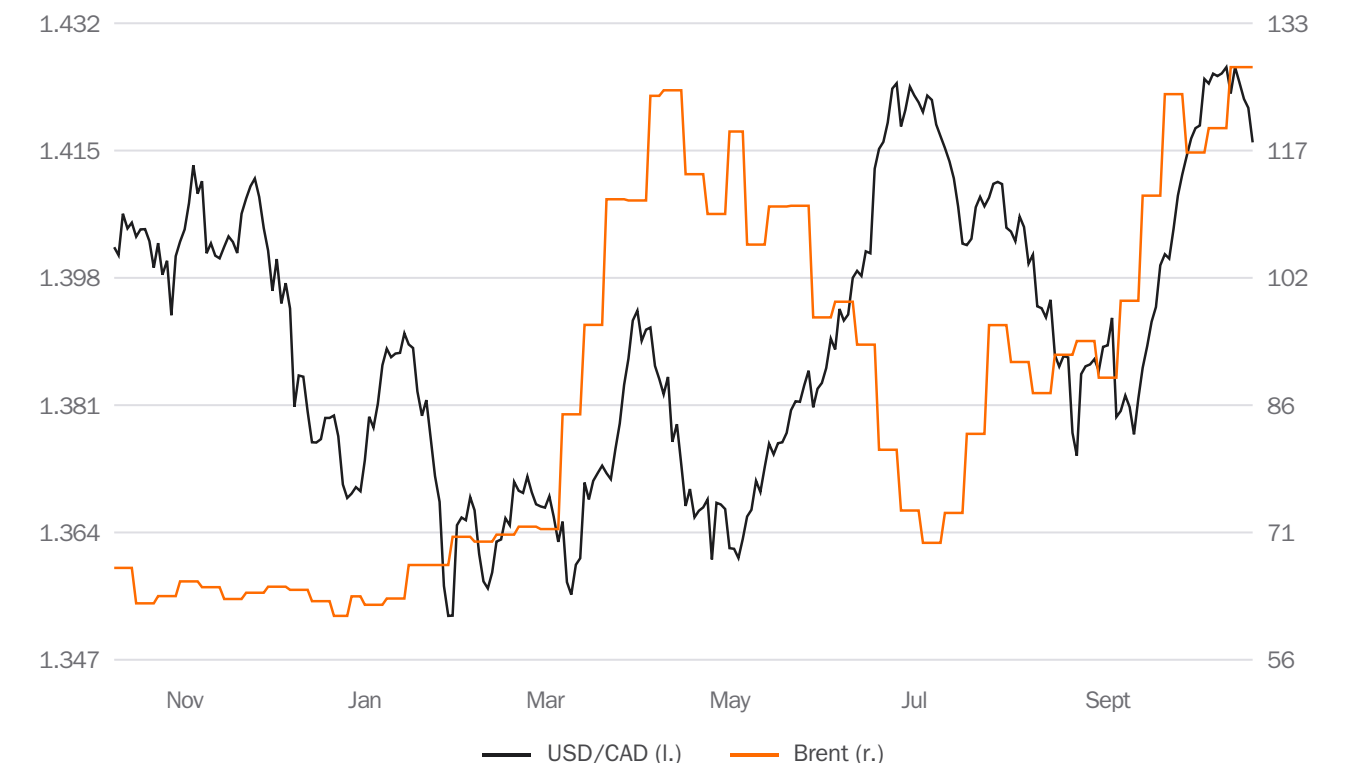
week reflects the dollar's retreat. The BoC, at 2.25%, decides on 28/10 alongside its Monetary Policy Report; Monday's CPI will show whether energy prevents it from ignoring employment.

In Australia, employment fell by 39,300 against +19,600 expected. AUD/USD touched 0.6911 on 15/10 before ending the week down 0.32%: our bearish bias of 15 and 16/10 is confirmed, narrowly. The RBA, at 4.60% according to a secondary source, now has only an 18% chance of hiking on 3/11 on Polymarket, a measure that is not OIS pricing; Q3 CPI on 28/10 will settle the matter.

China offers support that neither currency is cashing in on. September exports jumped 36.3% year on year, against 25.5% expected, and the PBoC fixed the yuan at 6.7220 on Friday, its strongest level since February 2023. Q3 GDP, expected on Monday at 4.4%, below the official range of 4.5 to 5%, will be the first test of this channel. The NZD, up 1.13% on Friday, benefited from the risk rebound more than from China; its Q3 CPI, expected at 3.7% year on year against 4.1%, is due on the evening of 21/10, Paris time (to be confirmed).

