05 Jun 2026 15:05:45 ET | 10 pages

Global Macro Strategy

Add Dec26/27 FOMC OIS steepener, stop out gold & 2s10s steepener

CITI'S TAKE

We wrote in Jevon Jobs Market on May 8th, that Fed pricing looked low relative to peers given limited AI risk to employment in the near term, reinforced by UK labour data and AI vs WFH research. With a Dec26 hike now fully priced, we focus on 2027. Should we remain in a hawkish world, hike premium should build in 2027, given the bar for Sep26 hike is very high so close to midterms and fully priced Dec26. Alternatively, if Citi Economics base case of labour market softness into summer and cuts plays out, easing will be frontloaded and the steepener can also work. We are wrong if we get a big hawkish shock in the short term – either a complete reaction function shift or huge oil spike. We see the steepener as a 1-3m trade to run into summer. See full note for charts.

Adam Pickett AC

Dirk Willer AC

Vinh Vo AC

Alice Zheng AC

Alex Saunders AC

Giammarco Miani AC

Charlie Massy-Collier AC

Michael Alexeev

With thanks to
Irem Sen

2027 pricing looks skewed — If the FOMC are going to pivot hawkish, we feel not enough is priced for 2027, given the experience of other G10 central banks that have seen growth and inflation re-accelerate. This should see steepening in Dec26/27 if data keeps coming in strong and they open the door to hikes. Alternatively, if Citi Economics are correct and the labour market data softens in summer enough to warrant year end-cuts, Dec26/27 likely also steepens. This was seen in H2 of 2025, with this curve steepening as 2y rallied on dovish Fed expectations. Citi Economics base case remains 3 cuts by year end.

Studying first Fed hikes — We look at ED7 vs ED3 and UST 1s2s as historical proxies for 6m and 1y fwd 1y pricing around cycle turns. In Eurodollars, there is mild steepening and in USTs, clearer steepening. However, we see 2021 as the clearest analogue, with a behind the curve Fed due to FAIT (Flexible Average Inflation Targeting) representing what more slow-to-pivot Chair Warsh might end up like. In this instance, steepening 6m before the 1st hike was strong, and tapered off 3m before the 1st hike. Putting all this together, we see this as a 1-3m trade to run into summer, and likely no further than September (assuming December is the 1st hike).

Stopping out of long gold and US 2s10s steepener — We added long gold on April 8th given a resilient flow backdrop and reduced Iran risk suggested a rebound. We added a US 2s10s steepener on May 15th as it was breaking out, in hindsight outright paid US rates was the better trade. Better US data and a Fed repricing has hurt both trades, so we step aside. We also move neutral gold in GAA.

Note: Futures trading involves substantial risk of loss.

Add Dec26/27 FOMC OIS steepener, stop out gold &

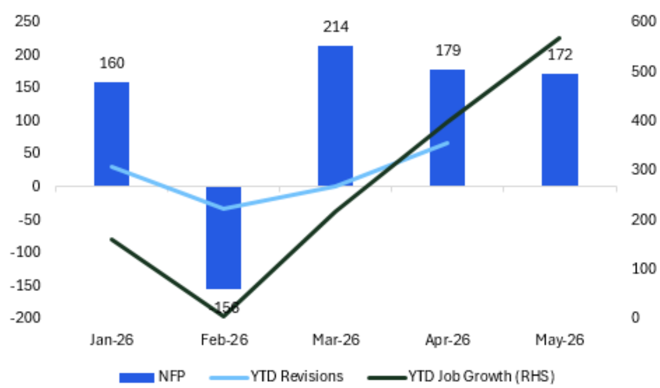
New trade: Add Dec26/Dec27 FOMC OIS steepener at 10.5bps in $50k DV01, target 40bps, watch level at -5bps. Risking $750k or 0.75% of GMS PF. Priced as of 18:00 UKT. Risks to trade include Warsh opening door to Sep26 hike, large oil spike. Rationale: 2027 Fed pricing looks skewed.

Close Trade: Long gold spot at 4334.7 in $3mio notional**.** Entered at 4780 on 08-Apr-2026. P/L on the trade -$320k or -0.32% of GMS PF. Pricing as of 19:00 UKT on 05-Jun-2026. We also move gold to neutral from OW in GAA.

