

OCTOBER 2026 ISSUE 24

Where we stand

HEADLINES

- Fed hikes by 25 bps
- BoC holds rates steady
- ECB raises rates by 25 bps
- BoE holds rates steady
- BoJ raises rates by 25 bps
- US-China summit in Washington

Energy continued to be the dominant market force in September, pressuring yields higher and forcing central banks to evaluate the persistence of inflation. Among central banks, the Federal Reserve, European Central Bank (ECB) and Bank of Japan (BoJ) hiked by 25 bps, while the Bank of Canada (BoC) and Bank of England (BoE) left the policy rate unchanged. The USD advanced as rates moved decisively higher, fuelled by a hawkish Fed, while global shocks also weighed on the economic prospects of energy-importing countries.

The US military struck Iranian targets near Kharg Island on September 9, and Iranian proxies attacked Saudi energy infrastructure, leading to another push higher in oil prices. The following day, European gas prices rose to their highest level since 2023, and Brent oil futures topped USD 100/bbl, a level last seen in July, as military strikes and an uptick in Chinese crude purchases buoyed oil. Iran-backed Houthis also made advancements towards the Bab al-Mandeb Strait, which threatens the route exiting the Red Sea, an alternative to the Strait of Hormuz, further pressuring energy supply. The Saudi East-West pipeline, which diverts flows away from the Strait of Hormuz, was also shuttered following attacks and could take an estimated 4–6 weeks to return to full capacity, acting as a further tailwind for oil prices. Tensions between the United States and Iran cooled after Iran indicated a desire to continue diplomatic resolutions, and the two sides met on the sidelines of the UN General Assembly on September 22. The surge in energy prices has also led US leadership to consider an export ban on diesel, which weighed on the currencies of those that rely heavily on such imports, such as the United Kingdom and the rest of Europe.

Following the breakdown in trade talks, Canada's tariffs of 15–50% on goods from the United States came into effect on September 8, reciprocating the 50% US tariffs on USD 20 billion worth of Canadian goods that went into effect August 22. The Canadian levies target US steel items, which could have a negative effect on states such as Michigan and Ohio heading into the US midterm election. The tit-for-tat exchanges continued with US President Donald Trump renaming Lake Ontario to Lake America, along with moving to implement new ad hoc bans on dairy, autos and sales of Bombardier jets in the United States. Modifications to Section 338 tariffs also became effective September 15, which would increase levies on dairy, aluminum products, furniture and other select goods destined for the United States.

Heading into September's FOMC meeting, STIR markets underwent several repricing episodes as both economic data and Fed commentary provided insight leading up to September 16. Jackson Hole proved to be a hawkish development and left markets pricing in 60% odds of a 25-bps hike. But days later those odds fell after Christopher Waller shared he leant toward holding rates if inflation data for August was cooler. Economic data on September 4 reversed Waller's dovish stance after **nonfarm payrolls topped expectations, printing at 162,000 versus a consensus of 55,000**. The blowout labour market data was fuelled by broad job gains across industries and supported by higher revisions from the prior months. PPI on September 10 revealed more evidence for a hike, with the 5.4% headline year-over-year figure being driven by the renewed upswing in energy prices. **CPI reiterated the theme of higher prices, with headline and core year-over-year figures printing in line with expectations, but core monthly CPI exceeded estimates at 0.3%.** STIR markets subsequently priced in 90% odds of a hike at the September 16 FOMC and two hikes for 2026.

The FOMC unanimously hiked rates by 25 bps to 3.75–4% on September 16 and argued for a timelier return to 2% inflation in a hawkish shift that sparked a USD rally on the day and a bear flattening in rates. The dot plot laid out expectations of one more 25-bps hike in 2026, and the summary of economic projections saw the unemployment rate remaining unchanged at 4.1% through 2028. During his press conference, Chair Kevin Warsh credited the economy with strengthening but admitted he and his colleagues would be hard-pressed to call financial conditions restrictive and thus argued for less accommodative policy.

The BoC executed a hawkish hold on September 2, maintaining rates at 2.25%. Governor Tiff Macklem emphasized the inflation risks from energy prices as higher than those of tariffs, which were seen as more muted. As such, markets began pricing in a chance the BoC returns to rate hikes this year. The summary of deliberations released mid-month confirmed this bias towards raising rates, as fears of inflation spilling over into other goods and services from higher energy prices weighed on policymakers. **Canadian labour market data was released alongside the US nonfarm payrolls figures but failed to spark a rally in the CAD, as it came in below expectations at –41,700. The unemployment rate remained unchanged at 6.4%, while the participation rate fell from 0.1% to 65%, halting the otherwise strong string of recent labour market data out of Canada.**

The JPY accelerated its gains in the early innings of September following hawkish rhetoric from the BoJ. The hawkish commentary, combined with shifts in the allocation of local funds toward Japanese securities, fuelled stop-loss selling in USDJPY. US Treasury Secretary Scott Bessent also challenged markets to test his resolve on backing the JPY, likening the moves to betting against the house. But with the market clearly positioned for a hawkish reaction leading into the BoJ, the decision disappointed as policymakers hiked 25 bps to 1.25% in a 7–2 vote with two dovish dissents. Governor Kazuo Ueda's press conference further failed to live up to expectations, sending USDJPY higher toward 158 on larger volumes, but the pair reversed some gains after the BoJ conducted a rate check later that day.

