

FX WEEKLY · 25 OCTOBER 2026

The G10 tightens and redraws the **hierarchy** against the dollar

By Walid Qairmi, Macro Edge, written by AI

Our dollar index ended the week at 101.80, against 101.71 on 16 October; behind that stability, the ranking of G10 currencies has changed. Traders have started pricing rate hikes outside the United States again: the probability of a BoC hike on 28 October rose from 18 to 34% at the start of the week to nearly 80%, that of an RBA hike on 3 November more than doubled, and the BoE remains priced at around 90% for 5 November. The Canadian dollar, the AUD and sterling gained against the greenback; the greenback rose only against the euro, held back by France, by an ECB on pause and by oil, and, by 0.05%, against the franc. The US PMIs refuted on the 23rd the growth scare priced the day before. What comes next hinges first on 28 October, on Warsh's tone about December, then on the 29th with the September PCE.

CENTRAL BANKS

The BoC, the RBA and the BoE take over from the Fed, and the dollar index hides it

The DX gained 0.09% on the week, while USD/CAD lost 1.17%, AUD/USD rose 0.91% and GBP/USD 0.25%. The greenback rose only against the euro (EUR/USD -0.53%), whose weight in the index is enough to offset the rest. Meanwhile, the US 2-year stayed between 4.65% and 4.84% throughout October. The week confirms the thesis of the FX Daily of 21 October, a dollar that is "losing its monopoly on tightening", and invalidates our bearish bias of 19 October on the loonie.

The BoC saw the largest repricing. The Canadian September CPI (3.1% against 3.2% expected, 2.2% excluding gasoline) did not justify such a move; August retail sales (+1.2% on the month) and the preliminary September estimate (+0.7%) triggered it. Swaps now give a 78 to 80% chance of a move from 2.25% to 2.50%, and 19 of the 34 economists polled by Reuters expect it. USD/CAD has fallen in every session since 12 October, from 1.4262 to 1.3995, posting its largest weekly fall since April. BBH

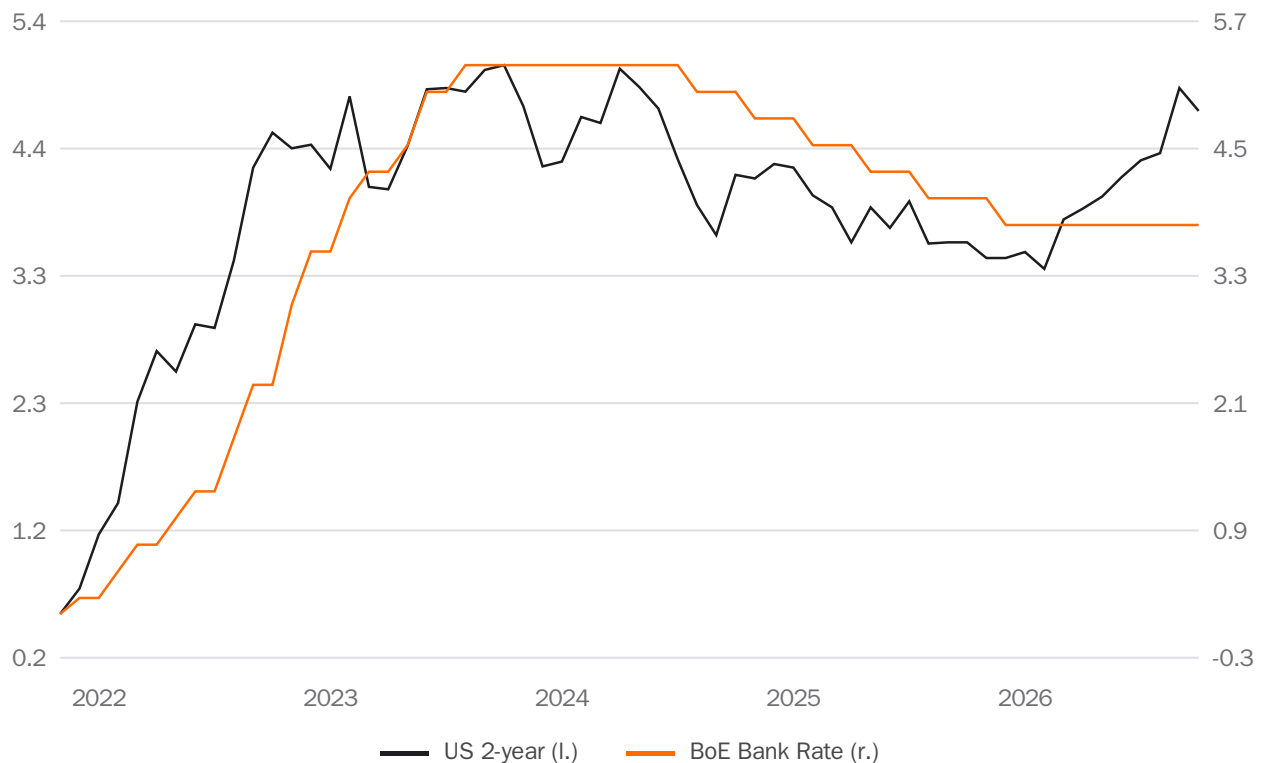
regards this pricing as excessive. We share the reservation about what follows: Wednesday's hike is priced in, and the Monetary Policy Report will have to justify a second move.