Close Trade: 2s10s USD steepener OIS at 10.9bps in $45k DV01. Entered at 24bps on 15-May-2026. P/L on the trade -$582k or -0.58% of GMS PF. Pricing as of 19:00 UKT on 05-Jun-2026

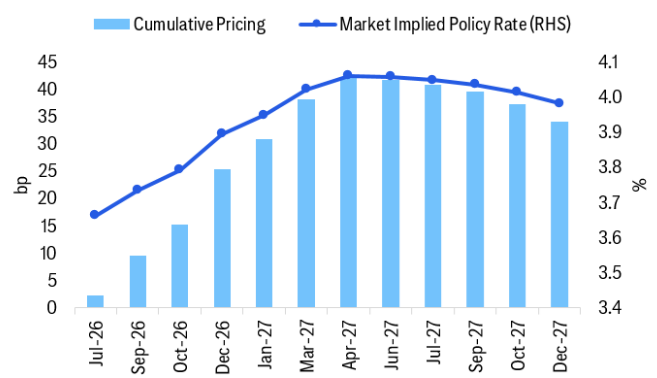
For twelve month trade history, see: Global Macro Strategy - Views and Trade Ideas - Warning Signs: POLLS, Inflation Surprises plus More AI vs. Jobs Data.

Figure 1. NFP trend is inflecting, which may open the risk for a more hawkish sounding FOMC soon



Source: Citi Research

Figure 2. FOMC pricing – hike pricing is loaded on December 26 and 2027 includes cut pricing in H2



Source: Citi Research

Figure 3. Light steepening 3-6m before 1st hike, especially in 2021 when Fed were operating under FAIT

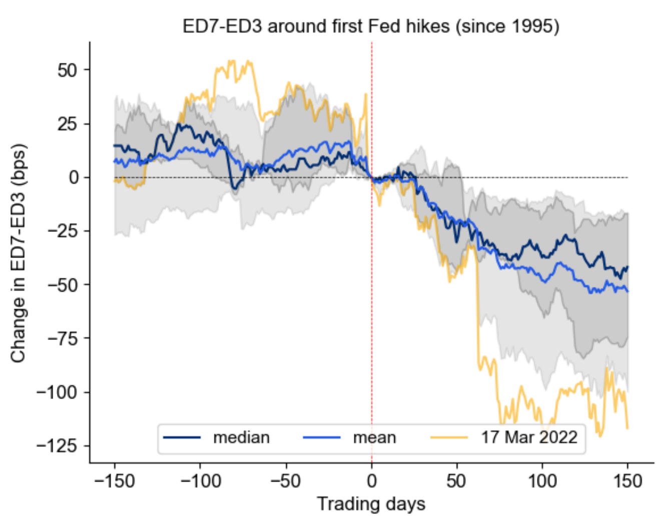
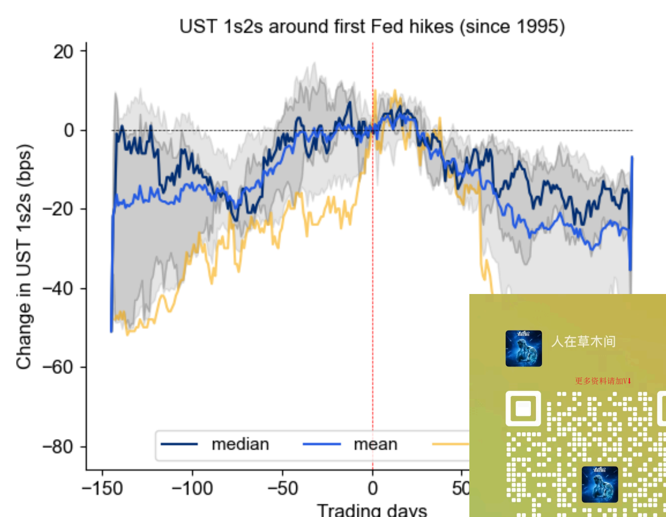


Figure 4. Stronger steepening in UST 1s2s, notably 2021



Source: Citi Research	Source: Citi Research