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Weekly Money Market Report

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AI Uncertainty Drives Safe-Haven Demand as Surging Oil Raises Inflation Risks and Challenges Central Banks

Market Commentary

Global markets this week turned risk-averse amid concerns over artificial intelligence (AI) investment sustainability, Middle East tensions, and persistent inflation. In the US, Treasury yields fell as technology stocks sold off, with the 10-year yield below 5% and the two-year near 4.66%. Economic activity remained robust, with the composite PMI at 57.6 and initial jobless claims falling to 194K, while intensifying price pressures complicated the Federal Reserve's policy outlook. DXY closed the week at 101.810 [-0.03%]. In Canada, headline inflation rose to 3.1% YoY, while easing core measures offered the Bank of Canada some policy flexibility amid trade uncertainty and labour-market weakness. USD/CAD closed at 1.4003 [-0.99%]. In Europe, the eurozone composite PMI fell to 51.9, while French economic weakness and fiscal concerns widened the French-German 10-year spread to 178bps, with French yields reaching 5.14%. EUR/USD closed at 1.1202 [-0.33%]. In the UK, inflation accelerated to 3.5% YoY, complicating the Bank of England's policy outlook. Retail sales fell 0.4% MoM, despite the composite PMI strengthening to 53.1. GBP/USD closed at 1.3374 [+0.35%]. Across Asia-Pacific, Japanese core inflation reached 2.1% YoY, keeping further Bank of Japan policy normalisation in focus. USD/JPY closed at 156.87 [-0.73%]. Meanwhile, China's GDP grew 4.5% YoY in Q3, although weak consumption remained a concern. USD/CNH closed at 6.6690 [-0.26%]. In Australia, hawkish Reserve Bank commentary increased expectations of a rate hike, while New Zealand inflation eased to 3.7% YoY but remained exposed to energy-price pressures. AUD/USD and NZD/USD closed at 0.7036 [+1.30%] and 0.5699 [+0.83%], respectively. Geopolitical risks supported oil, with Brent closing at USD 116.72 per barrel, while gold fell below USD 4,000 per ounce on liquidity pressures. The US Treasury 2s10s and 5s30s spreads stood at 30.845bps [-5.395bps] and 51.402bps [-3.686bps], respectively. Overall, markets remained caught between energy-driven inflation pressures and uneven growth signals, keeping volatility elevated across currencies, bonds, and equities.

United States and Canada

US Treasuries Rally as 10-Year Yield Falls Below 5% and Nasdaq 100 Drops

US Treasuries regained their traditional safe-haven appeal as concerns over AI investment returns triggered a broad technology sell-off. The Nasdaq 100 fell 2.9% on Thursday, while the Philadelphia Semiconductor Index plunged 6.7%, prompting investors to rotate into government bonds amid growing concerns about economic growth. The 10-year Treasury yield declined below 5% to approximately 4.97%, while shorter-dated yields fell by as much as 20bps. Despite Brent crude rising above USD 116 per barrel amid escalating Middle East tensions, markets increasingly viewed higher energy costs as a threat to growth rather than solely as an inflationary risk. Consequently, the probability of a Federal Reserve rate increase by year-end fell to 90%, reflecting a reassessment of persistent inflation risks against rising downside risks to growth. DXY last printed at 101.810.

US Composite PMI Eases to 57.6 as Jobless Claims Fall to 194K and Price Pressures Intensify

US economic activity remained resilient in October, while inflation pressures strengthened. The S&P Global flash composite PMI eased to 57.6, its second-highest reading since 2022, as new orders recorded their fastest growth in four-and-a-half years and employment remained firm. Selling prices rose at the fastest pace in more than four years amid higher energy, transportation, and raw-material costs. Labour-market data were similarly robust, with initial jobless claims falling by 6K to a three-month low of 194K, while the four-week average declined to 197.75K, its lowest since 2022. Meanwhile, University of Michigan consumer sentiment was revised higher to 48.0, although one-year inflation expectations held at 4.7%. Overall, resilient activity and elevated price pressures reinforce a challenging policy backdrop for the Federal Reserve.