The RBA is on the same path. After Hauser's speech on 21 October, which judged the inflation outlook worse than expected, the probability of a hike to 4.85% rose from around 20% to 50-60%, depending on the source. The AUD rose despite the risk-off of 22 October, helped at the margin by Chinese third-quarter GDP at 4.5% year on year, above the 4.4% expected. Our bearish bias of 16 October on the AUD was wrong: the rate differential weighed more than equity beta. The quarterly CPI on 28 October will show whether this pricing still has room to run.

The Fed will not move before December. In the Reuters poll conducted from 16 to 20 October, 94 of 100 economists expect no change on Wednesday and 100 of 100 a hike in December, against fewer than half the previous month. Until then, the BoC, the RBNZ, the RBA and the BoE can all hike, the last on 5 November: each decision narrows the greenback's rate advantage against these four currencies.

US 2-year yield and the Bank of England's Bank Rate

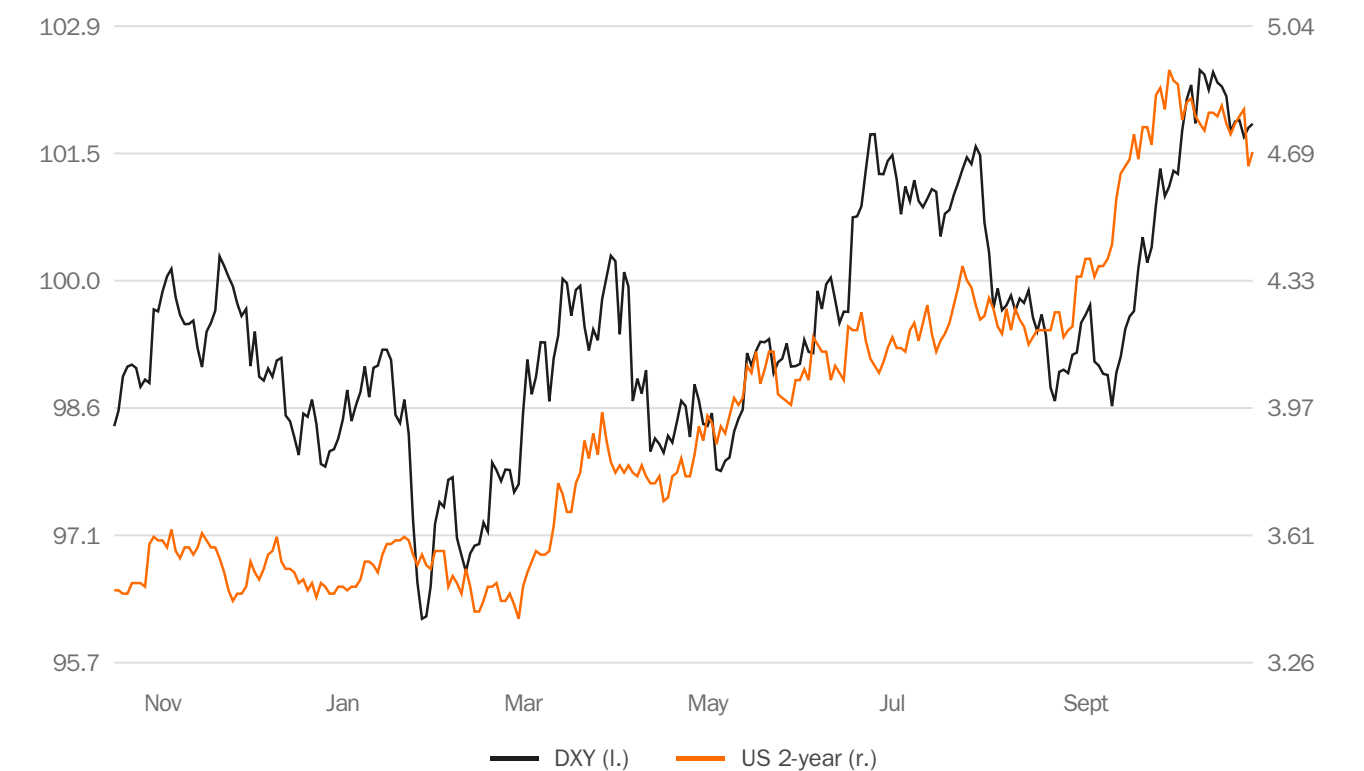
% (l.), % (r.)



Sources : US Treasury (DGS2), Bank of England, Macro Edge Terminal (IMPLIED 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 \(2A-FF panel\)](#) 23/10/2026.

US 2-year and BoE Bank Rate. The US 2-year, at 4.69% in October, remains nearly one point above a Bank Rate unchanged at 3.75%. A BoE hike on 5 November would narrow that gap by 25 bp, and sterling has started to anticipate it.

DXY and US 2-year. The correlation between the dollar index and the 2-year is only 0.14 over the period. On 22 October, the 2-year lost 16 bp and the DXY gained 0.10%: the explanation for currency moves lies outside the United States.

UNITED STATES

22 October was a false growth alarm

On Wednesday the US curve priced a growth scare that the data did not confirm. After the sell-off in AI-related stocks that followed Meta's results, the 2-year lost 16 bp, to 4.65%, and the 10-year 17 bp, to 4.96%. The next day, S&P Global's flash composite [PMI](#) came in at 57.6, its second-highest level since March 2022, and manufacturing at 56.0, its highest since May 2022. Williamson, at S&P Global, sees it as consistent with annualised growth close to 5% in the fourth quarter, with employment rising at its second-fastest pace in more than four years. The 2-year regained 4 bp, to 4.69%.

