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Where we stand

October kicked off with European markets in turmoil as fiscal and political headlines dominated the continent, weighing on the common currency and the debt of affected nations. The situation continued to deteriorate throughout the month as spreads on French debt widened and the euro stagnated. The USD traded rangebound while higher yields attracted buyers, resulting in the 10Y treasury bottoming mid-month. The United States and Iran remain at a stalemate as regional talks continue amid tit-for-tat exchanges, but concrete progress ahead of the midterm elections remained elusive.

HEADLINES

- European bourses rocked by volatility
- BoC raises rates by 25 bps
- Fed holds rates steady
- ECB holds rates steady
- BoJ holds rates steady
- Brazil election results roil local markets

October began with EURUSD falling to its lowest level since May 2025 in a major risk-off move. Headwinds emerged in the form of widening European sovereign spreads, driven by a deterioration in the French fiscal and political outlook, with the 10Y OAT-Bund spread reaching levels last seen during the 2012 Sovereign Debt Crisis at over 150 bps. The French government proposed an optimistic deficit target of 5%, which is likely to be challenged in parliament, and increased odds of a non-centrist candidate winning at next year's presidential election also increased the political risks. Partial respite arrived for French assets when right-wing presidential candidate Marine Le Pen called for fiscal responsibility by proposing to reduce the deficit. As the month continued, uncertainty amid ongoing civil unrest across major French cities weighed on European assets, sending the 10Y OAT-Bund spread to new highs. On October 23, Moody's offered some relief, leaving France's rating unchanged at Aa3, which came as a surprise as markets were largely expecting a downgrade.

September US non-farm payrolls printed weaker, with figures arriving at 29,000, well below estimates of 90,000. The unemployment rate slipped to 4.2% from 4.1% due to an uptick in the participation rate. The higher unemployment rate adds pressure to the Federal Reserve's full employment mandate, given it had laid out expectations of the unemployment rate remaining at 4.1% through 2028 in its September summary of economic projections. The immediate reaction saw the USD offered as markets took an October rate hike off the table and US yields received some relief. **US CPI released on October 14 painted a worrying picture for the Fed, as both core and headline month-over-month figures beat estimates at 0.3% and 0.6% (0.649% unrounded) respectively.** The rise in core prices for the second month in a row was broad-based across categories, further complicating the narrative for policymakers.

The September Canadian employment report released on October 9 severely undershot expectations on the headline figure, as employment fell 68,300 while economists were expecting an increase of 10,000. The immediate reaction saw USDCAD bid to just below 1.43, its highest levels year to date, while odds for a hike at October's Bank of Canada (BoC) meeting were cut in half compared to before the print. The unemployment rate moved up to 6.5% from 6.4%, while the silver lining remained in private payrolls, which did increase 24,100. **Canadian CPI revealed weaker price pressures, with headline monthly and yearly CPI figures printing below estimates at 0.1% and 3.1% respectively for the month of September.** Despite a cooler inflation and labour market picture, **the BoC raised the overnight rate by 25 bps to 2.5%** on October 28 in a move to pre-emptively limit the spillover of higher energy prices. The monetary policy report revised yearly CPI in 2027 to 3.1% up from 2% and was seen returning to 2% only in the middle of 2028.

The Fed held rates steady at 3.75–4% as expected in a 10–2 vote, with Lisa Cook and Michelle Bowman dissenting in favour of a 25-bps rate hike. The FOMC statement saw some minor tweaks to the language to describe the economy as expanding at a "strong pace," but overall, very little was revealed. During the press conference, Chair Kevin Warsh highlighted the strong labour market while also acknowledging the tightening of financial conditions following the hike in September, though he was still hesitant to call conditions "tight."

The European Central Bank (ECB) held rates unchanged at 2.5%, continuing with its data-driven approach, assessing conditions on an ongoing basis with no committed rate path. Christine Lagarde emphasized that tightened financing conditions are expected to weigh on inflation and growth, with some interpreting this as a signal for a potential rate hike at the next meeting. The Bank of Japan (BoJ) held rates overnight, but Governor Kazuo Ueda was notably hawkish, saying the BoJ will consider a hike at every meeting, keeping market expectation of a hike in December alive.

Chancellor John Healey presented the UK budget on October 28, introducing measures to reduce cost of living and support business growth. Energy relief included extending VAT cuts through July, removing gas bill standing charges and direct payments to lower-income households. The budget removed import tariffs on over 100 products, increased the bank surcharge to 6% for 15 months and raised gambling duty to 25%. Additional measures included increased small business rate relief, fiscal devolution plans giving mayors control over business rates and commitments to raise defence spending in line with NATO targets.