Canada Inflation Rises to 3.1% YoY in September as Core Measures Ease to 1.8%

Canadian annual inflation accelerated to 3.1% in September from 3.0% in August, remaining below economists' expectations of 3.2%, as gasoline prices increased 27.8% YoY. However, underlying price pressures moderated, with the Bank of Canada's median and trim core inflation measures easing to 1.9% and 1.8%, respectively, while inflation excluding food and energy remained at 2.1%. Consumer prices increased 0.1% MoM, and the proportion of CPI components rising at 3% or more declined to 29.2% from 34.2%. Slower grocery inflation also provided relief, with prices increasing 1.7% YoY. These developments offer the Bank of Canada some flexibility ahead of its October 28 policy decision, although higher energy costs, rising inflation expectations, and US trade tensions complicate the outlook. Meanwhile, employment has declined by 41.2K since December 2025, highlighting underlying economic vulnerabilities. USD/CAD last printed at 1.4003.

Europe and the United Kingdom

French-German 10-Year Bond Spread Widens to 178bps as French Yields Reach 5.14%

French sovereign bond markets came under renewed pressure as political uncertainty, fiscal concerns and deteriorating risk sentiment intensified investor selling. The spread between French and German 10-year government bond yields widened by as much as 19bps to 178bps, its highest level since late 2011. French 10-year yields climbed to 5.14%, their highest since 2002, while two-year yields rose 11bps to 3.86%. The CAC 40 equity index also declined by 2.19% on the week, reflecting broader concerns about France's economic and political outlook ahead of next year's presidential election. Elevated energy prices, limited market liquidity, and the unwinding of leveraged carry trades further exacerbated the sell-off. Although Europe's financial safeguards are stronger than during the sovereign debt crisis, continued deterioration could spread to other eurozone bond markets and complicate the European Central Bank's monetary policy decisions. EUR/USD last printed at 1.1202.

Eurozone Composite PMI Falls to 51.9 as France Contracts at 48.4 and Germany Slows to 52.8

Eurozone private-sector growth weakened in October, with the composite Purchasing Managers' Index (PMI) falling to 51.9 from 53.1 in September, its lowest level since June. Rising energy and transport costs intensified inflationary pressures, while business confidence declined to a five-month low and employment growth nearly stalled. Germany's composite PMI eased to 52.8 from 53.8, marking its fourth consecutive month of expansion, although new business growth remained modest. France deteriorated more sharply, with its composite PMI falling to 48.4 from 51.1, signalling renewed contraction amid political uncertainty, fiscal pressures, and tighter financial conditions. French services activity declined to 48.4, while manufacturing fell to 49.3. Although export orders increased for a third consecutive month across the eurozone, weakening domestic demand and persistent cost pressures complicate the European Central Bank's policy outlook ahead of its October 29 decision.

UK Inflation Accelerates to 3.5% YoY as October Composite PMI Rises to 53.1

UK inflation increased to 3.5% YoY in September from 3.1% in August, reaching an 11-month high as rising petrol and diesel prices intensified household cost pressures. Services inflation climbed to 3.7%, while producer input prices accelerated to 8.3% YoY. Average earnings excluding bonuses rose 3.7% YoY in the three months to August, while unemployment declined to 4.7%. However, retail sales fell 0.4% MoM in September, exceeding expectations for a 0.1% decline and signalling emerging consumer weakness. In contrast, the October composite PMI strengthened to 53.1 from 52.0, its highest reading since February, supported by new orders, manufacturing output and AI-related technology demand. Stronger activity and persistent inflation have reinforced expectations of a Bank of England rate increase on November 5, with swap markets currently pricing a 95% probability of a 25bp hike, while weakening retail demand and rising household energy costs weigh on the growth outlook. GBP/USD last printed at 1.3374.