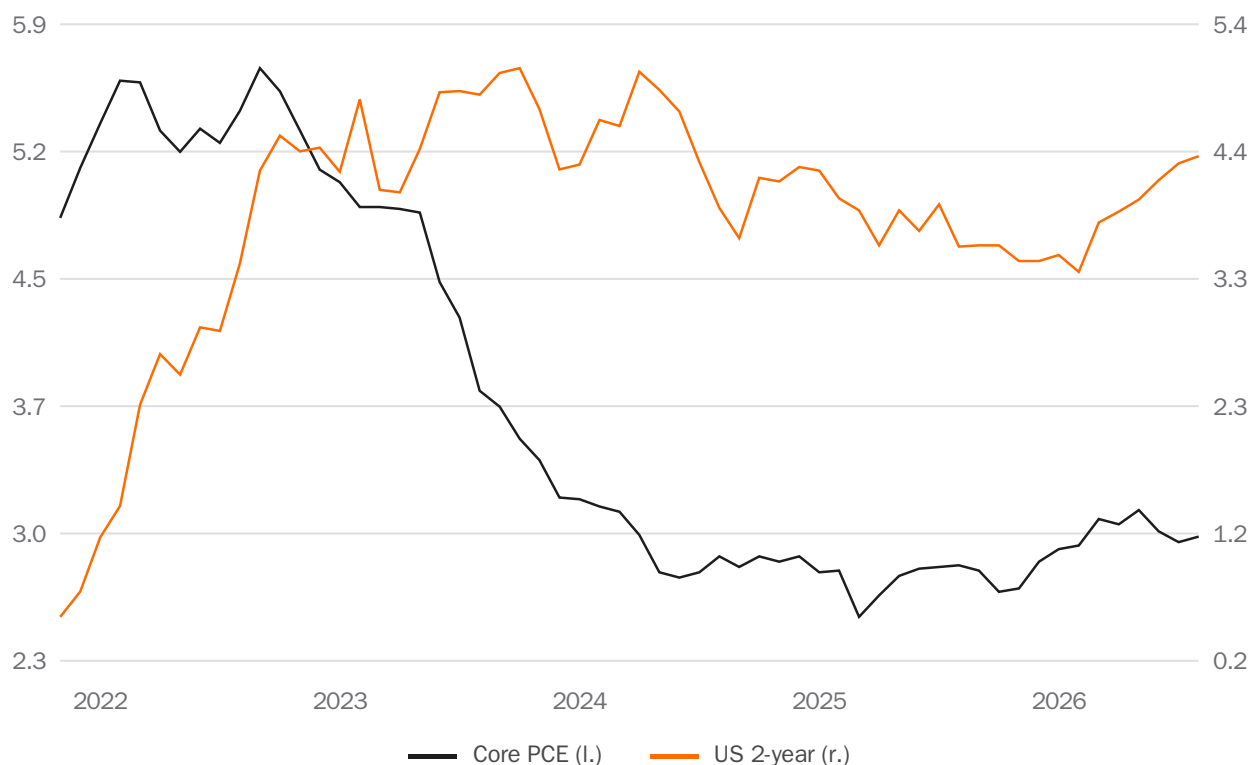
For the Fed, the most useful figure in the survey concerns selling prices, which are rising at the fastest pace since August 2022. The final October Michigan survey points the same way: sentiment at 48.0, a five-month low, and one-year inflation expectations of 4.7% according to early reports, a figure we have not been able to verify against the university's document. Consumers worried about prices and companies raising them suggest second-round effects in the making. The Fed will have to gauge them in December, which Warsh, together with October, counts among the moments of "crystallisation".

The thesis of the FX Daily of 23 October, a dollar "decoupling from its rates", comes out half validated. The first half holds: the greenback did not follow the fall in the 2-year. The second, a curve pricing a lower path beyond December, lacks support, since the PMIs point the other way. The 2-10-year slope flattened to +31 bp, against +35 bp on 16 October; we see it as duration buying rather than expected rate cuts.

The September PCE, published on Thursday, the day after the FOMC, will settle it. The consensus expects 3.6% year on year for the headline, after 3.42% in August, and 3.1% for the core, after 3.01%. Headline PCE would then stay above 3% for the seventh consecutive month.

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.