On the horizon

Headlines surrounding Iran continued to surface throughout October, with US President Donald Trump generally seesawing between taking military action or resolving the conflict via a deal. The war in Yemen also intensified around the Bab al-Mandab Strait, with Saudi-backed forces clashing with Houthi militias. Reports of attacks on Saudi pumping stations and airports resulted in significant casualties and weighed on regional stability, sending oil higher. Diplomatic talks between key regional players and Iran took place toward the end of the month, but the United States has also advised Gulf allies that an intense military campaign could take place after the US midterms, which are seen as a key decision-making moment.

KEY UPCOMING EVENTS

DATE	EVENT
NOV 3	US midterm election
NOV 5	Canada budget
NOV 5	BoE rate decision
NOV 6	US nonfarm payrolls
NOV 10	US Oct CPI

The US midterm elections took place on November 3, with Democrats sweeping both the House and the Senate. The Wall Street Journal reported on October 23 that Trump is expected to remove 50% tariffs on some Canadian agricultural and forestry items to help with Republican midterm election prospects in the state of Maine, but levies on other goods could be raised to offset the effect. Reuters also reported that the two sides are currently returning to negotiations to reach a deal on steel and auto tariffs. With regard to Canada, Finance Minister François-Philippe Champagne is set to unveil the federal budget on November 5.

US efforts to broker an energy ceasefire between Russia and Ukraine faced continued obstacles despite Trump's announcement of ceasefire terms. Russia continued targeting Ukrainian energy infrastructure, citing ambiguity in ceasefire details and unfinished negotiations, which prompted Ukraine to resume operations despite US intelligence withdrawals during Russian attacks. The Trump administration also eased sanctions on Russian diesel through April 7 and discussed lifting restrictions on shadow fleet operations—moves designed to increase global oil supply, relieve freight rate pressures and reduce energy market stress. Despite these headlines, Brent continued to trade around the highs above USD 110/bbl. A trilateral meeting between Trump, Vladimir Putin and Xi Jinping has been proposed by Putin, who will be attending the Asia-Pacific Economic Cooperation meeting November 17–18.

Emerging markets

Brazil election headlines dominated the news out of Latin America as first-round results from the Brazilian presidential election saw Flavio Bolsonaro lead the first round of voting at 47% versus President Luiz Inacio Lula da Silva's 45%. The result saw the younger Bolsonaro outperforming the polls and heading into the October 25 runoff round with a healthy backing. Subsequently, Brazilian equities had their best day since 2020 and the real surged on October 5, advancing over 4% versus the dollar as USDBRL closed below 5. The race once again narrowed as the second round of voting approached, with some polls seeing the outcome as a coin toss. **In an unexpected turn of events, Lula pushed ahead and won with 51.79% of the vote in the runoff, an unprecedented victory that for the first time saw a candidate trail in the first round of votes but go on to win in the second round.** On Monday, October 26, circuit breaker limits on USDBRL futures were raised from 6% to 12% off Friday's close to 5.61, where the market opened, but circuit breakers were triggered as bids heavily outweighed offers. Following two circuit breakers, USDBRL retreated from the highs, trading lower throughout the day, and equities were also hit hard, with the Ibovespa falling 13.9%. Liquidity improved through the week, and markets are now waiting for policy updates from the new administration.

India's currency markets experienced notable volatility following the Reserve Bank of India (RBI) announcement on regulatory measures surrounding foreign exchange derivatives. The RBI prohibited rebooking of cancelled FX derivative contracts, lowered thresholds from USD 100 million to USD 5 million for FX derivative transactions without established underlying exposures, mandated additional documentation requirements for hedging verification and introduced a Foreign Exchange Risk Reserve requiring 20% cash reserves on INR-denominated derivatives exceeding USD 2 million notional value. As a result of the RBI's escalation of FX oversight, on October 12, USDINR gapped nearly 1% lower to 95.80 from the prior Friday's close of 96.70. **The RBI also raised its repo rate for the first time in four years by 25 bps to 5.50% in a unanimous 6–0 vote, maintaining its hawkish stance with continued focus on returning headline inflation to the 4% target.**

MSCI announced on October 15 that it was formally considering reclassifying Indonesian indexes from Emerging Market to Standalone status, with a final decision expected June 30, 2027. Indonesian equities fell 8% at the next day's open and triggered circuit breakers, while USDIDR traded through 18,000. This announcement blindsided Bank Indonesia, which reiterated its commitment to market reforms and intention to remain in the EM classification.

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