Asia-Pacific

Japan Core Inflation Reaches 2.1% YoY in September, Exceeding the BOJ's 2% Target

Japan's core consumer price index, excluding fresh food, increased 2.1% YoY in September, exceeding the Bank of Japan's (BOJ) 2% target for the first time this year. Underlying inflation, excluding fresh food and energy, accelerated to 2.4%, while service prices rose 1.5% YoY, their fastest increase since March. Higher food, hotel, and water prices contributed to persistent inflation, although gasoline tax relief and a 20.6% annual decline in rice prices provided partial offsets. The data strengthen expectations of further BOJ policy normalisation, with swap markets pricing around a 75% probability of another rate hike by year-end. The yen strengthened to a one-month high against the US dollar as safe-haven demand increased amid global equity market volatility. Nevertheless, Japan's dependence on imported energy and food leaves its inflation outlook vulnerable to escalating Middle East tensions and higher commodity prices. USD/JPY last printed at 156.87.

China GDP Growth Accelerates to 4.5% YoY in Q3 as Industrial Production Rises 5.5%

China's economy expanded 4.5% YoY in the third quarter, accelerating from 4.3% in the second quarter and bringing growth for the first nine months to 4.6%, within Beijing's annual target of 4.5% to 5%. Industrial production increased 5.5% YoY in September, its strongest expansion in six months, supported by manufacturing and AI-related exports. However, retail sales rose just 1.1%, highlighting persistently weak domestic consumption amid a prolonged property downturn and subdued employment conditions. Infrastructure investment also remained under pressure, despite accelerated local government bond issuance and targeted fiscal support. With growth increasingly dependent on external demand and technology-related investment, trade tensions and weakening global demand present significant risks. Policymakers are expected to maintain existing stimulus measures while limiting additional easing, with attention increasingly shifting towards the 2027 growth outlook. USD/CNH last printed at 6.6690.

RBA Flags Materially Worse Inflation Outlook as November Rate-Hike Probability Reaches 50%

Reserve Bank of Australia (RBA) Deputy Governor Andrew Hauser warned that Australia's inflation outlook had deteriorated materially relative to the central bank's August projections, strengthening expectations of another rate increase in November. Rising energy prices, AI-related technology costs, and expanding data-centre investment are adding to inflationary pressures, while higher oil prices are exceeding the assumptions underpinning previous forecasts. Following Hauser's comments, swap markets priced around a 50% probability of a November 3 rate increase, up from around 30%,

while expectations for a 25bp increase by February became fully priced. The Australian dollar appreciated and three-year government bond yields rose on the comments. Although the RBA has already tightened policy substantially this year, signs of a softening labour market complicate its decision. Upcoming third-quarter inflation data will be crucial in determining whether further tightening is necessary to prevent inflation expectations from becoming entrenched. AUD/USD last printed at 0.7036.

New Zealand Inflation Eases to 3.7% YoY in Q3 as OCR Hike Probability Reaches 85%

New Zealand's annual consumer price inflation eased to 3.7% in the third quarter from 4.1% in the second quarter, below economists' expectations of 3.8%. Consumer prices rose 0.7% QoQ, also below forecasts, as lower petrol prices moderated tradables inflation to 4.3% YoY. However, core inflation excluding food, energy and fuel increased to 2.9% from 2.5%, while non-tradables inflation remained elevated at 3.3%. Rising fuel, electricity, and construction costs continue to threaten the disinflation outlook, with some economists expecting inflation to exceed 4.5% in the fourth quarter. Consequently, markets increased the probability of a 25bp Official Cash Rate (OCR) increase at the Reserve Bank of New Zealand's October 28 meeting to 85%. The New Zealand dollar weakened immediately after the release, reflecting the softer headline reading, although persistent domestic price pressures continue to support expectations of tighter monetary policy. NZD/USD last printed at 0.5699.

Kuwait

USD/KWD closed last week at 0.30800.

FX Rates – 25 October 2026

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1239	1.1183	1.1261	1.1202	1.1050	1.1300	1.1247
GBP	1.3327	1.3299	1.3419	1.3374	1.3285	1.3560	1.3376
JPY	158.02	156.08	158.6	156.87	155.05	157.75	155.69
CHF	0.8240	0.8192	0.8270	0.8250	0.8155	0.8350	0.8159

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