US average hourly earnings and core CPI

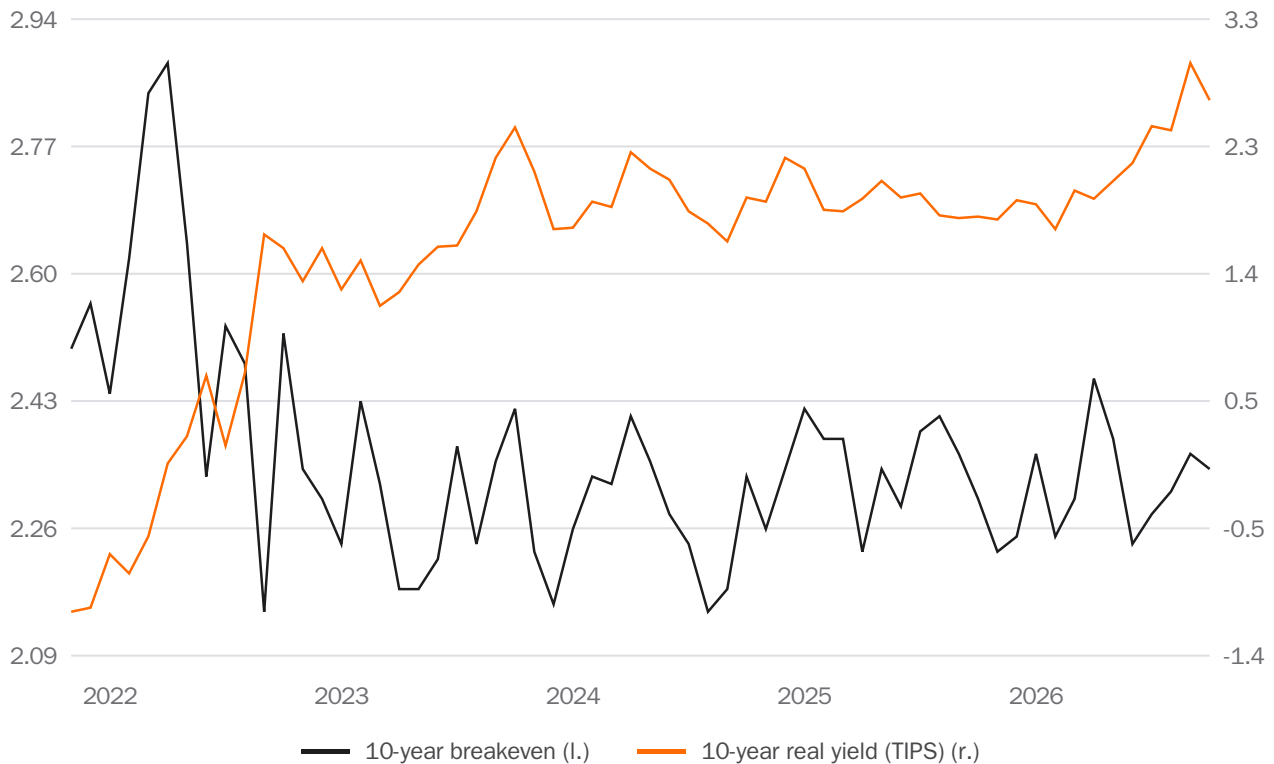
% year on year (l.), % year on year (r.)



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

10-year breakeven inflation and 10-year real yield

% (l.), % (r.)



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

Core PCE and US 2-year. Core PCE has hovered around 3% since March, and the 2-year rose from 3.38% in February to 4.88% in September on a monthly average. Its retreat to 4.69% in October comes without any decline in the reference inflation measure, which leaves little room for a lower Fed path.

Average hourly earnings and Core CPI. Hourly earnings slowed from 3.73% in December 2025 to 3.02% in September, the lowest in the series, while core CPI rose back to 2.57%. A Fed wishing to look through energy would find its best argument here, and December pricing its main weakness.

10-year breakeven and 10-year real yield (TIPS). The 10-year breakeven remains around 2.34% in October, while the real rate eased from 2.93% in September to 2.66%. The decline in long-term yields is coming through the real rate: rates accounts have not revised their view on prices.

EURO AND FRANCE

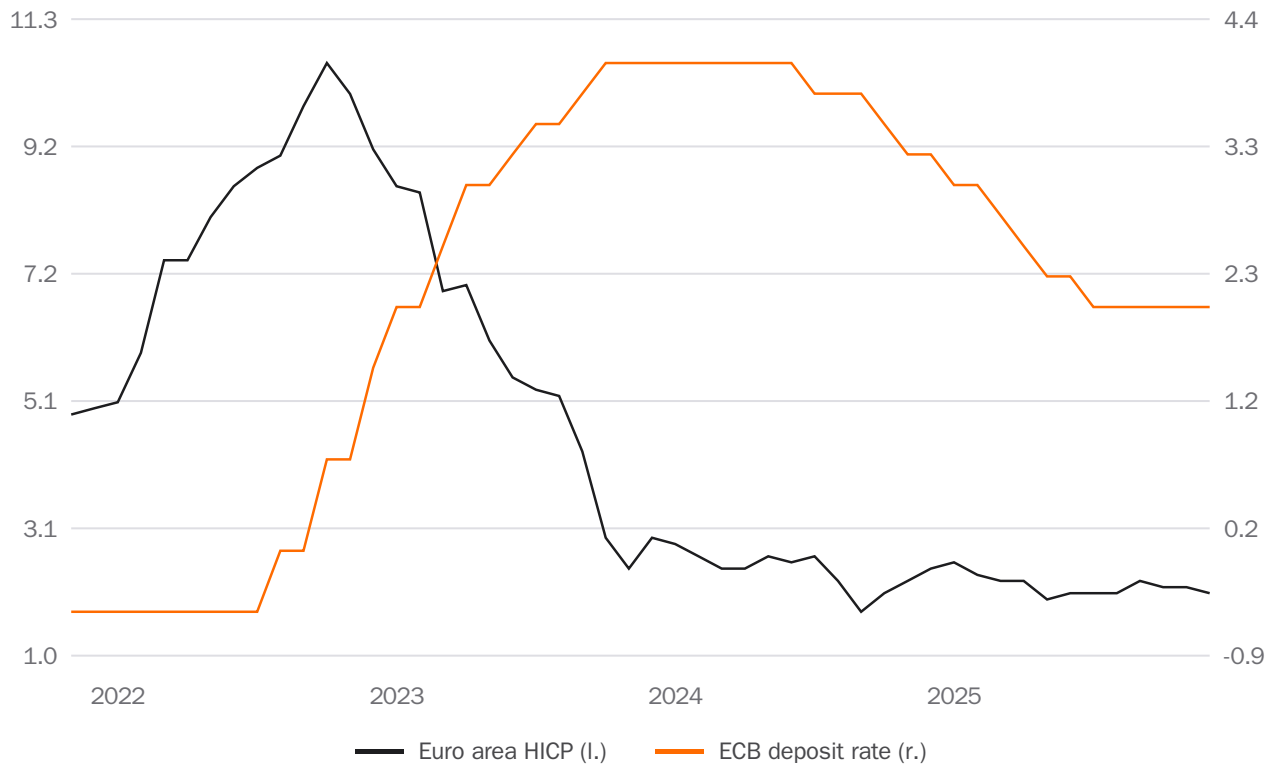
The euro funds other central banks' tightening, and Moody's grants it a reprieve