USD/CAD and Brent prices

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



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 16/10/2026.

USD/CAD and Brent. The correlation between USD/CAD and Brent is zero (-0.01) over the period. Oil gained 28.6% in a month without supporting the loonie.

ENERGY, METALS, AGRICULTURE

Commodities premières

— Gold

Spot gold ends the week around \$4,166 an ounce, below its September average (\$4,335) and 17% below February's (\$5,015), even though the war in the Gulf and the equity sell-off should have supported safe-haven demand. The 10-year real yield, at 2.74% in October after a September peak of 2.93%, the highest in the series, makes the metal costly to hold. Friday's fall in the dollar and in yields produced only a flat session. Central bank purchases in 2026 could not be verified.

Effect on currencies Gold did not act as a hedge this week: demand for protection went to the franc and the yen. A fall in the real yield below 2.5% would restore that role; over the period, its correlation with the dollar index remains -0.49.

Bias Neutral

CURRENCY BY CURRENCY

Our readings by currency

➤ GBP · Sterling benefits from a BoE that can still hike

Sterling gains 0.87% against the dollar, to 1.3335, almost as much as the NZD (+0.89%), and advances against the euro. Our bearish bias of 16/10 was wrong from the first session, with the pair gaining 0.67% that same day. BoE staff see inflation rising towards 3¾% in Q4 and slightly above 4% in early 2027, with Bank Rate held at 3.75% in September: the Bank retains room to hike.

September CPI, on Wednesday 21/10 at 08:00, will measure the pass-through of energy, after 3.1% in August and core at 2.6%. Pricing for the November meeting could not be verified, which limits our confidence.

Bias Haussier · confidence faible

Invalidation September CPI at 2.9% or below, or a return of EUR/GBP above 0.8476, its 09/10 level.

➤ CHF · The franc resumes its safe-haven role under the SNB's watch

Alongside the NZD, the franc was the best-performing G10 currency against the dollar on Friday (USD/CHF -0.75%, to 0.8240), which confirms our bullish bias of 16/10. Over the year, however, USD/CHF is up 3.95% despite the war: according to UBS and OCBC, the SNB intervenes reactively to curb appreciation driven by safe-haven flows. The franc's upside therefore depends on the SNB's tolerance more than on demand for protection.

Bias Haussier · confidence average

Invalidation A return of USD/CHF above 0.8334, the week's closing high, or a lasting stabilisation in semiconductor stocks.

THE SCENARIOS

What could happen

Central scenario: a range-bound dollar, a euro hanging on Paris

The Fed blackout and scarce US data keep the dollar index between 101.7, its Friday level, and its high of 102.41. The euro stays weighed down by the budget votes and Moody's, and sterling follows its CPI.

October Fed pricing stable around 25-30% → Dollar index between 101.7 and 102.4 → EUR/GBP driven by the OAT-Bund spread and UK CPI

Hormuz revives imported inflation

Further attacks keep the Brent contract above \$110; inflation expectations rise and the US front end reprices an October hike.

Brent > \$110 → Breakevens ↑, US 2-year ↑ → USD supported against EUR and JPY → CAD little affected

The AI sell-off spreads

Tesla and Meta earnings extend the decline in tech stocks; demand for Treasuries pushes long-term yields down further.

Nasdaq ↓, VIX > 22 → US 10-year ↓ → CHF and JPY ↑, AUD and NZD ↓ → Dollar lower against safe havens

French budget accident

A rejection of the first part of the budget bill (PLF) on 20/10, followed by negative action from Moody's on 23/10, widens the OAT-Bund spread further.

OAT-Bund spread > 132 bp → EUR ↓ against GBP and CHF → EUR/USD towards 1.1112, a support level identified by technical analysis

PARIS TIME

The agenda ahead

Date	Event	What's at stake	FX sensitivity
lun. 19/10	China: Q3 GDP and September activity data (04:00)	Consensus 4.4% after 4.3%; yuan, AUD, NZD, oil demand	● ● ●
lun. 19/10	Canada: September CPI (14:30)	BoC's room for manoeuvre after -68,000 jobs	● ● ●
mar. 20/10	France: formal vote on the first part of the 2027 budget bill (PLF)	OAT-Bund spread and EUR after the rejection in committee	● ● ●
mer. 21/10	United Kingdom: September CPI (08:00)	August at 3.1%, core 2.6%; GBP and the November BoE meeting	● ● ●
mer. 21/10	New Zealand: Q3 CPI (23:45, to be confirmed)	Westpac expects 3.7% year on year after 4.1%; NZD	● ● ●
ven. 23/10	Japan: September national CPI (01:30)	Core expected at 2.9% after 2.7%; BoJ meeting on 30/10	● ● ●
ven. 23/10	October flash PMIs: euro area, United Kingdom, United States, Japan, Australia	First signal on October activity	● ● ●
ven. 23/10	Moody's: review of France's rating (to be confirmed)	EUR and OAT	● ● ●
mer. 28/10	FOMC (19:00); BoC and Monetary Policy Report (14:45); Australian Q3 CPI	Fed hold priced at around 72%; USD, CAD, AUD	● ● ●
jeu. 29/10	ECB	Hold priced at around 99%, guidance on December; EUR	● ● ●