The ECB raised rates by 25 bps to 2.5% in a largely telegraphed move and revised its inflation forecasts for 2027 higher to 2.5%, up from 2.3% projected in June. Along with higher prices, growth for following periods was also revised higher, but despite a hotter economy and higher prices the ECB did not pre-commit to another rate hike. But later in the day it was revealed that ECB officials expect more tightening in October to be "in play."

The BoE in a 6–3 vote maintained rates at 3.75% on September 17, as expected by all economists surveyed by Bloomberg. In the absence of the MPR or press conference, the initial decision was seen as less hawkish, as some market participants had seen the chance for a 5–4 vote split, and the resultant GBPUSD was offered. Gilt yields also fell after the central bank overhauled its quantitative tightening program, dropping its plans to auction long-dated gilts on the open market, choosing instead to sell them to the government.

On the horizon

Following a hike in September from the FOMC, markets expect further tightening to take place later this year following a dearth of concrete developments to address energy prices. The hawkish pricing contributed to the US 10Y breaking above 5% decisively on September 23, rising 15 bps in one session, bolstering the dollar's gains while rate markets globally also mirrored the selloff in Treasuries. **The BoC also joined other central banks turning hawkish at its September meeting, with Overnight Index Swaps now looking for one hike before the end of the year.** Markets see the current US–Canada rate gap as adding further fuel to USDCAD, which has rallied from mid-September through to month-end.

KEY UPCOMING EVENTS

DATE	EVENT
OCT 28	BoC rate decision
OCT 28	Fed rate decision
OCT 29	ECB rate decision
OCT 30	BoJ rate decision
NOV 5	BoE rate decision

Canada and the European Union are solidifying ties as the bloc considers extending a bespoke "associate member" status to Canada, meant to facilitate closer trade and security ties. As expected, Trump threatened EU tariffs if the new relationship is deemed harmful to the United States. Further details are expected at October's Montreal summit, but analysts have pointed to the agreements of Norway, Switzerland or Liechtenstein as models whereby economic matters benefit from EU rules, but political decision-making remains separate. Currently, negotiations are taking place for full ratification of a Comprehensive Economic and Trade Agreement, which, while in effect, still requires final implementation from 10 EU members.

Chinese President Xi Jinping arrived in the US on September 23, with Trump greeting him on the tarmac in a symbolic show of diplomatic respect and parity. During the summit, the two leaders agreed to extend their trade truce by two months through January 10, 2027, and Trump emphasized the relationship of the two countries as being closer than ever. A future meeting in China is already scheduled after the US midterm elections in November and again at the Miami G20 in December. Both nations committed to pursuing more favourable tariff arrangements, and new AI dialogue was discussed, but no formal agreement materialized. China also pledged to increase US coal imports, but no agreements were struck on rare earth metals or other energy commitments. Underlying tensions persist around Taiwan, with Xi cautioning that any US support for the island could complicate future relations and urging Trump to limit backing Taipei.

Germany faces the possibility of forming its first extremist government since the postwar period after the far-right AfD secured 44% of the regional vote in Saxony-Anhalt, short of a parliamentary majority. Friedrich Merz's CDU was handed another defeat at the state level in Mecklenburg-Western Pomerania, as the CDU secured less than 5% of the vote, while the AfD secured 38% of the vote, putting them in striking distance of governing the state.

Emerging markets

As the October 4 vote approaches, polls for the Brazilian presidential race now place Flavio Bolsonaro neck and neck with President Luiz Inacio Lula da Silva in a runoff scenario. The BTG/Nexus poll sees Lula winning versus Bolsonaro, but the advantage fell within the 2% margin of error in a technical tie, which was reaffirmed in the Quaest poll showing each candidate at 42% in a runoff scenario. President Lula's relationship with Supreme Justice Alexandre de Moraes has also come under scrutiny, as Moraes's relationship with failed Banco Master CEO Vorcaro is being investigated by the Supreme Court. **On September 16, Brazil's central bank cut the Selic rate by 25 bps to 13.75% in response to moderating economic activity, even with CPI remaining above target.** Economists anticipate another 25-bps reduction by year-end, lowering the Selic rate to 13.5%, and analysts see USDBRL ending around 5.2, levels close to where it ended the month.

Indonesia's central bank opted for monetary policy continuity on September 23rd, maintaining its benchmark rate at 5.75% in alignment with broad market expectations. Forecasters expect rates to remain on hold through year-end**.** Newly appointed Governor Destry Damayanti emphasized that aggressive rate tightening had already been deployed. Therefore, BI pivoted toward alternative policy levers, including selective incentive structures designed to encourage sustained foreign investment and currency stabilization. Markets responded positively with the rupiah initially strengthening on the announcement, but the rupiah weakened overall throughout September which reflected broader USD strength.

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