September HICP was confirmed at 3.8%, the highest since September 2023, but the ECB remains priced for a pause on 29 October, at 2.50%, then for a final hike on 17 December. The October flash composite PMI fell to 51.9 against 52.7 expected; France slipped back into contraction, at 48.4, while Germany held at 52.8. The gap with the US composite reaches 5.7 points. With an ECB on hold until December and a BoC, an RBA and a BoE that can hike this week or next, traders are selling the euro to fund positions in those currencies: EUR/GBP fell in every session, from 0.8438 to 0.8373.

The French premium has added to this rate disadvantage. An aggregator puts the 10-year OAT-Bund spread at around 170 bp on 23 October, against 135 bp on the 15th and 95 bp in mid-September; no primary source corroborates the week's jump, and we treat it as an order of magnitude. On Friday evening, after our data cut-off, Moody's kept France's rating at Aa3 with a negative outlook, whereas most analysts expected a downgrade to A1. The agency makes this affirmation conditional on a 2027 budget that reduces the deficit, projected at 5.4% of GDP in 2026 and targeted at 5.0% in 2027.

The reprieve removes a tail risk, but the budget has yet to be voted. The formal vote on the revenue section of the 2027 finance bill, postponed to Tuesday 27 October with more than 2,000 amendments outstanding, will be the first test: a rejection would reopen the spread despite Moody's, facing a government without an absolute majority. Against the dollar, positioning limits the downside, since the net speculative short on the euro reached 138,000 contracts as of 13 October, a ten-year high. The euro's weakness should therefore show first against sterling, the loonie and the AUD.

Euro area inflation (HICP) and the ECB deposit rate

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

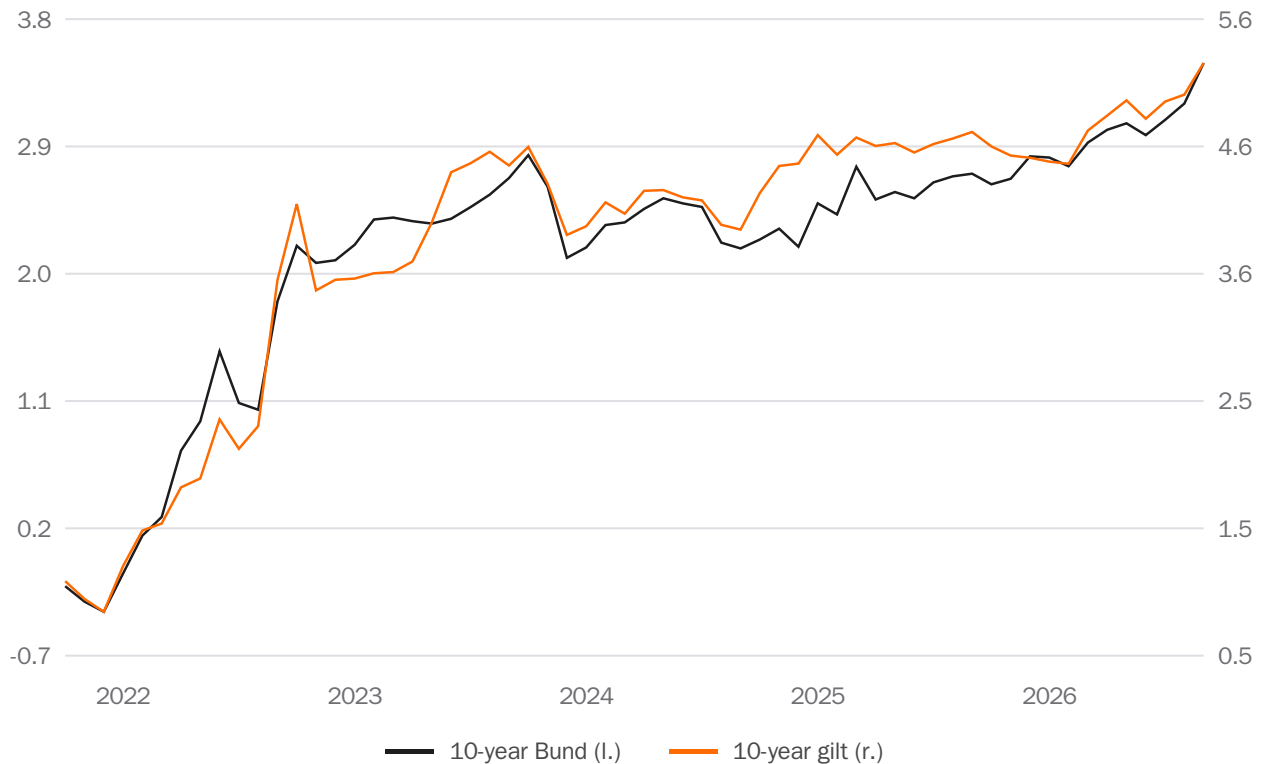
Sources : [Eurostat](#) (prc_hicp_manr), [ECB](#) (ECBDFR), [Macro Edge Terminal \(OFFI panel\)](#) 01/12/2025.