Date	Event	What's at stake	FX sensitivity
ven. 30/10	BoJ (Ueda press conference at 08:30)	Hike priced at around 25% (OIS of 06/10); JPY	● ● ●

OUR CONVICTIONS

And what would contradict them

Conviction	Invalidation
The dollar will not regain its 07/10 high before the FOMC: without major US data, the front end has no catalyst to move higher.	A close of the Macro Edge dollar index above 102.41, or the 2-year yield back above 4.85%.
The CAD will not benefit from oil above \$110 as long as Canadian employment is contracting.	USD/CAD below 1.40 without a further fall in the dollar index, or a Canadian CPI print that leads the market to price a BoC hike on 28/10.
Of the three month-end meetings, the BoJ's carries the greatest risk of a hawkish surprise for currencies.	Japanese CPI excluding fresh food at 2.7% or below on 23/10.

IN SHORT

What you need pick

The Fed treated September's inflation surprises as a supply shock and the front end followed: as long as the 2-year yield stays below 4.85%, we see the dollar index capped between 101.7 and 102.41 until the FOMC. This week's moves will come from elsewhere: the 20/10 vote and Moody's for the euro, the 21/10 CPI for sterling, Brent above \$110 for the yen. Of the three month-end central banks, the BoJ has the most reason to defy its pause pricing.

SOURCES

1. Federal Reserve, [Beige Book, October 2026](#) (figures as reported by investingLive), 14/10/2026.
2. ABA Banking Journal, [FOMC minutes show another rate increase possible](#), 10/2026.
3. investingLive, [Warsh won't prejudge rest of 2026, names October and December as decision points](#), 16/10/2026.
4. First Trust, [The Consumer Price Index \(CPI\) rose 0.6% in September](#), 14/10/2026.
5. First Trust, [The Producer Price Index \(PPI\) rose 1.3% in September](#), 15/10/2026.
6. Advisor Perspectives, [September retail sales better than expectations](#), 15/10/2026.
7. RTÉ / Reuters, [ECB interest rates poll](#), 08/10/2026.
8. The Star / Reuters, [Lagarde: higher energy prices raise euro area inflation risks](#), 29/09/2026.
9. Il Sole 24 Ore, [France: 10-year OAT yields edge towards 5 per cent ahead of Lecornu's 2027 budget](#), 10/2026.
10. NosParlementaires, [Budget 2027: timetable at the National Assembly](#), 10/2026.
11. Bank of England, [Bank Rate maintained at 3.75% – September 2026 Monetary Policy Summary and Minutes](#), 09/2026.
12. Nikkei Asia, [BOJ hikes rates to 1.25% as chief Ueda cites shift in policy phase](#), 2026.
13. Bloomberg, [Ueda Does Little to Challenge Bets Against October BOJ Hike](#), 06/10/2026.
14. ABS, [Labour Force, Australia, September 2026](#), 15/10/2026.
15. The Hub (Statistics Canada), [Canada shed 68,000 jobs in September, Statistics Canada reports](#), 09/10/2026.
16. IEA (via Yahoo Finance), [IEA says global oil demand to fall in 2026 for first time since pandemic](#), 14/10/2026.
17. OPEC (via The Star / Reuters), [Global oil demand to see slower growth in 2026: OPEC report](#), 14/10/2026.
18. NBC News, [Trump's pledge not to strike Iran before midterms fails to soothe oil markets](#), 10/2026.
19. IMF (via Gulf News), [IMF lowers 2026 global growth forecast as war threatens oil supply, inflation](#), 10/2026.
20. NBC News, [China September exports soar, putting \\$1 trillion trade surplus in sight](#), 10/2026.
21. Kitco / Reuters, [Nasdaq slides near one-month low as AI rout deepens](#), 15/10/2026.
22. UBS, [Swiss franc and SNB intervention](#), 2026.
23. Yahoo Finance, [Gold price today, Friday, October 16, 2026](#), 16/10/2026.

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, 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 and keeps learning every day. 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.