EUR/GBP and EUR/USD

pounds per euro (l.), dollars per euro (r.)Sources : [ECB](#), [Macro Edge Terminal \(FORCE panel\)](#) 23/10/2026.

10-year sovereign yields: Germany and the United Kingdom

% (l.), % (r.)



Sources : [OECD](#) (IRLTLT01DEM156N, IRLTLT01GBM156N), [Macro Edge Terminal \(SPRDS panel\)](#) 01/09/2026.

Euro area HICP and ECB deposit rate. The ECB has raised its deposit rate from 2.00% to 2.50% since July, while HICP went from 3.2% in August to 3.8% in September. A pause with inflation at 3.8% and core at 2.5% shows an ECB looking through energy, unlike the BoE and the BoC.

EUR/GBP and EUR/USD. EUR/GBP lost 2.59% in a month and EUR/USD 1.91%. Over the week, the gap points the same way (−0.77% against −0.53%): the euro is falling faster against currencies whose central bank is about to hike than against the dollar.

10-year Bund and 10-year gilt. The 10-year gilt yielded 5.24% in September against 3.47% for the Bund, a gap of nearly 180 bp in sterling's favour. As long as the BoE is priced to hike before the ECB, this gap works against the euro.

GEOPOLITICS AND ENERGY

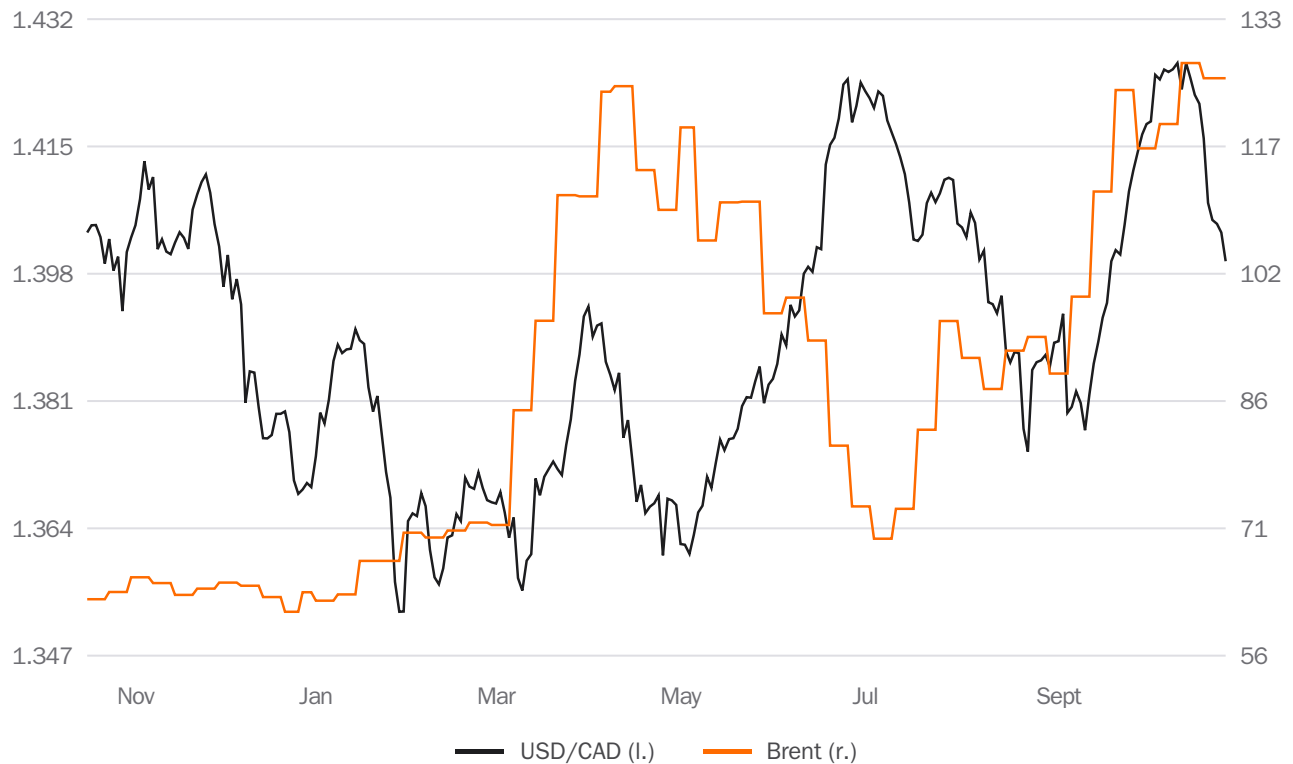
Oil prices in a threat to Hormuz while Gulf flows increase

The Brent futures contract settled on Friday at \$116.72, around 6% above the previous week and at its highest since late April. The rise reflects an accumulation of threats: Houthi strikes on Saudi territory, the departure of non-essential US personnel from Saudi Arabia, the evacuation of Aramco's headquarters in Dhahran, and a statement by Iran's first vice-president Aref on the need to impose Iranian control over Hormuz. The Revolutionary Guards claim seven incidents involving tankers; UKMT0 has confirmed only two. Yet Bloomberg reported on 19 and 20 October an increase in physical flows leaving the Gulf. Oil buyers are therefore paying a premium for a resumption of US strikes on Iran, which the press sees as increasingly likely, more than for any observed loss of supply.

The IEA and OPEC describe two different markets. The IEA expects global demand to fall by 2.6 mb/d on average in 2026, with supply still below demand in September and European diesel stocks not rebuilt before the end of 2027. OPEC, on the contrary, sees demand growing by 0.2 mb/d and a balanced market. The IMF, in its October WEO, projects global growth of 3.1% in 2026 and assumes Hormuz reopens in March 2027. With a gap of nearly 3 mb/d between the IEA and OPEC on demand, neither provides an anchor, and prices will follow the headlines on Iran.

On the currency side, crude did not set the week's ranking. The CAD gained the most, but we attribute its rise first to the BoC repricing. Among energy importers, the euro, already weakened by France, paid for the rise in oil, while the yen rose in spite of it.

USD/CAD and Brent prices

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

Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 23/10/2026.

EUR/USD and Brent prices

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



Sources : [ECB](#), [EIA](#) (spot Brent), [Macro Edge Terminal \(OILFX panel\)](#) 23/10/2026.

USD/CAD and Brent. The correlation between USD/CAD and Brent is 0.01 over the period: oil does not explain the loonie's best week since April. The BoC repricing accounts for it better.

EUR/USD and Brent. EIA spot Brent has almost doubled since 31 December (+98.69% to \$125.59 as of 16 October), and EUR/USD has lost 4.74% over the same period. The energy bill weighs on the euro area's terms of trade and on an ECB caught between imported inflation and slowing activity.

ENERGY, METALS, AGRICULTURE

Commodities premières

📉 Gold

Spot gold fell from \$4,123.60 an ounce on 20 October to \$4,010.27 on the 23rd, below the September average in our data (\$4,335) and far from the February peak (\$5,014.6 on a monthly average). Two factors weighed: Friday's US PMIs, which leave the Fed room to hike in December, and a 10-year real rate of 2.66% in October. Central banks remain buyers: the PBoC added around twenty

tonnes in September, its 23rd consecutive month of purchases, but the World Gold Council counts around 130 t of net purchases over the first seven months, against 160 t a year earlier. These purchases slow the decline without offsetting the real rate.

Effect on currencies	During the risk-off of 22 October, investors bought the yen and the franc rather than gold. A PCE above consensus on Thursday would lift the real rate, weigh on gold and support the dollar; the franc, which the SNB has restrained less since it softened its intervention language in September, would be the main defensive substitute.
Bias	Baissier

CURRENCY BY CURRENCY

Our readings by currency

➤ JPY · The yen breaks out of its corridor and awaits the BoJ Outlook Report

USD/JPY closed on Friday at 156.80, below the bottom of the 156.88-158.85 corridor that had held since 18 September. The FX Daily of 23 October saw such a break as the signal of a yen regaining the upper hand over oil. It happened on the day the US 2-year rose 4 bp and Brent futures gained more than 3%: the yen rose against its two usual handicaps, which points to a domestic driver.

The BoJ provides that driver. CPI excluding fresh food and energy reached 2.4% in September, against 2.3% expected and 1.9% in August, and 83% of economists polled by Bloomberg now expect a hike on 18 December, against 35% a month earlier. None expects it on 30 October: on Friday, the issue is an upward revision to the inflation forecasts in the Outlook Report, which would prepare the ground for December. Speculators were rebuilding long yen positions in early October, without reaching the extremes seen on the euro and sterling.

Bias	Haussier · confidence average
Invalidation	A BoJ that does not raise its inflation forecasts on 30 October, or a return of USD/JPY above 158.85, the top of the corridor, would invalidate this bias.

— GBP · Sterling holds up on an extreme short more than on its data

The surprise in the UK September CPI (3.5% against 3.4% expected) comes from motor fuels (+29.8% year on year); core and services are in line with expectations. Bailey reiterated that looking through the shock works only if expectations remain anchored, and judges second-round effects contained so far.

The market prices around a 90% chance of a hike to 4.00% on 5 November, which leaves little to gain from the decision itself.

Sterling's resilience owes much to positioning. As of 13 October, speculators held a short of 107,000 contracts, a nine-year high, while GBP/USD has gained around 1.3% since 2 October: this mismatch is fuelling a short squeeze that may last until the BoE. The risk comes afterwards. Once the shorts are covered, sterling will keep its rate support only if the BoE signals further hikes after 5 November.

Bias	Neutral · confidence average
Invalidation	UK data showing inflation spreading to wages and services, or a BoE signalling several hikes on 5 November, would tip this bias to Bullish.

↘ NZD · The kiwi carries pricing the RBNZ has not validated

Swaps give a 75 to 80% chance of an OCR increase from 2.75% to 3.00% on Wednesday, although the RBNZ had signalled in early September that December was more likely than October. Third-quarter CPI, at 3.7% year on year against 3.8% expected and 3.9% forecast by the RBNZ, did not move this pricing. Chief economist Conway sees the path as "very likely upward" and October as "wide open", which is no commitment. The NZD gained only 0.41% on the week, less than half the AUD's rise: the scope for disappointment on Wednesday looks larger to us than the scope for surprise.

Bias	Baissier · confidence faible
Invalidation	An OCR hike on 28 October accompanied by guidance that opens the door to a second move in December, with NZD/USD above 0.5700.

THE SCENARIOS

What could happen

Central scenario: the Fed waits, the others hike

The Fed holds its range at 3.75-4.00% on 28 October and keeps December open; PCE comes in close to consensus. The BoC raises its rate to 2.50% without promising a second hike, and the BoJ raises its inflation forecasts. The dollar stays stable on the index, weak against currencies whose central bank hikes, firm against the euro.

Fed on hold, December open → US 2-year between 4.65% and 4.81% → DXY range-bound → EUR/GBP and EUR/CAD heading lower → USD/JPY under pressure ahead of 18/12

The US front end returns

Warsh validates a December hike and PCE beats consensus, on both headline and core. Friday's PMIs win out over the AI sell-off, and the 2-year erases the 22 October fall. The dollar regains its rate driver, first against the yen, the only pair that had followed rates.

Core PCE above 3.1% → US 2-year above 4.81% → USD/JPY back above 157 → EUR/USD under pressure → Gold lower

Escalation in the Gulf

US strikes on Iran or a confirmed disruption to Hormuz flows push Brent futures above \$120. The energy premium weighs on importers and revives the dollar, the only channel still supporting it according to the FX Daily of 22 October; the ECB is caught between higher imported inflation and French activity already in contraction.

Brent futures above \$120 → EUR and JPY penalised → CAD supported → Dollar revived through the energy channel

De-escalation and a return to the table

A ceasefire signal or a resumption of talks between Washington and Tehran brings Brent futures back towards \$108. The euro and the yen benefit first, while the loonie loses its terms-of-trade support just as the BoC has already delivered its hike.

Brent futures towards \$108 → Dollar weaker → EUR/USD and yen higher → USD/CAD rebounds

PARIS TIME

The agenda ahead

Date	Event	What's at stake	FX sensitivity
lun. 26/10	German October Ifo (10:00) and opening of the CPC's 5th plenum	The Ifo will show whether Germany (PMI 52.8) stands apart from France (48.4); the plenum may bring supportive signals for the AUD	● ● ●
lun. 26/10	First session after Moody's affirmation of France's rating	Gauge of the removal of tail risk on OATs and the euro	● ● ●

Date	Event	What's at stake	FX sensitivity
mar. 27/10	National Assembly: formal vote on the revenue section of the 2027 finance bill	A rejection would reopen the OAT-Bund spread despite Moody's	● ● ●
mer. 28/10	Australian Q3 CPI (01:30) and RBNZ decision (02:00)	The trimmed mean will or will not validate the RBA on 3/11; the RBNZ is priced at 75-80% for 3.00% after a softer CPI	● ● ●
mer. 28/10	BoC decision and Monetary Policy Report (14:45)	The hike to 2.50% is priced at nearly 80%; guidance on a second move will decide the CAD	● ● ●
mer. 28/10	FOMC (19:00, press conference 19:30)	No change expected; Warsh's tone on December, at the last meeting before the midterms	● ● ●
jeu. 29/10	US Q3 GDP, advance estimate, and September PCE (13:30)	PCE expected at 3.6% (core 3.1%); GDP expected at 3.0% annualised against 3.5-3.6% for GDPNow	● ● ●
jeu. 29/10	ECB (14:15, press conference 14:45) and German October flash CPI	No change at 2.50%; guidance on December and the reading of French spreads	● ● ●
ven. 30/10	BoJ and Outlook Report (morning); euro area Q3 flash GDP (11:00)	An upward revision to inflation forecasts would prepare the ground for 18/12; GDP will measure France's slump	● ● ●
mar. 3/11	RBA (04:30) and US midterm elections	Hike to 4.85% priced at 50-60%; political premium and Washington's oil policy	● ● ●
jeu. 5/11	BoE (13:00)	Hike to 4.00% priced at around 90%; one-off insurance or start of a cycle, against an extreme sterling short	● ● ●

OUR CONVICTIONS

And what would contradict them

Conviction	Invalidation
The dollar will only regain direction if the US 2-year breaks out of its October range; until then, currencies trade on foreign central banks and the index remains a poor summary of the greenback.	A 2-year close above 4.84%, the October high, with the DXY above 102.41, the 7 October peak.
The BoC hike is priced into the CAD: after 28 October, the loonie's next move depends on guidance about a second hike, which is hard to justify with inflation excluding gasoline at 2.2%.	A Monetary Policy Report signalling a second hike by March, with USD/CAD breaking 1.3969, the intraday low of 23 October.
The euro will remain the funding currency for bets on tightening outside the United States until the ECB meeting of 17 December, even though Moody's affirmation rules out the break-up scenario.	A return of EUR/GBP above 0.8438, its level of 16 October, or ECB guidance bringing forward the hike expected in December.

IN SHORT

What you need pick

The BoC, the RBA and the BoE pushed the greenback lower this week without the Fed moving, and this move can last until 5 November if the US front end stays in its range. A PCE above consensus on Thursday, combined with a firm Warsh on December, is the scenario that would give the 2-year, and therefore the dollar, a direction. The euro keeps its role as a funding currency as long as the ECB waits for December; the vote on 27 October will show whether Moody's reprieve holds. From 27 to 30 October, that vote and five central banks test this reading, with Hormuz in the background.

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